City of Fresno

Fire and Police Retirement System

A Pension Trust Fund of the City of Fresno (California) Caring for Your Future

2012 Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2012 and 2011

City of Fresno Retirement Systems • Caring For Your Future •

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM

Comprehensive Annual Financial Report

For the Years ended June 30, 2012 and 2011

STANLEY L. MCDIVITT

Retirement Administrator

KATHLEEN RILEY BROWN

Assistant Retirement Administrator

YVONNE ARELLANO

Benefits Manager

CITY OF FRESNO RETIREMENT SYSTEMS

CARING FOR YOUR FUTURE

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

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

www.CFRS-CA.org

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Photographs throughout this document provided by Lorinda Salvador, Retirement Counselor.
Staff photograph taken by Yolanda Smith, Accountant-Auditor II, City of Fresno Payroll Division.

Mission Statement

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

Board and Staff Commitment:

To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

Goals:

- *To create an environment in which Board Members can maximize their performance as trustees.*
- *To improve the level of benefits and delivery of services provided to members and employees.*
- *To improve communications with members and the employer.*
- *To attract, develop and retain competent and professional staff.*
- *To achieve and maintain top quartile investment performance as measured by the Public Fund Universe.*

SECTION 1 - INTRODUCTION

CITY OF FRESNO FIRE & POLICE RETIREMENT SYSTEM
2828 Fresno Street Suite 201 Fresno California 93721 (559) 621-7080 FAX (559) 621-7081 www.CFRS-CA.org

Letter of Transmittal

Retirement Administrator
Stanley L. McDivitt

November 27, 2012

Dear Board Members:

As Retirement Administrator of the City of Fresno Fire and Police Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2012 and 2011.

It is unfortunately appropriate to acknowledge an important milestone as we enter the second half of 2012. July 2007 – five years ago – is widely recognized as the start of the financial crisis that triggered the global recession. This crisis did not end when global equity markets bottomed in March 2009 or when the global business cycle turned upward several months later. Europe's sovereign debt crisis and renewed recession, in addition to the sluggish US recovery, is another chapter within a larger narrative associated with the financial crisis. This narrative is that the global economy entered a period of deleveraging in July 2007, and this deleveraging is occurring at different paces in different regions. The US housing market was the focus in 2007 and 2008; today, it is peripheral Europe.

Thus far, the remedies for this age of deleveraging have produced uninspiring results. Monetary policy has reached its limits and is becoming less effective with each new stimulus move. Interest rates have been slashed to 0% in the developed world. There have been repeated doses of nonconventional stimulus such as quantitative easing and targeted liquidity injections into the financial systems. While these measures may have averted a complete meltdown of the global financial system and muted the deflationary pressures associated with deleveraging, they have done little to set in motion a self-sustained business cycle expansion.

Fiscal policy has also done little to contribute to a self-sustained expansion. While stimulus back in 2008 and 2009 placed a floor under the economy, deficit spending, combined with the drop in revenues, led to large government deficits and rising debt. It is for these reasons, that today we continue to face these global financial issues.

Global equity markets declined significantly in the second quarter of 2012 as slowing global growth and renewed concerns about the survival of the euro reversed the majority of the gains of the first quarter. The sluggish, uneven outlook for the global economy, when coupled with the numerous political and policy risks, suggests high-quality investments are likely to remain the leaders in global equity markets.

Despite these overwhelming challenges of the global economy, the City of Fresno Fire and Police Retirement System (the System) is fully funded on both an actuarial and market value basis. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year that may be filled with uncertainties in the global economic and financial markets. The Retirement Board (the Board) carefully managed the investment portfolio through last year's continued turbulence in the global financial markets and we remain confident that new investment opportunities will arise and the Board with the required amount of due diligence and vigilance will position the System's investments for future long-term growth.

In fiscal year 2012, the System's returns when compared to other institutional investors and weighted policy benchmarks were somewhat favorable. The System's one-year return was (0.11) percent; 0.61 percent below its policy benchmark return of 0.50 percent; and underperforming its actuarial interest rate assumption of 8.00 percent by (8.11) percent. The five-year annualized return of 1.38 percent was positive but slightly underperformed its policy benchmark return of 1.95 percent by 0.57 percent. The System's fifteen-year annualized return at 6.57 percent exceeded its policy benchmarks for that period by 0.28 percent but underperformed the actuarial interest rate assumption by 1.43 percent for the same period.

The Fire and Police System remains highly funded and well positioned to serve our members and retirees. The System's 15 year, 20 year and 25 year long-term returns of 6.57 percent, 8.42 percent and 8.54 percent, respectively, as of June 30, 2012, illustrate the System's ability to achieve our long-term objectives over extended periods of time. Meanwhile, the System's actuarial and market value funding status continues to be the highest of any public safety pension defined benefit plan in California.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Fire and Police Retirement System for the years ended June 30, 2012 and 2011 is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Fire and Police System's finances, please refer to the Management's Discussion and Analysis letter in the Financial Section of this report. The CAFR consists of six sections:

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

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

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

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

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

The Compliance Section contains the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

I trust that you and the members of the System will find this CAFR helpful in understanding the System, and our commitment to financial integrity and member services.

THE FIRE AND POLICE RETIREMENT SYSTEM AND ITS SERVICES

The Fire and Police Retirement System was established on July 1, 1955, under charter Section 910 and is governed by Articles 3 and 4 of Chapter 3 of the City of Fresno Municipal Code. Effective August 27, 1990, the City added a Second Tier that includes all full-time sworn Fire, Police, and Airport Safety personnel hired on or after that date.

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

The Fire and Police Retirement Board is responsible for establishing policies governing the administration of the System, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 3 and 4 of Chapter 3 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that the "members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has..."the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the sworn Fire Department members of the System, and one (1) employee who is elected by the Police and Airport Safety Officers of the System, both of which serve a four-year term. The fifth and final member of the Board shall be a qualified elector of the County of Fresno, not connected with its government, elected by the previously designated four members.

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

MAJOR INITIATIVES

In 2010, the Board retained the services of the law firm of Ice Miller to assist them in reviewing the Fire and Police Retirement System from a tax compliance perspective. Ice Miller assisted the Board in their decision to apply for a determination letter and to submit the plans into the IRS's voluntary compliance program for any corrections of minor issues. Amendments to enhance compliance with Internal Revenue Code provisions were incorporated into two ordinances which were submitted and approved by City Council. The Board filed with the Internal Revenue Service for a tax determination letter and the plan was submitted into the IRS's voluntary compliance program (VCP).

On October 11, 2011, the Board received notification from the IRS that it has made a favorable determination on the plan based upon the information that we supplied. The letter of determination relates only to the status of the plan under the Internal Revenue Code. It expires on January 31, 2014. Therefore, the System will submit a request for a favorable determination prior to the expiration of the current letter of determination.

The Board, jointly with the Employees Retirement Board, retained IT Consultant, L.R. Wechsler, Ltd., to provide consulting services to differentiate and identify, through knowledgeable business analysis and comparison of vendor proposals, appropriate, cost-effective quality proposals for the Retirement Systems' new pension administration system. The Request for Proposal (RFP) bid document was issued by the Boards in September 2011. The objective of the RFP was to solicit proposals from public retirement system implementation vendors for a new, integrated pension administration solution to replace the Retirement Systems' existing Pension Gold system. Specifically, vendors were to propose a solution consisting of the implementation of a fully integrated retirement system and customizations to that system to meet the mandatory requirements.

In response to the Boards' RFP for a fully integrated Pension Administration Solution, the Boards established an Information Technology Committee that was tasked with evaluating retirement solution proposals by the bidders, PensionGold Retirement Solutions (LRS) and CPAS, to determine and recommend the optimal vendor solution for the City of Fresno Retirement Systems (CFRS).

Following the IT Committee's review and due diligence, staff recommended and the Boards approved PensionGold Retirement Solutions' Version 3, Hosted, as the preferred pension solution for CFRS. This selection was based on LRS' ability to meet CFRS' Pension Solution Requirements, past performance as well as LRS' proposed Pension Solution upgrade costs. The IT Committee and staff recommendation was also supported by L.R. Wechsler Ltd., the Board's independent IT Consultant.

PensionGold Version 3 is a web based, fully integrated software system, which includes Workflow, Imaging, Audit, General Ledger export and Member Self-Service functionality. As a Hosted Solution, LRS will maintain the system hardware and software at its Data Center located at its corporate headquarters in Springfield, IL. Disaster recovery is at a second, smaller LRS Data Center located in its Bloomington, IL office 70 miles away. LRS currently provides general website and application hosting services to over 140 clients.

During fiscal year 2012, the Board, jointly with the Employees Retirement System Board, adopted a new Asset Allocation Plan.

This new Asset Allocation increases allocations to high yield and real estate, and introduces an allocation to private value-added real estate and an allocation to inflation protection assets which may be composed of US TIPS and Commodities. Through a phased implementation approach, the Boards will fund increased allocations to high yield and real estate by reducing core fixed income and real estate securities (REITS). The implementation timeline incorporates a plan to develop policy and strategy throughout 2012 in preparation for implementation of Inflation Protection Assets in early 2013. In the meantime, proposed allocations to inflation protection assets will remain allocated to core fixed income and equities.

The Boards conducted an evaluation of Global REITs with educational presentations from both of the Systems' current REIT managers to review updated information and gain more knowledge about global REIT opportunities.

Following a thorough review and analysis of high yield manager candidates, the Boards conducted interviews and held on-site investment due diligence meetings with finalists in their high yield manager search. Effective July 2, 2012, the Boards implemented a new High Yield Active Core portfolio managed by MacKay Shields. With selection of MacKay Shields and funding of the new high yield portfolio in fiscal year 2013, the Boards have completed implementation of the increased allocation to High Yield fixed income in accordance with their new Asset Allocation. In addition, the Boards reviewed and adopted modifications to their Investment Objectives and Policy Statement specifically for small capitalization and high yield portfolios.

The Board, with the assistance of their actuary and staff, completed the annual actuarial valuations for June 30, 2011 which incorporated changes in certain Economic Actuarial Assumptions reviewed and adopted for the prior fiscal year period.

PROFESSIONAL SERVICES

Professional Services Consultants and Investment Portfolio Managers are retained by the Board to provide professional services essential to the effective and efficient operation of the System.

An opinion from the certified public accountant and the actuary are included in this report along with a summary investment report from the Board's Investment Consultant. The Consultants and Investment Managers retained by the Board are listed in the following section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Fire and Police Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive annual financial reports.

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

ACTUARIAL FUNDING STATUS

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

As of June 30, 2011, the funded ratio of the Fire and Police Retirement System was 111.4 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement No. 25. The actuarial accrued liability of the System at June 30, 2011 amounted to $917,940,520. The actuarial value of assets at June 30, 2011 amounted to $1,123,355,688 and the valuation value of assets amounted to $1,022,995,688. The market value of the assets at June 30, 2011 amounted to $1,109,211,576.

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

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

ACCOUNTING SYSTEM & REPORTS

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that System assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with the management of the System.

The accounting firm of Brown Armstrong Accountancy Corporation provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The System recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that the System's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets.

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

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

INVESTMENTS

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

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

For the fiscal years ended June 30, 2012 and June 30, 2011, the System's investments provided a (0.11) percent and 24.26 percent rate of return, respectively.

ACKNOWLEDGEMENTS

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

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley Brown, Yvonne Arellano, Alberto Magallanes, Karen Rolle, Pattie Laygo, Andrea Ketch, Phillip Carbajal, Patricia Basquez, Lori Salvador and to the Board's consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt
Retirement Administrator

November 27, 2012

Retirement Board Members

As of June 30, 2012

PAUL CLIBY

Elected by Fire Members

OSCAR WILLIAMS

Appointed by Retirement Board

DAVID NEWTON

Elected by Police Members

MIKE REID

Appointed by Mayor

TIM HENRY

Appointed by Mayor

Retirement Administrative Staff

BACK ROW (LEFT TO RIGHT)

Karen Espiritu, Accountant-Auditor, Alberto Magallanes, Senior Accountant-Auditor, Pattie Laygo, Executive Assistant, Phillip Carbajal, Retirement Counselor, Andrea Ketch, Accountant-Auditor, Patti Basquez, Retirement Counselor, Lorinda Salvador, Retirement Counselor, Donna Gaab, Retirement Counselor

FRONT ROW (LEFT TO RIGHT)

Kathleen Riley Brown, Assistant Retirement Administrator, Stanley McDivitt, Retirement Admnistrator, Yvonne Arellano, Retirement Benefits Manager

Administration of the System

ADMINISTRATION

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xii for outside consultants and investment managers and page 46 for a schedule of brokerage commissions.)

MEMBER SERVICES

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

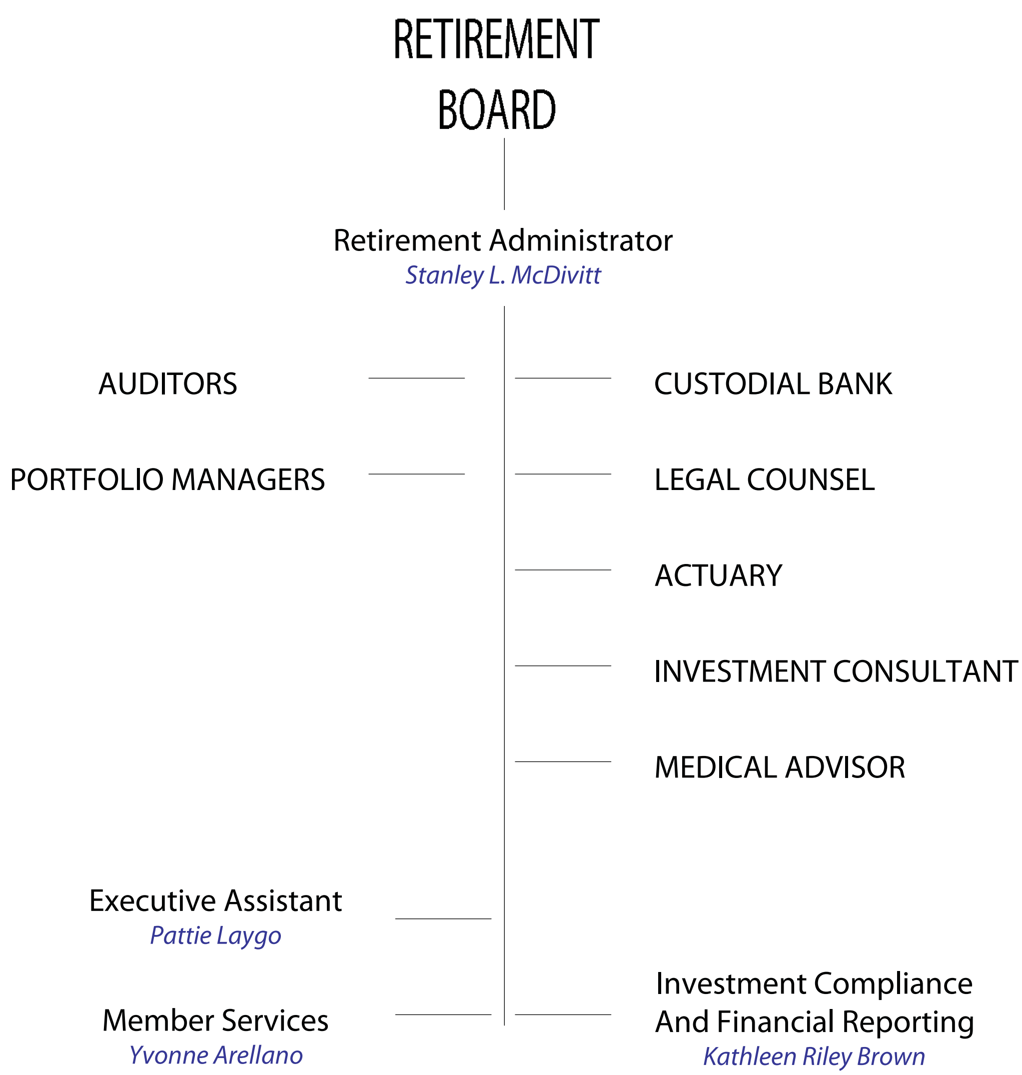
INVESTMENT COMPLIANCE AND FINANCIAL REPORTING

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

EXECUTIVE ASSISTANT

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

Administrative Organizational Structure



Professional Services Consultants

Custodial Bank
NORTHERN TRUST
Chicago, Illinois

General Legal Advisor
SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

Investment Legal Advisor
FOLEY & LARDNER LLP
Boston, Massachusetts

Tax Counsel
ICE MILLER LLP
Indianapolis, Indiana

Investment Consultant
WILSHIRE ASSOCIATES INC.
Santa Monica, California

Information Technology
L.R. WECHSLER LTD.
Fairfax, Virginia

Actuary
THE SEGAL COMPANY
San Francisco, California

Medical Advisor
BENCHMARK MEDICAL CONSULTANTS
Sacramento, California

Independent Auditor
BROWN ARMSTRONG ACCOUNTANCY CORPORATION
Bakersfield, California

Investment Portfolio Managers

DOMESTIC EQUITY

Large Cap
BlackRock , San Francisco, CA
JPMorgan Asset Mgmt, New York, NY

Small Cap
Eagle Asset Management, Inc., St. Petersburg, FL
Kennedy Capital Mgt. Inc., St. Louis, MO
TCW Asset Management Company, Los Angeles, CA

INTERNATIONAL & EMERGING MARKETS

International
BlackRock, San Francisco, CA
Baillie Gifford & Co., Edinburgh, Scotland
Principal Global Investors, DesMoines, IA
Pyramis Global Advisors Trust Co., Boston, MA

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

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

High Yield
Loomis Sayles, Boston, MA

REAL ESTATE

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

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno Fire
and Police Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

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

Linda C. Davidson
President

Jeffrey R. Esser
Executive Director

Also awarded 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011

SECTION 2 - FINANCIAL

Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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FAX 559.476.3593
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SUITE 908B
PASADENA, CALIFORNIA 91101
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FAX 626.240.0922
5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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, 2012 and 2011, 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, 2012 and 2011, 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.

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 27, 2012, 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 27, 2012

CITY OF FRESNO FIRE & 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 (the System) for the fiscal years ended June 30, 2012 and 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 2012, the assets of the System exceed its liabilities by $1,080,393,408; as of fiscal year 2011, the assets of the System exceeded its liabilities by $1,109,211,576; and as of fiscal year 2010, the assets of the System exceeded its liabilities by $918,646,126.

The System's total net assets held in trust for pension benefits decreased by $28,818,168 or 2.60 percent as of fiscal year 2012; for the prior fiscal year total net assets increased by $190,565,450 or 20.74 percent, and for fiscal year 2010 the total net assets increased by $85,918,353 or 10.32 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, 2011, the date of the last actuarial valuation, the funded ratio for the System was 111.4 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 June 30, 2010, the date of the previous annual actuarial valuation, the funded ratio for the System was 110.8 percent; and as of June 30, 2009, the funded ratio for the System was 119.6 percent.

ADDITIONS TO PLAN NET ASSETS

Additions for the fiscal year 2012 decreased $218,481,540 or 90.02 percent over the prior year from $242,695,230 to $24,213,690 which includes member contributions of $7,540,019, employer contributions of $22,875,005, a net investment income loss of $6,795,361 and net securities lending income of $594,027.

Prior fiscal year 2011 additions increased $105,228,038 or 76.55 percent over the previous fiscal year 2010 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.

For fiscal year 2010 additions increased $344,478,921 or 166.41 percent from ($207,011,729) to $137,467,192 which included 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.

DEDUCTIONS IN PLAN NET ASSETS

Deductions for the fiscal year 2012 increased $902,078 or 1.73 percent over the prior fiscal year from $52,129,780 to $53,031,858.

Prior fiscal year 2011 deductions increased $580,941 or 1.13 percent over the fiscal year 2010 from $51,548,839 to $52,129,780.

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

The current year increase in deductions is due primarily to the increase in retirees 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, 2011, was 111.4 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 supplemental information concerning the System's progress in funding its obligations to provide pension benefits to members.

The schedules of administrative expenses, investment management fees and other investment related expenses, and payments to consultants are presented immediately following the required supplemental 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 2012 by $1,080,393,408. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal year 2012, the System's net assets decreased by 2.60 percent in part due to declines in the global investment markets; while in 2011 and 2010, the System's net assets increased by 20.74 percent and 10.32 percent, respectively, largely due to rebounds in the global investment markets.

Historical long-term performance rates of returns demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent. As of June 30, 2012, the System's 25-year annualized return is 8.54 percent and its 20-year annualized return is 8.42 percent.

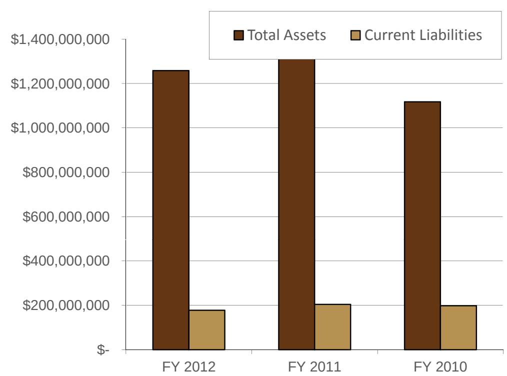
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed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

TABLE 1 - FIRE & POLICE RETIREMENT SYSTEM NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase(Decrease) Percent
Current and Other Assets	$182,122,633	$194,239,183	$(12,116,550)	(6.24%)
Investments at Fair Value	1,075,743,898	1,118,946,526	(43,202,628)	(3.86%)
Total Assets	$1,257,866,531	$1,313,185,709	$(55,319,178)	(4.21%)
Current Liabilities	177,473,123	203,974,133	(26,501,010)	(12.99%)
Net Assets	$1,080,393,408	$1,109,211,576	$(28,818,168)	(2.60%)

	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%
Total Assets	$1,313,185,709	$1,116,959,514	$196,226,195	17.57%
Current Liabilities	203,974,133	198,313,388	5,660,745	2.85%
Net Assets	$1,109,211,576	$918,646,126	$190,565,450	20.74%



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 retirees. 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 Retirement Board (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.

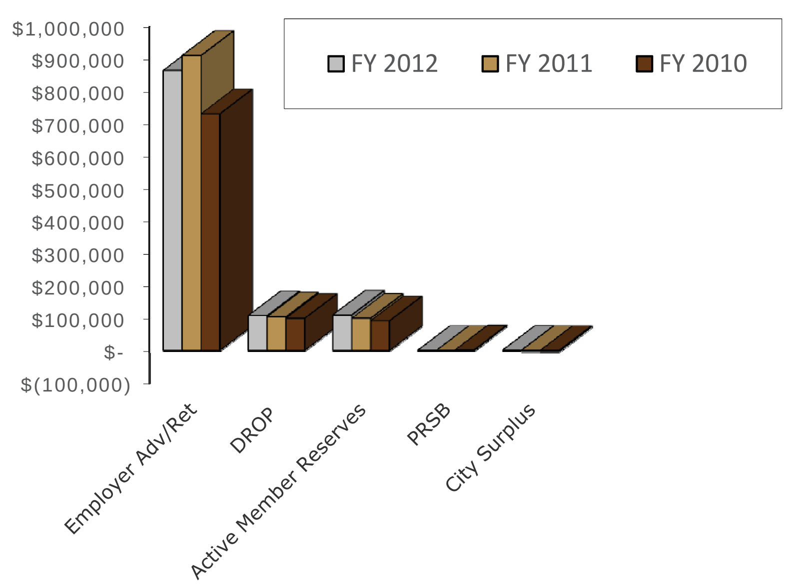
City Surplus Reserve represents that portion of distributable actuarial surplus that has been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-354 Post-Retirement Supplemental Benefits. 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 has 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.

TABLE 2 – FIRE AND POLICE RETIREMENT SYSTEM'S RESERVES

FOR THE YEARS ENDED JUNE 30, 2012, 2011 AND 2010 (IN THOUSANDS)

	FY 2012	FY 2011	FY 2010
Employer Advance/Retired Reserves	$863,267	$909,591	$728,989
DROP Reserves	106,889	103,184	99,664
Active Member Reserves	109,494	99,261	91,414
PRSB Reserves	262	269	2,022
City Surplus Reserves	482	(3,093)	(3,443)
Net Assets Available for Benefits	$1,080,394	$1,109,212	$918,646



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 $28,818,168 for the fiscal year resulting in a 2.60 percent decrease in net assets for the fiscal year ended June 30, 2012, attributable in part to the continued turmoil in global financial markets. While primarily due to the global investment markets which began their positive corrections in fiscal year 2010, the System's assets increased $190,565,450 resulting in a 20.74 percent increase in net asset for the fiscal year ended June 30, 2011 and for the 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.

Key elements of the additions to and deductions from the System's net assets for fiscal year 2012, 2011 and 2010 are described in the following sections.

ADDITIONS TO SYSTEM'S NET ASSETS

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and member contributions and through earnings on investment income [net of investment expense]. Additions for the fiscal year ended June 30, 2012 totaled $24,213,690.

For the fiscal year ended June 30, 2012, overall additions had decreased by $218,481,540 or 90.02 percent from the prior year, primarily due to the performance of the investment markets.

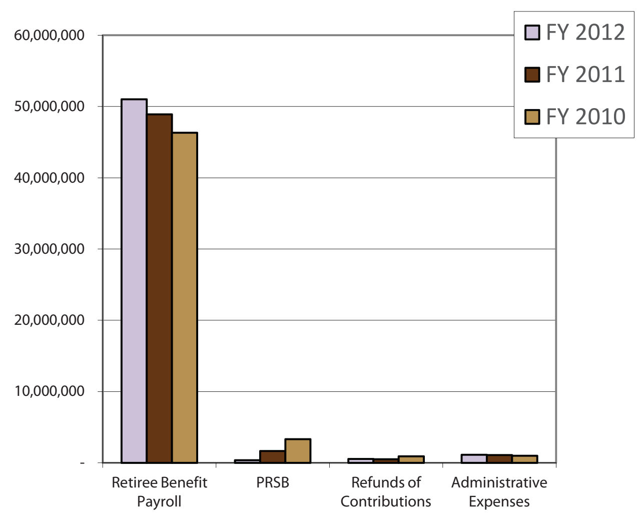
For the fiscal year ended June 30, 2011, overall additions had increased by $105,228,038 or 76.55 percent from the prior year, primarily due to performance of the investment markets; for fiscal year ended June 30, 2010, overall additions increased by $344,478,921 or 166.41 percent from the prior year. The investment section of this report reviews the details of the results of investment activity for the fiscal year ended June 30, 2012.

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, 2012, totaled $53,031,858 which was an increase of $902,078 or 1.73 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 deductions 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, 2012, 2011 AND 2010

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$22,875,005	$19,397,178	$3,477,827	17.93%
Member Contributions	7,540,019	7,304,036	235,983	3.23%
Net Investment Income *	(6,201,334)	215,994,016	(222,195,350)	(102.87%)
Total Additions (Declines)	$24,213,690	$242,695,230	$(218,481,540)	(90.02%)
Deductions				
Benefit Payments	$51,006,026	$48,894,173	$2,111,853	4.32%
PRSB	372,973	1,662,077	(1,289,104)	(77.56%)
Refunds of Contributions	534,906	493,579	41,327	8.37%
Administrative Expenses	1,117,953	1,079,951	38,002	3.52%
Total Deductions	$53,031,858	$52,129,780	$902,078	1.73%
Increase (Decrease) in Plan Net Assets	(28,818,168)	190,565,450	(219,383,618)	(115.12%)
Beginning Plan Net Assets	1,109,211,576	918,646,126	190,565,450	20.74%
Ending Plan Net Assets	$1,080,393,408	$1,109,211,576	$(28,818,168)	(2.60%)

* Net of investment expense of $5,284,916 and $5,758,781 for June 30, 2012 and 2011, respectively.

	FY 2011	FY 2010	FY 2011 Increase/(Decrease) Amount	FY 2011 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$19,397,178	$12,094,355	$7,302,823	60.38%
Member 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%
Total Additions (Declines)	$242,695,230	$137,467,192	$105,228,038	76.55%
Deductions				
Benefit Payments	$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%
Total Deductions	$52,129,780	$51,548,839	$580,941	1.13%
Increase (Decrease) in Plan Net Assets	190,565,450	85,918,353	104,647,097	121.80%
Beginning Plan Net Assets	918,646,126	832,727,773	85,918,353	10.32%
Ending Plan Net Assets	$1,109,211,576	$918,646,126	$190,565,450	20.74%

* Net of investment expense of $5,758,781 and $5,415,586 for June 30, 2011 and 2010, 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 27, 2012

Statement of Plan Net Assets Available for Benefits

AS OF JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash (Note 5)	$1,641,782	$1,317,503
Collateral Held for Securities Lent (Note 7)	132,221,856	173,363,344
Receivables		
Receivables for Investments Sold	41,647,226	11,096,805
Interest and Dividends	3,950,800	3,757,293
Other Receivables	2,546,174	4,550,765
Total Receivables	**48,144,200**	**19,404,863**
Prepaid Expenses	68,089	102,840
Total Current Assets	**182,075,927**	**194,188,550**
Investments at Fair Value (Note 5)		
Domestic Equity	374,732,842	400,477,491
International Developed Market Equities	199,613,929	221,750,417
Government Bonds	156,861,647	175,695,061
Corporate Bonds	151,155,546	136,784,237
Real Estate	119,030,496	105,837,124
International Emerging Market Equities	40,355,432	48,997,718
Short-Term Investments	33,994,006	29,404,478
Total Investments	**1,075,743,898**	**1,118,946,526**
Capital Assets Net of Accumulated Depreciation (Note 10)	46,706	50,633
Total Assets	**1,257,866,531**	**1,313,185,709**
LIABILITIES		
Collateral Held for Securities Lent (Note 7)	132,221,856	173,363,344
Payable for Investments Purchased	41,597,949	24,833,866
Other Liabilities	1,154,870	1,233,603
Payable for Foreign Currency Purchased	2,498,448	4,543,320
Total Liabilities	**177,473,123**	**203,974,133**
Net Assets Held In Trust for Benefits (Note 4)	**$1,080,393,408**	**$1,109,211,576**

The notes to the financial statements on pages 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, 2012 AND 2011

	2012	2011
ADDITIONS		
Contributions (Note 3):		
Employer	$22,875,005	$19,397,178
Members	7,540,019	7,304,036
Total Contributions	**30,415,024**	**26,701,214**
Investment Income:		
Net Appreciation (Depreciation) in Value of Investments	(28,113,554)	194,349,041
Interest	14,850,779	13,911,170
Dividends	11,554,606	12,758,726
Other Investment Related	49,347	48,344
Total Investment Income (Loss)	(1,658,822)	221,067,281
Less: Investment Expense	(5,136,539)	(5,621,785)
Total Net Investment Income (Loss)	**(6,795,361)**	**215,445,496**
Securities Lending Income		
Securities Lending Earnings (Note 7)	742,404	685,516
Less: Securities Lending Expense	(148,377)	(136,996)
Net Securities Lending Income	**594,027**	**548,520**
Total Additions (Declines)	**24,213,690**	**242,695,230**
DEDUCTIONS		
Benefit Payments	51,006,026	48,894,173
Post Retirement Supplemental Benefits (Note 9)	372,973	1,662,077
Refunds of Contributions	534,906	493,579
Administrative Expenses	1,117,953	1,079,951
Total Deductions	**53,031,858**	**52,129,780**
Net Increase (Decrease)	**(28,818,168)**	**190,565,450**
NET ASSETS HELD IN TRUST FOR BENEFITS		
Beginning of the Year	**1,109,211,576**	**918,646,126**
End of the Year	**$1,080,393,408**	**$1,109,211,576**

The notes to the financial statements on pages 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, 2012 and 2011:

	2012	2011
Active Members:		
Vested	937	887
Non-vested	125	184
	1,062	1,071
Retirees and Beneficiaries of Deceased		
Retirees, Currently Receiving Benefits	953	948
Inactive Vested Members	44	53
	997	1,001
Total	2,059	2,072

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.

Reclassifications

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

Date of Management Review

The date to which events occurring after June 30, 2012, have been evaluated for possible adjustments to the financial statements or disclosures is November 27, 2012, which is the date the financial statements were available to be issued. There were no events brought to our attention that were deemed to be reportable at that time.

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, 2011 was 111.4% 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 valuation value of assets. As of the fiscal year ended June 30, 2011, the actuarial valuation value of assets was $1.02 billion.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents 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, 2011 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, 2012

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) Actuarial 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)
2009	$1,046	$874	119.6%	$(171)	$102	(167.5%)
2010	$1,019	$919	110.8%	$(99)	$103	(96.7%)
2011	$1,023	$918	111.4%	$(105)	$99	(106.1%)

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, 2011 Experience Analysis and the June 30, 2010 Economic Actuarial Assumptions Report.

These actuarial assumptions were adopted by the Retirement Board on December 14, 2011, for implementation as of July 1, 2012.

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2011
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 Unfunded Actuarial Accrued Liability 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 supplemental 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. Members' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary. Total contributions to the System for fiscal year 2012 totaled $30,415,024, members (both tiers) contributed $7,540,019 and the City made contributions of $22,875,005.

First Tier

Contributions aggregating $3,906,297 ($3,595,102 net employer and $311,195 members) were made in fiscal year 2012, based on an actuarial valuation determined as of June 30, 2010, which became effective for the year ended June 30, 2012. For fiscal year 2012, the employer contribution rate was set at 26.57 percent; however, only a cash contribution of $3,595,102 was required from the City due to the use of the prefunded actuarial liability of the System. The System's Employer and Member contributions represented 23.08 percent and 2.06 percent, respectively, of the fiscal year 2012 covered payroll.

Contributions aggregating $3,684,570 ($3,457,053 net employer and $227,517 member) 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. The System's Employer and Member contributions represented 20.05 percent and 4.87 percent, respectively, of the fiscal year 2011 covered payroll.

Second Tier

Contributions aggregating $26,508,727 ($19,279,903 net employer and $7,228,824 member) were made in fiscal year 2012, based on an actuarial valuation determined as of June 30, 2010, which became effective for the year ended June 30, 2012. The employer contribution rate was set at 19.77 percent; however, due to a contribution shortfall from the prior year an additional contribution of $3,251,340 was required from the City. The System's Employer and Member contributions represented 23.78 percent and 9.00 percent, respectively, of the fiscal year 2012 covered payroll.

Contributions aggregating $23,016,644 ($15,940,125 net employer and $7,076,519 member) 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. The System's Employer and member contributions represented 20.04 percent and 9.00 percent, respectively, of the fiscal year 2011 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. Member 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 2012 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2010, as follows:

	Actuarial Rates as a Percentage of Pensionable Payroll	
	Effective FY 12	Effective FY 11
Employer Normal (First Tier)	26.57%	26.43%
Employer Normal (Second Tier)	19.77%	18.60%

3 CONTRIBUTIONS CONTINUED

At June 30, 2011, actuarial valuation, the actuarial accrued liability of the Fire and Police Retirement System was $917,940,520. The actuarial valuation value of the assets was $1,022,995,688 for a funding ratio of 111.4 percent.

	FY2012		
	Tier 1	Tier 2	Total
Member Contributions	$311,195	$7,228,824	$7,540,019
Employer Contribution Rate	26.57%	19.77%	
Employer Contributions	$4,017,213	$16,028,563	$20,045,776
Less: Prefunded Actuarial Accrued Liability	(422,111)	3,251,340	2,829,229
Net Employer Contributions	$3,595,102	$19,279,903	$22,875,005
Pensionable Payroll	$15,119,358	$81,075,179	$96,194,537

	FY2011		
	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

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, 2012 and 2011, consisted of the following (in thousands):

	2012	2011
Employer Advance/Retired Reserves	$863,267	$909,591
DROP Reserves	106,889	103,184
Active Member Reserves	109,494	99,261
PRSB Reserves	262	269
City Surplus Reserves	482	(3,093)
Net Assets Held in Trust for Benefits	**$1,080,394**	**$1,109,212**

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, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Investments at Fair Value		
Domestic Equity	$374,733	$400,477
International Developed Market Equities	199,614	221,750
Government Bonds	156,862	175,695
Corporate Bonds	151,156	136,784
Real Estate	119,030	105,837
International Emerging Market Equities	40,355	48,998
Short Term Investments	33,994	29,405
Total Investments at Fair Value	**$1,075,744**	**$1,118,946**

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
Domestic Equity			
Large-Cap	17.0%	22.5%	25.0%
Small-Cap	4.0%	7.5%	12.0%
International Equity			
Developed Markets	16.0%	22.8%	30.0%
Emerging Markets	0.0%	7.2%	10.0%
Real Estate	5.0%	15.0%	24.0%
Domestic Fixed Income	10.0%	15.0%	25.0%
High Yield Bonds	4.0%	10.0%	14.0%
Cash	0.0%	0.0%	2.0%
		100%	

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 $861,805 and $57,784 at June 30, 2012 and 2011, 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, 2012.

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:

	2012			2011		
Type of Investment	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset-Backed Securities	$2,694,691	BBB+	3.38	$1,819,390	BBB-	1.89
Commercial Mortgage-Backed Securities	6,477,866	AA	2.98	6,659,117	AA+	3.29
Corporate Bonds	131,450,712	BBB-	3.65	114,664,970	BBB-	5.05
Corporate Convertible Bonds	3,457,780	B	6.34	3,320,723	B-	6.21
Guaranteed Fixed Income	-	-	-	621,425	AA+	1.11
Non-Government backed C.M.O.s	4,073,848	B-	4.11	6,099,594	B+	3.19
Convertible Equity	998,014	B+	2.27	1,185,017	B+	5.96
Other Fixed Income	4,010	NR	13.00	6,363	NR	13.00
Common Stock	245,241	NR	13.00	1,274,617	NR	13.00
Preferred Stock	1,753,384	BB-	4.87	1,133,021	BB-	4.67
Government Agencies	7,193,046	AAA	3.42	8,554,664	AAA	3.67
Government Bonds	52,729,731	AAA	4.98	59,357,720	AAA	4.18
Government Mortgage-Backed Securities	84,493,813	AAA	1.61	98,935,515	AAA	2.29
Index Linked Government Bonds	-	-	-	11,535	CC	1.32
Municipal/Provincial Bonds	12,445,057	A	9.27	8,835,627	A-	10.01
Total Credit Risk Fixed Income	$308,017,193			$312,479,298		

5 DEPOSITS AND INVESTMENTS CONTINUED

Per section 5.5(6) of the System's Investment Policy Statement, no more than 15 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). Therefore, at least 85 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate Bond portfolios shall maintain an average credit quality of A+ or better.

High yield fixed income portfolios, in accordance with section 5.5(7) of the Systems' Investment Policy Statement, shall maintain an average credit quality rating equal to or higher than that of the Barclays US Corporate High Yield Index. Based on the Barclays US Corporate High Yield Index, a high yield manager's portfolio shall have a constraint of the benchmark weight plus 5 percent in bonds rated Caa1/CCC+ or lower with non-rated bonds being limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of the Barclays US Corporate High Yield index. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; and within this limit a manager may allocate up to 20 percent in emerging market government securities including both on-US dollar denominated securities and US dollar denominated Yankee securities and up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

High yield bond portfolios may hold up to the benchmark weight plus 5 percent of assets in Rule 144A bond issues with or without registration rights. No more than 10 percent of the high yield manager's portfolio may be invested in convertibles or preferreds; and n more than 20% may be invested in securitized bank debt. No single security and/or issuer can represent more than 5 percent of the market value of a portfolio at the time of purchase, and no single industry can represent more than 25 percent of the market value of the account at the time of purchase.

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, 2012 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, 2012.

2012 Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$13,761,777	$-	$-	$3,892	$13,765,669
BRL	Brazilian Real	Brazil	2,543,253			8,236	2,551,489
CAD	Canadian Dollar	Canada	6,236,718				6,236,718
CHF	Swiss Franc	Switzerland	12,573,133	(340)			12,572,793
COP	Colombian Peso	Colombia	113,311				113,311
CZK	Czech Koruna	Czech Repbulic	113,503				113,503
DKK	Danish Krone	Denmark	4,109,039				4,109,039
EUR	Euro	Europe	43,562,426	34,921		15	43,597,362
GBP	British Pound Sterling	United Kingdom	44,758,031	(43)		462	44,758,450
HKD	Hong Kong Dollar	Hong Kong	16,757,949			15,870	16,773,819
HUF	Hungarian Forint	Hungary	167,171				167,171
IDR	Indonesian Rupiah	Indonesia	671,124			3,556	674,680
ILS	New Israeli Shekel	Israel	182,504				182,504
INR	Indian Rupee	India	2,260,360			2,750	2,263,110
JPY	Japanese Yen	Japan	32,859,454	561		45,267	32,905,282
KRW	South Korean Won	South Korea	8,841,478			616	8,842,094
MXN	Mexican Peso	Mexico	2,064,317			52,918	2,117,235
MYR	Malaysian Ringgit	Malaysia	632,385			5,050	637,435
NOK	Norwegian Krone	Norway	3,440,301				3,440,301
NZD	New Zealand Dollar	New Zealand	801,906				801,906
PHP	Philippine Peso	Philippines	169,760				169,760
PLN	Polish Zloty	Poland	333,462	(444)			333,018
SEK	Swedish Krona	Sweden	7,820,266				7,820,266
SGD	Singapore Dollar	Singapore	4,689,545			6,888	4,696,433
THB	Thai Baht	Thailand	1,909,658				1,909,658
TRY	Turkish Lira	Turkey	2,783,516				2,783,516
TWD	New Taiwan Dollar	Taiwan	5,939,878			39,121	5,978,999
USD	United State Dollar	United States	-	1,388	4,010		5,398
ZAR	South African Rand	South Africa	4,667,594	(873)		3,247	4,669,968
Total Equities (In USD)			224,763,819	35,170	4,010	187,888	224,990,887
Total Non-USD Equities (In USD)			$224,763,819	$33,782	$-	$187,888	$224,985,489

5 DEPOSITS AND INVESTMENTS CONTINUED

2011

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
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 Repbulic	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	Philippines	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

Per section 5.5(5) of the System's Investment Objectives and Policy Statement, assets in international equity portfolios will be primarily composed of foreign ordinary shares and ADR's. Primarily large capitalization securities may be held, although investments in small and mid capitalization securities are also allowed. Firms will continually monitor their country, currency, sector and security selection risks associated with their international portfolios. All of the risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

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

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

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

Market Risk

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

Credit Risk

Credit risk of cash securities containing derivative features, 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 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, 2012 and 2011, the Fire and Police Retirement System held a total value of $3,623,010 and $3,157,853, respectively 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 2012		FY 2011	
	Notional Amount	Fair Value	Fair Value	FY 2012 - FY 2011 Change in Fair Value
Rights/Warrants	501*	$4,010	$6,363	$(2,353)
Foreign Currency Forward	$35,171	35,170	(5,015)	40,185
Future Contracts - Domestic Equity Index	-	2,906,067	2,665,993	240,074
Future Contracts - International Equity Index	-	677,763	490,512	187,251
	Total	$3,623,010	$3,157,853	

Derivative Type:	FY 2011		FY 2010	
	Notional Amount	Fair Value	Fair Value	FY 2011 - FY 2010 Change in 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
Swaps	-	490,512	-	490,512
	Total	$3,157,853	$1,831,282	

* 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, 2012, had a weighted average duration of 108 days, average maturity is 39 days and an average monthly yield of 0.33 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the System. As of June 30, 2012, the CORE USA Cash Collateral Fund had 0.02 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 115 days as of June 30, 2012.

The securities lending income is as follows:

SECURITIES LENDING INCOME

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Gross Income	$742,404	$685,516
Expenses		
Bank Fees	148,377	136,996
Total Expenses	148,377	136,996
Net Income from Securities Lending	$594,027	$548,520

7 SECURITIES LENDING CONTINUED

FAIR VALUE OF LOANED SECURITIES
AS OF JUNE 30, 2012 AND 2011

	FY 2012			FY 2011		
Collateralized by	Cash	Securities	Totals	Cash	Securities	Totals
U.S. Government & Agency	$29,978,618	$ -	$29,978,618	$48,180,351	$654,603	$48,834,954
Domestic Equities	67,600,249	7,198	67,607,447	85,919,074	9,939	85,929,013
Domestic Fixed	20,395,788	-	20,395,788	16,754,412	-	16,754,412
International Equities	12,523,373	241,588	12,764,961	17,899,982	141,448	18,041,430
Total Value	$130,498,028	$248,786	$130,746,814	$168,753,819	$805,990	$169,559,809

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES
AS OF JUNE 30, 2012 AND 2011

	FY 2012			FY 2011		
Collateralized by	Cash	Securities	Totals	Cash	Securities	Totals
U.S. Government & Agency	$30,438,974	$ -	$30,438,974	$49,189,798	$668,525	$49,858,323
Domestic Equities	68,017,891	7,191	68,025,082	87,538,123	10,121	87,548,244
Domestic Fixed	20,640,998	-	20,640,998	17,080,262	-	17,080,262
International Equities	12,870,927	245,875	13,116,802	18,730,834	145,681	18,876,515
Total Value	$131,968,790	$253,066	$132,221,856	$172,539,017	$824,327	$173,363,344

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, 2012 the System distributed PRSB benefits in the total amount of $425,070 to eligible recipients (including $372,973 to retirees and $52,097 to DROP participants) and offset required City pension contributions by $789,681. As of June 30, 2012, the City Surplus Reserve balance was $481,633 and the PRSB Reserve balance was $262,317.

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.

Required Supplemental Schedules

for the Years Ended June 30, 2012 and 2011

The information presented in the Supplemental Schedules was determined as part of the actuarial valuations during the most recent annual actuarial valuation dated June 30, 2011.

1 SCHEDULE OF FUNDING PROGRESS

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

(DOLLARS IN MILLIONS)

Actuarial Valuation Date Year Ending June 30	(1) Actuarial 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)
2011	$1,023	$918	111.4%	$(105)	$99	(106.1%)
2010	$1,019	$919	110.8%	$ (99)	$103	(96.7%)
2009	$1,046	$874	119.6%	$(171)	$102	(167.4%)
2008	$1,067	$830	128.5%	$(237)	$99	(239.3%)
2007	$1,001	$773	129.5%	$(228)	$90	(254.4%)
2006	$906	$723	125.4%	$(184)	$83	(222.4%)
2005	$847	$670	126.4%	$(177)	$73	(240.6%)
2004	$793	$642	123.5%	$(151)	$69	(220.3%)
2003	$750	$618	121.3%	$(132)	$65	(201.7%)
2002	$815	$591	137.9%	$(224)	$65	(344.7%)

2 SCHEDULE OF EMPLOYER CONTRIBUTIONS

(DOLLARS IN THOUSANDS)

Year Ended June 30	Actuarially Required Contribution (ARC)		Contributions as a % of ARC
2012	$	22,875	100%
2011	$	19,397	100%
2010	$	12,094	100%
2009	$	8,938	100%
2008	$	9,363	100%
2007	$	10,807	100%
2006	$	8,886	100%
2005	$	8,806	100%
2004	$	728	100%
2003	$	0	100%

Notes to the Required Supplemental Schedules

for the Years June 30, 2012 and 2011

ACTUARIAL ASSUMPTIONS

The Segal Company, the System's actuary, performed the most recent annual actuarial valuation as of June 30, 2011, which computes the contribution requirements (employer and member contributions rates for fiscal year 2013), and determines the funding status of the Plan.

These actuarial assumptions, used to compute the contribution requirements and to determine funding status, were adopted by the Retirement Board on December 14, 2011 for implementation as of July 1, 2012.

1. Annual inflation is assumed at 3.50% per year plus 0.50% real-across-the-board salary increases.

2. Annual investment return is assumed to be 8.00%.

3. The fiscal year 2013 City contribution rate for the Fire and Police System is set at 26.22% for the First Tier and 19.56% for the Second Tier. The aggregate City contribution rate for the two tiers is 20.28%. A contribution shortfall from the prior fiscal year of -0.72% is added to the normal cost, for a net normal City contribution rate of 19.84 percent.

4. For the Fire and Police First Tier, member contribution rates depend upon entry age with rates for ages 25, 35 and 45 being 5.24%, 6.78% and 7.09%, respectively. Member contribution rates for the Second Tier are set at 9% by the Fresno Municipal Code.

5. Accrued benefits and costs are calculated using the entry age normal cost method.

6. Withdrawal, disability, and salary increase assumptions are based on actual System experience.

7. Post retirement mortality assumptions are based on the Society of Actuaries' RP-2000 Combined Healthy Mortality Tables, male/female, set back three years. Set forward one year for disabled and set back three years weighted 10% male and 90% female for beneficiaries.

8. Actuarial valuation of assets is based upon a five-year smoothed recognition of realized and unrealized capital gains and losses which are more or less than the actuarial assumed return of 8.00%.

9. Average annual salary increases were assumed to be 5.25% for the first 5 years of service. Graded increases ranging from 5.70% at age 25 to 4.15% at age 50 and over, plus merit and longevity increases based on completed years of service.

10. The System's actuarial surplus is being amortized on a level percentage of projected payroll over a fixed 15-year open period.

Supplemental Schedules

Schedule of Administrative Expenses

for the Years June 30, 2012 and 2011

	2012	2011
Personnel Services		
Staff Salaries	$336,981	$320,176
Fringe Benefits	121,293	99,717
Total Personnel Services	$458,274	$419,893
Professional Services		
Actuarial	$73,786	$112,351
Legal Counsel	61,968	98,163
Information Systems Services	45,576	32,832
Specialized Services	144,238	121,446
Total Professional Services	$325,568	$364,792
Communication		
Printing	$34,101	$33,891
Telephone	5,687	4,564
Postage	2,955	2,336
Total Communication	$42,743	$40,791
Rentals		
Office Rent	$64,241	$64,241
Common Area Maintenance (CAM) Charges	25,681	20,144
Total Rentals	$89,922	$84,385
Other		
Insurance	$94,870	$96,153
Education and Conference	35,448	36,353
Reimbursement to City for Services	47,904	18,489
Office Supplies	5,489	6,025
Depreciation	5,366	5,276
Computer Equipment	4,682	-
Equipment Lease	1,780	725
Miscellaneous	2,663	4,254
Membership & Dues	2,831	2,713
Subscriptions & Publications	413	102
Total Other	$201,446	$170,090
Total Administrative Expenses	$1,117,953	$1,079,951

Schedule of Investment Management Fees and Other Investment Related Expenses

for the Years Ended June 30, 2012 and 2011

	2012	2011
Investment Manager Fees		
Equity		
Domestic	$983,454	$1,172,684
International	1,538,210	2,043,895
Fixed Income		
Domestic	599,592	568,663
Real Estate	910,008	647,016
Total Investment Manager Fees	4,031,264	4,432,258
Other Investment Expenses		
Foreign Income Taxes	902,506	1,011,100
Investment Consultant	121,960	118,457
Investment Legal Counsel	30,190	4,633
Custodial Services	44,203	48,952
Analytical Database Services	6,416	6,385
Total Other Investment Expenses	1,105,275	1,189,527
Total Fees & Other Investment Expenses	5,136,539	5,621,785
Securities Lending Expenses		
Agent Fees	148,377	136,996
Total Securities Lending Expenses	148,377	136,996
Total Investment Expenses	$5,284,916	$5,758,781

Schedule of Payments to Consultants

for the Years Ended June 30, 2012 and 2011

	2012	2011
Actuarial Services	$73,786	$112,351
Legal Services	61,968	98,163
Medical Consultant	52,183	40,507
City Information Services	45,576	32,832
Miscellaneous	92,055	80,939
Total Payments to Consultants	$325,568	$364,792

SECTION 3 - INVESTMENT SECTION

Investment Report from the Retirement Administrator

Analysis of Issues Affecting our Portfolio in FY 2012

The world is experiencing a "three-peat." The global economy and financial markets hit bottom in 2009. Since then, every year – 2010, 2011 and 2012 – has opened with a note of optimism. Stock markets rallied as economic indicators improved. And improving equity prices gave businesses the confidence to ramp up investment spending and start hiring.

In each year, instead of things warming up with the Spring months, optimism has been dashed. In 2010, it was largely the first Greek debt crisis. It derailed European sentiment, and quickly wounded the U.S. By the end of May, the stock market was down for the year, and there was widespread talk of a double-dip recession. Fortunately, by year end the outlook brightened.

The world's economies and stock markets entered 2011 gaining traction. But the Spring again brought gloom. The Japanese disaster set off a global supply chain disruption, energy costs spiked and the Eurozone debt crisis re-emerged. By the Summer, U.S. sovereign debt issues were laid bare by the S&P downgrade of the nation's credit rating, and fears of a double dip were again rampant.

Following the script of the previous year, by the Fall the world's economy began healing. After a tumultuous 2011, stock prices erased their mid-year losses. Entering 2012, global growth was gaining steam, and equity markets rallied impressively during the first quarter. The European Central Bank's Long-Term Refinancing Operations pumped the financial system with liquidity. This calmed nerves and encouraged hope that the problems on the continent's periphery would be managed. In China, a deceleration in economic activity seemed to be managed, in fact desirable. Fears that the economy in general, and the residential markets in particular, were overheating were alleviated as the country looked on track for a more sustainable, balanced expansion pace. The U.S. appeared to be on a particular roll. Job gains surprised on the upside, retail and auto sales were buoyant, and manufacturing accelerated. There was widespread speculation that the nation was finally in a "virtuous cycle" supporting a self re-enforcing expansion. The primary worry was spiking oil prices.

What a difference a couple of months make. For the third year in a row, the world's economic resiliency is being severely tested. Europe has re-entered crisis mode. Recent election results amply demonstrate "austerity fatigue" in the South and "bailout fatigue" in the North. Data coming out of China are increasingly indicating a slowdown. The December – February growth spurt in the U.S. now appears to have been largely driven by unusually warm weather, and it's now payback time. The country's own debt issues are re-simmering with talk of the "Fiscal Cliff" – if unresolved by early 2013, tax cuts will disappear and spending cuts will be triggered pushing the U.S. into an extreme austerity mode.

It's being clearly demonstrated that the world is more integrated than ever – through trade and financial flows, and perhaps more importantly through sentiment which ebbs and flows globally. The world's correcting equity markets are now signaling a breakdown in confidence. Double dip fears are rising. The hopeful outlook is that the world's current slowdown will be temporary. And like in the past two years, growth will re-ignite by the Fall. After all, corporations remain flush with cash, they and households have de-levered, and low interest rates and declining commodity prices give the most stressed developed nations some breathing room.

The world is inter-connected, but economies have and will move at different speeds. The same is true for the global investment markets.

In spite of the overwhelming challenges of the global economy, the continued prudent leadership of the Fire and Police Retirement System Board is undoubtedly the most important factor in the long-term success of our System. Our Board understands that the Retirement System's portfolio requires a sound and stable strategy for meeting investment goals over the long–term and that in times of unprecedented financial market volatility a well-diversified portfolio with strong controls to manage risk and ensure compliance are likely to produce superior performance relative to its indices over the long term.

During fiscal year 2012, the Board, jointly with the Employees Retirement System Board, adopted a new Asset Allocation Plan. This new Asset Allocation increases allocations to high yield and real estate, and introduces an allocation to private value-added real estate and an allocation to inflation protection assets which may be composed of US TIPS and Commodities. The Boards approved a phased implementation that funds the increased allocations by reducing core fixed income by 11 percent, total equity by 4 percent and real estate securities (REITS) by 1 percent. The implementation timeline includes a plan to implement Inflation Protection Assets in early 2013 following policy and strategy development throughout 2012. Meanwhile proposed allocations to inflation protection assets will remain allocated to core fixed income and equities.

The Boards conducted an evaluation of Global REITs with educational presentations from both of the Systems' current REIT managers to review updated information and gain more knowledge about global REIT opportunities. The Boards plan to resume evaluation of real estate opportunities given the current market conditions and expect to complete these efforts during the next fiscal year.

During the first quarter of 2012, the Boards reviewed the analysis of high yield manager candidates, conducted interviews and held on-site investment due diligence meetings with finalists in their high yield manager search. Subsequently, the Boards selected MacKay Shields to manage a High Yield Active Core portfolio commencing July 2, 2012, which completes implementation of the Boards new increased allocation to High Yield fixed income. In addition, the Boards reviewed and adopted modifications to its Investment Objectives and Policy Statement specifically for small capitalization and high yield portfolios.

In June, the Boards approved a proposal from Cortex Applied Research to provide services in connection with their decision to conduct an Investment Consultant search. The Boards issued a Request for Proposal for General Investment Consulting Services in August, inviting proposals from qualified investment consulting firms and expect to evaluate and select a firm that can best meet the Systems' needs for the future by calendar year end.

Even with the continuation of these overwhelming challenges of the global economy, the System is fully funded on both an actuarial and a market value basis. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year of uncertainty in the global financial markets.

INVESTMENT PERFORMANCE

Highlighted Investment Performance of the City of Fresno Fire and Police Retirement System Investment Portfolio for FY 2012:

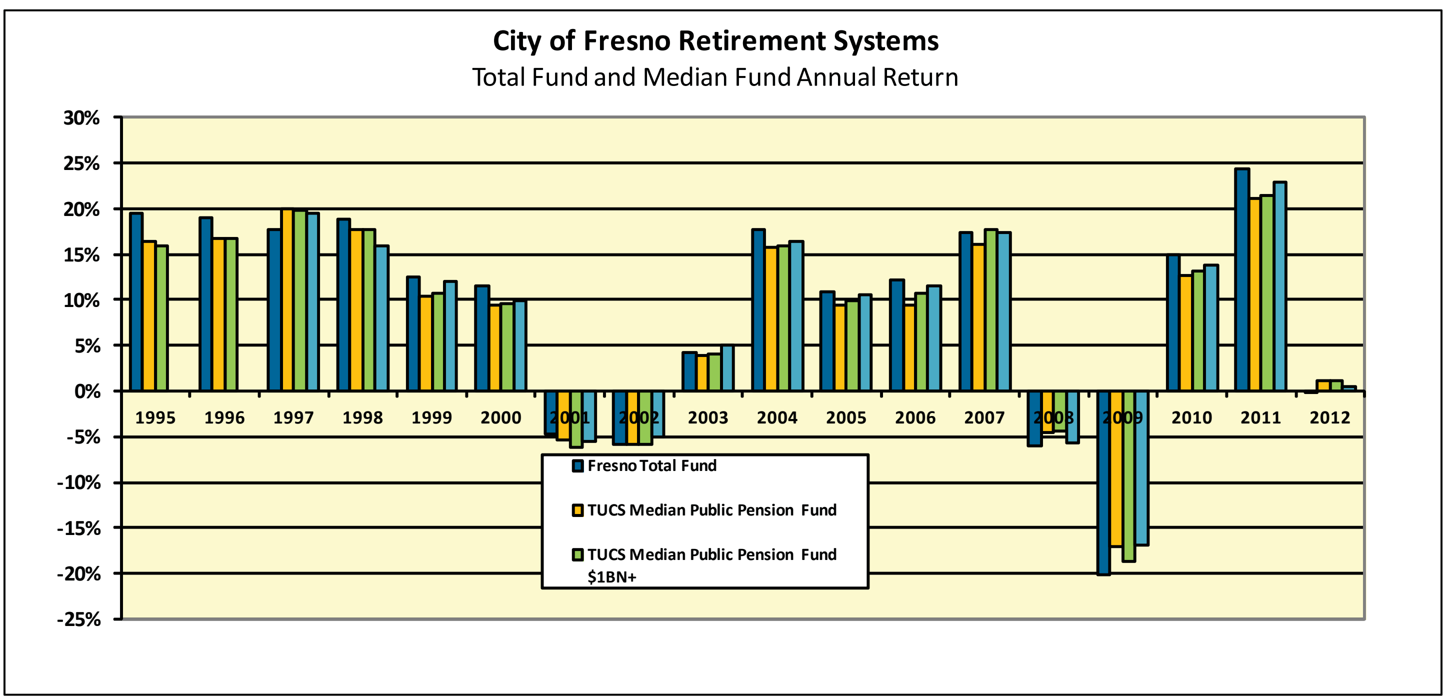
	Return
Total Fund	(0.11)%
Domestic Equity	1.63%
International Equity	(12.00)%
Fixed Income	6.77%
Real Estate	12.61%
Fiscal Year End	
Fund Value:	$1,080,393,408

The principal goals of the System's Retirement Board in managing the Retirement System's Investment Portfolios are the following:

1) To fund the System's benefit payments
2) To assume a prudent risk posture to minimize the cost of meeting the obligations of the System ;
3) To achieve rates of return above inflation;
4) To comply with legal statutes and regulations; and
5) To maintain a fully funded pension status.

These are the fundamental goals as stated in the Board's Investment Objectives and Policy Statement. The Fire and Police Retirement Board has strong controls in place to manage the overall investment objectives of the Fire and Police Retirement System assets and hold the fiduciary responsibility for the System.

The System's Total Fund Returns Versus Wilshire Associates Public Pension Funds (Gross of Fee) Returns for the Period Ended June 30, 2012, ranked the System in the bottom quartile (79th percentile) of our Investment Consultant's universe of all public funds. For three years ended June 30, 2012, the System's Total Fund Returns of 12.53 percent ranked the System in the top quartile (19th percentile), exceeding its policy weighted benchmark by 0.53 percent and also exceeding the Median Wilshire Public Pension Funds return of 11.66 percent and the Median Wilshire Public Pension Funds ($1Billion+ in assets) by 0.87 percent 0.68 percent respectively. Over the past ten years, the Systems' investment returns have remained sound and outperformed its policy benchmark in six of the ten year and the median fund returns as shown in the following chart seven out of ten years.



SUMMARY OF PORTFOLIO RESULTS

The fiscal year, ended June 30, 2012, marked another extraordinarily volatile year which ended with a slight decline in performance for the City of Fresno Fire and Police Retirement System. The System experienced a total investment loss of 0.11 percent for the fiscal year ended June 30, 2012, underperforming the System's actuarial interest rate assumption of 8.00 percent by 8.11 percent and underperforming the System's policy benchmark (a weighted average of the Fund's asset classes and their respective benchmarks) return of 0.50 percent by 0.61 percent. Over the longer term, our investment results remain sound with annualized returns of 8.42 percent over the past twenty years. However, the System's ten-year annualized returns averaged 6.73 percent underperforming its policy benchmarks return of 6.91 percent for the period by 0.18 percent. After paying all benefits and expenses of the System, the year-end value of the System reached $1.08 billion.

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GENERAL INFORMATION

The System's investment assets are managed by external investment management firms. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term strategies. The System's goal is to fund benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protecting against loss of purchasing power by achieving rates of return above inflation, and to maintain a fully funded pension status.

SUMMARY OF GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the System, and its assets, has adopted an Investment Objectives and Policy Statement which reflects the Board's policies for management of the System's investments. The Board reserves the right to amend, supplement or rescind this Statement at any time. This Investment Objectives and Policy Statement establishes the investment program goals and policies, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian and consultants.

The System's primary investment objective is to take prudent risk, as necessary, to minimize the cost of meeting the obligations of the System. The purpose of the Investment Objectives and Policy Statement is to express in operational terms: Return expectations, prudence with respect to risk and compliance with statutes and regulations.

An integral part of the overall investment policy is the strategic asset allocation policy. This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. This emphasizes a maximum diversification of the portfolio that protects the System from declines that a particular asset class may experience in a given period. Both traditional assets (cash, bonds, domestic stocks, fixed income and mortgages) and nontraditional assets (real estate, international stock and emerging equity market stock) are included in the mix.

Total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the System. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities will be conducted so as to serve the best interests of the System's members and beneficiaries.

SUMMARY OF PROXY VOTING GUIDELINES AND PROCEDURES

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of plan participants. These guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by a general statement of voting policies. The System will at all times strive to cast proxy votes so as to advance the overall good of the System.

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

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of June 30, 2012, the Retirement System's portfolio was slightly under-weight in total equities, with 57.87 percent in total equities versus the target of 60.0 percent. Domestic equities were slightly under-weight with 29.64 percent versus the target of 30.0 percent, and international equity with 21.15 percent developed and 7.08 percent emerging markets was slightly under-weight total international equity with 28.23 percent versus the target of 30.0 percent. Fixed income with 31.17 percent was 6.17 percent over-weight its target of 25.0 percent and real estate at 10.91 percent was 4.09 percent under-weight its target of 15.0 percent.

The investments were further diversified into the following asset classes and target percentages:

	Actual	Target
Asset Classification		
Domestic Equities:		
Large-Cap	21.6%	22.5%
Small-Cap	8.0%	7.5%
International Equities:		
Developed Markets	21.1%	22.8%
Emerging Markets	7.1%	7.2%
Fixed Income:		
Domestic	24.7%	15.0%
High Yield	6.5%	10.0%
Real Estate:		
Private	6.3%	12.0%
Public (REITs)	4.6%	3.0%
Cash:	0.1%	0.0%
Total	100%	100.0%

This asset class diversification along with portfolio investment style diversification is all part of the Retirement Board's Investment Risk Management Program. The investment returns presented herein are based on a time-weighted rate of return methodology based upon market values.

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 27, 2012

Investment Consultant's Report

Wilshire

October 2, 2012

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

Introduction and Overview

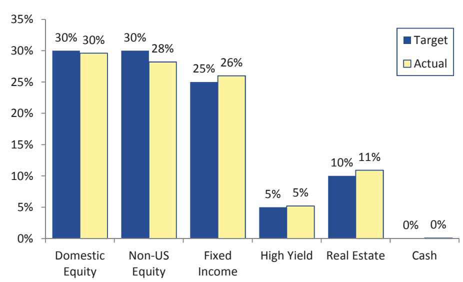
Wilshire independently calculated the Funds' fiscal year performance results using the individual portfolio market valuations and cash flows provided by the Funds' custodian bank, the Northern Trust Company. The investment information is presented in conformance with the Global Investment Performance Standards of the Chartered Financial Analyst Institute (CFAI, formerly AIMR). For the fiscal year ended June 30, 2012, the combined systems experienced a total loss of -0.11% gross of fees[1]. Over the last year, the fund underperformed its weighted benchmark[2] return of 0.50% by 0.61% (gross of fees). The combined systems continue to maintain a healthy funding level despite the turbulent investment environment of the past five fiscal years and ended the fiscal year with $2.01 billion in assets.

For the year ending June 30, 2012, the Systems' gross of fee performance of -0.11% ranked in the bottom quartile (79th percentile) of all public pension funds gross of fee performance in Wilshire's database.

The Systems' total return over the past five years has been an annualized average of +1.38% gross of fees versus the policy weighted benchmark return of +1.95% and the 8.00% actuarial interest rate assumption. Over the past five years, the Systems have underperformed the benchmark by 0.57% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +6.73% gross of fees versus a return of +6.91% for the composite policy weighted benchmark return. Over this time period, the Systems underperformed the policy weighted benchmark return by 0.18% per year.

The Systems' portfolios are managed in accordance with the guidelines established in the Boards' Investment Objectives and Policy Statement. This investment policy statement is reviewed periodically and revised regularly.

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



[1] Based on Wilshire's independent calculation of performance results which are within a reasonable tolerance of the actual returns reported by the Systems' custodian, the Northern Trust.

Wilshire Associates
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401 TEL 310.451.3051 FAX 310.458.0520 www.wilshire.com

Performance Comparison

The following table compares the total return for the Systems to all other public pension funds in the TUCS universe and the Systems' benchmark. The table illustrates that the Systems' performance during fiscal 2012 was below that of the median public pension fund after leading in 2010 and 2011. From 2003 to 2012, the Systems ranked above the median in seven out of ten years, and outperformed the weighted benchmark in six out of ten years**.**

	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
Fresno Total Fund	4.30%	17.69%	10.92%	12.13%	17.43%	-6.00%	-20.08%	14.92%	24.30%	-0.11%
TUCS Median Public Pension Fund	3.94%	15.75%	9.36%	9.44%	16.08%	-4.51%	-17.06%	12.70%	21.11%	1.15%
TUCS Median Public Pension Fund $1BN+	4.02%	15.88%	9.95%	10.72%	17.69%	-4.36%	-18.76%	13.09%	21.46%	1.12%
Weighted Benchmark	5.09%	16.40%	10.60%	11.57%	17.34%	-5.61%	-16.95%	13.75%	22.90%	0.50%

For the one-year period ending June 30, 2012:

- The Systems' domestic equity composite return of 1.63% gross of fees underperformed the domestic equity policy weighted benchmark return of 3.58% but outperformed the TUCS median peer return 0.02% respectively.
- The Systems' international equity composite return of -12.00% gross of fees outperformed the international equity policy weighted benchmark return of -13.98% but underperformed the TUCS median peer return of -10.64%. This outperformance was driven by the performance of the Systems' developed market managers which offset the underperformance of the active emerging market managers.
- The Systems' total fixed income composite return of 6.77% underperformed the fixed income policy weighted benchmark return of 7.52% and 6.94% for the TUCS median peer. The Systems' core fixed income composite return of 7.28% gross of fees underperformed the Barclays Aggregate policy index return of 7.47% due to higher exposure to corporate credit markets versus the index. The Systems' high yield fixed income composite return of 4.24% gross of fees trailed the Barclays High Yield policy index return of 7.27%.
- The Systems' real estate composite returned 12.61% gross of fees which was below the real estate policy weighted benchmark return of 13.02%, but outperformed the TUCS median peer return of 11.08%. This was primarily driven by a rebound in private real estate valuations during the year.

As the Systems' investment consultant, Wilshire Associates provides investment advice, asset and liability studies, manager investment due diligence and monitoring, and detailed quarterly performance reports. Wilshire is privileged to work together with the Boards and Staff in evaluating additional opportunities to enhance both the Systems asset allocation and the existing manager lineup. Wilshire remains confident in the longer-term outlook for the plan as the Systems continue to meet participant needs through timely benefit payments and a high level of service.

Sincerely,

Thomas Toth, CFA
Managing Director

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[2]City of Fresno Policy Weighted Index Benchmarks

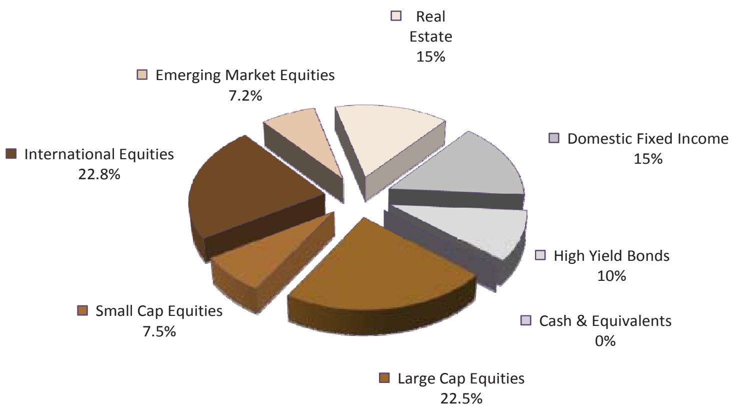
Performance Weighted Benchmarks	3/1/2011 - 6/30/2012	10/1/2008 - 2/28/2011	7/1/2005 - 9/30/2008	2/1/2005 - 6/30/2005	7/1/2004 - 1/31/2005	7/1/2003 - 6/30/2004	7/1/2002 - 6/30/2003	4/1/2001 - 6/30/2002	3/1/1997 - 3/31/2001	9/13/1995 - 2/28/1997
SP 500 Index	22.5%	22.5%	30.0%	30.0%	30.0%	31.45%	30.0%	29.0%	32.0%	40.0%
Russell 2000 Growth Index	3.75%	3.75%	5.0%	5.0%	5.0%	5.275%	6.0%	6.0%	5.0%	3.5%
Russell 2000 Value Index	3.75%	3.75%	5.0%	5.0%	5.0%	5.275%	6.0%	6.0%	5.0%	3.5%
Russell Mid-Cap Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	4.0%	4.0%
Total Domestic Equity	***30.0%***	***30.0%***	***40.0%***	***40.0%***	***40.0%***	***42.0%***	***45.0%***	***45.0%***	***46.0%***	***51.0%***
MSCI EAFE Index	13.0%	19.5%	17.0%	17.0%	17.0%	15.0%	9.0%	9.0%	10.0%	7.0%
MSCI ACWIxUS Index	13.0%	6.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MSCI EMF Index	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	0.0%
Total International Equity	***30.0%***	***30.0%***	***20.0%***	***20.0%***	***20.0%***	***18.0%***	***11.0%***	***11.0%***	***12.0%***	***7.0%***
Barclays Aggregate	25.0%	25.0%	25.0%	25.0%	25.0%	28.0%	28.0%	28.0%	25.0%	37.0%
Barclays High Yield	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	2.0%	2.0%	0.0%	0.0%
Barclays Gov/Credit/LB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%	7.0%	5.0%	0.0%
JPMorgan Non US Govt Bond	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.0%	4.0%
Total Fixed Income	**30.0%**	**30.0%**	**30.0%**	**30.0%**	**30.0%**	**32.0%**	**37.0%**	**37.0%**	**38.0%**	**41.0%**
NCREIF-ODCE Value Weighted Gross	6.0%	6.0%	6.0%	7.5%	10.0%	8.0%	7.0%	7.0%	4.0%	1.0%
Wilshire Real Estate Securities Index	4.0%	4.0%	4.0%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Value Added Real Estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Real Estate	***10.0%***	***10.0%***	***10.0%***	***10.0%***	***10.0%***	***8.0%***	***7.0%***	***7.0%***	***4.0%***	***1.0%***
Total Fund	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Investment Results

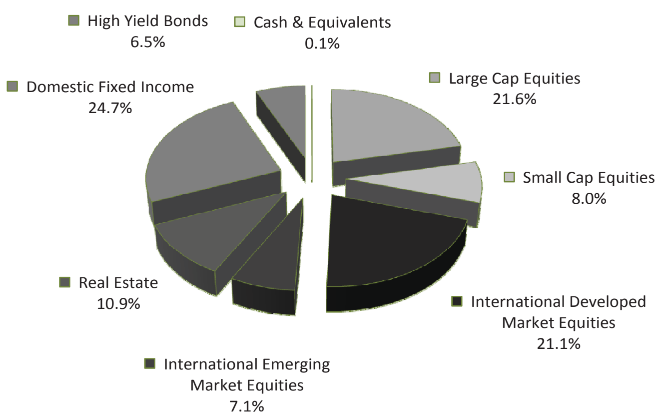
	Annualized - As of June 30, 2012				
	1 year	3 years	5 years	10 years	15 years
Total Fund	-0.11	12.53	1.38	6.73	6.57
Median TUCS Public Fund	1.15	11.66	1.82	6.32	6.08
Median TUCS Public Fund $1BN+	1.12	11.85	1.74	6.63	6.09
Benchmark: Weighted Indexes	0.50	12.00	1.95	6.91	6.29
Domestic Equity Large Cap	4.49	17.09	0.39	5.47	4.73
Median Large Cap Equity	2.50	15.39	0.77	6.15	6.35
Benchmark: S&P 500	5.45	16.40	0.22	5.33	4.77
Domestic Equity Small Cap	-5.33	18.97	1.92	7.20	6.35
Median Small Cap Equity	-2.41	19.06	1.92	8.72	9.33
Benchmark: Russell 2000	-2.08	17.80	0.54	7.00	6.14
Total Domestic Equity	1.63	17.57	0.74	5.93	5.56
Median Total Domestic Equity	0.02	17.05	1.30	7.44	7.55
Benchmark: SP500/Russell 2000	3.58	16.83	0.37	5.88	5.32
International Equity (EAFE)	-11.07	8.37	-6.82	4.35	--
Median International Equity (EAFE)	-12.53	8.48	-4.16	7.08	--
Benchmark: MSCI EAFE ($g)	-13.38	6.45	-5.63	5.62	--
International Equity (ACWI ex-US)	-10.93	10.55	--	--	--
Median International Equity (ACWI ex-US)	-7.15	11.51	--	--	--
Benchmark: MSCI ACWI ex-US ($g)	-14.15	7.43	--	--	--
Emerging Market Equity	-17.75	8.12	-0.90	14.81	--
Median Emerging Market Equity	-13.99	11.85	0.96	15.60	--
Benchmark: MSCI EMF ($g)	-15.67	10.10	0.21	14.42	--
Total International Equity	-12.00	8.96	-5.37	6.48	5.23
Median International (Dev/EM) Equity	-10.64	10.35	-2.16	7.99	6.29
Benchmark: Weighted Indexes	-13.98	7.19	-4.57	7.09	3.92
Total Fixed Income	6.77	9.68	6.71	6.29	6.44
Median Fixed Income	6.94	8.13	7.14	6.14	6.66
Benchmark: Weighted Indexes	7.52	8.53	7.22	6.33	6.27
Total Real Estate	12.61	15.78	1.71	8.24	9.40
Median Real Estate	11.08	8.43	-0.76	8.05	9.90
Benchmark: Weighted Indexes	13.02	18.91	3.99	9.24	10.06

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

Target Asset Allocation
as of June 30, 2012



Actual Asset Allocation
as of June 30, 2012



Asset Class	Current Target	Allocation Range	Actual
Domestic Equities			
Large-Cap	22.5%	17% - 25%	21.6%
Small Cap	7.5%	4% - 12%	8.0%
International Equities			
Developed Markets	22.8%	16% - 30%	21.1%
Emerging Markets	7.2%	0% - 10%	7.1%
Real Estate	15.0%	5% - 24%	10.9%
Domestic Fixed Income	15.0%	10% - 25%	24.7%
High Yield Bonds	10.0%	4% - 14%	6.5%
Cash & Equivalents	0.0%	0% - 2%	0.1%

Largest Stock Holding (by market value)
as of June 30, 2012

	Shares	Stock Holding	Market Value
1)	87,561	NESTLE SA CHF0.10(REGD)	$5,231,465
2)	76,892	BRITISH AMERICAN TOBACCO ORD GBP0.25	3,909,287
3)	3,506	SAMSUNG ELECTRONIC KRW5000	3,676,610
4)	5,257	APPLE INC COM STK	3,069,905
5)	15,657	ROCHE HLDGS AG GENUSSCHEINE NPV	2,706,218
6)	131,736	BG GROUP ORD GBP0.10	2,686,073
7)	858,793	VODAFONE GROUP ORD USD0.11428571	2,414,452
8)	71,725	SVENSKA HANDELSBKN SER'A'SEK4.30	2,355,710
9)	259,110	HSBC HLDGS ORD USD0.50(UK REG)	2,280,321
10)	824,672	TAIWAN SEMICON MAN TWD10	2,243,462
Total Largest Stock Holdings			$30,573,503

Largest Bond Holdings (by market value)
as of June 30, 2012

	Share/Par Value	Bond Holding	Coupon Rate	Maturity Date	Market Value
1)	6,447,286	UNITED STATES TREAS NTS DTD	0.750%	15 June 2015	$6,441,747
2)	3,597,969	FEDERAL HOME LN MTG CORP POOL #G02988	6.000%	01 May 2037	3,948,663
3)	3,384,825	UNITED STATES TREAS NTS DTD	0.375%	15 Mar 2015	3,382,709
4)	3,116,188	UNITED STATES TREAS NTS DTD	0.625%	31 Jan 2013	3,124,100
5)	2,628,546	FEDERAL NATL MTG ASSN GTD MTG POOL	5.500%	01 Jan 2025	2,874,473
6)	2,236,900	FNMA POOL #725162	6.000%	01 Feb 2034	2,518,885
7)	2,377,437	HCA INC 5.75%	5.750%	15 Mar 2014	2,487,393
8)	2,310,277	UNITED STATES TREAS NTS DTD	0.500%	15 Aug 2014	2,318,038
9)	1,732,708	UNITED STATES TREAS BDS DTD	4.375%	15 May 2041	2,314,248
10)	2,162,527	UNITED STATES TREAS NTS DTD	2.375%	28 Feb 2015	2,275,554
Total Largest Bond Holdings					$31,685,810

A complete list of portfolio holdings is available on our website at http://www.cfrs-ca.org.

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity manager's participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of the trades for their account through brokerage firms identified by NTSI as eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For fiscal year 2012, the net income from Brokerage Commission Recapture was $46,878. During this period, the overall participating rate by the System's equity managers was 12.23%. The percentage of equity trading being executed through the program is generally at a low cost and has resulted over the years in a meaningful cost recapture.

Schedule of Commissions

for the fiscal year ended June 30, 2012

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
INSTINET	$54,260	1,442,247	$0.0376
CREDIT SUISSE FIRST BOSTON CORPORATION	28,969	64,207,613	0.0005
UBS AG (LONDON)	20,510	1,768,899	0.0116
MERRILL LYNCH INTL LTD	18,618	1,288,840	0.0144
CREDIT SUISSE SECURITIES(EUROPE) LTD	17,707	1,359,388	0.0130
GOLDMAN, SACHS AND CO.	17,520	4,511,911	0.0039
KNIGHT EQUITY MARKETS LP	16,065	470,422	0.0342
MERRILL LYNCH FENNER & SMITH INC	15,961	2,835,343	0.0056
CREDIT SUISSE SECURITIES (USA) LLC	15,637	3,676,795	0.0043
J.P. MORGAN SECURITIES PLC	15,021	806,995,297	0.0000
	$220,268	888,556,755	$0.0002
All Other Brokerage Firms	451,016	12,772,771,705	0.0000
TOTAL	$671,284	13,661,328,460	$0.0000

Investment Summary

	Investment Value as of June 30, 2012	Percent of Fund
Equity		
Domestic	$374,732,842	34.8%
International Developed Market Equities	199,613,929	18.6%
International Emerging Market Equities	40,355,432	3.8%
Fixed Income		
Domestic	308,017,193	28.6%
Real Estate	119,030,496	11.1%
Short Term Investments	33,994,006	3.1%
Total	$1,075,743,898	100.0%

SECTION 4 - ACTUARIAL

Actuarial Section

Actuarial Certification Letter

SEGAL

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

VIA E-MAIL and USPS

October 24, 2012

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

**Re: City of Fresno Fire and Police Retirement System
June 30, 2011 Actuarial Valuation**

Dear Members of the Board:

The Segal Company prepared the June 30, 2011 annual actuarial valuation of the City of Fresno Fire and Police Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2011 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data provided by the Plan's administrative staff for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

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

Board of Retirement
City of Fresno Fire and Police Retirement System
October 24, 2012
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The PAAL is amortized as a level percentage of payroll over a 15-year period. The progress being made towards meeting the funding objective through June 30, 2011 is illustrated in the Schedule of Funding Progress.

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

1. Summary of Actuarial Assumptions and Methods;
2. Solvency Test;
3. Actuarial Analysis of Financial Experience; and
4. Schedule of Funding Progress.[1]

(1) *The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. The other schedules, such as the schedule of gross and net employer and employee contributions, in the Financial Section of the CAFR have been prepared by the Retirement System.*

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 Experience Analysis and the June 30, 2010 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2011 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2012. The Retirement System utilizes the actuarial surplus to provide contribution rate offsets and a PRSB benefit. The impact of the application of the actuarial surplus on the future financial condition of the Plan has not been explicitly measured in the valuation.

In the June 30, 2011 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 110.8% to 111.4%. The employer's contribution rate has decreased from 23.94% of payroll to 19.84% of payroll, while the employee's contribution rate has decreased from 8.82% of payroll to 8.81% of payroll.

As a result of using the actuarial value of assets in the actuarial valuation, there were $14.1 million in unrecognized deferred investment losses as of June 30, 2011, which represented 1% of the market value of assets. This is a significant reduction from last year's amount of $198.2 million. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 111.4% to 109.9% and the employer's rate would increase from 19.84% of payroll to 20.67%.

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Board of Retirement
City of Fresno Fire and Police Retirement System
October 24, 2012
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The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary

MYM/bqb
Enclosures

5168424v1/09328.001

Summary of Actuarial Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2011, data were adopted by the Fire and Police Retirement Board on December 14, 2011, and were effective for July 1, 2012.

Assumptions

Valuation Interest Rate	8.00%
Inflation:	3.50%

Post Retirement Mortality

(a) Service
RP-2000 Combined Healthy Mortality Table set back three years (separate tables for males and females).

Beneficiary - RP-2000 Combined Healthy Mortality Table set back three years weighted 10% male and 90% female.

(b) Disability
Member: RP-2000 Combined Healthy Mortality Table, set forward one year (separate tables for males and females).

Beneficiary: RP-2000 Combined Healthy Mortality Table set back three years weighted 10% male and 90% female.

Pre-Retirement Mortality

Based upon the 6/30/2010 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2010 Experience Analysis

Disability Rates

Based upon the 6/30/2010 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2010 Experience Analysis

Percentage Married at Retirement

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

Assets

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

Funding Method

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability amortized as a level percentage of payroll. There is no UAAL as of June 30, 2011.

COLA Assumptions

The annual cost-of-living adjustment is 3.00% for Tier 2 members and 4.00% for Tier 1 members and retirees who have retired with the final average formula, or with the career average formula.

DROP Assumptions

The following probabilities are applied:

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

Members are assumed to remain in DROP for 7 years.

Ultimate Salary Scales

5.95% for the first five years of service. Graded increases thereafter ranging from 1.60% at age 25 to 0.30% at ages 50 and over. Of the total salary increases assumed, 3.50% is for inflation; plus 0.50% real across-the-board salary increase.

Probabilities of Separation Prior to Retirement

Rate (%)		
Mortality		
	Tier 1 & Tier 2	
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.09	0.06
45	0.12	0.09
50	0.17	0.13
55	0.27	0.20
60	0.47	0.35
65	0.88	0.67

All pre-retirement deaths are assumed to be duty.

Rate (%)				
Disability				
	Tier 1		Tier 2	
Age	Duty	Non-Duty	Duty	Non-Duty
20	0.02	0.00	0.14	0.00
25	0.14	0.01	0.29	0.01
30	0.26	0.01	0.50	0.01
35	0.39	0.03	0.72	0.03
40	0.60	0.12	0.98	0.12
45	0.88	0.25	1.22	0.25
50	2.80	0.20	1.48	0.20
55	8.20	0.00	1.78	0.00
60	0.00	0.00	0.00	0.00

Rate (%)		
Vested Termination (Deferred Vested Benefit)		
Age	Tier 1	Tier 2
20	0.70	1.60
25	0.70	1.35
30	0.70	1.10
35	0.70	0.88
40	0.70	0.68
45	0.60	0.42
50	0.00	0.00
55	0.00	0.00
60	0.00	0.00

Schedule of Active Member Valuation Data

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2011	Active Members	953	$87,339,861	$91,647	1.3%
	DROP Participants	118	11,659,869	98,812	9.0%
	Totals	1071	$98,999,730	$92,437	
June 30, 2010	Active Members	992	$89,718,011	$90,442	3.0%
	DROP Participants	143	12,968,418	90,688	2.3%
	Totals	1135	$102,686,429	$90,473	
June 30, 2009	Active Members	997	$87,546,941	$87,810	5.1%
	DROP Participants	167	14,807,704	88,669	5.0%
	Totals	1164	$102,354,645	$87,934	
June 30, 2008	Active Members	1017	$84,977,945	$83,557	6.4%
	DROP Participants	165	13,934,644	84,452	1.6%
	Totals	1182	$98,912,589	$83,682	
June 30, 2007	Active Members	956	$75,054,546	$78,509	5.2%
	DROP Participants	174	14,461,649	83,113	6.2%
	Totals	1130	$89,516,195	$79,218	
June 30, 2006	Active Members	928	$69,268,193	$74,642	9.2%
	DROP Participants	169	13,224,715	78,253	8.8%
	Totals	1097	$82,492,908	$75,199	
June 30, 2005	Active Members	894	$61,123,230	$68,371	3.0%
	DROP Participants	171	12,299,275	71,926	0.0%
	Totals	1065	$73,422,505	$68,941	
June 30, 2004	Active Members	842	$55,895,431	$66,384	0.8%
	DROP Participants	175	12,588,060	71,932	2.5%
	Totals	1017	$68,483,491	$67,339	
June 30, 2003	Active Members	814	$53,592,702	$65,839	(1.1%)
	DROP Participants	166	11,654,388	70,207	(10.0%)
	Totals	980	$65,247,090	$66,579	
June 30, 2002	Active Members	781	$51,992,000	$66,571	3.1%
	DROP Participants	166	12,945,000	77,982	10.3%
	Totals	947	$64,937,000	$68,571	

Schedule of Retirees and Beneficiaries Added to or Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	Average Annual Allowance	% Increase in Retiree Allowance
June 30, 2012	24	$481,428	(19)	$413,006	953	$51,378,999	$53,913	1.09
June 30, 2011	71	$1,895,852	(25)	$(691,254)	948	$50,556,250	$53,329	(3.09)
June 30, 2010	69	$2,889,037	(32)	$838,327	902	$49,638,574	$55,032	1.23
June 30, 2009	37	$1,133,750	(26)	$(663,449)	865	$47,024,672	$54,364	8.09
June 30, 2008	48	$1,677,698	(27)	$(804,955)	854	$42,949,880	$50,293	5.57
June 30, 2007	34	$1,196,861	(8)	$(178,933)	833	$39,682,515	$47,638	4.53
June 30, 2006	54	$1,196,861	(31)	$(673,117)	807	$36,778,219	$45,574	(1.96)
June 30, 2005	40	$1,167,252	(17)	$(329,007)	784	$36,443,224	$46,484	0.20
June 30, 2004	50	$549,865	(23)	$(592,613)	761	$35,304,472	$46,392	0.93
June 30, 2003	61	$1,936,470	(13)	$(312,042)	734	$33,736,675	$45,963	1.24

Solvency Test (in thousands)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Valuation Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members
6/30/2011	$96,649	$678,264	$143,028	$1,022,996	100%	100%	100%
6/30/2010	88,824	683,318	147,144	1,018,605	100%	100%	100%
6/30/2009	79,896	654,398	140,061	1,045,774	100%	100%	100%
6/30/2008	70,998	631,540	127,498	1,066,778	100%	100%	100%
6/30/2007	62,769	602,989	107,478	1,000,961	100%	100%	100%
6/30/2006	58,078	561,039	103,605	906,223	100%	100%	100%
6/30/2005	53,011	508,568	108,522	846,718	100%	100%	100%
6/30/2004	47,981	492,227	101,986	793,059	100%	100%	100%
6/30/2003	46,881	461,688	109,310	749,505	100%	100%	100%
6/30/2002	44,161	443,037	103,657	814,680	100%	100%	100%

Actuarial Analysis of Financial Experience

	Plan Years									
(Amounts in Thousands)	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Prior Valuation Actuarial Accrued Liability	$919	$874	$830	$773	$723	$670	$642	$618	$591	$562
Salary Increase Greater/ (Less) than Expected	(9)	(6)	-	8	4	(6)	(8)	5	(12)	(3)
Asset Return (Greater)/ Less than Expected	-	-	-	-	-	-	(14)	(38)	29	26
COLA Increase Greater/(Less) than Expected	(26)	(29)	-	-	-	-	-	-	-	-
Other Experience	(1)	(8)	(7)	(7)	4	(4)	47	43	-	-
Economic Assumption Changes	-	36	-	8	(2)	-	-	5	-	-
Non-economic Assumption Changes	-	-	-	-	-	-	3	9	10	6
Normal Cost	29	28	28	25	22	21				
Interest	72	71	67	63	59	54				
Payments	(49)	(47)	(44)	(40)	(37)	(35)				
Change in Valuation Programs and Methods	(17)	0	0	-	-	23				
Ending Actuarial Accrued Liability	$918	$919	$874	$830	$773	$723	$670	$642	$618	$591

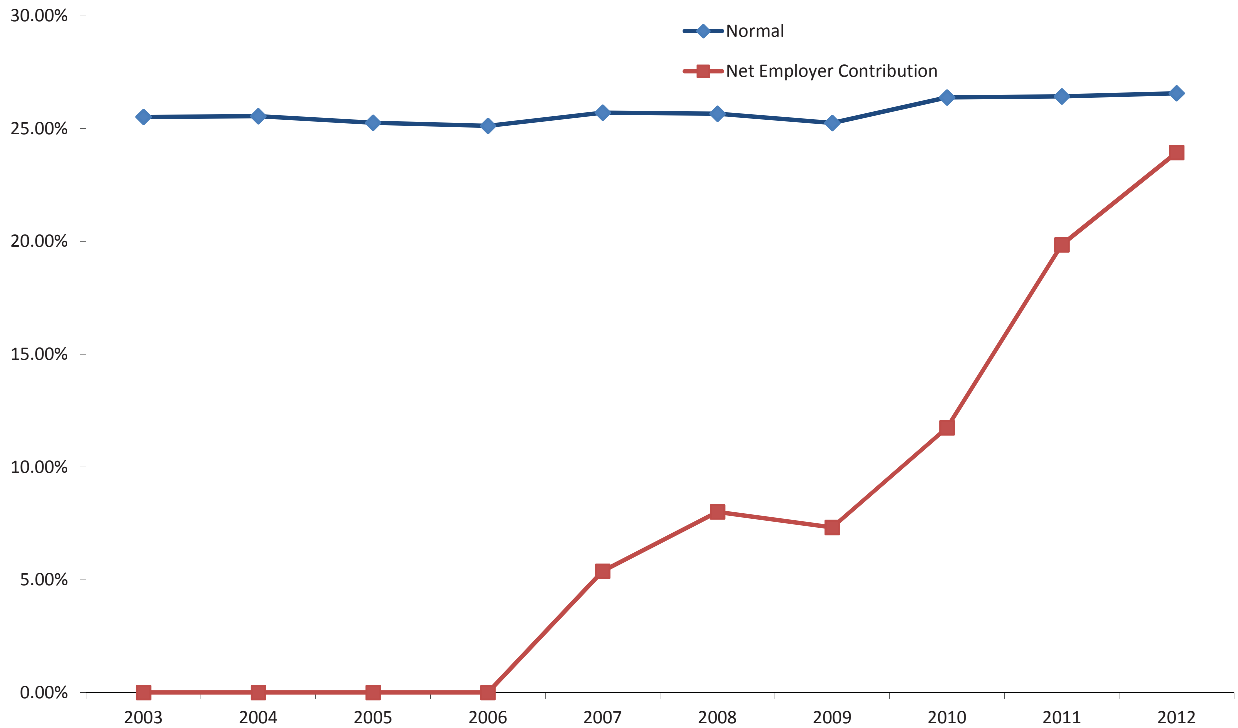
Major Benefit Provisions of the Retirement System

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

Major Benefit Provisions of the Retirement System

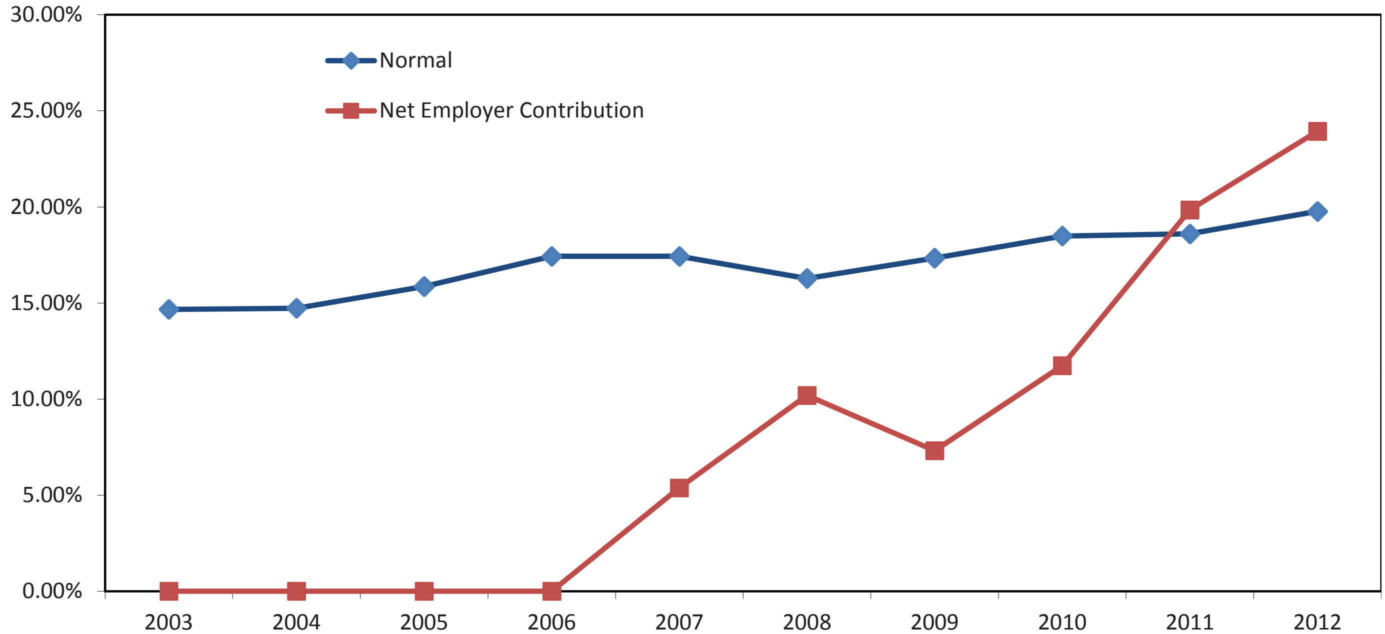
	Fire & Police First Tier	Fire and Police Second Tier
Death Before Retirement	a. Before eligible to retire for disability (less than 5 years). 1. One month's salary for each year of service, not-to-exceed 6 months. 2. Return of contributions with interest. a. While eligible to retire (after 10 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit. b. Service-Connected Death: 55% of FAS	a. Before eligible to retire (less than 5 years). 1. One month's salary for each year of service, not-to-exceed 6 months. 2. Return of contributions with interest. a. While eligible to retire (after 5 years): 2/3 of Service or Non-Service-connected Disability Retirement Benefit b. Service-Connected Death: 50% of FAS
Death After Retirement	Two-thirds of the member's allowance continued to eligible spouse for life.	Two-thirds of the member's allowance continued to eligible spouse for life.
Withdrawal Benefits	a. If less than 10 years of service, return of contributions. b. If greater than 10 years of service, right to have vested deferred retirement benefit at normal retirement date.	a. If less than 5 years of service, return of contributions. b. If greater than 5 years of service, right to have vested deferred retirement benefit.
Post Retirement Supplemental Benefit (PRSB)	On May 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit ("PRSB") Program which is intended to provide assistance to retirees to pay for various post retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.	On May 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit ("PRSB") Program which is intended to provide assistance to retirees to pay for various post retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.
Cost of Living Benefits	a. Based on the weighted mean average compensation attached to all ranks in the department, limited to a 5% maximum change per year, if based on three-year FAS. b. Based on salary increase for each rank held, if benefit was calculated on salary attached to average rank.	a. Based on the Consumer Price Index for all Urban Wage Earners and all Clerical Workers (U.S. City Average), limited to a 3% change per year.
Member Contribution Rates	Varies based on entry age.	9% of Compensation.

History Of Employer Contribution Rates (Tier I)



Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Normal	25.52%	25.55%	25.26%	25.12%	25.71%	25.66%	25.25%	26.38%	26.43%	26.57%
Prefunded Liability/Prepaid Contributions	25.52%	25.55%	25.26%	25.12%	20.33%	17.65%	17.93%	14.64%	6.58%	2.63%
Net Employer Contribution	0.00%	0.00%	0.00%	0.00%	5.38%	8.01%	7.32%	11.74%	19.85%	23.94%

History Of Employer Contribution Rates (Tier II)



Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Normal	14.67%	14.73%	15.86%	17.43%	17.43%	16.28%	17.34%	18.49%	18.60%	19.77%
Prefunded Liability/Prepaid Contributions	14.67%	14.73%	15.86%	17.43%	12.05%	6.09%	10.02%	6.75%	-1.25%	-4.17%
Net Employer Contribution	0.00%	0.00%	0.00%	0.00%	5.38%	10.19%	7.32%	11.74%	19.85%	23.94%

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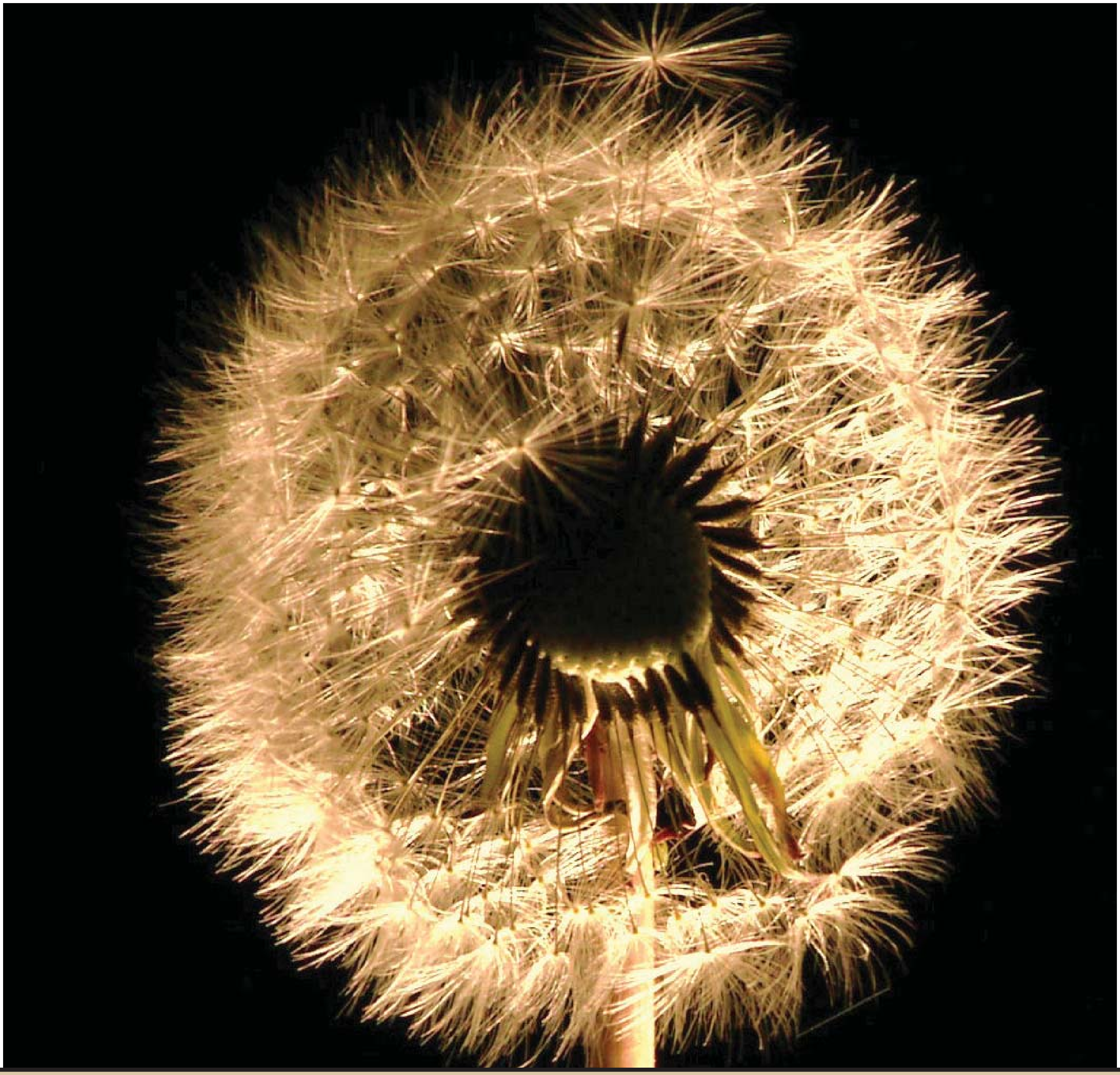
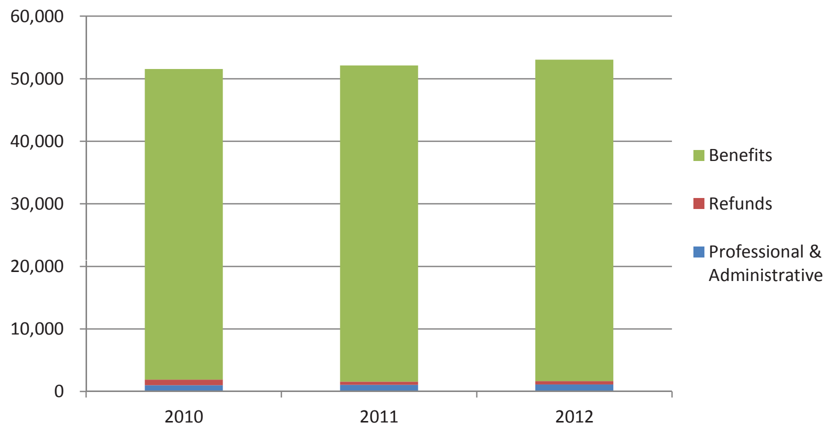


SECTION 5 - STATISTICAL

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information which covers the benefits provided by the City of Fresno Employees Retirement System. It also provides multi-year trend of financial and operation information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

FY 2012 Deductions by Type

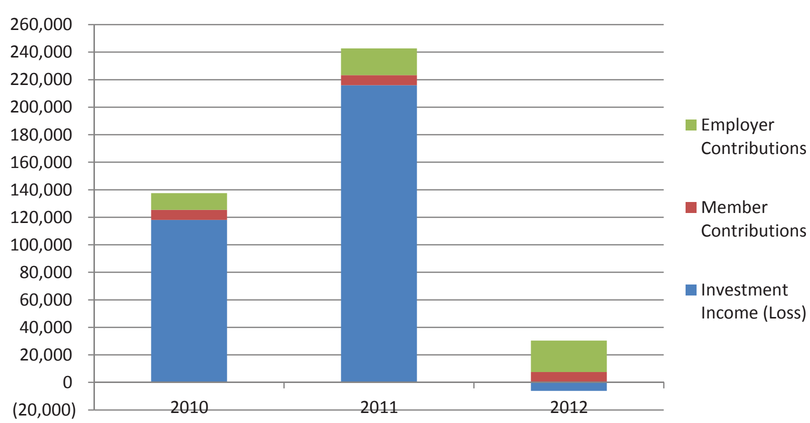
For the Fiscal Years Ended June 30, 2012, 2011 and 2010 (In Thousands)



	2010	2011	2012
Benefits	$49,638	$50,556	$51,379
Refunds	918	494	535
Professional & Administrative	993	1,080	1,118
TOTAL	$51,549	$52,130	$53,032

FY 2012 Additions by Source

For the Fiscal Years Ended June 30, 2012, 2011 and 2010 (In Thousands)



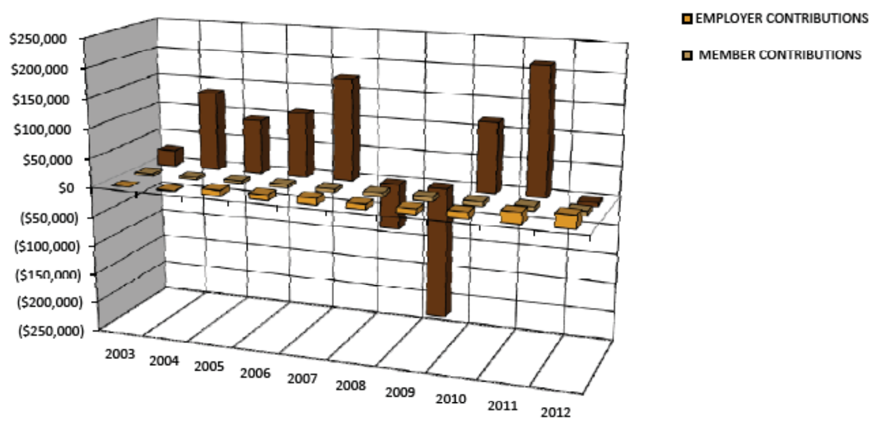
	2010	2011	2012
Employer Contributions	$12,094	$19,397	$22,875
Member Contributions	7,355	7,304	7,540
Investment Income (Loss)	118,018	215,994	(6,201)
Total	$137,467	$242,695	$24,214

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Employer Contributions	$-	$0.7	$8.8	$8.9	$10.8	$8.8	$8.9	$12.1	$19.4	$22.9
Member Contributions	4.1	4.4	4.9	5.3	5.4	6.8	7.2	7.4	7.3	7.5
Investment Income (Loss)	27.8	134.3	91.8	110.4	173.5	(76.4)	(223.1)	117.9	215.9	(6.2)
Total Additions	$31.9	$139.4	$105.5	$124.6	$189.7	$(60.8)	$(207.0)	$137.4	$242.6	$24.2
Deductions										
Benefit Payments	$28.6	$30.1	$32.6	$34.2	$36.8	$39.5	$43.2	$46.3	$48.9	$51.0
Post Retirement Supplement Benefit	5.1	5.2	3.9	2.5	2.9	3.5	3.8	3.3	1.7	0.4
Refunds	0.1	0.2	0.4	0.4	0.5	0.6	0.3	0.9	0.5	0.5
Administrative	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0	1.0	1.1
Total Deductions	34.4	36.1	37.6	37.9	41.1	44.5	48.3	51.5	52.1	53.0
Change in Plan Net Assets	$(2.5)	$103.3	$67.9	$86.7	$148.6	$(105.3)	$(255.3)	$85.9	$190.5	$(28.8)

FY 2012 Additions by Source

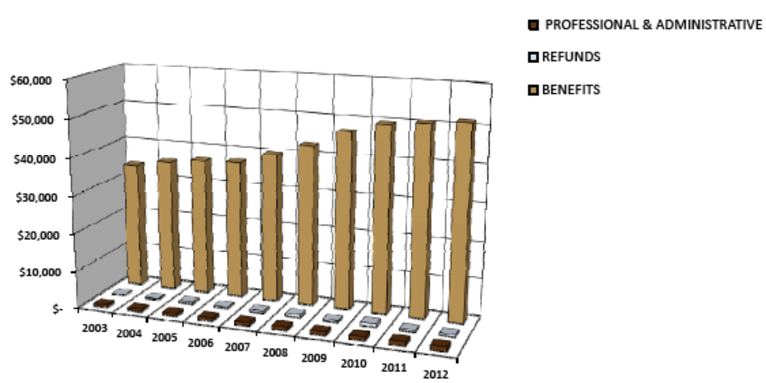
(in thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EMPLOYER CONTRIBUTIONS	$ -	$ 728	$ 8,806	$ 8,886	$ 10,807	$ 8,766	$ 8,938	$ 12,094	$ 19,397	$22,875
MEMBER CONTRIBUTIONS	4,081	4,409	4,963	5,336	5,394	6,788	7,172	7,355	7,304	7,540
INVESTMENT INCOME (LOSS)	27,759	134,287	91,761	110,413	173,484	(76,357)	(223,122)	118,018	215,994	(6,201)
TOTAL	$31,840	$139,424	$105,530	$124,635	$189,685	$(60,803)	$(207,012)	$137,467	$242,695	$24,214

FY 2012 Deductions by type

(in thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BENEFITS	$33,737	$35,304	$36,443	$36,778	$39,683	$42,950	$47,025	$49,638	$50,556	$51,379
REFUNDS	79	229	378	303	454	646	338	918	494	535
PROFESSIONAL & ADMINISTRATIVE	571	604	688	803	887	945	952	993	1,080	1,118
TOTAL	$34,387	$36,137	$37,509	$37,884	$41,024	$44,541	$48,315	$51,549	$52,130	$53,032

Schedule of Average Benefit Payments

	Years of Credited Service						Fiscal Year
Retirement Effective Dates	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**Average/New Retirants**
Period 7/1/11 to 6/30/12							
Average Monthly Pension Benefits	$3,458	$3,265	$4,866	$4,484	$5,527	$ -	$4,320
Number of New Retired Members	5	2	4	3	4	0	18
Period 7/1/10 to 6/30/11							
Average Monthly Pension Benefits	$2,609	$3,040	$4,383	$5,493	$5,330	$5,519	$4,396
Number of New Retired Members	8	4	11	19	10	7	59
Period 7/1/09 to 6/30/10							
Average Monthly Pension Benefits	$1,984	$2,864	$5,394	$7,460	$7,539	$9,485	$5,788
Number of New Retired Members	2	7	4	19	15	6	53
Period 7/1/08 to 6/30/09							
Average Monthly Pension Benefits	$2,727	$-	$5,859	$7,673	$7,875	$5,423	$5,911
Number of New Retired Members	4	0	3	9	3	2	21
Period 7/1/07 to 6/30/08							
Average Monthly Pension Benefits	$2,394	$3,687	$2,063	$8,247	$8,329	$8,962	$5,614
Number of New Retired Members	4	3	1	11	6	8	33
Period 7/1/06 to 6/30/07							
Average Monthly Pension Benefits	$-	$4,725	$2,479	$5,279	$7,363	$7,517	$5,473
Number of New Retired Members	-	1	2	14	5	4	26
Period 7/1/05 to 6/30/06							
Average Monthly Pension Benefits	$1,203	$3,676	$2,974	$4,878	$6,158	$6,512	$4,233
Number of New Retired Members	3	5	6	15	5	3	37
Period 7/1/04 to 6/30/05							
Average Monthly Pension Benefits	$3,077	$1,783	$2,897	$3,081	$6,481	$7,388	$4,118
Number of New Retired Members	2	2	1	3	7	12	27

Retirees by Type of Benefit
(as of June 30, 2012)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 - $1,000	54	3	4	47
$1,001 - $2,000	64	15	2	47
$2,001 - $3,000	141	33	21	87
$3,001 - $4,000	267	67	159	41
$4,001 - $5,000	135	78	48	9
$5,001 - $6,000	67	38	25	4
$6,001 - $7,000	67	42	25	0
$7,001 - $8,000	64	29	33	2
$8,000 - $9,000	31	15	16	0
> $9,000	63	41	21	1
Total	953	361	354	238

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

Amount of Monthly Benefit	Number of Retired Members	Option Selected** Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	54	51	3	0	0
$1,001 - $2,000	64	51	5	8	0
$2,001 - $3,000	141	81	44	12	4
$3,001 - $4,000	267	177	66	16	8
$4,001 - $5,000	134	97	27	8	2
$5,001 - $6,000	68	53	4	9	2
$6,001 - $7,000	67	37	13	14	3
$7,001 - $8,000	64	39	5	18	2
$8,001 - $9,000	31	24	1	6	0
> $9,000	63	48	2	13	0
Total	953	658	170	104	21

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

FY 2012 Deductions by type

(In Million Dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service Retiree Benefits	$22.6	$22.7	$23.9	$22.3	$23.8	$26.4	$28.9	$28.0	$30.4	$30.7
Disability Retiree Benefits	11.1	12.6	12.6	14.5	15.8	16.6	18.1	21.6	20.2	20.7
Separation	0.1	0.2	0.3	0.3	0.4	0.6	0.3	0.9	0.5	0.4
Death Benefits	0.0	0.0	0.1	0.0	0.1	0.0	-	-	-	-
Misc	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-	-	0.1
Total Benefit Deductions	$33.8	$35.5	$36.9	$37.1	$40.1	$43.6	$47.4	$50.5	$51.1	$51.9

Membership History

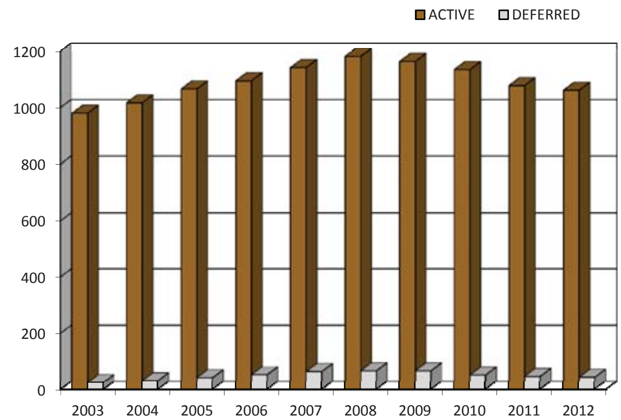
Active / Deferred Members

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Active Vested	717	759	763	765	782	783	851	880	887	937
Active Non Vested	263	258	303	330	360	399	313	255	184	125
Deferred	24	31	42	53	64	67	67	52	53	44
Total	1,004	1,048	1,108	1,148	1,206	1,249	1,231	1,187	1,124	1,106

Retirees by Type of Benefit

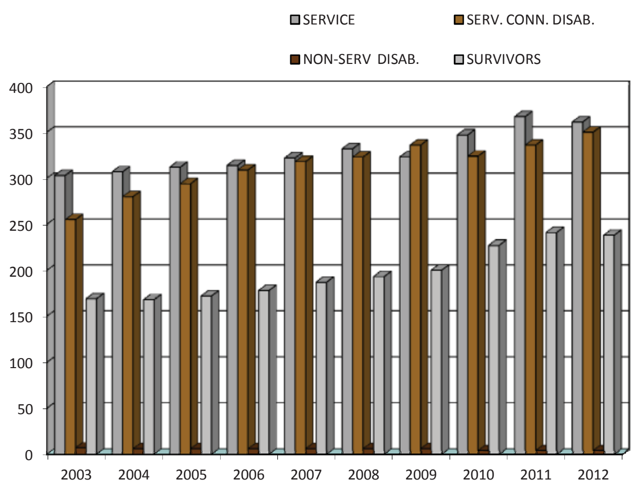
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service	303	307	312	314	322	332	323	347	367	361
Service Connected Disability	255	280	294	309	318	323	336	324	336	350
Non Service Disability	7	6	6	6	6	6	6	4	4	4
Survivors	169	168	172	178	187	193	200	227	241	238
TOTAL	734	761	784	807	833	854	865	902	948	953

Membership History (Active and Deferred)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ACTIVE	980	1,017	1,066	1,095	1,142	1,182	1,164	1,135	1,071	1,062
DEFERRED	24	31	42	53	64	67	67	52	53	44
TOTAL	1,004	1,048	1,108	1,148	1,206	1,249	1,231	1,187	1,124	1,106

Schedule of Retirees by Type of Benefit



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SERVICE	303	307	312	314	322	332	323	347	367	361
SERV. CONN. DISAB.	255	280	294	309	318	323	336	324	336	350
NON-SERV DISAB.	7	6	6	6	6	6	6	4	4	4
SURVIVORS	169	168	172	178	187	193	200	227	241	238
TOTAL	734	761	784	807	833	854	865	902	948	953

Summary of Active Participants

YEAR	NUMBER OF MEMBERS	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
2012	1,062	$96,194,537	$90,579	0.26%
2011	1,071	$96,757,692	$90,343	3.40%
2010	1,135	$99,166,002	$87,371	2.39%
2009	1,164	$99,327,134	$85,333	1.80%
2008	1,182	$99,076,279	$83,821	12.87%
2007	1,142	$84,811,083	$74,265	5.30%
2006	1,095	$77,230,825	$70,530	3.26%
2005	1,066	$72,812,722	$68,305	3.84%
2004	1,017	$66,899,509	$65,781	0.49%
2003	980	$64,149,390	$65,459	0.95%
2002	946	$61,344,091	$64,846	1.13%
2001	934	$59,888,057	$64,120	7.20%
2000	914	$54,667,137	$59,811	5.10%
1999	921	$52,410,461	$56,906	1.86%
1998	849	$47,430,688	$55,867	2.57%
1997	798	$43,462,379	$54,464	(3.47%)

The fiscal year 2008 increase in pensionable compensation is a reflection of the rare occurrence, approximately every 11 years, in which there are 27 rather than 26 payroll periods reportable.

Summary of Retired Membership

YEAR	NUMBER OF MEMBERS	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
2012	953	$51,378,999	$53,913	1.09%
2011	948	$50,556,250	$53,329	(3.09%)
2010	902	$49,638,574	$55,032	1.23%
2009	865	$47,024,672	$54,364	8.09%
2008	854	$42,949,880	$50,293	5.57%
2007	833	$39,682,515	$47,638	4.53%
2006	807	$36,778,219	$45,574	(1.96%)
2005	784	$36,443,224	$46,484	0.20%
2004	761	$35,304,472	$46,392	0.93%
2003	734	$33,736,675	$45,963	1.24%
2002	686	$31,144,834	$45,401	5.36%
2001	663	$28,568,480	$43,090	11.48%
2000	664	$25,664,076	$38,651	10.11%
1999	647	$22,710,101	$35,101	20.83%
1998	649	$18,852,815	$29,049	(0.15%)
1997	625	$18,182,008	$29,091	12.98%

Contribution Rates (Member and City)

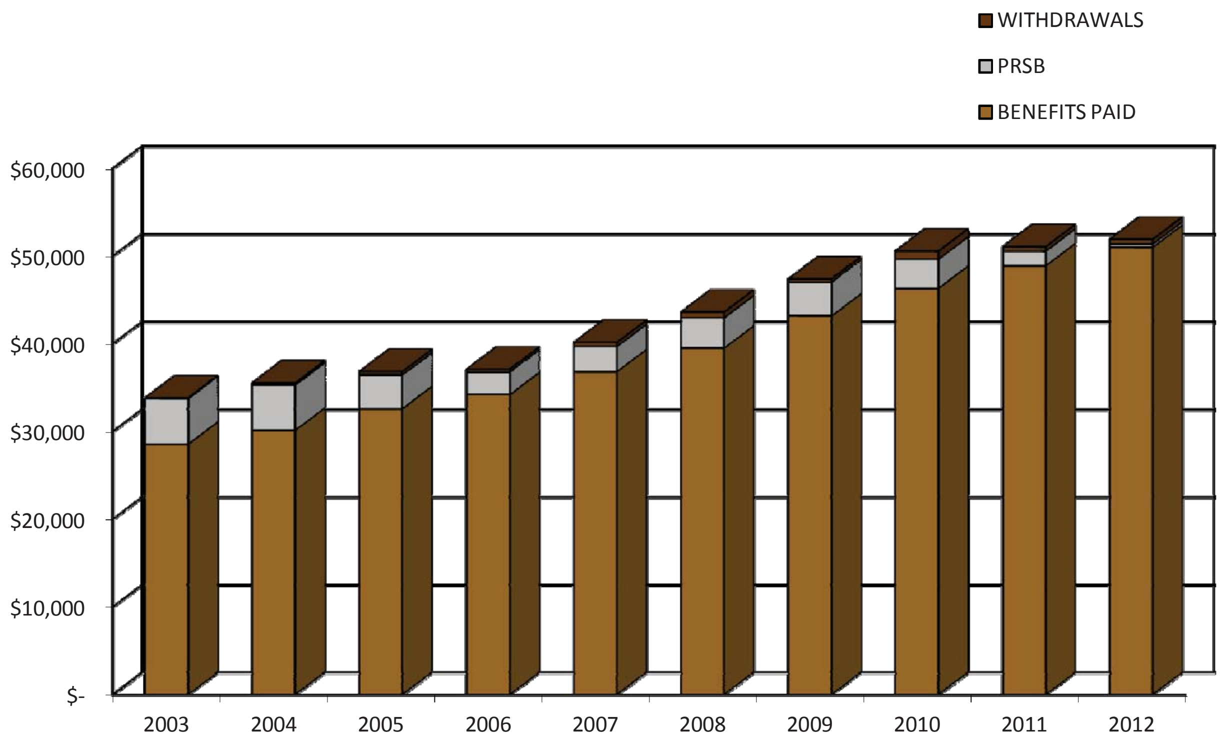
Fiscal Year		Valuation Date	Member Rates			City Contribution Rates		
			Basic at Entry Age			Total City Rate	Less Prefunded Actuarial Accrued Liability (PAAL)	Net City Contribution Rate
			20	30	40			
June 30, 2012	Tier I	June 30, 2010	4.05	7.10	6.40	26.57	-2.63	23.94
	Tier II		9.00	9.00	9.00	19.77	4.17	23.94
June 30, 2011	Tier I	June 30, 2009	3.76	6.65	5.94	26.43	-6.58	19.85
	Tier II		9.00	9.00	9.00	18.60	1.25	19.85
June 30, 2010	Tier I	June 30, 2008	3.76	6.65	5.94	26.38	-14.64	11.74
	Tier II		9.00	9.00	9.00	18.49	-6.75	11.74
June 30, 2009	Tier I	June 30, 2007	3.76	6.65	5.94	25.25	-17.93	7.32
	Tier II		9.00	9.00	9.00	17.34	-10.02	7.32
June 30, 2008	Tier I	June 30, 2006	3.86	6.75	5.99	25.66	-17.65	8.01
	Tier II		9.00	9.00	9.00	16.28	-8.27	8.01
June 30, 2007	Tier I	June 30, 2005	3.77	6.59	6.49	25.71	-20.33	5.38
	Tier II		9.00	9.00	9.00	17.43	-12.05	5.38
June 30, 2006	Tier I	June 30, 2004	3.77	6.59	5.82	25.12	-25.12	0.00
	Tier II		9.00	9.00	9.00	17.43	-17.43	0.00
June 30, 2005	Tier I	June 30, 2003	4.09	6.95	6.07	25.26	-25.26	0.00
	Tier II		9.00	9.00	9.00	15.86	-15.86	0.00
June 30, 2004	Tier I	June 30, 2002	4.09	6.95	6.07	25.55	-25.55	0.00
	Tier II		9.00	9.00	9.00	14.73	-14.73	0.00
June 30, 2003	Tier I	June 30, 2001	4.09	6.95	6.07	25.52	-25.52	0.00
	Tier II		9.00	9.00	9.00	14.67	-14.67	0.00
June 30, 2002	Tier I	June 30, 2000	4.06	6.90	6.03	25.44	-25.44	0.00
	Tier II		9.00	9.00	9.00	14.52	-14.52	0.00
June 30, 2001	Tier I	June 30, 1999	4.11	6.88	6.04	25.29	-25.29	0.00
	Tier II		9.00	9.00	9.00	14.57	-14.57	0.00
June 30, 2000	Tier I	June 30, 1998	4.14	7.08	6.28	25.79	-25.79	0.00
	Tier II		9.00	9.00	9.00	14.44	-14.44	0.00
June 30, 1999	Tier I	June 30, 1997	4.16	7.08	6.28	21.32	-21.32	0.00
	Tier II		9.00	9.00	9.00	15.86	-15.86	0.00
June 30, 1998	Tier I	June 30, 1996	4.16	7.09	6.34	22.72	-22.72	0.00
	Tier II		9.00	9.00	9.00	14.66	-0.43	14.23
June 30, 1997	Tier I	June 30, 1995	4.56	7.56	6.74	25.01	-9.34	15.67
	Tier II		9.00	9.00	9.00	16.44	0.00	16.44
June 30, 1995	Tier I	June 30, 1993	4.44	7.52	6.76	65.54	0.00	65.54
	Tier II		9.00	9.00	9.00	18.99	0.00	18.99
June 30, 1993	Tier I	June 30, 1991	5.71	8.86	8.18	62.58	0.00	62.58
	Tier II		9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1991	Tier I	June 30, 1989	5.11	7.81	6.93	52.68	0.00	52.68
	Tier II		9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1990		June 30, 1988	5.11	7.81	6.93	50.96	0.00	50.96

(1) Combined rates for Group A and Group B members and retirees.

Economic Assumptions and Funding Method

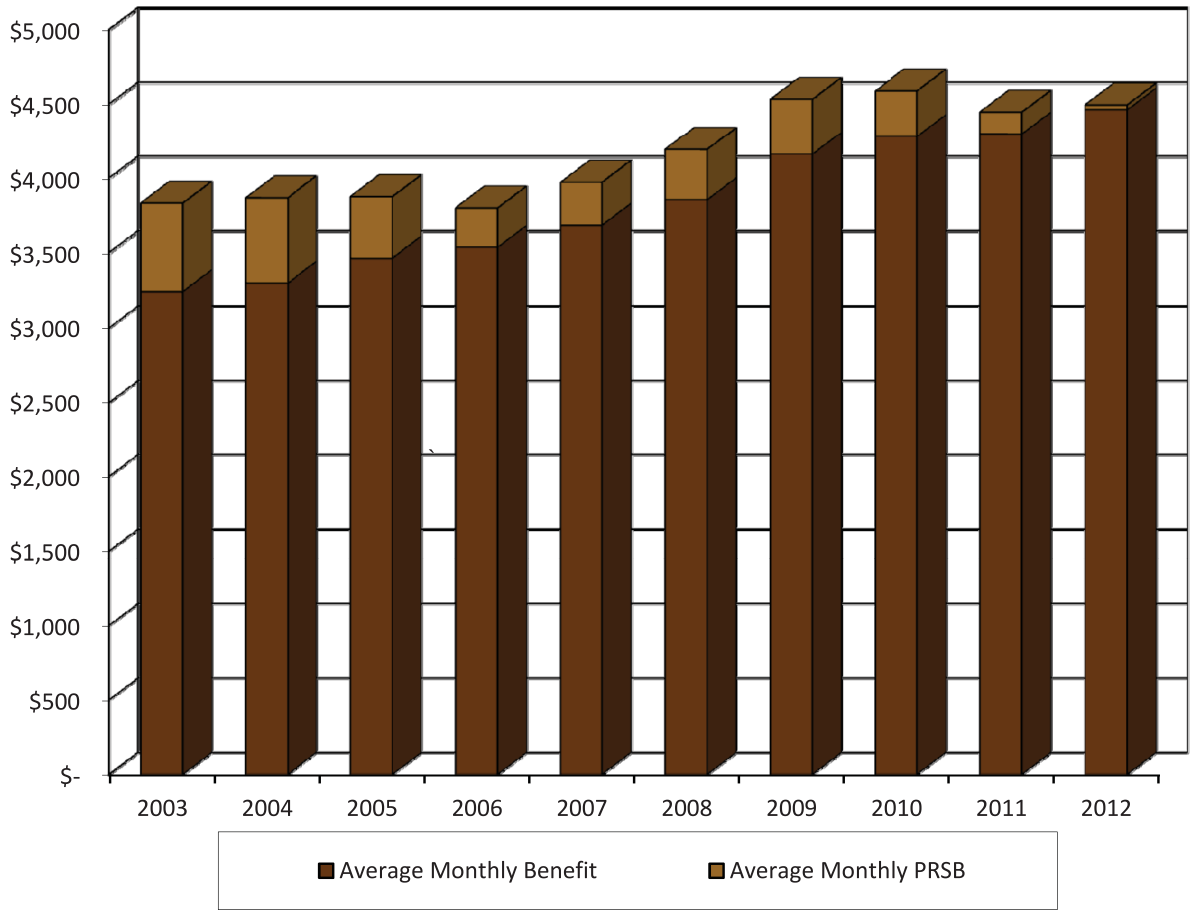
Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2011	8.00%	5.5% Avg	3.00 - 4.00%	3.50%	Entry Age Normal
June 30, 2010	8.00%	5.5% Avg	3.00 - 4.00%	3.50%	Entry Age Normal
June 30, 2009	8.25%	5.5% Avg	3.00 - 4.00%	3.75%	Entry Age Normal
June 30, 2008	8.25%	5.5% Avg	3.00 - 4.00%	3.75%	Entry Age Normal
June 30, 2007	8.25%	5.5% Avg.	3.00 - 4.00%	3.75%	Entry Age Normal
June 30, 2006	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2005	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2004	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2003	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2002	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2001	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2000	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 1999	8.25%	5.3% Avg.	4.9 - 6.0%	4.50%	Entry Age Normal
June 30, 1998	8.25%	10.75 - 4.95%	4.25%	4.75%	Entry Age Normal
June 30, 1997	8.25%	9.3 - 1.8%	4.75%	4.75%	Entry Age Normal
June 30, 1996	8.25%	10.75 - 4.95%	4.75%	4.75%	Entry Age Normal
June 30, 1995	8.00%	6.00 - .20%	5.00%	5.00%	Entry Age Normal
June 30, 1993	8.00%	9 - 5-1/4%	5.00%	5.00%	Entry Age Normal
June 30, 1991	8.00%	12 - 6-1/2%	5.00%	5.00%	Entry Age Normal
June 30, 1989	8.00%	12 - 6-1/2%	5.00%	5.00%	Entry Age Normal
June 30, 1987	8.00%	6-1/2%	6-1/2%	5.00%	Entry Age Normal

Benefits and Withdrawals Paid (in thousands)

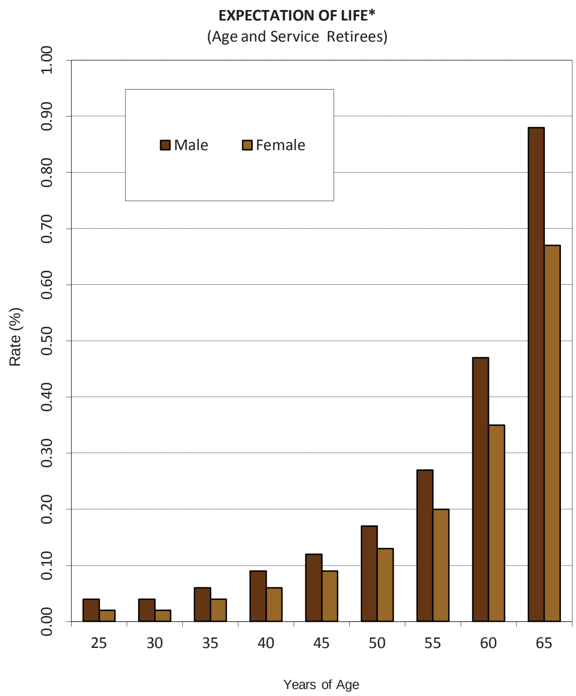


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BENEFITS PAID	$28,572	$30,135	$32,583	$34,230	$36,811	$39,494	$43,177	$46,327	$48,894	$51,006
PRSB	5,165	5,169	3,860	2,548	2,872	3,456	3,848	3,311	1,662	373
WITHDRAWALS	79	229	378	303	454	646	338	918	494	535

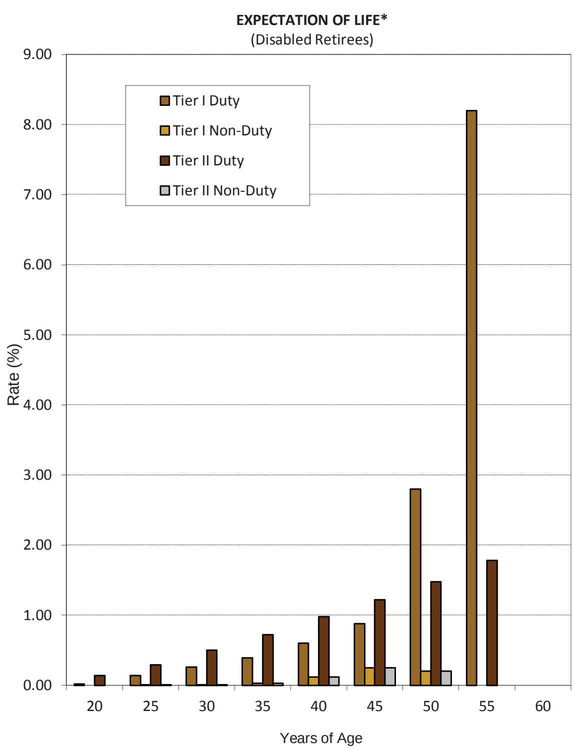
Average Monthly Benefits to Participants (in thousands)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average Monthly Benefit	$3,244	$3,300	$3,463	$3,535	$3,683	$3,854	$4,160	$4,280	$4,298	$4,460
Average Monthly PRSB	586	566	410	263	287	337	371	306	146	33
Average Monthly Benefit Total	$3,830	$3,866	$3,873	$3,798	$3,970	$4,191	$4,531	$4,586	$4,444	$4,493



EXPECTATION OF LIFE Age and Service Retirees RP-2000 Combined Healthy Mortality Table Male (x-3), Female (x-3)		
	Tier I & II	
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.09	0.06
45	0.12	0.09
50	0.17	0.13
55	0.27	0.20
60	0.47	0.35
65	0.88	0.67



EXPECTATION OF LIFE Disabled Retirees RP-2000 Combined Healthy Morality Table (x+1)				
Age	Tier I Duty	Tier I Non-Duty	Tier II Duty	Tier II Non-Duty
20	0.02	0.00	0.14	0.00
25	0.14	0.01	0.29	0.01
30	0.26	0.01	0.50	0.01
35	0.39	0.03	0.72	0.03
40	0.60	0.12	0.98	0.12
45	0.88	0.25	1.22	0.25
50	2.80	0.20	1.48	0.20
55	8.20	0.00	1.78	0.00
60	0.00	0.00	0.00	0.00

SECTION 6 - COMPLIANCE

Independent Auditor's Internal Control Letter

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the City of Fresno Fire and Police Retirement System, as of and for the year ended June 30, 2012, which collectively comprise the City of Fresno Fire and Police Retirement System's basic financial statements and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the City of Fresno Fire and Police Retirement System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fresno Fire and Police Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fresno Fire and Police Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fresno Fire and Police Retirement System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Fresno Fire and Police Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted one matter that we reported to management of the City of Fresno Fire and Police Retirement System in a separate letter dated November 27, 2012.

We also noted one matter that we reported to management of the City of Fresno Fire and Police Retirement System in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of management and the Board of Retirement and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 27, 2012