Comprehensive Annual Financial Report

For the year ended June 30, 2006 and 2005

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

City of Fresno Retirement Systems
Caring For Your Future

City of Fresno Employees Retirement System
A Pension Trust Fund of the City of Fresno, California

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

Comprehensive Annual Financial Report

for the Years Ended June 30, 2006 and 2005

Stanley L. McDivitt
Retirement Administrator

Kathleen Riley
Assistant Retirement Administrator

Carol A. Eland
Retirement Benefits Manager

City of Fresno • Employees Retirement System

The Employees Retirement System (the "System") was established on June 1, 1939 and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. The System provides benefits to the employees and retirees of the City of Fresno.

The System's primary responsibilities include: Administration of the trust fund, delivery of retirement, disability and death benefits to eligible members, administration of programs, and general assistance in retirement and related benefits.

Mission Statement

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

Board and Staff Commitment

- To carry out our mission through competent, professional impartial and open decision-making processes.

- To provide benefits and services, while treating all persons 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 aslo 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.

Comprehensive Annual Financial Report
City of Fresno Employees Retirement System

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Introduction

City of Fresno Retirement Systems
Caring For Your Future

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

2828 Fresno Street, Suite 201, Fresno California 93721-1327 (559) 621-7080 FAX (559) 621-7081 www.CFRS-CA.org

Letter of Transmittal

Retirement Administrator
Stanley L. McDivitt

October 30, 2006

Dear Board Members:

As Retirement Administrator of the City of Fresno Employees Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2006 and 2005.

In September 2005, the Retirement Boards relocated their Retirement Administrative Office from rented space on the second floor of Fresno City Hall into the Retirement Systems' remodeled building located on the southeast corner of Fresno and "R" Streets.

The City of Fresno Employees Retirement System along with the City of Fresno Fire and Police Retirement System formed a 501(c)(25) holding corporation which purchased the building at 2828 Fresno Street. The Retirement Systems are sole shareholders of the 501(c) (25) corporation as a real estate investment of the Retirement trusts. The Retirement Board members and staff worked diligently to evaluate buildings and property throughout the City of Fresno; and after careful consideration, the Boards concluded this building provided an excellent investment opportunity in a prime location near City Hall.

The Retirement Administrative Office occupies approximately 7,900 square feet of the 2nd Floor of the building. The building, located directly across the street from the Community Regional Medical Center, provides excellent accessibility, parking and service to staff and the Systems' members, while maintaining a solid commitment to downtown Fresno.

In April 2006, the Fresno Dental Surgery Center began occupying the entire first floor of the building and lease negotiations were completed with the Central California Faculty Medical Group to occupy the remaining 2,500 square feet on the 2nd floor. The medical group tenant improvements are expected to be completed by October 2006, at which time the building will be fully occupied.

Despite volatile economic conditions we are entering the third year of a strong financial recovery in the investment markets. For fiscal year ended June 30, 2006, the System experienced a total gain of 12.12 percent, exceeding the fund's actuarial interest rate assumption and the total fund benchmark return of 11.62 by 0.50 percent. Our investment results remain solid with annualized returns in excess of 10 percent consistently over the past fifteen years. The System's ten-year annualized returns still averaged 9.28 percent exceeding its policy benchmarks for the period by 0.63 percent.

The Employees System remains strong, well funded and well positioned to serve our members. The Board continues to demonstrate its commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the System.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Employees Retirement System for the years ended June 30, 2006 and 2005 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 Employee System's finances, please refer to Management's Discussion and Analysis letter in the Financial Section of this report.

The CAFR consists of six sections:

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

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

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

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

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

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

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

THE EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

The Employees Retirement System was established on June 1, 1939, under Charter Section 910 and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. The System provides retirement allowances and other benefits to the non-safety members employed by the City of Fresno. The System also provides lifetime retirement, disability, and death benefits to its members. The Retirement Board is responsible for the prudent investment of member and employer contributions, and defraying reasonable expenses of administration.

The Employees Retirement Board is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 18 of Chapter 2 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that *"the members of the Retirement Board of a public retirement system shall discharge their duties* … *solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty*." Section 17(a) further provides that the Board has … "*the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."*

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

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

SERVICE EFFORTS & ACCOMPLISHMENTS

During the fiscal year 2006, the Board, jointly with the Fire and Police Retirement Board prudently evaluated the performance of its portfolio managers, and adopted a revised policy for Fixed Income to allow domestic fixed income managers the opportunity to invest in preferred stocks, convertible bonds or hybrid securities trading in developed markets. The Boards hired three new international equity portfolio managers to replace two underperforming managers and began a comprehensive examination to update the policy for international equity.

With the assistance of its actuary and staff, the Boards completed a cost neutrality study of the City's Deferred Retirement Option Program (DROP) programs; updated the 2006 surplus projection studies and completed the annual actuarial valuations. A Request for Proposal for Actuarial Services was issued and after prudent evaluation, the Boards retained The Segal Company to provide the Systems' actuarial services effective May 25, 2006.

The Boards' established a key component of Disaster Preparedness, by approving a contract with Levi, Ray & Shoupe (LRS) for their PensionGold Secure Platinum support agreement which enables staff to continue operations regardless of the state of our own building in the event of a disaster. Finally, the Boards' staff worked diligently with LRS to establish the site content and develop our new website which includes retirement benefit and DROP balance calculators for release in August 2006.

PROFESSIONAL SERVICES

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

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

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the CITY of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive financial annual reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City of Fresno Employees Retirement System has received a Certificate of Achievement for the last eight 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, 2005, the funded ratio of the Employees Retirement System was 139.8 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, 2005 amounted to $565,549,812. The actuarial value of assets at June 30, 2005 amounted to $790,857,722. The market value of the assets at June 30, 2005 amounted to $872,565,085.

The Board engages an independent actuarial consulting firm to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration. Gabriel, Roeder, Smith and Company is the System's independent actuarial consultant through June 30, 2006; and The Segal Company has been retained for the fiscal year 2007.

ACCOUNTING SYSTEM & REPORTS

The management of the System is responsible for establishing and maintaining an internal control structure designed to ensure that the System assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with the management of the System. The accounting firm of Brown Armstrong Accountancy Corporation, provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans, and incorporate the provisions of GASB No. 34, GASB No. 40 and GASB No. 44. GASB 43 is a new Financial Reporting disclosure for Other Post-employment Benefits (OPEB). The System is not obligated to provide or fund any other post employment benefits.

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

INVESTMENTS

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

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel, and allows for delegation of investment authority to professional investment advisors. The Investment Objectives and Policy Statement of the Board outlines 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 year ended June 30, 2006 and June 30, 2005, the System's investments provided a 12.12 percent and 10.94 percent rate of return, respectively. The System's annualized rate of return over the last three years was 13.53 percent; for the past five years the annualized return was 7.53 percent and for the past ten years, the annualized return was a strong 9.28 percent.

ACKNOWLEDGMENTS

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

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley, Carol Eland, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, Patricia Basquez, Karen Burrington; and to the Boards' consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt

Retirement Administrator

October 30, 2006

Retirement Board Members

as of June 30, 2006

Carla Lombardi
Chair
Appointed by Mayor and City Council

Ken Nerland
Appointed by Mayor and City Council

Marvell French
Vice - Chair
Appointed by Retirement Board

Frank Balekian
Elected, 4-year term

Danny Aguirre
Elected, 4-year term

Administration of the System

FRONT ROW
Pattie Laygo, Executive Assistant;
Karen Burrington, Sr Administrative Clerk;
Karen Rolle, Accountant-Auditor;
Patricia Basquez, Retirement Counselor

BACK ROW
Donna Gaab, Retirement Counselor;
Carol Eland, Benefits Manager;
Kathleen Riley, Asst Retirement Administrator;
Andrea Ketch, Retirement Counselor;
Stanley McDivitt, Retirement Administrator

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 x for outside consultants and investment managers and page 49 for a schedule of brokerage commissions.)

MEMBER SERVICES

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

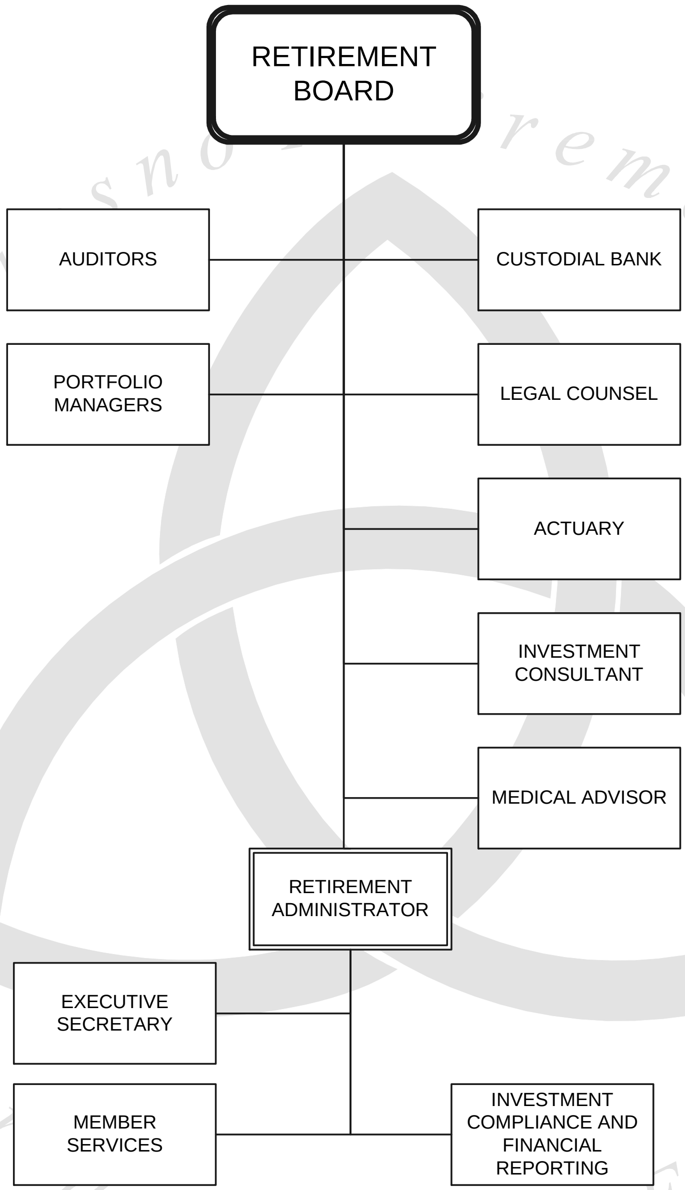
INVESTMENT COMPLIANCE AND FINANCIAL REPORTING

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

EXECUTIVE ASSISTANT

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

Administrative Organizational Structure



Professional Consultants

CUSTODIAL BANK
NORTHERN TRUST
Chicago, Illinois

LEGAL ADVISOR
SALTZMAN AND JOHNSON LAW CORPORATION
San Francisco, California

INVESTMENT CONSULTANT
WILSHIRE ASSOCIATES INC.
Santa Monica, California

ACTUARY
THE SEGAL COMPANY
San Francisco, California

GABRIEL, ROEDER, SMITH AND COMPANY
San Diego, California

MEDICAL ADVISOR
BENCHMARK MEDICAL CONSULTANTS
Sacramento, California

INDEPENDENT AUDITOR
BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH AND
KEETER ACCOUNTANCY CORPORATION
Bakersfield, California

Portfolio Managers

DOMESTIC EQUITY

Large Cap
Alliance Bernstein, New York, NY
AXA Rosenberg, Orinda, CA
Barclays Global Investors, San Francisco, CA
Capital Guardian, Los Angeles, CA
Goldman Sachs, New York, NY

Small Cap
Emerald Advisors Inc., Lancaster, PA
Kalmar Investments Inc., Wilmington, DE
Kennedy Capital Mgt. Inc., St. Louis, MO

INTERNATIONAL & EMERGING MARKETS

International
Acadian Asset Mgt., Boston, MA
The Boston Co. Asset Mgt, LLC., Boston, MA
Fidelity Management Trust Co., Boston, MA

Emerging Market
Genesis Asset Managers Ltd, London, England

FIXED INCOME

Aberdeen Asset Mgt., Philadelphia, PA
Dodge & Cox, San Francisco, CA
Prudential Investment Mgt, Inc., Newark, NJ

HIGH YIELD

Loomis Sayles, Boston, MA

REAL ESTATE

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

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno

Employees Retirement System

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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

President

Executive Director

ALSO AWARDED 1998, 1999, 2000, 2001, 2002, 2003, 2004

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Financial Section

Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG
PAULDEN MCCOWN STARBUCK THORNBURGH & KEETER
CERTIFIED PUBLIC ACCOUNTANTS

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: info@bacpas.com

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661-746-2145 Fax 661-746-1218

INDEPENDENT AUDITOR'S REPORT

To The Board of Retirement
City of Fresno Employees' Retirement System
Fresno, California

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Employees' Retirement System as of June 30, 2006 and 2005, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Employees' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 of the City of Fresno Employees' Retirement System, as of June 30, 2006 and 2005, and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the financial statements, in 2006, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, on our consideration of the City of Fresno Employees' Retirement System internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 30, 2006

2828 Fresno Street, Suite 201, Fresno California 93721-1327 (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 Employees Retirement System for the fiscal year ended June 30, 2006. 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 i of this report.

Financial Highlights

- At the close of the fiscal year 2006, the assets of the System exceed its liabilities by $945,868,848. 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.
- The System's total net assets held in trust for pension benefits increased by $73,303,762 or 8.4 percent, 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, 2005, the date of the last actuarial valuation, the funded ratio for the System was 139.8 percent. In general, this indicates that for every dollar of benefits due we have approximately $1.40 of assets available for payment as of that date.
- Revenues [additions to Plan Net Assets] for the fiscal year were $104,730,023 which includes member contributions of $4,643,172 and an investment gain of $100,086,851 including securities lending.
- Expenses [deductions in Plan Net Assets] slightly increased from $28,112,677 to $31,426,261 over the prior year, or approximately 11.8 percent. The increase was primarily due to an increase in retirement benefits and PRSB paid over the prior year.

Overview of the Financial Statement

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 Standard 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, 2005 was 139.8 percent, which means the System's fund has approximately $1.40 available for each $1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits reports information about the System's activities.

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

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

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

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

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2006 by $945,868,848. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits have generally increased each fiscal year since 1995 with the exception of losses incurred in fiscal years 2001 and 2002. In fiscal year 2006, net assets increased by 8.4 percent due to the continued performance of the investment markets.

The System averaged an annualized investment return of 9.28 percent over the past ten years and has exceeded the actuarial assumption of 8.25 percent.

Despite variations 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 successful investment and risk management program.

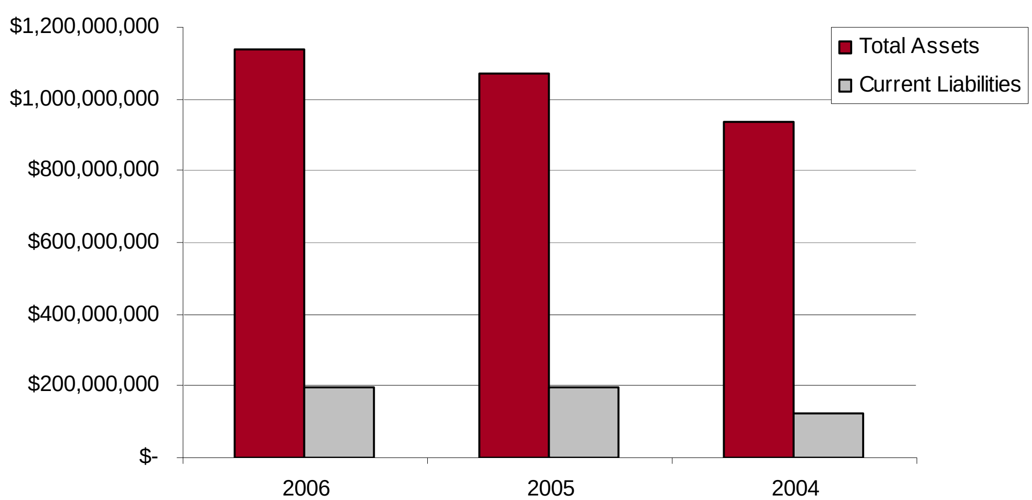
The System's current financial position is a result of a very sound and successful investment and risk management program.

Table 1 – Employees Retirement System Net Assets

For the years ended June 30, 2006, 2005 and 2004

	FY 2006	FY 2005	FY 2006 Increase/ (Decrease) Amount	FY 2006 Increase/ (Decrease) Percent
Current and Other Assets	$ 187,622,056	$ 201,002,524	$ (13,380,468)	-6.66%
Investments at Fair Value	951,895,558	868,188,386	83,707,172	9.64%
Total Assets	$ 1,139,517,614	$ 1,069,190,910	$ 70,326,704	6.58%
Current Liabilities	193,648,766	196,625,825	(2,977,059)	-1.51%
Net Assets	$ 945,868,848	$ 872,565,085	$ 73,303,763	8.40%

	FY 2005	FY 2004	FY 2005 Increase/ (Decrease) Amount	FY 2005 Increase/ (Decrease) Percent
Current and Other Assets	$ 201,002,524	$ 118,005,409	$ 82,997,115	70.33%
Investments at Fair Value	868,188,386	816,698,740	51,489,646	6.30%
Total Assets	$ 1,069,190,910	$ 934,704,149	$ 134,486,761	14.39%
Current Liabilities	196,625,825	122,247,219	74,378,606	60.84%
Net Assets	$ 872,565,085	$ 812,456,930	$ 60,108,155	7.40%



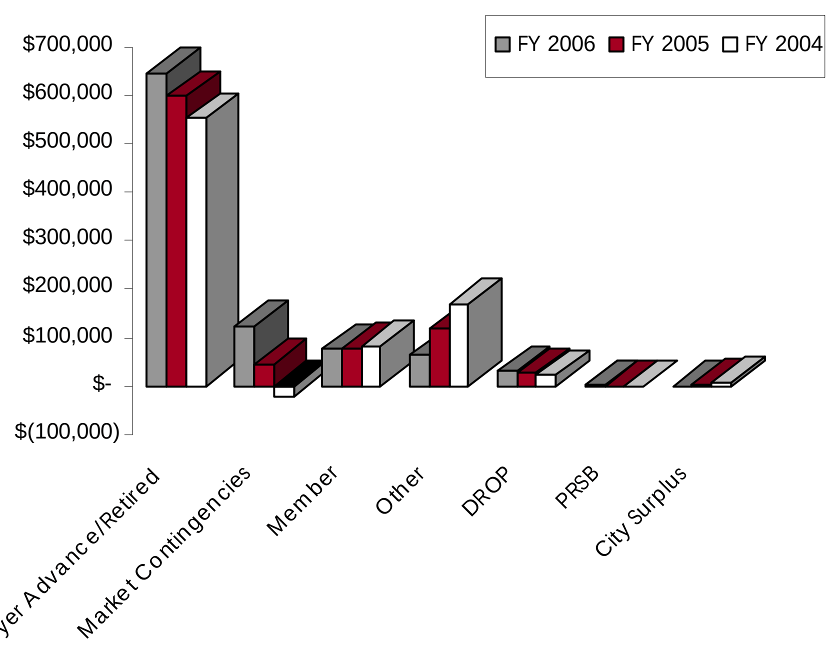
Reserves

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

Table 2 – Employees Retirement System's Reserves

For the years ended June 30, 2006, 2005 and 2004
(In Thousands)

	2006	2005	2004
Employer Advance/Retired Reserves	$ 645,805	$ 598,203	$ 551,716
Market Contingencies Reserves	125,452	45,765	(21,729)
Member Reserves	77,229	79,677	82,969
Other Reserves	63,951	117,980	169,050
DROP Reserves	30,682	26,629	22,947
PRSB Reserves	1,782	946	352
City Surplus Reserves	967	3,365	7,151
Net Assets Available for Benefits	$ 945,868	$ 872,565	$ 812,456



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

A steady growth in the real estate and equity market(s), increased net assets of the System by $73,303,762 for the fiscal year resulting in a 8.4 percent increase in net assets for the fiscal year ended June 30, 2006. Key elements of this increase are described in the sections below.

Revenues - Additions to System's Net Assets

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income [net of investment expense]. Revenues for the fiscal year ended June 30, 2006 totaled $104,730,023.

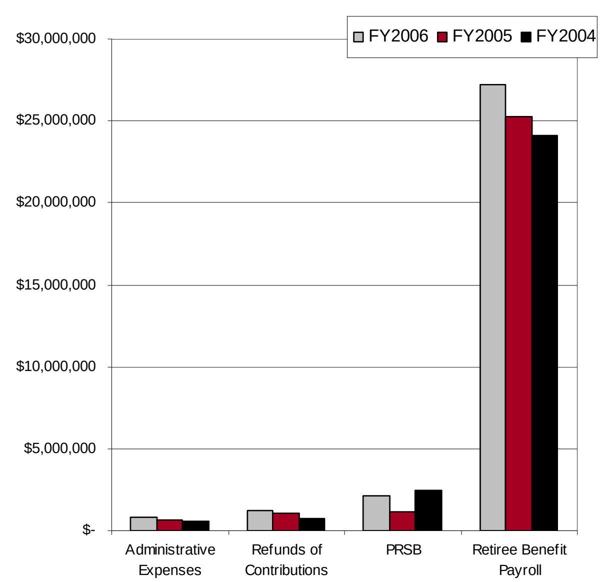
For the fiscal year ended June 30, 2006, overall revenues had increased by $16,509,191 or 18.7 percent from the prior year, primarily due to the performance of the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2006.

Expenses – Deductions from System's Net Assets

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

Deductions for the fiscal year ended June 30, 2006, totaled $31,426,261 which was an increase of 11.8 percent over the prior fiscal year. The increase in benefits paid resulted primarily from COLAs based on the Consumer Price Index as provided by the Municipal Code.

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



Changes to Plan Net Assets (Condensed)

For the years ended June 30, 2006 and 2005

	FY 2006	FY 2005	FY 2006 Increase/(Decrease) Amount	FY 2006 Increase/(Decrease) Percent
Additions				
Employee Contributions	$ 4,643,172	$ 4,749,521	$ (106,349)	-2.24%
Net Investment Income *	100,086,851	83,471,311	16,615,540	19.91%
Total Additions	$ 104,730,023	$ 88,220,832	$ 16,509,191	18.71%
Deductions				
Retiree Benefit Payroll	27,261,190	25,287,091	1,974,099	7.81%
Refunds of Contributions	1,218,579	1,026,175	192,404	18.75%
PRSB	2,148,543	1,157,062	991,481	85.69%
Administrative Expenses	797,948	642,349	155,599	24.22%
Total Deductions	$ 31,426,260	$ 28,112,677	$ 3,313,583	11.79%
Increase (Decrease) in Plan Net Assets	73,303,763	60,108,155	13,195,608	21.95%
Beginning Plan Net Assets	872,565,085	812,456,930	60,108,155	7.40%
Ending Plan Net Assets	$ 945,868,848	$ 872,565,085	$ 73,303,762	8.40%

* Net of investment expense of $5,285,169 and $4,438,801 for June 30, 2006 and 2005, respectively.

For the years ended June 30, 2005 and 2004

	FY 2005	FY 2004	FY 2005 Increase/(Decrease) Amount	FY 2005 Increase/(Decrease) Percent
Additions				
Employee Contributions	$ 4,749,521	$ 4,680,446	$ 69,075	1.48%
Net Investment Income *	83,471,311	120,678,900	(37,207,589)	-30.83%
Total Additions	$ 88,220,832	$ 125,359,346	$ (37,138,514)	-29.63%
Deductions				
Retiree Benefit Payroll	25,287,091	24,118,492	1,168,599	4.85%
Refunds of Contributions	1,026,175	710,253	315,922	44.48%
PRSB	1,157,062	2,429,904	(1,272,842)	-52.38%
Administrative Expenses	642,349	535,471	106,878	19.96%
Total Deductions	$ 28,112,677	$ 27,794,120	$ 318,557	1.15%
Increase (Decrease) in Plan Net Assets	60,108,155	97,565,226	(37,457,071)	-38.39%
Beginning Plan Net Assets	812,456,930	714,891,703	97,565,227	13.65%
Ending Plan Net Assets	$ 872,565,085	$ 812,456,929	$ 60,108,155	7.40%

* Net of investment expense of $4,438,801 and $4,280,842 for June 30, 2005 and 2004, respectively.

System's Fiduciary Responsibilities

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

Requests for Information

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

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

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

December 5, 2006

Statement of Plan Net Assets Available for Benefits

June 30, 2006 and 2005

	2006	2005
Assets:		
Cash (Note 6)	$ 2,172,746	$ 1,776,233
Receivables:		
Receivables for Investments Sold	5,030,404	27,289,335
Interest and Dividends	3,667,943	3,316,282
Other Receivables	915,296	19,745,459
Total Receivables	9,613,643	50,351,076
Investments at Fair Value (Note 6) (Cost of $868,738,941 in 2006 and $780,052,881 in 2005)		
Domestic Equity	389,518,526	328,850,758
International Equity	158,086,750	149,292,740
Government Bonds	140,832,030	145,371,616
Corporate Bonds	120,275,874	104,797,673
Real Estate	97,690,444	81,260,711
Emerging Market Equity	28,450,086	28,406,990
Short Term Investments	17,041,848	30,207,898
Total Investments	951,895,558	868,188,386
Collateral Held for Securities Lent (Note 8)	175,665,863	148,752,747
Prepaid Expenses	97,457	90,867
Capital Assets Net of Accumulated Depreciation (Note 12)	72,347	31,601
Total Assets	1,139,517,614	1,069,190,910
Liabilities		
Collateral Held for Securities Lent (Note 8)	175,665,863	148,752,747
Payable for Investments Purchased	10,571,029	22,802,347
Prepaid Employer Contributions (Note 4)	5,272,912	4,871,050
Other Liabilities	1,173,779	997,852
Payable for Foreign Currency Purchased	965,183	19,201,829
Total Liabilities	193,648,766	196,625,825
Net Assets Held In Trust for Benefits (Note 5)	$ 945,868,848	$ 872,565,085

(A schedule of funding progress is included on page 31)

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, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
System Members	$ 4,643,172	$ 4,749,521
Total Contributions	4,643,172	4,749,521
Investment Income:		
Net Appreciation in Value of Investments	79,445,512	67,735,025
Interest	13,658,452	11,811,447
Dividends	11,697,672	7,933,192
Other Investment Related	156,095	115,588
Total Investment Income	104,957,731	87,595,252
Less: Investment Expense	(5,285,169)	(4,438,801)
Total Net Investment Income	99,672,562	83,156,451
Securities Lending Income		
Securities Lending Earnings (Note 8)	7,137,543	3,001,834
Less: Securities Lending Expense	(6,723,254)	(2,686,974)
Net Securities Lending Income	414,289	314,860
Total Additions	104,730,023	88,220,832
Deductions:		
Benefit Payments	27,261,190	25,287,091
Post Retirement Supplemental Benefits	2,148,543	1,157,062
Refunds of Contributions	1,218,579	1,026,175
Administrative Expense	797,948	642,349
Total Deductions	31,426,260	28,112,677
Net Increase	73,303,763	60,108,155
Net Assets Available for Benefits Beginning of Year	872,565,085	812,456,930
End of Year	$ 945,868,848	$ 872,565,085

The notes to the financial statements on pages 14 to 28 are an integral part of this statement.

Notes to Financial Statements

June 30, 2006 and 2005

1. DESCRIPTION OF THE SYSTEM

The Employees Retirement System ("System"), was established on June 1, 1939, and is governed by Article 18 of Chapter 2 of the City of Fresno Municipal Code. It is administered by the Retirement Board but not under the control of the City Council. The System is a single employer public employee retirement system that includes substantially all full-time employees, other than sworn officers of the Fire and Police Departments.

Total participants of the System were comprised as follows at June 30:

	2006	2005
Active Members:		
Vested	1,629	1,583
Non-Vested	689	704
Total	2,318	2,287
Retirees and Beneficiaries of Deceased Retirees, Currently Receiving Benefits	1,250	1,195
Inactive Vested Member	174	132
Total	3,742	3,614

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

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

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

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

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 per Section 2-1817 and 2-1821 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 are reported in the Statement of Plan Net Assets. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Plan Net Assets.

Valuation of Investments

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

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

Estimates

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

New Accounting Pronouncements

During the year ended June 30, 2006, the System implemented the provisions of Governmental Standards (GASB) Statement No. 44 Economic Condition Reporting: The Statistical Section. This Statement is effective for periods beginning after June 15, 2005. This Statement amends the portions of NCGA Statement 1 Government Accounting and Financial Reporting Principles, guiding the preparation of the Statistical section. Statement No. 44 establishes the objectives of the Statistical Section and the five categories of information it contains – financial trends, revenue capacity, debt capacity, demographic and economic information, as well as operating information.

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 2-1817 and 2-1821.

Funding Policy

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the projected unit credit method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded liability. Excess earnings and prepaid City contributions in the System have funded the fiscal year 2006 and 2005 City contributions.

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

Contributions aggregating $4,643,172 ($ 0 employer and $4,643,172 employee) were made in fiscal year 2006, based on an actuarial valuation determined as of June 30, 2004, which became effective for the year ended June 30, 2006. During fiscal year 2006, the Employer contribution rate was set at 10.42%; however, no funds were required from the City due to the prefunded actuarial liability of the System. Employer and System member contributions represented 0.0 percent and 4.36 percent, respectively, of the fiscal year 2006 covered payroll.

Contributions aggregating $4,749,521 ($ 0 employer and $4,749,521 employee) were made in fiscal year 2005, based on actuarial valuations determined as of June 30, 2003, which became effective for the year ended June 30, 2005. During fiscal year 2005, the employer contribution rate was set at 11.06%; however, no funds were required from the City due to the prefunded actuarial liability of the System. Employer and System member contributions represented 0.0 percent and 4.66 percent, respectively, of the fiscal year 2005 covered payroll.

3. CONTRIBUTIONS
CONTINUED

Contributions Required and Contributions Made

The employer's contributions to the System for 2006, were offset by the System's prefunded actuarial accrued liability in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2004, as follows:

Normal Cost		
Contribution Amount	$	11,095,490
Prefunded Actuarial Accrued Liability Applied		(11,095,490)
Net Employer Contributions	$	-
Pensionable Payroll Amount (Fiscal Year 2006)	$	106,482,630

4. PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited $ 5,524,810, of which $5,272,912 remains, as prepaid normal contributions, which are classified as prepaid employer contributions to the System. The annual revenue recognition is credited to employer contributions. Since City contributions for fiscal year 2006 were offset by prefunded actuarial accrued liability, the System recognized no earnings from the prepaid contributions and credited the City with interest at the actuarial rate.

Balance June 30, 2005	$	4,871,050
Amount Earned During Fiscal Year 2006		0
Interest Credited for Fiscal Year 2006		401,862
Balance at June 30, 2006	$	5,272,912

5. 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.

5. NET ASSETS AVAILABLE FOR BENEFITS

CONTINUED

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

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

POST RETIREMENT SUPPLEMENTAL RESERVE represents surplus earnings that have been allocated but not distributed to eligible retirees in accordance with Municipal Code Section 2-1853 "Post-Retirement Supplemental Benefit."

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 2-1853 "Post-Retirement Supplemental Benefit."

MARKET STABILIZATION RESERVE represents unrealized gains or losses recognized in the financial statements as a result of reporting investments at fair value instead of cost.

OTHER RESERVE represents reserves accumulated for future earnings deficiencies and investment losses. The Other Reserve is funded entirely from investment earnings.

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

The other reserve account is credited with all investment income and charged with investment and other expenses. Transfers from undistributed earnings to reserve accounts are made at an annual rate of 8.25 percent of the average of the beginning and ending balances in the transferee reserve. Unrealized appreciation or depreciation of assets is recorded in a reserve for market fluctuation and reported in accordance with Government Accounting Standards Board Statement No. 25.

The amount of reserves for the year ended June 30, 2006 and 2005 consisted of the following (in thousands):

5. NET ASSETS AVAILABLE FOR BENEFITS

CONTINUED

	2006	2005
Employer Advance/Retired Reserves	$ 645,805	$ 598,203
Reserve for Market Contingencies	125,452	45,765
Active Member Reserves	77,229	79,677
Other Reserves	63,951	117,980
DROP Reserve	30,682	26,629
Reserve for PRSB	1,782	946
Reserve for City Surplus	967	3,365
Net Assets Available for Benefits	$ 945,868	$ 872,565

6. DEPOSITS AND INVESTMENTS

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

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

Investments at June 30, 2006 and 2005 consist of the following:

	2006	2005
Investments at Fair Value		
Domestic Equity	$ 389,518,526	$ 328,850,758
International Equity	158,086,750	149,292,740
Government Bonds	140,832,030	145,371,616
Corporate Bonds	120,275,874	104,797,673
Real Estate	97,690,444	81,260,711
Emerging Market Equity	28,450,086	28,406,990
Short Term Investments	17,041,848	30,207,898
Total Investments at Fair Value	$ 951,895,558	$868,188,386

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

Asset Class	Minimum	Target	Maximum
Large Cap Equities	27%	30%	33%
Small Capital Equities	8	10	12
International Equities	14	17	20
Emerging Market	0	3	5
Real Estate	8	10	12
Domestic Fixed Income	20	25	30
High Yield Bonds	0	5	8
Cash	0	0	2
		100%	

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

6. DEPOSITS AND INVESTMENTS

CONTINUED

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

Custodial Credit Risk

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

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

That portion of the System's cash held by the City as part of the City's cash investment pool totaled $2,172,746 at June 30, 2006. 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, 2006.

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 monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio.

6. DEPOSITS AND INVESTMENTS

CONTINUED

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

Type of Investment		Fair Value	Credit Quality	Duration
Corporate Bonds	$	84,610,687	BBB	6.82
Government Mortgage Backed Securities		71,177,419	AAA	3.25
Government Bonds		50,513,172	AAA	4.28
Non Government Backed C.M.O.s		21,355,642	AAA	2.52
Government Agencies		11,235,891	AAA	2.92
Commercial Mortgage Backed		8,071,756	AAA	4.70
Asset Backed Securities		6,237,790	AAA	1.99
Municipal Provincial Bonds		3,938,341	AAA	8.52
Corporate Convertible Bonds		3,214,306	CCC+	5.75
Convertible Equity		450,382	B-	8.88
Gov't Issued Commercial Mortgage-Backed		259,620	AAA+	0.93
Preferred Stock		42,898	BBB	6.80
Total Credit Risk Fixed Income	$	261,107,904		

Per section 5.4(6) of the System's Investment Policy Statement, no more than 5 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). No securities rated below single B may be purchased at any time. Therefore, at least 95 percent of the manager's fixed income portfolio must be invested in investment grade securities. Long duration bond portfolios shall maintain an average credit quality of AA- or better. Intermediate Bond portfolios shall maintain an average credit quality of AA or better.

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

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, 2006 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.

6. DEPOSITS AND INVESTMENTS

CONTINUED

Foreign Currency Risk

The following positions represent the System's exposure to foreign currency risk as of June 30, 2006.

Equities:		
Base Currency:		**Fair Value in USD**
Argentine Peso	ARS	$ 342,292
Australian Dollar	AUD	8,690,833
Brazilian Real	BRL	1,168,191
Canadian Dollar	CAD	81,241
Swiss Franc	CHF	9,635,282
Chilean Peso	CLP	1,029,287
Colombian Peso	COP	198,202
Danish Krone	DKK	605,976
Egyptian Pound	EGP	814,654
Euro	EUR	55,545,290
British Pound Sterling	GBP	33,852,282
Hong Kong Dollar	HKD	4,951,979
Hungarian Forint	HUF	300,095
Indonesian Rupiah	IDR	2,769,578
Japanese Yen	JPY	36,051,500
South Korean Won	KRW	4,619,354
Mexican Peso	MXN	1,749,621
Malaysian Ringgit	MYR	788,776
Norwegian Krone	NOK	3,119,547
New Zealand Dollar	NZD	440,305
Philippine Peso	PHP	189,385
Swedish Krona	SEK	5,238,209
Singapore Dollar	SGD	1,036,019
Thai Baht	THB	206,075
Turkish Lira	TRY	758,444
South African Rand	ZAR	3,210,681
Total Non-USD Equities (in USD)		$ 177,393,098

Cash and Cash Equivalents:	Fair Value in USD
Argentine Peso	$ 4,214
Australian Dollar	172
Swiss Franc	75,567
Chilean Peso	138,845
Egyptian Pound	6,826
Euro	462,233
British Pound Sterling	78,142
Hong Kong Dollar	37,867
Indonesian Rupiah	2,266
Japanese Yen	427,210
Mexican Peso	49,668
Swedish Krona	2,483
Total Non-USD Cash (in USD)	$ 1,285,493

6. DEPOSITS AND INVESTMENTS

CONTINUED

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

7. DERIVATIVES

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

a. Mitigation of risk (or risk reduction).

b. A useful substitute for an existing, traditional investment.

c. To provide investment value to the portfolio while being consistent with the System's overall and specific investment policies.

d. To obtain investment exposure which is appropriate for the manager's investment strategy and the System's investment guidelines, but which could not be made through traditional investment securities.

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

Derivative financial instruments held by the retirement system consist of the following:

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

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

5. DERIVATIVES

Continued

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

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

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

As of June 30, 2006, the Employees' Retirement System's derivative holdings consisted of the following:

S&P 500 Equity Futures (as a component of Barclays Global Investors Equity Index Fund A)		$ 37,157
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Equity Index Fund A		
Asset Swap	$ 20,515	
Total Return Swap	216,094	
Basis Swap	338,666	
Credit Derivative Swap	85,208	
Total Swaps		660,483
S&P 500 Equity Futures (as a component of Barclays Global Investors Alpha Tilts Fund)		224,863
Swaps held in Securities Lending Cash Collateral Funds of Barclays Global Investors Alpha Tilts Fund		
Asset Swap	$ 68,915	
Total Return Swap	725,932	
Basis Swap	1,137,693	
Credit Derivative Swap	286,243	
Total Swaps		2,218,783
Fair Value of Derivatives Held at June 30, 2006		$ 3,141,286

8. 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, 2006 had a weighted average duration of 41 days and an average yield of 5.25 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. There are no credit risks related to the securities lending transactions as of June 30, 2006.

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 78 days as of June 30, 2006.

Due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102 percent and 105 percent plus accrued interest for fixed income securities, we believe that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40.

8. SECURITIES LENDING

CONTINUED

The System's securities lending income is as follows:

		2006		2005
Gross Income	$	7,137,543	$	3,001,834
Expenses:				
Borrower Rebates		6,585,269		2,581,939
Bank Fees		137,985		105,035
Total Expenses		6,723,254		2,686,974
Net Income from Securities Lending	$	414,289	$	314,860

FAIR VALUE OF LOANED SECURITIES AS OF JUNE 30, 2006

Collateralized by		Cash		Securities		Tri-Party		Total
U.S. Government & Agency	$	48,552,348	$	811,275	$	735,335	$	50,098,958
Domestic Equities		84,121,475		1,573,238		-		85,694,713
Domestic Fixed		19,512,408		-		2,637,937		22,150,345
International Equities		17,459,235		474,721		-		17,933,956
Total Value	$	169,645,466	$	2,859,234	$	3,373,272	$	175,877,972

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES AS OF JUNE 30, 2006

Collateralized by		Cash		Securities		Tri-Party		Total
U.S. Government & Agency	$	49,362,641	$	816,328	$	756,272	$	50,935,241
Domestic Equities		85,572,073		1,600,609		-		87,172,682
Domestic Fixed		19,836,208		15		2,680,935		22,517,158
International Equities		17,986,934		491,055		-		18,477,989
Total Value	$	172,757,856	$	2,908,007	$	3,437,207	$	179,103,070

9. CONTINGENCIES

Retirees and actives of the System and an organization representing retirees of the System have initiated litigation against the System claiming that certain items of pay not previously included in pensionable compensation should be included in pensionable compensation. The litigation has not been settled and an estimate of possible damages, if any, cannot be estimated at this time. Accordingly, no potential adjustments, if any, are reflected in the financial statements. However, if the plaintiffs are successful, the Board's actuary has estimated the annual increase to the City's normal pension contribution could range from $247,000 to $550,000. The actuaries estimated impact on the System's actuarial accrued liability for past service cost of active participants and retirees will likely range from $5.1 to $10.5 million. This additional liability would reduce the System's actuarial surplus which was $225.3 million as of June 30, 2005.

10. ADMINSTRATIVE EXPENSES

Section 2-1824 of the Fresno Municipal Code provides that all administrative costs of the System shall be a charge against the assets of the retirement system. Per the Municipal Code, the Administrative expenses are a component of the City's contribution calculation.

11. POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created to provide assistance to eligible retirees 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 2-1853.

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 2-1853(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, 2006, the System distributed PRSB benefits in the amount of $2,148,543 to eligible retirees and offset required City pension contributions by $11,095,490. As of June 30, 2006, the City Surplus Reserve balance was $967,466 and the PRSB Reserve balance was approximately $1,781,602 of which $1,342,245 is committed for PRSB distribution for the months of July through December 2006.

12. 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.

13. LEASES

During fiscal year 2006 the City of Fresno Employees and City of Fire and Police Retirement Systems jointly moved into a newly renovated building at 2828 Fresno Street. The Boards formed a 501C(25) title holding corporation named CFRS Realty Holding Corporation to take ownership of the building. Under a lease agreement with CFRS Realty Holding Corporation effective September 19, 2005, the Boards and their administrative staff occupy approximately 7,900 square feet of the second floor. 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.

14. 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 Human Resources 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 13 for a description of this arrangement.

Required Supplemental Schedules

City of Fresno Retirement Systems
Caring For Your Future

Required Supplemental Schedules

June 30, 2006 and 2005

1. REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS

Historical trend information, restated in accordance with GASB 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	(1) *Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
1996	$ 460	$ 378	121.8%	$ (82)	$ 68	(122.1)%
1997	$ 538	$ 402	133.7%	$ (136)	$ 69	(195.8)%
1998	$ 625	$ 409	152.8%	$ (216)	$ 70	(309.4)%
1999	$ 702	$ 427	164.7%	$ (276)	$ 76	(361.3)%
2000	$ 771	$ 471	163.5%	$ (299)	$ 85	(353.5)%
2001	$ 782	$ 501	156.2%	$ (281)	$ 90	(311.9)%
2002	$ 749	$ 530	141.3%	$ (219)	$ 93	(235.2)%
2003	$ 699	$ 546	128.1%	$ (153)	$ 97	(157)%
2004	$ 742	$ 554	133.8%	$ (187)	$ 100	(188)%
2005	$ 791	$ 566	139.8%	$ (225)	$ 103	(220)%

2. REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Millions)

Year Ended June 30	Actuarially Required Contribution	Contributions as a % of ARC
1997	$ 0	100%
1998	$ 0	100%
1999	$ 0	100%
2000	$ 0	100%
2001	$ 0	100%
2002	$ 0	100%
2003	$ 0	100%
2004	$ 0	100%
2005	$ 0	100%
2006	$ 0	100%

Notes to Required Supplemental Schedules

ACTUARIAL ASSUMPTIONS

Gabriel, Roeder, Smith and Company, the System's actuary, performed an actuarial valuation as of June 30, 2005. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

1. Annual inflation is assumed at 4.25%.

2. Annual investment return is assumed to be 8.25%.

3. The City contribution rate is set at 10.51% (normal cost of 10.51% is offset by applying prefunded actuarial accrued liability of 10.51%).

4. Average employee contribution rate is 7.26%, although individual rates depend upon entry age.

5. Accrued benefits and costs are calculated using the projected unit credit 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' 1994 Group Annuity Mortality Table, setback one-year for females.

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 8.25%.

9. Projected Salary Increase assumption is assumed to be 4.25% plus merit and longevity increases based on completed years of service.

10. Post retirement benefit increases are projected as 4.50% based upon changes in the CPI for each year.

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

These actuarial assumptions were adopted by the Retirement Board on December 14, 2005 for implementation as of July 1, 2006.

City of Fresno Retirement Systems

Caring For Your Future

Supplemental Schedules

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year Ended June 30, 2006 and 2005

		2006		2005
Personnel Services				
Staff Salaries	$	259,174	$	250,274
Fringe Benefits		34,197		33,347
Pension Contribution		8,604		8,776
Total Personnel Services	$	301,975	$	292,397
Professional Services				
Actuarial	$	73,766	$	26,865
Legal Counsel		95,784		67,302
Information Systems Services		31,845		18,119
Specialized Services		42,445		29,847
Total Professional Services	$	243,840	$	142,133
Communication				
Printing	$	25,811	$	18,808
Telephone		16,221		7,419
Postage		3,092		1,801
Total Communication	$	45,124	$	28,028
Rentals				
Office Rent	$	58,888	$	-
Total Office Rent	$	58,888	$	-
Other				
Education and Conference	$	16,861	$	25,021
Membership & Dues		1,475		1,680
Subscriptions & Publications		148		155
Office Supplies		7,432		4,159
Insurance		94,360		106,500
Miscellaneous		3,600		21,406
Reimbursement to City for Services		20,470		20,870
Depreciation		3,775		-
Total Other	$	148,121	$	179,791
Total Administrative Expenses	$	797,948	$	642,349

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT EXPENSES

Year ended June 30, 2006 and 2005

	2006	2005
Investment Manager Fees		
Equity		
Domestic	$ 1,852,276	$ 1,172,104
International	1,006,928	958,859
Fixed Income		
Domestic	577,313	555,616
Real Estate	714,334	703,745
Total Investment Managers Fees	4,150,851	3,390,324
Other Investment Expenses		
Foreign Income Taxes	592,686	557,759
Custodial Services	46,314	29,923
Investment Consultant	93,456	89,560
Prepaid Employer Contribution Interest Expense	401,862	371,235
Total Other Investment Expenses	1,134,318	1,048,477
Total Fees & Other Investment Expenses	5,285,169	4,438,801
Securities Lending Expenses		
Borrowers Rebates	6,585,269	2,581,939
Agent Fees	137,985	105,035
Total Securities Lending Expenses	6,723,254	2,686,974
Total Fees, Other Investment Expenses & Securities Lending Expense	$ 12,008,423	$ 7,125,775

SCHEDULE OF PAYMENTS TO CONSULTANTS

Year ended June 30, 2006 and 2005

	2006	2005
Legal Services	$ 95,784	$ 67,302
Actuarial Services	73,766	26,865
Miscellaneous	20,500	24,697
City Information Services	31,845	18,119
Medical Consultant	21,945	5,150
Total Payments to Consultants	$ 243,840	$ 142,133

Investment Section

City of Fresno Retirement Systems
Caring For Your Future

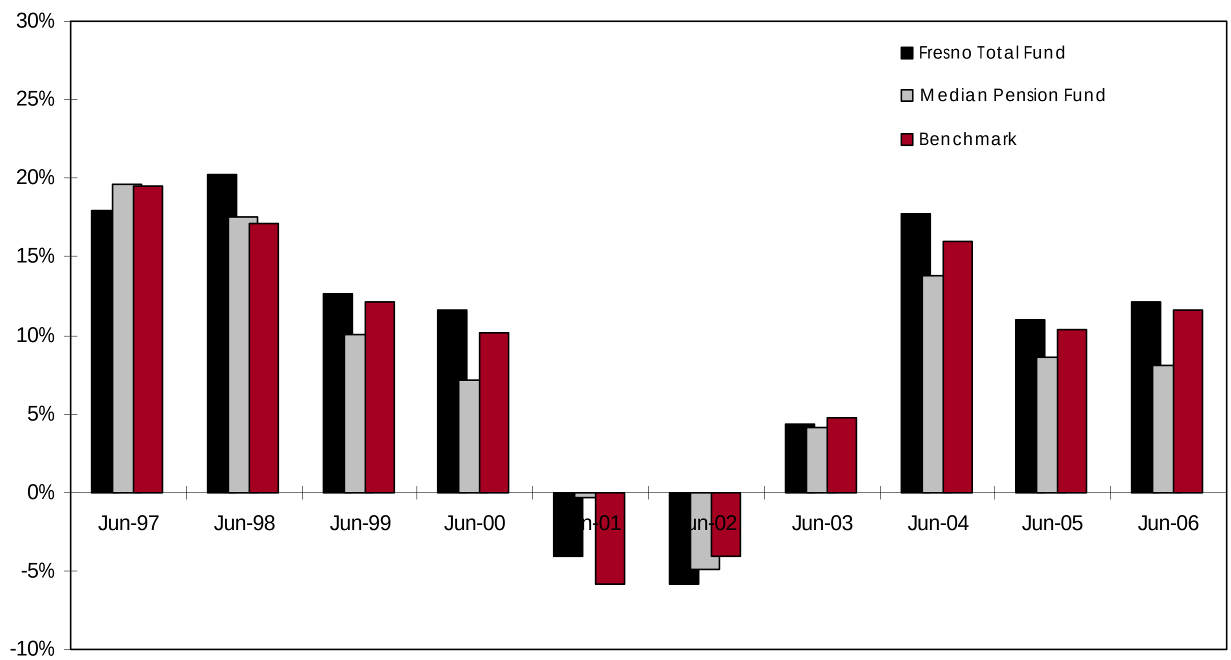
Investment Report from the Retirement Administrator

Highlighted Investment Performance of the City of Fresno Employees Retirement System Investment Portfolio for FY 2006:

	Return
Total Fund	**12.12%**
Domestic Equity	12.55%
International Equity	23.47%
Fixed Income	.66%
Real Estate	20.76%
Fiscal Year End Fund Value:	**$945,868,848**

The System's Total Fund Returns Versus Wilshire Associates Public Pension Funds (Gross of Fee) Returns for the Period Ended June 30, 2006, ranked the System in the top decile (10th percentile) of our Investment Consultant's universe of public funds. Over the past ten years, the Systems' investment returns have remained sound and consistently outperformed its policy benchmark and the median fund returns as shown in the following chart.

City of Fresno Retirement Systems
Total Fund/Median Fund Annual Return



	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
Fresno Total Fund	17.90%	20.20%	12.70%	11.60%	-4.10%	-5.80%	4.31%	17.70%	10.94%	12.12%
Median Pension Fund	19.60%	17.50%	10.00%	7.10%	-0.30%	-4.90%	4.15%	13.83%	8.63%	8.08%
Benchmark	19.50%	17.10%	12.10%	10.20%	-5.80%	-4.10%	4.80%	15.93%	10.40%	11.62%

Summary of Portfolio Results

The fiscal year, ended June 30, 2006, marks another outstanding year of performance for the City of Fresno Employees Retirement System. The System experienced a total investment gain of 12.12 percent for the fiscal year ended June 30, 2006, exceeding the System's actuarial interest rate assumption of 8.25 percent by 3.87 percent and the System's policy benchmark (a weighted average of the Fund's asset classes and their respective benchmarks) return of 11.62 percent by 0.50 percent. Over the longer term, our investment results remain sound with annualized returns in excess of 10 percent consistently over the past fifteen years. The System's ten-year annualized returns still averaged 9.28 percent exceeding its policy benchmarks for the period by 0.63 percent. After paying all benefits and expenses of the System, the year-end value of the System reached $945.9 million.

Another indicator of consistent long-term performance was the System's annualized risk-adjusted return, which outperformed its policy index on a five-year basis, ranking it in the upper 10^{th} percentile in our Investment Consultant's universe of public pension funds. This means that the City of Fresno Employees Retirement System achieved higher investment returns than the policy index for every unit of risk it took in the last five years.

The System's 12.12% return for the Fiscal Year ended June 30, 2006 also outperformed the Wilshire 5000, a broad index of stock prices which rose only 9.92%. This result indicates that the System out-performed the broader investment market over the fiscal year. Many academic studies suggest that about 80-90% of a portfolio's investment results are derived from its asset allocation and that a well-diversified investment portfolio is more likely to produce better performance relative to its indexes. Our success can be attributed to the well-thought-out asset allocation strategy adopted by the Employees Retirement Board and to the System's investment staff's timely implementation and rigorous monitoring of the System's investments in collaboration with the outside investment consultant.

Analysis of Issues Affecting Our Portfolio in FY2006

The prudent leadership of the Employee Retirement System Board is undoubtedly the most important factor in the continued 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. To that end, the Board reviews its asset liability structure periodically to evaluate the appropriateness of the portfolio's assumptions and asset mix. The Board's Investment Committee is planning an update next fiscal year of the System's Asset Allocation Plan and assumptions.

In general, the System's portfolio correlates well with the performance of the U.S. stock market. In fiscal year 2006, market sentiment as well as performance were helped by the following positive developments: (1) healthy GDP growth fueled by robust productivity growth; (2) sustained corporate profitability and strong cash flow; (3) relatively low long-term interest rates; (4) positive consumer confidence and spending; (5) healthy employment figures; and (6) the absence of a broad inflation in the consumer market.

Inflation pressures increased in fiscal year 2006 to a large degree attributable to sharply rising energy costs and related business and commodity costs. In fact, both the price and the global demand for fossil fuels rose rapidly. Geopolitical risks remained throughout the world and the Iraq war was on top of that list. With its political instability, Iraq presented a source of discomfort and uncertainty in the U.S. economy. In addition to exerting upward pressure on energy prices, the economic cost of the war continues to represent a potential burden to U.S. taxpayers. The Middle East will likely remain a hotbed of controversy and focus in the next year. However, in general, international and emerging equity markets as a whole continued to perform strongly and provide the System with excellent returns.

During the fiscal year 2006, the Board completed its analysis, search and evaluation of international core equity investment managers and replaced two existing managers with three new managers. As part of the process, the Investment Committee also rebalanced equities and fixed income.

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.

Specific Investment Results by Asset Classification

As of June 30, 2006, the Retirement System's portfolio was slightly over-weighted in total equities, with 62.0% in total equities versus the target of 60.0%. Domestic equities were over-weighted with 42.0% versus the target of 40.0%, while international equity with 17.0% developed and 3.0% emerging markets was at the target of 20.0%. Fixed income was 28.0%, slightly under its target of 30.0% and real estate was at the target of 10.0%. The investments were further diversified into the following asset classes and target percentages:

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap equities	31.0%	30.0%
Small-Cap equities	11.0%	10.0%
International Equities:		
Developed equities	17.0%	17.0%
Emerging Market equities	3.0%	3.0%
Fixed Income:		
Domestic Fixed Income	24.0%	25.0%
High Yield Fixed Income	4.0%	5.0%
Real Estate:		
Private Real Estate	5.9%	6.0%
Public (REITs)	4.1%	4.0%
Total	100.0%	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

December 5, 2006

Investment Consultant's Report

WILSHIRE

November 1, 2006

Mr. Paul Cliby, Chairman
Ms. Carla Lombardi, Chairwoman
City of Fresno Retirement Systems
2828 Fresno Street, Suite 201
Fresno, California 93721-1327

Mr. Cliby and Ms. Lombardi:

Introduction and Overview

We are pleased to report that the investment markets and the City of Fresno Fire & Police and Employees Retirement Systems reported positive investment results for the fourth year in a row. For the fiscal year ended June 30, 2006, the combined systems experienced a total gain of +12.12% gross of fees, the third year in a row in which the systems' return exceeded the actuarial interest rate assumption. Over the last year, the fund outperformed its benchmark[1] return of +11.62% by 0.50% gross of fees. Due to the double digit returns of the past three years, and the experience with very high investment returns through the late 1990s, the combined systems remain significantly overfunded despite the weaker investment performance in the previous few years.

The Systems' total return over the past five years has been an annualized average of +7.53% gross of fees versus the fund benchmark return of +7.50% and the 8.25% actuarial interest rate assumption. Over the past five years, the Systems have outperformed the benchmark by 0.03% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +9.28% gross of fees versus a return of 8.65% for the composite benchmark. Over this time period, the Systems outperformed the actuarial interest rate by 1.03%.

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[1] From February 1, 2005 to June 30, 2006, the benchmark was 30% S&P 500 Index, 10% Russell 2000 Index, 25% Lehman Aggregate Bond Index, 17% MSCI EAFE ($g), 7.5% NCREIF Index, 5% Lehman High Yield Bond Index, 3% MSCI EMF ($g), and 2.5% DJ Wilshire RESI. From July 1, 2004 through January 31, 2005, the benchmark was 30% S&P 500, 10% Russell 2000, 25% Lehman Aggregate Bond, 17% MSCI EAFE, 10% NCREIF, 5% Lehman High Yield Bond, and 3% MSCI EMF. From July 1, 2003 to June 30, 2004 the benchmark was 31.45% S&P 500, 5.55% Russell 2000, 28% Lehman Aggregate Bond, 15% MSCI EAFE, 3% MSCI EMF, 8% NCREIF, 4% Citigroup High Yield Bond, and 5% DJ Wilshire 5000 + 3%. From January 1, 2002 through June 30, 2003, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI EMF, 7% NCREIF, 28% Lehman Aggregate Bond, 7% Lehman Government/Credit Long Bond, 2% Salomon Brothers High Yield, and 2% DJ Wilshire 5000 + 3%. From July 1, 2001 through December 31, 2001, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI EMF, 7% Wilshire RESI, 28% Lehman Aggregate Bond, 7% Lehman Government/Credit Long Bond, 2% Salomon Brothers High Yield, and 2% DJ Wilshire 5000 + 3% (private equity benchmark). From March 1, 1997 through June 30, 2001, the benchmark was 36% S&P 500, 10% Russell 2000, 10% MSCI EAFE, 2% MSCI EMF, 25% Lehman Aggregate Bond, 5% Lehman Government/Credit Long Bond, 7% JP Morgan Non US Government Bond, 1% JP Morgan Emerging Market Bond, and 4% Wilshire Real Estate Securities Index (RESI). Prior to March 1, 1997, the benchmark was 40% S&P 500, 7% Russell 2000, 4% Wilshire MidCap 750, 7% MSCI EAFE, 37% Lehman Aggregate Bond, 4% SalomonBrothers Non-US World Government Bond, and 1% Wilshire RESI.

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WILSHIRE

Summary of Investment Results

The investment information is presented in conformance with the Performance Presentation Standards of the Chartered Financial Analyst Institute (CFAI, formerly AIMR).

The quarterly performance of the Systems' total fund composite was consistently positive, with the exception of the fourth fiscal quarter (second calendar quarter of 2006). The Systems returned +4.29% gross of fees in the third calendar quarter of 2005 (first fiscal quarter), outperforming the benchmark return of +4.23%. This performance ranked the Systems in the top 15% of all pension funds in our database (15th percentile). When the equity markets grew in the fourth calendar quarter, the Systems assets rose, as well. In this quarter, the Systems returned +2.57% gross of fees, outperforming the benchmark return of +2.28%, and ranking in the top 9% (9th percentile) of all pension funds in this quarter. In the first calendar quarter of 2006, the Systems continued steadily and outperformed their benchmark, returning +5.60% gross of fees versus +5.37% for the index. This performance placed the combined Systems in the top decile of our database (8th percentile). Finally, in the second calendar quarter of 2006, the Systems followed the trend of the broader market and lost some ground with returns of -0.74% gross of fees, slightly underperforming the benchmark return of -0.63% and ranking the Systems in the top 33% of funds in our database (33rd percentile).

For the year, the Systems' gross of fee performance of +12.12% exceeded the benchmark return of 11.62% and ranked in the top decile (10th percentile) of all public pension funds gross of fee performance in our database.

Asset Allocation

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

Brokerage Recapture Programs

A brokerage recapture program is in place with several brokerage firms. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

Performance Comparison

The following chart compares the total return for the Systems to all other public pension funds in our universe and the Systems' benchmark. The graph illustrates that aside from the second quarter of 2006, the Systems have ranked in the top decile of all public pension funds in all measured time periods ended 6/30/06. Over the last five year period, the Systems has ranked in the top 7th percentile.

WILSHIRE ASSOCIATES
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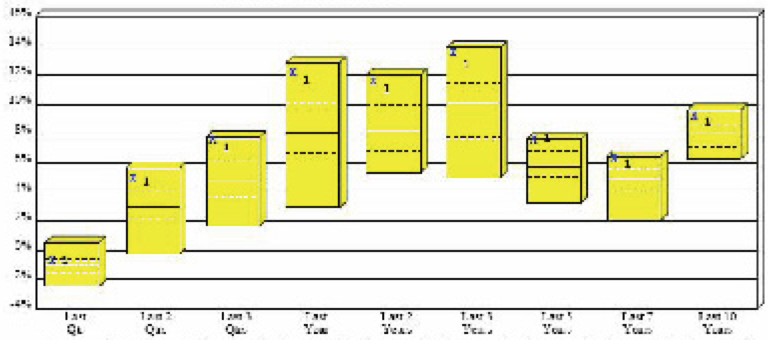
WILSHIRE

City of Fresno Retirement System
Cumulative Performance Comparison
Total Returns of Total Fund Public Sponsors
Periods Ending 6/06



	Last Qtr	Last 2 Qtrs	Last 3 Qtrs	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
5th Percentile	[illegible]	5.52	[illegible]	17.01	10.99	[illegible]	7.50	6.43	9.60
25th Percentile	0.39	3.97	6.08	16.17	9.95	18.44	6.80	5.62	8.51
Median	-0.84	3.96	4.65	8.08	8.22	15.17	5.53	4.83	7.98
75th Percentile	-1.49	[illegible]	[illegible]	6.67	[illegible]	[illegible]	5.16	4.10	7.14
95th Percentile	2.48	0.26	1.67	2.90	5.31	1.98	3.21	2.03	6.26
Total Fund	0.74 (33)	4.82 (10)	7.53 (5)	12.12 (12)	10.51 (7)	13.53 (7)	7.53 (7)	6.25 (9)	9.26 (3)
Policy Index	-0.63 (27)	4.71 (10)	7.06 (11)	11.62 (13)	10.01 (10)	12.61 (13)	7.50 (7)	5.50 (19)	8.65 (21)

Summary

In conclusion, the Systems continue to earn significant gains over the long term, with inception returns of more than 10% per year. We remain confident that the Systems have an appropriate asset allocation mix that will maximize the potential for return while minimizing unwanted risks.

Over the last few years, the benefits of diversification were apparent as Non-U.S. equities and Real Estate outpaced both the U.S. equity and fixed income markets. We believe that the recent poor performance in the general fixed income markets will not continue, and this asset class will serve as a hedge against future volatility in the equity markets. Overall, we believe that the Systems' asset allocation will continue to help mitigate volatility within the fund while still maintaining and improving the Systems' strong financial position.

Sincerely,

Michael C. Schlachter, CFA
Managing Director

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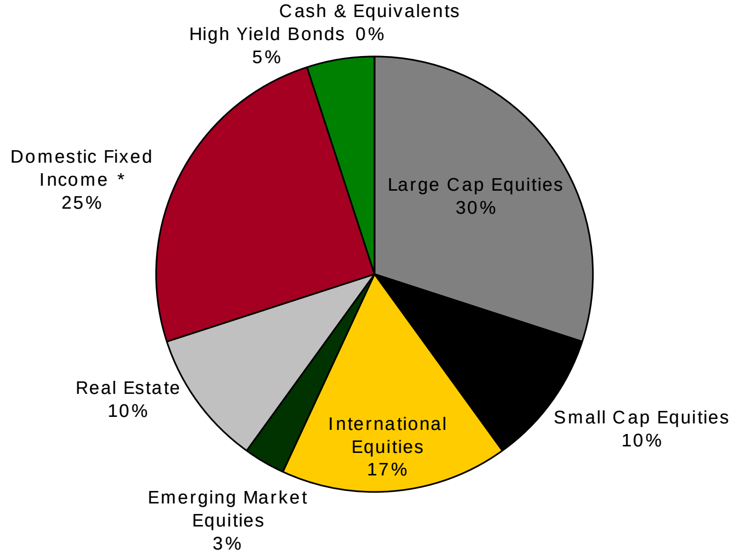
Investment Results

Calculations are prepared using a time-weighted rate of return based on the market rate of return in accordance with Chartered Financial Analyst Institute (CFAI, formerly AIMR) performance presentation standards.

	Annualized			
	1 year	3 years	5 years	10 years
Domestic Equity				
Total Large Cap Domestic Equity	10.61	12.94	2.91	8.40
Median Large Cap Equity	9.42	12.50	4.04	9.87
Benchmark: S&P 500	8.63	11.22	2.49	8.32
Total Small Cap Domestic Equity	18.02	18.17	6.23	7.06
Median Small Cap Equity	14.86	19.78	11.36	13.04
Benchmark: Russell 2000	14.56	18.69	8.49	9.05
International Equity				
Total International Equity	20.44	21.55	9.50	-
Median International Equity	27.95	24.94	12.00	9.82
Benchmark: MSCI EAFE	26.56	23.94	10.02	6.39
Emerging Market Equity				
Total Emerging Market Equity	32.28	37.57	24.26	-
Median Emerging Market Equity	37.74	37.15	23.37	9.96
Benchmark: MSCI EMF	35.91	34.77	21.54	6.66
Fixed Income				
Total Fixed Income	0.66	3.17	6.00	6.38
Median Fixed Income	0.44	2.42	5.12	6.27
Benchmark: Lehman Aggregate Bond Index	-0.81	2.05	4.97	6.22
Real Estate				
Total Real Estate	20.76	17.30	12.77	13.09
Median Real Estate	18.23	14.92	11.28	11.69
Benchmark: Weighted Indexes	20.73	15.18	11.70	12.12
Total Fund				
Retirement System	12.12	13.53	7.53	9.28
Median Total Wilshire Public Fund	8.08	10.17	5.75	7.98
Benchmark: Weighted Indexes	11.62	12.61	7.50	8.65

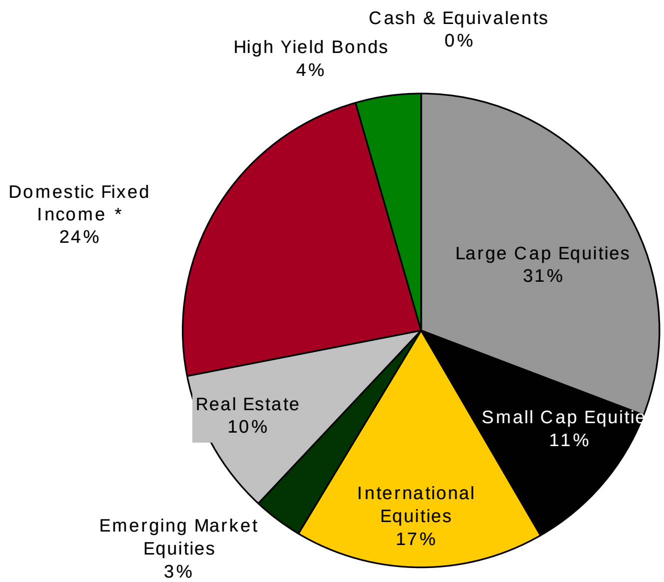
TARGET ALLOCATION



Asset Class	Current Target	Allocation Range	Actual
Large Cap Equities	30%	27% - 33%	31%
Small Cap Equities	10%	8% - 12%	11%
International Equities	17%	14% - 20%	17%
Emerging Market Equities	3%	0% - 5%	3%
Real Estate	10%	8% - 12%	10%
Domestic Fixed Income *	25%	20% - 30%	24%
High Yield Bonds	5%	0% - 8%	4%
Cash & Equivalents	0%	0% - 2%	0%

* 2% High Yield Bonds Managed Within Domestic Fixed Income

ACTUAL ASSET ALLOCATION



Largest Stock Holding (by Market Value)

As of June 30, 2006

	Shares	Stock		Market Value
1)	211,788	Gen Elec Co Com	$	6,980,536
2)	73,029	Exxon Mobil Corp Com		4,480,314
3)	90,656	Bank Amer Corp Com		4,360,572
4)	67,455	Wachovia Corp New Com		3,647,987
5)	52,131	Proctor & Gamble Co Com		2,898,469
6)	57,314	Credit Suisse Grp CHF0.50 (Regd)		3,200,202
7)	31,811	BNP Paribas EUR2		3,044,487
8)	49,449	Astrazeneca Ord USD0.25		2,985,206
9)	75,726	ING Groep VN CVA EURO.24		2,975,500
10)	59,796	Canon Inc NPV		2,934,491
Total Largest Stock Holdings			$	37,507,764

Largest Bond Holding (by Market Value)

As of June 30, 2006

	Par	Bonds		Due		Market Value
1)	5,701,659	US Treas Nts	5.625%	15 Dec 2008	$	5,471,814
2)	4,513,813	US Treas Nts	3.250%	15 Jan 2009		4,313,161
3)	4,277,670	US Treas Nts	4.250%	15 Nov 2013		4,048,079
4)	3,801,106	US Treas Nts	3.625%	15 Jul 2009		3,642,379
5)	2,847,028	US Treas Bonds	4.500%	28 Feb 2011		2,776,075
6)	2,146,199	US Treas Nts	6.000%	15 Feb 2026		2,324,770
7)	2,301,570	US Treas Nts	2.875%	30 Nov 2006		2,279,272
8)	2,256,907	US Treas Nts	5.625%	15 May 2008		2,274,716
9)	2,167,314	FNMA Pool	6.000%	01 Apr 2035		2,139,815
10)	2,237,901	US Treas Nts	4.250%	15 Aug 2013		2,123,209
Total Largest Bond Holdings					$	31,393,290

A complete list of portfolio holdings is available upon request.

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 managers participating in the Brokerage Commission Recapture Program are to seek to direct 25% of total annual commissions to NTSI and its eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For FY 2006, the net income from Brokerage Commission Recapture was $90,667. During this period, the overall participating rate by the System's equity managers was 21.97%. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

Schedule of Commissions

For the Fiscal Year Ended June 30, 2006

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
Citigroup Global Markets Inc	$ 117,148	16,564,804	$ 0.0071
Lehman Brothers International EUR	89,229	1,956,943	0.0456
Citigroup Global LTD Broker	64,250	2,987,507	0.0215
Lehman Brothers Inc	55,132	24,824,067	0.0022
Credit Suisse First Boston Corporation	27,884	27,698,204	0.0010
Rochdale Securities Corporation	19,973	665,783	0.0300
Merrill Lynch Pierce Fenner & Smith	19,325	7,005,410	0.0028
JP Morgan Securities In	16,729	528,984	0.0316
Citigroup Global Markets Inc/Smith Barn	15,243	1,155,895	0.0132
B Trade Services	13,772	454,899	0.0303
	$ 438,685	83,842,496	$ 0.0052
All Other Brokerage Firms	569,064	10,147,912,809	0.0001
TOTAL	$ 1,007,749	10,231,755,305	$ 0.0001

Investment Summary

	Investment Value as of June 30, 2006	Percent of Fund
Equity		
Domestic	$ 389,518,526	40.9%
International	158,086,750	16.6%
Emerging Market Equity	28,450,086	3.0%
Fixed Income		
Domestic	261,107,904	27.4%
Real Estate	97,690,444	10.3%
Short Term Investments	17,041,848	1.8%
Total	$ 951,895,558	100.0%

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Actuarial Section

City of Fresno Retirement Systems

Caring For Your Future

Actuarial Certification Letter

Gabriel, Roeder, Smith & Company
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

October 12, 2005

Actuarial Certification

The annual actuarial valuation required for the City of Fresno Employees Retirement System has been prepared as of June 30, 2004 by Gabriel, Roeder, Smith & Company. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the System's assets, liability and future contribution requirements. Our calculations are based upon member and financial data provided to us by the System's staff. This data has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior valuation data.

The contribution requirements are determined as a level percentage of payroll. The funding objective of the employer is to provide a contribution to fund for both normal cost and a contribution to amortize the unfunded actuarial accrued liability. There is no unfunded actuarial accrued liability as of June 30, 2004. The System has assets in excess of the actuarial accrued liability and the required contributions in the body of this report have not been offset for any such "surplus". The allocation of surplus is provided for in Section 2-1853 of the Municipal Code and can be found in the Surplus Allocation section of this report.

Contribution levels are recommended by the Actuary and adopted by the Board every year. The ratio of Actuarial Value of Assets to Actuarial Accrued liabilities increased from 128% to 134% from June 30, 2003 to June 30, 2004, primarily due to refinement of the actuarial assumptions. Without the change in assumptions the ratio would have decreased to 123%. The increase in the funded ratio does not impact the employer or employee contribution rate. However, it does impact the PRSB Benefit, PRSB Reserve and Surplus Reserve.

The assumptions used in this valuation were revised slightly from the June 30, 2003 valuation. There were changes to some of the demographic assumptions and a reduction in the inflation assumption from 4.50% to 4.25%, but the investment return assumption was unchanged at 8.25%.

In our opinion that the assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Retirement System and meet the parameters required by GASB Statement 25.

A list of supporting schedules we prepared for inclusion in the actuarial and financial sections of the System's CAFR report is provided below.

1. Summary of Actuarial Assumptions and Methods;
2. Solvency Test; and
3. Actuarial Analysis of Financial Experience.

Future contribution requirements may differ from those determined in the valuation because of:

1. differences between actual experience and anticipated experience;
2. changes in actuarial assumptions or methods;
3. changes in statutory provisions; and
4. differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are Fellows of the Society of Actuaries and ERISA Enrolled Actuaries and meet the qualification standards to render the actuarial opinions contained herein.

GABRIEL, ROEDER, SMITH & COMPANY

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

Jay D. Hirsch

Jay D. Hirsch, EA, FSA

2

Summary of Actuarial Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2005, data were adopted by the Employees Retirement Board on December 14, 2005, and were effective for fiscal year 2007.

Assumptions

Valuation Interest Rate	8.25%
Inflation:	4.25%

Post-Retirement Mortality

(a) Service

Males - 1994 Male Group Annuity Mortality Table

Females - 1994 Female Group Annuity Mortality Table with one-year setback

(b) Disability
1984 Disability Mortality Table for General Members, setback three-years

Pre-Retirement Mortality

Based upon the 6/30/2004 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2004 Experience Analysis

Disability Rates

Based upon the 6/30/2004 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2004 Experience Analysis

Assets:

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

Funding Method:

The System's liability is being funded on the Projected Unit Credit Actuarial Cost method.

DROP Rates

1st year eligible	45% participation
2nd year eligible	15% participation
3rd & 4th Fourth Year Eligible	10% participation
Thereafter	0% participation

Members are assumed to remain in DROP for 4 years.

Marriage Rates

It is assumed that 80% of all male members and 60% of all female members will be married at retirement.

COLA Assumption

4.25% per year

Salary Scale

Made up of Merit and Longevity and Inflation Components The inflation component is equal to 4.25%. The merit and longevity component varies by service and is illustrated below:

Years Since Hire	Merit & Longevity Assumption
<1 year	7.75%
1 year	5.75%
2 years	4.75%
3 years	3.45%
4 years	2.85%
5 years	1.85%
6 years	0.85%
7 years	0.65%
8 years	0.45%
9 or more years	0.05%

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

% of Active Members
Separating Within Next Year and Withdrawing Employee Monies

Sample	Under 5 years (median)		5-9 Years of Service		10+ Years of Service	
Ages	Men	Women	Men	Women	Men	Women
20	6%	7.2%	3%	7.5%	3%	5.0%
25	6%	7.2%	3%	7.5%	3%	5.0%
30	6%	7.2%	3%	7.5%	3%	5.0%
35	6%	7.2%	2.13%	4.5%	1.9%	2.5%
40	6%	7.2%	1.98%	3.0%	1.4%	1%
45	6%	7.2%	1.80%	3.0%	0.95%	0.75%
50	6%	7.2%	1.45%	1.5%	0.75%	0.75%
55	6%	7.2%	1.20%	0.75%	0%	0%
60	0%	0%	0.95%	0.15%	0%	0%

`

% of Active Members
Separating Due to the Following Causes

Sample	Vested Termination		Ordinary Disability		Ordinary Death	
Ages	Men	Women	Men	Women	Men	Women
20	0%	0%	0%	0%	0.04%	0.03%
25	0%	0%	0%	0%	0.05%	0.03%
30	1%	2.25%	0.01%	0.01%	0.07%	0.04%
35	1%	2.25%	0.05%	0.05%	0.07%	0.05%
40	1.4%	2.25%	0.05%	0.50%	0.09%	0.08%
45	2.0%	2%	0.75%	0.75%	0.13%	0.10%
50	1.5%	2%	0.85%	0.85%	0.21%	0.15%
55	1.4%	1.8%	0.85%	0.85%	0.36%	0.25%
60	0%	0%	0%	0%	0.65%	0.48%

Source: Gabriel Roeder, Smith and Company

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2005	Active Members	2061	$ 91,411,031	$ 44,353	1.7%
	DROP Participants	225	11,146,645	49,541	1.7%
	Totals	2286	$ 102,557,676	$ 44,863	
June 30, 2004	Active Members	2037	$ 88,877,515	$ 43,632	2.1%
	DROP Participants	223	10,867,428	48,733	2.0%
	Totals	2260	$ 99,744,943	$ 44,135	
June 30, 2003	Active Members	2044	$ 87,366,386	$ 42,743	1.3%
	DROP Participants	209	9,982,140	47,761	5.8%
	Totals	2253	$ 97,348,526	$ 43,208	
June 30, 2002	Active Members	1994	$ 84,149,313	$ 42,201	2.5%
	DROP Participants	198	8,936,515	45,134	0.3%
	Totals	2192	$ 93,085,828	$ 42,466	
June 30, 2001	Active Members	1971	$ 81,175,630	$ 41,185	3.5%
	DROP Participants	200	9,001,264	45,006	3.7%
	Totals	2171	$ 90,176,894	$ 41,537	
June 30, 2000	Active Members	1934	$ 76,988,782	$ 39,808	9.1%
	DROP Participants	178	7,728,203	43,417	4.2%
	Totals	2112	$ 84,716,985	$ 40,112	
June 30, 1999	Active Members	1902	$ 69,370,703	$ 36,473	4.5%
	DROP Participants	168	7,001,540	41,676	5.6%
	Totals	2070	$ 76,372,243	$ 36,895	
June 30, 1998	Active Members	1864	$ 65,056,340	$ 34,901	-1.40%
	DROP Participants	120	4,737,340	39,478	Base Year
	Totals	1984	$ 69,793,680	$ 35,178	-0.06%
June 30, 1997	Active Members	1957	$ 69,286,627	$ 35,405	1.20%
June 30, 1996	Active Members	1930	$ 67,499,533	$ 34,974	7.40%
June 30, 1995	Active Members	1891	$ 61,590,138	$ 32,570	6.00%
June 30, 1993	Active Members	2026	$ 62,263,875	$ 30,732	1.08%
June 30, 1991	Active Members	1879	$ 52,133,387	$ 27,745	

SCHEDULE OF RETIREES AND BENEFICIARES 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	% Increase in Retiree Allowance	Average Annual Allowance
June 30, 2006	99	$ 1,150,756	(44)	$ (523,431)	1250	$ 29,409,733	6.32	$ 23,528
June 30, 2005	97	$ 1,132,389	(56)	$ (579,306)	1195	$ 26,444,153	(3.81)	$ 22,129
June 30, 2004	109	$ 521,390	(62)	$ (689,676)	1154	$ 26,548,396	(8.93)	$ 23,006
June 30, 2003	83	$ 605,134	(40)	$ (455,621)	1107	$ 27,963,534	(3.37)	$ 25,261
June 30, 2002	102	$ 4,826,331	(40)	$ (504,816)	1064	$ 27,814,021	11.50	$ 26,141
June 30, 2001	43	$ 846,004	(32)	$ (374,325)	1002	$ 23,492,506	7.45	$ 23,446
June 30, 2000	94		(39)		991	$ 21,622,858	12.92	$ 21,819
June 30, 1999	38		-19		936	$ 18,085,727	9.76	$ 19,322

* Annual allowance data not available prior to 2001.

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 Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)
6/30/2005	$ 88,322	$ 360,303	$ 116,925	$ 790,858	100%	100%	100%
6/30/2004	87,756	352,680	113,930	741,766	100%	100%	100%
6/30/2003	87,876	334,590	123,221	698,885	100%	100%	100%
6/30/2002	85,532	324,254	120,019	748,762	100%	100%	100%
6/30/2001	84,217	300,562	115,707	781,831	100%	100%	100%
6/30/2000	82,588	280,005	108,614	770,649	100%	100%	100%
6/30/1999	85,630	259,886	81,022	702,481	100%	100%	100%
6/30/1998	81,736	240,587	86,852	625,121	100%	100%	100%
6/30/1997	88,020	210,441	103,906	538,055	100%	100%	100%
6/30/1996	81,336	195,619	100,764	460,073	100%	100%	100%
6/30/1994	69,292	185,946	103,164	371,158	100%	100%	100%
6/30/1992	57,006	158,809	105,013	269,203	100%	100%	50.84%

Actuarial Analysis of Financial Experience

	Plan Years								
(Amounts in Millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997
Prior Valuation Actuarial Accrued Liability	$ 554	$ 546	$ 530	$ 501	$ 471	$ 49	$ 31	$ 24	$ -
Expected Increase from Prior Valuation	-	-	29	28	-	-	-	-	-
Salary Increase (Greater) Less than Expected	5	5	(9)	3	3	10	(3)	(5)	-
Asset Return (Less) Greater than Expected	7	(34)	-	(7)	27	35	33	33	24
Other Experience	-	17	-	-	-	-	2	-	-
Economic Assumption Changes	-	17	-	-	-	11	(12)	(20)	-
Noneconomic Assumption Changes	-	3	(4)	5	-	(12)	(2)	(1)	-
Ending Actuarial Accrued Liability	$ 566	$ 554	$ 546	$ 530	$ 501	$ 93	$ 49	$ 31	$ 24

MAJOR PROVISIONS OF THE RETIREMENT PLAN

Eligible Employees

All non-Fire and Police employees who enter service after July 1, 1952, and are certified from a civil service list for permanent employment.

Final Average Salary (FAS)

Highest three consecutive-year average.
Requirement: age 55 and 5 years of service.
Benefit: Sum of (1) and (2) times (3)

(1) 2% of FAS times years of service, not-to-exceed 25 years
(2) 1% of FAS times years of service in excess of 25 years
(3) RETIREMENT AGE FACTOR TABLE

Age	Factor	Age	Factor
55	1.000	61	1.140
56	1.020	62	1.180
57	1.040	63	1.220
58	1.060	64	1.260
59	1.080	65	1.300
60	1.100	Add .01 for every quarter after age 65.	

Deferred Retirement Option (DROP)

An employee who is age 55 with 5 years of service may DROP. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work up to maximum of 10 years.

Disability Retirement

Requirement: 10 years of service.

Benefit: 1.8 percent times FAS times years of service, if exceeds 1/3 of FAS; or 33⅓%, or service retirement, if higher.

Member Contribution Rates

Basic rates on a formula reflecting the age at entry into the System. The rates are such as to provide an average annuity, at age 55, of 1/150 of FAS for each of the first 25 years of service, plus 1/300 of FAS for each year of service after 25. Member cost-of-living rates are designed to pay for one-half of the future cost-of-living increases.

Death Before Retirement

Before eligible to retire for disability (less than 5 years):

(1) One month's salary for each year of service, not-to-exceed six months.
(2) Return of contributions with interest.

While eligible for service retirement:
Fifty percent (50%) of service retirement benefit to eligible beneficiary.

With 5 or more years:
Fifty percent (50%) of service retirement benefit formula at age 55, based on years of service at death.

Death After Retirement

Fifty percent (50%) of the member's allowance continued to eligible spouse for life.

Withdrawal of Benefits

If less than five years of service, return of contributions. If more than five years of service, right to have vested deferred retirement benefit at normal retirement date.

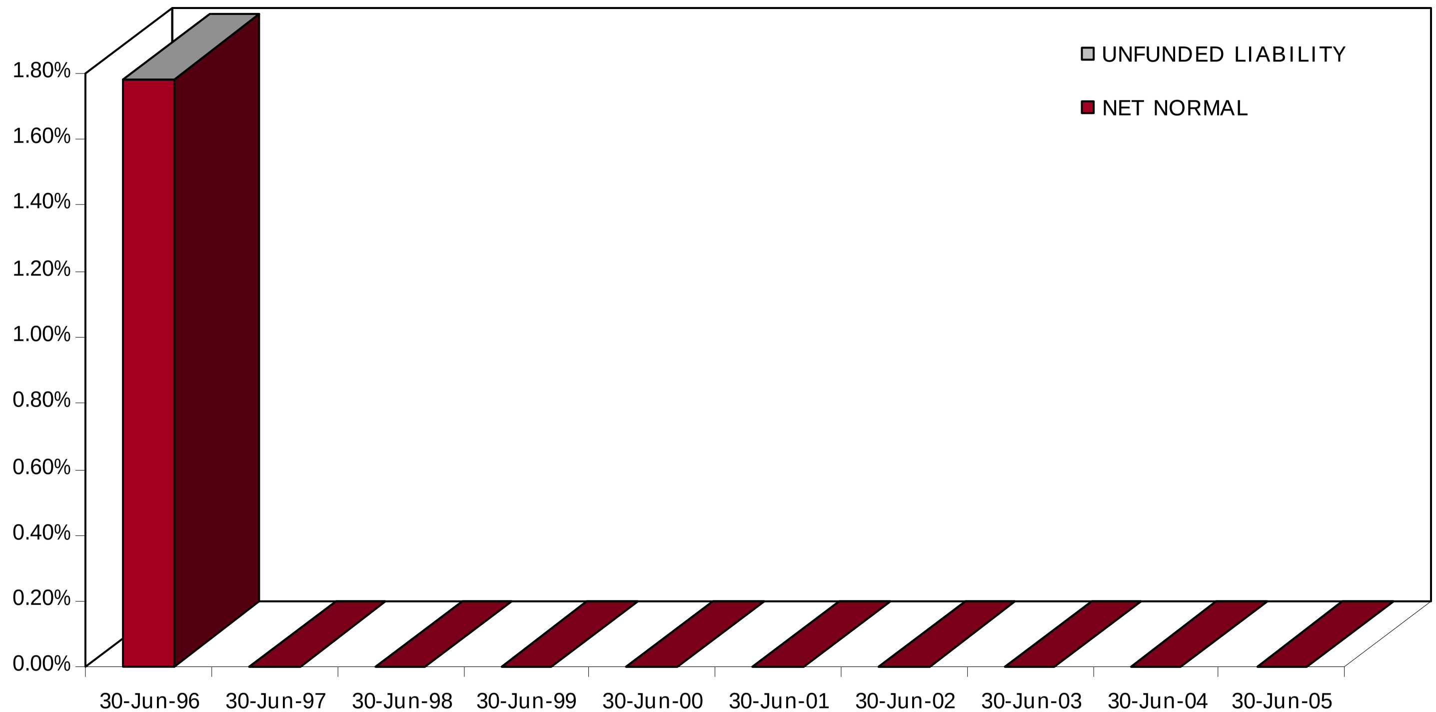
Post Retirement Supplemental Benefit (PRSB)

On August 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

Based on the percentage change in Consumer Price Index (US city-average for urban wage earners and clerical works – all items), limited to a five percent (5%) maximum change per year each July 1.

HISTORY OF EMPLOYER NET CONTRIBUTION RATES



VALUATION DATE	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05
NORMAL	9.87%	10.33%	11.66%	11.51%	11.93%	11.97%	11.74%	11.06%	10.42%	10.51%
PREFUNDED LIABILITY	8.09%	10.33%	11.66%	11.51%	11.93%	11.97%	11.74%	11.06%	10.42%	10.51%
NET NORMAL	1.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
UNFUNDED LIABILITY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NET NORMAL	1.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

City of Fresno Employees Retirement System

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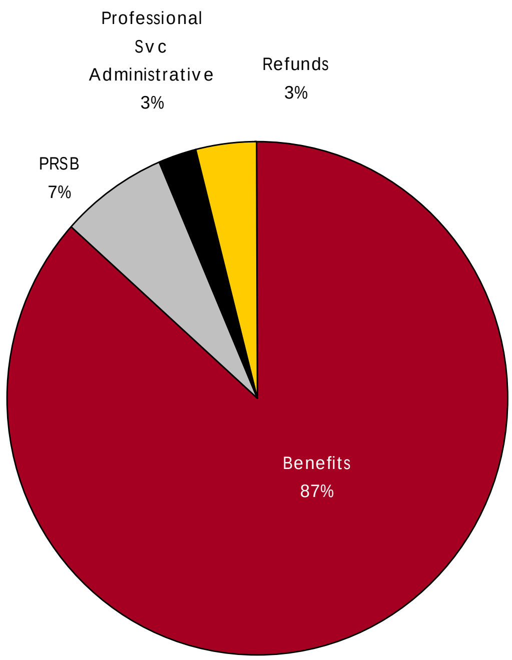
Statisitcal Section

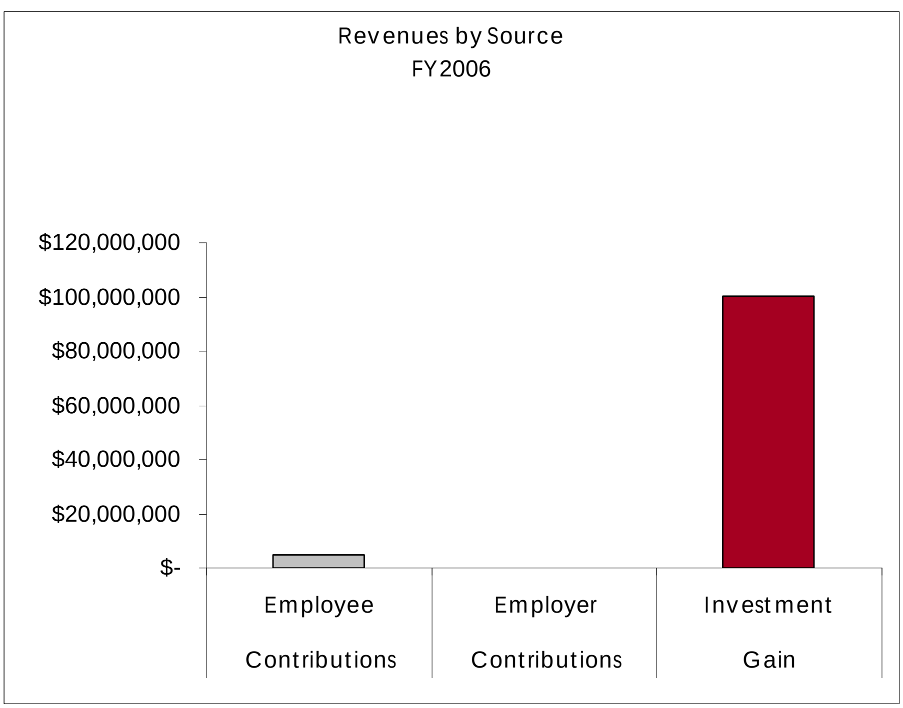
City of Fresno Retirement Systems

Caring For Your Future

Expenses by Type
FY 2006



Revenues by Source
FY 2006



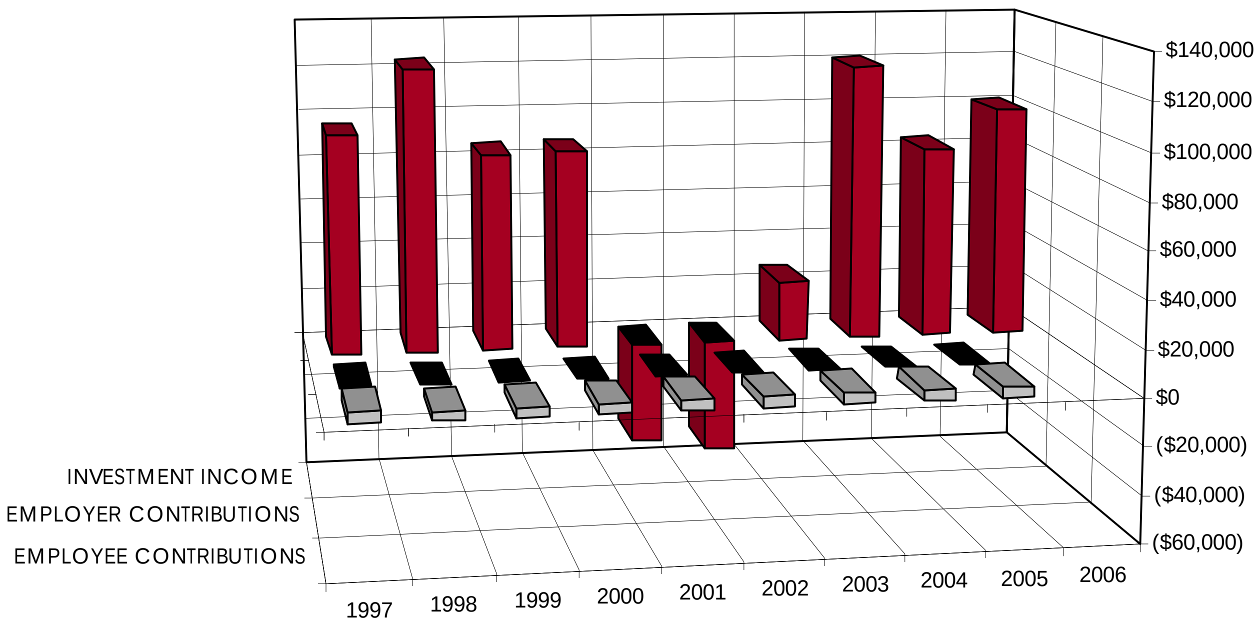
Changes in Plan Net Assets
Last Ten Fiscal Years
(dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Employer Contributions	$ 5.7	$ 0.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Member Contributions	6.0	4.7	3.4	3.8	4.0	4.2	4.5	4.7	4.7	4.6
Net Investment Income	95.3	123.2	85.4	86.1	(43.2)	(48.2)	25.6	120.7	83.5	100.1
Total Revenues	$ 107.0	$ 128.8	$ 88.8	$ 89.9	$ (39.2)	$ (44.0)	$ 30.1	$ 125.4	$ 88.2	$ 104.7
Expenses										
Total Benefit Expenses	$ 15.2	$ 16.1	$ 16.5	$ 17.8	$ 19.0	$ 21.3	$ 22.3	$ 2.4	$ 25.3	$ 27.3
Administrative Expense	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.8
PRSB	-	-	1.6	3.8	4.5	6.5	5.6	2.4	1.2	2.1
Refunds	1.7	1.0	1.4	1.0	1.4	1.3	1.3	0.7	1.0	1.2
Total Deductions	17.3	17.5	19.9	23.1	25.4	29.6	29.7	6.0	28.1	31.4
Change in Plan Net Assets	$ 89.7	$ 111.3	$ 68.9	$ 66.8	$ (64.6)	$ (73.6)	$ 0.4	$ 119.4	$ 60.1	$ 73.3

Schedule of Average Benefit Payments

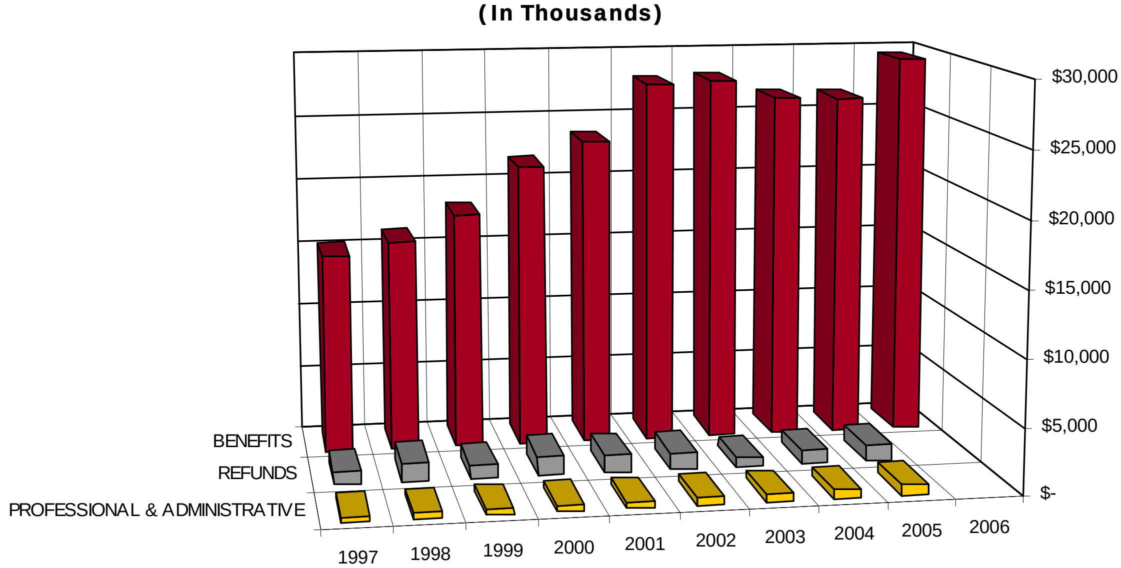
	Years of Credited Service						Fiscal Year
Retirement Effective Dates	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**Average/Total Retirants**
Period 7/1/05 to 6/30/06							
Average Monthly Benefit	$ 691	$ 1,554	$ 1,884	$ 2,112	$ 3,589	$ 3,843	$ 2,279
Average Final Average Salary	4,360	4,740	4,167	4,373	5,034	3,976	4,442
Number of Active Retirants	12	14	13	11	8	18	76
Period 7/1/04 to 6/30/05							
Average Monthly Benefit	$ 684	$ 1,244	$ 1,857	$ 2,294	$ 2,907	$ 3,140	$ 2,021
Average Final Average Salary	3,123	4,699	4,415	4,101	4,009	3,489	3,973
Number of Active Retirants	7	11	18	13	17	11	77
Period 7/1/03 to 6/30/04							
Average Monthly Benefit	$ 611	$ 1,262	$ 1,314	$ 2,085	$ 2,760	$ 3,325	$ 1,893
Average Final Average Salary	3,641	4,224	3,667	4,617	4,095	3,282	3,921
Number of Active Retirants	8	14	7	11	17	13	70
Period 7/1/02 to 6/30/03							
Average Monthly Benefit	$ 881	$ 1,447	$ 2,036	$ 2,340	$ 2,822	$ 3,716	$ 2,207
Average Final Average Salary	4,624	3,856	4,248	4,638	3,641	3,544	4,092
Number of Active Retirants	3	12	8	9	17	12	61
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	$ 992	$ 1,886	$ 2,180	$ 2,543	$ 3,090	$ 4,284	$ 2,496
Average Final Average Salary	3,230	4,180	4,232	3,419	4,337	3,648	3,841
Number of Active Retirants	10	18	11	9	19	14	81
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	$ 1,037	$ 1,505	$ 2,009	$ 2,358	$ 2,793	$ 3,302	$ 2,167
Average Final Average Salary	3,036	3,968	3,540	3,762	3,531	3,588	3,571
Number of Active Retirants	6	8	9	6	13	9	51
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	$ 942	$ 1,606	$ 2,188	$ 2,313	$ 2,895	$ 2,806	$ 2,125
Average Final Average Salary	3,150	3,717	4,588	4,140	4,110	3,560	3,878
Number of Active Retirants	4	8	5	13	10	13	53
Period 7/1/98 to 6/30/99							
Average Monthly Benefit	$ 732	$ 877	$ 1,964	$ 1,382	$ 2,222	$ 2,273	$ 1,575
Average Final Average Salary	3,771	3,173	3,927	2,689	4,083	3,758	3,567
Number of Active Retirants	2	14	3	6	6	6	37
Period 7/1/97 to 6/30/98							
Average Monthly Benefit		$ 850	$ 966	$ 1,636	$ 2,215	$ 1,695	$ 1,472
Average Final Average Salary		3,029	2,761	3,319	4,078	2,890	3,215
Number of Active Retirants		8	4	9	7	2	30
Period 7/1/96 to 6/30/97							
Average Monthly Benefit		$ 778	$ 1,186	$ 1,941	$ 3,390	$ 2,408	$ 1,941
Average Final Average Salary		2,468	2,859	2,066	5,384	3,951	3,346
Number of Active Retirants		4	5	1	4	6	20
Period 7/1/95 to 6/30/96							
Average Monthly Benefit	$ 394	$ 753	$ 1,214	$ 1,630	$ 1,618	$ 2,139	$ 1,291
Average Final Average Salary	2,288	2,789	2,856	3,218	3,044	3,525	2,953
Number of Active Retirants	1	6	9	7	10	10	43
Period 7/1/94 to 6/30/95							
Average Monthly Benefit		$ 1,040	$ 840	$ 1,588	$ 1,808	$ 2,067	$ 1,469
Average Final Average Salary		3,450	2,255	3,492	3,278	3,285	3,152
Number of Active Retirants		7	7	8	5	2	29

REVENUES BY SOURCE
(In Thousands)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EMPLOYEE CONTRIBUTIONS	$ 5,996	$ 4,690	$ 3,456	$ 3,824	$ 3,991	$ 4,192	$ 4,483	$ 4,680	$ 4,750	$ 4,643
EMPLOYER CONTRIBUTIONS	5,771	921	-	-	-	-	-	-	-	-
INVESTMENT INCOME	95,355	123,196	85,382	86,101	(43,180)	(48,168)	25,645	120,679	83,471	100,087
TOTAL	$107,122	$ 128,807	$ 125,001	$ 89,925	$ (39,189)	$ (43,976)	$ 30,128	$125,359	$ 88,221	$ 104,730

EXPENSES BY TYPE
(In Thousands)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
PROFESSIONAL & ADMINISTRATIVE	$ 431	$ 361	$ 393	$ 447	$ 481	$ 486	$ 530	$ 535	$ 642	$ 798
REFUNDS	1,712	975	1,402	1,013	1,443	1,349	1,282	710	1,026	1,218
BENEFITS	15,213	16,143	18,086	21,623	23,493	27,814	27,964	26,549	26,444	29,410
TOTAL	$ 17,356	$ 17,479	$ 19,881	$ 23,083	$ 25,417	$ 29,649	$ 29,776	$ 27,794	$ 28,112	$ 31,426

Retired Members by Type of Benefit
As of June 30, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 - $1,000	198	95	29	74
$1,001 - $2,000	535	304	103	128
$2,001 - $3,000	325	278	22	25
$3,001 - $4,000	125	114	7	4
$4,001 - $5,000	46	39	5	2
$5,001 - $6,000	13	12	0	1
$6,001 - $7,000	4	3	1	0
> $7,000	4	3	1	0
Total	1250	848	168	234

Option Selected** Unmodified	Option 1	Option 2	Option 3
123	49	20	6
289	184	49	13
179	92	32	22
61	40	17	7
29	9	5	3
8	0	4	1
2	1	0	1
3	0	1	0
694	375	128	53

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

**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

Data Source: PensionGold Administration System

Benefit Expenses by Type
(dollars in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Service Retiree Payroll	$ 13.8	$ 14.5	$ 16.2	$ 19.3	$ 21.3	$ 25.2	$ 25.3	$ 24.0	$ 24.2	$ 26.6
Disability Retiree Payroll	1.4	1.6	1.9	2.3	2.2	2.6	2.7	2.5	2.3	2.8
Refunds	1.7	1.0	1.4	1.0	1.4	1.3	1.3	0.7	1.0	1.2
Total Benefit Expenses	$ 16.9	$ 17.1	$ 19.5	$ 22.6	$ 24.9	$ 29.1	$ 29.3	$ 27.2	$ 27.5	$ 30.6

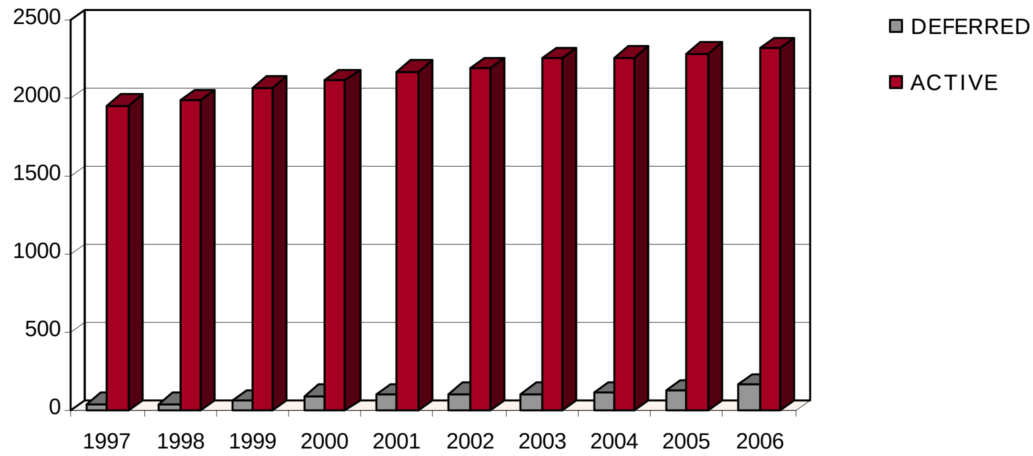
Active Deferred Members

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Active Vested	936	983	1,411	1,400	1,446	1,443	1,468	1,536	1,583	1,629
Active Non Vested	1,017	1,005	659	712	725	743	786	724	704	689
Deferred	51	50	68	100	106	113	114	123	132	174
Total	2,004	2,038	2,138	2,212	2,277	2,299	2,368	2,383	2,419	2,492

Retired Members

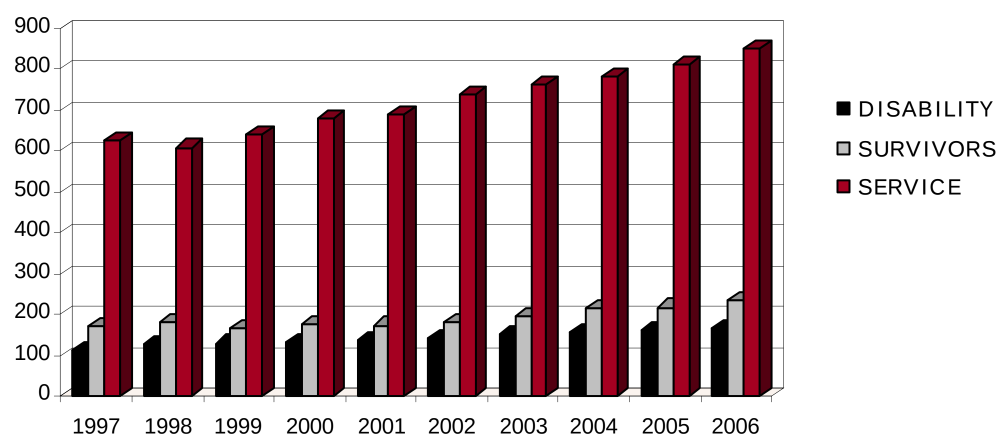
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Service	626	608	639	679	689	737	760	781	812	848
Disability	115	127	131	135	138	144	152	158	164	168
Survivors	174	181	166	177	175	183	195	215	219	234
TOTAL	915	916	936	991	1,002	1,064	1,107	1,154	1,195	1,250

Membership History (Active and Deferred)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
DEFERRED	51	50	68	100	106	113	114	123	132	174
ACTIVE	1,953	1,988	2,070	2,112	2,171	2,186	2,254	2,260	2,287	2,318
TOTAL	2,004	2,038	2,138	2,212	2,277	2,299	2,368	2,383	2,419	2,492

Schedule of Retired Members by Type of Benefit



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
DISABILITY	115	127	131	135	138	144	152	158	164	168
SURVIVORS	174	181	166	177	175	183	195	215	219	234
SERVICE	626	608	639	679	689	737	760	781	812	848
TOTAL	915	916	936	991	1,002	1,064	1,107	1,154	1,195	1,250

Summary of Active Participants

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1988	1,600	$ 37,321,719	$ 23,326	0.00%
1989	1,752	44,520,591	25,411	8.94%
1990	1,868	50,822,514	27,207	7.07%
1991	1,879	52,133,387	27,745	1.98%
1992	1,879	62,422,933	33,221	19.74%
1993	2,016	66,199,898	32,837	-1.16%
1994	1,966	62,221,292	31,649	-3.62%
1995	1,893	63,613,482	33,605	6.18%
1996	1,927	65,084,621	33,828	0.66%
1997	1,953	69,115,258	35,389	4.62%
1998	1,988	69,986,473	35,204	-0.52%
1999	2,068	74,529,074	36,039	2.37%
2000	2,112	81,285,066	38,487	6.79%
2001	2,171	85,715,989	39,482	2.59%
2002	2,186	89,275,955	40,840	3.44%
2003	2,254	95,602,991	42,415	3.86%
2004	2,260	99,251,574	43,917	3.54%
2005	2,287	102,001,794	44,601	1.56%
2006	2,318	106,482,630	45,937	3.00%

Summary of Retired Membership

YEAR	AT END OF YEAR	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
1988	637	$ 8,315,552	$ 13,054	14.54%
1989	723	8,784,048	12,149	-6.93%
1990	751	9,324,265	12,416	2.19%
1991	749	10,015,617	13,372	7.70%
1992	784	10,741,680	13,701	2.46%
1993	811	11,621,551	14,330	4.59%
1994	836	12,437,981	14,878	3.82%
1995	852	13,252,179	15,554	4.54%
1996	907	14,353,364	15,825	1.74%
1997	915	15,213,149	16,626	5.06%
1998	916	16,142,881	17,623	6.00%
1999	936	18,085,727	19,322	9.64%
2000	991	21,622,858	21,819	12.92%
2001	1,002	23,492,505	23,446	7.45%
2002	1,064	27,814,021	26,141	11.50%
2003	1,107	27,963,534	25,261	-3.37%
2004	1,154	26,548,396	23,006	-8.93%
2005	1,195	26,444,153	22,129	-3.81%
2006	1,250	29,409,733	23,528	6.32%

Member Contribution Rates

VALUATION DATE	EFFECTIVE DATE	BASIC AT ENTRY AGE 20	25	30
JUNE 30, 2005	7/1/06- 6/30/07	2.90%	3.48%	4.25%
JUNE 30, 2004	7/1/05- 6/30/06	2.90%	3.48%	4.25%
JUNE 30, 2003	7/1/04 - 6/30/05	3.31%	3.90%	4.69%
JUNE 30, 2002	7/1/03 - 6/30/04	3.31%	3.90%	4.69%
JUNE 30, 2001	7/1/02 - 6/30/03	3.31%	3.91%	4.70%
JUNE 30, 2000	7/1/01 - 6/30/02	3.31%	3.91%	4.70%
JUNE 30, 1999	7/1/00 - 6/30/01	3.31%	3.91%	4.70%
JUNE 30, 1998	7/1/99 - 6/30/00	3.47%	4.06%	4.85%
JUNE 30, 1997	7/1/98 - 6/30/99	3.34%	3.91%	4.67%
JUNE 30, 1996	7/1/97 - 6/30/98	3.34%	3.91%	4.67%
JUNE 30, 1994	7/1/95 - 6/30/96	3.86%	3.95%	4.60%
JUNE 30, 1992	7/1/93 - 6/30/95	4.32%	4.86%	5.58%
JUNE 30, 1990	7/1/91 - 6/30/93	4.21%	4.74%	5.43%
JUNE 30, 1988	7/1/89 - 6/30/91	4.21%	4.74%	5.43%
JUNE 30 1985	7/1/86 - 6/30/89	4.62%	5.13%	5.81%
JUNE 30, 1982	7/1/84 - 6/30/86	4.62%	5.13%	5.81%
JUNE 30, 1979	4/16/80 - 6/30/84	4.23%	4.58%	5.21%
JUNE 30, 1976	7/01/77 - 4/15/80	3.85%	4.35%	5.04%

City Contribution Rates

VALUATION DATE	EFFECTIVE DATE	CITY RATE BASIC	CITY RATE COL	TOTAL CITY RATE	PREFUNDED ACTUARIAL ACCRUED LIAB. (PAAL)	PAAL ADJUSTED CONTRIBUTION RATES
JUNE 30, 2005	7/1/06 - 6/30/07	7.39%	3.12%	10.51%	-10.51%	0.00%
JUNE 30, 2004	7/1/05 - 6/30/06	7.31%	3.11%	10.42%	-10.42%	0.00%
JUNE 30, 2003	7/1/04 - 6/30/05	7.73%	3.33%	11.06%	-11.06%	0.00%
JUNE 30, 2002	7/1/03 - 6/30/04	8.33%	3.41%	11.74%	-11.74%	0.00%
JUNE 30, 2001	7/1/02 - 6/30/03	8.53%	3.44%	11.97%	-11.97%	0.00%
JUNE 30, 2000	7/1/01 - 6/30/02	8.49%	3.44%	11.93%	-11.93%	0.00%
JUNE 30, 1999	7/1/00 - 6/30/01	7.98%	3.53%	11.51%	-11.51%	0.00%
JUNE 30, 1998	7/1/99 - 6/30/00	8.09%	3.57%	11.66%	-11.66%	0.00%
JUNE 30, 1997	71/98 -6/30/99	6.83%	3.50%	10.33%	-9.01%	1.32%
JUNE 30, 1996	7/1/97 -6/30/98	6.41%	3.46%	9.87%	-8.09%	1.78%
JUNE 30, 1994	7/1/96 - 6/30/97	6.29%	3.33%	9.62%	0%	9.62%
JUNE 30, 1992	7/1/94 - 6/30/95	8.52%	10.88%	19.40%	0%	19.40%
JUNE 30, 1992	7/1/93 - 7/1/94	8.34%	10.12%	18.46%	0%	18.46%
JUNE 30, 1990	7/1/91 - 6/30/93	11.72%	5.80%	17.52%	0%	17.52%
JUNE 30, 1988	7/1/89 - 6/30/91	11.92%	6.38%	18.30%	0%	18.30%
JUNE 30, 1985	7/1/87 - 6/30/89	10.47%	8.63%	19.10%	0%	19.10%
JUNE 30, 1985	7/1/85 - 6/30/87	10.47%	6.84%	17.31%	0%	17.31%
JUNE 30, 1982	7/1/84 - 6/30/85	10.10%	8.14%	16.70%	0%	16.70%
JUNE 30, 1979	3/1/82 - 6/30/84	9.67%	6.36%	16.03%	0%	16.03%
JUNE 30, 1979	4/16/80 - 2/28/82	12.56%	6.84%	15.11%	0%	15.11%
JUNE 30, 1976	7/1/77 - 4/15/80	12.41%	2.55%	14.96%	0%	14.96%

Due to surplus earnings in the System, a prefunded actuarial accrued liability emerged as of the actuarial report dated June 30, 1996. The City's normal contributions have been actuarially offset by the prefunded actuarial accrued liability.

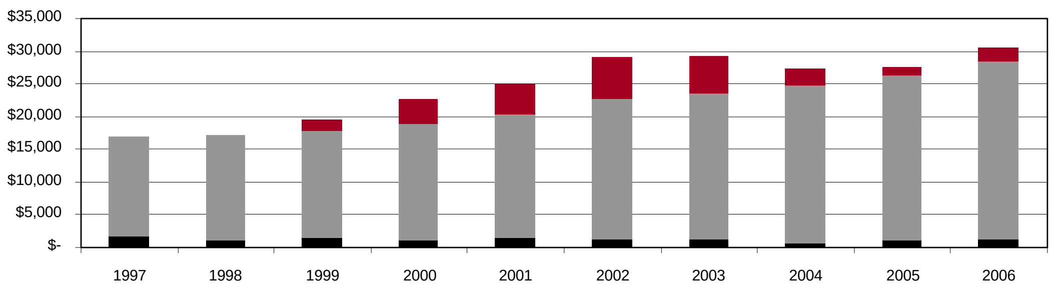
Data Source: Annual Actuarial Valuation Reports

Economic Assumptions and Funding Method

Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2005	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2004	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2003	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2002	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2000	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1999	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1998	8.25%	.30 - 8%	4.25%	4.75%	Projected Unit Credit
June 30, 1997	8.25%	.25 - 8%	5%	4.75%	Projected Unit Credit
June 30, 1996	8.25%	.25 - 8%	5%	4.5%	Projected Unit Credit
June 30, 1994	8%	.25 - 8%	5%	3 - 5%	Projected Unit Credit
June 30, 1992	8%	6%	5%	5%	Projected Unit Credit
June 30, 1990	8%	6%	5%	5%	Projected Unit Credit
June 30, 1988	8%	6%	5%	5%	Projected Unit Credit
June 30, 1985	7.50%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
June 30, 1982	7%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
Marples	8-1/2%	Merit +6%	5%	6%	Aggregate
June 30, 1979	6-1/2%	Merit 3-1/2%	3-1/2%	3-1/2%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1976	6%	Merit +1%	5% with partial funding	1%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1972	4-3/4	Merit Only	Not recognized	None	Entry Age Normal

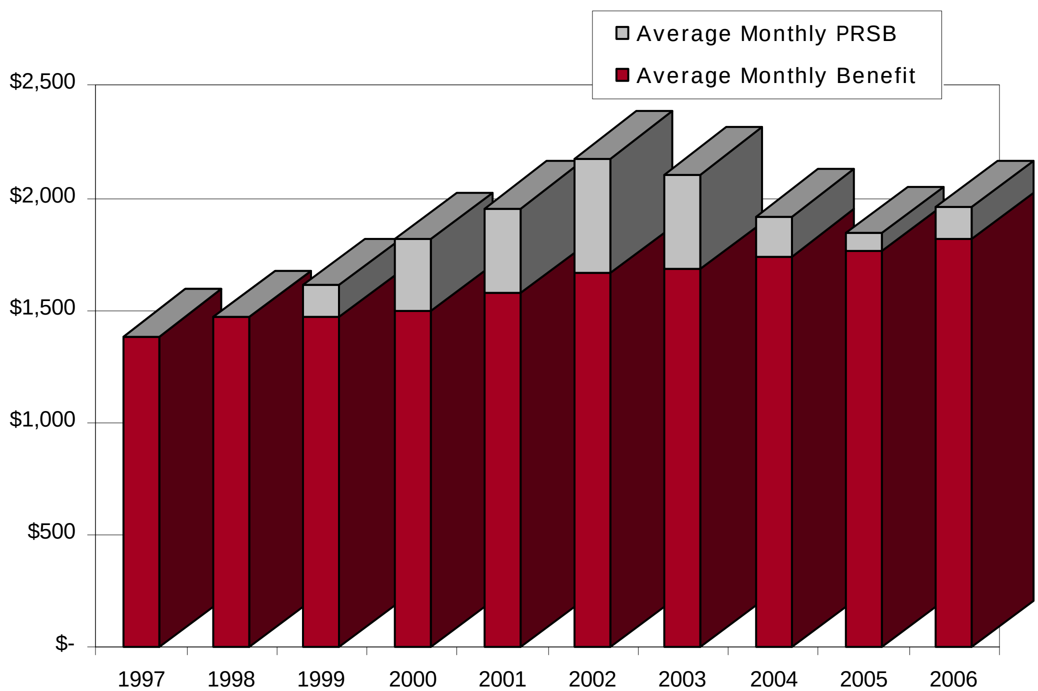
Source: Gabriel Roeder Smith & Co/ 06/30/05 Annual Actuarial Valuation/ Actuarial Assumptions (pg. 54)

BENEFITS AND WITHDRAWALS PAID
(In Thousands)



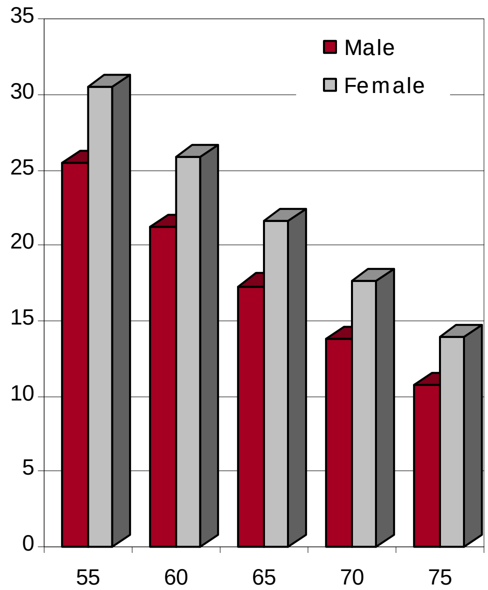
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
WITHDRAWALS	$ 1,721	$ 975	$ 1,403	$ 1,013	$ 1,443	$ 1,349	$ 1,283	$ 710	$ 1,026	$ 1,219
BENEFITS	15,213	16,143	16,505	17,799	18,963	21,269	22,332	24,118	25,287	27,261
PRSB	-	-	1,581	3,824	4,530	6,545	5,632	2,430	1,157	2,149

AVERAGE MONTHLY BENEFITS TO PARTICIPANTS
(In Thousands)



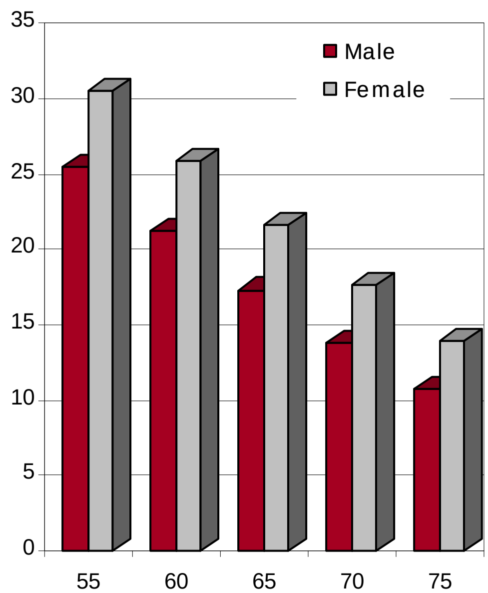
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Average Monthly Benefit	$ 1,386	$ 1,469	$ 1,469	$ 1,497	$ 1,577	$ 1,666	$ 1,681	$ 1,742	$ 1,763	$ 1,817
Average Monthly PRSB	-	-	141	322	377	513	424	175	81	143
Average Monthly Benefit Total	$ 1,386	$ 1,469	$ 1,610	$ 1,818	$ 1,954	$ 2,178	$ 2,105	$ 1,917	$ 1,844	$ 1,961

EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Disabled Retirees 1984 Disability Table (x-3) for General Members	
Age	MEMBERS
45	25.2
50	22.6
55	20.2
60	17.8
65	15.5
70	13.2
75	10.8

EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Age and Service Retirees 1994 GAM Male 1994 GAM Female (x-1)		
Age	Male	Female
55	25.5	30.5
60	21.2	25.9
65	17.3	21.6
70	13.8	17.6
75	10.7	13.9

Source: Gabriel Roeder Smith and Company

Compliance Section

Independent Auditor's Internal Control Letter

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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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 Employees' Retirement System
Fresno, California

We have audited the basic financial statements of the City of Fresno Employees' Retirement System as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. 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
In planning and performing our audit, we considered the City of Fresno Employees' Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Fresno Employees' 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*.

This report is intended for the information of the management and the Board of Retirement. 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 PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 30, 2006