

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
(A PENSION TRUST FUND OF THE CITY OF FRESNO)  
FRESNO, CALIFORNIA



*caring for your future...*

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
(a Pension Trust Fund of the City of Fresno, California)

# Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

**STANLEY L. MCDIVITT**  
RETIREMENT ADMINISTRATOR

**KATHLEEN RILEY**  
ASSISTANT RETIREMENT ADMINISTRATOR

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# 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 THROUGH 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 ALSO BE ACCOUNTABLE AND ACT IN ACCORDANCE WITH THE LAW.

## GOALS

- TO CREATE AN ENVIRONMENT IN WHICH BOARD MEMBERS CAN MAXIMIZE THEIR PERFORMANCE AS TRUSTEES.
- TO IMPROVE THE LEVEL OF BENEFITS AND DELIVERY OF SERVICES PROVIDED TO MEMBERS AND EMPLOYEES.
- TO IMPROVE COMMUNICATIONS WITH MEMBERS AND THE EMPLOYER.
- TO ATTRACT, DEVELOP, AND RETAIN COMPETENT AND PROFESSIONAL STAFF.
- TO ACHIEVE AND MAINTAIN TOP QUARTILE INVESTMENT PERFORMANCE AS MEASURED BY THE PUBLIC FUND UNIVERSE.



# 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, 2004

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.



*Nancy L. Zielle*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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# INTRODUCTORY SECTION





## LETTER OF TRANSMITTAL

October 10, 2005



*Stanley L. McDivitt*  
Retirement Administrator

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, 2005 and 2004.

As the investment markets have improved over the past two years, the Retirement Board has navigated an investment strategy that continues to provide outstanding results. According to the Board's actuary, the System has the highest funded ratio (133.8 percent) of any public retirement system in the State of California. The System experienced a total investment gain of 10.94 percent for the fiscal year ended June 30, 2005, exceeding the System's actuarial interest rate assumption of 8.25 percent by 2.69 percent and the System's benchmark return of 10.40 percent by 0.54 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 9.94 percent exceeding its policy benchmarks for the period by 0.91 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**

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The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Employees Retirement System for the years ended June 30, 2005 and 2004 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.

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
SYSTEM ADMINISTRATOR'S LETTER OF TRANSMITTAL

The CAFR consists of six sections:

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

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 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**

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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 members representing the manual workers of the System, and one (1) employee who is elected by the members representing 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**

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During the fiscal year 2005, the Board, jointly with the Fire and Police Retirement Board prudently evaluated the performance of its portfolio managers, implemented the Boards' updated asset allocation plan and adopted new policies for High Yield Fixed Income and Public Real Estate Investment asset classes. The Boards implemented its large cap core equity asset allocation plan which included the termination of two underperforming managers and the elimination of large cap growth and large cap value equity managers. To complete the reallocation to the large cap core asset class, the Boards hired one enhanced large cap core equity manager and three active large cap core equity managers. Finally, the Boards hired two Real Estate Investment managers ("REIT's") and a High Yield Fixed Income manager to manage funds in these two new asset classes.

## **PROFESSIONAL SERVICES**

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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**

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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, 2004. 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 five 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**

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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, 2004, the funded ratio of the Employees Retirement System was 133.8 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, 2004 amounted to \$554,366,149. The actuarial value of assets at June 30, 2004 amounted to \$741,766,367. The market value of the assets at June 30, 2004 amounted to \$812,456,930.

The Board engages an independent actuarial consulting firm, Gabriel, Roeder, Smith and Company, to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration.

## **ACCOUNTING SYSTEM & REPORTS**

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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 and GASB No. 40.

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

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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, 2005 and June 30, 2004, the System's investments provided a 10.94 percent and 17.70 percent rate of return, respectively. The System's annualized rate of return over the last three years was 10.85 percent; for the past five years the annualized return was 4.10 percent and for the past ten years, the annualized return was a strong 9.94 percent.

## ACKNOWLEDGMENTS

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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

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
INTRODUCTORY SECTION

# CITY OF FRESNO EMPLOYEES RETIREMENT BOARD



CHAIRMAN  
WILLIAM QUICK  
*Elected, 4-year term*



MEMBER  
KEN NERLAND  
*Mayor Appointed*



MEMBER  
MARVELL FRENCH  
*Appointed by Board*



VICE CHAIR  
CARLA LOMBARDI  
*Mayor Appointed*



MEMBER  
FRANK BALEKIAN  
*Elected, 4-year term*

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# CITY OF FRESNO RETIREMENT ADMINISTRATIVE STAFF



**FRONT ROW**

Pattie Laygo, Executive Secretary; Karen Burrington, Senior Administrative Clerk;  
Karen Rolle, Accountant-Auditor; Patricia Basquez, Retirement Counselor

**BACK ROW**

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



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

**ORGANIZATION OF  
EMPLOYEES RETIREMENT SYSTEM**

**ADMINISTRATION:** The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xi for outside consultants and page xii for investment managers and page 44 for a schedule of brokerage commissions.)

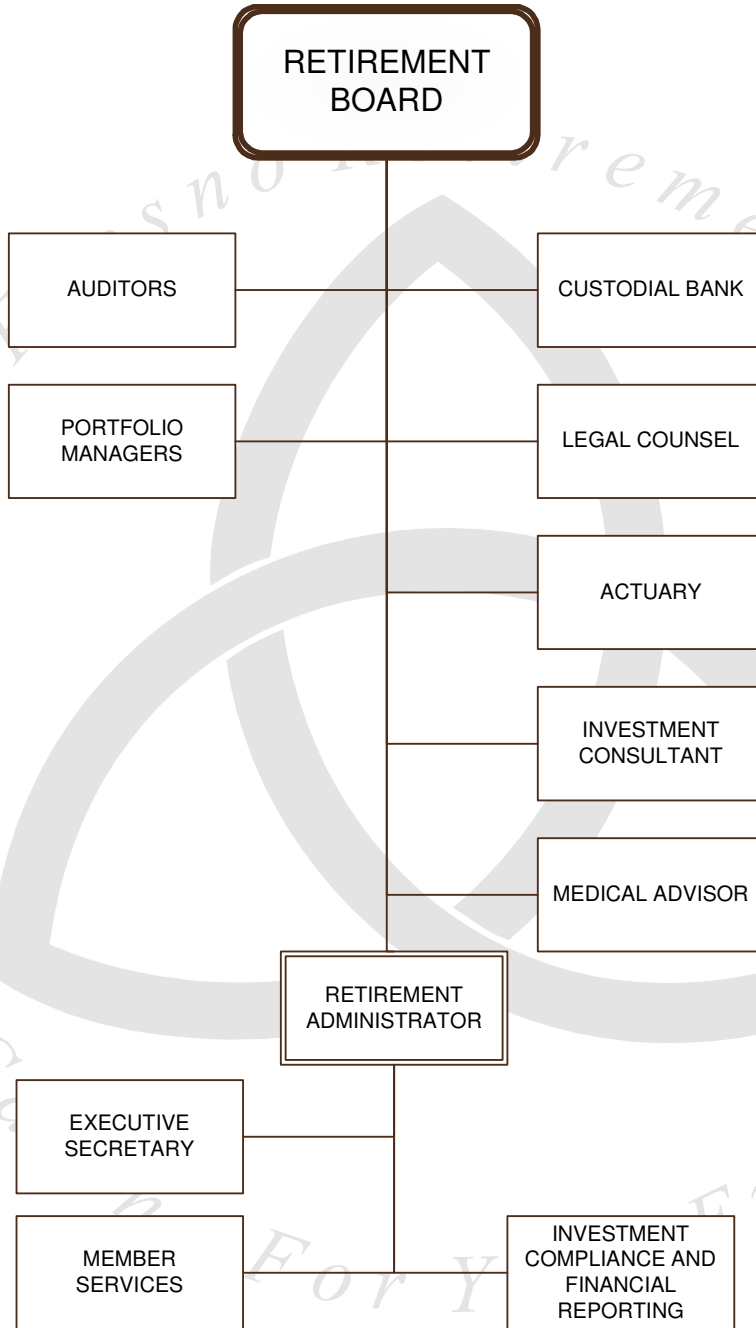
**MEMBER SERVICES:** This section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership 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 SECRETARY:** The position is responsible for providing administrative and clerical support services for the Board and the retirement staff.

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

**ADMINISTRATIVE ORGANIZATION STRUCTURE**



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
INTRODUCTORY SECTION

# PROFESSIONAL SERVICES

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

GABRIEL, ROEDER, SMITH AND COMPANY  
San Diego, California

MEDICAL ADVISOR

BENCHMARK MEDICAL CONSULTANTS  
Sacramento, California

INDEPENDENT AUDITOR

Brown Armstrong Paulden McCown Starbuck and Keeter  
Accountancy Corporation  
Bakersfield, California

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# PORTFOLIO MANAGERS

## DOMESTIC EQUITY

### **Large Cap**

Alliance Capital Mgt, 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**

Invesco Global Asset Mgt (N.A.), Atlanta, GA  
Pyrford International Plc, London, England

### **Emerging Market**

Genesis Asset Managers Limited  
London, England

## FIXED INCOME

Deutsche Asset Mgt Inv. Svcs Ltd., Philadelphia, PA  
Dodge & Cox, San Francisco, CA  
Prudential Investment Management, 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



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## FINANCIAL SECTION



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

## *INDEPENDENT AUDITOR'S REPORT*



**BROWN ARMSTRONG  
PAULDEN McCOWN STARBUCK & KEETER**  
CERTIFIED PUBLIC ACCOUNTANTS

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Chris M. Thornburgh, CPA

Eric H. Xin, MBA, CPA  
Lynn R. Krausse, CPA, MST  
Bradley M. Hankins, CPA  
Thomas M. Young, CPA  
Rosalia Flores, CPA  
Connie M. Perez, CPA  
Sharon Jones, CPA, MST  
Diana Branthoover, CPA  
Matthew Gilligan, CPA  
Terri Swan, CPA  
Dominic Brown, CPA  
Ryan Johnson, CPA

### 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, 2005 and 2004, 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, 2005 and 2004, 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 2005, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and amendment of GASB Statement No. 3.

The information identified as management's discussion and analysis and Required Supplementary Information (RSI) in the financial section of 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.

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

*INDEPENDENT AUDITOR'S REPORT*

The information included in the Investment, Actuarial, and Statistical Sections listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on these sections.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005, 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 & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 9, 2005

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

## 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, 2005. 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 2005, the assets of the System exceed its liabilities by \$872,565,085. 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 \$60,108,155 or 7.4 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, 2004, the date of the last actuarial valuation, the funded ratio for the System was 133.8 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.34 of assets available for payment as of that date.
- ◆ Revenues (additions to Plan Net Assets) for the fiscal year were \$88,220,832, which includes member contributions of \$4,749,521 and an investment gain of \$83,471,311 including securities lending.
- ◆ Expenses (deductions in Plan Net Assets) slightly increased from \$27,794,119 to \$28,112,677 over the prior year, or approximately 1.2 percent. The increase was primarily due to an increase in retirement benefits 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.



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

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, 2004 was 133.8 percent, which means the System's fund has approximately \$1.34 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 2005 by \$872,565,085. 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 2005, net assets increased by 7.4 percent due to the continued performance of the investment markets.

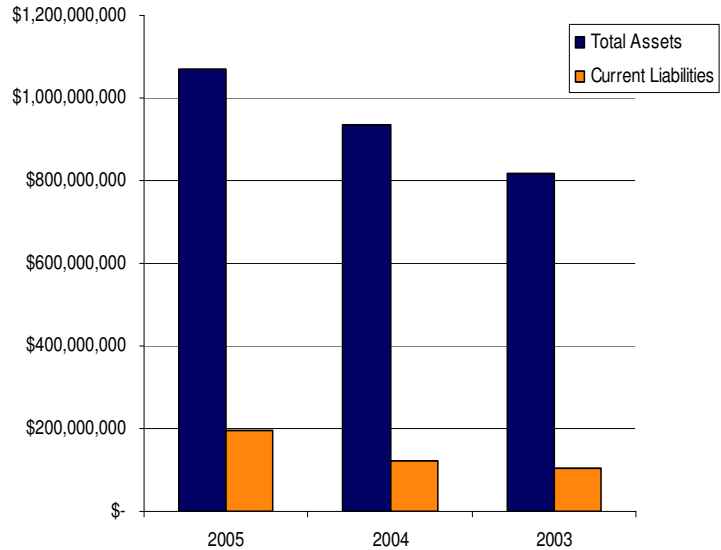
CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

The System averaged an annualized investment return of 9.94 percent over the past ten years and has exceeded the actuarial assumption of 8 ¼ 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.



**EMPLOYEES RETIREMENT SYSTEM NET ASSETS (TABLE I)  
FOR THE YEARS ENDED JUNE 30, 2005, 2004, AND 2003**

	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%
<b>Total Assets</b>	<b>1,069,190,910</b>	<b>934,704,149</b>	<b>134,486,761</b>	<b>14.39%</b>
Current Liabilities	196,625,825	122,247,219	74,378,606	60.84%
<b>Net Assets</b>	<b>\$ 872,565,085</b>	<b>\$ 812,456,930</b>	<b>\$ 60,108,155</b>	<b>7.40%</b>

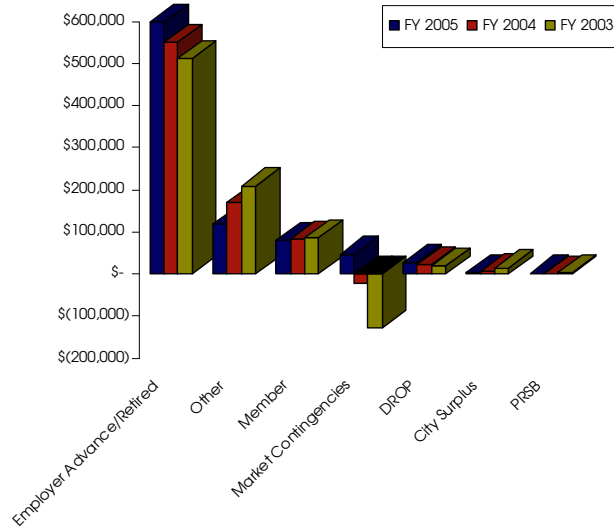
	FY 2004	FY 2003	FY2004 Increase/ (Decrease) Amount	FY 2004 Increase/ (Decrease) Percent
Current and Other Assets	\$ 118,005,409	\$ 92,731,120	\$ 25,274,289	27.26%
Investments at Fair Value	816,698,740	726,610,439	90,088,301	12.40%
<b>Total Assets</b>	<b>934,704,149</b>	<b>819,341,559</b>	<b>115,362,590</b>	<b>14.08%</b>
Current Liabilities	122,247,219	104,449,856	17,797,363	17.04%
<b>Net Assets</b>	<b>\$ 812,456,930</b>	<b>\$ 714,891,703</b>	<b>\$ 97,565,227</b>	<b>13.65%</b>

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)

**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.



**EMPLOYEES SYSTEM'S RESERVES (TABLE 2)**  
 FOR THE YEARS ENDED JUNE 30, 2005, 2004 AND 2003  
 (IN THOUSANDS)

	2005	2004	2003
Employer Advance/Retired Reserves	\$ 598,203	\$ 551,716	\$ 512,846
Other Reserves	117,980	169,050	209,749
Member Reserves	79,677	82,969	86,054
Market Contingencies Reserves	45,765	(21,729)	(129,034)
DROP Reserves	26,629	22,947	19,488
City Surplus Reserves	3,365	7,151	13,689
PRSB Reserves	946	352	2,100
<b>Net Assets Available for Benefits</b>	<b>\$ 872,565</b>	<b>\$ 812,456</b>	<b>\$ 714,892</b>

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)**

**Capital Assets**

Because the Retirement System leased office space and furniture from the City of Fresno and used the City's computer services and Intranet, as of June 30, 2005 the System did not have any significant capital assets.

**System's Activities**

A steady growth in the real estate and equity market(s), increased net assets of the System by \$60,108,155 for the fiscal year resulting in a 7.4 percent increase in net assets for the fiscal year ended June 30, 2005. 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, 2005 totaled \$88,220,832.

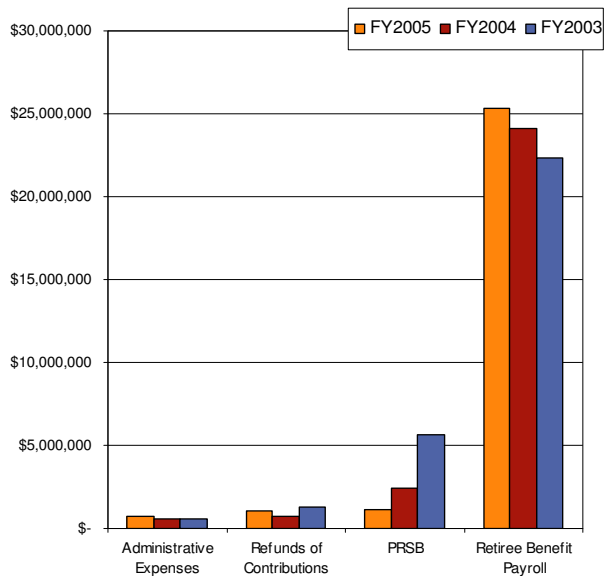
For the fiscal year ended June 30, 2005, overall revenues had decreased by \$37,138,514 or 29.6 percent from the prior year, primarily due to the performance of the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2005.

**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, 2005, totaled \$28,112,677 which was an increase of 1.1 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.



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**CHANGES IN PLAN NET ASSETS (CONDENSED)**

**FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	FY 2005	FY 2004	FY 2005 Increase/(Decrease) Amount	FY 2005 Increase/(Decrease) Percent
<b>Additions</b>				
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%
<b>Total Additions</b>	<b>\$ 88,220,832</b>	<b>\$ 125,359,346</b>	<b>\$ (37,138,514)</b>	<b>-29.63%</b>
<b>Deductions</b>				
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%
<b>Total Deductions</b>	<b>28,112,677</b>	<b>27,794,120</b>	<b>318,557</b>	<b>1.15%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>60,108,155</b>	<b>97,565,226</b>	<b>(37,457,071)</b>	<b>-38.39%</b>
<b>Beginning Plan Net Assets</b>	<b>812,456,930</b>	<b>714,891,703</b>	<b>97,565,227</b>	<b>13.65%</b>
<b>Ending Plan Net Assets</b>	<b>872,565,085</b>	<b>812,456,929</b>	<b>60,108,156</b>	<b>7.40%</b>

**FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	FY 2004	FY 2003	FY 2004 Increase/(Decrease) Amount	FY 2004 Increase/(Decrease) Percent
<b>Additions</b>				
Employee Contributions	\$ 4,680,446	\$ 4,482,742	\$ 197,704	4.41%
Net Investment Income	120,678,900	25,645,283	95,033,617	-370.57%
<b>Total Additions</b>	<b>\$ 125,359,346</b>	<b>\$ 30,128,025</b>	<b>\$ 95,231,321</b>	<b>-316.09%</b>
<b>Deductions</b>				
Retiree Benefit Payroll	\$ 24,118,492	\$ 22,331,874	\$ 1,786,618	8.00%
Refunds of Contributions	710,253	1,282,608	(572,355)	-44.62%
PRSB	2,429,904	5,631,660	(3,201,756)	-56.85%
Administrative Expenses	535,471	529,915	5,556	1.05%
<b>Total Deductions</b>	<b>\$ 27,794,120</b>	<b>\$ 29,776,057</b>	<b>\$ (1,981,937)</b>	<b>-6.66%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>97,565,226</b>	<b>351,968</b>	<b>97,213,258</b>	<b>27619.91%</b>
<b>Beginning Plan Net Assets</b>	<b>714,891,703</b>	<b>714,539,735</b>	<b>351,968</b>	<b>0.05%</b>
<b>Ending Plan Net Assets</b>	<b>812,456,929</b>	<b>714,891,703</b>	<b>97,565,226</b>	<b>13.65%</b>

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

#### **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

**FINANCIAL SECTION****STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS  
JUNE 30, 2005 AND 2004**

	2005	2004
<b>Assets:</b>		
Cash (Note 6)	\$ 1,776,233	\$ 2,303,156
Receivables:		
Interest and Dividends	3,316,282	2,372,121
Receivables for Investments Sold	27,289,335	4,548,869
Other Receivables	19,745,459	14,124,024
Total Receivables	50,351,076	21,045,014
Investments at Fair Value (Note 6)		
(Cost of \$780,052,881 in 2005 and \$730,887,335 in 2004)		
Short Term Investments	30,207,898	21,897,886
Domestic Equity	328,850,758	376,525,549
Corporate Bonds	104,797,673	128,376,482
Government Bonds	145,371,616	67,695,319
International Equity	149,292,740	129,316,041
Emerging Market Equity	28,406,990	26,324,574
Real Estate	81,260,711	66,562,889
Total Investments	868,188,386	816,698,740
Collateral Held for Securities Lent (Note 8)	148,752,747	94,657,239
Fixed Assets	31,601	-
Prepaid Expenses	90,867	-
<b>Total Assets</b>	<b>1,069,190,910</b>	<b>934,704,149</b>
<b>Liabilities</b>		
Collateral Held for Securities Lent (Note 8)	148,752,747	94,657,239
Prepaid Employer Contributions (Note 4)	4,871,050	4,499,815
Payable for Investments Purchased	22,802,347	7,956,924
Payable for Foreign Currency Purchased	19,201,829	14,184,676
Other Liabilities	997,852	948,565
<b>Total Liabilities</b>	<b>196,625,825</b>	<b>122,247,219</b>
<b>Net Assets Held In Trust for Benefits (Note 5)</b>	<b>\$ 872,565,085</b>	<b>\$ 812,456,930</b>

(A schedule of funding progress is included on page 30)

The notes to the financial statements on pages 14 to 29 are an integral part of this statement.

**FINANCIAL SECTION****STATEMENT OF CHANGES IN PLAN NET ASSETS  
AVAILABLE FOR BENEFITS  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
<b>Additions:</b>		
Contributions:		
System Members	\$ 4,749,521	\$ 4,680,446
Total Contributions	4,749,521	4,680,446
Investment Income:		
Net Appreciation in Value of Investments	67,735,025	107,305,112
Interest	11,811,447	9,657,101
Dividends	7,933,192	7,556,486
Other Investment Related	115,588	205,923
Total Investment Income	87,595,252	124,724,622
Less: Investment Expense	(4,438,801)	(4,280,842)
Total Net Investment Income	83,156,451	120,443,780
Securities Lending Income		
Securities Lending Earnings (Note 8)	3,001,834	786,506
Less: Securities Lending Expense	(2,686,974)	(551,386)
Net Securities Lending Income	314,860	235,120
<b>Total Additions</b>	<b>88,220,832</b>	<b>125,359,346</b>
<b>Deductions:</b>		
Benefit Payments	25,287,091	24,118,492
Post Retirement Supplemental Benefits	1,157,062	2,429,904
Refunds of Contributions	1,026,175	710,252
Administrative Expense	642,349	535,471
<b>Total Deductions</b>	<b>28,112,677</b>	<b>27,794,119</b>
<b>Net Increase</b>	<b>60,108,155</b>	<b>97,565,227</b>
Net Assets Available for Benefits Beginning of Year	812,456,930	714,891,703
<b>End of Year</b>	<b>\$ 872,565,085</b>	<b>\$ 812,456,930</b>

The notes to the financial statements on page 14 to 29 are an integral part of this statement.



# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

I. 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:

	2005	2004
Active Members		
Vested	1,583	1,536
Non-vested	704	724
Total Active Members	2,287	2,260
Retirees and Beneficiaries of Deceased Retirees		
Currently Receiving Benefits	1,195	1,154
Inactive Vested Members	132	118
<b>Total</b>	<b>3,614</b>	<b>3,532</b>

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 benefits.

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

1. DESCRIPTION OF THE SYSTEM (CONTINUED)

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.

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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.

##### RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to classifications followed for 2005. These reclassifications had no affect upon reported net assets, and are of a normal recurring nature.

#### 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

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 3. CONTRIBUTIONS (CONTINUED)

of any unfunded liability. The City has agreed to deposit an estimated contribution amount with the Retirement System at the beginning of the fiscal year, discounted at the actuarially-presumed interest rate. However, excess earnings and prepaid City contributions in the System have funded the fiscal year 2005 and 2004 City contributions.

Any variance between contributions needed and contributions made is adjusted in the following fiscal year. 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 \$4,749,521 (\$ 0 employer and \$4,749,521 employee) were made in fiscal year 2005, based on an actuarial valuation determined as of June 30, 2003, which became effective for the year ended June 30, 2005. Currently, the Employer contribution rate is 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 4.66 percent, respectively, of the fiscal year 2005 covered payroll.

Contributions aggregating \$4,680,446 (\$ 0 employer and \$4,680,446 employee) were made in fiscal year 2004, based on actuarial valuations determined as of June 30, 2002, which became effective for the year ended June 30, 2004. 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 4.72 percent, respectively, of the fiscal year 2004 covered payroll.

#### CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The employer's contributions to the System for 2005, 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, 2003, as follows:

# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

3. CONTRIBUTIONS (CONTINUED)

Normal Cost:	
Contribution Amount	\$ 11,281,398
Prefunded Actuarial Accrued Liability Applied	(11,281,398)
Net Employer Contributions	\$ -
<b>Pensionable Payroll Amount (Fiscal Year 2005)</b>	<b>\$ 102,001,794</b>

4. PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited \$ 5,524,810, of which \$4,871,050 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 2005 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, 2004	\$ 4,499,815
Amount Earned During Fiscal Year 2005	0
Interest Credited for Fiscal Year 2005	371,235
<b>Balance at June 30, 2005</b>	<b>\$ 4,871,050</b>

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:

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 5. NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

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

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

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

POST RETIREMENT SUPPLEMENTAL 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.

**FINANCIAL SECTION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

5. NET ASSETS AVAILABLE FOR BENEFITS (CONTINUED)

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

The 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, 2005 and 2004 consisted of the following (in thousands):

	2005	2004
Employer Advance/Retired Reserves	\$ 598,203	\$ 551,716
Other Reserves	117,980	169,050
Active Member Reserves	79,677	82,969
Reserve for Market Contingencies	45,765	(21,729)
DROP Reserve	26,629	22,947
Reserve for City Surplus	3,365	7,151
Reserve for PRSB	946	352
<b>Net Assets Available for Benefits</b>	<b>\$ 872,565</b>	<b>\$ 812,456</b>

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.

# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

6. DEPOSITS AND INVESTMENTS (CONTINUED)

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 seventeen external investment managers, managing eighteen individual portfolios.

Investments at June 30, 2005 and 2004 consist of the following:

	2005	2004
<b>Investments at Fair Value</b>		
Domestic Equity	\$ 328,850,758	\$ 376,525,549
International Equity	149,292,740	129,316,041
Government Bonds	145,371,616	67,695,319
Corporate Bonds	104,797,673	128,376,482
Real Estate	81,260,711	66,562,889
Short Term Investments	30,207,898	21,897,886
Emerging Market Equity	28,406,990	26,324,574
<b>Total Investments at Fair Value</b>	<b>\$ 868,188,386</b>	<b>\$ 816,698,740</b>

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 / Mid Cap Equities	27	30	33
Small Capital Equities	8	10	12
International Equities	14	17	20
Emerging Market Equities	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%	



## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

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

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. The investment portfolio as of June 30, 2005, contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented five percent or more of the total investment 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 \$1,776,233 at June 30, 2005. 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, 2005.

# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

#### 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. 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
Government Bonds	\$ 57,625,734	AAA	3.94
Government Agencies	9,485,060	AAA	3.47
Municipal/provincial bonds	5,323,297	AA	9.17
Corporate Bonds	84,706,614	BBB	6.38
Government Mtg Backed	71,102,254	AAA	2.45
Gov't Issued Com Mtg Backed	388,336	AAA	1.79
Commercial Mtg Backed	5,415,422	AAA	4.25
Asset Backed	8,387,106	AA-	1.84
Non-government backed CMOs	6,288,530	AAA	2.76
Short Term Investments	24,527,914	AAA	0.08

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 listed to 5 percent of the portfolios with both limits subject to maintaining the overage average portfolio credit quality requirement of B1/B+.

# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2005 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

#### Foreign Currency Risk

The following positions represent the System's exposure to foreign currency risk as of June 30, 2005.

Equities:	
Base Currency:	Fair Value in USD
Australia - AUD	\$ 6,243,946
Brazilian Real - BRL	499,468
Canada - CAD	2,407,349
Swiss Franc - CHF	18,990,482
Columbian Peso - COP	43,439
Denmark - DKK	1,451,374
Egypt - EGP	1,641,931
Euro - EUR	43,806,470
Hong Kong - HKD	8,829,316
Hungary - HUF	306,664
Indonesia - IDR	1,704,708
Japan - JPY	21,224,549
South Korea - KRW	5,432,744
Mexico - MXN	1,688,454
Malaysia - MYR	672,770
Norway - NOK	871,448
Philippines - PHP	90,691
Sweden - SEK	960,141
Singapore - SGD	7,468,405
Thailand - THB	1,295,062
Turkey - TRY	632,435
United Kingdom - GBP	16,544,395
Zaire - ZAR	3,273,152
<b>Total Non-USD Equities (in USD)</b>	<b>\$ 146,079,393</b>

**FINANCIAL SECTION****NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2005 AND 2004

## 6. DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Cash Equivalents:	Fair Value in USD	
Egyptian Pound	\$	82,460
Euro		28,234
Hong Kong Dollar		724
Mexican Peso		51,035
Malaysian Ringgit		1,434
<b>Total Non-USD Cash (in USD)</b>	<b>\$</b>	<b>163,887</b>

Per section 5.4 (6) 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.

*Anyone wishing to review the System's complete Investment Objectives and Policy Statement may contact 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.

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 7. DERIVATIVES (CONTINUED)

- 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).

**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.

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

7. DERIVATIVES (CONTINUED)

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

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, 2005 had a weighted average duration of 28 days and an average yield of 3.17 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, 2005.

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

# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

8. SECURITIES LENDING (CONTINUED)

average term of the System's loans was approximately 97 days as of June 30, 2005.

Due to the nature of the securities lending program and Northern Trust's collateralization of loans at 102% and 105% 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.

The System's securities lending income is as follows:

	2005	2004
Gross Income	\$ 3,001,834	\$ 786,506
Expenses:		
Borrower Rebates	2,581,939	493,184
Bank Fees	105,035	58,202
Total Expenses	2,686,974	551,386
Net Income from Securities Lending	\$ 314,860	\$ 235,120

### FAIR VALUE OF LOANED SECURITIES AS OF JUNE 30, 2005

Collateralized by	Cash	Securities	Tri-Party	Total
U.S. Government & Agency	42,932,457	506,213	11,749,878	55,188,547
Domestic Equities	52,762,095	277,010	-	53,039,104
Domestic Fixed	22,756,350	1,526,558	-	24,282,908
International Equities	23,713,917	329,606	-	24,043,523
<b>Total Value</b>	<b>\$ 142,164,819</b>	<b>\$ 2,639,387</b>	<b>\$ 11,749,878</b>	<b>\$ 156,554,084</b>

### FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES AS OF JUNE 30, 2005

Collateralized by	Cash	Securities	Tri-Party	Total
U.S. Government & Agency	43,842,243	349,670	12,161,526	56,353,439
Domestic Equities	54,174,122	283,641	-	54,457,764
Domestic Fixed	23,308,701	1,559,763	-	24,868,464
International Equities	24,888,648	345,959	-	25,234,606
<b>Total Value</b>	<b>\$ 146,213,714</b>	<b>\$ 2,539,033</b>	<b>\$ 12,161,526</b>	<b>\$ 160,914,273</b>

## FINANCIAL SECTION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

#### 9. CONTINGENCIES

In July 2003, retirees of the System initiated litigation against the City of Fresno and the System regarding the definition of compensation earnable. 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 \$187.4 million as of June 30, 2005.

#### 10. ADMINISTRATIVE 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.

#### II. POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (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, 2005, the System distributed PRSB benefits in the amount of \$1,157,062 to eligible retirees and offset required City pension contributions by \$11,281,398. As of June 30, 2005, the City Surplus Reserve balance was \$3,364,537 and the PRSB Reserve balance was approximately \$946,000 of which \$808,923 is committed for PRSB distribution for the months of July through December 2005.



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

REQUIRED SUPPLEMENTAL SCHEDULES  
 JUNE 30, 2005 AND 2004

I. 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)
1994	\$ 371	\$ 358	103.6%	\$ (13)	\$ 62	(20.9)%
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)%

2. REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

REQUIRED SUPPLEMENTAL SCHEDULES  
JUNE 30, 2005 AND 2004

**NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES**

ACTUARIAL ASSUMPTIONS

Gabriel, Roeder, Smith and Company, the System's actuary, performed an actuarial valuation as of June 30, 2004. 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 10.42% (normal cost of 10.42% is offset by applying prefunded actuarial accrued liability of 10.42%).
4. Average employee contribution rate is 7.24%, 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.

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

SUPPLEMENTAL SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES  
YEAR ENDED JUNE 30, 2005 AND 2004

	2005	2004
<b>Personnel Services</b>		
Staff Salaries	\$ 250,274	\$ 226,574
Fringe Benefits	33,347	29,481
Pension Contribution	8,776	8,125
<b>Total Personnel Services</b>	<b>\$ 292,397</b>	<b>\$ 264,180</b>
<b>Professional Services</b>		
Actuarial	\$ 26,865	\$ 24,675
Legal Counsel	67,302	65,305
Information Systems Services	18,119	19,338
Specialized Services	29,847	32,113
<b>Total Professional Services</b>	<b>\$ 142,133</b>	<b>\$ 141,431</b>
<b>Communication</b>		
Printing	\$ 18,808	\$ 18,133
Telephone	7,419	3,421
Postage	1,801	1,243
<b>Total Communication</b>	<b>\$ 28,028</b>	<b>\$ 22,797</b>
<b>Rentals</b>		
Office Rent	\$ -	\$ 15,665
<b>Total Office Rent</b>	<b>\$ -</b>	<b>\$ 15,665</b>
<b>Other</b>		
Education and Conference	\$ 25,021	\$ 31,581
Membership & Dues	1,680	1,270
Subscriptions & Publications	155	304
Office Supplies	4,159	4,140
Insurance	106,500	-
Miscellaneous	21,406	14,679
Reimbursement to City for Services	20,870	39,424
<b>Total Other</b>	<b>\$ 179,791</b>	<b>\$ 91,398</b>
<b>Total Administrative Expenses</b>	<b>\$ 642,349</b>	<b>\$ 535,471</b>

## CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

## FINANCIAL SECTION

## SUPPLEMENTAL SCHEDULES

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND  
OTHER INVESTMENT EXPENSES  
YEAR ENDED JUNE 30, 2005 AND 2004

	2005	2004
<b>Investment Manager Fees</b>		
Equity		
Domestic	\$ 1,172,104	\$ 1,408,686
International	958,859	846,498
Fixed Income		
Domestic	555,616	354,328
Real Estate	703,745	756,113
<b>Total Investment Managers Fees</b>	<b>3,390,324</b>	<b>3,365,625</b>
<b>Other Investment Expenses</b>		
Foreign Income Taxes	557,759	428,394
Custodial Services	29,923	56,353
Investment Consultant	89,560	87,528
Prepaid Employer Contribution Interest Expense	371,235	342,942
<b>Total Other Investment Expenses</b>	<b>1,048,477</b>	<b>915,217</b>
<b>Total Fees &amp; Other Investment Expenses</b>	<b>4,438,801</b>	<b>4,280,842</b>
Securities Lending Expenses		
Borrowers Rebates	2,581,939	493,184
Agent Fees	105,035	58,202
<b>Total Securities Lending Expenses</b>	<b>2,686,974</b>	<b>551,386</b>
<b>Total Fees, Other Investment Expenses &amp; Securities Lending Expense</b>	<b>\$ 7,125,775</b>	<b>\$ 4,832,228</b>

SCHEDULE OF PAYMENTS TO CONSULTANTS  
YEAR ENDED JUNE 30, 2005 AND 2004

	2005	2004
Legal Services	\$ 67,302	\$ 65,305
Actuarial Services	26,865	24,675
Medical Consultant	5,150	9,700
Miscellaneous	24,697	35,150
City Information Services	18,119	6,600
<b>Total Payments to Consultants</b>	<b>\$ 142,133</b>	<b>\$ 141,430</b>

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**FINANCIAL SECTION**

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## INVESTMENT SECTION



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



October 21, 2005

Mr. Paul Cliby, Chairman  
Mr. William Quick, Chairman  
City of Fresno Retirement Systems  
2600 Fresno Street, Room 2162  
Fresno, California 93721-3622

Mr. Quick and Mr. Cliby:

**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 third year in a row. Despite the bear market in the early part of this decade, the systems have now reported positive investment results for the five year period ending June 30, 2005. For the fiscal year ended June 30, 2005, the combined systems experienced a total gain of +10.94% gross of fees, the second year in the last four in which the systems' return exceeded the actuarial interest rate assumption. Over the last year, the fund outperformed its benchmark<sup>1</sup> return of +10.40% by 0.54% gross of fees. Due to the double digit returns of the past two 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 +4.10% gross of fees versus the fund benchmark return of +4.17% and the 8.25% actuarial interest rate assumption. Over the past five years, the Systems have underperformed the benchmark by 0.07% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +9.94% gross of fees versus a return of 9.03% for the composite benchmark. Over this time period, the Systems outperformed the actuarial interest rate by 1.69%.

<sup>1</sup> From February 1, 2005 to June 30, 2005, the benchmark was 30% S&P 500 Index, 10% Russell 2000 Index, 25% Lehman Aggregate Bond Index, 17% MSCI EAFE, 7.5% NCREIF Index, 5% Lehman High Yield Bond Index, 3% MSCI EMF, and 2.5% DJ Wilshire Real Estate Securities Index. From July 1, 2004 through January 31, 2005, the benchmark was 30% S&P 500 Index, 10% Russell 2000 Index, 25% Lehman Aggregate Bond Index, 17% MSCI EAFE, 10% NCREIF Index, 5% Lehman High Yield Bond Index, and 3% MSCI EMF. From July 1, 2003 to June 30, 2004 the benchmark was 31% S&P 500 Index, 6% Russell 2000 Index, 28% Lehman Aggregate Bond Index, 15% MSCI EAFE, 3% MSCI EMF, 8% NCREIF Index, 4% CitiGroup High Yield Bond, and 5% DJ Wilshire 5000 + 3% (private equity benchmark). From the second quarter of 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 Emerging Markets Free, 7% NCREIF Index, 28% Lehman Aggregate Bond Index, 7% Lehman Government / Credit Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index. From the second quarter of 2001 through the fourth quarter of 2001, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Markets Free, 7% Wilshire Real Estate Funds Index, 28% Lehman Aggregate Bond Index, 7% Lehman Government / Credit Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index.

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CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



**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 reflected the volatility experienced in the various markets over the last year. The Systems returned +0.44% gross of fees in the third calendar quarter of 2004 (first fiscal quarter), underperforming the benchmark return of +0.73%. This performance ranked the Systems in the top 40% of all pension funds in our database (40<sup>th</sup> percentile). When the equity markets grew dramatically in the fourth calendar quarter, the Systems assets rose, as well. In this quarter, the Systems returned +8.16% gross of fees, outperforming the benchmark return of +8.05%, and ranking in the top 21% (21<sup>st</sup> percentile) of all pension funds in this quarter. In the first calendar quarter of 2005, the Systems lost ground but outperformed their benchmark, returning -0.45% gross of fees versus -0.91% for the index. This performance placed the combined Systems near the top quartile of our database (28<sup>th</sup> percentile). Finally, in the second calendar quarter of 2005, the Systems followed the trend of the broader market and rose +2.59% gross of fees, outperforming the benchmark return of +2.37% and ranking the Systems in the top 23% of funds in our database (23<sup>rd</sup> percentile).

For the year, the Systems' gross of fee performance of +10.94% exceeded the benchmark return of 10.40% and ranked near the top decile (11<sup>th</sup> 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 the Systems have ranked in the top quartile of all public pension funds in our database for the quarter, one year, three years, seven years, and ten years ended 6/30/05. Over the last five year period, the Systems has ranked in the top 52<sup>nd</sup> percentile.

WILSHIRE ASSOCIATES  
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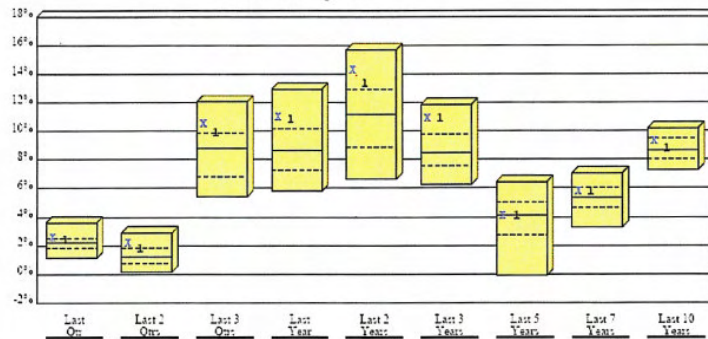


CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



City of Fresno Retirement System  
 Cumulative Performance Comparison  
 Total Returns of Total Fund Public Sponsors  
 Periods Ending 6/05



	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	1.63	1.91	11.97	13.85	15.68	11.87	6.45	7.07	10.20
25th Percentile	1.53	1.82	9.98	10.15	11.90	9.50	5.02	6.03	9.52
Median	2.18	1.33	8.76	9.45	11.19	8.45	4.12	5.34	8.66
75th Percentile	1.85	0.78	6.31	7.33	8.91	7.55	2.78	4.67	8.00
95th Percentile	1.12	0.25	5.40	5.80	6.63	6.26	-0.11	3.28	7.28
X Total Fund	1.59 (23)	2.12 (15)	10.46 (11)	10.94 (11)	14.27 (7)	10.55 (9)	4.10 (52)	6.31 (16)	9.94 (11)
1 Policy Index	2.37	1.44	9.60	10.40	13.10	10.58	4.17	5.72	9.03

**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 outpaced both the U.S. equity and fixed income markets. In contrast, the previous years saw fixed income supply positive returns to the Systems as equities fell. We believe that the Systems' overall asset allocation will continue to help mitigate volatility within the fund but still maintain the strong financial position.

Sincerely,

Michael C. Schlachter, CFA  
 Managing Director

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CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

**SUMMARY OF INVESTMENT OBJECTIVES  
AND POLICIES STATEMENT**

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 investment 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.

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the System, audits 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. The Investment Objectives and Policy Statement establishes 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.

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 general statement of voting policies. The System will at all times strive to cast proxy votes so as to advance the overall good of plan participants.

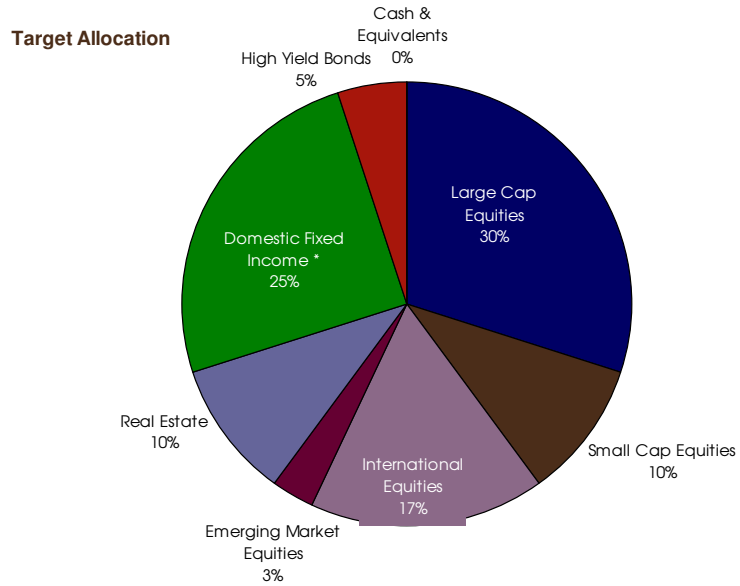
CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

**INVESTMENT RESULTS**

	Annualized			
	1 Year	3 Years	5 Years	10 Years
<b>Domestic Equity</b>				
Total Large Cap Domestic Equity	8.74	9.05	-2.22	
Median Large Cap Equity	6.16	7.34	-2.56	
Benchmark: S&P 500	6.32	8.28	-2.37	
Total Small Cap Domestic Equity	7.74	9.89	2.17	
Median Small Cap Equity	9.98	12.27	5.42	
Benchmark: Russell 2000	9.45	12.81	5.70	
<b>International Equity</b>				
Total International Equity	14.29	11.17	2.23	
Median International Equity	12.53	10.42	-1.42	
Benchmark: MSCI EAFE	13.65	12.06	-0.55	
<b>Emerging Market Equity</b>				
Total Emerging Market Equity	41.07	29.78	14.18	
Median Emerging Market Equity	32.10	22.37	6.91	
Benchmark: MSCI EMF	34.89	24.42	7.68	
<b>Fixed Income</b>				
Total Fixed Income	7.84	7.04	8.00	
Median Active Core Fixed Income	5.96	5.02	6.04	
Benchmark: Lehman Aggregate Bond Index	6.80	5.76	7.40	
<b>Real Estate</b>				
Total Real Estate	20.37	13.53	10.80	
Median Real Estate	15.21	11.37	10.77	
Benchmark: NCREIF Index	15.55	10.74	10.15	
<b>Total Fund</b>				
Retirement System	10.94	10.85	4.10	9.94
Median Total Wilshire Public Fund	8.63	8.48	4.12	8.66
Benchmark: Weighted Indexes	10.40	10.58	4.17	9.03

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.

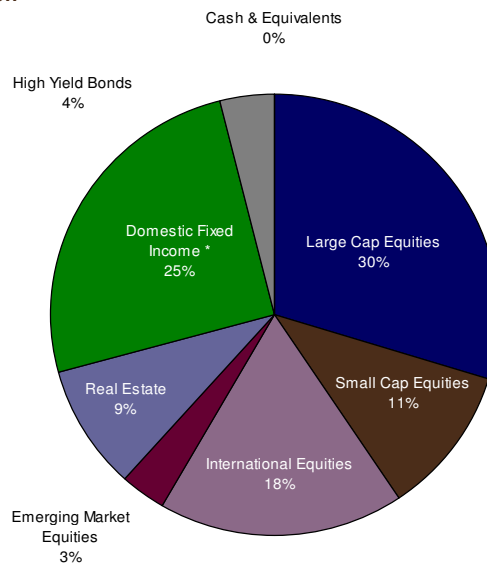
**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
INVESTMENT SECTION**



Asset Class	Current Target	Allocation Range	Actual
Large Cap Equities	30%	27% - 33%	30%
Small Cap Equities	10%	8% - 12%	11%
International Equities	17%	14% - 20%	18%
Emerging Market Equities	3%	0% - 5%	3%
Real Estate	10%	8% - 12%	9%
Domestic Fixed Income *	25%	20% - 30%	25%
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**



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

**LARGEST STOCK/BOND HOLDINGS**

LARGEST STOCK HOLDING (BY MARKET VALUE)  
AS OF JUNE 30, 2005

	Shares	Stock	Market Value
1)	166,155	Gen Elec Co Com	\$ 5,757,271
2)	62,877	Exxon Mobil Corp Com	3,613,550
3)	78,051	Citigroup Inc Com	3,608,303
4)	47,182	Johnson & Johnson Com	3,066,802
5)	66,339	Bank Amer Corp Com	3,025,709
6)	103,041	Novartis Ag	4,910,341
7)	15,743	Nestle SA	4,030,679
8)	24,587	Roche Holdgs Ag Genusscheine	3,112,905
9)	54,247	ADR Glaxosmithkline PLC Sponsored Adr	2,631,520
10)	14,925	Zurich Fin Svcs Grp	2,572,356
Total Largest Stock Holdings			\$ 36,329,436

LARGEST BOND HOLDINGS (BY MARKET VALUE)  
AS OF JUNE 30, 2005

	Par	Bonds	Due	Market Value
1)	5,690,240	US Treas	5.625% 15 May 2008	\$ 5,990,309
2)	4,030,586	US Treas Nts	2.375% 15 Aig 2006	3,977,999
3)	3,793,493	US Treas Nts	3.625% 15 July 2009	3,780,899
4)	3,793,493	US Treas Nts	3.375% 15 Sept 2009	3,742,668
5)	3,556,400	US Treas Nts	3.500% 15 Nov 2006	3,552,370
6)	2,544,011	US Treas Nts	6.000% 15 Feb 2026	3,134,499
7)	3,070,833	US Treas Bds	3.375% 15 Feb 2008	3,048,520
8)	2,845,120	US Treas Nts	5.750% 15 Nov 2005	2,870,347
9)	2,845,120	FNMA Single Family Mortgage	5.000% 31 July 2035	2,845,120
10)	2,370,933	US Treas Nts	3.250% 15 Jan 2009	2,337,128
Total Largest Bond Holdings				\$ 35,279,859

A complete list of portfolio holdings is available upon request.

**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM**  
**INVESTMENT SECTION**

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 2005, the net income from Brokerage Commission Recapture was \$138,562. During this period, the overall participating rate by the System's equity managers' was 18.79%. 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, 2005**

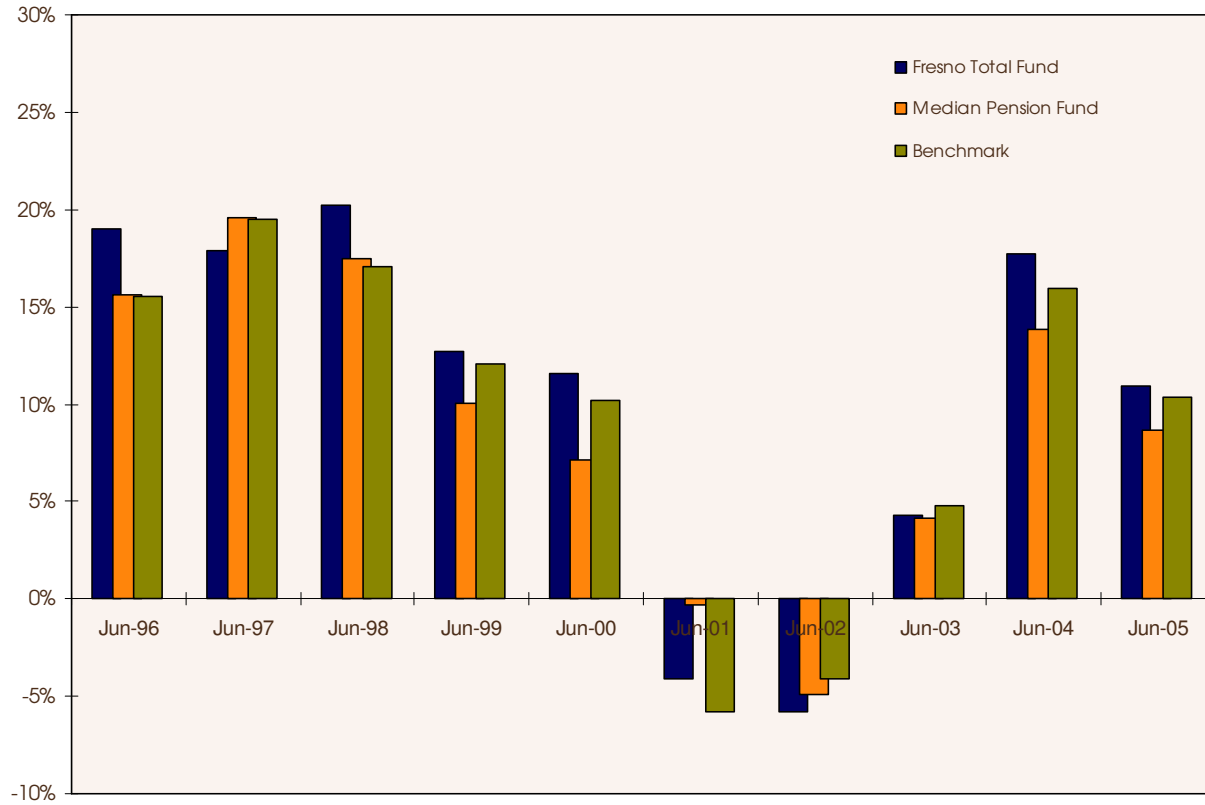
Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
JP Morgan Securities	\$ 44,428	20,090,986	0.002
Lehman Brothers Inc	\$ 38,139	16,482,453	0.002
Jefferies & Company	\$ 27,291	668,755	0.041
ABN AMRO Bank NV Hong Kong	\$ 26,648	2,954,941	0.009
Morgan Stanley & Co Inc New York	\$ 22,371	7,255,079	0.003
Deutsche Bk, AG Londond Intl Equities	\$ 21,210	7,215,376	0.003
Credit Suisse First Boston Corporation	\$ 18,270	20,503,223	0.001
Citigroup Global Markets Inc/Smith Barney	\$ 15,647	331,407	0.047
Merrill Lynche Pierce Fenner & Smith	\$ 14,128	8,473,328	0.002
B Trade Services	\$ 12,778	294,649	0.043
Top Ten Total	\$ 240,911	84,270,197	0.003
All Other Brokerage Firms	\$ 372,921	728,825,513	0.001
Total	\$ 613,832	813,095,710	0.001

**INVESTMENT SUMMARY**

	Cash and Investment Value as of June 30, 2005	Percent of Fund
Equity		
Domestic	\$ 328,850,758	37.9%
International	149,292,740	8.5%
Emerging Market Equity	28,406,990	3.3%
Fixed Income		
Domestic	250,169,289	28.8%
Real Estate	81,260,711	9.4%
Short Term Investments	30,207,898	5.1%
Total	\$ 868,188,386	100.0%

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

- 57-



	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05
Fresno Total Fund	19.00%	17.90%	20.20%	12.70%	11.60%	-4.10%	-5.80%	4.31%	17.70%	10.94%
Median Pension Fund	15.60%	19.60%	17.50%	10.00%	7.10%	-0.30%	-4.90%	4.15%	13.83%	8.63%
Benchmark	15.50%	19.50%	17.10%	12.10%	10.20%	-5.80%	-4.10%	4.80%	15.93%	10.40%

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**INVESTMENT SECTION**

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## ACTUARIAL SECTION



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

ACTUARIAL CERTIFICATION LETTER



**Gabriel, Roeder, Smith & Company**  
Consultants & Actuaries

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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

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

ACTUARIAL CERTIFICATION LETTER

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:

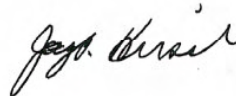
1. differences between actual experience and anticipated experience;
2. changes in actuarial assumptions or methods;
3. changes in statutory provisions; and
4. differences between the contribution rates determined by the valuation and those adopted by the Board.

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 A. Roeder, EA, FSA, MAAA



Jay D. Hirsch, EA, FSA

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

**SUMMARY OF ASSUMPTIONS AND FUNDING METHOD**

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
2 <sup>nd</sup> year eligible	25% participation
3 <sup>rd</sup> & 4 <sup>th</sup> Fourth Year Eligible	
	25% 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 50% 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:

<u>Years Since Hire</u>	<u>Merit &amp; Longevity Assumption</u>
<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%

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Sample Ages	<b>% of Active Members Separating Within Next Year and Withdrawing Employee Monies</b>					
	Under 5 years (median)		5-9 Years of Service		10+ Years of Service	
	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%	4.3%	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	6%	7.2%	0.95%	0.15%	0%	0%

Sample Ages	<b>% of Active Members Separating Due to the Following Causes</b>					
	Vested Termination		Ordinary Disability		Ordinary Death	
	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%	0.05%	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*

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

**ACTUARIAL SECTION**

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2004	Active Members	2037	\$ 88,877,515	\$ 43,632	2.1%
	DROP Participants	223	10,867,428	48,733	2.0%
	<b>Totals</b>	<b>2260</b>	<b>\$ 99,744,943</b>	<b>\$ 44,135</b>	
June 30, 2003	Active Members	2044	\$ 87,366,386	\$ 42,743	1.3%
	DROP Participants	209	9,982,140	47,761	5.8%
	<b>Totals</b>	<b>2253</b>	<b>\$ 97,348,526</b>	<b>\$ 43,208</b>	
June 30, 2002	Active Members	1994	\$ 84,149,313	\$ 42,201	2.5%
	DROP Participants	198	8,936,515	45,134	0.3%
	<b>Totals</b>	<b>2192</b>	<b>\$ 93,085,828</b>	<b>\$ 42,466</b>	
June 30, 2001	Active Members	1971	\$ 81,175,630	\$ 41,185	3.5%
	DROP Participants	200	9,001,264	45,006	3.7%
	<b>Totals</b>	<b>2171</b>	<b>\$ 90,176,894</b>	<b>\$ 41,537</b>	
June 30, 2000	Active Members	1934	\$ 76,988,782	\$ 39,808	9.1%
	DROP Participants	178	7,728,203	43,417	4.2%
	<b>Totals</b>	<b>2112</b>	<b>\$ 84,716,985</b>	<b>\$ 40,112</b>	
June 30, 1999	Active Members	1902	\$ 69,370,703	\$ 36,473	4.5%
	DROP Participants	168	7,001,540	41,676	5.6%
	<b>Totals</b>	<b>2070</b>	<b>\$ 76,372,243</b>	<b>\$ 36,895</b>	
June 30, 1998	Active Members	1864	\$ 65,056,340	\$ 34,901	-1.40%
	DROP Participants	120	4,737,340	39,478	Base Year
	<b>Totals</b>	<b>1984</b>	<b>\$ 69,793,680</b>	<b>\$ 35,178</b>	-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	

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

SCHEDULE OF RETIREES AND BENEFICIARIES  
 ADDED TO OR REMOVED FROM ROLLS

Year Ended	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Retiree Allowance	Average Annual Allowance
	Number	Annual Allowance*	Number	Annual Allowance*	Number	Annual Allowance		
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.

**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM**  
**ACTUARIAL SECTION**

**SOLVENCY TEST**  
**(ROUNDED TO THE NEAREST THOUSAND)**

Valuation Date	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
	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)
	6/30/2004	\$ 87,756,000	\$ 352,680,000	\$ 113,930,000	\$ 741,766,000	100%	100%
6/30/2003	87,876,000	334,590,000	123,221,000	698,885,000	100%	100%	100%
6/30/2002	85,532,000	324,254,000	120,019,000	748,762,000	100%	100%	100%
6/30/2001	84,217,000	300,562,000	115,707,000	781,831,000	100%	100%	100%
6/30/2000	82,588,000	280,005,000	108,614,000	770,649,000	100%	100%	100%
6/30/1999	85,630,000	259,886,000	81,022,000	702,481,000	100%	100%	100%
6/30/1998	81,736,000	240,587,000	86,852,000	625,121,000	100%	100%	100%
6/30/1997	88,020,000	210,441,000	103,906,000	538,055,000	100%	100%	100%
6/30/1996	81,336,000	195,619,000	100,764,000	460,073,000	100%	100%	100%
6/30/1994	69,292,000	185,946,000	103,164,000	371,158,000	100%	100%	100%
6/30/1992	57,006,000	158,809,000	105,013,000	269,203,000	100%	100%	50.84%

**ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE**

(Amounts in Millions)	Plan Years							
	2004	2003	2002	2001	2000	1999	1998	1997
Prior Valuation Actuarial Accrued Liability	\$ 546	\$ 530	\$ 501	\$ 471	\$ 49	\$ 31	\$ 24	\$ -
Expected Increase from Prior Valuation	-	29	28	-	-	-	-	-
Salary Increase (Greater) Less than Expected	5	(9)	3	3	10	(3)	(5)	-
Asset Return (Less) Greater than Expected	(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	\$ 554	\$ 546	\$ 530	\$ 501	\$ 93	\$ 49	\$ 31	\$ 24



# ACTUARIAL SECTION

## 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

<u>Age</u>	<u>Factor</u>	<u>Age</u>	<u>Factor</u>
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 33 1/3%, 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.



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**ACTUARIAL SECTION**

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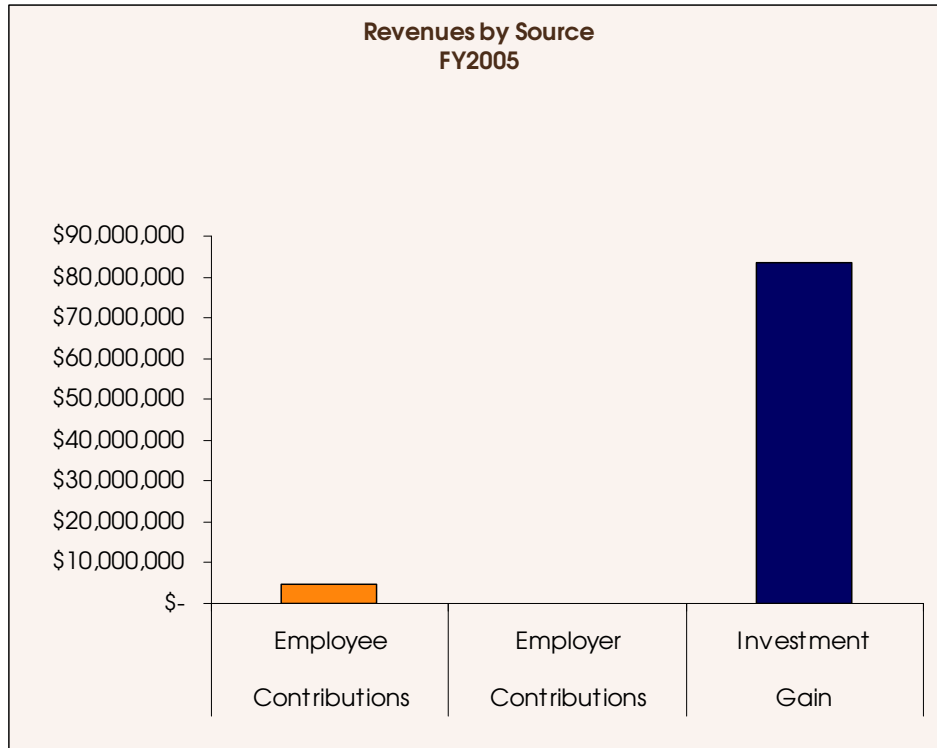
## Statistical Section



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**STATISTICAL SECTION**

TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information regarding revenues by source is as follows:



Revenues by Source					
Fiscal Year	Employee Contributions	Employer Contributions	Employer Contributions as a % of Payroll	Investment Income	Total
1996	\$ 5,620,616	\$ 9,025,790	13.87%	\$ 87,186,371	\$ 101,832,777
1997	5,996,364	5,770,958	8.35%	95,354,544	107,121,866
1998	4,690,254	920,707	1.32%	123,196,332	128,807,293
1999	3,456,573	-	0.00%	85,381,700	88,838,273
2000	3,823,878	-	0.00%	86,100,670	89,924,548
2001	3,990,823	-	0.00%	(43,180,024)	(39,189,201)
2002	4,192,384	-	0.00%	(48,167,786)	(43,975,402)
2003	4,482,742	-	0.00%	25,645,283	30,128,025
2004	4,680,446	-	0.00%	120,678,900	125,359,346
2005	\$ 4,749,521	\$ -	0.00%	\$ 83,471,311	\$ 88,220,832

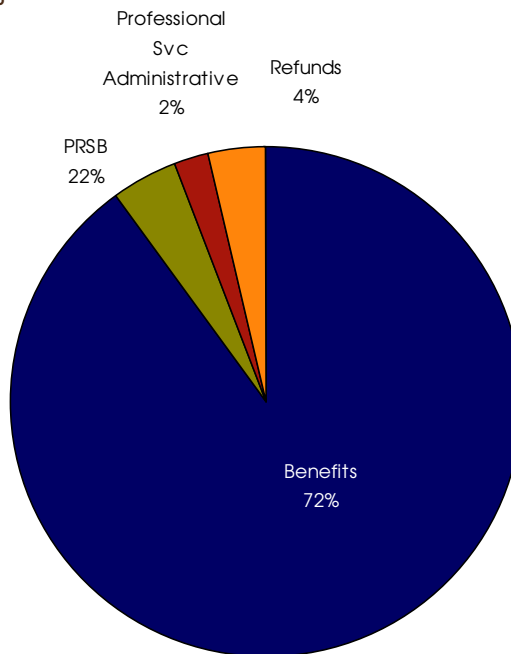
CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**TEN-YEAR HISTORICAL TREND INFORMATION**

Ten-year historical trend information regarding expenses by type is as follows:

Fiscal Year	Expenses by Type					Total
	Benefits	PRSB	Professional Service		Refunds	
			Administrative Expenses			
1996	\$ 14,353,364	\$ -	\$ 352,488	\$ 1,812,893	\$ 16,518,745	
1997	15,213,149	-	431,474	1,711,875	17,356,498	
1998	16,142,881	-	361,185	974,915	17,478,981	
1999	16,504,883	1,580,844	393,143	1,402,494	19,881,364	
2000	17,798,960	3,823,898	446,712	1,013,385	23,082,955	
2001	18,962,265	4,530,240	481,442	1,442,856	25,416,803	
2002	21,268,831	6,545,190	486,445	1,349,011	29,649,477	
2003	22,331,874	5,631,660	529,915	1,282,608	29,776,057	
2004	24,118,492	2,429,904	535,471	710,252	27,794,119	
2005	\$ 25,287,091	\$ 1,157,062	\$ 642,349	\$ 1,026,175	\$ 28,112,677	

**EXPENSES BY TYPE  
FY 2005**



Note: In accordance with GASB 25 investment related expenses are netted against investment income and investments are reported at fair value instead of at cost.

**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM**  
**STATISTICAL SECTION**

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS**

Retirement Effective Dates	Years of Credited Service						Fiscal Year Average/Total Retirants
	5-10	10-15	15-20	20-25	25-30	30+	
<b>Period 7/1/04 to 6/30/05</b>							
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
<b>Period 7/1/03 to 6/30/04</b>							
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
<b>Period 7/1/02 to 6/30/03</b>							
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
<b>Period 7/1/01 to 6/30/02</b>							
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
<b>Period 7/1/00 to 6/30/01</b>							
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
<b>Period 7/1/99 to 6/30/00</b>							
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
<b>Period 7/1/98 to 6/30/99</b>							
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
<b>Period 7/1/97 to 6/30/98</b>							
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
<b>Period 7/1/96 to 6/30/97</b>							
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
<b>Period 7/1/95 to 6/30/96</b>							
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
<b>Period 7/1/94 to 6/30/95</b>							
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

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**STATISTICAL SECTION**

SCHEDULE OF RETIRED MEMBERS  
 BY TYPE OF BENEFIT  
 JUNE 30, 2005

Type of Benefit	Number of Recipients	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	40	21	11	6	2
Non-service Disability	124	85	30	8	1
Ex-spouse Receiving Benefits from QDRO	26	26	0	0	0
Service Retirements	812	407	279	84	42
Spouses Receiving Continuances	193	127	46	17	3
<b>Total</b>	<b>1195</b>	<b>666</b>	<b>366</b>	<b>115</b>	<b>48</b>

SCHEDULE OF BENEFIT EXPENSES BY TYPE  
 JUNE 30, 2005

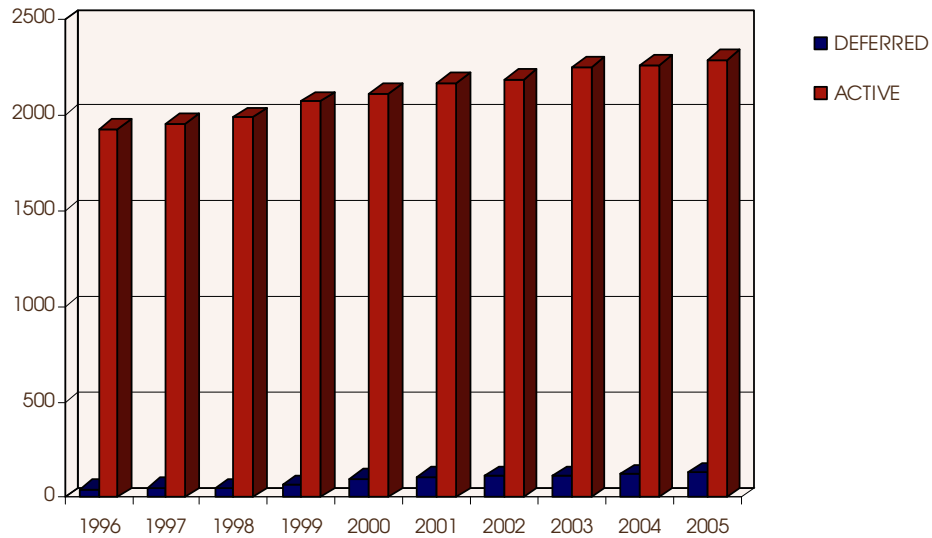
Type of Benefit	Total	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	\$ 799,350	\$ 474,981	\$ 181,481	\$ 102,213	\$ 40,676
Non-service Disability	1,806,560	1,201,007	449,558	124,746	31,249
Ex-spouse Receiving Benefits from QDRO	218,946	218,946	-	-	-
Service Retirements	17,893,079	8,916,150	6,111,149	1,819,121	1,046,659
Spouses Receiving Continuances	2,703,271	1,708,273	577,140	345,220	72,637
<b>Total Benefit Expense *</b>	<b>\$ 23,421,206</b>	<b>\$ 12,519,357</b>	<b>\$ 7,319,328</b>	<b>\$ 2,391,300</b>	<b>\$ 1,191,221</b>

\* Does not include DROP Distributions



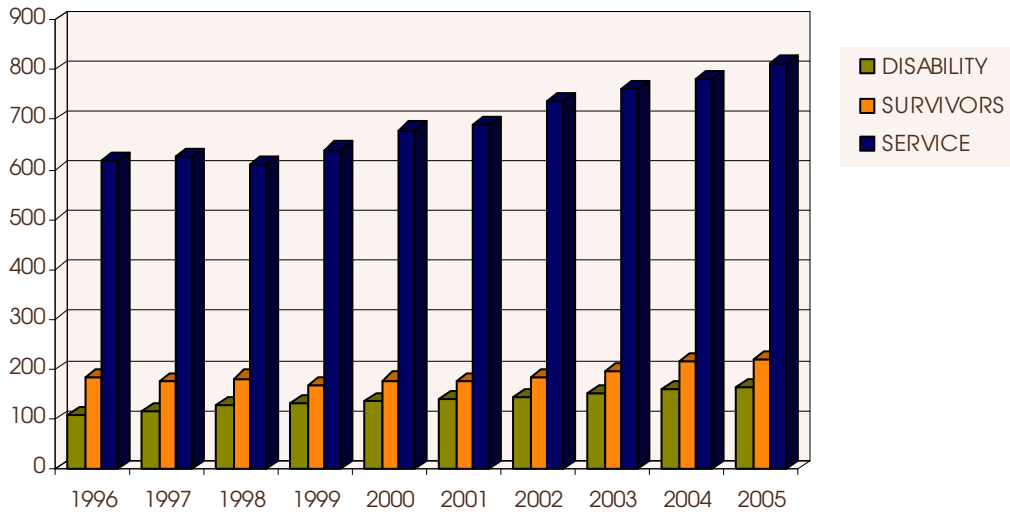
**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
STATISTICAL SECTION**

**MEMBERSHIP HISTORY (ACTIVE AND DEFERRED)**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
DEFERRED	46	51	50	68	100	106	113	114	123	132
ACTIVE	1,927	1,953	1,988	2,070	2,112	2,171	2,186	2,254	2,260	2,287
<b>TOTAL</b>	<b>1,973</b>	<b>2,004</b>	<b>2,038</b>	<b>2,138</b>	<b>2,212</b>	<b>2,277</b>	<b>2,299</b>	<b>2,368</b>	<b>2,383</b>	<b>2,419</b>

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
DISABILITY	108	115	127	131	135	138	144	152	158	164
SURVIVORS	182	174	181	166	177	175	183	195	215	219
SERVICE	617	626	608	639	679	689	737	760	781	812
<b>TOTAL</b>	<b>907</b>	<b>915</b>	<b>916</b>	<b>936</b>	<b>991</b>	<b>1,002</b>	<b>1,064</b>	<b>1,107</b>	<b>1,154</b>	<b>1,195</b>

**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM**  
**STATISTICAL SECTION**

**MEMBER CONTRIBUTION RATES**

VALUATION DATE	EFFECTIVE DATE	BASIC AT ENTRY AGE		
		20	25	30
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		TOTAL CITY RATE	PREFUNDED	PAAL ADJUSTED CONTRIBUTION RATES
		BASIC	COL		ACTUARIAL ACCRUED LIAB. (PAAL)	
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	7/1/98 - 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%

Note: 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.

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**STATISTICAL SECTION**

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%

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%

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**ECONOMIC ASSUMPTIONS AND FUNDING METHOD**

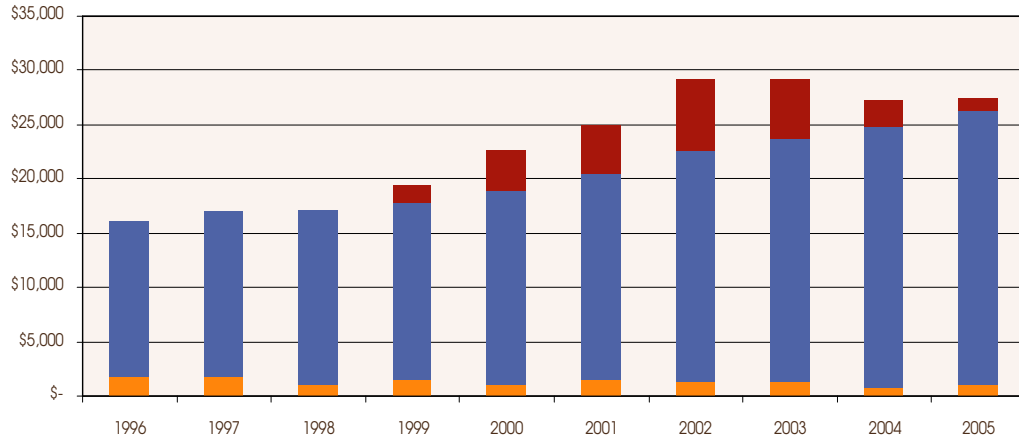
Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2004	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2003	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2002	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected 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/ 06/30/04 Annual Actuarial Valuation/ Actuarial Assumptions (pg. 34)

# CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM STATISTICAL SECTION

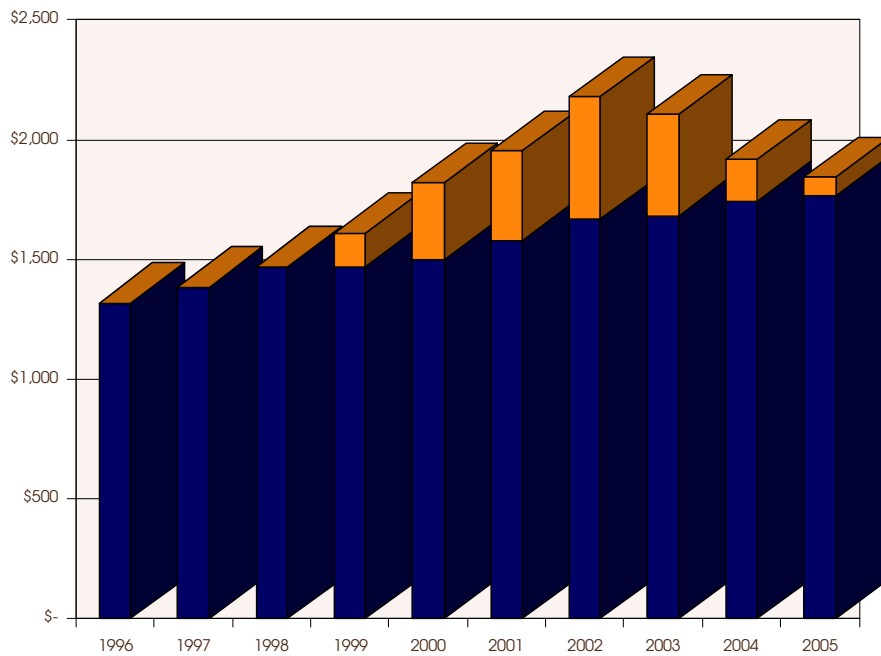
### BENEFITS AND WITHDRAWALS PAID (In Thousands)

■ PRSB  
■ BENEFITS  
■ WITHDRAWALS



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
WITHDRAWALS	\$ 1,813	\$ 1,721	\$ 975	\$ 1,403	\$ 1,013	\$ 1,443	\$ 1,349	\$ 1,283	\$ 710	\$ 1,026
BENEFITS	14,353	15,213	16,143	16,505	17,799	18,963	21,269	22,332	24,118	25,287
PRSB	-	-	-	1,581	3,824	4,530	6,545	5,632	2,430	1,157

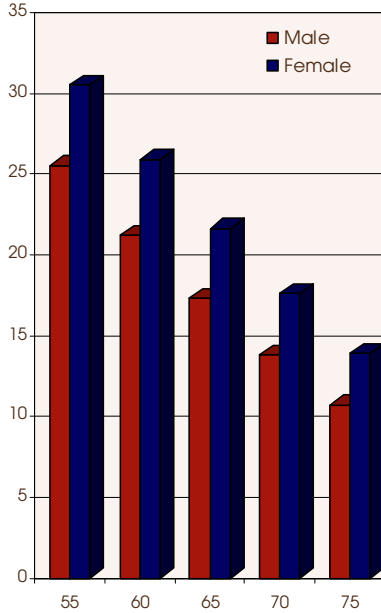
### AVERAGE MONTHLY BENEFITS TO PARTICIPANTS



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Average Monthly Benefit	\$ 1,319	\$ 1,386	\$ 1,469	\$ 1,469	\$ 1,497	\$ 1,577	\$ 1,666	\$ 1,681	\$ 1,742	\$ 1,763
Average Monthly PRSB	-	-	-	141	322	377	513	424	175	81
Average Monthly Benefit Total	\$ 1,319	\$ 1,386	\$ 1,469	\$ 1,610	\$ 1,818	\$ 1,954	\$ 2,178	\$ 2,105	\$ 1,917	\$ 1,844

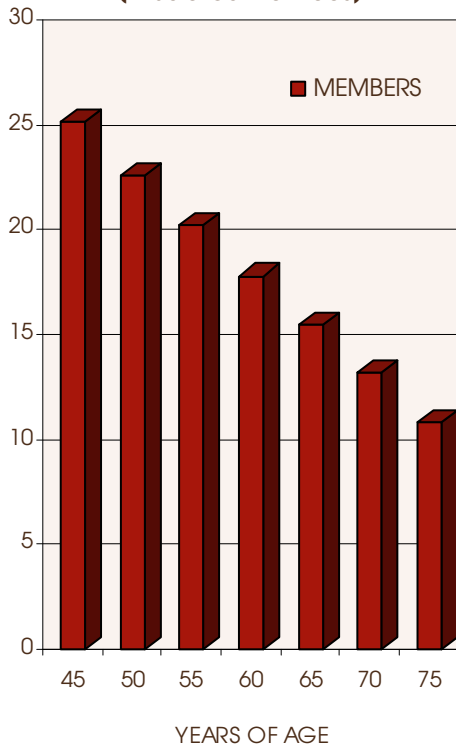
**CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
STATISTICAL SECTION**

**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

**EXPECTATION OF LIFE  
(Disabled 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

Source: Gabriel Roeder Smith



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## COMPLIANCE SECTION



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**COMPLIANCE SECTION**

## *INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL*



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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**

Eric H. Xin, MBA, CPA  
Lynn R. Krausse, CPA, MST  
Bradley M. Hankins, CPA  
Thomas M. Young, CPA  
Rosalva Flores, CPA  
Connie M. Perez, CPA  
Sharon Jones, CPA, MST  
Diana Branthoover, CPA  
Matthew Gilligan, CPA  
Terri Swan, CPA  
Dominic Brown, CPA  
Ryan Johnson, CPA

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, 2005, and have issued our report thereon dated September 9, 2005. 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*.

MEMBER of SEC Practice Section of the American Institute of Certified Public Accountants



CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM  
**COMPLIANCE SECTION**

*INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL*

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 & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 9, 2005

