Comprehensive Annual Financial Report

For the Years Ended June 30, 2008 and 2007

City of Fresno Retirement Systems
Caring for Your Future

City of Fresno Employees Retirement System

(A Pension Trust Fund of the City of Fresno)

Fresno, California

Comprehensive Annual Financial Report

For the Years ended June 30, 2008 and 2007

Stanley L. McDivitt
Retirement Administrator

Kathleen Riley
Assistant Retirement Administrator

Yvonne Arellano
Benefits Manager

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

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Section 1
Introductory Section

To provide System members and the employer with flexible, cost-effective, participant oriented benefits through prudent investment management and superior member services. To improve the level of benefits and delivery of services provided to members and employees.

City of Fresno Retirement Systems • Caring For Your Future

CITY OF FRESNO EMPLOYEES RETIREMENT SYSTEM

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

LETTER OF TRANSMITTAL

Stanley L. McDivitt
Retirement Administrator

November 7, 2008

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, 2008 and 2007.

The Board carefully managed the investment portfolio through last year's downturn in the housing market which some financial experts contend was caused by the Feds keeping the benchmark rate low enough to encourage the financial markets to engage in the kinds of excesses that we have seen recently harmed the global financial markets. The fallout in the credit crisis began in August 2007 with the sub-prime mortgage defaults, rising home foreclosures and the ensuing tightening of credit which impacted less credit worthy individuals and companies. The collapse and sale of Bear Stearns preceded a brokerage and bank debacle that resulted in the recent failure and bankruptcy of Lehman Brothers, forced the sale of Merrill Lynch, a takeover of Wachovia and Washington Mutual and the closing of the nation's oldest money market fund, the Reserve Primary Fund.

Like all institutional investors, the System's returns were down in fiscal year 2008. The System's one-year return was negative 6.05 percent, down 1.26 percent below its policy benchmark return of -4.79 percent; and underperforming its actuarial interest rate assumption of 8.25 percent by 14.3 percent. Yet, despite the one-year loss of -6.05 percent for the fiscal year ended June 30, 2008, the five-year annualized return of 10.04 percent exceeded its actuarial interest rate assumption of 8.25 percent by 1.79 percent. The System's fifteen-year annualized return remains strong at 9.47 percent exceeding its policy benchmarks for that period by 0.46 percent and exceeding the actuarial interest rate assumption by 1.22 percent for the same period.

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 (CAFR)

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Employees Retirement System for the years ended June 30, 2008 and 2007 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 Employees Retirement System's finances, please refer to the Management's Discussion and Analysis letter in the Financial Section of this report.

The CAFR consists of six sections:

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

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

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

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

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

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

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

THE EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

The Employees Retirement System was established on June 1, 1939, under Charter Section 910 and is governed by Article 5 of Chapter 3 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 System, making benefit determinations, and managing the investment of the System's assets. The Board operates under the authority vested in Article 5 of Chapter 3 of the Fresno Municipal Code and the California Pension Protection Act of 1992. Article XVI, Section 17(b) of the Constitution of the State of California provides that "the members of the Retirement Board of a public retirement system shall discharge their duties ... solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has ... "the sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

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

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

MAJOR INITIATIVES

During the fiscal year 2008, the Board, jointly with the Fire & Police Retirement System Board prudently evaluated the performance of its portfolio managers; conducted an analysis, search and due diligence site evaluation of international developed and emerging markets managers; adopted Phase I implementation of the new Asset Allocation Plan which increases the international equity target allocation from 20% to 30% and decreases the domestic equity target allocation from 40% to 30%; and began the process of rebalancing domestic and international equity portfolios.

The Board also conducted a core, core plus and value added real estate manager search as the preliminary evaluation for its Phase II implementation of the new Asset Allocation Plan which decreases the target allocation for fixed income from 30% to 25% and increases the target allocation for real estate from 10% to 15%. It is anticipated that Phase II of the new Asset Allocation Plan will be adopted by the Board and implemented in the following fiscal year.

PROFESSIONAL SERVICES

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

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

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive annual financial reports.

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

ACTUARIAL FUNDING STATUS

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

As of June 30, 2007, the funded ratio of the Employees Retirement System was 146.8 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, 2007 amounted to $631,305,000. The actuarial value of assets at June 30, 2007 amounted to $926,525,000. The market value of the assets at June 30, 2007 amounted to $1,068,859,346.

The Board engages an independent actuarial consulting firm to conduct annual actuarial valuations of the System. Recommendations are presented to the Board for consideration. The Segal Company is the System's independent actuarial consultant.

ACCOUNTING SYSTEM & REPORTS

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

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans, and incorporate the provisions of GASB No. 34, GASB No. 40, GASB No. 44 and GASB No. 50. GASB No. 43 is the Financial Reporting disclosure for Other Post-employment Benefits (OPEB). The System is not obligated to provide or fund any other post employment benefits as retirees do not receive paid healthcare benefits from the System.

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

INVESTMENTS

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

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

For the fiscal years ended June 30, 2008 and June 30, 2007, the System's investments provided a -6.05 percent and 17.36 percent rate of return, respectively. The System's annualized rate of return over the last three years was 7.33 percent; for the past five years the annualized return was 10.04 percent and for the past ten years, the annualized return was 6.61 percent.

ACKNOWLEDGMENTS

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

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley, Yvonne Arellano, Alberto Magallanes, Karen Rolle, Pattie Laygo, Donna Gaab, Andrea Ketch, Patricia Basquez, Alexander Villa; 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

November 7, 2008

RETIREMENT BOARD MEMBERS AS OF JUNE 30, 2008

CHAIR

Carla Lombardi

Appointed by
Mayor and City Council

VICE-CHAIR

Marvell French

Appointed by
Retirement Board

Ken Nerland

Appointed by
Mayor and City Council

Danny Aguirre

Elected by
Manual Workers

Jeffrey Beatty

Elected by Clerical
and Supervisory Workers

RETIREMENT ADMINISTRATIVE STAFF

STANLEY MCDIVITT
RETIREMENT ADMINISTRATOR

YVONNE ARELLANO
RETIREMENT BENEFITS MANAGER

KATHLEEN RILEY
ASSISTANT RETIREMENT ADMINISTRATOR

BACK ROW (LEFT TO RIGHT)

KAREN ROLLE, ACCOUNTANT AUDITOR, **PATTIE LAYGO**, EXECUTIVE ASSISTANT, **ANDREA KETCH**, RETIREMENT COUNSELOR
DONNA GAAB, RETIREMENT COUNSELOR, **PATTI BASQUEZ**, RETIREMENT COUNSELOR, **ALEX VILLA** SENIOR ADMINISTRATIVE CLERK

ADMINISTRATION

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xii for outside consultants and investment managers and page 51 for a schedule of brokerage commissions.)

MEMBER SERVICES

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

INVESTMENT COMPLIANCE AND FINANCIAL REPORTING

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

EXECUTIVE ASSISTANT

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

ORGANIZATIONAL STRUCTURE

RETIREMENT BOARD

Retirement Administrator
Stanley L. McDivitt

AUDITORS

CUSTODIAL BANK

PORTFOLIO MANAGERS

LEGAL COUNSEL

ACTUARY

INVESTMENT CONSULTANT

MEDICAL ADVISOR

Executive Assistant
Pattie Laygo

Member Services
Yvonne Arellano

Investment Compliance And Financial Reporting
Kathleen Riley

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
THE SEGAL COMPANY
San Francisco, California

Medical Advisor
BENCHMARK MEDICAL CONSULTANTS
Sacramento, California

Independent Auditor
BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH AND
KEETER ACCOUNTANCY CORPORATION
Bakersfield, California

PORTFOLIO MANAGERS

DOMESTIC EQUITY

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

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

INTERNATIONAL & EMERGING MARKETS

International
Acadian Asset Mgt., Boston, MA
Barclays Global Investors, San Francisco, CA
Pyramis Global Advisors Trust Co., Boston, MA

Emerging Market
Genesis Asset Managers LLP, London, England

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

High Yield
Loomis Sayles, Boston, MA

REAL ESTATE

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

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

CERTIFICATE OF ACHIEVEMENT

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, 2007

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

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

President

Executive Director

ALSO AWARDED: 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006

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Section 2
Financial Section

To attract, develop and retain competent and professional staff. We expect excellence in all activites. We will also be accountable and act in accordance with the law.

City of Fresno Retirement Systems • Caring For Your Future

INDEPENDENT AUDITORS REPORT

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Employees Retirement System as of June 30, 2008 and 2007, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 and Note 3 to the financial statements, in 2008 the City of Fresno Employees Retirement System adopted the provisions of GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and 27.*

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, 2008 and 2007, and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

3

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008, on our consideration of the City of Fresno Employees Retirement System internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
November 7, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page iii of this report.

FINANCIAL HIGHLIGHTS

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

At the close of the fiscal year 2008, the assets of the System exceed its liabilities by $969,030,584; fiscal year 2007, the assets of the System exceeded its liabilities by $1,068,859,346; and as of fiscal year 2006, the assets of the System exceeded its liabilities by $945,868,848 .

The System's total net assets held in trust for pension benefits decreased by $-99,828,762 or -9.34 percent for fiscal year 2008; increased by $122,990,498 or 13.0 percent for fiscal year 2007; and $73,303,763 or 8.40 percent for fiscal year 2006; 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, 2007, the date of the last actuarial valuation, the funded ratio for the System was 146.8 percent. In general, this indicates that for every dollar of benefits due we have approximately $1.47 of assets available for payment as of that date.

REVENUES ARE ADDITIONS TO PLAN NET ASSETS

Revenues for the fiscal year decreased $225,667,602 or 138.3 percent over the prior year from $163,206,266 to $-62,461,336 which includes member contributions of $5,665,627, employer contributions of $354,894, a net investment income of $-69,498,414 and net securities lending income of $1,016,557.

Prior fiscal year 2007 revenues increased $58,476,243 or 55.8 percent from $104,730,023 to $163,206,266 which included member contributions of $5,094,188, net investment income of $156,000,084 and securities lending income of $545,779.

EXPENSES ARE DEDUCTIONS IN PLAN NET ASSETS

Expenses for the fiscal year decreased $2,848,342 or 7.08 percent over the prior year from $40,215,768 to $37,367,426.

Prior fiscal year 2007 expenses increased from $31,426,260 to $40,215,768 over the prior year, or approximately 28.00 percent.

The current year decrease in expenses is due primarily to the settlement of the Fresno Organization of Retired City Employees litigation and one time settlement payments to retirees which increased retirement benefits in 2007 along with an increase in the Post Retirement Supplemental Benefits paid over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The System's funding ratio at June 30, 2007 was 146.8 percent, which means the System's fund has approximately $1.47 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 the 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 2008 by $969,030,584. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits have generally increased each fiscal year since 1995 with the exception of losses incurred in fiscal years 2001, 2002 and now 2008. In fiscal year 2008, net assets decreased by 9.34 percent due to a decline in the global investment markets.

The System averaged an annualized investment return of 6.61percent over the past ten years. While this means that the ten year annualized investment return has underperformed the actuarial assumption of 8.25 percent by 1.64 percent, it has exceeded the weighted policy benchmark for that same period by 0.17percent.

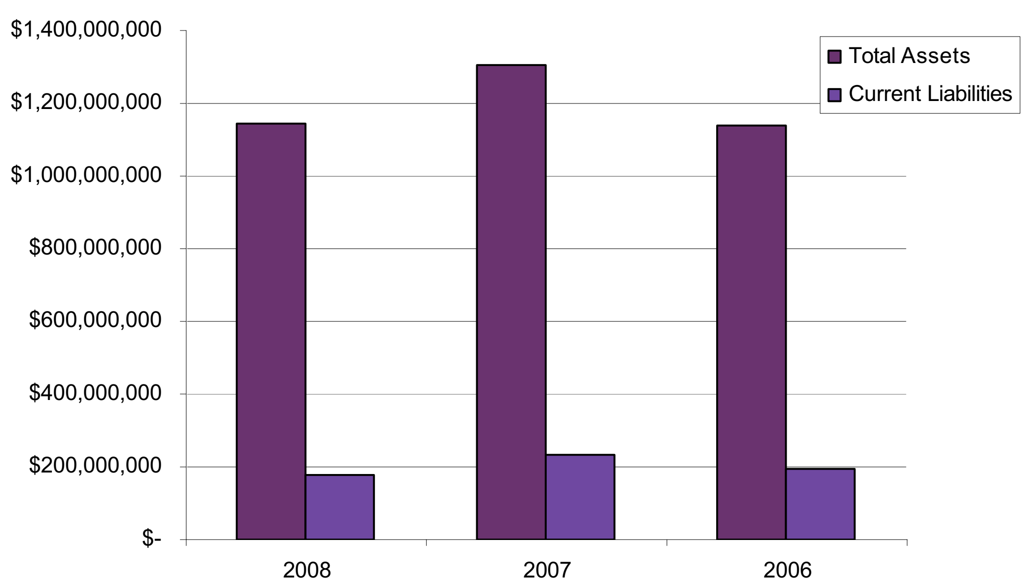
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed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

TABLE 1 – EMPLOYEES RETIREMENT SYSTEM NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2008, 2007 AND 2006

		2008		FY 2007		FY 2008 Increase/ (Decrease) Amount	FY 2008 Increase/ (Decrease) Percent
Current and Other Assets	$	173,867,809	$	222,908,068	$	(49,040,259)	-22.00%
Investments at Fair Value		972,609,226		1,080,673,613		(108,064,387)	-10.00%
Total Assets	**$**	**1,146,477,035**	**$**	**1,303,581,681**	**$**	**(157,104,646)**	**-12.05%**
Current Liabilities		177,446,451		234,722,335		(57,275,884)	-24.40%
Net Assets	**$**	**969,030,584**	**$**	**1,068,859,346**	**$**	**(99,828,762)**	**-9.34%**

		FY 2007		FY 2006		FY 2007 Increase/ (Decrease) Amount	FY 2007 Increase/ (Decrease) Percent
Current and Other Assets	$	222,908,068	$	187,622,056	$	35,286,012	18.81%
Investments at Fair Value		1,080,673,613		951,895,558		128,778,055	13.53%
Total Assets	**$**	**1,303,581,681**	**$**	**1,139,517,614**	**$**	**164,064,067**	**14.40%**
Current Liabilities		234,722,335		193,648,766		41,073,569	21.21%
Net Assets	**$**	**1,068,859,346**	**$**	**945,868,848**	**$**	**122,990,498**	**13.00%**



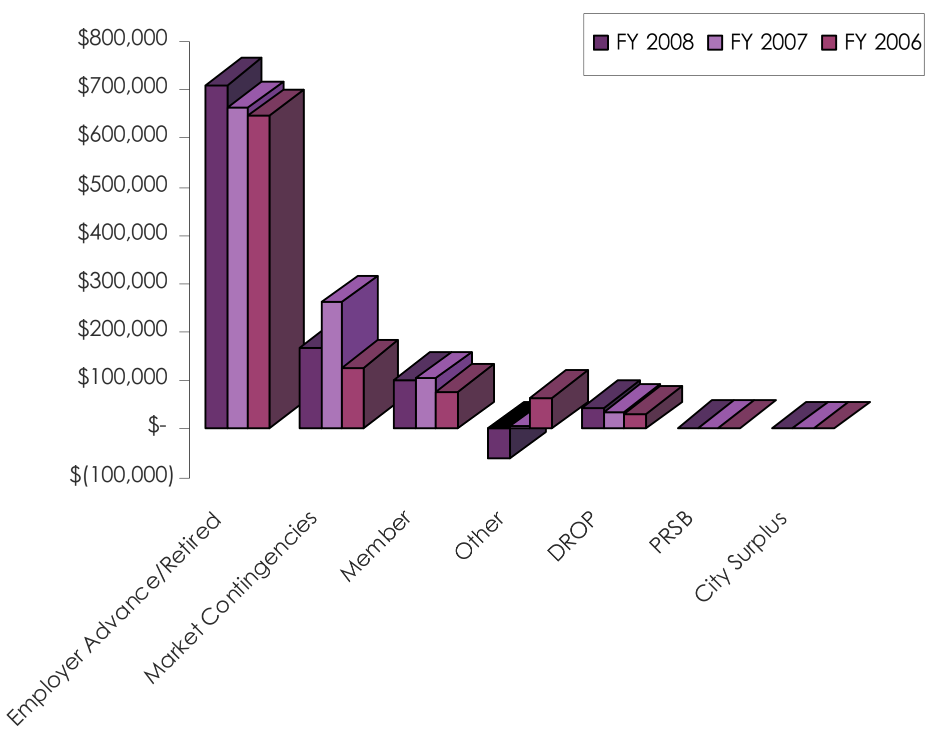
RESERVES

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

TABLE 2 – EMPLOYEES RETIREMENT SYSTEM'S RESERVES

FOR THE YEARS ENDED JUNE 30, 2008, 2007 AND 2006

	2008	2007	2006
Employer Advance/Retired Reserves	$ 710,630	$ 661,619	$ 617,979
Market Contingencies Reserves	168,896	261,011	125,452
Member Reserves	102,672	103,769	104,785
Other Reserves	(61,235)	4,684	63,951
DROP Reserves	44,812	35,813	30,952
PRSB Reserves	3,255	1,963	1,782
City Surplus Reserves	-	-	967
Net Assets Available for Benefits	$ 969,030	$ 1,068,859	$ 945,868



CAPITAL ASSETS

The capital assets of the System presently consist of furniture for the 7,900 square foot office space occupied by the Retirement Administrative Office.

SYSTEM'S ACTIVITIES

Primarily due to the downturn in performance of the global investment markets, the System's assets decreased $99,828,762 for the fiscal year resulting in a 9.34 percent decrease in net assets for the fiscal year ended June 30, 2008. Key elements of this decrease 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, 2008 totaled $-62,461,336.

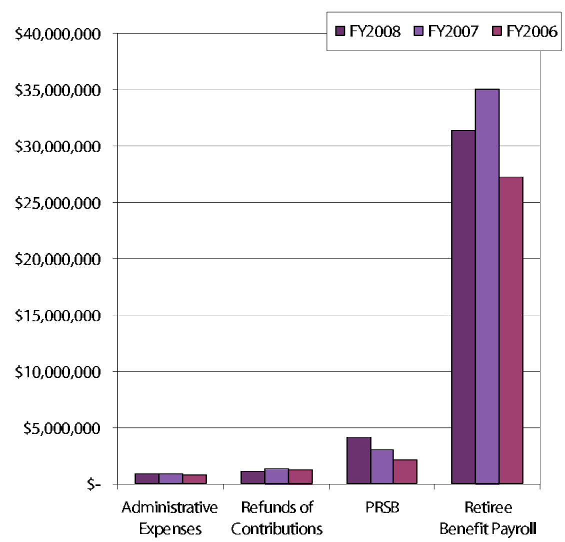
For the fiscal year ended June 30, 2008, overall revenues had decreased by $–225,667,602 or -138.27% percent from the prior year, primarily due to the performance of the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2008.

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, 2008, totaled $37,367,426 which was a decrease of -7.08 percent over the prior fiscal year. The decrease in benefits paid resulted primarily from a decrease in the amount of contributions refunded to terminated members and a one-time retroactive litigation settlement benefit payment paid in the prior year which significantly increased benefit payments in the prior year.

The System's decreases in total expenses are reflective of the decline in global investment markets and incorporate inflation and the growth in the membership and services provided. The System has consistently met its Administrative Expense Budget. There are no material variances between planned expenditures and actual expenditures.



CHANGES IN PLAN NET ASSETS (CONDENSED)

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	FY 2008	FY 2007	FY 2008 Increase/(Decrease) Amount	FY 2008 Increase/(Decrease) Percent
Additions (Declines)				
Employee Contributions	$ 5,665,627	$ 5,094,188	$ 571,439	11.22%
Employer Contributions	354,894	1,566,215	(1,211,321)	100.00%
Net Investment Income (Loss) *	(68,481,857)	156,545,863	(225,027,720)	-143.75%
Total Additions (Declines)	**$ (62,461,336)**	**$ 163,206,266**	**$ (225,667,602)**	**-138.27%**
Deductions				
Retiree Benefit Payroll	31,285,999	34,981,738	(3,695,739)	-10.56%
Refunds of Contributions	1,111,562	1,350,623	(239,061)	-17.70%
PRSB	4,071,510	2,966,913	1,104,597	37.23%
Administrative Expenses	898,355	916,494	(18,139)	-1.98%
Total Deductions	**$ 37,367,426**	**$ 40,215,768**	**$ (2,848,342)**	**-7.08%**
Increase (Decrease) in Plan Net Assets	**(99,828,762)**	**122,990,498**	**(222,819,260)**	**-181.17%**
Beginning Plan Net Assets	**1,068,859,346**	**945,868,848**	**122,990,498**	**13.00%**
Ending Plan Net Assets	**$ 969,030,584**	**$ 1,068,859,346**	**$ (99,828,762)**	**-9.34%**

* Net of investment expense of $5,955,230 and $6,225,385 for June 30, 2008 and 2007, respectively.

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	FY 2007	FY 2006	FY 2007 Increase/(Decrease) Amount	FY 2007 Increase/(Decrease) Percent
Additions				
Employee Contributions	$ 5,094,188	$ 4,643,172	$ 451,016	9.71%
Employer Contributions	1,566,215	-	1,566,215	100.00%
Net Investment Income *	156,545,863	100,086,851	56,459,012	56.41%
Total Additions	**$ 163,206,266**	**$ 104,730,023**	**$ 58,476,243**	**55.84%**
Deductions				
Retiree Benefit Payroll	34,981,738	27,261,190	7,720,548	28.32%
Refunds of Contributions	1,350,623	1,218,579	132,044	10.84%
PRSB	2,966,913	2,148,543	818,370	38.09%
Administrative Expenses	916,494	797,948	118,546	14.86%
Total Deductions	**$ 40,215,768**	**$ 31,426,260**	**$ 8,789,508**	**27.97%**
Increase (Decrease) in Plan Net Assets	**122,990,498**	**73,303,763**	**49,686,735**	**67.78%**
Beginning Plan Net Assets	**945,868,848**	**872,565,085**	**73,303,763**	**8.40%**
Ending Plan Net Assets	**$ 1,068,859,346**	**$ 945,868,848**	**$ 122,990,498**	**13.00%**

* Net of investment expense of $15,816,190 and $12,008,423 for June 30, 2007 and 2006, respectively.

SYSTEM'S FIDUCIARY RESPONSIBILITIES

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

REQUESTS FOR INFORMATION

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

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

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 7, 2008

STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash (Note 6)	$ 1,925,327	$ 1,052,742
Collateral Held for Securities Lent (Note 8)	159,026,067	205,424,694
Receivables		
Receivables for Investments Sold	7,413,664	10,587,588
Interest and Dividends	3,739,422	3,943,424
Other Receivables	1,596,003	1,745,143
Total Receivables	**12,749,089**	**16,276,155**
Prepaid Expenses	105,045	87,163
Total Current Assets	**173,805,528**	**222,840,754**
Investments at Fair Value (Note 6)		
(Cost of $946,800,887 in 2008 and $921,185,671 in 2007)		
Domestic Equity	360,636,078	431,736,570
International Equity	177,279,343	202,278,869
Government Bonds	135,495,656	147,409,437
Corporate Bonds	150,820,057	135,975,910
Real Estate	105,206,253	103,368,602
Emerging Market Equity	27,807,080	35,041,302
Short Term Investments	15,364,759	24,862,923
Total Investments	**972,609,226**	**1,080,673,613**
Capital Assets Net of Accumulated Depreciation (Note 12)	62,281	67,314
Total Assets	**1,146,477,035**	**1,303,581,681**
LIABILITIES		
Collateral Held for Securities Lent (Note 8)	159,026,067	205,424,694
Payable for Investments Purchased	11,233,459	18,862,853
Prepaid Employer Contributions (Note 4)	4,106,927	4,123,947
Other Liabilities	1,426,365	4,507,961
Payable for Foreign Currency Purchased	1,653,633	1,802,880
Total Liabilities	**177,446,451**	**234,722,335**
Net Assets Held In Trust for Benefits (Note 5)	**$ 969,030,584**	**$ 1,068,859,346**

(A schedule of funding progress is included on page 33)
The notes to the financial statements on pages 14 to 29 are an integral part of this statement.

STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
ADDITIONS		
Contributions		
Employer	$ 354,894	$ 1,566,215
System Members	5,665,627	5,094,188
Total Contributions	**6,020,521**	**6,660,403**
Investment Income		
Net Appreciation (Depreciation) in Value of Investments	(92,114,521)	135,558,604
Interest	16,492,071	15,087,834
Dividends	11,984,326	11,492,379
Other Investment Related	94,940	86,652
Total Investment Income (Loss)	(63,543,184)	162,225,469
Less: Investment Expense	(5,955,230)	(6,225,385)
Total Net Investment Income (Loss)	**(69,498,414)**	**156,000,084**
Securities Lending Income		
Securities Lending Earnings (Note 8)	7,596,520	10,136,584
Less: Securities Lending Expense	(6,579,963)	(9,590,805)
Net Securities Lending Income	**1,016,557**	**545,779**
Total Additions (Declines)	**(62,461,336)**	**163,206,266**
DEDUCTIONS		
Benefit Payments	31,285,999	34,981,738
Post Retirement Supplemental Benefits	4,071,510	2,966,913
Refunds of Contributions	1,111,562	1,350,623
Administrative Expense	898,355	916,494
Total Deductions	**37,367,426**	**40,215,768**
Net Increase (Decrease)	**(99,828,762)**	**122,990,498**
NET ASSETS HELD IN TRUST FOR BENEFITS		
July 1	**1,068,859,346**	**945,868,848**
June 30	**$ 969,030,584**	**$ 1,068,859,346**

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

NOTES TO FINANCIAL STATEMENTS

1

DESCRIPTION OF THE SYSTEM

The Employees Retirement System ("System") was established on June 1, 1939, and is governed by Article 5 of Chapter 3 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:

	2008	2007
Active Members		
Vested	1,626	1,701
Non-vested	889	722
Total Active Members	2,515	2,423
Retirees and Beneficiaries of Deceased Retirees Currently Receiving Benefits	1,363	1,299
Inactive Vested Members	192	193
Total	4,070	3,915

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

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

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

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

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

The System uses the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan per Section 3-523 and 3-529 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.

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.

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

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

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

3

CONTRIBUTIONS

Authority to Collect
The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 3-523 and 3-529.

Funding Status & Method
The funding ratio as of June 30, 2007 was 146.8% using the projected unit credit cost method. The System's actuary uses a five year smoothing of market gains and losses to derive the actuarial value of assets. As of the fiscal year ended June 30, 2007, the actuarial value of assets was $926.5 million. The Schedule of Fund Progress provided by the actuary (as shown on page 33) does not include other designated reserves (other reserves) and the liabilities associated with these reserves.

3

CONTRIBUTIONS CONTINUED

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

The liability is being funded on the Projected Unit Credit Cost method and currently has a Prefunded Actuarial Accrued Liability (PAAL). Under this method, the employer contribution rate provides for the current cost (normal cost) plus a level percentage of payroll to amortize any prefunded actuarial accrued liability (PAAL). Actuarial gains and losses are incorporated into the PAAL and are amortized over a 15-year period.

The progress being made towards meeting the funding objective through June 30, 2007 is illustrated in the Schedule of Funding Progress shown below and in the Required Supplemental Schedule on page 33.

SCHEDULE OF FUNDING PROGRESS

FOR THE THREE YEARS ENDING JUNE 30, 2008

(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)
2005	$ 791	$ 566	139.8%	$ (225)	$ 103	(219.7)%
2006	$ 848	$ 614	138.1%	$ (234)	$ 111	(209.7)%
2007	$ 927	$ 631	146.8%	$ (295)	$ 122	(241.5)%

The valuation interest rate is 8.25%; total salary scale increases of 3.75% (3.75% for inflation) plus 0.25% across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2006 Experience Analysis and the June 30, 2007 economic Assumptions Report.

These actuarial assumptions were adopted by the Retirement Board on December 13, 2007 for implementation as of July 1, 2008.

3

CONTRIBUTIONS CONTINUED

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2007
Actuarial Cost Method	Projected Unit Credit Actuarial Cost Method Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	15 Years Rolling
Asset Valuation Method	Actuarial Value, 5 year Smoothed Market Value recognizing differences between the total market value and the expected investment return.
Actuarial Assumptions	
Investment Rate of Return	8.25%
Projected Salary Increases	4.00%
Attributed to Inflation	3.75%
Cost of Living Adjustments	3.75%

Funding Policy

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the projected unit credit method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded liability. However, excess earnings and prepaid City contributions in the System have funded the fiscal year 2008 and 2007 City contributions.

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

Total contributions to the System for fiscal year 2008 totaled $6,020,521. Employees contributed $5,665,627 and the City contributions of $354,894 came from prepaid contributions on deposit with the System. The remaining Employer contributions were offset by the prefunded actuarial accrued liability of the System.

Contributions aggregating $ 6,020,521 ($354,894 employer prepaid contributions and $5,665,627 employee contributions) were made in fiscal year 2008, based on an actuarial valuation determined as of June 30, 2006, which became effective for the year ended June 30, 2008. During fiscal year 2008, the Employer contribution rate was set at 10.93%; however, no cash contributions were required from the City as the employer contribution came from prepaid contributions of $354,894 on deposit with the System and the prefunded actuarial accrued liability of the System. Employer and System member contributions represented 0.27 percent and 4.37 percent, respectively, of the fiscal year 2008 covered payroll.

3

CONTRIBUTIONS CONTINUED

Contributions aggregating $ 6,660,403 ($1,566,215 employer prepaid contributions and $5,094,188 employee contributions) were made in fiscal year 2007, based on actuarial valuations determined as of June 30, 2005, which became effective for the year ended June 30, 2007. During fiscal year 2007, the employer contribution rate was set at 10.51%; however, no cash contributions were required from the City as the employer contribution came from prepaid contributions of $1,566,215 on deposit with the System and the prefunded actuarial liability of the System. Employer and System member contributions represented 1.37 percent and 4.46 percent, respectively, of the fiscal year 2007 covered payroll.

Contributions Required and Contributions Made
The employer's contributions to the System for 2008, 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, 2006, as follows:

Normal Cost:		
Required Annual Contribution Amount	$	10,349,462
Less: Prefunded Actuarial Accrued Liability Applied		(9,994,568)
Net Employer Contributions	$	354,894
Pensionable Payroll Amount (Fiscal Year 2008)	$	129,440,108

4

PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited $5,524,810 as prepaid Employee Retirement System, of which $4,106,927 remains and is classified by the City as prepaid employer contributions to the System. The balance of the prepayment earns interest at the rate of 8.25 percent until prepaid contributions are used to fund the City's required contributions to the System. When prepaid contributions are used the amount of the annual revenue recognition is credited to the employer contributions.

For fiscal year 2008, a portion of the City contributions were offset by prepaid employer contributions of $354,894 with the remainder of the City contributions offset by applying the prefunded actuarial accrued liability. That portion of prepaid contributions used to offset the City's contribution for fiscal year 2008, received a prorated share of the annual interest earned which was credited to the City prepaid contributions balance.

Balance June 30, 2007	$	4,123,947
Prepaid Employer Contributions Used		(354,894)
Interest Credited for Fiscal Year 2008	$	337,874
Balance at June 30, 2008	$	4,106,927

5

NET ASSETS AVAILABLE FOR BENEFITS

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

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

The System's major reserves are as follows:

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

5

NET ASSETS AVAILABLE FOR BENEFITS CONTINUED

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

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

POST RETIREMENT SUPPLEMENTAL RESERVE represents surplus earnings that have been allocated but not distributed to eligible retirees in accordance with Municipal Code Section 3-567 "Post-Retirement Supplemental Benefit."

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 "Post-Retirement Supplemental Benefit."

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

OTHER RESERVE represents an accumulation of the market appreciation in the value of the System's assets less investment income and charged with investment and other investment related expenses.

The Other Reserve is funded entirely from these investment earnings. Transfers of undistributed earnings from the Other Reserve account to reserve accounts are made at an annual rate of 8.25 percent of the average of the beginning and ending balances in the transferee reserve.

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

The amount of reserves for the year ended June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Employer Advance/Retired Reserve	$ 710,630	$ 661,619
Reserve for Market Contingencies	168,896	261,011
Active Member Reserves	102,672	103,769
DROP Reserve	44,812	35,813
Reserve for PRSB	3,255	1,963
Other Reserves	(61,235)	4,684
Net Assets Available for Benefits	$ 969,030	$1,068,859

6

DEPOSITS AND INVESTMENTS

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

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

6

DEPOSITS AND INVESTMENTS CONTINUED

Investments at June 30, 2008 and 2007 consist of the following:

	2008	2007
Investments at Fair Value		
Domestic Equity	$ 360,636,078	$ 431,736,570
International Equity	177,279,343	202,278,869
Government Bonds	135,495,656	147,409,437
Corporate Bonds	150,820,057	135,975,910
Real Estate	105,206,253	103,368,602
Emerging Market Equity	27,807,080	35,041,302
Short Term Investments	15,364,759	24,862,923
Total Investments at Fair Value	$ 972,609,226	$ 1,080,673,613

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

Asset Class	Minimum	Target	Maximum
Large Cap Equities	27%	30%	33%
Small Capital Equities	8	10	12
International Equities	14	17	20
Emerging Market 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%	

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.

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 $1,925,327 and $1,052,742 at June 30, 2008 and 2007, respectively. Accordingly the System's Investments in the pool are held in the name of the City and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments may be found in the notes to the City's separate Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008.

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
Asset Backed Securities	$	5,994,561	AA	2.97
Commercial Mortgage-Backed		16,715,152	AA+	5.06
Corporate Bonds		105,117,110	BBB-	5.63
Corporate Convertible Bonds		2,326,777	CCC	2.19
Convertible Equity		428,775	B-	10.33
Preferred Stock		161,422	BBB-	4.94
Government Agencies		9,185,905	AAA	4.14
Government Bonds		29,939,046	AAA	5.19
Government Mortgage Backed Securities		90,568,893	AAA	3.83
Index Linked Government Bonds		132,249	B+	12.70
Municipal/Provincial Bonds		2,752,590	AA-	6.47
Non-Government backed C.M.O.s		22,993,233	AA+	2.97
Total Credit Risk Fixed Income	$	286,315,713		

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DEPOSITS AND INVESTMENTS CONTINUED

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

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

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

Concentration Risk
The Investment portfolio as of June 30, 2008 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 System's investment policy guidelines allow international developed and emerging equity managers to hedge their currency risks in foreign countries through the purchase of derivatives. Used as a defensive measure and in an effort to control the risks associated with international portfolios, international equity investment managers are permitted to invest in forward currency contracts, swaps currency futures, and exchanged-traded index futures that represent broad equity exposure to countries represented in their respective benchmark index.

The following positions represent the System's exposure to foreign currency risk as of June 30, 2008.

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DEPOSITS AND INVESTMENTS CONTINUED

Equities:

Base Currency:		Fair Value in USD
Australian Dollar	AUD	$ 9,664,041
Brazilian Real	BRL	2,230,965
Canadian Dollar	CAD	110,428
Swiss Franc	CHF	7,171,492
Chilean Peso	CLP	380,570
Colombian Peso	COP	251,942
Danish Krone	DKK	960,117
Egyptian Pound	EGP	999,289
Euro	EUR	47,418,667
British Pound Sterling	GBP	19,951,524
Hong Kong Dollar	HKD	4,165,627
Hungarian Forint	HUF	527,166
Indonesian Rupiah	IDR	2,019,037
Japanese Yen	JPY	27,287,064
South Korean Won	KRW	2,521,722
Mexican Peso	MXN	2,329,572
Malaysian Ringgit	MYR	657,422
Norwegian Krone	NOK	1,460,628
Philippine Peso	PHP	157,280
Swedish Krona	SEK	1,196,510
Singapore Dollar	SGD	1,359,771
Thai Baht	THB	142,129
Turkish Lira	TRY	1,379,870
New Taiwan Dollar	TWD	1,223,827
South African Rand	ZAR	4,071,058
Total Non-USD Equities (in USD)		$ 139,637,718

Cash and Cash Equivalents:	Fair Value in USD
Argentine Peso	$ 4,462
Australian Dollar	2,413
Brazilian Real	1,479
Swiss Franc	21,865
Chilean Peso	57,851
Danish Krone	14,263
Euro	155,771
British Pound Sterling	11,615
Hong Kong Dollar	16,128
Japanese Yen	146,130
South Korean Won	1,620
Mexican Peso	40,054
Norwegian Krone	21,086
New Zealand Dollar	203
Swedish Krona	29,783
Singapore Dollar	31
New Taiwan Dollar	41,014
Total Non-USD Cash (in USD)	$ 565,768

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DEPOSITS AND INVESTMENTS CONTINUED

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

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

7

DERIVATIVES

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

a. Mitigation of risk (or risk reduction).

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

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

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

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

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

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

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

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

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DERIVATIVES CONTINUED

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

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

As of June 30, 2008, the Employees Retirement Systems derivative holdings consisted of the following:

S&P 500 Equity Futures		
(as a component of Barclays Global Investors Equity Index Fund A)		$ 11,464
Swaps held in Securities Lending Cash Collateral Funds		
of Barclays Global Investors Equity Index Fund A		
Asset Swap	$ 14,529	
Basis Swap	90,741	
Credit Derivative Swap	1,930	
Total Swaps		$ 107,200
S&P 500 Equity Futures		
(as a component of Barclays Global Investors Alpha Tilts Fund)		276,581
S&P 500 Equity Futures		
(as a component of Barclays Global Investors Int'l Alpha Tilts Fund)		47,513
Swaps held in Securities Lending Cash Collateral Funds		
of Barclays Global Investors Int'l Alpha Tilts Fund		
Total Return Swap	$ 181,511	
Basis Swap	1,133,596	
Credit Derivative Swap	24,119	
Total Swaps		1,339,226
Fair Value of Derivatives Held at June 30, 2008		$ 1,781,984

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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, 2008 had a weighted average duration of 36 days, average maturity is 196 days and an average monthly yield of 2.52 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the System. As of June 30, 2008, the CORE USA Cash Collateral Fund had 1.10% exposure in subprime residential mortgage-backed securities, in the first-pay triple A tranches (as rated by at least one rating agency) and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the System against losses and will replace or reimburse the System for any borrowed securities not replaced. In general, the average term of all System loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the System's loans was approximately 78 days as of June 30, 2008.

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

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SECURITIES LENDING CONTINUED

The System's securities lending income is as follows:

		2008		2007
Gross Income	$	7,596,520	$	10,136,584
Expenses:				
Borrower Rebates		6,301,785		9,409,022
Bank Fees		278,178		181,783
Total Expenses		6,579,963		9,590,805
Net Income from Securities Lending	$	1,016,557	$	545,779

Fair Value of Loaned Securities
As of June 30, 2008

Collateralized by		Cash		Securities		Total
U.S. Government & Agency	$	28,603,439	$	1,193,974	$	29,797,413
Domestic Equities		92,586,141		270,075	$	92,856,216
Domestic Fixed		16,458,073		(775,224)	$	15,682,849
International Equities		14,738,842		1,267,066	$	16,005,908
Total Value	$	152,386,495	$	1,955,891	$	154,342,386

Fair Value of Collateral Received for Loaned Securities
As of June 30, 2008

Collateralized by		Cash		Securities		Total
U.S. Government & Agency	$	29,232,792	$	1,303,427	$	30,536,219
Domestic Equities		95,167,380		278,258	$	95,445,638
Domestic Fixed		16,910,500		(798,489)	$	16,112,011
International Equities		15,591,943		1,340,256	$	16,932,199
Total Value	$	156,902,615	$	2,123,452	$	159,026,067

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SUBSEQUENT EVENTS

Adjustment to or disclosure pertaining to events or transactions that occur after the balance sheet date but prior to the issuance of the annual financial statement in which material effect on the financial statement could exist require adjustments and disclosure.

The following conditions did not exist as of June 30, 2008, but arose subsequent to that date and may have a future impact on the System.

Recent Market Events

Following June 30, 2008, the global investment markets began experiencing unprecedented turmoil related directly to the restricted availability of capital, the continued write-down of mortgage related assets led initially by defaults in the sub-prime mortgages and the continued sharp decline in the global housing markets.

In the U.S. these events resulted in federal intervention due to the bankruptcy declared by Lehman Brothers and the near failure of several large domestic financial institutions. However, despite federal intervention the markets continue to suffer significant losses stemming from a general uncertainty about how best to address the expanded global credit crisis and losses that these financial institutions are facing.

While it is the opinion of the management of the System and the System's actuary that the System remains strong, well funded and well positioned to serve our members, the value of the System's assets have been affected by this turbulent global market environment. However, the amount of the losses that the System may recognize in its future financial statements, if any, cannot be determined now. Market fluctuations are a normal investment risk for a pension fund and the System is a long-term investor.

Negative returns on the Plan's assets through October 31, 2008, could affect the funded status of the System. However, the ultimate impact on the funded status will be determined based on market conditions in effect when the actuarial annual valuation for the fiscal year ended June 30, 2009 is performed.

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ADMINISTRATIVE EXPENSES

Section 3-532 of the Fresno Municipal Code provides that all administrative costs of the System shall be a charge against the assets of the System. Per the Municipal Code, the Administrative expenses are a component of the City's contribution calculation.

11

POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

The System is not obligated to provide for or fund any other post-employment benefits as retirees do not receive paid healthcare benefits from the Systems. The Post-Retirement Supplemental Benefit ("PRSB") Program was created as a contingent program to provide supplemental distributions to eligible retirees which they could use to pay for various post-retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus, if available, in accordance with the procedures in Municipal Code Section 3-567.

If an actuarial surplus is declared by the Board, the surplus is allocated into two components. One component composed of two-thirds of the declared surplus shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post-retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 3-567(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, 2008, the System distributed PRSB benefits in the amount of $4,071,510 to eligible retirees and offset required City pension contributions by $9,994,568. As of June 30, 2008, the City Surplus Reserve balance was $0 and the PRSB Reserve balance was approximately $3,255,415, of which $2,488,361 is committed for PRSB distribution for the months of July through December 2008.

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CAPITAL ASSETS

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

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LEASES

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

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

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RELATED PARTY TRANSACTIONS

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

The Retirement Systems lease office space from the CFRS Realty Holding Corporation, a title holding company controlled jointly by the City of Fresno Employees and City of Fresno Fire and Police Retirement Systems. See note 13 for a description of this arrangement.

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Section 2
Financial Section
Required Supplemental Schedules

To improve communications with members and the employer.

City of Fresno Retirement Systems • Caring For Your Future

REQUIRED SUPPLEMENTAL SCHEDULES
FOR THE YEARS JUNE 30, 2008 AND 2007

1. 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)
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	(157.4)%
2004	$ 742	$ 554	133.8%	$ (187)	$ 100	(187.9)%
2005	$ 791	$ 566	139.8%	$ (225)	$ 103	(219.7)%
2006	$ 848	$ 614	138.1%	$ (234)	$ 111	(209.7)%
2007	$ 927	$ 631	146.8%	$ (295)	$ 122	(241.5)%

2. SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

Year Ended June 30	Actuarially Required Contribution	Contributions as a % of ARC
2008	$ 355	100%
2007	$ 1,566	100%
2006	$ 0	100%
2005	$ 0	100%
2004	$ 0	100%
2003	$ 0	100%
2002	$ 0	100%
2001	$ 0	100%
2000	$ 0	100%
1999	$ 0	100%

NOTES TO THE REQUIRED SUPPLEMENTAL SCHEDULES

FOR THE YEARS JUNE 30, 2008 AND 2007

ACTUARIAL ASSUMPTIONS

The Segal Company, the System's actuary, performed an actuarial valuation as of June 30, 2007. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

1. **Annual inflation** is assumed at 3.75%.

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

3. The **City contribution rate** is set at 10.56% (normal cost of 10.56% is offset by applying prefunded actuarial accrued liability of 10.56%).

4. **Average employee contribution rate** is 5.02%, (basic only) 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, weighted for males 65% and for females 35%.

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 3.75% plus 0.25% across the board salary increases, plus merit and promotion increases based on completed years of service.

10. **Post retirement benefit** increases are based on CPI for each year to a maximum of 3.75% per year.

11. The **amortization period** for Prefunded Actuarial Accrued Liability is an open non-declining 15-year period.

These actuarial assumptions were adopted by the Retirement Board on December 13, 2007 for implementation as of July 1, 2008.

Section 2
Financial Section
Supplemental Schedules

Investments will be managed to balance the need for security with superior performance.

City of Fresno Retirement Systems • Caring For Your Future

SUPPLEMENTAL SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Personnel Services		
Staff Salaries	$ 294,729	$ 279,471
Fringe Benefits	47,253	45,742
Total Personnel Services	$ 341,982	$ 325,213
Professional Services		
Actuarial	$ 85,798	$ 88,785
Legal Counsel	101,114	93,644
Information Systems Services	34,996	35,626
Specialized Services	51,042	49,239
Total Professional Services	$ 272,950	$ 267,294
Communication		
Printing	$ 34,307	$ 32,549
Telephone	5,398	7,351
Postage	1,268	1,549
Total Communication	$ 40,973	$ 41,449
Rentals		
Office Rent	$ 61,072	$ 64,241
Common Area Maintenance (CAM) Charges	20,379	41,351
Total Office Rent	$ 81,451	$ 105,592
Other		
Education and Conference	$ 26,920	$ 13,472
Membership & Dues	1,770	1,825
Subscriptions & Publications	220	137
Office Supplies	6,726	6,372
Insurance	85,537	90,647
Miscellaneous	3,741	40,030
Reimbursement to City for Services	31,052	19,430
Depreciation	5,033	5,033
Total Other	$ 160,999	$ 176,946
Total Administrative Expenses	$ 898,355	$ 916,494

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Investment Manager Fees		
Equity		
Domestic	$ 1,957,581	$ 2,036,015
International	1,198,191	1,287,774
Fixed Income		
Domestic	632,548	698,750
Real Estate	879,491	948,381
Total Investment Manager Fees	4,667,811	4,970,920
Other Investment Expenses		
Foreign Income Taxes	787,792	703,221
Custodial Services	38,693	37,277
Investment Consultant	123,061	96,716
Prepaid Employer Contribution Interest Expense	337,873	417,251
Total Other Investment Expenses	1,287,419	1,254,465
Total Fees & Other Investment Expenses	5,955,230	6,225,385
Securities Lending Expenses		
Borrowers Rebates	6,301,785	9,409,022
Agent Fees	278,178	181,783
Total Securities Lending Expenses	6,579,963	9,590,805
Total Investment Expenses	$ 12,535,193	$ 15,816,190

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2008 and 2007

	2008	2007
Legal Services	$ 101,114	$ 93,644
Actuarial Services	85,798	88,785
Miscellaneous	39,011	39,685
City Information Services	34,996	35,626
Medical Consultant	12,031	9,554
Total Payments to Consultants	$ 272,950	$ 267,294

Section 3
Investment Section

To achieve and maintain top quartile investment performance as measured by the Public Fund Universe.

City of Fresno Retirement Systems • Caring For Your Future

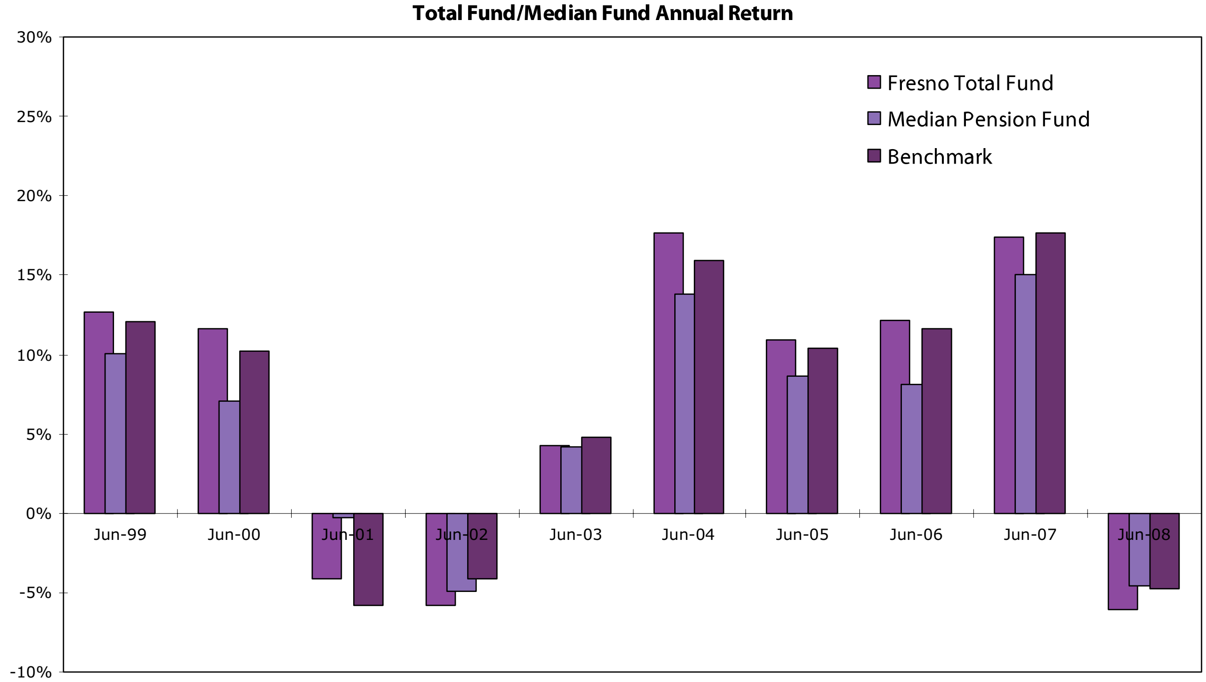
INVESTMENT REPORT FROM THE RETIREMENT ADMINISTRATOR

Highlighted Investment Performance of the City of Fresno Employees Retirement System Investment Portfolio for FY 2008:

	Return
Total Fund	**-6.05%**
Domestic Equity	-12.64%
International Equity	-10.10%
Fixed Income	3.88%
Real Estate	1.74%
Fiscal Year End	
Fund Value:	**$969,030,584**

The System's Total Fund Returns Versus Wilshire Associates Public Pension Funds (Gross of Fee) Returns for the Period Ended June 30, 2008, ranked the System in the third quartile (72nd percentile) of our Investment Consultant's universe of public funds. Over the past ten years, the Systems' investment returns have remained sound and outperformed its policy benchmark and the median fund returns as shown in the following chart.

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



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Fresno Total Fund	12.70%	11.60%	-4.10%	-5.80%	4.31%	17.70%	10.92%	12.12%	17.36%	-6.05%
Median Pension Fund	10.00%	7.10%	-0.30%	-4.90%	4.15%	13.83%	8.63%	8.08%	15.06%	-4.56%
Benchmark	12.10%	10.20%	-5.80%	-4.10%	4.80%	15.93%	10.40%	11.62%	17.64%	-4.79%

SUMMARY OF PORTFOLIO RESULTS

The fiscal year, ended June 30, 2008, marked a volatile year which ended with negative performance for the City of Fresno Employees Retirement System. The System experienced a total investment loss of 6.05 percent for the fiscal year ended June 30, 2008, underperforming the System's actuarial interest rate assumption of 8.25 percent by 14.30 percent and underperforming the System's policy benchmark (a weighted average of the Fund's asset classes and their respective benchmarks) return of -4.79 percent by -1.26 percent. Over the longer term, our investment results remain sound with annualized returns 9.47 percent over the past fifteen years. The System's ten-year annualized returns averaged 6.61 percent underperforming its policy benchmarks for the period by 1.64 percent. After paying all benefits and expenses of the System, the year-end value of the System dropped to $969 million.

The System's return of -6.05 percent for the Fiscal Year ended June 30, 2008 outperformed the Wilshire 5000, a broad index of stock prices which fell -12.53 percent. The U.S. equity market suffered its worst monthly loss since the -10.03% sell-off in September 2002 with the Dow Jones Wilshire 5000SM retreating –8.14% in June. This result indicates that the System outperformed the broader investment market over the fiscal year.

Many academic studies suggest that about 80-90 percent of a portfolio's investment results are derived from its asset allocation and that a well-diversified investment portfolio is more likely to produce better performance relative to its indexes. Our longer term success can be attributed to the well-thought-out asset allocation strategy adopted by the Employees Retirement Board and to the System's investment staff's timely implementation and rigorous monitoring of the System's investments in collaboration with the outside investment consultant.

ANALYSIS OF ISSUES AFFECTING OUR PORTFOLIO IN FY 2008

The prudent leadership of the Employee Retirement System Board is undoubtedly the most important factor in the continued success of our System. Our Board understands that the Retirement System's portfolio requires a sound and stable strategy for meeting investment goals over the long–term. To that end, the Board reviews its asset liability structure periodically to evaluate the appropriateness of the portfolio's assumptions and asset mix. The Board's Investment Committee conducted an evaluation of the System's Asset Allocation Plan and assumptions and the Boards approved Phase I implementation of the new Asset Allocation and Target Mix Allocations.

In general, the System's portfolio correlates well with the performance of the U.S. stock market. In fiscal year 2008, market sentiment as well as performance were further affected by the following economic and market developments: (1) a continued U.S. housing recession; (2) rising fallout from subprime mortgage defaults and foreclosures; (3) relatively low long-term interest rates and a tightened lending monetary policy; (4) weakening consumer confidence and spending; (5) uncertainty and risks associated with geopolitical tensions; and (6) the general concerns concerning inflation.

During the fiscal year 2008, the Board conducted an analysis, search and evaluation of core plus fixed income investment managers but postponed its decisions pending completion and implementation of the Board's new Asset Allocation Study.

The Investment Committee recommended and the Board adopted further modifications to its investment policy guidelines for International Equity Portfolios – Developed and Emerging Markets to reflect the current market strategies in the asset classes and to include the new mandate for an ACWIxUS strategy which incorporates a strategic investment in both developed and emerging market international equities while constraining the emerging market investments with specific guidelines.

GENERAL INFORMATION

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

SUMMARY OF GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

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

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

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

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

SUMMARY OF PROXY VOTING GUIDELINES AND PROCEDURES

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

The Board incorporated International equity proxy voting guidelines for share-blocking markets into its Proxy Voting policy in 2008. Share-blocking markets are markets of countries outside the U.S. and Canada, which restrict trade activity by shareholders who vote proxies. For portfolio managers managing assets in these international developed and emerging market countries, the requirement to vote proxies may prevent the full exercise of their fiduciary duty to manage the portfolio in the best interest of the Systems. Therefore, under these circumstances, the portfolio manager is granted the authority to choose whether or not to vote proxies in share-blocking markets based upon the manager's determination of what is in the best interest of the Systems.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of June 30, 2008, the Retirement System's portfolio was slightly under-weighted in total equities, with 59.0% in total equities versus the target of 60.0%. Domestic equities were under-weighted with 37.6% versus the target of 40.0%, while international equity with 18.4% developed and 2.9% emerging markets was slightly over-weight total international equity with 21.3% versus the target of 20.0%. Fixed income was 30.3%, slightly above its target of 30.0% and real estate at 10.6% was slightly over-weight its target of 10.0%.

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

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap Equities	29.2%	30.0%
Small-Cap Equities	8.4%	10.0%
International Equities:		
Developed Equities	18.4%	17.0%
Emerging Market Equities	2.9%	3.0%
Fixed Income:		
Domestic Fixed Income	25.5%	25.0%
High Yield Fixed Income	4.8%	5.0%
Real Estate		
Private Real Estate	7.3%	6.0%
Public (REITs)	3.3%	4.0%
Cash	0.2%	0.0%
Total	100.0%	100.0%

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

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 7, 2008

INVESTMENT CONSULTANT'S REPORT

WILSHIRE

October 21, 2008

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

Introduction and Overview

Performance in fiscal year 2008 was disappointing and broke a string of successes over the last several years. For the fiscal year ended June 30, 2008, the combined systems experienced a total loss of -6.05% gross of fees, the first year in the last six that the systems have not generated a positive return and the first year in the last five in which the systems' return did not exceed the actuarial interest rate assumption. Over the last year, the fund underperformed its benchmark[1] return of -4.79% by 1.26% (gross of fees). Fortunately, due to the double digit returns of the preceding four 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 past fiscal year and the 2000 – 2003 period.

The Systems' total return over the past five years has been an annualized average of +10.04% gross of fees versus the fund benchmark return of +9.89% and the 8.25% actuarial interest rate assumption. Over the past five years, the Systems have outperformed the benchmark by 0.15% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +6.61% gross of fees versus a return of +6.44% for the composite benchmark. Over this time period, the Systems outperformed the benchmark by 0.17% per year.

Summary of Investment Results

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

The quarterly performance of the Systems' total fund composite reflected the extremely high level of stock market volatility over the past year. The Systems returned +2.12% gross of fees in the third calendar quarter of 2007 (first fiscal quarter), underperforming the benchmark return of +2.50%. This performance ranked the Systems in the top 45% of all pension funds in our database (45th percentile). When the equity markets fell in the fourth calendar quarter, the Systems assets dropped, as well. In this quarter, the Systems returned -1.76% gross of fees, performing behind the benchmark return of -1.11%, and ranking in the top 77% (77th percentile) of all pension funds in this quarter. In the first calendar quarter of 2008, the Systems trailed their benchmark, returning -5.93% gross of fees versus -4.99% for the index. This performance placed the combined Systems in the top 76% of our database (76th percentile). Finally, in the second calendar quarter of 2008, the Systems returned -0.45% gross of fees, outperforming the benchmark return of -1.14% and ranking the Systems in the top 30% of funds in our database (30th percentile).

WILSHIRE ASSOCIATES
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401-1085
TEL 310.451.3051 FAX 310.458.0520 www.wilshire.com

WILSHIRE

For the year ending June 30, 2008, the Systems' gross of fee performance of -6.05% trailed the benchmark return of -4.79% and ranked in the third quartile (72nd percentile) of all public pension funds gross of fee performance in our database.

Asset Allocation

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

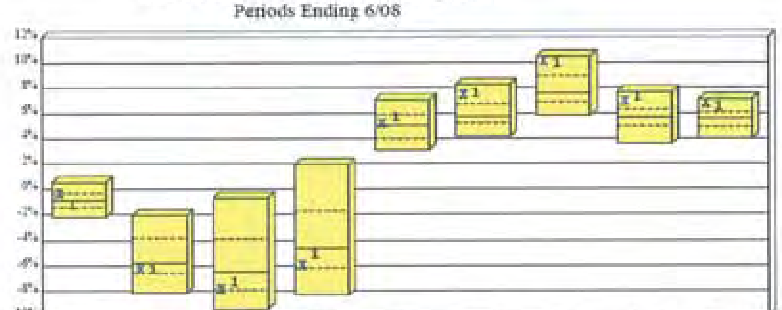
Brokerage Recapture Programs

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

Performance Comparison

The following chart compares the total return for the Systems to all other public pension funds in our universe and the Systems' benchmark. The graph illustrates that aside from this most recent year, the Systems have ranked above the median of all public pension funds in all measured time periods ended 6/30/08. Over the last three-, five-, and ten-year periods, the Systems has ranked in the top decile consistently.

City of Fresno Retirement System
Cumulative Performance Comparison
Total Returns of Total Fund Public Sponsors
Periods Ending 6/08



	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	0.58	-2.05	-0.70	1.84	7.03	8.24	10.44	7.66	7.07
25th Percentile	-0.33	-3.78	-3.85	-1.70	5.89	6.69	8.90	6.26	6.07
Median	-0.90	-5.73	-6.44	-4.56	5.00	5.74	7.56	5.63	5.53
75th Percentile	-1.42	-6.50	-7.58	-6.16	3.98	5.18	6.82	4.93	4.87
95th Percentile	-2.22	-8.13	-9.42	-8.29	3.07	4.14	5.80	3.37	3.98
X Total Fund	-0.45 (30)	-6.35 (68)	-7.84 (76)	-6.05 (72)	5.01 (48)	7.33 (11)	10.04 (8)	8.80 (12)	6.81 (9)
1 Policy Index	-1.14 (62)	-6.07 (57)	-7.38 (65)	-4.79 (34)	5.83 (27)	7.70 (8)	9.89 (9)	7.25 (8)	6.44 (11)

Summary

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In conclusion, the Systems continue to earn significant gains over the long term, with performance over the last five years in excess of 10% per year, on average. While the short term outlook for the stock markets and the economy is unclear, we remain confident that the Systems have an appropriate asset allocation mix that will maximize the potential for return while minimizing unwanted risks.

Overall, we believe that the Systems' asset allocation will continue to help mitigate volatility within the fund while still maintaining and improving the Systems' strong financial position.

Sincerely,

Michael C. Schlachter, CFA
Managing Director

[1] City of Fresno Total Fund Policy Index

Policy Index	7/01/05 - 6/30/08	2/01/05 - 6/30/06	7/01/04 - 1/31/05	7/01/03 - 6/30/04	4/01/01 - 6/30/03	3/01/97 - 3/31/01	9/13/95 - 2/28/97
Dow Jones Wilshire 5000 Index	40.0%	40.0%	40.0%	42.0%	45.0%	46.0%	51.0%
MSCI EAFE Index	17.0%	17.0%	17.0%	15.0%	9.0%	10.0%	7.0%
MSCI EMF Index	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	
Lehman Aggregate	25.0%	25.0%	25.0%	28.0%	28.0%	25.0%	37.0%
Lehman High Yield	5.0%	5.0%	5.0%	4.0%	2.0%		
Lehman Gov/Credit/LB					7.0%	5.0%	
JPMorgan Non US Govt Bond						8.0%	4.0%
NCREIF	6.0%	7.5%	10.0%	8.0%	7.0%	4.0%	1.0%
DJ Wilshire Real Estate Securities Index	4.0%	2.5%					
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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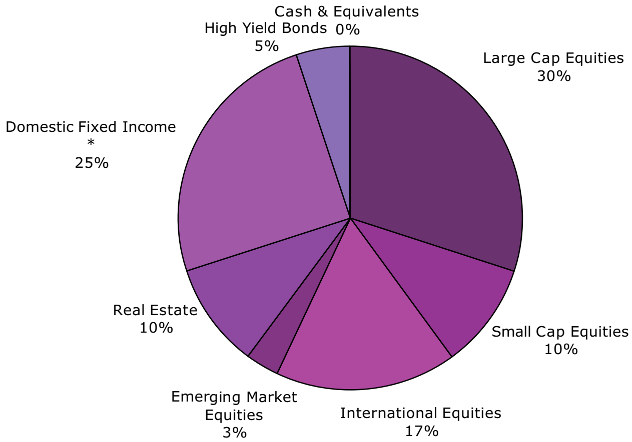
INVESTMENT RESULTS

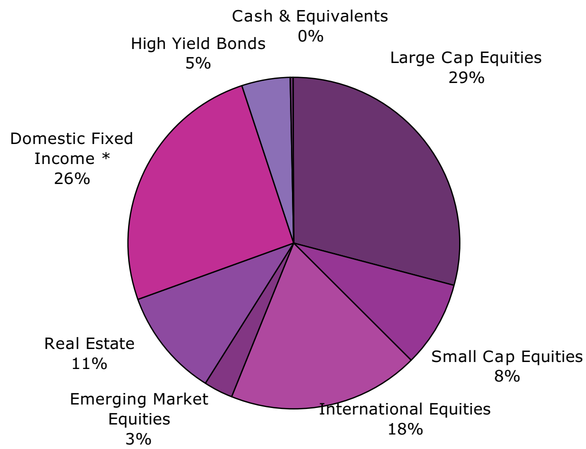
Calculations are prepared using a time-weighted rate of return based on market values.

	Annualized			
	1 year	3 years	5 years	10 years
Domestic Equity				
Total Large Cap Domestic Equity	-11.66	4.46	8.22	2.80
Median Large Cap Equity	-9.64	5.94	9.12	5.18
Benchmark: S&P 500	-13.12	4.41	7.58	2.88
Total Small Cap Domestic Equity	-15.24	5.20	10.24	5.25
Median Small Cap Equity	-14.93	5.36	11.64	8.90
Benchmark: Russell 2000	-16.19	3.79	10.29	5.53
International Equity				
Total International Equity (EAFE)	-11.89	11.80	15.81	-
Median International Equity (EAFE)	-9.53	14.82	18.07	8.50
Benchmark: MSCI EAFE ($g)	-10.15	13.34	17.16	6.23
Emerging Market Equity				
Total Emerging Market Equity	1.69	24.65	30.69	-
Median Emerging Market Equity	5.74	28.90	31.94	17.25
Benchmark: MSCI EMF ($g)	4.89	27.52	30.15	15.51
Fixed Income				
Total Fixed Income	3.88	4.05	4.21	5.67
Median Fixed Income	5.32	4.32	3.90	5.66
Benchmark: Lehman Aggregate Bond Index	5.53	4.19	4.29	5.55
Real Estate				
Total Real Estate	1.74	12.13	13.51	11.95
Median Real Estate	7.16	13.46	13.82	11.65
Benchmark: Weighted Indexes	1.58	12.35	16.02	12.61
Total Fund				
Retirement System	-6.05	7.33	10.04	6.61
Median Total Wilshire Public Fund	-4.56	5.74	7.56	5.55
Benchmark: Weighted Indexes	-4.79	7.70	9.89	6.44

TARGET ALLOCATION
AS OF JUNE 30, 2008



ACTUAL ASSET ALLOCATION
AS OF JUNE 30, 2008



Asset Class	Current Target	Allocation Range	Actual
Large Cap Equities	30%	27% - 33%	29.2%
Small Cap Equities	10%	8% - 12%	8.4%
International Equities	17%	14% - 20%	18.4%
Emerging Market Equities	3%	0% - 5%	2.9%
Real Estate	10%	8% - 12%	10.6%
Domestic Fixed Income *	25%	20% - 30%	25.5%
High Yield Bonds	5%	0% - 8%	4.8%
Cash & Equivalents	0%	0% - 2%	0.2%

* 2% High Yield Bonds Managed Within Domestic Fixed Income

LARGEST STOCK HOLDING (BY MARKET VALUE)

AS OF JUNE 30, 2008

	Shares	Stock		Market Value
1)	66,976	Exxon Mobil Corp Com	$	5,902,567
2)	44,719	Chevron Corp Com		4,432,952
3)	101,992	Royal Dutch Shell		4,199,722
4)	23,146	Apple Inc		3,875,590
5)	40,035	Conocophillips Com		3,778,919
6)	104,483	JPMorgan Chase & Co Com		3,584,795
7)	94,356	Verizon Communications Com		3,340,186
8)	110,612	General Electric Co		2,952,228
9)	167,473	Pfizer Inc Com		2,925,748
10)	16,280	Goldman Sachs Group Inc Com		2,847,342
Total Largest Stock Holdings			$	37,840,049

LARGEST BOND HOLDINGS (BY MARKET VALUE)

AS OF JUNE 30, 2008

	Par	Bonds		Due		Market Value
1)	3,539,093	US Treas Nts	3.125%	15 Sept 2008	$	3,548,493
2)	3,334,770	US Treas Nts	3.875%	15 May 2018		3,306,894
3)	2,949,244	US Treas Nts	3.375%	15 Dec 2008		2,966,987
4)	2,475,006	US Treas Bds	6.000%	15 Feb 2026		2,898,658
5)	2,701,520	FNMA Pool	6.500%	1 Feb 2038		2,778,540
6)	2,386,722	FNMA Pool	Adj Rt	1 Jul 2035		2,410,449
7)	2,275,036	FNMA Pool	6.500%	1 Oct 2037		2,327,600
8)	1,982,599	FNMA Pool	5.500%	1 Aug 2023		1,981,313
9)	1,515,424	FNMA Pool	6.000%	1 Apr 2035		1,537,653
10)	1,462,825	US Treas Nts	4.500%	30 Apr 2012		1,533,452
Total Largest Bond Holdings					$	25,290,039

A complete list of portfolio holdings is available upon request.

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity manager's participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of the trades for their account through brokerage firms identified by NTSI as eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For FY 2008, the net income from Brokerage Commission Recapture was $100,193. During this period, the overall participating rate by the System's equity managers was 17.23%. 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, 2008

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
Merrill Lynch Pierce Fenner & Smith	$ 100,855	5,853,279	$ 0.0172
JP Morgan Securities Inc	31,822	792,259	0.0402
Credit Suisse First Boston Corporation	24,712	26,856,658	0.0009
Deutsche Bank Securities Inc	22,168	40,753,884	0.0005
Lehman Brothers Inc	16,034	58,610,935	0.0003
Rochdale Securities Corporation	13,294	1,476,673	0.0090
CSFB New York DTC 355	12,086	61,139,147	0.0002
Lehman Brothers Inc New York	11,699	839,167	0.0139
Citigroup Global Markets Inc/Smith Barn	11,461	6,940,064	0.0017
Merrill Lynch Intl Ltd Equities	11,452	1,275,944	0.0090
	$ 255,583	204,538,010	$ 0.0023
All Other Brokerage Firms	550,477	606,874,723	0.0009
TOTAL	$ 806,060	811,412,733	$ 0.0007

INVESTMENT SUMMARY

	Investment Value as of June 30, 2008	Percent of Fund
Equity		
Domestic	$ 360,636,078	37.1%
International	177,279,343	18.2%
Emerging Market Equity	27,807,080	2.9%
Fixed Income		
Domestic	286,315,713	29.4%
Real Estate	105,206,253	10.8%
Short Term Investments	15,364,759	1.6%
Total	$ 972,609,226	100.0%

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Section 4
Actuarial Section

To carry out our Mission through competent, professional, impartial, and open decision-making process.

City of Fresno Retirement Systems • Caring For Your Future

ACTUARIAL CERTIFICATION LETTER

SEGAL

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

VIA EMAIL & USPS MAIL

November 7, 2008

Board of Retirement
City of Fresno Employees Retirement System
2828 Fresno Street, Room 201
Fresno, CA 93721-1327

Re: City of Fresno Employees Retirement System
June 30, 2007 Actuarial Valuation

Dear Members of the Board:

The Segal Company prepared the June 30, 2007 actuarial valuation of the City of Fresno Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the June 30, 2007 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data provided by the Plan's administrative staff for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

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

Board of Retirement
City of Fresno Employees Retirement System
November 7, 2008
Page 2

The PAAL is amortized as a level percentage of payroll over a 15-year period. The progress being made towards meeting the funding objective through June 30, 2007 is illustrated in the Schedule of Funding Progress.

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

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2006 Experience Analysis and the June 30, 2007 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2007 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on a annual basis. An experience analysis is performed every two years. The next experience analysis is due to be performed as of June 30, 2008.

In the June 30, 2007 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 138.1% to 146.8%. The employer's rate has remained at 0.00% of payroll, while the employee's rate has decreased from 5.06% of payroll to 5.02% of payroll.

Sincerely,

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

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

MYM/bqb
Enclosures

4049522v1/09313.001

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

These actuarial assumptions and methods based on June 30, 2007 data were adopted by the Employees Retirement Board on December 13, 2007, and were effective for fiscal year 2008.

Assumptions

Valuation Interest Rate	8.25%
Inflation:	3.75%

Post-Retirement Mortality

(a) **Service Retirement**

Member 1994 Male Group Annuity Mortality Table weighted 65% male and 35% female.

Beneficiary: 1994 Group Annuity Mortality Table weighted 35% male and 65% female.

(b) **Disability Retirement**

Member: 1981 Disability Mortality Table for General Members, setback four-years

Pre-Retirement Mortality

Based upon the 6/30/2006 Experience Analysis

Withdrawal Rates

Based upon the 6/30/2006 Experience Analysis

Disability Rates

Based upon the 6/30/2006 Experience Analysis

Service Retirement Rates

Based upon the 6/30/2006 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	40% participation
2nd year eligible	15% participation
3rd & 4th year eligible	10% participation
Thereafter	0% participation

Members are assumed to remain in DROP for 4 years.

Marriage Rates

It is assumed that 80% of all male members and 70% of all female members will be married at retirement.

Wives are 4 years younger than their husbands.

COLA Assumption

3.75% per year; Retiree COLA increases due to CPI are limited to maximum at 3.75% per year.

Salary Scale

Made up of merit and longevity and inflation components. The inflation component is equal to 3.75%; plus 0.25% real across-the-board salary increase. The merit and longevity component varies by service and is illustrated below:

Years Since Hire	Merit & Longevity Assumption
< 1 year	8.00%
1 year	6.00%
2 years	5.00%
3 years	3.70%
4 years	3.10%
5 years	2.10%
6 years	1.10%
7 years	0.90%
8 years	0.70%
9 or more years	0.30%

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

	Rate (%)	
	Mortality	
Age	Male	Female
25	0.07	0.03
30	0.08	0.04
35	0.09	0.05
40	0.11	0.07
45	0.16	0.10
50	0.26	0.14
55	0.44	0.23
60	0.80	0.44
65	1.45	0.86

All pre-retirement deaths are assumed to be non-service connected.

	Rate (%)	
	Disability	
Age	Male	Female
20	0.00	0.00
25	0.00	0.00
30	0.01	0.01
35	0.05	0.05
40	0.50	0.50
45	0.75	0.75
50	0.85	0.85
55	0.85	0.85
60	0.00	0.00

All disabilities are assumed to be non-service connected.

Vested Termination (Deferred Vested Benefit)	
Age	Rate (%)
20	2.50
25	2.50
30	2.50
35	2.35
40	2.25
45	2.10
50	2.00
55	0.00
60	0.00

Source: The Segal Company

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2007	Active Members	2195	$ 109,370,886	$ 49,827	4.6%
	DROP Participants	228	12,861,061	56,657	9.3%
	Totals	2423	$ 122,231,947	$ 50,447	
June 30, 2006	Active Members	2097	$ 99,875,529	$ 47,628	7.4%
	DROP Participants	222	11,502,836	51,815	4.6%
	Totals	2319	$ 111,378,365	$ 48,029	
June 30, 2005	Active Members	2061	$ 91,411,031	$ 44,353	1.7%
	DROP Participants	225	11,146,645	49,541	1.7%
	Totals	2286	$ 102,557,676	$ 44,863	
June 30, 2004	Active Members	2037	$ 88,877,515	$ 43,632	2.1%
	DROP Participants	223	10,867,428	48,733	2.0%
	Totals	2260	$ 99,744,943	$ 44,135	
June 30, 2003	Active Members	2044	$ 87,366,386	$ 42,743	1.3%
	DROP Participants	209	9,982,140	47,761	5.8%
	Totals	2253	$ 97,348,526	$ 43,208	
June 30, 2002	Active Members	1994	$ 84,149,313	$ 42,201	2.5%
	DROP Participants	198	8,936,515	45,134	0.3%
	Totals	2192	$ 93,085,828	$ 42,466	
June 30, 2001	Active Members	1971	$ 81,175,630	$ 41,185	3.5%
	DROP Participants	200	9,001,264	45,006	3.7%
	Totals	2171	$ 90,176,894	$ 41,537	
June 30, 2000	Active Members	1934	$ 76,988,782	$ 39,808	9.1%
	DROP Participants	178	7,728,203	43,417	4.2%
	Totals	2112	$ 84,716,985	$ 40,112	
June 30, 1999	Active Members	1902	$ 69,370,703	$ 36,473	4.5%
	DROP Participants	168	7,001,540	41,676	5.6%
	Totals	2070	$ 76,372,243	$ 36,895	
June 30, 1998	Active Members	1864	$ 65,056,340	$ 34,901	-1.40%
	DROP Participants	120	4,737,340	39,478	Base Year
	Totals	1984	$ 69,793,680	$ 35,178	-0.06%
June 30, 1997	Active Members	1957	$ 69,286,627	$ 35,405	1.20%
June 30, 1996	Active Members	1930	$ 67,499,533	$ 34,974	7.40%
June 30, 1995	Active Members	1891	$ 61,590,138	$ 32,570	6.00%
June 30, 1993	Active Members	2026	$ 62,263,875	$ 30,732	1.08%
June 30, 1991	Active Members	1879	$ 52,133,387	$ 27,745	

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO OR REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number	Annual Allowance*	Number	Annual Allowance*	Number	Annual Allowance	% Increase in Retiree Allowance	Average Annual Allowance
June 30, 2008	113	$ 3,136,606	(49)	$ (706,739)	1363	$ 35,357,509	(11.20)	$ 25,941
June 30, 2007	94	$ 1,153,762	(45)	$ (614,078)	1299	$ 37,948,651	24.17	$ 29,214
June 30, 2006	99	$ 1,150,756	(44)	$ (523,431)	1250	$ 29,409,733	6.32	$ 23,528
June 30, 2005	97	$ 1,132,389	(56)	$ (579,306)	1195	$ 26,444,153	(3.81)	$ 22,129
June 30, 2004	109	$ 521,390	(62)	$ (689,676)	1154	$ 26,548,396	(8.93)	$ 23,006
June 30, 2003	83	$ 605,134	(40)	$ (455,621)	1107	$ 27,963,534	(3.37)	$ 25,261
June 30, 2002	102	$ 4,826,331	(40)	$ (504,816)	1064	$ 27,814,021	11.50	$ 26,141
June 30, 2001	43	$ 846,004	(32)	$ (374,325)	1002	$ 23,492,506	7.45	$ 23,446
June 30, 2000	94		(39)		991	$ 21,622,858	12.92	$ 21,819
June 30, 1999	38		-19		936	$ 18,085,727	9.76	$ 19,322

* Annual allowance data not available prior to 2001.

SOLVENCY TEST (IN THOUSANDS)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)
6/30/2007	$ 91,230	$ 421,463	$ 118,612	$ 926,525	100%	100%	100%
6/30/2006	88,538	414,218	111,157	847,516	100%	100%	100%
6/30/2005	88,322	360,303	116,925	790,858	100%	100%	100%
6/30/2004	87,756	352,680	113,930	741,766	100%	100%	100%
6/30/2003	87,876	334,590	123,221	698,885	100%	100%	100%
6/30/2002	85,532	324,254	120,019	748,762	100%	100%	100%
6/30/2001	84,217	300,562	115,707	781,831	100%	100%	100%
6/30/2000	82,588	280,005	108,614	770,649	100%	100%	100%
6/30/1999	85,630	259,886	81,022	702,481	100%	100%	100%
6/30/1998	81,736	240,587	86,852	625,121	100%	100%	100%
6/30/1997	88,020	210,441	103,906	538,055	100%	100%	100%
6/30/1996	81,336	195,619	100,764	460,073	100%	100%	100%
6/30/1994	69,292	185,946	103,164	371,158	100%	100%	100%
6/30/1992	57,006	158,809	105,013	269,203	100%	100%	50.84%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	Plan Years									
(Amounts in Thousands)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Prior Valuation Actuarial Accrued Liability	$ 614	$ 566	$ 554	$ 546	$ 530	$ 501	$ 471	$ 49	$ 31	$ 24
Expected Increase from Prior Valuation	-	-	-	-	29	28	-	-	-	-
Salary Increase (Greater) Less than Expected	7	-	5	5	(9)	3	3	10	(3)	(5)
Asset Return (Less) Greater than Expected	-	-	7	(34)	-	(7)	27	35	33	33
Other Experience	6	2	-	17	-	-	-	-	2	-
Economic Assumption Changes	(31)	-	-	17	-	-	-	11	(12)	(20)
Noneconomic Assumption Changes	-	-	-	3	(4)	5	-	(12)	(2)	(1)
Normal Cost	21	19								
Interest	50	46								
Payments	(36)	(29)								
Change in Valuation Programs and Methods	-	10								
Ending Actuarial Accrued Liability	$ 631	$ 614	$ 566	$ 554	$ 546	$ 530	$ 501	$ 93	$ 49	$ 31

MAJOR PROVISIONS OF THE RETIREMENT PLAN

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

FINAL AVERAGE SALARY (FAS)
Highest three consecutive-year average.

Requirement: age 55 and 5 years of service.
Benefit: Sum of (1) and (2) times (3)

(1) 2% of FAS times years of service, not-to-exceed 25 years

(2) 1% of FAS times years of service in excess of 25 years

(3) RETIREMENT AGE FACTOR TABLE

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

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

DISABILITY RETIREMENT
Requirement: 10 years of service.
Benefit: 1.8 percent times FAS times years of service, if exceeds 1/3 of FAS; or 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

A. 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.

B. While eligible for service retirement:

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

C. With 5 or more years:

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

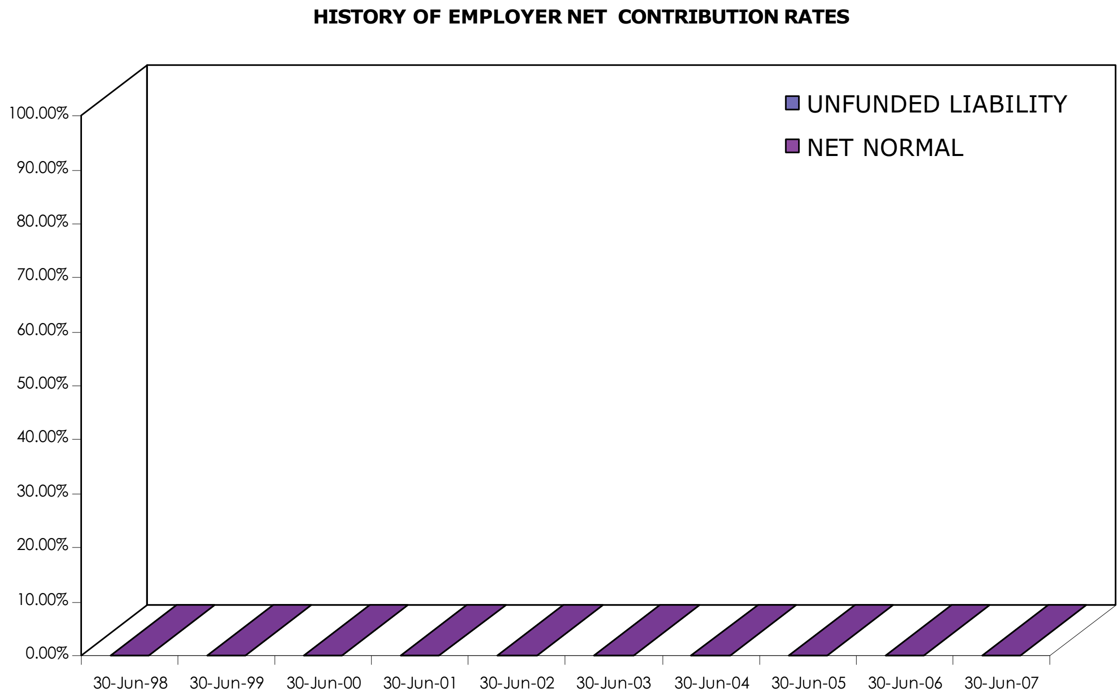
DEATH AFTER RETIREMENT
Fifty percent (50%) of the member's allowance continued to eligible spouse for life.

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 (U.S. city-average for urban wage earners and clerical works – all items), limited to a five percent (5%) maximum change per year each July 1.

HISTORY OF EMPLOYER NET CONTRIBUTION RATES



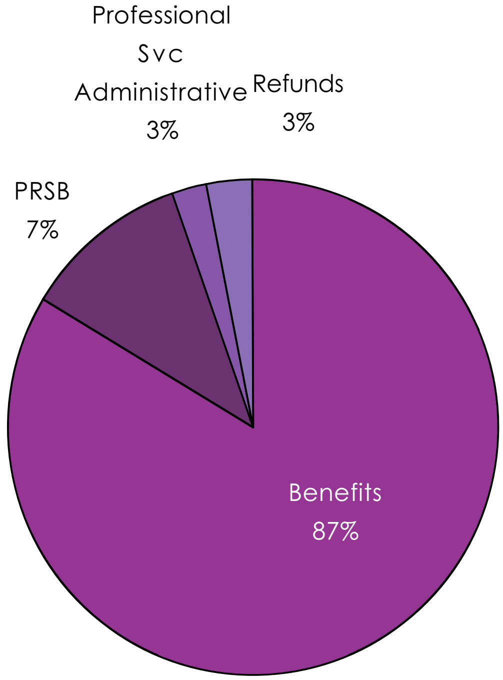
VALUATION DATE	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07
NORMAL	11.66%	11.51%	11.93%	11.97%	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%
PREFUNDED LIABILITY	11.66%	11.51%	11.93%	11.97%	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%
NET NORMAL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
UNFUNDED LIABILITY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NET NORMAL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Section 5
Statistical Section

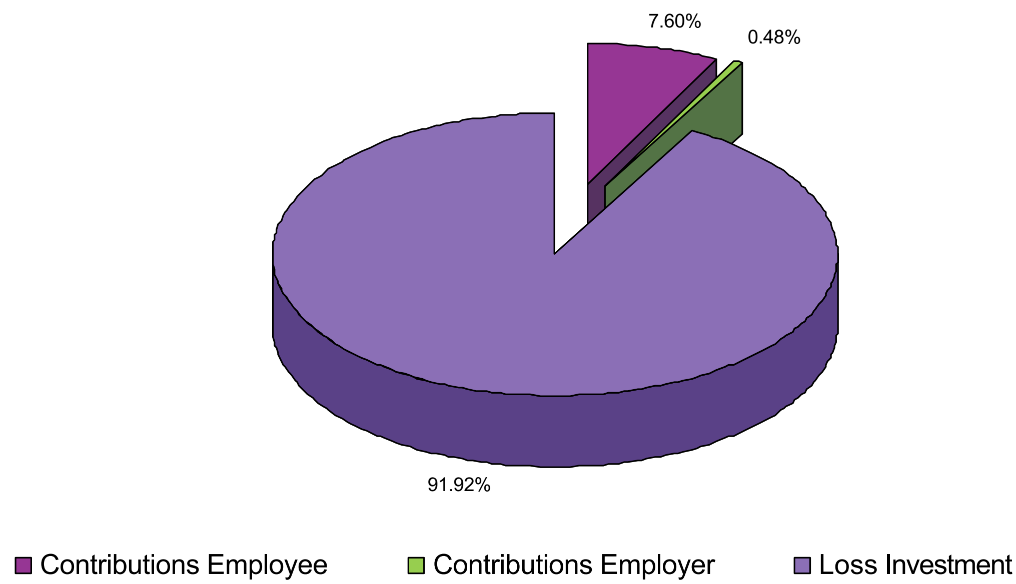
To provide benefits and services, while treating all persons fairly and with courtesy and respect.

City of Fresno Retirement Systems • Caring For Your Future

FY 2008
EXPENSES BY TYPE



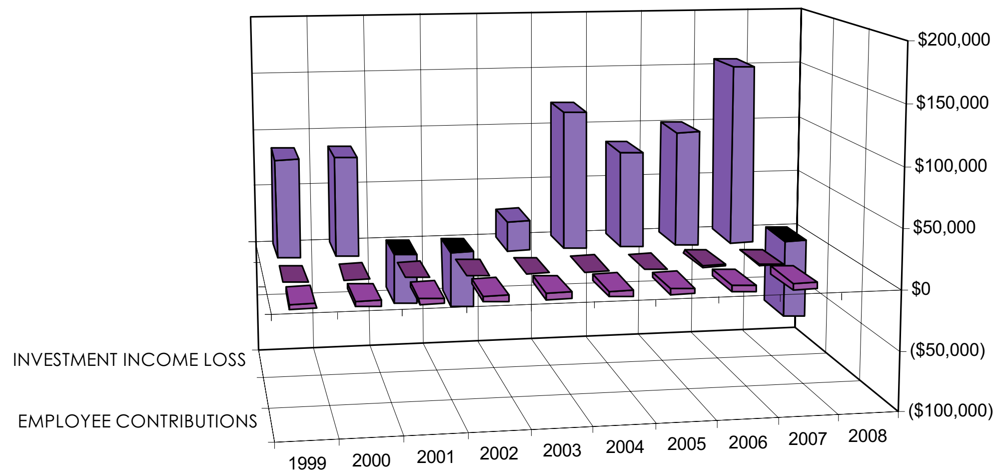
FY 2008
REVENUES BY SOURCE



CHANGES IN PLAN NET ASSETS
LAST TEN FISCAL YEARS
(DOLLARS IN MILLIONS)

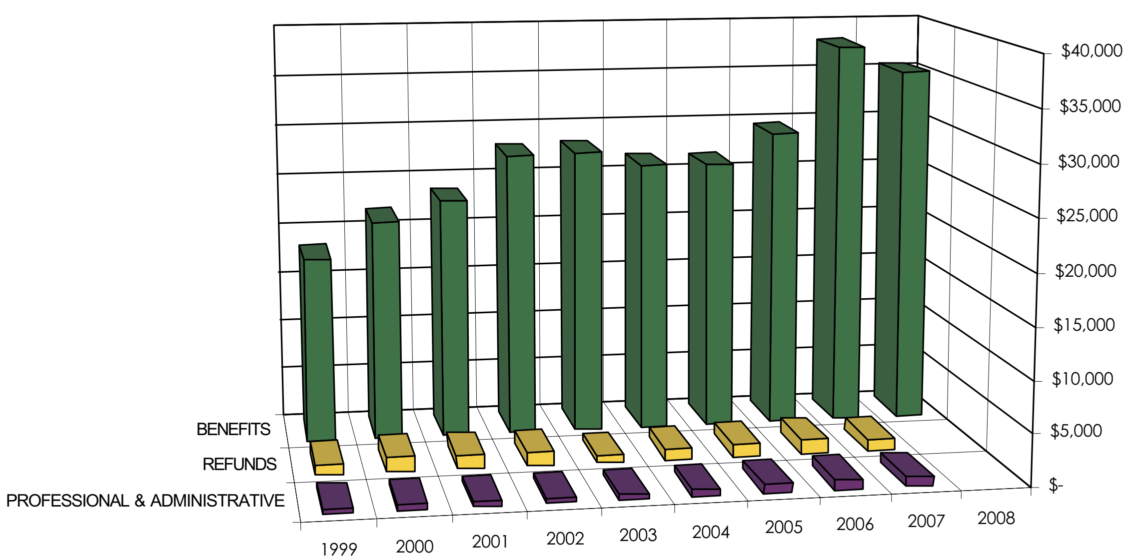
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Employer Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.6	$ 0.4
Member Contributions	3.4	3.8	4.0	4.2	4.5	4.7	4.7	4.6	5.1	5.7
Net Investment Income (Loss)	85.4	86.1	(43.2)	(48.2)	25.6	120.7	83.5	100.1	156.5	(69.5)
Total Revenues	$ 88.8	$ 89.9	$ (39.2)	$ (44.0)	$ 30.1	$ 125.4	$ 88.2	$ 104.7	$ 163.2	$ (62.4)
Expenses										
Total Benefit Expenses	$ 16.5	$ 17.8	$ 19.0	$ 21.3	$ 22.3	$ 2.4	$ 25.3	$ 27.3	$ 35.0	$ 31.3
Administrative Expense	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.8	0.9	0.9
PRSB	1.6	3.8	4.5	6.5	5.6	2.4	1.2	2.1	3.0	4.1
Refunds	1.4	1.0	1.4	1.3	1.3	0.7	1.0	1.2	1.4	1.1
Total Deductions	19.9	23.1	25.4	29.6	29.7	6.0	28.1	31.4	40.3	37.4
Change in Plan Net Assets	$ 68.9	$ 66.8	$ (64.6)	$ (73.6)	$ 0.4	$ 119.4	$ 60.1	$ 73.3	$ 122.9	$ (99.8)

REVENUES BY SOURCE
(IN THOUSANDS)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EMPLOYEE CONTRIBUTIONS	$ 3,456	$ 3,824	$ 3,991	$ 4,192	$ 4,483	$ 4,680	$ 4,750	$ 4,643	$ 5,094	$ 5,666
EMPLOYER CONTRIBUTIONS	-	-	-	-	-	-	-	-	1,566	355
INVESTMENT INCOME (LOSS)	85,382	86,101	(43,180)	(48,168)	25,645	120,679	83,471	100,087	156,546	(68,482)
TOTAL	$ 88,838	$ 125,001	$ (39,189)	$ (43,976)	$ 30,128	$ 125,359	$ 88,221	$ 104,730	$ 163,206	$ (62,461)

EXPENSES BY TYPE
(IN THOUSANDS)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
PROFESSIONAL & ADMINISTRATIVE	$ 393	$ 447	$ 481	$ 486	$ 530	$ 535	$ 642	$ 798	$ 916	$ 898
REFUNDS	1,402	1,013	1,443	1,349	1,282	710	1,026	1,218	1,351	1,111
BENEFITS	18,086	21,623	23,493	27,814	27,964	26,549	26,444	29,410	37,949	35,358
TOTAL	$ 19,881	$ 23,083	$ 25,417	$ 29,649	$ 29,776	$ 27,794	$ 28,112	$ 31,426	$ 40,216	$ 37,367

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years of Credited Service 5-10	10-15	15-20	20-25	25-30	30+	Fiscal Year Average/New Retirants
Period 7/1/07 to 6/30/08							
Average Monthly Pension Benefits	$ 711	$ 1,498	$ 2,346	$ 3,240	$ 3,008	$ 3,916	$ 2,308
Number of New Retired Members	12	13	19	10	12	7	73
Period 7/1/06 to 6/30/07							
Average Monthly Pension Benefits	$ 851	$ 1,585	$ 2,233	$ 2,368	$ 2,706	$ 2,284	$ 2,074
Number of New Retired Members	8	17	11	7	21	5	69
Period 7/1/05 to 6/30/06							
Average Monthly Pension Benefits	$ 690	$ 1,459	$ 1,818	$ 2,959	$ 3,663	$ 2,825	$ 2,114
Number of New Retired Members	15	15	10	12	10	12	74
Period 7/1/04 to 6/30/05							
Average Monthly Pension Benefits	$ 684	$ 1,244	$ 1,857	$ 2,294	$ 2,907	$ 3,140	$ 2,021
Number of New Retired Members	7	11	18	13	17	11	77
Period 7/1/03 to 6/30/04							
Average Monthly Pension Benefits	$ 611	$ 1,262	$ 1,314	$ 2,085	$ 2,760	$ 3,325	$ 1,893
Number of New Retired Members	8	14	7	11	17	13	70
Period 7/1/02 to 6/30/03							
Average Monthly Pension Benefits	$ 881	$ 1,447	$ 2,036	$ 2,340	$ 2,822	$ 3,716	$ 2,207
Number of New Retired Members	3	12	8	9	17	12	61
Period 7/1/01 to 6/30/02							
Average Monthly Pension Benefits	$ 992	$ 1,886	$ 2,180	$ 2,543	$ 3,090	$ 4,284	$ 2,496
Number of New Retired Members	10	18	11	9	19	14	81
Period 7/1/00 to 6/30/01							
Average Monthly Pension Benefits	$ 1,037	$ 1,505	$ 2,009	$ 2,358	$ 2,793	$ 3,302	$ 2,167
Number of New Retired Members	6	8	9	6	13	9	51
Period 7/1/99 to 6/30/00							
Average Monthly Pension Benefits	$ 942	$ 1,606	$ 2,188	$ 2,313	$ 2,895	$ 2,806	$ 2,125
Number of New Retired Members	4	8	5	13	10	13	53
Period 7/1/98 to 6/30/99							
Average Monthly Pension Benefits	$ 732	$ 877	$ 1,964	$ 1,382	$ 2,222	$ 2,273	$ 1,575
Number of New Retired Members	2	14	3	6	6	6	37

RETIRED MEMBERS BY TYPE OF BENEFIT

AS OF JUNE 30, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3
$1 - $1,000	156	103	21	32
$1,001 - $2,000	532	279	97	156
$2,001 - $3,000	389	318	30	41
$3,001 - $4,000	165	147	12	6
$4,001 - $5,000	78	68	8	2
$5,001 - $6,000	27	25	2	0
$6,001 - $7,000	8	8	0	0
> $7,000	8	4	2	2
Total	1363	952	172	239

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

Amount of Monthly Benefit	Number of Retired Members	Option Selected** Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	156	107	34	10	5
$1,001 - $2,000	532	290	174	55	13
$2,001 - $3,000	389	200	121	46	22
$3,001 - $4,000	167	89	35	31	12
$4,001 - $5,000	76	42	22	6	6
$5,001 - $6,000	27	15	5	4	3
$6,001 - $7,000	8	6	0	1	1
> $7,000	8	5	1	2	0
Total	1363	754	392	155	62

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

Data Source: PensionGold Administration System

BENEFIT EXPENSES BY TYPE
(DOLLARS IN MILLIONS)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Service Retiree Payroll	$ 16.2	$ 19.3	$ 21.3	$ 25.2	$ 25.3	$ 24.0	$ 24.2	$ 26.6	$ 34.2	$ 31.9
Disability Retiree Payroll	1.9	2.3	2.2	2.6	2.7	2.5	2.3	2.8	3.7	3.5
Refunds *	1.4	1.0	1.4	1.3	1.3	0.7	1.0	1.2	1.4	1.1
Total Benefit Expenses	$ 19.5	$ 22.6	$ 24.9	$ 29.1	$ 29.3	$ 27.2	$ 27.5	$ 30.6	$ 39.3	$ 36.5

* Refunds by type not readily available will be provided in future years.

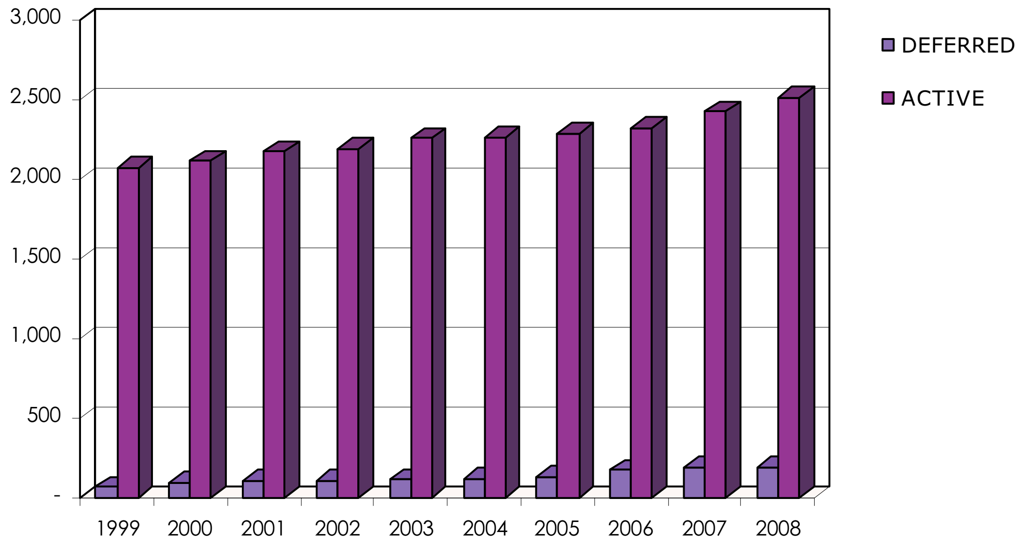
ACTIVE DEFERRED MEMBERS

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Active Vested	1,411	1,400	1,446	1,443	1,468	1,536	1,583	1,629	1,701	1,626
Active Non Vested	659	712	725	743	786	724	704	689	722	889
Deferred	68	100	106	113	114	123	132	174	193	192
Total	2,138	2,212	2,277	2,299	2,368	2,383	2,419	2,492	2,616	2,707

RETIRED MEMBERS

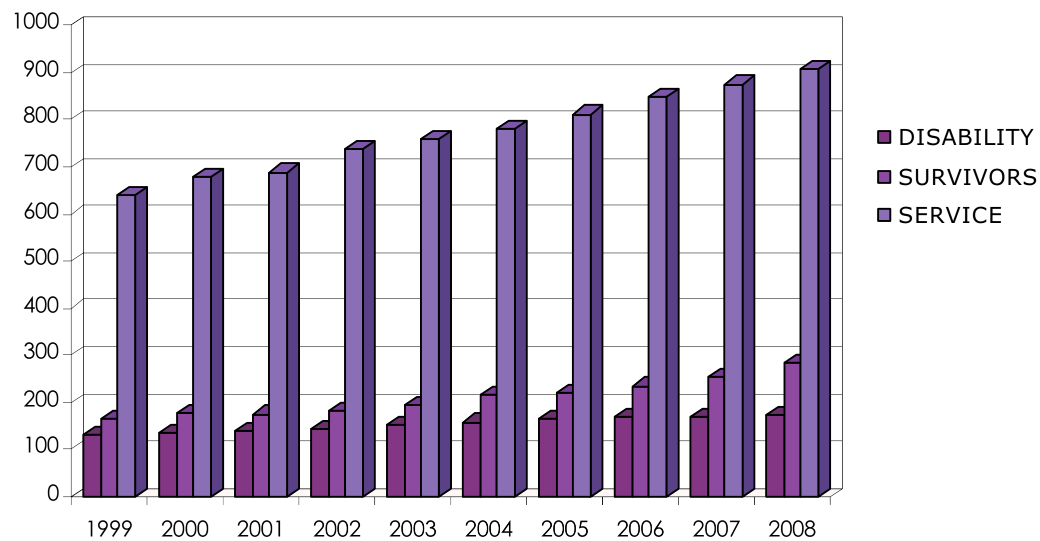
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Service	639	679	689	737	760	781	812	848	876	908
Disability	131	135	138	144	152	158	164	168	170	172
Survivors	166	177	175	183	195	215	219	234	253	283
TOTAL	936	991	1,002	1,064	1,107	1,154	1,195	1,250	1,299	1,363

MEMBERSHIP HISTORY (ACTIVE AND DEFERRED)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
DEFERRED	68	100	106	113	114	123	132	174	193	192
ACTIVE	2,070	2,112	2,171	2,186	2,254	2,260	2,287	2,318	2,423	2,515
TOTAL	2,138	2,212	2,277	2,299	2,368	2,383	2,419	2,492	2,616	2,707

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
DISABILITY	131	135	138	144	152	158	164	168	170	172
SURVIVORS	166	177	175	183	195	215	219	234	253	283
SERVICE	639	679	689	737	760	781	812	848	876	908
TOTAL	936	991	1,002	1,064	1,107	1,154	1,195	1,250	1,299	1,363

SUMMARY OF ACTIVE PARTICIPANTS

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1988	1,600	$ 37,321,719	$ 23,326	0.00%
1989	1,752	44,520,591	25,411	8.94%
1990	1,868	50,822,514	27,207	7.07%
1991	1,879	52,133,387	27,745	1.98%
1992	1,879	62,422,933	33,221	19.74%
1993	2,016	66,199,898	32,837	-1.16%
1994	1,966	62,221,292	31,649	-3.62%
1995	1,893	63,613,482	33,605	6.18%
1996	1,927	65,084,621	33,828	0.66%
1997	1,953	69,115,258	35,389	4.62%
1998	1,988	69,986,473	35,204	-0.52%
1999	2,068	74,529,074	36,039	2.37%
2000	2,112	81,285,066	38,487	6.79%
2001	2,171	85,715,989	39,482	2.59%
2002	2,186	89,275,955	40,840	3.44%
2003	2,254	95,602,991	42,415	3.86%
2004	2,260	99,251,574	43,917	3.54%
2005	2,287	102,001,794	44,601	1.56%
2006	2,318	106,482,630	45,937	4.60%
2007	2,423	114,233,621	47,146	5.71%
2008	2,515	129,440,108	51,467	12.04%

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

SUMMARY OF RETIRED MEMBERSHIP

YEAR	AT END OF YEAR	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
1988	637	$ 8,315,552	$ 13,054	14.54%
1989	723	8,784,048	12,149	-6.93%
1990	751	9,324,265	12,416	2.19%
1991	749	10,015,617	13,372	7.70%
1992	784	10,741,680	13,701	2.46%
1993	811	11,621,551	14,330	4.59%
1994	836	12,437,981	14,878	3.82%
1995	852	13,252,179	15,554	4.54%
1996	907	14,353,364	15,825	1.74%
1997	915	15,213,149	16,626	5.06%
1998	916	16,142,881	17,623	6.00%
1999	936	18,085,727	19,322	9.64%
2000	991	21,622,858	21,819	12.92%
2001	1,002	23,492,505	23,446	7.45%
2002	1,064	27,814,021	26,141	11.50%
2003	1,107	27,963,534	25,261	-3.37%
2004	1,154	26,548,396	23,006	-8.93%
2005	1,195	26,444,153	22,129	-3.81%
2006	1,250	29,409,733	23,528	6.32%
2007	1,299	37,948,651	29,214	24.17%
2008	1,363	35,357,509	25,941	-11.20%

MEMBER CONTRIBUTION RATES

VALUATION DATE	EFFECTIVE DATE	BASIC AT ENTRY AGE 20	25	30
JUNE 30, 2007	7/1/08- 6/30/09	2.99%	3.59%	4.38%
JUNE 30, 2006	7/1/07- 6/30/08	3.02%	3.62%	4.42%
JUNE 30, 2005	7/1/06- 6/30/07	2.90%	3.48%	4.25%
JUNE 30, 2004	7/1/05- 6/30/06	2.90%	3.48%	4.25%
JUNE 30, 2003	7/1/04 - 6/30/05	3.31%	3.90%	4.69%
JUNE 30, 2002	7/1/03 - 6/30/04	3.31%	3.90%	4.69%
JUNE 30, 2001	7/1/02 - 6/30/03	3.31%	3.91%	4.70%
JUNE 30, 2000	7/1/01 - 6/30/02	3.31%	3.91%	4.70%
JUNE 30, 1999	7/1/00 - 6/30/01	3.31%	3.91%	4.70%
JUNE 30, 1998	7/1/99 - 6/30/00	3.47%	4.06%	4.85%
JUNE 30, 1997	7/1/98 - 6/30/99	3.34%	3.91%	4.67%
JUNE 30, 1996	7/1/97 - 6/30/98	3.34%	3.91%	4.67%
JUNE 30, 1994	7/1/95 - 6/30/96	3.86%	3.95%	4.60%
JUNE 30, 1992	7/1/93 - 6/30/95	4.32%	4.86%	5.58%
JUNE 30, 1990	7/1/91 - 6/30/93	4.21%	4.74%	5.43%
JUNE 30, 1988	7/1/89 - 6/30/91	4.21%	4.74%	5.43%
JUNE 30 1985	7/1/86 - 6/30/89	4.62%	5.13%	5.81%
JUNE 30, 1982	7/1/84 - 6/30/86	4.62%	5.13%	5.81%
JUNE 30, 1979	4/16/80 - 6/30/84	4.23%	4.58%	5.21%
JUNE 30, 1976	7/01/77 - 4/15/80	3.85%	4.35%	5.04%

CITY CONTRIBUTION RATES

VALUATION DATE	EFFECTIVE DATE	CITY RATE BASIC	CITY RATE COL	TOTAL CITY RATE	PREFUNDED ACTUARIAL ACCRUED LIAB. (PAAL)	PAAL ADJUSTED CONTRIBUTION RATES
JUNE 30, 2007	7/1/08 - 6/30/09	8.02%	2.54%	10.56%	-10.56%	0.00%
JUNE 30, 2006	7/1/07 - 6/30/08	7.96%	2.97%	10.93%	-10.93%	0.00%
JUNE 30, 2005	7/1/06 - 6/30/07	7.39%	3.12%	10.51%	-10.51%	0.00%
JUNE 30, 2004	7/1/05 - 6/30/06	7.31%	3.11%	10.42%	-10.42%	0.00%
JUNE 30, 2003	7/1/04 - 6/30/05	7.73%	3.33%	11.06%	-11.06%	0.00%
JUNE 30, 2002	7/1/03 - 6/30/04	8.33%	3.41%	11.74%	-11.74%	0.00%
JUNE 30, 2001	7/1/02 - 6/30/03	8.53%	3.44%	11.97%	-11.97%	0.00%
JUNE 30, 2000	7/1/01 - 6/30/02	8.49%	3.44%	11.93%	-11.93%	0.00%
JUNE 30, 1999	7/1/00 - 6/30/01	7.98%	3.53%	11.51%	-11.51%	0.00%
JUNE 30, 1998	7/1/99 - 6/30/00	8.09%	3.57%	11.66%	-11.66%	0.00%
JUNE 30, 1997	71/98 -6/30/99	6.83%	3.50%	10.33%	-9.01%	1.32%
JUNE 30, 1996	7/1/97 -6/30/98	6.41%	3.46%	9.87%	-8.09%	1.78%
JUNE 30, 1994	7/1/96 - 6/30/97	6.29%	3.33%	9.62%	0%	9.62%
JUNE 30, 1992	7/1/94 - 6/30/95	8.52%	10.88%	19.40%	0%	19.40%
JUNE 30, 1992	7/1/93 - 7/1/94	8.34%	10.12%	18.46%	0%	18.46%
JUNE 30, 1990	7/1/91 - 6/30/93	11.72%	5.80%	17.52%	0%	17.52%
JUNE 30, 1988	7/1/89 - 6/30/91	11.92%	6.38%	18.30%	0%	18.30%
JUNE 30, 1985	7/1/87 - 6/30/89	10.47%	8.63%	19.10%	0%	19.10%
JUNE 30, 1985	7/1/85 - 6/30/87	10.47%	6.84%	17.31%	0%	17.31%
JUNE 30, 1982	7/1/84 - 6/30/85	10.10%	8.14%	16.70%	0%	16.70%
JUNE 30, 1979	3/1/82 - 6/30/84	9.67%	6.36%	16.03%	0%	16.03%
JUNE 30, 1979	4/16/80 - 2/28/82	12.56%	6.84%	15.11%	0%	15.11%
JUNE 30, 1976	7/1/77 - 4/15/80	12.41%	2.55%	14.96%	0%	14.96%

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

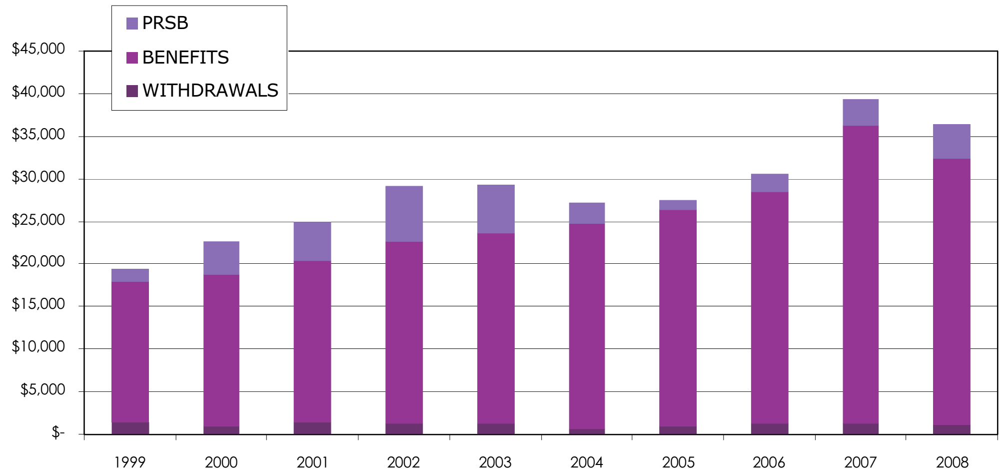
Data Source: Annual Actuarial Valuation Reports

ECONOMIC ASSUMPTIONS AND FUNDING METHOD

Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2007	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2006	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2005	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2004	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2003	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2002	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2000	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1999	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1998	8.25%	.30 - 8%	4.25%	4.75%	Projected Unit Credit
June 30, 1997	8.25%	.25 - 8%	5%	4.75%	Projected Unit Credit
June 30, 1996	8.25%	.25 - 8%	5%	4.5%	Projected Unit Credit
June 30, 1994	8%	.25 - 8%	5%	3 - 5%	Projected Unit Credit
June 30, 1992	8%	6%	5%	5%	Projected Unit Credit
June 30, 1990	8%	6%	5%	5%	Projected Unit Credit
June 30, 1988	8%	6%	5%	5%	Projected Unit Credit
June 30, 1985	7.50%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
June 30, 1982	7%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
Marples	8-1/2%	Merit +6%	5%	6%	Aggregate
June 30, 1979	6-1/2%	Merit 3-1/2%	3-1/2%	3-1/2%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1976	6%	Merit +1%	5% with partial funding	1%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1972	4-3/4	Merit Only	Not recognized	None	Entry Age Normal

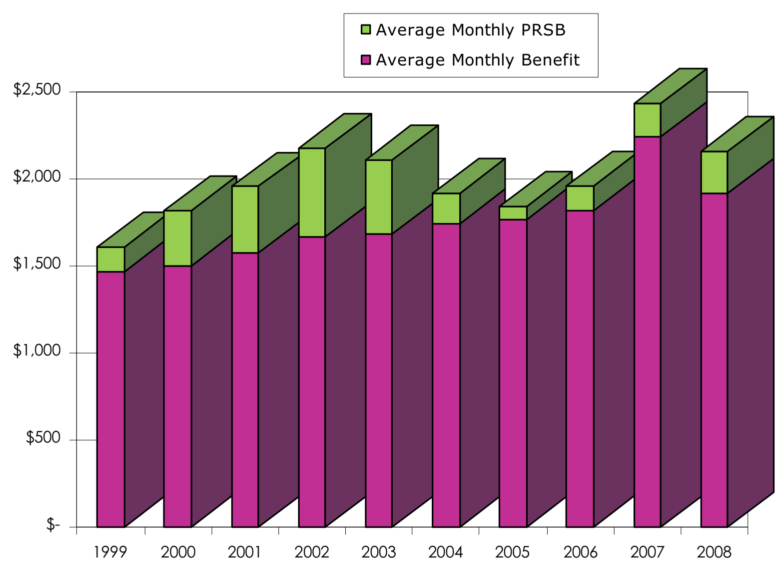
Source: The Segal Company 06/30/2007 AAV/AA (pg. 31)

BENEFITS AND WITHDRAWALS PAID
(IN THOUSANDS)



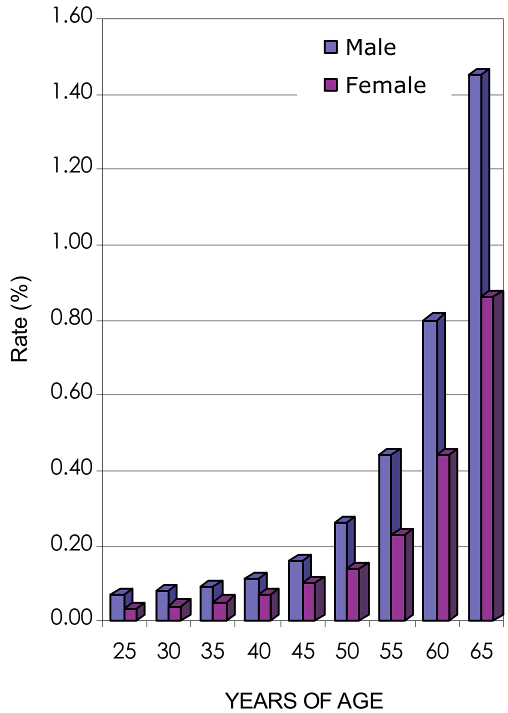
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
WITHDRAWALS	$ 1,403	$ 1,013	$ 1,443	$ 1,349	$ 1,283	$ 710	$ 1,026	$ 1,219	$ 1,350	$ 1,112
BENEFITS	16,505	17,799	18,963	21,269	22,332	24,118	25,287	27,261	34,982	31,286
PRSB	1,581	3,824	4,530	6,545	5,632	2,430	1,157	2,149	2,967	4,072

AVERAGE MONTHLY BENEFITS TO PARTICIPANTS
(IN THOUSANDS)



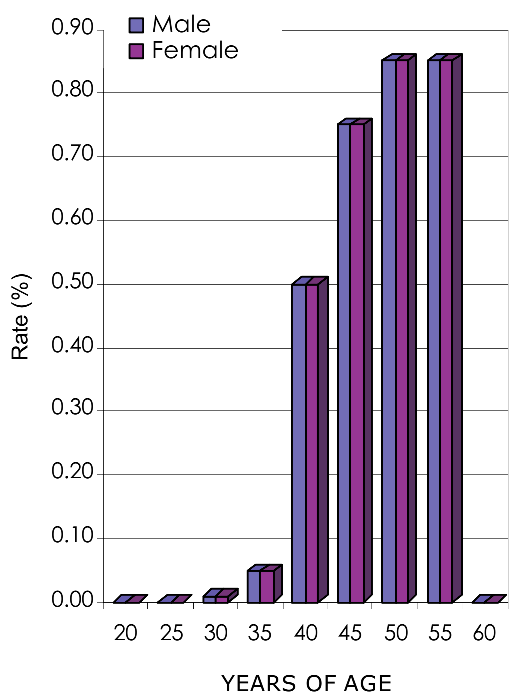
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Monthly Benefit	$ 1,469	$ 1,497	$ 1,577	$ 1,666	$ 1,681	$ 1,742	$ 1,763	$ 1,817	$ 2,244	$ 1,913
Average Monthly PRSB	141	322	377	513	424	175	81	143	190	249
Average Monthly Benefit Total	$ 1,610	$ 1,818	$ 1,954	$ 2,178	$ 2,105	$ 1,917	$ 1,844	$ 1,961	$ 2,435	$ 2,162

EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Age and Service Retirees 1994 Uninsured Pensioners Mortality Table Male Female (x-1)		
Age	Male	Female
25	0.07	0.03
30	0.08	0.04
35	0.09	0.05
40	0.11	0.07
45	0.16	0.10
50	0.26	0.14
55	0.44	0.23
60	0.80	0.44
65	1.45	0.86

EXPECTATION OF LIFE
(Disabled Retirees)



EXPECTATION OF LIFE Disabled Retirees 1981 General Disability Table (x-4) for General Members		
Age	Men	Women
20	0.00	0.00
25	0.00	0.00
30	0.01	0.01
35	0.05	0.05
40	0.50	0.50
45	0.75	0.75
50	0.85	0.85
55	0.85	0.85
60	0.00	0.00

Source: The Segal Company

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Section 6
Compliance Section

To create an environment in which Board Members can maximize their performance as trustees.

City of Fresno Retirement Systems • Caring For Your Future

INDEPENDENT AUDITOR'S INTERNAL CONTROL LETTER

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

To the Board of Retirement
City of Fresno Employees Retirement System
Fresno, California

We have audited the basic financial statements of the City of Fresno Employees Retirement System as of and for the year ended June 30, 2008, which collectively comprise the City of Fresno Employee Retirement System's basic financial statements and have issued our report thereon dated November 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fresno Employees Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fresno Employees Retirement System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fresno Employees Retirement System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fresno Employees Retirement System's financial statements that is more than inconsequential will not be prevented or detected by the City of Fresno Employees Retirement System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fresno Employees Retirement System's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fresno Employees Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
November 7, 2008