Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2013 and 2012

City of Fresno Retirement Systems
Caring For Your Future

City of Fresno
Employees Retirement System

A Pension Trust Fund of the City of Fresno (California)

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2013 and 2012

Stanley McDivitt
Retirement Administrator

Kathleen Riley Brown
Assistant Retirement Administrator

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Benefits Manager

City of Fresno Employees Retirement System

A Pension Trust Fund of the City of Fresno (California)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2013

City of Fresno Employees Retirement System
Fresno, California

The EMPLOYEES RETIREMENT SYSTEM was established on June 1, 1939 and is maintained and governed by Article 5 of the Fresno Municipal Code. The Employees Retirement System (the System) provides retirement benefits for all qualified non-sworn employees of the City of Fresno.

Mission Statement

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

Board and Staff Commitment

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

Goals

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

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INTRODUCTION

Stanlev L. McDivitt
RETIREMENT ADMINISTRATOR

Caring for Your Future

November 21, 2013

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, 2013 and 2012.

The global economic recovery has continued to proceed in fits and starts. While still somewhat disappointing, it is moving forward and it is doing so at multiple speeds. These various speeds reflect different paths toward self-sustained growth, with each path carrying its own mix of risks. The monetary and fiscal policy shifts around the globe while welcomed, come with a realization that it will take a delicate balancing act to boost growth in a more sustainable way throughout the world, raise inflationary expectations to beat deflation in countries where that exists and to secure the sustainability of huge public debt. In the United States, large imbalances had built up prior to the crisis and eventually erupted, but the economy has undergone significant adjustment, which is beginning to bear fruit. The combination of a repaired financial system and a revival in confidence is driving growth.

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

In fiscal year 2013, the System's gross of fee returns provided by its custodian Northern Trust, when compared to other institutional investors and weighted policy benchmarks, were somewhat favorable. The System's one-year gross of fees return was 13.59 percent; 1.03 percent above its policy benchmark return of 12.56 percent; and outperforming its actuarial interest rate assumption of 8.00 percent by 5.59 percent. The five-year annualized gross of fees return of 5.31 percent was positive but slightly below its policy benchmark return of 5.43 percent by 0.12 percent. The System's ten-year annualized gross of fees return at 7.65

The Employees Retirement System remains highly funded and well positioned to serve our members and retirees. The System's 20 and 25-year, long-term returns of 8.41 percent and 9.14 percent, respectively, as of June 30, 2013, illustrate the System's ability to achieve our long-term objectives over extended periods of time. Meanwhile, the System's actuarial and market value funding status continues to be the highest of any public pension defined benefit plan in California.

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, 2013 and 2012 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 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 services providers, and the Government Finance 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, NEPC, LLC recapping the fiscal year investment results and activities, along with performance and asset allocation information.

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

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

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

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

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 City of 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

The Board, jointly with the Fire & Police Retirement System Board (the Boards), retained the services of the law firm of Ice Miller, LLP in 2010, to assist in reviewing the plans from a tax compliance perspective. Each Board filed with the Internal Revenue Service for a tax determination letter and the plans were submitted into the IRS's voluntary compliance program (VCP). The IRS made a favorable determination on the plans based upon the information that we supplied. The letter of determination relates only to the status of the plans under the Internal Revenue Code and it expires on January 31, 2014. Ice Miller LLP has now prepared the application for submission to the IRS for a renewed letter of favorable tax determination for each System. The plans will submit a request for a favorable determination prior to January 31, 2014.

The Board, jointly with the Fire & Police Retirement System Board, completed a Request for Proposal process for General Investment Consulting Services to the Systems which began in July 2012. Effective February 1, 2013, the Boards appointed NEPC, LLC as their new investment consulting firm. NEPC, LLC immediately began its review of our risk controls and portfolio manager structure.

The Boards' current agreement with its Master Custodial Bank and Securities Lending Services provider, Northern Trust, expired on September 30, 2013. Upon review of the renewal fees proposed, it was determined that the level of increase in the fees dictated that it would be prudent for the Boards to issue a Request for Proposal (RFP) for Master Custodial Bank and Securities Lending Services given the significant economic impacts in the areas of Securities Lending and Brokerage Commission Recapture Programs over the past several years which impact revenues earned by all global custodial banks. The Board, jointly with the Fire & Police Retirement System Board, issued an RFP for Master Custodial Bank and Securities Lending Services in December 2012. Pleased with the overall services provided by Northern Trust, Northern Trust was asked to rebid. Proposals submitted by four firms were reviewed and results indicated no substantial reason to change custodians. Therefore, staff and the Boards' legal counsel finalized negotiations regarding fees and legal agreements and the Boards concluded the process of selection reappointing Northern Trust with a five year agreement effective October 1, 2013.

We developed and implemented a new "paperless process" for Retirement Board Members and staff to receive and review their Board agenda materials electronically. This new process will save a lot of paper, time and money for the Systems.

During the prior fiscal year, the Retirement Boards jointly approved a major two-year project to program and install an upgrade to our original pension administration system that was installed in 1997. The LRS Pension Gold Retirement Solutions' Version 3 project is an upgrade to a web based, fully integrated software administration system that includes imaging of documents, workflow processes and a new member portal allowing members secure access to their information in our system including Deferred Retirement Option Program (DROP) account information. This project began in fiscal year 2013 with the kickoff of the Project Work Plan Development and Requirements Confirmation phases of the project. Imaging of documents commenced in February 2013 and User Acceptance Testing for Member Basics and Employer Reporting started on June 3, 2013. Staff remarkably accomplished imaging of all active member records and full implementation of the remaining retired and vested terminated records is expected by the end of the 2014 calendar year.

On November 7, 2012, the Board, jointly with the Fire & Police Retirement System Board, adopted a Comprehensive Actuarial Funding Policy which establishes and documents the funding objectives and policy set by the Retirement Boards for the City of Fresno Employees

Retirement System and the City of Fresno Fire & Police Retirement System (Systems). The Boards have created the actuarial funding policy to help ensure the systematic funding of future benefit payments for members of the Systems. In addition, the policy documents certain guidelines established by the Boards to assist in administering the Systems in a consistent and efficient manner.

With the assistance of its actuary and staff, the Board completed the annual actuarial valuation for June 30, 2012, and an Experience Study of the System utilizing the census data from the last three annual actuarial valuations as of June 30, 2012. On May 8, 2013, based upon the results of the Experience Study, which sets forth changes in certain actuarial (non-economic and economic) assumptions, the Board adopted the Experience Study and proposed actuarial assumptions including the modification of the Board's assumption for its investment rate of return to 7.50 percent to be used in preparing the June 30, 2013 annual actuarial valuation.

PROFESSIONAL SERVICES

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

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

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2012. 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 fifteen 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.

The June 30, 2012, actuarial valuation is presented in this CAFR. As of June 30, 2012, the funded ratio of the Employees Retirement System was 102.2 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, 2012 amounted to $871,958,000. The actuarial value of assets at June 30, 2012 amounted to $957,891,137 and the valuation value of assets amounted to $891,366,137. The market value of the assets at June 30, 2012 amounted to $930,402,725.

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

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

ACCOUNTING SYSTEM & REPORTS

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

The accounting firm of Brown Armstrong Accountancy Corporation provides financial audit services. The financial audit ensures that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The internal controls are designed to provide reasonable but not absolute assurance that these objectives are met. The System recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that the System's operating policies and procedures are being adhered to and that controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets. The objective is to provide a reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements given the prudent need to ensure that the cost of a control should not exceed the benefits to be derived.

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

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

INVESTMENTS

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "the members of the Retirement Board of a public pension or retirement system shall discharge their duties ... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim." By permitting further diversification of investments within a fund, the prudent expert 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 outline the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the policy in accordance with the Board policy and guidelines.

For the fiscal years ended June 30, 2013 and June 30, 2012, the System's investments provided a 13.59 percent and (0.11) percent gross of fees rate of return, respectively.

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 Brown, Yvonne Timberlake, Alberto Magallanes, Karen Espiritu, Pattie Laygo, Andrea Ketch, Patricia Basquez, Phillip Carbajal, Lori Salvador; Donna Gaab, Kathyrn Muzio, Stanton Perkins and the Board's consultants, for their assistance in the preparation of this report and for their ongoing commitment to serve the Board and the members of the System. I also would like to thank the Board members for their support in accomplishing the many tasks and goals over the past year.

Respectfully Submitted,

Stanley L. McDivitt
Retirement Administrator

November 21, 2013

As of June 30, 2013

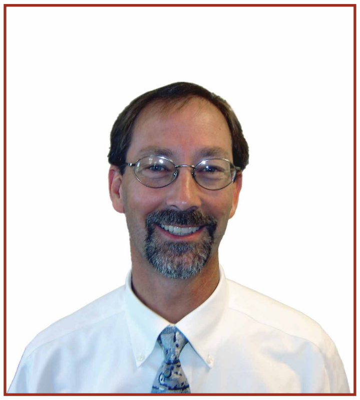
(VACANCY EXISTS FOR ONE (1) APPOINTED BY MAYOR/CITY COUNCIL POSITION)

Randy Nason

Elected by Manual Workers

Marvell French

Appointed by Retirement Board



Jeffrey Beatty

Appointed by Mayor/City Council

Phillip Hardcastle

Elected by
Clerical and Supervisory workers

RETIREMENT ADMINISTRATIVE STAFF

(SEATED AT TABLE)

Stanley McDivitt (CENTER)
Retirement Administrator

Kathleen Riley Brown (RIGHT)
Assistant Retirement Administrator

Yvonne Timberlake (LEFT)
Retirement Benefits Manager

(LEFT TO RIGHT IN PHOTO)

Stanton Perkins
Programmer Analyst IV

Karen Espiritu
Accountant-Auditor

Andrea Ketch
Accountant-Auditor

Lorinda Salvador
Retirement Counselor

Phillip Carbajal
Retirement Counselor

Patti Basquez
Retirement Counselor

Kathryn Muzio
Senior Administrative Clerk (Temporary)

Alberto Magallanes
Senior Accountant-Auditor

Donna Gaab
Retirement Counselor (Temporary)

Pattie Laygo
Executive Assistant

ADMINISTRATION OF THE SYSTEM

ADMINISTRATION

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See pages xv and xvi for outside consultants and investment managers and page 63 for a schedule of brokerage commissions.)

MEMBER SERVICES

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

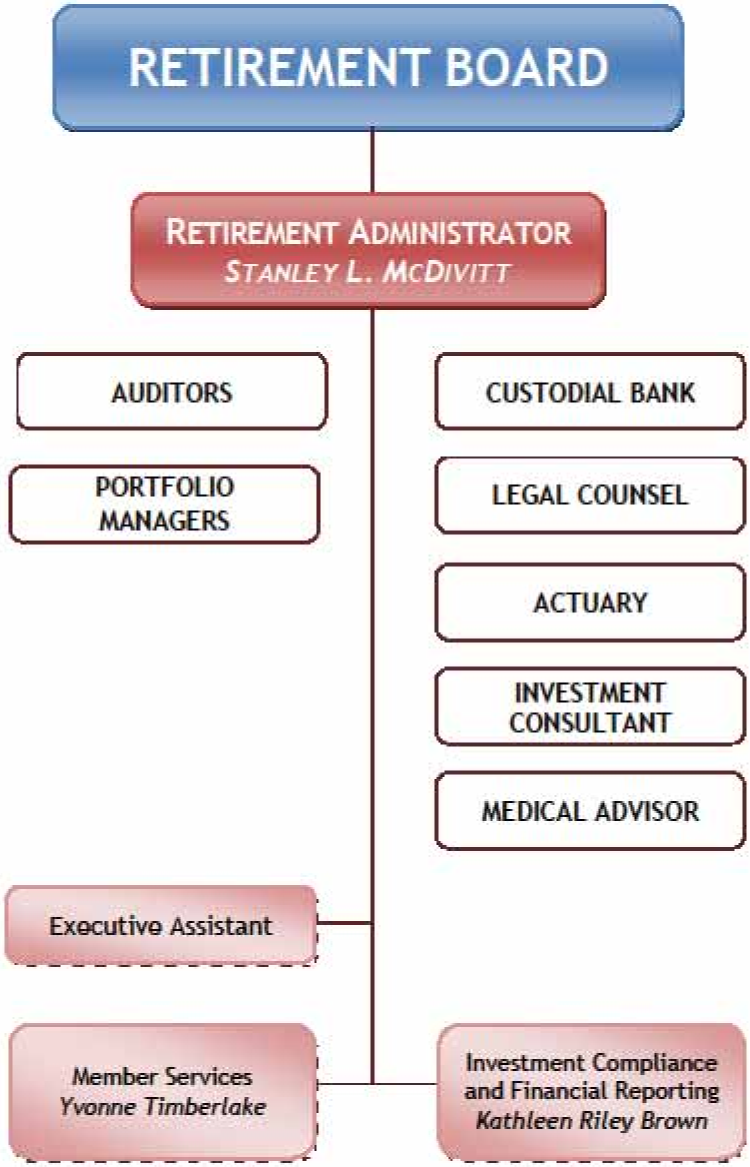
INVESTMENT COMPLIANCE AND FINANCIAL REPORTING

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

EXECUTIVE ASSISTANT

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

ADMINISTRATIVE ORGANIZATIONAL STRUCTURE



PROFESSIONAL SERVICES CONSULTANTS

Custodial Bank
NORTHERN TRUST
Chicago, Illinois

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

Tax Counsel
ICE MILLER LLP
Indianapolis, Indiana

Investment Legal Advisor
FOLEY & LARDNER LLP
Boston, Massachusetts

Investment Consultant
NEPC, LLC
Boston, Massachusetts

Actuary
THE SEGAL COMPANY
San Francisco, California

Medical Advisor
BENCHMARK, AN EXAMWORKS
COMPANY, INC.
Sacramento, California

Independent Auditor
BROWN ARMSTRONG ACCOUNTANCY
CORPORATION
Bakersfield, California

INVESTMENT PORTFOLIO MANAGERS

INTERNATIONAL & EMERGING MARKETS

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

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

FIXED INCOME

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

High Yield
Loomis Sayles, Boston, MA
MacKay Shields, New York, NY

REAL ESTATE

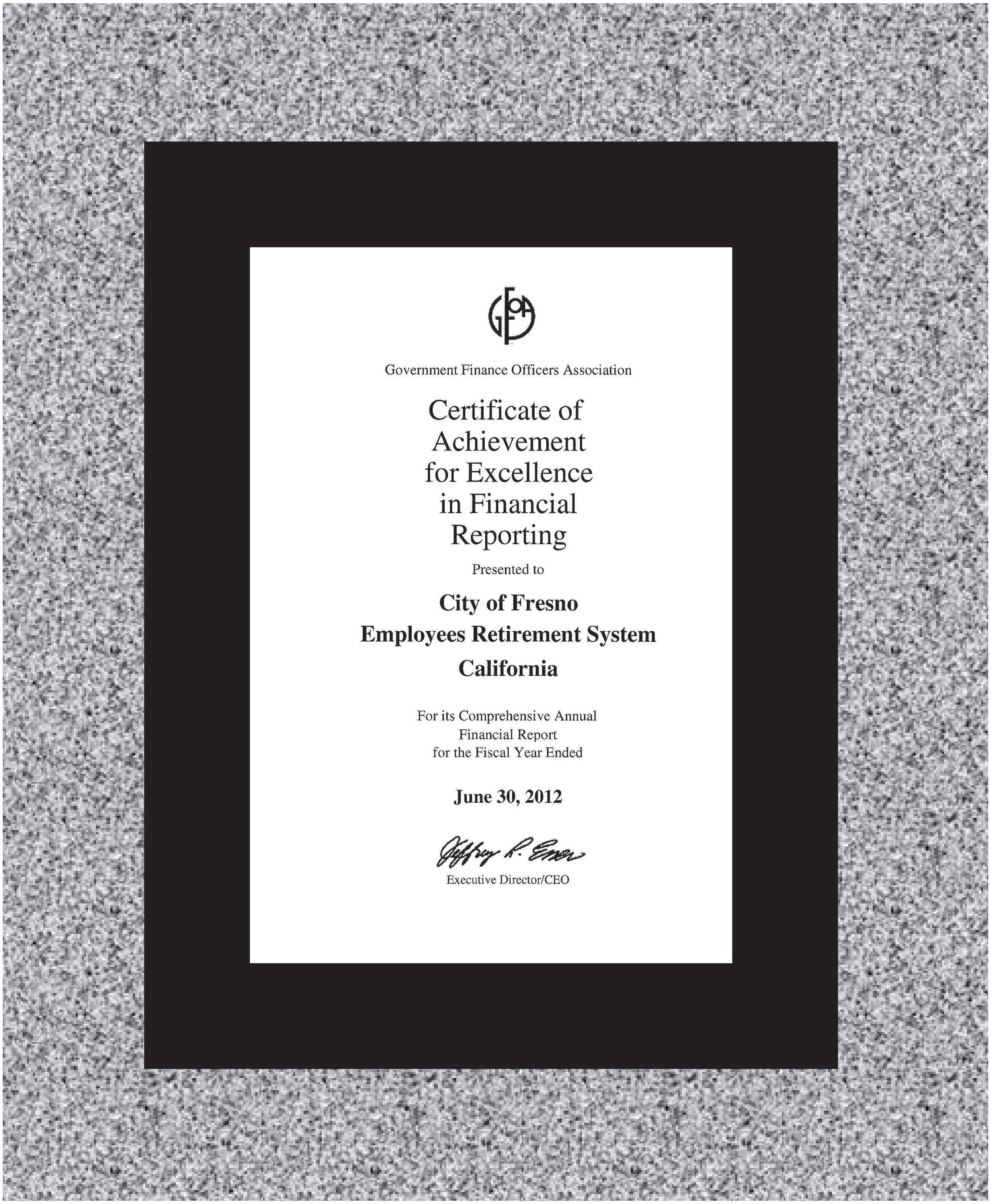
Private Real Estate Investments
JP Morgan Asset Mgt, New York, NY

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

DOMESTIC EQUITY

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

Small Cap
Eagle Asset Management, Inc., St. Petersburg, FL
Kennedy Capital Mgt. Inc., St. Louis, MO



Government Finance Officers Association

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, 2012

Executive Director/CEO

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

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FINANCIAL SECTION

FINANCIAL SECTION

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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FAX 661.324.4997
EMAIL info@bacpas.com

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SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE
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FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
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5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the City of Fresno Employees Retirement System (the System), as of and for the years ended June 30, 2013 and 2012, and the related Statement of Changes in Fiduciary Net Position and notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

report includes additional actuarial information that contributes to the understanding of the changes in the actuarial funding progress of the defined benefit pension plan over the past ten years as presented in the schedule. The actuarial information is based upon assumptions made regarding future events at the time the valuations are performed. Therefore, the amounts presented in the schedules are actuarial estimates. A summary of factors that affected the trends of the actuarial information is included in this section as well.

Other Supplementary Information – The Other Supplementary Information presented immediately following the required supplementary information includes schedules pertaining to the System's administrative expenses, investment management fees and other investment related expenses, and payments to consultants and other professional service providers.

The System's funding ratio at June 30, 2012 was 102.2 percent, which means the System's fund has approximately $1.02 available for each $1.00 of liability. The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about the System's financial activities during the reporting period that increased and decreased the Net Position Restricted for Pension Benefits.

FINANCIAL ANALYSIS

As previously noted, the System's net position restricted for benefits may serve over time as a useful indication of the System's financial position. The net position restricted for pension benefit payments of the System exceeded its liabilities at the close of the fiscal year 2013 by $1,024,665,557. All of the net position is restricted to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal year 2013, the System's restricted fiduciary net position, representing assets available to pay current and future member pension benefits, increased by 10.13 percent primarily due to the strong performance of the investment portfolio reflecting activity of the global investment markets; while in 2012 and 2011, the System's restricted fiduciary net position decreased by 3.52 percent and increased by 19.57 percent, respectively, largely due to volatility and fluctuations in the global investment markets.

Due to the extreme volatility in the various economies of the world and the global financial markets over the past twenty to twenty-five years, it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early 2000's. Historical long-term performance rates of returns demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent over long periods. As of June 30, 2013, the System's 25-year annualized return is 9.14 percent and its 20-year annualized return is 8.41 percent.

Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective Fiduciary Net Position of the System, as of June 30, 2013 and 2012, and its Statement of Changes in Fiduciary Net Position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The Introductory Section; Supplemental Schedules; and 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.

The Supplemental Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2013

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 (the System) for the fiscal years ended June 30, 2013 and 2012. 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 System's net position restricted for pension benefits are restricted for payment of pension benefits to participants and their beneficiaries and all of the net position is restricted to meet the System's ongoing obligations.

At the close of the fiscal year 2013, the assets of the System exceed its liabilities by $1,024,665,557; as of fiscal year 2012, the assets of the System exceeded its liabilities by $930,402,725 and as of fiscal year 2011, the assets of the System exceeded its liabilities by $964,376,504.

The System's net position restricted for pension benefits increased by $94,262,832 or 10.13 percent for fiscal year 2013; decreased by $33,973,779 or 3.52 percent for fiscal year 2012; and increased by $157,805,634 or 19.57 percent for fiscal year 2011 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, 2012, the date of the last actuarial valuation, the funded ratio for the System was 102.2 percent. In general, this indicates that for every dollar of benefits due we have approximately $1.02 of assets available for payment as of that date.

As of the June 30, 2011, the date of the previous annual actuarial valuation, the funded ratio for the System was 116.3 percent; and as of June 30, 2010, the funded ratio for the System was 122.5 percent.

ADDITIONS TO FIDUCIARY NET POSITION

Additions for the fiscal year 2013 increased $131,180,917 or 1,164.97 percent over the prior year from $11,260,441 to $142,441,358 which includes member contributions of $7,995,145, employer contributions of $13,329,655, a net investment income gain of $120,545,096 and net securities lending income of $571,462.

Fiscal year 2012 total additions decreased $191,154,753 or 94.44 percent over the prior year from $202,415,194 to $11,260,441 which includes member contributions of $5,507,139, employer contributions of $11,373,870, a net investment income loss of $6,132,173 and net securities lending income of $511,605.

For fiscal year 2011 additions increased $88,896,329 or 78.31 percent from $113,518,865 to $202,415,194 which included member contributions of $5,275,219, employer contributions of $8,214,569, a net investment income gain of $188,448,518 and net securities lending income of $476,888.

DEDUCTIONS FROM FIDUCIARY NET POSITION

Deductions from fiduciary net position for the fiscal year increased $2,944,306 or 6.51 percent over the prior fiscal year from $45,234,220 to $48,178,526.

Fiscal year 2012 deductions increased $624,660 or 1.40 percent over the fiscal year 2011 from $44,609,560 to $45,234,220.

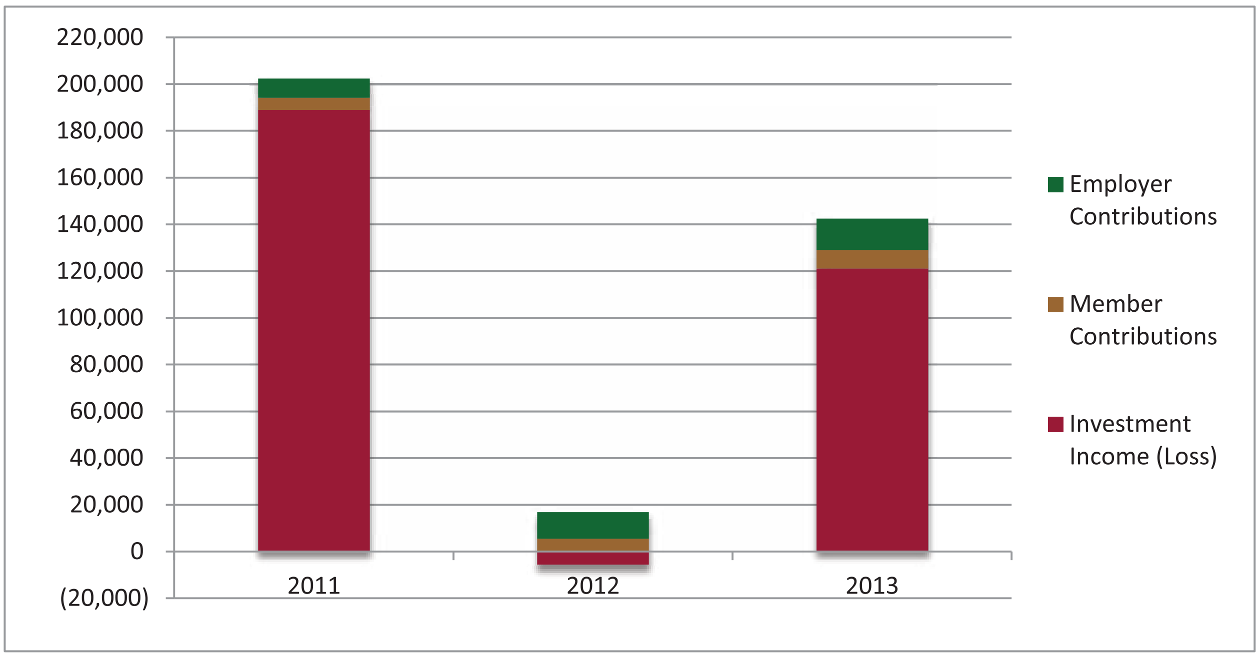
Fiscal year 2011 deductions increased $2,082,761 or 4.90 percent over fiscal year 2010 from $42,526,799 to $44,609,560.

The current year increase in deductions is due primarily to the increases in retirees and the respective retirement benefits paid in 2013 even though there was a significant decrease in the Post Retirement Supplemental Benefits paid over the prior year.

SCHEDULE AND GRAPH OF ADDITIONS BY SOURCE

For the Fiscal Years Ended June 30, 2013, 2012, and 2011 (In Thousands)

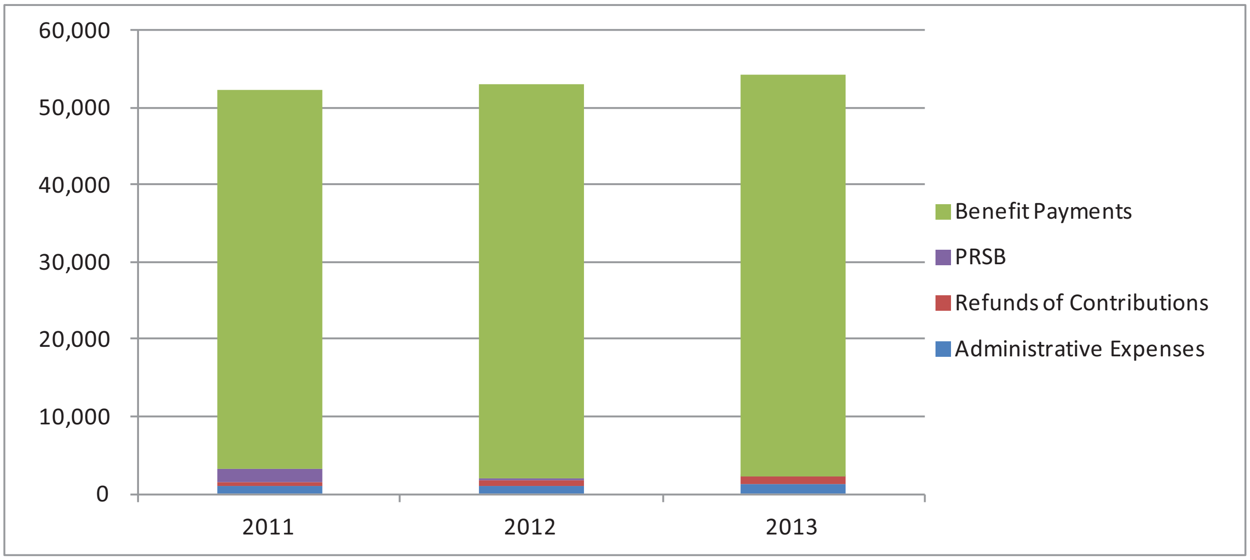
	2011	2012	2013
Employer Contributions	$ 8,215	$11,374	$ 13,330
Member Contributions	5,275	5,507	7,995
Investment Income (Loss)	188,925	(5,620)	121,116
Total	$202,415	$11,261	$142,441



SCHEDULE AND GRAPH OF DEDUCTIONS BY TYPE

For the Fiscal Years Ended June 30, 2013, 2012, and 2011 (In Thousands)

	2011	2012	2013
Benefit Payments	$39,900	$42,696	$45,807
PRSB	1,588	138	76
Refunds of Contributions	2,092	1,313	1,157
Administrative Expenses	1,029	1,087	1,138
TOTAL	$44,609	$45,234	$48,178



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:

Statement of Fiduciary Net Position – The Statement of Fiduciary Net Position presents the major categories of assets and liabilities and their related value as of the System's fiscal year ended June 30, 2013. "Net Position Restricted for Pension Benefits" represents funds available to pay benefits and it 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 Fiduciary Net Position includes prior year-end balances for comparative purposes. Increases and decreases in Net Position Restricted for Pension Benefits, when analyzed over time, may serve as an indicator of whether the System's financial position is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health.

Statement of Changes in Fiduciary Net Position – This Statement of Changes in Fiduciary Net Position provides information about the financial activities during the reporting period that increased and decreased the Net Position Restricted for Pension Benefits. For comparative purposes, prior year-end balances are also provided.

The two statements above 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 additions and deductions 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.

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 basis of accounting. The System complies with all material requirements of these pronouncements.

Notes to the Basic Financial Statements - The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to acquire a full understanding of the information and data provided in the two statements discussed above. The notes include further discussion and details regarding the System's key policies, programs, investments and activities that occurred during the year.

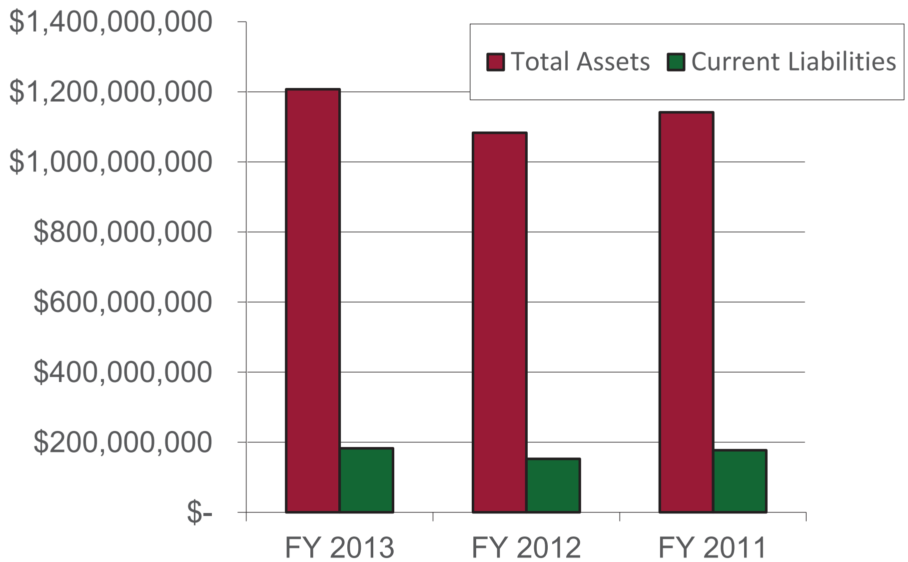
Required Supplementary Information – The Required Supplementary Information contains two supporting schedules of historical trend information related to the System's pension plan reported in the Basic Financial Statements. The two schedules presented are the Schedule of Funding Progress and Schedule of Employer Contributions. The information contained in these schedules is based on actuarial valuations prepared for the plan. The actuarial valuation 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 FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

For The Years Ended June 30, 2013, 2012 And 2011

	FY 2013	FY 2012	FY 2013 Increase/(Decrease) Amount	FY 2013 Increase/(Decrease) Percent
Current and Other Assets	$ 172,726,684	$ 156,472,558	$ 16,254,126	10.39%
Investments at Fair Value	1,034,575,881	926,803,350	107,772,531	11.63%
Total Assets	$ 1,207,302,565	$ 1,083,275,908	$ 124,026,657	11.45%
Current Liabilities	182,637,008	152,873,183	29,763,825	19.47%
Net Position Restricted for Pension Benefits	$ 1,024,665,557	$ 930,402,725	$ 94,262,832	10.13%

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase/(Decrease) Percent
Current and Other Assets	$ 156,472,558	$ 168,585,430	$ (12,112,872)	(7.19%)
Investments at Fair Value	926,803,350	973,125,596	(46,322,246)	(4.76%)
Total Assets	$ 1,083,275,908	1,141,711,026	$ (58,435,118)	(5.12%)
Current Liabilities	152,873,183	177,334,522	(24,461,339)	(13.79%)
Net Position Restricted for Pension Benefits	$ 930,402,725	$ 964,376,504	$ (33,973,779)	(3.52%)



RESERVES

Reserves are not required, nor recognized, under accounting principles generally accepted in the United States of America (GAAP). The reserves are not shown separately on the Statement of Fiduciary Net Position, but they equate to and are accounts within the net position restricted for pension benefits and are vital to the System's operations. They are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Investments of the System are stated at fair value instead of at cost and fair value, which includes the recognition of unrealized gains and losses in the current period.

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

Deferred Retirement Option Program (DROP) Reserve represents funds reserved for Deferred Retirement Option Program benefits accumulated by active members and retired members. DROP is an alternate method of receiving retirement benefits. It is a voluntary program as described by the conditions and requirements of Municipal Code Section 3-566. A DROP account is a nominal, bookkeeping account established within the System for each DROP participant. Monthly amounts credited to DROP accounts include an amount which represents the service retirement allowance which the member would have received if the member had retired on the date the member commenced DROP participation and interest credited at the five year average interest rate as adopted by the Retirement Board (the Board) in accordance with Municipal Code requirements.

Post Retirement Supplemental Benefit (PRSB) Reserve represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 3-567. PRSB is a supplemental benefit distributed to eligible participants in accordance with Municipal Code Section 3-567, if and only if distributable actuarial surplus is available to provide such a benefit. Actuarial surplus means the amount by which the actuarial value of the System's assets exceeds one hundred and ten percent (110%) of the System's actuarial accrued liabilities.

City Surplus Reserve represents that portion of distributable actuarial surplus that has been allocated but not used as a reduction to offset or eliminate the City of Fresno's (the City) pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 Post Retirement Supplemental Benefits. The City Surplus Reserve Account accrues interest at the average gross rate of return earned by the System's entire investment portfolio for each of the three prior fiscal years, including realized and unrealized gains and losses and as reduced by all investment related expenses.

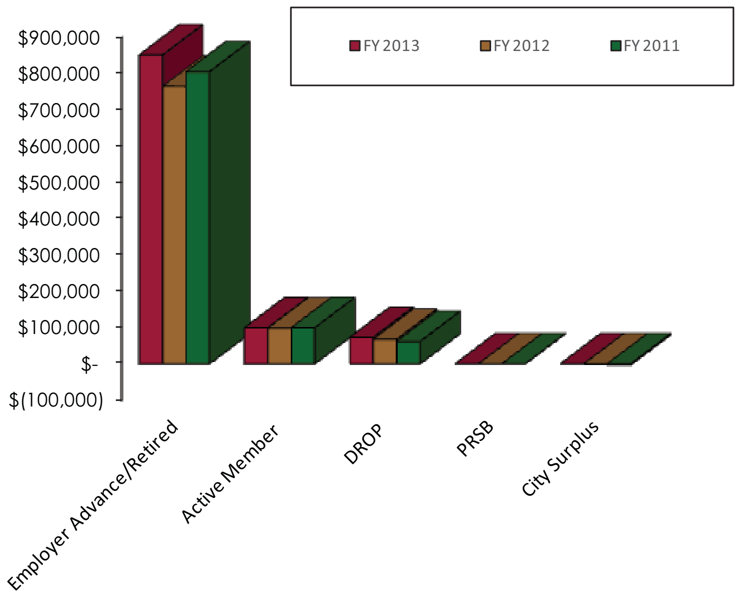
Table 2 shows that the vast majority of reserves are generated from Employer Advance and Retired reserves. DROP reserves represent funds credited for participants who elected to participate in the Deferred Retirement Option Program. PRSB Reserve presents that portion of distributable actuarial surplus that has been allocated for PRSB but not yet distributed to eligible participants. Additions and deductions from PRSB occur when surpluses and allocations occur, respectively. The City Surplus reserve represents that portion of distributable actuarial surpluses and accrued interest, reduced by required City normal pension contributions. The City Surplus Reserve Account shall be drawn upon in subsequent years if needed to reduce or eliminate the City's annual pension contribution requirement.

The City Surplus Reserve Account is once again positive for fiscal year 2013, while negative for fiscal years 2012 and 2011 due to the differences between the actual and estimated surplus allocation to the City for offsetting the City's contributions for those plan years. The City's normal contribution rate for fiscal year 2014 includes a slight offset for excess funding that occurred during fiscal year 2013 to correct the deficit City Surplus Reserve balance for the prior year.

TABLE 2 – EMPLOYEES RETIREMENT SYSTEM'S RESERVES

For The Years Ended June 30, 2013, 2012 And 2011

	FY 2013	FY 2012	FY 2011
Employer Advance/Retired Reserves	$851,764	$765,298	$805,667
Active Member Reserves	99,549	98,580	99,819
DROP Reserves	73,140	67,524	61,642
PRSB Reserves	9	82	212
City Surplus Reserves	204	(1,081)	(2,963)
Net Position Restricted for Pension Benefits	$1,024,666	$930,403	$964,377



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

Attributable in part to the continued growth in global financial markets, the System's assets increased $94,262,832 for the fiscal year resulting in a 10.13 percent increase in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2013. Primarily attributable to the global economic and financial markets volatility in fiscal year 2012, the System's fiduciary net position decreased $33,973,779 resulting in a 3.52 percent decrease in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2012, and for the fiscal year ended June 30, 2011, the System's position increased $157,805,634 resulting in a 19.57 percent increase in net position for the fiscal year ended June 30, 2011.

Key elements of the additions and deductions to Fiduciary Net Position for fiscal years 2013, 2012 and 2011 are described in the sections below.

ADDITIONS TO SYSTEM'S FIDUCIARY NET POSITION

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]. Total additions to the System's fiduciary net position for the fiscal year ended June 30, 2013 totaled $142,441,358.

For the fiscal year ended June 30, 2013, overall additions had increased by $131,180,917 or 1,164.97 percent from the prior year, primarily due to the performance of the investment markets; for fiscal year ended June 30, 2012, overall additions decreased by $191,154,753 or 94.44 percent; and for fiscal year ended June 30, 2011, overall additions increased by $88,896,329 or 78.31 percent from the prior year. The investment section of this report reviews the details of results of investment activity for the fiscal year ended June 30, 2013.

DEDUCTIONS FROM SYSTEM'S FIDUCIARY NET POSITION

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 from the fiduciary net position for the fiscal year ended June 30, 2013, totaled $48,178,526 which was an increase of $2,944,306 or 6.51 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the amount of benefit payments due to the number of retirees from the prior year.

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

CHANGES IN FIDUCIARY NET POSITION (CONDENSED)

For The Years Ended June 30, 2013, 2012 And 2011

	FY 2013	FY 2012	FY 2013 Increase/(Decrease) Amount	FY 2013 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$ 13,329,655	$ 11,373,870	$ 1,955,785	17.20%
Employee Contributions	7,995,145	5,507,139	2,488,006	45.18%
Net Investment Income (Loss) *	121,116,558	(5,620,568)	126,737,126	2,254.88%
Total Additions (Declines)	$ 142,441,358	$ 11,260,441	$ 131,180,917	1,164.97%
Deductions				
Retiree Benefit Payroll	$ 45,806,771	$ 42,695,972	$ 3,110,799	7.29%
PRSB	76,286	137,746	(61,460)	(44.62%)
Refunds of Contributions	1,157,287	1,313,292	(156,005)	(11.88%)
Administrative Expenses	1,138,182	1,087,210	50,972	4.69%
Total Deductions	$ 48,178,526	$ 45,234,220	$ 2,944,306	6.51%
Changes in Net Position	94,262,832	(33,973,779)	128,236,611	377.46%
Net Position Restricted for Pension Benefits				
Beginning of the Year	930,402,725	964,376,504	(33,973,779)	(3.52%)
End of the Year	$1,024,665,557	$930,402,725	$ 94,262,832	10.13%

* Net of investment expense of $4,971,025 and $4,568,601 for June 30, 2013 and 2012.

	FY 2012	FY 2011	FY 2012 Increase/(Decrease) Amount	FY 2012 Increase/(Decrease) Percent
Additions (Declines)				
Employer Contributions	$ 11,373,870	$ 8,214,569	$ 3,159,301	38.46%
Employee Contributions	5,507,139	5,275,219	231,920	4.40%
Net Investment Income (Loss) *	(5,620,568)	188,925,406	(194,545,974)	(102.98%)
Total Additions (Declines)	$ 11,260,441	$202,415,194	$ (191,154,753)	(94.44%)
Deductions				
Retiree Benefit Payroll	$ 42,695,972	$ 39,900,410	$ 2,795,562	7.01%
PRSB	137,746	1,587,450	(1,449,704)	(91.32%)
Refunds of Contributions	1,313,292	2,092,260	(778,968)	(37.23%)
Administrative Expenses	1,087,210	1,029,440	57,770	5.61%
Total Deductions	$ 45,234,220	$ 44,609,560	$ 624,660	1.40%
Changes in Net Position	(33,973,779)	157,805,634	(191,779,413)	(121.53%)
Net Position Restricted for Pension Benefits				
Beginning of the Year	964,376,504	806,570,870	157,805,634	19.57%
End of the Year	$930,402,725	$964,376,504	$ (33,973,779)	(3.52%)

* Net of investment expense of $4,568,601 and $5,016,946 for June 30, 2012 and 2011.

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, CA 93721-1327

Respectfully submitted,

Stanley L. McDivitt
Retirement Administrator

November 21, 2013

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash (Note 5)	$ 933,365	$ 1,099,451
Collateral Held for Securities Lent (Note 7)	149,473,656	113,875,862
Receivables		
Receivables for Investments Sold	9,808,701	35,784,735
Interest and Dividends	4,125,845	3,460,076
Other Receivables	7,806,925	2,137,640
Total Receivables	**21,741,471**	**41,382,451**
Prepaid Expenses	50,658	68,088
Total Current Assets	**172,199,150**	**156,425,852**
Investments at Fair Value (Note 5)		
Domestic Equity	361,076,718	322,738,059
International Developed Market Equities	203,884,343	171,917,177
Government Bonds	127,294,013	135,096,842
Corporate Bonds	167,180,693	130,182,472
Real Estate	115,099,623	102,835,465
International Emerging Market Equities	36,004,600	34,756,051
Short-Term Investments	24,035,891	29,277,284
Total Investments	**1,034,575,881**	**926,803,350**
Capital Assets Net of Accumulated Depreciation (Note 10)	527,534	46,706
Total Assets	**1,207,302,565**	**1,083,275,908**
LIABILITIES		
Collateral Held for Securities Lent (Note 7)	149,473,656	113,875,862
Payable for Investments Purchased	24,287,538	35,825,816
Other Liabilities	1,069,356	1,019,721
Payable for Foreign Currency Purchased	7,806,458	2,151,784
Total Liabilities	**182,637,008**	**152,873,183**
Net Position Restricted for Pension Benefits (Note 4)	**$ 1,024,665,557**	**$ 930,402,725**

The notes in the financial statements on pages 20 through 42 are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended June 30, 2013 and 2012

	2013	2012
ADDITIONS		
Contributions (Note 3)		
Employer	$ 13,329,655	$ 11,373,870
System Members	7,995,145	5,507,139
Total Contributions	**21,324,800**	**16,881,009**
Investment Income		
Net Appreciation (Depreciation) in Value of Investments	101,242,874	(24,578,287)
Interest	13,126,640	12,845,330
Dividends	10,936,163	9,990,325
Other Investment Related	67,681	51,271
Total Investment Income (Loss)	125,373,358	(1,691,361)
Less: Investment Expense	(4,828,262)	(4,440,812)
Total Net Investment Income (Loss)	**120,545,096**	**(6,132,173)**
Securities Lending Income		
Securities Lending Earnings (Note 7)	714,225	639,394
Less: Securities Lending Expense	(142,763)	(127,789)
Net Securities Lending Income	**571,462**	**511,605**
Total Additions	**142,441,358**	**11,260,441**
DEDUCTIONS		
Benefit Payments	45,806,771	42,695,972
Post Retirement Supplemental Benefits (Note 9)	76,286	137,746
Refunds of Contributions	1,157,287	1,313,292
Administrative Expense	1,138,182	1,087,210
Total Deductions	**48,178,526**	**45,234,220**
Changes in Net Position	**94,262,832**	**(33,973,779)**
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF THE YEAR	**930,402,725**	**964,376,504**
END OF THE YEAR	**$1,024,665,557**	**$ 930,402,725**

The notes in the financial statements on pages 20 through 42 are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE SYSTEM

The City of Fresno 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 (the 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, 2013 and 2012:

	2013	2012
Active Members		
Vested	1,641	1,638
Non-vested	205	267
Total Active Members	1,846	1,905
Retirees and Beneficiaries of Deceased Retirees		
Currently Receiving Benefits	1,700	1,662
Inactive Vested Members	205	217
Total	3,751	3,784

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 the member becomes 100 percent vested, but are not payable until the member attains the age of 55. Effective January 28, 2008, members may retire at age 50 with an actuarially equivalent service retirement benefit.

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 of Fresno (the City) 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 as defined in Section 3-523 and 3-529 of the Municipal Code.

Securities lending transactions are accounted for in accordance with Government Accounting Standards Board (GASB) Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transaction*s, which establishes reporting standards for securities lending transactions. In accordance with GASB Statement No. 28, cash received as collateral on securities lending transactions and investments made with that cash are reported as assets and liabilities, and the results from these transactions are reported in the Statement of Fiduciary Net Position. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Fiduciary Net Position.

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.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Applicable Hedge*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Accounting Termination Provisions – an Amendment of GASB Statement No. 53, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*

The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. There was no current effect on the financial statements as a result of implementing this statement.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This statement provides financial reporting guidance for deferred outflows and deferred inflows of resources. The primary change as a result of implementing this statement was renaming as net position what was previously reported as net assets. The Employees Retirement System does not have any Deferred Inflows or Outflows to report.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision – An Amendment of GASB Statement No. 53*

The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. There was no current effect on the financial statements as a result of implementing this statement.

Statement No. 65, *Items Previously Reported as Assets and Liabilities*

This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. There was no current effect on the financial statements as a result of implementing this statement.

On June 26, 2012, GASB approved two new standards for the accounting and financial reporting of public employee pensions by state and local governments. GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans, replacing Statement No. 25 for plan reporting and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

provide their employees with pension benefits, replacing Statement No. 27 for Employer reporting. The Employees Retirement System is currently planning for implementation of GASB No. 67, *Financial Reporting for Pension Plans*, for its June 30, 2014 fiscal year-end.

Reclassifications

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

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

Adoption of Comprehensive Actuarial Funding Policy and a Change in Actuarial Cost Methodology for Funding Purposes

On November 7, 2012, the Board adopted a Comprehensive Actuarial Funding Policy. For the Employees Retirement System that policy included a change in actuarial cost methodology from the Projected Unit Credit (PUC) method currently used for funding purposes to the Entry Age Normal (EAN) method as the EAN method is used by a substantial majority of the retirement systems in California and nationwide. More importantly, the Board made this change in actuarial cost methodology due to the recently adopted Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 which substantially revises the financial reporting requirements for governmental pension plans and their sponsors.

Goals of the Actuarial Funding Policy:

- To achieve long-term full funding of the cost of benefits provided by the System;
- To seek reasonable and equitable allocation of the cost of benefits over time; and
- To minimize any volatility of the City's contribution to the extent reasonably possible, consistent with other policy goals.

Funding Requirements and Policy Components

The System's annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability ("UAAL") if applicable. The Normal Cost and the amount of the payment on UAAL are determined by three components of the Board's funding policy: 1) Actuarial Cost Method – the techniques used to allocate the cost/liability of retirement benefits to a given period; 2) Asset Smoothing Method – the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and 3) Amortization Policy – the decisions on how, in terms of duration and pattern, to fund the difference between

3. CONTRIBUTIONS CONTINUED

the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

Using Asset Smoothing Method, the investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, are recognized in level amounts over five (5) years in calculating the Actuarial Value of Assets.

As of June 30, 2012, the System does not have an Unfunded Actuarial Accrued Liability ("UAAL"). The Board's Amortization Policy sets forth the amortization procedures for funding any UAAL or amortization and allocation of any available Surplus in the System.

Any new UAAL as a result of actuarial gains or losses indentified in the annual valuation as of June 30 will be amortized over a period of fifteen (15) years. Any new UAAL as a result of any change in actuarial assumptions or methods will be amortized over a period of twenty-five (25) years. The amortization period for any increase in UAAL as a result of any amendments to the System will be amortized over a period of fifteen (15) years; while any increase in UAAL resulting from a temporary retirement incentive will be funded over a period not to exceed five (5) years.

UAAL shall be amortized over "closed" (separate) amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation. UAAL is amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.

If an overfunding status exists (i.e., the Valuation Value of Assets exceeds the Unfunded Actuarial Accrued Liability, the System is considered to have a Surplus in the System as of a point in time), such actuarial surplus and any subsequent surpluses will be amortized over an "open" amortization period of twenty-five (25) years. This amortization period of twenty-five years shall be applicable to the provisions in Fresno Municipal Code Sections relating to the amortization period used in the calculation of the Post Retirement Supplement Benefit. Any prior Unfunded Actuarial Accrued Liability (UAAL) amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over fifteen (15) years as the first of a new series of amortization layers.

The Board's actuary estimated the impact of switching from the PUC to the EAN cost method using the June 30, 2011 actuarial valuation information would be to decrease the employer's Normal Cost contribution rate by about 0.9 percent of payroll. Using the EAN cost method would decrease on average the individual member contribution rates by about 0.1 percent of payroll. The actuarial accrued liability would increase by about $52 million and the System's funded ratio would decrease from 116.3 percent to approximately 109.1 percent.

The actual funding ratio as of June 30, 2012 was 102.2% using the entry age normal actuarial cost method. The System uses a five-year smoothing of market gains and losses above and below the assumed actuarial

3. CONTRIBUTIONS CONTINUED

rate of return to derive the actuarial valuation value of assets. As of the fiscal year ended June 30, 2012, the actuarial valuation value of assets was $891.3 million.

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

The progress being made towards meeting the System's funding objective through June 30, 2012 is illustrated in the Schedule of Funding Progress shown below and in the Required Supplementary Information Schedule on page 42.

SCHEDULE OF FUNDING PROGRESS

For The Three Years Ending June 30, 2013

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2012	$891	$872	102.2%	$(19)	$112	(17.3)%
2011	$920	$791	116.3%	$(129)	$118	(109.8)%
2010	$926	$756	122.5%	$(170)	$131	(129.6)%

The valuation interest rate is 8.00%; total salary scale increases of 4.00% (3.50% for inflation) plus 0.50% across the board salary increase; plus merit and promotion increases based on completed years of service were based on the June 30, 2009 Experience Analysis and Economic Assumptions Reports.

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

3. CONTRIBUTIONS CONTINUED

LATEST ACTUARIAL VALUATION METHODS AND ASSUMPTIONS

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal 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 for Unfunded or Prefunded Actuarial Accrued Liability
Remaining Amortization Period	15 Year open (subject to change) non-declining period for all Prefunded Actuarial Accrued Liability; No Unfunded Actuarial Accrued Liability currently exists
Asset Valuation Method	Actuarial Value of Assets, determined by phasing in (5-year Smoothed Market Value) any differences between the actual and expected return on market value of assets over 5 years.
Actuarial Assumptions	
Investment Rate of Return	8.00%
Projected Salary Increases	4.60% Plus Merit and Promotion increases (Service and Age)
Attributed to Inflation	3.50%
Cost-of-Living Adjustments	3.50%

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

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

3. CONTRIBUTIONS CONTINUED

Funding Policy

The Employer currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the entry age normal method applied to the projected benefits in determining the Normal Cost and Actuarial Accrued Liability. The Normal Cost is determined on an individual basis for each active member. If there is a positive (Surplus) or negative (Unfunded) difference between the Valuation of Assets and the Actuarial Accrued Liability, the amortization policy determines the amortization of the Unfunded Actuarial Accrued Liability on a level percentage of payroll needed to fund the UAAL or the amount of available surplus which would be distributable in any given year. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization of any unfunded (UAAL) or prefunded (PAAL) actuarial accrued liability.

These minimum contributions are recognized currently in the statement of changes in fiduciary net position. 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 (basic and cost-of-living (COLA) to the System for fiscal year 2013 totaled $21,324,800. Employees contributed $7,995,145 and the City made contributions of $13,329,655.

Contributions aggregating $21,324,800 ($13,329,655 employer contributions and $7,995,145 employee contributions) were made in fiscal year 2013, based on an actuarial valuation determined as of June 30, 2011, which became effective for the year ended June 30, 2013. During fiscal year 2013, the Employer contribution rate was set at 12.63 percent. Employer and System member basic and COLA contributions represented 12.63 percent and 7.58 percent, respectively, of the fiscal year 2013 covered payroll.

Contributions aggregating $16,881,009 ($11,373,870 employer contributions and $5,507,139 employee contributions) were made in fiscal year 2012, based on an actuarial valuation determined as of June 30, 2010, which became effective for the year ended June 30, 2012. During fiscal year 2012, the Employer contribution rate was set at 10.70 percent; however, only a cash contribution of $11,373,870 was required from the City due to the use of prefunded actuarial accrued liability of the System. Employer and System member contributions represented 10.29 percent and 4.98 percent, respectively, of the fiscal year 2012 covered payroll.

3. CONTRIBUTIONS CONTINUED

Contributions Required and Contributions Made

The employer's required normal contributions to the System has two components: basic and COLA; and for the first time in over a decade contributions to fund the COLA were required for fiscal year 2013 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2011, as follows:

Normal Cost:

Required Annual Contribution Amount	$ 11,996,327
Plus Contribution Shortfall from Prior Year	1,333,328
Net Employer Contributions	$ 13,329,655
Pensionable Payroll Amount (Fiscal Year 2013)	$105,508,591

4. NET POSITION RESTRICTED FOR PENSION BENEFITS

Net position restricted for pension benefits is segregated into Active Member Reserves (members' accumulated contributions) and reserves established by the Board for various benefit payments.

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

The System's major reserves are as follows:

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

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

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

POST RETIREMENT SUPPLEMENTAL RESERVE ("PRSB 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

4. NET POSITION RESTRICTED FOR PENSION BENEFITS CONTINUED

Municipal Code Section 3-567 "Post Retirement Supplemental Benefit." The City Surplus Reserve Account was negative for fiscal years 2012 and 2011 due to the differences between the actual and estimated surplus allocation for the City for offsetting the City's contributions for those years. The City's normal contribution rate for fiscal year 2013 includes funding of the fiscal year 2012 deficit City Surplus Reserve balance.

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

The amount of reserves for the years ended June 30, 2013 and 2012 consisted of the following (in thousands):

	2013	2012
Employer Advance/Retired Reserves	$ 851,764	$ 765,298
Active Member Reserves	99,549	98,580
DROP Reserves	73,140	67,524
PRSB Reserves	9	82
City Surplus Reserves	204	(1,081)
Net Position Restricted for Pension Benefits	$1,024,666	$ 930,403

5. 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 fourteen external investment managers, managing eighteen individual portfolios.

Investments at June 30, 2013 and 2012 consist of the following (in thousands):

	2013	2012
Investments at Fair Value		
Domestic Equity	$361,077	$322,738
International Market Equities		
Developed Markets	203,884	171,917
Emerging Markets	36,004	34,756
Government Bonds	127,294	135,097
Corporate Bonds	167,181	130,182
Real Estate	115,100	102,836
Short-Term Investments	24,036	29,277
Total Investments at Fair Value	$1,034,576	$926,803

5. DEPOSITS AND INVESTMENTS CONTINUED

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

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 position 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 System's name and held by the System's 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 in a Trust account as part of the City's cash investment pool totaled $35,469 and $370,296 at June 30, 2013 and 2012, 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, 2013.

5. 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 tables that follow. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

The System has no general policy on credit and interest rate risk. The System limits its investments in below investment grade bonds and monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio.

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

	2013			2012		
Type of Investment	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset Backed Securities	$ 2,788,348	A+	2.66	$ 2,320,798	BBB+	3.38
Commercial Mortgage-Backed	4,405,888	A+	2.71	5,579,052	AA	2.98
Corporate Bonds	150,879,836	BB+	4.24	113,211,715	BBB-	3.65
Corporate Convertible Bonds	3,969,705	BB-	4.53	2,978,007	B	6.34
Non-Government backed C.M.O.s	2,622,740	CCC+	2.65	3,508,595	B-	4.11
Convertible Equity	702,055	B-	4.76	859,538	B+	2.27
Other Fixed Income	4,849	NR	-	3,454	NR	13.00
Common Stock	359,389	D	0.70	211,214	NR	13.00
Preferred Stock	1,447,883	B+	5.49	1,510,099	BB-	4.87
Government Agencies	5,150,110	AAA	3.87	6,195,000	AAA	3.42
Government Bonds	45,552,179	AAA	5.03	45,413,396	AAA	4.98
Government Mortgage Backed Securities	68,103,677	AAA	3.49	72,770,161	AAA	1.61
Index Linked Government Bonds	267,542	BBB-	11.32	-	-	-
Municipal/Provincial Bonds	8,220,505	A	9.50	10,718,285	A	9.27
Total Credit Risk Fixed Income	$ 294,474,706			$265,279,314		

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

High yield fixed income portfolios, in accordance with section 5.5(7) of the System's Investment Policy Statement, shall maintain an average credit quality rating equal to or higher than that of the Barclays US Corporate High Yield Index. Based on the Barclays US Corporate High Yield Index, a high

5. DEPOSITS AND INVESTMENTS CONTINUED

yield manager's portfolio shall have a constraint of the benchmark weight plus 5 percent in bonds rated Caa1/CCC+ or lower with non-rated bonds being limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of the Barclays US Corporate High Yield index. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; within this limit, a manager may allocate up to 20 percent in emerging market government securities including both non-US dollar denominated securities and US dollar denominated Yankee securities and up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

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

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

Concentration Risk

The investment portfolio as of June 30, 2013 and 2012 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

Foreign Currency Risk

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

The following positions represent the System's exposure to foreign currency risk as of June 30, 2013, and 2012.

5. DEPOSITS AND INVESTMENTS CONTINUED

Foreign Currency Risk Exposure

As of June 30, 2013

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$ 12,609,070	$ (45,668)	$ -	$ 47,525	$ 12,610,927
BRL	Brazilian Real	Brazil	2,730,353	-	6,247	(70,163)	2,666,437
CAD	Canadian Dollar	Canada	5,750,067	-	-	88	5,750,155
CHF	Swiss Franc	Switzerland	13,270,916	-	-	11	13,270,927
CLP	Chilean Peso	Chile	57,853	-	-	-	57,853
COP	Colombian Peso	Colombia	-	-	-	-	-
CZK	Czech Koruna	Czech Republic	121,189	-	-	-	121,189
DKK	Danish Krone	Denmark	4,117,680	(6,708)	-	6,708	4,117,680
EGP	Egyptian Pound	Egypt	-	-	-	-	-
EUR	Euro	Europe	48,420,725	(4,296,712)	6,371	673,025	44,803,409
GBP	British Pound Sterling	United Kingdom	46,253,458	(1,201,098)	-	526,571	45,578,931
HKD	Hong Kong Dollar	Hong Kong	15,756,559	-	-	571,393	16,327,952
HUF	Hungarian Forint	Hungary	180,140	-	-	-	180,140
IDR	Indonesian Rupiah	Indonesia	829,819	-	-	(40,341)	789,478
ILS	New Israeli Shekel	Israel	-	-	-	-	-
INR	Indian Rupee	India	3,445,382	-	-	765	3,446,147
JPY	Japanese Yen	Japan	38,671,637	(301,923)	-	324,431	38,694,145
KRW	South Korean Won	South Korea	7,810,990	-	-	25,744	7,836,734
MXN	Mexican Peso	Mexico	2,134,964	-	-	-	2,134,964
MYR	Malaysian Ringgit	Malaysia	767,620	-	-	(47)	767,573
NOK	Norwegian Krone	Norway	3,604,415	(141,814)	-	141,814	3,604,415
NZD	New Zealand Dollar	New Zealand	-	-	-	-	-
PHP	Philippine Peso	Philippines	611,064	-	-	-	611,064
PLN	Polish Zloty	Poland	277,398	(26,247)	-	26,248	277,399
SEK	Swedish Krona	Sweden	9,056,513	-	-	-	9,056,513
SGD	Singapore Dollar	Singapore	3,554,243	-	-	-	3,554,243
THB	Thai Baht	Thailand	1,176,455	-	-	-	1,176,455
TRY	Turkish Lira	Turkey	1,966,149	-	-	-	1,966,149
TWD	New Taiwan Dollar	Taiwan	4,606,060	-	-	(29,237)	4,576,823
USD	United States Dollar	United States	-	(1,207,955)	4,849	-	(1,203,106)
ZAR	South African Rand	South Africa	3,756,106	(60,088)	-	60,092	3,756,110
Total Equities (In USD)			231,536,825	(7,288,213)	17,467	2,264,627	226,530,706
Total Non-USD Equities (In USD)			$ 231,536,825	$ (6,080,258)	$ 12,618	$ 2,264,627	$ 227,733,812

5. DEPOSITS AND INVESTMENTS CONTINUED

Foreign Currency Risk Exposure

As of June 30, 2012

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Rights & Warrants	Cash & Cash Equivalents	Total
AUD	Australian Dollar	Australia	$ 11,852,308	$ -	$ -	$ 3,352	$ 11,855,660
BRL	Brazilian Real	Brazil	2,229,313	-	-	(31,847)	2,197,466
CAD	Canadian Dollar	Canada	5,371,364	-	-	-	5,371,364
CHF	Swiss Franc	Switzerland	10,828,591	(16,613)	-	16,613	10,828,591
CLP	Chilean Peso	Chile	-	-	-	-	-
COP	Colombian Peso	Colombia	97,588	-	-	-	97,588
CZK	Czech Koruna	Czech Republic	97,755	-	-	-	97,755
DKK	Danish Krone	Denmark	3,538,903	-	-	-	3,538,903
EGP	Egyptian Pound	Egypt	-	-	-	-	-
EUR	Euro	Europe	38,434,339	(944,982)	-	28,726	37,518,083
GBP	British Pound Sterling	United Kingdom	38,547,782	(14,838)	-	15,235	38,548,179
HKD	Hong Kong Dollar	Hong Kong	14,432,757	-	-	13,668	14,446,425
HUF	Hungarian Forint	Hungary	143,975	-	-	-	143,975
IDR	Indonesian Rupiah	Indonesia	578,005	-	-	3,063	581,068
ILS	New Israeli Shekel	Israel	157,181	-	-	-	157,181
INR	Indian Rupee	India	1,946,731	-	-	2,368	1,949,099
JPY	Japanese Yen	Japan	28,300,152	(221,354)	-	260,341	28,339,139
KRW	South Korean Won	South Korea	7,626,241	-	-	(11,002)	7,615,239
MXN	Mexican Peso	Mexico	1,777,889	-	-	45,576	1,823,465
MYR	Malaysian Ringgit	Malaysia	544,640	-	-	4,349	548,989
NOK	Norwegian Krone	Norway	2,962,954	-	-	-	2,962,954
NZD	New Zealand Dollar	New Zealand	690,641	-	-	-	690,641
PHP	Philippine Peso	Philippines	146,205	-	-	-	146,205
PLN	Polish Zloty	Poland	287,194	(16,988)	-	16,988	287,194
SEK	Swedish Krona	Sweden	6,735,191	-	-	-	6,735,191
SGD	Singapore Dollar	Singapore	4,038,864	-	-	5,932	4,044,796
THB	Thai Baht	Thailand	1,644,690	-	-	-	1,644,690
TRY	Turkish Lira	Turkey	2,397,299	-	-	-	2,397,299
TWD	New Taiwan Dollar	Taiwan	5,115,710	-	-	33,693	5,149,403
USD	United States Dollar	United States	-	(115,152)	3,454	-	(111,698)
ZAR	South African Rand	South Africa	4,019,958	(50,643)	-	53,439	4,022,754
Total Equities (In USD)			194,544,220	(1,380,570)	3,454	460,494	193,627,598
Total Non-USD Equities (In USD)			$ 194,544,220	$ (1,265,418)	$ -	$ 460,494	$ 193,739,296

5. DEPOSITS AND INVESTMENTS CONTINUED

Per section 5.5(5) of the System's Investment Objectives and Policy Statement, assets in international equity portfolios shall consist of liquid, publicly traded equity and equity like securities traded on major stock exchanges as well as cash and cash equivalents as necessary. Securities will be primarily composed of foreign ordinary shares and depository receipts (American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) including ADR's and GDR's that are 144A securities). Securities that are 144A securities, including ADR and GDR 144A securities are authorized investments which in aggregate cannot exceed 10 percent of the portfolio. Primarily large capitalization securities may be held, although investments in small and mid capitalization securities in developed and emerging markets are also allowed. Firms will continually monitor their country, currency, sector and security selection risks associated with their international portfolios. All of the risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

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

6. DERIVATIVES

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

a. Mitigation of risk (or risk reduction).

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

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

d. To obtain investment exposure which is appropriate for the manager's investment strategy and the System's investment guidelines, but 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.

6. DERIVATIVES CONTINUED

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

Credit Risk

Credit risk of cash securities containing derivative features, as explained, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. The other derivative instruments described above are subject to credit risk to the extent their fair value is a positive market value, and the counterparty 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 exchange margin requirements. Equity Index Swaps are derivatives and represent an agreement between two parties to swap two sets of equity values. Equity Futures are contracts used to replicate an underlying stock market index. These equity futures can be used for hedging against an existing equity position, or speculating on future movements of the index.

As of June 30, 2013 and 2012, the Employees Retirement System held a total fair value of $9,316,695 and $4,500,883, respectively, in derivative holdings. These holdings consisted of Right/Warrants, Foreign Currency Forwards and Futures designed to synthetically created equity returns held as components of the System's international equity investments, and S&P 500 E Mini Index Futures, S&P MidCap 400 E MINI Index Futures and a variety of ACWIxUS index related futures as components of the System's investments in its international equity portfolios, BlackRock S&P 500 Equity Index, Russell 1000, and ACWIexUS

6. DERIVATIVES CONTINUED

Funds. These derivatives are used for the purpose of synthetically creating equity returns, synthetically creating floating rates and to buy and sell credit protection on the assets.

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

Derivative Type:	FY 2013		FY 2012	
	Notional Amount	Fair Value	Fair Value	FY 2013 - FY 2012 Change in Fair Value
Rights/Warrants	13,519*	$ 17,467	$ 3,454	$ 14,013
Foreign Currency Forward	$ (7,288,213)	7,345,696	1,410,861	5,934,835
Future Contracts - Domestic Equity Index	-	1,264,728	2,502,845	(1,238,117)
Future Contracts - International Equity Index	-	688,804	583,723	105,081
	Total	$ 9,316,695	$ 4,500,883	

Derivative Type:	FY 2012		FY 2011	
	Notional Amount	Fair Value	Fair Value	FY 2012 - FY 2011 Change in Fair Value
Rights/Warrants	432*	$ 3,454	$ 5,532	$ (2,078)
Foreign Currency Forward	$ (1,380,570)	1,410,861	(4,360)	1,415,221
Future Contracts - Domestic Equity Index	-	2,502,845	2,317,842	185,003
Swaps	-	583,723	426,456	157,267
	Total	$ 4,500,883	$ 2,745,470	

7. SECURITIES LENDING

The City of Fresno Municipal Code and the Retirement Board's policies permit the Retirement Board of the City of Fresno Fire and Police Retirement System and the City of Fresno Employees Retirement System (the Systems) 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 the 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 fair value (contract value) for domestic securities and 105 percent of fair 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 Boards, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2013 had a weighted average duration of 88 days, average maturity is 43 days and an average monthly yield of 0.30 percent. The relationship between the maturities of the investment pool and the Systems' 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 Systems. As of June 30, 2013, the Northern Trust Core U.S.A. Cash Collateral Fund had zero exposure in below investment grade long-term securities and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The Systems cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the Systems against losses and will replace or reimburse the Systems for any borrowed securities not replaced. In general, the average term of all Systems' 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 Systems' loans was approximately 111 days as of June 30, 2013.

7. SECURITIES LENDING CONTINUED

The System's securities lending income is as follows:

SECURITIES LENDING INCOME

For the Years Ended June 30, 2013 and 2012

	2013	2012
Gross Income	$ 714,225	$ 639,394
Expenses:		
Bank Fees	142,763	127,789
Total Expenses	142,763	127,789
Net Income from Securities Lending	$ 571,462	$ 511,605

FAIR VALUE OF LOANED SECURITIES

As of June 30, 2013 and 2012

	FY 2013			FY 2012		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 34,464,032	$ -	$ 34,464,032	$ 25,819,036	$ -	$ 25,819,036
Domestic Equities	64,022,012	165,707	64,187,719	58,220,606	6,199	58,226,805
Domestic Fixed	30,057,632	-	30,057,632	17,565,839	-	17,565,839
International Equities	15,620,618	883,182	16,503,800	10,785,735	208,067	10,993,802
Total Value	$ 144,164,294	$ 1,048,889	$ 145,213,183	$ 112,391,216	$ 214,266	$ 112,605,482

FAIR VALUE OF COLLATERAL RECEIVED FOR LOANED SECURITIES

As of June 30, 2013 and 2012

	FY 2013			FY 2012		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 35,138,088	$ -	$ 35,138,088	$ 26,215,518	$ -	$ 26,215,518
Domestic Equities	65,646,696	170,150	65,816,846	58,580,300	6,193	58,586,493
Domestic Fixed	30,775,476	213,841	30,989,317	17,777,026	-	17,777,026
International Equities	16,564,365	965,040	$ 17,529,405	11,085,065	211,760	$ 11,296,825
Total Value	$ 148,124,625	$ 1,349,031	$ 149,473,656	$ 113,657,909	$ 217,953	$ 113,875,862

8. 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.

9. 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 System. 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, 2013, the System distributed PRSB benefits in the amount of $76,286 to eligible retirees and added the City Surplus Reserve shortfall of $1,081,177 to the City's required pension contributions for fiscal year 2013. As of June 30, 2013, the City Surplus Reserve balance was $204,021 and the PRSB Reserve balance was approximately $8,774, of which $8,774 is committed for PRSB distribution for the months of July through December 2013.

For the fiscal year ended June 30, 2012, the System distributed PRSB benefits in the amount of $137,746 to eligible retirees and offset required City pension contributions by $2,380,291. As of June 30, 2012, the City Surplus Reserve balance was ($1,081,177) and the PRSB Reserve balance was approximately $81,918, of which $81,918 was committed for PRSB distribution for the months of July through December 2012.

10. CAPITAL ASSETS

Capital assets are carried at historical cost, net of accumulated depreciation. Capital assets are any items of equipment or furnishings purchased with a value of or an initial cost of $500 or greater and $5,000 for land, buildings and infrastructure and an estimated useful life in excess of two years.

Accumulated depreciation shall be summarized and reflected on the System's annual financial statements. Capital assets shall be depreciated over their estimated useful lives using the straight-line depreciation method. Intangible assets with limited useful lives (e.g., by legal or contractual provisions) should be depreciated over their estimated useful lives. Depreciation of computer software begins when the program is placed into service.

10. CAPITAL ASSETS CONTINUED

The System's major two-year project to program and install an upgrade to our original pension administration system that was installed in 1997 (the LRS Pension Gold Retirement Solutions' Version 3 project) includes software costs of $485,145 which are capitalized as of June 30, 2013, and will be amortized over a ten-year useful life period when it is placed into service.

Other capital assets consisting of office furniture and equipment for the System's Retirement Offices located at 2828 Fresno Street, Fresno, California, in the amount of $42,389 are capitalized and depreciated over a remaining estimated useful life of 2-15 years.

As of June 30, 2012, capital assets consisting of office furniture and equipment for the System's Retirement Offices in the amount of $46,706 were capitalized and depreciated over a remaining estimated useful life of 2-15 years.

11. LEASES

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

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

12. RELATED PARTY TRANSACTIONS

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

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

13. SUBSEQUENT EVENTS

Adjustments to or disclosure pertaining to events or transactions that occur after the Statement of Fiduciary Net Position 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, 2013, but arose subsequent to that date and may have a future impact on the System.

13. SUBSEQUENT EVENTS CONTINUED

Adoption of Actuarial Experience Study and Key Actuarial Economic Assumptions effective June 30, 2013

On May 8, 2013, the Board adopted the Actuarial Experience Study, a review of the non-economic assumptions that are part of the triennial experience study as of June 30, 2012 which include retirement, mortality, termination and disability rates, as well as DROP and individual salary increase assumptions; and the Economic Actuarial Assumptions that include inflation, retiree COLA, investment return and individual salary increase assumptions which are key economic assumptions that will be incorporated into the next Annual Actuarial Valuation as of June 30, 2013.

As the Board has adopted a very conservative 7.50 percent investment return assumption, as recommended by its actuary, it will be implemented on a phased implementation over a three year period commencing with the June 30, 2013 valuation.

Date of Management Review

The date to which events occurring after June 30, 2013, have been evaluated for possible adjustments to the financial statements or disclosures is November , 2013, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

For the Years June 30, 2013 and 2012

The information presented in the Required Supplementary Information schedules below was determined as part of the actuarial valuations during the most recent annual actuarial valuation dated, June 30, 2012.

1. SCHEDULE OF FUNDING PROGRESS

This historical trend information, designed in accordance with GASB, provides data showing the ten year changes in the System's net pension liability, and furnishes information about the System's progress made in accumulating sufficient assets to pay pension benefits when due, is as follows:

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2012	$ 891	$ 872	102.2%	$ (19)	$ 112	(17.3%)
2011	$ 920	$ 791	116.3%	$ (129)	$ 118	(109.8)%
2010	$ 926	$ 756	122.5%	$ (170)	$ 131	(129.6)%
2009	$ 958	$ 715	133.9%	$ (243)	$ 139	(174.3)%
2008	$ 981	$ 690	142.2%	$ (291)	$ 133	(218.7)%
2007	$ 927	$ 631	146.8%	$ (295)	$ 122	(241.5)%
2006	$ 848	$ 614	138.1%	$ (234)	$ 111	(209.7)%
2005	$ 791	$ 566	139.8%	$ (225)	$ 103	(219.7)%
2004	$ 742	$ 554	133.8%	$ (187)	$ 100	(187.9)%
2003	$ 699	$ 546	128.1%	$ (153)	$ 97	(157.4)%

2. SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

Year Ended June 30	Actuarially Required Contribution (ARC)	Contributions as a % of ARC
2013	$ 13,330	100%
2012	$ 11,374	100%
2011	$ 8,215	100%
2010	$ 3,267	100%
2009	$ 1,345	100%
2008	$ 355	100%
2007	$ 1,566	100%
2006	$ -	100%
2005	$ -	100%
2004	$ -	100%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES

For the Years June 30, 2013 and 2012

ACTUARIAL ASSUMPTION

The Segal Company, the System's actuary, performed the most recent annual actuarial valuation as of June 30, 2012, which computes the contribution requirements (employee and employer contributions rates for fiscal year 2014), and determines the funding status of the Plan.

These actuarial assumptions, used to compute the contribution requirements and to determine funding status, were adopted by the Retirement Board on January 9, 2013 for implementation as of July 1, 2013.

1. Annual inflation is assumed at 3.50%.
2. Annual investment return is assumed to be 8.00%.
3. The City contribution rate for fiscal year 2014 is set at 11.01% (normal cost of 11.28% is offset by the excess contribution shortfall from the prior year of 0.27%).
4. Average employee contribution rate is 8.46% (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 for the healthy are based on the Society of Actuaries' RP-2000 Combined Healthy Mortality Table, (separate tables for males and females) set back two years.
8. Post retirement mortality assumptions for disabled are based on the Society of Actuaries' RP-2000 Combined Healthy Mortality Table (separate tables for males and females) set forward four years. Set back two years for beneficiaries weighted 35 percent male and 65 percent female.
9. Actuarial valuation of assets is based upon a five-year smoothed recognition of realized and unrealized capital gains and losses which are more or less than the actuarial assumed return of 8.00%.
10. Projected salary increase assumption is assumed to be 3.50% plus 0.50% across the board salary increases, plus merit and promotion increases based on completed years of service.
11. Post retirement benefit increases are based on the Consumer Price Index (CPI) for each year to a maximum of 5.00% per year.
12. The amortization period for Prefunded Actuarial Accrued Liability is an open non-declining 15-year period.

OTHER SUPPLEMENTARY INFORMATION SCHEDULES

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2013 and 2012

	2013	2012
Personnel Services		
Staff Salaries	$ 338,665	$ 336,982
Fringe Benefits	148,134	121,293
Total Personnel Services	$ 486,799	$ 458,275
Professional Services		
Actuarial	$ 102,410	$ 87,137
Legal Counsel	78,763	57,989
Information Systems Services	68,483	45,576
Specialized Services	103,667	124,585
Total Professional Services	$ 353,323	$ 315,287
Communication		
Telephone	7,419	5,686
Postage	2,351	2,955
Total Communication	$ 9,770	$ 8,641
Rentals		
Office Rent	$ 64,241	$ 64,241
Common Area Maintenance (CAM) Charges	28,309	25,681
Total Rentals	$ 92,550	$ 89,922
Other		
Education and Conference	$ 34,046	$ 20,758
Membership & Dues	2,759	2,831
Subscriptions & Publications	478	413
Office Supplies	5,565	5,489
Computer Equipment		4,682
Equipment Lease	2,779	1,780
Insurance	59,321	94,870
Miscellaneous	6,445	2,521
Reimbursement to City for Inter-Dept Services	78,910	76,375
Depreciation	5,437	5,366
Total Other	$ 195,740	$ 215,085
Total Administrative Expenses	$ 1,138,182	$ 1,087,210

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND OTHER INVESTMENT RELATED EXPENSES

For the Years Ended June 30, 2013 and 2012

	2013	2012
Investment Manager Fees		
Equity		
Domestic	$ 933,221	$ 850,110
International	1,402,552	1,329,975
Fixed Income		
Domestic	712,697	518,348
Real Estate	852,232	786,645
Total Investment Manager Fees	3,900,702	3,485,078
Other Investment Expenses		
Foreign Income Taxes & Related Services, Charges	755,414	780,196
Custodial Services	41,305	38,268
Investment Consultant	110,929	105,533
Investment Legal Counsel	13,940	26,154
Analytical Database Service	5,972	5,583
Total Other Investment Expenses	927,560	955,734
Total Fees & Other Investment Expenses	4,828,262	4,440,812
Securities Lending Expenses		
Agent Fees	142,763	127,789
Total Securities Lending Expenses	142,763	127,789
Total Investment Expenses	$ 4,971,025	$ 4,568,601

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Legal Services	$ 78,763	$ 57,989
Actuarial Services	102,410	87,137
Miscellaneous	77,054	99,320
City Information Services	68,483	45,576
Medical Consultant	26,613	25,265
Total Payments to Consultants	$ 353,323	$ 315,287

INVESTMENT SECTION

INVESTMENT REPORT FROM THE RETIREMENT ADMINISTRATOR

ANALYSIS OF ISSUES AFFECTING OUR PORTFOLIO IN FY 2013

Five years after the collapse of Lehman Brothers Holdings which gave rise to the worst financial crisis since the Great Depression, many question whether investments and the world's economy are any safer. Governments in the U.S. and Europe have drafted new laws, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, that broaden the scope of regulation to certain areas of the investment markets such as credit default swaps and give authorities new powers to resolve troubled institutions. Global regulators have imposed substantially higher capital requirements on Banks to strengthen their ability to handle losses. New institutions, such as the Financial Stability Oversight Council in the U.S. and the Financial Policy Committee in the U.K., have been created to monitor systemic risks in the hopes of controlling future problems like the subprime crisis. In the meantime the market is innovating in ways that may render many of the rules obsolete. The crisis of 2008 was unexpected not because of the specific risks that triggered it - subprime mortgages, flawed securitizations – were unknown, it was unexpected because the evolution of the financial system over a thirty-year period was not understood. Markets and financial institutions transformed themselves after the collapse of Lehman Brothers, and they continue to do so today. The seeds of the next major financial crisis are already germinating, but we have no idea when or where they will sprout.

The global recovery over the past four years has been muted and uneven, with increasingly divergent developments of cross-country activity among both advanced and emerging economies. Countries without large pre-crisis imbalances, notably the large emerging market economies and some English-speaking and Nordic economies, have had solid growth outcomes in the recovery period, although imbalances now appear to be emerging, with inflationary pressures and high asset prices in the general low-interest environment.

Another downpour of volatility shook the markets in May and June 2013. Although investors are less surprised by the pattern this year as it is one that has plagued the markets for the past three years – as the weather warms the markets begin cooling off. This time the slowdown was not unexpected, and economists had it penciled into their forecasts for awhile. When Federal Reserve Chairman Ben Bernanke indicated the central bank may begin tapering its monetary stimulus as early as September, stocks sold off, commodity prices fell and credit spreads widened. As a result there were few places for investors to take shelter. The deceleration came in response to an identifiable cause – the biggest federal-budget tightening in more than 60 years – rather than speculative fears about a break-up among countries that use the euro, a Treasure-debt default or a hard landing for China's economy. And the U.S. looks better prepared to withstand it, thanks in part to a rebounding housing market.

The buzz in the financial media and on the street seems to alternate these days between stark fears of economic problems on the one hand and expectations of an accelerating growth trend on the other. All seems to depend on the latest statistic. The economy cannot have both. The broad array of news suggests, in fact, that it will have neither but instead will continue with the sluggish growth path it has followed more or less in this recovery so far. One such insight emerges in the array of financial data published weekly by the Federal Reserve. This mix of evidence indicates some improvement, but at the same time still the extreme caution that has constrained growth since this recovery began.

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

During fiscal year 2013, the Board, jointly with the Fire & Police Retirement System Board, completed a Request for Proposal process for General Investment Consulting Services to the Systems which began in July 2012. Effective February 1, 2013, the Boards appointed NEPC, LLC as their new investment consulting firm. NEPC, LLC immediately began its review of our risk controls, portfolio manager structure with asset-class reviews and education of multi-strategy fixed income and global tactical asset allocation products.

The System is well funded at or near a fully funded status on a market value basis. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year of uncertainty in the global financial markets.

INVESTMENT PERFORMANCE

Highlighted Investment Performance of the City of Fresno Employees Retirement System (the System) Investment Portfolio for FY 2013:

	Return
Total Fund	13.59%
Domestic Equity	22.89%
International Equity	16.01%
Fixed Income	0.89%
Real Estate	11.93%
Fiscal Year End	
Fund Value	$1,024,665,557

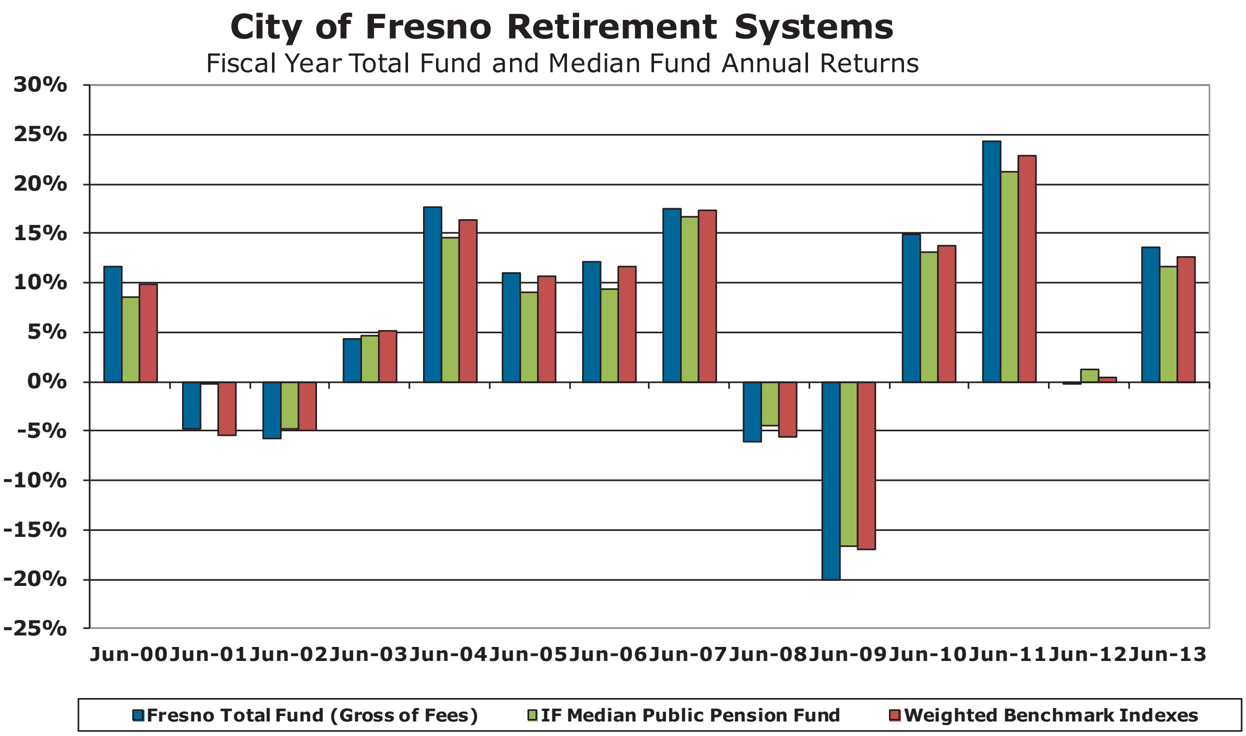
The principal goals of the System's Retirement Board (the Board) in managing the Retirement System's Investment Portfolios are the following:

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

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

The System's Total Fund Returns versus NEPC, LLC's InvestorForce (IF) Public Fund Universe (Gross of Fee) Returns for the one-year period ended June 30, 2013, ranked the System in the top quartile (25th percentile) of our Investment Consultant's universe of all public funds ($1Billion + in assets). For the three years ended June 30, 2013, the System's Total Fund Returns of 12.12 percent ranked the System in the 2nd quartile (35th percentile), exceeding its policy weighted benchmark by 0.42 percent and also exceeding the Median IF Public Pension Funds ($1Billion+ in assets) return of 11.30 percent by 0.82 percent. Over the past ten years, the System's investment returns have remained sound and outperformed its policy benchmark and the median fund returns in seven of the ten years as shown in the following chart.

Due to the extreme volatility in the various economies of the world and the global financial markets over the past twenty to twenty-five years it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early 2000's. The intermediate term (five, ten, and fifteen-year) performance rates demonstrate the extreme volatility of the markets; while the historical long-term performance rates of returns demonstrate that despite the short and intermediate term volatility the System has been able to meet or exceed its actuarial assumed rate of return of 8.00 percent over long periods. As of June 30, 2013, the System's 25-year annualized return is 9.14 percent and its 20-year annualized return is 8.41 percent.



SUMMARY OF PORTFOLIO RESULTS

The fiscal year ended June 30, 2013, marked another extraordinarily volatile year which ended with a decline from its peak fiscal year performance for the City of Fresno Employees Retirement System. The System experienced a total investment gain of 13.59 percent gross of fees for the fiscal year ended June 30, 2013, outperforming the System's actuarial interest rate assumption of 8.00 percent by 5.59 percent and outperforming the System's policy benchmark (a weighted average of the fund's asset classes and their respective benchmarks) return of 12.56 percent by 1.03 percent. The System's ten-year annualized gross of fees returns averaged 7.65 percent outperforming its policy benchmarks return of 7.55 percent for the period by 0.10 percent. Over the longer term, our investment results remain sound with annualized gross of fees returns of 8.41 percent and 9.14 percent, respectively, over the past twenty and twenty-five years. After paying all benefits and expenses of the System, the year-end value of the System reached $1.024 billion.

GENERAL INFORMATION

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

SUMMARY OF GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

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

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

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

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

SUMMARY OF PROXY VOTING GUIDELINES AND PROCEDURES

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

The Board incorporates International equity proxy voting guidelines for share-blocking markets into its Proxy Voting policy. Share-blocking markets are markets of countries outside the U.S. and Canada, which restrict trade activity by shareholders who vote proxies. For portfolio managers managing assets in these international developed and emerging market countries, the requirement to vote proxies may prevent the full exercise of their fiduciary duty to manage the portfolio in the best interest of the System. 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 System.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of June 30, 2013, the Retirement System's portfolio was slightly under-weight in total equities, with 59.70 percent in total equities versus the target of 60.0 percent. Domestic equities were slightly under-weight with 29.96 percent versus the target of 30.0 percent, and international equity with 23.10 percent developed and 6.60 percent emerging markets was slightly under-weight total international equity with 29.70 percent versus the target of 30.0 percent. Fixed income with 29.30 percent was 4.30 percent over-weight its target of 25.0

percent and real estate at 11.00 percent was 4.00 percent under-weight its target of 15.0 percent.

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

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap	21.8%	22.5%
Small-Cap	8.2%	7.5%
International Equities:		
Developed Markets	23.1%	22.8%
Emerging Markets	6.6%	7.2%
Fixed Income:		
Domestic Fixed Income	18.8%	15.0%
High Yield Fixed Income	10.5%	10.0%
Real Estate:		
Private Real Estate	6.5%	12.0%
Public (REITs)	4.5%	3.0%
Cash:	0.0%	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 21, 2013

INVESTMENT CONSULTANT'S REPORT

NEPC, LLC

Don Stracke, CFA, CAIA
Senior Consultant

October 23, 2013

City of Fresno Retirement Systems
City of Fresno Employees and Fire & Police Retirement Boards
2828 Fresno Street Suite 201
Fresno, CA 93721

Dear Board Members:

The overall objective of the City of Fresno Retirement Systems ("CFRS") is to ensure continued access to retirement, disability and survivor benefits for current and future CFRS participants. To ensure a solid foundation for the future of the Fund, CFRS carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. The following is a report on the performance of the Fund for the fiscal year ending June 30, 2013 as well as the market environment.

The CFRS Portfolio

The CFRS Total Fund (the Fund) was up 13.1% net of fees (13.6% gross of fess) for the fiscal year ending June 30, 2013 and ranked in the 25th percentile of the InvestorForce (IF) Public Fund Universe, surpassing the weighted benchmark by 0.5% as well as the 8.0% actuarial assumed rate. The three-year return of 11.7% net of fees (12.1% gross of fess) matched the policy index and ranked in the 35th percentile. The median fund in the universe returned 11.7% for the period. The 5-year period ending June 30, 2013 was 4.8% per annum net of fees (5.3% gross of fees) and trailed the index by 0.6%. The Fund's significant equity exposure has made been a strong contributor to overall performance for the last three years.

Data as of June 30, 2013	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr
Fresno Total Fund (Gross of Fees)	13.6	12.1	5.3	7.6	6.2
Fresno Total Fund (Net of Fees)	13.1	11.7	4.8	7.2	5.7
Weighted Benchmark	*12.6*	*11.7*	*5.4*	*7.6*	*5.9*

Our goal is to diversify the Fund's assets across a broad variety of traditional and non-traditional asset classes to reduce its volatility and better protect the portfolio against difficult and volatile market environments.

NEPC, LLC began serving as CFRS's independent investment consultant in February and provides CFRS with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice. CFRS's custodian, Northern Trust, independently prepared the underlying performance data used in this report. The performance calculations were made in compliance with the performance calculation standards of the CFA Institute's Global Investment Performance Standards (GIPS).

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CAMBRIDGE | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

Market Commentary

The 2013 Fiscal year posted surprisingly strong returns for investors seeking risk even amidst a myriad of macroeconomic concerns. The year ending June 30th was largely dominated by headline risks related to the European debt crisis, the fiscal cliff, reports of slowed economic growth in China and emerging markets and the eventually winding down of the Fed's quantitative easing program.

The broad domestic equity market, as measured by the S&P 500 Index, produced a 20.6% return for fiscal year 2013. The domestic bond market, as measured by the Barclays Aggregate Bond Index, returned -0.7% in fiscal year 2013. The global equity market, as measured by the MSCI All Country World Index returned +16.6% in fiscal year 2013 relative to a -5.0% in fiscal year 2012.

U.S. stocks started 2013 with a bang, posting double digit returns across all market capitalizations. Small-caps led the way returning +12.4% as measured by the Russell Small Cap Index, followed by a large cap return of +10.6% as measured by the S&P 500 index. These strong returns were driven by improvements in residential real estate and consumer sentiment domestically. During the quarter, a strong U.S. dollar proved to be a headwind to international markets as international equities lagged with modest returns of +5.1%, according to the MSCI EAFE index. Depressed yields for investment grade bonds pushed investors into riskier segments of the market. As a result, the Barclays Aggregate Bond Index returned -0.1%. The below investment grade segment of the bond market continued to outperform in the first quarter. The Barclays High Yield index returned +2.9% with low quality issues outperforming high quality paper.

After a strong first quarter, the higher volatility environment in late May and June proved to be difficult for almost all asset classes as virtually all markets were negative, leaving investors no place to hide. Domestic and international equities began the quarter strong but then sold off as anticipation of earlier tapering by the Fed set in and a dramatic spike in rates took place. The S&P 500 index returned +2.9% and the MSCI EAFE index returned -1.0%, for the quarter. Investors also experienced a pronounced sell-off in emerging markets as a rise in rates and political turmoil in Brazil and Turkey drove down returns. The MSCI EM was the worst performing equity index as it posted a -8.1% return for the quarter. Over the same period, nearly all global fixed income sectors posted negative returns. The Barclays Aggregate index, which tracks U.S. investment grade fixed income, lost 2.3% in the quarter. Non-investment grade debt struggled as well with the Barclays High Yield index losing 1.4%.

U.S. Equity Markets

U.S. equity markets surged for the 2013 fiscal year, producing positive returns across the board. Throughout the year, investors benefited from The Fed's accommodative monetary actions which buoyed equity returns. Large cap stocks underperformed small cap stocks by +3.6% as the S&P 500 returned +20.6% and the Russell 2000 returned +24.2%. Large cap value outperformed large cap growth with the Russell 1000 Value up +25.3% compared to +17.1% for the Russell 1000 Growth. The same trend held true in smaller cap names as the Russell 2000 Value returned +24.8% as compared with the Russell 2000 Growth Index return of +23.7%.

□As of June 30, 2013, the IF Public Fund > $1B Universe was comprised of 55 total funds with approximately $1.2 trillion in assets. Universe rankings are based on gross of fee investment return.

U.S. Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were mixed. Fed stimulus was the primary driver of investor sentiment. Depressed treasury and mortgage yields pushed investors out on the credit curve towards risky, long duration assets, such as high yield bonds. That trade reversed in the second quarter of 2013 following the Fed's 'tapering' announcement and subsequent spike in market volatility. The Barclays Aggregate Bond Index returned -0.7% while high yield bonds posted strong gains returning +9.5% for the one-year period ended June 30, 2013. The 10-Year U.S. Treasury bond finished the fiscal year yielding 2.52%.

International Markets

International equity markets rebounded from a negative fiscal year 2012 and posted strong returns. International developed market equities as measured by the MSCI EAFE (net) Index (a broad index of the international developed market equities) returned +18.6% for the year as concerns out of Europe were muted by the commitments of the ECB. Emerging market investments struggled in comparison to developed based on reports of slowed growth and political turmoil. Emerging markets equities, as measured by the MSCI EME Index, returned just +2.9%. While the JPM GBI-EM Global Diversified, a key barometer for emerging market debt, returned +1.3% for the year.

Sincerely,

Don Stracke

Don Stracke, CFA, CAIA
Senior Investment Consultant

□As of June 30, 2013, the IF Public Fund > $1B Universe was comprised of 55 total funds with approximately $1.2 trillion in assets. Universe rankings are based on gross of fee investment return.

INVESTMENT RESULTS

	Market Value ($)	% of Portfolio	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
			Annualized Gross of Fees As of June 30, 2013			
Total Fund	**2,215,416,098**	**100.00**	**13.56**	**12.12**	**5.3**	**7.64**
Weighted Benchmark Index			*12.57*	*11.70*	*5.44*	*7.56*
Allocation Policy Index			*12.20*	*11.33*	*6.15*	*8.00*
IFx Public DB > $1B Gross Median			*12.02*	*11.30*	*5.05*	*7.12*
Total Equity Composite	**1,320,726,472**	**59.62**	**19.33**	**14.75**	**4.07**	**7.95**
Benchmark: MSCI ACWI			*16.57*	*12.36*	*2.30*	*7.59*
eA All Global Equity Gross Median			*18.59*	*14.31*	*3.93*	*9.63*
Domestic Equity Composite	**663,682,365**	**29.96**	**22.91**	**19.28**	**7.88**	**8.40**
Weighted Benchmark SP500/R2000 Index			*21.53*	*18.56*	*7.54*	*7.92*
eA All US Equity Gross Median			*22.76*	*18.73*	*8.06*	*9.65*
Large Cap Equity Composite	**481,756,425**	**21.75**	**21.99**	**19.76**	**7.09**	**7.65**
Benchmark: S&P 500			*20.60*	*18.45*	*7.01*	*7.30*
eA US Large Cap Equity Gross Median			*20.78*	*17.90*	*7.16*	*8.34*
Small Cap Equity Composite	**181,925,940**	**8.21**	**25.36**	**18.04**	**10.22**	**10.23**
Benchmark: Russell 2000			*24.21*	*18.67*	*8.77*	*9.53*
eA US Small Cap Equity Gross Median			*26.10*	*20.24*	*10.19*	*11.21*
International Equity Composite	**657,044,107**	**29.66**	**16.03**	**10.42**	**-0.41**	**8.58**
Benchmark: ACWIexUS Gross			*14.77*	*8.89*	*-0.27*	*8.99*
eA Non-US Diversified All Cap Eq Gross			*18.81*	*11.36*	*1.18*	*9.86*
International Developed Equity Composite	**576,122,693**	**26.01**	**17.85**	**11.81**	**-0.60**	**7.30**
Weighted Benchmark: EAFE/ACWIexUS			*16.62*	*9.62*	*-0.29*	*8.08*
eA All EAFE Equity Gross Median			*20.24*	*12.14*	*1.08*	*9.19*
ACWI ex US Equity Composite	**276,169,352**	**12.47**	**14.46**	**9.94**	**--**	**--**
Benchmark: MSCI ACWI ex USA Gross			*14.14*	*8.48*	*-0.34*	*9.09*
eA ACWI ex-US All Cap Equity Gross Median			*16.67*	*11.30*	*1.41*	*10.55*
EAFE Equity Composite	**299,953,341**	**13.54**	**21.15**	**13.06**	**-0.69**	**7.24**
Benchmark: MSCI EAFE Gross			*19.14*	*10.55*	*-0.16*	*8.16*
eA All EAFE Equity Gross Median			*20.24*	*12.14*	*1.08*	*9.19*
International Emerging Markets Equity	**80,921,415**	**3.65**	**4.45**	**2.33**	**-0.36**	**14.11**
Benchmark: MSCI Emerging Markets Gross			*3.23*	*3.72*	*-0.11*	*14.02*
eA Emg Mkts Equity Gross Median			*6.19*	*5.49*	*0.80*	*15.33*
Total Fixed Income Composite	**647,974,196**	**29.25**	**3.63**	**5.77**	**6.67**	**5.43**
Weighted Benchmark: BC Agg/High Yield			*1.86*	*5.04*	*6.46*	*5.37*
Barclays Aggregate			*-0.69*	*3.51*	*5.19*	*4.52*
eA All US Fixed Inc Gross Median			*0.75*	*4.38*	*5.78*	*4.90*
Core Fixed Composite	**440,952,994**	**19.90**	**0.89**	**4.22**	**5.39**	**4.81**
Benchmark: Barclays Aggregate			*-0.69*	*3.51*	*5.19*	*4.52*
eA US Core Fixed Inc Gross Median			*0.33*	*4.29*	*6.07*	*4.98*
High Yield Composite	**207,021,201**	**9.34**	**10.54**	**11.35**	**10.83**	**--**
Benchmark: Barclays High Yield			*9.49*	*10.74*	*10.94*	*8.91*
eA US High Yield Fixed Inc Gross Median			*9.52*	*10.78*	*10.19*	*8.88*
Real Estate Composite	**245,081,002**	**11.06**	**11.93**	**16.48**	**3.65**	**8.47**
Weighted Benchmark: WRESI/NCREIF-			*10.82*	*16.74*	*4.47*	*8.51*
eA US REIT Gross Median			*8.11*	*18.64*	*8.78*	*12.40*
Private Real Estate Composite	**144,853,568**	**6.54**	**14.36**	**15.05**	**1.10**	**8.04**
Benchmark: NCREIF-ODCE			*12.17*	*14.96*	*-0.15*	*6.95*
Public Real Estate Composite	**100,227,435**	**4.52**	**8.60**	**18.69**	**8.38**	**--**
Benchmark: Wilshire RESI			*8.41*	*18.50*	*7.20*	*10.80*
eA US REIT Gross Median			*8.11*	*18.64*	*8.78*	*12.40*
Cash & Equivalents Composite	**1,634,427**	**0.07**	**0.15**	**0.15**	**0.37**	**--**
91 Day T-Bills			*0.07*	*0.07*	*0.17*	*1.60*

Calculations are prepared by NEPC, LLC using a time-weighted rate of return based on market values and may vary slightly from returns reported by the System's custodian, Northern Trust.

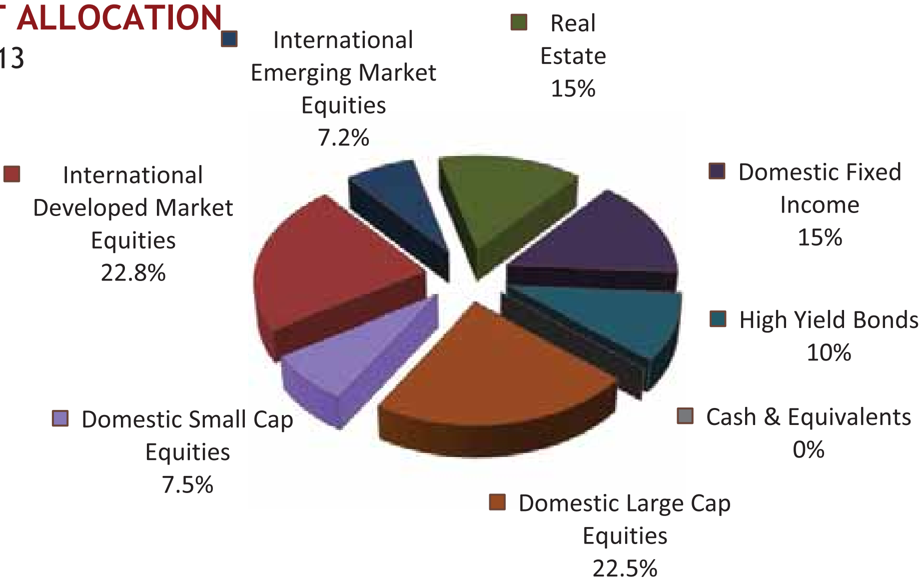
Annualized Net of Fees As of June 30, 2013

	Market Value ($)	% of Portfolio	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	**2,215,416,098**	**100.00**	**13.12**	**11.67**	**4.84**	**7.19**
Weighted Benchmark Index			*12.57*	*11.70*	*5.44*	*7.56*
Allocation Policy Index			*12.20*	*11.33*	*6.15*	*8.00*
IFx Public DB > $1B Gross Median			*12.02*	*11.30*	*5.05*	*7.12*
Total Equity Composite	**1,320,726,472**	**59.62**	**18.86**	**14.25**	**3.57**	**7.47**
Benchmark: MSCI ACWI			*16.57*	*12.36*	*2.30*	*7.59*
eA All Global Equity Gross Median			*18.59*	*14.31*	*3.93*	*9.63*
Domestic Equity Composite	**663,682,365**	**29.96**	**22.52**	**18.88**	**7.46**	**7.95**
Weighted Benchmark SP500/R2000 Index			*21.53*	*18.56*	*7.54*	*7.92*
eA All US Equity Gross Median			*22.76*	*18.73*	*8.06*	*9.65*
Large Cap Equity Composite	**481,756,425**	**21.75**	**21.84**	**19.61**	**6.85**	**7.39**
Benchmark: S&P 500			*20.60*	*18.45*	*7.01*	*7.30*
eA US Large Cap Equity Gross Median			*20.78*	*17.90*	*7.16*	*8.34*
Small Cap Equity Composite	**181,925,940**	**8.21**	**24.35**	**17.08**	**9.36**	**9.38**
Benchmark: Russell 2000			*24.21*	*18.67*	*8.77*	*9.53*
eA US Small Cap Equity Gross Median			*26.10*	*20.24*	*10.19*	*11.21*
International Equity Composite	**657,044,107**	**29.66**	**15.50**	**9.83**	**-0.98**	**--**
Benchmark: ACWIexUS Gross			*14.77*	*8.89*	*-0.27*	*8.99*
eA Non-US Diversified All Cap Eq Gross			*18.81*	*11.36*	*1.18*	*9.86*
International Developed Equity Composite	**576,122,693**	**26.01**	**17.38**	**11.31**	**-1.09**	**--**
Weighted Benchmark: EAFE/ACWIexUS			*16.62*	*9.62*	*-0.29*	*8.08*
eA All EAFE Equity Gross Median			*20.24*	*12.14*	*1.08*	*9.19*
ACWI ex US Equity Composite	**276,169,352**	**12.47**	**13.97**	**9.38**	**--**	**--**
Benchmark: MSCI ACWI ex USA Gross			*14.14*	*8.48*	*-0.34*	*9.09*
eA ACWI ex-US All Cap Equity Gross Median			*16.67*	*11.30*	*1.41*	*10.55*
EAFE Equity Composite	**299,953,341**	**13.54**	**20.56**	**12.50**	**-1.19**	**6.71**
Benchmark: MSCI EAFE Gross			*19.14*	*10.55*	*-0.16*	*8.16*
eA All EAFE Equity Gross Median			*20.24*	*12.14*	*1.08*	*9.19*
International Emerging Markets Equity	**80,921,415**	**3.65**	**3.80**	**1.35**	**-1.30**	**13.02**
Benchmark: MSCI Emerging Markets Gross			*3.23*	*3.72*	*-0.11*	*14.02*
eA Emg Mkts Equity Gross Median			*6.19*	*5.49*	*0.80*	*15.33*
Total Fixed Income Composite	**647,974,196**	**29.25**	**3.39**	**5.56**	**6.44**	**5.20**
Weighted Benchmark: BC Agg/BC High Yield			*1.86*	*5.04*	*6.46*	*5.37*
Barclays Aggregate			*-0.69*	*3.51*	*5.19*	*4.52*
eA All US Fixed Inc Gross Median			*0.75*	*4.38*	*5.78*	*4.90*
Core Fixed Composite	**440,952,994**	**19.90**	**0.77**	**4.09**	**5.25**	**4.43**
Benchmark: Barclays Aggregate			*-0.69*	*3.51*	*5.19*	*4.52*
eA US Core Fixed Inc Gross Median			*0.33*	*4.29*	*6.07*	*4.98*
High Yield Composite	**207,021,201**	**9.34**	**10.00**	**10.79**	**10.28**	**--**
Benchmark: Barclays High Yield			*9.49*	*10.74*	*10.94*	*8.91*
eA US High Yield Fixed Inc Gross Median			*9.52*	*10.78*	*10.19*	*8.88*
Real Estate Composite	**245,081,002**	**11.06**	**11.05**	**15.55**	**2.79**	**7.70**
Weighted Benchmark: WRESI/NCREIF-			*10.82*	*16.74*	*4.47*	*8.51*
eA US REIT Gross Median			*8.11*	*18.64*	*8.78*	*12.40*
Private Real Estate Composite	**144,853,568**	**6.54**	**13.22**	**13.90**	**0.06**	**7.13**
Benchmark: NCREIF-ODCE			*12.17*	*14.96*	*-0.15*	*6.95*
Public Real Estate Composite	**100,227,435**	**4.52**	**8.07**	**18.08**	**7.77**	**--**
Benchmark: Wilshire RESI			*8.41*	*18.50*	*7.20*	*10.80*
eA US REIT Gross Median			*8.11*	*18.64*	*8.78*	*12.40*
Cash & Equivalents Composite	**1,634,427**	**0.07**	**0.15**	**0.15**	**0.37**	**--**
91 Day T-Bills			*0.07*	*0.07*	*0.17*	*1.60*

Calculations are prepared by NEPC, LLC using a time-weighted rate of return based on market values and may vary slightly from returns reported by the System's custodian, Northern Trust.

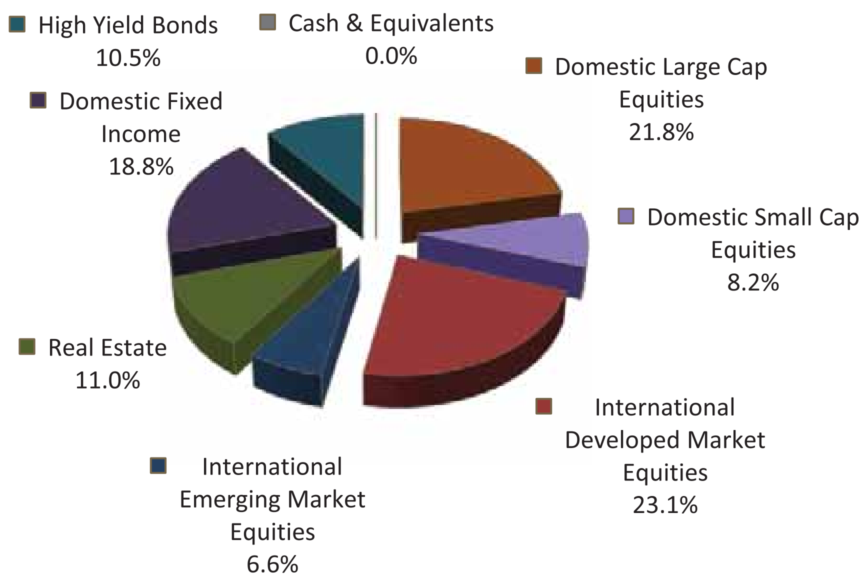
TARGET ASSET ALLOCATION

As of June 30, 2013



ACTUAL ASSET ALLOCATION

As of June 30, 2013



Asset Class	Current Target	Allocation Range	Actual
Domestic Large Cap Equities	22.5%	17.0% - 25.0%	21.8%
Domestic Small Cap Equities	7.5%	4.0% - 12.0%	8.2%
International Developed Market Equities	22.8%	16.0% - 30.0%	23.1%
International Emerging Market Equities	7.2%	0.0% - 10.0%	6.6%
Real Estate	15.0%	5.0% - 24.0%	11.0%
Domestic Fixed Income	15.0%	10.0% - 25.0%	18.8%
High Yield Bonds	10.0%	4.0% - 14.0%	10.5%
Cash & Equivalents	0.0%	0% - 2%	0.0%

* 1.24% High Yield Bonds managed within domestic fixed income.

LARGEST STOCK HOLDINGS (BY MARKET VALUE)

As of June 30, 2013

	Shares	Stock Holding	Market Value
1)	65,471	NESTLE SA CHF0.10(REGD)	$ 4,286,742
2)	3,067	SAMSUNG ELECTRONIC KRW5000	3,603,408
3)	64,974	BRITISH AMERICAN TOBACCO ORD GBP0.25	3,318,536
4)	45,042	TOYOTA MOTOR CORP NPV	2,716,051
5)	25,784	SANOFI EUR2	2,668,453
6)	257,138	HSBC HLDGS ORD USD0.50(UK REG)	2,659,811
7)	679,513	TAIWAN SEMICON MAN TWD10	2,516,631
8)	9,864	ROCHE HLDGS AG GENUSSCHEINE NPV	2,450,053
9)	60,126	SVENSKA HANDELSBKN SER'A'SEK4.30	2,398,113
10)	31,764	NASPERS 'N' ZAR0.02	2,335,759
Total Largest Stock Holdings			$ 28,953,557

LARGEST BOND HOLDINGS (BY MARKET VALUE)

As of June 30, 2013

	Share/Par Value	Bond Holding	Coupon Rate	Maturity Date	Market Value
1)	6,698,488	UNITED STATES TREAS NTS .375% DUE	0.375%	15 Feb 2016	$ 6,668,660
2)	2,317,462	FEDERAL NATL MTG ASSN GTD MTG POOL	6.000%	01 Oct 2040	2,518,495
3)	2,309,824	FNMA SINGLE FAMILY MORTGAGE 3.50% MAT 30	3.500%	31 Dec 2040	2,338,696
4)	2,244,792	FEDERAL NATL MTG ASSN GTD MTG POOL	3.356%	01 Jun 2041	2,337,132
5)	2,312,133	UNITED STATES TREAS NTS DTD 02/28/2013	0.250%	28 Feb 2015	2,310,418
6)	2,295,965	UNITED STATES TREAS NTS DTD 00362 .50%	0.500%	15 Aug 2014	2,303,498
7)	1,896,365	UNITED STATES TREAS NTS DTD 00321 1.375%	1.375%	30 Nov 2015	1,936,663
8)	1,859,408	UNITED STATES TREAS NTS NT 2.375% DUE	2.375%	28 Feb 2015	1,923,688
9)	1,459,808	CALIFORNIA ST 7.5% DUE 04-01-2034 BEO	7.500%	01 Apr 2034	1,902,860
10)	1,847,859	UNITED STATES TREAS NTS DTD 05/31/2013	1.000%	31 May 2018	1,816,098
Total Largest Bond Holdings					$ 26,056,208

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

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity manager's participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of the trades for their account through brokerage firms identified by NTSI as eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For fiscal year 2013, the net income from Brokerage Commission Recapture was $40,832. During this period, the overall participating rate by the System's equity managers was 9.89%. The percentage of equity trading being executed through the program is generally at a low cost and has resulted over the years in a meaningful cost recapture.

SCHEDULE OF COMMISSIONS

For the Fiscal Year Ended June 30, 2013

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
MORGAN STANLEY AND CO., LLC	$ 25,655	5,234,574	$ 0.0049
UBS AG LONDON BRANCH	23,008	3,018,373	0.0076
MERRILL LYNCH INTERNATIONAL LIMITED	22,261	2,889,346	0.0077
INSTINET	19,955	599,791	0.0333
J.P. MORGAN SECURITIES PLC	19,074	2,868,859	0.0066
CREDIT SUISSE FIRST BOSTON CORPORATION	15,564	56,317,346	0.0003
GOLDMAN, SACHS AND CO.	15,305	6,855,737	0.0022
CREDIT SUISSE SECURITIES(EUROPE)LTD	15,096	1,085,416	0.0139
CITIGROUP GLOBAL MARKETS LIMITED	13,977	732,196	0.0191
CREDIT SUISSE SECURITIES (USA) LLC	13,168	3,258,844	0.0040
	$ 183,063	82,860,482	$ 0.0022
All Other Brokerage Firms	394,128	11,663,574,023	0.0000
TOTAL	$ 577,191	11,746,434,505	$ 0.0000

INVESTMENT SUMMARY

	Investment Value as of June 30, 2013	Percent of Fund
Equity		
Domestic	$ 361,076,718	34.9%
International Developed Market	203,884,343	19.7%
Emerging Market	36,004,600	3.5%
Fixed Income		
Domestic	294,474,706	28.5%
Real Estate	115,099,623	11.1%
Short Term Investments	24,035,891	2.3%
Total	$ 1,034,575,881	100.0%

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ACTUARIAL SECTION

Segal Consulting

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VIA E-MAIL & USPS

October 17, 2013

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

Re: City of Fresno Employees Retirement System
June 30, 2012 Actuarial Valuation

Dear Members of the Board:

The Segal Company prepared the June 30, 2012 annual 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, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the June 30, 2012 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data provided by the Plan's administrative staff for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

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

Board of Retirement
City of Fresno Employees Retirement System
October 17, 2013
Page 2

The PAAL is amortized as a level percentage of payroll over a 15-year period while any UAAL will be amortized over the remaining future working lifetime (approximately 10 years). The progress being made towards meeting the funding objective through June 30, 2012 is illustrated in the Schedule of Funding Progress.

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

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

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 Experience Analysis and the June 30, 2010 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2012 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2012 and those assumptions will be used in the June 30, 2013 valuation. The Retirement System utilizes the actuarial surplus to provide contribution rate offsets and a PRSB benefit. The impact of the application of the actuarial surplus on the future financial condition of the Plan has not been explicitly measured in the valuation.

In the June 30, 2012 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 116.3% to 102.2%. The employer's contribution rate has decreased from 12.63% of payroll to 11.01% of payroll, while the employee's contribution rate has decreased from 8.48% of payroll to 8.46% of payroll.

As a result of using the actuarial value of assets in the actuarial valuation, there were $27.5 million in unrecognized deferred investment losses as of June 30, 2012, which represented 3% of the market value of assets. This is an increase from last year's amount of $14.7 million. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 102.2% to 99.1% and the employer's rate would increase from 11.01% of payroll to 11.89% of payroll.

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Board of Retirement
City of Fresno Employees Retirement System
October 17, 2013
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The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo ay

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

Andy Yeung

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

MYM/hy
Enclosures

5237042v1/09313.001

SUMMARY OF ACTUARIAL ASSUMPTIONS AND FUNDING METHOD

These actuarial assumptions and methods based on June 30, 2012 data were adopted by the Employees Retirement Board on January 9, 2013, and were effective for July 1, 2013.

Assumptions

Valuation Interest Rate	8.00%
Inflation:	3.50%

Post-Retirement Mortality

(a) Service Retirement

Member RP-2000 Combined Healthy Mortality Table (separate tables for males and females) set back two years.

Beneficiary: RP-2000 Combined Healthy Mortality Table set back two years weighted 35% male and 65% female.

(b) Disability Retirement
Member: RP-2000 Combined Healthy Mortality Table for General Members, set forward four years weighted 65% male and 35% female.

Pre-Retirement Mortality
Based upon the 6/30/2010 Experience Analysis

Withdrawal Rates
Based upon the 6/30/2010 Experience Analysis

Disability Rates
Based upon the 6/30/2010 Experience Analysis

Service Retirement Rates
Based upon the 6/30/2010 Experience Analysis

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 Entry Age Normal Actuarial Cost method. Entry age is the age of the member on their hire date. Normal Cost and Actuarial Accrued Liability are compensation, as if the current benefit formulas have always been in effect

DROP Rates

1st year eligible	35% participation
2nd year eligible	15% participation
3rd, 4th & 5th year eligible	10% participation
Thereafter	0% participation

Members are assumed to remain in DROP for 6 years.

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

Wives are 4 years younger than their husbands.

Cost-of-Living (COLA) Assumption
3.50% per year; Retiree COLA increases due to Consumer Price Index (CPI) are limited to maximum at 3.50% per year.

Salary Scale
Salary Scale is made up of merit and longevity, and inflation components. The inflation component is equal to 3.50%; plus 0.50% 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	8.50%
1 year	6.50%
2 years	5.00%
3 years	4.00%
4 years	3.25%
5 years	2.25%
6 years	1.25%
7 years	1.00%
8 years	0.90%
9 or more years	0.60%

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Rate (%)		
	Mortality	
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.10	0.06
45	0.13	0.09
50	0.19	0.14
55	0.29	0.22
60	0.53	0.39
65	1.00	0.76

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

Rate (%)	
Age	Disability
20	0.00
25	0.00
30	0.01
35	0.06
40	0.22
45	0.42
50	0.59
55	0.77
60	0.94

All disabilities are assumed to be non-service connected.

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase/(Decrease) in Average Pay
June 30, 2012	Active Members	1,625	$ 94,766,049	$ 58,318	(0.2%)
	DROP Participants	280	17,540,903	62,646	(0.4%)
	Totals	1,905	$ 112,306,952	$ 58,954	
June 30, 2011	Active Members	1,739	$ 101,597,247	$ 58,423	2.4%
	DROP Participants	254	15,980,093	62,914	3.3%
	Totals	1,993	$ 117,577,340	$ 58,995	
June 30, 2010	Active Members	2,040	$ 116,427,736	$ 57,072	2.7%
	DROP Participants	243	14,796,085	60,889	3.3%
	Totals	2,283	$ 131,223,821	$ 57,479	
June 30, 2009	Active Members	2,217	$ 123,176,724	$ 55,560	5.9%
	DROP Participants	273	16,097,424	58,965	1.6%
	Totals	2,490	$ 139,274,148	$ 55,933	
June 30, 2008	Active Members	2,245	$ 117,793,489	$ 52,469	5.3%
	DROP Participants	264	15,316,424	58,017	2.9%
	Totals	2,509	$ 133,109,913	$ 53,053	
June 30, 2007	Active Members	2,195	$ 109,370,886	$ 49,827	4.6%
	DROP Participants	228	12,861,061	56,408	8.9%
	Totals	2,423	$ 122,231,947	$ 50,447	
June 30, 2006	Active Members	2,097	$ 99,875,529	$ 47,628	7.4%
	DROP Participants	222	11,502,836	51,815	4.6%
	Totals	2,319	$ 111,378,365	$ 48,029	
June 30, 2005	Active Members	2,061	$ 91,411,031	$ 44,353	1.7%
	DROP Participants	225	11,146,645	49,541	1.7%
	Totals	2,286	$ 102,557,676	$ 44,863	
June 30, 2004	Active Members	2,037	$ 88,877,515	$ 43,632	2.1%
	DROP Participants	223	10,867,428	48,733	2.0%
	Totals	2,260	$99,744,943	$ 44,135	
June 30, 2003	Active Members	2,044	$87,366,386	$ 42,743	1.3%
	DROP Participants	209	9,982,140	47,761	5.8%
	Totals	2,253	$97,348,526	$ 43,208	

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO OR REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	Average Annual Allowance	% Increase/(Decrease) in Retiree Allowance
June 30, 2013	104	$ 1,607,660	(66)	$ 825,889	1,700	$ 45,883,057	$26,990	4.72
June 30, 2012	99	$ 1,026,077	(59)	$ 640,326	1,662	$ 42,833,718	$25,772	0.76
June 30, 2011	160	$ 1,810,188	(41)	$ (541,232)	1,622	$ 41,487,860	$25,578	(3.76)
June 30, 2010	151	$ 2,030,635	(48)	$ (558,850)	1,503	$ 39,946,446	$26,578	(4.67)
June 30, 2009	85	$ 1,406,728	(48)	$ (682,366)	1,400	$ 39,031,190	$27,879	7.47
June 30, 2008	113	$ 3,136,606	(49)	$ (706,739)	1,363	$ 35,357,509	$25,941	(11.20)
June 30, 2007	94	$ 1,153,762	(45)	$ (614,078)	1,299	$ 37,948,651	$29,214	24.17
June 30, 2006	99	$ 1,150,756	(44)	$ (523,431)	1,250	$ 29,409,733	$23,528	6.32
June 30, 2005	97	$ 1,132,389	(56)	$ (579,306)	1,195	$ 26,444,153	$22,129	(3.81)
June 30, 2004	109	$ 521,390	(62)	$ (689,676)	1,154	$ 26,548,396	$23,006	(8.93)

SOLVENCY TEST (IN THOUSANDS)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Valuation Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)
6/30/2012	$86,590	$609,218	$176,150	$891,366	100%	100%	100%
6/30/2011	87,568	572,959	130,578	920,217	100%	100%	100%
6/30/2010	94,746	525,289	136,223	926,370	100%	100%	100%
6/30/2009	95,047	480,189	140,014	958,032	100%	100%	100%
6/30/2008	90,891	475,565	123,377	980,961	100%	100%	100%
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%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	Plan Years									
(Amounts in Thousands)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Prior Valuation Actuarial Accrued Liability	$791	$ 756	$ 715	$ 690	$ 631	$ 614	$ 566	$ 554	$ 546	$ 530
Expected Increase from Prior Valuation	-	-	-	-	-	-	-	-	-	29
Salary Increase (Greater) Less than Expected	(13)	(6)	(10)	0	8	7	-	5	5	(9)
Asset Return (Less) Greater than Expected	-	-	-	-	-	-	-	7	(34)	-
COLA Increase Greater (Less) than Expected	(1)	(9)	(4)	-	-	-	-	-	-	-
Other Experience	(4)	8	1	(19)	10	6	2	-	17	-
Economic Assumption Changes	-	-	10	-	-	(31)	-	-	17	-
Noneconomic Assumption Changes	-	-	-	-	-	-	-	-	3	(4)
Normal Cost	24	22	24	24	22	21	19			
Interest	67	59	57	55	51	50	46			
Payments	(44)	(42)	(37)	(35)	(32)	(36)	(29)			
Change in Valuation Programs and Methods	52	3	-	-	-	-	10			
Ending Actuarial Accrued Liability	$872	$ 791	$ 756	$ 715	$ 690	$ 631	$ 614	$ 566	$ 554	$ 546

MAJOR BENEFIT PROVISIONS OF THE RETIREMENT SYSTEM

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 using the rate of pay in effect at the time of Retirement.

NORMAL RETIREMENT

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.	

EARLY RETIREMENT PROVISION

An employee who is age 50 with 5 years of continuous service may elect an early retirement and shall have his or her retirement allowance reduced by the early retirement actuarial adjustment factor.

DEFERRED RETIREMENT OPTION (DROP)

An employee who is age 55 with 5 years of service may DROP. The eligibility age may be reduced to age 50 with 5 years of service if the employee elects an early retirement. 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 are based 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.

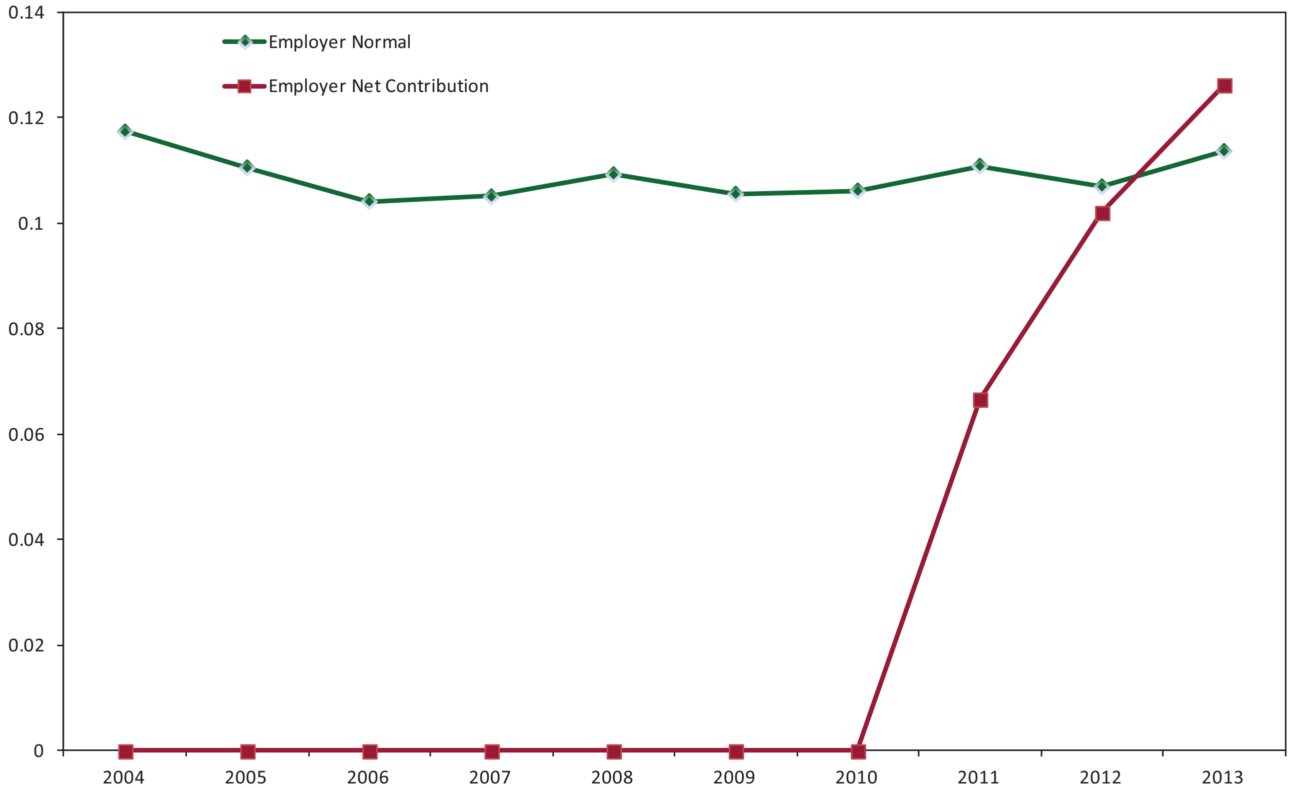
POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

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



Fiscal Year Ending June 30	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employer Normal	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	11.09%	10.70%	11.37%
Prefunded Liability/Prepaid Contributions	11.74%	11.06%	10.42%	10.51%	10.93%	10.56%	10.62%	4.42%	0.49%	(1.26%)
Employer Net Contribution	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.67%	10.21%	12.63%

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STATISTICAL SECTION

STATISTICAL SECTION REVIEW

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information which covers the benefits provided by the City of Fresno Employees Retirement System.

It also provides multi-year trend of financial and operation information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time.

More specifically, the financial and operating information provides contextual data for the System's net position, benefits, refunds, contribution rates and different types of retirement benefits.

The financial and operating trend information is located on the following pages.

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

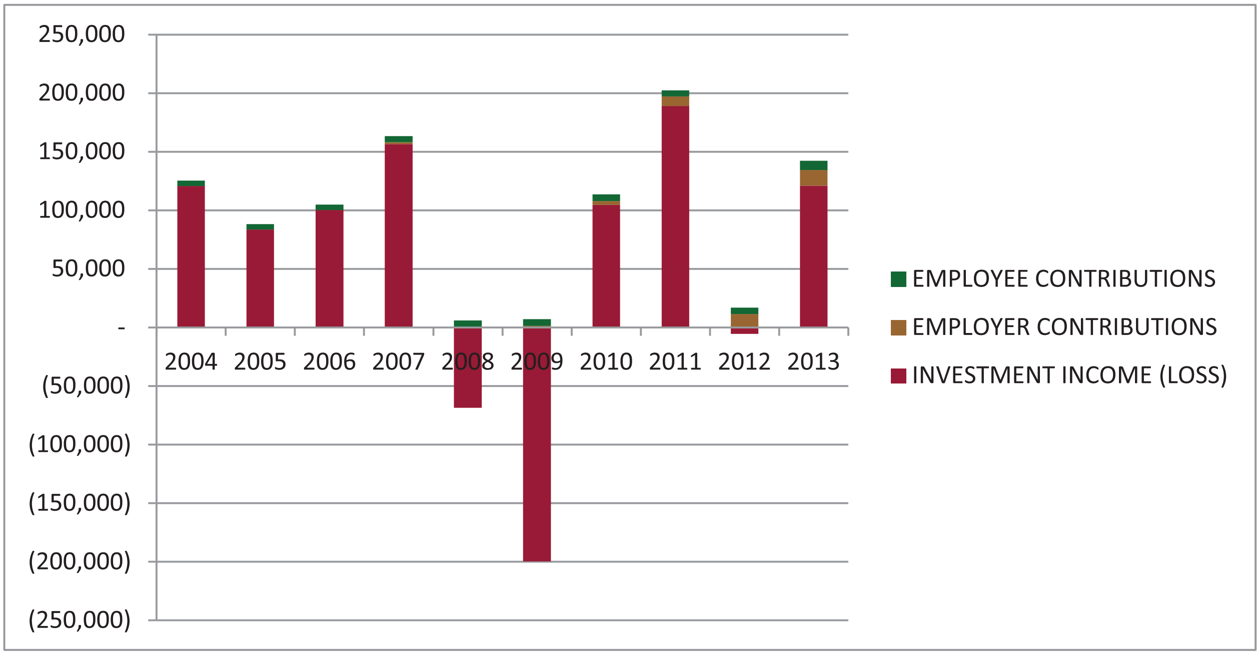
Last Ten Fiscal Years FY 2004-FY 2013
(Dollars In Millions)

	2013	2012	2011	2010	2009
Additions					
Employer Contributions	$ 13.3	$ 11.4	$ 8.2	$ 3.3	$ 1.3
Member Contributions	8.0	5.5	5.3	5.7	5.8
Investment Income (Loss)	121.1	(5.6)	188.9	104.5	(199.7)
Total Additions	$ 142.4	$ 11.3	$ 202.4	$ 113.5	$(192.6)
Deductions					
Benefit Payments	$ 45.8	$ 42.7	$ 39.9	$ 35.7	$ 33.9
Post Retirement Supplemental Benefits	0.1	0.1	1.6	4.2	5.1
Refunds	1.2	1.3	2.1	1.7	1.0
Administrative	1.1	1.1	1.0	0.9	0.9
Total Deductions	48.2	45.2	44.6	42.5	40.9
Changes in Fiduciary Net Position	$ 94.2	$ (33.9)	$ 157.8	$ 71.0	$(233.5)

	2008	2007	2006	2005	2004
Additions					
Employer Contributions	$ 0.4	$ 1.6	$ -	$ -	$ -
Member Contributions	5.7	5.1	4.6	4.7	4.7
Investment Income (Loss)	(68.5)	156.5	100.1	83.5	120.7
Total Additions	$(62.4)	$163.2	$104.7	$88.2	$125.4
Deductions					
Benefit Payments	$ 31.3	$ 35.0	$27.3	$25.3	$ 2.4
Post Retirement Supplemental Benefits	4.1	3.0	2.1	1.2	2.4
Refunds	1.1	1.4	1.2	1.0	0.7
Administrative	0.9	0.9	0.8	0.6	0.5
Total Deductions	37.4	40.3	31.4	28.1	6.0
Changes in Fiduciary Net Position	$(99.8)	$122.9	$73.3	$60.1	$119.4

SCHEDULE AND GRAPH OF ADDITIONS BY SOURCE (IN THOUSANDS)

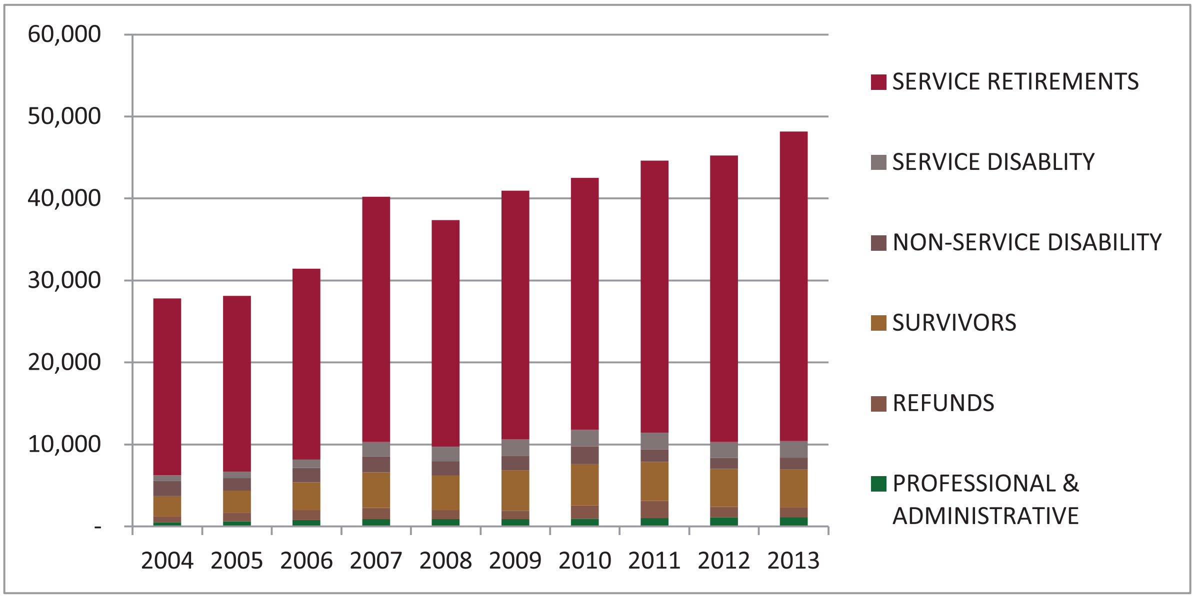
Last Ten Fiscal Years FY 2004-FY 2013



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EMPLOYEE CONTRIBUTIONS	$ 4,680	$ 4,750	$ 4,643	$ 5,094	$ 5,666	$ 5,845	$ 5,740	$ 5,275	$ 5,507	$ 7,995
EMPLOYER CONTRIBUTIONS	-	-	-	1,566	355	1,345	3,267	8,215	11,374	13,330
INVESTMENT INCOME (LOSS)	120,679	83,471	100,087	156,546	(68,482)	(199,694)	104,511	188,925	(5,620)	121,116
TOTAL	$125,359	$ 88,221	$ 104,730	$ 163,206	$ (62,461)	$(192,504)	$ 113,518	$ 202,415	$ 11,261	$ 142,441

SCHEDULE AND GRAPH OF DEDUCTIONS BY TYPE (IN THOUSANDS)

Last Ten Fiscal Years FY 2004-FY 2013



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SERVICE RETIREMENTS	$ 21,547	$ 21,435	$ 23,251	$ 29,928	$ 27,631	$ 30,336	$ 30,751	$ 33,193	$ 34,944	$ 37,748
SERVICE DISABLITY	687	799	1,020	1,751	1,771	1,989	2,014	1,997	1,940	2,042
NON-SERVICE DISABILITY	1,843	1,507	1,781	1,949	1,768	1,792	2,141	1,527	1,338	1,400
SURVIVORS	2,472	2,703	3,358	4,321	4,188	4,914	5,041	4,771	4,612	4,693
REFUNDS	710	1,026	1,218	1,351	1,111	1,022	1,651	2,092	1,313	1,157
PROFESSIONAL & ADMINISTRATIVE	535	642	798	916	898	894	929	1,029	1,087	1,138
TOTAL	$ 27,794	$ 28,112	$ 31,426	$ 40,216	$ 37,367	$ 40,947	$ 42,527	$ 44,609	$ 45,234	$ 48,178

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years of Credited Service						Fiscal Year
Retirement Effective Dates	5-10	10-15	15-20	20-25	25-30	30+	Average/New Retirants
Period 7/1/12 to 6/30/13							
Average Monthly Pension Benefits	$864	$1,476	$2,315	$3,598	$4,335	$4,925	$2,919
Number of New Retired Members	16	15	14	12	10	10	77
Period 7/1/11 to 6/30/12							
Average Monthly Pension Benefits	$568	$1,551	$2,341	$2,659	$4,268	$5,167	$2,759
Number of New Retired Members	22	13	17	13	7	5	77
Period 7/1/10 to 6/30/11							
Average Monthly Pension Benefits	$848	$1,231	$1,966	$2,966	$3,293	$4,409	$2,452
Number of New Retired Members	33	31	17	15	18	19	133
Period 7/1/09 to 6/30/10							
Average Monthly Pension Benefits	$839	$1,309	$2,731	$3,461	$3,626	$4,023	$2,665
Number of New Retired Members	13	20	20	24	27	14	118
Period 7/1/08 to 6/30/09							
Average Monthly Pension Benefits	$939	$1,464	$2,828	$3,028	$3,925	$4,449	$2,772
Number of New Retired Members	17	15	12	8	6	4	62
Period 7/1/07 to 6/30/08							
Average Monthly Pension Benefits	$711	$1,498	$2,346	$3,240	$3,008	$3,916	$2,453
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	$2,005
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	$2,235
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

RETIRED MEMBERS BY TYPE OF BENEFIT

As of June 30, 2013

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*		
		1	2	3
$1 - $1,000	346	191	5	150
$1,001 - $2,000	593	351	92	150
$2,001 - $3,000	382	315	26	41
$3,001 - $4,000	186	170	12	4
$4,001 - $5,000	101	93	3	5
$5,001 - $6,000	51	44	6	1
$6,001 - $7,000	19	19	0	0
> $7,000	22	19	0	3
Total	1700	1202	144	354

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

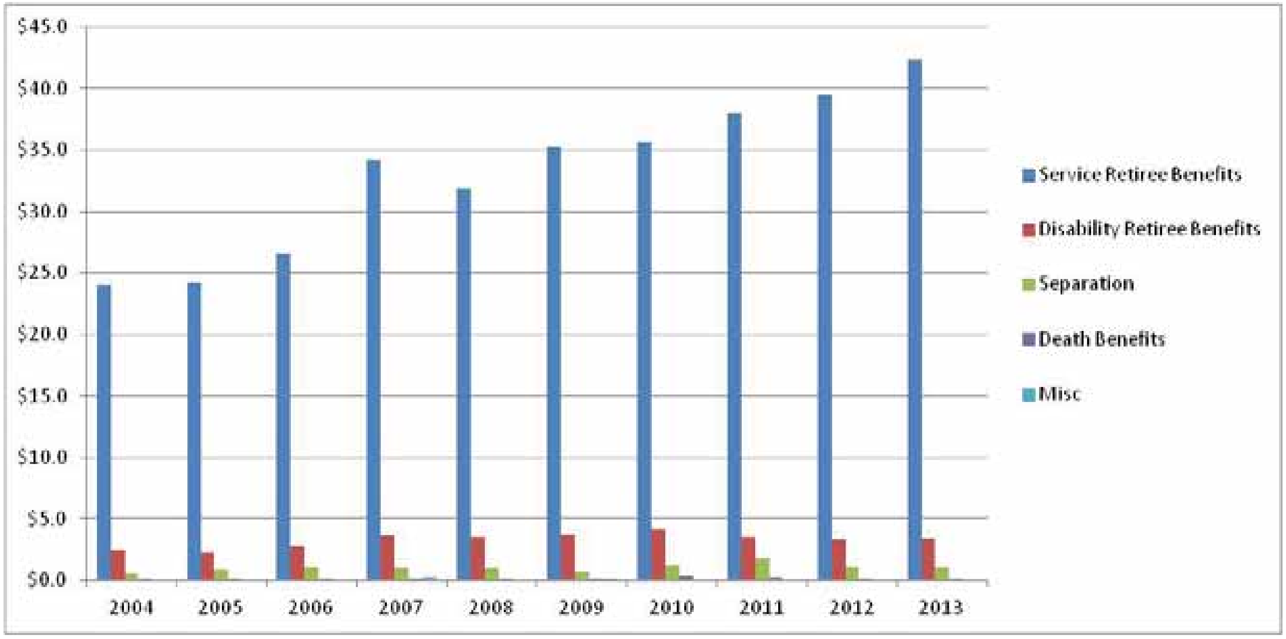
Amount of Monthly Benefit	Number of Retired Members	Option Selected**			
		Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	346	199	79	52	16
$1,001 - $2,000	593	314	173	89	17
$2,001 - $3,000	381	197	101	60	23
$3,001 - $4,000	185	97	37	32	19
$4,001 - $5,000	102	54	24	16	8
$5,001 - $6,000	51	27	11	10	3
$6,001 - $7,000	19	14	1	2	2
> $7,000	23	9	3	9	2
Total	1700	911	429	270	90

**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

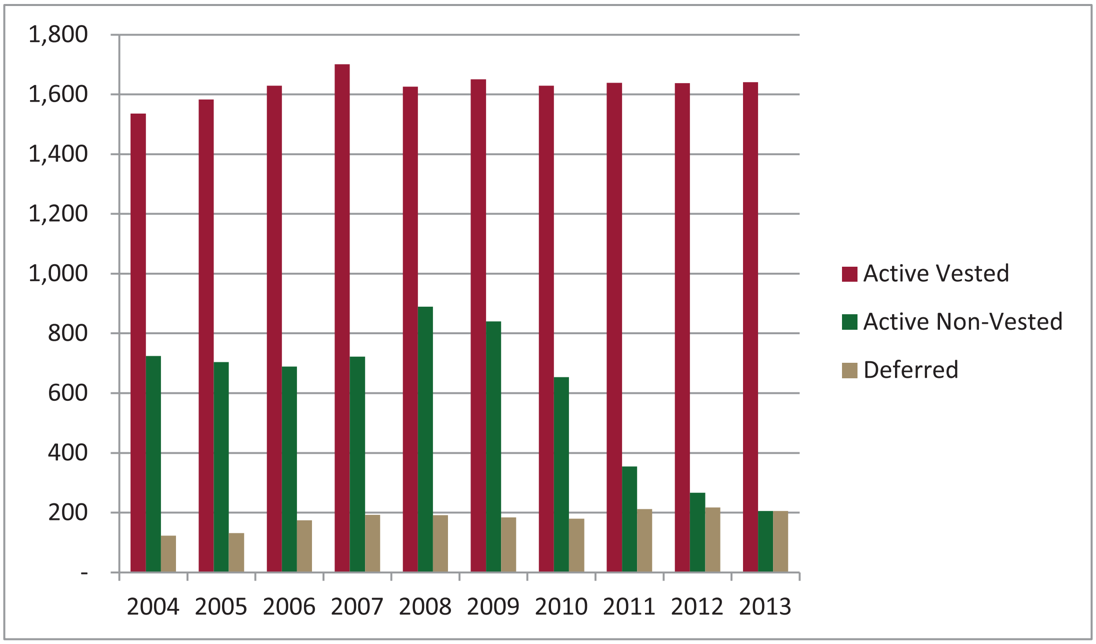
SCHEDULE AND GRAPH OF PENSION BENEFIT PAYMENTS – DEDUCTIONS BY TYPE

(DOLLARS IN MILLIONS)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Service Retiree Benefits	$24.0	$24.2	$26.6	$34.2	$31.9	$35.2	$35.7	$38.0	$39.5	$42.4
Disability Retiree Benefits	2.5	2.3	2.8	3.7	3.5	3.8	4.2	3.5	3.3	3.4
Separation	0.6	0.9	1.1	1.0	1.0	0.7	1.2	1.8	1.1	1.1
Death Benefits	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.2	0.1
Misc	0.0	0.0	0.0	0.3	0.0	0.2	0.0	0.0	0.0	0.0
Total Benefit Deductions	$27.2	$27.5	$30.6	$39.3	$36.5	$40.0	$41.5	$43.6	$44.1	$47.0

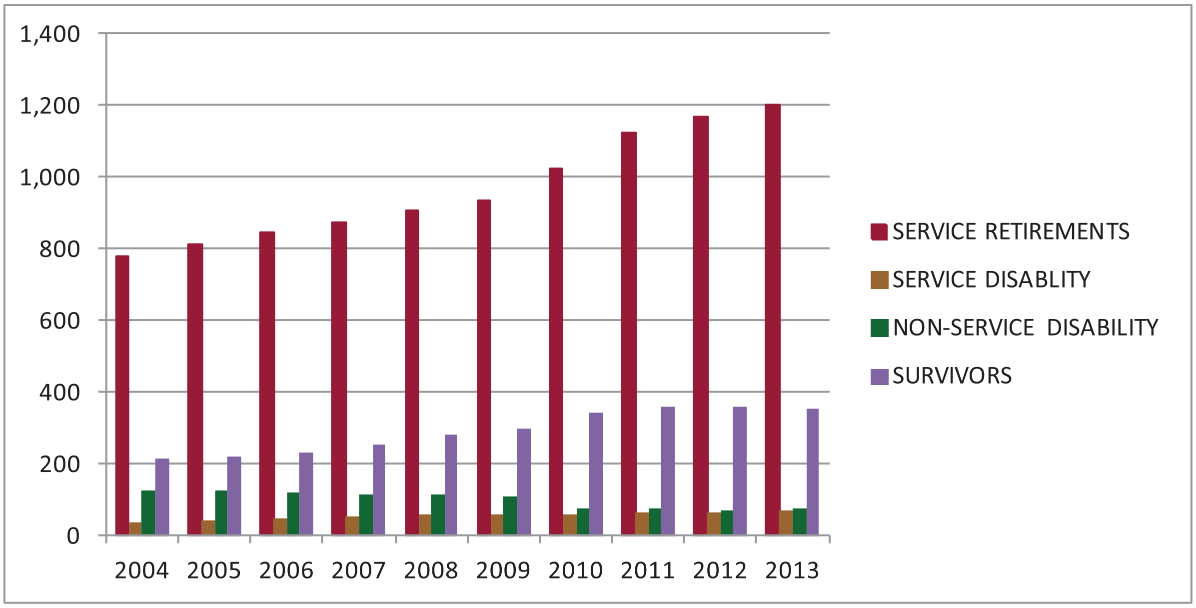


SCHEDULE AND GRAPH OF ACTIVE VESTED AND NON-VESTED AND DEFERRED MEMBERSHIP HISTORY



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Active Vested	1,536	1,583	1,629	1,701	1,626	1,650	1,629	1,639	1,638	1,641
Active Non-Vested	724	704	689	722	889	840	654	354	267	205
Deferred	123	132	174	193	192	184	180	212	217	205
TOTAL	2,383	2,419	2,492	2,616	2,707	2,674	2,463	2,205	2,122	2,051

SCHEDULE AND GRAPH OF RETIREES PENSION BENEFIT PAYMENTS BY TYPE OF BENEFIT



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SERVICE RETIREMENTS	781	812	848	876	908	933	1,025	1,123	1,166	1,202
SERVICE DISABLITY	34	40	47	53	57	60	58	66	67	71
NON-SERVICE DISABILITY	124	124	121	117	115	111	78	74	71	73
SURVIVORS	215	219	234	253	283	296	342	359	358	354
TOTAL	1,154	1,195	1,250	1,299	1,363	1,400	1,503	1,622	1,662	1,700

SUMMARY OF ACTIVE PARTICIPANTS

YEAR	NUMBER	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
2013	1,846	$ 105,508,591	$57,155	(1.46%)
2012	1,905	$ 110,492,026	$58,001	(3.07%)
2011	1,993	$ 119,260,220	$59,840	5.69%
2010	2,283	$ 129,258,191	$56,618	6.39%
2009	2,490	$ 132,511,895	$53,218	3.40%
2008	2,515	$ 129,440,108	$51,467	9.17%
2007	2,423	$ 114,233,621	$47,146	2.63%
2006	2,318	$ 106,482,630	$45,937	3.00%
2005	2,287	$ 102,001,794	$44,601	1.56%
2004	2,260	$ 99,251,574	$43,917	3.54%
2003	2,254	$ 95,602,991	$42,415	3.86%
2002	2,186	$ 89,275,955	$40,840	3.44%
2001	2,171	$ 85,715,989	$39,482	2.59%
2000	2,112	$ 81,285,066	$38,487	6.79%
1999	2,068	$ 74,529,074	$36,039	2.37%
1998	1,988	$ 69,986,473	$35,204	(0.52%)
1997	1,953	$ 69,115,258	$35,389	4.78%
1996	1,927	$ 65,084,621	$33,775	0.51%
1995	1,893	$ 63,613,482	$33,605	6.18%
1994	1,966	$ 62,221,292	$31,649	(3.62%)
1993	2,016	$ 66,199,898	$32,837	(1.16%)
1992	1,879	$ 62,422,933	$33,221	19.74%
1991	1,879	$ 52,133,387	$27,745	1.98%
1990	1,868	$ 50,822,514	$27,207	7.07%
1989	1,752	$ 44,520,591	$25,411	8.94%
1988	1,600	$ 37,321,719	$23,326	0.00%

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 RETIREES MEMBERSHIP

YEAR	AT END OF YEAR	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
2013	1,700	$45,883,057	$26,990	4.72%
2012	1,662	$42,833,718	$25,772	0.76%
2011	1,622	$41,487,860	$25,578	(3.76%)
2010	1,503	$39,946,446	$26,578	(4.67%)
2009	1,400	$39,031,190	$27,879	7.47%
2008	1,363	$35,357,509	$25,941	(11.20%)
2007	1,299	$37,948,651	$29,214	24.17%
2006	1,250	$29,409,733	$23,528	6.32%
2005	1,195	$26,444,153	$22,129	(3.81%)
2004	1,154	$26,548,396	$23,006	(8.93%)
2003	1,107	$27,963,534	$25,261	(3.37%)
2002	1,064	$27,814,021	$26,141	11.50%
2001	1,002	$23,492,505	$23,446	7.45%
2000	991	$21,622,858	$21,819	12.92%
1999	936	$18,085,727	$19,322	9.64%
1998	916	$16,142,881	$17,623	6.00%
1997	915	$15,213,149	$16,626	5.06%
1996	907	$14,353,364	$15,825	1.74%
1995	852	$13,252,179	$15,554	4.54%
1994	836	$12,437,981	$14,878	3.82%
1993	811	$11,621,551	$14,330	4.59%
1992	784	$10,741,680	$13,701	2.46%
1991	749	$10,015,617	$13,372	7.70%
1990	751	$9,324,265	$12,416	2.19%
1989	723	$8,784,048	$12,149	(6.93%)
1988	637	$8,315,552	$13,054	14.54%

Fiscal year 2007 increase in benefits to participants was primarily due to the litigation settlement with retirees which required that certain items of pay previously not included in pensionable compensation be included.

MEMBER AND CITY CONTRIBUTION RATES

Fiscal Year	Valuation Date	Member Rates: Basic at Entry Age 20	25	30	City Contribution Rates: Basic	COLA	Total City Rate	Less Prefunded Actuarial Accrued Liability (PAAL)	Net City Contribution Rate
June 30, 2013	June 30, 2011	5.34%	6.29%	7.56%	8.75%	2.62%	11.37%	1.26%	12.63%
June 30, 2012	June 30, 2010	3.47%	4.09%	4.91%	8.20%	2.50%	10.70%	(0.49%)	10.21%
June 30, 2011	June 30, 2009	2.99%	3.59%	4.38%	8.48%	2.61%	11.09%	(4.42%)	6.67%
June 30, 2010	June 30, 2008	2.99%	3.59%	4.38%	8.09%	2.53%	10.62%	(10.62%)	0.00%
June 30, 2009	June 30, 2007	2.99%	3.59%	4.38%	8.02%	2.54%	10.56%	(10.56%)	0.00%
June 30, 2008	June 30, 2006	3.02%	3.62%	4.42%	7.96%	2.97%	10.93%	(10.93%)	0.00%
June 30, 2007	June 30, 2005	2.90%	3.48%	4.25%	7.39%	3.12%	10.51%	(10.51%)	0.00%
June 30, 2006	June 30, 2004	2.90%	3.48%	4.25%	7.31%	3.11%	10.42%	(10.42%)	0.00%
June 30, 2005	June 30, 2003	3.31%	3.90%	4.69%	7.73%	3.33%	11.06%	(11.06%)	0.00%
June 30, 2004	June 30, 2002	3.31%	3.90%	4.69%	8.33%	3.41%	11.74%	(11.74%)	0.00%
June 30, 2003	June 30, 2001	3.31%	3.91%	4.70%	8.53%	3.44%	11.97%	(11.97%)	0.00%
June 30, 2002	June 30, 2000	3.31%	3.91%	4.70%	8.49%	3.44%	11.93%	(11.93%)	0.00%
June 30, 2001	June 30, 1999	3.31%	3.91%	4.70%	7.98%	3.53%	11.51%	(11.51%)	0.00%
June 30, 2000	June 30, 1998	3.47%	4.06%	4.85%	8.09%	3.57%	11.66%	(11.66%)	0.00%
June 30, 1999	June 30, 1997	3.34%	3.91%	4.67%	6.83%	3.50%	10.33%	(9.01%)	1.32%
June 30, 1998	June 30, 1996	3.34%	3.91%	4.67%	6.41%	3.46%	9.87%	(8.09%)	1.78%
June 30, 1997	June 30, 1994	3.86%	3.95%	4.60%	6.29%	3.33%	9.62%	0%	9.62%
June 30, 1995	June 30, 1992	4.32%	4.86%	5.58%	8.52%	10.88%	19.40%	0%	19.40%
June 30, 1994	June 30, 1992	4.32%	4.86%	5.58%	8.34%	10.12%	18.46%	0%	18.46%
June 30, 1993	June 30, 1990	4.21%	4.74%	5.43%	11.72%	5.80%	17.52%	0%	17.52%
June 30, 1991	June 30, 1988	4.21%	4.74%	5.43%	11.92%	6.38%	18.30%	0%	18.30%
June 30, 1989	June 30, 1985	4.62%	5.13%	5.81%	10.47%	8.63%	19.10%	0%	19.10%
June 30, 1987	June 30, 1985	4.62%	5.13%	5.81%	10.47%	6.84%	17.31%	0%	17.31%
June 30, 1985	June 30, 1982	4.62%	5.13%	5.81%	10.10%	8.14%	16.70%	0%	16.70%
June 30, 1984	June 30, 1979	4.23%	4.58%	5.21%	9.67%	6.36%	16.03%	0%	16.03%
June 30, 1982	June 30, 1979	4.23%	4.58%	5.21%	12.56%	6.84%	15.11%	0%	15.11%
June 30, 1980	June 30, 1976	3.85%	4.35%	5.04%	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.

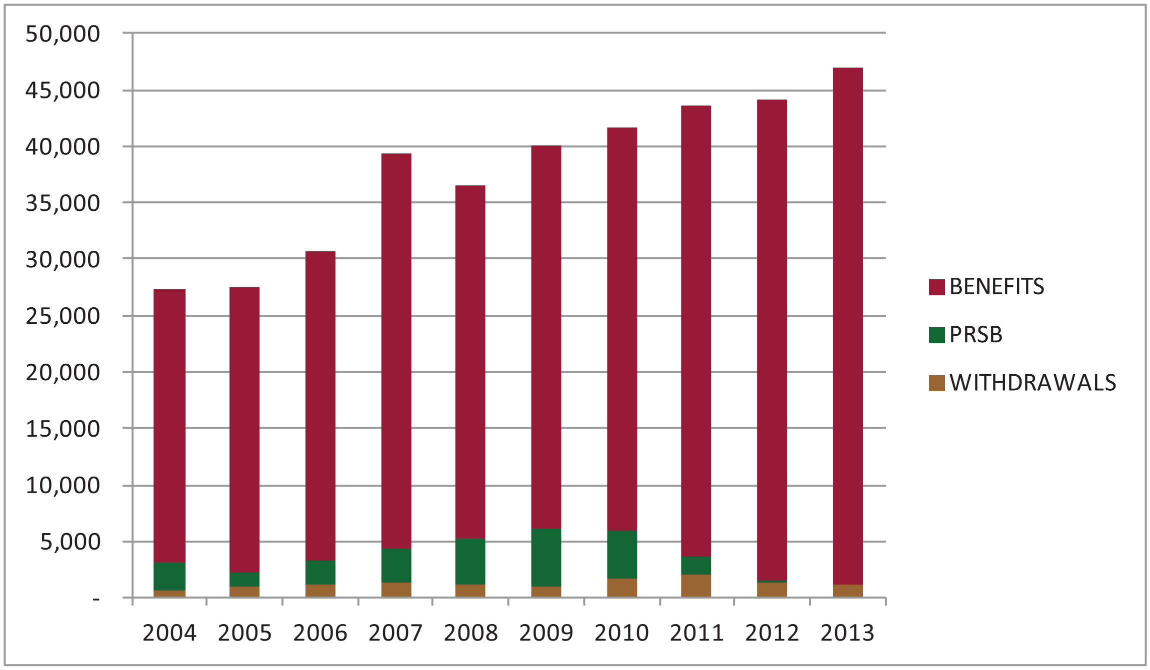
Data Source: Annual Actuarial Valuation Reports

ECONOMIC ASSUMPTIONS AND FUNDING METHOD

Valuation Date	Interest	Salary Scale	COLA	Inflation Component	Funding Method
June 30, 2012	8.00%	.60 - 8.5%	3.50%	3.50%	Entry Age Normal
June 30, 2011	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2010	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2009	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2008	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
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

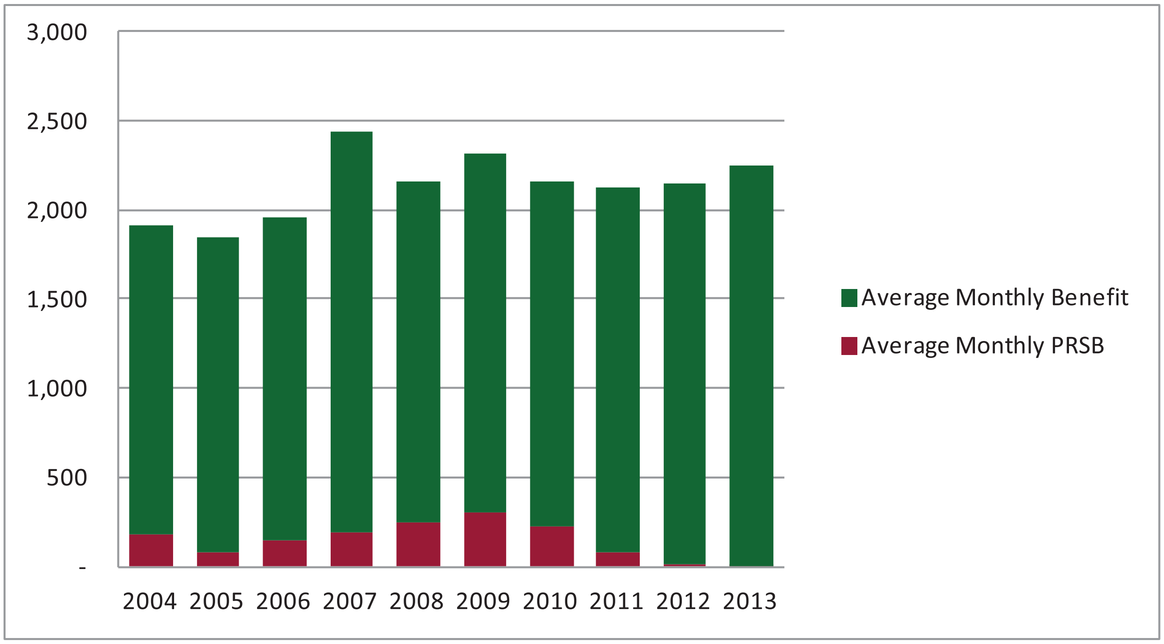
Source: The Segal Company 06/30/2012 AAV/AA (pg. 31)

BENEFITS AND WITHDRAWALS PAID
(IN THOUSANDS)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BENEFITS	$24,118	$25,287	$27,261	$34,982	$31,286	$33,947	$35,699	$39,901	$42,696	$45,807
PRSB	2,430	1,157	2,149	2,967	4,072	5,084	4,248	1,587	138	76
WITHDRAWALS	710	1,026	1,219	1,350	1,112	1,022	1,651	2,092	1,313	1,157

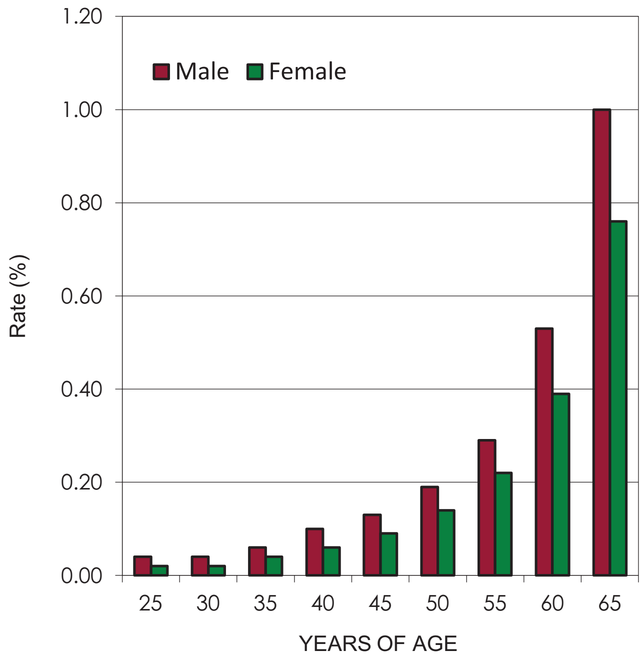
AVERAGE MONTHLY BENEFITS TO PARTICIPANTS
(IN THOUSANDS)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average Monthly Benefit	$1,742	$1,763	$1,817	$2,244	$1,913	$2,018	$1,927	$2,050	$2,141	$2,245
Average Monthly PRSB	175	81	143	190	249	302	229	81	7	4
Average Monthly Benefit Total	$1,917	$1,844	$1,960	$2,434	$2,162	$2,320	$2,156	$2,131	$2,148	$2,249

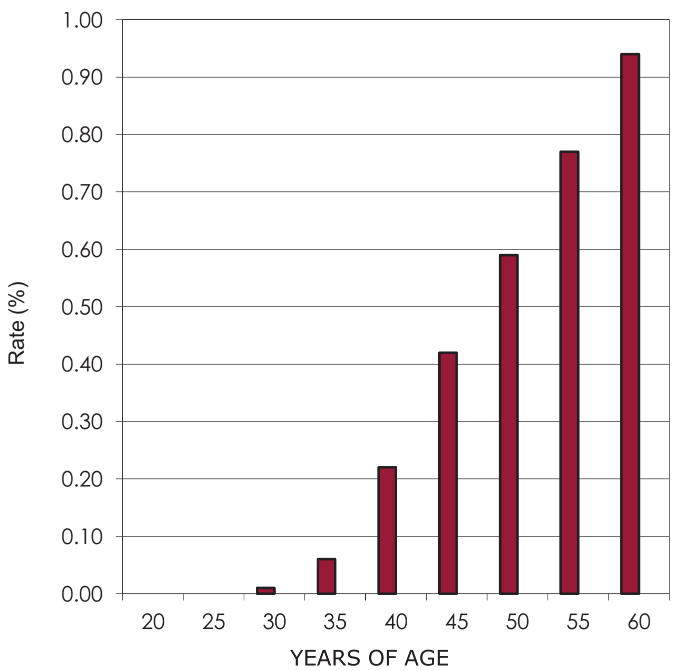
Data Source: PensionGold Administration System

EXPECTATION OF LIFE
(Age and Service Retirees)



EXPECTATION OF LIFE Age and Service Retirees RP-2000 Combined Healthy Mortality Table Male (x-2), Female (x-2)		
Age	Male	Female
25	0.04	0.02
30	0.04	0.02
35	0.06	0.04
40	0.10	0.06
45	0.13	0.09
50	0.19	0.14
55	0.29	0.22
60	0.53	0.39
65	1.00	0.76

EXPECTATION OF LIFE
(Disabled Retirees)



EXPECTATION OF LIFE Disabled Retirees RP-2000 Combined Healthy Mortality Table Male (x+4), Female (x+4)	
Age	Rate (%)
20	0.00
25	0.00
30	0.01
35	0.06
40	0.22
45	0.42
50	0.59
55	0.77
60	0.94

COMPLIANCE SECTION

INDEPENDENT AUDITORS INTERNAL CONTROL LETTER

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BROWN ARMSTRONG
Certified Public Accountants

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

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

We have audited, in accordance with the 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, the Statement of Fiduciary Net Position of the City of Fresno Employees Retirement System (the System), as of and for the years ended June 30, 2013 and 2012, and the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted other matters involving internal control over financial reporting that we have reported in a separate letter dated November 21, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 21, 2013