

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
(A PENSION TRUST FUND OF THE CITY OF FRESNO)  
FRESNO, CALIFORNIA



*caring for your future...*

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

# Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

**STANLEY L. MCDIVITT**  
RETIREMENT ADMINISTRATOR

**KATHLEEN RILEY**  
ASSISTANT RETIREMENT ADMINISTRATOR

**CAROL ELAND**  
RETIREMENT BENEFITS MANAGER

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# CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEMS



THE FIRE AND POLICE RETIREMENT SYSTEM (THE "SYSTEM") WAS ESTABLISHED ON JUNE 1, 1955 AND IS MAINTAINED AND GOVERNED BY ARTICLES 17 AND 17A OF CHAPTER 2 OF THE CITY OF FRESNO MUNICIPAL CODE. THE SYSTEM PROVIDES BENEFITS TO THE SAFETY EMPLOYEES AND RETIREES OF THE CITY OF FRESNO.

THE SYSTEM'S PRIMARY RESPONSIBILITIES INCLUDE: ADMINISTRATION OF THE TRUST FUND, DELIVERY OF RETIREMENT, DISABILITY AND DEATH BENEFITS TO ELIGIBLE MEMBERS, ADMINISTRATION OF PROGRAMS, AND GENERAL ASSISTANCE IN RETIREMENT AND RELATED BENEFITS.

## MISSION STATEMENT

TO PROVIDE SYSTEM MEMBERS AND THE EMPLOYER WITH FLEXIBLE, COST-EFFECTIVE, PARTICIPANT-ORIENTED BENEFITS THROUGH PRUDENT INVESTMENT MANAGEMENT AND SUPERIOR MEMBER SERVICES.

## BOARD AND STAFF COMMITMENT

- TO CARRY OUT OUR MISSION THROUGH COMPETENT, PROFESSIONAL IMPARTIAL AND OPEN DECISION-MAKING PROCESSES.
- TO PROVIDE BENEFITS AND SERVICES, WHILE TREATING ALL PERSONS FAIRLY AND WITH COURTESY AND RESPECT.
- INVESTMENTS WILL BE MANAGED TO BALANCE THE NEED FOR SECURITY WITH SUPERIOR PERFORMANCE. WE EXPECT EXCELLENCE IN ALL ACTIVITIES. WE WILL ALSO BE ACCOUNTABLE AND ACT IN ACCORDANCE WITH THE LAW.

## GOALS

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



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno  
Fire and Police Retirement System,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

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



*Nancy L. Zielke*

President

*Jeffrey R. Emery*

Executive Director

**CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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# INTRODUCTORY SECTION





## *LETTER OF TRANSMITTAL*

October 10, 2005

Dear Board Members:



Stanley L. McDivitt  
Retirement Administrator

As Retirement Administrator of the City of Fresno Fire and Police Retirement System, it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2005 and 2004.

As the investment markets have improved over the past two years, the Retirement Board has navigated an investment strategy that continues to provide outstanding results.

According to the Board's actuary, the System has the second highest funded ratio (123.0 percent) of any public retirement system in the State of California. The System experienced a total investment gain of 10.94 percent for the fiscal year ended June 30, 2005, exceeding the System's actuarial interest rate assumption of 8.25 percent by 2.69 percent and the System's benchmark return of 10.40 percent by 0.54 percent. Our investment results remain solid with annualized returns in excess of 10 percent consistently over the past fifteen years. The System's ten-year annualized returns averaged 9.94 percent still exceeding its policy benchmarks for that period by 0.91 percent. The Fire and Police System remains strong, well funded and well positioned to serve our members. The Board continues to demonstrate its commitment to our membership, ensuring that participants' future retirements are realized through the protection and efficient administration of the System.

### **THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

The Comprehensive Annual Financial Report ("CAFR") of the City of Fresno Fire and Police Retirement System for the years ended June 30, 2005 and 2004, is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the

CITY OF FRESNO FIRE & POLICE RETIREMENT SYSTEM  
**SYSTEM ADMINISTRATOR'S LETTER OF TRANSMITTAL**

management of the System. For a general overview of the City of Fresno Fire and Police System's finances, please refer to Management's Discussion and Analysis letter in the Financial Section of this report. The CAFR consists of six sections:

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

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

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

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

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

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

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

## THE FIRE AND POLICE RETIREMENT SYSTEM AND ITS SERVICES

The **Fire and Police Retirement System** was established on July 1, 1955, under charter Section 910 and is governed by Article 17 and 17A of Chapter 2 of the City of Fresno Municipal Code. Effective August 27, 1990, the City added a Second Tier that includes all full-time sworn Fire, Police, and Airport Safety personnel hired on or after that date.

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

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

The Retirement Board has five (5) members, two (2) management employees who are appointed by the Mayor and confirmed by the City Council, one (1) employee who is elected by the members representing the sworn Fire Department of the System, and one (1) employee who is elected by the members representing the Police and Airport Safety Officers of the System, both of which serve a four-year term. The fifth and final member of the Board shall be a qualified elector of the 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 Board's Rules, Regulations and Policies.

## **SERVICE EFFORTS & ACCOMPLISHMENTS**

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

## **PROFESSIONAL SERVICES**

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

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

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Fire and Police Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive financial annual reports.

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

## **ACTUARIAL FUNDING STATUS**

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

As of June 30, 2004, the funded ratio of the Fire and Police Retirement System was 123.0 percent. The funded ratio was determined by using the actuarial value of the assets in accordance with Governmental Accounting Standards Board Statement No. 25. The actuarial accrued liability of the System at June 30, 2004 amounted to \$642,193,959. The actuarial value of assets at June 30, 2004 amounted to \$793,058,514. The market value of the assets at June 30, 2004 amounted to \$889,966,606.

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

## **ACCOUNTING SYSTEM & REPORTS**

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

This report has been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB") and its predecessor, the National Council on Governmental Accounting. The financial statements are presented in accordance with guidelines established by GASB No. 25, Financial Reporting for Defined Benefit Plans and incorporates the provisions of GASB No. 34 and GASB No. 40.

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

## **INVESTMENTS**

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

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

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

## **ACKNOWLEDGMENTS**

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

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

Respectfully Submitted,



Stanley L. McDivitt  
Retirement Administrator

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# CITY OF FRESNO FIRE AND POLICE RETIREMENT BOARD



**CHAIR**  
**PAUL CLIBY**  
*Elected, 4-year term*



**MEMBER**  
**STEPHEN GUINN**  
*Board Appointed*



**MEMBER**  
**CARLA LOMBARDI**  
*Mayor Appointed*



**VICE CHAIR**  
**BRIAN BURRY**  
*Elected, 4-year term*



**MEMBER**  
**KEN NERLAND**  
*Mayor Appointed*

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# CITY OF FRESNO RETIREMENT ADMINISTRATIVE STAFF



**FRONT ROW**

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

**BACK ROW**

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



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

**ORGANIZATION OF  
FIRE AND POLICE RETIREMENT SYSTEM**

**ADMINISTRATION:** The Administrative Section is responsible for the administration of the City of Fresno Fire and Police Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See page xi for outside consultants and page xii for investment managers and page 48 for a schedule of brokerage commissions.)

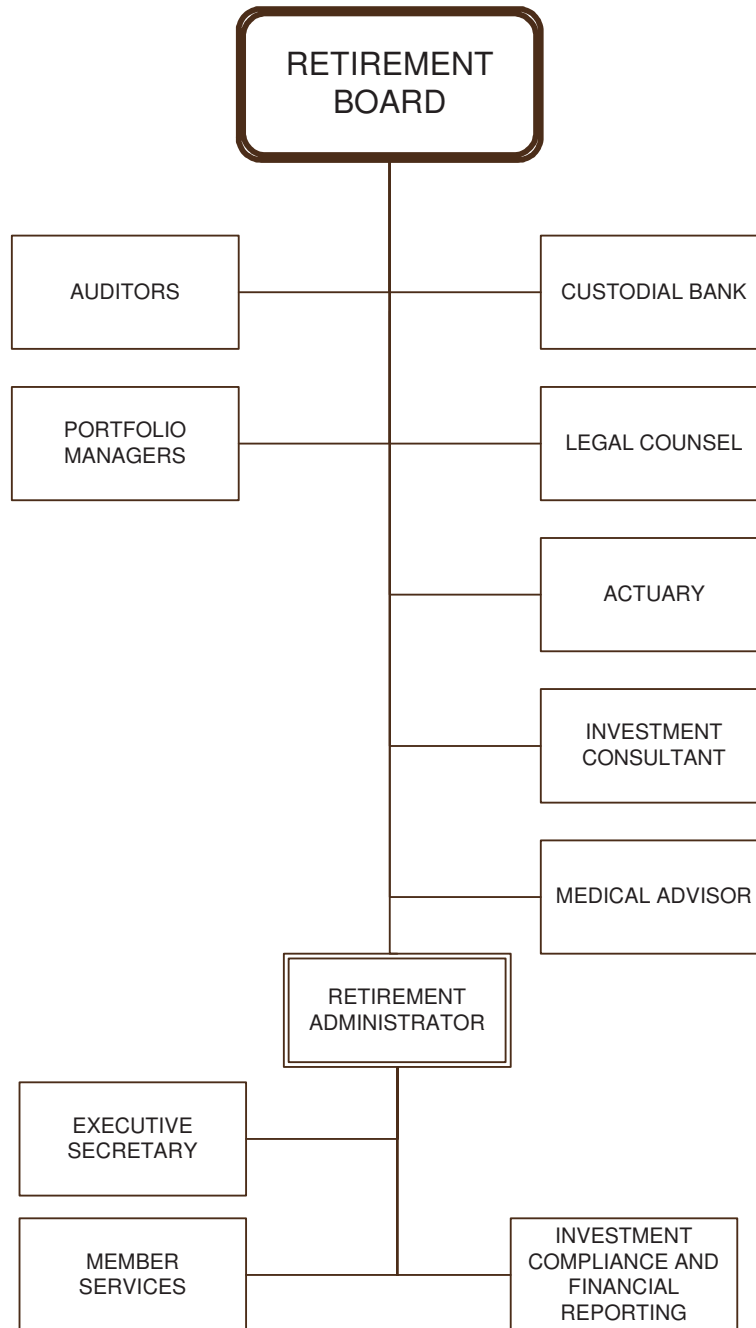
**MEMBER SERVICES:** This section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership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

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

**EXECUTIVE SECRETARY:** The position is responsible for providing administrative and clerical support services for the Board and the retirement staff.

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

ADMINISTRATIVE ORGANIZATION STRUCTURE



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# **PROFESSIONAL SERVICES**

**CUSTODIAL BANK**

**NORTHERN TRUST**  
*Chicago, Illinois*

**LEGAL ADVISOR**

**SALTZMAN AND JOHNSON LAW CORPORATION**  
*San Francisco, California*

**INVESTMENT CONSULTANT**

**WILSHIRE ASSOCIATES INC.**  
*Santa Monica, California*

**ACTUARY**

**GABRIEL, ROEDER, SMITH AND COMPANY**  
*San Diego, California*

**MEDICAL ADVISOR**

**BENCHMARK MEDICAL CONSULTANTS**  
*Sacramento, California*

**INDEPENDENT AUDITOR**

**BROWN ARMSTRONG PAULDEN MCCOWN STARBUCK AND KEETER  
ACCOUNTANCY CORPORATION**  
*Bakersfield, California*

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INTRODUCTORY SECTION**

# PORTFOLIO MANAGERS

## DOMESTIC EQUITY

### Large Cap

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

### Small Cap

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

## INTERNATIONAL & EMERGING MARKETS

### International

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

### Emerging Market

Genesis Asset Managers Limited  
London, England

## FIXED INCOME

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

## HIGH YIELD

Loomis Sayles, Boston, MA

## REAL ESTATE

### Private Real Estate Investments

JP Morgan Fleming Asset Mgt  
New York, NY

### Real Estate Investment Trust (REIT)

Principal Real Estate Investors  
Des Moines, IA



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# FINANCIAL SECTION



# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT



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

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Rosalva Flores, CPA  
Carmie M. Perez, CPA  
Sharon Jones, CPA, MST  
Dana Brambover, CPA  
Matthew Gilligan, CPA  
Terri Swan, CPA  
Dominic Brown, CPA  
Ryan Johnson, CPA

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Plan Net Assets Available for Benefits of the City of Fresno Fire and Police Retirement System as of June 30, 2005 and 2004, and the related Statement of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of the City of Fresno Fire and Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Fresno Fire and Police Retirement System, as of June 30, 2005 and 2004, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the financial statements, in 2005, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and amendment of GASB Statement No. 3.

## FINANCIAL SECTION

### INDEPENDENT AUDITOR'S REPORT

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005, on our consideration of the City of Fresno Fire and Police Retirement System internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 9, 2005

## FINANCIAL SECTION

# MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Fire and Police Retirement System for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page i of this report.

### Financial Highlights

- ◆ At the close of the fiscal year 2005, the assets of the System exceed its liabilities by \$957,987,582. The net assets of the System are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the System's ongoing obligations.
- ◆ The System's total net assets held in trust for pension benefits increased by \$68,020,976 or 7.64 percent, primarily as a result of the recovery in the investment markets.
- ◆ The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2004, the date of the last actuarial valuation, the funded ratio for the System was 123.0 percent. In general, this indicates that for every dollar of benefits due we have approximately \$1.23 of assets available for payment as of that date.
- ◆ Revenues (additions to Plan Net Assets) for the fiscal year were \$105,530,494, which includes member contributions of \$4,963,353, employer contributions of \$8,806,044 and an investment gain of \$91,411,958 and securities lending income of \$349,139.
- ◆ Expenses (deductions in Plan Net Assets) increased from \$36,137,260 to \$37,509,518 over the prior year, or approximately 3.8 percent. The increase was related to an increase in benefits paid over the prior year.

### Overview of the Financial Statement

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

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

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

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



# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The System's funding at June 30, 2004, ratio was 123.0 percent, which means the System's fund has approximately \$1.23 available for each \$1.00 of liability. The Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits reports information about the System's activities.

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

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

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

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

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

### Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position. The assets of the System exceeded its liabilities at the close of the fiscal year 2005 by \$957,987,582. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

The fund's combined net assets held in trust for pension benefits have generally increased each fiscal year since 1995 with the exception of losses incurred in fiscal years 2001 and 2002. In fiscal year 2005, net assets increased by 7.64 percent due to the continued recovery in the investment markets.

# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(CONTINUED)

The System averaged an annualized investment return of 9.94 percent over the past ten years and has exceeded the actuarial assumption of 8¼ percent.

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

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

	FY 2005	FY 2004	FY 2005 Increase/ (Decrease) Amount	FY 2005 Increase/ (Decrease) Percent
Current and Other Assets	\$ 221,877,357	\$ 129,994,606	\$ 91,882,751	70.68%
Investments at Fair Value	962,430,886	912,590,851	49,840,035	5.46%
Total Assets	1,184,308,243	1,042,585,457	141,722,786	13.59%
Current Liabilities	226,320,661	152,618,851	73,701,810	48.29%
<b>Net Assets</b>	<b>\$ 957,987,582</b>	<b>\$ 889,966,606</b>	<b>\$ 68,020,976</b>	<b>7.64%</b>

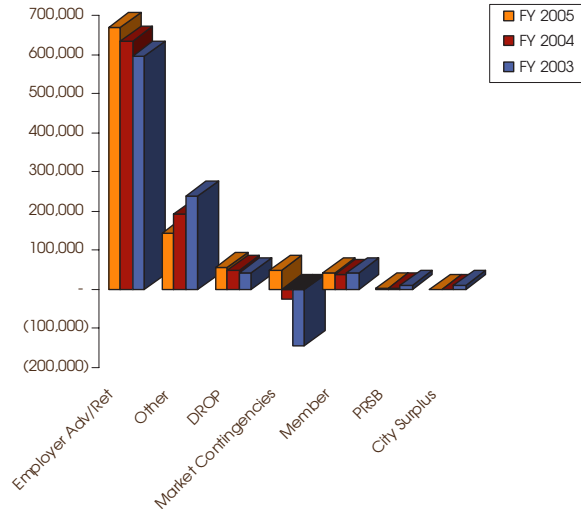
	FY 2004	FY 2003	FY 2004 Increase/ (Decrease) Amount	FY 2004 Increase/ (Decrease) Percent
Current and Other Assets	\$ 129,994,606	\$ 103,194,999	\$ 26,799,607	25.97%
Investments at Fair Value	912,590,851	817,096,383	95,494,468	11.69%
Total Assets	1,042,585,457	920,291,382	122,294,075	13.29%
Current Liabilities	152,618,851	133,611,572	19,007,279	14.23%
<b>Net Assets</b>	<b>\$ 889,966,606</b>	<b>\$ 786,679,810</b>	<b>\$ 103,286,796</b>	<b>13.13%</b>

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**FINANCIAL SECTION**

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

**Reserves**

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



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

	2005	2004	2003
Employer Advance/Retired Reserves	\$ 670,766	\$ 634,660	\$ 596,951
Other Reserves	141,211	191,756	237,099
DROP Reserves	54,749	47,912	42,434
Market Stabilization Reserve	49,130	(26,164)	(146,668)
Member Reserves	40,415	37,979	40,391
PRSB Reserves	1,716	3,823	8,420
City Surplus Reserves	-	-	8,052
<b>Net Assets Available for Benefits</b>	<b>\$ 957,987</b>	<b>\$ 889,966</b>	<b>\$ 786,679</b>

# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets

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

### SYSTEM'S ACTIVITIES

With steady growth in the real estate and equity markets, net assets of the System increased by \$68,020,976 for the fiscal year, resulting in a 7.64 percent increase in net assets for the fiscal year ended June 30, 2005. Key elements of this increase are described in the sections below.

### REVENUES - ADDITIONS TO SYSTEM'S NET ASSETS

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Revenues for the fiscal year ended June 30, 2005 totaled \$105,530,494.

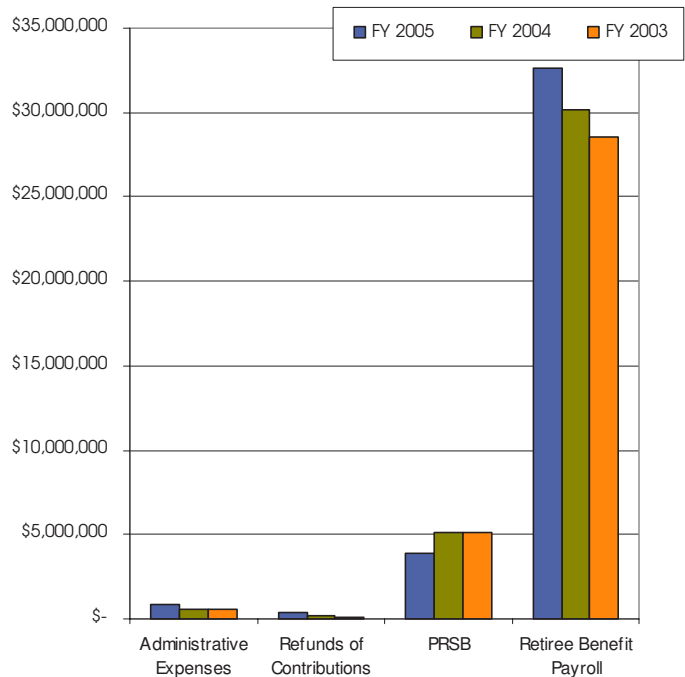
For the fiscal year ended June 30, 2005, overall revenues had decreased by \$33,893,562 or 24.3 percent from the prior year, primarily due to the performance of the investment markets. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2005.

### Expenses – Deductions from System's Net Assets

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

Deductions for the fiscal year ended June 30, 2005, totaled \$37,509,518 which was an increase of 3.80 percent over the prior fiscal year. The increase in benefits paid resulted primarily from an increase in the number of new retirees receiving benefits, and an increase in the average benefit.

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



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM

**FINANCIAL SECTION**

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

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

	FY 2005	FY 2004	FY 2005 Increase/(Decrease) Amount	FY 2005 Increase/(Decrease) Percent
<b>Additions</b>				
Employer Contributions	\$ 8,806,044	\$ 728,399	\$ 8,077,645	1108.96%
Employee Contributions	4,963,353	4,408,868	554,485	12.58%
Net Investment Income	91,761,097	134,286,789	(42,525,692)	-31.67%
<b>Total Additions</b>	<b>\$ 105,530,494</b>	<b>\$ 139,424,056</b>	<b>\$ (33,893,562)</b>	<b>-24.31%</b>
<b>Deductions</b>				
Retiree Benefit Payroll	\$ 32,583,408	\$ 30,135,096	\$ 2,448,312	8.12%
Refunds of Contributions	377,881	228,815	149,066	65.15%
PRSB	3,859,816	5,169,376	(1,309,560)	-25.33%
Administrative Expenses	688,413	603,973	84,440	13.98%
<b>Total Deductions</b>	<b>\$ 37,509,518</b>	<b>\$ 36,137,260</b>	<b>\$ 1,372,258</b>	<b>3.80%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>68,020,976</b>	<b>103,286,796</b>	<b>(35,265,820)</b>	<b>-34.14%</b>
<b>Beginning Plan Net Assets</b>	<b>889,966,606</b>	<b>786,679,810</b>	<b>103,286,796</b>	<b>13.13%</b>
<b>Ending Plan Net Assets</b>	<b>957,987,582</b>	<b>889,966,606</b>	<b>68,020,976</b>	<b>7.64%</b>

\* Net of investment expenses of \$8,971,111 and \$6,693,274 for June 30, 2005 and 2004.

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

	FY 2004	FY 2003	FY 2004 Increase/(Decrease) Amount	FY 2004 Increase/(Decrease) Percent
Employer Contributions	\$ 728,399	\$ -	\$ 728,399	100.00%
Employee Contributions	4,408,868	4,080,572	328,296	8.05%
Net Investment Income	134,286,789	27,759,239	106,527,550	383.76%
<b>Total Revenue</b>	<b>\$ 139,424,056</b>	<b>\$ 31,839,811</b>	<b>\$ 107,584,245</b>	<b>337.89%</b>
<b>Deductions</b>				
Retiree Benefit Payroll	\$ 30,135,096	\$ 28,571,504	\$ 1,563,592	5.47%
Refunds of Contributions	228,815	78,561	150,254	191.26%
PRSB	5,169,376	5,165,171	4,205	0.08%
Administrative Expenses	603,973	570,907	33,066	5.79%
<b>Total Deductions</b>	<b>\$ 36,137,260</b>	<b>\$ 34,386,143</b>	<b>\$ 1,751,117</b>	<b>5.09%</b>
<b>Increase (Decrease) in Plan Net Assets</b>	<b>103,286,796</b>	<b>(2,546,332)</b>	<b>105,833,128</b>	<b>-4156.30%</b>
<b>Beginning Plan Net Assets</b>	<b>786,679,810</b>	<b>789,226,142</b>	<b>(2,546,332)</b>	<b>-0.32%</b>
<b>Ending Plan Net Assets</b>	<b>889,966,606</b>	<b>786,679,810</b>	<b>103,286,796</b>	<b>13.13%</b>

\* Net of investment expenses of \$6,693,274 and \$6,424,026 for June 30, 2004 and 2003.

## FINANCIAL SECTION

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

#### **System's Fiduciary Responsibilities**

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

#### **Requests for Information**

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

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
2828 FRESNO STREET, SUITE 201  
FRESNO, CALIFORNIA 93721

Respectfully submitted,



Stanley L. McDivitt  
Retirement Administrator

October 10, 2005

# FINANCIAL SECTION

## STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS JUNE 30, 2005 AND 2004

	2005	2004
<b>Assets:</b>		
Cash (Note 6)	\$ 887,115	\$ 703,568
Receivables		
Interest and Dividends	3,613,617	2,586,889
Receivables for Investments Sold	30,261,328	5,064,579
Other Receivables	21,958,347	15,849,406
Total Receivables	55,833,292	23,500,874
Investments at Fair Value (Note 6) (Cost of \$864,980,586 in 2005 and \$816,849,213 in 2004)		
Short Term Investments	33,496,762	24,473,362
Domestic Equity	364,654,174	420,809,870
Corporate Bonds	116,207,445	143,475,229
Government Bonds	161,198,849	75,657,171
International Equity	165,544,098	144,522,504
Emerging Market Equity	31,502,541	29,423,468
Real Estate	89,827,017	74,229,247
Total Investments	962,430,886	912,590,851
Collateral Held for Securities Lent (Note 8)	164,948,097	105,790,164
Fixed Assets	31,601	-
Prepaid Expense	177,252	-
<b>Total Assets</b>	<b>1,184,308,243</b>	<b>1,042,585,457</b>
<b>Liabilities</b>		
Collateral Held for Securities Lent (Note 8)	164,948,097	105,790,164
Prepaid Employer Contributions (Note 4)	13,684,059	21,020,472
Payable for Investments Purchased	25,284,937	8,892,762
Payable for Foreign Currency Purchased	21,292,415	15,852,978
Other Liabilities	1,111,153	1,062,475
<b>Total Liabilities</b>	<b>226,320,661</b>	<b>152,618,851</b>
<b>Net Assets Held In Trust for Benefits (Note 5)</b>	<b>\$ 957,987,582</b>	<b>\$ 889,966,606</b>

(A schedule of funding progress is included on page 33)

The notes to the financial statements on pages 14 to 32 are an integral part of this statement.

# FINANCIAL SECTION

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

	2005	2004
<b>Additions:</b>		
Contributions (Note 3):		
Employer	\$ 8,806,044	\$ 728,399
System Members	4,963,353	4,408,868
Total Contributions	13,769,397	5,137,267
Investment Income:		
Net Appreciation in Value of Investments	75,293,669	120,504,025
Interest	13,135,126	10,832,580
Dividends	8,820,470	8,475,509
Other Investment Related	154,287	288,164
Total Investment Income	97,403,552	140,100,278
Less: Investment Expense	(5,991,594)	(6,077,038)
Total Net Investment Income	91,411,958	134,023,240
Securities Lending Income		
Securities Lending Earnings (Note 8)	3,328,656	879,785
Less: Securities Lending Expense	(2,979,517)	(616,236)
Net Securities Lending Income	349,139	263,549
<b>Total Additions</b>	<b>105,530,494</b>	<b>139,424,056</b>
<b>Deductions:</b>		
Benefit Payments	32,583,408	30,135,096
Post Retirement Supplemental Benefits (Note 10)	3,859,816	5,169,376
Refunds of Contributions	377,881	228,815
Administrative Expense	688,413	603,973
<b>Total Deductions</b>	<b>37,509,518</b>	<b>36,137,260</b>
<b>Net Increase/(Decrease)</b>	<b>68,020,976</b>	<b>103,286,796</b>
Net Assets Available for Benefits Beginning of Year	889,966,606	786,679,810
<b>End of Year</b>	<b>\$ 957,987,582</b>	<b>\$ 889,966,606</b>

The notes to the financial statements on page 14 to 32 are an integral part of this statement.



# FINANCIAL SECTION

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

### I. DESCRIPTION OF THE SYSTEM

The City of Fresno Fire and Police Retirement System ("System") was established on July 1, 1955, under provisions of the City of Fresno Ordinance Number 4611, and is maintained and governed by Article 17 and 17A of Chapter 2 of the Municipal Code of the City of Fresno but not under the control of the City Council. The System is a single employer public employee retirement system that includes all full time sworn fire, police and airport safety personnel. Effective August 27, 1990, the City added the Fire and Police Second Tier for all full time sworn fire, police and airport safety personnel hired on or after that date (and closed the Fire and Police First Tier to new entrants). Total participants of the System were comprised of the following, as of June 30, 2005 and 2004:

	2005	2004
Active Members:		
Vested	763	759
Non-vested	303	258
	1,066	1,017
Retirees and Beneficiaries of Deceased Retirees, Currently Receiving Benefits	784	761
Inactive Vested Members	42	31
	826	792
<b>Total</b>	<b>1,892</b>	<b>1,809</b>

Pension benefits are based upon a combination of age, years of service, monthly salary and the option selected by the participant. Death and disability benefits are additionally based upon whether the disability was service connected and whether the death occurred before or after retirement. Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 10 years of credited service under the First Tier and five years of credited service under the Second Tier when they become 100 percent vested, but are not payable until the member attains the age of 50 under both tiers. Contributions are made by the members and the employer at rates recommended by the System's actuary and adopted by the Retirement Board.

## FINANCIAL SECTION

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

#### I. DESCRIPTION OF THE SYSTEM (CONTINUED)

Cost-of-living increases for the First Tier retirees are determined by the increases attached to ranks of active safety employees for those having retired under the rank-average option. For those retired under the 3-year average, cost-of-living is based on the percentage of change in the weighted mean average monthly compensation attached to all ranks of members, as compared with the prior fiscal year and limited to a maximum of 5 percent per year.

Cost-of-living (COL) increases for the Second Tier retirees will be determined by the change in Consumer Price Index with a maximum of 3 percent per year. Provisions for the COL increases are outlined in the City of Fresno Municipal Code and changes may be made only by code amendment.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### REPORTING ENTITY

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

##### BASIS OF ACCOUNTING

The System uses the accrual basis of accounting. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan and per Section 2-1717 and 2-1718 of the Municipal Code.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions which establishes reporting standards for securities lending transactions. In accordance with Statement No. 28, cash received as collateral on securities lending transactions and investments made with that cash are reported as assets and liabilities resulting from these transactions and are both reported in the Statement of Plan Net Assets. In addition, the costs of securities lending transactions are reported as an expense in the Statement of Changes in Plan Net Assets.

## FINANCIAL SECTION

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

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

##### VALUATION OF INVESTMENTS

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

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

##### ESTIMATES

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

##### RECLASSIFICATIONS

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

#### 3. CONTRIBUTIONS

##### AUTHORITY TO COLLECT

The responsibility for both City and employee contributions to the System is mandated by the City of Fresno Municipal Code Sections 2-1715, 2-1718, and 2-1715A.

##### FUNDING POLICY

The City currently funds, at a minimum, the amounts recommended by the actuary and approved by the Retirement Board. Such amounts are determined using the entry age normal funding method. This method produces an employer contribution rate consisting of amounts for (a) normal cost and (b) amortization

## FINANCIAL SECTION

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

#### 3. CONTRIBUTIONS (CONTINUED)

of any unfunded liability. The City has agreed to deposit an estimated contribution amount with the Retirement System at the beginning of the fiscal year, discounted at the actuarially presumed interest rate. However, excess earnings and prepaid City contributions in the system have funded the fiscal year 2005 and 2004 City Contributions (see note 4).

Any variance between contributions needed and contributions made is adjusted in the following fiscal year. These minimum contributions are recognized currently in the statement of changes in net assets available for benefits. Employees' contributions are funded and recognized currently through payroll deductions in amounts recommended by the actuary.

Total contributions to the System for fiscal year 2005 totaled \$13,769,397. Employees (both tiers) contributed \$4,963,353 and the City contribution of \$8,806,044 came from prepaid contributions on deposit with the System. The remaining employer contributions were offset by the prefunded actuarial liability of the System.

#### FIRST TIER

Contributions aggregating \$4,532,784 (\$3,923,921 employer and \$608,863 employee) were made in fiscal year 2005, based on an actuarial valuation determined as of June 30, 2003, which became effective for the year ended June 30, 2005. For fiscal year 2005, the employer contribution rate was set at 25.12%; however, only \$3,923,921 was required from the City due to the prefunded actuarial liability and prepaid contributions of the System. Employer and employee contributions represented 15.83 percent and 2.46 percent, respectively, of the fiscal year 2005 covered payroll.

Contributions aggregating \$1,048,353 (\$368,911 employer and \$679,442 employee) were made in fiscal year 2004, based on an actuarial valuation determined as of June 30, 2002, which became effective for the year ended June 30, 2004. For fiscal year 2004, the employer contribution rate was set at 25.26% however, only \$728,399 was required from the City due to the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 2.64 percent, respectively, of the fiscal year 2004 covered payroll.

## FINANCIAL SECTION

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

#### 3. CONTRIBUTIONS (CONTINUED)

##### SECOND TIER

Contributions aggregating \$9,236,613 (\$4,882,123 employer and \$4,354,490 employee) were made in fiscal year 2005, based on an actuarial valuation determined as of June 30, 2003, which became effective for the year ended June 30, 2005. The employer contribution rate was set at 17.43%; however, only \$4,882,123 was required from the City due to the prefunded actuarial liability and prepaid contributions of the System. Employer and employee contributions represented 10.17 percent and 9.07 percent, respectively, of the fiscal year 2005 covered payroll.

Contributions aggregating \$4,088,914 (\$359,488 employer and \$3,729,426 employee) were made in fiscal year 2004, based on an actuarial valuation determined as of June 30, 2002, which became effective for the year ended June 30, 2004. The employer contribution rate was set at 15.86%; however, only \$359,488 was required from the City due to the prefunded actuarial liability of the System. Employer and employee contributions represented 0 percent and 9.0 percent, respectively, of the fiscal year 2004 covered payroll.

##### CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contributions are made by the members and the employer at rates recommended by the System's independent actuary and adopted by the Board. Employee contribution rates vary in the First Tier System according to entry age and are designed to provide funding for approximately one-third of the retirement benefits. Employee contribution rates in the Second Tier are established at 9 percent of pensionable base pay.

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

# FINANCIAL SECTION

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

### 3. CONTRIBUTIONS (CONTINUED)

The City's normal contributions to the Fire and Police System for 2005 were estimated in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2004, as follows:

	Actuarial Rates as a Percentage of Pensionable Payroll	
	Effective FY 05	Effective FY 04
Employer Normal (First Tier)	25.26%	25.55%
Employer Normal (Second Tier System)	15.86%	14.73%

At June 30, 2004, actuarial valuation, the actuarial accrued liability of the Fire and Police System was \$642,193,959. The actuarial value of the assets was \$793,058,514 for a funding ratio of 123.0 percent.

	2005		2004	
	Amount	Percent of Payroll	Amount	Percent of Payroll
Member Contributions				
First Tier	\$ 608,863	2.46%	\$ 679,442	2.64%
Second Tier	4,354,490	9.07%	3,729,426	9.07%
Total Member Contributions	\$ 4,963,353		\$ 4,408,868	
Employer Contributions				
First Tier	\$ 6,262,213	25.26%	\$ 6,586,881	25.55%
Second Tier	7,616,241	15.86%	6,056,851	14.73%
Sub-Total Employer Contributions	\$ 13,878,454		\$ 12,643,732	
Less Prefunded Actuarial Accrued Liability	(13,878,454)		(12,643,732)	
Add Prepaid Contributions	8,806,044		728,399	
Net Employer Contributions	\$ 8,806,044		\$ 728,399	
Pensionable Payroll				
First Tier	\$ 24,791,025		\$ 25,780,358	
Second Tier	48,021,697		41,119,151	
Total Pensionable Payroll	\$ 72,812,722		\$ 66,899,509	

# FINANCIAL SECTION

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

### 4. PREPAID EMPLOYER CONTRIBUTIONS

In July of 1994, the City of Fresno deposited prepaid normal contributions which are classified as prepaid contributions to the Fire and Police Retirement System. The balance of the prepayment earns interest at the rate of 8.25 until prepaid contributions are used to fund the City's required contributions to the System. The annual interest earned is credited to the City prepaid contributions balance.

For fiscal year 2005, the City contributions were offset by prepaid contributions of \$8,806,044 with the remainder of the City contributions offset by prefunded actuarial accrued liability. That portion of prepaid contributions used to offset the City's contribution for fiscal year 2005, received a prorated share of the annual interest earned which was credited to the City prepaid contributions balance.

Balance June 30, 2004	\$	21,020,472
Prepaid Employer Contributions Used		(8,806,042)
Interest Credited for Fiscal Year 2005		1,469,629
<b>Balance at June 30, 2005</b>	<b>\$</b>	<b>13,684,059</b>

### 5. NET ASSETS AVAILABLE FOR BENEFITS

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

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

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.

## FINANCIAL SECTION

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

5. NET ASSETS AVAILABLE FOR BENEFITS  
(CONTINUED)

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

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

POST RETIREMENT SUPPLEMENTAL BENEFIT ("PRSB") RESERVE represents surplus earnings that have been allocated but not distributed to eligible participants in accordance with Municipal Code Section 2-1745 "Post-Retirement Supplemental Benefit."

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 2-1745 "Post-Retirement Supplemental Benefit."

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

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

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



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

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

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

The amount of reserves for the year ended June 30, 2005 and 2004, consisted of the following (in thousands):

	2005	2004
Employer Reserves	\$ 670,766	\$ 634,660
Other Reserve	141,211	191,756
Reserve for DROP	54,749	47,912
Reserve for Market Stabilization	49,130	(26,164)
Active Member Reserves	40,415	37,979
Reserve for PRSB	1,716	3,823
<b>Net Assets Held in Trust for Benefits</b>	<b>\$ 957,987</b>	<b>\$ 889,966</b>

## 6. DEPOSITS AND INVESTMENTS

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

Northern Trust serves as custodian of the System's investments. The System's asset classes include U.S. Equity, International Equity, U.S. Fixed Income, International Fixed Income and Real Estate. Any class may be held in direct form, pooled form or both. The System has seventeen external investment managers, managing 18 individual portfolios.

**FINANCIAL SECTION****NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004****6. DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments at June 30, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Investments at Fair Value		
Domestic Equity	\$ 364,654	\$ 420,810
International Equity	165,544	144,523
Government Bonds	161,199	75,657
Corporate Bonds	116,207	143,475
Real Estate	89,827	74,229
Short Term Investments	33,497	24,473
Emerging Market Equity	31,503	29,423
<b>Total Investments at Fair Value</b>	<b>\$ 962,431</b>	<b>\$ 912,590</b>

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

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

## FINANCIAL SECTION

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

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

Allowable securities must meet the reporting requirements of the Securities and Exchange Commission and must meet a "prudent expert" standard for investing. In no case may the System have 5 percent or more of System net assets invested in any one organization.

The Retirement Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the noncorrelated economic behavior of diverse asset classes. The result is a well-diversified portfolio. The investment portfolio as of June 30, 2005 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

#### Custodial Credit Risk

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

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

That portion of the System's cash held by the City as part of the City's cash investment pool totaled \$887,115 at June 30, 2005. Accordingly the System's Investments in the pool are held in the name of the City and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments may be found in the notes to the City's separate Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005.

# FINANCIAL SECTION

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

### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

#### Credit and Interest Rate Risk

Credit risk associated with the System's debt securities is identified by their ratings in the table below. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio. The average duration of the system's debt portfolios in years is also listed in the table below.

Type of Investment	Fair Value	Credit Quality	Duration
Government Bonds	\$ 63,899,695	AAA	3.94
Government Agencies	10,517,739	AAA	3.47
Municipal/provincial bonds	5,902,867	AA	9.17
Corporate Bonds	93,928,986	BBB	6.38
Government Mtg Backed	78,843,461	AAA	2.45
Gov't Issued Com Mtg Backed	430,616	AAA	1.79
Commercial Mtg Backed	6,005,023	AAA	4.25
Asset Backed	9,300,246	AA-	1.84
Non-government backed CMOs	6,973,190	AAA	2.76
Short Term Investments	27,198,374	AAA	0.08

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

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.

# FINANCIAL SECTION

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

### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

#### Concentration Risk

The Investment portfolio as of June 30, 2005 contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio.

#### Foreign Currency Risk

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

Base Currency:	Fair Value in USD
Australia - AUD	\$ 6,923,752
Brazilian Real - BRL	553,848
Canada - CAD	2,669,447
Swiss Franc - CHF	21,058,057
Columbian Peso - COP	48,168
Denmark - DKK	1,609,391
Egypt - EGP	1,820,696
Euro - EUR	48,575,868
Hong Kong - HKD	9,790,601
Hungary - HUF	340,052
Indonesia - IDR	1,890,307
Japan - JPY	23,535,357
South Korea - KRW	6,024,230
Mexico - MXN	1,872,283
Malaysia - MYR	746,017
Norway - NOK	966,326
Philippines - PHP	100,565
Sweden - SEK	1,064,676
Singapore - SGD	8,281,522
Thailand - THB	1,436,061
Turkey - TRL	701,291
United Kingdom - GBP	18,345,654
Zaire -ZAR	3,629,514
<b>Total Non-USD Equities (in USD)</b>	<b>\$ 161,983,683</b>

# FINANCIAL SECTION

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

### 6. DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Cash Equivalents:	Fair Value in USD	
Egyptian Pound	\$	91,438
Euro		31,308
Hong Kong Dollar		802
Mexican Peso		56,591
Malaysian Ringgit		1,590
Total Non-USD Cash (in USD)	\$	181,729

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

*Anyone wishing to review the System's complete Investment Objectives and Policy Statement may contact the Retirement Office at 2828 Fresno Street, Suite 201, Fresno, CA 93721.*

### 7. DERIVATIVES

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

## FINANCIAL SECTION

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

#### 7. DERIVATIVES (CONTINUED)

- 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 with the manager's investment strategy and the System's investment guidelines, but could not be made through traditional investment securities.

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

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

- Cash securities containing derivative features, including callable bonds, structural notes, and collateralized mortgage obligations (CMO's). These instruments are generally traded in over-the-counter bond markets.
- Financial instruments whose value is dependent upon a contractual price or rate relative to one or more reference prices or rates, applied to a notional amount, including interest rate futures, options, swaps and caps; and foreign currency futures and forward contracts. Some of these instruments are exchange-traded and others are traded over-the-counter (OTC).

## FINANCIAL SECTION

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

#### 7. DERIVATIVES (CONTINUED)

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

**Credit Risk:** Credit risk of cash securities containing derivative features, is based upon the credit worthiness of the issuers of such securities. The Retirement Board establishes minimum credit requirements for such securities. Exchange traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange's margin requirements

#### 8. SECURITIES LENDING

The City of Fresno Municipal Code and the Retirement Board's policies permit the Retirement Board of the City of Fresno Fire and Police Retirement System and the City of Fresno Employees Retirement System to use investments of both Systems to enter into securities lending transactions, i.e., loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Systems have contracted with Northern Trust, their custodian, to manage the securities lending program for the Systems and all securities held in a separately managed account are available for lending. As securities lending agent, Northern Trust calculates collateral margins and accepts collateral in the form of cash or marketable securities and irrevocable bank letters of credit for all securities lending transactions. Transactions are collateralized at 102 percent of market value (contract value) for domestic securities and 105 percent of market value (contract value) for international securities. Collateral is marked to market daily. When a loan is secured by cash, a rebate is negotiated and the cash collateral is invested according to the guidelines in the collateral pool.



# FINANCIAL SECTION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004 AND 2003

### 8. SECURITIES LENDING (CONTINUED)

As designated by the Board, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2005, had a weighted average duration of 28 days and an average yield of 3.17 percent. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the System. There are no credit risks related to the securities lending transactions as of June 30, 2005.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the System against losses and will replace or reimburse the System for any borrowed securities not replaced. In general, the average term of all System loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the System's loans was approximately 97 days as of June 30, 2005.

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

	2005	2004
Gross Income	\$ 3,328,656	\$ 879,785
Expenses		
Borrower Rebates	2,863,046	551,189
Bank Fees	116,471	65,047
Total Expenses	2,979,517	616,236
Net Income from Securities Lending	\$ 349,139	\$ 263,549

# FINANCIAL SECTION

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

### 8. SECURITIES LENDING (CONTINUED)

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

Collateralized by	Cash	Securities	Tri-Party	Totals
U.S. Government & Agency	\$ 47,606,697	\$ 561,327	\$ 13,029,137	\$ 61,197,161
Domestic Equities	58,506,530	307,169	-	58,813,699
Domestic Fixed	25,233,932	1,692,761	-	26,926,693
International Equities	26,295,753	365,492	-	26,661,245
<b>Total</b>	<b>\$ 157,642,912</b>	<b>\$ 2,926,749</b>	<b>\$ 13,029,137</b>	<b>\$ 173,598,798</b>

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

Collateralized by	Cash	Securities	Tri-Party	Totals
U.S. Government & Agency	\$ 48,615,536	\$ 387,740	\$ 13,485,604	\$ 62,488,880
Domestic Equities	60,072,292	314,523	-	60,386,815
Domestic Fixed	25,846,417	1,729,582	-	27,575,999
International Equities	27,598,382	383,625	-	27,982,007
<b>Total</b>	<b>\$ 162,132,627</b>	<b>\$ 2,815,470</b>	<b>\$ 13,485,604</b>	<b>\$ 178,433,701</b>

## FINANCIAL SECTION

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

9. ADMINISTRATIVE EXPENSES

Section 2-1719 of the Fresno Municipal Code provides that all administrative costs of the system shall be a charge against the assets of the retirement system. Per the Municipal Code, the Administrative expenses are a component of the City's contribution calculation.

10. POST RETIREMENT SUPPLEMENTAL BENEFIT PROGRAM (PRSB)

The Post-Retirement Supplemental Benefit ("PRSB") Program was created to provide assistance to eligible retirees to pay for various post-retirement expenses. The Retirement Board will annually review the actuarial valuation report and declare an actuarial surplus if available in accordance with the procedures in Municipal Code Section 2-1745.

If an actuarial surplus is declared, the surplus is allocated into two components, one component composed of two-thirds of the declared surplus, shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post-retirement supplemental benefit recipients in accordance with procedures in Municipal Code Section 2-1745(f)(4). Any unused portion shall be reserved in the PRSB Reserve and drawn upon in subsequent years if needed.

For the fiscal year ended June 30, 2005, the System distributed PRSB benefits in the amount of \$3,859,816 to eligible retirees and offset required City pension contributions by \$5,072,410. As of June 30, 2005, the City Surplus Reserve balance was \$0 and the PRSB Reserve balance was \$1,716,478.

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**FINANCIAL SECTION**

**REQUIRED SUPPLEMENTAL SCHEDULES  
 JUNE 30, 2005 AND 2004**

I. REQUIRED SUPPLEMENTAL SCHEDULE OF FUNDING PROGRESS

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

(DOLLARS IN MILLIONS)						
Actuarial Valuation Date Year Ending June 30	(1) *Actuarial 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)
1993	\$ 242.0	\$ 390.6	62.0%	\$ 148.6	\$ 32.9	(451.7%)
1995	450.4	403.7	111.6%	(46.6)	40.3	(115.6%)
1996	512.8	399.5	128.4%	(113.3)	41.7	(271.6%)
1997	601.6	413.9	145.3%	(187.7)	45.7	(410.3%)
1998	695.2	487.8	142.5%	(207.4)	47.6	(435.8%)
1999	779.5	501.2	155.5%	(278.2)	55.4	(501.4%)
2000	852.4	522.7	163.1%	(329.6)	57.9	(568.4%)
2001	859.1	562.1	152.8%	(296.9)	60.9	(487.0%)
2002	814.7	590.9	137.9%	(223.8)	64.9	(344.7%)
2003	749.5	617.9	121.3%	(131.6)	65.2	(202.0%)
2004	793.1	642.2	123.5%	(150.9)	68.5	(220.0%)

2. REQUIRED SUPPLEMENTAL SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Actuarially Required Contribution (ARC)	Contributions as a % of ARC
2000	\$ 0	100%
2001	\$ 0	100%
2002	\$ 0	100%
2003	\$ 0	100%
2004	\$ 728	100%
2005	\$ 8,806	100%

## FINANCIAL SECTION

### NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

#### ACTUARIAL ASSUMPTIONS

Gabriel, Roeder, Smith and Company, the System's actuary, performed an actuarial valuation as of June 30, 2004. The actuarial assumptions used to compute the contribution requirements and to determine funding status are as follows:

1. Annual inflation is assumed at 4.25%.
2. Annual investment return is assumed to be 8.25%.
3. The City contribution rate for the Fire and Police First Tier is set at 25.12% (normal cost of 25.12% is offset by applying prefunded actuarial accrued liability of 25.12%.) The City's contribution rate for the Second Tier is 17.43% (normal cost of 17.43% is offset by applying prefunded actuarial accrued liability of 17.43%).
4. For the Fire and Police First Tier, employee contribution rates depend upon entry age with rates for ages 25, 35 and 45 being 4.87%, 6.21% and 6.48% respectively. Employee contribution rates for the Second Tier are set at 9% by the Fresno Municipal Code.
5. Accrued benefits and costs are calculated using the entry age normal cost method.
6. Withdrawal, disability, and salary increase assumptions are based on actual System experience.
7. Post retirement mortality assumptions are based on the Society of Actuaries' 1994 Group Annuity Mortality Tables, male/female.
8. Actuarial valuation of assets is based upon a five-year smoothed recognition of realized and unrealized capital gains and losses which are more or less than the actuarial assumed return of 8.25%.
9. Average annual salary increases were assumed to be 4.25% plus merit and longevity increases based on completed years of service.
10. The System's actuarial surplus is being amortized on a level percentage of projected payroll over a fixed 15-year open period.

**FINANCIAL SECTION****SUPPLEMENTAL SCHEDULES**SCHEDULE OF ADMINISTRATIVE EXPENSES  
YEAR ENDED JUNE 30, 2005 AND 2004

	2005	2004
<b>Personnel Services</b>		
Staff Salaries	\$ 250,275	\$ 226,574
Fringe Benefits	33,347	29,481
Pension Contribution	8,776	8,125
<b>Total Personnel Services</b>	<b>\$ 292,398</b>	<b>\$ 264,180</b>
<b>Professional Services</b>		
Actuarial	\$ 24,185	\$ 51,400
Legal Counsel	70,664	57,562
Information Systems Services	18,188	19,338
Specialized Services	68,584	69,897
<b>Total Professional Services</b>	<b>\$ 181,621</b>	<b>\$ 198,197</b>
<b>Communication</b>		
Printing	\$ 18,576	\$ 18,283
Telephone	7,419	3,421
Postage	1,801	1,243
<b>Total Communication</b>	<b>\$ 27,796</b>	<b>\$ 22,947</b>
<b>Rentals</b>		
Office Rent	\$ -	\$ 15,665
<b>Total Office Rent</b>	<b>\$ -</b>	<b>\$ 15,665</b>
<b>Other</b>		
Education and Conference	\$ 41,180	\$ 37,986
Membership & Dues	2,075	1,665
Subscriptions & Publications	155	304
Office Supplies	4,159	4,148
Insurance	106,500	-
Miscellaneous	11,659	19,458
Reimbursement to City for Services	20,870	39,423
<b>Total Other</b>	<b>\$ 186,598</b>	<b>\$ 102,984</b>

# FINANCIAL SECTION

## SUPPLEMENTAL SCHEDULES

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

	2005	2004
<b>Investment Manager Fees</b>		
Equity		
Domestic	\$ 1,302,951	\$ 1,586,256
International	1,066,308	943,382
Fixed Income		
Domestic	617,689	404,601
Real Estate	781,939	848,182
<b>Total Investment Managers Fees</b>	<b>3,768,887</b>	<b>3,782,421</b>
<b>Other Investment Expenses</b>		
Foreign Income Taxes	620,133	480,122
Custodial Services	33,305	63,248
Investment Consultant	99,640	98,172
Prepaid Employer Contribution Interest Expense	1,469,629	1,653,075
<b>Total Other Investment Expenses</b>	<b>2,222,707</b>	<b>2,294,617</b>
<b>Total Fees &amp; Other Investment Expenses</b>	<b>5,991,594</b>	<b>6,077,038</b>
Securities Lending Expenses		
Borrowers Rebates	2,863,046	551,189
Agent Fees	116,471	65,047
<b>Total Securities Lending Expenses</b>	<b>2,979,517</b>	<b>616,236</b>
<b>Total Investment Manager Fees and Other Investment Expenses</b>	<b>\$ 8,971,111</b>	<b>\$ 6,693,274</b>

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

	2005	2004
Legal Services	\$ 70,664	\$ 57,562
Actuarial Services	24,185	51,400
Medical Consultant	42,203	44,831
Miscellaneous	37,110	37,804
City Information Services	7,459	6,600
<b>Total Payments to Consultants</b>	<b>\$ 181,621</b>	<b>\$ 198,197</b>



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# INVESTMENT SECTION





CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



October 21, 2005

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

Mr. Quick and Mr. Cliby:

**Introduction and Overview**

We are pleased to report that the investment markets and the City of Fresno Fire & Police and Employees Retirement Systems reported positive investment results for the third year in a row. Despite the bear market in the early part of this decade, the systems have now reported positive investment results for the five year period ending June 30, 2005. For the fiscal year ended June 30, 2005, the combined systems experienced a total gain of +10.94% gross of fees, the second year in the last four in which the systems' return exceeded the actuarial interest rate assumption. Over the last year, the fund outperformed its benchmark<sup>1</sup> return of +10.40% by 0.54% gross of fees. Due to the double digit returns of the past two years, and the experience with very high investment returns through the late 1990s, the combined systems remain significantly overfunded despite the weaker investment performance in the previous few years.

The Systems' total return over the past five years has been an annualized average of +4.10% gross of fees versus the fund benchmark return of +4.17% and the 8.25% actuarial interest rate assumption. Over the past five years, the Systems have underperformed the benchmark by 0.07% gross of fees. During the past ten years, the combined Systems achieved a total annualized return of +9.94% gross of fees versus a return of 9.03% for the composite benchmark. Over this time period, the Systems outperformed the actuarial interest rate by 1.69%.

<sup>1</sup> From February 1, 2005 to June 30, 2005, the benchmark was 30% S&P 500 Index, 10% Russell 2000 Index, 25% Lehman Aggregate Bond Index, 17% MSCI EAFE, 7.5% NCREIF Index, 5% Lehman High Yield Bond Index, 3% MSCI EMF, and 2.5% DJ Wilshire Real Estate Securities Index. From July 1, 2004 through January 31, 2005, the benchmark was 30% S&P 500 Index, 10% Russell 2000 Index, 25% Lehman Aggregate Bond Index, 17% MSCI EAFE, 10% NCREIF Index, 5% Lehman High Yield Bond Index, and 3% MSCI EMF. From July 1, 2003 to June 30, 2004 the benchmark was 31% S&P 500 Index, 6% Russell 2000 Index, 28% Lehman Aggregate Bond Index, 15% MSCI EAFE, 3% MSCI EMF, 8% NCREIF Index, 4% CitiGroup High Yield Bond, and 5% DJ Wilshire 5000 + 3% (private equity benchmark). From the second quarter of 2002 through June 30, 2003, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Markets Free, 7% NCREIF Index, 28% Lehman Aggregate Bond Index, 7% Lehman Government / Credit Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index. From the second quarter of 2001 through the fourth quarter of 2001, the benchmark was 28% S&P 500, 12% Russell 2000, 3% Russell Mid Cap Growth, 9% MSCI EAFE, 2% MSCI Emerging Markets Free, 7% Wilshire Real Estate Funds Index, 28% Lehman Aggregate Bond Index, 7% Lehman Government / Credit Long Bond Index, 2% Salomon Brothers High Yield Index, and 2% Brinson Partners Private Equity Index.

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CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



**Summary of Investment Results**

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

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

For the year, the Systems' gross of fee performance of +10.94% exceeded the benchmark return of 10.40% and ranked near the top decile (11<sup>th</sup> percentile) of all public pension funds gross of fee performance in our database.

**Asset Allocation**

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

**Brokerage Recapture Programs**

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

**Performance Comparison**

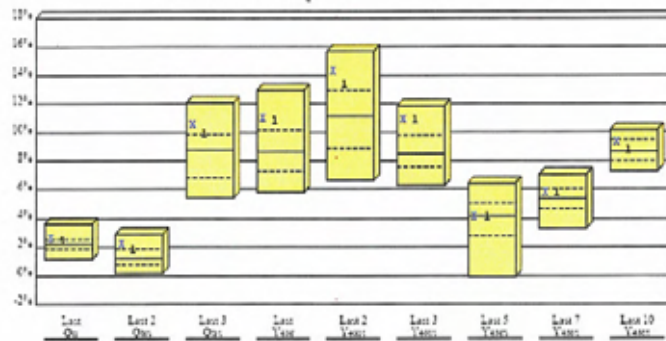
The following chart compares the total return for the Systems to all other public pension funds in our universe and the Systems' benchmark. The graph illustrates that the Systems have ranked in the top quartile of all public pension funds in our database for the quarter, one year, three years, seven years, and ten years ended 6/30/05. Over the last five year period, the Systems has ranked in the top 52<sup>nd</sup> percentile.

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INVESTMENT SECTION**

INVESTMENT CONSULTANT'S REPORT



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



	Last Qtr	Last 2 Qtrs	Last 3 Qtrs	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
X Total Fund	2.59 (2)	2.12 (1)	12.97 (1)	12.94 (1)	19.27 (7)	11.87 (9)	4.30 (5)	6.31 (6)	9.94 (1)
A Policy Index	2.37	1.44	9.90	19.40	19.19	10.51	4.17	5.72	9.92

**Summary**

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

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

Sincerely,

Michael C. Schlachter, CFA  
 Managing Director

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## INVESTMENT SECTION

### SUMMARY OF INVESTMENT OBJECTIVES AND POLICIES STATEMENT

The System's investment assets are managed by external investment management firms. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The System's goal is to fund benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protecting against loss of purchasing power by achieving rates of return above inflation, and to maintain a fully funded pension status.

The Retirement Board, having sole and exclusive authority and sole and exclusive fiduciary responsibility for the investment and administration of the System, 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. The Investment Objectives and Policy Statement establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian and consultants.

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

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

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

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of plan participants. These guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by 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 plan participants.

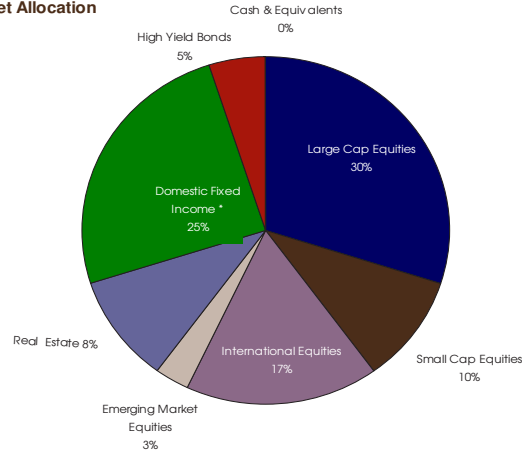
**INVESTMENT SECTION****INVESTMENT RESULTS**

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

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

**CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
INVESTMENT SECTION**

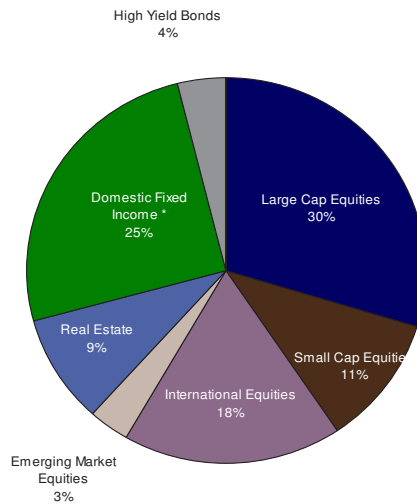
**Target Allocation**



Asset Class	Current Target	Allocation Range	Actual
Large Cap Equities	30%	27% - 33%	30%
Small Cap Equities	10%	8% - 12%	11%
International Equities	17%	14% - 20%	18%
Emerging Market Equities	3%	0% - 5%	3%
Real Estate	10%	8% - 12%	9%
Domestic Fixed Income *	25%	20% - 30%	25%
High Yield Bonds	5%	0% - 8%	4%
Cash & Equivalents	0%	0% - 2%	0%

\* 2% High Yield Bonds Managed Within Domestic Fixed Income

**Actual Asset Allocation**



**INVESTMENT SECTION****LARGEST STOCK/BOND HOLDINGS****LARGEST STOCK HOLDING (BY MARKET VALUE)  
AS OF JUNE 30, 2005**

	Shares	Stock	Market Value
1)	184,245	Gen Elec Co Com	\$ 6,384,089
2)	69,723	Exxon Mobil Corp Com	4,006,972
3)	86,549	Citigroup Inc Com	4,001,155
4)	52,318	Johnson & Johnson Com	3,400,698
5)	73,561	Bank Amer Corp Com	3,355,130
6)	114,259	Novartis Ag	5,444,951
7)	17,457	Nestle SA	4,469,516
8)	27,263	Roche Holdgs Ag Genusscheine	3,451,820
9)	60,153	ADR Glaxosmithkline PLC Sponsored Adr	2,918,024
10)	16,550	Zurich Fin Svcs Grp	2,852,420
<b>Total Largest Stock Holdings</b>			<b>\$ 40,284,775</b>

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

	Par	Bonds	Due	Market Value
1)	6,309,760	US Treas	5.625% 15 May 2008	\$ 6,642,499
2)	4,469,414	US Treas Nts	2.375% 15 Aig 2006	4,411,101
3)	4,206,507	US Treas Nts	3.625% 15 July 2009	4,192,541
4)	4,206,507	US Treas Nts	3.375% 15 Sept 2009	4,150,148
5)	3,943,600	US Treas Nts	3.500% 15 Nov 2006	3,939,132
6)	2,820,989	US Treas Nts	6.000% 15 Feb 2026	3,475,766
7)	3,405,167	US Treas Bds	3.375% 15 Feb 2008	3,380,425
8)	3,154,880	US Treas Nts	5.750% 15 Nov 2005	3,182,855
9)	3,154,880	FNMA Single Family Mortgage	5.000% 31 July 2035	3,154,880
10)	2,629,067	US Treas Nts	3.250% 15 Jan 2009	2,591,582
<b>Total Largest Bond Holdings</b>				<b>\$ 39,120,929</b>

*A complete list of portfolio holdings is available upon request.*

## INVESTMENT SECTION

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity managers participating in the Brokerage Commission Recapture Program are to seek to direct 25% of total annual commissions to NTSI and its eligible Broker Dealer firms. The System receives a rebate in the amount of 70% of the total commissions directed through the NTSI Network. For FY 2005, the net income from Brokerage Commission Recapture was \$138,562. During this period, the overall participating rate by the System's equity managers' was 18.79%. A significant percentage of equity trading is being executed through the program, generally at a low cost, and has resulted in a meaningful cost recapture.

### SCHEDULE OF COMMISSIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

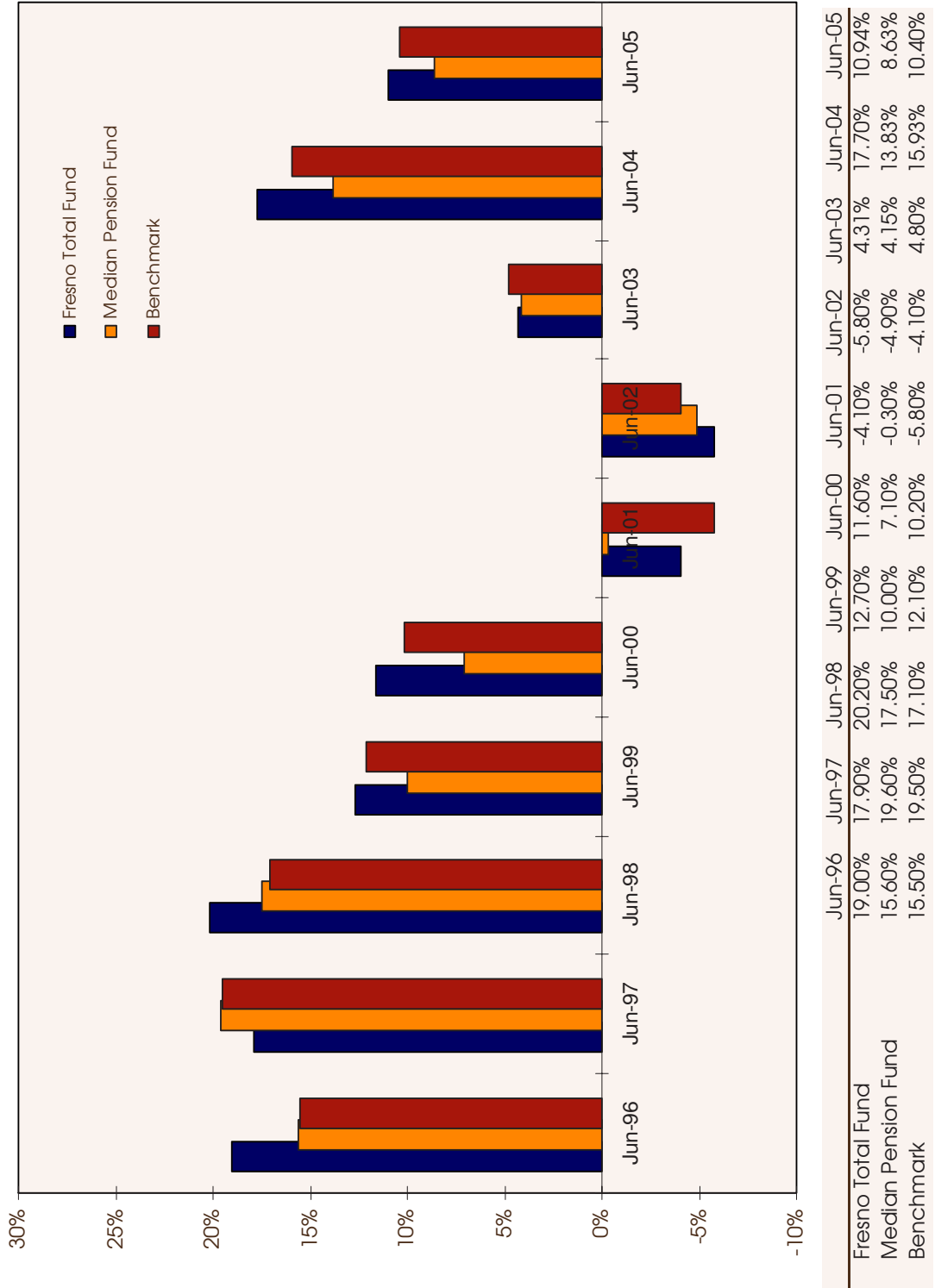
Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
JP Morgan Securities	\$ 49,265	22,278,377	\$ 0.002
Lehman Brothers Inc	42,292	18,276,969	0.002
Jeffries & Company	30,262	741,565	0.041
ABN AMRO Bank NV Hong Kong	29,549	3,276,659	0.009
Morgan Stanley & Co Inc New York	24,807	8,044,971	0.003
Deutsche Bk, AG Londond Intl Equities	23,519	8,000,945	0.003
Credit Suisse First Boston Corporation	20,259	22,735,497	0.001
Citigroup Global Markestes Inc/Smith Barney	17,350	367,488	0.047
Merrill Lynche Pierce Fenner & Smith	15,666	9,395,855	0.002
B Trade Services	14,169	326,728	0.043
<b>Top Ten Total</b>	<b>\$ 267,138</b>	<b>93,445,054</b>	<b>\$ 0.003</b>
All Other Brokerage Firms	413,523	808,175,874	0.001
<b>Total</b>	<b>\$ 680,661</b>	<b>901,620,929</b>	<b>\$ 0.001</b>

### INVESTMENT SUMMARY

	Cash and Investment Value as of June 30, 2005	Percent of Fund
Equity		
Domestic	\$ 364,654,174	37.9%
International	165,544,098	17.2%
Emerging Market Equity	31,502,541	3.3%
Fixed Income		
Domestic	277,406,294	28.8%
Real Estate	89,827,017	9.3%
Short Term Investments	33,496,762	3.5%
<b>Total</b>	<b>\$ 962,430,886</b>	<b>100.0%</b>



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



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**INVESTMENT SECTION**

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# ACTUARIAL SECTION



## ACTUARIAL SECTION

### *ACTUARIAL CERTIFICATION LETTER*



GABRIEL, ROEDER, SMITH & COMPANY  
CONSULTANTS & ACTUARIES

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

October 12, 2005

#### **Actuarial Certification**

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

The contribution requirements are determined as a level percentage of payroll. The funding objective of the employer is to provide a contribution to fund for both normal cost and a contribution to amortize the unfunded actuarial accrued liability. As of June 30, 2004, there is no unfunded actuarial accrued liability, since the System has assets in excess of the actuarial accrued liability. The required contributions in the main body of this report have not been reduced for such "surplus". The allocation of surplus as described in Section 2-1745 of the City of Fresno Municipal Code is provided in the surplus allocation section.

Contribution levels are recommended by the Actuary and adopted by the Board every year. The ratio of Actuarial Value of Assets to Actuarial Accrued liabilities increased from 121.3% to 123.5% from June 30, 2003 to June 30, 2004, primarily due to the refinement of actuarial assumptions. Without the change in assumptions the funded ratio would have been 118.7%. The increase in the funded ratio does not impact the employer or employee contribution rate. However, it does impact the PRSB Reserve and Surplus Reserve.

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

In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Retirement System and meet the parameters required by GASB Statement 25.

# ACTUARIAL SECTION

## *ACTUARIAL CERTIFICATION LETTER*

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

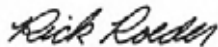
1. Summary of Actuarial Assumptions and Methods;
2. Solvency Test; and
3. Actuarial Analysis of Financial Experience.

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

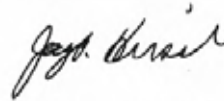
1. differences between actual experience and anticipated experience;
2. changes in actuarial assumptions or methods;
3. changes in statutory provisions; and
4. differences between the contribution rates determined by the valuation and those adopted by the Board.

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

GABRIEL, ROEDER, SMITH & COMPANY



Rick A. Roeder, EA, FSA, MAAA



Jay D. Hirsch, EA, FSA

# ACTUARIAL SECTION

## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

### ASSUMPTIONS

Valuation Interest Rate 8.25%  
 Inflation: 4.25%

### POST-RETIREMENT MORTALITY

- (a) Service
  - Males - 1994 Male Group Annuity Mortality Table setback two-years
  - Females - 1994 Female Group Annuity Mortality Table with one-year set forward
- (b) Disability
  - 1984 Disability Mortality Table for General Members, setback five-years

### PRE-RETIREMENT MORTALITY

Based upon the 6/30/2004 Experience Analysis

### WITHDRAWAL RATES

Based upon the 6/30/2004 Experience Analysis

### DISABILITY RATES

Based upon the 6/30/2004 Experience Analysis

### SERVICE RETIREMENT RATES

Based upon the 6/30/2004 Experience Analysis

### PERCENTAGE MARRIED AT RETIREMENT

80% of all active members are assumed to be married at retirement. Their spouses will be eligible for the 2/3 automatic survivor benefits.

### ASSETS:

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

### FUNDING METHOD:

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability amortized as a level percentage of payroll. There is no UAAL as of June 30, 2004.

### COLA ASSUMPTIONS:

The annual cost-of-living adjustment is 2.75% for Tier 2 members and 4.25% for Tier 1 members and retirees who have retired with the final average formula, or with the career average formula.

### DROP:

The following probabilities are applied:

	<u>Tier 1</u>	<u>Tier 2</u>
1 <sup>st</sup> year eligible	100%	50%
Following year	0%	25%
Next Following Year	0%	10%
Thereafter	0%	0%

### ULTIMATE SALARY SCALES:

5.25% for the first five years of service. Graded increases thereafter ranging from 5.90% at age 25 to 4.50% at ages 60 and over. Of the total salary increases, 4.25% is for inflation.

# ACTUARIAL SECTION

## PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

% of Active Members Separating Within Next Year						
<u>Sample Ages</u>	<u>Terminated Vested</u>		<u>Non-Duty Disability</u>		<u>Duty Disability</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>
20	0.7%	0.7%	0%	0%	.09%	.30%
25	0.7%	0.7%	.01%	.01%	.28%	.42%
30	0.7%	0.7%	.01%	.01%	.31%	.60%
35	0.7%	0.7%	.03%	.03%	.70%	1.12%
40	0.7%	0.6%	.12%	.12%	.95%	1.62%
45	0.6%	0.4%	.25%	.25%	1.3%	1.76%
50	0.0%	0.0%	.20%	.20%	2.5%	1.71%
55	0.0%	0.0%	0%	0%	7.0%	2.53%
60	0.0%	0.0%	0%	0%	0%	--%

<u>Sample Ages</u>	Non-Duty Death		Duty Death	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>
20	.04%	.04%	.04%	.04%
25	.05%	.04%	.04%	.04%
30	.05%	.05%	.05%	.04%
35	.06%	.06%	.06%	.05%
40	.06%	.07%	.07%	.07%
45	.08%	.12%	.12%	.12%
50	.11%	.17%	.17%	.17%
55	.19%	0%	0%	0%
60	0%	0%	0%	0%

Source: Gabriel, Roeder, Smith and Company (35)

**ACTUARIAL SECTION****SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2004	Active Members	842	\$ 55,895,431	\$ 66,384	4.3%
	DROP Participants	175	12,588,060	71,932	0.8%
	Totals	1017	\$ 68,483,491	\$ 67,339	
June 30, 2003	Active Members	814	\$ 53,592,702	\$ 65,839	-1.1%
	DROP Participants	166	11,654,388	70,207	-10.0%
	Totals	980	\$ 65,247,090	\$ 66,579	
June 30, 2002	Active Members	781	\$ 51,992,000	\$ 66,571	3.1%
	DROP Participants	166	12,945,000	77,982	10.3%
	Totals	947	\$ 64,937,000	\$ 68,571	
June 30, 2001	Active Members	768	\$ 49,611,000	\$ 64,598	3.9%
	DROP Participants	164	11,374,000	69,354	-1.9%
	Totals	932	\$ 60,985,000	\$ 65,435	
June 30, 2000	Active Members	778	\$ 48,381,000	\$ 62,186	4.7%
	DROP Participants	136	9,615,000	70,699	8.5%
	Totals	914	\$ 57,996,000	\$ 63,453	
June 30, 1999	Active Members	796	\$ 47,289,000	\$ 59,408	7.1%
	DROP Participants	126	8,208,000	65,143	-1.2%
	Totals	922	\$ 55,497,000	\$ 60,192	
June 30, 1998	Active Members	730	\$ 40,486,000	\$ 55,460	-3.40%
	DROP Participants	108	7,122,000	65,944	Base Year
	Totals	838	\$ 47,608,000	\$ 56,811	-1.50%
June 30, 1997	Active Members	797	\$ 45,759,000	\$ 57,414	3.00%
June 30, 1996	Active Members	729	\$ 41,739,000	\$ 57,255	2.30%
June 30, 1995	Active Members	717	\$ 40,356,000	\$ 56,285	4.30%
June 30, 1993	Active Members	651	\$ 35,110,000	\$ 53,932	1.10%
June 30, 1991	Active Members	648	\$ 31,451,211	\$ 48,536	1.50%



# ACTUARIAL SECTION

## SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO OR REMOVED FROM ROLLS

Year Ended	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Retiree Allowance	Average Annual Allowance
	Number	Annual Allowance*	Number	Annual Allowance*	Number	Annual Allowance		
June 30, 2005	40	\$ 1,167,252	(17)	\$ (329,007)	784	\$ 36,443,224	0.20	\$ 46,484
June 30, 2004	50	\$ 549,865	(23)	\$ (592,613)	761	\$ 35,304,472	0.93	\$ 46,392
June 30, 2003	61	\$ 1,936,470	(13)	\$ (312,042)	734	\$ 33,736,675	1.24	\$ 45,963
June 30, 2002	43	\$ 1,080,350	(20)	\$ (563,907)	686	\$ 31,144,834	5.36	\$ 45,401
June 30, 2001	23	\$ 23,125	(24)	\$ (401,938)	663	\$ 28,568,480	11.48	\$ 43,090
June 30, 2000	32		(15)		664	\$ 25,664,076	10.11	\$ 38,651
June 30, 1999	15		(17)		647	\$ 22,710,101	20.83	\$ 35,101

\* Annual allowance data not available prior to 2001.

# ACTUARIAL SECTION

## SOLVENCY TEST (ROUNDED TO THE NEAREST THOUSAND)

Valuation Date	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members
	6/30/2004	\$ 47,981,000	\$ 492,227,000	\$ 101,986,000	\$ 793,059,000	100%	100%
6/30/2003	46,881,000	461,688,000	109,310,000	749,505,000	100%	100%	100%
6/30/2002	44,161,000	443,037,000	103,657,000	814,680,000	100%	100%	100%
6/30/2000	39,133,000	381,062,000	102,603,000	852,444,000	100%	100%	100%
6/30/1999	37,816,000	366,529,000	96,928,000	779,518,000	100%	100%	100%
6/30/1998	32,261,000	358,814,000	96,729,000	695,258,000	100%	100%	100%
6/30/1997	45,412,000	254,805,000	113,745,000	601,693,000	100%	100%	100%
6/30/1996	42,424,000	247,231,000	109,888,000	512,889,000	100%	100%	100%
6/30/1994	43,083,000	242,180,000	118,525,000	450,429,000	100%	100%	100%
6/30/1992	34,526,000	224,361,000	131,709,000	242,039,000	100%	92%	0%

## ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(Amounts in Millions)	Plan Years							
	2004	2003	2002	2001	2000	1999	1998	1997
Prior Valuation Actuarial Accrued Liability	\$ 618	\$ 591	\$ 562	\$ 523	\$ 501	\$ 488	\$ 414	\$ 400
Salary Increase (Greater) Less than Expected	5	(12)	(3)	(3)	(3)	-	(1)	(2)
Asset Return (Less) Greater than Expected	(38)	29	26	30	40	31	27	16
Other Experience	43	-	-	(1)	(1)	-	1	-
Economic Assumption Changes	5	-	-	18	(5)	(9)	70	-
Noneconomic Assumption Changes	9	10	6	(5)	(9)	(9)	(23)	-
Ending Actuarial Accrued Liability	\$ 642	\$ 618	\$ 591	\$ 562	\$ 523	\$ 501	\$ 488	\$ 414

# ACTUARIAL SECTION

## MAJOR PROVISIONS OF THE RETIREMENT PLAN

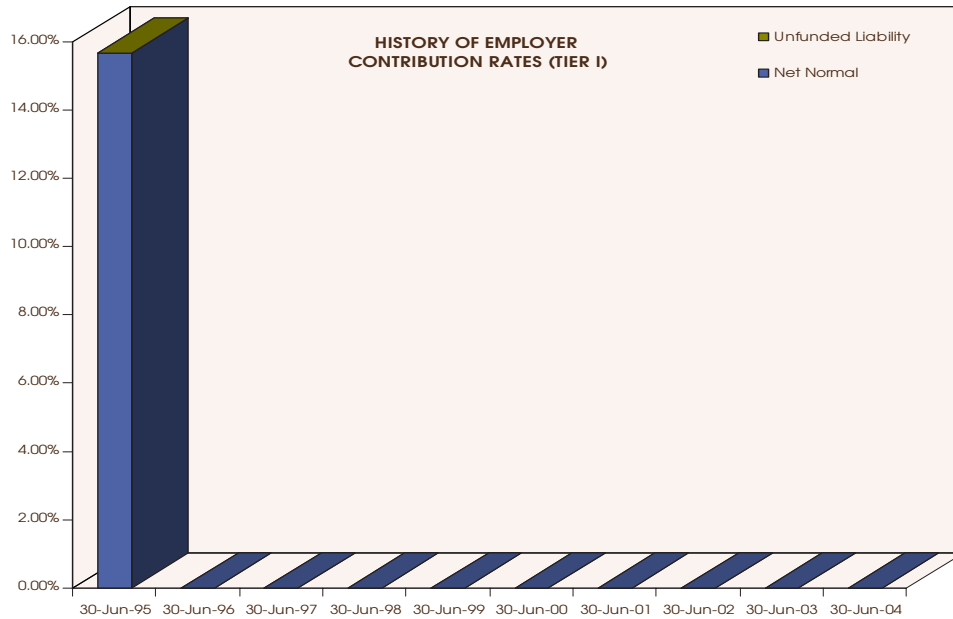
	FIRE & POLICE RETIREMENT SYSTEM	FIRE & POLICE SECOND TIER RETIREMENT SYSTEM														
<b>COVERAGE</b>	All Fire and Police employees hired on or after October 27, 1927, and before August 27, 1990	All Fire and Police employees hired on or after August 27, 1990.														
<b>FINAL AVERAGE SALARY (FAS)</b>	<ul style="list-style-type: none"> <li>a. Three-year final average salary; or</li> <li>b. Salary attached to rank average-service weighted compensation for each rank held.</li> </ul>	<ul style="list-style-type: none"> <li>a. Highest three consecutive year average</li> </ul>														
<b>SERVICE RETIREMENT</b>	<ul style="list-style-type: none"> <li>a. Requirement: Age 50 and 10 years of Service, or age 60.</li> <li>b. Benefit: (1) and (2)                             <ul style="list-style-type: none"> <li>(1) 2¾% of FAS times years of service before age 50, not to exceed 20 years</li> <li>(2) 2% of FAS times years of service after age 50, not to exceed 10 years</li> </ul> </li> <li>c. Maximum Benefit: 75% of FAS</li> </ul>	<ul style="list-style-type: none"> <li>a. Requirement: Age 50 and 5 years of service.</li> <li>b. Benefit:                             <table style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>Retirement Age</u></th> <th style="text-align: left;"><u>Benefit Formula</u></th> </tr> </thead> <tbody> <tr> <td>50</td> <td>2.00% x FAS x service</td> </tr> <tr> <td>51</td> <td>2.14% x FAS x service</td> </tr> <tr> <td>52</td> <td>2.28% x FAS x service</td> </tr> <tr> <td>53</td> <td>2.42% x FAS x service</td> </tr> <tr> <td>54</td> <td>2.56% x FAS x service</td> </tr> <tr> <td>55 and over</td> <td>2.70% x FAS x service</td> </tr> </tbody> </table> </li> <li>c. Maximum Benefit : 75% of FAS</li> </ul>	<u>Retirement Age</u>	<u>Benefit Formula</u>	50	2.00% x FAS x service	51	2.14% x FAS x service	52	2.28% x FAS x service	53	2.42% x FAS x service	54	2.56% x FAS x service	55 and over	2.70% x FAS x service
<u>Retirement Age</u>	<u>Benefit Formula</u>															
50	2.00% x FAS x service															
51	2.14% x FAS x service															
52	2.28% x FAS x service															
53	2.42% x FAS x service															
54	2.56% x FAS x service															
55 and over	2.70% x FAS x service															
<b>DEFERRED RETIREMENT OPTION (DROP)</b>	An employee who is age 50 with 10 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.	An employee who is age 50 with 5 years of service may join the DROP program which is in essence an alternative form of retirement distribution. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work for a maximum of 10 years.														
<b>DISABILITY RETIREMENT</b>	<ul style="list-style-type: none"> <li>a. Requirements:                             <ul style="list-style-type: none"> <li>(1) Service-Connected: None</li> <li>(2) Non-Service Connected: 10 years of service.</li> </ul> </li> <li>b. Benefit:                             <ul style="list-style-type: none"> <li>(1) Service-Connected: 55% of FAS or service retirement, if higher.</li> <li>(2) Non-Service Connected: 1.65% x FAS x years of service, if exceeds 36.67% of FAS; or 36.67% of FAS; or service retirement, if higher.</li> </ul> </li> </ul> <p>Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.</p>	<ul style="list-style-type: none"> <li>a. Requirements:                             <ul style="list-style-type: none"> <li>(1) Service-Connected: None</li> <li>(2) Non-Service Connected: 10 years of service.</li> </ul> </li> <li>b. Benefit:                             <ul style="list-style-type: none"> <li>(1) Service-Connected: 50% of FAS or service retirement, if higher.</li> <li>(2) Non-Service Connected: 1½% x FAS x years of service, if exceeds 1/3 of FAS; or 1/3 of FAS; or service retirement, if higher.</li> </ul> </li> </ul> <p>Benefit reduced to the extent that income earned while on disability and the amount of the disability retirement benefits exceeds the current salary attached to the last rank held.</p>														

# ACTUARIAL SECTION

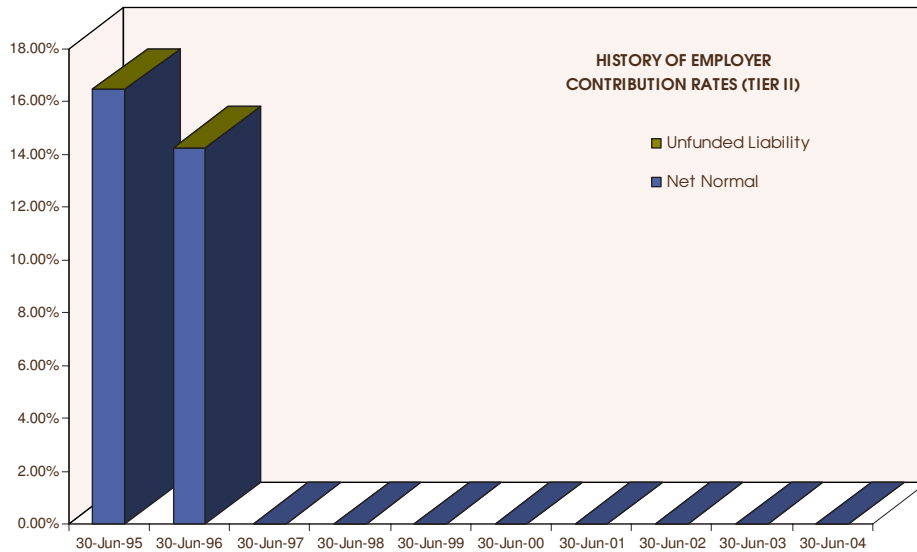
## MAJOR PROVISIONS OF THE RETIREMENT PLAN (CONTINUED)

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

**CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM**  
**ACTUARIAL SECTION**



Valuation Date	30-Jun-95	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04
Normal	15.67%	22.72%	21.32%	25.79%	25.29%	25.44%	25.52%	25.55%	25.26%	25.12%
Prefunded Liability	0.00%	22.72%	21.32%	25.79%	25.29%	25.44%	25.52%	25.55%	25.26%	25.12%
Net Normal	15.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Employer Contribution	15.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



Valuation Date	30-Jun-95	30-Jun-96	30-Jun-97	30-Jun-98	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04
Normal	16.78%	14.66%	15.86%	14.44%	14.57%	14.52%	14.67%	14.73%	15.86%	17.43%
Prefunded Liability	0.34%	0.43%	15.86%	14.44%	14.57%	14.52%	14.67%	14.73%	15.86%	17.43%
Net Normal	16.44%	14.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unfunded Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Employer Contribution	16.44%	14.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



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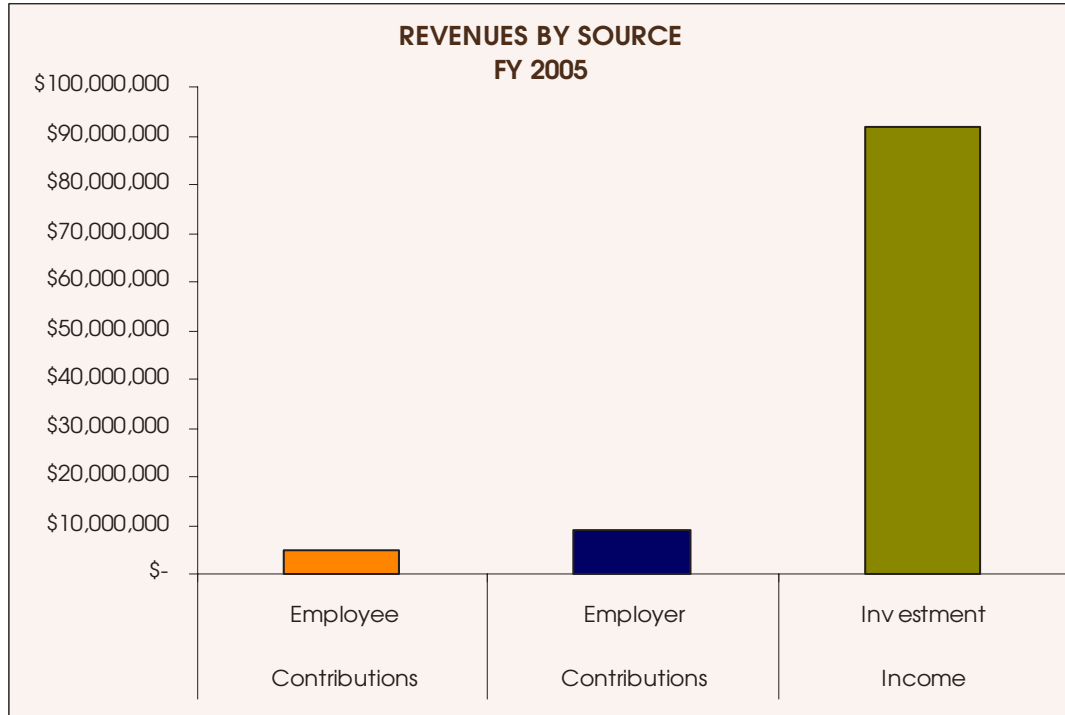
# STATISTICAL SECTION



CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**TEN-YEAR HISTORICAL TREND INFORMATION**

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



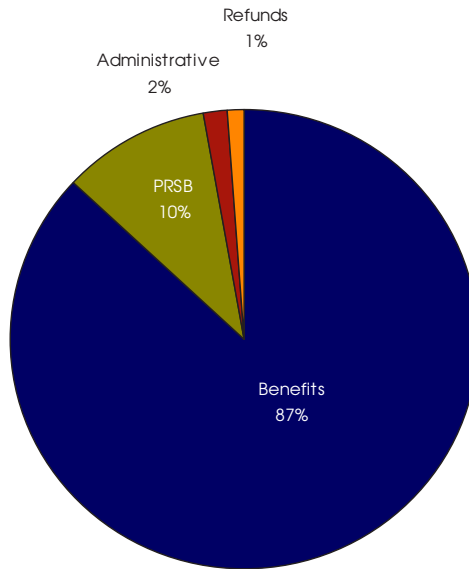
Revenues by Source					
Fiscal Year	Employee Contributions	Employer Contributions	Employer Contributions as a % of Payroll	Investment Income	Total
1995	2,510,068	7,619,679	19.60%	82,873,114	93,002,861
1996	2,696,142	4,082,359	10.05%	98,832,021	105,610,522
1997	3,022,264	5,365,502	12.35%	107,202,786	115,590,552
1998	3,133,855	-	0.00%	137,089,576	140,223,431
1999	3,328,616	-	0.00%	95,444,381	98,772,997
2000	3,429,157	-	0.00%	96,269,201	99,698,358
2001	3,779,738	-	0.00%	(49,576,238)	(45,796,500)
2002	3,848,204	-	0.00%	(55,176,871)	(51,328,667)
2003	4,080,572	-	0.00%	27,759,239	31,839,811
2004	4,408,868	728,399	1.09%	134,286,789	139,424,056
2005	4,963,353	8,806,044	12.09%	91,761,097	105,530,494

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

TEN-YEAR HISTORICAL TREND INFORMATION

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

**EXPENSES BY TYPE  
 FY 2005**



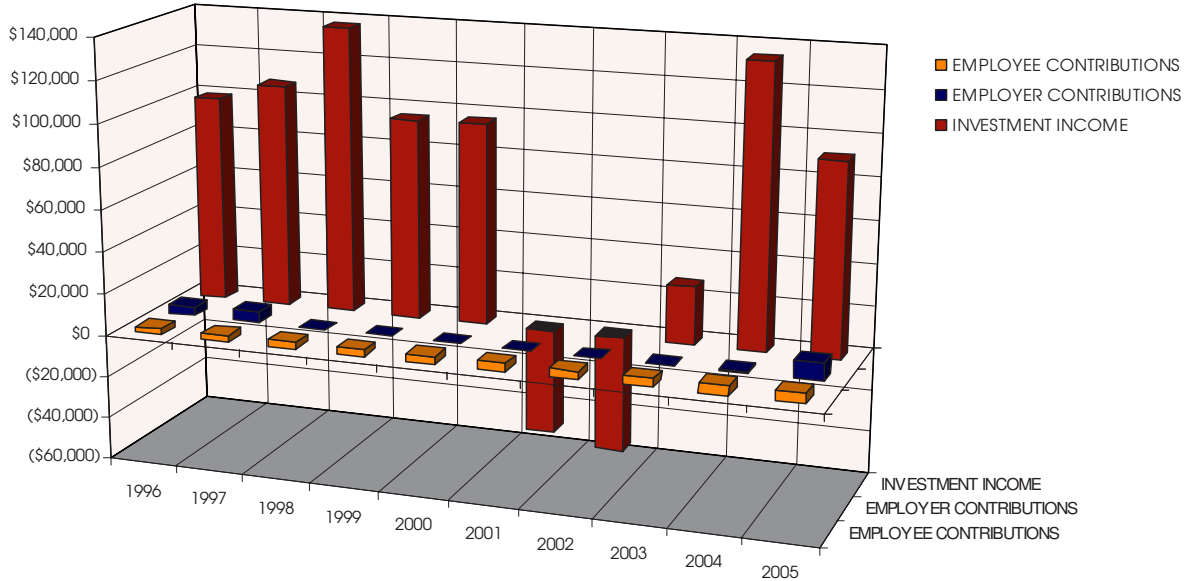
**Expenses by Type**

Fiscal Year	Benefits	PRSB	Administrative		Total
			Expenses	Refunds	
1996	16,685,449	-	330,735	143,570	17,159,754
1997	18,182,008	-	550,796	269,299	19,002,103
1998	18,852,815	-	470,173	172,771	19,495,759
1999	21,249,926	1,460,175	407,355	377,806	23,495,262
2000	21,987,103	3,676,973	474,254	231,397	26,369,727
2001	23,238,096	5,330,384	504,883	319,565	29,392,928
2002	25,331,368	5,813,466	511,748	178,058	31,834,640
2003	28,571,504	5,165,171	570,907	78,561	34,386,143
2004	30,135,096	5,169,376	603,973	228,815	36,137,260
2005	32,583,408	3,859,816	688,413	377,881	37,509,518



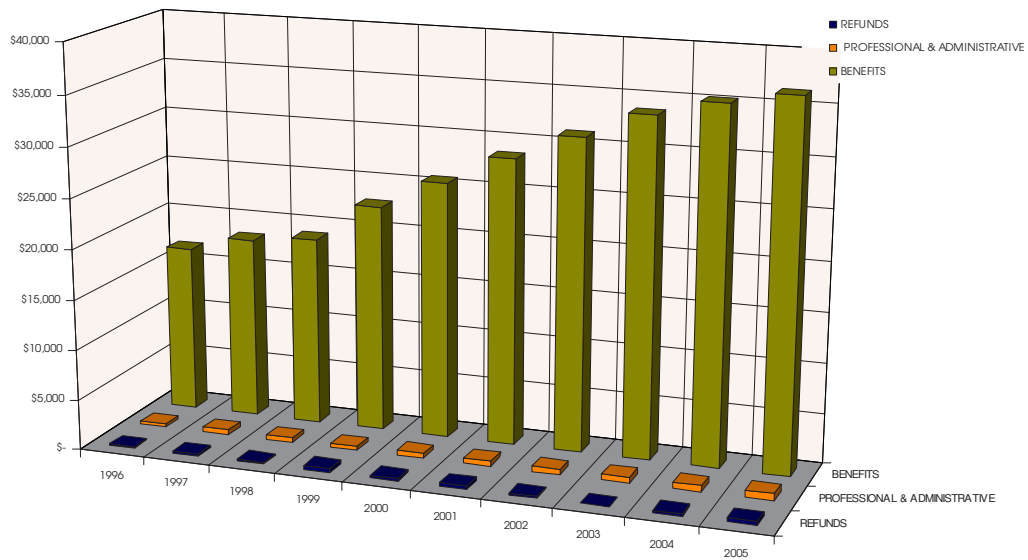
CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**REVENUES BY SOURCE**  
 (IN THOUSANDS)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
EMPLOYEE CONTRIBUTIONS	\$ 2,696	\$ 3,022	\$ 3,134	\$ 3,329	\$ 3,429	\$ 3,780	\$ 3,848	\$ 4,081	\$ 4,409	\$ 4,963
EMPLOYER CONTRIBUTIONS	4,082	5,366	-	-	-	-	-	-	728	8,806
INVESTMENT INCOME	98,832	107,149	137,090	95,444	96,269	(49,576)	(55,177)	27,759	134,287	91,761
<b>TOTAL</b>	<b>\$ 105,610</b>	<b>\$ 115,537</b>	<b>\$ 140,224</b>	<b>\$ 98,773</b>	<b>\$ 99,698</b>	<b>\$ (45,796)</b>	<b>\$ (51,329)</b>	<b>\$ 31,840</b>	<b>\$ 139,424</b>	<b>\$ 105,530</b>

**EXPENSES BY TYPE**  
 (IN THOUSANDS)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
REFUNDS	\$ 143	\$ 236	\$ 173	\$ 378	\$ 232	\$ 320	\$ 178	\$ 79	\$ 229	\$ 378
PROFESSIONAL & ADMINISTRATIVE	331	501	470	407	474	505	512	571	604	688
BENEFITS	16,686	18,182	18,853	22,710	25,664	28,568	31,145	33,737	35,304	36,443
<b>TOTAL</b>	<b>\$ 17,160</b>	<b>\$ 18,919</b>	<b>\$ 19,496</b>	<b>\$ 23,495</b>	<b>\$ 26,370</b>	<b>\$ 29,393</b>	<b>\$ 31,835</b>	<b>\$ 34,387</b>	<b>\$ 36,137</b>	<b>\$ 37,509</b>

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS**

Retirement Effective Dates	Years of Credited Service						Fiscal Year Average/Total Retirants
	5-10	10-15	15-20	20-25	25-30	30+	
<b>Period 7/1/04 to 6/30/05</b>							
Average Monthly Benefit	\$ 3,077	\$ 1,783	\$ 2,897	\$ 3,081	\$ 6,481	\$ 7,388	\$ 4,941
Average Final Average Salary	5,614	6,099	9,863	5,571	5,486	5,690	7,665
Number of Active Retirants	2	2	1	3	7	12	27
<b>Period 7/1/03 to 6/30/04</b>							
Average Monthly Benefit	\$ 3,246	\$ 2,808	\$ 3,412	\$ 4,961	\$ 5,616	\$ 8,174	\$ 5,643
Average Final Average Salary	5,231	5,335	5,636	5,547	5,440	4,882	6,414
Number of Active Retirants	11	2	3	2	8	15	41
<b>Period 7/1/02 to 6/30/03</b>							
Average Monthly Benefit	\$ 3,068	\$ 3,427	\$ 3,637	\$ 5,055	\$ 6,186	\$ 7,138	\$ 5,702
Average Final Average Salary	4,917	5,549	5,926	5,012	4,829	5,577	6,362
Number of Active Retirants	4	8	4	7	5	19	47
<b>Period 7/1/01 to 6/30/02</b>							
Average Monthly Benefit	\$ 3,849		\$ 3,287	\$ 3,938	\$ 6,635	\$ 7,416	\$ 5,025
Average Final Average Salary	6,371		4,897	5,006	5,581	5,673	5,506
Number of Active Retirants	1		3	4	5	12	25
<b>Period 7/1/00 to 6/30/01</b>							
Average Monthly Benefit	\$ 3,298	\$ 3,658		\$ 3,604	\$ 3,583	\$ 6,431	\$ 4,115
Average Final Average Salary	5,130	4,985		4,244	4,776	5,458	4,919
Number of Active Retirants	2	1		5	3	5	16
<b>Period 7/1/99 to 6/30/00</b>							
Average Monthly Benefit	\$ 3,107	\$ 3,131	\$ 3,247	\$ 3,374	\$ 4,134	\$ 6,315	\$ 3,884
Average Final Average Salary	5,040	4,757	4,414	4,582	5,603	6,971	5,228
Number of Active Retirants	2	3	1	3	1	3	13
<b>Period 7/1/98 to 6/30/99</b>							
Average Monthly Benefit			\$ 1,941	\$ 2,443		\$ 4,609	\$ 2,998
Average Final Average Salary			4,977	4,712		7,236	5,642
Number of Active Retirants			1	2		3	6
<b>Period 7/1/97 to 6/30/98</b>							
Average Monthly Benefit	\$ 2,325	\$ 2,365		\$ 2,919	\$ 2,961	\$ 3,119	\$ 2,738
Average Final Average Salary	4,650	4,731		5,976	5,776	4,901	5,207
Number of Active Retirants	2	1		1	3	2	9
<b>Period 7/1/96 to 6/30/97</b>							
Average Monthly Benefit		\$ 2,345		\$ 2,853	\$ 2,363	\$ 3,235	\$ 2,699
Average Final Average Salary		4,690		5,391	4,918	5,494	5,123
Number of Active Retirants		2		3	5	2	12
<b>Period 7/1/95 to 6/30/96</b>							
Average Monthly Benefit	\$ 2,216	\$ 3,065		\$ 2,014	\$ 2,673	\$ 3,251	\$ 2,644
Average Final Average Salary	4,435	4,130		4,801	4,930	5,215	4,702
Number of Active Retirants	1	1		9	14	11	36

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

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

Type of Benefit	Number of Recipients	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	294	224	50	15	5
Non-service Connected Disability	6	6	0	0	0
Spouse Receiving Benefits from Ind Death	13	12	0	1	0
Spouse Receiving Benefits from Non-Ind Death	3	2	0	1	0
Ex-spouse Receiving Benefits from QDRO	61	58	3	0	0
Service Retirements	312	176	103	30	3
Spouses Receiving Continuances	95	69	23	2	1
Dependent Under Age 18	1	1	0	0	0
<b>Total</b>	<b>785</b>	<b>548</b>	<b>179</b>	<b>49</b>	<b>9</b>

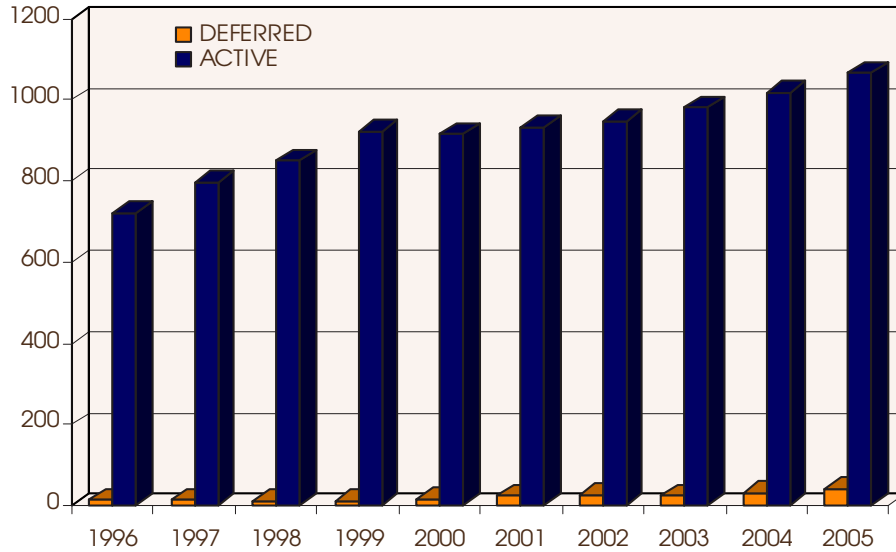
**SCHEDULE OF BENEFIT EXPENSES BY TYPE  
 JUNE 30, 2005**

Type of Benefit	Total	Option Selected			
		Unmodified	Option 1	Option 2	Option 3
Service Connected Disability	\$ 11,305,936	\$ 8,826,618	\$ 1,797,866	\$ 513,606	\$ 167,846
Non-service Connected Disability	119,409	119,409	-	-	-
Spouse Receiving Benefits from Ind Death	487,282	450,633	-	36,649	-
Spouse Receiving Benefits from Non-Ind Death	52,358	41,128	-	11,230	-
Ex-spouse Receiving Benefits from QDRO	643,904	613,171	30,733	-	-
Service Retirements	13,607,149	7,826,630	4,413,530	1,239,869	127,120
Spouses Receiving Continuances	2,824,476	2,037,099	694,315	63,958	29,104
Dependent Under Age 18	5,125	5,125	-	-	-
<b>Total Benefit Expense *</b>	<b>\$ 29,045,639</b>	<b>\$ 19,919,813</b>	<b>\$ 6,936,444</b>	<b>\$ 1,865,312</b>	<b>\$ 324,070</b>

\* Does not include DROP Distributions

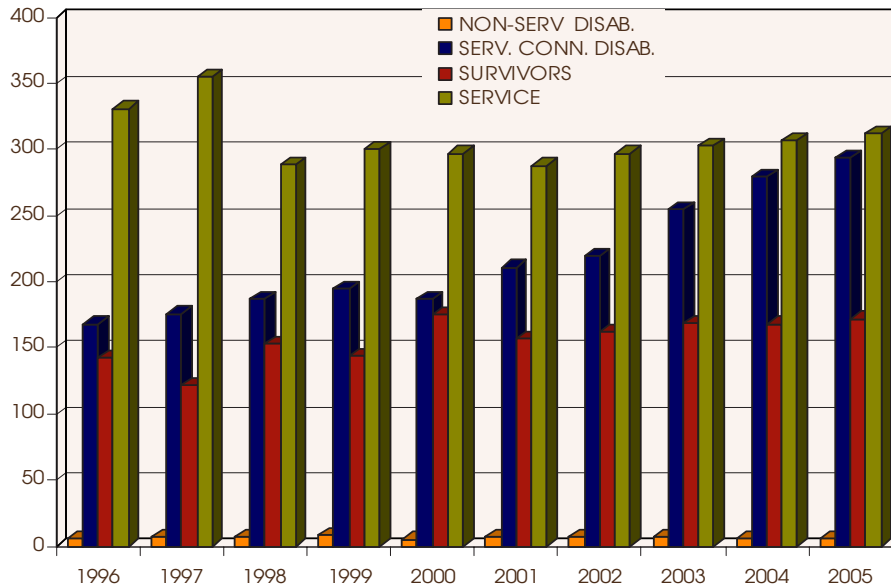
CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**MEMBERSHIP HISTORY (ACTIVE AND DEFERRED)**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
DEFERRED	14	13	12	12	15	24	25	24	31	42
ACTIVE	720	798	849	922	914	934	946	980	1017	1066
TOTAL	734	811	861	934	929	958	971	1004	1048	1108

**RETIRED MEMBERS BY TYPE OF BENEFIT**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
NON-SERV. DISAB.	6	7	7	8	5	7	7	7	6	6
SERV. CONN. DISAB.	168	176	187	195	187	211	220	255	280	294
SURVIVORS	143	122	153	144	175	157	162	169	168	172
SERVICE	331	355	289	300	297	288	297	303	307	312
TOTAL	648	660	636	647	664	663	686	734	761	784

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
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**SUMMARY OF ACTIVE PARTICIPANTS**

YEAR	TIER	NUMBER OF MEMBERS	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
1996	I	490	31,216,122	63,706	14.26%
	II	230	9,406,213	40,897	27.18%
1997	I	484	29,954,247	61,889	-2.85%
	II	314	13,508,132	43,020	5.19%
1998	I	473	29,313,222	61,973	0.14%
	II	376	18,117,466	48,185	12.01%
1999	I & II	921	52,410,461	56,906	1.86%
2000	I & II	914	54,667,137	59,811	5.10%
2001	I & II	934	59,888,057	64,120	7.20%
2002	I & II	946	61,344,091	64,846	1.13%
2003	I & II	980	64,149,390	65,459	0.95%
2004	I & II	1017	66,899,509	65,781	0.49%
2005	I & II	1066	72,812,722	68,305	3.84%

**SUMMARY OF RETIRED MEMBERSHIP**

YEAR	TIER	NUMBER OF MEMBERS	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
1996	I	648	16,685,449	25,749	-0.71%
	II	-	-	-	-
1997	I	625	18,182,008	29,091	12.98%
	II	-	-	-	-
1998	I	649	18,852,815	29,049	-0.15%
	II	-	-	-	-
1999	I & II	647	22,710,101	35,101	20.83%
2000	I & II	664	25,664,076	38,651	10.11%
2001	I & II	663	28,568,480	43,090	11.48%
2002	I & II	686	31,144,834	45,401	5.36%
2003	I & II	734	33,736,675	45,963	1.24%
2004	I & II	761	35,304,472	46,392	0.93%
2005	I & II	784	36,443,224	46,484	0.20%

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**CONTRIBUTION RATES**

Valuation Date	Effective	Member Rates			City Contribution Rates		
		Basic at Entry Age			Total City Rate	Prefunded Actuarial Liability (PAAL)	PAAL Adjusted Contribution Rate
		20	30	40			
June 30, 2004 Tier I	7/1/2005	3.77	6.59	5.82	25.12	25.12	0.00
Tier II	7/1/2005	9.00	9.00	9.00	17.43	17.43	0.00
June 30, 2003 Tier I	7/1/2004	4.09	6.95	6.07	25.26	25.26	0.00
Tier II	7/1/2004	9.00	9.00	9.00	15.86	15.86	0.00
June 30, 2002 Tier I	7/1/2003	4.09	6.95	6.07	25.55	-25.55	0.00
Tier II	7/1/2003	9.00	9.00	9.00	14.73	-14.73	0.00
June 30, 2001 Tier I	7/1/2002	4.09	6.95	6.07	25.52	-25.52	0.00
Tier II	7/1/2002	9.00	9.00	9.00	14.67	-14.67	0.00
June 30, 2000 Tier I	7/1/2001	4.06	6.90	6.03	25.44	-25.44	0.00
Tier II	7/1/2001	9.00	9.00	9.00	14.52	-14.52	0.00
June 30, 1999 Tier I	7/1/2000	4.11	6.88	6.04	25.29	-25.29	0.00
Tier II	7/1/2000	9.00	9.00	9.00	14.57	-14.57	0.00
June 30, 1998 Tier I	7/1/1999	4.14	7.08	6.28	25.79	-25.79	0.00
Tier II	7/1/1999	9.00	9.00	9.00	14.44	-14.44	0.00
June 30, 1997 Tier I	7/1/1998	4.16	7.08	6.28	21.32	-21.32	0.00
Tier II	7/1/1998	9.00	9.00	9.00	15.86	-15.86	0.00
June 30, 1996 Tier I	7/1/1997	4.16	7.09	6.34	22.72	-22.72	0.00
Tier II	7/1/1997	9.00	9.00	9.00	14.66	-0.43	14.23
June 30, 1995 Tier I	7/1/1996	4.56	7.56	6.74	25.01	-9.34	15.67
Tier II	7/1/1996	9.00	9.00	9.00	16.44	0.00	16.44
June 30, 1993 Tier I	7/1/1994	4.44	7.52	6.76	65.54	0.00	65.54
Tier II	7/1/1994	9.00	9.00	9.00	18.99	0.00	18.99
June 30, 1991 Tier I	7/1/1992	5.71	8.86	8.18	62.58	0.00	62.58
Tier II	7/1/1992	9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1989 Tier I	7/1/1990	5.11	7.81	6.93	52.68	0.00	52.68
Tier II	7/1/1990	9.00	9.00	9.00	18.42	0.00	18.42
June 30, 1988	7/1/1989	5.11	7.81	6.93	50.96	0.00	50.96

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

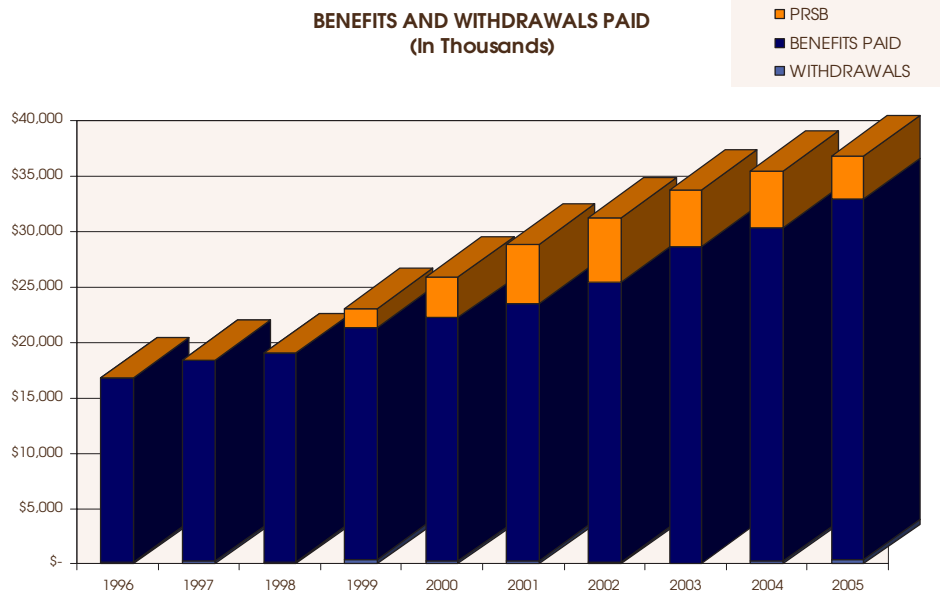
CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

**ECONOMIC ASSUMPTIONS AND FUNDING METHOD**

Valuation Date	Interest	Salary Scale	Cost of Living	Inflation Component	Funding Method
June 30, 2004	8.25%	5.5% Avg.	2.75 - 4.5%	4.25%	Entry Age Normal
June 30, 2003	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2002	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2001	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 2000	8.25%	5.5% Avg.	2.75 - 4.5%	4.50%	Entry Age Normal
June 30, 1999	8.25%	5.3% Avg.	4.9 - 6.0%	4.50%	Entry Age Normal
June 30, 1998	8.25%	10.75 - 4.95%	4.25%	4.75%	Entry Age Normal
June 30, 1997	8.25%	9.3 - 1.8%	4.75%	4.75%	Entry Age Normal
June 30, 1996	8.25%	10.75 - 4.95%	4.75%	4.75%	Entry Age Normal
June 30, 1995	8%	6.00 - .20%	5%	5%	Entry Age Normal
June 30, 1993	8%	9 - 5-1/4%	5%	5%	Entry Age Normal
June 30, 1991	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1989	8%	12 - 6-1/2%	5%	5%	Entry Age Normal
June 30, 1987	8%	6-1/2%	6-1/2%	5%	Entry Age Normal

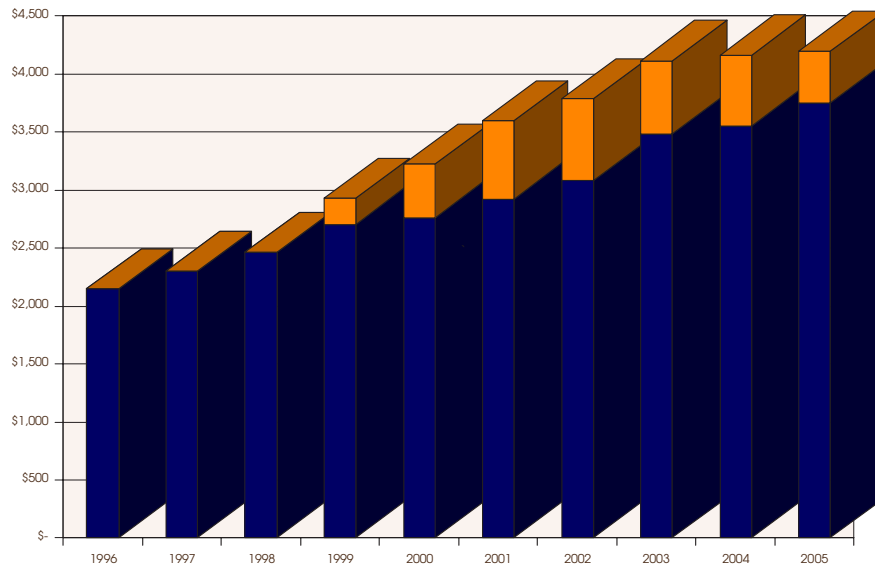
**CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
STATISTICAL SECTION**

**BENEFITS AND WITHDRAWALS PAID  
(In Thousands)**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
WITHDRAWALS	\$ 144	\$ 236	\$ 173	\$ 378	\$ 231	\$ 320	\$ 178	\$ 79	\$ 229	\$ 378
BENEFITS PAID	16,685	18,182	18,853	20,970	21,987	23,238	25,332	28,572	30,135	32,583
PRSB	-	-	-	1,740	3,677	5,330	5,813	5,165	5,169	3,860

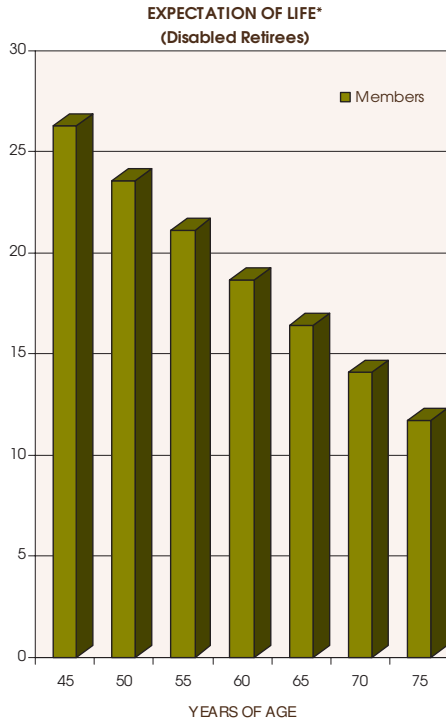
**AVERAGE MONTHLY BENEFITS TO PARTICIPANTS**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Average Monthly Benefit	\$ 2,146	\$ 2,296	\$ 2,459	\$ 2,701	\$ 2,759	\$ 2,921	\$ 3,077	\$ 3,481	\$ 3,552	\$ 3,750
Average Monthly PRSB	-	-	-	224	461	670	706	629	609	444
Average Monthly Benefit Total	\$ 2,146	\$ 2,296	\$ 2,459	\$ 2,925	\$ 3,221	\$ 3,591	\$ 3,783	\$ 4,110	\$ 4,161	\$ 4,195

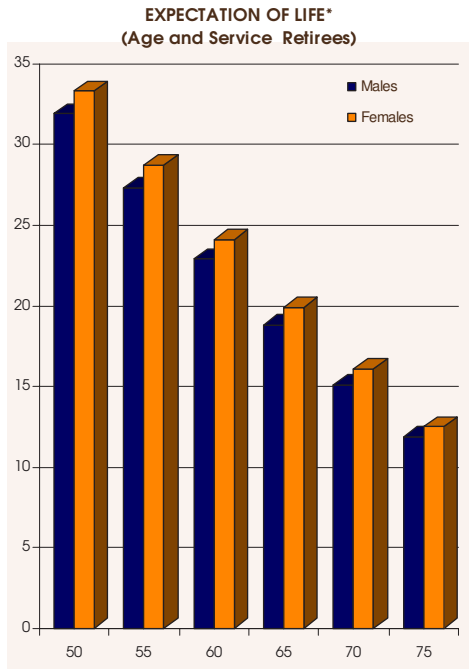


CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**



**EXPECTATION OF LIFE  
 Disabled Retirees  
 1984 Disability Table (x-5)  
 for Safety Members**

Age	Members
45	26.30
50	23.60
55	21.10
60	18.70
65	16.40
70	14.10
75	11.70



**EXPECTATION OF LIFE  
 Age and Service Retirees  
 1994 GAM Male (x-2)  
 1994 GAM Female (x+1)**

Age	Males	Females
50	31.9	33.3
55	27.3	28.7
60	22.9	24.1
65	18.8	19.9
70	15.1	16.1
75	11.9	12.5

CITY OF FRESNO FIRE AND POLICE RETIREMENT SYSTEM  
**STATISTICAL SECTION**

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## COMPLIANCE SECTION



# COMPLIANCE SECTION

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL



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Terri Swan, CPA  
Dominic Brown, CPA  
Ryan Johnson, CPA

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

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

We have audited the basic financial statements of the City of Fresno Fire and Police Retirement System as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

#### Compliance and Other Matters

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

COMPLIANCE SECTION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

This report is intended for the information of the management and the Board of Retirement. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 9, 2005

