To protect and provide System benefits through the highest quality delivery of service for our members and the employer, prudently fulfilling our fiduciary duties of investment and conservation of Trust assets. BOARD AND STAFF COMMITMENT. We promise to

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

For Fiscal Years Ended June 30, 2016 and 2015

carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly, with courtesy and respect. Assets will be invested and administered to balance the need to control risk 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 business processes and our delivery of services provided to members and retirees. To improve communications with members, retirees and the employer. To attract, develop and retain competent and professional staff. To achieve and maintain superior investment performance on a risk controlled basis measured by the Public Fun Universe.

City of Fresno Employees Retirement System

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

Issued by:

Robert T. Theller
Retirement Administrator

Kathleen Riley Brown
Assistant Retirement Administrator

2828 Fresno Street Suite 201, Fresno, CA 93721-1327
(559) 621-7080 / Retire@Fresno.gov
www.CFRS-CA.org

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MISSION STATEMENT

To protect and provide system benefits through the highest quality delivery of service for our members and the employer, prudently fulfilling our fiduciary duties of investment and conservation of Trust assets.

BOARD AND STAFF COMMITMENT

We promise to carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly, with courtesy and respect. Assets will be invested and administered to balance the need to control risk 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 business processes and our delivery of services provided to members and retirees.*
- *To improve communications with members, retirees and the employer.*
- *To attract, develop and retain competent and professional staff.*
- *To achieve and maintain superior investment performance on a risk controlled basis measured by the Public Fund Universe.*

The Employees Retirement System was established on June 1, 1939 and is maintained and governed by Article 5 of the Fresno Municipal Code.

The Employees Retirement System (the System) provides retirement benefits for all qualified non-sworn employees of the City of Fresno.

INTRODUCTION

Letter of Transmittal

Robert T. Theller

RETIREMENT ADMINISTRATOR

December 21, 2016

Dear Board Members:

As Retirement Administrator of the City of Fresno Employees Retirement System (the System), it is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2016 and 2015.

This year has been one full of uncertainty and surprises on many fronts. While the United States has been embroiled in pre-presidential election drama and speculation about what might trigger the Federal Reserve to raise interest rates, the United Kingdom voted to leave the European Union and multiple central banks worldwide turned to a negative interest-rate policy in an attempt to stimulate growth.

Political uncertainty has clearly had an impact on global financial markets during fiscal year 2016. Meanwhile, the U.S. economy has been performing at what seems to have become its normal (albeit slightly disappointing) pace. The investment landscape is constantly evolving, highlighted by dramatic changes over the last 20 years with sharply increased levels of volatility and greater complexity. And as a result, over the last few years there has been a growing realization that we are perhaps facing a sustained period of relatively low returns. As the overall global market environment has changed, so have investor needs and objectives.

Despite the persistent and overwhelming challenges of the global economy, the System is at a fully funded status on both a market value and actuarial basis at 106.3 percent and 111.3 percent, respectively. From a long-term perspective the System is positioned to provide a solid rate of return that is equal to or better than the respective asset classes market indices even as we enter yet another year that may be filled with uncertainties in the global economic and financial markets. The Retirement Board (the Board) carefully managed the investment portfolio through last year's continued turbulence in the global financial markets and we remain confident that new investment opportunities will arise and the Board, with the required amount of due diligence and vigilance, will position the System's investments for future long-term growth.

Letter of Transmittal Continued

Like almost all institutional investors and public pension plans, the System's returns for the last two years have been disappointing at 0.90 percent and 3.33 percent for the fiscal years ended June 30, 2016 and 2015. Noticeably these returns are below the System's assumed rate of return of 7.25 percent effective June 30, 2016, and 7.50 percent for June 30, 2015. That said, we have not experienced the absolute negative returns which highlighted the financial crisis that began during fiscal years 2008-2009.

In fiscal year 2016, the System's gross of fee returns provided by its custodian Northern Trust, when compared to other institutional investors and weighted policy benchmarks, were very favorable. The System's gross of fees one-year return was 0.90 percent; 0.51 percent above its policy benchmark return of 0.39 percent; although underperforming its actuarial interest rate assumption of 7.25 percent by 6.35 percent. The five-year annualized gross of fees return of 6.82 percent was slightly above its policy benchmark return of 6.40 percent by 0.42 percent. The System's ten-year annualized gross of fees return at 5.76 percent slightly exceeded its policy benchmarks for that period by 0.08 percent while underperforming its actuarial interest rate assumption by 1.74 percent for the same period.

The System remains highly funded and well positioned to serve our members and retirees. The System's 20 and 25-year long-term gross of fees returns of 7.51 percent and 8.61 percent, respectively, as of June 30, 2016, illustrate the System's ability to achieve our long-term objectives over extended periods of time. Meanwhile, the System's actuarial and market value funding status continues to be the highest of any public safety pension defined benefit plan in California.

The Comprehensive Annual Financial Report (CAFR)

The post-financial crisis world remains far less-secure. The disappointing and uneven pace of the global recovery continues with struggles for communities around the world. Those enduring poor fortune question whether their governments are working for them. Restoring sustainable economic growth after the global financial crisis prolongs the hard work but we have confidence in our abilities to meet the challenges.

The Comprehensive Annual Financial Report (CAFR) of the City of Fresno Employees Retirement System for fiscal years ended June 30, 2016 and 2015 is submitted herewith. Information contained in this report is designed to provide a complete and accurate review of the year's operations. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the System. For a general overview of the City of Fresno Employees Retirement System's finances, please refer to the Management's Discussion and Analysis in the Financial Section of this report. The CAFR consists of six sections:

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

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

Letter of Transmittal Continued

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

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

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

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

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

THE EMPLOYEES RETIREMENT SYSTEM AND ITS SERVICES

The Employees Retirement System was established on June 1, 1939, under Charter Section 910 and is governed by Article 5 of Chapter 3 of the City of Fresno Municipal Code. The System provides retirement allowances to the non-safety members employed by the City of Fresno. In accordance with the provisions of the City of Fresno Municipal Code, the System provides lifetime retirement, disability, and death benefits to its members.

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

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

Letter of Transmittal Continued

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.

Major Initiatives

The Board, jointly with the Fire and Police Retirement System Board (the Boards), retained Alliance Resource Consulting, LLC, through a Request for Proposal process to conduct the national search for replacement of its incumbent Retirement Administrator, Stanley L. McDivitt, who retired effective December 1, 2015. The Retirement Boards hired Robert T. Theller as the City of Fresno Retirement Systems' Retirement Administrator effective January 11, 2016. His government experience includes ten years as the Senior Investment Officer for the Ohio Police & Fire Pension Fund in Columbus, Ohio. Previously, Mr. Theller was the Chief Investment Officer for the Franklin County Treasury Office and a Portfolio Manager and Bond Trader for the State of Ohio. He has a Bachelors of Science (BS) in Sociology from the University of the State of New York; a Master's (MA) Degree in Business Administration-Finance and a Juris Doctorate-Law from Capital University in Columbus, Ohio.

With the assistance of its Investment Consultant, NEPC, LLC, the Boards conducted an RFP Direct Lending Manager search. Sixteen firms responded and following further review and evaluation of their products, six top firms were reviewed and two firms were ultimately selected for on-site due diligence evaluations. The Direct Lending Manager search was completed in August 2015, with the selection of Crescent Capital and Monroe Capital each awarded a capital commitment of $50.0 million; and the Boards adopted an Asset Allocation Plan with modifications to its Target Mixes to incorporate the allocation for direct lending.

The Boards conducted a public Request for Information (RFI) process related to a value add/opportunistic real estate manager search commencing in December 2015. NEPC, LLC, reviewed and scored the RFI responses, the Boards interviewed candidates and selected managers for onsite due diligence reviews. The Due Diligence Committee recommended and the Boards approved the selection of Oaktree Capital Management and PCCP, LLC as value add opportunistic real estate managers; both managers are located in Los Angeles, California. Funding for the new portfolios will come from Real Estate Investment Trust (REIT) portfolios as and when needed.

The new LRS Pension Gold Retirement Solutions' Version 3 implementation which began with the Boards approval in fiscal year 2013 went live, following User Acceptance Testing, effective July 1, 2015. A limited rollout of the Member Direct module was implemented in January 2016 with full features expected to be rolled out during FY2017.

Professional Services

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

Letter of Transmittal Continued

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fresno Employees Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of public employee retirement system comprehensive annual financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, 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 for Excellence in Financial Reporting is valid for a period of one year only. The System has received a Certificate of Achievement for the last eighteen 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 and Net Pension Liability

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

The June 30, 2016 actuarial valuation is presented in this CAFR. As of June 30, 2016, the funded ratio of the Employees Retirement System was 111.3 percent. The ratio of the valuation value of assets to actuarial accrued liabilities was 109.2 percent as of the June 30, 2015 valuation. The funding ratios as of June 30, 2016 and 2015, if measured using the market value of assets instead of the actuarial valuation value of assets are 106.3 percent and 112.2 percent, respectively. The funded ratios were determined by using the actuarial value of the assets in accordance with actuarial standards.

Letter of Transmittal Continued

The actuarial accrued liability of the System at June 30, 2016, for funding purposes, amounted to $976,909,000; the actuarial valuation value of assets amounted to $1,087,125,081 and market value of assets (including non-valuation reserves) amounted to $1,143,299,019. At June 30, 2015, the actuarial valuation value of assets amounted to $1,049,092,965 and the market value of assets (including non-valuation reserves) amounted to $1,169,926,556.

Under the Governmental Accounting Standards Board (GASB) Statement No. 67 Financial Reporting methodology, the net pension liability of the System as of June 30, 2016 indicates a surplus of $41,086,099; while on an actuarial funding basis the valuation value of assets basis reflects a surplus of $110,216,081 and a funding ratio of 111.3 percent. At June 30, 2015, the net pension liability of the System indicated a surplus of $98,852,169 and a funding ratio of 109.2 percent. For financial reporting purposes, the Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 103.73% and 109.23% as of June 30, 2016 and 2015, respectively.

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

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

Accounting System & Reports

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

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

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

Letter of Transmittal Continued

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 and in Note 2 – Summary of Significant Accounting Policies (see section Investments).

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

For the fiscal years ended June 30, 2016 and 2015, the System's investments provided a 0.90 percent and 3.33 percent gross of fees rate of return, respectively.

Acknowledgements

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

On behalf of the Board, I would like to express my appreciation for the dedication and efforts of my staff members, Kathleen Riley Brown, Yvonne Timberlake, Alberto Magallanes, Karen Espiritu, Pattie Laygo, Andrea Ketch, Phillip Carbajal, Patricia Basquez, Joan Taketa, Ohn Viengsay, Stanton Perkins and 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,

Robert T. Theller
Retirement Administrator

December 21, 2016

Retirement Board Members

As of June 30, 2016

Chair

Marvell French

Appointed July 2000
Term Continuous
Outside Member Appointed by the Retirement Board

Vice Chair

Phillip Hardcastle

Elected July 2012
Term Expires July 2016
Represents Clerical and Supervisory Members

David Cain

Elected September 2014
Term Expires July 2018
Represents Manual Worker Members

TJ Miller

Appointed September 2013
Term Continuous
Appointed by the Mayor and Confirmed by the Fresno City Council

Renena Smith

Appointed March 2015
Term Continuous
Appointed by the Mayor and Confirmed by the Fresno City Council

Retirement Administrative Staff

As of June 30, 2016

FRONT ROW (LEFT TO RIGHT):

Joan Taketa, Onh Viengsay, Kathleen Riley Brown, Yvonne Timberlake, Pattie Laygo, Patti Basquez, Karen Espiritu

BACK ROW (LEFT TO RIGHT):

Andrea Ketch, Phillip Carbajal, Robert Theller, Alberto Magallanes, Stanton Perkins

Administration of the System

Administration

The Administrative Section is responsible for the administration of the City of Fresno Employees Retirement System, including the risk management of the investment activities in accordance with the policies, regulations, and general guidelines of the Retirement Board. It is also responsible for interfacing with the investment managers, the investment consultant, the actuary, legal counsel, custodial bank, and any other consultants authorized by the Board. (See pages xii and xiii for Professional Services and Consultants and Investment Portfolio Managers and page 74 for a schedule of brokerage commissions.)

Member Services

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

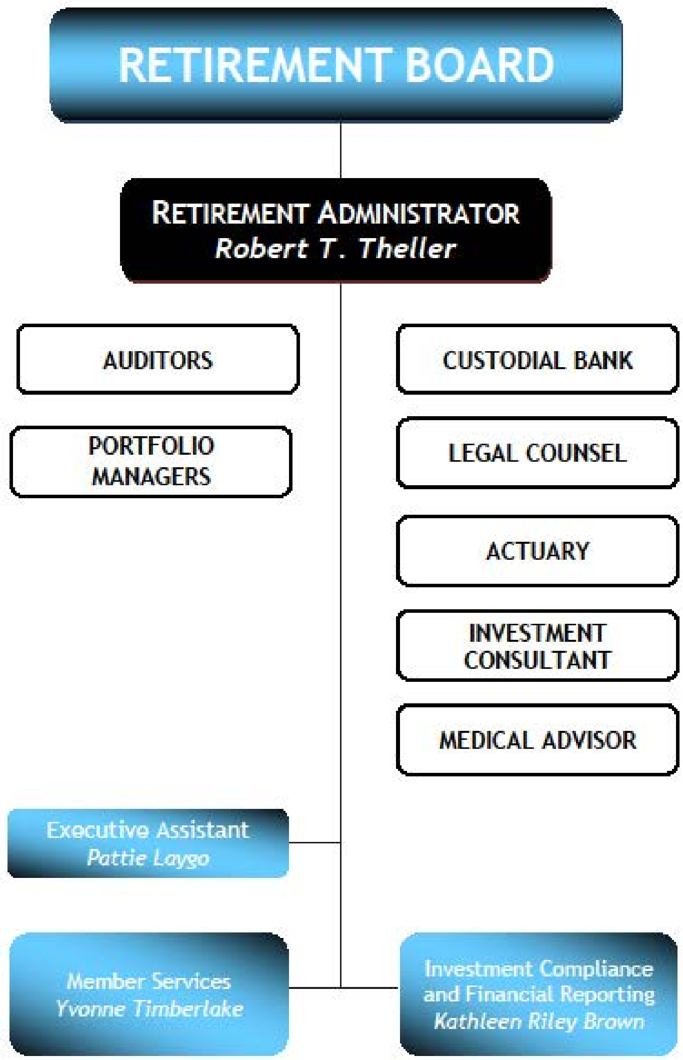
Investment Compliance and Financial Reporting

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

Executive Assistant

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

ORGANIZATIONAL STRUCTURE



Professional Services and Consultants

Custodial Bank

NORTHERN TRUST
Chicago, Illinois

General Legal Advisor

SALTZMAN and JOHNSON LAW CORPORATION
San Francisco, California

Tax Counsel

ICE MILLER LLP
Indianapolis, Indiana

Investment Legal Advisor

FOLEY & LARDNER LLP
Boston, Massachusetts

Investment Consultant

NEPC, LLC
Boston, Massachusetts

Actuary

THE SEGAL COMPANY
San Francisco, California

Medical Advisor

BENCHMARK, AN EXAMWORKS COMPANY, INC.
Sacramento, California

Independent Auditor

BROWN ARMSTRONG ACCOUNTANCY CORPORATION
Bakersfield, California

Investment Portfolio Managers

DOMESTIC EQUITY

Large Cap

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

Small Cap

Eagle Asset Mgmt., Inc., St. Petersburg, FL
Kennedy Capital Mgmt. Inc., St. Louis, MO

INTERNATIONAL & EMERGING MARKETS

International

BlackRock, San Francisco, CA
Baillie Gifford & Co., Edinburgh, Scotland
Principal Global Investors, DesMoines, IA

Emerging Market

Acadian Asset Mgmt., LLC, Boston, MA
Axiom International Investors, LLC, Boston, MA

FIXED INCOME

Core Fixed Income

Dodge & Cox, San Francisco, CA
Prudential Investment Mgmt., Inc., Newark, NJ
PIMCO, Newport Beach, CA

High Yield

Loomis Sayles, Boston, MA

Direct Lending

Crescent Capital, Los Angeles, CA
Monroe Capital, Chicago, IL

REAL ESTATE

Private Real Estate Investments

JP Morgan Asset Mgmt., New York, NY

Real Estate Investment Trust (REIT)

Principal Real Estate Investors, Des Moines, IA
Heitman, LLC, Chicago, IL.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fresno

Employees Retirement System

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Also awarded for fiscal years 1998 through 2014.

To protect and provide system benefits through the highest quality delivery of service for our members and the employer, prudently fulfilling our fiduciary duties of investment and conservation of Trust assets.

FINANCIAL

Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)
[illegible]

FRESNO OFFICE
[illegible]

PASADENA OFFICE
[illegible]

STOCKTON OFFICE
[illegible]

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the City of Fresno Employees Retirement System (the System), as of and for the years ended June 30, 2016 and 2015, and the related Statement of Changes in Fiduciary Net Position for the years then ended and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report Continued

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective Fiduciary Net Position of the System, as of June 30, 2016 and 2015, and its Statement of Changes in Fiduciary Net Position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the System's basic financial statements. The Introduction Section; Other Supplementary Information; and Investment, Actuarial, and Statistical Sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 21, 2016

Management Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the City of Fresno Employees Retirement System (the System) for the fiscal years ended June 30, 2016 and 2015. 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

The System's net position restricted for pension benefits are restricted for payment of pension benefits to participants and their beneficiaries and all of the net position is restricted to meet the System's ongoing obligations.

At the close of the fiscal year 2016, the assets of the System exceeded its liabilities by $1,143,299,019; as of fiscal year 2015, the assets of the System exceed its liabilities by $1,169,926,556; and as of fiscal year 2014, the assets of the System exceeded its liabilities by $1,167,157,093.

The System's net position restricted for pension benefits decreased by 26,627,537 or 2.28 percent for fiscal year 2016; increased by $2,749,463 or 0.24 percent for fiscal year 2015; and increased $142,491,536 or 13.91 percent for fiscal year 2014, primarily as a result of the performance of the investment markets.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2016, the date of the last actuarial valuation, the funded ratio for the System was 111.3 percent reflecting that the System has a valuation value of assets which is in excess of the actuarial accrued liability. In general, this indicates that for every dollar of benefits due we have approximately $1.11 of assets available for payment as of that date.

As of the June 30, 2015, the date of the previous annual actuarial valuation, the funded ratio for the System was 109.2 percent; and as of June 30, 2014, the funded ratio for the System was 104.6 percent.

Additions to Fiduciary Net Position

Additions for the fiscal year 2016 decreased $27,138,699 or 49.90 percent over the prior year from $54,386,172 to $27,247,473 which includes member contributions of $9,098,286, employer contributions of $13,060,088, a net investment gain of $4,709,651 and net securities lending income of $379,448.

Fiscal year 2015 decreased $137,772,058 or 71.70 percent over the prior year from $192,158,230 to $54,386,172 which includes member contributions of $8,750,214, employer contributions of $12,326,570, a net investment gain of $32,919,496 and net securities lending income of $389,892.

Fiscal year 2014 additions increased $49,716,872 or 34.90 percent over the prior year from $142,441,358 to $192,158,230 which includes member contributions of $7,945,519, employer contributions of $11,439,981, a net investment income gain of $172,305,191 and net securities lending income of $467,539.

Management Discussion and Analysis Continued

Deductions from Fiduciary Net Position

Deductions from fiduciary net position for the fiscal year 2016 increased $2,258,301 or 4.38 percent over the prior fiscal year 2015 from $51,616,709 to $53,875,010.

Fiscal year 2015 increased $1,950,015 or 3.93 percent over the prior fiscal year 2014 from $49,666,694 to $51,616,709.

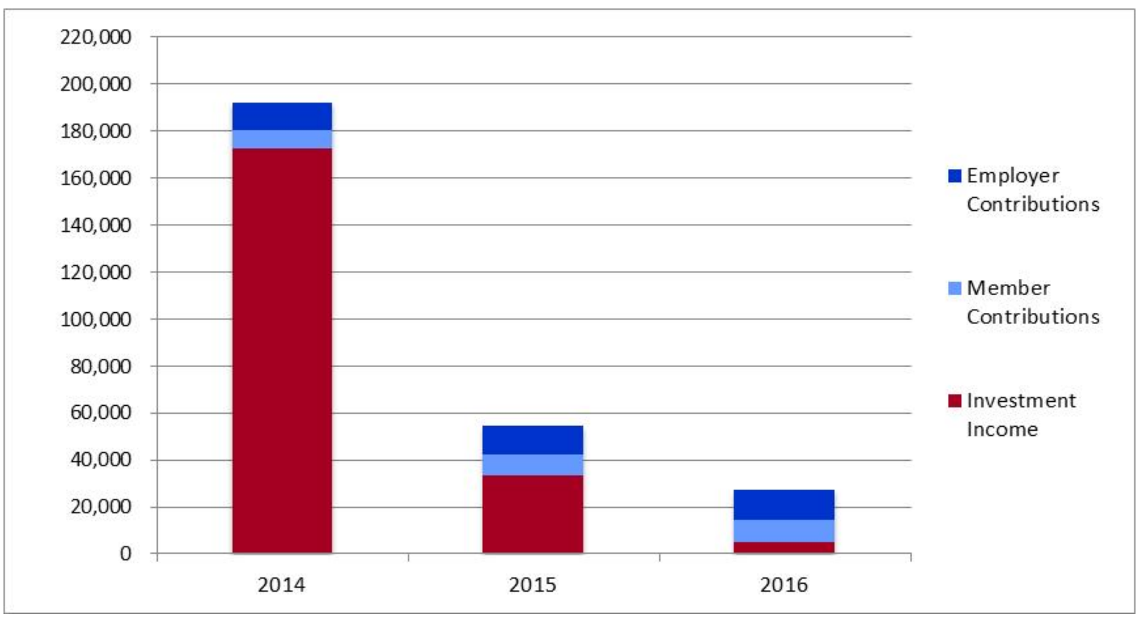
Fiscal year 2014 deductions increased $1,488,168 or 3.09 percent over the prior fiscal year 2013 from $48,178,526 to $49,666,694.

The current year increase in deductions is due primarily to the increases in retirees and the respective retirement benefits paid in 2016 even though there were no Post Retirement Supplemental Benefits (PRSB) paid during calendar year 2016.

Schedule and Graph of Additions By Source

For Fiscal Years Ended June 30, 2016, 2015 and 2014 (In Thousands)

	2014	2015	2016
Employer Contributions	$11,440	$12,327	$13,060
Member Contributions	7,945	8,750	9,098
Investment Income	172,773	33,309	5,089
TOTAL	$192,158	$54,386	$27,247

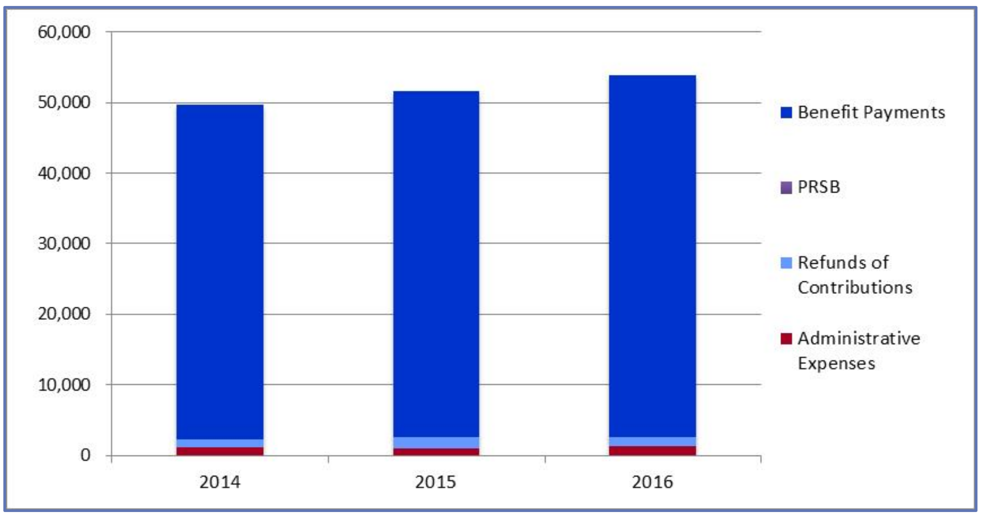


Management Discussion and Analysis Continued

Schedule and Graph of Deductions By Type

For Fiscal Years Ended June 30, 2016, 2015 and 2014 (In Thousands)

	2014	2015	2016
Benefit Payments	$47,368	$49,072	$51,199
PRSB	9	-	-
Refunds of Contributions	1,204	1,474	1,330
Administrative Expenses	1,086	1,071	1,346
TOTAL	$49,667	$51,617	$53,875



Management Discussion and Analysis Continued

Overview of the Financial Statements

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

Statement of Fiduciary Net Position – The Statement of Fiduciary Net Position presents the major categories of assets and liabilities and their related value as of the System's fiscal years ended June 30, 2016 and 2015. "Net Position Restricted for Pension Benefits" represents funds available to pay benefits and it is a point in time or a snapshot of account balances as of the fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities. Increases and decreases in Net Position Restricted for Pension Benefits, when analyzed over time, may serve as an indicator of whether the System's financial position is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health.

Statement of Changes in Fiduciary Net Position – This Statement of Changes in Fiduciary Net Position provides information about the financial activities during the reporting period that increased and decreased the Net Position Restricted for Pension Benefits.

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

Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements. These pronouncements require certain disclosures and require State and Local governments to report using the full accrual basis of accounting. The System complies with all material requirements of these pronouncements.

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

Required Supplementary Information – The Required Supplementary Information presents historical trend information concerning the changes in net pension liability, employer contributions and investment returns, and includes notes that explain factors that significantly affect trends in the amounts reported, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions over time. The information is based on actuarial valuations prepared for the pension plan. The actuarial valuation report includes additional actuarial information that contributes to

Management Discussion and Analysis Continued

the understanding of the changes in the net pension liability of the defined benefit pension plan over the past ten years as presented in the schedule. The actuarial information is based upon assumptions made regarding future events at the time the valuations are performed and are derived for both financial reporting and funding purposes.

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

The System's funding ratio at June 30, 2016 was 111.3 percent, which means the System's fund has approximately $1.11 available for each $1.00 of liability. The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about the System's financial activities during the reporting periods that increased and decreased the Net Position Restricted for Pension Benefits.

Financial Analysis Net Position

As previously noted, the System's net position restricted for benefits may serve over time as a useful indication of the System's financial position. The System's net position restricted for pension benefit payments exceeded its liabilities at the close of the fiscal year 2016 by $1,143,299,019. All of the net position is available to meet the System's ongoing obligations to plan participants and their beneficiaries.

In fiscal year 2016, the System's restricted fiduciary net position, representing assets available to pay current and future member pension benefits, decreased by 2.28 percent largely due to volatility and fluctuations lowering performance of the global investment markets and in 2015, the System's restricted fiduciary net position increased by 0.24 percent due to volatility and fluctuations lowering performance of the global investment markets; and also due to strong investment performance in 2014, the System's restricted fiduciary net position increased by 13.91 percent. (See Table 1).

In order to determine whether the $1.143 billion in net position will be sufficient to meet future obligations, the System's independent actuary performed an actuarial valuation as of June 30, 2016. The result of this valuation determines what future contributions by Plan members and the City of Fresno are needed to pay all expected future benefits. The valuation takes into account the Board's funding policy which includes a provision to smooth the impact of market volatility by spreading each year's gains or losses over five years.

There has been extreme volatility in the various economies of the world and throughout the global financial markets over the past twenty to twenty-five years, therefore, it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early 2000's. Historical long-term performance rates of returns

Management Discussion and Analysis Continued

demonstrate that the System has been able to meet or exceed its actuarial assumed rate of return of 7.50 percent over long periods. As of June 30, 2016, the System's 25-year annualized return is 8.61 percent and its 20-year annualized return is 7.51 percent.

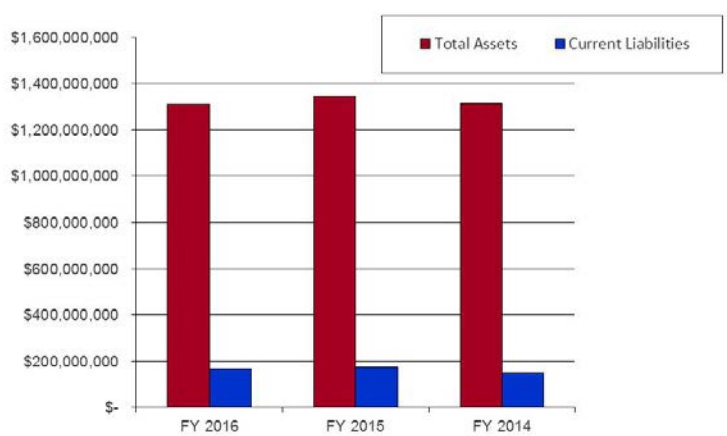
Despite volatility in the stock market, management and the System's actuary concur that the System remains in a very strong financial position to meet its obligations to the plan participants and beneficiaries. The System's current financial position is a result of a very sound and carefully managed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

Table 1 – Employees Retirement System Fiduciary Net Position Restricted For Pension Benefits

For Fiscal Years Ended June 30, 2016, 2015 And 2014

	FY 2016	FY 2015	FY 2016 Increase/ (Decrease) Amount	FY 2016 Increase/ (Decrease) Percent
Current and Other Assets	$ 136,629,493	$ 177,086,908	$(40,457,415)	(22.85%)
Investments at Fair Value	1,171,535,518	1,167,658,400	3,877,118	0.33%
Total Assets	$1,308,165,011	$1,344,745,308	$(36,580,297)	(2.72%)
Current Liabilities	164,865,992	174,818,752	(9,952,760)	(5.69%)
Net Position Restricted for Pension Benefits	$1,143,299,019	$1,169,926,556	$(26,627,537)	(2.28%)

	FY 2015	FY 2014	FY 2015 Increase/ (Decrease) Amount	FY 2015 Increase/ (Decrease) Percent
Current and Other Assets	$ 177,086,908	$ 145,328,200	$31,758,708	21.85%
Investments at Fair Value	1,167,658,400	1,168,754,527	(1,096,127)	(0.09%)
Total Assets	$1,344,745,308	$1,314,082,727	$30,662,581	2.33%
Current Liabilities	174,818,752	146,925,634	27,893,118	18.98%
Net Position Restricted for Pension Benefits	$1,169,926,556	$1,167,157,093	$2,769,463	0.24%



Management Discussion and Analysis Continued

Capital Assets

The System's investment in capital assets increased from $886,026 to $1,235,045 (net of accumulated depreciation and amortization) between fiscal years 2015 and 2016 after increasing from $680,391 to $886,026 between fiscal years 2014 and 2015. This investment in capital assets includes office equipment, furniture, software, and technology infrastructure. The total increase in the System's investment in capital and intangible assets as of June 30, 2016 and 2015 was $349,019 and $205,635, respectively. The increases in both fiscal years are primarily due to the costs incurred for the development of software to program and install an upgrade to our original pension administration system that was originally installed in 1997, which was implemented effective July 1, 2015.

Reserves

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

The System's major reserve accounts, described in Note 5 – Net Position Restricted for Pension Benefits, include Active Member Reserves, Employer Advance/Retired Reserves, DROP Reserves, PRSB Reserve and City Surplus Reserve.

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

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

The PRSB Reserve Account was exhausted at the end of December 2013.

Management Discussion and Analysis Continued

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

Table 2 shows that the vast majority of reserves are generated from Employer Advance and Retired reserves. DROP reserves represent funds credited for participants who elected to participate in the Deferred Retirement Option Program. PRSB Reserve presents that portion of distributable actuarial surplus that has been allocated for PRSB but not yet distributed to eligible participants.

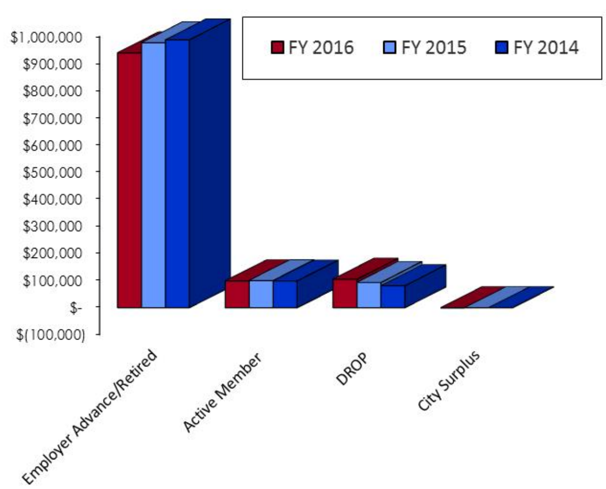
Additions and deductions from PRSB occur when surpluses and allocations occur, respectively. The City Surplus reserve represents that portion of distributable actuarial surpluses and accrued interest, reduced by required City normal pension contributions. The City Surplus Reserve Account shall be drawn upon in subsequent years if needed to reduce or eliminate the City's annual pension contribution requirement.

The City Surplus Reserve Account shows a slightly negative balance for fiscal years 2016 and 2015. The City's normal contribution rate for fiscal years 2016 and 2015 included an adjustment for phase-in of assumption changes in the actuarial assumed rate of return.

Table 2 – Employees Retirement System's Reserves

For The Years Ended June 30, 2016, 2015 And 2014 (In Thousands)

	FY 2016	FY 2015	FY 2014
Employer Advance/Retired Reserves	$ 939,693	$ 976,873	$ 987,708
Active Member Reserves	98,785	100,221	98,490
DROP Reserves	105,406	93,332	81,027
City Surplus Reserves	(585)	(499)	(68)
Net Position Restricted for Pension Benefits	$1,143,299	$1,169,927	$ 1,167,157



Management Discussion and Analysis Continued

System's Activities

Attributable in part to the continued global economic and financial markets volatility, the System's net position decreased $26,627,537 for the fiscal year 2016 resulting in a 2.28 percent decrease in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2016. The System's fiduciary net position increased $2,769,463 for the fiscal year 2015 resulting in a 0.24 percent increase in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2015; and primarily attributable to the growth in the global financial markets in fiscal year 2014, the System's fiduciary net position increased $142,491,536 resulting in a 13.91 percent increase in the fiduciary net position restricted for pension benefits for the fiscal year ended June 30, 2014.

Key elements of the additions and deductions to Fiduciary Net Position for fiscal years 2016, 2015 and 2014 are described in the sections below.

Additions to System's Fiduciary Net Position

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income net of investment expense. Total additions to the System's fiduciary net position for the fiscal year ended June 30, 2016 totaled $27,247,473.

For the fiscal year ended June 30, 2016, overall additions had decreased by $27,138,699 or 49.90 percent over fiscal year 2015, due in large part to the continued global economic and financial market volatility resulting in lower performance of the global investment markets. For fiscal year 2015 overall additions had decreased by $137,772,058 or 71.70 percent from the prior year; and for fiscal year ended June 30, 2014, primarily due to the performance of the investment markets and changes in actuarial assumptions, overall additions increased by $49,716,872 or 34.90 percent from the prior year. The investment section of this report reviews the details of results of investment activity for the fiscal year ended June 30, 2016.

Deductions from System's Fiduciary Net Position

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

Deductions from the fiduciary net position for the fiscal year ended June 30, 2016, totaled $53,875,010 which was an increase of $2,258,301 or 4.38 percent over the prior fiscal year 2015 which increased $1,950,015 or 3.93 percent over the prior fiscal year 2014. The increase in benefits paid resulted primarily from an increase in the amount of benefit payments due to the number of retirees from the prior year.

Management Discussion and Analysis Continued

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

Changes in Fiduciary Net Position (Condensed)

For Fiscal Years Ended June 30, 2016, 2015 And 2014

	FY 2016	FY 2015	FY 2016 Increase/(Decrease) Amount	FY 2016 Increase/(Decrease) Percent
Additions				
Employer Contributions	$ 13,060,088	$ 12,326,570	$ 733,518	5.95%
Employee Contributions	9,098,286	8,750,214	348,072	3.98%
Net Investment Income *	5,089,099	33,309,388	(28,220,289)	(84.72%)
Total Additions	$ 27,247,473	$ 54,386,172	$ (27,138,699)	(49.90%)
Deductions				
Retiree Benefit Payroll	$ 51,198,523	$ 49,072,063	$ 2,126,460	4.33%
Post Retirement Supplemental Benefit (PRSB)	-	-	-	-
Refunds of Contributions	1,330,298	1,473,650	(143,352)	(9.73%)
Administrative Expenses	1,346,189	1,070,996	275,193	25.70%
Total Deductions	$ 53,875,010	$ 51,616,709	$ 2,258,301	4.38%
Changes in Net Position	(26,627,537)	2,769,463	(29,397,000)	(1,061.47%)
Net Position Restricted for Pension Benefits				
Beginning of the Year	1,169,926,556	1,167,157,093	2,769,463	0.24%
End of the Year	$1,143,299,019	$1,169,926,556	$ (26,627,537)	(2.28%)

* Net of investment expense of $5,816,655 and $5,539,630 for June 30, 2016 and 2015, respectively.

	FY 2015	FY 2014	FY 2015 Increase/(Decrease) Amount	FY 2015 Increase/(Decrease) Percent
Additions				
Employer Contributions	$ 12,326,570	$ 11,439,981	$ 886,589	7.75%
Employee Contributions	8,750,214	7,945,519	804,695	10.13%
Net Investment Income *	33,309,388	172,772,730	(139,463,342)	(80.72%)
Total Additions	$ 54,386,172	$ 192,158,230	$(137,772,058)	(71.70%)
Deductions				
Retiree Benefit Payroll	$ 49,072,063	$ 47,367,501	$ 1,704,562	3.60%
Post Retirement Supplemental Benefit (PRSB)	-	9,050	(9,050)	(100.00%)
Refunds of Contributions	1,473,650	1,203,979	269,671	22.40%
Administrative Expenses	1,070,996	1,086,164	(15,168)	(1.40%)
Total Deductions	$ 51,616,709	$49,666,694	$ 1,950,015	3.93%
Changes in Net Position	2,769,463	142,491,536	(139,722,073)	(98.06%)
Net Position Restricted for Pension Benefits				
Beginning of the Year	1,167,157,093	1,024,665,557	142,491,536	13.91%
End of the Year	$1,169,926,556	$1,167,157,093	$ 2,769,463	0.24%

* Net of investment expense of $5,539,630 and 5,320,294 for June 30, 2015 and 2014, respectively.

Management Discussion and Analysis Continued

System's Fiduciary Responsibilities

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

Requests for Information

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

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

Respectfully submitted,

Robert T. Theller
Retirement Administrator

December 21, 2016

Basic Financial Statements

Statement of Fiduciary Net Position

As of June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash (Note 7)	$ 719,521	$ 811,145
Collateral Held for Securities Lent (Note 9)	96,620,156	123,566,012
Receivables		
Receivables for Investments Sold	16,441,242	25,496,064
Interest and Dividends	3,503,934	4,011,488
Other Receivables	18,109,497	22,316,073
Total Receivables	38,054,673	51,823,625
Prepaid Expenses	98	100
Total Current Assets	135,394,448	176,200,882
Investments at Fair Value (Note 6)		
Domestic Equity	438,206,900	457,353,701
International Developed Market Equities	178,568,192	187,227,959
Government Bonds	134,042,281	107,056,999
Corporate Bonds	161,600,576	198,919,386
Direct Lending	21,525,843	0
Real Estate	168,067,886	145,190,784
International Emerging Market Equities	33,892,404	37,235,138
Short-Term Investments	35,631,436	34,674,433
Total Investments	1,171,535,518	1,167,658,400
Capital Assets Net of Accumulated Depreciation (Note 12)	1,235,045	886,026
Total Assets	1,308,165,011	1,344,745,308
LIABILITIES		
Collateral Held for Securities Lent (Note 9)	96,620,156	123,566,012
Payable for Investments Purchased	46,926,403	27,121,717
Other Liabilities	3,180,420	1,925,459
Payable for Foreign Currency Purchased	18,139,013	22,205,564
Total Liabilities	164,865,992	174,818,752
Net Position Restricted for Pension Benefits (Note 5)	$ 1,143,299,019	$ 1,169,926,556

The notes in the financial statements on pages 17-52 are an integral part of this statement.

Basic Financial Statements Continued

Statement of Changes in Fiduciary Net Position

For Fiscal Years Ended 2016 and 2015

	2016	2015
ADDITIONS		
Contributions (Note 3)		
Employer	$ 13,060,088	$ 12,326,570
System Members	9,098,286	8,750,214
Total Contributions	22,158,374	21,076,784
Investment Income		
Net Appreciation/(Depreciation) in Value of Investments	(12,911,321)	15,125,322
Interest	12,282,116	13,346,097
Dividends	10,893,053	9,848,557
Other Investment Related	111,369	41,770
Total Investment Income	10,375,217	38,361,746
Less: Investment Expense	(5,665,566)	(5,442,250)
Total Net Investment Income	4,709,651	32,919,496
Securities Lending Income		
Securities Lending Earnings (Note 9)	530,537	487,272
Less: Securities Lending Expense	(151,089)	(97,380)
Total Net Securities Income	379,448	389,892
Total Additions	27,247,473	54,386,172
DEDUCTIONS		
Benefit Payments	51,198,523	49,072,063
Refunds of Contributions	1,330,298	1,473,650
Administrative Expense	1,346,189	1,070,996
Total Deductions	53,875,010	51,616,709
Changes in Net Position	(26,627,537)	2,769,463
NET POSITION RESTRICTED FOR PENSION BENEFITS		
BEGINNING OF YEAR	1,169,926,556	1,167,157,093
END OF THE YEAR	$ $ 1,143,299,019	$ 1,169,926,556

The notes in the financial statements on pages 17-52 are an integral part of this statement.

Notes to the Basic Financial Statements

1 Significant Provisions of the Retirement System

The City of Fresno Employees Retirement System (the System) was established on June 1, 1939, under Charter Section 910 and is governed by Article 5 of Chapter 3 of the City of Fresno Municipal Code. The System is a single-employer, contributory, defined benefit plan. The System provides lifetime retirement, disability, and death benefits to the non-safety members employed by the City of Fresno, including substantially all full-time employees, other than sworn officers of the Fire and Police Departments.

The System is administered by the Employees Retirement Board (Board) which operates under the authority vested in Article 5 of Chapter 3 of the City of Fresno Municipal Code and the California Pension Protection Act of 1992 which 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 contribution thereto, and defraying reasonable expenses of administering the System."

The Employees Retirement Board does not operate under the control of the City Council. 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 members and their beneficiaries.

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

The Board, in conjunction with the Fire and Police Retirement Board, appoints, directs and oversees a Retirement Administrator. The Retirement Administrator is responsible for the overall management and administration of the Employees and Fire and Police Retirement Systems in accordance with the direction, policy and goals set by the Boards and for providing highly responsible and complex administrative support to the Boards. The Retirement Administrator serves at the pleasure of the Boards.

Working closely with the Boards, the Retirement Administrator and his staff develop investment and benefits policies, coordinate member services and programs, and develop long-term strategies that fulfill the Systems' mission and goals.

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

Notes to the Basic Financial Statements Continued

Membership and Benefit Eligibility

All permanent full-time employees of the City of Fresno, except sworn Fire and Police personnel, are eligible to participate in the plan. Employees become eligible for membership on their first day of regular employment, and members become fully vested after earning 5 years of service credit.

Total participants of the System were comprised as follows at June 30, 2016 and 2015:

	2016	2015
Active Members		
Vested	1,462	1,517
Non-Vested	492	376
Total Active Members	1,954	1,893
Retirees and Beneficiaries of Deceased Retirees, Currently Receiving Benefits	1,849	1,783
Inactive Vested Members	261	236
Total Retirees and Inactive Members	2,110	2,019
Grand Total	4,064	3,912

Benefit Provisions

The System provides retirement allowances and other benefits such as disability and death benefits to the non-safety members employed by the City of Fresno.

The retirement (pension) benefits the member will receive are based upon a combination of age at retirement, years of credited service, final average monthly salary, and the distribution option selected by the participant.

Members' contributions, including interest, are 100 percent vested at all times. Employer contributions do not become vested until completion of 5 years of credited service when the member becomes 100 percent vested, but are not payable until the member attains the age of 55.

Effective January 28, 2008, members may retire between age 50-55 with an actuarially equivalent service retirement benefit.

Member Retirement Benefits

Members are eligible for service retirement benefits upon completion of at least five years of service, upon termination service, if you have left your contributions and interest with the System and are at least age 55. Or, if your termination from City service is permanent and was caused by a layoff due to an economic measure, lack of work, budget cut back or elimination of your position, you can retire at age 50 at a reduced benefit. You may also be eligible for service retirement benefit if you have less than five years of service with the City of Fresno, but have established reciprocity with a prior employer and are eligible to retire from that agency.

The service retirement benefit is calculated pursuant to the provisions of Section 3-541 of the City of Fresno Municipal Code. The monthly allowance for a member is equal to 2 percent of final compensation time each of the first 25 years of accrued retirement service credit plus 1 percent of final compensation times any years of accrued retirement service credit in excess of 25 years, multiplied by the age factor at retirement age.

Final average compensation consists of the highest average consecutive 36 months of compensation earnable calculated using the rate of pay in effect at the time of retirement.

Notes to the Basic Financial Statements Continued

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 50% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse is one married to the member one year prior to the effective retirement date for members retiring on or before the effective date of Ordinance No. 2000-5. For members retiring after the effective date of Ordinance 2000-5, an eligible surviving spouse or domestic partner is one married to or registered with the member on or before the date of retirement.

There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

Deferred Retirement Option Program (DROP)

DROP is an optional voluntary program that allows a member to have his or her retirement benefits deposited in a special account within the System while the member continues to work in his or her current position. It is a voluntary method of receiving a distribution of your retirement benefits; it is not an additional retirement benefit.

DROP may not be beneficial to all members. Each member must determine how the DROP option will affect the member's retirement benefits prior to making an election to enter the DROP.

The member's retirement benefits are determined as of the date of entry into the DROP option and accumulate in the member's DROP account while the member continues to work. Members entering DROP, after January 27, 2011 in accordance with ordinances that amended sections of the City of Fresno Municipal Code, continue making employee contributions.

Eligibility: Any member who is eligible for a service retirement, is age 55 (or age 50 for an early retirement reduced benefit) with a minimum of 5 years of service.

Participation Period: The maximum participation period is ten years. Because the participation period cannot be extended the member must retire at its conclusion; however, the member may end participation in DROP and terminate employment with the City and begin retirement at any time prior to the end of the ten-year period.

DROP Account: A DROP account is set up for each participant; the monthly amount credited to DROP accounts include an amount which represents the service retirement allowance which the member would have received if the member had retired on the date the member commenced DROP participation. Interest is also credited to the DROP account monthly at a rate which is set annually by the Retirement Board. The rate is based on the prior five-year moving average of net market returns of the Systems' investments in accordance with the City of Fresno Municipal Code requirements. The Board is authorized to reduce the annual interest crediting rate up to 3 percent, if necessary, to maintain DROP's cost neutrality.

Notes to the Basic Financial Statements Continued

A DROP account is a nominal, bookkeeping account established within the System for each DROP participant.

Upon termination of DROP participation and retirement from the City, a member receives the amounts credited to their DROP account, including interest. In addition, you will also begin receiving your monthly retirement allowance in the amount being credited to your DROP account. You may select a method of withdrawing the money from your DROP account from the options provided.

DROP Reserves which represent funds reserved for DROP benefits accumulated by active members and retirees were $105,406,192 and $93,331,723 as of June 30, 2016 and 2015, respectively.

Terminated Member Benefits

If a member terminates before earning five years of credited service, the member forfeits the right to receive his or her service retirement benefit and is entitled to withdraw refundable contributions made, together with accumulated interest. If the member enters a reciprocal retirement system within 180 days (6 months) of terminating employment with the City of Fresno and elects to leave their accumulated contributions on deposit with the System, then the member will receive a deferred retirement allowance when eligible.

Death and Disability Benefits

Death benefits are based upon whether the death occurred before or after retirement. Disability benefits are based upon whether the member has at least ten years of credited service, over or under age 55 and whether the permanent incapacity is found to be service or non service-connected.

Cost of Living Benefits

Cost-of-living (COLA) increases for retirees under the Employees Retirement System are provided for in the Municipal Code, and are determined by annual changes in the Consumer Price Index (CPI) for each of the two immediately preceding calendar years. Retirement staff research the percentage change in CPI (United States city-average for urban wage earners and clerical workers – all items) and propose that percent to the Retirement Board as the COLA to be adopted for the following fiscal year. This procedure is completed by the end of April each year for implementation in July. The COLA is limited to a five percent (5.00%) maximum change per year and any excess over 5.00 percent is banked for the retiree for use in a year where the percent of CPI change is negative.

The Board adopted the annual COLA, pursuant to Section 3-553(b) of 0.3 percent, effective July 1, 2015 for fiscal year 2016, and 1.5 percent, effective July 1, 2014 for the fiscal year 2015.

Notes to the Basic Financial Statements Continued

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's financial statements are prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP), under which revenues are recognized when earned and deductions are recorded when the liability is incurred. Employer and employee contributions are recognized as revenue when due. Contributions are recorded in the period the related salaries are earned and become measurable. Investment income is recognized when it is earned. The net appreciation in fair value of investments held by the System is recorded as an increase to investment income based on the valuation of investments at fiscal year-end, which includes both realized and unrealized gains and losses on investments. Retirement benefits and refunds are recognized when due and payable under the terms of the plan as defined in Section 3-523 and 3-529 of the City of Fresno Municipal Code. Other expenses are recognized when the corresponding liabilities are incurred.

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

Investments

The System is authorized by the City of Fresno Municipal Code and the policies of the Retirement Board to invest in any form or type of investment deemed prudent by the Board and does so through its Investment Objectives and Policy Statement which establishes and outlines the responsibilities of the various parties that are associated with managing assets of the Retirement System, consistent with applicable sections of the Municipal Code, Federal laws and Article XVI, Section 17(c) of the Constitution of the State of California which provides that "the member 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."

Notes to the Basic Financial Statements Continued

System investments are reported at fair value. Fair value is the amount that the System can reasonably expect to receive for an investment in a current sale between a willing seller, that is, other than in a forced or liquidation sale. Fair value for investments of publicly traded securities is stated at fair value based upon closing sales prices reported on recognized securities exchanges on the last business day of the period or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. All purchases and sales of securities are accounted for on a trade date basis and dividends declared but not received are accrued on the ex-dividend date. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments in both bonds and mortgage-backed pass-through certificates are carried at fair value.

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

The asset allocation policy set by the Board, in conjunction with the Fire and Police Retirement Board, is outlined in the Boards' Investment Objectives and Policy Statement. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the System. The table below provides the Boards' adopted asset allocation policy as of June 30, 2016 and 2015.

Asset Allocation Policy

As of June 30, 2016 and 2015

Asset Class	FY2016	FY2015
Domestic Equity		
Large Cap	22.5%	22.5%
Small Cap	7.5%	7.5%
International Equity		
Developed Markets	22.0%	22.0%
Emerging Markets	8.0%	8.0%
Real Estate	15.0%	15.0%
Domestic Fixed Income	11.0%	11.0%
High Yield Bonds	6.0%	10.0%
Absolute Return Strategy	4.0%	4.0%
Direct Lending	4.0%	0.0%
Cash	0.0%	0.0%
	100%	100%

Estimates

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

Implementation of New Accounting Pronouncements

For the year ended June 30, 2016, the Board adopted and implemented all applicable new GASB pronouncements in the fiscal years ended June 30, 2016 and 2015, as required by each statement. The most recent pronouncements, effective for fiscal year ended June 30, 2016, are provided on the following page.

Notes to the Basic Financial Statements Continued

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements and disclosures. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and the System implemented GASB Statement No. 72 in the current fiscal year. See Note 6 for Fair Value Measurements.

GASB Statement No. 73 (GASB 73) Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, was issued in June 2015. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. Statement 68 establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and the System implemented GASB Statement No. 73 in the current fiscal year. There was no material impact on the System's financial statements as a result of the implementation of GASB 73.

GASB Statement No. 76 (GASB 76), The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments was also issued in June 2015. This Statement establishes the hierarchy of generally accepted accounting principles (GAAP), and the framework for selecting those principles used to prepare financial statements of state and local governmental entities. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The System implemented GASB 76 starting with the fiscal year ended June 30, 2016. There was no material impact on the System's financial statements as a result of the implementation of GASB 76.

GASB Statement No. 79 (GASB 79), Certain External Investment Pools and Pool Participants was issued in December 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The System has determined it is not a participant in an external investment pool (i.e., Securities and Exchange Commission Rule 2a-7) in accordance with GASB 79. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The System implemented GASB Statement No. 79 effective June

Notes to the Basic Financial Statements Continued

30, 2016. There was no material impact on the System's financial statements as a result of the implementation of GASB 79.

3 Contributions

Authority to Collect

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

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 according to age and are designed to provide funding for approximately one third of retirement benefit basic normal costs and one-half of the cost-of-living component. All active members are required to make contributions to the System. The average member contribution rate as of June 30, 2016 for 2015-2016 (based on the June 30, 2014 valuation) was 8.38 percent of compensation. The average member contribution rate as of June 30, 2015 for 2014-2015 (based on the June 30, 2013 valuation) was 8.27 percent of compensation.

The employer contribution rate is designed to provide funding for the remaining regular retirement and cost-of-living benefits, as well as all regular disability and survivors' benefits. The average employer contribution rate as of June 30, 2016 for 2015-2016 (based on the June 30, 2014 valuation) was 12.03 percent of compensation. The average employer contribution rate as of June 30, 2015 for 2014-2015 (based on the June 30, 2013 valuation) was 11.65 percent of compensation.

One of the funding objectives of the System is to establish contribution rates which, over time, will remain level as a percentage of payroll unless the System benefit provisions are changed.

Funding Status & Method

Actuarial Funding Policy and Actuarial Cost Methodology for Funding Purposes

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

Goals of the Actuarial Funding Policy:

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

Notes to the Basic Financial Statements Continued

Funding Requirements and Policy Components

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

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

As of June 30, 2016, the System does not have an Unfunded Actuarial Accrued Liability ("UAAL"). The Board's Amortization Policy sets forth the amortization procedures for funding any UAAL or amortization and allocation of any available Surplus in the System.

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

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

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

The System uses a five-year smoothing of market gains and losses above and below the assumed actuarial rate of return to derive the actuarial valuation value of assets. As of the

Notes to the Basic Financial Statements Continued

fiscal year ended June 30, 2016, the actuarial valuation value of assets was $1,087 billion with a funded percentage of 111.3 percent on a valuation value of assets.

The progress being made towards meeting the System's funding objective through June 30, 2016 is illustrated in the Schedule of Funding Progress shown below.

Schedule of Funding Progress

For The Three Years Ending June 30, 2016

(Dollars in Millions)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Valuation Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1)/(2)	(Prefunded) / Unfunded AAL (2)–(1)	Annual Covered Payroll	(Prefunded) / Unfunded AAL Percentage of Covered Payroll (4)/(5)
2016	$1,087	$977	111.3%	$(110)	$113	(97.2%)
2015	$1,049	$960	109.2%	$(89)	$110	(80.6%)
2014	$994	$950	104.6%	$(43)	$109	(39.8%)

Funding Policy

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

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

Total contributions (basic and cost-of-living adjustments (COLA)) to the System for fiscal year 2016 totaled

Notes to the Basic Financial Statements Continued

$22,158,374. Employees contributed $9,098,286 and the City made contributions of $13,060,088.

Contributions aggregating $22,158,374 ($13,060,088 employer contributions and $9,098,286 employee contributions) were made in fiscal year 2016, based on an actuarial valuation determined as of June 30, 2014, which became effective for the year ended June 30, 2016. During fiscal year 2016, the Employer normal contribution rate was set at 12.06 percent. However, due to an adjustment for an excess contribution from the prior year Employer and System member basic and COLA contributions represented 12.03 percent and 8.38 percent, respectively, of the fiscal year 2016 covered payroll.

Contributions aggregating $21,076,784 ($12,326,570 employer contributions and $8,750,214 employee contributions) were made in fiscal year 2015, based on an actuarial valuation determined as of June 30, 2013, which became effective for the year ended June 30, 2015. Employer and System member contributions represented 11.65 percent and 8.27 percent, respectively, of the fiscal year 2015 covered payroll.

Contributions Required and Contributions Made

The employer's required normal contributions to the System has two components: basic and COLA; and for the first time in over a decade contributions to fund the COLA were required for fiscal year 2013 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 2011. For fiscal year 2016, the employer's required normal contributions (basic and COLA) to the System were as follows:

Normal Cost

	FY 2016	FY 2015
Member Contributions	$ 9,098,286	$ 8,750,214
Employer Contribution Rate	12.06%	12.03%
Employer Contributions	$ 13,090,053	$ 12,730,192
Prior Year Contribution (Surplus)/Shortfall	(29,965)	(403,622)
Net Employer Contributions	$ 13,060,088	$ 12,326,570
Pensionable Payroll	$108,541,068	$105,820,382

Notes to the Basic Financial Statements Continued

4 Net Pension Liability

The components of the net pension liability of the System are as follows:

Schedules of Changes in the System's Net Pension Liability (GASB 67)

As of June 30, 2016 and 2015

(In Thousands)

	As of June 30, 2016	As of June 30, 2015
Total Pension Liability	$1,102,213	$1,071,074
Plan Fiduciary Net Position	($1,143,299)	($1,169,926)
Net Pension Liability	($41,086)	($98,852)
Plan Fiduciary Net Position as a percentage of the total pension liability	103.73%	109.23%

The net pension liability was measured as of June 30, 2016 and 2015 and determined based upon the total pension liability (on a GASB 67 basis) from actuarial valuations as of June 30, 2016 and 2015, respectively.

Notes to the Basic Financial Statements Continued

Actuarial Assumptions

Key Methods and Assumptions Used in Valuation
of Total Pension Liability

The total pension liability as of June 30, 2016 was determined by an actuarial valuation of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016[1]
Actuarial Experience Study	3 Year Period Ending June 30, 2015
Actuarial Cost Method	Entry Age Normal Actuarial Cost Method
	Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by service.

Actuarial Assumptions

Inflation	3.00%
Salary Increases	3.75% to 11.50%, varying by service, including inflation
Discount Rate	7.25%, net of pension plan investment expense, including inflation
Other assumptions	See June 30, 2016 funding valuation and Appendix A for the service retirement rates after they have been adjusted to treat DROP participation as service retirement.
Mortality Rates	Mortality rates used in the latest actuarial valuation are based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females). For healthy members, the separate tables for males and females ages are set forward one year. For members that are disabled, the separate tables for males and females ages are set forward four years. For beneficiaries the separate tables for males and females ages set forward one year, weighted 35% male and 65% female.

[1] Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. As such, the actuarial valuation dated June 30, 2016 will impact the contribution rates for the fiscal year ended June 30, 2018.

Notes to the Basic Financial Statements Continued

The valuation interest rate is 7.25 percent; total salary scale increases range between 3.75% to 11.50% (include 3.25 percent for inflation plus 0.50 percent across the board salary increase plus merit and promotion increases based on completed years of service) were based on the June 30, 2015 Experience Analysis and Economic Assumptions Reports.

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

GASB Statement No. 67 addresses accounting and financial reporting requirements for pension plans and redefines pension liability and expense for financial reporting purposes, and does not apply to contribution amounts for pension funding purposes.

When measuring pension liability under GASB Statement No. 67 the actuary uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as the System uses for funding. Note that, unrelated to the investment return assumption, the new rules use a version of the Entry Age method where the Total Pension Liability (TPL) for financial reporting purposes must be fully accrued by the time a member either enters DROP or is expected to elect the DROP. This is in contrast to the version of the Entry Age method used for funding, where the Actuarial Accrued Liability (AAL) does not have to be fully accrued until members retire from employment after participation in the DROP. Under GASB Statement No. 67, active members who are expected to enroll in the DROP in the future would report a Service Cost that is higher than the Normal Cost used for funding, while members already in the DROP would report no Service Cost even though their Normal Cost continues to accrue.

Long-Term Expected Real Rate of Return

The long-term expected rate of return on the System's investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and net of inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Notes to the Basic Financial Statements Continued

Asset Class/Target Allocation/Long-term Expected Real Rate of Return Table

	As of June 30, 2016		As of June 30, 2015	
Asset Class	Target Asset Allocation	Weighted Average Long-Term Expected Real Rate of Return* (Arithmetic)	Target Asset Allocation	Weighted Average Long-Term Expected Real Rate of Return* (Arithmetic)
Large Cap U.S. Equity	22.5%	5.80%	22.5%	6.09%
Small Cap U.S. Equity	7.5%	6.47%	7.5%	6.79%
Developed International Equity	22.0%	6.98%	22.8%	6.66%
Emerging Market Equity	8.0%	8.99%	7.2%	8.02%
Domestic Fixed Income	15.0%	0.83%	20.0%	0.83%
High Yield Fixed Income	6.0%	3.44%	10.0%	3.42%
Real Estate	15.0%	4.45%	10.0%	4.83%
Private Debt/Direct Lending	4.0%	5.73%	-	-
Total	100.0%		100.0%	

Mortality Rates

Mortality rates used in the latest actuarial valuation are based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females), projected 20 years with the two-dimensional scale MP-2015. For healthy members the separate tables for males and females ages are set forward one year. For members that are disabled, the ages are set forward four years. For beneficiaries the separate tables for males and females ages are set forward one year, weighted 35% male and 65% female.

Discount Rate

The discount rates used to measure the total pension liability were 7.25 and 7.50 percent as of June 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on the System's investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2016 and 2015.

The following table presents the net pension liability of the Retirement System calculated using the discount rate of 7.25 and 7.50 percent as of June 30, 2016 and 2015, as well as what the System's net pension liability would be if it were alculated using a discount rate that is 1.00 percent lower or 1.00 percent higher than the current rate:

* Based on June 30, 2015 Economic Study of Assumptions.

Notes to the Basic Financial Statements Continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

As of June 30, 2016 and 2015 (In Thousands)

Net Pension Liability	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
June 30, 2016	$85,612	($41,086)	($145,896)

Net Pension Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
June 30, 2015	$24,658	($98,852)	($201,231)

5 Net Position Restricted for Pension Benefits

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

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

The System's major reserves are as follows:

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

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

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

POST RETIREMENT SUPPLEMENTAL RESERVE (PRSB RESERVE) represents surplus earnings that have been allocated but not distributed to eligible retirees in accordance with the City of Fresno Municipal Code Section 3-567 "Post Retirement Supplemental Benefit." The PRSB Reserve Account was exhausted at the end of calendar year 2013.

Notes to the Basic Financial Statements Continued

CITY SURPLUS RESERVE represents surplus earnings that have been allocated but not used as a reduction to offset or eliminate the City's pension contributions in accordance with the conditions and requirements of Municipal Code Section 3-567 "Post Retirement Supplemental Benefit." The City Surplus Reserve Account was negative for fiscal years 2016 and 2015 due to the differences between the actual and estimated surplus allocation for the City for offsetting the City's contributions for those years. The City's normal contribution rate for fiscal year 2017 includes funding of the fiscal year 2016 deficit City Surplus Reserve balance. Interest is allocated at an actuarially determined interest rate as approved by the Board and is credited monthly to the Active Member Reserves and the Employer Advance/Retired Reserves. Active members in the Deferred Retirement Option Program accrue interest on their accumulated DROP accounts monthly at an interest rate annually adopted by the Board.

The amount of reserves for the years ended June 30, 2016 and 2015 consisted of the following:

Reserves Table for 2016 and 2015

(In Thousands)

	2016	2015
Employer Advance/Retired Reserves	$ 939,693	$ 976,873
Active Member Reserves	98,785	100,221
DROP Reserves	105,406	93,332
City Surplus Reserves	(585)	(499)
Net Position Restricted for Pension Benefits	$1,143,299	$1,169,927

Notes to the Basic Financial Statements Continued

6 Fair Value Measurements

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements and disclosures. The System's investments are measured and reported within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Inputs are based on quoted prices for identical assets or liabilities in an active market that the System can access. An active market for the asset or liability is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market usually provides the most reliable evidence of fair value and is generally used without adjustment if available. This classification includes public equities with observable market prices.

Level 2: Inputs that are observable either directly or indirectly but are not Level 1 inputs. Level 2 inputs include quoted prices for similar instruments, broker quotes, or observable inputs that directly impact value such as interest rates, prepayment speeds, and credit risk. Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, and fair values are determined through the use of models or other valuation methodologies. For investments in funds where there is an ability to redeem such investments at the Net Asset Value (NAV) per share (or its equivalent) at the measurement date or in the near term, the fair value of the investment is generally categorized as Level 2.

Level 3: Inputs that are unobservable. Level 3 inputs are generally used in situations where there is little, if any, market activity for the investment. These inputs into the determination of fair value require significant management judgment or estimation. Due to the inherent uncertainty of these estimates, these values may differ significantly from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include public entities and other fixed income securities where there is an inability to redeem such investments at the NAV per share (or its equivalent) at the measurement date or in the near term.

The tables on the following pages show the fair value leveling of the System's investments as of June 30, 2016 and 2015.

Notes to the Basic Financial Statements Continued

Investment Type	June 30, 2016	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
Asset Backed Securities	$ 1,035,031	-	$ 1,035,031	-
Bank Loans	205,819	-	205,819	-
Commercial Mortgage-Backed	2,642,558	-	2,642,558	-
Corporate Bonds	136,864,884	-	136,758,130	$106,754
Corporate Convertible Bonds	2,617,407	-	2,553,249	64,158
Government Agencies	2,343,835	-	2,343,835	-
Government Bonds	57,089,522	-	57,089,522	-
Government Mortgage Backed Securities	62,775,211	-	62,775,211	-
Gov't-issued Commercial Mortgage-Backed	547,038	-	547,038	-
Index Linked Government Bonds	2,822,238	-	2,822,238	-
Municipal/Provincial Bonds	7,730,195	-	7,730,195	-
Non-Government Backed C.M.O.s	1,656,834	-	1,656,834	-
Total Debt Securities	278,330,572	-	278,159,660	170,912
Equity Securities				
Consumer Discretionary	53,753,466	53,699,430	-	54,036
Consumer Staples	27,682,529	27,608,712	73,817	-
Energy	14,823,669	14,800,524	23,145	-
Financials	62,875,650	62,875,650	-	-
Health Care	38,511,588	38,511,588	-	-
Industrials	54,410,026	54,404,314	-	5,712
Information Technology	65,140,149	65,126,458	13,691	-
Materials	19,676,838	19,676,838	-	-
Real Estate	79,043,359	79,005,191	38,168	-
Telecommunication Services	11,510,492	11,510,492	-	-
Utilities	8,957,955	8,957,955	-	-
Total Equity Securities	436,385,721	436,177,152	148,821	59,748
Private Real Estate Holdings	3,035,896	-	3,035,896	-
Total Investments by Fair Value Level	717,752,189			
Investments Measured at the Net Asset Value (NAV)				
Commingled Fund - Equities	285,449,107			
Commingled Fund - Real Estate	95,385,655			
Unconstrained Bond Fund - Pooled Assets	15,057,047			
Direct Lending, L.P. LLC	21,525,843			
Total Investments Measured at NAV	417,417,652			
Total Investments Measured at Fair Value and NAV	1,135,169,841			
Investment Derivative Instruments *				
Fixed Income Derivatives - Futures	735,433	1,164,495	(429,062)	-
Fixed Income Deriv - Margined Options	(1,191)	(1,191)	-	-
Total Investment Derivative Instruments	734,242	1,163,304	(429,062)	-

* *Short-term derivative investments included on Page 48 are excluded here.*

Notes to the Basic Financial Statements Continued

Investment Type	June 30, 2015	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
Asset Backed Securities	$ 8,200,771	$ -	$ 8,200,771	$ -
Bank Loans	1,403,014	-	1,403,014	-
Commercial Mortgage-Backed	3,498,658	-	3,498,658	-
Corporate Bonds	161,007,373	-	160,413,399	593,974
Corporate Convertible Bonds	3,320,717	-	3,320,717	-
Government Agencies	2,643,256	-	2,123,744	519,512
Government Bonds	47,792,783	-	47,644,755	148,028
Government Mortgage Backed Securities	48,538,996	-	48,336,104	202,892
Gov't-issued Commercial Mortgage-Backed	581,637	-	581,637	
Index Linked Government Bonds	4,016,304	-	4,016,304	-
Municipal/Provincial Bonds	6,774,744	-	6,774,744	-
Non-Government Backed C.M.O.s	2,418,429	-	2,418,429	-
Total Debt Securities	**290,196,682**	-	288,732,276	1,464,406
Equity Securities				
Consumer Discretionary	53,153,135	53,153,135	-	-
Consumer Staples	26,853,562	26,839,944	13,618	-
Energy	18,921,896	18,874,998	46,898	-
Financials	77,342,862	76,990,054	352,808	-
Health Care	45,488,665	45,488,665	-	-
Industrials	54,525,712	54,152,552	-	373,160
Information Technology	62,089,256	62,074,732	14,524	-
Materials	21,536,511	21,536,511	-	-
Real Estate	65,208,167	65,136,127	72,040	-
Telecommunication Services	9,352,616	9,352616	-	-
Utilities	7,421,422	7,421,422	-	-
Total Equity Securities	**441,893,804**	441,020,756	499,888	373,160
Private Real Estate Holdings	**2,378,395**	-	2,378,395	-
Total Investments by Fair Value Level	**734,468,881**			
Investments Measured at the Net Asset Value (NAV)				
Commingled Fund - Equities	300,548,407			
Commingled Fund - Real Estate	86,060,179			
Unconstrained Bond Fund - Pooled Assets	15,197,220			
Direct Lending, L.P. LLC	-			
Total Investments Measured at NAV	401,805,806			
Total Investments Measured at Fair Value and NAV	**1,136,274,687**			
Investment Derivative Instruments*				
Fixed Income Derivatives - Futures	(3,290,720)	(3,290,720)	-	-
Fixed Income Deriv - Margined Options	-	-		
Total Investment Derivative Instruments	(3,290,720)	(3,290,720)	-	-

** Short-term derivative investments included on Page 48 are excluded here.*

Notes to the Basic Financial Statements Continued

Commingled equity and real estate funds are valued based on NAV reported by the investment manager, which are generally calculated based on the last reported sale price of the underlying assets held by such funds. Direct lending funds are typically structured as limited partnerships and limited liability companies. Since there is no readily available market for these investments in limited partnerships and limited liability companies such investments are stated at fair value as estimated in an inactive market. These investments include securities of companies that may not be immediately liquid, such as private debt securities, real estate or other assets. The valuations of these investments are based upon values provided by the investment managers, based on the guidelines established with the investment managers and in consideration of other factors related to the System's interests in these investments.

Investments that are measured at fair value using the net asset value per share (NAV or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In these instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Equity and derivative securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Equity and debt securities classified in Level 2 and Level 3 are using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, observable market based inputs and unobservable inputs (i.e. extrapolated data, proprietary models, and indicative quotes). Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Investment derivative instruments categorized as Level 2 and 3 are valued using market approaches that consider, as applicable, benchmark interest rates or foreign exchange rates.

Real estate assets classified in Level 2 are the System's private real estate investments which are valued using independent external appraisers. The System's policy is to perform independent appraisals of the property every three years. The appraisals include a complete property and market inspection and analysis by designated Members of the Appraisal Institute (MAI). The appraisals are performed using generally accepted valuation approaches applicable to the property type. Calculations used in the System's independent appraisals are generally based on a discounted cash flow analysis.

Investments in Entities That Calculate Net Asset Value Per Share

The fair value measurement of investments in commingled equity, real estate and direct lending funds are valued based on the investments' net asset value (NAV) per share (or its equivalent) reported by the investment manager, which are generally calculated based on the last reported sale price of

Notes to the Basic Financial Statements Continued

the underlying assets held by such funds. These include funds that are structured as limited partnerships.

Since there is no readily available market for investments in limited partnerships and limited liability companies, such investments are stated at fair value as estimated in an inactive market. These investments include securities of companies that may not be immediately liquid, such as private debt securities and real estate or other assets. The valuations of these investments are based upon values provided by the investment managers, and in consideration of other factors, including guidelines established with those investment managers, related to the System's interests in these investments.

Such fair value measurements are shown in the tables below as of June 30, 2016 and 2015.

City Of Fresno Employees Retirement System
Investments Measured at the NAV
As of June 30, 2016

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled - Equities	$ 285,449,107	-	Daily	None
Commingled - Real Estate	95,385,655	-	Quarterly	45-90 Days
Unconstrained Bond - Pooled Assets	15,057,047	-	Monthly	None
Direct Lending, L.P., LLC	21,525,843	24,301,447	Not Eligible	N/A
Total investments measured at the NAV	$ 417,417,652	$ 24,301,447		

City Of Fresno Employees Retirement System
Investments Measured at the NAV
As of June 30, 2015

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled - Equities	$ 300,548,407	-	Daily	None
Commingled - Real Estate	86,060,179	-	Quarterly	45-90 Days
Unconstrained Bond - Pooled Assets	15,197,220	-	Monthly	None
Direct Lending, L.P., LLC		-	Not Eligible	N/A
Total investments measured at the NAV	$ 401,805,806	-		

On the following page is an explanation of the investment types listed above.

Notes to the Basic Financial Statements Continued

The investment types listed in the tables on the preceding page were measured at the NAV as follows:

(1) Commingled equity funds are highly liquid and can be redeemed within short-term periods of time. The System's investments of this type consist of institutional investment funds - one international ACWIexUS equity fund that is diversified across developed and emerging market countries and sectors and two domestic large cap equity index funds (S&P 500 Index and Russell 1000 Index). The fair value of these investment types has been determined using the NAV per share of the investments.

(2) Commingled real estate fund: The System's commingled real estate fund is a core investment strategy designed to deliver a relatively high level of current income combined with moderate appreciation potential. It is comprised of institutional quality office, retail, residential and industrial investments in major markets throughout the U.S. The redemption frequency of the real estate fund is quarterly, if liquidity is available, with a notice of redemption 45 days before the end of a quarter. The Fund fully satisfied all outstanding redemption requests as of its year end September 30, 2016 and is operating without a redemption queue.

(3) Commingled fixed income funds: The commingled fixed income assets are held in the System's unconstrained bond portfolio and are comprised of two pooled funds invested in a Private ABS Sector Fund and a Private Short-Term Fund that are part of the overall separate account portfolio.

(4) Private Debt - direct lending funds: The System's two direct lending funds are each invested through a master-feeder structure, on a leveraged basis primarily in senior secured loans of private U.S. lower-middle-market companies. Strategies employ a capital preservation focus and structured investments with strong covenant provisions to reduce associated risks, underwriting multiple cushions to provide downside protections. Investment period is generally 3-5 years with reinvestment of committed capital.

7 Deposits and Investments

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

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

Notes to the Basic Financial Statements Continued

Investments at June 30, 2016 and 2015 consist of the following:

Investments at Fair Value 2016 and 2015

(In Thousands)

	2016	2015
Investments at Fair Value		
Domestic Equity	$ 438,207	$ 457,354
International Developed Market Equities	178,568	187,228
International Emerging Market Equities	33,892	37,235
Government Bonds	134,042	107,057
Corporate Bonds	161,601	198,919
Direct Lending	21,526	0
Real Estate	168,068	145,191
Short-Term Investments	35,632	34,674
Total Investments at Fair Value	$ 1,171,536	$ 1,167,658

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 and Maximum Allocations

Asset Class	Minimum	Target	Maximum
Domestic Equities			
Large Cap	16.0%	22.5%	30.0%
Small Cap	4.0%	7.5%	12.0%
International Equities			
Developed Markets	16.0%	22.0%	30.0%
Emerging Markets	0.0%	8.0%	10.0%
Real Estate	5.0%	15.0%	27.0%
Domestic Fixed Income	5.0%	11.0%	20.0%
High Yield Bonds	4.0%	6.0%	12.0%
Absolute Return Strategy	0.0%	4.0%	8.0%
Direct Lending	0.0%	4.0%	7.0%
Cash	0.0%	0.0%	2.0%
		100%	

Notes to the Basic Financial Statements Continued

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

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

Custodial Credit Risk

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

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

That portion of the System's cash held by the City in a Trust account as part of the City's cash investment pool totaled $156,837 and $101,785 at June 30, 2016 and 2015, respectively. Accordingly, the System's investments in the pool are held in the name of the City and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the City's investment policy and carrying amounts by type of investments may be found in the notes to the City's separate Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

Credit and Interest Rate Risk

Credit risk associated with the System's debt securities is identified by their ratings in the tables that follow. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System has no general policy on credit and interest rate risk. The System limits its investments in below investment grade bonds and monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio.

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

Notes to the Basic Financial Statements Continued

	2016			2015		
Type of Investment	Fair Value	Credit Quality	Duration	Fair Value	Credit Quality	Duration
Asset Backed Securities	$ 1,035,031	A	1.65	$ 8,228,098	AA+	1.74
Commercial Mortgage-Backed	2,642,558	A-	4.46	3,498,658	BBB+	2.12
Corporate Bonds	136,864,884	BB+	5.43	160,980,045	BB+	3.95
Corporate Convertible Bonds	2,617,407	B	3.19	3,320,717	CC	3.39
Funds - Corporate Bond	15,057,047	NR	1.18	15,197,220	NR	1.35
Non-Government backed C.M.O.s	1,656,834	CCC-	1.58	2,418,429	BB-	1.95
Bank Loans	205,819	BB-	0.77	1,403,014	BB-	0.45
Convertible Equity	349,863	BB-	4.69	1,888,923	CC	1.56
Common Stock	38,168	CCC+	9.20	418,340	C-	0.98
Preferred Stock	1,132,965	BB	0.00	1,565,942	BB-	0.47
Government Agencies	2,343,835	AAA	3.97	2,643,256	AAA	3.18
Government Bonds	57,089,522	AAA	5.24	47,792,783	AAA	5.66
Gov't Issued Commercial Mortgage Backed Securities	547,038	AAA	4.69	581,637	AAA	5.03
Government Mortgage Backed Securities	62,775,211	AAA	2.02	48,538,995	AAA	2.90
Fixed Income Derivatives - Futures	735,433	AA+	0.00	(3,290,720)	AAA	6.67
Fixed Income Derivatives – Margined Options	(1,191)	B-	0.00	-	-	-
Municipal/Provincial Bonds	7,730,195	A	9.24	6,774,744	A+	8.94
Index Linked Government Bonds	2,822,238	AAA	8.49	4,016,304	AAA	8.91
Total Credit Risk Fixed Income	$ 295,642,857			$ 305,976,385		

Per section 3.5.f.i. of the System's Investment Policy Statement, no more than 15 percent of an investment manager's fixed income portfolio may be invested in below investment grade rated securities (BB or B rated bonds). Therefore, at least 85 percent of the manager's fixed income portfolio must be invested in investment grade securities. Intermediate bond portfolios shall maintain an average credit quality of A+ or better.

High yield fixed income portfolios, in accordance with section 3.5.f.ii. of the System's Investment Policy Statement, shall maintain an average credit quality rating equal to or higher than that of the Barclays US Corporate High Yield Index. Based on the Barclays US Corporate High Yield Index, a high yield manager's portfolio shall have a constraint of the benchmark weight plus 5 percent in bonds rated Caa1/CCC+ or lower with non-rated bonds being limited to 5 percent of the portfolio with both limits subject to maintaining the average portfolio credit quality requirement of the Barclays US Corporate High Yield index. No more than 25 percent of a high yield manager's portfolio may be invested in foreign securities; within this limit, a manager may allocate

Notes to the Basic Financial Statements Continued

up to 20 percent in emerging market government securities including both non-US dollar denominated securities and US dollar denominated Yankee securities and up to 15 percent of the portfolio may be invested in non-US dollar denominated securities.

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

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

Concentration Risk

The investment portfolio as of June 30, 2016 and 2015 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 or fiduciary net position.

Foreign Currency Risk

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

The following positions represent the System's exposure to foreign currency risk as of June 30, 2016 and 2015.

Notes to the Basic Financial Statements Continued

Foreign Currency Risk Exposure

As of June 30, 2016

	Base Currency	Country	Equities / Fixed Income	Foreign Currency Contracts	Futures, Options & Swaps	Cash & Cash Equivalents	Total
AED	United Arab Emirates Dirham	UAE	$ 258,958	$ -	$ -	$ -	$ 258,958
AUD	Australian Dollar	Australia	6,798,068	-	46,475	28,416	6,872,959
BRL	Brazilian Real	Brazil	3,068,072	1,735,705	(75,940)	(2,499,764)	2,228,073
CAD	Canadian Dollar	Canada	8,753,111	-	-	(60,726)	8,692,385
CHF	Swiss Franc	Switzerland	11,849,849	-	-	-	11,849,849
CLP	Chilean Peso	Chile	71,489	-	-	1,728	73,217
CNH	Offshore Chinese Yuan Renminbi	China	-	3,473,361	-	(981,660)	2,491,701
CNY	Chinese Yuan Renminbi	China	-	-	-	(2,501,094)	(2,501,094)
COP	Colombian Peso	Colombia	588,606	-	-	-	588,606
CZK	Czech Koruna	Czech Republic	65,762	-	-	271	66,033
DKK	Danish Krone	Denmark	9,180,849	-	-	-	9,180,849
EGP	Egyptian Pound	Egypt	73,555	-	-	-	73,555
EUR	Euro	Europe	40,658,040	26,001	2,504,542	(2,015,594)	41,172,989
GBP	British Pound Sterling	United Kingdom	30,189,073	526,856	(66,411)	(952,968)	29,696,550
HKD	Hong Kong Dollar	Hong Kong	11,816,529	-	-	6,769	11,823,298
HUF	Hungarian Forint	Hungary	127,299	-	-	-	127,299
IDR	Indonesian Rupiah	Indonesia	1,266,140	-	-	3,183	1,269,323
ILS	New Israeli Shekel	Israel	213,796	-	-	-	213,796
INR	Indian Rupee	India	3,262,141	-	-	(17,526)	3,244,615
JPY	Japanese Yen	Japan	30,335,969	-	(37,900)	(1,704,861)	28,593,208
KRW	South Korean Won	South Korea	10,050,662	44,379	-	(61,029)	10,034,012
MXN	Mexican Peso	Mexico	2,835,460	70,285	5,964	(198,215)	2,713,494
MYR	Malaysian Ringgit	Malaysia	636,372	-	-	3,371	639,743
NOK	Norwegian Krone	Norway	551,028	-	-	211	551,239
NZD	New Zealand Dollar	New Zealand	-	-	-	118	118
PEN	Peruvian Nuevo Sol	Peru	3,286	-	-	-	3,286
PHP	Philippine Peso	Philippines	713,266	-	-	4,049	717,315
PLN	Polish Zloty	Poland	798,695	-	-	-	798,695
QAR	Qatari Rial	Qatar	463,542	-	-	-	463,542
RUB	Russian Ruble	Russia	-	204,576	-	(339,470)	(134,894)
SEK	Swedish Krona	Sweden	7,068,089	-	-	-	7,068,089
SGD	Singapore Dollar	Singapore	1,605,112	-	-	-	1,605,112
THB	Thai Baht	Thailand	1,222,539	-	-	1,011	1,223,550
TRY	Turkish Lira	Turkey	1,192,761	-	-	-	1,192,761
TWD	New Taiwan Dollar	Taiwan	5,721,993	-	-	36,743	5,758,736
USD	United States Dollar	United States	-	11,508,636	(20,035,580)	(825,817)	(9,352,761)
ZAR	South African Rand	South Africa	5,090,078	36,860	-	(32,146)	5,094,792
Total Equities (In USD)			196,530,189	17,626,659	(17,658,850)	(12,105,000)	184,392,998
Total Non-USD Equities (In USD)			$196,530,189	$ 6,118,023	$ 2,376,730	$ (11,279,183)	$193,745,759

Notes to the Basic Financial Statements Continued

Foreign Currency Risk Exposure

As of June 30, 2015

Base Currency		Country	Equities / Fixed Income	Foreign Currency Contracts	Futures, Options & Swaps	Cash & Cash Equivalents	Total
AED	UAE Dirham	UAE	$ 199,918	$ -	$ -	$	$ 199,918
AUD	Australian Dollar	Australia	8,821,048	-	-	(424,545)	8,396,403
BRL	Brazilian Real	Brazil	3,744,309	469,158	(129,863)	(726,800)	3,356,804
CAD	Canadian Dollar	Canada	7,660,530	-	(566,642)	491,547	7,585,435
CHF	Swiss Franc	Switzerland	11,333,145	-	-	-	11,333,145
CLP	Chilean Peso	Chile	248,898	-	-	-	248,898
CZK	Czech Koruna	Czech Republic	28,314	-	-	71,385	99,699
DKK	Danish Krone	Denmark	7,962,073	-	-	-	7,962,073
EGP	Egyptian Pound	Egypt	199,550	-	-	13,708	213,258
EUR	Euro	Europe	40,449,897	1,391,158	135,399	(7,041,219)	34,935,235
GBP	British Pound Sterling	United Kingdom	38,637,331	1,006,366	(3,208)	(1,970,788)	37,669,701
HKD	Hong Kong Dollar	Hong Kong	14,423,052	-	-	12,236	14,435,288
IDR	Indonesian Rupiah	Indonesia	979,518	-	-	13,842	993,360
ILS	New Israeli Shekel	Israel	184,248	-	-	-	184,248
INR	Indian Rupee	India	3,697,885	97,647	-	(49,936)	3,745,596
JPY	Japanese Yen	Japan	32,343,547	1,685,679	-	(3,051,265)	30,977,961
KRW	South Korean Won	South Korea	8,144,069	77,358	(16,946)	(771,960)	7,432,521
MXN	Mexican Peso	Mexico	2,537,526	1,662,916	-	(811,742)	3,388,700
MYR	Malaysian Ringgit	Malaysia	663,255	-	-	5,728	668,983
NOK	Norwegian Krone	Norway	1,803,850	-	-	225	1,804,075
NZD	New Zealand Dollar	New Zealand	-	-	-	113	113
PHP	Philippine Peso	Philippines	1,410,631	-	-	-	1,410,631
PLN	Polish Zloty	Poland	606,319	-	-	580	606,899
QAR	Qatari Rial	Qatar	419,662	-	-	-	419,662
SEK	Swedish Krona	Sweden	8,150,546	-	-	-	8,150,546
SGD	Singapore Dollar	Singapore	2,762,915	-	-	(220,688)	2,542,227
THB	Thai Baht	Thailand	1,314,250	-	-	5,253	1,319,503
TRY	Turkish Lira	Turkey	1,628,372	-	-	-	1,628,372
TWD	New Taiwan Dollar	Taiwan	5,926,405	-	-	90,635	6,017,040
USD	United States Dollar	United States	-	15,847,554	(4,560,117)	-	11,287,437
ZAR	South African Rand	South Africa	6,320,532	-	-	1,192	6,321,724
Total Equities (In USD)			212,601,595	22,237,836	(5,141,377)	(14,362,599)	215,335,455
Total Non-USD Equities (In USD)			$212,601,595	$ 6,390,282	$ (581,260)	$(14,362,599)	$204,048,018

Notes to the Basic Financial Statements Continued

Per section 3.5.e. of the System's Investment Objectives and Policy Statement, assets in international equity portfolios shall consist of liquid, publicly traded equity and equity like securities traded on major stock exchanges as well as cash and cash equivalents as necessary. Securities will be primarily composed of foreign ordinary shares and depository receipts (American Depository Receipts (ADR's) and Global Depository Receipts (GDR's) including ADR's and GDR's that are 144A securities). Securities that are 144A securities, including ADR and GDR 144A securities are authorized investments which in aggregate cannot exceed 10 percent of the portfolio. Primarily large capitalization securities may be held, although investments in small and mid-capitalization securities in developed and emerging markets are also allowed. Firms will continually monitor their country, currency, sector and security selection risks associated with their international portfolios. All of the risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

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

Rate of Return

For the fiscal years ended June 30, 2016 and 2015, the annual money-weighted rate of return on the assets of the System, net of investment expense, was 0.53 percent and 2.93 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for timing of cash flows and the changing amounts actually invested.

8 Derivatives

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

a. Mitigation of risk (or risk reduction).

b. A useful substitute for an existing, traditional investment. In certain circumstances it may be cheaper, quicker or easier to invest in a derivative instrument or security rather than transacting in cash or in the traditional security market.

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

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

The Retirement Board monitors and reviews each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion,

Notes to the Basic Financial Statements Continued

derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation.

Allowable derivative financial instruments held by the System include stable and well-structured mortgage collateralized mortgage obligations (CMOs); centrally cleared instruments including, but not limited to, futures, swaps and options; and forwards including currency forwards. Derivative investments with allocation limits include mortgage derivatives (interest only and principal only CMOs); non centrally cleared derivatives; caps and floors; and inverse floating rate notes and bonds. Allocation limits will be determined and specified in portfolio guidelines with individual investment managers based on the objectives and risk tolerances of a given strategy.

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

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

Market Risk

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

Credit Risk

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

Exchange-traded derivatives are generally considered to be of lower credit risk than OTC derivatives due to the exchange margin requirements. Equity Index Swaps are derivatives and represent an agreement between two parties to swap two sets of equity values. Equity Futures are contracts used

Notes to the Basic Financial Statements Continued

to replicate an underlying stock market index. These equity futures can be used for hedging against an existing equity position, or speculating on future movements of the index.

As of June 30, 2016 and 2015, the System held a total fair value of $2,815,874 and $21,547,988, respectively, in derivative holdings. These holdings consisted of Right/Warrants, Foreign Currency Forwards and Futures designed to synthetically created equity returns held as components of the System's international equity investments, and S&P 500 E Mini Index Futures, S&P MidCap 400 E MINI Index Futures and a variety of ACWIxUS index related futures as components of the System's investments in its international equity portfolios, BlackRock S&P 500 Equity Index, Russell 1000, and ACWIexUS Funds. Holdings also consist of futures – interest rate contracts, options and swaptions held as components of the System's absolute return fixed income strategy. These derivatives are used for the purpose of synthetically creating equity returns, synthetically creating floating rates and to buy and sell credit protection on the assets.

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

Derivative Type:	FY 2016		FY 2015	
	Notional Amount	Fair Value	Fair Value	FY 2016 - FY 2015 Change in Fair Value
Foreign Currency Forward	$(17,608,260)	$ 17,626,659	$ 22,237,836	$ (4,611,177)
Future Contracts - Domestic Equity Index	-	2,309,198	3,946,611	(1,637,413)
Future Contracts - International Equity Index	-	538,867	504,918	33,949
Futures - Interest Rate Contracts	$(15,679,267)	(16,333,961)	(5,272,323)	(11,061,638)
Options/Swaption	-	(27,284)	(63,436)	36,152
Swaps	-	(1,297,605)	194,382	(1,491,987)
	Total	$ 2,815,874	$ 21,547,988	

Derivative Type:	FY 2015		FY 2014	
	Notional Amount	Fair Value	Fair Value	FY 2015 - FY 2014 Change in Fair Value
Foreign Currency Forward	$(22,077,960)	$ 22,237,836	$ 17,232,958	$ 5,004,878
Future Contracts - Domestic Equity Index	-	3,946,611	2,391,842	1,554,769
Future Contracts - International Equity Index	-	504,918	1,486,980	(982,062)
Futures - Interest Rate Contracts	(5,298,765)	(5,272,323)	48,749,581	(54,021,904)
Options/Swaption	-	(63,436)	(91,412)	27,976
Swaps	-	194,382	547,071	(352,689)
	Total	$ 21,547,988	$ 70,317,020	

Notes to the Basic Financial Statements Continued

9 Securities Lending

The City of Fresno Municipal Code and the Board's policies permit the Retirement Board of the City of Fresno Fire and Police Retirement System and the 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 the securities lending agent, Northern Trust calculates collateral margins and accepts collateral in the form of cash or marketable securities and irrevocable bank letters of credit for all securities lending transactions. Transactions are collateralized at 102 percent of market value (contract value) for domestic securities and 105 percent of market value (contract value) for international securities. Collateral is marked to market daily. When a loan is secured by cash, a rebate is negotiated and the cash collateral is invested according to the guidelines in the collateral pool.

As designated by the Boards, cash collateral is invested in Northern Trust's Core U.S.A. Collateral Section (short-term investment pool), which, as of June 30, 2016 had a weighted average duration of 119 days, average maturity of 30 days and an average monthly yield of 0.72 percent. The relationship between the maturities of the investment pool and the Systems' loans is affected by the maturities of the security loans made by other entities that use the Northern Trust Core U.S.A. Collateral Section and a definitive statement of that relationship cannot be formulated by the Systems. As of June 30, 2016, the Northern Trust CORE U.S.A. Cash Collateral Fund had zero exposure in below investment grade long-term securities and there were no known credit risks related to the securities lending transactions.

Northern Trust will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. The Systems cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Northern Trust indemnifies the Systems against losses and will replace or reimburse the Systems for any borrowed securities not replaced. In general, the average term of all Systems' loans is overnight or "on demand". All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the Systems' loans was approximately 87 days as of June 30, 2016.

Notes to the Basic Financial Statements Continued

The System's securities lending income is as follows:

Securities Lending Income

For Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Gross Income	$530,537	$487,272
Expenses:		
Bank Fees	151,089	97,380
Total Expenses	151,089	97,380
Net Income from Securities Lending	$379,448	$389,892

Fair Value of Loaned Securities

As of June 30, 2016 and 2015

	FY 2016			FY 2015		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$ 15,654,920	$ 545,394	$ 16,200,314	$ 23,669,985	$ 189,127	$ 23,859,112
Domestic Equities	58,526,433	1,011,369	59,537,802	62,244,471	4,027,898	66,272,369
Domestic Fixed	15,278,053	232,430	15,510,483	26,154,912	2,476,853	28,631,765
International Equities	3,187,901	463,701	3,651,602	1,263,899	516,840	1,780,739
International Fixed	-	-	-	428,473	-	428,473
Total Value	$ 92,647,307	$ 2,252,894	$ 94,900,201	$ 113,761,740	$ 7,210,718	$120,972,458

Fair Value of Collateral Received for Loaned Securities

As of June 30, 2016 and 2015

	FY 2016			FY 2015		
Collateralized by	Cash	Securities	Total	Cash	Securities	Total
U.S. Government & Agency	$15,928,979	$ 552,235	$16,481,214	$ 24,141,284	$192,912	$ 24,334,196
Domestic Equities	59,385,666	1,025,367	60,411,033	63,549,396	4,113,928	67,663,324
Domestic Fixed	15,523,224	236,050	15,759,274	26,702,163	2,529,430	29,231,593
International Equities	3,353,226	492,273	3,845,499	1,333,980	-	1,333,980
International Fixed	123,136	-	123,136	452,350	550,569	1,002,919
Total Value	$94,314,231	$2,305,925	$96,620,156	$116,179,173	$7,386,839	$ 123,566,012

Notes to the Basic Financial Statements Continued

10 Administrative Expenses

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

11 Post Retirement Supplemental Benefit (PRSB)

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

If an actuarial surplus is declared by the Board, the surplus is allocated into two components. One component composed of two-thirds of the declared surplus shall be used to reduce or eliminate the City's pension contributions. Any unused portion shall be reserved in the City Surplus Reserve and drawn upon in subsequent years if needed. The remaining one-third component shall be distributed among eligible post retirement supplemental benefit recipients in accordance with procedures in the City of Fresno Municipal Code Section 3-567(f)(4). Any unused portion shall be reserved in the PRSB Reserve and drawn upon in subsequent years if needed.

For the fiscal year ended June 30, 2016, there is a surplus (or prefunded actuarial accrued liability) as the System has a valuation value of assets which is in excess of the actuarial accrued liability. The System's valuation value of assets was 111.3 percent which is above the required 110 percent for declaration of a surplus, therefore, there is an actuarial surplus available to reduce the City's and member's COLA contributions for Fiscal Year 2018 but not enough surplus to fund new PRSB benefits. There was no declaration of a surplus for the fiscal year ended June 30, 2015; and the PRSB Reserve Account was exhausted at the end of calendar year 2013.

As of June 30, 2016, the City Surplus Reserve balance was $(585,354). The City's normal rate in fiscal year 2017 will include an adjustment of 0.51% to absorb the current shortfall in the City Surplus Reserve.

12 Capital Assets

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

Accumulated depreciation shall be summarized and reflected on the System's annual financial statements. Capital assets shall be depreciated over their estimated

Notes to the Basic Financial Statements Continued

useful lives using the straight-line depreciation method. Intangible assets with limited useful lives (e.g., by legal or contractual provisions) should be depreciated over their estimated useful lives. Depreciation of computer software begins when the program is placed into service.

The System's major two-year project to program and install an upgrade to our original pension administration system that was installed in 1997 (the LRS Pension Gold Retirement Solutions' Version 3 project) includes software costs of $1,196,635 and $854,591 which are capitalized as of June 30, 2016 and 2015, respectively and will be amortized over a ten-year useful life period commencing July 1, 2015.

Other capital assets consisting of office furniture and equipment for the System's Retirement Offices located at 2828 Fresno Street, Fresno, California, in the amount of $38,410 are capitalized and depreciated over a remaining estimated useful life of 2-15 years.

As of June 30, 2015, capital assets consisting of office furniture and equipment for the System's Retirement Offices in the amount of $31,435 were capitalized and depreciated over a remaining estimated useful life of 2-15 years.

13 Leases

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

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

14 Related Party Transactions

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

The Retirement Systems lease office space from the CFRS Realty Holding Corporation, a title holding company controlled jointly by the City of Fresno Employees and City of Fresno Fire and Police Retirement Systems. See note 12 for a description of this arrangement.

15 Date of Management Review

The date to which events occurring after June 30, 2016, have been evaluated for possible adjustments to the financial statements or disclosures is December 21, 2016, which is the date the financial statements were available to be issued.

Management did not identify any subsequent financial events that require disclosure.

Required Supplementary Information

Schedule of Changes in the Net Pension Liability

(Dollars in Thousands)
For Fiscal Years Ended June 30, 2013 - 2016

	GASB 67 Basis* Financial Reporting			
Change in Net Pension Liability	2016	2015	2014	2013
Total Pension Liability				
Service cost	$18,687	$18,476	$19,342	$18,903
Interest	79,762	78,212	77,009	76,279
Change of benefit terms	-	-	-	-
Differences between expected and actual experience	(24,394)	(24,691)	(29,889)	(11,346)
Changes of assumptions	9,612	-	-	36,845
Benefit Payments (including refunds, excluding PRSB)	(52,528)	(50,546)	(48,580)	(47,040)
Net Change in Total Pension Liability	$31,139	$21,451	$17,882	$73,641
Total Pension Liability - Beginning	$1,071,074	$1,049,623	$1,031,741	$958,100
Total Pension Liability - Ending (a)*	$1,102,213	$1,071,074	$1,049,623	$1,031,741
Plan Fiduciary Net Position				
Employee Contributions	$9,098	$8,750	$7,946	$7,995
Employer Contributions	13,060	12,327	11,440	13,330
Net Investment Income	5,089	33,309	172,773	121,116
Actual Benefit Payments (including Refunds, PRSB)	(52,529)	(50,546)	(48,581)	(47,040)
Administrative & Professional Expense	(1,346)	(1,071)	(1,086)	(1,138)
Net Change in Plan Fiduciary Net Position	($26,628)	$2,769	$142,492	$94,263
Plan Fiduciary Net Position - Beginning	$1,169,927	$1,167,158	$1,024,666	$930,403
Plan Fiduciary Net Position - Ending (b)	$1,143,299	$1,169,927	$1,167,158	$1,024,666
System Net Pension Liability (Surplus) - Ending (a) - (b)	($41,086)	($98,853)	($117,535)	$7,075
Plan fiduciary net position as a percentage of total pension liability	103.73%	109.23%	111.20%	99.31%
Covered-Employee Payroll	108,541	105,820	103,597	105,509
Net Pension Liability as a percentage of covered employee payroll	(37.85%)	(93.42%)	(113.45%)	6.71%

* Data above, as of June 30, 2013 through June 30, 2016, are provided in accordance with provisions of GASB 67 for determining Total Pension Liability which for financial reporting purposes uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member either enters DROP or is expected to elect DROP. Data as of June 30, 2007 through June 30, 2012 are not available in a comparable format.

Note to Schedule:
Changes of Assumptions: The calculations above for June 30, 2016, 2015, 2014 and 2013, reflect various assumption changes, including the modification of the Board's assumed rate of return to 7.25 percent for use in preparing the June 30, 2016 annual actuarial valuation and other assumption changes based on the triennial experience study for the period from July 1, 2012 through June 30, 2015, and 7.50 percent for use in preparing the June 30, 2013 annual actuarial valuation and other assumption changes based on the triennial experience study for the period from July 1, 2009 through June 30, 2012 which included changes in assumptions for retirement from active employment, pre-retirement mortality, healthy life post-retirement mortality, disabled life post-retirement mortality, vested termination, disability DROP election, percentage of members married, spouse age difference and salary increases.

Required Supplementary Information Continued

Schedule of Changes in the Net Pension Liability Continued

(Dollars in Thousands)
For Fiscal Years Ended June 30, 2007 - 2012

	GASB 25 Basis** Actuarial Funding					
Change in Net Pension Liability	2012	2011	2010	2009	2008	2007
Total Pension Liability						
Service Cost	$ 24,000	$ 21,730	$ 24,382	$ 24,386	$ 21,926	$ 21,724
Interest	67,000	59,000	57,000	55,000	51,000	50,000
Salary Increase (Greater) Less than Expected	(13,000)	(6,083)	(10,093)	-	8,000	7,000
COLA Increase Greater (Less) than Expected	(1,000)	(8,787)	(3,931)	-	-	-
Other Experience	(4,000)	7,980	1,000	(19,000)	10,000	6,000
Economic Assumption Changes	-	-	10,000	-	-	(31,000)
Change in Valuation Programs and Methods	52,000	3,000	-	-	-	-
Benefit Payments (including refunds, excluding PRSB)	(44,147)	(41,993)	(37,350)	(34,969)	(32,398)	(36,332)
Net Change in Total Pension Liability	$ 80,853	$34,847	$41,008	$25,417	$58,528	$17,392
Total Pension Liability - Beginning	$791,105	$756,258	$715,250	$689,833	$631,305	$613,913
Total Pension Liability - Ending (a)**	$871,958	$791,105	$756,258	$715,250	$689,833	$631,305
Plan Fiduciary Net Position						
Employee Contributions	$5,507	$5,275	$5,740	$5,845	$5,666	$5,094
Employer Contributions	11,374	8,215	3,267	1,345	355	1,566
Net Investment Income (Loss)	(5,620)	188,925	104,511	(199,694)	(68,482)	156,546
Benefit Payments (including Refunds, PRSB)	(44,147)	(43,580)	(41,598)	(40,054)	(36,469)	(39,300)
Administrative & Professional Expense	(1,087)	(1,029)	(929)	(894)	(898)	(916)
Net Change in Plan Fiduciary Net Position	($33,973)	$157,806	$70,991	($233,452)	($99,828)	$122,990
Plan Fiduciary Net Position - Beginning	$964,376	$806,570	$735,579	$969,031	$1,068,859	$945,869
Plan Fiduciary Net Position - Ending (b)	$930,403	$964,376	$806,570	$735,579	$969,031	$1,068,859
System Net Pension Liability (Surplus) - Ending (a) - (b)	($58,445)	($173,271)	($50,312)	($20,329)	($279,198)	($437,554)
Plan fiduciary net position as a percentage of total pension liability	106.70%	121.90%	106.65%	102.84%	140.47%	169.31%
Covered-Employee Payroll	112,307	117,577	131,224	139,274	133,110	122,232
Net Pension Liability as a percentage of covered employee payroll	(52.04%)	(147.37%)	(38.34%)	(14.60%)	(209.75%)	(357.97%)

**Data above, as of June 30, 2007 through June 30, 2012, are provided in accordance with provisions of GASB 25 and the System's funding policy for determining Total Pension Liability which for funding purposes uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member retires from employment after participation in DROP.

Required Supplementary Information *Continued*

Schedule of Employer Contributions
Last Ten Fiscal Years

(Dollars in Thousands)

Fiscal Year Ending June 30	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2016	$13,060	$13,060	-	$108,541	12.03%
2015	12,327	12,327	-	105,820	11.65%
2014	11,440	11,440	-	103,597	11.04%
2013	13,330	13,330	-	105,509	12.63%
2012	11,374	11,374	-	110,492	10.29%
2011	8,215	8,215	-	119,260	6.89%
2010	3,267	3,267	-	129,258	2.53%
2009	1,345	1,345	-	132,512	1.02%
2008	355	355	-	129,440	0.27%
2007	1,566	1,566	-	114,234	1.37%

Schedule of Investment Returns
Last Ten Fiscal Years

Fiscal Year Ending June 30	Annual Money-Weighted Rate of Return Gross of Investment expenses	Annual Money-Weighted Rate of Return Net of Investment Expense
2016	0.82%	0.53%
2015	3.32%	2.93%
2014	17.61%	17.16%
2013	13.65%	13.20%
2012	(0.20%)	(0.57%)
2011	24.42%	23.88%
2010	15.13%	14.55%
2009	(20.14%)	(20.50%)
2008	(6.00%)	(6.44%)
2007	17.39%	16.81%

The Schedule of Investment Returns above shows the annual money-weighted rate of return on the assets of the System, both gross and net of investment expense for ten fiscal years (2007 – 2016). The money-weighted rate of return expresses investment performance adjusted for timing of cash flows and the changing amounts actually invested. These returns differ slightly from the time-weighted rate of returns calculated and reported by the System's custodian, Northern Trust (shown in the Transmittal Letter on page i and within the Investment Section beginning on page 62) and as independently reported by the System's investment consulting firm, NEPC, LLC, (shown in the Investments Section on pages 68-69). The System's custodian and investment consulting firm must use time-weighted returns as opposed to money-weighted returns in order to meet Global Investment Performance Standards for the purposes of effectively evaluating and reporting the performance of the Systems' investment managers.

Required Supplementary Information *Continued*

Schedule of Investment Returns (Continued)

The time-weighted return method is a measure of the compound rate of return of a portfolio over a stated period of time. It requires a set of sub-period returns to be calculated whenever there is an external cash flow, such as a deposit or withdrawal from the portfolio. In essence, it calculates the geometric total and mean return as opposed to the arithmetic total and mean return. This method does not include or have any distortions created when money is deposited or withdrawn from a portfolio. This is in contrast to Money-weighted returns.

Notes to the Required Supplementary Information

For Fiscal Years Ended June 30, 2016 and 2015

Actuarial Assumption

The Segal Company, the System's actuary, performed the most recent annual actuarial valuation as of June 30, 2016, which computes the contribution requirements (employee and employer contributions rates for fiscal year 2018), and determines the funding status of the Plan.

Valuation Date:	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Amortization Method:	Level percent of payroll for total Unfunded or Prefunded Actuarial Accrued Liability (UAAL or PAAL)
Remaining Amortization Period:	Effective with the June 30, 2013 valuation, any new UAAL established on each subsequent valuation as a result of actuarial gains or losses or plan amendments are amortized over separate 15-year declining periods (with the exception of temporary retirement incentives which are amortized over its own declining period of up to 5 years). Any new UAAL established as a result of changes in actuarial assumptions or methods at each valuation is amortized over separate 25-year declining periods. Any actuarial surplus (when the funded ratio is over 110%) will be amortized over a non-declining 25-year period.
Asset valuation method	Market value of assets less unrecognized returns from each of the last five years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2012 have been combined and will be recognized in equal amounts over a period of four years from that date.

Notes to Required Supplementary Information Continued

Actuarial Assumptions:

Investment rate of return	7.25%
Inflation rate	3.00%
Real across-the-board salary increase	0.50%
Projected salary increases	Ranges from 3.75 percent to 11.50 percent based on years of service. Includes inflation at 3.00% plus real across-the-board salary increase of 0.50% plus merit and promotion increases.
Cost of living adjustments	3.00 percent of retirement income
Other assumptions	See June 30, 2016 funding valuation report and Appendix A for the service retirement rates after they have been adjusted to treat DROP participation as service retirement.
Post-Retirement Mortality Rates	For healthy members, Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females), projected 20 years with the two-dimensional scale MP-2015, set forward one year; set forward four years for disabled members; For beneficiaries, set forward one year, weighted 35% male and 65% female.

Other Supplementary Information

Schedule of Administrative Expenses

For Fiscal Years Ended June 30, 2016 And 2015

	2016	2015
Personnel Services		
Staff Salaries	$ 450,375	$ 361,833
Fringe Benefits	118,248	143,410
Total Personnel Services	$ 568,623	$ 505,243
Professional Services		
Actuarial	$ 93,614	$ 75,368
Legal Counsel	68,484	59,626
Information Systems Services	120,191	81,332
Specialized Services	78,161	70,610
Total Professional Services	$ 360,450	$ 286,936
Communication		
Telephone	4,853	7,847
Postage	903	820
Total Communication	$ 5,756	$ 8,667
Rentals		
Office Rent	$ 64,241	$ 64,241
Common Area Maintenance (CAM) Charges	33,202	36,806
Total Rentals	$ 97,443	$ 101,047
Other		
Education and Conference	$ 38,376	$ 37,811
Membership & Dues	3,090	3,238
Subscriptions & Publications	213	252
Office Supplies	5,800	3,904
Computer Equipment	1,132	-
Equipment Lease	6,292	4,688
Insurance	35,685	36,358
Miscellaneous	15,739	1,886
Reimbursement to City for Inter-Dept Services	68,904	75,489
Depreciation	138,686	5,477
Total Other	$ 313,917	$ 169,103
Total Administrative Expenses	$ 1,346,189	$ 1,070,996

Other Supplementary Information Continued

Schedule of Investment Management Expenses

For Fiscal Years Ended June 30, 2016 ad 2015

	2016	2015
Investment Manager Fees		
Equity		
Domestic	$ 836,438	$ 1,364,292
International	1,225,316	1,240,942
Fixed Income		
Domestic	711,836	944,111
Real Estate	1,292,501	756,165
Total Investment Manager Fees	4,066,091	4,305,510
Other Investment Expenses		
Foreign Income Taxes & Related Services, Charges	1,254,302	823,465
Custodial Services	193,546	184,323
Investment Consultant	108,671	106,267
Investment Legal Counsel	35,430	15,500
Analytical Database Service	7,526	7,185
Total Other Investment Expenses	1,599,475	1,136,740
Total Fees & Other Investment Expenses	5,665,566	5,442,250
Securities Lending Expenses		
Agent Fees	151,089	97,380
Total Securities Lending Expenses	151,089	97,380
Total Investment Expenses	$ 5,816,655	$ 5,539,630

Schedule of Payments To Consultants

For Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Actuarial Services	$ 95,989	$ 75,368
Audit Services	20,458	17,632
City Information Services	51,391	81,332
Legal Services	61,730	59,626
Medical Consultant	10,383	7,325
Miscellaneous	53,632	45,653
Total Payments to Consultants	$ 293,583	$ 286,936

We promise to carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly, with courtesy and respect.

INVESTMENT

Investment Report from the Retirement Administrator

For Fiscal Years June 30, 2016 and 2015

Analysis of Issues Affecting Our Portfolio in FY 2016

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

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

The global investment markets were shaken in the summer of 2015 by events in Greece and China. First, Greece appeared to come perilously close to defaulting on its sovereign obligations, thus potentially setting the stage for an exit from the Eurozone. Fortunately, the issue was resolved when Greece acceded to the European Union's demands, at least putting off a Greek-fueled Eurozone crisis. Yet, even while Greece was in the news, concern about the much larger and more consequential Chinese economy was lurking in the background. It was known that China's economy was slowing, a potential equity price bubble was brewing, and China's financial system was laden with imbalances. Equity prices tumbled, the central bank allowed the currency to fall, and then—related or not—global equity prices started to tumble as well.

2016 started with a bang rather than a whimper. Financial market volatility soared in the first two months of the year, driven by uncertainty around several key factors influencing the global economy. These included worries about the depth of China's slowdown and the Chinese policy response, the rapid fall in oil prices and the impact on energy company finances, the sustainability of the US recovery, and the potential for a reversion to deflation in Europe. In the realm of policy, central banks once again took center stage, with news of more quantitative easing as well as the implementation of negative policy rates—both of which were unheard of less than a decade ago.

The "Brexit" vote in June 2016 delivered a shock to markets but the short-term volatility resulting from this event has not changed the general long-term outlook for the global investment markets. So for the time being, the low-growth, low-inflation environment means that the Federal Reserve is in no hurry to resume interest-rate hikes. Yet uncertainty never seems to go away.

All investments involve risks, including possible loss of principle. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies,

Investment Report from the Retirement Administrator Continued

particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets.

Some express the opinion that risk is greater now than in the past. However, we should be careful of that statement as businesses faced extremely high levels of uncertainty in periods such as the early 1970s (with the Arab oil embargo and transition to floating exchange rates) and the financial crisis that began in August 2007. Today's risks are different, but they are hardly greater. The balance of risks, however, looks biased toward things that could go wrong; that's why many judge the potential risk of slower growth to be greater than the risk of faster growth. This creates an environment in which well-timed and careful investment can still be profitable, and in which the probability remains high that job growth and the economy will stay relatively healthy.

Investment Performance

Highlighted Investment Performance of the System's Investment Portfolio gross of fees provided by its custodian for FY 2016:

	Return
Total Fund	0.90%
Domestic Equity	1.05%
International Equity	-8.68%
Fixed Income	3.83%
Real Estate	16.35%
Fiscal Year End Fund Value:	$1,143,299,019

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

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

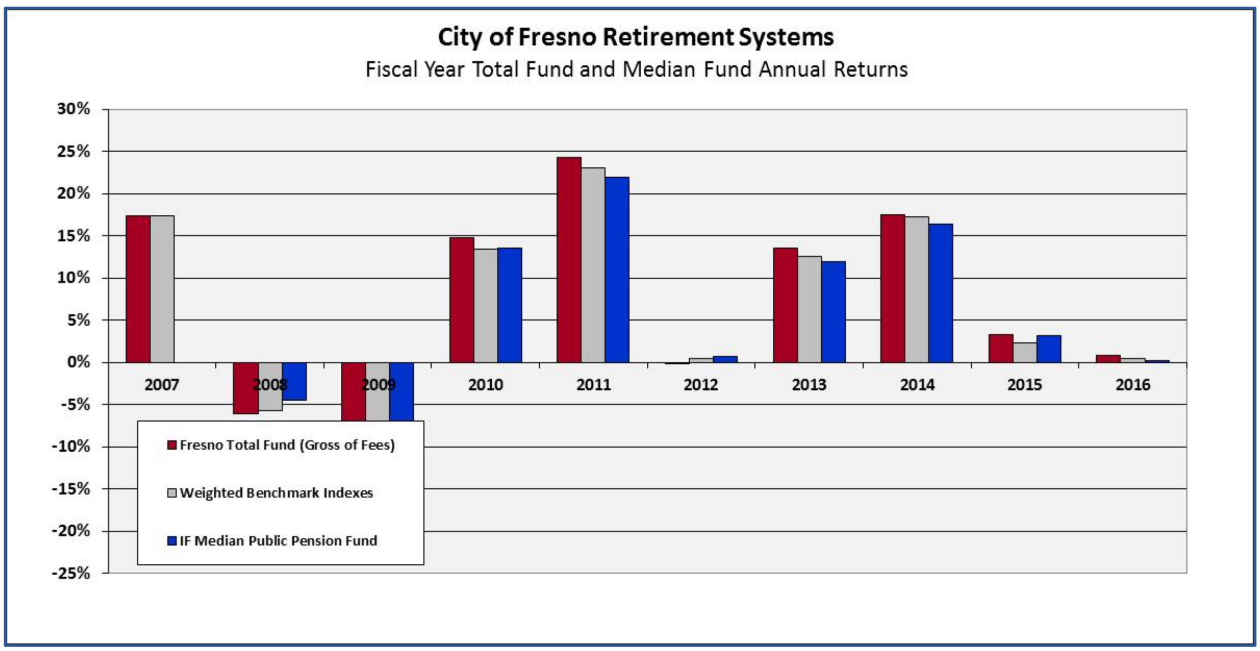
These are the fundamental goals as stated in the Boards' Investment Objectives and Policy Statement. The Board has strong controls in place to manage the overall investment objectives of the System's assets and hold the fiduciary responsibility for the System.

The System's Total Fund Returns versus NEPC, LLC's InvestorForce (IF) Public Fund Universe (Gross of Fee) Returns for the one-year period ended June 30, 2016, 0.90 percent ranked the System in the 2nd quartile (38th percentile) of our Investment Consultant's universe of all public funds ($1Billion + in assets). For the three years ended June 30, 2016, the System's Total Fund Returns of

Investment Report from the Retirement Administrator Continued

7.02 percent ranked the System in the 2nd quartile (41st percentile), exceeding its policy weighted benchmark by 0.40 percent and also exceeding the Median IF Public Pension Funds ($1Billion+ in assets) return of 0.30 percent by 0.60 percent. Over the past ten years, the System's investment returns have remained sound and outperformed its policy benchmark returns in seven of the ten years and the median fund returns in six of the nine years as shown in the chart below.

Due to the extreme volatility in the various economies of the world and the global financial markets over the past twenty to twenty-five years, it is of utmost importance to examine the System's investment returns with a long-term view rather than a short-term focus which tends to distort the perception of how well the investments have actually performed. As an example, you cannot isolate the high returns during the Tech Bubble in the 1990's without including the Tech Bubble corrections in the early 2000's. The intermediate term (five, ten, and fifteen-year) performance rates demonstrate the extreme volatility of the markets; while the historical long-term performance rates of returns demonstrate that despite the short and intermediate term volatility the System has been able to meet or exceed its actuarial assumed rate of return of 7.25 percent over long periods. As of June 30, 2016, the System's 25-year annualized return is 8.61 percent and its 20-year annualized return is 7.51 percent, ranking the System in the top quartile (17th and 18th percentile, respectively).



Investment Report from the Retirement Administrator Continued

Summary of Portfolio Results

The fiscal year ended June 30, 2016, marked yet another extraordinarily volatile year which ended with a decline from its peak fiscal year performance for the System. The System experienced a total investment gain of 0.90 percent for the fiscal year ended June 30, 2016, underperforming the System's actuarial interest rate assumption of 7.50 percent by 6.60 percent and outperforming the System's policy benchmark (a weighted average of the fund's asset classes and their respective benchmarks) return of 0.39 percent by 0.51 percent. The System's ten-year annualized returns averaged 5.76 percent slightly outperforming its policy benchmarks return of 5.68 percent for the period by 0.08 percent. Over the longer term, our investment results remain sound with annualized returns of 7.51 percent and 8.61 percent, respectively, over the past twenty and twenty-five years. After paying all benefits and expenses of the System, the year-end value of the System reached $1.143 billion.

General Information

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

Summary of General Investment Guidelines, Policies and Procedures

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

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

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

Investment Report from the Retirement Administrator Continued

international stock and emerging equity market stock) are included in the mix.

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

Summary of Proxy Voting Guidelines and Procedures

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

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

Specific Investment Results by Asset Classification

As of June 30, 2016, the System's portfolio was slightly under-weight in total equities, with 58.0 percent in total equities versus the target of 60.0 percent. Domestic equities were slightly under-weight with 29.9 percent versus the target of 30.0 percent, and international equity with 21.0 percent developed and 7.1 percent emerging markets was slightly under-weight total international equity with 28.1 percent versus the target of 30.0 percent. Fixed income with 27.4 percent was 2.4 percent over-weight its target of 25.0 percent and real estate at 14.6 percent was 0.4 percent under-weight its target of 15.0 percent.

Investment Report from the Retirement Administrator Continued

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

Asset Classification	Actual	Target
Domestic Equities:		
Large-Cap	22.2%	22.5%
Small-Cap	7.7%	7.5%
International Equities:		
Developed Markets	21.0%	22.0%
Emerging Markets	7.1%	8.0%
Fixed Income:		
Domestic Fixed Income	15.2%	11.0%
High Yield Fixed Income	6.4%	6.0%
Absolute Return Strategy	3.8%	4.0%
Direct Lending	2.0%	4.0%
Real Estate:		
Private Real Estate	8.4%	12.0%
Public (REITs)	6.2%	3.0%
Cash:	0.0%	0.0%
Total	100.0%	100.0%

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

Respectfully submitted,

Robert T. Theller
Retirement Administrator

December 21, 2016

Investment Consultant's Report

NEPC, LLC

DON STRACKE
SENIOR CONSULTANT

December 7, 2016

City of Fresno Retirement Systems
2828 Fresno Street Suite 201
Fresno, California 93721

Dear Board Members,

The overall objective of the (CFRS) is to ensure continued access to retirement, disability and survivor benefits for current and future CFRS participants. To ensure a solid foundation for the future of the Fund, CFRS carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk in the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Retirement, at least annually, to reflect the Fund's actuarial assumptions, accrued liabilities, and economic and investment outlook. The following is a report on the performance of the Fund for the fiscal year ending June 30, 2016 with background on the underlying market environment.

Fiscal Year 2016 Market Review

Capital markets remained largely characterized by global Central Bank stimulative action resulting in the continuation of the multi-year valuation expansion in growth assets; though investment outcomes for US investors were mixed as the US Dollar appreciated against most foreign currencies. Political instability, commodity price disruption and the beginning stages of divergent Central Bank policy created a heightened amount of uncertainty and volatility in global markets. Markets experienced bouts of whipsaw-like volatility as investors digested news of increased interest rates domestically, negative interest rates abroad, rapidly falling oil prices and the rise of political populism. Domestic equities, as measured by the S&P 500 Index, posted their eighth consecutive positive fiscal year (ended June) posting a +4.0% return. US high quality fixed income investments produced outsized returns as Treasury yields crept toward all-time lows returning +6.0% for the year. International developed markets equities underperformed domestic equities by over 14% as European and Asian developed nation currencies devalued as stimulative monetary policy made its way through those struggling economies. Emerging markets ended the year trailing developed international equities by approximately two percent.

The Plan returned 0.9%, gross of fees, for the fiscal year ending June 30, 2016. By comparison, the median public fund in the comparative universe returned 0.2% for the period[1]. The Plan's allocation to public equities is significantly higher than many of its peers, and the US-equity exposure was a positive contributor to performance. The Non-US equity exposure detracted from absolute and relative performance. The primary contributor to outperformance during the fiscal year was the Plan's allocation to Real Estate, which exhibited strong absolute performance, returning 16.4%, gross of fees, for the year.

For the five-year period ending June 30, 2016, the Plan returned 6.8% gross of fees per annum. As you can see in the chart below, this was an above average return but with a higher level of volatility than the average public fund.

Data as of 6/30/2016	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	15 Yrs(%)
Systems' Total Return (Gross of Fees)	0.9	7.0	6.8	5.8	6.3
Systems' Total Return (Net of Fees)	0.5	6.6	6.4	5.3	5.9
Weighted Benchmark	0.5	6.5	6.4	5.7	6.3

[1] As of June 30, 2016, the InvestorForce Public Funds Greater than $1 Billion Universe was comprised of 79 total funds with approximately $550 billion in assets.

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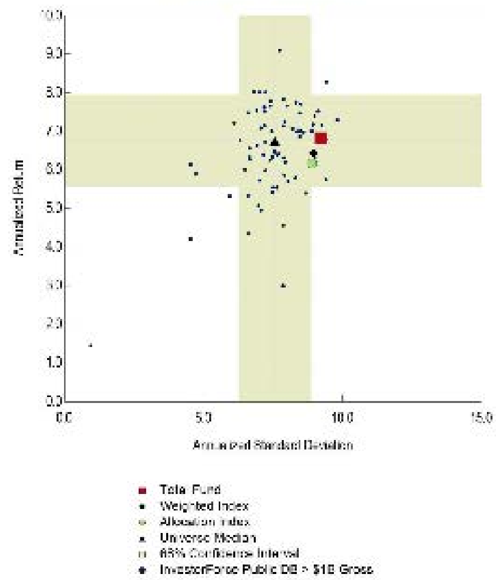
Investment Consultants Report Continued

Investor Force Public Funds Greater than $1 Billion Universe
Risk-Return Comparison (Gross of Fees)

5 Years Ending June 30, 2016



NEPC provides the Plan with quarterly economic and investment market updates, performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank and investment managers. CFRS's custodian, The Northern Trust Company, independently prepared the underlying performance data used in this report. The Plan's goals are measured against stated policy objectives, appropriate benchmarks and comparative universes over multiple time periods. This review process allows the Plan to evaluate whether established goals are being achieved on an absolute, relative and risk-adjusted basis.

Sincerely,

Don Stracke

Investment Results

	Market Value ($)	% of Portfolio	Gross of Fees Ending June 30, 2016			
			1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	2,490,290,860	100.00	0.88	7.02	6.82	5.76
Weighted Index			*0.53*	*6.46*	*6.43*	*5.70*
Allocation Index			*0.38*	*6.36*	*6.16*	*5.90*
InvestorForce Public DB > $1B Gross Median			*0.26*	*6.79*	*6.75*	*5.73*
Total Equity Composite	1,442,009,020	57.91	-3.83	6.64	6.49	4.79
MSCI ACWI			*-3.73*	*6.03*	*5.38*	*4.26*
eA All Global Equity Gross Median			*-3.03*	*7.51*	*7.20*	*5.56*
Domestic Equity Composite	743,625,491	29.86	1.05	10.69	11.12	7.26
Domestic Equity Index			*1.27*	*10.58*	*11.22*	*7.19*
eA All US Equity Gross Median			*-1.68*	*10.03*	*10.66*	*7.76*
Large Cap Equity Composite	552,167,061	22.17	2.31	11.44	12.01	7.21
S&P 500			*3.99*	*11.66*	*12.10*	*7.42*
eA US Large Cap Equity Gross Median			*0.06*	*10.80*	*11.19*	*7.60*
Small Cap Equity Composite	191,458,429	7.69	-2.78	8.67	8.79	7.50
Russell 2000			*-6.73*	*7.09*	*8.35*	*6.20*
eA US Small Cap Equity Gross Median			*-5.05*	*8.46*	*9.67*	*7.62*
International Equity Composite	698,383,529	28.04	-8.69	2.70	2.03	2.44
International Equity Index			*-9.93*	*1.69*	*0.75*	*2.20*
eA Non-US Diversified All Cap Eq Gross Median			*-8.29*	*3.99*	*3.28*	*3.27*
International Developed Equity Composite	623,474,939	25.04	-8.64	3.21	2.89	2.16
Developed Equity Index			*-9.75*	*2.08*	*1.36*	*1.85*
eA All EAFE Equity Gross Median			*-7.89*	*3.92*	*3.43*	*3.26*
ACWI ex US Equity Composite	452,306,196	18.16	-8.49	2.88	2.11	--
MSCI ACWI ex USA Gross			*-9.80*	*1.62*	*0.56*	*2.33*
eA ACWI ex-US All Cap Equity Gross Median			*-7.74*	*4.22*	*3.27*	*4.01*
EAFE Equity Composite	171,168,743	6.87	-9.00	3.78	3.78	2.27
MSCI EAFE Gross			*-9.72*	*2.52*	*2.15*	*2.05*
eA All EAFE Equity Gross Median			*-7.89*	*3.92*	*3.43*	*3.26*
International Emerging Markets Equity Composite	74,908,591	3.01	-9.11	-0.45	-3.25	3.56
MSCI Emerging Markets Gross			*-11.71*	*-1.21*	*-3.44*	*3.88*
eA Emg Mkts Equity Gross Median			*-9.22*	*0.10*	*-1.78*	*5.15*
Total Fixed Income Composite	683,322,881	27.44	3.84	4.39	4.70	5.80
Fixed Income Index			*4.60*	*4.14*	*4.35*	*5.73*
eA All US Fixed Inc Gross Median			*4.44*	*3.92*	*4.13*	*5.31*
Core Fixed Composite	497,922,697	19.99	4.80	4.19	4.13	5.23
Barclays Aggregate			*6.00*	*4.06*	*3.76*	*5.13*
eA US Core Fixed Inc Gross Median			*6.05*	*4.34*	*4.26*	*5.62*
High Yield Composite	136,093,281	5.46	2.26	4.95	5.90	8.20
Barclays High Yield			*1.62*	*4.18*	*5.84*	*7.56*
eA US High Yield Fixed Inc Gross Median			*1.27*	*4.22*	*5.92*	*7.38*
Real Estate Composite	363,768,606	14.61	16.35	14.07	13.35	7.57
Real Estate Index			*16.39*	*13.58*	*12.96*	*7.60*
eA US REIT Gross Median			*23.32*	*14.07*	*13.00*	*8.28*
Private Real Estate Composite	208,141,600	8.36	11.10	12.84	12.97	6.91
NCREIF ODCE			*11.81*	*12.99*	*12.71*	*6.17*
Public Real Estate Composite	155,627,006	6.25	24.20	15.80	13.87	8.31
Wilshire REIT			*22.82*	*13.62*	*12.48*	*6.99*
eA US REIT Gross Median			*23.32*	*14.07*	*13.00*	*8.28*
Cash & Equivalents Composite	1,190,354	0.05	0.30	0.19	0.16	1.17
91 Day T-Bills			*0.16*	*0.07*	*0.06*	*0.89*

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

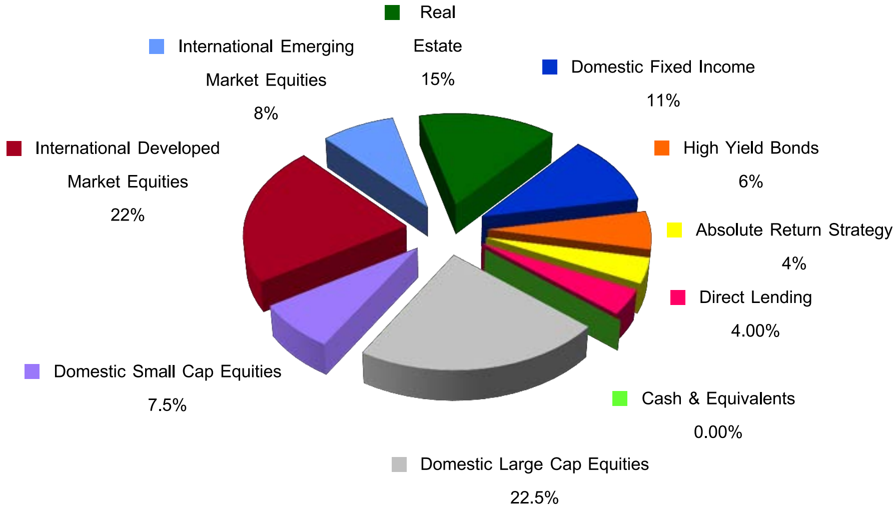
Investment Results Continued

	Market Value ($)	% of Portfolio	Net of Fees Ending June 30, 2016 1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	2,490,290,860	100.00	0.50	6.61	6.41	5.31
Weighted Index			*0.53*	*6.46*	*6.43*	*5.70*
Allocation Index			*0.38*	*6.36*	*6.16*	*5.90*
InvestorForce Public DB > $1B Gross Median			*0.26*	*6.79*	*6.75*	*5.73*
Total Equity Composite	1,442,009,020	57.91	-4.16	6.28	6.09	4.32
MSCI ACWI			*-3.73*	*6.03*	*5.38*	*4.26*
eA All Global Equity Gross Median			*-3.03*	*7.51*	*7.20*	*5.56*
Domestic Equity Composite	743,625,491	29.86	0.77	10.37	10.80	6.87
Domestic Equity Index			*1.27*	*10.58*	*11.22*	*7.19*
eA All US Equity Gross Median			*-1.68*	*10.03*	*10.66*	*7.76*
Large Cap Equity Composite	552,167,061	22.17	2.19	11.30	11.88	6.98
S&P 500			*3.99*	*11.66*	*12.10*	*7.42*
eA US Large Cap Equity Gross Median			*0.06*	*10.80*	*11.19*	*7.60*
Small Cap Equity Composite	191,458,429	7.69	-3.53	7.84	7.94	6.66
Russell 2000			*-6.73*	*7.09*	*8.35*	*6.20*
eA US Small Cap Equity Gross Median			*-5.05*	*8.46*	*9.67*	*7.62*
International Equity Composite	698,383,529	28.04	-9.05	2.29	1.58	1.91
International Equity Index			*-9.93*	*1.69*	*0.75*	*2.20*
eA Non-US Diversified All Cap Eq Gross Median			*-8.29*	*3.99*	*3.28*	*3.27*
International Developed Equity Composite	623,474,939	25.04	-8.94	2.86	2.50	1.69
Developed Equity Index			*-9.75*	*2.08*	*1.36*	*1.85*
eA All EAFE Equity Gross Median			*-7.89*	*3.92*	*3.43*	*3.26*
ACWI ex US Equity Composite	452,306,196	18.16	-8.74	2.61	1.80	--
MSCI ACWI ex USA Gross			*-9.80*	*1.62*	*0.56*	*2.33*
eA ACWI ex-US All Cap Equity Gross Median			*-7.74*	*4.22*	*3.27*	*4.01*
EAFE Equity Composite	171,168,743	6.87	-9.44	3.27	3.26	1.74
MSCI EAFE Gross			*-9.72*	*2.52*	*2.15*	*2.05*
eA All EAFE Equity Gross Median			*-7.89*	*3.92*	*3.43*	*3.26*
International Emerging Markets Equity Composite	74,908,591	3.01	-9.90	-1.26	-4.12	2.60
MSCI Emerging Markets Gross			*-11.71*	*-1.21*	*-3.44*	*3.88*
eA Emg Mkts Equity Gross Median			*-9.22*	*0.10*	*-1.78*	*5.15*
Total Fixed Income Composite	683,322,881	27.44	3.57	4.11	4.44	5.55
Fixed Income Index			*4.60*	*4.14*	*4.35*	*5.73*
eA All US Fixed Inc Gross Median			*4.44*	*3.92*	*4.13*	*5.31*
Core Fixed Composite	497,922,697	19.99	4.59	4.00	3.96	5.05
Barclays Aggregate			*6.00*	*4.06*	*3.76*	*5.13*
eA US Core Fixed Inc Gross Median			*6.05*	*4.34*	*4.26*	*5.62*
High Yield Composite	136,093,281	5.46	1.74	4.42	5.36	7.66
Barclays High Yield			*1.62*	*4.18*	*5.84*	*7.56*
eA US High Yield Fixed Inc Gross Median			*1.27*	*4.22*	*5.92*	*7.38*
Real Estate Composite	363,768,606	14.61	15.49	13.18	12.45	6.67
Real Estate Index			*16.39*	*13.58*	*12.96*	*7.60*
eA US REIT Gross Median			*23.32*	*14.07*	*13.00*	*8.28*
Private Real Estate Composite	208,141,600	8.36	10.13	11.76	11.87	5.84
NCREIF ODCE			*11.81*	*12.99*	*12.71*	*6.17*
Public Real Estate Composite	155,627,006	6.25	23.53	15.16	13.25	7.69
Wilshire REIT			*22.82*	*13.62*	*12.48*	*6.99*
eA US REIT Gross Median			*23.32*	*14.07*	*13.00*	*8.28*
Cash & Equivalents Composite	1,190,354	0.05	0.30	0.19	0.16	1.17
91 Day T-Bills			*0.16*	*0.07*	*0.06*	*0.89*

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

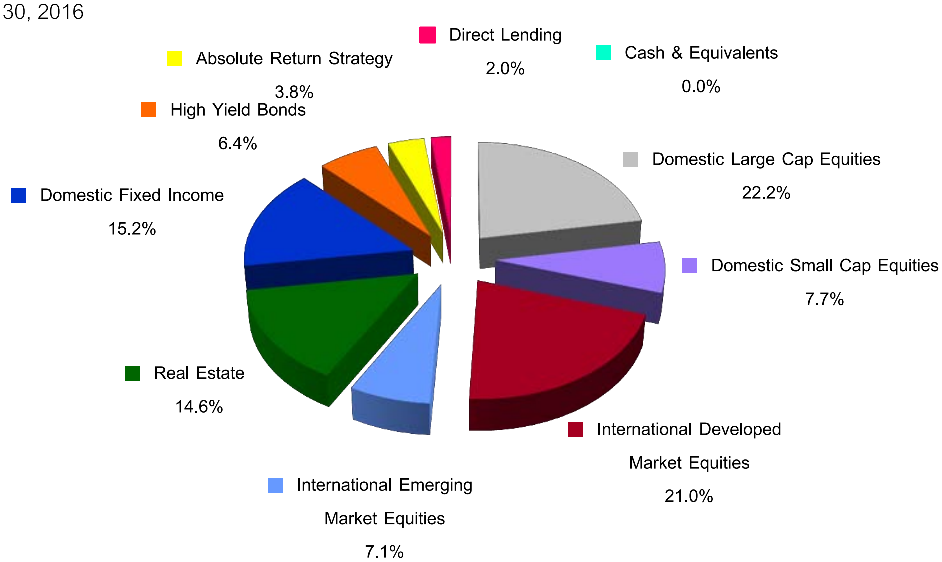
Target Asset Allocation

As of June 30, 2016



Actual Asset Allocation

As of June 30, 2016



Asset Class	Current Target	Allocation Range	Actual
Domestic Large Cap Equities	22.5%	16.0% - 30.0%	22.2%
Domestic Small Cap Equities	7.5%	4.0% - 12.0%	7.7%
International Developed Market Equities	22.0%	16.0% - 30.0%	21.0%
International Emerging Market Equities	8.0%	0.0% - 10.0%	7.1%
Real Estate	15.0%	5.0% - 20.0%	14.6%
Domestic Fixed Income	11.0%	5.0% - 20.0%	15.2%
High Yield Bonds*	6.0%	4.0% - 12.0%	6.4%
Absolute Return Strategy	4.0%	0% - 8%	3.8%
Direct Lending	4.0%	0% - 7%	2.0%
Cash & Equivalents	0.0%	0% - 2%	0.0%

* 1% High Yield Bonds Managed Within Domestic Fixed Income

Largest Stock Holdings (by Market Value)

As of June 30, 2016

	Shares	Stock Holding	Market Value
1)	4,365	SAMSUNG ELECTRONIC KRW5000	$ 5,400,178
2)	61,418	NESTLE SA CHF0.10 (REGD)	4,737,777
3)	864,303	TAIWAN SEMICON MAN TWD10	4,353,798
4)	55,381	WELLTOWER INC COM	4,218,364
5)	26,196	NASPERS 'N' ZAR0.02	4,006,713
6)	48,665	BRITISH AMERICAN TOBACCO ORD GBP0.25	3,150,626
7)	56,050	NOVO-NORDISK AS DKK0.2 SER'B'	2,997,178
8)	35,849	ADR RYANAIR HLDGS PLC SPONSORED ADR NEW	2,492,961
9)	158,383	ARM HLDGS ORD GBP0.0005	2,394,629
10)	31,462	SAP SE	2,347,410
Total Largest Stock Holdings			$ 36,099,634

Largest Bond Holdings (by Market Value)

As of June 30, 2016

	Share/Par Value	Bond Holding	Coupon Rate	Maturity Date	Market Value
1)	12,843,098	UNITED STATES TREAS NTS 2.125% DUE	2.125%	30 Sep 2021	$ 13,534,416
2)	3,414,133	UNITED STATES TREAS NTS DTD 1.625% DUE	1.625%	31 Mar 2019	3,499,753
3)	2,841,292	UNITED STATES TREAS NTS 1.875% DUE	1.875%	31 Oct 2022	2,952,392
4)	2,657,983	FNMA SINGLE FAMILY MORTGAGE 3.5% 30	3.500%	31 Dec 2040	2,801,264
5)	2,405,933	UNITED STATES TREAS NTS DTD 00407 .625%	0.625%	31 May 2017	2,408,093
6)	1,558,128	UNITED STATES TREAS INFL INDEXED BONDS	3.014%	15 Jan 2025	2,361,052
7)	2,199,710	UNITED STATES TREAS NTS DTD 05/31/2014	1.500%	31 May 2019	2,249,375
8)	1,546,671	VERIZON COMMUNICATIONS 6.55% BDS DUE	6.550%	15 Sep 2043	2,083,963
9)	2,062,228	UNITED STATES TREAS NTS 1.0% DUE	1.000%	15 Mar 2019	2,079,710
10)	1,264,833	CALIFORNIA ST 7.5% DUE 04-01-2034 BEO	7.500%	1 Apr 2034	1,918,550
Total Largest Bond Holdings					$ 35,888,568

Brokerage Commission Recapture

The System participates in a commission recapture program offered by Northern Trust Securities Inc. (NTSI). Investment Managers are instructed to seek best execution and to seek to minimize omission and market impact costs when trading securities. Consistent with the pursuit of best execution, equity manager's participating in the Brokerage Commission Recapture Program are to give consideration to executing a portion of the trades for their account through brokerage firms identified by NTSI as eligible Broker Dealer firms. The System receives a rebate in the amount of 80 percent for domestic and 70 percent for international of the total commissions directed through the NTSI Network. For fiscal year 2016, the net income from Brokerage Commission Recapture was $19,153. During this period, the overall participating rate by the System's equity managers was 7.77 percent. The percentage of equity trading being executed through the program is generally at a low cost and has resulted over the years in a meaningful cost recapture. Program economics are tough in the lower commission environment and participation by the System's investment managers is voluntary.

Schedule of Commissions

For The Fiscal Year Ended June 30, 2016

Brokerage Firm	Total Commissions	Number of Shares	Commission Cost/Share
J.P. MORGAN CLEARING CORP.	$ 24,346	42,467,136	$ 0.0006
INVESTMENT TECHNOLOGY GROUP LTD.	13,710	1,241,020	0.0110
MERRILL LYNCH INTERNATIONAL LIMITED	12,401	3,309,216	0.0037
UBS WARBURG LLC	11,284	1,782,844	0.0063
JEFFERIES & COMPANY	9,805	6,219,048	0.0016
CREDIT SUISSE FIRST BOSTON CORPORATION	8,638	39,819,527	0.0002
INSTINET EUROPE LIMITED	7,806	568,074	0.0137
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	7,471	714,616	0.0105
J.P. MORGAN SECURITIES LLC 57079	7,440	292,812	0.0254
J.P. MORGAN SECURITIES PLC	7,036	1,778,656,103	0.0000
	$ 109,937	1,875,070,396	$ 0.0001
All Other Brokerage Firms	216,216	3,131,592,403	0.0001
TOTAL	$ 326,153	5,006,662,799	$ 0.0001

Investment Summary

For The Fiscal Year Ended June 30, 2016

	Investment Value	Percent of Fund	Investment Management Fees
Equity			
Domestic	$ 438,206,900	37.4%	$ 836,438
International Developed Market	178,568,192	15.2%	942,893
International Emerging Market	33,892,404	2.9%	282,423
Fixed Income			
Domestic	317,168,700	27.1%	711,836
Real Estate	168,067,886	14.4%	1,292,501
Short-term Investments	35,631,436	3.0%	-
Total	$ 1,171,535,518	100.0%	$ 4,066,091

Assets will be invested and administered to balance the need to control risk with superior performance.

We expect excellence in all activities. We will also be accountable and act in accordance with the law.

ACTUARIAL

Actuarial Certification Letter

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

VIA E-MAIL

December 6, 2016

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

**Re: City of Fresno Employees Retirement System
June 30, 2016 Actuarial Valuation**

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2016 annual actuarial valuation of the City of Fresno Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and the System's funding policy that was last reviewed with the Board in 2012. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2016 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total actual investment return at market value and the expected investment return over a five-year period.

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

Actuarial Certification Letter Continued

Board of Retirement
City of Fresno Employees Retirement System
December 6, 2016
Page 2

Effective with the June 30, 2013 valuation, any new UAAL established as a result of actuarial gains or losses or plan amendments are amortized over separate 15-year declining periods (with the exception of temporary retirement incentives which are amortized over a separate declining period of up to 5 years). Any new UAAL established as a result of changes in actuarial assumptions or methods at each valuation is amortized over separate 25-year declining periods. Any actuarial surplus (when the funded ratio is over 110%) will be amortized over a non-declining 25-year period. The progress being made towards meeting the funding objective through June 30, 2016 is illustrated in the Schedule of Funding Progress.

Notes number 1, 3 and 4 to the Basic Financial Statements and the Required Supplemental Information (RSI) included in the Financial Section were prepared by the System based on the results of the Governmental Accounting Standards Statement No. 67 (GAS 67) actuarial valuation as of June 30, 2016 prepared by Segal. For the Financial Section of the Comprehensive Annual Financial Report (CAFR), Segal provided the Schedule of Funding Progress, Schedule of Changes in Net Pension Liability and Schedule of Employer Contributions as shown in the RSI. A listing of the other supporting schedules Segal prepared for inclusion in the Actuarial and Statistical Sections of the System's CAFR is provided below. These schedules were prepared based on the results of the actuarial valuation as of June 30, 2016 for funding purposes.

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2015 Experience Analysis and the June 30, 2016 Economic Assumptions Report. It is our opinion that the assumptions used in the June 30, 2016 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2018 and those assumptions will be used in the June 30, 2019 valuation. The Retirement System utilizes the actuarial surplus to provide contribution rate offsets and a PRSB benefit. The impact of the application of the actuarial surplus on the future financial condition of the Plan has not been explicitly measured in the valuation.

In the June 30, 2016 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 109.2% to 111.3%. The employer's rate has decreased from 12.77% of payroll to 11.39%[1] of payroll, while the employee's rate has decreased from 8.95% of payroll to 8.24%[2] of payroll.

As a result of using the actuarial value of assets in the actuarial valuation, there were $48.6 million in unrecognized deferred investment losses as of June 30, 2016, which represented 4.3% of the market value of assets. This is a deterioration from last year's amount of $28.0 million in unrecognized deferred investment gains. If $48.6 million in deferred investment losses were

[1] *This rate has been decreased by 0.33% of payroll as a result of surplus allocation.*

[2] *This rate has been decreased by 0.41% of payroll as a result of surplus allocation.*

Actuarial Certification Letter Continued

Board of Retirement
City of Fresno Employees Retirement System
December 6, 2016
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recognized immediately in the actuarial value of assets, the funded percentage would decrease from 111.3% to 106.3%, the aggregate employer's rate would increase from 11.39% of payroll to 11.72% of payroll and the aggregate employee's rate would increase from 8.24% of payroll to 8.65% of payroll.

The undersigned are Members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA	Andy Yeung, ASA, MAAA, FCA, EA
Senior Vice President and Actuary	Vice President and Actuary

MYM/gxk
Enclosures

5462439v1/05915.011

Summary of Actuarial Assumptions and Funding Method

These actuarial assumptions and methods based on June 30, 2016 data were adopted by the Employees Retirement Board on November 22, 2016 and establishes the funding requirements for fiscal year 2017-18.

Assumptions

Valuation Interest Rate	7.25%
Inflation:	3.00%

Post-Retirement Mortality

(a) Service Retirement

Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females), projected 20 years with the two-dimensional scale MP-2015, set forward one year.

Beneficiary: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females), projected 20 years with the two-dimensional scale MP-2015, set forward one year, weighted 35% male and 65% female.

(b) Disability Retirement

Member: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table (separate tables for males and females), projected 20 years with the two-dimensional scale MP-2015, set forward four years

Pre-Retirement Mortality

Based upon the Analysis of Actuarial Experience during the period July 1, 2012 through June 30, 2015.

Withdrawal Rates

Based upon the Analysis of Actuarial Experience during the period July 1, 2012 through June 30, 2015.

Disability Rates

Based upon the Analysis of Actuarial Experience during the period July 1, 2012 through June 30, 2015.

Service Retirement Rates

Based upon the Analysis of Actuarial Experience during the period July 1, 2012 through June 30, 2015.

Assets

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

Funding Method

The System's liability is being funded on the Entry Age Normal Actuarial Cost method. Entry age is the age of the member on their hire date. Normal Cost and Actuarial Accrued Liability are compensation, as if the current benefit formulas have always been in effect (i.e. "replacement life").

The System's funding policy for determining Total Pension Liability (for funding purposes) uses a version of the Entry Age method whereby the Actuarial Accrued Liability is fully accrued when a member retires from employment after participating in DROP. While for financial reporting purposes only, in accordance with GASB 67 provisions, for determining Total Pension Liability, the Actuarial Accrued Liability is fully accrued when a member either enters DROP or is expected to elect DROP. (See page 29 of the Financial Section and pages 57 and 58 of the Required Supplementary Information on the different actuarial assumptions used for financial reporting versus funding progress).

DROP Rates

1st year eligible	30% participation
2nd year eligible	15% participation
3rd and 4th year eligible	10% participation
5th year eligible	15% participation
6th year eligible	10% participation
Thereafter	0% participation

Members are assumed to remain in DROP for 6 years.

Marriage Rates

It is assumed that 80% of all male members and 55% of all female members will be married at retirement.

Wives are 2 years younger than their husbands.

Cost-of-Living (COLA) Assumption

3.00% per year; Retiree COLA increases due to Consumer Price Index (CPI) are limited to maximum at 3.00% per year.

Salary Scale

Salary Scale is made up of merit and longevity, and inflation components. The inflation component is equal to 3.00%; plus 0.50% real across-the-board salary increase. The merit and longevity component varies by service and is illustrated below:

Years Since Hire	Merit and Longevity Assumption
< 1 year	8.00%
1 year	5.75%
2 years	4.50%
3 years	3.75%
4 years	3.00%
5 years	1.85%
6 years	1.05%
7 years	0.70%
8 years	0.70%
9 or more years	0.25%

Probabilities of Separation Prior to Retirement

Rate (%)		
Mortality		
Age	Male	Female
25	0.04	0.01
30	0.04	0.02
35	0.04	0.03
40	0.05	0.03
45	0.07	0.05
50	0.13	0.09
55	0.22	0.15
60	0.40	0.21
65	0.68	0.30

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

Rate (%)	
Disability	
Age	All Members
20	0.00
25	0.00
30	0.01
35	0.03
40	0.14
45	0.20
50	0.26
55	0.48
60	0.90
65	1.79

All disabilities are assumed to be non-service connected.

Rate (%)	
Total Terminations (Less Than 5 years of service)	
Age	All Members
0 - 1	12.00
1 – 2	10.00
2 - 3	5.00
3 – 4	5.00
4 – 5	5.00

85 % of members are assumed to elect a withdrawal of contributions. No termination is assumed after a member is assumed to retire.

Rate (%)	
Total Terminations (5 or more years of service)	
Age	All Members
20	7.50
25	7.20
30	7.00
35	6.40
40	4.80
45	3.70
50	0.00

40% of members are assumed to elect a withdrawal of contributions. The remaining members are assumed to elect a deferred vested benefit. No termination is assumed after a member is assumed to retire.

Schedule of Active Member Valuation Data

Valuation Date	Active/DROP	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2016	Active Members	1,592	$ 91,007,785	$ 57,166	(1.1%)
	DROP Participants	366	22,428,051	61,279	1.3%
	Totals	1,958	$ 113,435,836	$ 57,935	
June 30, 2015	Active Members	1,524	$ 88,090,729	$ 57,802	(0.2%)
	DROP Participants	364	22,015,866	60,483	(0.5%)
	Totals	1,888	$ 110,106,595	$ 58,319	
June 30, 2014	Active Members	1,517	$ 87,842,034	$ 57,905	(3.6%)
	DROP Participants	350	21,100,432	60,808	(3.6%)
	Totals	1,867	$ 108,942,466	$ 58,352	
June 30, 2013	Active Members	1,535	$ 92,244,313	$ 60,094	3.0%
	DROP Participants	311	19,610,437	63,056	0.7%
	Totals	1,846	$ 111,854,750	$ 60,593	
June 30, 2012	Active Members	1,625	$ 94,766,049	$ 58,318	(0.2%)
	DROP Participants	280	17,540,903	62,646	(0.4%)
	Totals	1,905	$ 112,306,952	$ 58,954	
June 30, 2011	Active Members	1,739	$ 101,597,247	$ 58,423	2.4%
	DROP Participants	254	15,980,093	62,914	3.3%
	Totals	1,993	$ 117,577,340	$ 58,995	
June 30, 2010	Active Members	2,040	$ 116,427,736	$ 57,072	2.7%
	DROP Participants	243	14,796,085	60,889	3.3%
	Totals	2,283	$ 131,223,821	$ 57,479	
June 30, 2009	Active Members	2,217	$ 123,176,724	$ 55,560	5.9%
	DROP Participants	273	16,097,424	58,965	1.6%
	Totals	2,490	$ 139,274,148	$ 55,933	
June 30, 2008	Active Members	2,245	$ 117,793,489	$ 52,469	5.3%
	DROP Participants	264	15,316,424	58,017	2.9%
	Totals	2,509	$ 133,109,913	$ 53,053	
June 30, 2007	Active Members	2,195	$ 109,370,886	$ 49,827	4.6%
	DROP Participants	228	12,861,061	56,408	8.9%
	Totals	2,423	$ 122,231,947	$ 50,447	

Schedule of Retirees and Beneficiaries Added to or Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Year Ended	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	Average Annual Allowance	% Increase (Decrease) in Retiree Allowance
June 30, 2016	132	$ 1,578,451	(64)	$ (898,105)	1,858	$ 51,198,523	$ 27,556	0.51
June 30, 2015	103	$ 1,402,353	(62)	$ (718,791)	1,790	$ 49,072,063	$ 27,415	1.21
June 30, 2014	110	$ 1,518,754	(61)	$ (686,326)	1,749	$ 47,376,551	$ 27,088	0.36
June 30, 2013	104	$ 1,607,660	(66)	$ (825,889)	1,700	$ 45,883,057	$ 26,990	4.72
June 30, 2012	99	$ 1,026,077	(59)	$ (640,326)	1,662	$ 42,833,718	$ 25,772	0.76
June 30, 2011	160	$ 1,810,188	(41)	$ (541,232)	1,622	$ 41,487,860	$ 25,578	(3.76)
June 30, 2010	151	$ 2,030,635	(48)	$ (558,850)	1,503	$ 39,946,446	$ 26,578	(4.67)
June 30, 2009	85	$ 1,406,728	(48)	$ (682,366)	1,400	$ 39,031,190	$ 27,879	7.47
June 30, 2008	113	$ 3,136,606	(49)	$ (706,739)	1,363	$ 35,357,509	$ 25,941	(11.20)
June 30, 2007	94	$ 1,153,762	(45)	$ (614,078)	1,299	$ 37,948,651	$ 29,214	24.17

Solvency Test (In thousands)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)	Actuarial Valuation Value of Assets	Active Member Contributions	Retirees and Beneficiaries (Includes Deferred Vested)	Active Members (Employer Financed Portion)
6/30/2016	$84,142	$736,665	$156,102	$1,087,125	100%	100%	100%
6/30/2015	85,644	704,462	170,258	1,049,093	100%	100%	100%
6/30/2014	85,712	694,761	169,801	993,641	100%	100%	100%
6/30/2013	86,768	663,832	184,347	933,722	100%	100%	100%
6/30/2012	86,590	609,218	176,150	891,366	100%	100%	100%
6/30/2011	87,568	572,959	130,578	920,217	100%	100%	100%
6/30/2010	94,746	525,289	136,223	926,370	100%	100%	100%
6/30/2009	95,047	480,189	140,014	958,032	100%	100%	100%
6/30/2008	90,891	475,565	123,377	980,961	100%	100%	100%
6/30/2007	91,230	421,463	118,612	926,525	100%	100%	100%

Actuarial Analysis of Financial Experience

(Dollars in Millions)

	Plan Years									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Prior Valuation Actuarial Accrued Liability	$960	$950	$935	$872	$791	$ 756	$ 715	$ 690	$ 631	$ 614
Expected Increase from Prior Valuation	-	-	-	-	-	-	-	-	-	-
Salary Increase (Greater) Less than Expected	(7)	(11)	(17)	(3)	(13)	(6)	(10)	-	8	7
Asset Return (Less) Greater than Expected	-	-	-	-	-	-	-	-	-	-
COLA Increase Greater (Less) than Expected	(18)	(18)	(10)	(9)	(1)	(9)	(4)	-	-	-
Other Experience	(6)	(2)	(1)	(2)	(4)	7	-	(20)	10	6
Economic Assumption Changes	8	-	-	33	-	-	10	-	-	(31)
Noneconomic Assumption Changes	-	-	-	-	-	-	-	-	-	-
Normal Cost	22	22	23	22	24	22	24	24	22	21
Interest	71	70	69	69	67	60	58	56	51	50
Payments	(52)	(51)	(49)	(47)	(44)	(42)	(37)	(35)	(32)	(36)
Change in Valuation Programs and Methods	(1)	-	-	-	52	3	-	-	-	-
Ending Actuarial Accrued Liability	$977	$960	$950	$935	$872	$791	$756	$715	$690	$631

Schedule of Funding Progress

(Dollars in Millions)

Actuarial Valuation As of June 30	(1) Actuarial Valuation Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1) / (2)	(4) (Prefunded) / Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) (Prefunded) / Unfunded AAL Percentage of Covered Payroll (4) / (5)
2016	$ 1,087	$ 977	111.3%	$ (110)	$ 113	(97.2%)
2015	$ 1,049	$ 960	109.2%	$ (89)	$ 110	(80.6%)
2014	$ 994	$ 950	104.6%	$ (43)	$ 109	(39.8%)
2013	$ 934	$ 935	99.9%	$ 1	$ 112	1.1%
2012	$ 891	$ 872	102.2%	$ (19)	$ 112	(17.3%)
2011	$ 920	$ 791	116.3%	$ (129)	$ 118	(109.8)%
2010	$ 926	$ 756	122.5%	$ (170)	$ 131	(129.6)%
2009	$ 958	$ 715	133.9%	$ (243)	$ 139	(174.3)%
2008	$ 981	$ 690	142.2%	$ (291)	$ 133	(218.7)%
2007	$ 927	$ 631	146.8%	$ (295)	$ 122	(241.5)%

Major Benefit Provisions of the Retirement System

ELIGIBLE EMPLOYEES

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

FINAL AVERAGE SALARY (FAS)

Highest three consecutive-year average using the rate of pay in effect at the time of Retirement.

NORMAL RETIREMENT

Requirement: age 55 and 5 years of service.

Benefit: Sum of (1) and (2) times (3)

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

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

(3) *RETIREMENT AGE FACTOR TABLE*

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

EARLY RETIREMENT PROVISION

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

DEFERRED RETIREMENT OPTION (DROP)

An employee who is age 55 with 5 years of service may DROP. The eligibility age may be reduced to age 50 with 5 years of service if the employee elects an early retirement. Retirement amount is calculated and monthly deposits are made to the employee's DROP account while employee continues to work up to maximum of 10 years.

DISABILITY RETIREMENT

Requirement: 10 years of service.

Benefit: 1.8 percent times FAS times years of service, if exceeds 1/3 of FAS; or 33-1/3%, or service retirement, if higher.

MEMBER CONTRIBUTION RATES

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

DEATH BEFORE RETIREMENT

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

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

(2) Return of contributions with interest.

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

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

DEATH AFTER RETIREMENT

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

WITHDRAWAL OF BENEFITS

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

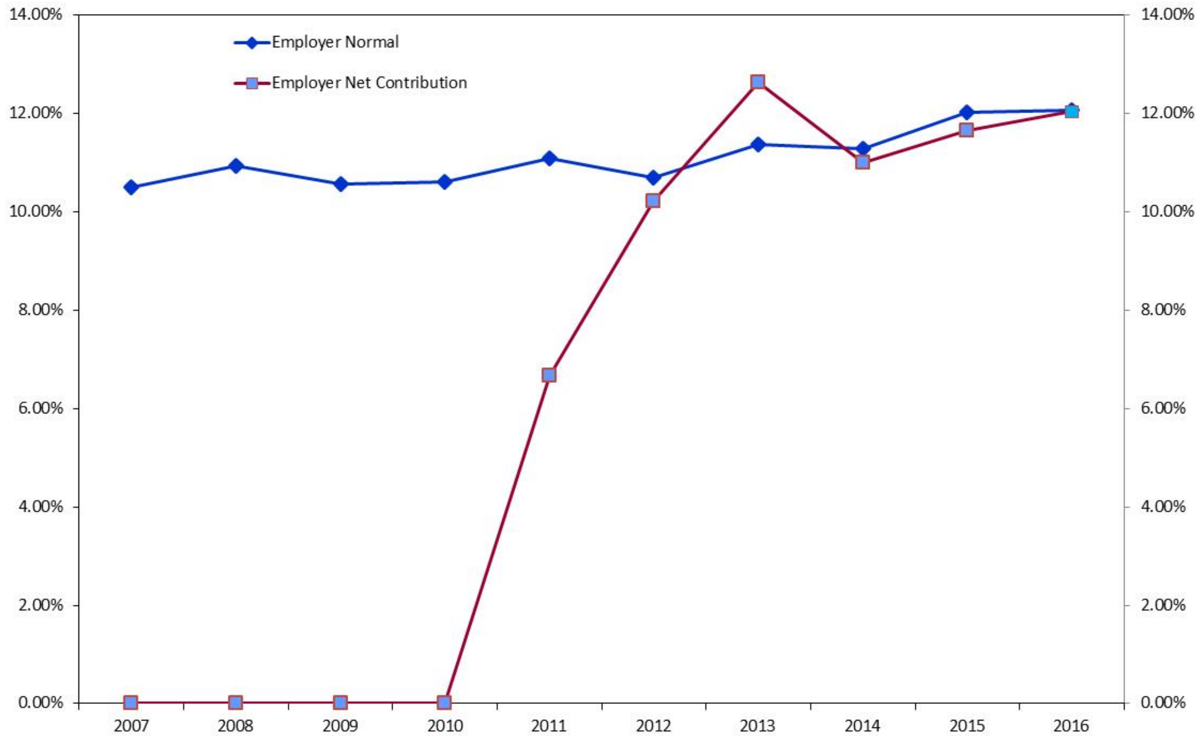
POST RETIREMENT SUPPLEMENTAL BENEFIT (PRSB)

On August 27, 1998, the City Council adopted the Post Retirement Supplemental Benefit (PRSB) Program which is intended to provide assistance to retirees to pay for various post-retirement expenses. Annually, after an actuarial study has been performed, the Retirement Board will review the availability of surplus earnings in the System and determine whether a benefit can be paid to eligible PRSB recipients. If a surplus is declared by the Board, PRSB benefit payments will be calculated for eligible recipients and payments for the following calendar year will begin in January.

COST-OF-LIVING BENEFITS

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

History of Employer Net Contribution Rates



Fiscal Year Ending June 30	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employer Normal	10.51%	10.93%	10.56%	10.62%	11.09%	10.70%	11.37%	11.28%	12.03%	12.06%
Prefunded Liability/Prepaid Contributions	10.51%	10.93%	10.56%	10.62%	4.42%	0.49%	(1.26%)	0.27%	0.38%	0.02%
Employer Net Contribution	0.00%	0.00%	0.00%	0.00%	6.67%	10.21%	12.63%	11.01%	11.65%	12.04%

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

To improve business
processes and our delivery of
services provided to
members and retirees.

To improve communications
with members, retirees and
the employer.

STATISTICAL

Statistical Section Review

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

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

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

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

Schedule of Changes in Fiduciary Net Position

Last Ten Fiscal Years 2007 - 2016

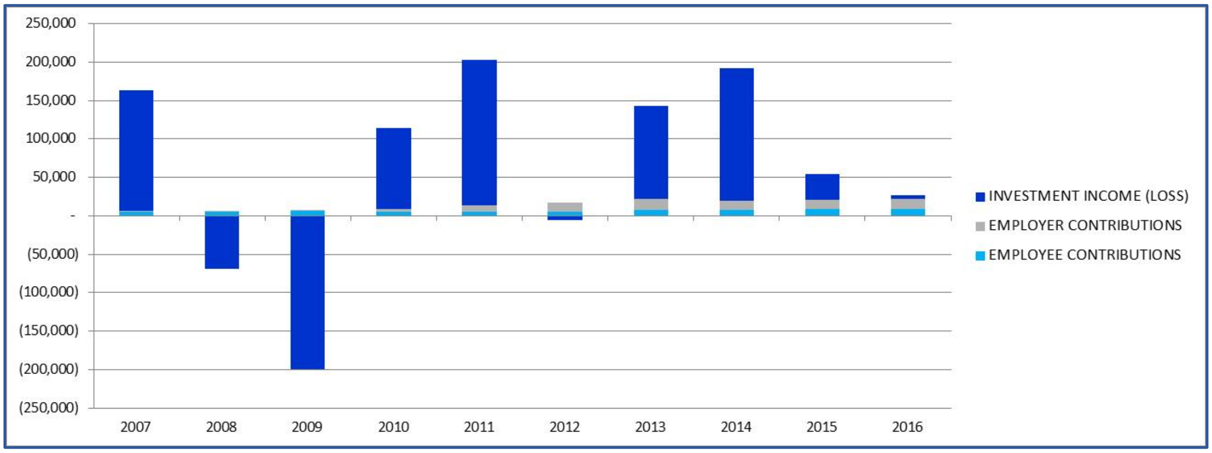
(Dollars in Millions)

	2016	2015	2014	2013	2012
Additions					
Employer Contributions	$ 13.1	$ 12.3	$ 11.4	$ 13.3	$ 11.4
Member Contributions	9.1	8.8	7.9	8.0	5.5
Investment Income (Loss)	5.0	33.3	172.9	121.1	(5.6)
Total Additions	$ 27.2	$ 54.4	$ 192.2	$ 142.4	$ 11.3
Deductions					
Benefit Payments	$ 51.2	$ 49.1	$ 47.4	$ 45.8	$ 42.7
Post Retirement Supplemental Benefits	-	-	-	0.1	0.1
Refunds	1.3	1.5	1.2	1.2	1.3
Administrative	1.3	1.1	1.1	1.1	1.1
Total Deductions	53.8	51.7	49.7	48.2	45.2
Change in Fiduciary Net Position	$ (26.6)	$ 2.7	$ 142.5	$ 94.2	$ (33.9)

	2011	2010	2009	2008	2007
Additions					
Employer Contributions	$ 8.2	$ 3.3	$ 1.3	$ 0.4	$ 1.6
Member Contributions	5.3	5.7	5.8	5.7	5.1
Investment Income (Loss)	188.9	104.5	(199.7)	(68.5)	156.5
Total Additions	$ 202.4	$ 113.5	$ (192.6)	$ (62.4)	$ 163.2
Deductions					
Benefit Payments	$ 39.9	$ 35.7	$ 33.9	$ 31.3	$ 35.0
Post Retirement Supplemental Benefits	1.6	4.2	5.1	4.1	3.0
Refunds	2.1	1.7	1.0	1.1	1.4
Administrative	1.0	0.9	0.9	0.9	0.9
Total Deductions	44.6	42.5	40.9	37.4	40.3
Changes in Fiduciary Net Position	$ 157.8	$ 71.0	$ (233.5)	$ (99.8)	$ 122.9

Schedule and Graph of Additions by Source (In Thousands)

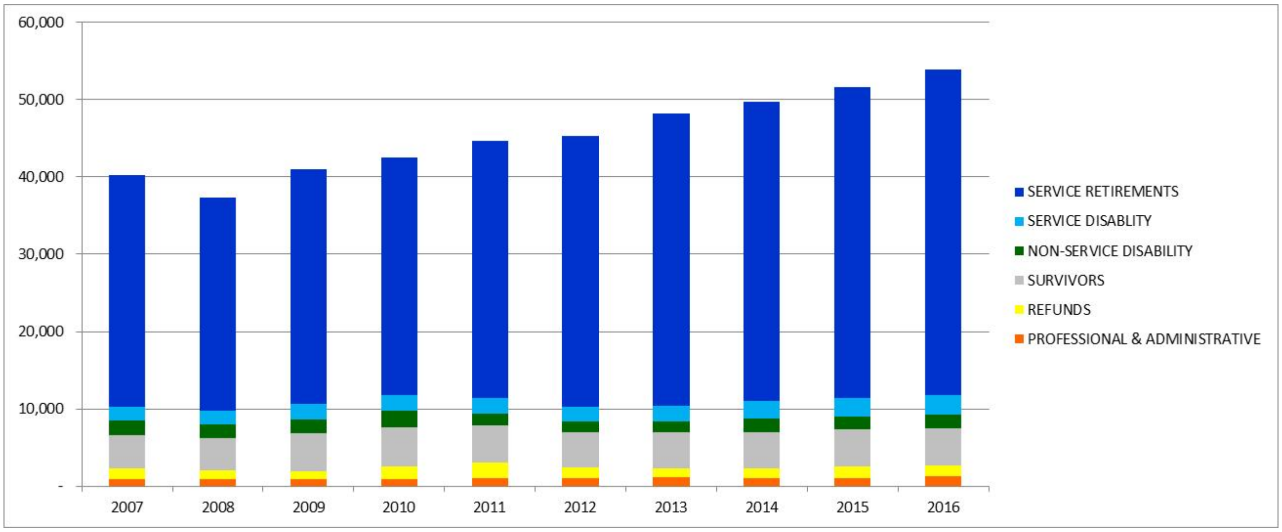
Last Ten Fiscal Years 2007 - 2016



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EMPLOYER CONTRIBUTIONS	$ 1,566	$ 355	$ 1,345	$ 3,267	$ 8,215	$ 11,374	$ 13,330	$ 11,440	$12,327	$13,060
EMPLOYEE CONTRIBUTIONS	5,094	5,666	5,845	5,740	5,275	5,507	7,995	7,945	8,750	9,098
INVESTMENT INCOME (LOSS)	156,546	(68,482)	(199,694)	104,511	188,925	(5,620)	121,116	172,773	33,309	5,089
TOTAL	$163,206	$(62,461)	$(192,504)	$113,518	$202,415	$ 11,261	$142,441	$192,158	$54,386	$27,247

Schedule and Graph of Deductions by Type (In Thousands)

Last Ten Fiscal Years 2007 - 2016



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SERVICE RETIREMENTS	$29,928	$27,631	$30,336	$30,751	$33,193	$34,944	$37,748	$38,677	$40,261	$42,031
SERVICE DISABLITY	1,751	1,771	1,989	2,014	1,997	1,940	2,042	2,286	2,358	2,625
NON-SERVICE DISABILITY	1,949	1,768	1,792	2,141	1,527	1,338	1,400	1,709	1,579	1,744
SURVIVORS	4,321	4,188	4,914	5,041	4,771	4,612	4,693	4,704	4,874	4,799
REFUNDS	1,351	1,111	1,022	1,651	2,092	1,313	1,157	1,204	1,474	1,330
PROFESSIONAL & ADMINISTRATIVE	916	898	894	929	1,029	1,087	1,138	1,086	1,071	1,346
TOTAL	$40,216	$37,367	$40,947	$42,527	$44,609	$45,234	$48,178	$49,666	$51,617	$53,875

Schedule of Average Benefit Payments

	Years of Credited Service						Fiscal Year
Retirement Effective Dates	5-10	10-15	15-20	20-25	25-30	30+	Average/New Retirants
Period 7/1/15 to 6/30/16*							
Average Monthly Pension Benefits	$ 938	$ 1,567	$ 1,847	$2,606	$ 2,596	$ 2,402	$ 1,993
Average Monthly DROP Payment	1,506	1,046	1,446	2,264	1,684	1,624	1,595
Average Final Average Salary	5,576	5,480	5,048	5,325	4,961	4,395	5,131
Number of New Retired Members	14	23	24	16	20	11	108
Period 7/1/14 to 6/30/15							
Average Monthly Pension Benefits	$ 912	$ 1,409	$ 2,173	$2,509	$ 5,125	$ 5,039	$ 2,861
Number of New Retired Members	13	11	25	6	16	6	77
Period 7/1/13 to 6/30/14							
Average Monthly Pension Benefits	$ 1,060	$ 1,610	$ 2,144	$3,586	$ 3,258	$ 6,795	$ 3,076
Number of New Retired Members	12	12	17	15	10	8	74
Period 7/1/12 to 6/30/13							
Average Monthly Pension Benefits	$ 864	$ 1,476	$ 2,315	$3,598	$ 4,335	$ 4,925	$ 2,919
Number of New Retired Members	16	15	14	12	10	10	77
Period 7/1/11 to 6/30/12							
Average Monthly Pension Benefits	$ 568	$ 1,551	$ 2,341	$2,659	$ 4,268	$ 5,167	$ 2,759
Number of New Retired Members	22	13	17	13	7	5	77
Period 7/1/10 to 6/30/11							
Average Monthly Pension Benefits	$ 848	$ 1,231	$ 1,966	$2,966	$ 3,293	$ 4,409	$ 2,452
Number of New Retired Members	33	31	17	15	18	19	133
Period 7/1/09 to 6/30/10							
Average Monthly Pension Benefits	$ 839	$ 1,309	$ 2,731	$3,461	$ 3,626	$ 4,023	$ 2,665
Number of New Retired Members	13	20	20	24	27	14	118
Period 7/1/08 to 6/30/09							
Average Monthly Pension Benefits	$ 939	$ 1,464	$ 2,828	$3,028	$ 3,925	$ 4,449	$ 2,772
Number of New Retired Members	17	15	12	8	6	4	62
Period 7/1/07 to 6/30/08							
Average Monthly Pension Benefits	$ 711	$ 1,498	$ 2,346	$3,240	$ 3,008	$ 3,916	$ 2,453
Number of New Retired Members	12	13	19	10	12	7	73
Period 7/1/06 to 6/30/07							
Average Monthly Pension Benefits	$ 851	$ 1,585	$ 2,233	$2,368	$ 2,706	$ 2,284	$ 2,005
Number of New Retired Members	8	17	11	7	21	5	69

Data Source: PensionGold Administration System V3

The Schedule of Average Benefit Payments above now includes information about the average final salary in accordance with GASB Statement No. 44 for the period July 1, 2015 to June 30, 2016. Fortunately, with the implementation of our new PensionGold Administration System we are able to present a reasonably accurate calculation of the average final salary because we show the separate payment amount for members who participated in the Deferred Retirement Option Program (DROP). We are unable to provide this date for Fiscal Years 2007-2015 at this time and will present prior year data as soon as realistically achievable.

DROP, which is not a separate plan, is an alternate method of receiving retirement benefits. Amounts credited to the Member's DROP account include an amount which represents the service retirement allowance which the member would have received if the member had retired on the date the member commenced DROP participation and interest credited to the DROP account at the adopted rate.

Members that elect to participate in DROP have their retirement benefit calculated based upon their years of service and final average salary as determined at the time they enter DROP (potentially a full 10 years earlier than their actual retirement date) rather than at the time the member actually retires. When the member retires, they receive their monthly retirement benefit and included is a DROP payment. We are now able to provide the final average salary which created the monthly pension benefit payment. Therefore, eliminating the appearance of disproportional benefits when viewed in relationship with the average final average salary.

Retirees by Type of Benefit

As of June 30, 2016

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*		
		1	2	3
$1 - $1,000	354	222	2	130
$1,001 - $2,000	622	376	88	158
$2,001 - $3,000	424	344	36	44
$3,001 - $4,000	219	202	12	5
$4,001 - $5,000	112	104	4	4
$5,001 - $6,000	55	46	7	2
$6,001 - $7,000	28	28	-	-
> $7,000	35	34	-	1
Total	1,849	1,356	149	344

*Type of Retirement

1 - Service Retiree

2 - Disability Retiree

3 - Beneficiary/Continuant/Survivor

Amount of Monthly Benefit	Number of Retirees	Option Selected**			
		Unmodified	Option 1	Option 2	Option 3
$1 - $1,000	354	210	66	59	19
$1,001 - $2,000	622	314	169	105	34
$2,001 - $3,000	424	210	106	79	29
$3,001 - $4,000	219	101	53	45	20
$4,001 - $5,000	112	54	25	21	12
$5,001 - $6,000	55	28	13	11	3
$6,001 - $7,000	28	18	3	5	2
> $7,000	35	11	7	14	3
Total	1,849	946	442	339	122

**Option Selected

Unmodified - Beneficiary receives 50% of the member's allowance

Option 1 - Beneficiary receives lump sum of member's unused contributions

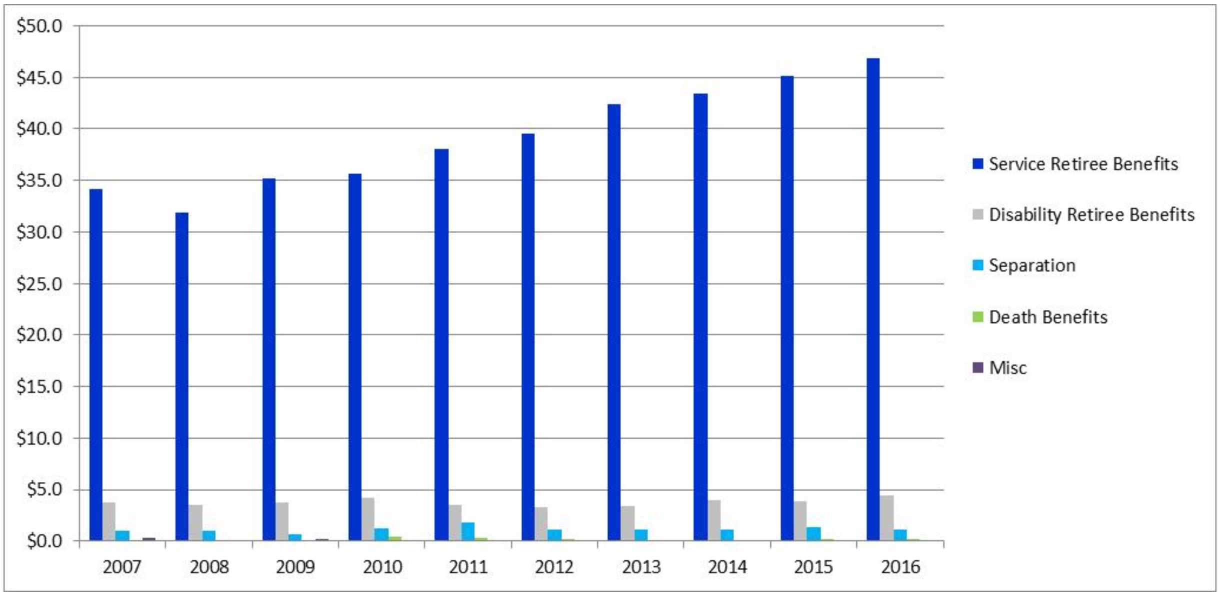
Option 2 - Beneficiary receives 100% of member's reduced monthly benefit

Option 3 - Beneficiary receives 75% of member's reduced monthly benefit

Schedule and Graph of Pension Benefit Payments Deductions by Type

Last Ten Fiscal Years 2007 - 2016

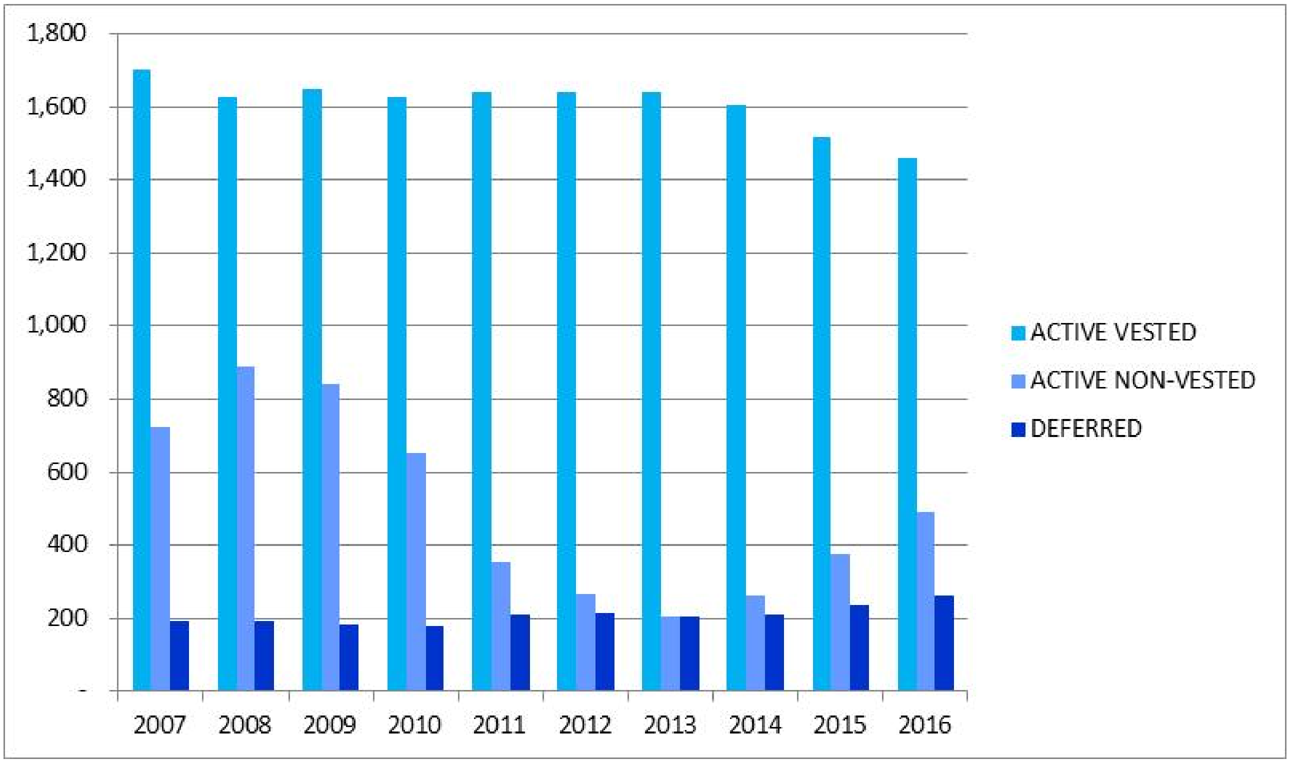
(Dollars in Millions)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Service Retiree Benefits	$34.2	$31.9	$35.2	$35.7	$38.0	$39.5	$42.4	$43.4	$45.1	$46.8
Disability Retiree Benefits	3.7	3.5	3.8	4.2	3.5	3.3	3.4	4.0	3.9	4.4
Separation	1.0	1.0	0.7	1.2	1.8	1.1	1.1	1.1	1.3	1.1
Death Benefits	0.1	0.1	0.1	0.4	0.3	0.2	0.1	0.1	0.2	0.2
Misc	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefit Deductions	$39.3	$36.5	$40.0	$41.5	$43.6	$44.1	$47.0	$48.6	$50.5	$52.5

Schedule and Graph of Active Vested, Active, Non-Vested and Deferred Membership History

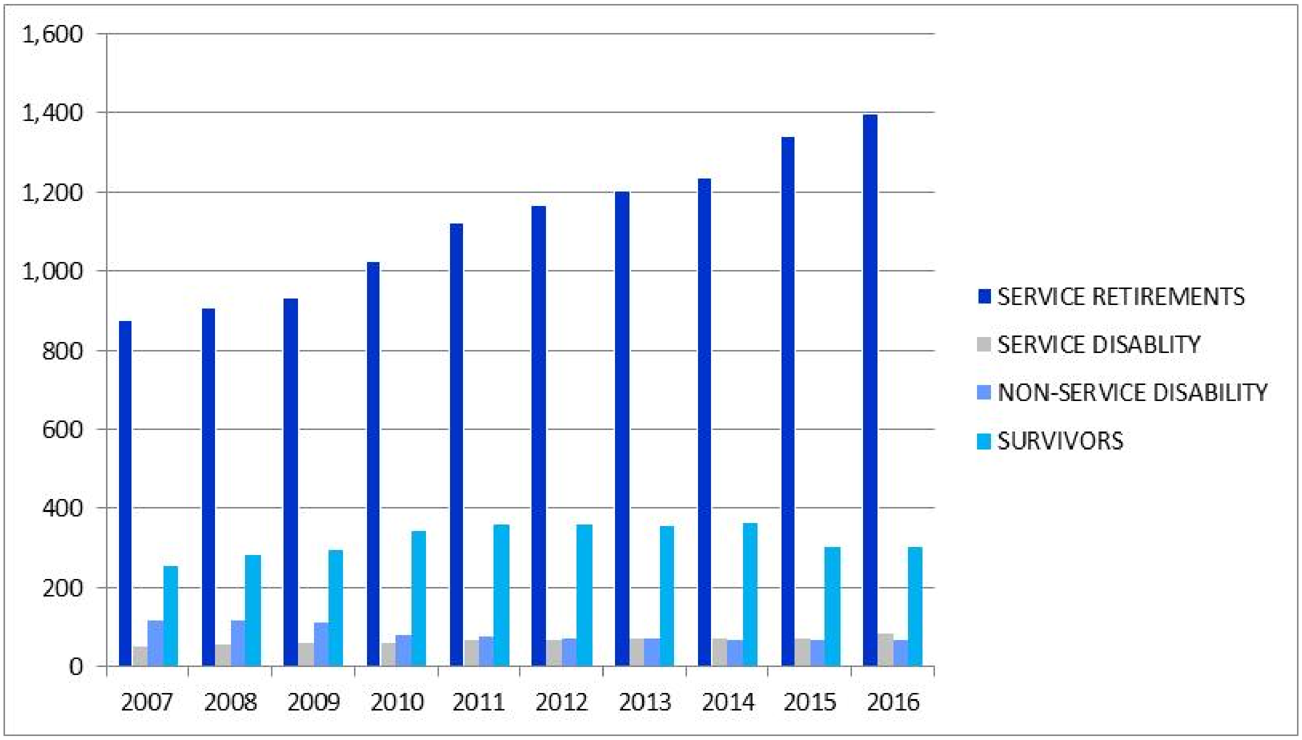
Last Ten Fiscal Years 2007 - 2016



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ACTIVE VESTED	1,701	1,626	1,650	1,629	1,639	1,638	1,641	1,604	1,517	1,462
ACTIVE NON-VESTED	722	889	840	654	354	267	205	263	376	492
DEFERRED	193	192	184	180	212	217	205	209	236	261
TOTAL	2,616	2,707	2,674	2,463	2,205	2,122	2,051	2,076	2,129	2,215

Schedule and Graph of Retirees Pension Benefit Payments by Type of Benefit

Last Ten Fiscal Years 2007 - 2016



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SERVICE RETIREMENTS	876	908	933	1,025	1,123	1,166	1,202	1,237	1,342	1,398
SERVICE DISABLITY	53	57	60	58	66	67	71	73	71	82
NON-SERVICE DISABILITY	117	115	111	78	74	71	73	68	68	67
SURVIVORS	253	283	296	342	359	358	354	363	302	302
TOTAL	1,299	1,363	1,400	1,503	1,622	1,662	1,700	1,741	1,783	1,849

Summary of Active Participants

YEAR	NUMBER OF MEMBERS	PENSIONABLE PAYROLL	ANNUAL AVERAGE SALARY	NET CHANGE IN AVERAGE SALARY
2016	1,954	$ 108,541,068	$ 55,548	(0.63%)
2015	1,893	$ 105,820,382	$ 55,901	0.46%
2014	1,867	$ 103,890,391	$ 55,646	(2.64%)
2013	1,846	$ 105,508,591	$ 57,155	(1.46%)
2012	1,905	$ 110,492,026	$ 58,001	(3.07%)
2011	1,993	$ 119,260,220	$ 59,840	5.69%
2010	2,283	$ 129,258,191	$ 56,618	6.39%
2009	2,490	$ 132,511,895	$ 53,218	3.40%
2008	2,515	$ 129,440,108	$ 51,467	9.17%
2007	2,423	$ 114,233,621	$ 47,146	2.63%
2006	2,318	$ 106,482,630	$ 45,937	3.00%
2005	2,287	$ 102,001,794	$ 44,601	1.56%
2004	2,260	$ 99,251,574	$ 43,917	3.54%
2003	2,254	$ 95,602,991	$ 42,415	3.86%
2002	2,186	$ 89,275,955	$ 40,840	3.44%
2001	2,171	$ 85,715,989	$ 39,482	2.59%
2000	2,112	$ 81,285,066	$ 38,487	6.79%
1999	2,068	$ 74,529,074	$ 36,039	2.37%
1998	1,988	$ 69,986,473	$ 35,204	(0.52%)
1997	1,953	$ 69,115,258	$ 35,389	4.78%
1996	1,927	$ 65,084,621	$ 33,775	0.51%
1995	1,893	$ 63,613,482	$ 33,605	6.18%
1994	1,966	$ 62,221,292	$ 31,649	(3.62%)
1993	2,016	$ 66,199,898	$ 32,837	(1.16%)
1992	1,879	$ 62,422,933	$ 33,221	19.74%
1991	1,879	$ 52,133,387	$ 27,745	1.98%
1990	1,868	$ 50,822,514	$ 27,207	7.07%
1989	1,752	$ 44,520,591	$ 25,411	8.94%
1988	1,600	$ 37,321,719	$ 23,326	0.00%

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

Summary of Retirees

YEAR	NUMBER OF RETIREES	ANNUAL BENEFITS TO PARTICIPANTS	ANNUAL AVERAGE ALLOWANCE (INDIVIDUAL)	NET CHANGE IN BENEFITS TO PARTICIPANTS
2016	1,849	$ 51,198,523	$ 27,690	0.61%
2015	1,783	$ 49,072,063	$ 27,522	1.14%
2014	1,741	$ 47,376,551	$ 27,212	0.82%
2013	1,700	$ 45,883,057	$ 26,990	4.72%
2012	1,662	$ 42,833,718	$ 25,772	0.76%
2011	1,622	$ 41,487,860	$ 25,578	(3.76%)
2010	1,503	$ 39,946,446	$ 26,578	(4.67%)
2009	1,400	$ 39,031,190	$ 27,879	7.47%
2008	1,363	$ 35,357,509	$ 25,941	(11.20%)
2007	1,299	$ 37,948,651	$ 29,214	24.17%
2006	1,250	$ 29,409,733	$ 23,528	6.32%
2005	1,195	$ 26,444,153	$ 22,129	(3.81%)
2004	1,154	$ 26,548,396	$ 23,006	(8.93%)
2003	1,107	$ 27,963,534	$ 25,261	(3.37%)
2002	1,064	$ 27,814,021	$ 26,141	11.50%
2001	1,002	$ 23,492,505	$ 23,446	7.45%
2000	991	$ 21,622,858	$ 21,819	12.92%
1999	936	$ 18,085,727	$ 19,322	9.64%
1998	916	$ 16,142,881	$ 17,623	6.00%
1997	915	$ 15,213,149	$ 16,626	5.06%
1996	907	$ 14,353,364	$ 15,825	1.74%
1995	852	$ 13,252,179	$ 15,554	4.54%
1994	836	$ 12,437,981	$ 14,878	3.82%
1993	811	$ 11,621,551	$ 14,330	4.59%
1992	784	$ 10,741,680	$ 13,701	2.46%
1991	749	$ 10,015,617	$ 13,372	7.70%
1990	751	$ 9,324,265	$ 12,416	2.19%
1989	723	$ 8,784,048	$ 12,149	(6.93%)
1988	637	$ 8,315,552	$ 13,054	14.54%

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

Member and City Contribution Rates

		Member Rates			City Contribution Rates				
		Basic at Entry Age					Total City	Less Prefunded Actuarial Accrued	Net City Contribution
Fiscal Year	Valuation Date	20	25	30	Basic	Cola	Rate	Liability (PAAL)	Rate
June 30, 2016	June 30, 2014	5.69%	6.68%	7.98%	9.31%	2.75%	12.06%	(0.02%)	12.04%
June 30, 2015	June 30, 2013	5.69%	6.68%	7.98%	9.02%	3.01%	12.03%	(0.38%)	11.65%
June 30, 2014	June 30, 2012	5.33%	6.28%	7.53%	8.63%	2.65%	11.28%	(0.27%)	11.01%
June 30, 2013	June 30, 2011	5.34%	6.29%	7.56%	8.75%	2.62%	11.37%	1.26%	12.63%
June 30, 2012	June 30, 2010	3.47%	4.09%	4.91%	8.20%	2.50%	10.70%	(0.49%)	10.21%
June 30, 2011	June 30, 2009	2.99%	3.59%	4.38%	8.48%	2.61%	11.09%	(4.42%)	6.67%
June 30, 2010	June 30, 2008	2.99%	3.59%	4.38%	8.09%	2.53%	10.62%	(10.62%)	0.00%
June 30, 2009	June 30, 2007	2.99%	3.59%	4.38%	8.02%	2.54%	10.56%	(10.56%)	0.00%
June 30, 2008	June 30, 2006	3.02%	3.62%	4.42%	7.96%	2.97%	10.93%	(10.93%)	0.00%
June 30, 2007	June 30, 2005	2.90%	3.48%	4.25%	7.39%	3.12%	10.51%	(10.51%)	0.00%
June 30, 2006	June 30, 2004	2.90%	3.48%	4.25%	7.31%	3.11%	10.42%	(10.42%)	0.00%
June 30, 2005	June 30, 2003	3.31%	3.90%	4.69%	7.73%	3.33%	11.06%	(11.06%)	0.00%
June 30, 2004	June 30, 2002	3.31%	3.90%	4.69%	8.33%	3.41%	11.74%	(11.74%)	0.00%
June 30, 2003	June 30, 2001	3.31%	3.91%	4.70%	8.53%	3.44%	11.97%	(11.97%)	0.00%
June 30, 2002	June 30, 2000	3.31%	3.91%	4.70%	8.49%	3.44%	11.93%	(11.93%)	0.00%
June 30, 2001	June 30, 1999	3.31%	3.91%	4.70%	7.98%	3.53%	11.51%	(11.51%)	0.00%
June 30, 2000	June 30, 1998	3.47%	4.06%	4.85%	8.09%	3.57%	11.66%	(11.66%)	0.00%
June 30, 1999	June 30, 1997	3.34%	3.91%	4.67%	6.83%	3.50%	10.33%	(9.01%)	1.32%
June 30, 1998	June 30, 1996	3.34%	3.91%	4.67%	6.41%	3.46%	9.87%	(8.09%)	1.78%
June 30, 1997	June 30, 1994	3.86%	3.95%	4.60%	6.29%	3.33%	9.62%	0%	9.62%
June 30, 1995	June 30, 1992	4.32%	4.86%	5.58%	8.52%	10.88%	19.40%	0%	19.40%
June 30, 1994	June 30, 1992	4.32%	4.86%	5.58%	8.34%	10.12%	18.46%	0%	18.46%
June 30, 1993	June 30, 1990	4.21%	4.74%	5.43%	11.72%	5.80%	17.52%	0%	17.52%
June 30, 1991	June 30, 1988	4.21%	4.74%	5.43%	11.92%	6.38%	18.30%	0%	18.30%
June 30, 1989	June 30, 1985	4.62%	5.13%	5.81%	10.47%	8.63%	19.10%	0%	19.10%
June 30, 1987	June 30, 1985	4.62%	5.13%	5.81%	10.47%	6.84%	17.31%	0%	17.31%
June 30, 1985	June 30, 1982	4.62%	5.13%	5.81%	10.10%	8.14%	16.70%	0%	16.70%
June 30, 1984	June 30, 1979	4.23%	4.58%	5.21%	9.67%	6.36%	16.03%	0%	16.03%
June 30, 1982	June 30, 1979	4.23%	4.58%	5.21%	12.56%	6.84%	15.11%	0%	15.11%
June 30, 1980	June 30, 1976	3.85%	4.35%	5.04%	12.41%	2.55%	14.96%	0%	14.96%

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

Data Source: Annual Actuarial Valuation Reports

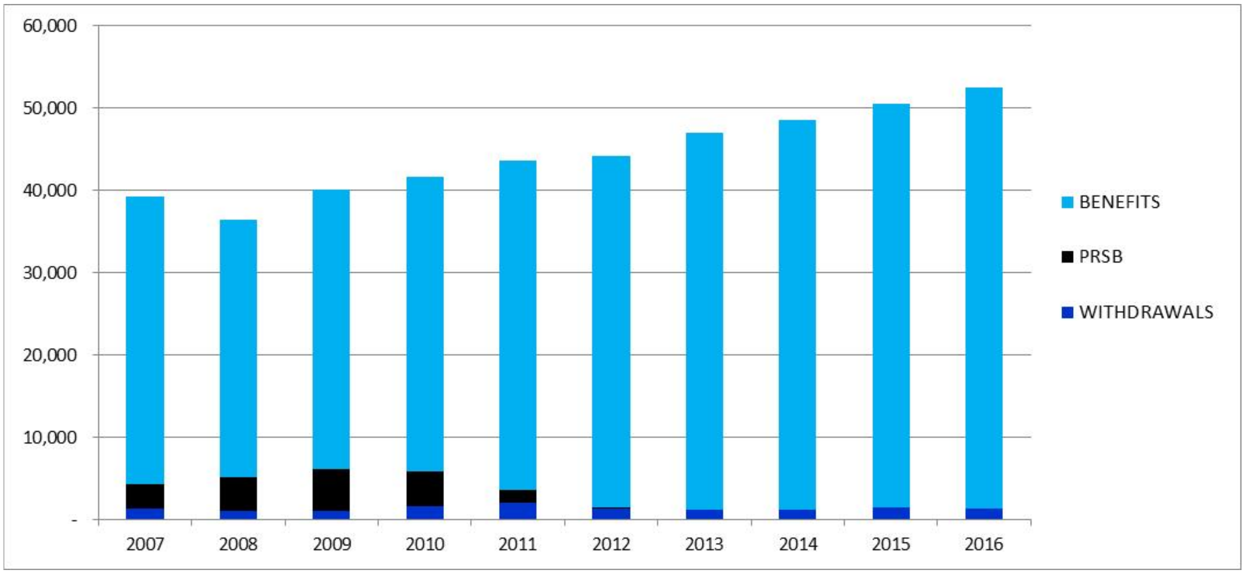
Economic Assumptions and Funding Method

Valuation Date	Interest	Salary Scale	Cost-of-Living (COLA)	Inflation Component	Funding Method
June 30, 2016	7.25%	.25 - 8.0%	3.00%	3.00%	Entry Age Normal
June 30, 2015	7.50%	.50 - 8.0%	3.25%	3.25%	Entry Age Normal
June 30, 2014	7.50%	.60 - 8.5%	3.25%	3.25%	Entry Age Normal
June 30, 2013	7.50%	.60 - 8.5%	3.25%	3.25%	Entry Age Normal
June 30, 2012	8.00%	.60 - 8.5%	3.50%	3.50%	Entry Age Normal
June 30, 2011	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2010	8.00%	.60 - 8.5%	3.50%	3.50%	Projected Unit Credit
June 30, 2009	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2008	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2007	8.25%	4.8%	3.75%	3.75%	Projected Unit Credit
June 30, 2006	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2005	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2004	8.25%	4.8%	4.25%	4.25%	Projected Unit Credit
June 30, 2003	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2002	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2001	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 2000	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1999	8.25%	4.8%	4.25%	4.5%	Projected Unit Credit
June 30, 1998	8.25%	.30 - 8%	4.25%	4.75%	Projected Unit Credit
June 30, 1997	8.25%	.25 - 8%	5%	4.75%	Projected Unit Credit
June 30, 1996	8.25%	.25 - 8%	5%	4.5%	Projected Unit Credit
June 30, 1994	8%	.25 - 8%	5%	3 - 5%	Projected Unit Credit
June 30, 1992	8%	6%	5%	5%	Projected Unit Credit
June 30, 1990	8%	6%	5%	5%	Projected Unit Credit
June 30, 1988	8%	6%	5%	5%	Projected Unit Credit
June 30, 1985	7.50%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
June 30, 1982	7%	5-1/2%	4% - Active 5% - Retired	4%	Projected Unit Credit
Marples	8-1/2%	Merit +6%	5%	6%	Aggregate
June 30, 1979	6-1/2%	Merit 3-1/2%	3-1/2%	3-1/2%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1976	6%	Merit +1%	5% with partial funding	1%	Basic - Entry Age Normal COL - Attained Age Normal
June 30, 1972	4-3/4	Merit Only	Not Recognized	None	Entry Age Normal

Source: The Segal Company June 30, 2016, Actuarial Valuation Report

Benefits and Withdrawals Paid

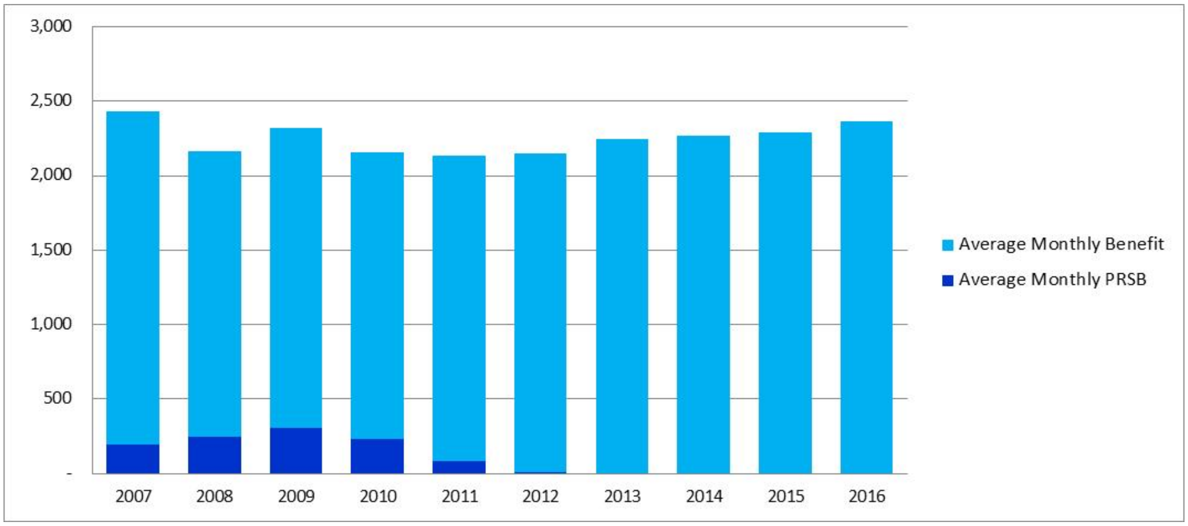
(In Thousands)



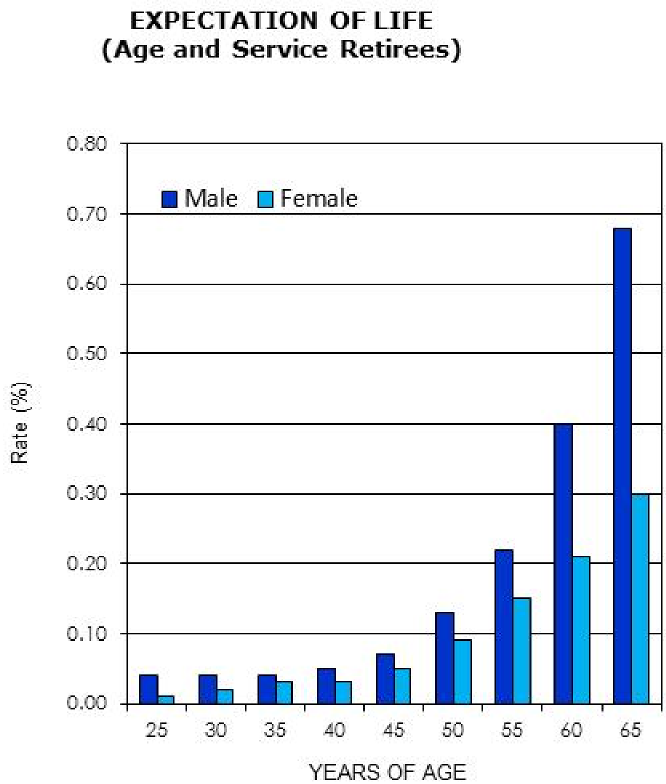
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BENEFITS	$ 34,982	$31,286	$33,947	$ 35,699	$ 39,901	$ 42,696	$ 45,807	$ 47,368	$ 49,072	$ 51,199
PRSB	2,967	4,072	5,084	4,248	1,587	138	76	9	-	-
WITHDRAWALS	1,350	1,112	1,022	1,651	2,092	1,313	1,157	1,204	1,474	1,330

Average Monthly Benefits to Retirees

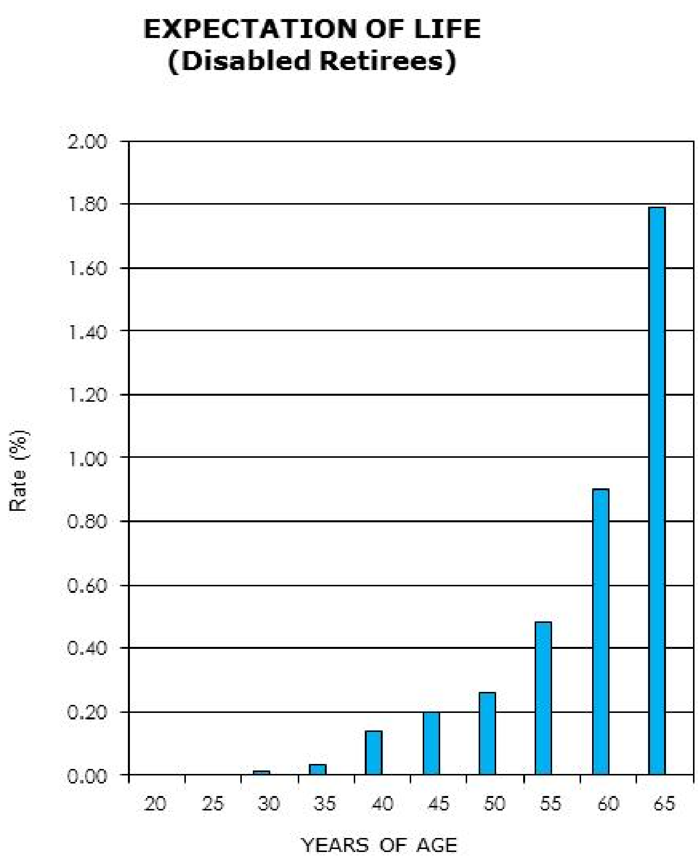
(In Thousands)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Average Monthly Benefit	$ 2,244	$ 1,913	$ 2,018	$ 1,927	$ 2,050	$ 2,141	$ 2,245	$ 2,267	$ 2,294	$ 2,367
Average Monthly PRSB	190	249	302	229	81	7	4	-	-	-
Average Monthly Benefit Total	$ 2,434	$ 2,162	$ 2,320	$ 2,156	$ 2,131	$ 2,148	$ 2,249	$ 2,267	$ 2,294	$ 2,367



EXPECTATION OF LIFE Age and Service Retirees RP-2014 Healthy Annuitant Mortality Table (x+1)		
Age	Male	Female
25	0.04	0.01
30	0.04	0.02
35	0.04	0.03
40	0.05	0.03
45	0.07	0.05
50	0.13	0.09
55	0.22	0.15
60	0.40	0.21
65	0.68	0.30



EXPECTATION OF LIFE Disabled Retirees RP-2014 Healthy Annuitant Mortality Table (x+4)	
Age	Rate (%)
20	0.00
25	0.00
30	0.01
35	0.03
40	0.14
45	0.20
50	0.26
55	0.48
60	0.90
65	1.79

To attract, develop and retain competent and professional staff.

To achieve and maintain superior investment performance on a risk controlled basis measured by the Public Fun Universe.

COMPLIANCE

Independent Auditor's Control Letter

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE (MAIN OFFICE)
[illegible]

FRESNO OFFICE
[illegible]

PASADENA OFFICE
[illegible]

STOCKTON OFFICE
[illegible]

BROWN ARMSTRONG
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Fresno Employees Retirement System (the System), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 21, 2016.

Internal Control over Financial Reporting

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

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

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

Independent Auditor's Control Letter Continued

Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 21, 2016