

**CITY OF SAN JOSE  
DEFERRED COMPENSATION PLANS**

Independent Auditor's Report,  
Management's Discussion and Analysis,  
and Basic Financial Statements

For the Fiscal Years Ended  
June 30, 2009 and 2008

**CITY OF SAN JOSE  
DEFERRED COMPENSATION PLANS**

For the Fiscal Years Ended June 30, 2009 and 2008

*Table of Contents*

	<i>Page(s)</i>
<b>Independent Auditor's Report</b> .....	1
<b>Required Supplementary Information:</b>	
Management's Discussion and Analysis.....	3 - 5
<b>Basic Financial Statements:</b>	
Statements of Net Assets Due to Participants .....	7
Statements of Changes in Net Assets Due to Participants.....	8
Notes to Financial Statements .....	9 - 14



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Deferred Compensation Advisory Committee  
City of San José, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of net assets due to participants of the 457 and the PTC Deferred Compensation Plans (Plans) of the City of San José, California (the City) as of June 30, 2009 and 2008, and the related statements of changes in net assets due to participants for the years then ended. These financial statements are the responsibility of the City's Deferred Compensation Advisory Committee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements referred to above present only the Plans and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets due to participants of the Plans as of June 30, 2009 and 2008, and the changes in net assets due to participants for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

*Macias Gini & O'Connell* LLP

Certified Public Accountants  
Walnut Creek, California

October 23, 2009

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**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**  
 Statements of Net Assets Due to Participants  
 June 30, 2009 and 2008  
 (Dollars in Thousands)

<i><b>457 Plan</b></i>	<u>2009</u>	<u>2008</u>
Assets		
Investments at fair value:		
Mutual funds	\$ 494,003	\$ 554,774
Annuities	<u>3,177</u>	<u>3,658</u>
Total investments at fair value	497,180	558,432
Loans receivable from participants	<u>9,467</u>	<u>7,781</u>
Total assets	<u>\$ 506,647</u>	<u>\$ 566,213</u>
Net assets due to participants	<u>\$ 506,647</u>	<u>\$ 566,213</u>
<i><b>PTC Plan</b></i>	<u>2009</u>	<u>2008</u>
Assets		
Investments at fair value:		
Mutual funds	<u>\$ 11,359</u>	<u>\$ 10,266</u>
Net assets due to participants	<u>\$ 11,359</u>	<u>\$ 10,266</u>

See accompanying notes to financial statements.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**  
Statements of Changes in Net Assets Due to Participants  
For the Fiscal Years Ended June 30, 2009 and 2008  
(Dollars in Thousands)

<b><i>457 Plan</i></b>	<u>2009</u>	<u>2008</u>
Additions to net assets		
Contributions	\$ 38,662	\$ 39,958
Net investment income (loss) and adjustments to fair value	<u>(73,888)</u>	<u>(19,964)</u>
Total net additions to net assets	<u>(35,226)</u>	<u>19,994</u>
Deductions from net assets		
Payments to participants	(24,327)	(23,874)
Administration fees	<u>(13)</u>	<u>(14)</u>
Total deductions from net assets	<u>(24,340)</u>	<u>(23,888)</u>
Decrease in net assets due to participants	(59,566)	(3,894)
Net assets due to participants		
Beginning of year	<u>566,213</u>	<u>570,107</u>
End of year	<u><u>\$ 506,647</u></u>	<u><u>\$ 566,213</u></u>
 <b><i>PTC Plan</i></b>	 <u>2009</u>	 <u>2008</u>
Additions to net assets		
Contributions	\$ 1,926	\$ 1,850
Net investment income (loss) and adjustments to fair value	<u>419</u>	<u>504</u>
Total net additions to net assets	<u>2,345</u>	<u>2,354</u>
Deductions from net assets		
Payments to participants	<u>(1,252)</u>	<u>(946)</u>
Increase in net assets due to participants	1,093	1,408
Net assets due to participants		
Beginning of year	<u>10,266</u>	<u>8,858</u>
End of year	<u><u>\$ 11,359</u></u>	<u><u>\$ 10,266</u></u>

See accompanying notes to financial statements.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**

Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 1 – PLANS DESCRIPTION**

The following description of the City of San José's (City's) Deferred Compensation Plans (Plans) provides only general information. Participants should refer to the Plans' agreements and the Municipal Code for a more complete description of the Plans' provisions.

The City maintains two eligible deferred compensation plans (collectively, Plans) in accordance with Section 457 of the Internal Revenue Code (IRC 457). The Plans permit employees to defer a portion of their compensation until future years. Under the Plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at death, retirement, termination, disability or certain unforeseen emergencies.

The following is a brief description of the City's two deferred compensation plans:

- The City of San José, California, Deferred Compensation Plan (457 Plan) is described in Chapter 3.48 of the San José Municipal Code. The 457 Plan is available to all City employees on a voluntary basis. An employee who elects to participate must sign a participation agreement that specifies the amount of the deferral and the investment options selected by the participant. The 457 Plan currently utilizes ING Life Insurance and Annuity Company (ILIAC) as its investment administrator.
- The City of San José, California, PTC Deferred Compensation Plan (PTC Plan) is described in Chapter 3.50 of the San José Municipal Code. The PTC Plan is a mandatory plan in lieu of Social Security for those employees who are not eligible for membership in either the Federated City Employees Retirement System or the Police and Fire Department Retirement Plan. The participants defer 3.75% of salary and the City makes a matching contribution (with the total capped by the maximum allowed under IRC 457). The PTC Plan currently utilizes ILIAC as its investment administrator.

The assets of the Plans are held in trust and administered by the Deferred Compensation Advisory Committee (DCAC). The DCAC is comprised of seven members – one member representing management employees, one member representing police department employees, one member representing fire department employees, two members representing the other five employee organizations and two members appointed by the City Manager.



**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**

Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 1 – PLANS DESCRIPTION (Continued)**

*Contributions* – During each payroll period in which an employee is a participant in the Plans, the City will defer payment of the employee's compensation (as specified by the participating employee). The maximum that each participant may defer under the Plans for any taxable year shall not exceed the lesser of:

1. The dollar amount permitted under IRC 457 or
2. The percentage limitation applied to the participant's includible compensation.

In addition, the maximum deferral described above is not applicable for one or more of the participant's last three taxable years ending before the attainment of normal retirement age. In that instance, the maximum shall be the lesser of:

1. Twice the dollar amount permitted under IRC 457; or
2. The sum of:
  - a. The maximum deferral amount established for the purposes of Section 3.48.040.A or 3.50.040.B of the Municipal Code for the taxable year (determined without regard to Section 3.48.040.B or 3.50.040.C); plus
  - b. The maximum deferral amount established for the purposes of Section of 3.48.040.A or 3.50.040.B of the Municipal Code for taxable years beginning after December 31, 1978, and before the taxable year as has not previously been used under Section 3.48.040.A or 3.50.040.B, or under Section 3.48.040.B or 3.50.040.C.

Furthermore, beginning January 1, 2002, a participant who has attained the age of fifty years before the close of the tax year, and with respect to whom no other elective deferrals may be made to the plan for the year by reason of the limitations set forth under Section 3.48.040A, may specify in the participation agreement that the participant elects to make deferrals in addition to those permitted by Section 3.48.040A in the amount not to exceed:

1. The Dollar amount permitted under Section 414(v)(2)(B) of the Internal Service Code (IRC) as adjusted for the cost-of-living in accordance with Section 414(v)(2)(C) of the IRC; or
2. The portion of the participants compensation (as defined in Section 415(C)(3) of the IRC) that is in excess of any other elective deferrals of the participant for such year as are made without regard to Section 3.48.040B.

Participants in the 457 Plan may also contribute amounts representing distributions from other qualified IRC 457 deferred compensation plans of any local government, state or tax-exempt organization.

*Participant Accounts* – The account of each participant is credited with the participant's contribution and allocations of the Plans earnings and charged with an allocation of administrative expenses. Allocations are based on participant earnings on account balances. The account of each PTC participant is also credited with the City's matching contribution.

*Vesting* – Participants are immediately vested in their contributions plus actual earnings thereon.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**

Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 1 – PLANS DESCRIPTION (Continued)**

*Payment of Benefits* – On termination of service due to death, disability, or retirement, a participant (or a participant’s beneficiary) may elect to receive either a lump-sum amount equal to the value the participant’s interest in his or her account or periodic installments during the lifetime of the participant less any federal or state income tax required to be withheld.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation* - The accompanying statements of net assets due to participants and changes in net assets due to participants present only the Plans and are not intended to present the financial position of the City and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

*Basis of Accounting* – The financial statements of the Plans are prepared on the accrual basis of accounting. Contributions are recognized as additions when due (at the end of each pay period). Payments to participants are recognized as deductions when due and payable under the provisions of the Plans.

*Investment Valuation* – The Plans’ investments are stated at fair value. Quoted market prices are generally used to value investments. Shares of mutual funds are valued at quoted market prices that represent the net asset value of shares held by the Plans at year-end. Annuities and mutual funds that do not have an established market are reported at fair market value calculated by ILIAC, which is based on the amount of contributions, withdrawals, and interest or dividends credited.

*Loans Receivable from Participants* – The City permits participants in the 457 Plan to participate in a loan program. The loans are secured by the remaining balance in the participant’s account and must be repaid over a period that does not exceed five years, except that if the loan is for the purchase of a principal residence, the loan may be repaid over a period not to exceed twenty years. The maximum amount of loans to participants is the lesser of \$50,000 or 50% of the participant’s vested account balance as of the day immediately preceding the date on which the loan is approved.

*Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plans’ administrators to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE 3 – INVESTMENTS**

457 Plan participants may direct contributions into any of the investment options offered by the Plans’ investment administrators, which include various publicly traded mutual funds (stocks, bonds, and fixed income), annuity investments, and U.S. Government investments. It is the Plans’ policy to permit participants to establish different investment strategies which have varying return and volatility characteristics to meet each participant’s long-term retirement savings strategy.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**

Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 3 – INVESTMENTS (Continued)**

The following presents investments at June 30, 2009 with the related information related to interest rate risk and credit risk on its fixed income mutual funds (dollars in thousands):

Investments	Average Effective Maturity	Standard and Poor's Credit Rating	Fair Value
<b>457 Plan</b>			
<i>Fixed income and hybrid mutual funds:</i>			
Stable Value Option Fund	6.54 years	AA	\$ 205,254
ING Money Market Portfolio - CI 1	35 days	A-1+	8,441
ING Intermediate Bond Fund-I	4.43 years *	AA	7,983
Templeton Global ING Bond Fund	9.21 years	AA	4,366
Total fixed income mutual funds			<u>226,044</u>
<i>Equity mutual funds:</i>			
Moderate Custom Lifestyle Port	n/a	n/a	55,044
Growth Fund of America (A)	n/a	n/a	50,247
Aggressive Custom Lifestyle Pt	n/a	n/a	22,397
Blackrock Large Cap ValueFdCII	n/a	n/a	19,324
EuroPacific Growth Fund - R-5	n/a	n/a	18,521
Oppenheimer Main St OppFd-Y	n/a	n/a	16,057
Fidelity Adv New Insights I	n/a	n/a	12,157
Vanguard Institul Index (Inst)	n/a	n/a	11,926
Allianz NFJ Div Value Fund - I	n/a	n/a	10,657
TD Ameritrade	n/a	n/a	10,445
Fidelity VIP Mid Cap Portfolio (Init)	n/a	n/a	10,316
Oppenheimer Developing Mkts	n/a	n/a	9,745
Conservative Custom Lifestyle Port	n/a	n/a	6,400
Vanguard MidCap Index-Instl	n/a	n/a	3,854
Oppenheimer MainSt SmallCpFd - Y	n/a	n/a	2,356
Templeton Global Small Cos Fund	n/a	n/a	1,868
Vanguard SmlCap Idx Signal	n/a	n/a	1,553
CRM Mid Cap Value Fund	n/a	n/a	1,120
PAX World Balanced Fund	n/a	n/a	1,003
Wanger USA Fund	n/a	n/a	573
ING Solution 2035 Port	n/a	n/a	517
ING Solution 2025 Port	n/a	n/a	456
ING Solution 2015 Port	n/a	n/a	405
James Small Cap Fund	n/a	n/a	336
Pioneer Mid Cap Value VCT Port (1)	n/a	n/a	334
ING Solution 2045 Port	n/a	n/a	278
ING Solution Inc Port	n/a	n/a	70
Total equity mutual funds			<u>267,959</u>
<i>Annuities</i>	n/a	n/a	3,177
Total 457 Plan			<u>\$ 497,180</u>
<b>PTC Plan</b>			
Stable Value Option Fund	6.54 years	AA	<u>\$ 11,359</u>

\* Represents average effective duration of the fund.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**

Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 3 – INVESTMENTS (Continued)**

The following presents investments at June 30, 2008 with the related information related to interest rate risk and credit risk on its fixed income mutual funds (dollars in thousands):

Investments	Average Effective Maturity	Standard and Poor's / Moody's Investors Service Credit Rating	Fair Value
<b>457 Plan</b>			
<i>Fixed income and hybrid mutual funds:</i>			
Stable Value Option Fund	4.97 years *	Aa2	\$ 182,835
ING Intermediate Bond Fund-I	4.93 years *	AA	8,706
VP Money Market Portfolio - C1 1	48 days	A-1+	7,877
Templeton Global ING Bond Fund	5.80 years	AA	3,774
Total fixed income mutual funds			<u>203,192</u>
<i>Equity mutual funds:</i>			
Growth Fund of America (A)	n/a	n/a	73,598
Moderate Custom Lifestyle Port	n/a	n/a	64,572
Blackrock Large Cap ValueFdcII	n/a	n/a	29,782
EuroPacific Growth Fund - R-5	n/a	n/a	26,185
Aggressive Custom Lifestyle Pt	n/a	n/a	24,321
Oppenheimer Main St OppFd-Y	n/a	n/a	23,876
Fidelity VIP Contrafund Port-I	n/a	n/a	17,587
Allianz NFJ Div Value Fund - I	n/a	n/a	16,854
Vanguard Institutl Index (Inst)	n/a	n/a	14,540
Oppenheimer Developing Mkts	n/a	n/a	12,994
Fidelity VIP Mid Cap Portfolio (Init)	n/a	n/a	12,148
TD Ameritrade	n/a	n/a	9,159
Conservative Custom Lifestyle Port	n/a	n/a	7,471
Vanguard MidCap Index-Instl	n/a	n/a	6,499
Templeton Global Small Cos Fund	n/a	n/a	2,399
Oppenheimer MainSt SmallCpFd - Y	n/a	n/a	2,178
Vanguard SmlCap Idx Signal	n/a	n/a	1,594
CRM Mid Cap Value Fund	n/a	n/a	1,251
PAX World Balanced Fund	n/a	n/a	885
Fidelity Adv New Insights I	n/a	n/a	750
Wanger USA Fund	n/a	n/a	718
ING Solution 2035 Port	n/a	n/a	518
Pioneer Mid Cap Value VCT Port (1)	n/a	n/a	462
ING Solution 2025 Port	n/a	n/a	416
James Small Cap Fund	n/a	n/a	295
ING Solution 2045 Port	n/a	n/a	263
ING Solution 2015 Port	n/a	n/a	233
ING Solution Inc Port	n/a	n/a	34
Total equity mutual funds			<u>351,582</u>
<i>Annuities</i>	n/a	n/a	<u>3,658</u>
Total 457 Plan			<u>\$ 558,432</u>
<b>PTC Plan</b>			
Stable Value Option Fund	4.97 years *	Aa2	\$ 10,266

\* Represents average effective duration of the fund.

**CITY OF SAN JOSE**  
**DEFERRED COMPENSATION PLANS**  
Notes to Financial Statements  
For the Fiscal Years Ended June 30, 2009 and 2008

**NOTE 3 – INVESTMENTS (Continued)**

***Concentration Risk***

The following presents investments at June 30, 2009 that represents 5% or more of the 457 Plan's assets (dollars in thousands):

Stable Value Option Fund	\$	205,254
Moderate Custom Lifestyle Port		55,044
Growth Fund of America (A)		50,247

The following presents investments at June 30, 2008, that represents 5% or more of the 457 Plan's assets (dollars in thousands):

Stable Value Option Fund	\$	182,835
Growth Fund of America (A)		73,598
Moderate Custom Lifestyle Port		64,572
Blackrock Large Cap ValueFdCII		29,782

Contributions of PTC Plan participants are automatically invested in a diversified fund (Stable Value Option Fund) consisting of guaranteed investment contracts and fixed income securities. At June 30, 2009 and 2008, 100% of the PTC Plan's assets are invested in the Stable Value Option Fund.