City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009

City of San José Comprehensive Annual Financial Report

Police and Fire Department Retirement Plan

Police and Fire Department Retirement Plan

A Pension Trust Fund of the City of San José, California

For the Fiscal Year Ended June 30, 2009

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

Police and Fire Department Retirement Plan

Russell U. Crosby
Director

Department of Retirement Services
1737 North First Street, Suite 580
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A Pension Trust Fund of the City of San José, California

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Board Chair Letter

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

November 2, 2009

The Honorable Mayor and City Council
Members of the Police and Fire Department Retirement Plan
City of San José
San José, California

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration (Board), I am pleased to present the Police and Fire Department Retirement Plan's (Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. Some significant events worthy of note during this fiscal year were as follows:

- Net of investment, administrative, securities lending, and SRBR expenses, the Plan earned a time-weighted return of (18.6%), (3.3%), and 2.1% for the fiscal year, three-year, and five-year periods ending June 30, 2009 respectively. In contrast, the net rate of return assumed by the Plan's actuary is 8.0%.
- During the fiscal year markets declined precipitously. By most accounts, for most of the fiscal year financial performance was the worst since the Great Depression. The S&P 500 declined 25.6% and the Russell 2000 declined 27.7%.
- The Plan earned a time-weighted gross-of-fees return of (18.0%) on investments, compared to (18.6%) return for its benchmark and (16.6%) return for the Independent Consultants Cooperative's ("ICC") Public Fund Median. Additionally, the Plan earned a time-weighted rate of return of (2.5%) and 2.8% for the three-year and five-year periods ending June 30, 2009 respectively, while the ICC Public Fund Median earned a time-weighted rate of return of (2.3%) and 2.4% for the same periods. The fair value of the Plan's investments decreased from $2,561,590,000 to 2,053,933,000, net of pending purchases and sales (see Investment Summary on page 79).
- During the fiscal year 2008-09, the Plan began an audit of the City's payroll transmittal process and participated in a health benefit consultant search in conjunction with Human Resources and Labor Groups.
- The Plan began transitioning to the new asset allocation targets, which were approved in fiscal year 2007-08, as well as invested in opportunistic strategies, such as credit, high yield bonds, and bank loans.
- Another focus was the staffing structure of the department as well as the resources available for staff and progress was made with the hiring of the Chief Operations Officer, the Chief Investment Officer, and an Investment Officer and acquiring access to three top of the line investment databases.
- During the year, the Plan offered 70 educational classes with over 1,900 Police, Fire, and Federated active and retired members participating.

The Board believes that the professional services rendered by the staff, the auditors, investment consultant, actuary, and the Plan performance evaluators have produced a sound Plan capable of continued growth. The Board and its staff are available to provide additional information when requested.

Sincerely,

David Bacigalupi, Chairman
Board of Administration

Table of Contents

I. INTRODUCTORY SECTION

2 Letter of Transmittal
4 Certificate of Achievement for Excellence in Financial Reporting
5 Award for Mid-Sized Public Plan of the Year
6 Board of Administration
6 Administration/Outside Consultants
6 Standing Public Meetings
7 Department of Retirement Services Organizational Chart
8 Summary of the Principal Plan Provisions

II. FINANCIAL SECTION

12 Independent Auditor's Report
15 Management's Discussion and Analysis

Basic Financial Statements

24 Statements of Plan Net Assets
26 Statements of Changes in Plan Net Assets
28 Notes to Basic Financial Statements

Required Supplementary Information

46 Schedule of Funding Progress – Defined Benefit Pension Plan
46 Schedule of Employer Contributions – Defined Benefit Pension Plan
46 Schedule of Funding Progress – Post-employment Healthcare Benefit Plan
46 Schedule of Employer Contributions – Post-employment Healthcare Benefit Plan

Other Supplementary Information

47 Combining Schedule of Defined Benefit Pension Plan Net Assets
48 Combining Schedule of Changes in Defined Benefit Pension Plan Net Assets
49 Schedules of Administrative Expenses and Other
49 Schedules of Investment Expenses
50 Schedules of Payments to Consultants

III. INVESTMENT SECTION

52 Report on Investment Activity
54 Statement of Investment Policy
64 Investment Professionals

Schedule of Investment Results

65 Gross Performance Summary by Asset Class
66 Net Performance Summary by Investment Manager

Investment Review

68 Target Asset Allocation/Actual Asset Allocation
69 Historical Asset Allocation (Actual)/Market Value Growth of Plan Assets/History of Performance
70 List of Largest Assets Held
71 Schedule of Investment Fees
72 Schedule of Commissions
79 Investment Summary
80 Investment Properties

IV. ACTUARIAL SECTION

84 Actuary Certification Letter
86 Summary of Assumptions and Funding Method
87 Probabilities of Separation Prior to Retirement
88 Years of Life Expectancy After Service Retirement
89 Years of Life Expectancy After Disability Retirement
90 Schedule of Active Member Valuation Data
90 Changes in Retirants
91 Actuarial Analysis of Financial Experience
91 Solvency Test
92 Assumption Changes
93 Major Provisions of the Retirement Plan
94 Actuarial Certification Letter (Other Post-employment Benefits)
96 Schedule of Actuarial Methods and Assumptions (Other Post-employment Benefits)
98 Summary of Plan Benefits (Other Post-employment Benefits)

V. STATISTICAL SECTION

Statistical Review

100 Changes in Net Assets
101 Benefit and Refund Deductions from Net Assets by Type
102 Employer and Employee Contribution Rates
103 Retired Members by Type of Benefit
104 Average Benefit Payment Amounts

Retirements During Fiscal Year

106 Service Retirements
107 Early Retirements
107 Deferred Vested Retirements
107 Service-Connected Disability Retirements
107 Non-Service-Connected Disability Retirements

Deaths During Fiscal Year

107 Deaths After Retirement
107 Deaths Before Retirement

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City of San José
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

Introductory Section

Letter of Transmittal

November 2, 2009

City of San Jose
Department of Retirement Services
Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Board Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2009. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the Plan's management. Macias Gini & O'Connell LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The Plan was also awarded Mid-Sized Public Plan of the Year by Institutional Investor's Money Management Letter for the dramatic changes implemented in a complex environment with two separate boards and multiple consultants and money managers. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 15.

I trust that you and the members of the Plan will find this CAFR helpful in understanding the Plan, a Plan that continues to maintain a strong and positive financial future.

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 Plan for its CAFR for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The Plan first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application and the Plan has received the certificate every year since then. We believe this report continues to conform to the Certificate of Achievement Program Requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the Plan are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The accounting firm of Macias Gini & O'Connell, LLP provides audit services to the Plan. The financial audit ensures that the Plan's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. The Plan recognizes that even sound internal controls have their inherent limitations. Internal controls are reviewed to ensure that the Plan'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 Plan's assets.

Major Initiatives

During the fiscal year 2008-09, the Plan began an audit of the City's payroll transmittal process and participated in a health benefit consultant search in conjunction with Human Resources and Labor Groups.

The Plan began transitioning to the new asset allocation targets, which were approved in fiscal year 2007-08, as well as invested in opportunistic strategies such as credit, high yield bonds, and bank loans.

Another focus was the staffing structure of the department as well as the resources available for staff and progress was made with the hiring of the Chief Operations Officer, the Chief Investment Officer, and an Investment Officer and acquiring access to three top of the line investment databases.

During the year, the Plan offered 70 educational classes with over 1,900 Police, Fire, and Federated active and retired members participating.

Letter of Transmittal *Continued*

Changes in Plan Membership

Plan membership changes for the defined benefit pension plan for fiscal year 2008-09 were as follows:

	2009	*2008*	*Increase/ (Decrease)*	*Change*
Active Members*	2,162	2,253	(91)	(4.04%)
Retired Members	1,456	1,304	152	11.66%
Survivors	205	290	(85)	(29.31%)
TOTAL	**3,823**	**3,847**	**(24)**	**(0.62%)**

**Active members include deferred vested members, i.e., members who have left City service, but remain members of the Plan.*

Financial and Economic Summary

The 2008-09 fiscal year was a difficult year as the effects of sub-prime mortgages continued to create a difficult situation for financial institutions including the government-sponsored home mortgage giants. Stock markets, both domestic and international, performed poorly during the fiscal year. Volatility has soared as investors remain anxious and uncertainty continues around future market direction.

Investment Summary

The Board of Administration has exclusive control of all investments of the Retirement Plan and is responsible for the establishment of investment objectives, strategies and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to members of the Plan and defraying the reasonable cost of administration.

Over the past fiscal year, the Plan's gross-of-fees return was negative 18.0%, while the Independent Consultant Cooperative's (ICC) Public Funds median return over the same period was (16.6%). The Plan's gross-of-fees return was (2.5%) and 2.8% for the three-year and five-year periods ending June 30, 2009 respectively, while the ICC Public Funds median was (2.3%) and 2.4% for the same periods. Additionally, the Plan's net of expenses return, which includes investment, administrative, securities lending, and SRBR expenses, for the fiscal year was a negative 18.6%, and for the three-year and five-year periods ending June 30, 2009 was (3.3%) and 2.1% respectively.

In the valuation of pension benefits the actuarial assumption for the net rate of return that will be earned on the Fund is 8.0%.The impact of the difference between the actual net rate of return earned on the Fund, (18.6%), and the 8.0% assumption will result in an investment loss that will be reflected in the pension liability of next year's CAFR. Moreover, the fair value of the Plan's investments decreased from $2,561,590,000 to $2,053,933,000, net of pending purchases and sales (see Investment Summary on page 79).

The reason for the decline in the Plan's performance is its high allocation to equity investments, which have performed poorly over the past fiscal year. The Plan has changed its asset allocation to increase the allocation to alternative investments while reducing the allocation to equity investments. The diversification benefit that alternative investments could add to the Plan is significant.

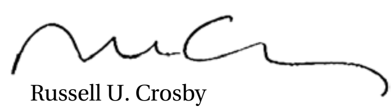
Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the funding ratio of the Defined Benefit Pension Plan was at approximately 99.70%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 46. The net decrease in Plan assets for fiscal year 2008-09 was $515,979,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 26.

Conclusion

I would like to take this opportunity to thank the members of the Plan for their confidence in the Plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,



Russell U. Crosby
Director

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008

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

President

Executive Director

Award for Mid-Sized Public Plan of the Year

Money Management Letter's

8th Annual

Public Pension Fund

Award for Excellence

Presented to

The City of

San Jose

For

Mid-Sized Public

Plan of the Year

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

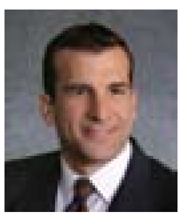
The Retirement Plan is administrated by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two Plan members – one from the Police Department and one from the Fire Department, a member who has retired under the provision of the Plan, and a member whole holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, institutional funds, or endowment funds, in accordance with Section 2.08.400 of the San Jose Municipal Code.

As of June 30, 2009, the members of the Board were as follows:

DAVID BACIGALUPI, CHAIRMAN
Retired Plan member appointed to the Board in January 2009. His current term expires November 30, 2012.

CONRAD TAYLOR, VICE CHAIRMAN
Employee Representative for the Police Department appointed to the Board in March 2009. His current term expires November 30, 2009.

KEITH KEESLING
Employee Representative for the Fire Department appointed to the Board in March 2009. His current term expires November 30, 2011.



SAM LICCARDO
City Council Member appointed to the Board in December 2008.

BILL BRILL
Civil service commission member appointed on October 27, 1998. His current term expires November 30, 2009.

SCOTT JOHNSON
City Administration Member appointed to the Board in February 2007.

ROSE HERRERA
City Council Member appointed to the Board in December 2008.

ADMINISTRATION

RUSSELL U. CROSBY
DIRECTOR

DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER

OUTSIDE CONSULTANTS

ACTUARY
The Segal Company
San Francisco, CA

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

ATTORNEY, INVESTMENT
Hanson, Bridgett LLP
San Francisco, CA

ATTORNEY, REAL ESTATE
Nossaman LLP
San Francisco, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 64 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

Board Meetings: First Thursday of the Month, 8:30 AM
Investment Committee: Monthly
Investment Committee of the Whole: Quarterly
Real Estate Committee: Ad Hoc

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at *http://www.sjretirement.com/PF/Meetings/Agendas.asp* or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112-4505. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

Department of Retirement Services Organizational Chart

- **RUSSELL U. CROSBY** — *Director*
  - **CARMEN RACY-CHOY** — *Deputy Director, Chief Investment Officer*
    - **ALI AMIRY** — *Retirement Investment Officer* (Absolute Return & Manager Selection)
    - **STUART BENNETT** — *Retirement Investment Officer* (Actuarial)
    - **RONALD R. KUMAR** — *Financial Analyst* (Operations)
    - **VACANT** — *Retirement Investment Officer* (Public Securities)
    - **VACANT** — *Retirement Investment Officer* (Quantitative Analysis)
    - **VACANT** — *Retirement Investment Officer* (Real Assets)
    - **VACANT** — *Retirement Investment Officer* (Risk Management)
    - **CEARA O'FALLON** — *Analyst II* (Operations)
    - **VACANT** — *Retirement Analyst* (Operations)
    - **VERONICA NIEBLA** — *Principal Accountant*
    - **SUSAN PERREIRA** — *Accountant II*
    - **HOA LANG** — *Accounting Technician*
    - **JENNIFER LE** — *Senior Account Clerk*
    - **SELINA ORDAZ** — *Account Clerk II*
  - **DONNA BUSSE** — *Deputy Director, Chief Operations Officer*
    - **DEBBI WARKENTIN** — *Administrative Assistant*
    - **TAMASHA JOHNSON** — *Secretary*
    - **ANDREA OGANA** — *Office Specialist II*
    - **MAGGIE BARRON** — *Office Specialist II*
    - **BARBARA HAYMAN** — *Information Systems Analyst*
    - **MAY CHEUNG** — *Systems Analyst*
    - **GINA BILLINGS** — *Network Technician II*
    - **ROGER PICKLER** — *Support Services Supervisor*
    - **KARIN CARMICHAEL** — *Analyst II* (Education/Training)
      - **CAROL BERMILLO** — *Analyst II* (Health Benefits)
    - **TONI JOHNSON** — *Senior Analyst* (Pension Benefits)
      - **MARIA LOERA** — *Analyst II*
      - **AMANDA RAMOS** — *Analyst II*
      - **RHONDA SNYDER** — *Analyst II*
      - **JESSELLE HOLCOMB** — *Analyst I*
      - **CRISTIN JAMES** — *Staff Technician*
      - **Tom Alston** — *Staff Technician*

Department of Retirement Services
1737 North First Street, Suite 580
San Jose, CA 95112-4505

408 794-1000 Phone
800 732-6477 Phone
408 392-6732 Fax

www.sjretirement.com

Summary of the Principal Plan Provisions

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

Police Department members contribute 11.96% and Fire Department members contribute 12.40% of their base salary.

CITY'S CONTRIBUTION

The City contributes 25.80% of the base salary of the Police Department members and 28.31% of the base salary of the Fire Department members.

INTEREST

Two percent annual interest is calculated each biweekly pay period and is added to employee contributions. This interest is derived from investments.

TERMINATION OF BENEFITS

Upon termination, the member shall be paid all of his/her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement Plan. The City's contributions and interest will not be refunded to the employee.

MILITARY LEAVE CREDIT

If during employment with the City of San Jose a member has served in the military, the City will pay the member's contributions into the Retirement System for that period of time if the following conditions exist: (1) a time of war, a national emergency proclaimed by the President or the Congress, or (2) service outside the United States as requested by the United Nations. This is not refundable to an employee who resigns and requests a refund of contributions.

VESTING OF PENSION CREDIT

After 10 years of service, a member may resign his/her position with the Police or Fire Department and leave the accumulated contributions in the Retirement Plan. A member who vests in this fashion is eligible to retire later at age 55 or when 20 years have elapsed from the original hire date. For a deferred vested retirement, the monthly retirement allowance is calculated with the same formula as a service retirement (See Below).

SERVICE RETIREMENT

An employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final compensation multiplied by 2.5% multiplied by years of service up to 30 years (Maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. For Fire members with 20 or more years of service, allowance for a service retirement consisting of final average salary multiplied by 3.0% for each year (maximum benefit, 90% of final average salary).

SERVICE-CONNECTED DISABILITY

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final compensation. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retires prior to February 4, 1996 (Maximum benefit, 75% of final average salary). After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 50% plus 4% for each year in excess of 20 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance consists of final average salary multiplied by 60%, plus final average salary multiplied by 3% for each full year of service in excess of 20 years (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

NON-SERVICE-CONNECTED DISABILITY

Retirement for a non-service-connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for the first two years

Summary of the Principal Plan Provisions *Continued*

plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 50% plus 4% for each year in excess of 20 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only with at least 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

EARLY SERVICE RETIREMENT

Retirement at age 50 to 55 with at least 20 years of service: Members' retirement allowance shall be calculated as if the members were at least 55, and then reduced according to guidelines set forth in Section 3.36.810 of the City of San Jose Municipal Code.

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

The surviving spouse will receive 37.5% of the final compensation if the member dies while entitled to immediate retirement for service, dies at any age due to a service-connected injury or illness, is retired for service, or is retired for service-connected disability. Optional Retirement Allowances are available. For those that retire on or after February 4, 2000, the surviving spouse of a member who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 42.5% of final compensation. Effective July 1, 2008 for Fire only, the surviving spouse of a Fire member, who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 45%.

If the member dies before age 55 with two or more years of service due to a non-service-connected injury or illness, or if the member is retired for non-service-connected disability, the spouse will receive 24% of final compensation for two years of service and 0.75% for each year thereafter (Maximum: 37.5%).

In all cases above, surviving child or children conceived prior to retirement will receive the following:

1 child receives 25% of the final compensation
2 children share 37.5% of the final compensation
3+ children share 50% of the final compensation

Unless the death is service-connected in which case the eligible child or children will receive the following:

1 child receives 25% of the final compensation
2 children share 50% of the final compensation
3+ children share 75% of the final compensation

The maximum family benefit is 75% of the final compensation. If the sum of spousal benefit plus the children's benefit is greater than 75%, the children's benefit is reduced. Dependent children are paid to age 18 or to age 22 if full-time students.

REMARRIAGE OF SPOUSE

If the employee is 55 at time of death and has twenty years of service, or the member is entitled to 30 years of service regardless of age, the spouse will retain allowance for life. If less than 20 years or under age 55, the spouse loses the allowance upon a remarriage, unless the person was an eligible surviving spouse as of October 1, 1999 or becomes an eligible surviving spouse of a member who had retired as of October 1, 1999.

POST-RETIREMENT MARRIAGE

Effective June 11, 2002, the Post-Retirement Optional Settlement allows for payment of an annuity to a spouse if a member marries after retirement. To do this, the member must take a reduced allowance to provide the spouse a benefit. The election of the Post-Retirement Optional Settlement must be filed within 30 days after the date of the marriage if a retiree marries after June 12, 2002. If the retiree marries after June 12, 2002, the election becomes effective one year from the date of marriage.

MANAGEMENT

The System is under the management of a seven member Board of Administration consisting of two City Council persons, a Civil Service Commissioner, and two elected employees who are members of the retirement plan, a member who has retired under the provisions of the Plan and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, institutional fund or endowment funds.

The Board of Administration is a policy-making body and responsible for the proper operation of the Plan. The Plan operates as an independent trust, separate and distinct from the City and other entities. The administration of the Plan is under its guidance and direction and is subject to such rules, regulations and directives as it may adopt from time to time. Members, except for public members, serve without compensation. The City Attorney provides legal advice and counsel.

Summary of the Principal Plan Provisions *Continued*

ADMINISTRATION

A full-time Director is employed by the City. He serves as Secretary and Chief Executive Officer to the Board of Administration. The Plan pays the cost of the personnel who are employed for the purpose of managing the Retirement Plan. It also pays any directly related administrative costs.

State Street Bank and Trust is employed as custodian of Plan assets and collector of investment income.

ACTUARIAL SOUNDNESS

Plan and benefit provisions are periodically reviewed to assure continuing actuarial soundness.

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the Plan's resources. Nationally known investment advisory services from managers listed on page 64 are retained for full-time investment counsel. NEPC, LLC is retained as the investment consultant.

COST OF LIVING

The cost-of-living (COL) provision provides a flat 3% annual adjustment in February. Survivors will be paid their first COL increase as if they were a new retiree according to the above schedule.

Financial Section

Independent Auditor's Report

Macias Gini & O'Connell LLP
Certified Public Accountants & Management Consultants

2175 N. California Boulevard
Suite 645
Walnut Creek, CA 94596
925-274-0190

Board of Administration
City of San José
Police & Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, CA 95112-4505

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2009 and 2008, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Plan's 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 the 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(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2009 and 2008, and the changes in its financial

Independent Auditor's Report *Continued*

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Macias Gini & O'Connell LLP
Certified Public Accountants & Management Consultants

position for the fiscal 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 financial status of the Plan, as of June 30, 2009 and 2008, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(f), effective July 1, 2007, the Plan adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the Plan'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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedules designated as other required supplementary information in the table of contents are not a required part of the basic financial statements but are 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 express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The introductory section, other supplementary information in the financial section, the investment, actuarial and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Independent Auditor's Report *Continued*

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MACIAS GINI & O'CONNELL LLP

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, the 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 express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California

November 2, 2009

Management's Discussion and Analysis (Unaudited)

City of San José
Department of Retirement Services
Board of Administration
Police & Fire Department Retirement Plan
1737 North First Street, Suite 580
City of San José
San José, California 95112-4505

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights for Fiscal Year 2009

- The net assets of the Plan at the close of the fiscal year 2009 are $2,044,242,000 (net assets held in trust for pension benefits and post-employment healthcare benefits.) All of the net assets are available to meet the Plan's ongoing obligations to Plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $32,327,000.
- The Plan's total net assets held in trust for pension benefits and post-employment healthcare benefits decreased by approximately $515,979,000 or 20.2%, primarily as a result of the depreciation of the fair value of investments caused by the decline in the equity investment market.
- Additions to Plan Net Assets for the year was a negative $386,503,000, which includes member and employer contributions of $92,532,000, net investment loss before securities lending income of $471,640,000, and net securities lending losses of $7,395,000.
- Deductions from Plan Net Assets increased from $114,039,000 to $129,476,000 over the prior year, or approximately 13.5% due primarily to increased benefit payments and healthcare insurance premiums.

Overview of the Financial Statements

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

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to Basic Financial Statements

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

The ***Statement of Plan Net Assets*** is a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The ***Statement of Changes in Plan Net Assets,*** on the other hand, provides a view of current year additions to and deductions from the plan.

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires state and local government pension plan reports to use full accrual accounting and make certain disclosures. The Plan complies with all material requirements of these pronouncements.

The ***Statement of Plan Net Assets*** and the ***Statement of Changes in Plan Net Assets*** report information about the Plan's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the Plan's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health (see the Plan's basic financial statements on pages 24-27 of this report).

Management's Discussion and Analysis (Unaudited) *Continued*

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 28-45 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's progress in funding its obligations to provide pension and post-employment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 46 of this report).

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 17). The assets of the Plan exceeded its liabilities at the close of fiscal year 2009 and 2008.

As of June 30, 2009, $2,044,242,000 in total net assets is held in trust for pension benefits and post-employment healthcare benefits (see Table 1a on page 17). All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve of $32,327,000, which is used to provide supplemental benefits to retirees based on a San José Municipal Code distribution methodology approved by San José City Council.

As of June 30, 2009, total net assets decreased by 20.2% from the prior year primarily due to the net depreciation in fair value of investments of $530,783,000.

As of June 30, 2008, $2,560,221,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits (see Table 1b on page 17). This total represented a decrease of 6.4% in net assets over the prior year primarily due to the depreciation in the fair value of investments of $221,907,000.

As of June 30, 2009, receivables decreased by $40,373,000 or 41.3% mainly due to a decrease in receivables from brokers and others for year-end investment trades. In the previous year, receivables increased by $45,057,000 or 85.4%, which was due to an increase in receivables from brokers and others for year-end investment trades.

As of June 30, 2009, total liabilities decreased by $299,182,000, or 49.4%, compared with June 30, 2008, due mainly to a decrease in securities lending collateral due to borrowers.

As of June 30, 2008, total liabilities decreased by $108,803,000, or 15.2%, compared with June 30, 2007, also due to a decrease in securities lending collateral due to borrowers.

Reserves

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 49). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by the San José Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

The depreciation in the fair value of investments resulted in an increase in the "Unrealized Gains on Investments Held" of $113,572,000 and $229,584,000 as of June 30, 2009 and 2008, respectively. These amounts are components of the General Reserve.

Management's Discussion and Analysis (Unaudited) *Continued*

POLICE AND FIRE PLAN'S NET ASSETS (Table 1a)

As of June 30, 2009 and 2008

	2009	*2008*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Receivables	$ 57,463,000	$ 97,836,000	$ (40,373,000)	-41.3%
Investments at Fair Value	2,292,902,000	3,067,690,000	(774,788,000)	-25.3%
Total Assets	**2,350,365,000**	**3,165,526,000**	**(815,161,000)**	**-25.8%**
Current Liabilities	306,123,000	605,305,000	(299,182,000)	-49.4%
Total Liabilities	**306,123,000**	**605,305,000**	**(299,182,000)**	**-49.4%**
NET ASSETS	**$2,044,242,000**	**$2,560,221,000**	**$(515,979,000)**	**-20.2%**

POLICE AND FIRE PLAN'S NET ASSETS (Table 1b)

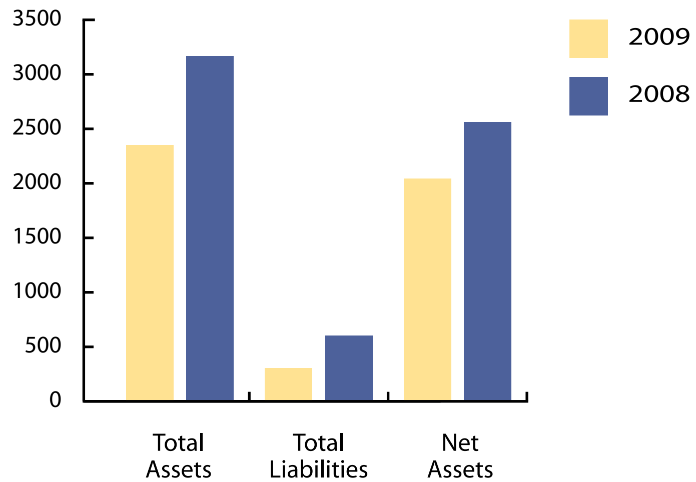
As of June 30, 2008 and 2007

	2008	*2007*	*Increase Amount*	*Increase Percent*
Receivables	$ 97,836,000	$ 52,779,000	$ 45,057,000	85.4%
Investments at Fair Value	3,067,690,000	3,396,978,000	(329,288,000)	-9.7%
Total Assets	**3,165,526,000**	**3,449,757,000**	**(284,231,000)**	**-8.2%**
Current Liabilities	605,305,000	714,108,000	(108,803,000)	-15.2%
Total Liabilities	**605,305,000**	**714,108,000**	**(108,803,000)**	**-15.2%**
NET ASSETS	**$2,560,221,000**	**$2,735,649,000**	**$(175,428,000)**	**-6.4%**

Management's Discussion and Analysis (Unaudited) *Continued*

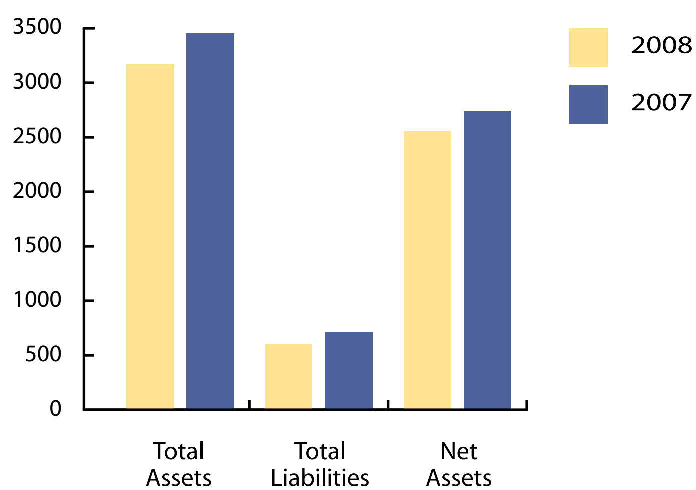
POLICE AND FIRE PLAN'S NET ASSETS (Table 1a)

As of June 30, 2009 and 2008



POLICE AND FIRE PLAN'S NET ASSETS (Table 1b)

As of June 30, 2008 and 2007



Management's Discussion and Analysis (Unaudited) *Continued*

ADDITIONS TO PLAN NET ASSETS (Table 2a)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	*2008*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Employee Contributions	$ 29,541,000	$ 28,361,000	$ 1,180,000	4.2%
Employer Contributions	62,991,000	66,990,000	(3,999,000)	-6.0%
Net Investment Income*	(471,640,000)	(160,026,000)	(311,614,000)	-194.7%
Net Securities Lending Income	(7,395,000)	3,286,000	(10,681,000)	-325.0%
TOTAL ADDITIONS	**$(386,503,000)**	**$(61,389,000)**	**$(325,114,000)**	**-529.6%**

** Net of Investment Expenses of $9,226,000 and $11,000,000 in 2009 and 2008, respectively.*

ADDITIONS TO PLAN NET ASSETS (Table 2b)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	*2007*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Employee Contributions	$ 28,361,000	$ 24,039,000	$ 4,322,000	18.0%
Employer Contributions	66,990,000	55,707,000	11,283,000	20.3%
Net Investment Income*	(160,026,000)	447,981,000	(608,007,000)	-135.7%
Net Securities Lending Income	3,286,000	1,133,000	2,153,000	190.0%
TOTAL ADDITIONS	**$(61,389,000)**	**$528,860,000**	**$(590,249,000)**	**-111.6%**

** Net of Investment Expenses of $11,000,000 and $11,304,000 in 2008 and 2007, respectively.*

DEDUCTIONS TO PLAN NET ASSETS (Table 3a)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	*2008*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Retirement Benefits	$ 102,363,000	$ 89,704,000	$ 12,659,000	14.1%
Healthcare Insurance Premiums	18,039,000	15,974,000	2,065,000	12.9%
Death Benefits	5,982,000	5,467,000	515,000	9.4%
Refund of Contributions	363,000	168,000	195,000	116.1%
Administrative	2,729,000	2,726,000	3,000	0.1%
TOTAL DEDUCTIONS	**$129,476,000**	**$114,039,000**	**$15,437,000**	**13.5%**

DEDUCTIONS TO PLAN NET ASSETS (Table 3b)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	*2007*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Retirement Benefits	$ 89,704,000	$ 81,953,000	$ 7,751,000	9.5%
Healthcare Insurance Premiums	15,974,000	14,794,000	1,180,000	8.0%
Death Benefits	5,467,000	5,042,000	425,000	8.4%
Refund of Contributions	168,000	210,000	(42,000)	-20.0%
Administrative	2,726,000	2,251,000	475,000	21.1%
TOTAL DEDUCTIONS	**$114,039,000**	**$104,250,000**	**$9,789,000**	**9.4%**

Management's Discussion and Analysis (Unaudited) *Continued*

CHANGES IN PLAN NET ASSETS (Table 4a)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	*2008*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Total Additions	$ (386,503,000)	$ (61,389,000)	$ (325,114,000)	-529.6%
Total Deductions	129,476,000	114,039,000	15,437,000	13.5%
NET INCREASE IN PLAN ASSETS	**$(515,979,000)**	**$(175,428,000)**	**$(340,551,000)**	**-194.1%**

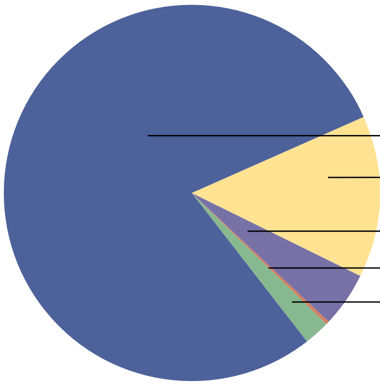
CHANGES IN PLAN NET ASSETS (Table 4a)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	*2007*	*Increase/(Decrease) Amount*	*Increase/(Decrease) Percent*
Total Additions	$ (61,389,000)	$ 528,860,000	$ (590,249,000)	-111.6%
Total Deductions	114,039,000	104,250,000	9,789,000	9.4%
NET INCREASE IN PLAN ASSETS	**$(175,428,000)**	**$424,610,000**	**$(600,038,000)**	**-141.3%**

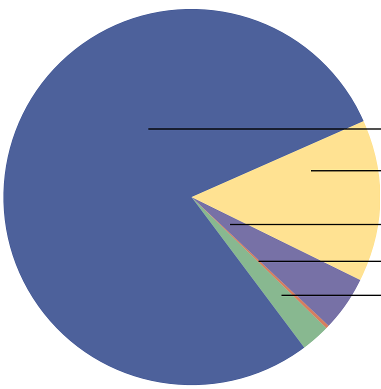
Management's Discussion and Analysis (Unaudited) *Continued*

DEDUCTIONS TO PLAN NET ASSETS 2009



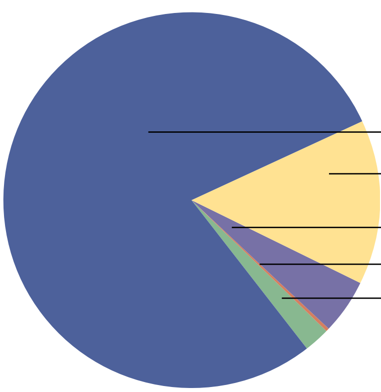
Retirement Benefits	79.1%	$102,363,000
Healthcare Insurance Premiums	13.9%	$18,039,000
Death Benefits	4.6%	$5,982,000
Refund of Contributions	0.3%	$363,000
Administrative and Other	2.1%	$2,729,000

DEDUCTIONS TO PLAN NET ASSETS 2008



Retirement Benefits	78.7%	$89,704,000
Healthcare Insurance Premiums	14.0%	$15,974,000
Death Benefits	4.8%	$5,467,000
Refund of Contributions	0.1%	$168,000
Administrative and Other	2.4%	$2,726,000

DEDUCTIONS TO PLAN NET ASSETS 2007



Retirement Benefits	78.6%	$81,953,000
Healthcare Insurance Premiums	14.2%	$14,794,000
Death Benefits	4.8%	$5,042,000
Refund of Contributions	0.2%	$210,000
Administrative and Other	2.2%	$2,251,000

Management's Discussion and Analysis (Unaudited) *Continued*

THE POLICE AND FIRE PLAN ACTIVITIES

Market returns were the main driver of decreased net assets, which declined by $515,979,000, thereby accounting for a 20.2% decrease from the prior year. Key elements of the Plan's financials are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2009, were a negative $386,503,000 (see Table 2a on page 19).

By fiscal year ended June 30, 2009, overall additions had decreased by $325,114,000, or 529.6%, from the prior year primarily due to a decrease of $311,614,000, or 194.7%, in net investment income excluding securities lending income, which was caused by investment depreciation. The Plan's time-weighted gross rate of return for the fiscal year ended June 30, 2009, was negative 18.0% compared to negative 5.1% for the fiscal year ended June 30, 2008. On a net of expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2009, was a negative 18.6% versus negative 6.0% for the fiscal year ended June 30, 2008.

Additions for the fiscal year ended June 30, 2008, totaled a negative $61,389,000, which represented a decrease of $590,249,000, or 111.6%, from fiscal year ended June 30, 2007 primarily due to net investment income which decreased by 135.7% from the previous year (see Table 2b on page 19).

Deductions from Plan Net Assets

The Plan 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, refund of contributions to terminated employees, and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2009, totaled $129,476,000, an increase of 13.5% over June 30, 2008 (see Table 3a on page 19). Increases in retirement benefits of $12,659,000 and healthcare insurance premiums of $2,065,000 were the main cause for increased expenses. Retirement benefits increased due to benefit enhancements and healthcare insurance costs increased due to higher premiums.

Deductions for the fiscal year ended June 30, 2008, totaled $114,039,000, an increase of 9.4% over June 30, 2007 (see Table 3b on page 19). Increases in retirement benefits of $7,751,000 and healthcare insurance premiums of $1,180,000 were the main cause for increased expenses. Retirement benefits increased due to benefit enhancements and healthcare insurance costs increased due to higher premiums and administrative expenses.

The Plan's Fiduciary Responsibilities

The Plan's Board is the fiduciary of the pension trust fund. Under the California Constitution the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The Plan will complete new actuarial valuations and perform an experience study as of June 30, 2009. The rates calculated in the June 30, 2009, valuation will be adopted by the Board and effective July 1, 2010.

This year the Plan completed a second GASB Statement 43 compliant Other Post-Employment Benefits (OPEB) valuation study as of June 30, 2007, a summary of the results is presented in note six of the Notes to the Financial Statements. The 2009 OPEB valuation will include increased OPEB contributions for Police members as a result of the Memorandum of Agreement (MOA) entered into by the Police members of the Plan and the City of San José, on June 29, 2009, to increase the rates of contributions for retiree health and dental rates in order to phase-in to fully funding the GASB Statement No. 43 annual required contribution over the next five years.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. Net investment income from the prior valuation dated, June 30, 2007, was $449.1 million. The new actuarial valuation, as of June 30, 2009, will include net investment losses of $479.0 million and $156.7 million for fiscal years ended June 30, 2009 and 2008. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. The investment losses for fiscal years 2009 and 2008 will be smoothed and netted against the remaining 2007 actuarial valuation unrecognized investment gains of $294.3 million. However, the Plan has a Market-Value-of-Assets (MVA) corridor which could force the plan to recognize losses immediately rather than smooth them over five years.

The Plan is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 8.0%, net of SRBR payments and investment and administrative expenses. Market risk would negatively impact the

Management's Discussion and Analysis (Unaudited) *Continued*

financial condition of the Plan and the City's required contribution to the Plan.

In addition to investment market risk the Plan is exposed to non-economic or demographic risk. The demographic assumptions which include rates of retirement, disability and mortality are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these long term actuarial assumptions cause the Plan to experience gains or losses which in turn leads to volatility in the contribution rate. To minimize this risk every two years the plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the long term actuarial assumptions. The actuarial assumptions may be adjusted where it is felt that current assumptions will not provide the best expectation of what may happen in the future.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, tax-payers, and investment managers with a general overview of the Plan's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112-4505

Respectfully Submitted,

Russell U. Crosby
Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2009 and 2008

(Dollars in thousands)	*Pension Benefits*	*Post-employment Healthcare Benefits*	*Total*
	2009		
ASSETS			
Receivables:			
Employee contributions	$ 939	$ 427	$ 1,366
Employer contributions	3,739	674	4,413
Brokers and others	42,781	892	43,673
Accrued investment income	7,847	164	8,011
Total receivables	**55,306**	**2,157**	**57,463**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	36,601	758	37,359
U.S. government agency securities	147,185	3,048	150,233
International government bonds	1,502	31	1,533
Domestic corporate bonds	368,826	7,636	376,462
International corporate bonds	38,259	792	39,051
Domestic equity securities	609,253	12,615	621,868
International equity securities	509,172	10,543	519,715
Private equity	74,365	1,540	75,905
Derivatives	(66)	(1)	(67)
State and local obligations	4,363	90	4,453
Forward international currency contracts	(4)	-	(4)
Collective short-term investment funds	73,248	1,517	74,765
Real estate	178,481	4,045	182,526
Securities lending cash collateral investment pool	204,831	4,272	209,103
Total investments	**2,246,016**	**46,886**	**2,292,902**
TOTAL ASSETS	**2,301,322**	**49,043**	**2,350,365**
LIABILITIES			
Payable to brokers	79,687	1,662	81,349
Securities lending collateral due to borrowers	215,318	4,490	219,808
Other liabilities	4,858	108	4,966
TOTAL LIABILITIES	**299,863**	**6,260**	**306,123**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	2,001,459	-	2,001,459
Post-employment healthcare benefits	-	42,783	42,783
TOTAL NET ASSETS	**$2,001,459**	**$42,783**	**$2,044,242**

See accompanying notes to basic financial statements.

Continued

Basic Financial Statements *Continued*

STATEMENTS OF PLAN NET ASSETS *Continued*

June 30, 2009 and 2008

(Dollars in thousands)	*2008* Pension Benefits	Post-employment Healthcare Benefits	Total
ASSETS			
Receivables:			
Employee contributions	$ 791	$ 376	$ 1,167
Employer contributions	2,335	443	2,778
Brokers and others	84,050	1,703	85,753
Accrued investment income	7,976	162	8,138
Total receivables	**95,152**	**2,684**	**97,836**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	78,847	1,589	80,436
U.S. government agency securities	237,139	4,779	241,918
International government bonds	9,734	196	9,930
Domestic corporate bonds	323,759	6,524	330,283
International corporate bonds	32,060	646	32,706
Domestic equity securities	858,170	17,293	875,463
International equity securities	684,506	13,794	698,300
Private equity	62,536	1,260	63,796
Derivatives	(411)	(8)	(419)
State and local obligations	12,370	249	12,619
Forward international currency contracts	(6)	-	(6)
Collective short-term investment funds	106,446	2,145	108,591
Real estate	211,748	4,552	216,300
Securities lending cash collateral investment pool	389,875	7,898	397,773
Total investments	**3,006,773**	**60,917**	**3,067,690**
TOTAL ASSETS	**3,101,925**	**63,601**	**3,165,526**
LIABILITIES			
Payable to brokers	197,917	4,010	201,927
Securities lending collateral due to borrowers	389,875	7,898	397,773
Other liabilities	5,488	117	5,605
TOTAL LIABILITIES	**593,280**	**12,025**	**605,305**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	2,508,645	-	2,508,645
Post-employment healthcare benefits	-	51,576	51,576
TOTAL NET ASSETS	**$2,508,645**	**$51,576**	**$2,560,221**

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2009 and 2008

(Dollars in thousands)	*2009* Pension Benefits	*2009* Post-employment Healthcare Benefits	*2009* Total
ADDITIONS			
Contributions:			
Employee	$ 20,323	$ 9,218	$ 29,541
Employer	53,103	9,888	62,991
Total Contributions	**73,426**	**19,106**	**92,532**
Investment income:			
Net depreciation in fair value of investments	(519,926)	(10,857)	(530,783)
Interest income	34,518	719	35,237
Dividend income	25,901	540	26,441
Net rental income	6,553	138	6,691
Less investment expense	(9,037)	(189)	(9,226)
Net investment loss before securities lending loss	**(461,991)**	**(9,649)**	**(471,640)**
Securities lending income:			
Earnings	(2,869)	(59)	(2,928)
Rebates	(2,988)	(63)	(3,051)
Fees	(1,387)	(29)	(1,416)
Net securities lending loss	**(7,244)**	**(151)**	**(7,395)**
Net investment loss	**(469,235)**	**(9,800)**	**(479,035)**
TOTAL ADDITIONS	**(395,809)**	**9,306**	**(386,503)**
DEDUCTIONS			
Retirement benefits	102,363	-	102,363
Healthcare insurance premiums	-	18,039	18,039
Death benefits	5,982	-	5,982
Refund of contributions	363	-	363
Administrative expenses and other	2,669	60	2,729
TOTAL DEDUCTIONS	**111,377**	**18,099**	**129,476**
NET INCREASE/(DECREASE)	**(507,186)**	**(8,793)**	**(515,979)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of year	2,508,645	51,576	2,560,221
END OF YEAR	**$2,001,459**	**$42,783**	**$2,044,242**

Continued

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS *Continued*

For the Fiscal Years Ended June 30, 2009 and 2008

(Dollars in thousands)	*2008* Pension Benefits	*2008* Post-employment Healthcare Benefits	*2008* Total
ADDITIONS			
Contributions:			
Employee	$ 19,210	$ 9,151	$ 28,361
Employer	56,372	10,618	66,990
Total Contributions	**75,582**	**19,769**	**95,351**
Investment income:			
Net depreciation in fair value of investments	(217,620)	(4,287)	(221,907)
Interest income	35,958	708	36,666
Dividend income	30,161	594	30,755
Net rental income	5,354	106	5,460
Less investment expense	(10,786)	(214)	(11,000)
Net investment loss before securities lending income	**(156,933)**	**(3,093)**	**(160,026)**
Securities lending income:			
Earnings	23,773	469	24,242
Rebates	(19,177)	(378)	(19,555)
Fees	(1,374)	(27)	(1,401)
Net securities lending income	**3,222**	**64**	**3,286**
Net investment loss	**(153,711)**	**(3,029)**	**(156,740)**
TOTAL ADDITIONS	**(78,129)**	**16,740**	**(61,389)**
DEDUCTIONS			
Retirement benefits	89,704	-	89,704
Healthcare insurance premiums	-	15,974	15,974
Death benefits	5,467	-	5,467
Refund of contributions	168	-	168
Administrative expenses and other	2,670	56	2,726
TOTAL DEDUCTIONS	**98,009**	**16,030**	**114,039**
NET INCREASE/(DECREASE)	**(176,138)**	**710**	**(175,428)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of year	2,684,783	50,866	2,735,649
END OF YEAR	**$2,508,645**	**$51,576**	**$2,560,221**

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

For The Fiscal Years Ended June 30, 2009 and 2008

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Police and Fire Department Retirement Plan (Plan) is provided for general information purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

(a) General

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Post-employment Healthcare Plan, was established in 1961 and last amended June 24, 2008, to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $2,729,000 and $2,726,000 for 2009 and 2008, respectively. These costs are financed through investment earnings.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately $271,541,000 and $271,812,000 for 2009 and 2008, respectively. Pensionable earnings amounted to approximately $243,196,000 and $241,781,000 in 2009 and 2008, respectively.

Participants of the Post-employment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2009 and 2008, employee membership data related to the Plan was as follows:

Defined Benefit Pension Plan	2009	2008
Retirees and beneficiaries currently receiving benefits	1,661	1,594
Terminated vested members not yet receiving benefits	75	74
Active members	2,087	2,179
TOTAL	**3,823**	**3,847**

Post-employment Healthcare Plan	2009	2008
Retirees and beneficiaries currently receiving benefits	1,571	1,418
Terminated vested members not yet receiving benefits	5	11
Active members	2,087	2,179
TOTAL	**3,663**	**3,608**

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

(b) Pension Benefits

An employee with 10 or more years of service who resigns and leaves his/her contributions in the Plan; an employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final average salary multiplied by 2.5% multiplied by years of service up to 30 years (maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next 5 years of service, by 4% for the next 5 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. If Fire members have more than 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

Final average salary is the average monthly salary during the highest 12 consecutive months of service, limited to 108% of salary paid during the 12 months immediately proceeding the last 12 months of service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan.

(c) Death Benefits

Subject to a maximum of 42.5%, the spouse or domestic partner receives the greater of 50% of the member's benefit or 37.5% to 42.5% of the final average salary if: (1) an employee's death is service related; or (2) an employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service

Notes to Basic Financial Statements *Continued*

NOTE 1 – DESCRIPTION OF THE PLAN *Continued*

related disability. Optional retirement allowances are available. Effective July 1, 2008, subject to a maximum of 45%, the surviving spouse or surviving domestic partner of Fire members only that retired, receives the greater of 50% of the member's benefit or 37.5% to 45% of the member's final average salary depending on the years of services and if 1) an employee's death is service related; or 2) an employee's death is non-service related and occurs with at least 20 years of service; 3) a retiree dies who was retired from service or who received a service related disability.

Additionally, an annual benefit for dependent children up to 18 years of age, or up to 22 years of age if a full-time student, is paid at a rate of 25% of final average salary per child with a maximum family benefit of 75% of final average salary if death is service related.

If an employee's death is non-service related and the employee has at least two years of service, the Plan allows for an annual annuity of 24% of the employee's final average salary for the first two years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse or domestic partner until remarriage (maximum of 37.5% of final average salary or 50% of the member's benefit, whichever is greater). These benefits are also paid to the surviving spouse or domestic partner of a retiree on a non-service related disability.

Additionally, for situations other than for a service-related death, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

- One child - 25% of final average salary
- Two children - 37.5% of final average salary
- Three or more children - 50% of final average salary

The maximum annual benefit paid to a family under any circumstances is 75% of final average salary. If the employee has no spouse or domestic partner or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000 is paid to his/her estate.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final average salary. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retired prior to February 4, 1996 (maximum benefit, 75% of final average salary). After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 up to 30 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance consists of final average salary multiplied by 60%, plus final average salary multiplied by 3% for each full year of service in excess of 20 years (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only with at least 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

(e) Post-employment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final average salary are entitled to payment of 100% of the lowest priced medical insurance plan available to an active police and fire employee. However, the Plan pays the entire premium cost for dental insurance coverage.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The financial statements of the Plan present only the financial activities of the Plan and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

(b) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period or the periodic basis option selected by the City). Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Post-employment Healthcare Plan are accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

The City of San José Municipal Code Section 3.36.530 delegate authority to the Board of Administration to reinvest the moneys of the retirement fund as provided in Section 3.36.540. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.36.540.

The Plan's investment policy authorizes the Plan to invest in domestic equity, international equity, emerging market equity, private equity, domestic fixed income, global fixed income, long duration fixed income, real estate, securities lending, and short-term investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals. The fair value of the private equities are based on actual cash flows to/from the Plan and the transactions and unrealized gain/loss as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the financial statements and other portfolio information received from their underlying portfolio partnerships.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

(d) Plan Net Assets Held in Trust for Pension and Post-employment Healthcare Benefits

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Post-employment Healthcare Plan. As of June 30, 2009 and 2008, the net assets, totaling $2,044,242,000 and $2,560,221,000, respectively, are allocated as follows:

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Defined Benefit Pension Plan*	*Post-employment Healthcare Plan*	*Total*
June 30, 2009:					
Employee contributions	$ 184,069	$ 52,257	$ 236,326	$ 5,715	$ 242,041
Supplemental retiree benefit	32,327	-	32,327	-	32,327
General reserve	1,161,636	571,170	1,732,806	37,068	1,769,874
TOTAL	**$1,378,032**	**$623,427**	**$2,001,459**	**$42,783**	**$2,044,242**
June 30, 2008:					
Employee contributions	$ 183,845	$ 53,056	$ 236,901	$ 5,429	$ 242,330
Supplemental retiree benefit	27,747	-	27,747	-	27,747
General reserve	1,535,009	708,988	2,243,997	46,147	2,290,144
TOTAL	**$ 1,746,601**	**$ 762,044**	**$ 2,508,645**	**$ 51,576**	**$ 2,560,221**

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

Employee Contributions Reserve is a reserve that represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of their return to the member upon separation from City employment.

The ***Supplemental Retiree Benefit Reserve*** (SRBR) is a reserve that represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The SRBR was established in December 2001, upon adoption of Ordinance number 26536 of the City of San José Municipal Code.

General Reserve is a reserve that represents net earnings resulting from investment earnings, employer contributions, and realized and unrealized investment gains and losses. The unrealized gains and losses as of June 30, 2009 and 2008 were $113,572,000 and $229,584,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-annually from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% of total employee contributions reserve balance and the SRBR allocation remain in the general reserve category. For fiscal years 2008 and 2007, excess earnings were $4,581,000 and $9,549,000, respectively. The SRBR distributions to retirees' for fiscal years 2008 and 2007 were $2,889,186 and $2,392,958, respectively. SRBR distributions are determined after the fiscal year end and are distributed to retirees in the following fiscal year.

(f) Implementation of Governmental Accounting Standards Board Statements

In fiscal year ended June 30, 2008, the Plan implemented GASB Statement No. 50, Pension Disclosures. The Statement amended note disclosures and required supplementary information (RSI) standards of Statement 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement 27, Accounting for Pensions by State and Local Governmental Employers, to conform with applicable changes adopted in Statement 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, and Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.

Specifically, Statement 50 requires the following additional disclosures for sole employer plans:

- Notes to the financial statements should disclose the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.
- Notes to the financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Define benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to the financial statements to the required schedule of funding progress in RSI.
- If applicable, the notes to the financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.
- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

This Statement aligns disclosures for pension benefits with that of current other post-employment pension disclosure requirements for governments. The Plan's pension plan is disclosed in Note 6 and is presented in accordance with the requirements set forth in Statement 50.

(g) Reclassifications

Certain amounts in fiscal year 2008 have been reclassified to conform to the fiscal year 2009 presentation.

NOTE 3 – INVESTMENTS

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

risk. As of June 30, 2009, GNMAs in the amount of $17,620,000 and U.S. government agency securities in the amount of $132,613,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes, of which $3,284,000 are floating rate securities tied to the 6-12 month LIBOR and $899,000 are tied to the 12-month MTA. As of June 30, 2008, GNMAs in the amount of $14,479,000 and U.S. government agency securities in the amount of $223,347,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes, of which $6,869,000 are floating rate securities tied to the 6-12 month LIBOR and $1,308,000 are tied to the 12-month MTA. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers.

In addition as of June 30, 2009, $10,204,000 of the asset backed securities, $1,805,000 of the collateralized mortgage obligations, and $127,000 of the corporate securities are floating rate securities tied to the one to 12-month LIBOR. In 2008, the amounts for the same type of securities were $10,508,000, $46,948,000, and $3,913,000, respectively.

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy regarding custodial credit risk. The Plan's custodian bank holds all investments of the Plan in the Plan's name except for the assets held in pooled funds, which are under custody of the investment managers' custodian bank. The Plan's investments in pooled funds have the underlying securities valued by the fund manager in accordance with the Plan's fair value standards as described in Note 2(c) above. As of June 30, 2009, the Plan had the following pooled fund holdings: $66,406,000 in fixed income, $196,590,000 in international equities, $43,315,000 in real estate, and $75,905,000 in private equities. As of June 30, 2008, the Plan had the following pooled fund holdings: $18,640,000 in fixed income, $259,615,000 in international equities, $62,701,000 in real estate, and $63,796,000 in private equities.

Credit Quality Risk – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The Plan's investment policy dictates that all domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's (S&P), Moody's Investors' Service (Moody's), or Fitch Ratings (Fitch). In the event that ratings are provided by only two agencies and the third is non-rated, the more conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from the Plan, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the Plan's investment policy statement at the time of purchase, the investment manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Plan's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact on currency fluctuation on the underlying asset value.

Concentration of Credit Risk – The Plan's investment policy limits the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

Equity – Minimum 41% and maximum 57% of the fair value of the aggregate portfolio.

Fixed Income – Minimum 15% and maximum 31% of the fair value of the aggregate portfolio.

Alternatives – Limited to 28% of the fair value of the aggregate portfolio. Funds allotted to the alternatives asset class are temporarily invested in other asset classes.

Government short-term investment fund – The fund is used for overnight investment of all excess cash in the Plan's funds. It is invested by the Plan Custodian, and held in the Plan Custodian's name. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and interest;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and fully insured bank deposits.

Real Estate – Limited to 15% of the market value of the aggregate portfolio. Real estate investments include: apartment complexes

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

in Houston, TX, and Colorado Springs, CO; office buildings in Denver, CO, in San José, CA, near Chicago, IL, and in Anchorage, AK; warehouses near Minneapolis, MN; and an office building under construction in O'Fallon, MO with an expected completion date of November 2009. The properties have leases with various terms.

As of June 30, 2009, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented five percent or more of the total investments held by the Plan. As of June 30, 2008, the Plan held $183,524,000 of investments held by the Federal National Mortgage Association (including non-USD), which represented 6% of its plan net assets.

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following tables provide information as of June 30, 2009 and 2008, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Investment Maturities at Fair Value

As of June 30, 2009

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ -	$ 10,859	$ 724	$ 4,874	$ 9,415	$ 11,458	$ 37,330	$ 37,223
U.S. Treasury Strips	-	-	-	-	-	29	29	30
GNMA	-	-	-	-	-	17,620	17,620	17,318
FHLMC	-	-	-	453	1,105	34,510	36,068	34,857
FNMA	-	-	-	490	189	95,866	96,545	94,111
Asset Backed Securities	-	-	-	2,015	803	13,340	16,158	17,857
Bank Loans	-	-	-	27,229	10,944	-	38,173	37,422
Collateralized Mortgage Obligations	-	-	-	-	2,464	39,325	41,789	46,267
Corporate Bonds	200	-	-	48,836	58,708	107,709	215,453	219,489
State and Local Obligations	-	-	-	-	361	4,092	4,453	4,486
Pooled Domestic Bonds	-	-	-	-	64,889	-	64,889	64,409
Collective Short Term Investment Fund	74,765	-	-	-	-	-	74,765	74,651
Total Domestic Fixed Maturity	**74,965**	**10,859**	**724**	**83,897**	**148,878**	**323,949**	**643,272**	**648,120**
International								
Government Bonds								
United States Dollar Denominated	-	-	-	-	16	-	16	16
Pooled International Fixed Maturity	-	-	-	-	-	1,517	1,517	1,250
Total International Government Bonds	**-**	**-**	**-**	**-**	**16**	**1,517**	**1,533**	**1,266**
Corporate Bonds								
United States Dollar Denominated	-	-	-	10,925	14,312	13,814	39,051	40,835
Total International Corporate Bonds	**-**	**-**	**-**	**10,925**	**14,312**	**13,814**	**39,051**	**40,835**
Total International Fixed Maturity	**-**	**-**	**-**	**10,925**	**14,328**	**15,331**	**40,584**	**42,101**
Derivatives	(2)	(65)	-	-	-	-	(67)	(166)
TOTAL FIXED MATURITY	**$74,963**	**$10,794**	**$724**	**$94,822**	**$163,206**	**$339,280**	**$683,789**	**$690,055**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$ 621,868	$ 715,565
International		
Australian Dollar	5,987	5,655
Brazilian Real	5,263	5,431
British Pound	62,075	73,965
Canadian Dollar	2,163	2,010
Danish Krone	4,579	4,437
Euro Currency	78,745	103,035
Hong Kong Dollar	18,400	13,963
Indian Rupee	9,908	7,718
Indonesian Rupiah	2,371	2,265
Japanese Yen	57,895	78,057
Malaysian Ringgit	715	634
Mexican Peso	548	948
New Taiwan Dollar	2,487	3,815
New Zealand Dollar	1,153	2,168
Norwegian Krone	344	262
Singapore Dollar	4,976	4,368
South African Rand	4,951	3,692
South Korean Won	3,671	3,932
Swedish Krona	6,145	7,379
Swiss Franc	14,441	14,068
Turkish Lira	480	399
United States Dollar Denominated	35,828	39,530
Total International Currency Equity	**323,125**	**377,731**
Pooled International Equity	196,590	147,257
Total International Equity	**519,715**	**524,988**
TOTAL EQUITIES	**1,141,583**	**1,240,553**
Private Equity	**75,905**	**78,068**
Real Estate	**182,526**	**188,716**
Total Private Equity and Real Estate	**258,431**	**266,784**
Forward International Currency Contracts, Net	**(4)**	**-**
Securities Lending Collateral Investment Pool	**209,103**	**219,808**
TOTAL INVESTMENTS	**$2,292,902**	**$2,417,200**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

Investment Maturities at Fair Value

As of June 30, 2008

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ -	$ -	$ -	$ 56,240	$ 5,440	$ 13,897	$ 75,577	$ 75,517
U.S. Treasury Strips	-	-	-	-	-	4,859	4,859	4,669
GNMA	-	-	-	-	-	14,479	14,479	14,600
FHLB	-	-	-	2,692	856	544	4,092	3,970
FHLMC	-	-	-	757	66	39,000	39,823	39,656
FNMA	-	2,326	-	1	1,986	179,211	183,524	183,404
Asset Backed Securities	-	-	-	4,585	3,502	14,647	22,734	26,958
Collateralized Mortgage Obligations	9	-	-	-	2,339	102,862	105,210	115,067
Corporate Bonds	-	359	4,943	34,790	41,110	111,536	192,738	203,227
State and Local Obligations	-	-	-	-	2,791	9,828	12,619	12,840
Pooled Domestic Bonds	-	-	-	-	9,601	-	9,601	7,718
Collective Short Term Investment Fund	108,591	-	-	-	-	-	108,591	108,585
Total Domestic Fixed Maturity	**108,600**	**2,685**	**4,943**	**99,065**	**67,691**	**490,863**	**773,847**	**796,211**
International								
Government Bonds								
United States Dollar Denominated	-	-	-	-	16	875	891	1,106
Pooled International Fixed Maturity	-	-	-	-	2,895	6,144	9,039	8,589
Total International Government Bonds	**-**	**-**	**-**	**-**	2,911	7,019	9,930	9,695
Corporate Bonds								
United States Dollar Denominated	-	31	-	9,001	10,881	12,793	32,706	34,450
Total International Corporate Bonds	**-**	**31**	**-**	**9,001**	**10,881**	**12,793**	**32,706**	**34,450**
Total International Fixed Maturity	**-**	**31**	**-**	**9,001**	**13,792**	**19,812**	**42,636**	**44,145**
Derivatives	(419)	-	-	-	-	-	(419)	(401)
TOTAL FIXED MATURITY	**$108,181**	**$2,716**	**$4,943**	**$108,066**	**$81,483**	**$510,675**	**$816,064**	**$839,955**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$ 875,463	$ 816,913
International		
Australian Dollar	11,382	10,283
Brazilian Real	9,761	9,049
British Pound	79,717	80,652
Canadian Dollar	7,790	6,985
Danish Krone	7,066	6,534
Egyptian Pound	3,198	2,854
Euro Currency	107,947	100,910
Hong Kong Dollar	4,531	4,246
Indian Rupee	5,228	4,976
Indonesian Rupiah	1,268	1,310
Japanese Yen	98,205	100,135
Malaysian Ringgit	1,588	1,410
Mexican Peso	950	1,158
New Zealand Dollar	1,341	1,912
Norwegian Krone	79	218
Singapore Dollar	8,642	6,598
South African Rand	2,262	2,088
South Korean Won	3,863	2,827
Swedish Krona	4,293	5,616
Swiss Franc	23,060	18,356
Taiwan Dollar	4,096	4,547
Turkish Lira	952	637
United States Dollar Denominated	51,466	45,548
Total International Currency Equity	**438,685**	**418,849**
Pooled International Equity	259,615	128,469
Total International Equity	**698,300**	**547,318**
TOTAL EQUITIES	**1,573,763**	**1,364,231**
Private Equity	**63,796**	**53,557**
Real Estate	**216,300**	**182,692**
Total Private Equity and Real Estate	**280,096**	**236,249**
Forward International Currency Contracts, Net	**(6)**	**-**
Securities Lending Collateral Investment Pool	**397,773**	**397,773**
TOTAL INVESTMENTS	**$3,067,690**	**$2,838,208**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following table provides information as of June 30, 2009 and 2008, concerning credit quality risk:

Ratings of Fixed Maturities for June 30, 2009 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
TSY	$ 37,359	5.5%
AAA	174,031	25.5%
AA	34,397	5.0%
A	94,324	13.8%
BBB	55,134	8.1%
BB	34,129	5.0%
B	19,291	2.8%
CCC & Below	6,595	1.0%
Not Rated*	228,529	33.3%
TOTAL	**$683,789**	**100.0%**

**Comment: 14% of the Not Rated are FNMA/FHMLC/GNMA TBA mortgages and 32% of the Not Rated is Cash Equivalent in the Collective Short Term Investment Fund.*

Ratings of Fixed Maturities for June 30, 2008 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
TSY	$ 80,436	9.9%
AAA	252,837	31.0%
AA	44,255	5.4%
A	81,116	9.9%
BBB	61,628	7.6%
BB	9,932	1.2%
B	9,018	1.1%
CCC & Below	1,799	0.2%
Not Rated*	275,043	33.7%
TOTAL	**$816,064**	**100.0%**

**Comment: 40% of the Not Rated are FNMA, FHMLC/GNMA TBA mortgages and 39% of the Not Rated is Cash Equivalent in the Collective Short Term Investment Fund.*

Forward International Currency Contracts – The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2009 and 2008, the Plan's net position in these contracts is recorded at fair value as forward international currency contract investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2009, total commitments in forward currency contracts to purchase and sell international currencies were $2,012,000 and $2,012,000 respectively, with fair values of $2,007,000 and $2,011,000, respectively. As of June 30, 2008, the Plan had commitments in international currency contracts to purchase and sell international currencies of $38,597,000 and $38,597,000, respectively, with fair values of $38,595,000 and $38,601,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

Derivatives - The Plan's investment policy generally allows for investments in futures and options that comply with the Plan's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. At June 30, 2009 the Plan held futures and options with fair market values of approximately negative $67,000. As of June 30, 2008, the Plan had options and futures with approximately negative $419,000. Gains and losses on futures and options are determined based on quoted market values and recorded in the Statement of Changes in Plan Net Assets.

Due to the level of volatility associated with certain derivative investments it is reasonable to expect significant fluctuations in the fair market value of these securities from the amounts presented in the financial statements as of a June 30, 2009. The Plan specifically prohibits investment managers from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are either speculative or leveraged, or whose market-ability may become severely limited.

NOTE 4 – SECURITIES LENDING PROGRAM

The Plan has a custodial agreement with State Street Corporation (State Street) which authorizes State Street to loan the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Plan does not have a threshold for securities lending. As of June 30, 2009 and 2008, the Plan had no exposure to credit risk related to the securities lending transactions as the amount the Plan owes the borrowers exceeds the amount the borrowers owe the Plan. In addition, State Street is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned loaned securities if the loaned securities are not returned by the borrower. The Plan receives a fee from the borrower for the use of the loaned securities.

Securities lending collateral represent investments in an investment pool purchased with cash collateral, as well as securities collateral that the Plan may not pledge or sell without a borrower default. Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of net assets. The Plan does not match the maturities of investments made with cash collateral with the securities on loan.

Notes to Basic Financial Statements *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

The loaned securities as of June 30, 2009 and 2008 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment.

The Plan authorized State Street Bank and Trust to invest and reinvest cash collateral in State Street's Quality D Short-term Investment Fund which, as of April 15, 2009, seeks to maintain an average effective duration of 90 days or a maximum option-adjusted duration for variable rate security of 2.5 years or less at the time of purchase, and all fixed rates instruments must have an option-adjusted duration not to exceed 18 months at the time of purchase. At the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will (a) be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or (b) if rated by only one NSRRO, be rated "A" or better by such NRSRO, or (c) if unrated, be determined by State Street to be of comparable quality. Investments made prior to the April 15, 2009, shall continue to be permissible to the extent they complied at the time of purchase.

As of June 30, 2009, the size of the cash collateral pooled vehicle was $44.6 billion and the weighted average maturity of 42.64 days. The cash collateral investments included asset backed securities (46.66% of the pool), certificates of deposit (20.01%), corporate securities (5.61%), bank notes (13.10%), and other securities (14.62%). As of June 30, 2008, the size of the cash collateral pooled vehicle was $86.2 billion and the weighted average maturity of 41.84 days. The cash collateral investments included asset backed securities (48.91% of the pool), certificates of deposit (21.00%), corporate securities (6.15%), bank notes (14.76%), and other securities (9.18%). All of the underlying investments of the System's securities lending cash collateral are held by the counterparty, not in the name of the Plan.

As of June 30, 2009, the underlying securities loaned by the Plan as a whole amounted to approximately $213,340,000. The cash collateral and the non-cash collateral totaled $219,808,000 and $1,016,000, at carrying cost. The net asset value (NAV) of the cash collateral pool at June 30, 2009 was at $0.9513 or $209,103,000 on a mark to market basis. The NAV of less than $1.00 is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9513 of the cash collateral pool results in an unrealized loss of approximately $10,705,000 for the Plan. The cash collateral investment pool is presented in the statement of net plan assets at the NAV of $0.9513, $209,103,000 respectively. The unrealized loss of $10,705,000 is presented in the Securities lending income earnings line of the statement of changes in plan net assets. The Plan is exposed to investment risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

As of June 30, 2008, the underlying securities loaned by the Plan as a whole amounted to approximately $398,846,000. the cash collateral and the non-cash collateral totaled $397,773,000 and $13,761,000, respectively.

Notes to Basic Financial Statements *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

Securities Lending – Investment and Collateral Received

(At Fair Value in Thousands)

Type of Investment Lent	*2009*	*2008*
For Cash Collateral		
Domestic corporate bonds	$ 20,762	$ 23,931
Domestic equity securities	126,964	261,815
U.S. government agency securities	12,340	4,589
U.S. treasury securities	18,511	63,449
International equity securities	33,770	31,712
Total Lent for Cash Collateral	**$212,347**	**$385,496**
For Non-Cash Collateral		
Domestic equity securities	111	5,529
U.S. treasury securities	882	6,957
International equity securities	-	864
Total Lent for Non-Cash Collateral	**993**	**13,350**
TOTAL SECURITIES LENT	**$213,340**	**$398,846**

Type of Collateral Received	*2009*	*2008*
Cash Collateral	**$209,103***	**$397,773**
Non-Cash Collateral		
For lent domestic equity securities	114	5,769
For lent US treasury securities	902	7,088
For lent International equity securities	-	904
Total Non-Cash Collateral	**1,016**	**13,761**
TOTAL COLLATERAL RECEIVED	**$210,119**	**$411,534**

**Amount represents the mark-to-market value of the cash collateral pool at a 95.13% net asset value.*

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Department Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. On June 24, 2008 City Council adopted ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Police and Fire Department Retirement Plan. On June 5, 2008 The Board of Administration for the San José Police and Fire Department Retirement Plan approved the actuarially determined prepayment amount to be paid by the City on August 1, 2008, for biweekly contributions to be made for the 24 pay dates from August 1, 2008 through June 19, 2009.

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2009 and 2008 were as follows:

	City		Employee	
Period	*Police*	*Fire*	*Police*	*Fire*
06/28/09 - 06/30/09	21.61%	24.12%	8.18%	8.62%
06/29/08 - 06/27/09	21.61%*	24.12%*	8.18%	8.62%
07/01/07 - 06/28/08	24.71%	21.42%	7.89%	7.48%

** The actual contribution rate paid by the City was 20.89% for the Police and 23.32% for the Fire members as a result of the City exercising their option to make a lump sum payment for 24 pay periods of fiscal year 2008/2009.*

The funding status of the Defined Benefit Pension Plan as of June 30, 2007, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Acturial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a)/(b)*	*Annual Covered Payroll (c)*	*UAAL as a % of Covered Covered Payroll ((b)-(a)/(c))*
6/30/07	$2,365,790	$2,372,386	$6,596	99.7%	$227,734	2.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and investment return assumptions. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections for plan benefits are based on plan provisions as adopted and incorporated into the municipal code at the time of the valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Notes to Basic Financial Statements *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY *Continued*

The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

Description	*Method/Assumption*
Valuation date	June 30, 2007
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll (assuming a 4.00% total payroll increase)
Remaining amortization period	10 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8% per annum
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set forward 1 year) RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years.
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2007 Actuarial Experience Analysis
Salary increases	0-6 years of service - 9.00% 6-8 years of service - 6.00% 8+ years of service - 5.00% Of the total salary increase, 4% is for the combined inflation and real across-the-board salary increase
Cost-of-living adjustments	3.00% a year of retirement income

** The Plan performs biannual actuarial valuations to establish contribution rates for the following two fiscal years. For fiscal year ended June 30, 2009 contribution rates were based on the actuarial valuation performed as of June 30, 2007; the actuarial valuation assumptions are presented above.*

Notes to Basic Financial Statements *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY *Continued*

The schedules presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information. The Schedule of Funding Progress for the Defined Benefit Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 6 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Defined Post-employment Healthcare Plan are made by both the City and the participating employees. Contributions for the fiscal years ended June 30, 2009 and 2008 are based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement No. 43. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. Effective June 28, 2009, the Police members of the Plan entered into a Memorandum of Agreement (MOA) with the City to increase the rates of contributions for retiree health and dental rates in order to phase-in to GASB Statement No. 43 annual required contribution over the next five years.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2009 and 2008 for the Defined Post-employment Healthcare Benefit Plan were as follows:

	City		Employee	
Period	*Police*	*Fire*	*Police*	*Fire*
06/28/09 - 06/30/09	5.28%	4.19%	4.78%	3.78%
06/29/08 - 06/27/09	4.19%*	4.19%*	3.78%	3.78%
07/01/07 - 06/28/08	4.19%	4.19%	3.78%	3.78%

** The actual contribution rate paid by the City was 4.05% for both the Police and Fire members as a result of the City exercising their option to make a lump sum payment for 24 pay periods of fiscal year 2008/2009.*

The funded status of the Defined Post-employment Healthcare Plan as of June 30, 2007, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Acturial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a)/(b)*	*Annual Covered Payroll (c)*	*UAAL as a % of Covered Covered Payroll ((b)-(a)/(c))*
6/30/07	$45,393	$666,228	$620,834	7%	$227,734	273%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

Notes to Basic Financial Statements *Continued*

NOTE 6 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS *Continued*

Description	*Method/Assumption*
Valuation date	June 30, 2007
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2007, open
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Discount rate	6.4% †
Inflation rate	3.5%
Across-the-board pay increases	0.5%
Projected payroll increases	4.0%
Health care cost trend rate:	
Medical	12% in 2007/2008 plan year, 10% in 2008/2009 fiscal year, 8.25% for 2009/2010, decreasing by 0.50% for each year for seven years until it reaches an ultimate rate of 5%
Dental	5%

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

Notes to Basic Financial Statements *Continued*

NOTE 6 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS *Continued*

The schedules presented as required supplementary information following the notes to the financial statements, present multi-year trend information. The Schedule of Funding Progress for the Defined Post-employment Healthcare Benefit Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Post-employment Healthcare Benefit Plan presents trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 – CONTINGENCY

Commitments – As of June 30, 2009, the Plan had unfunded commitments to contribute capital for private equity fund investments in the amount of $68,950,000.

Contribution overstatement – On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act (FLSA) earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. The City has estimated the overstatement of member and City contributions at approximately $1,000,000. The impact of the overstated pensionable earnings, due to the FLSA transmittal error, on retirement benefits is undetermined at this time. The City has advised that as of February 2009, the transmittal error has been corrected on a go forward basis. The Plan and City are working together to have both the Plan's external auditor and the City's internal auditor review the estimated overstatement and the go forward correction.

NOTE 8 – SUBSEQUENT EVENTS

Retirement Benefits – The Memorandum of Agreement (MOA) for the International Association of Fire Fighters Local 230 (Local 230) which includes retirement benefits expired on June 30, 2009. Local 230 and the City are currently in negotiations for a successor MOA.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars in thousands)

Acturial Valuation Date	Actuarial Value of Assets[1] (a)	Entry Age Actuarial Accrued Liability (AAL)[2] (b)	(Overfunded) Unfunded (AAL/UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	(OAAL)/UAAL as a % of Covered Payroll ((b-a)/c)
06/30/2001[4]	$1,713,812	$1,492,732	($221,080)	114.8%	$171,779	(129%)
06/30/2003	1,826,287	1,823,200	(3,087)	100.2%	202,222	(2%)
06/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21%
06/30/2007[5]	2,365,790	2,372,386	6,596	99.7%	227,734	3%

[1] *Excludes accounts payable and post-employment healthcare plan assets.*
[2] *Excludes post-employment healthcare liability.*
[3] *Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.*
[4] *After adoption of SRBR program.*
[5] *After reflection of benefit improvements effective July 1, 2006 for Police members.*

Actuarial valuations have been performed biennially through June 30, 2007.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions	Percentage Contributed
2004	$ 24,412	100%
2005	41,835	100%
2006	43,473	100%
2007	46,625	100%
2008	56,372	100%
2009	53,103*	100%

**Amount represents the annual required contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at $54,780; see note five in the notes to financial statements for more information.*

SCHEDULE OF FUNDING PROGRESS - POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Unaudited)

(Dollars in thousands)

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a)/(c))
June 30, 2006	$38,381	$851,217	$812,836	5%	$218,521	372%
June 30, 2007	$45,393	$666,228	$620,834	7%	$227,734	273%

Actuarial valuations have been performed through June 30, 2007.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Unaudited)

(Dollars in thousands)

Plan Year Ending	Annual Required Contributions*	Actual Contributions	Percentage Contributed
June 30, 2007	$61,344	$ 9,082	15%
June 30, 2008	$61,344	$10,618	17%
June 30, 2009	$26,139	$ 9,888**	38%

**Includes an interest adjustment to the end of the plan year.*

***Amount represents the annual required contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at $10,203, with a percentage contributed of 39%; see note six in the notes to financial statements for more information.*

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2009

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ASSETS			
Receivables:			
Employee contributions	$ 656	$ 283	$ 939
Employer contributions	1,864	1,875	3,739
Brokers and others	29,444	13,337	42,781
Accrued investment income	5,401	2,446	7,847
Total receivables	**37,365**	**17,941**	**55,306**
Investments, at fair value:			
Securities and Other			
U.S. Treasury notes and bonds	25,009	11,592	36,601
U.S. government agency securities	100,571	46,614	147,185
International government bonds	1,026	476	1,502
Domestic corporate bonds	252,017	116,809	368,826
International corporate bonds	26,142	12,117	38,259
Domestic equity securities	416,300	192,953	609,253
International equity securities	347,915	161,257	509,172
Private equity	50,813	23,552	74,365
Derivatives	(45)	(21)	(66)
State and local obligations	2,981	1,382	4,363
Forward international currency contracts	(3)	(1)	(4)
Collective short-term investment funds	50,050	23,198	73,248
Real estate	133,516	44,965	178,481
Securities lending cash collateral investment pool	140,963	63,868	204,831
Total investments	**1,547,255**	**698,761**	**2,246,016**
TOTAL ASSETS	**1,584,620**	**716,702**	**2,301,322**
LIABILITIES			
Payable to brokers	54,840	24,847	79,687
Securities lending collateral due to borrowers	148,180	67,138	215,318
Other liabilities	3,568	1,290	4,858
TOTAL LIABILITIES	**206,588**	**93,275**	**299,863**
PLAN NET ASSETS HELD IN TRUST FOR			
Pension benefits	**1,378,032**	**623,427**	**2,001,459**
TOTAL NET ASSETS	**$1,378,032**	**$623,427**	**$2,001,459**

Other Supplementary Information *Continued*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2009

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ADDITIONS			
Contributions			
Employee	$ 14,168	$ 6,155	$ 20,323
Employer	27,677	25,426	53,103
Total Contributions	**41,845**	**31,581**	**73,426**
Investment income			
Net depreciation in fair value of investments	(359,525)	(160,401)	(519,926)
Interest income	23,818	10,700	34,518
Dividend income	17,874	8,027	25,901
Net rental income	4,564	1,989	6,553
Less investment expense	(6,260)	(2,777)	(9,037)
Net investment loss before securities lending loss	**(319,529)**	**(142,462)**	**(461,991)**
Securities lending income			
Earnings	(1,943)	(926)	(2,869)
Rebates	(2,072)	(916)	(2,988)
Fees	(959)	(428)	(1,387)
Net securities lending loss	**(4,974)**	**(2,270)**	**(7,244)**
Total investment loss	**(324,503)**	**(144,732)**	**(469,235)**
TOTAL ADDITIONS	**(282,658)**	**(113,151)**	**(395,809)**
DEDUCTIONS			
Retirement benefits	80,139	22,224	102,363
Death benefits	3,517	2,465	5,982
Refund of contributions	285	78	363
Administrative expenses and other	1,970	699	2,669
TOTAL DEDUCTIONS	**85,911**	**25,466**	**111,377**
Net decrease	(368,569)	(138,617)	(507,186)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of Year	1,746,601	762,044	2,508,645
END OF YEAR	**$1,378,032**	**$623,427**	**$2,001,459**

Other Supplementary Information *Continued*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2009 and 2008

	2009			2008
	Original Budget	*Actual*	*Variance Positive/(Negative)*	*Actual*
Personal services	$1,729,500	$1,815,850	$(86,350)	$1,542,303
Non-personal/equipment	724,150	519,064	205,086	663,937
Professional services	403,600	394,250	9,350	519,976
TOTAL ADMINISTRATIVE EXPENSES AND OTHER	**$2,857,250**	**$2,729,164**	**$128,086**	**$2,726,216**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
Equity		
Domestic equity	$ 1,667,344	$ 2,772,999
International equity	2,276,523	3,203,348
Emerging market equity managers	1,062,679	1,387,942
Private equity	1,163,933	594,703
Total equity	**6,170,479**	**7,958,992**
Fixed income		
Domestic fixed income	937,977	1,047,300
Long duration fixed income	277,667	73,713
Total fixed income	**1,215,644**	**1,121,013**
Real estate	641,359	978,026
Total investment managers' fees	**8,027,482**	**10,058,031**
Other investment service fees		
Investment consultant	461,126	100,000
Proxy voting	36,000	38,500
Real estate legal fees	288,046	351,585
Real estate appraisals	-	51,200
Investment legal fees	72,304	-
Custodian	340,800	401,060
Total other investment service fees	**1,198,276**	**942,345**
TOTAL INVESTMENT EXPENSES	**$9,225,758**	**$11,000,376**

Other Supplementary Information *Continued*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2009 and 2008

Firm	*Nature of Service*	*2009*	*2008*
Avery, William & Associate	Human Resource Consultant	$ -	$ 9,127
Levi, Ray, & Shoup	Web Development	12,638	15,853
Levi, Ray, & Shoup	Document Imaging and Support and Maintenance	-	4,551
Macias Gini & O'Connell LLP	External Auditors	30,715	55,162
Medical Director/Other Medical	Medical Consultant	177,763	93,814
Pension Benefit Information	Reports on Deceased Benefit Recipients	1,787	2,131
Saltzman & Johnson	Legal Counsel	31,803	78,571
The Segal Company	Actuarial Consultant	125,413	191,459
The Segal Company	Operational & HIPPA compliance Audit	8,250	65,000
Wilfred Jarvis Institute	Organizational Consultant	5,881	4,308
TOTAL		**$394,250**	**$519,976**

City of San José
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

Investment Section

Report on Investment Activity

NEW ENGLAND PENSION CONSULTANTS
900 Veterans Boulevard, Suite 340
Redwood City, CA 94063

650-364-7000 phone
650-364-7100 fax
www.nepc.com

October 6, 2009

Mr. Russell U. Crosby
Director of Retirement Services
San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Crosby:

The overall objective of the San Jose Police & Fire Department Retirement Plan (SJP&F) is to ensure continued access to retirement, disability and survivor benefits for current and future SJP&F participants. To insure a solid foundation for the future of the Fund, SJP&F carefully plans and implements an investment program designed to produce superior long term investment returns, while prudently managing the risk of the portfolio. Investment Policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. Following is a report on the performance of the fund for the fiscal year ending June 30, 2009.

From an economic perspective, the 2009 fiscal year was a tale of two markets. The credit crisis that began in late 2007 continued to create havoc in the financial markets, coming to an apex in September 2008 with the Lehman Brothers bankruptcy. In this environment, market volatility soared as investors remained anxious and uncertain. However, in mid-March 2009, signs of an economic recovery began to surface, as unprecedented economic stimulus by the U.S. government took form, lowering market volatility and materially reducing the risk of a deflationary spiral. At the end of the second quarter of 2009, the stock market had rebounded 35% from its bottom as consumer confidence rebounded and the credit markets showed signs of returning to health. Despite the recent run of positive performance in the financial markets, they now face a continued headwind of negative economic news as unemployment threatens to rise above 10%, economic growth continues to be anemic, and prices in real estate markets continue to decline.

The investment performance reported in this letter is in conformance with the presentation standards of the CFA Institute's Global Investment Performance Standards (GIPS).

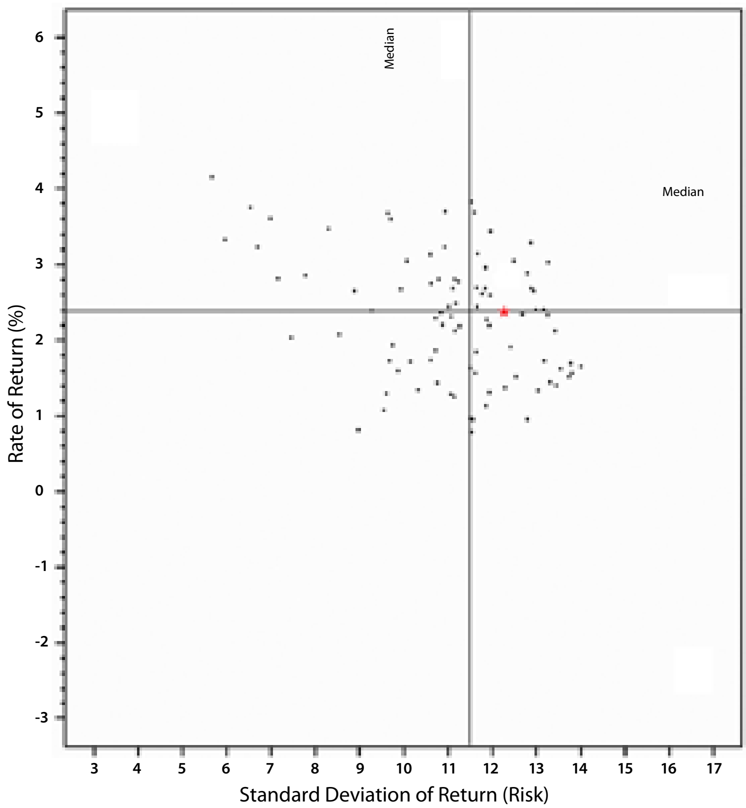
The Fund was down 18.0% for the fiscal year ending June 30, 2009, which ranked the Fund in the 65th percentile of the Independent Consultants Cooperative's (ICC) Public Funds Universe[1]. By comparison, the median fund in the universe was down 16.6% for the period.

For the five-year period ending June 30, 2009, the Fund returned 2.8% per annum, below its actuarial target of 8%. The portfolio has done well on a relative basis, however, ranking in the 31st percentile of the ICC Public Funds peer group universe. The Fund's five-year volatility, as measured by standard deviation, ranked in the 67th percentile of its peers, slightly above median.

[1]As of June 30, 2009, the ICC Public Funds Universe was comprised of 162 total funds with approximately $426 billion in assets.

Report on Investment Activity *Continued*

TOTAL PUBLIC FUNDS UNIVERSE
Risk-Return Comparison
5 Years Ending June 30, 2009



In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with uncorrelated return patterns. We continue to work with SJP&F staff and the Board to diversify the Fund across additional asset classes with the goal of lowering the risk of the portfolio while maximizing the potential for capital appreciation.

NEPC provides SJP&F with quarterly economic and investment market updates and 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 SJP&F, we rely on the accuracy of financial data provided by the Fund's custodian bank.

Sincerely,

Allan C. Martin

Allan C. Martin

Statement of Investment Policy

GENERAL ENVIRONMENT

Investments in the San Jose Police and Fire Department Retirement Plan (Plan) are subject to the restrictions specified in the San Jose Municipal Code 3.36.540. Further investment management guidelines are imposed by the Board of Administration (Board).

INVESTMENT GUIDELINES

General

The Board Shall:

(1) Require that the Plan be actuarially sound to assure that all disbursement obligations will be met.

(2) Attempt to insure that investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

(3) Strive for the highest total return on invested funds consistent with safety in accordance with accepted investment practices.

(4) Have the authority to grant specific exceptions to any part of the Statement of Investment Policy (SIP) where in their judgment the exception may add value to the fund without undue risk.

Asset Allocation

The following policy has been identified by the Board as having the greatest expected investment return, and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the policy of the Plan to invest its assets in accordance with the maximum and minimum range, valued at market, for each asset class as stated below:

ASSET ALLOCATION

As approved by the Board on June 5, 2008 and commenced on July 1, 2008.

Asset Class	*Minimum*	*Target*	*Maximum*
Equities	**41%**	**49%**	**57%**
Large Cap		22%	
Small/Mid Cap		5%	
Developed International		17%	
Emerging Markets		5%	
Fixed Income	**15%**	**23%**	**31%**
Core Fixed Income		18%	
Opportunistic Strategies		5%	
Alternatives		**28%**	
Real Estate		10%	
Private Equity		8%	
Absolute Return		5%	
Real Assets		5%	

The following chart illustrates the secondary targets and ranges within the domestic equities asset class.

SECONDARY TARGETS WITHIN THE DOMESTIC EQUITY CLASS

Asset Class	*As a % of Domestic Equity Portfolio*	*Allowable Variation from the % of the Equity Portfolio*	*As an Equivalent % of the Total Portfolio*
Index Fund	26%	+/- 3.0%	9.0%
Large Cap Value	28%	+/- 3.5%	10.0%
Large Cap Growth	28%	+/- 3.5%	10.0%
Small Cap Value	9%	+/- 1.5%	2.5%
Small Cap Growth	9%	+/- 1.5%	2.5%

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to rebalance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan.

The general guideline for rebalancing the portfolio would be when the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum; the fund will be rebalanced to the target over the following 60 days.

It is understood that the Plan managers at any point in time may not be fully invested. However, managers are expected to be fully funded and cash positions in excess of 7% require the manager to notify the Board in writing. While the Plan's assets may be partially invested in cash equivalents, for asset allocation purposes these funds shall be considered invested in the asset classes of the respective managers. In turn, each manager's performance will be evaluated on the total amount of funds under its management.

The asset allocation ranges established by this SIP represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence should be of a short-term nature. The Board will review the asset mix of the Plan on a quarterly basis and cause the asset mix to be rebalanced to within the policy range as necessary.

Investment managers may request temporary exemptions from guideline limits by submitting written requests to the Board for prior approval. For special situations, the Board can grant special exemptions from the guidelines. In no case can a manager actively exceed guideline limits without formal prior approval by the Board.

Diversification

Investment diversification is consistent with the intent to minimize the risk of large losses to the Plan. Consequently, the total fund will

Statement of Investment Policy *Continued*

be constructed by the individual portfolio managers to attain prudent diversification in several asset classes. To ensure adequate diversification, no manager will hold more than 5% of its portion of the total Plan assets in any single security with the exception of government backed securities and real estate equity. As a general rule, Plan assets placed with an investment manager will not represent more than 10% of that manager's total assets.

Volatility

Consistent with the desire for adequate diversification, the SIP is based on the assumption that the volatility (the standard deviation of returns) of the portfolio will be relative to that of the market. Consequently, it is expected that the volatility of a commitment-weighted composite of the market indices, e.g., S&P 500 Index for stocks and Barclays Capital Aggregate Bond Index for bonds and U.S. T-Bills for cash, will be commensurate with the Plan's volatility.

Liquidity

Presently there is not a requirement to maintain significant liquid reserves for the payment of pension benefits. The Board has authorized the Board Secretary to review the projected cash flow requirements at least annually and indicate to investment managers the required liquidity.

Contributions are expected to be in excess of net benefit payments over the foreseeable future, resulting in a positive cash flow, which will be reinvested by the fund manager who receives the cash flow.

Commingled Funds

Investment in any of the allowed asset classes may be implemented through an investment in a pooled or commingled fund. Pooled funds and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with separately managed funds pursuing the same investment objectives. Commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Whenever an investment is made through a pooled fund, the statement of investment policy of the pooled fund will override this Plan's policy. However, the investment manager of the pooled fund shall advise the Investment Committee, in writing, of the sections of this policy that may be violated.

Fixed Income

The Board shall require that the majority of the fixed income portfolio be invested in high quality, (investment grade) marketable bonds as provided in Section 3.36.540. Whether a global fixed income manager is employed, or separate domestic and international fixed income managers are employed, they are to invest in accordance with the following guidelines (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

(1) Portfolio investments will be composed primarily of fixed income securities (including short-term obligations) denominated in either United States or foreign currencies. Securities may be issued by domestic or foreign governments, domestic or foreign government agencies and instrumentalities, international banks or other international organizations, corporations or other forms of business organizations.

(2) The investment manager may also purchase securities of other categories. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(3) Deposits in banks or banking institutions, domestic or foreign, may be made. Because the fundamental objective is to enhance the rate of return calculated in U.S. dollars, and currency exchange gains and losses are included in the calculation of total return, currency hedging shall be permitted, at the discretion of the manager, to protect the value of specific investments in U.S. dollar terms.

(4) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by two of the following three rating services: Standard & Poors, Moodys Investor Services, or Fitch. In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB.

(5) If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The manager will continue to notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. The manager will also provide quarterly reporting on the downgraded securities.

(6) The Plan will be valued in United States dollars on the last business day of each month, and on such other "Valuation Dates" as the Board may deem appropriate. For valuation purposes, all foreign currency, foreign deposits and securities quoted in foreign currencies shall be converted into dollars pursuant to methods consistently followed and uniformly applied.

Statement of Investment Policy *Continued*

(7) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with prior approval by the Board. The average credit quality of the commingled account shall be a "B" or better rating.

Domestic Common Stock

The primary emphasis of the common stock portfolio will be on high quality, readily marketable securities offering potential for above average return as protection against inflation. Common stock investments are limited to those meeting all of the following criteria (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

(1) Investment in any corporation shall not exceed 5% of the outstanding shares of the corporation.

(2) Not more than 5% of the total assets at market may be invested in preferred stocks.

(3) Not more than 5% of any investment manager's portfolio at market shall be invested in the common stock of any corporation, except when:

- The security has a weighting greater than 5% in the manager's benchmark and
- The manager has received prior written permission from the Director of Retirement Services (Director). The Director will then inform the Investment Committee of any exceptions that were granted.

(4) The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(5) Upon the Investment Committee approval, a manager may invest in convertible securities.

International Common Stock

The following are guidelines for international equity portfolios (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

Developed Markets

(1) The portfolio will be invested primarily in non-U.S. common stocks. Investment in American Depository Receipts (ADR's) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of developed markets international common stock to be held is 20% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 20% restriction. A maximum of 20% of a manager's international equity portfolio may be invested in emerging markets.

(2) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio.

(3) To ensure proper diversification, the fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio.

(4) Upon the Investment Committee approval, a manager may invest in convertible securities.

Emerging Markets

(1) The portfolio will be invested in non-U.S. common stocks. Investment in American Depository Receipts (ADR's) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of emerging international common stock to be held is 8% of the Plan's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 8% restriction

(2) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio.

(3) To ensure proper diversification, the portfolio will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio, except when:

- The security has a weighting greater than 5% in the manager's benchmark and the manager has received prior written permission from the Director. The Director will then inform the Investment Committee of any exceptions that were granted.

High Yield Bonds and Bank Loans

The high yield bonds and bank loans portion of the Plan assets shall be invested predominantly in below investment grade securities and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of assets under their control. The high yield and bank loan managers shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager.

Statement of Investment Policy *Continued*

Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.

(2) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and non-dollar corporate bonds (which should be hedged), private placement securities, bank loans, participations and assignments.

(3) U.S. dollar denominated bonds issued by entities not domiciled in the United States (yankee bonds/euro bonds)

(4) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.

(5) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.

(6) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

(7) Following is a summary of the manager's investment guidelines with the detailed guidelines attached as Appendix A:

(a) Following the initial investment period, manager anticipates minimal turnover and the manager will be expected to hold the bonds to maturity. Sales or exchanges will only occur due to credit impaired assets or defaults.

(b) Following are the benchmarks to be used:

- Bank Loans: The CSFB Leveraged Loan Index with a maximum of 20% in high yield corporate bonds .
- High Yield: Merrill Lynch High Yield BB-B Rated Index (HOA4).

(c) Bank loan securities should be purchased only from corporations that also issue high yield bonds and cannot exceed 20% of the portfolio (at the time of purchase).

(d) Diversification Requirements & Portfolio Construction

The portfolio shall be managed within the following parameters:

- Maximum 5% of its assets in the securities of any single issuer;
- Maximum 15% of its assets in a single industry, with the exception of any one industry which may have up to 20% of the portfolio's assets;
- Maximum final legal maturity of any issue of 7 years;
- Maximum average life of 4 years;
- Bank loans should be purchased only from corporations that also issue high yield bonds.

Issuer limits are set at time of funding and can and will fluctuate as the Client receives distributions from the portfolio.

In a situation in which a bond or loan has a put feature or is trading on a yield to call basis as a result of a potential corporate event that the manager views as a very high probability event (e.g., takeover, merger, asset sale, refinancing, etc.), the manager will treat the expected put date or event date as the final legal maturity.

(e) Concentration Allocation [Maximum, except U.S. Treasury/Agency and Bank STIF's]:

- Fixed Income Securities Maximum:
Per Issuer – Benchmark + 3%
- Short-term Instruments Maximum:
Per Issuer – 4% of Portfolio
- 20% maximum in Private Placement Securities without registration rights.
- 25% maximum in any one industry (Merrill Lynch level 4).

Convertible Bonds

The convertible bonds portion of the plan assets shall be invested predominantly in convertible securities. The manager may invest in investment or non-investment grade rated U.S. and non-U.S. convertible securities, including convertible bonds; convertible preferred stock; bonds or preferred stock with warrants; and zero-and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of assets under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the all investments that meet the following criteria:

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.

(2) U.S. Treasury's, U.S. corporate bonds, including zero-coupon, step-up, toggle and pay-in-kind bonds and non-dollar corporate bonds (which may be hedged), private placement securities, bank loans, participations and assignments.

Statement of Investment Policy *Continued*

(3) Non-dollar and U.S. dollar denominated bonds issued by entities not domiciled in the United States (yankee bonds/euro bonds)

(4) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes only.

(5) Equity securities obtained as a result of conversion must be liquidated within 60 trading days after conversion. This period may be extended upon approval by the Board.

(6) No more than 5% of the portfolio shall be invested in obligations of a single non-governmental issuer at cost, and 8% at market value.

(7) The portfolio shall be appropriately diversified by number of issues, geography and sector. In general, the portfolio will hold between 60-120 issues and be generally invested in a minimum of 5 countries. In addition, the portfolio allocation to any single sector will not exceed 1 ½ times the sector weight of the benchmark.

(8) The general position of the portfolio is to be hedged from a currency perspective.

Real Estate

The Plan is currently moving from direct ownership of real estate investments to pooled funds. The transition will occur over an extended time period.

INVESTABLE INSTRUMENTS

Investment Vehicles

Real estate investments can be made through a variety of different vehicles. The following vehicles are allowed:

- Open-end pooled funds;
- Close-end pooled funds;
- Separate accounts;
- Fund of Funds;
- Real Estate Investment Trusts.

Co-Investment and Direct Placements

Investors' rights may include opportunities for additional capital participation such as co-investment or other side-by-side direct investments opportunities. Committing capital for exercising these rights is currently prohibited. Discretionary managers may exercise the co-investment rights with pre-approval by the Board.

Private Equity

Subject to specific approval of the Investment Committee of the Board, investments may be made for the purpose of creating a diversified portfolio of private markets. Examples of such private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-U.S. investments, with a primary focus on Europe. Investments may be made in secondary investments on an opportunistic basis (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy).

It is expected that these investments will typically be structured through the use of Fund of Funds managers. Therefore, it is possible that those managers would engage in direct investments or co-investments, in which the Plan would purchase majority control in individual corporate entities.

Funds that are committed, but not yet drawn down, may be invested in the Plan's small cap equity funds, as the risk/reward characteristics of these funds most closely match those of private equities.

The following sub-category allocations were derived to be consistent with the investable universe within private markets. The ranges reflect long-term averages, once the 5% allocation to private equities has been fully committed. During the initial investment period, approximately four to six years, it is expected that sub-category allocations may fall outside the approved ranges.

*Sub-Category**	*Minimum*	*Target*	*Maximum*
Buyouts	40%	60%	70%
Venture Capital	20%	30%	50%
Debt-Related	0%	10%	20%

**International allocations and secondary investments are reflected within each sub-category.*

Opportunistic Strategies

Investment in any of the instruments or vehicles allowed in other section is also allowed in this section. In addition, investment in the credit market is also allowed and may be implemented through:

- Pooled funds; Separate accounts; Limited Partnerships; or Limited Liability Company;
- Credit linked notes;
- Direct investment.

Direct Investment may be implemented through investments in any of the following markets and securities:

- High Yield Bonds;
- Leveraged Bank Loans;
- Sovereign Emerging Market debt;
- Distressed Debt;
- Collateralized bond, loan or debt obligations.

Statement of Investment Policy *Continued*

Absolute Return

Absolute Return Funds, also called Hedge Funds, are private investment vehicles that are not registered with the U.S. Securities and Exchange Commission (SEC); they are offered in Limited Partnerships or Limited Liability Company form.

The allowed Absolute Return Strategies are:

(1) Any of the following single strategies:

(a) Equity long/short including Absolute Return Strategies specializing in Emerging Markets, Market Capitalization, Regional, Sectoral or Global Market subsets;

(b) Equity Market timing;

(c) Short or dedicated short;

(d) Distressed securities;

(e) Merger Arbitrage;

(f) Event driven or Risk Arbitrage;

(g) Fixed Income Arbitrage;

(h) Convertible Bond Arbitrage;

(i) Equity Market Neutral;

(j) Statistical Arbitrage;

(k) Relative Value Arbitrage;

(l) Global Macro or Global Tactical Asset Allocation;

(m) Managed Futures and Commodity Trading Advisors (CTA's).

(2) Multi-Strategy or Fund of Funds are also allowed and combine several single absolute return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed:

(1) **Commodities**

The strategy targets liquid investments in the commodities markets via derivatives (e.g. futures and swaps). Certain strategies may also include, to a lesser extent, investment in physicals for forward delivery. Exposure includes four major commodity market sectors: Energy, Agriculture/Livestock, Industrial Metals, and Precious Metals. Expected total return is due primarily to spot price appreciation; secondarily to contract roll forward dynamics, or the differential between spot and future price (between near and longer term contracts); and thirdly to modest collateral income.

The real asset program will employ both passive and active commodity management. Examination of cash collateral, in particular the quality of fixed income market exposure, will be considered in risk mitigation.

(2) **Energy**

The strategy targets both public and private energy-related entities. The energy investment strategy consists of three segments: upstream, midstream, and downstream businesses. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific energy market segment. Investments may include both traditional (oil, natural gas, coal) & alternative (wind, solar) energy sources.

The ***Upstream Investment Strategy*** focuses on the production of oil and gas, and includes petroleum Exploration and Production (E&P) businesses and power generation.

The ***Midstream Investment Strategy*** focuses on transporting the upstream products from the source to the end user, and includes storage and processing, as well as oilfield services (the equipment and services required to produce petroleum) and electricity transmission equipment and services. Midstream assets include pipelines, gathering and storage facilities, refining, power lines, and transformer stations. Services are also considered midstream elements, such as oilfield equipment like drill bits, drill rigs, well trees, and geologic and mapping services.

The ***Downstream Investment Strategy*** focuses on the end users of upstream production. Power generation is an end user of petroleum products, while households and businesses are the downstream users of power generation. Downstream assets can also be local distribution centers, such as home heating oil distributors or gas stations.

Each segment of the strategy has different investment characteristics, income profiles, and risks.

(3) **Metals & Mining**

Public equities in the industrial and precious metals-related industries investment opportunities include large core diversified global conglomerates and more specific, concentrated investments. Supply chain position may include upstream, midstream, and downstream companies. Expected total return is due primarily to appreciation and some income.

(4) **Public Agriculture-related**

Invests primarily in agriculture-related companies. Exposure may include both traditional agriculture and livestock investments and renewable energy sources. Supply chain position may include upstream, midstream, and downstream companies. Equity-based agriculture exposure ranges from upstream producing companies (i.e. growers) or those who are closely related to them, such as seed and agricultural chemicals companies, to downstream packaged foods producers. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific market segment.

Statement of Investment Policy *Continued*

Expected total return is due primarily to appreciation and some income.

(5) **Timberland**

The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments will include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

(6) **Infrastructure**

Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports); regulated utilities (e.g. gas pipelines; water/sewer treatment facilities); and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

Typically, infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, and significant regulatory or permitting constraints. Due to substantial risks, only a very modest allocation, within a mature and well diversified program, is considered appropriate.

(7) **Emerging Sub-Strategies**

Growth in these sectors is expected to outpace inflation, due in part to evolving global macroeconomic trends. Investment in these emerging sectors may therefore help provide an effective hedge against inflation, as part of a well-diversified real asset strategy.

The real asset program may seek modest exposure in these areas. Emerging sub-strategies may have a limited universe of qualified, institutional-quality managers.

(8) **Climate Change**

An investment strategy that focuses on the global political and economic momentum in favor of reducing greenhouse gas emissions.

(9) **Farmland/Agribusiness**

An investment strategy targets the market segment of agriculture. Farmland consists of two main property types: row and permanent crop properties. Row crops are harvested from soil and are categorized as commodity, (corn and soybean) and vegetable, (potatoes and lettuce). Permanent crops grow on trees and have three categories: citrus fruit, (oranges and grapefruits); fruit, (apples and grapes); and nuts.

INVESTABLE INSTRUMENTS

Investment Vehicles

Real asset investments can be made through a variety of different vehicles. The real asset program will make diverse use, where appropriate, of the available investment options:

- Open-end funds;
- Closed-end funds;
- Commingled funds;
- Fund of Funds;
- Separate accounts.

Derivatives

Exposure to economic risk through the use of derivatives must be consistent with the Plan's overall investment policy, as well as its individual manager specific investment guidelines. Investment managers are not authorized to use derivative securities, or strategies, that do not comply with the Plan's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices.

Managers are specifically prohibited from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are either speculative or leveraged, or whose marketability may become severely limited.

Generally, the Plan allows for the following uses of derivatives:

- Equity and Bond index futures contracts are permitted.
- An international manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the section pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.
- New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10% of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.
- The fixed income investment managers may hold derivative securities known as Collateralized Mortgage Obligations (CMOs) collateralized by GNMA, FNMA, FHLMC mortgage-backed instruments. The CMOs must possess price risk characteristics consistent with, or superior to, the risk characteristics of the underlying conventional mortgage pass-through securities. Fixed income managers may also

Statement of Investment Policy *Continued*

purchase securities of other categories, including options and financial futures contracts traded over-the-counter or on organized securities exchanges. Offsetting cash positions must be maintained against all delayed settlement transactions.

- Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration or leverage as characterized by its stated investment style. Managers must be granted specific written authorization from the Plan in order to implement applications of derivative instruments not listed above.

Mini-Tender Offers

Mini-Tender offers are tender offers for less than five percent of a company's stock. As a fiduciary, a manager will deal with mini-tender offers with the diligence and good faith expected for any investment decision. Upon approval by the Board of a written agreement with the manager that the manager will indemnify the Board against any losses to the extent such losses were the result of the manager's negligence, a manager may participate in mini-tender offers.

Credit Unions

No retirement fund assets shall be deposited in any such institution in excess of an amount insured by an agency of the Federal Government, and shall be made only if the rate of return and degree of safety offered are competitive with other investment opportunities.

Manager Discretion

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the Plan assets without prior written approval by the Board.

Subject to these guidelines and policies, the Plan's investment managers have full discretion to sell, substantiate, redeem or convert securities, as they deem advisable.

It is the intention of the Board to contract with an independent agency to vote domestic equity proxies according to the plan proxy voting guidelines. However, international equity proxies are to be voted by the investment managers or any agent or service selected by the investment manager.

With the consent of the Board, compliance with the foregoing guidelines may be waived, either with respect to a specific transaction or transactions, or generally. The Board will, in addition, consult with the investment manager from time to time, at the investment manager's request, as to the continuing applicability of the guidelines and whether amendments may be appropriate.

Performance Goals

In order to insure that investment opportunities available over a specific time period are fairly evaluated, the Board will utilize comparative performance statistics to evaluate investment results. Accordingly, each investment manager is expected to achieve the following minimum performance standards over a rolling five year time period or a full market cycle.

Domestic Equity Managers

(1) Performance within the top half of the appropriate ICC Equity Style Universe.

(2) Net of fees, manager performance shall exceed the return of the appropriate benchmark by the following:

100 basis points for large-cap equity managers,
150 basis points for mid-cap equity managers, and
200 basis points for small-cap equity mangers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the manager's benchmark index without a corresponding increase in performance above that index.

Domestic Fixed Income Managers

(1) Performance within the top half of ICC Bond Funds Universe.

(2) Net of fees, manager performance shall exceed by 50 basis points, the return of the Barclays Capital Aggregate Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Barclays Capital Aggregate Bond Index without a corresponding increase in performance above the index.

International Equity Managers

Developed Markets

(1) Performance within the top half of ICC International Equity Fund Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the Morgan Stanley EAFE Index for international equity managers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EAFE Index without a corresponding increase in performance above the index.

Emerging Markets

(1) Performance within the top half of ICC Emerging Markets Equity Peer Group.

(2) Net of fees, manager performance shall exceed by 200 basis points, the return of the MSCI Emerging Market Free Index for emerging markets managers.

Statement of Investment Policy *Continued*

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EMF Index without a corresponding increase in performance above the index.

International Fixed Income Managers

(1) Performance above median in ICC International Bond Fund Universe.

(2) Net of fees, manager performance shall exceed by 75 basis points, the return of the Citigroup World Government Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Citigroup World Government Bond Index without a corresponding increase in performance above the index.

Real Estate Managers

(1) Performance above median in ICC Real Estate Funds Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the National Counsel of Real Estate Investment Fiduciaries (NCREIF) Classic Property Index or the NCREIF Classic Property Pacific Index for the portfolio with the majority of properties in California.

(3) The risk associated with the manager's portfolio must not exceed that of the NCREIF or NCREIF Pacific Index without a corresponding increase in performance above the index.

Private Equity Managers

The private equities portfolio is an illiquid investment with a five to ten year investment horizon. The return expectation for private equity managers is S&P 500 Index plus 300 basis points over time.

High Yield and Bank Loan Managers

The objective for the investment managers of the high yield and bank loan component of the total portfolio are:

(1) Achieve rates of return which exceed either the Merrill Lynch High Yield BB – B Rated Index (H0A4) or the CSFB Leveraged Loan Index by 150 basis points net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad high yield manager database.

(3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

Convertible Bond Managers

The objective for the investment managers of the convertible bond component of the total portfolio are:

(1) Achieve rates of return which exceed the Merrill Lynch Global 300 Convertible Index by 150 basis points net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad convertible bond manager database.

Periodic Reviews of Manager Performance

The performance of each manager will be reviewed versus its benchmark every quarter. These benchmarks consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark and each manager should be above the median of an appropriate universe.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance will be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

Procedure:

(1) Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods.

Managers are considered to achieve this objective if their performance exceeds their benchmark for two of the three periods of one year or longer.

(2) The expectation to produce above median performance in an appropriate peer group for one year, three year, and five year cumulative periods will be factored in only when the majority of investment managers are underperforming the benchmark.

Managers are considered to achieve this objective if they rank above the median manager for two of the three periods of one year or longer and the performance in the third period is not less than the 62nd percentile.

(3) If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception. However, no action will be taken for placement on the watch list until two years after inception date.

(4) If there is a failure to meet the performance objective, the following rules should be applied:

(a) A manager's (with at least two years of performance since inception) failure to meet their objective for four successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.

Statement of Investment Policy *Continued*

(b) During the next four quarters, the manager's performance will be closely monitored to see if it is warranted for the manager to be placed on probation.

(c) A manager placement on probation should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director the authority to direct the manager to immediately suspend all trading except as specifically directed by the Director. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

(d) During the period of any such extraordinary extension, the investment staff should monitor the portfolio and transactions of such manager to ensure that excessive risk is not being taken in an attempt to "catch up". If in the judgment of the Director, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director should use the previously delegated authority to terminate or restrict the manager's activities.

(5) In order to be taken off probation and placed on the watch list, a manager must beat their benchmark for 2 successive quarters (i.e. March and June) OR beat their benchmark at one-year following four quarters of good performance.

(6) In order to be taken off the watch list, a manager must beat their benchmark for an additional 2 successive quarters (i.e. September and December) OR have an additional four quarters of good performance.

Extraordinary Reviews of Managers

If an event occurs within a manager's organization that is likely to impact the manager's organization, the Director shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the Plan's assets.

Such events would include but are not limited to:

(1) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.

(2) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.

(3) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.

(4) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.

(5) Any other event which in the discretion of the Director appear to put the Plan's assets at risk of loss, either actual or opportunity.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

Investment Professionals

INVESTMENT MANAGERS

Domestic Equity

INTECH
Large Cap Growth
West Palm Beach, FL

New Amsterdam Partners
Large Cap Growth
New York, NY

Rhumbline Advisers
S&P 500 Index
Small Cap Growth Index
Boston, MA

Robeco Investment Management
Large Cap Value
Greenbrae, CA

State Street Global Markets
Large Cap Growth
Small Cap Core
Boston, MA

Domestic Equity *Continued*

UBS Global Asset Management
Large Cap Value
Chicago, IL

Private Equity

HarbourVest Partners
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Portfolio Advisors
Darien, CT

Siguler Guff & Company, LLC
New York, NY

TCW/Crescent
Los Angeles, CA

International Equity

AQR Capital Management
Greenwich, CT

Brandes Investment Partners
San Diego, CA

William Blair & Company
Chicago, IL

Emerging Market Equity

AllianceBernstein
New York, NY

The Boston Company
Boston, MA

Fixed Income

Income Research & Management
Long Duration
Boston, MA

MacKay Shields
Opportunistic Strategies
New York, NY

Fixed Income *Continued*

PIMCO
Opportunistic Strategies
Newport Beach, CA

Seix Investment Advisors
Domestic Core
Opportunistic Strategies
Upper Saddle River, NJ

Western Asset Management Company
Domestic Core
Pasadena, CA

Real Estate

Kennedy Associates Real Estate Counsel
Seattle, WA

MIG Realty Advisors
West Palm Beach, FL

Multi-Employer Property Trust
Bethesda, MD

CONSULTANT

NEPC, LLC
Redwood City, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2009

	One Year	*Three Years*	*Five Years*
Total Fund *(gross of fees)*	**-18.0%**	**-2.5%**	**2.8%**
Total Fund *(net of investment expense)*	**-18.4%**	**-2.8%**	**2.5%**
Total Fund *(net of investment, administrative, securities lending, and SRBR expenses)**	**-18.6%**	**-3.3%**	**2.1%**
Benchmark	-18.6%	-2.6%	2.8%
Allocation Index	-17.7%	-2.4%	3.0%
ICC Public Funds Median	-16.6%	-2.3%	2.4%
Total Domestic Equity	**-26.0%**	**-8.8%**	**-1.9%**
S&P 500 Index	-26.2%	-8.2%	-2.2%
ICC Equity Funds Median	-26.0%	-8.1%	-0.9%
Total International Developed Market Equity	**-30.9%**	**-6.8%**	**3.1%**
MSCI EAFE Net Dividend Index	-31.4%	-8.0%	2.3%
ICC International Developed Markets Equity Funds Median	-29.8%	-6.3%	4.0%
Total International Emerging Market Equity	**-25.7%**	**2.8%**	**14.1%**
MSCI Emerging Markets Index	-28.1%	3.0%	14.7%
ICC International Emerging Markets Equity Median	-26.3%	2.9%	14.7%
Total Domestic Core Fixed Income	**4.6%**	**5.0%**	**4.7%**
Barclays Aggregate Bond Index	6.1%	6.4%	5.0%
ICC Core Bonds Median	5.7%	6.2%	5.1%
Total Real Estate	**-12.3%**	**3.3%**	**7.0%**
NCREIF Property Index	-19.6%	1.0%	7.6%
ICC Real Estate Funds Median	-29.3%	-2.8%	5.5%

	One Quarter	*One Year*	*Three Years*
Total Private Equity	**-4.7%**	**-14.6%**	**3.5%**
S&P 500 + 300 bps	16.7%	-23.2%	-5.2%

* Source: Police and Fire Department Retirement Plan

Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2009

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2009

The table below details the rates of return for the Plan's investment managers over various time periods.

Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed and an "=" represents a benchmark the manager has matched.

Domestic Equity	*One Year*	*Three Years*	*Five Years*
Rhumbline Advisers (S&P 500 Index)	**-25.9%++**	**-8.1%+**	**-2.2%=**
S&P 500 Index	-26.2%	-8.2%	-2.2%
ICC Large Cap Core Median	-26.3%	-7.8%	-1.2%
Robeco Boston Partners (Large Cap Value)	**-19.1%++**	**-5.8%++**	**1.5%++**
Russell 1000 Value Index + 100 bps	-28.0%	-10.1%	-1.1%
ICC Large Cap Value Median	-27.1%	-10.3%	-1.4%
UBS Global Asset Mgmt. (Large Cap Value)	**-27.6%**	**-9.7%+**	**-1.9%**
Russell 3000 Index + 100 bps	-25.6%	-7.3%	-0.8%
ICC Large Cap Value Median	-27.1%	-10.3%	-1.4%
New Amsterdam Partners (Large Cap Growth)	**-24.3%++**	**-8.7%**	**-1.7%**
S&P 500 + 100 bps	-25.2%	-7.2%	-1.2%
ICC Large Cap Growth Median	-25.5%	-5.9%	-0.9%
State Street Global Markets - *former Globalt Portfolio* (Large Cap Growth)	**-24.3%+**	**-6.1%**	**-2.3%**
Russell 1000 Growth Index + 100 bps	-23.5%	-4.4%	-0.8%
ICC Large Cap Growth Median	-25.5%	-5.9%	-0.9%
INTECH (Large Cap Growth)	**-29.0%**	**-8.8%**	**-3.0%**
Russell 1000 Growth Index + 100 bps	-23.5%	-4.4%	-0.8%
ICC Large Cap Growth Median	-25.5%	-5.9%	-0.9%

	One Year	*Three Years*	*Inception (12/04)*
Rhumbline Advisors (Small Cap Core Index)	**-24.7%+**	**-9.8%+**	**-3.2%+**
Russell 2000 Index	-25.0%	-9.9%	-3.4%
ICC Small Cap Core Median	-22.2%	-7.8%	N/A

	One Year	*Three Years*	*Five Years*
State Street Global Markets - *former TCW Portfolio* (Small Cap Value)	**-32.2%**	**-13.8%**	**-7.2%**
Russell 2000 Index + 200 bps	-23.0%	-7.9%	0.3%
ICC Small Cap Core Median	-22.2%	-7.8%	0.7%
State Street Global Markets - *former Provident Portfolio* (Small Cap Growth)	-38.1%	-15.1%	-6.0%
Russell 2000 Index + 200 bps	-23.0%	-7.9%	0.3%
ICC Small Cap Core Median	-22.2%	-7.8%	0.7%

International Developed Markets Equity	*One Quarter*	*One Year*	*Three Years*
AQR Capital Management	**26.2%++**	**-34.4%**	**-9.3%**
MSCI EAFE Net Dividend Index + 150 bps	25.8%	-29.9%	-6.5%
ICC International Developed Markets Equity Median	24.5%	-29.8%	-6.3%

	One Year	*Three Years*	*Five Years*
Brandes Investment Partners	**-25.1%++**	**-6.3%+=**	**3.2%**
MSCI EAFE Net Dividend Index + 150 bps	-29.9%	-6.5%	3.8%
ICC International Developed Markets Equity Median	-29.8%	-6.3%	4.0%

Continued

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2009

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER *Continued*

For Periods Ending June 30, 2009

International Developed Markets Equity *Continued*	*One Year*	*Three Years*	*Five Years*
William Blair & Company	**-35.5%**	**-7.2%**	**3.6%**
MSCI AC World exUS Net Dividend Index + 150bps	-29.4%	-4.3%	6.0%
ICC International Developed Markets Equity Median	-29.8%	-6.3%	4.0%

International Emerging Markets Equity	*One Year*	*Three Years*	*Five Years*
AllianceBernstein	**-35.2%**	**-0.8%**	**11.9%**
MSCI Emerging Markets Free Index + 200 bps	-26.1%	5.0%	16.7%
ICC International Emerging Markets Equity Median	-26.3%	2.9%	14.7%
The Boston Company Asset Management	**-17.1%++**	**4.2%+**	**13.8%**
MSCI Emerging Markets Free Index + 200 bps	-26.1%	5.0%	16.7%
ICC International Emerging Markets Equity Median	-26.3%	2.9%	14.7%

Domestic Fixed Income	*One Year*	*Three Years*	*Five Years*
Seix Investment Advisors	**9.5%++**	**7.3%++**	**5.6%++**
Barclays Aggregate Bond Index + 50 bps	6.6%	6.9%	5.5%
ICC Core Bonds Median	5.7%	6.2%	5.1%
Western Asset Management Company	**0.7%**	**2.7%**	**3.4%**
Barclays Aggregate Bond Index + 50 bps	6.6%	6.9%	5.5%
ICC Core Bonds Median	5.7%	6.2%	5.1%

	One Year	*Three Years*	*Inception (01/05)*
Income Research Management	**6.9%++**	**6.9%=+**	**4.0%**
Barclays US Gov/Credit-Long Term Index + 50 bps	5.9%	6.9%	4.2%
ICC Long Duration Bonds Median	3.7%	5.9%	N/A

Opportunistic Strategies	*Inception (04/09)*
Seix Investment Advisors	**2.7%**
CSFB Leveraged Loan Index + 150 bps	11.3%
MacKay Shields	**3.1%**
ML US HY BB/B Index + 150 bps	9.7%

	One Quarter	*One Year*	*Inception (01/05)*
PIMCO DISCO	**16.6%**	**4.9%+**	**4.9%+**
ML US HY BB/B Constrained	18.0%	-3.1%	-8.4%

Real Estate	*One Year*	*Three Years*	*Five Years*
MIG Realty Advisors	**-3.7%++**	**3.3%++**	**6.7%+**
NCREIF Property Index + 150 bps	-18.1%	2.5%	9.1%
ICC Real Estate Funds Median	-29.3%	-2.8%	5.5%
Kennedy Associates	**-6.2%++**	**6.5%++**	**8.7%+**
NCREIF Property Index + 150 bps	-18.1%	2.5%	9.1%
ICC Real Estate Funds Median	-29.3%	-2.8%	5.5%

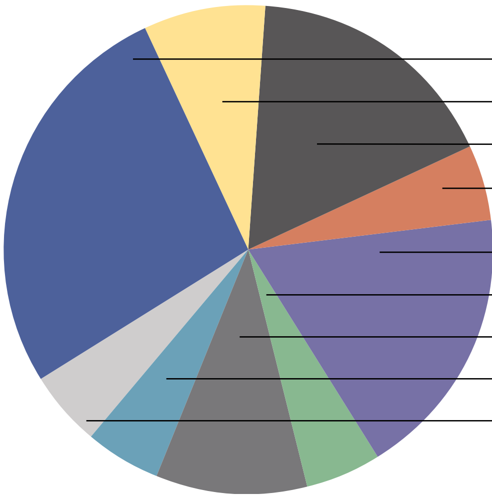
	One Quarter	*One Year*	*Three Years*
Multi-Employer Property Trust (MEPT)	**-6.3%**	**-30.9%**	**-4.8%**
NCREIF Property Index + 150 bps	-4.8%	-18.1%	2.5%
ICC Real Estate Funds Median	0.0%	-29.3%	-2.8%

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2009

Investment Review

TARGET ASSET ALLOCATION

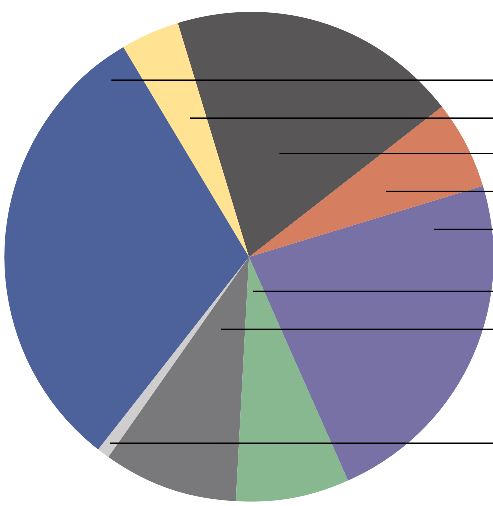
As of June 30, 2009



Domestic Equity	27%
Private Equity	8%
International Equity	17%
Emerging Market Equity	5%
Domestic Fixed Income	18%
Opportunistic Strategies	5%
Real Estate	10%
Absolute Return	5%
Real Assets	5%

ACTUAL ASSET ALLOCATION

As of June 30, 2009 (Dollars in Millions)



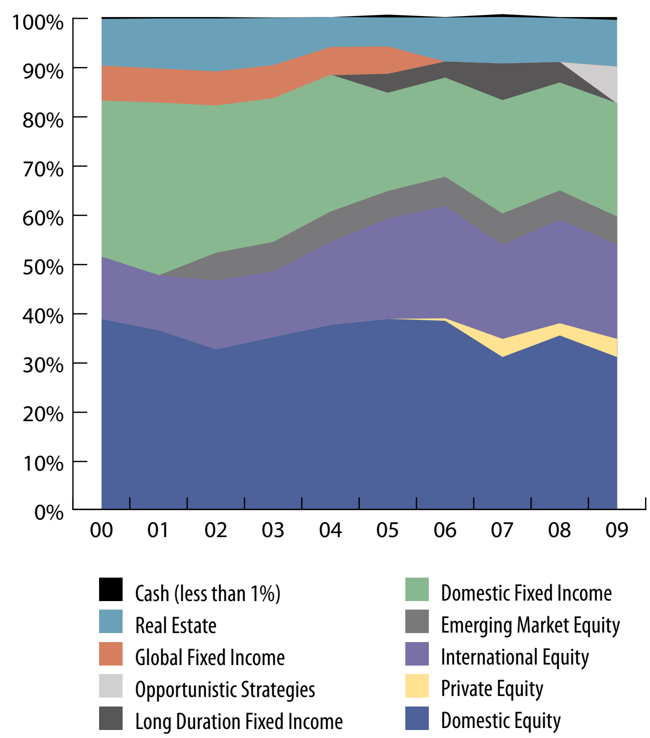
Domestic Equity	31.1%	$ 638.16
Private Equity	3.7%	75.95
International Equity	19.2%	394.55
Emerging Market Equity	5.8%	119.63
Domestic Fixed Income	23.0%	472.18
Opportunistic Strategies	7.6%	156.56
Real Estate*	9.0%	184.60
Absolute Return	0.0%	-
Real Assets	0.0%	-
Cash	0.6%	12.30
TOTAL		**$2,053.93**

**Includes leverage*

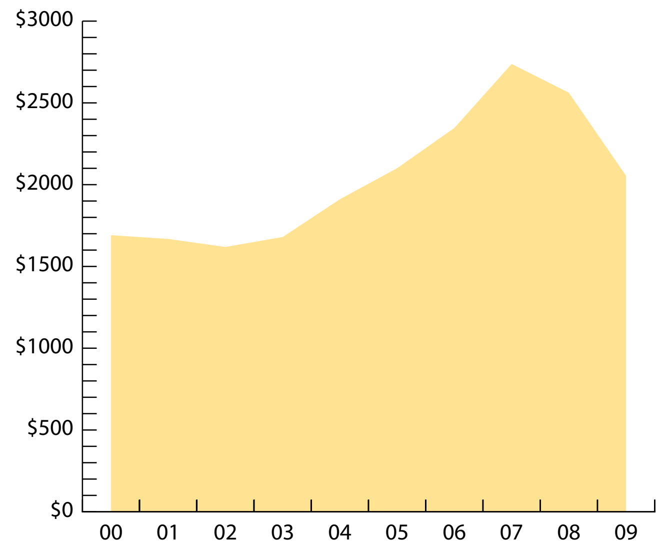
Non-GAAP Basis

Investment Review *Continued*

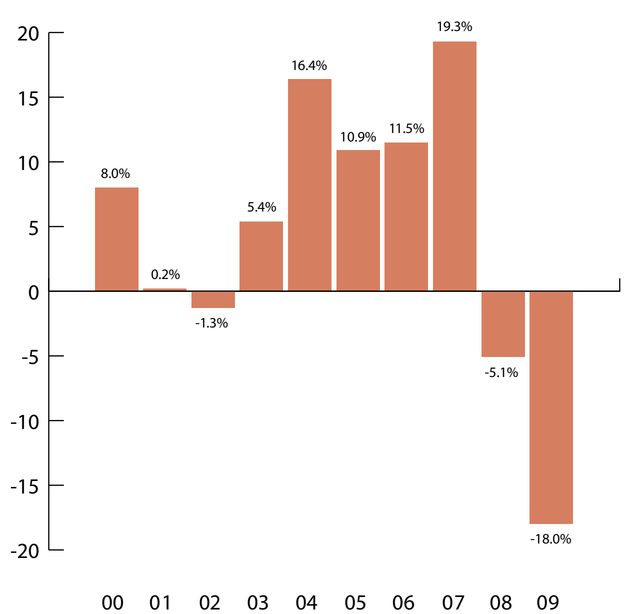
HISTORICAL ASSET ALLOCATION (Actual)
June 30, 2000 – June 30, 2009



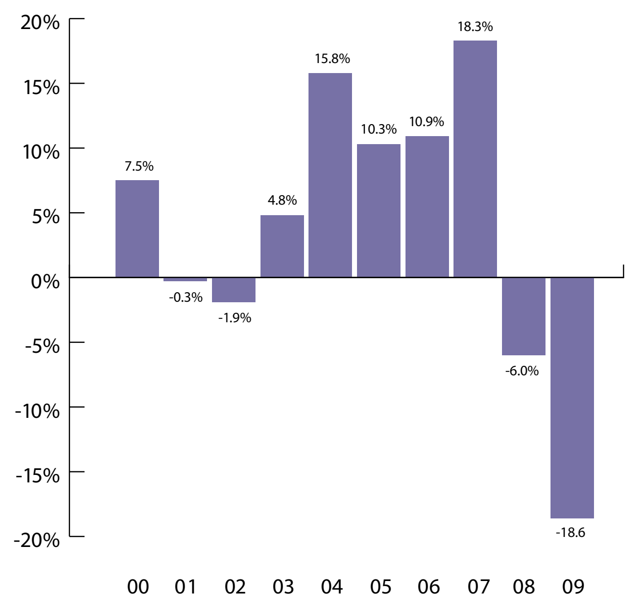
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2009 (Dollars in Millions)



HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2000–2009
(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2000–2009
(Based on Market Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS *(By Market Value)*
As of June 30, 2009

Description	Country	Shares	Market Value in $US
EXXON MOBIL CORP	UNITED STATES	94,098.00	$6,578,391.18
DEUTSCHE TELEKOM	GERMANY	427,700.00	$5,039,274.21
SANOFI AVENTIS	FRANCE	85,761.00	$5,036,655.56
ASTRAZENECA	UNITED KINGDOM	109,749.00	$4,826,664.22
NIPPON TEL CP	JAPAN	115,000.00	$4,672,228.84
JPMORGAN CHASE & CO	UNITED STATES	129,280.00	$4,409,740.80
ROHM CO	JAPAN	59,200.00	$4,313,375.14
UNILEVER NV	NETHERLANDS	171,697.00	$4,133,861.96
ERICSSON (LM) TEL	SWEDEN	411,221.00	$4,017,815.23
JOHNSON & JOHNSON	UNITED STATES	70,450.00	$4,001,560.00

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS *(By Market Value)*
As of June 30, 2009

Description	Country	Maturity Date	Par Value	Interest Rate	Market Value in $US
FNMA POOL 725027	UNITED STATES	11/1/33	12,196,656.68	5.000%	$12,474,891.69
UNITED STATES TREASURY NOTES	UNITED STATES	11/30/09	10,733,000.00	3.125%	$10,858,987.17
UNITED STATES TREASURY NOTES	UNITED STATES	11/15/18	9,191,000.00	3.750%	$9,351,124.68
FNMA TBA AUG 30 SINGLE FAM	UNITED STATES	12/1/99	8,572,000.00	6.500%	$9,086,320.00
FED HOME LOAN PC POOL G12978	UNITED STATES	12/1/22	6,387,601.53	5.500%	$6,695,004.85
FED HOME LOAN PC POOL G12977	UNITED STATES	10/1/22	5,923,471.35	5.500%	$6,227,049.26
GNMA POOL 706009	UNITED STATES	1/15/39	5,943,441.68	5.500%	$6,153,087.08
UNITED STATES TREASURY BONDS	UNITED STATES	8/15/25	4,435,000.00	6.875%	$5,813,314.62
FNMA POOL 933515	UNITED STATES	2/1/38	5,391,249.75	6.000%	$5,644,175.38
FNMA POOL AA8762	UNITED STATES	7/1/24	5,597,000.00	4.000%	$5,606,620.12

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

	*Assets Under Management at Market Value**	*Fees*	*Basis Points*
Investment Managers' Fees			
Domestic Equity	$ 638,155,000	$ 1,667,344	26
Private Equity	75,952,000	1,163,933	153
International Equity	394,558,000	2,276,523	58
Emerging Market Equity	119,627,000	1,062,679	89
Domestic Fixed Income	520,144,000	937,977	18
Long Duration Fixed Income	108,600,000	277,667	26
Real Estate	184,600,000	641,359	35
Cash	12,297,000	-	N/A
TOTAL	**$2,053,933,000**	**$8,027,482**	**39**

Other Investment Service Fees			
Investment Consultant	N/A	$ 461,126	N/A
Proxy Voting	N/A	36,000	N/A
Custodian	N/A	340,800	N/A
Real Estate Legal Fees	N/A	288,046	N/A
Real Estate Appraisals	N/A	-	N/A
Investment Legal Fees	N/A	72,304	N/A
TOTAL		**$1,198,276**	

* *Includes Cash in Managers' Accounts; Non-GAAP Basis*

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ABG SECURITIES	49,488	$ 304.54	$0.0062
ABN AMRO BANK N. V. HONG KONG	104,000	162.75	0.0016
ABN AMRO SECURITIES (USA) INC	212,238	5,151.81	0.0243
AGORA CORDE TITUL E VAL MOB	5,900	37.75	0.0064
B RILEY AND CO INC.	3,500	140.00	0.0400
BAIRD, ROBERT W., & COMPANY INCORPORATED	3,966,753	2,869.20	0.0007
BANCO ITAU SA	38,782	146.60	0.0038
BANCO SANTANDER CENTRAL HISPANO	162,494	5,079.37	0.0313
BANK J.VONTOBEL UND CO. AG	3,910	1,034.33	0.2645
BANK OF AMERICA SECURITIES LLC	317,368,863	4,739.90	0.0000
BARCLAYS CAPITAL	147,793	2,638.76	0.0179
BARCLAYS CAPITAL LE	97,670	3,823.50	0.0391
BEAR STEARNS & CO INC	3,500	79.00	0.0226
BEAR STEARNS SECURITIES CORP	142,391	988.86	0.0069
BEAR STEARNS SECURITIES CORP.	34,726	220.19	0.0063
BELTONE SECURITIES BROKERAGE	2,872	286.48	0.0997
BEREAN CAPITAL, INC. 2	15,800	632.00	0.0400
BNP PARIBAS PEREGRINE SECURITIES	613,714	4,749.82	0.0077
BNP PARIBAS SA	20,802	438.99	0.0211
BNY BROKERAGE INC	67,500	2,700.00	0.0400
BNY CONVERGEX	136,550	5,312.50	0.0389
BNY CONVERGEX LJR	301,669	3,128.49	0.0104
BRADESCO S/A CTVM	96,500	1,002.69	0.0104
BRADESCO S/A CTVM	38,233	1,351.39	0.0353
BROADCORTCAPITAL (THRU ML)	614,609	20,244.87	0.0329
CABRERA CAPITAL MARKETS	22,800	912.00	0.0400
CANACCORD CAPITAL CORP	237,571	3,178.36	0.0134
CANTOR FITZ EUR 2	395	1.80	0.0046
CANTOR FITZGERALD & CO.	22,000	767.00	0.0349
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	987,027	29,137.46	0.0295
CARNEGIE SECURITIES FINLAND	1,887	9.92	0.0053
CAZENOVE & CO	495,749	6,717.73	0.0136
CAZENOVE ASIA LIMITED	493,260	569.85	0.0012
CHEEVERS & CO	92,500	3,700.00	0.0400
CIBC WORLD MARKETS CORP	12,296	491.84	0.0400
CIBC WORLD MKTS INC	24,781	836.68	0.0338

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
CITATION GROUP	1,128,541	$ 31,903.12	$0.0283
CITI GROUP GLOBAL MARKETS	303,336	96.33	0.0003
CITI GROUP GLOBAL MARKETS INC	12,667,764	24,174.24	0.0019
CITI GROUP GLOBAL MARKETS INC.	5,891,283	12,137.57	0.0021
CITI GROUP GLOBAL MARKETS INDIA	9,397	418.00	0.0445
CITI GROUP GLOBAL MARKETS LIMITED	943,265	7,937.38	0.0084
CITI GROUP GLOBAL MARKETS UK EQUITY LTD	273,985	3,896.27	0.0142
CLSA SINGAPORE PTE LTD.	63,430	2,030.56	0.0320
COWEN AND COMPANY, LLC	11,500	481.00	0.0418
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	163,723	6,160.11	0.0376
CREDIT LYONNAIS SECURITIES	127,053	3,086.30	0.0243
CREDIT LYONNAIS SECURITIES (USA) INC	1,324,959	9,086.35	0.0069
CREDIT SUISSE FIRST BOSTON (EUROPE)	2,737	3,116.81	1.1388
CREDIT SUISSE FIRST BOSTON SA CTVM	520,338	7,278.43	0.0140
CREDIT SUISSE SECS INDIA PRIVATE LTD	127,244	2,249.89	0.0177
CREDIT SUISSE SECURITIES (USA) LLC	327,140,233	58,767.69	0.0002
CSI US INSTITUTIONAL DESK	16,700	668.00	0.0400
CUTTONE & CO INC	24,795	247.95	0.0100
D CARNEGIE AG	53,228	1,809.35	0.0340
DAIWA SECURITIES AMERICA INC	331,107	1,479.47	0.0045
DAVIS, MENDEL AND REGENSTEIN	13,970	558.80	0.0400
DAVY (J&E)	78,314	890.01	0.0114
DEUTSCHE BANK AG LONDON	309,000	1,087.49	0.0035
DEUTSCHE BANK SECURITIES INC	54,457,218	23,029.77	0.0004
DONALDSON LUFKIN & JENRETTE SEC CORP	17,200	688.00	0.0400
DOWLING & PARTNERS	102,301	3,911.24	0.0382
DRESDNER BANK AG LONDON	95,529	1,301.47	0.0136
DRESDNER BANK AG, LONDON BRANCH	29,650	2,024.04	0.0683
DSP MERRILL LYNCH LTD	72,737	4,914.64	0.0676
EFG EUROBANK SECURITIES SA	5,700	597.86	0.1049
EMP RESEARCH PTRNS	3,400	136.00	0.0400
ERSTE BANK DER OESTERREICHISCHEN	280	11.33	0.0405
EXANE S.A.	48,045	1,643.75	0.0342
FIRST CLEARING, LLC	10,003,600	744.00	0.0001
FOX PITT KELTON INC	40,070	1,602.80	0.0400
FOX PITT KELTON LTD	295,259	5,674.44	0.0192

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
FRIEDMAN BILLINGS & RAMSEY	93,280	$ 3,206.30	$0.0344
G TRADE SERVICES LTD	5,707	53.67	0.0094
GARDNER RICH & CO	9,000	270.00	0.0300
GMP SECURITIES LTD.	300,563	3,835.63	0.0128
GOLDMAN SACHS & CO	151,792,941	123,206.78	0.0008
GOLDMAN SACHS (ASIA) LLC	5,822	2,149.74	0.3692
GOLDMAN SACHS (INDIA)	3,118	298.97	0.0959
GOLDMAN SACHS INTERNATIONAL	2,145,678	51,011.71	0.0238
GOODBODY STOCKBROKERS	55,588	767.96	0.0138
GUZMAN & CO	195,490	4,730.23	0.0242
HEDGING GRIFFO COR DE VAL S/A	58,100	447.50	0.0077
HEEVERS &CO. INC.	21,800	872.00	0.0400
HEFLIN & CO LLC	7,075	141.50	0.0200
HONGKONG AND SHANGHAI BANKING CORP	126,000	190.37	0.0015
HSBC BANKPLC	1,175,909	3,019.62	0.0026
HSBC SECURITIES	730,649	6.27	0.0000
HSBC SECURITIES (USA), INC./STOCK LOAN	66,065	737.62	0.0112
INDIA INFOLINE LTD	23,682	319.61	0.0135
ING BARINGS CORP	51,612	3,358.92	0.0651
INSTINET	3,796,494	36,530.80	0.0096
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	47,942	1,763.90	0.0368
INSTINET CANADA	22,172	723.19	0.0326
INSTINET FRANCE S.A.	32,370	3,170.56	0.0979
INSTINET PACIFIC LIMITED	2,777,500	8,750.04	0.0032
INSTINET SINGAPORE SERVICES PT	245,000	1,573.16	0.0064
INSTINET U.K. LTD	4,545,430	51,333.21	0.0113
INTERMONTE SEC SIM SPA	18,679	261.80	0.0140
INVESTEC SECURITIES	1,229	9.88	0.0080
INVESTMENT TECHNOLOGY GROUP INC.	3,065,091	60,693.91	0.0198
INVESTMENT TECHNOLOGY GROUP LTD	1,051,600	703.68	0.0007
ISI GROUPINC	71,000	2,760.00	0.0389
IVY SECURITIES, INC.	51,300	2,052.00	0.0400
JACKSON SECURITIES	53,500	2,097.00	0.0392
JEFFERIES & COMPANY INC	2,303,705	22,212.19	0.0096
JEFFERIES INTERNATIONAL LTD	3,679	32.99	0.0090
JM FINANCIAL INSTITUTIONAL SECURITIES PR	1,950	136.25	0.0699

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
JM MORGAN STANLEY SECS PVT LTD	59,724	$ 2,757.26	$0.0462
JMP SECURITIES	63,795	2,372.95	0.0372
JOH BERENBERG GOSSLER AND CO	43,952	1,056.28	0.0240
JONESTRADING INSTITUTIONAL SERVICES LLC	34,493	697.86	0.0202
JP MORGAN CHASE BANK	250,139	3,680.23	0.0147
JP MORGAN CHASE BANK, N.A., LONDON	22,339	276.10	0.0124
JP MORGAN CLEARING CORP.	14,685,557	5,769.02	0.0004
JP MORGAN INDIA PRIVATE LTD	117,105	2,707.98	0.0231
JP MORGAN SECURITIES (TAIWAN) LTD	636,000	2,585.31	0.0041
JP MORGAN SECURITIES AUSTRALIA LTD	89,085	798.22	0.0090
JP MORGAN SECURITIES INC	2,670,341	16,505.97	0.0062
JP MORGAN SECURITIES LIMITED	773,526	9,740.67	0.0126
JP MORGAN SECURITIES(ASIA PACIFIC)LTD	1,811,590	3,876.19	0.0021
JP MORGAN SECURITIES(FAR EAST)LTD SEOUL	413	26.00	0.0630
KBC FINANCIAL PRODUCTS UK LTD	133,106	3,270.75	0.0246
KEEFE BRUYETTE & WOODS INC	131,596	4,323.59	0.0329
KEEFE BRUYETTE AND WOOD LIMITED	133,754	1,629.68	0.0122
KEPLER EQUITIES FRANKFURT BRANCH	10,100	865.67	0.0857
KEPLER EQUITIES PARIS	31,066	2,274.07	0.0732
KEPLER EQUITIES ZURICH	1,776	211.00	0.1188
KNIGHT SECURITIES	30,524	1,056.32	0.0346
KOTAK SECURITIES	75,183	5,686.16	0.0756
LAZARD CAPITAL MARKETS LLC	215,117	2,632.43	0.0122
LEERINK SWANN AND COMPANY	99,970	3,998.80	0.0400
LEHMAN BROTHERS INC	157,695,248	6,344.19	0.0000
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	571,600	4,143.74	0.0072
LINK S/A CCTVM	108,000	1,313.57	0.0122
LIQUIDNET ASIA LIMITED	136,654	223.97	0.0016
LIQUIDNET INC	2,151,511	53,743.46	0.0250
LOOP CAPITAL MKTS LLC	102,100	4,084.00	0.0400
MACQUARIE BANK LIMITED	6,276	113.23	0.0180
MACQUARIE EQUITIES LIMITED (SYDNEY)	24,417	927.53	0.0380
MACQUARIE SECURITIES (INDIA) PVT LTD	205,911	8,305.25	0.0403
MACQUARIE SECURITIES (USA) INC	4,454	178.16	0.0400
MACQUARIE SECURITIES LIMITED	1,803,788	7,312.25	0.0041
MACQUARIE SECURITIES LTD SEOUL	273	34.58	0.1267

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
MAGNA SECURITIES CORP	200,400	$ 6,703.00	$0.0334
MELVIN SECURITIES LLC	53,300	2,078.00	0.0390
MERRILL LYNCH INTERNATIONAL	1,135,633	20,872.32	0.0184
MERRILL LYNCH PEIRCE FENNER AND S	3,459,996	9,715.35	0.0028
MERRILL LYNCH PROFESSIONAL CLEARING CORP	40,530	1,621.20	0.0400
MERRILL LYNCH,PIERCE,FENNER & SMITH, INC	28,855,598	11,452.22	0.0004
MERRIMAN CURHAN FORD & CO	3,400	142.00	0.0418
MESIROW FINANCIAL INC.	2,200	88.00	0.0400
MIDWEST RESEARCH SECURITIES	19,350	697.00	0.0360
MILLER TABAK & COMPANY, LLC	2,200	44.00	0.0200
MIZUHO SECURITIES USA INC	47,223	2,148.64	0.0455
MORGAN KEEGAN & CO INC	4,946,200	248.00	0.0001
MORGAN STANLEY AND CO INCORPORATED	437,181,027	43,457.80	0.0001
MORGAN STANLEY AND CO INTERNATIONAL	9,988	1,107.94	0.1109
MORGAN STANLEY AND CO INTL TAIPEI METRO	511,162	2,275.84	0.0045
NATEXIS BLEICHROEDER INC	25,408	1,889.20	0.0744
NATIONAL FINANCIAL SERVICES CORP.	33,100	993.00	0.0300
NCB STOCKBROKERS LTD	21,234	682.34	0.0321
NESBITT BURNS	47,900	243.56	0.0051
NOMURA SECURITIES INTERNATIONAL INC	363,517	4,026.45	0.0111
NUMIS SECURITIES LIMITED	81,462	399.01	0.0049
NYFIX TRANSACTION SERVICES #2	59,800	1,298.50	0.0217
O NEIL, WILLIAM AND CO. INC/BCC CLRG	239,900	9,596.00	0.0400
OPPENHEIM, SAL.,JR UND CIE KOELN	3,347	306.18	0.0915
OPPENHEIMER & CO INC	4,800	192.00	0.0400
OPPENHEIMER & CO. INC.	1,230,800	5,625.00	0.0046
PACIFIC AMERICAN SECURITIES, LLC	115,275	3,941.00	0.0342
PACIFIC CREST SECURITIES	3,300	132.00	0.0400
PERSHING DLJ S L	80,113	1,263.54	0.0158
PERSHING LLC	10,355,572	12.95	0.0000
PERSHING SECURITIES LIMITED	462,663	5,786.87	0.0125
PIPELINE TRADING SYSTEMS LLC	169,213	3,912.67	0.0231
PIPER JAFFRAY	5,300	212.00	0.0400
PULSE TRADING LLC	169,870	1,806.40	0.0106
RAYMOND JAMES AND ASSOCIATES INC	11,900	476.00	0.0400
RBC CAPITAL MARKETS	68,542,659	324.00	0.0000

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
RBC DOMINION SECURITIES INC.	29,100	$ 695.81	$0.0239
REDBURN PARTNERS LLP	38,896	2,183.06	0.0561
RIDGE CLEARING & OUTSOURCING SOLUTIONS	7,042,022	50,049.98	0.0071
RIDGE CLEARING & OUTSOURCING SOLUTIONS,	500	20.00	0.0400
ROSENBLATT SECURITIES LLC	445,295	7,825.70	0.0176
SAMSUNG SECURITIES CO LTD	2,956	1,297.89	0.4391
SANFORD C. BERNSTEIN LTD	162,500	1,660.29	0.0102
SANFORD CBERNSTEIN CO LLC	171,481	5,183.29	0.0302
SANTANDER INVESTMENT SECURITIES INC	17,900	716.00	0.0400
SCOTIA CAPITAL (USA) INC	46,015	1,840.60	0.0400
SCOTIA CAPITAL MKTS	134,488	2,310.92	0.0172
SKANDINAVISKA ENSKILDA BANK	4,875	316.13	0.0648
SKANDINAVISKA ENSKILDA BANKEN LONDON	34,211	1,212.87	0.0355
SOCIETE GENERALE BANK AND TRUST	34,655	3,892.19	0.1123
SOCIETE GENERALE LONDON BRANCH	39,122	1,999.72	0.0511
STATE STREET BROKERAGE SERVICES	316,606	12,399.15	0.0392
STATE STREET GLOBAL MARKETS	5,099,377	101,877.55	0.0200
STATE STREET GLOBAL MARKETS, LLC	976,450	32,162.00	0.0329
STEPHENS, INC.	4,068,388	624.00	0.0002
STIFEL NICOLAUS & CO INC	7,623,429	6,907.80	0.0009
SUNTRUST CAPITAL MARKETS, INC.	4,140	165.60	0.0400
SVENSKA HANDELSBANKEN	15,500	99.55	0.0064
THE BENCHMARK COMPANY, LLC	36,075	901.88	0.0250
THOMAS WEISEL PARTNERS LLC	94,250	3,176.00	0.0337
UBS AG	2,657,585	10,697.71	0.0040
UBS FINANCIAL SERVICES INC	246,000	2,949.00	0.0120
UBS SECURITIES ASIA LTD	5,573,815	12,626.73	0.0023
UBS SECURITIES CANADA INC	119,864	1,963.64	0.0164
UBS SECURITIES LLC	11,539,488	9,443.19	0.0008
UBS SECURITIES PTE.LTD., SEOUL	8,332	2,804.25	0.3366
UBS WARBURG LLC	3,520,814	1,406.52	0.0004
WACHOVIACAPITAL MARKETS, LLC	3,899,700	148.00	0.0000
WAVE SECURITIES	685	8.56	0.0125
WDR WARBURG DILLON READ LLC	9,886,834	10,547.56	0.0011
WEEDEN & CO.	257,705	7,537.15	0.0292
WESTMINSTER RESEARCH ASSOCIATE	9,700	388.00	0.0400

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
WILLIAM BLAIR & COMPANY, L.L.C	34,700	$ 1,388.00	$0.0400
WILLIAMS CAPITAL GROUP LP (THE)	52,500	1,978.00	0.0377
TOTAL	**3,573,108,118**	**$1,348,166.34**	**$0.00056**

Investment Summary

Non-GAAP Basis
As of June 30, 2009
(Dollars in thousands)

Type of Investment	*Market Value*	*% of Portfolio*
EQUITIES		
Consumer Discretionary	$ 74,659	3.63%
Consumer Staples	46,921	2.28%
Energy	61,567	3.00%
Financials	101,577	4.95%
Health Care	88,616	4.31%
Industrials	76,486	3.72%
Materials	19,029	0.93%
Technology/Telecom Services	128,982	6.28%
Utilities	23,864	1.16%
Miscellaneous	167	0.01%
Foreign Equity	519,715	25.30%
TOTAL EQUITIES	**$ 1,141,583**	**55.57%**
FIXED INCOME		
US Treasury	$ 37,359	1.82%
US Government Agency	150,233	7.31%
Bank Loans	38,173	1.86%
Domestic Corporate Bonds	338,288	16.47%
State and Local Obligations	4,453	0.22%
Foreign Government	16	0.00%
Foreign Corporate	40,568	1.98%
Derivatives	(67)	0.00%
TOTAL FIXED INCOME	**$ 609,023**	**29.66%**
OTHER INVESTMENTS		
Short Term	$ 74,698	3.64%
Real Estate	182,526	8.89%
Private Equities	75,905	3.70%
TOTAL OTHER INVESTMENTS	**$ 333,129**	**16.23%**
PENDINGS	**($ 29,802)**	**(1.46%)**
TOTAL (Non-GAAP Basis)	**$2,053,933**	**100.00%**

Investment Properties

CAMELBACK POINTE APARTMENTS

258-unit luxury apartment community in Colorado Springs, CO. Acquired as sole owner in December 1997.

CITIBANK OFFICE PLAZA

100,303 square-foot five-story office building located in Oak Brook, IL. Acquired as sole owner in December 1998.

THE DEERWOOD APARTMENTS

186-unit mid-rise apartment community located in Houston, TX. Acquired as sole owner in January 1996.

CRESCENT VII

135,044 square-foot six-story office building located in the Denver Tech Center in Greenwood Village, CO. Acquired as sole owner in June 1998.

Investment Properties *Continued*

EAGLE USA WAREHOUSE

128,000 square-foot single-story distribution warehouse facility located in Eagan, MN. Invested as sole shareholder in January 2002.

FIRST AMERICAN OFFICE PLAZA

82,596 square-foot six-story office building located in San José, CA. Invested as sole shareholder in December 1999.

CALAIS OFFICE CENTER I & II

Two office buildings totaling 198,995 square feet located in Anchorage, AK. Acquired in a joint venture with a local developer, JL Properties, in March 2006.

PROGRESS POINT

123,055 square-foot three-story office building under construction in O'Fallon, MO. Invested in a joint venture with Kennedy Capital Investors, LLC, in December 2007.

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Actuarial Section

Actuary Certification Letter

SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500
San Francisco, CA 94104-4308

415.263.8200 phone
415.263.8290 fax
www.segalco.com

September 11, 2009

Board of Retirement
City of San Jose
Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Dear Members of the Board:

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

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

One of the funding objectives of the Plan is to establish contribution rates that, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Employees also contribute a portion of both the Plan's normal cost and UAAL contribution; however, employees' UAAL contribution rate is only with respect to the payment of certain retroactive member contributions from a benefit improvement in 1996 for all Police and Fire members and a benefit improvement in 2006 for Police members.

Actuary Certification Letter *Continued*

SEGAL

The UAAL is amortized as a level percentage of payroll over various periods which is equivalent to a single period of approximately 6 years.

For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the trend data shown in the Required Supplementary Information. The schedules presented in the Actuarial Section have also been prepared and/or reviewed by our firm.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2007 biennial Experience Analysis. It is our opinion that the assumptions used in the June 30, 2007 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on a biennial basis.

The undersigned are Members of the American Academy of Actuaries and we have satisfied the qualification requirements to render the opinion contained herein.

Sincerely,

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

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

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Retirement Board as of June 30, 2007:

ASSUMPTIONS

Valuation Interest Rate	8.0%
Inflation Rate	3.5%
Real Across-the-Board Salary Increase	0.50%
Post-Retirement Mortality	
(a) Service	
Males	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years (set back 3 years)
Females	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years (set forward 1 year)
(b) Disability	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years
Pre-Retirement Mortality	Based upon the 6/30/2007 Experience Analysis
Withdrawal Rates	Based upon the 6/30/2007 Experience Analysis
Disability Rates	1985 Pension Disability Table for Class 2 employees published by the Society of Actuaries with rates adjusted for ages 49 and above
Service Retirements	Based upon the 6/30/2007 Experience Analysis
Salary Increases	0-6 years of service – 9.00% 6-8 years of service – 6.00% 8+ years of service – 5.00% Of the total salary increase, 4% is for the combined inflation and real across-the-board salary increase
Percentage of Members Married	85%
Reciprocity	75% of all terminated vested members are assumed to be employed by a reciprocal entity
Assets Smoothing Method	Five year smoothed recognition of total market return that differs from the 8% return target

FUNDING METHOD

The System's liability is being funded on the Entry Age Normal Cost method with the previous Unfunded Actuarial Accrued Liability being amortized on a closed basis over the following periods:

(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 10 years;

(2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 10 years; and

(3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.

Probabilities of Separation Prior to Retirement

Age/Years of Service	Turnover 0-1	Turnover 1-5	Turnover 5-10	Turnover 10+	Service Connected Disability	Non-Service Connected Disability	Service Connected Death	Service Retirement
<=20	0.0800	0.0120	0.0040	0.0040	0.0006	0.0001	0.0000	0.0000
21	0.0800	0.0120	0.0040	0.0040	0.0007	0.0001	0.0000	0.0000
22	0.0800	0.0120	0.0040	0.0040	0.0007	0.0001	0.0000	0.0000
23	0.0800	0.0120	0.0040	0.0040	0.0008	0.0001	0.0000	0.0000
24	0.0800	0.0120	0.0040	0.0040	0.0009	0.0001	0.0000	0.0000
25	0.0800	0.0120	0.0040	0.0040	0.0009	0.0001	0.0000	0.0000
26	0.0800	0.0120	0.0040	0.0040	0.0010	0.0001	0.0001	0.0000
27	0.0800	0.0120	0.0040	0.0040	0.0011	0.0001	0.0001	0.0000
28	0.0800	0.0120	0.0040	0.0040	0.0012	0.0001	0.0001	0.0000
29	0.0800	0.0120	0.0040	0.0040	0.0013	0.0001	0.0001	0.0000
30	0.0800	0.0120	0.0040	0.0040	0.0013	0.0001	0.0001	0.0000
31	0.0800	0.0120	0.0040	0.0040	0.0015	0.0001	0.0001	0.0000
32	0.0800	0.0120	0.0040	0.0040	0.0016	0.0001	0.0001	0.0000
33	0.0800	0.0120	0.0040	0.0040	0.0017	0.0002	0.0002	0.0000
34	0.0800	0.0120	0.0040	0.0040	0.0018	0.0002	0.0002	0.0000
35	0.0800	0.0120	0.0040	0.0040	0.0020	0.0002	0.0002	0.0000
36	0.0800	0.0120	0.0040	0.0040	0.0022	0.0002	0.0002	0.0000
37	0.0800	0.0120	0.0040	0.0040	0.0024	0.0002	0.0002	0.0000
38	0.0800	0.0120	0.0040	0.0040	0.0026	0.0002	0.0002	0.0000
39	0.0800	0.0120	0.0040	0.0040	0.0029	0.0002	0.0002	0.0000
40	0.0800	0.0120	0.0040	0.0040	0.0031	0.0002	0.0003	0.0000
41	0.0800	0.0120	0.0040	0.0040	0.0035	0.0002	0.0003	0.0000
42	0.0800	0.0120	0.0040	0.0040	0.0038	0.0002	0.0003	0.0000
43	0.0800	0.0120	0.0040	0.0040	0.0042	0.0002	0.0003	0.0000
44	0.0800	0.0120	0.0040	0.0040	0.0046	0.0003	0.0003	0.0000
45	0.0800	0.0120	0.0040	0.0040	0.0051	0.0003	0.0003	0.0000
46	0.0800	0.0120	0.0040	0.0040	0.0056	0.0003	0.0004	0.0000
47	0.0800	0.0120	0.0040	0.0040	0.0062	0.0003	0.0004	0.0000
48	0.0800	0.0120	0.0040	0.0040	0.0068	0.0003	0.0004	0.0000
49	0.0800	0.0120	0.0040	0.0040	0.0075	0.0003	0.0004	0.0000
50	0.0800	0.0120	0.0040	0.0040	0.0214	0.0004	0.0004	0.1700
51	0.0800	0.0120	0.0040	0.0040	0.0353	0.0004	0.0004	0.1700
52	0.0800	0.0120	0.0040	0.0040	0.0491	0.0004	0.0005	0.1700
53	0.0800	0.0120	0.0040	0.0040	0.0630	0.0005	0.0005	0.1700
54	0.0800	0.0120	0.0040	0.0040	0.0769	0.0005	0.0006	0.1700
55	0.0800	0.0120	0.0040	0.0040	0.0908	0.0005	0.0006	0.1700
56	0.0800	0.0120	0.0040	0.0040	0.1046	0.0006	0.0007	0.1700
57	0.0800	0.0120	0.0040	0.0040	0.1185	0.0006	0.0008	0.1700
58	0.0800	0.0120	0.0040	0.0040	0.1324	0.0007	0.0008	0.1700
59	0.0800	0.0120	0.0040	0.0040	0.1463	0.0008	0.0009	0.1700
60	0.0800	0.0120	0.0040	0.0040	0.1500	0.0009	0.0010	0.1700
61	0.0800	0.0120	0.0040	0.0040	0.1500	0.0010	0.0010	0.1700
62	0.0800	0.0120	0.0040	0.0040	0.1500	0.0011	0.0011	0.1700
63	0.0800	0.0120	0.0040	0.0040	0.1500	0.0012	0.0012	0.1700
64	0.0800	0.0120	0.0040	0.0040	0.1500	0.0014	0.0012	0.1700
65	0.0800	0.0120	0.0040	0.0040	0.1500	0.0000	0.0000	0.3500
66	0.0800	0.0120	0.0040	0.0040	0.1500	0.0000	0.0000	0.3500
67	0.0800	0.0120	0.0040	0.0040	0.1500	0.0000	0.0000	0.3500
68	0.0800	0.0120	0.0040	0.0040	0.1500	0.0000	0.0000	0.3500
69	0.0800	0.0120	0.0040	0.0040	0.1500	0.0000	0.0000	0.3500
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

Years of Life Expectancy After Service Retirement

Age	Male	Female
50	34.15	32.67
51	33.20	31.72
52	32.25	30.77
53	31.31	29.83
54	30.36	28.90
55	29.43	27.97
56	28.49	27.05
57	27.56	26.14
58	26.63	25.24
59	25.71	24.35
60	24.80	23.47
61	23.90	22.60
62	23.01	21.74
63	22.12	20.90
64	21.25	20.07
65	20.39	19.26
66	19.55	18.46
67	18.72	17.68
68	17.90	16.91
69	17.10	16.15
70	16.32	15.41
71	15.56	14.69
72	14.80	13.98
73	14.06	13.28
74	13.33	12.61
75	12.62	11.94
76	11.92	11.29
77	11.24	10.66
78	10.58	10.05
79	9.94	9.46

Age	Male	Female
80	9.32	8.88
81	8.72	8.32
82	8.14	7.78
83	7.59	7.26
84	7.06	6.76
85	6.55	6.30
86	6.08	5.86
87	5.63	5.46
88	5.21	5.08
89	4.80	4.75
90	4.43	4.44
91	4.08	4.17
92	3.76	3.92
93	3.46	3.71
94	3.20	3.52
95	2.97	3.35
96	2.75	3.19
97	2.56	3.06
98	2.39	2.93
99	2.23	2.80
100	2.09	2.66
101	1.97	2.52
102	1.86	2.39
103	1.76	2.25
104	1.67	2.12
105	1.61	2.00
106	1.56	1.89
107	1.52	1.79
108	1.50	1.71
109	1.49	1.63
110	1.49	1.57

Male
RP 2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years
(Set back 3 years)

Female
RP 2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years
(Set forward 1 year)

Years of Life Expectancy After Disability Retirement

Age	Member	Age	Member	Age	Member
20	60.33	50	31.31	80	7.59
21	59.35	51	30.36	81	7.06
22	58.37	52	29.43	82	6.55
23	57.39	53	28.49	83	6.08
24	56.41	54	27.56	84	5.63
25	55.42	55	26.63	85	5.21
26	54.44	56	25.71	86	4.80
27	53.46	57	24.80	87	4.43
28	52.48	58	23.90	88	4.08
29	51.50	59	23.01	89	3.76
30	50.52	60	22.12	90	3.46
31	49.54	61	21.25	91	3.20
32	48.57	62	20.39	92	2.97
33	47.59	63	19.55	93	2.75
34	46.62	64	18.72	94	2.56
35	45.65	65	17.90	95	2.39
36	44.69	66	17.10	96	2.23
37	43.72	67	16.32	97	2.09
38	42.76	68	15.56	98	1.97
39	41.80	69	14.80	99	1.86
40	40.84	70	14.06	100	1.76
41	39.88	71	13.33	101	1.67
42	38.92	72	12.62	102	1.61
43	37.96	73	11.92	103	1.56
44	37.01	74	11.24	104	1.52
45	36.05	75	10.58	105	1.50
46	35.10	76	9.94	106	1.50
47	34.15	77	9.32	107	1.50
48	33.20	78	8.72	108	1.50
49	32.25	79	8.14	109	1.49

RP 2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years

Schedule of Active Member Valuation Data

June 30, 1997 to June 30, 2007

Valuation Date	Number	Annual Payroll	Monthly Average Pay	% Increase in Average Pay*
June 30, 2007	2,136	$227,734,449	$8,885	1.68%
June 30, 2005	2,003	$210,018,219	$8,738	9.10%
June 30, 2003	2,104	$202,222,000	$8,009	17.88%
June 30, 2001	2,107	$171,799,000	$6,795	10.49%
June 30, 1999	1,953	$144,125,000	$6,150	11.05%
June 30, 1997	1,954	$129,850,000	$5,538	10.27%

**Reflects the increase in average salary for members at the beginning of the period versus those at the end of the period, it does not reflect the average salary increases received by members who worked the full period.*

Changes in Retirants *(Including Beneficiaries)*

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of the Beginning of Period	Annual Retiree Payroll Added During Period*	Annual Retiree Payroll Removed During Period	Annual Retiree Payroll as of the End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/1997-6/30/1999	940	156	36	1,060	$31,990,000	$9,962,000	$880,000	$41,072,000	28.39%	$38,747
6/30/1999-6/30/2001	1,060	145	41	1,164	$41,072,000	$10,272,000	$1,351,000	$49,993,000	21.72%	$42,949
6/30/2001-6/30/2003	1,164	159	52	1,271	$49,993,000	$13,806,000	$1,485,000	$62,314,000	24.65%	$49,028
6/30/2003-6/30/2005	1,271	161	47	1,385	$62,314,000	$15,619,000	$1,862,000	$76,071,000	22.08%	$54,925
6/30/2005-6/30/2007	1,385	143	51	1,477	$76,071,000	$15,913,000	$1,923,000	$90,061,000	18.39%	$60,976

** Includes the Plan's annual cost-of-living adjustment as well as payroll for new retirees.*

Actuarial Analysis of Financial Experience

(Dollars in thousands)

	2005-2007	2003-2005	2001-2003
Beginning of Period Unfunded Actuarial Accrued Liability	$44,342	($3,087)	($221,080)
Expected Increase from Prior Valuation	$13,781	$124	$1,042
Benefit Improvements	$70,653	-	-
Change in Methods and Procedures	($ 10,408)	-	-
Salary Increase Greater (Less) than Expected	($ 52,419)	-	$95,850
Asset Return Less (Greater) than Expected	($ 97,135)	$136,013	$131,775
(Gain)/Loss from Withdrawal	-	-	($174)
Contribution Less (Greater) than Expected	-	-	($27,026)
SRBR	($ 849)	-	$3,634
Other Experience	$5,533	($101,668)	$8,350
Change in Economic & Non-economic Assumptions	$33,098	$12,960	$4,542
End of Period UAAL	$6,596	$44,342	($3,087)

Solvency Test

June 30, 1997 to June 30, 2007
(Dollars in thousands)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets			
Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions (1)	Retired/Vested Members (2)	Active Members (Employer Financed Portion) (3)
6/30/97	$115,995	$ 434,292	$479,881	$1,030,168	$1,124,294	100%	100%	120%
6/30/99	$117,755	$ 595,196	$563,413	$1,276,364	$1,440,117	100%	100%	129%
6/30/01	$145,166	$ 699,082	$648,484	$1,492,732	$1,713,812	100%	100%	134%
6/30/03	$167,203	$ 881,064	$774,934	$1,823,200	$1,826,287	100%	100%	100%
6/30/05	$194,008	$1,062,247	$771,177	$2,027,432	$1,983,090	100%	100%	94%
6/30/07	$227,191	$1,240,126	$905,069	$2,372,386	$2,365,790	100%	100%	99%

(1) Accumulated from member contribution account balances provided by the Retirement System
(2) Calculated based on assumptions adopted by the Board
(3) Calculated based on assumptions adopted by the Board and offset with Active member contribution account balances

Assumption Changes

ECONOMIC ASSUMPTIONS

Consumer Price Index	Increase the CPI assumption from 3.00% to 3.50% per year.
Salary Increase	
Real Wage Growth	Decrease the across-the-board salary increase assumption from 1.00% to 0.50%.
Inflation	Increase the inflation assumption from 3.00% to 3.50% per year.
Merit and Promotion	The assumption for annual Merit and Promotion salary increases based on years of service have been changed to more closely match the experience of the past two years.

DEMOGRAPHIC ASSUMPTIONS

Member Turnover	Termination rates of members were changed to more closely match the experience of the past two years.
Post-retirement Mortality	Improved mortality assumption creating a margin for future improvements in mortality.

Major Provisions of the Retirement Plan

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through June 30, 2008.

FINAL AVERAGE SALARY (FAS)

Final average salary is defined as the highest 12 consecutive months of compensation earned, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service. FAS excludes overtime pay and expense allowances.

RETURN OF CONTRIBUTIONS

If a member should resign or die before becoming eligible for retirement, his or her contributions plus 2% interest per annum will be refunded.

SERVICE RETIREMENT BENEFIT

Members with 20 years of service who have attained age 55 are eligible to retire. Members age 70 (no service requirement) and members with 30 years of service, regardless of age, are also eligible to retire.

The normal service retirement benefit for Police members is 2.5% of FAS per year of service up to 20 years of service, and 4.0% of FAS per year of service over 20, not to exceed 90% of FAS. The normal service retirement benefit for Fire members is 2.5% of FAS per year of service up to 20 years of service, and for members with 20 or more years of service, 3.0% of FAS per year of service is provided for all years of service, not to exceed 90% of FAS.

A special study was performed by the plan's prior actuary in 1992 (and subsequently adopted by the Board) which allows members with 25 years of service to retire at age 50 with unreduced benefits. Otherwise, members age 50 with 20 years of service receive their accrued service retirement benefit, reduced for interest below age 55.

Ten years of service are required for vesting purposes.

DISABILITY BENEFIT

Non-Service-Connected

Members with 2 years of service, regardless of age, are eligible for nonservice-connected disability. The benefit is 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. The maximum benefit is 50% of FAS. For members with 20 or more years of service, the benefit is the same as that for the Service Retirement.

Service-Connected

Members may retire regardless of length of service, and the benefit is 50% of FAS. For Police members with more than 20 years of service, there is an additional benefit of 4.0% of FAS per year of service over 20 (subject to a maximum of 90% of FAS). For Fire members with more than 20 years of service, there is a benefit of 3.0% of FAS per year of service for all years of service (subject to a maximum of 90% of FAS).

DEATH BENEFIT (BEFORE AND AFTER RETIREMENT)

Non-Service-Connected

Eligibility is based on 2 years of service, regardless of age. The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year. The maximum benefit is the greater of 50% of the member's benefit and 37.5% of FAS. For members eligible to receive the Service Retirement Benefit, the spouse receives the greater of 37.5% of FAS or 50% of the member's Service Retirement Benefit, with a maximum continuance benefit of 42.5% of FAS for Police members and 45% of FAS for Fire members.

If a member has eligible dependent children (under age 18, or age 22 if a full time student), the benefits are as follows:

1 child	25% of FAS
2 children	37.5% of FAS
3 or more children	50% of FAS

The total benefits payable to a family shall not exceed 75% of FAS.

If a member does not have a spouse nor dependent children at death, a lump sum equal to the greater of the member's contributions or $1,000 is paid to the estate.

These benefits are payable for active member deaths and deaths after non-service-connected disability retirement.

Service-Connected

The spouse receives the greater of 50% of the member's benefit and 37.5% of FAS with a maximum continuance benefit of 42.5% of FAS for Police members and 45% of FAS for Fire members. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

These benefits are payable for active member deaths and deaths after service-connected disability retirement and service retirement.

DEATH BENEFIT – INACTIVE MEMBERS (AFTER RETIREMENT)

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS or the continuance benefit paid under Service Retirement, if greater. Eligible dependent children receive the following:

1 child	1.25% of FAS per year of service
2 children	1.875% of FAS per year of service
3 or more children	2.5% of FAS per year of service

The total benefits payable to a family shall not exceed 75% of FAS.

COST-OF-LIVING

The increase in retirement allowance is 3% per year.

POST-RETIREMENT HEALTH AND DENTAL

Retirees and survivors with 15 years of service, or receiving a benefit of at least 37.5% of FAS, receive the same medical coverage that the City pays for an active member. Members must have retired from active service to be eligible.

MEMBERS' RETIREMENT CONTRIBUTIONS

The members' contribution rates are recalculated on an actuarial basis at each actuarial study and equal to 3/11ths of the Normal Cost. Police members presently contribute at the rate of 11.96% of pay and Fire members contribute at a rate of 12.40% of pay.

CITY'S RETIREMENT CONTRIBUTIONS

The City presently contributes at a rate of 25.80% of pay for Police members and 28.31% of pay for Fire members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

Actuarial Certification Letter *(Other Post-Employment Benefits)*

SEGAL

THE SEGAL COMPANY
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San Francisco, CA 94104-4308

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September 11, 2009

Board of Retirement
City of San Jose
Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Dear Members of the Board:

The Segal Company (Segal) performed an actuarial valuation of the Other Post Employment Benefits (OPEB) funded through the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2007. We believe that the actuarial valuation was prepared in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 43.

As part of our valuation, Segal conducted an examination of all participant data for reasonableness. We did not audit the Plan's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer and employee contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over five-year periods.

The Entry Age Normal Cost Method was used to determine the Annual Required Contribution (ARC) and the actuarial accrued liability. Under this method, the ARC provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). The UAAL is amortized as a level percentage of payroll over a 30-year open amortization period.

The method described above is only used for the purposes of fulfilling the Plan's accounting requirements because for funding purposes for the 2008-2009 plan year, the City and the employees will share in the contributions required to pay the projected benefits for the next ten years under the Aggregate Cost Method. We understand that the Plan will transition from the Aggregate Cost Method to fully funding the ARC for members of the Police Officers Association over a 5-year period, commencing with the 2009-2010 Fiscal Year.

Actuarial Certification Letter *(Other Post-Employment Benefits) Continued*

SEGAL

The actuarial valuation reflects a long term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The assumptions used in this valuation were adopted by the Board based on the June 30, 2007 biennial experience analysis and in conjunction with the June 30, 2007 actuarial valuation. Actuarially determined amounts are subject to continual revision as results re compared to past expectations and new estimates are made about the future.

The valuation was based upon the benefits provided under the terms of the substantive plan in effect at the time of the valuation. The schedules presented in the Actuarial Section have been prepared and/or reviewed by Segal.

The undersigned are members of the American Academy of Actuaries and we have satisfied the qualifications requirements to render the opinion contained herein.

Sincerely,

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

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

Schedule of Actuarial Methods and Assumptions
(Other Post-Employment Benefits)

The following assumptions have been adopted by the Retirement Board as of June 30, 2007:

ASSUMPTIONS

Valuation Interest Rate	6.4%
Participation in Medical Plan	95% of current actives are assumed to elect coverage at retirement
Participation in Dental Plan	95% of current actives are assumed to elect coverage at retirement
Eligibility for Medicare	100% of retirees reaching age 65 are assumed to be eligible for Medicare
Health Care Cost Trend Rates	See section below

Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium
First Fiscal Year (July 1, 2007 through June 30, 2008)

PLAN	Blue Shield PPO/POS Under Age 65	Blue Shield PPO/POS Age 65 and Over	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Blue Shield HMO Age 65 and Over
Trend to be applied to 2007-2008 Fiscal Year premium	5.07%	5.07%	5.10%	3.68%	11.63%
Trend to be applied to 2008-2009 Fiscal Year premium	6.55%	6.55%	5.41%	6.63%	10.12%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Trend (Approximate)	Calendar Year	Trend (applied to calculate following year's premium)
2009-2010	8.25%	2009	8.50%
2010-2011	7.75%	2010	8.00%
2011-2012	7.25%	2011	7.50%
2012-2013	6.75%	2012	7.00%
2013-2014	6.25%	2013	6.50%
2014-2015	5.75%	2014	6.00%
2015-2016	5.25%	2015	5.50%
2016-2017 and later	5.00%	2016 and later	5.00%

Dental Premium Trend	5.00% for all years
Medicare Part B Premium Trend	The 2008-2009 fiscal year premium is 1.53% higher than the 2007-2008 fiscal year premium. Premiums after 2009-2010 are assumed to increase with 5% annual trend.

Schedule of Actuarial Methods and Assumptions *Continued*
(Other Post-Employment Benefits)

PER CAPITA COSTS FOR RETIREE HEALTH BENEFITS

Per Capita Costs and Carrier Election Assumption Under Age 65

2007-2008 Plan Year		Single Party			Married			Surviving Spouse		
Carrier	Election Percent	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser	60	$417.78	$416.74	$416.74	$1,040.28	$1,040.28	$1,040.28	$417.78	$416.74	$416.74
Blue PPO/POS	40	$624.30	$416.74	$416.74	$1,604.38	$1,040.28	$1,040.28	$624.30	$416.74	$416.74

2008-2009 Plan Year		Single Party			Married			Surviving Spouse		
Carrier	Election Percent	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser	60	$439.08	$439.08	$439.08	$1,093.31	$1,093.31	$1,093.31	$439.08	$439.08	$439.08
Blue PPO/POS	40	$655.97	$439.08	$439.08	$1,685.77	$1,093.31	$1,093.31	$655.97	$439.08	$439.08

Per Capita Costs and Carrier Election Assumption Under Age 65

2007-2008 Plan Year		Single Party			Married			Surviving Spouse		
Carrier	Election Percent	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser Senior Advantage	35	$390.67	$416.74	$390.67	$781.34	$1,040.28	$781.34	$390.67	$416.74	$390.67
Blue Shield PPO/POS	60	$485.17	$416.74	$416.74	$970.33	$1,040.28	$970.33	$485.17	$416.74	$416.74
Blue Shield HMO	5	$318.20	$416.74	$318.20	$636.39	$1,040.28	$636.39	$318.20	$416.74	$318.20

2008-2009 Plan Year		Single Party			Married			Surviving Spouse		
Carrier	Election Percent	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy	Monthly Premium	Maximum Subsidy	Subsidy
Kaiser Senior Advantage	35	$405.06	$439.08	$405.06	$810.12	$1,093.31	$810.12	$405.06	$439.08	$405.06
Blue Shield PPO/POS	60	$509.78	$439.08	$439.08	$1,091.55	$1,093.31	$970.33	$509.78	$439.08	$439.08
Blue Shield HMO	5	$365.19	$439.08	$365.19	$710.38	$1,093.31	$636.39	$365.19	$439.08	$365.19

Schedule of Actuarial Methods and Assumptions *Continued*
(Other Post-Employment Benefits)

IMPLICIT SUBSIDY COSTS

	Kaiser			Blue Shield PPO/POS		
Age	*Blended Premium*	*Age-Based Cost*	*Implicit Subsidy*	*Blended Premium*	*Age-Based Cost*	*Implicit Subsidy*
50	$5,013	$6,197	$1,184	$7,492	$7,464	-$28
55	5,013	7,359	2,346	7,492	8,864	1,372
60	5,013	8,740	3,727	7,492	10,527	3,035
64	5,013	10,027	5,014	7,492	12,077	4,585
65+	N/A	N/A	N/A	N/A	N/A	N/A

Other Actuarial Assumptions Same as those used for the retirement plan valuation and they are based upon the June 30, 2007 experience analysis

ACTUARIAL COST METHOD *(For GASB 43/45 Purposes)*

The System's liability is being calculated under the Entry Age Normal cost method with the Unfunded Actuarial Accrued Liability is being amortized on an open basis over a period of 30 years beginning on June 30, 2007.

Summary of Plan Benefits
(Other Post-Employment Benefits)

The following assumptions have been adopted by the Retirement Board as of June 30, 2006:

ASSUMPTIONS

Eligibility Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of Final Average Salary.

If a member separates from service after July 5, 1992, with 20 years of service, the member is eligible to receive a health benefit upon receiving a retirement benefit.

Medical Subsidy For retirees not eligible for Medicare, the Plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the plan pays the retiree's premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees.

Dental Subsidy The plan pays the entire premium.

Employee's Contribution The employee contributes 50% of the health cost and 25% of the dental cost required to pay the projected benefits for the next 10 years.

City's Contribution The City contributes 50% of the health cost and 75% of the dental cost required to pay the projected benefits for the next 10 years.

Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Post-employment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating 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 Plan's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2000-2009 *(Dollars in thousands)*

Pension Benefits (Schedule 1a)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions										
Member contributions	$27,321	$13,383	$14,737	$16,416	$17,233	$16,240	$16,432	$16,050	$19,210	$20,323
Employer contributions	13,254	22,157	23,748	23,511	24,412	41,835	43,473	46,625	56,372	53,103
Investment Income*	112,421	(4,039)	(31,729)	80,225	252,431	202,320	230,225	440,999	(153,711)	(469,235)
Total additions	**152,996**	**31,501**	**6,756**	**120,152**	**294,076**	**260,395**	**290,130**	**503,674**	**(78,129)**	**(395,809)**
Deductions (See Schedule 2a)										
Benefit payments	40,974	45,699	54,113	55,342	61,449	69,102	75,189	81,953	89,704	102,363
Death benefits	1,689	1,772	1,771	3,732	3,976	4,226	4,803	5,042	5,467	5,982
Refunds	194	615	518	276	132	426	144	210	168	363
Administrative expenses and other	996	1,517	1,773	1,583	2,053	1,617	2,171	2,206	2,670	2,669
Total deductions	**43,853**	**49,603**	**58,175**	**60,933**	**67,610**	**75,371**	**82,307**	**89,411**	**98,009**	**111,377**
CHANGE IN NET ASSETS	**$109,143**	**$(18,102)**	**$(51,419)**	**$59,219**	**$226,466**	**$185,024**	**$207,823**	**$414,263**	**$(176,138)**	**$(507,186)**

**Net of Expenses*

Post-employment Healthcare Benefits (Schedule 1b)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Additions										
Member contributions	$2,866	$2,159	$3,114	$3,521	$3,696	$5,673	$5,742	$7,989	$9,151	$9,218
Employer contributions	2,120	2,515	4,367	4,251	4,492	6,418	6,529	9,082	10,618	9,888
Investment Income*	2,490	(756)	(556)	1,415	4,414	3,554	4,089	8,115	(3,029)	(9,800)
Total additions	**7,476**	**3,918**	**6,925**	**9,187**	**12,602**	**15,645**	**16,360**	**25,186**	**16,740**	**9,306**
Deductions (See Schedule 2b)										
Health Insurance Premiums	4,649	5,685	6,740	7,772	9,528	11,093	12,880	14,794	15,974	18,039
Administrative expenses and other	23	33	67	32	36	33	42	45	56	60
Total deductions	**4,672**	**5,718**	**6,807**	**7,804**	**9,564**	**11,126**	**12,922**	**14,839**	**16,030**	**18,099**
CHANGE IN NET ASSETS	**$2,804**	**$(1,800)**	**$118**	**$1,383**	**$3,038**	**$4,519**	**$3,438**	**$10,347**	**$710**	**$(8,793)**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *Continued*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(Dollars in thousands)*

Pension Benefits (Schedule 2a)

Type of Benefit	*2009*	*2008*	*2007*	*2006*
Age and Service Benefits				
Retirees				
Service	$ 49,004	$ 39,354	$ 34,772	$ 30,828
Deferred Vested	1,337	1,030	946	892
Survivors				
Service	826	713	606	741
Deferred Vested	33	30	23	22
Death in Service Benefits	1,193	1,121	1,093	1,031
Disability Benefits				
Retirees				
Duty	49,100	46,654	43,713	41,134
Non-Duty	698	697	646	610
Survivors				
Duty	3,784	3,459	3,184	2,876
Non-Duty	146	144	135	133
Ex-Spouse Benefits	2,224	1,969	1,877	1,725
TOTAL BENEFITS	**$108,345**	**$95,171**	**$86,995**	**$79,992**
Type of Refund				
Separation	$ 363	$ 168	$ 210	$ 144
TOTAL REFUNDS	**$ 363**	**$ 168**	**$ 210**	**$ 144**

Fiscal Year 2004-05 data not available due to system limitations.

Post-employment Healthcare Benefits (Schedule 2b)

Type of Benefit	*2009*	*2008*	*2007*	*2006*
Age and Service Benefits				
Retirees – Service				
Medical	$ 6,843	$ 5,366	$ 4,750	$ 3,871
Dental	684	589	550	492
Retirees – Deferred Vested				
Medical	146	137	131	119
Dental	17	17	16	15
Survivors – Service				
Medical	110	89	76	78
Dental	19	21	20	23
Survivors – Deferred Vested				
Medical	-	1	3	4
Dental	1	-	1	1
Death in Service Benefits				
Medical	208	190	186	165
Dental	33	34	36	35
Disability Benefits				
Retirees – Duty				
Medical	8,177	7,757	7,324	6,503
Dental	856	885	881	854
Retirees – Non-Duty				
Medical	172	173	162	147
Dental	21	22	21	21
Survivors – Duty				
Medical	603	527	483	408
Dental	119	137	127	118
Survivors – Non-Duty				
Medical	24	22	20	19
Dental	6	7	7	7
Ex-Spouse Benefits				
Medical	-	-	-	-
Dental	-	-	-	-
TOTAL BENEFITS	**$18,039**	**$15,974**	**$14,794**	**$12,880**

Source: Pension Administration System

Statistical Review *Continued*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2000-2009
(Schedule 3)

	Police Department Rates		Fire Department Rates	
Fiscal Year	*Employee Rate (%)*	*Employer Rate (%)*	*Employee Rate (%)*	*Employer Rate (%)*
2000	10.22	20.11	10.22	20.11
2001	9.79	15.70	9.79	15.70
2002	9.79	15.70	9.79	15.70
2003	10.25	14.22	10.25	14.22
2004	10.25	14.22	10.25	14.22
2005	11.16	24.59	11.16	24.59
2006	11.16	25.04	11.16	25.04
2007	11.67	28.51	11.26	25.22
2008*	11.67	28.90	11.26	25.61
2009	11.96	25.80	12.40	28.31

** Special rate change effective 12/17/2006*

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS *As of June 30, 2009*

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement* 1	2	3	4	5	6	7	Option Selected** Unmodified	Option 1	Option 2	Option 3	Total
$1 - 1000	8	-	-	-	-	1	3	4	5	2	1	-	8
1001 - 1500	18	-	-	-	1	7	6	4	10	-	5	3	18
1501 - 2000	73	9	-	6	1	6	46	5	47	-	26	-	73
2001 - 2500	97	37	-	-	3	13	35	9	70	1	26	-	97
2501 - 3000	86	36	-	1	2	7	34	6	68	-	18	-	86
3001 - 3500	105	72	1	6	4	4	16	2	94	6	4	1	105
3501 - 4000	79	61	1	5	3	1	3	5	69	2	2	6	79
4001 - 4500	93	71	1	-	16	-	5	-	79	2	-	12	93
4501 - 5000	126	82	-	1	39	1	2	1	102	6	2	16	126
5001 - 5500	100	49	-	-	45	1	5	-	77	4	2	17	100
5501 - 6000	141	75	-	-	62	1	3	-	121	6	3	11	141
6001 - 6500	129	64	-	-	65	-	-	-	105	8	-	16	129
6501 - 7000	97	43	-	1	53	-	-	-	87	1	-	9	97
7001 - 7500	97	44	-	-	53	-	-	-	79	2	-	16	97
7501 - 8000	85	27	-	-	57	-	-	1	65	8	-	12	85
Over $8000	327	97	-	-	226	-	1	3	251	18	-	58	327
TOTAL	**1661**	**767**	**3**	**20**	**630**	**42**	**159**	**40**	**1329**	**66**	**89**	**177**	**1661**

***RETIREMENT CODES**

1 *Service-Connected Disability*
2 *Early*
3 *Non-Service-Connected Disability*
4 *Service*
5 *Survivor (survivor of active employee)*
6 *Continuance (survivor of retired employee)*
7 *Deferred Vested*

****OPTION DESCRIPTIONS**

Unmodified — *Unmodified Joint & Survivorship (standard default for married)*
1 *Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)*
2 *Unmodified/No Survivor (standard default for unmarried)*
3 *Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, pension goes back to original pension calculation)*

POST-EMPLOYMENT HEALTHCARE BENEFITS
As of June 30, 2009

Amount Monthly Benefit	Type of Subsidy Health	Dental
Ineligible/Deferred	98	63
$1 - 60	-	18
61 - 250	-	1580
251 - 500	408	-
501 - 800	22	-
801 - 1000	123	-
1,000 - 1,250	1010	-
TOTAL	**1661**	**1661**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

	Years of Service Credit						
	0-5	*6-10*	*11-15*	*16-20*	*21-25*	*26-30*	*31+*
Retirement Effective Dates							
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit (including COLA)	$2,170	$2,779	$3,103	$3,937	$4,904	$7,158	$7,811
Average Final Average Salary**	$1,778	$3,087	$4,498	$6,066	$6,072	$7,492	$7,600
Number of Retired Members***	7	46	68	86	220	575	153
Average Monthly Benefit (including COLA) (for those whose FAS was unavailable)	$ -	$1,591	$1,381	$2,712	$3,675	$5,710	$6,327
Number of Retired Members***	0	3	5	13	36	132	32
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit (including COLA)	$2,120	$2,717	$3,068	$3,743	$4,563	$6,776	$7,319
Average Final Average Salary**	$1,778	$3,060	$4,097	$5,713	$5,644	$7,129	$7,147
Number of Retired Members***	7	47	64	79	204	521	140
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$1,549	$1,319	$2,642	$3,639	$5,560	$6,123
Number of Retired Members***	0	3	5	13	36	134	32
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$2,063	$2,618	$2,853	$3,576	$4,339	$6,461	$6,962
Average Final Average Salary**	$1,799	$3,023	$3,846	$5,567	$5,419	$6,924	$6,898
Number of Retired Members***	7	47	62	79	195	492	134
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$1,500	$1,239	$2,561	$3,526	$5,397	$5,938
Number of Retired Members***	0	3	6	13	36	137	32
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$ 889	$1,424	$1,822	$2,633	$3,073	$5,092	$5,411
Average Final Average Salary**	$1,778	$2,934	$3,716	$5,290	$5,164	$6,674	$6,725
Number of Retired Members***	7	47	61	76	189	462	129
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 414	$ 735	$1,741	$2,405	$3,835	$4,103
Number of Retired Members***	0	3	6	14	36	137	32

* *Monthly benefit does not include cost of living increases (COLA) of 3% per year.*

** *Final Average Salary not available for those that retired prior to April 1998, except for service-connected disability retirees. Those without Final Average Salary are not included in Average Monthly Benefit.*

*** *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

AVERAGE BENEFIT PAYMENT AMOUNTS *Continued*

POST-EMPLOYMENT HEALTHCARE BENEFITS

	Years of Service Credit						
	0-5	*6-10*	*11-15*	*16-20*	*21-25*	*26-30*	*31+*
Retirement Effective Dates							
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$711	$807	$939	$898	$910	$963	$927
Number of Health Participants*	7	42	56	82	216	572	153
Average Dental Subsidy	$ 94	$ 94	$ 94	$ 94	$ 91	$ 94	$ 94
Number of Dental Participants*	7	45	60	83	35	575	153
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$676	$778	$888	$866	$870	$916	$885
Number of Health Participants*	7	45	58	82	234	516	139
Average Dental Subsidy	$ 99	$ 99	$ 99	$ 98	$ 98	$ 98	$ 99
Number of Dental Participants*	7	49	61	83	239	520	139
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$632	$736	$805	$813	$815	$861	$828
Number of Health Participants*	7	45	57	82	225	487	134
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
Number of Dental Participants*	7	49	60	83	230	491	134
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$571	$662	$722	$735	$731	$772	$742
Number of Health Participants*	7	45	56	79	216	453	129
Average Dental Subsidy	$ 95	$ 96	$ 95	$ 94	$ 94	$ 95	$ 95
Number of Dental Participants*	7	49	59	80	222	461	129

** Does not include Survivors and Ex-Spouses*
Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Retirements During Fiscal Year 2008 - 09

SERVICE RETIREMENTS

Police Department

AGERBEEK, RUDOLF
AIRHART, JAMES
ALEXANDER, BRUCE
BACIGALUPI, DAVID
BARNES, STEVEN
BARTELS, DONALD
BERNARDO, GAETANO
BIEBEL, PHILIP
BOYD, PATRICK
CALDERON, RICHARD
CARR, JOHN
CONRAD, MARK
DIXON, STEVEN
DYE, ALLEN
ESCOBAR, DENISE
ESTRADA, FRANCISCO
EVANS, MICHAEL
EZELL, RONALD
GARCIA, ROSA
GONZALEZ, JOEL
HARRIS, BUCKY
HILDEBRANDT, KAREN
INAMI, STEVEN
JACKSTEIT, KENNETH
KEPLER, GERALD
LARA, WILLIAM
LAYNE, ANDREW
LEE-HAROLD, DORIS
LEONG, KENNETH
LOPEZ, DENNIS
LOVECCHIO, PETER
MALES, JAN
MC ININCH, MARK
MOJICA, SAMUEL
MONTANO, WILFREDO
NEWMAN, DAVE
NORLING, DAVID
PACHECO, RUSSELL
PHILLIPS, EUGENE
POMERLEAU, PETER
PRINGLE, KARL
REYES, JOE
ROGERS, LORRIE
SANTIAGO, DAVID
SCHNUTENHAUS, THOMAS
SIMPSON, TERRENCE
SMITH, MIKE
SMITH, JEROME
VALLECILLA, PEGGY
VALLECILLA, ERNESTO
VASQUEZ, DANIEL
WHITE, DOUGLASS

Fire Department

AFFLIXIO, THOMAS
ALLYN, KAREN
ARROYO, RUDOLPH
AVILA, JOSE
AYALA, MICHAEL
BANUELOS, WILFREDO
BLATZ, MICHAEL
BODERO, WILLIAM
BORSI, JOHN
BRITTON, ROBERT
BUZZETTA, JERRY
CARDER, PATRICK
CARRILLO, TONY
CARRUTH, ENRIQUE
CARTER, JAMES
CARTER, CHARLES
CHACON, WESLEY
CLET, JEFFREY
CONRY, THOMAS
CORIA, JESS
CROWELL, GORDON
CROYLE, PHILIP
CRUZ, DANTE
DEMERS, PHILIP
DIQUISTO, JOHN
DONALD, JOHN
EATON, DANNY
ENGLISH, MARK
FIELDS, MICHAEL
FRANCHI, BARRY
GALLARDO, DANIEL
GARCIA, SAMUEL
GIANATASIO, THOMAS
GONZALEZ, RUDY
GOYTIA, STEVE
GREENFIELD, STEVE
HALL, TIMOTHY
HAMANE, GREGORY
HEMINGWAY, GREG
HERNANDEZ, KENNETH
HIRANO, JAMES
HODGES, JOHN
HOENISCH, MARTIN
JUELSON, ROBERT
KENNEDY, PAUL
KING, PAUL
LANDEROS, RONALD
LAURENT, JOHN
LERMA, DAVID
LOQUIAO, JOSE
LUNA, RAMON
MARTONE, ROBERT
MEDRANO, LOUIS
MILLAN, RUBEN
MILLER, TIMOTHY
MOE, GARY
MONTUY, MIKE
MOORE, DAVID
MURRAY, WILLIAM
NAUGHTEN, ROBERT
OJEDA, ANTHONY
POMERANTZ, RONALD
POWELL, EDWARD
RICE, CHARLES
SAMARRON, LARRY
SCHOONOVER, DAVID
SCHWINGE, CRAIG
SEKANY, RANDY
SILVA, ADELINO
SIQUEIROS, GILBERT
SMITH, ROGER
SNYDER, GORDON
SPRAGUE, PAUL
STAPP, DAN
STORMS, RAY
TAPIA, CRUZ
THOMAN, MARK
TOSCANO, GREGORY
VALENZUELA, RICHARD
VITALES, JOSEPH
WARREN, THOMAS
WEBER, JEFFREY
WEEKLEY, GARY
WESTRUP, THOMAS

Source: Pension Administration System

Retirements During Fiscal Year 2008 - 09 *Continued*

EARLY RETIREMENTS

Police Department		*Fire Department*
NONE		NONE

DEFERRED VESTED RETIREMENTS

Police Department		*Fire Department*
FLEMING, JOHN MICHAEL	MC MAHON, JAMES	SMITH, MICHAEL
KILLEN, PATRICK	TONRY, DONNA	

SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department		*Fire Department*
AGUILAR, DAVID	MIRANDA, CARLOS	CASTRO, RAUL
BROWN, ERNEST	ROUSH, JAMES	SUTTON, JOAN
CASSIDY, STEPHEN	SANDOVAL, THOMAS	
LOBDELL, TODD	SEMINATORE, ALBERT	

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department		*Fire Department*
SERENIL, ARTHUR		NONE

Deaths During Fiscal Year 2008 - 09

DEATHS AFTER RETIREMENT

Police Department		*Fire Department*	
ALIGO, JAMES	MOORE, ANN	BOLTON, HILBERT	KING, JAMES
BLACK, DONALD	SMITH, RONALD	DORR, DONALD	MURRAY, DENNIS
KNELL, RICHARD	WARNER, MAURICE	FAVORITE, LAWRENCE	RIST, WAYNE
LANCH, KENNETH		GERMANO, EUGENE	

DEATHS BEFORE RETIREMENT

Police Department	*Fire Department*
BRAVO-CARNEY, DELIA	NONE
CAHILL, JOHN	

Source: Pension Administration System

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