CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

# FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2001

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

CITY OF SAN JOSE
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
A Pension Trust Fund of the City of San Jose, California

# Comprehensive Annual Financial Report

## For the Fiscal Year Ended June 30, 2001

**Edward F. Overton**
**Director**

City of San Jose
Department of Retirement Services
1737 N. First Street, Suite 580
San Jose, CA 95112-4505
(408) 392-6700 / Fax (408) 392-0771
www.ci.san-jose.ca.us/retire/retirement.htm

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

*Department of Retirement Services*

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 5, 2001

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2001. Some significant events worthy of note during this fiscal year were as follows:

- The Plan was awarded the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for its 1999-00 Comprehensive Annual Financial Report.
- Investment earnings ranked in the top quartile and contributed 69.9 percent of the Fund's income.
- The Board approved using internal appraisals on real estate properties every other year when external appraisals are not performed.
- The Board approved providing the retirees an opportunity to purchase long-term healthcare through CNA in addition to the Prudential program offered through the City.
- The Board approved attorney review of the San Jose Municipal Code for tax compliance. The project is currently in progress.
- Fidelity Investments, a new commingled real estate manager, was hired in October 2000.

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

Sincerely,

BRADLEY IMAMURA, Chair
Board of Administration

1737 N. First St. Suite 580 San José, CA 95112-4505 *tel* (408) 392-6700 *fax* (408) 392-0771 www.ci.san-jose.ca.us

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# I.
# INTRODUCTORY SECTION

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# LETTER OF TRANSMITTAL

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

*Department of Retirement Services*
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

October 1, 2001

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Federated City Employees' Retirement System ("Plan") for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias, Gini & Company 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 1951 and this is the second year the Plan is using a CAFR format. 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.

**Structure of the Report**

This report is presented in five sections:

- The Introductory Section contains the chairman's report, the letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, description of the Plan's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- The Financial Section contains the independent auditor's report, Macias, Gini & Company LLP, and the financial statements of the Plan and certain required supplementary information.
- The Investment Section contains the Investment Consultant's statement produced by the Bank of New York, the Plan's investment consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- The Actuarial Section contains the certification letter produced by the independent actuary, Watson Wyatt, along with the results of the Plan's last valuation (1999).
- The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

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# LETTER OF TRANSMITTAL (Continued)



I trust that you and the members of the Plan will find this CAFR helpful in understanding the Federated Retirement System – 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, 2000. 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 received the certificate last year with its first application. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard 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.

**Major Initiatives**

Retirement Services moved to their new location at 1737 North First St., Suite 580. This provided room to increase staffing toward the targeted level that was approved with the creation of the Department of Retirement Services. Eight and one-half new positions were added to the Budget and six and one-half have been filled this past year.

**Additions to Plan Net Assets**

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for FY2001 totaled $45,332,000.

| ADDITIONS | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Employee Contributions | $ 11,768,000 | $ 12,400,000 | ($ 632,000) | (5%) |
| Employer Contributions | 37,034,000 | 35,825,000 | 1,209,000 | 3% |
| Investment Income | (3,470,000) | 77,971,000 | (81,441,000) | (104%) |
| **TOTAL** | **$45,332,000** | **$126,196,000** | **$(80,864,000)** | **(64%)** |

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# LETTER OF TRANSMITTAL (Continued)



The decrease in investment income was attributable due to the depreciation in fair value of investments. The increase in employer contributions was attributed to higher active payroll, while the decrease in employee contributions is due to a decrease in contribution rates.

**Deductions from Plan Net Assets**

The principal purpose for which the Plan was created is to provide retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes benefit payments as designated by the Plan, return of contributions and interest to employees who have terminated their membership, Healthcare Insurance Premiums and the cost of administering the Plan.

| DEDUCTIONS | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Retirement Benefits | $43,761,000 | $44,655,000 | ($894,000) | (2%) |
| Healthcare Insurance | 6,530,000 | 5,236,000 | 1,294,000 | 25% |
| Death Benefits | 105,000 | 20,000 | 85,000 | 425% |
| Return of Contributions | 1,886,000 | 1,386,000 | 500,000 | 36% |
| Administrative Expenses | 1,420,000 | 1,136,000 | 284,000 | 25% |
| **TOTAL** | **$53,702,000** | **$52,433,000** | **$1,269,000** | **2%** |

The increase in administrative expenses was mainly due to increase staff cost, Deloitte & Touche's assistance with policy and procedure and additional equipment for new staff. The increase in healthcare benefits was mainly due to increased number of beneficiaries along with increased health premium costs.

**Changes in Plan Memberships**

Plan membership changes for the defined benefit pension plan for FY2001 were as follows:

| | 2001 | 2000 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Active Members* | 4,813 | 4,462 | 351 | 8% |
| Retired Members | 1,620 | 1,555 | 65 | 4% |
| Survivors** | 338 | 318 | 20 | 6% |
| **TOTAL** | **6,771** | **6,335** | **436** | **7%** |

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

** Survivor total includes ex-spouses.

**Financial and Economic Summary**

In an effort to curtail potential inflationary pressures, the Federal Reserve launched a series of increases in the federal funds rate. Economic growth slowed in response to the tightening of monetary policy and as a result of the retrenchment in the technology sector.

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# LETTER OF TRANSMITTAL (Continued)



As the extent of the slowdown in the economy became clear, the Federal Reserve reversed gears and initiated a series of reductions in the target federal funds rate beginning in early 2001. Despite a rise in oil prices earlier in the year, inflation remained relatively well controlled.

The outlook for the next few years, as the Federal Reserve tries to steer the economy towards a period of less robust economic growth while trying to avoid a recession, investment returns can be expected to be considerably less than were evident in the late 1990's. The Plan is well structured to meet its investment objectives as defined in the Investment Policy Statement.

## 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.

Compared to the TUCS Public Fund Universe, the Plan's investment turned in an above-average performance during FY2001. The portfolio earned a total return of –0.16% versus –5.4% for TUCS. Over long-term periods, the portfolio has earned a total return of 5.94% over the past three years and 9.82% over the past five years. On a fair value market basis, the total plan net assets decreased from $1,184,320,000 to $1,169,260,000 net of pending purchases and sales.

## Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 1999, the funding ratio of the Plan was approximately at 93%. A six-year history of the Plan's funding progress is presented on page 31. The net decrease in Plan assets for FY2001 was $8,370. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on pages 21.

## 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,

Edward F. Overton
Director, Retirement Services

1737 N. First St. Suite 580 San José, CA 95112-4505 tel (408) 392-6700 fax (408) 392-0771 www.ci.san-jose.ca.us

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## San Jose Federated City Employees Retirement System, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

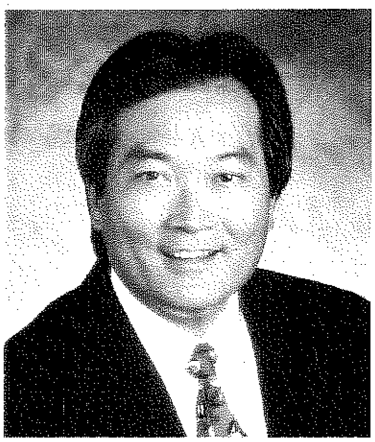
President

Executive Director

# BOARD OF ADMINISTRATION

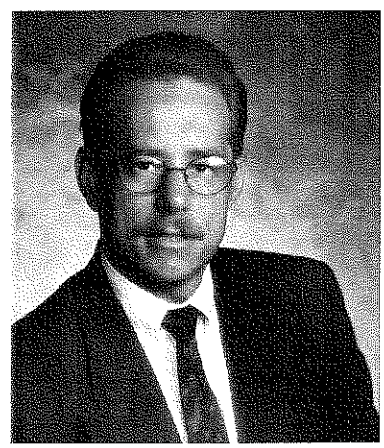
The Retirement Plan is administered by a five-member Board of Administration composed of a City Council member, a member of from the Civil Service Commission, two City employees elected by members of the system, and a public member who is not connected with the City and has significant banking or investment experience selected by the four Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San Jose Municipal Code.

As of June 30, 2000, the members of the Board were as follows:



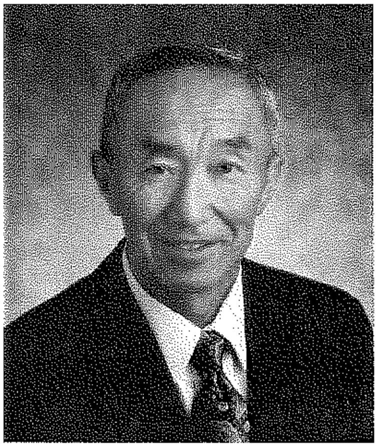
**Bradley Imamura, Chairman**
Employee Representative elected to the Board in November 1993. His current term expires November 30, 2001.

**Jeffrey Perkins, Vice Chairman**
Public member appointed to the Board in June 1996. His current term expires November 30, 2002.

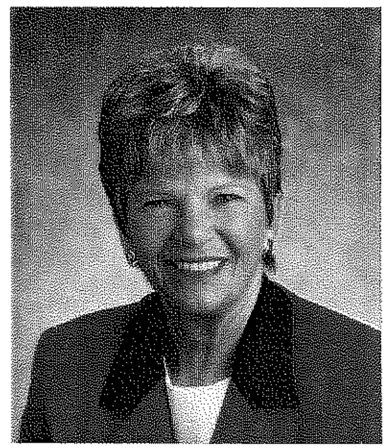


**Linda LeZotte**
City Council member appointed to the Board in January 1999.

# BOARD OF ADMINISTRATION (Continued)

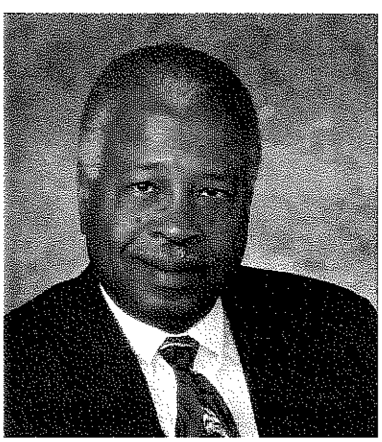


**Mike Yoshimoto**
Employee Representative appointed to the Board in December 1999. His current term expires November 30, 2003.

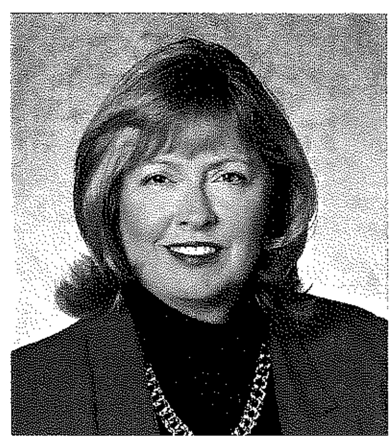


**Sharon Hightower**
Civil service commission member appointed in December 1999. Her current term expires December 1, 2003.

## DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION



Edward F. Overton
Director, Retirement Services



Ina Lancaster
Deputy Director

## OUTSIDE CONSULTANTS

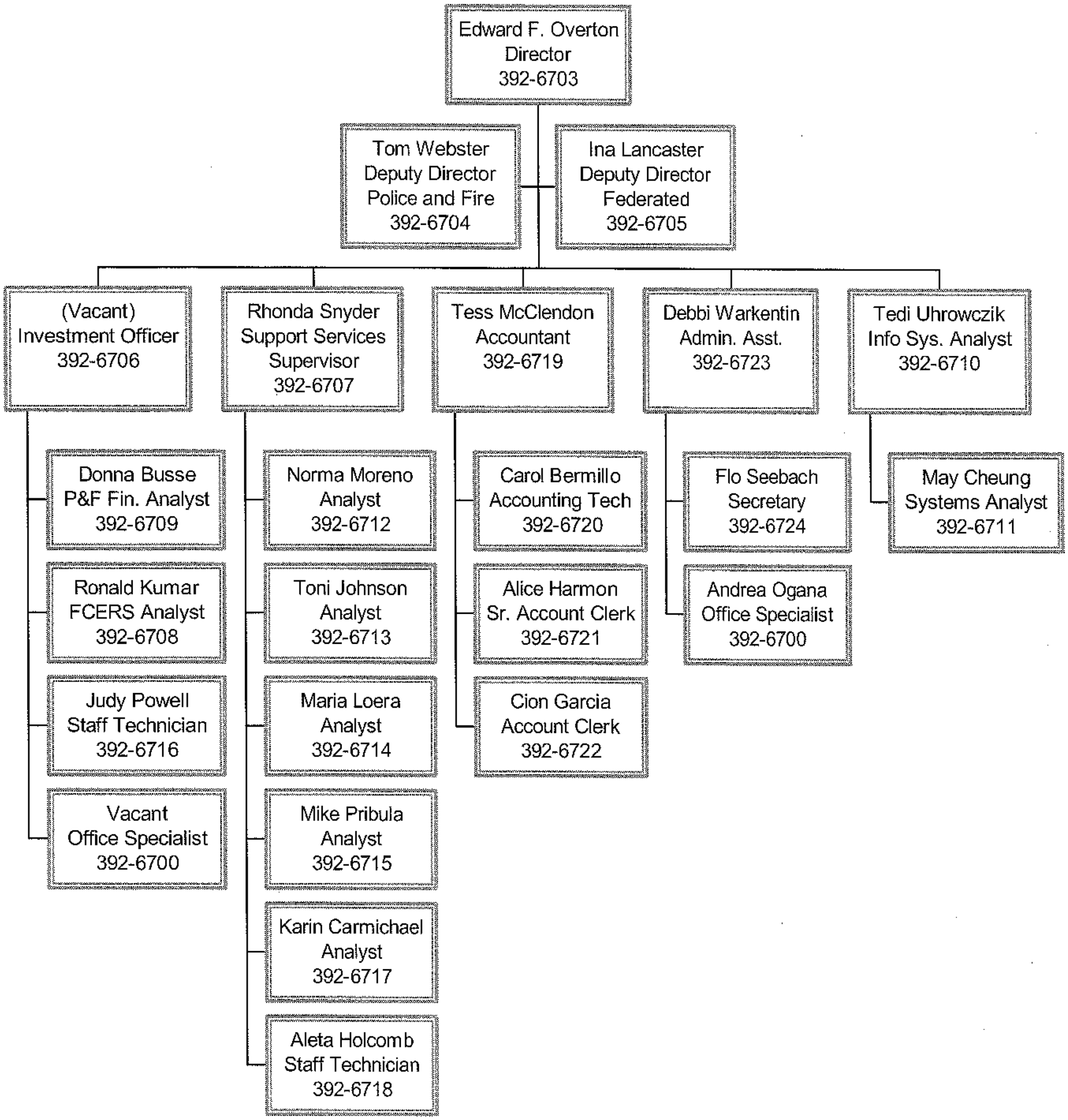
| | |
|---|---|
| ACTUARY | Watson Wyatt & Company<br>Seattle, WA |
| ATTORNEY, CONFLICTS | Saltzman & Johnson<br>San Francisco, CA |
| ATTORNEY, REAL ESTATE | McCutchen, Doyle, Brown & Enersen<br>Palo Alto, CA |
| AUDITOR | Macias, Gini & Company, LLP<br>Walnut Creek, CA |

## STANDING PUBLIC MEETINGS

| | |
|---|---|
| Board Meetings: | Second Thursday of the Month<br>8:30 AM - City Hall Council Chambers |
| Subcommittee for Investments: | Quarterly |
| Real Estate Subcommittee: | Quarterly |

Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at www.ci.san-jose.ca.us/retire/retirement.htm or they can be obtained in the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. **Meeting times and locations are subject to change, please call our office at 408-392-6700 for current information.**

# DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART




**DEPARTMENT OF RETIREMENT SERVICES**
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# SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS

## MEMBERSHIP

Mandatory for all full-time non-safety employees.

## MEMBER CONTRIBUTION

All members contribute 4.76% of base salary.

## CITY'S CONTRIBUTION

The City contributes 16.09% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

## RETIREMENT

Members may retire at age 55 with five or more years of service or at any age with 30 years of service.

## RETIREMENT ANNUITY

The retirement annuity payable is the Final Average Salary multiplied by 2 1/2% per year of service (75% of the Final Average Salary maximum).

## FINAL AVERAGE SALARY

The average monthly salary for the highest thirty-six (36) consecutive months. Effective July 01, 2001, the average is twelve (12) consecutive months.

## DISABILITY RETIREMENT

### Non-Service Connected

A non-service connected disability annuity is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service connected disability annuity is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary X 2 1/2% X Number of Years of Service). The annuity will be reduced by .5% for each year of age under 55.

For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Average Salary for 6 years of service;
add 2% for each year of service in excess of 6 years but less than 16 years;
add 2 1/2% for each year of service in excess of 16 years of service.

# SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

**Service-Connected**

A service connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability annuity is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments.

## TERMINATION BENEFITS

Upon termination, the member will be paid all of his or her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement System except that a member terminating with at least five (5) years of service may elect to leave the accumulated contributions and interest on deposit.

## DEFERRED RETIREMENT

Contributions left on deposit by a member terminating with at least five (5) years of service (vesting) entitle the employee to a retirement annuity upon attaining age 55.

## RECIPROCITY

Effective December 9, 1994, the City entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

## COST OF LIVING

The Board of Administration determines the change in the cost of living (COL) each year using the most current December Consumer Price Index. This Index is in accordance with San Jose Municipal Code "for all urban consumers (CPI-U) San Francisco-Oakland Metropolitan Area" as published by the Bureau of Labor Statistics of the United States Department of Labor. The Board determines the change to be effective beginning April first each year. A maximum of 3% is granted with any excess accumulated for use in future years. A retiree receives no COL adjustment for the first year, then receives a pro-rated adjustment for the months before the next April first. Survivors will be paid their next COL adjustment at the same time it would have been paid to the retiree. There is no break in the COL schedule.

## DEATH BEFORE RETIREMENT

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance determined by the years of service times 2 1/2% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

1 child receives 25% of the spousal benefit
2 children share 50% of the spousal benefit
3+ children share 75% of the spousal benefit

# SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

The beneficiary, in the event that no family members are eligible for a monthly allowance, is entitled to a return of the member's contributions and interest plus a death benefit of one month's salary for each year of service (up to six years).

If the employee is 55 and has 20 or more years of service at the time of death, his/her spouse will retain the survivorship allowance for life. If not, the spouse loses the allowance upon a remarriage.

## DEATH AFTER RETIREMENT

The surviving spouse receives one-half* of the member's retirement allowance until death and a $500 death benefit (* At the time of retirement, the member may select an alternative option allowing for a survivorship allowance of up to 100% of the member's allowance). If there is no surviving spouse, dependant children are eligible for an allowance. The allowance is:

1 child receives 25% of spousal benefit
2 children share 50% of spousal benefit
3+ children share 75% of spousal benefit

## MANAGEMENT

The Plan is under the management of a five (5) member Board of Administration consisting of a City Council person, a Civil Service Commissioner, a public member with significant banking or investment experience, and two elected employees who are members of the Retirement System. (Effective August 2001, seven members).

## ADMINISTRATION

A full-time Director is employed by the Board. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The Fund 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.

Bank of New York is employed as custodian of fund assets and collector of investment income.

## ACTUARIAL SOUNDNESS

Watson Wyatt and Company is retained for regular, continuing actuarial services. Plan and benefit provisions

# SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

are periodically reviewed to assure continuing soundness.

## INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and allows maximum utilization of the Plan's resources. Nationally known investment advisory services including Zurich Scudder; Dodge and Cox; Bank of Ireland; Julius Baer; Atlanta Capital Management; Brandywine Asset Managment; Eagle Asset Management; Northern Trust; Paradigm Asset Management; MIG Realty Advisors; TimeSquare Real Estate Investors (Formally Cigna Investment Management), DRA Advisors, Inc. and Fidelity Investments are retained for full-time investment counsel. Bank of New York is retained as the investment performance consultant.

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# II.
# FINANCIAL SECTION

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# INDEPENDENT AUDITOR'S REPORT

MG
Macias, Gini & Company LLP
Certified Public Accountants and Management Consultants

Partners
Kenneth A. Macias, Managing Partner
Ernest J. Gini
Kevin J. O'Connell
Richard A. [illegible]
Jan A. [illegible]
James V. [illegible]

Mt. Diablo Plaza
2175 N. California Boulevard
Suite [illegible]
Walnut Creek, CA [illegible]

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925-274-3819 fax
www.maciasgini.com

The Board of Administration
City of San Jose Federated City Employees'
Retirement System

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San Jose Federated City Employees' Retirement System (the System), as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2001 and 2000, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The data designated as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on such data.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 24, 2001

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

# STATEMENT OF PLAN NET ASSETS
## For the Fiscal Years Ended June 30, 2001 and 2000
## (In Thousands)

| | 2001 | | | |
|---|---|---|---|---|
| | Pension benefits | Post-employment healthcare benefits | Total | 2000 |
| ASSETS | | | | |
| Receivables: | | | | |
| Employee contributions | $ 200 | $ 28 | $ 228 | $ 205 |
| Employer contributions | 709 | 35 | 744 | 698 |
| Brokers and others | 725 | 45 | 770 | 11,310 |
| Accrued investment income | 7,057 | 445 | 7,502 | 7,117 |
| Total receivables | 8,691 | 553 | 9,244 | 19,330 |
| Investments, at fair value: | | | | |
| Securities and other | 930,144 | 57,624 | 987,768 | 1,002,722 |
| Real estate | 97,025 | 6,119 | 103,144 | 95,449 |
| Loaned securities for cash and noncash collateral | 72,913 | 4,599 | 77,512 | 80,439 |
| Securities lending cash collateral | 72,264 | 4,558 | 76,822 | 82,108 |
| Total investments | 1,172,346 | 72,900 | 1,245,246 | 1,260,718 |
| Total assets | 1,181,037 | 73,453 | 1,254,490 | 1,280,048 |
| LIABILITIES: | | | | |
| Payable to brokers | 1,865 | 117 | 1,982 | 12,839 |
| Securities lending collateral, due to borrowers | 72,264 | 4,558 | 76,822 | 82,108 |
| Other liabilities | 1,689 | 121 | 1,810 | 2,855 |
| Total liabilities | 75,818 | 4,796 | 80,614 | 97,802 |
| NET ASSETS HELD IN TRUST FOR: | | | | |
| Pension benefits | 1,105,219 | - | 1,105,219 | 1,109,637 |
| Postemployment healthcare benefits | - | 68,657 | 68,657 | 72,609 |
| Total net assets (A schedule of funding progress is presented on page 12.) | $ 1,105,219 | $ 68,657 | $ 1,173,876 | $ 1,182,246 |

See accompanying notes to financial statements.

# STATEMENT OF CHANGES IN PLAN NET ASSETS
## For the Fiscal Years Ended June 30, 2001 and 2000
## (In Thousands)

| | 2001 | | | |
|---|---|---|---|---|
| | Pension benefits | Post-employment healthcare benefits | Total | 2000 |
| ADDITIONS: | | | | |
| Contributions: | | | | |
| Employee | $ 10,306 | $ 1,462 | $ 11,768 | $ 12,400 |
| Employer | 35,284 | 1,750 | 37,034 | 35,825 |
| Total contributions | 45,590 | 3,212 | 48,802 | 48,225 |
| Investment income (loss): | | | | |
| Net appreciation (depreciation) in fair value of investments | (44,728) | (3,239) | (47,967) | 38,170 |
| Interest income | 29,627 | 2,118 | 31,745 | 28,075 |
| Dividend income | 7,752 | 501 | 8,253 | 8,223 |
| Net rental income | 7,386 | 479 | 7,865 | 6,613 |
| Less investment expense | (3,154) | (398) | (3,552) | (3,298) |
| Net investment income (loss), before securities lending income | (3,117) | (539) | (3,656) | 77,783 |
| Securities lending income (loss): | | | | |
| Earnings | 4,381 | 78 | 4,459 | 3,903 |
| Rebates | (4,076) | (73) | (4,149) | (3,590) |
| Fees | (122) | (2) | (124) | (125) |
| Net securities lending income (loss) | 183 | 3 | 186 | 188 |
| Net investment income (loss) | (2,934) | (536) | (3,470) | 77,971 |
| Total additions | 42,656 | 2,676 | 45,332 | 126,196 |
| DEDUCTIONS: | | | | |
| Retirement benefits | 43,761 | - | 43,761 | 44,655 |
| Healthcare insurance premiums | - | 6,530 | 6,530 | 5,236 |
| Death benefits | 105 | - | 105 | 20 |
| Refund of contributions | 1,886 | - | 1,886 | 1,386 |
| Administrative expenses and other | 1,322 | 98 | 1,420 | 1,136 |
| Total deductions | 47,074 | 6,628 | 53,702 | 52,433 |
| Net increase (decrease) | (4,418) | (3,952) | (8,370) | 73,763 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS: | | | | |
| Beginning of year | 1,109,637 | 72,609 | 1,182,246 | 1,108,483 |
| End of year | $ 1,105,219 | $ 68,657 | $ 1,173,876 | $ 1,182,246 |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San Jose Federated City Employees' Retirement System (the System) is provided for general information purposes only. Employees and members should refer to the City of San Jose Municipal Code for more complete information.

### *(a) General*

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended June 15, 2001, to provide retirement benefits for certain employees of the City of San Jose (the City). The System is considered to be a part of the City's financial reporting entity and is included in the City's general purpose financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (the Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately $244,780,000 and $228,146,000 for 2001 and 2000, respectively. Covered payroll amounted to approximately $230,024,000 and $212,310,000 for 2001 and 2000, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2001 and 2000, employee membership data related to the System was as follows:

| | 2001 | 2000 |
|---|---|---|
| Defined Benefit Pension Plan: | | |
| Retirees and beneficiaries currently receiving benefits | 1,958 | 1,873 |
| Terminated vested members not yet receiving benefits | 295 | 266 |
| Active members | 4,518 | 4,196 |
| Total | 6,771 | 6,335 |
| Post-employment Healthcare Plan: | | |
| Retirees and beneficiaries currently receiving benefits | 1,810 | 1,718 |
| Terminated vested members not yet receiving benefits | 43 | 37 |
| Active members | 4,518 | 4,196 |
| Total | 6,371 | 5,951 |

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

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

### *(b) Pension Benefits*

An employee with 5 or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2-1/2% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 36 months of consecutive 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 before completing five years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, the member may leave contributions in the System with less than five years of service.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

### *(c) Death Benefits*

If an employee's death before retirement is service related, or is nonservice related and the employee has at least 5 years of service, a surviving spouse is paid an annual annuity benefit equal to 2-1/2% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she marries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal benefit such that no one child shall receive more than 25% of the spousal benefit and the sum for all eligible children shall not exceed 75% of the spousal benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of 6 years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, $500 is paid to the employee's beneficiary or estate. In addition, the employee's surviving spouse continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse, 25% of the spouse's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

### *(d) Disability Benefits*

If an employee suffers a service related disability before retirement, the employee may retire regardless of length of service. The annual disability benefit paid for a service related disability is 2-1/2% of final compensation multiplied by the number of years of service. The maximum benefit is 75% and the minimum benefit is 40% of final compensation. The benefit is offset by workers' compensation payments.

If an employee with at least 5 years of service suffers a nonservice related disability, the annual disability benefit is equal to the greater of: (1) 2-1/2% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 1/2% of final compensation for each year an employee's age is under 55.

If an employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of 6 but less than 16, plus 2.5% for years of service in excess of 16.

### *(e) Postemployment Healthcare Benefits*

The City of San Jose Municipal Code provides that retired employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active federated City employee. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage.

### *(f) Plan Termination*

In the event the System is terminated, there is no provision for the distribution of net assets.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Basis of Accounting*

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed. 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 Postemployment Healthcare Plan are accounted for separately. It is required that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the disclosed amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### *(b) 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.

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.

### *(c) Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits*

The System is required by the City of San Jose Municipal Code to establish various reserves in the plan net assets. The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund (which includes postemployment healthcare benefits) and the Cost-of-Living Fund. As of June 30, 2001, the net assets, totaling $1,173,876,000 on a combined basis for both the Retirement Fund and the Cost-of-Living Fund, is allocated as follows (in thousands):

| | Retirement Fund | Cost-of-Living Fund | Total 2001 | 2000 |
|---|---|---|---|---|
| Employee contributions | $ 167,431 | $ 46,175 | $ 213,606 | $ 204,662 |
| Employer contributions | 281,641 | 140,763 | 422,404 | 366,063 |
| Retired employees' annuity | 145,285 | (7,084) | 138,201 | 158,310 |
| Benefits payable | 294,352 | - | 294,352 | 274,119 |
| Supplemental retiree benefits | 16,234 | - | 16,234 | 17,111 |
| Contingency reserve | 3,371 | - | 3,371 | 19,941 |
| Unrealized gains (loss) on investments held | (17,827) | 18,085 | 258 | 57,607 |
| General reserve | - | 85,450 | 85,450 | 84,433 |
| Total | $ 890,487 | $ 283,389 | $1,173,876 | $ 1,182,246 |

### *(d) Interest Crediting/Allocation of the Contingency Reserve and General Reserve Accounts*

Realized earnings on investments and gains and losses on the sale of investments are recorded in the contingency reserve category of net assets for the Retirement Fund and in the general reserve category of net assets for the Cost-of-Living Fund.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Except for the contingency reserve and general reserve accounts, interest is credited to the other reserve accounts of both the Retirement and Cost-of-Living funds based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 7.25% during, fiscal 2001 and 2000. For the Retirement Fund, interest is allocated from the contingency reserve category of fund balance and is credited to the following fund balance categories: employee contributions, employer contributions, retired employees' annuity, benefits payable, and supplemental retiree benefits. For the Cost-of-Living Fund, interest is allocated from the general reserve account and is credited to the following fund balance categories: employee contributions, employer contributions, and the retired employees' annuity.

***(e) "Excess Earnings" in the Contingency Reserve***

Within 90 days of completion of the annual audit of the System's financial statements, any excess earnings as defined by the San Jose Municipal Code remaining in the contingency reserve category of net assets are to be transferred 90% to the benefit payable and 10% to the supplemental retiree benefits categories of net assets. Based on the net decrease of net plan assets for fiscal 2001, there were no "excess earnings" to transfer.

***(f) Reclassifications***

Certain prior year balances were reclassified to conform with the current year presentation. The reclassifications have no effect on the System's financial position or results of operations.

## NOTE 3 – INVESTMENTS

The System's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial risk assumed by the System at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualified financial institution's trust department or agent, in the System's name, where the financial institution acts as the System's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualified financial institution's trust department or agent, but not in the System's name. There were no investments in Categories 2 or 3, as of June 30, 2001 and 2000.

# NOTES TO FINANCIAL STATEMENTS (Continued)
## For the Fiscal Years Ended June 30, 2001 and 2000

### NOTE 3 – INVESTMENTS (Continued)

The categorization of the System's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2001 and 2000, was as follows (in thousands):

| | Fair Value | |
|---|---|---|
| | June 30, 2001 | June 30, 2000 |
| Category 1: | | |
| U.S. Treasury notes and bonds | $ 4,418 | $ - |
| U.S. government securities | | |
| Not on securities loan | 154,747 | 138,049 |
| Loaned securities for non cash collateral | - | 1,117 |
| Foreign government bonds: | | |
| Not on securities loan | 56,166 | 53,140 |
| Loaned securities for non cash collateral | 3,653 | - |
| Domestic corporate bonds | 162,135 | 138,057 |
| Foreign corporate bonds | 12,173 | 7,211 |
| Domestic equity securities | 232,231 | 228,908 |
| Foreign equity securities | 90,313 | 121,536 |
| Uncategorized: | | |
| Investments held by broker-dealers under securities loans for cash collateral: | 39,457 | 47,718 |
| U.S. Treasury bonds and notes | - | 1,815 |
| Foreign government bonds | 12,504 | 10,974 |
| Domestic corporate bonds | 15,236 | 18,815 |
| Domestic equity securities | 6,661 | - |
| Foreign equity securities | (657) | 323 |
| Short-term foreign currency investments | 276,243 | 315,498 |
| Collective short-term investment funds | 103,144 | 95,449 |
| Real estate investments | 76,822 | 82,108 |
| Securities lending collateral investment pool | | |
| Total investments | $1,245,246 | $ 1,260,718 |

The following table presents the System's investments as presented on the accompanying statement plan net assets as of June 30, 2001 and 2000 (in thousands):

| | June 30, 2001 | June 30, 2000 |
|---|---|---|
| Investments: | | |
| Defined Benefit Pension Plan | $ 1,172,346 | $ 1,183,196 |
| Postemployment Healthcare Plan | 72,900 | 77,522 |
| | $ 1,245,246 | $ 1,260,718 |

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

**NOTE 3 – INVESTMENTS (Continued)**

The collective short-term investment fund is used for overnight investment of all excess cash in the System's funds. It is invested by the System Custodian, and held in the System 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 the payment of interest;
- Repurchase agreements with major banks and with broker-dealers registered under the Securities and Exchange Act of 1934; and
- Fully insured bank deposits.

The loaned securities represent securities on loan to brokers or dealers or other borrowers. The municipal code and the investment policy, adopted by the Board, permit the use of a securities lending program with its principal custodian bank. The investment policy requires that loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months. The custodial agreement with the System Custodian authorizes such custodian to loan securities in the System's investment portfolio under such terms and conditions as the System Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the System Custodian 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, the System Custodian is required to credit the System's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

The loaned securities as of June 30, 2001 and 2000, consisted of U.S. Treasury bonds and notes, domestic corporate bonds, foreign government bonds, domestic equity securities, and foreign equity securities. In return, the System receives collateral in the form of cash or securities at 102% to 107% of the principal plus accrued interest for reinvestment.

Securities lent at year-end for cash collateral are presented as uncategorized in the preceding categorization of the System's investments.

Securities lending collateral represents investments in a securities lending collateral investment pool purchased with cash collateral, as well as securities collateral that the System may not pledge or sell without a borrower default. The System does not match the maturities of investments made with cash collateral with the securities on loan.

# NOTES TO FINANCIAL STATEMENTS (Continued)
# For the Fiscal Years Ended June 30, 2001 and 2000

## NOTE 3 – INVESTMENTS (Continued)

As of June 30, 2001, the underlying securities loaned by the System as a whole amounted to approximately $77,512,000. The cash collateral and the noncash collateral totaled $76,822,000 and $3,773,000, respectively. As of June 30, 2000, the underlying securities loaned by the System as a whole amounted to approximately $80,439,000. The cash collateral and the noncash collateral totaled $82,108,000 and $1,156,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2001 and 2000.

Real estate investments include a warehouse, retail center, and office building located in Northern California: an industrial complex, office building, and retail center in Southern California, apartment complexes in Florida; and an interest in three real estate funds managed by third parties. The properties located in California are jointly owned with the City's other retirement fund. The properties have leases with various terms.

The System has made investments in forward currency contracts, which are unrecorded commitments to purchase or sell stated amounts of foreign currency. Gains or losses on the disposition of the commitments are recorded at the time of settlement. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2001, total commitments in forward currency contracts to purchase and sell foreign currencies were $26,187,000 and $26,187,000, respectively, with market values of $26,447,000 and $25,789,000, respectively. As of June 30, 2000, total commitments in forward currency contracts to purchase and sell foreign currencies were $12,247,000 and $12,247,000, respectively, with market values of $11,906,000 and $12,229,000, respectively.

## NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

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. Contributions to the Postemployment Healthcare 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, over the next 15 years. 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 (see page 31).

The City and the participating employee contribution rates during the fiscal years ended June 30, 2001 and 2000 were as follows:

| | City | | Employee | |
|---|---|---|---|---|
| Period | Pension | Healthcare | Pension | Healthcare |
| 1/11/98 – 6/24/00 | 15.37% | 1.15% | 4.36% | 0.95% |
| 6/25/00 – 6/30/01 | 15.33 | 0.76 | 4.17 | 0.59 |

## NOTE 5 – CONCENTRATIONS

No investments in any one organization represent 5% of the Plan's net assets.

# REQUIRED SUPPLEMENTARY INFORMATION

# SCHEDULE OF FUNDING PROGRESS
# DEFINED BENEFIT PENSION PLAN
# (Unaudited - See accompanying independent auditor's report)
# (In Thousands)

**Funding Progress – GASB No 25**

| Actuarial valuation date | Actuarial value of assets [d] | Actuarial accrued liability (AAL) | Unfunded (overfunded) AAL | Funded ratio | Annual covered payroll | Unfunded (overfunded) AAL as a percentage of annual covered payroll |
|---|---|---|---|---|---|---|
| June 30, 1994 [a] | $ 527,984 | $ 620,647 | $ 92,663 | 85% | $ 149,850 | 62% |
| June 30, 1995 | 566,102 | 658,175 | 92,073 | 86% | 153,918 | 60% |
| June 30, 1996 [b] | 622,528 | 696,974 | 74,446 | 89% | 165,101 | 45% |
| June 30, 1997 | 678,954 | 735,772 | 56,818 | 92% | 176,284 | 32% |
| June 30, 1998 [c] | 741,907 | 798,999 | 57,092 | 93% | 182,842 | 31% |
| June 30, 1999 | 804,860 | 862,226 | 57,366 | 93% | 196,178 | 29% |

Actuarial valuations have been performed biennially through June 30, 1999. The June 30, 2001 actuarial valuation will be available for the fiscal year 2001/02 reporting period.

(a) Average of the June 30, 1993 and June 30, 1995 results.

(b) Average of the June 30, 1995 and June 30, 1997 results.

(c) Average of the June 30, 1997 and June 30, 1999 results.

(d) Reported at "smoothed market" value determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period.

# SCHEDULE OF EMPLOYER CONTRIBUTIONS
# DEFINED BENEFIT PENSION PLAN
## (Unaudited - See accompanying independent auditor's report)
## (In Thousands)

| Fiscal year ended June 30, | Annual required employer contributions | Percentage Contributed |
|---|---|---|
| 1996 | $ 22,546 | 100% |
| 1997 [a] | 29,455 | 92% |
| 1998 [a] | 30,367 | 96% |
| 1999 | 30,139 | 100% |
| 2000 | 34,146 | 100% |
| 2001 | 35,284 | 100% |

(a) The difference between the annual required employer contributions and the actual contributions for the fiscal years ended June 30, 1997 and 1998, was due to the System's selection of lower contribution rates from among allowable alternatives.

# NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
# DEFINED BENEFIT PENSION PLAN
## (Unaudited - See accompanying independent auditor's report)
## Year Ended June 30, 2001

| Description | Method/Assumption |
|---|---|
| Valuation date | June 30, 1999 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll |
| Remaining amortization period | 19 years, closed |
| Actuarial asset valuation method | 5 year smoothed market |
| Actuarial assumptions: | |
| Assumed rate of return on investments | 8.25% per annum |
| Post-retirement mortality | The 1983 Group Annuity Mortality Table for males, with one year setback is used for male members.<br>The 1983 Group Annuity Mortality Table for females, with one year set forward, is used for female members. |
| Active service, withdrawal, death, disability service retirement | Tables based on current experience |
| Salary increases | In general, merit and longevity increases plus assumed general wage increase of 4.5% per year |
| Cost-of-living adjustments | 3.0% a year |

# OTHER SUPPLEMENTAL INFORMATION

# COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS
## June 30, 2001
## (In Thousands)

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| ASSETS | | | |
| Receivables: | | | |
| Employee contributions | $ 145 | $ 55 | $ 200 |
| Employer contributions | 547 | 162 | 709 |
| Brokers and others | 541 | 184 | 725 |
| Accrued investment income | 5,328 | 1,729 | 7,057 |
| Total receivables | 6,561 | 2,130 | 8,691 |
| Investments, at fair value: | | | |
| Securities and other | 689,824 | 240,320 | 930,144 |
| Real estate | 73,256 | 23,769 | 97,025 |
| Loaned securities for cash and noncash collateral | 55,051 | 17,862 | 72,913 |
| Securities lending collateral | 54,561 | 17,703 | 72,264 |
| Total investments | 872,692 | 299,654 | 1,172,346 |
| Total assets | 879,253 | 301,784 | 1,181,037 |
| LIABILITIES: | | | |
| Payable to brokers | 1,408 | 457 | 1,86 |
| Securities lending collateral, due to borrowers | 54,561 | 17,703 | 72,264 |
| Other liabilities | 1,454 | 235 | 1,689 |
| Total liabilities | 57,423 | 18,395 | 75,818 |
| Net assets held in trust for pension benefits | $ 821,830 | $ 283,389 | $ 1,105,219 |

# COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
## For the Fiscal Year Ended June 30, 2001
## (In Thousands)

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employee | $ 7,458 | $ 2,848 | $ 10,306 |
| Employer | 27,469 | 7,815 | 35,284 |
| Total contributions | 34,927 | 10,663 | 45,590 |
| Investment income (loss): | | | |
| Net appreciation (depreciation) in fair value of investments | (37,882) | (6,846) | (44,728) |
| Interest income | 22,330 | 7,297 | 29,627 |
| Dividend income | 5,858 | 1,894 | 7,752 |
| Net rental income | 5,612 | 1,774 | 7,386 |
| Less investment expense | (2,317) | (837) | (3,154) |
| Net investment income (loss), before securities lending income | (6,399) | 3,282 | (3,117) |
| Securities lending income (loss): | | | |
| Earnings | 3,354 | 1,027 | 4,381 |
| Rebates | (3,120) | (956) | (4,076) |
| Fees | (93) | (29) | (122) |
| Net securities lending income (loss) | 141 | 42 | 183 |
| Net investment income (loss) | (6,258) | 3,324 | (2,934) |
| Total additions | 28,669 | 13,987 | 42,656 |
| DEDUCTIONS: | | | |
| Retirement benefits | 34,551 | 9,210 | 43,761 |
| Death benefits | 105 | - | 105 |
| Refund of contributions | 1,480 | 406 | 1,886 |
| Administrative expenses and other | 1,151 | 171 | 1,322 |
| Total deductions | 37,287 | 9,787 | 47,074 |
| Net increase (decrease) | (8,618) | 4,200 | (4,418) |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS: | | | |
| Beginning of year | 830,448 | 279,189 | 1,109,637 |
| End of year | $ 821,830 | $ 283,389 | $ 1,105,219 |

# SCHEDULE OF ADMINISTRATIVE EXPENSES AND OTHER
## For Years Ending June 30, 2001 and 2000

| | 2001 | | | 2000 |
|---|---|---|---|---|
| | Original Budget | Actual | Variance Favorable (Unfavorable) | Actual |
| **Personnel services:** | | | | |
| Permanent staff expense | $ 932,981 | $ 718,057 | $ 214,924 | $ 562,089 |
| Temporary staff expense | 3,500 | 2,931 | 569 | - |
| Total personnel services | 936,481 | 720,988 | 215,493 | 562,089 |
| **Professional services:** | | | | |
| Actuarial services | 45,000 | 42,900 | 2,100 | 34,058 |
| Independent fiduciary | - | - | - | 197,500 |
| Strategic investment solutions | - | - | - | 11,211 |
| Medical services | 55,000 | 27,354 | 27,646 | 34,433 |
| Audit | 25,000 | 23,882 | 1,118 | 11,999 |
| Legal counsel | 12,500 | 2,445 | 10,055 | 12,336 |
| Network consultant | 20,000 | 2,920 | 17,080 | 7,354 |
| Software development consultant | 25,000 | 32,808 | (7,808) | 53,029 |
| Business processes & procedures | 121,800 | 120,582 | 1,218 | - |
| Pension benefit information | 800 | 1,151 | (351) | 449 |
| Total professional services | 305,100 | 254,042 | 51,058 | 362,369 |
| **Communication:** | | | | |
| Postage | 15,000 | 10,685 | 4,315 | 9,755 |
| Printing | 13,000 | 13,204 | (204) | 6,253 |
| Duplicating | 10,000 | 4,172 | 5,828 | 5,793 |
| Data processing | 6,000 | 7,908 | (1,908) | 2,803 |
| Travel | 88,500 | 32,886 | 55,614 | 38,200 |
| Total communication | 132,500 | 68,855 | 63,645 | 62,804 |
| **Structure and Equipment:** | | | | |
| Copier lease | 11,900 | 3,865 | 8,035 | 2,484 |
| Copier maintenance | 3,800 | 1,908 | 1,892 | 1,764 |
| Furniture | 50,000 | 45,191 | 4,809 | - |
| Moving Service | 5,000 | 2,610 | 2,390 | - |
| Equipment | 43,500 | 36,087 | 7,413 | 6,104 |
| Equipment repair & miscellaneous services | 5,400 | 5,643 | (243) | 2,598 |
| Software enhancements | 42,425 | 19,563 | 22,862 | 54,000 |
| Computer hardware/software | 50,000 | 43,453 | 6,547 | 6,647 |
| Total structure and equipment | 212,025 | 158,320 | 53,705 | 73,597 |
| **Miscellaneous:** | | | | |
| Office expense | 30,000 | 29,193 | 807 | 15,793 |
| Dues/subscriptions | 4,000 | 3,354 | 646 | 2,913 |
| Training | 30,000 | 34,462 | (4,462) | 25,693 |
| Rent on building | 125,000 | 150,426 | (25,426) | 31,080 |
| Total miscellaneous | 189,000 | 217,435 | (28,435) | 75,479 |
| Total administrative expenses and other | $ 1,775,106 | $ 1,419,640 | $ 355,466 | $ 1,136,338 |

# SCHEDULE OF INVESTMENT EXPENSES
## For Years Ending June 30, 2001 and 2000

| | 2001 | 2000 |
|---|---|---|
| Equity: | | |
| Domestic equity | $ 1,183,513 | $ 994,917 |
| International equity | 505,799 | 410,150 |
| Total equity | 1,689,312 | 1,405,067 |
| Fixed income: | | |
| Domestic fixed income | 509,709 | 408,508 |
| Global fixed income | 246,526 | 225,945 |
| Total fixed income | 756,235 | 634,453 |
| Real estate | 979,935 | 808,864 |
| Total investment managers' fees | 3,425,482 | 2,848,384 |
| Other investment service fees: | | |
| Investment consultant | 32,500 | 197,871 |
| Proxy voting | 6,525 | 7,868 |
| Custodian | 87,445 | 244,449 |
| Total other investment service fees | 126,470 | 450,188 |
| TOTAL INVESTMENT EXPENSES | $ 3,551,952 | $ 3,298,572 |

# SCHEDULE OF PAYMENTS TO CONSULTANTS
## For Years Ending June 30, 2001

| Firm | Nature of Service | FEES 2001 | 2000 |
|---|---|---|---|
| Deloitte & Touche | Policies and Procedures Consultant | $ 120,582 | $ - |
| Independent Fiduciary Services | Organizational/Fiduciary Consultant | - | 197,500 |
| Levi, Ray & Shoup | PensionGold Software Developers | 32,808 | 53,029 |
| KPMG Peat Marwick | External Auditors | - | 11,999 |
| LanMinds | Network Maintenance/Consultant | 2,920 | 7,354 |
| Macias, Gini & Company, LLP | External Auditors | 23,882 | - |
| Palo Alto Medical/Other Medical | Medical Consultant | 27,354 | 34,433 |
| Pension Benefit Information | Reports on Beneficiary Deaths | 1,151 | 449 |
| Saltzman & Johnson | Legal Counsel | 2,445 | 12,336 |
| Strategic Investment Solutions | One Time Search Consultant | - | 11,211 |
| Watson Wyatt | Actuarial Consultant | 42,900 | 34,058 |
| TOTAL | | $ 254,042 | $ 362,369 |

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# III.
# INVESTMENT SECTION

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# REPORT ON INVESTMENT ACTIVITY

THE BANK OF NEW YORK

NEW YORK'S FIRST BANK – FOUNDED 1784 BY ALEXANDER HAMILTON

ONE WALL STREET, NEW YORK, N.Y. 10286

September 21, 2001

Mr. Edward F. Overton
Director, Retirement Services
Federated City Employees' Retirement System
1737 N. First Street, Suite 580
San Jose, California 95112-4505

Dear Mr. Overton:

This letter reviews the investment activity of the Federated City Employees' Retirement System of San Jose during the fiscal year ended June 30, 2001 for the Comprehensive Annual Report.

**Background**

The objectives of the System, as indicated in the Investment Policy Statement, are to assure sufficient funding for disbursements; to attempt to insure that investment earnings are sufficiently high, along with employee and City contributions, to offset liabilities in perpetuity; to strive for the highest total returns consistent with safety in accordance with accepted investment practices; to maintain an appropriate asset allocation; and to control costs. The Board has established an investment structure and process that effectively meets these goals.

The Board has selected an asset allocation policy that provides for a mix of domestic and international equities, domestic and international fixed income investments, and real estate, with targets for each asset class. Staff periodically reviews the asset allocation and rebalances the asset classes to keep them within established ranges in accordance with Investment Policy.

Quarterly performance reports are provided by The Bank of New York, the System's custodian, based on plan accounting data. The Bank of New York adheres to the Association for Investment Management and Research (AIMR) performance presentation standards and also assists the Board in a consultative capacity in monitoring the performance of the investment managers.

**The Economy and the Capital Markets**

During the fiscal year ending June 2001, the U. S. economy experienced a dramatic slowdown, while the stock market declined sharply. These results were set in motion during the preceding years. In the prior fiscal year, economic growth was robust, as real GDP rose 5.2%, well in excess of the economy's long-term growth rate. In an effort to curtail potential inflationary pressures, the Federal Reserve launched a series of increases in the federal funds rate

# REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

from 4.75% in the first half of 1999 to 6.50% by mid-2000. Economic growth slowed in response to the tightening of monetary policy and as a result of the retrenchment in the technology sector. Real GDP grew only 1.2% during the fiscal year ending June 2001. By the end of the fiscal year, reports of layoffs were rife, and the unemployment rate rose to 4.5%, compared to 4.0% a year earlier.

As the extent of the slowdown in the economy became clear, the Federal Reserve reversed gears and initiated a series of reductions in the target federal funds rate beginning in early 2001. By June 2001, the rate had been reduced to 3.75%. Despite a rise in oil prices earlier in the year, inflation remained relatively well controlled. The consumer price index rose 3.2% during the twelve months ending June 2001.

The reversal in the stock market during the past two years is striking. The technology-heavy NASDAQ index rose 47.7% during the 12 months ending June 2000 and then fell 45.5% during the following 12-month period. The broader Russell 1000 index had a total return of –14.96% during the fiscal year ending June 2001, while small capitalization stocks, as represented by the Russell 2000 index, had a total return of 0.57%. Value investing came back into favor, as value indices outperformed growth across all capitalizations. The disparity in performance for small cap stocks was particularly striking. The Russell 2000 Growth index had a total return of –23.35%, compared to an increase of 30.79% for the Value index.

International stocks declined along with U. S. stocks but were further affected for U. S. investors by substantial currency depreciation. As a result, the Morgan Stanley Capital International EAFE (Europe, Australia, and Far East) index had a total return of –23.60%. As is usually the case, the bond market reacted favorably to the weakness in the economy. The Lehman Brothers Aggregate bond index had a total return of 11.23%. The declines in the euro and the yen, among other currencies, also affected the return for U.S. investors in international bonds. The Salomon Brothers Non-U.S. World Government Bond Index had a total return of –7.45% during the past year and –0.21% during the past three years.

**Investment Results**

The total return of the System during the 12 months ended June 30, 2001 was –0.16%. Although this return is below the actuarial assumed rate of 8.25%, it is first quartile performance on a peer group comparison. The System has a relatively conservative asset allocation in terms of its commitment to equities. The significant exposure to domestic fixed income securities and to real estate provided partial offsets to the declines in the equities markets and helped stabilize the System's return.

The total return of the System was 5.94% during the last three years and 9.82% during the last five years (gross of fees). The return of the System can be compared to the return of its policy benchmark, which is what the assets would have returned had they been invested passively in the benchmark indices in proportion to the System's target asset allocation. On this basis, the System outperformed its policy benchmark during the last fiscal year but underperformed it slightly during the last three and five years.

# REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

The System's relatively conservative approach to investing is reflected in the extraordinarily low volatility of its returns. During the last three and five years, the annualized standard deviation of returns, which is also a widely accepted measure of risk, was among the lowest of all plans in the Trust Universe Comparison Service (TUCS). (TUCS is a large universe of institutional master trusts, including public pension plans.)

The System's largest allocation to an equities manager is for a Russell 3000 index fund, which encompasses companies whose capitalizations range from large to small. The System also has growth and value managers for large and small capitalization stocks. The large cap growth manager emphasizes high quality companies in its security selection process. This conservative orientation resulted in significant outperformance of its benchmark and first quartile performance as equity markets retrenched. The return of the large cap value manager has trailed the benchmark somewhat during the past year.

The relatively conservative orientation of the small cap growth manager, who uses a GARP (growth at a reasonable price) approach to investing, resulted in only a small decline during the past year, compared to a double-digit decline for the benchmark. Since this manager's performance trailed the benchmark when technology stocks were soaring, the manager's performance is still well below median on a three-year basis. The small cap value manager, who invests in a large number of stocks with very low price to earnings ratios, has also seen performance improve dramatically during the past year. Although its performance is still below median on a two-year basis, its deep value approach to investing resulted in very high first quartile performance on a one-year basis.

The international equities manager has had relatively steady performance, consistently outperforming the benchmark and delivering second quartile performance. The two domestic fixed income managers have had somewhat mixed results, with one manager's performance above the benchmark and the other's below it. The declines in the euro and the yen resulted in declines in the international bond portion. The international bond manager outperformed the benchmark during the past year by about a percentage point but slightly underperformed it on a three-year basis.

The real estate portion of the portfolio played an important role in offsetting the turmoil in the equities markets. The Composite return was 14.46% during the past year (lagged one quarter) and was above the benchmark return for all periods.

In summary, the System had relatively favorable performance in trying circumstances, and its structure is well positioned to meet the its objectives over time.

Yours truly,

Bernard Schoenfeld

Bernard Schoenfeld
Vice President

# INVESTMENT POLICY STATEMENT
# BOARD OF ADMINISTRATION
# FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board ("Board") and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

* Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.

* Setting forth an investment structure for managing all the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total invest ment return over the long-term.

* Providing guidelines for the investment System that control the level of overall risk and liquidity assumed in that System, so that all the System's assets are managed in accordance with stated objectives.

* Encouraging effective communications between the Board, the investment consultant (Consult ant) and the money managers.

* Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.

* Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

(1) Require that the Retirement System be sufficiently funded to assure that all disbursement obligations will be met.

(2) Attempt to insure that the 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.

# INVESTMENT POLICY STATEMENT (Continued)

(3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.

(4) Control costs of administering the System's assets and managing the investments.

Asset Allocation Policy

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 System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

| Asset Class | Minimum | Target | Maximum |
|---|---|---|---|
| Domestic Equity | 37% | 42% | 47% |
| • Large Cap Equity | | 32% | |
| • Small Cap Equity | | 10% | |
| International Equity | 6% | 10% | 14% |
| Domestic Bonds | 29% | 34% | 39% |
| International Bonds | 3% | 6% | 9% |
| Real Estate | 5% | 8% | 11% |

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Investment Objectives" section which preceded this section.

(Procedure 453)
The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change, the policy needs to be modified to compensate for those changes so that the Retirement System remains sufficiently funded to meet all distribution needs.

# INVESTMENT POLICY STATEMENT (Continued)

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Administrator will review the asset mix of the Plan on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 454. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

Re-balancing of Strategic Allocation

(Procedure 454)
The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance 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 System.

General guidelines for re-balancing the portfolio are as follows:

(1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the fund will be re-balanced to the target over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. **If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.**

(2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient,

# INVESTMENT POLICY STATEMENT (Continued)

then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.

(3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.

(4) Transfers to or from the Domestic Stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.

(5) Since the Domestic Equity Class represents a large part of the Fund, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

**Asset Allocation Model Secondary Targets Within the Domestic Equity Class**

| *Portfolio Category: Form of Investment Management* | As a Percentage of the Domestic Equity Portfolio | As the Equivalent Percentage of the Total Portfolio | Allowable Variation from the Percentage of Total Portfolio |
|---|---|---|---|
| Index Fund | 50% | 21% | +/- 4.5% |
| Large Cap Value | 18% | 7.5% | +/- 2.5% |
| Large Cap Growth | 18% | 7.5% | +/- 2.5% |
| Small Cap Value | 7% | 3.0% | +/- 1.5% |
| Small Cap Growth | 7% | 3.0% | +/- 1.5% |

(6) All transfers should be made in accordance with the cash management policy.

Liquidity

The Board has authorized the Plan administrator to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Administrator will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

# INVESTMENT POLICY STATEMENT (Continued)

Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager will not represent more than 10% of that manager's assets.

Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities as they should deem advisable.

(This section is currently under consideration and is subject to change.)

Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

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 System assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The Plan's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the Plan's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft Dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal,

# INVESTMENT POLICY STATEMENT (Continued)

accounting, education, management, etc.) and approved by the Board.

Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

Total Fund Investments

The total fund's performance, in aggregate, will be expected to achieve a rate of return which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

| | |
|---|---|
| Russell 1000 | 32% |
| Russell 2000 | 10% |
| Morgan Stanley Capital International EAFE | 10% |
| Lehman Aggregate Bond Index | 34% |
| Salomon Brother World Govt. Non-Dollar Bond Index | 6% |
| NCREIF Property Index | 8% |

(Procedure 452)
Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception. Their performance in any period should not be below the 62nd percentile.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.

- If a manger fails to meet investment objectives for three consecutive quarters, they merit probationary status.

# INVESTMENT POLICY STATEMENT (Continued)

- If a manger fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

Fixed-Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

(1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a rolling five year time period 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 fixed-income manager data base.

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

Domestic Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are :

(1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, NASDAQ, etc.) over a rolling five year time period 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 returns that will rank in the top half of a broad database of domestic equity managers.

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

Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

(1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East Index over a rolling five year time period net of fees. If the performance history extends

# INVESTMENT POLICY STATEMENT (Continued)

beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve returns that rank in the top half of a broad international equity manager database.

(3) Achieve performance results in the top half of investment managers which utilize a similar style of investment.

International Fixed-Income Investments

The objective for the investment managers of the international fixed-income component of the total portfolio are :

(1) Achieve rates of return which exceed the Salomon Brothers World Government Non-Dollar Bond Index over a rolling five year time period 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 international fixed-income manager database.

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

Real Estate Investments

(1) Achieve returns which exceed an appropriate index , (i.e. NCRIEF) net of fees over a market cycle.

(2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

# INVESTMENT PROFESSIONALS

## INVESTMENT MANAGERS

### DOMESTIC EQUITIES:

Atlanta Capital Management
Large Cap Growth
Atlanta, GA

Brandywine Asset Management
Small Cap Value
Wilmington, DE

Eagle Asset Management, Inc.
Small Cap Growth
St. Petersburg, FL

Northern Trust Quantitative Advisors
Russell 3000 Index
Chicago, IL

Paradigm Asset Management Co.
Large Cap Value
New York, NY

### INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

### DOMESTIC FIXED INCOME:

Dodge & Cox
San Francisco, CA

Zurich Scudder Investments, Inc.
Chicago, IL

### INTERNATIONAL FIXED INCOME:

Julius Baer
Los Angeles, CA

### REAL ESTATE:

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

MIG Realty Advisors
Cleveland, OH

TimeSquare Real Estate Investors
(Formally CIGNA)
Hartford, CT

## CONSULTANT

The Bank of New York
New York, NY

## CUSTODIAN

The Bank of New York
New York, NY

## PROXY VOTING

Investor Responsibility Reasearch Center
Washington, DC

# GROSS PERFORMANCE SUMMARY BY ASSET CLASS
## Periods Ended June 30, 2001

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **TOTAL FUND** | **-0.2%** | **5.9%** | **9.8%** |
| Benchmark | -3.1% | 6.3% | 10.3% |
| TUCS All Master Trust Median | -4.7% | 5.4% | 11.1% |
| TUCS Public Fund Universe Median | -5.4% | 4.8% | 10.4% |
| **TOTAL DOMESTIC FIXED INCOME** | **11.2%** | **6.1%** | **7.5%** |
| Lehman Brothers Aggegate Bond Index | 11.2% | 6.3% | 7.5% |
| TUCS Domestic Fixed Income Median | 11.1% | 6.1% | 7.8% |
| **TOTAL INTERNATIONAL FIXED INCOME** | **-6.5%** | **-0.4%** | **1.1%** |
| Salomon Brothers World Gov't Non-US Bond | -7.5% | -0.2% | 0.5% |
| TUCS International Fixed Income Median | 5.2% | 2.7% | 5.1% |
| **TOTAL DOMESTIC EQUITY** | **-5.8%** | **5.2%** | **13.3%** |
| S&P 500 Index | -14.8% | 3.9% | 14.5% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |
| **TOTAL INTERNATIONAL EQUITY** | **-19.7%** | **2.5%** | **5.8%** |
| EAFE Index | -23.6% | -1.3% | 2.9% |
| TUCS International Equity Median | -21.7% | 2.3% | 5.5% |
| **TOTAL REAL ESTATE** | **14.5%** | **14.3%** | **13.0%** |
| NCREIF Property Index | 11.0% | 11.8% | 12.7% |
| TUCS Real Estate Median | 11.2% | 10.6% | 12.1% |

# NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER
## Periods Ended June 30, 2001

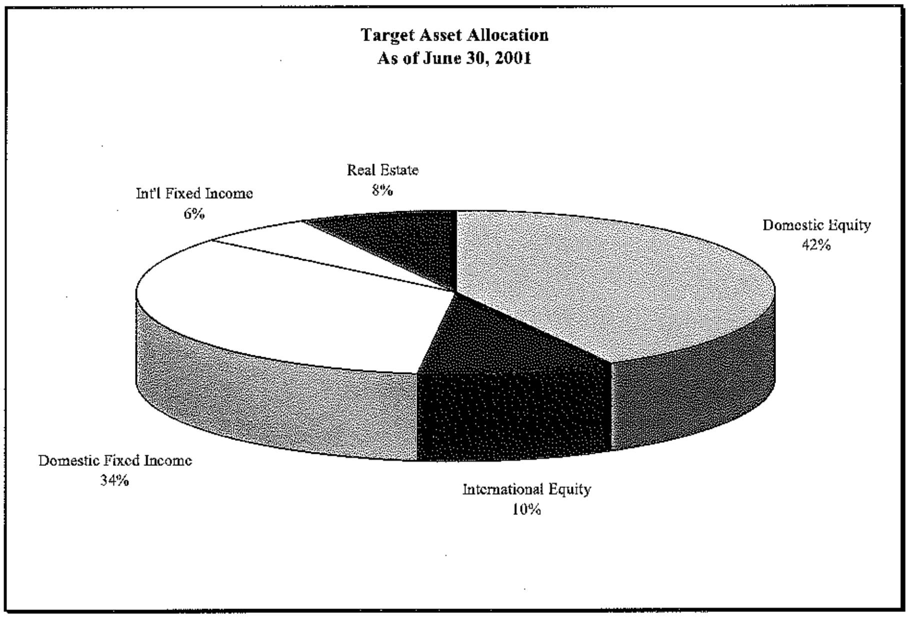
The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has out performed. Source: Bank of New York Investment Performance Evaluation Report June 30, 2001.

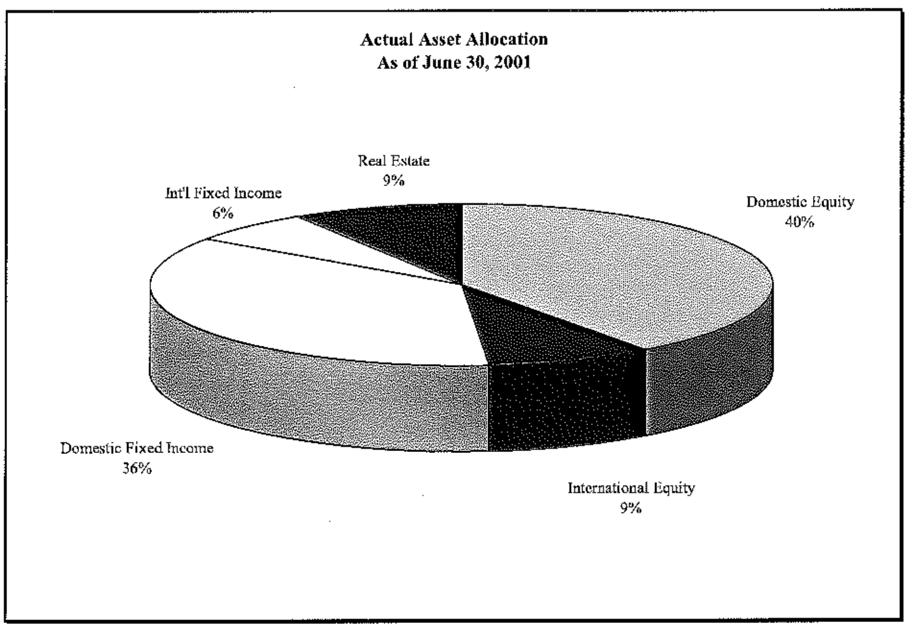
| | One Year | Three Years | 5 Years |
|---|---|---|---|
| **DOMESTIC FIXED INCOME** | | | |
| Zurich Scudder | **10.5%** | **5.9%** | **7.3%** |
| Lehman Brothers Aggegate Bond Index | 11.2% | 6.3% | 7.5% |
| TUCS Fixed Income Core Median | 11.1% | 6.1% | 7.8% |
| | | | |
| Dodge and Cox | **12.4%**++ | **N/A** | **N/A** |
| Lehman Brothers Aggegate Bond Index | 11.2% | 6.3% | 7.5% |
| TUCS Fixed Income Core Median | 11.1% | 6.1% | 7.8% |
| | | | |
| **INTERNATIONAL FIXED INCOME** | | | |
| Julius Baer | **-6.8%**+ | **-0.8%** | **N/A** |
| Salomon Brothers World Gov't Non-US Bond | -7.5% | -0.2% | 0.5% |
| TUCS International Fixed Income Median | 5.2% | 2.7% | 5.1% |
| | | | |
| **DOMESTIC EQUITY** | | | |
| Northern Trust (Index) | **-13.9%** | **5.3%**+ | **15.4%**+ |
| Russell 3000 | -13.9% | 5.2% | 15.4% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |
| | | | |
| Atlanta Capital (Large Cap Growth) | **-16.2%**+ | **N/A** | **N/A** |
| S&P 500 | -14.8% | 3.9% | 14.5% |
| TUCS Large Cap Growth Median | -27.9% | 4.8% | 15.2% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |
| | | | |
| Paradigm (Large Cap Value) | **7.9%**+ | **N/A** | **N/A** |
| Russell 1000 Value Index | 10.3% | 5.4% | 15.0% |
| TUCS Large Cap Value Median | 12.22 | 6.8% | 14.6% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |
| | | | |
| Eagle Asset Management (Small Cap Growth) | **-3.4%**+++ | **0.2%** | **N/A** |
| Russell 2000 Growth | -23.4% | 2.2% | 4.8% |
| TUCS Small Cap Growth Median | -20.6% | 10.6% | 10.3% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |
| | | | |
| Brandywine (Small Cap Value) | **47.5%**+++ | **N/A** | **N/A** |
| Russell 2000 Value | 30.8% | 6.9% | 13.4% |
| TUCS Small Cap Value Universe Median | 28.1% | 10.0% | 15.7% |
| TUCS Equity Median | -9.4% | 6.1% | 14.5% |

# NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **INTERNATIONAL EQUITY** | | | |
| Bank of Ireland Asset Management | **-20.1%++** | **2.0%+** | **N/A** |
| EAFE Index | -23.6% | -1.3% | 2.9% |
| TUCS International Equity Median | -21.7% | 2.3% | 5.5% |
| **REAL ESTATE** | | | |
| MIG Realty Advisors | **13.8%++** | **14.0%++** | **12.4%+** |
| Timesquare (Formally, CIGNA) | **10.8%** | **11.9%++** | **N/A** |
| DRA | **17.8%++** | **N/A** | **N/A** |
| NCREIF Property Index | 11.0% | 11.8% | 12.7% |
| TUCS Real Estate Median | 11.2% | 10.6% | 12.1% |

# ASSET ALLOCATION
## Target Vs. Actual

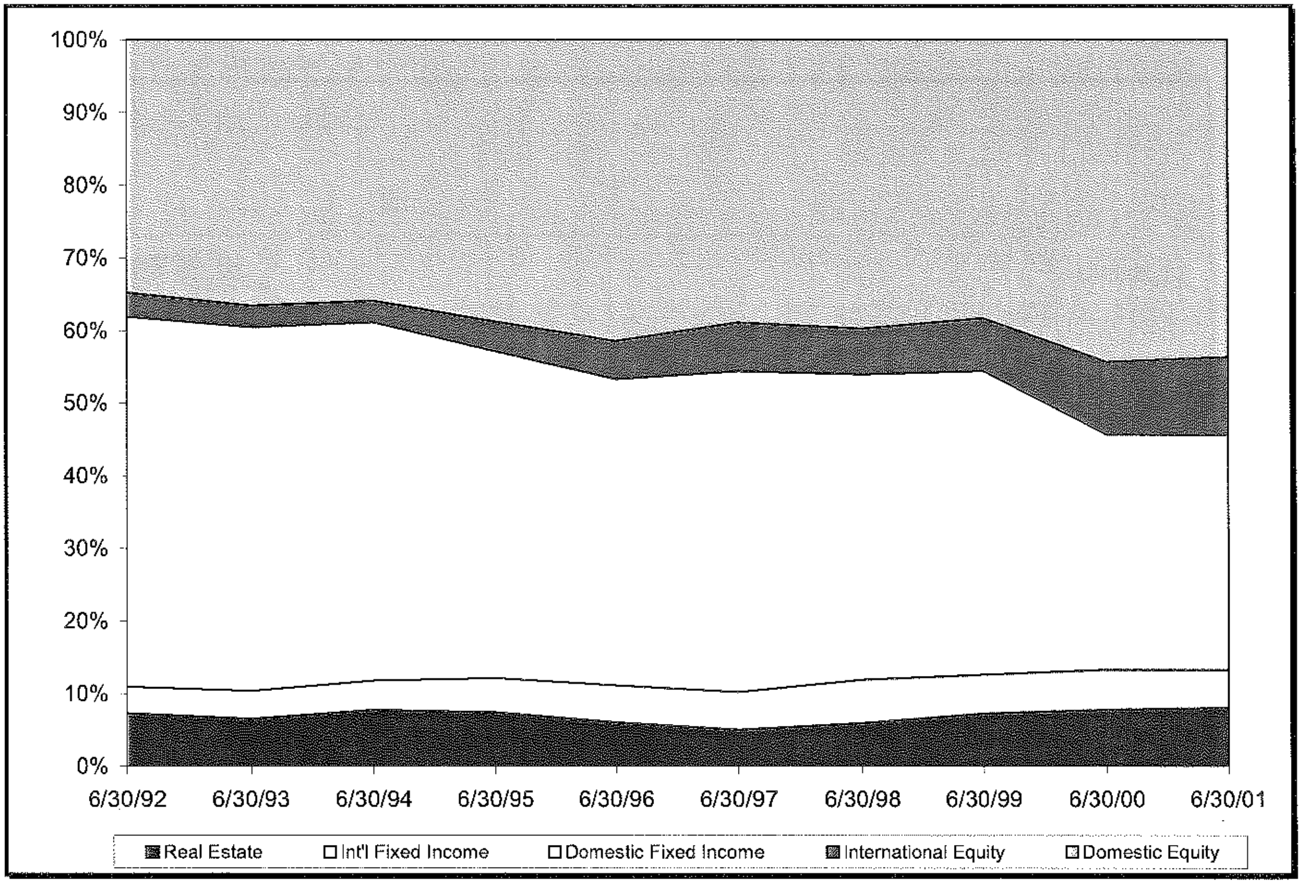


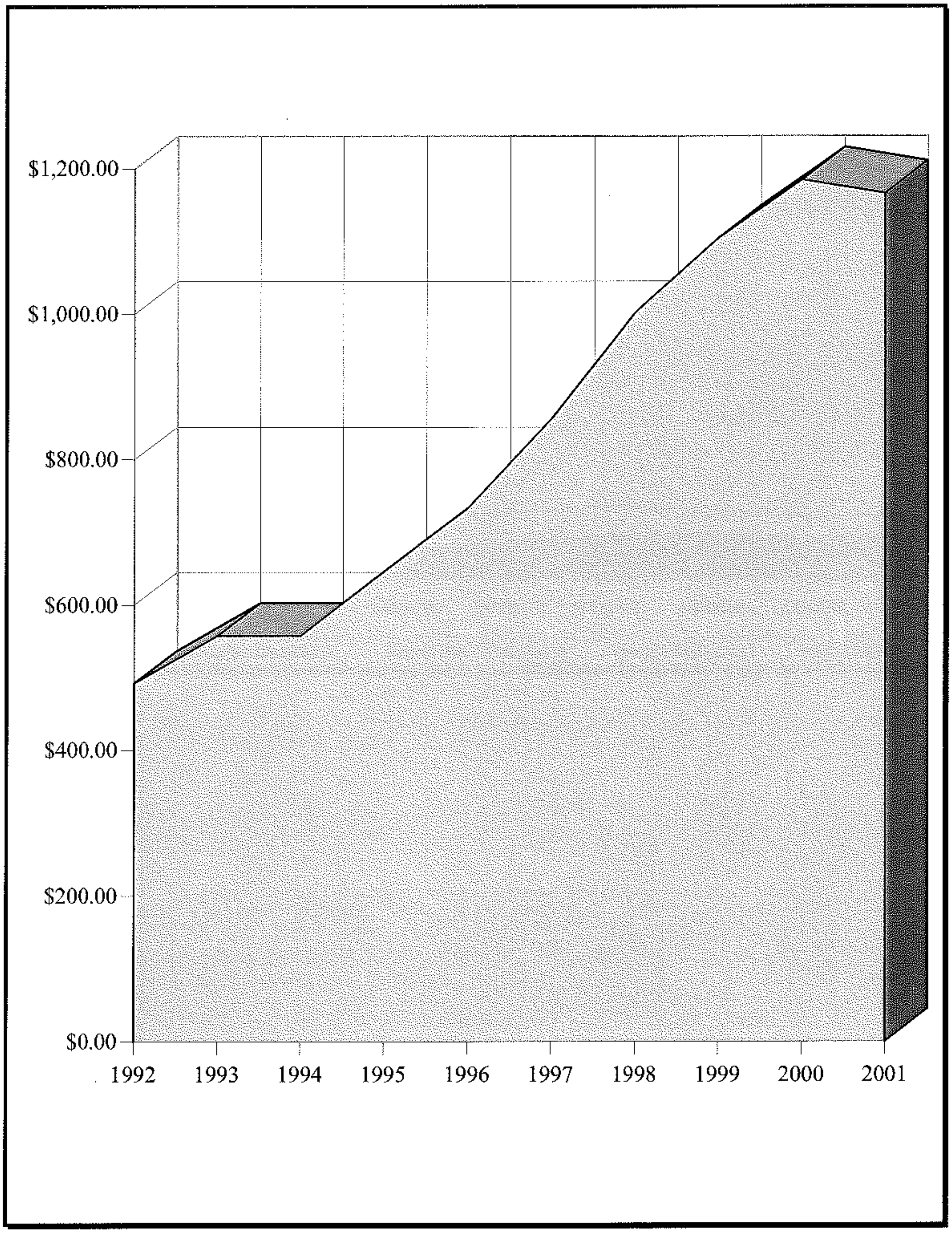

ACTUAL ASSET ALLOCATION
As of June 30, 2001 (In Millions)

| | |
|---|---|
| Domestic Equity | $ 467.76 |
| International Equity | 100.78 |
| Domestic Fixed Income | 420.47 |
| Global Fixed Income | 72.10 |
| Real Estate | 104.69 |
| TOTAL | $ 1,165.80 |

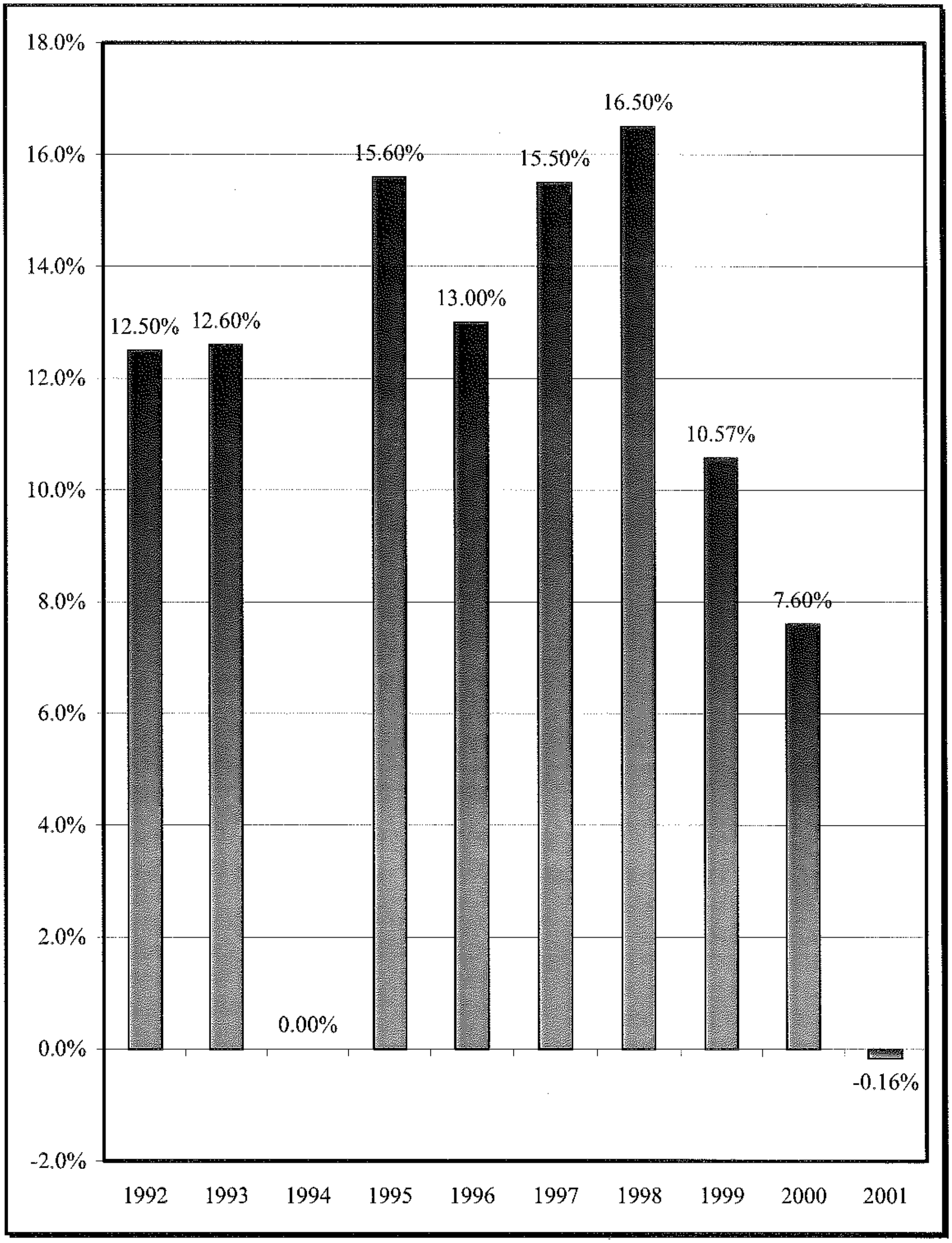
# HISTORICAL ASSET ALLOCATION (Actual)
## June 1992 - June 2001



# MARKET VALUE GROWTH OF PLAN ASSETS
## For Ten Years Ended June 30, 2001
## (In Millions of Dollars)



# HISTORY OF PERFORMANCE
## (Based on Market Value)
## For Fiscal Years 1992 - 2001



# LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2001

| | Shares | Country | Description | Market Value |
|---|---|---|---|---|
| 1) | 63,795.00 | NETHERLANDS | ING GROEP NVORD NLG1 | $ 4,170,525.87 |
| 2) | 70,601.00 | UNITED STATES | CITIGROUP INCCOM | $ 3,730,556.84 |
| 3) | 379,349.00 | UNITED KINGDOM | SHELL TRNSPT+TRDG GBP0.25ORD | $ 3,153,238.52 |
| 4) | 3,107,721.74 | UNITED STATES | U.S. DOLLARS | $ 3,107,721.74 |
| 5) | 105,585.00 | UNITED KINGDOM | GLAXOSMITHKLINE PLC 25P | $ 2,970,042.19 |
| 6) | 13,960.00 | SWITZERLAND | NESTLE SA CHF 1.0 REG D | $ 2,967,898.49 |
| 7) | 93,150.00 | UNITED KINGDOM | BARCLAYS PLC ORD GBP1ORD GBP1 | $ 2,856,075.95 |
| 8) | 19,980.00 | FRANCE | TOTAL FINA ELF SA EUR 10.0FRF50 | $ 2,798,452.03 |
| 9) | 34,105.00 | FRANCE | AVENTIS EUR 3.82SER A FRF25 | $ 2,723,432.55 |
| 10) | 1,155,992.00 | UNITED KINGDOM | VODAFONE USD 0.10ORD USD0.10 | $ 2,560,741.77 |

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2001

| | Description | Country | Maturity Date | Par Value | Market Value |
|---|---|---|---|---|---|
| 1) | U S TREASURY BONDS | U.S. | 2/15/27 | 14,761,000 | $ 16,167,907.81 |
| 2) | FED'L HOME LOAN MTGE CORP GRP # C48590 | U.S. | 3/1/31 | 11,618,838 | $ 11,291,906.36 |
| 3) | FEDERAL NAT'L MTGE ASSN POOL# 577190 | U.S. | 5/1/16 | 9,335,000 | $ 9,175,665.57 |
| 4) | FEDERAL NAT'L MTGE ASSN POOL # 535817 | U.S. | 4/1/03 | 9,188,670 | $ 8,670,250.08 |
| 5) | FED'L HOME LOAN MTGE CORP GRP # C46932 | U.S. | 6/1/31 | 9,000,000 | $ 7,964,968.78 |
| 6) | BUNDESREPUBLIK DEUTSCHLAND | GERMANY | 1/4/09 | 10,042,000 | $ 7,887,166.57 |
| 7) | JAPAN GOVT SER12 5YR 0.5 20MAR2006 | JAPAN | 3/20/06 | 840,000,000 | $ 6,777,931.03 |
| 8) | JAPAN (GOVT OF) S230 1.1 21MAR2011 | JAPAN | 3/21/11 | 803,000,000 | $ 6,407,901.36 |
| 9) | U S TREASURY NOTES | U.S. | 2/28/02 | 6,200,000 | $ 6,300,750.00 |
| 0) | U S TREASURY NOTES | U.S. | 2/28/03 | 6,090,000 | $ 6,090,000.00 |

A complete list of portfolio holdings is available upon request.

# SCHEDULE OF FEES AND COMMISSIONS
## For the Year Ended June 30, 2001

### INVESTMENT FEES

| | Assets Under Mgt. at Market Value * | Fees | Basis Points |
|---|---|---|---|
| Investment Managers' Fees: | | | |
| Domestic Equity Managers | $ 467,758,600 | $ 1,183,513 | 25 |
| International Equity Managers | 100,776,100 | 505,799 | 50 |
| Domestic Fixed Income Managers | 420,467,200 | 509,709 | 12 |
| International Fixed Income Managers | 72,093,300 | 246,526 | 34 |
| Real Estate Managers | 104,691,100 | 979,935 | 94 |
| **Total Investment Managers' Fees** | **$ 1,165,786,300** | **$ 3,425,482** | 29 |
| Other Investment Service Fees: | | | |
| Investment Consultant | N/A | $ 32,500 | N/A |
| Proxy Voting | N/A | 6,525 | N/A |
| Custodian | N/A | 87,445 | N/A |
| **Total Investment Managers' Fees** | | **$ 126,470** | |

* Includes Cash in Managers' Accounts

### COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| A.B. WATLEY INC | 34,834 | $ 2,080.04 | 0.05971 |
| ABN AMRO EQUITIES (AUST), SYDNEY | 74,450 | $ 559.25 | 0.00751 |
| ABN AMRO EQUITIES UK LIMITED LONDON | 18,300 | $ 184.06 | 0.01006 |
| ABN AMRO EQUITIES UK LTD SEC LONDON | 76,393 | $ 1,186.50 | 0.01553 |
| ABN AMRO INCORPORATED | 22,700 | $ 1,170.00 | 0.05154 |
| ABN AMRO SECURITIES LLC | 18,160 | $ 1,077.00 | 0.05931 |
| ABN ARMO SECURITIES LLC | 7,483 | $ 374.15 | 0.05000 |
| ARCHIPELAGO BCC CAPITAL CLEAR | 7,400 | $ 148.00 | 0.02000 |
| AUTRANET, INC. | 19,500 | $ 1,074.00 | 0.05508 |
| BANC OF AMERICA SECURITIES LLC | 22,500 | $ 1,250.00 | 0.05556 |
| BANKERS TRUST NYC/DEALER CLEARANCE | 1,580 | $ 91.58 | 0.05796 |
| BEAR STEARNS & CO INC | 144,500 | $ 8,215.00 | 0.05685 |
| BEAR STEARNS SECURITIES CORP | 1,900 | $ 114.00 | 0.06000 |
| BNP-PARIBAS SA, PARIS SIC 030 | 2,000 | $ 182.50 | 0.09125 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| BNY ESI & CO-ALPHA DIVISION | 463,533 | $ 27,611.98 | 0.05957 |
| BOSTON INSTITUTIONAL SVCS INC | 300 | $ 15.00 | 0.05000 |
| BROCKHOUSE AND COOPER MONTREAL CANA | 19,750 | $ 217.34 | 0.01100 |
| B-TRADE SERVICES LLC | 289,798 | $ 8,280.94 | 0.02857 |
| CANTOR, FITZGERALD & CO., INC | 222,400 | $ 12,720.00 | 0.05719 |
| CAPITAL INSTITUTIONAL SVCS,INC | 52,000 | $ 2,712.00 | 0.05215 |
| CAZENOVE AND CO, LONDON | 138,858 | $ 1,352.31 | 0.00974 |
| CAZENOVE ASIA LTD HK | 5,600 | $ 165.08 | 0.02948 |
| CHARLES, SCHWAB & CO., INC | 14,800 | $ 888.00 | 0.06000 |
| CIBC WORLD MARKETS CORP | 165,100 | $ 9,906.00 | 0.06000 |
| CITATION GROUP CHASE NYC | 48,600 | $ 2,543.00 | 0.05233 |
| COMMERZBANK AG LONDON | 58,225 | $ 276.04 | 0.00474 |
| COMMERZBANK AG, LONDON | 32,050 | $ 179.14 | 0.00559 |
| CREDIT LYONNAIS SECS (ASIA),HK | 25,500 | $ 320.00 | 0.01255 |
| CREDIT LYONNAIS SECS (SING) PTE LTD | 23,000 | $ 463.74 | 0.02016 |
| CREDIT SUIS FST BOST , LN KV 7283 | 33,732 | $ 1,053.67 | 0.03124 |
| CREDIT SUISSE FB EUR, LN (ECL ONLY) | 4,500 | $ 187.55 | 0.04168 |
| CREDIT SUISSE FIRST BOS EQUIT LDN | 130,617 | $ 652.32 | 0.00499 |
| CREDIT SUISSE FIRST BOSTON | 184,600 | $ 10,101.00 | 0.05472 |
| CREDIT SUISSE FIRST BOSTON HK | 317,000 | $ 1,083.90 | 0.00342 |
| CROIX SECURITIES BCC CLEARING | 21,000 | $ 630.00 | 0.03000 |
| CS FIRST BOSTON (HONG KONG) LTD HKG | 8,700 | $ 304.39 | 0.03499 |
| CS FIRST BOSTON AUSTRALIA EQUITIES | 21,950 | $ 186.70 | 0.00851 |
| CS FIRST BOSTON SECS JAP LTD,TOKYO | 6,000 | $ 271.00 | 0.04517 |
| CSFB AUSTRALIA EQUITIES, MELBOURNE | 20,990 | $ 170.36 | 0.00812 |
| DB CLEARING SERVICES | 20,400 | $ 1,020.00 | 0.05000 |
| DEUTSCHE BANC ALEX BROWN INC | 39,400 | $ 2,045.00 | 0.05190 |
| DEUTSCHE BANK AG LONDON | 1,875 | $ 111.65 | 0.05955 |
| DEUTSCHE MORGAN GRENFELL SEC SYDNEY | 25,891 | $ 287.20 | 0.01109 |
| DONALDSON LUFKIN & JENRETTE | 36,580 | $ 1,994.00 | 0.05451 |
| DONALDSON LUFKIN LDN | 2,925 | $ 186.94 | 0.06391 |
| EDWARDS, A.G., & SONS, INC. | 58,500 | $ 2,925.00 | 0.05000 |
| ESI SECURITIES COMPANY | 424,900 | $ 25,140.00 | 0.05917 |
| FACTSET DATA SYSTEMS, INC. | 41,100 | $ 2,290.00 | 0.05572 |
| FIRST ANALYSIS SECS CORP | 21,000 | $ 1,260.00 | 0.06000 |
| FIRST UNION SECURITIES INC | 20,300 | $ 1,218.00 | 0.06000 |
| FOX-PITT KELTON LTD, LONDON | 1,100 | $ 90.37 | 0.08216 |
| FRANK RUSSELL SECURITIES INC | 400 | $ 24.00 | 0.06000 |
| GERARD, KLAUER, MATTISON & CO | 22,000 | $ 1,320.00 | 0.06000 |
| GOLDMAN SACHS INTERNATIONAL | 3,700 | $ 103.93 | 0.02809 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| GOLDMAN SACHS INTL LONDON | 79,046 | $ 3,028.28 | 0.03831 |
| GOLDMAN SACHS JAPAN LTD, TOKYO | 3,000 | $ 58.78 | 0.01959 |
| GOLDMAN, SACHS & CO | 44,000 | $ 2,377.00 | 0.05402 |
| GOLDMANSACHSINTERNATIONALLONDON | 3,200 | $ 225.51 | 0.07047 |
| GOODBODY STOCKBROKERS/DUBLIN | 26,570 | $ 163.97 | 0.00617 |
| HSBC INVESTMENT BANK PLC LDN | 96,880 | $ 1,322.13 | 0.01365 |
| ING BARING SECURITIES HKLTD, HK | 33,000 | $ 322.13 | 0.00976 |
| INSTINET CORPORATION | 984,438 | $ 27,438.81 | 0.02787 |
| INSTINET CORPORATION | 2,000 | $ 60.00 | 0.03000 |
| INVESTMENT TECHNOLOGY GROUP | 2,040,058 | $ 85,762.34 | 0.04204 |
| J B WERE AND SON, MELBOURNE | 20,790 | $ 168.75 | 0.00812 |
| J P MORGAN INVT MGMT, NEW YORK | 26,200 | $ 1,462.00 | 0.05580 |
| JACKSON SECURITIES INC. | 300 | $ 15.00 | 0.05000 |
| JANNEY MONTGOMERY SCOTT INC. | 121,600 | $ 7,296.00 | 0.06000 |
| JARDINE FLEMING SECS LTD HONG KONG | 63,500 | $ 779.06 | 0.01227 |
| JARDINE FLEMING SECS, SINGAPORE | 18,250 | $ 323.67 | 0.01774 |
| JEFFERIES & COMPANY, INC. | 217,300 | $ 12,688.00 | 0.05839 |
| JONES & ASSOCIATES | 260,080 | $ 11,040.30 | 0.04245 |
| JP MORGAN SECS LTD, LONDON | 12,650 | $ 214.79 | 0.01698 |
| JP MORGAN SECS LTD, LONDON SEGA | 17,189 | $ 652.01 | 0.03793 |
| JP MORGAN SECURITIES LTD, LONDON | 46,667 | $ 1,354.14 | 0.02902 |
| KLEINWORT BENSON LTD, LONDON | 6,575 | $ 178.05 | 0.02708 |
| KLEINWORT BENSON SEC, LONDON | 88,725 | $ 1,815.80 | 0.02047 |
| LEHMAN BROS INTL (EUROPE) | 21,050 | $ 72.85 | 0.00346 |
| LEHMAN BROTHERS INC, USA | 57,000 | $ 2,850.00 | 0.05000 |
| LEHMAN BROTHERS INTL EUROPE LDN | 43,716 | $ 1,452.99 | 0.03324 |
| LYNCH JONES & RYAN INC | 4,400 | $ 220.00 | 0.05000 |
| MAGNA SECURITIES CORPORATION | 751,756 | $ 37,587.80 | 0.05000 |
| MCDONALD INVESTMENTS INC | 35,800 | $ 2,148.00 | 0.06000 |
| MERRILL LYNCH INTL LTD/LONDON | 82,288,683 | $ 4,105.21 | 0.00005 |
| MERRILL LYNCH JAPAN INC TOKYO | 5,000 | $ 56.00 | 0.01120 |
| MERRILL LYNCH PFS LTD, LONDON | 8,400 | $ 237.58 | 0.02828 |
| MERRILL LYNCH PFS NEW YORK | 44,000 | $ 266.74 | 0.00606 |
| MERRILL LYNCH PIERCE FENNER & | 30,100 | $ 1,576.00 | 0.05236 |
| MERRILL LYNCH PIERCE FENNER + SMITH | 3,400 | $ 191.44 | 0.05631 |
| MORGAN GRENFELL AND CO | 388,299 | $ 3,518.69 | 0.00906 |
| MORGAN KEEGAN & COMPANY, INC. | 31,000 | $ 1,860.00 | 0.06000 |
| MORGAN STANLEY & CO | 99,900 | $ 3,567.00 | 0.03571 |
| MORGAN STANLEY AND CO INC NY | 16,103 | $ 427.92 | 0.02657 |
| MORGAN STANLEY AND CO INTL LTD | 4,550 | $ 166.35 | 0.03656 |

# SCHEDULE OF FEES AND COMMISSIONS (Continued)

## COMMISSIONS

| BROKERAGE FIRM | NUMBER OF SHARES TRADED | TOTAL COMMISSIONS | COMMISSION PER SHARE |
|---|---|---|---|
| MORGAN STANLEY AND CO INTL LTD,LDN | 130,418 | $ 2,361.45 | 0.01811 |
| MORGAN STANLEY CO INC NEW YORK | 7,660 | $ 387.08 | 0.05053 |
| MORGAN STANLEY CO INC NEW YORK | 18,750 | $ 381.81 | 0.02036 |
| MORGAN STANLEY CO INTL LDN | 42,185 | $ 1,268.76 | 0.03008 |
| MORGAN STANLEY INTL/LONDON | 3,150 | $ 95.16 | 0.03021 |
| ORD MINNET GRP LTD SYDNEY AUSTRALIA | 49,560 | $ 314.21 | 0.00634 |
| ORD MINNETT LTD SYDNEY AUSTRALIA | 8,550 | $ 264.93 | 0.03099 |
| ORD MINNETT SECS NZ LTD WELLINGTON | 17,495 | $ 77.38 | 0.00442 |
| PACIFIC AMERICAN SECURITIES | 80,766 | $ 4,845.96 | 0.06000 |
| PACIFIC GROWTH EQUITIES | 3,200 | $ 192.00 | 0.06000 |
| RAYMOND, JAMES & ASSOC., INC. | 13,000 | $ 695.00 | 0.05346 |
| SALOMON BROS INTL LTD LONDON | 47,050 | $ 162.64 | 0.00346 |
| SALOMON BROTHERS INTL LTD LONDON | 367,929 | $ 2,096.33 | 0.00570 |
| SBC WARBURG DILLON READ INC | 17,300 | $ 865.00 | 0.05000 |
| SBC WARBURG SECURITIES MELBOURNE | 4,800 | $ 96.85 | 0.02018 |
| SMITH BARNEY INC (SALOMON) | 56,500 | $ 2,905.00 | 0.05142 |
| SOUNDVIEW TECHNOLOGY GROUP | 18,000 | $ 1,080.00 | 0.06000 |
| SOUTHCOAST CAPITAL LLC | 15,800 | $ 948.00 | 0.06000 |
| SOUTHWEST SECURITIES, INC. | 7,700 | $ 462.00 | 0.06000 |
| SPEAR, LEEDS & KELLOGG (GOLD) | 83,900 | $ 4,195.00 | 0.05000 |
| STANDARD CHARTERED BANK SINGAPORE | 4,000 | $ 162.96 | 0.04074 |
| SUN TRUST CAPITAL MKTS INC | 106,800 | $ 5,636.00 | 0.05277 |
| THOMAS WEISEL PARTNERS LLC | 7,000 | $ 420.00 | 0.06000 |
| THOMSON INSTITUTIONAL SVCS INC | 10,800 | $ 648.00 | 0.06000 |
| TUCKER ANTHONY CLEARY GULL | 12,000 | $ 720.00 | 0.06000 |
| U.S. BANCORP PIPER JAFFRAY INC | 9,500 | $ 570.00 | 0.06000 |
| UBS AG (LONDON BRANCH) | 334,395 | $ 1,869.65 | 0.00559 |
| UBS AG (PREV WARBURGS) | 5,975 | $ 1,542.82 | 0.25821 |
| UBS PAINEWEBBER INC | 11,720 | $ 586.00 | 0.05000 |
| UBS SECS EAST ASIA LTD/HONG KONG | 600 | $ 61.33 | 0.10221 |
| UBS WARBURG (HONG KONG) LIMITED | 222,000 | $ 127.59 | 0.00057 |
| UBS WARBURG(ASIA)LTD HONG KONG, HK | 37,023 | $ 1,262.78 | 0.03411 |
| VERITAS SECURITIES | 16,400 | $ 722.00 | 0.04402 |
| WARBURG DILLON READ AUCKLAND | 18,026 | $ 90.53 | 0.00502 |
| WEEDEN & CO | 10,500 | $ 525.00 | 0.05000 |
| WEISS, PECK & GREER, L.L.C. | 900 | $ 54.00 | 0.06000 |
| WILLIAMS CAPITAL GROUP, L.P. | 37,000 | $ 2,220.00 | 0.06000 |
| YBN AMRO HOARE GOVETT LDN (SWITZERLAND) | 41,730 | $ 393.50 | 0.00943 |
| **TOTAL** | **93,405,631** | **$400,371.44** | **0.00429** |

# INVESTMENT SUMMARY
## As of June 30, 2001

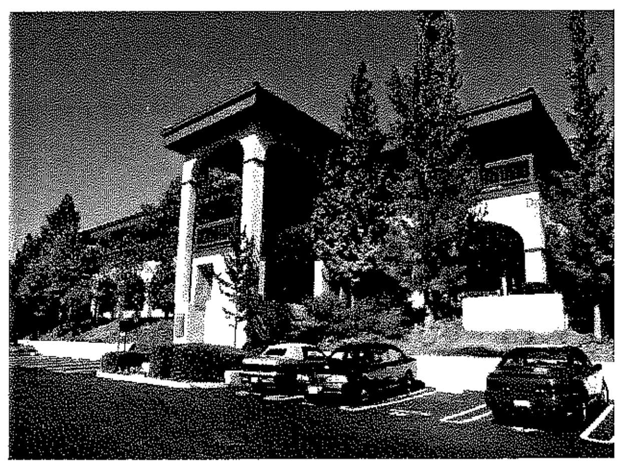
| | Market Value | % of Portfolio |
|---|---|---|
| **Equities** | | |
| Consumer Non-Durables | 51,108,024.25 | 4.35% |
| Consumer Durables | 4,874,697.50 | 0.42% |
| Materials & Services | 57,156,214.19 | 4.87% |
| Capital Goods & Services | 13,795,987.00 | 1.17% |
| Technology | 40,165,256.00 | 3.42% |
| Energy | 16,921,481.45 | 1.44% |
| Transportation | 3,945,381.00 | 0.34% |
| Utilities | 13,976,994.40 | 1.19% |
| Financial | 45,378,138.86 | 3.86% |
| Miscellaneous | 97,164,248.86 | 8.28% |
| Commingled Equity Funds | 215,529,602.42 | 18.36% |
| **Total Equities** | **560,016,025.93** | **47.70%** |
| **Fixed Income** | | |
| Corporate Bonds | 159,799,977.62 | 13.61% |
| US Treasuries | 43,875,778.90 | 3.74% |
| US Agencies | 154,747,454.31 | 13.18% |
| Other Bonds | 16,586,153.48 | 1.41% |
| International Bonds | 69,541,478.99 | 5.92% |
| Commingled High Yield Inv Trust | 22,941,270.54 | 1.95% |
| **Total Fixed Income** | **467,492,113.84** | **39.81%** |
| **Real Estate** | | |
| Separate Account | 73,959,489.67 | 6.30% |
| Commingled Funds | 29,185,587.74 | 2.48% |
| **Total Real Estate** | **103,145,077.41** | **8.78%** |
| **Short Term Investments** | **37,757,858.30** | **3.22%** |
| **Pendings** | **(667,057.79)** | **-0.06%** |
| **Accrued Income** | **6,416,539.73** | **0.55%** |
| **Total Portfolio** | **1,174,160,557.42** | **100%** |

# INVESTMENT PROPERTIES

**Airport Commercenter**
278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Police and Fire Retirement Plan in April 1989.

**Copperwood Square Shopping Center**
138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Police and Fire Retirement Plan in June 1987.

**Milpitas Warehouse**
145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police and Fire Retirement Plan in February 1986.



**Pine Grove Office Complex**
85,956 s.f. five-building office complex located in Orinda, CA. Acquired jointly with the Police and Fire Retirement Plan in September 1990.

**Plaza Paseo Real**
147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Police and Fire Retirement Plan in May 1993.

**Saddleback Financial Center**
72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Police and Fire Retirement Plan in January 1988.

**The Manors at Providence Lakes**
266,236 s.f. apartment complex with 260 luxury apartments located in Brandon (Tampa), Florida. Acquired in September 1997

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# IV.
# ACTUARIAL SECTION

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# ACTUARY CERTIFICATION LETTER

Watson Wyatt
Worldwide

Watson Wyatt & Company
Suite 2100
701 Fifth Avenue
Seattle, WA 98104-7053
Telephone 206 625 1125
Fax 206 447 8867

October 3, 2000

Board of Administration
City of San Jose
Federated City Employees' Retirement System
777 N. First Street, Suite 750
San Jose, CA 95112-6311

**Re: Actuarial Valuation Certification**

Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 1999, reveals that the Federated Retirement System is an actuarially sound system based on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation
- The source and degree of verification of the data used in the actuarial valuation
- Supporting schedules that we have prepared and attached
- The extent of our responsibility for the trend data schedules in the financial section of the report
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 25
- Other disclosure information.

**The Funding Objective of the Plan**

Chapters 3.28 and 3.44 of the San Jose Municipal Code and related ordinances establish that the required annual contribution to the plan, shared by the city and members is such that contribution rates, over time, shall remain level as a percentage of payroll.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 20 years and the present value of future salaries.

# ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration
City of San Jose
October 3, 2000
Page 2

**The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation**

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30,1999.

**The Source and Degree of Verification of the Data Used in the Actuarial Valuation**

Computer files containing data on System membership of June 30, 1999 were provided by the City of San Jose Retirement Department. While we did not audit the participant data, we did check the data we received thoroughly, reconciling last year's data with the new data. This reconciliation accounted for all changes to the covered population. All data was checked for internal consistency and for consistency with last year's data.

Asset-related data were also received from the City of San Jose Retirement Department and were used without further audit in the development of the actuarial value of assets.

**Supporting Schedules**

We have prepared and attached the following supporting schedules:

- Summary of actuarial assumptions and methods
- Schedule of active member valuation data
- Schedule of retirants and beneficiaries added to and removed from rolls
- Solvency test
- Analysis of financial experience.

**The Extent of Our Responsibility for the Trend Data Schedules in the Financial Section**

All of the trend data information in the financial section of the report was calculated and summarized by Watson Wyatt Worldwide.

**Actuarial Assumptions and Methods Used for Funding Purposes**

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and*

# ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration
City of San Jose
October 3, 2000
Page 3

*Note Disclosures for Defined Contribution Plans.* In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

* * *

I am a Fellow of the Society of Actuaries and an Enrolled Actuary. I am a Member of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Valerie A. Paganelli

Valerie A. Paganelli, FSA, EA, MAAA
Consulting Actuary

VAP/set
(30548/04CS)

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# SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

***The following assumptions have been adopted by the Retirement Board as of June 30, 1999.***

Interest Rate:

8.25% per year. The rate credited to Member contributions is 1% less than this valuation interest rate.

Salary Increases:

Total System payroll is assumed to increase 4.5% per year.

Annual salary increases for individuals vary by age reflecting 4.5% inflation and merit and longevity. Sample rates are shown below.

| *Age* | *Annual Salary Increase* |
|---|---|
| 25 | 8.0% |
| 35 | 7.0% |
| 45 | 6.0% |
| 55 | 5.0% |
| 65 | 5.0% |

Cost-of-Living Increases:

3.0% per year.

Mortality:

A. For Pensioners on Service Retirement and Beneficiaries:

The 1983 Group Annuity Mortality Table for males with one year setback is used for male Members. The 1983 Group Annuity Mortality Table for females, with a one-year set forward, is used for female Members.

Sample Rates

| | Deaths per 1,000 | |
|---|---|---|
| Age | Males | Females |
| 45 | 1.9 | 1.1 |
| 50 | 3.5 | 1.8 |
| 55 | 5.7 | 2.8 |
| 60 | 8.4 | 4.7 |
| 65 | 13.9 | 7.8 |
| 70 | 24.8 | 14.1 |
| 75 | 40.4 | 27.2 |

# SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)

B. For Pensioners on Disability Retirement:

*1981 Disability Mortality Table*

*Sample Rates*

| *Age* | *Deaths per 1,000* |
|---|---|
| *45* | *20.8* |
| *50* | *24.4* |
| *55* | *28.4* |
| *60* | *33.0* |
| *65* | *37.9* |
| *70* | *43.7* |
| *75* | *55.3* |

Rehire for Former Employees: All former employees are assumed not to be rehired.

Disability: Valuation of disability benefits are assumed to not be offset by Worker's Compensation.

Prior Service Benefits: The liability for benefits attributed to pre-1975 service is assumed in proportion to its liability as of June 30, 1997.

Proportion of Members with Spouses at Retirement: 85% of male employees and 60% of female employees are assumed married at retirement. Wives are assumed three years younger than husbands.

Funding Method: For retirement benefits: The Entry Age Normal Cost Method.

Asset Valuation Method: The Actuarial Value of Assets recognized 20% of unrealized and realized gains and losses each year. The Actuarial Value of Assets cannot be less than 80% of the Market Value of Assets or greater than 120% of the Market Value of Assets.

# SUMMARY OF ASSUMPTIONS AND FUNDING METHOD
## Used For Valuation of Health Subsidy Benefits

| | |
|---|---|
| Increase in Retiree Population: | The covered Retiree population is assumed to increase according to the demographic assumptions used to value retirement benefits. |
| Covered Payroll Increase | 4.5% per year. |
| Initial Health Subsidy: | $2,803 per year. |
| Initial Dental Subsidy: | $670 per year. |

# RATES OF SEPARATION FROM ACTIVE SERVICE - MALES

| AGE | Ordinary Withdrawal | Ordinary Death | Ordinary Disability | Service Retirement | Death While Eligible | Service Disability | Deferred Vested |
|---|---|---|---|---|---|---|---|
| 20 | 0.0820 | 0.0003 | 0.0000 | 0.0000 | 0.0000 | 0.0005 | 0.0150 |
| 21 | 0.0740 | 0.0003 | 0.0000 | 0.0000 | 0.0000 | 0.0005 | 0.0160 |
| 22 | 0.0700 | 0.0003 | 0.0000 | 0.0000 | 0.0000 | 0.0005 | 0.0170 |
| 23 | 0.0660 | 0.0003 | 0.0000 | 0.0000 | 0.0000 | 0.0005 | 0.0180 |
| 24 | 0.0620 | 0.0003 | 0.0000 | 0.0000 | 0.0000 | 0.0005 | 0.0190 |
| 25 | 0.0580 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0243 |
| 26 | 0.0540 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0236 |
| 27 | 0.0500 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0230 |
| 28 | 0.0460 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0006 | 0.0226 |
| 29 | 0.0420 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0006 | 0.0223 |
| 30 | 0.0380 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0006 | 0.0219 |
| 31 | 0.0348 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0006 | 0.0214 |
| 32 | 0.0324 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0006 | 0.0209 |
| 33 | 0.0308 | 0.0004 | 0.0003 | 0.0000 | 0.0003 | 0.0006 | 0.0201 |
| 34 | 0.0292 | 0.0005 | 0.0003 | 0.0000 | 0.0003 | 0.0007 | 0.0194 |
| 35 | 0.0224 | 0.0005 | 0.0004 | 0.0000 | 0.0003 | 0.0007 | 0.0187 |
| 36 | 0.0211 | 0.0005 | 0.0004 | 0.0000 | 0.0004 | 0.0007 | 0.0170 |
| 37 | 0.0198 | 0.0005 | 0.0005 | 0.0000 | 0.0004 | 0.0007 | 0.0153 |
| 38 | 0.0185 | 0.0006 | 0.0005 | 0.0000 | 0.0004 | 0.0008 | 0.0137 |
| 39 | 0.0172 | 0.0006 | 0.0006 | 0.0000 | 0.0005 | 0.0008 | 0.0121 |
| 40 | 0.0159 | 0.0006 | 0.0006 | 0.0000 | 0.0005 | 0.0008 | 0.0103 |
| 41 | 0.0148 | 0.0007 | 0.0007 | 0.0000 | 0.0006 | 0.0009 | 0.0105 |
| 42 | 0.0137 | 0.0007 | 0.0007 | 0.0000 | 0.0006 | 0.0009 | 0.0100 |
| 43 | 0.0133 | 0.0007 | 0.0008 | 0.0000 | 0.0007 | 0.0009 | 0.0096 |
| 44 | 0.0129 | 0.0007 | 0.0008 | 0.0000 | 0.0009 | 0.0009 | 0.0092 |
| 45 | 0.0125 | 0.0008 | 0.0009 | 0.0000 | 0.0011 | 0.0009 | 0.0091 |
| 46 | 0.0116 | 0.0008 | 0.0010 | 0.0000 | 0.0013 | 0.0010 | 0.0089 |
| 47 | 0.0107 | 0.0008 | 0.0011 | 0.0000 | 0.0015 | 0.0011 | 0.0087 |
| 48 | 0.0098 | 0.0009 | 0.0012 | 0.0000 | 0.0017 | 0.0012 | 0.0082 |
| 49 | 0.0089 | 0.0009 | 0.0014 | 0.0000 | 0.0019 | 0.0013 | 0.0074 |
| 50 | 0.0087 | 0.0010 | 0.0016 | 0.0100 | 0.0021 | 0.0015 | 0.0065 |
| 51 | 0.0085 | 0.0011 | 0.0019 | 0.0050 | 0.0023 | 0.0018 | 0.0055 |
| 52 | 0.0083 | 0.0012 | 0.0022 | 0.0050 | 0.0025 | 0.0022 | 0.0043 |
| 53 | 0.0082 | 0.0013 | 0.0027 | 0.0050 | 0.0027 | 0.0027 | 0.0030 |
| 54 | 0.0079 | 0.0014 | 0.0033 | 0.0100 | 0.0029 | 0.0033 | 0.0015 |
| 55 | 0.0084 | 0.0015 | 0.0039 | 0.1700 | 0.0031 | 0.0040 | 0.0000 |
| 56 | 0.0084 | 0.0015 | 0.0046 | 0.0800 | 0.0033 | 0.0047 | 0.0000 |
| 57 | 0.0084 | 0.0016 | 0.0054 | 0.0800 | 0.0035 | 0.0056 | 0.0000 |
| 58 | 0.0084 | 0.0017 | 0.0063 | 0.0800 | 0.0037 | 0.0068 | 0.0000 |
| 59 | 0.0084 | 0.0018 | 0.0074 | 0.0800 | 0.0040 | 0.0084 | 0.0000 |
| 60 | 0.0000 | 0.0019 | 0.0085 | 0.1000 | 0.0043 | 0.0104 | 0.0000 |
| 61 | 0.0000 | 0.0020 | 0.0098 | 0.1300 | 0.0046 | 0.0124 | 0.0000 |
| 62 | 0.0000 | 0.0021 | 0.0112 | 0.2000 | 0.0049 | 0.0149 | 0.0000 |
| 63 | 0.0000 | 0.0022 | 0.0127 | 0.1700 | 0.0052 | 0.0181 | 0.0000 |
| 64 | 0.0000 | 0.0023 | 0.0143 | 0.2200 | 0.0055 | 0.0220 | 0.0000 |
| 65 | 0.0000 | 0.0024 | 0.0160 | 0.2500 | 0.0058 | 0.0260 | 0.0000 |
| 66 | 0.0000 | 0.0025 | 0.0000 | 0.4000 | 0.0061 | 0.0000 | 0.0000 |
| 67 | 0.0000 | 0.0026 | 0.0000 | 0.4000 | 0.0064 | 0.0000 | 0.0000 |
| 68 | 0.0000 | 0.0027 | 0.0000 | 0.4500 | 0.0067 | 0.0000 | 0.0000 |
| 69 | 0.0000 | 0.0028 | 0.0000 | 0.5000 | 0.0070 | 0.0000 | 0.0000 |
| 70 | 0.0000 | 0.0029 | 0.0000 | 1.0000 | 0.0000 | 0.0000 | 0.0000 |

# RATES OF SEPARATION FROM ACTIVE SERVICE - FEMALES

| AGE | Ordinary Withdrawal | Ordinary Death | Ordinary Disability | Service Retirement | Death While Eligible | Service Disability | Deferred Vested |
|---|---|---|---|---|---|---|---|
| 20 | 0.0820 | 0.0001 | 0.0000 | 0.0000 | 0.0000 | 0.0003 | 0.0150 |
| 21 | 0.0740 | 0.0001 | 0.0000 | 0.0000 | 0.0000 | 0.0003 | 0.0150 |
| 22 | 0.0700 | 0.0001 | 0.0000 | 0.0000 | 0.0000 | 0.0003 | 0.0150 |
| 23 | 0.0660 | 0.0001 | 0.0000 | 0.0000 | 0.0000 | 0.0003 | 0.0150 |
| 24 | 0.0620 | 0.0001 | 0.0000 | 0.0000 | 0.0000 | 0.0003 | 0.0150 |
| 25 | 0.0580 | 0.0001 | 0.0002 | 0.0000 | 0.0001 | 0.0003 | 0.0210 |
| 26 | 0.0540 | 0.0001 | 0.0002 | 0.0000 | 0.0001 | 0.0003 | 0.0214 |
| 27 | 0.0500 | 0.0001 | 0.0002 | 0.0000 | 0.0001 | 0.0003 | 0.0220 |
| 28 | 0.0460 | 0.0001 | 0.0002 | 0.0000 | 0.0001 | 0.0003 | 0.0228 |
| 29 | 0.0420 | 0.0002 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0238 |
| 30 | 0.0380 | 0.0002 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0246 |
| 31 | 0.0348 | 0.0002 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0249 |
| 32 | 0.0324 | 0.0002 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0250 |
| 33 | 0.0308 | 0.0002 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0249 |
| 34 | 0.0292 | 0.0003 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0248 |
| 35 | 0.0224 | 0.0003 | 0.0002 | 0.0000 | 0.0001 | 0.0004 | 0.0247 |
| 36 | 0.0211 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0246 |
| 37 | 0.0198 | 0.0003 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0245 |
| 38 | 0.0185 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0246 |
| 39 | 0.0172 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0247 |
| 40 | 0.0159 | 0.0004 | 0.0002 | 0.0000 | 0.0002 | 0.0005 | 0.0237 |
| 41 | 0.0148 | 0.0004 | 0.0002 | 0.0000 | 0.0003 | 0.0005 | 0.0212 |
| 42 | 0.0137 | 0.0005 | 0.0002 | 0.0000 | 0.0004 | 0.0005 | 0.0187 |
| 43 | 0.0133 | 0.0005 | 0.0003 | 0.0000 | 0.0005 | 0.0005 | 0.0162 |
| 44 | 0.0129 | 0.0005 | 0.0003 | 0.0000 | 0.0006 | 0.0005 | 0.0137 |
| 45 | 0.0125 | 0.0006 | 0.0003 | 0.0000 | 0.0007 | 0.0005 | 0.0111 |
| 46 | 0.0116 | 0.0006 | 0.0004 | 0.0000 | 0.0008 | 0.0006 | 0.0115 |
| 47 | 0.0107 | 0.0006 | 0.0004 | 0.0000 | 0.0009 | 0.0006 | 0.0120 |
| 48 | 0.0098 | 0.0007 | 0.0005 | 0.0000 | 0.0010 | 0.0007 | 0.0125 |
| 49 | 0.0089 | 0.0007 | 0.0005 | 0.0000 | 0.0011 | 0.0007 | 0.0130 |
| 50 | 0.0087 | 0.0010 | 0.0006 | 0.0025 | 0.0012 | 0.0008 | 0.0135 |
| 51 | 0.0085 | 0.0011 | 0.0008 | 0.0025 | 0.0013 | 0.0009 | 0.0130 |
| 52 | 0.0083 | 0.0012 | 0.0011 | 0.0025 | 0.0014 | 0.0010 | 0.0125 |
| 53 | 0.0081 | 0.0013 | 0.0015 | 0.0050 | 0.0015 | 0.0012 | 0.0120 |
| 54 | 0.0079 | 0.0014 | 0.0020 | 0.0050 | 0.0016 | 0.0015 | 0.0115 |
| 55 | 0.0084 | 0.0009 | 0.0026 | 0.1000 | 0.0018 | 0.0018 | 0.0050 |
| 56 | 0.0084 | 0.0009 | 0.0033 | 0.0400 | 0.0020 | 0.0022 | 0.0000 |
| 57 | 0.0084 | 0.0016 | 0.0041 | 0.0600 | 0.0022 | 0.0027 | 0.0000 |
| 58 | 0.0084 | 0.0017 | 0.0050 | 0.0600 | 0.0024 | 0.0033 | 0.0000 |
| 59 | 0.0084 | 0.0018 | 0.0060 | 0.0600 | 0.0026 | 0.0040 | 0.0000 |
| 60 | 0.0000 | 0.0019 | 0.0071 | 0.0700 | 0.0028 | 0.0018 | 0.0000 |
| 61 | 0.0000 | 0.0020 | 0.0083 | 0.0800 | 0.0030 | 0.0060 | 0.0000 |
| 62 | 0.0000 | 0.0021 | 0.0096 | 0.1500 | 0.0032 | 0.0073 | 0.0000 |
| 63 | 0.0000 | 0.0022 | 0.0110 | 0.0750 | 0.0034 | 0.0089 | 0.0000 |
| 64 | 0.0000 | 0.0023 | 0.0125 | 0.0750 | 0.0036 | 0.0120 | 0.0000 |
| 65 | 0.0000 | 0.0024 | 0.0140 | 0.2500 | 0.0038 | 0.0160 | 0.0000 |
| 66 | 0.0000 | 0.0025 | 0.0000 | 0.2500 | 0.0040 | 0.0000 | 0.0000 |
| 67 | 0.0000 | 0.0026 | 0.0000 | 0.3500 | 0.0042 | 0.0000 | 0.0000 |
| 68 | 0.0000 | 0.0027 | 0.0000 | 0.3500 | 0.0045 | 0.0000 | 0.0000 |
| 69 | 0.0000 | 0.0028 | 0.0000 | 0.4000 | 0.0048 | 0.0000 | 0.0000 |
| 70 | 0.0000 | 0.0029 | 0.0000 | 1.0000 | 0.0000 | 0.0000 | 0.0000 |

# SCHEDULE OF ACTIVE MEMBER VALUATION DATA

| Valuation Date | Number | Annual Payroll | Annual Average Pay | % Increase in Average Pay |
|---|---|---|---|---|
| June 30, 1999 | 3,694 | $193,650,000 | $52,423 | 8.3% |
| June 30, 1997 | 3,642 | $176,284,000 | $48,403 | 6.8% |
| June 30, 1995 | 3,397 | $153,918,000 | $45,310 | 4.4% |
| June 30, 1993 | 3,360 | $145,781,000 | $43,387 | - |

# RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

| | Beginning of Period | | Added to Rolls | | Removed from Rolls [1] | | End of Period | | % Increase in Annual Allow-ances | Average Annual Allow-ances |
|---|---|---|---|---|---|---|---|---|---|---|
| Two-Year Period | Count | Annual Allow-ances | Count | Annual Allow-ances | Count | Annual Allow-ances | Count | Annual Allow-ances | | |
| 1997-1999 | 1,745 | $32,630,000 | 202 | $4,642,000 | 123 | $1,514,000 | 1,824 | $35,758,000 | 9.6% | $19,604 |
| 1995-1997 | 1,636 | $29,029,000 | 190 | $4,143,000 | 81 | $946,000 | 1,745 | $32,226,000 | 11.0% | $18,468 |
| 1993-1995 | 1,497 | $25,642,000 | 210 | $4,420,000 | 71 | $801,000 | 1,636 | $29,261,000 | 14.1% | $17,886 |

[1] This column consists of the following categories:
(a) Retirees and disabled retirees who die during the period and have no survior benefits
(b) Expiration of certain period benefits for deceased retirees.

# ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

| | Change in Contribution Rate |
|---|---|
| **For Plan Year Ended June 30, 1999** | |
| Investment Performance | -2.75% |
| Liability Experience | 0.98% |
| Change in Assumptions | 0.79% |
| Total | -0.98% |
| **For Plan Year Ended June 30, 1997** | |
| Investment Performance | -1.55% |
| Liability Experience | -1.04% |
| Change in Assumptions | -2.23% |
| Total | -4.82% |

# SOLVENCY TEST

| Year Ended | (1) Active Members Contributions | (2) Retirants and Beneficiaries Accrued Liability | (3) Active Members Accrued Liability (Employer Portion) | Actuarial Value of Assets | Portion of Accrued Liabilities Covered by Reported Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 1999 | $196,887,000 | $441,573,000 | $223,766,000 | $804,860,000 | 100% | 100% | 74% |
| 1997 | $167,837,000 | $383,574,000 | $184,361,000 | $678,954,000 | 100% | 100% | 69% |
| 1995 | $133,805,000 | $364,159,000 | $160,211,000 | $566,102,000 | 100% | 100% | 43% |
| 1993 | $104,098,000 | $308,922,000 | $170,099,000 | $489,865,000 | 100% | 100% | 45% |

# SUMMARY OF RETIREMENT BENEFITS

| | | | |
|---|---|---|---|
| 1. | Eligibility: | | Members are eligible on their first day of City employment. |
| 2. | Final Compensation: | | Highest 36-month average salary. 12 months after July 1, 2001 |
| 3. | Service Retirement: | | |
| | A) | Eligibility: | Age 55 with 5 years of service, or any age with 30 years of service. |
| | B) | Benefit: | 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation. |
| | C) | Form of Payment: | Monthly benefit payable for the life of the member. |
| 4. | Disability Retirement: | | |
| | A) | Eligibility: | Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service. |
| | B) | Benefit: | 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system.<br><br>If the disability was not service-connected, then the benefit is reduced by .5% of Final Compensation for each year of age under 55. For those entering the system September 1, 1998 or later, the calculation is as follows:<br>20% of Final Compensation for 6 years of service;<br>add 2% for each year of service in excess of 6 years but less than 16 years;<br>add 2 1/2% for each of service in excess of 16 years of service. |
| | C) | Form of Payment: | Monthly benefit payable for the life of the member. |
| 5. | Deferred Service Retirement: | | |

# SUMMARY OF RETIREMENT BENEFITS (Continued)

| | | |
|---|---|---|
| A) | Eligibility: | Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement. |
| B) | Benefit: | Same as Service Retirement, payable anytime after age 55. |
| C) | Form of Payment: | Same as Service Retirement. |

6. Pre-Retirement Death Benefits:

| | | |
|---|---|---|
| A) | Non-Service Connected with less than 5 years of service, or No Family Members Eligible for Allowance: | Member's beneficiary or estate receives (i), and (ii) where:<br>(i) = Accumulated contributions with interest.<br>(ii) = Lump sum benefit of one month's salary for each year of service, up to 6 years. |
| B) | Service-Connected, or Non-Service Connected with 5 years of service | Member's eligible survivor receives 100% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable until the spouse remarries. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse. |

7. Post-Retirement Death Benefits: Member's eligible survivor receives (i) and (ii), where:

(i) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.
(ii) = $500 death benefit allowance for burial expenses at death of retired member.

8. Post-retirement Cost-of-Living Benefits: Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

If the benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions: The Members' contribution rates are recalculated on an actuarial basis at each actuarial study.

# SUMMARY OF HEALTH SUBSIDY BENEFITS

1. Eligibility:

| | | |
|---|---|---|
| A) | Medical | Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan of retirement. |
| B) | Dental | Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement. |

2. Benefit

| | | |
|---|---|---|
| A) | Medical | The Retirement System pays the premium for the lowest cost medical plan offered by the City. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System. |
| B) | Dental | The Retirement System pays the entire cost of dental insurance coverage. |

3. Contributions — Both the City and the Members contribute towards the Retirement System fund for medical and dental insurance benefits.

# V.
# STATISTICAL SECTION

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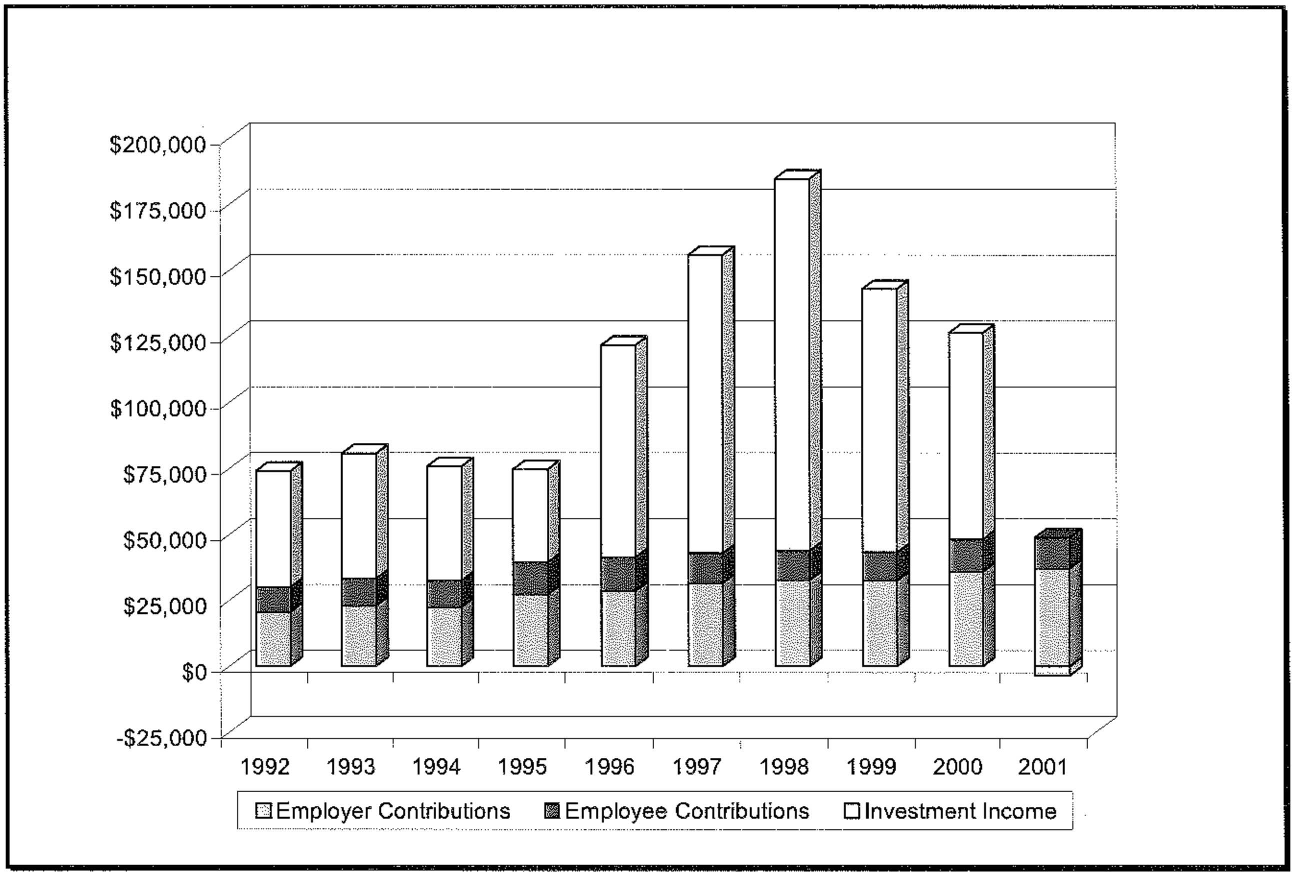
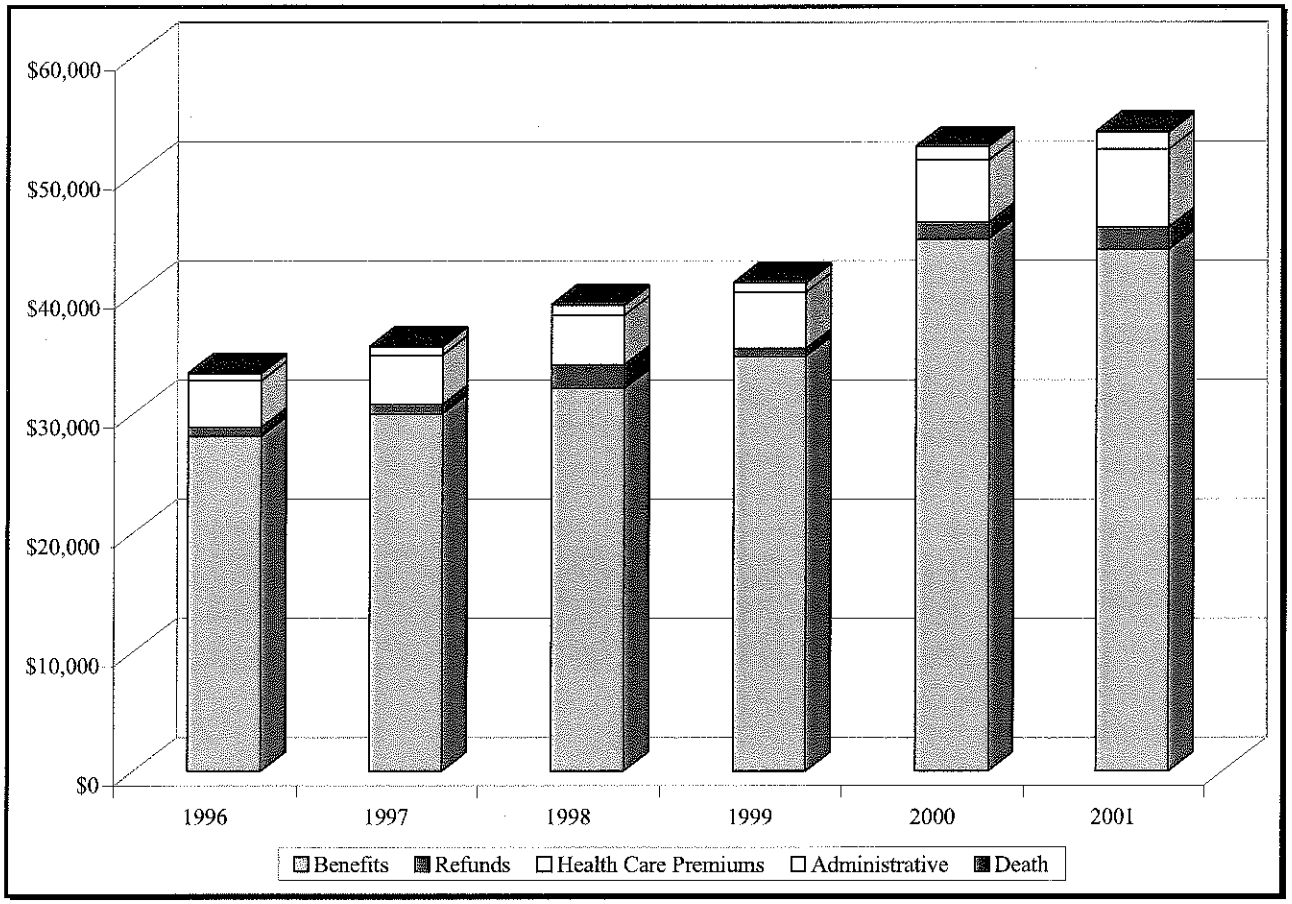
# ADDITIONS BY SOURCE
## For Fiscal Years 1992 - 2001
(In Thousands)




| Year Ending | Employer Contributions | % of Annual Payroll | Employee Contributions | % of Annual Payroll | Investment Income * | Total |
|---|---|---|---|---|---|---|
| 1992 | $20,454 | 14.68% | $9,423 | 6.88% | $44,086 | $73,963 |
| 1993 | $22,801 | 14.68% | $10,391 | 6.88% | $47,498 | $80,690 |
| 1994 | $22,348 | 18.01% | $10,086 | 8.12% | $43,362 | $75,796 |
| 1995 | $27,111 | 18.01% | $12,269 | 8.12% | $35,353 | $74,733 |
| 1996 | $28,411 | 18.59% | $12,876 | 6.70% | $80,420 | $121,707 |
| 1997 | $31,441 | 19.22% | $11,376 | 6.70% | $113,039 | $155,856 |
| 1998 | $32,693 | 16.52% | $11,129 | 5.31% | $140,928 | $184,750 |
| 1999 | $32,387 | 16.52% | $10,733 | 5.31% | $99,907 | $143,027 |
| 2000 | $35,825 | 16.09% | $12,400 | 4.76% | $77,971 | $126,196 |
| 2001 | $37,034 | 16.09% | $11,768 | 4.76% | -$3,470 | $45,332 |

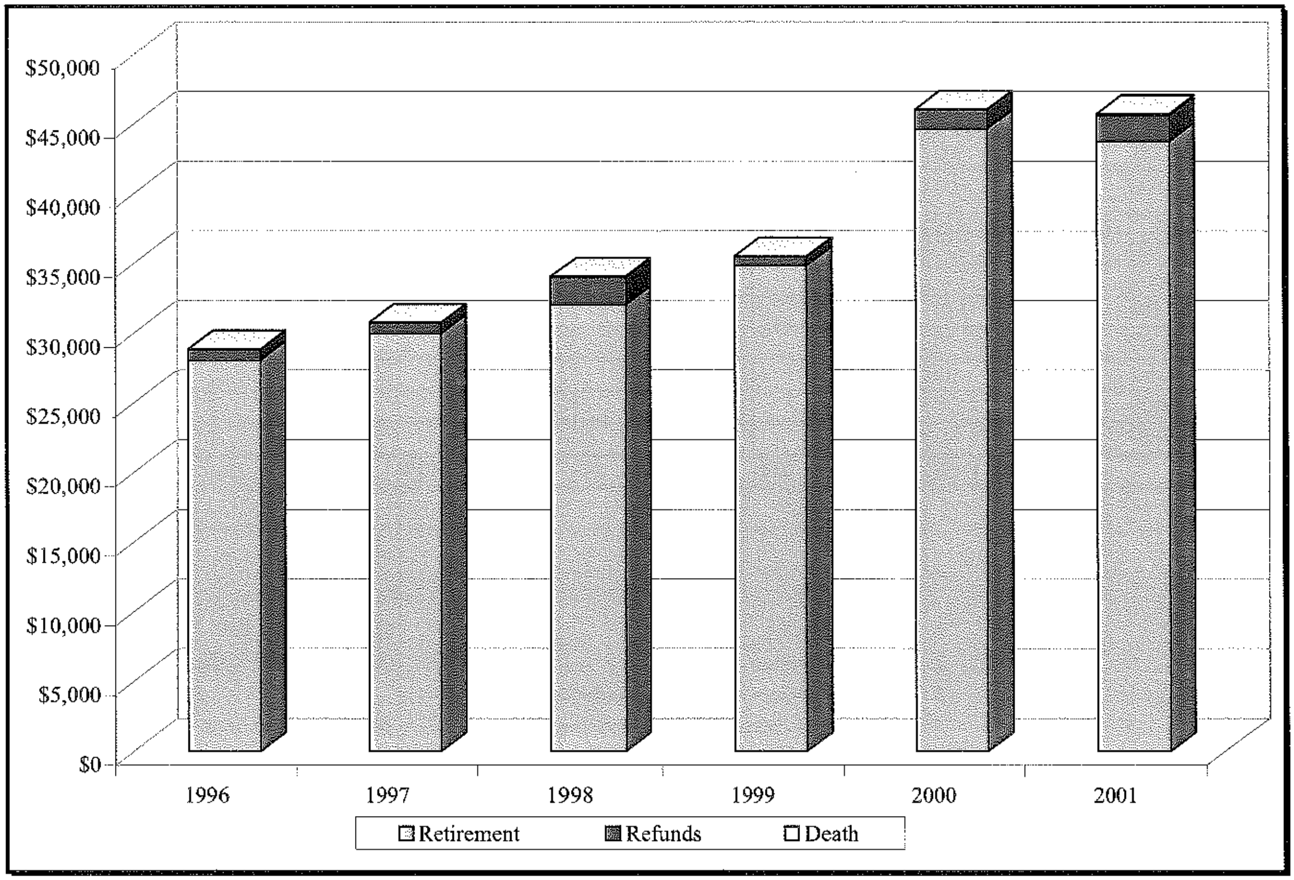
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

# DEDUCTIONS BY TYPE
## For Fiscal Years 1996 - 2001
(In Thousands)




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Benefits | $28,071 | $29,979 | $32,035 | $34,846 | $44,655 | $43,761 |
| Refunds | $758 | $789 | $1,980 | $646 | $1,386 | $1,886 |
| Health Care Premiums | $3,920 | $4,145 | $4,161 | $4,711 | $5,236 | $6,530 |
| Death | $41 | $20 | $84 | $47 | $20 | $105 |
| Administrative | $599 | $726 | $841 | $778 | $1,136 | $1,420 |
| **TOTAL** | **$33,389** | **$35,659** | **$39,101** | **$41,028** | **$52,433** | **$53,702** |

# BENEFIT EXPENSES BY TYPE
## For Fiscal Years 1996 - 2001
## (In Thousands)




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Retirement | $28,071 | $29,979 | $32,035 | $34,846 | $44,655 | $43,761 |
| Refunds | $758 | $789 | $1,980 | $646 | $1,386 | $1,886 |
| Death | $41 | $20 | $84 | $47 | $20 | $105 |
| **TOTAL** | **$28,870** | **$30,788** | **$34,099** | **$35,539** | **$46,061** | **$45,752** |

# RETIRED MEMBERS BY TYPE OF BENEFIT
## As of June 30, 2001

| Amount Monthly Benefit | Number of Retirants | Type of Retirement | | | | | | Option Selected | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | Unmod. | Option 1 | No Surv. | Total |
| $1 - 500 | 215 | 108 | 57 | 1 | | 8 | 41 | 170 | 19 | 26 | 215 |
| 501 - 1000 | 307 | 130 | 102 | 15 | 13 | 14 | 33 | 257 | 19 | 32 | 308 |
| 1001 - 1500 | 405 | 215 | 84 | 48 | 28 | 3 | 27 | 338 | 19 | 48 | 405 |
| 1501 - 2000 | 313 | 219 | 43 | 26 | 12 | 1 | 12 | 284 | 10 | 19 | 313 |
| 2001 - 2500 | 227 | 190 | 10 | 14 | 5 | | 8 | 208 | 8 | 11 | 227 |
| 2501 - 3000 | 147 | 130 | 5 | 4 | 3 | 1 | 4 | 132 | 5 | 10 | 147 |
| 3001 - 3500 | 133 | 122 | 6 | 2 | | | 3 | 123 | 4 | 6 | 133 |
| 3501 - 4000 | 79 | 74 | 3 | 1 | | | 1 | 67 | 5 | 7 | 79 |
| 4001 -4500 | 69 | 68 | 1 | | | | | 62 | 2 | 4 | 68 |
| 4501 - 5000 | 20 | 20 | | | | | | 16 | 0 | 4 | 20 |
| Over $5000 | 43 | 42 | | 1 | | | | 41 | 1 | 1 | 43 |
| Total | **1958** | **1318** | **311** | **112** | **61** | **27** | **129** | **1698** | **92** | **168** | **1958** |

1 Service
2 Survivor
3 Service Connected Disability
4 Non-Service Connected Disability
5 Ex-Spouse
6 Deferred Vested

Unmodified - 50% Continuance
Option 1: 100% Continuance/ reduced pension
Single/No Survivor - No Continuance

# AVERAGE BENEFIT PAYMENT AMOUNTS

| | Survivor Single life Annuity | | Disabled Retiree Joint and Survivor Annuity | | Disabled Retiree Single Life Annuity | | Retiree Joint and Survivor Annuity | | Retiree Single Life Annuity | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Age | Count | Average | Count | Average | Count | Average | Count | Average | Count | Average | Total Count |
| Under 30 | 3 | 3,792 | - | - | - | - | - | - | - | - | 3 |
| 30 to 34 | 1 | 15,785 | 3 | 12,198 | - | - | - | - | - | - | 4 |
| 35 to 39 | - | - | 5 | 11,543 | - | - | - | - | - | - | 5 |
| 40 to 44 | 6 | 16,226 | 7 | 12,291 | 3 | 19,662 | - | - | 1 | - | 17 |
| 45 to 49 | 8 | 18,819 | 15 | 13,915 | 2 | 20,933 | - | - | - | - | 25 |
| 50 to 54 | 15 | 13,165 | 17 | 16,111 | 1 | 31,846 | 3 | 43,442 | 5 | 43,611 | 41 |
| 55 to 59 | 27 | 16,667 | 20 | 20,711 | 3 | 25,214 | 144 | 29,026 | 51 | 26,832 | 245 |
| 60 to 64 | 34 | 13,113 | 17 | 16,778 | 1 | 12,621 | 236 | 27,452 | 11 | 21,558 | 299 |
| 65 to 69 | 48 | 13,201 | 25 | 19,163 | 3 | 13,208 | 259 | 23,420 | 16 | 18,653 | 351 |
| 70 to 74 | 55 | 12,728 | 15 | 16,325 | 3 | 12,826 | 265 | 21,657 | 7 | 6,604 | 345 |
| 75 to 79 | 51 | 10,368 | 10 | 14,853 | 1 | 13,681 | 216 | 17,487 | 4 | 9,835 | 282 |
| 80 to 84 | 48 | 9,302 | 5 | 13,050 | 3 | 10,261 | 89 | 15,831 | 10 | 14,106 | 155 |
| 85 to 89 | 9 | 11,221 | 1 | 16,337 | - | - | 24 | 13,586 | 10 | 13,040 | 44 |
| 90 and Up | 2 | 7,248 | - | - | - | - | 2 | 14,091 | 4 | 17,720 | 8 |
| Summary | 307 | 12,355 | 140 | $ 16,546 | 20 | $ 17,176 | 1,238 | $ 22,725 | 119 | $ 21,429 | 1,824 |

Average Annual Benefit $ 20,360

Data as of last actuarial valuation, June 30, 1999

# RETIREMENTS DURING FISCAL YEAR 2000-01

## SERVICE RETIREMENTS

AMEELE, NOEL G
BANUELOS, ROBERT
BEESON, MARY L
BELDEN, CHARLES F
BOALES, LARRY D
BRADFORD, MARGARET
CALLEJA, CONCEPTION T
CAMPBELL, KATHY J
CONAWAY, MARGARET G
CORBETT, DONALD J
COWEN, SUZANNE K
CUELLAR, DAVID M
DI SALVO, RICHARD D
DI VITTORIO, GERALDINE L
DOI, BOB M
DUARTE, PRISCILLA A
FOSS, WANDA L
GEPHART, JANET L
GOULART, DARKLIS
GRAVES, JOHN A
HARTMAN, JANICE H
HARVEY, JAMES L
HERNANDEZ, AUGUSTINE R
HUGHES, ROGER D
HULSEY, BOBBY G
IDEMOTO, SALLY K
JACKSON, FELTON J
JOHNSON, FOTENE
KIMBERLIN, CHARLES W
KREIDER, BARBARA A
LAURIE, PATRICIA J
LEE, GAN T
LONG, PATRICIA
LOPEZ, JULIO O
LOPEZ, STEVEN V
MANKE, DOUGLAS A
MC CALL, DIANA L
MC CARRON, JANET
MC DONALD, JOSEPH F
MILLER, CURTIS W
MIZUGUCHI, EARL M
MONTOYA, ALBERT P
MOODY, AMY
MORENO, ISMAEL
MYERS, CHERYL J
NATIVIDAD, LYDIA B
NUNEZ, RENE I
QUALLS, RALPH A
QUOSIG, KARL E
RAMIREZ, TENNIE MAE
REYNOLDS, GLEN L
RIGDON, DARRELL D
ROBERTS, CLARA MARIE
ROMERO, RONALD V
SALAC, GERALD
SANTOS, DANIEL S
SEGRETTO, EDIE
STOUT, VIVIENNE IRENE
STRICKLAND, WILMA L
WACHTER, SHERYL L
WOJCIECHOWSKI, JOSEPH M
YAMAMOTO, JUNE C
ZACHER, LINDA

## DEFERRED VESTED RETIREMENTS

BEEBE, ROBERT D
BLACK, BETTY M
CADY, STEVEN R
COENEN, PETER L
CONTRATTO, JOHN T
CUSHING, BARBARA L
DELANEY, CATHERINE A
EASTWOOD, SANDRA T
FERRERO, MICHAEL V
HANAMURA, MICHAEL
HEINRICHSEN, DAVID A
HENRY, KENNETH L
LOPEZ, ALBERT D
MORRISON, JACQUELYN F
RAMSEY, BARBARA S
ROSE, MICHAEL E
VALDEZ, MARY H
WILLIAMS, GARY S
YORK, JANIS E

## SERVICE-CONNECTED DISABILITY RETIREMENTS

CHRISTIAN, KEITH
HUSING, GWEN G
HYBSA, WILLIAM A
INGLE, MICHAEL B
LONG, LYLE L
TRUJILLO, CHRISTINA M
VALENTE, STEVEN D
WILLIAMS, VICTOR

# RETIREMENTS DURING FISCAL YEAR 2000-01 (Continued)

## NON-SERVICE CONNECTED DISABILITY RETIREMENTS

BADAL, MICHELE M
CERA, CARLOTTA J
DONEZ, EPIMENIO
EVANGEL, DEBORAH
KEEHEN, TIMOTHY J
WATSON, BARBARA L

# DEATHS DURING THE FISCAL YEAR ENDED 2000-01

## DEATHS AFTER RETIREMENT

AFANADOR, EPIFANIO
ALDERETE, CHARLES P
ANDERSON, ELWOOD A
ARGALL, GEORGE
BAHR, CARL H
BAUTISTA, MIGUEL T
BRIONES, HENRY
CABALLES, PHILIP
DEGNAN, JAMES M
FITZGERALD, FRED J
FLETCHER, BEATRICE L
GERACI, GEORGE L
GUILLEN, PAUL B
HANLEY, RALPH
HOOVEN, ALVA R
JACOBI, ERWIN H
JUAREZ, JANIS R
KOSTER, GENE V
LENNON, P J
MAGGETTI, PAUL
MEDINA, RALPH
MORENO, CHARLES
NAKANO, FLORENCE
OLIVER, WILLIAM A
ROBERTS, CLARA MARIE
ROGERS, EULA C
SARKAR, GOUTAM
SAXON, DIANA L
SCHIRLE, ALIDA
SMITH, JUSTIN I
TYLER, HOWARD O
YOUNG, ROBERT J
ZAPPACOSTA, RAECHEL D

## DEATHS BEFORE RETIREMENT

ANDREWS, DONNA G
BEAMES, WILLIAM T
CLAUSEN, ROGER G
ENRIQUEZ, GARY A
FOREMAN, JOANN
LANZA, ANGEL C
MARTINEZ, TONY J
MOORE, STEVEN D

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