CITY OF SAN JOSÉ
COMPREHENSIVE ANNUAL
FINANCIAL REPORT

*For the Fiscal Year Ended June 30, 2005*

SAN JOSE
CAPITAL OF SILICON VALLEY

# POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

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

**Edward F. Overton**
Director

City of San José
Department of Retirement Services
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# Board Chair Letter

## Police and Fire Department Retirement Plan

SAN JOSE
CAPITAL OF SILICON VALLEY

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

September 2, 2005

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's ("Plan") Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate return of 11.0% on investments, compared to 10.4% for its benchmark and 9.4% for the Trust Universe Comparison Service Public Fund Median.
- The Plan conducted a retiree health survey and presented the recommendations at a Health Symposium.
- The Board continued to rebalance the portfolio based on the Asset Modeling Study that was completed in fiscal year 2003-04.
- The Board completed the classification and compensation study.
- The Plan continued to make enhancements to the web member services and website.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, actuarial consultant, 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,

MARK SKEEN, CHAIR
BOARD OF ADMINISTRATION

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# I.
# INTRODUCTORY SECTION

# Letter of Transmittal

## Police and Fire Department Retirement Plan

SAN JOSE
CAPITAL OF SILICON VALLEY

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

EDWARD F. OVERTON
DIRECTOR, RETIREMENT SERVICES

September 2, 2005

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Police and Fire Department Retirement Plan ("Plan") for the fiscal year ended June 30, 2005. 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 1946 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 16.

***Structure of the Report***

*This report is presented in five sections:*

• The Introductory Section contains a letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a listing of the professional services used, description of the Plan's management and organizational structure, and a summary of the plan provisions.

• The Financial Section contains the independent auditor's report from Macias Gini & Company LLP, Management's Discussion and Analysis, the basic financial statements of the Plan, certain required supplementary information, and other supplementary information.

• The Investment Section contains the report of investment activity produced by Mercer Investment Consulting, 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, Mercer Human Resource Consulting, along with the results of the Plan's last bi-annual valuation (2003).

• The Statistical Section contains graphs and schedules with comparative data related to additions, deductions, benefits, and membership.

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

# LETTER OF TRANSMITTAL *Continued*

### *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, 2004. 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. We believe this report continues to conform to the Certificate of Achievement Program Requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

The Plan also received the Public Pension Coordinating Council's Public Pension Standards 2003 Award. It is a bi-annual award presented to public pension plans in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

### *Major Initiatives*

During the fiscal year 2004-05 the Plan also conducted a health survey, which resulted in approximately 300 responses. The survey included the retirees' concerns regarding health plans and the recommendations were made at a Health Symposium in August 2005.

The Plan continued to make enhancements to the web member services and website. During the fiscal year 2004-05 open enrollment, members were able to download forms directly from the website.

The Plan also conducted a Class and Compensation Study for the Retirement Department's staff. The study resulted in an upgrade to the accountant's position. The Plan continued to rebalance the investment portfolio based on the new targets that were adopted in fiscal year 2003-04.

**CHANGES IN PLAN MEMBERSHIP**

Plan membership changes for the defined benefit pension plan for FY2004 were as follows:

| | 2005 | 2004 | Increase (Decrease) | Change |
|---|---|---|---|---|
| Active Members* | 2,073 | 2,119 | (46) | -2.0% |
| Retired Members | 1,189 | 1,125 | 64 | 6.0% |
| Survivors** | 256 | 238 | 18 | 8.0% |
| **TOTAL** | **3,518** | **3,482** | **36** | **1.0%** |

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

** *Survivor total includes ex-spouses.*

# LETTER OF TRANSMITTAL *Continued*

### *Financial and Economic Summary*

For the fiscal year ended June 30, 2005, the time-weighted rate of return for the Plan was 11.0%, which was ahead of its Benchmark Index return of 10.4% and in the 22nd percentile of the Trust Universe Comparison Service ("TUCS") - Public Fund Universe. Maintaining a long-term perspective is important when dealing with retirement assets. The annualized return since inception (performance consultant calculates inception as of January 1971) was 9.7%, which is ahead of the actuarial assumption rate of 8.0%.

The U.S. economy has been hampered by higher oil prices, but core inflation is not significant. We continue to experience slow growth, which may result in lower earnings over the next fiscal year. Investment returns in the first half of 2005 have been weak and interest rates appear to be rising. The Plan's investment consultant, Mercer Investment Consulting, believes that the historically conservative asset allocation strategy followed by the Plan's Board has benefited the plan's long-term return.

### *Investment Summary*

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

Compared to the TUCS Public Fund Universe, the Plan's investments turned in an above-average performance during FY2005. The portfolio's total return was 11.0% versus 9.4% for TUCS Public Fund median. Over long-term periods, the portfolio has earned total annualized returns of 10.9% over the past three years and 6.1% over the past five years, and ranked in the 17th and zero percentiles, respectively, of the TUCS Public Fund Universe. The market value of the Plan's investments increased from $1,910,791,000 to $2,100,847,000, net of pending purchases and sales, and excluding securities lending collateral.

### *Funding*

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2003, the funding ratio of the Defined Benefit Pension Plan was approximately at 100.2%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 39. The net increase in Plan assets for FY2005 was $189,543,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 26.

### *Conclusion*

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

Respectfully Submitted,

EDWARD F. OVERTON
DIRECTOR, RETIREMENT SERVICES

# Certificate of Achievement in Financial Reporting

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan, California

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

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

President

Executive Director

# PUBLIC PENSION STANDARDS AWARD

PPCC

Public Pension Coordinating Council

**Public Pension Standards**

***2003 Award***

Presented to

**City of San Jose Retirement Services**

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

# Board of Administration

The Retirement Plan is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two Plan members - one from the Police Department and one from the Fire Department, a member who has retired under the provision of the Plan, and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, institutional funds, or endowment funds, in accordance with Section 2.08.400 of the San José Municipal Code. As of June 30, 2005, the members of the Board were as follows:

**MARK SKEEN,** CHAIRMAN

*Employee Representative of the Fire Department appointed to the Board in November 1999. His current term expires November 30, 2007.*

**KEN HEREDIA,** VICE CHAIRMAN

*Retired Plan Member appointed to the Board in May 2000. His current term expires November 30, 2008.*

**BRET MUNCY**

*Employee Representative for the Police Department appointed to the Board in December 2001. His current term expires November 30, 2005.*

**BILL BRILL**

*Civil service commission member appointed on October 27, 1998. His current term expires December 1, 2005.*

**MARK BURTON**

*City Administration Member appointed to the Board in May 1, 2000.*

**DAVID CORTESE**

*City Council Member appointed to the Board on January 1, 2001.*

**CINDY CHAVEZ**

*City Council Member appointed to the Board on January 1, 2005*

# ADMINISTRATION

**OUTSIDE CONSULTANTS**

ACTUARY
Mercer Human Resource Consulting
San Francisco, CA

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

ATTORNEY, REAL ESTATE
Nossaman, Guthner, Knox & Elliott LLP
San Francisco, CA

AUDITOR
Macias Gini & Company LLP
Walnut Creek, CA

*A list of Investment Professionals begins on page 59 of the Investment Section of this report.*

**STANDING PUBLIC MEETINGS**

BOARD MEETINGS:
First Thursday of the Month
8:30 AM

INVESTMENT COMMITTEE:
Third Thursday of the Month
10:00 AM - Department of Retirement Services Office

INVESTMENT COMMITTEE OF THE WHOLE:
Quarterly Meetings

REAL ESTATE COMMITTEE:
Quarterly Meetings

**EDWARD F. OVERTON**

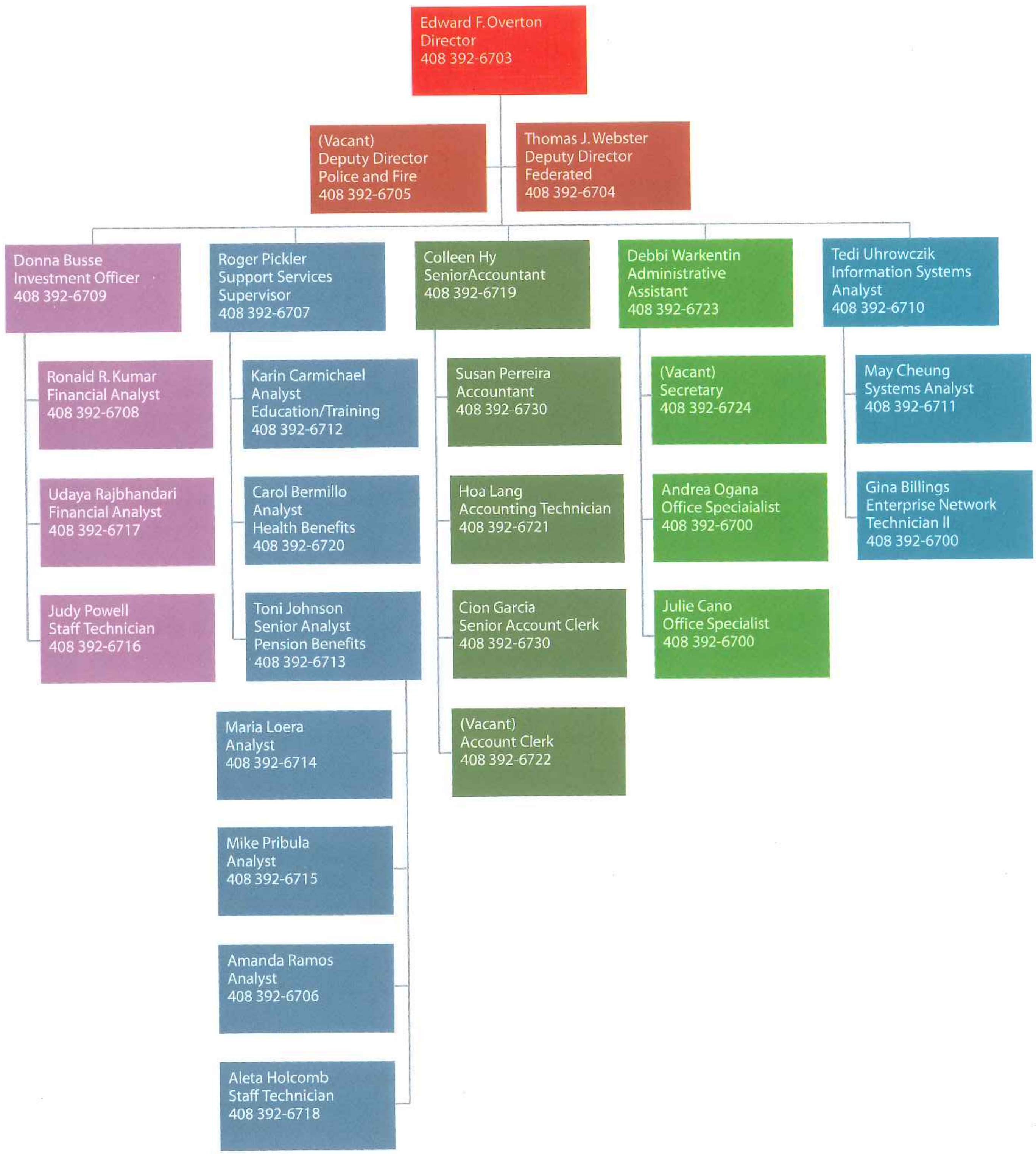
DIRECTOR, RETIREMENT SERVICES

*Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at:* ***http://sjretirement.com/PF/Meetings/Agendas.asp*** *or they can be obtained in the retirement office at: 1737 North First Street, Suite 580, San José, CA 95112-4505. Meeting times and locations are subject to change, please call our office at: 408.392.6700 for current information.*

**Department of Retirement Services**

*1737 North First Street, Suite 580*
*San José, CA 95112*
*408.392.6700 PHONE*
*800.732.6477 PHONE*
*408.392.0771 FAX*
*www.sjretirement.com*

# Department of Retirement Services Organizational Chart



# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS

### MEMBERSHIP
Mandatory for all full-time safety employees.

### MEMBER CONTRIBUTION
All members contribute 11.16% of base salary.

### CITY'S CONTRIBUTION
The City contributes 24.59% of the base salary.

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

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

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

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

### SERVICE RETIREMENT
An employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final compensation multiplied by 2.5% multiplied by years of service up to 30 years (Maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996, but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary).

### SERVICE-CONNECTED DISABILITY
If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final compensation. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retires prior to February 4, 1996 (Maximum benefit, 75% of final average salary). After February 4, 1996, but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20, but less than 25 years of service, plus 4% of final average salary for each year over 25, but less than 30 years of service (Maximum benefit, 85% of final average salary).

# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS *Continued*

### NON-SERVICE-CONNECTED DISABILITY

Retirement for a non-service-connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for the first two years plus 1% for each additional year of service. After February 4, 1996, but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20, but less than 25 years of service, plus 4% of final average salary for each year over 25, but less than 30 years of service (Maximum benefit, 85% of final average salary).

### EARLY SERVICE RETIREMENT

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

### MANDATORY RETIREMENT

Age 70.

### SURVIVORSHIP

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

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

Surviving child or children conceived prior to retirement will receive the following:

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

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

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

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

### REMARRIAGE OF SPOUSE

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

# SUMMARY OF THE PRINCIPAL PLAN PROVISIONS *Continued*

### POST-RETIREMENT MARRIAGE

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

### MANAGEMENT

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

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

### 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.

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

### ACTUARIAL SOUNDNESS

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

### INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the System's resources. Nationally known investment advisory services including Alliance Capital Management Corp.; Bank of Ireland Asset Management; The Boston Company; Boston Partners Asset Management; Brandes Investment Partners; Credit Suisse Asset Management; Globalt, Inc.; Income Research Management; INTECH; Kennedy Associates Real Estate Counsel; MIG Realty Advisors; New Amsterdam Partners; Provident Investment Counsel; Rhumbline Advisers; Seix Investment Advisors; Trust Company of the West; UBS Global Asset Management; Western Asset Management Company; and William Blair & Company are retained for full-time investment counsel. Mercer Investment Consulting is retained as the invesment consultant.

### COST OF LIVING

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

# II. FINANCIAL SECTION

# Independent Auditor's Report

MACIAS GINI & COMPANY LLP

Macias Gini & Company LLP
2175 N. California Boulevard, Suite 645
Walnut Creek, California 94596

925.274.0190 phone
925.274.3819 fax
www.maciasgini.com

The Board of Administration
City of San José Police and Fire Department
Retirement Plan

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2005 and 2004, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2005 and 2004, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2005 and 2004, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(g) to the basic financial statements, effective July 1, 2004, the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures - an amendment of GASB Statement No. 3.*

# INDEPENDENT AUDITOR'S REPORT *Continued*

MACIAS GINI & COMPANY LLP

Macias Gini & Company LLP
2175 N. California Boulevard, Suite 645
Walnut Creek, California 94596

925.274.0190 phone
925.274.3819 fax
www.maciasgini.com

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis and the schedules designated as other required supplementary information in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The introductory section, other supplementary information in the financial section, the investment, actuarial and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to 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 introductory, investment, actuarial and statistical sections have not been subjected to auditing procedures applied in the audits of the basic financials statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS
WALNUT CREEK, CALIFORNIA
SEPTEMBER 2, 2005

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

SAN JOSE
CAPITAL OF SILICON VALLEY

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

EDWARD F. OVERTON
DIRECTOR, RETIREMENT SERVICES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

#### *Financial Highlights for Fiscal Year 2005*

• The net assets of the Plan at the close of the fiscal year 2005 are $2,099,778,000 (net assets held in trust for pension benefits and postemployment healthcare benefits). All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve.

• The Plan's total net assets held in trust for pension benefits and postemployment healthcare benefits increased by approximately $189,543,000 or 9.9%, primarily as a result of the appreciation of the fair value of investments caused by the strengthening equity investment market.

• The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2003, the date of our last actuarial valuation, the funded ratio for the Defined Benefit Pension Plan was approximately 100.2 %. In general, this indicates that for every dollar of pension benefits due we have approximately $1.00 of assets to cover it.

• Additions to Plan Net Assets for the year were $276,040,000, which includes member and employer contributions of $70,166,000, net investment income of $205,217,000, and net securities lending income of $657,000.

• Deductions in Plan Net Assets increased from $77,174,000 to $86,497,000 over the prior year, or approximately 12.1% due primarily to increased benefit payments and healthcare insurance premiums.

• The Plan completed a new actuarial valuation dated 2003 and the rates adopted took effect July 4, 2004. The new rates increased the City's contribution from 14.22% to 24.59% and increased the Employees' contribution from 10.25% to 11.16%. Funding status of the Plan was reduced from 114.8% to 100.2%.

#### *Overview of the Financial Statements*

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

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

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

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

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

Both statements are in compliance with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and that Pension Trust Funds use the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS *Continued*

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

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

*Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 28-38 of this report).

*Other Information.* In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's progress in funding its obligations to provide pension benefits to members and employer contributions (see Required Supplementary Information beginning on page 39 of this report).

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

### *Financial Analysis*

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1A on page 18). The assets of the Plan exceeded its liabilities at the close of fiscal year 2005.

As of June 30, 2005, $2,099,778,000 in total net assets is held in trust for pension benefits and postemployment healthcare benefits. All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2005, total net assets increased by 9.9% over the prior year primarily due to an increase in investments at fair value, which increased $338,457,000 from last year.

As of June 30, 2004, $1,910,235,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits (see Table 1B on page 18). This total represented an increase of 13.7% in net assets over the prior year primarily due to appreciation in the fair value of investments.

As of June 30, 2005, receivables increased by $11,813,000 or 42.4% mainly due to an increase in receivables from brokers and others for year-end investment trades. In the previous year, receivables decreased by $29,216,000 or 51.2% also due to a decrease in receivables from brokers and others.

As of June 30, 2005, total liabilities increased by $160,727,000, or 53.9%, compared with June 30, 2004, due mainly to an increase in securities lending collateral due to borrowers.

As of June 30, 2004, total liabilities increased by $164,383,000 or 123.0% due mainly to an increase in securities lending collateral due to borrowers, which returned to normal from its low levels at the end of the previous year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS *Continued*

***Reserves***

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 44). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by the San José Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

The appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "Unrealized gains on investments held" of $64,501,000 as of June 30, 2005.

For the fiscal year ended June 30, 2004, the appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "Unrealized gains on investments held" of $114,243,000 as of June 30, 2003.

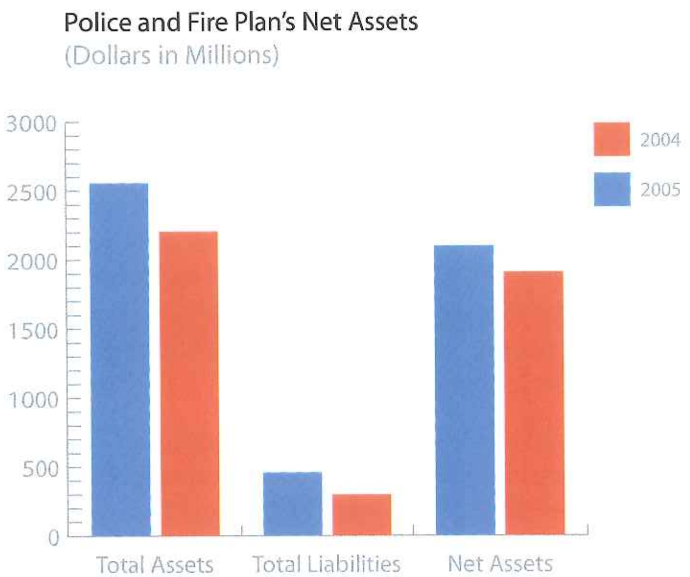
**POLICE AND FIRE PLAN'S NET ASSETS (TABLE 1A)**
As of June 30, 2005 and 2004

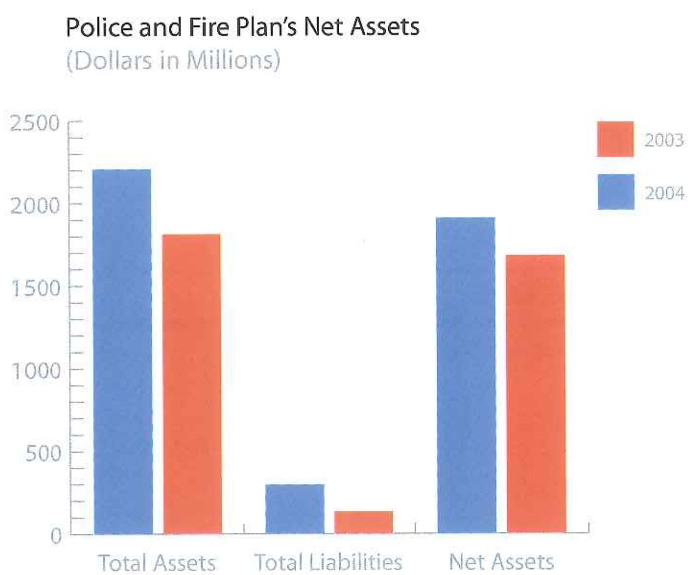
| | 2005 | 2004 | Increase/ Amount | Increase/ Percent |
|---|---|---|---|---|
| Receivables | $ 39,698,000 | $ 27,885,000 | $ 11,813,000 | 42.4% |
| Investments at Fair Value | 2,518,798,000 | 2,180,341,000 | 338,457,000 | 15.5% |
| **Total Assets** | **2,558,496,000** | **2,208,226,000** | **350,270,000** | **15.9%** |
| Current Liabilities | 458,718,000 | 297,991,000 | 160,727,000 | 53.9% |
| **Total Liabilities** | **458,718,000** | **297,991,000** | **160,727,000** | **53.9%** |
| **Net Assets** | **$2,099,778,000** | **$1,910,235,000** | **$ 189,543,000** | **9.9%** |

**POLICE AND FIRE PLAN'S NET ASSETS (TABLE 1B)**
As of June 30, 2004 and 2003

| | 2004 | 2003 | Increase/ (Decrease) Amount | Increase/ (Decrease) Percent |
|---|---|---|---|---|
| Receivables | $ 27,885,000 | $ 57,101,000 | $ (29,216,000) | -51.2% |
| Investments at Fair Value | 2,180,341,000 | 1,757,238,000 | 423,103,000 | 24.1% |
| **Total Assets** | **2,208,226,000** | **1,814,339,000** | **393,887,000** | **21.7%** |
| Current Liabilities | 297,991,000 | 133,608,000 | 164,383,000 | 123.0% |
| **Total Liabilities** | **297,991,000** | **133,608,000** | **164,383,000** | **123.0%** |
| **Net Assets** | **$1,910,235,000** | **$1,680,731,000** | **$ 229,504,000** | **13.7%** |

# MANAGEMENT'S DISCUSSION AND ANALYSIS *Continued*



# MANAGEMENT'S DISCUSSION AND ANALYSIS *Continued*

### *The Police and Fire Plan Activities*

Market returns were the main driver of increased net assets, which rose by $189,543,000, thereby accounting for a 9.9% increase over the prior year. Key elements of this increase are described in the sections that follow.

### *Additions to Plan Net Assets*

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2005, totaled $276,040,000 (see Table 2a below).

By fiscal year ended June 30, 2005, overall additions had decreased by $30,638,000, or 10.0%, from the prior year primarily due to a decrease of $51,087,000, or 19.9% in net investment income excluding securities lending income, which was caused by a slower rate of investment appreciation compared to the prior year. The investment section of this report reviews the result of investment activity for the fiscal year ended June 30, 2005 starting on page 47. Also during the fiscal year, employer contributions increased by $19,349,000, or 66.9% due to an increase in contribution rate which resulted from a new actuarial valuation.

Additions for the fiscal year ended June 30, 2004, totaled $306,678,000, which represented an increase of $177,339,000, or 137.1%, from fiscal year 2003 primarily due to investment gains which increased by 215.6% from the previous year (see Table 2b below).

**ADDITIONS TO PLAN NET ASSETS (TABLE 2A)**
For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 | Increase/ (Decrease) Amount | Increase/ (Decrease) Percent |
|---|---|---|---|---|
| Employee Contributions | $ 21,913,000 | $ 20,929,000 | $ 984,000 | 4.7% |
| Employer Contributions | 48,253,000 | 28,904,000 | 19,349,000 | 66.9% |
| Net Investment Income* | 205,217,000 | 256,304,000 | (51,087,000) | -19.9% |
| Net Securities Lending Income | 657,000 | 541,000 | 116,000 | 21.4% |
| **Total Additions** | **$ 276,040,000** | **$ 306,678,000** | **$ (30,638,000)** | **-10.0%** |

** Net of Investment Expenses of $8,017,000 and $7,945,000 in 2005 and 2004, respectively.*

**ADDITIONS TO PLAN NET ASSETS (TABLE 2B)**
For the Years Ended June 30, 2004 and 2003

| | 2004 | 2003 | Increase/ Amount | Increase/ Percent |
|---|---|---|---|---|
| Employee Contributions | $ 20,929,000 | $ 19,937,000 | $ 992,000 | 5.0% |
| Employer Contributions | 28,904,000 | 27,762,000 | 1,142,000 | 4.1% |
| Net Investment Income (Loss)* | 256,304,000 | 81,216,000 | 175,088,000 | 215.6% |
| Net Securities Lending Income | 541,000 | 424,000 | 117,000 | 27.6% |
| **Total Additions** | **$ 306,678,000** | **$ 129,339,000** | **$ 177,339,000** | **137.1%** |

** Net of Investment Expenses of $7,945,000 and $7,066,000 in 2004 and 2003, respectively.*

# Management's Discussion and Analysis *Continued*

### DEDUCTIONS FROM PLAN NET ASSETS (TABLE 3A)

For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 | Increase/ (Decrease) Amount | Increase/ (Decrease) Percent |
|---|---|---|---|---|
| Retirement Benefits | $ 69,102,000 | $ 61,449,000 | $ 7,653,000 | 12.5% |
| Healthcare Insurance Premiums | 11,093,000 | 9,528,000 | 1,565,000 | 16.4% |
| Death Benefits | 4,226,000 | 3,976,000 | 250,000 | 6.3% |
| Refund of Contributions | 426,000 | 132,000 | 294,000 | 222.7% |
| Administrative | 1,650,000 | 2,089,000 | (439,000) | -21.0% |
| **Total Deductions** | **$ 86,497,000** | **$ 77,174,000** | **$ 9,323,000** | **12.1%** |

### DEDUCTIONS FROM PLAN NET ASSETS (TABLE 3B)

For the Years Ended June 30, 2004 and 2003

| | 2004 | 2003 | Increase/ (Decrease) Amount | Increase/ (Decrease) Percent |
|---|---|---|---|---|
| Retirement Benefits | $ 61,449,000 | $ 55,342,000 | $ 6,107,000 | 11.0% |
| Healthcare Insurance Premiums | 9,528,000 | 7,772,000 | 1,756,000 | 22.6% |
| Death Benefits | 3,976,000 | 3,732,000 | 244,000 | 6.5% |
| Refund of Contributions | 132,000 | 276,000 | (144,000) | -52.2% |
| Administrative | 2,089,000 | 1,615,000 | 474,000 | 29.3% |
| **Total Deductions** | **$ 77,174,000** | **$ 68,737,000** | **$ 8,437,000** | **12.3%** |

### CHANGES IN PLAN NET ASSETS (TABLE 4A)

For the Years Ended June 30, 2005 and 2004

| | 2005 | 2004 | Increase/ (Decrease) Amount | Increase/ (Decrease) Percent |
|---|---|---|---|---|
| Total Additions | $ 276,040,000 | $ 306,678,000 | $ (30,638,000) | -10.0% |
| Total Deductions | 86,497,000 | 77,174,000 | 9,323,000 | 12.1% |
| **Net Increase in Plan Assets** | **$ 189,543,000** | **$ 229,504,000** | **$ (39,961,000)** | **-17.4%** |

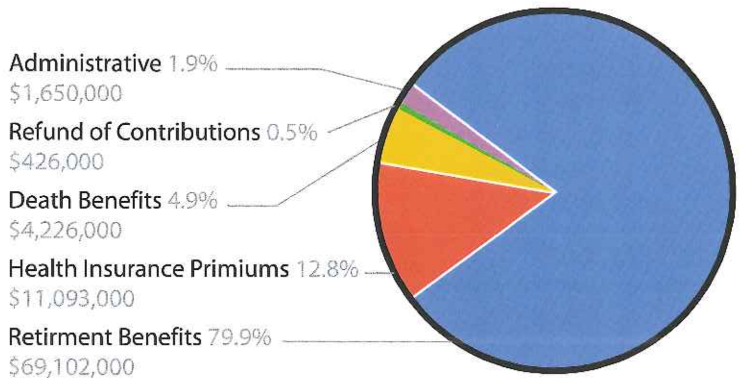
### CHANGES IN PLAN NET ASSETS (TABLE 4B)

For the Years Ended June 30, 2004 and 2003

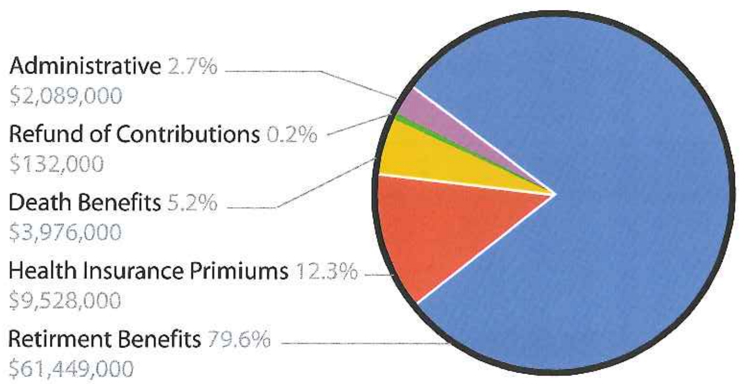
| | 2004 | 2003 | Increase/ Amount | Increase/ Percent |
|---|---|---|---|---|
| Total Additions | $ 306,678,000 | $ 129,339,000 | $ 177,339,000 | 137.1% |
| Total Deductions | 77,174,000 | 68,737,000 | 8,437,000 | 12.3% |
| **Net Increase (Decrease) in Plan Assets** | **$ 229,504,000** | **$ 60,602,000** | **$ 168,902,000** | **278.7%** |

# MANAGEMENT'S DISCUSSION AND ANALYSIS *Continued*

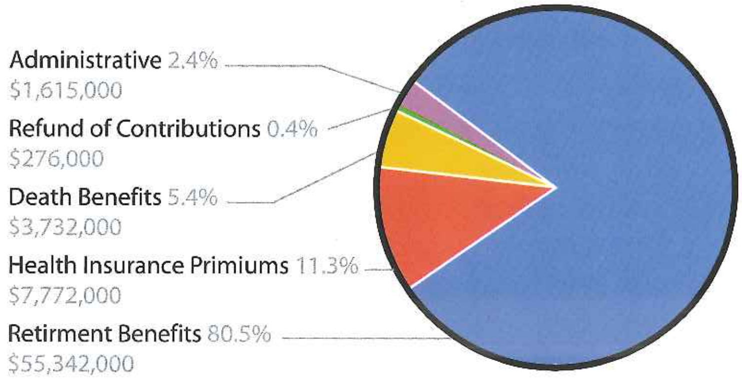
Deductions From Plan Net Assets 2005




Deductions From Plan Net Assets 2004




Deductions From Plan Net Assets 2003




***Deductions from Plan Net Assets***

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

Deductions for the fiscal year ended June 30, 2005 totaled $86,497,000, an increase of 12.1% over June 30, 2004 (see Table 3a on page 21). Increases in retirement benefits of $7,653,000 and healthcare insurance premiums of $1,565,000 were the main reasons for increased expenses. Retirement benefits expense increased due to an increased number of beneficiaries and higher benefit amounts paid. Health insurance costs increased due to higher premiums.

Deductions for the fiscal year ended June 30, 2004 totaled $77,174,000, an increase of 12.3% over June 30, 2003 (see Table 3b on page 21). Increases in retirement benefits of $6,107,000 and healthcare insurance premiums of $1,756,000 were the main reasons for increased expenses. Retirement benefits expense increased due to an increased number of beneficiaries and higher benefit amounts paid. Healthcare insurance costs increased due to higher premiums and administrative expenses increased primarily as a result of an increase in payroll costs due to increased staffing.

# Management's Discussion and Analysis *Continued*

### *The Plan's Fiduciary Responsibilities*

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

### *Economic Factors and Rates Affecting Next Year*

The actuarial recommended contribution rates for fiscal year 2005 and 2006 for the City are 24.59% and 25.04%, respectively. The San José Municipal Code provides for a subsidy from the Supplemental Retiree Benefit Reserve (SRBR) fund of up to 5% of the SRBR fund's balance to offset the increase in the City's contribution rate attributable to the performance of the investment portfolio. Therefore, for fiscal year 2005 the city's contribution rate of 25.04% was reduced by 0.45% of covered payroll to 24.59% due to the subsidy paid from the SRBR fund. In fiscal year 2006, the SRBR fund will not provide a subsidy so the City's contribution rate will be 25.04%.

### *Requests for Information*

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

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

Respectfully Submitted,

EDWARD F. OVERTON
DIRECTOR, RETIREMENT SERVICES

# Basic Financial Statements

## Statements of Plan Net Assets

*June 30, 2005 and 2004*

*(Dollars in Thousands)*

| | 2005 | | |
|---|---|---|---|
| | **Pension Benefits** | **Postemployment Healthcare Benefits** | **Total** |
| **ASSETS:** | | | |
| **Receivables:** | | | |
| Employee contributions | $ 552 | $ 193 | $ 745 |
| Employer contributions | 1,423 | 218 | 1,641 |
| Brokers and others | 28,281 | 498 | 28,779 |
| Accrued investment income | 8,383 | 150 | 8,533 |
| **Total receivables** | **38,639** | **1,059** | **39,698** |
| **Investments, at fair value:** | | | |
| Securities and other | | | |
| U.S. Treasury notes and bonds | 199,198 | 3,529 | 202,727 |
| U.S. government agency securities | 114,893 | 2,035 | 116,928 |
| International government bonds | 108,753 | 1,926 | 110,679 |
| Domestic corporate bonds | 177,200 | 3,139 | 180,339 |
| International corporate bonds | 18,538 | 328 | 18,866 |
| Domestic equity securities | 788,852 | 13,974 | 802,826 |
| International equity securities | 526,877 | 9,333 | 536,210 |
| State and local obligations | 1,586 | 28 | 1,614 |
| Forward international currency contracts | (60) | (1) | (61) |
| Collective short-term investment funds | 64,794 | 1,148 | 65,942 |
| Real estate | 111,012 | 2,138 | 113,150 |
| Securities lending cash collateral investment pool | 363,126 | 6,452 | 369,578 |
| **Total investments** | **2,474,769** | **44,029** | **2,518,798** |
| **Total assets** | **2,513,408** | **45,088** | **2,558,496** |
| **LIABILITIES:** | | | |
| Payable to brokers | 83,059 | 1,470 | 84,529 |
| Securities lending collateral due to borrowers | 363,126 | 6,452 | 369,578 |
| Other liabilities | 4,526 | 85 | 4,611 |
| **Total liabilities** | **450,711** | **8,007** | **458,718** |
| **Net Assets Held in Trust for:** | | | |
| Pension benefits | 2,062,697 | - | 2,062,697 |
| Postemployment healthcare benefits | - | 37,081 | 37,081 |
| **Total net assets** | **$ 2,062,697** | **$ 37,081** | **$ 2,099,778** |

*(A schedule of funding progress is presented on page 39.)*

*See accompanying notes to basic financial statements*

*Continued*

# Basic Financial Statements *Continued*

## *Statements of Plan Net Assets* *Continued*

*June 30, 2005 and 2004*

*(Dollars in Thousands)*

| | 2004 | | |
|---|---|---|---|
| | Pension Benefits | Postemployment Healthcare Benefits | Total |
| **ASSETS:** | | | |
| **Receivables:** | | | |
| Employee contributions | $ 607 | $ 132 | $ 739 |
| Employer contributions | 838 | 152 | 990 |
| Brokers and others | 18,057 | 304 | 18,361 |
| Accrued investment income | 7,663 | 132 | 7,795 |
| **Total receivables** | **27,165** | **720** | **27,885** |
| **Investments, at fair value:** | | | |
| Securities and other | | | |
| U.S. Treasury notes and bonds | 104,967 | 1,806 | 106,773 |
| U.S. government agency securities | 206,571 | 3,554 | 210,125 |
| International government bonds | 73,648 | 1,267 | 74,915 |
| Domestic corporate bonds | 234,268 | 4,030 | 238,298 |
| International corporate bonds | 47,085 | 810 | 47,895 |
| Domestic equity securities | 695,508 | 11,965 | 707,473 |
| International equity securities | 428,763 | 7,376 | 436,139 |
| State and local obligations | 912 | 16 | 928 |
| Forward international currency contracts | (1,030) | (18) | (1,048) |
| Collective short-term investment funds | 52,555 | 725 | 53,280 |
| Real estate | 104,125 | 1,975 | 106,100 |
| Securities lending cash collateral investment pool | 196,097 | 3,366 | 199,463 |
| **Total investments** | **2,143,469** | **36,872** | **2,180,341** |
| **Total assets** | **2,170,634** | **37,592** | **2,208,226** |
| **LIABILITIES:** | | | |
| Payable to brokers | 93,221 | 1,600 | 94,821 |
| Securities lending collateral due to borrowers | 196,097 | 3,366 | 199,463 |
| Other liabilities | 3,643 | 64 | 3,707 |
| **Total liabilities** | **292,961** | **5,030** | **297,991** |
| **NET ASSETS HELD IN TRUST FOR:** | | | |
| Pension benefits | 1,877,673 | - | 1,877,673 |
| Postemployment healthcare benefits | - | 32,562 | 32,562 |
| **Total net assets** | **$ 1,877,673** | **$ 32,562** | **$ 1,910,235** |

*(A schedule of funding progress is presented on page 39.)*

*See accompanying notes to basic financial statements*

# BASIC FINANCIAL STATEMENTS *Continued*

## *Statements of Changes in Plan Net Assets*

*For the Fiscal Years Ended June 30, 2005 and 2004*

| *(Dollars in Thousands)* | 2005 | | |
|---|---|---|---|
| | **Pension Benefits** | **Postemployment Healthcare Benefits** | **Total** |
| **ADDITIONS:** | | | |
| **Contributions:** | | | |
| Employee | $ 16,240 | $ 5,673 | $ 21,913 |
| Employer | 41,835 | 6,418 | 48,253 |
| **Total contributions** | **58,075** | **12,091** | **70,166** |
| **Investment income:** | | | |
| Net appreciation in fair value of investments | 153,629 | 2,695 | 156,324 |
| Interest income | 28,556 | 503 | 29,059 |
| Dividend income | 20,871 | 368 | 21,239 |
| Net rental income | 6,496 | 116 | 6,612 |
| Less investment expense | (7,878) | (139) | (8,017) |
| **Net investment income** before securities lending income | **201,674** | **3,543** | **205,217** |
| **Securities lending income:** | | | |
| Earnings | 5,742 | 101 | 5,843 |
| Rebates | (4,819) | (85) | (4,904) |
| Fees | (277) | (5) | (282) |
| **Net securities lending income** | **646** | **11** | **657** |
| **Net investment income** | **202,320** | **3,554** | **205,874** |
| **Total additions** | **260,395** | **15,645** | **276,040** |
| **DEDUCTIONS:** | | | |
| Retirement benefits | 69,102 | - | 69,102 |
| Healthcare insurance premiums | - | 11,093 | 11,093 |
| Death benefits | 4,226 | - | 4,226 |
| Refund of contributions | 426 | - | 426 |
| Administrative expenses and other | 1,617 | 33 | 1,650 |
| **Total deductions** | **75,371** | **11,126** | **86,497** |
| Net increase | 185,024 | 4,519 | 189,543 |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:** | | | |
| Beginning of year | 1,877,673 | 32,562 | 1,910,235 |
| **End of year** | **$ 2,062,697** | **$ 37,081** | **$ 2,099,778** |

*See accompanying notes to basic financial statements*



Continued

# BASIC FINANCIAL STATEMENTS *Continued*

## *Statements of Changes in Plan Net Assets* *Continued*

### *For the Fiscal Years Ended June 30, 2005 and 2004*

*(Dollars in Thousands)*

| | 2004 | | |
|---|---|---|---|
| | **Pension Benefits** | **Postemployment Healthcare Benefits** | **Total** |
| **ADDITIONS:** | | | |
| **Contributions**: | | | |
| Employee | $ 17,233 | $ 3,696 | $ 20,929 |
| Employer | 24,412 | 4,492 | 28,904 |
| **Total contributions** | **41,645** | **8,188** | **49,833** |
| **Investment income:** | | | |
| Net appreciation in fair value of investments | 210,423 | 3,679 | 214,102 |
| Interest income | 27,480 | 482 | 27,962 |
| Dividend income | 14,694 | 258 | 14,952 |
| Net rental income | 7,109 | 124 | 7,233 |
| Less investment expense | (7,806) | (139) | (7,945) |
| **Net investment income** before securities lending income | **251,900** | **4,404** | **256,304** |
| **Securities lending income:** | | | |
| Earnings | 1,976 | 35 | 2,011 |
| Rebates | (1,225) | (21) | (1,246) |
| Fees | (220) | (4) | (224) |
| **Net securities lending income** | **531** | **10** | **541** |
| **Net investment income** | **252,431** | **4,414** | **256,845** |
| **Total additions** | **294,076** | **12,602** | **306,678** |
| **DEDUCTIONS:** | | | |
| Retirement benefits | 61,449 | - | 61,449 |
| Healthcare insurance premiums | - | 9,528 | 9,528 |
| Death benefits | 3,976 | - | 3,976 |
| Refund of contributions | 132 | - | 132 |
| Administrative expenses and other | 2,053 | 36 | 2,089 |
| **Total deductions** | **67,610** | **9,564** | **77,174** |
| Net increase | 226,466 | 3,038 | 229,504 |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:** | | | |
| Beginning of year | 1,651,207 | 29,524 | 1,680,731 |
| **End of year** | **$ 1,877,673** | **$ 32,562** | **$ 1,910,235** |

*See accompanying notes to basic financial statements*

# NOTES TO BASIC FINANCIAL STATEMENTS

## For the Fiscal Years Ended June 30, 2005 and 2004

**NOTE 1 - DESCRIPTION OF THE PLAN**

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

***(a) General***

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 and last amended May 27, 2003, to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration.

The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative cost amounted to approximately $1,650,000 and $2,089,000 for 2005 and 2004, respectively. These cost are financed through investment earnings.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately $221,805,000 and $222,177,000 for 2005 and 2004, respectively. Covered payroll amounted to approximately $196,543,000 and $203,953,000 in 2005 and 2004, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2005 and 2004, employee membership data related to the Plan was as follows:

| | 2005 | 2004 |
|---|---|---|
| **Defined Benefit Pension Plan:** | | |
| Retirees and beneficiaries currently receiving benefits | 1,445 | 1,363 |
| Terminated vested members not yet receiving benefits | 69 | 67 |
| Active members | 2,004 | 2,052 |
| **Total** | **3,518** | **3,482** |
| **Postemployment Healthcare Plan:** | | |
| Retirees and beneficiaries currently receiving benefits | 1,295 | 1,238 |
| Terminated vested members not yet receiving benefits | 15 | 5 |
| Active members | 2,004 | 2,052 |
| **Total** | **3,314** | **3,295** |

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

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

***(b) Pension Benefits***

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

Final compensation is the average monthly salary during the highest 12 consecutive months of service, limited to 108% of salary paid during the 12 months immediately preceeding the last 12 months of service. These benefit rates and formulas are based on the outcome of the arbitration process and approval by the Plan Board in July 1998. 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 10 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 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan.

***(c) Death Benefits***

The spouse receives the greater of 50% of the member's benefit or 37.5% of the final average salary if: (1) an employee's death is service related; or (2) an employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service related disability. Optional retirement allowances are available.

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

The State Legislature has enacted the California Domestic Partner Rights and Responsibilities Act of 2003, which extends the rights and duties of marriage to persons registered with the Secretary of State as domestic partners on and after January 1, 2005. It is anticipated that the Plan will be amended to conform to state law.

If an employee's death is non-service related and the employee has at least two years of service, the Plan allows for an annual annuity of 24% of the employee's final compensation for the first two years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse until remarriage (maximum of 37.5% of final average salary or 50% of the member's benefit, whichever is greater). These benefits are also paid to the surviving spouse of a retiree on a non-service related disability. Additionally, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

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

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

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

## NOTE 1 - DESCRIPTION OF THE PLAN *Continued*

### *(d) Disability Benefits*

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

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for the first two years plus 1% for each additional year of service. After February 4, 1996, but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20, but less than 25 years of service, plus 4% of final average salary for each year over 25, but less than 30 years of service (maximum benefit, 85% of final average salary).

### *(e) Postemployment Healthcare Benefits*

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Basis of Presentation*

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

### *(b) Basis of Accounting*

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period). 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 by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect 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 additions and deductions during the reporting periods. Actual results could differ from those estimates.

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

***(c) Investments***

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

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.

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2005 and 2004, the net assets, totaling $2,099,778 and $1,910,235, respectively, are allocated as follows (in thousands): *(see below).*

Employer contributions are paid directly into the general reserve. Employee contributions are accounted for separately due to the possibility of their return to the member upon separation from City employment.

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

Unrealized Gains (Losses) on Investments Held Reserve represents unrealized gains and losses recognized in the financial statements as a result of GASB Statement No. 25, which requires reporting investments at fair value instead of cost. This reserve was established to help offset the impact of market fluctuation. Annually, income and losses from investments stated at fair value are placed in this account.

| | Retirement Fund | Cost-of-Living Fund | Defined Benefit Pension Benefits Plan | Post-Employment Healthcare Plan | Total |
|---|---|---|---|---|---|
| **June 30, 2005:** | | | | | |
| Employee contributions | $ 142,802 | $ 43,452 | $ 186,254 | $ 3,607 | $ 189,861 |
| Supplemental retiree benefit | 17,708 | - | 17,708 | 447 | 18,155 |
| Unrealized gains (losses) on investments held | 194,086 | 78,792 | 272,878 | 4,902 | 277,780 |
| General reserve | 1,113,415 | 472,442 | 1,585,857 | 28,125 | 1,613,982 |
| **Total** | **$ 1,468,011** | **$ 594,686** | **$ 2,062,697** | **$ 37,081** | **$ 2,099,778** |
| **June 30, 2004:** | | | | | |
| Employee contributions | $ 134,287 | $ 41,443 | $ 175,730 | $ 3,252 | $ 178,982 |
| Supplemental retiree benefit | 18,659 | - | 18,659 | 452 | 19,111 |
| Unrealized gains (losses) on investments held | 149,778 | 59,874 | 209,652 | 3,627 | 213,279 |
| General reserve | 1,041,712 | 431,920 | 1,473,632 | 25,231 | 1,498,863 |
| **Total** | **$ 1,344,436** | **$ 533,237** | **$ 1,877,673** | **$ 32,562** | **$ 1,910,235** |

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

**NOTE 2 - DESCRIPTION OF THE PLAN** *Continued*

***(e) Allocation of Investment Income***

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-weekly from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% total employee contributions reserve balance and the SRBR allocation remain in the general reserve category. For fiscal years 2005 and 2004 there were no "excess earnings".

***(f) Reclassifications***

Certain amounts in fiscal year 2004 have been reclassified to conform with the fiscal year 2005 presentation.

***(g) New Accounting Pronouncements***

During the fiscal year, the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This Statement modifies the custodial credit risk disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Accordingly, the investments disclosure has been revised to conform with the provisions of GASB Statement No. 40. *While comparative GASB 40 disclosures will be provided in succeeding years, such disclosures for fiscal year 2004 are not available.*

**NOTE 3 - INVESTMENTS**

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

**Interest Rate Risk** - The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. GNMAs in the amount of $29,410,000 and U.S. government agency securities in the amount of $74,326,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers. However, the Plan's intent is to hold all fixed maturity investments until maturity, and accordingly, fixed maturity investments are classified in the following tables as if they were held to maturity.

**Custodial Credit Risk** - Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan's custodian holds all investments of the Plan in the Plan's name except for the assets held in pooled funds, which are under custody of the investment managers' custodian bank.

**Credit Quality Risk** - Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. All domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's (S&P), Moody's Investors' Service (Moody's), or Fitch Ratings (Fitch).

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

**NOTE 3 - INVESTMENTS** *Continued*

**Credit Quality Risk** - *Continued*
In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from the Plan, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the Plan's investment policy statement at the time of purchase, the investment manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

**Foreign Currency Risk** - The risk that changes in exchange rates will adversely affect the fair value of an investment. To mitigate this risk, individual investment managers are permitted to defensively hedge currency to mitigate the impact on currency fluctuation on the underlying asset value.

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

*Domestic Equity* - Minimum 29% and maximum 39% of the market value of the aggregate portfolio.

*International Equity* - Minimum 10% and maximum 25% of the market value of the aggregate portfolio.

*Emerging Market Equity* - Limited to 8% of the market value of the aggregate portfolio.

*Domestic Fixed Income* - Minimum 15% and maximum 25% of the market value of the aggregate portfolio.

*Long Duration Fixed Income* - Limited to 7% of the market value of the aggregate portfolio.

*Private Market Equity* - Limited to 8% of the market value of the aggregate portfolio. During the fiscal year the Board approved temporarily placing the funds allotted to the private equity asset class into the Plan's small cap asset class.

*Real Estate* - Limited to 17% of the market value of the aggregate portfolio. Real estate investments include: apartment complexes in Houston, TX, and Colorado Springs, CO; office buildings in Denver, CO, in San José, CA and near Chicago, IL; and warehouses in Nashville, TN, and near Minneapolis, MN. The properties have leases with various terms.

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

This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and interest;

- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and fully insured bank deposits.

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

*For the Fiscal Year Ended June 30, 2005 and 2004*

**NOTE 3 - INVESTMENTS** *Continued*

The following tables provide information as of June 30, 2005, concerning the fair value of investments, interest rate risk, and foreign currency risk:

*(Dollars in Thousands)*

**INVESTMENT MATURITIES AT FAIR VALUE**

| Type of Investment | 0-3 Months | 3-6 Months | 6 Months-1 Year | 1-5 Years | 6-10 Years | More Than 10 years | Total Fair Value | Cost |
|---|---|---|---|---|---|---|---|---|
| **Fixed Maturity Domestic** | | | | | | | | |
| U.S. Treasury Securities | $ 17,709 | $ - | $ 991 | $ 101,339 | $ 26,882 | $ 53,589 | $ 200,510 | $ 198,355 |
| U.S. Treasury Strips | - | - | - | - | - | 2,217 | 2,217 | 1,669 |
| GNMA | - | - | - | - | - | 29,410 | 29,410 | 29,316 |
| U.S. Gov't Agency Securities | - | 3,850 | 446 | 2,449 | 806 | 79,967 | 87,518 | 86,946 |
| Asset Backed Securities | - | - | - | 5,481 | 3,600 | 19,672 | 28,753 | 28,737 |
| Collateralized Mortgage Obligation | - | - | - | 1,248 | - | 21,391 | 22,639 | 22,700 |
| Corporate Bonds | 704 | 71 | 1,812 | 18,234 | 34,261 | 67,533 | 122,615 | 117,699 |
| Municipals | - | - | - | - | - | 1,614 | 1,614 | 1,545 |
| Pooled Domestic Bonds | - | - | - | - | 6,332 | - | 6,332 | 5,273 |
| Government Short Term Investment Fund | 65,942 | - | - | - | - | - | 65,942 | 65,945 |
| **Total Domestic Fixed Maturity** | 84,355 | 3,921 | 3,249 | 128,751 | 71,881 | 275,393 | 567,550 | 558,185 |
| **International Government Bonds** | | | | | | | | |
| Australian Dollar | - | - | - | 3,527 | - | - | 3,527 | 3,575 |
| British Pound | - | - | - | 1,194 | 4,933 | - | 6,127 | 6,073 |
| Canadian Dollar | - | - | - | - | 3,619 | - | 3,619 | 3,362 |
| Danish Krone | - | - | - | 1,114 | - | - | 1,114 | 1,217 |
| Euro Currency | - | - | 2,456 | 24,225 | 14,673 | 12,902 | 54,256 | 46,548 |
| Japanese Yen | - | - | - | 13,176 | 2,384 | - | 15,560 | 15,138 |
| United States Dollar Denominated | - | - | - | 687 | 911 | 3,891 | 5,489 | 5,126 |
| **Total International Government Bonds** | - | - | 2,456 | 43,923 | 26,520 | 16,793 | 89,692 | 81,039 |
| **International Corporate Bonds** | | | | | | | | |
| Euro Currency | - | - | - | 2,253 | 644 | - | 2,897 | 2,922 |
| Japanese Yen | - | - | - | 10,897 | 1,689 | - | 12,586 | 12,128 |
| United States Dollar Denominated | - | - | - | 2,815 | 568 | - | 3,383 | 3,407 |
| **Total International Corporate** | - | - | - | 15,965 | 2,901 | - | 18,866 | 18,457 |
| Pooled International Fixed Maturity | - | - | - | - | - | 20,987 | 20,987 | 14,790 |
| **Total International Fixed Maturity** | - | - | 2,456 | 59,888 | 29,421 | 37,780 | 129,545 | 114,286 |
| **Total Fixed Maturity** | **$ 84,355** | **$ 3,921** | **$ 5,705** | **$ 188,639** | **$ 101,302** | **$ 313,173** | **$ 697,095** | **$ 672,471** |

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

*For the Fiscal Year Ended June 30, 2005 and 2004*

## NOTE 3 - INVESTMENTS *Continued*

| Type of Investment | Total Fair Value | Cost |
|---|---|---|
| **Equity** Domestic | $ 802,826 | $ 653,722 |
| **International** | | |
| Australian Dollar | 6,865 | 5,180 |
| Brazilian Real | 4,365 | 3,375 |
| British Pound | 74,887 | 75,163 |
| Canadian Dollar | 11,757 | 11,366 |
| Egyptian Pound | 1,009 | 257 |
| Euro Currency | 142,335 | 123,561 |
| Hong Kong Dollar | 6,942 | 5,141 |
| Hungarian Forint | 1,031 | 1,168 |
| Indonesian Rupiah | 1,035 | 895 |
| Japanese Yen | 79,756 | 73,524 |
| Malaysian Ringgit | 569 | 570 |
| Mexican Peso | 4,627 | 3,292 |
| New Taiwan Dollar | 5,721 | 5,212 |
| New Turkish Lira | 883 | 870 |
| New Zealand Dollar | 2,321 | 2,059 |
| Norwegian Krone | 1,930 | 1,303 |
| Singapore Dollar | 7,053 | 5,828 |
| South African Rand | 1,554 | 893 |
| South Korean Won | 6,287 | 4,866 |
| Swedish Krona | 2,389 | 2,682 |
| Swiss Franc | 29,637 | 25,360 |
| United States Dollar Denominated | 26,374 | 22,008 |
| **Total International Currency Equity** | **419,327** | **374,573** |
| Pooled International Equity | 116,883 | 50,091 |
| **Total International Equity** | **536,210** | **424,664** |
| **Total Equities** | **1,339,036** | **1,078,386** |
| **Real Estate** | **113,150** | **120,544** |
| **Foward International Currency Contracts** | **(61)** | **-** |
| **Securities Lending Cash Collateral** | **369,578** | **359,583** |
| **Total Investments** | **$ 2,518,798** | **$ 2,230,984** |

***The information presented in the table above is not readily available for fiscal year 2004.***

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

## NOTE 3 - INVESTMENTS *Continued*

The following table provides information as of June 30, 2005, concerning credit quality risk:

### RATING OF FIXED MATURITIES

| S & P Rating | Fair Value | Fair Value as a Percentage of Total Fixed Maturity Fair Value |
|---|---|---|
| AAA | $ 385,365 | 55.282% |
| AA | 32,627 | 4.680% |
| A | 46,566 | 6.680% |
| BBB | 49,115 | 7.045% |
| BB | 13,374 | 1.919% |
| B | 6,162 | 0.884% |
| CCC & Below | 360 | 0.052% |
| Not Rated* | 163,526 | 23.457% |
| **Total** | **$ 697,095** | **100.000%** |

**This category includes the pooled domestic and international bonds; Government Short-Term Investment Fund; and GNMA, FNMA, and FHMLC TBA's (underlying securities to be announced)*

**Forward International Currency Contracts -** The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2005 and 2004, the Plan's net position in these contracts is recorded at fair value as short-term international currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2005, total commitments in forward currency contracts to purchase and sell international currencies were $45,998,000 and $45,998,000 respectively, with fair values of $45,610,000 and $45,549,000, respectively. As of June 30, 2004, the Plan had commitments in international currency contracts to purchase and sell international currencies of $96,109,000 and $96,109,000, respectively, with fair values of $96,450,000 and $95,402,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

## NOTE 4 - SECURITIES LENDING PROGRAM

The Plan has a custodial agreement with State Street Corporation (State Street) which authorizes State Street to loan no more than 20% of the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Plan receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, State Street is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Plan or borrowers.

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

**NOTE 4 - SECURITIES LENDING PROGRAM** *Continued*

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

The loaned securities as of June 30, 2005 and 2004, consisted of U.S. Treasury bonds and notes, U.S. government securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2005, the underlying securities loaned by the Plan as a whole amounted to approximately $364,547,000. The cash collateral and the non-cash collateral totaled $369,578,000 and $5,063,000, respectively. As of June 30, 2004, the underlying securities loaned by the Plan as a whole amounted to approximately $206,846,000. The cash collateral totaled $199,463,000 and non-cash collateral totaled $12,425,000. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2005 and 2004. The following table provides information concerning securities lent and collateral received for June 30, 2005 and 2004 (in thousands):

**SECURITIES LENDING** - INVESTMENT AND COLLATERAL RECEIVED (AT FAIR VALUE)

| TYPE OF INVESTMENT LENT | 2005 | 2004 |
|---|---|---|
| **For Cash Collateral** | | |
| Domestic corporate bonds | $ 11,173 | $ 17,985 |
| Domestic equity securities | 91,403 | 42,767 |
| U.S. government agency securities | 3,601 | 18,568 |
| U.S. treasury securities | 184,666 | 80,040 |
| International equity securities | 68,740 | 35,309 |
| **Total Lent for Cash Collateral** | **359,583** | **194,669** |
| **For Non-Cash Collateral** | | |
| Domestic equity securities | 28 | - |
| U.S. treasury securities | 4,936 | 12,158 |
| International equity securities | - | 19 |
| **Total Lent for Non-Cash Collateral** | **4,964** | **12,177** |
| **Total Securities Lent** | **$ 364,547** | **$ 206,846** |
| **TYPE OF COLLATERAL RECEIVED** | | |
| **Cash Collateral** | **$ 369,578** | **$ 199,463** |
| **Non-cash Collateral** | | |
| For lent domestic equity securities | 30 | 12,405 |
| For lent US Treasury bonds and notes | 5,033 | 20 |
| **Total Non-cash collateral** | **5,063** | **12,425** |
| **Total Collateral Received** | **$374,641** | **$ 211,888** |

# NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

## NOTE 5 - CONTRIBUTIONS - FUNDING POLICY

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see pages 39 and 40).

Unlike contributions to the Defined Benefit Pension Plan, 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 10 years.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2005 and 2004, were as follows:

| | CITY | | EMPLOYEE | |
|---|---|---|---|---|
| **Period** | **Pension** | **Healthcare** | **Pension** | **Healthcare** |
| 7/04/04 - 6/30/05 | 21.32 % | 3.27 % | 8.27 % | 2.89 % |
| 7/01/03 - 7/03/04 | 12.01 % | 2.21 % | 8.44 % | 1.81 % |

## NOTE 6 - POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

In August 2004, the GASB issued Statement No. 43 *Reporting for Postemployment Benefit Plans Other than Pension Plans,* effective for the Plan's fiscal year beginning July 1, 2006. The postemployment healthcare benefit plan will be required to disclose information about the current funded status of the postemployment healthcare benefit plan as of the most recent actuarial valuation date along with the actuarial methods and assumptions used in the valuation. Additionally, the postemployment healthcare benefit plan will be required to include historical trend information on the funded status of the postemployment healthcare benefit plan and employer contributions to the Plan. The Plan has not yet determined the full effect that Statement No. 43 will have on its financial statements.

# Other Required Supplementary Information

## Schedule of Funding Progress

## Defined Benefit Pension Plan *(Unaudited)*

*(Dollars in Thousands)*
Funding Progress-GASB No. 25

| Actuarial Valuation Date | Actuarial Value of Assets(1) (a) | Entry Age Actuarial Accrued Liability (AAL)(2) (b) | Over funded AAL (OAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll(3) (c) | OAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 06/30/1997 (4) | $ 1,124,294 | $ 1,030,168 | $ 94,126 | 109.1% | $ 129,850 | 72% |
| 06/30/1999 (5) | 1,440,117 | 1,276,364 | 163,753 | 112.8% | 144,125 | 114% |
| 06/30/2001 (6) | 1,713,812 | 1,492,732 | 221,080 | 114.8% | 171,779 | 129% |
| 06/30/2003 | 1,826,287 | 1,823,200 | 3,087 | 100.2% | 202,222 | 2% |

(1) Excludes accounts payable and postemployment healthcare plan assets.

(2) Excludes postemployment healthcare liability.

(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

(4) After reflection of the Arbitrator Decision to improve Retirement and Health Benefits in 1998, to include involuntary overtime pay as pensionable salary.

(5) After reflection of benefit improvements effective February 4, 2000.

(6) After adoption of SRBR program.

*Actuarial valuations have been performed biennially through June 30, 2003.*

# OTHER REQUIRED SUPPLEMENTARY INFORMATION *Continued*

## *Schedule of Actuarial Methods and Assumptions*

### *Defined Benefit Pension Plan* *(Unaudited)*

| DESCRIPTION | METHOD/ASSUMPTION |
|---|---|
| Valuation date | June 30, 2003 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll |
| Remaining amortization period | 14 years, closed |
| Actuarial asset valuation method | 5 year smoothed market |
| **Actuarial assumptions:** | |
| Assumed rate of return on investments | 8% per annum |
| Postretirement mortality | The 1994 Male Group Annuity Mortality Table, with four-year setback, is used for male members.<br>The 1994 Female Group Annuity Mortality Table with one year set forward, is used for female members. |
| Active service, withdrawal, death, disability service retirement | Based upon the June 30, 2003 Experience Analysis |
| Salary increases | 10.10% for employees for the first five years of service; graded increases thereafter ranging from 9.8% at age 25 to 4.7% at ages 60 and over. Of the total salary increases 4.50% is for inflation. |
| Cost-of-living adjustments | 3.00% a year |

# OTHER REQUIRED SUPPLEMENTARY INFORMATION *Continued*

## *Schedule of Employer Contributions*
## *Defined Benefit Pension Plan* *(Unaudited)*

*(Dollars in Thousands)*

| Fiscal Year Ended June 30, | Annual Required Employer Contributions | Percentage Contributed |
|---|---|---|
| 2000 | $ 27,321 | 100% |
| 2001 | 22,157 | 100% |
| 2002 | 23,748 | 100% |
| 2003 | 23,511 | 100% |
| 2004 | 24,412 | 100% |
| 2005 | 41,835 | 100% |

# OTHER SUPPLEMENTARY INFORMATION

## Combining Schedule of Defined Benefit Pension Plan Net Assets

*June 30, 2005*

*(Dollars in Thousands)*

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| **ASSETS:** | | | |
| **Receivables:** | | | |
| Employee contributions | $ 394 | $ 158 | $ 552 |
| Employer contributions | 954 | 469 | 1,423 |
| Brokers and others | 19,903 | 8,378 | 28,281 |
| Accrued investment income | 5,965 | 2,418 | 8,383 |
| **Total receivables** | **27,216** | **11,423** | **38,639** |
| **Investments, at fair value:** | | | |
| Securities and other | | | |
| U.S. Treasury notes and bonds | 141,140 | 58,058 | 199,198 |
| U.S. government agency securities | 81,406 | 33,487 | 114,893 |
| International government bonds | 77,056 | 31,697 | 108,753 |
| Domestic corporate bonds | 125,553 | 51,647 | 177,200 |
| International corporate bonds | 13,135 | 5,403 | 18,538 |
| Domestic equity securities | 558,933 | 229,919 | 788,852 |
| International equity securities | 373,313 | 153,564 | 526,877 |
| State and local obligations | 1,124 | 462 | 1,586 |
| Forward international currency contracts | (43) | (17) | (60) |
| Collective short-term investment funds | 45,906 | 18,888 | 64,794 |
| Real estate | 85,526 | 25,486 | 111,012 |
| Securities lending cash collateral investment pool | 258,062 | 105,064 | 363,126 |
| **Total investments** | **1,761,111** | **713,658** | **2,474,769** |
| **Total assets** | **1,788,327** | **725,081** | **2,513,408** |
| **LIABILITIES:** | | | |
| Payable to brokers | 58,830 | 24,229 | 83,059 |
| Securities lending collateral due to borrowers | 258,062 | 105,064 | 363,126 |
| Other liabilities | 3,424 | 1,102 | 4,526 |
| **Total liabilities** | **320,316** | **130,395** | **450,711** |
| **Plan net assets held in trust for pension benefits** | **$ 1,468,011** | **$ 594,686** | **$ 2,062,697** |

# OTHER SUPPLEMENTARY INFORMATION *Continued*

## *Combining Schedule of Changes in Defined Benefit Pension Plan Net Assets*

*For the Fiscal Year Ended June 30, 2005*

*(Dollars in Thousands)*

| | Retirement Fund | Cost-of-Living Fund | Total |
|---|---|---|---|
| **ADDITIONS:** | | | |
| **Contributions:** | | | |
| Employee | $ 11,583 | $ 4,657 | $ 16,240 |
| Employer | 28,047 | 13,788 | 41,835 |
| **Total contributions** | **39,630** | **18,445** | **58,075** |
| **Investment income:** | | | |
| Net appreciation in fair value of investments | 108,852 | 44,777 | 153,629 |
| Interest income | 20,325 | 8,231 | 28,556 |
| Dividend income | 14,858 | 6,013 | 20,871 |
| Net rental income | 4,677 | 1,819 | 6,496 |
| Less investment expense | (5,654) | (2,224) | (7,878) |
| **Net investment income before securities lending income** | **143,058** | **58,616** | **201,674** |
| **Securities lending income:** | | | |
| Earnings | 4,088 | 1,654 | 5,742 |
| Rebates | (3,431) | (1,388) | (4,819) |
| Fees | (197) | (80) | (277) |
| **Net securities lending income** | **460** | **186** | **646** |
| **Total investment income** | **143,518** | **58,802** | **202,320** |
| **Total additions** | **183,148** | **77,247** | **260,395** |
| **DEDUCTIONS:** | | | |
| Retirement benefits | 55,502 | 13,600 | 69,102 |
| Death benefits | 2,455 | 1,771 | 4,226 |
| Refund of contributions | 328 | 98 | 426 |
| Administrative expenses and other | 1,288 | 329 | 1,617 |
| **Total deductions** | **59,573** | **15,798** | **75,371** |
| Net increase | 123,575 | 61,449 | 185,024 |
| **PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:** | | | |
| Beginning of year | 1,344,436 | 533,237 | 1,877,673 |
| **End of year** | **$ 1,468,011** | **$ 594,686** | **$ 2,062,697** |

# OTHER SUPPLEMENTARY INFORMATION *Continued*

## *Schedules of Administrative Expenses and Other*

*For the Fiscal Years Ended June 30, 2005 and 2004*

| | 2005 | | | 2004 |
|---|---|---|---|---|
| | **Original Budget** | **Actual** | **Variance Positive (Negative)** | **Actual** |
| **Personnel services:** | | | | |
| Permanent staff expense | $ 1,219,000 | $ 1,012,668 | $ 206,332 | $ 1,000,269 |
| Temporary staff | 20,000 | 19,096 | 904 | 4,588 |
| **Total personnel services** | **1,239,000** | **1,031,764** | **207,236** | **1,004,857** |
| **Professional services:** | | | | |
| Actuarial services | 64,000 | 26,421 | 37,579 | 220,272 |
| Human resources services | - | (2,026) | 2,026 | 36,500 |
| Medical services | 165,000 | 91,529 | 73,471 | 98,717 |
| Audit | 35,000 | 24,332 | 10,668 | 23,911 |
| Legal counsel | 30,000 | 27,068 | 2,932 | 78,811 |
| Pension benefit information | 2,500 | 1,967 | 533 | 1,749 |
| Pension administration system audit | - | - | - | 11,769 |
| Document imaging and support and maintenance | 7,500 | 3,125 | 4,375 | 139,750 |
| Web development, maintenance and hosting expenses | 19,500 | 17,223 | 2,277 | 55,482 |
| **Total professional services** | **323,500** | **189,639** | **133,861** | **666,961** |
| **Communication:** | | | | |
| Postage | 14,000 | 11,971 | 2,029 | 14,799 |
| Printing and duplicating | 21,000 | 10,378 | 10,622 | 22,000 |
| Data processing | 12,000 | 6,070 | 5,930 | 5,950 |
| **Total communications** | **47,000** | **28,419** | **18,581** | **42,749** |
| **Structure and equipment:** | | | | |
| Copier lease | 8,000 | 3,946 | 4,054 | 4,694 |
| Copier maintenance | 1,000 | 601 | 399 | 459 |
| Furniture | 3,000 | 457 | 2,543 | 1,273 |
| Equipment | 5,000 | 3,383 | 1,617 | 5,337 |
| Equipment repair and miscellaneous services | 4,000 | 3,206 | 794 | 8,661 |
| Pension administration system maintenance | 72,000 | 55,882 | 16,118 | 53,012 |
| Software enhancements | 80,000 | 75,346 | 4,654 | 39,963 |
| Computer hardware/software | 26,000 | 10,708 | 15,292 | 9,672 |
| Communication equipment | 15,000 | 1,170 | 13,830 | 5,547 |
| **Total structure and equipment** | **214,000** | **154,699** | **59,301** | **128,618** |
| **Miscellaneous:** | | | | |
| Office expense | 11,000 | 9,555 | 1,445 | 9,495 |
| Dues/subscriptions | 7,000 | 5,279 | 1,721 | 5,355 |
| Training | 70,000 | 61,746 | 8,254 | 54,361 |
| Travel | 100,000 | 66,899 | 33,101 | 37,676 |
| Non-employee board member stipend | 1,800 | 1,800 | - | 1,350 |
| Rent on building | 145,000 | 100,787 | 44,213 | 137,842 |
| **Total miscellaneous** | **334,800** | **246,066** | **88,734** | **246,079** |
| **Total administrative expenses and other** | **$ 2,158,300** | **$ 1,650,587** | **$ 507,713** | **$ 2,089,264** |

# OTHER SUPPLEMENTARY INFORMATION *Continued*

## *Schedules of Investment Expenses*

*For the Fiscal Years Ended June 30, 2005 and 2004*

| | 2005 | 2004 |
|---|---|---|
| **Equity:** | | |
| Domestic equity | $ 2,718,443 | $ 2,878,728 |
| International equity | 2,148,497 | 1,702,985 |
| Emerging market equity managers | 1,105,391 | 1,217,136 |
| **Total Equity** | **5,972,331** | **5,798,849** |
| **Fixed Income:** | | |
| Domestic fixed income | 936,783 | 1,065,611 |
| Global fixed income | 367,833 | 362,576 |
| Long duration fixed income | 119,869 | - |
| **Total Fixed Income** | **1,424,485** | **1,428,187** |
| **Real Estate** | 143,736 | 266,668 |
| **Total Investment Managers' Fees** | **7,540,552** | **7,493,704** |
| **Other Investment Service Fees:** | | |
| Investment consultant | 120,000 | 88,000 |
| Proxy voting | 16,594 | 19,950 |
| Real estate consultant | - | 96,841 |
| Real estate legal fees | 131,220 | 105,122 |
| Real estate appraisals | - | 6,906 |
| Custodian | 208,806 | 134,839 |
| **Total Other Investment Service Fees** | **476,620** | **451,658** |
| **Total Investment Expenses** | **$ 8,017,172** | **$ 7,945,362** |

# Other Supplementary Information *Continued*

## Schedules of Payments to Consultants

*For the Fiscal Years Ended June 30, 2005 and 2004*

| Firm | Nature of Service | 2005 | 2004 |
|---|---|---|---|
| Levi, Ray, & Shoup | Web Development | $ 17,223 | $ 55,482 |
| Levi, Ray, & Shoup | Document Imaging and Support and Maintenance | 3,125 | 139,750 |
| Williams, Adley & Co. | Pension Gold Auditor | - | 11,769 |
| Macias Gini & Company LLP | External Auditors | 24,332 | 23,911 |
| Medical Director/Other Medical | Medical Consultant | 91,529 | 98,717 |
| Pension Benefit Information | Reports on Deceased Benefit Recipients | 1,967 | 1,749 |
| Saltzman & Johnson | Legal Counsel | 27,068 | 24,950 |
| Ogden, Gibson, White & Broocks | Legal Counsel | - | 53,861 |
| Maximus | Human Resource Consultant | - | 13,500 |
| CPS Human Resources | Human Resource Consultant | (2,026) | 23,000 |
| Mercer Human Resources | Actuarial Consultant | 26,421 | 220,272 |
| | **Total** | **$ 189,639** | **$ 666,961** |

# III. INVESTMENT SECTION

# REPORT ON INVESTMENT ACTIVITY

**MERCER**
Investment Consulting

Mercer Investment Consulting
777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017-5818

213.346.2200 phone
213.346.2680 fax
www.mercerIC.com

## Report on Investment Activity

August 19, 2005

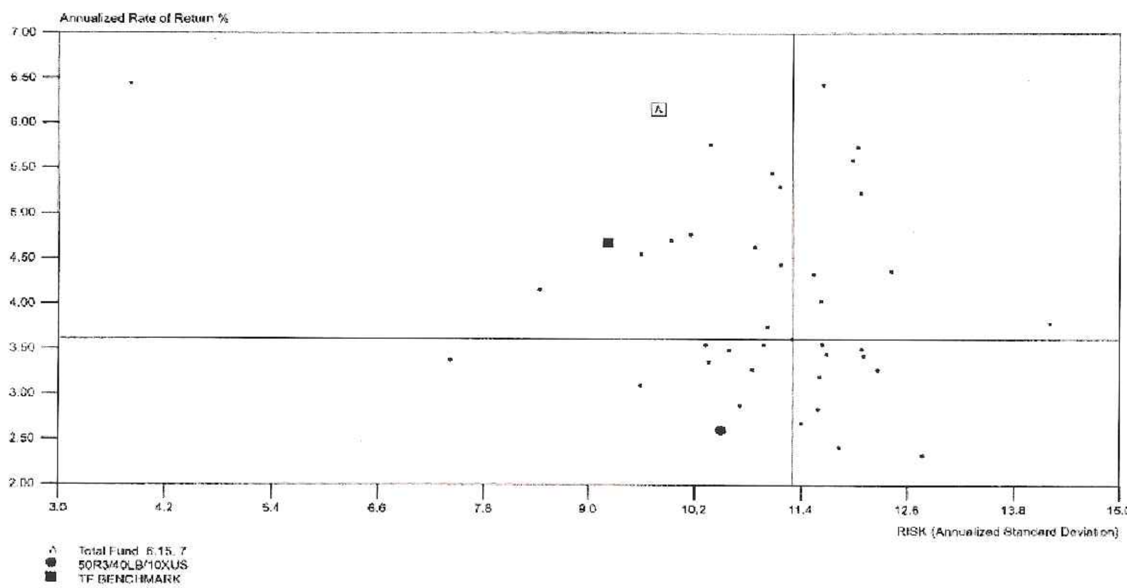
Mr. Edward Overton
Secretary, Board of Administration
1737 North First Street, Suite 580
San José, CA 95112-4505

Dear Mr. Overton:

During the Plan's fiscal year ending June 30, 2005, the San José Police and Fire Retirement System's investment return was up 11.0%. When compared with the TUCS Public Fund Universe, the return placed at the 22nd percentile. The median return for that public plan universe was 9.4%. A time weighted total return for the Plan's assets is calculated every quarter by Mercer Investment Consulting.

The Trustees Continue to maintain a conservative asset allocation strategy which has produced remarkably higher returns over the past five years, with less risk than the vast majority of public plans of similar size. The five year return was in the top of the universe, ranking at the 7th percentile! The following five year graph shows the return and risk characteristics of the Plan compared to its peer universe.

**TOTAL FUNDS BILLION DOLLAR - PUBLIC**
Risk-Return Comparisons / 5 Years Ending June 30, 2005




MMC Marsh & McLennan Companies

# REPORT ON INVESTMENT ACTIVITY *Continued*

MERCER
Investment Consulting

Page 2
August 19, 2005
Mr. Edward Overton
San José Police and Fire
Retirement System

Mercer calculates and reviews the investment performance based on custodial statements in compliance with Association for Investment Management and Research (AIMR) standards. Mercer also reconciles the calculations with the Plan's investment managers each quarter to ensure accuracy. Economic commentary is reviewed with the trustees to keep them informed of global and domestic developments.

The U.S. economy has been hampered by higher oil prices but core inflation is not significant. We continue to experience slow growth which may result in lower earnings over the next fiscal year. Investment returns in the first half of 2005 have been weak and interest rates appear to be rising.

The biggest concern shared by some economists is the possibility of the yield curve flattening. The Fed continues to raise short term rates, but long term rates have not moved up at all. In the event that the yield curve inverts and short rates become higher than long rates, the economy could slide into a recession. Most economists place the likelihood of that happening at less than a 20% chance.

Respectfully submitted,

Tom Lightvoet

TOMAS J. LIGHTVOET

# Statement of Investment Policy

## Board of Administration Police and Fire Department Retirement Plan

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

### ASSET ALLOCATION OF INVESTMENT PLAN

| Asset Class | Minimum | Target | Maximum |
|---|---|---|---|
| Domestic Equity | 29% | 34% | 39% |
| International Equity | 10% | 20% | 25% |
| Emerging Market Equity | 0% | 5% | 8% |
| Domestic Fixed Income | 15% | 20% | 25% |
| Long Duration Fixed Income | 0% | 4% | 7% |
| Real Estate | 0% | 12% | 17% |
| Private Market Equity | 0% | 5% | 8% |

### SECONDARY ASSET CLASS, DOMESTIC EQUITIES

| Asset Class | As a % of the Domestic Equity Portfolio | Allowable Variation from the % of the Equity Portfolio | As a Equivalent % of the Total Portfolio |
|---|---|---|---|
| Index Fund | 26% | +/- 3.0% | 9.0% |
| Large Cap Value | 30% | +/- 3.5% | 10.0% |
| Large Cap Growth | 30% | +/- 3.5% | 10.0% |
| Small Cap Value | 7% | +/- 1.5% | 2.5% |
| Small Cap Growth | 7% | +/- 1.5% | 2.5% |

### Investment Guidelines

#### *General*

*The Board Shall:*

1. Require that the Retirement System be actuarially sound to assure that all disbursement obligations will be met.
2. Attempt to insure that investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.
3. Strive for the highest total return on invested funds consistent with safety in accordance with accepted investment practices.

#### *Asset Allocation*

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

It shall be the policy of the Plan to invest its assets in accordance with the maximum and minimum range, valued at market, for each asset class as stated in the *Asset Allocation* chart on this page.

The second chart illustrates the targets and ranges set for the *Secondary Asset Class, Domestic Equities.*

# Statement of Investment Policy *Continued*

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 Plan.

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

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

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

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

### *Diversification*

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

### *Volatility*

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

### *Liquidity*

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

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

# STATEMENT OF INVESTMENT POLICY *Continued*

### Fixed Income

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

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

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

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

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

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

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

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

### Domestic Common Stock

The primary emphasis of the common stock portfolio will be on high quality, readily marketable securities offering potential for above average return as protection against inflation. Common stock investments are limited to those meeting all of the following criteria:

# STATEMENT OF INVESTMENT POLICY *Continued*

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

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

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

• The security has a weighting greater than 5% in the manager's benchmark and

• The manager has received prior written permission from the Director, Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

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

## *International Common Stock*

### Developed Markets

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

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

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

### Emerging Markets

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

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

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

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

# STATEMENT OF INVESTMENT POLICY *Continued*

***Real Estate***

The Board may elect to invest in commercial, industrial, and residential real estate or real estate related debt instruments provided that:

**(1)** The real estate is defined as any real property within the United States improved by multifamily dwelling, industrial or commercial buildings.

**(2)** Real estate related debt instruments shall be defined as first mortgages.

**(3)** The fund shall at no time:

(a) Invest directly or indirectly more than 25% of the fund's assets, valued at market, in real estate investment as defined hereinabove; nor,

(b) Invest directly or indirectly more than 5% of the fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of investment.

**(4)** The investment advisors employed by the Board to assist in the location and acquisition of real estate must bring their proposal to the Board for approval.

***Private Equity***

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

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

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

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

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

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

# Statement of Investment Policy *Continued*

### Derivatives

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

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

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

• Equity and Bond index futures contracts are permitted.

• An international manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the section pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.

• New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10 % of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.

• The fixed income investment managers may hold derivative securities known as Collateralized Mortgage Obligations (CMOs) collateralized by GNMA, FNMA, FHLMC mortgage-backed instruments. The CMOs must possess price risk characteristics consistent with, or superior to, the risk characteristics of the underlying conventional mortgage pass-through securities. Fixed income managers may also purchase securities of other categories; including options and financial futures contracts traded over-the-counter or on organized securities exchanges. Offsetting cash positions must be maintained against all delayed settlement transactions.

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

### Credit Unions

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

### Manager Discretion

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

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

# STATEMENT OF INVESTMENT POLICY *Continued*

### Manager Discretion *Continued*

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

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

### Performance Goals

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

**Domestic Equity Managers**

**(1)** Performance within the top half of the appropriate Mercer's Equity Style Universe.

**(2)** Net of fees, manager performance shall exceed the return of the appropriate benchmark by the following:
100 basis points for large-cap equity managers,
150 basis points for mid-cap equity managers, and
200 basis points for small-cap equity mangers.

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

**Domestic Fixed Income Managers**

**(1)** Performance within the top half of Mercer's Bond Funds Universe.

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

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

### International Equity Managers

**Developed Markets**

**(1)** Performance within the top half of Mercer's International Equity Fund Universe.

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

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

**Emerging Markets**

**(1)** Performance within the top half of Mercer's Emerging Markets Equity Peer Group.

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

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

# STATEMENT OF INVESTMENT POLICY *Continued*

### International Fixed Income Managers

**(1)** Performance above median in Mercer's International Bond Fund Universe.

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

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

### Real Estate Managers

**(1)** Performance above median in Mercer's Real Estate Funds Universe.

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

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

### Private Equity

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

### Periodic Reviews of Manager Performance

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

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

**Procedure:**

1. Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods. Managers are considered to achieve this objective if their performance exceeds their benchmark for two of the three periods of one year or longer.

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

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

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

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

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

# STATEMENT OF INVESTMENT POLICY *Continued*

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

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

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

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

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

### Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

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

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

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

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

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

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

# Investment Professionals

## Investment Managers

### *Domestic Equities:*

**Boston Partners Asset Management**
Large Cap Value
Los Angeles, CA

**Globalt, Inc.**
Large Cap Growth
Atlanta, GA

**INTECH**
Large Cap Growth
Princeton, NJ

**New Amsterdam Partners**
Large Cap Growth
New York, NY

**Provident Investment Counsel, Inc.**
Small Cap Growth
Pasadena, CA

**Rhumbline Advisors**
S&P 500 Index
Boston, MA

**Trust Company of the West**
Small Cap Value
Los Angeles, CA

**UBS Global Asset Management**
Large Cap Value
Chicago, IL

### *International Equities:*

**Bank of Ireland Asset Management**
Dublin, Ireland

**Brandes Investment Partners**
San Diego, CA

**William Blair & Co.**
Chicago, IL

### *Emerging Market equities:*

**Alliance Capital Management**
New York, NY

**The Boston Company**
Boston, MA

### *Domestic Fixed Income:*

**Income Research & Management**
Boston, MA

**Seix Investment Advisors**
Woodcliff Lake, NJ

**Western Asset Management Company**
Pasadena, CA

### *Global Fixed Income:*

**Credit Suisse Asset Management**
London, England

### *Real Estate:*

**Kennedy Associates Real Estate Counsel, Inc.**
Seattle, WA

**MIG Realty Advisors**
Cleveland, OH

## Consultant

**Mercer Investment Consulting**
Los Angeles, CA

## Custodian

**State Street Bank & Trust Company**
Boston, MA

## Proxy Voting

**Investor Responsibility Research Center**
Washington, DC

## Schedule of Investment Results

# Gross Performance Summary by Asset Class

*Periods Ending June 30, 2005*

*Basis of Calculation: Time-weighted Rate of Return*

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **TOTAL FUND** | **11.0%** | **10.9%** | **6.1%** |
| Benchmark | 10.4% | 9.7% | 4.7% |
| Mercer Funds Billion Dollar Public Median | 10.8% | 10.5% | 3.6% |
| TUCS Public Fund Universe Median | 9.4% | 9.5% | 3.5% |
| **TOTAL DOMESTIC FIXED INCOME** | **9.0%** | **7.4%** | **7.9%** |
| Lehman Brothers Aggregate Bond Index | 6.8% | 5.8% | 7.4% |
| Mercer Fixed Income Core Median | 7.2% | 6.4% | 7.7% |

| | One Quarter | Inception (01/05) |
|---|---|---|
| **TOTAL LONG DURATION FIXED INCOME** | **6.3%** | **6.4%** |
| Lehman Brothers U.S. Gov/Credit-Long Term Index | 7.1% | 7.2% |
| Mercer US Fixed Long Duration Universe Median | 6.9% | |

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **TOTAL GLOBAL FIXED INCOME** | **7.8%** | **10.1%** | **8.1%** |
| Citigroup World Gov't Bond Index | 7.6% | 9.8% | 7.9% |
| Mercer Global Fixed Income Unhedged Median | 8.2% | 10.5% | 8.9% |
| **TOTAL DOMESTIC EQUITY** | **8.8%** | **10.6%** | **1.5%** |
| S&P 500 Index | 6.3% | 8.3% | -2.4% |
| Mercer Managed Equity Median | 10.0% | 11.3% | 4.5% |
| **TOTAL INTERNATIONAL EQUITY** | **12.7%** | **13.1%** | **3.0%** |
| EAFE Index | 13.7% | 12.1% | -0.5% |
| Mercer International Equity Median | 14.8% | 13.0% | 1.3% |
| **TOTAL INT'L EMERGING MKT EQUITY** | **34.4%** | **26.1%** | **N/A** |
| MSCI Emerging Markets Free Index | 34.9% | 24.4% | 7.7% |
| Mercer Emerging Markets Equity Median | 36.4% | 25.9% | 10.0% |
| **TOTAL REAL ESTATE** | **10.1%** | **5.2%** | **6.5%** |
| NCREIF Property Index | 15.5% | 10.7% | 10.1% |
| Mercer Real Estate Median | 17.4% | 12.6% | 10.8% |

# SCHEDULE OF INVESTMENT RESULTS *Continued*

## *Net Performance Summary by Investment Manager*

*For Periods Ending June 30, 2005*

The information below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed.

*Source: Mercer Investment Performance Evaluation Report, June 30, 2005*
*Basis of Calculation: Time-weighted Rate of Return*

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **DOMESTIC FIXED INCOME** | | | |
| Seix Investment Advisors | 7.0% | 6.3%+ | 7.3% |
| Lehman Brothers Aggregate Bond Index + 50 bps | 7.3% | 6.3% | 7.9% |
| Mercer Fixed Income Core Median | 7.2% | 6.4% | 7.7% |
| | **Six Months** | **One Year** | **Three Years** |
| **Western Asset Management Company** | **3.4% ++** | **9.5% ++** | **8.9% ++** |
| Lehman Brothers Aggregate Bond Index + 50 bps | 2.7% | 7.3% | 6.3% |
| Mercer Fixed Income Core Median | 2.6% | 7.2% | 6.4% |
| | **One Quarter** | | **Inception (01/05)** |
| **Income Research Management** | **6.4%** | | **6.5%** |
| Lehman US Gov/Credit-Long Term Index + 50 bps | 7.2% | | 7.4% |
| Mercer US Fixed Long Duration Universe Median | 6.9% | | 7.2% |
| | **One Year** | **Three Years** | **Five Years** |
| **GLOBAL FIXED INCOME** | | | |
| **Credit Suisse Investment Management** | **7.5%** | **9.7%** | **7.8%** |
| Citigroup World Gov't Bond Index + 75 bps | 8.4% | 10.5% | 8.6% |
| Mercer Global Fixed Income Unhedged Median | 8.2% | 10.5% | 8.9% |
| **DOMESTIC EQUITY** | | | |
| **Rhumbline Advisors (Index)** | **6.2%** | **8.2%** | **-2.1% +** |
| S&P 500 Index | 6.3% | 8.3% | -2.4% |
| Mercer Managed Equity Median | 10.0% | 11.3% | 4.5% |
| **Boston Partners (Large Cap Value)** | **12.9% +** | **10.1%** | **8.9% ++** |
| Russell 1000 Value Index + 100 bps | 15.1% | 12.0% | 7.6% |
| Mercer Large Cap Value Universe Median | 11.6% | 10.9% | 7.4% |
| **UBS Global Asset Mgmt (Large Cap Value)** | **12.6% ++** | **11.4% ++** | **7.5% ++** |
| Russell 3000 Index + 100 bps | 9.1% | 10.5% | -0.3% |
| Mercer Large Cap Value Universe Median | 11.6% | 10.9% | 7.4% |

# SCHEDULE OF INVESTMENT RESULTS *Continued*

## *Net Performance Summary by Investment Manager*

*For Periods Ending June 30, 2005*

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **New Amsterdam Partners (Large Cap Growth)** | **13.4% ++** | **11.7% ++** | **2.6% ++** |
| S&P 500 + 100 bps | 7.3% | 9.3% | -1.4% |
| Mercer Large Cap Growth Universe Median | 4.2% | 7.5% | -5.7% |
| **Globalt, Inc. (Large Cap Growth)** | **6.6% ++** | **6.9%** | **-10.0%** |
| Russell 1000 Growth Index + 100 bps | 2.7% | 8.3% | -9.3% |
| Mercer Large Cap Growth Universe Median | 4.2% | 7.5% | -5.7% |

| | Six Months | One Year | Inception (10/03) |
|---|---|---|---|
| **Intech (Large Cap Growth)** | **0.2% ++** | **6.6% ++** | **13.6%** |
| Russell 1000 Growth Index + 100 bps | -1.1% | 2.7% | N/A |
| Mercer Large Cap Growth Universe Median | -0.9% | 4.2% | N/A |

| | One Year | Three Years | Inception (11/01) |
|---|---|---|---|
| **TCW (Small Cap Value)** | **-3.7%** | **9.6%** | **9.3%** |
| Russell 2000 Value Index + 200 bps | 11.4% | 14.8% | 15.0% |
| Mercer Small Cap Value Universe Median | 14.7% | 15.7% | N/A |

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **Provident Investment Counsel (Small Cap Growth)** | **6.3% +** | **10.7%** | **-6.6%** |
| Russell 2000 Growth Index + 200 bps | 6.3% | 13.4% | -2.5% |
| Mercer Small Cap Growth Universe Median | 6.6% | 12.8% | -1.1% |
| **INTERNATIONAL EQUITY** | | | |
| **Bank of Ireland Asset Management** | **13.0%** | **8.1%** | **-1.8%** |
| EAFE Index + 150 bps | 15.2% | 13.6% | 1.0% |
| Mercer International Equity Median | 14.8% | 13.0% | 1.3% |

# Schedule of Investment Results *Continued*

## *Net Performance Summary by Investment Manager*

*For Periods Ending June 30, 2005*

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **Brandes Investment Partners** | **11.5%** | **15.2% ++** | **5.6% ++** |
| EAFE Index + 150 bps | 15.2% | 13.6% | 1.0% |
| Mercer International Equity Median | 14.8% | 13.0% | 1.3% |

| | One Year | Three Years | Inception (03/02) |
|---|---|---|---|
| **William Blair & Co** | **17.1% +** | **13.7% +** | **12.8%** |
| MSCI AC World Free ex US Index +150bps | 18.0% | 15.1% | 15.0% |
| Mercer International Equity Median | 14.8% | 13.0% | N/A |

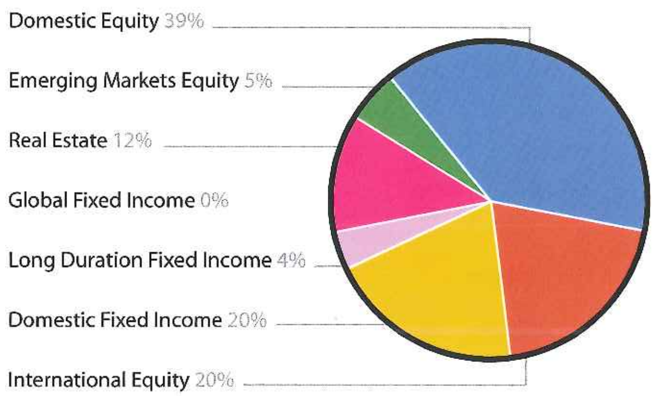
| | One Year | Three Years | Inception (09/01) |
|---|---|---|---|
| **INTERNATIONAL EMERGING MARKETS EQUITY** | | | |
| **Alliance Capital Management** | **35.5%** | **25.9% +** | **24.0% +** |
| MSCI Emerging Markets Free Index + 200 bps | 36.9% | 26.4% | 22.6% |
| Mercer Emerging Markets Equity Median | 36.4% | 25.9% | N/A |
| **Boston Company Asset Management** | **30.0%** | **23.6%** | **22.9% +** |
| MSCI Emerging Markets Free Index + 200 bps | 36.9% | 26.4% | 22.6% |
| Mercer Emerging Markets Equity Median | 36.4% | 25.9% | N/A |

| | One Year | Three Years | Five Years |
|---|---|---|---|
| **REAL ESTATE** | | | |
| **MIG Realty Advisors** | **10.2%** | **9.0%** | **9.0%** |
| NCREIF Property Index + 150 bps | 17.0% | 12.2% | 11.6% |
| Mercer Real Estate Median | 17.4% | 12.6% | 10.8% |

| | Six Months | One Year | Inception (10/03) |
|---|---|---|---|
| **Kennedy Associates** | **4.3%** | **8.9%** | **9.2%** |
| NCREIF Property Index + 150 bps | 9.0% | 17.0% | N/A |
| Mercer Real Estate Median | 10.0% | 17.4% | N/A |

# INVESTMENT REVIEW

Target Asset Allocation As of June 30, 2005

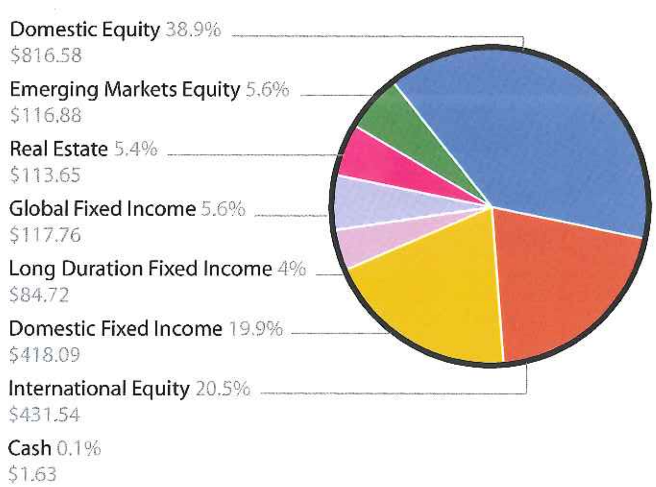



**ACTUAL ASSETS ALLOCATION**

As of June 30, 2005 (in Millions)

| Asset Class | | Actual |
|---|---|---|
| Domestic Equity | $ | 816.58 |
| International Equity | | 431.54 |
| Emerging Market Equity | | 116.88 |
| Domestic Fixed Income | | 418.09 |
| Long Duration Fixed Income | | 84.72 |
| Global Fixed Income | | 117.76 |
| Real Estate | | 113.65 |
| Cash | | 1.63 |
| **Total** | **$** | **2,100.85** |

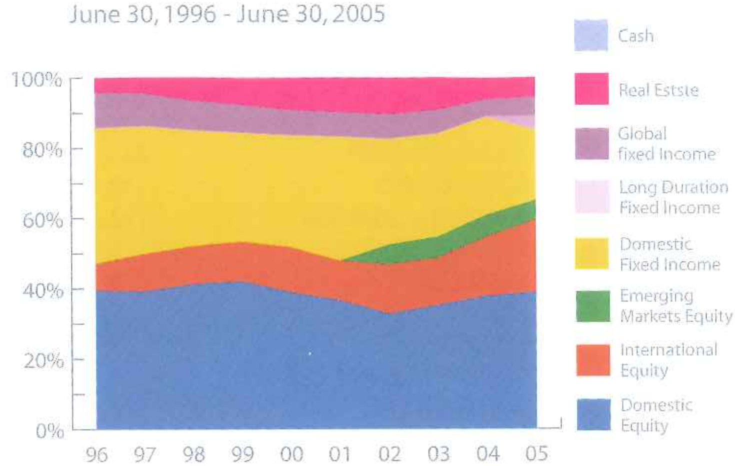
Actual Asset Allocation As of June 30, 2005



# INVESTMENT REVIEW *Continued*

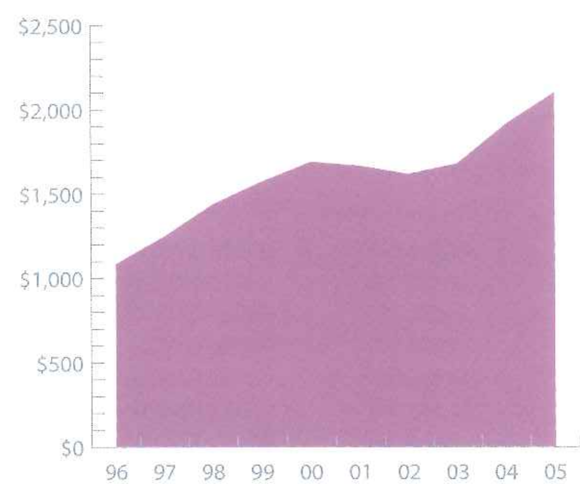
Historical Asset Allocation (Actual)

June 30, 1996 - June 30, 2005



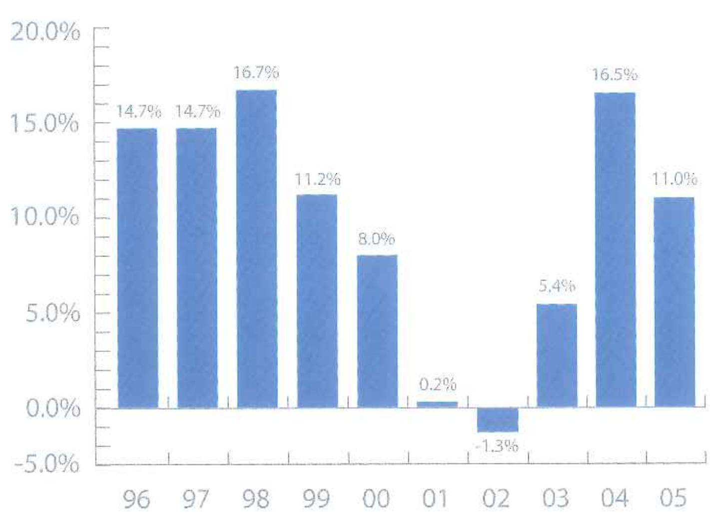

Market Value Growth of Plan Assets

For Ten Years Ended June 30, 2005 (In Millions)




History of Performance For Fiscal Years 1996 - 2005

(Based on Market Value)



# LIST OF LARGEST ASSETS HELD

**LARGEST STOCK HOLDINGS** (By Market Value)
June 30, 2005

| Shares | Country | Description | Market Value in $US |
|---|---|---|---|
| 531,600 | UNITED STATES | MICROSOFT CORP | $13,204,944.00 |
| 270,224 | UNITED STATES | CITIGROUP INC | 12,492,455.52 |
| 189,104 | UNITED STATES | JOHNSON + JOHNSON | 12,291,760.00 |
| 172,198 | UNITED STATES | EXXON MOBIL CORP | 9,896,219.06 |
| 34,090 | SWITZERLAND | NESTLE SA | 8,728,061.82 |
| 231,575 | UNITED STATES | GENERAL ELEC CO | 8,024,073.75 |
| 94,508 | FRANCE | SANOFI AVENTIS | 7,768,849.74 |
| 193,996 | UNITED STATES | COUNTRYWIDE FINL CORP | 7,490,185.56 |
| 103,400 | UNITED STATES | WELLPOINT INC | 7,200,776.00 |
| 124,866 | UNITED STATES | CONOCOPHILLIPS | 7,178,546.34 |

**LARGEST BOND HOLDINGS** (By Market Value)
June 30, 2005

| Par Value | Country | Description | Interest Rate in % | Maturity Date | Market Value in $US |
|---|---|---|---|---|---|
| 22,095,000 | UNITED STATES | UNITED STATES TREAS NTS | 3.13 | 05/15/2007 | $21,886,133.76 |
| 19,460,000 | UNITED STATES | UNITED STATES TREAS NTS | 6.00 | 08/15/2009 | 21,144,506.25 |
| 16,635,000 | UNITED STATES | UNITED STATES TREAS NTS | 4.25 | 08/15/2013 | 17,056,073.44 |
| 13,680,000 | UNITED STATES | UNITED STATES TREAS BDS | 5.38 | 02/15/2031 | 16,142,400.00 |
| 13,000,000 | UNITED STATES | GNMA I TBA JUL 30 SINGLE FAM | 6.00 | 12/01/2099 | 13,405,234.70 |
| 11,115,000 | UNITED STATES | UNITED STATES TREAS NTS | 3.50 | 11/15/2006 | 11,103,711.61 |
| 6,450,000 | UNITED STATES | UNITED STATES TREAS BDS | 7.25 | 05/15/2016 | 8,264,062.50 |
| 5,210,000 | UNITED STATES | UNITED STATES TREAS BDS | 9.88 | 11/15/2015 | 7,789,763.80 |
| 7,475,000 | UNITED STATES | UNITED STATES TREAS NTS | 3.50 | 05/31/2007 | 7,452,224.42 |
| 7,120,000 | UNITED STATES | UNITED STATES TREAS NTS | 3.38 | 02/15/2008 | 7,068,268.93 |

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

# Schedule of Investment Fees

| | Assets Under Mgt. at Market Value * | Fees | Basis Points |
|---|---|---|---|
| **INVESTMENT MANAGERS' FEES:** | | | |
| Domestic Equity Managers | $ 816,580,000 | $ 2,718,443 | 33 |
| International Equity Managers | 431,537,000 | 2,148,497 | 50 |
| Emerging Maket Equity Managers | 116,883,000 | 1,105,391 | 95 |
| Domestic Fixed Income Managers | 418,087,000 | 936,783 | 22 |
| Global Fixed Income Manager | 117,758,000 | 367,833 | 31 |
| Long Duration Fixed Income Manager | 84,720,000 | 119,869 | 14 |
| Real Estate Managers | 113,651,000 | 143,736 | 13 |
| Cash | 1,631,000 | - | N/A |
| **Total** | **$ 2,100,847,000** | **$ 7,540,552** | 36 |
| **OTHER INVESTMENT SERVICE FEES:** | | | |
| Investment Consultant | N/A | $ 120,000 | N/A |
| Proxy Voting | N/A | 16,594 | N/A |
| Custodian | N/A | 208,806 | N/A |
| Real Estate Legal Fees | N/A | 131,220 | N/A |
| **Total** | | **$ 476,620** | |

** Includes Cash in Managers' Accounts*

# Schedule of Commissions

*For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| KELLOGG PARTNERS | 9,200.00 | $ 460.00 | $ 0.05000 |
| KING, CL, & ASSOCIATES, INC | 1,700.00 | 85.00 | 0.05000 |
| MCDONALDAND COMPANY SECURITIES, INC. | 36,450.00 | 1,503.90 | 0.04126 |
| SCOTT & STRINGFELLOW, INC | 27,110.00 | 1,219.90 | 0.04500 |
| ABEL NOSER CORPORATION | 26,700.00 | 1,335.00 | 0.05000 |
| ABG SECURITIES AS (STOCKHOLM) | 40,700.00 | 1,929.42 | 0.04741 |
| ABG SUNDAL COLLIER INTERNATION | 1,000.00 | 64.69 | 0.06469 |
| ABG SUNDAL COLLIER LTD | 56,700.00 | 2,892.23 | 0.05101 |
| ABN | 9,500.00 | 61.81 | 0.00651 |
| ABN AMRO | 68,700.00 | 1,611.94 | 0.02346 |
| ABN AMRO BANK N. V. HONG KONG | 157,000.00 | 661.85 | 0.00422 |
| ABN AMRO BANK NV | 69,254.00 | 1,488.80 | 0.02150 |
| ABN AMRO EQUITIES (UK) LTD LONDON | 44,788.00 | 505.57 | 0.01129 |
| ABN AMRO EQUITIES AUSTRALIA LTD. | 13,217.00 | 272.87 | 0.02065 |
| ABN AMRO EQUITIES UK LTD LONDON | 25,874.00 | 500.84 | 0.01936 |
| ABN AMRO SECURITIES (USA) INC | 1,103,692.00 | 7,630.32 | 0.00691 |
| ADAMS HARKNESS + HILL,INC | 37,050.00 | 1,605.50 | 0.04333 |
| ADVEST INC | 4,450.00 | 222.50 | 0.05000 |
| AMERICAN TECHNOLOGY RESEARCH INC | 33,200.00 | 1,328.00 | 0.04000 |
| AMERICAS/DEUTSCHE BANK AG LONDON | 5,776.00 | 62.48 | 0.01082 |
| ANDISA SECURITIES (PTY)LIMITED | 137,000.00 | 346.84 | 0.00253 |
| ARNHOLD S BLEICHROEDER INC | 364.00 | 18.20 | 0.05000 |
| ATA SECURITIES INC. (ISTANBUL) | 9,902,051.00 | 1,500.74 | 0.00015 |
| AUERBACH GRAYSON | 7,346,000.00 | 1,101.27 | 0.00015 |
| AUERBACH GRAYSON & CO. INC. | 732,900.00 | 422.32 | 0.00058 |
| AVONDALE PARTNERS LLC | 6,200.00 | 310.00 | 0.05000 |
| B RILEY AND CO INC. | 51,200.00 | 1,792.00 | 0.03500 |
| B-TRADE SERVICES LLC | 220,980.00 | 4,339.10 | 0.01964 |
| BAIRD, ROBERT W., & COMPANY INCORPORATED | 117,210.00 | 4,683.90 | 0.03996 |
| BANC/AMERICA SECUR.LLC MONTGOMEY DIV | 498,916.00 | 24,920.07 | 0.04995 |
| BANCA COMMERCIALE ITALIANA MILAN | 101,200.00 | 2,686.45 | 0.02655 |
| BANCO PACTUAL S.A. | 18,100.00 | 989.94 | 0.05469 |
| BANCO SANTANDER CENTRAL HISPANO | 342,010.00 | 6,137.14 | 0.01794 |
| BANCO SANTANDER DE NEGOCIOS | 11,600.00 | 586.18 | 0.05053 |
| BANCO SANTANDER MEXICANO, S.A. | 90,600.00 | 1,179.54 | 0.01302 |
| BANK AM BELLEVUE | 5,898.00 | 1,183.66 | 0.20069 |
| BANK AUSTRIA CREDITANSTALT AG | 8,100.00 | 278.67 | 0.03440 |
| BANK J.VONTOBEL UND CO. AG | 475.00 | 970.83 | 2.04385 |
| BANK VONTOBEL | 7,050.00 | 1,659.48 | 0.23539 |

# SCHEDULE OF COMMISSIONS *Continued*

## *For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| BEAR STEARN CO | 24,600.00 | $ 215.51 | $ 0.00876 |
| BEAR STEARNS | 27,500.00 | 5,089.40 | 0.18507 |
| BEAR STEARNS + CO INC | 387,025.00 | 19,919.05 | 0.05147 |
| BEAR STEARNS EMM | 39,000.00 | 482.50 | 0.01237 |
| BEAR STEARNS INTERNATIONAL LIMITED | 48,700.00 | 1,089.23 | 0.02237 |
| BEAR STEARNS NY | 800.00 | 301.71 | 0.37714 |
| BEAR STEARNS SECURITIES | 3,810.00 | 160.46 | 0.04212 |
| BEAR STEARNS SECURITIES CORP | 1,721,349.00 | 25,887.83 | 0.01504 |
| BEAR STEARNS SECURITIES CORP. | 1,000.00 | 62.46 | 0.06246 |
| BEREAN CAPITAL, INC. 2 | 107,600.00 | 5,380.00 | 0.05000 |
| BERENBERGBANK | 2,300.00 | 618.84 | 0.26906 |
| BLAYLOCK + PARTNERS | 291.00 | 14.55 | 0.05000 |
| BLAYLOCK + PARTNERS L P | 200.00 | 10.00 | 0.05000 |
| BMO NESBITT BURNS | 6,600.00 | 267.97 | 0.04060 |
| BNP PARIBAS | 10,000.00 | 49.64 | 0.00496 |
| BNP PARIBAS PEREGRINE SECS LT ASIA | 135,000.00 | 381.85 | 0.00283 |
| BNY BROKERAGE INC | 39,250.00 | 1,899.50 | 0.04839 |
| BREAN MURRAY | 6,200.00 | 310.00 | 0.05000 |
| BRIDGE TRADING | 94,588.00 | 4,729.40 | 0.05000 |
| BROADCORTCAPITAL (THRU ML) | 199,855.00 | 9,992.75 | 0.05000 |
| BROCKHOUSE + COOPER | 26,800.00 | 394.28 | 0.01471 |
| BROCKHOUSE + COOPER INC MONTREAL | 87,100.00 | 1,145.16 | 0.01315 |
| BROCKHOUSE + COOPER, INC. | 13,000.00 | 313.56 | 0.02412 |
| BROCKHOUSE AND COOPER | 44,500.00 | 1,054.81 | 0.02370 |
| BTN RESEARCH | 9,000.00 | 450.00 | 0.05000 |
| BUCKINGHAM RESEARCH GROUP | 29,700.00 | 1,205.00 | 0.04057 |
| BUCKINGHAM RESEARCH GROUP INC. (THE) | 364.00 | 18.20 | 0.05000 |
| BUNTING WARBURG INCORPORATED | 23,500.00 | 1,175.00 | 0.05000 |
| C. L. GLAZER & COMPANY, INC. | 2,500.00 | 125.00 | 0.05000 |
| C.E. UNTERBERG, TOWBIN | 3,600.00 | 180.00 | 0.05000 |
| CABRERA CAPITAL MARKETS | 128,050.00 | 6,511.17 | 0.05085 |
| CABRERA CAPITAL MARKETS NY | 28,000.00 | 1,278.02 | 0.04564 |
| CANTOR FITZGERALD + CO. | 47,692.00 | 1,867.60 | 0.03916 |
| CAP INSTITUTIONAL SERVICES INC EQUITIES | 207,814.00 | 4,266.98 | 0.02053 |
| CAPITAL INSTITUTIONAL SVCS INC EQUITIES | 10,400.00 | 520.00 | 0.05000 |
| CARNEGIE A S | 5,400.00 | 200.67 | 0.03716 |
| CARNEGIE AB | 14,000.00 | 1,219.07 | 0.08708 |
| CARNEGIE INC | 1,000.00 | 50.24 | 0.05024 |
| CAZENOVE + CO | 277,053.00 | 2,994.59 | 0.01081 |
| CDC | 1,700.00 | 213.17 | 0.12539 |

# SCHEDULE OF COMMISSIONS *Continued*

*For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| CDC IXIS SECURITIES | 9,700.00 | $ 1,888.89 | $ 0.19473 |
| CDC SECURITIES NEW YORK | 1,600.00 | 155.33 | 0.09708 |
| CHARLES SCHWAB CO INC | 11,186.00 | 557.30 | 0.04982 |
| CHEEVERS + CO | 52,700.00 | 2,635.00 | 0.05000 |
| CHEUVREUX | 10,000.00 | 63.50 | 0.00635 |
| CHEUVREUXDE VIRIEU | 300.00 | 151.06 | 0.50353 |
| CHEVEAUX,J. PARIS | 300.00 | 18.33 | 0.06110 |
| CHEVIOT CAPITAL LIMITED | 81,500.00 | 557.21 | 0.00684 |
| CHEVREUX DE VIRIEU NORDIC LDN | 500.00 | 30.79 | 0.06158 |
| CIBC TORONTO | 1,000.00 | 40.41 | 0.04041 |
| CIBC WOODGUNDY | 10,900.00 | 445.32 | 0.04086 |
| CIBC WORLD MARKETS CORP | 185,505.00 | 8,133.75 | 0.04385 |
| CITATION GROUP | 194,616.00 | 5,951.30 | 0.03058 |
| CITI GROUP | 55,000.00 | 4,178.97 | 0.07598 |
| CITIBANK N.A. | 3,000.00 | 35.20 | 0.01173 |
| CITIBANK N.A. MILAN | 3,000.00 | 351.05 | 0.11702 |
| CITIGROUPGLOBAL MARKETS | 3,806,500.00 | 24,694.49 | 0.00649 |
| CITIGROUPGLOBAL MARKETS ASIA LIMITED | 6,000.00 | 86.83 | 0.01447 |
| CITIGROUPGLOBAL MARKETS INC | 901,740.00 | 37,878.22 | 0.04201 |
| CITIGROUPGLOBAL MARKETS INC. | 388,814.00 | 1,931.49 | 0.00497 |
| CITIGROUPGLOBAL MARKETS INC/SALOMON BRO | 104,100.00 | 2,234.30 | 0.02146 |
| CITIGROUPGLOBAL MARKETS LIMITED | 652,287.00 | 17,634.04 | 0.02703 |
| CITIGROUPGLOBAL MARKETS UK EQUITY LTD | 15,562.00 | 238.96 | 0.01536 |
| CJS SECURITIES | 18,220.00 | 911.00 | 0.05000 |
| CLSA LTD,HK | 2,000.00 | 93.22 | 0.04661 |
| CLSA SECURITIES KOREA LTD. | 6,815.00 | 1,999.21 | 0.29335 |
| COCHRAN,CARONIA SECURITIES LLC | 9,100.00 | 455.00 | 0.05000 |
| COLLINS STEWART + CO | 64,303.00 | 390.56 | 0.00607 |
| CREDIT AGRICLE INDOSUEZ | 3,000.00 | 437.84 | 0.14595 |
| CREDIT AGRICOLE INDOSUEZ CHEUVREUX | 106,797.00 | 7,106.11 | 0.06654 |
| CREDIT LYONAIS SECS | 60,000.00 | 219.38 | 0.00366 |
| CREDIT LYONNAIS | 689,000.00 | 3,310.10 | 0.00480 |
| CREDIT LYONNAIS CAPITAL INDONESIA | 394,000.00 | 1,436.76 | 0.00365 |
| CREDIT LYONNAIS SECS | 1,394,000.00 | 7,296.68 | 0.00523 |
| CREDIT LYONNAIS SECURITIES | 14,600.00 | 1,004.63 | 0.06881 |
| CREDIT LYONNAIS SECURITIES (ASIA) | 149,000.00 | 344.45 | 0.00231 |
| CREDIT LYONNAIS SECURITIES (USA) INC | 143,046.00 | 7,152.30 | 0.05000 |
| CREDIT LYONNAIS SECURITIES ASI | 20,000.00 | 44.50 | 0.00223 |
| CREDIT LYONNAIS SECURITIES(ASIA) | 178,500.00 | 2,180.75 | 0.01222 |
| CREDIT SUISSE FIRST BOSTON | 607,200.00 | 2,251.21 | 0.00371 |

# SCHEDULE OF COMMISSIONS *Continued*

## *For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| CREDIT SUISSE FIRST BOSTON (EUROPE) | 4,020.00 | $ 2,588.01 | $ 0.64378 |
| CREDIT SUISSE FIRST BOSTON (EUROPE) LTD | 243,115.00 | 6,305.03 | 0.02593 |
| CREDIT SUISSE FIRST BOSTON CORPORATION | 3,562,494.00 | 50,237.88 | 0.01410 |
| CREDIT USA | 2,503.00 | 71.94 | 0.02874 |
| CS FIRST BOSTON | 182,800.00 | 1,395.85 | 0.00764 |
| CS FIRST BOSTON AES(CAES) | 13,751.00 | 412.53 | 0.03000 |
| CSFB | 287,700.00 | 6,658.27 | 0.02314 |
| CSFB EQUITIES 1 CABOT SQUARE | 778,347.00 | 3,076.04 | 0.00395 |
| CSFB SOFTDOLLAR(CSSD) | 4,002.00 | 200.10 | 0.05000 |
| D CARNEGIE AG | 52,100.00 | 1,355.41 | 0.02602 |
| DAIWA | 19,200.00 | 447.61 | 0.02331 |
| DAIWA SECURITIES | 10,900.00 | 276.94 | 0.02541 |
| DAIWA SECURITIES AMERICA INC | 99,175.00 | 3,423.94 | 0.03452 |
| DAIWA SECURITIES CO LTD | 1,400.00 | 126.35 | 0.09025 |
| DAIWA SECURITIES LTD | 10,000.00 | 176.31 | 0.01763 |
| DAIWA SECURITIES SMBC CO LTD | 1,000.00 | 65.97 | 0.06597 |
| DAVIDSON D.A. + COMPANY INC. | 9,900.00 | 495.00 | 0.05000 |
| DAVIS, MENDEL AND REGENSTEIN | 243,825.00 | 13,659.25 | 0.05602 |
| DAVY (J+E) | 17,300.00 | 387.88 | 0.02242 |
| DAVY STOCKBROKERS | 8,800.00 | 81.40 | 0.00925 |
| DBS SECURITIES | 20,000.00 | 44.76 | 0.00224 |
| DBS SECURITIES (S) PTE LTD. | 422,000.00 | 988.96 | 0.00234 |
| DBS VICKERS SECS PTE LTD | 64,000.00 | 155.50 | 0.00243 |
| DBS VICKERS SECURITIES SING | 60,000.00 | 218.14 | 0.00364 |
| DEUTCHE BANK | 45,100.00 | 313.42 | 0.00695 |
| DEUTSCHE BANK | 23,800.00 | 786.61 | 0.03305 |
| DEUTSCHE BANK AG LONDON | 327,720.00 | 4,940.73 | 0.01508 |
| DEUTSCHE BANK S.A. | 1,000.00 | 224.51 | 0.22451 |
| DEUTSCHE BANK SECURITIES | 27,450.00 | 2,355.15 | 0.08580 |
| DEUTSCHE BANK SECURITIES INC | 1,037,044.00 | 28,249.97 | 0.02724 |
| DEUTSCHE SECURITIES | 142,300.00 | 1,718.44 | 0.01208 |
| DEUTSCHE SECURITIES ASIA LTD | 28,240.00 | 1,733.46 | 0.06138 |
| DEUTSCHE SECURITIES LIMITED | 5,000.00 | 169.94 | 0.03399 |
| DEUTSCHE SECURITIES LTD | 10,000.00 | 118.94 | 0.01189 |
| DOWLING &PARTNERS | 5,200.00 | 260.00 | 0.05000 |
| DOWLING &PARTNERS SECURITIES, LLC. | 60,395.00 | 3,019.75 | 0.05000 |
| DRESDNER | 4,000.00 | 128.55 | 0.03214 |
| DRESDNER KLEINWORT BENSON | 10,000.00 | 780.52 | 0.07805 |
| DRESDNER KLEINWORT BENSON NORTH AMERICA | 935,646.00 | 5,260.42 | 0.00562 |
| DRESDNER KLEINWORT BENSON SECS | 900.00 | 122.58 | 0.13620 |

# SCHEDULE OF COMMISSIONS *Continued*

*For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| DRESDNER KLEINWORT WASSERSTEIN | 51,700.00 | $ 2,016.22 | $ 0.03900 |
| DRESDNER KLEINWORTH WASSERSTEIN SEC LLC | 4,820.00 | 917.01 | 0.19025 |
| EDGE SECURITIES INC | 15,200.00 | 760.00 | 0.05000 |
| EDWARDS AG SONS INC | 48,955.00 | 2,258.20 | 0.04613 |
| EMP RESEARCH PTRNS | 10,700.00 | 503.00 | 0.04701 |
| EMPIRICALRESEARCH PARTNERS LL | 1,166.00 | 58.30 | 0.05000 |
| EUROMOBILAIRE ITALY | 2,400.00 | 16.63 | 0.00693 |
| EUROMOBILIARE SIM S.P.A. | 22,000.00 | 945.58 | 0.04298 |
| EXANE INC | 293,476.00 | 2,252.00 | 0.00767 |
| EXANE S.A. | 9,800.00 | 875.53 | 0.08934 |
| EXANE, INC. | 6,700.00 | 1,225.04 | 0.18284 |
| FACTSET DATA SYSTEMS (THRU BEAR STEARNS) | 145,900.00 | 7,295.00 | 0.05000 |
| FACTSET DATA SYSTEMS INC./BCC CLRG | 36,000.00 | 1,800.00 | 0.05000 |
| FACTSET DATA SYSTIMES INC | 57,400.00 | 2,870.00 | 0.05000 |
| FAGENSON + CO INC | 2,300.00 | 115.00 | 0.05000 |
| FIDELITY CAPITAL MARKETS | 71,700.00 | 3,585.00 | 0.05000 |
| FIRST ALBANY CAPITAL INC. | 52,490.00 | 1,749.70 | 0.03333 |
| FIRST ANALYSIS SECURITIES CORP | 22,300.00 | 1,091.00 | 0.04892 |
| FIRST CLEARING, LLC | 10,900.00 | 436.00 | 0.04000 |
| FOX PITT KELTON | 3,620.00 | 181.00 | 0.05000 |
| FOX PITT KELTON INC | 57,300.00 | 2,865.00 | 0.05000 |
| FOX-PITT KELTON LTD | 32,833.00 | 581.12 | 0.01770 |
| FRANK RUSSELL SEC/BROADCORT CAP CLEARING | 15,800.00 | 790.00 | 0.05000 |
| FRIEDMAN BILLINGS + RAMSEY | 108,400.00 | 4,896.10 | 0.04517 |
| FULCRUM GLOBAL PARTNERS LLC | 38,900.00 | 1,937.00 | 0.04979 |
| GARDNER RICH + CO | 24,500.00 | 1,225.00 | 0.05000 |
| GERSON LEHRMAN GROUP BROKERAGE SERV LLC | 74,300.00 | 3,664.00 | 0.04931 |
| GLEN HILLRESEARCH PARTNER | 218.00 | 10.90 | 0.05000 |
| GMP SECURITIES LTD. | 26,600.00 | 1,050.59 | 0.03950 |
| GOLDMAN SACHS | 2,290.00 | 41.99 | 0.01834 |
| GOLDMAN SACHS + CO | 2,045,568.00 | 44,527.30 | 0.02177 |
| GOLDMAN SACHS EXECUTION + CLEARING | 81,200.00 | 1,224.00 | 0.01507 |
| GOLDMAN SACHS INTERNATIONAL LONDON | 130,163.00 | 4,136.61 | 0.03178 |
| GOODBODY STOCKBROKERS | 146,715.00 | 3,434.21 | 0.02341 |
| GRIFFITHSMCBURNEY | 9,700.00 | 390.09 | 0.04022 |
| GRIFFITHSMCBURNEY & PARTNERS | 1,800.00 | 72.94 | 0.04052 |
| GUZMAN + CO | 205,567.00 | 4,768.34 | 0.02320 |
| HARBORSIDE SECURITIES | 44,209.00 | 884.18 | 0.02000 |
| HARRIS NESBITT CORP. | 33,802.00 | 1,309.10 | 0.03873 |
| HEFLIN + CO LLC | 800.00 | 32.00 | 0.04000 |

# SCHEDULE OF COMMISSIONS *Continued*

## *For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| HIBERNIA SOUTHCOAST CAPITAL INC | 8,120.00 | $ 324.80 | $ 0.04000 |
| HOWARD WEIL DIVISION LEGG MASON | 13,200.00 | 660.00 | 0.05000 |
| HSBC | 60,831.00 | 1,522.61 | 0.02503 |
| HSBC BANKPLC | 24,359.00 | 129.98 | 0.00534 |
| HSBC SECURITIES | 24,366.00 | 589.77 | 0.02420 |
| HSBC SECURITIES (USA) INC.(FIXED INCOME) | 920.00 | 89.31 | 0.09708 |
| HSBC SECURITIES INC | 1,984.00 | 249.11 | 0.12556 |
| HSBC SECURITIES INC (JAMES CAPEL) | 180,923.00 | 2,864.92 | 0.01584 |
| IMPERIAL CAPITAL LLC | 32,860.00 | 1,360.40 | 0.04140 |
| INFERENTIAL BROKERAGE | 932.00 | 46.60 | 0.05000 |
| ING | 5,300.00 | 624.33 | 0.11780 |
| ING BANK N V | 451,000.00 | 997.07 | 0.00221 |
| ING BARINGS SEC LTD | 1,000.00 | 99.54 | 0.09954 |
| ING FINANCIAL MARKETS LLC | 654,000.00 | 455.44 | 0.00070 |
| INSTINET | 5,069,387.00 | 104,653.31 | 0.02064 |
| INSTINET CANADA | 29,400.00 | 477.90 | 0.01626 |
| INSTINET CLEARING SERVICES INC | 331,243.00 | 3,636.15 | 0.01098 |
| INSTINET EUROPE LIMITED | 99,500.00 | 2,260.14 | 0.02271 |
| INSTINET FRANCE S.A. | 15,100.00 | 4,584.93 | 0.30364 |
| INSTINET PACIFIC LIMITED | 2,674,288.00 | 27,349.24 | 0.01023 |
| INSTINET U.K. LTD | 1,422,900.00 | 28,565.73 | 0.02008 |
| INSTITUTIONAL DIRECT INC | 6,000.00 | 174.00 | 0.02900 |
| INTERMONTE SEC SIM SPA | 12,500.00 | 659.34 | 0.05275 |
| INTERMONTE SECURITIES SIM P.A. | 9,000.00 | 474.29 | 0.05270 |
| INVESTMENT TECHNOLOGY GROUP INC. | 639,291.99 | 17,240.35 | 0.02697 |
| ISI GROUP | 4,065.00 | 203.25 | 0.05000 |
| ISI GROUPEQUITIES | 186,600.00 | 10,901.00 | 0.05842 |
| ISI GROUPINC | 35,200.00 | 1,745.00 | 0.04957 |
| ITG SECURITIES (HK) LTD | 70,400.00 | 1,632.02 | 0.02318 |
| IVY SECURITIES, INC. | 2,600.00 | 130.00 | 0.05000 |
| IXIS CORPORATE INVESTMENT BANK | 2,000.00 | 306.39 | 0.15320 |
| IXIS SECURITIES | 13,000.00 | 1,969.31 | 0.15149 |
| J B WERE AND SON | 23,792.00 | 340.62 | 0.01432 |
| J P MORGAN SECURITIES INC | 599,247.00 | 24,513.14 | 0.04091 |
| J.P. MORGAN SECURITIES (TAIWAN) LTD | 412,000.00 | 10,964.48 | 0.02661 |
| JANCO PARTNERS INC. | 764.00 | 22.92 | 0.03000 |
| JANNEY MONTGOMERY, SCOTT INC | 45,220.00 | 1,927.80 | 0.04263 |
| JEFFERIES+ COMPANY INC | 272,094.00 | 7,803.50 | 0.02868 |
| JEFFERIESCOMPANY INC | 2,036,322.00 | 44,223.30 | 0.02172 |
| JMP SECURITIES | 120,690.00 | 4,930.50 | 0.04085 |

# SCHEDULE OF COMMISSIONS *Continued*

*For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| NEXT GENERATION EQUITY RESEARCH LLC | 1,400.00 | $ 70.00 | $ 0.05000 |
| NOMURA | 4,200.00 | 300.10 | 0.07145 |
| NOMURA BKINTL PLC | 1,000.00 | 54.98 | 0.05498 |
| NOMURA INTERNATIONAL PLC | 22,288.00 | 1,507.06 | 0.06762 |
| NOMURA SECURITIES CO LTD | 339,000.00 | 3,589.48 | 0.01059 |
| NOMURA SECURITIES CO., LTD. | 4,200.00 | 334.25 | 0.07958 |
| NOMURA SECURITIES INTERNATIONAL INC | 462,275.00 | 5,773.67 | 0.01249 |
| NOMURA SECURITIES INTL | 300.00 | 32.62 | 0.10873 |
| NOMURA SECURITIES TOKYO | 6,300.00 | 497.93 | 0.07904 |
| NORDEA BANK NORGE ASA | 7,000.00 | 751.73 | 0.10739 |
| NUTMEG SECURITIES | 2,625.00 | 127.61 | 0.04861 |
| NYFIX TRANSACTION SERVICES #2 | 9,900.00 | 191.00 | 0.01929 |
| O NEIL, WILLIAM AND CO. INC/BCC CLRG | 63,700.00 | 2,651.00 | 0.04162 |
| ODDO FINANCE | 23,700.00 | 695.62 | 0.02935 |
| OPPENHEIMER & CO. INC. | 9,700.00 | 421.00 | 0.04340 |
| ORION SECURITIES | 8,700.00 | 348.56 | 0.04006 |
| ORMES CAPITAL | 2,940.00 | 99.84 | 0.03396 |
| OSCAR GRUSS & SON INC | 11,300.00 | 565.00 | 0.05000 |
| PACIFIC AMERICAN SECURITIES, LLC | 13,600.00 | 680.00 | 0.05000 |
| PACIFIC CREST SECURITIES | 22,337.00 | 928.01 | 0.04155 |
| PACIFIC GROWTH EQUITIES | 59,250.00 | 2,911.50 | 0.04914 |
| PACTUAL CAPITAL CORPORATION | 8,900.00 | 491.55 | 0.05523 |
| PACTUAL CORP | 3,600.00 | 199.55 | 0.05543 |
| PALI CAPITAL LLC | 1,300.00 | 65.00 | 0.05000 |
| PCS SECURITIES INC | 40,800.00 | 2,040.00 | 0.05000 |
| PERSHING | 50,000.00 | 2,118.16 | 0.04236 |
| PERSHING DLJ S L | 4,358,800.00 | 23,772.53 | 0.00545 |
| PERSHING LLC | 5,049.00 | 123.62 | 0.02448 |
| PERSHING SECURITIES LIMITED | 292,900.00 | 2,878.92 | 0.00983 |
| PIPER JAFFRAY & CO. | 58,811.00 | 2,836.55 | 0.04823 |
| PORTALES PARTNERS | 963.00 | 48.15 | 0.05000 |
| PRECURSORGROUP | 16,700.00 | 835.00 | 0.05000 |
| PRECURSORGROUP INC | 122,274.00 | 3,875.48 | 0.03170 |
| PRUDENTIAL EQUITY GROUP | 212,263.00 | 10,380.30 | 0.04890 |
| PULSE TRADING LLC | 3,310.00 | 122.30 | 0.03695 |
| Q&R CLEARING CORPORATION | 1,668.00 | 83.40 | 0.05000 |
| R W PRESSPRICH + CO INC | 29,175.00 | 875.25 | 0.03000 |
| RASHID HUSSAIN SECURITIES SDN | 5,000.00 | 55.59 | 0.01112 |
| RAYMOND JAMES AND ASSOCIATES INC | 119,473.00 | 5,570.90 | 0.04663 |
| RBC CAPITAL MARKETS | 116,551.00 | 5,246.80 | 0.04502 |

# SCHEDULE OF COMMISSIONS *Continued*

## *For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| RBC DOMINION SECURITIES INC. | 8,531.00 | $ 585.60 | $ 0.06864 |
| REDBURN PARTNERS LLP | 91,100.00 | 2,392.84 | 0.02627 |
| RESEARCH CONVERSION CORP | 2,132.00 | 106.60 | 0.05000 |
| ROBBINS AND HENDERSON | 717.00 | 28.68 | 0.04000 |
| ROCHDALE SEC CORP.(CLS THRU 443) | 2,900.00 | 145.00 | 0.05000 |
| ROSENBLATT SECURITIES INC | 368,267.00 | 7,365.34 | 0.02000 |
| ROTH CAPITAL PARTNERS LLC | 9,000.00 | 450.00 | 0.05000 |
| S.G. COWEN & CO., LLC | 73,550.00 | 3,677.50 | 0.05000 |
| SALOMON SMITH BARNEY KOREA LTD | 3,139.00 | 1,021.44 | 0.32540 |
| SALOMON SOFT DOLLARS | 1,820.00 | 91.00 | 0.05000 |
| SAMUEL A RAMIREZ & COMPANY INC | 1,300.00 | 65.00 | 0.05000 |
| SANDERS MORRIS MUNDY | 12,064.00 | 600.28 | 0.04976 |
| SANDLER ONEILL + PART LP | 29,500.00 | 1,358.50 | 0.04605 |
| SANFORD BERNSTEIN | 3,920.00 | 233.23 | 0.05950 |
| SANFORD C. BERNSTEIN LTD | 9,393.00 | 250.19 | 0.02664 |
| SANFORD CBERNSTEIN CO LLC | 159,297.00 | 6,878.05 | 0.04318 |
| SANTANDERCENTRAL HISPANO INVEST | 18,000.00 | 203.70 | 0.01132 |
| SANTANDERFINANCIAL PRODUCTS | 1,000.00 | 13.81 | 0.01381 |
| SANTANDERGLOBAL BANK USA | 10,000.00 | 139.63 | 0.01396 |
| SANTANDERINVESTMENT SECURITIES | 1,892,496.00 | 860.84 | 0.00045 |
| SANTANDERINVESTMENT SECURITIES INC | 33,200.00 | 969.95 | 0.02922 |
| SBK BROOKS INVESTMENY CORP | 4,200.00 | 210.00 | 0.05000 |
| SCOTIA CAPITAL (USA) INC | 30,500.00 | 1,237.86 | 0.04059 |
| SCOTT & STRINGFELLOW, INC | 18,100.00 | 750.00 | 0.04144 |
| SG AMERICAS SECURITIES, LLC | 5,208.00 | 260.40 | 0.05000 |
| SG COWEN SECURITIES CORP 2 | 10,244.00 | 1,026.50 | 0.10020 |
| SIDOTI + COMPANY LLC | 26,600.00 | 1,191.00 | 0.04477 |
| SIMMONS +COMPANY INTERNATIONAL | 32,381.00 | 1,426.05 | 0.04404 |
| SMITH BARNEY - GLOBAL | 18,400.00 | 51.43 | 0.00280 |
| SMITH BARNEY CITIGROUP AUSTRALIA P/L | 2,000.00 | 164.34 | 0.08217 |
| SOCIETE GENERALE | 13,000.00 | 18.22 | 0.00140 |
| SOCIETE GENERALE LONDON BRANCH | 97,200.00 | 2,743.61 | 0.02823 |
| SOUTHWESTSECURITIES | 18,500.00 | 819.00 | 0.04427 |
| SPEAR, LEEDS & KELLOGG | 58,075.00 | 871.12 | 0.01500 |
| SSANGYONGINVESTMENT AND SECURITIES | 25,880.00 | 7,167.32 | 0.27694 |
| STANDARD & POOR'S SECURITIES, INC. | 85,700.00 | 4,285.00 | 0.05000 |
| STANFORD GROUP CO | 43,773.00 | 2,176.65 | 0.04973 |
| STATE STREET BROKERAGE SERVICES | 2,400.00 | 120.00 | 0.05000 |
| STATUS SECURITIES | 17,700.00 | 595.00 | 0.03362 |
| STEPHENS,INC. | 21,300.00 | 1,040.00 | 0.04883 |

# SCHEDULE OF COMMISSIONS *Continued*

*For the Year Ending June 30, 2005*

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| STERNE, AGEE & LEACH, INC. | 17,400.00 | $ 870.00 | $ 0.05000 |
| STIFEL NICOLAUS & CO INC | 365.00 | 18.25 | 0.05000 |
| STIFEL NICOLAUS + CO INC | 4,700.00 | 200.00 | 0.04255 |
| SUNTRUST CAPITAL MARKETS, INC. | 63,400.00 | 3,276.00 | 0.05167 |
| THEMIS TRADING LLC | 6,100.00 | 183.00 | 0.03000 |
| THINKEQUITY PARTNERS LLC | 22,950.00 | 947.00 | 0.04126 |
| THOMAS WEISEL PARTNERS | 299,999.00 | 13,839.45 | 0.04613 |
| TORONTO DOMINION SECURITIES | 900.00 | 3.56 | 0.00396 |
| U.S. BANCORP PIPER JAFFRAY INC | 117,880.00 | 5,195.40 | 0.04407 |
| U.S. CLEARING CORPORATION | 1,800.00 | 69.00 | 0.03833 |
| UBS | 40,320.00 | 1,951.08 | 0.04839 |
| UBS AG | 404,858.00 | 12,142.53 | 0.02999 |
| UBS AG LONDON | 474,252.00 | 4,837.70 | 0.01020 |
| UBS FINANCIAL SERVICES INC | 34,500.00 | 1,725.00 | 0.05000 |
| UBS SECURITIES | 64,310.00 | 3,349.57 | 0.05208 |
| UBS SECURITIES CANADA INC | 36,799.00 | 1,805.49 | 0.04906 |
| UBS SECURITIES LLC | 1,067,110.00 | 38,402.58 | 0.03599 |
| UBS WARBURG LLC | 2,700.00 | 917.54 | 0.33983 |
| USCC/SANTANDER | 5,300.00 | 265.00 | 0.05000 |
| VICKERS BALLAS TAMARA PT | 203,000.00 | 696.00 | 0.00343 |
| WACHOVIA SECURITIES, LLC | 10,719.00 | 535.95 | 0.05000 |
| WACHOVIA SECURITIES, LLC. | 801.00 | 40.05 | 0.05000 |
| WACHOVIACAPITAL MARKETS, LLC | 63,425.00 | 2,845.75 | 0.04487 |
| WARBURG DILLION READ (ASIA) LTD | 475,820.00 | 6,574.49 | 0.01382 |
| WARBURG DILLON READ SECURITIES LTD | 1,650.00 | 158.67 | 0.09616 |
| WAVE SECURITIES LLC | 263,743.00 | 3,665.59 | 0.01390 |
| WEDBUSH MORGAN SECURITIES INC | 56,259.00 | 2,304.68 | 0.04097 |
| WEEDEN + CO. | 421,819.00 | 13,904.33 | 0.03296 |
| WELLS FARGO SECURITIES LLC | 23,500.00 | 955.00 | 0.04064 |
| WESTMINSTER RESEARCH ACCOCIATION | 26,900.00 | 1,132.00 | 0.04208 |
| WESTMINSTER RESEARCH ASSOCIATE | 67,320.00 | 2,954.60 | 0.04389 |
| WHITE CAPTRADING | 6,200.00 | 124.00 | 0.02000 |
| WILLIAM BLAIR & COMPANY, L.L.C | 105,534.00 | 4,935.70 | 0.04677 |
| WILLIAMS CAPITAL GROUP LP (THE) | 63,100.00 | 3,155.00 | 0.05000 |
| WR HAMBRECHT + CO | 14,276.00 | 646.80 | 0.04531 |
| WYOMING FINANCIAL SECURITIES | 6,100.00 | 183.00 | 0.03000 |
| YORKTON SECURITIES INC | 6,005.00 | 230.40 | 0.03837 |
| | 102,206,354.99 | $ 1,746,098.23 | $ 0.01708 |

# Investment Summary

*As of June 30, 2005*

| Type of Investment | | Market Value | % of Portfolio |
|---|---|---|---|
| **Equities** | | | |
| Consumer Discretionary | | $ 128,872,565 | 6.13% |
| Consumer Staples | | 51,655,867 | 2.46% |
| Energy | | 60,912,749 | 2.90% |
| Financials | | 152,824,748 | 7.27% |
| Health Care | | 104,348,095 | 4.97% |
| Industrials | | 99,440,991 | 4.73% |
| Materials | | 22,594,403 | 1.08% |
| Technology/Telecom Services | | 158,500,696 | 7.54% |
| Utilities | | 21,951,504 | 1.04% |
| Miscellaneous | | 1,724,694 | 0.08% |
| Foreign Equity | | 536,209,610 | 25.52% |
| | **Total Equity** | **$ 1,339,035,922** | **63.74%** |
| **Fixed Income:** | | | |
| US Treasury | | $ 202,726,886 | 9.65% |
| US Government Agency | | 116,928,373 | 5.57% |
| Domestic Corporate Bonds | | 180,339,140 | 8.58% |
| State and Local Obligations | | 1,613,987 | 0.08% |
| Foreign Government | | 110,679,316 | 5.27% |
| Foreign Corporate | | 18,866,476 | 0.90% |
| | **Total Fixed Income** | **$ 631,154,177** | **30.04%** |
| **Other Investment:** | | | |
| Short Term | | $ 71,920,115 | 3.42% |
| Real Estate | | 113,150,044 | 5.39% |
| | **Total Other Investment** | **$ 185,070,158** | **8.81%** |
| **Pending** | | **$ (54,412,797)** | **-2.59%** |
| | **Total** | **$ 2,100,847,460** | **100.00%** |

# Investment Properties

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

**Citibank Office Plaza**
100,303 s.f. five-story office building located in Oak Brook, IL.
Acquired as sole owner in December 1998.

**Crescent VII**
135,044 s.f. six-story office building located in the Denver Tech Center in Greenwood Village, CO.
Acquired as sole owner in June 1998.

**The Deerwood Apartments**
186 unit luxury mid-rise apartment community located in Houston, TX.
Acquired as sole owner in January 1996.

# Investment Properties *Continued*

**Eagle USA Warehouse**
128,000 s.f. single-story distribution warehouse facility located in Eagan, MN.
Invested as sole shareholder in January 2002.

**First American Office Plaza**
82,596 s.f. six-story office building located in San José, CA.
Invested as sole shareholder in December 1999.


**Mid South Logistec II Center**
450,000 s.f. one-story industrial warehouse located in Nashville, TN.
Invested as sole shareholder in November 1999.

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# IV. ACTUARIAL SECTION

# ACTUARY CERTIFICATION LETTER

**MERCER**
Human Resource Consulting

Mercer Human Resource Consulting
111 SW Fifth Avenue, Suite 2800
Portland, OR 97204-3693

503.273.5912 phone
503.273.5999 fax
marciachapman@mercer.com
www.mercerHR.com

**Actuary Certification**

The actuarial valuation required for the City of San Jose Police and Fire Retirement Plan has been prepared as of June 30, 2003 by Mercer Human Resource Consulting. In preparing this valuation, we employed generally accepted actuarial methods and assumptions to evaluate the System's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the System's staff. This information has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior years' information.

The contribution requirements are determined as a percentage of payroll. Employer rates provide for both normal cost and a contribution to amortize any unfunded or over-funded actuarial accrued liabilities. The Board elected to amortize the System's unfunded actuarial accrued liability over a 40 year period, beginning in 1977, with 14 years remaining as of the June 30, 2003 valuation date.

The actuarial value of assets used for the purposes of this valuation reflects the Supplemental Retiree Benefits Reserve (SRBR) program. The SRBR program reduced the value of the assets by $19,695,306 as of June 30, 2003.

The ratio of actuarial value of assets to actuarial accrued liabilities decreased from 114.8% to 100.2% as a result of this valuation. The primary causes of the decrease were the lower than expected investment return on the System's assets and the higher than expected salary increases.

The Board adopted actuarial assumptions following the experience study of the System as of June 30, 2003. 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 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 Plan. Nevertheless, the emerging costs of the Plan will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

A list of the supporting schedules we prepared for inclusion in the actuarial, statistical and financial sections of the Systems CAFR report is provided below.

# ACTUARY CERTIFICATION LETTER *Continued*

**MERCER**
Human Resource Consulting

1. Summary of Assumptions and Funding Method
2. Schedule of Active Member Valuation Data
3. Retirees and Beneficiaries Added to and Removed From Payroll
4. Actuarial Analysis of Financial Experience
5. Assumption Changes
6. Solvency Test
7. Major Provisions of the Retirement Plan
8. Schedule of Funding Progress
9. System Membership and Benefit Statistics

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

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

This report conforms with the requirements of the governing state and local statutes, accounting rules, and generally accepted actuarial principles and practices. The following undersigned actuaries are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Marcia L. Chapman

Marcia Chapman, FSA, EA, MAAA

Moe Tun

Moe Tun, FSA, MAAA

# Summary of Assumptions and Funding Method

*The following assumptions have been adopted by the Retirement Board as of June 30, 2003:*

**Assumptions**

| | | |
|---|---|---|
| Valuation Interest Rate | | 8% |
| Inflation Rate | | 3% |
| **Real Across-the-Board** | | |
| Salary Increase | | 1.5% |
| **Post-Retirement Mortality** | | |
| *(a)* | *Service* | |
| | Males | 1994 Male Group Annuity Mortality Table (set back 4 years) |
| | Females | 1994 Female Group Annuity Mortality Table (set forward 1 year) |
| *(b)* | *Disability* | PERS Industrial Disability Table 88 92 (set back 5 years) |
| **Pre-Retirement Mortality** | | Based upon the 6/30/2003 Experience Analysis |
| Withdrawal Rates | | Based upon the 6/30/2003 Experience Analysis |
| Disability Rates | | Based upon the 6/30/2003 Experience Analysis |
| Service Retirement Rates | | Based upon the 6/30/2003 Experience Analysis |
| Salary Scales | | 10.1% for the first five years of service. Graded increases thereafter ranging from 9.8% at age 25 to 4.7% at ages 60 and over. Of the total salary increases, 4.5% is for inflation and real across-the-board salary increase. |
| **Percentage of Members** | | |
| Married | | 85% |
| Reciprocity | | 75% of all terminated vested members are assumed to be employed by a reciprocal entity. |
| Assets | | Five year smoothed recognition of total market return that differs from the 8% return target. |

**Funding Method**

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized over a period of 40 years beginning in 1977, with 14 years remaining on the June 30, 2003 valuation date.

# Probabilities of Separation Prior to Retirement

| Age | withdrawal_0-1 | withdrawal_1-2 | withdrawal_2-3 | withdrawal_3-4 | withdrawal_4-5 | withdrawal_5-10 | withdrawal_10+ | deferred | ordinary_disab. | duty_disability | ordinary_death | duty_death | retirement |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| <= 20 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0000 | 0.0001 | 0.0000 | 0.0000 |
| 21 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 22 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 23 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 24 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0001 | 0.0001 | 0.0000 | 0.0000 |
| 25 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0000 | 0.0002 | 0.0001 | 0.0000 | 0.0000 |
| 26 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 27 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0001 | 0.0003 | 0.0001 | 0.0001 | 0.0000 |
| 28 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 29 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0080 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | 0.0000 |
| 30 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0001 | 0.0007 | 0.0001 | 0.0001 | 0.0000 |
| 31 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0001 | 0.0006 | 0.0001 | 0.0001 | 0.0000 |
| 32 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0001 | 0.0003 | 0.0001 | 0.0001 | 0.0000 |
| 33 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0001 | 0.0008 | 0.0002 | 0.0002 | 0.0000 |
| 34 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0002 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 35 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0004 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 36 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0006 | 0.0015 | 0.0002 | 0.0002 | 0.0000 |
| 37 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0008 | 0.0018 | 0.0002 | 0.0002 | 0.0000 |
| 38 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0010 | 0.0019 | 0.0002 | 0.0002 | 0.0000 |
| 39 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0012 | 0.0020 | 0.0002 | 0.0002 | 0.0000 |
| 40 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0014 | 0.0020 | 0.0002 | 0.0003 | 0.0000 |
| 41 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0016 | 0.0020 | 0.0002 | 0.0003 | 0.0000 |
| 42 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0016 | 0.0021 | 0.0002 | 0.0003 | 0.0000 |
| 43 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0016 | 0.0029 | 0.0002 | 0.0003 | 0.0000 |
| 44 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0070 | 0.0016 | 0.0041 | 0.0003 | 0.0003 | 0.0000 |
| 45 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0050 | 0.0014 | 0.0063 | 0.0003 | 0.0003 | 0.0000 |
| 46 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0045 | 0.0012 | 0.0080 | 0.0003 | 0.0004 | 0.0000 |
| 47 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0040 | 0.0010 | 0.0102 | 0.0003 | 0.0004 | 0.0000 |
| 48 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0030 | 0.0010 | 0.0129 | 0.0003 | 0.0004 | 0.0000 |
| 49 | 0.0800 | 0.0200 | 0.0200 | 0.0200 | 0.0130 | 0.0065 | 0.0020 | 0.0030 | 0.0010 | 0.0163 | 0.0003 | 0.0004 | 0.0000 |
| 50 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0300 | 0.0004 | 0.0004 | 0.0900 |
| 51 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0450 | 0.0004 | 0.0004 | 0.0700 |
| 52 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0600 | 0.0004 | 0.0005 | 0.0700 |
| 53 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0677 | 0.0005 | 0.0005 | 0.0700 |
| 54 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0010 | 0.0750 | 0.0005 | 0.0006 | 0.1000 |
| 55 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1200 | 0.0005 | 0.0006 | 0.1700 |
| 56 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1500 | 0.0006 | 0.0007 | 0.1500 |
| 57 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1800 | 0.0006 | 0.0008 | 0.1300 |
| 58 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.1900 | 0.0007 | 0.0008 | 0.1300 |
| 59 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2000 | 0.0008 | 0.0009 | 0.1800 |
| 60 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2200 | 0.0009 | 0.0010 | 0.2200 |
| 61 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2400 | 0.0010 | 0.0010 | 0.2600 |
| 62 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2600 | 0.0011 | 0.0011 | 0.2600 |
| 63 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2600 | 0.0012 | 0.0012 | 0.3600 |
| 64 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.2600 | 0.0014 | 0.0012 | 0.4700 |
| 65 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |
| 66 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |
| 67 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |
| 68 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |
| 69 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |
| 70 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 1.0000 |

# Years of Life Expectancy After Service Retirement

## San José Police and Fire

| Age | Member | Beneficiary | Age | Member | Beneficiary |
|---|---|---|---|---|---|
| 50 | 33.74 | 33.29 | 80 | 10.08 | 9.30 |
| 51 | 32.80 | 32.34 | 81 | 9.52 | 8.74 |
| 52 | 31.87 | 31.40 | 82 | 8.98 | 8.20 |
| 53 | 30.94 | 30.47 | 83 | 8.46 | 7.68 |
| 54 | 30.01 | 29.53 | 84 | 7.97 | 7.18 |
| 55 | 29.09 | 28.61 | 85 | 7.51 | 6.71 |
| 56 | 28.18 | 27.68 | 86 | 7.07 | 6.20 |
| 57 | 27.28 | 26.77 | 87 | 6.65 | 5.83 |
| 58 | 26.38 | 25.86 | 88 | 6.24 | 5.42 |
| 59 | 25.49 | 24.97 | 89 | 5.86 | 5.05 |
| 60 | 24.61 | 24.09 | 90 | 5.48 | 4.70 |
| 61 | 23.74 | 23.22 | 91 | 5.12 | 4.37 |
| 62 | 22.88 | 22.36 | 92 | 4.78 | 4.07 |
| 63 | 22.04 | 21.52 | 93 | 4.45 | 3.79 |
| 64 | 21.20 | 20.69 | 94 | 4.15 | 3.53 |
| 65 | 20.38 | 19.88 | 95 | 3.87 | 3.26 |
| 66 | 19.57 | 19.09 | 96 | 3.61 | 3.06 |
| 67 | 18.78 | 18.30 | 97 | 3.37 | 2.85 |
| 68 | 18.01 | 17.53 | 98 | 3.15 | 2.65 |
| 69 | 17.26 | 16.77 | 99 | 2.95 | 2.48 |
| 70 | 16.53 | 16.01 | 100 | 2.77 | 2.31 |
| 71 | 15.81 | 15.26 | 101 | 2.60 | 2.16 |
| 72 | 15.11 | 14.53 | 102 | 2.46 | 2.02 |
| 73 | 14.43 | 13.81 | 103 | 2.33 | 1.89 |
| 74 | 13.77 | 13.11 | 104 | 2.20 | 1.76 |
| 75 | 13.11 | 12.43 | 105 | 2.09 | 1.70 |
| 76 | 12.48 | 11.76 | 106 | 1.97 | 1.63 |
| 77 | 11.85 | 11.11 | 107 | 1.87 | 1.57 |
| 78 | 11.25 | 10.49 | 108 | 1.76 | 1.53 |
| 79 | 10.66 | 9.88 | 109 | 1.67 | 1.50 |
| | | | 110 | 1.60 | 1.47 |

**Member**
*94 GAM Male -4*

**Beneficiary**
*94 GAM Female +1*

# Years of Life Expectancy After Disability Retirement

## San José Police and Fire

| Age | Member | Age | Member | Age | Member |
|---|---|---|---|---|---|
| 20 | 59.71 | 50 | 31.30 | 80 | 9.80 |
| 21 | 58.74 | 51 | 30.41 | 81 | 9.32 |
| 22 | 57.76 | 52 | 29.53 | 82 | 8.86 |
| 23 | 56.78 | 53 | 28.66 | 83 | 8.42 |
| 24 | 55.81 | 54 | 27.79 | 84 | 8.00 |
| 25 | 54.84 | 55 | 26.93 | 85 | 7.61 |
| 26 | 53.86 | 56 | 26.07 | 86 | 7.23 |
| 27 | 52.89 | 57 | 25.22 | 87 | 6.87 |
| 28 | 51.92 | 58 | 24.39 | 88 | 6.51 |
| 29 | 50.95 | 59 | 23.56 | 89 | 6.16 |
| 30 | 49.98 | 60 | 22.75 | 90 | 5.82 |
| 31 | 49.02 | 61 | 21.94 | 91 | 5.48 |
| 32 | 48.05 | 62 | 21.16 | 92 | 5.15 |
| 33 | 47.09 | 63 | 20.38 | 93 | 4.81 |
| 34 | 46.13 | 64 | 19.62 | 94 | 4.48 |
| 35 | 45.18 | 65 | 18.88 | 95 | 4.16 |
| 36 | 44.22 | 66 | 18.15 | 96 | 3.86 |
| 37 | 43.27 | 67 | 17.44 | 97 | 3.57 |
| 38 | 42.32 | 68 | 16.75 | 98 | 3.30 |
| 39 | 41.38 | 69 | 16.08 | 99 | 3.04 |
| 40 | 40.34 | 70 | 15.43 | 100 | 2.79 |
| 41 | 39.49 | 71 | 14.80 | 101 | 2.56 |
| 42 | 38.56 | 72 | 14.18 | 102 | 2.35 |
| 43 | 37.63 | 73 | 13.58 | 103 | 2.15 |
| 44 | 36.71 | 74 | 13.00 | 104 | 1.95 |
| 45 | 35.79 | 75 | 12.43 | 105 | 1.77 |
| 46 | 34.88 | 76 | 11.87 | 106 | 1.16 |
| 47 | 33.98 | 77 | 11.33 | 107 | 1.45 |
| 48 | 33.08 | 78 | 10.81 | 108 | 1.30 |
| 49 | 32.18 | 79 | 10.30 | 109 | 1.17 |

*88' - 92' PERS Industrial Disability -5*

# Schedule of Active Member Valuation Data

## *Contributing Members Only*

| Valuation Date | Number | Annual Payroll | Monthly Average Pay | % Increase in Average Pay* |
|---|---|---|---|---|
| 6/30/1993 | 1,785 | $ 98,831,000 | $ 4,614 | Not Calculated |
| 6/30/1995 | 1,812 | $ 109,196,000 | $ 5,022 | 8.84% |
| 6/30/1997 | 1,954 | $ 129,850,000 | $ 5,538 | 10.27% |
| 6/30/1999 | 1,953 | $ 144,125,000 | $ 6,150 | 11.05% |
| 6/30/2001 | 2,107 | $ 171,799,000 | $ 6,795 | 10.49% |
| 6/30/2003 | 2,104 | $ 202,222,000 | $ 8,009 | 17.88% |

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

# Retirants & Beneficiaries Added to and Removed from Retiree Payroll

| Time Period | At Beginning of Period | Added During Period | Removed During Period | At End of Period | Annual Retiree Payroll as of the beginning of Period | Annual Retiree Payroll Added During Period* | Annual Retiree Payroll Removed During Period | Annual Retiree Payroll as of the End of Period | % Increase in Annual Retiree Payroll | Average Annual Allowance |
|---|---|---|---|---|---|---|---|---|---|---|
| 6/30/1993-6/30/1995 | 700 | 157 | 33 | 824 | $ 18,958,000 | $ 7,264,000 | $ 639,000 | $ 25,583,000 | 31.94% | $ 31,047 |
| 6/30/1995-6/30/1997 | 824 | 145 | 29 | 940 | $ 25,583,000 | $ 7,059,000 | $ 652,000 | $ 31,990,000 | 25.04% | $ 34,032 |
| 6/30/1997-6/30/1999 | 940 | 156 | 36 | 1,060 | $ 31,990,000 | $ 9,962,000 | $ 880,000 | $ 41,072,000 | 28.39% | $ 38,747 |
| 6/30/1999-6/30/2001 | 1060 | 145 | 41 | 1,164 | $ 41,072,000 | $ 10,272,000 | $ 1,351,000 | $ 49,993,000 | 21.72% | $ 42,949 |
| 6/30/2001-6/30/2003 | 1164 | 159 | 52 | 1,271 | $ 49,993,000 | $ 13,806,000 | $ 1,485,000 | $ 62,314,000 | 24.65% | $ 49,028 |

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

# Actuarial Analysis of Financial Experience

*Amounts in Thousands*

| | 2001-2003 | 1999-2001 |
|---|---|---|
| Beginning of Period Unfunded Actuarial Accrued Liability | $ (221,080) | $ (163,753) |
| Expected Increase from Prior Valuation | $ 2,435 | $ (3,967) |
| | | |
| Salary Increase Greater (Less) than Expected | $ 95,850 | $ 3,836 |
| Asset Return Less (Greater) than Expected | $ 131,775 | $ (63,490) |
| COLA increases Greater (Less) than Expected | $ - | $ - |
| (Gain)/Loss from Withdrawal | $ (174) | $ 23 |
| Contribution Less (Greater) than Expected | $ (27,026) | $ (16,675) |
| SRBR | $ 3,634 | $ 21,875 |
| Other Experience | $ 6,957 | $ (14,334) |
| Change in Economic & Non-economic Assumptions | $ 4,542 | $ 15,404 |
| | | |
| End of Period UAAL | $ (3,087) | $ (221,080) |

# SOLVENCY TEST

*Amounts in Thousands*

| | Aggregate Accrued Liabilities for | | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|---|
| Valuation Date | Active Member Contributions | Retired/Vested Members | Active Members (Employer Financed Portion) | Total | Actuarial Value of Assets | Active Member Contributions (1) | Retired/Vested Members (2) | Active Members (Employer Financed Portion) (3) |
| 6/30/1993 | $ 85,915 | $ 260,326 | $ 369,882 | $ 716,123 | $ 714,592 | 100% | 100% | 100% |
| 6/30/1995 | $ 100,010 | $ 351,327 | $ 377,402 | $ 828,739 | $ 854,414 | 100% | 100% | 107% |
| 6/30/1997 | $ 115,995 | $ 434,292 | $ 479,881 | $ 1,030,168 | $ 1,124,294 | 100% | 100% | 120% |
| 6/30/1999 | $ 117,755 * | $ 595,196 | $ 563,413 * | $ 1,276,364 | $ 1,440,117 | 100% | 100% | 129% |
| 6/30/2001 | $ 145,166 | $ 699,082 | $ 648,484 | $ 1,492,732 | $ 1,713,812 | 100% | 100% | 134% |
| 6/30/2003 | $ 167,203 | $ 881,064 | $ 774,934 | $ 1,823,200 | $ 1,826,287 | 100% | 100% | 100% |

(1) Accumulated from member contribution account balances provided by the Retirement System
(2) Calculated based on assumptions adopted by the Board
(3) Calculated based on assumptions adopted by the Board and offset with Active member contribution account balances
Derived: (Actuarial Value of Assets - Active Member Contributions Liabilities - Retired and Vested Members Liabilities) / (Employer Financed Portion of Liabilities)
* These numbers have been revised

# Assumption Changes

Mercer recommended changes to some of the assumptions. The following are the most significant:

• Withdrawal – Withdrawal rates are increased for members with service less than 5 years and decreased for members with more than 5 but less then 10 years of service. This reduced costs.

• Vested Terminations – Termination rates are increased. This reduced costs.

• Service Retirement – Service Retirement rates are decreased. This reduced costs.

• Inflation – Inflation assumption is changed from 4.5% to 3%. However, the COLA is subject to a maximum of 3% and, hence, there was no impact on the costs.

• Salary Increase – The merit and longevity component of the salary increase assumption is changed to reflect the actual merit and longevity increases over the last two years. This decreased costs.
We propose to introduce an across-the-board salary increase assumption of 1.5%. Combined with the inflation assumption of 3%, we will maintain the salary increase assumption of 4.5% before applying the merit and longevity increases.

• Post-Retirement Mortality – We recommend that the Board adopt a setback (i.e., a mortality improvement) to the current mortality table used for service and disability retirees to reflect the Plan's mortality experience when compared to the standard table that was adopted. The change increased costs.

• Medical and Dental Premium Increases – Short-term premium increases are raised to reflect anticipated experience. This increased costs.

# MAJOR PROVISIONS OF THE RETIREMENT PLAN

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through June 30, 2003.

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

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

### *Service Retirement Benefit*
Members with 20 years of service who have attained age 55 are eligible to retire. Members age 70 (no service requirement) and members with 30 years of service, regardless of age, are also eligible to retire. The normal service retirement benefit is 2.5% of FAS per year of service up to 20 years of service, 3.0% of FAS per year of service for the next 5 years of service, and 4.0% of FAS per year of service over 25, not to exceed 85% of FAS.
A special study was performed by the plan's prior actuary in 1992 (and subsequently adopted by the Board) which allows members with 25 years of service to retire at age 50 with unreduced benefits. Otherwise, members age 50 with 20 years of service receive their accrued service retirement benefit, reduced for interest below age 55.

Ten years of service are required for vesting purposes.

### *Disability Benefit*

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

*Service-Connected*

Members may retire regardless of length of service, and the benefit is 50% of FAS. For members with service of more than 20 years, the additional benefit for each year of service is 3.0% of FAS for 21-25 years of service and 4.0% of FAS for 26-30 years of service (subject to a maximum of 85% of FAS).

### *Death Benefit (before and after retirement)*

**Nonservice-Connected**
Eligibility is based on 2 years of service, regardless of age. The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year. The maximum benefit is the greater of 50% of the member's benefit and 37.5% of FAS.

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

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

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

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

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

**Service-Connected**
The spouse receives the greater of 50% of the member's benefit and 37.5% of FAS. Eligible dependent

# MAJOR PROVISIONS OF THE RETIREMENT PLAN *Continued*

children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS. These benefits are payable for active member deaths and deaths after service-connected disability retirement and service retirement.

### *Death Benefit - Inactive Members (After Retirement)*

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS or 42.5% of FAS if retirement is after 2000. Eligible dependent children receive the following:

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

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

**Cost-of-Living**
The increase in retirement allowance is subject to a maximum of 3% a year.

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

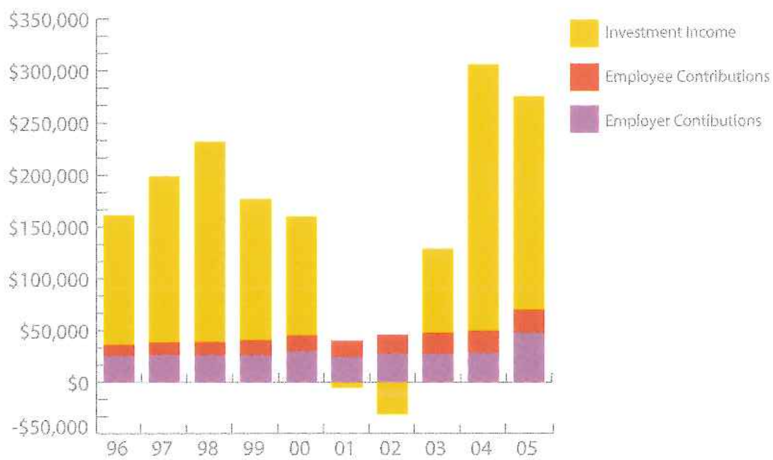
**Members' Retirement Contributions**
The members' contribution rates are recalculated on an actuarial basis at each actuarial study and equal to 3/11ths of the Normal Cost. The members presently contribute at the rate of 11.16% of pay.

**City's Retirement Contributions**
The City presently contributes at a rate of 24.59% of pay for all members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

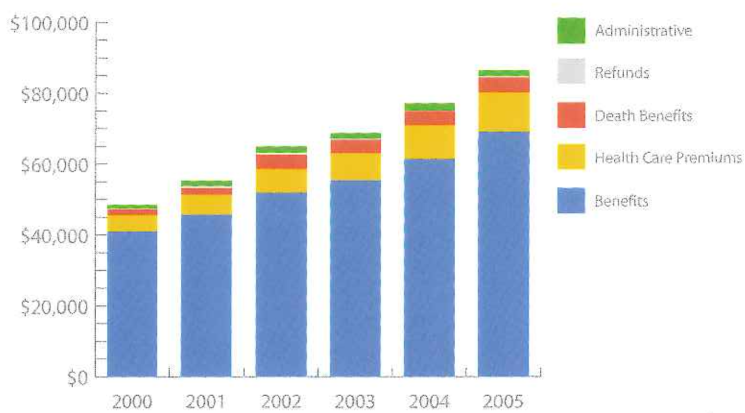
# V.
# STATISTICAL SECTION

# STATISTICAL REVIEW

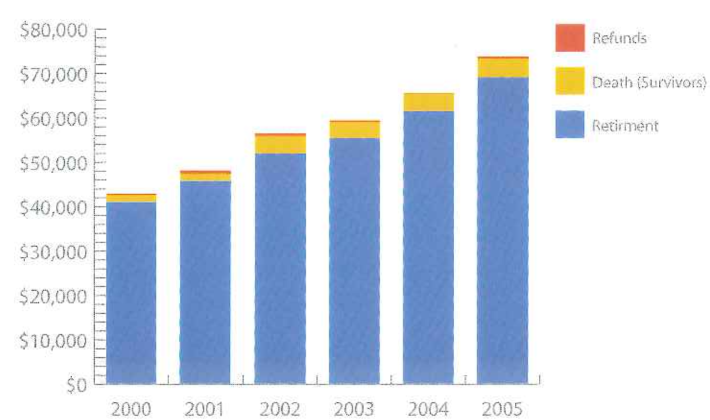
Additions by Source For Fiscal Years 1996 - 2005
(In Thousands)




Deductions by Type For Fiscal Years 2000 - 2005
(In Thousands)




Benefit Expenses by Type For Fiscal Years 2000 - 2005
(In Thousands)



# STATISTICAL REVIEW *Continued*

## Additions by Source for Fiscal Years 1996-2005
(In Thousands)

| Year Ending | Employer Contributions | % of Annual Covered Payroll | Employee Contributions | % of Annual Covered Payroll | Investment Income (Loss) * | Total |
|---|---|---|---|---|---|---|
| 1996 | $ 25,604 | 22.24% | $ 10,789 | 9.36% | $ 125,170 | $ 161,563 |
| 1997 | 26,779 | 21.61% | 11,711 | 9.40% | 160,534 | 199,024 |
| 1998 | 26,547 | 17.28% | 12,570 | 9.70% | 193,114 | 232,231 |
| 1999 | 26,563 | 19.82% | 14,148 | 10.22% | 136,644 | 177,355 |
| 2000 | 30,187 | 20.11% | 15,374 | 10.22% | 114,911 | 160,472 |
| 2001 | 24,672 | 15.60% | 15,542 | 9.79% | (4,795) | 35,419 |
| 2002 | 28,115 | 15.60% | 17,851 | 9.79% | (32,285) | 13,681 |
| 2003 | 27,762 | 14.22% | 19,937 | 10.25% | 81,640 | 129,339 |
| 2004 | 28,904 | 14.22% | 20,929 | 10.25% | 256,845 | 306,678 |
| 2005 | 48,253 | 24.59% | 21,913 | 11.16% | 205,874 | 276,040 |

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

## Deductions by Type for Fiscal Years 2000-2005
(In Thousands)

| | 2000 | 2001 | 2002* | 2003* | 2004* | 2005* |
|---|---|---|---|---|---|---|
| Benefits | $ 40,974 | $ 45,699 | $ 51,907 | $ 55,342 | $ $61,449 | $ 69,102 |
| Health Care Premiums | 4,649 | 5,685 | 6,740 | 7,772 | 9,528 | 11,093 |
| Death Benefits | 1,689 | 1,772 | 3,977 | 3,732 | 3,976 | 4,226 |
| Refunds | 194 | 615 | 518 | 276 | 132 | 426 |
| Administrative | 1,019 | 1,550 | 1,840 | 1,615 | 2,089 | 1,650 |
| TOTAL | $ 48,5253 | $ 55,321 | $ 64,982 | $ 68,737 | $ 77,174 | $ 86,497 |

**Benefits and Death Benefits were reclassified in 2002, 2003, 2004, and 2005*

## Benefit Expenses by Type for Fiscal Years 2000-2005
(In Thousands)

| | 2000 | 2001 | 2002* | 2003* | 2004* | 2005* |
|---|---|---|---|---|---|---|
| Retirement | $ $40,974 | $ $45,699 | $ $51,907 | $ $55,342 | $ $61,449 | $ $69,102 |
| Death (Survivors) | 1,689 | 1,772 | 3,977 | 3,732 | 3,976 | 4,226 |
| Refunds | 194 | 615 | 518 | 276 | 132 | 426 |
| **TOTAL** | **$ 42,857** | **$ 48,086** | **$ 56,402** | **$ $59,350** | **$ $65,557** | **$ 73,754** |

**Benefits and Death Benefits were reclassified in 2002, 2003, 2004, and 2005*

# Retired Members by Type of Benefit

*As of June 30, 2005*

| Amount Monthly Benefit | Number of Retirees & Beneficiaries | Type of Retirement* | | | | | | | Option Selected ** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Unmod. | Opt. 1 | Opt. 2 | Opt. 3 | Total |
| $1 - 500 | 7 | | | | | | 7 | | | | 7 | | 7 |
| $501 - 1000 | 25 | | | 3 | 1 | | 16 | 5 | 5 | | 20 | | 25 |
| $1001 - 1500 | 95 | 1 | | 50 | 6 | 4 | 27 | 7 | 16 | | 79 | | 95 |
| $1501 - 2000 | 91 | 2 | | 42 | 28 | 1 | 15 | 3 | 33 | 1 | 57 | | 91 |
| $2001 - 2500 | 103 | 7 | | 38 | 42 | 1 | 8 | 7 | 56 | | 47 | | 103 |
| $2501 - 3000 | 112 | 4 | 1 | 18 | 75 | 4 | 7 | 3 | 81 | 5 | 25 | 1 | 112 |
| $3001 - 3500 | 109 | 6 | 1 | 6 | 83 | 7 | 3 | 3 | 88 | 1 | 13 | 7 | 109 |
| $3501 - 4000 | 105 | 18 | 1 | 3 | 82 | | 1 | | 80 | 2 | 12 | 11 | 105 |
| $4001 - 4500 | 122 | 40 | | 3 | 79 | | | | 90 | 4 | 13 | 15 | 122 |
| $4501 - 5000 | 107 | 43 | 1 | 4 | 58 | | 1 | | 78 | 5 | 11 | 13 | 107 |
| $5001 - 5500 | 155 | 72 | | 1 | 80 | | 1 | 1 | 135 | 5 | 4 | 11 | 155 |
| $5501 - 6000 | 102 | 40 | | 1 | 61 | | | | 85 | 3 | 6 | 8 | 102 |
| $6001 - 6500 | 85 | 47 | | | 37 | 1 | | | 67 | | 4 | 14 | 85 |
| $6501 - 7000 | 58 | 27 | | | 31 | | | | 41 | 5 | 6 | 6 | 58 |
| Over $7000 | 169 | 97 | | 1 | 69 | | | 2 | 115 | 4 | 20 | 30 | 169 |
| **TOTAL** | **1445** | **404** | **4** | **170** | **732** | **18** | **86** | **31** | **970** | **35** | **324** | **116** | **1445** |

***RETIREMENT CODES**

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

****OPTION DESCRIPTIONS**

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

# AVERAGE BENEFIT PAYMENT AMOUNTS

| Active Members | | | |
|---|---|---|---|
| | June 30, 2003 | June 30, 2001 | Percent Change |
| A. Number | 2,104 | 2,107 | -0.1% |
| B. Average Age | 40.00 | 39.61 | 1.0% |
| C. Average Years of Service | 12.52 | 12.33 | 1.5% |
| D. Annual Salary | | | |
| i. Total | $202,222,000 | $171,799,000 | 17.7% |
| ii. Average | $96,113 | $81,537 | 17.9% |

| Retired and Inactive Vested Members | | | |
|---|---|---|---|
| | June 30, 2003 | June 30, 2001 | Percent Change |
| Retired Members | | | |
| A. Service Retirement | | | |
| i. Number | 364 | 313 | 16.3% |
| ii. Annual Allowance | | | |
| Basic Only | $18,934,837 | $14,406,117 | 31.4% |
| COLA | $3,276,025 | $2,218,688 | 47.7% |
| Total | $22,210,862 | $16,624,805 | 33.6% |
| Average Monthly Amount | $5,085 | $4,426 | 14.9% |
| B. Disability Retirement | | | |
| i. Number | 729 | 680 | 7.2% |
| ii. Annual Allowance | | | |
| Basic Only | $27,411,246 | $22,869,909 | 19.9% |
| COLA | $8,488,478 | $6,878,486 | 23.4% |
| Total | $35,899,724 | $29,748,395 | 20.7% |
| Average Monthly Amount | $4,104 | $3,646 | 12.6% |
| C. Beneficiaries | | | |
| i. Number | 178 | 171 | 4.1% |
| ii. Annual Allowance | | | |
| Basic Only | $2,566,012 | $2,202,992 | 16.5% |
| COLA | $1,637,427 | $1,417,113 | 15.5% |
| Total | $4,203,439 | $3,620,105 | 16.1% |
| Average Monthly Amount | $1,968 | $1,764 | 11.5% |
| Inactive Vested Members | | | |
| A. Number | 58 | 36 | 61.1% |

# Retirements During Fiscal Year 2004-05

## Service Retirements

### Police Department

ADY, ROBERT B
AMOROSO, ADONNA J
BABINEAU, DAVID J
BATTAGLIA, NICK L
BERNAL, MARK D
BRISTER, DON L
CAMPBELL, JOHN P
COOPER, RANDALL L
DELGADO, HIPOLITO C
ELEMEN, ARMANDO C
FEHR, MICHAEL J
GARDNER, PAUL T
GIAMBRONE, JAMES
GIL-BLANCO, JORGE A
HAFLEY, GARY A
HARRIS, DONALD
HENDRIX, DAVID H
HERBERT, BRENDA W
HIPPELI, MIRIAM R
JENKINS, DAVID E
KIRKENDALL, DAVID
LAX, JOHN S
LITTLE, KEITH E
LOPEZ, CANDELARIO N
MARFIA, TED S
MASON, ALFRED L
MAYO, TONI L
MEADE, DONALD A
MODLIN, DICK E
PADILLA, GEORGE M
PEDROZA, FRANK
QUAYLE, JOHN P
ROBINSON, WALTER E
RONCO, STEPHEN E
SUGIMOTO, RICHARD K
SUITS, JAMES T
SUN, JEFFREY W
TORRES, RICHARD
USOZ, STEPHEN J
VALENZUELA, ROBERT
VASQUEZ, THEODORE
WYSUPH, DAVID B

### Fire Department

ALVISO, KENNETH M
BERGLAND, LINN W
BYSTROM, GARY H
CASTRO, JOHN C
COOK, RONALD E
CUNNINGHAM, MICHAEL L
DE GROOT, HENRY G
FOSTER, DALE E
GONZALEZ, FELIPE V
LOCKWOOD, DANIEL E
MC CLUSKY, THOMAS A
MC QUAIDE, ROBERT F
MOONEY, MARK B
SANTOS, ROBERT J
SAVAGE, JESSE
SHELTON, CRAIG D
SOLIVEN, LLOYD B
TORRES, PETER R

## Early Retirements

### Police Department

None

### Fire Department

DIAZ, FRANK G

## Deferred Vested Retirements

### Police Department

SWARTZENDRUBER, STEVE R

### Fire Department

DYBALL, MERLIN W

*Source: Pension Administration System*

# RETIREMENTS DURING FISCAL YEAR 2004-05 *Continued*

## *Service-Connected Disabilities*

### Police Department

ABRUZZINI, MARIA .E
ALLBRIGHT, WILLIAM
CARAWAY, STEPHEN .T
FAZIO, ROBERT .T
HANN, GEORGE .E
KEFFER, FRANCIS .C
WAGNER, JAMES .R

### Fire Department

AVILA, SAMUEL
CAYWOOD, DENNIS .L
DELLINGER, RAYMOND .E
FARROW, ROBERTA .J
HACKETT, RONALD .S
JONES, ERNEST .R
MANLEY, PHILLIP .J
MILINA, STEPHEN .J
STALEY, JOE .R
WEEDEN, BRIAN .R
WIENS, RANDALL .B

## *Non Service-Connected Disabilities*

### Police Department

None

### Fire Department

None

# DEATHS DURING FISCAL YEAR 2004-05

## *Deaths After Retirement*

### Police Department

BARNETT, JAMES .E
BURROUGHS, BOBBY
CALDERON, JOHN
ERICKSON, RICHARD ANTON
FRANZINO, DONALD .L
HEIKEN, ALBERT .L
HOGATE, CHARLES .S
MC CLURE, EARL .R
PETERSON, COURTNEY
RALSTON, LLOYD .W
STAGG, KENNETH .E

### Fire Department

BERNARDO, C. D.
JOHNSON, THORFINNUR
JONASSON, MICHAEL .T
PARADISO, JOSEPH
WEEDEN, BRIAN .R
WIENS, GEORGE .M

## *Deaths Before Retirement*

### Police Department

None

### Fire Department

None

*Source: Pension Administration System*

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# VI. OTHER REPORTS

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

MACIAS GINI & COMPANY LLP

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The Board of Administration
City of San José Police and Fire Department
Retirement Plan

We have audited the financial statements of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of and for the fiscal years ended June 30, 2005 and 2004, and have issued our report thereon dated September 2, 2005, which included an explanatory paragraph indicating that, effective July 1, 2004, the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures - an amendment of GASB Statement No. 3.* We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

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

# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards* Continued

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*Compliance and Other Matters*

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

We noted certain matters we reported to management of the Plan in a separate letter dated September 2, 2005.

This report is intended solely for the information and use of the Board of Administration, management, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS
WALNUT CREEK, CALIFORNIA
SEPTEMBER 2, 2005

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