CITY OF SAN JOSE

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2002

Edward F. Overton

Director

City of San Jose

Department of Retirement Services

1737 N. First Street, Suite 580

San Jose, CA 95112-4505

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www.ci.san-jose.ca.us/retire/retirement.htm

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

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

October 30, 2002

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

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 Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned –1.3% on investments, compared to –1.6% for its benchmark and –5.8% for the Trust Universe Comparison Service Public Fund Median.

- The Board continued to rebalance to their new asset allocation targets that were approved last year by:
  - Funding two emerging market equity managers, The Boston Company and Alliance Capital Management in September 2001.
  - Funding an international equities growth manager, William Blair in February 2002 to bring the international equities asset class closer to its new target.
  - Acquiring a new property, a warehouse in Eagan, MN, in January 2002, to bring the real estate asset class closer to its new target.
  - Rebalancing the domestic fixed income asset class by reducing its allocation from 35% to its new target of 28%.

- A new small cap value domestic equities manager, Trust Company of the West was funded in November 2001.

- Supplemental Retiree Benefit Reserve was established in December 2001 and the first payment to retirees was added to their April 30, 2002 check.

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

Sincerely,

Mark Skeen

MARK SKEEN, Chair
Board of Administration

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I.
INTRODUCTORY SECTION

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LETTER OF TRANSMITTAL

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 28, 2002

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Police and Fire Department Retirement Plan ("Plan") for the fiscal year ended June 30, 2002. 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 this is the third year the Plan is using a CAFR format. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 20.

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, the 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 (2001).

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LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/28/02 Page 2 of 4

- The Statistical Section contains graphs and schedules with comparative data related to revenue, expenses, benefits, and membership.

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2001. 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 with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the Plan are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Major Initiatives

Transition to the new asset allocation targets set last year were nearly completed this year with the addition of two emerging market managers; a new international equities growth manager to compliment the existing value managers; and reduction of the domestic fixed income assets. In addition a new industrial property was acquired in January 2002 located in Eagan, MN.

A Supplemental Retiree Benefit Reserve was established in December 2001 and the first payment from this reserve was distributed in April 2002.

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/28/02 Page 3 of 4

Changes in Plan Memberships

Plan membership changes for the defined benefit pension plan for FY2002 were as follows:

	2002	2001	Increase (Decrease)	Change
Active Members*	2,231	2,146	85	4%
Retired Members	1031	995	36	4%
Survivors**	207	184	23	13%
TOTAL	**3,469**	**3,325**	**144**	**4%**

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

** Survivor total includes ex-spouses.

Financial and Economic Summary

As expected, investment returns for the recent period was lower than in previous years. For the fiscal year ended June 30, 2002, the total return for the Plan was –1.3%, which was ahead of its Benchmark Index return of –1.6% and in the 5th percentile of the Trust Universe Comparison Services' ("TUCS") Public Fund Universe. Maintaining a long-term perspective is important when dealing with retirement assets. The annualized return over the past ten-year period was 9.5%, which is ahead of the actuarial assumption rate of 8.0%.

The U.S. economy continued to work through anemic growth during the first half of 2002. Mercer believes that the historically conservative asset allocation strategy followed by the Retirement Board will continue to benefit 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 FY2002. The portfolio's total return was –1.3% versus –5.8% for TUCS median. Over long-term periods, the portfolio has earned total annualized returns of 2.2% over the past three years and 6.7% over the past five years, and ranked in the 18th and 15th percentile, respectively, of the TUCS Public Fund Universe. The market value of the plan decreased from $1,667,950,000 to $1,618,646,000 net of pending purchases and sales.

LETTER OF TRANSMITTAL (Continued)

Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the funding ratio of the Plan was approximately at 114.8%. A six-year history of the Plan's funding progress is presented on page 40. The net decrease in Plan assets for FY2002 was $51,301,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 29.

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

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, 2001

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

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

President

Executive Director

BOARD OF ADMINISTRATION

The Retirement Plan is administered by a 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, or institutional funds or endowment funds; in accordance with Section 2.08.400 of the San Jose Municipal Code.

As of June 30, 2002, 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, 2003.

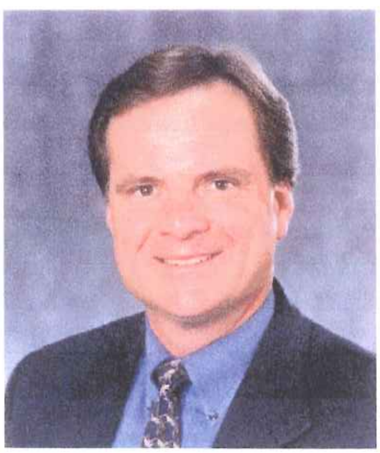
Ken Heredia, Vice Chairman
Retired Plan Member appointed to the Board in May 2000. His current term expires November 30, 2004.

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

BOARD OF ADMINISTRATION (Continued)

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 2000.



David Cortese
City Council Member appointed to the Board in January 1, 2001.

George Shirakawa Jr.
City Council Member appointed to the Board in January 1, 2001.

OUTSIDE CONSULTANTS

ACTUARY	Mercer Human Resource Consulting San Francisco, CA
ATTORNEY, BOARD	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	Bingham McCutchen Palo Alto, CA
AUDITOR	Macias, Gini & Company, LLP Walnut Creek, CA

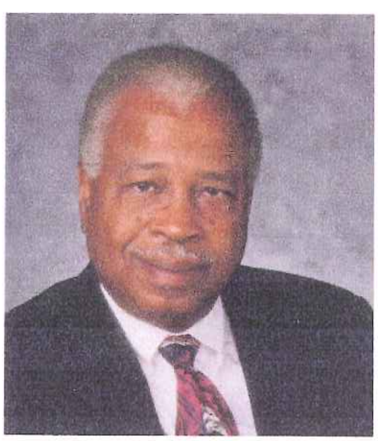
A list of Investment Professionals begins on page 63 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

Board Meetings:	First Thursday of the Month 8:30 AM - City Hall Council Chambers
Investment Subcommittee:	Third Thursday of the Month 10:00 AM - Department of Retirement Services Office
Real Estate Subcommittee:	Quarterly

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

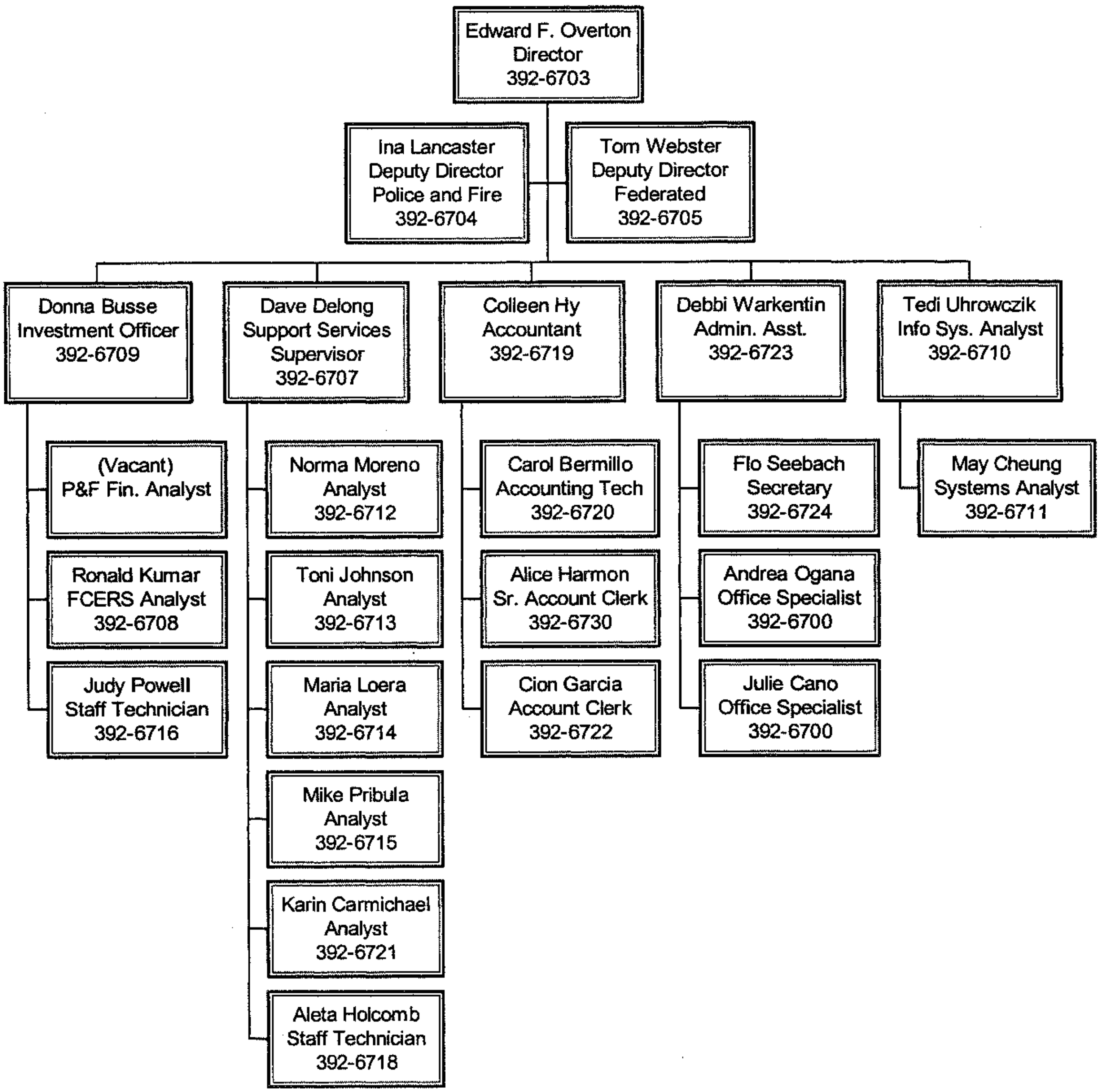
DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION



Edward F. Overton
Director, Retirement Services

Ina Lancaster
Deputy Director

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



DEPARTMENT OF RETIREMENT SERVICES
1737 North First Street, Suite 580
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(408) 392-6700
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(408) 392-0771 FAX
www.ci.san-jose.ca.us/retire/retirement.htm

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

All members contribute 10.25% of base salary.

CITY'S CONTRIBUTION

The City contributes 14.22% 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 Jose a member has served in the military, the City will pay the member's contributions into the Retirement System for that period of time if the following conditions exist: (1) a time of war, a national emergency proclaimed by the President or the Congress, or (2) Service outside the United States as requested by the United Nations. This is not refundable to an employee who resigns and requests a refund of contributions.

VESTING OF PENSION CREDIT

After 10 years of service, a member may resign his/her position with the Police or Fire Department and leave the accumulated contributions in the Retirement Plan. A member who vests in this fashion is eligible to retire later at age 55 or when 20 years have elapsed form the original hire date. For a deferred vested retirement, the monthly retirement allowance is calculated with the same formula as a service retirement for those who separated on or after February 4, 1996 (See Below). Otherwise the calculation for the monthly retirement allowance is final compensation multiplied by 2 1/2% multiplied by years of service.

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

SERVICE RETIREMENT

Members may retire at age 50 with 25 years of service, at 55 with at least 20 years of service or at any age with 30 years of service. The monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000 (or separated by, for deferred vested), final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

SERVICE-CONNECTED DISABILITY

Retirement resulting from an injury or disease arising out of and in the course of such member's employment with the City. No minimum period of service required. For members with less than 20 years of service, the monthly retirement allowance is 50% of the final compensation. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

NON-SERVICE-CONNECTED DISABILITY

Retirement resulting from other than a service-connected disability with at least 2 years of service. For members with 2 to 19 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for first two years plus one percent for each additional year. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 1/2% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%.)

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 member were at least 55, and then reduced according to guidelines set forth in Section 3.36.810 of the City of San Jose Municipal Code.

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

The spouse will receive 37 1/2% 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.

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

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 services 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: 37-1/2%.)

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

1 child receives 25% of the final compensation
2 children share 37 1/2% 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:

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 surving spouse of a member who had retired as of October 1, 1999.

POST-RETIREMENT MARRIAGE

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

MANAGEMENT

The System is under the management of a seven member Board of Administration consisting of two City Council persons, a Civil Service Commissioner, and two elected employees who are members of the retire-

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

ment 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, or institutional fund or endowment funds.

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

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.

Deutsche Bank 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; Bank of Ireland; Boston Company; Boston Partners; Brandes Investment Partners; Chicago Capital Management; Credit Suisse; GE Asset Management; Globalt; MIG Realty Advisors; New Amsterdam Partners; PMRealty Advisors; Provident Investment Counsel; Rhumbline; Seix Investment Advisors; Trust Company of the West; UBS Global Asset Management; William Blair & Company; Woodford Capital Management; and Zurich Scudder are retained for full-time investment counsel. Mercer Investment Consulting is retained as the pension consultant.

COST OF LIVING

The Board of Administration determines the change in the cost of living (COL) each year using the December Consumer Price Index for the San Francisco-Oakland Metropolitan Area published by the Bureau of Labor Statistics of the United States Department of Labor. The Board determines the change to be effective beginning April first of each year. A maximum of 3% is granted with any excess accumulated for use in future years. An amendment to the cost-of-living provisions to provide a flat 3% adjustment was effective February 1, 2002. Survivors will be paid their first COL increase as if they were a new retiree according to the above schedule.

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II.
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

MG
Macias, Gini & Company LLP

Partners
Kenneth A. Macias, Managing Partner
Ernest J. Gini
Kevin J. O'Connell
Richard A. Green
Jan A. Rosati
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The Board of Administration
City of San José Police and Fire Department
Retirement Plan

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), as of June 30, 2002 and 2001, and the related statements of changes in plan net assets for the 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2002 and 2001, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis, data designated as other supplementary information and data designated as investment, actuarial and statistical sections in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The Management's Discussion and Analysis and the investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
September 13, 2002

OFFICE LOCATIONS

Sacramento • Los Angeles • Fresno • San Francisco Bay Area

MANAGEMENT'S DISCUSSION AND ANAYLYSIS

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

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 fiscal year ended June 30, 2002. 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 3 of this report.

Financial Highlights

- The net assets of the Plan at the close of the fiscal year 2002 are $1,620,129,000 (net assets held in trust for pension benefits and post-employment healthcare benefits). All of the net assets are available to meet Police and Fire's ongoing obligations to plan participants and their beneficiaries.

- The Plan's total net assets held in trust for pension benefits and post-employment healthcare benefits decreased by $51,301,000, or 3.1%, primarily as a result of market declines.

- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of our last actuarial valuation, the funded ratio for Police and Fire was approximately 114.8%. In general, this indicates that for every dollar of benefits due we have approximately $1.15 of assets to cover it.

- Additions to Plan Net Assets for the year were $13,681,000, which includes member and employer contributions of $45,966,000, an investment loss of ($33,011,000), and net securities lending income of $726,000.

- Deductions from Plan Net Assets increased from $55,321,000 to $64,982,000 over the prior year, or approximately 17.5%.

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MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
Page 2 of 8

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 the 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 Governmental Generally Accepted Accounting Principles (GAAP). GAAP requires certain disclosures and that state and local governments report using the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current years' revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at the 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 financial statement on pages 28-29 of this report.)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 30-38 of this report.)

MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

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 (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 1 on page 23). The assets of the Plan exceeded its liabilities at the close of fiscal year 2002.

Currently $1,620,129,000 in total net assets is held in trust for pension benefits and post-employment healthcare benefits. All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2002, total net assets decreased by 3.1% over the prior year primarily due to reductions in the fair value of investments, which decreased $73,979,000 from last year.

Despite variations in the stock market, The Plan's management and actuary concur that the Plan remains in a financial position to meet its obligations to the plan participants and beneficiaries.

Reserves

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

Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in an account called "Designated for unrealized gains on investments held", established in 1996.

The decline in the fair value of investments and the five-year smoothing of investment gains and losses resulted in a reduction in the "Designated for unrealized gains on investments held" of approximately $71,670 as of June 30, 2002.

MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
Page 4 of 8

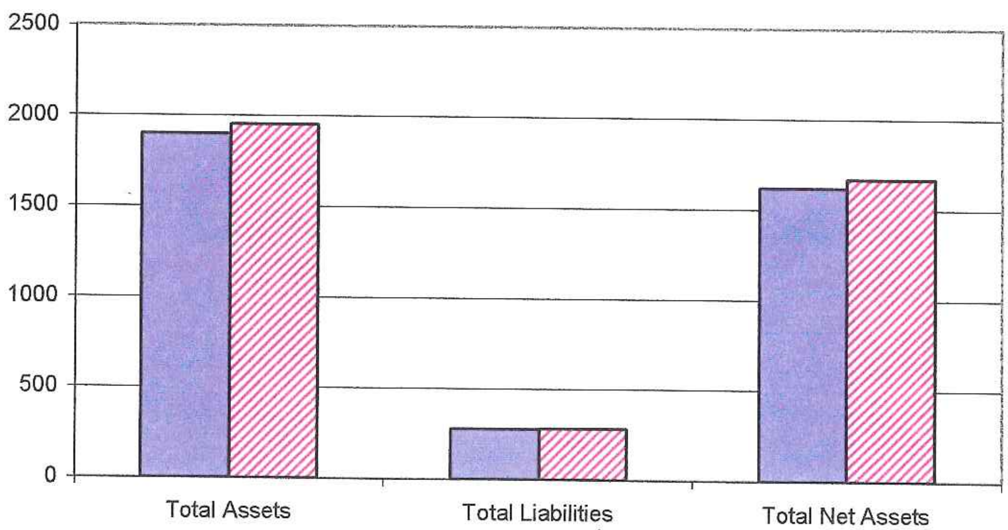
Police and Fire Plan's Net Assets (Table 1)

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 53,117,000	$ 31,672,000	$ 21,445,000	67.7%
Investments at Fair Value	1,846,882,000	1,920,861,000	$ (73,979,000)	(3.9%)
Total Assets	**$ 1,899,999,000**	**$ 1,952,533,000**	**$ (52,534,000)**	**(2.7%)**
Current Liabilities	$ 279,870,000	$ 281,103,000	$ (1,233,000)	(0.4%)
Total Liabilities	**$ 279,870,000**	**$ 281,103,000**	**$ (1,233,000)**	**(0.4%)**
Net Assets	**$ 1,620,129,000**	**$ 1,671,430,000**	**$ (51,301,000)**	**(3.1%)**

Police and Fire Plan's Net Assets

(Dollars in Millions)



MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
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Revenues – Additions to Plan Net Assets (Table 2)
For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount
Employer Contributions	$ 17,851,000	$ 15,542,000	$ 2,309,000
Employee Contributions	28,115,000	24,672,000	3,443,000
Net Investment Gain/(Loss)*	(33,011,000)	(5,398,000)	(38,409,000)
Net Securities Lending Income	726,000	603,000	123,000
Total Additions	**$ 13,681,000**	**$ 35,419,000**	**$ (32,534,000)**

* Net of Investment Expenses of $6,151,000 and $6,434,000 in 2002 and 2001 Respectively

Expenses – Deductions to Plan Net Assets (Table 3)
For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount
Retirement Benefits	$ 54,113,000	$ 45,699,000	$ 8,414,000
Healthcare Insurance Premiums	6,740,000	5,685,000	1,055,000
Death Benefits	1,771,000	1,772,000	(1,000)
Refund of Contributions	518,000	615,000	(97,000)
Administrative	1,840,000	1,550,000	290,000
Total Deductions	**$ 64,982,000**	**$ 55,321,000**	**$ 9,661 000**

MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
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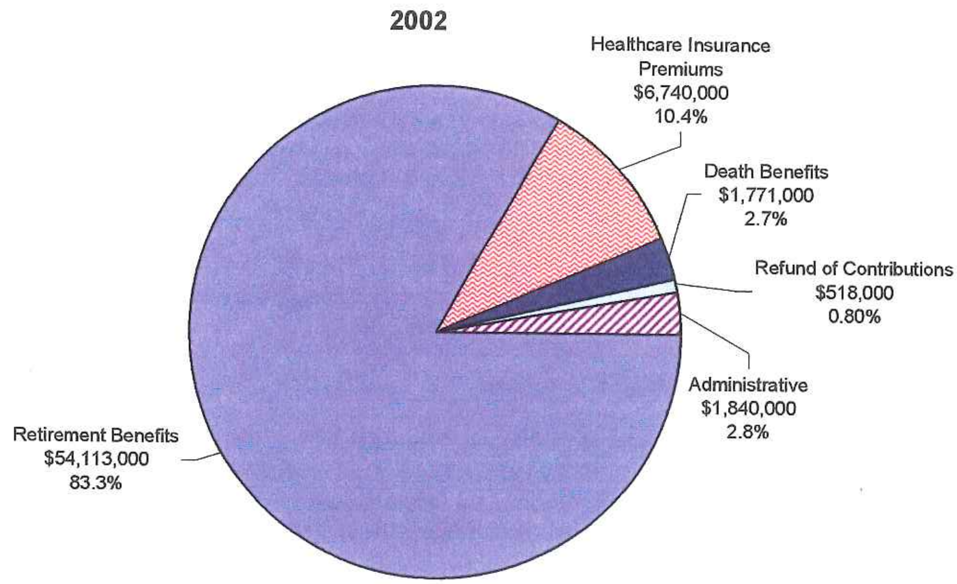
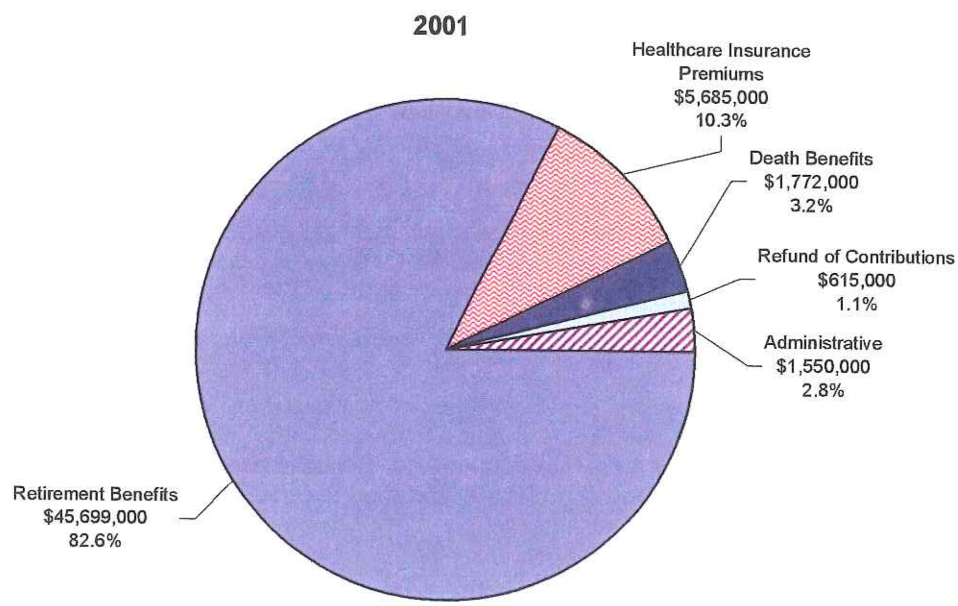
Expenses – Deductions to Plan Net Assets





MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
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THE POLICE AND FIRE PLAN ACTIVITIES

The market decline resulted in decreased net assets by $51,301,000, thereby accounting for a 3.1% decrease over the prior year. Key elements of this decrease are described in the sections that follow.

Revenues—Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Additions for the fiscal year ended June 30, 2002, totaled $13,681,000. (See Table 2 on page 24.)

By fiscal year-end, overall additions had decreased by $21,738,000, or 61.4%, from the prior year due primarily to investment losses. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2002.

Expenses—Deductions from Plan Net Assets

Police and Fire 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 system.

Deductions for the fiscal year ended June 30, 2002 totaled $64,982,000, an increase of 17.5% over June 30, 2001 (see Table 3 on page 24). Increases in retirement benefits, healthcare insurance premiums and administrative expenses were the main reasons for increased expenses. Retirement benefits expense increased due to benefit enhancements, SRBR distribution and increased number of beneficiaries. Health 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.. Police and Fire has consistently met its administrative expense budget. There were no material variances between budgeted and actual expenditures.

The Plan's Fiduciary Responsibilities

The Plan's Board and management staff are fiduciaries 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.

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:

MANAGEMENT'S DISCUSSION AND ANAYLYSIS (Continued)

Management's Discussion and Analysis
Page 8 of 8

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

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

COMBINING STATEMENT OF PLAN NET ASSETS
As of June 30, 2002 and 2001
(In Thousands)

	2002			
	Pension benefits	Post-employment healthcare benefits	Total	2001
ASSETS:				
Receivables:				
Employee contributions	$ 354	$ 76	$ 430	$ 334
Employer contributions	469	69	538	483
Brokers and others	45,623	793	46,416	20,869
Accrued investment income	5,632	101	5,733	9,986
Total receivables	52,078	1,039	53,117	31,672
Investments, at fair value:				
Securities and other	1,474,127	25,819	1,499,946	1,537,046
Real estate	163,265	2,988	166,253	160,481
Securities lending collateral	177,568	3,115	180,683	223,334
Total investments	1,814,960	31,922	1,846,882	1,920,861
Total assets	1,867,038	32,961	1,899,999	1,952,533
LIABILITIES:				
Payable to brokers	93,559	1,641	95,200	53,847
Securities lending collateral, due to borrowers	177,568	3,115	180,683	223,334
Other liabilities	3,923	64	3,987	3,922
Total liabilities	275,050	4,820	279,870	281,103
NET ASSETS HELD IN TRUST FOR:				
Pension benefits	1,591,988	-	1,591,988	1,643,407
Postemployment healthcare benefits	-	28,141	28,141	28,023
Total net assets (A schedule of funding progress is presented on page 40.)	$ 1,591,988	$ 28,141	$ 1,620,129	$ 1,671,430

See accompanying notes to financial statements.

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2002 and 2001
(In Thousands)

	2002			
	Pension benefits	Post-employment healthcare benefits	Total	2001
ADDITIONS:				
Contributions:				
Employee	$ 14,737	$ 3,114	$ 17,851	$ 15,542
Employer	23,748	4,367	28,115	24,672
Total contributions	38,485	7,481	45,966	40,214
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments	(90,896)	(1,576)	(92,472)	(63,554)
Interest income	36,725	635	37,360	46,258
Dividend income	10,739	185	10,924	11,009
Net rental income	17,036	292	17,328	7,323
Less investment expense	(6,047)	(104)	(6,151)	(6,434)
Net investment (loss) before securities lending income	(32,443)	(568)	(33,011)	(5,398)
Securities lending income:				
Earnings	5,385	93	5,478	11,501
Rebates	(4,370)	(76)	(4,446)	(10,638)
Fees	(301)	(5)	(306)	(260)
Net securities lending income	714	12	726	603
Net investment (loss)	(31,729)	(556)	(32,285)	(4,795)
Total additions	6,756	6,925	13,681	35,419
DEDUCTIONS:				
Retirement benefits	54,113	-	54,113	45,699
Healthcare insurance premiums	-	6,740	6,740	5,685
Death benefits	1,771	-	1,771	1,772
Refund of contributions	518	-	518	615
Administrative expenses and other	1,773	67	1,840	1,550
Total deductions	58,175	6,807	64,982	55,321
Net increase (decrease)	(51,419)	118	(51,301)	(19,902)
NET ASSETS HELD IN TRUST FOR PENSION & POSTEMPLOYMENT HEALTHCARE BENEFITS:				
Beginning of year	1,643,407	28,023	1,671,430	1,691,332
End of year	$ 1,591,988	$ 28,141	$ 1,620,129	$ 1,671,430

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Police and Fire Department Retirement Plan (the 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 June 19, 2001, to provide retirement benefits for employees of the Police and Fire Departments of the City of San José (the City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's general-purpose financial statements as a pension trust fund. The 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.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately $201,715,000 and $175,221,000 for 2002 and 2001, respectively. Covered payroll amounted to approximately $181,298,000 and $157,666,000 in 2002 and 2001, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2002 and 2001, employee membership data related to the Plan was as follows:

	2002	2001
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	1,238	1,179
Terminated vested members not yet receiving benefits	53	37
Active members (INACTIVE + ACTIVES)	2,178	2,109
Total	3,469	3,325
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,151	1,123
Terminated vested members not yet receiving benefits	15	7
Active members	2,178	2,109
Total	3,344	3,239

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 1 – DESCRIPTION OF THE PLAN (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 monthly pension benefits equal to 2.5% of their final salary for each year of service up to 20 years. For each year of service after 20 years, an employee is entitled to 3% of their final average monthly salary up to a maximum benefit of 80% of their final compensation. For those that retired on or after February 4, 2000 (or separated by, for deferred vested), final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

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 proceeding 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

A lifetime annuity of up to 37.5% of an employee's final compensation is paid to a surviving spouse 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. 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 up to a maximum of 42.5% of final compensation.

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.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

If an employee's death is non-service related and the employee has at least 2 years of service, the Plan allows for an annual annuity of 24% of the employee's final compensation for the first 2 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.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to the greater of: (1) 50% of final compensation; or (2) 2.5% of final compensation, multiplied by the number of years of service (maximum of 30 years). For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2.5% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

If an employee with at least 2 years of service suffers a non-service related disability, an annual benefit is paid equal to 32% of final compensation for the first 2 years of service plus 1% of final compensation for each successive year, up to a maximum of 50% of final compensation for an employee with up to 20 years of service. For members with 20 or more years of service, the monthly retirement allowance is the final compensation multiplied by 2 ½% multiplied by years of service up to 20 years and by 3% for the next five years. For those that retired on or after February 4, 2000, final compensation is multiplied by 4% thereafter. There is a maximum of 85% (30 years of service equals 85%).

(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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(f) Plan Termination

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Implementation of Governmental Accounting Standards Board Statements

GASB Statements Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments – Omnibus,* respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002.

The Plan has implemented GASB Statement Nos. 34 and 37 and these statements are presented according to those requirements.

(b) Basis of Accounting

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

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 deletions during the reporting periods. Actual results could differ from those estimates.

(c) Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (fund balance). The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund and the Cost-of-Living Fund (see page 44). As of June 30, 2002, the fund balance, totaling $1,620,129,000 on a combined basis for both the Retirement Fund and the Cost-of-Living Fund, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Total 2002	Total 2001
Employee contributions	$116,705	$35,485	$152,190	$139,636
Supplemental Retiree Benefit Reserve	19,112	-	19,112	-
Designated for unrealized gains on investments held	23,221	8,724	31,945	103,615
General reserve	1,022,210	394,672	1,416,882	1,428,179
Total	$1,181,248	$ 438,881	$1,620,129	$1,671,430

All contributions go into the general reserve, except employee contributions and unrealized gains, for payment of future benefits as required by San José Municipal Code. 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.

(e) *Allocation of Investment Income*

Earnings on investments, excluding unrealized gains and losses are recorded first in the general reserve category of fund balance. An allocation is made bi-weekly from the general reserve category to the employee contributions category of fund balance 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% and the SRBR allocation remain in the general reserve category. Based on the net decrease in net plan assets for fiscal 2002, there were no "excess earnings" to allocate.

(f) *Reclassifications*

Certain amounts in 2001 have been reclassified to conform to the 2002 presentation.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

name, where the financial institution acts as the Plan's counterparty. **Category 3** includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualifying financial institution's trust department or agent, but not in the Plan's name. There were no investments in Categories 2 or 3 as of June 30, 2002 and 2001.

The categorization of the Plan's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2002 and 2001, was as follows (in thousands):

	Fair Value	
Category 1:	June 30, 2002	June 30, 2001
U.S. Treasury notes and bonds:		
Not on securities loan	$ 10,636	$ -
Loaned securities for non cash collateral	6,122	-
U.S. government securities:		
Not on securities loan	175,199	222,662
Loaned securities for non cash collateral	2,639	21,594
Foreign government bonds	82,059	72,651
Domestic corporate bonds		
Not on securities loan	203,683	227,833
Loaned securities for non cash collateral	-	323
Foreign corporate bonds	56,860	61,992
Domestic equity securities		
Not on securities loan	533,951	469,554
Loaned securities for non cash collateral	-	2,206
Foreign equity securities		
Not on securities loan	194,048	165,214
Loaned securities for non cash collateral	-	2,352
Uncategorized:		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Treasury bonds and notes	45,545	59,186
U.S. government sponsored agencies	20,240	3,897
Foreign government bonds	-	1,134
Domestic corporate bonds	21,562	30,403
Foreign corporate bonds	-	3,300
Domestic equity securities	62,735	100,878
Foreign equity securities	24,360	16,353
Foreign rights and warrants	-	457
Short-term foreign currency investments	(77)	590
Collective short-term investment funds	60,384	74,467
Real estate investments	166,253	160,481
Securities lending collateral investment pool	180,683	223,334
Total investments	$1,846,882	$1,920,861

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 3 – INVESTMENTS (Continued)

The Plan's total investments, the following table presents the allocation as presented on the accompanying statements of defined benefit pension plan net assets and postemployment healthcare plan net assets as of June 30, 2002 and 2001 (in thousands):

	June 30, 2002	June 30, 2001
Investments:		
Defined Benefit Pension Plan	$1,814,960	$1,888,748
Postemployment Healthcare Plan	31,922	32,113
	$1,846,882	$1,920,861

The collective short-term investment 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 the payment of 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.

The loaned securities represent securities on loan to brokers or dealers or other borrowers. The custodial agreement with the Plan Custodian authorizes such custodian to loan no more than 20% of the securities in the Plan's investment portfolio under such terms and conditions as the Plan Custodian 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, the Plan Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Plan Custodian 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 Except as provided above, the Plan Custodian shall have no liability to the Board for any failure of a borrower to return loaned securities.

The loaned securities as of June 30, 2002, consisted of U.S. Treasury bonds and notes, domestic corporate bonds, domestic equity securities, and foreign equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 100% of the transferred securities plus accrued interest for reinvestment.

Securities lent at year-end for cash collateral are presented as unclassified in the preceding categoriza-

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 3 – INVESTMENTS (Continued)

tion of the Plan's investments, securities lent for noncash collateral is classified according to the category of the related collateral. Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that the Plan may pledge or sell without a borrower default. The Plan does not match the maturities of cash collateral with the securities on loan.

As of June 30, 2002, the underlying securities loaned by the Plan as a whole amounted to approximately $183,203,000. The cash collateral and the non-cash collateral totaled $180,683,000 and $8,959,000, respectively. As of June 30, 2001, the underlying securities loaned by the Plan as a whole amounted to approximately $241,627,000. The cash collateral and the non-cash collateral totaled $223,334,000 and $27,216,000, respectively. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2002 and 2001.

Real estate investments include a warehouse, retail center, and office building located in Northern California: an industrial complex, office building, and retail center in Southern California, apartment complexes in Houston, Texas, and in Colorado Springs, Colorado; an office building in Denver, Colorado; an office building near Chicago, IL, and a warehouse in Nashville, TN. Six of the properties located in California are jointly owned with the City's other retirement fund. One of the office buildings located in Northern California (the one located in San José) is solely invested in by the Police and Fire Plan. The properties have leases with various terms.

The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The Plan utilizes these contracts to hedge the currency risk of foreign investments. At June 30, 2002 the Plan's net position in these contracts is recorded at fair value as short term foreign currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2002, total commitments in forward currency contracts to purchase and sell foreign currencies were $48,086,000 and $48,086,000, respectively, with market values of $49,643,000 and $49,566,000, respectively. As of June 30, 2001, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of $93,665,000 and $93,665,000, respectively, with market values of $92,621,000 and $93,210,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – 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. 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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2002 and 2001

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY (Continued)

next 10 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 40).
The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2002 and 2001 were as follows:

	City		Employee	
Period	Pension	Healthcare	Pension	Healthcare
7/01/01 – 6/22/02	14.00	1.60	8.43	1.36
6/23/02 – 6/30/02	12.01	2.21	8.44	1.81

Contributions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan made by the City and the participating employees totaled $38,485,000 and $7,481,000, respectively, for 2002 and $35,540,000 and $4,674,000, respectively for 2001.

NOTE 5 – CONCENTRATIONS

No investments in any one organization represent 5% of fund net assets.

REQUIRED SUPPLEMENTARY INFORMATION

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

Funding Progress – GASB No 25

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Entry Age Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/95	$ 854,414	$ 828,739	$ (25,675)	103.1%	$ 109,196	-24%
06/30/97 [4]	1,124,294	1,030,168	(94,126)	109.1%	129,850	-72%
06/30/99 [5]	1,440,117	1,276,364	(163,753)	112.8%	144,125	-114%
06/30/01 [6]	1,713,812	1,492,732	(221,080)	114.8%	171,779	-129%

(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, including the impact of FLSA pay.
(5) After reflection of benefit improvements effective February 4, 2000.
(6) After adoption of SRBR program.

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

Fiscal year ended June 30,	Annual required employer contributions	Percentage contributed
1997	$24,685	100%
1998	23,643	100%
1999	23,522	100%
2000	27,321	100%
2001	22,157	100%
2002	23,748	100%

SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS
DEFINED BENEFIT PENSION PLAN
(Unaudited - See accompanying independent auditor's report)
Year Ended June 30, 2002

Description	Method/Assumption
Valuation date	June 30, 2001
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	18 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 three year setback, is used for male members. 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, 2001 Experience Analysis
Salary increases	10.30% for employees for the first five years of service; graded increases thereafter ranging from 10.10% at age 25 to 4.6% at ages 60 and over. Of the total salary increases 4.50% is for inflation.
Cost-of-living adjustments	4.50% a year

OTHER SUPPLEMENTAL INFORMATION

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS
June 30, 2002
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS:			
Receivables:			
Employee contributions	$ 256	$ 98	$ 354
Employer contributions	252	217	469
Brokers and others	32,649	12,974	45,623
Accrued investment income	4,172	1,460	5,632
Total receivables	37,329	14,749	52,078
Investments, at fair value:			
Securities and other	1,062,967	411,160	1,474,127
Real estate	123,019	40,246	163,265
Securities lending collateral	128,230	49,338	177,568
Total investments	1,314,216	500,744	1,814,960
Total assets	1,351,545	515,493	1,867,038
LIABILITIES:			
Payable to brokers	67,563	25,996	93,559
Securities lending collateral, due to borrowers	128,230	49,338	177,568
Other liabilities	2,645	1,278	3,923
Total liabilities	198,438	76,612	275,050
Plan net assets held in trust for pension benefits	$ 1,153,107	$ 438,881	$ 1,591,988

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2002
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS:			
Contributions:			
Employee	$ 10,494	$ 4,243	$ 14,737
Employer	15,829	7,919	23,748
Total contributions	26,323	12,162	38,485
Investment income (loss):			
Interest income	26,574	10,151	36,725
Dividend income	7,771	2,968	10,739
Net appreciation (depreciation) in fair value of investments	(65,972)	(24,924)	(90,896)
Net rental income	12,236	4,800	17,036
Less investment expense	(4,388)	(1,659)	(6,047)
Total investment (loss)	(23,779)	(8,664)	(32,443)
Securities lending income:			
Earnings	3,901	1,484	5,385
Rebates	(3,166)	(1,204)	(4,370)
Fees	(218)	(83)	(301)
Net securities lending income	517	197	714
Total investment (loss)	(23,262)	(8,467)	(31,729)
Total additions	3,061	3,695	6,756
DEDUCTIONS:			
Retirement benefits	43,699	10,414	54,113
Death benefits	1,771	-	1,771
Refund of contributions	394	124	518
Administrative expenses and other	1,472	301	1,773
Total deductions	47,336	10,839	58,175
Net increase (decrease)	(44,275)	(7,144)	(51,419)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	1,197,382	446,025	1,643,407
End of year	$ 1,153,107	$ 438,881	$ 1,591,988

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER
For Years Ended June 30, 2002 and 2001

	2002			2001
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Personnel services:				
Permanent staff expense	$ 982,778	$ 968,143	$ 14,635	$ 678,876
Temporary Staff	3,500	157	3,343	2,931
Total personnel services	986,278	968,300	17,978	681,807
Professional Services:				
Actuarial services	179,750	179,721	29	24,279
Medical services	75,000	58,468	16,532	66,073
Audit	30,000	19,950	10,050	23,882
Legal counsel	79,000	65,965	13,035	14,254
Network consultant	-	-	-	2,920
Software development consultant	-	-	-	32,283
Bus. Processes & Procedures	-	-	-	120,582
Pension Benefit Information	2,890	1,883	1,007	888
Total professional services	366,640	325,987	40,653	285,161
Communication:				
Postage	15,000	14,376	624	9,495
Printing	13,000	16,621	(3,621)	11,362
Duplicating	10,000	1,268	8,732	4,111
Data processing	8,000	5,243	2,757	7,329
Total communication	46,000	37,508	8,492	32,297
Structure and equipment:				
Copier lease	11,900	6,005	5,895	3,865
Copier maintenance	3,800	742	3,058	1,908
Furniture	20,000	13,062	6,938	45,191
Moving Service	5,000	156	4,844	2,610
Equipment	35,000	13,514	21,486	51,913
Equipment repair and miscellaneous services	5,000	4,182	818	5,754
Pension administration system maintenance	39,100	39,088	12	-
Software enhancements	75,000	102,188	(27,188)	90,363
Computer hardware/software	10,000	1,285	8,715	43,168
Total structure and equipment	204,800	180,222	24,578	244,772
Miscellaneous:				
Office expense	31,500	14,492	17,008	14,458
Dues/subscriptions	4,000	2,370	1,630	2,902
Training	35,000	33,722	1,278	33,568
Travel	124,000	99,861	24,139	102,964
Non-employee board member stipend	1,800	1,500	300	1,650
Rent on building	136,800	131,349	5,451	150,426
Tenant improvements	50,000	44,218	5,782	-
Total miscellaneous	383,100	327,512	55,588	305,968
Total administrative expenses and other	$ 1,986,818	$ 1,839,529	$ 147,289	$ 1,550,005

SCHEDULES OF INVESTMENT EXPENSES
For Years Ended June 30, 2002 and 2001

	2002	2001
Equity:		
Domestic equity	$ 2,214,979	$ 2,248,726
International equity	909,782	1,016,691
Emerging market equity managers	509,569	-
Total equity	3,634,330	3,265,417
Fixed income:		
Domestic fixed income	734,636	788,552
Global fixed income	368,455	370,104
Total fixed income	1,103,091	1,158,656
Real Estate	900,740	1,109,105
Cash (Custodian STIF)	51,242	57,670
Total investment managers' fees	5,689,403	5,590,848
Other investment service fees:		
Investment consultant	128,000	79,776
Proxy voting	13,410	15,225
Real estate legal fees	158,621	600,727
Real estate appraisals	43,250	32,000
Custodian	118,800	115,560
Total other investment service fees	462,081	843,288
TOTAL INVESTMENT EXPENSES	$ 6,151,484	$ 6,434,136

SCHEDULES OF PAYMENTS TO CONSULTANTS
For Years Ended June 30, 2002 and 2001

Firm	Nature of Service	2002	2001
Deloitte & Touche	Policies and Procedures Consultant	-	120,582
LanMinds	Network Maintenance/Consultant	-	2,920
Levi, Ray, & Shoup	Pension Admin. System Maintenance	-	32,283
Macias, Gini & Company, LLP	External Auditors	19,950	23,882
Palo Alto Medical/Other Medical	Medical Consultant	58,468	66,073
Pension Benefit Information	Reports on Deceased Benefit Recipients	1,883	888
Saltzman & Johnson	Legal Counsel	41,225	14,254
Steptoe & Johnson	Legal Counsel - Special Tax Project	24,740	-
Mercer Human Resource Consulting	Actuarial Consultant	$ 179,721	$ 24,279
Total		$ 325,987	$ 285,161

III.

INVESTMENT SECTION

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REPORT ON INVESTMENT ACTIVITY

MERCER
Investment Consulting

777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017-5818
213 346 2200 Fax 213 346 2680
www.mercerIC.com

27 August 2002

Mr. Edward Overton
Secretary, Board of Administration
San José Police and Fire Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Overton:

Thankfully, the conservative approach that the Trustees have maintained reduced the volatility of the investments significantly during a difficult fiscal year period. While the average public fund in the U.S. was down –5.8% for the year ending June 30, 2002, the San José Police and Fire Department Retirement Plan was down only -1.3%. Although this brings the 5-year annualized return down to 6.7%, the annualized return over the past ten years is 9.5%, still above the 8.0% actuarial earnings assumption rate.

A time weighted total return for the Plan assets is calculated every quarter by Mercer Investment Consulting. Mercer then compares those returns with the Trust Universe Comparison Services' (TUCS) Public Fund Universe. San José has historically adopted a more conservative asset allocation strategy than the average public fund. It is rewarding to see that this conservative strategy paid off again this year by placing the San José P&F Plan in the **top 5th percentile** of the TUCS Public Fund Universe.

As Mercer calculates and reviews the investment performance, calculations are based on custodial statements and are conducted in compliance with Association for Investment Management and Research (AIMR) standards. Mercer also reconciles the calculations with San José'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 continued to work through anemic growth during the first half of 2002. Although the Fed continues to assure us that there is light at the end of the tunnel, there are still a number of leading economic indicators that would suggest otherwise. Europe is still struggling and although Japan's stock market appears to have turned the corner, most of its appreciation was the result of a rise in the Yen's exchange rate versus the dollar.

MMC Marsh & McLennan Companies

REPORT ON INVESTMENT ACTIVITY (Continued)

MERCER
Investment Consulting

Page 2
27 August 2002
Mr. Edward Overton
San José Police and Fire Retirement System

Because the economy lost momentum, the Fed held interest rates at a 40-year low of 1.75%. Inflation concerns also stalled as consumer prices increased only 0.6% during the second quarter and the CPI showed a year-over-year increase of only 1.7%. Interest rates fell during the fiscal year ending June 30,2002, which had a positive impact on bond prices. The Lehman Brothers Aggregate Bond Index gained 8.6% during the year which was good, but a far cry from the 11.2% return last year. While the U.S. bond markets showed some strength, global bonds performed even better due to the decline in the valuation of the dollar. The Salomon Smith Barney World Government Bond Index was up 14.0% during the same fiscal year period and the international bond manager's return was even higher at 14.4%.

U.S. equities performed poorly with the Standard & Poor's 500 Index falling –18.0%. The collective return of San José's domestic equity managers' was down -14.4%, but that was much stronger than the overall market. The same benefit was achieved by San José's international equity managers. While the Europe, Asia and Far East (EAFE) Index was down –9.5% for the fiscal year, the managers' collective return was down –8.4%. Another international equity asset class (Emerging Markets) was added in September 2001. That proved to be a timely entrance because that index was up 9.2% from September 1, 2001 and the two emerging markets managers were up 15.1% and 17.5% through the end of the fiscal year.

Real estate investments also aided performance, posting a 5.3% return for the fiscal year while Mercer's median real estate manager returned 5.1%. The housing market remained resilient as new home sales jumped 8.1% in May and mortgage applications increased at a record pace. Personal consumption continued to increase in the first half of 2002.

Mercer continues to be optimistic about economic growth in the latter part of 2002 and continuing on for the next two or three years. As growth sets in, interest rates will most likely begin to rise which will reduce the Retirement Plan's liabilities. Economic growth will also begin to override the nervousness in the capital markets and trust in corporate accounting should return.

Sincerely,

TJ Lightvoet

Thomas J. Lightvoet

STATEMENT OF INVESTMENT POLICY
BOARD OF ADMINISTRATION
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

GENERAL ENVIRONMENT

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

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 below:

Asset Class	Minimum	Target	Maximum
Bonds	25%	35%	60%
Bonds - Global	0%	10%	15%
Stocks - U.S.	30%	35%	45%
Stocks - International	0%	10%	15%
Real Estate	0%	10%	15%

STATEMENT OF INVESTMENT POLICY (Continued)

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.

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:

STATEMENT OF INVESTMENT POLICY (Continued)

(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, including options and financial futures contracts traded over-the-counter or on organized securities exchanges, commodities exchanges or Boards of Trade. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration as characterized by its stated investment style. 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) Forward or future contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in, or the settlement of any such securities transactions, as the case may be.

(5) 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 either Standard & Poors or Moodys Investor Services; 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.

(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.

STATEMENT OF INVESTMENT POLICY (Continued)

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:

(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.

(5) Approximately 15% of the domestic equity assets will be passively managed (indexed).

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) Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.

(3) 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.

STATEMENT OF INVESTMENT POLICY (Continued)

(4) 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) Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.

(3) 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.

(4) 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.

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,

STATEMENT OF INVESTMENT POLICY (Continued)

(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.

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.

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.

STATEMENT OF INVESTMENT POLICY (Continued)

(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.

STATEMENT OF INVESTMENT POLICY (Continued)

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

International Fixed Income Managers

(1) Performance above median in 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.

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.

STATEMENT OF INVESTMENT POLICY (Continued)

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.

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

   c) A manager placement on probation should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director, 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.

STATEMENT OF INVESTMENT POLICY (Continued)

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:

Alliance Capital Management
Large Cap Growth
New York, NY

Boston Partners Asset Management
Large Cap Value
Los Angeles,CA

GE Asset Management
Large Cap Growth
Stamford, CT

Globalt, Inc.
Large Cap Growth
Atlanta, GA

New Amsterdam Partners
Large Cap Growth
New York, NY

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

Rhumbline
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

Woodford Capital Management
Large Cap Growth
Los Altos, CA

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:

Chicago Capital Management
Chicago, IL

Zurich Scudder, Inc.
Chicago, IL

Seix Investment Advisors
Woodcliff Lake, NJ

GLOBAL FIXED INCOME:

Credit Suisse
London, England

REAL ESTATE:

MIG Realty Advisors
Cleveland, OH

PM Realty Advisors
Newport Beach, CA

INVESTMENT PROFESSIONALS (Continued)

CONSULTANT

Mercer Investment Consulting
Los Angeles, CA

CUSTODIAN

Deutsche Bank (Bankers Trust)
New York, NY

PROXY VOTING

Investor Reponsibility Research Center
Washington, DC

GROSS PERFORMANCE SUMMARY BY ASSET CLASS
Periods Ending June 30, 2002

	One Year	Three Years	Five Years
TOTAL FUND	**-1.3%**	**2.2%**	**6.7%**
Benchmark	-1.6%	0.8%	6.0%
Mercer Balanced Universe Median	-2.8%	2.3%	5.9%
TUCS Public Fund Universe Median	-5.8%	-0.3%	5.2%
TOTAL DOMESTIC FIXED INCOME	**6.2%**	**7.1%**	**6.8%**
Lehman Brothers Aggegate Bond Index	8.6%	8.1%	7.6%
Mercer Fixed Income Core Median	8.2%	8.0%	7.5%
TOTAL GLOBAL FIXED INCOME	**14.4%**	**3.5%**	**3.9%**
Salomon Smith Barney World Gov't Bond Index	14.0%	4.5%	4.3%
Mercer Global Fixed Income Unhedged Median	14.3%	4.2%	4.5%
TOTAL DOMESTIC EQUITY	**-14.5%**	**-5.1%**	**3.9%**
S&P 500 Index	-18.0%	-9.2%	3.7%
Mercer Managed Equity Median	-13.4%	-0.5%	6.9%
TOTAL INTERNATIONAL EQUITY	**-8.4%**	**0.6%**	**6.1%**
EAFE Index	-9.5%	-6.8%	-1.5%
Mercer International Equity Median	-8.0%	-3.5%	1.8%
TOTAL INT'L EMERGING MKT EQUITY	**N/A**	**N/A**	**N/A**
MSCI Emerging Markets Free Index	1.3%	-6.3%	-8.4%
Mercer Emerging Markets Equity Median	4.3%	-2.4%	-5.0%
TOTAL REAL ESTATE	**11.8%**	**13.1%**	**12.1%**
NCREIF Property Index	11.2%	11.9%	12.7%
Mercer Real Estate Median	11.7%	11.4%	12.7%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER
Periods Ending June 30, 2002

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has out-performed. Source: Mercer Investment Performance Evaluation Report June 30, 2002.

	One Year	Three Years	Five Years
DOMESTIC FIXED INCOME			
Zurich Scudder	**6.4%**	**7.1%**	**6.8%**
Lehman Brothers Aggegate Bond Index + 50 bps	9.2%	8.6%	8.1%
Mercer Fixed Income Core Median	8.2%	8.0%	7.5%

	6 Months	One Year	2 3/4 Years (Incep. 10/99)
Chicago Capital Management	**2.2% +**	**6.5% +**	**7.7%**
Lehman Brothers Aggegate Bond Index + 50 bps	4.0%	9.2%	9.1%
Mercer Fixed Income Core Median	3.3%	8.2%	8.4%
Seix Investment Advisors	**3.0%**	**5.9%**	**7.8%**
Lehman Brothers Aggegate Bond Index + 50 bps	4.0%	9.2%	9.1%
Mercer Fixed Income Core Median	3.3%	8.2%	8.4%

	One Year	Three Years	Five Years
GLOBAL FIXED INCOME			
Credit Suisse Investment Management	**14.0%**	**3.2%**	**3.6%**
Salomon Smith Barney World Gov't Bond Index + 75 bps	14.8%	5.2%	5.1%
Mercer Global Fixed Income Unhedged Median	14.3%	4.2%	4.5%
DOMESTIC EQUITY			
Rhumbline Advisors (Index)	**-17.5% +**	**-8.6% +**	**4.1% +**
S&P 500 Index	-18.0%	-9.2%	3.7%
Mercer Managed Equity Median	-13.4%	-0.5%	6.9%
Boston Partners (Large Cap Value)	**-7.9% ++**	**3.1% +**	**5.6%**
Russell 1000 Value Index + 100 bps	-8.0%	-1.9%	7.6%
Mercer Large Cap Value Universe Median	-8.8%	-1.0%	6.8%
UBS Global Asset Mgmt (Large Cap Value)	**-7.4% +**	**-4.4%**	**4.1%**
Russell 3000 Index + 100bps	-16.4%	-7.0%	4.9%
Mercer Large Cap Value Universe Median	-8.8%	-1.0%	6.8%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	Six Months	One Year	Incept. (1/01)
GE Asset Management (Large Cap Value)	**-8.7%**	**-12.8%**	**-11.3%**
Russell 1000 Value Index + 100 bps	-4.3%	-8.0%	-5.9%
Mercer Large Cap Value Universe Median	-6.4%	-8.8%	-5.7%

	One Year	Three Years	Five Years
New Amsterdam Partners (Large Cap Growth)	**-12.6% ++**	**-1.4% ++**	**8.2% ++**
S&P 500 + 100 bps	-17.1%	-8.2%	4.7%
Mercer Large Cap Growth Universe Median	-23.2%	-10.3%	4.4%
Woodford Capital Management (Large Cap Growth)	**-19.9% +**	**-15.5%+**	**-0.8% +**
S&P 500 / Barra Growth Index	-17.6%	-15.2%	-0.1%
Mercer Large Cap Growth Universe Median	-23.2%	-10.3%	4.4%

	One Year	Three Years	Four Years (Incep. 7/98)
Alliance Capital Management (Large Cap Growth)	**-30.1% +**	**-17.9% +**	**-9.1%**
Russell 1000 Growth Index + 100 bps	-25.7%	-15.3%	-6.0%
Mercer Large Cap Growth Universe Median	-23.2%	-10.3%	-1.8%
Globalt, Inc. (Large Cap Growth)	**-24.1%**	**-14.3%**	**-9.0%**
Russell 1000 Growth Index + 100 bps	-25.7%	-15.3%	-6.0%
Mercer Large Cap Growth Universe Median	-23.2%	-10.3%	-1.8%

	Quarter	6 Months	(Incept. 11/01)
TCW (Small Cap Value)	**-15.2%**	**-6.5%**	**5.4%**
Russell 2000 Value Index + 200 bps	-1.6%	8.3%	23.6%
Mercer Small Cap Value Universe Median	-3.6%	5.5%	N/A

	One Year	Three Years	4 1/2 Years (Incept.1/98)
Provident Investment Counsel (Small Cap Growth)	**-27.7%**	**-0.7% ++**	**3.6% ++**
Russell 2000 Growth Index + 200 bps	-23.4%	-7.7%	-1.8%
Mercer Small Cap Growth Universe Median	-19.6%	0.5%	3.6%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	One Year	Three Years	Five Years
INTERNATIONAL EQUITY			
Bank of Ireland Asset Management	**-9.2% ++**	**-3.7% +**	**1.4% +**
EAFE Index + 150 bps	-8.1%	-5.4%	-0.1%
Mercer International Equity Median	-8.0%	-3.5%	1.8%
Brandes Investment Partners	**-6.5% ++**	**3.3% ++**	**8.9% ++**
EAFE Index + 150 bps	-8.1%	-5.4%	-0.1%
Mercer International Equity Median	-8.0%	-3.5%	1.8%

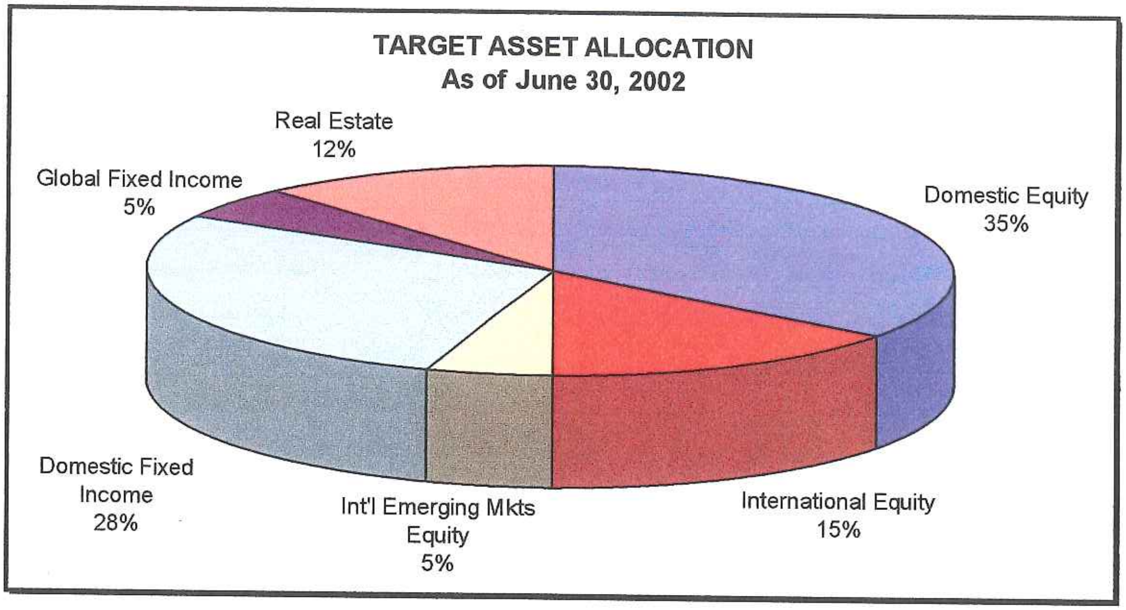
	Quarter	Incept. (3/02)
William Blair & Co	**-0.8%**	**2.2%**
MSCI AC World Free ex US Index +150bps	-2.1%	3.3%
Mercer Internation Equity Median	-2.3%	N/A

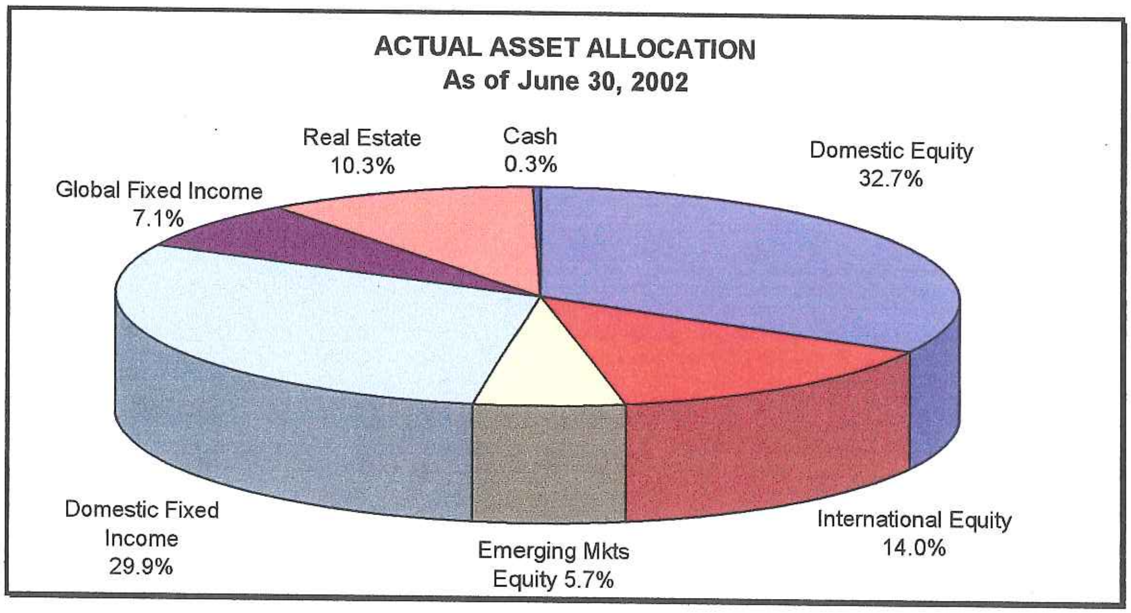
	Quarter	Six Months	Incept. (9/01)
EMERGING MARKETS EQUITY			
Alliance Capital Management	**-6.4%**	**5.7%**	**14.1%**
MSCI Emerging Markets Free Index + 200 bps	-7.9%	3.1%	11.1%
Mercer Emerging Markets Equity Median	-7.3%	4.5%	N/A
Boston Company Asset Management	**-3.9%**	**9.8%**	**16.5%**
MSCI Emerging Markets Free Index + 200 bps	-7.9%	3.1%	11.1%
Mercer Emerging Markets Equity Median	-7.3%	4.5%	N/A

	One Year	Three Years	Five Years
REAL ESTATE			
MIG Realty Advisors	**8.4%**	**10.0% +**	**11.1%**
NCREIF Property Index + 150 bps	7.3%	11.0%	13.3%
Mercer Real Estate Median	5.1%	9.3%	11.0%

	One Year	Three Years	Four Years (Incept. 7/98)
PM Realty Advisors	**0.6%**	**7.2% +**	**7.6%**
NCREIF Property Index + 150 bps	7.3%	11.0%	11.8%
Mercer Real Estate Median	5.1%	9.3%	10.1%

ASSET ALLOCATION
Target Vs. Actual

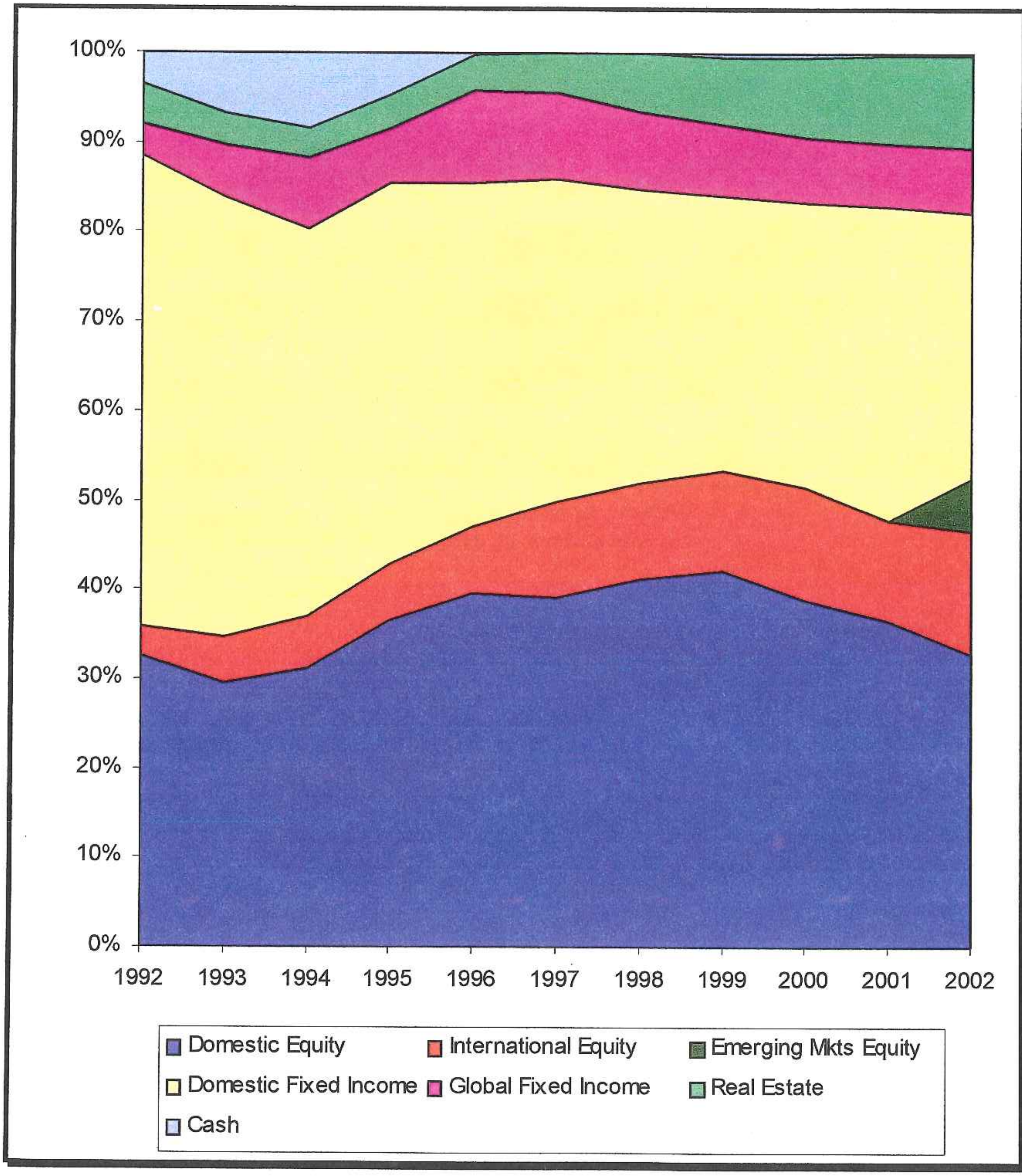




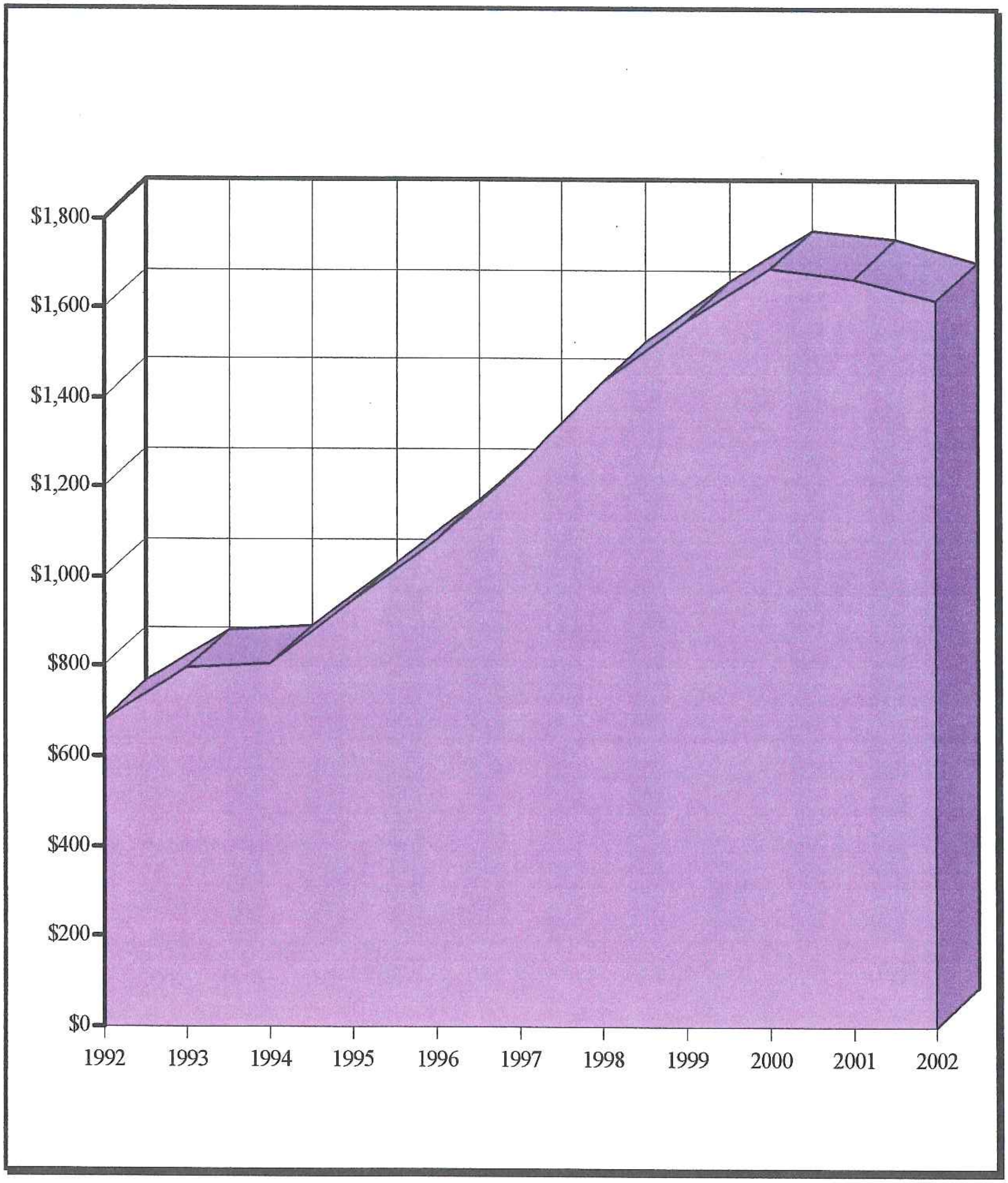
ACTUAL ASSET ALLOCATION
As of June 30, 2002 (In Millions)

Domestic Equity	$528.96
International Equity	225.69
Int'l Emerging Mkts Equity	92.81
Domestic Fixed Income	484.03
Global Fixed Income	115.49
Real Estate	167.50
Cash	4.17
TOTAL	$1,618.65

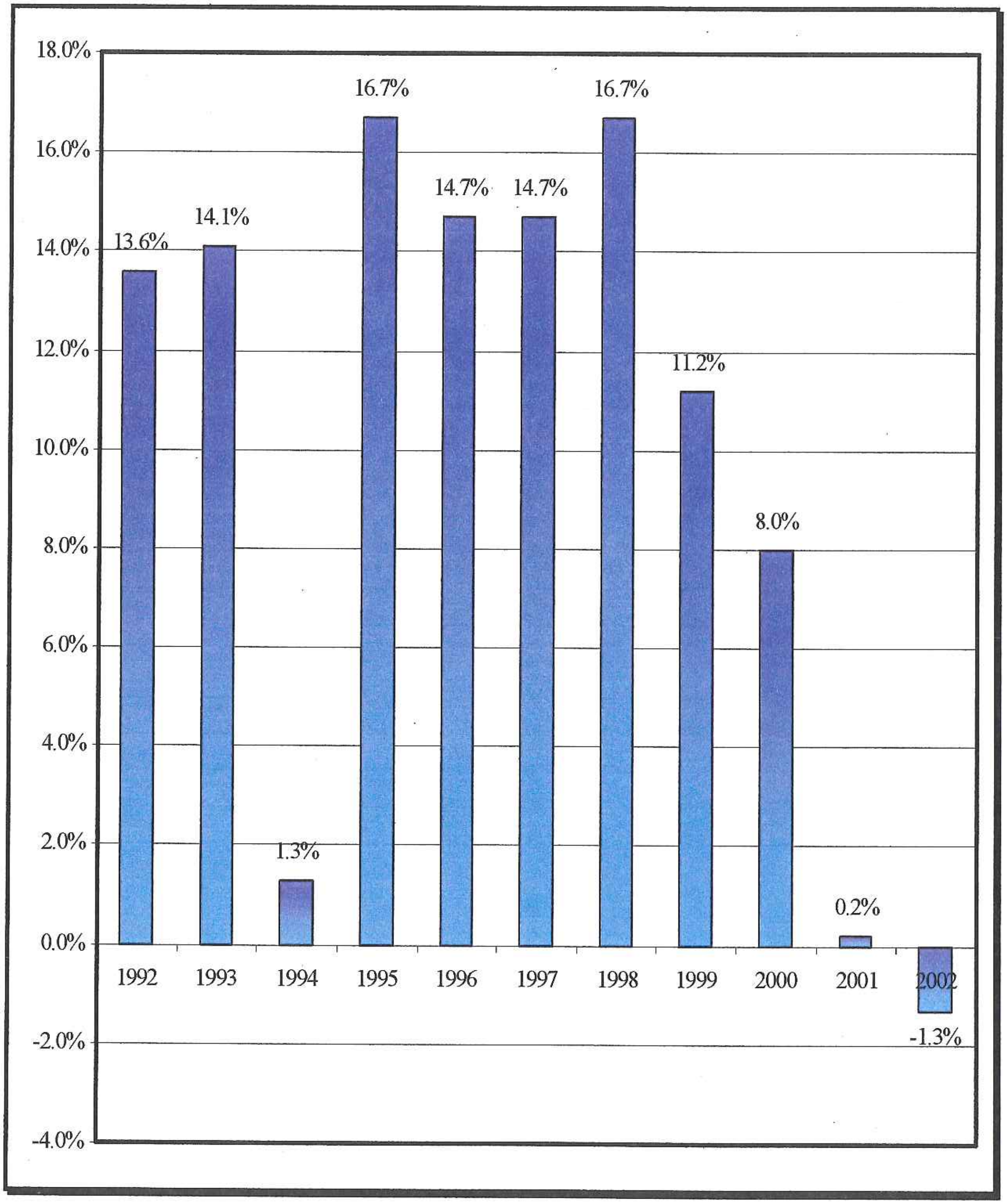
HISTORICAL ASSET ALLOCATION (Actual)
June 1992 - June 2002



MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2002
(In Millions of Dollars)



HISTORY OF PERFORMANCE
(Based on Market Value)
For Fiscal Years 1992 - 2002



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2002

Shares	Country	Description	Market Value in $USD
256,213	United States	MICROSOFT CORP	14,014,851
291,022	United States	CITIGROUP INC	11,277,102
197,599	United States	JOHNSON & JOHNSON	10,326,524
218,650	United States	EXXON MOBIL CORP	8,947,158
120,522	United States	AMERICAN INTL GROUP INC	8,223,216
245,994	United States	GENERAL ELECTRIC CO	7,146,126
195,329	United States	PFIZER INC	6,836,515
103,084	United States	FREDDIE MAC	6,308,741
109,495	United States	WAL MART STORES INC	6,023,320
112,284	United States	WYETH	5,748,941

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2002

Par Value	Country	Description	Interest Rate	Maturity Date	Market Value in $USD
15,710,000.00	U.S	FEDERAL NATL MTG ASSN	6.500	09/01/32	15,953,014
13,604,999.78	U.S	FEDERAL NATL MTG ASSN	7.000	08/01/31	14,089,610
9,475,000.00	U.S	FEDERAL NATL MTG ASSN	7.000	08/01/32	9,784,418
8,296,000.00	U.S	UNITED STATES TREAS BOND	6.625	02/15/27	9,314,832
7,180,000.00	U.S	UNITED STATES TREAS BOND	7.500	11/15/16	8,640,699
7,021,312.75	U.S	FEDERAL NATL MTG ASSN	6.500	01/01/32	7,157,316
6,430,000.00	U.S	FEDERAL NATL MTG ASSN	6.000	07/01/17	6,561,614
6,339,600.73	U.S	FEDERAL HOME LOAN MTG CORP	6.000	01/01/32	6,325,717
6,280,000.00	U.S	FEDERAL HOME LOAN MTG CORP	6.000	08/16/30	6,239,769
6,700,000.00	Netherlands	NETHERLANDS GOVERNMENT	3.750	07/15/09	6,179,933

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2002

INVESTMENT FEES

	Assets Under Mgt. at Market Value	Fees	Basis Points
Investment Managers' Fees:			
Domestic Equity Managers	$ 528,960,000	$ 2,214,979	42
International Equity Managers	225,690,000	909,782	40
Emerging Market Equity Managers	92,810,000	509,569	55
Domestic Fixed Income Managers	484,030,000	734,636	15
Global Fixed Income Managers	115,490,000	368,455	32
Real Estate Managers	167,500,000	900,740	54
Cash (STIF)	4,170,000	51,242	N/A
Total Investment Managers' Fees	**$ 1,618,650,000**	**$5,689,403**	35
Other Investment Service Fees:			
Investment Consultant	N/A	$ 128,000	N/A
Real estate legal fees	N/A	$ 158,621	N/A
Real estate appraisals	N/A	$ 43,250	N/A
Proxy Voting	N/A	13,410	N/A
Custodian	N/A	118,800	N/A
Total Other Investment Service Fees		**$ 462,081**	

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
A.B. WATLEY, INC.	8,500	340.00	0.04000
ABD SECURITIES CORPORATION	71,397	2,982.85	0.04178
ABEL NOSER CORP.	20,600	1,030.00	0.05000
ABN AMRO	7,380	26.75	0.00362
ABN AMRO BANK N.V.	6,500	673.70	0.10365
ABN AMRO EQUITIES AUSTRALIA LTD	3,900	91.32	0.02342
ADAMS HARKNESS & HILL, INC.	1,200	60.00	0.05000
AGORA CORRETORA DE TITULOS E VALORES	5,530,000	1,590.41	0.00029
ALLEN & COMPANY, INC.	2,100	105.00	0.05000
ARNHOLD & S. BLEICHROEDER, INC.	3,600	180.00	0.05000
AUTRANET INC.	93,048	4,661.14	0.05009
AUTRANET INC. - FIXED INCOME	365,000	343.10	0.00094
BAIRD (ROBERT W.) & CO., INC.	41,885	1,901.64	0.04540
BANC OF AMERICA SECURITIES LLC	13,600	544.00	0.04000
BANC/AMERICA SEC MONTGOMERY DI	49,378	2,663.90	0.05395
BANCAMERICA ROBERTSON STEPHENS	45,919	2,297.80	0.05004

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
BANKERS TRUST COMPANY NEW YORK	5,751	29.96	0.00521
BANQUE NAT'L DE PARIS, LONDON BR.	12,102	70.78	0.00585
BANQUE PARIBAS / FRANKFURT	409	279.90	0.68435
BANQUE PARIBAS / MADRID	20,000	1,190.47	0.05952
BANQUE PARIBAS / PARIS	15,000	452.02	0.03013
BARING SECURITIES, INC.	79,500	3,640.54	0.04579
BARRINGTON RESEARCH ASSOCIATES	1,000	50.00	0.05000
BEAR STEARNS SECURITIES CORP.	769,520	6,602.62	0.00858
BEAR, STEARNS & CO.	456,780	20,785.49	0.04550
BEREAN CAPITAL	97,850	4,892.50	0.05000
BERNSTEIN (SANFORD C) & CO., INC.	271,131	13,716.47	0.05059
BHF SECURITIES CORP	2,600	130.00	0.05000
BLACKFORD SECURITIES CORP	1,476	81.69	0.05535
BLAIR (WILLIAM) & CO.	45,956	2,078.26	0.04522
BNP PRIME PEREGRINE	1,405,800	1,724.38	0.00123
BREAN MURRAY FOSTER SECURITIES	5,300	265.00	0.05000
BRIDGE TRADING CO.	249,950	12,144.38	0.04859
BROADCOURT CAPITAL CORP	144,228	7,416.40	0.05142
BROCKHOUSE & COOPER / LONDON	3,900	49.61	0.01272
BROCKHOUSE & COOPER / MONTREAL	5,800	116.60	0.02010
BROWN	124,400	6,251.00	0.05025
BROWN BROTHERS HARRIMAN & CO.	5,600	301.00	0.05375
BT ALEX BROWN INC.	228,893	10,706.90	0.04678
BTN RESEARCH EQUITY	6,500	325.00	0.05000
B-TRADE SERVICES LLC	116,790	2,283.30	0.01955
BUCKINGHAM RESEARCH	10,951	548.17	0.05006
BUNTING WARBURG INC.	62,845	2,581.25	0.04107
C.E. UNTERBERG TOWBIN	6,500	325.00	0.05000
C.L. GLAZER AND CO.	7,108	350.40	0.04930
CANADIAN IMPERIAL BANK OF COMMERCE	16,690	536.60	0.03215
CANTOR, FITZGERALD & CO., INC.	52,329	2,342.79	0.04477
CAPEL JAMES SECURITIES, INC.	1,152	63.36	0.05500
CAPITAL INST SVCS	64,700	3,306.00	0.05110
CAZENOVE	500	33.53	0.06706
CAZENOVE AND CO. / LONDON	411,300	4,921.91	0.01197
CAZENOVE ASIA LIMITED	25,000	424.71	0.01699
CDC MARCHES	6,273	283.02	0.04512
CHASE MANHATTAN BANK	241,500	985.65	0.00408
CHEVEREAUX DE VIRIEUX / PARIS	11,500	2,460.05	0.21392
CHICAGO	14,300	652.00	0.04559
CHICAGO CORP	8,200	629.00	0.07671
CIBC WORLD MARKETS CORP	60,376	2,976.28	0.04930
CIBS OPPENHEIMER CORP	183,780	10,437.47	0.05679
CITIBANK / LONDON	106,000	1,746.89	0.01648
CITIBANK N.A.	18,000	1,067.38	0.05930
COMMERZBANK LONDON	125,700	858.93	0.00683
CORRESPONDENT SERVICES CORP	27,250	949.50	0.03484
COWEN & CO.	219,802	11,670.41	0.05310

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
CREDIT AGRICOLE INDOSUEZ	8,000	537.19	0.06715
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	6,570	349.49	0.05319
CREDIT LYONNAIS CAPITAL INDONESIA, PT	710,000	3,833.49	0.00540
CREDIT LYONNAIS SEC (USA), INC.	11,500	670.81	0.05833
CREDIT LYONNAIS SECURITIES	6,200	379.80	0.06126
CREDIT LYONNAIS SECURITIES (ASIA) LTD	2,851,960	6,222.28	0.00218
CREDIT LYONNAIS SECURITIES CAPITAL	176,570	713.24	0.00404
CREDIT SUISSE FIRST BOSTON	131,694	6,616.01	0.05024
CREDIT SUISSE FIRST BOSTON / HONG KONG	17,821	508.22	0.02852
CREDIT SUISSE FIRST BOSTON EQUITIES	124,762	1,006.52	0.00807
CS FIRST BOSTON AUSTRALIA EQUITIES LTD	160,179	832.26	0.00520
DAIN BOSWORTH INCORPORATED	36,506	1,845.60	0.05056
DAIWA SECURITIES AMERICA, INC.	5,000	400.89	0.08018
DAVIDSON (D.A.) & CO., INC.	615	33.83	0.05501
DAVIS, MENDEL & REGENSTEIN, INC.	14,502	854.10	0.05890
DAVY STOCKBROKERS / LONDON	14,688	229.54	0.01563
DEUTSCHE BANK AG / FRANKFURT	13,629	1,245.83	0.09141
DEUTSCHE BANK AUSTRALIA LTD / SYDNEY	2,300	27.74	0.01206
DEUTSCHE BANK SECURITIES, INC.	1,476,461	11,652.30	0.00789
DEUTSCHE MORGAN GRENFELL SECS AUST	28,658	105.51	0.00368
DOMINION SECURITIES / AMES, INC.	378	20.79	0.05500
DONALDSON & CO, INC.	197,900	9,895.00	0.05000
DONALDSON, LUFKIN & JENRETTE	6,020	301.00	0.05000
DOWLING & PARTNERS SECURITIES	6,748	337.40	0.05000
DRESEDNER BANK AG	23,100	711.66	0.03081
DRESEDNER KLEINWORT WASSERSTEIN	411,376	5,378.61	0.01307
EDGE SECURITIES, INC.	4,900	245.00	0.05000
EDWARDS (A.G) & SONS, INC.	35,800	1,594.00	0.04453
ENSKILDA BANK, LONDON	182,600	5,947.47	0.03257
ENSKILDA SECURITIES	17,300	726.98	0.04202
ERNST & CO.	67,084	4,290.18	0.06395
EUROMOBILIARE SIM S.P.A.	178,990	2,395.75	0.01338
EVEREN CLEARING CORP	51,645	2,590.38	0.05016
EXANE / PARIS	5,727	254.60	0.04446
EXANE ACTIONS SICOVAM 550	31,990	1,794.76	0.05610
EXANE INC.	21,710	1,942.17	0.08946
EXECUTION SERVICES INC.	17,243	862.15	0.05000
FACTSET DATA SYSTEMS, INC.	256,723	12,547.46	0.04888
FACTSET DATA SYSTMES, INC. / BCC	22,850	1,142.50	0.05000
FAHNESTOCK & CO.	17,500	1,085.00	0.06200
FIDELITY CAPITAL MARKETS/NFSC	63,650	3,234.50	0.05082
FIRST ALBANY CORP	15,700	785.00	0.05000
FIRST BOSTON CORP	819,689	41,019.21	0.05004
FIRST OPTIONS OF CHICAGO #2	5,824	232.96	0.04000
FIRST TENNESSEE SECURITIES	130,286	6,053.05	0.04646
FIRST UNION CAP MKTS CORP/WHEA	1,400	70.00	0.05000
FIRST UNION CAPITAL MKTS	61,400	3,306.00	0.05384
FORIS BANK AMSTERDAM	14,000	702.56	0.05018

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
FOX-PITT KELTON / LONDON	68,000	545.28	0.00802
FOX-PITT KELTON, INC.	61,477	2,848.70	0.04634
FP MAGLIO & CO., INC.	115,020	3,450.60	0.03000
FRANK RUSSELL SECURITIES INC.	1,100	66.00	0.06000
FRIEDMAN BILLINGS & RAMSEY	3,032	113.60	0.03747
FROST SECURITIES	35,900	2,154.00	0.06000
FULCRUM GLOBAL PARTNERS LLC	55	2.75	0.05000
GARDNER RICH & CO.	12,400	620.00	0.05000
GERARD KLAUER	47,012	2,276.09	0.04842
GOLDMAN SACHS & CO.	1,630,480	47,751.86	0.02929
GOLDMAN SACHS (ASIA) LLC SEOUL BR	3,500	757.74	0.21650
GOLDMAN SACHS INT'L / LONDON	79,477	1,995.23	0.02510
GOLDSMITH & HARRIS	4,800	261.00	0.05438
GOOD MORNING SECURITIES CO., LTD	105,000	15,002.45	0.14288
GREEN LINE INVESTORS SERVICE	3,100	155.00	0.05000
GREENSTREET ADVISORS	1,400	70.00	0.05000
GRIFFITHS MCBURNEY AND PARTNERS	2,182	85.56	0.03921
GRIFFITHS MCBURNEY & PART. / TORONTO	49,318	1,887.03	0.03826
GRUNTAL & CO LLC	2,235	119.28	0.05337
GUILFORD SECURITIES	1,000	50.00	0.05000
HOARE GOVETT LTD. / LONDON	91,871	2,163.01	0.02354
HOEFER & ARNETT	11,700	585.00	0.05000
HOENIG & COMPANY, INC.	5,219	260.95	0.05000
HOWARD, WEIL, LABOUISSE, FRIEDRIC	101,700	5,865.00	0.05767
HSBC INVESTMENT BANK PLC	42,463	866.56	0.02041
HSBC SECURITIES (USA), INC.	550,500	6,339.60	0.01152
ING BARING SECURITIES (JAPAN) LTD	5,000	234.37	0.04687
ING BARING SECURITIES / HONG KONG	248,000	4,226.24	0.01704
ING BARINGS LLC	297,700	4,003.55	0.01345
INGALLS & SNYDER	1,300	65.00	0.05000
INSTINET / SYDNEY	251,000	2,387.92	0.00951
INSTINET CLEARING SERVICES, INC.	68,000	1,360.00	0.02000
INSTINET CORP / LONDON	1,064,700	27,857.82	0.02616
INSTINET CORPORATION	1,363,249	42,332.58	0.03105
INSTINET FRANCE SA / PARIS	17,300	2,359.84	0.13641
INSTINET GMBH	23,700	4,645.23	0.19600
INSTINET PACIFIC LTD	1,156,500	12,525.29	0.01083
INTERMONTE SECURITIES SIM	45,500	426.35	0.00937
INTERSEC RESEARCH	14,800	764.00	0.05162
INTERSTATE SECURITIES CORP	4,446	223.53	0.05028
INVESTMENT TECHNOLOGY GRP, INC.	278,280	7,056.93	0.02536
ISI GROUP, INC.	117,372	5,987.60	0.05101
J P MORGAN SEC EQUTIY GROUP	382,202	19,389.51	0.05073
JANNEY, MONTGOMERY, SCOTT, INC.	4,600	230.00	0.05000
JARDINE FLEMING SECURITIES LTD	6,000	85.50	0.01425
JB WERE AND SON (HEAD OFFICE)	12,260	139.97	0.01142
JEFFERIES & COMPANY, INC.	276,264	14,187.34	0.05135
JONES & ASSOCIATES	56,550	2,384.50	0.04217

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
JP MORGAN / LONDON	55,005	2,165.65	0.03937
KEEFE BRUYETTE & WOODS, INC.	32,782	1,652.43	0.05041
KEMPER	2,426	125.91	0.05190
KIM ENG SECURITIES	102,000	977.54	0.00958
KING (C.L.) & ASSOCIATES, INC.	10,300	515.00	0.05000
KING SECURITIES	2,100	105.00	0.05000
KLEINWORT WASSERSTEIN SEC LLC	6,638	331.90	0.05000
KNIGHT SECURITIES BROADCORT CA	2,500	101.00	0.04040
LAZARD FRERES & CO.	40,907	2,027.35	0.04956
LAZARD FRERES AND CO. LLC	6,000	360.00	0.06000
LEERINK SWAN & CO.	4,193	209.65	0.05000
LEGG MASON	58,023	2,928.14	0.05047
LEHMAN BROTHERS, INC.	325,747	16,813.65	0.05162
LEHMAN BROTHERS INTERNATIONAL EUROPE	343,106	2,458.61	0.00717
LIQUIDNET, INC.	112,022	2,674.94	0.02388
LOMBARD, IDIER AND CIE / GENEVA	1,100	2,080.28	1.89116
LYNCH JONES	6,611,239	242,030.72	0.03661
MACQUARIE EQUITIES LTD / SYDNEY	457,000	7,201.44	0.01576
MAGNA SECURITIES CORP	810	44.55	0.05500
MAY DAVIS GROUP, INC.	1,000	50.00	0.05000
MCDONALD & COMPANY SECURITIES	9,523	479.23	0.05032
MCLEOD YOUNG WEIR, INC.	4,200	168.00	0.04000
MERCANTILE BANK LTD	121,967	94.71	0.00078
MERRILL LYNCH / NEW YORK	126,000	1,671.11	0.01326
MERRILL LYNCH AND CO., INC.	47,900	661.05	0.01380
MERRILL LYNCH INTERNATIONAL	658,768	9,068.29	0.01377
MERRILL LYNCH INTL EQUITIES	192,500	1,416.82	0.00736
MERRILL LYNCH PIERCE FENNER & SMITH	1,489,758	49,721.33	0.03338
MERRILL LYNCH PROF CLR CRP	107,981	5,834.63	0.05403
MILLER, JOHNSON, KUEHN	3,900	195.00	0.05000
MORGAN GRENFELL AND CO. LTD.	193,204	2,533.40	0.01311
MORGAN STANLEY & CO. INTERNATIONAL	130,906	3,079.52	0.02352
MORGAN STANLEY & CO., INC.	1,572,010	49,136.42	0.03126
MORGAN, KEEGAN & COMPANY, INC.	11,800	585.00	0.04958
NATIONSBANC MONT SEC LLC SAN FRAN	145,176	7,860.80	0.05415
NBC SECURITIES	22,700	1,362.00	0.06000
NDB CAPITAL MARKETS, INC.	3,400	170.00	0.05000
NEEDHAM & CO.	16,200	704.00	0.04346
NESBITT BURNS	614	33.77	0.05500
NESBITT BURNS / TORONTO	11,500	434.46	0.03778
NESBITT THOMSON DEACON NSCC	1,229	67.60	0.05500
NEUBERGER & BERMAN	22,399	874.32	0.03903
NOMURA SECURITIES INTERNATIONAL, INC.	114,700	4,215.15	0.03675
NORDEA BANK DENMARK A/S	15,000	1,125.99	0.07507
NUTMEG SECURITIES	31,600	1,396.00	0.04418
O'NEIL, WILLIAM AND CO., INC.	55,770	2,788.50	0.05000
ORD MINNETT LTD	21,634	80.66	0.00373
ORMES CAPITAL MARKETS, INC.	111,398	5,578.40	0.05008

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
P & K SEC	74,000	2,665.89	0.03603
PARIBAS	55,500	3,098.47	0.05583
PAULSEN DOWLING SEC	43,800	2,190.00	0.05000
PCS SECURITIES, INC.	56,900	2,754.00	0.04840
PERIT	1,400	70.00	0.05000
PERSHING	166,822	8,341.10	0.05000
PERT	173,512	8,675.60	0.05000
PIPER, JAFFRAY & HOPWOOD INC.	49,100	2,312.00	0.04709
POLYCONOMICS/CIS	5,600	280.00	0.05000
POTTER WARBURG SECS LTD / SYDNEY	72,380	651.85	0.00901
PRECURSOR GROUP	12,100	605.00	0.05000
PRUDENTIAL	20,100	783.00	0.03896
PRUDENTIAL BACHE SECURITIES	168,091	9,053.34	0.05386
PULSE TRADING	82,000	1,956.00	0.02385
PUNK ZIEGEL & KNOELL	9,300	465.00	0.05000
RAYMOND, JAMES & ASSOCIATES, INC.	28,037	1,452.55	0.05181
REEVES (DANIEL) & CO. INC.	8,800	440.00	0.05000
ROBB PECK MCCOOEY & CO, INC.	14,800	444.00	0.03000
ROBERT VAN SECURITIES, INC.	6,600	330.00	0.05000
ROBERTSON STEPHENS, INC.	6,150	307.50	0.05000
ROBINSON HUMPHREY	45,433	2,417.98	0.05322
ROCHDALE SECURITIES CORP	4,148	207.40	0.05000
RYAN BECK & CO.	7,900	389.00	0.04924
SALOMON BROS HK LTD	42,500	406.79	0.00957
SALOMON BROS INC / NEW YORK	7,000	216.77	0.03097
SALOMON BROTHERS INTERNATIONAL	178,034	1,597.48	0.00897
SALOMON SMITH BARNEY, INC.	307,181	2,475.03	0.00806
SANDERS MORRIS MUNDY	1,585	79.25	0.05000
SANTANDER BRAZIL RIO DE JANEIRO	21,751,000	4,079.23	0.00019
SBC WARBURG DILLON READ ASIA LTD	586,331	7,340.57	0.01252
SBC WARBURG DILLON READ, INC.	811,131	40,520.19	0.04996
SCHWAB (CHARLES) & CO., INC.	15,100	715.00	0.04735
SCOTIA CAPITAL MARKETS USA, INC.	23,240	854.73	0.03678
SCOTIA MCLEOD INC / TORONTO	10,760	367.91	0.03419
SCOTT & STRINGFELLOW, INC.	5,200	243.00	0.04673
SEAPORT SECURITIES	9,184	367.36	0.04000
SESLIA	766,083	38,304.15	0.05000
SG SECURITIES (LONDON) LTD	106,400	2,705.20	0.02542
SHERWOOD SECURITIES CORP	6,000	300.00	0.05000
SIDOTI AND COMPANY, LLC	1,500	75.00	0.05000
SIMMONS & CO.	12,593	629.65	0.05000
SMITH BARNEY, INC.	644,922	32,722.95	0.05074
SOUNDVIEW FINANCIAL GROUP	80,056	3,869.28	0.04833
SOUTHTRUST BK IPA	1,598	87.89	0.05500
SOUTHWEST SECURITIES, INC.	15,100	755.00	0.05000
SPEAR, LEEDS & KELLOGG	2,800	140.00	0.05000
STANDARD & POORS SECURITIES	51,300	2,565.00	0.05000
STATE STREET BROKERAGE SERVICE	7,700	334.00	0.04338

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
STEARN	2,500	125.00	0.05000
STEPHENS, INC.	4,050	216.50	0.05346
STIFEL, NICOLAUS & CO., INC.	6,500	303.00	0.04662
SUNTRUST CAPITAL MARKETS, INC.	1,100	55.00	0.05000
TAYLOR (D.W.) & COMPANY LTD.	750	37.50	0.05000
THE CITATION GROUP	84,900	3,425.00	0.04034
THOMAS WEISEL PARTNERS	144,770	6,972.95	0.04817
TORONTO DOMINION SECURITIES, INC.	25,000	787.36	0.03149
TROSTER SINGER STEVENS ROTHCH.	3,200	160.00	0.05000
U.S. CLEARING CORP	5,200	233.00	0.04481
UBS AG	1,354,096	16,933.66	0.01251
UBS AG (LONDON EQUITIES)	825	49.49	0.05999
UBS AUSTRALIA GROUP LTD	83,600	765.48	0.00916
UBS BUNTING WARBURG, INC.	16,493	602.43	0.03653
UBS PAINE WEBBER, INC.	12,500	625.00	0.05000
UBS WARBURG NEW ZEALAND EQUITIES LTD	121,000	1,690.25	0.01397
UBS WARBURG SECURITIES LTD	71,000	710.65	0.01001
UNTERBURG HARRIS	7,700	364.00	0.04727
U.S. CLEARING INSTITUTIONAL TRAD	95,419	4,770.95	0.05000
VAN KASPER & COMPANY	8,100	405.00	0.05000
WEDBUSH, NOBLE & COOKE, INC.	12,300	656.00	0.05333
WEEDEN & CO.	225,038	10,839.67	0.04817
WEST LB PANMURE LTD	25,093	376.49	0.01500
WESTMINSTER RESEARCH	4,500	225.00	0.05000
WILLIAMS CAPITAL GROUP	39,800	2,082.00	0.05231
WOOD GUNDY INC / TORONTO	121,617	4,543.04	0.03736
WR HAMBRECHT	4,450	222.50	0.05000
YORKTOWN SECURITIES, INC. / TORONTO	53,500	1,994.79	0.03729
TOTAL	**71,724,218**	**1,249,925.07**	**0.01743**

INVESTMENT SUMMARY
As of June 30, 2002

TYPE OF INVESTMENT		MARKET VALUE	% OF PORTFOLIO
PREFERRED STOCK (EQUITY)			
Domestic	$	344,341	0.02%
Domestic Convertible Preferred		110,550	0.01%
Foreign		635,906	0.04%
TOTAL PREFERRED STOCK	$	**1,090,797**	**0.07%**
COMMON STOCK (EQUITY)			
Basic Industry	$	25,547,326	1.53%
Capital Goods		148,511,322	8.90%
Consumer Durable		7,760,686	0.47%
Consumer Non-Durable		113,114,719	6.78%
Energy		32,234,673	1.93%
Finance & Building		111,998,184	6.71%
Health Care		89,987,241	5.40%
Miscellaneous		124,825	0.01%
Transportation		10,930,625	0.66%
Utility		53,070,884	3.18%
International Equities		183,078,078	10.98%
TOTAL COMMON STOCK	$	**776,358,563**	**46.55%**
FIXED INCOME			
US Government	$	76,163,385	4.57%
Federal Agency		231,174,362	13.86%
Corporate Obligations		282,886,434	16.96%
Convertible Obligations		10,713,367	0.64%
Foreign Government		73,785,009	4.42%
Foreign Corporate		37,648,519	2.26%
TOTAL FIXED INCOME	$	**712,371,076**	**42.71%**
OTHER INVESTMENTS			
Short Term	$	47,591,368	2.85%
Real Estate		160,481,073	9.62%
TOTAL OTHER INVESTMENTS	$	**208,072,441**	**12.47%**
PENDINGS	$	**-29,943,442**	**-1.80%**
TOTAL	$	**1,667,949,435**	**100.00%**

INVESTMENT PROPERTIES

Airport Commercenter
278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Federated City Employees' Retirement System in April 1989.

Copperwood Square Shopping Center
138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Federated City Employees' Retirement System in June 1987.

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

Milpitas Warehouse
145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Federated City Employees' Retirement System in February 1986.

INVESTMENT PROPERTIES (Continued)

Pine Grove Office Complex
85,956 s.f. five-building office complex located in Orinda, CA. Acquired jointly with the Federated City Employees' Retirement System in September 1990.

Plaza Paseo Real
147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Federated City Employees' Retirement System in May 1993.

Saddleback Financial Center
72,711 s.f. mid-rise office building located in Laguna Hills, CA. Acquired jointly with the Federated City Employees' Retirement System in January 1988.

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

INVESTMENT PROPERTIES (Continued)

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

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

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

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

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.

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IV.
ACTUARIAL SECTION

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ACTUARY CERTIFICATION LETTER

MERCER
Human Resource Consulting

3 Embarcadero Center, Suite 1500
San Francisco, CA 94111-4015
415 743 8863 Fax 415 743 8950
andy.yeung@mercer.com
www.mercerHR.com

July 25, 2002

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

Dear Members of the Board:

We are pleased to present the actuarial valuation for the City of San Jose Police and Fire Department Retirement Plan prepared as of June 30, 2001 by Mercer Human Resource Consulting. The report includes:

(1) a determination of the city contribution rates under the current and recommended actuarial methods and assumptions; and

(2) a determination of the employee contribution rates under the current and recommended actuarial methods and assumptions.

This report conforms with the requirements of the governing state and local statutes, accounting rules, and generally accepted actuarial principles and practices.

The undersigned is a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained therein.

Sincerely,

Andy Yeung

Andy Yeung, ASA, EA, MAAA

ACTUARY CERTIFICATION LETTER (Continued)

Actuarial Certification

The biennial actuarial valuation required for the City of San Jose Police and Fire Retirement Plan has been prepared as of June 30, 2001 by Mercer Human Resource Consulting, Inc. In preparing this valuation, we have 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. The funding objective of the plan is to determine employer rates that provide for both normal cost and either a contribution to amortize the unfunded actuarial accrued liability or a credit when actuarial assets exceed the actuarial accrued liability. Employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. The Board elected to amortize the System's unfunded actuarial accrued liability over a 40-year period, beginning in 1977, with 16 years remaining as of the June 30, 2001 valuation date.

The actuarial value of assets used for the purposes of this valuation anticipates the adoption of the Supplemental Retiree Benefits Reserve (SRBR) program. The adoption of this program reduced the value of the assets by $21,874,871 as of June 30, 2001.

The ratio of actuarial value of assets to actuarial accrued liabilities increased from 112.8% to 114.8% as a result of this valuation. The primary cause of the increase was the greater than expected investment return on the System's assets.

The Board has adopted new non-economic assumptions following the experience study of the System as of June 30, 2001.

In our opinion, the recommended assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

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.

1. Summary of Assumptions and Funding Method
2. Schedule of Active Member Valuation Data

ACTUARY CERTIFICATION LETTER (Continued)

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 undersigned is a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Mercer Human Resource Consulting, Inc.

Andy Yeung

Andy Yeung, ASA, EA, MAAA

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Retirement Board as of June 30, 2001:

Valuation Interest Rate	8%
Inflation Rate	4.50%
Cost-of-Living Adjustment	3.00%
Post-Retirement Mortality	
(a) Service	
Males (set back 3 years)	1994 Male Group Annuity Mortality Table
Females (set forward 1 year)	1994 Female Group Annuity Mortality Table
(b) Disability	PERS Industrial Disability Table 88 92 (set back 4 years)
Pre-Retirement Mortality	Based upon the 6/30/2001 Experience Analysis
Withdrawal Rates	Based upon the 6/30/2001 Experience Analysis
Disability Rates	Based upon the 6/30/2001 Experience Analysis
Service Retirement Rates	Based upon the 6/30/2001 Experience Analysis
Salary Scales	10.30% for the first five years of service. Graded increases thereafter ranging from 10.10% at age 25 to 4.60% at ages 60 and over. Of the total salary increases, 4.50% is for inflation.
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 16 years remaining on the June 30, 2001 valuation date. Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability.

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 AgeSv
<= 20	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0000	0.0001	0.0000	0.0000
21	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
22	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
23	0.0600	0.0130	0.0130	0.0130	0.0035	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
24	0.0600	0.0130	0.0130	0.0130	0.0070	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
25	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0068	0.0000	0.0002	0.0001	0.0000	0.0000
26	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0066	0.0001	0.0002	0.0001	0.0001	0.0000
27	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0065	0.0001	0.0003	0.0001	0.0001	0.0000
28	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0064	0.0001	0.0002	0.0001	0.0001	0.0000
29	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0062	0.0001	0.0002	0.0001	0.0001	0.0000
30	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0060	0.0001	0.0007	0.0001	0.0001	0.0000
31	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0058	0.0001	0.0006	0.0001	0.0001	0.0000
32	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0056	0.0001	0.0003	0.0001	0.0001	0.0000
33	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0054	0.0001	0.0008	0.0002	0.0002	0.0000
34	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0052	0.0002	0.0015	0.0002	0.0002	0.0000
35	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0004	0.0015	0.0002	0.0002	0.0000
36	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0006	0.0015	0.0002	0.0002	0.0000
37	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0008	0.0018	0.0002	0.0002	0.0000
38	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0010	0.0019	0.0002	0.0002	0.0000
39	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0012	0.0020	0.0002	0.0002	0.0000
40	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0014	0.0020	0.0002	0.0003	0.0000
41	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0020	0.0002	0.0003	0.0000
42	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0021	0.0002	0.0003	0.0000
43	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0029	0.0002	0.0003	0.0000
44	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0041	0.0003	0.0003	0.0000
45	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0040	0.0014	0.0063	0.0003	0.0003	0.0000
46	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0035	0.0012	0.0080	0.0003	0.0004	0.0000
47	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0030	0.0010	0.0102	0.0003	0.0004	0.0000
48	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	0.0010	0.0129	0.0003	0.0004	0.0000
49	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	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	0.1000
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	0.0800
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	0.0800
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	0.0900
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	0.0900
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

Age	Member	Beneficiary	Age	Member	Beneficiary
50	32.80	33.29	80	9.52	9.30
51	31.87	32.34	81	8.98	8.74
52	30.94	31.40	82	8.46	8.20
53	30.01	30.47	83	7.97	7.68
54	29.09	29.53	84	7.51	7.18
55	28.18	28.61	85	7.07	6.71
56	27.28	27.68	86	6.65	6.25
57	26.38	26.77	87	6.24	5.83
58	25.49	25.86	88	5.86	5.42
59	24.61	24.97	89	5.48	5.05
60	23.74	24.09	90	5.12	4.70
61	22.88	23.22	91	4.78	4.37
62	22.04	22.36	92	4.45	4.07
63	21.20	21.52	93	4.15	3.79
64	20.38	20.69	94	3.87	3.53
65	19.57	19.88	95	3.61	3.28
66	18.78	19.09	96	3.37	3.06
67	18.01	18.30	97	3.15	2.85
68	17.26	17.53	98	2.95	2.65
69	16.53	16.77	99	2.77	2.48
70	15.81	16.01	100	2.60	2.31
71	15.11	15.26	101	2.46	2.16
72	14.43	14.53	102	2.33	2.02
73	13.77	13.81	103	2.20	1.89
74	13.11	13.11	104	2.09	1.78
75	12.48	12.43	105	1.97	1.70
76	11.85	11.76	106	1.87	1.63
77	11.25	11.11	107	1.76	1.57
78	10.66	10.49	108	1.67	1.53
79	10.08	9.88	109	1.60	1.50
			110	1.53	1.47

Member
94 GAM Male -3

Beneficiary
94 GAM Female +1

YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT

Age	Member	Age	Member	Age	Member
20	58.74	50	30.41	80	9.32
21	57.76	51	29.53	81	8.86
22	56.78	52	28.66	82	8.42
23	55.81	53	27.79	83	8.00
24	54.84	54	26.93	84	7.61
25	53.86	55	26.07	85	7.23
26	52.89	56	25.22	86	6.87
27	51.92	57	24.39	87	6.51
28	50.95	58	23.56	88	6.16
29	49.98	59	22.75	89	5.82
30	49.02	60	21.94	90	5.48
31	48.05	61	21.16	91	5.15
32	47.09	62	20.38	92	4.81
33	46.13	63	19.62	93	4.48
34	45.18	64	18.88	94	4.16
35	44.22	65	18.15	95	3.86
36	43.27	66	17.44	96	3.57
37	42.32	67	16.75	97	3.30
38	41.38	68	16.08	98	3.04
39	40.43	69	15.43	99	2.79
40	39.49	70	14.80	100	2.56
41	38.56	71	14.18	101	2.35
42	37.63	72	13.58	102	2.15
43	36.71	73	13.00	103	1.95
44	35.79	74	12.43	104	1.77
45	34.88	75	11.87	105	1.61
46	33.98	76	11.33	106	1.45
47	33.08	77	10.81	107	1.30
48	32.18	78	10.30	108	1.17
49	31.30	79	9.80	109	1.04

88' - 92' PERS Industrial Disability -4

SCHEDULE OF ACTIVE MEMBER VALUATION DATA
(Contributing Members Only)

Valuation Date	Number	Projected 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%

* 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 AND 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 PayrollAdded 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
6/30/93-6/30/95	700	157	33	824	$ 18,958,000	$ 7,264,000	$ 639,000	$ 25,583,000	31.94%	$ 31,047
6/30/95-6/30-97	824	145	29	940	$ 25,583,000	$ 7,059,000	$ 652,000	$ 31,990,000	25.04%	$ 34,032
6/30/97-6/30/99	940	156	36	1060	$ 31,990,000	$ 9,962,000	$ 880,000	$ 41,072,000	28.39%	$ 38,747
6/30/99-6/30/01	1060	145	41	1164	$ 41,072,000	$ 10,272,000	$ 1,351,000	$ 49,993,000	21.72%	$ 42,949

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
(Amounts in Thousands)

	1999-2001	1997-1999
Beginning of Period Unfunded Actuarial Accrued Liability	$ (163,753)	$ (94,126)
Expected Increase from Prior Valuation	$ (3,967)	$ 1,001
Salary Increase Greater (Less) than Expected	$ 3,836	$ 6,767
Asset Return Less (Greater) than Expected	$ (63,490)	$ (132,135)
COLA increases Greater (Less) than Expected	$ -	$ (2,487)
(Gain)/Loss from Withdrawal	$ 23	$ (56)
Contribution Less (Greater) than Expected	$ (16,675)	$ -
SRBR	$ 21,875	$ -
Other Experience	$ (14,334)	$ 15,063
Increase due to Benefit Improvement effective 2/4/2000	$ -	$ 27,350
Change in Economic & Non-economic Assumptions	$ 15,404	$ 14,870
End of Period UAAL	$ (221,080)	$ (163,753)

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%

(1) Accumulated from member contribution account balances provided by the Retirement System

(2) Calculated based on assuptions adopted by the Board

(3) Calculated based on assuptions 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

Changes were made to some of the assumptions. Following were the most significant:

- Disability — Duty disability rates are decreased. This reduces costs.
- Service Retirement — Service Retirement rates are decreased. This reduces costs.
- Salary Increase — The merit and longevity salary increase assumption is changed to reflect actual salary increases over the last two years. This increases costs.
- Post-Retirement Mortality — The new mortality table includes a setback (i.e., a mortality improvement) for disability retirees to reflect the Plan's mortality experience when compared to the standard table that was adopted. The change increases costs.
- Medical and Dental Premium Increases — Short-term premium increases are raised to reflect anticipated experience. This increases 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, 2001.

Final Average Salary (FAS)

Final average salary is defined as the highest 12 consecutive months of compensation earnable, 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.

Service-connected

Members may retire regardless of length of service, and the benefit is the greater of 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 (maximum 85% of FAS) or 50% of FAS.

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

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 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. 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 set at 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.

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

Members' Retirement Contributions

The members' contribution rates are recalculated on an actuarial basis at each actuarial study. The members presently contribute at the rate of 9.79% (effective 6/23/02 rate changed to 10.25%) of pay.

City's Retirement Contributions

The City presently contributes at a rate of 15.60% (effective 6/23/02 rate changed to 14.22) 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

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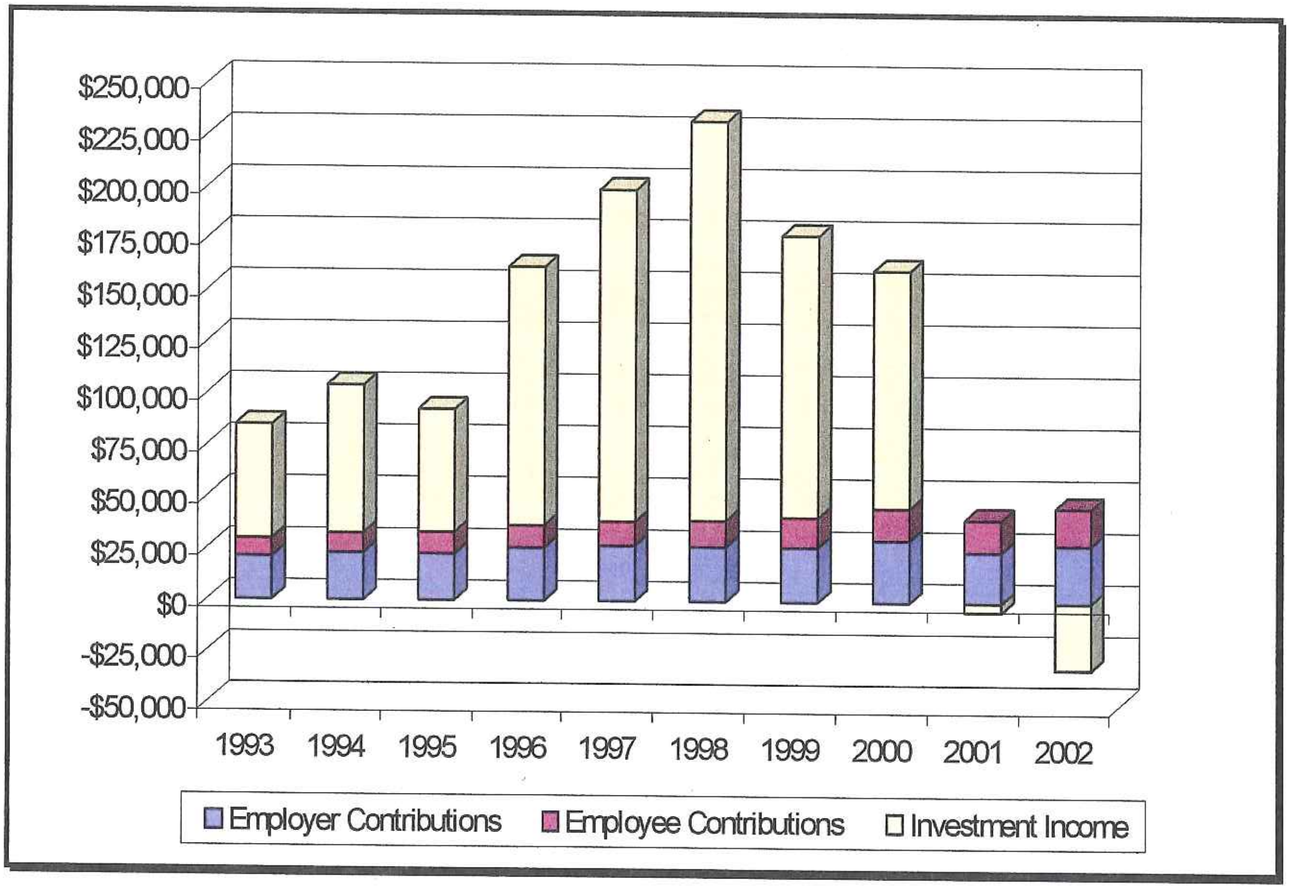
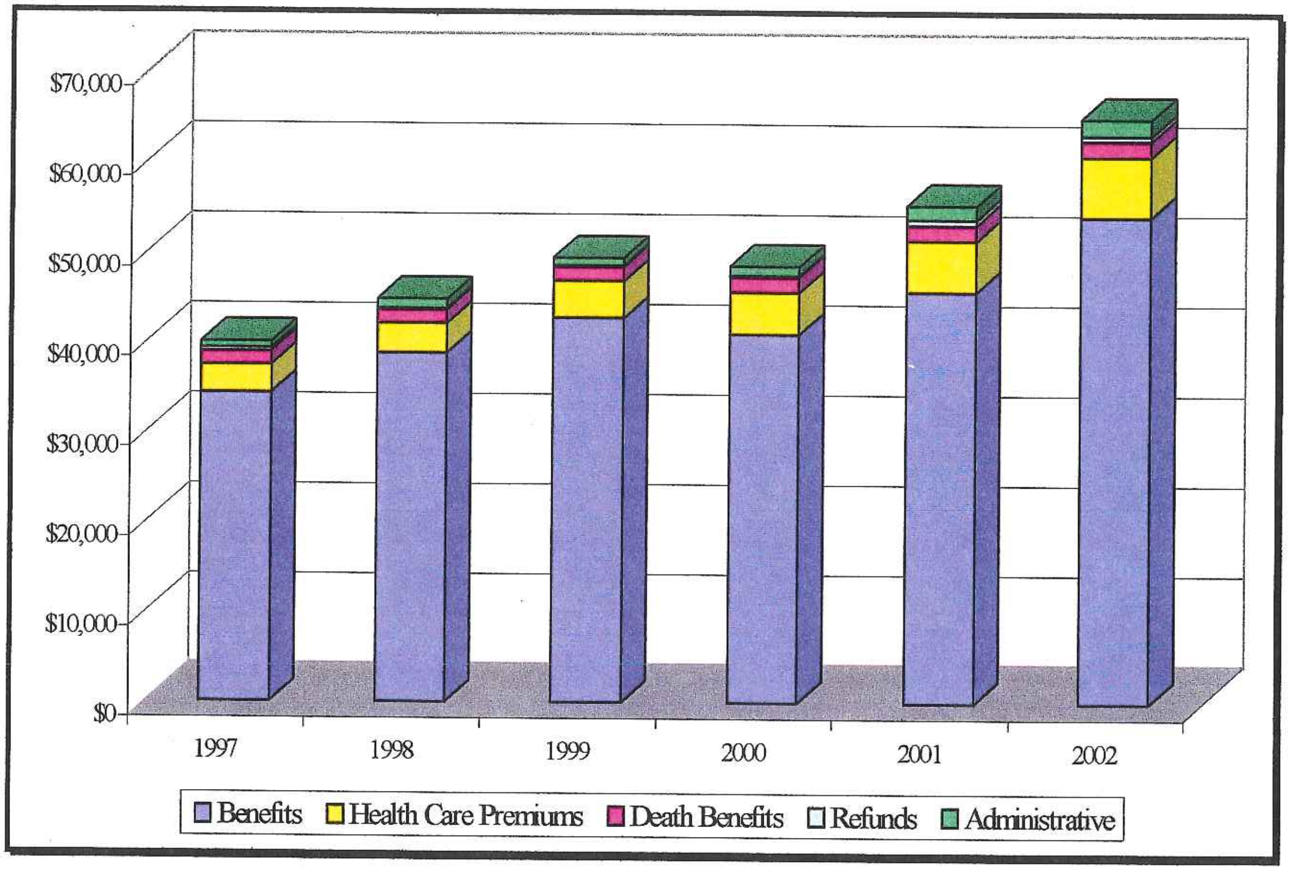
ADDITIONS BY SOURCE
For Fiscal Years 1993 - 2002
(In Thousands)



Year Ending	Employer Contributions	% of Annual Payroll	Employee Contributions	% of Annual Payroll	Investment Income *	Total
1993	$ 20,626	22.99%	$ 8,820	9.42%	$ 55,284	$ 84,730
1994	$ 22,827	22.24%	$ 9,355	9.36%	$ 71,826	$ 104,008
1995	$ 22,298	22.24%	$ 10,689	9.36%	$ 59,354	$ 92,341
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	15.60%	$ 15,374	9.79%	$ 114,911	$ 160,472
2001	$ 24,672	15.60%	$ 15,542	9.79%	$ (4,795)	$ 35,419
2002	$ 28,115	14.22%	$ 17,851	10.25%	$ (32,285)	$ 13,681

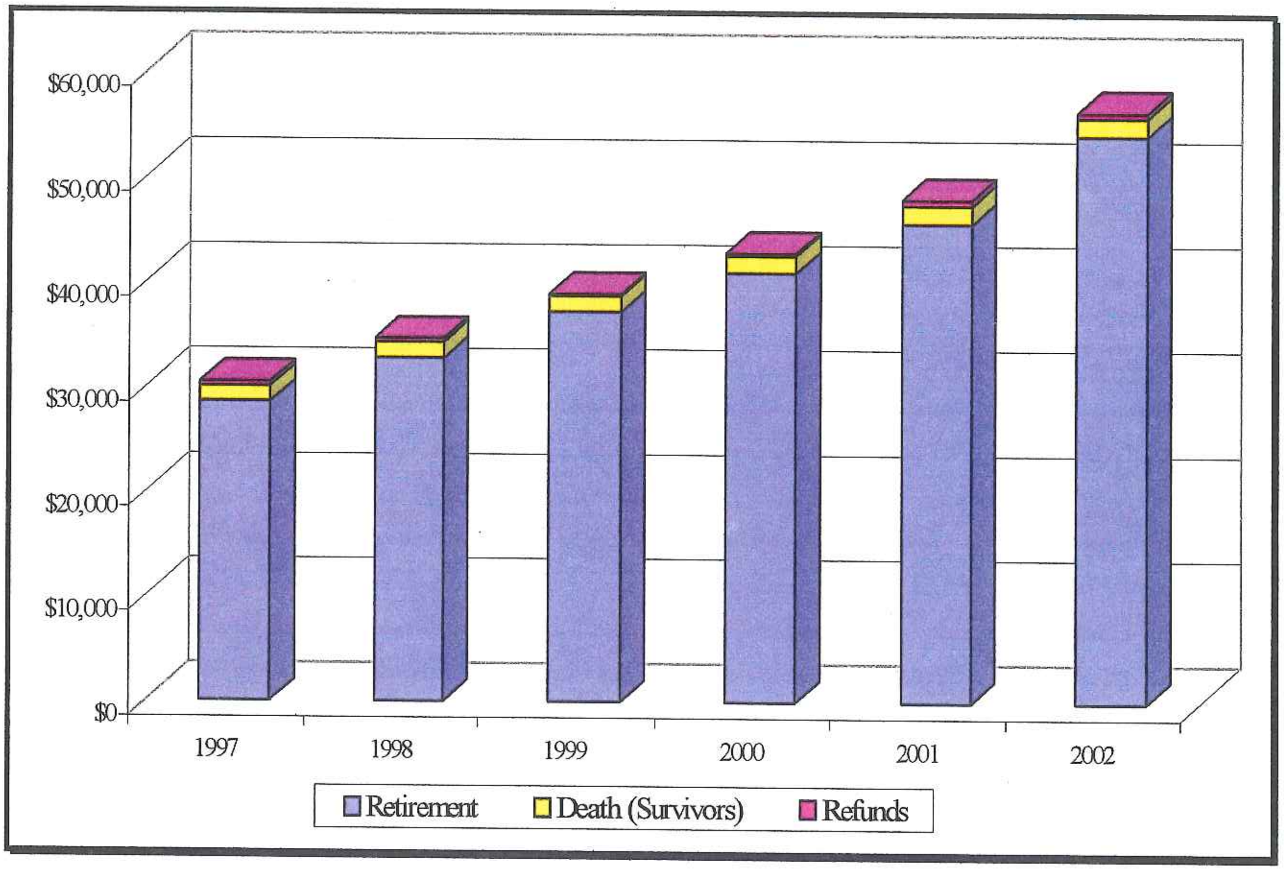
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

DEDUCTIONS BY TYPE
For Fiscal Years 1997 - 2002
(In Thousands)



	1997	1998	1999	2000	2001	2002
Benefits	$34,274	$38,738	$42,663	$40,974	$45,699	$54,113
Health Care Premiums	$3,115	$3,306	$4,156	$4,649	$5,685	$6,740
Death Benefits	$1,484	$1,525	$1,531	$1,689	$1,772	$1,771
Refunds	$343	$167	$194	$194	$615	$518
Administrative	$732	$990	$841	$1,019	$1,550	$1,840
TOTAL	**$39,948**	**$44,726**	**$49,385**	**$48,525**	**$55,321**	**$64,982**

BENEFIT EXPENSES BY TYPE
For Fiscal Years 1997 - 2002
(In Thousands)



	1997	1998	1999	2000	2001	2002
Retirement	$28,531	$32,749	$37,207	$40,974	$45,699	$54,113
Death (Survivors)	$1,484	$1,525	$1,531	$1,689	$1,772	$1,771
Refunds	$402	$343	$167	$194	$615	$518
TOTAL	**$30,417**	**$34,617**	**$38,905**	**$42,857**	**$48,086**	**$56,402**

RETIRED MEMBERS BY TYPE OF BENEFIT
As of June 30, 2002

Amount Monthly Benefit	Number of Retirants	Type of Retirement*							Option Selected **				
		1	2	3	4	5	6	7	Unmod	Opt. 1	Opt. 2	Opt. 3	TTL
$1 - 500	8						7	1		1	7		8
$501 - 1000	28			9	1		13	5	6	1	21		28
$1001 - 1500	83	4		42	7	6	18	6	56	2	25		83
$1501 - 2000	111	3		44	47		12	5	83	4	24		111
$2001 - 2500	101	4		28	57	2	4	6	84	7	10		101
$2501 - 3000	129	8	1	12	100	7		1	93	31	4	1	129
$3001 - 3500	110	14		3	87	4	1	1	73	26	2	9	110
$3501 - 4000	118	31		4	83				55	48	2	13	118
$4001 - 4500	125	50		6	68		1		54	56	3	12	125
$4501 - 5000	156	68		2	85		1		63	80	1	12	156
$5001 - 5500	108	43			65				44	58		6	108
$5501 - 6000	75	39			35	1			37	28		10	75
Over $6000	86	43			42			1	54	25		7	86
TOTAL	1238	307	1	150	677	20	57	26	702	367	99	70	1238

***RETIREMENT CODES**

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

****OPTION DESCRIPTIONS**

Unmodified Joint & Survivorship

1 Increased % to survivor/ reduce pension to member
2 Unmodified/No Survivor
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, 2001	June 30, 1999	Percent Change
A. Number	2,107	1,953	7.9%
B. Average Age	39.61	39.86	-0.6%
C. Average Years of Service	12.33	12.82	-3.8%
D. Annual Salary			
i. Total	$ 171,799,000	$ 144,125,000	19.2%
ii. Average	$ 81,537	$ 73,797	10.5%
Retired and Inactive Vested Members			
	June 30, 2001	June 30, 1999	Percent Change
Retired Members			
A. Service Retirement			
i. Number	313	273	14.7%
ii. Annual Allowance			
Basic Only	$14,406,117	$11,548,137	24.7%
COLA	$2,218,688	$1,491,171	48.8%
Total	$16,624,805	$13,039,308	27.5%
Average Monthly Amount	$4,426	$3,980	11.2%
B. Disability Retirement			
i. Number	680	630	7.9%
ii. Annual Allowance			
Basic Only	$22,869,909	$19,413,166	17.8%
COLA	$6,878,486	$5,549,404	23.9%
Total	$29,748,395	$24,962,570	19.2%
Average Monthly Amount	$3,646	$3,302	10.4%
C. Beneficiaries			
i. Number	171	157	8.9%
ii. Annual Allowance			
Basic Only	$2,202,992	$1,898,951	16.0%
COLA	$1,417,113	$1,171,641	21.0%
Total	$3,620,105	$3,070,592	17.9%
Average Monthly Amount	$1,764	$1,630	8.2%
Inactive Vested Members			
A. Number	36	35	2.9%

* As of last actuarial valuation done June 30, 2001

RETIREMENTS DURING FISCAL YEAR 2001-02

SERVICE RETIREMENTS

POLICE DEPARTMENT

ALVAREZ, DAVID L
ARCA, RICHARD T
ARCHIE, DANIEL E
BELLECI, RONALD W
BENSE, JEFFREY W
BOTAR, RICHARD D
BYTHEWAY, GLENN E
CHRISTIE, KENNETH L
COOK, JOHN EDWIN
DIBARI, DAVID J
FLORES, ARTHUR G
FRAZIER, RICHARD E
GALIOS, CHRISTOPHER G
HEWITT, DAVID M
LUCA, DENNIS J
QUINN, JOHN E
TAYLOR, JOYCE Y
TOMAINO, JAMES J
WARD, RAYMOND H
WEIR, LAWRENCE E

FIRE DEPARTMENT

BURLESON, JOHN T
COMAN, TERRY J
JENNINGS, RICHARD M
JONASSON, MICHAEL T
MEEKS, MELVIN H
SANTOS, EARL
TALBOT, DOUGLAS F

DEFERRED VESTED RETIREMENTS

POLICE DEPARTMENT

RUSSELL, LAURENCE M

FIRE DEPARTMENT

RUSSELL, PAUL E

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

NONE

FIRE DEPARTMENT

NONE

RETIREMENTS DURING FISCAL YEAR 2001-02 (Continued)

SERVICE-CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

BABINEAU, CHERYL LYNN
BIELECKI, MICHAEL
BUELL, CINDY A
CARDOZA, VICTOR B
GONZALEZ, FRANK P
HERRICK, MICHAEL J
JANAVICE, DEAN
KRANICH, GREGORY D
MARTINEZ, RAUL
MENDEZ, MELQUIADES
PAREDES, CARLOS R
RETZLOFF, RHETT B
RICHMOND, MICHAEL D
SPENCE, JAMES M
WRIGHT, DOUGLAS G

FIRE DEPARTMENT

BROUSSARD, PHILIP
CHARCHO, JOHN T
COLLINS, LEE R
DRAKE, WOODWARD H
GUZMAN, OSCAR L
KJELDSEN, KEITH M
RYDER, ROBERT J
SULPIZIO, RONALD E

13% of the service-connected disability retirements did not meet requirements for a service retirement.

DEATHS DURING FISCAL YEAR 2001-02

DEATHS AFTER RETIREMENT

POLICE DEPARTMENT

ANKENBAUER, FRANK J
EVANS, DAVID T
MILLER, JESSE E
PRACNA, EDWARD S
ROSARIO, DENNIS
SCHAEFER, CHARLES L
SHANNON, GRETTAANN
TERRY, JAMES

FIRE DEPARTMENT

ANDERSON, ALGIE
CUFFARO, MARCO
GILBERT, GEORGE
HARTMAN, LEONARD J
OLIVETTI, JACK
RODRIGUES, ORLANDO W

DEATHS BEFORE RETIREMENT

POLICE DEPARTMENT

FONTANA, JEFFREY M
SALCIDO, JUAN C

FIRE DEPARTMENT

STRYSKO, TIMOTHY A

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