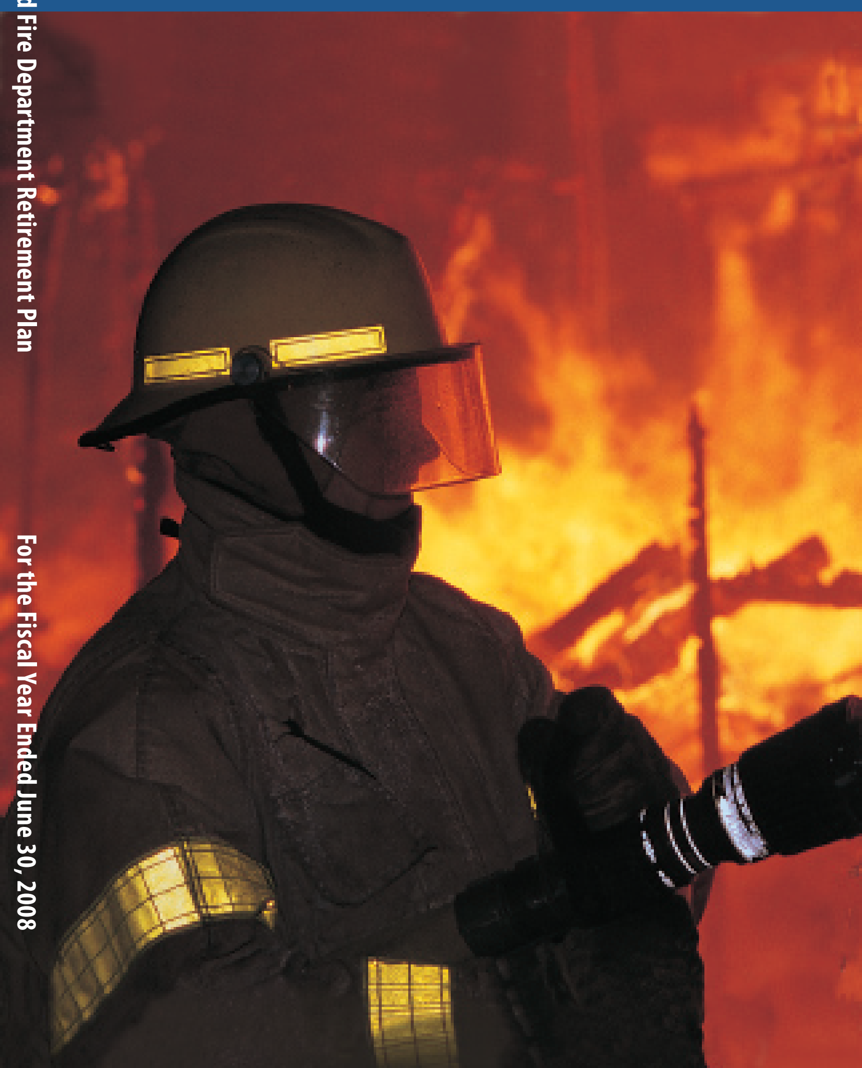
Police and Fire Department Retirement Plan

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



City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Comprehensive Annual Financial Report

Police and Fire Department Retirement Plan

For the Fiscal Year Ended June 30, 2008

Police and Fire Department

Retirement Plan

Russell U. Crosby

Director

A Pension Trust Fund of

the City of San José, California

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Department of Retirement Services

1737 North First Street, Suite 580

San José, California 95112-4505

408 392-6700 Phone

408 392-6732 Fax

www.sjretirement.com

CITY OF SAN JOSE

CAPITAL OF SILICON VALLEY

Board Chair Letter

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

October 8, 2008

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate of return of (5.1%) on investments, compared to (4.4%) return for its benchmark and the Independent Consultants Cooperative's (ICC) Public Fund Median. Additionally, the Plan earned a time-weighted rate of return of 8.1% and 10.3% for the three-year and five-year periods ending June 30, 2008 respectively, while the ICC Public Fund Median earned a time-weighted rate of return of 6.8% and 8.9% for the same periods. The fair value of the Plan's investments decreased from $2,738,104,000 to $2,561,590,000, net of pending purchases and sales (see Investment Summary on page 72).
- Changes in the Plan's staffing included the appointment of a new Director. The Trustees hired NEPC, LLC as the Plan's new investment consultant and hired the law firm of Hanson Bridgett LLP to assist the Plan with investment matters.
- The Plan introduced a new voluntary life insurance program for retirees and opened a window of opportunity for domestic partners to be included for survivorship and medical benefits.
- The Board recommended and the City Council approved an ordinance amending the San Jose Municipal Code to provide the City with the option to make lump sum payments of the City's annual required contribution to the Plan.
- During the year, the Plan offered a record 73 educational classes with over 1,800 Police, Fire, and Federated active and retired member participation.

The Board believes that the professional services rendered by the staff, the auditors, investment consultant, actuary, 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, Chairman
Board of Administration

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Introductory Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Letter of Transmittal

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

October 8, 2008

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

Dear Board 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, 2008. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias Gini & O'Connell LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 14.

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

Certificate of Achievement

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). 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

During the fiscal year 2007-08, the City appointed a new Director and the Trustees replaced Mercer Investment Consulting with NEPC, LLC as investment consultants of the Plan and hired the law firm of Hanson Bridgett LLP to assist with investment matters.

The Trustees approved new asset allocation targets following completion of a preliminary asset allocation study. The new asset allocation reduced the Plan's exposure to Equities and Fixed Income and increased its allocation to Alternative Investments. Transition to the new asset allocation targets will continue through fiscal year 2008-09.

The Trustees approved the actuarially determined prepayment amount to be paid by the City on August 1, 2008. The City Council adopted an ordinance amending the San Jose Municipal Code to provide the City with the option to make lump sum payments of City's required contributions to the Plan.

The Plan in conjunction with the Federated City Employees' Retirement System established the Joint Committee on Solutions to the Retiree Health Care. The focus of the Committee was to review the impact GASB 43 and 45.

The Plan introduced a new voluntary life insurance program for retirees. In compliance with State law, the Board opened a window of opportunity for domestic partners to have their partners included for survivorship and medical benefits. The Plan also coordinated with the City's Finance Department procedures related to military reservists returning from active duty.

During the year, the Plan offered a record 73 educational classes with over 1,800 Police, Fire, and Federated active and retired members participating.

Letter of Transmittal *Continued*

Changes in Plan Membership

Plan membership changes for the defined benefit pension plan for fiscal year 2007-08 were as follows:

	2008	*2007*	*Increase*	*Change*
Active Members*	2,253	2,216	37	1.67%
Retired Members	1,304	1,265	39	3.08%
Survivors**	290	271	19	7.01%
TOTAL	**3,847**	**3,752**	**95**	**2.53%**

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

***Survivor total includes ex-spouses.*

Financial and Economic Summary

The 2007-08 fiscal year was a difficult year as the effects of sub-prime mortgages continued to create a difficult situation for financial institutions including the government-sponsored home mortgage giants. Stock markets, both domestic and international, performed poorly during the fiscal year. Volatility has soared as investors remain anxious and uncertainty continues around future market direction and oil prices jumped sharply during the year.

Investment Summary

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

Over the past fiscal year, the Plan's return was (5.1%), while the Independent Consultant Cooperative's (ICC) Public Funds median return over the same period was (4.4%). The Plan's return was 8.1% and 10.3% for the three-year and five-year periods ending June 30, 2008 respectively, while the ICC Public Funds median was 6.8 % and 8.9% for the same periods. In the valuation of pension benefits the actuarial assumption for the rate of return that will be earned on the Plan is 8.0%. The impact of the difference between the actual rate of return earned on the Plan, (5.1%), and the 8.0% assumption will result in an investment loss that will be reflected in the pension liability of next year's CAFR. Moreover, the fair value of the Plan's investments decreased from $2,738,104,000 to $2,561,590,000, net of pending purchases and sales (see Investment Summary on page 72).

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

Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the funding ratio of the Defined Benefit Pension Plan was at approximately 99.70%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 42. The net decrease in Plan assets for fiscal year 2007-08 was $175,428,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 24.

Conclusion

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

Respectfully Submitted,

Russell U. Crosby
Director, Retirement Services

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007

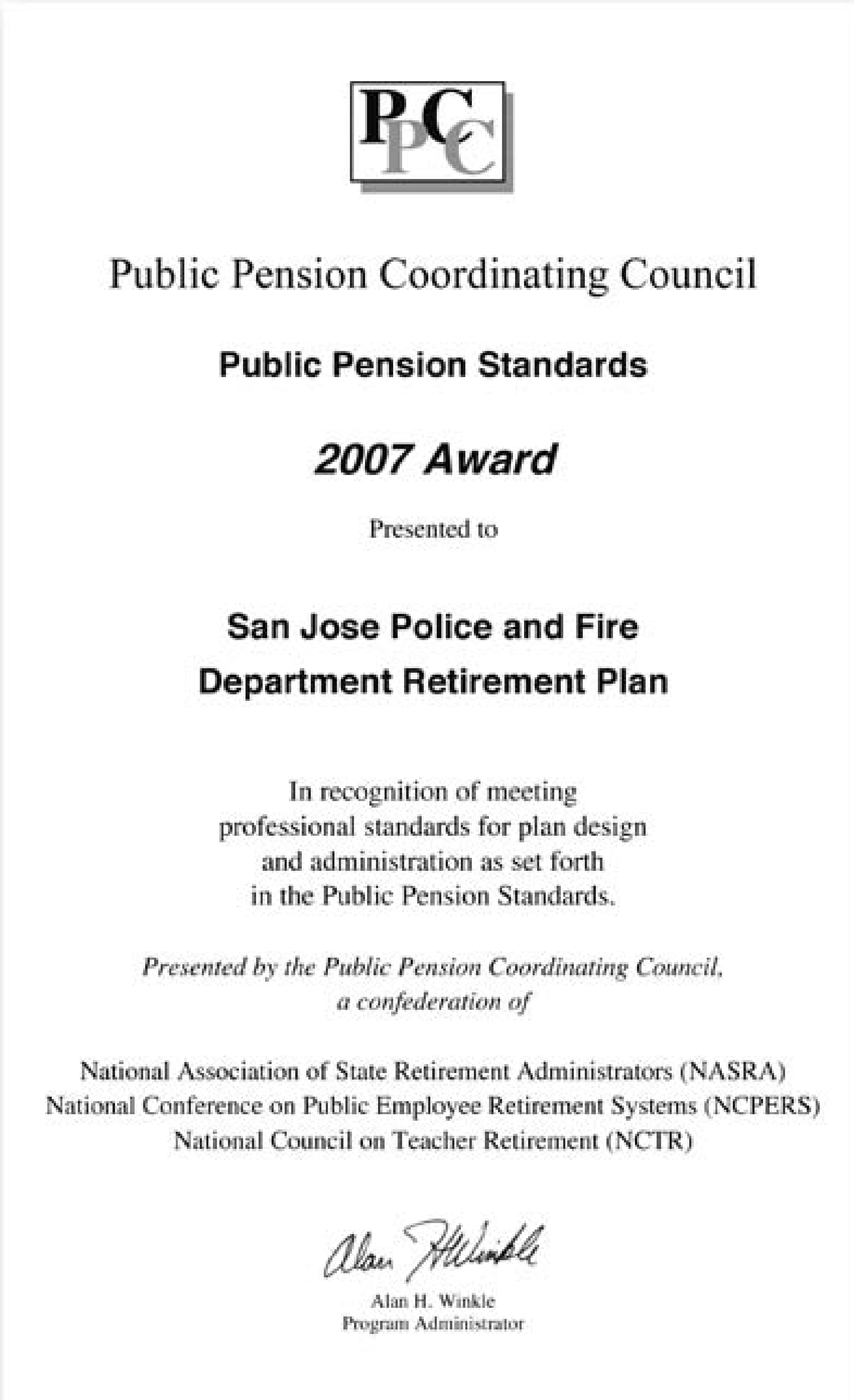
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

Certificate of Meeting Professional Standards in Public Pensions



Public Pension Coordinating Council

Public Pension Standards

2007 Award

Presented to

San Jose Police and Fire Department Retirement Plan

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

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

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

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

The Retirement System is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two City employees elected by members of the system, a Retiree Representative, and a public member who is not connected with the City and has significant banking or investment experience selected by the four Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San Jose Municipal Code.

As of June 30, 2008, 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, 2011.

KEN HEREDIA, VICE CHAIRMAN
Retired Plan Member appointed to the Board in May 2000. His current term expires November 30, 2008.

BRET MUNCY
Employee Representative for the Police Department appointed to the Board in December 2001. His current term expires November 30, 2009.

BILL BRILL
Civil service commission member appointed on October 27, 1998. His current term expires December 1, 2009.

FORREST WILLIAMS
City Council Member appointed to the Board on January 1, 2007.

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

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

ADMINISTRATION

RUSSELL U. CROSBY
DIRECTOR

DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Effective July 8, 2008)

OUTSIDE CONSULTANTS

ACTUARY
The Segal Company
San Francisco, CA

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

ATTORNEY, INVESTMENT
Hanson, Bridgett LLP
San Francisco, CA

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

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

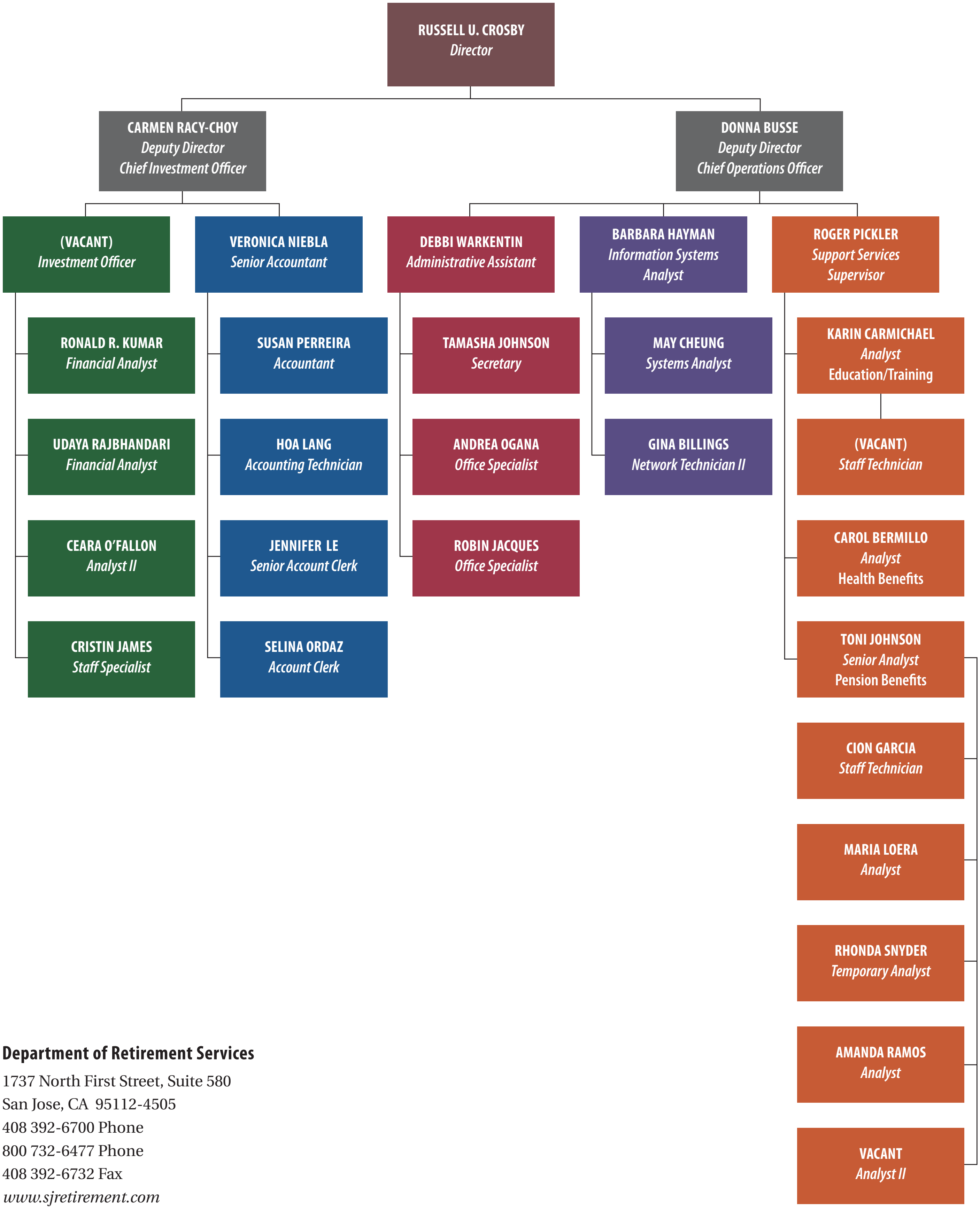
A list of Investment Professionals begins on page 57 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

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

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at *http://www.sjretirement.com/PF/Meetings/Agendas.asp* or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112-4505. Meeting times and locations are subject to change; please call our office at (408) 392-6700 for current information.

Department of Retirement Services Organizational Chart



Department of Retirement Services
1737 North First Street, Suite 580
San Jose, CA 95112-4505
408 392-6700 Phone
800 732-6477 Phone
408 392-6732 Fax
www.sjretirement.com

Summary of the Principal Plan Provisions

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

Police Department members contribute 11.67 % and Fire Department members contribute 11.26% of their base salary.

CITY'S CONTRIBUTION

The City contributes 28.90% of the base salary of the Police Department members and 25.61% of the base salary of the Fire Department members.

INTEREST

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

TERMINATION BENEFITS

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

MILITARY LEAVE CREDIT

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

VESTING OF PENSION CREDIT

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

SERVICE RETIREMENT

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

SERVICE-CONNECTED DISABILITY

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

NON-SERVICE-CONNECTED DISABILITY

Retirement for a non-service-connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for the first two years plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 50% plus 4% for each year in excess of 20 years of service (Maximum benefit, 90% of final average salary).

EARLY SERVICE RETIREMENT

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

Summary of the Principal Plan Provisions *Continued*

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

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

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

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

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

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

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

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

REMARRIAGE OF SPOUSE

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

POST-RETIREMENT MARRIAGE

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

MANAGEMENT

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

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

ADMINISTRATION

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

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

ACTUARIAL SOUNDNESS

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

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the System's resources. Nationally known investment advisory services from managers listed on page 57 are retained for full-time investment counsel. NEPC, LLC is retained as the pension consultant.

COST OF LIVING

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

Financial Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Independent Auditor's Report

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916-928-4600 phone

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

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213-286-6400

402 West Broadway, Suite 400
San Diego, CA 92101
619-573-1112

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2008 and 2007, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of June 30, 2008 and 2007, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report *Continued*

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

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

In accordance with *Government Auditing Standards,* we have also issued our report dated October 8, 2008 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The introductory section, other supplementary information in the financial section, the investment, actuarial and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audit of the basic finical statements, and accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California
October 8, 2008

Management's Discussion and Analysis (Unaudited)

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

Russell U. Crosby
Director, Retirement Services

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights for Fiscal Year 2008

- The net assets of the Plan at the close of the fiscal year 2008 are $2,560,221,000 (net assets held in trust for pension benefits and postemployment healthcare benefits.) All of the net assets are available to meet the Plan's ongoing obligations to Plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $27,747,000.
- The Plan's total net assets held in trust for pension benefits and postemployment healthcare benefits decreased by approximately $175,428,000 or 6.4%, primarily as a result of the depreciation of the fair value of investments caused by the decline in the equity investment market.
- Additions to Plan Net Assets for the year was a negative $61,389,000, which includes member and employer contributions of $95,351,000, net investment loss before securities lending income of $160,026,000, and net securities lending income of $3,286,000.
- Deductions from Plan Net Assets increased from $104,250,000 to $114,039,000 over the prior year, or approximately 9.4% due primarily to increased benefit payments and healthcare insurance premiums.

Overview of the Financial Statements

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

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

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

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

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

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and that state and local government pension plan reports use 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 year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the Plan's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health (see the Plan's basic financial statements on pages 22-25 of this report).

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 26-41 of this report).

Management's Discussion and Analysis (Unaudited) *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 and postemployment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 42 of this report).

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 16). The assets of the Plan exceeded its liabilities at the close of fiscal year 2008 and 2007.

As of June 30, 2008, $2,560,221,000 in total net assets is held in trust for pension benefits and postemployment healthcare benefits (see Table 1a on page 16). All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve of $27,747,000, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2007, $2,735,649,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits (see Table 1b on page 16). This total represented an increase of 18.4% in net assets over the prior year primarily due to appreciation in the fair value of investments of $391,356,000.

As of June 30, 2008, total net assets decreased by 6.4% from the prior year primarily due to net depreciation in fair value of investments of $221,907,000.

As of June 30, 2008, receivables increased by $45,057,000 or 85.4% mainly due to an increase in receivables from brokers and others for year-end investment trades. In the previous year, receivables decreased by $84,332,000 or 61.5%, which was due to a decrease in receivables from brokers and others for year-end investment trades.

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

As of June 30, 2007, total liabilities increased by $42,587,000, or 6.3%, compared with June 30, 2006, also due to an increase in securities lending collateral due to borrowers.

Reserves

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 28). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by the San Jose Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

The appreciation in the fair value of investments and the five-year smoothing of investment gains resulted in a decrease of $318,812,000 as of June 30, 2008, and an increase of $228,277,000 as of June 30, 2007, in "Unrealized Gains on Investments Held." These amounts are components of the General Reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

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

As of June 30, 2008 and 2007

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

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

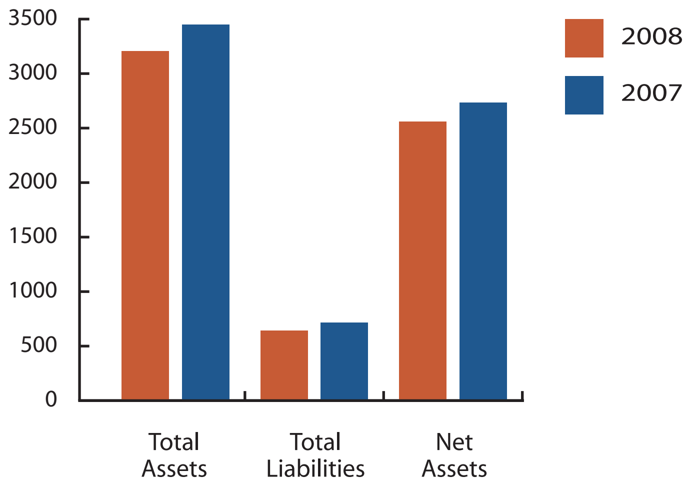
As of June 30, 2007 and 2006

	2007	*2006*	*Increase Amount*	*Increase Percent*
Receivables	$ 52,779,000	$137,111,000	$(84,332,000)	-61.5%
Investments at Fair Value	3,396,978,000	2,845,449,000	551,529,000	19.4%
Total Assets	**3,449,757,000**	**2,982,560,000**	**467,197,000**	**15.7%**
Current Liabilities	714,108,000	671,521,000	42,587,000	6.3%
Total Liabilities	**714,108,000**	**671,521,000**	**42,587,000**	**6.3%**
NET ASSETS	**$2,735,649,000**	**$2,311,039,000**	**$424,610,000**	**18.4%**

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

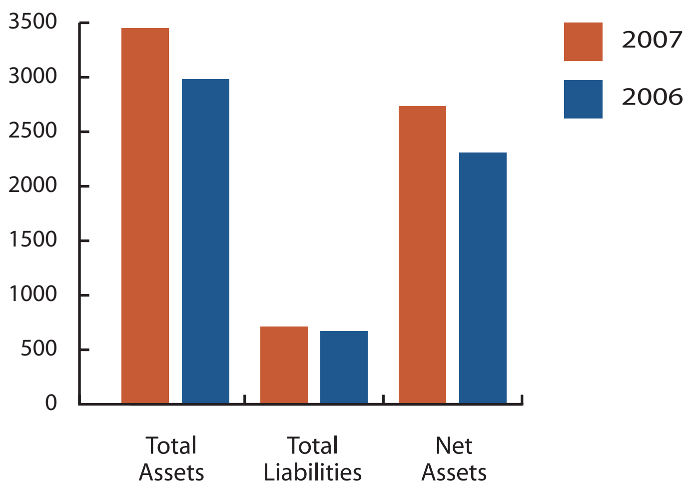
POLICE AND FIRE PLAN'S NET ASSETS (Table 1a)

As of June 30, 2008 and 2007



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

As of June 30, 2007 and 2006



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

ADDITIONS TO PLAN NET ASSETS (Table 2a)

For the Fiscal Years Ended June 30, 2008 and 2007

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

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

ADDITIONS TO PLAN NET ASSETS (Table 2b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	*2006*	*Increase Amount*	*Increase Percent*
Employee Contributions	$ 24,039,000	$ 22,174,000	$ 1,865,000	8.4%
Employer Contributions	55,707,000	50,002,000	5,705,000	11.4%
Net Investment Income*	447,981,000	233,278,000	214,703,000	92.0%
Net Securities Lending Income	1,133,000	1,036,000	97,000	9.4%
TOTAL ADDITIONS	**$528,860,000**	**$306,490,000**	**$222,370,000**	**72.6%**

** Net of Investment Expenses of $11,304,000 and $9,355,000 in 2007 and 2006, respectively.*

DEDUCTIONS TO PLAN NET ASSETS (Table 3a)

For the Fiscal Years Ended June 30, 2008 and 2007

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

DEDUCTIONS TO PLAN NET ASSETS (Table 3b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	*2006*	*Increase Amount*	*Increase Percent*
Retirement Benefits	$ 81,953,000	$ 75,189,000	$ 6,764,000	9.0%
Healthcare Insurance Premiums	14,794,000	12,880,000	1,914,000	14.9%
Death Benefits	5,042,000	4,803,000	239,000	5.0%
Refund of Contributions	210,000	144,000	66,000	45.8%
Administrative	2,251,000	2,213,000	38,000	1.7%
TOTAL DEDUCTIONS	**$104,250,000**	**$95,229,000**	**$9,021,000**	**9.5%**

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

CHANGES IN PLAN NET ASSETS (Table 4a)

For the Fiscal Years Ended June 30, 2008 and 2007

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

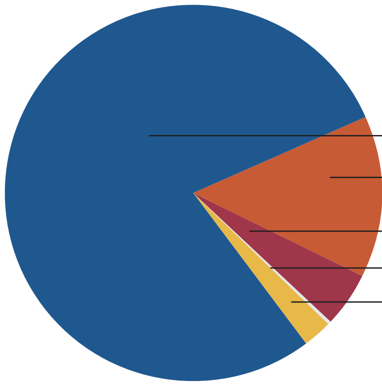
CHANGES IN PLAN NET ASSETS (Table 4b)

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	*2006*	*Increase Amount*	*Increase Percent*
Total Additions	$ 528,860,000	$ 306,490,000	$ 222,370,000	72.6%
Total Deductions	104,250,000	95,229,000	9,021,000	9.5%
NET INCREASE IN PLAN ASSETS	**$424,610,000**	**$211,261,000**	**$213,349,000**	**101.0%**

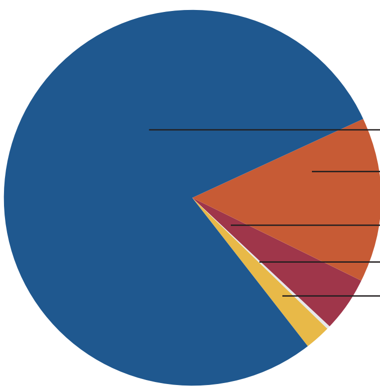
Management's Discussion and Analysis (Unaudited) *Continued*

DEDUCTIONS TO PLAN NET ASSETS 2008



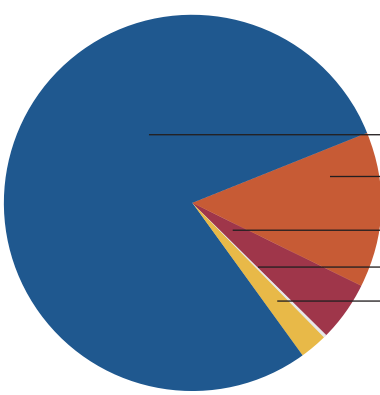
Retirement Benefits	78.7%	$89,704,000
Healthcare Insurance Premiums	14.0%	$15,974,000
Death Benefits	4.8%	$5,467,000
Refund of Contributions	0.1%	$168,000
Administrative and Other	2.4%	$2,726,000

DEDUCTIONS TO PLAN NET ASSETS 2007



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

DEDUCTIONS TO PLAN NET ASSETS 2006



Retirement Benefits	79.0%	$75,189,000
Healthcare Insurance Premiums	13.5%	$12,880,000
Death Benefits	5.0%	$4,803,000
Refund of Contributions	0.2%	$144,000
Administrative and Other	2.3%	$2,213,000

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

THE POLICE AND FIRE PLAN ACTIVITIES

Market returns were the main driver of decreased net assets, which declined by $175,428,000, thereby accounting for a 6.4% decrease from the prior year. Key elements of the Plan's financials are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2008, was a negative $61,389,000 (see Table 2a on page 18).

By fiscal year ended June 30, 2008, overall additions had decreased by $590,249,000, or 111.6%, from the prior year primarily due to a decrease of $608,007,000, or 135.7%, in net investment income excluding securities lending income, which was caused by investment depreciation. The Plan's time-weighted rate of return for the fiscal year ended June 30, 2008, was -5.1% versus 19.3% for the fiscal year 2006-07.

Additions for the fiscal year ended June 30, 2007, totaled $528,860,000, which represented an increase of $222,370,000, or 72.6%, from 2006 primarily due to net investment income, which increased by 92.0% from the previous year (see Table 2b on page 18).

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2008, totaled $114,039,000, an increase of 9.4% over June 30, 2007 (see Table 3a on page 18). Increases in retirement benefits of $7,751,000 and healthcare insurance premiums of $1,180,000 were the main cause for increased expenses. Retirement benefits increased due to benefit enhancements and healthcare insurance costs increased due to higher premiums and administrative expenses.

Deductions for the fiscal year ended June 30, 2007, totaled $104,250,000, an increase of 9.5% over June 30, 2006 (see Table 3b on page 18). Increases in retirement benefits of $6,764,000 and healthcare insurance premiums of $1,914,000 were also the main reasons for increased expenses. Retirement benefits increased due to benefit enhancements and increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums and administrative expenses.

The Plan's Fiduciary Responsibilities

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

Economic Factors and Rates Affecting Next Year

The Plan completed a new actuarial valuation dated June 30, 2007, and the rates adopted took effect June 29, 2008. The rates calculated in the recent actuarial valuation are adopted by the Board for the fiscal years that extend from July 1, 2008 though June 30, 2009 and July 1, 2009 through June 30, 2010.

For the Fire Department, the new rates increased the City's contribution from 25.61% to 28.31% and increased the Employees' contribution from 11.26% to 12.40%. For the Police Department, the new rates decreased the City's contribution from 28.90% to 25.80% and increased the Employee's contribution from 11.67% to 11.96%.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the date of our most recent actuarial valuation, the funding status of the Pension Plan increased from 97.81% to 99.70%. The increase was mainly due to an increase in the actuarial value of assets. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. In the 2007 actuarial valuation, the total unrecognized investment gains were $294.3 million versus an unrecognized gain of $61.4 million in the June 30, 2005 valuation. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes over the next five years, to the extent it is not offset by recognition of investment losses derived from future experiences.

Future experiences include the Plan's exposure to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 8.0%. Market risk could impact the financial condition of the Plan and the City's required contribution towards the Plan. Any contribution rate impact from the capital markets depends in large measure on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods as the actuarial valuation is performed once every two years.

Requests for Information

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

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

Respectfully Submitted,

Russell U. Crosby
Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2008 and 2007

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

Continued

**A schedule of funding progress is presented on page 42.*
See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF PLAN NET ASSETS *Continued*

June 30, 2008 and 2007

(Dollars in thousands)	2007 *Pension Benefits*	2007 *Postemployment Healthcare Benefits*	2007 *Total*
ASSETS			
Receivables:			
Employee contributions	$ 747	$ 364	$ 1,111
Employer contributions	2,063	395	2,458
Brokers and others	40,498	757	41,255
Accrued investment income	7,809	146	7,955
Total receivables	**51,117**	**1,662**	**52,779**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	149,176	2,787	151,963
U.S. government agency securities	250,930	4,689	255,619
International government bonds	21,104	394	21,498
Domestic corporate bonds	219,081	4,095	223,176
International corporate bonds	21,682	405	22,087
Domestic equity securities	1,021,374	19,084	1,040,458
International equity securities	780,890	14,590	795,480
Private equity	37,023	692	37,715
Derivatives	42	1	43
State and local obligations	2,944	55	2,999
Forward international currency contracts	(32)	(1)	(33)
Collective short-term investment funds	140,961	2,634	143,595
Real estate	191,691	3,582	195,273
Securities lending cash collateral investment pool	497,805	9,300	507,105
Total investments	**3,334,671**	**62,307**	**3,396,978**
TOTAL ASSETS	**3,385,788**	**63,969**	**3,449,757**
LIABILITIES			
Payable to brokers	197,118	3,683	200,801
Securities lending collateral due to borrowers	497,805	9,300	507,105
Other liabilities	6,082	120	6,202
TOTAL LIABILITIES	**701,005**	**13,103**	**714,108**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	2,684,783	-	2,684,783
Postemployment healthcare benefits	-	50,866	50,866
TOTAL NET ASSETS	**$2,684,783**	**$50,866**	**$2,735,649**

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2008 and 2007

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

Continued

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS *Continued*

For the Fiscal Years Ended June 30, 2008 and 2007

	2007		
(Dollars in thousands)	*Pension Benefits*	*Postemployment Healthcare Benefits*	*Total*
ADDITIONS			
Contributions:			
Employee	$ 16,050	$ 7,989	$ 24,039
Employer	46,625	9,082	55,707
Total Contributions	**62,675**	**17,071**	**79,746**
Investment income:			
Net appreciation in fair value of investments	384,286	7,070	391,356
Interest income	33,828	623	34,451
Dividend income	26,438	487	26,925
Net rental income	6,434	119	6,553
Less investment expense	(11,099)	(205)	(11,304)
Net investment income before securities lending income	**439,887**	**8,094**	**447,981**
Securities lending income:			
Earnings	23,434	432	23,866
Rebates	(21,845)	(402)	(22,247)
Fees	(477)	(9)	(486)
Net securities lending income	**1,112**	**21**	**1,133**
Net investment income	**440,999**	**8,115**	**449,114**
TOTAL ADDITIONS	**503,674**	**25,186**	**528,860**
DEDUCTIONS			
Retirement benefits	81,953	-	81,953
Healthcare insurance premiums	-	14,794	14,794
Death benefits	5,042	-	5,042
Refund of contributions	210	-	210
Administrative expenses and other	2,206	45	2,251
TOTAL DEDUCTIONS	**89,411**	**14,839**	**104,250**
NET INCREASE	**414,263**	**10,347**	**424,610**
NET ASSETS HELD IN TRUST FOR			
Pension benefits & post-employment healthcare benefits			
BEGINNING OF YEAR	**2,270,520**	**40,519**	**2,311,039**
END OF YEAR	**$2,684,783**	**$50,866**	**$2,735,649**

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

For The Fiscal Years Ended June 30, 2008 and 2007

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Benefit Plan, was established in 1961 and last amended on June 24, 2008, to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $2,726,000 and $2,251,000 for 2008 and 2007, respectively. These costs are financed through investment earnings.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately $271,812,000 and $239,140,000 for 2008 and 2007, respectively. Covered payroll amounted to approximately $241,781,000 and $209,025,000 in 2008 and 2007, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2008 and 2007, employee membership data related to the Plan was as follows:

Defined Benefit Pension Plan	2008	2007
Retirees and beneficiaries currently receiving benefits	1,594	1,536
Terminated vested members not yet receiving benefits	74	71
Active members	2,179	2,145
TOTAL	**3,847**	**3,752**

Postemployment Healthcare Plan	2008	2007
Retirees and beneficiaries currently receiving benefits	1,418	1,375
Terminated vested members not yet receiving benefits	11	13
Active members	2,179	2,145
TOTAL	**3,608**	**3,533**

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

(b) Pension Benefits

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

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

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

(c) Death Benefits

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

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

Notes to Basic Financial Statements *Continued*

NOTE 1 – DESCRIPTION OF THE PLAN *Continued*

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

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

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

(d) Disability Benefits

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

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess 20 years of service (maximum benefit, 90% of final average salary).

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

(c) Investments

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

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals. The fair value of the private equities are based on actual cash flows to/from the Plan and the transactions and unrealized gain/loss as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the financial statements and other portfolio information received from their underlying portfolio partnerships. The Plan's investments in pooled funds have the underlying securities valued by the fund manager in accordance with the above standards. As of June 30, 2008, the Plan had the following pooled fund holdings: $18,640,000 in fixed income, $259,615,000 in international equities, $62,701,000 in real estate, and $63,796,000 in private equities. As of June 30, 2007, the Plan had the following pooled fund holdings: $24,295,000 in fixed income, $298,534,000 in international equities, $58,323,000 in real estate, and $37,715,000 in private equities.

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

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2008 and 2007, the net assets, totaling $2,560,221,000 and $2,735,649,000, respectively, are allocated as follows:

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Defined Benefit Pension Plan*	*Postemployment Healthcare Plan*	*Total*
June 30, 2008:					
Employee contributions	$ 183,845	$ 53,056	$ 236,901	$ 5,429	$ 242,330
Supplemental retiree benefit	27,747	-	27,747	-	27,747
General reserve	1,535,009	708,988	2,243,997	46,147	2,290,144
TOTAL	$ 1,746,601	$ 762,044	$ 2,508,645	$ 51,576	$ 2,560,221
June 30, 2007:					
Employee contributions	$ 168,142	$ 49,499	$ 217,641	$ 4,540	$ 222,181
Supplemental retiree benefit	18,198	-	18,198	-	18,198
General reserve	1,697,592	751,352	2,448,944	46,326	2,495,270
TOTAL	**$1,883,932**	**$800,851**	**$2,684,783**	**$50,866**	**$2,735,649**

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

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

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

General Reserve is a reserve that represents net earnings resulting from interest earnings, realized and unrealized investment gains and losses. It is fully funded for the retirement fund and partially funded for the postemployment healthcare plan. The unrealized gains and losses as of June 30, 2008 and 2007 were $229,584,000 and $548,396,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-annually from the general reserve to the employee contributions reserve of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year and based on audited financial statements, SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% of total employee contributions reserve balance and the SRBR allocation remain in the general reserve category. For fiscal years 2007 and 2006, excess earnings were $9,549,000 and $893,000, respectively. The SRBR distribution to retirees for fiscal years 2007 and 2006, were $2,392,958 and $1,583,352, respectively. SRBR distributions are determined after the fiscal year end and are distributed to retirees' the following fiscal year.

(f) Implementation of Governmental Accounting Standards Board Statements

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

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

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

This Statement aligns disclosures for pension benefits with that of current other postemployment pension disclosure requirements for governments. The Plan's pension plan is disclosed in Note 5 and is presented in accordance with the requirements set forth in Statement 50.

NOTE 3 – INVESTMENTS

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

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate risk. As of June 30, 2008, GNMAs in the amount of $14,479,000 and U.S. government agency securities in the amount of $223,347,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes, of which $6,868,702 are floating rate securities tied to the 6-12 month LIBOR and $1,308,187 are tied to

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

the 12-month MTA. As of June 30, 2007, GNMAs in the amount of $13,687,000 and U.S. government agency securities in the amount of $236,934,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers. However, the Plan's intent is to hold all fixed maturity investments until maturity, and accordingly, fixed maturity investments are classified in the following tables as if they were held to maturity. In addition as of June 30, 2008, $10,507,578 of the asset backed securities, $46,947,981 of the collateralized mortgage obligations, and $3,912,587 of the corporate securities are floating rate securities tied to the one to 12-month LIBOR. In 2007, the amounts for the same type of securities were $9,527,000, $10,110,000, and $4,696,000, respectively.

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

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

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

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

Domestic Equity – Minimum 29% and maximum 39% of the fair value of the aggregate portfolio.

International Equity – Minimum 10% and maximum 25% of the fair value of the aggregate portfolio.

Emerging Market Equity – Limited to 8% of the fair value of the aggregate portfolio.

Domestic fixed Income – Minimum 15% and maximum 25% of the fair value of the aggregate portfolio.

Long Duration Fixed Income – Limited to 7% of the fair value of the aggregate portfolio.

Private Market Equity – Limited to 8% of the fair value of the aggregate portfolio. The Board approved temporarily placing the funds allotted to the private equity asset class into the Plan's small cap asset class.

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

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

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

As of June 30, 2008, the Plan held $183,524,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 6% of its plan net assets. As of June 30, 2007, the Plan held $198,142,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represented 6% of its plan net assets.

The following tables provide information as of June 30, 2008 and 2007, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

Investment Maturities at Fair Value

As of June 30, 2008

(Dollars in thousands)

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

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

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

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

Investment Maturities at Fair Value

As of June 30, 2007

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ -	$ -	$ -	$ 63,035	$ 31,489	$ 57,327	$ 151,851	$ 154,289
U.S. Treasury Strips	-	-	-	-	-	112	112	109
GNMA	-	-	-	-	-	13,687	13,687	13,780
FHLB	-	936	219	2,748	1,095	-	4,998	5,064
FHLMC	-	-	-	1,664	46	37,082	38,792	39,254
FNMA	2,374	-	371	289	4,294	190,814	198,142	200,262
Asset Backed Securities	-	-	-	115	417	13,258	13,790	13,886
Collateralized Mortgage Obligations	-	-	-	864	-	79,946	80,810	81,524
Corporate Bonds	824	616	1,672	24,264	26,578	66,115	120,069	123,749
State and Local Obligations	-	-	-	-	-	2,999	2,999	3,070
Pooled Domestic Bonds	-	-	-	-	8,507	-	8,507	6,624
Collective Short Term Investment Fund	143,595	-	-	-	-	-	143,595	143,592
Total Domestic Fixed Maturity	**146,793**	**1,552**	**2,262**	**92,979**	**72,426**	**461,340**	**777,352**	**785,203**
International								
Government Bonds								
Japanese Yen	2,552	-	-	-	-	-	2,552	2,573
United States Dollar Denominated	-	-	-	-	889	2,269	3,158	3,591
Pooled International Fixed Maturity	-	-	-	-	2,716	13,072	15,788	13,213
Total International Government Bonds	**2,552**	**-**	**-**	**-**	3,605	15,341	21,498	19,377
Corporate Bonds								
United States Dollar Denominated	-	-	-	7,573	4,920	9,594	22,087	22,023
Total International Corporate Bonds	**-**	**-**	**-**	**7,573**	**4,920**	**9,594**	**22,087**	**22,023**
Total International Fixed Maturity	**2,552**	**-**	**-**	**7,573**	**8,525**	**24,935**	**43,585**	**41,400**
Derivatives	162	(106)	(13)	-	-	-	43	207
TOTAL FIXED MATURITY	**$149,507**	**$1,446**	**$2,249**	**$100,552**	**$80,951**	**$486,275**	**$820,980**	**$826,810**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$ 1,040,458	$ 805,422
International		
Australian Dollar	13,045	9,203
Brazilian Real	8,631	5,310
British Pound	85,551	64,215
Canadian Dollar	9,316	8,057
Egyptian Pound	1,863	1,574
Euro Currency	153,405	111,303
Hong Kong Dollar	12,690	6,804
Indian Rupee	6,047	4,032
Indonesian Rupiah	2,239	2,174
Japanese Yen	78,136	68,292
Malaysian Ringgit	2,531	1,606
Mexican Peso	5,636	2,335
New Zealand Dollar	1,968	2,059
Norwegian Krone	2,103	1,988
Singapore Dollar	8,417	3,892
South African Rand	4,108	3,797
South Korean Won	13,474	9,767
Swedish Krona	2,560	2,292
Swiss Franc	26,845	18,330
Taiwan Dollar	8,450	6,035
United Arab Emirates Dirham	1,001	1,016
United States Dollar Denominated	48,931	36,217
Total International Currency Equity	**496,947**	**370,298**
Pooled International Equity	298,533	134,315
Total International Equity	**795,480**	**504,613**
TOTAL EQUITIES	**1,835,938**	**1,310,035**
Private Equity	**37,715**	**33,613**
Real Estate	**195,273**	**171,145**
Total Private Equity and Real Estate	**232,988**	**204,758**
Forward International Currency Contracts, Net	**(33)**	**-**
Securities Lending Collateral Investment Pool	**507,105**	**507,105**
TOTAL INVESTMENTS	**$3,396,978**	**$2,848,708**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following table provides information as of June 30, 2008 and 2007, concerning credit quality risk:

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

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

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

Ratings of Fixed Maturities for June 30, 2007 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
TSY	$151,851	18.5%
AAA	205,210	25.0%
AA	30,671	3.7%
A	33,579	4.1%
BBB	46,296	5.7%
BB	14,472	1.8%
B	7,742	0.9%
CCC & Below	1,108	0.1%
Not Rated*	330,051	40.2%
TOTAL	**$820,980**	**100.0%**

**Comment: 43% of the Not Rated are FNMA, FHMLC/GNMA TBA mortgages and 44% of the Not Rated is Cash Equivalent in the Collective Short Term Investment Fund.*

Forward International Currency Contracts – The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2008 and 2007, the Plan's net position in these contracts is recorded at fair value as forward international currency contract investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2008, total commitments in forward currency contracts to purchase and sell international currencies were $38,597,000 and $38,597,000 respectively, with fair values of $38,595,000 and $38,601,000 respectively. As of June 30, 2007, the Plan had commitments in international currency contracts to purchase and sell international currencies of $4,974,000 and $4,974,000, respectively, with fair values of $4,948,000 and $4,981,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – SECURITIES LENDING PROGRAM

The Plan has a custodial agreement with State Street Corporation (State Street) which authorizes State Street to loan the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Plan does not have a threshold for securities lending. The Plan is fully indemnified by the custodian's borrower indemnification mandate. The Plan receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, State Street is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Plan or borrowers.

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

The Plan authorized State Street Corporation to invest and reinvest cash collateral in State Street's pooled investment vehicle which must have an effective duration of 120 days or less. Securities with maturities of 13 months or more must have a rating of A or better by at least two nationally recognized statistical rating organizations, or if unrated, be of comparable quality. Securities with maturities of less than 13 months are rated at least A-1/P-1. As of June 30, 2008, the size of the cash collateral pooled vehicle was $86.2 billion and the weighted average maturity of 41.84 days. The cash collateral investments included asset backed securities (48.91% of the pool), certificates of deposit (21.00%), corporate securities (6.15%), bank notes (14.76%), and other securities (9.18%). As of June 30, 2007, the size of the cash collateral pooled vehicle was $108.6 billion and the weighted average maturity of 68.25 days. The cash collateral

Notes to Basic Financial Statements *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

investments included asset backed securities (43.39% of the pool), certificates of deposit (27.04%), corporate securities (18.52%) and other bank notes (11.05%). All of the underlying investments of the Plan's securities lending cash collateral are held by the counterparty, not in the name of the Plan.

The loaned securities as of June 30, 2008 and 2007 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2008, the underlying securities loaned by the Plan as a whole amounted to approximately $398,846,000. The cash collateral and the non-cash collateral totaled $397,773,000 and $13,761,000, respectively. As of June 30, 2007, the underlying securities loaned by the Plan as a whole amounted to approximately $505,984,000. The cash collateral totaled $507,105,000 and non-cash collateral totaled $14,534,000. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2008 and 2007.

Securities Lending – Investment and Collateral Received

(At Fair Value in Thousands)

Type of Investment Lent	*2008*	*2007*
For Cash Collateral		
Domestic Corporate Bonds	$ 23,931	$ 16,893
Domestic Equity Securities	261,815	270,006
U.S. Government Agency Securities	4,589	6,767
U.S. Treasury Securities	63,449	113,503
International Equity Securities	31,712	84,551
Total Lent for Cash Collateral	**$385,496**	**$491,720**
For Non-Cash Collateral		
Domestic Equity Securities	5,529	4,998
U.S. Treasury Securities	6,957	9,266
International Equity Securities	864	-
Total Lent for Non-Cash Collateral	**13,350**	**14,264**
TOTAL SECURITIES LENT	**$398,846**	**$505,984**

Type of Collateral Received	*2008*	*2007*
Cash Collateral	**$397,773**	**$507,105**
Non-Cash Collateral		
For Lent Domestic Equity Securities	5,769	5,152
For Lent U.S. Treasury Securities	7,088	9,382
For Lent International Equity Securities	904	-
Total Non-Cash Collateral	**13,761**	**14,534**
TOTAL COLLATERAL RECEIVED	**$411,534**	**$521,639**

Notes to Basic Financial Statements *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY

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

The City and the participating employee contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2008 and 2007 were as follows:

	City		Employee	
Period	*Police*	*Fire*	*Police*	*Fire*
6/29/08 - 6/30/08	21.61%	24.12%	8.18%	8.62%
7/01/07 - 06/28/08	24.71%	21.42%	7.89%	7.48%
12/17/06 - 6/30/07	24.32%	21.03%	7.89%	7.48%
7/02/06 - 12/16/06	21.03%	21.03%	7.48%	7.48%
7/1/06	21.77%	21.77%	8.27%	8.27%

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

(Dollars in thousands)

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

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

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

Notes to Basic Financial Statements *Continued*

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

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

Description	*Method/Assumption*	
Valuation date	June 30, 2005	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll (assuming a 4.00% total payroll increase)
Remaining amortization period	12 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations	10 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Assumed rate of return on investments	8% per annum	8% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with four-year setback, is used for male members. The 1994 Female Group Annuity Mortality Table with one year set forward is used for female members.	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set forward 1 year) RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2005 Experience Analysis	Based upon the June 30, 2007 Experience Analysis
Salary increases	10% for employees for the first five years of service; 7% for 6 or 7 years of service and 4.75% in excess of 7 years of service. Of the total salary increases, 3% is for inflation and 1.0% is real across-the-board salary increase.	0-6 years of service - 9.00% 6-8 years of service - 6.00% 8+ years of service - 5.00% Of the total salary increase, 4% is for the combined inflation and real across-the-board salary increase
Cost-of-living adjustments	3.00% a year	3.00% a year of retirement income

** The Plan performs biannual actuarial valuations to establish contribution rates for the following two fiscal years. For fiscal years ended June 30, 2007 and 2008, contribution rates were based on the actuarial valuation performed as of June 30, 2005. The actuarial valuation assumptions for June 30, 2005 and 2007 are presented above.*

Notes to Basic Financial Statements *Continued*

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

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

NOTE 6 – DEFINED POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions – Contributions to the Defined Postemployment Healthcare Benefit Plan are made by both the City and the participating employees. Contributions for the fiscal years ended June 30, 2008 and 2007 are based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement No. 43. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2008 and 2007 for the Defined Postemployment Healthcare Benefit Plan were as follows:

	City		Employee	
Period	*Police*	*Fire*	*Police*	*Fire*
6/29/08 - 6/30/08	4.19%	4.19%	3.78%	3.78%
7/01/07 - 6/28/08	4.19%	4.19%	3.78%	3.78%
7/02/06 - 6/30/07	4.19%	4.19%	3.78%	3.78%
7/01/06	3.27%	3.27%	2.89%	2.89%

The funding status of the Defined Postemployment Healthcare Plan as of June 30, 2006, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Acturial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded (Overfunded) AAL (UAAL) (b-a)*	*Funded Ratio (a)/(b)*	*Annual Covered Payroll (c)*	*UAAL as a % of Covered Covered Payroll ((b)-(a)/(c))*
6/30/06	$38,381	$851,217	$812,836	5%	$218,521	372%

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

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

Notes to Basic Financial Statements *Continued*

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

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

Description	*Method/Assumption*
Valuation date	June 30, 2006
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2006, open
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Discount rate	5.3% †
Inflation rate	3.0%
Across-the-board pay increases	1.0%
Projected payroll increases	4.0%
Health care cost trend rate:	
Medical	12% in 2007-2008 plan year, decreasing by 1% for each year for seven years until it reaches an ultimate rate of 5%
Dental	5%

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

Notes to Basic Financial Statements *Continued*

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

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

NOTE 7 – SUBSEQUENT EVENTS

Benefit Enhancement – The Memorandum of Agreement (MOA) for both the International Association of Fire Fighters Local 230 (Local 230) and the Police Officers Association (POA) for retirement benefits expired June 30, 2004. The International Association of Fire Fighters Local 230 (Local 230) received an arbitration award in August 2007 with the following changes to be effective July 1, 2008:

- Members will receive a monthly allowance for a service retirement consisting of final average salary multiplied by 2.5% for the first 20 years of service. Members will receive a monthly allowance for a service retirement consisting of final average salary multiplied by 3.0% once the member completes 20 years of service. (maximum benefit, 90% of final average salary).
- Effective July 1, 2008, the surviving spouse or surviving domestic partner of Fire members only that retired, receives the greater of 50% of the member's benefit or 37.5% to 45% of the member's final average salary depending on the years of services and if 1) an employee's death is service related; or 2) an employee's death is non-service related and occurs with at least 20 years of service; 3) a retiree dies who was retired from service or who received a service related disability.

City Contribution Prefunding – On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San Jose Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Plan.

On June 5, 2008, the Board of Administration for the Plan approved the actuarially determined prepayment amount of $56,367,734 paid by the City on August 1, 2008, for biweekly contributions to be made for the 24 pay dates from August 1, 2008 through June 19, 2009.

Impact of the Financial Market Deterioration

The rapid deterioration of the financial markets since June 30, 2008 has been serious and historic in proportion. In September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as $100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt. In addition, the federal government recently assumed control of American International Group Inc. (AIG), the largest insurance company in the United States; Lehman Brothers, the 4th largest investment bank in the US filed for bankruptcy; and Washington Mutual Inc. was seized by government regulators and its branches and assets sold to JPMorgan Chase & Co. On October 3, 2008, the President of the United States signed into law the $700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

The Plan's exposure to the collapse of individual companies is not significant, since the Plan's investments are well diversified among various asset classes which are benchmarked against different indices. However, the Plan is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 8.0%. Market risk could impact the financial condition of the Plan and the City's required contribution towards the Plan. The Plan's actuarial valuations use a five year smoothing method for investment returns. This means that current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. Any contribution rate impact from the capital markets depends in large measure on how deep the future market downturn is, how long it lasts, and how it fits within the fiscal year reporting periods as the actuarial valuation is performed once every two years.

The fair value of the Plan's assets as of June 30 and September 30, 2008 (based on available information) were $2,669,884,000 and $2,403,629,000, respectively, excluding Securities Lending. The fair value of the portfolio declined approximately 10% during the quarter ended September 30, 2008 (based on available information). The fair value of the Plan's current equity and fixed income investments related to AIG, Lehman Brothers, and Washington Mutual as of September 30, 2008 (based on available information) was approximately $13,687,000 or 0.57% of the total investment portfolio.

For the fiscal year ended June 30, 2008, the Plan's portfolio declined by 5.1% while other public funds declined an average of 4.4% and the S&P 500 declined approximately 13.1%. The Department of Retirement Services is working with the Plan's Investment Consultant to reduce the Plan's exposure to general market risk by improving its portfolio diversification and increasing the long-term allocation to alternative investments that are not correlated to public market activity.

Required Supplementary Information

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

(Dollars in thousands)

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

[1] Excludes accounts payable and 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 adoption of SRBR program.
[5] After reflection of benefit improvements effective July 1, 2006 for Police members.

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

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

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions	Percentage Contributed
2003	$ 23,511	100%
2004	24,412	100%
2005	41,835	100%
2006	43,473	100%
2007	46,625	100%
2008	56,372	100%

POSTEMPLOYEMENT HEALTHCARE BENEFIT PLAN (Unaudited)

For the Fiscal Year Ended June 30, 2008

(Dollars in thousands)

Schedule of Funding Progress

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a)/c))
June 30, 2006	$38,381	$851,217	$812,836	5%	$218,521	372%

Schedule of Employer Contributions

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

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

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2008

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ASSETS			
Receivables:			
Employee contributions	$ 545	$ 246	$ 791
Employer contributions	1,312	1,023	$2,335
Brokers and others	58,529	25,521	$84,050
Accrued investment income	5,554	2,422	$7,976
Total receivables	**65,940**	**29,212**	**95,152**
Investments, at fair value:			
Securities and Other:			
U.S. Treasury notes and bonds	54,617	24,230	78,847
U.S. Government agency securities	164,265	72,874	237,139
International government bonds	6,743	2,991	9,734
Domestic corporate bonds	224,265	99,494	323,759
International corporate bonds	22,208	9,852	32,060
Domestic equity securities	594,449	263,721	858,170
International equity securities	474,153	210,353	684,506
Private equity	43,318	19,218	62,536
Derivatives	(285)	(126)	(411)
State and local obligations	8,569	3,801	12,370
Forward international currency contracts	(4)	(2)	(6)
Collective short-term investment funds	73,735	32,711	106,446
Real estate	156,468	55,280	211,748
Securities lending cash collateral investment pool	271,482	118,393	389,875
Total investments	**2,093,983**	**912,790**	**3,006,773**
TOTAL ASSETS	**2,159,923**	**942,002**	**3,101,925**
LIABILITIES			
Payable to brokers	137,816	60,101	197,917
Securities lending collateral due to borrowers	271,482	118,393	389,875
Other liabilities	4,024	1,464	5,488
TOTAL LIABILITIES	**413,322**	**179,958**	**593,280**
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$1,746,601**	**$762,044**	**$2,508,645**

Other Supplementary Information *Continued*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2008

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ADDITIONS			
Contributions:			
Employee	$ 13,680	$ 5,530	$ 19,210
Employer	31,656	24,716	56,372
Total Contributions	**45,336**	**30,246**	**75,582**
Investment income:			
Net appreciation in fair value of investments	(151,914)	(65,706)	(217,620)
Interest income	25,108	10,850	35,958
Dividend income	21,057	9,104	30,161
Net rental income	3,771	1,583	5,354
Less investment expense	(7,580)	(3,206)	(10,786)
Net investment income before securities lending income	**(109,558)**	**(47,375)**	**(156,933)**
Securities lending income:			
Earnings	16,622	7,151	23,773
Rebates	(13,412)	(5,765)	(19,177)
Fees	(960)	(414)	(1,374)
Net securities lending income	**2,250**	**972**	**3,222**
Total investment income	**(107,308)**	**(46,403)**	**(153,711)**
TOTAL ADDITIONS	**(61,972)**	**(16,157)**	**(78,129)**
DEDUCTIONS			
Retirement benefits	70,003	19,701	89,704
Death benefits	3,257	2,210	5,467
Refund of contributions	132	36	168
Administrative expenses and other	1,967	703	2,670
TOTAL DEDUCTIONS	**75,359**	**22,650**	**98,009**
Net increase	(137,331)	(38,807)	(176,138)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of Year	**1,883,932**	**800,851**	**2,684,783**
End of Year	**$1,746,601**	**$762,044**	**$2,508,645**

Other Supplementary Information *Continued*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2008 and 2007

	2008			2007
	Original Budget	*Actual*	*Variance Positive/(Negative)*	*Actual*
Personal services	$1,666,117	$1,542,303	$123,814	$1,424,322
Non-personal/equipment	603,800	630,024	(26,224)	446,456
Professional services	388,500	553,889	(165,389)	380,051
TOTAL ADMINISTRATIVE EXPENSES AND OTHER	**$2,658,417**	**$2,726,216**	**$(67,799)**	**$2,250,829**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007
Equity:		
Domestic equity	$ 2,772,999	$ 3,265,871
International equity	3,203,348	3,059,298
Emerging market equity managers	1,387,942	1,398,181
Private equity	594,703	886,266
Total equity	**7,958,992**	**8,609,616**
Fixed income:		
Domestic fixed income	1,047,300	961,156
Global fixed income	-	2,439
Long duration fixed income	73,713	275,928
Total fixed income	**1,121,013**	**1,239,523**
Real estate	978,026	884,980
Total investment managers' fees	**10,058,031**	**10,734,119**
Other investment service fees:		
Investment consultant	100,000	125,000
Proxy voting	38,500	15,600
Real estate legal fees	351,585	246,996
Real estate appraisals	51,200	-
Custodian	401,060	181,880
Total other investment service fees	**942,345**	**569,476**
TOTAL INVESTMENT EXPENSES	**$11,000,376**	**$11,303,595**

Other Supplementary Information *Continued*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2008 and 2007

Firm	Nature of Service	2008	2007
Avery, William & Associate	Human Resource Consultant	$ 9,127	$ -
Levi, Ray, & Shoup	Web Development	15,853	17,942
Levi, Ray, & Shoup	Document Imaging and Support and Maintenance	4,551	7,665
Macias Gini & O'Connell LLP	External Auditors	89,075	31,784
Medical Director/Other Medical	Medical Consultant	93,814	108,557
Pension Benefit Information	Reports on Deceased Benefit Recipients	2,131	2,310
Saltzman & Johnson	Legal Counsel	78,571	25,922
Mercer Human Resources	Actuarial Consultant	-	20,850
The Segal Company	Actuarial Consultant	191,459	149,870
GRS	Actuarial Consultant	-	1,500
The Segal Company	Operational & HIPPA compliance Audit	65,000	-
Wilfred Jarvis Institute	Organizational Consultant	4,308	-
Towers, Perrin, Forster & Crosy, Inc.	Disability Procedure Audit	-	13,651
TOTAL		**$553,889**	**$380,051**

Investment Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Report on Investment Activity

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

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

August 25, 2008

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

Dear Mr. Crosby:

The overall objective of the San Jose Police & Fire Department Retirement Plan (SJP&F) is to ensure continued access to retirement, disability and survivor benefits for current and future SJP&F participants. To insure a solid foundation for the future of the Fund, SJP&F carefully plans and implements an investment program designed to produce superior long term investment returns, while prudently managing the risk of the portfolio. Investment Policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. Following is a report on the performance of the fund for the fiscal year ending June 30, 2008.

From an economic perspective, the 2008 fiscal year has been difficult as the effects of the sub-prime mortgage fallout and the ensuing credit crisis have caused consumer confidence to decline. The crisis continues to create havoc for financial institutions and now includes the likes of the government-sponsored home mortgage giants. In this environment, volatility has soared as investors remain anxious and uncertainty continues around future market direction. Global inflation is rising as the rapid growth of industrialization and urbanization in emerging markets has created a strong demand for commodities, while supplies remain constrained, and higher energy prices are limiting corporate profits all along the supply chain, across many industries and regions.

The high exposure to U.S. and non-U.S. equities that contributed to the Fund's superior performance in fiscal year 2007 left the Fund exposed during the economic downturn of the past year. The Fund was down 5.1% for the fiscal year, which ranked the Fund in the 66th percentile of the Independent Consultants Cooperative's (ICC) Public Funds Universe[1]. By comparison, the median fund in the universe was down 4.4% for the period.

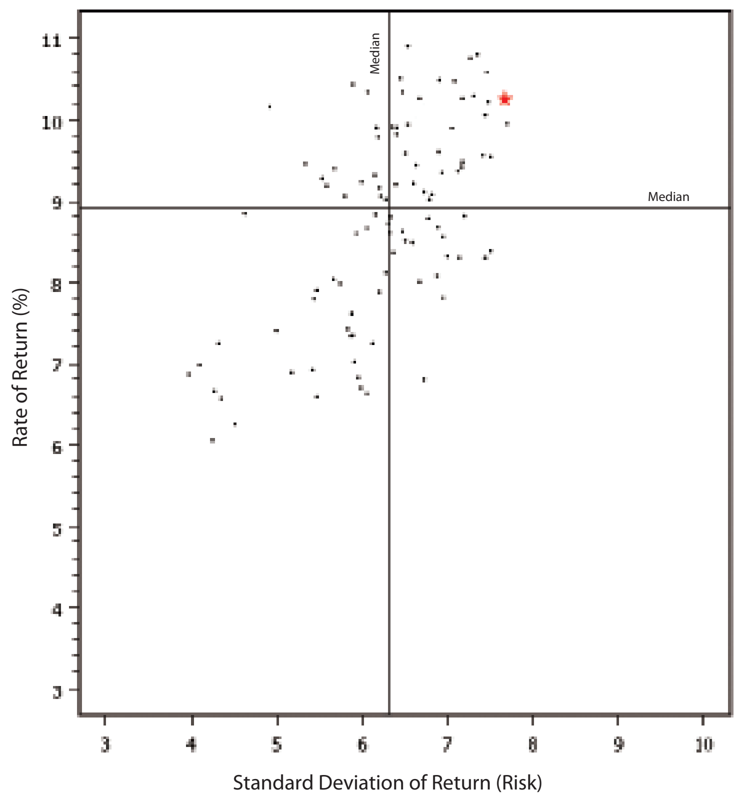
For the five-year period ending June 30, 2008, the Fund has performed well in absolute terms and relative to its peers, returning 10.3% per annum, and ranking in the 15th percentile of ICC Public Funds. However, the Fund's five-year volatility, as measured by standard deviation, ranked in the 94th percentile of its universe.

In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across

[1]As of June 30, 2008, the ICC Public Funds Universe was comprised of 178 total funds with approximately $728 billion in assets.

Report on Investment Activity *Continued*

TOTAL PUBLIC FUNDS UNIVERSE
Risk-Return Comparison
5 Years Ending June 30, 2008



a variety of asset classes with uncorrelated return patterns. Our goal is to diversify the Fund's assets, which have been highly concentrated in equities and fixed income, across a broader variety of traditional and non-traditional asset classes to reduce its volatility and better protect the portfolio against difficult market environments.

NEPC provides SJP&F with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for SJP&F, we rely on the accuracy of financial data provided by the Fund's custodian bank.

Sincerely,

Allan C. Martin

Statement of Investment Policy

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.

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

Asset Allocation

The following policy has been identified by the Board 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 ALLOCATION
As of June 30, 2008

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

ASSET ALLOCATION
As approved by the Board on June 5, 2008

Asset Class	*Current Allocation*	*New Allocation*
Equities	**59%**	**49%**
Large Cap	29%	22%
Small/Mid Cap	5%	5%
Developed International	20%	17%
Emerging Markets	5%	5%
Fixed Income	**24%**	**23%**
Core Fixed Income	24%	18%
Credit Strategies	0%	5%
Alternatives	**17%**	**28%**
Real Estate	12%	10%
Private Equity	5%	8%
Absolute Return	0%	5%
Real Assets	0%	5%

The following chart illustrates the targets and ranges set for the secondary asset class, Domestic Equities.

SECONDARY TARGETS, DOMESTIC EQUITIES

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

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan.

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

It is understood that the fund managers at any point in time may not be fully invested. However, managers are expected to be fully funded and cash positions in excess of 7% require the manager to notify the Board of Administration in writing. While the Plan's

Statement of Investment Policy *Continued*

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 (please refer to section entitled **INVESTMENT GUIDELINES, General (4)** for exception policy):

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

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

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

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

Statement of Investment Policy *Continued*

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

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

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

Domestic Common Stock

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

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

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

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

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

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

International Common Stock

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

Developed Markets

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

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

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

Emerging Markets

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

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

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

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

Statement of Investment Policy *Continued*

Real Estate

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

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

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

(3) The fund shall at no time:

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

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

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

(Please refer to section entitled **INVESTMENT GUIDELINES, General (4)** for exception policy.)

Private Equity

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

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

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

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

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

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

Absolute Return, Credit Strategies, and Real Assets asset classes were approved by the Board in June 2008. Policies will be reviewed in Fiscal Year 2008-09.

Derivatives

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

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

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

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

Statement of Investment Policy *Continued*

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

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

Mini-Tender Offers

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

Credit Unions

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

Manager Discretion

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

Subject to these guidelines and policies, the 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 to the plan proxy voting guidelines. However, international equity proxies are to be voted by the investment managers or any agent or service selected by the investment manager.

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

Performance Goals

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

Domestic Equity Managers

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

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

Statement of Investment Policy *Continued*

EMERGING MARKETS

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

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

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

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 Citigroup World Government Bond Index.

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

Real Estate Managers

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

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

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

Private Equity

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

Periodic Reviews of Manager Performance

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

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

Procedure:

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

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

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

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

3. If a manager has less than five years of 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.

Statement of Investment Policy *Continued*

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

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

Extraordinary Reviews of Managers

If an event occurs within a manager's organization that is likely to impact the manager's organization, the Director of 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 Equity

INTECH
Large Cap Growth
Princeton, NJ

New Amsterdam Partners
Large Cap Growth
New York, NY

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

Robeco Boston Partners
Large Cap Value
Los Angeles, CA

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

Domestic Equity *Continued*

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

UBS Global Asset Management
Large Cap Value
Chicago, IL

Private Equity

HarbourVest Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Portfolio Advisors
Darien, CT

International Equity

AQR Capital Management
Greenwich, CT

Brandes Investment Partners
San Diego, CA

William Blair & Co.
Chicago, IL

Emerging Market Equity

Alliance Capital Management
New York, NY

The Boston Company
Boston, MA

Domestic Fixed Income

Income Research & Management
Boston, MA

Seix Investment Advisors
Upper Saddle River, NJ

Western Asset Management Company
Pasadena, CA

Real Estate

MIG Realty Advisors
Cleveland, OH

Kennedy Associates Real Estate Counsel, Inc.
Seattle, WA

Multi-Employer Property Trust
Bethesda, MD

CONSULTANT

NEPC, LLC
San Francisco, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2008

	One Year	*Three Years*	*Five Years*
Total Fund Composite	**-5.1%**	**8.1%**	**10.3%**
Benchmark	-4.4%	8.5%	10.1%
Allocation Index	-4.9%	8.0%	9.8%
ICC Public Funds Median	-4.4%	6.8%	8.9%
Total Domestic Equity	**-14.0%**	**4.1%**	**8.9%**
S&P 500 Index	-13.1%	4.4%	7.6%
ICC Equity Funds Median	-12.9%	4.9%	9.8%
Total International Developed Markets Equity	**-10.1%**	**14.4%**	**18.3%**
MSCI EAFE Net Dividend Index	-10.6%	12.8%	16.7%
ICC International Developed Markets Equity Funds Median	-9.6%	13.9%	17.9%
Total International Emerging Market Equity	**2.5%**	**24.6%**	**28.7%**
MSCI Emerging Markets Index	4.6%	27.1%	29.8%
Mercer Emerging Markets Equity Median	2.8%	26.8%	30.8%
Total Domestic Core Fixed Income	**4.3%**	**3.3%**	**4.1%**
Lehman Brothers Aggregate Bond Index	7.1%	4.1%	3.9%
ICC Core Bonds Median	6.7%	4.2%	3.9%

	One Quarter	*One Year*	*Three Years*
Total Domestic Long Duration Fixed Income	**-1.4%**	**7.5%**	**2.5%**
Lehman Brothers U.S. Gov/Credit-Long Term Index	-1.5%	6.8%	2.2%
ICC Long Duration Bonds Median	-0.8%	7.1%	4.1%

	One Year	*Three Years*	*Five Years*
Total Real Estate	**10.9%**	**13.0%**	**9.5%**
NCREIF Property Index	9.3%	15.0%	14.7%
ICC Real Estate Funds Median	6.8%	13.6%	14.5%

	One Quarter	*One Year*
Total Private Equity	**2.6%**	**21.7%**
S&P 500 + 300 bps	-2.0%	-10.1%

Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2008

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2008

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

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

Domestic Equity	*One Year*	*Three Years*	*Five Years*
Rhumbline Advisers (S&P 500 Index)	**-13.1%=**	**4.4%=**	**7.5%**
S&P 500 Index	-13.1%	4.4%	7.6%
ICC Large Cap Core Median	-12.7%	5.1%	8.9%
Robeco Boston Partners (Large Cap Value)	**-16.3%++**	**5.7%++**	**10.1%++**
Russell 1000 Value Index + 100 bps	-17.8%	4.5%	9.9%
ICC Large Cap Value Median	-19.1%	3.6%	9.9%
UBS Global Asset Mgmt. (Large Cap Value)	**-16.3%+**	**3.7%+**	**8.5%**
Russell 3000 Index + 100 bps	-11.7%	5.7%	9.4%
ICC Large Cap Value Median	-19.1%	3.6%	9.9%
New Amsterdam Partners (Large Cap Growth)	**-13.1%**	**2.2%**	**8.1%**
S&P 500 + 100 bps	-12.1%	5.4%	8.6%
ICC Large Cap Growth Median	-4.0%	6.1%	9.2%
State Street Global Markets – *former Globalt Portfolio* (Large Cap Growth)	**-4.4%+**	**3.4%**	**7.0%**
Russell 1000 Growth Index + 100 bps	-5.0%	6.9%	8.3%
ICC Large Cap Growth Median	-4.0%	6.1%	9.2%

	One Year	*Three Years*	*Inception (10/03)*
INTECH (Large Cap Growth)	**-6.9%**	**4.4%**	**7.7%**
Russell 1000 Growth Index + 100 bps	-5.0%	6.9%	7.9%
ICC Large Cap Growth Median	-4.0%	6.1%	N/A

	One Year	*Three Years*	*Inception (12/04)*
Rhumbline Advisors (Small Cap Core Index)	**-16.2%= +**	**3.8%=**	**3.8%+**
Russell 2000 Index	-16.2%	3.8%	3.6%
ICC Small Cap Core Median	-17.0%	5.0%	N/A

	One Year	*Three Years*	*Five Years*
State Street Global Markets – *former TCW Portfolio* (Small Cap Value)	**-20.8%**	**1.7%**	**7.7%**
Russell 2000 Value Index + 200 bps	-14.2%	5.8%	12.3%
ICC Small Cap Core Median	-17.0%	5.0%	11.9%
Provident Investment Counsel (Small Cap Growth)	**-13.9%**	**3.7%**	**8.3%**
Russell 2000 Growth Index + 200 bps	-8.8%	8.1%	12.4%
ICC Small Cap Growth Median	-12.6%	5.8%	11.2%

International Developed Markets Equity	*One Quarter*	*One Year*	*Inception (07/06)*
AQR Capital Management	**-0.6%++**	**-13.5%**	**6.7%**
MSCI EAFE Net Dividend Index + 150 bps	-1.9%	-9.1%	8.1%
ICC International Developed Markets Equity Median	-1.8%	-9.6%	N/A

Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2008

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER *Continued*

For Periods Ending June 30, 2008

	One Year	*Three Years*	*Five Years*
Brandes Investment Partners	**-13.7%**	**11.9%**	**17.9%=**
MSCI EAFE Net Dividend Index + 150 bps	-9.1%	14.3%	18.2%
ICC International Developed Markets Equity Median	-9.6%	13.9%	17.9%
William Blair & Co.	**-5.9%+**	**16.5%+**	**19.8%+**
MSCI AC World exUS Net Dividend Index +150bps	-5.1%	17.2%	20.4%
ICC International Developed Markets Equity Median	-9.6%	13.9%	17.9%
International Emerging Markets Equity	*One Year*	*Three Years*	*Five Years*
AllianceBernstein	**4.6%+**	**25.9%**	**29.5%**
MSCI Emerging Markets Free Index + 200 bps	6.6%	29.1%	31.8%
ICC International Emerging Markets Equity Median	2.8%	26.8%	30.8%
The Boston Company Asset Management	**-1.7%**	**20.8%**	**25.4%**
MSCI Emerging Markets Free Index + 200 bps	6.6%	29.1%	31.8%
ICC International Emerging Markets Equity Median	2.8%	26.8%	30.8%
Domestic Fixed Income	*One Year*	*Three Years*	*Five Years*
Seix Investment Advisors	**6.6%**	**3.9%**	**4.0%+**
Lehman Brothers Aggregate Bond Index + 50 bps	7.6%	4.6%	4.4%
ICC Core Bonds Median	6.7%	4.2%	3.9%
Western Asset Management Company	**1.7%**	**2.4%**	**3.8%**
Lehman Brothers Aggregate Bond Index + 50 bps	7.6%	4.6%	4.4%
ICC Core Bonds Median	6.7%	4.2%	3.9%
	One Quarter	*One Year*	*Inception (01/05)*
Income Research Management	**7.2%+**	**2.2%**	**3.5%**
LehmanUS Gov/Credit-Long Term Index + 50 bps	7.3%	2.7%	4.5%
ICC Long Duration Bonds Median	7.1%	4.1%	N/A
Real Estate	*One Year*	*Three Years*	*Five Years*
MIG Realty Advisors	**7.7%+**	**9.3%**	**8.0%**
NCREIF Property Index + 150 bps	10.8%	16.5%	16.2%
ICC Real Estate Funds Median	6.8%	13.6%	14.5%
	One Year	*Three Years*	*Inception (10/03)*
Kennedy Associates	**13.0%++**	**13.5%**	**12.3%**
NCREIF Property Index + 150 bps	10.8%	16.5%	16.2%
ICC Real Estate Funds Median	6.8%	13.6%	N/A
	One Quarter	*One Year*	*Inception (07/06)*
Multi-Employer Property Trust (MEPT)	**0.4%**	**7.2%+**	**11.7%**
NCREIF Property Index + 150 bps	0.9%	10.8%	14.6%
ICC Real Estate Funds Median	0.0%	6.8%	N/A

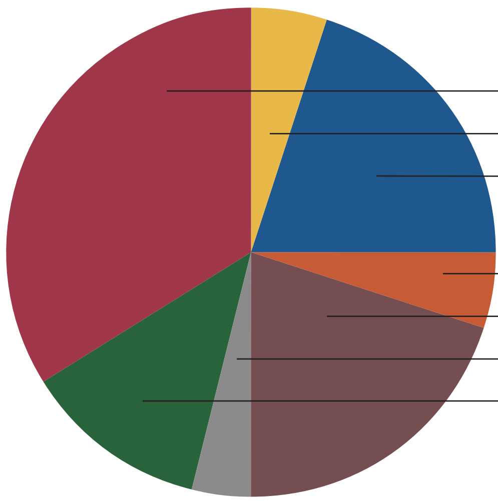
Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2008

Investment Review

TARGET ASSET ALLOCATION

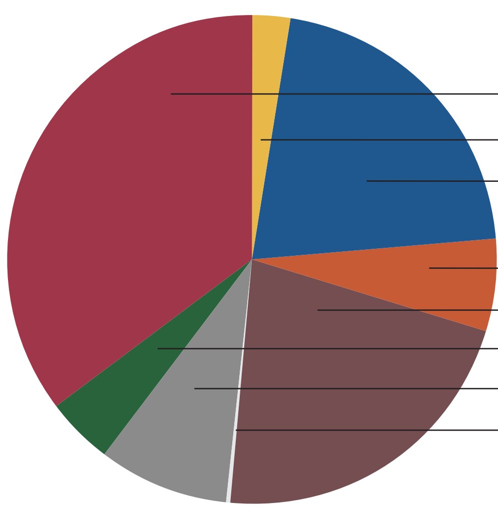
As of June 30, 2008



Domestic Equity	34%
Private Market Equity	5%
International Equity	20%
Emerging Markets Equity	5%
Domestic Fixed Income	20%
Long Duration Fixed Income	4%
Real Estate	12%

ACTUAL ASSET ALLOCATION

As of June 30, 2008 (Dollars in Millions)



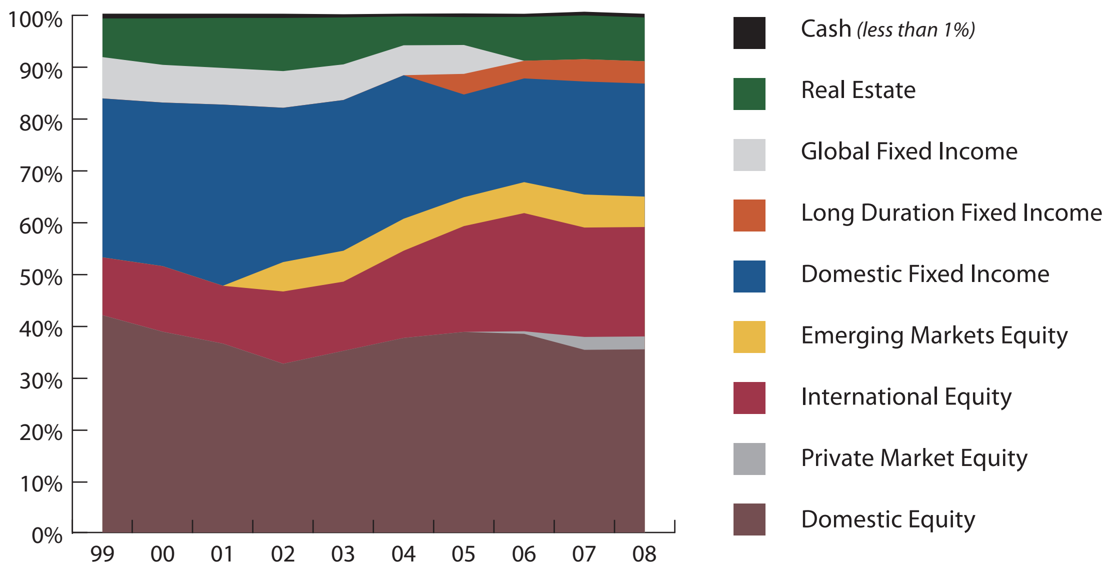
Domestic Equity	35.5%	$907.24
Private Market Equity	2.5%	63.80
International Equity	21.2%	543.57
Emerging Markets Equity	5.9%	151.70
Domestic Fixed Income	21.9%	560.43
Long Duration Fixed Income	4.3%	111.02
Real Estate*	8.5%	217.84
Cash	0.2%	5.99
TOTAL		**$2,561.59**

**Includes leverage*

Investment Review *Continued*

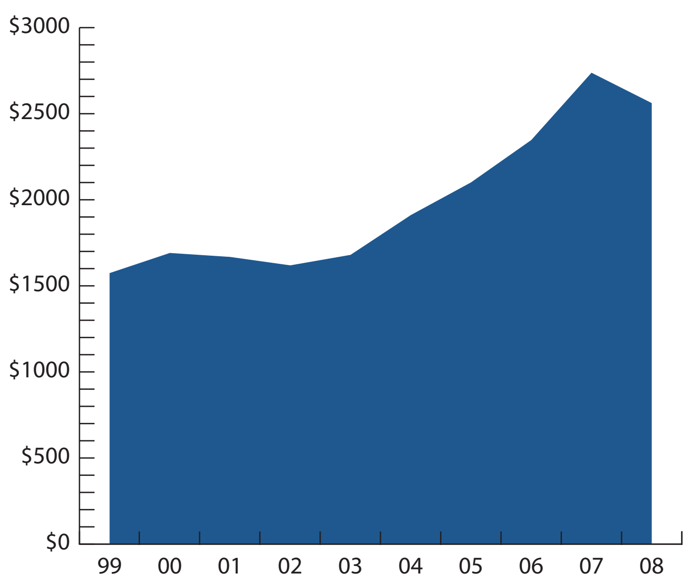
HISTORICAL ASSET ALLOCATION (ACTUAL)

June 30, 1999 – June 30, 2008



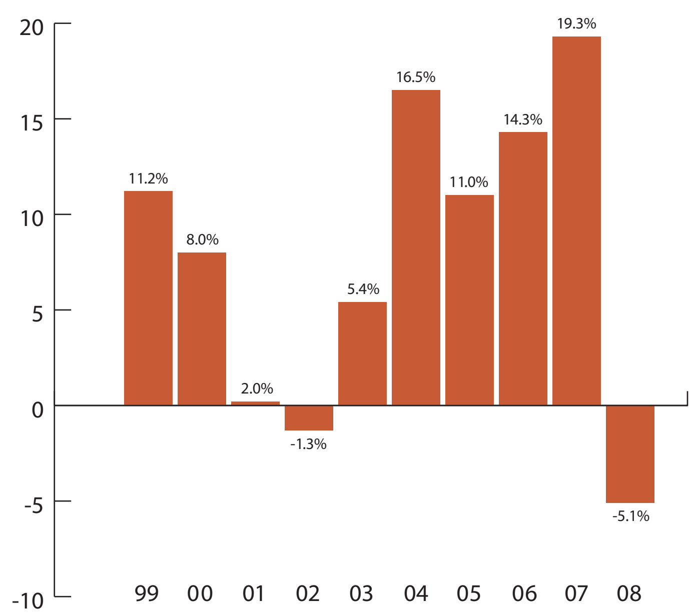
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2008 (Dollars in Millions)



HISTORY OF PERFORMANCE FOR FISCAL YEARS 1999 – 2008

(Based on Market Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS *(By Market Value)*
As of June 30, 2008

Description	Country	Shares	Market Value in $US
EXXON MOBIL CORP	UNITED STATES	180,143	$15,876,003
MICROSOFT CORP	UNITED STATES	472,400	$12,995,724
CHEVRON CORP	UNITED STATES	118,020	$11,699,323
JOHNSON & JOHNSON	UNITED STATES	180,184	$11,593,039
HEWLETT PACKARD CO	UNITED STATES	219,163	$9,689,196
MARATHON OIL CORP	UNITED STATES	185,655	$9,629,925
GENERAL ELEC CO	UNITED STATES	355,800	$9,496,302
ORACLE CORP	UNITED STATES	406,101	$8,528,121
CISCO SYS INC	UNITED STATES	361,994	$8,419,980
INTEL CORP	UNITED STATES	367,900	$7,902,492

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS *(By Market Value)*
As of June 30, 2008

Description	Country	Maturity Date	Par Value	Interest Rate	Market Value in $US
FNMA TBA JUL 30 SINGLE FAM	UNITED STATES	12/1/2099	38,630,000	5.000%	$37,015,386
FNMA TBA AUG 30 SINGLE FAM	UNITED STATES	12/1/2099	29,570,000	5.000%	$28,271,694
US TREASURY N/B	UNITED STATES	3/31/2013	20,300,000	2.500%	$19,587,121
US TREASURY NTS	UNITED STATES	4/30/2011	18,402,000	4.875%	$19,406,203
FNMA TBA JUL 30 SINGLE FAM	UNITED STATES	12/1/2099	16,192,000	5.000%	$15,515,225
UNITED STATES TREAS NTS	UNITED STATES	12/31/2012	10,327,000	3.625%	$10,482,712
FNMA TBA JUL 15 SINGLE FAM	UNITED STATES	12/1/2099	10,100,000	5.500%	$10,167,070
GNMA POOL 677567	UNITED STATES	11/15/2037	9,990,023	6.000%	$10,160,556
FNMA POOL 725027	UNITED STATES	11/1/2033	7,142,565	5.000%	$6,887,553
FED HM LN PC POOL G03696	UNITED STATES	1/1/2038	6,883,858	5.500%	$6,790,280

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Domestic Equity	$ 907,237,000	$ 2,772,999	31
Private Market Equity	63,796,000	594,703	93
International Equity	543,569,000	3,203,348	59
Emerging Markets Equity	151,702,000	1,387,942	91
Domestic Fixed Income	560,434,000	1,047,300	19
Long Duration Fixed Income	111,022,000	73,713	7
Real Estate	217,839,000	978,026	45
Cash	5,991,000	-	N/A
TOTAL	**$2,561,590,000**	**$10,058,031**	**39**

Other Investment Service Fees			
Investment Consultant	N/A	$ 100,000	N/A
Proxy Voting	N/A	38,500	N/A
Custodian	N/A	401,060	N/A
Real Estate Legal Fees	N/A	351,585	N/A
Real Estate Appraisals	N/A	51,200	N/A
TOTAL		**$ 942,345**	

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

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ABG SECURITIES	24,950	$ 1,285.20	$ 0.05151
ABN AMRO BANK NV	387,185	3,579.89	0.00925
ABN AMRO SECURITIES (USA) INC	157,703	6,667.19	0.04228
AMERICAN TECHNOLOGY RESEARCH INC	4,700	235.00	0.05000
AQUA SECURITIES LP	12,635	252.70	0.02000
AUTOMATEDTRADING DESK FINANCIAL SERVICE	43,775	437.75	0.01000
B RILEY AND CO INC.	18,400	690.00	0.03750
BAIRD, ROBERT W., & COMPANY INCORPORATED	219,852	9,363.40	0.04259
BANC OF AMERICA SECURITIES LLC	133,156,499	6,715.30	0.00005
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	21,262,697	2,015.10	0.00009
BANCO ITAU SA	23,292	909.23	0.03904
BANCO SANTANDER CENTRAL HISPANO	284,854	8,038.89	0.02822
BANK J.VONTOBEL UND CO. AG	8,846	3,299.91	0.37304
BANQUE PARIBAS	1,900	71.41	0.03758
BEAR STEARNS & CO INC	48,818,820	6,990.80	0.00014
BEAR STEARNS SECURITIES CORP	146,984,509	18,564.25	0.00013
BEREAN CAPITAL, INC. 2	125,200	5,008.00	0.04000
BLOOMBERGTRADEBOOK LLC	18,000	359.99	0.02000
BNP PARIBAS PEREGRINE SECURITIES	849,950	7,978.68	0.00939
BNP PARIBAS SECURITIES SERVICES	8,300	1,089.83	0.13130
BNY BROKERAGE INC	200,500	8,152.00	0.04066
BOENNING & SCATTERGOOD INC	5,200	156.00	0.03000
BREAN MURRAY	3,600	180.00	0.05000
BROADCORTCAPITAL (THRU ML)	1,089,612	38,672.07	0.03549
BROCHHOUSE COOPER	6,900	117.91	0.01709
B-TRADE SERVICES LLC	300	6.00	0.02000
BUCKINGHAM RESEARCH GROUP	2,700	113.00	0.04185
CABRERA CAPITAL MARKETS	21,500	860.00	0.04000
CALYON SECURITIES (USA) INC	4,200	84.00	0.02000
CANACCORDADAMS INC.	17,900	716.00	0.04000
CANACCORDCAPITAL CORP	400	16.21	0.04053
CANTOR FITZGERALD & CO.	47,000	1,845.00	0.03926
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	118,000	2,802.06	0.02375
CARNEGIE BK	5,500	943.99	0.17163
CARNEGIE SECURITIES FINLAND	33,470	1,464.64	0.04376
CAZENOVE & CO	1,304,517	12,763.51	0.00978

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
CHEEVERS & CO	172,300	$ 6,892.00	$ 0.04000
CIBC WORLD MARKETS CORP	55,243	1,159.72	0.02099
CITATION GROUP	634,285	17,394.45	0.02742
CITIBANK MEXICO	431,300	4,140.70	0.00960
CITIGROUPGLBL MARKTET KOERA SECS LTD	2,232	1,472.10	0.65954
CITIGROUPGLOBAL MARKETS INC	2,281,301	58,808.55	0.02578
CITIGROUPGLOBAL MARKETS INDIA	9,200	1,575.03	0.17120
CITIGROUPGLOBAL MARKETS LIMITED	113,360	4,379.85	0.03864
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	967,590	4,659.53	0.00482
CJS SECURITIES	27,200	1,127.00	0.04143
CLSA SECURITIES KOREA LTD.	2,834	914.73	0.32277
COWEN ANDCOMPANY, LLC	349,280	17,193.00	0.04922
CRAIG - HALLUM	43,535	1,981.40	0.04551
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	62,945	4,844.51	0.07696
CREDIT LYONNAIS SECURITIES	77,087	2,683.03	0.03481
CREDIT LYONNAIS SECURITIES (USA) INC	2,979,353	18,766.65	0.00630
CREDIT LYONNAIS SECURITIES INDIA	2,200	191.84	0.08720
CREDIT SUISSE FIRST BOSTON (EUROPE)	6,609	8,239.52	1.24671
CREDIT SUISSE FIRST BOSTON SA CTVM	215,200	12,988.74	0.06036
CREDIT SUISSE SECURITIES (USA) LLC	581,742,127	60,878.64	0.00010
CUSTOM EQUITY RESEARCH, INC.	8,000	400.00	0.05000
CUTTONE &CO INC	37,400	974.25	0.02605
D CARNEGIE AG	37,900	783.38	0.02067
DAIWA SECURITIES AMERICA INC	844,928	5,237.11	0.00620
DAVENPORT& CO. OF VIRGINIA, INC.	7,900	237.00	0.03000
DAVIDSON D.A. & COMPANY INC.	4,400	176.00	0.04000
DAVIS, MENDEL AND REGENSTEIN	41,290	1,651.60	0.04000
DBS VICKERS SECURITIES (SINGAPORE)	121,300	1,789.13	0.01475
DEUTSCHE BANK SECURITIES INC	168,745,175	41,110.08	0.00024
DIRECT TRADING INSTITUTIONAL INC	13,095	78.57	0.00600
DOUGHERTYCOMPANY	28,100	1,318.00	0.04690
DOWLING &PARTNERS	11,790	471.60	0.04000
DRESDNER KLEINWORT BENSON NORTH AMERICA	19,540	932.15	0.04770
DRESDNER KLEINWORTH WASSERSTEIN SEC LLC	25,712	3,185.55	0.12389
DSP MERRILL LYNCH LTD	67,179	3,833.99	0.05707
E TRADE SECURITIES, INC	7,100	71.00	0.01000

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
EDWARDS AG SONS INC	7,800	$ 390.00	$ 0.05000
EFG-HERMES UAE LIMITED	155,200	2,332.18	0.01503
EMP RESEARCH PTRNS	600	24.00	0.04000
ENSKILDA SECURITIES AB	3,500	162.48	0.04642
EXANE INC	93,600	2,706.98	0.02892
EXANE S.A.	16,800	2,649.84	0.15773
FIRST ANALYSIS SECURITIES CORP	4,500	225.00	0.05000
FIRST CLEARING, LLC	35,000	1,400.00	0.04000
FOX PITT KELTON INC	44,055	1,863.59	0.04230
FOX-PITT KELTON LTD	16,000	412.23	0.02576
FRIEDMAN BILLINGS & RAMSEY	93,201	4,027.04	0.04321
G TRADE SERVICES LTD	425,700	534.53	0.00126
GELDERMANN SECURITIES	13,740	159.20	0.01159
GERSON LEHRMAN GROUP BROKERAGE SERV LLC	33,000	1,302.50	0.03947
GOLDMAN SACHS (ASIA) LLC	33,881	9,560.06	0.28217
GOLDMAN SACHS & CO	1,211,969,443	191,134.20	0.00016
GOLDMAN SACHS EXECUTION & CLEARING	2,105,091	50,643.65	0.02406
GOLDMAN SACHS INTERNATIONAL	231,863	5,349.90	0.02307
GOODBODY STOCKBROKERS	29,900	1,219.87	0.04080
GUZMAN & CO	531,393	14,380.37	0.02706
HEDGING GRIFFO COR DE VAL S/A	37,700	4,384.25	0.11629
HOWARD WEIL DIVISION LEGG MASON	18,900	871.00	0.04608
HSBC BANKPLC	155,200	2,335.90	0.01505
HSBC SECURITIES (USA), INC./STOCK LOAN	162,659	2,941.14	0.01808
INSTINET	3,496,494	113,609.72	0.03249
INSTINET CANADA	30,700	1,471.39	0.04793
INSTINET FRANCE S.A.	147,100	20,870.52	0.14188
INSTINET PACIFIC LIMITED	2,009,473	7,593.92	0.00378
INSTINET SINGAPORE SERVICES PT	156,000	163.47	0.00105
INSTINET U.K. LTD	3,052,341	76,010.38	0.02490
INSTINET,LLC	773	30.92	0.04000
INTERMONTE SEC SIM SPA	9,300	316.76	0.03406
INVESTEC SECURITIES	2,349	156.23	0.06651
INVESTMENT TECHNOLOGY GROUP INC.	1,397,482	32,006.10	0.02290
ISI GROUPINC	54,965	2,312.60	0.04207
IVY SECURITIES, INC.	15,400	616.00	0.04000

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
IXIS SECURITIES	700	$ 92.59	$ 0.13227
J P MORGAN SECURITIES INC	5,593,917	26,427.41	0.00472
J.P. MORGAN SECURITIES LIMITED	26,000	1,517.35	0.05836
J.P.MORGAN SECURITIES(FAR EAST)LTD SEOUL	1,030	1,728.50	1.67816
JANNEY MONTGOMERY, SCOTT INC	2,500	100.00	0.04000
JEFFERIES& COMPANY INC	3,446,633	35,433.47	0.01028
JM MORGANSTANLEY SECS PVT LTD	32,374	4,377.50	0.13522
JMP SECURITIES	6,200	294.00	0.04742
JOH BERENBERG GOSSLER AND CO	37,047	2,269.04	0.06125
JONESTRADING INSTITUTIONAL SERVICES LLC	101,199	3,380.22	0.03340
JP MORGANSECURITIES AUSTRALIA LTD	78,800	3,491.11	0.04430
JP MORGANSECURITIES LIMITED	1,572,818	15,070.59	0.00958
JPMORGAN CHASE BANK	50,202	642.13	0.01279
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	1,708,702	10,951.31	0.00641
KAUFMAN BROTHERS	3,100	124.00	0.04000
KAUPTHINGBANK SVERIGE AB STOCKHOLM	27,700	563.24	0.02033
KBC FINANCIAL PRODUCTS UK LTD	26,763	1,088.79	0.04068
KEEFE BRUYETTE & WOODS INC	27,736	1,113.44	0.04014
KEEFE BRUYETTE AND WOOD LIMITED	48,500	1,834.05	0.03782
KELLOGG PARTNERS	6,800	289.00	0.04250
KEPLER EQUITIES	1,300	49.61	0.03816
KEPLER EQUITIES PARIS	5,900	532.99	0.09034
KEPLER EQUITIES ZURICH	100	99.61	0.99610
KEYBANC CAPITAL MARKETS INC	1,226,552	2,839.00	0.00231
KIM ENG SECS PTE LTD, SINGAPORE	388,880	477.10	0.00123
KLEINWORTBENSON SECURITIES LIMITED	70,003	2,361.35	0.03373
KNIGHT SECURITIES	53,700	1,908.00	0.03553
KOTAK SECURITIES	176,167	6,020.55	0.03418
LAZARD CAPITAL MARKETS LLC	34,400	515.33	0.01498
LEERINK SWANN AND COMPANY	58,750	2,822.50	0.04804
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	2,026,224	21,194.36	0.01046
LEHMAN BROTHERS SECS (ASIA)	121,000	871.20	0.00720
LIQUIDNETINC	2,287,683	66,785.38	0.02919
LOOP CAPITAL MKTS LLC	90,400	3,616.00	0.04000
LYNCH JONES AND RYAN INC	71,700	2,096.27	0.02924
MACQUARIEEQUITIES LIMITED (SYDNEY)	102,690	2,494.05	0.02429

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
MACQUARIESECURITIES (INDIA) PVT LTD	291,500	$ 3,470.72	$ 0.01191
MACQUARIESECURITIES LIMITED	2,055,247	15,579.89	0.00758
MACQUARIESECURITIES LTD SEOUL	13,630	3,774.12	0.27690
MAGNA SECURITIES CORP	7,700	308.00	0.04000
MCSD MISRFOR CLEARING, SETTLEMENT, DEP	18,020	1,805.28	0.10018
MELVIN SECURITIES LLC	26,100	1,044.00	0.04000
MERRILL LYNCH INTERNATIONAL	917,701	15,375.17	0.01675
MERRILL LYNCH PEIRCE FENNER AND S	1,533,181	20,204.28	0.01318
MERRILL LYNCH PROFESSIONAL CLEARING CORP	154,420	5,895.80	0.03818
MERRILL LYNCH,PIERCE,FENNER & SMITH, INC	239,386,737	12,656.79	0.00005
MIDWEST RESEARCH SECURITIES	12,000	480.00	0.04000
MIZUHO SECURITIES USA INC	413	1,604.15	3.88414
MORGAN KEEGAN & CO INC	1,742,685	1,318.40	0.00076
MORGAN STANLEY	1,400	566.64	0.40474
MORGAN STANLEY AND CO INTERNATIONAL	21,258	6,063.03	0.28521
MORGAN STANLEY AND CO INTL TAIPEI METRO	2,000	9.57	0.00479
MORGAN STANLEY CO INCORPORATED	427,106,540	37,700.75	0.00009
MR BEAL &COMPANY	800	40.00	0.05000
NATEXIS BLEICHROEDER INC	5,256	480.23	0.09137
NATIONAL FINANCIAL SERVICES CORP.	22,400	915.00	0.04085
NCB STOCKBROKERS LTD	115,400	4,425.51	0.03835
NEEDHAM &COMPANY	26,700	1,063.00	0.03981
NOMURA SECURITIES INTERNATIONAL INC	74,131	5,987.40	0.08077
NYFIX TRANSACTION SERVICES #2	617,039	12,052.58	0.01953
O NEIL, WILLIAM AND CO. INC/BCC CLRG	116,550	5,827.50	0.05000
ODDO FINANCE	8,700	523.80	0.06021
OPPENHEIM, SAL.,JR UND CIE KOELN	3,100	178.30	0.05752
OPPENHEIMER & CO. INC.	54,857	2,385.15	0.04348
PACIFIC AMERICAN SECURITIES, LLC	79,800	3,192.00	0.04000
PACIFIC CREST SECURITIES	5,100	204.00	0.04000
PACIFIC GROWTH EQUITIES, LLC	1,300	65.00	0.05000
PEREIRE TOD LIMITED	102,100	803.39	0.00787
PERSHING DIVISION OF DONALDSON LUFKIN	2,700	40.50	0.01500
PERSHING DLJ S L	1,019,504	14,466.02	0.01419
PERSHING LLC	10,461	244.08	0.02333
PERSHING SECURITIES LIMITED	377,595	4,184.58	0.01108

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
PICKERING ENERGY PARTNERS, INC	47,100	$ 2,065.00	$ 0.04384
PIPELINE TRADING SYSTEMS LLC	190,345	3,990.03	0.02096
PIPER JAFFRAY	174,640	8,022.60	0.04594
PULSE TRADING LLC	13,185	131.85	0.01000
RAYMOND JAMES AND ASSOCIATES INC	4,003,895	5,123.80	0.00128
RBC CAPITAL MARKETS	63,600	1,043.00	0.01640
RENAISSANCE SECURITIES (CYPRUS) LIMITED	15,900	30.05	0.00189
RIDGE CLEARING & OUTSOURCING SOLUTIONS,	4,325,562	42,726.38	0.00988
ROSENBLATT SECURITIES LLC	299,650	6,877.01	0.02295
SANDLER ONEILL & PART LP	18,200	809.00	0.04445
SANFORD C. BERNSTEIN LTD	3,928	706.46	0.17985
SANFORD C BERNSTEIN CO LLC	225,089	7,373.87	0.03276
SCOTIA CAPITAL INC	44,900	1,755.01	0.03909
SCOTT & STRINGFELLOW, INC	35,300	1,639.00	0.04643
SIS SEGAINTERSETTLE AG	6,100	896.44	0.14696
SKANDINAVISKA ENSKILDA BANK	12,700	165.25	0.01301
SOCIETE GENERALE BANK AND TRUST	2,703	1,238.91	0.45835
SOCIETE GENERALE LONDON BRANCH	36,937	2,080.98	0.05634
STATE STREET BROKERAGE SERVICES	4,491,978	129,084.59	0.02874
STEPHENS,INC.	4,308,336	5,069.50	0.00118
STERNE, AGEE & LEACH, INC.	24,940	997.60	0.04000
STIFEL NICOLAUS & CO INC	1,889,426	2,654.80	0.00141
SUNTRUST CAPITAL MARKETS, INC.	71,800	3,324.00	0.04630
THE BENCHMARK COMPANY, LLC	15,580	457.25	0.02935
THEMIS TRADING LLC	12,300	369.00	0.03000
THINKEQUITY PARTNERS LLC	7,000	259.00	0.03700
THOMAS WEISEL PARTNERS LLC	393,100	19,027.00	0.04840
UBS AG	1,056,079	13,318.50	0.01261
UBS FINANCIAL SERVICES INC	90,000	3,054.00	0.03393
UBS SECURITIES ASIA LTD	1,119,452	10,819.13	0.00966
UBS SECURITIES LLC	85,077,440	21,920.41	0.00026
UBS WARBURG LLC	47,500	4,651.35	0.09792
WACHOVIACAPITAL MARKETS, LLC	1,658,700	2,018.00	0.00122
WAVE SECURITIES	43,875	548.48	0.01250
WEDBUSH MORGAN SECURITIES INC	88,300	3,820.00	0.04326
WEEDEN & CO.	429,484	12,533.88	0.02918

Schedule of Commissions *Continued*

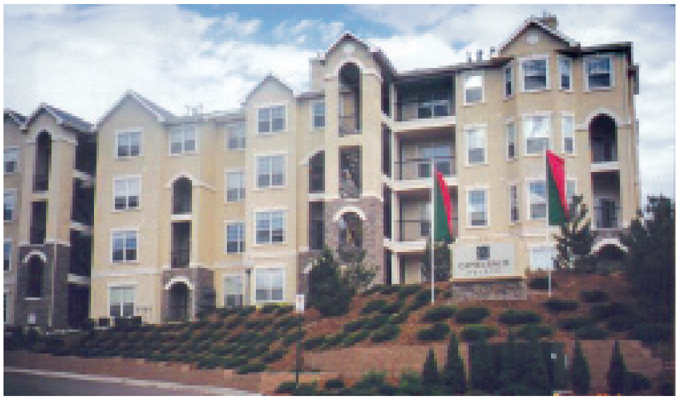
Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
WESTMINSTER RESEARCH ACCOCIATION	55,700	$ 2,785.00	$ 0.05000
WESTMINSTER RESEARCH ASSOCIATE	104,500	5,225.00	0.05000
WILLIAM BLAIR & COMPANY, L.L.C	251,082	11,437.46	0.04555
WILLIAMS CAPITAL GROUP LP (THE)	157,698	6,307.92	0.04000
WOORI INVESTMENT SECURITIES	641	564.42	0.88053
TOTAL	**3,148,423,300**	**$1,758,479.83**	**$ 0.00056**

Investment Summary

Non-GAAP Basis
As of June 30, 2008
(Dollars in thousands)

Type of Investment	*Market Value*	*% of Portfolio*
EQUITIES		
Consumer Discretionary	$ 98,019	3.83%
Consumer Staples	57,938	2.26%
Energy	116,978	4.57%
Financials	120,492	4.70%
Health Care	114,189	4.46%
Industrials	128,721	5.03%
Materials	41,779	1.63%
Technology/Telecom Services	170,317	6.65%
Utilities	26,963	1.05%
Miscellaneous	67	0.00%
Foreign Equity	698,300	27.26%
TOTAL EQUITIES	**$ 1,573,763**	**61.44%**
FIXED INCOME		
US Treasury	$ 80,436	3.14%
US Government Agency	241,918	9.44%
Domestic Corporate Bonds	330,283	12.89%
State and Local Obligations	12,619	0.49%
Foreign Government	9,930	0.39%
Foreign Corporate	32,706	1.28%
Derivatives	(419)	-0.02%
TOTAL FIXED INCOME	**$ 707,473**	**27.61%**
OTHER INVESTMENTS		
Short Term	$108,552	4.25%
Real Estate	216,300	8.44%
Private Equities	63,796	2.49%
TOTAL OTHER INVESTMENTS	**$ 388,648**	**15.18%**
PENDINGS	**($ 108,294)**	**(4.23%)**
TOTAL (Non-GAAP Basis)	**$ 2,561,590**	**100.00%**

Investment Properties



CAMELBACK POINTE APARTMENTS

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

CITIBANK OFFICE PLAZA

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

THE DEERWOOD APARTMENTS

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

CRESCENT VII

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

Investment Properties *Continued*

EAGLE USA WAREHOUSE

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

FIRST AMERICAN OFFICE PLAZA

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

CALAIS OFFICE CENTER I & II

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

PROGRESS POINT

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

Actuarial Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Actuary Certification Letter

SEGAL

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

415.263.8200 phone
415.263.8290 fax
www.segalco.com

August 13, 2008

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

Dear Members of the Board:

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

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

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

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

Actuary Certification Letter *Continued*

SEGAL

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

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

Sincerely,

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

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

Summary of Assumptions and Funding Method

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

ASSUMPTIONS

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

FUNDING METHOD

The System's liability is being funded on the Entry Age Normal Cost method with the previous Unfunded Actuarial Accrued Liability being amortized on a closed basis over a period of 40 years beginning in 1977, with 10 years remaining on the June 30, 2007 valuation date.

All changes to the UAAL in 2007 have been amortized over a 16-year period beginning in 2007.

Probabilities of Separation Prior to Retirement

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

Years of Life Expectancy After Service Retirement

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

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

Male

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

Female

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

Years of Life Expectancy After Disability Retirement

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

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

Schedule of Active Member Valuation Data

June 30, 1997 to June 30, 2007

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

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

Changes in Retirants

(Including Beneficiaries)

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

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

Actuarial Analysis of Financial Experience

(Dollars in thousands)

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

Solvency Test

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

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

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

Assumption Changes

ECONOMIC ASSUMPTIONS

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

DEMOGRAPHIC ASSUMPTIONS

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

Major Provisions of the Retirement Plan

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

FINAL AVERAGE SALARY (FAS)

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

RETURN OF CONTRIBUTIONS

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

SERVICE RETIREMENT BENEFIT

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

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

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

Ten years of service are required for vesting purposes.

DISABILITY BENEFIT

Non-Service-Connected

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

Service-Connected

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

DEATH BENEFIT (BEFORE AND AFTER RETIREMENT)

Non-Service-Connected

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

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

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

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

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

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

Service-Connected

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

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

DEATH BENEFIT – INACTIVE MEMBERS (AFTER RETIREMENT)

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

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

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

COST-OF-LIVING

The increase in retirement allowance is 3% per year.

POST-RETIREMENT HEALTH AND DENTAL

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

MEMBERS' RETIREMENT CONTRIBUTIONS

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

CITY'S RETIREMENT CONTRIBUTIONS

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

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

SEGAL

THE SEGAL COMPANY
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San Francisco, CA 94104-4308

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www.segalco.com

December 3, 2007

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

Dear Members of the Board:

The Segal Company (Segal) performed an actuarial valuation of the Other Post Employment Benefits (OPEB) funded through the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2006. We believe that the actuarial valuation was prepared in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 43.

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

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

The method described above is only used for the purposes of fulfilling the Plan's accounting requirements because for funding purposes, the City and the employees will share in the contributions required to pay the projected benefits for the next ten years under the Aggregate Cost Method.

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

SEGAL

The actuarial valuation reflects a long term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The assumptions used in this valuation were adopted by the Board based on the June 30, 2005 biennial experience analysis or in conjunction with the June 30, 2006 actuarial valuation. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The valuation was based upon the benefits provided under the terms of the substantive plan in effect at the time of the valuation.

The schedules presented in the Actuarial Section have been prepared and/or reviewed by Segal.

Sincerely,

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

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

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

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

ASSUMPTIONS

Valuation Interest Rate	5.3%
Inflation Rate	3.0%
Across-the-Board Pay Increase	1.0%
Projected Payroll Increases	4.0%
Participation in Medical Plan	90% of current actives are assumed to elect coverage at retirement
Participation in Dental Plan	100% of current actives are assumed to elect coverage at retirement
Eligibility for Medicare	90% of retirees reaching age 65 are assumed to be eligible for Medicare
Health Care Cost Trend Rates	The following health care cost trend rates are used to project the increase in subsidies in the future:

MEDICARE Year Ending June 30	Medical	RATE % Part B & Dental
2008	12	5
2009	11	5
2010	10	5
2011	9	5
2012	8	5
2013	7	5
2014	6	5
2015 and later	5	5

Per Capita Costs for Health Benefits

The average per capita costs for dental and medical benefits as of July 1, 2006 are as follows:

	Per Year
Dental	
Retirees – All Ages	$1,167
Medical	
Retiree - less than age 65:	$4,529
Retiree - age 65 and over:	$4,367
Surviving spouse - less than age 65:	$4,529
Surviving spouse - age 65 and over:	$4,367
Family - less than age 65:	$11,211
Family - age 65 and over:	$10,159

Implicit Subsidy Paid by Actives for Retirees

The annual implicit subsidy paid by the actives for the retirees are as follows:

	Retiree		Spouse	
Age	Male	Female	Male	Female
55	$4,603	$4,756	$3,626	$4,107
60	$5,467	$5,123	$4,852	$4,761
64	$6,273	$5,437	$6,125	$5,358
65+	N/A	N/A	N/A	N/A

ACTUARIAL COST METHOD
(FOR GASB 43/45 PURPOSES)

The Plan's liability is being calculated on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized on an open basis over a period of 30 years beginning on June 30, 2006.

Summary of Plan Benefits
(Other Post-Employment Benefits)

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

ASSUMPTIONS

Eligibility	Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of Final Average Salary. If a member separates from service after July 5, 1992, with 20 years of service, he/she is eligible upon receiving a deferred retirement benefit.
Medical Subsidy	For retirees not eligible for Medicare, the plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the plan pays the retiree's HMO premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees. For 2006, the maximum subsidy is $377.40 for a single member and $939.72 for a family.
Dental Subsidy	The plan pays the entire premium.
Employee's Contribution	The employee contributes 50% of the health cost and 25% of the dental cost required to pay the projected benefits for the next 10 years.
City's Contribution	The City contributes 50% of the health cost and 75% of the dental cost required to pay the projected benefits for the next 10 years.

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Postemployment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Statistical Section

City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 1999-2008 *(Dollars in thousands)*

Pension Benefits (Schedule 1a)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member contributions	$12,469	$27,321	$13,383	$14,737	$16,416	$17,233	$16,240	$16,432	$16,050	$19,210
Employer contributions	23,522	13,254	22,157	23,748	23,511	24,412	41,835	43,473	46,625	56,372
Investment Income*	134,371	112,421	(4,039)	(31,729)	80,225	252,431	202,320	230,225	440,999	(153,711)
Total additions	**170,362**	**152,996**	**31,501**	**3,756**	**120,152**	**294,076**	**260,395**	**290,130**	**503,674**	**(78,129)**
Deductions (See Schedule 2a)										
Benefit payments	37,207	40,974	45,699	54,113	55,342	61,449	69,102	75,189	81,953	89,704
Death benefits	1,531	1,689	1,772	1,771	3,732	3,976	4,226	4,803	5,042	5,467
Refunds	167	194	615	518	276	132	426	144	210	168
Administrative expenses and other	823	996	1,517	1,773	1,583	2,053	1,617	2,171	2,206	2,670
Total deductions	**39,728**	**43,853**	**49,603**	**58,175**	**60,933**	**67,610**	**75,371**	**82,307**	**89,411**	**98,009**
CHANGE IN NET ASSETS	**$130,634**	**$109,143**	**$(18,102)**	**$(51,419)**	**$59,219**	**$226,466**	**$185,024**	**$207,823**	**$414,263**	**$(176,138)**

**Net of Expenses*

Postemployment Healthcare Benefits (Schedule 1b)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member contributions	$1,679	$2,866	$2,159	$3,114	$3,521	$3,696	$5,673	$5,742	$7,989	$9,151
Employer contributions	3,041	2,120	2,515	4,367	4,251	4,492	6,418	6,529	9,082	10,618
Investment Income*	2,273	2,490	(756)	(556)	1,415	4,414	3,554	4,089	8,115	(3,029)
Total additions	**6,993**	**7,476**	**3,918**	**6,925**	**9,187**	**12,602**	**15,645**	**16,360**	**25,186**	**16,740**
Deductions (See Schedule 2b)										
Health Insurance Premiums	4,156	4,649	5,685	6,740	7,772	9,528	11,093	12,880	14,794	15,974
Administrative expenses and other	18	23	33	67	32	36	33	42	45	56
Total deductions	**4,174**	**4,672**	**5,718**	**6,807**	**7,804**	**9,564**	**11,126**	**12,922**	**14,839**	**16,030**
CHANGE IN NET ASSETS	**$2,819**	**$2,804**	**$(1,800)**	**$118**	**$1,383**	**$3,038**	**$4,519**	**$3,438**	**$10,347**	**$710**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *Continued*

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

Pension Benefits (Schedule 2a)

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

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

Postemployment Healthcare Benefits (Schedule 2b)

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

Source: Pension Administration System

Statistical Review *Continued*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 1999-2008 (Schedule 3)

Fiscal Year	*Employee Rate (%)*	*Employer Rate (%)*
1999*	10.22	19.82
2000	10.22	20.11
2001	9.79	15.70
2002	9.79	15.70
2003	10.25	14.22
2004	10.25	14.22
2005	11.16	24.59
2006	11.16	25.04
2007**	11.26	25.22
2007***	11.67	28.51
2008**	11.26	25.61
2008****	11.67	28.90

** Multiple rates this year*
*** Fire Department Members' rate*
**** Police Department Members' rate*
***** Police Department Members' special rate change effective 12/17/2006*

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS *As of June 30, 2008*

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*							Option Selected**				
		1	2	3	4	5	6	7	Unmodified	Option 1	Option 2	Option 3	Total
$1 - 500	5	-	-	-	-	-	5	-	-	-	5	-	5
501 - 1000	25	-	-	5	1	-	15	4	4	-	21	-	25
1001 - 1500	66	1	-	27	2	1	28	7	10	-	56	-	66
1501 - 2000	78	2	-	43	9	4	17	3	17	-	61	-	78
2001 - 2500	114	4	-	46	40	1	13	10	53	1	60	-	114
2501 - 3000	98	3	-	35	44	1	11	4	50	2	46	-	98
3001 - 3500	109	6	1	16	78	4	3	1	83	3	19	4	109
3501 - 4000	81	8	1	5	57	6	2	2	62	-	11	8	81
4001 - 4500	111	26	1	2	81	-	1	-	79	3	16	13	111
4501 - 5000	108	36	-	4	68	-	-	-	79	5	13	11	108
5001 - 5500	110	46	-	6	57	-	1	-	81	3	11	15	110
5501 - 6000	150	71	-	3	75	-	1	-	124	5	7	14	150
6001 - 6500	112	47	-	-	65	-	-	-	92	6	6	8	112
6501 - 7000	90	57	-	-	32	1	-	-	69	-	9	12	90
Over $7000	337	193	-	1	139	-	-	4	227	15	39	56	337
TOTAL	**1594**	**500**	**3**	**193**	**748**	**18**	**97**	**35**	**1030**	**43**	**380**	**141**	**1594**

***RETIREMENT CODES**

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

****OPTION DESCRIPTIONS**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

Amount Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	174	139
$1 - 60	-	18
61 - 250	1	1437
251 - 500	381	-
501 - 750	18	-
751 - 1000	281	-
1,000 - 1,250	739	-
TOTAL	**1594**	**1594**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

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

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

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

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

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

Source: Pension Administration System

Average Benefit Payment Amounts *Continued*

POSTEMPLOYMENT HEALTHCARE BENEFITS

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

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

Source: Pension Administration System

Retirements During Fiscal Year 2007-08

SERVICE RETIREMENTS

Police Department

ALFORD, MICHAEL
BARRERA, RAYMOND
BENNETT, ROBERT
CADDELL, JAMES
CARTER, ERNEST
CORNFIELD, SCOTT
DINI, PAUL
ESPINEIRA, LUIS
ESTRABAO, DARIO
FERGUSON, KENNETH
FLORES, FELIPE
GOMES, RODNEY
GONZALEZ, JORGE
GRIGG, GEORGE
GUIZAR, RUBEN
HAHN, CHARLES
HELDER, RONALD
JOHNSON, JON
JURADO, MANUEL
KISCHMISCHIAN, GENE
LONG, BRIAN
MACIAS, ROMULO
MARINI, EDWARD
MONTES, JOSE
MUYO, NICHOLAS
NUNES, LESLIE
POINTER, JOHN
REALYVASQUEZ, ARMANDO
RICO, DOMINGO
ROSS, MICHAEL
SANCHEZ, JESS
SANCHEZ, LORENZO
SANCHEZ, RICHARD
STERNER, MICHAEL
THOMASSIN, RONALD
VILLARREAL, RAYMOND
WEIDNER, JOHN
YOUNIS, CHARLES
ZAPATA, LOUIS
ZARATE, EDWARD
ZARATE, JAIME

Fire Department

GUTIERREZ, DAVID
HERNANDEZ, VIRGILIO
LUNA, JOSE
PADILLA, STEVE
TAPIA, VICTOR

EARLY RETIREMENTS

Police Department

NONE

Fire Department

NONE

DEFERRED VESTED RETIREMENTS

Police Department

ALVAREZ, PATRICIA
BARKER, KENNETH
D'ARCY, STEPHEN

Fire Department

KOHLMANN, GERALD

SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

CAMPBELL, JASON
GARCIA, CAMILLE
GETREU, GARY
HERNANDEZ, ERNEST
HOGAN, MARTIN
JENSEN, THOMAS
O'KEEFE, JAMES
PENA, RAYMOND
WILLSON, ERIC
ZEHRING, RICHARD

Fire Department

SCIORTINO, VINCENT

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

NONE

Fire Department

NONE

Source: Pension Administration System

Deaths During Fiscal Year 2007-08

DEATHS AFTER RETIREMENT

Police Department

BOONE, RICHARD
BUSH, WILBERT
GEPPERT, KENNETH
HERRMANN, KENNETH
JOHNS, MERLE
LONGAKER, DAVID
MILLER, DOROTHY
MOSUNIC, JOHN
RONCO, STEPHEN
THATCHER, ELIZABETH
WITTMANN, WILLIAM

Fire Department

CALTABIANO, ROBERT A.
CARTER, DOUGLAS
GINGERICH, FREEMAN
HOLMES, MARK
HYLAND, NICHOLAS
MEHRKENS, LES
SINNOTT, GLENN
STEELE, EDWARD
STENZEL, EUGENE

DEATHS BEFORE RETIREMENT

Police Department

KEPLER, TERRY L.

Fire Department

NONE

Source: Pension Administration System

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San José, California 95112-4505
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408 392-6732 Fax
www.sjretirement.com

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY