CITY OF SAN JOSE

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

Edward F. Overton
Director

City of San Jose
Department of Retirement Services
1737 N. First Street, Suite 580
San Jose, CA 95112-4505
(408) 392-6700 / Fax (408) 392-0771
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BOARD CHAIR LETTER

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 1, 2004

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's ("Plan") Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate return of 16.5% on investments, compared to 14.4% for its benchmark and 15.8% for the Trust Universe Comparison Service Public Fund Median.
- Kennedy Associates Real Estate Counsel was hired to take over the portfolio previously managed by PM Realty Advisors. The transition occurred in October.
- The exit strategy for the jointly owned properties with the Federated City Employees' Retirement System ("System") was completed with the System buying the Plan's 50% interest in three of the jointly owned properties in November 2003. The fourth and final jointly owned property was sold to a third party, also in November 2003.
- The Board initiated an asset liability modeling study in January 2004 and new asset allocation targets were approved in May 2004.
- The Board approved initiating a classification and compensation study in April 2004.
- Document imaging and retrieval system was completed in May 2004.
- The new web member services and website was activated in June 2004.

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

Sincerely,

Mark Skeen

MARK SKEEN, Chair
Board of Administration

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I.
INTRODUCTORY SECTION

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LETTER OF TRANSMITTAL

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 18, 2004

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, 2004. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias Gini & Company LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The System 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 21.

Structure of the Report

This report is presented in five sections:

- The Introductory Section contains a letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a listing of the professional services used, description of the Plan's management and organizational structure, and a summary of the plan provisions.
- The Financial Section contains the independent auditor's report from Macias Gini & Company LLP, Management's Discussion and Analysis, the basic financial statements of the Plan, certain required supplementary information and other supplementary information.
- The Investment Section contains the report of investment activity produced by Mercer Investment Consulting, the Plan's investment consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.

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LETTER OF TRANSMITTAL (Continued)

- The Actuarial Section contains the certification letter produced by the independent actuary, Mercer Human Resource Consulting, along with the results of the Plan's last bi-annual valuation (2001).
- The Statistical Section contains graphs and schedules with comparative data related to additions, deductions, benefits, and membership.

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Major Initiatives

In November 2003, the Board completed the exit strategy of three real estate properties, jointly owned with the Federated City Employees' Retirement System ("System"), by way of a buy/sell agreement, whereby the System purchased the Plan's 50% interest in the jointly owned properties. Also in November 2003, the fourth and last jointly owned property was sold to a third party.

An Asset-Liability Modeling Study and a Manager (or Portfolio) Structure Analysis Study were initiated and completed by Mercer Consulting and approved by the Board. Private Equity and Long Bonds were the new asset classes resulting from the study. Also as a result of the study, funds to existing managers will be reallocated.

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/18/04 Page 3 of 4

The document imaging and retrieval system was completed in May 2004. All paper documents in a member's file are now stored and retrievable in the Plan's pension administration system.

The Plan's new web member services and website was activated in June 2004. Interested parties are able to access information regarding the Plan and members are able to access their own data in the system, including the ability to do benefit calculation estimates.

Changes in Plan Membership

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

	2004	2003	Increase (Decrease)	Change
Active Members*	2,119	2,170	(51)	(2.4%)
Retired Members	1,125	1,094	31	2.8%
Survivors**	238	218	20	9.2%
TOTAL	**3,482**	**3,482**	-	**0.0%**

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

** Survivor total includes ex-spouses.

Financial and Economic Summary

For the fiscal year ended June 30, 2004, the time-weighted rate of return for the Plan was 16.5%, which was ahead of its Benchmark Index return of 14.4% and in the 32nd percentile of the Trust Universe Comparison Service ("TUCS") – Public Fund Universe. Maintaining a long-term perspective is important when dealing with retirement assets. The annualized return since inception (performance consultant calculates inception as of January 1971) was 9.6%, which is ahead of the actuarial assumption rate of 8.0%.

The U.S. economy appears to be lingering in a slow recovery phase that began in 2003. Investment returns in the first half of 2004 have been much lower than last year and the capital markets remain muted, anticipating further interest rate increases by the Federal Reserve. The Plan's investment consultant, Mercer Investment Consulting, believes that the historically conservative asset allocation strategy followed by the Retirement Board has benefited the plan's long-term return.

Investment Summary

The Board of Administration has exclusive control of all investments of the Retirement Plan and is responsible for the establishment of investment objectives, strategies and policies. Members

LETTER OF TRANSMITTAL (Continued)

of the Board serve in a fiduciary capacity and must discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and defraying the reasonable cost of administration.

Compared to the TUCS Public Fund Universe, the Plan's investments turned in an above-average performance during FY2004. The portfolio's total return was 16.5% versus 15.8% for TUCS Public Fund median. Over long-term periods, the portfolio has earned total annualized returns of 6.6% over the past three years and 5.6% over the past five years, and ranked in the 10th and 18th percentile, respectively, of the TUCS Public Fund Universe. The market value of the Plan's investments increased from $1,680,432,063 to $1,910,791,651, net of pending purchases and sales, and excluding securities lending collateral.

Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the funding ratio of the Defined Benefit Pension Plan was approximately at 114.8%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 44. The net increase in Plan assets for FY2004 was $229,504,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 32.

Conclusion

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

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

CERTIFICATE OF ACHIEVEMENT IN FINANCIAL REPORTING

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003

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

PUBLIC PENSION STANDARDS AWARD

PPCC

Public Pension Coordinating Council

Public Pension Standards

2003 Award

Presented to

City of San Jose Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H Winkle

Alan H. Winkle
Program Administrator

BOARD OF ADMINISTRATION

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

As of June 30, 2004, the members of the Board were as follows:

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

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

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

BOARD OF ADMINISTRATION (Continued)

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

Mark Burton
City Administration Member appointed to the Board in May 2000.

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

Pat Dando
City Council Member appointed to the Board in January 2003.

OUTSIDE CONSULTANTS

ACTUARY	Mercer Human Resource Consulting San Francisco, CA
ATTORNEY, BOARD	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	Nossaman, Guthner, Knox & Elliott LLP San Francisco, CA
AUDITOR	Macias Gini & Company LLP Walnut Creek, CA

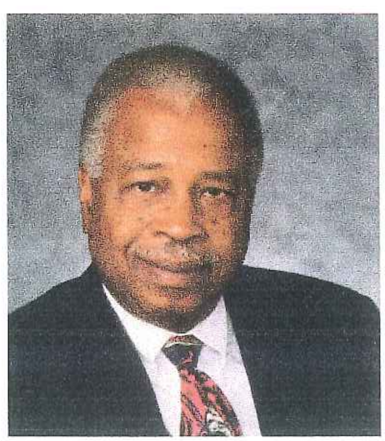
A list of Investment Professionals begins on page 66 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

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

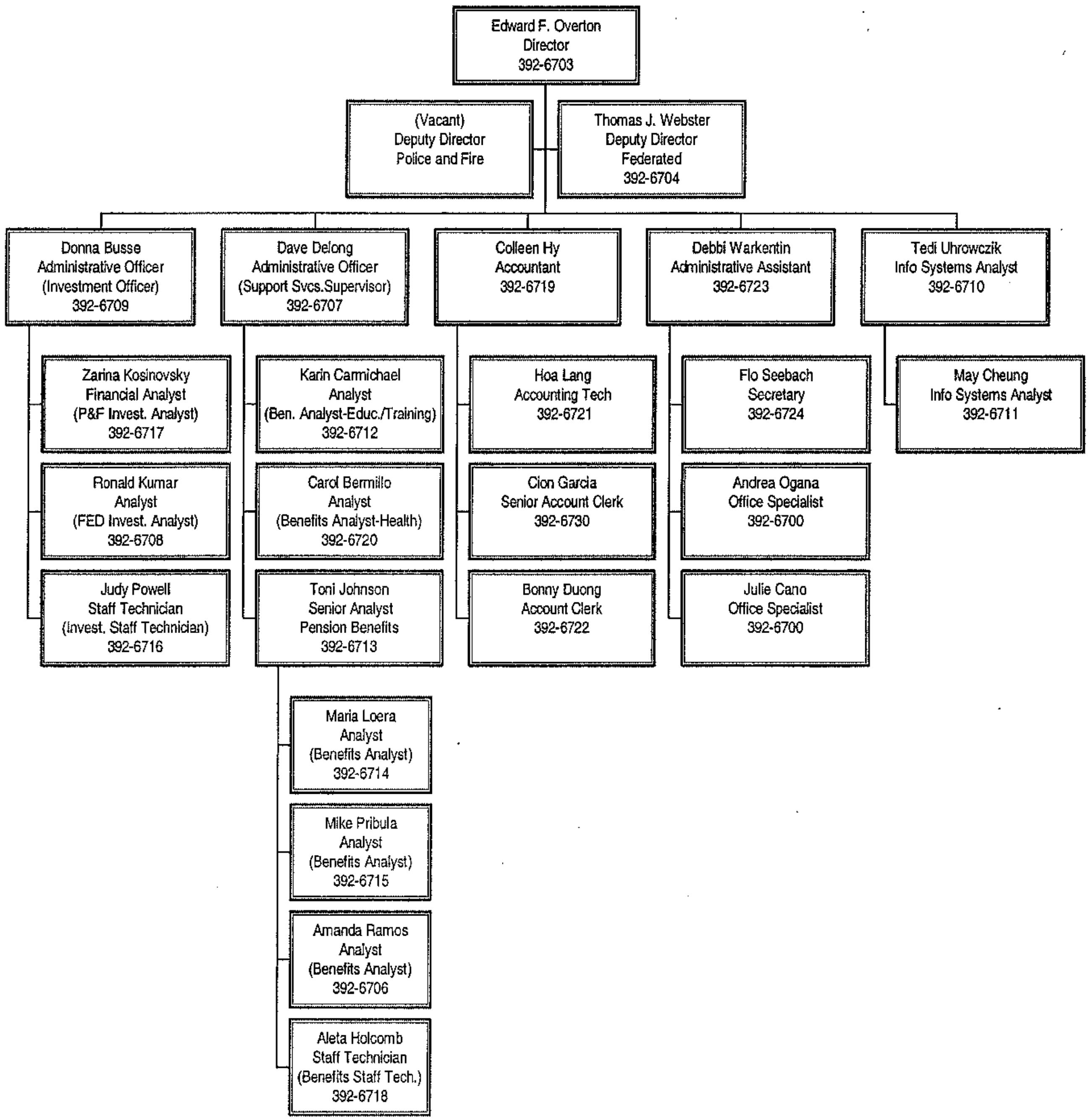
Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at http://sjretirement.com/PF/Meetings/Agendas.asp or they can be obtained in the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112-4505. **Meeting times and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

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION



Edward F. Overton
Director, Retirement Services

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



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SUMMARY OF THE PRINCIPAL PLAN PROVISIONS

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

All members contribute 10.25% of base salary.

CITY'S CONTRIBUTION

The City contributes 14.22% of the base salary.

INTEREST

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

TERMINATION BENEFITS

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

MILITARY LEAVE CREDIT

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

VESTING OF PENSION CREDIT

After 10 years of service, a member may resign his/her position with the Police or Fire Department and leave the accumulated contributions in the Retirement Plan. A member who vests in this fashion is eligible to retire later at age 55 or when 20 years have elapsed 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

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary).

SERVICE-CONNECTED DISABILITY

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

NON-SERVICE-CONNECTED DISABILITY

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

EARLY SERVICE RETIREMENT

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

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

The surviving spouse will receive 37.5% of the final compensation if the member dies while entitled to immediate retirement for service, dies at any age due to a service-connected injury or illness, is retired for service, or is

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

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 Admin-

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

istration 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 including ABN AMRO Asset Management; Alliance Capital Management Corp.; Bank of Ireland Asset Management; The Boston Company; Boston Partners Asset Management; Brandes Investment Partners; Credit Suisse Asset Management; GE Asset Management; Globalt, Inc.; INTECH; Kennedy Associates Real Estate Counsel; MIG Realty Advisors; New Amsterdam Partners; Provident Investment Counsel; Rhumbline Advisers; Seix Investment Advisors; Trust Company of the West; UBS Global Asset Management; Western Asset Management Company; and William Blair & Company are retained for full-time investment counsel. Mercer Investment Consulting is retained as the 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.

II.
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2004 and 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 System. They do not purport to, and do not, present fairly the financial position of the City of San José as of June 30, 2004 and 2003, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2004 and 2003, 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 accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

www.maciasgini.com CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the years ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 3 of this report.

Financial Highlights for Fiscal Year 2004

- The net assets of the Plan at the close of the fiscal year 2004 are $1,910,235,000 (net assets held in trust for pension benefits and post-employment healthcare benefits except the Supplemental Retiree Benefit Reserve). All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- The Plan's total net assets held in trust for pension benefits and post-employment healthcare benefits increased by approximately $229,504,000 or 13.7%, primarily as a result of the appreciation of the fair value of assets caused by the strengthening equity investment market.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of our last actuarial valuation, the funded ratio for the Defined Benefit Pension Plan was approximately 114.8%. In general, this indicates that for every dollar of pension benefits due we have approximately $1.15 of assets to cover it.
- Additions to Plan Net Assets for the year were $306,678,000, which includes member and employer contributions of $49,833,000, net investment income of $256,304,000, and net securities lending income of $541,000.
- Deductions in Plan Net Assets increased from $68,737,000 to $77,174,000 over the prior year, or approximately 12.3% 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

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

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

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 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—as one way to measure the Plan's financial position. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health (see the Plan's basic financial statements on pages 30-33 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 34-41 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's progress in funding its obligations to provide pension benefits to members and employer contributions (see Required Supplementary Information beginning on page 43 of this report).

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

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

Management's Discussion and Analysis
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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 24). The assets of the Plan exceeded its liabilities at the close of fiscal year 2004.

As of June 30, 2004, $1,910,235,000 in total net assets is held in trust for pension benefits and post-employment healthcare benefits. All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2004, total net assets increased by 13.7% over the prior year primarily due to appreciation in the fair value of investments, which increased $175,322,000 from last year.

As of June 30, 2003, $1,680,731,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits (see Table 1b on page 24). This total represented an increase of 3.7% in net assets over the prior year primarily due to appreciation in the fair value of investments.

As of June 30, 2004, receivables decreased by $29,216,000 or 51.2% mainly due to a decrease in receivables from brokers and others. In the previous year, receivables increased by $3,984,000 or 7.5% due to an increase in accrued investment income.

As of June 30, 2004, total liabilities increased by $164,383,000, or 123.0%, compared with June 30, 2003, due mainly to an increase in securities lending collateral due to borrowers, which returned to normal from its low levels at the end of the previous year.

As of June 30, 2003, total liabilities decreased by $146,262,000 or 52.3% mainly due to the fact that most securities on loan were called back at the end of the fiscal year in preparation for transition to a new custodian bank. Therefore securities lending collateral due to borrowers was lower by nearly $180 million from the prior year.

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 38). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees.

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

For the fiscal year ended June 30, 2003, the appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "Unrealized gains on investments held" of $67,091,000 from fiscal year ended June 30, 2002.

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

Management's Discussion and Analysis
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Police and Fire Plan's Net Assets (Table 1a)
As of June 30, 2004 and 2003

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

Police and Fire Plan's Net Assets (Table 1b)
As of June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 57,101,000	$ 53,117,000	$ 3,984,000	7.5%
Investments at Fair Value	1,757,238,000	1,846,882,000	(89,644,000)	-4.9%
Total Assets	**1,814,339,000**	**1,899,999,000**	**(85,660,000)**	**-4.5%**
Current Liabilities	133,608,000	279,870,000	(146,262,000)	-52.3%
Total Liabilities	**133,608,000**	**279,870,000**	**(146,262,000)**	**-52.3%**
Net Assets	**$ 1,680,731,000**	**$ 1,620,129,000**	**$ 60,602,000**	**3.7%**

Police and Fire Plan's Net Assets
(Dollars in Millions)

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

Management's Discussion and Analysis
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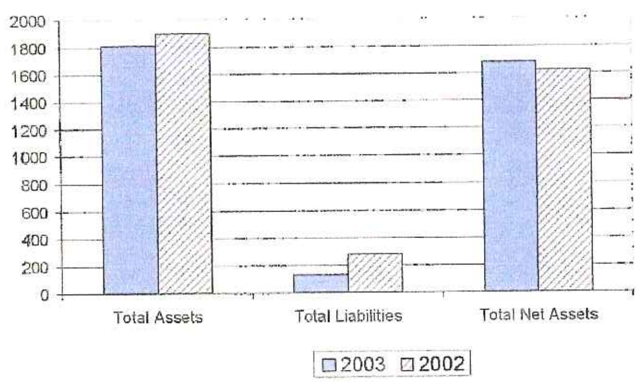
Police and Fire Plan's Net Assets
(Dollars in Millions)



Additions to Plan Net Assets (Table 2a)
For the Years Ended June 30, 2004 and 2003

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

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

Additions to Plan Net Assets (Table 2b)
For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 19,937,000	$ 17,851,000	$ 2,086,000	11.7%
Employer Contributions	27,762,000	28,115,000	(353,000)	-1.3%
Net Investment Income (Loss)*	81,216,000	(33,011,000)	114,227,000	346.0%
Net Securities Lending Income	424,000	726,000	(302,000)	-41.6%
Total Additions	**$ 129,339,000**	**$ 13,681,000**	**$ 115,658,000**	**845.4%**

* Net of Investment Expenses of $7,066,000 and $6,151,000 in 2003 and 2002, respectively.

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

Management's Discussion and Analysis
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Deductions from Plan Net Assets (Table 3a)
For the Years Ended June 30, 2004 and 2003

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

Deductions from Plan Net Assets (Table 3b)
For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	$ 55,342,000	$ 51,907,000	$ 3,435,000	6.6%
Healthcare Insurance Premiums	7,772,000	6,740,000	1,032,000	15.3%
Death Benefits	3,732,000	3,977,000	(245,000)	-6.2%
Refund of Contributions	276,000	518,000	(242,000)	-46.7%
Administrative	1,615,000	1,840,000	(225,000)	-12.2%
Total Deductions	**$ 68,737,000**	**$ 64,982,000**	**$ 3,755,000**	**5.8%**

Changes in Plan Net Assets (Table 4a)
For the Years Ended June 30, 2004 and 2003

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

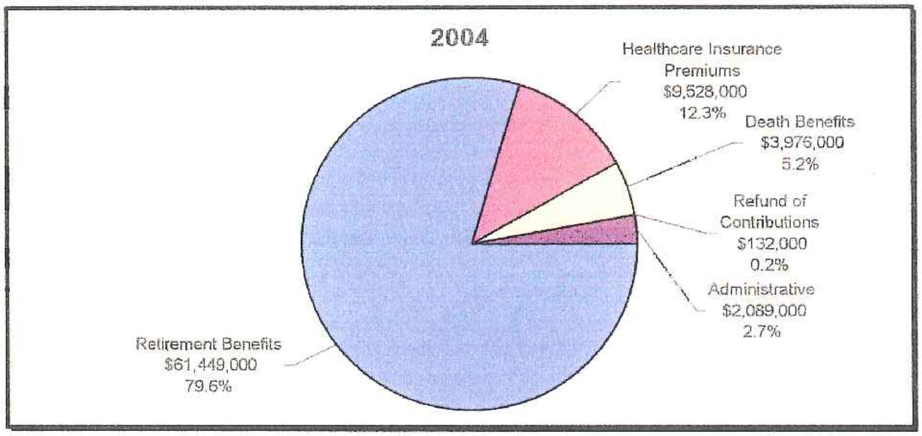
Changes in Plan Net Assets (Table 4b)
For the Years Ended June 30, 2003 and 2002

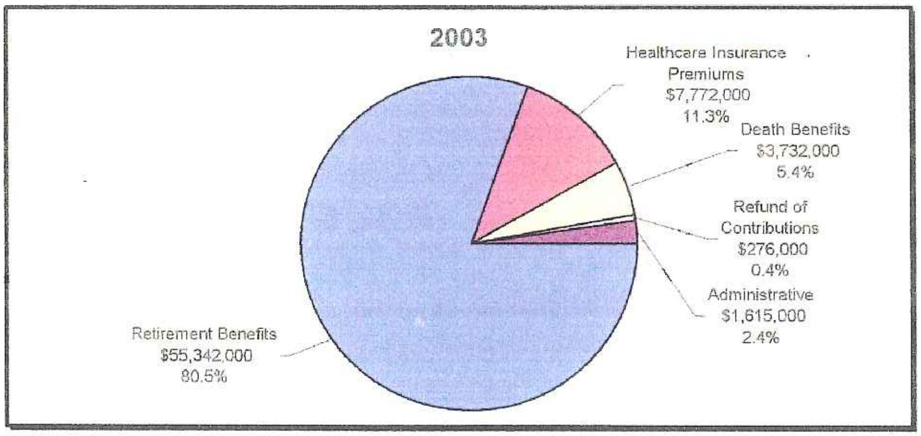
	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Total Additions	$ 129,339,000	$ 13,681,000	$ 115,658,000	845.4%
Total Deductions	68,737,000	64,982,000	3,755,000	5.8%
Net Increase (Decrease) in Plan Assets	**$ 60,602,000**	**$ (51,301,000)**	**$ 111,903,000**	**218.1%**

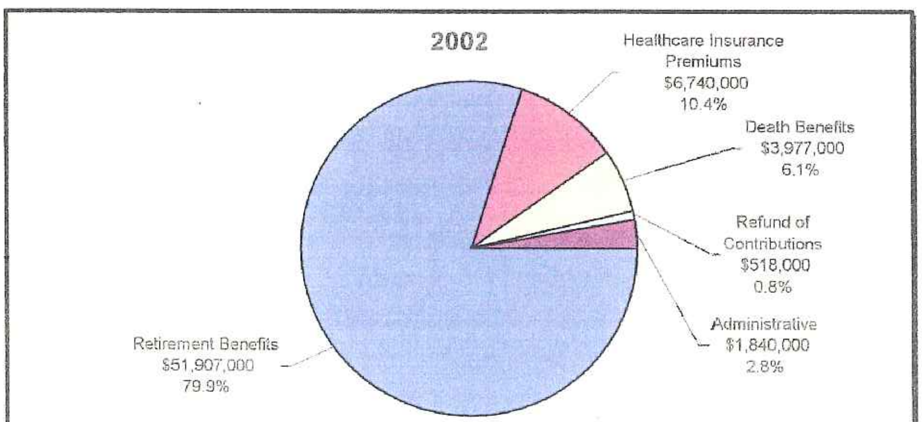
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Management's Discussion and Analysis
Page 7 of 9

Deductions from Plan Net Assets







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

THE POLICE AND FIRE PLAN ACTIVITIES

Market returns were the main driver of increased net assets, which rose by $229,504,000, thereby accounting for a 13.7% increase over the prior year. Key elements of this increase are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2004, totaled $306,678,000 (see Table 2a on page 25).

By fiscal year ended June 30, 2004, overall additions had increased by $177,339,000, or 137.1%, from the prior year due primarily to unrealized investment gains, which increased $175,322,000, or 452.1%. The investment section of this report reviews the result of investment activity for the fiscal year ended June 30, 2004 starting on page 55. Also during the fiscal year, Employer contributions increased by $1,142,000, or 4.1% due to an increase in covered payroll.

Additions for the fiscal year ended June 30, 2003, totaled $129,339,000, which represented an increase of $115,658,000, or 845.4%, from 2002 primarily due to investment gains which increased by 346.0% from the previous year (see Table 2b on page 25).

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 system.

Deductions for the fiscal year ended June 30, 2004 totaled $77,174,000, an increase of 12.3% over June 30, 2003 (see Table 3a on page 26). Increases in retirement benefits of $6,107,000 and healthcare insurance premiums of $1,756,000 were the main reasons for increased expenses. Retirement benefits expense increased due to an increased number of beneficiaries and higher benefit amounts paid. Health insurance costs increased due to higher premiums.

Deductions for the fiscal year ended June 30, 2003 totaled $68,737,000, an increase of 5.8% over June 30, 2002 (see Table 3b on page 26). Increases in retirement benefits of $3,435,000 and healthcare insurance premiums of $1,032,000 were the main reasons for increased expenses. Retirement benefits expense increased due to an increased number of beneficiaries and higher benefit amounts paid. Healthcare insurance costs increased due to higher premiums and administrative expenses increased primarily as a result of an increase in payroll costs due to increased staffing.

The Plan's Fiduciary Responsibilities

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

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

Economic Factors and Rates Affecting Next Year

The Plan completed a new actuarial valuation dated 2003 and the rates adopted will be effective July 4, 2004. The new rates increase the contribution from the City from 14.22% to 25.04% and for the employees the rate increases from 10.25% to 11.16%. Funding status of the Plan was reduced from 114.8% to 100.2%.

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 Jose, California 95112-4505

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

STATEMENT OF PLAN NET ASSETS
As of June 30, 2004 and 2003
(In Thousands)

	2004		
	Pension benefits	Post-employment healthcare benefits	Total
ASSETS:			
Receivables:			
Employee contributions	$ 607	$ 132	$ 739
Employer contributions	838	152	990
Brokers and others	18,057	304	18,361
Accrued investment income	7,663	132	7,795
Total receivables	27,165	720	27,885
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	104,967	1,806	106,773
U.S. government securities	206,571	3,554	210,125
Foreign government bonds	73,648	1,267	74,915
Domestic corporate bonds	234,268	4,030	238,298
Foreign corporate bonds	47,085	810	47,895
Domestic equity securities	695,508	11,965	707,473
Foreign equity securities	428,763	7,376	436,139
State and local obligations	912	16	928
Short-term foreign currency investments	(1,030)	(18)	(1,048)
Collective short-term investment funds	52,555	725	53,280
Real estate	104,125	1,975	106,100
Securities lending collateral investment pool	196,097	3,366	199,463
Total investments	2,143,469	36,872	2,180,341
Total assets	2,170,634	37,592	2,208,226
LIABILITIES:			
Payable to brokers	93,221	1,600	94,821
Securities lending collateral due to borrowers	196,097	3,366	199,463
Other liabilities	3,643	64	3,707
Total liabilities	292,961	5,030	297,991
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,877,673	-	1,877,673
Postemployment healthcare benefits	-	32,562	32,562
Total net assets (A schedule of funding progress is presented on page 44.)	$ 1,877,673	$ 32,562	$ 1,910,235

See accompanying notes to basic financial statements

STATEMENT OF PLAN NET ASSETS (Continued)
As of June 30, 2004 and 2003
(In Thousands)

	2003		
	Pension benefits	Post-employment healthcare benefits	Total
ASSETS:			
Receivables:			
Employee contributions	$ 374	$ 80	$ 454
Employer contributions	692	97	789
Brokers and others	46,151	813	46,964
Accrued investment income	8,739	155	8,894
Total receivables	55,956	1,145	57,101
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	83,135	1,472	84,607
U.S. government securities	166,449	2,947	169,396
Foreign government bonds	88,693	1,570	90,263
Domestic corporate bonds	233,384	4,131	237,515
Foreign corporate bonds	50,189	888	51,077
Domestic equity securities	553,890	9,805	563,695
Foreign equity securities	329,670	5,836	335,506
State and local obligations	4,101	73	4,174
Short-term foreign currency investments	(73)	(1)	(74)
Collective short-term investment funds	66,003	1,167	67,170
Real estate	149,414	2,790	152,204
Securities lending collateral investment pool	1,675	30	1,705
Total investments	1,726,530	30,708	1,757,238
Total assets	1,782,486	31,853	1,814,339
LIABILITIES:			
Payable to brokers	126,288	2,240	128,528
Securities lending collateral due to borrowers	1,675	30	1,705
Other liabilities	3,316	59	3,375
Total liabilities	131,279	2,329	133,608
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,651,207	-	1,651,207
Postemployment healthcare benefits	-	29,524	29,524
Total net assets (A schedule of funding progress is presented on page 44.)	$ 1,651,207	$ 29,524	$ 1,680,731

See accompanying notes to basic financial statements

STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Years Ended June 30, 2004 and 2003
(In Thousands)

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

See accompanying notes to basic financial statements

STATEMENT OF CHANGES IN PLAN NET ASSETS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003
(In Thousands)

	2003		
	Pension benefits	Post-employment healthcare benefits	Total
ADDITIONS:			
Contributions:			
Employee	$ 16,416	$ 3,521	$ 19,937
Employer	23,511	4,251	27,762
Total contributions	39,927	7,772	47,699
Investment income:			
Net appreciation in fair value of investments	38,110	670	38,780
Interest income	27,104	480	27,584
Dividend income	11,997	213	12,210
Net rental income	9,539	169	9,708
Less investment expense	(6,942)	(124)	(7,066)
Net investment income before securities lending income	79,808	1,408	81,216
Securities lending income:			
Earnings	2,622	46	2,668
Rebates	(1,950)	(34)	(1,984)
Fees	(255)	(5)	(260)
Net securities lending income	417	7	424
Net investment income	80,225	1,415	81,640
Total additions	120,152	9,187	129,339
DEDUCTIONS:			
Retirement benefits	55,342	-	55,342
Healthcare insurance premiums	-	7,772	7,772
Death benefits	3,732	-	3,732
Refund of contributions	276	-	276
Administrative expenses and other	1,583	32	1,615
Total deductions	60,933	7,804	68,737
Net increase	59,219	1,383	60,602
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	1,591,988	28,141	1,620,129
End of year	$ 1,651,207	$ 29,524	$ 1,680,731

See accompanying notes to basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 and last amended May 27, 2003, to provide retirement benefits for the sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative cost amounted to approximately $2,089,000 and $1,615,000 for 2004 and 2003, 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 $222,177,252 and $214,845,000 for 2004 and 2003, respectively. Covered payroll amounted to approximately $203,953,000 and $193,998,000 in 2004 and 2003, respectively.

	2004	2003
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	1,363	1,312
Terminated vested members not yet receiving benefits	67	56
Active members	2,052	2,114
Total	3,482	3,482
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,238	1,189
Terminated vested members not yet receiving benefits	5	13
Active members	2,052	2,114
Total	3,295	3,316

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 compensation multiplied by 2.5% multiplied by years of service up to 30 years

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(Maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary).

Final compensation is the average monthly salary during the highest 12 consecutive months of service, limited to 108% of salary paid during the 12 months immediately preceeding the last 12 months of service. These benefit rates and formulas are based on the outcome of the arbitration process and approval by the Plan Board in July 1998. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment before completing 10 years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan.

(c) Death Benefits

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

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

(d) Disability Benefits

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

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

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting

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

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

(c) Investments

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

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals.

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

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2004 and 2003, the net assets, totaling $1,910,235 and $1,680,731 respectively, are allocated as follows (in thousands):

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Benefits Plan	Post-employment Healthcare Plan	Total
June 30, 2004:					
Employee contributions	$ 134,287	$ 41,443	$ 175,730	$ 3,252	$ 178,982
Supplemental retiree benefits	18,659	-	18,659	452	19,111
Unrealized gains (losses) on investments held	149,778	59,874	209,652	3,627	213,279
General reserve	1,041,712	431,920	1,473,632	25,231	1,498,863
Total	$ 1,344,436	$ 533,237	$ 1,877,673	$ 32,562	$ 1,910,235
June 30, 2003:					
Employee contributions	$ 122,108	$ 37,847	$ 159,955	$ 3,032	$ 162,987
Supplemental retiree benefits	18,647	-	18,647	463	19,110
Unrealized gains (losses) on investments held	69,893	27,408	97,301	1,735	99,036
General reserve	978,528	396,776	1,375,304	24,294	1,399,598
Total	$ 1,189,176	$ 462,031	$ 1,651,207	$ 29,524	$ 1,680,731

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

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

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

(e) *Allocation of Investment Income*

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-weekly from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% and the SRBR allocation remain in the general reserve category. For fiscal years 2004 and 2003 there were no “excess earnings”.

(f) *Reclassifications*

Certain amounts in FY2003 have been reclassified to conform to the FY2004 presentation.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 3 – INVESTMENTS

The Plan's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial credit risk assumed by the Plan at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualifying financial institution's trust department or agent in the Plan's name, where the financial institution acts as the Plan's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualifying financial institution's trust department or agent, but not in the Plan's name. There were no investments in Categories 2 or 3 as of June 30, 2004 and 2003.

The categorization of the Plan's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2004 and 2003, was as follows (in thousands):

	Fair Value	
	June 30, 2004	June 30, 2003
Category 1:		
U.S. Treasury notes and bonds:		
Not on securities loan	$ 14,575	$ 84,607
Loaned securities for noncash collateral	12,162	-
U.S. government securities	191,557	169,396
Foreign government bonds	74,915	90,263
Domestic corporate bonds	220,314	237,515
Foreign corporate bonds	47,895	51,077
Domestic equity securities	664,707	563,420
Foreign equity securities:		
Not on securities loan	400,810	334,151
Loan securities for noncash collateral	19	-
State and local obligations	928	4,174
Uncategorized:		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Treasury bonds and notes	80,036	-
U.S. government securities	18,568	-
Domestic corporate bonds	17,984	-
Domestic equity securities	42,766	275
Foreign equity securities	35,310	1,355
Short-term foreign currency investments	(1,048)	(74)
Collective short-term investment fund	53,280	67,170
Real estate investments	106,100	152,204
Securities lending collateral investment pool	199,463	1,705
Total investments	$ 2,180,341	$ 1,757,238

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 3 – INVESTMENTS (Continued)

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

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

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

Securities lent at year-end for cash collateral are presented as uncategorized in the preceding categorization of the Plan's investments, securities lent for noncash collateral are categorized according to the category of the related collateral.

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

The loaned securities as of June 30, 2004 and 2003, consisted of U.S. Treasury bonds and notes, U.S. government securities, domestic corporate bonds, domestic equity securities, and foreign equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% -105% of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2004, the underlying securities loaned by the Plan as a whole amounted to approximately $206,845,000. The cash collateral and the non-cash collateral totaled $199,463,000 and $12,425,000 respectively. As of June 30, 2003, the underlying securities loaned by the Plan as a whole amounted to approximately $1,630,000. The cash collateral totaled $1,705,000. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2004 and 2003.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2004 and 2003

NOTE 3 – INVESTMENTS (Continued)

Real estate investments include: apartment complexes in Houston, TX, and Colorado Springs, CO; office buildings in Denver, CO, in San José, CA and near Chicago, IL; and warehouses in Nashville, TN, and near Minneapolis, MN. The properties have leases with various terms.

The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2004 and 2003, the Plan's net position in these contracts is recorded at fair value as short-term foreign currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. 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, 2004, total commitments in forward currency contracts to purchase and sell foreign currencies were $96,109,000 and $96,109,000 respectively, with fair values of $95,402,000 and $96,450,000 respectively. As of June 30, 2003, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of $128,395,000 and $128,395,000, respectively, with fair values of $129,455,000 and $129,381,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 10 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 44).

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2004 and 2003, were as follows:

	City		Employee	
Period	Pension	Healthcare	Pension	Healthcare
7/01/02 – 6/30/04	12.01%	2.21%	8.44%	1.81%

NOTE 5 – CONCENTRATIONS

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

NOTE 6 – ACTUARY VALUATION

The Plan completed a new actuarial valuation in 2003 and the rates were adopted effective July 4, 2004. The new rates increase the contribution from the City from 14.22% to 25.04% and for the employees the rate increases from 10.25% to 11.16%. Funding status of the Plan was reduced from 114.8% to 100.2%.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

Funding Progress – GASB No. 25

Acutarial Valuation Date	Actuarial value of Assets [1] (a)	Entry Age Actuarial Accrued Liability (AAL)[2] (b)	Overfunded AAL (OAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	OAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/1995	$ 854,414	$ 828,739	$ 25,675	103.10%	$ 109,196	24%
06/30/1997 [4]	1,124,294	1,030,168	94,126	109.10%	129,850	72%
06/30/1999 [5]	1,440,117	1,276,364	163,753	112.80%	144,125	114%
06/30/2001 [6]	1,713,812	1,492,732	221,080	114.80%	171,779	129%

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

(2) Excludes postemployment healthcare liability.

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

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

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

(6) After adoption of SRBR program.

Actuarial valuations have been performed biennially through June 30, 2001. The June 30, 2003 actuarial valuation will be available for the fiscal year 2004/05 report period.

SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS DEFINED BENEFIT PENSION PLAN
(Unaudited - See accompanying independent auditor's report)
For The Fiscal Year Ended June 30, 2004

Description	Method/Assumption
Valuation date	June 30, 2001
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	14 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with four-year setback, is used for male members. The 1994 Female Group Annuity Mortality Table with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2001 Experience Analysis
Salary increases	1.5% increased across the board. Combined with the inflation assumptions of 3%, will maintain the wage inflation assumption of 4.5% before applying the merit and longevity increases.
Cost-of-living adjustments	3.00% a year

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

Fiscal year ended June 30,	Annual required employer contributions	Percentage contributed
1999	$23,522	100%
2000	27,321	100%
2001	22,157	100%
2002	23,748	100%
2003	23,511	100%
2004	24,412	100%

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS
As of June 30, 2004
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS:			
Receivables:			
Employee contributions	$ 444	$ 163	$ 607
Employer contributions	552	286	838
Brokers and others	12,675	5,382	18,057
Accrued investment income	5,475	2,188	7,663
Total receivables	19,146	8,019	27,165
Investments, at fair value:			
Securities and other			
U.S. Treasury notes and bonds	75,170	29,797	104,967
U.S. government securities	147,932	58,639	206,571
Foreign government bonds	52,741	20,907	73,648
Domestic corporate bonds	167,766	66,502	234,268
Foreign corporate bonds	33,719	13,366	47,085
Domestic equity securities	498,074	197,434	695,508
Foreign equity securities	307,050	121,713	428,763
State and local obligations	653	259	912
Short-term foreign currency investments	(738)	(292)	(1,030)
Collective short-term investment funds	31,610	20,945	52,555
Real estate	80,592	23,533	104,125
Securities lending collateral investment pool	140,102	55,995	196,097
Total investments	1,534,671	608,798	2,143,469
Total assets	1,553,817	616,817	2,170,634
LIABILITIES:			
Payable to brokers	66,602	26,619	93,221
Securities lending collateral due to borrowers	140,102	55,995	196,097
Other liabilities	2,677	966	3,643
Total liabilities	209,381	83,580	292,961
Plan net assets held in trust for pension benefits	$ 1,344,436	$ 533,237	$ 1,877,673

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2004
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS:			
Contributions:			
Employee	$ 12,455	$ 4,778	$ 17,233
Employer	16,279	8,133	24,412
Total contributions	28,734	12,911	41,645
Investment income:			
Net appreciation in fair value of investments	150,145	60,278	210,423
Interest income	19,663	7,817	27,480
Dividend income	10,514	4,180	14,694
Net rental income	5,078	2,031	7,109
Less investment expense	(5,656)	(2,150)	(7,806)
Total investment income	179,744	72,156	251,900
Securities lending income:			
Earnings	1,415	561	1,976
Rebates	(877)	(348)	(1,225)
Fees	(158)	(62)	(220)
Net securities lending income	380	151	531
Total investment income	180,124	72,307	252,431
Total additions	208,858	85,218	294,076
DEDUCTIONS:			
Retirement benefits	47,903	13,546	61,449
Death benefits	3,976	-	3,976
Refund of contributions	100	32	132
Administrative expenses and other	1,619	434	2,053
Total deductions	53,598	14,012	67,610
Net increase	155,260	71,206	226,466
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	1,189,176	462,031	1,651,207
End of year	$ 1,344,436	$ 533,237	$ 1,877,673

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER
For the Years Ended June 30, 2004 and 2003

	2004			2003
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services:				
Permanent staff expense	$ 1,192,582	$ 1,000,269	$ 192,313	$ 953,863
Temporary Staff	7,000	4,588	2,412	-
Total personnel services	1,199,582	1,004,857	194,725	953,863
Professional services:				
Actuarial services	186,500	220,272	(33,772)	55,398
Human resource services	65,000	36,500	28,500	-
Medical services	110,000	98,717	11,283	96,020
Audit	35,000	23,911	11,089	23,527
Legal counsel	80,000	78,811	1,189	22,718
Pension benefit information	2,500	1,749	751	1,556
Pension administration system audit	9,000	11,769	(2,769)	22,700
Document imaging and support and maintenance	157,000	139,750	17,250	-
Web development, maintenance and hosting expense	70,020	55,482	14,538	2,050
Total professional services	715,020	666,961	48,059	223,969
Communication:				
Postage	10,000	14,799	(4,799)	10,962
Printing and duplicating	22,000	22,000	-	25,828
Data processing	8,000	5,950	2,050	5,633
Total communication	40,000	42,749	(2,749)	42,423
Structure and equipment:				
Copier lease	8,000	4,694	3,306	6,475
Copier maintenance	1,000	459	541	615
Furniture	3,000	1,273	1,727	534
Equipment	5,000	5,337	(337)	2,349
Equipment repair and miscellaneous services	4,000	8,661	(4,661)	1,413
Pension administration system maintenance	60,000	53,012	6,988	48,461
Software enhancements	70,000	39,963	30,037	47,831
Computer hardware/software	27,000	9,672	17,328	18,339
Communication equipment	13,000	5,547	7,453	8,451
Total structure and equipment	191,000	128,618	62,382	134,468
Miscellaneous:				
Office expense	10,000	9,495	505	7,717
Dues/subscriptions	6,000	5,355	645	2,285
Training	71,000	54,361	16,639	41,813
Travel	100,000	37,676	62,324	67,833
Non-employee board member stipend	1,800	1,350	450	1,500
Rent on building	140,000	137,842	2,158	130,360
Payroll tax expense	-	-	-	8,894
Total miscellaneous	328,800	246,079	82,721	260,402
Total administrative expenses and other	$ 2,474,402	$ 2,089,264	$ 385,138	$ 1,615,125

SCHEDULES OF INVESTMENT EXPENSES
For the Years Ended June 30, 2004 and 2003

	2004	2003
Equity:		
Domestic equity	$ 2,878,728	$ 2,064,609
International equity	1,702,985	1,350,809
Emerging market equity managers	1,217,136	1,105,748
Total equity	5,798,849	4,521,166
Fixed income:		
Domestic fixed income	1,065,611	1,005,823
Global fixed income	362,576	359,977
Total fixed income	1,428,187	1,365,800
Real estate	266,668	656,496
Cash (Custodian Short-Term Investment Fund)	-	76,124
Total investment managers' fees	7,493,704	6,619,586
Other investment service fees:		
Investment consultant	88,000	88,000
Proxy voting	19,950	16,030
Real estate consultant	96,841	43,589
Real estate legal fees	105,122	122,298
Real estate appraisals	6,906	53,000
Custodian	134,839	123,750
Total other investment service fees	451,658	446,667
TOTAL INVESTMENT EXPENSES	$ 7,945,362	$ 7,066,253

SCHEDULES OF PAYMENTS TO CONSULTANTS
For the Years Ended June 30, 2004 and 2003

Firm	Nature of Service	2004	2003
Levi, Ray, & Shoup	Web Development	$ 55,482	$ 2,050
Levi, Ray, & Shoup	Document Imaging and Support and Maintenance	139,750	-
William, Adley & Co.	Pension Gold Auditor	11,769	22,700
Macias Gini & Company LLP	External Auditors	23,911	23,527
Medical Director/Other Medical	Medical Consultant	98,717	96,020
Pension Benefit Information	Reports on Deceased Benefit Recipients	1,749	1,556
Saltzman & Johnson	Legal Counsel	24,950	19,010
Greve, Clifford, Engel & Paris, LLP	Legal Counsel	-	188
Ogden, Gibson, White & Brocks	Legal Counsel	53,861	3,520
Maximus	Human Resource Consultant	13,500	-
CPS Human Resources	Human Resource Consultant	23,000	-
Mercer Human Resources	Actuarial Consultant	220,272	55,398
Total		$ 666,961	$ 223,969

III.
INVESTMENT SECTION

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REPORT ON INVESTMENT ACTIVITY

MERCER
Investment Consulting

777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017-5818
213 346 2200 Fax 213 346 2400

www.mercerIC.com

August 25, 2004

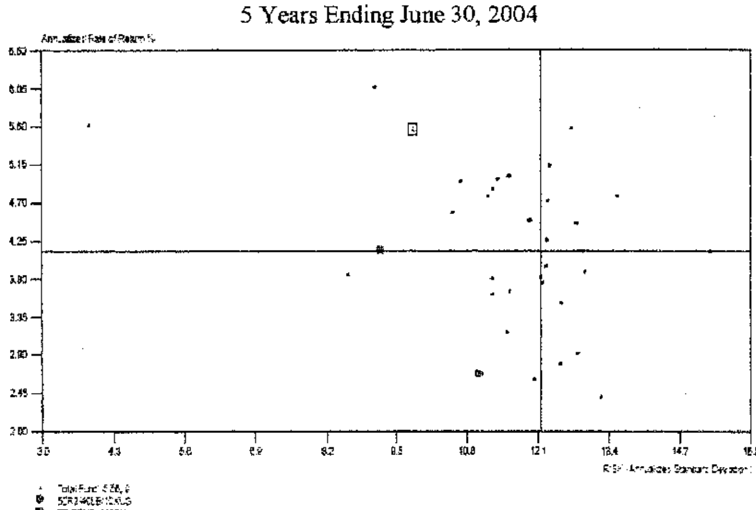
Mr. Edward Overton
Secretary, Board of Administration
San José Police and Fire Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Overton:

During the Plan's fiscal year ending June 30, 2004 the San José Police and Fire Department Retirement Plan investment return was up 16.5%. When compared with the TUCS Public Fund Universe, the return placed in the **32nd percentile**. The average return for that public plan universe was 15.8%. A time weighted total return for the Plan's assets is calculated every quarter by Mercer Investment Consulting.

The Trustees have continued to maintain a more conservative asset allocation strategy than the average public fund. Consequently, from a longer term perspective, the Plan's performance for **five years was in the top 10% of the universe**. The following five year graph shows the return and risk characteristics of the Plan compared to its peer universe.

Total Funds Billion Dollar – Public
Risk-Return Comparisons
5 Years Ending June 30, 2004



MMC Marsh & McLennan Companies

REPORT ON INVESTMENT ACTIVITY (Continued)

MERCER
Investment Consulting

Page 2
August 25, 2004
Mr. Edward Overton
San José Police and Fire Retirement System

During the 2004 fiscal year, Asset Liability Modeling and Portfolio Structuring studies were completed. These studies are conducted every three to five years as standard operating procedure to ensure that the asset allocation and the actuarial liability structures are properly linked. The net result of the study was to affirm the actuarial assumptions, consolidate the investment management structure to reduce costs and add private equity as a new asset class.

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

The U.S. economy appears to be lingering in a slow recovery phase which began in 2003. Investment returns in the first half of 2004 have been much lower than last year and the capital markets remain muted, anticipating further interest rate increases by the Federal Reserve. Although most economists are not predicting dire conditions, even the more optimistic equity managers seem to be waiting for improved economic conditions with baited breath.

Mercer has consistently reduced the capital market return assumptions over the past three years. This is partially due to the low interest rate environment and low bond yields in the United States. From a global perspective, the dollar is still relatively strong so it would be reasonable to assume that it may experience further softening. The result would be higher expected returns from the international equities compared to domestic equities. A dramatic economic recovery does not seem to be on the horizon but Mercer anticipates a prolonged growth cycle that could last more than five years.

Respectfully submitted,

TJ Lightvoet

Thomas J. Lightvoet

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

GENERAL ENVIRONMENT

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

INVESTMENT GUIDELINES

General

The Board Shall:

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

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

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

Asset Allocation

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

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

Asset Class	Minimum	Target	Maximum
Bonds - U.S.	23%	28%	33%
Bonds - Global	0%	5%	8%
Stocks - U.S.	30%	35%	40%
Stocks - International/Developed	5%	15%	20%
Stocks - International/Emerging	0%	5%	8%
Real Estate	0%	12%	17%

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

STATEMENT OF INVESTMENT POLICY (Continued)

strategic asset allocation of the Plan.

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

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

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

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

Diversification

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

Volatility

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

Liquidity

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

Fixed Income

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

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

(2) The investment manager may also purchase securities of other categories, including options and financial futures contracts traded over-the-counter or on organized securities exchanges, commodities exchanges, or Boards of Trade. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration as characterized by its stated investment style. The manager will invest the assets at such times, in such amounts, and in such investments as the manager shall determine at the manager's discretion.

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

(4) Forward or future contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in, or the settlement of, any such securities transactions, as the case may be.

(5) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by either Standard & Poor's or Moody's Investor Services; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated "B" or "BB."

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

Domestic Common Stock

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

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

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

(3) Not more than 5% of any Investment Manager's portfolio at market shall be invested in the common stock of any corporation, except when:
- The security has a weighting greater than 5% in the manager's benchmark and
- The manager has received prior written permission from the Director, Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

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

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

International Common Stock

Developed Markets

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

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

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

Emerging Markets

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

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

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

(4) To ensure proper diversification, the Fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio, except when:
- The security has a weighting greater than 5% in the manager's benchmark and
- The manager has received prior written permission from the Director, Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

Real Estate

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

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

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

(3) The Fund shall at no time:
(a) Invest directly or indirectly more than 25% of the Fund's assets, valued at market, in real estate investment as defined hereinabove; nor,
(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 proposals to the Board for approval.

Credit Unions

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

STATEMENT OF INVESTMENT POLICY (Continued)

Manager Discretion

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

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

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

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

Performance Goals

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

Domestic Equity Managers

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

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

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

Domestic Fixed Income Managers

(1) Performance within the top half of Mercer's Bond Fund 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.

STATEMENT OF INVESTMENT POLICY (Continued)

International Equity Managers

Developed Markets

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

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

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

Emerging Markets

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

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

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

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 Fund 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.

STATEMENT OF INVESTMENT POLICY (Continued)

Periodic Reviews of Manager Performance

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

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

Procedure:

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

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

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

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

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

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

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

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

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 the longer periods as defined in (1) above, for two successive quarters (i.e. March and June) OR beat their benchmark for at least the one-year period following four quarters of good quarterly performance.

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

Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

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

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

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

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

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

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

INVESTMENT PROFESSIONALS

INVESTMENT MANAGERS

DOMESTIC EQUITIES:

Boston Partners Asset Management
Large Cap Value
Los Angeles, CA

GE Asset Management
Large Cap Growth
Stamford, CT

Globalt, Inc.
Large Cap Growth
Atlanta, GA

INTECH
Large Cap Growth
Princeton, NJ
(replaced Woodford Capital of Los Altos, CA)

New Amsterdam Partners
Large Cap Growth
New York, NY

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

Rhumbline Advisors
S&P 500 Index
Boston, MA

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

UBS Global Asset Management
Large Cap Value
Chicago, IL

INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

Brandes Investment Partners
San Diego, CA

William Blair & Co.
Chicago, IL

EMERGING MARKET EQUITIES:

Alliance Capital Management
New York, NY

The Boston Company
Boston, MA

DOMESTIC FIXED INCOME:

ABN AMRO Asset Management
Chicago, IL

Seix Investment Advisors
Woodcliff Lake, NJ

Western Asset Management Company
Pasadena, CA

GLOBAL FIXED INCOME:

Credit Suisse Asset Management
London, England

REAL ESTATE:

MIG Realty Advisors
Cleveland, OH

Kennedy Associates Real Estate Counsel, Inc.
Seattle, WA

INVESTMENT PROFESSIONALS (Continued)

CONSULTANT

Mercer Investment Consulting
Los Angeles, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Investor Reponsibility Research Center
Washington, DC

COMMISSION RECAPTURE / TRANSITION

Lynch, Jones & Ryan, Inc.
New York, NY

SCHEDULE OF INVESTMENT RESULTS
Gross Performance by Asset Class
Periods Ending June 30, 2004

Basis of calculation: Time-weighted rate of return.

	One Year	Three Years	Five Years
TOTAL FUND	**16.5%**	**6.6%**	**5.6%**
Benchmark	14.4%	5.6%	4.1%
TUCS Public Fund Universe Median	15.8%	4.1%	3.6%
TOTAL DOMESTIC FIXED INCOME	**1.7%**	**6.4%**	**6.9%**
Lehman Brothers Aggegate Bond Index	0.3%	6.4%	6.9%
Mercer US Fixed Income Core Median	0.8%	6.7%	7.2%
TOTAL GLOBAL FIXED INCOME	**5.3%**	**12.3%**	**6.5%**
Citigroup World Government Bond Index	5.6%	11.9%	7.0%
Mercer Global Fixed Income Unhedged Median	5.7%	12.9%	7.4%
TOTAL DOMESTIC EQUITY	**24.6%**	**2.1%**	**1.2%**
S&P 500 Index	19.1%	-0.7%	-2.2%
Mercer US Equity Combined Median	25.4%	3.3%	4.5%
TOTAL INTERNATIONAL EQUITY	**37.4%**	**5.6%**	**5.5%**
EAFE Index	32.4%	3.9%	0.1%
Mercer International Equity Median	30.4%	4.8%	2.5%
TOTAL EMERGING MARKETS EQUITY	**35.8%**	**N/A**	**N/A**
MSCI Emerging Markets Free Index	33.5%	13.1%	3.3%
Mercer Emerging Markets Equity Median	35.0%	14.5%	6.3%
TOTAL REAL ESTATE	**-1.5%**	**3.7%**	**6.9%**
NCREIF Property Index (1 Quarter in Arrears)	9.7%	7.7%	9.3%
Mercer US Real Estate Median	10.2%	7.8%	10.0%

SCHEDULE OF INVESTMENT RESULTS (Continued)
Net Performance Summary by Investment Manager
Periods Ending June 30, 2004

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has out-performed. Source: Mercer Investment Performance Evaluation Report June 30, 2004.

	One Year	Three Years	Incept. (10/99)
DOMESTIC FIXED INCOME			
ABN AMRO Asset Management	**0.6% - -**	**5.3% - -**	**6.5% -**
Lehman Brothers Aggegate Bond Index + 50 bps	0.8%	6.9%	7.7%
Mercer US Fixed Income Core Median	0.8%	6.7%	NA
Seix Investment Advisors	**1.6% + +**	**6.0% - -**	**7.0% -**
Lehman Brothers Aggegate Bond Index + 50 bps	0.8%	6.9%	7.7%
Mercer US Fixed Income Core Median	0.8%	6.7%	NA
	One Quarter	**One Year**	**Incept. (7/02)**
Western Asset Management	**-2.4% - -**	**2.3% + +**	**8.6% +**
Lehman Brothers Aggegate Bond Index + 50 bps	-2.3%	0.8 %	5.3%
Mercer US Fixed Income Core Median	-2.3%	0.8%	NA
	One Year	**Three Years**	**Five Years**
GLOBAL FIXED INCOME			
Credit Suisse Investment Management	**5.0% - -**	**11.9% - -**	**6.2% - -**
Citigroup World Government Bond Index + 75 bps	6.4%	12.7%	7.7%
Mercer Global Fixed Income Unhedged Median	5.7%	12.9%	7.4%
DOMESTIC EQUITY			
Rhumbline Advisors (Index)	**19.0% - -**	**-0.5% + -**	**-1.9% + -**
S&P 500 Index	19.1%	-0.7%	-2.2%
Mercer US Equity Combined Median	25.4%	3.3%	4.5%
Boston Partners (Large Cap Value)	**21.1% = -**	**2.8% - -**	**5.3% + +**
Russell 1000 Value Index + 100 bps	22.1%	4.0%	2.9%
Mercer US Equity Large Cap Value Median	22.7%	3.7%	3.6%
UBS Global Asset Management (Large Cap Value)	**19.7% - -**	**4.3% + +**	**1.4% + -**
Russell 3000 Index + 100bps	21.5%	1.2%	-0.1%
Mercer US Equity Large Cap Value Median	22.7%	3.7%	3.6%

SCHEDULE OF INVESMENT RESULTS (Continued)
Net Performance Summary by Investment Manager
Periods Ending June 30, 2004

	One year	Three Years	Incept. (1/01)
GE Asset Management (Large Cap Value)	**15.6% - -**	**-0.2% - -**	**-1.4% -**
Russell 1000 Value Index + 100 bps	22.1%	4.0%	3.2%
Mercer US Equity Large Cap Value Median	22.7%	3.7%	N/A

	One Year	Three Years	Five Years
New Amsterdam Partners (Lg Cap Growth)	**22.1% + +**	**2.4% + +**	**3.3% + +**
S&P 500 + 100 bps	20.1%	0.3%	-1.2%
Mercer US Equity Large Cap Growth Median	17.6%	-2.9%	-2.6%
Globalt, Inc. (Large Cap Growth)	**19.0% + +**	**-4.5% - -**	**-6.3% - -**
Russell 1000 Growth Index + 100 bps	18.9%	-2.7%	-5.4%
Mercer US Equity Large Cap Growth Median	17.6%	-2.9%	-2.6%

	One Quarter	Six Months	Incept. (10/03)
INTECH (Large Cap Growth)	**2.2% + +**	**6.4% + +**	**17.3% +**
Russell 1000 Growth Index + 100 bps	2.1%	3.3%	14.2%
Mercer US Equity Large Cap Growth Median	1.4%	3.0%	N/A

	Six Months	One Year	Incept. (11/01)
TCW (Small Cap Value)	**3.8% - -**	**42.5% + +**	**14.7% -**
Russell 2000 Value Index + 200 bps	7.6%	35.4%	16.3%
Mercer US Equity Small Cap Value Median	9.1%	36.9%	N/A

	One Year	Three Years	Five Years
Provident Investment Counsel (Small Cap Growth)	**25.6% - -**	**-2.6% - -**	**4.6% + -**
Russell 2000 Growth Index + 200 bps	33.5%	1.8%	1.6%
Mercer US Equity Small Cap Growth Median	29.3%	1.8%	5.4%

	One Year	Three Years	Five Years
INTERNATIONAL EQUITY			
Bank of Ireland Asset Management	**23.7% - -**	**0.5% - -**	**0.0% - -**
EAFE Index + 150 bps	34.4%	5.8%	1.9%
Mercer International Equity Median	30.4%	4.8%	2.5%

SCHEDULE OF INVESMENT RESULTS (Continued)
Net Performance Summary by Investment Manager
Periods Ending June 30, 2004

	One Year	Three Years	Five Years
INTERNATIONAL EQUITY			
Brandes Investment Partners	**46.1% + +**	**8.6% + +**	**8.6% + +**
MSCI EAFE Net Dividend Index + 150 bps	34.4%	5.8%	1.9%
Mercer International Equity Median	30.4%	4.8%	2.5%

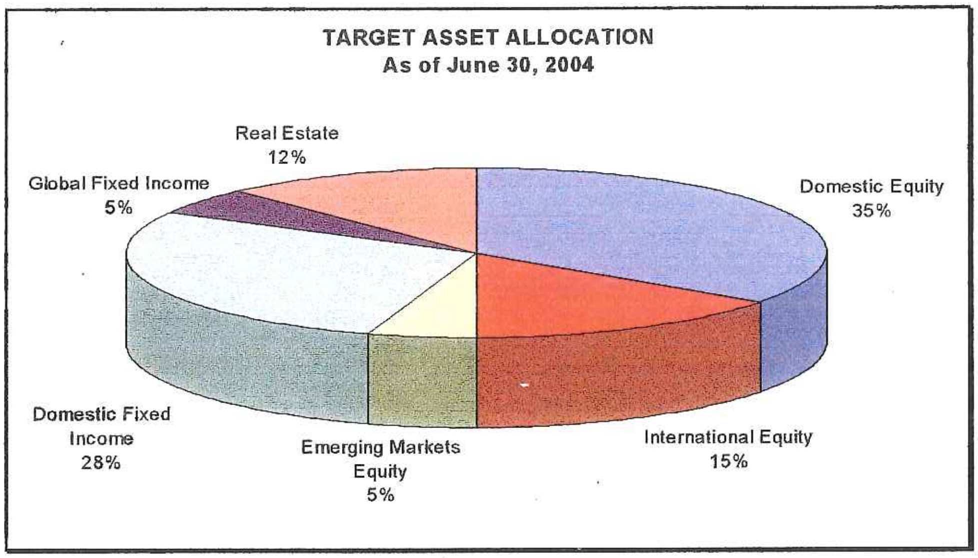
	Six Months	One Year	Incept. (3/02)
William Blair & Co	**3.3% - -**	**33.0% - +**	**11.1% -**
MSCI AC World Free Ex US Index +150 bps	4.4%	33.5%	13.5%
Mercer International Equity Median	4.2%	30.4%	N/A

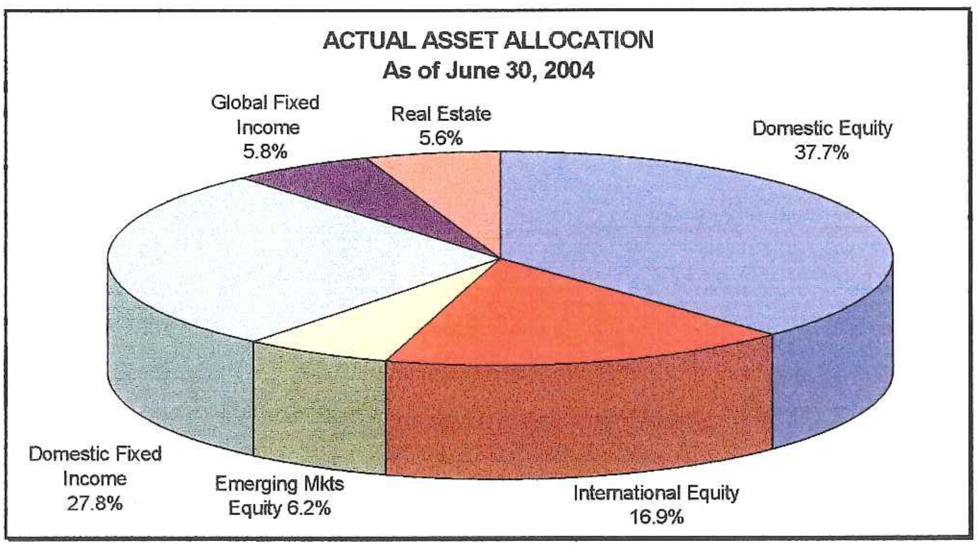
	Six Months	One Year	Incept. (9/01)
EMERGING MARKETS EQUITY			
Alliance Capital Management	**1.6% + +**	**34.4% - -**	**20.1% +**
MSCI Emerging Markets Free Index + 200 bps	0.0%	35.5%	19.0%
Mercer Emerging Markets Equity Median	-1.6%	35.0%	N/A
Boston Company Asset Management	**1.0% + +**	**34.5% - -**	**20.5% +**
MSCI Emerging Markets Free Index + 200 bps	0.0%	35.5%	19.0%
Mercer Emerging Markets Equity Median	-1.6%	35.0%	N/A

	One Year	Three Years	Five Years
REAL ESTATE			
MIG Realty Advisors	**1.9% - -**	**8.4% - +**	**9.4% - -**
NCREIF Property Index (1 Qtr in arrears) + 150 bps	11.2%	9.2%	10.8%
Mercer US Real Estate Median	10.2%	7.8%	10.0%

	One Quarter	Six Months	Incept. (10/03)
Kennedy Associates Real Estate Counsel	**2.1% - -**	**4.8% - -**	**7.1% -**
NCREIF Property Index (1 Qtr in arrears) + 150 bps	2.9%	6.1%	9.0%
Mercer US Real Estate Median	2.6%	4.9%	N/A

ASSET ALLOCATION
Target versus Actual

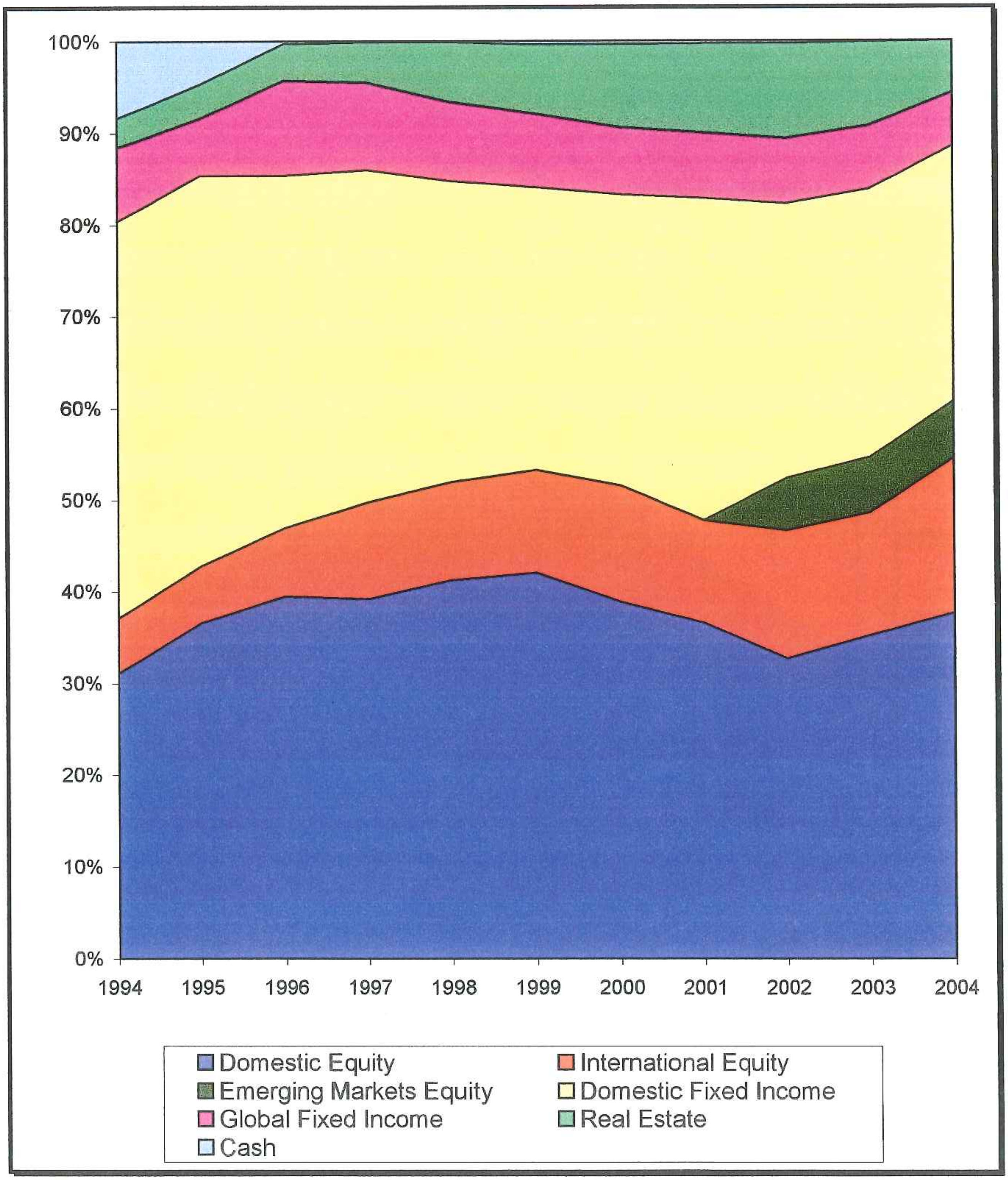




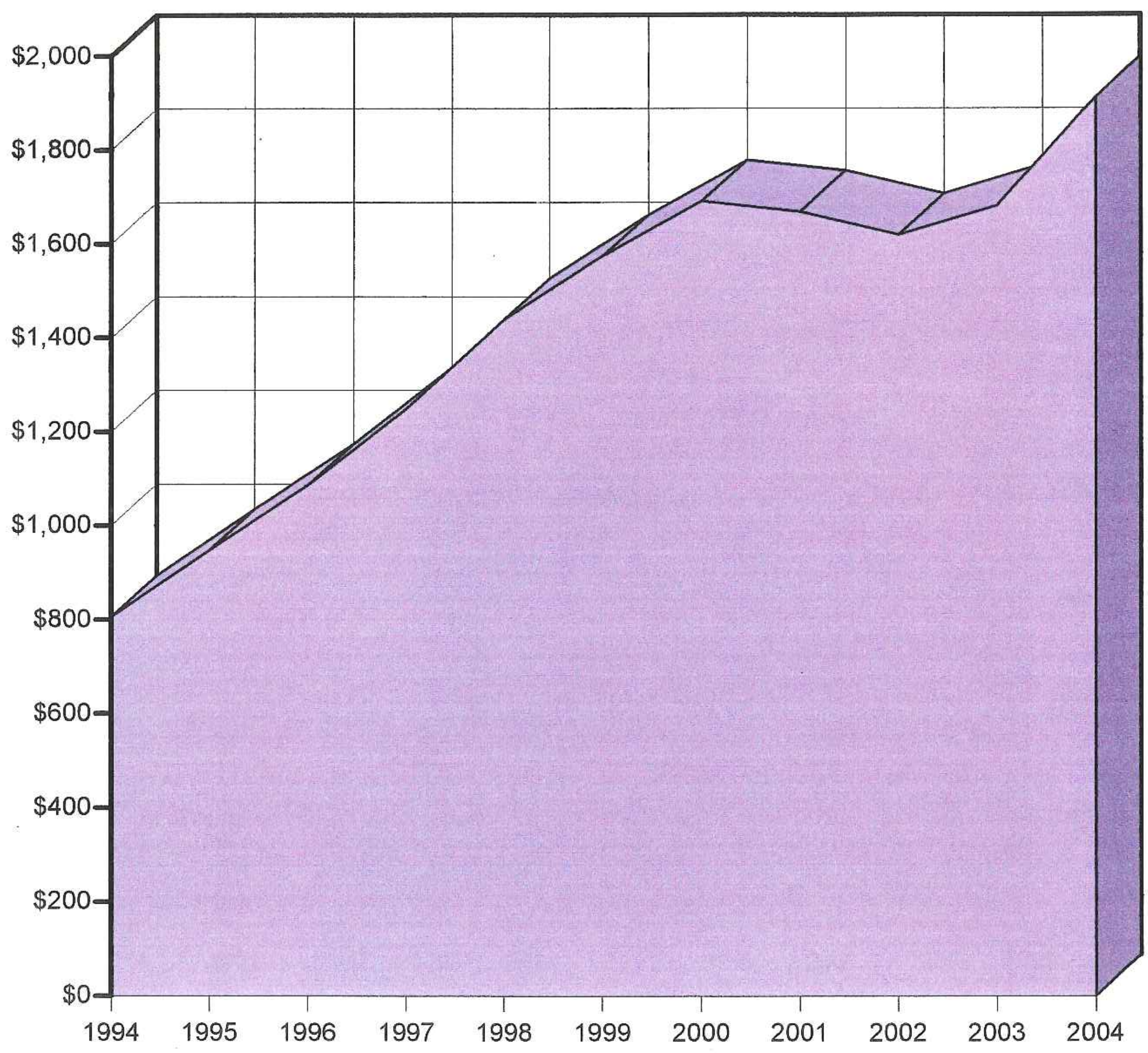
As of June 30, 2004 (In Millions)

Domestic Equity	$	720.72
International Equity		322.24
Emerging Markets Equity		118.13
Domestic Fixed Income		531.97
Global Fixed Income		110.25
Real Estate		106.74
Cash		0.74
TOTAL	$	1,910.79

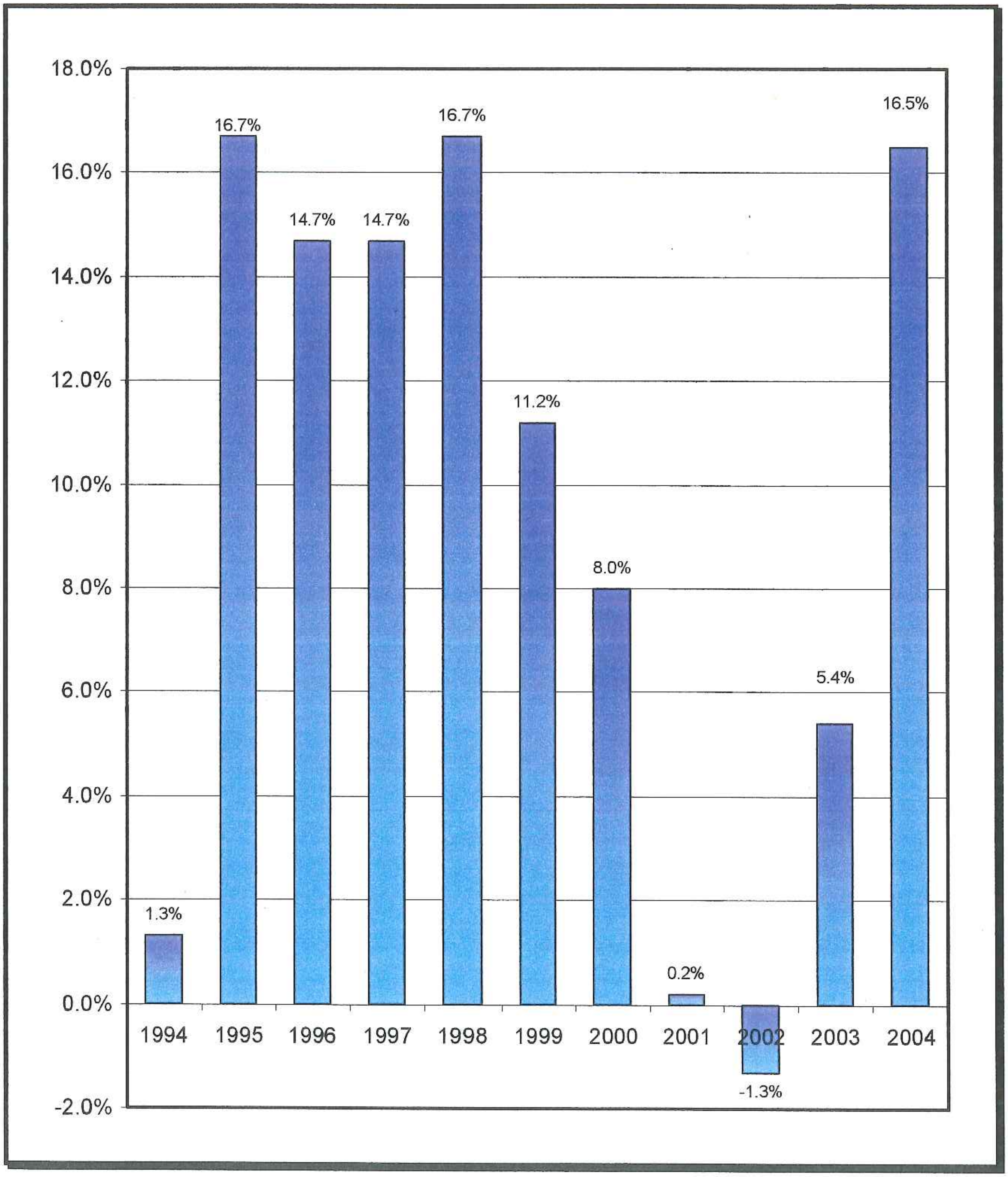
HISTORICAL ASSET ALLOCATION (ACTUAL)
June 30, 1994 - June 30, 2004



MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2004
(In Millions)



HISTORY OF PERFORMANCE
(Based on Market Value)
For Fiscal Years 1994 - 2004



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2004

Shares	Country	Description	Market Value in $US
364,853	USA	CITIGROUP INC.	$ 16,965,665
501,671	USA	MICROSOFT CORP.	14,327,724
192,112	USA	JOHNSON & JOHNSON	10,700,638
237,519	USA	EXXON MOBIL CORP.	10,548,219
283,160	USA	PFIZER INC.	9,706,725
280,958	USA	GENERAL ELECTRIC CO.	9,103,039
157,084	USA	PROCTER & GAMBLE CO.	8,551,653
118,506	USA	AMERICAN INTL. GROUP INC.	8,447,108
118,148	USA	COUNTRYWIDE FINL. CORP.	8,299,897
107,010	USA	CONOCO PHILLIPS	8,163,793

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2004

Par Value in $US	Country	Description	Interest Rate in %	Maturity Date	Market Value in $US
$ 20,270,000	USA	U.S. TREASURY BONDS	5.375	02/15/2031	$ 20,447,363
15,300,000	USA	GNMA I TBA JUL 30 SINGLE FAM	6.000	12/01/2099	15,660,985
10,720,000	USA	U.S. TREASURY NOTES	3.875	05/15/2009	10,756,850
10,090,000	USA	U.S. TREASURY NOTES	2.250	07/31/2004	10,097,882
8,600,000	USA	GNMA I TBA JUL 30 SINGLE FAM	7.000	12/01/2099	9,132,125
6,872,315	USA	U.S. TREASURY BONDS	3.875	04/15/2029	8,734,283
8,225,000	USA	GNMA I TBA JUL 30 SINGLE FAM	5.500	12/01/2099	8,209,578
7,498,000	USA	FNMA TBA JUL 15 SINGLE FAM	4.500	12/01/2099	7,324,609
7,290,000	USA	U.S. TREASURY NOTES	2.125	08/31/2004	7,300,251
7,100,000	USA	FHLMC TBA JUL 15 GOLD SINGLE	5.500	12/01/2099	7,251,984

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2004

INVESTMENT FEES

	2004	2003
Equity:		
Domestic equity	$ 2,878,728	$ 2,064,609
International equity	1,702,985	1,350,809
Emerging market equity managers	1,217,136	1,105,748
Total equity	5,798,849	4,521,166
Fixed income:		
Domestic fixed income	1,065,611	1,005,823
Global fixed income	362,576	359,977
Total fixed income	1,428,187	1,365,800
Real estate	266,668	656,496
Cash (Custodian Short-Term Investment Fund)	-	76,124
Total investment managers' fees	7,493,704	6,619,586
Other investment service fees:		
Investment consultant	88,000	88,000
Proxy voting	19,950	16,030
Real estate consultant	96,841	43,589
Real estate legal fees	105,122	122,298
Real estate appraisals	6,906	53,000
Custodian	134,839	123,750
Total other investment service fees	451,658	446,667
TOTAL INVESTMENT EXPENSES	$ 7,945,362	$ 7,066,253

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
ABG SUNDAL COLLIER LTD	7,500	$ 1,351.31	$ 0.18017
ABG SUNDAL COLLIER NORGE ASA	300	86.13	0.28710
ABN	65,700	405.30	0.00617
ABN AMRO	290,696	2,383.08	0.00820
ABN AMRO AUSTRALIA LIMITED	19,700	307.16	0.01559
ABN AMRO BANK N.V.	11,820	634.85	0.05371
ABN AMRO CHICAGO CORP	6,000	1,771.17	0.29520
ABN AMRO EQUITIES (UK) LTD LONDON	221,930	1,627.06	0.00733
ABN AMRO EQUITIES AUSTRALIA LTD.	26,650	141.82	0.00532
ABN AMRO EQUITIES UK LTD LONDON	2,548	100.53	0.03945
ABN AMRO INC NEW YORK BRANCH	53,700	639.34	0.01191
ABN AMRO SECURITIES	6,700	257.08	0.03837
ABN AMRO SECURITIES (USA) INC	30,626	1,512.02	0.04937
ABN AMRO SECURITIES LLC	24,500	367.50	0.01500
ADAMS HARKNESS + HILL,INC	82,600	4,130.00	0.05000
ADVEST INC	4,800	240.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
AMERICAN TECHNOLOGY RESEARCH INC	7,300	$ 365.00	$ 0.05000
ARCADIA INVESTMENT CORP	4,500	225.00	0.05000
ARNHOLD S BLEICHROEDER INC	19,546	977.30	0.05000
AUERBACH GRAYSON	4,143,300	7,005.86	0.00169
AUERBACH GRAYSON AND COMPANY	1,700	92.25	0.05426
AUTRANET,INC.	18,900	945.00	0.05000
B RILEY AND CO INC.	34,300	1,079.00	0.03146
BAIRD, ROBERT W., & COMPANY INCORPORATED	142,691	6,987.55	0.04897
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	235,253	11,433.20	0.04860
BANIF SECURITIES	17,396	170.80	0.00982
BANQUE NATIONALE DE PARIS, LON	6,678	147.96	0.02216
BARING SECURITIES (HONG KONG)	3,800	376.52	0.09908
BARRINGTON RESEARCH ASSOCIATES INC.	5,000	250.00	0.05000
BEAR STEARNS	1,023,200	1,421.42	0.00139
BEAR STEARNS + CO INC	394,000	20,549.00	0.05215
BEAR STEARNS CO	1,128,500	3,056.58	0.00271
BEAR STEARNS NY	503,100	1,874.36	0.00373
BEAR STEARNS SECURITIES CORP	6,080,316	15,326.57	0.00252
BEREAN CAPITAL, INC. 2	83,181	4,159.05	0.05000
BLAYLOCK + PARTNERS	2,826	141.30	0.05000
BLAYLOCK + PARTNERS L P	36,310	1,722.50	0.04744
BLOOMBERGTRADEBOOK	2,402	48.04	0.02000
BLOXHAN STOCKBROKERS	1,005	42.72	0.04251
BNP PARIBAS	3,329,700	9,815.92	0.00295
BNP PARIBAS PEREGRINE SECS LT ASIA	86,000	151.65	0.00176
BNP PARIBAS PEREGRINE SECS PT	47,000	180.13	0.00383
BNP PARIBAS SA	10,000	35.54	0.00355
BNP PARIBAS SINGAPORE	73,000	364.18	0.00499
BNP PRIMEPEREGINE SEC (THAILAND)LTD	41,000	789.60	0.01926
BNY BROKERAGE INC	171,877	3,953.80	0.02300
BNY BROKERAGE.	9,600	480.00	0.05000
BNY CAPITAL MARKETS, INC	230	38.15	0.16587
BNY CLEARING SERVICES INTL	6,370	670.45	0.10525
BNY CLEARING SERVICES LLC	220	35.81	0.16277
BNY/ING BARING	300	50.07	0.16690
BRIDGE TRADING	227,442	11,372.10	0.05000
BROADCORTCAPITAL (THRU ML)	142,000	7,100.00	0.05000
BROCKHOUSE + COOPER, INC.	20,700	1,035.00	0.05000
B-TRADE SERVICES LLC	189,998	3,711.25	0.01953
BUCKINGHAM RESEARCH GROUP	21,400	958.00	0.04477
BUCKINGHAM RESEARCH GROUP INC. (THE)	2,997	149.85	0.05000
C. L. GLAZER & COMPANY, INC.	19,800	990.00	0.05000
C.E. UNTERBERG, TOBIN	22,250	1,112.50	0.05000
C.E. UNTERBERG, TOWBIN	9,025	451.25	0.05000
CANTOR FITZGERALD + CO.	82,070	3,909.50	0.04764
CAP INSTITUTIONAL SERVICES INC EQUITIES	110,873	3,000.46	0.02706
CAPITAL INSTITUTIONAL SERVICES	7,500	375.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
CARNEGIE	34,800	$ 2,416.41	$ 0.06944
CARNEGIE INC	2,100	94.28	0.04490
CAZENOVE	373,400	3,746.36	0.01003
CAZENOVE + CO	463,314	2,437.94	0.00526
CAZENOVE + CO LTD	4,200	86.00	0.02048
CAZENOVE + CO.	106,000	259.06	0.00244
CAZENOVE ASIA LTD	167,000	648.47	0.00388
CAZENOVE GILTS	2,000	44.23	0.02212
CAZENOVE INC.	9,200	205.87	0.02238
CAZENOVE INCORPORATED	125,400	1,089.08	0.00868
CDC	8,900	829.13	0.09316
CDC PARIS	3,100	214.83	0.06930
CHARLES SCHWAB CO INC	126,424	5,942.00	0.04700
CHEUVREUX	5,200	611.85	0.11766
CHEVEAUX,J. PARIS	2,200	191.84	0.08720
CHEVREUX DE VIRIEU NORDIC AB	1,700	167.39	0.09846
CHEVREUX DE VIRIEU NORDIC LDN	1,000	520.49	0.52049
CHEVREUX INTERNATIONAL	6,600	478.13	0.07244
CIBC WOODGUNDY	94,900	3,621.79	0.03816
CIBC WOODGUNDY (REPO)	24,600	918.60	0.03734
CIBC WORLD MARKETS CORP	291,442	14,107.26	0.04841
CIBC WORLD MKTS INC	6,400	227.60	0.03556
CITATION GROUP	74,375	3,718.75	0.05000
CITIBANK N.A.	62,700	503.83	0.00804
CITIGROUPGLOBAL MARKETS ASIA LIMITED	600,300	948.08	0.00158
CITIGROUPGLOBAL MARKETS INC	717,543	32,673.93	0.04554
CITIGROUPGLOBAL MARKETS INC/SALOMON BRO	29,906	1,052.16	0.03518
CITIGROUPGLOBAL MARKETS LIMITED	110,451	3,165.35	0.02866
CITIGROUPSMITHBARNEY	5,600	166.55	0.02974
CJS SECURITIES	13,000	650.00	0.05000
COCHRAN,CARONIA SECURITIES LLC	3,200	160.00	0.05000
COLLINS STEWART + CO	2,624	26.57	0.01013
COMPASS POINT RESEARCH AND TRADING	2,300	115.00	0.05000
CORRESPONDENT SERVICES, INC	32,200	1,610.00	0.05000
CREDIT AGRICOLE INDOSUEZ CHEUV	14,500	1,322.24	0.09119
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	158,100	7,313.80	0.04626
CREDIT AGRICOLE INDOSUEZ LDN	4,100	1,657.70	0.40432
CREDIT LYONNAIS	369,100	2,527.07	0.00685
CREDIT LYONNAIS SECS	116,000	2,639.10	0.02275
CREDIT LYONNAIS SECURITIES	57,630	1,079.46	0.01873
CREDIT LYONNAIS SECURITIES (USA) INC	20,700	927.00	0.04478
CREDIT LYONNAIS SECURITIES(ASIA)	680,000	1,510.25	0.00222
CREDIT LYONNIAS SECURITIES (ASIA)	14,000	198.32	0.01417
CREDIT SUISSE FIRST BOSTON	9,900	2,595.80	0.26220
CREDIT SUISSE FIRST BOSTON (EUROPE)	12,000	1,127.52	0.09396
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	19,280	347.07	0.01800
CREDIT SUISSE FIRST BOSTON CORPORATION	1,661,127	44,953.15	0.02706

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
CREDIT SUISSE FIRST BOSTON EQUITIES (EUR	413,663	$ 1,551.96	$ 0.00375
CREDIT USA	8,776	168.45	0.01919
CS FIRST BOSTON	153,230	1,928.66	0.01259
CS FIRST BOSTON (HONG KONG) LIMITED	9,055	482.14	0.05325
CS FIRST BOSTON (JAPAN) LIMITED	1,500	95.85	0.06390
CS FIRST BOSTON AES(CAES)	2,288	68.64	0.03000
CSFB	2,500	345.73	0.13829
CSFB EQUITIES 1 CABOT SQUARE	408,177	2,200.17	0.00539
DAIWA	15,340	1,081.01	0.07047
DAIWA SECURITIES	5,100	392.44	0.07695
DAIWA SECURITIES AMERICA INC	11,500	875.60	0.07614
DAIWA SECURITIES CO LTD	5,300	259.39	0.04894
DAIWA SECURITIES CO. LTD.	600	22.99	0.03832
DAIWA SECURITIES SMBC CO LTD	1,800	264.02	0.14668
DAVIDSON D.A. + COMPANY INC.	4,950	245.00	0.04949
DAVIS, MENDEL AND REGENSTEIN	358,794	21,185.14	0.05905
DBS BANK LTD. SINGAPORE	10,000	373.73	0.03737
DBS SECURITIES	25,000	74.28	0.00297
DBS SECURITIES (S) PTE LTD.	7,000	250.58	0.03580
DBS VICKERS SECS PTE LTD	302,250	1,246.79	0.00413
DBS VICKERS SECURITIES SING	19,500	680.33	0.03489
DEUTSCHE BANK	62,900	1,075.16	0.01709
DEUTSCHE BANK AG LONDON	507,998	3,539.62	0.00697
DEUTSCHE BANK ALEX BROWN	33,700	1,685.00	0.05000
DEUTSCHE BANK SECURITIES	23,600	279.05	0.01182
DEUTSCHE BANK SECURITIES INC	1,166,436	30,327.13	0.02600
DEUTSCHE BANK SECURITIES, INC	135,700	4,152.40	0.03060
DEUTSCHE MORGAN GRENFELL INC.	2,000	17.06	0.00853
DEUTSCHE MORGAN GRENFELL SECS	5,916	26.07	0.00441
DEUTSCHE SECURITIES	145,500	1,307.97	0.00899
DONALDSON+ CO INCORPORATED	54,200	2,710.00	0.05000
DOUGHERTY COMPANY	5,050	252.50	0.05000
DOWLING &PARTNERS SECURITIES, LLC.	31,900	1,595.00	0.05000
DOWLING +PARTNERS SECS LLC	1,443	72.15	0.05000
DRESDNER	3,000	72.34	0.02411
DRESDNER KLEINWORT BENSON	31,700	1,678.12	0.05294
DRESDNER KLEINWORT BENSON NORTH AMERICA	145,060	2,402.59	0.01656
DRESDNER KLEINWORT BENSON SECS	17,800	1,234.00	0.06933
DRESDNER KLEINWORT WASSERSTEIN	173,700	2,609.10	0.01502
E TRADE SECURITIES, INC	400	20.00	0.05000
EDGE SECURITIES INC	11,000	550.00	0.05000
EDWARDS AG SONS INC	140,710	5,793.50	0.04117
EMPIRICAL RESEARCH PARTNERS LL	1,668	83.40	0.05000
EUROMOBILIARE SIM S.P.A.	102,400	3,286.85	0.03210
EXANE GENEVE	500	82.83	0.16566
EXANE INC	15,200	1,637.86	0.10775
EXANE LIMITED	3,500	379.74	0.10850

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
EXANE S.A.	20,200	$ 1,046.86	$ 0.05182
EXANE SA	10,400	1,091.16	0.10492
F P MAGLIO + CO INC	13,950	413.50	0.02964
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	215,000	10,750.00	0.05000
FACTSET DATA SYSTIMES INC	78,700	3,935.00	0.05000
FAGENSON + CO INC	1,400	70.00	0.05000
FAHNESTOCK & COMPANY, INC.	28,400	1,420.00	0.05000
FERRIS BAKER WATTS INC	2,000	86.00	0.04300
FIDELITY CAPITAL MARKETS	98,598	4,755.90	0.04824
FIRST ALBANY CAPITAL INC.	57,100	2,817.00	0.04933
FIRST ALBANY CORP.	55,150	2,650.50	0.04806
FIRST ANALYSIS SECURITIES CORP	24,040	1,202.00	0.05000
FIRST CLEARING, LLC	11,878	593.90	0.05000
FIRST SOUTHWEST COMPANY	89,300	4,465.00	0.05000
FIRST UNION CAPITAL MARKETS	35,300	1,765.00	0.05000
FOX PITT KELTON	1,703	85.15	0.05000
FOX PITT KELTON INC	96,893	3,707.34	0.03826
FOX-PITT KELTON LTD	8,800	1,596.20	0.18139
FRANK RUSSELL SEC/BROADCORT CAP CLEARING	42,900	2,162.00	0.05040
FRIEDMAN BILLINGS + RAMSEY	165,281	6,847.05	0.04143
FULCRUM GLOBAL PARTNERS LLC	32,500	1,625.00	0.05000
FUTURETRADE SECURITIES, LLC	1,400	21.00	0.01500
GARDNER RICH + CO	9,200	460.00	0.05000
GARP STEARNS & SECURITIES CO	3,600	180.00	0.05000
GERARD KLAUER MATTISON + CO	5,406	270.30	0.05000
GERSON LEHRMAN GROUP BROKERAGE SERV LLC	36,600	1,830.00	0.05000
GLEN HILL RESEARCH PARTNER	677	33.85	0.05000
GOLDMAN SACHS	176,200	4,866.13	0.02762
GOLDMAN SACHS + CO	1,473,110	28,079.66	0.01906
GOLDMAN SACHS EMM	2,000	100.24	0.05012
GOLDMAN SACHS INTERNATIONAL LONDON	131,351	3,084.17	0.02348
GOLDMAN SACHS INTL LTD	1,000	48.94	0.04894
GOLDMAN SACHS JBWERE PTY LTD	1,000	23.13	0.02313
GOLDSMITH& HARRIS (THRU BEAR STEARNS)	5,400	270.00	0.05000
GOODBODY STOCKBROKERS	97,137	1,135.76	0.01169
GRIFFITHSMCBURNEY	1,890	69.51	0.03678
GRISWOLD COMPANY	10,100	505.00	0.05000
GUZMAN + CO	12,600	630.00	0.05000
HARBORSIDE SECURITIES	7,600	152.00	0.02000
HARRIS NESBITT CORP.	36,196	1,678.80	0.04638
HARRIS NESBITT GERARD INC.	2,000	100.00	0.05000
HEFLIN + CO., LLC	7,600	304.00	0.04000
HIBERNIA SOUTHCOAST CAPITAL INC	5,400	270.00	0.05000
HOENIG + COMPANY INC	5,637	281.85	0.05000
HOWARD WEIL DIVISION LEGG MASON	21,800	1,152.00	0.05284
HOWARD, WEIL, LABOUISSE, FRIEDRICHS	291	14.55	0.05000
HSBC	119,800	5,352.96	0.04468

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
HSBC BANKPLC	25,486	$ 527.93	$ 0.02071
HSBC BANKUSA	20,000	33.30	0.00167
HSBC SEC NEW YORK	40,000	69.97	0.00175
HSBC SECURITIES	95,500	423.79	0.00444
HSBC SECURITIES (USA) INC.(FIXED INCOME)	3,000	263.81	0.08794
HSBC SECURITIES INC	41,400	251.27	0.00607
HSBC SECURITIES INC (JAMES CAPEL)	157,266	2,136.66	0.01359
IMPERIAL CAPITAL LLC	6,040	268.60	0.04447
INFERENTIAL BROKERAGE	2,329	116.45	0.05000
ING	30,400	610.00	0.02007
ING BARINGS SEC LTD	20,000	55.35	0.00277
ING FINANCIAL MARKETS LLC	108,920	1,804.60	0.01657
ING SECURITIES	760	118.30	0.15566
ING SECURITIES LIMITED	2,400	228.74	0.09531
INGALLS SNYDER	6,700	335.00	0.05000
INSTINET	4,679,984	89,828.04	0.01919
INSTINET CANADA	4,400	160.50	0.03648
INSTINET CLEARING SERVICES INC	2,239,091	3,318.45	0.00148
INSTINET EUROPE LIMITED	155,800	4,920.92	0.03158
INSTINET FRANCE S.A.	73,900	5,779.32	0.07820
INSTINET HONG KONG LIMITED	23,600	488.78	0.02071
INSTINET INVESTMENT SERVICES LIMITED	5,200	406.68	0.07821
INSTINET PACIFIC LIMITED	191,744	7,727.54	0.04030
INSTINET PACIFIC LTD	899,089	10,384.55	0.01155
INSTINET U.K. LTD	63,600	2,560.48	0.04026
INSTINET UK LIMITED	117,400	2,819.56	0.02402
INSTITUTIONAL SERVICES UNLIMITED	4,000	200.00	0.05000
INVESTMENT TECHNOLOGY GROUP INC.	498,937	13,695.51	0.02745
ISI GROUP	2,096	104.80	0.05000
ISI GROUPEQUITIES	87,580	5,254.80	0.06000
ISI GROUPINC	85,000	4,250.00	0.05000
ITG INC	4,662	233.10	0.05000
J B WERE AND SON	34,330	232.30	0.00677
J P MORGAN SECURITIES INC	1,548,796	36,578.40	0.02362
JACKSON SECURITIES	78,390	3,919.50	0.05000
JANNEY MONTGOMERY, SCOTT INC	56,050	2,708.00	0.04831
JEFFERIESCOMPANY INC	833,707	32,829.32	0.03938
JMP SECURITIES	40,100	2,005.00	0.05000
JOHNSON RICE + CO	800	40.00	0.05000
JONES & ASSOCIATES INC	135,900	5,852.00	0.04306
JP MORGAN	183,060	2,040.86	0.01115
JP MORGAN(REPO)	17,400	57.24	0.00329
JP MORGANBROKING HK LIMITED	185,000	194.96	0.00105
JP MORGANCHASE	39,300	217.93	0.00555
JP MORGANCHASE BANK	61,300	2,586.33	0.04219
JP MORGANSECURITIES AUSTRALIA LTD	28,960	187.94	0.00649
JP MORGANSECURITIES INC	190,598	5,159.81	0.02707

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
JPMORGANSECURITIES LIMITED	132,643	$ 1,512.70	$ 0.01140
JPMORGAN CHASE BANK	38,433	2,742.32	0.07135
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	225,500	1,521.32	0.00675
JULIUS BAER BROKERAGE SA	21,300	858.42	0.04030
JULIUS BAER INTERNATIONAL LTD	7,500	239.23	0.03190
JULIUS BAER ITALIA	20,700	469.83	0.02270
JULIUS BAER SWITZERLAND	2,500	443.36	0.17734
JULIUS BAER/BANK JULIUS BAER	10,000	233.01	0.02330
KBC FINANCIAL SVCS	4	88.30	22.07500
KBC SECURITIES NV	1,700	308.04	0.18120
KEEFE BRUYETTE + WOODS INC	46,771	2,338.55	0.05000
KELLOGG PARTNERS	1,100	55.00	0.05000
KING CL, & ASSOCIATES, INC	14,575	728.75	0.05000
KLEINWORTBENSON LIMITED	1,000	17.11	0.01711
KLEINWORTBENSON SECURITIES LIMITED	11,099	616.53	0.05555
KNIGHT SECURITIES	165,900	6,472.00	0.03901
KV EXECUTION SERVICES LLC	2,400	120.00	0.05000
LA BRANCHE FINANCIAL #2	3,300	159.00	0.04818
LAZARD FRERES & CO.	33,300	1,665.00	0.05000
LAZARD FRERES AND CO LTD.	1,300	177.85	0.13681
LEERINK SWANN AND COMPANY	32,489	1,759.45	0.05416
LEGENT CLEARING CORP.	400	20.00	0.05000
LEGG MASON WOOD WALKER INC	139,896	5,673.80	0.04056
LEHMAN BROS SOFT DOLLAR	11,865	593.25	0.05000
LEHMAN BROTHERS	431,700	1,826.83	0.00423
LEHMAN BROTHERS INC	1,444,486	30,712.15	0.02126
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	9,186	534.82	0.05822
LEK SECURITIES CORP	15,614	390.35	0.02500
LIQUIDNETINC	1,121,454	31,795.58	0.02835
LOMBARD ODIER + CIE	5,800	3,481.97	0.60034
LOOP CAPITAL MKTS LLC	23,500	1,175.00	0.05000
LYNCH JONES & RYAN	18,500	1,648.46	0.08911
LYNCH JONES AND RYAN INC	6,314,543	231,065.50	0.03659
LYNCH JONES RYAN	15,200	1,435.43	0.09444
MACQUARIEEQUITIES ASIA LTD	7,000	132.60	0.01894
MACQUARIEEQUITIES LIMITED (SYDNEY)	11,000	355.23	0.03229
MACQUARIEEQUITIES LTD	67,100	3,367.21	0.05018
MAGNA SECURITIES CORP	167	8.35	0.05000
MCDONALD AND COMPANY SECURITIES, INC.	66,220	3,162.00	0.04775
MDB CAPITAL GROUP LLC	1,200	60.00	0.05000
MERRILL LYNCH	1,090,154	9,619.83	0.00882
MERRILL LYNCH + CO INC	8,322	429.43	0.05160
MERRILL LYNCH INTERNATIONAL	927,115	23,904.89	0.02578
MERRILL LYNCH PEIRCE FENNER AND S	799,866	10,407.54	0.01301
MERRILL LYNCH PEIRCE, FENNER AND S	814	10.49	0.01289
MERRILL LYNCH PIERCE FENNER + SMITH	2,547,626	44,277.44	0.01738
MERRILL LYNCH PROFESSIONAL CLEARING CORP	104,332	5,080.60	0.04870

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
MERRILL LYNCH SA CVTM	970,000	$ 346.31	$ 0.00036
MERRIMAN CURHAN FORD + CO	1,200	60.00	0.05000
MIDWEST RESEARCH MAXUS	6,445	322.25	0.05000
MIDWEST RESEARCH SECURITIES	72,296	3,216.80	0.04449
MILLER TABAK + COMPANY, LLC	2,900	145.00	0.05000
MIZUHO CORP BANK LTD	1,000	48.69	0.04869
MIZUHO SEC	36,806	3,424.56	0.09304
MIZUHO SECURITIES CO., LTD	3,300	260.07	0.07881
MIZUHO SECURITIES USA INC	176,125	3,111.61	0.01767
MIZUHO SECURITIES USA INC.	1,300	113.06	0.08697
MOORS + CABOT INC	18,500	922.00	0.04984
MORGAN KEEGAN & CO INC	46,660	2,309.00	0.04949
MORGAN STANLEY	740,274	7,668.55	0.01036
MORGAN STANLEY NY	7,000	196.67	0.02810
MORGAN STANLEY AND CO INC	25,400	1,171.12	0.04611
MORGAN STANLEY AND CO NEW YORK	4,000	222.78	0.05570
MORGAN STANLEY AND CO. INTERNATIONAL	89,135	2,159.03	0.02422
MORGAN STANLEY CO INC	583	33.07	0.05672
MORGAN STANLEY CO INCORPORATED	2,281,143	43,831.73	0.01921
MORGAN STANLEY PASSPORT(MSSP)	593	11.86	0.02000
NATIONAL BANK OF GREECE ATHENS	600	57.13	0.09522
NATIONAL FINANCIAL SERVICES CORP.	57,493	2,615.00	0.04548
NATIONAL SECURITIES COMPANY SA	6,600	627.63	0.09510
NBG INTERNATIONAL LTD LONDON	6,700	632.78	0.09444
NBG INTL,LONDON	5,800	507.17	0.08744
NBGI EQUITIES	9,000	757.22	0.08414
NCB STOCKBROKERS	1,023	42.97	0.04200
NCB STOCKBROKERS LTD	1,029	44.12	0.04288
NED DAVIS+ CO	291	14.55	0.05000
NEEDHAM +COMPANY	87,725	4,124.25	0.04701
NESBITT BURNS	10,382	406.85	0.03919
NEUBERGERAND BERMAN	17,529	781.45	0.04458
NOMURA BANK	223,400	3,495.60	0.01565
NOMURA INTERNATIONAL PLC	11,389	810.62	0.07118
NOMURA SECS (REPO)	2,189	307.61	0.14053
NOMURA SECURITIES CO LTD	96,200	175.29	0.00182
NOMURA SECURITIES CO., LTD.	88,000	1,874.76	0.02130
NOMURA SECURITIES INTERNATIONAL INC	283,416	5,178.86	0.01827
NOMURA SECURITIES INTL	19,600	1,127.86	0.05754
NOMURA SECURITIES SINGAPORE PTE LTD	8,000	14.65	0.00183
NOMURA SECURITIES TOKYO	23,000	343.58	0.01494
NUTMEG SECURITIES	3,397	169.85	0.05000
O NEIL, WILLIAM AND CO. INC/BCC CLRG	26,400	1,320.00	0.05000
ODD LOT SALE	30	13.74	0.45800
OPPENHEIMER & CO. INC.	12,880	633.00	0.04915
ORION ROYAL INC	2,100	74.72	0.03558
ORION SECURITIES	154,155	3,583.45	0.02325

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
ORMES CAPITAL	8,004	$ 400.20	$ 0.05000
ORMES CAPITAL MARKETS INC	79,000	3,950.00	0.05000
OSCAR GRUSS & SON INC	6,700	335.00	0.05000
OTA LTD PARTNERSHIP	2,352	117.60	0.05000
PACIFIC AMERICAN SECURITIES, LLC	21,005	1,050.25	0.05000
PACIFIC CREST SECURITIES	10,264	513.20	0.05000
PACIFIC GROWTH EQUITIES	12,200	610.00	0.05000
PALUEL MARMONT BANQUE	4,200	44.91	0.01069
PCS SECURITIES INC	23,700	1,185.00	0.05000
PERSHING	40,000	2,000.00	0.05000
PERSHING LLC	105,950	5,198.50	0.04907
PETRIE PARKMAN + CO	2,600	130.00	0.05000
PIPER JAFFRAY & CO.	113,688	5,280.50	0.04645
PORTALES PARTNERS	1,195	59.75	0.05000
PRECURSORGROUP	2,500	125.00	0.05000
PRECURSORGROUP INC	30,910	1,545.50	0.05000
PRITCHARDCAPITAL	146	7.30	0.05000
PRITCHARDCAPITAL PARTNERS LLC	429	21.45	0.05000
PRUDENTIAL EQUITY GROUP	192,350	9,802.50	0.05096
PULSE TRADING LLC	8,400	301.00	0.03583
Q&R CLEARING CORPORATION	23,808	1,190.40	0.05000
RAYMOND JAMES AND ASSOCIATES INC	142,508	6,900.40	0.04842
RBC CAPITAL MARKETS	86,200	4,006.00	0.04647
RBC DAIN RAUSCHER INC	99,152	4,841.60	0.04883
RBC DOMINION SECURITIES INC.	338,939	6,191.36	0.01827
RESEARCH CONVERSION CORP	5,966	298.30	0.05000
ROBBINS	1,874	74.96	0.04000
ROCHDALE SEC CORP.(CLS THRU 443)	11,611	580.55	0.05000
ROSENBLATT SECURITIES INC	103,500	2,070.00	0.02000
ROTH CAPITAL PARTNERS LLC	11,950	546.00	0.04569
RTX SECURITIES	9,800	490.00	0.05000
SALOMAN BROS	3	83.87	27.95667
SALOMON SMITH BARNEY	2	49.46	24.73000
SALOMON SMITH BARNEY KOREA LTD	14,200	739.16	0.05205
SALOMON SOFT DOLLARS	1,601	80.05	0.05000
SANDERS MORRIS MUNDY	22,864	1,141.20	0.04991
SANDLER ONEILL + PART LP	47,800	2,356.00	0.04929
SANFORD C. BERNSTEIN LTD	43,602	2,270.02	0.05206
SANFORD CBERNSTEIN CO LLC	107,535	5,376.75	0.05000
SANTANDERCENTRAL HISPANO INVEST	3,500	174.39	0.04983
SANTANDERINVESTMENT SECURITIES	83,400	704.44	0.00845
SCOTIA BANK	1,000	38.48	0.03848
SCOTIA CAPITAL (USA) INC	151,145	2,345.74	0.01552
SCOTIA CAPITAL INC	2,000	77.05	0.03853
SCOTIA CAPITAL MKTS	62,500	2,361.62	0.03779
SCOTIA MCLEOD	4,400	160.71	0.03653
SCOTT & STRINGFELLOW, INC	31,800	1,572.00	0.04943

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
SECOND STREET SECURITIES	90,900	$ 4,545.00	$ 0.05000
SEIDLER COMPANIES(THE)	14,200	710.00	0.05000
SESLIA SECURITIES	17,700	885.00	0.05000
SG AMERICAS SECURITIES, LLC	26,025	1,301.25	0.05000
SG COWEN SECURITIES CORP	126,305	6,540.25	0.05178
SG COWEN SECURITIES CORP 2	68,700	1,706.19	0.02484
SIDOTI & CO. LLC	14,700	735.00	0.05000
SIMMONS +COMPANY INTERNATIONAL	22,428	1,121.40	0.05000
SMITH BARNEY - GLOBAL	12,402	1,365.33	0.11009
SMITH BARNEY EUROPE LIMITED	3,000	228.74	0.07625
SMITH BARNEY NEW YORK EMM	22,806	806.05	0.03534
SOCIETE GENERALE LONDON BRANCH	38,800	1,082.94	0.02791
SOLEIL SECURITIES	655	32.75	0.05000
SOUTHWESTSECURITIES	23,900	1,195.00	0.05000
SOUTHWESTSECURITIES, INC.	3,200	160.00	0.05000
SPEAR, LEEDS & KELLOGG	119,500	1,360.00	0.01138
SSANGYONGINVESTMENT AND SECURITIES	1,550	3,216.07	2.07488
STANDARD & POOR'S SECURITIES, INC.	67,850	3,392.50	0.05000
STANDARD + POORS SECURITIES INC	126,900	6,345.00	0.05000
STANFORD GROUP CO	2,100	101.00	0.04810
STATE STREET BROKERAGE SERVICES	6,300	263.00	0.04175
STATUS SECURITIES	3,400	102.00	0.03000
STEPHENS,INC.	20,800	1,040.00	0.05000
STIFEL NICOLAUS & CO INC	16,900	845.00	0.05000
SUNGUARD INSTITUTIONAL BROKERAGE INC	8,100	405.00	0.05000
SUNTRUST CAPITAL MARKETS, INC.	71,500	4,123.00	0.05766
SUSQUEHANNA FIN GROUP	728	36.40	0.05000
THE BENCHMARK COMPANY, LLC	10,500	521.00	0.04962
THEMIS TRADING LLC	15,300	459.00	0.03000
THINKEQUITY PARTNERS LLC	34,875	1,670.75	0.04791
THOMAS WEISEL PARTNERS	281,975	13,778.75	0.04887
U S BANCORP PIPER JAFFRAY INC	130,955	6,452.75	0.04927
U S CLEARING INSTITUTIONAL TRADING	1,800	90.00	0.05000
U.S. CLEARING CORPORATION	38,200	1,528.00	0.04000
UBS	663,110	3,246.71	0.00490
UBS AG	1,000,099	4,165.47	0.00417
UBS AG LONDON	59,466	2,312.79	0.03889
UBS FINANCIAL SERVICES INC	22,100	1,105.00	0.05000
UBS SECURITIES	3,980,061	8,077.11	0.00203
UBS SECURITIES (HONG KONG) LTD	10,000	65.66	0.00657
UBS SECURITIES ASIA LTD	5,600	633.29	0.11309
UBS SECURITIES CANADA INC	851	33.85	0.03978
UBS SECURITIES LLC	230,282	10,999.47	0.04777
UBS WARBURG	282,400	603.79	0.00214
UBS WARBURG (HONG KONG) LIMITED	182,000	395.84	0.00217
UBS WARBURG ASIA LIMITED	14	217.97	15.56929
UBS WARBURG LLC	579,729	24,243.29	0.04182

SCHEDULE OF FEES AND COMMISSIONS (Continued)

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
VAN DER MOOLEN SPECIALISTS USA LLC	300	$ 15.00	$ 0.05000
VANDHAM SECURITIES CORP	4,700	235.00	0.05000
WACHOVIA SECURITIES LLC	4,737	236.85	0.05000
WACHOVIA SECURITIES, LLC	3,012	143.60	0.04768
WACHOVIA SECURITIES, LLC.	44,665	2,097.97	0.04697
WACHOVIA CAPITAL MARKETS, LLC	88,030	4,220.50	0.04794
WARBURG DILLION READ (ASIA) LTD	474,061	4,037.72	0.00852
WAVE SECURITIES LLC	290,329	5,783.42	0.01992
WEDBUSH MORGAN SECURITIES INC	61,600	2,973.00	0.04826
WEEDEN + CO.	452,316	13,787.76	0.03048
WELLS FARGO INVT LLC	46,700	2,335.00	0.05000
WELLS FARGO SECURITIES LLC	48,000	2,400.00	0.05000
WESTMINSTER RES ASOC/ BROADCORT CAPT CL	24,700	1,235.00	0.05000
WESTMINSTER RESEARCH ACCOCIATION	3,700	185.00	0.05000
WESTMINSTER RESEARCH ASSOCIATE	54,500	2,569.00	0.04714
WHITE CAP TRADING	2,900	58.00	0.02000
WILLIAM BLAIR & COMPANY, L.L.C	126,816	6,307.10	0.04973
WILLIAMS CAPITAL GROUP LP (THE)	8,000	428.00	0.05350
WIT SOUNDVIEW CORP	47,827	1,673.35	0.03499
WR HAMBRECHT + CO	16,400	820.00	0.05000
YORKTON SECURITIES INC	4,400	155.90	0.03543
TOTAL	**$ 80,962,783**	**$ 1,543,919.08**	**$ 0.01907**

INVESTMENT SUMMARY
As of June 30, 2004

TYPE OF INVESTMENT	MARKET VALUE	% OF PORTFOLIO
EQUITIES		
Consumer Discretionary	$ 104,562,232	5.47%
Consumer Staples	52,281,307	2.74%
Energy	45,912,701	2.40%
Financials	137,310,167	7.19%
Health Care	95,966,323	5.02%
Industrials	86,875,798	4.55%
Materials	20,892,827	1.09%
Technology/Telecom Services	145,299,781	7.60%
Utilities	16,886,239	0.88%
Miscellaneous	1,486,812	0.08%
Foreign Equity	436,139,641	22.83%
TOTAL EQUITIES	**$ 1,143,613,829**	**59.85%**
FIXED INCOME		
US Treasury	$ 106,773,211	5.59%
US Government Agency	210,125,379	11.00%
Domestic Corporate Bonds	238,298,306	12.47%
State and Local Obligations	926,917	0.05%
Foreign Government	74,914,312	3.92%
Foreign Corporate	47,894,319	2.51%
TOTAL FIXED INCOME	**$ 678,932,444**	**35.53%**
OTHER INVESTMENTS		
Short Term	$ 51,515,198	2.70%
Real Estate	106,100,040	5.55%
TOTAL OTHER INVESTMENTS	**$ 157,615,239**	**8.25%**
PENDINGS	**$ (69,369,859)**	**-3.63%**
TOTAL	**$ 1,910,791,653**	**100.00%**

INVESTMENT PROPERTIES

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

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

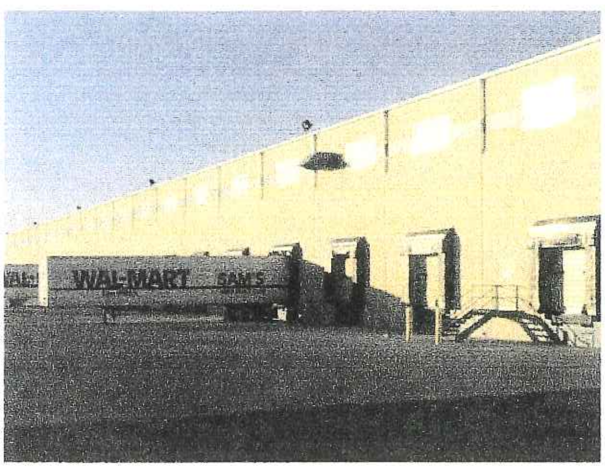
Crescent VII
135,044 s.f. six-story office building located in the Denver Tech Center in Greenwood Village, CO. Acquired as sole owner in June 1998.

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

INVESTMENT PROPERTIES (Continued)

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

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



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

IV.
ACTUARIAL SECTION

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ACTUARY CERTIFICATION LETTER

MERCER
Human Resource Consulting

Actuarial Certification

The biennial actuarial valuation required for the City of San Jose Police and Fire Retirement Plan has been prepared as of June 30, 2001 by Mercer Human Resource Consulting, Inc. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the System's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the System's staff. This information has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior years' information.

The contribution requirements are determined as a percentage of payroll. The funding objective of the plan is to determine employer rates that provide for both normal cost and either a contribution to amortize the unfunded actuarial accrued liability or a credit when actuarial assets exceed the actuarial accrued liability. Employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. The Board elected to amortize the System's unfunded actuarial accrued liability over a 40-year period, beginning in 1977, with 16 years remaining as of the June 30, 2001 valuation date.

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

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

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

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

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

1. Summary of Assumptions and Funding Method

2. Schedule of Active Member Valuation Data

ACTUARY CERTIFICATION LETTER (Continued)

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

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

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

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

Mercer Human Resource Consulting, Inc.

Andy Yeung

Andy Yeung, ASA, EA, MAAA

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

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

Valuation Interest Rate	8%
Inflation Rate	4.50%
Cost-of-Living Adjustment	3.00%
Post-Retirement Mortality	
(a) Service	
Males	1994 Male Group Annuity Mortality Table (set back 3 years)
Females	1994 Female Group Annuity Mortality Table (set forward 1 year)
(b) Disability	PERS Industrial Disability Table '88-'92 (set back 4 years)
Pre-Retirement Mortality	Based upon the 6/30/2001 Experience Analysis
Withdrawal Rates	Based upon the 6/30/2001 Experience Analysis
Disability Rates	Based upon the 6/30/2001 Experience Analysis
Service Retirement Rates	Based upon the 6/30/2001 Experience Analysis
Salary Scales	10.30% for the first five years of service. Graded increases thereafter ranging from 10.10% at age 25 to 4.60% at ages 60 and over. Of the total salary increases, 4.50% is for inflation.
Percentage of Members	
Married	85%
Reciprocity	75% of all terminated vested members are assumed to be employed by a reciprocal entity.
Assets	Five year smoothed recognition of total market return that differs from the 8% return target.

Funding Method

The System's liability is being funded on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized over a period of 40 years beginning in 1977, with 16 years remaining on the June 30, 2001 valuation date. Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability.

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Age	withdrawal 0-1	withdrawal 1-2	withdrawal 2-3	withdrawal 3-4	withdrawal 4-5	withdrawal 5-10	withdrawal 10+	deferred	ordinary disab.	duty disability	ordinary death	duty death	retirement AgeSv
<= 20	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0000	0.0001	0.0000	0.0000
21	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
22	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
23	0.0600	0.0130	0.0130	0.0130	0.0035	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
24	0.0600	0.0130	0.0130	0.0130	0.0070	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
25	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0068	0.0000	0.0002	0.0001	0.0000	0.0000
26	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0066	0.0001	0.0002	0.0001	0.0001	0.0000
27	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0065	0.0001	0.0003	0.0001	0.0001	0.0000
28	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0064	0.0001	0.0002	0.0001	0.0001	0.0000
29	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0062	0.0001	0.0002	0.0001	0.0001	0.0000
30	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0060	0.0001	0.0007	0.0001	0.0001	0.0000
31	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0058	0.0001	0.0006	0.0001	0.0001	0.0000
32	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0056	0.0001	0.0003	0.0001	0.0001	0.0000
33	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0054	0.0001	0.0008	0.0002	0.0002	0.0000
34	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0052	0.0002	0.0015	0.0002	0.0002	0.0000
35	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0004	0.0015	0.0002	0.0002	0.0000
36	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0006	0.0015	0.0002	0.0002	0.0000
37	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0008	0.0018	0.0002	0.0002	0.0000
38	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0010	0.0019	0.0002	0.0002	0.0000
39	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0012	0.0020	0.0002	0.0002	0.0000
40	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0014	0.0020	0.0002	0.0003	0.0000
41	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0020	0.0002	0.0003	0.0000
42	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0021	0.0002	0.0003	0.0000
43	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0029	0.0002	0.0003	0.0000
44	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0041	0.0003	0.0003	0.0000
45	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0040	0.0014	0.0063	0.0003	0.0003	0.0000
46	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0035	0.0012	0.0080	0.0003	0.0004	0.0000
47	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0030	0.0010	0.0102	0.0003	0.0004	0.0000
48	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	0.0010	0.0129	0.0003	0.0004	0.0000
49	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	0.0010	0.0163	0.0003	0.0004	0.0000
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0300	0.0004	0.0004	0.1000
51	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0450	0.0004	0.0004	0.0800
52	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0600	0.0004	0.0005	0.0800
53	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0677	0.0005	0.0005	0.0900
54	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0750	0.0005	0.0006	0.0900
55	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1200	0.0005	0.0006	0.1700
56	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1500	0.0006	0.0007	0.1500
57	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1800	0.0006	0.0008	0.1300
58	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1900	0.0007	0.0008	0.1300
59	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2000	0.0008	0.0009	0.1800
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2200	0.0009	0.0010	0.2200
61	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.3400	0.0010	0.0010	0.2600
62	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0011	0.0011	0.2600
63	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0012	0.0012	0.3600
64	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0014	0.0012	0.4700
65	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
66	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
67	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
68	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
69	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT

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

Member
94 GAM Male -3

Beneficiary
94 GAM Female +1

YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT

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

‘88 - ‘92 PERS Industrial Disability - 4

SCHEDULE OF ACTIVE MEMBER VALUATION DATA
(Contributing Members Only)

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

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

RETIRANTS & BENEFICIARIES ADDED TO & REMOVED FROM RETIREE PAYROLL

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of the beginning of Period	Annual Retiree Payroll Added During Period*	Annual Retiree Payroll Removed During Period	Annual Retiree Payroll as of the End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/93-6/30/95	700	157	33	824	$ 18,958,000	$ 7,264,000	$ 639,000	$ 25,583,000	31.94%	$ 31,047
6/30/95-6/30/97	824	145	29	940	$ 25,583,000	$ 7,059,000	$ 652,000	$ 31,990,000	25.04%	$ 34,032
6/30/97-6/30/99	940	156	36	1060	$ 31,990,000	$ 9,962,000	$ 880,000	$ 41,072,000	28.39%	$ 38,747
6/30/99-6/30/01	1060	145	41	1164	$ 41,072,000	$ 10,272,000	$ 1,351,000	$ 49,993,000	21.72%	$ 42,949

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
(Amounts in Thousands)

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

FUNDING PROGRESS – GASB No. 25
(Amounts in Thousands)

Acutarial Valuation Date	Actuarial value of Assets [(1)] (a)	Entry Age Actuarial Accrued Liability (AAL)[(2)] (b)	Overfunded AAL (OAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[(3)] (c)	OAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/1995	$ 854,414	$ 828,739	$ 25,675	103.10%	$ 109,196	24%
06/30/1997 [(4)]	1,124,294	1,030,168	94,126	109.10%	129,850	72%
06/30/1999 [(5)]	1,440,117	1,276,364	163,753	112.80%	144,125	114%
06/30/2001 [(6)]	1,713,812	1,492,732	221,080	114.80%	171,779	129%

(1) Excludes accounts payable and postemployment healthcare plan assets.
(2) Excludes postemployment healthcare liability.
(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.
(4) After reflection of the Arbitrator Decision to improve Retirement and Health Benefits in 1998, to include unvoluntary overtime pay as pensionable salary.
(5) After reflection of benefit improvements effective February 4, 2000.
(6) After adoption of SRBR program.

Actuarial valuations have been performed biennially through June 30, 2001. The June 30, 2003 actuarial valuation will be available for the fiscal year 2004/05 report period.

SOLVENCY TEST
(Amounts in Thousands)

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

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

ASSUMPTION CHANGES

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

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

MAJOR PROVISIONS OF THE RETIREMENT PLAN

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through June 30, 2001.

Final Average Salary (FAS)

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

Return of Contributions

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

Service Retirement Benefit

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

The normal service retirement benefit is 2.5% of FAS per year of service up to 20 years of service, 3.0% of FAS per year of service for the next 5 years of service, and 4.0% of FAS per year of service over 25, not to exceed 85% of FAS.

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

Ten years of service are required for vesting purposes.

Disability Benefit

Nonservice-connected
Members with 2 years of service, regardless of age, are eligible for nonservice-connected disability. The benefit is 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. The maximum benefit is 50% of FAS.

Service-connected
Members may retire regardless of length of service, and the benefit is the greater of 2.5% of FAS per year of service up to 20 years of service, 3.0% of FAS per year of service for the next 5 years of service, and 4.0% of FAS per year of service over 25 (maximum 85% of FAS) or 50% of FAS.

Death Benefit (before and after retirement)

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

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

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

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

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

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

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

Service-connected
The spouse receives the greater of 50% of the member's benefit and 37.5% of FAS. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

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

Death Benefit - Inactive Members (after retirement)

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS. Eligible dependent children receive the following:

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

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

Cost of Living

The increase in retirement allowance is set at 3% a year.

Post-Retirement Health and Dental Benefits

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. The members presently contribute at the rate of 10.25% of pay.

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

City's Retirement Contributions

The City presently contributes at a rate of 14.22% of pay for all members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

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V.
STATISTICAL SECTION

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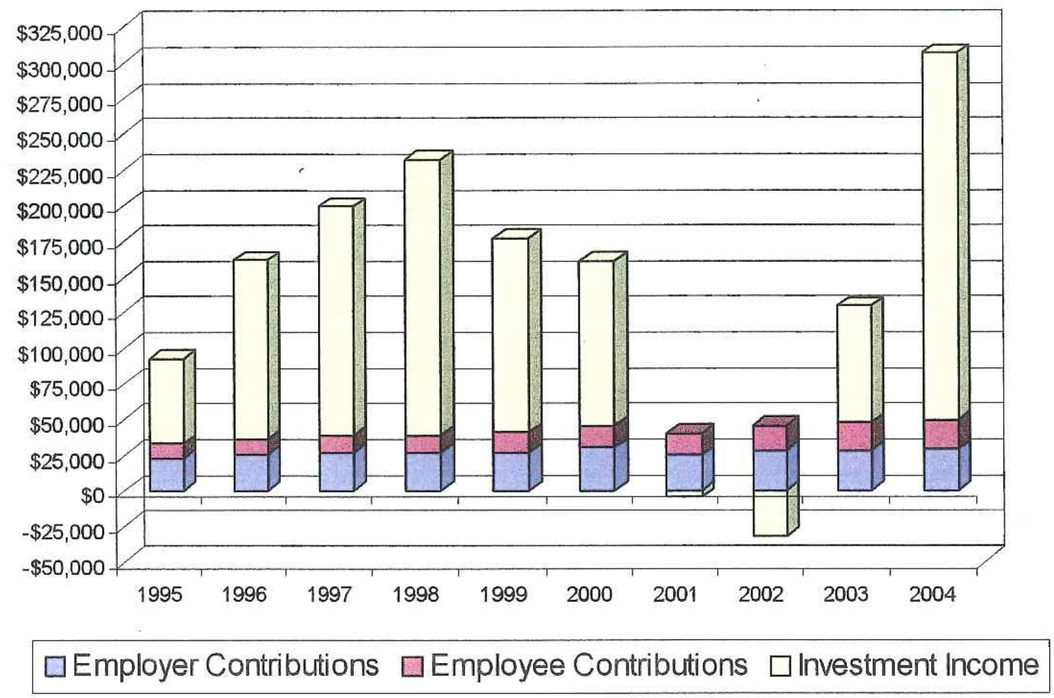
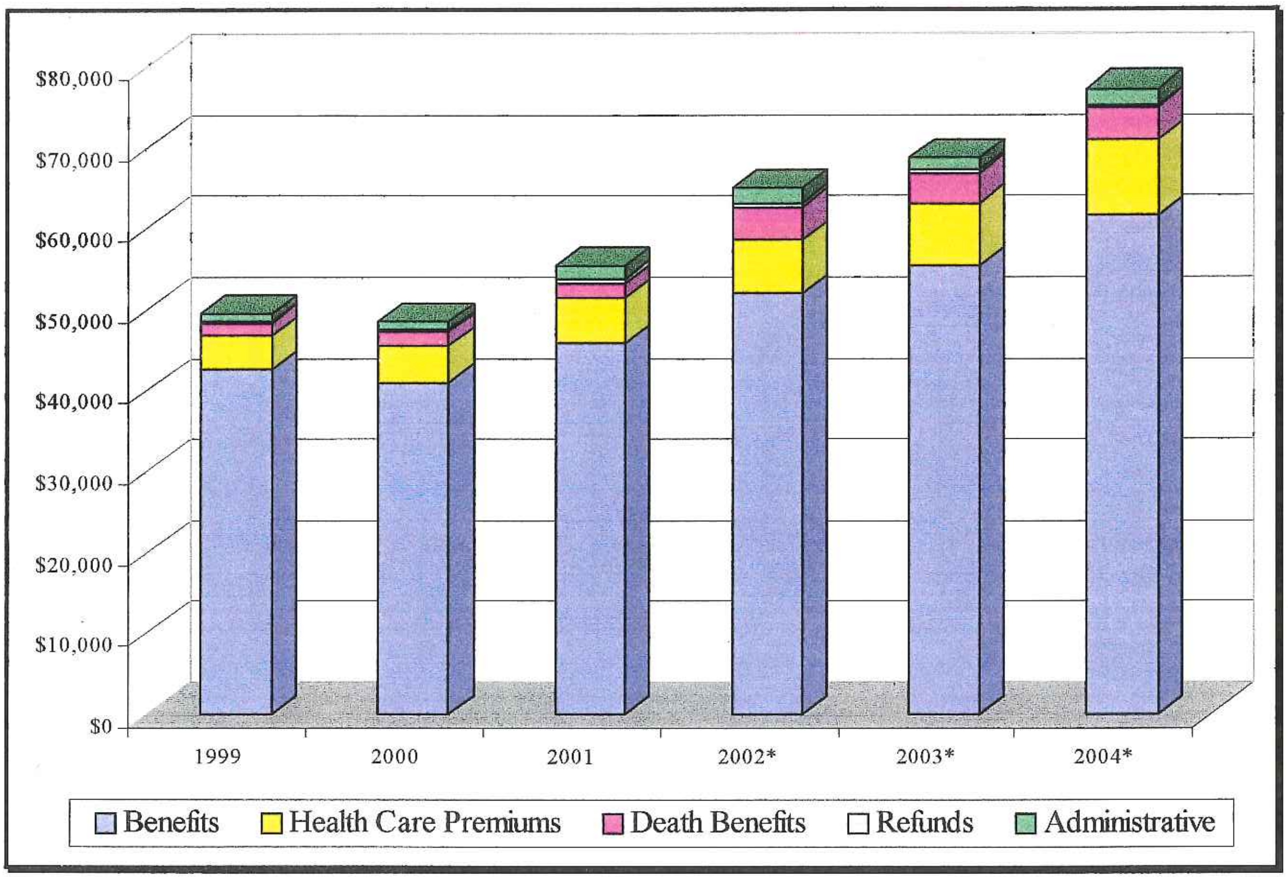
ADDITIONS BY SOURCE
For Fiscal Years 1995 - 2004
(In Thousands)



Year Ending	Employer Contributions	% of Annual Covered Payroll	Employee Contributions	% of Annual Covered Payroll	Investment Income (Loss) *	Total
1995	$ 22,298	22.24%	$ 10,689	9.36%	$ 59,354	$ 92,341
1996	$ 25,604	22.24%	$ 10,789	9.36%	$ 125,170	$ 161,563
1997	$ 26,779	21.61%	$ 11,711	9.40%	$ 160,534	$ 199,024
1998	$ 26,547	17.28%	$ 12,570	9.70%	$ 193,114	$ 232,231
1999	$ 26,563	19.82%	$ 14,148	10.22%	$ 136,644	$ 177,355
2000	$ 30,187	20.11%	$ 15,374	10.22%	$ 114,911	$ 160,472
2001	$ 24,672	15.60%	$ 15,542	9.79%	$ (4,795)	$ 35,419
2002	$ 28,115	15.60%	$ 17,851	9.79%	$ (32,285)	$ 13,681
2003	$ 27,762	14.22%	$ 19,937	10.25%	$ 81,640	$ 129,339
2004	$ 28,904	14.22%	$ 20,929	10.25%	$ 256,845	$ 306,678

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

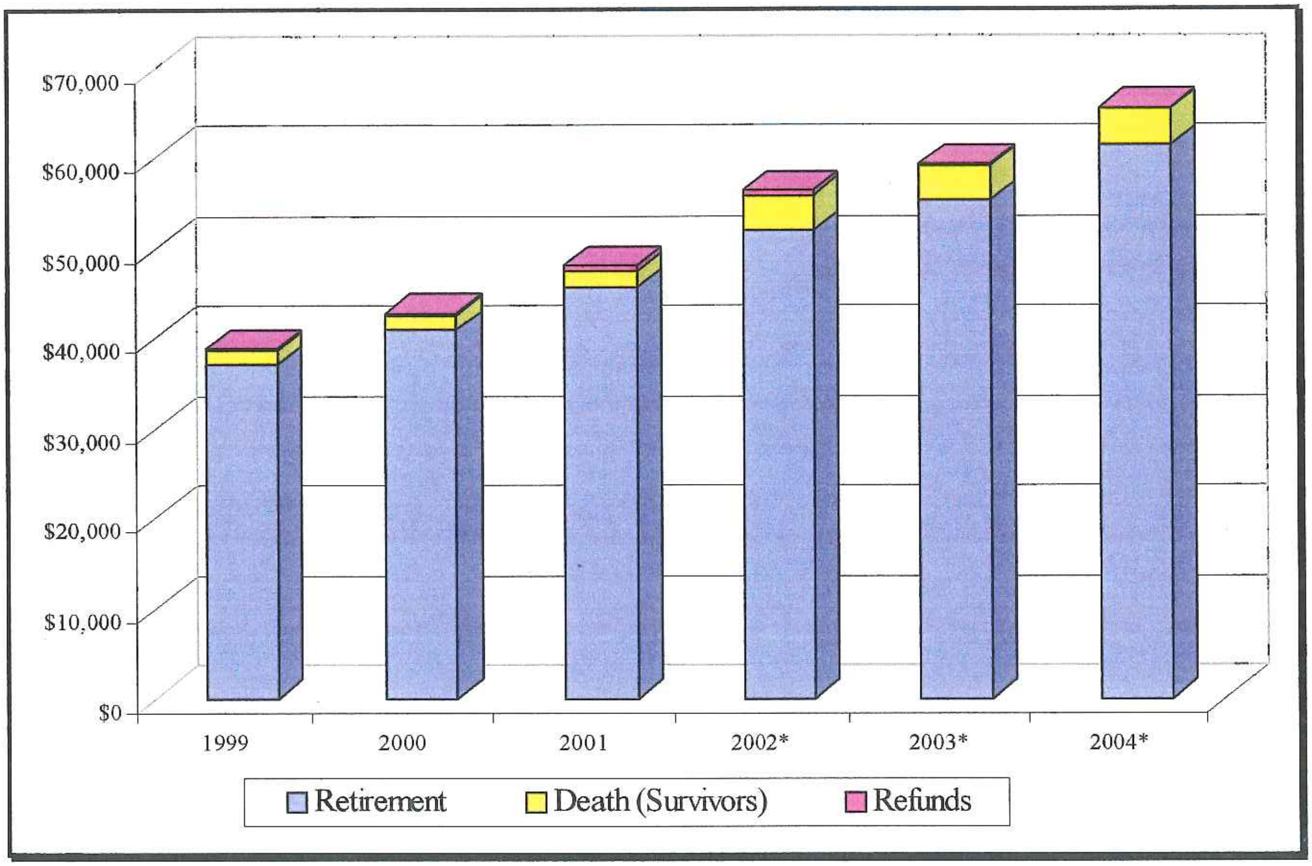
DEDUCTIONS BY TYPE
For Fiscal Years 1999 - 2004
(In Thousands)



	1999	2000	2001	2002*	2003*	2004*
Benefits	$42,663	$40,974	$45,699	$51,907	$55,342	$61,449
Health Care Premiums	4,156	4,649	5,685	6,740	7,772	9,528
Death Benefits	1,531	1,689	1,772	3,977	3,732	3,976
Refunds	194	194	615	518	276	132
Administrative	841	1,019	1,550	1,840	1,615	2,089
TOTAL	**$49,385**	**$48,525**	**$55,321**	**$64,982**	**$68,737**	**$77,174**

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

BENEFIT EXPENSES BY TYPE
For Fiscal Years 1999 - 2004
(In Thousands)



	1999	2000	2001	2002*	2003*	2004*
Retirement	$37,207	$40,974	$45,699	$51,907	$55,342	$61,449
Death (Survivors)	1,531	1,689	1,772	3,977	3,732	3,976
Refunds	167	194	615	518	276	132
TOTAL	**$38,905**	**$42,857**	**$48,086**	**$56,402**	**$59,350**	**$65,557**

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

RETIRED MEMBERS BY TYPE OF BENEFIT
As of June 30, 2004

Amount Monthly Benefit	Number of Retirees & Beneficiaries	Type of Retirement*							Option Selected **				
		1	2	3	4	5	6	7	Unmod.	Opt. 1	Opt. 2	Opt. 3	Total
$1 - 500	9						9		9				9
$501 - 1000	25			4			15	6	22	2	1		25
$1001 - 1500	81	2		42	5	5	21	6	54	1	26		81
$1501 - 2000	106	2		46	36	1	16	5	77	3	26		106
$2001 - 2500	97	6		35	48	1	2	5	66	7	24		97
$2501 - 3000	135	7	1	19	93	5	8	2	99	26	8	2	135
$3001 - 3500	100	8	1	5	77	5	1	3	59	24	7	10	100
$3501 - 4000	105	19	1	4	81				56	31	8	10	105
$4001 - 4500	117	42		3	72				48	52	9	8	117
$4501 - 5000	140	55		5	78		1	1	60	59	7	14	140
$5001 - 5500	142	64			77		1		42	85	3	12	142
$5501 - 6000	85	35		1	48	1			47	29	5	4	85
$6001 - 6500	69	33			36				33	20	4	12	69
$6501 - 7000	39	19			20				25	10	3	1	39
Over $7000	113	57			54			2	68	15	13	17	113
TOTAL	**1363**	**349**	**3**	**164**	**725**	**18**	**74**	**30**	**765**	**364**	**144**	**90**	**1363**

***RETIREMENT CODES**

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

****OPTION DESCRIPTIONS**

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

AVERAGE BENEFIT PAYMENT AMOUNTS

Active Members			
	June 30, 2001	June 30, 1999	Percent Change
A. Number	2,107	1,953	7.9%
B. Average Age	39.61	39.86	-0.6%
C. Average Years of Service	12.33	12.82	-3.8%
D. Annual Salary			
i. Total	$ 171,799,000	$ 144,125,000	19.2%
ii. Average	$ 81,537	$ 73,797	10.5%

Retired and Inactive Vested Members			
	June 30, 2001	June 30, 1999	Percent Change
Retired Members			
A. Service Retirement			
i. Number	313	273	14.7%
ii. Annual Allowance			
Basic Only	$14,406,117	$11,548,137	24.7%
COLA	$2,218,688	$1,491,171	48.8%
Total	$16,624,805	$13,039,308	27.5%
Average Monthly Amount	$4,426	$3,980	11.2%
B. Disability Retirement			
i. Number	680	630	7.9%
ii. Annual Allowance			
Basic Only	$22,869,909	$19,413,166	17.8%
COLA	$6,878,486	$5,549,404	23.9%
Total	$29,748,395	$24,962,570	19.2%
Average Monthly Amount	$3,646	$3,302	10.4%
C. Beneficiaries			
i. Number	171	157	8.9%
ii. Annual Allowance			
Basic Only	$2,202,992	$1,898,951	16.0%
COLA	$1,417,113	$1,171,641	21.0%
Total	$3,620,105	$3,070,592	17.9%
Average Monthly Amount	$1,764	$1,630	8.2%
Inactive Vested Members			
A. Number	36	35	2.9%

As of valuation date June 30, 2001.

RETIREMENTS DURING FISCAL YEAR 2003-04

SERVICE RETIREMENTS

POLICE DEPARTMENT	FIRE DEPARTMENT
BARNETT, BRADLY D	BOGUE, GARY
DAULTON, RICHARD W	HAYDEN, RUSSELL G
DELGADO, DAVID A	PIPER, ROBERT H
DELOACH, RONALD J	RANDALL, JAMES B
GAGE, DONALD L	
GONZALEZ, NAZARIO A	
GONZALEZ, RICHARD A	
GUZMAN, DENNIS A	
GWILLIM, REESE	
HANDFORTH, JOHN T	
LANSDOWNE, WILLIAM M	
LEWIS, STEVEN L	
LONGORIA, NOE	
MCCALL, GEORGE L	
MESSIER, TOM P	
OUIMET, JEFFREY W	
REEVES, CURTIS J	
RENDLER, WILLIAM H	
TATE, BILL E	
TORRES, LINDA J	

EARLY RETIREMENTS

POLICE DEPARTMENT	FIRE DEPARTMENT
NONE	NONE

DEFERRED VESTED RETIREMENTS

POLICE DEPARTMENT	FIRE DEPARTMENT
PEARSON, SAMUEL S	NONE

Source - Pension Administration System

RETIREMENTS DURING FISCAL YEAR 2003-04 (Continued)

SERVICE-CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

BATES, FREDERICK
BETTENCOURT, EDWIN
CARDIN, RANDY F
FERDIN, STEVE
TOZER, DAVID E
WHEATLEY, THOMAS R

FIRE DEPARTMENT

CLARK, RODNEY W
EMERSON, JOHN W
FOWLES, JOSEPH N
HOOKS, RONALD L
JONASSON, DONALD C
MALIK, EL-HAJJ
MC GIBBEN, DENNIS M
MC MILLAN, JOHN A
NOON, HENRY S
PEREZ, STEVEN B
RIVERA, MATTHEW P
ROSINGANA, ARTHUR M
RUGGLES, RICHARD C
TORRES, RALPH R
WILSON, SCOTT E
WOHNOUTKA, RONALD E
ZOBROSKY, GARY R

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

POLICE DEPARTMENT

NONE

FIRE DEPARTMENT

NONE

Source - Pension Administration System

DEATHS DURING FISCAL YEAR 2003-04

DEATHS AFTER RETIREMENT

POLICE DEPARTMENT	**FIRE DEPARTMENT**
HERNANDEZ, EUSEVIO	CHOYCE, JAMES A
IRELAND, RAYMOND L	CIRAULO, SALVADOR J
KLEIN, ELMER L	COBURN, JIMMIE C
LEE, RAYMOND W	DE CAMP, HOWARD *
LIRA, ROBERT P	EVANS, CARL L
MAC KENZIE, WILLIAM H	FRANCIS, ROBERT E
SILVA, RAYMOND J	JACOBSON, GEORGE A
	KINCAID, RICHARD R
	KNAPP, JOHN F
	OPPELT, JOSEPH E
	WARNING, DONALD A
	WUNDERLICH, PHILLIP J

* Above, is a correction on behalf of Howard De Camp, who actually died during fiscal year 2002-03, but whose name was erroneously listed under the police department rather than the fire department in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003.

DEATHS BEFORE RETIREMENT

POLICE DEPARTMENT	**FIRE DEPARTMENT**
MORENO, ROGELIO	NONE
WATT, CARL B	

Source - Pension Administration System

VI.
OTHER REPORTS

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

MACIAS GINI & COMPANY LLP

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2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

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

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

We have audited the financial statements of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of and for the fiscal years ended June 30, 2004 and 2003, and have issued our report thereon dated August 27, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Plan, in a separate letter dated August 27, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING (Continued)

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 27, 2004