SAN JOSE

CAPITAL OF SILICON VALLEY

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2004

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

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

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 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 18, 2004

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (the System) Comprehensive Annual Financial Report (CAFR) 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 of return of 16.62% on investments, compared to 15.31% for its benchmark and 15.75% for the Trust Universe Comparison Service Public Fund Median.
- The Board continued to rebalance to their new asset allocation targets that were approved in 2002 by funding Northern Trust's Russell 1000 Growth and 2000 Growth Index products to gain the All Cap Growth exposure.
- Pathway Capital was hired in February 2004 to manage the funds Private Markets portfolio.
- The exit strategy for the jointly owned properties with the Police and Fire Department Retirement Plan (the Plan) was completed with the System buying the Plan's 50% interest in three of the jointly owned properties in November 2003. The System sold two of the three properties purchased in the exit strategy in December 2003 and January 2004. The fourth and final jointly owned property was sold to a third party, also in November 2003.
- 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 still remains committed to complying with the California Pension Protection Act (Prop 162).

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

JEFFREY PERKINS, Chair
Board of Administration

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 18, 2004

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (the System) 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 System's management. Macias Gini & Company LLP, the System's independent auditor, has audited the accompanying financial statements. Management believes that internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The System was established in 1941 and switched to the CAFR format for 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 the chairman's report, the letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, description of the System's management and organizational structure, a summary of the plan provisions and a listing of the professional service firms used.
- The Financial Section contains the report from the independent auditor, Macias Gini & Company LLP, Management's Discussion and Analysis, and the basic financial statements of

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LETTER OF TRANSMITTAL (Continued)

the System and certain required supplementary information and other supplementary information.

- The Investment Section contains the Investment Consultant's statement produced by the Bank of New York, the System's investment performance consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- The Actuarial Section contains the certification letter produced by the independent actuary, Gabriel, Roeder, Smith & Company, along with the results of the System'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 System will find this CAFR helpful in understanding the System; a plan that continues to maintain a strong and positive financial future.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the System 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. The System has received the certificate for four consecutive years. The System first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System 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

The Board of Administration continued implementation of the asset allocation targets approved following completion of an asset liability modeling study in 2002. The new asset allocation added an allocation to private markets and increased its allocation to developed international equities while reducing its allocation to real estate. Transition to the new asset allocation targets

LETTER OF TRANSMITTAL (Continued)

continued through the 2003-04 fiscal year with the hiring of a Private Markets fund of funds manager.

In November 2003, the Board completed the exit strategy of three real estate properties, jointly owned with the Police and Fire Department Retirement Plan (the Plan), by way of a buy/sell agreement, whereby the System purchased the Plan's 50% interest in the jointly owned properties. The System sold two of the three properties acquired in the exit strategy in December 2003 and January 2004.

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 System's pension administration system.

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

Changes in System Membership

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

	2004	2003	Increase/ (Decrease)	Percent Change
Active Members*	4,750	4,872	(122)	-3%
Retired Members	1,933	1,836	97	5%
Survivors**	399	375	24	6%
TOTAL	**7,082**	**7,083**	**(1)**	**0%**

* Active members include deferred vested members, members who have left City service but remain a member of the System.
** Survivor total includes ex-spouses.

Financial and Economic Summary

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. Some of the best performing stocks were relatively low-quality companies that had experienced dramatic declines and critical financial distress in recent years. Although the stock market rally was a welcome relief to many investors, it was not enough to overcome the damage experienced during the bear market. The System is well structured to meet its investment objectives as defined in the Investment Policy Statement.

LETTER OF TRANSMITTAL (Continued)

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

Investment Summary

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

Compared to the Trust Universe Comparison Service ("TUCS") Public Fund Universe, the System's investment turned in an above-average performance during the fiscal year 2004. The portfolio earned a time-weighted rate of return of 16.62% versus 15.31% for TUCS, which placed the System's total return in the second quartile of TUCS Public Funds and All Master Trusts Universe. Over long-term periods, the portfolio has earned a total return of 7.12% over the past three years and 5.70% over the past five years. On a fair value basis, the total System's investments increased from $1,223,444,000 to $1,404,959,000, net of pending purchases and sales, excluding securities lending collateral.

Funding

The System'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 System was approximately 99%. A six-year history of the System's funding progress is presented on page 44. The net increase in System assets for FY 2004 was $188,935,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 30.

Conclusion

I would like to take this opportunity to thank the members of the System 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 System and for their diligent work to assure the System's continued successful operation.

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City Employees' Retirement System, 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

Nancy L. Zielke

President

Jeffrey R. Esser

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
Program Administrator

BOARD OF ADMINISTRATION

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

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

Jeffrey Perkins, Chair
Public member appointed to the Board in June 1996.
His current term expires November 30, 2006.

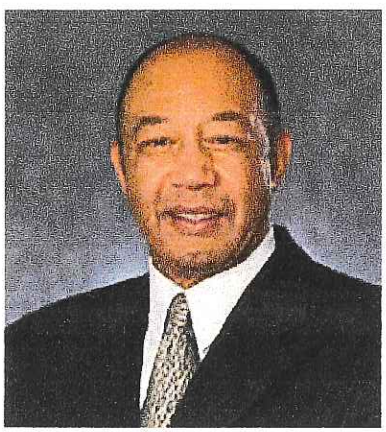
William A. Thomas, Vice Chair
Retired Plan member appointed in August 2001.
His current term expires November 30, 2004.

Bradley Imamura
Employee Representative elected to the Board in November 1993. His current term expires November 30, 2005.

BOARD OF ADMINISTRATION (Continued)

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

Mike Yoshimoto
Employee Representative appointed to the Board in December 1999. His current term expires November 30, 2007.



Forrest Williams
City Council member appointed to the Board in August 2001.

David Busse
Civil Service Commission member appointed in February 2003. His current term expires December 1, 2006.

OUTSIDE CONSULTANTS

ACTUARY	Gabriel, Roeder, Smith & Company Roseville, CA
ATTORNEY	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	Bingham McCutchen, LLP East Palo Alto, CA
AUDITOR	Macias Gini & Company LLP Walnut Creek, CA

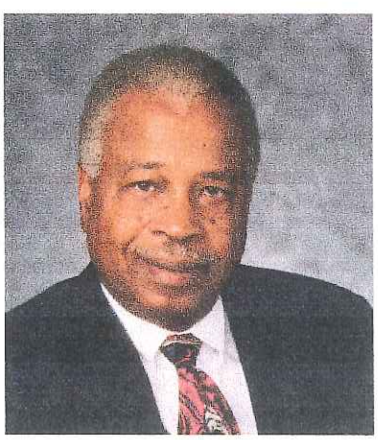
A list of Investment Professionals begins on page 67 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

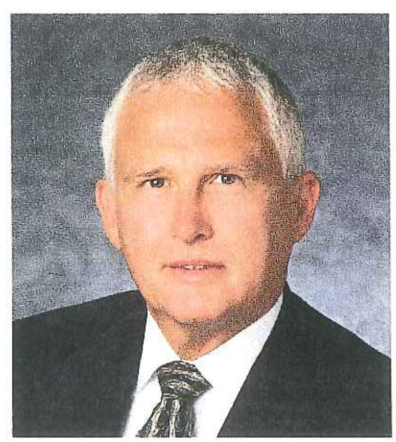
Board Meetings:	Second Thursday of the Month 8:30 AM - City Hall Council Chambers
Committee for Investments:	Quarterly
Committee of the Whole:	Quarterly
Real Estate Committee:	Quarterly

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

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

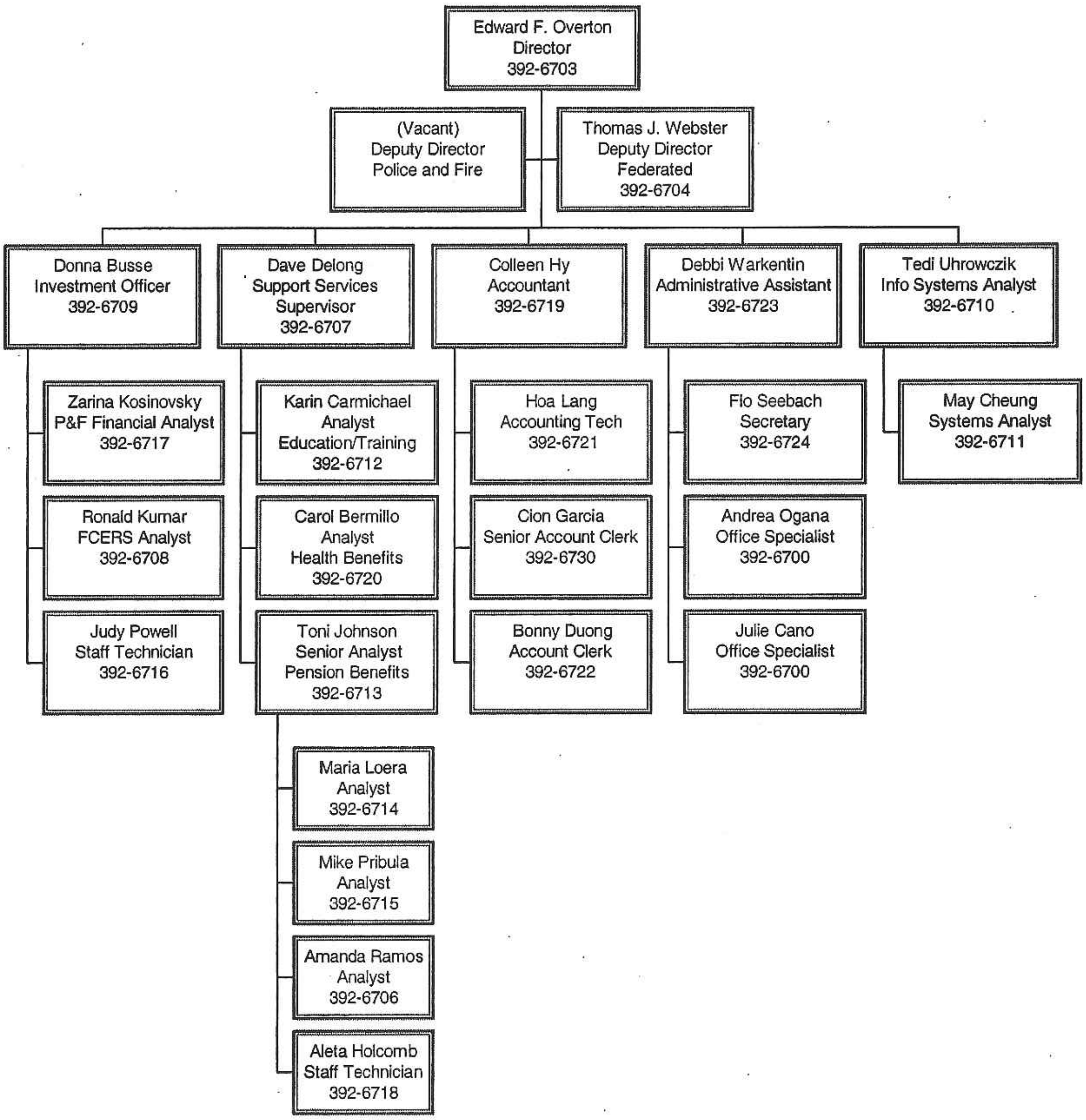


Edward F. Overton
Director, Retirement Services



Thomas J. Webster
Deputy Director

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



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SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS

MEMBERSHIP

Mandatory for all full-time non-safety employees.

MEMBER CONTRIBUTION

All members contribute 5.08% of base salary.

CITY'S CONTRIBUTION

The City contributes 15.20% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

RETIREMENT

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

RETIREMENT ANNUITY

The retirement annuity payable is the Final Average Salary multiplied by 2.5% per year of service (Maximum Benefit: 75% of the Final Average Salary).

FINAL AVERAGE SALARY

The average monthly salary for the highest twelve (12) consecutive months.

DISABILITY RETIREMENT

Non-Service Connected

A non-service connected disability annuity is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service connected disability annuity is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary x 2.5% x Number of Years of Service). The annuity will be reduced by .5% for each year of age under 55.

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

20% of Final Average Salary for 6 years of service;
add 2% for each year of service in excess of 6 years but less than 16 years;
add 2.5% for each year of service in excess of 16 years of service.

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

Service-Connected
A service connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability annuity is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments. If a member has more than 16 years of service with the City of San Jose, they will also recieve 2.5% of the Final Average Salary for each year in excess of 16 in addition to the the 40% benefit for a Service Connected Disability. (Maximum Benefit: 75% of the Final Average Salary)

TERMINATION BENEFITS

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

DEFERRED RETIREMENT

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

RECIPROCITY

Effective December 9, 1994, the City entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another. If a member terminates and goes to a California PERS agency or a reciprocal agency and claims reciprocity, they may leave their accumulated contributions and interest on deposit regardless of years of service.

COST OF LIVING

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

DEATH BEFORE RETIREMENT

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

determined by the years of service times 2.5% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

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

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

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

DEATH AFTER RETIREMENT

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

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

MANAGEMENT

The System is under the management of a seven (7) member Board of Administration consisting of two City Council members, a Civil Service Commissioner, a public member with significant banking or investment experience, a retiree representative, and two elected employees who are members of the Retirement System.

ADMINISTRATION

A full-time Director is employed by the City. 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 System. It also pays any directly related administrative costs.

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

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

ACTUARIAL SOUNDNESS

Gabriel, Roeder, Smith & Company is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to assure continuing soundness.

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services including Atlanta Capital Management; Bank of Ireland; BlackRock Financial Management; Boston Company Asset Management; Brandywine Asset Management; Dodge and Cox; DRA Advisors; Eagle Asset Management; Fidelity Investments; Julius Baer; MIG Realty Advisors; Northern Trust; Paradigm Asset Management; CIGNA Realty Investors (Formerly TimesSquare Real Estate Investors) are retained for full-time investment counsel. The Bank of New York is retained as the investment performance consultant and Strategic Investment Solutions, Inc. as the investment consultant.

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 Federated City Employees'
Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Federated City Employees' Retirement System (System), 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 System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 System 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 System 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 System'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

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INDEPENDENT AUDITOR'S REPORT
(Continued)

an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the System'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 Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2004 and 2003.

Financial Highlights for Fiscal Year 2004

- The net assets of the System at the close of the fiscal year 2004 are $1,406,724,000 (net assets held in trust for pension benefits and post-employment healthcare benefits). All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

- The System's total net assets held in trust for pension benefits and postemployment healthcare benefits increased by $188,935,000 or 15.5%, primarily as a result of a strengthening in the investment market.

- The System'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 System was approximately 99%. In general, this indicates that for every dollar of benefits due we have approximately $.99 of assets to cover it.

- Additions to Plan Net Assets for the year were $262,506,000, which includes member and employer contributions of $59,067,000, net investment income of $203,210,000, and net securities lending income of $229,000.

- Deductions in Plan Net Assets increased from $63,102,000 to $73,571,000 over the prior year, or approximately 16.6% due to an increase in retirement and healthcare benefits, which was attributable to enhanced benefits and an increased number of beneficiaries along with increased health premium costs.

Overview of the Financial Statements

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

1. Statement of Plan Net Assets

2. Statement of Changes in Plan Net Assets

3. Notes to the Basic Financial Statements

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

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

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 System.

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 state and local government reports use the full accrual method of accounting. The System 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 System'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 System's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the System'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 System's overall health (see the System's financial statements on page 30 of this report).

Notes to the 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 page 34 of this report).

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

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a on page 23). The assets of the System exceeded its liabilities at the close of fiscal year 2004.

As of June 30, 2004, $1,406,724,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits. All of the net assets are available to meet the System'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 15.5% over the prior year primarily due to appreciation in the fair value of investments, which increased $132,344,000 from the prior year.

As of June 30, 2003, $1,217,789,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits (see Tables 1b on page 23). This total represented an increase of 6.0% in net assets over the prior year primarily due to an increase in the fair value of investments.

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

Management's Discussion and Analysis
Page 3 of 8

As of June 30, 2004, receivables increased by $160,872,000, or 1413.5% mainly due to an increase in receivables from brokers and others. In the previous year, receivables decreased by $5,915,000, or 34.2% due to a decrease in receivables from brokers and other.

As of June 30, 2004, total liabilities increased by $190,455,000, or 144.1%, compared with June 30, 2003, due mainly to an increase in payable to brokers.

As of June 30, 2003, total liabilities decreased by $29,347,000 or 18.2% due to a decrease in securities lending collateral due to borrowers.

Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 37). The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund, which includes postemployment healthcare benefits, and the Cost-of-Living Fund.

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 (loss) on investments held" reserve of $111,004,000 as of June 30, 2004.

For 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 (loss) on investments held" reserve of $52,942,000.

FCERS Net Assets - (Table 1a)
As of June 30, 2004 and 2003

	2004	2003	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 172,253,000	$ 11,381,000	$ 160,872,000	1413.5%
Investments at Fair Value	1,557,060,000	1,338,542,000	218,518,000	16.3%
Total Assets	**1,729,313,000**	**1,349,923,000**	**379,390,000**	**28.1%**
Current Liabilities	322,589,000	132,134,000	190,455,000	144.1%
Total Liabilities	**322,589,000**	**132,134,000**	**190,455,000**	**144.1%**
Net Assets	**$ 1,406,724,000**	**$ 1,217,789,000**	**$ 188,935,000**	**15.5%**

FCERS Net Assets - (Table 1b)
As of June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 11,381,000	$ 17,296,000	$ (5,915,000)	-34.2%
Investments at Fair Value	1,338,542,000	1,292,619,000	45,923,000	3.6%
Total Assets	**1,349,923,000**	**1,309,915,000**	**40,008,000**	**3.1%**
Current Liabilities	132,134,000	161,481,000	(29,347,000)	-18.2%
Total Liabilities	**132,134,000**	**161,481,000**	**(29,347,000)**	**-18.2%**
Net Assets	**$ 1,217,789,000**	**$ 1,148,434,000**	**$ 69,355,000**	**6.0%**

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

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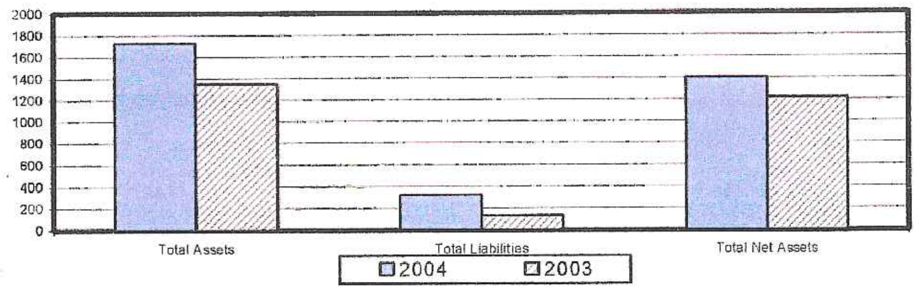
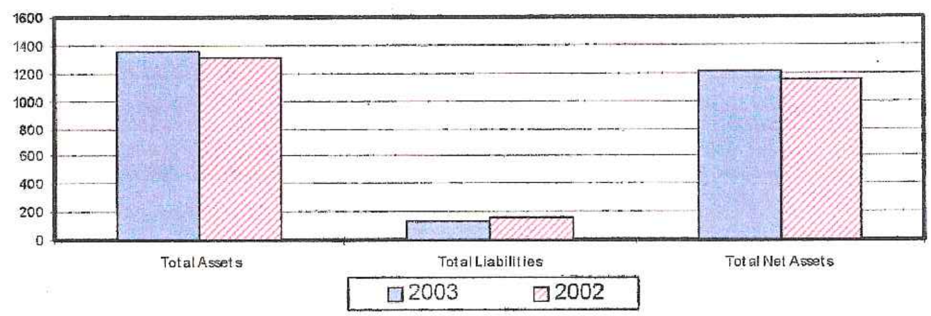
FCERS Plan Net Assets
(Dollars in Millions)





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

	2004	2003	Increase Amount	Increase Percent
Employee Contributions	$ 15,585,000	$ 14,808,000	$ 777,000	5.2%
Employer Contributions	43,482,000	42,277,000	1,205,000	2.9%
Net Investment Income*	203,210,000	75,211,000	127,999,000	170.2%
Net Securities Lending Income	229,000	161,000	68,000	42.2%
Total Additions	**$ 262,506,000**	**$ 132,457,000**	**$ 130,049,000**	**98.2%**

* Net of Investment Expenses of $4,700,000 and $3,793,000 in 2004 and 2003, respectively

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

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 14,808,000	$ 13,858,000	$ 950,000	6.9%
Employer Contributions	42,277,000	45,138,000	(2,861,000)	-6.3%
Net Investment Income (Loss)*	75,211,000	(25,874,000)	101,085,000	390.7%
Net Securities Lending Income	161,000	176,000	(15,000)	-8.5%
Total Additions	**$ 132,457,000**	**$ 33,298,000**	**$ 99,159,000**	**297.8%**

* Net of Investment Expenses of $3,793,000 and $3,596,000 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 Fiscal Years Ended June 30, 2004 and 2003

	2004	2003	Increase Amount	Increase Percent
Retirement Benefits	$ 53,578,000	$ 46,814,000	$ 6,764,000	14.4%
Healthcare Insurance Premiums	11,438,000	9,191,000	2,247,000	24.5%
Death Benefits	5,454,000	4,752,000	702,000	14.8%
Refund of Contributions	1,188,000	714,000	474,000	66.4%
Administrative and other	1,913,000	1,631,000	282,000	17.3%
Total Deductions	**$ 73,571,000**	**$ 63,102,000**	**$ 10,469,000**	**16.6%**

Deductions from Plan Net Assets (Table 3b)

For the Fiscal Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	$ 46,814,000	$ 43,696,000	$ 3,118,000	7.1%
Healthcare Insurance Premiums	9,191,000	7,804,000	1,387,000	17.8%
Death Benefits	4,752,000	4,561,000	191,000	4.2%
Refund of Contributions	714,000	1,207,000	(493,000)	-40.9%
Administrative and other	1,631,000	1,472,000	159,000	10.8%
Total Deductions	**$ 63,102,000**	**$ 58,740,000**	**$ 4,362,000**	**7.4%**

Changes in Plan Net Assets (Table 4a)

For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003	Increase Amount	Increase Percent
Total Additions	$ 262,506,000	$ 132,457,000	$ 130,049,000	98.2%
Total Deductions	73,571,000	63,102,000	10,469,000	16.6%
Net Increase in Plan Assets	**$ 188,935,000**	**$ 69,355,000**	**$ 119,580,000**	**172.4%**

Changes in Plan Net Assets (Table 4b)

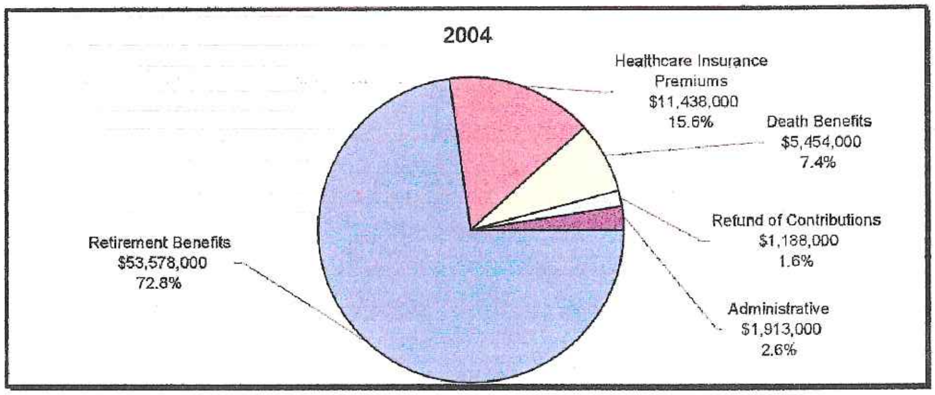
For the Fiscal Years Ended June 30, 2003 and 2002

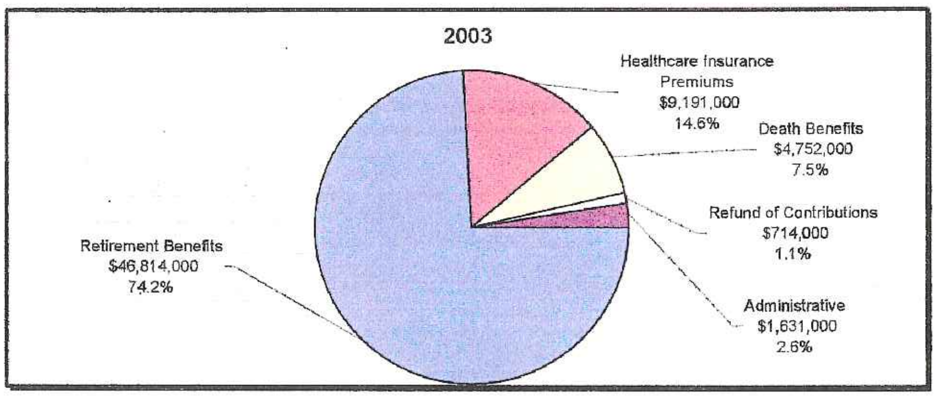
	2003	2002	Increase Amount	Increase Percent
Total Additions	$ 132,457,000	$ 33,298,000	$ 99,159,000	297.8%
Total Deductions	63,102,000	58,740,000	4,362,000	7.4%
Net Increase (Decrease) in Plan Assets	**$ 69,355,000**	**$ (25,442,000)**	**$ 94,797,000**	**372.6%**

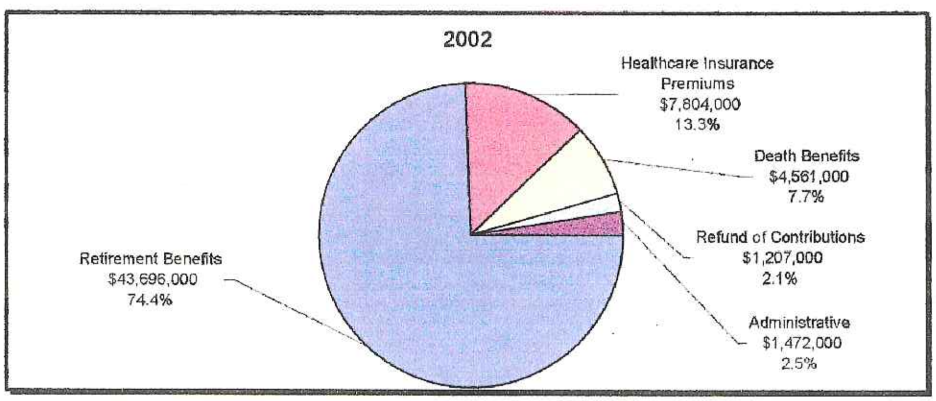
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Management's Discussion and Analysis
Page 6 of 8

Deductions from Plan Net Assets







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

FCERS ACTIVITIES

The market appreciation during fiscal year 2003/04 resulted in increased net assets by $188,935,000, thereby accounting for a 15.5% 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 $262,506,000 (see Table 2a on page 24).

By the fiscal year ended June 30, 2004, overall additions had increased by $130,049,000, or 98.2% from the prior year primarily due to unrealized investment gains, which increased by $132,344,000, or 325.0%. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2004 starting on page 52. Also during the fiscal year, employer contributions increased by $1,205,000, or 2.9% due to an increase in covered payroll.

Additions for the fiscal year ended June 30, 2003 totaled $132,457,000, representing an increase of $99,159,000 or 297.8%, from the prior year also primarily due to unrealized investment gains which increased $111,326,000, or 157.7% (see Table 2b on page 24).

Deductions from Plan Net Assets

The System 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 System, refund of contributions to terminated employees, and the cost of administering the system.

Deductions for the fiscal year ended June 30, 2004 totaled $73,571,000, an increase of 16.6% over fiscal year ended June 30, 2003 (see Table 3a on page 25). Increases in retirement benefits of $6,764,000, and healthcare insurance premiums of $2,247,000, were the primary reasons for the increase in deductions. Retirement benefits increased due to benefit enhancements and increased number of beneficiaries. 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.

Deductions for the fiscal year ended June 30, 2003 totaled $63,102,000, an increase of 7.4% over June 30, 2002 (see Table 3b on page 25). Increases in retirement benefits of $3,118,000, and healthcare insurance premiums of $1,387,000 were the primary reasons for increased expenses.

The System's Fiduciary Responsibilities

The System's Board and management staff are fiduciaries of the pension trust fund. Under the California Constitution the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The System 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 15.20% to 17.12% and for the employees the rate increases from 5.08% to 6.06%. Funding status of the Plan was reduced from 99% to 98%.

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

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 System'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:

Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, California 95112-4505

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

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STATEMENTS 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	$ 379	$ 98	$ 477
Employer contributions	1,196	120	1,316
Brokers and others	155,163	8,842	164,005
Accrued investment income	6,107	348	6,455
Total receivables	162,845	9,408	172,253
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	76,499	4,274	80,773
U.S. government securities	170,131	9,506	179,637
Foreign government bonds	89,332	4,991	94,323
Domestic corporate bonds	115,277	6,441	121,718
Foreign corporate bonds	10,245	572	10,817
Domestic equity securities	578,602	32,329	610,931
Foreign equity securities	206,720	11,550	218,270
State and local obligations	742	41	783
Short-term foreign currency investments	483	27	510
Collective short-term investment funds	45,239	2,498	47,737
Real estate	56,018	3,191	59,209
Securities lending cash collateral investment pool	125,217	7,135	132,352
Total investments	1,474,505	82,555	1,557,060
Total assets	1,637,350	91,963	1,729,313
LIABILITIES:			
Payable to brokers	178,492	10,171	188,663
Securities lending collateral due to borrowers	125,217	7,135	132,352
Other liabilities	1,486	88	1,574
Total liabilities	305,195	17,394	322,589
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,332,155	-	1,332,155
Postemployment healthcare benefits	-	74,569	74,569
Total net assets (A schedule of funding progress is presented on page 44.)	$ 1,332,155	$ 74,569	$ 1,406,724

See accompanying notes to basic financial statements.

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

	2003		
	Pension benefits	Post-employment healthcare benefits	Total
ASSETS:			
Receivables:			
Employee contributions	$ 257	$ 66	$ 323
Employer contributions	881	89	970
Brokers and others	1,924	115	2,039
Accrued investment income	7,592	457	8,049
Total receivables	10,654	727	11,381
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	47,289	2,789	50,078
U.S. government securities	142,196	8,388	150,584
Foreign government bonds	89,767	5,295	95,062
Domestic corporate bonds	111,338	6,568	117,906
Foreign corporate bonds	11,422	674	12,096
Domestic equity securities	497,752	29,361	527,113
Foreign equity securities	153,952	9,081	163,033
State and local obligations	1,803	106	1,909
Short-term foreign currency investments	643	38	681
Collective short-term investment funds	10,457	618	11,075
Real estate	82,449	4,863	87,312
Securities lending cash collateral investment pool	114,792	6,901	121,693
Total investments	1,263,860	74,682	1,338,542
Total assets	1,274,514	75,409	1,349,923
LIABILITIES:			
Payable to brokers	8,557	514	9,071
Securities lending collateral due to borrowers	114,792	6,901	121,693
Other liabilities	1,292	78	1,370
Total liabilities	124,641	7,493	132,134
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,149,873	-	1,149,873
Postemployment healthcare benefits	-	67,916	67,916
Total net assets (A schedule of funding progress is presented on page 44.)	$ 1,149,873	$ 67,916	$ 1,217,789

See accompanying notes to basic financial statements.

STATEMENTS 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	$ 12,394	$ 3,191	$ 15,585
Employer	39,534	3,948	43,482
Total contributions	51,928	7,139	59,067
Investment income:			
Net appreciation in fair value of investments	163,684	9,378	173,062
Interest income	21,114	1,242	22,356
Dividend income	5,889	346	6,235
Net rental income	5,909	348	6,257
Less investment expense	(4,439)	(261)	(4,700)
Net investment income before securities lending income	192,157	11,053	203,210
Securities lending income:			
Earnings	1,712	101	1,813
Rebates	(1,353)	(80)	(1,433)
Fees	(143)	(8)	(151)
Net securities lending income	216	13	229
Net investment income	192,373	11,066	203,439
Total additions	244,301	18,205	262,506
DEDUCTIONS:			
Retirement benefits	53,578	-	53,578
Healthcare insurance premiums	-	11,438	11,438
Death benefits	5,454	-	5,454
Refund of contributions	1,188	-	1,188
Administrative expenses and other	1,799	114	1,913
Total deductions	62,019	11,552	73,571
Net increase	182,282	6,653	188,935
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	1,149,873	67,916	1,217,789
End of year	$ 1,332,155	$ 74,569	$ 1,406,724

See accompanying notes to basic financial statements.

STATEMENTS 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	$ 11,776	$ 3,032	$ 14,808
Employer	38,411	3,866	42,277
Total contributions	50,187	6,898	57,085
Investment income:			
Net appreciation in fair value of investments	38,521	2,197	40,718
Interest income	24,039	1,470	25,509
Dividend income	5,184	316	5,500
Net rental income	6,857	420	7,277
Less investment expense	(3,574)	(219)	(3,793)
Net investment income before securities lending income	71,027	4,184	75,211
Securities lending income:			
Earnings	1,543	94	1,637
Rebates	(1,289)	(79)	(1,368)
Fees	(102)	(6)	(108)
Net securities lending income	152	9	161
Net investment income	71,179	4,193	75,372
Total additions	121,366	11,091	132,457
DEDUCTIONS:			
Retirement benefits	46,814	-	46,814
Healthcare insurance premiums	-	9,191	9,191
Death benefits	4,752	-	4,752
Refund of contributions	714	-	714
Administrative expenses and other	1,532	99	1,631
Total deductions	53,812	9,290	63,102
Net increase	67,554	1,801	69,355
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	1,082,319	66,115	1,148,434
End of year	$ 1,149,873	$ 67,916	$ 1,217,789

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 Federated City Employees' Retirement System (System) 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 System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended February 15, 2004, to provide retirement benefits for certain employees of the City of San José (City). The System 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 System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire sworn employees, amounted to approximately $311,395,000 and $290,832,000 for 2004 and 2003, respectively. Covered payroll amounted to approximately $288,136,000 and $278,498,000 for 2004 and 2003, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2004 and 2003, employee membership data related to the System was as follows:

	2004	2003
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	2,332	2,211
Terminated vested members not yet receiving benefits	443	378
Active members	4,307	4,494
Total	7,082	7,083
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,711	1,621
Terminated vested members not yet receiving benefits	62	51
Active members	4,307	4,494
Total	6,080	6,166

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

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

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(b) ***Pension Benefits***

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment before completing five years of service, the right to receive their portion of the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, the member may leave contributions in the System with less than five years of service.

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

(c) ***Death Benefits***

If an employee's death before retirement is service related, or is non-service related (employee has at least five years of service), a surviving spouse is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal benefit such that no one child shall receive more than 25% of the spousal benefit and the sum for all eligible children shall not exceed 75% of the spousal benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

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

(d) ***Disability Benefits***

If an employee suffers a service related disability before retirement, the annual disability benefit paid is 40% of final average salary. The maximum benefit is 75% of final average salary. For members with more than 16 years of service, the monthly retirement allowance is the final average salary multiplied by 40% plus the final average salary multiplied by 2.5% for each year over 16.

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

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

If an employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

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

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The System is reported in a pension trust fund in the City of San José basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

The financial statements of the System 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 GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the disclosed amount of additions and deductions during the reporting periods. Actual results could differ from those estimates.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) ***Investments***

The City of San Jose Municipal Code Sesction 3.28.355 delegates authority to the Board of Administration to invest and reinvest the monies of the System as provided in Section 3.28.350. The Board has adopted detailed investment guidelines consistent with conditions and restrictions set forth in Section 3.28.350.

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 System 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 $1,406,724 and $1,217,789, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Total Defined Benefit Pension Plan	Post-employment Healthcare Plan	Total
June 30, 2004:					
Employee contributions	$ 174,969	$ 47,825	$ 222,794	$ 15,250	$ 238,044
Employer contributions	286,627	119,646	406,273	24,982	431,255
Retired employees' annuity	331,349	109,716	441,065	28,880	469,945
Benefits payable	104,077	-	104,077	-	104,077
Supplemental retiree benefits	14,567	-	14,567	-	14,567
Contingency reserve	12,088	-	12,088	1,053	13,141
Unrealized gains (loss) on investments held	57,970	50,322	108,292	4,404	112,696
General reserve	-	22,999	22,999	-	22,999
Total	$ 981,647	$ 350,508	$ 1,332,155	$ 74,569	$ 1,406,724
June 30, 2003:					
Employee contributions	$ 154,977	$ 47,279	$ 202,256	$ 14,186	$ 216,442
Employer contributions	291,619	124,640	416,259	26,694	442,953
Retired employees' annuity	330,713	97,022	427,735	30,272	458,007
Benefits payable	95,180	-	95,180	-	95,180
Supplemental retiree benefits	15,140	-	15,140	-	15,140
Contingency reserve	(19,723)	-	(19,723)	(1,805)	(21,528)
Unrealized gains (loss) on investments held	(17,910)	21,033	3,123	(1,431)	1,692
General reserve	-	9,903	9,903	-	9,903
Total	$ 849,996	$ 299,877	$ 1,149,873	$ 67,916	$ 1,217,789

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The System's reserves are established from member and employer contributions and the accumulation of investment income, after satisfying investment and administrative expenses. The System's reserves are as follows:

Employee Contributions Reserves represent the total accumulated employee contributions of current active and deferred members plus credited interest.

Employer Contributions Reserves represent the total accumulated employer contributions of current active and deferred members plus credited interest.

Retired Employees' Annuity Reserves represent the total accumulated transfers from the Employee Contributions Reserve, Employer Contributions Reserve and credited interest.

Benefit Payable Reserves (for the Retirement Fund only) represent 90% of total accumulated excess earnings plus credited interest.

Supplemental Retiree Benefits Reserves (for the Retirement Fund only) represent 10% of total accumulated excess earnings plus credited interest.

Contingency Reserves (for the Retirement Fund and Postemployment Healthcare Plan only) represent reserves accumulated for future earnings deficiencies.

Interest Crediting - Interest is credited from the Contingency Reserves to the other reserve accounts (except for the Unrealized Gains (Losses) on Investments Held Reserves and the General Reserves) based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 3.0% during both fiscal years 2004 and 2003.

Excess Earnings - Within 90 days of completion of the annual audit of the System's financial statements, any excess earnings as defined by the San José Municipal Code remaining in the Contingency Reserves are to be transferred 90% to the benefit payable and 10% to the supplemental retiree benefits categories of net assets. For fiscal years 2004 and 2003 there were no "excess earnings".

Unrealized Gains (Losses) on Investment Held Reserves represent unrealized gains and losses recognized in the financial statement as a result of GASB Statement No. 25, which requires reporting investments at fair value instead of cost. These reserves are a function of changes in the market value of plan assets.

General Reserves (for the Cost-of-Living Fund only) represent net earnings resulting from interest earnings, realized investment gains and losses.

Interest Crediting - Interest is credited from the Contingency Reserves to the other reserve accounts (except for the Contingency Reserves and the Unrealized Gains (Losses) on Investments Held Reserves) based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 3.0% during both fiscal years 2004 and 2003.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) ***Reclassifications***

Certain amounts in 2003 have been reclassified to conform to the 2004 presentation.

NOTE 3 – INVESTMENTS

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

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

NOTE 3 – INVESTMENTS (Continued)

The categorization of the System's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 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	$ 80,773	$ 15,016
Loaned securities for non-cash collateral	-	9,665
U.S. government securities	179,637	147,293
Foreign government bonds	91,788	89,494
Domestic corporate bonds:		
Not on securities loan	28,283	99,897
Loaned securities for non-cash collateral	4,411	-
Foreign corporate bonds	9,807	12,096
Domestic equity securities	578,333	471,236
Foreign equity securities:		
Not on securities loan	216,265	153,875
Loaned securities for non-cash collateral	2,005	-
State and local obligations	783	1,909
Uncategorized:		
Investments held by broker-dealers under securities loans for cash collateral:		
U.S. Treasury notes and bonds	-	25,397
U.S. government securities	-	3,291
Foreign government bonds	2,535	5,568
Domestic corporate bonds	89,024	18,009
Foreign corporate bonds	1,010	-
Domestic equity securities	32,598	55,877
Foreign equity securities	-	9,158
Short-term foreign currency investments	510	681
Collective short-term investment fund	47,737	11,075
Real estate investments	59,209	87,312
Securities lending collateral investment pool	132,352	121,693
Total investments	$ 1,557,060	$ 1,338,542

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 System's funds. It is invested by the System Custodian, and held in the System Custodian's name. This fund consists of:

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

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

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

Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that may be pledged or sold without a default by the borrower. 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 System 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 notes and bonds, U.S. government securities, foreign government bonds, domestic corporate bonds, foreign corporate bonds, domestic equity securities, and foreign equity securities. In return, the System receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment.

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

NOTE 3 – INVESTMENTS (Continued)

As of June 30, 2004, the underlying securities loaned by the System as a whole amounted to approximately $131,583,000. The cash collateral and the non-cash collateral totaled $132,352,000 and $6,709,000, respectively. As of June 30, 2003, the underlying securities loaned by the System as a whole amounted to approximately $126,965,000. The cash collateral and the non-cash collateral totaled $121,693,000 and $10,024,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2004 and 2003.

Real Estate investments include a warehouse located in Northern California, and an interest in three real estate funds managed by third parties.

The System has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2004 and 2003, the System'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 System'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 $48,733,000 and $48,733,000, respectively, with market values of $49,310,000 and 48,800,000, respectively. As of June 30, 2003, total commitments in forward currency contracts to purchase and sell foreign currencies were $55,202,000 and $55,202,000, respectively, with market values of $55,326,000 and $56,007,000, respectively. The System's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 15 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 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
6/23/02 – 6/30/04	13.82%	1.38%	4.04%	1.04%

NOTE 5 – CONCENTRATIONS

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

NOTE 6 – ACTUARIAL VALUATION

The System completed a new actuarial valuation dated June 30, 2003 and the rates were adopted effective July 4, 2004. The new rates increase the contribution from the City from 15.20% to 17.12% and for the employees the rate increases from 5.08% to 6.06%. Funding status of the Plan was reduced from 99% to 98%.

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

Actuarial valuation date	Actuarial value of assets [(a)]	Actuarial accrued liability (AAL)	Unfunded AAL	Funded ratio	Annual covered payroll [(b)]	Unfunded AAL as a percentage of annual covered payroll
June 30, 1995	$ 566,102	$ 658,175	$ 92,073	86%	$ 153,918	60%
June 30, 1997	678,954	735,772	56,818	92%	176,284	32%
June 30, 1999	804,860	862,226	57,366	93%	196,178	29%
June 30, 2001	1,060,144	1,072,333	12,189	99%	252,696	5%

Actuarial valuations have been performed biennially through June 30, 2001.

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

(b) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent 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	$ 30,139	100%
2000	34,146	100%
2001	35,284	100%
2002	41,011	100%
2003	38,411	100%
2004	39,534	100%

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	19 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8.25% per annum
Postretirement mortality	The 1983 Group Annuity Mortality Table for males, with one-year setback is used for male members. The 1983 Group Annuity Mortality Table for females, with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Tables based on current experience
Salary increases	Total System payroll is assumed to increase 4.5% per year. Graded increases ranging from 8.00% at age 25 to 5.0% at ages 65 and over. Of the total salary increases 4.50% is for inflation and merit and longevity.
Cost-of-living adjustments	3.0% a year

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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	$ 274	$ 105	$ 379
Employer contributions	918	278	1,196
Brokers and others	116,598	38,565	155,163
Accrued investment income	4,589	1,518	6,107
Total receivables	122,379	40,466	162,845
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	56,365	20,134	76,499
U.S. government securities	125,354	44,777	170,131
Foreign government bonds	65,821	23,511	89,332
Domestic corporate bonds	84,937	30,340	115,277
Foreign corporate bonds	7,549	2,696	10,245
Domestic equity securities	426,320	152,282	578,602
Foreign equity securities	152,313	54,407	206,720
State and local obligations	547	195	742
Short-term foreign currency investments	356	127	483
Collective short-term investment funds	32,873	12,366	45,239
Real estate	42,095	13,923	56,018
Securities lending collateral investment pool	94,094	31,123	125,217
Total investments	1,088,624	385,881	1,474,505
Total assets	1,211,003	426,347	1,637,350
LIABILITIES:			
Payable to brokers	134,127	44,365	178,492
Securities lending collateral due to borrowers	94,094	31,123	125,217
Other liabilities	1,135	351	1,486
Total liabilities	229,356	75,839	305,195
Net assets held in trust for pension benefits	$ 981,647	$ 350,508	$ 1,332,155

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	$ 8,959	$ 3,435	$ 12,394
Employer	30,126	9,408	39,534
Total contributions	39,085	12,843	51,928
Investment income:			
Net appreciation in fair value of investments	119,884	43,800	163,684
Interest income	15,873	5,241	21,114
Dividend income	4,428	1,461	5,889
Net rental income	4,447	1,462	5,909
Less investment expense	(3,360)	(1,079)	(4,439)
Net investment income before securities lending income	141,272	50,885	192,157
Securities lending income:			
Earnings	1,288	424	1,712
Rebates	(1,018)	(335)	(1,353)
Fees	(108)	(35)	(143)
Net securities lending income	162	54	216
Net investment income	141,434	50,939	192,373
Total additions	180,519	63,782	244,301
DEDUCTIONS:			
Retirement benefits	41,061	12,517	53,578
Death benefits	5,454	-	5,454
Refund of contributions	928	260	1,188
Administrative expenses and other	1,425	374	1,799
Total deductions	48,868	13,151	62,019
Net increase	131,651	50,631	182,282
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	849,996	299,877	1,149,873
End of year	$ 981,647	$ 350,508	$ 1,332,155

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

	2004			2003
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services:				
Permanent staff expense	$ 1,200,186	$ 1,128,051	$ 72,135	$ 1,054,524
Temporary staff expense	11,000	7,481	3,519	-
Total personnel services	1,211,186	1,135,532	75,654	1,054,524
Professional services:				
Actuarial services	56,000	40,552	15,448	20,578
Medical services	108,500	29,877	78,623	30,994
Audit	35,000	23,911	11,089	23,527
Legal counsel	25,000	6,051	18,949	8,805
Business processes and procedures	-	-	-	94,961
Pension benefit information	2,000	1,749	251	1,556
Investment manager search consultant	35,000	21,057	13,943	-
Human resources consultant	65,000	36,500	28,500	-
Document imaging and support and maintenance	157,000	139,750	17,250	-
Web development and maintenance	70,000	55,482	14,518	2,050
Total professional services	553,500	354,929	198,571	182,471
Communication:				
Postage	14,000	18,434	(4,434)	14,504
Printing	20,000	20,000	-	19,506
Communication	8,000	5,505	2,495	6,677
Data processing	8,000	5,950	2,050	5,632
Total communication	50,000	49,889	111	46,319
Structure and equipment:				
Copier lease	8,000	4,694	3,306	6,475
Copier maintenance	1,000	459	541	615
Furniture	3,000	1,224	1,776	534
Equipment	5,000	5,876	(876)	2,349
Equipment repair and miscellaneous services	4,800	1,577	3,223	1,413
Pension administration system maintenance	29,246	32,202	(2,956)	27,853
Software enhancements	90,000	72,032	17,968	20,925
Computer hardware/software	27,000	9,133	17,867	18,339
Total structure and equipment	168,046	127,197	40,849	78,503
Miscellaneous:				
Office expense	10,000	9,530	470	7,938
Dues/subscriptions	6,300	6,681	(381)	2,425
Training	75,000	60,813	14,187	59,519
Travel	88,000	27,814	60,186	55,067
Non-employee Board member stipend	3,300	2,550	750	600
Rent on building	140,000	137,842	2,158	130,360
Payroll tax expense	-	-	-	13,271
Total miscellaneous	322,600	245,230	77,370	269,180
Total administrative expenses and other	$ 2,305,332	$ 1,912,777	$ 392,555	$ 1,630,997

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

	2004	2003
Equity:		
Domestic equity	$ 1,330,224	$ 1,080,527
International equity	1,085,672	570,151
Total equity	2,415,896	1,650,678
Fixed income:		
Domestic fixed income	759,838	678,187
Global fixed income	318,272	295,132
Total fixed income	1,078,110	973,319
Real estate	786,783	831,991
Total investment managers' fees	4,280,789	3,455,988
Other investment service fees:		
Investment consultant	142,238	97,098
Proxy voting	8,550	6,870
Real estate legal fees	68,854	110,873
Custodian	199,630	122,207
Total other investment service fees	419,272	337,048
TOTAL INVESTMENT EXPENSES	$ 4,700,061	$ 3,793,036

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

Firm	Nature of Service	2004	2003
Courtland Partners	Investment Manager Search Consultant	$ 21,057	$ -
CPS Human Resources	Human Resource Consultant	23,000	-
Levi, Ray & Shoup	Web Development, Maintenance and Hosting	55,482	2,050
Levi, Ray & Shoup	Document Imaging & Support and Maintenance	139,750	-
Macias Gini & Company	External Auditors	23,911	23,527
Maximus	Human Resource Consultant	13,500	-
Medical Director/Other Medical	Medical Consultant	29,877	30,994
Mercer Human Resources	Operations Review Project	-	94,961
Pension Benefit Information	Reports on Beneficiary Deaths	1,749	1,556
Saltzman & Johnson	Legal Counsel	6,051	8,805
Gabriel, Roeder, Smith & Company	Actuarial Consultant	40,552	20,578
Total		$ 354,929	$ 182,471

III.
INVESTMENT SECTION

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REPORT ON INVESTMENT ACTIVITY

THE BANK OF NEW YORK

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

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

September 9, 2004

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

Dear Mr. Overton:

This letter reviews the investment activity of the Federated City Employees' Retirement System of San Jose during the fiscal year ended June 30, 2004 for the Comprehensive Annual Financial Report. The System had a total return of 16.62% during this period, boosted by a sharp rally in the equities markets. The returns from small capitalization and international stocks were particularly favorable. In contrast, the domestic bond market had a relatively choppy year and provided only a small return.

Background

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

Quarterly performance reports are provided by The Bank of New York, the System's custodian, based on plan accounting data. The Bank of New York adheres to the CFA Institute's performance presentation standards and also assists the Board in a consultative capacity in monitoring the performance of the investment managers.

The Capital Markets and the Economy

The stock market had a significant rebound during the fiscal year. The total return of the Russell 1000, which is comprised of large and mid capitalization stocks, was 19.47%, compared to 0.95% during the prior fiscal year. Many corporations reported substantially improved earnings, while many others moved from reporting losses to reporting positive earnings. Some of the best performing stocks were relatively low-quality companies that had experienced

REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

dramatic price declines and critical financial distress in recent years. Small capitalization stocks dramatically outperformed large capitalization stocks, as the total return of the Russell 2000 was 33.37%, compared to –1.64% in the prior fiscal year. Value stocks outperformed growth stocks, but the difference in performance was not as substantial as in prior years. Although the stock market rally was a welcome relief to many investors, it was not enough to overcome the damage experienced during the bear market. As of June 30, 2004, the total return of the Russell 1000 was –0.32% on a 3-year basis and –1.65% on a 5-year basis. (Returns for all periods greater than one year are annualized in this discussion.)

While the bond market rewarded investors when the stock market was retrenching, it provided only a small return during the fiscal year ending June 30, 2004. The total return of the Lehman Brothers Aggregate bond index was 0.33% during the fiscal year. On a somewhat longer comparison, however, bonds still outperformed stocks. As of the fiscal year-end, the total return of the Lehman Brothers Aggregate bond index was 6.36% on a 3-year basis and 6.95% on a 5-year basis. On yet a longer-term comparison, stocks outperformed bonds. The total return of the Russell 1000 for the 10 years ending June 30, 2004 was 11.83%, compared to 7.39% for the Lehman Brothers Aggregate bond index.

Shortly before the start of the System's fiscal year, the Federal Reserve lowered the federal funds rate to 1.00% to help provide staying power for the economic expansion. In July 2003, intermediate and long-term interest rates rose, and bond prices retreated as market participants became concerned that the economy was gathering upward momentum, that inflation would begin to accelerate, and that the Federal Reserve would have to reverse its accommodative policy. As the year progressed, it became evident that the Federal Reserve was acutely aware of the persistent slack in the labor market and wanted to be careful not to take actions could lead to a premature demise of the economic expansion. After the rout at the beginning of the fiscal year, the bond market rallied for several months, only to be spooked once again after payroll employment showed a few respectable increases. As payroll employment growth then seemed to falter in ensuing months, the bond market rallied once again. This backing and filling in the market made it a difficult year for many active fixed income managers. The yield on the 10-year US Treasury note was 4.58% at year-end, compared to 3.51% a year earlier. At the very end of the fiscal year, the Federal Reserve raised the federal funds rate to 1.25%. Bond market participants were convinced that more increases would be forthcoming, but opinions varied as to how quickly the Fed would act to reverse its accommodative policy, particularly since signs were evident that economic growth was slowing.

Real GDP rose 4.7% during the fiscal year ending June 30, 2004, compared to 2.3% in the prior year. Although real growth accelerated, the pace of the expansion trailed other post-recession periods. Despite a lack of success in net job creation, the cumulative effects of low interest rates combined with tax cuts helped boost economic growth. Auto sales continued to be supported by low or zero-percent financing, while many homeowners refinanced their mortgages and thereby improved their cash flows. The unemployment rate at the end of the fiscal year was 5.6%. Inflation remained relatively low, as the consumer price index rose 3.3% during the fiscal year. The increase was 1.9% excluding food and energy.

REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

In terms of other asset classes, US investors in foreign securities were helped by the depreciation of the dollar. The total return of EAFE during the fiscal year was 22.73% in local currency terms, relatively close to the return of the Russell 1000, while the return in US dollar terms was 32.37%. The total return of the Citigroup World Government Non-US$ bond index was 0.12% in local currency terms, close to the return of the Lehman Brothers Aggregate bond index, and 7.59% in US dollar terms.

Investment Results

The Federated City Employees' Retirement System of San Jose has had relatively favorable performance during a volatile period in the capital markets. As of June 30, 2004, the total return of the system was 16.62% on a 1-year basis, 7.12% on a 3-year basis, and 5.70% on a 5-year basis. Although the 3- and 5-year returns are less than the actuarial assumed rate of 8.25%, the performance is relatively favorable in view of the significant bear market for equities during this period.

Peer group comparisons are a useful means of assessing a fund's performance relative to the experience of other institutional investors. The Bank of New York participates in the Trust Universe Comparison Service (TUCS), whose members are among the largest custody banks in the United States. The TUCS universe consists of many large institutional funds. On a 1-year basis, the total return of the System ranked in the second quartile of all master trusts and public funds in the TUCS universe. (The first quartile is the top 25% of all funds; the second quartile is the next 25%, etc.) On a 3- and 5-year basis, the total return of the System ranked in the first quartile of all master trusts and public funds. Moreover, the System's risk profile, in terms of the volatility of returns, was relatively low. These are favorable results in a difficult period for the capital markets.

As one aspect of the System's diversification, it has active managers as well as a significant portion of its assets in a Russell 3000 index fund, which encompasses large, mid, and small capitalization stocks. In terms of its active managers, growth and value styles are represented for large and small capitalization stocks. The large cap growth manager slightly underperformed its benchmark during the fiscal year but outperformed the benchmark on a 3-year basis. The manager achieved second quartile performance during these periods. This manager and many other active managers had some difficulty keeping up with the benchmark during the fiscal year since some of the best performing stocks are relatively low quality by most measures. This manager, however, emphasizes high quality stocks, which it believes will provide favorable returns with relatively less risk over long periods. The large cap value manager was terminated and replaced by another manager towards the end of the fiscal year. A portion of the system's assets was also placed in an all-cap growth fund during the year. The small cap growth manager, which employs a GARP (growth-at-a-reasonable-price) strategy, continued to have favorable performance. The manager outperformed its benchmark and achieved first quartile performance for the last year and the last three years. The small cap value manager, which invests in a large number of stocks with relatively low price/earnings ratios, was just slightly behind the benchmark during the past year but was ahead of the benchmark during the past three years. The manager's performance was second quartile on a one-year basis and first quartile on a three-year basis.

REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

The performance of the two international equity managers was mixed. The firm that has managed assets for the System for the longer period trailed the benchmark and had fourth-quartile performance for the last one and three years. In contrast, the firm that has been managing assets for the System for the shorter period substantially outperformed its benchmark and ranked in the first quartile. The domestic fixed income managers had favorable results. Both managers outperformed the benchmark and achieved second quartile performance. The returns of the international fixed income manager during the last one and three years were slightly below the benchmark. The manager's peer group ranking was slightly above the median on a one-year basis and slightly below the median on a three-year basis. The System's real estate portfolio has provided steady returns during a volatile period for equities and provided an important buffer for performance, with returns above those provided by the domestic bond market on a one- and a three-year basis.

During the last several years, the System weathered a bear market for equities with relatively favorable performance, yet fully participated in the rally that followed. It methodically reviews the performance of its managers to try to assure that goals are met over reasonable periods and has a broadly diversified structure designed to capture returns in various asset classes in the years ahead.

Yours truly,

Bernard Schoenfeld

Bernard Schoenfeld
Vice President

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

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

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

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

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

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

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

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

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

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

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

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

INVESTMENT POLICY STATEMENT (Continued)

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

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

Asset Allocation Policy

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

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

Asset Class	Minimum	Target	Maximum
Domestic Equity	38%	43%	48%
• Large Cap Equity		34%	
• Small Cap Equity		9%	
International Equity	10%	15%	20%
Domestic Bonds	24%	29%	34%
International Bonds	4%	7%	10%
Real Estate	3%	6%	9%

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

(Procedure 620.2)
The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

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

INVESTMENT POLICY STATEMENT (Continued)

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Administrator will review the asset mix of the System on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 620.3-F. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

Risk Tolerances and Volatility

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

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

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

Re-balancing of Strategic Allocation

(Procedure 620.3-F)
The Systems's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

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

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

(2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred

INVESTMENT POLICY STATEMENT (Continued)

assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.

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

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

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

Asset Allocation Model Secondary Targets Within the Domestic Equity Class			
Portfolio Category: Form of Investment Management	As a Percentage of the Domestic Equity Portfolio	As the Equivalent Percentage of the Total Portfolio	Allowable Variation from the Percentage of Total Portfolio
Index Fund	50%	22%	+/- 4.5%
Large Cap Value	18%	7.5%	+/- 2.5%
Large Cap Growth	18%	7.5%	+/- 2.5%
Small Cap Value	7%	3.0%	+/- 1.5%
Small Cap Growth	7%	3.0%	+/- 1.5%

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

Liquidity

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

INVESTMENT POLICY STATEMENT (Continued)

Diversification

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

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

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

Supervision

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

Brokerage Policy

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

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

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

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

Soft Dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

INVESTMENT POLICY STATEMENT (Continued)

Performance Objectives

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

Total Fund Investments

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

Russell 1000	34%
Russell 2000	9%
Morgan Stanley Capital International EAFE	15%
Lehman Aggregate Bond Index	29%
Salomon Brother World Govt. Non-Dollar Bond Index	7%
NCREIF Property Index	6%

(Procedure 610.2)
Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

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

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

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

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

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

INVESTMENT POLICY STATEMENT (Continued)

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

Fixed-Income Investments

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

(1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad fixed-income manager database.

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

Domestic Equity Investments

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

(1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, NASDAQ, etc.) over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve returns that will rank in the top half of a broad database of domestic equity managers.

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

Passive Equity Investment

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

International Equity Investments

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

(1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia,

INVESTMENT POLICY STATEMENT (Continued)

Far East Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

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

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

International Fixed-Income Investments

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

(1) Achieve rates of return which exceed the Citigroup Non-US Dollar Bond Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad international fixed income manager database.

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

Real Estate Investments

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

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

INVESTMENT PROFESSIONALS

INVESTMENT MANAGERS

DOMESTIC EQUITIES:

Atlanta Capital Management
Large Cap Growth
Atlanta, GA

Brandywine Asset Management
Small Cap Value
Wilmington, DE

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

Northern Trust Quantitative Advisors
Russell 3000 Index
Chicago, IL

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

INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

The Boston Company Asset Management, LLC
Boston, MA

DOMESTIC FIXED INCOME:

Dodge & Cox
San Francisco, CA

BlackRock Financial Management
New York, NY

INTERNATIONAL FIXED INCOME:

Julius Baer
Los Angeles, CA

REAL ESTATE:

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

MIG Realty Advisors
Cleveland, OH

CIGNA Realty Investors
(Formerly TimesSquare Real Estate Investors)
Hartford, CT

CONSULTANTS

The Bank of New York
New York, NY

Strategic Investment Solutions, Inc.
San Francisco, CA

CUSTODIAN

The Bank of New York
New York, NY

PROXY VOTING

Investor Responsibility Reasearch Center
Washington, DC

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

Basis of Calculation: Time-Weighted Rate of Return

	One Year	Three Years	Five Years
TOTAL FUND	**16.6%**	**7.1%**	**5.7%**
Benchmark	15.3%	4.8%	3.5%
TUCS All Master Trust Median	15.8%	4.1%	3.8%
TUCS Public Fund Universe Median	15.8%	4.1%	3.6%
TOTAL DOMESTIC FIXED INCOME	**1.9%**	**6.5%**	**7.0%**
Lehman Brothers Aggegate Bond Index	0.3%	6.4%	7.0%
TUCS Domestic Fixed Income Median	1.1%	6.8%	7.1%
TOTAL INTERNATIONAL FIXED INCOME	**7.5%**	**13.4%**	**6.5%**
Citigroup Non-US Dollar Bond Index	7.6%	13.7%	6.8%
TUCS Unhedged Foreign Fixed Portfolio	6.9%	13.8%	6.9%
TOTAL DOMESTIC EQUITY	**22.3%**	**2.0%**	**1.1%**
S&P 500 Index	19.1%	-0.7%	-2.2%
TUCS Equity Median	21.3%	1.2%	2.0%
TOTAL INTERNATIONAL EQUITY	**31.8%**	**2.2%**	**1.3%**
EAFE Index	32.4%	3.9%	0.1%
MSCI ACWI ex-US	32.5%	5.3%	1.0%
TUCS International Equity Median	30.8%	5.5%	3.0%
TOTAL REAL ESTATE	**23.0%**	**14.9%**	**14.5%**
NCREIF Property Index	10.8%	8.0%	9.4%
TUCS Real Estate Median	10.0%	7.7%	9.0%

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

The table below details the rates of return for the System's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed. Source: The Bank of New York Investment Performance Evaluation Report June 30, 2004. Basis of Calculation: Time-Weighted Rate of Return

DOMESTIC FIXED INCOME	One Quarter	One Year	(Inception 10/2002)
BlackRock Financial Management, Inc.	**-1.8% ++**	**1.2% ++**	**4.5% +**
Lehman Brothers Aggegate Bond Index	-2.4%	0.3%	3.3%
TUCS Fixed Income Core Median	-2.1%	1.1%	N/A

	One Year	Three Years	(Inception 10/1999)
Dodge and Cox	**2.1% ++**	**7.2% ++**	**7.8% +**
Lehman Brothers Aggegate Bond Index	0.3%	6.4%	7.2%
TUCS Fixed Income Core Median	1.1%	6.8%	N/A

INTERNATIONAL FIXED INCOME	One Year	Three Years	5 Years
Julius Baer	**7.1% +**	**13.0%**	**6.1%**
Citigroup Non-US Dollar Bond Index	7.6%	13.7%	6.8%
TUCS Unhedged Foreign Fixed Portfolio	6.9%	13.8%	6.9%

DOMESTIC EQUITY			
Northern Trust (Index)	**20.4% +**	**0.1%**	**-1.1% +**
Russell 3000	20.5%	0.2%	-1.1%
TUCS Equity Median	21.3%	1.2%	2.0%
Atlanta Capital (Large Cap Growth)	**15.9%**	**-3.1% +**	**-2.2% ++**
Russell 1000 Growth	17.9%	-3.7%	-6.5%
TUCS Large Cap Growth Median	16.0%	-2.8%	-2.4%
TUCS Equity Median	21.3%	1.2%	2.0%
Eagle Asset Management (Small Cap Growth)	**33.9% +++**	**6.4% +++**	**5.1% +++**
Russell 2000 Growth	31.6%	-0.2%	-0.5%
TUCS Small Cap Growth Median	23.9%	-2.5%	3.2%
TUCS Equity Median	21.3%	1.2%	2.0%
Brandywine (Small Cap Value)	**33.7% +**	**15.0% +++**	**13.0% +++**
Russell 2000 Value	35.2%	12.2%	12.8%
TUCS Small Cap Value Universe Median	34.2%	12.6%	12.5%
TUCS Equity Median	21.3%	1.2%	2.0%

	One Year	Three Years	(Inception 08/1999)
Paradigm (Large Cap Value)	**22.6% +++**	**2.8% +**	**1.5%**
Russell 1000 Value Index	21.1%	3.0%	2.5%
TUCS Large Cap Value Median	22.6%	3.2%	N/A
TUCS Equity Median	21.3%	1.2%	N/A

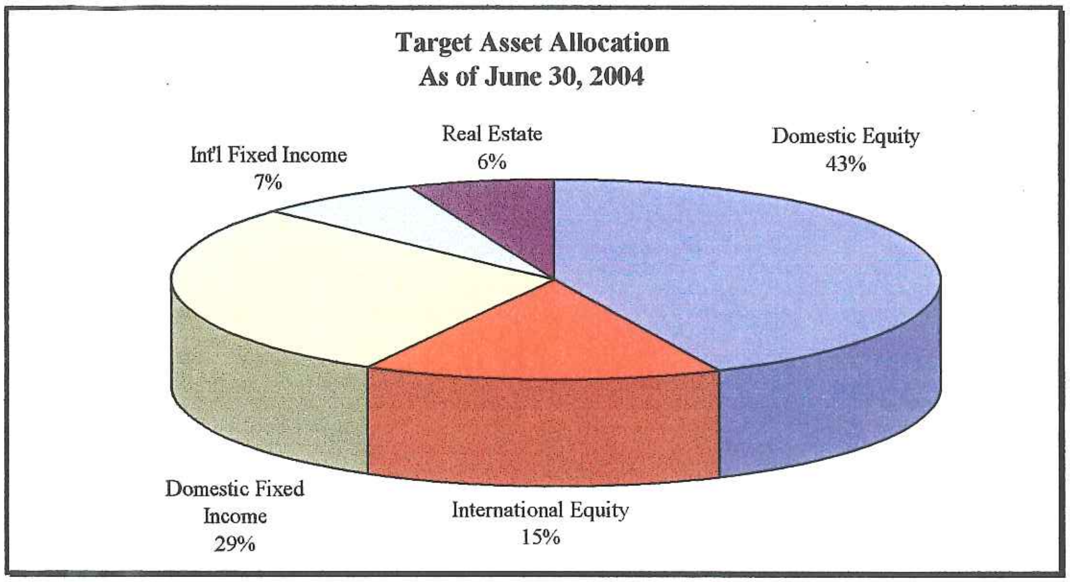
SCHEDULE OF INVESTMENT RESULTS (Continued)
Net Performance Summary by Investment Manager (Continued)

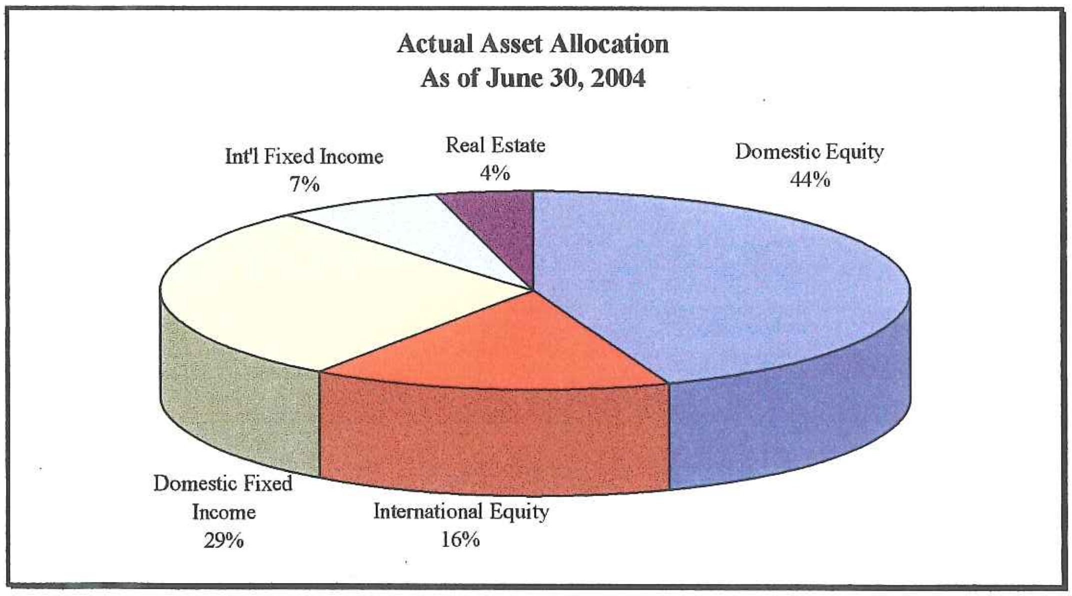
INTERNATIONAL EQUITY	One Quarter	One Year	(Inception 02/2003)
Boston Company Asset Management, LLC	**2.1%** ++	**38.5%** ++	**39.7%** +
MSCI ACWI ex-US	-0.7%	32.5%	34.9%
TUCS International Equity Median	-0.4%	30.8%	N/A

	One Year	Three Years	Five Years
Bank of Ireland Asset Management	**23.6%**	**0.3%**	**0.0%**
EAFE Index	32.4%	3.9%	0.1%
TUCS International Equity Median	30.8%	5.5%	3.0%
REAL ESTATE			
MIG Realty Advisors	**48.5%** ++	**25.6%** ++	**20.7%** ++
CIGNA (Formerly, TimesSquare)	**3.9%**	**2.6%**	**5.9%**
DRA	**4.9%**	**8.0%** ++	**9.7%** ++
NCREIF Property Index	10.8%	8.0%	9.4%
TUCS Real Estate Median	10.0%	7.7%	9.0%

	One Year	Three Years	(Inception 03/2001)
Fidelity	**13.8%** ++	**11.5%** ++	**10.9%** +
NCREIF Property Index	10.8%	8.0%	8.7%
TUCS Real Estate Median	10.0%	7.7%	N/A

ASSET ALLOCATION
Target Vs. Actual

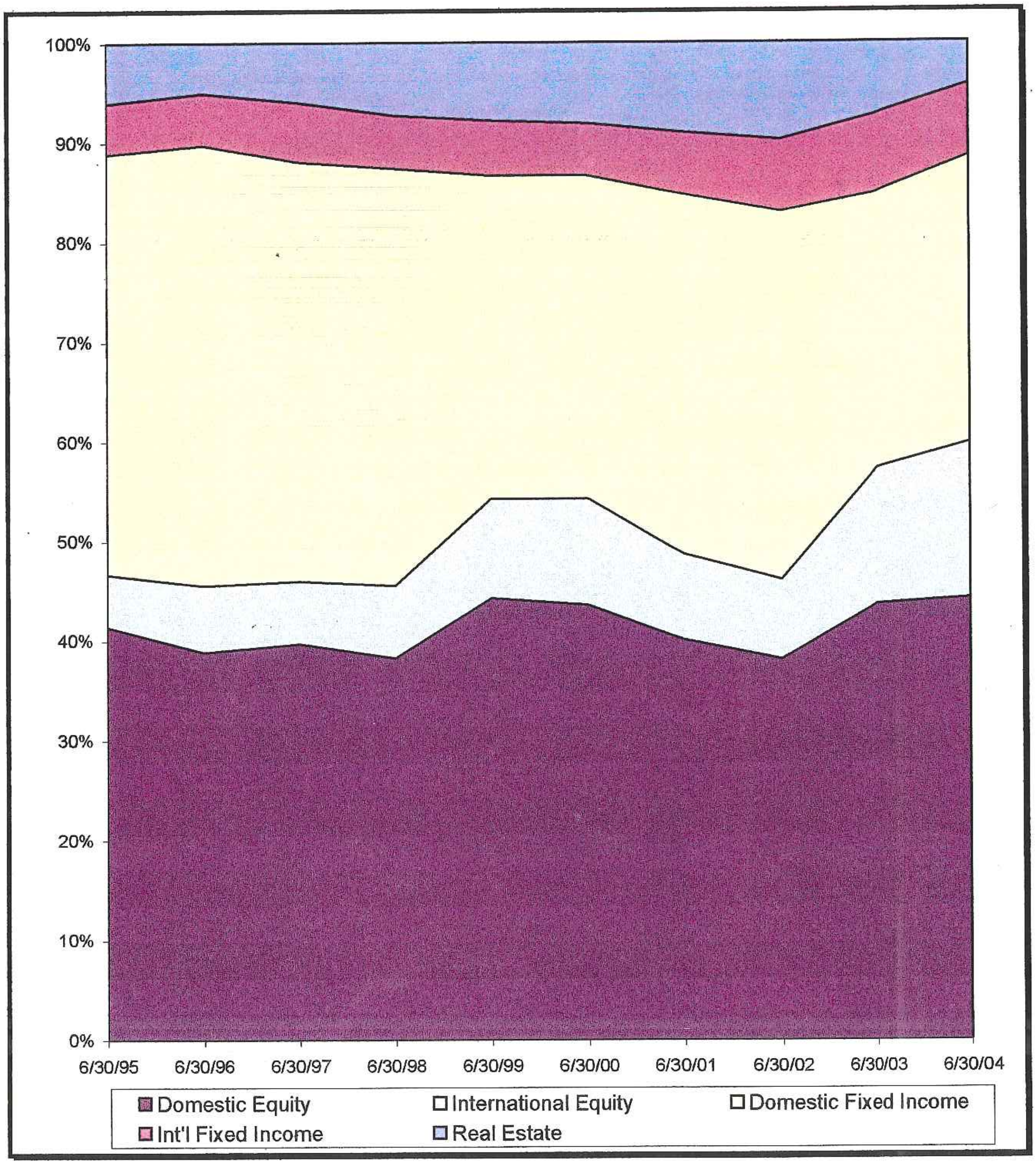




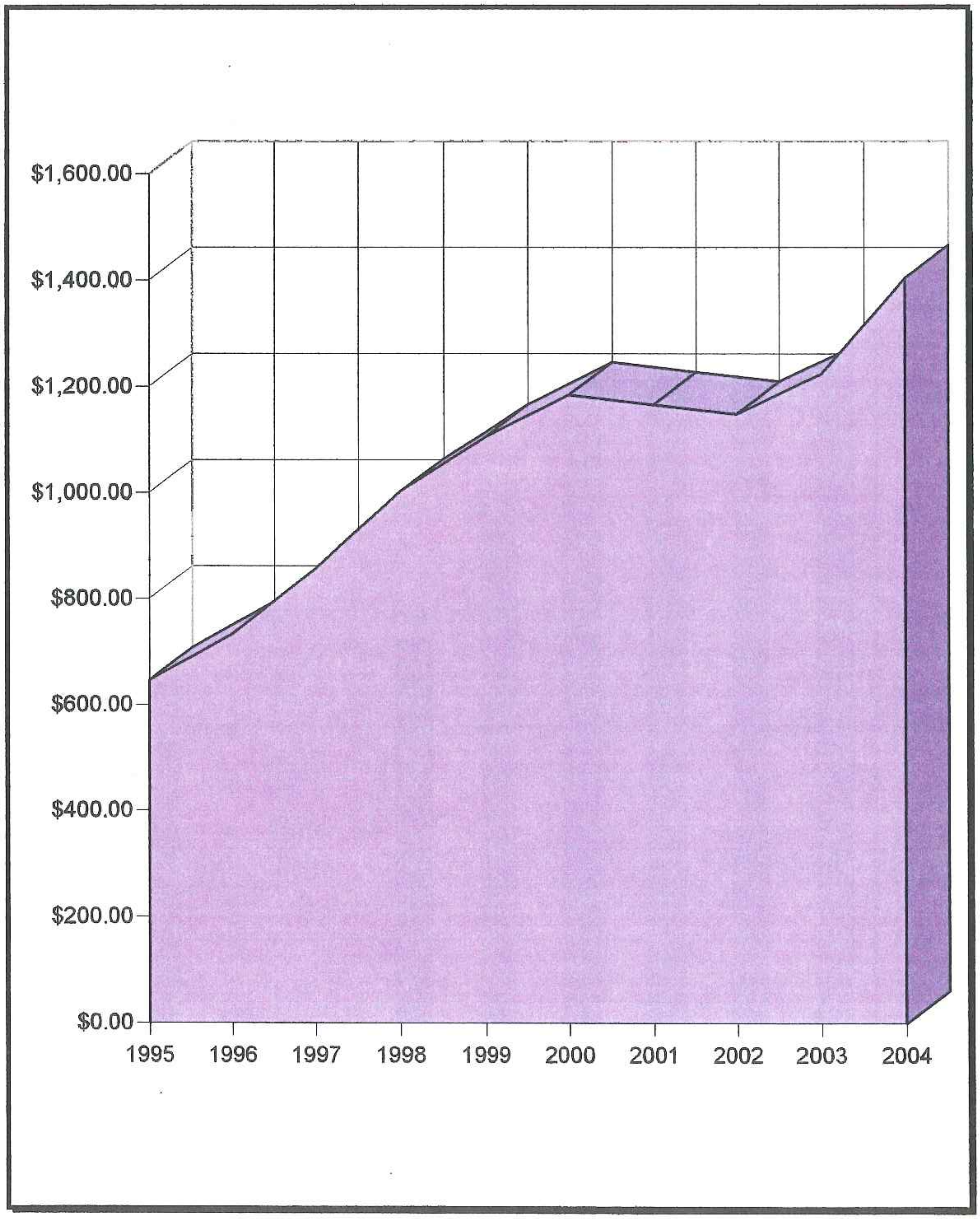
ACTUAL ASSET ALLOCATION
As of June 30, 2004 (In Millions)

Domestic Equity	$ 620.63
International Equity	219.33
Domestic Fixed Income	403.10
International Fixed Income	101.48
Real Estate	59.27
Cash	1.15
TOTAL	$ 1,404.96

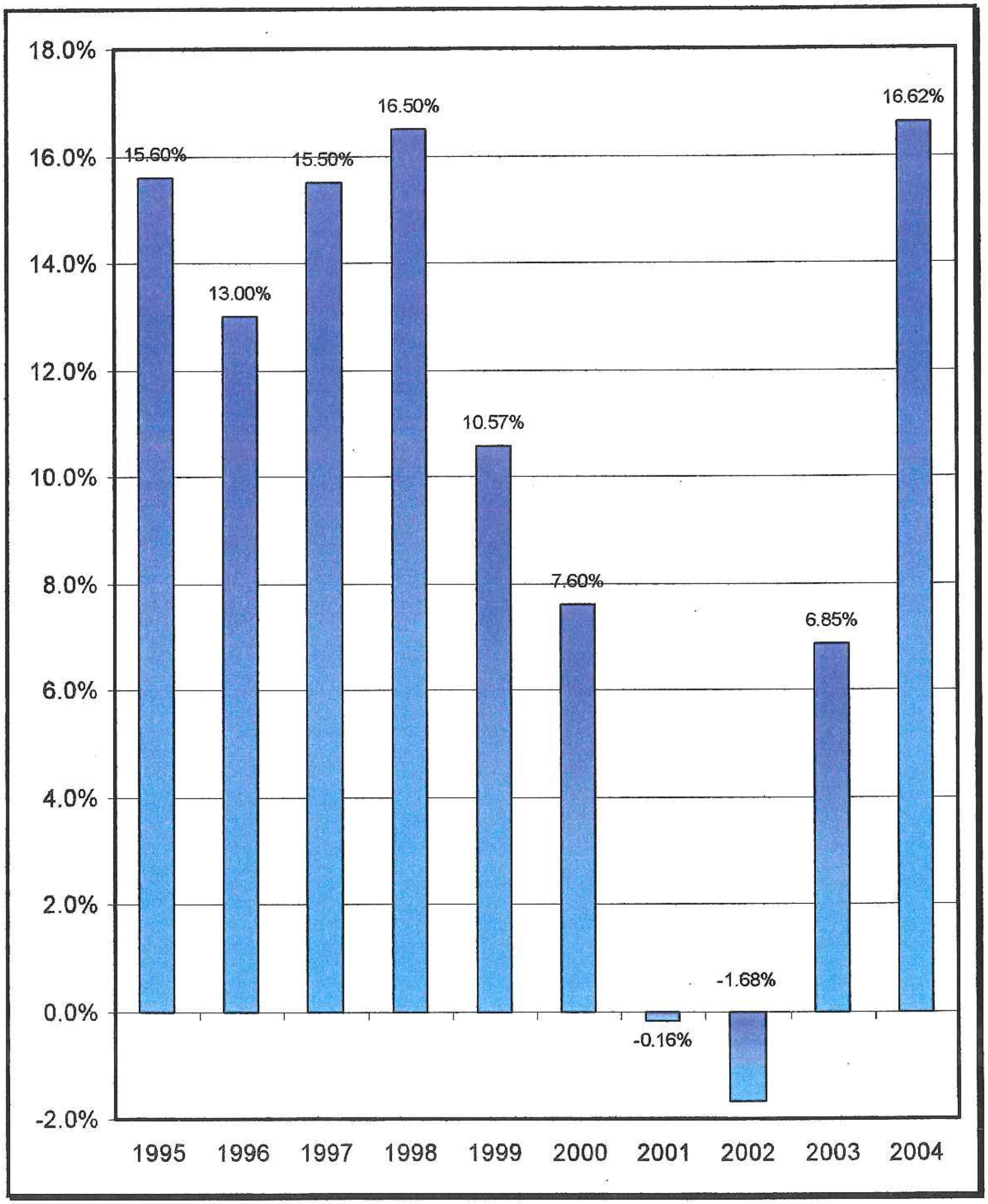
HISTORICAL ASSET ALLOCATION (Actual)
June 1995 - June 2004



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 1995 - 2004



LIST OF LARGEST ASSETS HELD

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

	Shares	Country	Description	Market Value in $USD
1)	14,345	SWITZERLAND	NESTLE SA	$ 3,826,250
2)	18,831	FRANCE	TOTAL SA	3,590,239
3)	60,900	JAPAN	CANON INCY50	3,209,376
4)	43,510	SWITZERLAND	UBS AG REGISTERED	3,066,409
5)	110,718	NETHERLANDS	ING GROEP NV CVA	2,613,370
6)	35,471	GERMANY	E ON AG NPV	2,559,229
7)	158,306	UNITED KINGDOM	HSBC HOLDINGS PLC	2,374,995
8)	442	JAPAN	NIPPON TELEGRAPH + TELEPHONE	2,361,708
9)	5,500	SOUTH KOREA	SAMSUNG ELECTRONICS	2,271,429
10)	79,400	UNITED STATES	MICROSOFT CORP COM	2,267,664

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

	Description	Country	Maturity Date	Par Value	Market Value in $USD
1)	UNITED STATES TREAS NTSDTD 00017	U.S.A	1/31/2005	19,000,000	$ 18,988,125
2)	UNITED STATES TREAS NTSDTD 00023	U.S.A	5/15/2006	11,000,000	10,869,375
3)	U S TREAS NTS	U.S.A	11/15/2007	6,000,000	5,943,750
4)	FEDERAL NAT'L MTGE ASSN POOL #545825	U.S.A	7/1/2017	16,000,000	5,026,190
5)	UNITED STATES TREAS NTS	U.S.A	2/15/2011	4,600,000	4,815,625
6)	FEDERAL NAT'L MTGE ASSN POOL #725343	U.S.A	12/1/2014	4,821,242	4,472,432
7)	FORD MTR CR CO	U.S.A	10/25/2011	4,100,000	4,281,589
8)	FEDERAL NAT'L MTGE ASSN POOL #545621	U.S.A	5/1/2017	11,570,000	4,161,582
9)	XEROX CORPSR NT	U.S.A	6/15/2010	4,000,000	4,080,000
10)	FEDERAL NAT'L MTGE ASSN POOL #771461	U.S.A	8/1/2032	4,020,189	3,947,941

A complete list of portfolio holdings is available upon request.

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

INVESTMENT FEES

	Assets Under Mgt. at Market Value *	Fees	Basis Points
Investment Managers' Fees:			
Domestic Equity Managers	$ 620,629,894	$ 1,330,224	21
International Equity Managers	219,334,330	1,085,672	49
Domestic Fixed Income Managers	403,100,347	759,838	19
International Fixed Income Managers	101,478,713	318,272	31
Real Estate Managers	59,267,336	786,783	133
Cash	1,148,522	-	N/A
Total Investment Managers' Fees	**$ 1,404,959,142**	**$ 4,280,789**	30
Other Investment Service Fees:			
Investment Consultant	N/A	$ 142,238	N/A
Proxy Voting	N/A	8,550	N/A
Custodian	N/A	199,630	N/A
Real Estate Legal Fees	N/A	68,854	N/A
Total Other Investment Service Fees		**$ 419,272**	

* Includes Cash in Managers' Accounts

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
508 SECURITIES INC.	11,300	$226.00	$0.02000
ABN AMRO EQUITIES (UK) LONDON	71,644	915.00	0.01277
ABN AMRO EQUITIES AUSTRALIA LIMITED	12,371	110.00	0.00889
ABN AMRO EUROPEAN HUB, LONDON	3,780	124.00	0.03280
ABN AMRO SECURITIES LLC	189,500	1,895.00	0.01000
ABN AMRO, LONDON (GB100072)	223,589	228.00	0.00102
B-TRADE SERVICES LLC	713,998	14,451.00	0.06999
BAIRD ROBERT W & CO INC	66,350	1,988.00	0.02996
BANC AMERICA SECUR LLC	63,625	3,181.00	0.09999
BANQUE NATIONAL DE PARIS,LDN BRANCH	13,075	221.00	0.01690
BEAR STEARNS & CO INC	141,300	7,065.00	0.10000
BEAR STEARNS SECURITIES CORP	1,400	28.00	0.02000
BNY BROKERAGE INC	6,195,066	198,624.00	0.15925
BROADCORT CAPITAL CORP-SUB OF	11,500	575.00	0.05000
CANTOR, FITZGERALD & CO., INC	186,050	8,684.00	0.14000
CAP INSTL SVCS INC-EQUITIES	128,400	4,151.00	0.07837
CAPITAL INSTITUTIONAL SVCS,INC	113,500	3,793.00	0.06402

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
CAZENOVE AND CO, LONDON	737,828	1,446.00	0.00196
CAZENOVE ASIA LTD HK	4,000	43.00	0.01075
CHARLES, SCHWAB & CO., INC	96,200	4,113.00	0.08384
CIBC WORLD MARKETS CORP	109,400	4,034.00	0.03687
CITATION GROUP CHASE NYC	23,800	1,228.00	0.05160
CITIGROUP GLOBAL MARKETS ASIA LTD	721,600	1,040.00	0.00144
CITIGROUP GLOBAL MARKETS INC	293,439	13,163.00	0.10417
CITIGROUP GLOBAL MARKETS KOREA SEC	23,570	2,020.00	0.08570
CITIGROUP GLOBAL MARKETS LTD, LDN	91,269	1,031.00	0.01130
CLSA LTD, HONG KONG	728,500	2,327.00	0.00319
COLLINS STEWART (CSCS)+CO, LONDON	3,421	10.00	0.00292
CREDIT LYONNAIS SECS LENDING,US	11,262	179.00	0.01589
CREDIT LYONNAIS SECURITIES, SEOUL	10,190	879.00	0.08626
CREDIT SUIS FST BOSTON (EUR), SEOUL	19,540	3,067.00	0.15696
CREDIT SUISSE FIRST BOSTON	789,320	8,920.00	0.10881
CREDIT SUISSE FIRST BOSTON EQUITIES	627,671	894.00	0.00142
CREDIT SUISSE FIRST BOSTON HK	13,184	683.00	0.05181
DAVIS,MENDEL & REGENSTEIN,INC	24,400	1,220.00	0.05000
DEUTSCHE BANK AG, LDN	649,720	2,162.00	0.00333
DEUTSCHE BANK AG, LONDON	302,214	1,107.00	0.06815
DEUTSCHE SECURITIES AUST LTD, SYD	8,703	29.00	0.00333
DIRECT BROKERAGE INC	20,500	615.00	0.03000
DRESDNER KLEINWORT WASSERSTEIN SEC	14,730	540.00	0.03666
EDWARDS, A.G., & SONS, INC.	60,100	3,005.00	0.05000
EMP RESEARCH PTRNS LLC	10,600	530.00	0.05000
FACTSET DATA SYSTEMS, INC.	6,900	345.00	0.05000
FIRST ALBANY CORPORATION	13,300	665.00	0.05000
FIRST ANALYSIS SECS CORP	9,700	485.00	0.05000
FRANK RUSSELL SECURITIES INC	8,400	420.00	0.05000
FRIEDMAN, BILLINGS & RAMSEY	54,472	2,538.00	0.04659
FULCRUM GLOBAL PARTNERS LLC	60,650	2,034.00	0.03354
GOLDMAN SACHS INTL BELGIUM ONLY	112,822	3,417.00	0.03029
GOLDMAN SACHS INTL LONDON	99,344	569.00	0.00573
GOLDMAN, SACHS & CO	23,400	1,170.00	0.05000
GOODBODY STOCKBROKERS/DUBLIN	2,649	92.00	0.03473
HIBERNIA SOUTHCOAST CAPITAL	45,275	1,464.00	0.03234
HSBC BANK PLC FORMER MIDLAND BK	9,574	805.00	0.08408
INSTINET CORPORATION	270,824	5,331.00	0.04973
INVESTMENT TECHNOLOGY GROUP,	346,180	6,601.00	0.03896
ISI GROUP, INC.	43,400	2,170.00	0.10000
IVY SECURITIES, INC	18,600	930.00	0.05000
J B WERE AND SON, MELBOURNE	77,144	498.00	0.00646
J P MORGAN SECURITIES INC	88,325	3,757.00	0.09049
JACKSON SECURITIES INC.	3,000	150.00	0.05000
JANNEY MONTGOMERY SCOTT INC.	18,000	848.00	0.04711
JEFFERIES & COMPANY, INC.	308,005	14,886.00	0.14537
JONES & ASSOCIATES, INC	87,002	4,174.00	0.09781
JP MORGAN CHASE BANK, LONDON	2,743	38.00	0.01385
JP MORGAN SECS AUST LTD PID 2972	49,116	263.00	0.00535

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
JP MORGAN SECS LTD, LONDON	2,459	254.00	0.10329
KEEFE BRUYETTE & WOODS INC.	43,150	1,497.00	0.03469
KNIGHT SECURITIES	157,925	6,406.00	0.13306
LABRANCHE FINC'L SVC INC/HBI	306,750	15,175.00	0.09489
LEGG MASON WOOD WALKER, INC	55,150	1,739.00	0.07000
LEHMAN BROTHERS INC, USA	231,950	11,566.00	0.14903
LEHMAN BROTHERS INTL EUROPE LDN	73,901	1,053.00	0.01425
LIQUIDNET INC	276,950	9,337.00	0.07000
LYNCH JONES & RYAN INC	74,400	3,720.00	0.15000
MAGNA SECURITIES CORPORATION	1,467,721	73,386.00	0.05000
MCDONALD INVESTMENTS INC	97,400	3,902.00	0.08434
MERRILL LYNCH AND CO, INC, NEW YORK	12,932	618.00	0.04779
MERRILL LYNCH INTERNATIONAL LTD, GB	206,342	931.00	0.00451
MERRILL LYNCH PIERCE FENNER &	232,500	10,296.00	0.13422
MERRILL LYNCH PIERCE FENNER + SMITH	195,342	1,283.00	0.00657
MERRILL LYNCH PROFESSIONAL	88,000	4,400.00	0.10000
MORGAN KEEGAN & COMPANY, INC.	20,700	1,035.00	0.05000
MORGAN STANLEY	47,823	1,524.00	0.03187
MORGAN STANLEY & CO	49,900	2,189.00	0.09000
MORGAN STANLEY AND CO INTL LTD,LDN	69,575	1,027.00	0.01476
MORGAN STANLEY AND CO.	45,013	707.00	0.01571
MORGAN STANLEY CO INC NEW YORK	360,800	1,101.00	0.00305
NATL FINANCIAL SERVICES CORP	28,600	440.00	0.04000
NEEDHAM & CO	35,725	1,786.00	0.04999
NESBITT BURNS INC/TORONTO	1,177	106.00	0.09006
NOMURA INTERNATIONAL PLC LONDON	18,440	1,168.00	0.06334
PACIFIC AMERICAN SECURITIES	19,500	780.00	0.04000
PERSHING & COMPANY	19,900	995.00	0.05000
PRINCETON SECURITIES	93,900	2,817.00	0.03000
PRUDENTIAL EQUITY GROUP	30,777	1,539.00	0.10001
PULSE TRADING LLC	5,900	295.00	0.05000
RAYMOND, JAMES & ASSOC., INC.	5,600	280.00	0.05000
RBC DOMINION SECURITIES TORONTO	3,594	320.00	0.08904
ROBBINS AND HENDERSON LLC	3,700	74.00	0.02000
ROTH CAPITAL PARTNERS, LLC	51,450	1,852.00	0.03600
SALOMON BROTHERS INC,NY	35,692	1,553.00	0.04351
SANDLER O'NEILL & PARTNERS LP	1,600	80.00	0.05000
SANFORD C BERNSTEIN & CO.,LLC	32,100	1,605.00	0.05000
SANFORD C. BERNSTEIN LONDON	75,564	753.00	0.00997
SBK-BROOKS INVESTMENT CORP	20,600	1,030.00	0.05000
SCOTT & STRINGFELLOW, INC	12,800	640.00	0.05000
SG COWEN SECURITIES CORP	151,200	1,000.00	0.00661
SIDOTI & CO, LLC	3,100	155.00	0.05000
SOUTHWEST SECURITIES, INC.	82,150	4,107.00	0.04999
STANDARD & POOR'S SECS INC	2,600	130.00	0.05000
STERNE AGEE & LEACH INC	15,500	775.00	0.05000
SUNTRUST CAPITAL MARKETS, INC	159,950	7,456.00	0.08798
THE WILLIAMS CAPITAL GROUP LP	50,300	2,515.00	0.05000
U.S. BANCORP PIPER JAFFRAY INC	9,700	485.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
UBS AG (LONDON BRANCH)	1,889	80.00	0.04235
UBS AG LONDON EQUITIES	528,380	1,554.00	0.00294
UBS BUNTING WARBURG INC, TORONTO	1,818	122.00	0.06711
UBS SECURITIES ASIA LTD	340,300	1,142.00	0.00336
UBS SECURITIES LLC	35,700	1,785.00	0.05000
UBS WARBURG LLC	900	41.00	0.04556
UBS WARBURG SECURITIES LTD, SEOUL	8,870	4,556.00	0.51364
VERITAS SECURITIES	130,875	4,700.00	0.08001
WACHOVIA SECS CAPITAL MARKET	158,600	7,357.00	0.09036
WAVE SECURITIES LLC	85,626	1,712.00	0.03998
WEDBUSH MORGAN SECURITIES,INC.	20,800	624.00	0.03000
WEEDEN & CO	68,900	3,347.00	0.09459
WESTMINSTER RESEARCH	20,200	1,010.00	0.05000
WEXFORD CLEARING SERVICES CRP	37,200	1,186.00	0.07854
WILSHIRE ASSOCIATES INCORP	22,300	1,338.00	0.06000
TOTAL	21,850,594	$572,630.00	$0.026207

INVESTMENT SUMMARY
For Fiscal Year Ended June 30, 2004

TYPE OF INVESTMENT	MARKET VALUE		% OF PORTFOLIO
EQUITIES			
Consumer Non-Durables	$	39,761,969	2.83%
Consumer Durables		7,502,625	0.53%
Materials & Services		61,239,881	4.36%
Capital Goods & Services		8,499,855	0.60%
Technology		33,909,658	2.41%
Energy		13,483,506	0.96%
Transportation		3,245,562	0.23%
Utilities		7,715,767	0.55%
Financial		34,329,062	2.44%
Miscellaneous		22,699	0.00%
Commingled		401,220,681	28.56%
Foreign Equities		218,270,377	15.54%
TOTAL EQUITIES	**$**	**829,201,641**	**59.02%**
FIXED INCOME			
US Treasury	$	80,772,807	5.75%
US Government Agency		179,636,348	12.79%
Domestic Corporate Bonds		121,718,346	8.66%
State and Local Obligations		783,473	0.06%
Foreign Government		94,324,155	6.71%
Foreign Corporate		10,817,484	0.77%
TOTAL FIXED INCOME	**$**	**488,052,613**	**34.74%**
OTHER INVESTMENTS			
Short Term	$	48,053,694	3.42%
Real Estate		59,209,287	4.21%
TOTAL OTHER INVESTMENTS	**$**	**107,262,981**	**7.63%**
PENDINGS	**$**	**(19,558,093)**	**-1.39%**
TOTAL	**$**	**1,404,959,142**	**100.00%**

INVESTMENT PROPERTY

Milpitas Warehouse
145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police and Fire Department Retirement Plan in February 1986. The System purchased Police & Fire Retirement Plan's 50% interest in the property in November 2003.

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IV.
ACTUARIAL SECTION

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ACTUARY CERTIFICATION LETTER

GRS

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • 916-774-7580 • fax 916-774-7581

September 26, 2003

Board of Administration
City of San Jose - Federated City Employees' Retirement System
1737 N First St
Suite 580
San Jose CA 95112-4505

Re: Actuarial Valuation Certification

Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 2001, reveals that the assets of the Federated Retirement System along with future contributions at the level recommended in that report will fully support the benefits of the System. This conclusion is based on financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

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

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

ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration -2-

The Funding Objective of the Plan

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

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

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

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2001.

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

Computer files containing data on System membership of June 30, 2001 were provided by the City of San Jose Department of Retirement Services. While the participant data were not audited, the data was reviewed for reasonableness against the data provided for the prior valuation. All data was checked for internal consistency and for consistency with the data for the prior valuation.

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

Supporting Schedules

We have prepared the following supporting schedules for inclusion in this Financial Statement:

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

Gabriel, Roeder, Smith & Company

ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration -3-

Trend Data Schedules in the Financial Section

All of the trend data information in the financial section of the report was calculated and summarized by Gabriel, Roeder, Smith & Co.

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

* * *

I am a Fellow of the Society of Actuaries and an Enrolled Actuary. I am a Member of the American Academy of Actuaries and have 32 years of experience in performing valuations for public retirement systems.

Sincerely,

Norman S. Losk, FSA, EA, MAAA
Senior Consultant

CML

Gabriel, Roeder, Smith & Company

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

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

Interest Rate: 8.25% per year. The rate credited to Member contributions is 3%.

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

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

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

Cost-of-Living Increases: 3.0% per year.

Mortality: A. For Pensioners on Service Retirement and Beneficiaries

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

Sample Rates

	Deaths per 1,000	
Age	**Males**	**Females**
45	1.9	1.3
50	3.1	2.0
55	4.6	2.7
60	6.2	4.0
65	8.2	5.3
70	10.2	7.1

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)

B. For Pensioners on Disability Retirement:

1981 Disability Mortality Table

Sample Rates

Age	Deaths per 1,000
45	20.8
50	24.4
55	28.4
60	33.0
65	37.9
70	43.7

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

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

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

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

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

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

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)
Used For Valuation of Health Subsidy Benefits

Increase in Retiree Population:	The covered Retiree population is assumed to increase 6.10% per year.
Covered Payroll Increase	4.5% per year.
Initial Health Subsidy:	$3,898 per year.
Initial Dental Subsidy:	$1,096 per year.

RATES OF SEPARATION FROM ACTIVE SERVICE - MALES

AGE	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Death While Eligible	Service Disability	Deferred Vested
20	0.0660	0.0003	0.0000	0.0000	0.0000	0.0005	0.0150
21	0.0600	0.0003	0.0000	0.0000	0.0000	0.0005	0.0160
22	0.0540	0.0003	0.0000	0.0000	0.0000	0.0005	0.0170
23	0.0520	0.0003	0.0000	0.0000	0.0000	0.0005	0.0180
24	0.0500	0.0003	0.0000	0.0000	0.0000	0.0005	0.0190
25	0.0480	0.0003	0.0002	0.0000	0.0002	0.0005	0.0243
26	0.0450	0.0003	0.0002	0.0000	0.0002	0.0005	0.0236
27	0.0420	0.0003	0.0002	0.0000	0.0002	0.0005	0.0230
28	0.0390	0.0003	0.0002	0.0000	0.0002	0.0006	0.0226
29	0.0360	0.0004	0.0002	0.0000	0.0002	0.0006	0.0223
30	0.0330	0.0004	0.0002	0.0000	0.0002	0.0006	0.0219
31	0.0300	0.0004	0.0002	0.0000	0.0002	0.0006	0.0214
32	0.0270	0.0004	0.0002	0.0000	0.0002	0.0006	0.0209
33	0.0240	0.0004	0.0003	0.0000	0.0003	0.0006	0.0201
34	0.0210	0.0005	0.0003	0.0000	0.0003	0.0007	0.0194
35	0.0180	0.0005	0.0004	0.0000	0.0003	0.0007	0.0187
36	0.0156	0.0005	0.0004	0.0000	0.0004	0.0007	0.0170
37	0.0140	0.0005	0.0005	0.0000	0.0004	0.0007	0.0153
38	0.0132	0.0006	0.0005	0.0000	0.0004	0.0008	0.0137
39	0.0124	0.0006	0.0006	0.0000	0.0005	0.0008	0.0121
40	0.0124	0.0006	0.0006	0.0000	0.0005	0.0008	0.0103
41	0.0128	0.0007	0.0007	0.0000	0.0006	0.0009	0.0105
42	0.0112	0.0007	0.0007	0.0000	0.0006	0.0009	0.0100
43	0.0096	0.0007	0.0008	0.0000	0.0007	0.0009	0.0096
44	0.0088	0.0007	0.0008	0.0000	0.0009	0.0009	0.0092
45	0.0090	0.0008	0.0009	0.0000	0.0011	0.0009	0.0091
46	0.0081	0.0008	0.0010	0.0000	0.0013	0.0010	0.0089
47	0.0072	0.0008	0.0011	0.0000	0.0015	0.0011	0.0087
48	0.0068	0.0009	0.0012	0.0000	0.0017	0.0012	0.0082
49	0.0063	0.0009	0.0014	0.0000	0.0019	0.0013	0.0074
50	0.0061	0.0010	0.0016	0.0100	0.0021	0.0015	0.0065
51	0.0060	0.0011	0.0019	0.0050	0.0023	0.0018	0.0055
52	0.0055	0.0012	0.0022	0.0050	0.0025	0.0022	0.0043
53	0.0050	0.0013	0.0027	0.0050	0.0027	0.0027	0.0030
54	0.0050	0.0014	0.0033	0.0100	0.0029	0.0033	0.0015
55	0.0050	0.0015	0.0039	0.1700	0.0031	0.0040	0.0000
56	0.0050	0.0015	0.0046	0.0800	0.0033	0.0047	0.0000
57	0.0050	0.0016	0.0054	0.0800	0.0035	0.0056	0.0000
58	0.0050	0.0017	0.0063	0.0800	0.0037	0.0068	0.0000
59	0.0050	0.0018	0.0074	0.0800	0.0040	0.0084	0.0000
60	0.0000	0.0019	0.0085	0.1000	0.0043	0.0104	0.0000
61	0.0000	0.0020	0.0098	0.1300	0.0046	0.0124	0.0000
62	0.0000	0.0021	0.0112	0.2000	0.0049	0.0149	0.0000
63	0.0000	0.0022	0.0127	0.1700	0.0052	0.0181	0.0000
64	0.0000	0.0023	0.0143	0.2200	0.0055	0.0220	0.0000
65	0.0000	0.0024	0.0160	0.2500	0.0058	0.0260	0.0000
66	0.0000	0.0025	0.0000	0.4000	0.0061	0.0000	0.0000
67	0.0000	0.0026	0.0000	0.4000	0.0064	0.0000	0.0000
68	0.0000	0.0027	0.0000	0.4500	0.0067	0.0000	0.0000
69	0.0000	0.0028	0.0000	0.5000	0.0070	0.0000	0.0000
70	0.0000	0.0029	0.0000	1.0000	0.0073	0.0000	0.0000

RATES OF SEPARATION FROM ACTIVE SERVICE - FEMALES

AGE	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Death While Eligible	Service Disability	Deferred Vested
20	0.0820	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
21	0.0740	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
22	0.0700	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
23	0.0660	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
24	0.0620	0.0001	0.0000	0.0000	0.0000	0.0003	0.0150
25	0.0580	0.0001	0.0002	0.0000	0.0001	0.0003	0.0210
26	0.0540	0.0001	0.0002	0.0000	0.0001	0.0003	0.0214
27	0.0500	0.0001	0.0002	0.0000	0.0001	0.0003	0.0220
28	0.0460	0.0002	0.0002	0.0000	0.0001	0.0003	0.0228
29	0.0420	0.0002	0.0002	0.0000	0.0001	0.0004	0.0238
30	0.0380	0.0002	0.0002	0.0000	0.0001	0.0004	0.0246
31	0.0348	0.0002	0.0002	0.0000	0.0001	0.0004	0.0249
32	0.0324	0.0002	0.0002	0.0000	0.0001	0.0004	0.0250
33	0.0308	0.0003	0.0002	0.0000	0.0001	0.0004	0.0249
34	0.0292	0.0003	0.0002	0.0000	0.0001	0.0004	0.0248
35	0.0224	0.0003	0.0002	0.0000	0.0001	0.0004	0.0247
36	0.0211	0.0003	0.0002	0.0000	0.0002	0.0005	0.0246
37	0.0198	0.0003	0.0002	0.0000	0.0002	0.0005	0.0245
38	0.0185	0.0004	0.0002	0.0000	0.0002	0.0005	0.0246
39	0.0172	0.0004	0.0002	0.0000	0.0002	0.0005	0.0247
40	0.0159	0.0004	0.0002	0.0000	0.0002	0.0005	0.0237
41	0.0148	0.0004	0.0002	0.0000	0.0003	0.0005	0.0212
42	0.0137	0.0005	0.0002	0.0000	0.0004	0.0005	0.0187
43	0.0133	0.0005	0.0003	0.0000	0.0005	0.0005	0.0162
44	0.0129	0.0005	0.0003	0.0000	0.0006	0.0005	0.0137
45	0.0125	0.0006	0.0003	0.0000	0.0007	0.0005	0.0111
46	0.0116	0.0006	0.0004	0.0000	0.0008	0.0006	0.0115
47	0.0107	0.0006	0.0004	0.0000	0.0009	0.0006	0.0120
48	0.0098	0.0007	0.0005	0.0000	0.0010	0.0007	0.0125
49	0.0089	0.0007	0.0005	0.0000	0.0011	0.0007	0.0130
50	0.0087	0.0008	0.0006	0.0025	0.0012	0.0008	0.0135
51	0.0085	0.0008	0.0008	0.0025	0.0013	0.0009	0.0130
52	0.0083	0.0008	0.0011	0.0025	0.0014	0.0010	0.0125
53	0.0081	0.0009	0.0015	0.0050	0.0015	0.0012	0.0120
54	0.0079	0.0009	0.0020	0.0050	0.0016	0.0015	0.0115
55	0.0084	0.0009	0.0026	0.1000	0.0018	0.0018	0.0050
56	0.0084	0.0010	0.0033	0.0400	0.0020	0.0022	0.0000
57	0.0084	0.0010	0.0041	0.0600	0.0022	0.0027	0.0000
58	0.0084	0.0011	0.0050	0.0600	0.0024	0.0033	0.0000
59	0.0084	0.0011	0.0060	0.0600	0.0026	0.0040	0.0000
60	0.0000	0.0012	0.0071	0.0700	0.0028	0.0018	0.0000
61	0.0000	0.0012	0.0083	0.0800	0.0030	0.0060	0.0000
62	0.0000	0.0013	0.0096	0.1500	0.0032	0.0073	0.0000
63	0.0000	0.0013	0.0110	0.0750	0.0034	0.0089	0.0000
64	0.0000	0.0014	0.0125	0.0750	0.0036	0.0120	0.0000
65	0.0000	0.0015	0.0140	0.2500	0.0038	0.0160	0.0000
66	0.0000	0.0016	0.0000	0.2500	0.0040	0.0000	0.0000
67	0.0000	0.0017	0.0000	0.3500	0.0042	0.0000	0.0000
68	0.0000	0.0018	0.0000	0.3500	0.0045	0.0000	0.0000
69	0.0000	0.0019	0.0000	0.4000	0.0048	0.0000	0.0000
70	0.0000	0.0020	0.0000	1.0000	0.0051	0.0000	0.0000

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2001	4,466	$252,696,000	$56,582	7.9%
June 30, 1999	3,694	$193,650,000	$52,423	8.3%
June 30, 1997	3,642	$176,284,000	$48,403	6.8%
June 30, 1995	3,397	$153,918,000	$45,310	4.4%
June 30, 1993	3,360	$145,781,000	$43,387	-

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

	Beginning of Period		Added to Rolls		Removed from Rolls [1]		End of Period		% Increase in Annual Allow-ances	Average Annual Allow-ances
Two-Year Period	Count	Annual Allow-ances	Count	Annual Allow-ances	Count	Annual Allow-ances	Count	Annual Allow-ances		
1999-2001	1,824	$37,137,000	230	$6,655,000	24	$268,000	2,030	$45,208,000	21.7%	$22,270
1997-1999	1,745	$32,630,000	202	$4,642,000	123	$1,514,000	1,824	$37,137,000	13.8%	$20,360
1995-1997	1,636	$29,029,000	190	$4,143,000	81	$946,000	1,745	$32,630,000	12.4%	$18,699
1993-1995	1,497	$25,642,000	210	$4,420,000	71	$801,000	1,636	$29,029,000	13.2%	$17,744

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

	Change in Contribution Rate
For Plan Year Ended June 30, 2001	
Investment Performance	-0.46%
Liability Experience	-1.62%
Change in Assumptions	0.00%
Change in Benefit Provisions	1.51%
Total	-0.57%
For Plan Year Ended June 30, 1999	
Investment Performance	-2.75%
Liability Experience	0.98%
Change in Assumptions	0.79%
Total	-0.98%
For Plan Year Ended June 30, 1997	
Investment Performance	-1.55%
Liability Experience	-1.04%
Change in Assumptions	-2.23%
Total	-4.82%

SOLVENCY TEST

Year Ended	(1) Active Members Contributions	(2) Retirants and Beneficiaries Accrued Liability	(3) Active Members Accrued Liability (Employer Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2001	$210,377,000	$529,853,000	$332,103,000	$1,060,144,000	100%	100%	96%
1999	$196,887,000	$441,573,000	$223,766,000	$804,860,000	100%	100%	74%
1997	$167,837,000	$383,574,000	$184,361,000	$678,954,000	100%	100%	69%
1995	$133,805,000	$364,159,000	$160,211,000	$566,102,000	100%	100%	43%
1993	$104,098,000	$308,922,000	$170,099,000	$489,865,000	100%	100%	45%

Schedule of Employer Contributions
Defined Benefit Pension Plan
(In thousands) (Unaudited)

Fiscal year ended June 30,	Annual required employer contributions	Percentage Contributed
1998 (a)	$ 30,367	96%
1999	30,139	100%
2000	34,146	100%
2001	35,284	100%
2002	41,011	100%
2003	38,411	100%

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

SUMMARY OF RETIREMENT BENEFITS

1.	Eligibility:		Members are eligible on their first day of City employment.
2.	Final Compensation:		Highest 12-month average salary (this provision was changed from the highest 36-month average salary, effective July 1, 2001).
3.	Service Retirement:		
	A)	Eligibility:	Age 55 with five years of service, or any age with 30 years of service.
	B)	Benefit:	2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.
	C)	Form of Payment:	Monthly benefit payable for the life of the member.
4.	Disability Retirement:		
	A)	Eligibility:	Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.
	B)	Benefit:	2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system. If the disability was not service-connected, then the benefit is reduced by .5% of Final Compensation for each year of age under 55.
	C)	Form of Payment:	Monthly benefit payable for the life of the member.
5.	Deferred Service Retirement:		
	A)	Eligibility:	Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.
	B)	Benefit:	Same as Service Retirement, payable anytime after age 55.
	C)	Form of Payment:	Same as Service Retirement.

SUMMARY OF RETIREMENT BENEFITS (Continued)

6. Pre-Retirement Death Benefits:

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

7.	Post-Retirement Death Benefits:	Member's eligible survivor receives (i) and (ii), where: (i) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children. (ii) = $500 death benefit allowance for burial expenses at death of retired member.
8.	Post-retirement Cost-of-Living Benefits:	Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%. If the benefit has been paid less than 12 months, the 3% increase is proportionately decreased.
9.	Employee Contributions:	The Members' contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).

SUMMARY OF HEALTH SUBSIDY BENEFITS

1.	Eligibility:		
	A)	Medical	Fifteen years of service credit at retirement, or receiving an allowance of at least 37.5% of Final Compensation. Must be enrolled in a City medical insurance plan at retirement.
	B)	Dental	Five years of service credit at retirement, or receiving an allowance of at least 37.5% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.
2.	Benefit		
	A)	Medical	The Retirement System pays the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System.
	B)	Dental	The Retirement System pays the entire cost of dental insurance coverage.
3.	Contributions		Both the City and the Members contribute to the Retirement System fund for medical and dental insurance benefits.

V.
STATISTICAL SECTION

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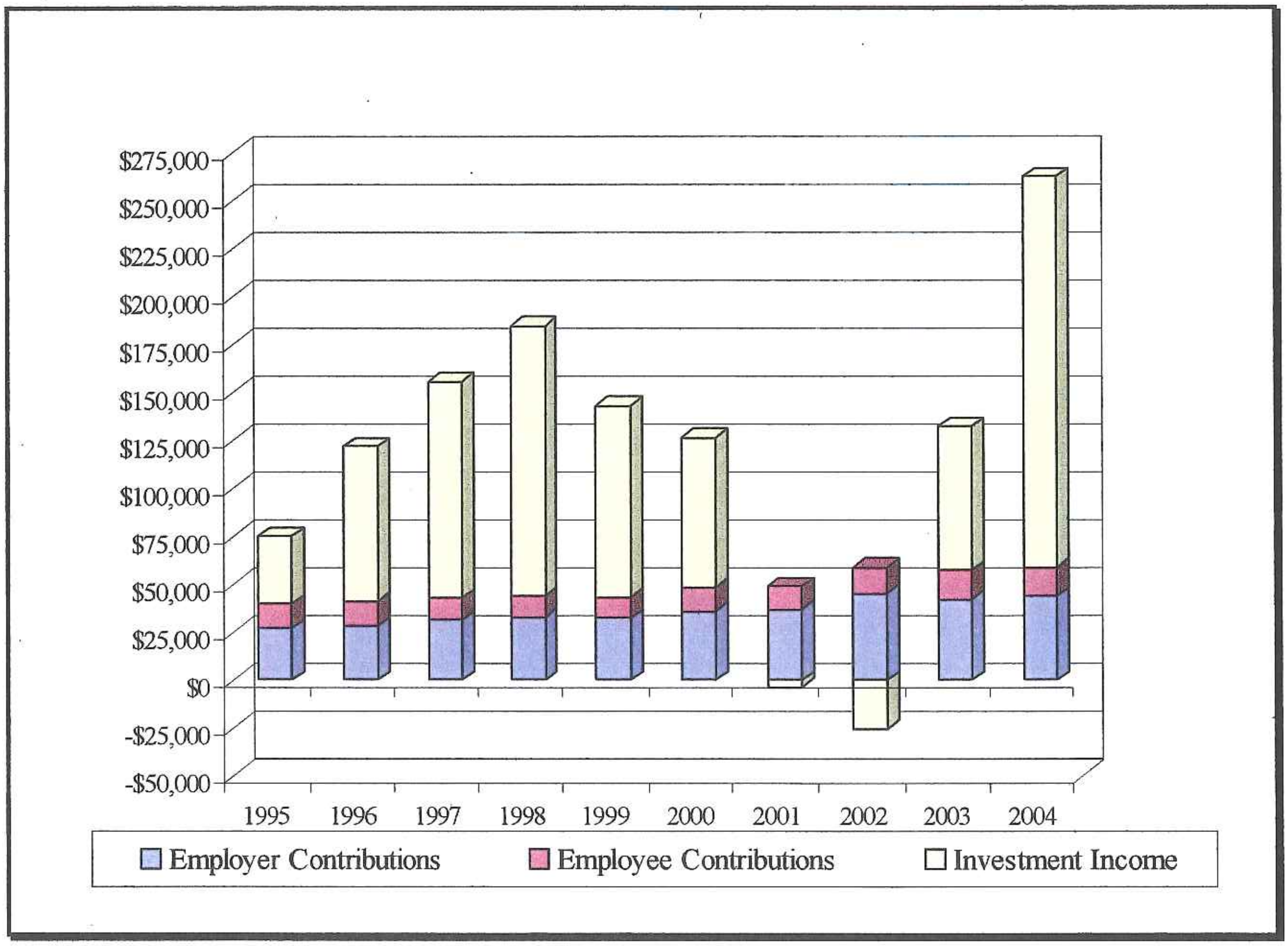
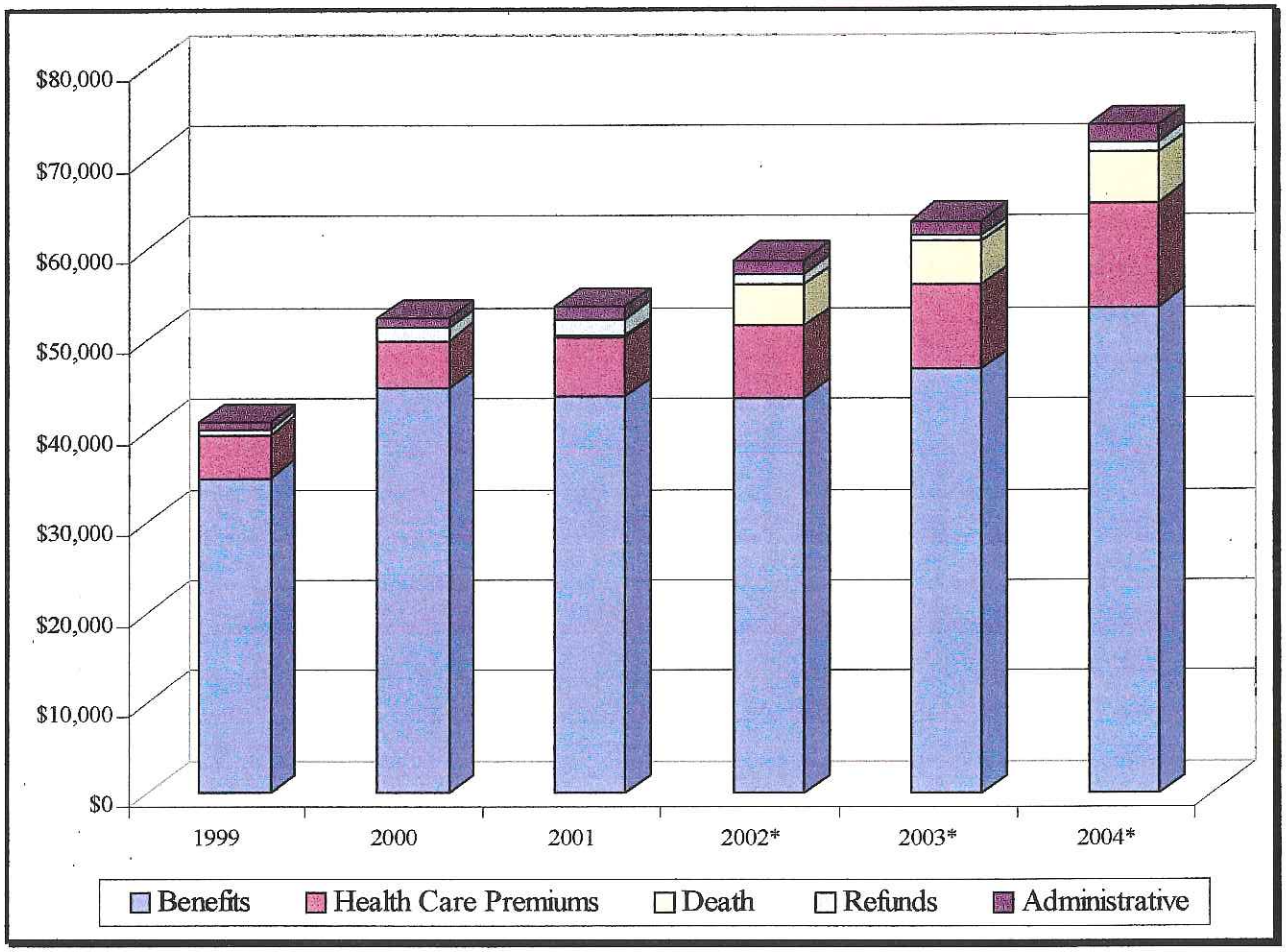
ADDITIONS BY SOURCE
For Fiscal Years 1995 - 2004
(In Thousands)



Year Ended June 30,	Employer Contributions	% of Annual Covered Payroll	Employee Contributions	% of Annual Covered Payroll	Investment Income (Loss)*	Total
1995	$27,111	18.01%	$12,269	8.12%	$35,353	$74,733
1996	$28,411	18.59%	$12,876	6.70%	$80,420	$121,707
1997	$31,441	19.22%	$11,376	6.70%	$113,039	$155,856
1998	$32,693	16.52%	$11,129	5.31%	$140,928	$184,750
1999	$32,387	16.52%	$10,733	5.31%	$99,907	$143,027
2000	$35,825	16.09%	$12,400	4.76%	$77,971	$126,196
2001	$37,034	16.09%	$11,768	4.76%	($3,470)	$45,332
2002	$45,138	17.40%	$13,858	4.96%	($25,698)	$33,298
2003	$42,277	15.20%	$14,808	5.08%	$75,372	$132,457
2004	$43,482	15.20%	$15,585	5.08%	$203,439	$262,506

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

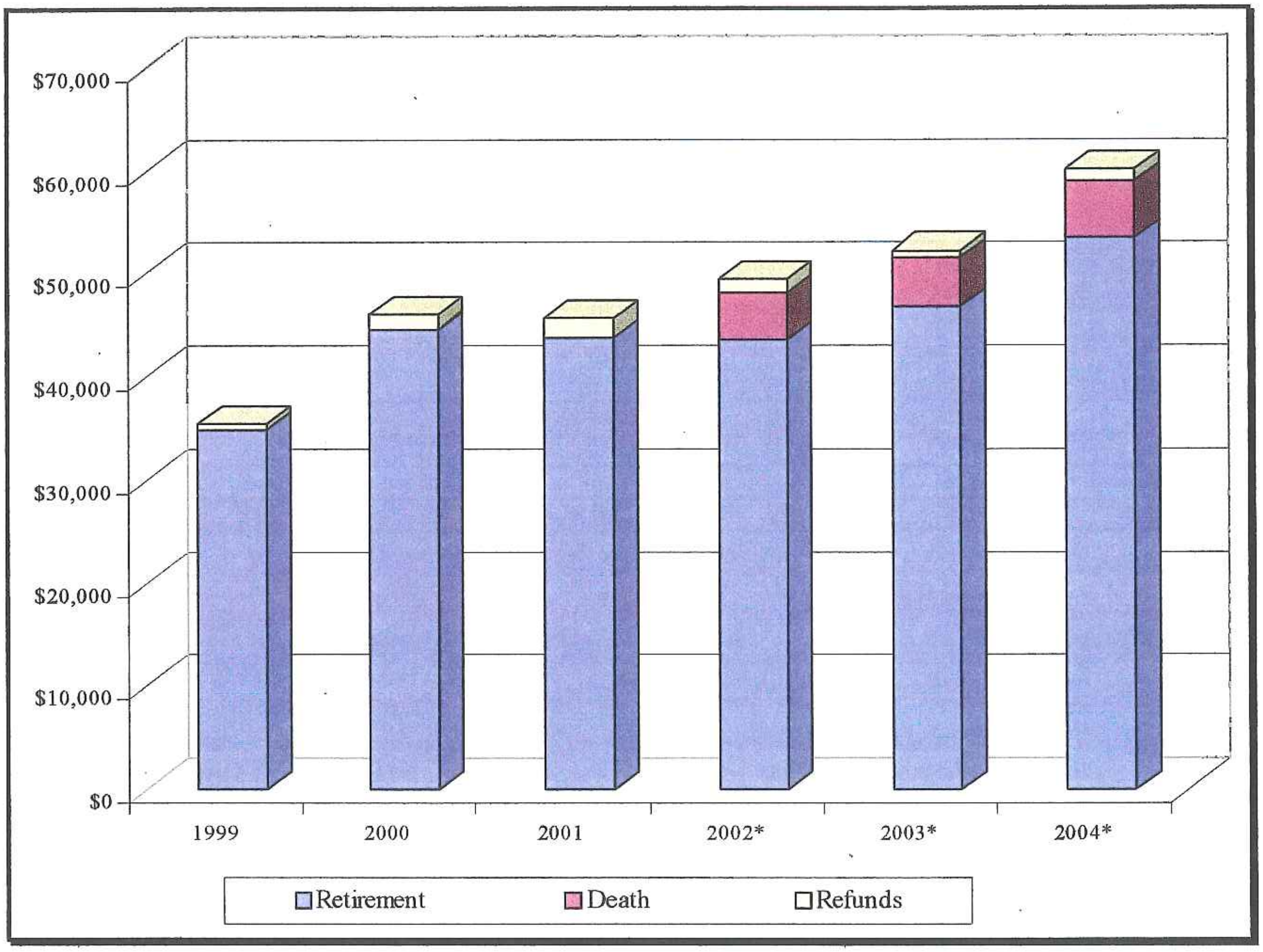
DEDUCTIONS BY TYPE
For Fiscal Years 1999 - 2004
(In Thousands)



	1999	2000	2001	2002*	2003*	2004*
Benefits	$34,846	$44,655	$43,761	$43,696	$46,814	$53,578
Health Care Premiums	4,711	5,236	6,530	7,804	9,191	11,438
Death	47	20	105	4,561	4,752	5,454
Refunds	646	1,386	1,886	1,207	714	1,188
Administrative	778	1,136	1,420	1,472	1,631	1,913
TOTAL	**$41,028**	**$52,433**	**$53,702**	**$58,740**	**$63,102**	**$73,571**

* 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	$34,846	$44,655	$43,761	$43,696	$46,814	$53,578
Death	47	20	105	4,561	4,752	5,454
Refunds	646	1,386	1,886	1,207	714	1,188
TOTAL	**$35,539**	**$46,061**	**$45,752**	**$49,464**	**$52,280**	**$60,220**

* 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	A	B	C	Total
$1 - 500	183	73	46	1		9	54	99	15	69	183
501 - 1000	311	115	96	9	9	23	59	157	14	140	311
1001 - 1500	411	172	114	35	31	7	52	229	23	159	411
1501 - 2000	352	222	54	36	16	4	20	235	20	97	352
2001 - 2500	268	202	22	19	13		12	204	15	49	268
2501 - 3000	221	191	7	8	4	2	9	175	9	37	221
3001 - 3500	174	152	6	4	1	1	10	138	12	24	174
3501 - 4000	132	121	6	1			4	98	10	24	132
4001 -4500	86	84	1	1				66	7	13	86
4501 - 5000	79	74	1	2			2	60	7	12	79
Over $5000	115	113		1			1	100	4	11	115
Total	**2332**	**1519**	**353**	**117**	**74**	**46**	**223**	**1561**	**136**	**635**	**2332**

RETIREMENT CODES

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

OPTION DESCRIPTIONS

A	Unmodified - 50% Continuance
B	Option 1: 100% Continuance/ reduced pension
C	No Survivor - No Continuance

AVERAGE BENEFIT PAYMENT AMOUNTS

	Survivor Single life Annuity		Disabled Retiree Joint and Survivor Annuity		Disabled Retiree Single Life Annuity		Retiree Joint and Survivor Annuity		Retiree Single Life Annuity		
Age	Count	Average	Count	Average	Count	Average	Count	Average	Count	Average	Total Count
Under 30	9	$ 2,773	-	$ -	-	$ -	-	$ -	-	$ -	9
30 to 34	2	23,223	3	15,447	-	-	-	-	-	-	5
35 to 39	-	-	4	14,058	1	17,707	-	-	-	-	5
40 to 44	6	18,025	4	15,210	-	-	-	-	-	-	10
45 to 49	11	17,067	15	17,535	3	18,488	-	-	1	-	30
50 to 54	13	21,881	22	17,648	3	21,782	13	44,492	4	47,106	55
55 to 59	31	12,960	22	18,787	1	45,617	169	30,678	49	26,256	272
60 to 64	36	12,585	28	19,674	1	13,457	276	29,956	17	24,928	358
65 to 69	54	12,978	22	18,261	1	12,746	272	25,917	12	22,680	361
70 to 74	45	11,878	14	21,085	4	13,355	255	24,036	10	13,061	328
75 to 79	63	11,726	15	17,778	-	-	238	20,953	9	9,859	325
80 to 84	45	10,496	7	16,035	2	10,243	129	17,780	4	9,614	187
85 to 89	25	11,425	3	10,752	1	12,172	34	15,521	7	17,985	70
90 and Up	2	10,616	-	-	-	-	4	16,830	9	13,894	15
Summary	342	$12,455	159	$ 18,157	17	$ 17,436	1,390	$ 25,241	122	$ 21,965	2,030

Average Annual Benefit $ 22,270

Data as of last actuarial valuation, June 30, 2001

RETIREMENTS DURING FISCAL YEAR 2003-04

SERVICE RETIREMENTS

ADVANI, PADMA
ANZALDUA, SAMUEL
ARMSTRONG, DAVID R
AUGUST, PATRICK P
AVALOS, RUBEN R
BACA, JUANITA
BAGGESE, PATRICIA M
BARBACCIA, JR., FRANK R
BAULA, CATHERINE N
BESERRA, SALVADOR L
BUSSE, RICHARD J
CARLIN, DAVID L
CASTILLO, JOSE A
CASTRO, CYNTHIA J
CHAFFINO, RICHARD
CHIEW, JENNY S
CHIVERS, THOM
COKELY, BRIAN A
COLOMBE, PATRICIA A
CONNELL, ELVA
CORCHERO, STEPHEN M
CRISANTY, ALFONSO
DAULTON, SHASTA R
DAWAL, TEODORICO A
DEARO, RUBEN
DOHERTY, JANIECE A
DUNN, DIANE
EATON, GARY A
EBORALL, PETER J
ELO, MARGARET R
FARNSWORTH, DANIEL R
FITZSIMONS, ROBERT
FLUTY, KATHY A
FOLEY, JAMES W
FORD, STEVEN
FORSTER, MARY K
FORT, ELIZABETH L
FRANCISCO, JOSIE R
FUJCZAK, WALTER S
GARCIA, STEPHEN
GARRATT, PAUL A
GASKELL, CATHERINE C
GEORGE, BARBARA S
HAYASHI, JUNE J
HAYNES, SANDRA L
HOBSON, PHILLIP E
HOWSMON, FRANK E
HURTADO, DANIEL M
JANS, HOWARD W
JOHNSON, GREGORY A
JORDAN, DANNY A
KELLER, WILLIAM T
KHOOBYARIAN, JO ANN
KORABIAK, DENNIS H
LAKATOS, RHONDA L
LALOR, PATRICK W
LASACA, GILBERT C
LEE, GEOFFREY
LINDGREN, SHELLEY L
LOPEZ, JOHN
LOSONSKY, GLORIA J
MACARI, JOY L
MACIAS, HELEN
MAGGIANI, PIER L
MARTINEZ, EDWARD S
MASUNAGA, LESLIE J
MATNEY, ANNA M
MATTEUCCI, JAMES V
MC KIERNAN, DENNIS R
MESTAZ, CHRISTOPHER P
MILLIGAN, NANCY A
MONTOYA, WILL E
MORENO, NORMA
MORRIS, JAMES A
MURAMOTO, RICHARD T
MURDOCK, TERRANCE M
NAUMANN, ROBERT C
NERVAIZ, FRANK R
NEWMAN, KEVIN M
NODAL, ALBERT
O'HEARN, PATRICIA L
OKANO, TOSHIO
PACHECO, EDWARD M
PAPAVASILAKIS, LEON
PARDUN, SHARON K
PAVKOV, JUDITH A
PENA, JUAN S
PENTZ, MARILYN
PEREZ, UBALDO
PIGNATI, POLA
POLANCO, MARY G
POUNDERS, WILLIAM E
RAMIREZ, ARTURO G
RAMSEY, MARSHA
ROCKE, THOMAS
RODNEY, GARY G
RODRIGUEZ, NORA J
ROGERS, KATHLEEN E
RYALL, WILFRED F
SAMARIPA, OSCAR
SANCHEZ, MARINA J
SANTOS, ROSEMARY
SEITZ, ROGER W
SEYMOUR, JEANNE L
SHICK, SUSAN F
SHINAGAWA, ROBIN H K
SINHA, AMALENDU
SMITH, SANDY I
SOSA, ANGELA C
SOSNOWSKI, DENNIS A
SOTO, RONALD S
STEINBRUECK, RUEDIGER H
STEVENSON, MAURICE F
STOTTS, ELSI H
TARAZON, CARMEN C
THIGPEN, ROBBIE B
TOBIN, NONA
VALERIO, ROBERT R
WARDELL, DAVID A
WHITED, EUGENE L
WISE, LEONARD M
WONG, TED N
ZABOSKI, BERNARD
ZAVALA, ELIZABETH C

Source: Pension Administration System

RETIREMENTS DURING FISCAL YEAR 2003-04 (Continued)

DEFERRED VESTED RETIREMENTS

ABRAM, CONNIE JO
ANGLE, SHARON A
BAULA, NESTOR S
BULLOCK, APRIL K
FASTRO, ALEX M
GREENE, RALPH C
JONES, JIMMY J
LAMBERT, CHRISTOPHER S
LUVARA, PATRICIA A
PHILLIPS, KEN
RUDMAN, WILLIAM K
SKINNER, DAVID
THISSEN, SHIRLEY A
TURNER, DAVID R

SERVICE-CONNECTED DISABILITY RETIREMENTS

DELGADO, ARTHUR R
LOPEZ, SUSANA L
MARTINEZ, VICTORIA Y
RETANA, RAYMOND
WALKER, KRISTY L

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

GAGLIARDI, BRIAN T
SALAZAR, ROBERT J

Source: Pension Administration System

DEATHS DURING FISCAL YEAR 2003-04

DEATHS AFTER RETIREMENT

ADAME, ARMANDO J
BERGER, CLARA B
BOWEN, EDWIN
BRAMBILL, GLENNA M
CAMPBELL, KATHY
CASTILLO, MARGARITA
CHILDS, NANCY L
COSIO, ADOLPH S
DIRNBERGER, DAVID M
EATON, MICHAEL E
ELDER, RONALD E
FREESE, PAUL D
GRACIANO, JOSEPH M
HAYDEN, LONNIE A
HAYES, DONALD R
HILDERBRAND,CLARCYRAE
HUBBARD, ROY H
INOUYE, TAKESHI J
JANOLO, MARCELO B
JEFFERSON, HERMELINE
JOHNSON, ALBERT L
KARREN, RICHARD K
KARSTEDT, V ELIZABETH
KELLY, JOHN M
KLEIN, IRVING L
KRAYNICK, MARGARET J
LOUDIN, JEAN C
LUND, BEATRICE M
MAGUD, DOREEN
MALLON, ELEANOR C
MANSFIELD, FRED
MARTINEZ, ORA S
MC FARREN, HARLAN E
MENDOZA, CHRISTINA G
NEUGEBAUER, FRANCIS A
NORWIG, ANN MARY
PHELPS, ROBERT C
PHILPOTT, ARTHUR B
RENDLER, MARIAN W
ROMINGER, PAUL
SHILLING, RICHARD D
SPENCER, NANCY C
STRACHAN, ARMON G
SUPAN, PHILIP J
VALADEZ, WILLIAM
VENEGAS, MANUEL B
WHITMARSH, FRED
YOUNG, ANTOINETTE K
ZAPPULA, JOSEPH

DEATHS BEFORE RETIREMENT

LOBATO, ROGER V
SIORDIA, JESSE M
TRAURIG, HARRIET
TRIPLETT, MICHAEL A

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

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

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 Federated City Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of 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 System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 material in relation to the financial statements being audited my 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 System, in a separate letter dated August 27, 2004.

Compliance and Other Matters

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

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

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 these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 27, 2004