

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN
A Pension Trust Fund of the City of San Jose, California

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

Edward F. Overton
Director

City of San Jose
Department of Retirement Services
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BOARD CHAIR LETTER



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

October 21, 2003

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate return of 5.4% on investments, compared to 4.5% for its benchmark and 3.4% for the Mellon Total Funds Billion Dollar Public Median.
- A new domestic fixed income core-plus manager, Western Asset Management Company, was funded in July 2002.
- Two searches were initiated in the spring of 2003. Selection and/or funding occurred in the next fiscal year:
 - Real estate advisor.
 - Large cap growth domestic equities manager.
- The Board approved proceeding with the exit strategy of the jointly owned properties with the Federated Retirement System by way of a buy/sell agreement, which was executed in June 2003.
- Over 200 retirees were transitioned to another health plan when Lifeguard went out of business at the end of 2002. The accelerated process involved sending out Requests for Proposal to prospective replacements, interviews, selection of Blue Shield and negotiation of a contract along with the communication, education and transition of the retirees.

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

Sincerely,

MARK SKEEN, Chair
Board of Administration

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I.
INTRODUCTORY
SECTION

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LETTER OF TRANSMITTAL



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

October 20, 2003

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Police and Fire Department Retirement Plan ("Plan") for the fiscal year ended June 30, 2003. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias, Gini & Company LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and switched to the CAFR format 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. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 20.

Structure of the Report

This report is presented in five sections:

- ♦ The Introductory Section contains a letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a listing of the professional services used, description of the Plan's management and organizational structure, and a summary of the plan provisions.
- ♦ The Financial Section contains the independent auditor's report from Macias, Gini & Company LLP, Management's Discussion and Analysis, the basic financial statements of the Plan, certain required supplementary information and other supplementary information.
- ♦ The Investment Section contains the report of investment activity produced by Mercer Investment Consulting, the Plan's investment consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- ♦ The Actuarial Section contains the certification letter produced by the independent actuary, Mercer Human Resource Consulting, along with the results of the Plan's last bi-annual valuation (2001).

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/20/03 Page 2 of 4

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

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

Major Initiatives

In January 2003, the Board approved moving forward with an exit strategy of three real estate properties, jointly owned with the Federated City Employees' Retirement System, by way of a buy/sell agreement. An agreement was executed in June 2003, which set out the course of action for one Plan eventually buying out the other Plan's 50% interest in the jointly owned properties.

By recommendation of the Board, the City Council approved the amendment of the San Jose Municipal Code allowing the acceptance of plan-to-plan transfers from eligible deferred compensation plans to the Police and Fire Department Retirement Plan for the purpose of purchasing permissive service credit.

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/20/03 Page 3 of 4

Changes in Plan Memberships

Plan membership changes for the defined benefit pension plan for FY2003 were as follows:

	2003	2002	Increase (Decrease)	Change
Active Members*	2,170	2,231	(61)	(2.7%)
Retired Members	1,094	1,031	63	6.1%
Survivors**	218	207	11	5.3%
TOTAL	3,482	3,469	13	0.4%

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

** Survivor total includes ex-spouses.

Financial and Economic Summary

For the fiscal year ended June 30, 2003, the time-weighted rate return for the Plan was 5.4%, which was ahead of its Benchmark Index return of 4.5% and in the 19th percentile of the Russell/Mellon Trust Total Funds Billion Dollar ("RMTT") - Public Universe. Maintaining a long-term perspective is important when dealing with retirement assets. The annualized return since inception (performance consultant calculates inception as of January 1971) was 9.5%, which is ahead of the actuarial assumption rate of 8.0%.

The U.S. economy appears to have entered a slow recovery phase in the first two quarters of 2003 and early projections indicate improvement in the second half as well. Mercer believes that the historically conservative asset allocation strategy followed by the Retirement Board will continue to benefit the plan's long-term return.

Investment Summary

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

Compared to the RMTT Public Fund Universe, the Plan's investments turned in an above-average performance during FY2003. The portfolio's total return was 5.4% versus 3.4% for RMTT median. Over long-term periods, the portfolio has earned total annualized returns of 1.4% over the past three years and 4.6% over the past five years, and ranked in the 8th and 0th percentile, respectively, of the RMTT Public Fund Universe. The market value of the Plan's

LETTER OF TRANSMITTAL (Continued)

Letter of Transmittal
10/20/03 Page 4 of 4

investments increased from \$1,618,645,690 to \$1,680,432,063 net of pending purchases and sales.

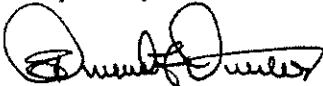
Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the funding ratio of the Defined Benefit Pension Plan was approximately at 114.8%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 44. The net increase in Plan assets for FY2003 was \$60,602,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 32.

Conclusion

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

Respectfully Submitted,



Edward F. Overton
Director, Retirement Services

CERTIFICATE OF ACHIEVEMENT IN FINANCIAL REPORTING

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose

Police and Fire

Department, California

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2002

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



President

Executive Director

BOARD OF ADMINISTRATION

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

As of June 30, 2003, the members of the Board were as follows:



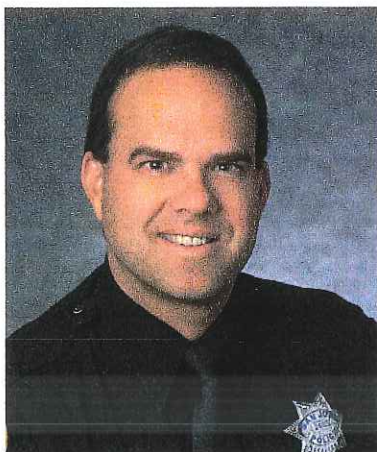
Mark Skeen, Chairman

Employee Representative of the Fire Department appointed to the Board in November 1999. His current term expires November 30, 2003.



Ken Heredia, Vice Chairman

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



Bret Muncy

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

BOARD OF ADMINISTRATION (Continued)



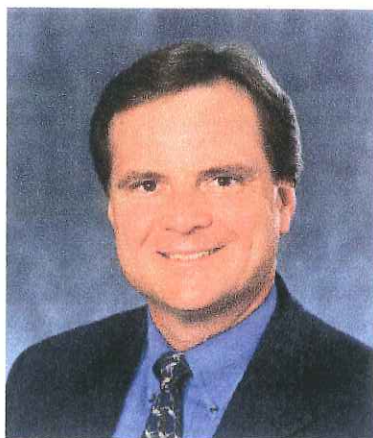
Bill Brill

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



Mark Burton

City Administration Member
appointed to the Board in May
2000.



David Cortese

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



Pat Dando

City Council Member appointed to
the Board in January 2001.

OUTSIDE CONSULTANTS

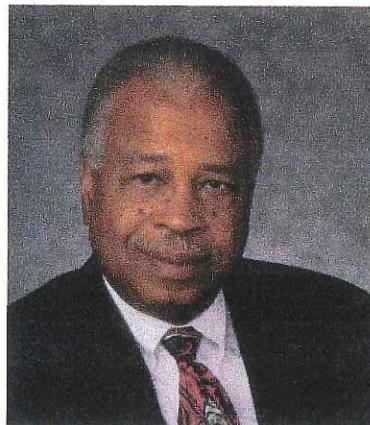
ACTUARY	Mercer Human Resource Consulting San Francisco, CA
ATTORNEY, BOARD	Saltzman & Johnson San Francisco, CA
ATTORNEY, REAL ESTATE	Bingham McCutchen Palo Alto, CA
AUDITOR	Macias, Gini & Company LLP Walnut Creek, CA

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

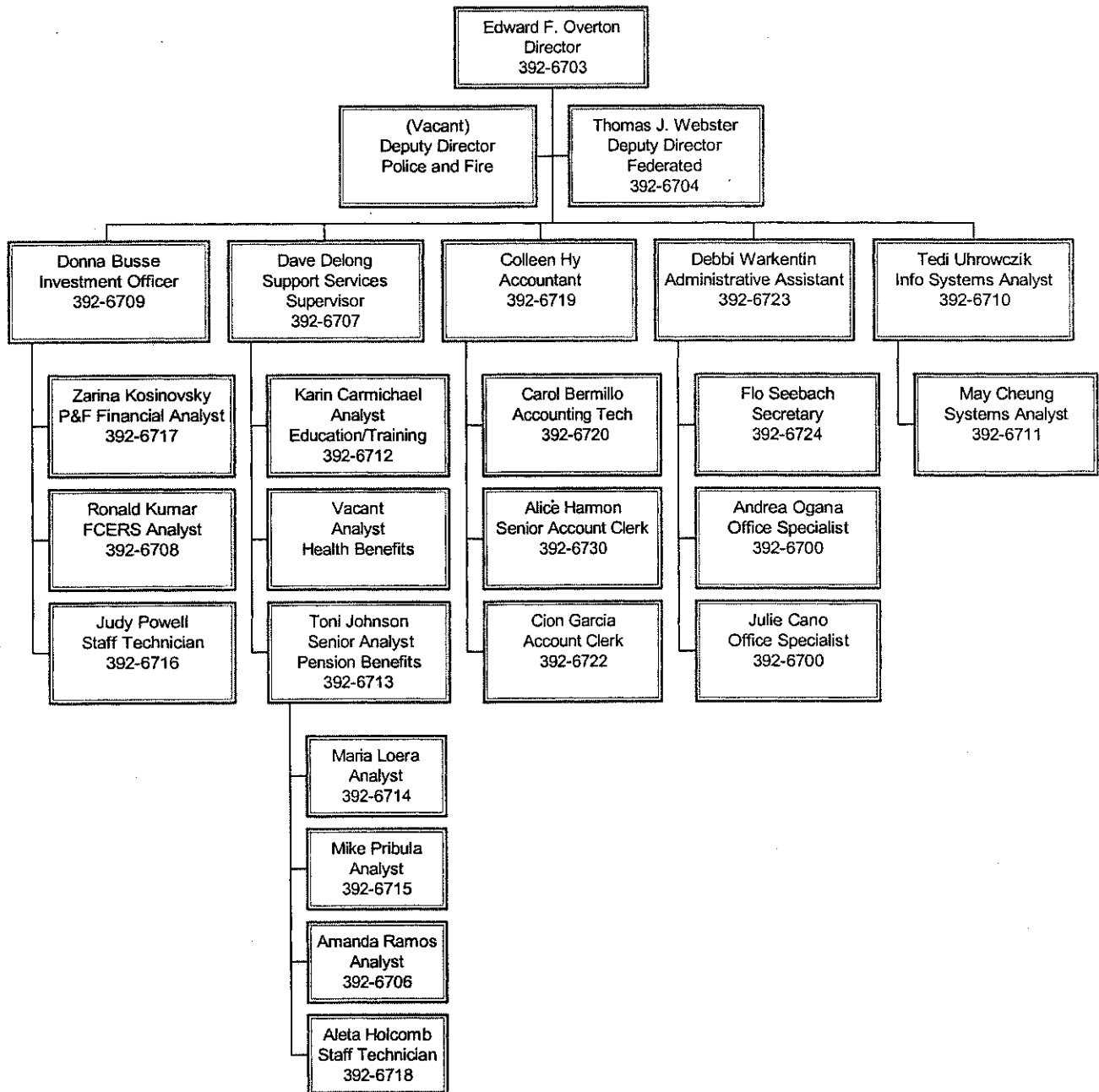
STANDING PUBLIC MEETINGS

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

Agendas for all public meetings are posted on the bulletin board in front of City Hall and on the department's website at 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

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART**DEPARTMENT OF RETIREMENT SERVICES**

1737 North First Street, Suite 580

San Jose, CA 95112

(408) 392-6700 PHONE

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SUMMARY OF THE PRINCIPAL PLAN PROVISIONS

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

All members contribute 10.25% of base salary.

CITY'S CONTRIBUTION

The City contributes 14.22% of the base salary.

INTEREST

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

TERMINATION BENEFITS

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

MILITARY LEAVE CREDIT

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

VESTING OF PENSION CREDIT

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

SERVICE RETIREMENT

An employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee with any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final compensation multiplied by 2.5% multiplied by years of service up to 30 years (Maximum benefit, 75% of final average salary) if the employee retires prior to February 4, 2000. After February 4, 1996 but prior to February 4, 2000, the monthly

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

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

SERVICE-CONNECTED DISABILITY

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

NON-SERVICE-CONNECTED DISABILITY

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

EARLY SERVICE RETIREMENT

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

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

The spouse will receive 37 1/2% of the final compensation if the member dies while entitled to immediate retirement for service, dies at any age due to a service-connected injury or illness, is retired for service, or is

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

retired for service-connected disability. Optional Retirement Allowances are available.

For those that retire on or after February 4, 2000, the surviving spouse of a member who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 42.5% of final compensation.

If the member dies before age 55 with two or more years of services due to a non-service connected injury or illness, or if the member is retired for non-service connected disability, the spouse will receive 24% of final compensation for two years of service and 0.75% for each year thereafter (Maximum: 37-1/2%).

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

- 1 child receives 25% of the final compensation
- 2 children share 37 1/2% of the final compensation
- 3+ children share 50% of the final compensation

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

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

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

REMARriage OF SPOUSE

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

POST-RETIREMENT MARRIAGE

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

MANAGEMENT

The System is under the management of a seven member Board of Administration consisting of two City Council persons, a Civil Service Commissioner, and two elected employees who are members of the retirement plan, a member who has retired under the provisions of the Plan and a member who holds a position in the City Admin-

SUMMARY OF THE PRINCIPAL PLAN PROVISIONS (Continued)

istration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, or institutional fund or endowment funds.

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

ADMINISTRATION

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

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

ACTUARIAL SOUNDNESS

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

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the System's resources. Nationally known investment advisory services including Alliance Capital; Bank of Ireland; Boston Company; Boston Partners; Brandes Investment Partners; Chicago Capital Management; Credit Suisse; GE Asset Management; Globalt; MIG Realty Advisors; New Amsterdam Partners; PMRealty Advisors; Provident Investment Counsel; Rhumblin; Seix Investment Advisors; Trust Company of the West; UBS Global Asset Management; Western Asset Management Company; William Blair & Company; and Woodford Capital Management are retained for full-time investment counsel. Mercer Investment Consulting is retained as the pension consultant.

COST OF LIVING

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

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II.

FINANCIAL

SECTION

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INDEPENDENT AUDITOR'S REPORT



Attn: Director
2775 N. California Boulevard
Suite 845
Walnut Creek, CA 94596-3555
925-278-0190
www.mgcpa.com

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José as of June 30, 2003 and 2002, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2003 and 2002, and the changes in plan net assets for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

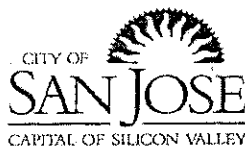
Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as the introductory section, other supplementary information in the financial section, and the investment, actuarial, and statistical sections in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information included in this report, designated as the introductory, investment, actuarial and statistical sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 29, 2003

Offices located throughout California

MANAGEMENT'S DISCUSSION AND ANALYSIS



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan ("the Plan") for the years ended June 30, 2003 and 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 3 of this report.

Financial Highlights for Fiscal Year 2003

- ❖ The net assets of the Plan at the close of the fiscal year 2003 are \$1,680,731,000 (net assets held in trust for pension benefits and post-employment healthcare benefits). All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- ❖ The Plan's total net assets held in trust for pension benefits and post-employment healthcare benefits increased by approximately \$60,602,000, or 3.7%, primarily as a result of the appreciation of the fair value of assets caused by the strengthening equity investment market.
- ❖ The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of our last actuarial valuation, the funded ratio for the Defined Benefit Pension Plan was approximately 114.8%. In general, this indicates that for every dollar of pension benefits due we have approximately \$1.15 of assets to cover it.
- ❖ Additions to Plan Net Assets for the year were \$129,339,000, which includes member and employer contributions of \$47,699,000, net investment income of \$81,216,000, and net securities lending income of \$424,000.
- ❖ Deductions in Plan Net Assets increased from \$64,982,000 to \$68,737,000 over the prior year, or approximately 5.8% due to increased benefit payments and healthcare insurance premiums.

Overview of the Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis

Page 2 of 9

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

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

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

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

Both statements are in compliance with Generally Accepted Accounting Principles ("GAAP") as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and that state and local government reports use the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

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

These two statements report the Plan's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities—as one way to measure the Plan's financial position. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall health. (See the Plan's basic financial statements on pages 30-33 of this report.)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Basic Financial Statements on pages 34-41 of this report.)

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
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Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 23). The assets of the Plan exceeded its liabilities at the close of fiscal year 2003.

As of June 30, 2003, \$1,680,731,000 in total net assets is held in trust for pension benefits and post-employment healthcare benefits. All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2003, total net assets increased by 3.7% over the prior year primarily due to appreciation in the fair value of investments, which increased \$131,252,000 from last year.

For 2002, \$1,620,129,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits. This total represented a decrease of 3.1% in net assets over the prior year primarily due to reductions in the fair value of investments, which decreased \$28,918,000 from 2001.

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

For 2002, receivables increased by \$21,445,000 from the prior year, mainly due to an increase in receivables due from brokers of \$25.5 million.

Reserves

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 37). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees.

The appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "Designated for unrealized gains on investments held" of \$67,091,000 as of June 30, 2003.

For 2002, the decline in the fair value of investments and the five-year smoothing of investment gains and losses resulted in a reduction in the "Designated for unrealized gains on investments held" of approximately \$71,670,000 from 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
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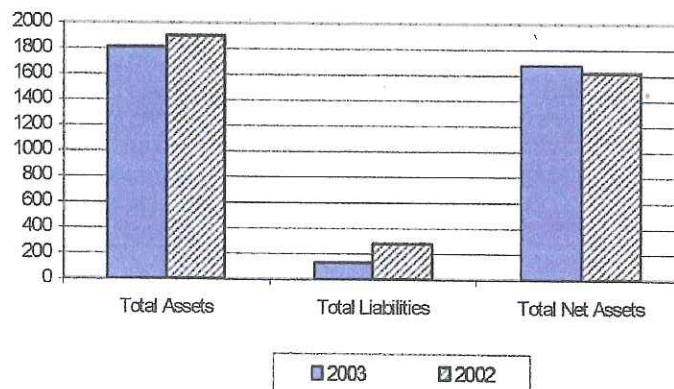
Police and Fire Plan's Net Assets (Table 1a)
June 30, 2003 and 2002

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

Police and Fire Plan's Net Assets (Table 1b)
June 30, 2002 and 2001

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

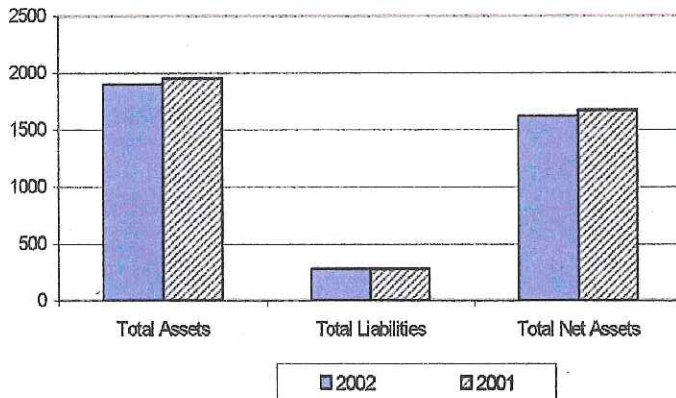
Police and Fire Plan's Net Assets
(Dollars in Millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

**Additions to Plan Net Assets (Table 2a)**

For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	\$ 19,937,000	\$ 17,851,000	\$ 2,086,000	11.70%
Employer Contributions	27,762,000	28,115,000	(353,000)	(1.3%)
Net Investment Gain (Loss)*	81,216,000	(33,011,000)	114,227,000	346.0%
Net Securities Lending Income	424,000	726,000	(302,000)	(41.6%)
Total Additions	\$ 129,339,000	\$ 13,681,000	\$ 115,658,000	845.4%

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

Additions to Plan Net Assets (Table 2b)

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	\$ 17,851,000	\$ 15,542,000	\$ 2,309,000	14.9%
Employer Contributions	28,115,000	24,672,000	3,443,000	14.0%
Net Investment Loss*	(33,011,000)	(5,398,000)	(27,613,000)	(511.5%)
Net Securities Lending Income	726,000	603,000	123,000	20.4%
Total Additions	\$ 13,681,000	\$ 35,419,000	\$ (21,738,000)	(61.4%)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
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Deductions to Plan Net Assets (Table 3a)

For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	\$ 56,970,000	\$ 54,113,000	\$ 2,857,000	5.3%
Healthcare Insurance Premiums	7,772,000	6,740,000	1,032,000	15.3%
Death Benefits	2,104,000	1,771,000	333,000	18.8%
Refund of Contributions	276,000	518,000	(242,000)	(46.7%)
Administrative and other	1,615,000	1,840,000	(225,000)	(12.2%)
Total Deductions	\$ 68,737,000	\$ 64,982,000	\$ 3,755,000	5.8%

Deductions to Plan Net Assets (Table 3b)

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	\$ 54,113,000	\$ 45,699,000	\$ 8,414,000	18.4%
Healthcare Insurance Premiums	6,740,000	5,685,000	1,055,000	18.6%
Death Benefits	1,771,000	1,772,000	(1,000)	(0.1%)
Refund of Contributions	518,000	615,000	(97,000)	(15.8%)
Administrative and other	1,840,000	1,550,000	290,000	18.7%
Total Deductions	\$ 64,982,000	\$ 55,321,000	\$ 9,661,000	17.5%

Changes in Plan Net Assets (Table 4a)

For the Years Ended June 30, 2003 and 2002

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

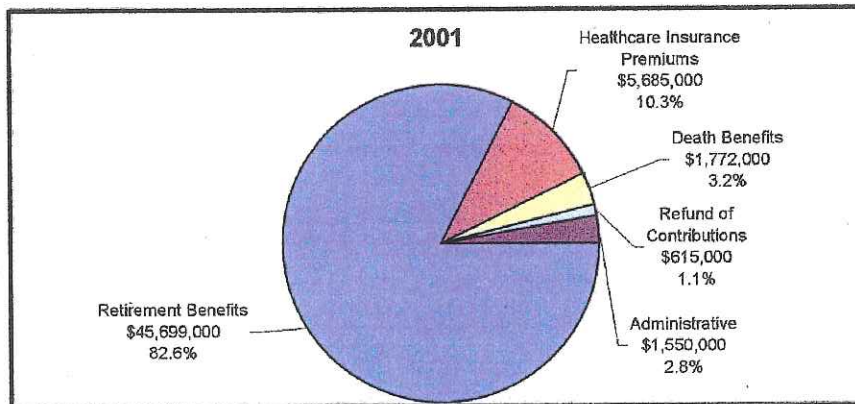
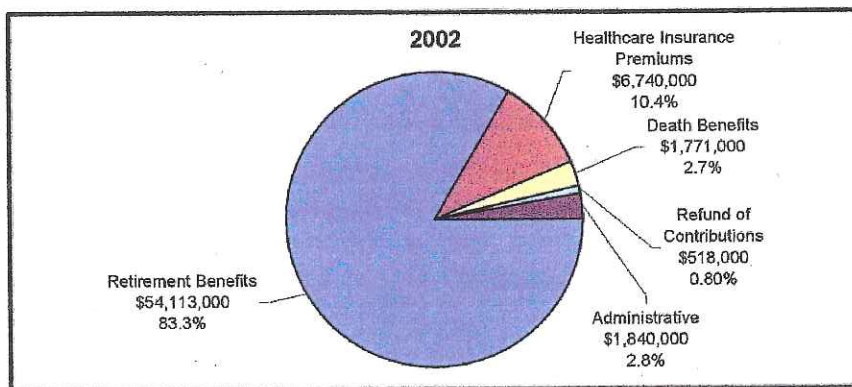
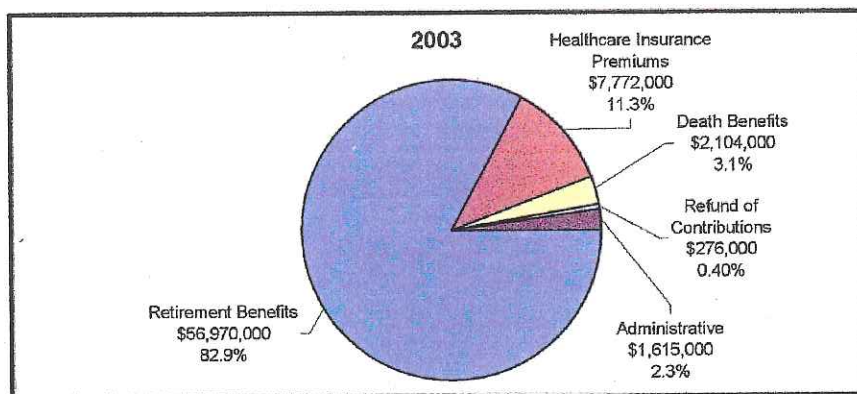
Changes in Plan Net Assets (Table 4b)

For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Total Additions	\$ 13,681,000	\$ 35,419,000	\$ (21,738,000)	(61.4%)
Total Deductions	64,982,000	55,321,000	9,661,000	17.5%
Net Decrease in Plan Assets	\$ (51,301,000)	\$ (19,902,000)	\$ (31,399,000)	(157.8%)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
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Deductions to Plan Net Assets

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

Market returns increased net assets by \$60,602,000, thereby accounting for a 3.7% increase over the prior year. Key elements of this increase are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2003, totaled \$129,339,000. (See Table 2a on page 24.)

By fiscal year-end, overall additions had increased by \$115,658,000, or 845.39%, from the prior year due primarily to unrealized investment gains. The investment section of this report reviews the result of investment activity for the fiscal year ended June 30, 2003.

Additions for the fiscal year ended June 30, 2002, totaled \$13,681,000, which represented a decrease by \$21,738,000, or 61.4%, from 2001 due primarily to investment losses.

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2003 totaled \$68,737,000, an increase of 5.8% over June 30, 2002 (see Table 3a on page 25). Increases in retirement benefits of \$2,857,000, and healthcare insurance premiums of \$1,032,000 were the main reasons for increased expenses. Retirement benefits expense increased due to benefit enhancements, SRBR distribution and increased number of beneficiaries. Health insurance costs increased due to higher premiums.

Deductions for the fiscal year ending June 30, 2002 totaled \$64,982,000, an increase of 17.5% over June 30, 2001. Increases in retirement benefits, healthcare insurance premiums and administrative expenses were the main reasons for increased deductions.

The Plan's Fiduciary Responsibilities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
Page 9 of 9

Requests for Information

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

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

Respectfully Submitted,



Edward F. Overton
Director, Retirement Services

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STATEMENT OF PLAN NET ASSETS
As of June 30, 2003 and 2002
(In Thousands)

	2003		
	Pension	Post-employment	
	benefits	healthcare	Total
	benefits	benefits	
ASSETS:			
Receivables:			
Employee contributions	\$ 374	\$ 80	\$ 454
Employer contributions	692	97	789
Brokers and others	46,151	813	46,964
Accrued investment income	8,739	155	8,894
Total receivables	55,956	1,145	57,101
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	83,135	1,377	84,512
U.S. government securities	166,449	3,042	169,491
Foreign government bonds	75,742	1,341	77,083
Domestic corporate bonds	226,405	4,015	230,420
Foreign corporate bonds	43,902	1,121	45,023
Domestic equity securities	679,894	12,036	691,930
Foreign equity securities	229,882	3,725	233,607
State and local obligations	4,101	73	4,174
Short-term foreign currency investments	(73)	(1)	(74)
Collective short-term investment funds	66,003	1,160	67,163
Real estate	149,414	2,790	152,204
Securities lending collateral investment pool	1,675	30	1,705
Total investments	1,726,529	30,709	1,757,238
Total assets	1,782,485	31,854	1,814,339
LIABILITIES:			
Payable to brokers	126,288	2,240	128,528
Securities lending collateral due to borrowers	1,675	30	1,705
Other liabilities	3,315	60	3,375
Total liabilities	131,278	2,330	133,608
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,651,207	-	1,651,207
Postemployment healthcare benefits	-	29,524	29,524
Total net assets (A schedule of funding progress is presented on page 44.)	\$ 1,651,207	\$ 29,524	\$ 1,680,731

See accompanying notes to basic financial statements

STATEMENT OF PLAN NET ASSETS (Continued)
As of June 30, 2003 and 2002
(In Thousands)

	2002		
	Pension	Post-employment	
	benefits	healthcare	Total
		benefits	
ASSETS:			
Receivables:			
Employee contributions	\$ 354	\$ 76	\$ 430
Employer contributions	469	69	538
Brokers and others	45,623	793	46,416
Accrued investment income	5,632	101	5,733
Total receivables	52,078	1,039	53,117
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	61,231	1,072	62,303
U.S. government securities	194,668	3,410	198,078
Foreign government bonds	80,646	1,413	82,059
Domestic corporate bonds	221,368	3,877	225,245
Foreign corporate bonds	55,881	979	56,860
Domestic equity securities	586,415	10,271	596,686
Foreign equity securities	214,648	3,760	218,408
State and local obligations	-	-	-
Short-term foreign currency investments	(76)	(1)	(77)
Collective short-term investment funds	59,346	1,038	60,384
Real estate	163,265	2,988	166,253
Securities lending collateral investment pool	177,568	3,115	180,683
Total investments	1,814,960	31,922	1,846,882
Total assets	1,867,038	32,961	1,899,999
LIABILITIES:			
Payable to brokers	93,559	1,641	95,200
Securities lending collateral due to borrowers	177,568	3,115	180,683
Other liabilities	3,923	64	3,987
Total liabilities	275,050	4,820	279,870
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,591,988	-	1,591,988
Postemployment healthcare benefits	-	28,141	28,141
Total net assets (A schedule of funding progress is presented on page 44.)	\$ 1,591,988	\$ 28,141	\$ 1,620,129

See accompanying notes to basic financial statements

STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Years Ended June 30, 2003 and 2002
(In Thousands)

	2003		
	Pension	Post-employment	
	benefits	healthcare	Total
	benefits	benefits	
ADDITIONS:			
Contributions:			
Employee	\$ 16,416	\$ 3,521	\$ 19,937
Employer	23,511	4,251	27,762
Total contributions	39,927	7,772	47,699
Investment income:			
Net appreciation in fair value			
of investments	38,110	670	38,780
Interest income	27,104	480	27,584
Dividend income	11,997	213	12,210
Net rental income	9,539	169	9,708
Less investment expense	(6,942)	(124)	(7,066)
Net investment income before			
securities lending income	79,808	1,408	81,216
Securities lending income:			
Earnings	2,622	46	2,668
Rebates	(1,950)	(34)	(1,984)
Fees	(255)	(5)	(260)
Net securities lending income	417	7	424
Net investment income	80,225	1,415	81,640
Total additions	120,152	9,187	129,339
DEDUCTIONS:			
Retirement benefits	56,970	-	56,970
Healthcare insurance premiums	-	7,772	7,772
Death benefits	2,104	-	2,104
Refund of contributions	276	-	276
Administrative expenses and other	1,583	32	1,615
Total deductions	60,933	7,804	68,737
Net increase	59,219	1,383	60,602
NET ASSETS HELD IN TRUST FOR PENSION			
BENEFITS AND POSTEMPLOYMENT			
HEALTHCARE BENEFITS:			
Beginning of year	1,591,988	28,141	1,620,129
End of year	\$ 1,651,207	\$ 29,524	\$ 1,680,731

See accompanying notes to basic financial statements

STATEMENT OF CHANGES IN PLAN NET ASSETS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002
(In Thousands)

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

See accompanying notes to basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 and last amended May 27, 2003, to provide retirement benefits for employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of the Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately \$214,845,000 and \$201,715,000 for 2003 and 2002, respectively. Covered payroll amounted to approximately \$193,998,000 and \$181,298,000 in 2003 and 2002, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2003 and 2002, employee membership data related to the Plan was as follows:

	<u>2003</u>	<u>2002</u>
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	1,312	1,238
Terminated vested members not yet receiving benefits	56	53
Active members	<u>2,114</u>	<u>2,178</u>
Total	<u>3,482</u>	<u>3,469</u>
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,189	1,151
Terminated vested members not yet receiving benefits	13	15
Active members	<u>2,114</u>	<u>2,178</u>
Total	<u>3,316</u>	<u>3,344</u>

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

(b) Pension Benefits

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary).

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

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

(c) Death Benefits

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

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

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

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

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

(d) Disability Benefits

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary).

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

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments

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

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

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2003 and 2002, the net assets, totaling \$1,680,731 and \$1,620,129, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of- Living Fund	Defined Benefit Pension Fund	Post Employment Healthcare Fund	Total
June 30, 2003:					
Employee contributions	\$ 122,108	\$ 37,847	\$ 159,955	\$ 3,032	\$ 162,987
Supplemental retiree benefits	18,647	-	18,647	463	19,110
Unrealized gain/loss on investments held	69,893	27,408	97,301	1,735	99,036
General reserve	978,528	396,776	1,375,304	24,294	1,399,598
Total	<u>\$1,189,176</u>	<u>\$462,031</u>	<u>\$1,651,207</u>	<u>\$ 29,524</u>	<u>\$1,680,731</u>
June 30, 2002:					
Employee contributions	\$ 113,925	\$ 35,485	\$ 149,410	\$ 2,780	\$ 152,190
Supplemental retiree benefits	18,657	-	18,657	455	19,112
Unrealized gain/loss on investments held	22,668	8,724	31,392	553	31,945
General reserve	997,858	394,671	1,392,529	24,353	1,416,882
Total	<u>\$1,153,108</u>	<u>\$438,880</u>	<u>\$1,591,988</u>	<u>\$ 28,141</u>	<u>\$1,620,129</u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-weekly from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% and the SRBR allocation remain in the general reserve category. For fiscal years 2003 and 2002 there were no "excess earnings".

(f) Reclassifications

Certain amounts in 2002 have been reclassified to conform to the 2003 presentation.

NOTE 3—INVESTMENTS

The Plan's investments for both the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are categorized to give an indication of the level of custodial credit risk assumed by the Plans at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a qualifying financial institution's trust department or agent in the Plan's name, where the financial institution acts as the Plan's counterparty. Category 3 includes uninsured and unregistered investments for which the securities are held by a broker or dealer, or by its agent, or by a qualifying financial institution's trust department or agent, but not in the Plan's name. There were no investments in Categories 2 or 3 as of June 30, 2003 and 2002.

The categorization of the Plan's investments (both for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan) as of June 30, 2003 and 2002, was as follows (in thousands):

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 3—INVESTMENTS (Continued)

	Fair Value	
	June 30, 2003	June 30, 2002
Category 1:		
U.S. Treasury notes and bonds:		
Not on securities loan	\$ 84,607	\$ 10,636
Loaned securities for noncash collateral	-	6,122
U.S. government securities:		
Not on securities loan	169,396	175,199
Loaned securities for noncash collateral	-	2,639
Foreign government bonds	77,083	82,059
Domestic corporate bonds	230,413	203,683
Foreign corporate bonds	44,679	56,860
Domestic equity securities	691,655	533,951
Foreign equity securities	232,596	194,048
State and local obligations	4,174	-
Uncategorized:		
Investments held by broker-dealers under securities loans with cash collateral:		
U.S. Treasury bonds and notes	-	45,545
U.S. government securities	-	20,240
Domestic corporate bonds	-	21,562
Domestic equity securities	275	62,735
Foreign equity securities	1,355	24,360
Short-term foreign currency investments	(74)	(77)
Collective short-term investment funds	67,170	60,384
Real estate investments	152,204	166,253
Securities lending collateral investment pool	1,705	180,683
Total investments	<u>\$ 1,757,238</u>	<u>\$ 1,846,882</u>

The following table presents the Plan's investments as presented on the accompanying statements of plan net assets as of June 30, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002
Investments:		
Defined Benefit Pension Plan	\$ 1,726,529	\$ 1,814,960
Postemployment Healthcare Plan	30,709	31,922
	<u>\$ 1,757,238</u>	<u>\$ 1,846,882</u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 3 – INVESTMENTS (Continued)

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

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

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

The loaned securities as of June 30, 2003 and 2002, consisted of U.S. Treasury bonds and notes, U.S. government securities, domestic corporate bonds, domestic equity securities, and foreign equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% - 105% of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2003, the underlying securities loaned by the Plan as a whole amounted to approximately \$1,630,000. The cash collateral totaled \$1,705,000. As of June 30, 2002, the underlying securities loaned by the Plan as a whole amounted to approximately \$183,203,000. The cash collateral and the non-cash collateral totaled \$180,683,000 and \$8,959,000, respectively. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2003 and 2002.

Real estate investments include a warehouse and a retail center located in Northern California and an industrial complex and a retail center in Southern California. Those four properties are jointly owned with the San José Federated Retirement Plan. In addition, the Plan is solely invested in seven other properties: an apartment complex in Houston, TX, and in Colorado Springs, CO; office buildings in Denver, CO, in San José, CA and near Chicago, IL; and warehouses in Nashville, TN, and near Minneapolis, MN. The properties have leases with various terms.

The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2003 and 2002, the Plan's net position in these contracts is recorded at fair value as short-term foreign currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2003, total commitments in forward currency contracts to purchase and sell foreign currencies were \$128,395,000 and \$128,395,000 respectively, with fair values of \$129,455,000 and \$129,381,000 respectively. As of June 30, 2002, the Plan had commitments in foreign currency contracts to purchase and sell foreign currencies of \$48,086,000 and \$48,086,000, respectively, with fair values of \$49,643,000 and \$49,566,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 4—CONTRIBUTIONS - FUNDING POLICY

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

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2003 and 2002, were as follows:

Period	City		Employee	
	Pension	Healthcare	Pension	Healthcare
7/01/01 – 6/22/02	14.00%	1.60%	8.43%	1.36%
6/23/02 – 6/30/03	12.01%	2.21%	8.44%	1.81%

NOTE 5—CONCENTRATIONS

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

NOTE 6—BUY-SELL AGREEMENT WITH THE CITY OF SAN JOSE FEDERATED EMPLOYEES' RETIREMENT SYSTEM

As of June 30, 2003, the Plan and the City of San José Federated Employees' Retirement System (System) jointly owned three properties, each with a 50% interest. On June 27, 2003, the Boards of Administration for the Plan and the System entered into an agreement where the Plan has offered to purchase the System's interest in the three jointly owned properties. The combined book value of the System's interest in the three properties at June 30, 2003 was approximately \$22 million. The properties will be appraised prior to their sale, upon which the Plan will compensate the System for 50% of the appraised value less 50% of the selling costs.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

Funding Progress – GASB No. 25

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

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

⁽²⁾ Excludes postemployment healthcare liability.

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

⁽⁴⁾ After reflection of the Arbitrator Decision to improve Retirement and Health Benefits in 1998, including the impact of FLSA pay.

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

⁽⁶⁾ After adoption of SRBR program.

Actuarial valuations have been performed biennially through June 30, 2001. The June 30, 2003 actuarial valuation will be available for the fiscal year 2003/04 report period.

SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS
DEFINED BENEFIT PENSION PLAN
(Unaudited - See accompanying independent auditor's report)
For The Fiscal Year Ended June 30, 2003

<u>Description</u>	<u>Method/Assumption</u>
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	16 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with three-year setback, is used for male members. The 1994 Female Group Annuity Mortality Table with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2001 Experience Analysis
Salary increases	10.30% for employees for the first five years of service; graded increases thereafter ranging from 10.10% at age 25 to 4.6% at ages 60 and over. Of the total salary increases 4.50% is for inflation.
Cost-of-living adjustments	3.00% a year

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

<u>Fiscal year ended June 30,</u>	<u>Annual required employer contributions</u>	<u>Percentage contributed</u>
1998	\$ 23,643	100%
1999	23,522	100%
2000	27,321	100%
2001	22,157	100%
2002	23,748	100%
2003	23,511	100%

OTHER SUPPLEMENTARY INFORMATION

**COMBINING SCHEDULE OF DEFINED BENEFIT
PENSION PLAN NET ASSETS
June 30, 2003
(In Thousands)**

	Retirement Fund	Cost-of-Living Fund	Total
SSETS:			
Receivables:			
Employee contributions	\$ 270	\$ 104	\$ 374
Employer contributions	351	341	692
Brokers and others	32,944	13,207	46,151
Accrued investment income	6,287	2,452	8,739
Total receivables	39,852	16,104	55,956
Investments, at fair value:			
Securities and other			
U.S. Treasury notes and bonds	59,602	23,533	83,135
U.S. government securities	119,333	47,116	166,449
Foreign government bonds	54,302	21,440	75,742
Domestic corporate bonds	162,317	64,088	226,405
Foreign corporate bonds	31,475	12,427	43,902
Domestic equity securities	487,438	192,456	679,894
Foreign equity securities	164,810	65,072	229,882
State and local obligations	2,940	1,161	4,101
Short-term foreign currency investments	(52)	(21)	(73)
Collective short-term investment funds	47,319	18,684	66,003
Real estate	113,002	36,412	149,414
Securities lending collateral investment pool	1,203	472	1,675
Total investments	1,243,689	482,840	1,726,529
Total assets	1,283,541	498,944	1,782,485
LIABILITIES:			
Payable to brokers	90,719	35,569	126,288
Securities lending collateral due to borrowers	1,203	472	1,675
Other liabilities	2,443	872	3,315
Total liabilities	94,365	36,913	131,278
Plan net assets held in trust for pension benefits	\$ 1,189,176	\$ 462,031	\$ 1,651,207

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2003

(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS:			
Contributions:			
Employee	\$ 11,865	\$ 4,551	\$ 16,416
Employer	15,409	8,102	23,511
Total contributions	<u>27,274</u>	<u>12,653</u>	<u>39,927</u>
Investment income:			
Net appreciation in fair value of investments	27,227	10,883	38,110
Interest income	19,496	7,608	27,104
Dividend income	8,632	3,365	11,997
Net rental income	6,861	2,678	9,539
Less investment expense	(5,043)	(1,899)	(6,942)
Total investment income	<u>57,173</u>	<u>22,635</u>	<u>79,808</u>
Securities lending income:			
Earnings	1,888	734	2,622
Rebates	(1,404)	(546)	(1,950)
Fees	(184)	(71)	(255)
Net securities lending income	<u>300</u>	<u>117</u>	<u>417</u>
Total investment income	<u>57,473</u>	<u>22,752</u>	<u>80,225</u>
Total additions	<u>84,747</u>	<u>35,405</u>	<u>120,152</u>
DEDUCTIONS:			
Retirement benefits	45,061	11,909	56,970
Death benefits	2,104	-	2,104
Refund of contributions	212	64	276
Administrative expenses and other	1,302	281	1,583
Total deductions	<u>48,679</u>	<u>12,254</u>	<u>60,933</u>
Net increase	36,068	23,151	59,219
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	1,153,108	438,880	1,591,988
End of year	<u>\$ 1,189,176</u>	<u>\$ 462,031</u>	<u>\$ 1,651,207</u>

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For The Years Ended June 30, 2003 and 2002

	2003			2002
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services:				
Permanent staff expense	\$ 1,100,725	\$ 953,863	\$ 146,862	\$ 968,143
Temporary Staff	7,300	-	7,300	157
Total personnel services	1,108,025	953,863	154,162	968,300
Professional services:				
Actuarial services	64,000	55,398	8,602	179,721
Medical services	88,805	96,020	(7,215)	58,468
Audit	34,500	23,527	10,973	19,950
Legal counsel	76,100	22,718	53,382	65,965
Pension benefit information	3,300	1,556	1,744	1,883
Pension administration system audit	25,000	22,700	2,300	1,883
Web development, maintenance and hosting expense	57,000	2,050	54,950	1,883
Total professional services	348,705	223,969	124,736	325,987
Communication:				
Postage	10,000	10,962	(962)	14,376
Printing and duplicating	25,500	25,828	(328)	17,889
Data processing	5,500	5,633	(133)	5,243
Total communication	41,000	42,423	(1,423)	37,508
Structure and equipment:				
Copier lease	7,200	6,475	725	6,005
Copier maintenance	1,000	615	385	742
Furniture	3,000	534	2,466	13,062
Moving Service	-	-	-	156
Equipment	5,200	2,349	2,851	13,514
Equipment repair and miscellaneous services	4,800	1,413	3,387	4,182
Pension administration system maintenance	55,000	48,461	6,539	39,088
Software enhancements	75,000	47,831	27,169	102,188
Computer hardware/ software	19,300	18,339	961	1,285
Communication equipment	21,600	8,451	13,149	-
Total structure and equipment	192,100	134,468	57,632	180,222
Miscellaneous:				
Office expense	13,800	7,717	6,083	14,492
Dues/ subscriptions	3,000	2,285	715	2,370
Training	70,900	41,813	29,087	33,722
Travel	105,000	67,833	37,167	99,861
Non-employee board member stipend	1,900	1,500	400	1,500
Rent on building	140,000	130,360	9,640	131,349
Tenant improvements	-	-	-	44,218
Payroll tax expense	-	8,894	(8,894)	-
Total miscellaneous	334,600	260,402	74,198	327,512
Total administrative expenses and other	\$ 2,024,430	\$ 1,615,125	\$ 409,305	\$ 1,839,529

SCHEDULES OF INVESTMENT EXPENSES

For The Years Ended June 30, 2003 and 2002

	2003	2002
Equity:		
Domestic equity	\$ 2,064,609	\$ 2,214,979
International equity	1,350,809	909,782
Emerging market equity managers	1,105,748	509,569
Total equity	<u>4,521,166</u>	<u>3,634,330</u>
Fixed income:		
Domestic fixed income	1,005,823	734,636
Global fixed income	359,977	368,455
Total fixed income	<u>1,365,800</u>	<u>1,103,091</u>
Real estate	656,496	900,740
Cash (Custodian STIF)	76,124	51,242
Total investment managers' fees	<u>6,619,586</u>	<u>5,689,403</u>
Other investment service fees:		
Investment consultant	88,000	128,000
Proxy voting	16,030	13,410
Real estate consultant	43,589	-
Real estate legal fees	122,298	158,621
Real estate appraisals	53,000	43,250
Custodian	123,750	118,800
Total other investment service fees	<u>446,667</u>	<u>462,081</u>
TOTAL INVESTMENT EXPENSES	<u><u>\$ 7,066,253</u></u>	<u><u>\$ 6,151,484</u></u>

SCHEDULES OF PAYMENTS TO CONSULTANTS

For The Years Ended June 30, 2003 and 2002

Firm	Nature of Service	2003	2002
Levi, Ray, & Shoup	Pension Admin. System Maintenance	\$ 96,292	\$ -
Levi, Ray, & Shoup	Web Development	2,050	-
Williams, Adley & Co.	Pension Gold Auditor	22,700	-
Macias, Gini & Company LLP	External Auditors	23,527	19,950
Medical Director/Other Medical	Medical Consultant	96,020	58,468
Pension Benefit Information	Reports on Deceased Benefit Recipients	1,556	1,883
Saltzman & Johnson	Legal Counsel	19,010	29,021
Greve, Clifford, Engel & Paris, LLP	Legal Counsel	188	12,204
Ogden, Gibson, White & Brooks	Legal Counsel	3,520	-
Steptoe & Johnson	Legal Counsel - Special Tax Project	-	24,740
Mercer Human Resources	Actuarial Consultant	55,398	179,721
Total		<u>\$ 320,261</u>	<u>\$ 325,987</u>

III.
INVESTMENT
SECTION

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REPORT ON INVESTMENT ACTIVITY

MERCER

Investment Consulting

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

03 October 2003

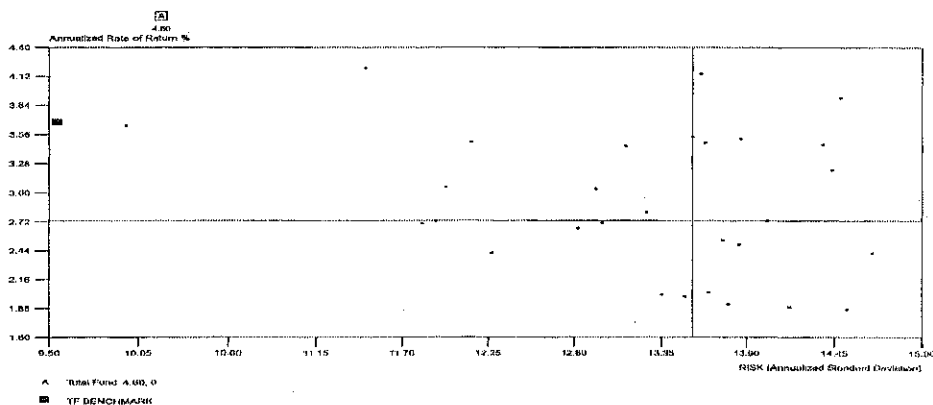
Mr. Edward Overton
 Secretary, Board of Administration
 San José Police and Fire Retirement System
 1737 North First Street, Suite 580
 San Jose, CA 95112-4505

Dear Mr. Overton:

During the Plan's fiscal year ending June 30, 2003 the San José Police and Fire Department Retirement Plan was up 5.4% which placed in the **19th percentile** of similar public pension plans with assets in excess of \$1 billion. The average return for that universe of public plans was only 3.4%. A time weighted total return for the Plan's assets is calculated every quarter by Mercer Investment Consulting. Mercer then compares those returns with the Russell/Mellon Universe of Public Funds with assets in excess of \$1 billion.

The Trustees have maintained a more conservative asset allocation strategy than the average public fund which has been rewarded over the past three years of negative equity returns. From a longer term perspective, the Plan's performance for **five years was above the 5th percentile** and has done so with much less risk than plans with lower performance. The following five year graph shows the return and risk characteristics of the Plan compared to its peer universe. As depicted, the five year performance is literally off the chart.

Total Funds Billion Dollar - Public
 Risk-Return Comparisons
 5 Years Ending June 30, 2003



MMC Marsh & McLennan Companies

REPORT ON INVESTMENT ACTIVITY (Continued)**MERCER**

Investment Consulting

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03 October 2003

Mr. Edward Overton

San José Police and Fire Retirement System

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

The U.S. economy appears to have entered a slow recovery phase in the first two quarters of 2003 and early projections indicate improvement in the second half as well. The Federal Reserve attempted to inject additional growth by lowering interest rates by $\frac{1}{4}\%$ in its June meeting. Bond prices remained strong and the Lehman Brothers Aggregate Bond Index return was 10.4% for the 12 months ending June 30, 2003. Due to a declining U.S. dollar, global bonds performed even better with the Citigroup World Government Bond Index up 16.5%.

Consumer spending has held up fairly well in spite of a rising unemployment rate of 6.4%. Business spending is still down and the manufacturing sector is showing zero growth. A significant factor seems to be the production of goods being moved to China. This is not the only issue but there is increasing concern over the trade imbalance between China and the U.S.

Residential and commercial real estate prices have held up well in most regions of the U.S. As the economy continues to recover, interest rates are expected to rise and it would be reasonable to assume some inflation growth as well. That environment should favor the Plan's real estate investments.

Mercer continues to be optimistic about economic growth but it would not be a surprise to see a slow down in the first half of 2004. The U.S. economy may still be strong relative to the global economy but it is not what we would call robust. Gradual growth over the next five years with periods of "fits and starts" would be expected.

Sincerely,


Thomas J. Lightvoet

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

GENERAL ENVIRONMENT

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

INVESTMENT GUIDELINES

General

The Board Shall:

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

Asset Allocation

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

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

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

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

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the

STATEMENT OF INVESTMENT POLICY (Continued)

strategic asset allocation of the Plan.

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

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

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

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

Diversification

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

Volatility

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

Liquidity

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

Fixed Income

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

- (1) Portfolio investments will be composed primarily of fixed income securities (including short-term obligations) denominated in either United States or foreign currencies. Securities may be issued by domestic or foreign governments, domestic or foreign government agencies and instrumentalities, international banks or other international organizations, corporations, or other forms of business organizations.
- (2) The investment manager may also purchase securities of other categories; including, options and financial futures contracts traded over-the-counter or on organized securities exchanges, commodities exchanges, or Boards of Trade. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration as characterized by its stated investment style. The manager will invest the assets at such times, in such amounts, and in such investments as the manager shall determine at the manager's discretion.
- (3) Deposits in banks or banking institutions, domestic or foreign, may be made. Because the fundamental objective is to enhance the rate of return calculated in U.S. dollars, and currency exchange gains and losses are included in the calculation of total return, currency hedging shall be permitted, at the discretion of the manager, to protect the value of specific investments in U.S. dollar terms.
- (4) Forward or future contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in, or the settlement of, any such securities transactions, as the case may be.
- (5) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by either Standard & Poor's or Moody's Investor Services; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated "B" or "BB."
- (6) The Fund will be valued in United States dollars on the last business day of each month and on such other "Valuation Dates" as the Board may deem appropriate. For valuation purposes, all foreign currency, foreign deposits, and securities quoted in foreign currencies shall be converted into dollars pursuant to methods consistently followed and uniformly applied.
- (7) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with prior approval by the Board. The average credit quality of the commingled account shall be a "B" or better rating.

STATEMENT OF INVESTMENT POLICY (Continued)

Domestic Common Stock

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

- (1) Investment in any corporation shall not exceed 5% of the outstanding shares of the corporation.
- (2) Not more than 5% of the total assets at market may be invested in preferred stocks.
- (3) Not more than 5% of any Investment Manager's portfolio at market shall be invested in the common stock of any corporation, except when:
 - The security has a weighting greater than 5% in the manager's benchmark and
 - The manager has received prior written permission from the Director, Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.
- (4) The manager will invest the assets at such times, in such amounts, and in such investments as the manager shall determine at the manager's discretion.
- (5) Approximately 15% of the domestic equity assets will be passively managed (indexed).

International Common Stock

Developed Markets

- (1) The portfolio will be invested primarily in non-U.S. common stocks. Investment in American Depositary Receipts (ADRs) is permitted, but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of developed markets international common stock to be held is 20% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 20% restriction. A maximum of 20% of a manager's international equity portfolio may be invested in emerging markets.
- (2) Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.
- (3) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio.
- (4) To ensure proper diversification, the Fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio.

STATEMENT OF INVESTMENT POLICY (Continued)

Emerging Markets

- (1) The portfolio will be invested in non-U.S. common stocks. Investment in American Depositary Receipts (ADRs) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of emerging international common stock to be held is 8% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 8% restriction.
- (2) Currency hedging will be permitted as part of a defensive strategy to protect the portfolio's underlying assets.
- (3) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio.
- (4) To ensure proper diversification, the Fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio, except when:
 - The security has a weighting greater than 5% in the manager's benchmark and
 - The manager has received prior written permission from the Director, Retirement Services.The Director will then inform the Investment Committee of any exceptions that were granted.

Real Estate

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

- (1) The real estate is defined as any real property within the United States improved by multifamily dwelling, industrial, or commercial buildings.
- (2) Real estate related debt instruments shall be defined as first mortgages.
- (3) The Fund shall at no time:
 - (a) Invest directly or indirectly more than 25% of the Fund's assets, valued at market, in real estate investment as defined hereinabove; nor,
 - (b) Invest directly or indirectly more than 5% of the Fund's assets, valued at market, in any one property, project, or debt instrument, regardless of the manner of investment.
- (4) The investment advisors employed by the Board to assist in the location and acquisition of real estate must bring their proposals to the Board for approval.

Credit Unions

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

STATEMENT OF INVESTMENT POLICY (Continued)

Manager Discretion

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

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

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

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

Performance Goals

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

Domestic Equity Managers

- (1) Performance within the top half of the appropriate Mercer's Equity Style Universe.
- (2) Net of fees, manager performance shall exceed the return of the appropriate benchmark by the following:
 - 100 basis points for large-cap equity managers,
 - 150 basis points for mid-cap equity managers, and
 - 200 basis points for small-cap equity managers.
- (3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the manager's benchmark index without a corresponding increase in performance above that index.

Domestic Fixed Income Managers

- (1) Performance within the top half of Mercer's Bond Fund Universe.
- (2) Net of fees, manager performance shall exceed by 50 basis points, the return of the Lehman Brothers Aggregate Bond Index.
- (3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Lehman Brothers Aggregate Bond Index without a corresponding increase in performance above the index.

STATEMENT OF INVESTMENT POLICY (Continued)

International Equity Managers

Developed Markets

- (1) Performance within the top half of Mercer's International Equity Fund Universe.
- (2) Net of fees, manager performance shall exceed by 150 basis points, the return of the Morgan Stanley EAFE Index for international equity managers.
- (3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EAFE Index without a corresponding increase in performance above the index.

Emerging Markets

- (1) Performance within the top half of Mercer's Emerging Markets Equity Peer Group.
- (2) Net of fees, manager performance shall exceed by 200 basis points, the return of the MSCI Emerging Market Free Index for emerging markets managers.
- (3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EMF Index without a corresponding increase in performance above the index.

International Fixed Income Managers

- (1) Performance above median in Mercer's International Bond Fund Universe.
- (2) Net of fees, manager performance shall exceed by 75 basis points, the return of the Salomon Brothers World Government Bond Index.
- (3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Salomon Brothers World Government Bond Index without a corresponding increase in performance above the index.

Real Estate Managers

- (1) Performance above median in Mercer's Real Estate Fund Universe.
- (2) Net of fees, manager performance shall exceed by 150 basis points, the return of the National Counsel of Real Estate Investment Fiduciaries (NCREIF) Classic Property Index or the NCREIF Classic Property Pacific Index for the portfolio with the majority of properties in California.
- (3) The risk associated with the manager's portfolio must not exceed that of the NCREIF or NCREIF Pacific Index without a corresponding increase in performance above the index.

STATEMENT OF INVESTMENT POLICY (Continued)

Periodic Reviews of Manager Performance

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

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

Procedure:

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

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

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

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

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

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

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

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

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

STATEMENT OF INVESTMENT POLICY (Continued)

by the Director. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

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

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

Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

- (1) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.
- (2) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.
- (3) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.
- (4) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.
- (5) Any other event which in the discretion of the Director appears to put the Fund's assets at risk of loss, either actual or opportunity.

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

INVESTMENT PROFESSIONALS**INVESTMENT MANAGERS****DOMESTIC EQUITIES:**

Alliance Capital Management
Large Cap Growth
New York, NY

Boston Partners Asset Management
Large Cap Value
Los Angeles, CA

GE Asset Management
Large Cap Growth
Stamford, CT

Globalt, Inc.
Large Cap Growth
Atlanta, GA

New Amsterdam Partners
Large Cap Growth
New York, NY

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

Rhumblin Advisors
S&P 500 Index
Boston, MA

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

UBS Global Asset Management
Large Cap Value
Chicago, IL

Woodford Capital Management
Large Cap Growth
Los Altos, CA

INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

Brandes Investment Partners
San Diego, CA

William Blair & Co.
Chicago, IL

EMERGING MARKET EQUITIES:

Alliance Capital Management
New York, NY

The Boston Company
Boston, MA

DOMESTIC FIXED INCOME:

Chicago Capital Management
Chicago, IL

Seix Investment Advisors
Woodcliff Lake, NJ

Western Asset Management
Pasadena, CA

GLOBAL FIXED INCOME:

Credit Suisse Asset Management
London, England

REAL ESTATE:

MIG Realty Advisors
Cleveland, OH

INVESTMENT PROFESSIONALS (Continued)

CONSULTANT

Mercer Investment Consulting
Los Angeles, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Investor Responsibility Research Center
Washington, DC

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

Periods Ending June 30, 2003

Basis of calculation: Time-weighted rate of return.

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
TOTAL FUND	5.4%	1.4%	4.6%
Benchmark	4.5%	-0.2%	3.7%
Russell/Mellon Billion \$ Total Funds Public Median	3.4%	-3.1%	2.7%
 TOTAL DOMESTIC FIXED INCOME	 11.6%	 9.6%	 7.0%
Lehman Brothers Aggregate Bond Index	10.4%	10.1%	7.5%
Mercer US Fixed Income Core Median	11.0%	10.3%	7.6%
 TOTAL GLOBAL FIXED INCOME	 17.4%	 9.2%	 6.4%
Citigroup World Government Bond Index	16.5%	8.8%	6.7%
Mercer Global Fixed Income Unhedged Median	17.4%	9.7%	6.8%
 TOTAL DOMESTIC EQUITY	 -0.2%	 -7.4%	 -0.3%
S&P 500 Index	0.3%	-11.2%	-1.6%
Mercer US Equity Combined Median	-0.3%	-4.3%	2.5%
 TOTAL INTERNATIONAL EQUITY	 -6.6%	 -9.2%	 1.7%
EAFE Index	-6.5%	-13.5%	-4.0%
Mercer International Equity Median	-6.0%	-12.5%	-1.8%
 TOTAL EMERGING MARKETS EQUITY	 10.0%	 N/A	 N/A
MSCI Emerging Markets Free Index	7.0%	-7.0%	2.5%
Mercer Emerging Markets Equity Median	7.6%	-4.9%	4.1%
 TOTAL REAL ESTATE	 7.5%	 8.1%	 10.4%
NCREIF Property Index (1 Quarter in Arrears)	7.1%	8.5%	10.2%
Mercer US Real Estate Median	8.1%	9.1%	9.5%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

Periods Ending June 30, 2003

The table below details the rates of return for the Plan's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed. Source: Mercer Investment Performance Evaluation Report June 30, 2003.

	<u>One Year</u>	<u>Three Years</u>	<u>3 3/4 Years (Incept. 10/99)</u>
DOMESTIC FIXED INCOME			
ABN AMRO Asset Management	9.2%	8.9%	8.1%
Lehman Brothers Aggregate Bond Index + 50 bps	10.9%	10.6%	9.6%
Mercer US Fixed Income Core Median	11.0%	10.3%	NA
Seix Investment Advisors	10.6%	9.4%	8.5%
Lehman Brothers Aggregate Bond Index + 50 bps	10.9%	10.6%	9.6%
Mercer US Fixed Income Core Median	11.0%	10.3%	NA
	<u>One Quarter</u>	<u>Six Months</u>	<u>11+ Months (Incept. 7/02)</u>
Western Asset Management	4.1% ++	6.7% ++	14.4% +
Lehman Brothers Aggregate Bond Index + 50 bps	2.6%	4.2%	9.5%
Mercer US Fixed Income Core Median	2.9%	4.5%	NA
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
GLOBAL FIXED INCOME			
Credit Suisse Investment Management	17.1%	8.9%	6.1%
Citigroup World Government Bond Index + 75 bps	17.2%	9.5%	7.4%
Mercer Global Fixed Income Unhedged Median	17.4%	9.7%	6.8%
DOMESTIC EQUITY			
Rhumblin Advisors (Index)	0.3% +	-10.7% +	-1.2% +
S&P 500 Index	0.3%	-11.2%	-1.6%
Mercer US Equity Combined Median	-0.3%	-4.3%	2.5%
Boston Partners (Large Cap Value)	-2.5%	3.9% ++	1.8%
Russell 1000 Value Index + 100 bps	-0.0%	0.8%	2.1%
Mercer US Equity Large Cap Value Median	-1.5%	0.8%	2.2%
UBS Global Asset Management (Large Cap Value)	2.4% ++	2.1% ++	0.6% +
Russell 3000 Index + 100bps	1.8%	-9.5%	-0.1%
Mercer US Equity Large Cap Value Median	-1.5%	0.8%	2.2%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

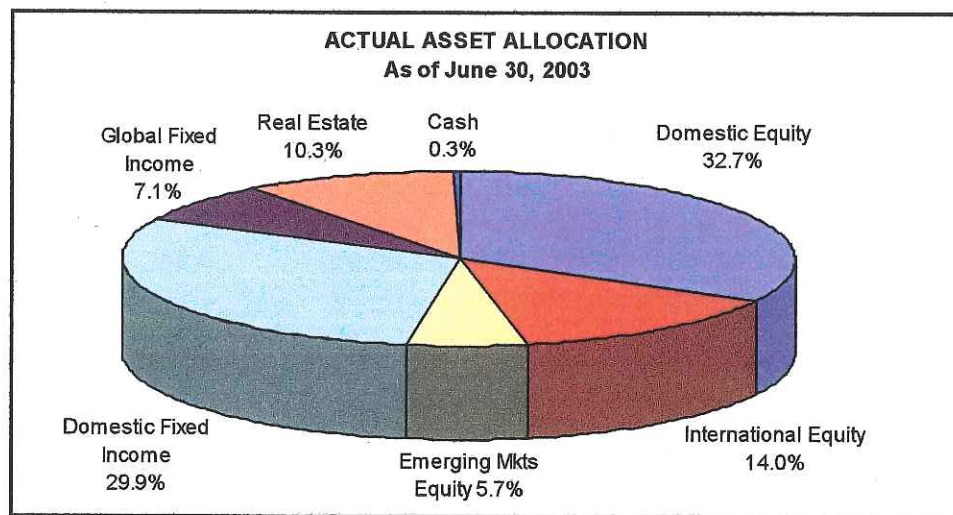
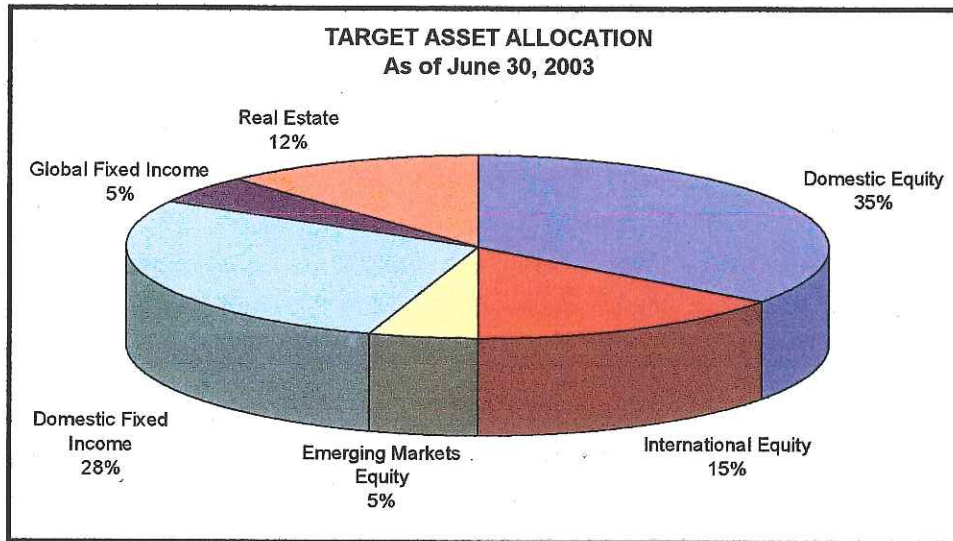
	<u>Six Months</u>	<u>One Year</u>	<u>2 1/2 Years Incept. (1/01)</u>
GE Asset Management (Large Cap Value)	10.1%	-1.3% +	-7.4%
Russell 1000 Value Index + 100 bps	12.1%	-0.0%	-3.6%
Mercer US Equity Large Cap Value Median	11.8%	-1.5%	NA
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
New Amsterdam Partners (Lg Cap Growth)	0.6% +	-6.3% ++	1.8% ++
S&P 500 + 100 bps	1.2%	-10.2%	-0.6%
Mercer US Equity Large Cap Growth Median	0.2%	-17.3%	-1.1%
Woodford Capital Management (Large Cap Value)	-1.7%	-17.1% +	-3.5% +
S&P 500 / Barra Growth Index	3.3%	-16.4%	-4.8%
Mercer US Equity Large Cap Growth Median	0.2%	-17.3%	-1.1%
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
Alliance Capital Management (Large Cap Value)	-2.0%	-22.2%	-7.7%
Russell 1000 Growth Index + 100 bps	3.9%	-20.5%	-4.0%
Mercer US Equity Large Cap Growth Median	0.2%	-17.3%	-1.1%
Globalt, Inc. (Large Cap Growth)	-3.7%	-22.4%	-8.0%
Russell 1000 Growth Index + 100 bps	3.9%	-20.5%	-4.0%
Mercer US Equity Large Cap Growth Median	0.2%	-17.3%	-1.1%
	<u>Six Months</u>	<u>One Year</u>	<u>1 Yr. 8 Mos. (Incept. 11/01)</u>
TCW (Small Cap Value)	19.9% ++	-4.1%	0.7%
Russell 2000 Value Index + 200 bps	17.5%	-1.8%	12.1%
Mercer US Equity Small Cap Value Median	15.1%	-0.9%	NA
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
Provident Investment Counsel (Small Cap Growth)	1.7% +	-19.0%	0.7% +
Russell 2000 Growth Index + 200 bps	2.7%	-14.6%	-2.2%
Mercer US Equity Small Cap Growth Median	-0.5%	-12.8%	2.0%

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
INTERNATIONALEQUITY			
Bank of Ireland Asset Management	-9.6%	-13.1%	-2.9%
MSCI EAFE Net Dividend Index + 150 bps	-4.6%	-11.7%	-2.2%
Mercer International Equity Median	-6.0%	-12.5%	-1.8%
Brandes Investment Partners	-6.2%	-7.0% ++	4.3% ++
MSCI EAFE Net Dividend Index + 150 bps	-4.6%	-11.7%	-2.2%
Mercer International Equity Median	-6.0%	-12.5%	-1.8%
	<u>Six Months</u>	<u>One Year</u>	<u>1 Yr. 4 Mos. Incept. (3/02)</u>
William Blair & Co	11.9% ++	-5.6% +	-2.9%
MSCI AC World Free Ex US Index +150 bps	11.9%	-2.7%	0.2%
Mercer International Equity Median	9.8%	-6.0%	NA
	<u>Six Months</u>	<u>One Year</u>	<u>1 Yr. 10 Mos. Incept. (9/01)</u>
EMERGING MARKETS EQUITY			
Alliance Capital Management	16.4%	9.6% ++	13.0% +
MSCI Emerging Markets Free Index + 200 bps	17.1%	9.0%	10.9%
Mercer Emerging Markets Equity Median	16.5%	7.6%	NA
Boston Company Asset Management	16.5% +	8.1% +	13.4% +
MSCI Emerging Markets Free Index + 200 bps	17.1%	9.0%	10.9%
Mercer Emerging Markets Equity Median	16.5%	7.6%	NA
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
REAL ESTATE			
MIG Realty Advisors	15.4% ++	11.1% ++	12.4% ++
NCREIF Property Index (1 Qtr in arrears) + 150 bps	8.5%	10.0%	11.7%
Mercer US Real Estate Median	8.1%	9.1%	9.5%
PM Realty Advisors	-0.6%	4.0%	6.0%
NCREIF Property Index (1 Qtr in arrears) + 150 bps	8.5%	10.0%	11.7%
Mercer US Real Estate Median	8.1%	9.1%	9.5%

ASSET ALLOCATION

Target versus Actual



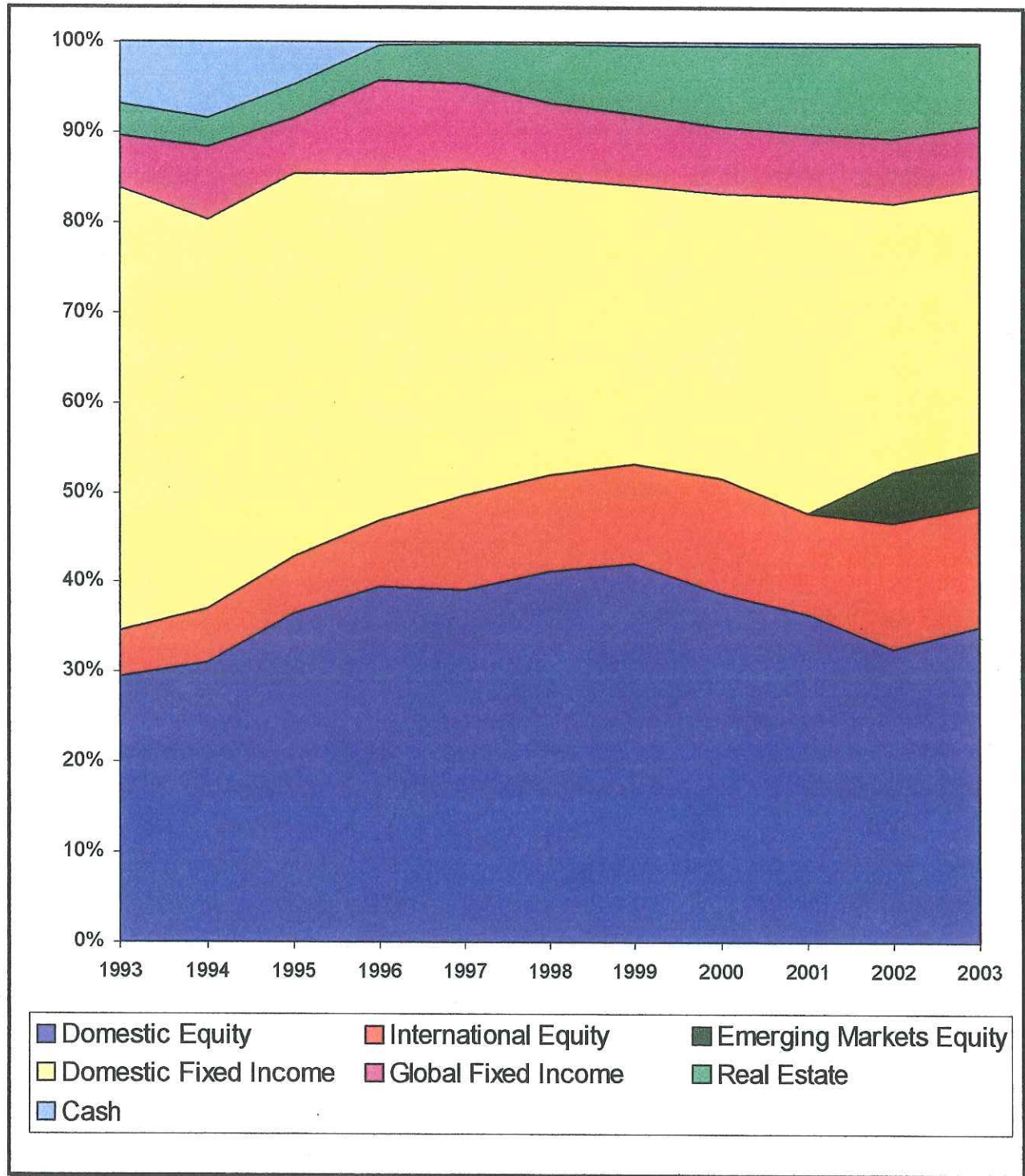
ACTUAL ASSET ALLOCATION

As of June 30, 2003 (In Millions)

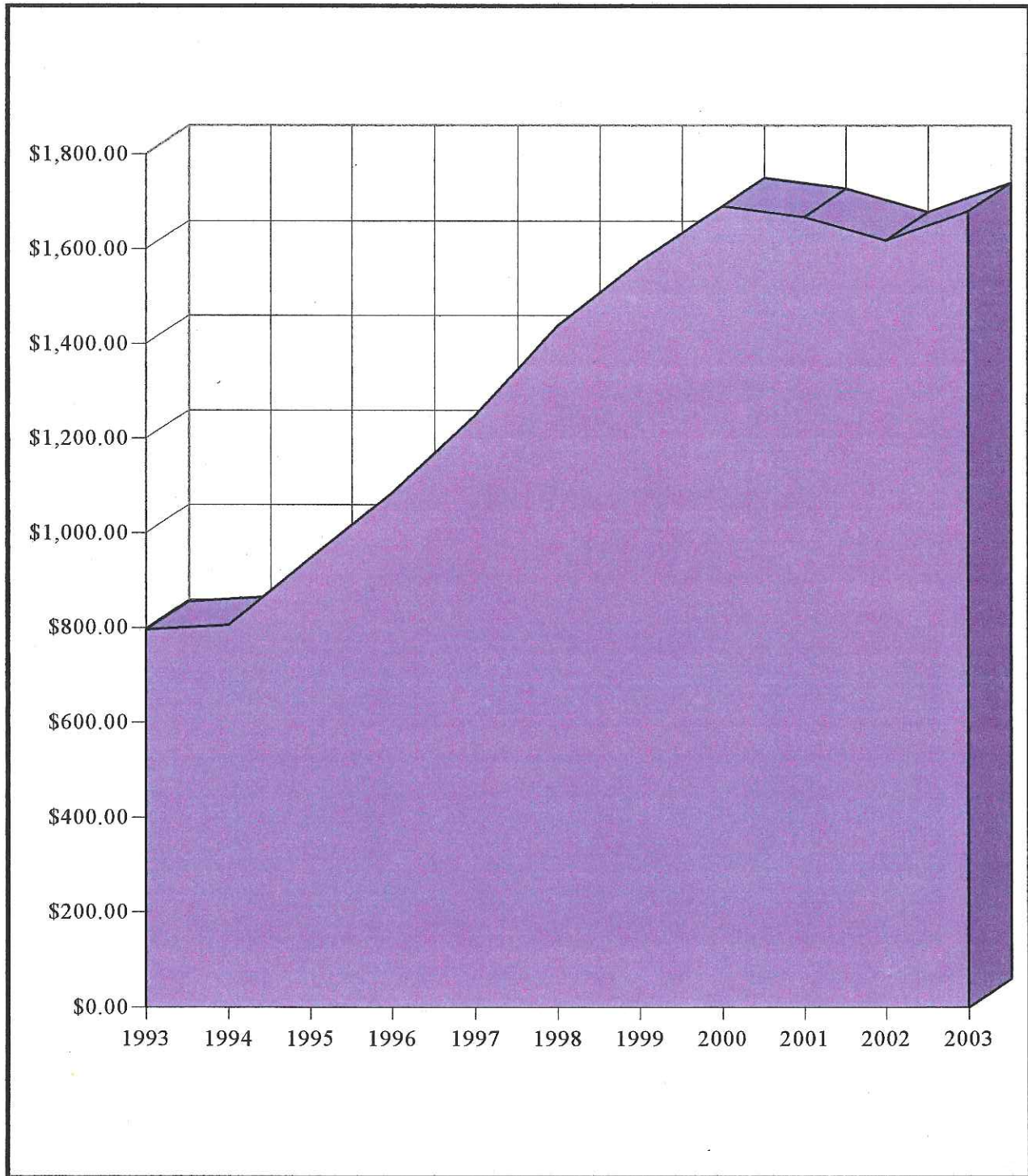
Domestic Equity	\$ 591.68
International Equity	225.32
Emerging Markets Equity	101.59
Domestic Fixed Income	490.87
Global Fixed Income	115.36
Real Estate	153.27
Cash	2.34
TOTAL	\$ 1,680.43

HISTORICAL ASSET ALLOCATION (ACTUAL)

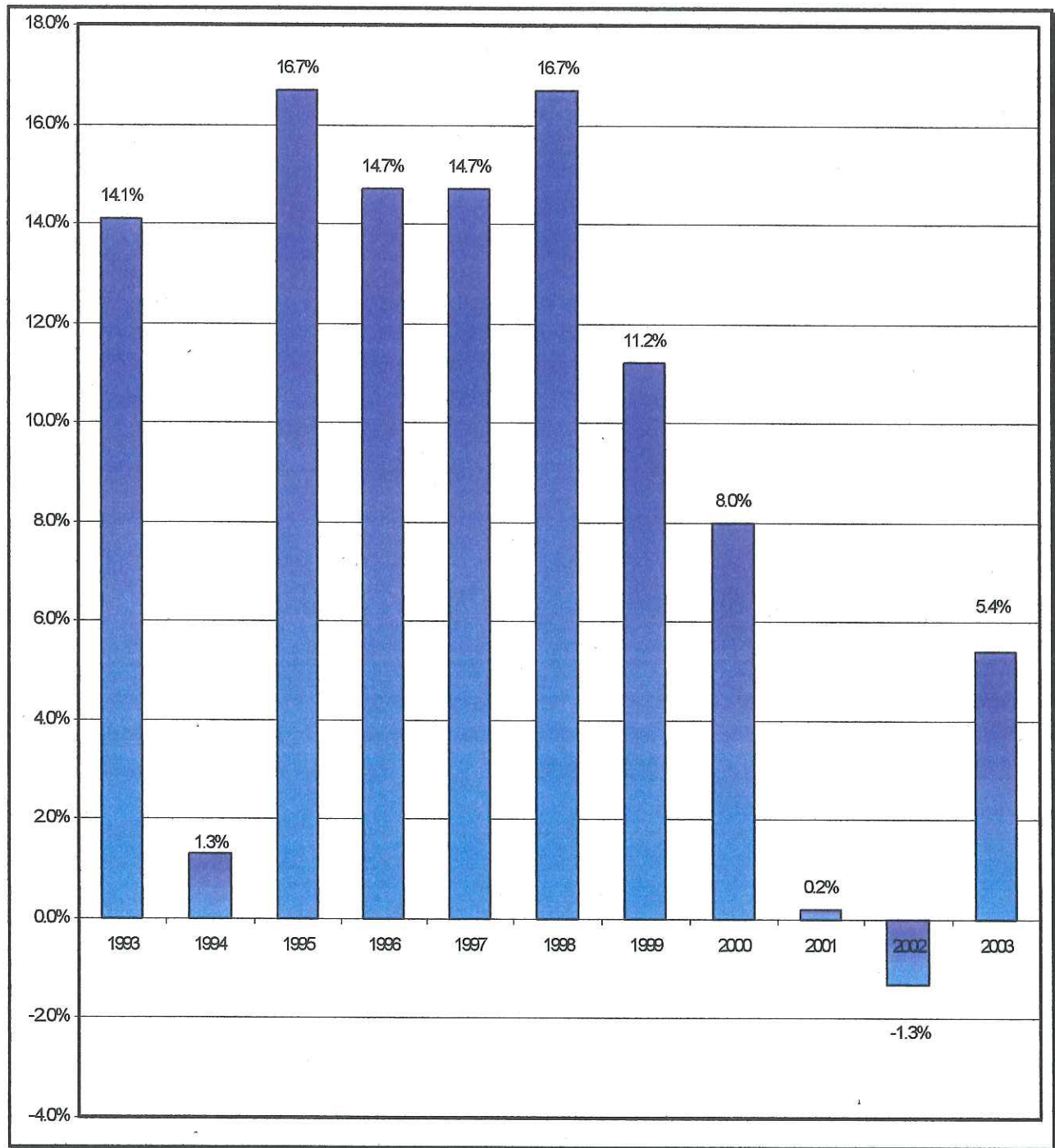
June 30, 1993 - June 30, 2003



MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2003
(In Millions)



HISTORY OF PERFORMANCE
(Based on Market Value)
For Fiscal Years 1993 - 2003



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)

June 30, 2003

<u>Shares</u>	<u>Country</u>	<u>Description</u>	<u>Market Value in \$US</u>
621,232	USA	MICROSOFT CORP.	\$ 15,928,388
321,517	USA	CITIGROUP INC.	13,760,928
335,153	USA	PFIZER INC.	11,445,475
193,502	USA	JOHNSON & JOHNSON	10,004,053
273,158	USA	GENERAL ELECTRIC CO.	7,834,171
87,003	USA	PROCTER & GAMBLE CO.	7,758,928
103,796	USA	AMGEN CORP.	6,844,308
120,870	USA	AMERICAN INTL. GROUP INC.	6,669,607
116,820	USA	WAL-MART STORES INC.	6,269,729
173,416	USA	EXXON MOBIL CORP.	6,227,369

LARGEST BOND HOLDINGS (By Market Value)

June 30, 2003

<u>Par Value in \$US</u>	<u>Country</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Market Value in \$US</u>
\$ 12,290,000	USA	U.S. TREASURY BOND	5.375	02/15/31	\$ 13,837,772
9,000,000	USA	U.S. TREASURY BOND	3.875	04/15/29	12,839,085
9,247,000	USA	GOV'T. NATL. MTG. ASSN.	7.000	07/01/32	9,767,144
8,902,000	USA	GOV'T. NATL. MTG. ASSN.	6.000	08/20/33	9,313,718
8,243,000	USA	FED. HOME LOAN MTG. CORP.	5.500	08/01/33	8,479,986
7,987,000	USA	FED. HOME LOAN MTG. CORP.	6.000	08/13/33	8,276,529
7,900,000	USA	FEDERAL NATL. MTG. ASSN.	5.500	07/17/18	8,203,676
7,225,000	USA	U.S. TREASURY NOTE	3.875	07/31/03	7,243,063
6,067,000	USA	FED. HOME LOAN MTG. CORP.	5.000	07/01/33	6,163,708
4,900,000	GERMANY	GER. (REP. OF) GOVT. NOTE	4.500	08/18/06	5,959,779

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS

For the Year Ended June 30, 2003

INVESTMENT FEES

	Assets Under Mgt. at Market Value	Fees	Basis Points
Investment managers' fees:			
Domestic equity managers	\$ 591,681,353	\$ 2,064,609	35
International equity managers	225,319,550	1,350,809	60
Emerging market equity managers	101,589,213	1,105,748	109
Domestic fixed income managers	490,867,977	1,005,823	20
Global fixed income managers	115,359,912	359,977	31
Real estate managers	153,272,793	656,496	43
Cash (STIF)	231,264	76,124	N/A
Total investment managers' fees	\$ 1,678,322,062	\$ 6,619,586	39
Other investment service fees:			
Investment consultant	N/A	\$ 131,589	N/A
Real estate legal fees	N/A	122,298	N/A
Real estate appraisals	N/A	53,000	N/A
Proxy voting	N/A	16,030	N/A
Custodian	N/A	123,750	N/A
Total other investment service fees		\$ 446,667	

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
ABEL NOSER CORP.	52,000	\$ 2,600.00	\$ 0.05000
ABG SECURITIES	7,500	272.43	0.03632
ABN AMRO	825,307	9,316.70	0.01129
ADAMS HARKNESS & HILL, INC.	31,800	1,422.00	0.04472
ADVEST, INC.	4,100	205.00	0.05000
AGORA CORRETORA DE TITULOSE VALORES	9,804,530	756.20	0.00008
ARCHITELAGO	3,300	66.00	0.02000
ARNHOLD & S. BLEICHROEDER, INC.	1,282	58.10	0.04532
AUTRANET INC.	135,400	6,770.00	0.05000
BAIRD (ROBERT W.) & CO., INC.	149,013	6,855.65	0.04601
BANC/AMERICA SEC MONTGOMERY DI	249,453	12,561.71	0.05036
BANCO BANIF PRIMUS S/A	18,435,108	435.05	0.00002
BANCO CHASE MANHATTAN S.A.	4,207,678	162.31	0.00004
BANCO SANTANDER	7,823,900	1,178.38	0.00015
BANCO WARBURG DRILLON READ S/A	414,000	225.46	0.00054
BANK OF AMERICA, N.A.	4,254	122.09	0.02870

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
BANK OF NEW YORK, THE/BRUSSELS	600	\$ 5.40	\$ 0.25900
BANKERS TRUST COMPANY NEW YORK	172,383	5,564.91	0.03228
BANQUE NATIONALE DE PARIS	18,545	586.89	0.03165
BANQUE PARIBAS	11,600	1,508.83	0.13007
BARING SECURITIES	2,000	93.63	0.04682
BARRINGTON RESEARCH ASSOCIATES	15,060	655.40	0.04352
BEAR STEARNS	23,823,189	34,862.55	0.00146
BEREAN CAPITAL	30,900	1,545.00	0.05000
BERNSTEIN (SANFORD C) & CO., INC.	227,245	10,151.29	0.04467
BERNSTEIN INVESTMENT RESEARCH & MGT	32,500	1,625.00	0.05000
BHC SECURITIES, INC.	5,100	255.00	0.05000
BK OF NYC / PERSHING	5,200	260.00	0.05000
BLAIR (WILLIAM) & CO.	65,116	3,212.12	0.04933
BLAYLOCK PARTNERS LP	14,386	712.02	0.04949
BNP PARIBAS SECURITIES SERVICES UNITED	86,726	3,107.56	0.03583
BNY CLEARING SERVICES INTERNATIONAL	88,500	3,139.81	0.03548
BRADESCO S/A CTVM	372,300	239.62	0.00064
BREAN MURRAY FOSTER SECURITIES	900	45.00	0.05000
BRIDGE TRADING CO.	234,712	10,659.04	0.04541
BROADCOURT CAPITAL CORP.	228,298	11,167.90	0.04892
BROCKHOUSE & COOPER / MONTREAL	15,000	214.28	0.01429
BT ALEX BROWN INC.	267,758	11,577.31	0.04324
BTN RESEARCH EQUITY	15,600	780.00	0.05000
B-TRADE SERVICES LLC	137,121	2,732.27	0.01993
BUCKINGHAM RESEARCH	4,592	229.60	0.05000
BUNTING	4,696	234.80	0.05000
C.E. UNTERBERG TOWBIN	30,450	1,200.50	0.03943
C.L. GLAZER AND CO.	3,400	170.00	0.05000
CANADIAN IMPERIAL BANK OF COMMERCE	5,142	163.51	0.03180
CANTOR, FITZGERALD & CO., INC.	71,161	2,809.76	0.03948
CAPITAL INST SVCS	29,735	1,483.75	0.04990
CARLIN EQUITIES CORP.	8,300	415.00	0.05000
CAZENOVE AND CO. / LONDON	275,624	1,017.98	0.00369
CDC ISIS SECURITIES	2,300	258.06	0.11220
CDC MARCHES	28,300	1,765.65	0.06239
CHEVEREAUX DE VIRIEUX / PARIS	45,200	3,805.18	0.08419
CI NORDIC SECURITIES AB	10,800	732.91	0.06786
CIBC WORLD MARKETS CORP.	226,863	11,514.15	0.05075
CITIBANK	383,154	9,677.48	0.02526
CLEAR BEAR STEARNS	4,300	215.00	0.05000
COLLINS STEWART (CSCS) AND CO.	1,888	20.70	0.01096
COMMERCE CAPITAL MARKETS	7,300	365.00	0.05000
COMPUTERSHARE CUSTODIAL SERVICES LTD	158,500	188.28	0.00119
CORRESPONDENT SERVICES CORP.	44,585	1,427.25	0.03201
COWEN & CO.	174,392	8,884.11	0.05094
CREDIT AGRICOLE INDOSUEZ	109,730	2,692.08	0.02453
CREDIT LYONNAIS	2,377,745	15,908.71	0.00669

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
CREDIT SUISSE FIRST BOSTON	925,215	\$ 19,236.30	\$ 0.02079
DAIWA SECURITIES AMERICA INC.	29,400	1,805.17	0.06140
DAVIDSON (D.A.) & CO., INC.	15,700	691.00	0.04401
DAVIS, MENDEL & REGENSTEIN INC.	47,894	2,852.53	0.05956
DAVY STOCKBROKERS	146,008	2,192.67	0.01502
DBS SECURITIES (S) PTE LTD	415,295	766.69	0.00185
DEMATTED MONNESS LLC	9,000	450.00	0.05000
DEN DANSKE BANK/COPENHAGEN	28,000	1,980.26	0.07072
DEUTSCHE BANK AG	119,577	1,665.04	0.01392
DEUTSCHE BANK ALEX BROWN	15,700	785.00	0.05000
DEUTSCHE BANK SECURITIES, INC.	5,660,864	11,322.27	0.00200
DEUTSCHE MORGAN GRENFELL	21,204	254.34	0.01199
DOMINION SECURITIES / AMES INC.	452	22.60	0.05000
DONALDSON & CO., INC.	56,900	2,151.50	0.03781
DONALDSON, LUFKIN AND JENRETTE	31,051	1,447.24	0.04661
DOWLING & PARTNERS SECURITIES	39,714	1,985.70	0.05000
DRESDNER KLEINWORT WASSERSTEIN	640,493	9,395.43	0.01467
EDWARDS (A.G.) & SONS, INC.	127,120	3,642.84	0.02866
ENSKILDA BANK, LONDON	400	18.19	0.04548
ENSKILDA SECURITIES	800	35.93	0.04491
ERNST & CO.	16,100	755.00	0.04689
EUROMOBILIARE	30,239	974.36	0.03222
EVEREN CLEARING CORP.	127,300	5,798.00	0.04555
EXANE / PARIS	9,700	754.03	0.07774
EXANE ACTIONS SICOVAM 550	29,300	1,923.77	0.06566
EXANE INC.	95,000	3,853.32	0.04056
EXECUTION SERVICES, INC.	20,218	744.23	0.03681
FACTSET DATA SYSTEMS, INC.	285,582	14,279.10	0.05000
FAHNESTOCK & CO.	4,200	210.00	0.05000
FIDELITY CAPITAL MARKETS / NFSC	97,150	4,491.50	0.04623
FIRST ALBANY CORP.	75,150	3,477.50	0.04627
FIRST ANALYSIS SECURITIES CORP.	9,000	450.00	0.05000
FIRST BOSTON CORP.	1,037,688	38,772.18	0.03736
FIRST OPTIONS OF CHICAGO	11,114	421.73	0.03795
FIRST TENNESSEE SECURITIES CORP.	27,228	1,323.40	0.04860
FIRST UNION CAPITAL MKTS	113,150	5,785.50	0.05113
FLEET SECURITIES	4,700	94.00	0.02000
FOX-PITT KELTON / LONDON	55,600	2,993.61	0.05384
FOX-PITT KELTON, INC.	28,887	1,444.35	0.05000
FP MAGLIO & CO., INC.	157,345	3,464.75	0.02202
FRANK RUSSELL	65,500	3,275.00	0.05000
FRENCH AMERICAN BANKING CORPORATION	3,400	330.65	0.09725
FRIEDMAN, BILLINGS & RAMSEY	58,208	2,612.40	0.04488
FULCRUM GLOBAL PARTNERS LLC	4,464	223.20	0.05000
GBS FINANCIAL CORP.	4,000	200.00	0.05000
GERARD KLAUER	38,715	1,679.75	0.04339
GERSON LEHRMAN GROUP	9,550	477.50	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
GOLDMAN SACHS	17,988,874	\$ 7,435.01	\$ 0.00319
GOLDSMITH & HARRIS	10,200	510.00	0.05000
GOODBODY STOCKBROKERS	13,853	233.07	0.01682
GREENSTREET ADVISORS	37,300	1,865.00	0.05000
GRIFFITHS MCBURNEY AND PARTNERS/TORONTO	110,672	3,670.00	0.03316
GRISWOLD COMPANY	6,500	325.00	0.05000
HARBORSIDE SECURITIES	2,500	50.00	0.02000
HEDGING-GRIFFO TORRETORA DE VALORES	7,300	62.37	0.00854
HELMAN BROTHERS INTERNATIONAL	3,700	87.97	0.02378
HENDERSON BROTHERS, INC.	12,600	452.00	0.03587
HIBERNIA SOUTHCOAST CAPITAL, INC.	17,700	771.00	0.04356
HOEFER & ARNETT	11,800	590.00	0.05000
HOENIG & COMPANY, INC.	207,712	10,317.60	0.04967
HOWARD, WEIL, LABOUISSSE, FRIEDRIC	56,128	3,273.40	0.05832
HSBC INVESTMENT BANK PLC	33,438	493.79	0.01477
HSBC SECURITIES (USA) INC.	136,754	2,098.15	0.01534
INFERENTIAL FOCUS	5,925	296.25	0.05000
ING BANK NV	5,063,400	2,764.75	0.00055
ING FINANCIAL MARKETS LLC	89,400	2,872.29	0.03213
ING SECURITIES LIMITED	22,000	1,243.45	0.05652
INGALLS & SNYDER	7,300	365.00	0.05000
INSTINET	4,893,269	66,567.64	0.01360
INTERMONTE SECURITIES SIM	57,000	844.90	0.01482
INVESTMENT TECHNOLOGY GROUP	817,784	21,028.18	0.02571
ISI GROUP INC.	65,056	3,645.80	0.05604
JP MORGAN SEC EQUITY GROUP	426,400	20,435.33	0.04793
JANNEY, MONTGOMERY, SCOTT INC.	74,082	2,879.10	0.03886
JB WERE AND SON (HEAD OFFICE)	21,660	168.92	0.00780
JEFFERIES & COMPANY, INC.	691,684	29,669.82	0.04290
JMP SECURITIES	16,850	842.50	0.05000
JONES & ASSOCIATES	144,230	5,506.60	0.03818
JP MORGAN	154,521	7,188.14	0.04652
KEEFE BRUYETTE & WOODS, INC.	78,953	4,081.65	0.05170
KEMPER	3,088	147.12	0.04764
KING (C.L.) & ASSOCIATES, INC.	12,700	635.00	0.05000
KING SECURITIES	13,800	575.00	0.04167
KLEINWORT WASSERSTEIN SEC LLC	5,700	285.00	0.05000
KNIGHT SECURITIES BROADCORT CA	11,350	520.50	0.04586
LADENBURG THALMAN & CO.	3,700	171.00	0.04622
LAZARD FRERES & CO.	30,300	1,303.43	0.04302
LEERINK SWANN & CO.	8,756	437.80	0.05000
LEGG MASON	62,932	3,146.60	0.05000
LEHMAN BROTHERS INTERNATIONAL EUROPE	25,982	2,643.73	0.10175
LEHMAN BROTHERS, INC.	566,083	28,072.43	0.04959
LIQUIDNET, INC.	394,766	11,890.92	0.03012
LOMBARD, ODIER AND CIE/ GENEVA	16,100	1,782.86	0.11074
LOOP CAPITAL MKTS, LLC-BCC CAP	22,000	1,100.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
LYNCH JONES	4,354,425	\$ 216,762.89	\$ 0.04978
MACQUARIE EQUITIES LTD/SYDNEY	194,000	8,254.93	0.04255
MAGNA SECURITIES CORP.	3,653	168.24	0.04606
MCDONALD & COMPANY SECURITIES	104,229	3,098.45	0.02973
MCLEOD YOUNG WEIR INC.	21,800	770.98	0.03537
MERRILL LYNCH	3,963,651	84,202.39	0.02124
MIDWEST RESEARCH SECURITIES	118,912	5,996.32	0.05043
MOORS & CABOT	1,100	55.00	0.05000
MORGAN GRENFELL AND CO. LTD.	124,328	878.90	0.00707
MORGAN STANLEY	13,370,703	53,471.30	0.00400
MORGAN, KEEGAN & COMPANY INC.	14,100	705.00	0.05000
NATIONAL FINANCIAL SERVICES	21,400	1,145.00	0.05350
NATIONAL SECURITIES CO	12,900	704.70	0.05463
NBC CLEARING SERVICES, INC.	12,786	639.30	0.05000
NBC SECURITIES	25,600	1,536.00	0.06000
NCB STOCKBROKERS	86,925	1,109.58	0.01276
NEEDHAM & CO.	121,500	5,399.00	0.04444
NESBITT THOMSON DEACON NSCC	1,566	78.30	0.05000
NEUBERGER & BERMAN	33,375	1,626.75	0.04874
NOMURA SECURITIES INTERNATIONAL INC.	199,484	3,567.54	0.01788
NORDEA BANK DENMARK A/S	3,000	135.98	0.04533
NORDIC PARTNERS	8,500	344.74	0.04056
NUTMEG SECURITIES	5,100	208.00	0.04078
O'NEIL, WILLIAM AND CO., INC.	31,000	1,550.00	0.05000
ORMES CAPITAL MARKETS, INC.	41,373	2,068.65	0.05000
PACIFIC AMERICAN SEC LLC	437	21.85	0.05000
PACIFIC GROWTH EQUITIES	9,000	450.00	0.05000
PACTUAL/SAO PAOLO	468,600	74.71	0.00016
PARIBAS (594)	24,822	172.27	0.00694
PARKMIX LTD/NE YORK	114,000	159.25	0.00140
PCS SECURITIES INC.	20,500	1,025.00	0.05000
PERSHING	570,541	28,527.05	0.05000
PETRIE PARKMAN & CO.	291	14.55	0.05000
PIPER, JAFFRAY & HOPWOOD, INC.	160,700	7,683.00	0.04781
PRUDENTIAL BACHE SECURITIES	220,738	11,225.76	0.05086
PULSE TRADING	17,600	469.50	0.02668
PUNK ZIEGEL & KNOELL	1,200	43.00	0.03583
PUTNAM, LOVELL, DEGUARNT & THORTON	446	22.30	0.05000
RAGEN MACKENZIE, INC.	32,882	1,644.10	0.05000
RAYMOND, JAMES & ASSOCIATES, INC.	59,074	2,948.70	0.04992
RIADA STOCKBROKERS LTD.	2,655	63.71	0.02400
ROBB PECK MCCOOEY & CO., INC.	10,100	303.00	0.03000
ROBBINS & HENDERSON LLC	4,952	145.67	0.02942
ROBERT VAN SECURITIES, INC.	2,000	100.00	0.05000
ROBERTSON STEPHENS, INC.	2,700	135.00	0.05000
ROCHDALE SECURITIES CORP.	14,538	726.90	0.05000
ROTH CAPITAL PARTNERS, LLC	1,100	55.00	0.05000

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
RYAN BECK & CO.	2,800	\$ 130.00	\$ 0.04643
SALOMON BROTHERS	657,164	5,228.12	0.00796
SALOMON SMITH BARNEY INC.	368,000	5,818.61	0.01581
SANDERS MORRIS MUNDY	6,162	308.10	0.05000
SANDLER O'NEILL & PARTNERS, LP	36,055	1,502.75	0.04168
SANFORD C BERNSTEIN LTD	2,154	30.12	0.01398
SANGYONG INVESTMENT AND SECURITIES CO.	3,400	756.15	0.22240
SANTANDER BRAZIL RIO DE JANEIRO	34,189,907	2,027.88	0.00006
SANTANDER CENTRAL HISPANO INVESTMENT	41,050	2,121.25	0.05167
SBC WARBURG DILLON READ	759,756	32,319.49	0.04254
SCHWAB (CHARLES) & CO. INC.	109,332	4,837.60	0.04425
SCOTIA CAPITAL MARKETS USA INC.	6,319	236.85	0.03748
SCOTIA MCLEOD INC.	48,790	1,659.13	0.03401
SCOTT & STRINGFELLOW, INC.	25,450	1,126.50	0.04426
SEIDLER	19,200	960.00	0.05000
SESLIA	523,666	26,183.30	0.05000
SG COWEN SECS	51,700	731.31	0.01415
SG SECURITIES	5,300	342.15	0.06456
SIDOTI AND COMPANY, LLC	10,850	542.50	0.05000
SIMMONS & CO.	9,542	477.10	0.05000
SMITH BARNEY INC.	932,434	43,705.28	0.04687
SOCIETE GENERALE	31,700	1,421.91	0.04486
SOUNDVIEW FINANCIAL GROUP	52,297	2,480.26	0.04743
SOUTHTRUST BK IPA	11,700	585.00	0.05000
SOUTHWEST SECURITIES, INC.	12,550	627.50	0.05000
SPEAR, LEEDS & KELLOGG	10,100	433.00	0.04287
STANDARD & POORS SECURITIES	267,750	13,387.50	0.05000
STANDARD CHARTERED BANK / NEW YORK	448,972	15.99	0.00004
STATE STREET BROKERAGE SERVICE	7,000	301.00	0.04300
STEPHENS, INC.	23,900	1,075.00	0.04498
STIFEL, NICOLAUS & CO., INC.	8,691	434.55	0.05000
SUNGARD INSTITUTIONAL BROKERAGE	4,850	242.50	0.05000
SUNTRUST CAPITAL MARKETS	189,933	11,193.98	0.05894
TAYLOR (D.W.) & COMPANY LTD.	300	15.00	0.05000
THE CITATION GROUP	172,200	8,137.00	0.04725
THINKEQUITY PARTNERS LLC	2,100	105.00	0.05000
THOMAS WEISEL PARTNERS	162,384	8,099.20	0.04988
U.S. CLEARING CORP.	6,446	322.30	0.05000
U.S. CLEARING INSTITUTIONAL TRAD	47,793	2,387.45	0.04995
UBS AG (LONDON BRANCH)	134,700	870.20	0.00646
UBS BUNTING WARBURG INC.	72,436	2,405.67	0.03321
UBS LIMITED	600,471	6,540.15	0.01089
UBS PAINWEBBER INC.	66,850	3,342.50	0.05000
UBS WARBURG (FRANCE) SA, PARIS	117,900	3,252.73	0.02759
UTENDAL CAPITAL CORP.	2,600	130.00	0.05000
VAN KASPER & CO.	1,000	50.00	0.05000
VERDIPAPIRSENTRALEN VPS	7,500	273.93	0.03652

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	COMMISSIONS		COMMISSION PER SHARE (Rounded)
	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	
WARBURG DILLON READ	176,674	\$ 4,433.41	\$ 0.02509
WEDBUSH, NOBLE & COOKE, INC.	104,900	5,082.00	0.04845
WEEDEN & CO.	131,137	5,955.29	0.04541
WELLS FARGO SECURITIES LLC	10,200	510.00	0.05000
WEST LB PANMURE LTD	38,207	599.83	0.01570
WESTMINSTER RESEARCH	40,800	2,040.00	0.05000
WHEAT, FIRST SECURITIES, INC.	3,991	199.55	0.05000
WILLIAMS CAPITAL GRO	7,400	403.00	0.05446
WOOD GUNDY	6,235	311.75	0.05000
WR HAMBRECHT & CO.	5,550	277.50	0.05000
YORKTOWN SECURITIES INC./TORONTO	16,500	597.03	0.03618
TOTAL	180,778,220	\$ 1,355,353.12	\$ 0.00750

INVESTMENT SUMMARY

As of June 30, 2003

TYPE OF INVESTMENT	MARKET VALUE	% OF PORTFOLIO
PREFERRED STOCK (EQUITY)		
Domestic	\$510,462	0.03%
Foreign	1,531,356	0.10%
<i>TOTAL PREFERRED STOCK</i>	<i>\$2,041,818</i>	<i>0.13%</i>
COMMON STOCK (EQUITY)		
Basic Industry	\$20,773,370	1.24%
Capital Goods	131,081,581	7.80%
Consumer Durable	8,965,844	0.53%
Consumer Non-Durable	147,989,369	8.81%
Energy	27,285,105	1.62%
Finance & Building	113,879,080	6.78%
Health Care	85,989,203	5.12%
Miscellaneous	128,951,783	7.67%
Transportation	9,827,457	0.58%
Utility	30,799,000	1.83%
International Equities	218,296,527	12.99%
<i>TOTAL COMMON STOCK</i>	<i>\$923,838,319</i>	<i>54.97%</i>
FIXED INCOME		
US Government	\$79,136,777	4.71%
Federal Agency	169,395,667	10.08%
State and Municipal	4,173,412	0.25%
Domestic Corporate	227,546,552	13.54%
Domestic Convertible	2,866,505	0.17%
Foreign Government	77,083,326	4.59%
Foreign Corporate	44,679,243	2.66%
<i>TOTAL FIXED INCOME</i>	<i>\$604,881,482</i>	<i>36.00%</i>
OTHER INVESTMENTS		
Short Term	\$73,169,294	4.35%
Real Estate	151,950,000	9.04%
<i>TOTAL OTHER INVESTMENTS</i>	<i>\$225,119,294</i>	<i>13.39%</i>
PENDINGS	<i>(\$75,448,851)</i>	<i>-4.49%</i>
TOTAL	<i>\$1,680,432,062</i>	<i>100.00%</i>

INVESTMENT PROPERTIES



Airport Commercenter

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



Copperwood Square Shopping Center

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



The Deerwood Apartments

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



Milpitas Warehouse

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

INVESTMENT PROPERTIES (Continued)



Plaza Paseo Real

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



Crescent VII

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



Camelback Pointe Apartments

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



Mid South Logistec II Center

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

INVESTMENT PROPERTIES (Continued)



Citibank Office Plaza

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



Eagle USA Warehouse

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



First American Office Plaza

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

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IV.
ACTUARIAL
SECTION

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ACTUARY CERTIFICATION LETTER

MERCER

Human Resource Consulting

Actuarial Certification

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

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

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

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

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

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

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

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

ACTUARY CERTIFICATION LETTER (Continued)

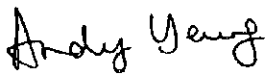
3. Retirees and Beneficiaries Added to and Removed From Payroll
4. Actuarial Analysis of Financial Experience
5. Assumption Changes
6. Solvency Test
7. Major Provisions of the Retirement Plan
8. Schedule of Funding Progress
9. System Membership and Benefit Statistics

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

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

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

Mercer Human Resource Consulting, Inc.



Andy Yeung, ASA, EA, MAAA

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

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

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

Funding Method

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

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Age	withdrawal 0-1	withdrawal 1-2	withdrawal 2-3	withdrawal 3-4	withdrawal 4-5	withdrawal 5-10	withdrawal 10+	deferred	ordinary disab.	duty disability	ordinary death	duty death	retirement AgeSv
<= 20	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0000	0.0001	0.0000	0.0000
21	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
22	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
23	0.0600	0.0130	0.0130	0.0130	0.0035	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
24	0.0600	0.0130	0.0130	0.0130	0.0070	0.0085	0.0020	0.0070	0.0000	0.0001	0.0001	0.0000	0.0000
25	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0068	0.0000	0.0002	0.0001	0.0000	0.0000
26	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0066	0.0001	0.0002	0.0001	0.0001	0.0000
27	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0065	0.0001	0.0003	0.0001	0.0001	0.0000
28	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0064	0.0001	0.0002	0.0001	0.0001	0.0000
29	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0062	0.0001	0.0002	0.0001	0.0001	0.0000
30	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0060	0.0001	0.0007	0.0001	0.0001	0.0000
31	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0058	0.0001	0.0006	0.0001	0.0001	0.0000
32	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0056	0.0001	0.0003	0.0001	0.0001	0.0000
33	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0054	0.0001	0.0008	0.0002	0.0002	0.0000
34	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0052	0.0002	0.0015	0.0002	0.0002	0.0000
35	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0004	0.0015	0.0002	0.0002	0.0000
36	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0006	0.0015	0.0002	0.0002	0.0000
37	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0008	0.0018	0.0002	0.0002	0.0000
38	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0010	0.0019	0.0002	0.0002	0.0000
39	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0012	0.0020	0.0002	0.0002	0.0000
40	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0014	0.0020	0.0002	0.0003	0.0000
41	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0020	0.0002	0.0003	0.0000
42	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0021	0.0002	0.0003	0.0000
43	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0020	0.0002	0.0003	0.0000
44	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0050	0.0016	0.0041	0.0003	0.0003	0.0000
45	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0040	0.0014	0.0063	0.0003	0.0003	0.0000
46	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0035	0.0012	0.0080	0.0003	0.0004	0.0000
47	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0030	0.0010	0.0102	0.0003	0.0004	0.0000
48	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	0.0010	0.0129	0.0003	0.0004	0.0000
49	0.0600	0.0130	0.0130	0.0130	0.0130	0.0085	0.0020	0.0020	0.0010	0.0163	0.0003	0.0004	0.0000
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0300	0.0004	0.0004	0.0000
51	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0450	0.0004	0.0004	0.0000
52	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0600	0.0004	0.0005	0.0000
53	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0677	0.0005	0.0005	0.0000
54	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0010	0.0750	0.0005	0.0006	0.0000
55	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1200	0.0005	0.0006	0.0000
56	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1500	0.0006	0.0007	0.0000
57	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1800	0.0006	0.0008	0.0000
58	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1900	0.0007	0.0008	0.0000
59	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2000	0.0008	0.0009	0.0000
60	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2200	0.0009	0.0010	0.0000
61	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2400	0.0010	0.0010	0.0000
62	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0011	0.0011	0.0000
63	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0012	0.0012	0.0000
64	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.2600	0.0014	0.0012	0.0000
65	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
66	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
67	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
68	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
69	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

YEARS OF LIFE EXPECTANCY AFTER SERVICE RETIREMENT

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

Member

94 GAM Male -3

Beneficiary

94 GAM Female +1

YEARS OF LIFE EXPECTANCY AFTER DISABILITY RETIREMENT

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

'88 - '92 PERS Industrial Disability - 4

SCHEDULE OF ACTIVE MEMBER VALUATION DATA (Contributing Members Only)

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

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

RETIRANTS & BENEFICIARIES ADDED TO & REMOVED FROM RETIREE PAYROLL

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

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(Amounts in Thousands)

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

FUNDING PROGRESS – GASB No. 25

(Amounts in Thousands)

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

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

⁽²⁾ Excludes postemployment healthcare liability.

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

⁽⁴⁾ After reflection of the Arbitrator Decision to improve Retirement and Health Benefits in 1998, including the impact of FLSA pay.

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

⁽⁶⁾ After adoption of SRBR program.

Actuarial valuations have been performed biennially through June 30, 2001. The June 30, 2003 actuarial valuation will be available for the fiscal year 2003/04 report period.

SOLVENCY TEST

(Amounts in Thousands)

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

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

(2) Calculated based on assumptions adopted by the Board

(3) Calculated based on assumptions adopted by the Board and offset with Active member contribution account balances
 Derived: (Actuarial Value of Assets - Active Member Contributions Liabilities - Retired and Vested Members Liabilities)
 / (Employer Financed Portion of Liabilities)

* These numbers have been revised

ASSUMPTION CHANGES

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

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

MAJOR PROVISIONS OF THE RETIREMENT PLAN

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

Final Average Salary (FAS)

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

Return of Contributions

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

Service Retirement Benefit

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

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

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

Ten years of service are required for vesting purposes.

Disability Benefit

Nonservice-connected

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

Service-connected

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

Death Benefit (before and after retirement)

Nonservice-connected

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

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

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

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

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

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

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

Service-connected

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

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

Death Benefit - Inactive Members (after retirement)

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

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

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

Cost of Living

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

Post-Retirement Health and Dental

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

Members' Retirement Contributions

The members' contribution rates are recalculated on an actuarial basis at each actuarial study. The members presently contribute at the rate of 9.79% of pay.

MAJOR PROVISIONS OF THE RETIREMENT PLAN (Continued)

City's Retirement Contributions

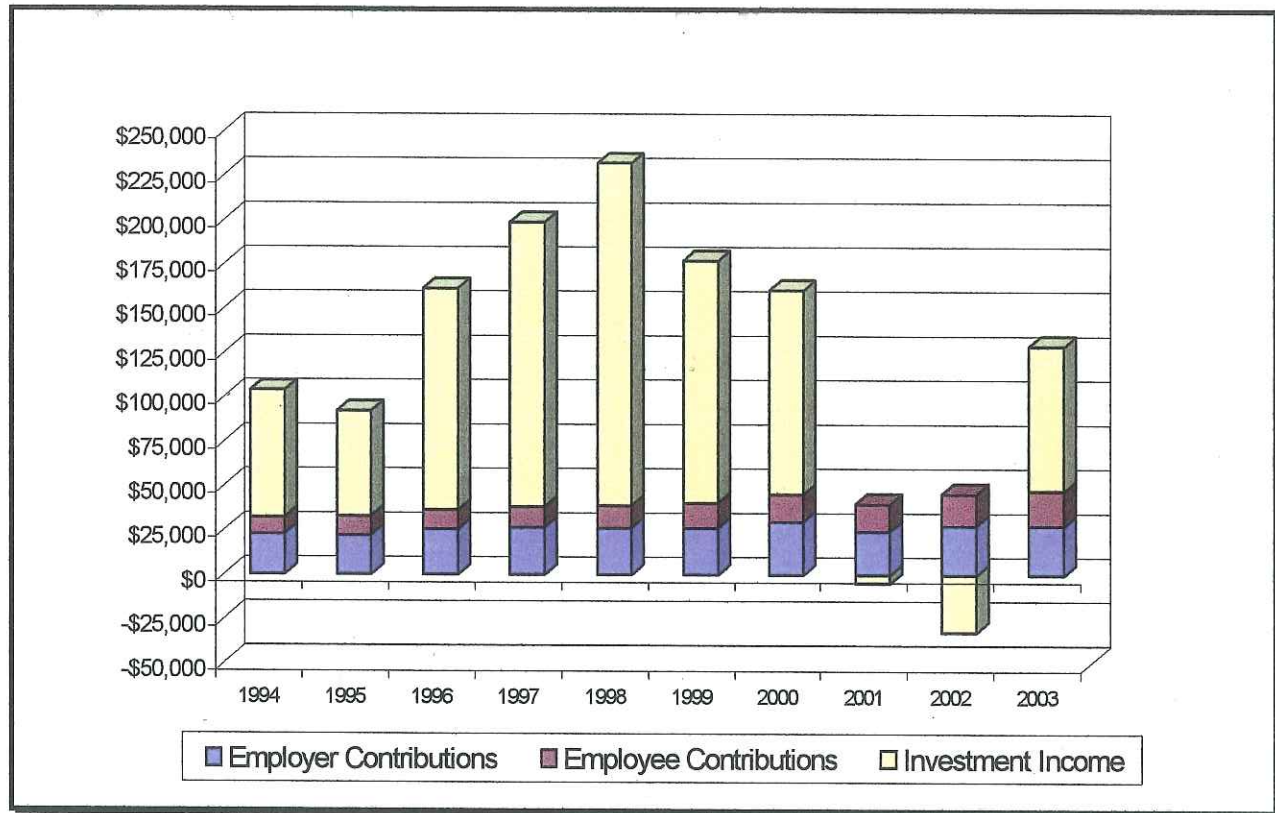
The City presently contributes at a rate of 15.60% of pay for all members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

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V.
STATISTICAL
SECTION

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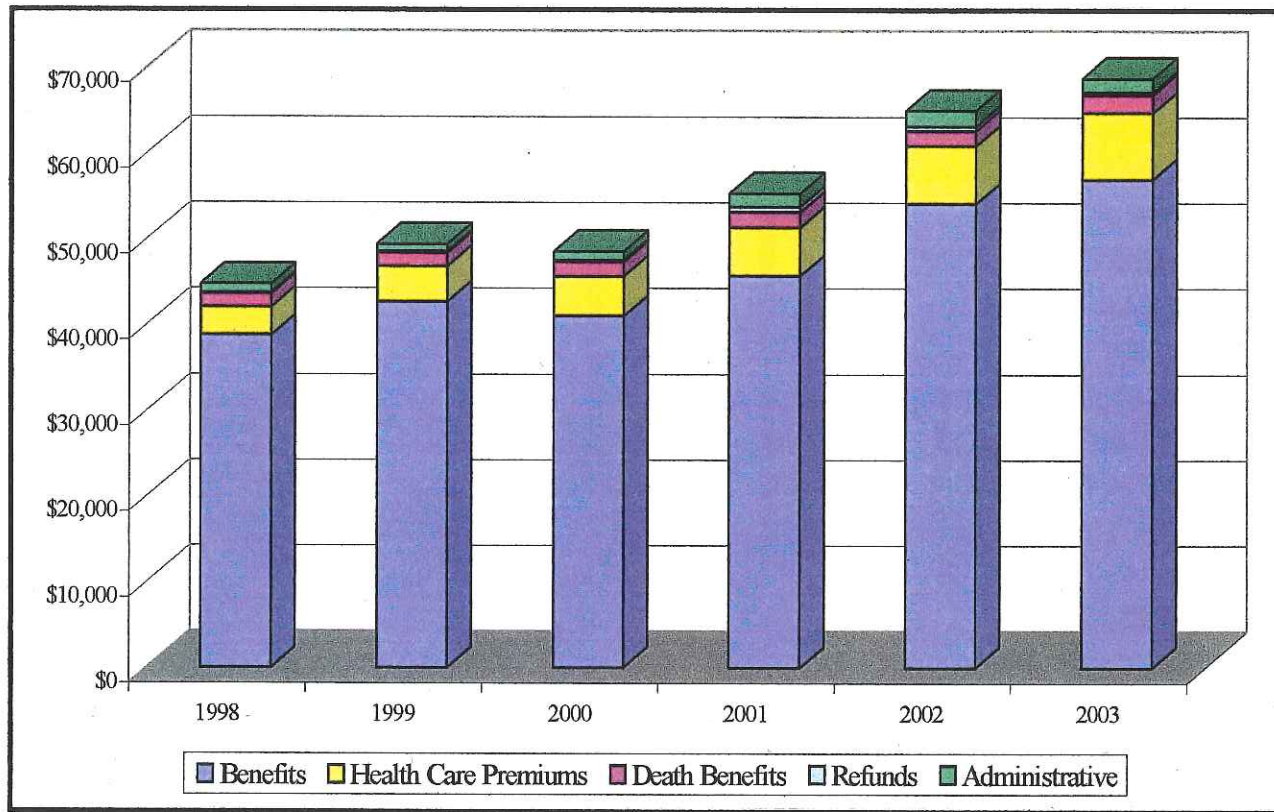
ADDITIONS BY SOURCE For Fiscal Years 1994 - 2003 (In Thousands)



Year Ending	Employer Contributions	% of Annual Covered Payroll	Employee Contributions	% of Annual Covered Payroll	Investment Income (Loss) *	Total
1994	\$ 22,827	22.24%	\$ 9,355	9.36%	\$ 71,826	\$ 104,008
1995	\$ 22,298	22.24%	\$ 10,689	9.36%	\$ 59,354	\$ 92,341
1996	\$ 25,604	22.24%	\$ 10,789	9.36%	\$ 125,170	\$ 161,563
1997	\$ 26,779	21.61%	\$ 11,711	9.40%	\$ 160,534	\$ 199,024
1998	\$ 26,547	17.28%	\$ 12,570	9.70%	\$ 193,114	\$ 232,231
1999	\$ 26,563	19.82%	\$ 14,148	10.22%	\$ 136,644	\$ 177,355
2000	\$ 30,187	20.11%	\$ 15,374	10.22%	\$ 114,911	\$ 160,472
2001	\$ 24,672	15.60%	\$ 15,542	9.79%	\$ (4,795)	\$ 35,419
2002	\$ 28,115	15.60%	\$ 17,851	9.79%	\$ (32,285)	\$ 13,681
2003	\$ 27,762	14.22%	\$ 19,937	10.25%	\$ 81,640	\$ 129,339

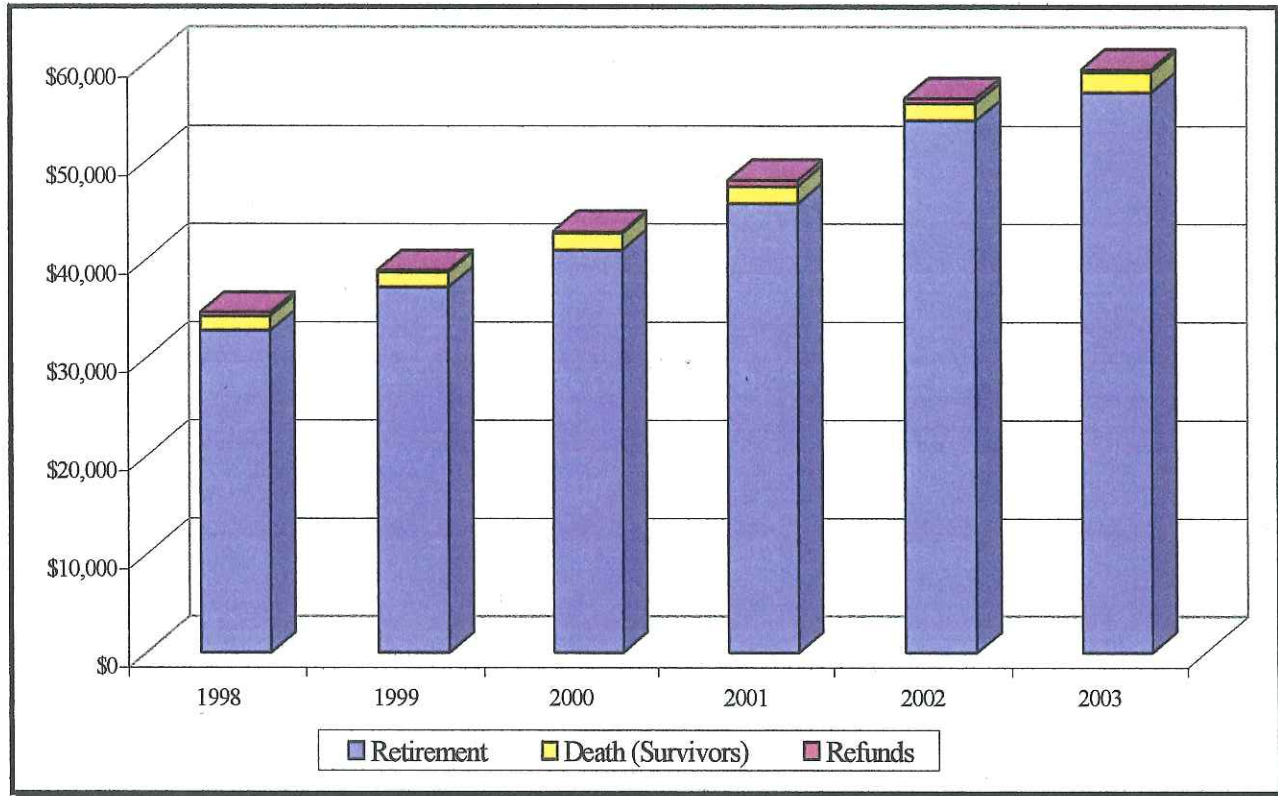
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

DEDUCTIONS BY TYPE
For Fiscal Years 1998 - 2003
(In Thousands)



	1998	1999	2000	2001	2002	2003
Benefits	\$38,738	\$42,663	\$40,974	\$45,699	\$54,113	\$56,970
Health Care Premiums	3,306	4,156	4,649	5,685	6,740	7,772
Death Benefits	1,525	1,531	1,689	1,772	1,771	2,104
Refunds	167	194	194	615	518	276
Administrative	990	841	1,019	1,550	1,840	1,615
TOTAL	\$44,726	\$49,385	\$48,525	\$55,321	\$64,982	\$68,737

BENEFIT EXPENSES BY TYPE
For Fiscal Years 1998 - 2003
(In Thousands)



	1998	1999	2000	2001	2002	2003
Retirement	\$32,749	\$37,207	\$40,974	\$45,699	\$54,113	\$56,970
Death (Survivors)	1,525	1,531	1,689	1,772	1,771	2,104
Refunds	343	167	194	615	518	276
TOTAL	\$34,617	\$38,905	\$42,857	\$48,086	\$56,402	\$59,350

RETIRED MEMBERS BY TYPE OF BENEFIT

As of June 30, 2003

Amount Monthly Benefit	Number of Retirees & Beneficiaries	Type of Retirement*							Option Selected **				Total
		1	2	3	4	5	6	7	Unmod.	Opt. 1	Opt. 2	Opt. 3	
\$1 - 500	9						9		9				9
\$501 - 1000	26			4		1	15	6	23	2	1		26
\$1001 - 1500	72	1		37	4	4	20	6	43	1	28		72
\$1501 - 2000	108	2		43	44	1	13	5	77	4	27		108
\$2001 - 2500	108	7		35	54	1	6	5	78	7	23		108
\$2501 - 3000	125	7	1	12	94	5	3	3	89	27	7	2	125
\$3001 - 3500	105	8	1	2	86	6	1	1	66	25	5	9	105
\$3501 - 4000	116	25	1	5	85				54	40	10	12	116
\$4001 - 4500	123	46		5	72				48	51	10	14	123
\$4501 - 5000	147	62		5	78		1	1	64	69	7	7	147
\$5001 - 5500	132	56			75		1		38	77	4	13	132
\$5501 - 6000	79			1	36	1	41		39	28	4	8	79
\$6001 - 6500	58	25			33				35	13	3	7	58
\$6501 - 7000	32	13			19				21	8	3		32
Over \$7000	72	40			30			2	43	12	9	8	72
TOTAL	1312	333	3	149	711	18	69	29	727	364	141	80	1312
*RETIREMENT CODES 1 Service 2 Early 3 Survivor 4 Service Connected Disability 5 Non-Service Connected Disability 6 Ex-Spouse 7 Deferred Vested									**OPTION DESCRIPTIONS Unmodified Joint & Survivorship (standard default for married) 1 Contingent Joint & Survivorship (increased percentage to survivor/ reduce pension to member) 2 Unmodified/No Survivor (standard default for unmarried) 3 Joint & Survivorship Pop-Up (same as option 1 except if spouse predeceases member, pension goes back to original pension calculation)				

AVERAGE BENEFIT PAYMENT AMOUNTS

Active Members			
	June 30, 2001	June 30, 1999	Percent Change
A. Number	2,107	1,953	7.9%
B. Average Age	39.61	39.86	-0.6%
C. Average Years of Service	12.33	12.82	-3.8%
D. Annual Salary			
i. Total	\$ 171,799,000	\$ 144,125,000	19.2%
ii. Average	\$ 81,537	\$ 73,797	10.5%
Retired and Inactive Vested Members			
	June 30, 2001	June 30, 1999	Percent Change
Retired Members			
A. Service Retirement			
i. Number	313	273	14.7%
ii. Annual Allowance			
Basic Only	\$14,406,117	\$11,548,137	24.7%
COLA	\$2,218,688	\$1,491,171	48.8%
Total	\$16,624,805	\$13,039,308	27.5%
Average Monthly Amount	\$4,426	\$3,980	11.2%
B. Disability Retirement			
i. Number	680	630	7.9%
ii. Annual Allowance			
Basic Only	\$22,869,909	\$19,413,166	17.8%
COLA	\$6,878,486	\$5,549,404	23.9%
Total	\$29,748,395	\$24,962,570	19.2%
Average Monthly Amount	\$3,646	\$3,302	10.4%
C. Beneficiaries			
i. Number	171	157	8.9%
ii. Annual Allowance			
Basic Only	\$2,202,992	\$1,898,951	16.0%
COLA	\$1,417,113	\$1,171,641	21.0%
Total	\$3,620,105	\$3,070,592	17.9%
Average Monthly Amount	\$1,764	\$1,630	8.2%
Inactive Vested Members			
A. Number	36	35	2.9%

* As of last actuarial valuation done June 30, 2001.

RETIREMENTS DURING FISCAL YEAR 2002-03**SERVICE RETIREMENTS****POLICE DEPARTMENT**

AMARAL, MICHEL E
BASILIO, LESLIE L
BAXTER, JACK L
BOYLES, JOHN V
BROOKINS, DENNIS R
BROWN, CHARLES A
BUCKHOUT, CRAIG M
CARNEY, ROBERT L
ESCOBAR, EDWARD A
GAUMONT, RONALD E
MCINTYRE, MICHAELA
POLMANTEER, JAMES O
PRIDDY, LOREN B
ROSE, WENDELL
SANTOS, WILLIAM G
SHAVER, JOHN W
SHUMAN, JOHN L
STEWART, KENNETH D
WHITE, RICHARD J
WINTERS, PRESTON W

FIRE DEPARTMENT

ALARCON, MANUEL P
BLEAN, WILLIAM C
BOGUE, STEPHEN
CANTRELL, LARRY E
DAVIS, RODNEY M
DENIS, GERALD E
DILLON, RALPH J
GUERRERO, THEODORE A
JONES, STANLEY M
LILLY, ROBERT R
LOVIER, PETER D
NOON, LAWRENCE B

EARLY RETIREMENTS**POLICE DEPARTMENT**

HORN, EDWARD A
WILLIAMS, LANETTE J

FIRE DEPARTMENT

NONE

DEFERRED VESTED RETIREMENTS**POLICE DEPARTMENT**

BELL, MARK S
SEAMAN, SCOTT R
WININGER, STEPHEN T

FIRE DEPARTMENT

NONE

RETIREMENTS DURING FISCAL YEAR 2002-03 (Continued)**SERVICE-CONNECTED DISABILITY RETIREMENTS****POLICE DEPARTMENT**

BATTAGLIA, WILLIAM S
 BROWN, TERRY W
 DE LA ROCHA, GEORGE A
 DOOLEY, JEFFREY L
 FORBES, JAY M
 GAINES, ERIN
 HENRIQUES, JEFF M
 HOMER, ROGER
 KUHLMANN, FLORENCE A
 LITEL-WALSH, MARY J
 MORELLA, THEODORE
 RUFFNER, JOHN J
 SHEPPARD, JEFFREY M
 SUNZERI, KENNETH A
 WALL, CHARLES H
 WEDLOW, DEAN K

FIRE DEPARTMENT

ADAMS, WALLACE E
 ALLSHOUSE, DAVID A
 BELLONE, DONALD K
 EMBREE, DAVID EARL
 FLAGG, GARY ALAN
 HARGER, SIDNEY R
 HARMS, LESLIE S
 JESSEL, ALBERT
 KERNS, TERRY L
 KIRKHAM, RICHARD C
 LAYE, RICHARD STEFAN
 LIND, GRANT D
 MAAS, DAVID R
 MATTISH, RICHARD L
 MC NEIL, DANIEL T
 MERCADO, BENIGNO
 MOORE, RICHARD
 MOREY, MICHELE E
 NICE, ROBERT A
 OMANS, LESLIE P
 OPPELT, JOSEPH E
 ROSZELL, JAMES D
 SMITH, JAMES C
 SPURR, DAVID K
 STASI, GEORGE M
 WISE, JOHN S
 WOHNOUTKA, DAVID J

26% of the service-connected disability retirements did not meet the requirements for a service retirement.

NON-SERVICE CONNECTED DISABILITY RETIREMENTS**POLICE DEPARTMENT**

NONE

FIRE DEPARTMENT

NONE

DEATHS DURING FISCAL YEAR 2002-03**DEATHS AFTER RETIREMENT****POLICE DEPARTMENT**

MANTHEY, JAMES E
BREWER, GLENN J
BRANDT, CURTIS P
WHEATLEY, MERLIN W
KING, BERNICE M
MYERS, LEONARD S
BURDE, CHARLES
WELLS, WILLIAM J
DE CAMP, HOWARD

FIRE DEPARTMENT

IVERSON, EDWARD J
TOLLENAAR, CORNEAL S
CASTRO, MIGUEL R
GILES, THOMAS W
BRAZIL, LA VERN F
CONROW, DAN R
FALER, LAWRENCE
RICCERI, FRANK J

DEATHS BEFORE RETIREMENT**POLICE DEPARTMENT**

NONE

FIRE DEPARTMENT

NONE