City of San José

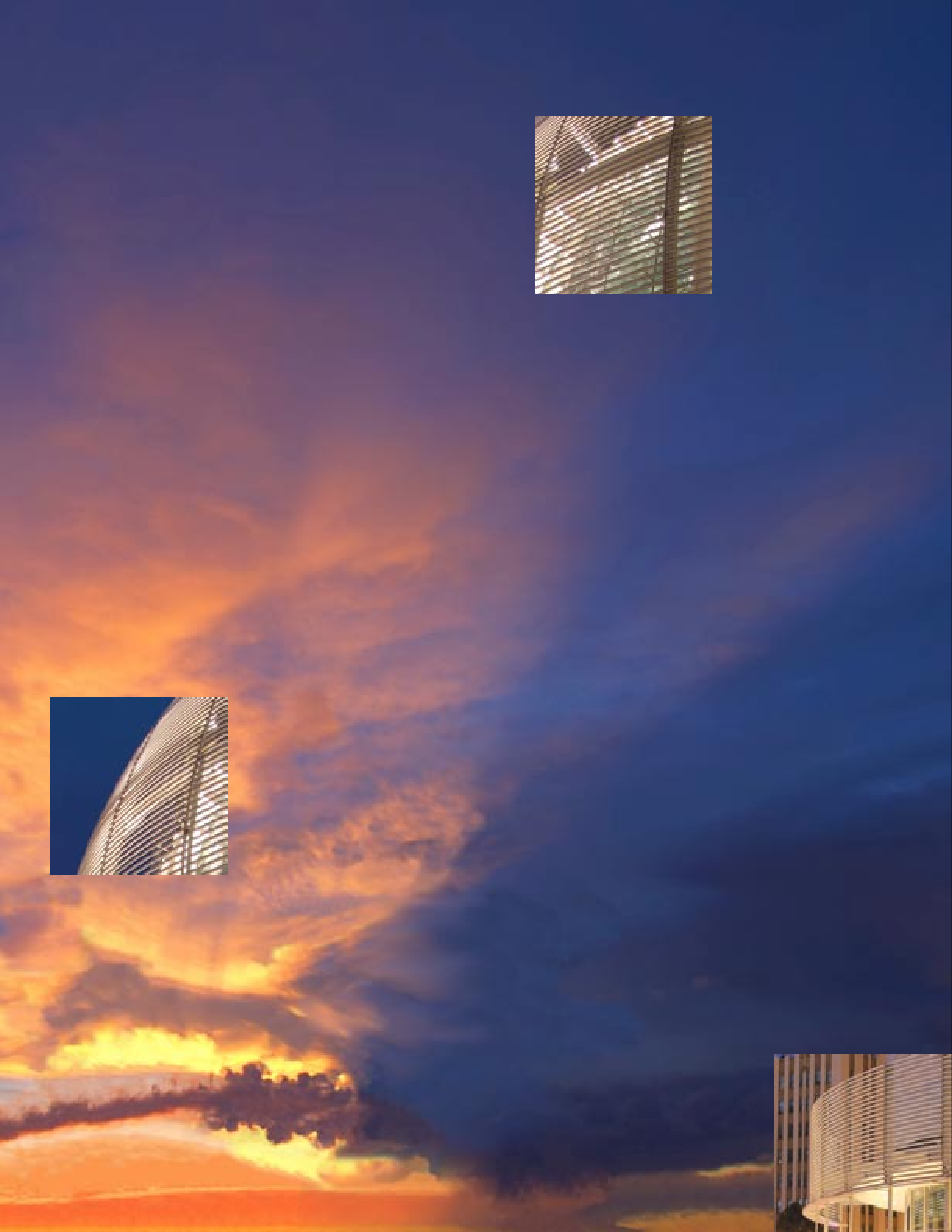
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Police and Fire Department Retirement Plan

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

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY



City of San José

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Police and Fire Department Retirement Plan

Edward F. Overton
Director

Department of Retirement Services

1737 North First Street, Suite 580

San José, California 95112-4505

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

Board Chair Letter

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

September 13, 2007

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's ("Plan") Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2007. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate return of 19.3% on investments, compared to 18.8% for its benchmark and 17.6% for the Trust Universe Comparison Service Public Fund Median. The Plan has earned an annualized return of 10.0% since the performance measurement inception date of January 1, 1971. The fair value of the Plan's investments increased from $2,315,139,000 to $2,738,104,000, net of pending purchases and sales, and excluding securities lending collateral (see Investment Summary on page 68).
- The Plan continued to make enhancements to the member services website during the fiscal year 2006-07. A Pilot Program for online open enrollment for members that were not Medicare eligible was implemented. The document imaging and retrieval system was also enhanced to include Board packets. All paper documents in the Board packets are now stored and retrievable in the Plan's pension administration system.
- The Board recommended and the City Council approved an ordinance permitting Police Department Plan members to redeposit previously withdrawn contributions to purchase service credit for prior Federated service and to purchase service credit for unpaid leave of absence.
- The Plan implemented the deduction for Allstate insurance whereby Retirees are able to purchase cancer insurance for the first time. This insurance pays benefits for non-medical cancer related expenses that health insurance might not cover.
- The Board continued to rebalance the portfolio based on the Asset Liability Modeling Study that was completed in fiscal year 2003-04.

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

Sincerely,

MARK SKEEN, Chair
Board of Administration

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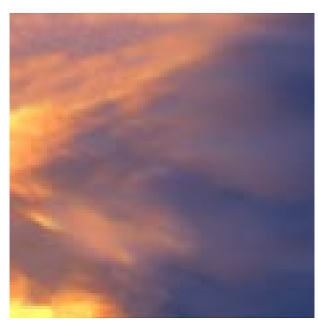
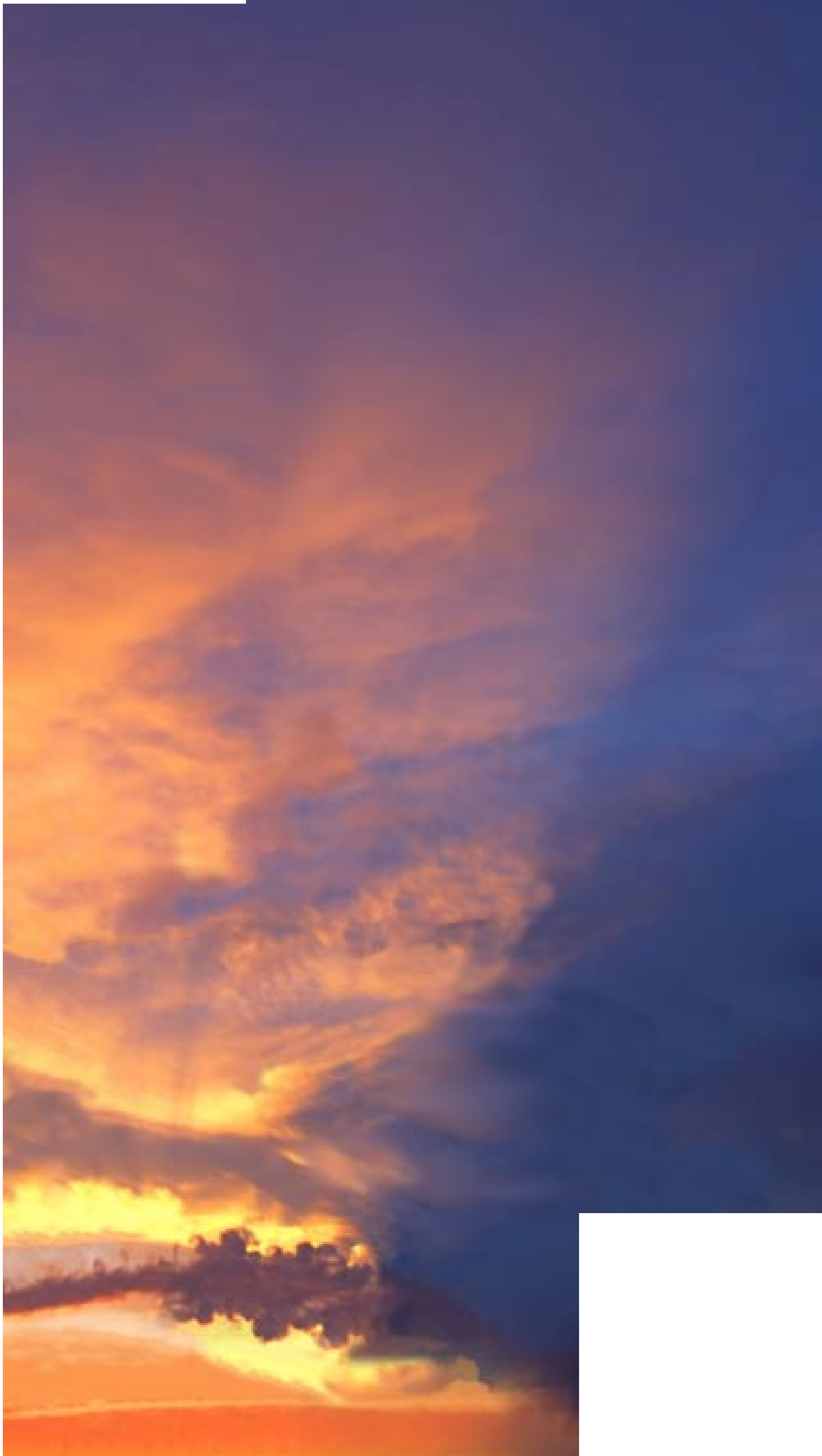


Introductory Section



Letter of Transmittal

September 6, 2007

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Police and Fire Department Retirement Plan ("Plan") for the fiscal year ended June 30, 2007. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. Macias Gini & O'Connell LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement.

The Plan was established in 1946 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 12.

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2006. 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 Standards 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

The Plan continued to make enhancements to the member services website during the fiscal year 2006-07. A pilot program for online open enrollment for members that were not Medicare eligible was implemented. The Document Imaging and Retrieval System was enhanced to include Board packets. All paper documents in the Board packets are now stored and retrievable in the Plan's pension administration system.

The Board accepted Towers Perrin's report on the Plan's disability retirement process review, as well as The Segal Company's revised report on Actuarial Valuation of Retirement Health Benefits as of June 30, 2006.

The Board also approved an ordinance permitting Police Department Plan members to redeposit previously withdrawn contributions to purchase service credit for previous Federated service and to purchase service credit for unpaid leave of absence.

The Plan continued to rebalance the investment portfolio based on the targets that were adopted in fiscal year 2003-04.

Changes in Plan Membership

Plan membership changes for the defined benefit pension plan for fiscal year 2006-07 were as follows:

	2007	*2006*	*Increase*	*Change*
Active Members*	2,216	2,116	100	4.7%
Retired Members	1,265	1,207	54	4.5%
Survivors**	271	272	3	1.1%
TOTAL	**3,752**	**3,595**	**157**	**4.4%**

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

***Survivor total includes ex-spouses.*

Letter of Transmittal *Continued*

Financial and Economic Summary

Maintaining a long-term perspective is important when dealing with retirement assets. The annualized return since inception was 10.0% (performance consultant calculates inception as of January 1971), which is ahead of the actuarial assumption rate of 8.0%. The fair value of the Plan's investments increased from $2,315,139,000 to $2,738,104,000, net of pending purchases and sales, excluding securities lending collateral (see Investment Summary on page 68).

As of June 30, 2007, the U.S. economy continues to expand at a reasonable rate but the Federal Reserve is still focused on potential inflationary signs. Consequently they have not taken any action on the Federal Funds rate which has held firm at 5.25% over the past year. The Consumer Price Index eased slightly on a year-over-year basis with a 2.7% increase but oil prices remain high while the housing slump has continued. Tighter lending standards and higher mortgage rates have kept home sales low and inventory levels at record highs. The Plan's investment consultant, Mercer Investment Consulting, believes that the historically conservative asset allocation strategy followed by the Board has benefited the Plan's long-term return. The Plan is well structured to meet its investment objectives as defined in the Investment Policy Statement.

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.

For the fiscal year ended June 30, 2007, the time-weighted rate of return for the Plan was 19.3% versus the Benchmark return of 18.8%, which placed the Plan's total return in the first quartile of the Trust Universe Comparison Service ("TUCS") Public Fund and TUCS Master Trust Universe. Over long-term periods, the portfolio has earned total annualized returns of 13.8% over the past three years and 12.6% over the past five years, and ranked in the 23rd and 21st percentiles, respectively, of the TUCS Public Fund Universe.

Funding

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2005, the funding ratio of the Defined Benefit Pension Plan was at approximately 97.81%. A six-year history of the Defined Benefit Pension Plan's funding progress is presented on page 37.

The net increase in Plan assets for the fiscal year 2006-07 was $424,610,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 22.

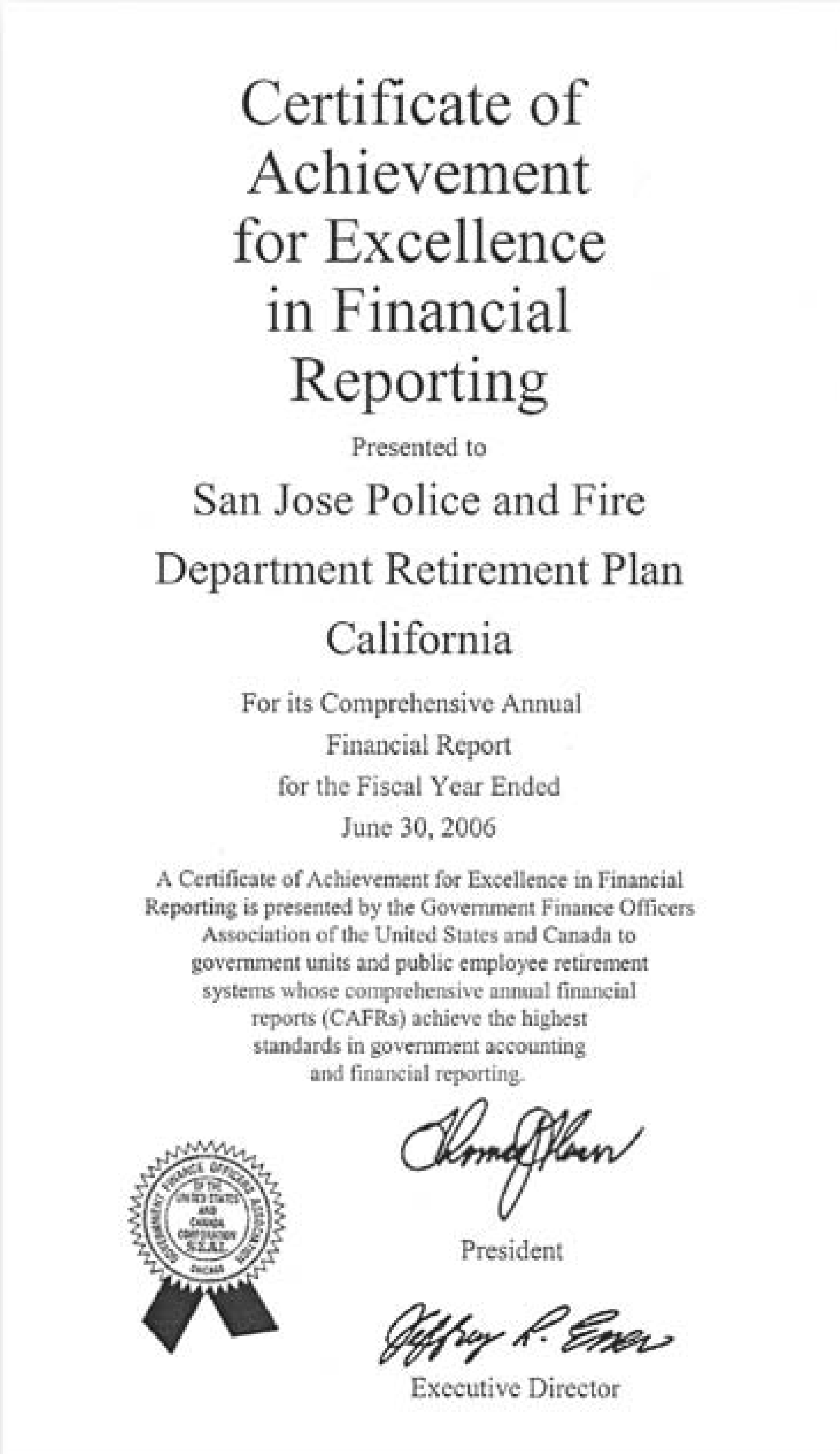
Conclusion

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 for Excellence in Financial Reporting



Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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, Administration, and Outside Consultants

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, 2007, the members of the Board were as follows:

MARK SKEEN, CHAIRMAN
Employee Representative of the Fire Department appointed to the Board in November 1999. His current term expires November 30, 2007.

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

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

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

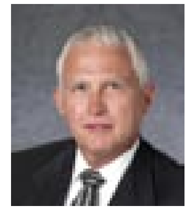
FORREST WILLIAMS
City Council Member appointed to the Board on January 1, 2007.

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

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

ADMINISTRATION

EDWARD F. OVERTON
DIRECTOR, RETIREMENT SERVICES



THOMAS J. WEBSTER
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

OUTSIDE CONSULTANTS

ACTUARY
The Segal Company
San Francisco, CA

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

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

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

A list of Investment Professionals begins on page 52 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

Board Meetings: First Thursday of the Month, 8:30 AM

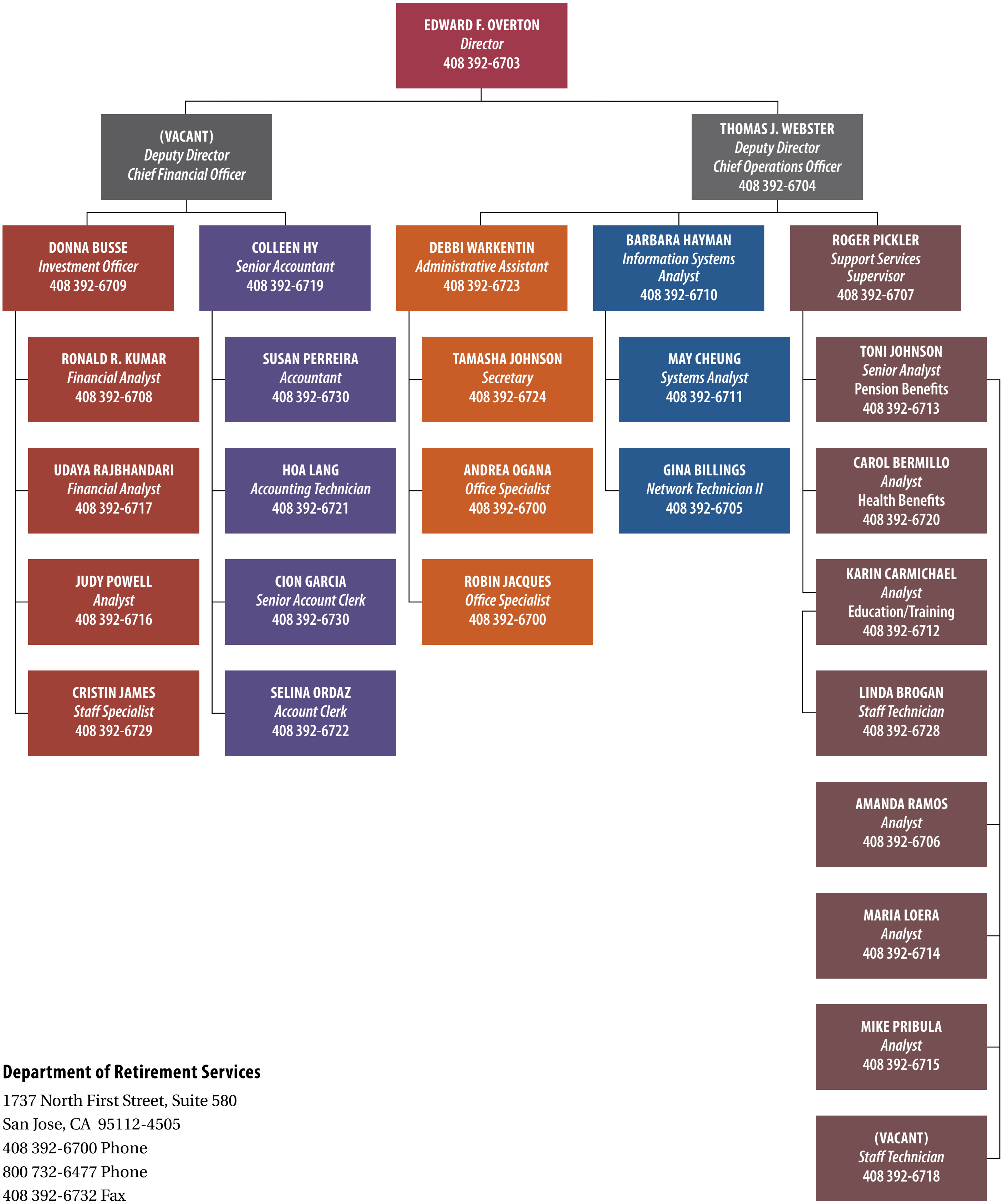
Investment Committee: Third Thursday of the Month, 10:00 AM
Department of Retirement Services Office

Investment Committee of the Whole: Quarterly

Real Estate Committee: Quarterly

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

Department of Retirement Services Organizational Chart



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

Summary of the Principal Plan Provisions

MEMBERSHIP

Mandatory for all full-time safety employees.

MEMBER CONTRIBUTION

All members contribute 11.26% of base salary for both Police and Fire Department members. Effective December 17, 2006, Police Department member contribution rate changed to 11.67% of base salary.

CITY'S CONTRIBUTION

The City contributes 25.22% of the base salary for both Police and Fire Department members. Effective December 17, 2006, Police Department City contribution rate changed to 28.51% of base salary.

INTEREST

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

TERMINATION BENEFITS

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

MILITARY LEAVE CREDIT

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

VESTING OF PENSION CREDIT

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

SERVICE RETIREMENT

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

SERVICE-CONNECTED DISABILITY

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

NON-SERVICE-CONNECTED DISABILITY

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

EARLY SERVICE RETIREMENT

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

Summary of the Principal Plan Provisions *Continued*

MANDATORY RETIREMENT

Age 70.

SURVIVORSHIP ALLOWANCE

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

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

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

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

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

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

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

REMARRIAGE OF SPOUSE

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

POST-RETIREMENT MARRIAGE

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

MANAGEMENT

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

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

ADMINISTRATION

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

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

ACTUARIAL SOUNDNESS

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

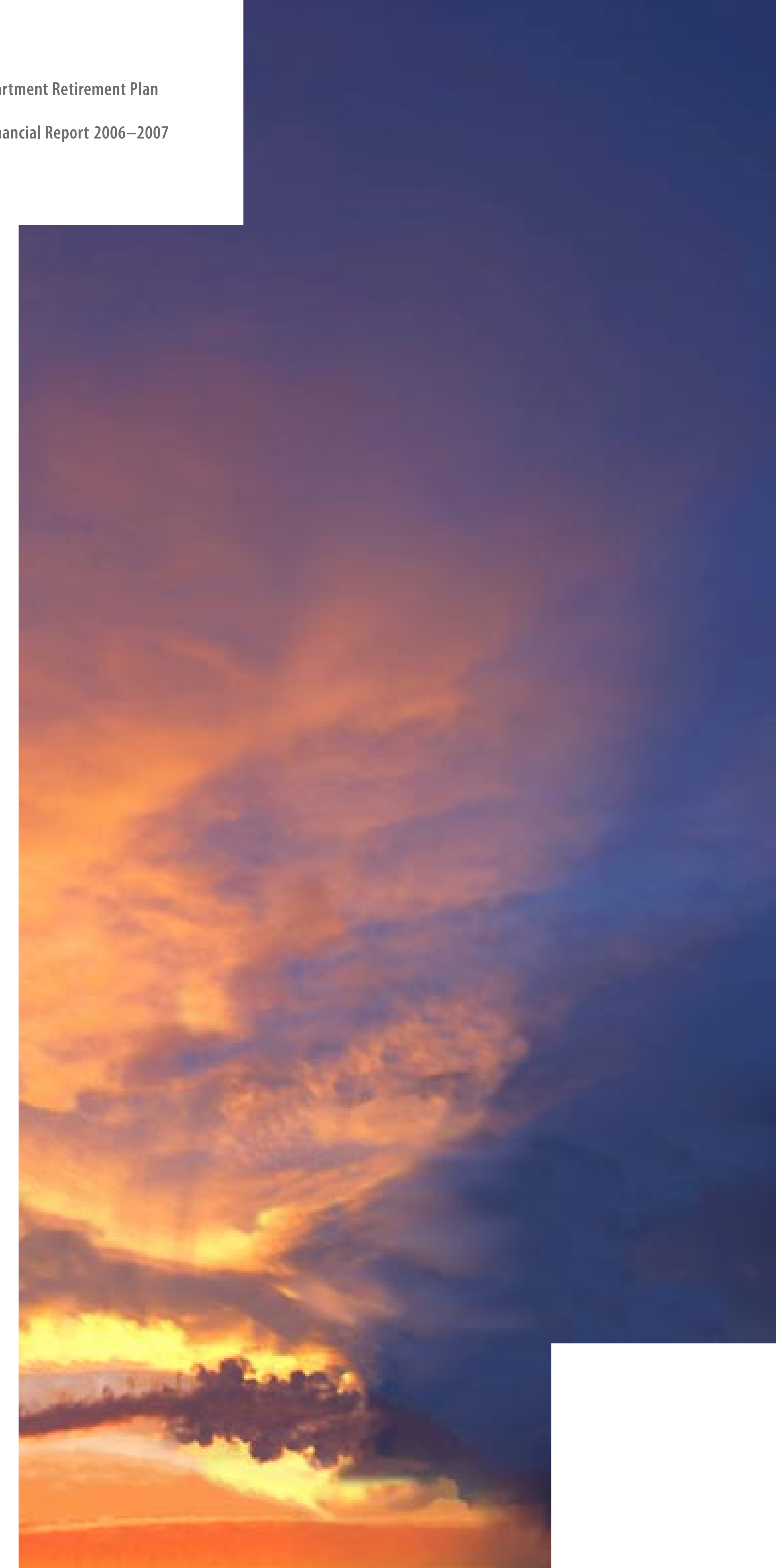
INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and flexible, allowing maximum utilization of the System's resources. Nationally known investment advisory services including Alliance Capital Management Corp.; AQR Capital Management; The Boston Company; Robeco Boston Partners; Brandes Investment Partners; Globalt, Inc.; HarbourVest Partners; Income Research & Management; INTECH; Kennedy Associates Real Estate Counsel; MIG Realty Advisors; New Amsterdam Partners; Pantheon Ventures; Portfolio Advisors; Provident Investment Counsel; Rhumbline Advisers; Seix Investment Advisors; Trust Company of the West; UBS Global Asset Management; Western Asset Management Company; and William Blair & Company are retained for full-time investment counsel. Mercer Investment Consulting is retained as the pension consultant.

COST OF LIVING

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

Financial Section



Inependent Auditor's Report

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

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

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

505 14th Street, 5th Floor
Oakland, CA 94612
510-273-8974

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Los Angeles, CA 90071
213-286-6400

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

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2007 and 2006, 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 audit.

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

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2007 and 2006, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Plan as of June 30, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report *Continued*

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

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2007 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California
October 26, 2007

Management's Discussion and Analysis (Unaudited)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

Edward F. Overton
Director, Retirement Services

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights for Fiscal Year 2007

- The net assets of the Plan at the close of the fiscal year 2007 are $2,735,649,000 (net assets held in trust for pension benefits and postemployment healthcare benefits.) All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $18,198,000.
- The Plan's total net assets held in trust for pension benefits and postemployment healthcare benefits increased by approximately $424,610,000 or 18.4%, primarily as a result of the appreciation of the fair value of investments caused by the strengthening equity investment market.
- Additions to Plan Net Assets for the year were $528,860,000, which includes member and employer contributions of $79,746,000, net investment income before securities lending income of $447,981,000, and net securities lending income of $1,133,000.
- Deductions from Plan Net Assets increased from $95,229,000 to $104,250,000 over the prior year, or approximately 9.5% due primarily to increased benefit payments and healthcare insurance premiums.

Overview of the Financial Statements

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

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

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

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

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

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

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

These two statements report the Plan's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities—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 20-23 of this report).

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see *Notes to Basic Financial Statements* on pages 24-36 of this report).

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

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's progress in funding its obligations to provide pension benefits to members and employer contributions (see *Required Supplementary Information* beginning on page 37 of this report).

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 14). The assets of the Plan exceeded its liabilities at the close of fiscal year 2007 and 2006.

As of June 30, 2007, $2,735,649,000 in total net assets is held in trust for pension benefits and postemployment healthcare benefits (see Table 1a on page 14). All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve of $18,198,000, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2006, $2,311,039,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits (see Table 1b on page 14). This total represented an increase of 10.1% in net assets over the prior year primarily due to appreciation in the fair value of investments.

As of June 30, 2007, total net assets increased by 18.4% over the prior year primarily due to net appreciation in fair value of investments of $391,356,000.

As of June 30, 2006, total net assets increased by 10.1% over the prior year primarily due to net appreciation in fair value of investments of $182,068,000.

As of June 30, 2007, receivables decreased by $84,332,000 or 61.5% mainly due to a decrease in receivables from brokers and others for year-end investment trades. In the previous year, receivables increased by $97,413,000 or 245.4%, which was due to an increase in receivables from brokers and others for year-end investment trades.

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

As of June 30, 2006, total liabilities increased by $212,803,000, or 46.4%, compared with June 30, 2005, due mainly to increases in payable to brokers for year-end investment trades and securities lending collateral due to borrowers.

Reserves

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 26). In December 2001 the Supplemental Retiree Benefit Reserve (SRBR) was established. The SRBR represents funds required by the San Jose Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

The appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "Unrealized gains on investments held" of $228,277,000 and $42,339,000 as of June 30, 2007 and 2006, respectively. These amounts are components of the general reserve.

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

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

As of June 30, 2007 and 2006

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

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

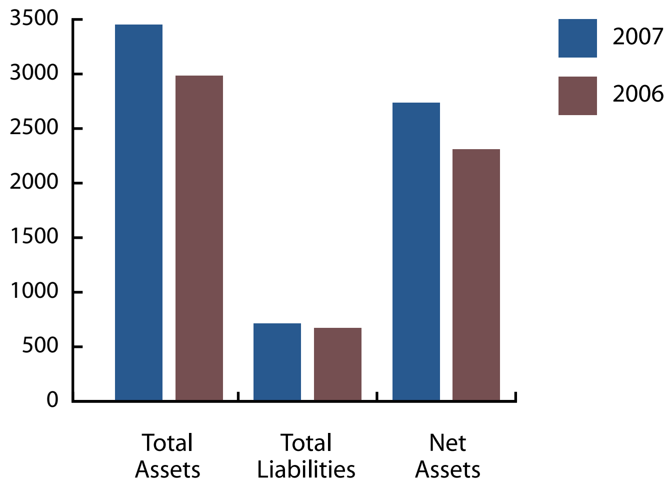
As of June 30, 2006 and 2005

	2006	*2005*	*Increase Amount*	*Increase Percent*
Receivables	$ 137,111,000	$ 39,698,000	$ 97,413,000	245.4%
Investments at Fair Value	2,845,449,000	2,518,798,000	326,651,000	13.0%
Total Assets	**2,982,560,000**	**2,558,496,000**	**424,064,000**	**16.6%**
Current Liabilities	671,521,000	458,718,000	212,803,000	46.4%
Total Liabilities	**671,521,000**	**458,718,000**	**212,803,000**	**46.4%**
NET ASSETS	**$2,311,039,000**	**$2,099,778,000**	**$211,261,000**	**10.1%**

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

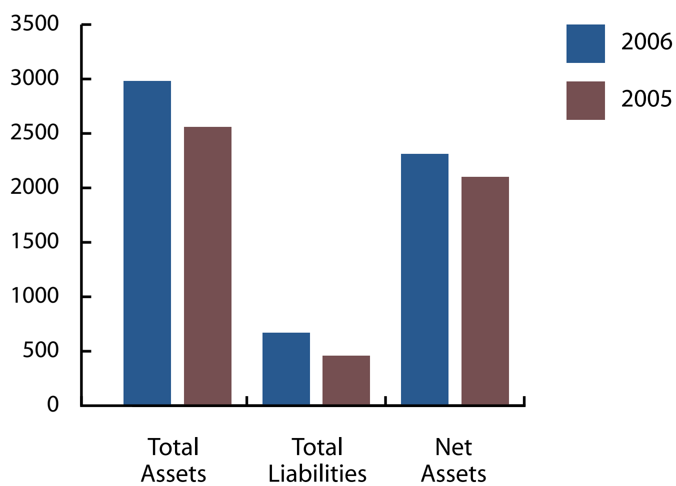
POLICE AND FIRE PLAN'S NET ASSETS (Table 1a)

As of June 30, 2007 and 2006



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

As of June 30, 2006 and 2005



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

ADDITIONS TO PLAN NET ASSETS (Table 2a)

For the Fiscal Years Ended June 30, 2007 and 2006

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

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

ADDITIONS TO PLAN NET ASSETS (Table 2b)

For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005	Increase Amount	Increase Percent
Employee Contributions	$ 22,174,000	$ 21,913,000	$ 261,000	1.2%
Employer Contributions	50,002,000	48,253,000	1,749,000	3.6%
Net Investment Income*	233,278,000	205,217,000	28,061,000	13.7%
Net Securities Lending Income	1,036,000	657,000	379,000	57.7%
TOTAL ADDITIONS	**$306,490,000**	**$276,040,000**	**$ 30,450,000**	**11.0%**

**Net of Investment Expenses of $9,355,000 and $8,017,000 in 2006 and 2005, respectively.*

DEDUCTIONS TO PLAN NET ASSETS (Table 3a)

For the Fiscal Years Ended June 30, 2007 and 2006

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

DEDUCTIONS TO PLAN NET ASSETS (Table 3b)

For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Retirement Benefits	$ 75,189,000	$ 69,102,000	$ 6,087,000	8.8%
Healthcare Insurance Premiums	12,880,000	11,093,000	1,787,000	16.1%
Death Benefits	4,803,000	4,226,000	577,000	13.7%
Refund of Contributions	144,000	426,000	(282,000)	(66.2)%
Administrative	2,213,000	1,650,000	563,000	34.1%
TOTAL DEDUCTIONS	**$ 95,229,000**	**$ 86,497,000**	**$ 8,732,000**	**10.1%**

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

CHANGES IN PLAN NET ASSETS (Table 4a)

For the Fiscal Years Ended June 30, 2007 and 2006

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

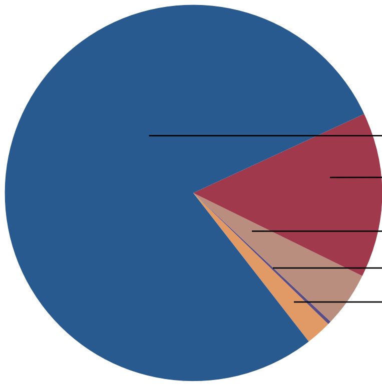
CHANGES IN PLAN NET ASSETS (Table 4b)

For the Fiscal Years Ended June 30, 2006 and 2005

	2006	*2005*	*Increase Amount*	*Increase Percent*
Total Additions	$ 306,490,000	$ 276,040,000	$ 30,450,000	11.0%
Total Deductions	95,229,000	86,497,000	8,732,000	10.1%
NET INCREASE IN PLAN ASSETS	**$211,261,000**	**$189,543,000**	**$ 21,718,000**	**11.5%**

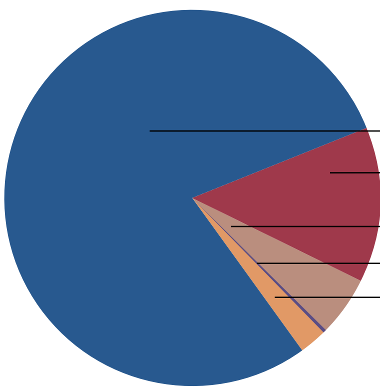
Management's Discussion and Analysis (Unaudited) *Continued*

DEDUCTIONS TO PLAN NET ASSETS 2007



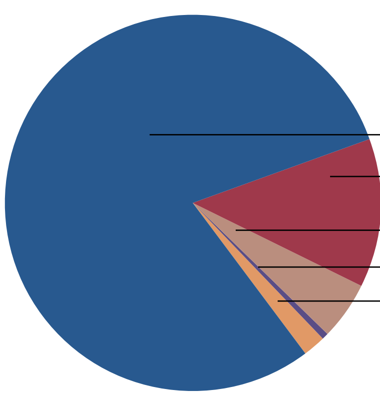
Retirement Benefits	78.6%	$81,953,000
Healthcare Insurance Premiums	14.2%	$14,794,000
Death Benefits	4.8%	$5,042,000
Refund of Contributions	0.2%	$210,000
Administrative and Other	2.2%	$2,251,000

DEDUCTIONS TO PLAN NET ASSETS 2006



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

DEDUCTIONS TO PLAN NET ASSETS 2005



Retirement Benefits	79.9%	$69,102,000
Healthcare Insurance Premiums	12.8%	$11,093,000
Death Benefits	4.9%	$4,226,000
Refund of Contributions	0.5%	$426,000
Administrative and Other	1.9%	$1,650,000

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

THE POLICE AND FIRE PLAN ACTIVITIES

Market returns were the main driver of increased net assets, which rose by $424,610,000, thereby accounting for an 18.4% 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, 2007, totaled $528,860,000 (see Table 2a on page 16).

By fiscal year ended June 30, 2007, overall additions had increased by $222,370,000, or 72.6%, from the prior year primarily due to an increase of $214,703,000, or 92.0% in net investment income excluding securities lending income, which was caused by investment appreciation. The Plan's time-weighted rate of return for the fiscal year ended June 30, 2007 was 19.3% versus 14.3% for the fiscal year 2005-06.

Additions for the fiscal year ended June 30, 2006, totaled $306,490,000, which represented an increase of $30,450,000, or 11.0%, from 2005 primarily due to net investment income which increased by 13.7% from the previous year (see Table 2b on page 16).

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2007 totaled $104,250,000, an increase of 9.5% over June 30, 2006 (see Table 3a on page 16). Increases in retirement benefits of $6,764,000 and healthcare insurance premiums of $1,914,000 were the main reasons for increased expenses. Retirement benefits increased due to benefit enhancements and healthcare insurance costs increased due to higher premiums and administrative expenses.

Deductions for the fiscal year ended June 30, 2006 totaled $95,229,000, an increase of 10.1% over June 30, 2005 (see Table 3b on page 16). Increases in retirement benefits of $6,087,000 and healthcare insurance premiums of $1,787,000 were also the main reasons for increased expenses. Retirement benefits increased due to benefit enhancements and increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums and administrative expenses.

The Plan's Fiduciary Responsibilities

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

Economic Factors and Rates Affecting Next Year

The Plan will conduct a new actuarial valuation using the June 30, 2007 data. It is anticipated that the funding ratio will improve from that of June 30, 2005, which was approximately 98.0% due to the fact that all of the prior year's negative return has been recognized.

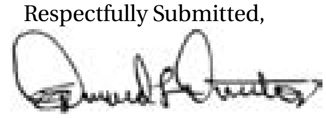
In fiscal year 2007, the Plan completed an actuarial valuation for the post employment health benefits. The study resulted in the recognition of an unfunded actuarial accrued liability of $812,835,937. The Plan is required to disclose this liability in the Plan's notes to basic financial statements. The City is currently working on a plan to mitigate the impact of this liability.

Requests for Information

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

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

Respectfully Submitted,



Edward F. Overton
Director, Retirement Services

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2007 and 2006

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

Continued

**A schedule of funding progress is presented on page 37.*
See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF PLAN NET ASSETS *Continued*

June 30, 2007 and 2006

(Dollars in thousands)	2006 Pension Benefits	2006 Postemployment Healthcare Benefits	2006 Total
ASSETS			
Receivables:			
Employee contributions	$ 627	$ 219	$ 846
Employer contributions	1,840	276	2,116
Brokers and others	125,104	2,207	127,311
Accrued investment income	6,719	119	6,838
Total receivables	**134,290**	**2,821**	**137,111**
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	195,574	3,451	199,025
U.S. government agency securities	171,142	3,020	174,162
International government bonds	27,891	492	28,383
Domestic corporate bonds	188,271	3,322	191,593
International corporate bonds	12,588	222	12,810
Domestic equity securities	860,894	15,192	876,086
International equity securities	658,755	11,625	670,380
Private equity securities	10,444	184	10,628
State and local obligations	1,495	26	1,521
Forward international currency contracts	(8)	-	(8)
Collective short-term investment funds	68,616	1,211	69,827
Real estate	181,060	3,195	184,255
Securities lending cash collateral investment pool	419,390	7,397	426,787
Total investments	**2,796,112**	**49,337**	**2,845,449**
TOTAL ASSETS	**2,930,402**	**52,158**	**2,982,560**
LIABILITIES			
Payable to brokers	234,385	4,134	238,519
Securities lending collateral due to borrowers	419,390	7,397	426,787
Other liabilities	6,107	108	6,215
TOTAL LIABILITIES	**659,882**	**11,639**	**671,521**
NET ASSETS HELD IN TRUST FOR			
Pension benefits	2,270,520	-	2,270,520
Postemployment healthcare benefits	-	40,519	40,519
TOTAL NET ASSETS*	$2,270,520	$40,519	$2,311,039

**A schedule of funding progress is presented on page 37.*
See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2007 and 2006

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

Continued

See accompanying notes to basic financial statements.

Basic Financial Statements *Continued*

STATEMENTS OF CHANGES IN PLAN NET ASSETS *Continued*

For the Fiscal Years Ended June 30, 2007 and 2006

(Dollars in thousands)	2006 *Pension Benefits*	2006 *Postemployment Healthcare Benefits*	2006 *Total*
ADDITIONS			
Contributions:			
Employee	$ 16,432	$ 5,742	$ 22,174
Employer	43,473	6,529	50,002
Total Contributions	**59,905**	**12,271**	**72,176**
Investment income:			
Net appreciation in fair value of investments	178,896	3,172	182,068
Interest income	29,154	521	29,675
Dividend income	22,547	403	22,950
Net rental income	7,799	141	7,940
Less investment expense	(9,189)	(166)	(9,355)
Net investment income before securities lending income	**229,207**	**4,071**	**233,278**
Securities lending income:			
Earnings	15,161	271	15,432
Rebates	(13,708)	(245)	(13,953)
Fees	(435)	(8)	(443)
Net securities lending income	**1,018**	**18**	**1,036**
Net investment income	**230,225**	**4,089**	**234,314**
TOTAL ADDITIONS	**290,130**	**16,360**	**306,490**
DEDUCTIONS			
Retirement benefits	75,189	-	75,189
Healthcare insurance premiums	-	12,880	12,880
Death benefits	4,803	-	4,803
Refund of contributions	144	-	144
Administrative expenses and other	2,171	42	2,213
TOTAL DEDUCTIONS	**82,307**	**12,922**	**95,229**
NET INCREASE	**207,823**	**3,438**	**211,261**
NET ASSETS HELD IN TRUST FOR			
Pension benefits & post-employment healthcare benefits			
BEGINNING OF YEAR	**2,062,697**	**37,081**	**2,099,778**
END OF YEAR	**$2,270,520**	**$40,519**	**$2,311,039**

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

For The Fiscal Years Ended June 30, 2007 and 2006

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 June 23, 2006, to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $2,251,000 and $2,213,000 for 2007 and 2006, respectively. These costs are financed through investment earnings.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Total payroll amounted to approximately $239,140,000 and $224,633,000 for 2007 and 2006, respectively. Covered payroll amounted to approximately $209,025,000 and $198,131,000 in 2007 and 2006, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2007 and 2006, employee membership data related to the Plan was as follows:

Defined Benefit Pension Plan	2007	2006
Retirees and beneficiaries currently receiving benefits	1,536	1,479
Terminated vested members not yet receiving benefits	71	72
Active members	2,145	2,044
TOTAL	**3,752**	**3,595**

Postemployment Healthcare Plan	2007	2006
Retirees and beneficiaries currently receiving benefits	1,375	1,328
Terminated vested members not yet receiving benefits	13	15
Active members	2,145	2,044
TOTAL	**3,533**	**3,387**

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 retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next 5 years of service, by 4% for the next 5 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (maximum benefit, 90% of final average salary).

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 maximum increase in the COLA is 3% per year.

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

(c) Death Benefits

The spouse or domestic partner receives the greater of 50% of the member's benefit or 37.5% 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.

Notes to Basic Financial Statements *Continued*

NOTE 1 – DESCRIPTION OF THE PLAN *Continued*

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 or domestic partner until remarriage (maximum of 37.5% of final average salary or 50% of the member's benefit, whichever is greater). These benefits are also paid to the surviving spouse or domestic partner of a retiree on a non-service related disability. Additionally, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

- One child - 25% of final 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 domestic partner or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000 is paid to his/her estate.

(d) Disability Benefits

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

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

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

(c) Investments

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

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

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

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2007 and 2006, the net assets, totaling $2,735,649,000 and $2,311,039,000, respectively, are allocated as follows:

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Defined Benefit Pension Plan*	*Postemployment Healthcare Plan*	*Total*
June 30, 2007:					
Employee contributions	$ 168,142	$ 49,499	$ 217,641	$ 4,540	$ 222,181
Supplemental retiree benefit	18,198	-	18,198	-	18,198
General reserve	1,697,592	751,352	2,448,944	46,326	2,495,270
TOTAL	**$1,883,932**	**$800,851**	**$2,684,783**	**$50,866**	**$2,735,649**
June 30, 2006:					
Employee contributions	$ 157,324	$ 47,327	$ 204,651	$ 3,967	$ 208,618
Supplemental retiree benefit	18,155	-	18,155	-	18,155
General reserve	1,431,324	616,390	2,047,714	36,552	2,084,266
TOTAL	**$1,606,803**	**$663,717**	**$2,270,520**	**$40,519**	**$2,311,039**

Notes to Basic Financial Statements *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

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

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

General Reserve is a fully funded reserve that represents net earnings resulting from interest earnings, realized and unrealized investment gains and losses. The unrealized gains and losses as of June 30, 2007 and 2006 were $548,396,000 and $320,119,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-annually from the general reserve 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% of total employee contributions reserve balance and the SRBR allocation remain in the general reserve category. For fiscal years 2007 and 2006, excess earnings were $9,549,000 and $893,000, respectively.

(f) Reclassifications

Certain amounts in fiscal year 2006 have been reclassified to conform with the fiscal year 2007 presentation.

(g) Implementation of Governmental Accounting Standards Board Statements

For fiscal year ended June 30, 2007, the Plan implemented GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement provides uniform financial reporting standards for pension plans that provide postemployment benefits such as healthcare benefits. It addresses how plan administrators should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. These benefits are collectively referred to as other postemployment benefits (OPEB).

NOTE 3 – INVESTMENTS

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

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate risk. As of June 30, 2007, GNMAs in the amount of $13,687,000 and U.S. government agency securities in the amount of $236,934,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers. However, the Plan's intent is to hold all fixed maturity investments until maturity, and accordingly, fixed maturity investments are classified in the following tables as if they were held to maturity. In 2006, the GNMAs were in the amount of $22,588,000 and the amount for US government agency securities backed by mortgage pass-throughs were $147,356,000. In addition as of June 30, 2007, $9,527,000 of the asset backed securities, $10,110,000 of the collateralized mortgage obligations, and $4,696,000 of the corporate securities are floating rate securities tied to the 1 to 3 month LIBOR. In 2006, the amounts for the same type of securities were $8,200,000, $13,549,000, and $2,870,000, respectively.

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

Credit Quality Risk – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. All domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's (S&P), Moody's Investors' Service (Moody's), or Fitch Ratings (Fitch). In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from the Plan, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the Plan's investment policy statement at the time of purchase, the investment manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

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

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

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

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

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

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

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

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

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

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

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

The following tables provide information as of June 30, 2007 and 2006, concerning the fair value of investments, interest rate risk, and foreign currency risk:

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

Investment Maturities at Fair Value

As of June 30, 2007

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ -	$ -	$ -	$ 63,035	$ 31,489	$ 57,327	$ 151,851	$ 154,289
U.S. Treasury Strips	-	-	-	-	-	112	112	109
GNMA	-	-	-	-	-	13,687	13,687	13,780
FHLB	-	936	219	2,748	1,095	-	4,998	5,064
FHLMC	-	-	-	1,664	46	37,082	38,792	39,254
FNMA	2,374	-	371	289	4,294	190,814	198,142	200,262
Asset Backed Securities	-	-	-	115	417	13,258	13,790	13,886
Collateralized Mortgage Obligations	-	-	-	864	-	79,946	80,810	81,524
Corporate Bonds	824	616	1,672	24,264	26,578	66,115	120,069	123,749
State and Local Obligations	-	-	-	-	-	2,999	2,999	3,070
Pooled Domestic Bonds	-	-	-	-	8,507	-	8,507	6,624
Collective Short Term Investment Fund	143,595	-	-	-	-	-	143,595	143,592
Total Domestic Fixed Maturity	**146,793**	**1,552**	**2,262**	**92,979**	**72,426**	**461,340**	**777,352**	**785,203**
International								
Government Bonds								
Japanese Yen	2,552	-	-	-	-	-	2,552	2,573
United States Dollar Denominated	-	-	-	-	889	2,269	3,158	3,591
Total International Government Bonds	**2,552**	**-**	**-**	**-**	**889**	**2,269**	**5,710**	**6,164**
Corporate Bonds								
United States Dollar Denominated	-	-	-	7,573	4,920	9,594	22,087	22,023
Total International Corporate Bonds	**-**	**-**	**-**	**7,573**	**4,920**	**9,594**	**22,087**	**22,023**
Pooled International Fixed Maturity	-	-	-	-	2,716	13,072	15,788	13,213
Total International Fixed Maturity	**2,552**	**-**	**-**	**7,573**	**8,525**	**24,935**	**43,585**	**41,400**
Derivatives	162	(106)	(13)	-	-	-	43	207
TOTAL FIXED MATURITY	**$149,507**	**$1,446**	**$2,249**	**$100,552**	**$80,951**	**$486,275**	**$820,980**	**$826,810**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

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

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

Investment Maturities at Fair Value

As of June 30, 2006

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months-1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
Domestic								
U.S. Treasury Securities	$ 1,383	$ 1,249	$ 9,100	$ 104,180	$ 46,276	$ 36,687	$ 198,875	$ 201,864
U.S. Treasury Strips	-	-	-	-	-	150	150	153
GNMA	-	-	-	-	-	22,588	22,588	22,761
FHLB	1,848	668	-	879	823	-	4,218	4,303
FHLMC	-	-	-	3,054	25	32,594	35,673	36,178
FNMA	-	-	415	431	4,456	106,381	111,683	113,541
Asset Backed Securities	-	-	-	9,461	1,848	10,383	21,692	21,783
Collateralized Mortgage Obligations	-	-	-	1,156	-	54,752	55,908	56,533
Corporate Bonds	674	374	4,224	17,911	19,920	65,138	108,241	114,310
State and Local Obligations	-	-	-	-	-	1,521	1,521	1,616
Pooled Domestic Bonds	-	-	-	-	5,752	-	5,752	4,587
Collective Short Term Investment Fund	69,827	-	-	-	-	-	69,827	69,827
Total Domestic Fixed Maturity	**73,732**	**2,291**	**13,739**	**137,072**	**79,100**	**330,194**	**636,128**	**647,456**
International								
Government Bonds								
Swiss Franc	-	-	799	-	-	-	799	796
Euro Currency	2,242	-	-	-	-	-	2,242	2,233
Japanese Yen	5,174	-	-	-	-	-	5,174	5,260
United States Dollar Denominated	-	344	-	-	-	4,644	4,988	5,193
Total International Government Bonds	**7,416**	**344**	**799**	**-**	**-**	**4,644**	**13,203**	**13,482**
Corporate Bonds								
Euro Currency	-	-	-	-	-	-	-	-
Japanese Yen	-	-	-	-	-	-	-	-
United States Dollar Denominated	-	-	-	2,053	5,306	5,451	12,810	13,094
Total International Corporate Bonds	**-**	**-**	**-**	**2,053**	**5,306**	**5,451**	**12,810**	**13,094**
Pooled International Fixed Maturity	-	-	-	-	-	15,180	15,180	11,340
Total International Fixed Maturity	**7,416**	**344**	**799**	**2,053**	**5,306**	**25,275**	**41,193**	**37,916**
TOTAL FIXED MATURITY	**$81,148**	**$2,635**	**$14,538**	**$139,125**	**$84,406**	**$355,469**	**$677,321**	**$685,372**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

Type of Investment	*Total Fair Value*	*Cost*
Equity		
Domestic	$ 876,086	$ 717,745
International		
Australian Dollar	6,932	4,690
Brazilian Real	5,369	4,129
British Pound	68,735	63,032
Canadian Dollar	7,598	5,990
Chilean Peso	940	802
Euro Currency	144,410	117,831
Hong Kong Dollar	10,393	7,966
Indian Rupee	5,614	6,427
Indonesian Rupiah	378	470
Japanese Yen	81,224	64,176
Malaysian Ringgit	1,293	1,212
Mexican Peso	3,973	2,413
New Taiwan Dollar	7,117	6,249
New Zealand Dollar	1,368	2,059
Norwegian Krone	1,549	792
Singapore Dollar	9,704	5,810
South African Rand	1,555	1,500
South Korean Won	9,402	7,164
Swedish Krona	2,923	2,696
Swiss Franc	28,467	22,631
United States Dollar Denominated	37,311	33,664
Total International Currency Equity	**436,255**	**361,703**
Pooled International Equity	234,125	139,652
Total International Equity	**670,380**	**501,355**
TOTAL EQUITIES	**1,546,466**	**1,219,100**
Private Equity	**10,628**	**9,980**
Real Estate	**184,255**	**184,125**
Total Private Equity and Real Estate	**194,883**	**194,105**
Forward International Currency Contracts, Net	**(8)**	**-**
Securities Lending Collateral Investment Pool	**426,787**	**426,787**
TOTAL INVESTMENTS	**$2,845,449**	**$2,525,364**

Notes to Basic Financial Statements *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following table provides information as of June 30, 2007 and 2006, concerning credit quality risk:

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

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

**This category includes the pooled domestic and international bonds; Collective Short-Term Investment Fund; GNMA, FNMA, and FHMLC TBA's (underlying securities to be announced)*

Ratings of Fixed Maturities for June 30, 2006 *(Dollars in thousands)*

S&P Quality Rating	*Fair Value*	*Fair Value as a Percentage of Total Fixed Maturity*
TSY	$198,875	29.4%
AAA	153,652	22.6%
AA	18,179	2.7%
A	42,475	6.3%
BBB	44,528	6.6%
BB	11,888	1.8%
B	7,402	1.1%
CCC & Below	278	0.0%
Not Rated*	200,044	29.5%
TOTAL	**$677,321**	**100.0%**

**This category includes the pooled domestic and international bonds; Collective Short-Term Investment Fund; GNMA, FNMA, and FHMLC TBA's (underlying securities to be announced)*

Forward International Currency Contracts – The Plan has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2007 and 2006, the Plan's net position in these contracts is recorded at fair value as forward international currency contract investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges.

The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2007, total commitments in forward currency contracts to purchase and sell international currencies were $4,974,000 and $4,974,000 respectively, with fair values of $4,948,000 and $4,981,000, respectively. As of June 30, 2006, the Plan had commitments in international currency contracts to purchase and sell international currencies of $1,496,000 and $1,496,000, respectively, with fair values of $1,505,000 and $1,497,000, respectively. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – SECURITIES LENDING PROGRAM

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

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

The Plan authorized State Street Bank and Trust to invest and reinvest cash collateral in State Street's pooled investment vehicle which must have an effective duration of 120 days or less. Securities with maturities of 13 months or more must have a rating of A or better by at least two nationally recognized statistical rating organizations, or if unrated, be of comparable quality. Securities with maturities of less than 13 months are rated at least A-1/P-1. As of June 30, 2007, the size of the cash collateral pooled vehicle was $108.6 billion and the weighted average maturity of 68.25 days. The cash collateral investments included asset backed securities (43.39% of the pool), certificates of deposit (27.04%), corporate securities (18.52%) and other bank notes (11.05%). As of June 30, 2006, the size of the pool was $81.8 billion and the weighted average maturity was 58.46 days.

Notes to Basic Financial Statements *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

Investments included asset backed securities (34.24%), certificates of deposit (21.24%), corporate securities (18.31%), and other bank notes (26.21%). All of the underlying investments of the Plan's securities lending cash collateral are held by the counterparty, not in the name of the Plan.

The loaned securities as of June 30, 2007 and 2006 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment.

As of June 30, 2007, the underlying securities loaned by the Plan as a whole amounted to approximately $505,984,000. The cash collateral and the non-cash collateral totaled $507,105,000 and $14,534,000, respectively. As of June 30, 2006, the underlying securities loaned by the Plan as a whole amounted to approximately $421,775,000. The cash collateral totaled $426,787,000 and non-cash collateral totaled $1,983,000. The Plan has no exposure to credit risk related to the securities lending transactions as of June 30, 2007 and 2006.

As of June 30, 2007, the fair value of the collateral provided was 103.09% of the fair value of the investment lent, thus meeting the Plan's policy of 102%. As of June 30, 2006, the fair value of the collateral provided was 101.7% of the fair value of the investments lent, thus did not meet the Plan's policy of 102% due to daily market fluctuations. However, on July 1, 2006, borrowers delivered collateral to 102% of the fair value of investment lent.

Securities Lending – Investment and Collateral Received

(At Fair Value in Thousands)

Type of Investment Lent	*2007*	*2006*
For Cash Collateral		
Domestic Corporate Bonds	$ 16,893	$ 11,622
Domestic Equity Securities	270,006	175,866
U.S. Government Agency Securities	6,767	4,820
U.S. Treasury Securities	113,503	162,276
International Equity Securities	84,551	65,227
Total Lent for Cash Collateral	**$491,720**	**$419,811**
For Non-Cash Collateral		
Domestic Equity Securities	4,998	7
U.S. Treasury Securities	9,266	1,957
Total Lent for Non-Cash Collateral	**14,264**	**1,964**
TOTAL SECURITIES LENT	**$505,984**	**$421,775**

Type of Collateral Received	*2007*	*2006*
Cash Collateral	**$507,105**	**$426,787**
Non-Cash Collateral		
For Lent Domestic Equity Securities	5,152	7
For Lent U.S. Treasury Securities	9,382	1,976
Total Non-Cash Collateral	**14,534**	**1,983**
TOTAL COLLATERAL RECEIVED	**$521,639**	**$428,770**

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 37).

The City and the participating employee contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2007 and 2006 were as follows:

Period	*City*	*Employee*
12/17/06 - 6/30/07*	24.32%	7.89%
7/02/06 - 6/30/07	21.03%	7.48%
7/03/05 - 7/01/06	21.77%	8.27%
7/01/04 - 7/02/05	21.32%	8.27%

** This rate is for Police members only.*

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

Contributions – Contributions to the Defined Postemployment Healthcare Plan are made by both the City and the participating employees. Contributions for the fiscal years ended June 30, 2007 and 2006, are based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement No. 43. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2007 and 2006 for the Defined Postemployment Healthcare Benefit Plan were as follows:

Period	*City*	*Employee*
12/17/06 - 6/30/07*	4.19%	3.78%
7/02/06 - 6/30/07	4.19%	3.78%
7/03/05 - 7/01/06	3.27%	2.89%
7/01/04 - 7/02/05	3.27%	2.89%

** This rate is for Police members only.*

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

(Dollars in thousands)

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

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

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

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

Notes to Basic Financial Statements *Continued*

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

Description	*Method/Assumption*
Valuation Date	June 30, 2006
Actuarial Cost Method	Entry age normal, level of percent of pay
Amortization Method	30 years, level percent of pay
Remaining Amortization Period	30 years as of June 30, 2006, open
Actuarial Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Discount Rate	5.3%*
Inflation Rate	3.0%
Across-the-board Pay Increase	1.0%
Projected Payroll Increases	4.0%
Health Care Cost Trend Rate:	
Medical	12% in 2007-2008 plan year, decreasing by 1% for each year for seven years until it reaches an ultimate rate of 5%
Dental	5%

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

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

NOTE 7 –SUBSEQUENT EVENTS

Contingency

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

- Members will receive a monthly allowance for a service retirement consisting of final compensation multiplied by 2.5% for the first 20 years of service. Members will receive a monthly allowance for a service retirement consisting of final compensation multiplied by 3.0% once the member completes 20 years of service. (maximum benefit, 90% of final average salary).

The reopen provision in the Police Officers Association's (POA) Memorandum of Agreement (MOA) does not apply because it went through the arbitration process which is excluded in the MOA.

Required Supplementary Information

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

(Dollars in thousands)

Acturial Valuation Date	Actuarial Value of Assets[1] (a)	Entry Age Actuarial Accrued Liability (AAL)[2] (b)	Overfunded /(unfunded) AAL (OAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	OAAL as a % of Covered Payroll ((a-b)/c)
06/30/1999[4]	$1,440,117	$1,276,364	$163,753	112.8%	$144,125	114%
06/30/2001[5]	1,713,812	1,492,732	221,080	114.8%	171,779	129%
06/30/2003	1,826,287	1,823,200	3,087	100.2%	202,222	2%
06/30/2005	1,983,090	2,027,432	(44,342)	97.8%	210,018	(21%)

[1] Excludes accounts payable and postemployment healthcare plan assets.
[2] Excludes postemployment healthcare liability.
[3] Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.
[4] After reflection of benefit improvements effective February 4, 2000.
[5] After adoption of SRBR program.

Actuarial valuations have been performed biennially through June 30, 2005.

SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS - DEFINED BENEFIT PENSION PLAN (Unaudited)

For Fiscal Year Ended June 30, 2007

Description	*Method/Assumption*
Valuation date	June 30, 2005
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	12 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with four-year setback, is used for male members.
	The 1994 Female Group Annuity Mortality Table with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2005 Experience Analysis
Salary increases	10% for employees for the first five years of service; 7% for 6 or 7 years of service and 4.75% in excess of 7 years of service. Of the total salary increases, 3% is for inflation and 1.0% is real across-the-board salary increase.
Cost-of-living adjustments	3.00% a year

Required Supplementary Information *Continued*

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

(Dollars in thousands)

Fiscal Year Ended June 30,	*Annual Required Employer Contributions*	*Percentage Contributed*
2002	$23,748	100%
2003	23,511	100%
2004	24,412	100%
2005	41,835	100%
2006	43,473	100%
2007	46,625	100%

POSTEMPLOYEMENT HEALTHCARE BENEFIT PLAN (Unaudited)

For the Fiscal Year Ended June 30, 2007

(Dollars in thousands)

Schedule of Funding Progress

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

Schedule of Employer Contributions

Plan Year Beginning	*Annual Required Contributions*	*Actual Contributions*	*Percentage Contributed*
June 30, 2006	$61,344*	$ 9,082	15%

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

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2007

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ASSETS			
Receivables:			
Employee contributions	$ 529	$ 218	$ 747
Employer contributions	1,151	912	2,063
Brokers and others	28,420	12,078	40,498
Accrued investment income	5,482	2,327	7,809
Total receivables	**35,582**	**15,535**	**51,117**
Investments, at fair value:			
Securities and Other:			
U.S. Treasury notes and bonds	104,707	44,469	149,176
U.S. Government agency securities	176,128	74,802	250,930
International government bonds	14,813	6,291	21,104
Domestic corporate bonds	153,773	65,308	219,081
International corporate bonds	15,219	6,463	21,682
Domestic equity securities	716,904	304,470	1,021,374
International equity securities	548,108	232,782	780,890
Private equity	25,987	11,036	37,023
Derivitives	29	13	42
State and local obligations	2,066	878	2,944
Forward international currency contracts	(22)	(10)	(32)
Collective short-term investment funds	98,941	42,020	140,961
Real estate	134,548	57,143	191,691
Securities lending cash collateral investment pool	349,351	148,454	497,805
Total investments	**2,340,552**	**994,119**	**3,334,671**
TOTAL ASSETS	**2,376,134**	**1,009,654**	**3,385,788**
LIABILITIES			
Payable to brokers	138,334	58,784	197,118
Securities lending collateral due to borrowers	349,351	148,454	497,805
Other liabilities	4,517	1,565	6,082
TOTAL LIABILITIES	**492,202**	**208,803**	**701,005**
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$1,883,932**	**$ 800,851**	**$2,684,783**

Other Supplementary Information *Continued*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2007

(Dollars in thousands)	*Retirement Fund*	*Cost-of-Living Fund*	*Total*
ADDITIONS			
Contributions:			
Employee	$ 11,347	$ 4,703	$ 16,050
Employer	25,117	21,508	46,625
Total Contributions	**36,464**	**26,211**	**62,675**
Investment income:			
Net appreciation in fair value of investments	270,065	114,221	384,286
Interest income	23,809	10,019	33,828
Dividend income	18,596	7,842	26,438
Net rental income	4,552	1,882	6,434
Less investment expense	(7,827)	(3,272)	(11,099)
Net investment income before securities lending income	**309,195**	**130,692**	**439,887**
Securities lending income:			
Earnings	16,501	6,933	23,434
Rebates	(15,382)	(6,463)	(21,845)
Fees	(336)	(141)	(477)
Net securities lending income	**783**	**329**	**1,112**
Total investment income	**309,978**	**131,021**	**440,999**
TOTAL ADDITIONS	**346,442**	**157,232**	**503,674**
DEDUCTIONS			
Retirement benefits	64,470	17,483	81,953
Death benefits	2,968	2,074	5,042
Refund of contributions	163	47	210
Administrative expenses and other	1,712	494	2,206
TOTAL DEDUCTIONS	**69,313**	**20,098**	**89,411**
Net increase	277,129	137,134	414,263
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of Year	**1,606,803**	**663,717**	**2,270,520**
End of Year	**1,883,932**	**800,851**	**$2,684,783**

Other Supplementary Information *Continued*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2007 and 2006

	2007			2006
	Original Budget	Actual	Variance Positive/(Negative)	Actual
Personal services	$1,545,099	$1,424,322	$ 120,777	$ 1,285,532
Non-personal/equipment	596,300	446,456	149,844	522,842
Professional services	381,547	380,051	1,496	404,134
TOTAL ADMINISTRATIVE EXPENSES AND OTHER	**$2,522,946**	**$2,250,829**	**$272,117**	**$2,212,508**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006
Equity:		
Domestic equity	$ 3,265,871	$2,913,250
International equity	3,059,298	2,592,530
Emerging market equity managers	1,398,181	1,223,765
Private equity	886,266	-
Total equity	**8,609,616**	**6,729,545**
Fixed income:		
Domestic fixed income	961,156	851,824
Global fixed income	2,439	349,693
Long duration fixed income	275,928	230,117
Total fixed income	**1,239,523**	**1,431,634**
Real estate	884,980	440,556
Total investment managers' fees	**10,734,119**	**8,601,735**
Other investment service fees:		
Investment consultant	125,000	95,000
Proxy voting	15,600	24,400
Real estate legal fees	246,996	232,520
Real estate appraisals	-	53,100
Custodian	181,880	348,104
Total other investment service fees	**569,476**	**753,124**
TOTAL INVESTMENT EXPENSES	**$11,303,595**	**$9,354,859**

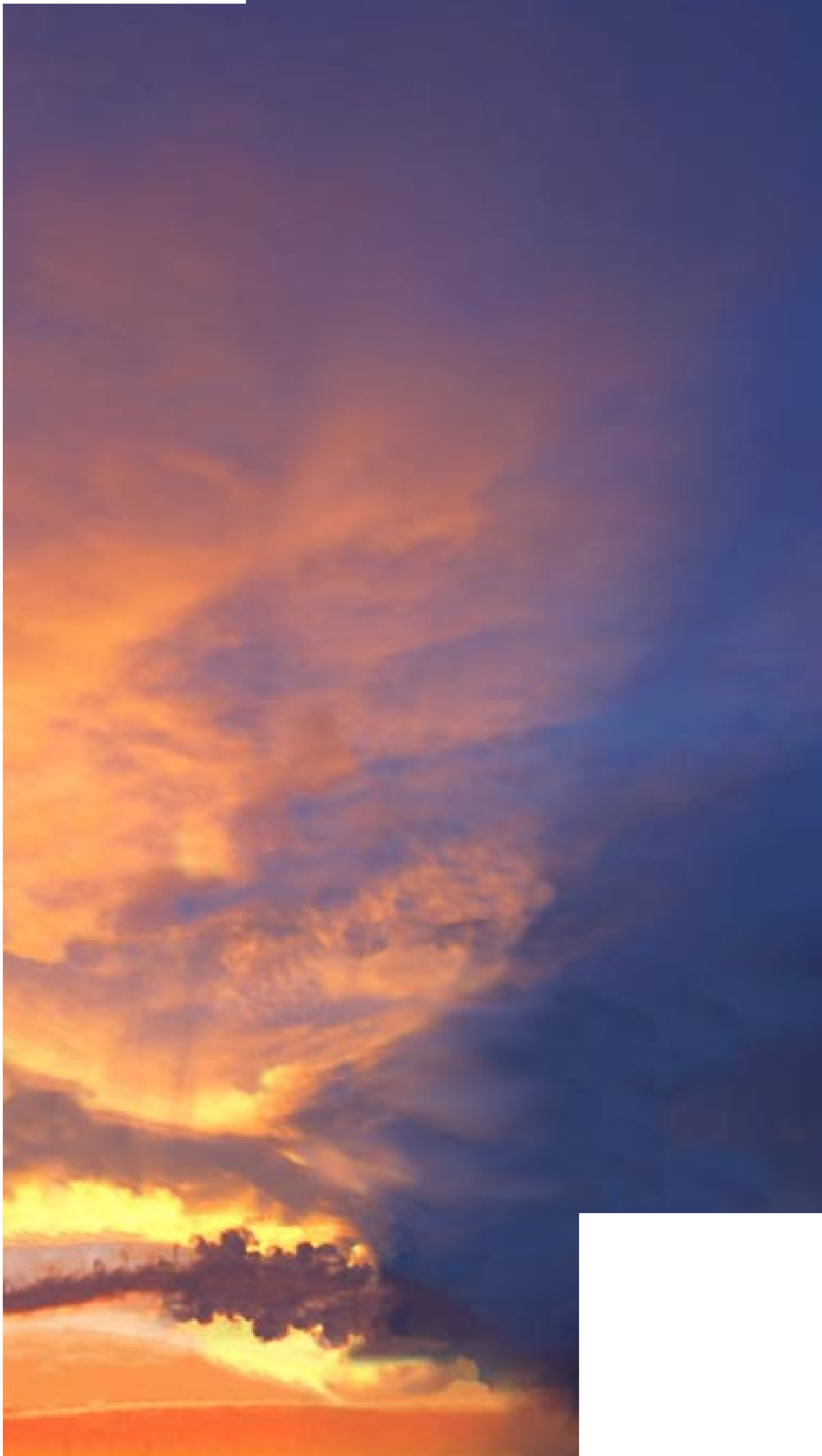
Other Supplementary Information *Continued*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2007 and 2006

Firm	*Nature of Service*	*2007*	*2006*
Avery, William & Associate	Human Resource Consultant	$ -	$ 12,200
Levi, Ray, & Shoup	Web Development	17,942	15,323
Levi, Ray, & Shoup	Document Imaging and Support and Maintenance	7,665	7,500
Macias Gini & O'Connell LLP	External Auditors	31,784	31,380
Medical Director/Other Medical	Medical Consultant	108,557	93,016
Pension Benefit Information	Reports on Deceased Benefit Recipients	2,310	2,261
Saltzman & Johnson	Legal Counsel	25,922	43,116
Mercer Human Resources	Actuarial Consultant	20,850	84,338
The Segal Company	Actuarial Consultant	149,870	-
GRS	Actuarial Consultant	1,500	-
Towers, Perrin, Forster & Crosy, Inc.	Disability Procedure Audit	13,651	115,000
TOTAL		**$380,051**	**$404,134**

Investment Section



Report on Investment Activity

MERCER
Investment Consulting

Mercer Investment Consulting
777 South Figueroa Street, Suite 2000
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213.346.2400 fax
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August 13, 2007

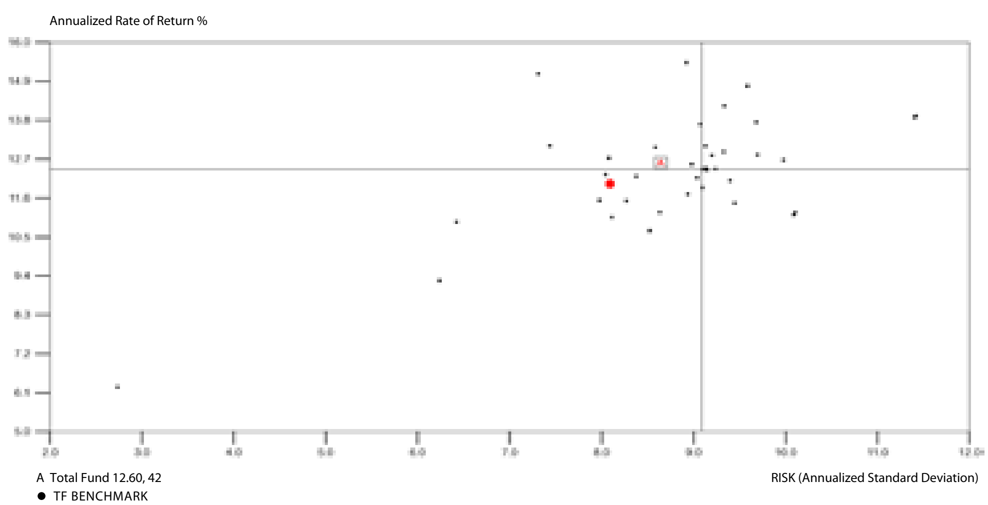
Mr. Edward Overton
Director of Retirement Services
San José Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Overton:

The San José Police and Fire Department Retirement Plan's (the Plan) return for the fiscal year ending June 30, 2007 was up 19.3%; following a remarkable 14.3% return last year. It is important to note that the 19.3% annual return was significantly higher than the actuarial earnings assumption of 8%. Within the TUCS Public Fund Universe, the Plan placed in the 20th percentile. The median return for that public plan universe was 17.6%.

The Trustees oversee plan assets by implementing a consistently conservative investment strategy which has taken less risk than the average public plan over the last five years but has produced higher returns. The following five year graph shown below, depicts the return and risk characteristics of the Plan compared to its peer universe.

TOTAL FUNDS BILLION DOLLAR – PUBLIC
Risk-Return Comparisons
5 Years Ending June 30, 2007 – 38 Portfolios



Report on Investment Activity *Continued*

MERCER
Investment Consulting

While the highest percentage of plan investments remain in U.S. markets, the Trustees have taken a very measured approach to adding global investments over the past ten years. This gradual implementation has improved performance while also retaining a lower risk profile than public pension plans of similar size. To their credit, they have not jumped into new investment strategies that have not passed the test of time. However, the staff and Trustees are consistently evaluating time tested strategies that could add value to the investment program.

The U.S. economy continues to expand at a reasonable rate but the Federal Reserve Board is still very focused on potential inflationary signs. Consequently the Fed has not taken any action on the federal funds rate which has held firm at 5.25% over the past year. The Consumer Price Index eased slightly on a year-over-year basis with a 2.7% increase but oil prices remain high while the housing slump has continued. Tighter lending standards and higher mortgage rates have kept home sales low and inventory levels at record highs.

Mercer Investment Consulting calculates a time weighted total return for the Plan's assets every quarter. The investment performance calculations are based on custodial statements in compliance with the Global Investment Performance (GIP) standards. Mercer also reconciles performance calculations with the Plan's investment managers each quarter to ensure accuracy. Economic updates are also reviewed with the Trustees each quarter to keep them informed of global and domestic developments.

Respectfully submitted,

Tom Lightvoet

Thomas J. Lightvoet

Statement of Investment Policy

GENERAL ENVIRONMENT

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

INVESTMENT GUIDELINES

General

The Board Shall:

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

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

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

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

Asset Allocation

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

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

ASSET ALLOCATION

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

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

SECONDARY TARGETS, DOMESTIC EQUITIES

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

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

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

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

Statement of Investment Policy *Continued*

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

Volatility

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

Liquidity

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

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

Fixed Income

The Board shall require that the majority of the fixed income portfolio be invested in high quality, (investment grade) marketable bonds as provided in Section 3.36.540. Whether a global fixed income manager is employed, or separate domestic and international fixed income managers are employed, they are to invest in accordance with the following guidelines (please refer to section entitled **INVESTMENT GUIDELINES, General** (4) for exception policy):

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

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

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

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

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

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

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

Domestic Common Stock

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

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

Statement of Investment Policy *Continued*

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

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

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

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

International Common Stock

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

Developed Markets

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

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

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

Emerging Markets

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

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

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

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

Real Estate

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

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

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

(3) The fund shall at no time:

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

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

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

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

Private Equity

Subject to specific approval of the Investment Committee of the Board of Administration, investments may be made for the purpose of creating a diversified portfolio of private markets. Examples of such private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-US investments, with a primary focus on

Statement of Investment Policy *Continued*

Europe. Investments may be made in secondary investments on an opportunistic basis (please refer to section entitled **INVESTMENT GUIDELINES, General** (4) for exception policy).

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

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

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

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

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

Derivatives

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

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

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

- Equity and Bond index futures contracts are permitted.
- An international manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the section pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.
- New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10 % of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.
- The fixed income investment managers may hold derivative securities known as Collateralized Mortgage Obligations (CMOs) collateralized by GNMA, FNMA, FHLMC mortgage-backed instruments. The CMOs must possess price risk characteristics consistent with, or superior to, the risk characteristics of the underlying conventional mortgage pass-through securities. Fixed income managers may also purchase securities of other categories, including options and financial futures contracts traded over-the-counter or on organized securities exchanges. Offsetting cash positions must be maintained against all delayed settlement transactions.
- Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration or leverage as characterized by its stated investment style. Managers must be granted specific written authorization from the Plan in order to implement applications of derivative instruments not listed above.

Mini-Tender Offers

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

Credit Unions

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

Manager Discretion

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

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

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

Statement of Investment Policy *Continued*

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

Performance Goals

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

Domestic Equity Managers

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

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

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

Domestic Fixed Income Managers

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

(2) Net of fees, manager performance shall exceed by 50 basis points, the return of the Lehman Brothers Aggregate Bond Index.

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

International Equity Managers

DEVELOPED MARKETS

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

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

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

Emerging Markets

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

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

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

International Fixed Income Managers

(1) Performance above median in Mercer's International Bond Fund Universe.

(2) Net of fees, manager performance shall exceed by 75 basis points, the return of the Citigroup World Government Bond Index.

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

Real Estate Managers

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

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

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

Private Equity

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

Periodic Reviews of Manager Performance

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

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

Statement of Investment Policy *Continued*

Procedure:

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

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

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

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

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

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

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

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

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

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

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

6. In order to be taken off the watch list, a manager must beat their benchmark for an additional 2 successive quarters (i.e. September and December) OR have an additional four quarters of good performance.

Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

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

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

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

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

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

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

Investment Professionals

INVESTMENT MANAGERS

Domestic Equities

Globalt, Inc.
Large Cap Growth
Atlanta, GA

INTECH
Large Cap Growth
Princeton, NJ

New Amsterdam Partners
Large Cap Growth
New York, NY

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

Robeco Boston Partners
Large Cap Value
Los Angeles, CA

Domestic Equities *Continued*

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

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

UBS Global Asset Management
Large Cap Value
Chicago, IL

Private Equities

HarbourVest Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Portfolio Advisors
Darien, CT

International Equities

AQR Capital Management
Greenwich, CT

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

Income Research & Management
Boston, MA

Seix Investment Advisors
Upper Saddle River, NJ

Western Asset Management Company
Pasadena, CA

Real Estate

MIG Realty Advisors
Cleveland, OH

Kennedy Associates Real Estate Counsel, Inc.
Seattle, WA

CONSULTANT

Mercer Investment Consulting
Los Angeles, CA

CUSTODIAN

State Street Bank & Trust Company
Boston, MA

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2007

	One Year	*Three Years*	*Five Years*
Total Fund	**19.3%**	**13.8%**	**12.6%**
Benchmark	18.8%	13.8%	12.0%
Mercer Funds Billion Dollar Public Median	17.6%	12.8%	11.6%
TUCS Public Fund Universe Median	17.6%	12.7%	11.6%
Total Domestic Fixed Income	6.1%	4.9%	5.5%
Lehman Brothers Aggegate Bond Index	6.1%	4.0%	4.5%
Mercer US Fixed Income Core Median	6.3%	4.4%	5.0%

	One Year	*Three Years*	*Inception (01/05)*
Total Long Duration Fixed Income	**-1.8%**	**7.0%**	**2.6%**
Lehman Brothers U.S. Government Credit-Long Term Index	-1.9%	7.0%	2.8%
Mercer US Fixed Long Duration Universe Median	-1.9%	6.9%	N/A

	One Year	*Three Years*	*Five Years*
Total Domestic Equity	**19.1%**	**12.6%**	**12.2%**
S&P 500 Index	20.6%	11.7%	10.7%
Mercer US Equity Median	20.2%	14.4%	13.6%
Total International Equity	**30.5%**	**23.3%**	**19.2%**
MSCI EAFE Net Dividend Index	27.0%	22.2%	17.7%
Mercer International Equity Median	28.4%	23.5%	18.7%
Total International Emerging Market Equity	**42.9%**	**36.4%**	**30.5%**
MSCI Emerging Markets Index	45.5%	38.7%	30.7%
Mercer Emerging Markets Equity Median	48.2%	40.8%	32.3%
Total Real Estate	**13.3%**	**12.7%**	**8.6%**
NCREIF Property Index	17.2%	18.0%	14.4%
Mercer Real Estate Median	17.3%	18.1%	14.6%

Basis of Calculation: Time-Weighted Rate of Return

Source: Mercer Investment Consulting Investment Performance Evaluation Report June 30, 2007

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2007

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.

	One Year	Three Years	Five Years
Domestic Fixed Income			
Seix Investment Advisors	6.0%	4.0%	4.8%
Lehman Brothers Aggregate Bond Index + 50 bps	6.6%	4.5%	5.0%
Mercer US Fixed Income Core Median	6.3%	4.4%	5.0%
	One Year	*Three Years*	*Inception (07/02)*
Western Asset Management Company	5.9%	5.0% ++	6.4% ++
Lehman Brothers Aggregate Bond Index + 50 bps	6.6%	4.5%	4.8%
Mercer US Fixed Income Core Median	6.1%	4.0%	4.3%
	One Quarter	*One Year*	*Inception (01/05)*
Income Research Management	-1.9% +=	6.7%	2.3%
Lehman US Gov/Credit-Long Term Index + 50 bps	-1.7%	7.5%	3.3%
Mercer US Fixed Long Duration Universe Median	-1.9%	6.9%	N/A
	One Year	*Three Years*	*Five Years*
Domestic Equity			
Rhumbline Advisors (Index)	20.4% +	11.6%	10.6%
S&P 500 Index	20.6%	11.7%	10.7%
Mercer US Equity Median	20.2%	14.4%	13.6%
Boston Partners (Large Cap Value)	23.6% ++	16.8% +	13.5% =
Russell 1000 Value Index + 100 bps	22.9%	16.9%	14.3%
Mercer Large Cap Value Universe Median	22.1%	15.4%	13.5%
UBS Global Asset Mgmt (Large Cap Value)	21.6% +	14.5% +	13.0% +
Russell 3000 Index + 100 bps	21.1%	13.4%	12.5%
Mercer Large Cap Value Universe Median	22.1%	15.4%	13.5%
New Amsterdam Partners (Large Cap Growth)	15.7%	11.7% +	11.4% +
S&P 500 + 100 bps	21.6%	12.7%	11.7%
Mercer Large Cap Growth Universe Median	17.8%	10.2%	9.9%
Globalt, Inc. (Large Cap Growth)	14.4%	7.3%	7.2%
Russell 1000 Growth Index + 100 bps	20.0%	9.7%	10.3%
Mercer Large Cap Growth Universe Median	17.8%	10.2%	9.9%
	One Year	*Three Years*	*Inception (10/03)*
INTECH (Large Cap Growth)	14.5%	9.2%	11.9%+
Russell 1000 Growth Index + 100 bps	20.0%	9.7%	11.5%
Mercer Large Cap Growth Universe Median	17.8%	10.2%	N/A
	One Quarter	*One Year*	*Inception (12/04)*
Rhumbline Advisors (Small Cap Core Index)	4.5% +	16.5% +	12.8% +
Russell 2000 Index	4.4%	16.4%	12.5%
Mercer Small Cap Core Universe Median	5.8%	16.9%	N/A

Basis of Calculation: Time-Weighted Rate of Return

Source: Mercer Investment Consulting Investment Performance Evaluation Report June 30, 2007

Schedule of Investment Results *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER *Continued*

For Periods Ending June 30, 2007

	One Year	*Three Years*	*Five Years*
Domestic Equity *Continued*			
Trust Company of the West (Small Cap Value)	19.2% ++	8.6%	11.8%
Russell 2000 Value Index + 200 bps	18.4%	15.4%	15.9%
Mercer Small Cap Value Universe Median	18.6%	15.9%	16.4%
Provident Investment Counsel (Small Cap Growth)	14.5%	11.3%	12.0%
Russell 2000 Growth Index + 200 bps	18.8%	13.8%	15.1%
Mercer Small Cap Growth Universe Median	17.6%	13.7%	14.1%
	One Quarter	*One Year*	*Inception (7/06)*
International Equity			
AQR Capital Management	8.7% ++	31.6% ++	31.6% ++
MSCI EAFE Net Dividend Index + 150 bps	6.8%	28.5%	28.5%
Mercer International Equity Median	7.4%	28.4%	28.4%
	One Year	*Three Years*	*Five Years*
Brandes Investment Partners	27.3%	21.9%	19.9% ++
MSCI EAFE Net Dividend Index + 150 bps	28.5%	23.7%	19.2%
Mercer International Equity Median	28.4%	23.5%	18.7%
William Blair & Co	31.7% ++	25.4% +	19.8% +
MSCI AC World Free ex US Index +150bps	31.1%	26.0%	21.0%
Mercer International Equity Median	28.4%	23.5%	18.7%
	One Year	*Three Years*	*Five Years*
International Emerging Markets Equity			
Alliance Capital Management	44.1%	37.3%	30.7%
MSCI Emerging Markets Free Index + 200 bps	47.5%	40.7%	32.7%
Mercer Emerging Markets Equity Median	48.2%	40.8%	32.3%
Boston Company Asset Management	38.8%	32.9%	27.8%
MSCI Emerging Markets Free Index + 200 bps	47.5%	40.7%	32.7%
Mercer Emerging Markets Equity Median	48.2%	40.8%	32.3%
	One Year	*Three Years*	*Five Years*
Real Estate			
MIG Realty Advisors	6.1%	10.1%	9.5%
NCREIF Property Index + 150 bps	18.7%	19.5%	15.9%
Mercer Real Estate Median	17.3%	18.1%	14.6%
	One Year	*Three Years*	*Inception (10/03)*
Kennedy Associates	13.5%	12.1%	11.6%
NCREIF Property Index + 150 bps	18.7%	19.5%	18.2%
Mercer Real Estate Median	17.3%	18.1%	N/A
	One Quarter	*One Year*	*Inception (07/06)*
MEPT	5.4 ++	16.3	16.3
NCREIF Property Index + 150 bps	5.0	18.7	18.7
Mercer Real Estate Median	4.8	17.3	17.3

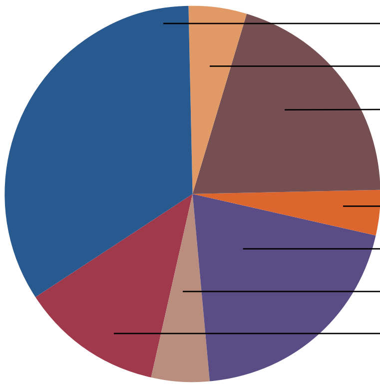
Basis of Calculation: Time-Weighted Rate of Return

Source: Mercer Investment Consulting Investment Performance Evaluation Report June 30, 2007

Investment Review

TARGET ASSET ALLOCATION

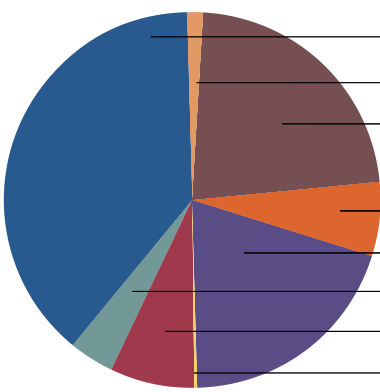
As of June 30, 2007



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

ACTUAL ASSET ALLOCATION

As of June 30, 2007 (Dollars in Millions)



Domestic Equity	38.9%	$1,065.70
Private Market Equity	1.4%	$37.71
International Equity	22.6%	$619.96
Emerging Markets Equity	6.4%	$173.77
Domestic Fixed Income	19.7%	$539.26
Long Duration Fixed Income	3.7%	$101.88
Real Estate*	7.2%	$197.15
Cash	0.1%	$ 2.67

ACTUAL ASSET ALLOCATION

As of June 30, 2007
(Dollars in Millions)

Asset Class	*Actual*
Domestic Equity	$ 1,065.70
Private Market Equity	37.71
International Equity	619.96
Emerging Markets Equity	173.77
Domestic Fixed Income	539.26
Long Duration Fixed Income	101.88
Real Estate*	197.15
Cash	2.67
TOTAL	**$2,738.10**

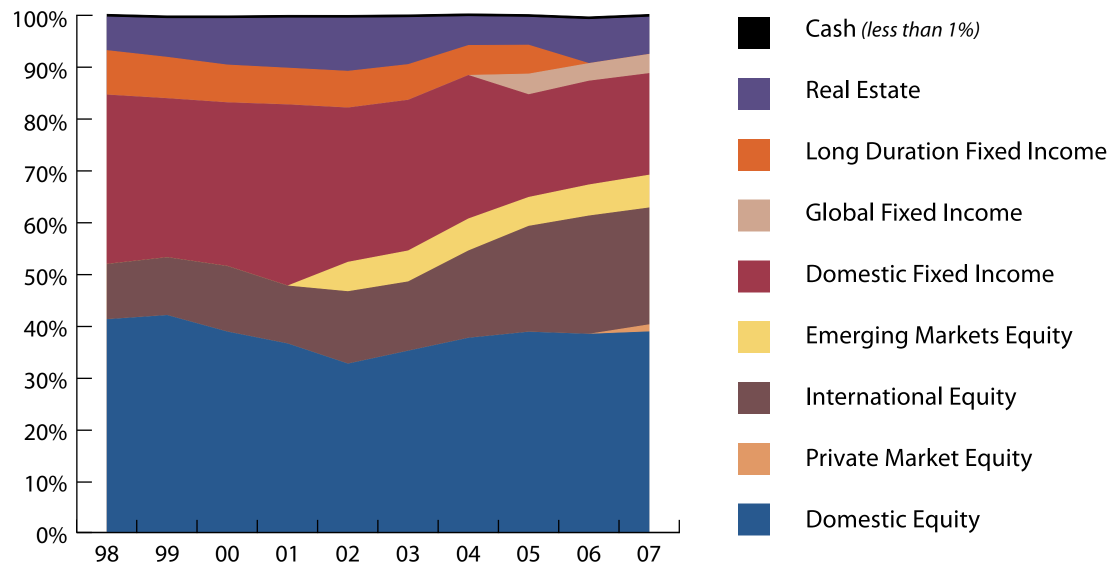
** Includes leverage*

Non-GAAP Basis

Investment Review *Continued*

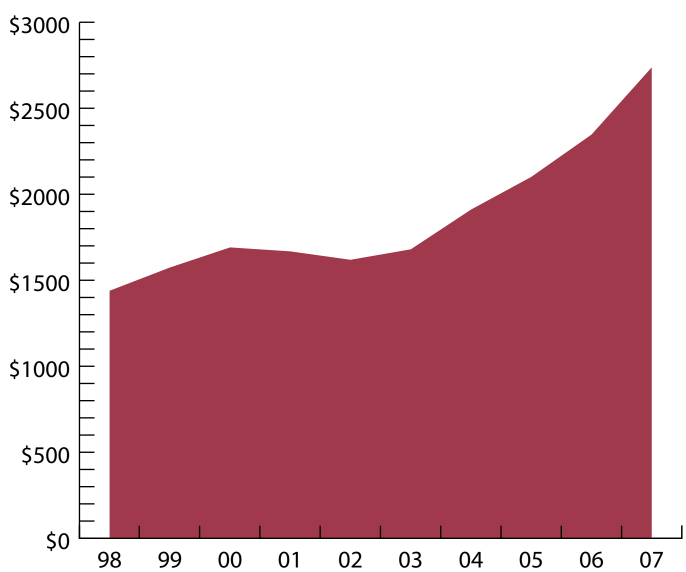
HISTORICAL ASSET ALLOCATION (ACTUAL)

June 30, 1998 – June 30, 2007



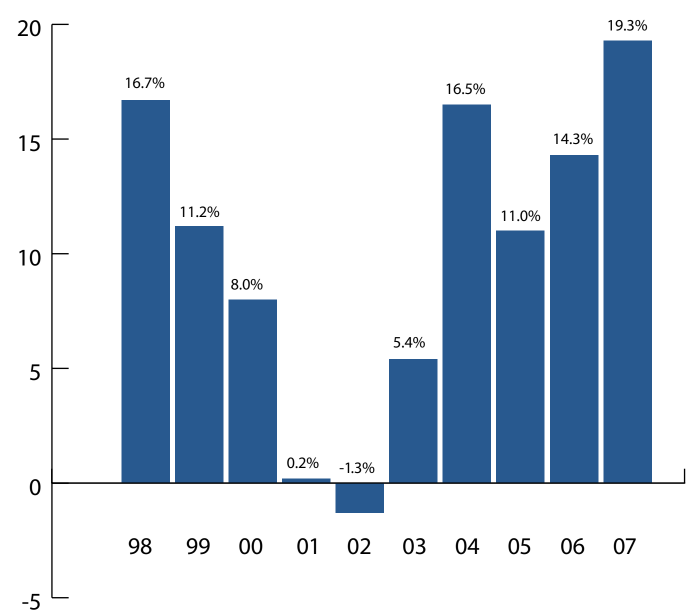
MARKET VALUE GROWTH OF PLAN ASSSETS

For Ten Years Ended June 30, 2007 (Dollars in Millions)



HISTORY OF PERFORMANCE FOR FISCAL YEARS 1998 – 2007

(Based on Market Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS *(By Market Value)*
June 30, 2007

Shares	Country	Description	Market Value in $US
321,724.00	United States	CITIGROUP INC	$16,501,223.96
178,943.00	United States	EXXON MOBIL CORP	15,009,738.84
359,075.00	United States	GENERAL ELEC CO	13,745,391.00
423,750.00	United States	MICROSOFT CORP	12,487,912.50
176,000.00	United States	AMERICAN INTL GROUP INC	12,325,280.00
268,428.00	United States	HEWLETT PACKARD CO	11,977,257.36
236,658.00	United States	JPMORGAN CHASE + CO	11,466,080.10
171,152.00	United States	PROCTER AND GAMBLE CO	10,472,790.88
400,055.00	United States	PFIZER INC	10,229,406.35
210,609.00	United States	AT+T INC	8,740,273.50

LARGEST BOND HOLDINGS *(By Market Value)*
June 30, 2007

Par Value	Country	Description	Interest Rate	Maturity Date	Market Value in $US
32,300,000.00	United States	FNMA TBA JUL 30 SINGLE FAM	5.00%	12/1/99	$30,245,920.26
28,435,000.00	United States	FNMA TBA JUL 30 SINGLE FAM	5.50%	12/1/99	27,410,896.41
21,345,000.00	United States	FNMA TBA JUL 30 SINGLE FAM	6.00%	12/1/99	21,109,872.02
19,620,000.00	United States	UNITED STATES TREAS NTS	4.63%	12/31/11	19,380,881.25
17,750,000.00	United States	UNITED STATES TREAS NTS	4.75%	2/15/10	17,682,051.23
13,480,000.00	United States	UNITED STATES TREAS BDS	6.00%	2/15/26	14,720,580.58
10,840,000.00	United States	UNITED STATES TREAS BDS	7.63%	2/15/25	13,812,531.79
13,875,000.00	United States	US TREASURY NTS	4.38%	8/15/12	13,561,728.86
13,317,000.00	United States	FHLMC TBA JUL 30 GOLD SINGLE	5.50%	12/1/99	12,842,581.88
12,255,000.00	United States	UNITED STATES TREAS NTS	4.00%	4/15/10	11,970,646.01

Schedule of Investment Fees

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Domestic Equity	$ 1,065,701,000	$ 3,265,871	31
Private Market Equity	37,715,000	886,266	235
International Equity	619,958,000	3,059,298	51
Emerging Markets Equity	173,769,000	1,398,181	80
Domestic Fixed Income	539,258,000	961,156	18
Long Duration Fixed Income	101,880,000	275,928	27
Global Fixed Income**	-	2,439	N/A
Real Estate	197,156,000	884,980	45
Cash	2,666,000	-	N/A
TOTAL	**$2,738,103,000**	**$10,734,119**	**40**

Other Investment Service Fees			
Investment Consultant	N/A	$ 125,000	N/A
Proxy Voting	N/A	15,600	N/A
Custodian	N/A	181,880	N/A
Real Estate Legal Fees	N/A	246,996	N/A
Real Estate Appraisals	N/A	-	N/A
TOTAL		**$569,476**	

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

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ABEL NOSER CORPORATION	7,300.00	$ 365.00	$ 0.05000
ABG SECURITIES	41,934.00	908.74	0.02167
ABN AMRO BANK NV	41,524.00	323.04	0.00778
ABN AMRO SECURITIES (USA) INC	112,800.00	4,218.42	0.03740
ADP COSI/SANTANDER	3,200.00	160.00	0.05000
AUTOMATEDTRADING DESK FINANCIAL SERVICE	105,113.00	1,184.00	0.01126
AVONDALE PARTNERS LLC	19,800.00	990.00	0.05000
B RILEY AND CO INC.	6,800.00	330.00	0.04853
BAIRD, ROBERT W., & COMPANY INCORPORATED	227,475.00	10,323.00	0.04538
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	250,985.00	10,648.90	0.04243
BANCO ITAU SA	66,300.00	2,821.52	0.04256
BANCO PACTUAL S.A.	21,700.00	1,196.68	0.05515
BANCO SANTANDER CENTRAL HISPANO	393,600.00	7,530.25	0.01913
BANK J.VONTOBEL UND CO. AG	47,850.00	2,644.48	0.05527
BANQUE NATIONALE DU CANADA	32,700.00	1,167.42	0.03570
BEAR STEARNS + CO INC	536,087.00	21,295.81	0.03972
BEAR STEARNS ASIA LTD	15,000.00	49.24	0.00328
BEAR STEARNS SECURITIES CORP	310,866.00	12,641.31	0.04066
BEREAN CAPITAL, INC. 2	131,737.00	5,269.48	0.04000
BNP PARIBAS PEREGRINE SECURITIES	1,228,090.00	9,566.59	0.00779
BNP PARIBAS SA	44,000.00	3,944.56	0.08965
BNP PARIBAS SECURITIES SERVICES	1,700.00	602.28	0.35428
BNY BROKERAGE INC	105,200.00	4,464.00	0.04243
BROADCORTCAPITAL (THRU ML)	318,663.00	12,318.97	0.03866
BROCHHOUSE COOPER	105,500.00	1,471.77	0.01395
BROCKHOUSE + COOPER INC MONTREAL	700.00	76.39	0.10913
BROWN BROTHERS HARRIMAN + CO	20,500.00	875.00	0.04268
B-TRADE SERVICES LLC	13,500.00	210.50	0.01559
BUCKINGHAM RESEARCH GROUP	20,200.00	857.00	0.04243
C. L. GLAZER & COMPANY, INC.	1,700.00	68.00	0.04000
CABRERA CAPITAL MARKETS	44,700.00	1,788.00	0.04000
CANACCORDADAMS INC.	60,996.00	2,461.84	0.04036
CANACCORDCAPITAL CORP	31,100.00	1,105.64	0.03555
CANTOR FITZGERALD + CO.	111,655.00	4,135.20	0.03704
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	429,100.00	9,067.40	0.02113
CARNEGIE A S	40,700.00	1,597.32	0.03925

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
CAZENOVE + CO	1,321,300.00	$ 5,909.00	$ 0.00447
CAZENOVE ASIA LTD	18,000.00	27.78	0.00154
CHEEVERS + CO	114,200.00	4,568.00	0.04000
CIBC WORLD MARKETS CORP	73,955.00	3,174.10	0.04292
CIBC WORLD MKTS INC	46,800.00	2,100.37	0.04488
CITATION GROUP	192,415.00	7,534.30	0.03916
CITIBANK CANADA	9,400.00	421.66	0.04486
CITIBANK N.A. MILAN	5,000.00	634.67	0.12693
CITIGROUPGLOBAL MARKETS INC	1,117,238.00	37,104.78	0.03321
CITIGROUPGLOBAL MARKETS INC.	118,400.00	4,896.05	0.04135
CITIGROUPGLOBAL MARKETS INDIA	136,100.00	1,779.90	0.01308
CITIGROUPGLOBAL MARKETS LIMITED	165,060.00	12,614.97	0.07643
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	348,064.00	2,743.75	0.00788
CJS SECURITIES	1,800.00	90.00	0.05000
CLSA SECURITIES KOREA LTD.	760.00	1,405.19	1.84893
CLSA SECURITIES MALAYSIA SDN BHD	38,400.00	443.20	0.01154
COWEN + CO., LLC	76,900.00	3,719.00	0.04836
COWEN + COMPANY LLC	67,700.00	2,731.00	0.04034
COWEN ANDCOMPANY, LLC	90,185.00	3,949.40	0.04379
CRAIG - HALLUM	46,900.00	2,249.00	0.04795
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	70,139.00	7,219.18	0.10293
CREDIT LYONNAIS SECURITIES	44,750.00	4,492.47	0.10039
CREDIT LYONNAIS SECURITIES (USA) INC	2,225,300.00	11,638.09	0.00523
CREDIT SUISSE FIRST BOSTON (EUROPE)	4,200.00	6,440.61	1.53348
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	8,600.00	965.08	0.11222
CREDIT SUISSE FIRST BOSTON SA CTVM	89,100.00	4,588.17	0.05149
CREDIT SUISSE SECURITIES (USA) LLC	4,799,141.00	63,433.35	0.01322
D CARNEGIE AG	28,350.00	1,282.92	0.04525
DAIWA SECURITIES AMERICA INC	162,853.00	7,491.08	0.04600
DAVENPORT& CO. OF VIRGINIA, INC.	16,700.00	835.00	0.05000
DAVIDSON D.A. + COMPANY INC.	22,445.00	785.80	0.03501
DAVIS, MENDEL AND REGENSTEIN	174,800.00	6,992.00	0.04000
DAVY (J+E)	12,000.00	707.94	0.05900
DBS VICKERS (HONG KONG) LIMITED	5,000.00	43.17	0.00863
DBS VICKERS SECURITIES (SINGAPORE)	725,500.00	6,062.80	0.00836
DBS VICKERS SECURITIES SING	(7,000.00)	(37.08)	0.00530

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
DEUTSCHE BANK SECURITIES INC	1,251,058.00	$ 33,391.55	$ 0.02669
DEUTSCHE SECURITIES ASIA LIMITED	2,300.00	3,599.34	1.56493
DOUGHERTYCOMPANY	24,200.00	1,210.00	0.05000
DOWLING &PARTNERS	5,900.00	295.00	0.05000
DRESDNER KLEINWORTH WASSERSTEIN SEC LLC	179,260.00	14,162.05	0.07900
DSP MERRILL LYNCH LTD	207,600.00	6,192.68	0.02983
E TRADE SECURITIES, INC	12,700.00	357.50	0.02815
EDGETRADE, INC.	5,100.00	38.25	0.00750
EDWARDS AG SONS INC	70,000.00	2,848.00	0.04069
EMP RESEARCH PTRNS	34,900.00	1,423.00	0.04077
ENSKILDA SECURITIES AB	107,100.00	6,633.86	0.06194
EUROMOBILIARE SIM S.P.A.	39,100.00	4,577.41	0.11707
EXANE INC	44,259.00	5,105.43	0.11535
EXANE S.A.	23,000.00	3,505.28	0.15240
FIRST ALBANY CAPITAL INC.	11,900.00	476.00	0.04000
FIRST ASSOCIATES INVESTMENTS INC	30,600.00	1,340.51	0.04381
FIRST CLEARING, LLC	22,450.00	898.00	0.04000
FOX PITT KELTON INC	56,884.00	2,332.36	0.04100
FOX-PITT KELTON LTD	47,100.00	1,199.30	0.02546
FRANK RUSSELL SEC/BROADCORT CAP CLEARING	40,500.00	1,996.00	0.04928
FRIEDMAN BILLINGS + RAMSEY	175,894.00	7,259.76	0.04127
G TRADE SERVICES LTD	11,300.00	271.79	0.02405
GARP STEARNS & SECURITIES CO	4,400.00	176.00	0.04000
GERSON LEHRMAN GROUP BROKERAGE SERV LLC	20,500.00	840.00	0.04098
GMP SECURITIES LTD.	16,700.00	744.97	0.04461
GOLDMAN SACHS + CO	1,998,816.00	64,893.84	0.03247
GOLDMAN SACHS EXECUTION + CLEARING	1,478,731.00	42,432.45	0.02870
GOLDSMITH& HARRIS (THRU BEAR STEARNS)	4,500.00	180.00	0.04000
GOODBODY STOCKBROKERS	143,400.00	2,669.85	0.01862
GUZMAN + CO	236,266.00	7,079.55	0.02996
HARRIS NESBITT CORP	8,620.00	344.80	0.04000
HEFLIN + CO LLC	6,195.00	123.90	0.02000
HIBERNIA SOUTHCOAST CAPITAL INC	14,300.00	572.00	0.04000
HONG KONGAND SHANGHAI BANKING CORP	28,100.00	1,170.71	0.04166
HSBC BANKPLC	326,263.00	5,184.16	0.01589
HSBC SECURITIES (USA), INC./STOCK LOAN	30,000.00	1,370.30	0.04568

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
HSBC SECURITIES INC (JAMES CAPEL)	162,700.00	$ 2,557.24	$ 0.01572
IMPERIAL CAPITAL LLC	20,900.00	1,045.00	0.05000
ING BARINGS CORP	26,100.00	400.43	0.01534
INGALLS SNYDER	1,000.00	40.00	0.04000
INSTINET	2,529,477.00	81,271.06	0.03213
INSTINET FRANCE S.A.	5,000.00	985.85	0.19717
INSTINET PACIFIC LIMITED	21,200.00	94.44	0.00445
INSTINET U.K. LTD	701,865.00	28,379.80	0.04043
INSTINET,LLC	9,400.00	352.00	0.03745
INTERMONTE SEC SIM SPA	59,700.00	2,977.79	0.04988
INVESTMENT TECHNOLOGY GROUP INC.	1,239,844.00	32,167.06	0.02594
INVESTMENT TECHNOLOGY GROUP LTD	393,300.00	20,486.78	0.05209
ISI GROUPINC	195,000.00	7,847.00	0.04024
ITG INC.	900.00	18.00	0.02000
ITG SECURITIES (HK) LTD	573,120.00	4,863.90	0.00849
IXIS SECURITIES	18,400.00	1,734.61	0.09427
J P MORGAN INDIA PRIVATE LTD	216,400.00	4,012.71	0.01854
J P MORGAN SECURITIES INC	485,935.00	18,169.51	0.03739
J.P MORGAN SECURITIES	65,100.00	314.26	0.00483
J.P. MORGAN SECURITIES (TAIWAN) LTD	1,092,000.00	1,556.94	0.00143
J.P. MORGAN SECURITIES LIMITED	30,774.00	3,807.69	0.12373
JANNEY MONTGOMERY, SCOTT INC	26,982.00	1,079.28	0.04000
JEFFERIES+ COMPANY INC	2,724,267.84	29,433.03	0.01080
JM MORGANSTANLEY SECS PVT LTD	60,600.00	609.96	0.01007
JMP SECURITIES	27,400.00	1,318.00	0.04810
JOH BERENBERG GOSSLER AND CO	66,650.00	5,472.85	0.08211
JONES & ASSOCIATES INC	153,548.00	5,272.69	0.03434
JONESTRADING INSTITUTIONAL SERVICES LLC	64,800.00	2,462.00	0.03799
JP MORGANSECURITIES AUSTRALIA LTD	76,100.00	1,744.04	0.02292
JP MORGANSECURITIES LIMITED	255,296.00	6,687.60	0.02620
JPMORGAN CHASE BANK	59,200.00	2,506.47	0.04234
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	1,363,743.00	13,465.66	0.00987
KAUFMAN BROTHERS	8,500.00	425.00	0.05000
KBC FINANCIAL PRODUCTS UK LTD	52,595.00	3,023.39	0.05748
KBC PEEL HUNT LTD	211,100.00	2,668.61	0.01264
KEEFE BRUYETTE + WOODS INC	191,391.00	7,077.89	0.03698

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
KEEFE BRUYETTE AND WOOD LIMITED	3,900.00	$ 1,102.72	$ 0.28275
KELLOGG PARTNERS	2,100.00	105.00	0.05000
KES SINARMAS SECURITIES PT	1,703,500.00	675.80	0.00040
KEYBANC CAPITAL MARKETS INC	4,000.00	200.00	0.05000
KIM ENG SECS PTE LTD, SINGAPORE	404,400.00	1,480.02	0.00366
KIM ENG SECURITIES (HK) LTD.	16,000.00	25.32	0.00158
KLEINWORTBENSON SECURITIES LIMITED	73,083.00	1,084.60	0.01484
KNIGHT SECURITIES	114,683.00	4,372.39	0.03813
KOTAK SECURITIES	186,300.00	7,055.71	0.03787
LA BRANCHE FINANCIAL #2	700.00	10.50	0.01500
LEERINK SWANN AND COMPANY	72,200.00	3,178.00	0.04402
LEHMAN BROTHERS INC	602,334.00	22,562.72	0.03746
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	289,127.00	23,008.64	0.07958
LEHMAN BROTHERS SECS (ASIA)	240,000.00	7,750.71	0.03229
LIQUIDNETINC	2,450,300.00	63,820.31	0.02605
LOOP CAPITAL MKTS LLC	73,300.00	2,932.00	0.04000
LYNCH JONES AND RYAN INC	3,185,929.00	128,374.35	0.04029
M M WARBURG	11,500.00	1,215.23	0.10567
MACQUARIEEQUITIES LIMITED (SYDNEY)	206,500.00	7,393.43	0.03580
MACQUARIESECURITIES (INDIA) PVT LTD	38,500.00	1,008.35	0.02619
MACQUARIESECURITIES (SINGAPORE)	484,200.00	7,376.50	0.01523
MACQUARIESECURITIES LIMITED	206,536.00	8,452.85	0.04093
MACQUARIESECURITIES LTD SEOUL	12,000.00	2,494.47	0.20787
MCDONALD AND COMPANY SECURITIES, INC.	72,210.00	1,799.45	0.02492
MERRILL LYNCH INTERNATIONAL	1,911,130.00	32,447.72	0.01698
MERRILL LYNCH PEIRCE FENNER AND S	2,561,380.00	23,470.75	0.00916
MERRILL LYNCH PROFESSIONAL CLEARING CORP	114,295.00	5,436.30	0.04756
MERRILL LYNCH,PIERCE,FENNER + SMITH, INC	500,622.00	12,321.65	0.02461
MERRIMAN CURHAN FORD + CO	44,744.00	1,574.36	0.03519
MIDWEST RESEARCH SECURITIES	125,200.00	5,014.00	0.04005
MIZUHO SECURITIES USA INC	89,251.00	1,929.33	0.02162
MJSK INC	4,500.00	180.00	0.04000
MKM PARTNERS	6,200.00	297.00	0.04790
MONNESS, CRESPI, HARDT & CO. INC	5,600.00	274.00	0.04893
MONTGOMERY + COMPANY LLC EQUITIES	8,400.00	355.00	0.04226
MORGAN KEEGAN & CO INC	57,325.00	2,841.25	0.04956

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
MORGAN STANLEY AND CO INTERNATIONAL	24,752.00	$ 10,916.65	$ 0.44104
MORGAN STANLEY AND CO INTL TAIPEI METRO	66,000.00	1,879.03	0.02847
MORGAN STANLEY CO INCORPORATED	3,408,215.00	61,819.38	0.01814
MR BEAL &COMPANY	1,200.00	48.00	0.04000
NATIONAL FINANCIAL SERVICES CORP.	9,500.00	427.00	0.04495
NBG INTERNATIONAL LTD LONDON	24,000.00	2,794.82	0.11645
NCB STOCKBROKERS LTD	5,800.00	276.87	0.04774
NEEDHAM +COMPANY	70,480.00	2,099.20	0.02978
NESBITT BURNS	384,200.00	9,069.82	0.02361
NOLLENBERGER CAPITAL PARTNERS INC	2,800.00	140.00	0.05000
NOMURA SECURITIES CO LTD	178,000.00	5,482.59	0.03080
NOMURA SECURITIES INTERNATIONAL INC	255,410.00	5,796.02	0.02269
NYFIX TRANSACTION SERVICES #2	308,600.00	4,918.50	0.01594
O NEIL, WILLIAM AND CO. INC/BCC CLRG	24,000.00	1,200.00	0.05000
ODDO FINANCE	7,500.00	433.08	0.05774
OPPENHEIM, SAL.,JR UND CIE KOELN	29,300.00	2,233.87	0.07624
OPPENHEIMER & CO. INC.	220,596.00	8,368.84	0.03794
OSCAR GRUSS & SON INC	700.00	35.00	0.05000
PACIFIC AMERICAN SECURITIES, LLC	103,900.00	4,194.00	0.04037
PACIFIC CREST SECURITIES	176,350.00	8,214.50	0.04658
PACIFIC GROWTH EQUITIES	28,800.00	1,440.00	0.05000
PACIFIC GROWTH EQUITIES, LLC	8,800.00	440.00	0.05000
PCS SECURITIES INC	32,800.00	1,640.00	0.05000
PENSON WORLDWIDE SETTLEMENTS LTD	5,200.00	53.32	0.01025
PERSHING DLJ S L	2,966,470.00	93,864.78	0.03164
PERSHING LLC	104,000.00	4,150.00	0.03990
PERSHING SECURITIES LIMITED	311,300.00	4,143.10	0.01331
PICKERING ENERGY PARTNERS, INC	34,050.00	1,702.50	0.05000
PIPELINE TRADING SYSTEMS LLC	65,480.00	1,309.60	0.02000
PIPER JAFFRAY	210,720.00	9,329.30	0.04427
PRUDENTIAL EQUITY GROUP	197,565.00	7,798.60	0.03947
PULSE TRADING LLC	1,200.00	48.00	0.04000
R W PRESSPRICH + CO INC	15,000.00	601.00	0.04007
RAYMOND JAMES AND ASSOCIATES INC	156,316.00	7,376.64	0.04719
RBC CAPITAL MARKETS	74,200.00	1,434.00	0.01933
REDBURN PARTNERS LLP	5,700.00	58.35	0.01024

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ROSENBLATT SECURITIES INC	267,965.00	$ 5,381.76	$ 0.02008
ROSENBLATT SECURITIES LLC	55,400.00	1,240.87	0.02240
RYAN BECK+ CO	19,963.00	798.52	0.04000
S.G. COWEN & CO., LLC	22,950.00	1,147.50	0.05000
S.S KANTILAL ISHWARLAL SECURITIES	110,000.00	2,010.31	0.01828
SALOMON SMITH BARNEY KOREA LTD	6,620.00	676.36	0.10217
SAMSUNG SECURITIES CO LTD	25.00	44.39	1.77560
SANDLER ONEILL + PART LP	57,085.00	1,952.40	0.03420
SANFORD C. BERNSTEIN LTD	8,100.00	2,744.80	0.33886
SANFORD CBERNSTEIN CO LLC	101,795.00	3,931.80	0.03862
SANTANDERINVESTMENT SECURITIES INC	1,300.00	65.00	0.05000
SBK BROOKS INVESTMENY CORP	34,000.00	1,360.00	0.04000
SCOTIA CAPITAL INC	110,900.00	4,638.52	0.04183
SCOTT & STRINGFELLOW, INC	114,090.00	4,811.60	0.04217
SG AMERICAS SECURITIES, LLC	3,000.00	150.00	0.05000
SIMMONS +COMPANY INTERNATIONAL	7,300.00	292.00	0.04000
SOCIETE GENERALE BANK AND TRUST	1,310.00	2,466.50	1.88282
SOCIETE GENERALE LONDON BRANCH	102,647.00	5,289.28	0.05153
SOLEIL SECURITIES	19,607.00	784.28	0.04000
STANFORD GROUP CO	59,700.00	2,454.00	0.04111
STANFORD GROUP COMPANY	14,800.00	720.00	0.04865
STATE STREET BROKERAGE SERVICES	65,349.00	1,982.47	0.03034
STEPHENS,INC.	193,043.00	9,404.15	0.04872
STERNE, AGEE & LEACH, INC.	15,775.00	752.00	0.04767
STIFEL NICOLAUS + CO INC	90,100.00	4,037.00	0.04481
SUNTRUST CAPITAL MARKETS, INC.	38,000.00	1,900.00	0.05000
THEMIS TRADING LLC	22,600.00	678.00	0.03000
THINKEQUITY PARTNERS LLC	39,845.00	1,081.83	0.02715
THOMAS WEISEL PARTNERS LLC	467,556.00	20,493.08	0.04383
TOKYO-MITSUBISHI SECURITIES (USA)	17,100.00	928.97	0.05433
TORONTO DOMINION BANK	49,000.00	1,849.05	0.03774
UBS AG	1,270,173.00	35,023.97	0.02757
UBS AG LONDON	11,400.00	147.72	0.01296
UBS FINANCIAL SERVICES INC	28,500.00	1,140.00	0.04000
UBS SECURITIES ASIA LTD	1,156,712.00	7,112.12	0.00615
UBS SECURITIES CANADA INC	169,900.00	3,192.86	0.01879

Schedule of Commissions *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
UBS SECURITIES LLC	1,445,973.00	$ 36,102.13	$ 0.02497
WACHOVIACAPITAL MARKETS, LLC	96,991.00	3,834.84	0.03954
WARBURG DILLION READ (ASIA) LTD	60,800.00	222.43	0.00366
WAVE SECURITIES	129,800.00	1,622.50	0.01250
WEDBUSH MORGAN SECURITIES INC	45,000.00	2,165.00	0.04811
WEEDEN + CO.	441,068.00	13,881.61	0.03147
WESTDEUTSCHE LANDESBANK GIROZENTRALE	1,100.00	72.39	0.06581
WESTMINSTER RESEARCH ACCOCIATION	59,300.00	2,851.00	0.04808
WESTMINSTER RESEARCH ASSOCIATE	107,700.00	5,385.00	0.05000
WILLIAM BLAIR & COMPANY, L.L.C	264,250.00	12,919.50	0.04889
WILLIAMS CAPITAL GROUP LP (THE)	115,800.00	4,632.00	0.04000
WR HAMBRECHT + CO	1,100.00	55.00	0.05000
TOTAL	**$70,154,758.84**	**$1,748,721.89**	**$ 0.02493**

Investment Summary

Non-GAAP Basis
As of June 30, 2007
(Dollars in thousands)

Type of Investment	*Market Value*	*% of Portfolio*
EQUITIES		
Consumer Discretionary	$ 153,996	5.62%
Consumer Staples	61,966	2.26%
Energy	85,879	3.14%
Financials	198,869	7.26%
Health Care	117,313	4.28%
Industrials	142,353	5.20%
Materials	31,912	1.17%
Technology/Telecom Services	215,244	7.86%
Utilities	32,242	1.18%
Miscellaneous	684	0.02%
Foreign Equity	795,480	29.05%
TOTAL EQUITIES	**$1,835,938**	**67.04%**
FIXED INCOME		
US Treasury	$ 151,963	5.55%
US Government Agency	255,619	9.34%
Domestic Corporate Bonds	223,176	8.15%
State and Local Obligations	2,999	0.11%
Foreign Government	18,783	0.69%
Foreign Corporate	24,802	0.91%
Derivatives	43	0.00%
TOTAL FIXED INCOME	**$ 677,385**	**24.75%**
OTHER INVESTMENTS		
Short Term	$ 143,565	5.24%
Real Estate	195,273	7.13%
Private Equities	37,715	1.38%
TOTAL OTHER INVESTMENTS	**$ 376,553**	**13.75%**
PENDINGS	**($ 151,772)**	**(5.54%)**
TOTAL (Non-GAAP Basis)	**$2,738,104**	**100.00%**

Investment Properties

CAMELBACK POINTE APARTMENTS

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

CITIBANK OFFICE PLAZA

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

THE DEERWOOD APARTMENTS

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

CRESCENT VII

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

Investment Properties *Continued*

EAGLE USA WAREHOUSE

128,00 square-foot single-story distribution warehouse facility located in Eagan, MN. Invested as sole shareholder in January 2002.

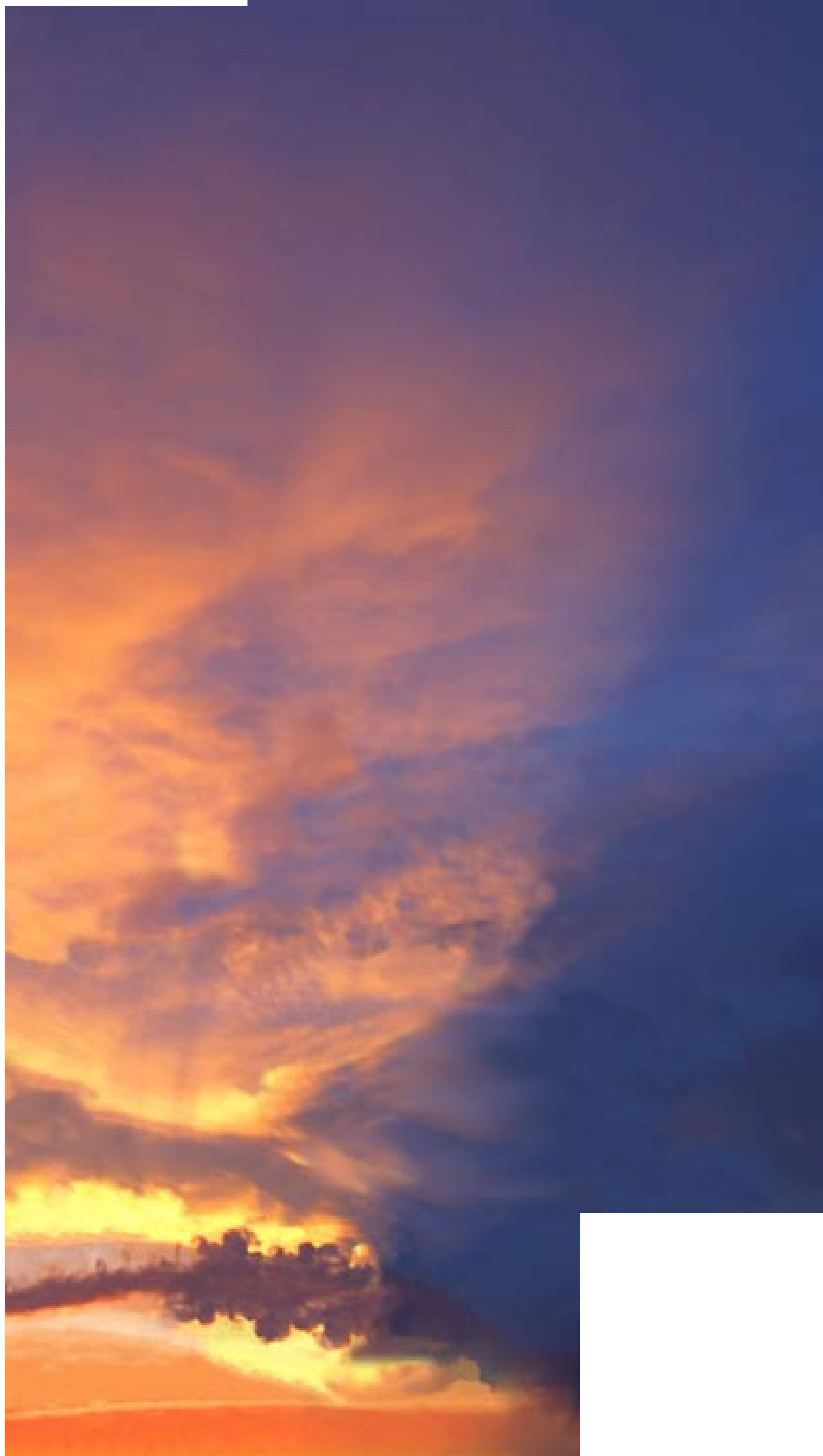
FIRST AMERICAN OFFICE PLAZA

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

CALAIS OFFICE CENTER I & II

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

Actuarial Section



Actuary Certification Letter

SEGAL

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

415.263.8200 phone
415.263.8290 fax
www.segalco.com

December 3, 2007

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

Dear Members of the Board:

The Segal Company (Segal) performed an actuarial review of the June 30, 2005 actuarial valuation of the City of San Jose Police and Fire Department Retirement Plan originally prepared by Mercer Human Resource Consulting (Mercer). Based on that review, we believe that the liabilities and contribution rates calculated by Mercer in the June 30, 2005 valuation were reasonable, accurate and developed in accordance with generally accepted actuarial principles. In particular, we believe the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

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

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

The UAAL is amortized as a level percentage of payroll over various periods which is equivalent to a single period of approximately 16 years.

Actuary Certification Letter *Continued*

SEGAL

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

Sincerely,

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

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

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Retirement Board as of June 30, 2005:

ASSUMPTIONS

Valuation Interest Rate	8%
Inflation Rate	3%
Real Across-the Board Salary Increase	1%
Post-Retirement Mortality	
(a) Service	
Males	1994 Male Group Annuity Mortality Table (set back 4 years)
Females	1994 Female Group Annuity Mortality Table (set forward 1 year)
(b) Disability	RP 2000 Male Combined Mortality Table (with no collar adjustment, projected 10 years)
Pre-Retirement Mortality	Based upon the 6/30/2005 Experience Analysis
Withdrawal Rates	Based upon the 6/30/2005 Experience Analysis
Disability Rates	1985 Pension Disability Table for Class 2 employees published by the Society of Actuaries with rates adjusted for ages 49 and above
Service Retirements	Based upon the 6/30/2005 Experience Analysis
Salary Increases	0-6 years of service – 10.00% 6-8 years of service – 7.00% 8+ years of service – 4.75% Of the total salary increase, 4% is for the combined inflation and real across-the-board salary increase
Percentage of Members Married	85%
Reciprocity	75% of all terminated vested members are assumed to be employed by a reciprocal entity
Assets Smoothing Method	Five year smoothed recognition of total market return that differs from the 8% return target

FUNDING METHOD

The System's liability is being funded on the Entry Age Normal Cost method with the previous Unfunded Actuarial Accrued Liability being amortized on a closed basis over a period of 40 years beginning in 1977, with 12 years remaining on the June 30, 2005 valuation date.

All changes to the UAAL in 2005 have been amortized over a 16-year period beginning in 2005.

Probabilities of Separation Prior to Retirement

Age\Years of Service	Withdrawal 0-1	Withdrawal 1-2	Withdrawal 2-3	Withdrawal 3-4	Withdrawal 4-5	Withdrawal 5-10	Deferred Retirement 10+	Duty Disability	Ordinary Death	Duty Death	Service Retirement
<=20	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0006	0.0001	0.0000	0.0000
21	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0007	0.0001	0.0000	0.0000
22	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0007	0.0001	0.0000	0.0000
23	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0008	0.0001	0.0000	0.0000
24	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0009	0.0001	0.0000	0.0000
25	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0009	0.0001	0.0000	0.0000
26	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0010	0.0001	0.0001	0.0000
27	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0011	0.0001	0.0001	0.0000
28	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0012	0.0001	0.0001	0.0000
29	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0013	0.0001	0.0001	0.0000
30	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0013	0.0001	0.0001	0.0000
31	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0015	0.0001	0.0001	0.0000
32	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0016	0.0001	0.0001	0.0000
33	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0017	0.0002	0.0002	0.0000
34	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0018	0.0002	0.0002	0.0000
35	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0020	0.0002	0.0002	0.0000
36	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0022	0.0002	0.0002	0.0000
37	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0024	0.0002	0.0002	0.0000
38	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0026	0.0002	0.0002	0.0000
39	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0029	0.0002	0.0002	0.0000
40	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0031	0.0002	0.0003	0.0000
41	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0035	0.0002	0.0003	0.0000
42	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0038	0.0002	0.0003	0.0000
43	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0042	0.0002	0.0003	0.0000
44	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0046	0.0003	0.0003	0.0000
45	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0051	0.0003	0.0003	0.0000
46	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0056	0.0003	0.0004	0.0000
47	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0062	0.0003	0.0004	0.0000
48	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0068	0.0003	0.0004	0.0000
49	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0075	0.0003	0.0004	0.0000
50	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0214	0.0004	0.0004	0.1700
51	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0353	0.0004	0.0004	0.1700
52	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0491	0.0004	0.0005	0.1700
53	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0630	0.0005	0.0005	0.1700
54	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0769	0.0005	0.0006	0.1700
55	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.0908	0.0005	0.0006	0.1700
56	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1046	0.0006	0.0007	0.1700
57	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1185	0.0006	0.0008	0.1700
58	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1324	0.0007	0.0008	0.1700
59	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1463	0.0008	0.0009	0.1700
60	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0009	0.0010	0.1700
61	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0010	0.0010	0.1700
62	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0011	0.0011	0.1700
63	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0012	0.0012	0.1700
64	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0014	0.0012	0.1700
65	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0000	0.0000	0.3500
66	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0000	0.0000	0.3500
67	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0000	0.0000	0.3500
68	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0000	0.0000	0.3500
69	0.0500	0.0150	0.0150	0.0150	0.0150	0.0050	0.0060	0.1500	0.0000	0.0000	0.3500
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

Years of Life Expectancy After Service Retirement

Age	Member	Beneficiary
50	33.74	33.29
51	32.80	32.34
52	31.87	31.40
53	30.94	30.47
54	30.01	29.53
55	29.09	28.61
56	28.18	27.68
57	27.28	26.77
58	26.38	25.86
59	25.49	24.97
60	24.61	24.09
61	23.74	23.22
62	22.88	22.36
63	22.04	21.52
64	21.20	20.69
65	20.38	19.88
66	19.57	19.09
67	18.78	18.30
68	18.01	17.53
69	17.26	16.77
70	16.53	16.01
71	15.81	15.26
72	15.11	14.53
73	14.43	13.81
74	13.77	13.11
75	13.11	12.43
76	12.48	11.76
77	11.85	11.11
78	11.25	10.49
79	10.66	9.88

Age	Member	Beneficiary
80	10.08	9.30
81	9.52	8.74
82	8.98	8.20
83	8.46	7.68
84	7.97	7.18
85	7.51	6.71
86	7.07	6.25
87	6.65	5.83
88	6.24	5.42
89	5.86	5.05
90	5.48	4.70
91	5.12	4.37
92	4.78	4.07
93	4.45	3.79
94	4.15	3.53
95	3.87	3.28
96	3.61	3.06
97	3.37	2.85
98	3.15	2.65
99	2.95	2.48
100	2.77	2.31
101	2.60	2.16
102	2.46	2.02
103	2.33	1.89
104	2.20	1.78
105	2.09	1.70
106	1.97	1.63
107	1.87	1.57
108	1.76	1.53
109	1.67	1.50
110	1.60	1.47

Member

94 GAM Male -4

Beneficiary

94 GAM Female +1

Years of Life Expectancy After Disability Retirement

Age	Member	Age	Member	Age	Member
20	59.71	50	31.30	80	9.80
21	58.74	51	30.41	81	9.32
22	57.76	52	29.53	82	8.86
23	56.78	53	28.66	83	8.42
24	55.81	54	27.79	84	8.00
25	54.84	55	26.93	85	7.61
26	53.86	56	26.07	86	7.23
27	52.89	57	25.22	87	6.87
28	51.92	58	24.39	88	6.51
29	50.95	59	23.56	89	6.16
30	49.98	60	22.75	90	5.82
31	49.02	61	21.94	91	5.48
32	48.05	62	21.16	92	5.15
33	47.09	63	20.38	93	4.81
34	46.13	64	19.62	94	4.48
35	45.18	65	18.88	95	4.16
36	44.22	66	18.15	96	3.86
37	43.27	67	17.44	97	3.57
38	42.32	68	16.75	98	3.30
39	41.38	69	16.08	99	3.04
40	40.43	70	15.43	100	2.79
41	39.49	71	14.80	101	2.56
42	38.56	72	14.18	102	2.35
43	37.63	73	13.58	103	2.15
44	36.71	74	13.00	104	1.95
45	35.79	75	12.43	105	1.77
46	34.88	76	11.87	106	1.61
47	33.98	77	11.33	107	1.45
48	33.08	78	10.81	108	1.30
49	32.18	79	10.30	109	1.17

88’– 92’ PERS Industrial Disability -5

Schedule of Active Member Valuation Data

June 30, 1995 to June 30, 2005

Valuation Date	Number	Annual Payroll	Monthly Average Pay	% Increase in Average Pay*
June 30, 2005	2,003	$210,018,000	$8,738	9.10%
June 30, 2003	2,104	$202,222,000	$8,009	17.88%
June 30, 2001	2,107	$171,799,000	$6,795	10.49%
June 30, 1999	1,953	$144,125,000	$6,150	11.05%
June 30, 1997	1,954	$129,850,000	$5,538	10.27%
June 30, 1995	1,812	$109,196,000	$5,022	8.84%

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

Changes in Retirants
(Including Beneficiaries)

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of the Beginning of Period	Annual Retiree Payroll Added During Period*	Annual Retiree Payroll Removed During Period	Annual Retiree Payroll as of the End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/1995-6/30/1997	824	145	29	940	$25,583,000	$7,059,000	$652,000	$31,990,000	25.04%	$34,032
6/30/1997-6/30/1999	940	156	36	1,060	$31,990,000	$9,962,000	$880,000	$41,072,000	28.39%	$38,747
6/30/1999-6/30/2001	1,060	145	41	1,164	$41,072,000	$10,272,000	$1,351,000	$49,993,000	21.72%	$42,949
6/30/2001-6/30/2003	1,164	159	52	1,271	$49,993,000	$13,806,000	$1,485,000	$62,314,000	24.65%	$49,028
6/30/2003-6/30/2005	1,271	161	47	1,385	$62,314,000	$15,619,000	$1,862,000	$76,071,000	22.08%	$54,925

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

Actuarial Analysis of Financial Experience

(Dollars in thousands)

	2003-2005	*2001-2003*	*1999-2001*
Beginning of Period Unfunded Actuarial Accrued Liability	($3,087)	($221,080)	($163,753)
Expected Increase from Prior Valuation	$124	$1,042	($3,967)
Salary Increase Greater (Less) than Expected		$95,850	$3,836
Asset Return Less (Greater) than Expected	$136,013	$131,775	($63,490)
(Gain)/Loss from Withdrawal		($174)	$23
Contribution Less (Greater) than Expected		($27,026)	($16,675)
SRBR		$3,634	$21,875
Other Experience	($101,668)	$8,350	($14,334)
Change in Economic & Non-economic Assumptions	$12,960	$4,542	$15,404
End of Period UAAL	$44,342	($3,087)	($221,080)

Solvency Test

June 30, 1995 to June 30, 2005
(Dollars in thousands)

	Aggregate Accrued Liabilities for				***Portion of Accrued Liabilities Covered by Reported Assets***			
Valuation Date	*Active Members Contributions*	*Retired/Vested Members*	*Active Members (Employer Financed Portion)*	*Total*	*Actuarial Value of Assets*	*Active Member Contributions (1)*	*Retired/Vested Financed (2)*	*Active Members (Employer Financed Portion) (3)*
6/30/95	$100,010	$ 351,327	$377,402	$ 828,739	$ 854,414	100%	100%	107%
6/30/97	$115,995	$ 434,292	$479,881	$1,030,168	$1,124,294	100%	100%	120%
6/30/99	$117,755	$ 595,196	$563,413	$1,276,364	$1,440,117	100%	100%	129%
6/30/01	$145,166	$ 699,082	$648,484	$1,492,732	$1,713,812	100%	100%	134%
6/30/03	$167,203	$ 881,064	$774,934	$1,823,200	$1,826,287	100%	100%	100%
6/30/05	$194,008	$1,062,247	$771,177	$2,027,432	$1,983,090	100%	100%	94%

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

Assumption Changes

ECONOMIC ASSUMPTIONS

Salary Increase

Merit and Longevity	Restructured to make it consistent with the pay step structure. Instead of basing the assumption on age, the new assumption is based on service.
Real Wage Growth	Decrease the across-the-board salary increase assumption from 1.5% to 1.0%.
	The changes in economic assumptions reduced liabilities and the normal cost.

DEMOGRAPHIC ASSUMPTIONS

Member Turnover	Termination rates of members were reduced to more closely match the experience of the last four years.
Disability Incidence	The rates of service-connected and non-service-connected disability were combined into a single disability incidence assumption. Overall, the expected number of disabilities was reduced.
Service Retirement	Increased retirement rates at the earlier ages, decreased retirement rates at the older ages, and extended retirement rates from age 65 to age 70, but applied those rates only to members who are eligible for unreduced benefits.
Disabled Retiree Mortality	Improved mortality assumption creating a margin for future improvements in mortality.
	The changes in demographic assumptions increased liabilities but reduced the normal cost.

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, 2003.

FINAL AVERAGE SALARY (FAS)

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

RETURN OF CONTRIBUTIONS

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

SERVICE RETIREMENT BENEFIT

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

The normal service retirement benefit 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

Non-Service-Connected

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

Service-Connected

Members may retire regardless of length of service, and the benefit is 50% of FAS. For members with service of more than 20 years, the additional benefit for each year of service is 3.0% of FAS for 21-25 years of service and 4.0% of FAS for 26-30 years of service (subject to a maximum of 85% of FAS).

DEATH BENEFIT (BEFORE AND AFTER RETIREMENT)

Non-Service-Connected

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

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

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

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

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

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

Service-Connected

The spouse receives the greater of 50% of the member's benefit or 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 or 42.5% of FAS if retirement is after 2000. 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 subject to a maximum of 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 and equal to 3/11ths of the Normal Cost. The members presently contribute at the rate of 11.16% of pay.

CITY'S RETIREMENT CONTRIBUTIONS

The City presently contributes at a rate of 25.22% of pay for all members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

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

SEGAL

THE SEGAL COMPANY
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December 3, 2007

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

Dear Members of the Board:

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

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

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

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

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

SEGAL

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

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

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

Sincerely,

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

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

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

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

ASSUMPTIONS

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

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

Per Capita Costs for Health Benefits

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

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

Implicit Subsidy Paid by Actives for Retirees

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

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

ACTUARIAL COST METHOD
(For GASB 43/45 Purposes)

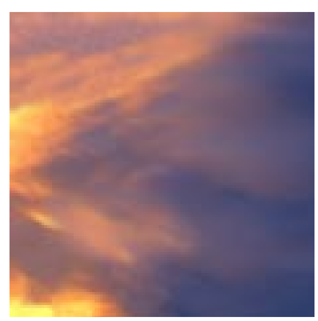
The System's liability is being calculated on the Entry Age Normal Cost method with the Unfunded Actuarial Accrued Liability being amortized on an open basis over a period of 30 years beginning on June 30, 2006.

Summmary of Plan Benefits
(Other Post-Employment Benefits)

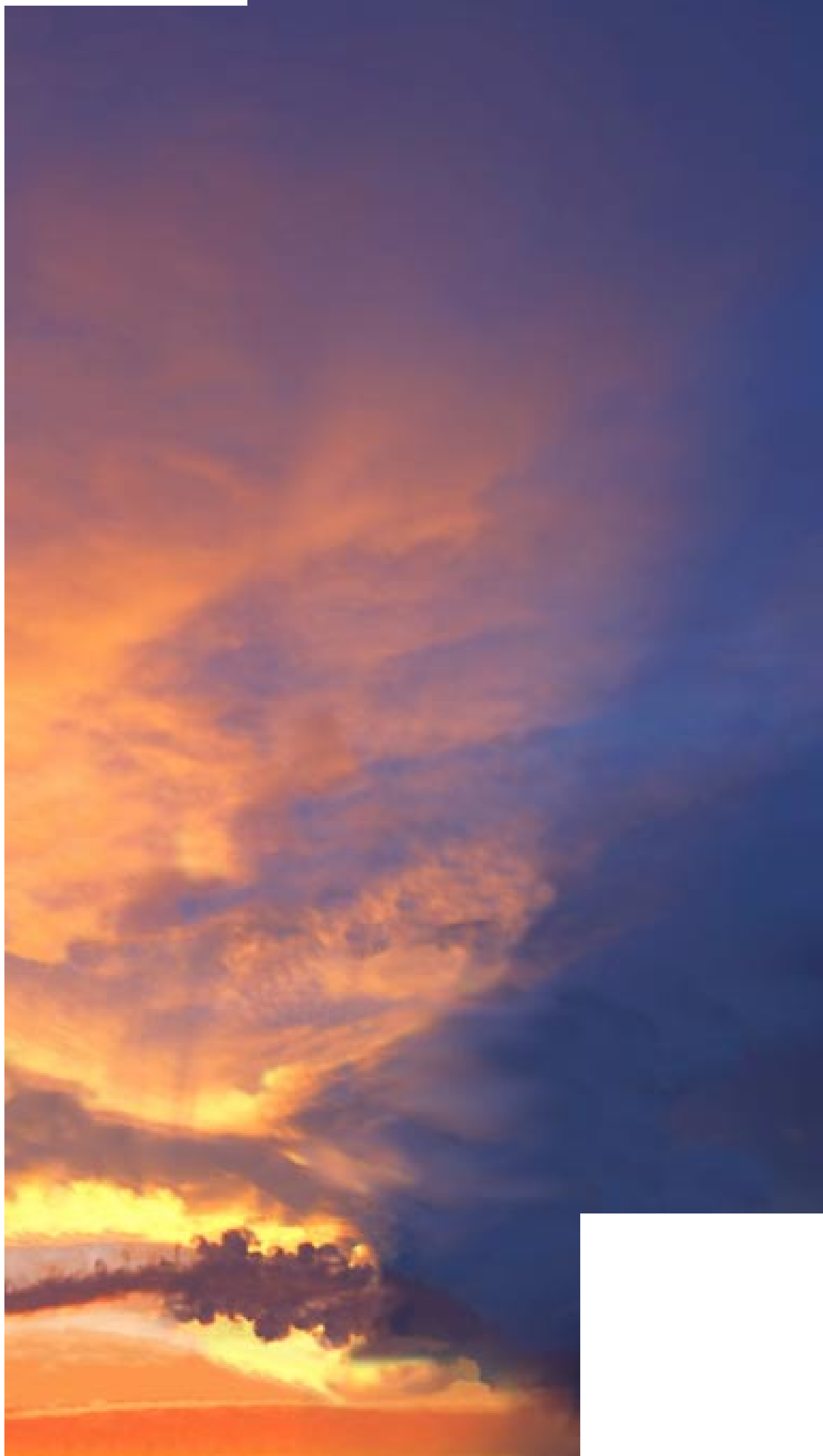
The following assumptions have been adopted by the Retirement Board as of June 30, 2006:

ASSUMPTIONS

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



Statistical Section



Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 1998-2007 *(Dollars in thousands)*

Pension Benefits (Schedule 1a)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Member contributions	$10,770	$12,469	$27,321	$13,383	$14,737	$16,416	$17,233	$16,240	$16,432	$16,050
Employer contributions	23,643	23,522	13,254	22,157	23,748	23,511	24,412	41,835	43,473	46,625
Investment Income*	186,902	134,371	112,421	(4,039)	(31,729)	80,225	252,431	202,320	230,225	440,999
Total additions	**221,315**	**170,362**	**152,996**	**31,501**	**3,756**	**120,152**	**294,076**	**260,395**	**290,130**	**503,674**
Deductions (See Schedule 2a)										
Benefit payments	32,749	37,207	40,974	45,699	54,113	55,342	61,449	69,102	75,189	81,953
Death benefits	1,525	1,531	1,689	1,772	1,771	3,732	3,976	4,226	4,803	5,042
Refunds	343	167	194	615	518	276	132	426	144	210
Administrative expenses and other	972	823	996	1,517	1,773	1,583	2,053	1,617	2,171	2,206
Total deductions	**35,589**	**39,728**	**43,853**	**49,603**	**58,175**	**60,933**	**67,610**	**75,371**	**82,307**	**89,411**
CHANGE IN NET ASSETS	**$185,726**	**$130,634**	**$109,143**	**$(18,102)**	**$(51,419)**	**$59,219**	**$226,466**	**$185,024**	**$207,823**	**$414,263**

**Net of Expenses*

Postemployment Healthcare Benefits (Schedule 1b)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Member contributions	$1,800	$1,679	$2,866	$2,159	$3,114	$3,521	$3,696	$5,673	$5,742	$7,989
Employer contributions	2,904	3,041	2,120	2,515	4,367	4,251	4,492	6,418	6,529	9,082
Investment Income*	6,212	2,273	2,490	(756)	(556)	1,415	4,414	3,554	4,089	8,115
Total additions	**10,916**	**6,993**	**7,476**	**3,918**	**6,925**	**9,187**	**12,602**	**15,645**	**16,360**	**25,186**
Deductions (See Schedule 2b)										
Health Insurance Premiums	3,306	4,156	4,649	5,685	6,740	7,772	9,528	11,093	12,880	14,794
Administrative expenses and other	18	18	23	33	67	32	36	33	42	45
Total deductions	**3,324**	**4,174**	**4,672**	**5,718**	**6,807**	**7,804**	**9,564**	**11,126**	**12,922**	**14,839**
CHANGE IN NET ASSETS	**$7,592**	**$2,819**	**$2,804**	**$(1,800)**	**$118**	**$1,383**	**$3,038**	**$4,519**	**$3,438**	**$10,347**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *Continued*

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

Pension Benefits (Schedule 2a)

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

Postemployment Healthcare Benefits (Schedule 2b)

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

Source: Pension Administration System

Statistical Review *Continued*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 1998-2007 (Schedule 3)

Fiscal Year	*Employee Rate (%)*	*Employer Rate (%)*
1998*	9.70	17.28
1999*	10.22	19.82
2000	10.22	20.11
2001	9.79	15.70
2002	9.79	15.70
2003	10.25	14.22
2004	10.25	14.22
2005	11.16	24.59
2006	11.16	25.04
2007	11.26	25.22
2007**	11.67	28.51

** Multiple rates this year*
*** Police-only rate change effective 12/17/2006*

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS *As of June 30, 2007*

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement* 1	2	3	4	5	6	7	Option Selected** Unmodified	Option 1	Option 2	Option 3	Total
$1 - 500	7	-	-	2	-	-	5	-	-	-	7	-	7
501 - 1000	24	-	-	1	1	-	17	5	5	-	19	-	24
1001 - 1500	66	1	-	28	3	1	26	7	10	-	56	-	66
1501 - 2000	87	2	-	47	17	4	16	1	23	1	63	-	87
2001 - 2500	105	5	-	45	36	1	10	8	49	-	56	-	105
2501 - 3000	99	3	-	30	50	1	7	8	55	2	41	1	99
3001 - 3500	112	5	1	14	81	7	3	1	87	3	19	3	112
3501 - 4000	90	11	1	3	68	3	1	3	71	-	10	9	90
4001 - 4500	119	29	1	4	85	-	-	-	83	3	18	15	119
4501 - 5000	107	41	-	4	62	-	-	-	78	5	10	14	107
5001 - 5500	135	62	-	4	67	-	1	1	109	5	10	11	135
5501 - 6000	147	69	-	1	76	-	1	-	121	8	4	14	147
6001 - 6500	93	46	-	-	46	1	-	-	77	2	7	7	93
6501 - 7000	89	47	-	-	42	-	-	-	69	-	5	15	89
Over $7000	256	147	-	1	106	-	-	2	169	11	32	44	256
TOTAL	**1536**	**468**	**3**	**184**	**740**	**18**	**87**	**36**	**1006**	**40**	**357**	**133**	**1536**

***RETIREMENT CODES**

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

****OPTION DESCRIPTIONS**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

Amount Monthly Benefit	Type of Subsidy Health	Dental
Ineligible/Deferred	167	131
$1 - 60	-	18
61 - 250	1	1387
251 - 500	357	-
501 - 750	28	-
751 - 1000	983	-
TOTAL	**1536**	**1536**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

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

* *Monthly benefit does not include cost of living increases ("COLA") of 3% per year.*
** *Final Average Salary not available for those that retired prior to April 1998, except for service-connected disability retirees. Those without Final Average Salary are not included in Average Monthly Benefit.*
*** *Does not include Survivors and Ex-Spouses*
Information presented in the above table is not readily available prior to fiscal year 2006.

POSTEMPLOYMENT HEALTHCARE BENEFITS

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

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

Source: Pension Administration System

Retirements During Fiscal Year 2006-07

SERVICE RETIREMENTS

Police Department

AGUILAR, PEDRO
AGUIRRE, JAMES
ALVAREZ, ARMANDO
AYOOB, PAUL
BERTELSEN, GARY
BRANDON, HAYWARD
DE GEORGE, ROBERT
DISHMAN, BILLY
DOMINGUEZ, FRANK
FAIRHURST, RICHARD
FARMER, JACK
FAULWETTER, H STAN
FRITZ, DAVID
GIORGIANNI, JOSEPH
GONZALEZ, ROBERTO
HARRIS, DIANE
HECKEL, RICK
HERNANDEZ, VICTOR
JANUARY, RONALD
JOHNSON, MICHAEL
KENELLER, DAVID
LEZOTTE, DANIEL
LOBACH, ROBERT
MADSEN, DAVID
MARTIN, TODD
MASON, STANLEY
MEHEULA, ROBERT
MOORE, JAMES
MULLER, JONATHAN
MUNOZ, ARTHUR
NAGEL, MICHAEL
NALETT, ROBERT
PANIGHETTI, PAUL
RABOURN, MICHAEL
REYES, MOISES
ROACH, JAMES
SAITO, RICHARD
SANDOVAL, DAVID
SAVALA, JOHN
SERPICO, ROBERT
STINE, BRUCE
TIBBET, WALTER
TONEY, BRUCE
TRAPP, GREGORY
UNLAND, JOSEPH
VIZZUSI, ANTHONY
WAGGONER, WILLIAM

Fire Department

CHACON, JESSE
CRAVALHO, GEORGE
FRANCO, JOSEPH
MARTINEZ, JOHN
MC GUE, MICHAEL
MENDEZ, GILBERT
MENDOZA, HENRY
RAUF, DAWUD
ROBERTS, JOSEPH
VEGA, GEORGE
WEGGELAND, JOSEPH

EARLY RETIREMENTS

Police Department

NONE

Fire Department

NONE

DEFERRED VESTED RETIREMENTS

Police Department

HALPIN, TIMOTHY
MARTINELLI, RONALD

Fire Department

NONE

SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

BROWN, DENNIS
EDWARDS, DEREK
HYLAND, BRIAN
MARTINEZ, KAREN
SALDIVAR, JAIME
SALERNO, PAUL

Fire Department

SPENCE, GREGORY

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

Police Department

NONE

Fire Department

NONE

Source: Pension Administration System

Deaths During Fiscal Year 2006-07

DEATHS AFTER RETIREMENT

Police Department

AZZARELLO, JOSEPH	MASON, ROLAND
BRUNE, RALPH	MICHAELSEN, ELIZABETH
DUNN, LEO	MILLER, ARTHUR
ESCOBAR, JOSEPH	SANDOVAL, DAVID

Fire Department

PERKINS, ROBERT	LANE, RONALD
SOLIVEN, LLOYD	GERHARD, JOHN
COBURN, ETHAN	

DEATHS BEFORE RETIREMENT

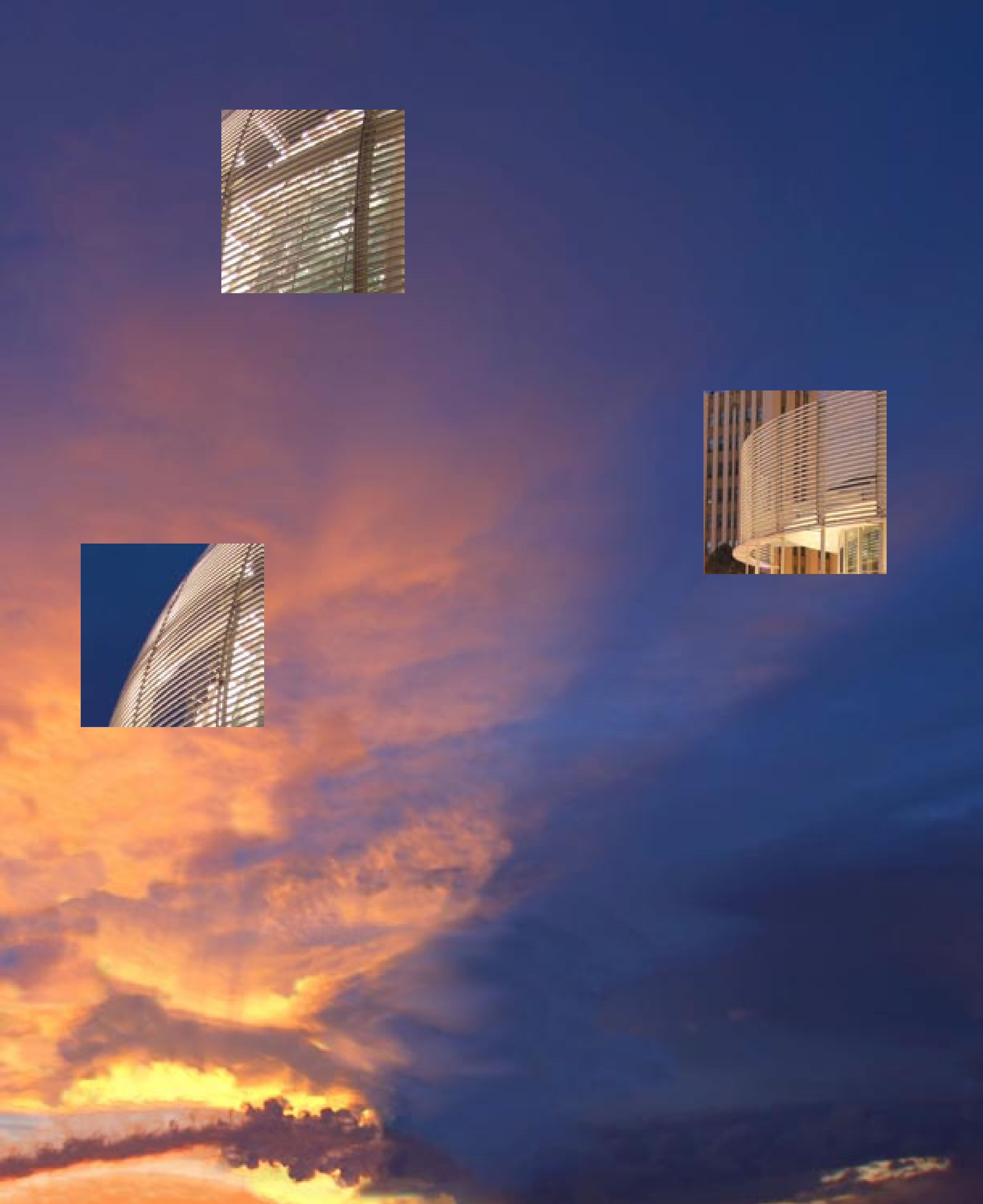
Police Department

NONE

Fire Department

THRONDSON, KIMBERLY A

Source: Pension Administration System



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