Federated City Employees' Retirement System

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Russell U. Crosby
Director

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

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

Board Chair Letter

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

November 24, 2010

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

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

The System earned a time-weighted gross-of-fees rate of return of 15.9% on investments, compared to a 11.7% return for its benchmark and a 13.1% return for the State Street Master Trust Median. The System's performance for the year was in the top quartile of the State Street Master Trust Universe.

Additionally, the System earned a time-weighted gross-of-fees rate of return of (2.2%) and 3.7% for the three-year and five-year periods ending June 30, 2010 respectively, while the State Street Master Trust Median earned a time-weighted rate of return of (3.1%) and 3.0% for the same periods.

Net of investment, administrative, securities lending, and SRBR expenses, the System earned a time-weighted return of 15.3%, (2.8%), and 3.1% for the fiscal year, three-year, and five-year periods ending June 30, 2010 respectively. In contrast, the net rate of return assumed by the System's actuary is 7.75%.

Moreover, the net asset value of the System increased from $1,442,202,000 to $1,620,813,000, net of pending purchases and sales (see the Financial Section beginning on page 12). The net increase in System net assets for fiscal year 2009-2010 was $178,611,000.

During the year, the Trustees decided to move to annual Actuarial valuations, and with their external actuary refined a number of assumptions and, of note, the System moved up six positions toward conservatism in actuarial assumptions on the May 2010 Roeder Financial survey of California public plans.

During the fiscal year 2009-2010, the System made major revisions to the Statement of Investment Policy. Staff and the System's consultant targeted higher expected returns at similar risk levels by changing the asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. As part of the ongoing process of transitioning to the System's new diversified asset allocation targets, the System engaged in an asset transition unlike almost any undertaken by other public plans in California and most public plans nation-wide. In one large transition over eight weeks, the transition manager moved $1.1 billion from nine terminated active money managers into 10 index funds that replicate markets. This single transition lowered the costs that would have been incurred in the transition process typically used by plan sponsors, and reduced on-going plan expenses for money managers by approximately $7.7 million per year.

After conducting extensive searches, the Board hired Meketa Investment Group as the System's investment consultant and approved RS Investments as small capitalization value equity manager and Calamos Advisors as global convertibles manager.

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

Matt Loesch, Chairman
Board of Administration

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City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Introductory Section

Letter of Transmittal

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

November 24, 2010

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

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2010. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Transactions of the System are reported on the accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended 2010 and 2009 refer to the Management's Discussion and Analysis on page 14.

Macias Gini & O'Connell LLP, the System'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. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The financial audit provides reasonable assurance that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material mis-statements. The System recognizes that even sound and well designed internal controls have their inherent limitations in that errors may still occur as a result of factors such as carelessness, faulty judgment, communication breakdowns, and/or that internal controls can be circumvented by internal or external collusion. The System continuously reviews internal controls to ensure that the System's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets.

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 the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2010. The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

I encourage you to review this report carefully. I trust that you and the members of the System will find this CAFR helpful in understanding the System.

Funding

The System's funding for both its defined benefit pension plan and its defined benefit other postemployment healthcare (OPEB) plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2009, the funding ratio of the defined benefit pension plan was approximately 70.7% based on the actuarial value of assets and 53.8% based on market value of assets. As of June 30, 2009, the funding ratio of the defined benefit OPEB plan was 10.7% based on the actuarial value of assets and the market value of assets.

During the year, the Trustees decided to move to annual actuarial valuations, therefore a valuation of the System's assets and liabilities as of June 30, 2010 will be prepared during the coming fiscal year.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 7.75% and 6.7%, respectively. The impact of the difference between the actual net rate of return earned by the System, 15.3%, and the 7.75% and 6.7% assumptions will result in an investment gain that will be reflected in the pension and OPEB, respectively, unfunded liabilities in next year's CAFR. The net increase in System assets for fiscal year 2009-2010 was

$178,611,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 26. A six-year history of the defined benefit pension plan's funding progress is presented on page 46. A four-year history of the defined benefit OPEB plan's funding progress is presented on page 47.

Acting on the advice of its actuary, Gabriel Roeder Smith & Company, the Board adopted more conservative demographic actuarial assumptions for the June 30, 2009, actuarial valuation with the expectation that future experience will more closely match the expectations. While future changes in assumptions cannot be ruled out, the 2009 changes will go a long way to reducing future unexpected increases in the unfunded liabilities.

The 2009 actuarial assumption changes included a change in the discount rate from 8.25% to 7.75%, which is a more realistic expectation for future returns.

The Board also approved a change to the amortization methodology in order to ensure that any System unfunded liabilities are systematically funded. The amortization period for all unfunded liabilities recognized as of June 30, 2009, was changed from a 30-year open period to a 30-year closed basis, to ensure that the existing unfunded liabilities are funded by June 30, 2039. The amortization period for any future unfunded liabilities was changed from a 30-year open period to a 20-year closed period. This ensures that any future unfunded liabilities are funded within 20 years from the time they are first recognized.

Financial and Economic Summary

The 2009-2010 fiscal year saw key economic indicators recover from the depths of the financial crisis in the prior two years. Global equity and fixed income benchmarks achieved solid returns in the last fiscal year. However, lingering fears about the possibility of a "double-dip" recession in light of anemic job growth continue to keep investors nervous and risk premiums and volatility elevated across asset classes. With this backdrop, the Board believes it is of critical importance that the System focuses on low volatility and the stability of returns going forward.

Investment Summary

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

Over the past fiscal year, the System's gross-of-fees return was 15.9%, while the State Street Master Trust Median return over the same period was 13.1%. The System's performance was in the top quartile of the State Street Master Trust Universe for the year. Gross-of-fees return was (2.2%) and 3.7% for the three-year and five-year periods ended June 30, 2010 respectively, while the State Street Master Trust Median was (3.1%) and 3.0% for the same periods. Additionally, the System's net of expenses return, which includes investment, administrative, securities lending, and SRBR expenses, for the fiscal year was 15.3%, and for the three-year and five-year periods ended June 30, 2010 was (2.8%) and 3.1%, respectively.

Moreover, the net asset value of the System increased from $1,442,202,000 to $1,620,813,000, net of pending purchases and sales (see the Financial Section beginning on page 12).

The System's outperformance relative to other plans was due to its adoption of a new asset allocation strategy with higher allocation to fixed income and alternative investments, which have performed well over the past fiscal year. The System has changed its asset allocation to increase the allocation to alternative investments while reducing the allocation to equity investments. The diversification benefit that alternative investments could add to the System is significant.

Major Initiatives

Following the market crash of 2008, the Board approved a new asset allocation that improved the diversification of the portfolio structure from the prior one, which in fiscal year 2008-2009 had replaced a basic 53% equity, 36% fixed income, and 11% in real estate and private equity allocation with an allocation of 49% equity, 25% fixed income, and 26% alternatives allocation that included private equity, real estate, absolute return, real assets, and opportunistic investments.

During the fiscal year 2009-2010, as part of the ongoing process of transitioning to the System's new diversified asset allocation targets, the System engaged in an asset transition unlike almost any undertaken by other public plans in California and most public plans nationwide. In one large transition over eight weeks, the transition

Letter of Transmittal *Continued*

manager transferred $1.1 billion from nine terminated active money managers into 10 index funds that replicate financial markets. This single transition lowered the costs that would have been incurred in the transition process typically used by plan sponsors, and reduced on-going annual expenses for money managers by approximately $7.7 million per year.

After conducting extensive searches, the Trustees hired Meketa Investment Group as investment consultant and approved RS Investments as small capitalization value equity manager and Calamos Advisors as global convertibles manager.

The System has engaged Macias Gini & O'Connell's, the Plan's external auditors, to apply and provide the Agreed-Upon Procedures ("AUP"), to determine whether the Plan and the City of San Jose's Finance Payroll Division have systems and controls established and operating to comply with the provisions of Chapter 3.36 of the San Jose Municipal Code related to the capture, transfer and recording of contributions. The accountant's report will also include agreed-upon procedures relating to the City's Fair Labor Standards Act (FLSA) pensionable earnings correction. This review of the City payroll and Plan's systems and controls was the first of its kind in San Jose. A final report is expected in December 2010.

The System provided information and cooperated with the City Auditor's Office in their Audit on Pensionable Earnings and Time Reporting. The audit reviewed the time-reporting and payroll processes in so far as they impacted pensionable earnings and pensionable hours; described City time reporting and earnings codes and their governance, and examined risks surrounding City earnings codes, with particular focus on Fair Labor Standards Act (FLSA) codes. The audit identified issues and provided recommendations to the City, System, and City Council on payroll and time reporting system errors, code duplications/unclear definitions and general inefficiencies. The System is currently working with the City Auditor's Office and the other City departments to resolve the outstanding recommendations.

Over the last year, the Retirement Services Department processed 20% more service retirements without an increase in staff. A key focus during the fiscal year was the implementation of Retirement Group Counseling sessions due to unprecedented levels of retirements.

In addition, the Retirement Services Department offered 59 educational classes with over 1,408 Federated, Police, and Fire active and retired members participating. Staff began the implementation of MedExpert, organized wellness screenings for retirees, participated in the health benefit consultant selection for the City in conjunction with the City's Human Resources and Labor Groups.

Due to the City's overall financial difficulties, critical positions were kept open and remain unfilled. As a result, the Retirement Services Department functioned with staff losses and was forced to take a passive stance on recruiting with the exception of the hiring of two investment officers.

Major accounting projects completed during the fiscal year include the following: the implementation of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments; the complex reconciliation of the City's election to make lump sum payments of City required pension and other postemployment healthcare contributions to the Federated City Employees' Retirement System; the establishment of significant controls for staff and trustee travel; and the implementation of the City Auditor's recommendations to the Board and System in their Audit of Retirement Services Travel Expenses.

Conclusion

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

Respectfully Submitted,

Russell U. Crosby
Director of Retirement Services

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City Employees' Retirement System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2009

Presented to

City of San Jose
Federated City Employees'
Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

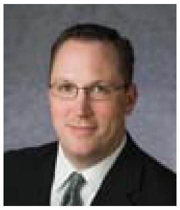
Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

Board of Administration

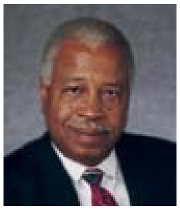
The Retirement System is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two City employees elected by members of the System, a Retiree Representative, and a public member who is not connected with the City and has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

As of June 30, 2010, the members of the Board were as follows:



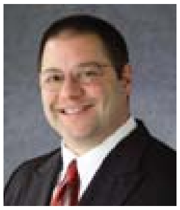
MATT LOESCH, CHAIRMAN
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2011.

DAVID BUSSE, Vice Chair
Civil Service Commission member appointed in February 2003. His current term expires November 30, 2010.

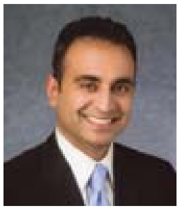


EDWARD F. OVERTON
Retired Plan member appointed to the Board in January 2009. His current term expires November 30, 2012.

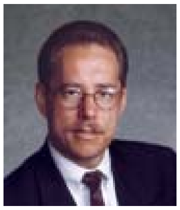
ARN ANDREWS
Employee Representative appointed to the Board in December 2009. His current term expires November 30, 2013.



PETE CONSTANT
City Council member appointed to the Board in January 2007.



ASH KALRA
City Council member appointed to the Board in January 2009.



JEFFREY PERKINS
Public member appointed to the Board in June 1996. His current term expires November 30, 2010.

Department of Retirement Services Administration

RUSSELL U. CROSBY
DIRECTOR

DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER

Outside Consultants

ACTUARY

Gabriel, Roeder, Smith
& Company, Denver, CO

ATTORNEY

Saltzman & Johnson
San Francisco, CA

ATTORNEY, INVESTMENT

Hanson Bridgett, LLP
San Francisco, CA

ATTORNEY, REAL ESTATE

Bingham McCutchen, LLP
East Palo Alto, CA

AUDITOR

Macias Gini & O'Connell LLP
Walnut Creek, CA

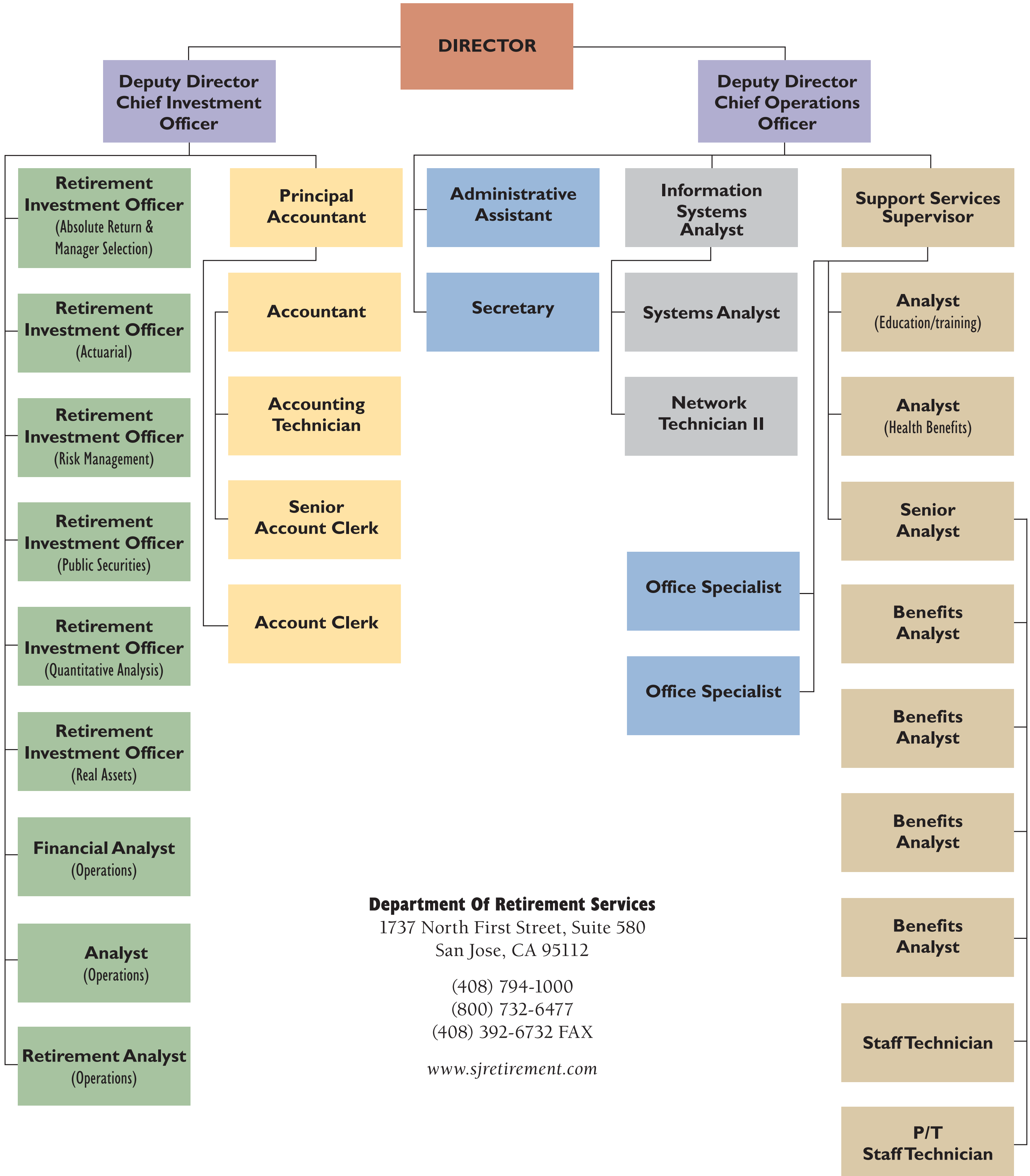
A LIST OF INVESTMENT PROFESSIONALS BEGINS ON PAGE 67 OF THE INVESTMENT SECTION OF THIS REPORT.

Standing Public Meetings

Board Meetings: Second Thursday of the Month, 8:30 AM
Committee for Investments: Monthly
Committee of the Whole: 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/fed/meetings/agendas.asp* or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

2010 Department of Retirement Services Organizational Chart



Department Of Retirement Services
1737 North First Street, Suite 580
San Jose, CA 95112

(408) 794-1000
(800) 732-6477
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www.sjretirement.com

Summary of the Principal System Provisions

Membership

Mandatory for all full-time non-safety employees.

Member Contribution

All members contribute 9.35% of base salary.

City's Contribution

The City contributes 24.01% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.)

Service Retirement

Members may retire at age 55 with five or more years of service or at any age with 30 years of service. The monthly retirement allowance payable is the Final Average Salary multiplied by 2.5% per year of service (Maximum Benefit: 75% of the Final Average Salary).

Final Average Salary

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

Disability Retirement

Non-Service Connected

A non-Service Connected disability retirement is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-Service Connected disability retirement allowance is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary x 2.5% x Number of Years of Service, maximum benefit of 75% of Final Average Salary). The allowance will be reduced by 0.5% for each year of age under 55.

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

20% of Final Average Salary for 6 years of service;

add 2% for each year of service in excess of 6 years but less than 16 years;

add 2.5% for each year of service in excess of 16 years of service. (Maximum benefit of 75% of Final Average Salary)

Service Connected

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

Termination Benefits

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

Deferred Retirement

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

Reciprocity

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

Cost Of Living

Effective April 1, 2006, the cost-of-living (COL) provision provides a flat 3% annual adjustment in April for retirees and survivors.

Summary of The Principal System Provisions *(Continued)*

Death Before Retirement

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

1 child receives 25% of the spousal benefit

2 children share 50% of the spousal benefit

3+ children share 75% of the spousal benefit

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

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

Death After Retirement

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

1 child receives 25% of spousal benefit

2 children share 50% of spousal benefit

3+ children share 75% of spousal benefit

Management

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

Administration

A full-time Director is employed by the City. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The System pays the cost of the personnel who are employed for the purpose of managing the Retirement System. It also pays any directly related administrative costs.

The Northern Trust is employed as custodian of fund assets and collector of investment income.

Actuarial Soundness

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

Investment Authority And Policy

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services from managers listed on page 67 are retained for full-time investment counsel. Meketa Investment Group is retained as the pension consultant.

Financial Section

Independent Auditor's Report

MGO **Certified Public Accountants.**

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November 22, 2010
Board of Administration
City of San José Federated City Employees' Retirement System
1737 North First Street
San Jose, CA 95112

Dear Mr. Crosby,

We have audited the accompanying statements of plan net assets of the City of San José Federated City Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the System are intended to present only the plan net assets and changes in plan net assets of the System. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2010 and 2009, 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 the System, as of June 30, 2010 and 2009, 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.

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2009, the System's independent actuaries determined that, at June 30, 2009, the value of the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $729.6 million. The most recent

3000 S Street Suite 300 Sacramento CA 95816 | 2121 N. California Blvd. Suite 750 Walnut Creek CA 95496 | 505 14th Street 5th Floor Oakland CA 94612 | 515 S. Figueroa Street Suite 325 Los Angeles CA 90071 | 2029 Century Park East Suite 500 Los Angeles CA 90067 | 1201 Dove Street Suite 680 Newport Beach CA 92660 | 225 Broadway Suite 1750 San Diego CA 92101

Independent Auditor's Report *(Continued)*

actuarial value of assets as of June 30, 2009 does not reflect the impact of deferred investment losses of $420.0 million that will be recognized in future valuations. As described in Note 6, based on the most recent actuarial valuation as of June 30, 2009, the independent actuaries determined that, at June 30, 2009, the value of the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $710.9 million.

As discussed in Note 2(f), the System adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the fiscal years ended June 30, 2010 and 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2010. 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 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 audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The introductory section, other supplementary information in the financial section, the investment section, actuarial section and statistical section as 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
November 22, 2010

Management's Discussion and Analysis (Unaudited)

City of San Jose
Department of Retirement Services
Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
City of San Jose
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We are pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2010, and 2009. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City of San José (City). 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, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2010

- The net assets of the System at the close of the fiscal year 2010 are $1,620,813,000 (net assets held in trust for pension benefits and postemployment healthcare benefits). All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $21,381,000.
- The System's total net assets held in trust for pension benefits and posteployment healthcare benefits increased by $178,611,000 or 12.4%, primarily as a result of the appreciation in the fair value of investments caused by the recovery in the investment market and the System's transition to a new diversified asset allocation that included an asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments.
- Additions to plan net assets for the year were $312,411,000, which includes member and employer contributions of $100,804,000, net investment income of $209,290,000 and net securities lending income of $2,317,000.
- Deductions in plan net assets increased from $122,050,000 to $133,800,000 from the prior year, or approximately 9.6%, due to an increase in retirement benefits and healthcare premiums, which were attributable to an increased number of beneficiaries and increased health premium costs.

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

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

The *Statements of Plan Net Assets* are 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 *Statements of Changes in Plan Net Assets*, on the other hand, provide a view of current year additions to and deductions from the System.

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

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which recognizes contributions as revenue when due pursuant to formal commitments as well as statutory and contractual commitments and benefit and refunds of contributions when due and payable under the provision of the System. 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 reported at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses on investments are reported.

These two statements report the System's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets) – the difference between assets and liabilities. Over time, increases and decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the System's funding progress and funded status, should also be considered in measuring the System's overall health (see the schedules of funding progress and schedules of employer contributions on pages 46–47 of this report).

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see *Notes to Basic Financial Statements* on page 28 of this report).

Other Information In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 46 of this report).

The combining schedules of Defined Benefit Pension Plan net assets and changes in net assets, schedules of administrative expenses and other, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 16). The assets of the System exceeded its liabilities at the close of fiscal year 2010 and 2009.

The funded status of the System should also be considered when evaluating the System's financial health. As of June 30, 2009, the System's most recent valuation, the funded status of the System decreased from 83% to 71% and 16% to 11% for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan, respectively. On a market value of assets basis as of June 30, 2009, the funded status of the Defined Benefit Pension Plan was 54% resulting in a variance of 17% between the funded ratios calculated under the two bases. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of assets basis and a description of the variance between the actuarial value of assets and market value of assets is presented in the other supplemental information on page 48. The decrease in pension funded status was due to the increase in the actuarial accrued liability (AAL). The increase in the AAL was due to demographic experience losses and changes in actuarial assumptions as recommended by the Board actuary in the June 30, 2009 experience study. For more information on the results and impact of the June 30, 2009 experience study and valuations, please see Notes 5 and 6 to the financial statements on pages 41-45.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table Ia)
As of June 30, 2010 and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 10,199,000	$ 40,811,000	$ (30,612,000)	-75.0%
Investments at Fair Value	1,669,536,000	1,378,143,000	291,393,000	21.1%
Total Assets	**1,679,735,000**	**1,418,954,000**	**260,781,000**	**18.4%**
Current Liabilities	166,933,000	62,316,000	104,617,000	167.9%
Total Liabilities	**166,933,000**	**62,316,000**	**104,617,000**	**167.9%**
Net Assets	**$ 1,512,802,000**	**$1,356,638,000**	**$ 156,164,000**	**11.5%**

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table Ib)
As of June 30, 2009 and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 40,811,000	$ 92,111,000	$ (51,300,000)	-55.7%
Investments at Fair Value	1,378,143,000	1,872,077,000	(493,934,000)	-26.4%
Total Assets	**1,418,954,000**	**1,964,188,000**	**(545,234,000)**	**-27.8%**
Current Liabilities	62,316,000	282,452,000	(220,136,000)	-77.9%
Total Liabilities	**62,316,000**	**282,452,000**	**(220,136,000)**	**-77.9%**
Net Assets	**$ 1,356,638,000**	**$1,681,736,000**	**$ (325,098,000)**	**-19.3%**

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table Ic)
As of June 30, 2010, and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 2,125,000	$ 4,515,000	$ (2,390,000)	-52.9%
Investments at Fair Value	117,920,000	84,974,000	32,946,000	38.8%
Total Assets	**120,045,000**	**89,489,000**	**30,556,000**	**34.1%**
Current Liabilities	12,034,000	3,925,000	8,109,000	206.6%
Total Liabilities	**12,034,000**	**3,925,000**	**8,109,000**	**206.6%**
Net Assets	**$ 108,011,000**	**$ 85,564,000**	**$ 22,447,000**	**26.2%**

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table Id)
As of June 30, 2009, and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 4,515,000	$ 5,999,000	$ (1,484,000)	-24.7%
Investments at Fair Value	84,974,000	104,553,000	(19,579,000)	-18.7%
Total Assets	**89,489,000**	**110,552,000**	**(21,063,000)**	**-19.1%**
Current Liabilities	3,925,000	16,032,000	(12,107,000)	-75.5%
Total Liabilities	**3,925,000**	**16,032,000**	**(12,107,000)**	**-75.5%**
Net Assets	**$ 85,564,000**	**$ 94,520,000**	**$ (8,956,000)**	**-9.5%**

As of June 30, 2010, $1,512,802,000 and $108,011,000 in total net assets are held in trust for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 16). All of the net assets are available to meet the System's ongoing obligation to plan participants and their beneficiaries, except assets held in the supplemental retiree benefit reserve (a reserve in the defined benefit pension plan), of $21,381,000, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2010, total net assets for the pension benefits and postemployment healthcare benefits plan increased by 11.5% and 26.2% from the prior year primarily due to the net appreciation in the fair value of investments of $165,376,000 and $11,613,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the recovery in the investment market and the System's transition to a new diversified asset allocation that included an asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. The new asset allocation is discussed in detail in Note 2(c) of the financial statements on page 29.

As of June 30, 2009, $1,356,638,000 and $85,564,000 in total net assets were held in trust for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 16). This total represented a decrease of 19.3% for pension benefits and 9.5% for postemployment healthcare benefits net assets from the prior year primarily due to the depreciation in the fair value of investments of $330,179,000 and $20,705,000, for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively.

As of June 30, 2010, receivables decreased by $30,612,000 or 75.0% and $2,390,000 or 52.9% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in receivables from brokers and others for year-end investment trades. In the previous year, receivables for the pension plan and Postemployment Healthcare Plan decreased by $51,300,000 or 55.7% and $1,484,000 or 24.7%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2010, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by $104,617,000 or 167.9% and $8,109,000 or 206.6%, respectively, compared with June 30, 2009, due mainly to an increase in securities lending collateral due to borrowers. The securities lending collateral due to borrowers increased by $150,089,000 from the previous year due to the System's return to Northern Trust's securities lending program in full. The System previously decreased securities lending activity due to deficiencies in Northern Trust's Core USA collateral pool due to the bankruptcy of Lehman Brothers. As a result of the deficiency, Northern Trust froze their collateral pool so that investors would not suffer losses in the event that other investors in the pool withdrew funds forcing Northern Trust to sell securities into an illiquid market. Northern Trust proceeds to offer their clients several securities lending options. Upon the review and analysis of the securities lending options performed by the System's investment consultant, Meketa Investment Group, the Board decided to return to the securities lending program in full. As of June 30, 2010, the Northern Trust Core USA Fund cash collateral investment pool net asset value is equal 100%. For more information on the System's securities lending activity see Note 4 of the financial statements on page 39.

In the previous year, total liabilities for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $220,136,000 or 77.9% and $12,107,000 or 75.5%, due mainly to a decrease in securities lending activity as discussed above.

System Activities

The recovery of the equity market and the System's transition to a liability driven asset allocation during fiscal year 2009-2010 was the main driver of the increased net assets, which increased by $178,611,000, thereby accounting for an 12.4% increase from the prior year. Key elements of the System's financial activities 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 to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2010, were $265,717,000 and $46,694,000, respectively (see Tables 2a and 2c on pags 19 and 20 respectively).

By fiscal year ended June 30, 2010, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan had increased by $490,622,000 and $33,793,000, or 218.10% and 261.9%, respectively, from the prior year primarily due to an increases of $490,430,000 and $32,188,000, respectively, in net investment income excluding securities lending income, which was as a result of general market increases and the System's transition to a new diversified asset allocation. In addition, as of June 30, 2010, the System's investment in securities lending had positive returns compared to securities lending losses in 2009. The System's time-weighted gross rate of return for the fiscal year ended June 30, 2010, was 15.9% compared to negative 16.8% for fiscal year 2008-09. On a net of expenses basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2010, was 15.3% compared to negative 17.6% for the fiscal year 2008-09.

Additions to the Defined Benefit Pension Plan for fiscal year ended June 30, 2009, were negative $224,905,000, which represented a decrease of $233,128,000, or 2,835.1%, from fiscal year 2007-08 primarily due to net investment income which decreased by $233,808,000 from the previous year due to the decline in the equity investment market (see Table 2b on page 19). For the fiscal year ended June 30, 2009, the Postemployment Healthcare Plan additions were $12,901,000, which were a $5,347,000 or 29.3% decrease over the previous year additions of $18,248,000. The decline in Postemployment Healthcare Plan additions were also due to net investment income which decreased by $14,718,000 due to the decline in the equity investment market (see Table 2d on page 20).

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2010, totaled $109,553,000 and $24,247,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 9.3% from the previous year due to an increase in retirees and beneficiaries and final average salaries (see Table 2a on page 19). Deductions for the Postemployment Healthcare Plan, of $24,247,000, increased by 10.9% from the previous year due to increased healthcare insurance premium (see Table 2c on page 20).

Deductions for the fiscal year ended June 30, 2009, totaled $100,193,000 and $21,857,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by 7.9% and 7.5%, respectively, from fiscal year ended June 30, 2008 (see Tables 2b and 2d on pages 19 and 20, respectively) due to increases in retirement benefits of $6,476,000 and healthcare insurance premiums of $1,530,000. Retirement benefits increased due to increased retirees and beneficiaries and final average salaries, and healthcare insurance costs increased due to higher premiums.

CHANGES IN PLAN NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN (Table 2a) *For the Fiscal Years Ended June 30, 2010 and 2009*

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	$ 13,396,000	$ 13,848,000	$ (452,000)	-3.3%
Employer Contributions	54,566,000	57,020,000	(2,454,000)	-4.3%
Net Investment Income*	195,587,000	(294,843,000)	490,430,000	166.3%
Net Securities Lending Income/Loss	2,168,000	(930,000)	3,098,000	333.1%
Total Additions	**265,717,000**	**(224,905,000)**	**490,622,000**	**218.1%**

* *Net of Investment Expenses of $5,026,000 and $6,803,000 in 2010 and 2009, respectively.*

Retirement Benefits	98,110,000	89,767,000	8,343,000	9.3%
Death Benefits	7,583,000	6,923,000	660,000	9.5%
Refund of Contributions	1,219,000	1,395,000	(176,000)	-12.6%
Administrative	2,641,000	2,108,000	533,000	25.3%
Total Deductions	**109,553,000**	**100,193,000**	**9,360,000**	**9.3%**
Net Increase (Decrease) in Plan Assets	**156,164,000**	**(325,098,000)**	**481,262,000**	**148.0%**
Beginning Net Assets	**1,356,638,000**	**1,681,736,000**	**(325,098,000)**	**-19.3%**
Ending Net Assets	**$ 1,512,802,000**	**$ 1,356,638,000**	**$ 156,164,000**	**11.5%**

CHANGES IN PLAN NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN (Table 2b) *For the Fiscal Years Ended June 30, 2009 and 2008*

	2009	2008	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 13,848,000	$ 13,366,000	$ 482,000	3.6%
Employer Contributions	57,020,000	54,958,000	2,062,000	3.8%
Net Investment Income*	(294,843,000)	(61,035,000)	(233,808,000)	-383.1%
Net Securities Lending Income/Loss	(930,000)	934,000	(1,864,000)	-199.6%
Total Additions	**(224,905,000)**	**(8,223,000)**	**(233,128,000)**	**-2835.1%**

* *Net of Investment Expenses of $6,803,000 and $7,383,000 in 2009 and 2008, respectively.*

Retirement Benefits	89,767,000	83,291,000	6,476,000	7.8%
Death Benefits	6,923,000	6,263,000	660,000	10.5%
Refund of Contributions	1,395,000	972,000	423,000	43.5%
Administrative	2,108,000	2,358,000	(250,000)	-10.6%
Total Deductions	**100,193,000**	**92,884,000**	**7,309,000**	**7.9%**
Net Decrease in Plan Assets	**(325,098,000)**	**(84,661,000)**	**(240,437,000)**	**-284.0%**
Beginning Net Assets	**1,681,736,000**	**1,766,397,000**	**(84,661,000)**	**-4.8%**
Ending Net Assets	**$ 1,356,638,000**	**$ 1,681,736,000**	**$ (325,098,000)**	**-19.3%**

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

CHANGES IN PLAN NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN (Table 2c) *For the Fiscal Years Ended June 30, 2010 and 2009*

	2010	2009	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 15,815,000	$ 15,076,000	$ 739,000	4.9%
Employer Contributions	17,027,000	16,368,000	659,000	4.0%
Net Investment Income*	13,703,000	(18,485,000)	32,188,000	174.1%
Net Securities Lending Income/Loss	149,000	(58,000)	207,000	356.9%
Total Additions	**46,694,000**	**12,901,000**	**33,793,000**	**261.9%**

Net of Investment Expenses of $345,000 and $425,000 in 2010 and 2009, respectively.

Healthcare Insurance Premiums	24,066,000	21,725,000	2,341,000	10.8%
Administrative	181,000	132,000	49,000	37.1%
Total Deductions	**24,247,000**	**21,857,000**	**2,390,000**	**10.9%**
Net Increase/(Decrease) in Plan Assets	**22,447,000**	**(8,956,000)**	**31,403,000**	**350.6%**
Beginning Net Assets	**85,564,000**	**94,520,000**	**(8,956,000)**	**-9.5%**
Ending Net Assets	**$ 108,011,000**	**$ 85,564,000**	**$ 22,447,000**	**26.2%**

CHANGES IN PLAN NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN BENEFITS PLAN (Table 2d) *For the Fiscal Years Ended June 30, 2009 and 2008*

	2009	2008	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 15,076,000	$ 10,403,000	$ 4,673,000	44.9%
Employer Contributions	16,368,000	11,560,000	4,808,000	41.6%
Net Investment Income*	(18,485,000)	(3,767,000)	(14,718,000)	-390.7%
Net Securities Lending Income/Loss	(58,000)	52,000	(110,000)	-211.5%
Total Additions	**12,901,000**	**18,248,000**	**(5,347,000)**	**-29.3%**

Net of Investment Expenses of $425,000 and $415,000 in 2009 and 2008, respectively.

Healthcare Insurance Premiums	21,725,000	20,195,000	1,530,000	7.6%
Administrative	132,000	134,000	(2,000)	-1.5%
Total Deductions	**21,857,000**	**20,329,000**	**1,528,000**	**7.5%**
Net Increase/(Decrease) in Plan Assets	**(8,956,000)**	**(2,081,000)**	**(6,875,000)**	**-330.4%**
Beginning Net Assets	**94,520,000**	**96,601,000**	**(2,081,000)**	**-2.2%**
Ending Net Assets	**$ 85,564,000**	**$ 94,520,000**	**$ (8,956,000)**	**-9.5%**

Reserves

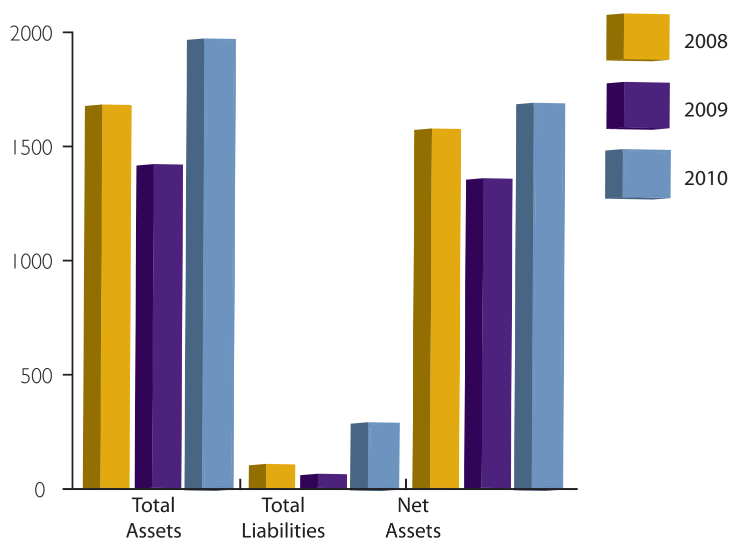
The System is required by the City of San José Municipal Code to establish various reserves in the System's net assets. The System's net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the General Reserve, Employee Contributions Reserve, and Supplemental Retiree Benefit Reserve. The Defined Benefit Pension Plan Cost-of-Living Fund and the Postemployment Healthcare Plan both have a General Reserve and Employee Contributions Reserve (see table on page 30 for a complete listing and year-end balances of the System's reserves).

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation in the fair value of investments is held in the unrealized gain/loss account, a component of the General reserve. As of June 30, 2010 and 2009, the "Unrealized Gains and Losses on Investments Held" resulted in accumulated year end losses of $40,351,000 and $50,314,000, respectively.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN NET ASSETS

(Tables Ia and Ib)

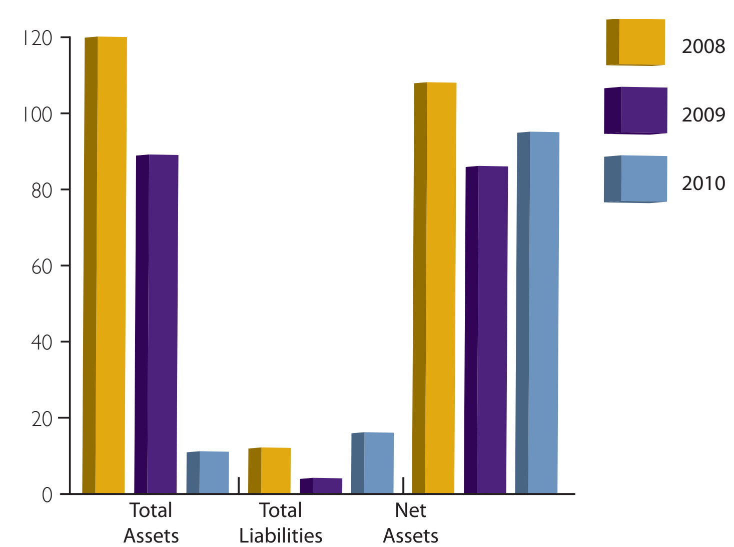
As of June 30, 2010, 2009, and 2008 (Dollars in Millions)



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS

(Tables Ic and Id)

As of June 30, 2010, 2009, and 2008 (Dollars in Millions)



The System's Fiduciary Responsibilities

The System's Board of Administration and management staff are fiduciaries of the defined benefit pension and other postemployment healthcare trust funds. Under the California Constitution and the San José Municipal Code, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The System transitioned from biennial to annual actuarial valuations beginning June 30, 2010. The System's most recent valuation as of June 30, 2009, was used to determine the annual contribution rates effective June 27, 2010, for fiscal year 2010-2011. The annual required contribution rates calculated in the June 30, 2010 valuation will be adopted by the Board and become effective in fiscal year 2011-2012.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2009, the System's most recent valuation, the funded status of the pension plan decreased from 83% to 71%. The decrease in the pension plan funded status was due to economic and demographic actuarial assumption changes and the recognition of less than expected investment returns.

The System's most recent valuation as of June 30, 2009, includes economic and demographic actuarial assumption changes approved by the Board including phasing in the impact on contribution rates of the following over a five year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of the economic and demographic assumption changes increased the actuarial accrued liability by approximately $141,500,000 and $87,300,000, respectively. For a full listing of the actuarial valuation assumptions see Note 5 of the financial statements on page 41.

In addition, the System's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses in excess of the actuarially assumed rate of return, as calculated at year-end, are smoothed, recognized over five years. It is anticipated that future actuarial valuations will incorporate aggregate deferred investment losses of approximately $419,700,000 from fiscal years 2005-06 to 2008-09 will be "smoothed" as described above. In future actuarial valuations, the excess over the actuarially assumed investment income for fiscal year 2009-10 or gain of $211,607,000, will be smoothed and netted against the remaining aggregate deferred investment losses from 2005-06 to 2008-09.

The contribution rate impact of the Board approved actuarial assumption changes, including the five year phase-in of the impact of the economic assumption, and the recognition of smoothed investment returns will become effective in fiscal year 2010-2011. Additionally, contribution rates starting from the June 30, 2010 will be impacted by the System's transition to a 30 year closed/20 year layered amortization methodology. Prior to the June 30, 2009 valuation, the System amortized the unfunded actuarial accrued liability over a 30 year open amortization basis, however, starting from June 30, 2009 the unfunded actuarial liability as of will be amortized over a 30 year closed and any additional unfunded actuarial liability resulting from June 30, 2010 or later valuations will be amortized over a 20 year closed layer; this change will only impact contribution rates starting from fiscal year 2011-12.

Additionally, the System is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the Defined Benefit Pension Plan assets could be below the actuarially assumed rate of return, which is 7.75%, net of SRBR payments and investment and administrative expenses. Underperforming the assumed rate of return would negatively impact the financial condition of the System and the City's required contribution to the plan. The contribution rate impact from general market risk depends in large measure on how deep any future market downturn is and how long it lasts.

The June 30, 2010 pension plan valuation is anticipated to include decreased covered payroll due to the City's recent budget cuts. The June 30, 2010 valuation will also include one-time retirement contributions, equal to approximately 10.83% of covered payroll for bargaining units representing AEA, CAMP, OE#3, AMSP and IBEW members. The City and the bargaining units reached an agreement to require those members of the System to make additional employee contributions that will be applied to reduce the City's required contributions towards the plan's unfunded accrued actuarial liability.

Postemployment Healthcare Plan

This year the System completed its third GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2009. A summary of the results is presented in Note 6 to the Financial Statements. The 2010 OPEB valuation will include increased OPEB contributions for active System members as a result of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions over the next five years. Fiscal year ended June 30, 2010 was the first year of the phase-in. The MOA also provides that a the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions.

Requests for Information

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

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

Respectfully Submitted,

Russell U. Crosby
Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2010 and 2009 (In Thousands)

	2010		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 647	$ 780	$ 1,427
Employer contributions	2,750	855	3,605
Brokers and others	1,380	100	1,480
Accrued investment income	5,422	390	5,812
Total Receivables:	**10,199**	**2,125**	**12,324**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	600,005	42,264	642,269
International fixed income	6,436	454	6,890
Collective short-term investments	59,043	4,159	63,202
Corporate convertible bonds	42,543	2,997	45,540
Pooled fixed income	18,861	1,329	20,190
Domestic equity	106,503	7,502	114,005
International equity	176,098	12,404	188,502
Pooled global equity	367,133	25,861	392,994
Private equity	65,423	4,608	70,031
Forward international currency contracts, net	453	32	485
Real estate	65,416	4,700	70,116
Securities lending cash collateral investment pool	161,622	11,610	173,232
Total Investments	**1,669,536**	**117,920**	**1,787,456**
TOTAL ASSETS	**1,679,735**	**120,045**	**1,799,780**
Liabilities			
Payable to brokers	1,149	83	1,232
Securities lending collateral due to borrowers	161,622	11,610	173,232
Other liabilities	4,162	341	4,503
TOTAL LIABILITIES	**166,933**	**12,034**	**178,967**
Net Assets Held In Trust For:			
Pension benefits	1,512,802	-	1,512,802
Postemployment healthcare benefits	-	108,011	108,011
TOTAL NET ASSETS	**$ 1,512,802**	**$ 108,011**	**$ 1,620,813**

See accompanying notes to basic financial statements.

(Continued)

STATEMENTS OF PLAN NET ASSETS (continued)

June 30, 2010 and 2009 (In Thousands)

	2009		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Assets			
Receivables:			
Employee contributions	$ 634	$ 691	$ 1,325
Employer contributions	5,760	1,652	7,412
Brokers and others	27,498	1,736	29,234
Accrued investment income	6,919	436	7,355
Total Receivables:	**40,811**	**4,515**	**45,326**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	393,519	24,214	417,733
International fixed income	114,476	7,044	121,520
Collective short-term investments	41,540	2,556	44,096
Domestic equity	190,400	11,716	202,116
International equity	143,270	8,816	152,086
Pooled global equity	337,286	20,754	358,040
Private equity	54,764	3,370	58,134
Forward international currency contracts, net	(6)	-	(6)
Real estate	82,985	5,249	88,234
Securities lending cash collateral investment pool	19,909	1,255	21,164
Total Investments	**1,378,143**	**84,974**	**1,463,117**
TOTAL ASSETS	**1,418,954**	**89,489**	**1,508,443**
Liabilities			
Payable to brokers	39,192	2,471	41,663
Securities lending collateral due to borrowers	21,770	1,373	23,143
Other liabilities	1,354	81	1,435
TOTAL LIABILITIES	**62,316**	**3,925**	**66,241**
Net Assets Held In Trust For:			
Pension benefits	1,356,638	-	1,356,638
Postemployment healthcare benefits	-	85,564	85,564
TOTAL NET ASSETS	**$ 1,356,638**	**$ 85,564**	**$ 1,442,202**

See accompanying notes to basic financial statements. *(Concluded)*

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2010 and 2009 (In Thousands)

	2010		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 13,396	$ 15,815	$ 29,211
Employer	54,566	17,027	71,593
Total Contributions:	**67,962**	**32,842**	**100,804**
Investment income:			
Net appreciation in fair value of investments	165,376	11,613	176,989
Interest income	24,781	1,713	26,494
Dividend income	8,215	567	8,782
Net rental income	2,241	155	2,396
Less investment expense	(5,026)	(345)	(5,371)
Net investment income before securities lending income	**195,587**	**13,703**	**209,290**
Securities lending income:			
Earnings	2,113	145	2,258
Rebates	155	11	166
Fees	(100)	(7)	(107)
Net securities lending income	**2,168**	**149**	**2,317**
Net investment income	**197,755**	**13,852**	**211,607**
TOTAL ADDITIONS	**265,717**	**46,694**	**312,411**
Deductions			
Retirement benefits	98,110	-	98,110
Healthcare insurance premiums	-	24,066	24,066
Death benefits	7,583	-	7,583
Refund of contributions	1,219	-	1,219
Administrative expenses and other	2,641	181	2,822
TOTAL DEDUCTIONS	**109,553**	**24,247**	**133,800**
NET INCREASE	**156,164**	**22,447**	**178,611**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits:			
Beginning of year	**1,356,638**	**85,564**	**1,442,202**
END OF YEAR	**$ 1,512,802**	**$ 108,011**	**$ 1,620,813**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2010 and 2009 (In Thousands)

2009

	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Additions			
Contributions:			
Employee	$ 13,848	$15,076	$ 28,924
Employer	57,020	16,368	73,388
Total Contributions:	**70,868**	**31,444**	**102,312**
Investment income:			
Net depreciation in fair value of investments	(330,179)	(20,705)	(350,884)
Interest income	30,766	1,931	32,697
Dividend income	7,245	455	7,700
Net rental income	4,128	259	4,387
Less investment expense	(6,803)	(425)	(7,228)
Net investment loss before securities lending income	**(294,843)**	**(18,485)**	**(313,328)**
Securities lending income:			
Earnings	284	18	302
Rebates	(1,013)	(64)	(1,077)
Fees	(201)	(12)	(213)
Net securities lending loss	**(930)**	**(58)**	**(988)**
Net investment loss	**(295,773)**	**(18,543)**	**(314,316)**
TOTAL ADDITIONS	**(224,905)**	**12,901**	**(212,004)**
Deductions			
Retirement benefits	89,767	-	89,767
Healthcare insurance premiums	-	21,725	21,725
Death benefits	6,923	-	6,923
Refund of contributions	1,395	-	1,395
Administrative expenses and other	2,108	132	2,240
TOTAL DEDUCTIONS	**100,193**	**21,857**	**122,050**
NET DECREASE	**(325,098)**	**(8,956)**	**(334,054)**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits:			
Beginning of year	**1,681,736**	**94,520**	**1,776,256**
END OF YEAR	**$ 1,356,638**	**$ 85,564**	**$ 1,442,202**

See accompanying notes to basic financial statements. *(Concluded)*

Notes to Financial Statements

For the Fiscal Years Ended June 30, 2010 and 2009

Note I – Description of the Plan

The following description of the City of San José Federated City Employees' Retirement System (System) is provided for financial reporting purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

(a) General

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended by City Council on August 24, 2010, to provide retirement benefits for certain employees of the City of San José (City). The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided and funded directly by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately $340,249,000 and $337,087,000 for fiscal years 2010 and 2009, respectively. Covered payroll amounted to approximately $308,697,000 and $320,912,000 for fiscal years 2010 and 2009, respectively.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2010 and 2009, employee membership data related to the System was as follows:

Defined Benefit Pension Plan:	2010	2009
Retirees and beneficiaries currently receiving benefits*	3,101	2,997
Terminated vested members not yet receiving benefits	626	603
Active members	3,929	4,196
TOTAL	**7,656**	**7,796**

Postemployment Healthcare Plan:	2010	2009
Retirees and beneficiaries currently receiving benefits	2,795	2,641
Terminated vested members not yet receiving benefits	89	80
Active members	3,929	4,196
TOTAL	**6,813**	**6,917**

**The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count.*

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

(b) Pension Benefits

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service, not to exceed 108% of compensation paid to the member during the second highest consecutive 12 month period, excluding the months used to calculate the highest 12 months. Final average salary excludes overtime pay and expense allowances. 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 earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, a member with less than five years of service may leave contributions in the system.

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

(c) Death Benefits

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

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

(d) Disability Benefits

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

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

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

(e) Postemployment Healthcare Benefits

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

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

(c) Investments

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

Following the market crash of 2008, the Board approved a new asset allocation that improved the diversification of the portfolio structure from the prior one, which in fiscal year 2008-2009 had replaced a basic 53% equity, 36% fixed income, and 11% in real estate and private equity allocation with a 49% equity, 25% fixed income,

Notes to Financial Statements *(Continued)*

Note 2 – Summary of Significant Accounting Policies (continued)

and 26% alternatives allocation that included real estate, real assets, hedge funds (absolute return), private equity, and opportunistic investments. The new asset allocation in fiscal year 2009-2010 targets higher expected returns at similar risk levels by changing the asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments; the System's investment asset allocation is as follows:

Global Equity – Target of 49%, minimum 43% and maximum 55% of the fair value of the aggregate portfolio.

Fixed Income – Target of 20%, minimum 15% and maximum 25% of the fair value of the aggregate portfolio.

Alternatives – Target of 31%, minimum 26% and maximum 36% of the fair value of the aggregate portfolio.

Real Estate – Target 5%

Real Assets – Target 10%

Hedge Funds – Target 5%

Private Equity – Target 6%

Opportunistic – Target 5%

The System's investment policy authorizes the System to invest in global equity; global fixed income; alternatives including real estate, real assets, hedge funds (absolute return), private equity, and opportunistic assets; short-term investments; and securities lending. 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, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of the separate real estate properties are based on annual independent appraisals. Per the System's Real Estate Investment Guidelines, mortgage loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value. As of June 30, 2010 and 2009, the System held a warehouse located in Northern California with no outstanding mortgage loans.

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

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

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2010 and 2009, the net assets, totaling $1,620,813,000 and $1,442,202,000, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Total
June 30, 2010:					
Employee contributions	$ 201,166	$ 46,192	$ 247,358	$ 19,605	$ 266,963
Supplemental retiree benefit	21,381	-	21,381	-	21,381
General reserve	885,775	358,288	1,244,063	88,406	1,332,469
TOTAL	**$ 1,108,322**	**$ 404,480**	**$ 1,512,802**	**$ 108,011**	**$ 1,620,813**
June 30, 2009:					
Employee contributions	$195,351	$47,593	$242,944	$16,870	$259,814
Supplemental retiree benefit	19,733	-	19,733	-	19,733
General reserve	775,727	318,234	1,093,961	68,694	1,162,655
TOTAL	**$ 990,811**	**$ 365,827**	**$ 1,356,638**	**$ 85,564**	**$ 1,442,202**

Note 2 – Summary of Significant Accounting Policies (continued)

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

Supplemental Retiree Benefit Reserve represents 10% of total accumulated excess earnings plus credited interest.

In fiscal year 2008-2009, a review of the SRBR reserve balance and excess earnings calculation was performed. The review resulted in three findings. The first was the inequitable exclusion of interest posting to the accumulated unrealized gains/losses; the second was the inconsistent interest crediting formula, and lastly the improper inclusion of other postemployment earnings in the excess earnings calculation. Per Board resolution excess earnings for the fiscal years 1996-1999 and 2006-2007 were re-declared and the reserve balances for SRBR (net decrease in SRBR reserve of $6,284,000), pension general reserve, and postemployment healthcare general reserves were corrected.

Reserves were adjusted to reflect the corrected interest crediting amounts for fiscal years 1999 – 2007 (net decrease to SRBR of $1,514,000). All reserve balances were adjusted to reflect the corrected balances per the review. As of June 30, 2010, the System's actuary reviewed the correction and has prepared all SRBR calculations from fiscal year June 30, 2009 onward.

General Reserve is a reserve that represents net earnings resulting from interest earnings, realized and unrealized investment gains and losses. The unrealized gains and losses for fiscal year 2010 and 2009 were $40,351,000 and $50,314,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Implementation of Governmental Accounting Standards Board Statements

In fiscal year ended June 30, 2010, the System implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments. The Statement also provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The statement describes the general circumstances under which a derivative instrument is classified as an investment derivative or a hedging derivative instrument.

Statement No. 53, requires derivative instruments be reported at fair value, with a few specific exceptions, on the statement of net assets. The classification depends on whether they represent assets or liabilities. Changes in fair values of investment derivative should be reported within the investment income classification on the changes in fund net assets. As of June 30, 2010 and 2009, the System's derivative instruments are considered investments and not hedges for accounting purposes. As the System reported all investments, including investment derivative instruments, at fair value in prior fiscal years, the implementation of Statement No. 53 does not have a significant impact on the financial statements for the fiscal years ended June 30, 2009, and 2010. Disclosure details for investment derivative instruments can be found in the Derivatives subsection of Note 3.

(f) Reclassifications

Certain amounts in fiscal year 2009 have been reclassified to conform to the fiscal year 2010 presentation.

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 income 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, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The System does not have a policy regarding interest rate risk. As of June 30, 2010, $32,453,000 of bank loan securities were floating rate securities tied to the London Interbank Offered Rate (LIBOR) or the 3 month Prime rate.
The System also had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. As of June 30, 2010, the System invested in commodity swaps with a notional amount of $34,000,000 and receives total return Dow Jones UBS Commodity Index and pays the 3-month Treasury bill rate plus a pay spread of 12.75 bps. The System also invested in infrastructure swaps with a notional amount of approximately $34,000,000 in which it receives the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 25 bps. The System does not have a policy regarding interest rate risk, however, the System does settle swap activity on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk. As of June 30, 2009, $2,376,000 of international government bonds, $3,936,000 of collateralized mortgage obligations (CMO), $9,207,000 of other asset backed securities and $9,452,000 of corporate bonds

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

were floating rate securities tied to LIBOR, 10-year Japanese Government Bond, and/or floating rates but not tied to an index.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in years) as of June 30, 2010 and 2009, concerning the fair value of investments and interest rate risk:

INVESTMENTS AT FAIR VALUE

As of June 30, 2010 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income *Domestic Fixed Income*								
Asset Backed Securities	$ -	$ -	$ -	$ 941	$ -	$ -	$ 941	$ 783
Bank loans	-	207	1,847	30,280	2,058	-	34,392	32,213
Collective short-term investments	63,202	-	-	-	-	-	63,202	63,223
Corporate bonds	-	-	1,161	31,768	19,479	4,394	56,802	51,187
FHLMC	-	-	-	15,126	4,581	-	19,708	19,404
FNMA	-	-	-	6,797	4,287	-	11,084	10,838
Other U.S. Government agency	-	-	-	13,638	-	-	13,638	13,659
TIPS	-	-	-	94,203	98,065	65,255	257,523	249,660
U.S. Treasury	-	-	9,322	172,802	66,058	-	248,181	242,688
Total Domestic fixed income	**63,202**	**207**	**12,330**	**365,555**	**194,528**	**69,649**	**705,471**	**683,655**
Fixed Income *International Fixed Income*								
USD Denominated Corporate Bonds	-	-	-	4,505	1,889	496	6,890	5,572
Total International Fixed Income	**-**	**-**	**-**	**4,505**	**1,889**	**496**	**6,890**	**5,572**
Corporate convertible bonds	**1,260**	**-**	**461**	**30,255**	**1,981**	**11,583**	**45,540**	**46,065**
Pooled fixed income bond funds	**-**	**-**	**-**	**-**	**20,190**	**-**	**20,190**	**19,500**
TOTAL FIXED INCOME	**$ 64,462**	**$ 207**	**$ 12,791**	**$ 400,315**	**$ 218,588**	**$ 81,728**	**$ 778,091**	**$ 754,792**

Note 3 – Investments (continued)

INVESTMENTS AT FAIR VALUE

As of June 30, 2009 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income *Domestic Fixed Income*								
Asset backed securities	$ -	$ -	$ 234	$ 4,090	$ 5,568	$ 4,643	$ 14,535	$ 14,747
Bank loans	-	-	-	24,176	12,289	-	36,465	36,100
Collateralized mortgage obligations	-	-	144	-	-	20,933	21,077	23,855
Collective Short-Term Investments	44,096	-	-	-	-	-	44,096	44,301
Corporate bonds	-	-	4,373	60,856	86,947	44,014	196,190	199,993
FHLMC	-	-	-	943	6,127	31,588	38,658	37,544
FNMA	-	-	-	7,252	16,108	56,199	79,559	76,964
GNMA	-	-	-	-	-	5,037	5,037	4,989
Other U.S. Government agency	-	-	-	586	974	7,334	8,894	8,935
U.S. Treasury	6,768			5,298	1,175	4,077	17,318	17,377
Total Domestic fixed income	**50,864**	**-**	**4,751**	**103,201**	**129,188**	**173,825**	**461,829**	**464,805**
Fixed Income *International Fixed Income*								
International corporate bonds	823	-	-	6,062	11,437	3,784	22,106	22,759
International government bonds	**143**	**4,214**	**693**	**22,584**	**16,664**	**18,259**	**62,557**	**57,891**
USD denominated corporate bonds	**-**	**-**	**47**	**8,576**	**15,356**	**6,861**	**30,840**	**31,176**
USD denominated government bonds	**-**	**-**	**-**	**3,016**	**649**	**2,352**	**6,017**	**6,055**
Total International fixed income	**966**	**4,214**	**740**	**40,238**	**44,106**	**31,256**	**121,520**	**117,881**
TOTAL FIXED INCOME	**$ 51,830**	**$ 4,214**	**$ 5,491**	**$ 143,439**	**$ 173,294**	**$ 205,081**	**$ 583,349**	**$ 582,686**

Note 3 – Investments (continued)

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2010 and 2009, all of the System's investments, excluding invested securities lending collateral, are held in the System's name, and/or not exposed to custodial credit risk. Securities lending collateral is invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

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. The System's investment policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). "Yankee" bonds issued by foreign countries and denominated in U.S. dollars are allowed so long as they are rated Baa/BBB or better by Moody's or Standard and Poor's. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used. Should a current holding fall below this standard, the manager shall notify the System of the downgrade and confer with the System staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control. The System may hedge against the possible adverse effects of currency fluctuations on the System's portfolio of international fixed income obligations when it is considered appropriate. 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.

The following table provides information as of June 30, 2010 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $505,704,000 and $24,925,000 as of June 30, 2010 and 2009, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2010 (In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 48,920	18.0%
AA	1,004	0.1%
A	9,449	3.5%
BBB	15,744	5.8%
BB	47,007	17.3%
B	35,986	13.2%
CCC & Below	3,929	1.5%
Not Rated	110,348	40.6%
TOTAL	**$ 272,387**	**100.0%**

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2009 (In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 81,394	14.6%
AA	34,352	6.2%
A	67,428	12.1%
BBB	79,769	14.3%
BB	56,476	10.1%
B	41,465	7.4%
CCC & Below	10,183	1.8%
Not Rated	187,357	33.5%
TOTAL	**$ 558,424**	**100.0%**

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the System's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

The following tables provide information as of June 30, 2010 and 2009, concerning the fair value of investments and foreign currency risk:

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2010 (In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Australian dollar	$ 2	$ -	$ 12,512	$ -	$ -	$ 12,514
Brazilian real	-	-	1,599	-	-	1,599
British pound sterling	86	-	33,283	2,247	105	35,721
Canadian dollar	165	-	-	-	13	178
Danish krone	-	-	3,055	-	-	3,055
Euro	969	3,363	46,744	3,241	223	54,540
Hong Kong dollar	74	-	6,762	738	3	7,577
Indian rupee	-	-	-	-	18	18
Indonesian rupiah	-	-	749	-	-	749
Japanese yen	-	-	41,932	2,286	(108)	44,110
Malaysian ringgit	2	-	974	-	-	976
Mexican peso	-	-	412	-	-	412
Norwegian krone	26	-	3,070	-	144	3,240
Polish zloty	5	-	334	-	-	339
Singapore dollar	13	-	3,423	-	-	3,436
South African rand	2	-	1,154	-	-	1,156
South Korean won	7	-	2,015	-	-	2,022
Swedish krona	42	-	4,835	-	31	4,908
Swiss franc	24	-	11,675	1,260	56	13,015
Thai baht	15	-	541	-	-	556
Turkish lira	-	-	385	-	-	385
TOTAL	**$ 1,432**	**$ 3,363**	**$ 175,454**	**$ 9,772**	**$ 485**	**$ 190,506**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2009 (In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Australian dollar	$ 95	$ -	$ 3,054	$ 376	$ -	$ 3,525
Brazilian real	-	-	7,387	601	-	7,988
British pound sterling	1,272	-	18,675	7,444	(14)	27,377
Canadian dollar	24	-	4,253	3,074	(11)	7,340
Czech koruna	-	-	-	-	-	-
Danish krone	2	-	1,944	-	-	1,946
Euro	680	2,036	30,655	38,887	(16)	72,242
Hong Kong dollar	70	-	11,295	-	-	11,365
Indonesian rupiah	-	-	1,402	507	1	1,910
Japanese yen	379	-	17,992	29,675	34	48,080
Malaysian ringgit	-	-	854	-	-	854
Mexican peso	8	-	854	-	-	862
New Zealand dollar	34	-	-	-	-	34
Norwegian krone	279	-	586	4,099	-	4,964
Polish zloty	2	-	317	-	-	319
Singapore dollar	19	-	1,465	-	-	1,484
South African rand	-	-	709	-	-	709
South Korean won	5	-	2,817	-	-	2,822
Swedish krona	53	-	1,210	-	-	1,263
Swiss franc	35	-	12,871	-	-	12,906
TOTAL	**$ 2,957**	**$ 2,036**	**$ 118,340**	**$ 84,663**	**$ (6)**	**$ 207,990**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

Concentration of Credit Risk – The System's investment policy limits investment managers to no more than 10% of the System's assets under their management to be invested in securities of any single issuer with exception of the U.S. Government and its agencies. As of June 30, 2009, the System held $79,559,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 5.52% of total Plan net assets.

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the System specifically prohibits investment managers from using derivative or synthetic securities that expose the System to potentially high price volatility or are leveraged, or whose market-ability may become severely limited. Derivative 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 based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2010 or 2009. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notational amounts of derivative instruments outstanding as of June 30, 2010 and 2009, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2010 and 2009 financial statements are as follows (amounts in thousands):

	Net Appreciation in Fair Value of Investments through June 30, 2010		*Fair Value at June 30, 2010*		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Commodity Swaps	Investment Income	$ 1,606	Commodity Swaps	$ -	$ 34,000
Infrastructure Swaps	Investment Income	-	Infrastructure Swaps	-	33,902
Foreign Currency Forwards	Investment Income	1,301	Foreign Currency Contracts, net	485	-
Futures Options Bought/Written	Investment Income	222	Fixed Income – collective short-term investments	-	-
Rights	Investment Income	184	Equity (domestic and foreign)	67	-
Total Derivative Instruments		**$ 3,313**		**$ 552**	

	Net Appreciation in Fair Value of Investments through June 30, 2009		*Fair Value at June 30, 2009*		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Foreign Currency Forwards	Investment Income	$ 239	Foreign Currency Contracts, net	$ (6)	$ -
Futures Options Bought/Written	Investment Income	2,009	Fixed Income – collective short-term investments	(108)	3,901
Rights	Investment Income	402	Equity (domestic and foreign)	315	-
Total Derivative Instruments		**$ 2,650**		**$ 201**	

Note 3 – Investments (continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2010 and 2009:

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. As of June 30, 2010, the System entered into commodity and infrastructure swaps with individual notional values of $34,000,000 held by counterparties with A+ rating. The System's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2010, total commitments in forward currency contracts to purchase and sell international currencies were $17,724,000 and $17,724,000 respectively, with fair values of $17,748,000 and $17,263,000, respectively, held by counterparties with S&P rating of at least AA-. As of June 30, 2009, total commitments in forward currency contracts to purchase and sell international currencies were $10,632,000 and $10,632,000 respectively, with fair values of $10,622,000 and $10,628,000, respectively, held by counterparties with an S&P rating of at least AA-.

Interest Rate Risk – The System had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, net values with unrealized gains and losses collateralized to minimize counterparty risk. As of June 30, 2010, the System invested in commodity swaps with a notional amount of $34,000,000 and receives total return Dow Jones UBS Commodity Index and pays the 3-month Treasury bill rate plus a pay spread of 12.75 bps. This commodity swap was executed in April 2010 and matures in May 2011 with a monthly reset frequency. The System also invested in infrastructure swaps with a notional amount of approximately $34,000,000 in which it receives the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 25 bps. The System executed the infrastructure swap in April 2010 and matures in May 2011 with a quarterly reset frequency. The System does not have a policy regarding interest rate risk, however, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk. As of June 30, 2010 and 2009, the System's derivative investments had maturity dates of less than one year.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2010 and 2009, the System's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The System's commitments relating to forward currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2010 and 2009, concerning the fair value of forward currency contracts and foreign currency risk.

Fair value of forward currency contracts and foreign currency risk as of June 30, 2010 (amounts in thousands):

2010

Currency Name	Pending Foreign Currency Exchanges	Rights
British pound sterling	$ 105	$ -
Canadian dollar	13	-
Euro	223	61
Hong Kong dollar	3	-
Indian rupee	18	-
Japanese yen	(108)	-
Norwegian krone	144	6
Swedish krona	31	-
Swiss franc	56	-
TOTAL	**$ 485**	**$ 67**

Note 3 – Investments (continued)

2009

Currency Name	Pending Foreign Currency Exchanges	Rights
British pound sterling	(14)	$ 315
Canadian dollar	(11)	-
Euro	(16)	-
Indonesian rupiah	1	-
Japanese yen	34	-
TOTAL	**$ (6)**	**$ 315**

Note 4 – Securities Lending Program

The San José municipal code and the investment policy adopted by the Board permit the use of a securities lending program with its principal custodian bank. The System does not have a threshold for securities lending. The investment policy requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The System has a custodial agreement with the Northern Trust Company, which authorizes the Northern Trust Company to lend securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deems advisable and to permit the lent securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the lent securities. As of June 30, 2010, and 2009, the System had no exposure to borrower credit risk related to the securities lending transactions as the Northern Trust Company is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Northern Trust Company is required to credit the System's account with the market value of such unreturned loaned securities if the lent securities are not returned by the borrower. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that may not be pledged or sold without a default by the borrower. 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 System does not match the maturities of investments made with cash collateral with the securities on loan.

The System authorized The Northern Trust Company to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle, which must have weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months are rated at least P-3. As of June 30, 2010, the size of the cash collateral pooled vehicle was $34.5 billion and the weighted average life was 24 days. The cash collateral investments included time deposits (13% of the pool), repurchase agreements (22%), asset backed securities (12%), certificates of deposit (23%), variable rate securities (4%), and commercial paper and other bank notes (26%). As of June 30, 2009, the size of the cash collateral pooled vehicle was $28.64 billion and the weighted average life of 47 days. The cash collateral investments included time deposits (28% of the pool), repurchase agreements (18%), asset backed securities (25%), certificates of deposit (16%), variable rate securities (11%), and commercial paper and other bank notes (2%).

The loaned securities as of June 30, 2010 and 2009 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, international equity securities and international corporate bonds. In return, the System receives collateral in the form of cash or securities equal to 102% for U.S. securities and 105% for Non-U.S. securities of the market value of transferred securities plus accrued interest for reinvestment.

As of June 30, 2010, the underlying securities loaned by the System as a whole amounted to approximately $168,822,000. The cash collateral and the non-cash collateral totaled $173,232,000 and $96,000, respectively. As of June 30, 2009, the underlying securities loaned by the System as a whole amounted to approximately $22,508,000. The System is exposed to investment risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool. The net asset value (NAV) of the cash collateral pool at June 30, 2009 was $21,164,000 based on a combination of mark-to-model and mark-to-market basis. The NAV of less than 100% is due to the decline in the fair value of assets held by the cash collateral pool.

The NAV of $21,164,000 results in an unrealized loss of approximately $1,978,000 for the System. The System's investment in the cash collateral investment pool is presented in the Statement of Net Plan Assets at the NAV of $21,164,000. The unrealized loss of $1,978,000 is presented in the securities lending income earnings line of the Statement of Changes in Plan Net Assets as of June 30, 2009. As of June 30, 2010, the System settled and remitted realized losses of $278,000 to the Northern Trust Core USA Fund.

Notes to Financial Statements *(Continued)*

Note 4 – Securities Lending Program (continued)
Securities Lending – Investment and Collateral Received at Fair Value *(In Thousands)*

	2010	2009
Type of Investment Lent		
For Cash Collateral		
U.S. government and agencies	$ 9,862	$ 144
Domestic corporate bonds	19,945	3,157
Domestic equity securities	33,759	16,696
U.S. treasury notes and bonds	98,047	799
International equity securities	7,113	1,662
Total Lent for Cash Collateral	168,726	22,458
For Non-Cash Collateral		
Domestic equity securities	-	50
International equity securities	96	-
Total Lent for Non-Cash Collateral	96	50
Total Securities Lent	**168,822**	**22,508**
Type of Collateral Received		
Cash Collateral	173,232	21,164
Non-cash Collateral		
For lent domestic equity securities	-	50
For lent international equity securities	96	-
Total Non-Cash Collateral	96	50
Total collateral received	**$ 173,328**	**$ 21,214**

Notes to Financial Statements *(Continued)*

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy

Contributions to the Defined Benefit Pension Plan by 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. On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

On July 2, 2009, the City paid the actuarially determined prepayment amount of $72,249,000, for biweekly pension and postemployment health contributions to be made for the 26 pay dates from July 3, 2009 through June 18, 2010. The City also received a credit of $1,038,000 for the reconciliation of fiscal year 2009/2010 pension and postemployment health contributions per San José Municipal Code 3.28.940(F), that requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise have been required in the absence of the lump sum advance payment are actuarially equivalent.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan. The System transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for the majority of fiscal year ended June 30, 2010 (through period ended June 26, 2010) were based on the actuarial valuation performed on June 30, 2007. The System's most recent valuation as of June 30, 2009, was used to determine the contribution rates effective June 27, 2010. The actuarial valuation assumptions are presented below in the Schedule of Funded Status for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2010 and 2009, were as follows:

Period	City*	Employee
06/27/10- 06/30/10	23.18%	4.54%
07/01/08- 06/26/10	18.31%	4.28%

* *The actual contribution rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.*

The funded status of the Defined Benefit Pension Plan as of June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
6/30/2009	$1,756,588	$2,486,155	$729,567	70.7%	$308,697	236%

The UAAL of $729,567,000 does not reflect the impact of approximately $420,000,000 of deferred investment losses resulting from unfavorable investment returns in fiscal years 2008 and 2009. The deferred investment loss will be recognized in the determination of the actuarial value of assets for funding purposes over the next few years, to the extent it is not offset by the recognition of investment gains derived from future experience.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and investment return. Experience studies are performed by the Board's actuary to determine continual revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future. As of June 30, 2009, the System's most recent valuation, the funded status of the System decreased from 83% to 71%.

The decrease in pension funding status was due to an increase in the actuarial accrued liability (AAL).
The increase in the AAL was due to demographic experience losses and changes in actuarial assumptions as recommended by the Board actuary in the June 30, 2009 experience study. The System's most recent valuation as of June 30, 2009 includes actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of the economic assumption changes increased the AAL by approximately $142,000,000 and the total contribution requirement by 3.64% prior to the impact of the 5-year phase in changes. Changes in pre-mortality and post-

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy (continued)

mortality demographic assumptions increased the AAL by $87,000,000 and the total contribution requirement by 1.58%.

In addition, the System's actuarial valuation uses a five-year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. It is anticipated that future actuarial valuations will incorporate investment portfolio performance and both gains and deferred investment losses of approximately $420,000,000 will be "smoothed" as described above. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Board also adopted a 30/20 layered amortization methodology in the June 30, 2009 valuation. Previously the Board amortized the unfunded actuarial accrued liability over a 30 year open amortization basis.

The unfunded actuarial accrued liability as of June 30, 2009 will be amortized over a closed amortization period of 30 years. Each year subsequent to this valuation, any gains or losses will be amortized over a closed 20 year period. There is no impact of this change on the June 30, 2009 valuation as the amortization for the first year of a 30 year closed amortization period is similar to a 30 year open period. However, each subsequent year to this valuation will be amortized over a closed 20-year period.

The System transitioned from biennial to annual valuations beginning with the fiscal year ended June 30, 2010. The contribution rates for fiscal year ended June 30, 2010 and 2009, were based on the actuarial valuation performed on June 30, 2007, except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**	
Valuation date	June 30, 2009	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years, closed	30 years, open
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Assumed rate of return on investments (net)	7.75% per annum	8.25% per annum
Post-retirement mortality	The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Active service, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience
Salary increases	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.
Projected total payroll increases	3.83%	4.0%
Cost-of-living adjustments	3.0% a year	3.0% a year

Notes to Financial Statements *(Continued)*

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy (continued)

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

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status And Funding Progress

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating employees. Contribution rates for fiscal years ended June 30, 2010 and 2009 were based on the actuarial valuation performed on June 30, 2007, except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation. Prior to July 1, 2009, required annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. After June 30, 2009, the required contribution rates represent the cost to phase in to full pre-funding of the GASB Statement No. 43 annual required contributions costs over a five year period. Effective June 28, 2009, the bargaining units representing the Federated members of the System entered into a Memorandum of Agreement (MOA) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions over the next five years; fiscal year ended June 30, 2010 was the first year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2010 and 2009 for the Postemployment Healthcare Plan were as follows:

Period	City*	Employee
06/27/10 – 06/30/10	6.41%	5.76%
06/28/09 – 06/26/10	5.70%	5.07%
07/01/08 – 06/27/09	5.25%	4.65%

* *The actual contribution rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.*

The funded status of the Postemployment Healthcare Plan as of June 30, 2009, the most recent actuarial valuation date, is as follows (Dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
6/30/2009	$ 85,564	$796,448	$710,884	10.7%	$308,697	230%

As of June 30, 2009, the System's most recent valuation, the System's AAL increased by approximately $180 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The System's UAAL increased from $520.1 million as of June 30, 2007 to $710.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including healthcare trend assumption changes, changes in economic assumptions and demographic changes in pre-mortality and post-mortality demographic assumptions. The System's OPEB discount rate is based on a blended rate that ranges between the risk free rate (4.5%) and System's full funding rate (7.75%) resulting in a blended discount rate of 6.70. As of June 30, 2009, the System's last experience study, the Board adopted changes in economic assumptions of the following: a reduction in the System's investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%.

Notes to Financial Statements *(Continued)*

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status And Funding Progress (continued)

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 System transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2010 and 2009, were based on the actuarial valuation performed on June 30, 2007, except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	Method/Assumption	
Valuation date	June 30, 2009	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years, closed	30 years, closed
Actuarial asset valuation method	Market value	Market value
Actuarial assumptions:		
Discount rate (net)	6.70% †	6.60% †
Inflation rate	3.67%	4.0%
Salary increases	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.
Projected total payroll increases	3.83%	4.0%
Health care cost trend rate:		
Medical	The valuation assumes that future medical inflation will be at a rate of 10% per annum graded down each year in 0.50% increments to an ultimate rate of 4.5% for medical-pre age 65 and 7.5% per annum graded down each year in 0.25% increments to an ultimate rate of 4.5% for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8% per annum graded down each year in 0.50% increments to an ultimate rate of 4.5%.
Dental	Dental inflation is assumed to be 5% graded down to 4% over a four year period.	Dental inflation is assumed to be 6% graded down to 4% over a nine year period.

† 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.

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status And Funding Progress (continued)

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress for the 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 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

Commitments – As of June 30, 2010, the System had unfunded commitments to contribute capital for private equity fund investments in the amount of $53,824,000.

Retirement Plan - Ice Miller has been retained as outside tax counsel to assist the City Attorney's Office in advising the Board on tax compliance matters and on whether to apply for an Internal Revenue Service tax determination letter.

Required Supplementary Information

Schedule of Funding Progress – Defined Benefit Pension Plan (Unaudited)

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
6/30/2003	$ 1,280,719	$ 1,311,691	$ 30,972	98%	$ 292,961	11%
6/30/2005	1,384,454	1,711,370	326,916	81%	286,446	114%
6/30/2007	1,622,851	1,960,943	338,092	83%	291,405	116%
6/30/2009	1,756,588	2,486,155	729,567	71%	308,697	236%

Actuarial valuations have been performed biennially through June 30, 2007. Effective June 30, 2009, the System transitioned to annual actuarial valuations.

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

(b) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2007 and prior valuations. The amount presented for the June 30, 2009 valuation represents actual annual covered payroll.

As of June 30, 2009, the System's most recent valuation, the System's AAL increased by $525 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board actuary in the June 30, 2009 experience study. The System's most recent valuation as of June 30, 2009 includes actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of the economic assumption changes increased the AAL by approximately $142,000,000 and the total contribution requirement by 3.64% prior to the impact of the 5-year phase in changes. Changes in pre-mortality and post-mortality demographic assumptions increased the AAL by $87,000,000 and the total contribution requirement by 1.58%; see note 5 in the notes to the financial statements for further information on the actuarial changes and their impact on the System's funded status.

Schedule of Employer Contributions - Defined Benefit Pension Plan (Unaudited)

For the six fiscal years ended June 30, 2010

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions	Percentage Contributed
2005	$ 41,552	100%
2006	41,267	100%
2007	51,004	100%
2008	54,958	100%
2009	57,020	100%
2010	54,566	100%

* *Amount represents the annual required employer contributions based on the Board adopted contribution rates in the absence of the City's elected lump sum payment. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at $56,590 and $58,759 for fiscal years ended June 30, 2010 and 2009, respectively; see note five in the notes to the financial statements for more information.*

Required Supplementary Information *(Continued)*

Schedule of Funding Progress - Postemployment Healthcare Plan (Unaudited)

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b)-(a)/c))
6/30/2006	$ 81,288	$ 702,939	$ 621,651	12%	$ 275,559	226%
6/30/2007	96,601	616,749	520,148	16%	271,833	191%
6/30/2009	85,564	796,448	710,884	11%	308,697	230%

As of June 30, 2009, the System's most recent valuation, the System's AAL increased by $180 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The System's UAAL increased from $520.1 million as of June 30, 2007 to $710.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including healthcare trend assumption changes, changes in economic assumptions and demographic changes in pre-mortality and post-mortality demographic assumptions; see note 6 in the notes to the financial statements for further information on the actuarial changes and their impact on the System's funded status.

Schedule of Employer Contributions - Postemployment Healthcare Plan (Unaudited)

(Dollars in thousands)

Fiscal Year Ended	Annual Required Contributions*	Actual Contributions	Percentage Contributed
6/30/2007	$ 38,526	$ 10,728	28%
6/30/2008	38,526	11,560	30%
6/30/2009	33,381	16,368*	49%
6/30/2010	38,599	17,027*	44%

* *Amount represents the annual required employer contributions based on the Board adopted contribution rates in the absence of the City's elected lump sum payment. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at $17,647 and $16,859 for fiscal years ended June 30, 2010 and 2009, respectively; see Note 6 in the financial statements for more information. Annual required employer contribution also includes the actuarially determined implicit subsidy amounts of $1,551 million for 2007 and 2008; $1,648 million for 2009; and $3,987 million for 2010.*

Other Supplemental Information

Market Value of Assets Schedule Of Funding Progress – Defined Benefit Pension Plan (Unaudited)

The Defined Benefit Pension Plan's funded status prepared by the System's actuary is based on the actuarial value of assets. The actuarial value of assets differs from the market value of the System's assets in that the actuarial value of assets includes five year smoothing of investment returns. As a result of recent investment losses the actuarial value of assets exceeded the market value of assets by 24% as of June 30, 2009. The divergence between the actuarial value of assets and the market value of assets has caused a variance of 17% between the funded ratios calculated under the two bases. As of June 30, 2009, the System's most recent valuation the funded ratio of the Defined Benefit Pension Plan was 71% compared to a funded ratio of 54% on a market value of assets basis. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of asset basis as of June 30, 2009, is as follows:

(Dollars in thousands)

Plan Year Ending	Market Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded (AAL/UAAL)	Funded Ratio	Annual Covered Payroll (a)	UAAL as a % of Covered Payroll
6/30/2003	$ 1,134,733	$ 1,311,691	$ 176,958	87%	$ 292,961	60%
6/30/2005	1,418,004	1,711,370	293,366	83%	286,446	102%
6/30/2007	1,747,807	1,960,943	213,136	89%	291,405	73%
6/30/2009	1,336,852	2,486,155	1,149,303	54%	308,697	372%

The Postemployment Healthcare Plan actuarial value of assets is currently based on the market value of assets.

(a) Annual covered payroll represents the actuarial estimate of annual payroll for the subsequent year for the plan year's ended June 30, 2007 and prior. The amount presented for the plan year ended June 30, 2009 represents actual annual covered payroll.

Other Supplemental Information *(Continued)*

Combining Schedule of Defined Benefit Pension Plan Net Assets (Unaudited)

June 30, 2010

(Dollars in thousands)

	Retirement Fund	Cost-of-LivingFund	Total
Assets:			
Receivables:			
Employee contributions	$ 497	$ 150	$ 647
Employer contributions	2,116	634	2,750
Brokers and others	1,041	339	1,380
Accrued investment income	4,050	1,372	5,422
Total receivables	**7,704**	**2,495**	**10,199**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	439,363	160,642	600,005
International fixed income	4,713	1,723	6,436
Collective short-term investments	43,235	15,808	59,043
Corporate convertible bonds	31,153	11,390	42,543
Pooled fixed income	13,811	5,050	18,861
Domestic equity	77,989	28,514	106,503
International equity	128,951	47,147	176,098
Pooled global equity	268,840	98,293	367,133
Private equity	47,907	17,516	65,423
Forward international currency contracts, net	332	121	453
Real estate	48,862	16,554	65,416
Securities lending collateral investment pool	120,696	40,926	161,622
Total investments	**1,225,852**	**443,684**	**1,669,536**
TOTAL ASSETS	**1,233,556**	**446,179**	**1,679,735**
Liabilities:			
Payable to brokers	858	291	1,149
Securities lending collateral due to borrowers	120,696	40,926	161,622
Other liabilities	3,680	482	4,162
TOTAL LIABILITIES	**125,234**	**41,699**	**166,933**
Net Assets Held In Trust For:			
Pension Benefits	1,108,322	404,480	1,512,802
TOTAL NET ASSETS	**$ 1,108,322**	**$ 404,480**	**$ 1,512,802**

Other Supplemental Information *(Continued)*

Combining Schedule of Changes In Defined Benefit Pension Plan Net Assets (Unaudited)

For fiscal year ended June 30, 2010

(Dollars in thousands)

	Retirement Fund	Cost-of-LivingFund	Total
Additions:			
Contributions:			
Employee	$ 10,336	3,060	13,396
Employer	42,053	12,513	54,566
Total contributions	**52,389**	**15,573**	**67,962**
Investment income:			
Net appreciation in fair value of investments	125,855	39,521	165,376
Interest income	18,560	6,221	24,781
Dividend income	6,148	2,067	8,215
Net rental income	1,678	563	2,241
Less investment expense	(3,741)	(1,285)	(5,026)
Net investment income before securities lending income	**148,500**	**47,087**	**195,587**
Securities lending income:			
Earnings	1,576	537	2,113
Rebates	116	39	155
Fees	(75)	(25)	(100)
Net securities lending income	**1,617**	**551**	**2,168**
Net investment income	**150,117**	**47,638**	**197,755**
TOTAL ADDITIONS	**202,506**	**63,211**	**265,717**
Deductions:			
Retirement benefits	77,209	20,901	98,110
Death benefits	4,734	2,849	7,583
Refund of contributions	1,087	132	1,219
Administrative expenses and other	1,965	676	2,641
TOTAL DEDUCTIONS	**84,995**	**24,558**	**109,553**
NET INCREASE	**117,511**	**38,653**	**156,164**
Net Assets Held In Trust For Pension Benefits			
Beginning of year	990,811	365,827	1,356,638
END OF YEAR	1,108,322	404,480	1,512,802

Other Supplemental Information *(Continued)*

Schedule of Administrative Expenses and Other

For fiscal years ended June 30, 2010 and 2009

	2010			2009
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personal services	$ 2,211,702	$ 1,808,911	$ 402,791	$ 1,598,078
Non-personal/equipment	830,421	571,308	259,113	377,475
Professional services	519,023	441,320	77,703	264,452
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 3,561,146**	**$ 2,821,539**	**$ 739,607**	**$2,240,005**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Equity:		
Domestic equity	$ 1,200,180	$ 1,093,375
International and emerging equity	1,369,424	1,308,407
Private equity	450,248	1,223,062
TOTAL EQUITY	**3,019,852**	**3,624,845**
Fixed Income:		
Domestic fixed income	1,052,387	1,116,729
Global fixed income	296,337	367,968
TOTAL FIXED INCOME	**1,348,724**	**1,484,697**
Real Estate	561,178	1,664,932
TOTAL INVESTMENT MANAGERS' FEES	**4,929,754**	**6,774,473**
Other Investment Fees:		
Investment consultant	375,231	400,000
Proxy voting	14,496	14,000
Real estate legal fees	22,335	5,332
Real estate appraisals	4,750	-
Investment legal fees	25,362	34,202
TOTAL OTHER INVESTMENT SERVICE FEES	**442,173**	**453,534**
TOTAL INVESTMENT EXPENSES	**$ 5,371,927**	**$ 7,228,007**

Other Supplemental Information *(Continued)*

Schedule of Payments to Consultants

For fiscal years ended June 30, 2010 and 2009

Firm	Nature of Service	2010	2009
Financial Knowledge/Peter Sepsis	Educational Services	$ 43,795	$ 55,994
Gabriel, Roeder, Smith & Company	Actuarial Consultant	193,658	52,345
Ice Miller	Legal Tax Counsel	3,690	-
Legal - City Attorney's Office	Legal Counsel	54,771	-
Levi, Ray, & Shoup	Web Development and maintenance	11,265	12,259
Levi, Ray, & Shoup	Programming changes and business continuance services	18,172	16,195
Macias Gini & O'Connell LLP	External Auditors	40,734	33,585
Medical Director/Other Medical	Medical Consultant	37,851	43,409
Pension Benefit Information	Reports on Deceased Benefit Recipients	2,051	1,832
Robert Half Mangement Resources	Temporary Staff	5,535	-
Saltzman & Johnson	Legal Counsel	24,018	30,702
The Segal Company	Operational & HIPPA compliance Audit	-	12,250
Wilfred Jarvis Institute	Organizational Consultant	5,781	5,881
TOTAL		**$ 441,320**	**$ 264,452**

Investment Section

Report on Investment Activity

Maketa Investment Group
5796 Armada Drive, Suite 110
Carlsbad CA 92008
Phone 760 795 3450
Fax 760 795 3445
www.meketagroup.com

September 27, 2010

Mr. Russell Crosby
Director of Retirement Services
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Crosby:

Fiscal year 2010 began with strong returns for risky assets, and ended with investors questioning the outlook for future economic growth. The National Bureau of Economic Research recently declared that the recession which began in January 2008 had ended in June 2009. The recession lasted 18 months, the longest of any recession since World War II.

At the beginning of the fiscal year, global equity markets extended their rally, posting double-digit returns. Government programs such as "Cash for Clunkers" and the "First Time Home Buyer Credit" helped increase demand as private consumption continued to be weak. By the end of the year, economic, fiscal, and regulatory issues returned to weigh on financial markets. Events such as the oil spill in the Gulf of Mexico, Eurozone debt default fears, the SEC's decision to sue Goldman Sachs for fraud, and evidence of a flagging recovery in the U.S. and abroad rattled investors, hurting "riskier" asset classes such as stocks, and generally benefiting bonds.

Throughout the year, consumer debt levels remained high; household debt as a percentage of GDP remains well above its historic mean. The unemployment rate ended the fiscal year at 9.5%, also well above its historic mean, but at a level that was slightly lower than earlier in the year. Corporate profits were one bright spot, growing throughout the year, though much of those gains were achieved through cost cutting rather than revenue growth.

After reaching a seventeen-month peak in April, U.S. equities declined sharply in the second quarter of 2010, returning -11.3%, and bringing the fiscal year return to 15.7%. Every sector in the S&P 1500 posted negative returns during the second quarter of 2010, with seven of ten down more than 10%, though nine out of the ten sectors were positive for the fiscal year, with many posting double-digit returns. For the year, small cap stocks outperformed large cap stocks, and value strategies outperformed growth strategies. With the sharp pullback in stocks during the second quarter of 2010, the trailing five-year return of the broad domestic equity market turned slightly negative.

The engine of world growth continues to be in the developing world, primarily the BRIC countries (Brazil, Russia, India, and China), which were less affected by the global credit crisis and appeared to recover more rapidly than their developed counterparts. Internationally, emerging markets outperformed developed markets by nearly a factor of four during the year, as the MSCI EAFE and the MSCI Emerging Markets Indexes rose 5.9% and 23.2%, respectively. International small cap stock returns fell in between, at 12.3% for the year. Despite underperforming the domestic equity market by 980 basis points over the fiscal year, the developed international market has outperformed by 1.4% annually over the past five years.

Toward the end of the fiscal year, U.S. Treasuries benefited from a "flight to quality," stemming from the European debt crisis and concerns over the strength of the global economic recovery. The yield on the 10-year U.S. Treasury bond fell slightly, while performance for TIPS and investment grade bonds were both 9.5% for the year. Short-term cash rates remained close to zero as the central bank continued to maintain the Fed Funds rate in a range of 0% to 0.25%. As of the end of June, the yield spread between 10-year TIPS and nominal Treasuries implied an expected annual inflation rate of about 1.8% over the next ten years.

High yield bonds were up 26.8% for the year, but saw their first negative return in six quarters during the second quarter of 2010. Credit spreads for high yield bonds ended the fiscal year at 80 basis points above the trailing ten-year average of 6.2% over Treasuries.

In the alternative assets space, commodities, as proxied by the Dow Jones-UBS Commodity Index, rose 2.6% for the year. The Hedge Fund Research Institute Fund of Funds Index rose 4.5%, and the National Association of Real Estate Investment Trusts Equity Index returned an impressive 53.9%.

Overall, Meketa Investment Group expects continued volatility as governments wind down their fiscal stimulus programs, central banks struggle with additional monetary stimulus, and jobs growth remains muted in the face of continuing deflationary pressures.

Plan Investment Results and Asset Allocation

For fiscal year 2010, the San Jose Federated City Employees' Retirement System (the "Retirement System") returned 15.4% net of fees, while the policy benchmark, which reflects the Retirement System's prior asset allocation, returned 11.7%. The Retirement System also outperformed the median fund in the State Street Master Trust Universe, which returned 13.1% for the fiscal year.

During the first quarter of 2010, the Board of Trustees adopted a new asset allocation in response to the results of an asset-liability study, and in order to position the Retirement System to better weather future market downturns. The transition to the new asset allocation began at the end of March 2010. As of June 30, 2010, much of the Retirement System's assets were invested in index funds and optimized portfolios designed to earn index returns, as the Board of Trustees is in the process of selecting active managers for several asset classes.

The newly adopted asset allocation increased the percentage of Retirement System assets to be invested in alternative assets, including commodities, private markets strategies, and opportunistic investments. Funds reserved for these assets classes were largely invested in intermediate-term government bonds during the second quarter of 2010, insulating the Retirement System somewhat from the market weakness of that time period. The Retirement System's performance during the second quarter of 2010, subsequent to the transition, was -3.3%, compared to -5.7% for the policy benchmark and -4.4% for the State Street Master Trust Universe Median.

The Retirement System Staff and Board of Trustees accomplished a great deal from an investment standpoint during fiscal year 2010 through the adoption of the new asset allocation, which aims to better position the Retirement System for potential future market environments. During fiscal year 2011, Meketa Investment Group looks forward to working with Staff and the Board of Trustees to further implement the new asset allocation and enhance the investment manager roster, so that the Retirement System can continue to meet its obligations to participants.

Sincerely,

Leandro Festino, CFA, CAIA
Associate Principal

Stephen P. McCourt, CFA
Managing Principal

Laura Wirick, CFA
Senior Associate

Statement of Investment Policy

General Environment

It is the policy of the San Jose Federated City Employees' Retirement System (SJFCERS) to effect economy and efficiency in the public service by providing a means whereby career employees or employees who have become incapacitated may leave public service without hardship or prejudice, and to that end provide a retirement system consisting of retirement allowances and death benefits.

Investments in such retirement system are subject to the restrictions specified in the San Jose Retirement Code sections 3.24.350, 3.24.360, 3.28.350 and 3.28.355. Further investment management guidelines are imposed by the San Jose Federated City Employees' Retirement Board ("Board"). The Board retains its official oversight of the System but has designated the Investment Committee to act as a conduit for investment issues to be presented to the Board.

Purpose

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

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- Setting forth an investment structure for managing the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the investment system that control the level of overall risk and liquidity assumed in that system, so that all the System's assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- Complying with applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

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

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

(1) Attempt to ensure that the Retirement System is sufficiently funded to assure that all present and future disbursement obligations will be met.

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

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

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

Asset Allocation Policy

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

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

Starting from March 2010 the following asset allocation is in effect:

Traditional Asset Allocation

Asset Class	Minimum	Target	Maximum
Global Equity	43%	49%	55%
Fixed Income	15%	20%	25%
Alternatives	26%	31%	36%

Statement of Investment Policy *(Continued)*

Alternative Asset Allocation

Sub-Asset Class	Minimum	Target	Maximum
Real Estate	0%	5%	8%
Real Assets	0%	10%	15%
Hedge Funds	0%	5%	8%
Private Equity	0%	6%	9%
Opportunistic	0%	5%	8%

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

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

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected return and standard deviation for each asset category and the expected correlation coefficients among asset classes. When these presumptions change, the policy needs to be re-evaluated and possibly modified to compensate for those changes.

Time Horizon

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

Risk Tolerances And Volatility

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

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

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

Re-balancing of Strategic Allocation

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

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

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

(1) When the allocation to a particular asset class deviates from its target, the asset class will be re-balanced to within the policy range over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.

(2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio, which will result in the manager's portfolio coming within the specific target range.

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

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

(5) Rebalancing for asset classes that have deviated from their targets, but are still within their respective target ranges, may remain at their allocations if the Director and Consultant determine it would not be detrimental to the overall portfolio.

Statement of Investment Policy *(Continued)*

Liquidity

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

Diversification

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

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

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

General

Every investment manager selected to manage the System's assets must adhere to the following guidelines.

- The investment manager will at all times be expected to exercise due diligence regarding his/her account and to perform in a prudent manner and within the specific terms of appointment.
- The manager will have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, and the executed contract.
- Benchmarks shall be specified for the investment manager. It is expected that the managers will adhere to the style concepts and the investment principles that were in use at the time the Board appointed the firm to manage a portion of the System's assets.
- It is the Board's desire that an investment manager be fully invested in his/her own asset class. However, the manager shall retain the discretion to invest a portion of the assets in cash reserves. The Board prefers that the managers hold under 6-7% cash. Any manager who holds over 7% in cash on average over two months shall notify staff in writing. If market conditions dictate, the manager may exceed 10% cash holdings with written approval of the Director of Retirement Services. The manager will be evaluated against their peers on the performance of the total assets under their management. Any intent to deviate from this strategy should be communicated to the Board prior to implementation.
- Turnover standards shall be set whenever it is appropriate to the investment manager's style, the asset class, or the return target. Trading expenses shall be minimized and managed by the investment manager and all transactions shall be governed by general "best execution" guidelines.
- Transactions that would jeopardize the tax-exempt status of the System should not be undertaken.
- The Board has the authority to "vote" on all issues presented to stockholders, but as a matter of practice will designate an authorized third party to vote the proxies. It is expected that the designee will vote for the sole purpose of benefiting the beneficiaries of the System and in accordance with the adopted general proxy voting guidelines.
- The investment manager is expected to comply with all laws, regulations, and standards of ethical conduct.

Global Equity Investments

The primary emphasis of the global equity portfolio should be on high quality, readily marketable securities. The investment managers employed to manage equity securities will have discretion in the day-to-day management of funds under their control, subject to the following guidelines:

(1) Global equity securities (with the exception of preferred stocks) shall be traded on a national exchange (including NASDAQ) and be substantially diversified.

- The number of issues held, their geographic and economic sector diversification shall be left to the investment manager's discretion provided, however, that the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

(2) The following transactions are prohibited:

- Purchase of stocks that are not publicly traded.
- Purchase of restricted stock.
- Short sales and purchases of securities on margin.

Statement of Investment Policy *(Continued)*

(4) American Depository Receipts (ADR's) and Real Estate Investment Trusts are permitted equity investments.

(5) The manager may enter into currency exchange contracts (forward exchange or future) provided that such contracts have a maximum maturity of one year. Furthermore, any currency hedging shall be limited to a defensive posture only. The use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. There shall be no direct foreign currency speculation or any related investment activity. Cross-hedging will be permitted. Securities held in the portfolio may be denominated in any currency at the discretion of the investment manager. The investment manager will include in his/her quarterly report to the Director of Retirement Services and the Board a report on the status of the outstanding hedged positions.

Cash Investments

The following investment vehicles are approved for the investment of short-term funds of the System:

(1) All U.S. Government and federal agency issues.

(2) All U.S. Dollar denominated foreign commercial paper that is rated either A1 or P1 by Moody's or by Standard & Poor's. If the issuer had public debt outstanding, said debt should not be rated below the top three letter ratings (AAA, AA, A) of either Moody's or Standard & Poor's.

(3) If the issuer of commercial paper (CP) is a bank, purchase of its CP is approved only when purchase of its certificates of deposit (CD's) is also approved.

(4) Domestic and foreign Certificates of Deposit (CD's) and Banker's Acceptances.

(5) Repurchase Agreements with banks and with broker-dealers registered under the Securities and Exchange Act of 1934.

(6) Reverse Repurchase Agreements - Only upon the specific approval of the Retirement Board.

(7) Insured time deposits.

(8) The custodial bank's Short Term Investment Fund provided that said Fund satisfies the requirements of 1 through 7 above.

Investment Grade Fixed Income

The investment grade fixed income portion of the System's assets shall generally be invested in investment grade, marketable, fixed-income securities, although up to 10% investment in below investment grade securities will be permitted with written authorization of the Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control. The following instruments are acceptable for purchase:

(1) Commercial Paper or Variable Rate notes of P-1 or equivalent rating. Pools containing lower quality issues of this security type (P-2 and P-3 or equivalent ratings) may be used where diversification reduces the quality risk.

(2) Certificates of Deposit and Bankers Acceptances.

(3) United States Treasury Bonds, Notes, and Bills.

(4) Repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral. No reverse repurchase agreements will be allowed without specific written approval by the Board.

(5) Debt instruments of the U.S. Government or its agencies.

(6) "Yankee" bonds issued by foreign countries and denominated in dollars so long as they are rated Baa/BBB or better by Moody's or Standard & Poor's.

(7) Investment grade U.S. pay corporate debt issues including those rated Baa/BBB or better by Moody's or Standard & Poor's. Should a current holding fall below this standard, the manager shall immediately notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. However, investments in non-investment grade securities of BB or B classification will be permitted up to 10% with written authorization of the Board.

The Fixed-Income investments shall be appropriately diversified. The investment manager may engage in "active" bond management and it is therefore anticipated that there may be turnover as shifts are made between and within sectors, quality and maturity.

No more than 10% of a single manager's assets shall be invested in securities of any single issuer with the exception of the U.S. Government and its agencies.

High Yield Fixed Income and Bank Loans

The High Yield Bonds and Bank Loans portion of the plan assets shall be invested predominantly in below investment grade securities and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of funds under their control. The High Yield and bank loan managers shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

(1) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and Non-dollar corporate bonds (which should be hedged), Private placement securities, Bank loans, participations and assignments.

(2) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds/ euro bonds).

(3) U.S. Treasury futures, Currency forward or futures contracts, and Credit default swaps may be used for hedging purposes.

(4) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.

(5) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

Convertible Bonds

The Convertible Bonds portion of the plan assets shall be invested predominantly in convertible securities.
The Manager may invest in investment grade or below investment grade U.S. and non- U.S. convertible securities, including convertible bonds, convertible preferred stock, bonds or preferred stock with warrants, and zero-and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of funds under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard. Other eligible investments are U.S. Treasuries, U.S. corporate bonds, (including zero-coupon, step-up, toggle and pay-in-kind bonds), non-U.S. corporate bonds, private placement securities, bank loans, participations, and assignments.

(2) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds/ euro bonds).

(3) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.

(4) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.

(5) The portfolio shall be appropriately diversified by the number of issues held, sector, industry, and country weightings, consistent with the manager's stated investment approach.

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 debt instruments shall be defined as first mortgages.

(3) The fund shall at no time invest directly more than 5% of the Fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of the instrument.

Private Equity

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-U.S. investments. Investments may be made in secondary investments on an opportunistic basis.

It is expected that these investments will typically be structured as Limited Partnerships, with the System serving as one of the Limited Partners, but not as a General Partner. It is also expected that the System will not engage in direct investments or co-investments, in which the System would purchase majority control in individual corporate entities, unless authorized by the Board.

Opportunistic Strategies

Investment in any of the instruments or vehicles allowed in other sections is also allowed in this section. Other investments are acceptable as long as they are approved by the Board in writing. In addition, investment in the credit market is also allowed and may be implemented through:

1. Pooled funds; Separate accounts; Limited Partnerships; or Limited Liability Companies;
2. Credit linked notes;
3. Direct investment.

Absolute Return

Absolute Return Funds, also called Hedge Funds, are private investment vehicles that may not be registered with the U.S. Securities and Exchange Commission (SEC); they may be offered in Limited Partnerships or Limited Liability Company form.

The allowed Absolute Return Strategies include but are not limited to :

1. Any of the following single strategies:
   a. Equity long/short including Absolute Return Strategies specializing in Emerging Markets, Market Capitalization, Regional, Sectoral or Global Market subsets;
   b. Equity Market timing;
   c. Short or dedicated short;
   d. Distressed securities;
   e. Merger Arbitrage;
   f. Event driven or Risk Arbitrage;
   g. Fixed Income Arbitrage;
   h. Convertible Bond Arbitrage;
   i. Equity Market Neutral;
   j. Statistical Arbitrage;
   k. Relative Value Arbitrage;
   l. Global Macro or Global Tactical Asset Allocation;
   m. Managed Futures and Commodity Trading Advisors (CTA's).
2. Multi-Strategy or Fund of Funds are also allowed and combine several individual Absolute Return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed, through both direct investments and through equity investments in companies that are involved with the following strategies:

a. **Commodities**
   The strategy targets liquid investments in the commodities markets via derivatives (e.g. futures and swaps). Certain strategies may also include, to a lesser extent, investment in physicals for forward delivery. Exposure includes four major commodity market sectors: Energy, Agriculture/Livestock, Industrial Metals, and Precious Metals. Expected total return is due primarily to spot price appreciation; secondarily to contract roll forward dynamics, or the differential between spot and future price (between near and longer term contracts); and thirdly to modest collateral income.

The Real Asset program may employ both passive and active commodity management. Examination of cash collateral, in particular the quality of fixed income market exposure, will be considered in risk mitigation.

b. **Energy**
   The strategy targets both public and private energy-related entities. The Energy investment strategy consists of three segments: upstream, midstream, and downstream businesses. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific Energy market segment. Investments may include both traditional (oil, natural gas, coal) & alternative (wind, solar) energy sources.

The Upstream Investment Strategy focuses on the production of oil and gas, and includes petroleum Exploration and Production (E&P) businesses and power generation.

The Midstream Investment Strategy focuses on transporting the upstream products from the source to the end user, and includes storage and processing, as well as oilfield services (the equipment and services required to produce petroleum) and electricity transmission equipment and services. Midstream assets include pipelines, gathering and storage facilities, refining, power lines, and transformer stations. Services are also considered midstream elements, such as oilfield equipment like drill bits, drill rigs, well trees, and geologic and mapping services.

The Downstream Investment Strategy focuses on the end users of upstream production. Power generation is an end user of petroleum products, while households and businesses are the downstream users of power generation. Downstream assets can also be local distribution centers, such as home heating oil distributors or gas stations.

Each segment of the strategy has different investment characteristics, income profiles, and risks.

c. **Metals & Mining**
Public equities in the Industrial and Precious metals-related industries. Investment opportunities include large core diversified global conglomerates and more specific, concentrated investments. Supply chain position may include upstream, midstream, and downstream companies. Expected total return is due primarily to appreciation and some income.

d. **Public Agriculture-related**
These investments are made primarily in Agriculture-related companies. Exposure may include both traditional agriculture and livestock investments and renewable energy sources. Supply chain position may include upstream, midstream, and downstream companies. Equity-based agriculture exposure ranges from upstream producing companies (i.e. growers) or those who are closely related to them, such as seed and agricultural chemicals companies, to downstream packaged foods producers. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific market segment. Expected total return is due primarily to appreciation and some income.

e. **Timberland**
The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments may include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

f. **Infrastructure**
Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports); regulated utilities (e.g. gas pipelines; water/sewer treatment facilities); and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

Typically, infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, and significant regulatory or permitting constraints.

g. **Farmland/Agribusiness**
This investment strategy targets the market segment of agriculture. Farmland consists of two main property types: row and permanent crop properties. Row crops are harvested from soil and are categorized as commodity, (corn and soybean) and vegetable, (potatoes and lettuce). Permanent crops grow on trees and have three categories: citrus fruit, (oranges and grapefruits); fruit, (apples and grapes); and nuts.

h. This investment strategy targets the market segment of water-related infrastructure, assets, and properties. Investors may soon view water as an increasingly scarce commodity, not unlike oil. Increasingly stringent water quality standards and the adaptation of water systems to meet changing climactic and hydrological conditions may result in investment opportunities in the water industry.

Statement of Investment Policy *(Continued)*

Supervision

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

Brokerage Policy

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

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

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

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

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

Performance Objectives

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

Total Fund Investments

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

Benchmark
Russell 3000
MSCI ACWI
MSCI EAFE
MSCI Emerging Markets
Barclays Capital Aggregate Bond Index
Credit Suisse First Boston Leveraged Loan Index
Merrill Lynch High Yield Master Index
Merill Lynch Global 300 Convertible Index
NCREIF Property Index
Venture Economics Private Equity Index
Hedge Fund Research Institute Equity Hedge Index

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

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

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception.

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

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

Statement of Investment Policy *(Continued)*

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

Passive Fixed Income Investments

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

Active Fixed Income Investments

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

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

Global Equity Investments

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

(1) Achieve returns which exceed an appropriate index, (i.e. Russell 3000, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Passive Equity Investment

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

Global and International Equity Investments

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

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

High Yield and Bank Loan Investments

The objective for the investment managers of the High Yield and Bank Loan component of the total portfolio are:

(1) Achieve rates of return, which exceed an appropriate index (i.e. Merrill Lynch US High Yield Master Index, CSFB Leveraged Loan Index) over rolling five year time periods net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Convertible Bond Investments

The objective for the investment managers of the Convertible Bond component of the total portfolio are:

(1) Achieve rates of return, which exceed the Merrill Lynch Global 300 Convertible Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Real Estate Investments

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

Private Equity Investments

(1) Achieve returns, which exceed an appropriate index (i.e., Venture Economics Private Equity Index) net of fees over a five-year market cycle.

Real Assets

(1) Achieve returns which exceed an appropriate index (i.e., Dow-Jones UBS Commodity Index, SSgA Brookfield Infrastructure Index) net of fees over a five-year market cycle.

Hedge Funds

(1) Achieve returns which exceed an appropriate index (i.e., HFRI Equity Hedge Index) net of fees over a five-year market cycle.

Monitoring of Money Managers

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance should be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles. In addition, man-

Statement of Investment Policy *(Continued)*

ager holdings will be periodically monitored to ensure that they are adhering to expected investment styles and disciplines.

On a timely basis, the Board shall meet to focus on:

- Manager's adherence to the IPS guidelines;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups as described in the performance objectives and control section.

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

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the System's investment managers will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Periodic Reviews of Manager Performance

The performance of each manager should be reviewed versus its benchmark at least every quarter. These benchmarks will normally consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark net of fees and each manager should be above the median of an appropriate universe over most full market cycles.

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

All managers will be reviewed continuously by the Consultant, Staff, and the Director. Underperforming managers will be reviewed on a case by case basis, and written records shall be kept. All managers are subject to termination at the Board's request, based on advice from the Consultant, Staff, and the Director.

Extraordinary Reviews of Managers

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

Please visit *http://www.sjretirement.com/Fed/Investments/Investments.asp* for a complete and most current Statement of Investment Policy.

Investment Professionals

Global Equities

Russell Investments
MSCI EAFE Growth Index
MSCI EAFE Small Cap Index
MSCI ACWI Value Index
Tacoma, WA

Northern Trust Global Investments
MSCI Emerging Markets Index
MSCI ACWI ex-U.S. Index
Chicago, IL

Domestic Equities:

Calamos Investments
Convertible Bonds
Naperville, IL

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

Northern Trust Global Investments
Russell 3000 Index
Chicago, IL

Private Equities:

Great Hill Partners
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Partners Group
New York, NY

Pathway Capital Management, LLC
Irvine, CA

Domestic Fixed Income:

MacKay Shields
High Yield
New York, NY

Northern Trust Global Investments
Barclays Credit Index
Chicago, IL

Russell Investments
Barclays US TIPS Index
Barclays Intermediate Government Bond Index
Tacoma, WA

Seix Investment Advisors
Bank Loans
Upper Saddle River, NJ

Infrastructure:

Russell Investments
S&P Global Infrastructure Swap/Index
Tacoma, WA

Commodities

Russell Investments
Dow Jones-UBS Commodities Swap/Index
Tacoma, WA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

MIG Realty Advisors
Cleveland, OH

Prudential Real Estate Investors
Newark, NJ

Investment Consultant

Meketa Investment Group
Westwood, MA

Custodian

The Northern Trust
Chicago, IL

Proxy Voting

Glass Lewis & Company LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2010

	One Year	Three Years	Five Years
Total Fund (gross of fees)	**15.9%**	**-2.2%**	**3.7%**
Total Fund (net of investment expense)	**15.4%**	**-2.5%**	**3.3%**
Total Fund (net of investment, admin., securities lending, and SRBR expenses)*	**15.3%**	**-2.8%**	**3.1%**
Benchmark	11.7%	-2.8%	3.0%
State Street Master Trust Median	13.1%	-3.1%	3.0%
Total Global Equity	**N/A**	**N/A**	**N/A**
MSCI ACWI	11.8%	-10.5%	1.2%
ICC International Equity Median	10.6%	-10.5%	3.4%
Total Domestic Fixed Income	**14.1%**	**8.1%**	**6.2%**
Barclays Universal	10.6%	7.2%	5.6%
ICC US Fixed Income Median	13.0%	7.5%	6.0%
Total Real Estate	**-10.7%**	**-9.2%**	**1.1%**
NCREIF Property Index	-1.5%	-4.7%	3.8%
ICC Real Estate Fund Median	-29.3%	-2.8%	5.5%
	One Quarter	**One Year**	**Three Years**
Total Private Equity	**2.8%**	**9.1%**	**-1.8%**
S&P 500 + 300 basis points	-10.7%	17.4%	-6.8%

*Source: Federated City Employees' Retirement System

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Performance Evaluation Report dated June 30, 2010

Schedule of Investment Results *(Continued)*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2010

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

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

	One Quarter		(Inception 11/09)
Global Equity Managers			
Calamos Investments (Global Convertibles)	**-4.4%+**		**2.7%-**
Merrill Lynch Global 300 Convertible Index	**-4.8%**		4.1%
	One Year	**Three Years**	**Five Years**
Eagle Asset Management (Small Cap Growth)	**27.7%+**	**-4.7%+**	**4.9%+**
Russell 2000 Growth Index	18.0%	-7.5%	1.1%
	(Inception 6/10)		
Northern Trust (MSCL ACWI Index)	**-3.1%-**		
MSCI ACWI Index	-3.0%		
	One Year	**Three Years**	**Five Years**
Northern Trust (Russell 3000 Index)	**16.3%+**	**-9.3%+**	**-0.3%+**
Russell 3000 Index	15.7%	-9.5%	-0.5%
	(Inception 6/10)		
Russell Investments (MSCI All Country World Value Index)	**-3.3%=**		
MSCI ACWI Value Index	-3.3%		
Russell Investments (MSCI EAFE Growth Index)	**-0.2%-**		
MSCI EAFE Growth Index	-0.1%		
Russell Investments (MSCI EAFE Small Cap Index)	**-1.2%-**		
MSCI EAFE Small Cap Index	-0.4%		
Northern Trust (MSCI Emerging Markets Index)	**-0.8%-**		
MSCI Emerging Markets Index	-0.7%		
	(Inception 5/10)		
Fixed Income			
Northern Trust (Credit Bond Index)	**3.2%+**		
Barclays Credit Index	1.6%		

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Performance Evaluation Report dated June 30, 2010

Schedule of Investment Results *(Continued)*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

For Periods Ending June 30, 2010

Fixed Income (continued)			
	(Inception 6/10)		
Russell Investments (Barclays Intermediate Government Bond)	**1.3%=**		
Barclays IT Government Index	1.3%		
Russell Investments (Barclays U.S. TIPS)	**1.5%+**		
Barclays U.S. TIPS Index	1.4%		
	One Quarter	**One Year**	**(Inception 5/09)**
High Yield and Bank Loans			
MacKay Shields (High Yield Active Core)	**0.0%+**	**22.3%-**	**20.8%-**
Barclays High Yield Index	-0.1%	26.8%	32.8%
Seix Investment Advisors (Credit Dislocation Strategy)	**-1.5%-**	**8.4%-**	**9.7%-**
CS Leveraged Loan Index	-1.0%	17.7%	24.6%
	(Inception 5/10)		
Real Assets			
Russell Investments (Dow Jones-UBS Commodities)	**-6.7%-**		
Dow Jones-UBS Commodities Index	-6.6%		
Russell Investments (S&P Global Infrastructure)	**-11.5%-**		
S&P Global Infrastructure Index	-11.4%		
	One Quarter	**One Year**	**Three Years**
Real Estate			
American Core Realty Fund, LLC	**3.0%-**	**-12.1%-**	**-10.8%-**
NCREIF Property Index	3.3%	-1.5%	-4.7%
DRA Growth & Income V*	**0.8%-**	**-12.2%-**	**-4.9%-**
NCREIF Property Index	3.3%	-1.5%	-4.7%
	One Quarter	**One Year**	**(Inception 11/07)**
DRA Growth & Income VI*	**3.9%+**	**-0.7%+**	**-3.5%+**
NCREIF Property Index	3.3%	-1.5%	-6.5%
	One Quarter	**One Year**	**(Inception 9/07)**
Fidelity Growth Fund III*	**13.7%+**	**-42.4%-**	**-40.4%-**
NCREIF Property Index	3.3%	-1.5%	-5.0%

**Gross Performance*

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Performance Evaluation Report dated June 30, 2010

Schedule of Investment Results *(Continued)*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

For Periods Ending June 30, 2010

Real Estate (continued)			
	One Quarter	**One Year**	**Three Years**
GEAM Value Add Realty Partners, L.P.*	**7.5%+**	**-32.8%-**	**-20.5%-**
NCREIF Property Index	3.3%	-1.5%	-4.7%
	One Year	**Three Years**	**Five Years**
MIG Realty Advisors	**-15.1%-**	**-0.7%+**	**2.3%-**
NCREIF Property Index	-1.5%	-4.7%	3.8%
Prudential (PRISA I)	**-4.3%-**	**-13.9%-**	**-2.1%-**
NCREIF Property Index	-1.5%	-4.7%	3.8%

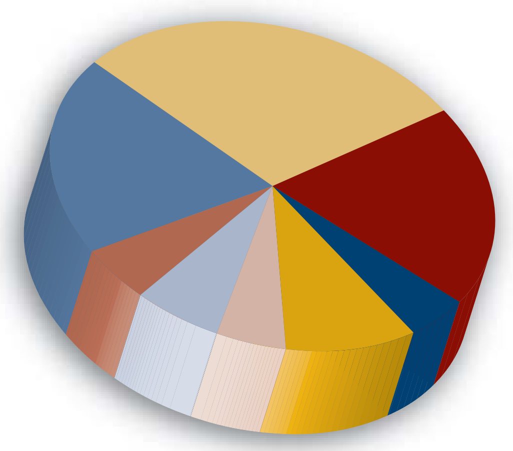
**Gross Performance*

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Performance Evaluation Report dated June 30, 2010

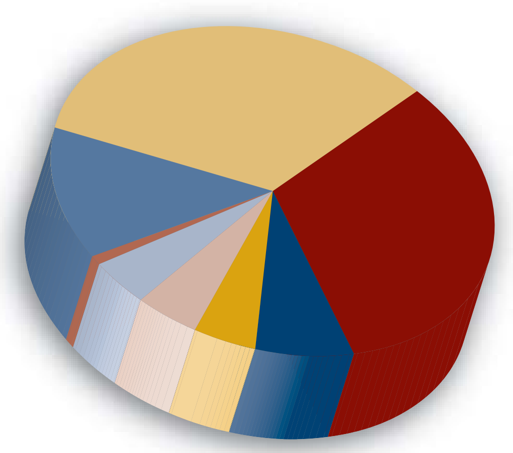
Investment Review

TARGET ASSET ALLOCATION *As of June 30, 2010*



Domestic Equity	20%
International Equity	29%
Fixed Income	20%
Real Estate	5%
Real Assets	10%
Hedge Funds	5%
Private Equity	6%
Opportunistic	5%

ACTUAL ASSET ALLOCATION (Dollars in Millions) *As of June 30, 2010*



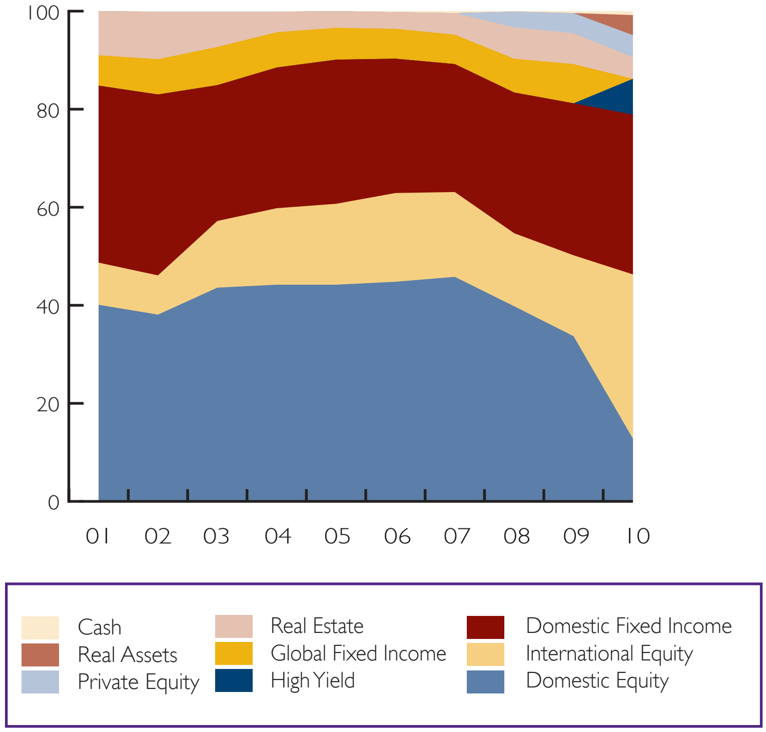
		$ in millions
Domestic Equity	12.8%	208.14
International Equity	33.5%	542.81
Domestic Fixed Income	32.6%	528.58
High Yield	7.3%	117.54
Real Estate	4.4%	70.71
Private Equity	4.5%	72.79
Real Assets	4.1%	66.74
Cash	0.8%	13.24
TOTAL	100%	$1,620.05

Non-GAAP Basis

Investment Review *(Continued)*

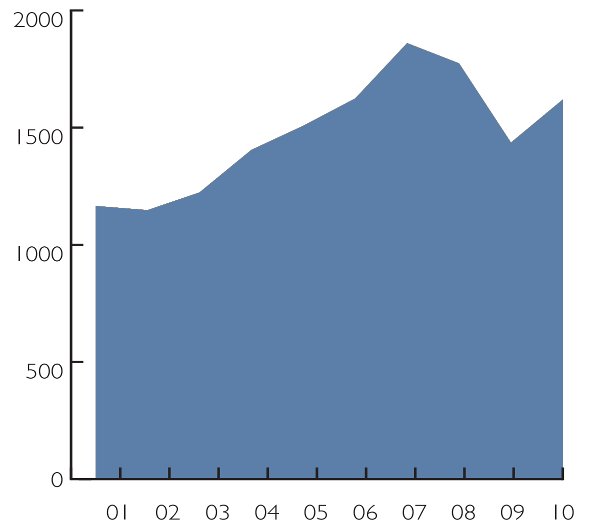
HISTORICAL ASSET ALLOCATION (Actual)

June 30, 2001- June 30, 2010



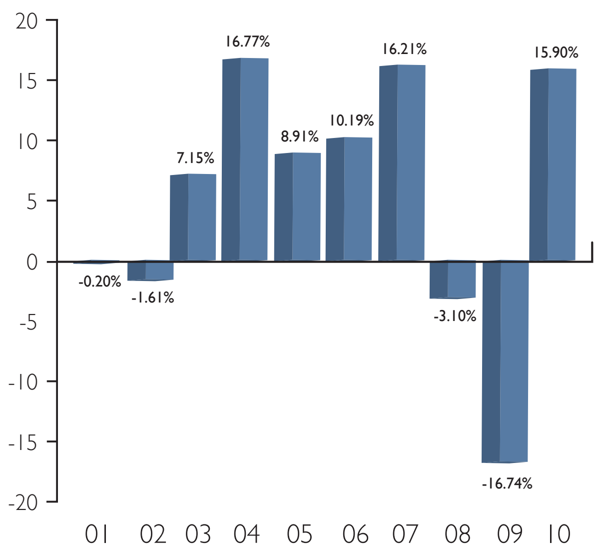
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2010 (Dollars in Millions)



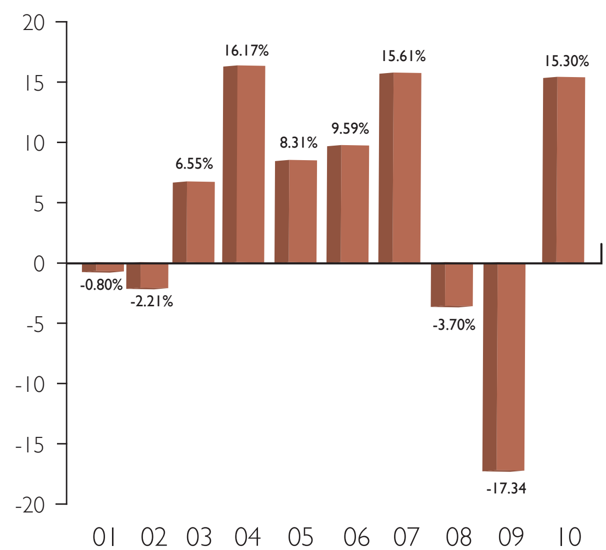
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2001 - 2010

(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2001 - 2010

(Based on Market Net Value)*



**Performance is net of Investment, Administrative, Securities Lending, and SRBR expenses.*

List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value)

As of June 30, 2010

Description	Country	Shares	Market Value (SUS)
EXXON MOBIL CORP COM	United States	56,800	$3,241,576
GENERAL ELECTRIC CO	United States	147,300	$2,124,066
THORATEC CORP	United States	47,695	$2,038,007
HSBC HLDGS ORD USD0.50(UK REG)	United Kingdom	221,296	$2,036,810
JPMORGAN CHASE & CO COM	United States	54,700	$2,002,567
PROCTER & GAMBLE CO COM	United States	33,200	$1,991,336
NESTLE SA CHF0.10(REGD)	Switzerland	40,092	$1,940,745
BANK OF AMERICA CORP	United States	134,700	$1,935,639
AT&T INC COM	United States	79,700	$1,927,943
WELLS FARGO & CO NEW COM STK	United States	66,800	$1,710,080

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS (By Market Value)

As of June 30, 2010

Description	Country	Maturity Date	Par Value	Market Value (SUS)
UNITED STATES OF AMER TREAS NOTES 1.375 NTS TIPS 1/15/2020	United States	1/15/20	95,000,000	$98,065,463
TSY INFL IX N/B INFLATION LINKED INDX DUE 04-15-2014 REG	United States	4/15/14	87,600,000	$94,202,989
US TREAS INFL INDEXED BONDS 2.375 DUE 01-15-2025 BEO	United States	1/15/25	50,400,000	$64,658,260
US TREAS NTS 1 DUE 03-31-2012	United States	3/31/12	17,000,000	$17,128,860
US TREAS NTS 1 DUE 03-31-2012	United States	3/31/12	17,000,000	$17,128,860
FFCB BD 3.5 10-03-2011	United States	10/3/11	6,690,000	$6,936,727
FHLMC PREASSIGN 00004 5.25 04-18-2016	United States	4/18/16	3,990,000	$4,581,226
BK OF AMER 3.125 DUE 06-15-2012 FDIC GTD	United States	6/15/12	4,300,000	$4,490,619
UNITED STATES TREAS NTS DTD 11/15/2009 3.375% DUE 11-15-2019 REG	United States	11/15/19	4,210,000	$4,360,310
FNMA PREASSIGN 00527 5 03-15-2016	United States	3/15/16	3,770,000	$4,287,006

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

As of June 30, 2010

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Domestic Equity	$ 208,138,000	$ 1,200,180	58
Private Equity	72,289,000	450,248	62
International Equity	542,810,000	1,369,424	25
Domestic Fixed Income	445,029,000	1,052,387	24
Global Fixed Income	267,833,000	296,337	11
Real Estate	70,712,000	561,178	79
Cash	13,238,000	-	N/A
Total	**$ 1,620,049,000**	**$4,929,754**	**30**

	Fees
Other Investment Service Fees	
Investment Consultant	$ 375,231
Proxy Voting	14,496
Custodian	-
Real Estate Legal Fees	22,335
Real Estate Appraisals	4,750
Investment Legal Fees	25,362
Total	**$ 442,173**

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
ABG SUNDAL COLLIER NORGE ASA, OSLO	3,340,000	$ 939.73	$ 0.00028
ABN AMRO INCORPORATED LLC	3,200	128.00	0.04000
ADP CLEARING & OUTSOURCING INC	1,300	52.00	0.04000
AQUA SECURITIES LP	400	8.00	0.02000
ASIEL & CO	400	16.00	0.04000
AVONDALE PARTNERS	5,820	179.50	0.03084
B			
B TRADE SERVICES	171,686	3,433.72	0.02000
BANK J.VONTOBEL UND CO. AG ZURICH	12,110	1,800.38	0.14867
BARCLAYS CAPITAL INC	3,919,926	21,436.63	0.00547
BARCLAYS CAPITAL INC LE	304,416	6,541.40	0.02149
BARCLAYS CAPITAL LE	2,296,719	6,222.61	0.00271
BARCLAYS CAPITAL SECURITIES LONDON	88,379,000	856.86	0.00001
BAYPOINT TRADING LLC	23,030	853.90	0.03708
BEAR STEARNS 57079	37,649	1,031.70	0.02740
BEAR STEARNS NEW YORK DTC 352	5,864,535	6,292.33	0.00107
BEAR STEARNS SECURITIES CORP	11,401,560	884.20	0.00008
BERNSTEIN, SANFORD C. & CO	353,014	5,091.74	0.01442
BLAIR, WILLIAM & CO	20,305	452.79	0.02230
BLOOMBERG TRADEBOOK LLC	314,768	6,295.36	0.02000
BMO CAPITAL MARKETS CORP.	31,270	1,250.80	0.04000
BNY ESI SECURITIES CO.	1,214,721	19,348.44	0.01593
BOENNING AND SCATTERGOOD	2,200	49.50	0.02250
BREAN MURRAY, FOSTER	5,480	164.40	0.03000
BROCKHOUSE & COOPER MONTREAL	2,526,000	7,085.39	0.00280
BROCKHOUSE COOPER BOLUS & MALAN SEC	11,700	149.97	0.01282
BUCKINGHAM RESEARCH GROUP	4,480	179.20	0.04000
C			
CABRERA CAPITAL MARKETS, INC	1,000	20.00	0.02000
CALYON SECURITIES USA INC	4,700	188.00	0.04000
CANACCORO ADAMS INC	22,314	672.32	0.03013
CANADIAN IMPERIAL BANK OF COMMERECE	32,120	611.31	0.01903
CANADIAN IMPERIAL BK OF COMM TORONT	529,426	6,589.83	0.01245
CANTOR FITZGERALD & CO	304,000	7,844.00	0.02580
CANTOR FITZGERALD 7310 – MIS BROKERS	37,054	741.08	0.02000
CANTOR FITZGERALD CO NEW YORK	9,100	182.00	0.02000
CAP INSTITUTIONAL SERVICES INC	297,987	10,268.82	0.03446
CARIS AND COMPANY INC 443	12,670	380.10	0.03000
CARNEGIE COPENHAGEN	3,990	567.89	0.14233
CAZENOVE & CO	178,270	1,399.51	0.00785
CAZENOVE INCORPORATED	600	12.00	0.02000

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
C (continued)			
CHEUVREUX DE VIRIEU PARIS	179,810	$ 5,170.43	$ 0.02875
CITIGROUP GLOBAL LTD BROKER	5,338,500	540.00	0.00010
CITIGROUP GLOBAL MARKETS INC	248,217,637	3,065.16	0.00001
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	436,842	10,747.49	0.02460
CLSA SECURITIES KOREA LTD	1,480	1,538.19	1.03932
CLSA SINGAPORE	1,181,600	1,414.03	0.00120
COLLINS STEWART INC.	569	17.07	0.03000
COLLINS STEWART LLC	1,600	64.00	0.04000
COWEN & CO NEW YORK	4,480	179.20	0.04000
COWEN LLC	31,615	1,244.10	0.03935
CRAIG HALLUM	55,946	1,600.50	0.02861
CREDIT LYONNAIS SECS. INC. NEW YORK	744,000	2,755.95	0.00370
CREDIT RESEARCH & TRADING CORP	16,000	640.00	0.04000
CREDIT SUISSE FIRST BOSTON CORPORATION	4,615,951	15,091.37	0.00327
CREDIT SUISSE FIRST BOSTON NEW YORK	160,917,919	764.60	0.00000
CREDIT SUISSE FIRST BOSTON SA CTVM	50,100	1,118.27	0.02232
CREDIT SUISSE HEDGING GRIFFO	8,200	246.05	0.03001
CREDIT USA	195,204	3,904.08	0.02000
CROWELL WEEDON AND CO	8,370	208.80	0.02495
CSFB NEW YORK DTC 355	70,421,016	11,450.52	0.00016
D			
D CARNEGIE AB, STOCKHOLM	90,300	2,269.01	0.02513
DAHLMAN ROSE & COMPANY	1,930	77.20	0.04000
DAIWA SECS AMERICA NEW YORK	136,285	3,549.39	0.02604
DAIWA SECS HONG KONG	590,000	3,129.20	0.00530
DAVENPORT AND CO OF VIRGINIA INC	1,590	63.60	0.04000
DEN DANSKE BANK COPENHAGEN	6,400	263.79	0.04122
DEUTSCHE ALEX BROWN NY DTC 0573	24,891,239	217.60	0.00001
DEUTSCHE BANK SECURITIES INC	16,313,111	10,501.13	0.00064
DOWLING & PARTNERS 443	9,575	355.65	0.03714
E			
EXANE PARIS	207,779	6,745.48	0.03246
EXECUTION LTD OFFICE	40,760	889.76	0.02183
F			
FIDELITY CAPITAL MARKETS	4,130	92.93	0.02250
FIRST CLEARING LLC	5,400	216.00	0.04000
FOX PITT KELTON	4,760	166.40	0.03496
FRANK RUSSELL SECURITIES NEW YORK	500,000	200.00	0.00040
FRIEDMAN BILLING AND RAMSEY	10,340	424.20	0.04103

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
G			
GOLDMAN EXECUTING & CLEARING	529,119	$ 5,558.58	$ 0.01051
GOLDMAN SACHS & CO NW YK DTC 005	332,492,577	12,385.35	0.00004
GOLDMAN SACHS & COMPANY	24,991,140	4,833.32	0.00019
GOLDMAN SACHS INTL LDN	614,900	89.76	0.00015
GOODBODY STOCKBROKERS DUBLIN	35,020	1,021.77	0.02918
GRIFFITHS MCBURNEY PARTNERS TORONTO	71,630	1,351.41	0.01887
H			
HARRIS NESBITT CORP	1,850	74.00	0.04000
HEFLIN & CO, LLC	1,500	60.00	0.04000
HIBERNIA SOUTHCOAST CAPITAL INC.	10,740	343.60	0.03199
HSBC BROKERAGE USA	23,460	877.40	0.03740
HSBC CTVM SAN PAULO BRAZIL	5,200	25.03	0.00481
HSBC SECURITIES NEW YORK	6,400	6.20	0.00097
I			
ICAP CORPORATES LLC	690	27.60	0.04000
ING BARING FURMAN SELZ LLC NY	29,780	880.57	0.02957
INSTINET	600	6.00	0.01000
INSTINET – FRANCE	41,745	272.95	0.00654
INSTINET AUSTRALIA CLEARING SERVICE	20,790	40.11	0.00193
INSTINET PACIFIC LTD HK	14,448,006	14,113.35	0.00098
INSTINET U.K LIMITED LONDON	9,183,558	27,380.80	0.00298
INVESTMENT TECHNOLOGY GROUP INC	6,088,330	76,256.45	0.01253
ISI GROUP INC NEW YORK	3,570	107.10	0.03000
ISI GROUP INC	108,020	4,089.40	0.03786
ITG CANADA CORP, TORONTO	316,478	3,719.99	0.01175
J			
JP MORGAN SECS S'PORE PRIVATE LTD	97,800	24.90	0.00025
JP MORGAN – PRIME BROKER	2,470	13.46	0.00545
JP MORGAN CLEARING CORP	508,679	7,923.79	0.01558
JP MORGAN SECURITIES (FAR EAST) L	32,450	4,629.22	0.14266
JP MORGAN SECURITIES INC	219,674	1,501.39	0.00683
JANNEY MONTGOMERY SCOTT	69,165	2,269.55	0.03281
JEFFERIES & CO INC N.JERSEY–DTC 19	12,536,160,660	176,324.95	0.00001
JEFFERIES & COMPANY	512,600,898	213,965.03	0.00042
JEFFRIES AND CO ATLANTA	2,555,654	31,946.24	0.01250
JMP SECURITIES	1,100	44.00	0.04000
JNK SECURITIES INC	28,921	578.42	0.02000
JOHNSON RICE & CO.	2,620	52.40	0.02000
JONESTRADING INST SERV	277,845	7,009.81	0.02523
JP MORGAN SECURITIES (ASIA PAC)	3,068,500	5,966.78	0.00194
JP MORGAN SECURITIES (ASIA PAC)	3,068,500	5,966.78	0.00194

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J (continued)			
JP MORGAN SECURITIES AUSTRALIA LTD	171,230	$ 649.19	$ 0.00379
JP MORGAN SECURITIES LIMITED LONDON	3,912,612,705	16,042.26	0.00000
JP MORGAN SECURITIES NW YK DTC	3,061,506,382	3,278.76	0.00000
JP MORGAN CHASE BANK NA LONDON	16,855	36.81	0.00218
K			
KEEFE BRUYETTE AND WOOD LIMITED	36,700	2,864.49	0.07805
KEEFE BRUYETTE AND WOODS INC.	9,920	396.80	0.04000
KELLOGG PARTNERS	6,390	143.78	0.02250
KEMPEN & CO AMSTERDAM	83,868	952.84	0.01136
KEPLER EQUITIES	40,830	546.93	0.01340
KEPLER EQUITIES SUCURSAL EN ESPANIA	30,000	399.74	0.01332
KEPLER EQUITIES, ZURICH BRANCH	96,620	4,551.80	0.04711
KNIGHT SECURITIES L.P.	400,086	9,676.95	0.02419
KNIGHT SECURITIES LP	1,049,670	1,734.64	0.00165
L			
LABRANCHE FINANCIAL SERVICES	4,140	165.60	0.04000
LADENBURG, THALMANN AND CO	1,425	42.75	0.03000
LAZARD FRERES & CO.	1,500	60.00	0.04000
LEERINK SWANN & CO./IPO	14,769	491.97	0.03331
LIQUID NET CR9IKAV	9,490	189.80	0.02000
LIQUIDNET ASIA LIMITED	24,000	68.05	0.00284
LIQUIDNET INC	132,371	2,502.42	0.01890
LONGBOW SECURITIES LLC	640	25.60	0.04000
LOOP CAPITAL MARKETS/BROADCORT CAPITAL	263,940	2,639.40	0.01000
M			
MACQUAIRE BANK LIMITED LONDON	9,340	273.13	0.02924
MACQUARIE CAPITAL (EUROPE) LIMITED	35,940	497.33	0.01384
MACQUARIE CAPITAL SECS AUST LTD	265,131	476.09	0.00180
MACQUARIE CAPITAL SECURITIES PTE LT	735,600	451.71	0.00061
MACQUARIE SECURITIES (USA) INC.	6,240	276.00	0.04423
MACQUARIE SECURITIES LTD, HONG KONG	2,348,569	10,163.74	0.00433
MACQUARIE SECURITIES LTD,SEOUL BNCH	12,070	3,412.17	0.28270
MCDONALD AND COMPANY/KEYBANC	10,810	432.40	0.04000
MELVIN SECURITIES	1,100	11.00	0.01000
MAGNA SECURITIES CORP	26,300	1,052.00	0.0400
MERRILL LYNCH INTERNATIONAL	789,653	11,784.25	0.0149
MERRILL LYNCH & CO. INC	463,827	20,911.57	0.04508
MERRILL LYNCH & CO. INC DTC161	1,844,210	5,445.40	0.00295
MERRILL LYNCH FAR EAST HONG KONG	377,500	3,513.69	0.00931
MERRILL LYNCH FENNER & SMITH INC	1,157,220	8,029.36	0.00694
MERRILL LYNCH INTERNATIONAL LONDON	477,225	3,870.25	0.00811

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
M (continued)			
MERRILL LYNCH INTERNATIONAL, LONDON	109,915	$ 2,626.03	$ 0.02389
MERRILL LYNCH INTL LTD EQUITIES	372,144	5,301.40	0.01425
MERRILL LYNCH PIERCE FENNER & SMITH	834,846	12,835.60	0.01537
MERRILL LYNCH PROFESSIONAL CLEARING CORP	100,436	2,149.72	0.02140
MERRILL PROFESSIONAL CLEARING CORP.	47,780	1,651.85	0.03457
MERRIMAN CURHAN FORD & CO	29,202	876.06	0.03000
MIDWEST RESEARCH SECURITIES	12,396	371.88	0.03000
MILLER TABAK & CO LLC	1,800	72.00	0.04000
MILLER TABAK HIRSCH	11,645	349.35	0.03000
MORGAN KEEGAN AND COMPANY	1,095	42.85	0.03913
MORGAN STANLEY & CO INC	74,854,253	11,061.49	0.00015
MORGAN STANLEY & CO INC. NEW YORK	5,016,116	15,220.81	0.00303
MURPHY AND DURIEU	4,320	97.21	0.02250
N			
NATIONAL FINANCIAL SERVICES	10,300	388.00	0.03767
NEEDHAM & COMPANY	2,867	81.96	0.02859
NEONET SECURITIES AB	97,825	1,829.91	0.01871
NESBITT BURNS – TORONTO	33,100	621.80	0.01879
NOMURA SECURITIES NEW YORK	1,790,345	6,812.32	0.00381
NOVA CAPITAL MARKETS LLC	1,240	49.60	0.04000
O			
OPPENHEIMER AND COMPANY	72,545	2,409.80	0.03322
OPSTOCK SECURITIES HELSINKI	23,900	208.62	0.00873
P			
PACIFIC CREST SECURITES	4,120	164.80	0.04000
PALI CAPITAL INC	87,160	286.40	0.00329
PELLINOR SECURITIES CORP	3,750	122.50	0.03267
PENSION FINANCIAL INC	25,550	1,022.00	0.04000
PENSON FINANCIAL SERVICES CANADA	89,750	1,592.53	0.01774
PERSHING LIMITED LONDON	143,275	5,615.38	0.03919
PERSHING LLC – JERSEY CITY	492,179,338	96,648.50	0.00020
PERSHING LLC FORMERLY DLJ	8,585,423	14,260.19	0.00166
PIPELINE TRADING SYSTEMS LLC	37,120	418.80	0.01128
PIPER JAFFRAY INC	29,509	971.77	0.03293
PULSE TRADING LLC	36,990	654.08	0.01768
R			
RAYMOND JAMES	45,350	1,804.50	0.03979
RBC CAPITAL MARKETS CORPORATION	3,173,645	104.00	0.00003
RBC DAIN RAUSCHER	7,022,330	1,271.20	0.00018
REDBURN PARTNERS LLP	333,700	7,291.50	0.02185
RICE VOELKER LLC	11,765	310.90	0.02643

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
R (continued)			
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	218,929	$ 4,963.72	$ 0.02267
ROCHDALE SECURITIES CORPORATION	11,900	238.00	0.02000
ROTH CAPITAL PARTNERS LLC	43,276	964.11	0.02228
S			
SANDLER O'NEILL & PARTNER	3,255	110.85	0.03406
SANFORD C.BERNSTEIN LTD	69,300	988.47	0.01426
SCOTIA MCLEOD INC	3,150	126.00	0.04000
SCOTT & STRINGFELLOW INVESTMENT	36,740	368.70	0.01004
SIDOTI & COMPANY LLC	39,342	1,012.60	0.02574
SIS SEGAINTERSETTLE AG, ZURICH	4,280	458.43	0.10711
SOCIETE GENERALE LONDON	17,770	1,603.73	0.09025
SOCOPA SOCIEDADE CORRETORA PAULISTA	79,200	1,784.63	0.02253
SOLEIL SECURITIES CORP	2,590	103.60	0.04000
STATE STREET BROKERAGE SVCS	905,147	23,626.42	0.02610
STEPHENS INC	8,320	301.80	0.03627
STERNE AGEE AND LEACH INC	84,145	1,248.25	0.01483
STIFEL NICOLAUS AND COMPAN	28,322	985.16	0.03478
SUNTRUST ROBINSON HUMPHREY	25,529	807.67	0.03164
SVENSKA HANDELSBANK NEW YORK	193,210	4,359.00	0.02256
T			
THOMAS WEISEL PARTNERS 226	10,610	295.70	0.02787
U			
UBS AG LONDON BRANCH	1,090,116,103	256.76	0.00000
UBS AG (LONDON EQUITIES)	8,249,081	30,157.10	0.00366
UBS SECURITIES ASIA	211,478	3,240.57	0.01532
UBS WARBURG LLC	638,714	4,884.54	0.00765
UBS WARBURG SECS LTD SEOUL	35,970	1,913.34	0.05319
UNION BANK OF SWIT NEW YK DTC 642	13,498,210	1,906.79	0.00014
UOB KAY HIAN PTE LTD	1,326,000	7,268.97	0.00548
V			
VERITAS SECURITIES	3,200	96.00	0.03000
W			
WACHOVIA CAPITAL MARKETS 46171	5,764,730	2,385.20	0.00041
WACHOVIA CAPITAL MARKETS LLC	8,232,243	2,202.16	0.00027
WEDBUSH MORGAN SECURITIES, INC	28,000	852.10	0.03043
WEEDEN & CO GREENWICH	1,300	16.25	0.01250
WEEDEN AND & CO	266,688	5,435.90	0.02038
WHITE CAP TRADING LLC	2,200	49.50	0.02250
WIEN SECURITIES	1,100	44.00	0.04000
TOTAL	**22,811,226,086**	**$1,224,791**	**$0.00005**

Investment Summary

As of June 30, 2010 (Dollars in Thousands)

Type of Investment		Market Value	% of Portfolio
Equities			
Consumer Discretionary	$	14,574	0.90%
Consumer Staples		6,965	0.43%
Convertibles		45,454	2.81%
Energy		11,941	0.74%
Financials		21,676	1.34%
Health Care		18,859	1.16%
Industrials		15,176	0.94%
Materials		3,802	0.23%
Technology/Telecommunication		14,100	0.87%
Utilities		7,377	0.46%
Foreign Equities		581,986	35.92%
Total Equities	**$**	**741,910**	**45.80%**
Fixed Income			
Bank Loans		34,485	2.13%
Domestic Corporate Bonds		58,735	3.63%
Foreign Corporate		7,001	0.43%
US Government Agency		44,828	2.77%
US Treasury		215,056	13.27%
US Treasury Inflation Protected Securities (TIPS)		258,991	15.98%
Pooled Domestic Fixed Income		20,190	1.25%
Total Fixed Income	**$**	**639,286**	**39.46%**
Real Assets			
Commodities		17,172	1.06%
Infrastructure		20,552	1.27%
Total Real Assets	**$**	**37,724**	**2.33%**
Other Investments			
Private Market Equities		70,031	4.32%
Real Estate		70,117	4.33%
Short Term		60,753	3.75%
Total Other Investments	**$**	**200,901**	**12.40%**
Pendings	**$**	**228**	**0.01%**
Total (Non-GAAP Basis)	**$**	**1,620,049**	**100.00%**

Investment Property

MILPITAS WAREHOUSE

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

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City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Actuarial Section

Actuarial Certification Letter

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Gabriel Roeder Smith & Company
Consultants & Actuaries
7900 East Union Avenue, Suite 1100
Denver, CO 80237-2746
303-217-7600 phone
303-217-7609 fax
www.gabrielroeder.com

September 15, 2010

Board of Administration
City of San Jose
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Re: Actuarial Valuation Certification

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 2009, illustrates that the assets of the Federated Retirement System along with future contributions at the level recommended in that report are expected to fully support the benefits of the System. This conclusion is based on plan provisions as were outlined in the valuation, financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

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

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

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

The Funding Objective of the Plan

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

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over the present value of future salaries over closed amortization periods. The Board adopted a layered amortization method that amortizes the initial unfunded actuarial accrued liability as of July 1, 2009 over a closed 30 year period. Any future additional gains or losses will be amortized in a layered approach over a closed 20 year period. The Board has also adopted a five year phase-in strategy to recognize the costs associated with the change in actuarial assumptions based on the experience study conducted for the period ending June 30, 2009.

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

This plan is valued on a biennial basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2009. Starting July 1, 2010, the plan will be valued on an annual basis.

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

Computer files containing data on System membership of June 30, 2009 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

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

Supporting Schedules

We have prepared the following supporting schedules relative to the retirement benefits and liabilities for inclusion in this Financial Statement (the schedules exclude the retiree medical liabilities):

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

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Trend Data Schedules in the Financial Section

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

Actuarial Assumptions and Methods Used for Funding Purposes

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

The undersigned is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with over 30 years of experience in performing valuations.

Sincerely,
Gabriel, Roeder, Smith & Company

Leslie L. Thompson

Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Retirement Board as of June 30, 2009.

Actuarial Valuation Cost Method. The Entry Age Normal Cost Method is used for the retirement benefits of the System.

Financing of the Unfunded Actuarial Accrued Liability. The balance of the unfunded actuarial accrued liabilities was amortized by a level percent of payroll contributions over a closed 30-year period beginning July 1, 2009. Additional gains or losses will be amortized over a closed 20 year period using a layered approach.

Asset Valuation Method. The Actuarial Value of Assets recognizes 20% of total return in excess of (or less than) the investment return assumption for each of the last five years. This method has the effect of smoothing volatility in investment returns.

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.83% per year, compared to 4.0% last year. This is the rate at which payroll for the total population is assumed to grow each year. It is not the salary increase rate assumed for any one individual member.

The Investment Return Rate used for the actuarial valuation calculations was 7.75%, net of administrative expenses, compounded annually. This was changed from the prior year's Investment Return Rate of 8.25%. This assumption is used to equate the value of payments due at different points in time. The rate is comprised of two elements:

Inflation:	3.67%
Real rate of return:	4.08%
Total	7.75%

Salary Increase Rates used to project current pays to those upon which a benefit will be based are represented by the following table. Rates do not vary by age, but do reflect an added merit component, for those with 0-4 years of service at the valuation date. The salary increase rates have changed from last year.

The rate of annual salary increase for all members with less than 5 years of service is set out in the following:

Inflation:	3.67%
Merit and longevity:	0.41%
Total	4.08%

The rate of annual salary increase for all members with less than 5 years of service equal to 4.08% set out above plus the appropriate value from the following table:

Years of Service at Valuation Date	Merit/Longevity
0	5.50%
1	3.50%
2	2.00%
3	1.50%
4	0.75%

Interest credited to member contributions is 3.0%, compounded annually.

Sample rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probability of members remaining in employment.

For inactive members, the assumed age at retirement is age 58 (previous assumption was 60). If an inactive member is not vested, the liability valued is their employee contributions with interest.

% of Active Members Separating Within Next Year

Sample Ages	Disability[1]	Withdrawal	Vested Termination[2]
20	.04%	11.00%	-%
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

[1] 50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.

[2] 30% of terminating employees who leave their contributions in the Plan, with 5+ years of service, are assumed to subsequently work for a reciprocal employer and receive 4.0% pay increases per year.

(Previous valuation not explicitly valued.)

Summary of Assumptions and Funding Method *(Continued)*

Post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table setback three years for males and one year for females. The previous valuation used the 1994 Group Annuity Mortality Table (sex distinct) with no setbacks. The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below.

	Future Life Expectancy (Years)			*% of Benefit Recipients Dying Each Year*		
Sample Ages	**Retired Men**	**Retired Women**	**Disabled**	**Retired Men**	**Retired Women**	**Disabled**
45	38.2	40.6	23.6	0.13%	0.09%	2.08%
50	33.5	35.8	21.1	0.19	0.13	2.44
55	28.9	31.1	18.7	0.32	0.21	2.84
60	24.4	26.5	16.4	0.56	0.39	3.30
65	20.2	22.1	14.1	1.01	0.76	3.79
70	16.4	18.1	11.7	1.80	1.27	4.37
75	13.0	14.3	9.2	2.85	2.04	5.53
80	10.0	10.9	7.0	4.52	3.54	8.74

The active member mortality assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability. The mortality rates used for active mortality were revised effective July 1, 2009 to use the 1994 Group Annuity Mortality table setback three years for males and one year for females.

% of Active Members Dying Each Year

Sample Ages	Men	Women
30	0.07%	0.03%
35	0.08	0.04
40	0.09	0.07
45	0.13	0.09
50	0.19	0.13
55	0.32	0.21
60	0.56	0.39
65	1.01	0.76

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

*% of Active Members Retiring Within the Next Year**

Retirement Ages	% of Active Members Retiring Within the Next Year	Retirement Ages	% of Active Members Retiring Within the Next Year
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.0

**Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.*

Disability Benefit Offset. Workers Compensation Benefits are assumed to not be an offset.

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Martial Status: 75% of men (85% in the previous valuation) and 55% of women (60% in the previous valuation) were assumed married at retirement.

Spouse Census: Women were assumed to be 3 years younger than men.

"Spouse" is assumed to encompass a registered domestic partner.

Schedule of Active Member Valuation Data

June 30, 1995 to June 30, 2009

Valuation Date	Active Count	Annual Payroll	Average Annual Pay	Percent Change in Average Pay
2009	4,079	$ 323,020,387	$ 79,191	7.1%
2007	3,942	291,404,606	73,923	7.0%
2005	4,148	286,445,861	69,056	5.6%
2003	4,479	292,961,371	65,408	15.6%
2001	4,466	252,696,000	56,582	7.9%
1999	3,694	193,650,000	52,423	8.3%
1997	3,642	176,284,000	48,403	6.8%
1995	3,397	153,918,000	45,310	4.4%

Changes in Retirants (Including Beneficiaries)

July 1, 1995 to June 30, 2009

	Beginning of Period		*Added to Rolls*		*Removed from Rolls*		*End of Period*			
Two-Year Period	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**% Increase in Annual Allowances**	**Average Annual Allowances**
2007-2009	2,691	$84,723,000	376	$14,890,021	137	$3,450,015	2,930	$101,194,000	19.4%	$34,537
2005-2007	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	22.0%	31,484
2003-2005	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0%	28,634
2001-2003	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,687,000	21.0%	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7%	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8%	20,360
1995-1997	1,636	29,029,000	190	4,143,000	81	946,000	1,745	32,630,000	12.4%	18,699

Solvency Test

June 30, 1995 to June 30, 2009

	Aggregate Accrued Liabilities for				*Portion of Accrued Liabilities Covered by Reported Assets*		
Year Ended	**Active Member Contributions**	**Retirees, Beneficiaries & Other Inactives Accrued Liability**	**Active Accrued Liability (Employer Financed Portion)**	**Actuarial Value of Assets**	**(d)/(a)**	**[(d)-(a)]/(b)**	**[(d)-(a)-(b)]/(c)**
	(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**
2009	$238,335,847	$1,393,114,175	$854,705,209	$1,756,588,000	100%	100%	15%
2007	214,527,146	1,003,000,640	743,414,943	1,622,851,000	100%	100%	55%
2005	230,027,497	824,042,723	657,299,610	1,384,454,000	100%	100%	50%
2003	224,874,793	635,092,039	451,723,795	1,280,719,000	100%	100%	93%
2001	210,377,000	529,853,000	332,103,000	1,060,144,000	100%	100%	96%
1999	196,887,000	441,573,000	223,766,000	804,860,000	100%	100%	74%
1997	167,837,000	383,574,000	184,361,000	678,954,000	100%	100%	69%
1995	133,805,000	364,159,000	160,211,000	566,102,000	100%	100%	43%

Actuarial Analysis of Financial Experience

For the Eight-Year Period Ending June 30, 2009

	Change in Contribution Rate
For Plan Year Ended June 30, 2009	
Investment Performance	1.63 %
Liability Experience	1.19 %
Change in Assumptions	5.22 %
Change in Benefit Provision	0.00 %
TOTAL	**8.04 %**
For Plan Year Ended June 30, 2007*	
Investment Performance	(0.99)%
Liability Experience	1.14 %
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**0.15 %**
For Plan Year Ended June 30, 2005	
Investment Performance	1.77%
Liability Experience	2.37 %
Change in Assumptions	(0.59)%
Change in Benefit Provision	0.00 %
TOTAL	**3.55 %**
For Plan Year Ended June 30, 2003	
Investment Performance	2.78 %
Liability Experience	2.60 %
Change in Asset Valuation Method	(2.48)%
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**2.90 %**
For Plan Year Ended June 30, 2001	
Investment Performance	(0.46)%
Liability Experience	(1.62)%
Change in Assumptions	0.00 %
Change in Benefit Provision	1.51 %
TOTAL	**(0.57)%**

** Change in employer contribution rate for retirement only*

Summary of Retirement Benefit Provisions

1. **Eligibility:** Members are eligible on their first day of City employment.
2. **Final Compensation:** Highest 12-month average salary, if separation takes place on or after July 1, 2001.

   Highest 36-month average salary, if separation takes place before July 1, 2001.
3. **Service Retirement:**
   a. *Eligibility:* Age 55 with 5 years of service, or any age with 30 years of service.

   b. *Benefit:* 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.

   c. *Form of Payment:* Monthly benefit payable for the life of the member.
4. **Disability Retirement:**
   a. *Eligibility:* Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.

   b. *Benefit:* 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system.

   If the disability was non-service connected, then the benefit is reduced by .5% for every year under age 55.

   For those members who are hired on or after September 1, 1998, the non-service connected benefit is as follows:

   20% of Final Compensation for 6 years of service;
   Plus 2% for each years of service in excess of 6, but less than 16;
   Plus 2.5% for each year of service in excess of 16.

   c. *Form of Payment:* Monthly benefit payable for the life of the member.
5. **Deferred Service Retirement:**
   a. *Eligibility:* Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.

   b. *Benefit:* Same as Service Retirement, payable anytime after age 55.

   c. *Form of Payment:* Same as Service Retirement.
6. **Pre-Retirement Death Benefits:**
   a. ***Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:*** Member's beneficiary or estate receives (i), and (ii) where:

   i. = Accumulated contributions with interest.

   ii. = Lump sum benefit of one month's salary for each year of service, up to six years.

   b. ***Service Connected, or Non-Service Connected with five years of service:*** Member's eligible survivor receives 2.5% of Final Compensation per years of service. The maximum benefit is 75% and the minimum benefit, if still an active employee at time of death, is 40% of Final Compensation, payable until the spouse remarries. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse.
7. **Post-Retirement Death Benefits:** Member's eligible survivor receives (a) and (b), where:

   a. = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.

   b. = $500 death benefit allowance for burial expenses at death of retired member.

Summary of Retirement Benefit Provisions *(Continued)*

8. **Post-Retirement Cost-of-Living Benefits:**

   Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

   The first cost-of-living adjustment is on the first day of the month following the one-year anniversary of retirement. The next adjustment will be prorated for the number of months remaining until the following April.

9. **Employee Contributions:** The Members' contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).

All references to spouse also encompass registered domestic partners.

Summary of Health Subsidy Benefit Provisions

1. **Eligibility:**

   a. ***Medical:*** Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan at retirement.

   b. ***Dental:*** Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.

2. **Benefit:**

   a. ***Medical:*** The Retirement System pays 100% of the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System for the lowest cost plan.

   b. ***Dental:*** The Retirement System pays the entire cost of dental insurance coverage.

3. **Contributions:** Both the City and the Members contribute to the Retirement System fund for medical and dental insurance benefits.

Actuarial Certification Letter

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Gabriel Roeder Smith & Company
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September 15, 2010

Board of Administration
City of San Jose
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Re: Actuarial Valuation Certification

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retiree Health Care Plan, completed as of June 30, 2009, describes the current actuarial condition of the plan and determines the employer contribution rates necessary to fully support the benefits provided by the City of San Jose. This conclusion is based on financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

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

- The funding objective of the plan
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation
- The source and degree of verification of the data used in the actuarial valuation
- Supporting schedules that we have prepared and attached
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statements No. 43 & No. 45.

The Funding Objective of the Plan

The Governmental Accounting Standards Board (GASB) recently issued two accounting standards (GASB 43 and GASB 45) applicable to "Other Postemployment Benefits," or OPEB plans such as the Retiree Health Care Plan offered by the City of San Jose. GASB Statement 45 relates to sponsors of OPEB plans while GASB 43 is applicable to the OPEB plan itself. This report has been completed in accordance with the implementation of these new standards.

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

The GASB standards require that the long-term cost of retiree health care and other OPEB benefits be determined and accrued on an actuarial basis similar to pension plans. The results of these valuations, including an annual OPEB expense (i.e. Annual Required Contribution, or ARC) and net obligation, would have to be disclosed on the City's financial statements. For a plan of this size, valuations are required to be prepared at least once every two years.

The GASB standards do not mandate the pre-funding of OPEB liabilities. However, any pre-funding of OPEB benefits either prior to or after the effective date of these new standards, will help minimize or eliminate the OPEB obligation that will be required to be disclosed in the State's financial statements. This net OPEB obligation would be required to be disclosed on the financial statements and could have a detrimental impact on the employer's perceived financial health.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a period of 30 years. The Board has elected to phase-in the rate increases to the full ARC over a five year period.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. The current funded ratio is 11%.

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

This plan is valued on at least a biennial basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2009. Starting July 1, 2010, the plan will be valued on an annual basis.

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

Computer files containing data on System membership of June 30, 2009 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

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

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

Supporting Schedules

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

- Summary of actuarial assumptions and methods
- Schedule of funding progress
- Schedule of employer contributions
- Summary of benefits provided by the retiree health benefit plan

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Certification

We certify that the information presented herein is accurate and fairly portrays the actuarial position of the plan as of June 30, 2009. We prepared the accompanying Summary of Actuarial Assumptions and Methods and the other supporting schedules in this section, but the staff of the San Jose Department of Retirement Services prepared the trend tables and other supporting schedules in the financial section based on information supplied in our report.

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board where applicable. The signatory is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with extensive experience in performing valuations for OPEB plans.

Sincerely,
Gabriel, Roeder, Smith & Company

Leslie L. Thompson

Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

Summary of Postemployment Benefit Provisions Evaluated

Eligibility

Medical

Employees retiring (including deferred vested members) at age 55 with 15 years of service; or with a monthly pension equal to at least 37.5% of final compensation.

Employees who become disabled and have 15 years of service or have a monthly pension equal to at least 37.5% of final compensation.

Spouse/domestic partners of retired members who are qualified for medical are eligible to receive coverage if married or in a registered domestic partnership and enrolled in one of the City's medical plans at the time of the member's retirement.

Dependent children under 19 years of age (24 if a full-time student) are eligible to receive coverage.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 15 years of service at the time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
- both the member and survivor are enrolled in a City medical insurance plan at the time of death; and
- the survivor will receive a monthly pension allowance.

Dental

Employees retiring or becoming disabled directly from City service must

- have 5 or more years of service or be receiving a monthly pension equal to at least 37.5% of final compensation; and
- be enrolled in one of the dental insurance plans sponsored by the City.

Spouses/domestic partners/children are eligible to receive coverage if enrolled and married at the time of the member's retirement.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 5 years of service at the time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
- both the member and survivor are enrolled in a City dental plan at the time of death; and
- the survivor will receive a monthly pension allowance.

Benefits

Medical

The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2009, the lowest cost health plan is Kaiser; family coverage is $1,105.46 and single coverage is $443.96 per month.

Dental

The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Retiree Premium Rates

Monthly rates used for 2009 are shown below.

Effective January 1, 2009

Medical	Single	Increase from 2006	Family	Increase from 2006
Non-Medicare Monthly Rates				
Kaiser – Traditional (CA)	$443.96	10.61%	$1,105.46	10.61%
Blue Shield HMO	$491.40	23.07%	$1,262.36	23.07%
Blue Shield POS or PPO	$670.42	10.43%	$1,722.90	10.43%
Supplemental Medicare Monthly Rate				
Kaiser – Senior Advantage	$414.31	7.47%	$828.62	7.47%
Secure Horizons–Medicare+Choice	$402.31	10.00%	$804.62	10.00%
Blue Shield – Medicare PPO	$521.00	10.43%	$1,042.00	10.43%
Blue Shield – Medicare HMO	$375.20	24.56%	$750.40	24.56%
Pacificare – Senior Supplement	$378.90		$757.80	
Dental				
Delta Dental PPO	$94.48	(4.97)%	$94.48	(4.97)%
Delta Care PMI	$50.10	0.00%	$50.10	0.00%

Summary Of Actuarial Assumptions And Methods

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following assumptions have been adopted by the Retirement Board as of June 30, 2009.

Basic Benefits. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized by level (principal & interest combined) percent-of-payroll contributions. The UAAL was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment (one component of the contribution requirement), is the level percent-of-payroll required to fully amortize the UAAL over a closed 30 year period.

The expensing and benefit values of the Plan are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described above.

The principal areas of financial risk which require assumptions about future experiences are:

(1) long-term rates of investment return to be generated by the assets of the Fund.

(2) patterns of future medical inflation rates.

(3) rates of mortality among actives, retirants, and beneficiaries.

(4) rates of withdrawal of active employees (without entitlement to a retirement benefit).

(5) the age patterns of actual retirements.

In performing a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives – a period of time which can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed expense. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

The annual rate has been computed to remain relatively level from year to year so long as benefits and the basic experience and makeup of employees do not change. Examples of favorable experiences which would tend to reduce the amount expensed are:

(1) Employee non-vested terminations at a higher rate than assumed.

(2) Mortality among retirees and beneficiaries at a higher rate than indicated by our mortality assumptions.

(3) Lower rates of medical inflation than assumed.

(4) Actual retirement ages higher than assumed.

Actuarial Value of System Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

The investment return rate used for the actuarial valuation calculations was 6.7% per annum, compounded annually. This was changed from the prior year's Investment return rate of 5.6%. This assumption is used to equate the value of payments due at different points in time.

The inflation rate used for actuarial valuation calculations was 3.67%, compounded annually, the rate used in the City's pension valuation. The prior year's inflation rate was 4.0%. The inflation rate represents the difference between the investment return rate and the assumed real rate of return.

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.83% per year, compared to 4.0% last year. This is the rate at which payroll for the total population is assumed to grow each year. It is not the salary increase rate assumed for any one individual member.

Summary Of Actuarial Assumptions And Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Health cost increases for medical and dental assumed inflation trends have been changed from last year. The new rates are show below:

Health Care Trend Inflation Rates

Year	Medical–Pre Age 65	Medical–Post Age 65	Dental
2009	10.00%	7.50%	5.00%
2010	9.50	7.25	5.00
2011	9.00	7.00	4.50
2012	8.50	6.75	4.50
2013	8.00	6.50	4.00
2014	7.50	6.25	4.00
2015	7.00	6.00	4.00
2016	6.50	5.75	4.00
2017	6.00	5.50	4.00
2018	5.50	4.50	4.00
2019	4.50	4.50	4.00
2020	4.50	4.50	4.00
2021	4.50	4.50	4.00
2022	4.50	4.50	4.00
2023	4.50	4.50	4.00
2024	4.50	4.50	4.00

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Disability*	Withdrawal	Vested Termination
20	.04%	11.00%	--- %
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

* *50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.*

For inactive members, the assumed age at retirement is age 58.

The post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table setback three years for males and one year for females. The previous valuation used the 1994 Group Annuity Mortality Table (sex distinct) with no setbacks. The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Sample values are shown below.

	Future Life Expectancy (Years)			% of Benefit Recipients Dying Each Year		
Sample Ages	Retired Men	Retired Women	Disabled	Retired Men	Retired Women	Disabled
45	38.2	40.6	23.6	0.13%	0.09%	2.08%
50	33.5	35.8	21.1	0.19	0.13	2.44
55	28.9	31.1	18.7	0.32	0.21	2.84
60	24.4	26.5	16.4	0.56	0.39	3.30
65	20.2	22.1	14.1	1.01	0.76	3.79
70	16.4	18.1	11.7	1.80	1.27	4.37
75	13.0	14.3	9.2	2.85	2.04	5.53
80	10.0	10.9	7.0	4.52	3.54	8.74

The active member mortality assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability. The mortality rates used for active mortality were revised effective July 1, 2009 to use the 1994 Group Annuity Mortality table setback three years for males and one year for females.

% of Active Members Dying Each Year

Sample Ages	Men	Women
30	0.07%	0.03%
35	0.08	0.04
40	0.09	0.07
45	0.13	0.09
50	0.19	0.13
55	0.32	0.21
60	0.56	0.39
65	1.01	0.76

Summary Of Actuarial Assumptions And Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

% of Active Members Retiring Within the Next Year*

Retirement Ages	% of Active Members Retiring Within the Next Year	Retirement Ages	% of Active Members Retiring Within the Next Year
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.0

* *Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.*

Additional Medical Assumptions

The eligibility conditions for retiree medical coverage we used were after attainment of age 55 and 15 years of service at retirement, or a monthly pension equal to 37.5% of final average compensation. Deferred retirements and disabled retirements meeting this requirement are also eligible for medical coverage. The eligibility condition for medical coverage for future surviving spouses was assumed to be the active member's attainment of 15 years of service.

Participation in retiree medical plans: We assume 85% of future retirees meeting the eligibility conditions above will participate in the retiree medical plan.

The probability of electing spouse/domestic partner coverage at retirement was assumed to be 55% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 55% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Additional Dental Assumptions

The eligibility conditions for retiree dental coverage we used were after attainment of 5 years of service at retirement, or eligible for disabled retirement. Deferred retirements are not eligible for dental coverage. The eligibility condition for dental coverage for future surviving spouses was assumed to be the active member's attainment of 5 years of service.

Participation in retiree medical plans: We assume 100% of future retirees meeting the eligibility conditions above will participate in the retiree dental plan.

The probability of electing spouse/domestic partner coverage at retirement was assumed to be 65% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 65% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Implicit Subsidy and Premium Development: Premium development is required for the two classes of retirees (pre-age 65 and post-age 65). These premiums were developed using fully-insured premium rates from the health plans offered in conjunction with census data for the active and retired participants of the City's medical benefit plan (see page 26). These premium rates were adjusted to reflect the increase in utilization expected of an older population and the decrease in expected number of dependents covered under family coverage. In addition, these premium rates were adjusted to reflect differing utilization rates by age and sex. Sex-specific aging factors used reflect the expectation that women will have about the same per capita claims as men at age 57 years, have higher claims before age 57, and have lower claims after age 57. Gross imputed single coverage rates at sample ages are shown below.

The impact of the recently enacted Federal legislation creating a prescription drug benefit under Medicare has not been reflected in this report since the impact will affect contributions (in the form of on-behalf contributions), not liabilities of the plan (GASB Technical Bulletin 2006-1).

Gross Imputed Single Coverage Monthly Premium Rates By Age

Pre-Age 65 Retiree Rates			Post-Age 65 Retiree Rates		
Age	**Male**	**Female**	**Age**	**Male**	**Female**
40	$199.09	$311.93	65	$367.10	$338.05
50	$365.97	$414.67	75	$470.10	$417.20
60	$600.90	$577.60	85	$524.19	$460.21
64	$699.42	$648.30	-	-	-

Dental Premium: Based on census data for current retiree dental plan participants (see page 26); we assumed 97% of future eligible retirees would choose Delta Dental PPO and 3% of future eligible retirees would choose Delta Care PMI. This produced a monthly dental premium rate of $97.44.

Funding Progress Indicators

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

(1) The ratio of assets to the actuarial present value of credited projected benefits allocated in the proportion accrued service is to projected total service – a plan continuation indicator. The ratio is expected to increase in the absence of benefit improvements or strengthening of actuarial assumptions.

(2) The ratio of the unfunded actuarial present value of credited projected benefits to member payroll – a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment, it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

Schedule of Funding Progress For Retiree Medical Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL (b)	UAAL (b-a)	Funding Ratio (a/b)	Payroll* (c)	UAAL as % of Payroll ((b-a)/c)
June 30, 2006	$81,288,000	$702,938,665	$621,650,665	11.6%	$275,558,882	225.6%
June 30, 2007	$96,601,000	$616,748,714	$520,147,714	15.7%	$271,832,564	191.3%
June 30, 2009	$85,564,000	$796,448,275	$710,884,275	10.7%	$308,697,000	230%

**Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2007 and prior valuations. The amount presented for the June 30, 2009 valuation represents actual annual covered payroll.*

Employer Contributions Retiree Medical Benefits Only

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2007	$38,526,038	28%
June 30, 2008	$38,526,038	30%
June 30, 2009	$33,380,977	49%
June 30, 2010	$38,599,222	44%

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Statistical Section

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

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2001-2010 *(In Thousands)*
PENSION BENEFITS (Schedule Ia)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Member contributions	$ 10,306	$ 11,071	$ 11,776	$ 12,394	$ 12,393	$ 12,395	$ 12,370	$ 13,366	$ 13,848	$ 13,396
Employer contributions	35,284	41,011	38,411	39,534	41,552	41,267	51,004	54,958	57,020	54,566
Investment Income*	(2,934)	(24,140)	71,179	192,373	115,618	132,873	244,210	(60,101)	(294,843)	195,587
Total additions to plan net assets	**42,656**	**27,942**	**121,366**	**244,301**	**169,563**	**186,535**	**307,584**	**8,223**	**(223,975)**	**263,549**
Deductions (See Schedule 2a)										
Benefit payments	43,761	48,235	46,814	53,578	60,438	68,438	75,135	83,291	89,767	98,110
Death benefits	105	22	4,752	5,454	5,437	5,721	5,867	6,263	6,923	7,583
Refunds	1,886	1,207	714	1,188	927	1,246	1,008	972	1,395	1,219
Administrative expenses and other	1,322	1,378	1,532	1,799	1,588	1,790	1,845	2,358	2,108	2,641
Total deductions from plan net assets	**47,074**	**50,842**	**53,812**	**62,019**	**68,390**	**77,195**	**83,855**	**92,884**	**100,193**	**109,553**
Change in Net Assets	**$ (4,418)**	**$ (22,900)**	**$ 67,554**	**$ 182,282**	**$ 101,173**	**$ 109,340**	**$ 223,729**	**$ (84,661)**	**$ (325,098)**	**$ 156,164**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule Ib)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Member contributions	$ 1,462	$ 2,787	$ 3,032	$ 3,191	$ 5,219	$ 5,226	$ 9,612	$ 10,403	$ 15,076	$ 15,815
Employer contributions	1,750	4,127	3,866	3,948	5,996	5,961	10,728	11,560	16,368	17,027
Investment Income*	(536)	(1,558)	4,193	11,066	6,539	7,273	13,343	(3,715)	(18,485)	13,703
Total additions to plan net assets	**2,676**	**5,356**	**11,091**	**18,205**	**17,754**	**18,460**	**33,683**	**18,248**	**12,959**	**46,545**
Deductions (See Schedule 2b)										
Healthcare insurance premiums	6,530	7,804	9,191	11,438	13,393	15,904	18,265	20,195	21,725	24,066
Administrative expenses and other	98	94	99	114	95	103	105	134	132	181
Total deductions from plan net assets	**6,628**	**7,898**	**9,290**	**11,552**	**13,488**	**16,007**	**18,370**	**20,329**	**21,857**	**24,247**
Change in Net Assets	**$ (3,952)**	**$ (2,542)**	**$ 1,801**	**$ 6,653**	**$ 4,266**	**$ 2,453**	**$ 15,313**	**$ (2,081)**	**$ (8,956)**	**$ 22,447**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *(Continued)*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(In Thousands)*
PENSION BENEFITS (Schedule 2a)

Type of Benefit	2010	2009	2008	2007	2006
Age and Service Benefits					
Retirees – Service	$ 84,606	$ 77,444	$ 71,849	$ 64,978	$ 59,391
Retirees – Deferred Vested	6,996	6,219	5,730	4,860	4,134
Survivors – Service	4,207	3,867	3,561	3,320	3,195
Survivors – Deferred Vested	138	126	122	108	87
Death in Service Benefits	**2,161**	**2,032**	**1,815**	**1,722**	**1,750**
Disability Benefits					
Retirees – Duty	3,498	3,256	3,102	2,920	2,702
Retirees – Non-Duty	1,899	1,884	1,835	1,737	1,640
Survivors – Duty	338	263	218	197	187
Survivors – Non-Duty	739	635	547	519	502
Ex-Spouse Benefits	**1,111**	**964**	**775**	**640**	**571**
Total Benefits	**$105,693**	**$ 96,690**	**$89,554**	**$81,002**	**$74,159**
Type of Refund					
Separation	$ 1,219	$ 1,395	$ 972	$ 1,008	$ 1,246
Total Refunds	**$ 1,219**	**$ 1,395**	**$ 972**	**$ 1,008**	**$ 1,246**

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

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(In Thousands)*
POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2010	2009	2008	2007	2006
Age and Service Benefits					
Retirees – Service					
Medical	$16,344	$14,772	$13,524	$12,029	$ 10,341
Dental	2,474	2,150	2,148	2,022	1,870
Retirees – Deferred Vested*					
Medical	1,180	1,063	949	767	652
Dental	27	26	29	35	-
Survivors – Service					
Medical	938	862	800	730	628
Dental	308	268	269	251	235
Survivors – Deferred Vested*					
Medical	16	11	10	9	11
Dental	-	1	-	-	-
Death in Service Benefits					
Medical	366	335	327	313	293
Dental	74	67	69	72	71
Disability Benefits					
Retirees – Duty					
Medical	1,241	1,166	1,113	1,098	956
Dental	161	142	143	145	131
Retirees – Non-Duty					
Medical	513	510	483	478	433
Dental	84	79	81	78	73
Survivors – Duty					
Medical	100	80	75	69	59
Dental	27	20	19	18	17
Survivors – Non-Duty					
Medical	171	139	123	119	103
Dental	42	34	33	32	31
Ex-Spouse Benefits					
Total Benefits	**$ 24,066**	**$ 21,725**	**$ 20,195**	**$ 18,265**	**$ 15,904**

**Deferred Vested dental data unavailable in 2006*

Source: Pension Administration System

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2001-2010
(Schedule 3)

Fiscal Year	Employee Rate (%)	Employer Rate (%)
2001	4.76	16.09
2002	4.96	17.40
2003	5.08	15.20
2004	5.08	15.20
2005	6.06	17.12
2006	6.06	17.12
2007	7.58	21.98
2008	7.58	21.98
2009	8.93	23.56
2010	9.35	24.01

Source: Pension Administration System

Retired Members By Type of Benefit

PENSION BENEFITS

As of June 30, 2010

		Type of Retirement*							Option Selected**			
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	A	B	C	Total
$1-500	142	39	4	1	1	38	57	2	93	17	32	142
501-1000	270	98	11	3	4	82	69	3	181	14	75	270
1001-1500	333	132	8	17	14	102	59	1	215	39	79	333
1501-2000	377	191	13	34	24	68	46	1	248	34	95	377
2001-2500	335	211	13	30	12	35	33	1	222	29	84	335
2501-3000	288	207	2	25	15	19	20	-	197	35	56	288
3001-3500	275	229	7	10	7	3	19	-	182	27	66	275
3501-4000	248	208	6	6	2	6	20	-	169	25	54	248
4001-4500	184	168	5	2	-	2	7	-	136	10	38	184
4501-5000	165	151	3	2	-	1	8	-	111	20	34	165
5001-5500	138	135	1	-	-	-	2	-	93	12	33	138
5500-6000	133	126	1	2	-	1	3	-	87	17	29	133
6000-6500	59	56	-	-	-	-	3	-	41	2	16	59
6501-7000	58	55	-	-	-	1	2	-	52	-	6	58
Over $7000	104	100	-	1	-	1	2	-	80	7	17	104
TOTAL	**3,109**	**2,106**	**74**	**133**	**79**	**359**	**350**	**8**	**2,107**	**288**	**714**	**3,109**

***Retirement Codes**

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

****OPTION DESCRIPTIONS**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2010

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	808	450
$1 - 60	-	78
61 - 250	-	2,581
251 - 500	1,096	-
501 - 750	3	-
751 -1000	268	-
Over $1,000	934	-
TOTAL	**3,109**	**3,109**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit*	$ 838	$ 1,179	$ 1,980	$ 2,700	$ 3,714	$ 4,852	$ 5,410
Average Final Average Salary	$ 4,203	$ 4,221	$ 4,393	$ 4,778	$ 5,129	$ 5,311	$ 5,929
Number of Retired Members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit*	$ 778	$ 1,139	$ 1,899	$ 2,585	$ 3,545	$ 4,671	$ 5,281
Average Final Average Salary	$ 3,898	$ 4,045	$ 4,201	$4,629	$ 4,898	$ 5,151	$ 5,807
Number of Retired Members**	120	329	359	529	392	624	123
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit*	$ 765	$ 1,133	$ 1,856	$2,550	$ 3,470	$ 4,600	$ 5,231
Average Final Average Salary	$ 3,828	$ 3,963	$ 4,144	$4,585	$ 4,796	$ 5,099	$ 5,761
Number of Retired Members**	119	325	355	524	382	611	120
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$ 732	$ 1,049	$ 1,728	$2,398	$ 3,129	$ 4,253	$ 4,947
Average Final Average Salary	$ 3,455	$ 3,627	$ 3,867	$4,316	$ 4,263	$ 5,030	$ 5,505
Number of Retired Members**	115	307	344	476	342	564	105
Period 7/1/2005 to 6/30/2006							32
Average Monthly Benefit*	$ 665	$ 981	$ 1,638	$2,252	$ 2,971	$ 4,142	$ 4,679
Average Final Average Salary	$ 3,073	$ 3,413	$ 3,704	$4,123	$ 4,067	$ 4,755	$ 5,324
Number of Retired Members**	116	294	337	449	322	536	100

* *Includes Cost of Living Increases*

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

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

Source: Pension Administration System

Average Benefit Payment Amounts *(Continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2009 to 6/30/2010							
Average Health Subsidy	$ 587	$ 461	$ 650	$ 797	$ 828	$ 867	$ 816
Number of Health Participants*	28	65	212	515	402	649	128
Average Dental Subsidy	$ 103	$ 104	$ 103	$ 103	$ 103	$ 103	$ 103
Number of Dental Participants*	61	218	289	474	384	646	130
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$ 596	$ 449	$ 636	$ 757	$ 779	$ 817	$ 764
Number of Health Participants*	26	65	209	505	377	608	121
Average Dental Subsidy	$ 94	$ 93	$ 93	$ 94	$ 93	$ 93	$ 93
Number of Dental Participants*	61	212	286	467	360	608	122
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$ 761	$ 674	$ 681	$ 727	$ 738	$ 785	$ 738
Number of Health Participants*	20	42	192	492	356	582	114
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98
Number of Dental Participants*	59	206	286	456	339	580	115
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$ 728	$ 683	$ 654	$ 678	$ 679	$ 736	$ 700
Number of Health Participants*	23	45	195	459	331	555	104
Average Dental Subsidy	$ 97	$ 97	$ 97	$ 97	$ 97	$ 97	$ 97
Number of Dental Participants*	62	202	286	431	318	552	105
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 616	$ 635	$ 613	$ 614	$ 615	$ 670	$ 641
Number of Health Participants*	24	49	189	416	305	520	98
Average Dental Subsidy	$ 95	$ 94	$ 94	$ 94	$ 94	$ 94	$ 94
Number of Dental Participants*	62	191	280	397	297	521	99

**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 2009-2010

SERVICE RETIREMENTS

ABRIGO, TERRE
ADDUCI, JAMES
ALBERRY-HAWKINS, MARIE
ANAYA, JOSE
APARICIO, EILEEN
ASHER, ROBERT
ASUNCION-HEPPES, CLEOPATRA
ATKINS, JAMES
AVILA, LILLIAN
BATTAGLIA, MICHELLE
BELL, DIANN
BHATNAGER, SUCHET
BOYD, KATHRYN
BRADY, JOSEPH
BRADY, LESLIE
BRATCHER, DANITA
BUCHANAN, NICHOLAS
CANNON, BRUCE
CAPRI, MICHAEL
CARRERA, LUIS
CARTER, LYGIA
CASAREZ, EUGENE
CASTRO, GORDON
CASTRO, VILMA
CHAN, WENDY
CHEUNG, LINDA
CHIANG, MICHAEL
CLARK, ALICE
COIT, JOY
CORRAL, NICK
CROUTCH, ELLEN
DEAN, DEBORAH
DEMAREE, JANICE
DI CIUCCIO, JOSEPH
DICK, MARYELLEN
DIONNE, LAWRENCE
DUFFY, MICHAEL
ERWIN, DEBORAH
EWING, CHRISTINA
FARNSWORTH, CATHERINE
FELDBERG, LISA
FERRIS-GREER, CAROL
FIGUEROA, GUADALUPE
FLORES, RONNIE
FONES, GARY
FOWLER, BRIAN
GARCIA, GILBERT
GARCIA, MILAGROS
GARCIA, STEVEN
GARCIA, YOLANDA
GARSIDE, ANN
GEARY, HEIDI
GEX, BRANDE
GIENGER, PAULA
GIL, BEATRICE
GILBERT, BARBARA
GRUBBS, LOVELLA
GUERRA, IRENE
GUERREIRO, DORIS
GURARO, WILLIAM
GUZMAN, ROSA
HAGENMAIER, CHUCK
HARSANY, JUDITH
HELMER, JAMES
HERNANDEZ, IRMA
HERNANDEZ, RO SAMARIA
HIMMEL, NED
HONG, BICH
HOROWITZ, IRWIN
HOSKINS, J WAYNE
HOULIHAN, STEPHEN
HUNTER, WILMA
HUNTLEY, JOAN
IACONIS, STEVEN
IBAY, SHIRLEY
IPPOLITO, RONALD
JANSEN, GARY
JENNINGS, MICHELLE
JENSEN, KATHERINE
KAISAKI, LOIS
KANG, HSIU-WEI
KATAI, BRENDA
KEELEY, TERRENCE
KELLEY, CHARLES
KUNESH, CYNTHIA
LA DUC, JEAN
LAM, LAI
LARSON, RANDALL
LETTIERI, FRANK
LINDBERG, DIANE
LINDEMANN, GERALD
LOEWEN, EVET
LOPEZ, RUVI
LOPEZ-INAMI, FRANCINE
LUCAS, GLENDA
LUCAS, RICHARD
LUNA, FRANCISCO
MA, PO
MAJORS, TONY
MATHIASMEIER, DAVID
MC CARREN, ANGELA
MC LAUCHLAN, THOMAS
MEDRANO, DIANA
MEISS, LINDA
MELLO, FRANK
MILLER, CATHY
MOEZZI, FEREYDOUN
MOSLEY, DENISE
MOSLEY, JOE
MOWER, JOHN
NAKAGAWARA, ARLENE
NAKAMOTO, TOM
NEUMILLER, PETER
NOBLE, CATHERINE
NORTON, PATRICIA
OKAZAKI, GARY
OLSON, CRESTON
OVERSTREET, WILLIAM
PALMEN, MATHIAS
PAO, SHARON
PARIEVSKY, YAKOV
PASCUA, CORAZON
PATTEN-MORRIS, LINDA
PERREIRA, SUSAN
PFAFF, DENNIS
PIGNONE, MARTHA
POHLE, RICK
PONCE, LILY
PRINCE, PHILIP
RAY, IRENE
RIOS, ANITA
RIOS, GEORGE
ROBLES, VIVIAN
RODERICK, MICHAEL
ROMERO, LUCIO
ROMERO, RAFAEL
ROSE, BRADLEY
RUDD, MICHAEL
RUIZ, RAYMOND
SABOUR, FREDRICK
SAKAI-MCCLURE, SUSAN
SALAS, TINA
SANCHEZ, OLGA
SANFILIPPO, JOANNE
SCHEFSKI, MONICA
SCHULZ, DONALD
SEABURY, MICHAEL
SEARLE, GORDON
SEPULVEDA, LAURO
SERRAO, JOHN
SGAMBATI, ROBERT
SHIMAMOTO, DORR
SILVA, JOSE
SINGH, JOHN
SLOCUM, HANNAH
SMITH, ROBERT
SOTO, FREDDIE
STAGI, KATHLEEN
STAHLBERGER, RICHARD
TALBOT, VICTORIA
TAM, DENNIS
TENEYUCA, RUDY
TENGSON, ISAGANI
THOMAN, JAMES
TOWN, TIMOTHY
UNDERWOOD, MICHAEL
VARELA, RAMON
VASHISHT, VINOD
VIGIL, JUAN
WARKENTIN, DEBORAH
WARNARS, RAFLES
WARNER, MICHAEL
WEBSTER, LINDA
WHEELER, LELAND
WHITE, ROLAND
WOLFF, CONNIE
YOSHIDA, JERRY
ZAPIEN, ARTHUR

Source: Pension Administration System

Retirements During Fiscal Year 2009-2010 *(Continued)*

DEFERRED VESTED RETIREMENTS

BARNES, SUSAN
BELLINA, WAYNE
BRATCHER, RONALD
CHEN, JAMES
EASTER, CAROL
ENRIQUEZ, LARRY
FITZSIMONS, BILLIE
FOLEY, CAROL
FOLEY, WILLIAM
FORD, KATHRYN
GIBBS, ARLENE
GUTHRIE, JOHN
INOUYE, PAUL
JOHNSON, GREGORY
JOHNSON, NANCY
KEEGAN, BARBARA
LANCASTER, INA
MC MILLAN, SCOTT
MENDOZA, FERNANDO
MERCADO, EDMUND
MORRIS, ROBERT
PARKER, STEVEN
POTTER, WILLIAM
RAROQUE, STANLEY
RAVER, JAMES
RUIZ, MANUEL
SEARLE, CAROL
TINDELL, J. D.
YORK-BERTIER, JUDY

SERVICE CONNECTED DISABILITY RETIREMENTS

CARRILLO, JOE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

MARTIN, DENISE

Deaths During Fiscal Year 2009-2010

DEATHS AFTER RETIREMENT

AINLEY, DORIS
ATKINSON, DONALD
CARTER, CAROL
CERVANTEZ, JESUS
CIRIGLIANO, FRANK
CODAGHENGO, JOHN
COX, L. C.
DAY, JEANNE ASHLEY
DEWITT, JANICE
DOLAN, HARRY
ELLSWORTH, SYLVIA
FRANKLIN, ROY
GALINDO, EULALIO
GALLO, ALBERT
GARZA, STEVE
GIBBONS, PATRICIA
GOSSNER, RONALD
GOUVEIA, JAMES
GUERREIRO, DORIS
GUY, HOWARD
HARTLEY, WILLIAM
HEATH, GLENN
HERNANDEZ, EUGENE
IVIE, RALPH
JACKSON, HERBERT
LANDIS, DORIS
LEABRES, DEMETRIO
L'HEUREUX, HANNAH
MAC TAGGART, NORMAN
MATTEONI, MARY
MC KISSICK, GEORGE
MESSINA, RICHARD
MESTICE, MADELINE
MIGNEAULT, IRENE
OKUN, MELVYN
ORTEGA, STANLEY
PELTON, CAROLYN
PHAGAN, WILLIAM
POOLE, ADA
QUINTANA, JOSE
RADLER, JOSEPH
REDMOND, CARLOTTA
ROMERO, DEMETRIO
ROTI, PETER
SANDERS, DALE
SMITH, GLENN
SPRAGUE, RUSSELL
STOFLET, THOMAS
SWANSON, TONY
THORESON, CARL
VAN WESTENBERG, WALTER
WALKER, ERNEST
WHALEY, RICHARD
WILLIAMS, THOMAS
WOLF, J. LINDSEY
YOUNG, CHARLES
ZUNIGA, RALPH

DEATHS BEFORE RETIREMENT

CAMPOS, ROGELIO
DANIEL, WANDA
DIMARTINO, MANUEL
GUERREIRO, DORIS
HARTMAN, LEONARD
MANDANICI, ROBERT
MATTOS, JOSEPH
MEGRATH, RITA
OCHOA, MANUEL
WARD, DONNA

Source: Pension Administration System