SAN JOSE

CAPITAL OF SILICON VALLEY

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2003

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

CITY OF SAN JOSE

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

Edward F. Overton
Director

City of San Jose
Department of Retirement Services
1737 N. First Street, Suite 580
San Jose, CA 95112-4505
(408) 392-6700 / Fax (408) 392-0771
www.ci.san-jose.ca.us/retire/retirement.htm

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 6, 2003

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

Dear Mayor, Council Members and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. Some significant events worthy of note during this fiscal year were as follows:

- The Plan earned a time-weighted rate of return of 6.85% on investments, compared to 4.38% for its benchmark and 3.94% for the Trust Universe Comparison Service Public Fund Median.

- The Board continued to rebalance to their new asset allocation targets that were approved last year by:
  - Funding an international equities manager, Boston Company Asset Management in February 2003 to bring the international equities asset class closer to its new target.
  - Rebalancing the domestic fixed income asset class by reducing its allocation from 34% to its new target of 29%.

- A new domestic fixed income manager, BlackRock Financial Management, Inc. was funded in October 2002.

- The Board approved proceeding with the exit strategy of the jointly owned properties with the Police & Fire Department Retirement Plan by way of a buy/sell agreement, which was executed in June 2003.

- Over 260 retirees were transitioned to another health plan when Lifeguard went out of business at the end of 2002. The accelerated process involved sending out Requests for Proposal to prospective replacements, interviews, selection of Blue Shield and negotiation of a contract along with the communication, education and transition of the retirees.

- The Board still remains committed to complying with the California Pension Protection Act (Prop 162).

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

Sincerely,

JEFFREY PERKINS, Chair
Board of Administration

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I.
INTRODUCTORY SECTION

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LETTER OF TRANSMITTAL

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

October 20, 2003

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, 2003. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. Macias, Gini & Company LLP, the System's independent auditor, has audited the accompanying financial statements. Management believes that internal control is adequate and the accompanying statements, schedules and tables are fairly presented and free from material misstatement.

The System was established in 1941 and switched to the CAFR format for the fiscal year ended June 30, 2000. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. I encourage you to review the narrative introduction, overview and analysis located in Management's Discussion and Analysis beginning on page 20.

Structure of the Report

This report is presented in five sections:

- The Introductory Section contains the chairman's report, the letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, description of the System's management and organizational structure, a summary of the plan provisions and a listing of the professional service firms used.
- The Financial Section contains the report from the independent auditor, Macias, Gini & Company LLP, Management's Discussion and Analysis, and the basic financial statements of the System and certain required supplementary information and other supplementary information.

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LETTER OF TRANSMITTAL (Continued)

- The Investment Section contains the Investment Consultant's statement produced by the Bank of New York, the System's investment performance consulting firm, along with investment policies and graphs and schedules regarding asset allocation, asset diversification and performance.
- The Actuarial Section contains the certification letter produced by the independent actuary, Gabriel, Roeder, Smith & Company, along with the results of the System's last valuation (2001).
- The Statistical Section contains graphs and schedules with comparative data related to additions, deductions, benefits, and membership.

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

Certificate of Achievement

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

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The System has received the certificate for three consecutive years. The System first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

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

Major Initiatives

The Board of Administration continued implementation of the asset allocation targets approved following completion of an asset liability modeling study in 2002. The new asset allocation adds an allocation to private markets and increases its allocation to developed international equities while reducing its allocation to real estate. Transition to the new asset allocation targets will continue through the 2003-04 fiscal year.

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LETTER OF TRANSMITTAL (Continued)

In January 2003, the Board approved proceeding with an exit strategy related to the three real estate properties, jointly owned with the Police & Fire Department Retirement Plan, by way of a buy/sell agreement. An agreement was executed in June 2003, which set out the course of action for one Plan eventually buying out the other Plan's 50% interest in the jointly owned properties.

Also in January 2003, amendment to the San Jose Municipal Code language to allow plan-to-plan transfers from eligible 457 deferred compensation plans to the System for the purpose of purchase of permissive service credit was approved. The approval allows the acceptance of direct transfers from 457 plans.

In February 2003, clarification of the San Jose Municipal Code language dealing with the tax-free portion of a retiree's service-connected disability benefit was approved. Based on the clarification, the 1099's for the 2002 tax year showed the actual tax-free amount for the first time.

Changes in System Memberships

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

	2003	2002	Increase/ (Decrease)	Percent Change
Active Members*	4,872	5,304	(432)	(8%)
Retired Members	1,836	1,740	96	6%
Survivors**	375	360	15	4%
TOTAL	**7,083**	**7,404**	**(321)**	**(4%)**

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

Financial and Economic Summary

Although the recession apparently ended late in 2001, continued excess capacity in certain industries, the longer-term effects of the Internet bubble, and the economic ramifications of September 11 continued to put downward pressure on corporate profits. Employment continued to contract as corporations tried to control costs in an attempt to improve profitability. As the fiscal year progressed, profits began to stabilize.

The fiscal year ended June 30, 2003 was a transition period. The stock market was retrenching sharply at the beginning of the fiscal year but rebounded by the end of the fiscal year. The System is well structured to meet its investment objectives as defined in the Investment Policy Statement.

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LETTER OF TRANSMITTAL (Continued)

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

Investment Summary

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

Compared to the Trust Universe Comparison Service ("TUCS") Public Fund Universe, the System's investment turned in an above-average performance during the fiscal year 2003. The portfolio earned a time-weighted rate of return of 6.85% versus 4.38% for TUCS, which placed the System's total return in the first percentile of TUCS Public Fund Universe. Over long-term periods, the portfolio has earned a total return of 1.63% over the past three years and 4.71% over the past five years. On a fair value basis, the total System's net assets increased from $1,152,723,948 to $1,223,444,331 net of pending purchases and sales.

Funding

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the funding ratio of the System was approximately 99%. A six-year history of the System's funding progress is presented on page 42. The net increase in System assets for FY 2003 was $69,355,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 30.

Conclusion

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

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

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

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated City Employees Retirement System, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002

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

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

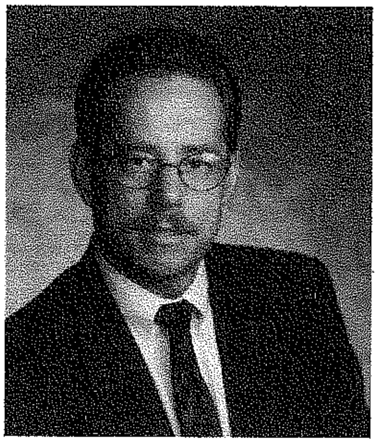
President

Executive Director

BOARD OF ADMINISTRATION

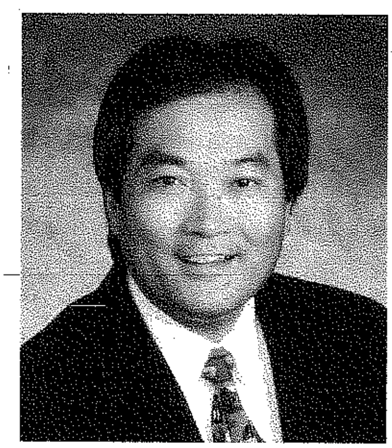
The Retirement System is administered by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two City employees elected by members of the system, a Retiree Representative, and a public member who is not connected with the City and has 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, 2003, the members of the Board were as follows:



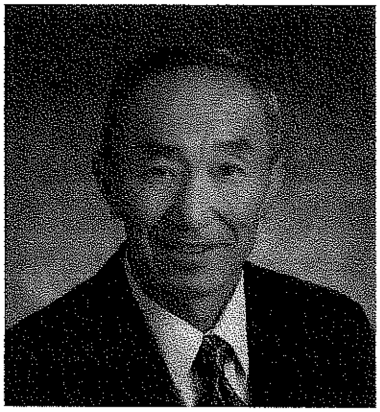
Jeffrey Perkins, Chair
Public member appointed to the Board in June 1996. His current term expires November 30, 2006.

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



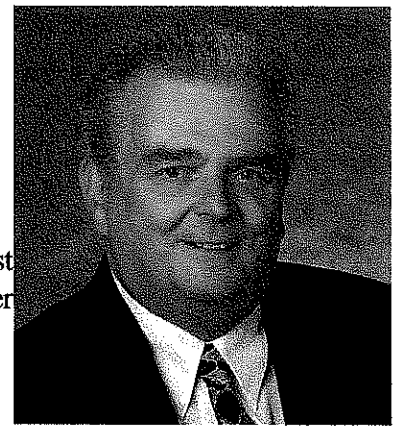
Bradley Imamura
Employee Representative elected to the Board in November 1993. His current term expires November 30, 2005.

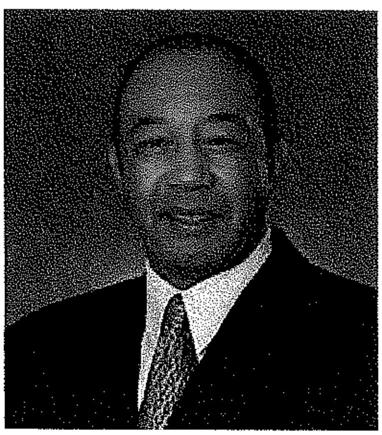
BOARD OF ADMINISTRATION (Continued)



Mike Yoshimoto
Employee Representative appointed to the Board in December 1999. His current term expires November 30, 2003.

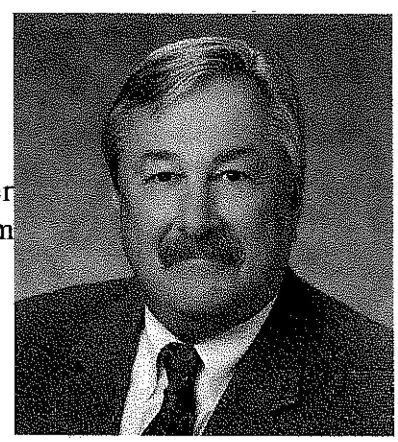
William A. Thomas
Retired Plan member appointed in August 2001. His current term expires November 30, 2004.





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

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



OUTSIDE CONSULTANTS

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

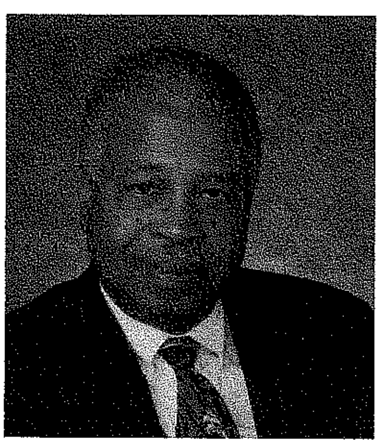
A list of Investment Professionals begins on page 65 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

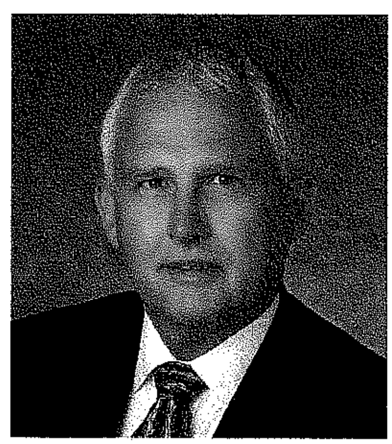
Board Meetings:	Second Thursday of the Month 8:30 AM - City Hall Council Chambers
Committee for Investments:	Quarterly
Committee of the Whole:	Quarterly
Real Estate Committee:	Quarterly

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

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

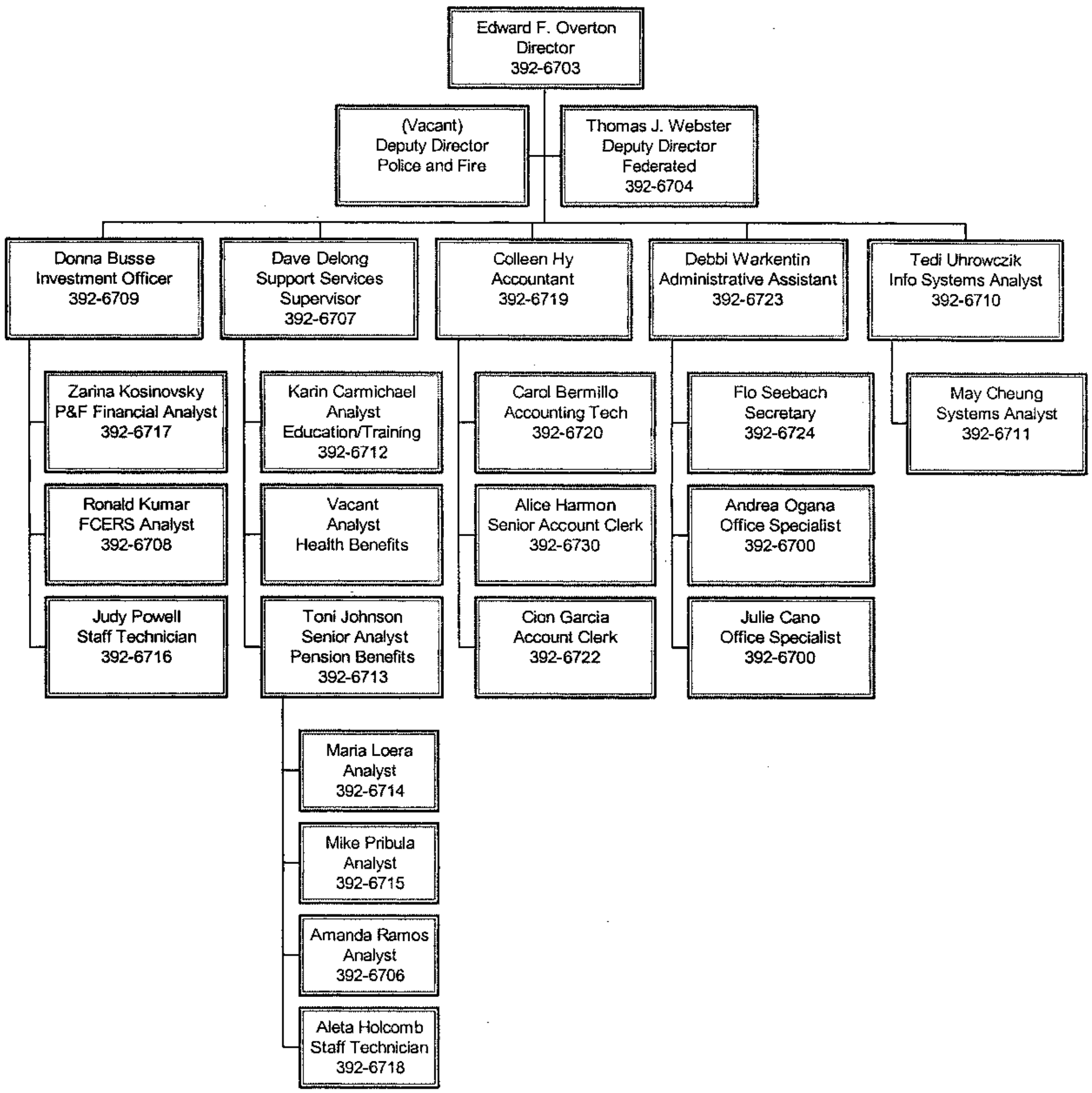


Edward F. Overton
Director, Retirement Services



Thomas J. Webster
Deputy Director

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



DEPARTMENT OF RETIREMENT SERVICES
1737 North First Street, Suite 580
San Jose, CA 95112
(408) 392-6700
(800) 732-6477
(408) 392-0771 FAX
www.ci.san-jose.ca.us/retire/retirement.htm

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS

MEMBERSHIP

Mandatory for all full-time non-safety employees.

MEMBER CONTRIBUTION

All members contribute 5.08% of base salary.

CITY'S CONTRIBUTION

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

RETIREMENT

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

RETIREMENT ANNUITY

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

FINAL AVERAGE SALARY

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

DISABILITY RETIREMENT

Non-Service Connected

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

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

20% of Final Average Salary for 6 years of service;
add 2% for each year of service in excess of 6 years but less than 16 years;
add 2 1/2% for each year of service in excess of 16 years of service.

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

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

TERMINATION BENEFITS

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

DEFERRED RETIREMENT

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

RECIPROCITY

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

COST OF LIVING

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

DEATH BEFORE RETIREMENT

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

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

determined by the years of service times 2 1/2% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

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

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

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

DEATH AFTER RETIREMENT

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

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

MANAGEMENT

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

ADMINISTRATION

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

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

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

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS (Continued)

ACTUARIAL SOUNDNESS

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

INVESTMENT AUTHORITY AND POLICY

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

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II.
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Macias, Gini & Company LLP
Certified Public Accountants and Management Consultants

Mt. Diablo Plaza
2175 N. California Boulevard
Suite 645
Walnut Creek, CA 94596-3565
925•274•0190
925•274•3819 FAX
www.maciasgini.com

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial 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, 2003 and 2002, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

The Management's Discussion and Analysis and the schedules designated as other required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
August 29, 2003

Offices located throughout California

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights for Fiscal Year 2003

- The net assets of the System at the close of the fiscal year 2003 are $1,217,789,000 (net assets held in trust for pension benefits and post-employment healthcare benefits). All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.
- The System's total net assets held in trust for pension benefits and post-employment healthcare benefits increased by $69,355,000, or 6.04%, primarily as a result of a strengthening in the investment market.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of our last actuarial valuation, the funded ratio for the System was approximately 99%. In general, this indicates that for every dollar of benefits due we have approximately $.99 of assets to cover it.
- Additions to Plan Net Assets for the year were $132,457,000, which includes member and employer contributions of $57,085,000, net investment income of $75,211,000, and net securities lending income of $161,000.
- Deductions in Plan Net Assets increased from $58,740,000 to $63,102,000 over the prior year, or approximately 7.43% due to an increase in retirement and healthcare benefits, which was attributable to enhanced benefits and an increased number of beneficiaries along with increased health premium costs.

Overview of the Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

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

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

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

These two statements report the System's net assets held in trust for pension benefits and post-employment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health. (See the System's financial statements on pages 28-31 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 pages 32-40 of this report.)

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension benefits to members, employer contributions and actuarial methods and assumptions (see Other Required Supplementary Information beginning on page 41 of this report.)

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a & 1b on page 22). The assets of the System exceeded its liabilities at the close of fiscal year 2003.

As of fiscal year ended June 30, 2003, $1,217,789,000 in total net assets is held in trust for pension benefits and postemployment healthcare benefits. All of the net assets are available to meet the System's ongoing obligation to plan participants and their beneficiaries, except assets held in the Supplemental Retiree Benefit Reserve, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2003, total net assets increased by 6.04% over the prior year primarily due to appreciation in the fair value of investments, which increased $111,326,000 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
Page 3 of 8

For 2002, $1,148,434,000 in total net assets was held in trust for pension benefits and postemployment healthcare benefits. This total represented a decrease of 2.2% in net assets over the prior year primarily due to decrease in market value of securities, which decreased $30,699,000 from 2001.

Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 35). The Defined Benefit Pension Plan Net Assets are allocated between the Retirement Fund, which includes postemployment healthcare benefits, and the Cost-of-Living Fund.

Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in a reserve account called "unrealized gains (loss) on investments held", established in 1996.

The appreciation in the fair value of investments and the five-year smoothing of investment gains and losses resulted in an increase in the "unrealized gains (loss) on investments held" reserve of $52,942,000 as of June 30, 2003.

For 2002, the decline in the fair value of investments and the five-year smoothing of investment gains and losses resulted in a decrease in the "unrealized gains (loss) on investments held" reserve of $51,508,000 from 2001.

FCERS Net Assets - (Table 1a)
June 30, 2003 and 2002

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

FCERS Net Assets - (Table 1b)
June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 17,296,000	$ 9,244,000	$ 8,052,000	87.1%
Investments at Fair Value	1,292,619,000	1,245,246,000	47,373,000	3.8%
Total Assets	**1,309,915,000**	**1,254,490,000**	**55,425,000**	**4.4%**
Current Liabilities	161,481,000	80,614,000	80,867,000	100.3%
Total Liabilities	**161,481,000**	**80,614,000**	**80,867,000**	**100.3%**
Net Assets	**$ 1,148,434,000**	**$ 1,173,876,000**	**$ (25,442,000)**	**(2.2%)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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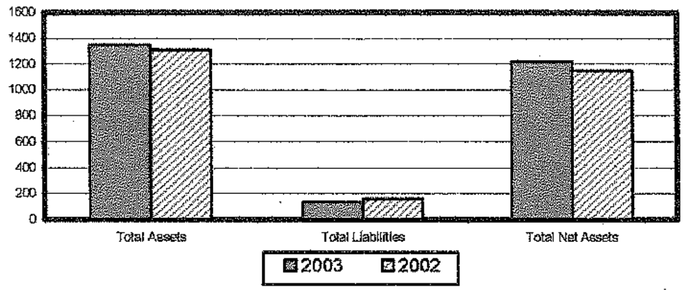
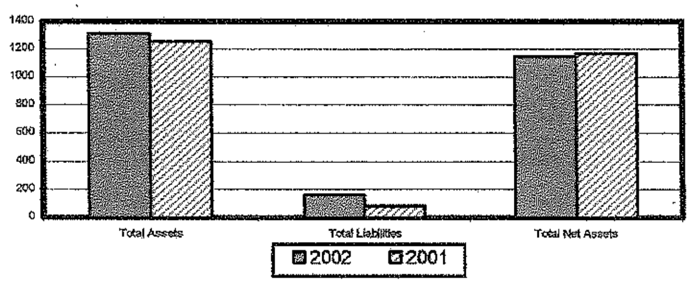
FCERS Plan Net Assets
(Dollars in Millions)





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

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

* Net of Investment Expenses of $3,793,000 and $3,596,000 in 2003 and 2002, respectively

Additions to Plan Net Assets (Table 2b)
For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 13,858,000	$ 11,768,000	$ 2,090,000	17.8%
Employer Contributions	45,138,000	37,034,000	8,104,000	21.9%
Net Investment Gain (Loss)*	(25,874,000)	(3,656,000)	(22,218,000)	(607.7%)
Net Securities Lending Income	176,000	186,000	(10,000)	(5.4%)
Total Additions	**$ 33,298,000**	**$ 45,332,000**	**$ (12,034,000)**	**(26.5%)**

* Net of Investment Expenses of $3,596,000 and $3,612,000 in 2002 and 2001, respectively

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
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Deductions to Plan Net Assets (Table 3a)
For the Years Ended June 30, 2003 and 2002

	2003	2002	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	$ 51,520,000	$ 48,235,000	$ 3,285,000	6.8%
Healthcare Insurance Premiums	9,191,000	7,804,000	1,387,000	17.8%
Death Benefits	46,000	22,000	24,000	109.1%
Refund of Contributions	714,000	1,207,000	(493,000)	(40.8%)
Administrative and other	1,631,000	1,472,000	159,000	10.8%
Total Deductions	**$ 63,102,000**	**$ 58,740,000**	**$ 4,362,000**	**7.4%**

Deductions to Plan Net Assets (Table 3b)
For the Years Ended June 30, 2002 and 2001

	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Retirement Benefits	$ 48,235,000	$ 43,761,000	$ 4,474,000	10.2%
Healthcare Insurance Premiums	7,804,000	6,530,000	1,274,000	19.5%
Death Benefits	22,000	105,000	(83,000)	(79.0%)
Refund of Contributions	1,207,000	1,886,000	(679,000)	(36.0%)
Administrative and other	1,472,000	1,420,000	52,000	3.7%
Total Deductions	**$ 58,740,000**	**$ 53,702,000**	**$ 5,038,000**	**9.4%**

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

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

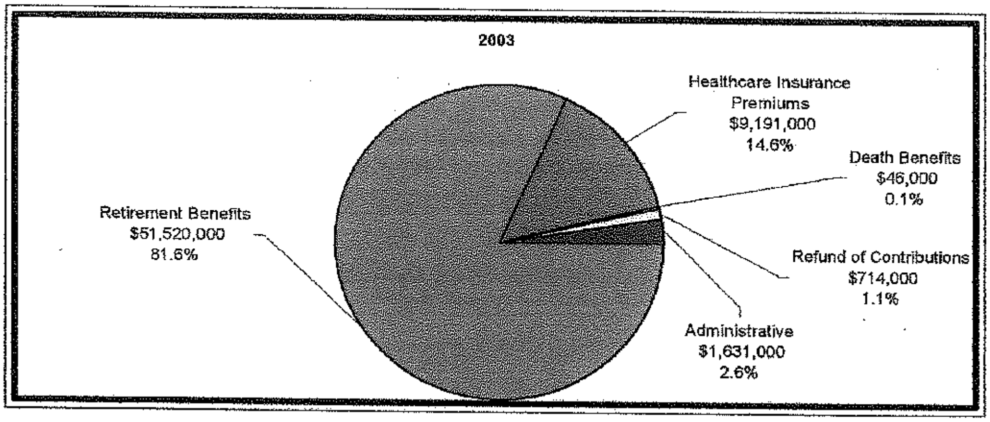
Changes in Plan Net Assets (Table 4b)
For the Years Ended June 30, 2002 and 2001

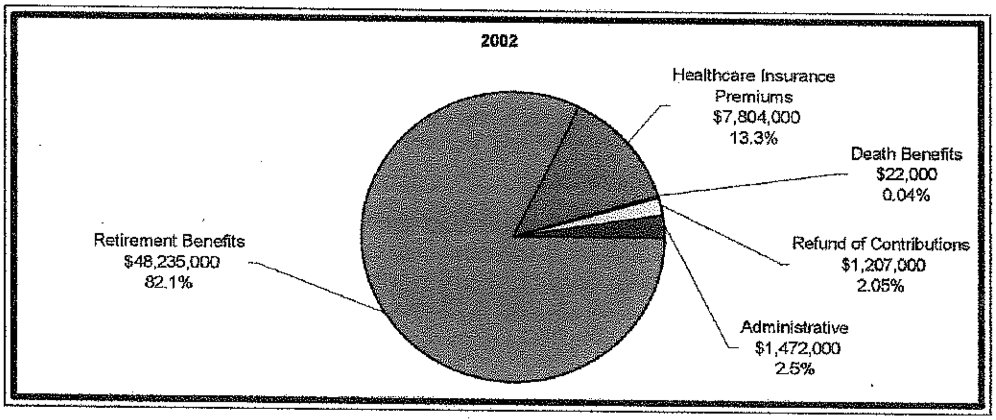
	2002	2001	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Total Additions	$ 33,298,000	$ 45,332,000	$ (12,034,000)	(26.5%)
Total Deductions	58,740,000	53,702,000	5,038,000	9.4%
Net Decrease in Plan Assets	**$ (25,442,000)**	**$ (8,370,000)**	**$ (17,072,000)**	**(204.0%)**

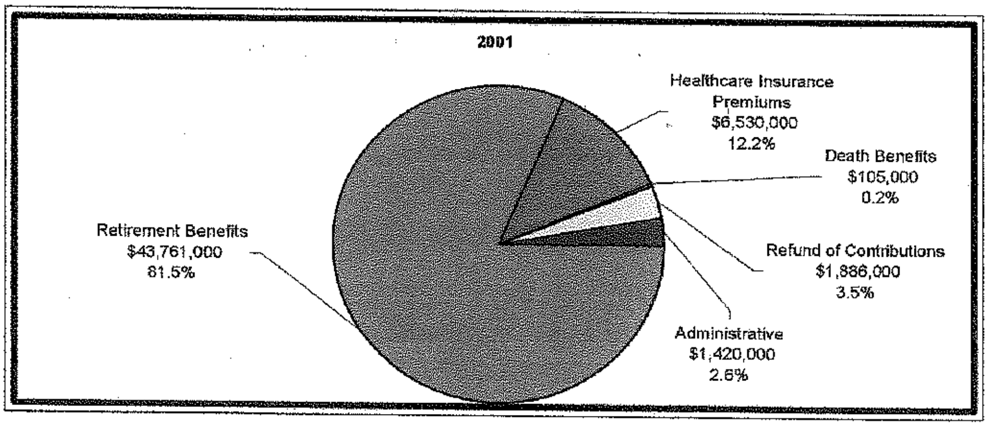
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Management's Discussion and Analysis
Page 6 of 8

Deductions to Plan Net Assets







MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FCERS ACTIVITIES

The market appreciation resulted in increased net assets by $69,355,000, thereby accounting for a 6.04% increase over the prior year. Key elements of this increase are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions for the fiscal year ended June 30, 2003, totaled $132,457,000 (see Table 2a on page 23).

By fiscal year-end, overall additions had increased by $99,159,000 from the prior year primarily due to unrealized investment gains. The investment section of this report reviews the results of investment activity for the fiscal year ended June 30, 2003.

Additions for the fiscal year ended June 30, 2002 totaled $33,298,000, which represented a decrease by $12,034,000, or 26.5%, from the prior year primarily due to unrealized investment losses (see Table 2b on page 23).

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2003 totaled $63,102,000, an increase of 7.43% over fiscal year June 30, 2002 (see Table 3a on page 24). Increases in retirement benefits of $3,285,000, and healthcare insurance premiums of $1,387,000, were the primary reasons for increased deduction. Retirement benefits increased due to benefit enhancements and increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums and administrative expenses increased primarily as a result of an increase in payroll costs due to increased staffing.

Deductions for the fiscal year June 30, 2002 totaled $58,740,000, an increase of 9.4% over June 30, 2001 (see Table 3b on page 24). Increases in retirement benefits of $4,474,000, and healthcare insurance premiums of $1,274,000 were the primary reasons for increased deductions.

The System's Fiduciary Responsibilities

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Requests for Information

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

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

Respectfully Submitted,

Edward F. Overton
Director, Retirement Services

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

	2003		
	Pension benefits	Postemployment healthcare benefits	Total
ASSETS:			
Receivables:			
Employee contributions	$ 257	$ 66	$ 323
Employer contributions	881	89	970
Brokers and others	1,924	115	2,039
Accrued investment income	7,592	457	8,049
Total receivables	10,654	727	11,381
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	47,289	2,789	50,078
U.S. government securities	142,196	8,388	150,584
Foreign government bonds	89,767	5,295	95,062
Domestic corporate bonds	111,338	6,568	117,906
Foreign corporate bonds	11,422	674	12,096
Domestic equity securities	497,752	29,361	527,113
Foreign equity securities	153,952	9,081	163,033
State and local obligations	1,803	106	1,909
Short-term foreign currency investments	643	38	681
Collective short-term investment funds	10,457	618	11,075
Real estate	82,449	4,863	87,312
Securities lending cash collateral investment pool	114,792	6,901	121,693
Total investments	1,263,860	74,682	1,338,542
Total assets	1,274,514	75,409	1,349,923
LIABILITIES:			
Payable to brokers	8,557	514	9,071
Securities lending collateral due to borrowers	114,792	6,901	121,693
Other liabilities	1,292	78	1,370
Total liabilities	124,641	7,493	132,134
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,149,873	-	1,149,873
Postemployment healthcare benefits	-	67,916	67,916
Total net assets (A schedule of funding progress is presented on page 42.)	$ 1,149,873	$ 67,916	$ 1,217,789

See accompanying notes to basic financial statements.

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

	2002		
	Pension benefits	Postemployment healthcare benefits	Total
ASSETS:			
Receivables:			
Employee contributions	$ 245	$ 63	$ 308
Employer contributions	805	80	885
Brokers and others	7,224	449	7,673
Accrued investment income	7,937	493	8,430
Total receivables	16,211	1,085	17,296
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	103,940	6,330	110,270
U.S. government securities	119,396	7,271	126,667
Foreign government bonds	65,463	3,986	69,449
Domestic corporate bonds	140,044	8,528	148,572
Foreign corporate bonds	9,801	597	10,398
Domestic equity securities	213,276	12,988	226,264
Foreign equity securities	84,208	5,128	89,336
Short-term foreign currency investments	(572)	(35)	(607)
Collective short-term investment funds	239,640	14,592	254,232
Real estate	103,367	6,421	109,788
Securities lending cash collateral investment pool	139,579	8,671	148,250
Total investments	1,218,142	74,477	1,292,619
Total assets	1,234,353	75,562	1,309,915
LIABILITIES:			
Payable to brokers	11,290	702	11,992
Securities lending collateral due to borrowers	139,579	8,671	148,250
Other liabilities	1,165	74	1,239
Total liabilities	152,034	9,447	161,481
NET ASSETS HELD IN TRUST FOR:			
Pension benefits	1,082,319	-	1,082,319
Postemployment healthcare benefits	-	66,115	66,115
Total net assets (A schedule of funding progress is presented on page 42.)	$ 1,082,319	$ 66,115	$ 1,148,434

See accompanying notes to basic financial statements.

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

	2003		
	Pension benefits	Postemployment healthcare benefits	Total
ADDITIONS:			
Contributions:			
Employee	$ 11,776	$ 3,032	$ 14,808
Employer	38,411	3,866	42,277
Total contributions	50,187	6,898	57,085
Investment income:			
Net appreciation in fair value of investments	38,521	2,197	40,718
Interest income	24,039	1,470	25,509
Dividend income	5,184	316	5,500
Net rental income	6,857	420	7,277
Less investment expense	(3,574)	(219)	(3,793)
Net investment income before securities lending income	71,027	4,184	75,211
Securities lending income:			
Earnings	1,543	94	1,637
Rebates	(1,289)	(79)	(1,368)
Fees	(102)	(6)	(108)
Net securities lending income	152	9	161
Net investment income	71,179	4,193	75,372
Total additions	121,366	11,091	132,457
DEDUCTIONS:			
Retirement benefits	51,520	-	51,520
Healthcare insurance premiums	-	9,191	9,191
Death benefits	46	-	46
Refund of contributions	714	-	714
Administrative expenses and other	1,532	99	1,631
Total deductions	53,812	9,290	63,102
Net increase	67,554	1,801	69,355
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	1,082,319	66,115	1,148,434
End of year	$ 1,149,873	$ 67,916	$ 1,217,789

See accompanying notes to basic financial statements.

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

	2002		
	Pension benefits	Postemployment healthcare benefits	Total
ADDITIONS:			
Contributions:			
Employee	$ 11,071	$ 2,787	$ 13,858
Employer	41,011	4,127	45,138
Total contributions	52,082	6,914	58,996
Investment income (loss):			
Net depreciation in fair value of investments	(66,404)	(4,204)	(70,608)
Interest income	29,373	1,840	31,213
Dividend income	7,717	483	8,200
Net rental income	8,392	525	8,917
Less investment expense	(3,383)	(213)	(3,596)
Net investment loss before securities lending income	(24,305)	(1,569)	(25,874)
Securities lending income:			
Earnings	2,356	148	2,504
Rebates	(2,082)	(130)	(2,212)
Fees	(109)	(7)	(116)
Net securities lending income	165	11	176
Net investment loss	(24,140)	(1,558)	(25,698)
Total additions	27,942	5,356	33,298
DEDUCTIONS:			
Retirement benefits	48,235	-	48,235
Healthcare insurance premiums	-	7,804	7,804
Death benefits	22	-	22
Refund of contributions	1,207	-	1,207
Administrative expenses and other	1,378	94	1,472
Total deductions	50,842	7,898	58,740
Net increase (decrease)	(22,900)	(2,542)	(25,442)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND POSTEMPLOYMENT HEALTHCARE BENEFITS:			
Beginning of year	1,105,219	68,657	1,173,876
End of year	$ 1,082,319	$ 66,115	$ 1,148,434

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended June 17, 2003, to provide retirement benefits for certain employees of the City of San José ("City"). The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration ("Board of Administration"). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided by the City.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System. Total payroll, except for Police and Fire employees, amounted to approximately $290,832,000 and $276,072,000 for 2003 and 2002, respectively. Covered payroll amounted to approximately $278,498,000 and $261,745,000 for 2003 and 2002, respectively.

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

	2003	2002
Defined Benefit Pension Plan:		
Retirees and beneficiaries currently receiving benefits	2,211	2,100
Terminated vested members not yet receiving benefits	378	360
Active members	4,494	4,944
Total	7,083	7,404
Postemployment Healthcare Plan:		
Retirees and beneficiaries currently receiving benefits	1,621	1,877
Terminated vested members not yet receiving benefits	51	50
Active members	4,494	4,944
Total	6,166	6,871

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(b) Pension Benefits

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

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

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

(c) Death Benefits

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

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

(d) Disability Benefits

If an employee suffers a service related disability before retirement, the employee may retire regardless of length of service. The annual disability benefit paid for a service related disability is a minimum of 40% of the member's final average salary plus 2.5% of final average salary for each year in excess of 16 years of service. The maximum benefit is 75% of final average salary.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

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

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

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) *Investments*

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

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

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

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2003 and 2002, the net assets, totaling $1,217,789 and $1,148,434, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Total Defined Benefit Pension Plan	Post-employment Healthcare Plan	Reallocation	Total
June 30, 2003:						
Employee contributions	$ 154,977	$ 47,279	$ 202,256	$ 14,186	$ -	$ 216,442
Employer contributions	291,619	124,640	416,259	26,694	-	442,953
Retired employees' annuity	330,713	97,022	427,735	30,272	-	458,007
Benefits payable	95,180	-	95,180	-	-	95,180
Supplemental retiree benefits	15,140	-	15,140	-	-	15,140
Contingency reserve	(19,723)	-	(19,723)	(1,805)	-	(21,528)
Unrealized gains (loss) on investments held	(17,910)	21,033	3,123	(1,431)	-	1,692
General reserve	-	9,903	9,903	-	-	9,903
Total	$ 849,996	$ 299,877	$ 1,149,873	$ 67,916	$ -	$ 1,217,789
June 30, 2002:						
Employee contributions	$ 145,650	$ 45,898	$ 191,548	$ 19,096	$ -	$ 210,644
Employer contributions	274,560	150,320	424,880	35,998	(25,925)	434,953
Retired employees' annuity	120,391	(9,023)	111,368	15,784	316,039	443,191
Benefits payable	303,249	-	303,249	-	(216,965)	86,284
Supplemental retiree benefits	14,695	-	14,695	-	-	14,695
Contingency reserve	(2,644)	-	(2,644)	(347)	-	(2,991)
Unrealized gains (loss) on investments held	(53,582)	6,748	(46,834)	(4,416)	-	(51,250)
General reserve	-	86,057	86,057	-	(73,149)	12,908
Total	$ 802,319	$ 280,000	$ 1,082,319	$ 66,115	$ -	$ 1,148,434

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Interest Crediting - Interest is credited from the Contingency Reserves to the other reserve accounts (except for the Unrealized Gains (Loss) on investments Held Reserves and the General Reserves) based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 3.0% during both fiscal years 2003 and 2002.

Excess Earnings - Within 90 days of completion of the annual audit of the System's financial statements, any excess earnings as defined by the San José Municipal Code remaining in the Contingency Reserves are to be transferred 90% to the benefits payable and 10% to the supplemental retiree benefits categories of net assets. For fiscal years 2003 and 2002 there were no "excess earnings".

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

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

Interest Crediting - Interest is credited from the Contingency Reserves to the other reserve accounts (except for the Contingency Reserves and the Unrealized Gains (Loss) on Investments Held Reserves) based on the average balances of the accounts multiplied by the crediting rate established by the Retirement Board, which was 3.0% during both fiscal years 2003 and 2002.

Reserve Reallocation for the Defined Benefit Pension Plan

During fiscal year 2003, the System hired an actuary to perform a study on the retired employees' annuity reserve balances as of June 30, 2002 for the Retirement and Cost-of-Living Funds. It was noted that the retired employees' annuity reserve balances accounts were decreasing at a faster rate than expected. The study concluded that the System had not transferred adequate reserves from the employee and employer contributions reserve accounts to the retired employees' annuity reserve account when employees retired. During fiscal year 2003, the System transferred

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

$216,965,000 from the benefits payable reserve account to the retired employees' annuity reserve account in the Retirement Fund to cover the actuarially determined deficiency at June 30, 2002. In addition, the System transferred $25,925,000 and $73,149,000 from the employer contributions and the general reserve accounts, respectively, to the retired employees' annuity reserve account in the Cost-of-Living Fund. Based on the actuarially calculated retired employees' annuity reserve account balance for the Cost-of-Living Fund at June 30, 2002, which was $222,031,000 there are insufficient transferable amounts available to produce the appropriate value for this reserve account after reallocation. This reserve is still under funded by $131,981,000, which will be funded in subsequent periods.

(e) ***Reclassifications***

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

NOTE 3 – INVESTMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 3 – INVESTMENTS (Continued)

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

	Fair Value	
	June 30, 2003	June 30, 2002
Category 1:		
U.S. Treasury notes and bonds:		
Not on securities loan	$ 15,016	$ 6,503
Loaned securities for non-cash collateral	9,665	-
U.S. government securities:		
Not on securities loan	147,293	126,037
Loaned securities for non-cash collateral	-	630
Foreign government bonds	89,494	69,449
Domestic corporate bonds	99,897	133,433
Foreign corporate bonds	12,096	10,398
Domestic equity securities	471,236	212,518
Foreign equity securities	153,875	78,490
State and local obligations	1,909	-
Uncategorized:		
Investments held by broker-dealers under securities loans for cash collateral:		
U.S. Treasury notes and bonds	25,397	103,767
U.S. government securities	3,291	-
Foreign government bonds	5,568	-
Domestic corporate bonds	18,009	15,139
Domestic equity securities	55,877	13,746
Foreign equity securities	9,158	10,846
Short-term foreign currency investments	681	(607)
Collective short-term investment funds	11,075	254,232
Real estate investments	87,312	109,788
Securities lending collateral investment pool	121,693	148,250
Total investments	$1,338,542	$ 1,292,619

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

	June 30, 2003	June 30, 2002
Investments:		
Defined Benefit Pension Plan	$ 1,263,860	$ 1,218,142
Postemployment Healthcare Plan	74,682	74,477
	$ 1,338,542	$ 1,292,619

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 3 – INVESTMENTS (Continued)

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

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and with broker-dealers registered under the Securities and Exchange Act of 1934; and
- Fully insured bank deposits.

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

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

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

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

As of June 30, 2003, the underlying securities loaned by the System as a whole amounted to approximately \$126,965,000. The cash collateral and the non-cash collateral totaled \$121,693,000 and \$10,024,000, respectively. As of June 30, 2002, the underlying securities loaned by the System as a whole amounted to approximately \$144,128,000. The cash collateral and the non-cash collateral totaled \$148,250,000 and \$641,000, respectively. The System has no exposure to credit risk related to the securities lending transactions as of June 30, 2003 and 2002.

Real Estate investments include a warehouse and a retail center located in Northern California, an industrial complex and retail center in Southern California, and an interest in three real estate funds managed by third

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
For the Fiscal Years Ended June 30, 2003 and 2002

NOTE 3 – INVESTMENTS (Continued)

parties. All the properties are jointly owned with the City's other retirement fund. The properties have leases with various terms.

The System has made investments in forward currency contracts, which are commitments to purchase or sell stated amounts of foreign currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2003 and 2002, the System's net position in these contracts is recorded at fair value as short-term foreign currency investments. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. The System's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2003, total commitments in forward currency contracts to purchase and sell foreign currencies were $55,202,000 and $55,202,000, respectively, with market values of $55,326,000 and $56,007,000, respectively. As of June 30, 2002, total commitments in forward currency contracts to purchase and sell foreign currencies were $24,955,000 and $24,955,000, respectively, with market values of $24,938,000 and $24,331,000, respectively. The System's commitments relating to forward currency contracts are settled on a net basis.

NOTE 4 – CONTRIBUTIONS - FUNDING POLICY

Contributions to the Defined Benefit Pension Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due, over the next 15 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan (see page 42).

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

	City		Employee	
Period	Pension	Healthcare	Pension	Healthcare
7/01/01 – 8/18/01	15.33%	0.76%	4.17%	0.59%
8/19/01 – 6/22/02	16.64	0.76	4.37	0.59
6/23/02 – 6/30/03	13.82	1.38	4.04	1.04

NOTE 5 – CONCENTRATIONS

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

NOTE 6 – BUY-SELL AGREEMENT WITH THE CITY OF SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Funding Progress – GASB No. 25

Actuarial valuation date	Actuarial value of assets [d]	Actuarial accrued liability (AAL)	Unfunded AAL	Funded ratio	Annual covered payroll[e]	Unfunded AAL as a percentage of annual covered payroll
June 30, 1996 [a]	$ 622,528	$ 696,974	$ 74,446	89%	$ 165,101	45%
June 30, 1997	678,954	735,772	56,818	92%	176,284	32%
June 30, 1998 [b]	741,907	798,999	57,092	93%	182,842	31%
June 30, 1999	804,860	862,226	57,366	93%	196,178	29%
June 30, 2000 [c]	932,502	967,280	34,778	96%	224,437	16%
June 30, 2001	1,060,144	1,072,333	12,189	99%	252,696	5%

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

(a) Average of the June 30, 1995 and June 30, 1997 results.

(b) Average of the June 30, 1997 and June 30, 1999 results.

(c) Average of the June 30, 1999 and June 30, 2001 results.

(d) 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.

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

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

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

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

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

Description	Method/Assumption
Valuation date	June 30, 2001
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	19 years, closed
Actuarial asset valuation method	5 year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8.25% per annum
Postretirement mortality	The 1983 Group Annuity Mortality Table for males, with one year setback is used for male members. The 1983 Group Annuity Mortality Table for females, with one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Tables based on current experience
Salary increases	Total System payroll is assumed to increase 4.5% per year. Graded increases ranging from 8.00% at age 25 to 5.0% at ages 65 and over. Of the total salary increases 4.50% is for inflation and merit and longevity.
Cost-of-living adjustments	3.0% a year

OTHER SUPPLEMENTARY INFORMATION

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

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS:			
Receivables:			
Employee contributions	$ 186	$ 71	$ 257
Employer contributions	676	205	881
Brokers and others	1,447	477	1,924
Accrued investment income	5,724	1,868	7,592
Total receivables	8,033	2,621	10,654
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	34,956	12,333	47,289
U.S. government securities	105,111	37,085	142,196
Foreign government bonds	66,356	23,411	89,767
Domestic corporate bonds	82,301	29,037	111,338
Foreign corporate bonds	8,443	2,979	11,422
Domestic equity securities	367,937	129,815	497,752
Foreign equity securities	113,801	40,151	153,952
State and local obligations	1,333	470	1,803
Short-term foreign currency investments	475	168	643
Collective short-term investment funds	7,730	2,727	10,457
Real estate	60,946	21,503	82,449
Securities lending collateral investment pool	86,483	28,309	114,792
Total investments	935,872	327,988	1,263,860
Total assets	943,905	330,609	1,274,514
LIABILITIES:			
Payable to brokers	6,447	2,110	8,557
Securities lending collateral due to borrowers	86,483	28,309	114,792
Other liabilities	979	313	1,292
Total liabilities	93,909	30,732	124,641
Net assets held in trust for pension benefits	$ 849,996	$ 299,877	$ 1,149,873

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2003
(In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS:			
Contributions:			
Employee	$ 8,512	$ 3,264	$ 11,776
Employer	29,496	8,915	38,411
Total contributions	38,008	12,179	50,187
Investment income:			
Net appreciation in fair value of investments	27,089	11,432	38,521
Interest income	18,117	5,922	24,039
Dividend income	3,907	1,277	5,184
Net rental income	5,172	1,685	6,857
Less investment expense	(2,702)	(872)	(3,574)
Net investment income before securities lending income	51,583	19,444	71,027
Securities lending income:			
Earnings	1,164	379	1,543
Rebates	(972)	(317)	(1,289)
Fees	(77)	(25)	(102)
Net securities lending income	115	37	152
Net investment income	51,698	19,481	71,179
Total additions	89,706	31,660	121,366
DEDUCTIONS:			
Retirement benefits	40,143	11,377	51,520
Death benefits	46	-	46
Refund of contributions	580	134	714
Administrative expenses and other	1,260	272	1,532
Total deductions	42,029	11,783	53,812
Net increase	47,677	19,877	67,554
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	802,319	280,000	1,082,319
End of year	$ 849,996	$ 299,877	$ 1,149,873

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER
For the Fiscal Years Ended June 30, 2003 and 2002

	2003			2002
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personnel services:				
Permanent staff expense	$ 1,084,192	$ 1,054,524	$ 29,668	$ 871,595
Temporary staff expense	7,300	-	7,300	-
Total personnel services	1,091,492	1,054,524	36,968	871,595
Professional services:				
Actuarial services	60,000	20,578	39,422	54,493
Medical services	59,305	30,994	28,311	37,115
Audit	34,500	23,527	10,973	19,712
Legal counsel	8,550	8,805	(255)	7,298
Software development consultant	30,000	27,853	2,147	24,892
Business processes and procedures	95,000	94,961	39	-
Pension benefit information	3,300	1,556	1,744	2,088
Web development and maintenance	61,500	2,050	59,450	-
Total professional services	352,155	210,324	141,831	145,598
Communication:				
Postage	15,000	14,504	496	16,098
Printing and duplicating	19,000	19,506	(506)	16,032
Communication	14,400	6,677	7,723	-
Data processing	5,500	5,632	(132)	5,243
Total communication	53,900	46,319	7,581	37,373
Structure and equipment:				
Copier lease	7,200	6,475	725	6,005
Copier maintenance	1,000	615	385	742
Furniture	3,000	534	2,466	13,043
Moving Service	-	-	-	2,610
Equipment	5,200	2,349	2,851	36,087
Equipment repair and miscellaneous services	4,800	1,413	3,387	5,643
Software enhancements	45,000	20,925	24,075	19,563
Computer hardware/software	19,300	18,339	961	43,453
Total structure and equipment	85,500	50,650	34,850	127,146
Miscellaneous:				
Office expense	13,800	7,938	5,862	29,193
Dues/subscriptions	3,300	2,425	875	2,354
Training	67,300	59,519	7,781	34,462
Travel	88,000	55,067	32,933	48,706
Non-employee Board member stipend	600	600	-	-
Rent on building	140,000	130,360	9,640	131,349
Tenant improvements	-	-	-	44,218
Payroll tax expense	-	13,271	(13,271)	-
Total miscellaneous	313,000	269,180	43,820	290,282
Total administrative expenses and other	$ 1,896,047	$ 1,630,997	$ 265,050	$ 1,471,994

SCHEDULES OF INVESTMENT EXPENSES
For the Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
Equity:		
Domestic equity	$ 1,080,527	$ 1,159,029
International equity	570,151	443,036
Total equity	1,650,678	1,602,065
Fixed income:		
Domestic fixed income	678,187	508,884
Global fixed income	295,132	261,383
Total fixed income	973,319	770,267
Real estate	831,991	967,242
Total investment managers' fees	3,455,988	3,339,574
Other investment service fees:		
Investment consultant	97,098	45,000
Proxy voting	6,870	8,940
Real estate legal fees	110,873	79,903
Real estate appraisal fees	-	23,250
Custodian	122,207	99,285
Total other investment service fees	337,048	256,378
TOTAL INVESTMENT EXPENSES	$ 3,793,036	$ 3,595,952

SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Fiscal Years Ended June 30, 2003 and 2002

Firm	Nature of Service	2003	2002
Levi, Ray & Shoup	PensionGold Software Developers	$ 48,778	$ 24,892
Levi, Ray & Shoup	Web Development, Maintenance and Hosting	2,050	-
Macias, Gini & Company	External Auditors	23,527	19,712
Medical Director/Other Medical	Medical Consultant	30,994	37,115
Mercer Human Resources	Operations Review Project	94,961	-
Pension Benefit Information	Reports on Beneficiary Deaths	1,556	2,088
Saltzman & Johnson	Legal Counsel	8,805	7,298
Gabriel, Roeder, Smith & Company	Actuarial Consultant	20,578	54,493
Total		$ 231,249	$ 145,598

III.
INVESTMENT SECTION

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REPORT ON INVESTMENT ACTIVITY

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

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

October 14, 2003

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

Dear Mr. Overton:

This letter reviews the investment activity of the Federated City Employees' Retirement System of San Jose during the fiscal year ended June 30, 2003 for the Comprehensive Annual Financial Report. The System had a total return of 6.85% during this period, a relatively favorable result in view of the experience of the equities markets during the year. The bear market in equities was quite evident at the beginning of the fiscal year, but conditions improved as the year progressed. Fixed income investments provided positive returns throughout the year.

Background

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

Quarterly performance reports are provided by The Bank of New York, the System's custodian, based on plan accounting data. The Bank of New York adheres to the Association for Investment Management and Research (AIMR) performance presentation standards and also assists the Board in a consultative capacity in monitoring the performance of the investment managers.

The Economy and the Capital Markets

In mid-2002, at the beginning of the System's fiscal year, the stock market was still in turmoil, while the economy was beginning to emerge from recession. Although the recession apparently ended late in 2001, continued excess capacity in certain industries, the longer-term effects of the internet bubble, and the economic ramifications of September 11 continued to put

REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

downward pressure on corporate profits. Employment continued to contract as corporations tried to control costs in an attempt to improve profitability. As the fiscal year progressed, profits began to stabilize. Moreover, the Federal Reserve continued to lower the federal funds rate to help support economic growth. The federal funds rate was 1.75% at the end of June 2002 and 1.00% a year later. The continued low short-term interest rates allowed the automobile manufacturers to offer low or zero-percent financing at various times during the year as sales incentives. As a result, auto sales remained relatively high.

Continued low inflation rates (and even mention of possible deflation) and sluggish economic growth set a bullish tone for the fixed income markets during the year. The yield on the 10-year U.S. Treasury note fell from 4.83% on June 30, 2002 to 3.53% on June 30, 2003. The drop in these rates was also reflected in falling mortgage rates, which set off a wave of refinancings. This in turn improved homeowners' budgets and supported a high level of activity in the housing sector. These developments, along with support from consumer spending, helped keep the economy growing. As a result, real gross domestic product rose 2.5% from the second quarter of 2002 to the second quarter of 2003, compared to 2.2% a year earlier. The consumer price index rose 2.1% during the fiscal year, compared to 1.1% a year earlier. Excluding food and energy prices, the increase in the consumer price index was 1.5% during the fiscal year ended June 2003, compared to 2.3% a year earlier. As layoffs continued throughout the year, the unemployment rate rose to 6.4% in June 2003 from 5.9% in June 2002.

Despite the positive real economic growth, at the beginning of the fiscal year the stock market was focusing on disappointing earnings reports. Moreover, although Enron filed for bankruptcy in December 2001, accounting scandals and financial irregularities associated with other companies have been still very much in the news since then and have at times weighed heavily on the market. During the course of the fiscal year, however, investors began to notice that earnings reports were beginning to improve and that economic growth, if not buoyant, was nonetheless positive. As an indication of the turnaround, the stock market went from double-digit declines in the second and third quarters of 2002 to a double-digit increase in the second quarter of 2003.

The Russell 3000 index, which includes large-, mid-, and small-capitalization stocks, rose 16.25% during the second quarter of 2003. Equity price had not shown such a bounce since the fourth quarter of 1999, although this time, of course, the increases are following an extended bear market. As of June 2003, the annualized total returns of the Russell 3000 were 0.76% on a one-year basis and –10.48% on a three-year basis. The declines in international equities were even more intense than in the United States. The total return of the MSCI EAFE index during the fiscal year was –14.64% in local currency returns and –6.46% in U.S. dollar terms, helped by the depreciation of the U.S. dollar.

The last few years have been a testimony to the benefits of diversification. As of June 2003, the annualized total returns of the Lehman Brothers Aggregate bond index were 10.40% on a one-year basis and 10.09% on a three-year basis. Investments in foreign bonds were particularly rewarding as a result of the depreciation of the U.S. dollar. The total return of the Citigroup Non-US$ World Government bond index was 17.90% during the fiscal year.

REPORT ON INVESTMENT ACTIVITY (Continued)

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Investment Results

The Federated City Employees' Retirement System of San Jose has had a relatively conservative approach to investing compared to many other institutional investors, and this policy has served it well during the last several years. The annualized total returns of the System during the fiscal year ended June 2003 were 6.85% on a one-year basis and 1.63% on a three-year basis. Although these returns are less than the actuarial assumed rate of 8.25%, in view of the conditions in the capital markets during the last several years they reflect relatively favorable performance.

As a means of putting this performance into perspective with the experience of other institutional plans, The Bank of New York participates in the Trust Universe Comparison Service (TUCS), whose members are among the largest custody banks in the United States. The Federated City Employees' Retirement System has first quartile performance (among the top 25%) of all master trusts and public funds in the TUCS universe for the last one-, two-, three-, and five-year periods. Moreover, it also ranks among the *least* volatile plans in the universe (in terms of the annualized standard deviation of returns). Two factors are primarily responsible for these results. First, the System has traditionally maintained somewhat less equity exposure than most other plans. Second, several of the System's equity managers are relatively conservative investors within their mandates.

As a consequence of an asset-liability study, the System increased its target equity exposure from 52% to 58%. This increased exposure to equities will put the System in a position to benefit from economic growth in the years ahead while still maintaining prudent diversification among asset classes. The System maintains diversification within equities across investment styles and market capitalization. It has both active and passive equity managers. As of June 2003, the System's Russell 3000 index fund accounted for 21.7% of total assets.

The System has active managers for large and small cap equities for growth and value styles. The large cap growth manager underperformed the benchmark for the portfolio during the past year but provided significant outperformance relative to the benchmark during the past three years. The return of the large cap value manager was a few percentage points below the return of the benchmark during the past year and slightly below the benchmark during the last three years. The small cap growth manager underperformed the benchmark during the past year but outperformed the benchmark by a wide margin during the last three years. The relatively favorable performance of the large and small cap growth managers during the last three years is to an extent a reflection of their high-quality orientation, which served them well during the bear market. They lagged behind their benchmarks in the first half of calendar year 2003 since the rally was led by lower-quality stocks that began to rebound as fears of defaults subsided and as investors gained confidence that the economy would continue to recover. The small cap value manager outperformed the benchmark during the past year and delivered significant outperformance during the last three years. The manager holds a large number of stocks with low price-to-earnings ratios.

The performance of the international equity manager serving the System for several years slipped during the past year as the manager underperformed the benchmark. The manager's

REPORT ON INVESTMENT ACTIVITY (Continued)

THE BANK OF NEW YORK

performance during the last three years is slightly more favorable than that of the benchmark. An additional international equity manager was hired during the year. The domestic fixed income portfolios were also restructured during the year, with one manager terminated and another hired in addition to a manager who was added several years ago. The latter manager has consistently outperformed the benchmark. This manager heavily overweighted lower-quality investment grade securities in the portfolio, a strategy that proved successful as these issues rallied during the year. The international fixed income manager outperformed the benchmark during the fiscal year after several years of below-benchmark performance. As another factor contributing to the favorable overall performance of the System, the real estate portfolio has been a source of steady positive returns for the System. The composite returns were 14.07% during the last year and 12.81% during the last three years.

In summary, the year ending June 2003 was a transition period. The economy experienced slow real growth, while employers continued to demonstrate a reluctance to hire. The stock market was retrenching sharply at the beginning of the fiscal year but rebounded by the end of the fiscal year. Many investors remained wary, however, that equity prices not run too far ahead of sustainable earnings. Inflation continued to remain low, while yields in the fixed income markets seemed to reach bottom. The Federated City Employees' Retirement System has weathered a difficult period in the capital markets relatively successfully and has a structure that should serve it well in the years ahead.

Yours truly,

Bernard Schoenfeld

Bernard Schoenfeld
Vice President

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

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

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

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

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

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

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

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

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

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

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

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

INVESTMENT POLICY STATEMENT (Continued)

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

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

Asset Allocation Policy

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

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

Asset Class	Minimum	Target	Maximum
Domestic Equity	38%	43%	48%
• Large Cap Equity		34%	
• Small Cap Equity		9%	
International Equity	13%	15%	17%
Domestic Bonds	24%	29%	34%
International Bonds	5%	7%	9%
Real Estate	3%	6%	9%

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

(Procedure 453)
The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

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

INVESTMENT POLICY STATEMENT (Continued)

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature. The Administrator will review the asset mix of the System on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 454. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

Risk Tolerances and Volatility

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

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

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

Re-balancing of Strategic Allocation

(Procedure 454)
The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

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

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

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

(2) Transfers shall first be taken from asset classes above the maximum range, then from asset

INVESTMENT POLICY STATEMENT (Continued)

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

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

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

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

<u>Liquidity</u>

The Board has authorized the System administrator to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous

INVESTMENT POLICY STATEMENT (Continued)

section. If additional funds are required from the System's equity managers, the Administrator will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

Diversification

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

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

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

Supervision

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

Brokerage Policy

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

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

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

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

INVESTMENT POLICY STATEMENT (Continued)

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:

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

(Procedure 452)
Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

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

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

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

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

INVESTMENT POLICY STATEMENT (Continued)

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

Fixed-Income Investments

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

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

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

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

Domestic Equity Investments

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

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

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

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

Passive Equity Investment

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

INVESTMENT POLICY STATEMENT (Continued)

International Equity Investments

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

(1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East Index over a rolling five year time period, net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

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

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

International Fixed-Income Investments

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

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

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

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

Real Estate Investments

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

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

INVESTMENT PROFESSIONALS

INVESTMENT MANAGERS

DOMESTIC EQUITIES:

Atlanta Capital Management
Large Cap Growth
Atlanta, GA

Brandywine Asset Management
Small Cap Value
Wilmington, DE

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

Northern Trust Quantitative Advisors
Russell 3000 Index
Chicago, IL

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

INTERNATIONAL EQUITIES:

Bank of Ireland Asset Management
Dublin, Ireland

The Boston Company Asset Management, LLC
Boston, MA

DOMESTIC FIXED INCOME:

Dodge & Cox
San Francisco, CA

BlackRock Financial Management
New York, NY

INTERNATIONAL FIXED INCOME:

Julius Baer
Los Angeles, CA

REAL ESTATE:

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

MIG Realty Advisors
Cleveland, OH

TimeSquare Real Estate Investors
(Formerly CIGNA)
Hartford, CT

CONSULTANTS

The Bank of New York
New York, NY

Strategic Investment Solutions, Inc.
San Francisco, CA

CUSTODIAN

The Bank of New York
New York, NY

PROXY VOTING

Investor Responsibility Reasearch Center
Washington, DC

GROSS PERFORMANCE SUMMARY BY ASSET CLASS
Periods Ended June 30, 2003

Basis of Calculation: Time-Weighted Rate of Return

	One Year	Three Years	Five Years
TOTAL FUND	**6.9%**	**1.6%**	**4.7%**
Benchmark	4.4%	-0.8%	3.9%
TUCS All Master Trust Median	3.9%	-2.3%	3.0%
TUCS Public Fund Universe Median	3.9%	-2.4%	2.6%
TOTAL DOMESTIC FIXED INCOME	**12.5%**	**9.7%**	**7.1%**
Lehman Brothers Aggegate Bond Index	10.4%	10.1%	7.5%
TUCS Domestic Fixed Income Median	11.1%	10.1%	7.5%
TOTAL INTERNATIONAL FIXED INCOME	**18.3%**	**8.3%**	**6.0%**
Citigroup Non-US Dollar Bond Index	17.9%	8.1%	6.3%
TUCS Unhedged Foreign Fixed Portfolio	20.1%	9.3%	6.5%
TOTAL DOMESTIC EQUITY	**-1.2%**	**-6.5%**	**0.6%**
S&P 500 Index	0.2%	-11.2%	-1.6%
TUCS Equity Median	-0.2%	-8.1%	0.8%
TOTAL INTERNATIONAL EQUITY	**-11.3%**	**-13.4%**	**-2.7%**
EAFE Index	-6.5%	-13.5%	-4.0%
MSCI ACWI ex-US	-4.2%	-12.5%	-2.8%
TUCS International Equity Median	-4.4%	-11.0%	0.3%
TOTAL REAL ESTATE	**14.1%**	**11.9%**	**12.8%**
NCREIF Property Index	7.4%	8.2%	9.8%
TUCS Real Estate Median	8.0%	8.0%	9.2%

GROSS PERFORMANCE SUMMARY BY INVESTMENT MANAGER
Periods Ended June 30, 2003

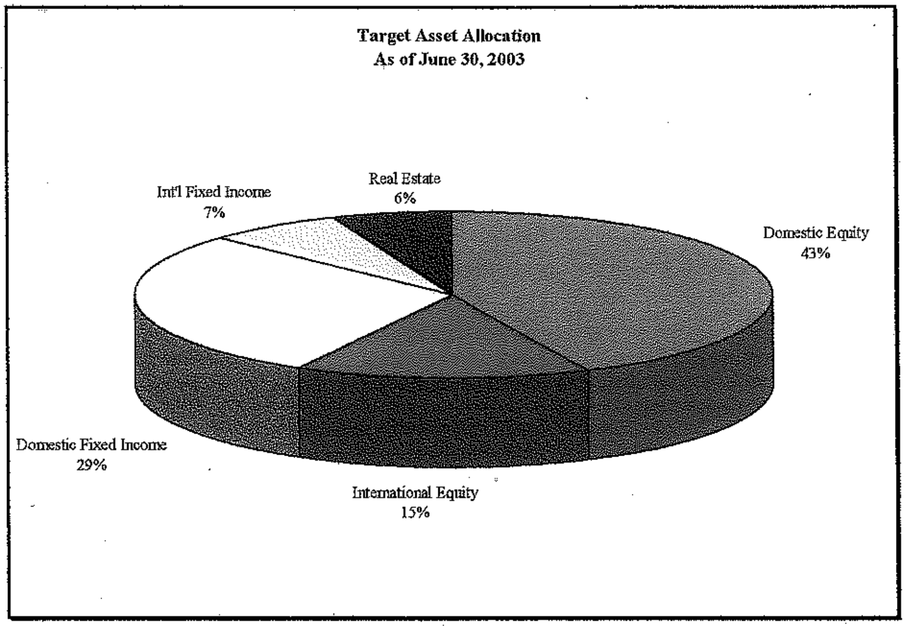
The table below details the rates of return for the System's investment managers over various time periods. Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed. Source: The Bank of New York Investment Performance Evaluation Report June 30, 2003. Basis of Calculation: Time-Weighted Rate of Return

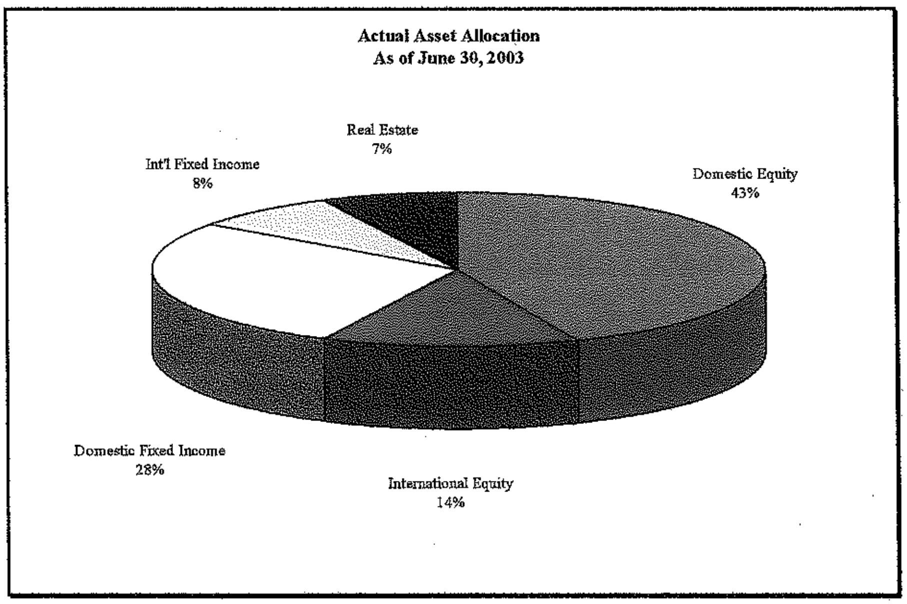
DOMESTIC FIXED INCOME	One Quarter	Two Quarters	Since Inception
BlackRock Financial Management, Inc.	**2.7% +**	**4.4% +**	**6.7% ++**
Lehman Brothers Aggegate Bond Index	2.5%	3.9%	5.6%
TUCS Fixed Income Core Median	2.8%	4.6%	6.3%
	One Year	**Three Years**	**5 Years**
Dodge and Cox	**11.1% ++**	**10.9% ++**	**N/A**
Lehman Brothers Aggegate Bond Index	10.4%	10.1%	7.5%
TUCS Fixed Income Core Median	11.1%	10.1%	7.5%
INTERNATIONAL FIXED INCOME			
Julius Baer	**18.3% +**	**8.3% +**	**6.0%**
Citigroup Non-US Dollar Bond Index	17.9%	8.1%	6.3%
TUCS Unhedged Foreign Fixed Portfolio	20.1%	9.3%	6.5%
DOMESTIC EQUITY			
Northern Trust (Index)	**0.7% +**	**-10.5% +**	**-0.5% +**
Russell 3000	0.8%	-10.5%	-0.6%
TUCS Equity Median	-0.2%	-8.1%	0.8%
Atlanta Capital (Large Cap Growth)	**-4.1%**	**-12.7% ++**	**N/A**
Russell 1000 Growth	2.9%	-21.6%	-5.0%
TUCS Large Cap Growth Median	-0.5%	-15.9%	-1.7%
TUCS Equity Median	-0.2%	-8.1%	0.8%
Paradigm (Large Cap Value)	**-3.2%**	**-1.3% +**	**N/A**
Russell 1000 Value Index	-1.0%	-0.2%	1.1%
TUCS Large Cap Value Median	-1.0%	0.2%	2.0%
TUCS Equity Median	-0.2%	-8.1%	0.8%
Eagle Asset Management (Small Cap Growth)	**-1.9%**	**-4.0% +++**	**-1.3% +**
Russell 2000 Growth	0.7%	-16.7%	-4.3%
TUCS Small Cap Growth Median	-1.1%	-13.5%	-1.0%
TUCS Equity Median	-0.2%	-8.1%	0.8%
Brandywine (Small Cap Value)	**-1.3% ++**	**19.6% +++**	**N/A**
Russell 2000 Value	-3.8%	10.9%	5.0%
TUCS Small Cap Value Universe Median	-1.3%	11.3%	5.9%
TUCS Equity Median	-0.2%	-8.1%	0.8%

GROSS PERFORMANCE SUMMARY BY INVESTMENT MANAGER (Continued)

INTERNATIONAL EQUITY	One Quarter	Two Quarters	Since Inception
Boston Company Asset Management, LLC	**21.9%** ++	**N/A**	**N/A**
MSCI ACWI ex-US	19.9%	11.1%	N/A
TUCS International Equity Median	19.4%	9.9%	N/A
	One Year	**Three Years**	**Five Years**
Bank of Ireland Asset Management	**-9.5%**	**-12.8%** +	**-2.3%** +
EAFE Index	-6.5%	-13.5%	-4.0%
TUCS International Equity Median	-4.4%	-11.0%	0.3%
REAL ESTATE			
MIG Realty Advisors	**26.0%** ++	**16.1%** ++	**15.6%** ++
Timesquare (Formerly, CIGNA)	**3.4%**	**5.8%**	**8.8%**
DRA	**11.1%** ++	**14.1%** ++	**N/A**
Fidelity	**9.2%** ++	**N/A**	**N/A**
NCREIF Property Index	7.4%	8.2%	9.8%
TUCS Real Estate Median	8.0%	8.0%	9.2%

ASSET ALLOCATION
Target Vs. Actual

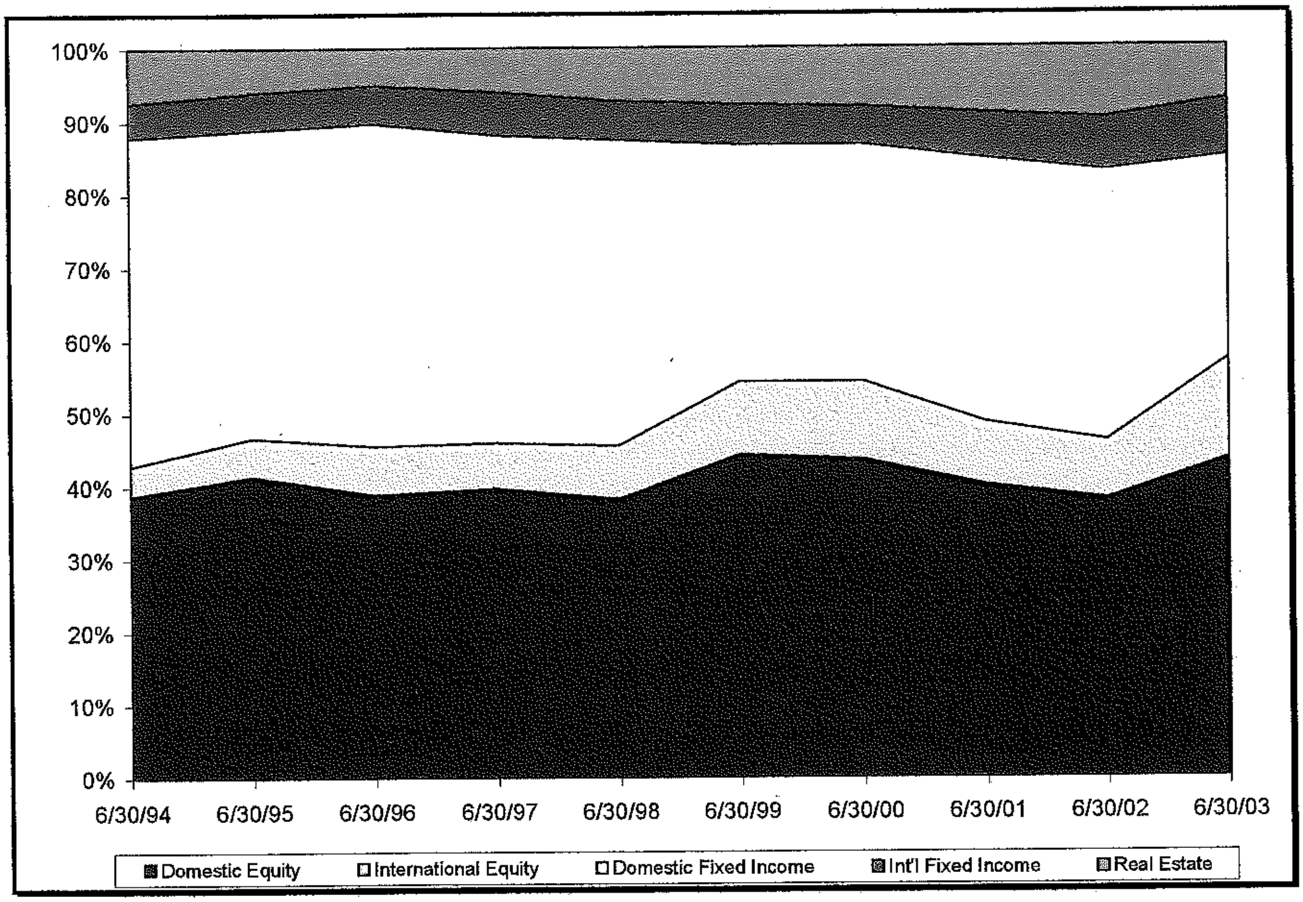




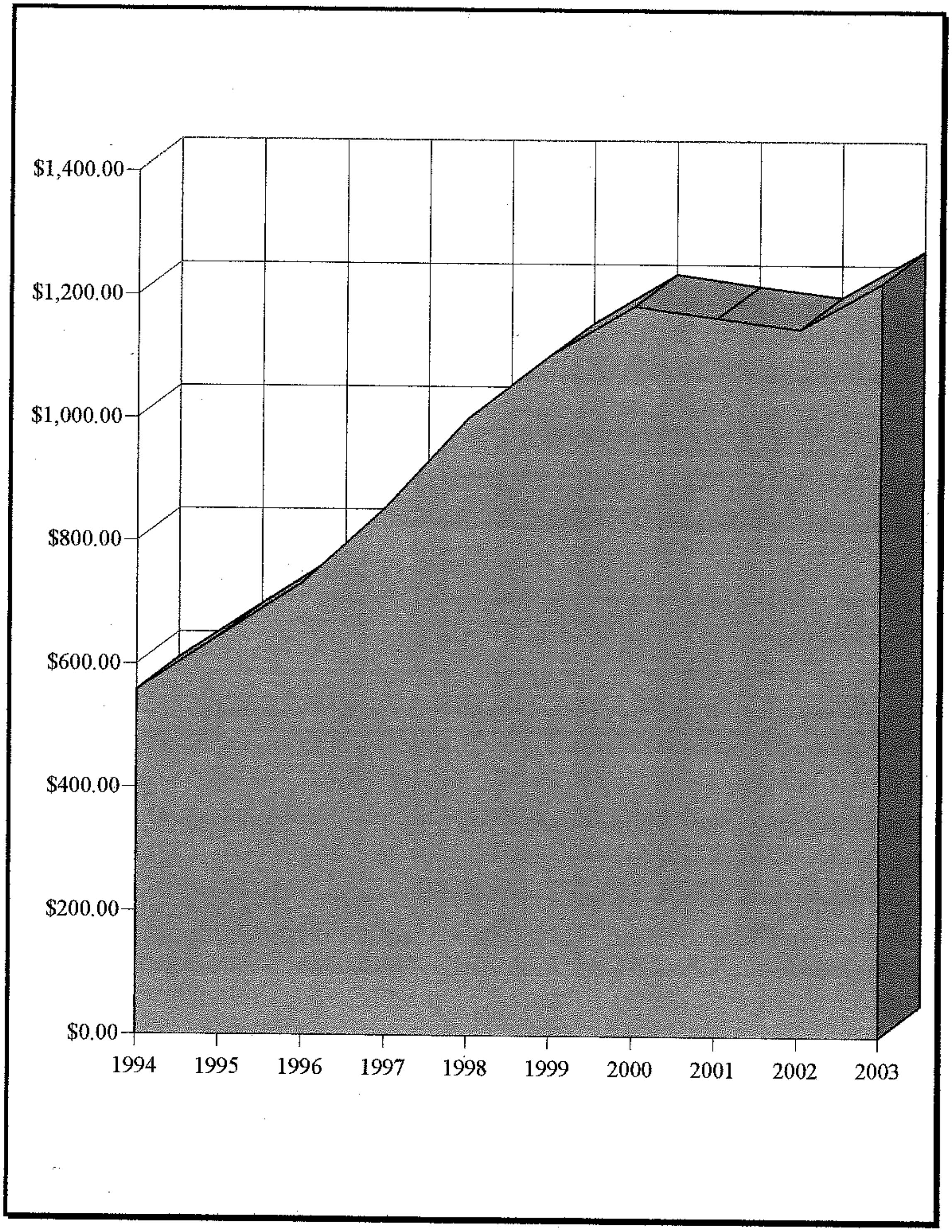
ACTUAL ASSET ALLOCATION
As of June 30, 2003 (In Millions)

Domestic Equity	$ 532.55
International Equity	166.38
Domestic Fixed Income	337.46
International Fixed Income	95.79
Real Estate	88.10
Cash	3.16
TOTAL	$ 1,223.44

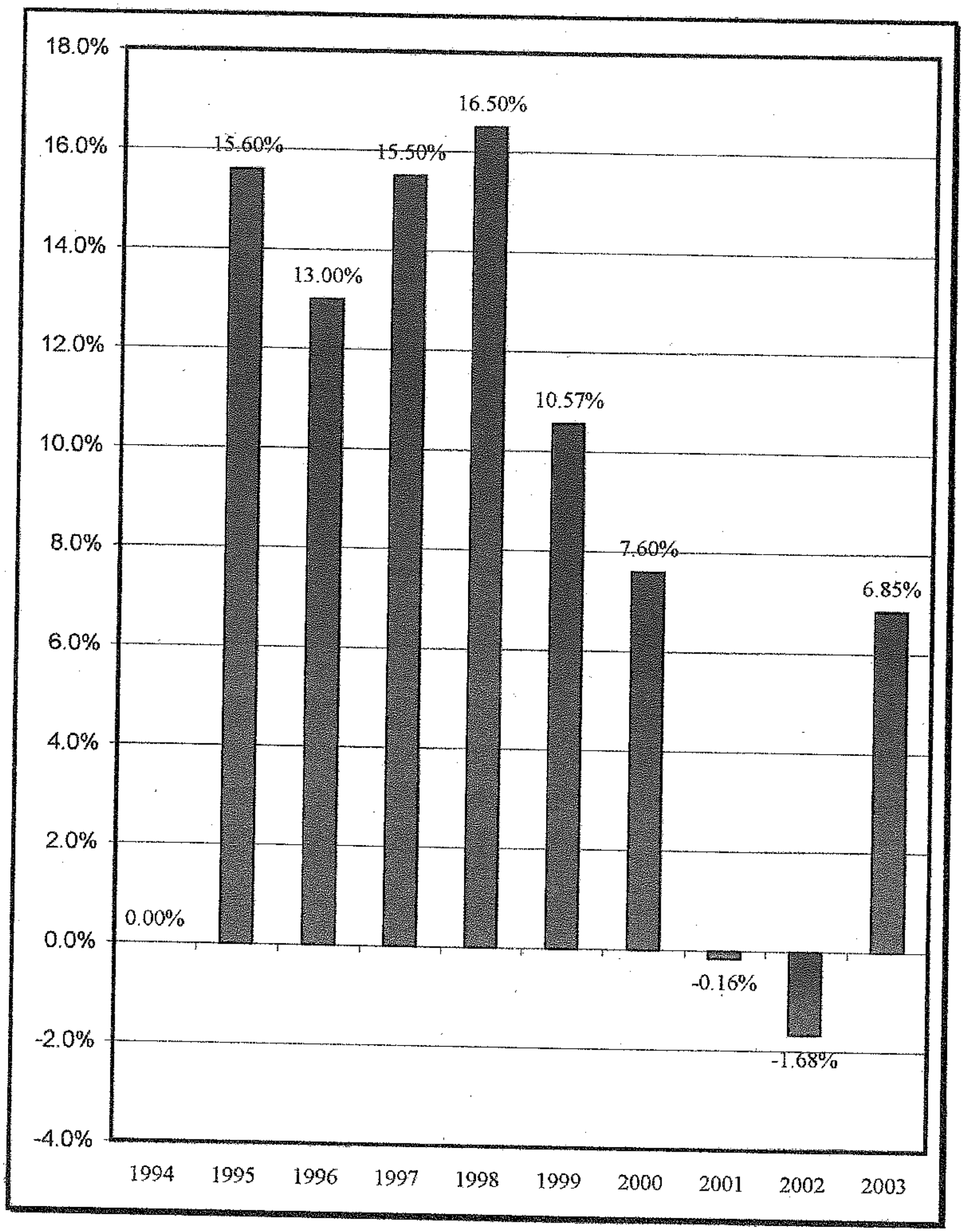
HISTORICAL ASSET ALLOCATION (Actual)
June 1994 - June 2003



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



HISTORY OF PERFORMANCE
(Based on Market Value)
For Fiscal Years 1994 - 2003



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)
June 30, 2003

	Shares	Country	Description	Market Value in $USD
1)	192,100	UNITED STATES	CISCO SYS INC	$ 3,225,359
2)	67,000	JAPAN	CANON INCY50	3,075,135
3)	20,273	FRANCE	TOTAL SA EUR 10.0FRF50	3,064,117
4)	89,050	UNITED STATES	PFIZER INC COM	3,041,058
5)	14,345	SWITZERLAND	NESTLE SA CHF 1.0 (REGD)	2,960,735
6)	114,800	UNITED STATES	MICROSOFT CORP COM	2,943,472
7)	51,350	UNITED STATES	AMERICAN INTNL GROUP INC COM	2,833,493
8)	85,000	UNITED STATES	DELL COMPUTER CORPCOM	2,706,400
9)	54,600	UNITED STATES	MEDTRONIC INC	2,619,162
10)	46,857	SWITZERLAND	UBS AG REGISTERED CHF 0.8	2,607,203

LARGEST BOND HOLDINGS (By Market Value)
June 30, 2003

Description	Country	Maturity Date	Par Value	Market Value in $USD
1) U S TREASURY NTS	U.S.A	4/30/2004	13,500,000	$ 13,765,781
2) UNITED STATES TREAS NTS	U.S.A	1/31/2004	7,000,000	7,080,938
3) FED'L HOME LOAN MTGE CORP GRP #G11409	U.S.A	5/1/2017	5,475,000	5,694,093
4) FEDERAL NATL MTG ASSN ASSIGN 00440	U.S.A	12/25/2014	4,850,000	5,000,287
5) FEDERAL NATL MTG ASSN ASSIGN 00619	U.S.A	6/25/2042	4,700,000	4,161,262
6) XEROX CORPSR NT	U.S.A	6/15/2010	3,700,000	3,695,375
7) FEDERAL HOME LN MTG CORP RT030901	U.S.A	9/15/2017	3,500,000	3,627,351
8) FED'L HOME LOAN MTGE CORP GRP # E00633	U.S.A	3/1/2014	7,400,000	3,422,613
9) FEDERAL NATL MTG ASSN RT051700	U.S.A	10/25/2028	3,288,000	3,377,990
10) RAYCHEM CORP V/RNT	U.S.A	10/15/2008	3,050,000	3,324,500

A complete list of portfolio holdings is available upon request.

SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2003

INVESTMENT FEES

	Assets Under Mgt. at Market Value *	Fees	Basis Points
Investment Managers' Fees:			
Domestic Equity Managers	$ 532,546,828	$ 1,080,527	20
International Equity Managers	166,382,228	570,151	34
Domestic Fixed Income Managers	337,461,725	678,187	20
International Fixed Income Managers	95,791,980	295,132	31
Real Estate Managers	88,103,352	831,991	94
Cash	3,158,217	-	N/A
Total Investment Managers' Fees	**$ 1,223,444,330**	**$ 3,455,988**	28
Other Investment Service Fees:			
Investment Consultant	N/A	$ 97,098	N/A
Proxy Voting	N/A	6,870	N/A
Custodian	N/A	122,207	N/A
Real Estate Legal Fees	N/A	110,873	N/A
Total Other Investment Service Fees		**$ 337,048**	

* Includes Cash in Managers' Accounts

COMMISSIONS

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
ABN AMRO BANK NV, SYDNEY	16,799	$108.13	$0.00644
ABN AMRO EQUITIES (UK) LTD LONDON	67,598	1,102.54	0.01631
ARCHIPELAGO BCC CAPITAL CLEAR	18,500	370.00	0.02000
B-TRADE SERVICES LLC	868,012	20,612.24	0.02375
BAIRD ROBERT W & CO INC	1,526,800	1,422.00	0.00093
BANC OF AMERICA SECURITIES LLC	6,547,000	3,969.00	0.00061
BANQUE NATIONAL DE PARIS,LDN BRANCH	35,695	946.54	0.02652
BEAR STEARNS & CO INC	4,260,400	7,784.00	0.00183
BEAR STEARNS SECURITIES CORP	8,200	27.00	0.00329
BNY BROKERAGE INC	3,801,958	141,488.46	0.03721
BOSTON INSTITUTIONAL SVCS INC	10,900	545.00	0.05000
BRIDGE TRADING CO.	11,300	226.00	0.02000
BROADCORT CAPITAL CORP-SUB OF	5,000	250.00	0.05000
CANTOR, FITZGERALD & CO., INC	196,400	9,067.00	0.04617
CAPITAL INSTITUTIONAL SVCS,INC	105,500	2,727.50	0.02585
CAZENOVE AND CO, LONDON	262,671	1,448.87	0.00552
CIBC WORLD MARKETS CORP	45,300	2,355.00	0.05199
CITATION GROUP CHASE NYC	72,700	3,714.00	0.05109
CITIGROUP GLOBAL MARKETS ASIA LTD	22,500	1,929.51	0.08576

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
CITIGROUP GLOBAL MARKETS INC	468,875	$15,072.50	$0.03215
CLSA LTD, HONG KONG	74,000	3,329.72	0.04500
CLSA SINGAPORE PTE LTD	3,000	144.75	0.04825
COLLINS STEWART (CSCS)+CO, LONDON	2,807	19.87	0.00708
CREDIT LYONNAIS SECS LENDING,US	2,700	110.55	0.04094
CREDIT SUISSE FIRST BOSTON	53,857,720	15,083.00	0.00028
CREDIT SUISSE FIRST BOSTON	29,268	1,106.26	0.03780
CREDIT SUISSE FIRST BOSTON EQUITIES	282,590	825.45	0.00292
CREDIT SUISSE FIRST BOSTON HK	36,456	79,571.00	2.18266
CSFB AUSTRALIA SECURITIES LTD, MEL	56,132	423.73	0.00755
DAIN RAUSCHER INC BK NYC/	1,245,000	500.00	0.00040
DEUTSCHE BANC/ALEX BROWN	7,221,600	498.00	0.00007
DEUTSCHE BANK AG, LDN	515,359	93,029.94	0.18051
DEUTSCHE SECURITIES AUST LTD, SYD	26,396	530.63	0.02010
DIRECT BROKERAGE INC	22,300	669.00	0.03000
DRESDNER KLEINWORT WASSERSTEIN SEC	74,764	606.90	0.00812
EDWARDS, A.G., & SONS, INC.	165,510	8,275.50	0.05000
FACTSET DATA SYSTEMS, INC.	24,000	1,286.00	0.05358
FRANK RUSSELL SEC/BROADCORT	3,900	195.00	0.05000
FRANK RUSSELL SECURITIES INC	8,800	474.00	0.05386
FRANK RUSSELL SECURITIES INC	2,400	120.00	0.05000
FULCRUM GLOBAL PARTNERS LLC	28,000	1,680.00	0.06000
GOLDMAN SACHS INTL LONDON	1,501,908	38,532.38	0.02566
GOLDMAN, SACHS & CO	4,744,000	470.00	0.00010
GOODBODY STOCKBROKERS/DUBLIN	20,693	316.39	0.01529
HIBERNIA SOUTHCOAST CAPITAL	45,700	1,275.00	0.02790
HSBC BANK PLC FORMER MIDLAND BK	2,920	22,870.00	7.83219
HSBC INVESTMENT BANK PLC LDN	210,247	56,628.00	0.26934
INSTINET CORPORATION	366,219	7,214.88	0.01970
INSTINET CORPORATION	5,300	53.00	0.01000
INVESTEC/ERNST CO	4,400	132.00	0.03000
INVESTMENT TECHNOLOGY GROUP,	1,752,205	70,116.38	0.04002
ISLAND EXECUTION SERVICES LLC	58,700	587.00	0.01000
J B WERE AND SON, MELBOURNE	26,090	301.37	0.01155
J P MORGAN INVT MGMT, NEW YORK	29,300	1,465.00	0.05000
JANNEY MONTGOMERY SCOTT INC.	19,300	1,102.00	0.05710
JEFFERIES & COMPANY, INC.	463,050	20,703.00	0.04471
JONES & ASSOCIATES	34,600	1,729.00	0.04997
JONES & ASSOCIATES, INC	91,840	4,167.56	0.04538
JP MORGAN SECS AUST LTD PID 2972	42,925	551.57	0.01285
JP MORGAN SECS LTD (GB100626)	1,164,434,955	139.32	0.00000
KNIGHT SECURITIES	55,575	1,074.75	0.01934
LA BRANCHE FINANCIAL SVCS, INC	9,700	395.00	0.04072
LABRANCHE FINC'L SVC INC/HBI	149,515	6,825.75	0.04565
LEHMAN BROTHERS INC, USA	4,259,290	11,472.40	0.00269
LEHMAN BROTHERS INTL EUROPE LDN	5,916,723	664.86	0.00011
LIQUIDNET INC	472,790	15,965.50	0.03377
LYNCH JONES & RYAN INC	38,500	1,545.00	0.04013
MCDONALD INVESTMENTS INC	6,300	318.00	0.05048
MERRILL LYNCH AND CO INC NEW YORK	2,899,710	204.54	0.00007
MERRILL LYNCH AND CO, INC, NEW YORK	52,817	65,977.00	1.24916
MERRILL LYNCH INTERNATIONAL LTD, GB	1,826,553	330.60	0.00018
MERRILL LYNCH INTL LTD/LONDON	15,017,510	1,445.42	0.00010
MERRILL LYNCH PIERCE FENNER &	194,700	9,344.00	0.04799

SCHEDULE OF FEES AND COMMISSIONS (Continued)

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSION PER SHARE (Rounded)
MERRILL LYNCH PIERCE FENNER + SMITH	4,000	$186.02	$0.04651
MERRILL LYNCH PROFESSIONAL	151,723	5,219.54	0.03440
MORGAN GRENF CO LTD/EQUITY,LDN	30,035	196.06	0.00653
MORGAN GRENFELL AND CO. LIMITED	131,744	27,235.71	0.20673
MORGAN KEEGAN & COMPANY, INC.	6,500	325.00	0.05000
MORGAN STANLEY	13,692	80,176.00	5.85568
MORGAN STANLEY & CO	14,021,200	3,560.00	0.00025
MORGAN STANLEY AND CO INTL LTD,LDN	707,446,482	865.60	0.00000
MORGAN STANLEY AND CO.	152,799,127	180.61	0.00000
MORGAN STANLEY CO INC NEW YORK	80,756,718	2,075.48	0.00003
MORGAN STANLEY SECURITIES(507)LONDN	18,331	65.92	0.00360
NATL FINANCIAL SERVICES CORP	17,400	917.00	0.05270
NCB STOCKBROKERS DUBLIN	18,130	403.70	0.02227
NEEDHAM & CO	12,175	487.00	0.04000
PACIFIC AMERICAN SECURITIES	36,738	1,781.52	0.04849
PERSHING & COMPANY	29,700	1,485.00	0.05000
PRINCETON SECURITIES	3,400	102.00	0.03000
RAYMOND, JAMES & ASSOC., INC.	703,800	190.00	0.00027
RESULT OF BONUS RIGHTS SALE	72	0.02	0.00028
RIADA STOCKBROKERS(617)/DUBLIN	5,702	142.06	0.02491
SALOMON BROS INTL LTD, LONDON	825,853,786	1,313.19	0.00000
SALOMON BROTHERS INC,NY	16,557	61,010.00	3.68485
SANFORD C BERNSTEIN & CO.,LLC	25,100	1,255.00	0.05000
SANFORD C. BERNSTEIN LONDON	3,259	38.86	0.01192
SCOTT & STRINGFELLOW, INC	9,513,000	650.00	0.00007
SG COWEN SECURITIES CORP	236,000	1,250.00	0.00530
SOUNDVIEW TECHNOLOGY GROUP	36,700	1,101.00	0.03000
SOUTHWEST SECURITIES, INC.	26,650	1,409.50	0.05289
SPEAR, LEEDS & KELLOGG (GOLD)	12,905,300	159.00	0.00001
STATUS SECURITIES, INC.	10,600	318.00	0.03000
STERNE AGEE & LEACH INC	6,300	315.00	0.05000
SUN TRUST CAPITAL MKTS INC	1,500	75.00	0.05000
SUNTRUST CAPITAL MARKETS, INC	90,800	3,732.00	0.04110
THE FOURTEEN RESEARCH CORPORAT	35,300	1,765.00	0.05000
THE LDN CLEARING HOUSE LTD	3,840,000	2,400.00	0.00063
THOMSON INSTITUTIONAL SVCS INC	9,500	539.00	0.05674
U.S. BANCORP PIPER JAFFRAY INC	117,300	4,101.00	0.03496
UBS AG (LONDON BRANCH) ECL/CED ONLY	1,329,537,714	1,159.22	0.00000
UBS AG LONDON EQUITIES	18,190	374.51	0.02059
UBS SECURITIES LLC	15,474,900	3,515.00	0.00023
UBS WARBURG LLC	59,310,605	42.18	0.00000
UBS WARBURG(ASIA)LTD HONG KONG, HK	162,298	49,383.63	0.30428
VERITAS SECURITIES	148,600	5,426.00	0.03651
WACHOVIA SECS CAPITAL MARKET	188,855	8,700.20	0.04607
WACHOVIA SECURITIES LLC	45,000	1,390.00	0.03089
WEDBUSH MORGAN SECURITIES,INC.	8,500	425.00	0.05000
WEEDEN & CO	83,500	3,640.00	0.04359
WESTMINISTER RESEARCH ASSOC.	1,000	50.00	0.05000
WESTMINSTER RESEARCH	14,300	715.00	0.05000
WEXFORD CLEARING SERVICES CRP	21,465	851.25	0.03966
WILLIAMS CAPITAL GROUP, L.P.	1,800	59.00	0.03278
WILSHIRE ASSOCIATES INCORP	14,900	894.00	0.06000
TOTAL	**4,500,754,793**	**$1,051,212.04**	**$0.000234**

INVESTMENT SUMMARY
For Fiscal Year Ended June 30, 2003

TYPE OF INVESTMENT		MARKET VALUE	% OF PORTFOLIO
Equities			
Consumer Non-Durables	$	53,442,470	4.37%
Consumer Durables		5,461,624	0.45%
Materials & Services		71,932,750	5.88%
Capital Goods & Services		9,757,137	0.80%
Technology		44,441,966	3.63%
Energy		12,421,246	1.02%
Transportation		2,202,843	0.18%
Utilities		11,297,470	0.92%
Financial		50,753,593	4.15%
International Equity		80,438,813	6.57%
Commingled Equity Funds		347,996,420	28.44%
Total Equities	**$**	**690,146,333**	**56.41%**
Fixed Income			
Corporate Bonds	$	117,906,295	9.64%
Govt Bonds		102,865,322	8.41%
US Treasuries		24,887,380	2.03%
US Agencies		72,920,763	5.96%
Other Bonds		(13,642)	0.00%
International Bonds		107,160,792	8.76%
Total Fixed Income	**$**	**425,726,910**	**34.80%**
Real Estate			
Separate Account	$	34,399,999	2.81%
Commingled Funds		52,912,279	4.32%
Total Real Estate	**$**	**87,312,278**	**7.14%**
Other Investments			
Short Term Investments	**$**	**20,568,603**	**1.68%**
Pendings	**$**	**(7,426,944)**	**-0.61%**
Accrued Income	**$**	**7,117,150**	**0.58%**
Total Portfolio	**$**	**1,223,444,330**	**100%**

INVESTMENT PROPERTIES

Airport Commercenter
278,470 s.f. industrial complex consisting of four one-story buildings located in Ontario, CA. Acquired jointly with the Police and Fire Department Retirement Plan in April 1989.

Copperwood Square Shopping Center
138,990 s.f. retail shopping center in Citrus Heights, CA. Acquired jointly with the Police and Fire Department Retirement Plan in June 1987.

Milpitas Warehouse
145,152 s.f. warehouse/distribution building, equally divided into four bays. Acquired jointly with the Police and Fire Department Retirement Plan in February 1986.

Plaza Paseo Real
147,213 s.f. retail shopping center located in Carlsbad, CA. Acquired jointly with the Police and Fire Department Retirement Plan in May 1993.

IV.
ACTUARIAL SECTION

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ACTUARY CERTIFICATION LETTER

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

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

September 26, 2003

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

Re: Actuarial Valuation Certification

Members of the Board:

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

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

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

ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration -2-

The Funding Objective of the Plan

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

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

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

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

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

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

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

Supporting Schedules

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

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

Gabriel, Roeder, Smith & Company

ACTUARY CERTIFICATION LETTER (Continued)

Board of Administration -3-

Trend Data Schedules in the Financial Section

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

Actuarial Assumptions and Methods Used for Funding Purposes

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

* * *

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

Sincerely,

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

CML

Gabriel, Roeder, Smith & Company

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

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

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

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

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

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

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

Mortality: A. For Pensioners on Service Retirement and Beneficiaries

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

Sample Rates

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

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD (Continued)

B. For Pensioners on Disability Retirement:

1981 Disability Mortality Table

Sample Rates

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

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

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

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

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

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

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

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

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

RATES OF SEPARATION FROM ACTIVE SERVICE - MALES

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

RATES OF SEPARATION FROM ACTIVE SERVICE - FEMALES

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

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

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

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

[1] This column consists of the following categories:

(a) Retirees and disabled retirees who die during the period and have no survior benefits

(b) Expiration of certain period benefits for deceased retirees.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

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

SOLVENCY TEST

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

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

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

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

SUMMARY OF RETIREMENT BENEFITS

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

SUMMARY OF RETIREMENT BENEFITS (Continued)

6. Pre-Retirement Death Benefits:

A) Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:

Member's beneficiary or estate receives (i), and (ii) where:

(i) = Accumulated contributions with interest.

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

B) Service-Connected, or Non-Service Connected with five years of service

Member's eligible survivor receives 100% of the benefit the Member would have received if he or she had been granted a disability benefit on the day before death, payable until the spouse remarries. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse.

7. Post-Retirement Death Benefits:

Member's eligible survivor receives (i) and (ii), where:

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

(ii) = $500 death benefit allowance for burial expenses at death of retired member.

8. Post-retirement Cost-of-Living Benefits:

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

If the benefit has been paid less than 12 months, the 3% increase is proportionately decreased.

9. Employee Contributions:

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

SUMMARY OF HEALTH SUBSIDY BENEFITS

1. Eligibility:

A)	Medical	Fifteen years of service credit at retirement, or receiving an allowance of at least 37 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 the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System.
B)	Dental	The Retirement System pays the entire cost of dental insurance coverage.

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

V.
STATISTICAL SECTION

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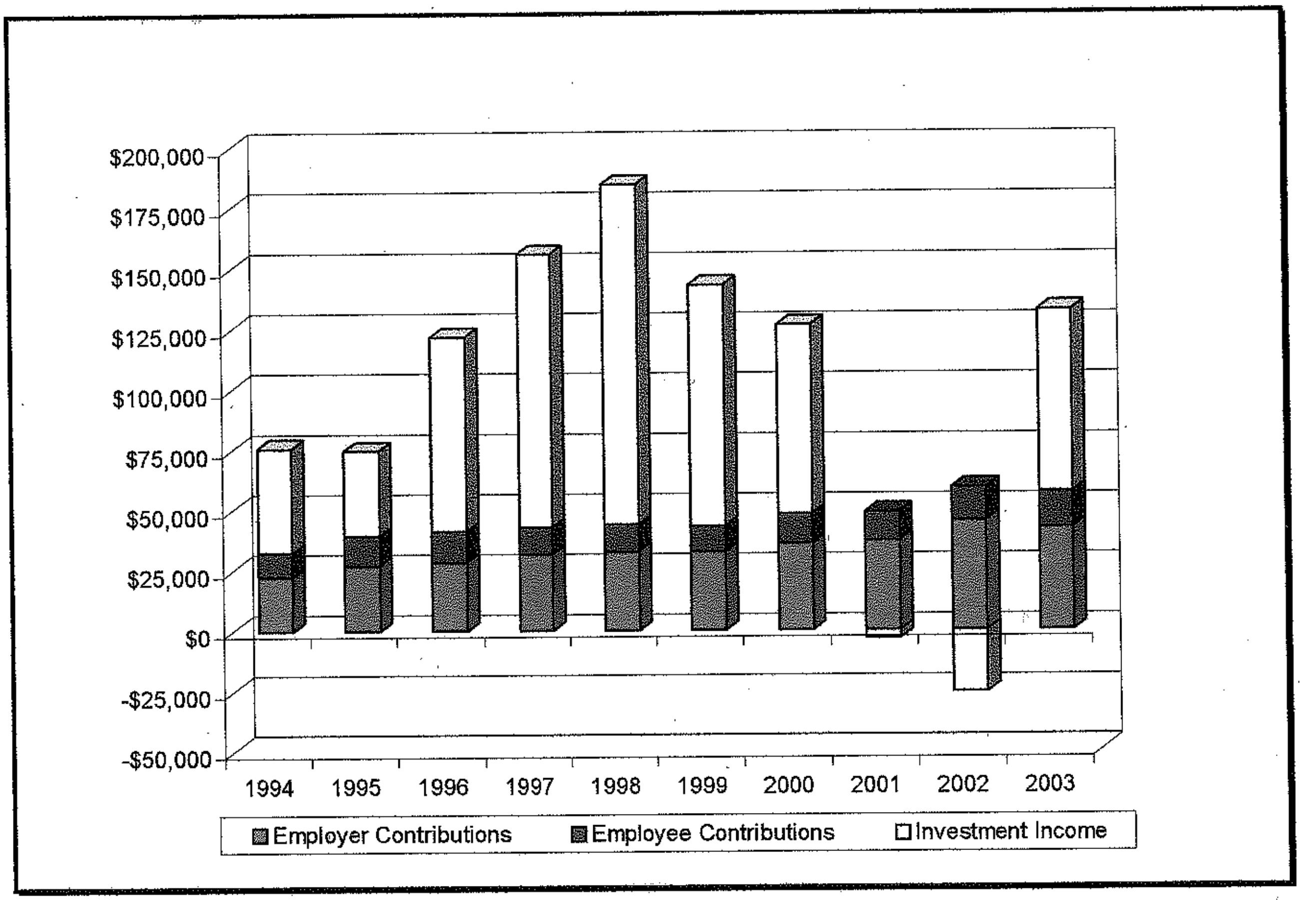
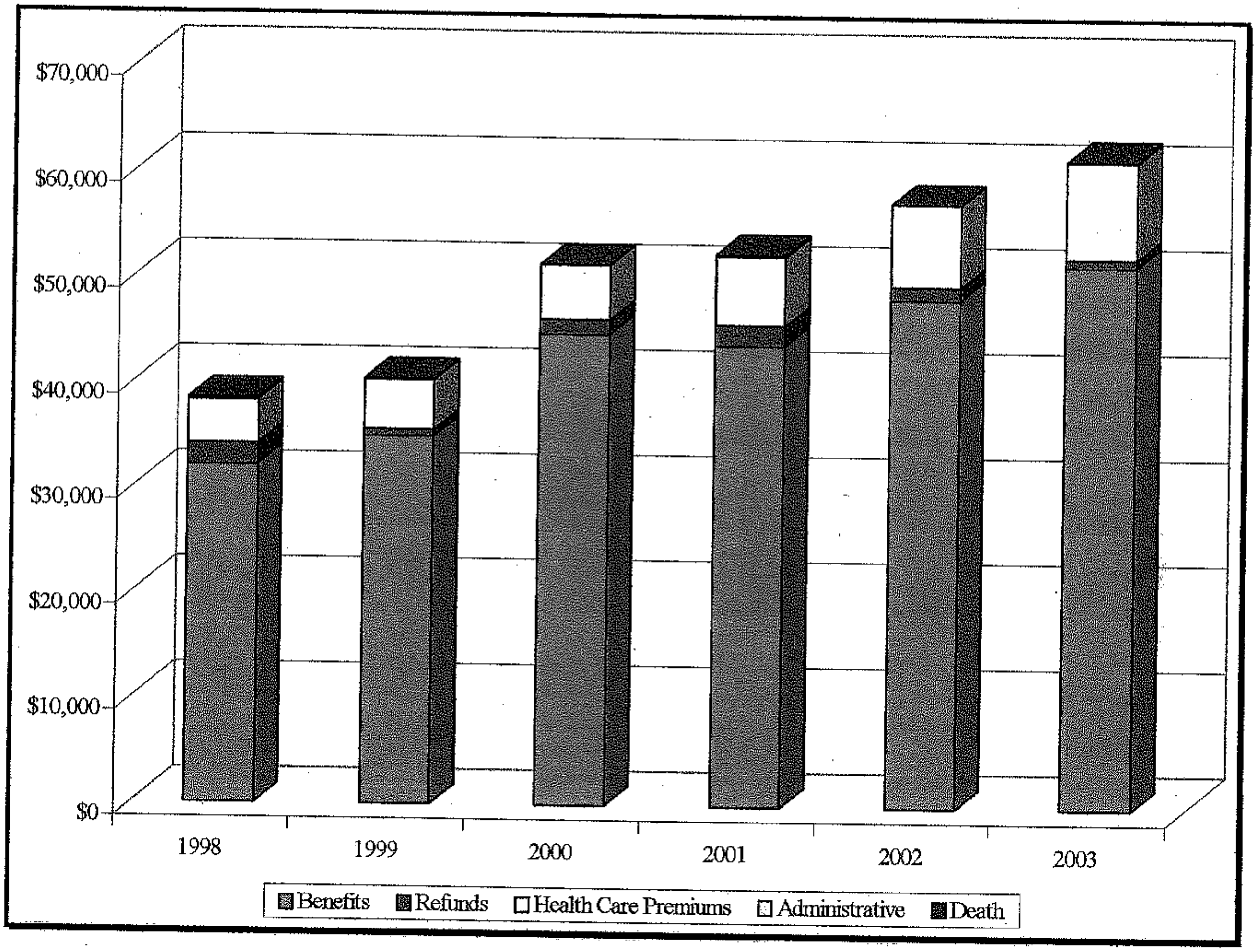
ADDITIONS BY SOURCE
For Fiscal Years 1994 - 2003
(In Thousands)



Year Ending	Employer Contributions	% of Annual Covered Payroll	Employee Contributions	% of Annual Covered Payroll	Investment Income (Loss)*	Total
1994	$22,348	18.01%	$10,086	8.12%	$43,362	$75,796
1995	$27,111	18.01%	$12,269	8.12%	$35,353	$74,733
1996	$28,411	18.59%	$12,876	6.70%	$80,420	$121,707
1997	$31,441	19.22%	$11,376	6.70%	$113,039	$155,856
1998	$32,693	16.52%	$11,129	5.31%	$140,928	$184,750
1999	$32,387	16.52%	$10,733	5.31%	$99,907	$143,027
2000	$35,825	16.09%	$12,400	4.76%	$77,971	$126,196
2001	$37,034	16.09%	$11,768	4.76%	($3,470)	$45,332
2002	$45,138	15.20%	$13,858	5.08%	($25,698)	$33,298
2003	$42,277	15.20%	$14,808	5.08%	$75,372	$132,457

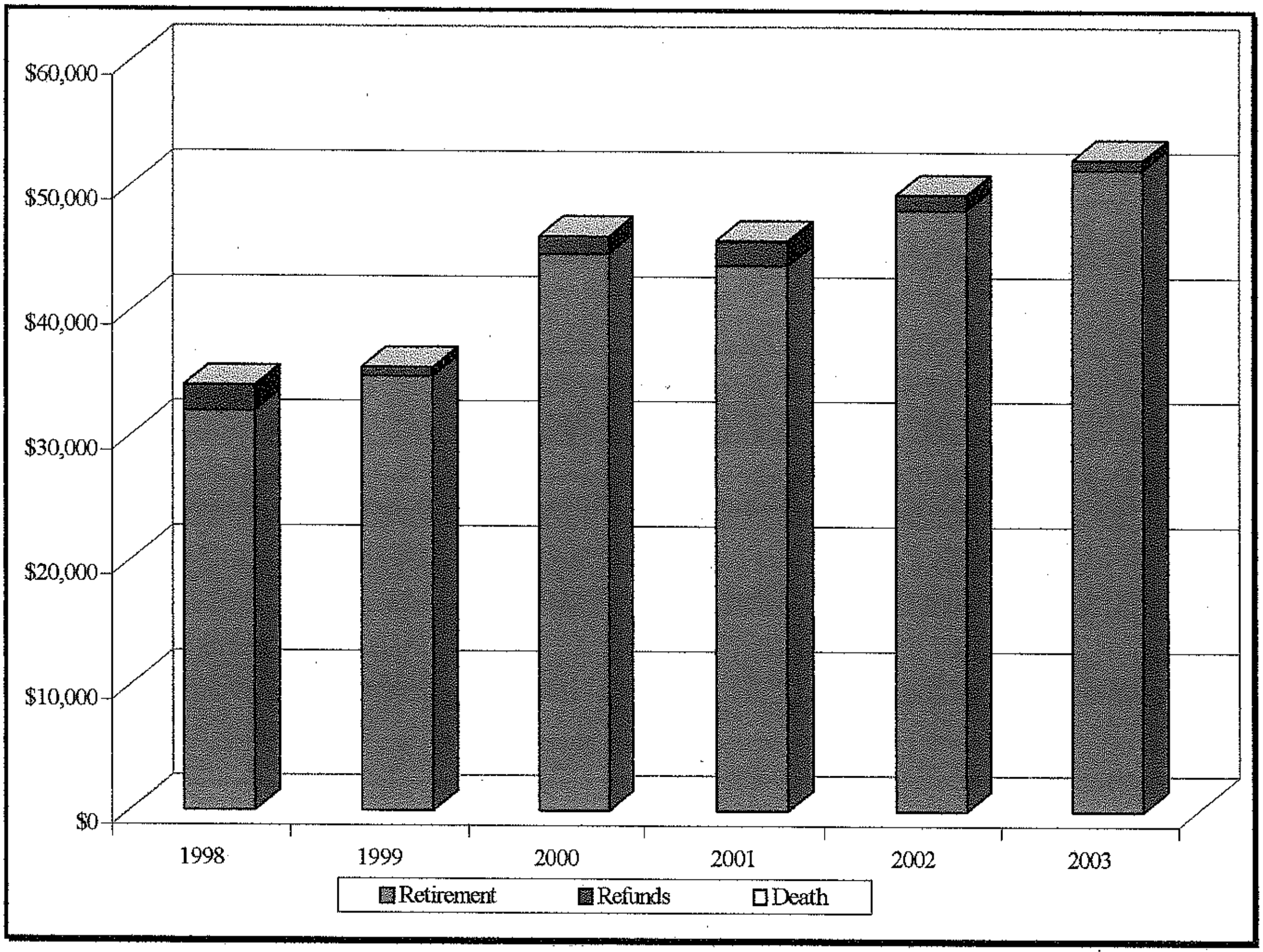
* Net of Investment Expenses and beginning 1997, audit report includes unrealized gains in investment income

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



	1998	1999	2000	2001	2002	2003
Benefits	$32,035	$34,846	$44,655	$43,761	$48,235	$51,520
Refunds	1,980	646	1,386	1,886	1,207	714
Health Care Premiums	4,161	4,711	5,236	6,530	7,804	9,191
Death	84	47	20	105	22	46
Administrative	841	778	1,136	1,420	1,472	1,631
TOTAL	**$39,101**	**$41,028**	**$52,433**	**$53,702**	**$58,740**	**$63,102**

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



	1998	1999	2000	2001	2002	2003
Retirement	$32,035	$34,846	$44,655	$43,761	$48,235	$51,520
Refunds	1,980	646	1,386	1,886	1,207	714
Death	84	47	20	105	22	46
TOTAL	**$34,099**	**$35,539**	**$46,061**	**$45,752**	**$49,464**	**$52,280**

RETIRED MEMBERS BY TYPE OF BENEFIT
As of June 30, 2003

Amount Monthly Benefit	Number of Retirees & Beneficiaries	Type of Retirement						Option Selected			
		1	2	3	4	5	6	Unmod	Option 1	No Surv.	Total
$1 - 500	194	80	45	1		7	61	152	18	24	194
501 - 1000	298	119	98	9	10	17	45	215	15	68	298
1001 - 1500	436	194	111	43	29	6	53	352	29	55	436
1501 - 2000	347	227	48	33	15	3	21	308	15	24	347
2001 - 2500	249	195	17	16	13		8	228	13	8	249
2501 - 3000	197	170	7	6	3	2	9	181	8	8	197
3001 - 3500	167	143	8	5	1	1	9	153	8	6	167
3501 - 4000	115	107	4				4	104	9	2	115
4001 -4500	82	80	1	1				78	4	1	83
4501 - 5000	45	43		1			1	43	1	0	44
Over $5000	81	80		1				79	2	0	81
Total	**2211**	**1438**	**339**	**116**	**71**	**36**	**211**	**1893**	**122**	**196**	**2211**

1	Service	Unmodified - 50% Continuance
2	Survivor	Option 1: 100% Continuance/ reduced pension
3	Service Connected Disability	Single/No Survivor - No Continuance
4	Non-Service Connected Disability	
5	Ex-Spouse	
6	Deferred Vested	

AVERAGE BENEFIT PAYMENT AMOUNTS

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

Average Annual Benefit $ 22,270

Data as of last actuarial valuation, June 30, 2001

RETIREMENTS DURING FISCAL YEAR 2002-03

SERVICE RETIREMENTS

ALDAY, DAVID E
ALVAREZ, DAVID R
ALVES, ALYCE J
BACON, DIANE E
BAGLEY, WALTER R
BEECH, JAMES LEON
BERGGREN, HEIDI H
BOLENDER, ROBERT J
BRUMFIELD, DONALD U
BURCHBY, STEPHEN A
CARRILLO, ELIAS L
COOPER, MARY JANE
DARNALL, PHILIP E
DE LA FUENTE, SARA E
DEARBORN, DARRELL
DUARTE, EVA
DYDO, LINDA H
ENOS, EDWARD J
ESTRADA, BARBARA
FARMER, MYRNA
FELIX, CHARLES A
FENRICH, EILEEN D
FIDDLER, KENNETH B
GARCIA, JAMES I
GOMEZ, PABLO I
GONZALES, EDWARD
GOOZEE, PRISCILLA M
HAUGHEY, JAMES A
HAULMAN, RONALD P
HEPBURN, FRANCIS X
HIGGINS, EARL R
HO, THOMAS
HUSA, SONIA L
HUSTON, ROSE M
IVIE, RALPH G
JUAN, JOHN R
KANE, SHERRY M
KAWAI, MASAAKI
KENNEDY, ARLENE M
KITTLER, BRUCE E
LA MANTIA, THEODORE P
LA RUSSA, ANTHONY G
LA VOY, FRANCES A
LANGLEY, GENE A
LAZETERA, CAROL D
LEITNER, JAMES A
LEWIS, EDNA P
LOPEZ, VICENTE S
LUPTON, CHARLES T
MAAS, BARBARA H
MAC ROSTIE, THOMAS A
MAINARICK, RICHARD M
MATTOS, PAULA JOYCE
MC BRIDE, C DONALD
MC HAFFIE, MICHAEL G
MILLER, JUDY M. F.
MORRIS, JUDY P
MORRISON, KEVIN P
MOYA, LINDA A
MURPHY, SINNOTT J
NAKAMOTO, VICTOR
NANQUIL, CARMENCITA C
NORMAN, JAMES THOMAS
NOVAK, JERI L
O'BRIEN, GILERY
PADILLA, DAVID D
PANGILINAN, ESTRELLA R
PEARSON, SAMUEL
PEDRAZA, ENRIQUE
PEREZ, DANIEL
PERRY, PAMELA M
PHENICIE, KENNETH W
PRESTON, LEON V
QUITOLES, ARTHUR V
RANEY, KENNETH J
REUTLINGER, LESLIE L
RODRIGUEZ, SEFERINA
RODY, LENORE M
SAMPSON, GENE R
SANCHEZ, DAVID M
SMITH, WILLIE
SOMMERS, DANNY C
SPENCER, NANCY C
TACKITT, JAMES R
TAMBUSSI, RONALD M
TENORIO, JANICE G
TEPORA, MARCIAL D
THOMPSON, BRENDA F
THOMPSON, GARY D
THROWER, RACHEL E
URBANO, FRANK J
VALERA, ESTER L
VENABLE, ROGER V
VILLA, JOSE S
WELCH, ORVAL A
WHITE, LESLIE R
WILLIAMS, CAROL L
YOUNG, DAVID W

RETIREMENTS DURING FISCAL YEAR 2002-03 (Continued)

DEFERRED VESTED RETIREMENTS

CURIA, PATRICIA L
FELIX, NADINE J
FOSTER, CHARLES W
FULLER, SUSAN A
GARRETSON, DAVID T
GOUW, PEGGY B
JACKSON, NANCY L
LANGBEIN, SHERRY A
LOHR, GERMAINE M
MAGILL, MARY M
MARSH, FRANK E
MC LIN, RONALD E
MESERVE, BARBARA C
MUKAI, LARRY M
PAINTER, CAROL A
RICKER, DONALD S
ROPER, IRENE
SHEPARD, WILLIAM R
TAVES, PAULA DENISE
WORLEY, LINDA F

SERVICE-CONNECTED DISABILITY RETIREMENTS

CONTRERAS, ERASMO
GOTT, PATRICIA B
NIERENBERG, LINDA K
OXLEY, ROBERT W
THOMAS, JEFFREY J

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

JUNDT, ESTHER G
MENDOZA, CHRISTINA G
PETERSON, ROBERT D
SORRELLS, ROBERT
VIDAL, MICHAEL A

DEATHS DURING FISCAL YEAR 2002-03

DEATHS AFTER RETIREMENT

ARRAS, GEORGE
AUST, CHRISTINA K
BRYAN, FRANK L
CAMPBELL, KATHY J
COENEN, PETER L
COX, ALFONSO
CUTRIGHT, TALMADGE M
DETWILER, ROYCE D
ESCOBEDO, PETER R
EVANS, GEORGE N
FARNQUIST, VIRGINIA E
FIRTH, PAULINE D
FRANTZ, ROSS A
HERNANDEZ, FRANCISCO
JACKSON, SHIRLEY
KELLY, EUGENE
LAUE, RICHARD F
LESLIE, DONALD L
LOUGHLIN, LOWELL K
MAGAHIZ, LILY T
MENARES, MANUEL
MEYERS, DONALD J
MUNIZ, JOHN
OROZCO, ROBERTA S
PAVKOV, PETER
POLIZZI, JOSEPH S
PRICKETT, JOHN S
RANEY, KENNETH J
SCHULTZ, GEORGE E
STOLP, JAMES E
THOME, RICHARD T
WALKER, ALEXANDER R
WELLS, MIMI F
WHITAKER, DOUGLAS J

DEATHS BEFORE RETIREMENT

CARLTON, SHARON
LARA, LENNY
QUIROZ, ARACELI M
RUCKER, GARY W
SOPER, JEFFREY T
VANDERPRIEM, THOMAS H

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