SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Reports Thereon)

Years Ended June 30, 2009 and 2008

SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Years Ended June 30, 2009 and 2008

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The Honorable Mayor and Board of Supervisors
City and County of San Francisco, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of plan net assets of the San Francisco City and County Employees' Retirement System ("Retirement System"), a pension trust fund of the City and County of San Francisco, California, as of June 30, 2009, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Retirement System's financial statements as of and for the year ended June 30, 2008 were audited by other auditors whose report dated January 12, 2009, expressed an unqualified opinion on those statements.

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

As discussed in Note 1, the financial statements of the Retirement System are intended to present only the plan net assets and changes in plan net assets of the Retirement System. They do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of June 30, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2009 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 21, 2009

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Management's Discussion and Analysis – Unaudited
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

The management of the City and County of San Francisco Employees' Retirement System (Retirement System) is pleased to provide this overview and analysis of the financial activities of its single-employer defined benefit pension plan (the Plan) for the years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the *Financial Statements and Required Supplementary Information*, which follow this discussion. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal Year 2009

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2009. The Plan held $11,886,729 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2008, the date of the last actuarial valuation, the funded ratio for the Retirement System was 104%. In general, this indicates that for every dollar of benefits due, we have approximately $1.04 of assets available for payment.
- For the year ended June 30, 2009, the Retirement System's net investment loss of $3,512,850 represents a 22.2% decrease in plan net assets. (This return is based on the plan net assets as of the beginning of the fiscal year.)
- Total net assets held in trust for pension benefits decreased by $3,945,792 or 24.9%, primarily as a result of market declines and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to $192,964, an increase of $7,841 or 4.2% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $119,751 for the year ended June 30, 2009.
- Total deductions from the Plan were $752,007, an increase of 6.9% from the prior year due to increased benefits paid during the current fiscal year.

Fiscal Year 2008

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2008. The Plan held $15,832,521 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2007, the funded ratio for the Retirement System was 110%. In general, this indicates that for every dollar of benefits due, we have approximately $1.10 of assets available for payment.
- For the year ended June 30, 2008, the Retirement System's net investment loss of $735,432 represents a 4.3% decrease in plan net assets. (This return is based on the plan net assets as of the beginning of the fiscal year.)

- Total net assets held in trust for pension benefits decreased by $1,119,522 or 6.6%, primarily as a result of market declines and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to $185,123, an increase of $9,376 or 5.3% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $134,060 for the year ended June 30, 2008.
- Total deductions from the Plan were $703,273, an increase of 8.2% from the prior year, due to increased benefits paid during the fiscal year.

Overview of Financial Statements

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

1. ***Statements of Plan Net Assets*** are snapshots of account balances as of the close of the year – June 30, 2009 and 2008. They indicate the total assets as of June 30, 2009 and 2008, total liabilities at those dates and the net assets available for future payment of retirement benefits and operating expenses.
2. ***Statements of Changes in Plan Net Assets*** provide a view of additions to and deductions from the Plan during the years ended June 30, 2009 and 2008.
3. ***Notes to Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements.

The statements of plan net assets and the statements of changes in plan net assets report information about the Retirement System's financial activities, prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis. Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of the Retirement System's partnership interests and real estate investments are based on net asset values provided by the general partners.

Investments in forward currency contract investments are commitments to purchase and sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges.

Additional information on the Retirement System's investments can be found in Note 4 of this report.

Results of Actuarial Valuation

Fiscal Year 2009
The Retirement System's July 1, 2008 (the date of the latest actuarial valuation) funding ratio is 104%, which means the Retirement System has approximately $1.04 available for each $1.00 of benefit obligations.

Fiscal Year 2008
The Retirement System's July 1, 2007 funding ratio is 110%, which means the Retirement System has approximately $1.10 available for each $1.00 of benefit obligations.

Financial Analysis

The Plan's net assets may serve over time as a useful indication of the Retirement System's financial position. The assets of the Retirement System exceeded its liabilities at June 30, 2009 and 2008. All of the Plan's net assets are available to meet the Retirement System's on-going obligation to Plan participants and their beneficiaries.

The Retirement System's net assets as of June 30, 2009, 2008 and 2007 are represented in the chart below:

Net Assets Summary – June 30, 2009, 2008 and 2007

	2009	2008	2007	FY 2009 Inc./(Dec.)	FY 2008 Inc./(Dec.)
Other assets	$ 284,287	$ 477,784	$ 992,886	$ (193,497)	$ (515,102)
Investments at fair value	12,867,163	17,828,856	20,051,858	(4,961,693)	(2,223,002)
Total assets	13,151,450	18,306,640	21,044,744	(5,155,190)	(2,738,104)
Total liabilities	1,264,721	2,474,119	4,092,701	(1,209,398)	(1,618,582)
Net assets	$ 11,886,729	$ 15,832,521	$ 16,952,043	$ (3,945,792)	$ (1,119,522)

Fiscal Year 2009
The Plan combined net assets held in trust for pension benefits decreased by $3,945,792 or 24.9% for the year, primarily due to a decrease in investment values of $4,961,693 resulting from a decline in financial and real estate market conditions. Despite the Plan's losses in fiscal year 2009, the Retirement Board and the consulting actuary concur that the Plan remains in a strong financial position to meet its obligations to the Plan participants and beneficiaries. While the credit markets continue to struggle from a lack of confidence which began in the summer of 2007, primarily related to the valuation of mortgage and derivative instruments, signs of economic improvement are beginning to emerge. As the recovery takes hold, improvement in financial markets will benefit the Plan due to the long-term perspective taken by the Retirement Board and the Plan's advisors and professionals. Concerns still remain related to the economy, fears over further terrorist activities, and military conflicts. The Retirement Board, Retirement System staff, and our investment consultants continuously monitor the Plan's investment strategies, which comply with "prudent expert" standards to secure the Plan's funded status.

The decline in Plan assets was offset, in part, by a $1,209,398 decrease in Plan liabilities. Payables to brokers decreased by $194,666 due to the timing of investment trades. Obligations under fixed coupon dollar repurchase agreements declined by $322,063 and payables to borrowers of securities declined by $685,612 as a result of less favorable market conditions for the related transactions.

Fiscal Year 2008

The Plan's combined net assets held in trust for pension benefits decreased by $1,119,522 or 6.6% for the year, primarily due to a decline in the financial market conditions. The Retirement Board and the consulting actuary concur that the Plan remains in a strong financial position to meet its obligations to the Plan participants and beneficiaries. The current financial position results from a strong and successful investment program, risk management, and strategic long-run perspective of capital markets. The credit markets continue to struggle from a lack of confidence which began in the summer of 2007, primarily related to the valuation of mortgage and derivative instruments. Concerns still remain related to the economy, fears over further terrorist activities, and military conflicts in the Middle East. The Retirement Board, Retirement staff, and our investment consultants are continuously monitoring the Plan's investment strategies which comply with "prudent expert" standards to secure the Plan's funding status.

Highlights of Changes in Net Assets – Years ended June 30, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
Additions:			
Member contributions	$ 192,964	$ 185,123	$ 175,747
Employer contributions	119,751	134,060	132,601
Transfer of plan assets from CalPERS	6,350	-	-
Interest	232,926	254,737	239,088
Dividends	144,815	183,940	167,408
Net appreciation (depreciation) in fair value of investments	(3,815,666)	(1,103,894)	2,424,598
Securities lending income (loss)	(25,493)	54,550	106,208
Repurchase agreement income (loss)	(9,104)	8,638	27,050
Investment expenses	(37,110)	(51,079)	(44,009)
Securities lending borrower rebates and expenses	(1,568)	(69,352)	(98,375)
Repurchase agreement expenses	(1,650)	(12,972)	(25,129)
Total additions	(3,193,785)	(416,249)	3,105,187
Deductions:			
Benefits	732,342	682,230	631,159
Refunds of contributions	6,714	8,449	7,645
Administrative expenses	11,720	11,517	11,362
Other administrative expenses - OPEB	1,231	1,077	-
Total deductions	752,007	703,273	650,166
Change in net assets	(3,945,792)	(1,119,522)	2,455,021
Net assets - beginning of the year	15,832,521	16,952,043	14,497,022
Net assets - end of the year	$ 11,886,729	$ 15,832,521	$ 16,952,043

Fiscal Year 2009

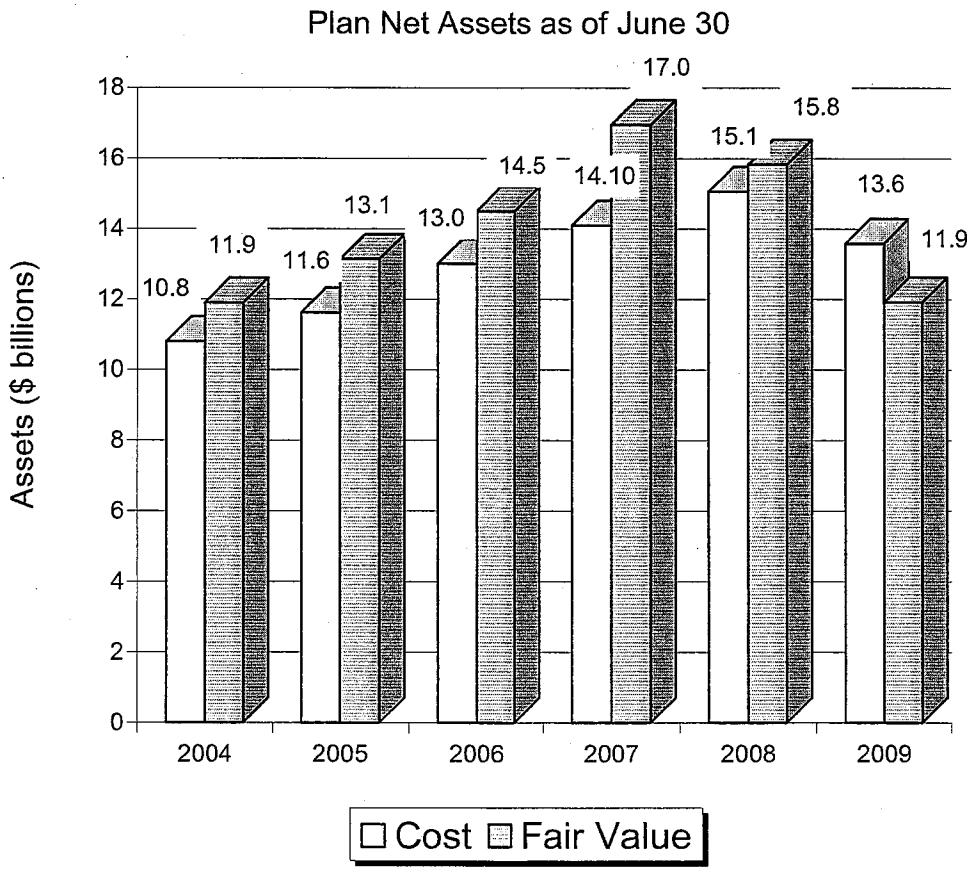
- Member contributions for the year ended June 30, 2009 increased by $7,841, or 4.2% higher than the prior year. This is consistent with base wage increases as negotiated by and between the City and County of San Francisco (City and County) and labor organizations representing Plan members, and the number of members purchasing service credit and repaying account shortages using the Plan's buyback program.
- In order to maintain the fiscal soundness of the Plan, employer contributions representing 4.99% of covered pay were required from the employers during the year ended June 30, 2009.
- Transfer of plan assets from the California Public Employees' Retirement System (CalPERS) increased by $6,350. This amount represents pension assets for 33 airport police officers who elected to terminate their CalPERS participation and have their eligible services transferred to the Retirement System.
- Securities lending income decreased by $80,043 or 146.7% due to reduced activities as a result of the economic downtown. The related rebates and expenses also show a corresponding decrease in the amount of $67,784, or 97.7%.
- Repurchase agreement income declined by $17,742 or 205.4%. The Retirement System's dollar roll program was adversely impacted by the housing market crisis that began in 2008. The Retirement System reduced and subsequently discontinued its investment activities in this program in September 2008.
- Investment expenses for the year decreased by $13,969 or 27.3%, reflective of the overall investment portfolio performance which resulted in reduced fees paid to investment managers during the year ended June 30, 2009.
- Benefit payments to Plan participants increased by $50,112 or 7.4%, consistent with the payment of Basic cost of living adjustments (COLA) effective July 1, 2008 and the steady increase in the net number of retirement allowances paid during the year.
- Refunds of contributions decreased by $1,735 or 20.5%, which reflects a decrease in the number of refunds processed from the previous year.
- Administrative expenses increased by $203 or 1.8%, consistent with the staff salary increases negotiated by and between the City and labor organizations representing Retirement System employees.
- Other administrative expenses for OPEB increased by $154 or 14.3%, which reflects the department's annual required contribution (ARC), interest on net OPEB obligation, and adjustment to the ARC, as allocated by the City and County based on city-wide payroll expenses for fiscal year 2009.

Fiscal Year 2008

- Member contributions for the year ended June 30, 2008 increased by $9,376, and were 5.3% higher than the prior year. This is consistent with base wage increases as negotiated by and between the City and labor organizations representing Plan members, and the number of members purchasing service credit and repaying account shortages using the Plan's buyback program.
- In order to maintain the fiscal soundness of the Plan, employer contributions representing 5.91% of covered pay were required from the employers during the year ended June 30, 2008.
- Investment expenses for the year increased by $7,070 or 16.1%, reflecting the funding of new investment managers during the year ended June 30, 2008.

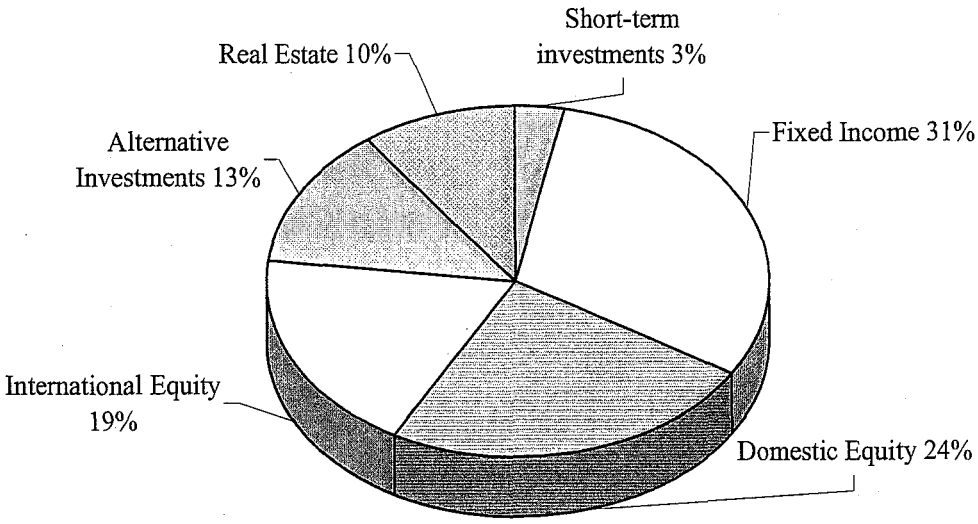
- Benefit payments to Plan participants increased by $51,071 or 8.1%, consistent with the payment of the 2007 Supplemental COLA during the year ended June 30, 2008, as well as the continued steady increase in the net number of retirement allowances paid during the year.
- Refunds of contributions increased by $804 or 10.5%, which reflects an increase in the average refund amount of from the previous year.
- Administrative expenses increased by $155 or 1.4%, consistent with the staff salary increases negotiated by and between the City and labor organizations representing Retirement System employees.
- Other administrative expenses for OPEB increased by $1,077, as a result of the City and County's implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The amount represents the department's allocated OPEB expense for fiscal year 2008.

Plan net assets for years ended June 30, 2004 through 2009 expressed at cost and fair value are represented in the chart below:



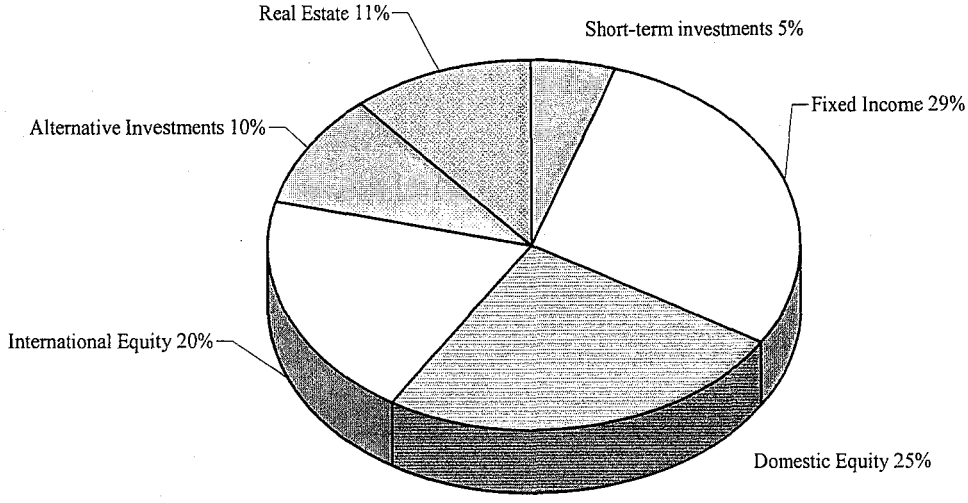
The asset allocation at fair value based on holdings (excluding investment in lending agent's short-term investment pool and foreign currency contracts) as of June 30, 2009 is represented in the chart below:

Asset Allocation as of June 30, 2009 - Fair Value



The asset allocation at fair value based on holdings (excluding investment in lending agent's short-term investment pool) as of June 30, 2008 is represented in the chart below:

Asset Allocation as of June 30, 2008 - Fair Value



Other Information

The Retirement System has successfully defended three class action lawsuits related to final compensation through final appeals to the California Supreme Court. There continue to be on-going lawsuits against the Retirement System brought by individuals related to benefits being paid. The Retirement System continues to vigorously defend these lawsuits to protect the assets of the trust.

Currently Known Facts and Events

The Retirement System completed a new actuarial valuation and an economic experience analysis as of July 1, 2008. The rates calculated in the actuarial valuation as of July 1, 2008 are adopted by the Retirement Board and effective July 1, 2009.

The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2008, the date of the Retirement System's most recent actuarial valuation, the funded status of the Retirement System decreased by 6.5% to 103.8%. The primary causes of this decrease are the inclusion of benefit changes under Proposition B, increased retirement accrual factors for miscellaneous members, and the conversion of COLA calculation for all new plan members from a 2.0% simple COLA to a 2.0% compound COLA. The results of the actuarial valuation also reflect the change in investment rate assumption from 8.00% to 7.75%. The most recent actuarial valuation as of July 1, 2008, does not reflect subsequent changes in the membership profile or the impact of significant fiscal year 2008-09 investment losses. The impact on the Plan's funded status and future contribution rates will not be determined until the July 1, 2009 valuation has been completed

The Retirement System's actuarial valuation uses a five-year smoothing method for investment returns. This means that the current year's investment gains or losses, as determined at year-end, are smoothed with the results from the prior four fiscal years. The Retirement Board believes that the Plan remains in a strong financial position to meet its obligations to Plan participants and beneficiaries.

Requests for information

This financial report is designed to provide a general overview of the Retirement System's finances for the years ended June 30, 2009 and 2008. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Executive Director
San Francisco City and County Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Plan Net Assets
June 30, 2009 and 2008
(In thousands)

	2009	2008
Assets:		
Deposits	$ 34,170	$ 77,554
Accounts receivable	6,351	-
Contributions receivable-members	8,286	7,635
Contributions receivable-City & County	5,344	5,826
Investment income receivable:		
Interest	27,526	39,844
Dividends	9,026	11,297
Securities lending	7,859	3,364
Dollar roll	-	1,381
Receivable from brokers, general partners and others	185,725	330,883
Investments at fair value:		
Short-term investments	504,096	879,724
Debt securities:		
U.S. government and agency securities	1,053,552	1,358,339
Other debt securites	2,662,681	3,353,162
Equity securities:		
Domestic	2,835,168	3,978,103
International	2,279,316	3,216,598
Real estate	1,181,932	1,788,561
Alternative investments	1,511,250	1,686,927
Foreign currency contracts, net	2,094	-
Investment in lending agent's short-term investment pool	837,074	1,567,442
Total investments	12,867,163	17,828,856
Total assets	13,151,450	18,306,640
Liabilities:		
Payable to brokers	366,728	561,394
Obligations under fixed coupon dollar repurchase agreements	-	322,063
Foreign currency contracts, net	-	504
DROP liabilities	4,143	-
Other liabilities	12,020	22,716
Payable to borrowers of securities	881,830	1,567,442
Total liabilities	1,264,721	2,474,119
Net assets held in trust for pension benefits	$ 11,886,729	$ 15,832,521

See accompanying notes to financial statements.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Assets
Years Ended June 30, 2009 and 2008
(In thousands)

	2009	2008
Additions:		
Member contributions		
Miscellaneous	$ 161,386	$ 156,203
Police	18,566	16,823
Fire	13,012	12,097
Total member contributions	192,964	185,123
Employer contributions		
Miscellaneous	98,306	111,548
Police	12,910	13,114
Fire	8,535	9,398
Total employer contributions	119,751	134,060
Transfer of plan assets from CalPERS	6,350	-
Investment income (expenses)		
Interest	232,926	254,737
Dividends	144,815	183,940
Net depreciation in fair value of investments	(3,815,666)	(1,103,894)
Securities lending income (loss)	(25,493)	54,550
Fixed coupon dollar repurchase agreement income (loss)	(9,104)	8,638
Investment expenses	(37,110)	(51,079)
Securities lending borrower rebates and expenses	(1,568)	(69,352)
Fixed coupon dollar repurchase agreement finance charges and expenses	(1,650)	(12,972)
Net investment loss	(3,512,850)	(735,432)
Total additions	(3,193,785)	(416,249)
Deductions:		
Benefits	732,342	682,230
Refunds of contributions	6,714	8,449
Administrative expenses	11,720	11,517
Other administrative expenses - OPEB	1,231	1,077
Total deductions	752,007	703,273
Net decrease	(3,945,792)	(1,119,522)
Net assets held in trust for pension benefits:		
Beginning of year	15,832,521	16,952,043
End of year	$ 11,886,729	$ 15,832,521

See accompanying notes to financial statements.

(1) Plan Description

(a) General

The San Francisco City and County Employees' Retirement System (the Retirement System) administers a single-employer defined benefit pension plan (the Plan) established to provide pension benefits for substantially all employees of the City and County of San Francisco (the City and County), certain classified and certificated employees of the Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. While the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), it is a tax-qualified plan under Internal Revenue Code provisions. The San Francisco City and County Charter (the Charter) and the Administrative Code are the authorities that establish and amend the benefit provisions of and employer and member obligations to the Plan.

The Retirement System is considered to be a part of the City and County's financial reporting entity and is included in the City and County's basic financial statements as a pension trust fund. The Retirement System is administered by the Executive Director, an employee of the City and County, in accordance with the provisions of the Charter and the policies and regulations of the Retirement Board. The City and County's basic financial statements can be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The three main categories of Plan membership are:

- **Miscellaneous Members** – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

- **Firefighter Members** – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.

- **Police Members** – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

(b) Service Retirement

Miscellaneous Members qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

(c) Disability Retirement

Miscellaneous Members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. The disability retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the disability factor (1.8) up to a maximum of 75% of the member's final compensation.

Firefighter Members and Police Members are eligible to apply for an industrial disability retirement benefit from their first day on the job in firefighter or police service if their disability is caused by an illness or injury that they received while performing their duties. The industrial disability retirement benefit is based on the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the permanent disability rating (from 50% to 90%) or the member's service retirement benefit if the member is eligible for a service retirement.

Firefighter Members and Police Members are eligible to apply for an ordinary disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that is not caused by their work, but that prevents them from performing their duties.

(d) Separation and Death Benefits

Separation from Employment

At permanent separation from employment, **Miscellaneous Members, Firefighter Members, and Police Members** may either elect to withdraw their accumulated contributions from the Plan or, if they have 5 or more years of credited service, elect to leave their accumulated contributions in the Plan and receive a vesting benefit that is first payable at or after age 50. Miscellaneous members hired before November 2, 1976 need 10 years of credit service to elect the latter option.

Death Benefits Prior to Retirement

Generally, upon the death of an active employee who is eligible for a service retirement, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance that the member would have received had he or she retired on the date of death.

For qualified surviving spouses and qualified domestic partners of **Firefighter Members and Police Members** who die prior to becoming eligible for service retirement and whose death is due to an injury received in or illness caused by the performance of duty, salary continuation is provided to the qualified survivor until such time as the member would have qualified for service retirement had he or she lived at which time a continuation benefit equal to 100% of the member's service retirement allowance is provided to the qualified survivor.

A lump sum death payment equal to 6 months' earnable salary plus the member's accumulated contributions is provided upon the death of an active employee not yet eligible for a service retirement to the member's named beneficiary or estate.

Death Benefits after Retirement

Generally, upon the death of a retired member, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance as of the date of death.

(e) Cost of Living Adjustments (COLA)

Basic COLA

Miscellaneous Members receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the Consumer Price Index (CPI) rounded to the nearest 1%, to a maximum of 2% of the member's original retirement benefit. If the CPI decreases in a particular year, however, a member's monthly retirement benefit will never decrease below the original amount.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 receive a benefit adjustment each July 1 equal to 50% of the actual dollar increase or decrease in the salary of the rank or position on which the member's retirement benefit is based. Although decreases are possible in a given year, a member's monthly benefit will never decrease below the original amount.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the CPI rounded to the nearest 1%, to a maximum of 2% of the member's original retirement benefit. If the CPI decreases in a particular year; however, a member's monthly retirement benefit will never decrease below the original amount.

See subsection (f) below for changes to the Basic COLA payable on or after July 1, 2009.

Supplemental COLA

The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The Supplemental COLA, payable on July 1 in those years when they are paid, bring the total monthly benefit adjustment (including the Basic COLA) up to 3% of the member's current monthly retirement benefit. All Supplemental COLAs paid to retired members will continue into the future in the event an additional Supplemental COLA is not payable in any given year. See subsection (f) below for changes to the Supplemental COLA payable on or after July 1, 2009.

(f) Legislative Changes to the Plan

There were two significant legislative changes to the Plan that became effective during the year ended June 30, 2009.

In February 2008, the voters of the City and County approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer may elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and begins to accrue monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation and service frozen as of the date of his or her entry into DROP. At June 30, 2009, DROP liabilities totaled $4,143.

In June 2008, the voters of the City and County approved a Charter amendment which improves the retirement formula for Miscellaneous Members of the Plan by increasing the age factor at age 60 from 2.0 to 2.1 and extending age factors to a maximum of 2.3 at age 62 for retirement effective on and after January 11, 2009 and improving the Basic and Supplemental COLAs payable on or after July 1, 2009. The enhanced Basic COLA provides a benefit adjustment each July 1 equal to the percentage increase or decrease in the CPI rounded to the nearest 1% to a maximum of 2% of the member's current monthly retirement benefit for all members who became members of the Plan on or after November 2, 1976. The enhanced Supplemental COLA, payable on July 1 in those years when there is sufficient "excess" investment earnings in the Plan, will increase the total monthly benefit adjustment (including the Basic COLA) up to 3.5% of the member's current monthly retirement benefit. The new Supplemental COLA can be paid in increments of 0.5% up a maximum of 3.5% adjustment including the Basic COLA.

(g) Membership

Membership of the Retirement System consisted of the following as of June 30, 2009:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,169	2,028	18,086	22,283
Active members	2,246	1,459	26,205	29,910
Terminated members entitled to but not yet receiving benefits	124	60	4,620	4,804
Total	4,539	3,547	48,911	56,997

Membership of the Retirement System consisted of the following as of June 30, 2008:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,141	1,977	17,396	21,514
Active members	2,243	1,529	26,878	30,650
Terminated members entitled to but not yet receiving benefits	122	63	4,563	4,748
Total	4,506	3,569	48,837	56,912

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB.) In addition, the Retirement System applies all applicable pronouncements issued by the Financial Accounting Standards Board (FASB) (and predecessor standard setting entities) on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Retirement System has elected not to apply private sector standards issued after November 30, 1989.

Member contributions are recognized in the period in which the contributions are due. Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 50% and 60% respectively. The leverage limits for high return real estate investments depend on each specific offering. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of alternative investments are based on net asset values provided by the general partners. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and changes in fair value. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The Charter and Retirement Board policies permit the Retirement System to use investments of the Plan to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the Plan's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2009 and 2008 was 85 days and 96 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which had a weighted average maturity as of June 30, 2009 and 2008 of 38 days and 51 days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which had a weighted average maturity as of June 30, 2009 and 2008 of 17 days and 42 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the lending agent's short-term investment pools is reported at fair value. The lending agent's short-term investment pools have not been rated by a nationally recognized statistical rating organization. Payable to borrowers of securities in the statements of plan net assets represents the cash collateral received from borrowers. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses in the statements of changes in plan net assets.

The Charter and Retirement Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. The Retirement System opted out of this program in September 2008 and transferred remaining funds to the Investment Cash Account or segregated account for cash management activities. This credit exposure at June 30, 2009 and 2008 was $0 and $1,746, respectively.

(c) Administrative Expenses

All costs to administer the Retirement System are borne by the Retirement System.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(e) Implementation of New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 45

The Retirement System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension,* effective for the year ended June 30, 2008. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expense/expenditures and related liabilities (assets), note disclosure, and as applicable, required supplementary information (RSI) in the financial reports of state and local government employers.

Governmental Accounting Standards Board Statement No. 50

The Retirement System implemented the provisions of GASB Statement No 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* for the year ended June 30, 2008. This statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement amends GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

(f) New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 53

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. This requirement enables financial statement users to more fully understand changes in fair value for derivative instruments, provides information necessary to assess the Retirement System's objectives of derivative instruments, their significant terms, and the risk associated with the derivative instruments. The Retirement System will adopt the provisions of GASB Statement No. 53 beginning with the fiscal year ending June 30, 2010.

(g) Reclassifications

Certain financial statement items from the June 30, 2008 financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported Plan net assets.

(3) Deposits

Deposits are carried at cost, which approximates fair value. Deposits consisted of the following as of June 30:

	2009	2008
Pooled funds with City and County Treasurer	$ 6,595	$ 134
Bank accounts	27,575	77,420
	$ 34,170	$ 77,554

Deposit and investment risk disclosures for the pooled funds with the City and County Treasurer are discussed in the City and County's basic financial statements.

(4) Investments

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; and alternative investments, which include investments in a variety of commingled partnership vehicles.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Retirement System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities and collateralized mortgage obligations. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

Below are tables depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2009 and 2008.

Interest Rate Risk as of June 30, 2009

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 155,664	$ 2	$ 72,070	$ 14,549	$ 69,043
Bank Loans	31,848	774	8,767	21,104	1,203
Collateralized Bonds	3,017	-	-	470	2,547
Commercial Mortgage-Backed Securities	482,725	892	64,534	130,896	286,403
Corporate Bonds	1,380,439	83,990	768,418	387,346	140,685
Corporate Convertible Bonds	159,112	3,599	74,444	11,743	69,326
Government Agencies	14,401	-	9,174	3,836	1,391
Government Bonds	409,885	-	320,627	52,709	36,549
Government Mortgage Backed Securities	655,933	-	152,746	34,030	469,157
Index Linked Government Bonds	9,320	-	-	1,909	7,411
Mortgages	132	-	-	132	-
Municipal/Provincial Bonds	26,743	-	901	12,316	13,526
Non-Government Backed Colllateralized Mortgage Obligations	157,258	900	-	3,188	153,170
Options and swaps	(8,201)	(2,535)	(1,964)	(2,851)	(851)
Other Fixed Income Funds	484,658	390,657	62,688	24,293	7,020
Short Term Bills and Notes	17,877	17,877	-	-	-
Short Term Investment Funds	233,870	233,870	-	-	-
Total	$ 4,214,681	$ 730,026	$ 1,532,405	$ 695,670	$ 1,256,580

As of June 30, 2009, two Argentina government bonds and four other fixed income funds amounting to $163 and $5,485 respectively are in default. The latter amount of $5.5 million is awaiting the outcome of the Lehman bankruptcy proceedings. These securities are excluded from the table above.

Interest Rate Risk as of June 30, 2008

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 175,567	$ 1,273	$ 62,295	$ 15,291	$ 96,708
Commercial Mortgage-Backed Securities	744,787	-	107,374	133,777	503,636
Corporate Bonds	1,527,709	32,542	648,081	619,369	227,717
Corporate Convertible Bonds	170,505	2,910	47,400	7,791	112,404
Government Agencies	157,403	-	512	154,193	2,698
Government Bonds	276,575	3,516	34,456	144,012	94,591
Government Mortgage Backed Securities	934,878	-	-	2,622	932,256
Index Linked Government Bonds	29,285	-	7,035	14,631	7,619
Loans	26,974	5,287	8,639	13,048	-
Mortgages	158	-	-	158	-
Municipal/Provincial Bonds	25,046	61	-	4,056	20,929
Non-Government Backed Collateralized Mortgage Obligations	316,775	919	1,785	8,630	305,441
Other Fixed Income	309,504	-	306,425	-	3,079
Short Term Bills and Notes	15,426	15,426	-	-	-
Total	$ 4,710,592	$ 61,934	$ 1,224,002	$ 1,117,578	$ 2,307,078

Investments in bond mutual funds are included with corporate bonds and other fixed income investments. Investments in bond mutual funds included with corporate bonds and other fixed income investments totaled $455,918 and $230,901 for the year ended June 30, 2009, and $603,129 and $306,426 for the year ended June 30, 2008.

(b) Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Fixed income investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Fixed income managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. The Retirement System's credit risk policy is embedded in the individual investment manager guidelines as prescribed and approved by the Retirement Board.

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2009. Investments issued or explicitly guaranteed by the U.S. government of $598,271 as of June 30, 2009 are not considered to have credit risk and are excluded from the tables below.

Credit Risk as of June 30, 2009

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 754,702	20.8%
AA	143,653	4.0%
A	320,312	8.8%
BBB	428,870	11.8%
BB	186,482	5.1%
B	185,971	5.1%
CCC	107,140	3.0%
CC	13,104	0.4%
C	1,785	0.0%
D	8,167	0.2%
Not Rated	1,471,872	40.8%
Total	**$ 3,622,058**	**100.0%**

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2008.

Credit Risk as of June 30, 2008

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 1,817,032	40.7%
AA	129,050	2.9%
A	311,875	7.0%
BBB	462,800	10.4%
BB	186,429	4.2%
B	227,249	5.1%
C	65,811	1.5%
Not rated	1,267,407	28.2%
Total	**$ 4,467,653**	**100.0%**

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at market) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2009 and 2008, the Retirement System had no investments of a single issuer that equal or exceed 5% of total Retirement System net assets.

(d) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Retirement System does not have a specific policy addressing custodial credit risk for deposits. As of June 30, 2009, $5,670 of the Retirement System's bank balance of $34,170 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2008, $36,428 of the Retirement System's bank balance of $77,554 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2009 and 2008, $11,971 and $8,980 respectively, of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

(e) Foreign Currency Risk

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash equity, fixed income, alternative investments, real estate, and swap investments. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposures to foreign currency risk as of June 30, 2009 are as follows:

Foreign Currency Risk Analysis as of June 30, 2009

Currency	Cash	Equity	Fixed Income	Alternative Investments	Real Estate	Total
Australian dollar	$ 501	$ 91,955	$ 8,491	$ -	$ -	$ 100,947
Brazilian real	-	27,807	2,684	-	-	30,491
British pound sterling	345	301,598	-	836	-	302,779
Canadian dollar	211	65,378	1,991	-	-	67,580
Colombian peso	-	-	658	-	-	658
Czech koruna	468	10,918	-	-	-	11,386
Danish krone	99	17,717	-	-	-	17,816
Egyptian pound	-	7,389	-	-	-	7,389
Euro	11,965	553,951	11,631	180,119	-	757,666
Hong Kong dollar	750	147,121	-	-	-	147,871
Hungarian forint	-	6,132	-	-	-	6,132
Indonesian rupiah	12	3,719	-	-	-	3,731
Japanese yen	3,214	416,627	-	-	63,994	483,835
Malaysian ringgit	-	1,776	-	-	-	1,776
Mexican peso	-	4,582	896	-	-	5,478
New Israeli shekel	-	2,833	-	-	-	2,833
New Taiwan dollar	-	29,445	-	-	-	29,445
New Zealand dollar	28	1,621	-	-	-	1,649
Nigerian naira	-	-	2,801	-	-	2,801
Norwegian krone	131	17,611	-	-	-	17,742
Polish zloty	-	3,330	-	-	-	3,330
Russian ruble (new)	27	-	1,670	-	-	1,697
Singapore dollar	280	39,228	-	-	-	39,508
South African rand	24	27,151	-	-	-	27,175
South Korean won	1,150	61,383	-	-	-	62,533
Swedish krona	(27)	37,695	-	-	-	37,668
Swiss franc	351	138,954	1,238	-	-	140,543
Thai baht	-	8,926	-	-	-	8,926
Turkish lira	-	14,169	3,699	-	-	17,868
United Arab dirham	-	-	5,164	-	-	5,164
TOTAL	$ 19,529	$ 2,039,016	$ 40,923	$ 180,955	$ 63,994	$ 2,344,417

The following table illustrates the Retirement System's net exposure to foreign currency risk as of June 30, 2008:

Foreign Currency Risk Analysis as of June 30, 2008

Currency	Cash	Equity	Fixed Income	Alternative Investments	Real Estate	Swaps	Total
Australian dollar	$ 6,761	$ 115,760	$ -	$ -	$ -	$ -	$ 122,521
Brazilian real	156	39,062	17,424	-	-	12,961	69,603
British pound sterling	28,498	437,062	-	1,282	-	(269)	466,573
Canadian dollar	6,725	108,742	3,124	-	-	-	118,591
Colombian peso	-	-	3,483	-	-	-	3,483
Czech koruna	-	10,962	-	-	-	-	10,962
Danish krone	42	36,756	-	-	-	-	36,798
Egyptian pound	2,863	15,868	2,674	-	-	-	21,405
Euro	31,621	831,880	1,347	207,884	-	(1,030)	1,071,702
Hong Kong dollar	5,518	108,138	-	-	-	-	113,656
Hungarian forint	-	14,129	2,082	-	-	-	16,211
Indian rupee	-	178	-	-	-	-	178
Indonesian rupiah	13	1,418	4,124	-	-	1,491	7,046
Japanese yen	9,272	531,759	-	-	46,355	-	587,386
Malaysian ringgit	4,885	12,094	2,113	-	-	-	19,092
Mexican peso	32	12,850	782	-	-	-	13,664
New Israeli shekel	-	4,698	3,557	-	-	-	8,255
New Taiwan dollar	130	5,183	936	-	-	-	6,249
New Zealand dollar	72	3,573	-	-	-	-	3,645
Nigerian naira	539	-	1,680	-	-	571	2,790
Norwegian krone	1,469	34,077	-	-	-	-	35,546
Peruvian nuevo sol	-	-	-	-	-	1,274	1,274
Philippine peso	-	-	836	-	-	-	836
Polish zloty	-	13,480	-	-	-	-	13,480
Russian ruble (new)	36	-	3,035	-	-	2,838	5,909
Singapore dollar	217	41,025	-	-	-	-	41,242
South African rand	-	22,459	-	-	-	-	22,459
South Korean won	1,079	67,689	-	-	-	-	68,768
Swedish krona	1,050	56,563	-	-	-	-	57,613
Swiss franc	2,319	176,753	-	-	-	14	179,086
Thai baht	-	11,382	-	-	-	-	11,382
Turkish lira	-	13,666	2,050	-	-	-	15,716
United Arab dirham	-	794	6,002	-	-	-	6,796
TOTAL	$ 103,297	$ 2,728,000	$ 55,249	$ 209,166	$ 46,355	$ 17,850	$ 3,159,917

(5) Currency Overlay Program

The Retirement System's currency overlay program is managed by three investment managers. The objectives of the program are to: 1) systematically manage currency exposure in an effort to reduce overall plan volatility; 2) systematically manage currency exposure to reduce the volatility of its international equity portfolio; and 3) enhance diversification since the excess returns of currency trading has historically had a low correlation to the excess returns of traditional equity and fixed income asset classes.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency overlay program.

Each currency overlay manager manages currency risk through foreign exchange, spot, and forward contracts, and currency options. Only international equities are subject to the currency overlay

program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2009, the Retirement System's allocation to international equities (including cash and other assets) totaled $2,358,926 which represented 19.9% of plan net assets, which is primarily denominated in foreign currencies. For the year ended June 30, 2009, the currency overlay program gained $4,497 or 0.19% of the international equity portfolio (including cash and other assets) and 0.0377% of the Retirement System's average total portfolio.

As of June 30, 2008, the Retirement System's allocation to international equities (including cash and other assets) totaled $3,267,776 which represented 20.6% of plan net assets, which is primarily denominated in foreign currencies. For the year ended June 30, 2008, the currency overlay program gained $15,014 or 0.46% of the international equity portfolio (including cash and other assets) and 0.0948% of the Retirement System's average total portfolio.

(6) Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and international securities lent. During the course of the fiscal year, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at anytime. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

As of June 30, 2009, the Retirement System has lent $1,022,449 in securities and received collateral of $881,830 and $168,039 in cash and securities, respectively, from borrowers. The cash collateral is invested the securities lending agent's short-term investment pool. Due to the decline in the fair value of assets held by the short-term investment pool, the Retirement System's invested cash collateral was valued at $837,074. The unrealized loss of $44,756 is presented as part of the net depreciation in fair value of investments in the statement of changes in plan net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the short-term investment pool due to the fluctuation in the fair value of the assets held by the short-term investment pool.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statements of net assets. As of June 30, 2009 and 2008, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

The Retirement System's securities lending transactions as of June 30, 2009 are summarized in the following table.

Securities Lending as of June 30, 2009

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Equities	$ 136,365	$ 144,864	$ -
International Corporate Fixed Income	1,242	1,284	-
International Government Fixed Income	11,478	12,001	-
U.S. Government Agencies	1,860	1,906	-
U.S. Corporate Fixed Income	97,479	100,108	-
U.S. Equities	312,137	320,923	-
U.S. Government Fixed Income	294,014	300,744	-
Securities Loaned with Non-Cash Collateral			
International Equities	167,406	-	167,586
International Government Fixed Income	75	-	67
U.S. Equities	393	-	386
Total	$ 1,022,449	$ 881,830	$ 168,039

As of June 30, 2008, the Retirement System has lent $1,945,708 in securities and received collateral of $1,567,442 and $453,956 in cash and securities, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2008, are summarized in the following table.

Securities Lending as of June 30, 2008

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Equities	$ 395,790	$ 416,023	$ -
International Corporate Fixed Income	1,536	1,592	-
International Government Fixed Income	10,197	10,684	-
U.S. Government Agencies	203,309	208,186	-
U.S. Corporate Fixed Income	183,061	188,052	-
U.S. Equities	502,300	516,671	-
U.S. Government Fixed Income	221,316	226,234	-
Securities Loaned with Non-Cash Collateral			
International Equities	399,808	-	424,681
International Government Fixed Income	196	-	224
U.S. Equities	28,195	-	29,051
Total	$ 1,945,708	$ 1,567,442	$ 453,956

(7) Pending Currency Trades

Investments in forward currency contracts are commitments to purchase or sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2009 and 2008, the fair value of open contracts can be summarized as follows:

	2009	2008
Purchase contracts	$ 1,752,959	$ 5,828,832
Sales contracts	(1,750,865)	(5,829,336)
Net fair value	$ 2,094	$ (504)

The Retirement System utilized these contracts to hedge (or decrease) the currency risk of foreign investments, to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities, or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts. The impact on market risk of these contracts can be summarized as follows:

	2009	2008
Contracts used to hedge or to settle trades, net	$ (429,284)	$ (1,321,906)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	431,378	1,321,402
Net fair value	$ 2,094	$ (504)

(8) Investments in Real Estate Holdings

Real estate investments represent the Retirement System's interests in real estate limited partnerships. The changes in these investments during the years ended June 30, 2009 and 2008 are summarized as follows:

	2009	2008
Investments:		
Beginning of the year	$ 1,788,561	$ 1,698,685
Capital investments	94,785	207,014
Equity in net earnings	65,029	67,770
Net appreciation (depreciation) in fair value	(661,981)	33,322
Capital distributions	(104,462)	(218,230)
End of the year	$ 1,181,932	$ 1,788,561

(9) Benefits

Allowances and benefits paid during the year are summarized as follows:

	2009	2008
Service retirement benefits	$ 539,917	$ 500,398
Disability retirement benefits	140,804	132,134
Death benefits	7,107	8,182
Normal contributions paid as death benefit	3,924	3,539
Proposition C payments	36,447	37,977
DROP accrued retirement benefits	4,143	-
	$ 732,342	$ 682,230

(10) Funding Policy

(a) Contributions

Contributions are made to the Plan by both the employers and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal years 2009 and 2008 as a percentage of gross covered salary were as follows:

Participants entering the Retirement System
prior to November 2, 1976
Police and fire 7.0%
Miscellaneous..... 8.0%
Participants entering the Retirement System
after November 2, 1976 ..... 7.5%

Beginning in the year ended June 30, 2006, most employee groups agreed through collective bargaining for employees to contribute all or a portion of the employee contributions, per memorandums of understanding (MOU's), on a pretax basis.

Prior to the early 1950s, all Retirement System members were covered by the Federal Old-Age and Survivors Disability Insurance provisions of the Federal Social Security Act. In the early 1950s, the City and County agreed to exclude uniformed police officers and firefighters from Social Security coverage. Prior to 1990, miscellaneous members covered by Social Security were able to elect to reduce the above stated rate of employee contribution in consideration of their anticipated Social Security benefit payments. All participants who elected such reduction must repay the amount of unpaid employee contributions with interest or there will be an appropriate actuarial reduction in benefits.

Participants terminating service with the employers may withdraw employee contributions plus interest. The interest rate applied to accumulated employee contributions is determined by the Retirement System's consulting actuary and recommended to the Retirement Board. The Retirement Board reviews and sets the crediting interest rate for the Plan on an annual basis. Interest for the years ended June 30, 2009 and 2008 accumulated at 5.00%.

The basic employer contributions are the amounts deemed necessary on an actuarial basis using the entry age normal cost method to provide the Retirement System with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Contribution rates used in fiscal years 2009 and 2008 are based on a schedule of rates determined from actuarial studies by the consulting actuary as of July 1, 2007 and 2006, respectively.

The actuarial methods and significant assumptions used to compute the actuarially determined annual required contribution for both actuarial studies are the same, as shown below.

Valuation Dates	July 1, 2007 and July 1, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	Actuarial gains and losses, assumption changes, and supplemental COLAs are amortized over an open 15-year period; plan amendments and changes in interest crediting rate are amortized over 20-year closed periods
Asset valuation method	5-year smoothing of return over and under expected market value return – transition period began July 1, 2004
Actuarial assumptions:	
Investment rate of return	8.00%
Projected wage increases	4.50% Additional for Merit and Promotion: 0% to 21% based on a participant's years of service and membership group
Cost of living adjustments	
Old plans – Police and Fire	Post-7/1/1975 retirement: 4.50% per year; Pre-7/1/1975 Retirement: 3.00% per year
Old Plans – Miscellaneous	2.00% per year
New Plans – all members	2.00% per year

Required and actual employer contribution rates for the years ended June 30, 2009 and 2008 as a percentage of covered payrolls averaged the following:

	FY2009	FY2008
Police plan members	4.99%	5.91%
Fire plan members	4.99%	5.91%
Miscellaneous plan members	4.99%	5.91%

In order to comply with Internal Revenue Code Section 414(h) (2), and the City ordinance, the Retirement System implemented a tax-deferred contribution plan during the year ended June 30, 1990. Under this plan, participants may irrevocably elect a tax-deferred treatment of their contributions.

(b) Funded Status

The provisions of the Charter state that an actuarial valuation shall occur at least every even-numbered year and that actuarial experience investigations shall occur as determined necessary by the Retirement Board. Actuarial valuations and a limited experience analysis are generally carried out each year. The latest actuarial valuation of the Retirement System was completed in January 2009 by the actuarial firm Cheiron and was based upon employee data and asset information as of July 1, 2008. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The following table shows the funded status of the Retirement System as of July 1, 2008, the most recent actuarial valuation date.

Funded Status as of July 1, 2008
(Dollars in thousands)

Valuation Date	Actuarial Value of Assets (AVA)	Accrued Liability (AL)	Unfunded Accrued Liability (Surplus) (UAL)	Funded Ratio (AVA / AL)	Covered Payroll (CP)	UAL as a Percent of Payroll (UAL / CP)
July 1, 2008	$ 15,941,390	$ 15,358,824	$ (582,566)	103.8%	$ 2,457,196	-23.7%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information regarding the actuarial methods and significant assumptions used as of the latest actuarial valuation follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	Actuarial gains and losses, assumption changes, and supplemental COLAs are amortized over an open 15-year period; plan amendments and changes in interest crediting rate are amortized over 20-year closed periods
Asset valuation method	5 year smoothing of return over and under expected returns
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases:	4.50% Additional for Merit and Promotion: 0% to 21% based on a participant's years of service and membership group
Cost of living adjustments:	
Old plans – Police and Fire	Post-7/1/1975 retirement: 4.50% per year; Pre-7/1/1975 Retirement: 3.00% per year
Old Plans – Miscellaneous	2.00% per year
New Plans – all members	2.00% per year

(11) Postemployment Healthcare Plan

(a) Health Care Benefits

Health care benefits of the Retirement System's employees, retired employees and their beneficiaries are financed by the City and County through the City and County of San Francisco Health Service System (the Health Service System).

The City and County has determined a City-wide annual required contribution (ARC), interest on net OPEB obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, by the City and County's actuaries. The City and County's allocation of the OPEB-related costs to the Retirement System for the years ended June 30, 2009 and 2008 based upon its percentage of City-wide payroll costs is presented below. Included in the Retirement System's payments for all health care benefits amounts are approximately $305 and $288 for 2009 and 2008, respectively, to provide postretirement benefits for retired employees on a pay-as-you-go basis. In addition, the City and County allocated $9 and $11 to the Retirement System's contribution allocation for payment made from the Health Service System for postretirement health benefits in 2009 and 2008, respectively. The OPEB expense for the Retirement System is included in other administrative expenses for fiscal years 2009 and 2008.

The following table shows the components of the City and County's annual OPEB allocations for the Retirement System, for the amount contributed to the OPEB plan, and changes in the Retirement System's net OPEB obligation:

	2009	2008
Annual required contribution	$ 1,221	$ 1,077
Interest on Net OPEB obligation	38	-
Adjustment to annual required contribution	(28)	-
Annual OPEB cost	1,231	1,077
Contribution made	(314)	(299)
Increase in net OPEB obligation	917	778
Net OPEB obligation - beginning of year	778	-
Net OPEB obligation - end of year	$ 1,695	$ 778

The City and County issues a publicly available financial report that includes the complete note disclosures and RSI related to the City and County's postretirement health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(12) Commitments and Contingencies

(a) Unfunded Investments Commitments

The Retirement System has unfunded commitments to contribute capital for real estate in the amount of $187 and alternative investments in the amount of $1,200, totaling $1,387 as of June 30, 2009.

(b) Legal

During the year ended June 30, 2009, the Retirement System was involved in various petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System, which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City and County's required annual contributions.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Required Supplementary Information - Unaudited
June 30, 2009
(Dollar amounts in thousands)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (AVA)	Accrued Liability (AL)	Unfunded Accrued Liability (Surplus) (UAL)	Funded Ratio (AVA / AL)	Covered Payroll	UAL as a Percent of Covered Payroll
July 1, 2008	$ 15,941,390	$ 15,358,824	$ (582,566)	103.8%	$ 2,457,196	-23.7%
July 1, 2007	14,929,287	13,541,388	(1,387,899)	110.2%	2,376,221	-58.4%
July 1, 2006	13,597,646	12,515,463	(1,082,183)	108.6%	2,161,261	-50.1%
July 1, 2005	12,659,698	11,765,737	(893,961)	107.6%	2,052,862	-43.5%
July 1, 2004	11,299,997	10,885,455	(414,542)	103.8%	2,155,252	-19.2%
July 1, 2003	11,173,636	10,249,896	(923,740)	109.0%	2,130,071	-43.4%

Schedule of Employer Contributions

Year ended June 30	Annual required contribution	Percentage contribution
2009	$ 119,751	100.0%
2008	134,060	100.0%
2007	132,601	100.0%
2006	126,533	100.0%
2005	83,664	100.0%
2004	-	N/A*

* No required employer contributions for the year ended June 30, 2004

See accompanying note to required supplementary information.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

In the latest actuarial valuation as of July 1, 2008, the Retirement System has reduced the assumed investment rate of return to 7.75% from 8.00% in the previous actuarial valuation as of July 1, 2007. In addition, the results of the actuarial valuation dated July 1, 2008 reflect benefit changes passed in June 2008 under Proposition B. Significant changes include:

- Increased retirement accrual factors for miscellaneous plan members (resulting in an additional change in retirement rates to recognize the increased benefits).
- Basic COLA for all new plan members (police, fire, and miscellaneous) changed from a 2.0% simple COLA to a 2.0% compound COLA.
- The changes to the Supplemental COLA took effect July 1, 2009 and therefore will not impact valuation results until the next valuation.