SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM

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

Years Ended June 30, 2010 and 2009

SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Years Ended June 30, 2010 and 2009

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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 statements 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, 2010 and 2009, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 audits provide 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, 2010 and 2009, 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, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(f), the Plan adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010 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 grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedules designated as 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 17, 2010

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, 2010 and 2009. 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 2010

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2010. The Plan held $13,136,786 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, 2009, the date of the last actuarial valuation, the funded ratio for the Retirement System was 97.0%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately $0.97 of assets available for payment.
- For the year ended June 30, 2010, the Retirement System's net investment gain of $1,655,101 represents a 13.9% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.)
- Total net assets held in trust for pension benefits increased by $1,250,057 or 10.5%, primarily as a result of market increases and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to $189,948, a decrease of $3,016 or 1.6% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $223,614 for the year ended June 30, 2010.
- Total deductions from the Plan were $818,606, an increase of 8.9% from the prior year due to increased benefits paid during the current fiscal year.

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 funded ratio for the Retirement System was 104%. In general, this indicates that for every dollar of benefits promised, the Retirement System had 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.

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, 2010 and 2009. They indicate the total assets as of June 30, 2010 and 2009, 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, 2010 and 2009.
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.

(Dollar amounts in thousands)

Results of Actuarial Valuations

Fiscal Year 2010
The Retirement System's July 1, 2009 (the date of the most recent actuarial valuation) funding ratio is 97%, which means the Retirement System has approximately $0.97 available for each $1.00 of benefit obligations.

Fiscal Year 2009
The Retirement System's July 1, 2008 funding ratio was 104%, which means the Retirement System had approximately $1.04 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 ongoing obligation to Plan participants and their beneficiaries.

The Retirement System's net assets as of June 30, 2010, 2009 and 2008 and are represented in the chart below:

Net Assets Summary – June 30, 2010, 2009 and 2008

	2010	2009	2008	FY 2010 Inc./(Dec.)	FY 2009 Inc./(Dec.)
Other assets	$ 228,084	$ 284,287	$ 477,784	$ (56,203)	$ (193,497)
Investments at fair value	14,119,382	12,867,163	17,828,856	1,252,219	(4,961,693)
Total assets	14,347,466	13,151,450	18,306,640	1,196,016	(5,155,190)
Total liabilities	1,210,680	1,264,721	2,474,119	(54,041)	(1,209,398)
Net assets	$ 13,136,786	$ 11,886,729	$ 15,832,521	$ 1,250,057	$ (3,945,792)

As of June 30, 2010, the Plan combined net assets held in trust for pension benefits increased by $1,250,057 or 10.5% for the year, primarily due to an improvement in financial market conditions. As of June 30, 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. 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.

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.

Highlights of Changes in Net Assets – Years ended June 30, 2010, 2009 and 2008
(Dollars in thousands)

	2010	2009	2008
Additions:			
Member contributions	$ 189,948	$ 192,964	$ 185,123
Employer contributions	223,614	119,751	134,060
Transfer of plan assets from CalPERS	-	6,350	-
Interest	195,166	232,926	254,737
Dividends	139,161	144,815	183,940
Net appreciation (depreciation) in fair value of investments	1,334,257	(3,815,666)	(1,103,894)
Securities lending income (loss)	34,730	(25,493)	54,550
Repurchase agreement income (loss)	-	(9,104)	8,638
Investment expenses	(44,206)	(37,110)	(51,079)
Securities lending borrower rebates and expenses	(4,007)	(1,568)	(69,352)
Repurchase agreement expenses	-	(1,650)	(12,972)
Total additions	2,068,663	(3,193,785)	(416,249)
Deductions:			
Benefits	792,776	728,418	678,691
Refunds of contributions	11,997	10,638	11,988
Administrative expenses	12,655	11,720	11,517
Other administrative expenses - OPEB	1,178	1,231	1,077
Total deductions	818,606	752,007	703,273
Change in net assets	1,250,057	(3,945,792)	(1,119,522)
Net assets - beginning of the year	11,886,729	15,832,521	16,952,043
Net assets - end of the year	$ 13,136,786	$ 11,886,729	$ 15,832,521

Fiscal Year 2010

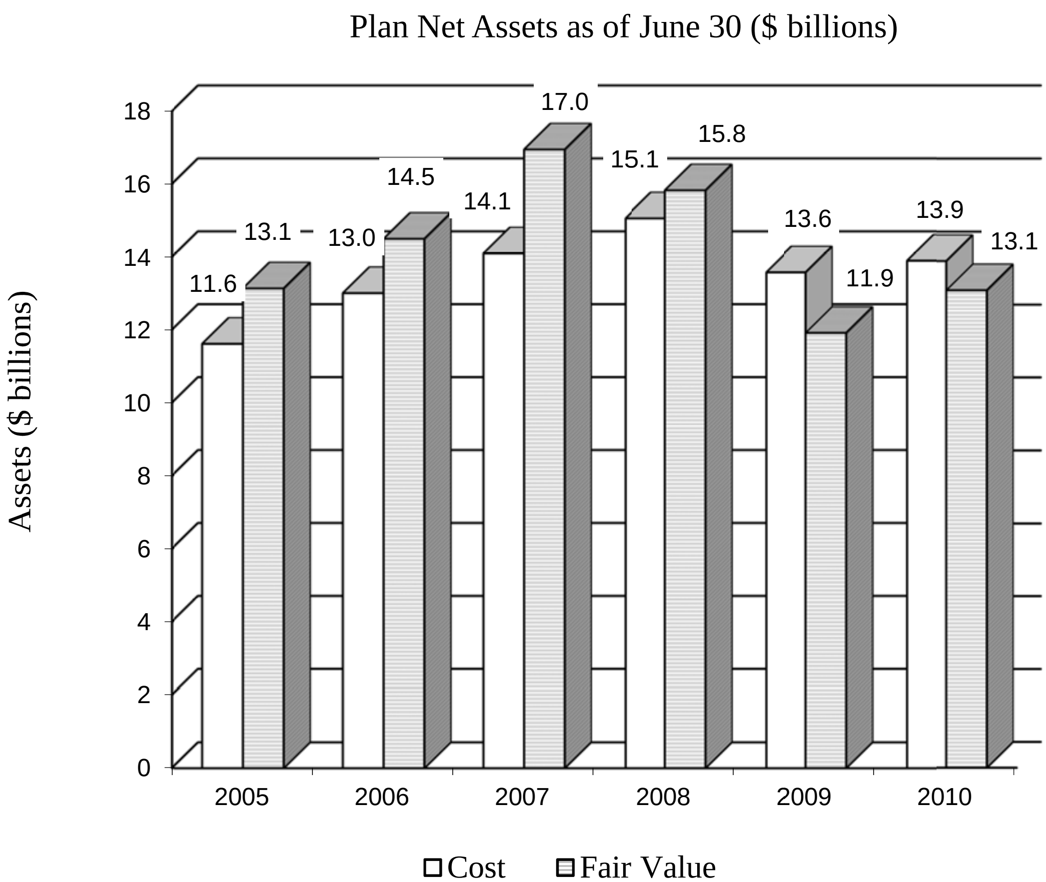
- Member contributions for the year ended June 30, 2010 decreased by $3,016, or 1.6% from the prior year. This is primarily due to the reduction in Plan covered compensation as a result of workforce reductions implemented by the City and County of San Francisco (City and County) as well as compensation give-backs negotiated by and between the City and County and labor organizations representing Plan members in response to the City and County's budget shortfall.
- In order to maintain the fiscal soundness of the Plan, employer contributions representing 9.49% of covered pay were required from the employers during the year ended June 30, 2010.
- Securities lending income increased by $60,223 or 236.2% due to increased activities as a result of economic lending conditions and opportunities. The related rebates and expenses also show a corresponding increase in the amount of $2,439, or 155.5%.
- Investment expenses for the year increased by $7,096 or 19.1%, reflective of the overall investment portfolio performance, which resulted in increased fees paid to investment managers during the year ended June 30, 2010.

- Benefit payments to Plan participants increased by $64,358 or 8.8%, consistent with the unprecedented increase in the number of retirement allowances initiated and paid during the year as well as the basic COLA paid to most retired members effective July 1, 2009.
- Refunds of contributions increased by $1,359 or 12.8%, primarily as a result of workforce reductions implemented by the City and County in response to its budget shortfall.
- Administrative expenses increased by $935 or 8.0%, consistent with Retirement System budgeted positions that were filled during the fiscal year.
- Other administrative expenses for other postemployment benefits (OPEB) decreased by $53 or 4.3%. These OPEB expenses reflect 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 2010.

Fiscal Year 2009

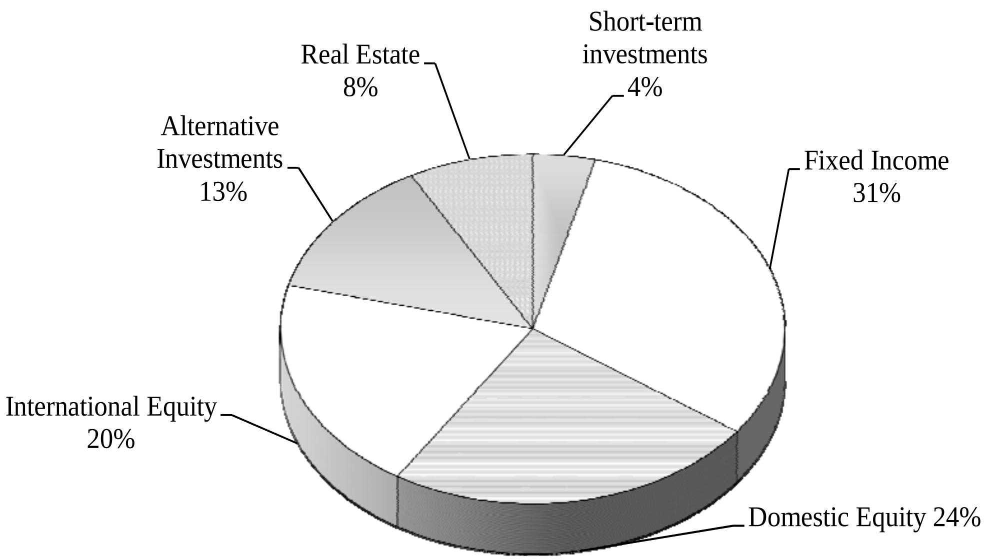
- Member contributions for the year ended June 30, 2009 increased by $7,841, or 4.2% higher than the prior year. This is consistent with base wage increases as negotiated by and between the City and County and labor organizations representing Plan members, and the number of members purchasing service 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 was 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 downturn. 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 $49,727 or 7.3%, 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 $1,350 or 11.3%, 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 Plan members.
- Other administrative expenses for OPEB increased by $154 or 14.3%, which reflects the department's 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.

Plan net assets as of June 30, 2005 through 2010 expressed at cost and fair value are represented in the chart below:



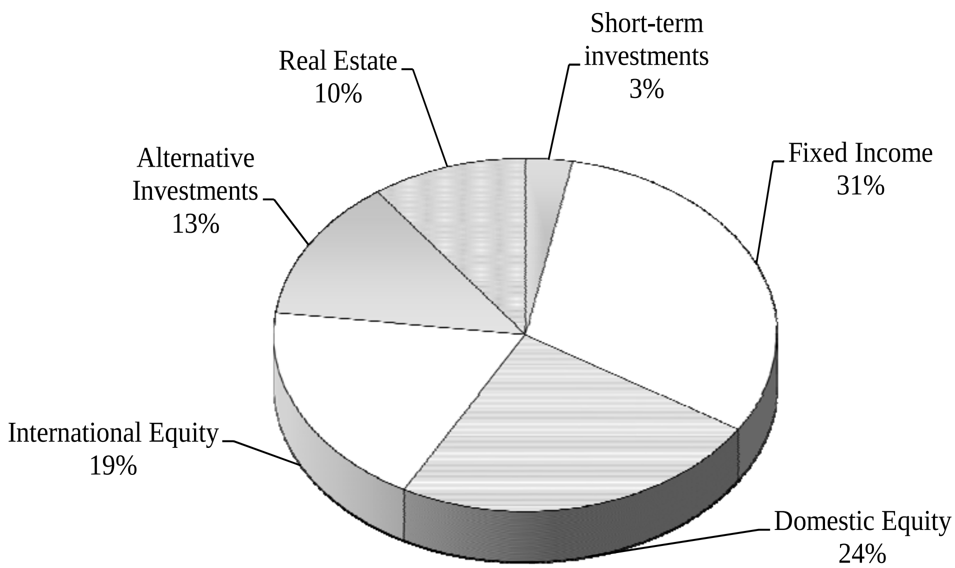
The asset allocation at fair value based on holdings (excluding investment in lending agent's short-term investment pool and foreign currency contracts) as of June 30, 2010 is represented in the chart below:

Asset Allocation as of June 30, 2010 - 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, 2009 is represented in the chart below:

Asset Allocation as of June 30, 2009 - 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, 2009. The employer contribution rates of 13.56% calculated in the actuarial valuation as of July 1, 2009 were adopted by the Retirement Board and are effective July 1, 2010.

The Retirement System's consulting actuary completed a demographic experience study and presented its findings to the Retirement Board at its September 2010 meeting. This study evaluated the Plan's experience for the period July 1, 2004 through June 30, 2009 vis-à-vis the Plan's demographic assumptions for mortality, retirement, disability, termination, refunds, reciprocity and family composition.

The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2009, the date of the Retirement System's most recent actuarial valuation, the funded status of the Retirement System decreased by 6.8% to 97.5%. 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 calculations for all new plan members from a 2.0% simple COLA to a 2.0% compound COLA. The results of the July 1, 2009 actuarial valuation also reflect the impact of the 2008-09 downturn in financial markets on the value of Plan assets on a 5-year smoothed basis. Because the assets are smoothed and the investment losses from the last fiscal year have not been fully recognized, the City and County's contribution rate is expected to increase for the next four years assuming investment returns are 7.75% per year and all other actuarial assumptions are met.

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, 2010 and 2009. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Gary A. Amelio, 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, 2010 and 2009
(In thousands)

	2010	2009
Assets:		
Deposits	$ 16,433	$ 34,170
Accounts receivable	-	6,351
Contributions receivable-members	11,088	8,286
Contributions receivable-City and County	8,075	5,344
Investment income receivable:		
Interest	25,681	27,526
Dividends	10,060	9,026
Securities lending	1,219	7,859
Receivable from brokers, general partners and others	155,528	185,725
Investments at fair value:		
Short-term investments	583,208	504,096
Debt securities:		
U.S. government and agency securities	1,177,473	1,053,552
Other debt securities	2,881,362	2,662,681
Equity securities:		
Domestic	3,090,448	2,835,168
International	2,643,145	2,279,316
Real estate	1,009,001	1,181,932
Alternative investments	1,763,500	1,511,250
Foreign currency contracts, net	6,387	2,094
Investment in lending agent's short-term investment pools	964,858	837,074
Total investments	14,119,382	12,867,163
Total assets	14,347,466	13,151,450
Liabilities:		
Payable to brokers	219,697	366,728
Deferred retirement option program liabilities	8,653	4,143
Other liabilities	15,828	12,020
Payable to borrowers of securities	966,502	881,830
Total liabilities	1,210,680	1,264,721
Net assets held in trust for pension benefits	$ 13,136,786	$ 11,886,729

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, 2010 and 2009
(In thousands)

	2010	2009
Additions:		
Member contributions		
Miscellaneous	$ 157,416	$ 161,386
Police	19,467	18,566
Fire	13,065	13,012
Total member contributions	189,948	192,964
Employer contributions		
Miscellaneous	182,899	98,306
Police	24,326	12,910
Fire	16,389	8,535
Total employer contributions	223,614	119,751
Transfer of plan assets from CalPERS	-	6,350
Investment income (expenses)		
Interest	195,166	232,926
Dividends	139,161	144,815
Net appreciation (depreciation) in fair value of investments	1,334,257	(3,815,666)
Securities lending income (loss)	34,730	(25,493)
Fixed coupon dollar repurchase agreement loss	-	(9,104)
Investment expenses	(44,206)	(37,110)
Securities lending borrower rebates and expenses	(4,007)	(1,568)
Fixed coupon dollar repurchase agreement finance charges and expenses	-	(1,650)
Net investment income (loss)	1,655,101	(3,512,850)
Total additions	2,068,663	(3,193,785)
Deductions:		
Benefits	792,776	728,418
Refunds of contributions	11,997	10,638
Administrative expenses	12,655	11,720
Other administrative expenses - other postemployment benefits	1,178	1,231
Total deductions	818,606	752,007
Net increase (decrease)	1,250,057	(3,945,792)
Net assets held in trust for pension benefits:		
Beginning of year	11,886,729	15,832,521
End of year	$ 13,136,786	$ 11,886,729

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 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 who became members prior to July 1, 2010 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.

See subsection (f) below for changes to benefit provisions on or after July 1, 2010.

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.

See subsection (f) below for changes to benefit provisions on or after July 1, 2010.

(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

Upon separation from City 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 vesting 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 previous June 30 retirement benefit. If the CPI decreases in a particular year, however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension 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 negative adjustment cannot reduce a member's monthly benefit below the initial pension 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 previous June 30 retirement benefit. If the CPI decreases in a particular year; however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension amount.

<u>Supplemental COLA</u>

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 paid, increases the total monthly benefit adjustment (including the Basic COLA) up to a maximum of 3.5% of the member's previous June 30 monthly retirement benefit. The Supplemental COLA can be paid in increments of 0.5% in years where the excess earnings available to fund the Supplemental COLA are not sufficient to fund up to the 3.5% maximum. 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.

(f) Legislative Changes to the Plan

The following significant legislative changes to the Plan have been approved by City and County voters.

In June 2010, the voters of the City and County approved a Charter amendment to create new benefit plans for miscellaneous City employees and firefighter and police employees who are hired on or after July 1, 2010. The new benefit plan covering Miscellaneous employees hired on or after July 1, 2010 provides for a service retirement benefit which is calculated using the member's final compensation (highest two-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. The two new benefit plans covering firefigher and police employees hired on or after July 1, 2010 provide for: a) an increase in required employee contributions from 7.5% of covered compensation in the previous safety plans to 9% of covered compensation, and b) a service retirement benefit which is calculated using the member's final compensation (highest two-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.

(g) Deferred Retirement Option Program

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. DROP is scheduled to sunset effective July 1, 2011 unless extended by the Board of Supervisors of the City and County.

(Dollar amounts in thousands)

Changes in DROP liabilities during the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
DROP liability, beginning of year	$ 4,143	$ -
Additions	6,994	4,143
Distributions	(2,484)	-
DROP liability, end of year	$ 8,653	$ 4,143

(h) Membership

Membership of the Retirement System consisted of the following as of June 30, 2010:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,214	2,059	19,227	23,500
Active members	2,139	1,394	24,689	28,222
Terminated members entitled to but not yet receiving benefits	121	71	5,301	5,493
Total	4,474	3,524	49,217	57,215

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

(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) 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. Outstanding mortgages for the Retirement System's real estate investments were $917,214, including $103,304 in recourse debt, at June 30, 2010, and $862,134, including $124,387 in recourse debt, as of June 30, 2009. 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 purchase and sale 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 collateral of 102% and international securities for 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, 2010 and 2009 was 84 days and 85 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, 2010 and 2009 of 28 days and 38 days, respectively. 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, 2010 and 2009 of 15 days and 17 days, respectively. 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.

(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) Reclassifications

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

(Dollar amounts in thousands)

(f) Implementation of New Accounting Pronouncement

Governmental Accounting Standards Board Statement No. 53

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires most derivative instruments to be reported at fair value on the statement of plan net assets. As of June 30, 2010 and 2009, the Retirement System's derivative instruments are considered investments and not hedges for accounting purposes. As the Retirement System reported all investments, including investment derivative instruments, at fair value in prior fiscal years, the implementation of Statement No. 53 does not have a significant impact on the financial statements for the years ended June 30, 2010 and 2009. Required disclosures for investment derivative instruments can be found in Note 4(f).

(3) Deposits

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

	2010	2009
Pooled funds with City and County Treasurer	$ 3,599	$ 6,595
Bank accounts	12,834	27,575
	$ 16,433	$ 34,170

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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government may not be able to recover its deposits or may 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, 2010, the Retirement System's deposits in bank accounts were not exposed to custodial credit risk. 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.

(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.

Investment managers are required 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.

(Dollar amounts in thousands)

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; foreign currency contracts, derivative instruments, 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 may adversely affect the fair value of an investment. The Retirement System does not have a specific policy to manage interest rate risk.

Below are tables depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2010 and 2009.

Investments at Fair Value as of June, 30, 2010

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 123,430	$ 1,535	$ 20,739	$ 4,869	$ 96,287
Bank Loans	31,135	295	10,722	20,118	-
Collateralized Bonds	4,736	-	-	693	4,043
Commercial Mortgage-Backed	576,020	-	57,539	151,784	366,697
Corporate Bonds	1,415,786	14,315	553,286	706,884	141,301
Corporate Convertible Bonds	197,705	1,068	104,058	17,827	74,752
Government Agencies	49,369	7,906	30,478	9,528	1,457
Government Bonds	945,315	2,555	534,511	342,794	65,455
Government Mortgage-Backed Securities	246,493	45,773	-	3,316	197,404
Index Linked Government Bonds	24,715	-	9,456	1,653	13,606
Mortgages	114	-	32	82	-
Municipal/Provincial Bonds	15,628	-	2,860	-	12,768
Non-Government Backed Collateralized Mortgage Obligations	179,332	-	1,572	5,144	172,616
Options	(390)	1,086	(1,476)	-	-
Other Fixed Income	568,767	426,285	103,833	34,341	4,308
Short Term Bills and Notes	54,099	54,099	-	-	-
Short Term Investment Funds	213,222	213,222	-	-	-
Swaps	(3,433)	1,235	858	(1,590)	(3,936)
Total	$ 4,642,043	$ 769,374	$ 1,428,468	$ 1,297,443	$ 1,146,758

(Dollar amounts in thousands)

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, and are excluded from the table below.

Investments at Fair Value 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 Collateralized Mortgage Obligations	157,258	900	-	3,188	153,170
Options	(3,808)	(2,535)	(1,273)	-	-
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	-	-	-
Swaps	(4,393)	-	(691)	(2,851)	(851)
Total	$ 4,214,681	$ 730,026	$ 1,532,405	$ 695,670	$ 1,256,580

(b) Credit Risk – Investments

Credit risk is the risk that an issuer or other counterparty to an investment may 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 agency securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

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.

(Dollar amounts in thousands)

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2010. Investments issued or explicitly guaranteed by the U.S. government of $933,482 as of June 30, 2010 are not considered to have credit risk and are excluded from the tables below.

Credit Ratings of Fixed Income Investments as of June 30, 2010

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 512,872	13.8%
AA	98,024	2.6%
A	294,418	8.0%
BBB	456,016	12.3%
BB	227,096	6.1%
B	281,773	7.6%
CCC	132,467	3.6%
CC	19,767	0.5%
C	2,812	0.1%
D	6,111	0.2%
Not Rated	1,677,205	45.2%
Total	**$ 3,708,561**	**100.0%**

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 Ratings of Fixed Income Investments 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 securities listed as "Not Rated" include short-term investment funds and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "not rated" component of credit would be approximately 10.2% for 2010 and 7.4% for 2009.

(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 fair value) 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, 2010 and 2009, the Retirement System had no investments of a single issuer that equal or exceeded 5% of total Retirement System net assets.

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government may 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, 2010 and 2009, $87,363 and $11,971 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.

(Dollar amounts in thousands)

(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, 2010 are as follows:

Foreign Currency Risk Analysis as of June 30, 2010

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Argentine peso	$ -	$ -	$ -	$ -	$ -	$ 15,246	$ 15,246
Australian dollar	(1,229)	97,985	11,803	-	-	26,850	135,409
Brazilian real	7	49,578	16,469	-	-	49,890	115,944
British pound sterling	6,758	372,888	475	305	-	44,287	424,713
Canadian dollar	5,225	80,374	39,350	-	-	(41,813)	83,136
Chilean peso	-	-	-	-	-	(6,388)	(6,388)
Chinese yuan renminbi	-	-	-	-	-	270	270
Colombian peso	-	-	822	-	-	19,815	20,637
Czech koruna	140	9,682	-	-	-	(42,771)	(32,949)
Danish krone	1,475	22,521	-	-	-	(2,447)	21,549
Egyptian pound	-	3,403	-	-	-	-	3,403
Euro	25,816	581,611	502	218,461	-	(284,260)	542,130
Ghana Cedi	-	-	-	-	-	1,161	1,161
Hong Kong dollar	115	184,277	-	-	-	1,142	185,534
Hungarian forint	83	3,208	-	-	-	(693)	2,598
Indian rupee	-	-	-	-	-	34,317	34,317
Indonesian rupiah	54	14,492	796	-	-	40,035	55,377
Israeli new shekel	-	4,752	-	-	-	(30,530)	(25,778)
Japanese yen	(9,167)	428,251	1,260	-	56,871	29,763	506,978
Kazakhstan tenge	-	-	-	-	-	553	553
Malaysian ringgit	-	9,854	712	-	-	35,489	46,055
Mexican peso	333	8,150	711	-	-	67,009	76,203
New Zealand dollar	(548)	1,982	-	-	-	73,825	75,259
Norwegian krone	3,438	20,122	-	-	-	30,489	54,049
Peruvian nuevo sol	-	-	87	-	-	33,804	33,891
Philippine peso	-	-	-	-	-	29,189	29,189
Polish zloty	35	6,844	-	-	-	16,210	23,089
Romanian leu	-	-	-	-	-	1,908	1,908
Russian ruble	-	-	168	-	-	(7,586)	(7,418)
Singapore dollar	(1,656)	36,045	-	-	-	36,517	70,906
South African rand	-	39,703	175	-	-	57,602	97,480
South Korean won	1,606	77,763	-	-	-	(12,388)	66,981
Swedish krona	815	46,479	-	-	-	74,895	122,189
Swiss franc	4,404	174,515	-	(3)	-	6,694	185,610
Taiwan dollar	2,436	51,447	-	-	-	(56,970)	(3,087)
Thai baht	-	12,592	-	-	-	247	12,839
Turkish lira	-	18,019	-	-	-	65,597	83,616
United Arab Emirates dirham	109	-	3,817	-	-	-	3,926
Total	$ 40,249	$ 2,356,537	$ 77,147	$ 218,763	$ 56,871	$ 306,958	$ 3,056,525

(Dollar amounts in thousands)

The following table illustrates the Retirement System's net exposure to foreign currency risk as of June 30, 2009:

Foreign Currency Risk Analysis as of June 30, 2009

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Argentine peso	$ -	$ -	$ -	$ -	$ -	$ 1,680	$ 1,680
Australian dollar	501	91,955	8,491	-	-	102,459	203,406
Brazilian real	-	27,807	2,684	-	-	6,471	36,962
British pound sterling	345	301,598	-	836	-	44,115	346,894
Canadian dollar	211	65,378	1,991	-	-	31,192	98,772
Chilean peso	-	-	-	-	-	2,332	2,332
Chinese yuan renminbi	-	-	-	-	-	860	860
Colombian peso	-	-	658	-	-	2,879	3,537
Czech koruna	468	10,918	-	-	-	3,313	14,699
Danish krone	99	17,717	-	-	-	382	18,198
Egyptian pound	-	7,389	-	-	-	-	7,389
Euro	11,965	553,951	11,631	180,119	-	(29,483)	728,183
Hong Kong dollar	750	147,121	-	-	-	2,350	150,221
Hungarian forint	-	6,132	-	-	-	867	6,999
Indian rupee	-	-	-	-	-	3,711	3,711
Indonesian rupiah	12	3,719	-	-	-	1,987	5,718
Israeli new shekel	-	2,833	-	-	-	885	3,718
Japanese yen	3,214	416,627	-	-	63,994	5,939	489,774
Malaysian ringgit	-	1,776	-	-	-	2,135	3,911
Mexican peso	-	4,582	896	-	-	9,051	14,529
New Zealand dollar	28	1,621	-	-	-	(28,428)	(26,779)
Nigerian naira	-	-	2,801	-	-	-	2,801
Norwegian krone	131	17,611	-	-	-	22,587	40,329
Peruvian nuevo sol	-	-	-	-	-	1,651	1,651
Philippine peso	-	-	-	-	-	1,932	1,932
Polish zloty	-	3,330	-	-	-	6,796	10,126
Romanian leu	-	-	-	-	-	3,212	3,212
Russian ruble	27	-	1,670	-	-	4,274	5,971
Singapore dollar	280	39,228	-	-	-	9,981	49,489
South African rand	24	27,151	-	-	-	3,476	30,651
South Korean won	1,150	61,383	-	-	-	4,171	66,704
Swedish krona	(27)	37,695	-	-	-	(11,393)	26,275
Swiss franc	351	138,954	1,238	-	-	2,076	142,619
Taiwan dollar	-	29,445	-	-	-	-	29,445
Thai baht	-	8,926	-	-	-	1,814	10,740
Turkish lira	-	14,169	3,699	-	-	4,951	22,819
United Arab dirham	-	-	5,164	-	-	-	5,164
Total	$ 19,529	$ 2,039,016	$ 40,923	$ 180,955	$ 63,994	$ 220,225	$ 2,564,642

(Dollar amounts in thousands)

(f) Derivative Instruments

In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, the Retirement System has provided a summary of derivative instrument activities during the reporting periods presented and the related risks.

As of June 30, 2010, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in plan net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

Valuation methods used by the Retirement System are described in more detail in Note 2(b). The fair value of the exchange traded derivative instruments, such as futures, options, rights and warrants, are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of equity index swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.

The tables below present the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2010 and 2009:

As of and for the Year Ended June 30, 2010

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	$ -	$ 6,402	$ 6,402
Futures			
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	1,604	505	32
Interest Rate Contracts	-	356	58
Other Contracts	(8,180)	(1,251)	(289)
Swaps			
Credit Contracts	109,925	(561)	(1,440)
Interest Rate Contracts	41,070	(4,106)	(4,106)
Other Contracts	26,300	1,235	1,235
Rights/Warrants			
Equity Contracts	3,987 shares	15,473	2,947
Total		$ 18,053	$ 4,839

(Dollar amounts in thousands)

As of and for the Year Ended June 30, 2009

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	$ -	$ 2,088	$ 2,088
Futures			
Interest Rate Contracts	1	-	-
Options			
Foreign Exchange Contracts	175,317	76	(382)
Interest Rate Contracts	(1)	(445)	(7)
Other Contracts	(32,080)	(3,439)	(2,100)
Swaps			
Credit Contracts	91,781	(3,531)	(4,740)
Interest Rate Contracts	24,900	(862)	(952)
Rights/Warrants			
Equity Contracts	5,679 shares	9,903	1,170
Total		$ 3,790	$ (4,923)

All investment derivatives are reported as investments at fair value in the statement of plan net assets. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statements of changes in plan net assets.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2010, the fair market value of forward currency contracts to purchase and sell international currencies were $18,332 and $11,425, respectively. The Retirement System's counterparties to these contract held credit rating of A or better as assigned by one or more of the major credit rating organizations (S&P, Moodys and/or Fitch). As of June 30, 2010, the Retirement System entered into swaps held by counterparties with at least A ratings. The fair market value of forward currency contracts to purchase and sell international currencies as of June 30, 2009 were $31,139 and $28,975, respectively.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2010, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

(Dollar amounts in thousands)

Interest Rate Risk

The tables below describe the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2010 and 2009.

Derivative Interest Rate Risk as of June 30, 2010

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Options					
Interest Rate Contracts	$ 356	$ 356	$ -	$ -	$ -
Other Contracts	(1,251)	463	(1,714)	-	-
Swaps					
Credit Contracts	(561)	-	858	(1,419)	-
Interest Rate Contracts	(4,106)	-	-	(170)	(3,936)
Other Contracts	1,235	1,235	-	-	-
Total	$ (4,327)	$ 2,054	$ (856)	$ (1,589)	$ (3,936)

Derivative Interest Rate Risk as of June 30, 2009

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Options					
Interest Rate Contracts	$ (445)	$ (445)	$ -	$ -	$ -
Other Contracts	(3,439)	(2,157)	(1,282)	-	-
Swaps					
Credit Contracts	(3,531)	-	(691)	(2,851)	11
Interest Rate Contracts	(862)	-	-	-	(862)
Total	$ (8,277)	$ (2,602)	$ (1,973)	$ (2,851)	$ (851)

The following tables detail the reference rate, notional amount, and fair value of interest rate swaps that are highly sensitive to changes in interest rates:

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2010

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (170)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	12,820	(1,541)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.2%)	25,150	(2,395)
Total		$ 41,070	$ (4,106)

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2009

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	$ 3,100	$ 104
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	4,600	(206)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	17,200	(760)
Total		$ 24,900	$ (862)

(Dollar amounts in thousands)

Foreign Currency Risk

At June 30, 2010, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2010

Currency	Forwards	Rights/ Warrants	Swaps	Total
Argentine peso	$ (8)	$ -	$ -	$ (8)
Australian dollar	1,373	593	-	1,966
Brazilian real	(291)	48	-	(243)
British pound sterling	(1,323)	-	-	(1,323)
Canadian dollar	6,710	-	-	6,710
Chilean peso	1,889	-	-	1,889
Chinese yuan renminbi	(97)	-	-	(97)
Colombian peso	(713)	-	-	(713)
Czech koruna	1,708	-	-	1,708
Danish krone	(3)	-	-	(3)
Euro	11,315	3	-	11,318
Hong Kong dollar	-	4	-	4
Hungarian forint	1,822	-	-	1,822
Indian rupee	348	-	-	348
Indonesian rupiah	(12)	-	-	(12)
Japanese yen	(9,035)	-	-	(9,035)
Malaysian ringgit	(405)	-	-	(405)
Mexican peso	223	-	-	223
New Zealand dollar	1,897	-	-	1,897
Norwegian krone	875	-	-	875
Peruvian nuevo sol	(80)	-	-	(80)
Philippine peso	312	-	-	312
Polish zloty	1,823	-	-	1,823
Singapore dollar	(25)	-	-	(25)
South African rand	223	-	-	223
South Korean won	3,690	-	-	3,690
Swedish krona	2,185	-	-	2,185
Swiss franc	(7,551)	-	(3)	(7,554)
Thai baht	(7)	-	-	(7)
Turkish lira	920	-	-	920
Russian ruble	664	-	-	664
Romanian leu	9	-	-	9
Taiwan dollar	315	-	-	315
Israeli new shekel	507	-	-	507
	$ 19,258	$ 648	$ (3)	$ 19,903

(Dollar amounts in thousands)

At June 30, 2009, the Retirement System is exposed to foreign currency risk on its investments in rights, warrants, and forwards denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2009

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	$ (2,745)	$ -	$ 662	$ (2,083)
Brazilian real	(1,104)	-	-	(1,104)
British pound sterling	(5,263)	-	810	(4,453)
Canadian dollar	1,730	-	-	1,730
Chilean peso	4	-	-	4
Chinese yuan renminbi	(181)	-	-	(181)
Colombian peso	42	-	-	42
Czech koruna	(825)	-	-	(825)
Danish krone	(2)	-	-	(2)
Euro	(5,678)	-	2	(5,676)
Hong Kong dollar	1	-	-	1
Hungarian forint	(231)	-	-	(231)
Indian rupee	25	-	-	25
Japanese yen	1,073	-	-	1,073
Mexican peso	(266)	-	-	(266)
New Zealand dollar	(1,838)	-	-	(1,838)
Norwegian krone	277	-	-	277
Philippine peso	(16)	-	-	(16)
Polish zloty	82	-	-	82
Singapore dollar	(1)	-	112	111
South African rand	(597)	-	-	(597)
South Korean won	60	66	-	126
Swedish krona	(252)	-	-	(252)
Swiss franc	(144)	-	-	(144)
Turkish lira	(62)	-	-	(62)
Russian ruble	(20)	-	-	(20)
Taiwan dollar	(76)	-	-	(76)
Israeli new shekel	(87)	-	-	(87)
Total	$ (16,094)	$ 66	$ 1,586	$ (14,442)

Contingent Features

At June 30, 2010 and 2009, the Retirement System held no positions in derivatives containing contingent features.

(5) Currency Management Program

The Retirement System's currency management program is managed by three investment managers. During fiscal year 2010, the objective of the currency management program was altered. Prior to January 2010, the objectives of the program were 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. Starting in January 2010 and with the approval of the Retirement Board, the objective of the currency management program has been to produce a risk-adjusted return of approximately 100 basis points.

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

Each currency manager manages currency risk through foreign exchange spot and forward contracts, and currency options. Only international equities are subject to the currency management 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, 2010, the Retirement System's allocation to international equities (including cash and other assets) totaled $2,745,219, which represented 20.9% of plan net assets, which is primarily denominated in foreign currencies. For the year ended June 30, 2010, the currency overlay program gained $23,674 or 0.87% of the international equity portfolio (including cash and other assets) and 0.182% of the Retirement System's average total portfolio.

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.

(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 and non-cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and international securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. However, starting in the year ended June 30, 2009, 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. 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, 2010, the Retirement System has lent $1,067,655 in securities and received collateral of $966,502 and $146,941 in cash and securities, respectively, from borrowers. The cash collateral is invested in 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 $964,858. The net unrealized gains and losses of $1,644 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.

(Dollar amounts in thousands)

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, 2010 and 2009, 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. However, the lending agent indemnifies the Retirement System against all borrower defaults.

The Retirement System's securities lending transactions as of June 30, 2010 are summarized in the following table.

Securities Lending as of June 30, 2010

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Equities	$ 135,351	$ 145,418	$ -
International Corporate Fixed Income	2,119	2,242	-
International Government Fixed Income	3,042	3,229	-
U.S. Government Agencies	10,504	10,710	-
U.S. Corporate Fixed Income	172,352	177,128	-
U.S. Equities	487,659	502,808	-
U.S. Government Fixed Income	121,913	124,967	-
Securities Loaned with Non-Cash Collateral			
International Equities	117,907	-	129,258
International Government Fixed Income	14,097	-	14,900
U.S. Equities	206	-	212
U.S. Government Fixed Income	2,505		2,571
Total	$ 1,067,655	$ 966,502	$ 146,941

(Dollar amounts in thousands)

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 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

(7) 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, 2010 and 2009 are summarized as follows:

	2010	2009
Investments:		
Beginning of the year	$ 1,181,932	$ 1,788,561
Capital investments	45,165	94,785
Equity in net earnings	64,707	65,029
Net depreciation in fair value	(226,118)	(661,981)
Capital distributions	(56,685)	(104,462)
End of the year	$ 1,009,001	$ 1,181,932

(Dollar amounts in thousands)

(8) Benefits

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

	2010	2009
Service retirement benefits	$ 593,048	$ 539,917
Disability retirement benefits	149,122	140,804
Death benefits	8,325	7,107
COLA benefit adjustments	35,287	36,447
DROP accrued retirement benefits	6,994	4,143
Total	$ 792,776	$ 728,418

(9) 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 2010 and 2009 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%
Participants entering the Retirement System
on or after July 1, 2010
Police and fire 9.0%
Miscellaneous 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.

(Dollar amounts in thousands)

Interest for the years ended June 30, 2010 and 2009 accumulated at 4.75% and 5.00% respectively.

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 2010 and 2009 are based on a schedule of rates determined from actuarial studies by the consulting actuary as of July 1, 2008 and 2007, respectively.

The actuarial methods and significant assumptions used to compute the actuarially determined annual required contribution for both actuarial studies are the same, unless otherwise noted.

Valuation Dates	July 1, 2008 and July 1, 2007
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 return – transition period began July 1, 2004
Actuarial assumptions:	
Investment rate of return	July 1, 2008 7.75% July 1, 2007 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, 2010 and 2009 as a percentage of covered payrolls averaged the following:

	Fiscal Year 2010	Fiscal Year 2009
Police plan members	9.49%	4.99%
Fire plan members	9.49%	4.99%
Miscellaneous plan members	9.49%	4.99%

(b) Funded Status

The provisions of the City and County Charter state that an actuarial valuation shall occur at least every even-numbered year and that actuarial experience investigation 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 2010 by the actuarial firm Cheiron and was based upon employee data and asset information as of July 1, 2009. 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, 2009, the most recent actuarial valuation date.

Funded Status as of July 1, 2009
(Dollars in thousands)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (AVA / AAL)	Covered Payroll (CP)	UAAL as a Percent of Payroll (UAAL / CP)
July 1, 2009	$ 16,004,730	$ 16,498,649	$ 493,919	97.0%	$ 2,537,785	19.5%

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.

The Retirement System's surplus decreased by $1,076,485 primarily due to investment experience during the year ended June 30, 2009. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Because assets are smoothed and the full investment losses from the year ended June 30, 2009 have not been recognized, the contribution rate is expected to increase over the next four years assuming investment returns equal the assumed rate and all other actuarial assumptions are met.

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

Valuation date	July 1, 2009
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
Equivalent single amortization period	9.2 years
Asset valuation method	5 year smoothing of return over and under expected return

(Dollar amounts in thousands)

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

(10) 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 actuary. The City and County's allocation of the OPEB-related costs to the Retirement System for the years ended June 30, 2010 and 2009 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 $419 and $305 for the years ended June 30, 2010 and 2009, respectively, to provide postretirement benefits for retired employees on a pay-as-you-go basis. In addition, for the year ended June 30, 2009 the City and County allocated $9 to the Retirement System's contribution allocation for payments made from the Health Service System for postretirement health benefits. The OPEB expense for the Retirement System is included in other administrative expenses for fiscal years 2010 and 2009.

(Dollar amounts in thousands)

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:

	2010	2009
Annual required contribution	$ 1,161	$ 1,221
Interest on net OPEB obligation	81	38
Adjustment to annual required contribution	(64)	(28)
Annual OPEB cost	1,178	1,231
Contribution made	(419)	(314)
Increase in net OPEB obligation	759	917
Net OPEB obligation - beginning of year	1,695	778
Net OPEB obligation - end of year	$ 2,454	$ 1,695

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.

(11) Commitments and Contingencies

(a) Unfunded Investments Commitments

The Retirement System has unfunded commitments to contribute capital for real estate in the amount of $203,331 and alternative investments in the amount of $1,190,424, totaling $1,393,755 as of June 30, 2010.

(b) Legal

During the year ended June 30, 2010, 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, 2010
(Dollar amounts in thousands)

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (Surplus) (UAAL)	Funded Ratio (AVA / AAL)	Covered Payroll	UAAL as a Percent of Covered Payroll
July 1, 2009	$ 16,004,730	$ 16,498,649	$ 493,919	97.0%	$ 2,537,785	19.5%
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%

Schedule of Employer Contributions

Year ended June 30	Annual required contribution	Percentage contribution
2010	$ 223,614	100.0%
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%

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 most recent actuarial valuation as of July 1, 2009, the Retirement System assumed investment rate of return is 7.75% consistent with previous actuarial valuation as of July 1, 2008. However, the unfunded actuarial liability increased by $1.1 billion from a surplus of $582.6 million as of July 1, 2008 to a deficit of $493.9 million as of July 1, 2009. This increase in the unfunded liability primarily reflects investment experience reductions of 722.7 million, and liability experience losses of an additional $235.8 million.

In the prior, July 1, 2008, valuation, along with a decrease in the assumed rate of return to 7.75%, the following benefit changes passed in June 2008 under Proposition B were recognized.

- 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; however, no Supplemental COLA was adopted by the Board as of July 1, 2009.