SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM

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

Years Ended June 30, 2011 and 2010

MGO Certified Public Accountants.

SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

Retirement Board of San Francisco
City and County Employees' Retirement System
San Francisco, California

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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011 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, grant agreements, and other matters for the year ended June 30, 2011. 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.

Accounting principles generally accepted in the United States of America require that the management's, discussion and analysis and the Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 28, 2011

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, 2011 and 2010. 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 2011

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2011. The Plan held $15,598,839 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, 2010, the date of the last actuarial valuation, the funded ratio for the Retirement System was 91.1%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately $0.91 of assets available for payment.
- For the year ended June 30, 2011, the Retirement System's net investment gain of $2,887,575 represents a 22.0% 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 $2,462,053, or 18.7%, primarily as a result of market increases, which were slightly reduced by the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to $181,755, a decrease of $8,193 or 4.3% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $308,823 for the year ended June 30, 2011.
- Total deductions from the Plan were $916,100, an increase of 11.9% from the prior year due to the increase in benefits paid during the current fiscal year.

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 funded ratio for the Retirement System was 97.0%. In general, this indicates that for every dollar of benefits promised, the Retirement System had 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, which was reduced by 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.

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, 2011 and 2010. They indicate the total assets as of June 30, 2011 and 2010, 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, 2011 and 2010.
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. Securities 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 2011
The Retirement System's July 1, 2010 (the date of the most recent actuarial valuation) funding ratio is 91.1 %, which means the Retirement System has approximately $0.91 available for each $1.00 of benefit obligations.

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.

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, 2011 and 2010. 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, 2011, 2010, and 2009 and are represented in the chart below:

Net Assets Summary – June 30, 2011, 2010 and 2009

	2011	2010	2009
Other assets	$ 168,690	$ 228,084	$ 284,287
Investments at fair value	16,483,213	14,119,382	12,867,163
Total assets	16,651,903	14,347,466	13,151,450
Total liabilities	1,053,064	1,210,680	1,264,721
Net assets	$ 15,598,839	$ 13,136,786	$ 11,886,729

As of June 30, 2011, the Plan's combined net assets held in trust for pension benefits increased by $2,462,053, or 18.7% for the year, primarily due to an improvement in financial market conditions. The increase in Plan assets was aided, in part, by a $157,616 decrease in Plan liabilities. Payables to brokers decreased by $92,794 due to the timing of investment trades and payables to borrowers of securities decreased by $73,045 as a result of market conditions for the related transactions. As of June 30, 2010, the Plan's combined net assets held in trust for pension benefits increased by $1,250,057 or 10.5% for the year, primarily due to net investment income of $1,655,101, which was driven by improving capital market conditions. This increase, however, was partly offset by the difference between contributions received and benefit payments made.

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, 2011, 2010 and 2009
(Dollars in thousands)

	2011	2010	2009
Additions:			
Member contributions	$ 181,755	$ 189,948	$ 192,964
Employer contributions	308,823	223,614	119,751
Transfer of plan assets from CalPERS	-	-	6,350
Interest	208,400	195,166	232,926
Dividends	159,671	139,161	144,815
Net appreciation (depreciation) in fair value of investments	2,557,950	1,334,257	(3,815,666)
Securities lending income (loss)	5,697	34,730	(25,493)
Repurchase agreement income (loss)	-	-	(9,104)
Investment expenses	(44,579)	(44,206)	(37,110)
Securities lending borrower rebates and expenses	436	(4,007)	(1,568)
Repurchase agreement expenses	-	-	(1,650)
Total additions	3,378,153	2,068,663	(3,193,785)
Deductions:			
Benefits	889,744	792,776	728,418
Refunds of contributions	11,548	11,997	10,638
Administrative expenses	13,544	12,655	11,720
Other administrative expenses - OPEB	1,264	1,178	1,231
Total deductions	916,100	818,606	752,007
Change in net assets	2,462,053	1,250,057	(3,945,792)
Net assets - beginning of the year	13,136,786	11,886,729	15,832,521
Net assets - end of the year	$ 15,598,839	$ 13,136,786	$ 11,886,729

Fiscal Year 2011

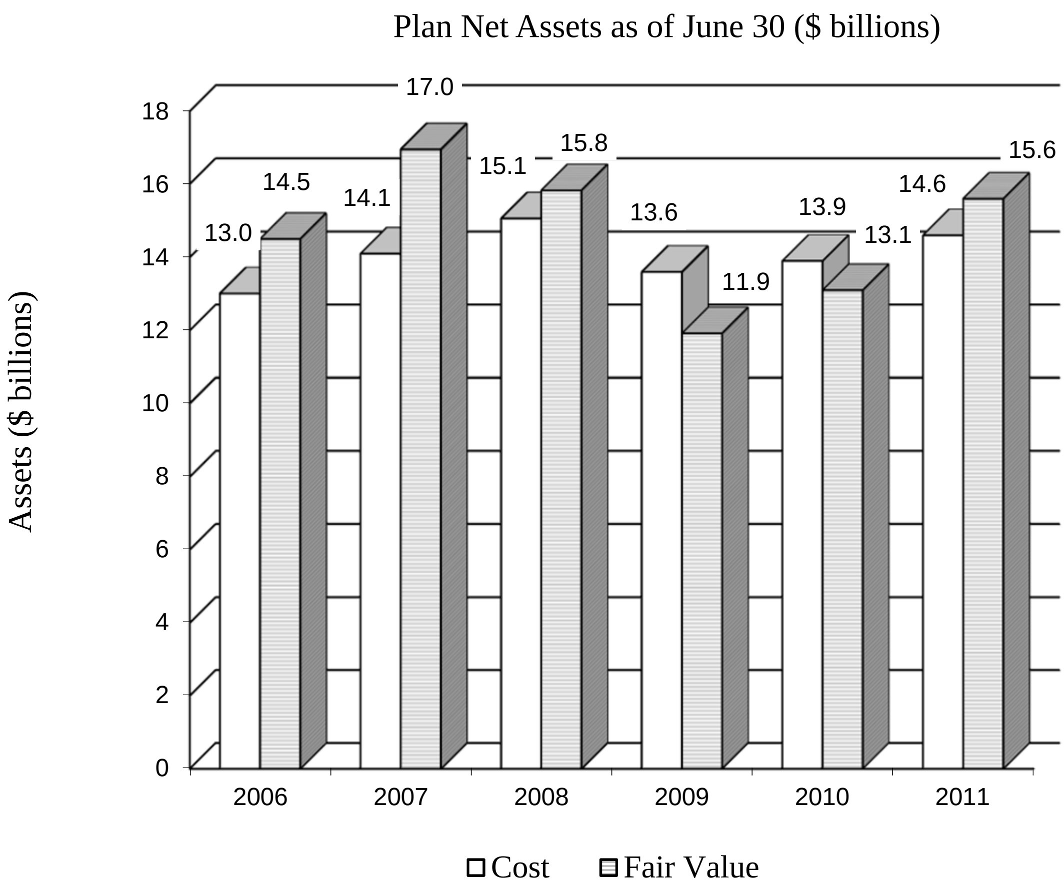
- Member contributions for the year ended June 30, 2011 decreased by $8,193 or 4.3% from the prior year. This is primarily due to a reduction in Plan covered compensation as a result of workforce reductions implemented by the City and County of San Francisco (City and County) as well as compensation 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, $308,823 in required employer contributions were made during the year ended June 30, 2011. The increase resulted from increased employer contribution rate from 9.49% in fiscal year 2010 to 13.56% in fiscal year 2011.
- Net appreciation in fair value of investments increased by $1,223,693. Securities lending income decreased by $29,033 or 83.6% due to reduced participation in lending activities.

- Investment expenses for the year increased by $373 or 0.8%, reflective of the overall increase in investment portfolio assets, which resulted in a corresponding increase in fees paid to investment managers during the year ended June 30, 2011.
- Benefit payments to Plan participants increased by $96,968 or 12.2% 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, 2010.
- Refunds of contributions decreased by $449 or 3.7%, primarily as a result of fewer workforce reductions implemented by the City and County.
- Administrative expenses increased by $889 or 7.0% consistent with Retirement System budgeted positions that were filled during the fiscal year.
- Other administrative expenses for other postemployment benefits (OPEB) increased by $86 or 7.3%. These OPEB expenses reflect the Retirement System'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 2011.

Fiscal Year 2010

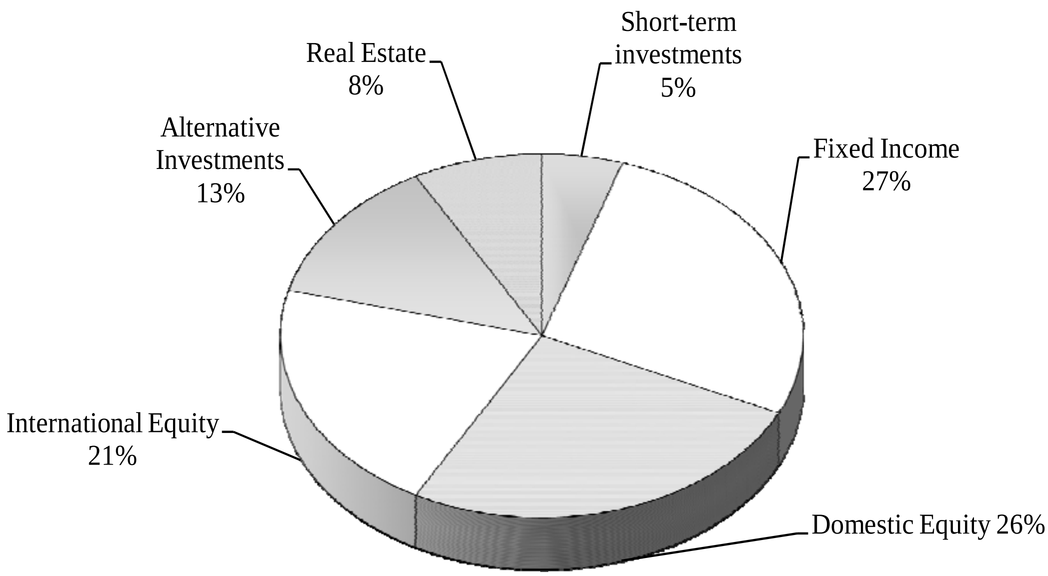
- Member contributions for the year ended June 30, 2010 decreased by $3,016, or 1.6% from the prior year. This is primarily due to the reduction in Plan covered compensation as a result of workforce reductions implemented by the City and County of San Francisco (City and County) as well as compensation 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. The increase of $103,863 resulted from the increase in employer contribution rate from 4.99% in fiscal year 2009 to 9.49% in fiscal year 2010. The 4.50% increase is attributable to investment experience.
- 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.

Plan net assets as of June 30, 2006 through 2011 expressed at cost and fair value are represented in the chart below:



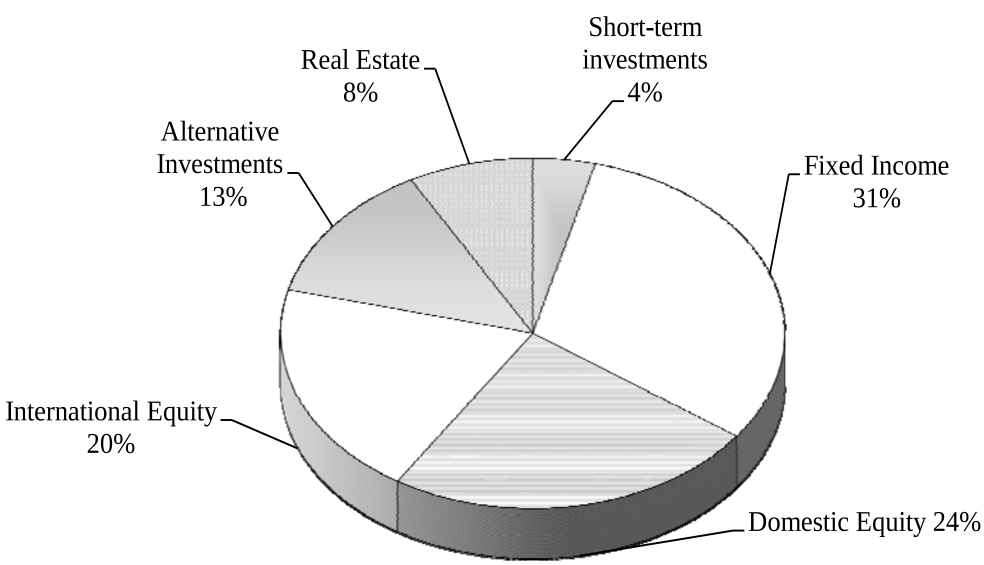
The asset allocation at fair value based on holdings (excluding investment in lending agent's short-term investment pool and foreign currency contracts) as of June 30, 2011 is represented in the chart below:

Asset Allocation as of June 30, 2011 - Fair Value



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



Currently Known Facts and Events

The Retirement System completed a new actuarial valuation, a five-year demographic experience analysis, and an economic experience analysis as of July 1, 2010. The employer contribution rates of 18.09% calculated in the actuarial valuation as of July 1, 2010 were adopted by the Retirement Board and are effective July 1, 2011.

The demographic experience analysis evaluated the Plan's experience for the period from 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 June 30, 2010, the date of the Retirement System's most recent actuarial valuation, the funded status of the Retirement System on an actuarial value of assets basis decreased from 97% to 91.1%. This decrease is primarily due to increased benefit liability as a result of benefit formula improvements for Miscellaneous Plan members and the improvement of the cost-of-living adjustments (COLAs) for certain retirement members under Proposition B, which was approved by the voters of the City and County in November 2008. The results of the July 1, 2010 actuarial valuation also reflect the impact of recent wide fluctuations in financial markets on the value of Plan assets smoothed over a trailing 5-year period. Under the 5-year smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-2009 will not be fully recognized until fiscal year 2013-2014. As a result, the City and County's contribution rate is expected to continue to increase over the next three years even if the fund achieves its 7.75% per year investment return assumption.

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, 2011 and 2010. 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, 2011 and 2010
(In thousands)

	2011	2010
Assets:		
Deposits	$ 43,981	$ 16,433
Contributions receivable-members	9,017	11,088
Contributions receivable-City and County	16,022	8,075
Investment income receivable:		
Interest	26,057	25,681
Dividends	12,410	10,060
Securities lending	637	1,219
Receivable from brokers, general partners and others	60,566	155,528
Investments at fair value:		
Short-term investments	726,811	583,208
Debt securities:		
U.S. government and agency securities	1,050,322	1,177,473
Other debt securities	3,218,676	2,881,362
Equity securities:		
Domestic	4,009,762	3,090,448
International	3,357,059	2,643,145
Real estate	1,266,863	1,009,001
Alternative investments	1,977,187	1,763,500
Foreign currency contracts, net	(16,046)	6,387
Investment in lending agent's short-term investment pools	892,579	964,858
Total investments	16,483,213	14,119,382
Total assets	16,651,903	14,347,466
Liabilities:		
Payable to brokers	126,903	219,697
Deferred retirement option program	17,641	8,653
Other	15,063	15,828
Payable to borrowers of securities	893,457	966,502
Total liabilities	1,053,064	1,210,680
Net assets held in trust for pension benefits	$ 15,598,839	$ 13,136,786

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, 2011 and 2010
(In thousands)

	2011	2010
Additions:		
Member contributions		
Miscellaneous	$ 149,148	$ 157,416
Police	19,453	19,467
Fire	13,154	13,065
Total member contributions	181,755	189,948
Employer contributions		
Miscellaneous	250,367	182,899
Police	34,887	24,326
Fire	23,569	16,389
Total employer contributions	308,823	223,614
Investment income (expenses)		
Interest	208,400	195,166
Dividends	159,671	139,161
Net appreciation in fair value of investments	2,557,950	1,334,257
Securities lending income	5,697	34,730
Investment expenses	(44,579)	(44,206)
Securities lending borrower rebates and expenses	436	(4,007)
Net investment income	2,887,575	1,655,101
Total additions	3,378,153	2,068,663
Deductions:		
Benefits	889,744	792,776
Refunds of contributions	11,548	11,997
Administrative expenses	13,544	12,655
Other administrative expenses - other postemployment benefits	1,264	1,178
Total deductions	916,100	818,606
Net increase	2,462,053	1,250,057
Net assets held in trust for pension benefits:		
Beginning of year	13,136,786	11,886,729
End of year	$ 15,598,839	$ 13,136,786

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 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 as of June 30, 2011 and 2010, 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.

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.

Miscellaneous Members who became members on or after 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 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.

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 and prior to July 1, 2010 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.

Firefighter Members and Police Members who became members of the Plan on or after July 1, 2010 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 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.

(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.

(Dollar amounts in thousands)

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.

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 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) 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 could 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 accrues 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 expired on June 30, 2011.

Changes in DROP liabilities during the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
DROP liability, beginning of year	$ 8,653	$ 4,143
Additions	16,088	6,994
Distributions	(7,100)	(2,484)
DROP liability, end of year	$ 17,641	$ 8,653

(Dollar amounts in thousands)

(g) Membership

Membership of the Retirement System consisted of the following as of June 30, 2011:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,258	2,081	19,860	24,199
Active members	2,042	1,350	24,708	28,100
Terminated members entitled to but not yet receiving benefits	121	63	5,266	5,450
Total	4,421	3,494	49,834	57,749

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

(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 setters 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. Securities 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 40% and 65%, 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 $987,215, including $104,500 in recourse debt as of June 30, 2011, and $917,214, including $103,304 in recourse debt as of June 30, 2010. 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 purchase and sale 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, 2011 and 2010 was 87 days and 84 days. During fiscal year 2011, all cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2011, the weighted average maturity of the reinvested cash collateral account was 26 days. During fiscal year 2010, cash collateral from lending domestic securities was invested in the lending agent's short-term investment pool, which had a weighted average maturity of 28 days as of June 30, 2010. Cash collateral from lending international securities was invested in a separate short-term investment pool, which had a weighted average maturity of 15 days as of June 30, 2010. 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.

(Dollar amounts in thousands)

Cash collateral invested in the separate account managed by the lending agent and 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 income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and 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.

(3) Deposits

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

	2011	2010
Pooled funds with City and County Treasurer	$ 5,087	$ 3,599
Bank accounts	38,894	12,834
	$ 43,981	$ 16,433

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, 2011 and 2010, the Retirement System's deposits in bank accounts were not exposed to custodial credit risk.

(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

(Dollar amounts in thousands)

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.

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.

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separate account is authorized to use repurchase arrangements. As of June 30, 2011, $255 million (or 28.6% of cash collateral) consisted of such agreements.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in 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, 2011 and 2010.

Investments at Fair Value as of June, 30, 2011

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 144,025	$ -	$ 27,794	$ 7,512	$ 108,719
Bank Loans	53,162	-	22,652	30,181	329
Collateralized Bonds	13,654	-	-	676	12,978
Commercial Mortgage-Backed	593,184	26,063	100,307	34,929	431,885
Commingled and other fixed income funds	284,805	284,805	-	-	-
Corporate Bonds	1,552,314	614,940	381,071	433,703	122,600
Corporate Convertible Bonds	219,394	7,895	120,499	21,673	69,327
Government Agencies	1,062,740	57,959	631,438	116,353	256,990
Government Bonds	102,322	30,709	28,441	14,362	28,810
Government Mortgage-Backed Securities	6,198	-	-	2,844	3,354
Index Linked Government Bonds	16,983	-	-	5,662	11,321
Invested Cash	473,110	473,110	-	-	-
Mortgages	93	-	93	-	-
Municipal/Provincial Bonds	6,878	-	3,801	3,077	-
Non-Government Backed Collateralized Mortgage Obligations	211,525	-	2,742	5,198	203,585
Options	(1,419)	(225)	(1,410)	216	-
Other Fixed Income	6,562	(34)	19	-	6,577
Short Term Bills and Notes	38,887	38,887	-	-	-
Short Term Investment Funds	214,813	214,813	-	-	-
Swaps	(3,421)	(5)	(1,887)	(749)	(780)
Total	$ 4,995,809	$ 1,748,917	$ 1,315,560	$ 675,637	$ 1,255,695

(Dollar amounts in thousands)

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
Commingled and other fixed income funds	248,585	110,430	103,818	34,337	-
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
Invested Cash	315,887	315,887	-	-	-
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	4,295	(32)	15	4	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

(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.

On August 5, 2011, S&P lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected S&P's view of U.S public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, S&P lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the Retirement System's investments in U.S. government agency securities, U.S. government bonds, and U.S. government mortgage-backed securities.

(Dollar amounts in thousands)

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2011. Investments issued or explicitly guaranteed by the U.S. government of $774,714 as of June 30, 2011 are not considered to have credit risk and are excluded from the tables below.

Credit Ratings of Fixed Income Investments as of June 30, 2011

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 346,110	8.2%
AA	192,376	4.6%
A	266,317	6.3%
BBB	522,638	12.4%
BB	192,110	4.6%
B	289,149	6.9%
CCC	154,317	3.7%
CC	12,983	0.3%
C	7,920	0.2%
D	6,406	0.2%
Not Rated	2,230,769	52.6%
Total	**$ 4,221,095**	**100.0%**

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 securities listed as "Not Rated" include short-term investment funds, U.S. government agency securities, 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 investments, the "not rated" component of credit would be approximately 9.8% for 2011 and 10.2% for 2010.

(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, 2011 and 2010, 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 investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2011 and 2010, $77,059 and $87,363, 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.

For fiscal year 2011, cash received as securities lending collateral is invested in a separately managed account using investment guidelines approved by the Retirement System and held by the custodial bank. Securities in this separately managed account are not exposed to custodial credit risk. For fiscal year 2010, cash received as securities lending collateral was invested in a securities lending collateral investment pool and was 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, 2011 are as follows:

Foreign Currency Risk Analysis as of June 30, 2011

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Argentine peso	$ -	$ -	$ -	$ -	$ -	$ 9,146	$ 9,146
Australian dollar	(227)	102,352	23,699	5,834	-	32,067	163,725
Brazilian real	2	54,276	30,020	-	-	123,802	208,100
British pound sterling	3,200	448,242	-	628	-	(45,149)	406,921
Canadian dollar	401	71,601	23,873	-	-	(100,423)	(4,548)
Chilean peso	-	-	-	-	-	71,778	71,778
Chinese yuan renminbi	-	-	-	-	-	46,027	46,027
Colombian peso	-	-	-	-	-	6,527	6,527
Czech koruna	-	1,825	-	-	-	(91,329)	(89,504)
Danish krone	183	29,702	-	-	-	(3,540)	26,345
Euro	17,945	715,752	(1,340)	249,298	-	(184,386)	797,269
Hong Kong dollar	2,997	229,156	-	-	-	918	233,071
Hungarian forint	-	3,999	-	-	-	41,364	45,363
Indian rupee	-	-	-	-	-	153,851	153,851
Indonesian rupiah	2,187	15,713	-	-	-	59,951	77,851
Japanese yen	1,740	379,369	-	-	66,776	(242,410)	205,475
Kazakhstan tenge	-	-	-	-	-	5,622	5,622
Malaysian ringgit	75	14,255	-	-	-	3,072	17,402
Mexican peso	6,927	12,454	28,105	-	-	21,303	68,789
New Israeli shekel	23	3,390	-	-	-	4,206	7,619
New Romanian Leu	2,322	-	690	-	-	8,230	11,242
New Taiwan dollar	1,039	37,857	-	-	-	(50,743)	(11,847)
New Zealand dollar	-	-	5,656	-	-	31,496	37,152
Norwegian krone	199	13,468	-	-	-	123,927	137,594
Peruvian nuevo sol	-	-	-	-	-	45,720	45,720
Philippine peso	-	114	-	-	-	7,838	7,952
Polish zloty	-	6,224	14,404	-	-	9,038	29,666
Russian ruble (new)	-	-	-	-	-	1,864	1,864
Singapore dollar	203	37,706	-	-	-	23,363	61,272
South African rand	-	35,173	-	-	-	84,860	120,033
South Korean won	439	121,111	-	-	-	87,413	208,963
Swedish krona	(328)	46,352	-	-	-	133,558	179,582
Swiss franc	(428)	159,775	-	-	-	(126,488)	32,859
Thai baht	633	20,990	-	-	-	1,277	22,900
Turkish lira	-	10,685	8,097	-	-	5,278	24,060
United Arab Emirates dirham	80	-	4,018	-	-	-	4,098
Total	$ 39,612	$ 2,571,541	$ 137,222	$ 255,760	$ 66,776	$ 299,028	$ 3,369,939

(Dollar amounts in thousands)

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)

(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, 2011 and 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 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, 2011 and 2010:

As of and for the Year Ended June 30, 2011

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	$ -	$ (16,042)	$ (16,042)
Other Contracts	-	214	214
Futures			
Equity Contracts	1	-	-
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	2,837	110	(301)
Interest Rate Contracts	(1)	(193)	99
Other Contracts	(40,080)	(1,336)	62
Swaps			
Credit Contracts	130,028	(2,148)	220
Interest Rate Contracts	15,920	(1,267)	(1,267)
Other Contracts	6	(5)	21
Rights/Warrants			
Equity Contracts	877 shares	4,238	(731)
Total		$ (16,429)	$ (17,725)

(Dollar amounts in thousands)

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

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, 2011, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $10,068 and $26,000, respectively. The Retirement System's counterparties to these contract held credit ratings of A or better as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch). As of June 30, 2010, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $18,332 and $11,425, respectively. The Retirement System's counterparties to these contract held credit ratings of A or better as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch). As of June 30, 2010, the Retirement System also entered into swaps held by counterparties with at least A ratings.

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, 2011 and 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, 2011 and 2010.

Derivative Interest Rate Risk as of June 30, 2011

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Options					
Interest Rate Contracts	$ (193)	$ (193)	$ -	$ -	$ -
Other Contracts	(1,336)	(32)	(1,520)	216	-
Swaps					
Credit Contracts	(2,148)	-	(1,886)	(602)	340
Interest Rate Contracts	(1,267)	-	-	(147)	(1,120)
Other Contracts	(5)	(5)	-	-	-
Total	$ (4,949)	$ (230)	$ (3,406)	$ (533)	$ (780)

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)

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, 2011

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (147)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	12,820	(1,120)
Total		$ 15,920	$ (1,267)

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)

(Dollar amounts in thousands)

Foreign Currency Risk

At June 30, 2011, the Retirement System is exposed to foreign currency risk on its investments in forwards and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2011

Currency	Forwards	Swaps	Total
Argentine peso	$ (3)	$ -	$ (3)
Australian dollar	(3,466)	-	(3,466)
Brazilian real	(5,687)	-	(5,687)
British pound sterling	2,152	-	2,152
Canadian dollar	(2,111)	-	(2,111)
Chilean peso	(445)	-	(445)
Chinese yuan renminbi	(101)	-	(101)
Colombian peso	(2,342)	-	(2,342)
Czech koruna	(2,664)	-	(2,664)
Danish krone	(28)	-	(28)
Euro	(7,914)	(1,340)	(9,254)
Hungarian forint	(1,895)	-	(1,895)
Indian rupee	(748)	-	(748)
Indonesian rupiah	26	-	26
Japanese yen	(9,612)	-	(9,612)
Malaysian ringgit	(440)	-	(440)
Mexican peso	(1,020)	-	(1,020)
New Israeli shekel	(1,348)	-	(1,348)
New Romanian leu	(16)	-	(16)
New Zealand dollar	(7,645)	-	(7,645)
Norwegian krone	(2,870)	-	(2,870)
Peruvian nuevo sol	(1,666)	-	(1,666)
Philippine peso	112	-	112
Polish zloty	(1,258)	-	(1,258)
Russian ruble (new)	(1,112)	-	(1,112)
Singapore dollar	(966)	-	(966)
South African rand	(3,331)	-	(3,331)
South Korean won	(983)	-	(983)
Swedish krona	(601)	-	(601)
Swiss franc	(11,817)	-	(11,817)
Taiwan dollar	(1,110)	-	(1,110)
Thai baht	(10)	-	(10)
Turkish lira	1,945	-	1,945
	$ (68,974)	$ (1,340)	$ (70,314)

(Dollar amounts in thousands)

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

Contingent Features

At June 30, 2011 and 2010, 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, 2011, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $3,634,309, which represented 23.3% of plan net assets. For the year ended June 30, 2011, the currency overlay program lost $1,659 in value or 0.05% of the international equity portfolio (including cash and other assets) and 0.01% of the Retirement System's average total portfolio value.

As of June 30, 2010, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $2,745,219, which represented 20.9% of plan net assets. For the year ended June 30, 2010, the currency overlay program gained $23,674 or 0.86% of the international equity portfolio (including cash and other assets) and 0.18% 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 corresponding collateral.

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, 2011 and 2010, 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.

(Dollar amounts in thousands)

As of June 30, 2011, the Retirement System has lent $1,175,923 in securities and received collateral of $893,457 and $325,670 in cash and securities, respectively, from borrowers. The cash collateral is invested in a separately managed account by the lending agent using investment guidelines approved by the Retirement System. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $892,579. The net unrealized loss of $878 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 separately managed securities lending account due to the fluctuation in the fair value of the assets held in the account.

The Retirement System's securities lending transactions as of June 30, 2011 are summarized in the following table.

Securities Lending as of June 30, 2011

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Equities	$ 106,502	$ 111,137	$ -
International Corporate Fixed Income	1,114	1,179	-
International Government Fixed Income	2,801	3,041	-
U.S. Government Agencies	3,961	4,050	-
U.S. Corporate Fixed Income	202,818	206,814	-
U.S. Equities	410,492	418,153	-
U.S. Government Fixed Income	146,004	149,083	-
Securities Loaned with Non-Cash Collateral			
International Equities	264,002	-	286,243
U.S. Corporate Fixed Income	1,328	-	1,352
U.S. Equities	687	-	698
International Government Fixed Income	9,174	-	9,762
U.S. Government Fixed Income	27,040	-	27,615
Total	$ 1,175,923	$ 893,457	$ 325,670

(Dollar amounts in thousands)

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2011.

Fair Value of Cash Collateral Account at June 30, 2011

Investment Type	Fair Value	Less than 1 year	1-5 years
Asset Backed Securities	$ 43,777	$ 25,566	$ 18,211
Commercial Paper	4,999	4,999	-
Floating Rate Notes	39,257	39,257	-
Government Agencies	89,606	78,737	10,869
Negotiable Certificates of Deposits	292,043	292,043	-
Repurchase Agreements	255,000	255,000	-
Short Term Investment Funds	167,897	167,897	-
Total	$ 892,579	$ 863,499	$ 29,080

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2011 is as follows:

Credit Rating of Cash Collateral Account as of June 30, 2011

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 123,060	13.8%
AA	131,095	14.7%
A	389,921	43.7%
BBB	10,583	1.2%
BB	6,581	0.7%
B	6,632	0.7%
CCC	1,810	0.2%
Not Rated	222,897	25.0%
Total	$ 892,579	100.0%

(Dollar amounts in thousands)

As of June 30, 2010, the Retirement System 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 pool. Due to the decline in the fair value of assets held by the short-term pool, the Retirement System's cash collateral was valued at $964,858. The net unrealized loss of $1,644 is presented as part of the depreciation in fair value of investments in the statement of changes in plan net assets. 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

(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, 2011 and 2010 are summarized as follows:

	2011	2010
Investments:		
Beginning of the year	$ 1,009,001	$ 1,181,932
Capital investments	108,461	45,165
Equity in net earnings	66,243	64,707
Net appreciation (depreciation) in fair value	144,335	(226,118)
Capital distributions	(61,177)	(56,685)
End of the year	$ 1,266,863	$ 1,009,001

(Dollar amounts in thousands)

(8) Benefits

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

	2011	2010
Service retirement benefits	$ 662,277	$ 593,048
Disability retirement benefits	154,631	149,122
Death benefits	8,234	8,325
COLA benefit adjustments	48,514	35,287
DROP accrued retirement benefits	16,088	6,994
Total	$ 889,744	$ 792,776

(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 2011 and 2010 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. As of July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions on a pre-tax 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.

(Dollar amounts in thousands)

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, 2011 and 2010 accumulated at 4.00% and 4.75%, 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 2011 and 2010 are based on a schedule of rates determined from actuarial studies by the consulting actuary as of July 1, 2009 and 2008, 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, 2009 and 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
Equivalent single amortization period	9.2 years as of July 1, 2009
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	7.75%
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, 2011 and 2010 as a percentage of covered payrolls averaged the following:

	Fiscal Year 2011	Fiscal Year 2010
Police plan members	13.56%	9.49%
Fire plan members	13.56%	9.49%
Miscellaneous plan members	13.56%	9.49%

(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 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 2011 by the actuarial firm Cheiron and was based upon employee data and asset information as of July 1, 2010. 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, 2010, the most recent actuarial valuation date.

Funded Status as of July 1, 2010
(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, 2010	$ 16,069,058	$ 17,643,394	$ 1,574,336	91.1%	$ 2,398,823	65.6%

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 unfunded actuarial accrued liability (UAAL) increased by $1,080,417 from the July 1, 2009 valuation primarily due to investment experience during the year ended June 30, 2009 that is being recognized over five years as well as changes to the economic and demographic assumptions approved by the Retirement Board, which increased the actuarial accrued liability. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Under the 5-year smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-2009 will not be fully recognized until fiscal year 2013-2014. As a result, the City and County's contribution rate is expected to continue to increase over the next three years even if the fund achieves its 7.75% per year investment return assumption.

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

Valuation date	July 1, 2010
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	13.4 years

(Dollar amounts in thousands)

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	7.75%
Projected wage increases	4.00% Additional for merit and promotion: 0% to 15% 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: 4.00% to 5.00% 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, 2011 and 2010 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 $485 and $419 for the years ended June 30, 2011 and 2010, respectively, to provide postretirement benefits for retired employees on a pay-as-you-go basis. The OPEB expense for the Retirement System is included in other administrative expenses for fiscal years 2011 and 2010.

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:

	2011	2010
Annual required contribution	$ 1,239	$ 1,161
Interest on net OPEB obligation	117	81
Adjustment to annual required contribution	(92)	(64)
Annual OPEB cost	1,264	1,178
Contribution made	(485)	(419)
Increase in net OPEB obligation	779	759
Net OPEB obligation - beginning of year	2,454	1,695
Net OPEB obligation - end of year	$ 3,233	$ 2,454

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 postemployment 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 $196,709 and alternative investments in the amount of $1,124,797, totaling $1,321,506 as of June 30, 2011.

(b) Legal

During the year ended June 30, 2011, 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, 2011
(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, 2010	$ 16,069,058	$ 17,643,394	$ 1,574,336	91.1%	$ 2,398,823	65.6%
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%

Schedule of Employer Contributions

Year ended June 30	Annual required contribution	Percentage contributed
2011	$ 308,823	100.0%
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%

See accompanying note to required supplementary information.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Note to Required Supplementary Information - Unaudited
June 30, 2011
(Dollar amounts in thousands)

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, 2010, the Retirement System assumed investment rate of return was 7.75% unchanged from the previous actuarial valuation as of July 1, 2009. The unfunded actuarial liability increased by $1,080,417 from $493,919 as of July 1, 2009 to an unfunded liability of $1,574,336 as of July 1, 2010. This increase in the unfunded liability primarily reflects investment experience during the year ended June 30, 2009 that is being recognized over five years as well as liability experience losses related to changes to the economic and demographic assumptions approved by the Retirement Board.

The July 1, 2010 valuation results incorporate the following significant assumption changes approved by the Retirement Board at its November 9, 2010 Board meeting:

- Real wage growth assumption reduced from 4.5% to 4.0% based on less likely prospects for real wage growth given the severe budget pressures facing the public sector following the recent economic downturn
- Merit increase assumption for police and fire members increased from 1.0% to 1.5% based on actual experience with Retirement System safety members
- Mortality assumption updated to versions of the RP 2000 mortality table and latest CalPERS disabled mortality table
- Retirement rates increased and separate assumptions adopted for Miscellaneous members with less than 30 years and 30 or more years of service and for Safety members with less than 25 years and 25 or more years of service based on actual Plan experience from 2004 through 2009
- Disability rates reduced based on actual Plan experience from 2004 through 2009
- Withdrawal rates increased based on actual Plan experience from 2004 through 2009
- Refund rates decreased based on actual Plan experience from 2004 through 2009

In the actuarial valuation as of July 1, 2009, the Retirement System assumed investment rate of return is 7.75% consistent with the 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.