



San Diego City Employees' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2003

**A RETIREMENT SYSTEM TRUST FUND FOR EMPLOYEES OF
THE CITY OF SAN DIEGO, THE UNIFIED PORT OF SAN DIEGO,
AND THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY,
SAN DIEGO, CALIFORNIA**

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La Jolla Shores and Cove
San Diego, California
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A Retirement System Trust Fund for Employees of
the City of San Diego, the Unified Port of San Diego,
and the San Diego County Regional Airport Authority,
San Diego, California

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The San Diego City Employees' Retirement System (SDCERS) pledges to continually deliver accurate and timely benefits through prudent administration and safeguarding of SDCERS, while ensuring the Retirement System Trust Fund's maximum safety, integrity, and growth.

SDCERS is committed to excellence through:

Treating all participants with courtesy, dignity, respect and compassion;

Conducting business in an open, honest, fair, and efficient manner; and,

Maintaining the highest degree of ethics, fiscal responsibility and independence.

ISSUED BY:

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Retirement Administrator

Paul Barnett
*Assistant Retirement
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PREPARED BY:

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I. INTRODUCTORY SECTION





Lawrence B. Grissom
Retirement Administrator

TRANSMITTAL LETTER

December 1, 2003

SDCERS' Board Members, Members, Retirees and Beneficiaries
San Diego City Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101-4298

Dear SDCERS' Board Members, Members, Retirees and Beneficiaries:

As Retirement Administrator of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003 (FY 2003), with comparative data for the fiscal year ended June 30, 2002 (FY 2002). Readers should consider the information presented here in conjunction with additional information we have furnished in Management's Discussion and Analysis in the Financial Section of this CAFR.

FY 2003 marked the 76th year of SDCERS' operations, providing retirement and administering health benefits to retirees and their beneficiaries. The Board has continued to demonstrate its commitment to SDCERS' participants by delivering accurate and timely benefit payments through the prudent administration and safeguarding of SDCERS' assets, while at the same time ensuring the Retirement System Trust Fund's maximum safety, integrity and growth.

During the past year, SDCERS' benefits were increased, a new employer contribution agreement was negotiated with the City of San Diego, and an additional plan sponsor joined SDCERS, the San Diego County Regional Airport Authority (Airport). In addition, the Retirement System Trust Fund had positive investment returns after two years of slightly negative returns. SDCERS' participant benefit changes and the addition of the Airport are discussed in Changes in SDCERS' Provisions and Employer Contributions in this letter and in the Financial and Actuarial Sections. The City of San Diego's new employer contribution agreement is summarized in the Schedule of Employer Contributions and discussed in the Notes to the Schedules of Trend Information in the Financial Section of this report. Investment performance is detailed in the Investment Section of this report.

Over the past year, the Board managed the investment of plan assets through a period of continued financial market volatility. The Board has adopted a long-term asset allocation strategy that is more conservative, by comparison, than other public pension plans. The target asset allocation strategy is risk controlled

with active rebalancing of plan assets to target allocations on an opportunistic, yet disciplined basis.

- As of June 30, 2003, Plan Net Assets totalled \$2.679 billion
- As of June 30, 2002, Plan Net Assets totalled \$2.527 billion

This represents a current year increase of \$151.59 million from July 1, 2002 to June 30, 2003 (FY 2003), as compared to a prior year reduction of \$71.82 million in Plan Net Assets from July 1, 2001 to June 30, 2002 (FY 2002).

SDCERS, as the agent of a multi-employer defined benefit plan, continues to be adequately funded. As of the most recent actuarial valuations:

- City of San Diego's SDCERS' funded status is 77.3% as of June 30, 2002, as compared to 89.9% as of June 30, 2001.
- Unified Port of San Diego's SDCERS' funded status is 91.1% as of December 31, 2002, (interim valuation) as compared to 100.3% at June 30, 2002, and as compared to 118.0% as of June 30, 2001.
- San Diego County Regional Airport Authority's (newest plan sponsor) SDCERS' funded status is 95.7% as of December 31, 2002.

A ten-year history of SDCERS' funded status for the City of San Diego and the Unified Port of San Diego can be found in the Notes to the Financial Statements in the Financial Section of this CAFR.

The Comprehensive Annual Financial Report

SDCERS' executive management team is responsible for both the accuracy of the data and the completeness and fairness of the presentation of the information contained in this CAFR. The City of San Diego's Auditor and Comptroller's Office prepares and is responsible for the accuracy of the data contained in the financial statements and select schedules in the Notes to the Financial Statements. It is the executive management team's intent to ensure that all material disclosures have been made through the date of issuance of this report.

This CAFR is divided into five sections:

Introductory Section

This section contains the Transmittal Letter, the Certificate of Achievement, a list of Members of SDCERS' Board, SDCERS' Organization Chart, a narrative of Management Divisions within SDCERS, and a list of Professional Services provided to SDCERS.

Financial Section

This section presents the Independent Auditors' Report prepared by Caporicci & Larson, SDCERS' outside auditor, Management's Discussion and Analysis of SDCERS' financial condition, audited financial statements prepared by the City Auditor and Comptroller's Office for the fiscal years ended June 30, 2003 and 2002, required supplemental information detailing the funding progress of and employers' contributions to SDCERS, and supporting schedules showing SDCERS' administrative expenses as well as payments made to investment professionals and consultants.

Investment Section

This section contains the Investment Consultant’s Statement, prepared by Callan Associates, SDCERS’ investment consultant, SDCERS’ asset class investment returns, SDCERS’ statement of investment objectives, and graphs and schedules depicting asset allocation, asset diversification, and ten years of historical investment performance and asset holdings information.

Actuarial Section

This section includes the Actuary’s Certification Letter, prepared by Gabriel, Roeder, Smith & Co., SDCERS’ actuary and, supporting schedules and information that pertain to SDCERS’ participants and benefits.

Statistical Section

This section contains schedules of comparative data related to SDCERS’ revenues and expenses, active and inactive members, retirees, average monthly retirement benefits, and participating plan sponsors (employers).

SDCERS’ History and SDCERS’ Board

SDCERS was established in FY 1927 by the City of San Diego, and in accordance with the California State Constitution Article XVI, Section 17, the San Diego City Charter, Article IX Sections 141 – 149 and Article X, Section 1 and the San Diego Municipal Code Sections 24.0100 - 24.1809. SDCERS provides retirement, disability, and death benefits to its participants. SDCERS also administers a health insurance benefit for eligible retirees.

SDCERS, acting as agent of a multi-employer, defined benefit plan, provides vested members with a specified portion of their annual salaries as a monthly annuity when they retire. In order to attain the appropriate level of funding for each member, the plan specifies a formula to calculate the amount that would need to be contributed by participating plan sponsors (employers) and members (employees) each year until retirement. To maintain low levels of required contributions, SDCERS’ Board utilizes a long-term investment strategy for managing plan assets consisting of a diversified mix of equities (stocks), fixed income (bonds) and real estate. Dividends, interest earnings, real estate income and gains from the sale of investments are reinvested or used to pay benefits, as needed.

A thirteen member Board governs SDCERS:

Board Composition	Representation
Three Members	Elected by General Members
One Member	Elected by Fire / Safety Members
One Member	Elected by Police / Safety Members
One Member	Elected by Retirees
Three Members	Ex-Officio: City Manager (designee), City Treasurer, and City Auditor (designee)
Four Members	San Diego Citizens Appointed by City Council (including one local banker)

Board members who are elected or appointed serve six-year terms with no term limits. Ex-officio members serve SDCERS' Board for the period of their respective positions with the City of San Diego. A list of Members of SDCERS' Board as of June 30, 2003, appears in the Introductory Section of this CAFR.

SDCERS' Board oversees the Retirement Administrator and his staff in the performance of their duties.

Participants' Benefits and Services

Since SDCERS' inception 76 years ago, the number of participants has continued to grow. In the fiscal year ended June 30, 2003, there was a net increase of one member and a net increase of 336 retirees, which includes an increase of 212 Deferred Retirement Option Program (DROP) participants. Overall, SDCERS increased by 337 participants since June 30, 2002. To manage future liabilities from vested benefits, SDCERS' Board adheres to prudent investment principles. SDCERS' objective is to be able to accumulate sufficient assets to fund future retirement benefits earned by current SDCERS' members in the years that they are earned.

Over the past two fiscal years ending June 30, 2003 and 2002, SDCERS' staff provided the following services to its members, retirees and beneficiaries:

	June 30, 2003	June 30, 2002
Processed Purchase of Service Contracts (PSC's)	3,046	2,980
Completed Service and Disability Applications	129	315
Completed DROP Applications	363	343
Hosted Pre-Retirement Seminars	15	19
Advised Members in Counseling Sessions	1,469	1,629
Presented at New Employee Orientations	19	27

Accomplishments and Enhancements

In August 2003, SDCERS' Board launched SDCERS' Web site, www.sdcers.org, whereby SDCERS' participants can access comprehensive information regarding their benefits, the investment of plan assets, as well as an electronic version of this entire CAFR. The website also has interactive capabilities to assist SDCERS' members in understanding and estimating their earned benefits.

SDCERS completed the implementation of the Membership Benefits System (MBS). This information system is an integrated solution which replaces four separate legacy mainframe and desktop applications. The system tracks all member related data including: salary, contributions, creditable service, purchase of service contracts, and reciprocity information. The system generates weekly lump sum payment transactions and a monthly pension payroll.

Changes in SDCERS' Provisions and Employer Contributions

Effective July 1, 2002, retirement benefits to SDCERS' general members (City employees only) were increased. Prior to July 1, 2002, general members had a choice of two formulas for calculating benefits, based on a scaled 2.00% per year of service (with a 10% increase added to final compensation) or 2.25% per year of service, with minimum eligibility at age 55 with twenty years of creditable service. Retirement benefits were increased for general members to a scaled 2.50% per year of service, beginning at age 55. With this enhancement, a 90% cap was also instituted. This means that a SDCERS' general member with 36 years of service at age 55 would have their retirement benefit capped at 90% of their high one-year salary. SDCERS' members can continue to work after reaching the 90% cap and continue to increase their high one-year salary that is used in the calculation of retirement benefits. Or, a SDCERS' general member (City employee) reaching the 90% cap can retire and enter DROP (Deferred Retirement Option Program) and can continue to work for the City. City Safety members also have a 90% cap, which was implemented in 1997. Safety members are eligible to retire at age 50 with 20 years of service. A summary of retirement benefits administered by SDCERS is included in the Actuarial Section of this CAFR. For further details about specific retirement benefits, please call SDCERS' offices at (800) 774-4977 or (619) 525-3600.

To fund the increased benefits to general members, the City has increased their annual fixed employer contribution rate to SDCERS by 1.06% in FY 2004. In addition to this increase, the City and SDCERS' Board agreed to a new annual fixed employer contribution schedule to replace the "City Manager's Retirement Proposal" (Manager's Proposal) dated July 23, 1996, with the "Agreement Regarding Employer Contributions" (Contribution Agreement), effective November 18, 2002. Under the Contribution Agreement, the City has agreed to increase their annual fixed employer contribution rate by 1.00% per year with the goal, by FY 2009, of raising the City's annual employer contribution rate to equal the annual employer contribution rate as calculated by SDCERS' actuary under the projected unit credit (PUC) funding methodology, based upon actuarial assumptions in effect as of the June 30, 2001 valuation. In addition, the City has agreed to pay an amortized amount of the difference between the annual fixed employer contribution rate and the actuarial contribution rate as calculated under the PUC methodology if the City's SDCERS' funded status is below 82.3% in any June 30 actuarial valuation, as detailed in the Contribution Agreement. This was the case as of the June 30, 2002 actuarial valuation, where the City's SDCERS' funded status was 77.3%. In FY 2004, the City made its first amortized payment, as a part of their July 1, 2003 advanced employer contribution, providing for a blended employer contribution rate of 13.43% of the City's FY 2004 payroll. In addition, on behalf of the City's Proprietary and Fiduciary Funds, the City made employer contributions based upon the full actuarial contribution rate.

Further information regarding the City's Contribution Agreement is disclosed in the Notes to the Financial Statements, the Schedule of Plan Sponsors' (Employer's) Contributions, and the Notes to the Schedules of Trend Information located in the Financial Section of this CAFR.

The State of California established the San Diego County Regional Airport Authority (Airport) effective January 1, 2003, to oversee operations of the San Diego International Airport. The Airport was created as an agency from employees formerly employed with the Unified Port of San Diego (Port), a current SDCERS' plan sponsor, along with new hires to the Airport. The Airport elected to enter into an agreement with SDCERS' Board for the administration of their defined benefit plan for Airport employees (SDCERS' members) in 2003. To accommodate this mid-year division of employers (plan sponsors), SDCERS' actuary performed an interim actuarial valuation as of December 31, 2002. This valuation set apart the actuarial value of assets and liabilities accrued to date for the Port and Airport. Schedules of Funding Progress for the Port and Airport are depicted in the Financial Section of this CAFR. Additionally, various actuarial schedules depicting the Port and the Airport, separately, can be found in the Actuarial and Statistical Sections of this CAFR. A full copy of the interim actuarial valuation reports, prepared by SDCERS' actuary, can be requested by calling SDCERS' offices at (800) 774-4977 or (619) 525-3600.

Accounting Systems and Reports

SDCERS' executive management team is charged with establishing and maintaining an internal control structure designed to ensure that SDCERS' assets are protected from loss, theft or misuse. Responsibility for the accuracy, completeness and fair presentation of this information, and all disclosures, rests with SDCERS' executive management team. The accounting firm of Caporicci & Larson, SDCERS' independent outside auditor, performs an annual audit of SDCERS' financial statements and internal controls. This CAFR was prepared in accordance with accounting principals generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB). SDCERS' audited financial statements were prepared by the City of San Diego's Auditor and Comptroller's Office using the accrual basis of accounting. Plan sponsor (employer) and member (employee) contributions are recognized in the period in which the contributions are due. The employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan. SDCERS' investments are stated at fair value. The custodian, State Street Bank and Trust Company, provides the market values of SDCERS' invested assets. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related investment expenses.

Actuarial Funding Status

SDCERS' funding objective is to meet long-term benefit obligations by maintaining a well-funded plan, which is achieved by earning consistent long-term investment returns to minimize plan sponsor (employer) and member (employee) contributions. Management's Discussion and Analysis, located in the Financial Section of this CAFR, depicts SDCERS' current financial condition with a discussion of the current year's financial results, FY 2003, as compared to the prior year, FY 2002. The goal is for plan sponsors' (employers') contributions to remain approximately level year-to-year as a percentage of member (employee) payroll. The greater the level of overall plan

funding, the larger the ratio of assets accumulated to the actuarial accrued liability. The advantage of an adequately funded public defined benefit pension plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers. As of the date of the most recent actuarial valuation, June 30, 2002, SDCERS has a funded status of 77.3% for the City of San Diego (City). As of the date of the most recent (interim) actuarial valuation, December 31, 2002, SDCERS has a funded status of 91.1% for the Unified Port of San Diego (Port) and 95.7% for the San Diego County Regional Airport Authority (Airport). These figures can be compared to the prior year's actuarial valuation, as of June 30, 2001, where SDCERS had a funded status of 89.9% for the City and 118.0% for the Unified Port of San Diego (Port). A ten-year history of the funding progress for the City and the Port, and current information for the newly established Airport, is presented in the Notes to the Financial Statements in the Financial Section of this CAFR.

SDCERS retains an independent actuarial firm, Gabriel, Roeder, Smith & Co., to conduct annual actuarial valuations. The actuary presents recommendations to SDCERS' Board for consideration annually. A full copy of these actuarial valuation reports, for each plan sponsor, can be obtained by calling SDCERS' offices at (800) 774-4977 or (619) 525-3600.

While plan assets of the City, the Port and the Airport are commingled, separate cost calculations and actuarial valuation reports are completed annually for each of SDCERS' plan sponsors (employers). The actuarial valuation of assets and actuarial accrued liabilities (as of the most recent actuarial valuations) for the City, the Port, and the Airport, are as follows (in millions):

	Dec. 31, 2002	June 30, 2002	June 30, 2001
	<i>(interim valuations)</i>		
City of San Diego			
Actuarial Valuation of Assets	N/A	\$2,448.21	\$2,525.65
Actuarial Accrued Liabilities	N/A	\$3,168.92	\$2,809.54
Unfunded Actuarial Accrued Liability	N/A	\$720.71	\$283.89
Unified Port of San Diego			
Actuarial Valuation of Assets	\$125.62	\$140.61	\$145.28
Actuarial Accrued Liabilities	\$137.82	\$140.20	\$123.13
Unfunded Actuarial Accrued Liability	\$12.20	(\$0.42)	(\$22.15)
San Diego County Regional Airport Authority			
Actuarial Valuation of Assets	\$11.03	N/A	N/A
Actuarial Accrued Liabilities	\$11.53	N/A	N/A
Unfunded Actuarial Accrued Liability	\$0.50		

The City is amortizing its unfunded actuarial accrued liability (resulting from liabilities exceeding assets) over a closed, 30-year amortization period, which began in July 1, 1991, with 19 years remaining as of the June 30, 2002 actuarial valuation. The Port for the first time in many years has a small unfunded actuarial accrued liability as their funded status has fallen below 100% to 91.1%. The Port is also amortizing its unfunded actuarial accrued liability over a closed, 30-year amortization period, which began July 1, 1991, with 18.5 years remaining as of the December 31, 2002 actuarial valuation. The Airport at its

establishment has a funded status of 95.7%; it is amortizing its unfunded actuarial accrued liability over a closed, 18.5-year amortization period, which began January 1, 2003, with 18.5 years remaining as of the December 31, 2002 actuarial valuation.

Investments

General Authority: Article XVI, Section 17 of the Constitution of the State of California provides that, “Notwithstanding any other provisions of law or this Constitution to the contrary, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system ...” Article XVI, Section 17(a) of the Constitution of the State of California provides that, “the Retirement Board of a public pension or retirement system shall have the sole exclusive fiduciary responsibility over the assets of the public pension or retirement system.”

Prudent Person Rule: Article XVI, Section 17(c) of the Constitution of the State of California, provides that, “the members of the Retirement Board of a public pension or retirement system shall discharge their duties ... with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.”

Prudent Expert Rule: SDCERS’ Board models its investment program based on principals outlined under the United States Code, Title 29, Chapter 18, Employee Retirement Income Security Act of 1974, (ERISA). Under ERISA, the Prudent Expert Rule permits the Board to establish an investment policy based upon professional advice and counsel, and to delegate investment authority to professional investment advisors. SDCERS’ Statement of Investment Objectives and Policies summarizes SDCERS’ Board’s responsibilities and the appropriate degree of risk for the Retirement System Trust Fund, a copy of which is available by contacting SDCERS’ offices at (800) 774-4977 or (619) 525-3600, and is also available on SDCERS’ Web site at www.sdcers.org. Investment managers must execute the Investment Policy in accordance with specific investment guidelines incorporated in the investment management agreements between SDCERS and each of its investment managers.

The Prudent Expert Rule differs from the Prudent Person Rule in that by diversifying the investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. SDCERS’ Board is permitted to delegate its responsibility for the investment of plan assets to qualified investment managers. SDCERS’ Board is then charged with the monitoring and oversight of SDCERS’ investment managers. Under the Prudent Expert Rule, permitted investments of SDCERS’ plan assets are viewed from a risk return perspective based upon the addition to SDCERS’ diversified investment portfolio, rather than viewing the investment opportunity in isolation as the Prudent Person Rule mandated. Finally, SDCERS’ Board, based on the Prudent Expert Rule, is charged with evaluating investments based upon current information at the time the investment is made; hindsight investment performance, once the investment allocation is made, is not a factor that Boards can be expected to have fiduciary responsibility over.

SDCERS' target and actual asset allocation, as of June 30, 2003 and 2002, as well as recent and long-term investment performance appear in the Investment Section of this CAFR. SDCERS had one-year investment performance total returns, as follows:

June 30, 2003	June 30, 2002
+5.44%	-2.40%

SDCERS' annualized total return over the past three years is +0.71%, over the past five years is +5.21%, over the past ten years is +8.78% and since inception of SDCERS' diversified investment program (14.25 years) is +9.85%. SDCERS' long-term investment performance exceeds its long-term actuarially assumed investment rate of return of 8.00%, by +1.85% annualized over the last 14.25 years.

Professional Services

SDCERS' Board retains investment consultants and managers to provide professional services that are essential to operate SDCERS effectively and efficiently. The Investment Consultant's Statement discusses SDCERS' asset class investment performance versus passive performance benchmark returns and can be found in the Investment Section of this CAFR.

An Independent Auditor's Report from SDCERS' outside auditor and a Certification Letter from SDCERS' actuary are included in the Financial and Actuarial Sections of this CAFR, respectively. The Introductory Section of the CAFR contains a complete list of firms that provide professional services to SDCERS. Schedules of fees paid to investment professionals and payments to consultants appear in the Financial Section of this CAFR.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego City Employees' Retirement System (SDCERS) for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the third consecutive year that SDCERS has received this prestigious award. In order to be awarded a Certificate of Achievement, a government or public employee retirement system must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

The compilation of this report reflects the combined effort of SDCERS' executive management team and staff under the leadership of SDCERS' Board. It is intended to provide complete and reliable information with respect to the Board's stewardship of SDCERS' Trust Fund assets. This CAFR is available to all members and retirees, upon request, and is also available on SDCERS' Web site at www.sdcers.org.

A Popular Annual Financial Report (PAFR) will be mailed to all of our active members, retirees and beneficiaries. This summary document is also available at www.sdcers.org. We hope SDCERS' plan sponsors (employers), members (employees), retirees and beneficiaries will find both the PAFR and the CAFR informative.

I would like to take this opportunity to express my gratitude to SDCERS' Board, the SDCERS' executive management team, the City of San Diego's Auditor and Comptroller's Office, the investment managers, consultants, and the many people who have worked so diligently to ensure the successful operation of SDCERS. Please contact SDCERS' offices at (800) 774-4977 or (619) 525-3600 if you have questions about SDCERS' benefits, invested assets or any aspect of this CAFR. It is SDCERS' continued objective to provide complete and timely information concerning SDCERS' benefits and invested assets to all of its participants.

Respectfully submitted,



Lawrence B. Grissom
Retirement Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego City Employees'
Retirement System,
California

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

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



President

Executive Director

Also awarded as of Fiscal Years ended June 30, 2001 and 2000

San Diego City Employees' Retirement System

MEMBERS OF SDCERS' BOARD

As of June 30, 2003

The 13-member Retirement Board is comprised of: the City Manager (designee), the City Treasurer, the City Auditor (designee), four San Diego citizens appointed by the Mayor and City Council (including one banker), three SDCERS members elected by general members, two SDCERS members elected by police and fire safety members and one retiree elected by retired members.

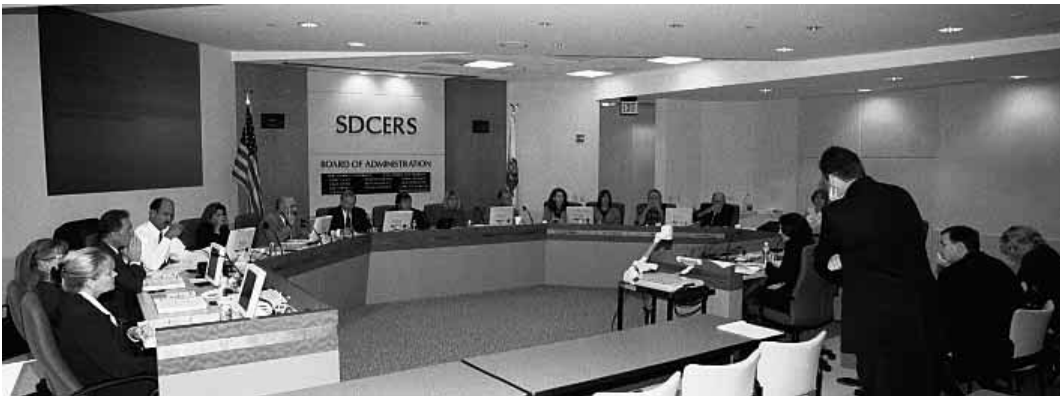


SDCERS' Board Members (from left to right)

Cathy Lexin, Charles Hogquist, Sharon Wilkinson, Richard (Dick) Vortmann, Steve Meyer, Dave Crow, Terri Webster, Ray Garnica, Ron Saathoff, and John Torres.

Not pictured: Frederick W. Pierce, IV, Tom Rhodes, Diann Shipione, and Mary Vattimo.

Charles Hogquist replaced Tom Rhodes, who was the Elected Safety/Police Representative as of June 30, 2003. Charles Hogquist was sworn in as a Board Member in July 2003.



SDCERS Board Meeting

SDCERS' Board meets on the third Friday of each month, at 1:30 P.M. Meetings are open to the public.

San Diego City Employees' Retirement System
MEMBERS OF SDCERS' BOARD (continued)

As of June 30, 2003



Mr. Frederick W. Pierce, IV, President
Council Appointee
The Pierce Company
Term Ends: December 2009



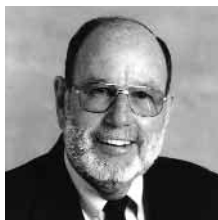
Mr. John Torres, Vice-President
Elected General Member Representative
City of San Diego, Police Dept. - Forensics
Term Ends: June 2007



Mr. John Casey
Elected General Member Representative
City of San Diego, Planning and
Development Review
Term Ended: June 2003



Mr. Steve Meyer
Elected General Member Representative
City of San Diego, Metropolitan
Wastewater Department
Assumed office: June 2003; Term ends: June 2006



Mr. David Crow
Elected Retiree Representative
Term Ends: June 2004



Mr. Ray Garnica
Council Appointee
Independent Consultant
Term Ends: December 2004

San Diego City Employees' Retirement System
MEMBERS OF SDCERS' BOARD (continued)

As of June 30, 2003



Ms. Cathy Lexin
Ex-Officio Member
City of San Diego, Human Resources Manager
for Mr. Michael Uberaga, City Manager



Mr. Tom Rhodes
Elected Police/Safety Representative
City of San Diego, Police Department
Term Ended: June 2003



Mr. Ron Saathoff
Elected Fire/Safety Representative
City of San Diego, Fire Department
Term Ends: June 2009



Ms. Diann Shipione
Council Appointee
UBS/Paine Webber
Term Ends: December 2005



Ms. Mary Vattimo
Ex-Officio Member
City of San Diego, Treasurer



Mr. Richard Vortmann
Council Appointee
National Steel & Shipbuilding Company
Term Ends: December 2007



Ms. Terri Webster
Ex-Officio Member
City of San Diego, Assistant Auditor
for Mr. Ed Ryan, Auditor & Comptroller



Ms. Sharon Wilkinson
Elected General Member Representative
Qualcomm Stadium
Term Ends: June 2008

San Diego City Employees' Retirement System

BOARD COMMITTEES

As of June 30, 2003

In addition to regular Board duties, SDCERS' Board members also participate on one or more standing committees. The standing committees are responsible for reviewing policies and procedures related to the various areas of SDCERS' administration, and reporting their findings and making recommendations to SDCERS' Board. The responsibilities and composition of the standing committees as of June 30, 2003, were as follows:

Business Procedures Committee This committee meets at 9:30 A.M. on the third Friday of each month.

Ron Saathoff (Chair)
Dave Crow (Vice-Chair)
John Casey / Steve Meyer
Cathy Lexin
Frederick W. Pierce, IV
Tom Rhodes
John Torres
Terri Webster
Sharon Wilkinson

Responsible for: reviewing SDCERS' procedures and making recommendations; reviewing and suggesting solutions to specific problems related to SDCERS administration; establishing, periodically reviewing and updating strategic planning; and, developing performance plans for SDCERS.

Rules Committee This committee meets at 2:00 P.M. on the Thursday before the (third) Friday of SDCERS' monthly Board meeting.

John Torres (Chair)
Tom Rhodes (Vice Chair)
Dave Crow
Frederick W. Pierce, IV
Ron Saathoff
Sharon Wilkinson

Responsible for reviewing SDCERS' Board Rules and making recommendations for necessary changes as recommended by the Committee, the Retirement Administrator or General Counsel.

Health Advisory Committee This committee meets at 8:30 A.M. on the third Friday of each month.

Dave Crow (Chair)
Tom Rhodes (POA) (Vice Chair)
Stan Elmore (City of San Diego Retiree)
Bill Flohr (City of San Diego Retiree)
Frederick W. Pierce, IV
Ron Saathoff (Local 145)
John Torres (MEA)
Robert West (City of San Diego Retiree)

Responsible for addressing retiree health related issues and making recommendations to the Business Procedures Committee.

San Diego City Employees' Retirement System

BOARD COMMITTEES (continued)

As of June 30, 2003

Investment Committee

This committee meets at 3:00 P.M. on the Thursday before the (third) Friday of the SDCERS' monthly Board meeting.

- Mary Vattimo (Chair)
- Dave Crow (Vice-Chair)
- John Casey / Steve Meyer
- Ray Garnica
- Frederick W. Pierce, IV
- Ron Saathoff
- Diann Shipione
- Richard Vortmann

Responsible for monitoring investment performance and market conditions and recommending changes to the Investment Policy as dictated by changes in the financial marketplace.

Audit Committee

This committee meets monthly at 4:30 P.M. on the Thursday before the (third) Friday of the SDCERS' monthly Board meeting.

- Richard Vortmann (Chair)
- Dave Crow
- Frederick W. Pierce, IV
- Diann Shipione

Responsible for providing oversight of the financial reporting process, the system of internal controls, the external independent audit process, and such efforts necessary to ensure the financial integrity of SDCERS.

Proxy Voting Committee

This committee meets each March to report on annual voting activities, and as needed.

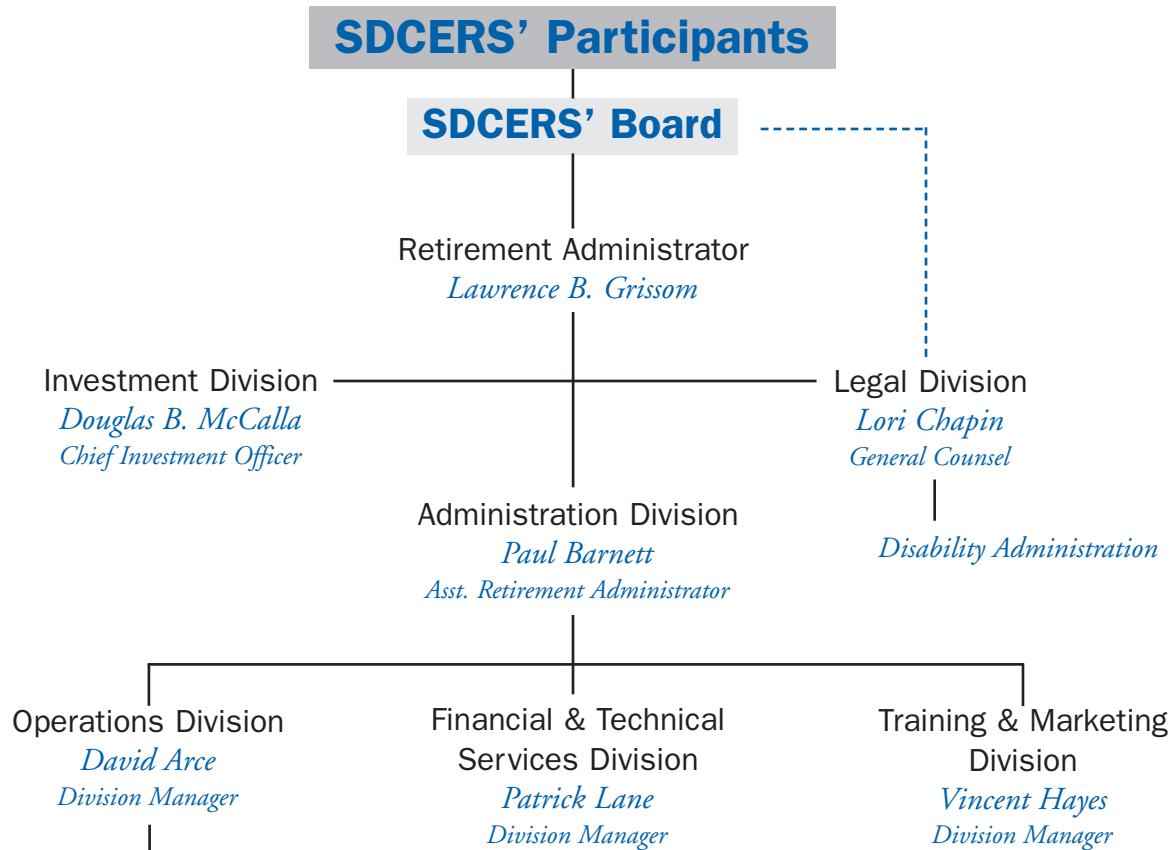
- Mary Vattimo (Chair)
- Frederick W. Pierce, IV
- Terri Webster

Responsible for reviewing and updating SDCERS' Proxy Voting Policy and Guidelines as well as overseeing the proxy voting function.

San Diego City Employees' Retirement System

ORGANIZATION CHART

As of June 30, 2003



SDCERS' Executive Management Team (from left to right)

Patrick Lane, Paul Barnett, Lori Chapin, Lawrence B. Grissom, Vincent Hayes, Doug McCalla, and David Arce

San Diego City Employees' Retirement System

MANAGEMENT DIVISIONS

As of June 30, 2003

The **Investment Division** conducts the day-to-day investment and corporate governance functions in accordance with SDCERS' Board adopted investment objectives and policies; negotiates contracts with, reviews the performance of, and maintains positive relationships with external investment managers, consultants and other investment service providers; manages cash flows between SDCERS' external investment managers, the City and other parties; researches, analyzes, and recommends investment alternatives to the Investment Committee and SDCERS' Board; monitors investment activity of investment managers and the custodial bank; performs monthly asset reconciliation; assists with the preparation of the monthly and annual financial statements of the Retirement System Trust Fund; and, prepares SDCERS' Comprehensive Annual Financial Report.

The **Legal Services Division** provides legal advice and assistance to SDCERS' Board and staff in the areas of trust, tax, contract, community property, benefit interpretation / eligibility, investments, corporate governance and fiduciary responsibility. The Division drafts legal documents, including ordinances, resolutions, contracts, rules and pleadings and coordinates the use of outside counsel representing SDCERS' Board in all legal proceedings to which the Board is a party. The Division also administers the disability application process. With respect to this process, this Division evaluates disability claims and submits reports to SDCERS' Board, which recommend approval, denial or judicial hearing of an applicant's claim for disability benefits; provides monthly reports related to status of all pending disability cases; and, represents SDCERS at all disability pre-hearings and hearings.

The **Administration Division** manages the daily affairs of SDCERS and oversees all other Divisions. The Operations, Financial and Technical Services, and Training and Marketing Divisions report directly to the Assistant Retirement Administrator. In addition, the Administration Division interfaces with SDCERS' Board, orients new Board members, facilitates on-going education for existing Board members, directs and encourages professional development of SDCERS' staff, and prepares and maintains agendas and minutes of Committee and Board meetings.

The **Operations Division** performs the day-to-day delivery of services and benefits to SDCERS' members, which includes individual and group counseling sessions and calculating benefit payments. The major programs operated by this Division are:

Member Services assists and counsels members, on a one-on-one basis, concerning retirement benefits, including the Deferred Retirement Option Program (DROP), and Disability and Service Retirements. In addition, this group makes presentations at new employee orientations and payroll specialists' training sessions.

Member Tracking and Maintenance processes and enrolls new members into SDCERS and tracks a member's retirement account from the time a member enters SDCERS until the member terminates employment, retires, or is deceased. This group also calculates and processes all benefits offered by SDCERS other than health benefits. This includes Purchase of Service Credit (PSC's) calculations, retirement allowance estimates, and a monthly pension payroll.

San Diego City Employees' Retirement System
MANAGEMENT DIVISIONS (continued)

As of June 30, 2003

Retiree Health Insurance/Pre-Retirement Seminars administers the health benefits program for health eligible retired members (City employees) and conducts financial planning and pre-retirement seminars for mid-career members and members approaching retirement.

The **Financial & Technical Services Division** conducts all necessary internal audits, administers SDCERS' operational budget and provides internal information technology services. Internal audit staff is responsible for evaluating operational efficiencies and implementing sound internal controls, managing the member contribution tracking system, developing and monitoring budget activities, processing staff payroll and conducting special studies as requested by the Retirement Administrator. Information technology staff coordinates new systems development and mainframe application enhancements and support: necessary payroll interface requirements; local and wide area network administration; internal systems support; phone and data infrastructure requirements; and, hardware and software procurement. This Division also developed, SDCERS' Web site, www.sdcers.org, in conjunction with the Training and Marketing Division staff.

The **Training & Marketing Division** creates and maintains procedures for all tasks associated with benefit administration, and trains staff on how to accomplish each task. In addition, this Division creates and develops brochures, handbooks, newsletters and other marketing materials used to communicate to SDCERS' participants and the public. The newest addition in oversight to this Division is maintenance of SDCERS' recently launched Web site, www.sdcers.org.

San Diego City Employees' Retirement System

PROFESSIONAL SERVICES

As of June 30, 2003

ACTUARY

Gabriel, Roeder, Smith & Company
San Diego, CA

CONSULTING AND PROFESSIONAL SERVICES

Buck Consultants
Los Angeles, CA

JPI Printing Inc.
San Diego, CA

Levi, Ray & Shoup
Springfield, IL

Mercer Human Resources Consulting
Dallas, TX

Nuffer, Smith, Tucker, Inc.
San Diego, CA

San Diego Data Processing Corporation
San Diego, CA

CUSTODIAN

State Street Bank and Trust Company
Alameda, CA

INDEPENDENT AUDITOR

Caporicci & Larson
Certified Public Accountants
San Diego, CA

INVESTMENT CONSULTANT

Callan Associates
San Francisco, CA

San Diego City Employees' Retirement System

PROFESSIONAL SERVICES (continued)

As of June 30, 2003

INVESTMENT MANAGERS

Domestic Equity Investment Strategies

Delta Asset Management
Los Angeles, CA

Dimensional Fund Advisors
Santa Monica, CA

Dodge & Cox
San Francisco, CA

Globeflex Capital, LP
San Diego, CA

Putnam Investments
Boston, MA

Sector Capital
Memphis, TN

TCW
Los Angeles, CA

Wall Street Associates
La Jolla, CA

Domestic Fixed Income Investment Strategies

Fidelity Management Trust Company
Boston, MA

Metropolitan West Asset Management
Los Angeles, CA

Nicholas-Applegate Capital Management
San Diego, CA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

Salus Capital Management, Inc.
Los Angeles, CA

San Diego City Employees' Retirement System
PROFESSIONAL SERVICES (continued)

As of June 30, 2003

Domestic Fixed Income Investment Strategies (continued)

SSI Investment Management, Inc.
Beverly Hills, CA

International Equity Investment Strategies

Brandes Investment Partners
San Diego, CA

Grantham, Mayo, Van Otterloo & Co. LLC
Boston, Massachusetts

Nicholas-Applegate Capital Management
San Diego, CA

Putnam Investments
Boston, MA

International Fixed Income Investment Strategies

Rogge Global Partners
London, England

Real Estate Investment Strategies

RREEF Funds
San Francisco, CA

RREEF Funds (REITs)
Chicago, IL

SSR Realty Advisors
San Francisco, CA

TCW Associates Realty / Westmark
Los Angeles, CA

U.S. Realty Advisors
New York, NY

San Diego City Employees' Retirement System

PROFESSIONAL SERVICES (continued)

As of June 30, 2003

LEGAL SERVICES

Bernstein Litowitz Berger & Grossmann LLP
New York, NY

Branton & Wilson, APC
San Diego, CA

Grant & Eisenhofer, P.A.
Wilmington, DE

Hanson, Bridgett, Marcus, Vlahos, and Rudy LLP
San Francisco, CA

Hennigan, Bennett & Dorman LLP
Los Angeles, CA

Hillyer & Irwin
San Diego, CA

JAMS (Judicial Arbitration Mediation Services)
San Diego, CA

Milberg Weiss Bershad Hynes & Lerach LLP
San Francisco, CA

Peterson & Associates
(Court Reporters)
San Diego, CA

Seltzer Caplan McMahon Vitek, A Law Corporation
San Diego, CA

REAL ESTATE CONSULTANT

Russell Real Estate Advisors
San Diego, CA



Frederick W. Pierce, IV
SDCERS' Board
President

REPORT FROM SDCERS' BOARD PRESIDENT

Dear SDCERS Participants:

On behalf of the members of the Board of Administration, I am pleased to present the San Diego City Employees' Retirement System's (SDCERS) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003.

While the financial markets continued their sluggish performance during the last fiscal year, SDCERS' investment performance turned positive for the year (after two slightly negative years) posting a total return of 5.44%. This rate of return ranked the fund in the upper 25th percentile as compared to the investment performance of public pension plan peers according to the Callan Associates database. As a result, Plan Net Assets increased by \$151.6 million at fiscal year end to reach \$2.68 billion.

Despite this increase in Plan Net Assets, SDCERS realized an *actuarial* loss for the year (based upon the actuarial valuation for the year ended June 30, 2002 that was, as typical, completed and adopted during the current fiscal year), which totaled \$364.8 million for the City of San Diego's SDCERS plan and \$11.1 million for the Unified Port of San Diego's SDCERS plan. These actuarial losses reduced the funding ratios of these plans to 77.3% and 100.3% respectively. According to the actuary (see the Actuarial Section in this CAFR) and similar to the experience of most retirement plans in America during this market, these losses were primarily the result of investment losses (86% of the City's and 98% of the Port's actuarial losses) and were impacted by an industry standard method of calculating the "actuarial value of assets" by smoothing the market value of assets over a five year period.

During the past year, SDCERS approved a new employer Contribution Agreement with the City of San Diego. Among other terms, the Contribution Agreement provides that the City of San Diego minimally double its annual contribution increase to SDCERS each year through fiscal year 2009, at which time it will then make pension contributions at the full actuarial rate. In February 2003, SDCERS presented to the City Council Rules Committee a comprehensive overview of the financial status of SDCERS and a projection of the expected employer contributions through the balance of the decade. Based upon the projection of significant increases in required employer contributions, the City Council appointed a Pension Reform Commission to evaluate the information and make recommendations to the City Council on how to address the issue.

In January, SDCERS was named as a defendant, along with the City of San Diego, in a reputed class action lawsuit brought by City retirees (known as Gleason v. San Diego City Employees' Retirement System, et al.). The lawsuit alleges the City and SDCERS entered into an agreement (the Contribution Agreement) which resulted in an unconstitutional funding method for the period through 2009. While the procedural and substantive issues in the three-way lawsuit are very complex, SDCERS is vigorously defending all allegations of wrongdoing against it as being without merit. At the same time, SDCERS is seeking a

resolution of the litigation which maximizes present and future contributions, while at the same time reducing the rate at which future liabilities will accrue. As with any litigated matter, it is difficult to predict with any degree of certainty when the litigation will be finally resolved. However, SDCERS is cautiously optimistic that the litigation will be resolved within the next calendar year (2004).

During the past year, the Board of Administration established an Audit Committee as a standing committee of the Board. During the coming fiscal year, the Audit Committee will assume oversight responsibility for the annual audit of SDCERS' financial statements and also conduct three additional audits including: actuarial, investments and best practices.

In order to most efficiently administer SDCERS' Trust Fund, your Board of Administration and its committees convene for two full days each month. I would call your attention to the Introductory Section of this CAFR that identifies your dedicated Board representatives, and I extend my heartfelt thanks to each for their continued commitment. These dedicated volunteers contribute an immense amount of time for the benefit of the participants and plan sponsors. In particular, I would like to thank the committee chairs: John Torres (Board Vice President and Rules Committee Chair), Mary Vattimo (Investment Committee Chair and Proxy Voting Committee Chair), Ron Saathoff (Business Procedures Committee Chair), Dick Vortmann (Audit Committee Chair) and Dave Crow (Health Advisory Committee Chair). Also, I would like to offer special thanks to Board member John Casey, who retired from the City and completed his service on SDCERS' Board in June 2003, for his many years of dedicated service to SDCERS, its participants and the City.

I would also like to thank the dedicated SDCERS' executive management team, including: Larry Grissom, Paul Barnett, Doug McCalla, Lori Chapin, Patrick Lane, Vincent Hayes, David Arce and Board Secretary Sally Zumalt, who together with their talented staffs have worked so hard over the past year to address the long term issues of SDCERS, complete conversion to the new Membership Benefits System ("MBS"), implement the retroactive retirement benefit approved by City Council for General Members, and launch the new SDCERS Web site (www.sdcers.org). The dedicated and professional work of staff has regularly been directed at serving the best interests of SDCERS and its membership.

In closing, there has been significant media attention focused on SDCERS over the past year. Unfortunately, much of the information reported was misrepresented, factually inaccurate and often sensationalized in an inappropriate and misleading manner. In many instances this has caused undue worry for many active and retired members of SDCERS. Please be assured by the following facts: (1) SDCERS retirees have always received their regular checks for vested benefits and will continue to do so in the future; (2) our new Web site is a great source for up-to-date information regarding SDCERS; (3) SDCERS' staff stands ready to address any questions at (800) 774-4977 or (619) 525-3600, and (4) our monthly Retirement Board meetings are held on the third Friday of each month and are open to the public. Please do not hesitate to contact us with any questions or input. We remain committed to providing the best service possible.

Sincerely,

San Diego City Employees' Retirement System



Frederick W. Pierce, IV
President, Board of Administration
December 1, 2003

II. FINANCIAL SECTION





INDEPENDENT AUDITORS' REPORT

The Board of Administration
San Diego City Employees' Retirement System
San Diego, California

We have audited the accompanying statements of plan net assets of the San Diego City Employees Retirement System (SDCERS) as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of SDCERS management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information and schedules presented in Section II in the accompanying Annual Financial Report are not a requirement of the financial statements and are presented for the purpose of additional analysis. This information has been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland
180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
3184-D Airway Avenue
Costa Mesa, California 92626

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
600 "B" Street, Suite 1900
San Diego, California 92101

The Board of Administration
San Diego City Employees' Retirement System
San Diego, California
Page 2

The schedules in Sections III through V are not required parts of the financial statements of SDCERS but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Capricci & Carson

San Diego, California
November 26, 2003



Douglas B. McCalla
Chief Investment Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 10, 2003

Dear Members, Retirees and Beneficiaries:

We are pleased to provide this overview and analysis of SDCERS' financial condition for the fiscal years ended June 30, 2003 (FY 2003), and June 30, 2002 (FY 2002). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Transmittal Letter in the Introductory Section of this Comprehensive Annual Financial Report (CAFR).

FINANCIAL HIGHLIGHTS

Changes in Plan Net Assets

As of June 30, 2003, \$2,679,049,807 in Plan Net Assets was Held in Trust for the Payment of Benefits as compared to \$2,527,459,719 in Plan Net Assets as of June 30, 2002. This represents a 6.00% increase, or a net addition of \$151,590,088, in Plan Net Assets year over year. This is an improvement as compared to FY 2002 results whereby SDCERS saw a decrease of 2.76%, or a net reduction of -\$71,821,613, in Plan Net Assets as of June 30, 2002, versus Plan Net Assets of \$2,599,281,332 for the fiscal year ended June 30, 2001. Increased benefit payments in FY 2003 were covered by current year SDCERS' plan sponsor (employer) contributions and improved investment earnings resulting from the recent recovery in the financial markets. On a net basis, this caused Plan Net Assets to increase as compared to the prior fiscal year ended June 30, 2002. The converse was true for results in FY 2002 whereby benefit payments and expenses exceeded current year employer contributions, which were reduced by investment losses, causing Plan Net Assets to decrease as compared to Plan Net Assets in the prior fiscal year ended June 30, 2001.

Revenues (Additions to Plan Assets)

As of June 30, 2003, additions totalled \$325,178,166 and were comprised of plan sponsors (employers), members (employees) contributions, and DROP pension allowance totalling \$202,066,570, and net investment gains of \$123,111,596. FY 2003 additions of \$325,178,166 were better by 275.01%, or \$238,466,917, as compared to FY 2002 in which additions totalled \$86,711,249. This is an improvement over FY 2002 results, whereby additions were down by 20.54%, or -\$22,414,570, from additions of \$109,125,819 in the prior fiscal year ended June 30, 2001.

Expenses (Deductions from Plan Assets)

As of June 30, 2003, expenses totalled \$173,588,078, and were comprised of benefit and health insurance payments of \$164,275,346, refunds of members' (employees') contributions of \$1,378,787, and administrative and other expenses of \$7,933,945. FY 2003 expenses of \$173,588,078 increased by 9.49%, or \$15,046,775, as compared to FY 2002 in which expenses totalled \$158,541,303. This is compared to FY 2002 results, whereby expenses were down by 2.34%, or -\$3,795,418, from expenses of \$162,336,721 in the prior fiscal year ended June 30, 2001.

SDCERS' Funded Status

SDCERS' funding objective is to meet its long-term benefit obligations through contributions and earnings on invested assets. As of June 30, 2002, the date of the last actuarial valuation, the City of San Diego's (City) SDCERS' funded status is 77.3%. This means that for every dollar of benefits due (all vested liabilities), the City (SDCERS) has \$0.773 in assets available for payment, if all vested benefits were due today. As of December 31, 2002, the date of the last (interim) actuarial valuation, the Unified Port of San Diego's (Port) SDCERS' funded status is 91.1%. This means that for every dollar of benefits due (all vested liabilities), the Port (SDCERS) has \$0.911 in assets available for payment, if all vested benefits were due today. As of December 31, 2002, the date of the last actuarial valuation, the San Diego County Regional Airport Authority's (Airport) SDCERS' funded status is 95.7%. This means that for every dollar of benefits due (all vested liabilities), the Airport (SDCERS) has \$0.957 in assets available for payment, if all vested benefits were due today.

OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to SDCERS' audited Financial Statements, which are comprised of the following items:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Supporting Schedules

The Statement of Plan Net Assets is a balance sheet presentation of assets and liabilities at fiscal year end. It discloses the assets available for future payments to retirees and current liabilities that are owed as of June 30. This Statement also presents comparative balances for the two fiscal years ended June 30, 2003 and 2002.

The Statement of Changes in Plan Net Assets provides a view of current year additions to and deductions from Plan Assets, in an income statement presentation. Two fiscal years of comparative results are also depicted.

Both Statements are in compliance with Governmental Accounting Standards Board (GASB) Statements No.'s 3, 5, 25, 26, 28, and 31. These pronouncements require certain disclosures, and require State and Local Governments to use the full accrual method of accounting. SDCERS complies with all material requirements of these pronouncements. The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about SDCERS' financial activities. These Statements include all assets and liabilities using the accrual basis of accounting. All investment gains and losses are shown on a trade date basis using market values, and all fixed assets are depreciated over their useful lives. The audited Financial Statements are located in the Financial Section of this CAFR.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the audited Financial Statements. The Notes to the Financial Statements are located in the Financial Section of this CAFR.

Required Supplementary Information provides information and details concerning plan sponsors' (employers') progress in funding their obligations, the Schedules of Plan Sponsors' (Employers') Contributions and Notes to the Schedules of Trend Information. This information is included in the Required Supplementary Information, after the Notes to the Financial Statements, located in the Financial Section of this CAFR.

Supporting Schedules section includes the schedules of administrative expenses (SDCERS' organizational expenses), fees paid to investment professionals, and payments to consultants. Supporting Schedules are included after the Required Supplementary Information in the Financial Section of this CAFR.

FINANCIAL ANALYSIS

SDCERS' financial position is measured in several ways. One way is to determine the Plan Net Assets (difference between total assets and total liabilities) available to pay benefits. This measurement is performed at the end of each fiscal year at June 30. Over time, an increase or decrease in SDCERS' Plan Net Assets is one indicator of whether its financial condition is improving or deteriorating. Other factors, such as financial market conditions, should also be taken into consideration when measuring SDCERS' overall financial condition.

SDCERS' Plan Net Assets as of June 30, 2003, totalled \$2,679,049,807, as compared to June 30, 2002, when they totalled \$2,527,459,719. All of the Plan Net Assets are available to meet SDCERS' ongoing obligations to members, retirees and beneficiaries. A comparative summary of this information is depicted in Table 1.

SDCERS' Plan Net Assets Held in Trust for the Payment of Benefits has increased on average over the past decade. In the fiscal year ended June 30, 2003, Plan Net Assets increased by 6.00%, or \$151,590,088, as compared to a decrease of 2.76%, or -\$71,821,613, in the fiscal year ended June 30, 2002, as compared to Plan Net Assets of \$2,599,281,332 for the fiscal year ended June 30, 2001. In FY 2003, SDCERS saw an improvement in investment earnings totalling \$123,111,596, which helped to offset approximately 70% of the current year's expenses (deductions), totalling \$173,588,078, as compared to FY 2002 results, whereby expenses totalling \$158,541,303 exceeded employer contributions combined with net investment losses totalling \$86,711,249.

Despite several years of volatility in the financial markets, SDCERS' executive management team and SDCERS' actuary concur that SDCERS' plan sponsors are in sound financial position to meet the financial obligations to SDCERS' members, retirees and beneficiaries. SDCERS' current financial position is the result of diligent strategic planning by SDCERS' Board and a successful long-term investment program.

Table 1: SDCERS' Plan Net Assets

	2003	2002	Increase/ (Decrease)	Change
Cash and Cash Equivalents	\$312,044,538	\$243,596,793	\$68,447,745	+28.10%
Receivables	25,855,528	23,629,417	2,226,111	+9.42%
Securities Sold	50,803,727	47,377,501	3,426,226	+7.23%
Investments, at Fair Value	2,391,132,052	2,294,484,890	96,647,162	+4.21%
Securities Lending Collateral	217,483,322	163,484,036	53,999,286	+33.03%
Fixed Assets and Pre-Paid Expenses	244,552	291,785	(47,233)	-16.19%
Total Assets	\$2,997,563,719	\$2,772,864,422	224,699,297	+8.10%
Current Liabilities	3,490,774	3,476,110	14,664	+0.42%
Securities Purchased	97,539,816	78,444,557	19,095,259	+24.34%
Securities Lending Obligations	217,483,322	163,484,036	53,999,286	+33.03%
Total Liabilities	318,513,912	245,404,703	73,109,209	+29.79%
SDCERS' Plan Net Assets	\$2,679,049,807	\$2,527,459,719	\$151,590,088	+6.00%

RESERVES

All retirement systems establish reserve accounts to earmark Plan Net Assets for future anticipated liabilities. SDCERS' Reserves are established from contributions and the accumulation of investment earnings, after satisfying administrative and investment expenses. Reserves are credited each fiscal year end, at June 30, with Plan Assets on a cost basis. A complete listing of SDCERS' Reserve balances for fiscal years ended June 30, 2003 and 2002, can be found in the Notes to the Financial Statements in the Financial Section of this CAFR.

CURRENT YEAR RESULTS

A recovery in the financial markets helped to improve SDCERS' investment earnings, and added to current year revenues (additions) that were in excess of increases in current year benefit payments and expenses (deductions). As of June 30, 2003, Plan Net Assets increased by 6.00%, or \$151,590,088, as compared to a decrease of 2.76%, or -\$71,821,613, in FY 2002, as compared to Plan Net Assets in the fiscal year ended June 30, 2001. Key elements of the current year's increase, FY 2003, in SDCERS' Plan Net Assets are described in the sections that follow.

Revenues – Additions to Plan Assets

The revenues needed to finance retirement benefits are accumulated through the collection of employer and member contributions and earnings on investments (net of investment manager fees and related expenses). Revenues for the fiscal year ended June 30, 2003, totalled \$325,178,166, a summary of which is depicted in Table 2. This compares to revenues for the fiscal year ended June 30, 2002, which totalled \$86,711,249, providing for a current year increase of 275.01%, or \$238,466,917, versus FY 2002 results. In FY 2002, total revenues declined by 20.54%, or -\$22,414,570, as compared to additions of \$109,125,819, in the fiscal year ended June 30, 2001.

Current FY 2003 employers' contributions totalled \$72,558,680, an increase of 45.23%, or \$22,596,315, as compared to employers' contributions of \$49,962,365 in FY 2002. This is in comparison to a 12.03% prior year increase, or \$5,363,892, in employers' contributions in FY 2002; employers' contributions were \$44,598,473, for the fiscal year ended June 30, 2001. This year's increase, in FY 2003, is primarily a function of increased employers' payrolls upon which contribution rates are applied. Also, the City made an additional employer contribution to SDCERS on June 30, 2003, totalling \$15,472,900. This additional City employer contribution, on behalf of the City's Proprietary and Fiduciary Funds, represents payment of the net pension obligation for fiscal years 1997 - 2002, resulting primarily from a differential between the Manager's Proposal employer contributions, fixed City-Paid Blended Rates, and the contribution rates as calculated by SDCERS' actuary, under the projected unit credit actuarial funding methodology. Additionally, in FY 2003, the City paid the full actuarial employer contribution rate on behalf of these funds. This contribution is discussed in more detail in the Notes to the Financial Statements, the Schedule of Plan Sponsors' (Employers') Contributions, and the Notes to the Schedules of Trend Information in this CAFR.

Members' (employees') contributions paid by employers totalling \$31,606,145, increased by 9.77%, or \$2,812,002, in FY 2003 as compared to members' contributions paid by employers of \$28,794,143 in the fiscal year ended June 30, 2002. This is compared to a 12.63% increase, or \$3,227,936, in FY 2002 as compared to members' contributions paid by employers of \$25,566,207 in the fiscal year ended June 30, 2001. Increases in member contributions paid by employers were due to normal employee salary increases (payroll), upon which contributions are based, and employee turnover.

Members' (employees') contributions totalling \$61,380,195, increased by 14.63%, or \$7,834,110, in FY 2003 as compared to members' contributions of \$53,546,085 in the fiscal year ended June 30, 2002. This is compared to a 51.20% increase, or \$18,132,996, in FY 2002 as

compared to members' contributions of \$35,413,089 in the fiscal year ended June 30, 2001. Increases in members' contributions were primarily due to an increase in purchases of service credit contracts executed by SDCERS' members over the past two years.

As a result of the recent financial markets recovery, the market value of invested assets has improved to exceed the cost basis of invested assets. In FY 2003, investment earnings totalled \$123,111,596, an increase of 262.13%, or \$199,046,356, as compared to FY 2002. This is quite an improvement over FY 2002 results, whereby total investment losses of -\$75,934,760 increased by 202.21%, or -\$50,808,678, as compared to investment losses of -\$25,126,082 experienced in the fiscal year ended June 30, 2001. The FY 2003 improvement in investment earnings is primarily due to the recent financial market recovery in the fourth quarter of the fiscal year ended June 30, 2003, in which large unrealized investment gains were experienced. The two years of investment losses, in FY 2002 and FY 2001, were primarily due to a bear market in the U.S. and international equity (stock) markets.

SDCERS' one-year investment performance as of June 30, 2003, was +5.44%; results for FY 2002 were not as favorable with a one-year return of -2.40%. As compared to other public plans, SDCERS continues to have, on average, top quartile or better (top 25% of public pension funds) investment performance over one, three, five, and ten years. SDCERS' Investment Consultant's Statement, in the Investment Section of this CAFR, provides commentary on SDCERS' specific asset class investment returns. The Investment Section of this CAFR provides further details concerning the investment activity for the fiscal year ended June 30, 2003, compared to the fiscal year ended June 30, 2002, and SDCERS' long-term investment performance.

Table 2: Contributions and Investment Earnings

	2003	2002	Increase/ (Decrease)	Change
Employers' Contributions	\$72,558,680	\$49,962,365	\$22,596,315	+45.23%
Members' Contributions Paid by Employers	31,606,145	28,794,143	2,812,002	+9.77%
Members' Contributions	61,380,195	53,546,085	7,834,110	+14.63%
DROP Contributions including Pension Allowances	36,521,550	29,892,770	6,628,780	+22.18%
Investment Earnings ¹	123,111,596	(75,934,760)	199,046,356	+262.13%
Other Income	0	450,646	(450,646)	-100.00%
Total Additions (Revenues)	\$325,178,166	\$86,711,249	\$238,466,917	+275.01%

¹ Net of investment expenses of \$12,048,300, and \$11,273,944 for June 30, 2003 and 2002, respectively.

Expenses – Deductions from Plan Assets

SDCERS was created to provide lifetime retirement annuities, survivor benefits, permanent disability benefits and to administer the City of San Diego's retiree health insurance program for qualified SDCERS' members. The cost of such programs includes recurring benefit payments, refunds of contributions to terminated members (employees), and the cost of administering SDCERS. For the fiscal year ending June 30, 2003, expenses totalled \$173,588,078, an increase of 9.49%, or \$15,046,775, over expenses of \$158,541,303, in the prior fiscal year ended June 30, 2002; a summary of expenses is depicted in Table 3. This compares to a decrease of 2.34%, or -\$3,795,418, in expenses totalling \$158,541,303 in FY 2002, versus expenses totalling \$162,336,721 in the fiscal year ended June 30, 2001.

Table 3: Benefit Payments and Other Expenses

	2003	2002	Increase/ (Decrease)	Change
Benefit Payments	\$152,825,146	\$141,037,774	\$11,787,372	+8.36%
Health Insurance Payments	11,450,200	8,882,138	2,568,062	+28.91%
Refunds of Members' Contributions	1,378,787	994,740	384,047	+38.61%
Administrative Expenses	7,834,192	7,591,273	242,919	+3.20%
Other Expenses	99,753	35,378	64,375	+181.96%
Total Deductions (Expenses)	\$173,588,078	\$158,541,303	\$15,046,775	+9.49%

Overall, as of June 30, 2003, revenues (additions) of \$325,178,166 as a percentage of expenses (deductions) of \$173,588,078 totalled 187.33%. Since revenues exceeded expenses in the current year, this resulted in a net addition of \$151,590,088 in Plan Net Assets, a summary of which is depicted in Table 4. This can be compared to a net reduction of -\$71,821,613 experienced in FY 2002, whereby revenues (additions) of \$86,711,249 as a percentage of prior year expenses (deductions) of \$158,541,303, totalled 54.70%. FY 2003 net results were an improvement over FY 2002 net results by 311.06%.

Table 4: Net Increase (Decrease) in Plan Net Assets

	2003	2002	Increase/ (Decrease)	Change
Total Additions - Revenues (from Table 2)	\$325,178,166	\$86,711,249	\$238,466,917	+275.01%
Less Total Deductions - Expenses (from Table 3)	173,588,078	158,541,303	15,046,775	+9.49%
Non-Operating Revenues (Expenses)	0	8,441	(8,441)	-100.00%
Net Increase (Decrease) in Plan Net Assets	\$151,590,088	\$(71,821,613)	\$223,411,701	+311.06%
Annual Revenues as a Percentage of Expenses	187.33%	54.70%		

REQUESTS FOR INFORMATION

This CAFR is designed to provide SDCERS' Board, participants, taxpayers, investment managers and creditors with a general overview of SDCERS' financial condition and to show an accountability of the funds received.

This CAFR is also available in its entirety on SDCERS' Web site (in Adobe Acrobat) at www.sdcers.org.

Questions concerning any of the information provided in this CAFR can be answered by phone, or requests for additional information can be addressed to:

San Diego City Employees' Retirement System (SDCERS)
 401 B Street, Suite 400
 San Diego, California 92101-4298
 Toll Free (800) 774-4977 or Local Dialing (619) 525-3600

Respectfully submitted,



Douglas B. McCalla
 Chief Investment Officer

San Diego City Employees' Retirement System

STATEMENT OF PLAN NET ASSETS

For the Years Ended June 30, 2003 and 2002

	2003	2002
ASSETS		
Cash and Cash Equivalents		
Cash or Equity in Pooled Cash and Investments with City of San Diego	\$3,044,096	\$2,719,260
Cash on Deposit with Custodial Bank and Fiscal Agents	230,806,228	178,172,346
Cash Equivalents on Deposit with Custodial Bank	78,194,214	62,705,187
Total Cash and Cash Equivalents	312,044,538	243,596,793
Receivables		
Employers' and Members' (Employees') Contributions	6,477,813	5,942,960
Members' (Employees') - Purchased Service Payments	9,980,112	6,577,586
Accrued Interest Receivable	9,267,520	9,743,589
Accrued Interest on Investments Purchased	130,083	1,365,282
Securities Sold	50,803,727	47,377,501
Total Receivables	76,659,255	71,006,918
Investments, at Fair Value		
Short Term Investments	70,934,651	23,004,166
Domestic Fixed Income Securities (Bonds)	465,657,992	560,284,211
International Fixed Income Securities (Bonds)	118,326,432	126,953,432
Domestic Equity Securities (Stocks)	1,122,227,510	935,859,657
International Equity Securities (Stocks)	382,783,361	379,798,539
Mortgages	668,621	1,515,530
Real Estate Equity and Real Estate Securities	230,533,485	267,069,355
Total Investments	2,391,132,052	2,294,484,890
Securities Lending Collateral	217,483,322	163,484,036
Total Investments including Securities Lending Collateral	2,608,615,374	2,457,968,926
Prepaid Expenses	53,568	1,048
Fixed Assets (at cost, net of accumulated depreciation of \$128,574 and \$184,776, respectively)	190,984	290,737
Total Assets	\$2,997,563,719	\$2,772,864,422
LIABILITIES		
Accounts Payable	330,379	296,130
Investment Related Fees Payable	2,617,099	2,644,247
Accrued Payroll	234,577	172,334
Accrued Annual Leave and Sick Leave	308,719	264,335
Pension Liability	0	99,064
Securities Lending Obligations	217,483,322	163,484,036
Securities Purchased	97,539,816	78,444,557
Total Liabilities	\$318,513,912	\$245,404,703
Net Assets Held in Trust for the Payment of Benefits	\$2,679,049,807	\$2,527,459,719

See accompanying Notes to the Financial Statements.

A Schedule of Funding Progress for each plan sponsor is presented in the Notes to the Financial Statements.

San Diego City Employees' Retirement System

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2003 and 2002

	2003	2002
ADDITIONS		
Contributions		
City of San Diego (City)		
Employer	\$70,099,844	\$49,743,747
Members' (Employees') Portion Paid By Employer	28,573,503	25,896,431
Members' (Employees') - Includes Service Purchased	58,182,233	51,804,940
DROP - Employer and Members' (Employees') (plus Pension Allowances)	36,291,127	29,831,302
Total City Contributions	193,146,707	157,276,420
Unified Port of San Diego (Port)		
Employer	2,210,040	218,618
Members' (Employees') Portion Paid by Employer	2,682,984	2,897,712
Members' (Employees') - Includes Service Purchased	3,054,333	1,741,145
DROP - Employer and Members' (Employees') (plus Pension Allowances)	223,450	61,468
Total Port Contributions	8,170,807	4,918,943
San Diego County Regional Airport Authority (Airport)		
Employer	248,796	0
Members' (Employees') Portion Paid by Employer	349,658	0
Members' (Employees') - Includes Service Purchased	143,629	0
DROP - Employer and Members' (Employees') (plus Pension Allowances)	6,973	0
Total Airport Contributions	749,056	0
Total Contributions	202,066,570	162,195,363
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments		
Equity (Stocks)	20,522,780	(172,405,121)
Fixed Income (Bonds)	39,613,342	11,002,643
Real Estate Equity and Real Estate Securities	(4,219,145)	7,527,571
Total Net Appreciation (Depreciation) in Fair Value of Investments	55,916,977	(153,874,907)
Other Investment Income		
Equity (Stocks) - Dividends, Litigation Settlements	31,877,448	28,691,290
Fixed Income (Bonds) - Interest	33,395,889	43,931,007
Mortgages - Income	122,668	132,606
Real Estate - Income	13,078,668	15,152,195
Total Other Investment Income	78,474,673	87,907,098
Less Investment Expenses	(12,048,300)	(11,273,944)
Total Net Investment Income (Loss)	122,343,350	(77,241,753)
Securities Lending		
Gross Earnings	3,178,333	5,246,361
Borrow Rebates	(2,089,142)	(3,392,906)
Administrative Expenses (Lending Agent)	(320,945)	(546,462)
Net Securities Lending Income	768,246	1,306,993
Total Investment Income (Loss)	123,111,596	(75,934,760)
Miscellaneous Income	0	450,646
Total Additions	\$325,178,166	\$86,711,249

San Diego City Employees' Retirement System**STATEMENT OF CHANGES IN PLAN NET ASSETS (continued)**

For the Years Ended June 30, 2003 and 2002

	2003	2002
DEDUCTIONS		
Benefit Payments		
Monthly Retirement Allowances	\$145,986,753	\$128,596,099
Health Insurance Payments	11,450,200	8,882,138
Corbett/Andrecht Benefit Payments	1,453	6,813,042
DROP Payments	6,429,005	5,260,951
Death Benefit Payments	407,935	367,682
Total Benefit Payments	164,275,346	149,919,912
Refunds of Members' (Employees') Contributions	1,378,787	994,740
Administrative Expenses	7,834,192	7,591,273
Depreciation Expenses	99,753	35,378
Total Deductions	\$173,588,078	\$158,541,303
Non-Operating Revenue (Expenses)	0	8,441
Net Assets Held in Trust for the Payment of Benefits		
Beginning of Year	\$2,527,459,719	\$2,599,281,332
Net Increase (Decrease)	151,590,088	(71,821,613)
End of Year	\$2,679,049,807	\$2,527,459,719

See accompanying Notes to the Financial Statements.

A Schedule of Funding Progress for each plan sponsor is presented in the Notes to the Financial Statements.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

1. PLAN DESCRIPTION

The following description of the San Diego City Employees' Retirement System (SDCERS) provides only general information. Participants should refer to SDCERS' plan documents for a more complete description of the various benefit provisions.

General

SDCERS is the agent of a multi-employer, defined benefit Retirement System Trust Fund, established in fiscal year 1927 by the City of San Diego (City). It is administered by SDCERS' Board to provide service retirement, disability retirement, and death and survivor benefits to its members. SDCERS' Board also administers the City of San Diego's health insurance program for health eligible retirees. Employees of the Unified Port of San Diego (Port) became members of SDCERS in 1963, through an agreement between the City and the Port. On January 1, 2003, the State of California established the San Diego County Regional Airport Authority (Airport) as a separate agency, created from a group of employees formerly employed by the Port and newly hired employees. The Airport entered into an agreement to have SDCERS administer its defined benefit plan for its employees in 2003.

The Port and Airport allow for five year vesting to receive benefits. The City requires ten years of service to vest for a benefit; however, effective January 3, 2003, ten years of service can be a combination of time worked (earned) and certain purchased service. For general benefit provisions, see Summary of Benefit Provisions in the Actuarial Section of this CAFR or contact SDCERS' office at (800) 774-4977 or (619) 525-3600.

SDCERS, as agent of a multi-employer, defined benefit public pension plan, acts as a common and independent investment and administrative agent for the City, Port and Airport, and covers all eligible employees of each agency. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, number of years of service credit, and final compensation based on the highest salary earned over a consecutive one-year period.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a Retirement System Trust Fund.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

Membership

All benefited (40, 60 and 80 hours bi-weekly standard) City, Port and Airport employees are eligible to participate in SDCERS. Salaried classified employees and salaried unclassified employees hired on or after August 11, 1993, became members of SDCERS upon employment.

SDCERS' participants consist of active members, inactive members entitled to benefits but not yet receiving them (deferred vested members), active and inactive non-vested members, and retired members and beneficiaries receiving benefits.

		As of June 30, 2003				As of June 30, 2002		
		City General Members	City Safety Members	Port All Members	Airport All Members	City General Members	City Safety Members	Port All Members
Members 2003: 12,841 2002: 12,840 Increase: 1	Active Vested	3,921	1,711	386	108	3,886	1,750	277
	Deferred Vested	378	71	23	0	328	64	23
	Active Non-Vested	3,495	973	223	100	3,756	1,017	459
	Inactive Non-Vested	1,135	139	171	7	1,000	107	173
Retirees 2003: 5,742 2002: 5,406 Increase: 336	Retired	2,876	1,859	270	0	2,813	1,808	260
	DROP Participants	347	385	4	1	186	336	3
Total Members and Retirees 2003: 18,583 2002: 18,246 Increase: 337	Totals	12,152	5,138	1,077	216	11,969	5,082	1,195

As of June 30, 2003, SDCERS increased overall by 337 participants over the prior year. This is comprised of a net increase of one member and a net increase of 336 retirees.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The basic financial statements of SDCERS have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, established financial reporting standards for defined benefit pension plans.

SDCERS' audited financial statements were prepared by the City of San Diego's Auditor and Comptroller's Office using the accrual basis for accounting. Plan sponsor (employer) and member (employee) contributions are recognized in the period in which the contributions are due. The employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the Plan. SDCERS' investments are stated at fair value. The custodian, State Street Bank and Trust Company, provides the market values of SDCERS' invested assets. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related investment expenses.

Cash or Equity in Pooled Cash and Investments on Deposit with the City of San Diego

The City maintains a cash and investment pool that is available for use by all funds of the City and other related entities for which the City is the depository. The credit risk for this pool is disclosed in the Notes to the City of San Diego's Comprehensive Annual Financial Report. Interest is earned on the pooled funds each accounting period (13 periods each fiscal year). SDCERS had a total of \$3,044,096 and \$2,719,260 on deposit in the pool as of June 30, 2003 and 2002, respectively.

Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents

SDCERS does not have a target investment allocation to cash. The large cash balances exhibited in the audited financial statements of cash on deposit with custodial bank and fiscal agents and cash equivalents on deposit with custodial bank totalling \$309,000,442 as of June 30, 2003, and \$240,877,533 as of June 30, 2002, represents a significant portion of plan assets, a portion of which is identified as the cash collateral, invested in Federal Funds, from three market neutral portfolios (long and short U.S. equity positions) held with the prime brokers. These portfolios totalled \$224,087,884 as of June 30, 2003, and \$163,597,813 as of June 30, 2002. The market neutral portfolios are classified as domestic fixed income (shorter duration) investment strategies for purposes of SDCERS' strategic asset allocation. A significant portion of cash equivalents on deposit with the custodial bank of \$75,476,269 as of June 30, 2003, and \$60,403,905 as of June 30, 2002, represents the overnight investment of residual cash holdings from SDCERS' investment managers' portfolios; the remaining balance is cash not held by a specific investment manager. These portfolio cash balances are used to effectuate

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

investment managers' trades and to settle net positions in pending transactions resulting from trade date accounting under GASB Statement No. 25.

Receivables

Included in SDCERS' receivables are items representing accrued employer contributions due to SDCERS and members' (employees') contributions for executed purchase of service contracts.

In accordance with GASB Statement No. 25, securities sold represents a receivable of cash under trade date accounting, which is received as of the transaction settlement date, which is typically the security's trade date plus one to three business days.

Investments

SDCERS' Board discharges their fiduciary duty in accordance Article XVI, Section 17 of the California State Constitution and with the "Prudent Expert Rule" under the Employee Retirement Income Security Act of 1974, (ERISA). Investment decisions are made on a risk versus return basis in a total portfolio context. SDCERS' Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Furthermore, under the California State Constitution and other relevant authorities, SDCERS' Board may, at its discretion, and when prudent in the informed opinion of the Board, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' agent, in SDCERS' name, holds all investments. SDCERS' investments are stated at fair value in the accompanying Statement of Plan Net Assets. The custodian, State Street Bank and Trust Company, provides the market values of SDCERS' exchange traded assets. Directly owned, real estate assets are stated at market values as determined by SDCERS' real estate managers and third party appraisal firms.

Fixed Assets

Purchased fixed assets are recorded at historical cost. Assets are depreciated using the straight-line method over the following useful lives:

Office Equipment	10-15 years
Computer Equipment	3 years

Expenses

SDCERS is an independent entity. The entire expense of SDCERS' administration is charged against the earnings and Plan Assets of SDCERS. Fees for investment management, actuarial services, custodial bank and travel costs are netted against annual additions to Plan Assets to arrive at Plan Net Assets at the end of the year as provided for in Sections 24.1501 and 24.1502 of the San Diego Municipal Code.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

Income Taxes

SDCERS operates as a Retirement System Trust Fund under Section 401(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Retirement System Trust Fund is considered exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 401, and California Revenue and Taxation Code Section 23701.

Use of Estimates

The preparation of SDCERS' financial statements in conformity with generally accepted accounting principles requires SDCERS' executive management team to make significant estimates and assumptions that affect the reported amounts of Net Assets Held in Trust for Pension Benefits at the date of the financial statements and the actuarial information included in the required supplementary information as of the benefit information date, the changes in Plan Net Assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances may have been reclassified to conform to current year presentation.

3. KEY ACTUARIAL ASSUMPTIONS

The most recent annual actuarial valuations for the City of San Diego (City) and the Unified Port of San Diego (Port) were performed as of June 30, 2002. The San Diego County Regional Airport Authority (Airport) was established as of January 1, 2003, as a separate agency from a group of employees formerly employed by the Port and newly hired employees. Interim actuarial valuations were prepared for both the Port and Airport as of December 31, 2002, to separate the actuarial value of assets and accrued liabilities between these two plan sponsors.

Key assumptions that were used in all of these valuations are as follows:

Investment rate of return:	8.00%
Inflation rate:	4.25%
Real rate of return on investments:	3.75%
Actuarial discount rate:	8.00%

The actuarial value of assets was determined using the net market value and net book value of plan assets. Taking the gross values and deducting liabilities as indicated in the financial statements arrives at the net market values of assets available for the payment of benefits. The percentage differences between the net market value and the net book value over the most recent five-year period were calculated. The resulting percentages were averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at the actuarial value of plan assets (five-year smoothing methodology).

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

Active member payroll was assumed to increase annually, as follows:

Inflation rate:	4.25%
Salary increases:	0.50%
Total member payroll increase:	4.75%

The projected unit credit (PUC) actuarial funding methodology (adopted as of July 1, 1991) was used in determining age and service allowance actuarial liabilities at normal cost. The City's SDCERS' unfunded actuarial accrued liability (UAAL) of \$720,712,870, as of the last actuarial valuation, June 30, 2002, is being funded over a closed, 30-year amortization period that began July 1, 1991 (19 years remaining). The City's SDCERS' funded status as of June 30, 2002, is 77.3%. The Port has an unfunded actuarial accrued liability (UAAL) of \$12,204,929, as of the December 31, 2002, (interim) actuarial valuation, and is being funded over a closed, 30-year amortization period that began July 1, 1991 (18.5 years remaining). The Port's SDCERS' funded status is 91.1% as of December 31, 2002. The Airport also has a small unfunded actuarial accrued liability (UAAL) of \$497,881, as of the December 31, 2002, interim actuarial valuation, and is being funded over a closed, 18.5-year amortization period that began January 1, 2003 (18.5 years remaining). The Airport's SDCERS' funded status is 95.7% as of December 31, 2002.

The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded.

The member statistical data on which the annual actuarial valuations were based was furnished by SDCERS' executive management team and is combined with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

SDCERS' funding policy provides for periodic plan sponsor (employer) contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. The normal cost and actuarial accrued liability are determined using the projected unit credit (PUC) actuarial funding method.

In addition to employer contributions, the City of San Diego's SDCERS' unfunded actuarial accrued liability (UAAL) is being funded as a level percent of payroll over a 30-year, closed amortization period, which began July 1, 1991 (19 years remaining as of the June 30, 2002 actuarial valuation).

The City of San Diego entered into an "Agreement Regarding Employer Contributions" (Contribution Agreement) with SDCERS' Board, adopted November 18, 2002, and became effective with contributions for FY 2004, with an advanced payment made to SDCERS on July 1, 2003. This agreement sets forth increasing annual employer contribution rates stated as a percentage of the City's SDCERS' member actual payroll. This agreement replaces the "City Manager's Retirement Proposal"

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

(Manager's Proposal) executed July 23, 1996. The City's employer contribution rates have increased under the Contribution Agreement, as compared to rates under the Manager's Proposal, with the overall objective of reaching the actuarially calculated, required contribution rates calculated using the PUC actuarial funding methodology by FY 2009, effective with contributions advanced on July 1, 2008. Certain provisions in the Contribution Agreement provide for additional annual City employer contributions to be made to SDCERS should the City's SDCERS' funded status drop below 82.3%. Additionally, the City's employer contributions were increased to fund additional retirement benefits granted to the City's SDCERS' general and safety members (employees). General benefit provisions are summarized in the Actuarial Section of this CAFR.

A Schedule of Plan Sponsors' (Employers') Contributions is located in the Required Supplementary Information in the Financial Section of this CAFR. In that schedule, the City's annual fixed contribution amounts are depicted through FY 2009. Additionally, further discussion regarding the City of San Diego's employer contributions history and further details of the Contribution Agreement are discussed at length in the Notes to the Schedules of Trend Information in the Financial Section of this CAFR.

The Unified Port of San Diego (Port) and the San Diego County Regional Airport Authority (Airport) both make annual employer contributions to SDCERS based on the actuarially calculated, required contribution rates as determined annually by SDCERS' actuary, in accordance with the PUC actuarial funding methodology.

On June 30, 2003, SDCERS received \$15,472,900 as an additional City of San Diego plan sponsor (employer) contribution. This contribution was paid to SDCERS as an employer contribution (for fiscal years 1997 - 2003) based upon the difference between the Manager's Proposal contribution rates and the actuarially calculated, required contribution rates, under the PUC actuarial funding methodology, for the City of San Diego's Proprietary and Fiduciary Fund's employees that are covered members of SDCERS. Of the \$70,099,844 in employer contributions received by SDCERS from the City, \$60,176,306 was for employer contributions applicable to FY 2003; the City paid 100% of the actuarially required contributions (ARC) on behalf of the Proprietary and Fiduciary Funds in FY 2003. The remaining \$9,923,538 represents payment of the Proprietary and Fiduciary Fund's portion of the City's net pension obligation applicable to fiscal years 1997 - 2002.

In FY 2004, the City will continue to pay employer contributions for those SDCERS members who are employees of the City of San Diego's Proprietary and Fiduciary Funds, based on actuarially calculated, required employer contribution rates, as determined each year by SDCERS' actuary, under the PUC actuarial funding methodology. The remainder of the City's annual employer contributions will be based upon rates as disclosed in the Contribution Agreement; see the Schedules of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information located in the Financial Section of this CAFR.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

Members (employees) are required to contribute a percentage of their annual salary to SDCERS. Contributions vary according to the member's (employee's) age at time of entry into SDCERS and member group, i.e. safety, general, elected officials, etc. The City, Port, and Airport, as plan sponsors (employers), contribute a portion of the members' (employees') share and the remaining amount necessary to fund the Retirement System Trust Fund based on an actuarial valuation at the end of the preceding year under the PUC actuarial funding methodology.

The following tables illustrate the required contribution rates as calculated annually by SDCERS' actuary under the PUC actuarial funding methodology.

FY 2003 CONTRIBUTION RATES (As of July 1, 2002) - CURRENT YEAR

City of San Diego² (June 30, 2001, Actuarial Valuation)						
Employer Contribution Rates by Member Class, Based on Valuation of	General	Elected Officials	Police	Fire	Lifeguard	Weighted Totals
Normal Cost ¹	9.12%	21.65%	17.06%	19.17%	16.40%	12.01%
Amortization Payment ¹	2.25	44.95	7.83	7.83	7.83	4.19
SUBTOTAL	11.37	66.60	24.89	27.00	24.23	16.20
Adjusted for payment at the beginning of the year (July 1, 2002)	10.94	64.09	23.94	25.98	23.32	15.59
Total Contribution Rates	10.94%	64.09%	23.94%	25.98%	23.32%	15.59%

Columns may not total due to rounding.

Unified Port of San Diego (June 30, 2001, Actuarial Valuation)			
Employer Contribution Rates by Member Class, Based on Valuation of	General	Safety	Weighted Totals
Normal Cost ¹	9.05%	15.33%	10.17%
Amortization Payment ¹	(3.85)	(6.54)	(4.33)
SUBTOTAL	5.20	8.79	5.84
Adjusted for payment at the beginning of the year (July 1, 2002)	5.00	8.46	5.62
Total Contribution Rates	5.00%	8.46%	5.62%

Columns may not total due to rounding.

¹ Rates assume that contributions are made uniformly during the plan year. ² These employer contribution rates do not reflect the City of San Diego's Manager's Proposal negotiated employer contribution rates. Contribution rates in this table are actuarially determined. See the Schedule of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information in the Financial Section of this CAFR for the City's actual historic and future employer contribution rates.

San Diego City Employees' Retirement System
NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

FY 2002 CONTRIBUTION RATES (As of July 1, 2001) - PRIOR YEAR

City of San Diego² (June 30, 2000, Actuarial Valuation)						
Employer Contribution Rates by Member Class, Based on Valuation of	General	Elected Officials	Police	Fire	Lifeguard	Weighted Totals
Normal Cost ¹	8.92%	28.86%	17.04%	19.43%	16.70%	12.01%
Amortization Payment ¹	(0.02)	25.42	2.95	2.95	2.95	1.06
SUBTOTAL	8.90	54.28	19.99	22.38	19.65	13.07
Adjusted for payment at the beginning of the year (July 1, 2001)	8.56	52.23	19.24	21.54	18.91	12.58
Total Contribution Rates	8.56%	52.23%	19.24%	21.54%	18.91%	12.58%

Columns may not total due to rounding.

Unified Port of San Diego (June 30, 2000, Actuarial Valuation)			
Employer Contribution Rates by Member Class, Based on Valuation of	General	Safety	Weighted Totals
Normal Cost ¹	7.70%	13.78%	8.88%
Amortization Payment ¹	(8.27)	(7.40)	(8.10)
SUBTOTAL	(0.58)	6.37	0.78
Adjusted for payment at the beginning of the year (July 1, 2001)	(0.55)	6.13	0.75
Total Contribution Rates	(0.55)%	6.13%	0.75%

Columns may not total due to rounding.

¹ Rates assume that contributions are made uniformly during the plan year.

² These employer contribution rates do not reflect the City of San Diego's Manager's Proposal negotiated employer contribution rates. Contribution rates in this table are actuarially determined. See the Schedule of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information in the Financial Section of this CAFR for the City's actual historic and future employer contribution rates.

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

FY 2004 CONTRIBUTION RATES (As of July 1, 2003) - NEXT YEAR

Employer Contribution Rates by Member Class, Based on Valuation of	City of San Diego ² (June 30, 2002, Actuarial Valuation)					
	General	Elected Officials	Police	Fire	Lifeguard	Weighted Totals
Normal Cost ¹	9.26%	21.01%	17.11%	18.91%	16.61%	12.02%
Amortization Payment ¹	6.75	43.01	16.23	16.23	16.23	9.93
SUBTOTAL	16.01	64.02	33.34	35.14	32.84	21.95
Adjusted for payment at the beginning of the year (July 1, 2003)	15.41	61.61	32.08	33.82	31.60	21.13
Total Contribution Rates	15.41%	61.61%	32.08%	33.82%	31.60%	21.13%

Columns may not total due to rounding.

¹ Rates assume that contributions are made uniformly during the plan year.² These employer contribution rates do not reflect the City of San Diego's Contribution Agreement negotiated employer contribution rates. Contribution rates in this table are actuarially determined. See the Schedule of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information in the Financial Section of this CAFR for the City's actual historic and future employer contribution rates.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

FY 2004 CONTRIBUTION RATES (As of July 1, 2003) - NEXT YEAR

Employer Contribution Rates by Member Class, Based on Valuation of	Unified Port of San Diego (December 31, 2002, Actuarial Valuation) ²		
	General	Safety	Weighted Totals
Normal Cost ¹	9.71%	15.72%	11.16%
Amortization Payment ¹	2.48	3.39	2.70
SUBTOTAL	12.19	19.11	13.86
Adjusted for payment at the beginning of the year (July 1, 2003)	11.73	18.39	13.34
Total Contribution Rates	11.73%	18.39%	13.34%

Columns may not total due to rounding.

Employer Contribution Rates by Member Class, Based on Valuation of	San Diego County Regional Airport Authority (December 31, 2002 Actuarial Valuation) ²
	All Members
Normal Cost ¹	8.15%
Amortization Payment ¹	0.42
SUBTOTAL	8.57
Adjusted for payment at the beginning of the year (July 1, 2003)	8.25
Total Contribution Rates	8.25%

Columns may not total due to rounding.

¹ Rates assume that contributions are made uniformly during the plan year.

² Effective January 1, 2003, the State of California established the San Diego County Regional Airport Authority (Airport) separate from the Unified Port of San Diego (Port). The Airport elected to enter into an agreement for SDCERS to manage their defined benefit plan for their employees. As a result, interim actuarial valuations, as of December 31, 2002, were prepared by SDCERS' actuary to separate the actuarial value of assets and accrued liabilities between the Port and the Airport as two distinct plan sponsors.

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

Average member (employee) contribution rates for each member class are shown below. Averages shown apply to salary amounts over \$400 per month in the case of members (employees) with social security integrated benefits.

Actuarial Valuation Dates	CURRENT YEAR	PRIOR YEAR	NEXT YEAR	
	Average Member (Employee) Contribution Rates (FY 2003) 6/30/2001	Average Member (Employee) Contribution Rates (FY 2002) 6/30/2000	Average Member (Employee) Contribution Rates (FY 2004) 12/31/2002	6/30/2002
City of San Diego				
General Members ¹	10.01%	9.97%	N/A	10.02%
Safety Members ¹	12.84%	12.83%	N/A	12.85%
Unified Port of San Diego				
General Members ¹	10.27%	9.64%	10.40%	10.29%
Safety Members ¹	12.96%	10.65%	12.97%	12.96%
San Diego County Regional Airport Authority				
All Members	N/A	N/A	10.18%	N/A

¹ General Members includes Elected Official Members; Safety Members includes Police, Fire and Lifeguard Members

All or part of the member (employee) contribution rate is subject to potential offset (or pickup) by the employer. The rates above (actuarially determined amounts) are shown before any applicable offset. Such offset and related accumulated interest are not refunded to members at termination; only a member's contributions plus credited interest are refunded at termination upon a member's request.

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

As of the June 30, 2002, actuarial valuation, the City has reported offset amounts as a percentage of compensation as follows: 5.40% for represented general members, 6.40% for non-represented general members, 8.89% for elected official members, 7.30% for lifeguard members and 7.30% for police and fire safety members. The City's employer pickup contributed to SDCERS is reduced (prior to being contributed) by the anticipated savings from member (employee) terminations. As a result of a recent experience valuation and based on the recommendation of SDCERS' actuary, SDCERS' Board and the City have agreed to reduce the discounts applied to offsets, over a four year period, for anticipated employee terminations. The discount will be reduced from 22.00% to 5.00% for general members and from 7.00% to 1.00% for safety members over the next four years. In FY 2003, the offset discounts were reduced to 17.75% for general members and 5.50% for police and fire safety members. The Port has reported offset amounts of 7.00% of compensation for all members except for safety members at an offset amount of 8.80%, and management members at an offset amount of 8.50%. The Airport has reported offset amounts of 7.00% of compensation for all members except for management members at an offset amount of 8.50%. Neither the Port nor the Airport discount their employer offset contributions for anticipated employee terminations.

5. CASH, INVESTMENTS AND SECURITIES LENDING

SDCERS' cash or equity in pooled cash and investments, cash and cash equivalents, and investments were as follows at June 30, 2003 and 2002:

	June 30, 2003	June 30, 2002
Cash or equity in pooled cash and investments on deposit with the City of San Diego	\$3,044,096	\$2,719,260
Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents ¹	309,000,442	240,877,533
Net investments (including accrued interest receivable, plus accrued interest on investments purchased, plus receivable for securities sold less liability for securities purchased)	2,353,793,566	2,274,526,705
Totals	\$2,665,838,104	\$2,518,123,498

¹ Includes cash collateral from market neutral portfolios (domestic fixed income investment strategy); totalling \$224,087,884 as of June 30, 2003, and \$163,597,813, as of June 30, 2002; amount also includes residual cash of \$78,184,022 as of June 30, 2003, and \$62,659,032 as of June 30, 2002, for transaction settlements, held in each investment manager's portfolio, which is invested overnight by SDCERS' custodial bank. SDCERS does not have a target allocation to cash.

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

Investments

SDCERS' Board has exclusive control over the administration and investment of Retirement System Trust Fund assets pursuant to Section 144 of the Charter of the City of San Diego (Charter) and pursuant to California State Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board is further permitted to invest in additional classes or types of investments, as approved by resolution of the Council of the City of San Diego. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "Prudent Expert Rule" as set forth under the United States Code, Title 29, Chapter 18, Employee Retirement Income Security Act of 1974 (ERISA). These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stock, preferred stock and pooled vehicles. The risk versus return of all investment decisions is made in a portfolio context; an asset that may seem risky on its own could very well lessen the risk of the total portfolio due to its correlation with other investments in the portfolio. Investment policies permit SDCERS' Board to invest in financial futures contracts provided the contracts do not leverage the Retirement System Trust Fund's portfolio. Financial futures contracts, which are recorded at market value each day, must be settled at expiration date. Thus, changes in the market value of the contracts will result in the recognition of a gain or loss under GASB Statement No. 25, investment income recognition.

Investment earnings are recorded in accordance with GASB Statement No. 25. Net investment income includes the net appreciation (depreciation) in the fair value of investments, interest income, dividend income, real estate income, and other income not included in the appreciation (depreciation) in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment related costs. SDCERS had current year realized losses totalling -\$18,644,596 as of June 30, 2003, and realized gains of \$49,082,291 as of June 30, 2002. Realized gains and losses are disclosed as there are certain contingent SDCERS' retirement benefits paid from annual realized earnings, in accordance with the San Diego Municipal Code. These retirement benefits include a 13th check, paid to retirees when there are sufficient annual realized earnings. Corbett settlement payments are also paid to retirees who retired prior to July 1, 2000, contingent upon sufficient annual realized earnings. Corbett settlement payments not paid in any one year accrue to the next year and remain an obligation of SDCERS until paid. For a ten year history of realized earnings, please see History of Investment Performance in the Investment Section of this CAFR. For further information regarding contingent retirement benefits paid from sufficient, annual realized earnings, please refer to the San Diego Municipal Code Sections 24.1502 and 24.1503, or contact SDCERS' offices at (800) 774-4977 or (619) 525-3600.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

A full copy of SDCERS' investment objectives and policies may be obtained from SDCERS' office, and a summary is discussed in the Investment Section of this CAFR. Through its investment objectives and policies, SDCERS' Board has placed considerable importance on generating a reasonable rate of return above inflation in order to ensure the payment of benefits to retirees. SDCERS' Board also places considerable importance on the preservation of capital. Therefore, any investment opportunity considered may be entered into only after the associated risk is clearly understood and the impact to the total Retirement System Trust Fund portfolio is reviewed.

SDCERS' Board attempts to preserve capital through the following risk control methods:

Credit Risk is mitigated by diversifying the Retirement System Trust Fund investment portfolio so that failure of any one issuer will not unduly harm SDCERS. This is accomplished by the following restrictions on the size of investments in non-U.S. government securities: at the time of initial investment, not more than 5% of the equity portfolio can be invested in any one stock, and not more than 10% of the fixed income portfolio can be invested in any one corporate or international government bond issue.

Market Risk is mitigated by diversifying the investment portfolio among the asset classes of stocks, bonds and real estate. Further diversification within the asset classes of stocks and bonds is achieved by investing in both domestic and international markets and by investing in companies of small, medium and large market capitalization. Real estate portfolio diversification is achieved by investing in various property types located in different economic regions of the United States. Currently no direct equity, international real estate investments are permitted.

SDCERS' investments at June 30, 2003 and 2002, which can be specifically identified as to credit risk, are categorized as follows:

- Category 1:** Insured or registered, or securities held by SDCERS or its agent in SDCERS' name.
- Category 2:** Uninsured and unregistered, with securities held by the counter party's Trust department or agent in SDCERS' name.
- Category 3:** Uninsured and unregistered, with securities held by the counter party, by its Trust department, or agent but not in SDCERS' name.

Investments that are not subject to credit risk categorization, but whose carrying amounts and fair values are required to be disclosed, are also presented along with the required disclosures for securities lending.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

Investment Risk as of June 30:

	Risk Category	2003 Fair Value	2002 Fair Value
Investments—Categorized			
Cash and Cash Equivalents with Custodial Bank (Pooled)	2	\$84,912,558	\$77,279,720
Cash with Prime Brokers (Market Neutral Strategy)	2	224,087,884	163,597,813
Short-Term Investments			
U.S. Government and Agency Obligations	1	12,692,507	144,948
Commercial Paper	1	58,242,144	22,859,218
Domestic Fixed Income - U.S. Government and Agency Obligations	1	185,906,475	161,551,931
Domestic Fixed Income - U.S. Corporate Bonds	1	217,715,548	350,148,460
Domestic Equity - U.S. Corporate Stocks	1	743,028,940	832,641,471
International Fixed Income - Bonds	1	114,942,438	126,953,432
International Equity - Stocks	1	284,445,361	317,590,639
Real Estate Investment Trust Securities (REITs) - Stocks	1	91,659,957	90,995,418
Total Categorized Investments		2,017,633,812	2,143,763,050
Investments - Non-Categorized			
Cash with City of San Diego (Pooled)		3,044,096	2,719,260
Domestic Equity Institutional Mutual Funds		293,693,236	55,344,313
International Equity Institutional Mutual Funds		42,587,090	—
Total Securities on Loan for Securities and Cash Collateral			
Domestic Fixed Income - U.S. Government and Agency Obligations		44,889,100	31,210,473
Domestic Fixed Income - U.S. Corporate Bonds		17,146,869	17,373,347
Domestic Equity - U.S. Corporate Stocks		85,505,334	47,873,873
International Fixed Income - Bonds		3,383,994	—
International Equity - Stocks		55,750,910	62,207,900
Real Estate Equity Holdings		135,015,320	168,614,223
Real Estate Commingled Funds		3,858,208	7,459,714
Mortgage Notes		668,621	1,515,530
Investments Made with Securities Lending Cash Collateral			
Pooled investment vehicle with State Street Bank and Trust Co.		217,483,322	163,484,036
<small>(See Notes to the Financial Statements, 5. Securities Lending, for pooled investment characteristics)</small>			
Total Non-Categorized Investments		903,026,100	557,802,669
Total Cash and Investments		\$2,920,659,912	\$2,701,565,719

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

Securities Lending

SDCERS has agreed with a fiscal agent, currently SDCERS' custodial bank, State Street Bank and Trust Company, to lend domestic and international equity and fixed income securities to various borrowers for collateral that will be returned in the future for the same securities plus a fee. The fiscal agent manages the securities lending program and receives cash and securities as collateral. Collateral is pledged at no less than 101.5% of the market value of the lent securities for domestic fixed income, domestic equity and international fixed income securities, and no less than 104.5% of the market value of the lent securities for international equity securities, marked to market on a daily basis.

The cash collateral received on each loan was invested by State Street Bank and Trust Company, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. As of June 30, 2003, this investment pool had an average duration of 70 days and an average weighted maturity of 438 days. SDCERS had \$217,483,322 in collateral on deposit from securities lending activities at fiscal year end. This compares to June 30, 2002, where this same investment pool had an average duration of 64 days and an average weighted maturity of 405 days. SDCERS had \$163,484,036 in collateral on deposit from securities lending activities at the prior fiscal year ended June 30, 2002.

As with other extensions of credit, SDCERS may encounter various risks related to securities lending agreements. However, the fiscal agent is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws. SDCERS does not have the ability to pledge or sell collateral securities received, without a borrower default. Over both prior fiscal years, SDCERS had no credit risk exposure to borrowers because the amounts provided to SDCERS, in the form of collateral, exceeded the amounts borrowers owed to SDCERS for securities borrowed. SDCERS' securities lending activity as of June 30, was as follows:

	2003	2002
Securities Lending Gross Earnings	\$3,178,333	\$5,246,361
Expenses:		
Borrower Rebates	(2,089,142)	(3,392,906)
Fees Paid to Agent	(320,945)	(546,462)
Total Expenses	(2,410,087)	(3,939,368)
Net Income from Securities Lending	\$768,246	\$1,306,993

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

6. FIXED ASSETS

The following is a summary of fixed assets at June 30, 2003:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Equipment	\$475,513	\$54,171	\$(210,126)	\$319,558
Accumulated Depreciation	(184,776)	(120,472)	176,674	(128,574)
Totals	\$290,737	\$(66,301)	\$(33,452)	\$190,984

The following is a summary of fixed assets at June 30, 2002:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Equipment	\$553,210	\$53,096	\$(130,793)	\$475,513
Accumulated Depreciation	(288,632)	(35,378)	139,234	(184,776)
Totals	\$264,578	\$17,718	\$8,441	\$290,737

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

7. RETIREMENT SYSTEM TRUST FUND - RESERVES

The San Diego Municipal Code authorizes SDCERS' Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the fund are a result of realized investment gains or losses and employee and employer contributions received. These changes are distributed in accordance with the San Diego Municipal Code. Reserves are adjusted annually by allocating assets valued at cost.

Reserve balances at June 30 each year:

	2003	2002
Reserved for Investments in Fixed Assets	\$190,984	\$290,737
Reserved for Receivables	9,980,112	6,577,586
Reserved for Encumbrances	1,035,461	1,266,265
Reserved for Employees' Contributions	407,903,833	372,129,066
Reserved for Employers' Contributions	556,138,768	459,073,155
Reserved for DROP Contributions	134,169,637	97,430,035
Reserved for Current Retired Members	1,410,001,316	1,289,713,478
Reserved for Supplemental Benefit Payments	0	3,714,211
Plan Continuation Liability	720,296,548	261,740,598
Fund Deficit - Equivalent to Plan Continuation Liability	(720,296,548)	(261,740,598)
General Reserve	0	109,160,143
Reserve for Retiree Health Insurance	20,740,269	32,190,468
Reserve for Supplemental COLA	25,726,019	29,944,109
Reserve for Retirement Changes - City	0	82,498,325
Reserve for Retirement Changes - Port	0	4,272,283
Reserve for Employees' Contribution Rate Increase Payments	34,487,109	40,650,714
Reserve for Net Pension Obligation	0	39,230,748
Undistributed Earnings Reserve	(53,195,016)	(18,748,424)
Reserve for Liabilities	101,030,598	82,163,553
Total Reserves¹	\$2,648,209,090	\$2,631,556,452

¹ Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of \$2,568,261,182 as of June 30, 2003, and \$2,557,295,603 as of June 30, 2002. Total Reserves will differ from Plan Net Assets Held in Trust for the Payment of Benefits in the audited financial statements as investments are stated at fair value (market) which, at June 30 of each year, can be higher or lower than cost.

San Diego City Employees' Retirement System**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2003 and 2002

Reserved for Investments in Fixed Assets - Depreciated cost of office equipment owned by SDCERS.

Reserved for Receivables - Balance of receivables expected to be received in the future.

Reserved for Encumbrances - Balance of contractual liabilities incurred but not yet paid at year-end.

Reserved for Employees' Contributions - Funds representing the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserved for Employers' Contributions - Funds representing the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors, the City, the Port and the Airport.

Reserved for Deferred Retirement Option Program (DROP) Contributions - Contributions representing accumulated deferred retirement benefits, plus accumulated allocated interest, held on account for members participating in DROP. DROP accounts receive a member's pension allowance, 3.05% of salary contributed by the DROP member and a 100.00% matching contribution (3.05%) by the employer, plus 8.00% annual interest on the entire balance, credited quarterly.

Reserved for Current Retired Members - Funds sufficient based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, employees' funds are transferred from Reserved for Employees' Contributions to this reserve, along with sufficient funds from the Employers' Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Reserved for Supplemental Benefit Payments - Funds sufficient to provide for an unvested supplemental benefit "13th check" to qualified retirees when annual realized earnings and gains are sufficient to fund all other reserves of higher priority in accordance with the San Diego Municipal Code.

Plan Continuation Liability - Represents the dollar amount of a traditional indicator of funding status. It is calculated from the ratio of actuarial value of assets to the actuarial present value of credited projected benefits (liabilities) and totalled for all three plan sponsors (employers).

Fund Deficit - Equivalent to Plan Continuation Liability - Represents the dollar amount not reserved for the unfunded portion of actuarial accrued liabilities (UAAL) of the City's, Port's and Airport's plans. The plan sponsors' SDCERS UAAL is being amortized over a closed, 30-year period with 19 years remaining, as of the June 30, 2002 actuarial valuation.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

General Reserve - An amount representing 4.00% of total plan assets at cost, which may be reallocated by SDCERS' Board.

Reserve for Retiree Health Insurance - Funds set aside in a 401(h) trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees.

Reserve for Supplemental COLA - Funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1983, for the rest of their lives (until the fund is depleted).

Reserve for Retirement Changes (City) - Funds sufficient to satisfy the additional cost to SDCERS associated with benefit enhancements adopted by the City Council, effective January 1, 1997.

Reserve for Retirement Changes (Port) - Funds sufficient to satisfy the additional cost to SDCERS associated with benefit enhancements effective January 1, 1997, pursuant to the Third Amendment to the Agreement with the City Council.

Reserve for Employees' Contribution Rate Increase Payments - Funds sufficient to satisfy the 0.49% contribution rate increase (beginning July 1, 1998) to active members associated with benefit enhancements adopted by the City Council, effective January 1, 1997. Effective July 1, 2002, this reserve was also used to pay for an additional 1.70% of the safety member (employee) contribution offset. Effective July 1, 2003, this reserve was also used to pay for an additional 1.60% of the general member (employee) contribution offset, and an additional 1.00% safety member (employee) contribution offset.

Reserve for Net Pension Obligation - Funds sufficient to supplement the City of San Diego employer contributions to equal total City contributions as recommended by the actuary.

Undistributed Earnings Reserve - Represents the balance of earnings remaining after the annual distribution to the employees' and employers' reserve accounts in accordance with SDCERS' Board established assumed rate of interest. At the beginning of each fiscal year, the SDCERS' Board shall credit all Surplus Undistributed Earnings to the Reserve for Employers' Contributions in order to reduce SDCERS' current liabilities.

Reserve for Liabilities - Funds sufficient to pay liabilities incurred as of June 30, 2003 and 2002. Payables includes a large liability (90%+ of payables) classified as "Securities Purchased" which recognizes investments purchased and booked as an asset on a trade date basis per Governmental Accounting Standards Board (GASB) Statement No. 25.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

8. LEGAL ACTION

In the normal course of business, SDCERS is at all times subject to numerous pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing the pending and threatened litigation with Legal Counsel, SDCERS' executive management team believes that the outcome of such actions will not have a material adverse effect on the operation of SDCERS or the delivery of vested benefits. SDCERS is not able to predict whether the outcome of such actions may or may not have a material effect on the results of operations in a particular future period as the timing and amount of any resolution of such actions and its relationship to the future results of operations are not known.

9. SUBSEQUENT EVENT DISCLOSURE

Plan Sponsors' (Employers') Contributions to SDCERS

As discussed in Note 4, Contributions Required and Contributions Made, and in the Schedule of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information in the Financial Section of this CAFR, the City entered into a Contribution Agreement with SDCERS' Board on November 18, 2002. On July 1, 2003, SDCERS received an advance payment of the City's employer contribution in accordance with the new fixed-rate (blended) employer contribution schedule. As of the June 30, 2002 actuarial valuation, SDCERS' actuary calculated a City employer required blended contribution rate for FY 2004 of 21.13% of the City's valuation payroll. To date, the City's advanced employer contribution paid to SDCERS on July 1, 2003, for FY 2004, was \$80,937,000. Included in this total is the City's Proprietary and Fiduciary Funds' share of the City's employer contribution in accordance with the actuarially calculated, required general member contribution rate of 15.41%, as compared to the amount when using the City's Contribution Agreement, fixed general member employer contribution rate of 9.75% used to calculate an annual employer contribution amount for this group.

Also included in the City's FY 2004 advanced employer contribution rate was the first amortization payment representing the difference between the actuarially calculated, required contribution rate and the City's Contribution Agreement, when the City's SDCERS' funded status fell below 82.3%, to its funded status of 77.3% as of the June 30, 2002, actuarial valuation. As a result, instead of making an employer contribution totalling 11.89% of the FY 2004 City estimated payroll, per the Contribution Agreement, the City made an advanced employer contribution to SDCERS totalling 13.43% of the FY 2004 City payroll.

On July 1, 2003, SDCERS received an advanced payment, toward the Unified Port of San Diego's (Port) FY 2004 plan sponsor (employer) contribution, totalling \$4,316,891. This payment was based on the Port's (December 31, 2002 actuarial valuation) calculated, required employer contribution rate of 13.34%.

San Diego City Employees' Retirement System

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2003 and 2002

On July 1, 2003, SDCERS received an advanced payment toward the San Diego County Regional Airport Authority's (Airport) plan sponsor (employer) contribution, totalling \$1,435,000. This payment was based on the Airport's (December 31, 2002 actuarial valuation), actuarially calculated, required employer contribution rate of 8.25%.

SDCERS' Investment Managers

On October 28, 2003, Putnam Investments, which manages assets on behalf of SDCERS, was named in civil complaints filed by the Securities and Exchange Commission (SEC) and Massachusetts State regulators. These complaints resulted from problems with several key investment professionals having engaged in inappropriate trading ("market timing") of Putnam mutual funds for their own personal accounts. As a result of this situation, seven people at Putnam were relieved of their management or investment related responsibilities. Several of these individuals were on teams responsible for the management of SDCERS' assets in the International Core and Domestic Small Cap Value equity investment processes. On November 13, 2003, Putnam entered into a settlement agreement with the SEC to: make monetary restitution; implement immediate structural reforms with respect to restrictions on employee trading; enhance compliance policies, procedures and staffing relating to employee trading; and enhance corporate governance, including greater fund board independence.

As of June 30, 2003, Putnam managed the following assets for SDCERS in separate accounts (not mutual funds): \$161,817,145 in International Core Equities; \$57,442,736 in Domestic Small Cap Growth Equities; and, \$55,722,590 in Domestic Small Cap Value Equities. As SDCERS' assets managed by Putnam are held in separate accounts, there has been no impact on SDCERS by the situation involving the inappropriate trading of Putnam's mutual funds. As a result of the staffing changes affecting several Putnam investment teams used by SDCERS, on October 29, 2003, Putnam was placed on SDCERS' Watch List for significant organizational changes.

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San Diego City Employees' Retirement System

SCHEDULE OF FUNDING PROGRESS

For the Years Ended June 30 (Ten Years 2002 - 1993)

City of San Diego

(\$ in Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/2002	\$2,448,208	\$3,168,921	77.3%	\$720,713	\$535,157	134.7%
6/30/2001 ⁴	2,525,645	2,809,538	89.9	283,893	481,864	58.9
6/30/2000 ³	2,459,815	2,528,774	97.3	68,959	448,502	15.4
6/30/1999	2,033,153	2,181,547	93.2	148,394	424,516	35.0
6/30/1998 ¹	1,852,151	1,979,668	93.6	127,517	399,035	32.0
6/30/1997	1,632,361	1,748,868	93.3	116,507	382,715	30.4
6/30/1996 ²	1,480,772	1,620,373	91.4	139,602	365,089	38.2
6/30/1995	1,316,903	1,421,150	92.7	104,247	350,584	29.7
6/30/1994 ¹	1,216,063	1,290,927	94.2	74,864	338,440	22.1
6/30/1993	1,137,019	1,178,311	96.5	41,292	320,624	12.9

AAL - Actuarial Accrued Liability

UAAL - Unfunded Actuarial Accrued Liability

¹ Reflects revised actuarial and economic assumptions

² After Manager's Proposal

³ Reflects non-contingent Corbett benefit increases

⁴ Funded status was slightly overstated due to the unavailability and thus unincorporated liabilities resulting from purchases of service credit by members (City employees).

Note – Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed, 30-year period which began July 1, 1991 (19 years remaining), as of the June 30, 2002 actuarial valuation.

San Diego City Employees' Retirement System
SCHEDULE OF FUNDING PROGRESS (continued)
 For the Years Ended June 30 (Ten Years 2002 - 1993)

Unified Port of San Diego
 (\$ in Thousands)

Continuation Indicators

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
12/31/2002 ⁴	\$125,619	\$137,824	91.1%	\$12,205	\$33,995	35.9%
6/30/2002	140,613	140,197	100.3	(416)	39,063	(1.1)
6/30/2001 ³	145,278	123,126	118.0	(22,152)	36,425	(60.8)
6/30/2000	133,183	97,160	137.1	(36,023)	30,621	(117.6)
6/30/1999	110,310	89,809	122.8	(20,501)	30,035	(68.3)
6/30/1998 ²	98,007	81,633	120.1	(16,374)	26,672	(61.4)
6/30/1997 ¹	84,511	73,564	114.9	(10,947)	25,390	(43.1)
6/30/1996	72,511	62,231	116.5	(10,280)	23,557	(43.6)
6/30/1995	63,533	55,560	114.4	(7,973)	22,383	(35.6)
6/30/1994	57,765	47,353	122.0	(10,412)	21,733	(47.9)
6/30/1993	52,164	42,519	122.7	(9,645)	20,108	(48.0)

AAL - Actuarial Accrued Liability

UAAL - Unfunded Actuarial Accrued Liability

¹ Reflects benefit increase for Port general members² Reflects revised actuarial assumptions³ Reflects Andrecht Settlement

⁴ Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

Note – Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed, 30-year period which began July 1, 1991 (18.5 years remaining), as of the December 31, 2002 (interim) actuarial valuation.

San Diego City Employees' Retirement System
SCHEDULE OF FUNDING PROGRESS (continued)

For the Year Ended June 30 (2002 only)

San Diego County Regional Airport Authority
 (\$ in Thousands)

Continuation Indicators

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
12/31/2002 ¹	\$11,028	\$11,526	95.7%	\$498	\$8,871	5.6%

AAL - Actuarial Accrued Liability

UAAL - Unfunded Actuarial Accrued Liability

¹ Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

Note – Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed, 18.5 year period, which began January 1, 2003 (18.5 years remaining) as of the December 31, 2002 actuarial (interim) valuation.

San Diego City Employees' Retirement System**SCHEDULE OF PLAN SPONSORS' (EMPLOYERS') CONTRIBUTIONS**

For the Years Ended June 30 (Six Years 2003 - 1998)

City of San Diego

SDCERS' actuary calculates annual employer contribution rates using an actuarial funding methodology, currently based upon projected unit credit. The City's employer contributions made to SDCERS differ from the actuarially required contributions (ARC) recommended by SDCERS' actuary. This was approved by SDCERS' Board in accordance with their authority under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

	2003	2002	2001	2000	1999	1998
Actuarially Required Contributions (ARC) ¹	\$81,716,136	\$66,333,211	\$56,477,767	\$47,471,430	\$42,478,109	\$40,153,590
Contributions Made to SDCERS	70,099,844 ²	49,743,747	43,385,069	38,700,769	34,467,464	30,979,325
Difference - Over/ (Under) Contributed	(11,616,292)	(16,589,464)	(13,092,698)	(8,770,661)	(8,010,645)	(9,174,265)
Percentage Contributed	85.78%	74.99%	76.82%	81.52%	81.14%	77.15%

¹ ARC figures provided by SDCERS' actuary; ARC calculated using actual payroll.

² Included in the City's FY 2003 Contributions Made to SDCERS is a contribution of \$15,472,900 made on June 30, 2003. This contribution is comprised of net pension obligation payments, totalling \$9,923,538, for fiscal years 1997 - 2002 resulting primarily from the differential amount of actuarially required contributions (ARC), as calculated by SDCERS' actuary, versus the "City-Paid Blended Rates" for employer contributions paid by the City on behalf of the Proprietary and Fiduciary Funds. Also included is a payment of \$5,549,362, which the City paid for fiscal year 2003 that represents employer contributions for these Funds based on the full actuarial rate. The table below provides the year by year detail.

Applies to Fiscal Year	Contribution Amount
1997	\$835,942
1998	1,576,530
1999	1,441,167
2000	1,458,076
2001	1,560,521
2002	3,051,302
2003	5,549,362
Total Additional Contributions Made	\$15,472,900

San Diego City Employees' Retirement System

SCHEDULE OF PLAN SPONSORS' (EMPLOYERS') CONTRIBUTIONS

For the Years Ended June 30 (Six Years 2003 - 1998)

(continued)

Pursuant to the "City Manager's Retirement Proposal" dated July 23, 1996, the following City of San Diego employer contribution rates were in effect for fiscal years 1997 - 2003. An "Agreement Regarding Employer Contributions" (Contribution Agreement), effective November 18, 2002, was entered into which established new, fixed employer contribution rates as follows, beginning in FY 2004. The "Contribution Agreement" is in effect through FY 2009.

Fiscal Year	Minimum City-Paid Blended Rate¹	City's Actual Payroll
1997	7.33%	\$381,954,779
1998	7.83	397,964,827
1999	8.33	412,710,301
2000	8.83	434,269,208
2001	9.33	465,646,255
2002	9.83	507,523,230
2003	10.33	530,991,232
2004	11.89	not available
2005	12.89	not available
2006	13.89	not available
2007	14.89	not available
2008	15.89	not available
2009	Full projected unit credit contribution rates	

¹ City-Paid Blended Rate is stated as a percentage of the City's actual payroll.

This City of San Diego's contribution rate schedule is applicable as long as the City's SDCERS' funded status is above 82.3%. If the funded status falls below this level, the City will make additional employer contributions as calculated under an amortized payment approach pursuant to the Contribution Agreement.

This employer contribution funding method is not one of the six recognized actuarial cost methods.

For every year that the Manager's Proposal and Contribution Agreement has been in effect, the City has made employer contributions to SDCERS in an amount less than has been recommended by SDCERS' actuary. As a result, a net pension obligation is disclosed in the City of San Diego's Comprehensive Annual Financial Report.

San Diego City Employees' Retirement System**SCHEDULE OF PLAN SPONSORS' (EMPLOYERS') CONTRIBUTIONS**

For the Years Ended June 30 (Six Years 2003 - 1998)

(continued)

	Unified Port of San Diego					
	2003	2002	2001	2000	1999	1998
Actuarially Required Contributions (ARC) ¹	\$2,210,040	\$218,618	\$1,213,404	\$1,301,929	\$1,433,903	\$1,518,004
Contributions Made to SDCERS	2,210,040	218,618	1,213,404	1,301,929	1,433,903	1,518,004
Difference - Over/ (Under) Contributed	—	—	—	—	—	—
Percentage Contributed	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

¹ ARC figures provided by SDCERS' actuary; ARC calculated using actual payroll.

San Diego County Regional Airport Authority

	2003
Actuarially Required Contributions (ARC) ¹	N/A
Contributions Made to SDCERS	\$248,796 ²
Difference - Over/ (Under) Contributed	N/A
Percentage Contributed	

¹ ARC figures provided by SDCERS' actuary; ARC calculated using actual payroll.

² Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation was performed as of December 31, 2002, by SDCERS' actuary to establish the actuarially calculated, required contribution rates for FY 2004. FY 2003 Contributions Made represents that portion of Port employer contributions made which covers Airport employees, plus one-half of fiscal year 2003 accrued employer contributions paid to SDCERS by the Airport.

San Diego City Employees' Retirement System

NOTES TO THE SCHEDULES OF TREND INFORMATION

For the Years Ended June 30 (Six Years 2003 - 1998)

Schedule of Funding Progress

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of a plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

As of June 30, 2002, the date of the last actuarial valuation, the City of San Diego (City) had an SDCERS' funded status of 77.3%. As of June 30, 2002, the date of the last annual actuarial valuation, the Unified Port of San Diego (Port) had an SDCERS' funded status of 100.3%.

Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Port employees, and newly hired employees. Thus, an interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. Retirees of the Port remained with the Port as the new agency was created from current employees; as of December 31, 2002, the Airport had no SDCERS' retirees. As of December 31, 2002, the date of the last actuarial valuation (interim), the Unified Port of San Diego (Port) had an SDCERS' funded status of 91.1%. As of December 31, 2002, the date of the last actuarial valuation (interim), the San Diego County Regional Airport Authority (Airport) had an SDCERS' funded status of 95.7%.

City of San Diego (City)

In this schedule, ten years of historical information is presented with respect to the funding progress of the City, a plan sponsor of SDCERS. The City has experienced, on average, a 91.94% funded status ratio over the past ten years. This is significant for the City as a consistent funded status provides for level and predictable employer contributions from year to year. This consistency has been achieved through solid long-term earnings on invested assets provided by a well-diversified investment program as administered by SDCERS' Board. This consistent funded ratio has also been achieved during a time when the City's employee base has increased to meet the service needs of San Diego citizens, which increases the liabilities of SDCERS to provide future benefits to an increased number of SDCERS' members.

The City currently has an SDCERS' unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. The UAAL is being funded by the City over a closed, 30-year amortization period, which began July 1, 1991 (19 years remaining) as of the June 30, 2002 actuarial valuation. According to a recent research report prepared by Wilshire Associates, many pension plans have a UAAL, as they are at less than a 100% funded status.

San Diego City Employees' Retirement System**NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)**

For the Years Ended June 30 (Six Years 2003 - 1998)

Unified Port of San Diego (Port)

In this schedule, ten years of historical information is presented (in addition to the interim December 31, 2002, actuarial valuation) with respect to the funding progress of the Unified Port of San Diego (Port), a plan sponsor of SDCERS. The Port has experienced an average funded status ratio in excess of 100% over the past ten years. This funded status indicates that the Port is currently in a strong position to fund all current and future member and retiree liabilities resulting from their participation in SDCERS. A funded status in excess of 100% provides the Port with a cushion in which to weather volatile financial markets without having to anticipate increases in employer contributions over the next several years. A stable, funded status provides for level and predictable employer contributions year to year. This funded status has also been strengthened by solid long-term earnings on invested assets provided by a well-diversified investment program administered by SDCERS' Board.

As of the December 31, 2002, actuarial valuation, the Port has an SDCERS' unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. The UAAL is being funded by the Port over a closed, 30-year amortization period, which began July 1, 1991 (18.5 years remaining, as of the December 31, 2002 actuarial valuation).

San Diego County Regional Airport Authority (Airport)

Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An actuarial valuation as of December 31, 2002, was performed by SDCERS' actuary to separate the actuarial value of assets and accrued liabilities from the Port. Going forward, the Airport will receive annual actuarial valuations based on a July 1 - June 30 fiscal year.

As of the December 31, 2002, actuarial valuation, the Airport has an SDCERS' unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. The UAAL is being funded by the Airport over a closed, 18.5-year amortization period, which began January 1, 2003 (18.5 years remaining, as of the December 31, 2002 actuarial valuation).

Schedule of Employers' Contributions

The sources of revenues that fund a retirement system are: plan sponsors' (employers') contributions, members' (employees') contributions, and earnings on invested plan assets. Each year, SDCERS' actuary determines the amount of employer contributions (contribution rates) required to fund a given schedule of benefits (current and future liabilities). This benefit schedule is calculated from: SDCERS' benefit structure for the City, Port, or Airport; statistical data about the City's, Port's, or Airport's employees that are members of SDCERS; and, current and predicted

San Diego City Employees' Retirement System

NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)

For the Years Ended June 30 (Six Years 2003 - 1998)

future retirees and beneficiaries of SDCERS. Assumptions must be made to estimate how many employees (SDCERS' members): terminate employment, leave on a disability retirement or service retirement; and, the average ages of members (employees) at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of the City's, Port's and Airport's employees (SDCERS' members). All of this information taken together is presented in annual actuarial valuations in which the actuary recommends employer contribution rates (stated as a percentage of valuation payroll) to each of the plan sponsors (employers). The actuarially determined contribution rate percentages are applied to the actual annual payroll for each of the participating employers' employees (SDCERS' members). The resulting dollar amounts, as depicted in this schedule, are the actuarially required contributions (ARC) necessary to fund the promised benefits to SDCERS' members.

City of San Diego (City)

This schedule contains six years of historical information with respect to the City's actuarially required contributions (ARC) versus the actual employer contributions made by the City, on an annual basis. Over the past six years, the City has contributed, on average, approximately 79.57% of the amount recommended by SDCERS' actuary. This reduced City employer contribution was approved by SDCERS' Board in accordance with provisions under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

Under the "City Manager's Retirement Proposal" (Manager's Proposal) dated July 23, 1996, the City negotiated with SDCERS' Board to contribute a "City-Paid Rate" according to a fixed employer contribution rate schedule. This agreement established a base rate in FY 1997 (advanced payment made to SDCERS on July 1, 1996) at 7.33% of that year's City's budgeted/actual payroll; the scheduled contribution rates increased by 0.50% each year, thereafter. This agreement between the City and SDCERS accounts for the average annual difference of 20.43% in employer contributions actually paid by the City versus the rate at which the actuary calculated required contributions under the projected unit credit (PUC) actuarial funding methodology. The Manager's Proposal set contribution rates through FY 2006, however, this agreement required contribution rate changes as the City's SDCERS' funded status dropped below 82.3%. The actuarial valuation of June 30, 2002, triggered a provision in the Manager's Proposal to increase annual required employer contributions from the City, based on the 82.3% trigger.

Additionally, as detailed in the Schedule of Plan Sponsors' (Employers') Contributions, under FY 2003 Contributions Made, an additional employer contribution was made by the City to SDCERS on June 30, 2003. Of the total \$70,099,844 in employer contributions received by SDCERS from the City in FY 2003, as depicted in the June 30, 2003 audited financial statements, \$60,176,306 of employer contributions were for FY 2003; the City made employer contributions on behalf of the Proprietary and Fiduciary Funds at the full actuarial contribution rate. The remaining \$9,923,538 represented additional employer contributions (net pension obligation) paid to SDCERS on June 30, 2003, on behalf of the City's Proprietary and Fiduciary Funds that apply

San Diego City Employees' Retirement System

NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)

For the Years Ended June 30 (Six Years 2003 - 1998)

to fiscal years 1997 through 2002. The Schedule of Plan Sponsors' (Employers') Contributions contains a table that details the year by year amounts contributed by the City on behalf of the Proprietary and Fiduciary Funds.

Effective November 18, 2002, the City entered into a new "Agreement Regarding Employer Contributions" (Contribution Agreement) with SDCERS' Board. Under this new agreement, the City increased its annual employer contribution rate by 1.06%, to 11.89%, in FY 2004, from the 10.33% contribution rate paid by the City in FY 2003 under the Manager's Proposal. The FY 2004 contribution rate was increased to pay for increased benefits granted to the City's SDCERS' general members. A discussion of the City's SDCERS' general member benefit increases can be found in the Actuarial Section of this CAFR. Beginning in FY 2005, and each year thereafter, the City's employer contribution rates will increase by 1.00% (minimum), versus the 0.50% per year increase that was in effect under the Manager's Proposal. The new Contribution Agreement rates are depicted in the City's portion of the Schedule of Plan Sponsors' (Employers') Contributions. The goal of increasing the City's annual employer contribution rate was to close the contribution rate gap between the City's fixed contribution rate schedule and the actuarially required contributions (ARC) as calculated by SDCERS' actuary under the PUC methodology, by FY 2009. At which time, the City has agreed to contribute employer contributions based on the full actuarially calculated contribution rate. Beyond FY 2009, the City has agreed to move to an Entry Age Normal (EAN) funding methodology as quickly as fiscally possible. The FY 2003 actuarially required contribution rate under PUC was calculated at 15.59% of the City's valuation payroll; under EAN, the FY 2003 actuarially calculated, required contribution rate would be 17.75% of the City's valuation payroll.

Another commitment under the Contribution Agreement is that additional employer contributions will be made by the City to SDCERS, based on an amortized formula, in any year that the City's SDCERS' funded status is below 82.3%. This formula is based upon the difference between the fixed City employer contribution rates and the employer contributions rates as calculated by SDCERS' actuary under the PUC actuarial funding methodology based upon actuarial funding assumptions in effect as of the June 30, 2001 valuation. This difference is then divided by the number of years remaining until FY 2009, to establish a pro-rated additional employer contribution to be made in a particular fiscal year in which the City's SDCERS' funded status is below 82.3%. A complete copy of the Contribution Agreement can be obtained from the City of San Diego Clerk's Office or SDCERS' Offices. This Contribution Agreement funding arrangement is not one of the six recognized employer contribution (actuarial cost) funding methods. For every year that the Manager's Proposal and Contribution Agreement has been in effect, the City has made contributions to SDCERS in an amount less than has been recommended by SDCERS' actuary. As a result, a net pension obligation is included in the City of San Diego's Comprehensive Annual Financial Report's Financial Statements.

The advantage of a fixed schedule of employer contributions is that the City can effectively budget for employer contributions based upon a pre-established annual employer contribution rate while

San Diego City Employees' Retirement System

NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)

For the Years Ended June 30 (Six Years 2003 - 1998)

continuing to provide cost-effective services to San Diego citizens without adversely impacting taxpayers. Since the City currently has an average funded status of 91.94% over the past ten years, the Contribution Agreement benefits City employees (SDCERS' members) by keeping SDCERS adequately funded, and at the same time benefits San Diego taxpayers by minimizing employer contributions paid from City tax revenues. Given the practice of fixed City employer contribution rates over the past several years, and the declines in the financial markets, SDCERS' actuary opined in the June 30, 2002, actuarial valuation, that the City is in adequate condition in accordance with actuarial principals of level-cost financing. However, SDCERS' actuary further noted that the current practice of paying less than the computed actuarial contribution rate will foster an environment of additional declines in the funded status, absent strong investment returns.

Unified Port of San Diego (Port)

This schedule contains six years of historical information with respect to the Port's actuarially required contributions (ARC) versus the actual employer contributions made by the Port. Over the past six years, the Port has contributed 100% of the amount recommended by SDCERS' actuary. Making stable contributions each year provides the Port with the flexibility to grow its employee workforce, to provide services to the region's citizens without having to substantially increase its annual employer contribution to SDCERS. Additionally, the Port, on average, has enjoyed an SDCERS' funded status over 100%, which means that the Port would be in a position to fund benefit changes, if negotiated between Port management and employees. Currently the Port has a strong funded status in excess of 90%, which in the opinion of SDCERS' actuary, as of the December 31, 2002 (interim) actuarial valuation, establishes the Port as being in sound condition in accordance with actuarial principals of level-cost financing, despite recent lower investment returns.

San Diego County Regional Airport Authority (Airport)

There was no direct employer contribution activity from the Airport to SDCERS in FY 2003. As depicted in the audited financial statements, in the Financial Section of this CAFR, a portion of the Port's FY 2003 employer contribution (made on July 1, 2002) was credited to the Airport for the half year that it was a separate agency from the Port, beginning January 1, 2003, through fiscal year end, June 30, 2003; additionally, employer contributions accrued through the second half of the fiscal year were paid to SDCERS by the Airport. Beginning in FY 2004 (July 1, 2003), the Airport will make an advanced employer contribution in accordance with the actuarially calculated, required contribution rates based on the December 31, 2002 actuarial valuation.

San Diego City Employees' Retirement System

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2003 and 2002

	2003	2002
Personnel Services		
Salaries	\$3,023,546	\$2,609,057
Fringe Benefits	364,069	302,061
CERS Retirement Defined Benefit Contributions	441,382	269,228
Supplemental Pension Savings Plan (SPSP) Contributions	186,051	158,015
Total Personnel Services	4,015,048	3,338,361
Professional Services		
Actuary Services	163,250	230,145
Contracted Services	414,254	691,600
Member Benefits System Development Services	534,006	678,118
Legal Fees	277,420	414,394
Data Processing/Computer Services	1,022,326	1,136,421
Accounting Department Charges	211,921	201,690
Total Professional Services	2,623,177	3,352,368
Communication		
Postage	81,990	74,464
Telephone	40,345	43,715
Travel	55,429	67,644
Total Communication	177,764	185,823
Rentals		
Office Space	494,710	458,494
Equipment	252,136	15,738
Total Rentals	746,846	474,232
Office Operations		
Office Supplies & Administration	202,508	133,526
Training, Memberships & Tuition Reimbursement	51,590	64,733
Miscellaneous Fees & Charges	17,259	42,230
Total Office Operations	271,357	240,489
Total Administrative Expenses	\$7,834,192	\$7,591,273

San Diego City Employees' Retirement System

SCHEDULE OF FEES PAID TO INVESTMENT PROFESSIONALS

For the Years Ended June 30, 2003 and 2002

	2003			2002		
	Market Value of Assets Under Management ¹	Total Fees Paid	Basis Points	Market Value of Assets Under Management ¹	Total Fees Paid	Basis Points
Investment Manager Fees						
Domestic Equity Managers	\$1,102,894,758	\$4,187,724	37.97	\$883,827,495	\$3,897,093	44.09
International Equity Managers	391,845,286	1,802,496	46.00	404,236,603	1,729,235	42.78
Domestic Fixed Income Managers	844,336,681	3,090,590	36.60	843,223,029	2,679,580	31.78
International Fixed Income Managers	126,443,010	374,863	29.65	132,999,735	383,093	28.80
Real Estate Managers	234,594,612	1,950,283	83.13	271,029,406	1,991,845	73.49
Cash	3,062,243	N/A	N/A	2,765,415	N/A	N/A
Total Investment Manager Fees	2,703,176,590	11,405,956	42.19	2,538,081,683	10,680,846	42.08
Other Investment Service Fees						
Custodian Services	N/A	204,092	0.77 ²	N/A	202,361	0.81 ³
Investment Consultant Fees	N/A	363,194	1.37 ²	N/A	351,958	1.40 ³
Other Investment Service Fees	N/A	75,058	0.28 ²	N/A	38,779	0.15 ³
Total Other Investment Service Fees		642,344	2.42²		593,098	2.37³
Total Fees Paid to Investment Professionals		\$12,048,300	45.36²		\$11,273,944	44.97³

¹ Market values of assets under management, as of June 30, 2003, and June 30, 2002, for SDCERS' investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds and real estate and net receivables and payables of cash for pending transactions (settlement date based).

² June 30, 2003 - Basis Points calculation based on Total Net Investments plus Cash and Cash Equivalents equaling \$2,656,440,501 (Total Investments of \$2,391,132,052 plus cash and cash equivalents of \$312,044,538 plus a receivable of cash for Securities Sold of \$50,803,727, less cash payable for Securities Purchased of \$97,539,816).

³ June 30, 2002 - Basis Points calculation based on Total Net Investments plus Cash and Cash Equivalents equaling \$2,507,014,627 (Total Investments of \$2,294,484,890 plus cash of \$243,596,793 plus cash receivable for Securities Sold of \$47,377,501 less cash payable for Securities Purchased of \$78,444,557).

San Diego City Employees' Retirement System

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the Years Ended June 30, 2003 and 2002

Individual or Firm	2003	2002	Nature of Service
Buck Consultants	\$84,581	\$103,700	Retirement Seminars
Doctors (see below for full listing)	133,075	111,819	Medical Consulting
Gabriel, Roeder, Smith & Company	163,250	230,145	Actuary
Legal Firms & Professional Legal Services (see below for full listing)	277,420	414,394	Legal, Arbitration, Mediation, Court Reporting
Levi, Ray & Shoup	534,006	678,118	Pension Systems Development
Mercer Human Resources Consulting (formerly William M. Mercer, Inc.)	2,844	61,312	Tax Consulting/Strategic Planning
Nuffer, Smith, Tucker, Inc.	–	9,838	Public Relations
Reid Moomaugh Associates	N/A	46,166	Retirement System Survey (2002)
San Diego Data Processing Corporation	1,022,326	1,136,421	Computer/Applications Support
Various Providers	405,675	560,455	Various Contractual Services
Total Payments to Consultants and Professional Services Providers	\$2,623,177	\$3,352,368	

SDCERS used the following Doctors' services in FY 2003

California Orthopaedic Institute Medical Associates, Inc.

William Adsit, M.D.
Jerome C. Hall, M.D.
Jeffrey Schultz, M.D.
Wesley R. Smidt, M.D.
Drew A. Peterson, M.D.
David G. Levinsohn, M.D.

Children's MRI Center

Keith Kortman, M.D.

North County Neurology Associates

Michael A. Lobatz, M.D.

San Diego Nerve Study Center

Jonathan Schleimer, M.D.

San Dieguito Orthopaedic Medical Group, Inc.

David R. Hackley, M.D.

Southern California Cardiology Medical Group, Inc.

Steven A. Gross, M.D.

Torrey Pines Orthopaedic Medical Group, Inc.

Raymond J. Linovitz, M.D.

UCSD Orthopaedic Surgery

Reid Abrams, M.D.

Other Doctors

Daniel J. Bressler, M.D.
William P. Cerran, Jr., M.D.
Calvin A. Colarusso, M.D.
Richard M. Green, D.P.M.
Roy A. Kaplan, M.D.
Robert E. Neveln, M.D.
Raymond Vance, M.D.

Legal Firms & Professional Services paid by SDCERS in FY 2003

Branton & Wilson, APC
Hanson, Bridgett, Marcus, Vlahos, and Rudy LLP
Hennigan, Bennett & Dorman LLP
Hillyer & Irwin
JAMS (Judicial Arbitration Mediation Services)
Peterson & Associates - (Court Reporters)
Seltzer Caplan McMahon Vitek

Additional information on fees paid to investment professionals is provided on the previous page.

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III. INVESTMENT SECTION



CALLAN ASSOCIATES^{INC.}

JAMES A. CALLAHAN, CFA

August 29, 2003



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Lawrence B. Grissom
Retirement Administrator
San Diego City Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Dear Mr. Grissom:

This letter reviews the investment performance of the San Diego City Employees' Retirement System (SDCERS) for the fiscal years ended June 30, 2003 (FY 2003) as compared to June 30, 2002 (FY 2002).

During FY 2003 and FY 2002, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with AIMR Performance Presentation Standards. Callan Associates Inc. serves as SDCERS' independent investment consultant and evaluates SDCERS' performance in relation to market indices, appropriate manager peer groups, and other public funds.

SDCERS' primary investment objective is to prudently and expertly invest SDCERS' assets, in accordance with governing law and industry practices, in a manner that will ensure SDCERS' ability to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, SDCERS' Board periodically evaluates SDCERS' liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment strategies. The Board selects a strategic investment policy that balances growth potential and acceptable risk. A policy benchmark is constructed that mirrors SDCERS' strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income and real estate market indices weighted in the same proportions as SDCERS' investment policy.

Highlights of FY 2003

A strong final quarter mitigated much of the downward volatility felt throughout the financial markets for the one year ended June 30, 2003. Reigning pessimism surrounding corporate accountability during the middle of 2002 gave way to a more

Mr. Lawrence B. Grissom
August 29, 2003
Page 2 of 5

optimistic global economic outlook in early 2003 which was capped by double-digit equity returns across the world during the second quarter (calendar year) 2003. Domestic equity returns for the twelve-month period were varied, as the S&P 500 returned +0.25% and small cap stocks ranged from slightly positive to slightly negative. On a style basis, growth stocks generally outperformed their value counterparts by a moderate margin. Domestic bonds rallied steadily as interest rates fell and uncertainty loomed in the equity markets. On the international front, equities experienced more extremes in terms of volatility, and as a result finished the year ended June 30, 2003, in slight negative territory. International fixed income performed extremely well during the fiscal year as the dollar continued to weaken and the attractiveness of the U.S. markets waned.

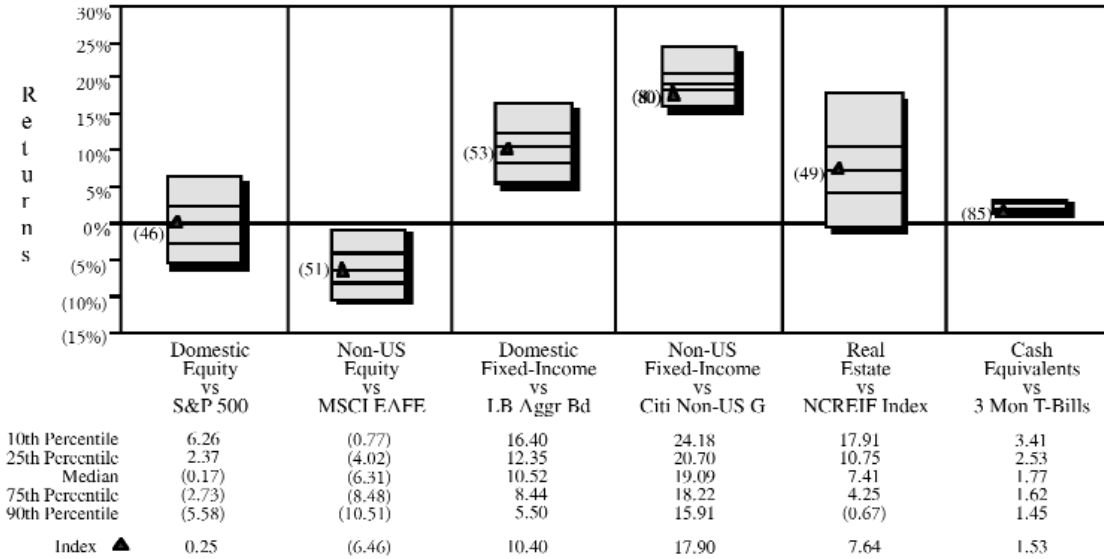
Highlights of FY 2002

The financial markets were extremely volatile for the one year ended June 30, 2002, as the result of a weak economy, augmented by the impact of the September 11 terrorist attacks, and the corporate accounting scandals surrounding several companies. Domestic equities posted a wide variety of results for the period. In general, value oriented stocks significantly outperformed growth oriented stocks during the year. Additionally, small company stocks outperformed larger company stocks. International equities, on balance, achieved negative results, but on average did outperform domestic equities in dollar terms as both the Euro and Yen appreciated. Domestic fixed income securities, in aggregate, posted solid positive returns while the global stock markets suffered. The credit markets in the U.S. underperformed as investors fled to the safety of government bonds. A weak U.S. dollar created an attractive investment environment for international fixed income securities.

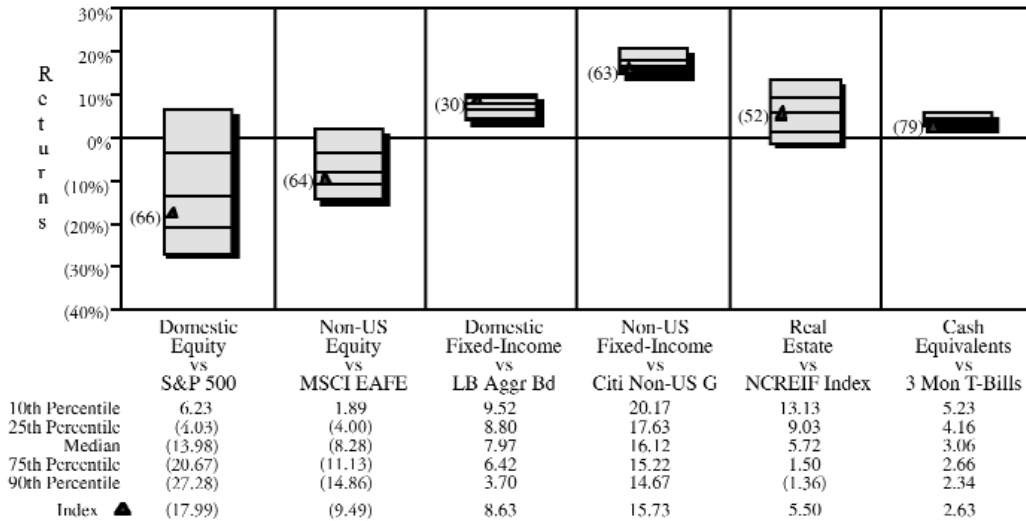
The graphs that follow depict the performance of Callan's large manager database by asset category for the year ended June 30, 2003 and 2002. The performance of the major market indices is also plotted. A review of the graphs illustrates that in FY 2002 the median active manager in all assets classes, with the exception of domestic fixed income, outperformed popular market indices during this period. During FY 2003 active managers had more difficulty consistently outperforming their respective indices, as domestic and international equity, as well as domestic fixed income and real estate indices ranked close to the median manager return for the year period. A major difference year over year has been the higher absolute domestic equity returns in FY 2003 as well as the wider range of returns among active managers in that asset class.

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 August 29, 2003
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Range of Separate Account Manager Returns by Asset Class
 One Year Ended June 30, 2003



Range of Separate Account Manager Returns by Asset Class
 One Year Ended June 30, 2002



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August 29, 2003
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SDCERS' Investment Performance in FY 2003 as Compared to FY 2002

For the one year ended June 30, 2003, SDCERS' total fund returned time-weighted performance of +5.44%, and was almost sixty basis points ahead of the policy benchmark return of +4.86% but behind the actuarial return assumption of 8.00%. SDCERS' FY 2003 return surpassed FY 2002 performance of -2.40%, which lagged the policy benchmark of -2.01%. The custom policy benchmark is comprised of the following market indices, in the percentages indicated: 22.8% S&P 500, 7.6% S&P 400 Mid Cap, 7.6% Russell 2000, 10.2% MSCI EAFE, 1.8% MSCI Emerging Markets Free, 3.0% Citigroup EMI World Ex-U.S., 20.5% Lehman Aggregate, 9.6% Merrill Lynch 1-5 Year Government/ Corporate, 1.9% First Boston Convertible, 5.0% Citigroup Non-U.S. Government Bond, 7.5% NCREIF, and 2.5% Wilshire REIT. SDCERS' total fund has outperformed the median public pension plan in the Callan database for the past two fiscal years. Longer-term returns consistently rank in the top quartile of public pension plans in the Callan database. Over the last five years, SDCERS' annualized total fund return of +5.21% ranks in the 5th percentile of public pension plans in the Callan database, with a return of 100 basis points ahead of the policy benchmark.

Domestic Equity Performance

After enduring a difficult FY 2002 return of -13.66%, SDCERS' domestic equity composite weathered the volatile twelve months ended June 30, 2003, well with a +2.81% return. This performance surpassed SDCERS' blended benchmark of -0.26% by a healthy margin. During FY 2002, the domestic equity composite of SDCERS ranked in the 25th percentile of Callan's universe of public pension plans. FY 2003 was even better as the domestic equity composite ranked first among Callan's universe of public plan domestic equity composites. During the same FY 2003 period, the median public plan's domestic equity composite returned -0.15%. The strong relative performance in the last year has raised long-term rankings of SDCERS' domestic equity composite returns in comparison to FY 2002. SDCERS' domestic equity returns exceed the blended domestic equity benchmark returns for the trailing three-year and five-year periods while ranking no lower than 4th percent among public pension plans. Over the same periods ended June 30, 2002, domestic equity returns ranked no lower than the top 17th percent among public pension plans.

International Equity Performance

SDCERS' international equity composite returned -3.02% for the year ended June 30, 2003, ahead of the FY 2002 return of -6.38%. The FY 2003 return beat the blended benchmark return of -3.45%, whereas FY 2002's return trailed its respective blended international benchmark. Performance for each of the last two fiscal years ranks ahead of the median international equity composite for public pension plans in Callan's database. During FY 2002, the international equity composite return ranked in the top third, while more recent FY 2003 performance ranked in the 16th percentile of the Callan peer universe.

Mr. Lawrence B. Grissom
August 29, 2003
Page 5 of 5

Domestic Fixed Income Performance

SDCERS' domestic fixed income composite struggled in relative terms for the fiscal year ended June 30, 2003. A return of +6.11% for the trailing year ranks near the bottom of domestic fixed income composites for public pension plans in Callan's database, while trailing the blended benchmark of +9.93%. Over the same period last year, SDCERS' FY 2002 domestic fixed income return of +6.56% surpassed its respective benchmark return of 6.33%. Recent underperformance has dragged longer-term cumulative performance lower with SDCERS' annualized five-year domestic fixed income composite return of +6.54% falling below the target benchmark return of +7.33% and the median public pension plan domestic fixed income portfolio return of +7.40%.

International Fixed Income Performance

For the second consecutive fiscal year, SDCERS' international fixed income portfolio was the best performing asset class in absolute terms. For the twelve months ended June 30, 2003, the portfolio returned an impressive +20.74%, well ahead of the international benchmark return of +17.90%. SDCERS' rebounded from disappointing FY 2002 relative returns in international fixed income to rank in the top quartile of the Callan database's international fixed income style group for FY 2003. This return surpassed the median portfolio by +1.65%. Strong FY 2003 performance has helped longer-term results on an absolute and a relative basis. Over each of the last three-year, five-year and since inception (June 1996) time periods, the international fixed income portfolio has outperformed the median manager as well as the respective international fixed income benchmark.

In summary, the fiscal years ended June 30, 2003 and 2002, were characterized by unpredictability in the global markets, equity and fixed income alike. However, SDCERS' disciplined and diversified investment approach over the last two years has led to excellent relative performance, ranking the total fund in the 14th percentile in FY 2002 and the 25th percentile in FY 2003 when compared to the Callan public pension plan total fund database. Unlike FY 2002, SDCERS outperformed its policy benchmark return in FY 2003 by a margin of almost sixty basis points. On an absolute basis, SDCERS participated significantly in the recent calendar year to date 2003 (as of June 30) equity rally, while maintaining a prudent exposure to anchored approaches in fixed income. In combination, SDCERS' investments produced a FY 2003 return of +5.44%, well ahead of FY 2002's -2.40% total fund return. SDCERS' impressive results achieved during this period of volatility were driven by the SDCERS' superior relative and absolute performance in domestic equity coupled with strong relative performance in international equity and fixed income.

Sincerely,



James A. Callahan, CFA
Senior Vice President

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San Diego City Employees' Retirement System

ASSET CLASS INVESTMENT RETURNS

As of June 30, 2003 and 2002

YEAR TO YEAR COMPARISON

	June 30, 2003	June 30, 2002
SDCERS' Domestic Equity Performance	2.81%	-13.66%
Blended Domestic Equity Benchmark (60% S&P 500; 20% S&P MidCap; 20% Russell 2000)	-0.26%	-13.48%
Standard & Poor's 500	0.25%	-17.99%
Standard and Poor's MidCap 400	-0.71%	-4.72%
Russell 2000	-1.64%	-8.60%
SDCERS' International Equity Performance	-3.02%	-6.38%
Blended International Equity Benchmark (68% MSCI EAFE Index; 12% MSCI Emerging Market Free Index; 20% Citigroup EMI World Ex-US Index)	-3.45%	-5.89%
MSCI EAFE	-6.46%	-9.49%
MSCI Emerging Markets Free	6.96%	1.31%
Citigroup EMI World Ex-US Index	0.90%	1.30%
SDCERS' Domestic Fixed Income Performance	6.11%	6.56%
Blended Domestic Fixed Income Benchmark (70% Lehman Aggregate Bond Index; 20% Merrill Lynch 1-5 Gov't/Corp; 10% First Boston Convertible Index)	9.93%	6.33%
Lehman Aggregate Bond Index	10.40%	8.63%
Merrill Lynch 1-5 Year Gov't/Corp	7.77%	7.62%
First Boston Convertible Index	15.46%	-12.44%
SDCERS' International Fixed Income Performance	20.74%	14.86%
International Fixed Income Benchmark (Citigroup Non-U.S. Gov't Bond)	17.90%	15.73%
SDCERS' Real Estate Performance	6.83%	9.50%
Blended Real Estate Benchmark (25% Wilshire REIT; 75% NCREIF Index)	5.78%	7.15%
NCREIF Index	7.64%	5.50%
Wilshire REIT Index	3.72%	15.89%
SDCERS' Total Fund Performance	5.44%	-2.40%
Custom Blended Total Fund Performance Benchmark (7.6% Russell 2000; 22.8% S&P 500; 7.6% S&P MidCap 400; 1.9% First Boston Convertible Index; 9.6% ML 1-5 Gov't Corp; 20.5% L/B Aggr; 2.5% Wilshire REIT, 7.5% NCREIF; 10.2% MSCI EAFE; 1.8% MSCI Emg Mkts Fr; 3.0% Citigroup EMI World ex-US; and, 5.0% Citigroup Non-US Gov't Bond)	4.86%	-2.01%

¹ Long-Term Performance: 3-year, 5-year and 10-year blended performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS' asset allocation strategy.

² SDCERS' International Equity and International Fixed Income numbers for 10 years are since inception numbers, (1995 - 1996) 8 years of investment performance.

LONG TERM PERFORMANCE¹

3-Year Annualized Performance Ending June 30, 2003	5-Year Annualized Performance Ending June 30, 2003	10-Year Annualized Performance² Ending June 30, 2003
-5.03%	2.45%	9.81%
-7.17%	0.78%	9.57%
-11.20%	-1.61%	10.04%
0.99%	7.14%	12.65%
-3.30%	0.97%	8.24%
-9.59%	2.58%	8.05%
-10.54%	-1.91%	1.31%
-13.52%	-4.00%	2.78%
-7.02%	2.52%	1.48%
-3.44%	1.50%	3.48%
6.50%	6.54%	6.88%
8.32%	7.33%	7.30%
10.08%	7.54%	7.21%
8.52%	7.01%	6.43%
-3.77%	5.29%	8.81%
8.84%	6.43%	6.73%
8.10%	6.29%	6.32%
11.58%	9.26%	8.80%
9.26%	8.35%	9.63%
8.21%	9.79%	9.63%
14.73%	8.07%	10.10%
0.71%	5.21%	8.78%
0.14%	4.16%	8.03%

San Diego City Employees' Retirement System

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

Amended by SDCERS' Board, August 15, 2003

INVESTMENT GOAL

It is the goal of SDCERS' investment program to ensure that sufficient financial assets are available to provide SDCERS' members and their beneficiaries with all benefits due as specified in SDCERS' Plan. It is the goal of SDCERS' investment program to earn, on a long-term average, a total real rate of return of at least 2.5% above the rate of inflation.

GENERAL LIMITATIONS

In accordance with the City Charter, SDCERS is structured as a separate Retirement System Trust Fund. It is neither part of, nor combined with, the City of San Diego's operational investment pool.

SDCERS' Board establishes an overall asset allocation strategy for the Retirement System Trust Fund. This strategy identifies the asset classes that are to be utilized in SDCERS' investment portfolio. Allocation percentages are determined for each asset class and are used to assist SDCERS' Board in determining which asset class(es) should receive additional contributions, when available.

DIVERSIFICATION

1. Not more than 5% of the entire Trust Fund's equity portfolio shall be invested in the common stock of any one company, nor shall any holding exceed 3% of the outstanding common stock of any one company, at the time of initial commitment;
2. Not more than 10% of the equity portfolio, at market value, shall be invested in preferred stocks. Not more than 2% of the Trust Fund's equity portfolio shall be invested in the preferred stock of any one company, nor shall any holding exceed 5% of the outstanding preferred stocks of any one company, in that particular issue, at market value;
3. Not more than 10% of the Trust Fund's fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government);
4. Pooled investment vehicles and funds for equity, fixed income and cash investments shall be subject to the limitations associated with their primary investment objective. In no case shall an investment in a pool or fund exceed 20% of the market value of said pool, at the time of initial commitment;
5. Mortgages must be diversified both by area and usage. The combined value of mortgage debt with security interest and other real estate investments shall not exceed 40% of the total of the Trust Fund, at the time of initial commitment;

San Diego City Employees' Retirement System**STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES (continued)**

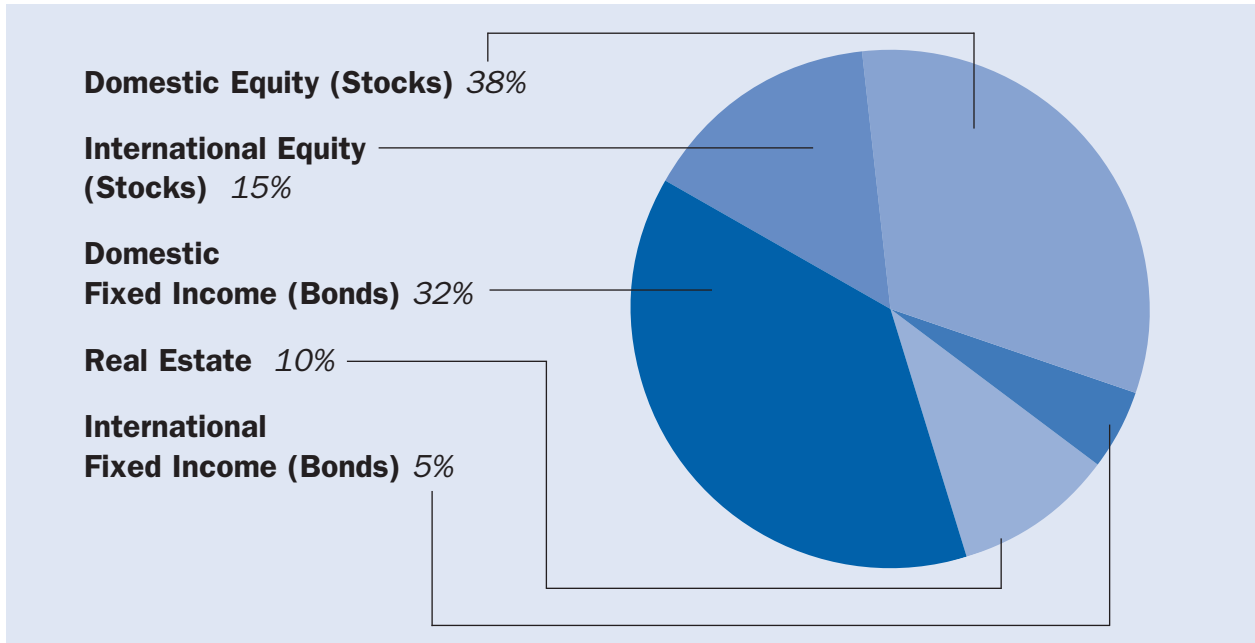
Amended by SDCERS' Board, August 15, 2003

6. Real Estate fee simple, co-investments or commingled fund investments must be diversified both by geographic area and property type; and,
7. Short-term investments also must be diversified as to issuer and type, except for obligations of the U.S. Government or its agencies.

* The above is an executive summary of *SDCERS' Goals, Objectives and Policies Relating to Investments as of August 15, 2003*; for a full copy of SDCERS' investment policy document, please contact SDCERS' Offices at (800) 774-4977 or (619) 525-3600 or visit www.sdcers.org, and see *Investments*.

San Diego City Employees' Retirement System
TARGET ASSET ALLOCATION

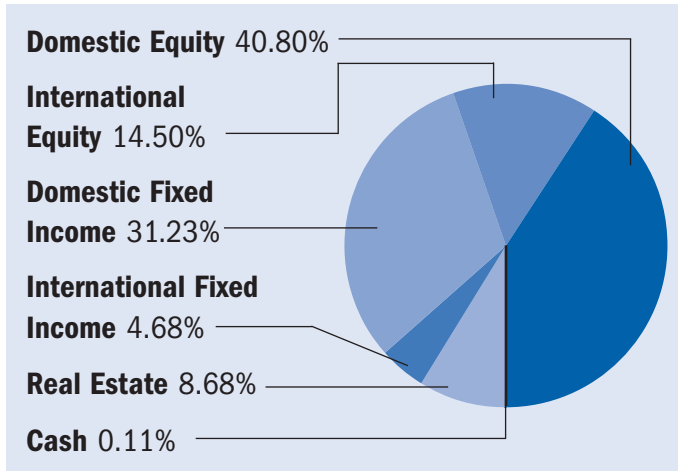
As of June 30, 2003 and 2002



San Diego City Employees' Retirement System

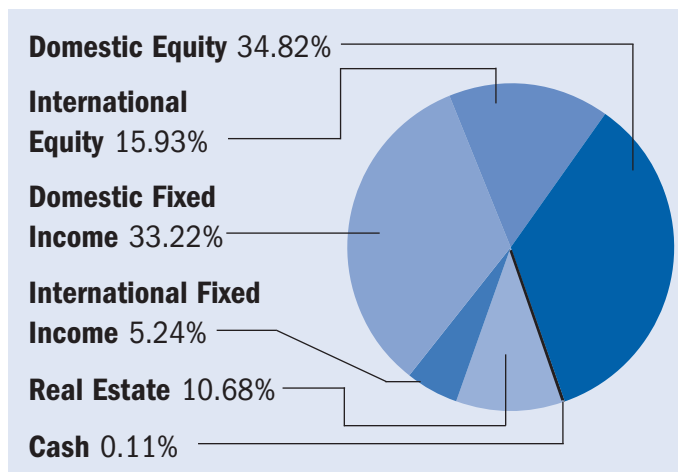
ACTUAL ASSET ALLOCATION-INVESTMENTS AT FAIR VALUE

As of June 30, 2003



Domestic Equity	\$1,102,894,758
International Equity	391,845,286
Domestic Fixed Income	844,336,681
International Fixed Income	126,443,010
Real Estate	234,594,612
Cash	3,062,243
Total Assets, at Fair Value	2,703,176,590
Less Pending Transactions	(46,736,089)
Total Net Investments	\$2,656,440,501

As of June 30, 2002



Domestic Equity	\$883,827,495
International Equity	404,236,603
Domestic Fixed Income	843,223,029
International Fixed Income	132,999,735
Real Estate	271,029,406
Cash	2,765,415
Total Assets, at Fair Value	2,538,081,683
Less Pending Transactions	(31,067,056)
Total Net Investments	\$2,507,014,627

Actual asset allocation values illustrated above are based upon SDCERS' investment managers' specific strategies. Each portfolio, including all securities and cash, held by an investment manager is categorized based upon the strategy that SDCERS hired that manager to execute. SDCERS does not have a target allocation to cash. Asset class totals here will differ from those that appear in the audited financial statements. For GASB reporting purposes, assets in the audited financial statements are stated from a total fund perspective and are then classified by security type, i.e. cash, stocks, bonds and real estate.

San Diego City Employees' Retirement System HISTORICAL ASSET ALLOCATION (ACTUAL)

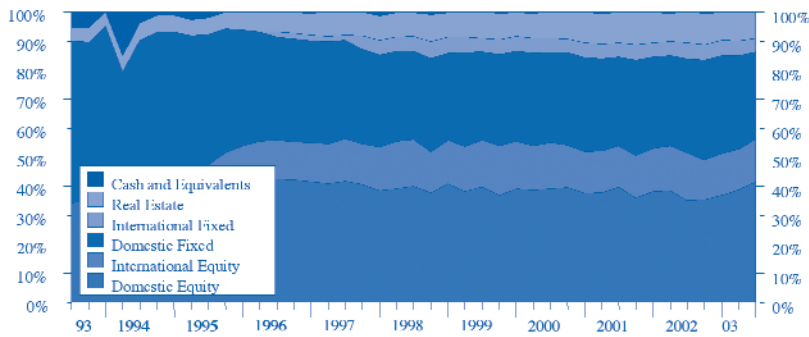
Ten Year History for Fiscal Years 1994 - 2003 (July 1, 1993 - June 30, 2003)



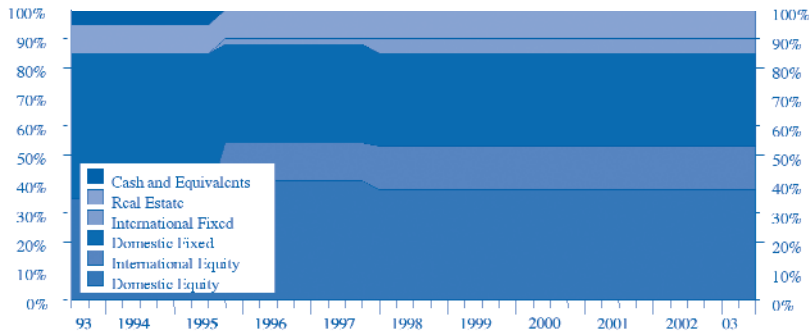
Actual vs Target Historical Asset Allocation

The historical asset allocation for a fund is by far the largest factor explaining its performance. The charts below show the fund's historical actual asset allocation, the fund's historical target asset allocation, and the historical asset allocation of the average fund in the CAI Public Fund Sponsor Database.

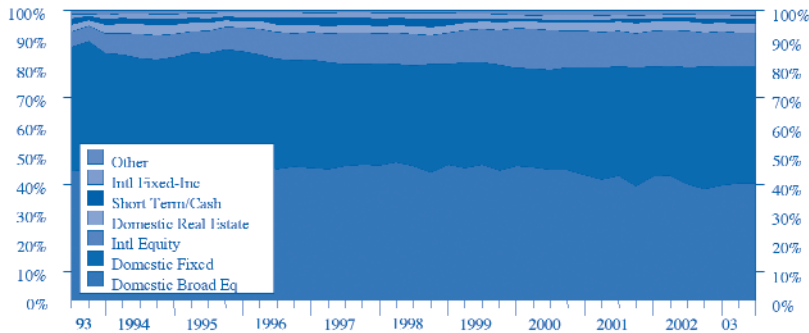
SDCERS' Actual Historical Asset Allocation



SDCERS' Target Historical Asset Allocation



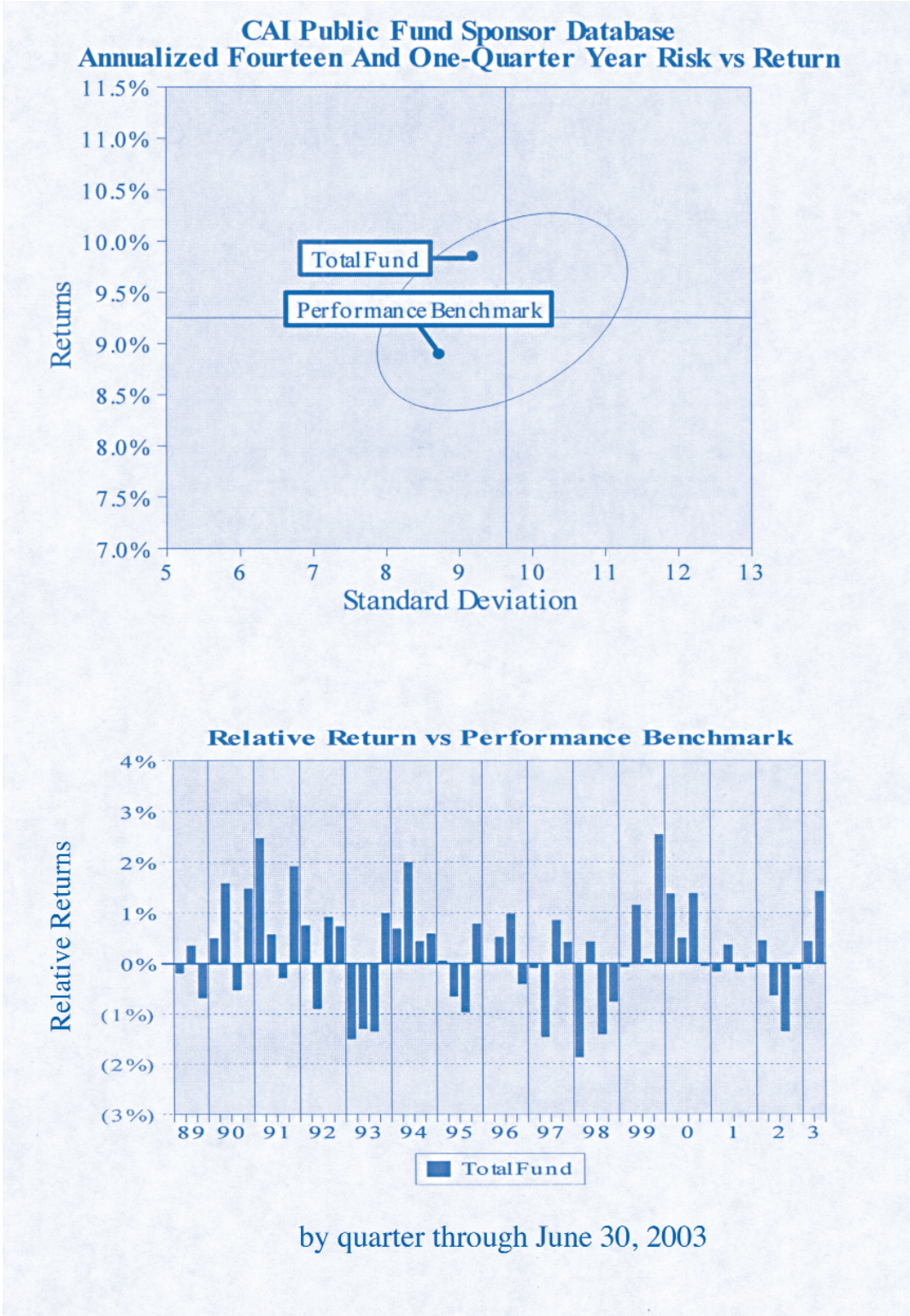
Average CAI Public Fund Sponsor Database Historical Allocation



* SDCERS' Current Quarter Target = 22.8% S&P 500, 20.5% L/B Agg, 10.2% MSCI EAFE Index, 9.6% ML 1-5 Govt/Corp, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 7.5% NCREIF Classic Index, 5.0% Citigroup Non-US Govt Bd, 3.0% Citigroup EMI World ex US Index, 2.5% Wilshire REIT Index, 1.9% FB Convertible Index and 1.8% MSCI Emg Mkts Fr.

San Diego City Employees' Retirement System HISTORICAL RISK VS. RETURN ANALYSIS

Since Inception of Diversified Investment Program
Through June 30, 2003



San Diego City Employees' Retirement System
SCHEDULE OF LARGEST EQUITY HOLDINGS

AS OF JUNE 30, 2003				
Rank	Shares	Equity Securities (Stocks)	CUSIP	Market Value
1	243,129	Pfizer, Inc.	717081103	\$8,302,855
2	321,130	Microsoft Corporation	594918104	8,224,139
3	378,026	Hewlett Packard Company	428236103	8,051,954
4	193,150	Simon Property Group Inc	828806109	7,538,645
5	263,000	Prologis	743410102	7,179,900
6	166,326	Citigroup Inc.	172967101	7,118,753
7	320,172	McDonalds Corporation	580135101	7,062,994
8	126,090	Wal-Mart Stores, Inc.	931142103	6,767,250
9	209,625	Dow Chemical Company	260543103	6,489,990
10	251,000	Credit Lyonnais Cap	225386101	6,307,630

AS OF JUNE 30, 2002				
Rank	Shares	Equity Securities (Stocks)	CUSIP	Market Value
1	204,058	Bank of America Corporation	060505104	\$14,357,521
2	390,405	Pfizer, Inc.	717081103	13,664,175
3	432,100	General Electric	369604103	12,552,505
4	222,630	Microsoft Corporation	594918104	12,177,861
5	198,600	Wal-Mart Stores, Inc.	931142103	10,924,986
6	194,030	Johnson & Johnson	478160104	10,140,008
7	646,040	Cisco Systems Inc.	17275R102	9,012,258
8	174,042	Viacom Inc.	925524308	7,722,244
9	107,370	American International Group Inc.	026874107	7,325,855
10	466,571	AOL Time Warner Inc.	00184A105	6,863,259

A complete list of portfolio holdings is available upon request

San Diego City Employees' Retirement System

SCHEDULE OF LARGEST FIXED INCOME HOLDINGS

AS OF JUNE 30, 2003				
Rank	Par	Fixed Income Securities (Bonds)	CUSIP	Market Value
1	30,710,194	United States Treasury Notes	9128274Y5	\$35,163,172
2	13,968,561	Small Business Admin Partin CTF	831641CX1	15,753,883
3	12,652,590	United States Treasury Notes	9128275W8	14,878,655
4	14,200,000	FNMA TBA Aug 30 Single Family	01F060683	14,743,593
5	14,400,000	Calpine CDA Energy Fin ULC	13134VAA1	10,998,000
6	10,300,000	Conseco Financial Securities Corp.	20846QHN1	9,495,870
7	1,130,000,000	Japan (Govt of)	637496II3	9,471,767
8	50,220,000	Kingdom of Denmark	733534II4	8,415,407
9	6,790,000	Finland (Republic of)	754818II5	7,863,180
10	7,950,000	Ford Motor CO DEL	345370CA6	7,344,867

AS OF JUNE 30, 2002				
Rank	Par	Fixed Income Securities (Bonds)	CUSIP	Market Value
1	30,020,000	FNMA TBA July 15 Single Family	01F060477	\$30,611,094
2	17,583,814	Small Business Admin Partin CTF	831641CX1	19,166,358
3	17,700,000	Germany (Federal Republic of)	453980II7	17,849,812
4	14,737,000	United States Treasury BDS	912810FG8	13,862,064
5	11,440,000	Ford Motor CR CO	345397TS2	11,570,073
6	1,340,000,000	Japan (Govt of)	637496II3	11,241,455
7	10,200,000	Continmortgage Home Equity Ln	21075WJY2	10,792,824
8	10,300,000	Conseco Fin Secs Corp	20846QHN1	10,518,987
9	6,050,000	Treasury Bond	088808II3	10,234,590
10	9,000,000	Residential FDG Mtg Secs II	76110VHH4	9,249,158

A complete list of portfolio holdings is available upon request

San Diego City Employees' Retirement System

SCHEDULE OF COMMISSIONS

Top 25 Brokerage Firms Used

For the Years Ended June 30, 2003 and 2002

FOR THE YEAR JUNE 30, 2003				
Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	Salomon Smith Barney, Inc.	17,429,322	\$692,989.89	\$0.040
2	Goldman Sachs & Company	18,283,737	686,397.92	0.038
3	State Street Brokerage Services	22,161,788	482,672.28	0.022
4	UBS PaineWebber Inc.	13,144,037	461,017.37	0.035
5	ABN AMRO	8,533,325	390,203.58	0.046
6	Investment Technology Group	13,425,713	367,009.42	0.027
7	Morgan Stanley	9,828,555	283,968.15	0.029
8	Lehman Brothers, Inc.	5,657,541	258,711.59	0.046
9	Merrill Lynch	10,397,542	257,514.68	0.025
10	Citigroup Global Markets, Inc.	5,333,509	241,311.56	0.045
11	Credit Suisse First Boston Corp.	6,133,516	205,871.45	0.034
12	Jefferies & Company	3,634,399	151,835.57	0.042
13	Bear Stearns & Co.	4,883,235	148,866.58	0.030
14	Instinet	4,705,522	146,157.31	0.031
15	Cantor Fitzgerald	2,241,472	115,494.70	0.052
16	JP Morgan Securities, Inc.	3,283,030	109,146.27	0.033
17	BNY Clearing Services LLC	4,156,473	105,236.22	0.025
18	Bank of America Securities LLC	2,159,480	99,042.88	0.046
19	Prudential Securities Incorporated	2,481,702	93,328.40	0.038
20	Deutsche Bank Securities, Inc.	10,507,896	93,211.27	0.009
21	CIBC World Markets Corp.	1,887,790	85,088.14	0.045
22	Ragen Mackenzie Incorporated	2,376,194	84,102.45	0.035
23	Wells Fargo Securities LLC	1,987,414	69,984.93	0.035
24	Robert W. Baird & Co, Incorporated	1,333,950	64,646.50	0.048
25	Standard & Poors Securities, Inc.	1,039,390	60,739.50	0.058
	All Other Brokers	44,520,299	1,481,319.40	0.033
TOTALS		221,526,831	\$7,235,868.01	\$0.033

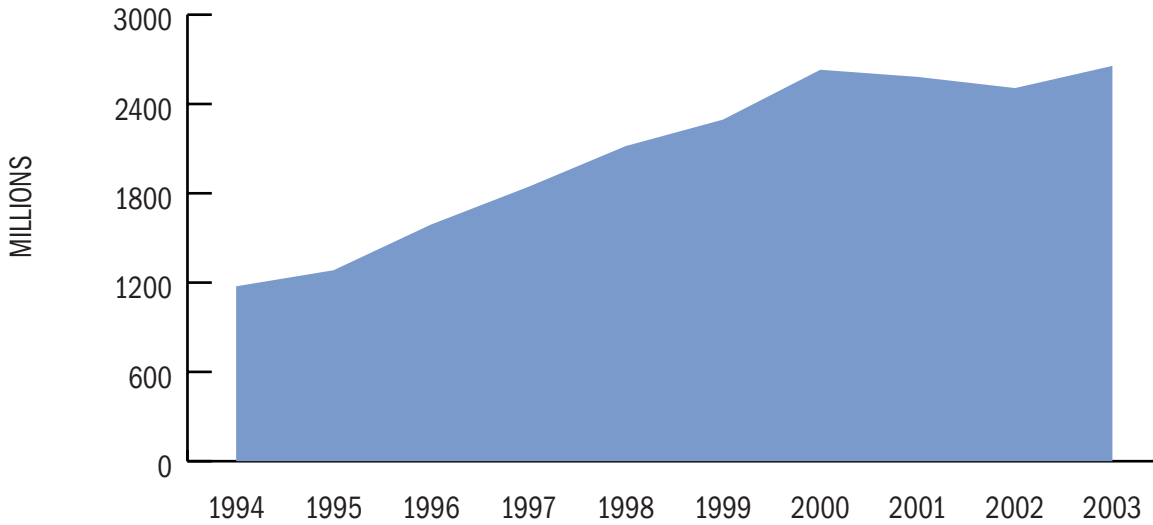
FOR THE YEAR JUNE 30, 2002

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	ABN AMRO	11,117,806	\$525,369.23	\$0.047
2	Salomon Brothers	13,239,897	511,089.77	0.039
3	UBS PaineWebber Inc.	10,018,749	393,447.63	0.039
4	Investment Technology Group Inc.	9,123,191	251,834.41	0.028
5	Goldman Sachs & Company	5,899,484	212,616.72	0.036
6	Lehman Brothers, Inc.	5,548,449	211,269.26	0.038
7	Credit Suisse First Boston Corp.	6,626,822	180,822.30	0.027
8	Merrill Lynch	9,643,325	169,916.56	0.018
9	Morgan Stanley	4,076,246	156,419.77	0.038
10	Instinet	3,969,154	155,489.24	0.039
11	BNY ESI Securities	2,983,835	152,393.92	0.051
12	Ragen Mackenzie	3,484,394	118,449.90	0.034
13	Jefferies & Company	3,554,814	118,361.85	0.033
14	Bear Stearns	2,184,715	107,275.43	0.049
15	Bridge Trading	1,682,400	97,202.68	0.058
16	Lynch Jones and Ryan	1,437,850	87,039.90	0.061
17	Broadcortcapital	1,537,506	86,089.30	0.056
18	Cantor Fitzgerald	1,451,316	81,439.71	0.056
19	Prudential Securities	1,495,610	66,387.30	0.044
20	Legg Mason Wood Walker	1,382,749	59,380.98	0.043
21	Wells Fargo Bank Dealer Operations	1,659,905	56,683.34	0.034
22	Abel Noser Corporation	919,781	54,834.90	0.060
23	Bank of America Montgomery Securities	1,732,289	54,387.79	0.031
24	Deutsche Bank Alex. Brown Inc.	2,242,139	51,415.84	0.023
25	Weiss Peck and Greer	841,056	50,251.32	0.060
	All Other Brokers	48,606,550	832,503.78	0.017
TOTALS		156,460,032	\$4,842,372.83	\$0.031

San Diego City Employees' Retirement System

GROWTH OF SDCERS' NET INVESTMENTS, AT FAIR VALUE

For Ten Years Ended June 30, 2003



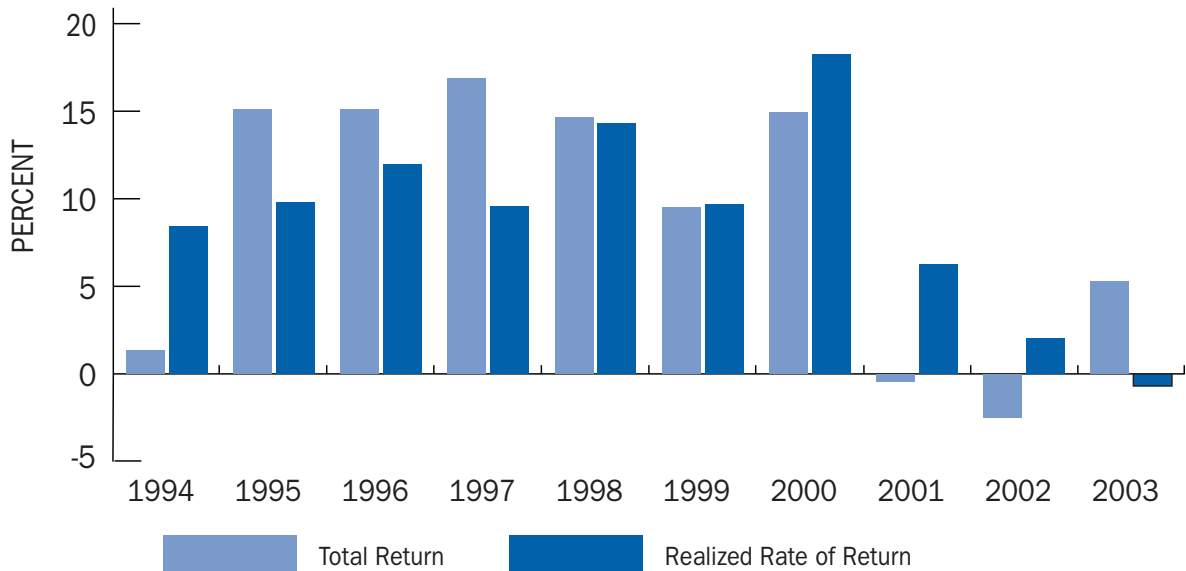
Fiscal Year	Fair Value ¹
1994	\$1,174,854,781
1995	1,282,592,739
1996	1,590,285,263
1997	1,843,391,624
1998	2,116,909,236
1999	2,295,022,045
2000	2,629,874,234
2001	2,582,009,762
2002	2,507,014,627
2003	2,656,440,501

¹Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased).

San Diego City Employees' Retirement System

HISTORY OF INVESTMENT PERFORMANCE

For Ten Years Ended June 30, 2003

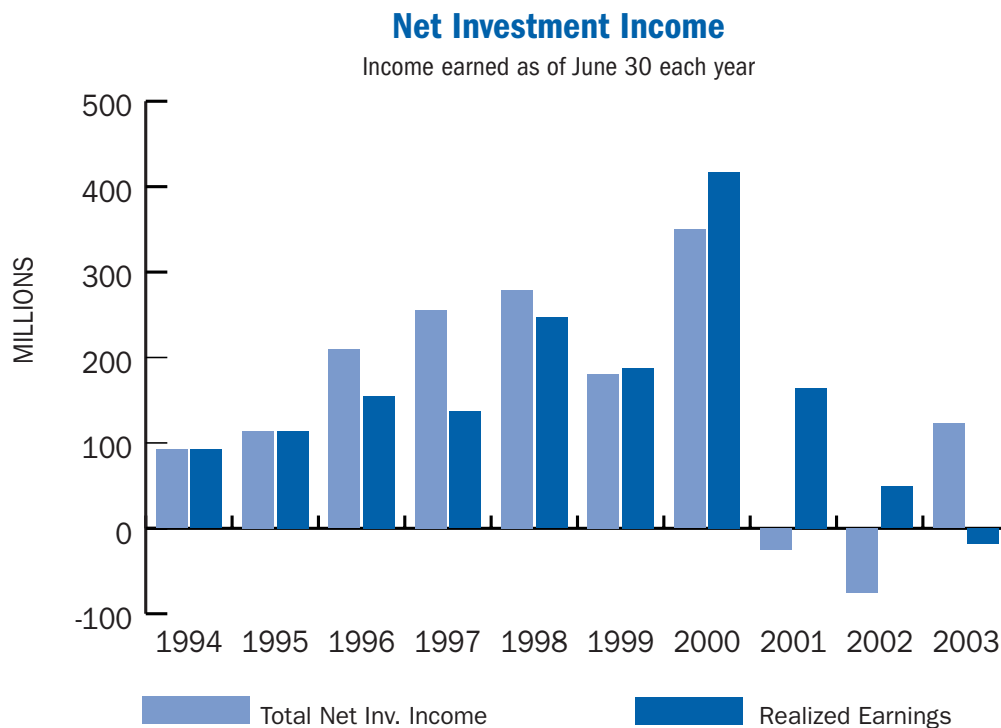


Fiscal Year	Annual Total Return	Annual Realized Rate of Return
1994	1.35%	8.42%
1995	15.11%	9.80%
1996	15.08%	11.96%
1997	16.88%	9.57%
1998	14.64%	14.33%
1999	9.59%	9.70%
2000	15.18%	18.24%
2001	(0.75%)	6.26%
2002	(2.40%)	2.02%
2003	5.44%	(0.96)%

Annual Total Return measures fund performance in terms of the aggregate change in the fund's market value from the beginning of the measurement period to the end of the measurement period. The Annual Realized Rate of Return measures the gains or losses from actual sales of invested assets plus dividends and investment income earned during the period. Certain SDCERS' retirement (contingent) benefits are paid from annual realized earnings; see Notes to the Financial Statements in the Financial Section of this CAFR for further information.

San Diego City Employees' Retirement System
HISTORY OF INVESTMENT PERFORMANCE (continued)

For Ten Years Ended June 30, 2003



Fiscal Year	Total Net Investment Income	Realized ³ Earnings
1994	\$92,323,487 ¹	\$92,323,487
1995	114,393,608 ¹	114,393,608
1996	209,227,674 ²	155,077,454
1997	255,998,283 ²	136,687,652
1998	278,681,878 ²	246,768,067
1999	180,463,938 ²	187,942,463
2000	349,654,651 ²	417,057,071
2001	(25,126,082) ²	164,115,281
2002	(75,934,760) ²	49,082,291
2003	123,111,596²	(18,644,596)

¹ Per GASB Statement No. 5, the cost basis of invested assets was reported at year end, thus unrealized income (difference between cost basis and market value) was not recognized as earnings at fiscal year end. Total Net Investment Income figures for FY 1994 and FY 1995 are not stated net of investment manager fees and related investment expenses.

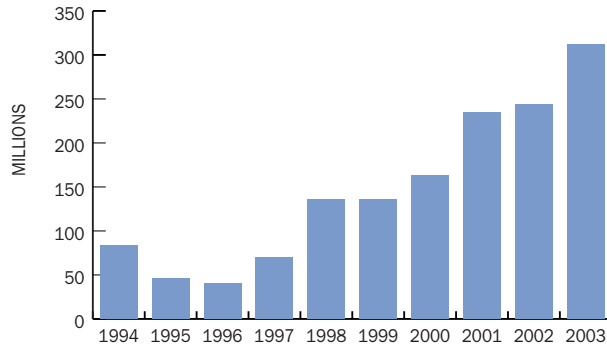
² Total Net Investment Income includes dividends paid, interest earned, real estate income, and income from securities lending, less investment manager fees and related investment expenses plus, per GASB Statement No. 25, the net appreciation / depreciation in the fair value of assets.

³ Realized Earnings are depicted in this historical schedule as certain SDCERS' retirement (contingent) benefits are paid annually from realized earnings on invested assets. The calculation of realized gains and losses disclosed is independent of the calculation of net appreciation (depreciation) in the financial statements.

San Diego City Employees' Retirement System
HISTORICAL ASSET HOLDINGS INFORMATION
 Values Stated on a Trade Date Basis, Gross of Pending Transactions
 For Ten Years Ended June 30, 2003

Cash & Cash Equivalent Holdings

Valuation done June 30 each year
 Cash and Cash Equivalents are investments with maturities of 90 days or less



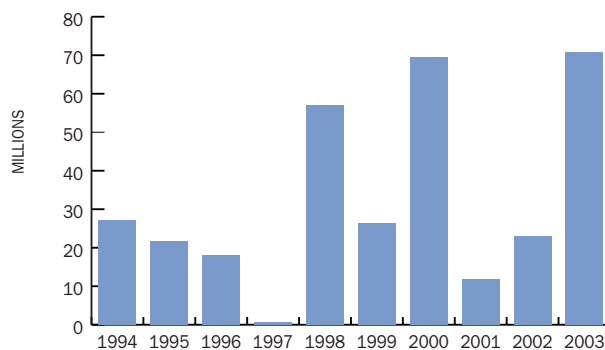
Fiscal Year	Market Value of Cash & Equivalents ¹
1994	\$83,463,989
1995	46,347,036
1996	40,726,138
1997	69,361,891
1998	135,676,617 ²
1999	135,976,338 ²
2000	163,498,829 ²
2001	234,194,670 ²
2002	243,596,793 ²
2003	312,044,538²

¹ SDCERS does not have a target allocation to cash. In accordance with GASB Statement No. 25, assets are classified by security type; therefore, residual cash held in an investment manager's portfolio is reported here.

² Higher cash holdings are due to SDCERS' market neutral strategy that was added to SDCERS' defensive domestic fixed income asset allocation in 1998. The market neutral strategy of long and short domestic equity positions (U.S. stocks) are classified as a net cash position, which is unequitized and invested at the Federal Funds Rate less a rebated amount.

Short Term Investment Holdings

Valuation done June 30 each year
 Short Term Investments are investments with maturities greater than 90 days but less than one year



Fiscal Year	Market Value of Short Term Investments
1994	\$27,129,484
1995	21,666,006
1996	18,185,248
1997	609,768
1998	57,018,178
1999	26,318,203
2000	69,460,684
2001	11,864,163
2002	23,004,166
2003	70,934,651

San Diego City Employees' Retirement System

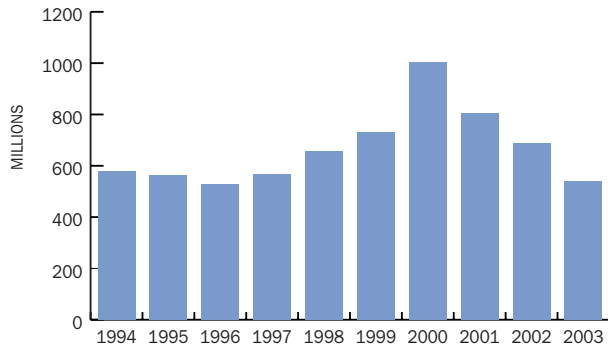
HISTORICAL ASSET HOLDINGS INFORMATION (continued)

Values Stated on a Trade Date Basis, Gross of Pending Transactions

For Ten Years Ended June 30, 2003

Domestic and International Fixed Income (Bond) Holdings

Valuation done June 30 each year

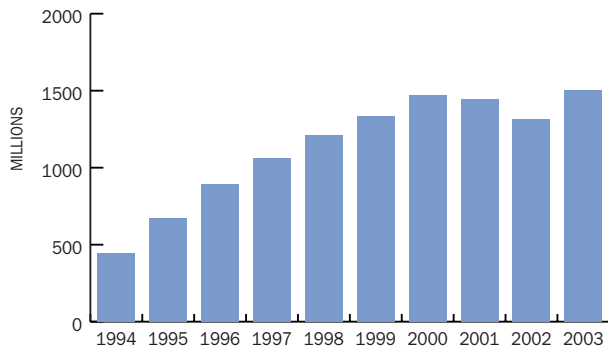


Fiscal Year	Market Value of Bonds
1994	\$579,577,133
1995	564,440,812
1996	528,199,836 ¹
1997	567,063,982 ¹
1998	654,726,238 ¹
1999	731,111,193 ¹
2000	1,005,154,473 ¹
2001	803,756,585 ¹
2002	687,237,643 ¹
2003	583,984,424¹

¹ International fixed income (bonds) exposure added to holdings in FY 1996.

Domestic and International Equity (Stock) Holdings

Valuation done June 30 each year



Fiscal Year	Market Value of Stocks
1994	\$441,786,781
1995	669,385,913 ¹
1996	895,631,516 ¹
1997	1,059,691,384 ¹
1998	1,210,749,732 ¹
1999	1,332,344,711 ¹
2000	1,473,187,920 ¹
2001	1,446,763,240 ¹
2002	1,315,658,196 ¹
2003	1,505,010,871¹

¹ International equity exposure (stocks) added to holdings in FY 1995.

San Diego City Employees' Retirement System

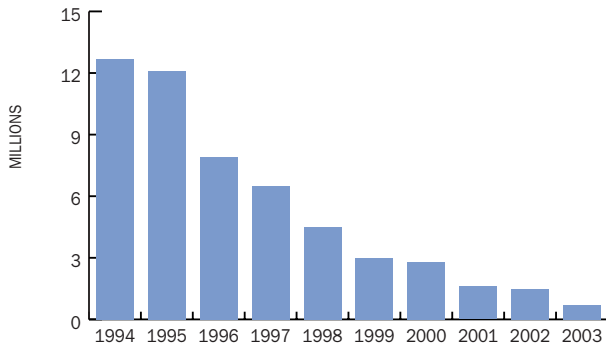
HISTORICAL ASSET HOLDINGS INFORMATION (continued)

Values Stated on a Trade Date Basis, Gross of Pending Transactions

For Ten Years Ended June 30, 2003

Mortgage Holdings

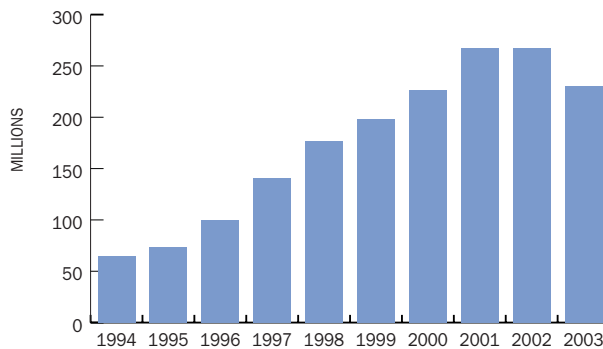
Valuation done June 30 each year



Fiscal Year	Market Value of Mortgages
1994	\$12,743,974
1995	12,180,228
1996	7,916,298
1997	6,551,890
1998	4,493,308
1999	3,008,566
2000	2,784,927
2001	1,617,777
2002	1,515,530
2003	668,621

Real Estate Holdings (including REITs)

Valuation done June 30 each year



Fiscal Year	Market Value of Real Estate
1994	\$64,325,732
1995	73,157,993
1996	99,626,227
1997	140,112,709
1998	176,961,020
1999	197,756,091
2000	226,687,071
2001	267,250,573
2002	267,069,355
2003	230,533,485

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IV. ACTUARIAL SECTION





GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

ACTUARY'S CERTIFICATION LETTER

August 27, 2003

Members of the Retirement Board
San Diego City Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Members of the Board:

We are pleased to have provided the actuarial report from the results of the required annual actuarial valuation of the San Diego City Employees' Retirement System (SDCERS or Retirement System) prepared as of June 30, 2002. The valuation is intended to provide a measure of the funding status of the Retirement System. As of June 30, 2002, the City of San Diego's (City) funded ratio was 77.3% versus last year's funded ratio as of June 30, 2001 of 89.9%. Additionally, the funded ratio for the San Diego Unified Port District (UPD) was 100.3% as of June 30, 2002 compared to the previous year's funded ratio of 118.0% which was as of June 30, 2001. The assumptions and methods used in this valuation for funding purposes meet the disclosure requirements stated in GASB Statement 25.

There was also an interim valuation as of December 31, 2002, for UPD and the newly created Airport Authority (AA). At such date, the funded ratio was 91.1% for UPD and 95.7% for AA.

The valuation survey was based on financial statements and financial data provided by the Retirement Staff. The data was checked for reasonableness by our staff. The valuation was based on an inflation assumption rate of 4.25% and an annual real rate of investment return of 3.75%. Thus, the nominal assumed investment return rate was 8%. The annual salary increase was assumed to be 4.75% with an additional, variable merit increase for an employee's first five years of service.

The most recent year's actuarial valuation results indicated that there was a sizable City experience loss of \$364.8 million. This loss was primarily attributable to actual investment performance significantly less than the 8% assumption. This loss represents 13.0% of the City's actuarial accrued liabilities as of the previous valuation date of June 30, 2001. The UPD also had an experience loss of \$20.3 million as of June 30, 2002, or 16.5% of their actuarial accrued liabilities as of the previous valuation date of June 30, 2001.

Members of the Retirement Board
 San Diego City Employees' Retirement System
 August 27, 2003
 Page Two

All schedules in the Actuarial Section were based on information obtained from the last six years of Actuarial Valuations (1997 - 2002), plus the December 31, 2002 interim valuations. The following is a list of schedules in the Actuarial Section provided by us for this report.

1. Schedule of Retirants and Beneficiaries Added To and Removed From Rolls
2. Solvency Test

While we did not specifically assemble any of the schedules in the Financial and Statistical Sections, we understand that specific data from the last six years of actuarial valuations (1997 - 2002), plus the December 31, 2002 interim valuations was used by the Retirement Staff in the presentation of some schedules. A list of those schedules follows.

Financial Section

1. Employer Contribution Rates Based on Actuarial Valuations
2. Average Employee Contribution Rates
3. Schedules of Funding Progress
4. Schedules of Plan Sponsors' (Employers') Contributions

Statistical Section

5. Schedule of Allowances Being Paid – Service and Disability Retirees and Beneficiaries
6. Schedule of Average Benefit Payment Amounts
7. Schedule of Active Members
8. Schedule of Inactive Members

The asset value used in determining the employer contribution rate reflects a portion of the unrealized gain or loss in assets. The actuarial assumptions used in the valuation are summarized in the attachments to the complete actuarial valuation on file at SDCERS' Offices. All assumptions were adopted by the SDCERS' Retirement Board after receiving input from the Board's actuary.

Sincerely,



Rick A. Roeder, EA, FSA, MAAA

GABRIEL, ROEDER, SMITH & COMPANY

San Diego City Employees' Retirement System

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Used for the June 30, 2002 and December 31, 2002¹ Valuations

- The investment rate of return in making the valuations was 8.0% per year, compounded annually, before retirement and 2.0% per year, compounded annually, after retirement.
- The real rate of return is the rate of investment return in excess of the inflation rate. The assumed inflation rate was 4.25%.

Investment return	8.00%
minus Inflation	4.25%
Real rate of return	3.75%

- The actuarial value of assets was determined using the net market value and net book value of plan assets. Taking the gross values and deducting payables as indicated in the financial statements arrives at net values available for benefits. The percentage differences between net market value and net book value over the most recent five-year period were calculated. The resulting percentages were averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at the actuarial value of plan assets.
- The actuarial assumptions and methods shown in the supporting schedules were calculated by the actuary and adopted by SDCERS' Board. These assumptions and methods are reviewed and approved annually with each valuation.
- The mortality table used in evaluating allowances to be paid was the 1994 Uninsured Pension Mortality table, set back 2 years for retirees and 5 years for disability retirees. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below:

Sample Ages	Men	Women	Disabilitants
45	36.07	40.44	30.01
50	31.37	35.64	25.49
55	26.78	30.90	21.20
60	22.38	26.27	17.26
65	18.28	21.86	13.77
70	14.61	17.80	10.66
75	11.35	14.03	7.97
80	8.48	10.61	5.86

¹ The San Diego County Regional Airport Authority was established as a separate agency (plan sponsor - employer), effective January 1, 2003, from the Unified Port of San Diego; interim fiscal year actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

San Diego City Employees' Retirement System**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)**

Used for the June 30, 2002 and December 31, 2002¹ Valuations

- The probabilities of withdrawal from active employment, together with individual pay increase assumptions, are shown in Schedules 1(a), 1(b), and 1(c) in the pages that follow.
- The probabilities of retirement with an age and service allowance are shown in Schedules 2(a), 2(b), and 2(c) in the pages that follow.
- Total active member payroll was assumed to increase as follows:

Inflation	4.25%
Merit & Longevity	0.50%
Total	4.75%

- The projected unit credit actuarial cost method (adopted as of July 1, 1991) was used in determining age and service allowance actuarial liabilities at normal cost. Actuarial gains and losses reduce or increase the unfunded liability and are amortized over a 30 year, closed amortization period that began on July 1, 1991 (19 years remaining as of the June 30, 2002 actuarial valuation).
- The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded. There is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).
- The member statistical data on which the valuation was based was furnished by SDCERS, together with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.
- The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

¹ The San Diego County Regional Airport Authority was established as a separate agency (plan sponsor - employer), effective January 1, 2003, from the Unified Port of San Diego; interim fiscal year actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

San Diego City Employees' Retirement System

SCHEDULE 1(a)

Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions (Percent of Active Members Separating Within Next Year)

City of San Diego

Sample Ages	Years of Service	General Members		Safety	Percent Increase in Individuals' Pay During Next Year	Additional Assumed Merit Component	
		Men	Women			General	Safety
All	0	4.30%	7.30%	4.40%	4.75%	4.50%	6.50%
	1	4.30	7.20	4.40	4.75	3.50	5.50
	2	4.30	7.00	4.30	4.75	2.50	4.50
	3	4.30	6.90	4.10	4.75	1.50	3.00
	4	4.20	6.30	4.00	4.75	0.50	1.50
20	5 & Over	4.00	5.60	3.20	2.00		
25		4.00	5.60	3.20	2.00		
30		3.70	4.20	2.20	2.00		
35		3.20	2.60	1.40	2.00		
40		2.10	2.00	0.60	2.00		
45		1.70	1.60	0.30	2.00		
50		1.30	1.30	0.10	2.00		
55		0.90	1.00	0.00	2.00		
60		0.00	0.00	0.00	2.00		

Note: 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

SCHEDULE 1(b)

Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions (Percent of Active Members Separating Within Next Year)

Unified Port of San Diego

Sample Ages	Years of Service	General Members		Safety	Percent Increase in Individuals' Pay During Next Year	Additional Assumed Merit Component	
		Men	Women			General	Safety
All	0	4.30%	7.30%	4.40%	4.75%	4.50%	6.50%
	1	4.30	7.20	4.40	4.75	3.50	5.50
	2	4.30	7.00	4.30	4.75	2.50	4.50
	3	4.30	6.90	4.10	4.75	1.50	3.00
	4	4.20	6.30	4.00	4.75	0.50	1.50
20	5 & Over	4.00	5.60	3.20	2.00		
25		4.00	5.60	3.20	2.00		
30		3.70	4.20	2.20	2.00		
35		3.20	2.60	1.40	2.00		
40		2.10	2.00	0.60	2.00		
45		1.70	1.60	0.30	2.00		
50		1.30	1.30	0.10	2.00		
55		0.90	1.00	0.00	2.00		
60		0.00	0.00	0.00	2.00		

Note: 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

San Diego City Employees' Retirement System**SCHEDULE 1(c)**

Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions (Percent of Active Members Separating Within Next Year)

San Diego County Regional Airport Authority

Sample Ages	Years of Service	General Members		Percent Increase in Individuals' Pay During Next Year	Additional Assumed Merit Component General
		Men	Women		
All	0	4.30%	7.30%	4.75%	4.50%
	1	4.30	7.20	4.75	3.50
	2	4.30	7.00	4.75	2.50
	3	4.30	6.90	4.75	1.50
	4	4.20	6.30	4.75	0.50
20	5 & Over	4.00	5.60	2.00	
25		4.00	5.60	2.00	
30		3.70	4.20	2.00	
35		3.20	2.60	2.00	
40		2.10	2.00	2.00	
45		1.70	1.60	2.00	
50		1.30	1.30	2.00	
55		0.90	1.00	2.00	
60		0.00	0.00	2.00	

Note: 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

San Diego City Employees' Retirement System

SCHEDULE 2(a)

Percent of Active Members Retiring
Within the Next Year

SCHEDULE 2(b)

Percent of Active Members Retiring
Within the Next Year

City of San Diego

Retirement Ages	Safety Members	General Members	Elected Officers	
			Men	Women
50	10%	—	—	—
51	10	—	—	—
52	10	—	—	—
53	10	—	15%	15%
54	20	—	1	1
55	40	20%	5	6
56	40	10	3	3
57	40	10	4	4
58	50	15	5	4
59	80	15	6	5
60	85	20	60	60
61	90	25	25	25
62	100	50	39	29
63	100	40	23	25
64	100	25	34	35
65	100	50	70	60
66	100	40	70	65
67	100	40	75	70
68	100	40	80	80
69	100	40	90	90
70	100	100	100	100

Unified Port of San Diego

Retirement Ages	Safety Members	General Members
51	10	—
52	10	—
53	10	—
54	20	—
55	40	20%
56	40	10
57	40	10
58	50	15
59	80	15
60	85	20
61	90	25
62	100	50
63	100	40
64	100	25
65	100	50
66	100	40
67	100	40
68	100	40
69	100	40
70	100	100

Deferred vested members were assumed to retire provided they have 10 years of service (4 for Elected Official members) on the later of attained age or:

General members: Earlier of age 62 or age 55 and 20+ years of service

Safety members: Earlier of age 55 or age 50 and 20+ years of service

Elected Official members: Earlier of age 55 with 4+ years of service or at an age less than 55 with 8+ years of service and a 2% reduction for each year less than age 55

If the inactive member is not vested, the liability is the return of the member's (employee's) contributions with interest.

Deferred vested members were assumed to retire provided they have 5 years of service on the later of attained age or:

General members: Earlier of age 62 or age 55 and 20+ years of service

Safety members: Earlier of age 55 or age 50 and 20+ years of service

If the inactive member is not vested, the liability is the return of the member's (employee's) contributions with interest.

San Diego City Employees' Retirement System
SCHEDULE 2(c)
 Percent of Active Members Retiring
 Within the Next Year

**San Diego County
 Regional Airport Authority**

Retirement Ages	General Members
50	—
51	—
52	—
53	—
54	—
55	20%
56	10
57	10
58	15
59	15
60	20
61	25
62	50
63	40
64	25
65	50
66	40
67	40
68	40
69	40
70	100

Deferred vested members were assumed to retire provided they have 5 years of service on the later of attained age or:

General members: Earlier of age 62 or age 55 and 20+ years of service

Safety members: Earlier of age 55 or age 50 and 20+ years of service

If the inactive member is not vested, the liability is the return of the member's (employee's) contributions with interest.

San Diego City Employees' Retirement System
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

For Years Ended June 30

City of San Diego

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
6/30/2002	10,409	\$535,156,545	\$51,413	5.54%
6/30/2001	9,892	481,863,319	48,712	7.67
6/30/2000	9,913	448,501,827	45,244	2.89
6/30/1999	9,654	424,515,969	43,973	3.13
6/30/1998	9,359	399,035,094	42,637	3.74
6/30/1997	9,312	382,715,084	41,099	3.54

Unified Port of San Diego

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
12/31/2002 ¹	606	\$33,995,335	\$56,098	5.70%
6/30/2002	736	39,063,314	53,075	6.95
6/30/2001	734	36,425,136	49,626	5.99
6/30/2000	654	30,621,242	46,821	3.04
6/30/1999	661	30,034,900	45,439	4.94
6/30/1998	616	26,672,111	43,299	0.27
6/30/1997	588	25,390,456	43,181	4.12

San Diego County Regional Airport Authority

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
12/31/2002 ¹	173	\$8,871,283	\$51,279	N/A

¹ The San Diego County Regional Airport Authority was established as a separate agency (plan sponsor - employer), effective January 1, 2003, from the Unified Port of San Diego; interim fiscal year actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

San Diego City Employees' Retirement System
SCHEDULE OF RETIREES AND BENEFICIARIES ADDED
TO AND REMOVED FROM ROLLS

City of San Diego

Year Ended	No.	Added Annual Allowances	No.	Removed Annual Allowances	No.	Total Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
6/30/2002	168	\$6,924,718	37	\$479,153	5,143	\$121,554,577	7.92%	\$23,635
6/30/2001	386	15,610,998	163	1,918,967	5,012	112,637,558	18.13	22,474
6/30/2000	251	8,798,554	119	1,273,240	4,789	95,348,751	8.57	19,910
6/30/1999	319	11,506,968	81	1,720,856	4,657	87,823,437	14.79	18,858
6/30/1998	241	8,107,722	Data Revision ¹		4,419	76,507,181	22.08	17,313
6/30/1997	129	3,887,192	58	604,254	4,123	62,672,105	7.64	15,201

¹ Reflects data revision due to retroactive DROP retirees; no annual allowances removed in 1998.

NOTE: DROP recipients are treated as retirees for this exhibit. DROP was instituted in 1997. Due to the COLA, rolls at end of the year will not "sum" to additions and removals of new and deceased benefit recipients

Unified Port of San Diego

Year Ended	No.	Added Annual Allowances	No.	Removed Annual Allowances	No.	Total Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
12/31/2002 ²	26	\$901,784	11	\$449,156	278	\$5,712,542	8.61%	\$20,549
6/30/2002	18	532,224	1	16,552	263	5,259,915	21.00	20,000
6/30/2001	9	241,083	5	121,845	246	4,346,932	4.88	17,670
6/30/2000	11	302,123	1	10,818	242	4,144,798	9.71	17,127
6/30/1999	7	114,675	2	19,293	232	3,777,935	4.64	16,284
6/30/1998	24	743,928	6	62,433	227	3,610,346	25.73	15,905
6/30/1997	9	141,786	8	14,576	209	2,871,423	6.73	13,739

NOTE: DROP recipients are treated as retirees for this exhibit. DROP was instituted in 1997. Due to the COLA, rolls at end of the year will not "sum" to additions and removals of new and deceased benefit recipients

San Diego County Regional Airport Authority

Year Ended	No.	Added Annual Allowances	No.	Removed Annual Allowances	No.	Total Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
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12/31/2002² No valuation activity to report

² The San Diego County Regional Airport Authority was established as a separate agency (plan sponsor - employer), effective January 1, 2003, from the Unified Port of San Diego; interim fiscal year actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

San Diego City Employees' Retirement System

SOLVENCY TEST

For Years Ended June 30

City of San Diego

Aggregate Accrued Liabilities For (\$ in thousands)					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
6/30/2002	\$353,686	\$1,440,392	\$1,374,842	\$2,448,208	100.00%	100.00%	47.58%
6/30/2001	296,851	1,337,799	1,174,888	2,525,645	100.00	100.00	75.84
6/30/2000 ³	276,352	1,170,075	1,082,347	2,459,815	100.00	100.00	93.63
6/30/1999	238,278	1,026,395	916,874	2,033,153	100.00	100.00	83.82
6/30/1998 ²	220,415	885,586	873,667	1,852,151	100.00	100.00	85.40
6/30/1997	210,888	699,535	838,445	1,632,361	100.00	100.00	86.10

¹ Actuarial Value of Assets ² Reflects revised actuarial and economic assumptions ³ Reflects non-contingent Corbett benefit increases.

Unified Port of San Diego

Aggregate Accrued Liabilities For (\$ in thousands)					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
12/31/2002 ³	\$11,578	\$63,843	\$62,403	\$125,619	100.00%	100.00%	80.44%
6/30/2002	12,317	57,650	70,230	140,613	100.00	100.00	100.00
6/30/2001	10,754	52,025	60,347	145,278	100.00	100.00	100.00
6/30/2000	9,609	44,774	42,777	133,183	100.00	100.00	100.00
6/30/1999	8,792	40,725	40,292	110,310	100.00	100.00	100.00
6/30/1998 ²	7,325	39,282	35,026	98,007	100.00	100.00	100.00
6/30/1997	7,656	29,979	35,929	84,511	100.00	100.00	100.00 ¹

¹ Actuarial Value of Assets ² Reflects revised actuarial and economic assumptions ³ Interim (mid-year) actuarial valuation performed due to split of San Diego County Regional Airport Authority from Unified Port of San Diego.

San Diego County Regional Airport Authority

Aggregate Accrued Liabilities For (\$ in thousands)					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
12/31/2002 ²	\$1,509	0	\$10,018	\$11,028	100.00%	100.00%	95.02%

¹ Actuarial Value of Assets ² The San Diego County Regional Airport Authority was established as a separate agency (plan sponsor - employer), effective January 1, 2003, from the Unified Port of San Diego; interim fiscal year actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

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San Diego City Employees' Retirement System
ANALYSIS OF FINANCIAL EXPERIENCE

For the Years Ended June 30

Actuarial gains or losses realized in the operation of retirement systems provide an experience test. Gains and losses are expected to cancel each other out over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common.

Valuation Date	CITY OF SAN DIEGO			
	6/30/2002	6/30/2001	6/30/2000	6/30/1999
Estimated Gain (Loss) Attributed to Investment Experience	\$(312,953,654)	\$(95,647,385)	\$290,700,000	\$74,892,018
Estimated Gain (Loss) Attributed to Pay Increases	(25,000,000)	(37,000,000)	18,773,910	13,135,392
Estimated Gain (Loss) Attributed to Post-Retirement Mortality Experience of Retirants and Beneficiaries at Beginning of Year and Pay Increases for New Retirees in Year of Retirement	—	—	—	—
Estimated Gain (Loss) Attributed to Employee Turnover, Pre-Retirement Mortality, Retirement Incidence, Data Corrections and Miscellaneous Factors	(26,861,501)	(60,521,599)	(22,834,750)	(58,277,111)
Total Estimated Experience Gain (Loss)	\$(364,815,155)	\$(193,168,984)	\$286,639,160	\$29,750,299

Reconciling Differences Between Assumed Experience and Actual Experience

Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience regardless of the skill of the actuary and the many calculations made. Most retirement systems, including SDCERS, cope with this difference by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continuing adjustments in financial position.

¹ The San Diego County Regional Airport Authority (Airport) was established as a separate agency by the State of California effective January 1, 2003, from a group of employees formerly employed by the Unified Port of San Diego (Port). The Airport elected to enter into an agreement with SDCERS for the administration of their defined benefit plan. As such, an interim valuation was prepared as of 12/31/2002 for both the Airport and the Port. Financial experience results for the Airport will be reported in the June 30, 2003 valuation.

² Prior to 1998, one actuarial valuation was performed for both the City and the Port.

UNIFIED PORT OF SAN DIEGO					SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY ¹	CITY OF SAN DIEGO/ UNIFIED PORT OF SAN DIEGO ²	
12/31/2002	6/30/2002	6/30/2001	6/30/2000	6/30/1999	12/31/2002	6/30/1998	6/30/1997
\$(10,838,574)	\$(14,923,620)	\$1,304,928	\$14,962,558	\$3,854,203	N/A	\$101,000,000	\$40,036,829
(1,915,000)	(1,708,425)	(2,462,678)	36,100	(288,881)	—	9,141,984	9,609,149
(520,130)	(511,278)	1,267,497	(896,871)	(523,992)	—	—	(9,435,558)
2,176,599	(3,145,376)	(3,009,643)	992,586	559,703	—	(79,055,974)	(1,736,427)
\$(11,097,105)	\$(20,288,699)	\$(2,899,896)	\$15,094,373	\$3,601,033	—	\$31,086,010	\$38,473,993

San Diego City Employees' Retirement System
ANALYSIS OF FINANCIAL EXPERIENCE (continued)

For the Years Ended June 30

Actuarial gains or losses realized in the operation of retirement systems provide an experience test. Gains and losses are expected to cancel each other out over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common.

Valuation Date	CITY OF SAN DIEGO			
	6/30/2002	6/30/2001	6/30/2000	6/30/1999
Experience Gain (Loss)	\$(364,815,155)	\$(193,168,984)	\$286,639,160	\$29,750,299
Beginning of Year Accrued Liabilities	2,809,537,745	2,528,773,900	2,181,547,453	1,979,668,038
Gain (Loss) Percentage of Liabilities	(12.98)%	(7.64)%	13.14%	1.50%
Net Increase in Liabilities	\$280,763,845	\$347,226,447	\$201,879,415	\$157,236,020

¹ The San Diego County Regional Airport Authority (Airport) was established as a separate agency by the State of California effective January 1, 2003, from a group of employees formerly employed by the Unified Port of San Diego (Port). The Airport elected to enter into an agreement with SDCERS for the administration of their defined benefit plan. As such, an interim valuation was prepared as of 12/31/2002 for both the Airport and the Port.

² Prior to 1998, one actuarial valuation was performed for both the City and the Port.

UNIFIED PORT OF SAN DIEGO					SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY ¹	CITY OF SAN DIEGO/ UNIFIED PORT OF SAN DIEGO ²	
12/31/2002	6/30/2002	6/30/2001	6/30/2000	6/30/1999	12/31/2002	6/30/1998	6/30/1997
\$(11,097,105)	\$(20,288,699)	\$(2,899,896)	\$15,094,373	\$3,601,033	N/A	\$31,086,010	\$38,473,993
140,196,959	123,125,659	97,159,852	89,808,543	81,632,570	—	1,822,432,018	1,682,604,532
(7.92)%	(16.48)%	(2.98)%	16.81%	4.41%	—	1.71%	2.29%
\$17,071,300	\$25,965,807	\$7,351,310	\$8,175,973	N/A²	—	\$139,827,486	\$205,893,870

San Diego City Employees' Retirement System

ANALYSIS OF FINANCIAL EXPERIENCE (continued)

For the Years Ended June 30

Discussion of the Comparative Schedules of Experience Gain (Loss)

December 31, 2002 (interim actuarial valuation for the Port): The net losses of \$11.1 million (Port) were as a result of the decreasing market values of invested assets and more than expected employee pay increases, combined with less than expected employee turnover and pre-retirement mortality. These losses further increased SDCERS' liabilities to \$17.1 million over SDCERS' prior year liabilities. The results of the interim December 31, 2002, actuarial valuations also demonstrated a loss by SDCERS.

June 30, 2002: The net losses of \$364.8 million (City) and \$20.3 million (Port) were as a result of the decreasing market values of invested assets and more than expected employee pay increases, combined with less than expected employee turnover and pre-retirement mortality. These losses further increased SDCERS' liabilities to \$280.8 million (City) and \$26.0 million (Port) over SDCERS' prior year liabilities. The results of the June 30, 2002, actuarial valuations were the second consecutive year that a loss was experienced by SDCERS.

June 30, 2001: The net losses of \$193.2 million (City) and \$2.9 million (Port) were as a result of the decreasing market values of invested assets and more than expected employee pay increases, combined with less than expected employee turnover and pre-retirement mortality. These losses further increased SDCERS' liabilities to \$347.2 million (City) and \$7.4 million (Port) over SDCERS' prior year liabilities. The results of the June 30, 2001, actuarial valuations were the first time in recent years that a loss was experienced by SDCERS.

June 30, 2000: The net gains of \$286.6 million (City) and \$15.1 million (Port) were as a result of investment earnings and the savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover and pre- and post-retirement mortality. These gains helped to reduce the net increases in liabilities to \$201.9 million (City) and \$8.2 million (Port) over the prior year.

June 30, 1999: The net gains of \$29.7 million (City) and \$3.6 million (Port) were as a result of investment earnings and the net savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover, and, pre- and post-retirement mortality. These gains helped to reduce the combined net increase in liabilities to \$157.2 million over the prior year.

June 30, 1998: The net gain of \$31.1 million was as a result of investment earnings and the savings from expected employee pay increases exceeding losses due to less than expected employee turnover and pre-retirement mortality. This gain helped to reduce the net increase in liabilities to \$139.8 million from the prior year.

June 30, 1997: The net gain of \$38.5 million was as a result of investment earnings and savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover, and, pre- and post-retirement mortality. This gain helped to reduce the net increase in liabilities to \$205.9 million from the prior year.

San Diego City Employees' Retirement System

SUMMARY OF SDCERS' BENEFIT PROVISIONS

As of June 30, 2003

SDCERS' DESCRIPTION AND HISTORY

Established in fiscal year 1927, the San Diego City Employees' Retirement System (SDCERS) provides retirement, disability and death benefits and administers health insurance benefits for City of San Diego health eligible members. In 1955, the closed Police and Fire Systems were merged with SDCERS resulting in SDCERS' composition of two distinct benefit structures for general members and police and fire safety members. Employees of the Unified Port of San Diego (Port) became members of SDCERS in 1963 through an agreement between the City of San Diego (City) and the Port. In 1971, elected officials were added to SDCERS as the third distinct benefit structure. Effective January 1, 2003, the State of California established the San Diego County Regional Airport Authority (Airport) as a separate agency from the Port, consisting of a group of employees formerly employed by the Port and newly hired employees. The Airport entered into an agreement with SDCERS to have its defined benefit plan administered by SDCERS; thus Airport employees became, and remained, members of SDCERS in 2003.

SDCERS, acting as agent of a multi-employer defined benefit plan, provides vested members a specified portion of their annual salaries when they retire. In order to attain the appropriate level of funding for each member, the Plan specifies a formula to be used to calculate the amount that would need to be contributed by plan sponsors (employers) and members (employees) each year until retirement. To maintain low levels of required contributions, SDCERS' Board has established a diversified, long-term investment strategy consisting of investments in the following asset classes: domestic and international fixed income, domestic and international equities, and domestic real estate. Additionally, SDCERS reinvests interest earnings and the profits from the sale of invested assets. Currently, SDCERS' Plan Net Assets are valued at \$2.679 billion as of June 30, 2003, as compared to \$2.527 billion as of June 30, 2002.

SDCERS is governed by a thirteen-member Board comprised of representatives of general and safety members, retirees, City management, and appointed San Diego citizens. SDCERS' Board is responsible for administering SDCERS in accordance with the California State Constitution Article XVI, Section 17, the San Diego City Charter Article IX, Sections 141 – 149 and Article X, Section 1, and the San Diego Municipal Code Sections 24.0100 - 24.1809.

Since its inception, the membership of SDCERS and the number of retirees has continued to increase. In the most recent plan year, as of June 30, 2003, there was a total increase of 337 participants. This is comprised of a net increase of one member and a net increase of 336 retirees.

Continued growth in members and retirees is anticipated over the next few years. In order to accommodate this growth, SDCERS has established a long-term investment strategy based on sound investment policies and risk reduction through the diversification of invested assets. By adhering to prudent investment principles, SDCERS' objective is to be in a position to fund the retirement benefits earned by current and future members.

San Diego City Employees' Retirement System

SUMMARY OF SDCERS' BENEFIT PROVISIONS (continued)

As of June 30, 2003

City of San Diego

1. Membership Requirements	Salaried Employees - Immediate eligibility upon employment (compulsory)
2. Monthly Base Salary for Benefits	Highest one-year average, subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula. (Such change is effective as of 7/1/2000). For Elected Official Members, there is an increase of 10% in this average, effective as of 7/1/2000.
3. Service Retirement	
Eligibility	
General Members	Age 62 with 10 years of service, or age 55 with 20 years of service.
Safety Members	Age 55 with 10 years of service, or age 50 with 20 years of service.
Elected Official Members	Age 55 with 4 years of service. Reduced retirement with 8 years of service regardless of age, if less than age 55.
Benefit Formula Per Year of Service	
General Members	2.5% per year of service or member choice of formula in place as of 6/30/2000 or "Corbett" formula effective as of 7/1/2000. Retirement capped at 90% of high one-year salary.
Safety Members	3.0% per year of service or member choice of formula in place as of 6/30/2000 or "Corbett" formula effective as of 7/1/2000. Retirement capped at 90% of high one-year salary.
Elected Official Members	3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Official members retiring prior to age 55 with 8 years of service.
Port Management Members (where not specifically identified, treated as part of General Members)	N/A
Maximum Benefit	
General Members	90% of Final Average Compensation (subject to 10% increase).
Safety Members	90% of Final Average Compensation (subject to 10% increase).
Elected Official Members	None
Unmodified Form of Payment	Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death.
4. Non-Industrial Disability	
Eligibility	
All Members	Ten years of service
Benefit Formula Per Year of Service	
General Members	Greater of 1.5% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.
Safety Members	Greater of 1.8% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Unified Port of San Diego

San Diego County Regional Airport Authority

Salaried Employees - Immediate eligibility upon employment (compulsory)

Salaried Employees - Immediate eligibility upon employment (compulsory)

Highest one-year average.

Highest one-year average.

Age 62 with 5 years of service, or age 55 with 20 years of service.

Age 62 with 5 years of service, or age 55 with 20 years of service.

Age 55 with 5 years of service, or age 50 with 20 years of service.

N/A

N/A

N/A

As of 1/1/2002, Member choice of existing integrated formula with 10% increase in final average compensation, or "Andrecht" 3% formula, integrated, without increase in final average compensation.

As of 1/1/2002, Member choice of existing integrated formula with 10% increase in final average compensation, or "Andrecht" 3% formula, integrated, without increase in final average compensation.

As of 1/1/2002, Member choice of existing integrated formula with 10% increase in final average compensation, or "Andrecht" 3% formula, integrated, without increase in final average compensation.

N/A

N/A

N/A

Effective as of 12/1/2002, there shall be an integrated 3% multiplier for all years of service.

N/A

None

None

90% of Final Average Compensation

N/A

N/A

N/A

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death.

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death.

Ten years of service

Ten years of service

Greater of 1.5% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of 1.5% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of 1.8% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of 1.8% per year of service, one-third of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

San Diego City Employees' Retirement System
SUMMARY OF SDCERS' BENEFIT PROVISIONS (continued)

As of June 30, 2003

City of San Diego

5. Industrial Disability	
Eligibility	
All Members	No age or service requirement.
Benefit Formula Per Year of Service	
General Members	Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.
Safety Members	Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.
Elected Official Members	Earned service retirement benefit (this benefit also applies to a non-industrial disability).
6. Non-Industrial Death Before Eligible to Retire	
	Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six month's salary.
7. Non-Industrial Death After Eligible to Retire for Service	
	50% of earned benefit payable to surviving eligible spouse.
8. Industrial Death	
	50% of the final average compensation preceding death, payable to eligible spouse.
9. Death After Retirement	
	Continuance to specified beneficiary based upon option selected. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.
10. Withdrawal Benefits	
	Pre-12/8/1976 Hires - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.
	Post-12/7/1976 Hires -
	1. Less than ten years of service - Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.
	2. Ten or more years of service - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.
11. Post-Retirement Cost-of-Living Benefits	
General Members	Based on changes in Consumer Price Index, to a maximum of 2% per year.
Safety Members	Based on changes in Consumer Price Index, to a maximum of 2% per year.
12. Computed Contribution Rate	
	Determined by the Projected Unit Credit Funding Method with a 30-year closed amortization of Unfunded Actuarial Accrued Liability beginning on 7/1/1991.
13. Member Contributions	
	Vary by age at time of entrance into SDCERS. While a significant portion of these contributions are "picked up," such pickups are not directly reflected in either the member (employee) contributions or related refund calculations.
14. Internal Revenue Code Compliance	
	Benefits provided by the Plan are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.

Unified Port of San Diego

San Diego County Regional Airport Authority

No age or service requirement.

No age or service requirement.

Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

Greater of one-half of final compensation (subject to 10% compensation increase), or the earned service retirement benefit.

N/A

N/A

Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six month's salary.

Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six month's salary.

50% of earned benefit payable to surviving eligible spouse.

50% of earned benefit payable to surviving eligible spouse.

50% of the final average compensation preceding death, payable to eligible spouse.

50% of the final average compensation preceding death, payable to eligible spouse.

Continuance to specified beneficiary based upon option selected. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

Continuance to specified beneficiary based upon option selected. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

Pre-12/8/1976 Hires - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

1. Less than five years of service - Refund of accumulated employee contributions with interest, or may keep deposits with SDCERS and earn additional interest.

Post-12/7/1976 Hires -

1. Less than five years of service - Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.
2. Five or more years of service - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire. If vested deferred, as of 1/1/02, there will be a one-time, Andrecht-related 7% increase in benefits.

2. Five or more years of service - If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Determined by the Projected Unit Credit Funding Method with a 30-year closed amortization of Unfunded Actuarial Accrued Liability beginning on 7/1/1991.

Determined by the Projected Unit Credit Funding Method with an 18.5-year closed amortization of Unfunded Actuarial Accrued Liability beginning on 1/1/2003.

Vary by age at time of entrance into SDCERS.

Vary by age at time of entrance into SDCERS.

Benefits provided by the Plan are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.

Benefits provided by the Plan are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.

San Diego City Employees' Retirement System

SUMMARY OF SDCERS' BENEFIT PROVISIONS (continued)

As of June 30, 2003

Deferred Retirement Option Program (DROP)

The Deferred Retirement Option Plan (DROP) was created by SDCERS' plan sponsors to provide SDCERS' members (employees) with an alternative method to accrue benefits in SDCERS. It is a voluntary program created to add retirement planning flexibility. For actuarial valuation purposes, SDCERS' members entering DROP are considered "retired" the date they enter DROP. SDCERS administers the DROP program.

If a SDCERS member participates in DROP, they will have access to a lump sum benefit in addition to their normal monthly retirement allowance when they retire. DROP was initially offered by SDCERS' plan sponsors on a trial basis for a three-year period ending March 31, 2000. It has since become a permanent benefit. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for their respective employer (plan sponsor) and receives a regular paycheck. The DROP participant no longer makes retirement contributions to SDCERS and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer offered benefits available to regular employees.

A SDCERS member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable; you cannot change these designations once the first payment is made into a DROP account.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, up to a maximum of five years. A DROP participant must agree to end employment with their respective employer (plan sponsor) on or before the end of the selected DROP participation period. A SDCERS member's decision to enter DROP is irrevocable.

When a SDCERS member participates in DROP, a DROP account is set up for that individual. The money credited to a DROP account comes from six sources:

1. A DROP participant's contributions – 3.05% of salary each pay period of participation in DROP (no retirement contributions are made to SDCERS during this time);
2. The plan sponsor's contributions – 3.05% of salary each pay period of participation in DROP;
3. A DROP participant's monthly retirement allowance, as determined when entering DROP;

San Diego City Employees' Retirement System**SUMMARY OF SDCERS' BENEFITS PROVISIONS (continued)**

As of June 30, 2003

4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. The SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to a DROP account each quarter, at the rate determined by the Retirement Board.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distributions. Once a participant leaves DROP, they begin receiving their monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin retirement, unless they choose to delay distribution of these funds. The distribution is made as a single lump sum, periodic payments, in 240 equal monthly payments, or as otherwise allowed by the Board, subject to the applicable provisions of the Internal Revenue Code.

For further information on the DROP program, please contact the retirement office at (800) 774-4977 or (619) 525-3600, or visit the SDCERS' Web site at www.sdcers.org.

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V. STATISTICAL SECTION



STATISTICAL SECTION

San Diego City Employees' Retirement System
SCHEDULE OF REVENUES BY SOURCE (ADDITIONS)

For Fiscal Years Ended June 30

Fiscal Year	Employers' (Plan Sponsors) Contributions	Members' (Employees') Contributions Paid By Employers	Members' Contributions (plus PSC Payments)	DROP Contributions (plus Pension Allowances)	Net Investment Income	Other Income	Total Revenues
2003	\$72,558,680¹	\$31,606,145	\$61,380,195	\$36,521,550	\$123,111,596	\$0	\$325,178,166
2002	49,962,365	28,794,143	53,546,085	29,892,770	(75,934,760)	450,646	86,711,249
2001	44,598,473	25,566,207	35,413,089	28,303,009	(25,126,082)	371,123	109,125,819
2000	40,001,210	24,271,821	28,874,726	17,334,525	349,654,651	308,302	460,445,235
1999	35,901,367	23,439,812	30,081,241	11,770,221	180,463,938	290,335	281,946,914
1998	32,497,329	22,148,460	24,217,798	7,939,756	278,681,878	697,110	366,182,331

¹ Amount includes an additional employer contribution made by the City of San Diego, applicable to FY 1997 - 2002, totalling \$9,923,538. For further details concerning this additional employer contribution, please see the Schedules of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information and the Notes to Schedules of Trend Information in the Financial Section of this CAFR.

San Diego City Employees' Retirement System
SCHEDULE OF EXPENSES BY TYPE (DEDUCTIONS)

For Fiscal Years Ended June 30

Fiscal Year	Benefit and Health Insurance Payments	Administrative Expenses	Refund of Members' (Employees') Contributions	Miscellaneous	Total Expenses
2003	\$164,275,346	\$7,834,192	\$1,378,787	\$99,753	\$173,588,078
2002	149,919,912	7,591,273	994,740	35,378	158,541,303
2001	153,199,430	7,645,839	1,462,746	28,706	162,336,721
2000	110,592,601	5,813,354	1,250,997	21,887	117,678,839
1999	98,302,899	3,207,897	1,643,187	27,770	103,181,753
1998	83,315,307	4,179,621	1,468,813	51,790	89,015,531

San Diego City Employees' Retirement System
SCHEDULE OF ALLOWANCES BEING PAID

Service and Disability Retirees and Beneficiaries
 As of Years Ended June 30

As of Years Ended	CITY OF SAN DIEGO 6/30/2002		CITY OF SAN DIEGO 6/30/2001		UNIFIED PORT OF SAN DIEGO ¹ 12/31/2002	
	Annual No.	Annual Allowances	Annual No.	Annual Allowances	Annual No.	Annual Allowances
<i>Service Retirement</i>						
Life Annuity Only	638	\$15,476,466	592	\$13,459,383	36	\$774,673
Cash Refund Annuity	102	2,361,757	99	2,266,738	7	152,417
Joint & 100% Survivor	190	7,562,489	173	6,712,557	8	235,395
Joint & 50% survivor						
Automatic	2,069	62,719,711	2,038	58,092,068	2	117,995
Elected	11	395,734	10	375,179	0	0
Option 4 ²	11	469,381	11	468,439	0	0
Social Security Option	22	344,660	22	363,520	2	38,582
Survivor Spouse 50%	0	0	0	0	112	2,923,249
Total Service Retirements	3,043	89,330,198	2,945	81,737,884	167	4,242,311
<i>Disability Retirement</i>						
Life Annuity Only	318	5,108,561	309	4,810,119	27	424,151
Cash Refund Annuity	10	261,500	8	196,061	0	0
Joint & 100% Survivor						
Automatic	37	271,840	37	266,718	0	0
Elected	35	1,034,860	32	926,023	0	0
Joint & 50% Survivor						
Automatic	840	18,892,495	844	18,347,873	35	596,974
Elected	2	41,909	2	41,087	0	0
Option 4 ²	4	102,080	5	140,746	0	0
Social Security Option	1	3,712	1	3,639	0	0
Total Disability Retirements	1,247	25,716,957	1,238	24,732,266	62	1,021,125
Total Deaths Before Retirement	42	599,081	40	543,007	1	9,337
<i>Death After Retirement</i>						
Service Retirement	594	4,219,123	574	3,953,980	36	299,592
Disability Retirement	217	1,689,217	215	1,670,421	11	129,541
Active Survivor	0	0	0	0	1	10,636
Total Deaths After Retirement	811	5,908,340	789	5,624,401	48	439,769
Total Allowances Being Paid	5,143	\$121,554,576	5,012	\$112,637,558	278	\$5,712,542

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies. All retirees remained with the Port as of December 31, 2002; therefore, no allowances were paid on behalf of the Airport.

² Option 4 - Section 24.0607 of the San Diego Municipal Code allows, upon approval of the Board, other benefits that are the actuarial equivalent of the retirement allowance.

UNIFIED PORT OF SAN DIEGO 6/30/2002		UNIFIED PORT OF SAN DIEGO 6/30/2001		SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY ¹ 12/31/2002	
<u>Annual No.</u>	<u>Annual Allowances</u>	<u>Annual No.</u>	<u>Annual Allowances</u>	<u>Annual No.</u>	<u>Annual Allowances</u>
35	\$717,149	30	\$528,806	0	\$0
7	152,417	7	139,605	0	0
6	98,947	5	65,285	0	0
108	2,872,393	98	2,327,478	0	0
0	0	0	0	0	0
0	0	0	0	0	0
2	51,507	2	47,194	0	0
0	0	0	0	0	0
158	3,892,413	142	3,108,368	0	0
27	426,471	26	378,809	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
33	562,094	32	504,425	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
60	988,565	58	883,234	0	0
2	19,653	2	18,438	0	0
32	230,189	32	210,076	0	0
11	129,095	12	126,816	0	0
0	0	0	0	0	0
43	359,284	44	336,892	0	0
263	\$5,259,915	246	\$4,346,932	0	\$0

San Diego City Employees' Retirement System
SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS

As of Years Ended June 30

As of Years Ended	CITY OF SAN DIEGO					
	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998	6/30/1997
TOTALS						
Number of Allowances	5,143	5,012	4,789	4,657	4,419	4,123
Annual Allowances Paid	\$121,554,576	\$112,637,558	\$95,348,751	\$87,823,437	\$76,507,181	\$62,672,105
AVERAGES						
Annual Allowance	\$23,635	\$22,474	\$19,910	\$18,858	\$17,313	\$15,201
Percentage Increase Over Prior Year	5.17%	12.88%	5.66%	8.92%	13.89%	5.80%
Attained Age	67.7	67.5	68.1	68.0	68.3	68.7
Age At Retirement	54.2	54.2	54.4	54.5	54.5	54.6
Service Years At Retirement	21.7	21.2	20.9	20.9	21.0	20.2
NEW RETIREES²						
Number of Allowances	292	386	251	319	241	138
Average Age	57.3	56.1	56.3	55.6	56.2	55.2
Average Allowance	\$44,581	\$40,443	\$35,054	\$36,072	\$33,642	\$29,196

¹ San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies. As of December 31, 2002, the Airport had no retirees or beneficiaries receiving benefits; all retirees and beneficiaries are counted as retiring from the Port as of the date of this actuarial valuation.

² Retirees only (including DROP participants); beneficiaries excluded.

³ Prior to Andrecht; \$18,907 average annual allowance after 7% Andrecht increase.

**SAN DIEGO
COUNTY
REGIONAL
AIRPORT
AUTHORITY¹**

UNIFIED PORT OF SAN DIEGO

12/31/2002	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998	6/30/1997	12/31/2002
278	263	246	242	232	227	209	N/A
\$5,712,542	\$5,259,915	\$4,346,932	\$4,144,798	\$3,776,524	\$3,610,346	\$2,871,423	
\$20,549	\$20,000	\$17,670 ³	\$17,127	\$16,278	\$15,905	\$13,739	N/A
2.75%	13.19%	3.17%	5.22%	23.45%	15.77%	6.20%	
68.6	68.4	68.3	68.5	68.5	68.7	69.2	
57.4	57.4	57.4	57.7	58.0	58.6	58.5	
16.6	16.5	15.8	16.1	16.0	16.7	16.1	
26	18	9	11	7	24	9	N/A
59.0	60.0	56.6	59.2	55.4	60.8	61.4	
\$34,684	\$29,568	\$26,787	\$25,920	\$16,382	\$30,997	\$15,754	

San Diego City Employees' Retirement System

SCHEDULE OF ACTIVE MEMBERS

As of Years Ended June 30

As of Years Ended	CITY OF SAN DIEGO				
	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998
TOTALS					
Number of Members	10,409	9,892	9,913	9,654	9,359
Salaries	\$535,156,545	\$481,863,319	\$448,501,827	\$424,515,969	\$399,035,094
AVERAGES					
Annual Salary	\$51,413	\$48,712	\$45,244	\$43,973	\$42,637
Percentage Increase over Prior Year	5.54%	7.67%	2.89%	3.13%	3.74%
Current Age	42.4	42.1	42.2	41.9	41.8
Years of Service ³	11.3	10.7	10.7	10.7	10.8

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the Unified Port of San Diego (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies.

² Actuarial data prior to 1998 was provided in one composite report which included members and beneficiaries from both the City of San Diego and the Unified Port of San Diego.

³ 6/30/02 and 12/31/02 actuarial valuations include purchased service credit.

UNIFIED PORT OF SAN DIEGO						SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY ¹	CITY OF SAN DIEGO/ UNIFIED PORT OF SAN DIEGO ²
12/31/2002	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998	12/31/2002	6/30/1997
606	736	734	654	661	616	173	9,900
\$33,995,335	\$39,063,314	\$36,425,136	\$30,621,242	\$30,034,900	\$26,672,111	\$8,871,283	\$408,105,540
\$56,098	\$53,075	\$49,626	\$46,821	\$45,439	\$43,299	\$51,279	\$41,223
5.70%	6.95%	5.99%	3.04%	4.94%	0.27%	N/A	3.59%
44.6	44.4	43.8	43.9	43.7	43.5	42.9	41.8
8.2	8.2	7.7	7.8	7.5	7.4	6.5	10.5

San Diego City Employees' Retirement System
SCHEDULE OF INACTIVE MEMBERS¹

As of Years Ended June 30

As of Years Ended	CITY OF SAN DIEGO				
	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998
TOTALS					
Number of Inactive Members	1,499	1,438	1,016	800	791
Other Members ⁴	0	0	0	0	344
Total Members	1,499	1,438	1,016	800	1,135
MEMBER CONTRIBUTION BALANCES					
Inactive Members	\$25,808,549	\$23,501,628	\$18,620,827	\$12,244,598	\$12,281,289
Other Members ⁴					19,829,472
Total Contribution Balances	\$25,808,549	\$23,501,628	\$18,620,827	\$12,244,598	\$32,110,761
MEMBER AVERAGES					
Member Age	43.1	42.9	44.3	43.1	42.6
Service Years Earned ⁵	6.6	6.8	7.5	6.6	7.4
Contribution Balance	\$17,217	\$16,343	\$18,328	\$15,306	\$15,526

¹ Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive members may or may not be vested to receive a retirement benefit in the future.

² San Diego County Regional Airport Authority was established effective as of January 1, 2003 from the Unified Port of San Diego; interim actuarial valuations were performed to reflect the two separate agencies. All inactive members remained with the Port as of December 31, 2002; therefore, all contributions for inactive members remained with the Port (SDCERS).

³ Actuarial data prior to 1998 was provided in one composite report which included members and beneficiaries from both the City of San Diego and the Unified Port of San Diego.

⁴ Other Members may include withdrawals (refunds), deaths, disabilities, and service retirements which are in transition.

⁵ City's 6/30/02 actuarial valuation includes purchased service.

UNIFIED PORT OF SAN DIEGO						SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY ²	CITY OF SAN DIEGO/ UNIFIED PORT OF SAN DIEGO ³
12/31/2002	6/30/2002	6/30/2001	6/30/2000	6/30/1999	6/30/1998	12/31/2002	6/30/1997
186	196	163	142	99	91	0	817
0	0	0	0	0	37	0	262
186	196	163	142	99	128	0	1,079
\$1,235,981	\$1,276,922	\$1,135,633	\$938,416	\$631,050	\$567,632	\$0	\$11,850,472
					1,372,784	0	7,240,527
\$1,235,981	\$1,276,922	\$1,135,633	\$938,416	\$631,050	\$1,940,416	\$0	\$19,090,999
43.9	43.4	44.2	41.6	42.6	41.5	0	42.6
4.1	4.1	4.3	3.7	3.6	4.1	0	7.6
\$6,645	\$6,515	\$6,967	\$6,609	\$6,374	\$6,238	\$0	\$14,505

San Diego City Employees' Retirement System

SCHEDULE OF PARTICIPATING PLAN SPONSORS (EMPLOYERS)

As of June 30, 2003

City of San Diego (City)

202 C Street
San Diego, CA 92101-3860
(619) 236-5555
www.sandiego.gov

Unified Port of San Diego (Port)

3165 Pacific Highway
San Diego, CA 92101-1128
(619) 686-6200
www.portofsandiego.org

San Diego County Regional Airport Authority (Airport)

3225 North Harbor Drive
San Diego, CA 92101-1022
(619) 400-2400
www.san.org



401 B Street, Suite 400, San Diego, CA 92101-4298
Toll Free (800) 774-4977 Local Dialing (619) 525-3600
Web site: www.sdcers.org

This Comprehensive Annual Financial Report (CAFR) is available in its entirety on
SDCERS' Web site in Adobe Portable Document Format (PDF file).