

San Diego City Employees' Retirement System
San Diego, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

A Defined Benefit Pension Plan for Employees of the City of San Diego, the Unified Port of San Diego, and the San Diego County Regional Airport Authority, and a Post-Employment Healthcare Benefit Plan for Employees of the City of San Diego.

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Point Loma Lighthouse
San Diego, California
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San Diego, California

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Employees of the City of San Diego.*

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For The Fiscal Year Ended June 30, 2005

The San Diego City Employees' Retirement System's (SDCERS) mission is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.

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I. Introductory Section



Introductory Section

Transmittal Letter



June 1, 2007

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

Dear SDCERS Board Members, Beneficiaries and Plan Sponsors:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005 (FY 2005), with comparative data for the fiscal year ended June 30, 2004 (FY 2004) for the San Diego City Employees' Retirement System (SDCERS or System).

I was hired by the SDCERS Board of Administration in April 2006, and my first day on the job was May 1, 2006. This CAFR would usually have been completed by December 2005, but its publication has been delayed for a number of reasons.

For example, before a CAFR can be issued, auditors must opine that the financial statements fairly and accurately present the financial condition of the issuer, including any contingencies that might affect the issuer's funded status. Due to investigations into the City of San Diego's (City) funding of SDCERS and related public disclosures and issues, there was insufficient certainty with SDCERS' financial statements and disclosure of material contingencies to permit our auditors to opine on prior financial statements. (News reports concerning these issues are available on-line at www.signonsandiego.com/news/metro/pension/.) Only recently have our auditors been able to opine on our FY 2004 financial statements, which permitted the completion of SDCERS' FY 2004 CAFR. With that behind us, this FY 2005 CAFR could follow.

Investigations and Litigation

Events that slowed the issuance of our CAFRs included the issuance, in September 2004, of a Report on Investigation by the law firm of Vinson & Elkins (V&E Report) outlining their review of the disclosure practices concerning the City's funding of SDCERS. (The V&E Report is available on-line at www.sandiego.gov.)

In February 2005, the City retained Kroll, Inc. to evaluate the V&E Report and to make recommendations to the City Council. Thereafter, the City formed an independent Audit Committee. The Report of the Audit Committee's investigation was issued in August 2006, and it is available on-line at www.sandiego.gov.

In January 2006, Lawrence B. Grissom, SDCERS' former Retirement Administrator, Loraine Chapin, SDCERS' former General Counsel, and three former SDCERS Board members were indicted by a Federal Grand Jury. (See *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.)

In November 2006, the U. S. Securities and Exchange Commission (SEC) entered an order sanctioning the City for committing securities fraud, and the City agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws. The SEC's investigation is continuing with respect to individuals and other entities.

SDCERS has been the subject of a number of investigations and has been and continues to be involved in a number of litigation matters. SDCERS has cooperated with requests for information from representatives of both the SEC and the United States Department of Justice regarding their investigations into the circumstances surrounding various contribution agreements between SDCERS and the City and how the City has disclosed this information in official documents related to public securities offerings. After reviewing these pending matters, however, SDCERS management does not believe that the outcome of any of them will have a material adverse impact on SDCERS' financial condition. For more information about these matters, see *Note 6. Legal Action* and *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

Pension Reform Commission

In October 2003, SDCERS assisted the San Diego City Council's newly-created Pension Reform Commission (PRC) with its task of reviewing the long-term funding and stability of the City's SDCERS plan. In September 2004, the PRC issued a report that presented their findings and recommendations to the San Diego City Council, a copy of which is available on-line at www.sandiego.gov/pensionreform.

Two PRC recommendations concerned the amortization period for the City's Unfunded Actuarial Accrued Liability and the composition of SDCERS' Board of Administration. Ballot measures dealing with these recommendations, Propositions G and H, were approved in November 2004. The text of both Propositions is available on-line at www.sandiego.gov, and a summary is set out in *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

SDCERS' Board of Administration

SDCERS is governed by a thirteen-member Board of Administration. At the beginning of FY 2005, the SDCERS Board was comprised of: three members elected by general members; one member elected by Fire/Safety members; one member elected by Police/Safety members; one member elected by retiree members; three members representing the City Manager, City Treasurer and City Auditor; and four public members who were appointed by the City Council.

With the approval of Proposition H in November 2004, the composition of SDCERS' Board changed, effective April 1, 2005. As a result, SDCERS' thirteen-member Board is now comprised of: two members elected by general members; one member elected by Fire/Safety members; one member elected by Police/Safety members; one member elected by retiree members; one member appointed by the Mayor; and seven public members who are appointed by the Mayor and confirmed by the City Council.

In June 2006, the SDCERS Board, for the first time, was at full strength and operating as envisioned by Proposition H. More information regarding Proposition H is set out in *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

Significant FY 2005 Activities

Significant SDCERS activity occurred in FY 2005.

- Beginning in January 2004, Mercer Human Resources Consulting and Mercer Investments conducted five comprehensive audits of SDCERS: an Actuarial Audit to review the work of SDCERS' actuary; a Federal Compliance Review to review compliance with federal and state laws governing public retirement systems; a Custodial Evaluation to review SDCERS' custodial bank and its procedures to safeguard and manage our investment assets; an Investment Operations Audit to review SDCERS' procedures with its investment managers and investment accounting practices; and a Best Practices Audit to review SDCERS' membership service. Mercer's recommendations were reviewed and prioritized and almost all of them have been implemented. This process significantly strengthened SDCERS' operations.
- In May 2005, based on Mercer's recommendation, SDCERS' Board approved filing an application for a Tax Determination Letter and to the Voluntary Corrections Program with the Internal Revenue Service (IRS). These filings are discussed in "Post-FY 2005 Progress: IRS filings" below.

Introductory Section

- SDCERS' actuary completed its Report of an Experience Investigation covering the period from July 1, 2001 to June 30, 2004. This Investigation was made for the purpose of analyzing financial risk areas related to mortality, withdrawal, disability, retirement, pay projection factors and investment return.
- In October 2004, the City Council requested that SDCERS prepare an actuarial analysis of the City's Deferred Retirement Option Program (DROP), and SDCERS' actuary prepared two reports in response.

Investments

SDCERS' total investment return for FY 2005 was 10.8% compared to 20.2% for FY 2004. The one-year investment performance benchmark returns for these periods were 10.2% and 16%, respectively.

As of June 30, 2005, SDCERS' annualized total investment return was +12% over the past three years, +6.4% over the past five years, and +10.2% over the past ten years. The performance benchmark returns for these same periods were +10.3%, +5.1% and +9.3%, respectively.

SDCERS' target and actual asset allocation, as of June 30, 2005 and June 30, 2004 and recent and long-term investment performance are all included in the Investment Section.

Post-FY 2005 Progress: Navigant Report

In August 2005, SDCERS' Board retained Navigant Consulting, Inc. to conduct an independent investigation into allegations of wrongdoing by SDCERS.

Navigant issued a report to the Board in January 2006 that concluded that there had been a breach of fiduciary duty by former SDCERS Board members approving the 1996 Manager's Proposal and 2002 Contribution Agreement presented by the City. Legal analysis of Navigant's findings concluded that approval of these agreements also violated state and municipal law. Finally, the Navigant Report concluded that the payment of certain benefits using Trust Fund assets to pay for benefit and administrative costs of retiree health care, Corbett settlement provisions related to disability retirement benefits and Presidential Leave benefits had violated Internal Revenue Code rules, jeopardizing the Trust Fund's tax exempt status. The Navigant Report is available on-line at www.sdcers.org/forms_newsevents.jsp.

The Navigant Report recommended changes in governance and oversight, actuarial soundness, tax compliance, training and education, and SDCERS' independence from the City. In response to Navigant's findings and recommendations, the Board established an ad-hoc committee to recommend appropriate reform actions to the Board for approval and implementation. The ad-hoc Navigant Report Committee, which methodically reviewed the Navigant Report's major issues, issued its report in December 2006. A copy is available on-line at www.sdcers.org.

Post-FY 2005 Progress: IRS Filings

In July 2005, SDCERS filed with the IRS an application for a Tax Determination Letter and a request for a compliance statement from the IRS under the Voluntary Correction Program (VCP). The initial VCP filing addressed a correction to the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees. Since that time, additional VCP filings have been made concerning compensation limits, minimum distribution requirements, distribution rollover compliance, DROP; disability benefit overpayments; cashless leave/purchase of service credits, post employment health benefits and health administrative expenses, and benefit and compensation limits. SDCERS' position is that no penalties should be imposed for any compliance failures. Although this is a reasonable position, we cannot predict whether the IRS will accept it. For more information on the IRS filings see *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

The FY 2005 CAFR

SDCERS' management team is responsible for both the accuracy of the data and the completeness and fairness of the presentation of the information contained in the CAFR, which is divided into five sections:

The **Introductory Section** contains Transmittal Letters, the Members of SDCERS' Board, an Organizational Chart, and a list of firms that provided professional services in FY 2005 to SDCERS.

The **Financial Section** presents the Independent Auditor's Report prepared by Macias Gini & O'Connell LLP, Management's Discussion and Analysis of SDCERS' financial condition, audited financial statements for FY 2005 with comparative statements for FY 2004 and related Notes to the Financial Statements, Required Supplemental Information detailing the funding progress and the Plan Sponsors' contributions to SDCERS, and Other Supplementary Information detailing SDCERS' administrative expenses and payments made to investment professionals and consultants in FY 2005.

The **Investment Section** contains SDCERS' Investment Consultant's Statement, prepared by Callan Associates, SDCERS' asset class investment returns, a list of SDCERS' external investment management firms, SDCERS' statement of investment objectives and policies, graphs and schedules depicting asset allocation and asset diversification, and ten years of historical investment performance and asset holdings information.

The **Actuarial Section** contains both the actuarial valuation reports for FY 2005 prepared by Cheiron and for FY 2004 prepared by Gabriel, Roeder, Smith & Company. These reports include the Actuary's Certification Letter and supporting schedules and information that pertain to SDCERS' participants and benefits.

The **Statistical Section** contains schedules of comparative data related to SDCERS' revenues and expenses, active and inactive members and retirees, average monthly retirement benefits, and a list of participating plan sponsors.

The CAFR is available upon request and on-line at www.sdcers.org. An FY 2005 Popular Annual Financial Report will be mailed to all SDCERS' active members, retirees and beneficiaries and is also available on-line at www.sdcers.org.

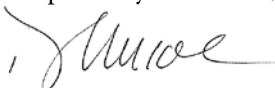
Acknowledgments

The CAFR reflects the combined effort of SDCERS' management and staff under the Board's leadership. It is intended to provide complete and reliable information with respect to the Board's stewardship of SDCERS.

I would like to express my appreciation to the Board of Administration and all my SDCERS colleagues for their dedication and hard work. I would also like to thank our consultants, investment managers, and the many others who work diligently to ensure SDCERS' success.

If you have questions about the CAFR or SDCERS, please contact us.

Respectfully submitted,



David B. Wescoe
Administrator/CEO

Introductory Section

San Diego City Employees' Retirement System Members of SDCERS' Board of Administration

As of June 30, 2005

Steve Meyer, President
Elected General Member Representative

William Sheffler
Council Appointee

Joe Flynn
Elected Retiree Representative

Susan Snow
Council Appointee

Richard Kipperman
Council Appointee

Mark Sullivan
Elected Safety (Police) Member Representative

Tom King
Council Appointee

John Thomson
Elected Safety (Fire) Member Representative

Bill Lopez
Ex-Officio Member, City of San Diego

John Torres
Elected General Member Representative

Tom Page
Council Appointee

Robert Wallace
Council Appointee

Peter Prevolos
Council Appointee

* Due to San Diego citizens' vote in favor of Proposition H on November 2, 2004, SDCERS' Board was reconstituted effective April 1, 2005.

San Diego City Employees' Retirement System

Board Committees

As of June 30, 2005

In addition to regular Board duties, SDCERS' Board members also participate in one or more standing committees. The standing committees review policies and procedures related to the various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The responsibilities and composition of the standing committees as of June 30, 2005, were as follows:

Audit Committee

Robert Wallace (Chair)
Tom King (Vice-Chair)
Joe Flynn
Steve Meyer
Tom Page
Susan Snow

Responsible for providing oversight to: 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.

Business and Procedures Committee

John Torres (Chair)
Robert Wallace (Vice-Chair)
Bill Lopez
Steve Meyer
William Sheffler
John Thomson

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 plans; and developing performance plans for SDCERS.

Health Advisory Committee

Joe Flynn (Chair)
John Torres (Vice Chair)
John Casey (City of San Diego Retiree)
Mark Sullivan
John Thomson

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

Investment Committee

Susan Snow (Chair)
Peter Preovolos (Vice-Chair)
Joe Flynn
Tom Page
Mark Sullivan

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

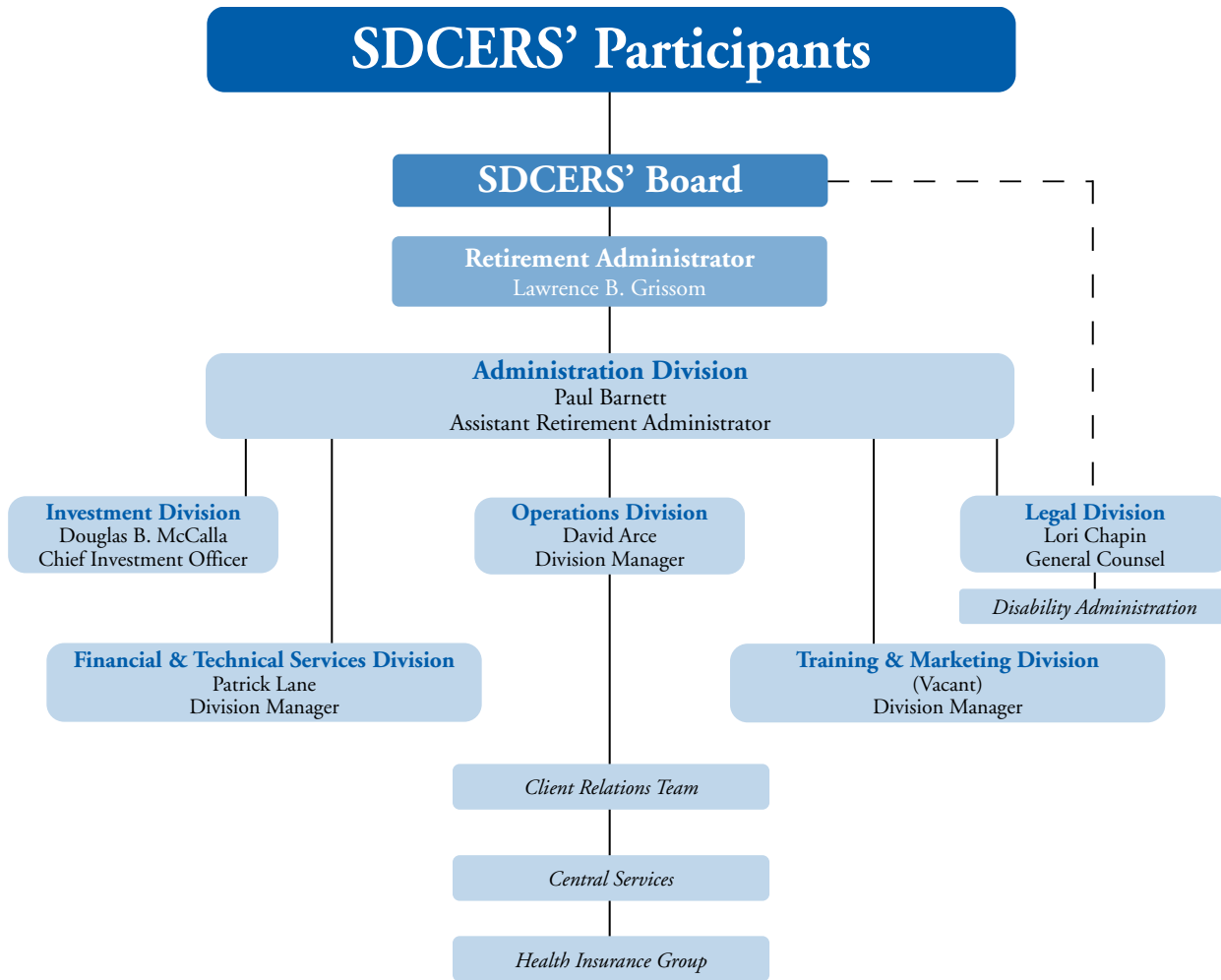
Proxy Voting Committee

Steve Meyer (Chair)
John Torres

Responsible for reviewing and updating SDCERS' Proxy Voting Policy and Guidelines as well as overseeing related corporate governance issues and voting functions.

Introductory Section

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2005



San Diego City Employees' Retirement System

Professional Services

As of June 30, 2005

Actuary

Cheiron
McLean, VA

Consulting and Professional Services

Mellon Consultants, LLC Los Angeles, CA	Mercer Human Resources Consulting Denver, CO
JPI Printing Inc. San Diego, CA	National Direct Mailing Corporation Poway, CA
Levi, Ray & Shoup Springfield, IL	San Diego Data Processing Corporation San Diego, CA

Custodian

State Street Bank & Trust Company
Alameda, CA

Independent Auditor

Macias Gini & O'Connell LLP
Certified Public Accountants
Sacramento, CA

Investment Consultant

Callan Associates
San Francisco, CA

Real Estate Consultant

Russell Real Estate Advisors
San Diego, CA

A complete list of medical and legal service providers is located in the Other Supplementary Information in the Financial Section and a complete list of SDCERS' Investment Managers is located in the Investment Section.

Introductory Section

Report from SDCERS' Current Board President



June 1, 2007

Dear SDCERS Constituents:

I was elected president of the San Diego City Employees' Retirement System (SDCERS) Board of Administration in April 2007. Since April 2005, when the SDCERS Board was reconstituted pursuant to Proposition H, we have been methodically and responsibly addressing the governance issues that led to many of the problems that caused the publication of this CAFR to be delayed.

In fact, there are a number of accomplishments and changes that the new SDCERS Board and management have undertaken to strengthen controls and oversight at SDCERS.

SDCERS is "Under New Management."

The post-"Proposition H" SDCERS Board includes eight mayoral appointees (seven confirmed by the City Council plus one direct representative) as well as five representatives elected by the safety members, general members, and retirees. This balance has added objectivity that may have been lacking in the past, while still allowing the major stakeholders in SDCERS to have a voice at the table. And, having seen it in action for almost two years now, I can tell you it works. In addition, we now have a new administrator, David Wescoe, who has done an excellent job in not only changing the culture at SDCERS, but who is a true partner of the Board in instituting change. We also have a new general counsel, a new compliance officer, an independent audit committee (with a majority of outside members) and a new internal auditor position.

Reform in Action.

The Board has been hard at work implementing structural changes. For example, we retained Navigant Consulting, Inc. to investigate past activities and have implemented the reforms they recommended. We also have looked at the work of the Pension Reform Committee (PRC), and we have approved the use of new actuarial assumptions that are more conservative, actuarially sound and commonly-used.

SDCERS Is Financially Sound.

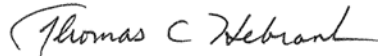
SDCERS recently adopted a 20-year amortization period for the City's unfunded actuarial liability and required additional payments to cover any negative amortization. The City's funding ratio as of June 30, 2006 increased to 80%. And, despite the dire predictions of a few, the Trust Fund is not going to run out of money. SDCERS has more than sufficient assets to pay beneficiaries for decades to come. The City's own independent actuary has verified our actuary's work and has confirmed to the Mayor and City Council the accuracy of the numbers we are reporting.

Terrific Long-Term Investment Performance.

In short, SDCERS' investment results have been outstanding. We have had returns of 14.08%, 12.28%, 11.05% and 10.09% for the past one- year, three-year, five-year and ten-year periods ended June 30, 2006. This performance is important because for every dollar that SDCERS pays out in current retirement benefits, approximately 30 cents comes from the plan sponsor and member contributions. That means that approximately 70 cents of every dollar that we pay out in current benefits comes from our investment returns.

SDCERS is sound and is headed in the right direction. My colleagues on the Board and I are committed to making our decisions based solely on the law and the best interests of our 17,000-plus Members.

Sincerely,



Thomas C. Hebrank
President, SDCERS Board of Administration

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II. Financial Section





MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
San Diego City Employees' Retirement System
San Diego, California

We have audited the accompanying statement of plan net assets of the San Diego City Employees' Retirement System (SDCERS), a component unit of the City of San Diego, as of June 30, 2005, and the related statement of changes in plan net assets for the year 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 audit. The financial statements for the year ended June 30, 2004, were audited by other auditors whose report dated April 3, 2005, expressed an unqualified opinion on those statements.

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

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the plan net assets of the San Diego City Employees' Retirement System as of June 30, 2005, and the changes in plan net assets for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, effective July 1, 2004, SDCERS implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*.

As discussed in Notes 6 and 7 to the financial statements, SDCERS is involved in several lawsuits and claims. The ultimate outcome of these matters cannot presently be determined. However, management asserts that the outcome will not have a material adverse effect on the financial condition of SDCERS. Accordingly, no provision for any liability that may result has been made in the financial statements. Nevertheless, due to the uncertainties of these matters, it is at least reasonably possible that management's view of the outcome will change in the near future.

As presented in the schedule of funding progress on page 72, based on the most recent actuarial valuation as of June 30, 2005, SDCERS' independent actuaries determined that, at June 30, 2005, the value of the City of San Diego's Defined Benefit Pension Plan's actuarial accrued obligation exceeded the actuarial value of its assets by \$1.39 billion. In addition, the City's contribution funding method for the fiscal years 2000-2005 was not in accordance with Governmental Accounting Standards Board Statement No. 25.

The Management's Discussion and Analysis on pages 16 through 25, the Schedules of Funding Progress on pages 72 through 74 and the Schedules of Plan Sponsors' Contributions on pages 78 and 79 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias Jini & O'Connell LLP

Certified Public Accountants

San Diego, California
June 29, 2007

Financial Section

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview and analysis of SDCERS' financial condition for the fiscal years ended June 30, 2005 (FY 2005) and June 30, 2004 (FY 2004), with results also compared to the fiscal year ended June 30, 2003 (FY 2003). Reporting for the City's SDCERS-administered Post-Employment Healthcare Benefit Plan (HCB Plan), in compliance with Governmental Accounting Standards Board (GASB) Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is included in the financial statements. Assets of SDCERS' Defined Benefit Pension Plan (DB Plan) and the HCB Plan are pooled for investment purposes but accounted for and reported separately in the financial statements according to GASB Statements.

As discussed in *Note 6. Legal Action* and *Note 7. Subsequent Events*, SDCERS has been the subject of a number of investigations and is involved in a number of litigation matters. After reviewing these pending matters, management does not believe that the outcome of any of them will have a material adverse impact on SDCERS' financial condition.

Financial Highlights

Changes in Plan Net Assets

Defined Benefit Pension Plan (DB Plan)

As of June 30, 2005, \$3.452 billion in the DB Plan's net assets were held in trust for the payment of pension benefits compared to net assets of \$3.084 billion at June 30, 2004. This represents an 11.94% increase, or \$368 million, over FY 2004. The FY 2005 increase resulted from plan sponsor and member contributions (\$249 million) and net investment earnings (\$350 million) for the year, offset by benefit payments and administrative expenses (\$232 million). In FY 2004, SDCERS experienced a 22.35% increase, or \$564 million, over FY 2003, which had net assets of \$2.520 billion.

As of June 30, 2005, additions to DB Plan net assets (additions) totaled \$599.2 million, a decrease of \$152.0 million (-20.24%) from FY 2004 additions of \$751.2 million, due to a decrease in net investment earnings of -\$186.6 million and increased plan sponsor and member contributions of \$34.6 million. In FY 2004, SDCERS experienced an increase of \$464.4 million (161.94%) in additions over FY 2003 additions of \$286.8 million.

As of June 30, 2005, deductions from DB Plan net assets (deductions) for benefits and expenses totaled \$232.3 million, a \$44.4 million increase (23.64%), compared to FY 2004 deductions of \$187.9 million. In FY 2004, SDCERS experienced a 13.91% increase in deductions (\$22.9 million) over FY 2003 deductions of \$164.9 million.

SDCERS' funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the Unified Port of San Diego (Port), and the San Diego County Regional Airport Authority (Airport). Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to SDCERS' Board for approval. Dividing the Actuarial Value of Assets (AVA) by the Actuarial Accrued Liabilities (AAL) results in a funded ratio, which is one measure of funded status. An Unfunded Actuarial Accrued Liability (UAAL) results when the AVA is less than the AAL. Changes in funded status can be caused by increases or decreases in the AVA or AAL, resulting in actuarial gains and losses. For more information about plan sponsor actuarial valuations, see the Actuarial Section.

As of June 30, 2005, the City's funded status was 68.2%. This means that for every dollar of benefits due (actuarial liabilities) the City had approximately 68.2 cents in actuarial assets available for payment. The City's funded status as of the June 30, 2004 actuarial valuation was 65.8%.

As of June 30, 2005, the Port's funded status was 82.6%. This means that for every dollar of benefits due (actuarial liabilities), the Port had approximately 82.6 cents in actuarial assets available for payment. The Port's funded status as of the June 30, 2004 actuarial valuation was 80.6%.

As of June 30, 2005, the Airport's funded status was 87.6%. This means that for every dollar of benefits due (actuarial liabilities), the Airport had approximately 87.6 cents in actuarial assets available for payment. The Airport's funded status as of the June 30, 2004 actuarial valuation was 68.8%.

SDCERS' plan sponsors experienced declines in their funded status in previous years. This was due to increases in liabilities caused by litigated and negotiated increases in member benefits (an actuarial loss) and decreases in the AVA resulting from investment experience during the five-year period ended June 30, 2004 where, on average, SDCERS earned less than the actuarially assumed 8% rate of return. Additionally, the City had been making fixed-rate employer contributions to SDCERS at an amount less than recommended each year by SDCERS' actuary that further decreased the City's AVA. However, beginning in FY 2005, the City started making increased contributions in accordance with the terms of the Gleason settlement (see *Note 6. Legal Action* in the Notes to the Financial Statements). The Port and the Airport make annual plan sponsor contributions in accordance with Annual Required Contributions (ARC) as determined by SDCERS' actuary. Ten years of historical funded status information for the City and the Port and four valuation periods for the Airport are set out in the Required Supplementary Information with associated commentary located in the Notes to the Schedules of Funding Progress. Additional information is also presented in the Actuarial Section.

Post-Employment Healthcare Benefit Plan (HCB Plan)

The HCB Plan was funded by the City. SDCERS coordinated benefits for the HCB Plan, and its costs to do so were reimbursed by the City. As of June 30, 2005, there were no assets in the HCB Plan compared to assets of \$9.1 million at June 30, 2004. The decrease was due to the fact that the City did not make any contributions in FY 2005 in anticipation of funding healthcare benefits directly after the HCB Plan's assets were depleted. Beginning in January 2005, the City separately funded retiree healthcare benefits directly with cash from the City's annual budget. These monies are not part of the SDCERS trust fund and are reported in the City's financial statements. During this period, SDCERS continued to coordinate these benefits.

For the fiscal year ended June 30, 2005, the HCB Plan was not allocated any earnings because it was depleted during the year. FY 2004 additions totaled \$0.4 million, a 74.85% decrease (-\$1.1 million) compared to FY 2003 additions of \$1.5 million.

In accordance with GASB Statement No. 26, healthcare assets and related liabilities should be reported separately from pension assets, liabilities, additions and deductions. GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, does not require the calculation of actuarially determined information, but requires disclosure of certain actuarially determined information about post-employment benefits if that information is available. GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which was issued in April 2004, with implementation for SDCERS beginning on July 1, 2006, will require a minimum of three years of actuarial valuations for the HCB Plan to be presented in the Required Supplementary Information. There had been no actuarial valuation performed regarding the HCB Plan until March 2006. The City completed its first actuarial valuation for the HCB Plan as of June 30, 2005.

Financial Section

Overview of Financial Statements

SDCERS' audited financial statements, which begin on page 32, are comprised of the following five items:

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

The **Statements of Plan Net Assets** is a balance sheet presentation of assets and liabilities for the DB Plan and the HCB Plan. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2005 and 2004, respectively.

The **Statements of Changes in Plan Net Assets** provides an income statement presentation of current year additions to and deductions from plan assets for the DB Plan and the HCB Plan for the fiscal years ended 2005 and 2004, respectively.

Both Statements are in compliance with GASB Statement Nos. 3, 5, 12, 25, 26, 28, 31, 40, and 44, which require certain disclosures and the use of the full accrual method of accounting. SDCERS complies with all material requirements of these accounting standards. SDCERS will implement GASB Statement No. 43, *Financial Reporting for Postemployment Plans Other Than Pensions* (which supersedes GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*), and the interim guidance from GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, beginning in FY 2007.

Both Statements also report information about SDCERS' financial activities. These Statements include all assets and liabilities and were prepared using the accrual basis of accounting. All investment gains and losses are shown on a trade date basis using market and appraised values, and all capital assets are depreciated over their useful lives. SDCERS' management is responsible for the accuracy, completeness, and fair presentation of this information and all disclosures.

The **Notes to the Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS' financial condition. Note 1, Summary of Significant Accounting Policies, provides information on the assumptions and methods used in the presentation of SDCERS' financial statements. It also provides for the basis for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) and accounting practices used that are unique to a public employees retirement system.

The **Required Supplementary Information** provides information concerning plan sponsors' progress in funding their obligations (see Schedules of Funding Progress). It also contains the Schedules of Plan Sponsors' Contributions and Notes that accompany each of these schedules.

The **Other Supplementary Information - Supporting Schedules** includes a Budgetary Comparison Schedule, a Schedule of Administrative Expenses, a Schedule of Fees Paid to Investment Professionals, and a Schedule of Payments to Consultants. All Supporting Schedules are included after the Required Supplementary Information.

Financial Analysis

Tables 1 through 6 summarize and compare SDCERS' financial results for the current and prior fiscal years for the Defined Benefit Pension Plan and the Post-Employment Healthcare Benefit Plan.

Defined Benefit Pension Plan (DB Plan)

The DB Plan's net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2005, totaled \$3.452 billion, an 11.94% increase compared to net assets of \$3.084 billion as of June 30, 2004. FY 2004 plan net assets were 22.35% higher than FY 2003 net assets of \$2.520 billion. All net assets are available to meet SDCERS' ongoing retirement and disability payment obligations to members, retirees and beneficiaries. A comparative summary is set out in Table 1 below.

Table 1: Defined Benefit Pension Plan Net Assets

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Cash and Cash Equivalents	\$440,955,832	\$334,714,816	\$106,241,016	31.74%	\$334,714,816	\$290,177,426	\$44,537,390	15.35%
Receivables	49,009,979	43,237,013	5,772,966	13.35%	43,237,013	26,489,723	16,747,290	63.22%
Securities Sold	85,818,964	44,965,113	40,853,851	90.86%	44,965,113	50,803,727	(5,838,614)	(11.49%)
Investments, at Fair Value	3,271,515,667	2,937,694,387	333,821,280	11.36%	2,937,694,387	2,390,750,008	546,944,379	22.88%
Securities Lending Cash Collateral	434,363,945	319,748,403	114,615,542	35.85%	319,748,403	209,549,322	110,199,081	52.59%
Properties at Cost plus Pre-paid Expenses	141,680	193,471	(51,791)	(26.77%)	193,471	244,552	(51,081)	(20.89%)
Total Assets	\$4,281,806,067	\$3,680,553,203	\$601,252,864	16.34%	\$3,680,553,203	\$2,968,014,758	\$712,538,445	24.01%
Current Liabilities	\$234,121,704	\$191,483,693	\$42,638,011	22.27%	\$191,483,693	\$140,637,794	\$50,845,899	36.15%
Securities Purchased	161,568,431	85,658,151	75,910,280	88.62%	85,658,151	97,539,816	(11,881,665)	(12.18%)
Securities Lending Obligations	434,363,945	319,748,403	114,615,542	35.85%	319,748,403	209,549,322	110,199,081	52.59%
Total Liabilities	\$830,054,080	\$596,890,247	\$233,163,833	39.06%	\$596,890,247	\$447,726,932	\$149,163,315	33.32%
Plan Net Assets Held in Trust for Payment of Defined Benefit Pension Benefits	\$3,451,751,987	\$3,083,662,956	\$368,089,031	11.94%	\$3,083,662,956	\$2,520,287,826	\$563,375,130	22.35%

Financial Section

Post-Employment Healthcare Benefit Plan (HCB Plan)

As of June 30, 2005, there were no net assets held in trust for the payment of post-employment healthcare benefits. In FY 2004, SDCERS experienced a -58.36% decrease in net assets (\$12.8 million) over FY 2003 net assets of \$21.8 million. In FY 2005, the City ceased contributing to the HCB Plan and instead used remaining assets to pay benefits until they were exhausted. Then, in January 2005, the City began paying healthcare benefits on a pay-as-you-go basis from the City's annual budget. A comparative summary is set out in Table 2 below.

Table 2: Post-Employment Healthcare Benefit Plan Net Assets

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Pooled Investments	—	\$9,136,409	\$(9,136,409)	(100.00%)	\$9,136,409	\$21,867,112	\$(12,730,703)	(58.22%)
Total Assets	—	\$9,136,409	\$(9,136,409)	(100.00%)	\$9,136,409	\$21,867,112	\$(12,730,703)	(58.22%)
Current Liabilities	—	\$52,887	\$(52,887)	(100.00%)	\$52,887	\$55,285	\$(2,398)	(4.34%)
Total Liabilities	—	\$52,887	\$(52,887)	(100.00%)	\$52,887	\$55,285	\$(2,398)	(4.34%)
Plan Net Assets Held in Trust for Payment of Post-Employment Healthcare Benefits	—	\$9,083,522	\$(9,083,522)	(100.00%)	\$9,083,522	\$21,811,827	\$(12,728,305)	(58.36%)

Reserves

Pension plans establish reserves to earmark plan net assets for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of deferred retirement option benefits, the accumulation of current retired members' expected benefits and other items. Reserves are credited or adjusted each fiscal year end with realized earnings and/or net plan assets valued on a cost basis.

The largest reserve balances are for accumulated benefits payable to retired SDCERS members. These comprise approximately 50% of plan assets (\$1.56 billion reserved out of \$3.14 billion in total reserves) as of June 30, 2005; 61% of plan assets (\$1.69 billion reserved out of \$2.76 billion in total reserves) as of June 30, 2004; and 56% of plan assets (\$1.41 billion reserved out of \$2.51 billion in total reserves) as of June 30, 2003. A complete listing of SDCERS' reserves and comparative balances for FY 2005 and FY 2004 are set out in Notes to the Financial Statements.

Current Year Results

The continuing recovery in the financial markets in FY 2005 added to current year additions. These additions were in excess of increases in current year benefit payments and deductions, providing for an overall increase in plan net assets over FY 2004. Key elements of FY 2005 results and year-over-year comparisons are summarized below.

Additions to Plan Assets

Revenues needed to pay current retirement benefits and accrue for future retirement benefits are accumulated through the collection of plan sponsor and member contributions and the earnings on invested assets (net of investment management fees and related expenses).

Defined Benefit Pension Plan (DB Plan)

Total DB Plan additions for FY 2005 were \$599.2 million compared to \$751.3 million and \$286.8 million for FY 2004 and FY 2003, respectively. A comparative summary is set out in Table 3 below.

Table 3: Defined Benefit Pension Plan Contributions and Investment Earnings

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Employers' Contributions	\$145,238,133	\$87,861,650	\$57,376,483	65.30%	\$87,861,650	\$72,558,680	\$15,302,970	21.09%
Members' Contributions Paid by Employers	33,988,447	33,951,427	37,020	0.11%	33,951,427	31,606,145	2,345,282	7.42%
Members' Contributions	18,859,980	16,299,646	2,560,334	15.71%	16,299,646	20,917,653	(4,618,007)	(22.08%)
Members' Contributions for Purchased Service Credit	49,339,098	75,419,976	(26,080,878)	(34.58%)	75,419,976	40,016,896	35,403,080	88.47%
Earned Interest on Purchased Service Installment Contracts	1,583,235	907,814	675,421	74.40%	907,814	477,758	430,056	90.02%
Total Net Investment Earnings ¹	350,209,486	536,820,063	(186,610,577)	(34.76%)	536,820,063	121,233,856	415,586,207	342.80%
Total Additions	\$599,218,379	\$751,260,576	(\$152,042,197)	(20.24%)	\$751,260,576	\$286,810,988	\$464,449,588	161.94%

¹ Stated net of investment expenses of \$16,330,752, \$14,781,389, and \$11,956,062 for FY 2005, FY 2004 and FY 2003, respectively.

Financial Section

FY 2005 plan sponsor contributions totaled \$145.2 million, an increase of \$57.4 million (65.30%) compared to their contributions of \$87.9 million in FY 2004. This compares to a 21.09% prior year increase, or \$15.3 million, over FY 2003's contributions of \$72.6 million. The recent increases in plan sponsor contributions are due to increased contributions made by the City in accordance with the terms of the Gleason settlement (see *Note 6. Legal Action* in the Notes to the Financial Statements) and recent increases in Annual Required Contributions (ARC) made by the Port and the Airport. For further information about plan sponsor contributions, see *Note 4. Contributions* in the Notes to Financial Statements and the Schedule of Plan Sponsors' Contributions in the Required Supplementary Information.

In FY 2005 and FY 2004, members' contributions paid by plan sponsors totaled \$34.0 million. FY 2004's contributions increased by \$2.3 million (7.42%) compared to members' contributions paid by plan sponsors of \$31.6 million in FY 2003. Although the members' contributions paid by plan sponsors were higher in FY 2005 due to salary increases, they were offset by fewer employees and overall lower rates, resulting in the same total members' contributions paid by plan sponsors as FY 2004.

Members' contributions totaled \$18.9 million, an increase of \$2.6 million (15.71%) in FY 2005, as compared to members' contributions of \$16.3 million in FY 2004. FY 2004 members' contributions decreased by \$4.6 million (-22.08%) from \$20.9 million in FY 2003. Increases in members' contributions from FY 2004 to FY 2005 occurred because the City reduced the percentage of member contributions it paid on behalf of its employees.

Members' contributions for purchased service credit in FY 2005 totaled \$49.3 million, \$26.1 million less (-34.58%) than the \$75.4 million received in FY 2004. This is compared to an 88.47% increase, or \$35.4 million, in FY 2004 as compared to member contributions for purchased service credit of \$40.0 million in FY 2003. The FY 2004 increase in members' contributions was due to increased participation by employees in the purchase of service credit program that year.

In FY 2005, net investment earnings totaled \$350.2 million, a decrease of \$186.6 million (34.76%) over FY 2004. By comparison, FY 2004 net investment earnings totaled \$536.8 million, an increase of 342.80%, or \$415.6 million compared to net investment earnings of \$121.2 million in FY 2003.

A report on SDCERS' investment activity is provided by Callan Associates, SDCERS' Investment Consultant, in the Investment Section. It provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2005, FY 2004 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2005 was +10.80%, compared to +20.21% and +5.44% as of June 30, 2004 and June 30, 2003, respectively. SDCERS' investment performance was in the top 10% of public pension funds in the Callan Associates database over the one-, three-, and five-year periods ended June 30, 2005. SDCERS ranked in the third percentile for one-year performance as of June 30, 2004, and in the first percentile for three-year and five-year annualized investment performance as of June 30, 2005. Over the ten-year period ended June 30, 2005, SDCERS' investment performance of 10.65% ranked in the eleventh percentile.

Deductions from Plan Assets

SDCERS administers lifetime retirement annuities, survivor benefits, permanent disability benefits and the HCB Plan. The cost of these programs include recurring benefit and healthcare benefit payments, refunds of contributions to terminated members, and plan administration costs. Costs to administer the HCB Plan are paid by the City.

Defined Benefit Pension Plan (DB Plan)

Total deductions for the FY 2005 totaled \$232.3 million. Deductions for FY 2004 and FY 2003 totaled \$187.9 million and \$164.9 million, respectively. A comparative summary is set out in Table 4 below.

Table 4: Defined Benefit Pension Plan Payments and Other Deductions

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Retirement and Disability Allowances and Other Benefit Payments	\$201,006,814	\$161,658,640	\$39,348,174	24.34%	\$161,658,640	\$146,396,141	\$15,262,499	10.43%
Refunds of Members' Contributions	2,802,986	2,108,909	694,077	32.91%	2,108,909	1,378,787	730,122	52.95%
Administrative Expenses	11,960,392	9,888,752	2,071,640	20.95%	9,888,752	7,886,427	2,002,325	25.39%
DROP Program Interest Expenses	16,520,216	12,735,149	3,785,067	29.72%	12,735,149	9,218,281	3,516,868	38.15%
Litigation Settlement Expense	-	1,249,292	(1,249,292)	(100.00%)	1,249,292	-	1,249,292	100.00%
Allowance for Uncollectable Purchased Service Payments	12,096	244,704	(232,608)	(95.06%)	244,704	68,693	176,011	256.23%
Total Deductions	\$232,302,504	\$187,885,446	\$44,417,058	23.64%	\$187,885,446	\$164,948,329	\$22,937,117	13.91%

In FY 2005, retirement, disability allowances and other benefit payments totaled \$201.0 million, or \$39.3 million (24.34%) more than FY 2004's payments of \$161.7 million. FY 2004's retirement and disability allowances and other benefit payments were 10.43% greater (\$15.2 million) than in FY 2003, which totaled \$146.4 million.

In FY 2005, refunds of members' contributions totaled \$2.8 million, a 32.91% increase (\$0.7 million) compared to FY 2004 refunds of \$2.1 million. FY 2004 refunds of members' contributions increased by 52.95%, or \$0.7 million, over refunds of members' contributions in FY 2003, of \$1.4 million.

FY 2005 administrative expenses totaled \$12.0 million, an increase of 20.95%, or \$2.0 million, over FY 2004 expenses of \$9.9 million. FY 2004 administrative expenses increased by 25.39%, or \$2.0 million, over FY 2003's administrative expenses of \$7.9 million. FY 2004 included a one-time litigation settlement expense accrual of approximately \$1.3 million to pay SDCERS' portion of attorney and legal fees awarded to the plaintiff in the Gleason settlement.

Financial Section

Coverage - Total Additions Compared to Total Deductions

As set out in Table 5 below, FY 2005 additions of \$599.2 million provided more than two and one-half times coverage, or 257.95%, of FY 2005 deductions of \$232.3 million, as of June 30, 2005. In FY 2004, additions of \$751.3 million provided nearly four times coverage, or 399.85%, of FY 2004 deductions of \$187.9 million, as of June 30, 2004. In FY 2005 and FY 2004, SDCERS experienced an overall increase in plan net assets of \$366.9 million and \$563.4 million, respectively. These results improved over FY 2003 when additions of \$286.9 million covered less than two times, or 173.88%, of FY 2003's deductions of \$164.9 million, resulting in an overall net increase of \$121.9 million in net assets.

Table 5: Increase (Decrease) in Defined Benefit Pension Plan Net Assets

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Total Additions (Table 3)	\$599,218,379	\$751,260,576	\$(152,042,197)	(20.24%)	\$751,260,576	\$286,810,988	\$464,449,588	161.94%
Less Total Deductions (Table 4)	232,302,504	187,885,446	44,417,058	23.64%	187,885,446	164,948,329	22,937,117	13.91%
Net Increase (Decrease) in Defined Benefit Pension Plan's Net Assets	\$366,915,875	\$563,375,130	\$(196,459,255)	(34.87%)	\$563,375,130	\$121,862,659	\$441,512,471	362.30%
Additions as a Percentage of Current Year Deductions	257.95%	399.85%			399.85%	173.88%		

Additions, Deductions and Changes in Plan Net Assets

Post-Employment Healthcare Benefit Plan (HCB Plan)

For FY 2005, the HCB Plan was not allocated any earnings because all available cash was spent during the year. The City did not contribute to the HCB Plan in FY 2005, instead allowing benefits to be paid from the carryover balance from FY 2004 of \$9.1 million in anticipation of funding healthcare benefits directly during FY 2005 when funds were depleted. Beginning in January 2005, after the funds were depleted, the City funded healthcare benefits on a pay-as-you-go basis from its annual budget. These funds are not part of the SDCERS trust fund and will be reported in the City's financial statements.

Payments made from the HCB Plan in FY 2005 cannot be compared to FY 2004 payments because deductions for FY 2005 were only reported in the Trust Fund until the remaining balance was depleted. The remaining healthcare benefit payments were reported in the City healthcare benefit fund.

Table 6 below reflects the changes in HCB Plan assets for FY 2005 and 2004.

Table 6: Changes in Post-Employment Healthcare Benefit Plan Net Assets

	2005	2004	Increase/ (Decrease)	Percentage Change	2004	2003	Increase/ (Decrease)	Percentage Change
Total Net Investment Earnings ¹	-	\$376,109	\$(376,109)	(100.00%)	\$376,109	\$1,495,696	\$(1,119,587)	(74.85%)
Total Additions	-	\$376,109	\$(376,109)	(100.00%)	\$376,109	\$1,495,696	\$(1,119,587)	(74.85%)
Healthcare Benefits Payments	\$7,910,366	\$12,829,903	\$(4,919,537) ²	(38.34%)	\$12,829,903	\$11,450,200	\$1,379,703	10.75%
Administrative Expenses	-	274,511	(274,511)	(100.00%)	274,511	268,778	5,733	2.09%
Total Deductions	\$7,910,366	\$13,104,414	\$(5,194,048)	(39.64%)	\$13,104,414	\$11,718,976	\$1,385,703	11.82%
Net (Decrease)	(7,910,366)	(12,728,305)	4,817,939	37.85%	(12,728,305)	(10,223,282)	(2,505,023)	24.51%
Transfer of Plan Net Assets ³	(1,173,156)	-	(1,173,156)	100.00%	-	14,317,073	(14,317,073)	100.00%
Net Increase (Decrease) in Post-Employment Healthcare Benefit Plan's Net Assets	\$(9,083,522)	\$(12,728,305)	\$3,644,783	28.64%	\$(12,728,305)	\$4,093,791	\$(16,822,096)	410.92%

¹ Stated net of investment expenses of \$0 and \$77,846 for FY 2005 and FY 2004, respectively.

² FY 2005 healthcare benefit payments are not comparable to the FY 2004 payments because the FY 2005 amount represents only partial year payments, up to the point of depletion of the trust funds in this plan. At that time, the City started funding healthcare benefits directly by making contributions to a separate healthcare benefit fund to this plan.

³ Reflects the return of unrealized market value in excess of book value of the reserve. The 401(h) reserve was funded at book value of reserve in accordance with San Diego Municipality Code.

Recently, as part of SDCERS' Voluntary Correction Plan (VCP) filing with the Internal Revenue Service (IRS), it was determined that the costs incurred by SDCERS in the administration of health benefit plans for health-eligible SDCERS' retirees could not be deducted from the DB Plan's net assets. This practice was discontinued in FY 2005, and SDCERS was reimbursed by the City for these costs. Prospectively, SDCERS will invoice the City at the beginning of the fiscal year for the projected costs to coordinate benefits for the City's healthcare benefit plan and then issue a final billing or reimbursement credit at fiscal year end based on actual costs. For more discussion about the VCP filings, see *Note 7. Subsequent Events* in the Notes to Financial Statements.

Financial Section

San Diego City Employees' Retirement System

Statements of Plan Net Assets

June 30, 2005 and June 30, 2004

	2005		2004	
	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan
ASSETS				
Cash and Cash Equivalents				
Cash or Equity in Pooled Cash and Investments with the City of San Diego	\$2,173,813	-	\$3,642,648	-
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	438,782,019	-	340,208,577	-
Pooled Investments	-	-	(9,136,409)	\$9,136,409
Total Cash and Cash Equivalents	440,955,832	-	334,714,816	9,136,409
Receivables				
Plan Sponsors' and Members' Contributions	13,318,684	-	9,743,298	-
Members' - Purchased Service Contracts	23,214,041	-	22,604,172	-
Accrued Interest Receivable	12,477,254	-	10,889,543	-
Securities Sold	85,818,964	-	44,965,113	-
Total Receivables	134,828,943	-	88,202,126	-
Investments, at Fair Value				
Short-Term Investments	148,312,263	-	214,401,018	-
Domestic Fixed Income Securities	650,394,370	-	468,962,285	-
International Fixed Income Securities	166,571,754	-	148,758,686	-
Domestic Equity Securities	1,408,072,427	-	1,296,359,749	-
International Equity Securities	580,214,627	-	531,526,719	-
Mortgages	9,154	-	17,022	-
Directly-Owned Real Estate Assets and Real Estate Equity Securities	317,941,072	-	277,668,908	-
Total Investments	3,271,515,667	-	2,937,694,387	-
Securities Lending Cash Collateral				
Total Investments Including Securities Lending Cash Collateral	434,363,945	-	319,748,403	-
Total Investments Including Securities Lending Cash Collateral	3,705,879,612	-	3,257,442,790	-
Prepaid Expenses				
	300	-	2,522	-
Properties at Cost, Net of Accumulated Depreciation of \$253,787 and \$204,218, Respectively				
	141,380	-	190,949	-
TOTAL ASSETS	\$4,281,806,067	-	\$3,680,553,203	\$9,136,409
LIABILITIES				
Accounts Payable	\$461,515	-	\$438,653	-
Investment Related Fees Payable	3,846,249	-	3,482,179	\$18,202
Litigation Settlement Payable	-	-	1,249,292	-
Accrued Wages and Benefits	702,742	-	621,330	17,874
DROP Program Liability	228,511,194	-	185,107,857	-
Pension Liability	600,004	-	584,382	16,811
Securities Purchased	161,568,431	-	85,658,151	-
Securities Lending Obligations for Cash Collateral	434,363,945	-	319,748,403	-
TOTAL LIABILITIES	\$830,054,080	-	\$596,890,247	\$52,887
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION AND POST-EMPLOYMENT HEALTHCARE BENEFITS				
(A Schedule of Funding Progress for each plan sponsor is presented in the Required Supplementary Information section, which follows the Notes to the Financial Statements.)	\$3,451,751,987	-	\$3,083,662,956	\$9,083,522

For a full understanding of the Statements of Plan Net Assets, please see the accompanying Notes to the Financial Statements. A Schedule of Funding Progress for each plan sponsor is presented in the Required Supplementary Information section.

San Diego City Employees' Retirement System

Statements of Changes in Plan Net Assets

June 30, 2005 and June 30, 2004

	2005		2004	
	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan
ADDITIONS				
Contributions				
City of San Diego (City)				
Plan Sponsor	\$130,000,000	-	\$81,832,070	-
Members' Portion Paid by				
Plan Sponsor	29,893,945	-	30,204,840	-
Members'	17,123,839	-	14,179,107	-
Members' for Purchased Service	45,703,461	-	72,956,979	-
Total City Contributions	222,721,245	-	199,172,996	-
Unified Port of San Diego (Port)				
Plan Sponsor	7,613,081	-	4,594,580	-
Members' Portion Paid by				
Plan Sponsor	2,762,902	-	2,692,191	-
Members'	1,174,034	-	1,639,724	-
Members' for Purchased Service	2,716,550	-	1,975,378	-
Total Port Contributions	14,266,567	-	10,901,873	-
San Diego County Regional Airport Authority (Airport)				
Plan Sponsor	7,625,052	-	1,435,000	-
Members' Portion Paid by	1,331,600	-	1,054,396	-
Plan Sponsor				
Members'	562,107	-	480,815	-
Members' for Purchased Service	919,087	-	487,619	-
Total Airport Contributions	10,437,846	-	3,457,830	-
Earned Interest on Purchased Service Installment Contracts	1,583,235	-	907,814	-
Total Contributions	249,008,893	-	214,440,513	-
Investment Earnings				
Net Appreciation in Fair Value of Investments				
Equity (Stocks)	185,752,215	-	422,170,111	-
Fixed Income (Bonds)	27,835,694	-	8,255,601	-
Mortgages	-	-	3,462	-
Real Estate Equity and Real Estate Securities (Stocks)	51,956,089	-	39,334,565	-
Commingled Net Appreciation	-	-	(453,955)	\$453,955
Total Net Appreciation (Depreciation) in Fair Value of Investments	265,543,998	-	469,309,784	453,955
Investment Income				
Equity (Stocks) - Dividends, Litigation Settlements	44,727,630	-	35,795,193	-
Fixed Income (Bonds) - Interest	44,066,392	-	34,929,745	-
Mortgages - Income	1,110	-	52,221	-
Real Estate - Income	11,302,610	-	10,636,311	-
Total Investment Income	100,097,742	-	81,413,470	-
Less Investment Expenses	(16,330,752)	-	(14,781,389)	(77,846)
Total Net Investment Income	349,310,988	-	535,941,865	376,109
Securities Lending Income				
Gross Earnings	8,045,405	-	3,410,299	-
Borrower Rebates	(6,814,663)	-	(2,168,167)	-
Administrative Expenses (Lending Agent)	(332,244)	-	(363,934)	-
Net Securities Lending Income	898,498	-	878,198	-
Total Net Investment Earnings	350,209,486	-	536,820,063	376,109
TOTAL ADDITIONS	\$599,218,379	-	\$751,260,576	\$376,109

Financial Section

San Diego City Employees' Retirement System Statements of Changes in Plan Net Assets (continued) June 30, 2005 and June 30, 2004

	2005		2004	
	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan	Defined Benefit Pension Plan	Post-Employment Healthcare Benefit Plan
DEDUCTIONS				
Benefit Payments				
Monthly Retirement and Disability Allowances	\$184,386,028	-	\$161,056,037	-
Healthcare Benefit Payments	-	\$7,910,366	-	\$12,829,903
Corbett Benefit Payments	16,023,644	-	-	-
Death Benefit Payments	597,142	-	602,603	-
Total Benefit Payments	201,006,814	7,910,366	161,658,640	12,829,903
Refunds of Members' Contributions	2,802,986	-	2,108,909	-
Administrative Expenses	11,960,392	-	9,888,752	274,511
DROP Program Interest Expenses	16,520,216	-	12,735,149	-
Litigation Settlement Expense	-	-	1,249,292	-
Allowance for Uncollectable Purchased Service Payments	12,096	-	244,704	-
TOTAL DEDUCTIONS	\$232,302,504	\$7,910,366	\$187,885,446	\$13,104,414
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION AND POST-EMPLOYMENT HEALTHCARE BENEFITS				
BEGINNING OF YEAR	\$3,083,662,956	\$9,083,522	\$2,520,287,826	\$21,811,827
Transfer of Plan Net Assets	1,173,156	(1,173,156)	-	-
NET INCREASE (DECREASE)	366,915,875	(7,910,366)	563,375,130	(12,728,305)
END OF YEAR	\$3,451,751,987	-	\$3,083,662,956	\$9,083,522

For a more complete understanding of the Statements of Changes in Plan Net Assets, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System

Notes to the Financial Statements

June 30, 2005 and June 30, 2004

FINANCIAL STATEMENTS

The following information supplements the audited financial statements, the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. *Note 6. Legal Action* and *Note 7. Subsequent Events* provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2005 and through the end of the audit period.

1. Summary of Significant Accounting Policies

Basis of Accounting

SDCERS' financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The U.S. Governmental Accounting Standards Board (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. GASB Statements No. 26, *Financial Reporting for Post-Employment Healthcare Plans Administered by Defined Benefit Pension Plans* established reporting standards for post-employment healthcare benefit plans.

SDCERS' financial statements are prepared using the accrual basis of accounting. SDCERS is considered part of the City's financial reporting entity, and SDCERS' financial statements are included in the City's Comprehensive Annual Financial Report (City's CAFR) as a Pension Plan and Healthcare Benefit Plan Trust Fund.

Member contributions are recognized as contributions in the period in which the contributions are due. Plan sponsors' contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable in accordance with SDCERS' DB Plan. SDCERS' investments are stated at fair value. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related 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 to 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's CAFR. Interest is earned on the pooled funds each accounting period (13 periods each fiscal year). SDCERS had a total of \$2,173,813 and \$3,642,648 on deposit in the pool as of June 30, 2005 and June 30, 2004, respectively.

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

SDCERS does not have a target investment allocation to cash. The balances exhibited in the audited financial statements of Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents totaled \$438,782,019 as of June 30, 2005 and \$340,208,577 as of June 30, 2004. A significant portion of these balances represent cash collateral, invested in Federal Funds, from three market neutral portfolios (long and short U.S. equity positions) held with prime brokers (agents). These market neutral portfolios totaled \$346,826,274 as of June 30, 2005, and \$301,338,981 as of June 30, 2004. The market neutral portfolios are classified as domestic fixed income (short duration - defensive) investment strategies in SDCERS' strategic target asset allocation.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Of these amounts, \$71,598,118 as of June 30, 2005 and \$34,916,487 as of June 30, 2004, represent the overnight investment of residual cash holdings from SDCERS' investment managers' portfolios. The remaining balance is cash equivalents not assigned to a specific investment manager for reinvestment. The portfolio cash balances are used to effectuate investment manager trades and to settle net positions in pending transactions resulting from trade date accounting under GASB Statement No. 25. Any residual cash equivalents on deposit are reserved to pay monthly benefits and SDCERS' expenses or to rebalance portfolio assets as needed.

Receivables

SDCERS' receivables include items representing accrued employers' contributions due to SDCERS and members' contributions for executed purchase of service contracts where payment is pending. SDCERS maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its current active members that have purchase of service contracts outstanding to fully pay them off. The allowance for doubtful accounts is calculated at 2% of the outstanding balances at fiscal year end. See *Note 4. Contributions* for additional discussion and disclosure regarding purchase of service contracts.

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

Investments

SDCERS' Board discharges their fiduciary duties in accordance with Article XVI, Section 17 of the California State Constitution. 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. Under the California State Constitution and other relevant authorities, SDCERS' Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' agents, in SDCERS' name, manage all investments, which are stated at fair value in the accompanying Statement of Plan Net Assets. SDCERS' custodian, State Street Bank & Trust Company, provides the market values of exchange traded assets. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third-party appraisal firms.

Capital 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

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Liabilities

Liabilities include accrued financial obligations of SDCERS as of June 30, 2005, including the repayment of securities lending collateral at a future date. In accordance with GASB Statement No. 25, securities purchased represents a payable of cash that is required under trade date accounting to settle pending purchases on a settlement date basis, which is typically trade date plus one to three business days.

Expenses

SDCERS is an independent Trust Fund under Section 401(a) of the Internal Revenue Code (IRC). All of SDCERS administration expense is charged against earnings and plan assets. Fees for investment management, actuarial services, custodial bank services and other operational costs are netted against annual additions to plan assets to arrive at plan net assets at the end of the fiscal year.

Income Taxes

Under IRC Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS' Trust Fund is considered exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Use of Estimates

The preparation of SDCERS' financial statements in conformity with GAAP requires SDCERS' management to make estimates and assumptions that affect the reported amounts of Net Assets Held in Trust for the Payment of Benefits as of the date of the financial statements. These estimates also affect 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. In addition, allowance for doubtful accounts for the members' contributions receivable in payment for purchase of service credit contracts has been calculated as 2% of the outstanding balance at year end. Actual results could differ from these estimates.

Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Implementation of New Accounting Pronouncements

SDCERS has implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, in its FY 2005 financial statements. GASB Statement No. 40 establishes disclosure requirements related to deposit risk, credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Beginning in FY 2007, SDCERS will implement GASB Statement No. 43, *Financial Reporting for Post-Employment Plans Other Than Pensions* (which supercedes GASB Statement No. 12, *Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Government Employers*) and the interim guidance from GASB Statement No. 26, *Financial Reporting for Post-Employment Healthcare Plans Administered by Defined Benefit Pension Plans*.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

2. Plan Descriptions

General

SDCERS is the agent of a multi-employer, defined benefit trust fund established in 1927 by the City. It is administered by SDCERS' Board to provide service retirement, disability retirement, death, and survivor benefits to its participants. Employees of the Port became members of SDCERS in 1963. Pursuant to an amendment to the San Diego City Charter in 2002, the Port contracts directly with SDCERS to administer its defined benefit plan. On January 1, 2003, California established the San Diego County Regional Airport Authority as a separate agency, initially staffed by a group of employees formerly employed by the Port, plus other newly-hired employees. The Airport entered into an agreement with SDCERS in 2003 to continue to have SDCERS administer its defined benefit plan for its employees.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, and covers all eligible employees. As a defined benefit plan, pension 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 twelve-month period. SDCERS also coordinates the benefits for the City's post-employment healthcare benefit plan for health-eligible retirees.

The Port and Airport use five-year vesting for employees to be eligible to receive pension benefits. The City requires ten years of service for its employees to vest for a pension benefit. Beginning on January 3, 2003, the City's ten years of service can be a combination of time worked (service earned) and certain purchased service.

SDCERS is included in the City's CAFR as a Defined Benefit Pension Plan and Healthcare Benefit Plan Trust Fund.

Membership

All benefited 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 retired members and beneficiaries receiving benefits, active members, deferred vested members (inactive members entitled to benefits but not yet receiving them), active and inactive non-vested members.

The following membership table provides information on the number of members by category for each plan sponsor. In FY 2005, SDCERS' total participants increased by 131 over FY 2004. This was comprised of a net decrease of 161 members and a net increase of 292 retirees.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Membership

		As of June 30, 2005				As of June 30, 2004			
		City General Members	City Safety Members	Port All Members	Airport All Members	City General Members	City Safety Members	Port All Members	Airport All Members
Members									
	Active Vested	3,686	1,597	316	104	3,910	1,633	354	112
2005:	12,552								
	Deferred Vested	476	101	86	10	436	87	43	3
2004:	12,713								
Decrease:	(161)								
	Active Non-Vested	3,122	1,031	242	180	3,207	999	221	153
	Inactive Non-Vested	1,256	165	164	16	1,215	146	185	9
Retirees									
	Retired	3,102	2,055	291	4	2,989	1,953	279	2
2005:	6,308								
	DROP Participants	478	360	15	3	410	371	11	1
2004:	6,016								
Increase:	292								
Total Members and Retirees									
	Totals	12,120	5,309	1,114	317	12,167	5,189	1,093	280
2005:	18,860								
2004:	18,729								
Increase:	131								

Post-Employment Healthcare Benefit Plan (HCB Plan)

SDCERS coordinates benefits for the City's post-employment healthcare benefit plan for health-eligible retirees, in accordance with San Diego Municipal Code.

Eligibility Requirements

Post-employment healthcare benefits for members retiring from City employment are based on their health-eligibility status. City retirees are either health-eligible or non-health-eligible. SDCERS also administers a special healthcare benefit for spouses and dependents of eligible City employees killed in the line of duty.

Health-eligible Benefit

To be "health eligible," a retiree must have been on the active payroll of the City on or after October 5, 1980; retired on or after October 6, 1980; and be eligible for and receiving a pension allowance from SDCERS. As of June 30, 2005, 3,484 participants are health-eligible.

SDCERS' health-eligible retirees may obtain health insurance coverage with the plan of their choice, including any City-sponsored, union-sponsored or privately-secured health plan. Medicare eligible retirees may receive reimbursement for their Medicare Part B premium and reimbursement/payment of their health premiums up to \$528.41 per month in addition to the monthly Medicare Part B premium (\$78.20 per month for 2005). These amounts change annually. Non-Medicare eligible retirees may receive reimbursement/payment of health premiums only, up to \$561.08 per month. This amount also changes annually.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Non-Health-eligible Benefit

The health benefit for non-health-eligible retirees is a reimbursement of up to \$1,200 per fiscal year for a combination of both Medicare Part B premiums and medical expenses (including co-pays, prescription costs, premiums for health and hospital insurance coverage).

Non-health-eligible retirees either retired or terminated employment as a vested member of the City prior to October 6, 1980 and are receiving a pension allowance from SDCERS. As of June 30, 2005, there were 655 non-health-eligible retirees.

Death in the Line of Duty Widows/Widowers

The Death in the Line of Duty Widow/Widower healthcare benefit is paid to eligible surviving spouses. Death in the Line of Duty Widows/Widowers and their dependent children are eligible to be enrolled in a City-sponsored health plan. They receive payment for health insurance premiums and Medicare Part B premiums up to the annual flexible dollar amount for active City SDCERS' members. There were 26 eligible benefit recipients as of June 30, 2005.

Contributions

The HCB Plan is funded by the City. In FY 2005 and FY 2004, the City did not make any contributions to the HCB Plan. Instead, the City benefits were paid from the carryover balance from FY 2004 in anticipation of the City funding healthcare benefits directly during FY 2005. At that time, the City made contributions to a separate City healthcare benefit fund for the HCB Plan. These contributions are budgeted in the City's annual operating budget as a current-year expense of the City.

In March 2006, the City completed its first actuarial valuation for the HCB Plan for the fiscal year ended June 30, 2005.

GASB Statement No. 26 sets forth the policy that plans should report healthcare assets and related liabilities separate from pension assets, liabilities, additions and deductions.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

3. Deposits and Investments

Cash

At June 30, 2005 and June 30, 2004, SDCERS' cash or equity in pooled cash and investments, cash and cash equivalents, and investments were as follows:

	June 30, 2005	June 30, 2004
Cash or equity in pooled cash and investments on deposit with the City of San Diego	\$2,173,813	\$3,642,648
Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents ¹	438,782,019	340,208,577
Net investments (including accrued interest receivable, plus accrued interest on investments purchased, plus receivable for securities sold less liability for securities purchased)	3,208,243,454	2,907,890,892
Totals	\$3,649,199,286	\$3,251,742,117

¹ Includes cash collateral from market neutral portfolios (defensive, domestic fixed income investment strategy) that totaled \$346,826,274 as of June 30, 2005, and \$301,338,981 as of June 30, 2004. This amount also includes residual cash of \$71,598,118 as of June 30, 2005, and \$34,916,487 as of June 30, 2004, 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; any cash or cash equivalent balances on deposit is reserved for paying current monthly accrued benefits and SDCERS' operational expenses.

Investments

SDCERS' Board has exclusive control over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and California Constitution Article XVI, Section 17. Plan Assets of the Defined Benefit Pension Plan and the Post-Employment Healthcare Benefit Plan are pooled for investment purposes.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board can also invest in additional investments as approved by resolution of the San Diego City Council. 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 are made relative to an entire portfolio; an asset that may be risky on its own could lessen the risk of the total portfolio due to its low correlation with other investments in the portfolio. Investment policies permit SDCERS' Board to invest in financial futures contracts provided the contracts do not leverage SDCERS' Trust Fund 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 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, 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 gains (income earnings and net gains) that totaled \$310,061,227 and \$260,239,046 for the years ended June 30, 2005 and June 30, 2004 respectively. Realized gains and losses determine whether or not certain SDCERS' contingent benefits will be earned each fiscal year, in accordance with the San Diego Municipal Code.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Through its investment objectives and policies, SDCERS' Board places considerable importance on generating a reasonable rate of return above inflation in order to ensure the payment of benefits to retirees and the preservation of capital. Therefore, investment opportunities are only entered into after the associated risk is clearly understood and the impact to the total SDCERS' Trust Fund portfolio is analyzed.

SDCERS allocates a portion of its investment portfolio to fixed income strategies. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. Fixed income strategies have less variability of return than equities, and they are used to diversify the investment portfolio. SDCERS' target asset allocation policy is reviewed each year to reflect changes in capital market assumptions. SDCERS' target allocation to fixed income strategies as of June 30, 2005 was 37%. The entire allocation is externally-managed and is comprised as follows: 20.5% to core plus domestic fixed income, which is benchmarked against the Lehman Aggregate Bond index; 9.6% to an unsecuritized market neutral strategy, which is benchmarked to the Merrill Lynch 1-5 year Government/Corporate index; 5% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond index; and, 1.9% to convertible bond securities benchmarked to the Merrill Lynch Convertible Index. SDCERS' overall portfolio diversification limits the fixed income portfolio invested in the debt security of any one issuer to 10% at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

Interest Rate and Credit Risks

The market neutral and convertible bond strategies do not exhibit traditional fixed income interest rate risk nor is duration a relevant determinant in structuring these portfolios. Convertible securities are not highly correlated to interest rates as the valuation of the security is tied to the value of a company's common stock. SDCERS' market neutral strategy, which was added to SDCERS' fixed income strategy in 1998, uses equity securities held long and sold short with the cash proceeds of the short sales held in a cash account invested in U.S. Federal Government Funds (Fed Funds). The total return of the market neutral strategy can be impacted by the interest rate offered on Fed Funds deposits; this strategy is benchmarked to a shorter duration bond index that in a normal interest rate environment would be expected to have a lower yield at the short end of the interest rate curve. The market neutral strategy has a low correlation to traditional fixed income strategies and is a proxy for a shorter-duration defensive fixed income strategy. Convertible securities diversify SDCERS' fixed income portfolio and are expected to provide a higher rate of return than traditional fixed income strategies due to their conversion feature. The balance of SDCERS' fixed income portfolio (25.5% target of total invested assets) is sensitive to credit risk and interest rate risk.

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations and is measured by the assignment of ratings by nationally-recognized credit rating organizations. Rating agencies assess a firm's ability to repay its debt obligations issued to investors based on many factors. SDCERS employs a U.S. fixed income manager that invests in credit-rated convertible bonds. However, when assessing convertible bonds, credit ratings are not heavily relied upon in assessing the credit risk when purchasing a convertible bond, because it is the performance of the underlying equity of the company that predicts 80% on the return of the convertible bond. SDCERS also employs two core-plus bond managers who invest in a wide variety of fixed income and derivative securities. The investment management agreements between SDCERS' and these managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' core-plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other bond manager is limited to U.S. fixed income investments only.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

The permitted securities/derivatives for the two strategies combined are as follows:

Fixed Income Securities (including "stripped" issues):

U.S. Treasuries and Agencies

U.S. corporate securities

Private placement securities (including 144As, 4(2) Commercial Paper and Bank Loans)

U.S. traditional preferred and adjustable rate preferreds

Mortgage pass-through securities (GNMA, FNMA, FHLMC, savings and loans, and banks), and collateralized mortgage obligations

Eurodollar securities of U.S. issuers

Foreign Government and Supra-National Agencies*

Emerging Market investments*:

- Limited to countries contained in the J.P. Morgan EMBI Global and EMLI+ Indices
- Minimum quality of B-
- Instruments rated below BB- not to exceed 20% of the Emerging Market allocation in the portfolio
- Unrated securities by any of the rating agencies not to exceed 20% of the Emerging Market allocation in the portfolio
- Maximum exposure to any country rated investment grade is 5% and 3% for countries rated below BBB-
- Holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at reasonable cost and accurate market valuations

* Applies to permitted investments for a manager with tactical discretion to invest in international fixed income strategies.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Short-term Instruments:

- U.S. Treasury and Agency instruments
- Certificates of deposit and bankers acceptances of U.S. banks
- Repurchase and reverse repurchase agreements
- Eurodollar CD's, TD's, and commercial paper
- U.S. and Eurodollar floating rate notes and CD's
- U.S. money market funds and bank STIFS
- Foreign Government and Supra-National Agencies*

Financial Futures and Options:

- Futures Contracts on interest rate and foreign currency related instruments, such as:
 - U.S. Treasury securities
 - Government National Mortgage Association
 - Certificates of Deposit
 - Euro Treasury Deposits
 - Muni Bond Index
 - Corporate Bond Index
 - Foreign Government and Supra-National securities
- Options on interest rate and foreign currency related instruments
- Interest rate and currency swaps
- Credit default swaps, both long and short

Additional portfolio parameters within the investment guidelines include minimum average portfolio quality of A rating (market value weighted) and minimum credit quality at time of purchase of Ba/BB or equivalent rating by at least one of the major rating services, i.e., Moody's, S&P, Fitch.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

The following tables identify the credit quality of each of SDCERS' core plus fixed income strategies based on portfolio holdings as of June 30, 2005.

U.S. Fixed Income Portfolio (with tactical discretion to invest in non-U.S. fixed income securities)
Credit Risk as of June 30, 2005

S&P Quality Rating	Moody's Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations	Short-Term/ Other
AAA	Aaa	\$209,932,115	0	0	\$41,731,413	\$9,914,239	\$158,286,463	0
AAA	NA	889,651	0	0	0	0	889,651	0
A1	P1	20,439,162	0	0	0	0	0	\$20,439,162
A1+	P1	70,127,693	0	0	0	0	0	70,127,693
AA+	Aa2	683,884	0	\$395,115	0	288,769	0	0
AA	Aa1	(152,920)	0	0	0	(152,920)	0	0
AA-	Aa1	391,704	0	0	0	391,704	0	0
A+	A1	199,956	0	0	0	0	0	199,956
A+	Aa3	1,178,819	0	0	0	1,178,819	0	0
A	A2	3,556,665	\$3,556,665	0	0	0	0	0
A-	A2	335,086	0	335,086	0	0	0	0
BBB	A3	3,602,287	0	502,225	0	0	0	3,100,062
BBB	Baa3	2,284,692	0	2,284,692	0	0	0	0
BBB	Baa1	1,054,480	0	0	0	1,054,480	0	0
BBB-	Baa3	6,220,239	0	1,030,954	0	5,189,285	0	0
BB+	Ba1	5,316,723	0	4,604,719	0	0	0	712,004
BB	Baa2	4,032,949	0	3,215,041	0	0	0	817,908
BB	Ba3	1,468,750	0	0	0	1,468,750	0	0
BB-	B1	4,798,153	0	3,220,639	0	1,577,514	0	0
B	Caa2	10,588	0	10,588	0	0	0	0
B-	Caa1	911,250	0	911,250	0	0	0	0
CCC+	Caa1	828,000	0	828,000	0	0	0	0
NR	NR	18,037,104	0	1,317,235	0	16,719,869	0	0
NR	AAA	3,703,261	0	0	3,703,261	0	0	0
TOTALS		\$359,850,291	\$3,556,665	\$18,655,544	\$45,434,674	\$37,630,509	\$159,176,114	\$95,396,785

Concentration guidelines for this portfolio are as follows:

Maximum Exposure (except U.S. Treasury/Agency Organization for Economic Co-operation and Development Government Issues)

Issue	3% of portfolio
Issuer	5% of portfolio
Foreign Investments	30% of portfolio
Emerging Market Exposure (U.S. dollar)	10% of portfolio
Foreign Currency Exposure	25% of non-U.S. dollar investments

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San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

U.S. Fixed Income Portfolio Credit Risk as of June 30, 2005

S&P Quality Rating	Total	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities	Cash Equivalents
US Treasury	\$84,086,721	\$80,371,856	-	\$3,714,865	-	-
Agency	50,881,713	3,563,414	-	47,318,299	-	-
AAA	115,343,650	-	-	88,222,868	\$27,120,782	-
A+	8,725,940	-	\$8,725,940	-	-	-
A-	15,316,447	-	15,316,447	-	-	-
A	2,623,821	-	1,271,829	-	1,351,992	-
BBB+	12,301,521	-	12,301,521	-	-	-
BBB	6,104,009	-	6,104,009	-	-	-
BBB-	9,886,070	-	9,886,070	-	-	-
BB+	10,557,777	-	10,557,777	-	-	-
BB	17,034,295	-	16,592,041	-	442,254	-
BB-	7,146,916	-	7,146,916	-	-	-
B	2,022,227	-	2,022,228	-	-	-
B-	720,837	-	522,501	-	198,316	-
CCC	1,171,593	-	-	-	1,171,593	-
NA	18,369,960	-	352,276	5,633,092	-	\$12,384,592
Totals	\$362,293,497	\$83,935,270	\$90,799,554	\$144,889,124	\$30,284,957	\$12,384,592

Moody's Quality Rating	Total	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities	Cash Equivalents
U.S. Treasury	\$84,086,721	\$80,371,856	-	\$3,714,865	-	-
Agency	50,881,713	3,563,414	-	47,318,299	-	-
Aaa	77,804,250	-	-	54,549,960	\$23,254,290	-
Aa3	10,077,932	-	\$8,725,940	-	1,351,992	-
A1	5,582,418	-	5,582,418	-	-	-
A2	7,719,052	-	7,520,716	-	198,336	-
Baa1	604,009	-	604,009	-	-	-
Baa2	15,568,864	-	15,568,864	-	-	-
Baa3	24,911,309	-	24,911,309	-	-	-
Ba1	6,125,744	-	6,125,744	-	-	-
Ba2	7,734,332	-	7,292,078	-	442,254	-
Ba3	4,482,366	-	4,482,366	-	-	-
B1	1,094,733	-	1,094,733	-	-	-
B3	4,822,489	-	4,822,489	-	-	-
Caa1	1,171,593	-	-	-	1,171,593	-
Caa2	2,022,227	-	2,022,227	-	-	-
NA	57,603,745	-	2,046,661	39,306,000	3,866,492	\$12,384,592
Totals	\$362,293,497	\$83,935,270	\$90,799,554	\$144,889,124	\$30,284,957	\$12,384,592

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Concentration guidelines for this portfolio are as follows:

Maximum Exposure (except U.S. Treasury/Agency)

Issue	5% of portfolio
Issuer	5% of portfolio
Non-Investment Grade	10% of portfolio
Mortgage backed derivatives	5% of portfolio
USD Foreign Investments	15% of portfolio
Foreign Currency Exposure	0% of portfolio

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. NR represents those securities that are not rated and NA represents those securities that are not applicable to the rating disclosure requirements.

SDCERS' international fixed income portfolio is limited to a minimum average portfolio quality of A rating (market value weighted) and a minimum credit quality at the time of purchase of Ba/BB or equivalent by at least one of the major rating services, (i.e., Moody's, S&P, or Fitch). Credit ratings refer to the long-term foreign currency rating.

The table below displays the credit quality of SDCERS' international fixed income strategy as of June 30, 2005. The portfolio total includes cash of \$6,318,844, Accrued Interest Receivable of \$3,215,622, and transactions pending settlement of \$162,995.

International Fixed Income Portfolio
Credit Risk as of June 30, 2005

Credit Rating	Total	Cash & Forward Foreign Exchange	Asset Backed Securities	Credit Obligations	International Government & Agency
AAA	\$142,176,651	\$6,318,844	\$3,611,670	\$26,371,455	\$105,874,682
AA+	7,911,907	-	-	-	7,911,907
AA	-	-	-	-	-
AA-	11,740,994	-	-	-	11,740,994
A+	-	-	-	-	-
A	-	-	-	-	-
A-	3,315,979	-	-	383,859	2,932,120
BBB+	-	-	-	-	-
BBB	985,576	-	-	-	985,576
BBB-	3,929,562	-	-	-	3,929,562
BB+	-	-	-	-	-
BB	-	-	-	-	-
BB-	1,019,423	-	-	-	1,019,423
B+	4,515,429	-	-	-	4,515,429
B	160,100	-	-	-	160,100
B-	513,694	-	-	-	513,694
CCC	-	-	-	-	-
NA	-	-	-	-	-
Totals	\$176,269,315	\$6,318,844	\$3,611,670	\$26,755,314	\$139,583,487

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San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Concentration guidelines for this portfolio are as follows:

Maximum Exposure (except U.S. Treasury / Agency O.E.C.D. Government Issues) to:

Issue	3% of portfolio
Issuer	5% of portfolio
Foreign Investments	30% of portfolio
Emerging Market Exposure (U.S. dollar)	10% of portfolio
Foreign Currency Exposure	25% of non-U.S. dollar investments

Concentration risk in the non-U.S. fixed income portfolio is controlled as follows:

The developed market component of the portfolio may be invested in the following securities: sovereign and supranational, Eurodollar bonds, corporates and mortgages of companies or governmental agencies domiciled outside the United States. The developed market component of the portfolio is expected to hold between 20-40 issues at any given time and no more than 20% of the portfolio, on a market value basis, will be invested in any single security.

The maximum exposure to emerging market countries shall not exceed 30% of the market value of the International Fixed Income portfolio. Investments may be in both dollar and non-dollar (local currency) denominated instruments.

Emerging Market investments:

- Limited to countries contained in the J.P. Morgan EMBI Global and EMLI+ Indices
- Minimum quality of B-
- Instruments rated below BB- not to exceed 20% of the Emerging Market allocation in the portfolio
- Unrated securities by any of the rating agencies not to exceed 20% of the Emerging Market allocation in the portfolio
- Maximum exposure to any country rated investment grade is 5% and 3% for countries rated below BBB-
- Holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at reasonable cost and accurate market valuations

Securities selection results from an analysis of the following factors:

- Country Selection - the portfolio will be concentrated in a relatively small number of markets, which are expected to outperform the index.
- Currency Selection - selected hedges will be applied in order to manage volatility in currency movements away from the expected trend.
- Duration Management - the allowed variance from the index for durations in individual markets may vary while the overall portfolio duration will be constrained to between .5 and 1.5 times the index.
- Term Structure - in general, the portfolio will be invested in the medium-to-long end of the market.
- Sector/Security Selection - issues will be evaluated for liquidity and credit quality.
- Derivatives - covered put and call options may be written against bonds and currencies to generate additional income.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. The following tables identify each of the portfolios' durations for SDCERS' two core plus fixed income portfolios and single non-U.S. fixed income portfolio, based on portfolio holdings as of June 30, 2005.

SDCERS' U.S. convertible bond portfolio is not subject to interest rate risk because convertible bonds are usually positively correlated to interest rate movements compared to other fixed income securities.

U.S. Fixed Income Portfolio (with tactical discretion to invest in non-U.S. fixed income securities)
Portfolio Duration Analysis as of June 30, 2005

	Duration (in years)	Weighted Average Duration Contribution (in years)	% Duration of Portfolio	% of Market Value	Market Value
Securitized Obligations:					
Asset Backed Securities	2.50	0.02	0.6%	1.0%	\$3,556,665
Credit Obligations:					
Corporate Bonds	1.42	0.03	0.9%	2.5%	8,828,904
High Yield	3.97	0.06	1.6%	1.6%	5,627,937
Municipal Bonds	16.68	0.19	4.9%	1.2%	4,198,703
U.S. Government & Agency Obligations:					
US Treasuries	9.21	0.92	23.1%	10.0%	35,988,648
US Agencies	3.20	0.08	2.1%	2.6%	9,446,026
International Government:					
Sovereign & Yankee Bonds	10.22	0.81	20.2%	7.9%	28,340,480
Emerging Markets	5.11	0.13	3.3%	2.6%	9,290,029
Collateralized Mortgage Obligations:					
Mortgages	2.47	1.01	25.1%	40.7%	147,085,144
Collateralized Mortgage Obligations	3.87	0.13	3.3%	3.4%	12,090,970
Short-Term/Other:					
Misc.	2.14	0.05	1.2%	2.2%	8,045,467
Cash/Cash Equivalents	2.25	0.55	13.7%	24.3%	87,351,319
Total Portfolio		3.99	100.0%	100.0%	\$359,850,291

The above portfolio is restricted to a duration of +/-2 years from that of the effective duration of the Lehman Brothers Bond Index.

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San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

U.S. Fixed Income Portfolio Portfolio Duration Analysis as of June 30, 2005

	Total	Effective Duration	Benchmark Duration	Difference
Governments	\$83,935,270	5.83	4.81	1.02
Corporates	90,799,554	5.34	5.99	-0.65
MBS	144,889,124	2.31	2.44	-0.13
ABS	30,284,957	0.94	2.63	-1.69
Cash Equivalents	12,384,592	0.06	0.00	0.06
Totals	\$362,293,497	3.69	4.16	-0.47

The above portfolio is restricted to a duration of +/- 1 year from that of the effective duration of the Lehman Brothers Bond index.

Non-U.S. Fixed Income Portfolio Portfolio Duration Analysis as of June 30, 2005

Type of Security	Market Value	Effective Duration	Benchmark Duration	Difference
Cash and Forward Foreign Exchange	\$6,318,844	0.00	0.00	0.00
Asset Backed Securities	3,611,670	5.43	0.00	5.43
Credit Obligations	26,755,315	4.24	0.00	4.24
US Government and Agency Obligations	0	0.00	0.00	0.00
International Government & Agency	139,583,489	6.97	6.18	0.79
Collateralized Mortgage Obligations	0	0.00	0.00	0.00
Totals	\$176,269,318	6.28	6.18	0.09

The above portfolio is restricted to an average duration of between .5 and 1.5 times that of the J.P. Morgan Non-U.S. Bond Index.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. Specific investment guidelines with each money manager place limitations on their maximum holdings in any one issuer. As of June 30, 2005 and June 30, 2004, no single issuer exceeded 5% of SDCERS' total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2005 and June 30, 2004, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to any investments. SDCERS is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance in the amounts of \$77,627,543 at June 30, 2005 and \$37,464,203 at June 30, 2004.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents securities held in a foreign currency as of June 30, 2005.

Local Currency Name	Cash	Equity	Fixed Income	Other	Total
Australian Pound	-	\$1,290,319	\$18,347,761	-	\$19,638,080
Brazilian Real	-	1,075,717	-	-	1,075,717
Canadian Dollar	\$19,187	14,491,772	530,478	-	15,041,437
Danish Krone	-	2,795,830	15,755,723	-	18,551,553
Euro Currency	3,562,978	176,017,401	64,940,324	-	244,520,633
Hong Kong Dollar	5,329	9,253,676	-	-	9,259,005
Israeli Shekel	-	1,328,029	-	-	1,328,029
Japanese Yen	1,601,328	104,723,372	41,647,427	-	147,972,127
Mexican Peso	-	892,971	-	-	892,971
New Zealand Dollar	-	2,173,711	-	-	2,173,711
Norwegian Krone	-	4,627,574	10,361,765	-	14,989,339
Pound Sterling	75,801	81,788,022	10,822,438	-	92,686,261
Singapore Dollar	-	11,888,867	-	\$241,593	12,130,460
South African Rand	-	2,059,684	-	-	2,059,684
South Korean Won	69	8,883,928	2,640,970	-	11,524,967
Swedish Krona	-	6,918,145	963,115	732,365	8,613,625
Swiss Franc	-	36,977,437	-	-	36,977,437
Thailand Baht	-	323,942	-	-	323,942
Totals	\$5,264,622	\$467,510,397	\$166,010,001	\$973,958	\$639,758,978

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San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as a form of investment. Foreign currency is held temporarily in foreign accounts until it is repatriated or used to settle a securities transaction.

GASB Statement No. 3 Disclosures for Fiscal Year 2004

The disclosures set forth below for Market Risk and Investment Credit Risk are in accordance with GASB Statement No. 3 for FY 2004.

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 (calculated as the number of shares outstanding multiplied by the market price of the stock). Real estate portfolio diversification is achieved by investing in various property types located in different economic regions of the United States. Currently no directly-owned, international real estate investments are permitted. SDCERS' investments at June 30, 2004, 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 counterparty's Trust department or agent in SDCERS' name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, by its Trust department, or agent but not in SDCERS' name.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

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 activities.

Investment Credit Risk as of June 30, 2004:

	Risk Category	Fair Value
Investments-Categorized		
Cash and Cash Equivalents with Custodial Bank (Pooled)	2	\$38,869,596
Cash with Prime Brokers (Market Neutral Strategy)	2	301,338,981
Short-Term Investments		
U.S. Government and Agency Obligations	1	66,491,561
Commercial Paper	1	147,909,457
Domestic Fixed Income - U.S. Government and Agency Obligations	1	152,281,694
Domestic Fixed Income - U.S. Corporate Bonds	1	217,495,608
Domestic Equity - U.S. Corporate Stocks	1	1,082,454,843
International Fixed Income - Bonds	1	148,688,620
International Equity - Stocks	1	395,141,490
Real Estate Investment Trust Securities (REITs)	1	112,203,006
Securities Lending Collateral		
Domestic Fixed Income - U.S. Government and Agency Obligations (Tri-Party)	3	3,488,837
Domestic Fixed Income - U.S. Corporate Bonds (Securities)	3	33,878
International Equity (Securities)	3	-
Total Categorized Investments		<u>\$2,666,397,569</u>
Investments-Non-Categorized		
Cash with City of San Diego (Pooled)		\$3,642,648
Domestic Equity Institutional Mutual Funds		72,727,095
International Equity Institutional Mutual Funds		61,120,412
Total Securities on Loan for Cash Collateral		
Domestic Fixed Income - U.S. Government and Agency Obligations		73,939,020
Domestic Fixed Income - U.S. Corporate Bonds		21,811,086
Domestic Equity - U.S. Corporate Stocks		140,707,214
International Fixed Income - Bonds		70,066
International Equity - Stocks		75,264,817
Total Securities on Loan for Securities Collateral		
Domestic Fixed Income - U.S. Government and Agency Obligations		3,434,877
Domestic Equity - U.S. Corporate Stocks		470,598
International Equity - Stocks		-
Real Estate Equity Investments (Separate Properties)		165,309,242
Real Estate Commingled Funds		156,660
Mortgage Notes		17,022
Securities Lending Collateral		
Pooled Investment Vehicle with State Street Bank and Trust Co. (Cash)		319,748,403
Letter of Credit		447,566
Total Non-Categorized Investments		<u>\$938,866,726</u>
TOTAL CASH AND INVESTMENTS		<u>\$3,605,264,295</u>

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Derivative Instruments

SDCERS' investment managers, as permitted by specific investment guidelines in their investment advisory agreement, may invest in or enter into transactions involving derivative financial instruments, which include futures, options and swaps. SDCERS policy does not permit these instruments to be used to leverage SDCERS' portfolio. Rather, these instruments are used primarily to enhance portfolio performance and reduce risk or volatility. While SDCERS could be exposed to credit risk in the event of non-performance by counterparties, SDCERS enters into derivative transactions with high-quality institutions, and no losses due to or resulting from counterparty non-performance on derivative financial instruments have been incurred. Credit and legal risks are also reduced through the use of exchange-traded contracts. SDCERS is exposed to market risk, which is the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with investment policy guidelines, through buying or selling instruments or entering into off-setting positions.

The notional (underlying) or contractual amounts of derivatives indicate the extent of SDCERS' involvement in the various types and uses of derivative financial instruments and do not measure the exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The aggregate notional or contractual amounts for SDCERS' derivative financial instruments at June 30, 2005 were as follows:

Money Market Futures	\$181,010,038
Government Bond Futures	\$22,889,243
Options - Calls Sold	(\$74,047)
Options - Puts Sold	(\$28,234)
Swaps	\$373,746

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery on a specific financial instrument on a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. SDCERS uses exchange traded and over-the-counter options. Options were sold and proceeds were received to enhance fixed income portfolio performance. Option contracts sold were predominately on money market and short term instruments of less than one-year to maturity. On call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, on put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

Swap agreements are used to modify investment returns or interest rates on investments. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts and could expose investors to credit risk in the event of non-performance by counterparties.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Real Estate

SDCERS' target allocation to real estate is 10%. Historically, this portfolio consisted of 75% invested in stable, fully-leased, income-producing properties including apartments, retail, office, and industrial properties and 25% allocated to REIT securities. Performance of SDCERS' real estate program was benchmarked 75% to the NCREIF Property Index and 25% to the Wilshire REIT Index. In fiscal year 2005, SDCERS' Board approved a new real estate strategic plan with a long-term return objective of earning 2.5% above the NCREIF Property Index. A new real estate asset allocation was selected to be comprised of at least 30% in stable value real estate investments and no more than 70% in enhanced, high return real estate investments. SDCERS will begin to implement this strategy in FY 2006 by making new equity capital commitments to real estate commingled fund vehicles. As of June 30, 2005 and June 30, 2004, real estate investments totaled \$317,941,072 and \$277,668,908, respectively.

Securities Lending

SDCERS has entered into an agreement with State Street Bank & Trust Company (State Street) to lend domestic and international equity and domestic and international fixed income securities to broker-dealers and banks in exchange for pledged collateral. A simultaneous agreement is entered into by which the fiscal agent agrees to return the collateral plus a fee (rebate of interest earned on the collateral) to the borrower in the future for return of the same securities originally lent. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash (United States and foreign currency), securities issued or guaranteed by the United States Government, sovereign debt rated "A" or better, Canadian provincial debt, convertible bonds, and irrevocable letters of credit as collateral. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 101.5% of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 104.5% of the market value of the loaned securities. During both fiscal years, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral in the event that a borrower failed to return a loaned security or pay distributions thereon. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

As of June 30, 2005 and June 30, 2004, securities lending transactions collateralized by cash had a fair value of \$421,756,079 and \$311,792,203, respectively, and a collateral value of \$434,363,945 and \$319,748,403, respectively, which were reported in the assets and liabilities in the accompanying Statements of Plan Net Assets for the DB Plan in accordance with GASB Statement No. 28. As of June 30, 2005 and June 30, 2004, securities lending transactions collateralized by securities or irrevocable letters of credit had a fair value of \$2,368,349 and \$3,905,475, respectively, and a collateral value of \$2,401,627 and \$3,970,280, respectively, which were not reported in the assets or liabilities in the accompanying Statement of Plan Net Assets for the DB Plan in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2005 and June 30, 2004, for its securities lending activities was \$436,765,572 and \$323,718,683, respectively.

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San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other lenders of securities of qualified tax-exempt plans, 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, 2005, this investment pool had an average duration of 40 days and an average weighted maturity of 410 days. As of June 30, 2004, the investment pool had an average duration of 55 days and an average weighted maturity of 483 days.

As with other extensions of credit, SDCERS may encounter various risks related to securities lending agreements. However, State Street 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' securities lending activity for the two years ended June 30 was as follows:

	2005	2004
Securities Lending Gross Earnings	\$8,045,405	\$3,410,299
Expenses		
Borrower Rebates	(6,814,663)	(2,168,168)
Fees Paid to Lending Agent	(332,244)	(363,934)
Total Expenses	(7,146,907)	(2,532,101)
Net Income from Securities Lending	\$898,498	\$878,198

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor 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. In FY 2005, the normal cost and actuarial accrued liability are determined using the Projected Unit Credit (PUC) actuarial funding method.

Beginning in FY 2005, the City started making contributions in accordance with the terms of the Gleason settlement (see *Note 6. Legal Action* in the Notes to the Financial Statements). In FY 2004, the City made annual plan sponsor contributions to SDCERS in accordance with a 2002 contribution agreement between the City and SDCERS. The Port and the Airport both make annual plan sponsor contributions to SDCERS based upon the required annual contributions as determined by SDCERS' actuary.

In addition to regular plan sponsor contributions, the City's SDCERS' Unfunded Actuarial Accrued Liability (UAAL) is being funded as a level percent of payroll over a 30-year, closed amortization period that was reset as per the Gleason settlement to begin July 1, 2003 (28 years remaining as of the June 30, 2005 actuarial valuation). The Port's UAAL is being funded as a level percent of payroll over a 30-year, closed amortization period that began July 1, 1991 (16 years remaining as of the June 30, 2005 actuarial valuation). The Airport's UAAL is being funded over an 18.5-year closed amortization period that began January 1, 2003 (16 years remaining as of the June 30, 2005 actuarial valuation).

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

The ARC and the amount of Contributions Made to SDCERS by the City were restated in the Schedule of Plan Sponsor Contributions. (This Schedule is located in the Required Supplementary Information later in this Financial Section.) The ARC amounts for all prior years were recalculated by the City's actuarial firm, Actuarial Service Co., during the performance of the City's fiscal year 2003 audit performed by the certified public accounting firm KPMG. The restated ARC amounts reflects the cumulative impacts of contribution under funding that occurred during the years 1997 through 2005 and includes 13th check and Corbett benefits as an actuarial liability, which had previously been excluded.

The following tables illustrate the required plan sponsors' contribution rates as calculated annually by SDCERS' actuary under the Projected Unit Credit (PUC) actuarial funding methodology,

FY 2005 Contribution Rates (As of July 1, 2004)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego ² (June 30, 2003, Actuarial Valuation)					Weighted Total
	General	Elected Officers	Police	Fire	Lifeguard	
Normal Cost ¹	9.76%	18.32%	17.38%	18.60%	16.59%	12.42%
Amortization Payment ¹	12.21	49.18	25.37	25.37	25.37	16.62
Subtotal	21.97	67.50	42.75	43.97	41.96	29.04
Adjusted for payment at the beginning of the year (July 1, 2004)	21.14	64.95	41.14	42.31	40.38	27.94
Total Contribution Rates	21.14%	64.95%	41.14%	42.31%	40.38%	27.94%

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

² These employer contribution rates do not reflect the City's plan sponsor contribution rates made pursuant to the terms of the Gleason settlement. See *Note 6. Legal Action* for information regarding this settlement.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

FY 2005 Contribution Rates (As of July 1, 2004)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2003, Actuarial Valuation)		
	General	Safety	Weighted Total
Normal Cost ¹	13.50%	17.30%	14.36%
Amortization Payment ¹	6.79	6.94	6.82
Subtotal	20.29	24.24	21.18
Adjusted for payment at the beginning of the year (July 1, 2004)	19.52	23.32	20.38
Total Contribution Rates	19.52%	23.32%	20.38%

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

FY 2005 Contribution Rates (As of July 1, 2004)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2003, Actuarial Valuation)
	All Members
Normal Cost ¹	12.28%
Amortization Payment ¹	3.40
Subtotal	15.68
Adjusted for payment at the beginning of the year (July 1, 2004)	15.09
Total Contribution Rates	15.09%

¹ Rates assume that contributions are made uniformly during the plan year and assume no employee contribution increases related to the 2004 benefit enhancement for the Airport's SDCERS participants.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

FY 2004 Contribution Rates (As of July 1, 2003)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego ² (June 30, 2002, Actuarial Valuation)					Weighted Total
	General	Elected Officers	Police	Fire	Lifeguard	
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 plan sponsor contribution rates do not reflect the City's 2002 Contribution Agreement negotiated employer contribution rates. Contribution rates in this table are actuarially determined. See the Schedule of Plan Sponsors' Contributions in the Required Supplementary Information located in the Financial Section for the City's actual historic and future plan sponsor contribution rates. The City's contribution rates were significantly less than the rates in the table above.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

FY 2004 Contribution Rates (As of July 1, 2003)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (December 31, 2002, Actuarial Valuation) ²		
	General	Safety	Weighted Total
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%

FY 2004 Contribution Rates (As of July 1, 2003)

Plan Sponsor 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 then entered into an agreement with SDCERS to manage their defined benefit pension plan for their employees. As a result, interim actuarial valuations as of December 31, 2002, were prepared by SDCERS' actuary to reflect the actuarial value of assets and the accrued liabilities for each, the Port and the Airport, as two distinct plan sponsors.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

FY 2006 Contribution Rates (As of July 1, 2005)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2004, Actuarial Valuation)					Weighted Total
	General	Elected Officers	Police	Fire	Lifeguard	
Normal Cost ¹	10.72%	20.11%	19.02%	19.81%	17.84%	13.65%
Amortization Payment ¹	10.32	39.33	21.76	21.76	21.76	14.26
Subtotal	21.04	59.44	40.78	41.57	39.60	27.91
Adjusted for payment at the beginning of the year (July 1, 2005)	20.25	57.20	39.24	40.00	38.11	26.86
Total Contribution Rates	20.25%	57.20%	39.24%	40.00%	38.11%	26.86%

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

FY 2006 Contribution Rates (As of July 1, 2005)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2004, Actuarial Valuation)		Weighted Total
	General	Safety	
Normal Cost ¹	13.65%	17.77%	14.70%
Amortization Payment ¹	7.81	7.68	7.78
Subtotal	21.46	25.45	22.48
Adjusted for payment at the beginning of the year (July 1, 2005)	20.65	24.49	21.63
Total Contribution Rates	20.65%	24.49%	21.63%

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

FY 2006 Contribution Rates (As of July 1, 2005)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2004, Actuarial Valuation)
	All Members
Normal Cost ¹	12.25%
Amortization Payment ¹	3.76
Subtotal	16.01
Adjusted for payment at the beginning of the year (July 1, 2005)	15.41
Total Contribution Rates	15.41%

¹ Rates assume that contributions are made uniformly during the plan year and assume no employee contribution increases related to the 2004 benefit enhancement for the Airport's SDCERS' participants.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Members are required to contribute a percentage of their annual salary to SDCERS. Contributions vary according to the member's age and member group (e.g., safety, general and elected officers) at the time of enrollment. The City, Port and Airport contribute a portion of the members' share. This is a negotiated benefit in each employer's labor agreement and is subject to modification.

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

	FY 2005 Member Average Contribution Rates		FY 2004 Member Average Contribution Rates	FY 2006 Member Average Contribution Rates
Actuarial Valuation Dates	6/30/2003	12/31/2002	6/30/2002	6/30/2004
City of San Diego				
General Members ¹	10.54%	n/a	10.02%	10.57%
Safety Members ¹	12.86%	n/a	12.85%	12.88%
Unified Port of San Diego				
General Members ¹	10.28%	10.40%	10.29%	10.24%
Safety Members ¹	12.98%	12.97%	12.96%	13.04%
San Diego County Regional Airport Authority				
All Members	10.31%	10.18%	n/a	10.31%

¹ General Members includes Elected Officers; Safety Members includes Police, Fire and Lifeguard Members, as applicable.

All or part of the member's contribution rate is subject to a reduction for member contributions paid by employer. The rates above (actuarially determined amounts) are shown before any applicable reduction. Any such member contributions paid by employer and related accumulated interest are not refunded to members at termination; only a member's actual contributions made plus credited interest are refunded to a member at termination of employment, upon their request.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

As of June 30, 2005, the City's salary ordinance reported member contributions paid by plan sponsor amounts, stated as a percentage of a member's salary, as follows:

- 7.61% for represented general members
- 8.61% for non-represented general members
- 9.05% for elected officers
- 10.71% for lifeguard members
- 10.67% for police members
- 10.63% for fire safety members

The City's aggregate member contributions made to SDCERS are discounted (prior to being contributed to SDCERS) by the anticipated savings from member terminations from City employment. As a result of a recent experience valuation and based on recommendation by SDCERS' actuary, SDCERS' Board and the City agreed to reduce the discounts applied to the aggregate member contributions paid by plan sponsor for anticipated member terminations from City employment. Over a four-year period, which began in FY 2003, these discounts will be reduced from 22.00% to 5.00% for general members and from 7.00% to 1.00% for safety members. In FY 2004, the discounts were reduced to 13.50% for general members and 4.00% for safety members. In FY 2005, the discounts were further reduced to 9.25% for general members and 2.50% for police and fire safety members.

As of June 30, 2005, the Port had reported employee contribution amounts, stated as a percentage of a member's salary, as follows:

- 7.00% for general members
- 8.80% for safety members
- 8.50% for management members

As of June 30, 2005, the Airport had reported employee contribution amounts, stated as a percentage of a member's salary, as follows:

- 7.00% for general members
- 8.50% for management members

Neither the Port nor the Airport discount their aggregate member contributions made to SDCERS by any anticipated savings from member terminations from Port or Airport employment.

Historically, SDCERS' members were allowed to purchase certain types of service credit, usually related to periods of missing service credit or missing employee contributions. The San Diego Municipal Code provides for City SDCERS' members to purchase service credit. For Airport SDCERS' members and Port SDCERS' members, their respective plan documents outline the purchase of service credit program. Beginning in 1997, SDCERS' City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. The Airport's SDCERS' members became eligible to purchase an additional five years of service credit at inception of their Plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City SDCERS' members, but not for Port or Airport SDCERS' members.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Purchases of service credit may be paid for by an SDCERS' member from several sources: (1) lump sum payments from personal funds; (2) direct transfers from the City's Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account (except for a five-year purchase), qualified IRAs, or any other qualified retirement plan; or (3) bi-weekly installment payment plans. Both pre-tax and post-tax payment plans are permitted. The term length of installment contracts varies, usually not to exceed more than 15 years or the member's first eligible retirement date.

The table below describes the costs to purchase service credit:

	Pre-November 2003 Cost (% of Recent One-Year Salary)	Cost as of November 2003 (% of Current Salary)
City of San Diego		
General Members	15%	27%
Safety Members	26%	37%
Legislative Members	15%	50%
Port/Airport		
	Pre-July 2004	* As of July 2004
General Members	15%	32%
Safety Members	23%	38%
Executive Members	15%	34%

As of June 30, 2005, a total of 1,269 members were making payments on installment contracts compared to 787 members at June 30, 2004. Service credit purchased under an installment contract is not an actuarial accrued liability of SDCERS until completion of the contract. A receivable for purchased service contracts (both installment contracts and pending lump sum payments) totaling \$23,214,041 and \$22,604,172, net of allowances for uncollectible payments of \$473,406 and \$461,310, has been included in the accompanying Statements of Plan Net Assets for the DB Plan at June 30, 2005 and June 30, 2004, respectively. The annual change in the allowance for uncollectible payments is charged as an operation expense. The expense amounts included for FY 2005 and FY 2004 totaled \$12,096 and \$244,704, respectively.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

5. Reserve Balances

The San Diego Municipal Code authorizes the SDCERS Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund's reserves are a result of realized investment gains or losses and member and plan sponsor 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 valued at cost at June 30 were:

	2005	2004
Reserved for Investments in Properties	\$141,380	\$190,949
Reserved for Receivables	23,214,041	22,621,338
Reserved for Encumbrances	1,030,778	1,640,732
Reserved for Members' Contributions	538,250,574	481,069,841
Reserved for Plan Sponsors' Contributions	474,215,383	258,796,193
Reserved for Current Retired Members	1,562,088,464	1,690,624,783
Plan Continuation Liability	1,409,993,000	1,192,746,102
Fund Deficit - Equivalent to Plan Continuation Liability	(1,409,993,000)	(1,192,746,102)
Reserved for Post-Employment Healthcare Benefit Plan	-	7,910,366
Reserved for Supplemental COLA	19,579,118	21,739,416
Reserved for Members' Contribution Rate Increase Payments	8,562,815	21,391,905
Undistributed Earnings Reserve	344,884,797	163,616,059
Reserved for Liabilities	167,178,942	91,926,143
Total Reserves¹	\$3,139,146,292	\$2,761,527,725

¹ Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of \$3,230,513,047 as of June 30, 2005 and \$2,854,597,336 as of June 30, 2004. Total Reserves will differ from Plan Net Assets Held in Trust for Payment of Benefits in the audited financial statements as investments are stated at fair value (market value) which, at June 30 of each year, can be higher or lower than the cost basis of the investments.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Reserved for Investments in Properties - Undepreciated cost of SDCERS office equipment.

Reserved for Receivables - Balance of receivables expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

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

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

Reserved for Plan Sponsors' Contributions - Funds representing the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

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, members' funds are transferred from Reserved for Members' Contributions to this reserve, along with sufficient funds from the Plan Sponsors' Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Plan Continuation Liability - Represents the dollar amount of a traditional indicator of funded status. It is calculated from the ratio of actuarial value of assets to the actuarial present value of credited projected benefits and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Accrued Liability (UAAL) totaled for all three plan sponsors. Values are based on the June 30, 2005 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability - Represents the dollar amount not reserved for the portion of UAAL of the City's, Port's, and Airport's plans. The City's UAAL is being amortized over a closed 30-year period reset per the Gleason settlement to begin July 1, 2003 with 28 years remaining as of the June 30, 2005 actuarial valuation. The Port's UAAL is being amortized over a closed 30-year period with 16 years remaining as of the June 30, 2005 actuarial valuation. The Airport's UAAL is being amortized over a closed 18.5-year period with 16 years remaining as of the June 30, 2005 actuarial valuation.

Reserved for Post-Employment Healthcare Benefit Plan - Funds set aside in a 401(h) trust to provide health benefits to health eligible and non-health eligible retirees.

Reserved 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 or until this reserve is depleted, which ever comes first.

Reserved for Members' 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 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 contribution offset. This reserve is projected to be depleted during FY 2006.

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

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Reserved for Liabilities - Funds sufficient to pay liabilities incurred as of June 30, 2005 and June 30, 2004. Payables includes a large liability (95%+ of payables) classified as "Securities Purchased" which recognizes investments purchased and booked as an asset on a trade date basis in accordance with GASB Statement No. 25. The liability for purchases must be booked because cash settles at a later date (settlement date), when the securities are actually received and the trade is completed.

6. Legal Action

In the normal course of business, SDCERS is subject to pending or threatened legal actions or other potential unasserted claims, some of which seek substantial relief or damages. After reviewing pending and threatened litigation with counsel, management believes that the outcome of these actions will not have a material adverse effect on the financial condition of SDCERS.

James F. Gleason, et al., v. San Diego City Employees' Retirement System, et al., San Diego Superior Court case number GIC 803779.

In January 2003, a putative class action complaint was filed against the City and SDCERS alleging that beginning in FY 1997 and continuing to the date of the complaint the City did not contribute to SDCERS the annual amount required by certain provisions of the San Diego City Charter and San Diego Municipal Code. Plaintiff's counsel estimated the past under funding at approximately \$140 million, exclusive of interest. The parties agreed to a settlement which was approved by the court in July 2004.

Prior to final approval of the settlement agreement, the City made a \$130 million contribution to SDCERS for FY 2005 on July 1, 2004. This contribution was not actuarially determined. In addition, for fiscal years 2006, 2007 and 2008, the City's contribution will be determined by SDCERS' actuary using a 30-year fixed amortization period. That amortization period was "re-started" for calculation purposes beginning with FY 2005.

To secure the City's contribution obligations, the City provided SDCERS collateral worth \$375 million of real property, which will be released in equal installments of \$125 million annually on July 1, or when SDCERS receives payment, whichever occurs later. The last City payment to SDCERS under the settlement agreement, and corresponding release of lien on the City's real property, should occur no later than July 1, 2007 (applicable to FY 2008).

In addition, the court awarded the plaintiff's attorneys fees and legal costs totaling \$3,086,529. The City was ordered to pay 60% and SDCERS was ordered to pay 40% of the total. SDCERS' portion, including interest, totaled \$1,249,292 and was paid in January 2005.

The City's FY 2006 and FY 2007 contributions to SDCERS based upon actuarially determined rates are discussed in *Note 7. Subsequent Events*.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

McGuigan v. City of San Diego, San Diego Superior Court case number GIC 849883.

William J. McGuigan filed a complaint in June 2005 claiming that the City failed to fund the retirement plan as required by the City Charter and San Diego Municipal Code. Under the terms of a settlement, the City agreed to pay \$100 million to SDCERS in FY 2006 and an additional \$7.3 million over the four years immediately following the settlement date. The settlement is discussed in *Note 7. Subsequent Events*. SDCERS was not a party to this litigation.

SDCERS v. City of San Diego & City Attorney Michael Aguirre, and related cross complaint, San Diego Superior Court case number GIC 841845 and *SDCERS v. City of San Diego*, San Diego Superior Court case number GIC 851286.

In January 2005, the Board sued the City and its City Attorney seeking judicial declaration that SDCERS is entitled to retain its own legal counsel and demanding return of SDCERS' privileged documents seized from a SDCERS Board member's City office.

The City Attorney filed a cross-complaint on behalf of the City seeking a declaration that the City Attorney is entitled to represent SDCERS as its Counsel, and a declaration that retirement benefits granted by the City in 1996 and 2002 are illegal and void. The case is discussed in *Note 7. Subsequent Events*.

San Diego City Employees Retirement System v. June K. Acon, et al.: San Diego Superior Court case number GIC 831900.

In June 2004, SDCERS filed a Complaint for Damages under the False Claims Act for fraudulent receipt of retirement benefits against defendants June Acon and Kim Youmans. In April 2005, SDCERS' motion for summary judgment and request for treble damages was granted in the amount of \$124,464. Collection proceedings against Ms. Acon are being pursued in Nevada.

Osprey Trust Litigation, JCCP No. 4306, Superior Court of California, County of Los Angeles, No. BC 2833472.

In 2003, PIMCO filed a lawsuit on behalf of a group of clients, including SDCERS, arising from losses suffered by SDCERS in an Enron-related investment vehicle known as the Osprey Trust. The matter was settled in May 2005, and SDCERS received \$1,029,015 as a portion of its settlement proceeds. An additional \$17,118.46 was paid in July 2006.

7. Subsequent Events

Outstanding Legal Matters

In the normal course of business, SDCERS is subject to pending or threatened legal actions or other potential unasserted claims, some of which seek substantial relief or damages. After reviewing pending and threatened litigation with counsel, management believes that the outcome of these actions will not have a material adverse effect on the financial condition of SDCERS.

People of the State of California v. Lawrence Grissom et. al., San Diego Superior Court case number GIC 850246.

In July 2005, the City Attorney filed a civil action on behalf of the People of the State of California against SDCERS' former Retirement Administrator Lawrence B. Grissom, SDCERS' former General Counsel Loraine Chapin, and certain former SDCERS' Board members. The action sought monetary penalties, an order setting aside specified Board actions, injunctive relief, costs and attorneys' fees for alleged violations of the Political Reform Act of 1974, as amended. In March 2006, the trial court granted Ms. Chapin's demurrer to the City's

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

First Amended Complaint, and she was subsequently dismissed from the action. Mr. Grissom was dismissed from the action in September 2006. SDCERS was not a party to the litigation, but agreed to pay defense fees for Mr. Grissom and Ms. Chapin.

SDCERS v. City of San Diego & City Attorney, Michael Aguirre, and related cross complaint, San Diego Superior Court case number GIC 841845 and *SDCERS v. City of San Diego*, San Diego Superior Court case number GIC 851286.

In July 2005, SDCERS filed an action for declaratory relief seeking a judicial determination of the legality of paying contested retirement benefits to its members. SDCERS' motion for summary judgment filed in case number 851286 was granted in October 2006. The court held that SDCERS may continue to pay the challenged benefits until they are otherwise declared illegal. This case, *SDCERS v. City of San Diego*, San Diego Superior Court case number GIC 851286, has been consolidated with case number GIC 841845.

SDCERS' Motion for Summary Adjudication for a declaration that SDCERS is empowered to employ legal counsel of its own choosing for all purposes, separate and independent from the City and the City Attorney, was granted in March 2006. The City Attorney filed a Petition for Writ of Mandate in April 2006, which was denied in May 2006.

The City filed a Motion for Summary Judgment in March 2006 on its Fourth Amended Cross-Complaint, the SDCERS complaint in case number GIC 851286, and the various unions' complaints in intervention. The Court denied the City's Motion for Summary Judgment in June 2006. The City filed a Petition for Writ of Mandate with the Fourth District Court of Appeal in July 2006. The Petition was denied in September 2006.

SDCERS filed a compulsory cross-complaint in March 2006 to the City's cross-complaint, seeking recovery of all monies owed by the City to SDCERS but not paid because of Manager's Proposals I and II. SDCERS' claims in the compulsory cross-complaint are based on pension contributions by the City that were less than the actuarially required required pension contribution amount because of MP1 and MP2 (\$158.9 million plus interest) as well as the City's diversion pursuant to MP1 of the cost of retiree healthcare benefits (\$63.5 million plus interest) from its required annual pension contributions.

The Court divided the trial of the consolidated matters into three phases; trial on Phase 1 began in October 2006 and finished in November 2006. In January 2007, the Court issued its final statement of decision on Phase 1. The Court ruled that the unions had carried their burden and established that the City (1) is estopped by the Corbett settlement from challenging the MPI benefits; (2) is barred from contesting the benefits of MP2 as to those beneficiaries who were class members in the Gleason litigation; and (3) cannot pursue a remedy against SDCERS for violation of debt limit laws. The Court ordered that prior to the City proceeding with the remaining relief sought in its Fifth Amended Cross-Complaint all necessary parties must be joined. The Court also found, without prejudice, that the unions did not carry their burden on whether the matter constitutes a justicable controversy.

The City filed a writ to the Fourth District Court of Appeal in January 2007 on the issues set forth in the trial court's final decision. That writ was rejected in March 2007. The City then filed a Petition for Review with the California Supreme Court, which was denied in May 2007.

In May 2007, the City filed its Sixth Amended Cross-Complaint. Phases 2 and 3, if necessary, will not go forward until the issues surrounding Phase 1 and the Sixth Amended Cross-Complaint are resolved. A motion challenging the validity of the City's proposed class of defendants is expected to be filed and heard in September 2007.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

SDCERS v. City of San Diego, San Diego Superior Court case number GIC 851125.

In February 2006, SDCERS filed a complaint seeking recovery of approximately \$900,000 paid to attorneys for its former City-employee Board members during their cooperation in the civil matter of *Gleason v. City of San Diego, et. al.* and related consolidated cases, and the S.E.C. and U.S. Attorney investigations related to City bond disclosures and Manager's Proposal 2. SDCERS dismissed the case in November 2006.

San Diego Police Officers' Association v. Michael Aguirre, et al., U.S. District Court case number 05CV1581.

In August 2005, the San Diego Police Officers' Association ("POA") filed a complaint in federal court for Damages, Declaratory and Injunctive Relief against the City Attorney, SDCERS, former SDCERS Administrator Lawrence Grissom, past and present members of the City Council and certain former SDCERS Board Members and City officials. The POA alleges that the City engaged in unfair labor negotiation tactics and asserts claims related to MP1, MP11 and healthcare benefits.

The City Council, the City Attorney, and the individual City Council Members and Employees appealed portions of the District Court's denial of their respective Motions to Dismiss with respect to the Qualified Immunity Doctrine. That matter is now pending before the 9th Circuit Court of Appeals. The District Court did not stay the proceedings upon notice of the appeals.

The Court and the parties participated in an Early Neutral Evaluation conference in which the parties discussed various issues including the status of pleadings, written discovery and depositions. Significantly, any claim for money damages on behalf of POA members was eliminated, leaving only a theoretical monetary claim by the POA itself, and a claim for declaratory relief.

In January 2007, SDCERS filed a motion for summary judgment. A subsequent motion for summary judgment was filed in February. The primary argument in that motion for summary judgment was that the plaintiff could not maintain its claims for monetary, declaratory or injunctive relief, in part, based on the Court's prior ruling that the POA is not entitled to seek monetary damages on behalf of its members.

The City also filed two Motions for Summary Judgment, and the City Attorney filed one. The Plaintiff filed two Motions for Summary Judgment against each Defendant. In May 2007, the Court issued an order granting SDCERS' motions for summary judgement regarding all Plaintiff's claims for monetary relief, all claims arising out of benefits reductions during the 2005 negotiations, and claims for Brown Act violations, conversion of trust, and breach of contract. The Court denied, without prejudice, SDCERS' Motions for Summary Adjudication regarding claims for injunctive and declaratory relief.

The Court also granted the portion of the City's Motion for Summary Judgement or Summary Adjudication pertaining to the 2005 collective bargaining process between the City and the SDPOA. The SDPOA alleged defendants' conduct during the labor negotiations violated its federal civil rights. The Court found that the SDPOA failed to raise a triable issue of fact with respect to those federal claims. The Court also requested further briefing on whether any federal law claims survived the Summary Judgement ruling and, if not, whether the federal action should be dismissed altogether. On June 26, 2007, the Court granted the remaining motions for summary judgement and dismissed the rest of the case for lack of Federal jurisdiction.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Aaron, et al. v. Aguirre, et al., U.S. District Court case number 06CV1451.

In July 2006, the POA filed a class action lawsuit on behalf of the members of the POA in the Southern District of California. SDCERS is a named defendant. This lawsuit is essentially identical to the POA's case number 05CV1581. The primary difference in this case is that class members are permitted to seek their individual alleged damages from defendants, which is an amount that far exceeds what the POA could seek as a representative body.

In October 2006, the POA filed its Second Amended Class Action Complaint. SDCERS filed a Motion to Dismiss, which was granted on nearly all grounds.

In January 2007, the POA filed a Third Amended Complaint that was in most respects identical to the Second Amended Complaint, and SDCERS filed a Motion to Dismiss the Third Amended Complaint. In March 2007, the Court dismissed without leave to amend the POA's causes of action against SDCERS for (1) Breach of Contract; (2) Conversion; and (3) Interference with Contract. A conspiracy cause of action was dismissed with leave to amend.

In April 2007, the Aaron plaintiffs filed their Fourth Amended Complaint. In accordance with the Court's prior ruling, the Fourth Amended Complaint did not include causes of action for breach of contract, conversion or interference with contract but did reallege the conspiracy claim against SDCERS. Therefore, SDCERS filed a motion to dismiss the conspiracy allegations. That motion was granted in June 2007.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court case number GIC 865543.

In May 2006, the City Attorney, in the name of the City of San Diego, filed a complaint against SDCERS seeking administrative mandate for an immediate stay of SDCERS' administrative decisions and declaratory relief. The complaint alleged that the SDCERS' Board improperly approved payment of criminal defense costs for Lawrence B. Grissom, SDCERS' former Retirement Administrator, and Loraine Chapin, SDCERS' former General Counsel. The City has dismissed this action without prejudice.

Michael Abramsky, et al. v. Alstom S.A. et al., U.S. District Court, Southern District of New York (Manhattan), case number 03-CV-6595 (VM).

SDCERS is a lead plaintiff in this securities fraud class action, which was filed in August 2003.

The case seeks damages for all purchasers of Alstom securities from August 3, 1999 to August 6, 2003 (Class Period). Plaintiffs allege that the price of Alstom securities was fraudulently inflated during the Class Period as a result of Alstom's materially false and misleading statements and omissions, which failed to disclose that (a) Alstom had secretly provided vendor financing (in the form of guaranteeing loans) to a financially troubled cruise company so that the cruise company could obtain the financing it needed to buy cruise ships from Alstom's marine unit; and (b) Alstom's transport unit had significantly underbid a major contract to provide railcars to New Jersey transit, and had experienced significant undisclosed cost overruns on that contract.

The case has proceeded through four rounds of motions to dismiss the complaint, with the Court granting in part and denying in part various aspects of these motions.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Plaintiffs filed a Revised Second Amended Complaint ("RSAC") in December 2006, which asserts the theories noted above (and which deleted certain other claims that the Court's prior orders had dismissed). At a hearing in March 2007, the Court rejected Defendants' request to strike certain portions of the RSAC.

General pretrial discovery is beginning. Because discovery is still in its early stages, it is premature to assess a possible range of recovery in this action.

San Diego City Employees' Retirement System v. Hanson, Bridgett, Marcus, Vlahos & Rudy, et. al., San Diego Superior Court case number GIC 831983.

In June 2004, SDCERS filed a Complaint for legal malpractice and breach of fiduciary duty against its former fiduciary counsel for legal malpractice related to the Board's adoption of Manager's Proposal 2. In September 2005, SDCERS recovered approximately \$11,000,000, net of attorney's fees, in full settlement of the matter.

Newsome v. San Diego City Employees' Retirement System, San Diego Superior Court case number GIC856841.

In November 2005, William Newsome, a former employee of the City, filed a complaint against SDCERS and the City for Breach of Fiduciary Duty, Aiding and Abetting and Conspiracy. In September 2006, the parties entered into a stipulation that dismissed the case without prejudice. In addition, the plaintiff agreed not to re-file the lawsuit if within five years the City made an additional contribution above the McGuigan settlement amounts of the lesser of (a) \$100 million; or (b) an amount sufficient to allow SDCERS to achieve a funded ratio of 82.3%.

City of San Diego v. Callan Associates, Inc., Gabriel Roeder Smith & Company, San Diego Superior Court case number GIC 852419.

In August 2005, the City filed a Complaint for Damages against Callan Associates, SDCERS' investment consultant, and Gabriel Roeder Smith, SDCERS' former actuary, for professional negligence, intentional fraud-affirmative misrepresentation and intentional fraud-concealment. SDCERS is not a party to this case.

In November 2006, Callan and the City agreed to settle the complaint. Although Callan paid \$4.5 million to the City, the City agreed "that it found no proof that Callan engaged in 'pay to play' practices or any other unfair business practices in connection with the hiring of money managers, nor proof that Callan engaged in unfair business practices in connection with the hiring of money managers within the meaning of Section 17200 of the California Business and Professions Code."

McGuigan v. the City of San Diego, San Diego Superior Court case number GIC 849883.

William J. McGuigan filed a complaint in June 2005 claiming that the City failed to fund the retirement plan as required by the City Charter and San Diego Municipal Code.

In December 2006, the Court approved a settlement after several public fairness hearings on the following terms: the City will (1) receive credit for paying SDCERS \$100 million, consisting of bond proceeds from a tobacco securitization transaction; and (2) will pay an additional \$73 million over 5 years, secured by property of comparable value. It is possible pending future proceedings, that the \$73 million amount may be reduced by the amount of attorneys' fees paid to the plaintive's class counsel. SDCERS received the \$100 million payment referenced in the term sheet in June 2006. SDCERS was not a party to this case.

City of San Diego v. Loraine Chapin, San Diego Superior Court case number GIC 863096.

The City Attorney, in the name of the City, filed a complaint in March 2006 against SDCERS' former General Counsel, Loraine Chapin, alleging violation of California Government Code section 1090. The City

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

has dismissed this action and agreed to pay Ms. Chapin's legal fees of approximately \$75,000. SDCERS was not a party to this case.

Pension Reform Commission Information

The City of San Diego's Pension Reform Commission (PRC) made various recommendations to the City Council in its September 2004 Report. Two recommendations required amending the City Charter, which requires a vote of the citizens of the City of San Diego. Accordingly, two ballot measures – Propositions G and H – were put before the voters in the November 2, 2004 City of San Diego General Election. Both passed.

Proposition G adds language into the City Charter which, beginning July 1, 2008 (FY 2009), sets amortization schedules recommended by the PRC for SDCERS' Board and the City to use in making the calculations necessary to determine the component of the City's annual contribution associated with paying down the Unfunded Actuarial Accrued Liability (UAAL). In addition, this measure adds language into the City Charter that precludes the City and SDCERS' Board from entering into any future multi-year contracts or agreements delaying full funding of City's contribution obligations to SDCERS, except for court-approved settlement agreements. Proposition G passed receiving 53.5% of the vote.

In October 2005, the California Attorney General issued an opinion (No. 04-710, 88 Op. Atty Gen. Cal 165) in response to a question from Assemblyman Jerome Horton that concluded that a city charter may not require a city employees' retirement board to place the cost of the past service liability associated with a new retirement benefit on a specified amortization schedule or place the cost associated with net accumulated actuarial gains and losses on a time specific amortization schedule. On February 23, 2007 SDCERS' fiduciary counsel concluded, consistent with this opinion, that SDCERS was not bound by the amortization periods set forth in Proposition G.

Proposition H changed the term of office of SDCERS' Board Members from six to four years, and changed the composition of the Board as follows: seven citizens with professional qualifications appointed by the Mayor and confirmed by the City Council; two employee members elected by active general member employees; one member elected by City retirees; one employee member elected by active members from Fire Safety, one employee member elected by active members from Police Safety, and one member appointed by the Mayor from the administrative service of the City. Prior to Proposition H, a majority of the Board were employees of the City (including representatives from labor and management).

Proposition H also requires that the seven citizen appointees to the Board have a college degree in finance, economics, law, business, or other relevant field of study, or a relevant professional certification. Additionally, a citizen appointee must have a minimum of 15 years experience in pension administration, pension actuarial practice, investment management, real estate, banking, or accounting. To prevent conflicts of interest, the measure provides that "no person who is a City employee or participant in SDCERS or a City union representative may be eligible for appointment in this category." Also, "appointees shall not have any other personal interest which would create a conflict of interest with the duties of a Board member and trustee." Proposition H passed with 64.6% of the vote.

Federal Indictment

United States of America v. R. Saathoff, et. al. U.S. District Court case number 06CR0043-BEN.

In 2005, a Federal Grand Jury was impaneled to investigate issues relating to whether the City made material misrepresentations in certain bond disclosures regarding the method by which it funds its pension system, and potential conflicts of interest by certain SDCERS Board members and staff relating to Manager's Proposal 2. SDCERS has cooperated fully with all lawful requests for interviews, information and documentation by the U.S. Attorney's Office.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

In January 2006, indictments were filed against former SDCERS' Board members Ron Saathoff, Cathy Lexin and Terri Webster, SDCERS' former Retirement Administrator Lawrence B. Grissom and SDCERS' former General Counsel Loraine Chapin. The indictment states charges arising from alleged violations of Title 18, U.S.C. section 371, conspiracy to commit wire and mail fraud; Title 18, U.S.C. sections 1343 and 1346, mail fraud; and Title 18, U.S.C. Section 2, Aiding and Abetting.

In March 2006, the SDCERS Board approved a resolution to pay attorneys' fees for Mr. Grissom and Ms. Chapin arising from the defense of this action. The indemnity agreement is secured by collateral and requires repayment to SDCERS of all attorneys' fees in the event of any conviction or guilty plea arising from this action.

Securities and Exchange Commission (SEC) Investigation

Beginning in 2004, the SEC investigated whether the City made material misrepresentations in certain bond disclosures regarding the method by which it funds its pension system.

In November 2006, the SEC issued a Cease and Desist Order to the City following its acceptance of the City's settlement offer. SDCERS was not a party to the settlement.

IRS Tax Determination Letter and Voluntary Correction Program Filings

In July 2005, SDCERS filed with the Internal Revenue Service (IRS) an application for a Tax Determination Letter (TDL), and a request for a compliance statement from the IRS under the Voluntary Correction Program (VCP).

The initial VCP filing addressed a correction to the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees. Since that time, additional VCP filings have been made concerning compensation limits under Internal Revenue Code (IRC) section 401(a)(17); minimum distribution requirements under section 401(a)(9); distribution rollover compliance under section 401 (a)(31); the DROP program; disability benefit overpayments; cashless leave/purchase of service credits; post-employment healthcare benefits and health administrative expenses under section 401(h); and benefit and compensation limits under sections 415(b), 415(c) and 415(n). Discussions regarding these matters have been ongoing with the IRS.

In its filings, SDCERS is proposing to seek recovery from the City for the following amounts:

- (1) \$31,618,356 for retiree medical benefits paid from the SDCERS Trust Fund per City Ordinance between 1982 and 1991 (\$8,227,271 for benefits, plus \$23,391,085 in interest through fiscal year 2006),
- (2) \$2,211,895 for unreimbursed costs of administering the retiree medical benefit between 1982 and July 1, 2006 (\$1,523,431 for administration costs, plus \$688,464 in interest through fiscal year 2006), and
- (3) \$577,452 for the past use of Annual Leave to Purchase Service Credit.
- (4) \$2,837,874 for plan benefits that were paid from the SDCERS Trust Fund that exceeded IRC Section 415(b) limits, rather than from a separate Qualified Excess Benefits Arrangement (QEBA) plan, between fiscal years 1995 through 2006 (\$2,266,162 for benefits plus \$571,712 in interest through fiscal year 2006).
- (5) \$1,000,283 for disability benefits overpaid during fiscal years 2001 through 2005, because the payment of the benefits was inconsistent with the City's retirement plan. SDCERS' position is that this correction should be made prospectively only.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

In addition to these amounts, during Fiscal Years 1998 through 2005, the City funded retiree healthcare benefits by annually designating an amount from its annual required contribution (ARC) to be credited to a 401(h) healthcare account, in accordance with the Municipal Code. However, designating funds from the ARC to pay for retiree healthcare resulted in under funding the SDCERS Trust Fund. As a result, in March 2006, SDCERS filed a Compulsory Cross-Complaint in its litigation against the City (See SDCERS v. City of San Diego, case number GIC 851826, previously discussed in this Note 7. Subsequent Events) to recover the amounts paid out of the Trust Fund for retiree healthcare expenses, which total approximately \$90 million (\$63.5 million in principal plus \$26.5 million in interest through Fiscal Year 2006).

SDCERS' position is that no penalties should be imposed for any compliance failures but cannot predict whether it will be accepted by the IRS. No final determination has been reached on any matters before the IRS.

State of California Felony Complaint

People of the State of California v. Cathy Lexin, et. al., San Diego Superior Court case number SC019053.

In May 2005, San Diego's District Attorney filed felony conflict of interest charges against six former SDCERS Board Members (Cathy Lexin, Ronald Saathoff, Mary Vattimo, Teresa Webster, Sharon Wilkinson and John Torres) for alleged violations of California Government Code section 1090. SDCERS is not named as a defendant in this case.

The charges survived the preliminary hearing and a trial court level appeal of that result. The defendants then appealed to the Appellate court. In September 2006, the 4th District Court of Appeal denied the defendants' petition for review. The defendants then filed for review in the California Supreme Court. In November 2006, the California Supreme Court ordered the Court of Appeal to issue an order to show cause why the case should not be dismissed. The Court of Appeal's decision is pending.

City Attorney's Interim Reports

The San Diego City Attorney has issued interim reports alleging misconduct by the former City officials, former members of SDCERS' Board and others as well as other subjects. The interim reports are available on-line at www.sandiego.gov/cityattorney/reports/index.shtml.

Navigant Report

In August 2005, SDCERS' Board approved the retention, through its special fiduciary counsel Reish Luftman Reicher & Cohen, of Navigant Consulting, Inc. to conduct an independent investigation into allegations of wrongdoing by the City and SDCERS. Navigant issued its Report to the Board in January 2006. A copy of Navigant's Report is available online at www.sdcers.org.

Navigant's Report concluded that there had been a breach of fiduciary duty by former SDCERS Board members approving the 1996 Manager's Proposal and 2002 Contribution Agreement presented by the City. Reish Luftman Reicher & Cohen provided legal analysis of Navigant's findings and concluded that approval of these agreements also violated state and municipal law. Finally, the Navigant Report concluded that the payment of certain benefits using Trust Fund assets including administration costs of retiree health care, Corbett settlement provisions, and Presidential Leave benefits, had violated IRC rules, jeopardizing the Trust Fund's tax exempt status. The Navigant Report recommended changes to SDCERS in governance and oversight, actuarial soundness, tax compliance, training and education, and SDCERS' independence from the City.

Financial Section

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

In response to Navigant's Report, the Board established an ad-hoc committee to recommend appropriate reform actions to the Board for approval and implementation.

The Board's Navigant Report Committee issued its report in November 2006. It recommended a new committee structure including a Business and Governance Committee and an Audit Committee consisting of two Board members and three outside, independent members. In addition, the ad-hoc Committee recommended the creation of internal auditor and chief compliance officer positions at SDCERS.

Plan Sponsors' Contributions

On July 1, 2005, SDCERS received a total of \$174,421,319 in employer contribution ARC payments for fiscal year 2006. This was comprised of \$163,000,000 from the City, \$8,121,319 from the Port and \$3,300,000 from the Airport. In June 2006, the City paid additional fiscal year 2006 contributions totaling \$108,298,430 from the proceeds of its tobacco revenue bond sale plus the transfer of the year-end balance of its Dedicated UAAL Contribution Fund.

For fiscal year 2007 contributions, SDCERS received a total of \$173,000,000 in employer contribution ARC payments on July 1, 2006. This was comprised of \$162,000,000 from the City, \$8,300,000 from the Port and \$2,700,000 from the Airport.

In these years each plan sponsor paid their contribution at the beginning of the year in order to fully invest their contributions for the entire fiscal year and to take advantage of an actuarial discount in the calculation of the annual required contribution.

Member Contributions Paid by Plan Sponsors

During fiscal years 2006 through 2008, member contributions ranging from 2.4% to 5.89% of pension eligible salary were paid by the City. In addition, in fiscal year 2006 only, member contributions, ranging from 0.16% to 3.41% of pension eligible salary, were subsidized by a designated reserve in the Pension Trust Fund. The reserve designated for this pickup was exhausted in total in June 2006. Upon exhaustion of the reserve, employees began to pay the required percentages as an employee contribution.

Corbett Settlement Payments and 13th Check Payments

In fiscal years 2006 and 2007, two contingent benefits payable to eligible retired members both qualified for payment. The two benefits, known as "Corbett" and "13th check," are contingent on sufficient annual realized investment earnings received in order to qualify for payment.

Both benefits were paid during fiscal years 2006 and 2007 based upon investment earnings received that were generated in fiscal years 2005 and 2006, respectively. Corbett benefits payments totaled \$5,498,098 in fiscal year 2006 and \$5,611,438 in fiscal year 2007. 13th check benefit payments totaled \$4,358,823 in fiscal year 2006 and \$4,522,573 in fiscal year 2007.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2005 and June 30, 2004

Actuarial Valuations

In September and October 2006, the Board approved actuarial methodology changes that were recommended by Cheiron, SDCERS' actuary. The following methodology changes were implemented in the plan sponsors' June 30, 2006 valuation reports:

- The "expected asset value" smoothing method, used to determine the actuarial value of assets.
- A new asset apportionment method between SDCERS' three plan sponsors, based on actual cash flows attributable to each plan sponsor.
- Inclusion of the 13th check and Corbett liabilities (City only) as an actuarial liability.
- Inclusion of both the liabilities and the asset reserves that are held for the Deferred Retirement Option Plan and Supplemental COLA benefits.
- The capping of future benefits payable from the SDCERS pension trust fund at the maximum benefit level allowable under Internal Revenue Code Section 415.

Also in October 2006, the Board adopted the Entry Age Normal (EAN) actuarial funding method, to be implemented in the actuarial valuation reports for the year ended June 30, 2007, which will determine contribution rates beginning in Fiscal Year 2009.

In February 2007, the Board approved the actuarial valuation reports as of June 30, 2006 for all three SDCERS plan sponsors. As of June 30, 2006, the funded ratio and Unfunded Actuarial Liability (UAL) for each plan sponsor was:

- **City of San Diego:** 79.9% and \$1,000.8 million, as compared to 68.2% and \$1,394.0 million as of June 30, 2005;
- **Unified Port District:** 92.1% and \$17.4 million, as compared to 82.6% and \$34.4 million as of June 30, 2005; and
- **Airport Authority:** 111.7% and \$4.3 million surplus, as compared to 87.6% and \$4.1 million deficit as of June 30, 2005.

In February 2007, Cheiron presented its report to the Board regarding the amortization of the Unfunded Actuarial Liability for the City. The Board adopted a new amortization policy for the City in March 2007, to be implemented in the June 30, 2007 actuarial valuation as follows:

- A 20-year fixed amortization schedule with no negative amortization for the UAL as of June 30, 2007;
- Future gains and losses related to experience to be amortized on 15-year fixed schedules, and that changes in the UAL attributable to future benefit increases be amortized on 5-year fixed schedules;
- Changes in the UAL attributable to actuarial assumptions and methods be amortized on 30-year fixed schedules, and
- Amortization will be calculated on a level percentage of pay method.

In May 2007, Cheiron presented and the Board adopted recommendations for the amortization of the Unfunded Actuarial Liability for the UPD and the APA, to be implemented in the June 30, 2007 valuation as follows:

- Amortize the UAL balance at June 30, 2007 over the remaining 14 years (declining basis) of the current amortization schedule;
- Amortize future gains and losses related to experience over 15 years;
- Amortize future assumptions and method changes over 30 years; and
- Amortize future benefit changes over the shorter of 15 years or the period over which benefit changes are paid.

Financial Section

San Diego City Employees' Retirement System Required Supplementary Information Schedules of Funding Progress

City of San Diego
Schedule of Funding Progress
For the Ten Years Ended June 30 (1996 - 2005)
(\$ in Thousands)

Continuation Indicators

Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/05	\$2,983,080	\$4,377,093	68.2%	\$1,394,013	\$557,631	250.0%
6/30/04 ⁵	2,628,680	3,997,328	65.8	1,368,648	540,181	253.4
6/30/03	2,375,431	3,532,626	67.2	1,157,194	533,595	216.9
6/30/02	2,448,208	3,168,921	77.3	720,713	535,157	134.7
6/30/01 ⁴	2,525,645	2,809,538	89.9	283,893	481,864	58.9
6/30/00 ³	2,459,815	2,528,774	97.3	68,959	448,502	15.4
6/30/99	2,033,153	2,181,547	93.2	148,394	424,516	35.0
6/30/98 ²	1,852,151	1,979,668	93.6	127,517	399,035	32.0
6/30/97	1,632,361	1,748,868	93.3	116,507	382,715	30.4
6/30/96 ¹	1,480,772	1,620,373	91.4	139,602	365,089	38.2

¹ After 1996 Manager's Proposal.

² Reflects revised actuarial and economic assumptions.

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 (employees).

⁵ Reflects revised actuarial assumptions

Note – Actuarial gains and losses reduce or increase the Unfunded Actuarial Accrued Liability (UAAL) which is being amortized over a closed, 30-year period that was reset as per the Gleason settlement to begin July 1, 2003 (28 years remaining as of the June 30, 2005 actuarial valuation)

San Diego City Employees' Retirement System
 Required Supplementary Information
 Schedules of Funding Progress (continued)

Unified Port of San Diego
 Schedule of Funding Progress
 For the Ten Years Ended June 30 (1996 - 2005)
 (\$ in Thousands)

Continuation Indicators

Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/05	\$163,691	\$198,072	82.6%	\$34,381	\$35,077	98.0%
6/30/04	141,375	175,366	80.6	33,991	34,916	97.4
6/30/03 ^{5,6}	123,884	154,300	80.3	30,415	34,164	89.0
12/31/02 ⁴	125,619	137,824	91.1	12,205	33,995	35.9
6/30/02	140,613	140,197	100.3	(416)	39,063	(1.1)
6/30/01 ³	145,278	123,126	118.0	(22,152)	36,425	(60.8)
6/30/00	133,183	97,160	137.1	(36,023)	30,621	(117.6)
6/30/99	110,310	89,809	122.8	(20,501)	30,035	(68.3)
6/30/98 ²	98,007	81,633	120.1	(16,374)	26,672	(61.4)
6/30/97 ¹	84,511	73,564	114.9	(10,947)	25,390	(43.1)
6/30/96	72,511	62,231	116.5	(10,280)	23,557	(43.6)

¹ Reflects benefit increase for Port general members.

² Reflects revised actuarial assumptions.

³ 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.

⁵ Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

⁶ Reflects benefit increases for Port general employees.

Note – Actuarial gains and losses reduce or increase the Unfunded Actuarial Accrued Liability (UAAL) which is being amortized over a closed, 30-year period which began July 1, 1991 (16 years remaining as of the June 30, 2005, actuarial valuation).

Financial Section

San Diego City Employees' Retirement System Required Supplementary Information Schedules of Funding Progress (continued)

San Diego County Regional Airport Authority Schedule of Funding Progress For the Years Ended June 30 (2003 - 2005) (\$ in Thousands)

Continuation Indicators

Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/05	\$28,551	\$32,603	87.6%	\$4,051	\$17,609	23.0%
6/30/04	16,225	23,579	68.8	7,354	15,606	47.1
6/30/03 ²	11,142	16,279	68.4 ³	5,137	11,577	44.4
12/31/02 ¹	11,028	11,526	95.7	498	8,871	5.6

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..

² Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

³ The decline in the Airport's SDCERS' funded ratio from 95.7% to 68.4% occurred for the following reasons: a \$2 million net actuarial loss experienced since the last valuation period; increases in members' liabilities resulting from a benefit enhancement (effective an April 1, 2004), that was incorporated into the June 30, 2003 valuation; and, due to updated actuarial assumptions.

Note – Actuarial gains and losses reduce or increase the Unfunded Actuarial Accrued Liability (UAAL) which is being amortized over a closed, 18.5-year period which began January 1, 2003 (16 years remaining as of the June 30, 2005, actuarial valuation).

San Diego City Employees' Retirement System Required Supplementary Information Notes to the Schedules of Funding Progress

For the Years Ended June 30

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 is the status of the funded 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.

1. Key Actuarial Assumptions

An annual actuarial valuation for the City, the Port and the Airport was performed as of June 30, 2005.

SDCERS' utilizes the Projected Unit Credit (PUC) actuarial funding methodology in determining age and service allowance actuarial liabilities at normal cost.

Key assumptions, adopted by SDCERS' Board as of July 1, 1997, and affirmed in subsequent actuarial experience studies in 2001 and 2004, 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%

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 assumed, annual pension 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' 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 (MAAA).

For further information regarding the actuarial valuations and assumptions, see the Actuarial Section.

2. Actuarial Terms Defined

Valuation Assets: Using the net market value and the net book value of plan assets, the actuary deducts all liabilities as indicated in the financial statements. The percentage differences between the net market value and the net book value over the most recent five-year period are calculated. The resulting percentages are averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at valuation assets (five-year smoothing methodology).

Actuarial Accrued Liabilities (AAL): The difference between the actuarial present value of plan benefits and the actuarial value of future normal costs.

Funded Ratio: This ratio measures the proportion of accrued service to projected total service and provides a measure of the plan's overall health. The ratio is calculated by dividing Valuation Assets by the Actuarial Accrued Liabilities (AAL). Over time, the ratio is expected to increase toward 100% in the absence of benefit improvements or modification of actuarial assumptions.

Financial Section

San Diego City Employees' Retirement System

Required Supplementary Information

Notes to the Schedules of Funding Progress (continued)

For the Years Ended June 30

Unfunded Actuarial Accrued Liability (UAAL): The difference between Actuarial Accrued Liabilities and Valuation Assets.

Member Payroll: Each plan sponsor's estimated total annual compensation for all active members (covered payroll) of a retirement system, as reported in the actuarial valuation.

UAAL Ratio to Member Payroll: This ratio is calculated by dividing the UAAL by the Member Payroll. The ratio is a relative index of condition where inflation is present in both items. Over time, the ratio is expected to decrease toward 0% in the absence of benefit improvements or making changes in actuarial assumptions.

For further information regarding actuarial assumptions and policies, see the Actuarial and Statistical Sections.

3. Commentary

City of San Diego

As of June 30, 2005, the City had a funded status of 68.2%. This is compared to the City's funded status of 65.8% as of the June 30, 2004 actuarial valuation.

The schedule for the City presented above reports the last ten years of historical funding progress information regarding the funding of the City's plan. The funded ratio declined as a result of increased liabilities due to litigated and negotiated benefits enhancements, and reduced assets due to experience losses during the period July 1, 2000 through June 30, 2004 where the combined average return on investments was less than the actuarially assumed 8% rate of return as well as contributions made by the City at less than full actuarial rates in accordance with contribution agreements. FY 2005 brought a slight rebound to the funded ratio over FY 2004.

As of the June 30, 2005 actuarial valuation, the City's UAAL was \$1.39 billion compared to the June 30, 2004 actuarial valuation, where the City's UAAL was \$1.37 billion.

The City's UAAL is being funded over a closed, 30-year amortization period. For the June 30, 2005 actuarial valuation, the amortization period was reset to a 30-year, closed amortization in accordance with the terms of the Gleason settlement. For further information on this settlement, see *Note 6. Legal Action* in the Notes to the Financial Statements.

Unified Port of San Diego

As of June 30, 2005, the Port had a SDCERS' funded status of 82.6%. This is compared to the Port's SDCERS' funded status of 80.6% as of the June 30, 2004 actuarial valuation.

The schedule for the Port presented above reports the last ten years of historical funding progress information.

As of the June 30, 2005 actuarial valuation, the Port had a UAAL of \$34.4 million, compared to \$34.0 million at June 30, 2004. The Port's UAAL is being amortized over a closed 30-year period, with 16 years remaining at June 30, 2005.

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress (continued)
For the Years Ended June 30

San Diego County Regional Airport Authority

As of June 30, 2005, the Airport had an SDCERS' funded status of 87.6%. This is compared to the Airport's SDCERS' funded status of 68.8% as of the June 30, 2004 actuarial valuation.

The schedule for the Airport Authority presented above reports the last three years of historical information since its inception. The Airport Authority was established January 1, 2003 by the State of California, separate from but comprised of former Port employees, and newly hired Airport 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.

As a result of having a less than 100% funded status, the Airport has an UAAL. As of the June 30, 2005 actuarial valuation, the Airport's UAAL was \$4.1 million. This is compared to the prior year's actuarial valuation results, as of June 30, 2004, where the Airport's UAAL was \$7.4 million, a decrease of -44.91% or \$3.3 million between measurement periods. The decrease in the Airport's UAAL was primarily due to an additional plan sponsor contribution to SDCERS on September 16, 2004 of \$3.90 million. The Airport's UAAL is being funded over a closed, 18.5-year amortization period that began January 1, 2003 (16 years remaining as of the June 30, 2005 actuarial valuation).

Financial Section

San Diego City Employees' Retirement System Required Supplementary Information Schedules of Plan Sponsor Contributions

City of San Diego
Schedule of Plan Sponsors' Contributions
For the Six Years Ended June 30 (2000 - 2005)
(\$ in Thousands)

SDCERS' actuary calculates annual employer contribution rates using an actuarial funding methodology, currently based upon projected unit credit (PUC). The City's contributions made to SDCERS differ from the Annual 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. Further, the City's contribution funding method during 2000 through 2005 was not one of the six actuarial cost methods approved by GASB Statement 25.

SDCERS' presentation of the City's ARC for the six years period from 2000 through 2005 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

	2005	2004	2003	2002	2001	2000
Annual Required Contributions (ARC)	\$181,284	\$140,168	\$91,947	\$68,046	\$58,768	\$48,950
<i>Contributions Made to SDCERS</i> ¹	122,089	69,002 ³	58,650 ²	40,862	29,567	33,288
Difference - Over/(Under) Contributed	(59,195)	(71,166)	(33,297)	(27,184)	(29,201)	(15,662)
Percentage of ARC Contributed	67.35%	49.23%	63.79%	60.05%	50.31%	68.00%

¹ Adjusted contributions per City, including adjustments to reduce "contributions made" for healthcare benefit payments paid.

² Included in the City's FY 2003 Contributions Made to SDCERS is a \$9,923,538 contribution applicable to fiscal years 1997 - 2002 for the City's net pension obligation. This resulted from the differential amount of annual required contributions (ARC), as calculated by SDCERS' actuary, versus the "Minimum City-Paid Blended Rates" for employer contributions paid by the City on behalf of the Proprietary and Fiduciary Funds.

³ The FY 2004 City's plan sponsor contribution included annual required contributions for its Proprietary and Fiduciary Funds and the "Minimum City-Paid Blended Rates" for its General Funds. This contribution also included an amortization payment pursuant to the 2002 Contribution Agreement due to the City's SDCERS' funded status being below 82.3% as of the June 30, 2002 actuarial valuation. The City's advanced employer contribution (payment made on July 1, 2003) represented 13.43% of the FY 2004 budgeted payroll.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions (continued)

Unified Port of San Diego						
Schedule of Plan Sponsors' Contributions						
For the Six Years Ended June 30 (2000 - 2005)						
	2005	2004	2003	2002	2001	2000
Annual Required						
Contributions (ARC) ¹	\$7,613,081	\$4,594,580	\$2,210,040	\$218,618	\$1,213,404	\$1,301,929
<i>Contributions Made to SDCERS</i>	7,613,081	4,594,580	2,210,040	218,618	1,213,404	1,301,929
Difference - Over/(Under)						
Contributed	-	-	-	-	-	-
Percentage of ARC						
Contributed	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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

San Diego County Regional Airport Authority
Schedule of Plan Sponsors' Contributions
For the Three Years Ended June 30 (2003 - 2005)

	2005	2004	2003
Annual Required			
Contributions (ARC) ¹	\$2,312,309	\$1,435,000	n/a
<i>Contributions Made to SDCERS</i>	7,625,052	\$1,435,000 ²	\$248,796 ²
Difference - Over/(Under)			
Contributed	5,312,743	-	-
Percentage of ARC			
Contributed	329.76%	100.00%	n/a

¹ ARC figures provided by SDCERS' actuary; ARC calculated using annual covered 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 annual required contributions (ARC) 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.

Financial Section

San Diego City Employees' Retirement System

Required Supplementary Information

Notes to the Schedules of Plan Sponsors' Contributions

For the Years Ended June 30

Trend Information

Three sources of revenues fund a retirement system: plan sponsor contributions; member contributions; and investment earnings on these contributions. Each year, SDCERS' actuary determines the amount of plan sponsor contributions (expressed as a contribution rate) required to fund a given schedule of benefits (current and future liabilities). These benefit schedules are calculated for each actuarial valuation from: the benefit structure of the City, Port, or Airport; statistical data about SDCERS members; and, current and predicted future retirees and beneficiaries. Assumptions must be made to estimate how many SDCERS members will: terminate employment; leave on a disability retirement or service retirement; and, the average ages of members 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 actuarial valuation reports in which the actuary recommends employer contribution rates (stated as a percentage of valuation payroll) to each of the plan sponsors. The actuarially determined contribution rate percentages are applied to the annual payroll for each of the participating plan sponsors' employees. The resulting dollar amounts, as depicted in this schedule, are the Annual Required Contributions (ARC) necessary to fund the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsors' Contributions for the City contains six years of historical information with respect to the ARC versus the actual employer contributions made by the City, on an annual basis.

Under the "City Manager's Retirement Proposal" (1996 Manager's Proposal) dated July 23, 1996, the City negotiated with SDCERS' Board to contribute a "Minimum City-Paid Blended Rate" according to a fixed plan sponsor contribution rate schedule. This agreement established a base rate in FY 1997 (advanced payment made to SDCERS 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 19.58% 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 1996 Manager's Proposal set contribution rates through FY 2006; however, in 2002, the City requested changes to this agreement. The actuarial valuation of June 30, 2002, triggered a provision in the 1996 Manager's Proposal to increase annual required plan sponsor contributions from the City, based on the 82.3% funded status floor.

Effective November 18, 2002, the City entered into an "Agreement Regarding Employer Contributions" (2002 Contribution Agreement) with SDCERS' Board. Under this agreement, the City increased its FY 2004 annual plan sponsor contribution rate to 10.83% per the contribution rate schedule plus 1.06% for benefit enhancements for the City's SDCERS' general members, for a total of 11.89% versus the previous year's 10.33% contribution rate paid by the City in FY 2003 under the 1996 Manager's Proposal. 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 1996 Manager's Proposal. The new 2002 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 by FY 2009, between the City's fixed-rate contribution schedule and the ARC as calculated by SDCERS' actuary under the PUC methodology.

San Diego City Employees' Retirement System

Required Supplementary Information

Notes to the Schedules of Plan Sponsors' Contributions (continued)

For the Years Ended June 30

Beginning in FY 2009, the City has agreed to contribute plan sponsor contributions based on the full ARC 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 ARC rate under PUC was calculated at 15.59% of the City's valuation payroll; under EAN, the FY 2003 Annual Required Contribution rate would be 17.75% of the City's valuation payroll. These contribution rates would apply to FY 2005, and are identified here for comparison purposes.

Another commitment under the 2002 Contribution Agreement was 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 copy of the 2002 Contribution Agreement can be obtained from the City Clerk or SDCERS.

The 2002 Contribution Agreement funding arrangement is not one of the six recognized employer contribution (actuarial cost) funding methods. For every year that the 1996 Manager's Proposal and 2002 Contribution Agreement has been in effect, the City has made plan sponsor 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. Additionally, SDCERS' actuary has noted that the current practice of paying less than the computed Annual Required Contribution rate will foster an environment of additional declines in the City's SDCERS' funded status, absent investment returns significantly in excess of the assumed 8% actuarial investment rate of return.

As of July 7, 2004, a settlement agreement regarding the Gleason litigation was reached that invalidated the 2002 Contribution Agreement. Effective in FY 2006 through FY 2008, the City will make full actuarial contributions based on terms of this agreement. The funding/contributions discussed above have resulted in litigation that is discussed in *Note 6. Legal Action* and *Note 7. Subsequent Events* in the Notes to the Financial Statements.

Unified Port of San Diego

The schedule contains six years of historical information with respect to the Port's ARC versus the actual plan sponsor 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 has enjoyed an SDCERS' funded status of over 100%, on average, over the last decade. The Port's current SDCERS' funded status is 82.6%, which in the opinion of SDCERS' actuary, establishes the Port as being in sound condition in accordance with actuarial principles of level-cost financing, despite recent lower investment returns, accounted for in the five-year smoothing methodology used to calculate the actuarial value of assets.

Financial Section

San Diego City Employees' Retirement System

Required Supplementary Information

Notes to the Schedules of Plan Sponsors' Contributions (continued)

For the Years Ended June 30

San Diego County Regional Airport Authority

This schedule depicts two-and-a-half years of historical information with respect to the Airport's Annual Required Contributions (ARC) versus the actual plan sponsor contributions made by the Airport. Since its inception, the Airport has contributed 100% of the amount recommended by SDCERS' actuary and has a current funded status of 87.6%.

The Airport was a newly-formed agency effective as of January 1, 2003 at which time a portion of the Port's FY 2003 plan sponsor contribution (made on July 1, 2002), totaling \$598,454, was credited to the Airport for the half-year that it was a separate agency from the Port, beginning January 1, 2003, through the fiscal year ended June 30, 2003. In addition, plan sponsor contributions accrued through the second half of FY 2003 were paid by the Airport to SDCERS.

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules

SDCERS' administration expense is charged against the earnings and plan assets. Fees for investment management, actuarial services, custodial bank services 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 the San Diego Municipal Code.

Budgetary Comparison Schedule
For the Fiscal Years June 30, 2005 and June 30, 2004

	FY 2005				FY 2004			
	Proposed Budget	Actual Appropriations	Actual Expenditures	Variance From Appropriations Savings / (Over Expended)	Proposed Budget	Actual Appropriations	Actual Expenditures	Variance From Appropriations Savings / (Over Expended)
Personnel Services	\$3,791,958	\$3,791,958	\$3,564,827	\$227,131	\$3,356,876	\$3,356,876	\$3,265,323	\$91,553
Fringe Benefits	1,497,895	1,497,895	1,537,550	(39,655)	1,198,122	1,198,122	1,434,021	(235,899)
Total Personnel	5,289,853	5,289,853	5,102,377	187,476	4,554,998	4,554,998	4,699,344	(144,346)
Supplies and Professional Services	21,523,289	22,465,184	21,867,167	598,017	16,938,276	19,675,087	20,443,117	(768,030)
Information Technology	930,681	888,786	1,192,068	(303,282)	995,191	959,436	991,877	(32,441)
Energy/Utilities	55,411	55,411	35,414	19,997	69,674	69,674	51,014	18,660
Equipment Outlay	11,174	11,174	44,549	(33,375)	11,174	11,174	10,794	380
Depreciation Expense		-	49,569	(49,569)		-	75,644	(75,644)
Total Non-Personnel	22,520,555	23,420,555	23,188,767	231,788	18,014,315	20,715,371	21,572,446	(857,075)
Totals	\$27,810,408	\$28,710,408	\$28,291,144	\$419,264	\$22,569,313	\$25,270,369	\$26,271,790	(\$1,001,421)

Basis Points as a Percentage of Plan Net Assets

	81.99	80.15
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Reconciliation:

Administrative Expenses	\$11,960,392	\$10,163,263
Fees Paid to Investment Professionals	16,330,752	14,859,235
Litigation Settlement Expense	0	1,249,292
Totals	\$28,291,144	\$26,271,790
Payments to Consultants (component part of Total Administrative Expenses)	\$5,715,172	\$4,289,911

Additional schedules in Other Supplementary Information show the breakdown of each of the three categories identified above.

Financial Section

San Diego City Employees' Retirement System Other Supplementary Information Supporting Schedules (continued)

Schedule of Administrative Expenses For the Years Ended June 30, 2005 and 2004

	2005	2004
Personnel Services		
Salaries	\$3,564,827	\$3,265,323
Fringe Benefits	532,443	592,825
SDCERS Retirement Defined Benefit Contributions	789,484	640,869
Supplemental Pension Savings Plan (SPSP) Contributions	215,623	200,327
Total Personnel Services	5,102,377	4,699,344
Professional Services		
Actuary Services	199,410	193,998
Contracted Services	998,745	1,054,461
Member Benefits System Development Services	571,414	451,239
Legal Fees	2,478,510	1,486,156
Data Processing/Computer Services	1,192,068	885,697
Accounting Department Charges	275,025	218,360
Total Professional Services	5,715,172	4,289,911
Communication		
Postage	120,563	126,105
Telephone	35,414	51,014
Travel	41,345	44,957
Total Communication	197,322	222,076
Rentals		
Office Space	537,364	497,660
Equipment	44,549	49,357
Total Rentals	581,913	547,017
Office Operations		
Office Supplies & Administration	216,686	249,446
Training, Memberships & Tuition Reimbursement	46,551	54,526
Miscellaneous Fees & Charges	50,802	25,299
Depreciation Expense	49,569	75,644
Total Office Operations	363,608	404,915
Total Administrative Expenses	\$11,960,392	\$10,163,263

San Diego City Employees' Retirement System
Other Supplementary Information
 Supporting Schedules (continued)

Schedule of Payments to Consultants
 For the Years Ended June 30, 2005 and 2004

Individual or Firm	2005	2004	Nature of Service
Doctors & Disability Services (see below for full listing)	\$101,390	\$335,320	Medical Consulting
Gabriel, Roeder, Smith & Company	199,410	193,998	Actuary
Legal Firms & Professional Legal Services (see below for full listing)	2,615,704	1,486,156	Legal, Arbitration, Mediation, Court Reporting
Levi, Ray & Shoup	571,414	451,239	Member Benefit Systems Development
Linea Solutions	362,844	14,655	Electronic Data Management System (EDMS) Consulting Project
Mellon Consultants (formerly Buck Consultants)	21,500	75,074	Retirement Seminars
Mercer Human Resources Consulting	111,799	337,733	Audit Services/Tax Consulting/Strategic Planning
Nuffer, Tucker, Smith, Inc.	17,390	33,881	Public Relations
San Diego Data Processing Corporation	1,192,068	885,697	Computer/Applications Support
Various Providers	521,653	476,158	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	\$5,715,172	\$4,289,911	

Financial Section

San Diego City Employees' Retirement System Other Supplementary Information Supporting Schedules (continued)

Schedule of Payments to Consultants For the Years Ended June 30, 2005 and 2004

SDCERS used the following Doctors' services in FY 2005:

California Orthopaedic Institute
Medical Associates, Inc.
 William S. Adsit, M.D.
 Drew A. Peterson, M.D.
 Wesley R. Smidt, M.D.

Pacific Spine Clinic, Inc.
 L. Mercer McKinley, M.D.

Southern California Cardiology Medical Group, Inc.
 Steven A. Gross, M.D.

Southwest & Associates
 Hans J. Anderson, M.D.
 Michael Kimball, M.D.
 Enass Richards, M.D.
 A. Lyle Rosenfield, M.D.
 Robert S. Warren, M.D.

UCSD Orthopaedic Surgery
 Reid Abrams, M.D.

Other Doctors
 William P. Curran, Jr., M.D.
 Benjamin M. Frishberg, M.D.
 Richard M. Green, D.P.M.
 Karl Jacobs, M.D.
 Mark H. Mikulics, M.D.
 Robert E. Neveln, M.D.
 Raymond Vance, M.D.

SDCERS paid the following Legal Firms & Professional Legal Services Firms in FY 2005:

Bernstein Litowitz Burger
Gerald Blank, Esq.
Brandford & Barthel, LLP
Branton & Wilson, APC
Benjamin Coleman, Esq.
Mario G. Conte, Esq.
Coughlin Semmer & Lipman LLP
Michael L. Crowley, Esq.
Lisa C. Damiani, Esq.
Gibson, Dunn & Crutcher, LLP
Grant & Eisenhofer, P.A.
Hahn & Adema
Hennigan, Bennett & Dorman LLP
Ice Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbitration Services)
Knut S. Johnson, Esq.
Law Offices of Alton J. Smith & Neil P. Bahan
Joseph Milchen, Esq.
John A. Mitchell
Office of Administrative Hearings
Peterson & Associates - (Court Reporters)
Pillsbury Winthrop, LLP
Quinn Emanuel Urquhart Oliver
Reish, Luftman, Reicher & Cohen
Roake & Roake, APC
Seltzer Caplan McMahon Vitek, APC
Sheppard, Mullin, Richter & Hampton, LLP
Sullivan Hill Lewin Rez & Engel
Frank T. Vecchione, Esq.

Information on fees paid to investment professionals is provided on the next page.

San Diego City Employees' Retirement System
 Other Supplementary Information
 Supporting Schedules (continued)

Schedule of Fees Paid to Investment Professionals
 For the Years Ended June 30, 2005 and 2004

	2005			2004		
	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	\$1,407,186,596	\$6,180,439	43.92	\$1,271,464,422	\$5,733,157	45.09
International Equity Managers	594,947,042	2,758,899	46.37	539,343,173	2,439,468	45.23
Domestic Fixed Income Managers	1,207,844,678	4,202,851	34.80	1,030,002,991	3,800,275	36.90
International Fixed Income Managers	172,494,993	469,278	27.21	154,837,163	424,625	27.42
Real Estate Managers	321,907,838	2,053,354	63.79	282,242,314	1,852,174	65.62
Cash	7,090,351	n/a	n/a	3,655,549	n/a	n/a
Total Investment Manager Fees	\$3,711,471,498	\$15,664,821	42.21	\$3,281,545,612	\$14,249,699	43.42
Other Investment Service Fees						
Custodian Services	n/a	\$212,250	0.62 ²	n/a	\$202,037	0.69 ³
Investment Consultants	n/a	415,098	1.21 ²	n/a	369,944	1.25 ³
Investment Accounting Application	n/a	38,585	0.11 ²	n/a	37,555	0.13 ³
Total Other Investment Service Fees		\$665,933	1.94²		\$609,536	2.07³
Total Fees Paid to Investment Professionals		\$16,330,752	47.50²		\$14,859,235	50.39³

¹ Market Values of Assets Under Management, as of June 30, 2005 and June 30, 2004 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. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds and real estate, and nets receivables and payables of cash for pending transactions (settlement date based) in each strategy.

² June 30, 2005 - Basis Points calculation based upon \$3,438,187,303 which is the average of FY 2005 Total Net Investments plus Cash and Cash Equivalents equaling \$3,635,722,032 and FY 2004 Total Net Investments plus Cash and Cash Equivalents equaling \$3,240,652,574.

³ June 30, 2004 - Basis Points calculation based upon \$2,948,355,515 which is the average of FY 2004 Total Net Investments plus Cash and Cash Equivalents equaling \$3,240,652,574 and FY 2003 Total Net Investments plus Cash and Cash Equivalents equaling \$2,656,058,457.

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III. Investment Section



CALLAN ASSOCIATES^{INC.}

October 27, 2005

JAMES A. CALLAHAN, CFA

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



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

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, 2005 (FY 2005) as compared to June 30, 2004 (FY 2004).

During fiscal year 2005 and fiscal year 2004, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with CFA Institute (formerly 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 pension plans.

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 participants. 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 then selects a strategic investment plan that balances growth potential and acceptable risk to fund projected liabilities. A policy performance benchmark is constructed that mirrors SDCERS' asset allocation strategy. This policy performance benchmark is a custom total fund index comprised of equity, fixed income and real estate market indices weighted in the same proportions as SDCERS' asset allocation strategy.

Highlights of Fiscal Year 2005

Rising interest rates, high energy prices, the Iraq war and the uncertainty surrounding a tight presidential election weighed on the minds of investors during the first six months of fiscal year 2005 (July through December 2004). This combination of economic concerns contributed to the S&P 500 Index posting a negative return (-1.8%) for the third quarter of 2004, its first quarterly loss in over a year. After the November election, with fear of the unknown abated, global equity markets raced forward with the MSCI EAFE Index and S&P 500 returning +15.3% and +9.2% for the fourth quarter of 2004 respectively. Escalating oil prices and inflation fears made it difficult for the global equity markets to gain ground in the last two quarters of fiscal year 2005 (January through June 2005). The choppy waters, however, didn't prevent the equity markets from generating positive returns for fiscal year 2005. For the year ended June 2005, the S&P 500 Index returned +6.3% while the Russell 2000 Index, representing the small cap market, and

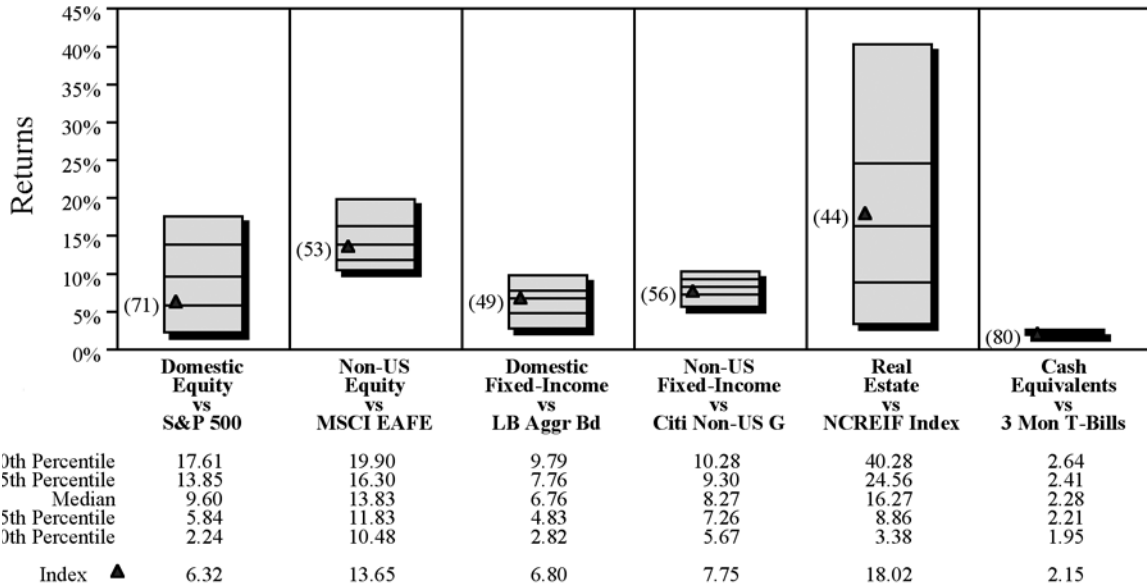
the MSCI EAFE Index returned +9.5% and +13.7% respectively. As in recent years, value stocks tended to outperform growth stocks on a style basis for the fiscal year 2005. The Energy and Utilities sectors were two of the best performing sectors over the past 12 months due to increasing energy prices. The domestic bond market proved impressively resilient over the past 12 months in the face of numerous interest rate hikes from the Fed as well as the dual downgrading of General Motors and Ford to non-investment grade bond status. Despite nine interest rate hikes over the past 12 months, long-term interest rates were lower in June 2005 than in June 2004. The international equity market's stellar fourth quarter 2004, in which the MSCI EAFE Index returned +15.3%, enabled it to overcome otherwise flat returns due to a rising US dollar, rising oil prices and continued disappointment regarding the Japanese economy. The emerging markets were once again a strong performer in fiscal year 2005 with contributions from Latin America as well as countries from the Middle East and Eastern Europe.

Highlights of Fiscal Year 2004

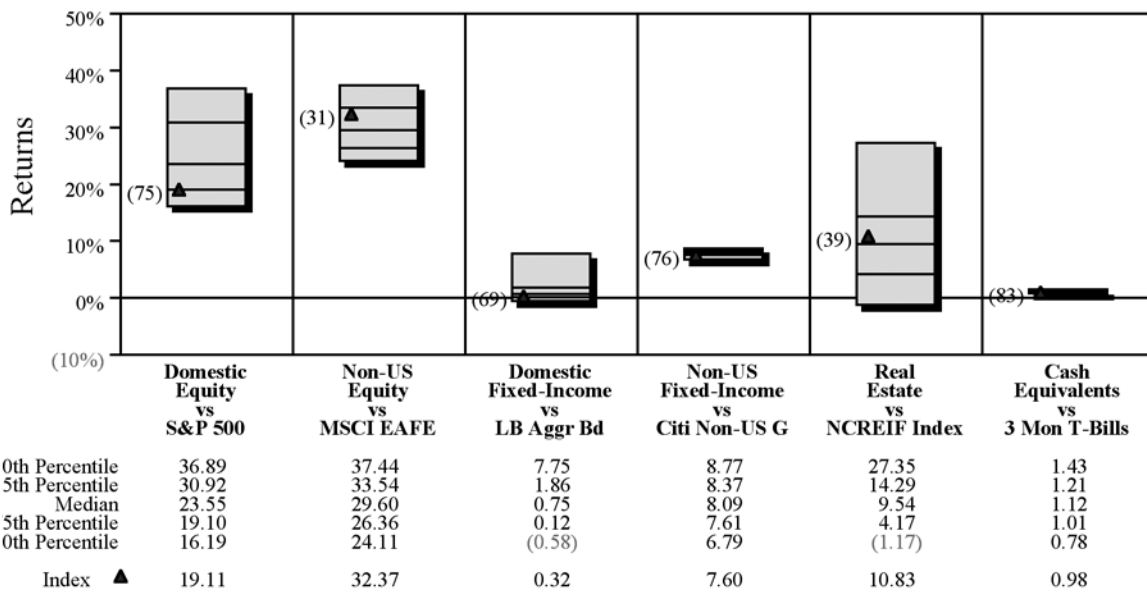
Tremendous monetary and fiscal stimulus, coupled with the easing of geopolitical concerns after the United States led invasion of Iraq, fueled very strong global equity market returns during the first six months of fiscal year 2004 (July through December 2003). While the markets cooled somewhat in the last two quarters of fiscal year 2004 (January through June 2004), returns for the entire fiscal year were attractive across most global equity markets. After several years of investor pessimism, the appetite for risk increased dramatically as the more speculative areas of the markets, including small cap and emerging market stocks, led the way. For the twelve months ended June 30, 2004, the S&P 500 Index returned +19.1%, while the small cap market as measured by the Russell 2000 Index returned +33.4%. On a style basis, value stocks generally outperformed growth stocks across the capitalization spectrum. Traditional value sectors such as Energy and Basic Materials were the best performing sectors within the broad market. The dramatic monetary stimulus and resulting declines in interest rates during fiscal year 2003 led to a sluggish domestic bond market during fiscal year 2004. Improving corporate financial health and robust equity returns triggered a rise in interest rate expectations during the period, leading to falling bond prices and a modestly positive overall return for the bond market. International stocks, led by the strong rally in Japanese equities, enjoyed a banner year and comfortably outperformed their U.S. counterparts. As mentioned previously, emerging market stocks were strong performers for the year overall, despite ending the fiscal year with a sharply negative quarter. The continued weakening of the U.S. dollar in the beginning of the fiscal year generated a meaningful return premium for non-U.S. bonds relative to the U.S. market.

The graphs on the next page depict the performance of Callan's manager database by asset category for the year ended June 30, 2005, and June 30, 2004. The performance of the major market indices is also plotted. During fiscal year 2005, roughly half of active managers had success in outperforming their respective indices, with the exception being the outperformance of active domestic equity managers.

**Range of Separate Account Manager Returns by Asset Class
One Year Ended June 30, 2005**



**Range of Separate Account Manager Returns by Asset Class
One Year Ended June 30, 2004**



SDCERS' Fiscal Year 2005 Investment Performance as Compared to Fiscal Year 2004

For the one-year period ended June 30, 2005, SDCERS' total fund, time-weighted return of +10.5% was approximately 40 basis points ahead of SDCERS' custom policy performance benchmark return of +10.1% and well ahead SDCERS' actuarial annual rate of return assumption of +8.0%. SDCERS' fiscal year 2005 total fund return lagged SDCERS' fiscal year 2004 total fund return of +20.0%, which also exceeded SDCERS' custom policy performance benchmark return of +16.0% over the same time period.

SDCERS' custom policy performance benchmark is comprised of the following market indices, in the percentages indicated, as of June 30, 2005:

Domestic Equities

22.8% S&P 500, 7.6% S&P 400 Mid Cap, and 7.6 % Russell 2000

International Equities

12% MSCI All Country World ex. U.S. Free, 3.0% EMI World Ex-U.S

Domestic Fixed Income

20.5% Lehman Brothers Aggregate, 9.6% Merrill Lynch 1-5 Year Govt/Corp, and 1.9% Merrill Lynch All Convertible

International Fixed Income

5.0% Citigroup Non-U.S. World Government Bond

Domestic Real Estate

7.5% NCREIF, and 2.5% Wilshire REIT

SDCERS' total fund return significantly outperformed the median public pension plan in the Callan peer universe database for the past two fiscal years. Additionally, long-term results consistently rank SDCERS' performance in the top quartile of the Callan public pension plan peer universe database. Over the last five years, SDCERS' annualized total fund return of +6.3% ranks in the fourth percentile of the Callan public pension plan peer universe and is approximately 120 basis points annualized ahead of SDCERS' custom policy performance benchmark.

SDCERS' Domestic Equity Performance

After posting a stellar fiscal year 2004 return of +28.8%, SDCERS' domestic equity composite returned a solid +9.4% during the twelve months ended June 30, 2005. This performance surpassed SDCERS' blended domestic equity performance benchmark return of +8.5%. During fiscal year 2004, SDCERS' domestic equity composite return ranked in the second percentile in the Callan peer universe. Fiscal year 2005 was also impressive, as SDCERS' domestic equity composite return ranked in the thirteenth percentile among Callan's peer universe. During the same fiscal year 2005 time period, the median public pension plan's domestic equity composite in the Callan peer universe returned +8.3%. The strong relative performance in the last year has sustained the strong long-term rankings of SDCERS' domestic equity composite performance. SDCERS' domestic equity composite returns exceeded SDCERS' blended domestic equity performance benchmark returns for the trailing three-year and five-year periods by healthy margins and ranked in the first and second percentiles respectively among public pension plans in the Callan peer universe for both periods.

SDCERS' International Equity Performance

SDCERS' international equity composite returned +15.9% for the year ended June 30, 2005, behind fiscal year 2004's lofty return of +37.6%. The fiscal year 2005 return lagged SDCERS' blended international equity performance benchmark return of +17.3%. Like SDCERS' domestic equity composite, SDCERS' international equity composite return for fiscal year 2005 ranks in the first quartile versus other public pension plans in the Callan peer universe. During fiscal year 2004, SDCERS' international equity composite return ranked in the 1st percentile of the Callan peer universe. Longer-term performance for SDCERS' international equity composite is also impressive when measured against SDCERS' blended international equity performance benchmark and the Callan public pension plan peer universe median return.

SDCERS' Domestic Fixed Income Performance

SDCERS' domestic fixed income composite posted mixed results in relative terms for the fiscal year ended June 30, 2005. A return of +6.6% for the trailing year ranked SDCERS' performance in the 66th percentile of public pension plans in the Callan peer universe, yet outpaced SDCERS' blended domestic fixed income performance benchmark return of +5.3%. Over the same period last year, SDCERS' fiscal year 2004 domestic fixed income return of +3.7% outpaced its SDCERS' blended domestic fixed income performance benchmark return of +1.1% and ranked in the 1st percentile of the Callan peer universe. Despite the strong performance in fiscal year 2004, SDCERS' domestic fixed income composite longer-term cumulative return still trails SDCERS' blended performance benchmark and ranks lower than median within the Callan peer universe.

SDCERS' International Fixed Income Performance

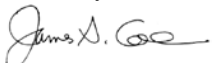
For the twelve months ended June 30, 2005, SDCERS' international fixed income portfolio returned +9.6% well ahead of SDCERS' international fixed income performance benchmark return of +7.8% and exceeding the Callan public pension plan peer universe's median return of +7.9%. Fiscal year 2004 was a challenge for the international fixed income portfolio as its return of +7.3% trailed both the performance benchmark and peer universe median by 30 and 70 basis points respectively. SDCERS' international fixed income portfolio has performed at a level above the median public pension plan in the Callan peer universe for the trailing three and five-year periods. SDCERS' since inception (June 1996) return of +6.5% annualized, ranks in the 36th percentile of the Callan peer universe and is 95 basis points ahead of SDCERS' international fixed income performance benchmark.

SDCERS' Real Estate Performance

Fueled by the exceptional performance of the REIT market during the past year, SDCERS' real estate composite produced an impressive return of +23.8% for the one-year period ending June 30, 2005; this ranked SDCERS' real estate performance in the 29th percentile of the Callan public pension plan peer universe. Over this same time period, SDCERS' blended real estate performance benchmark returned +21.5%. Longer-term results for the real estate portfolio are equally as impressive. For the trailing three and five-year periods ended June 30, 2005, SDCERS' real estate composite return totaled +18.0% and +16.4% annualized respectively, well in excess of SDCERS' blended real estate performance benchmark. This longer-term performance ranks SDCERS' returns in the 22nd and 11th percentiles, respectively, in the Callan peer universe.

In summary, the fiscal years ended June 30, 2005, and June 30, 2004, proved to be different in terms of absolute returns in the global equity and fixed income markets. SDCERS' disciplined and diversified investment approach over these contrasting two years has led to excellent relative performance, ranking SDCERS' total fund performance in the 13th percentile for fiscal year 2005 and in the 3rd percentile for fiscal year 2004 when compared to the Callan public pension plan peer universe database. As in fiscal year 2004, SDCERS outperformed its custom policy performance benchmark return in fiscal year 2005. On an absolute basis, SDCERS participated significantly in the fiscal year 2005 equity rally while maintaining a prudent exposure to more stable return asset classes like fixed income and real estate. In combination, SDCERS' total investment portfolio produced a fiscal year 2005 return of +10.5%. SDCERS' impressive results achieved during this recent period were driven by the superior relative and absolute performance in equities, both domestic and international, and real estate.

Sincerely,



James A. Callahan, CFA
Senior Vice President

San Diego City Employees' Retirement System Asset Class Investment Returns¹

Performance Comparison

For the One-Year Periods Ended June 30, 2005 and 2004

	2005	2004
SDCERS' Domestic Equity Performance	9.41%	28.84%
Domestic Equity Benchmark	8.49%	23.67%
comprised of:		
Standard & Poor's 500 (60% weight)	6.32%	19.11%
Standard & Poor's MidCap 400 (20% weight)	14.03%	27.98%
Russell 2000 (20% weight)	9.45%	33.37%
SDCERS' International Equity Performance	15.91%	37.64%
International Equity Benchmark	17.63%	34.55%
comprised of:		
MSCI AC World Free Ex-US Index (80% weight)	16.95%	32.50%
EMI World Ex-US Index (20% weight)	20.31%	44.36%
SDCERS' Domestic Fixed Income Performance	6.62%	3.69%
Domestic Fixed Income Benchmark	5.27%	1.14%
comprised of:		
Lehman Aggregate Bond Index (64% weight)	6.80%	0.32%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	2.89%	0.40%
First Boston Convertible Index (6% weight for 2004)	—	14.16%
ML Convertible Index, All Qualities (6% weight for 2005)	0.06%	—
SDCERS' International Fixed Income Performance	9.61%	7.32%
International Fixed Income Benchmark	7.75%	7.60%
comprised of:		
Citigroup Non-U.S. Gov't Bond (100% weight)		
SDCERS' Real Estate Performance	23.77%	24.29%
Real Estate Benchmark	21.45%	14.08%
comprised of:		
NCREIF Index (75% weight)	18.02%	10.83%
Wilshire REIT Index (25% weight)	34.15%	27.17%
SDCERS' Total Fund Performance	10.80%	20.21%
Total Fund Performance Benchmark	10.16%	16.05%
comprised of:		
S&P 500 (22.8%); L/B Aggr (20.5%);		
MSCI AC World Free ex-US (12.0%);		
ML 1-5 Gov't Corp (9.6%); Russell 2000 (7.6%);		
S&P MidCap 400 (7.6%); NCREIF (7.5%);		
Citigroup Non-U.S. Gov't Bond (5.0%);		
EMI World ex-US (3.0%); Wilshire REIT (2.5%); and		
ML Convertible Index, All Qualities (1.9%).		

¹ Basis of calculation is time-weighted rates of return.

Investment Section

San Diego City Employees' Retirement System Asset Class Investment Returns¹

Long Term Performance²

As of June 30, 2005

Annualized Performance

	3-Year	5-Year	10-Year
SDCERS' Domestic Equity Performance	13.16%	3.84%	11.03%
Domestic Equity Benchmark	10.20%	1.42%	11.00%
comprised of:			
Standard & Poor's 500 (60% weight)	8.28%	-2.37%	9.94%
Standard & Poor's MidCap 400 (20% weight)	13.16%	8.49%	14.66%
Russell 2000 (20% weight)	12.81%	5.71%	9.90%
SDCERS' International Equity Performance	15.66%	3.35%	11.48%
International Equity Benchmark	15.37%	2.64%	5.85%
comprised of:			
MSCI AC World Free Ex-US Index (80% weight)	14.08%	0.77%	5.82%
EMI World Ex-US Index (20% weight)	20.51%	7.37%	7.39%
SDCERS' Domestic Fixed Income Performance	5.47%	5.96%	7.01%
Domestic Fixed Income Benchmark	5.39%	6.24%	6.84%
comprised of:			
Lehman Aggregate Bond Index (64% weight)	5.76%	7.40%	6.82%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	3.64%	5.72%	5.78%
ML Convertible Index, All Qualities (6% weight)	7.19%	3.57%	—
SDCERS' International Fixed Income Performance	12.41%	8.69%	—
International Fixed Income Benchmark	10.98%	7.93%	—
comprised of:			
Citigroup Non-U.S. Gov't Bond (100% weight)			
SDCERS' Real Estate Performance	18.01%	16.40%	12.40%
Real Estate Benchmark	13.59%	12.57%	11.70%
comprised of:			
NCREIF Index (75% weight)	12.08%	10.63%	11.37%
Wilshire REIT Index (25% weight)	20.95%	20.84%	15.56%
SDCERS' Total Fund Performance	11.98%	6.35%	10.23%
Total Fund Performance Benchmark	10.26%	5.12%	9.32%
comprised of:			
S&P 500 (22.8%); L/B Aggr (20.5%);			
MSCI AC World Free ex-US (12.0%);			
ML 1-5 Gov't Corp (9.6%); Russell 2000 (7.6%);			
Citigroup Non-U.S. Gov't Bond (5.0%);			
S&P MidCap 400 (7.4%); NCREIF (7.5%);			
Citigroup Non-US EMI World ex-US (3.0%);			
Wilshire REIT (2.5%); and			
ML Convertible Index, All Qualities (1.9%)			

¹ Basis of calculation is time-weighted rates of return.

² Long-Term Performance: 3-year, 5-year and 10-year performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS' asset allocation strategy over time.

San Diego City Employees' Retirement System Investment Managers

As of June 30, 2005

Domestic Equity Investment Managers

Delta Asset Management
Los Angeles, CA

Putnam Investments
Boston, MA

Dimensional Fund Advisors
Santa Monica, CA

Sector Capital
Memphis, TN

Dodge & Cox
San Francisco, CA

Trust Company of the West (TCW)
Los Angeles, CA
New York, NY

Globeflex Capital, L.P.
San Diego, CA

Wall Street Associates
La Jolla, CA

Domestic Fixed Income Investment Managers

Fidelity Management Trust Company
Boston, MA

**Pacific Investment Management
Company (PIMCO)**
Newport Beach, CA

**Metropolitan West Asset
Management**
Los Angeles, CA

Salus Capital Management, Inc.
Los Angeles, CA

**Nicholas Applegate Capital
Management**
San Diego, CA

SSI Investment Management, Inc.
Beverly Hills, CA

International Equity Managers

Brandes Investment Partners
San Diego, CA

**Nicholas Applegate Capital
Management**
San Diego, CA

**Grantham, Mayo, Van Otterloo
& Co. LLC**
Boston, MA

Putnam Investments
Boston, MA

Investment Section

San Diego City Employees' Retirement System

Investment Managers (continued)

As of June 30, 2005

International Fixed Income Investment Managers

Rogge Global Partners
London, England

Real Estate Investment Managers

Invesco Real Estate
Dallas, TX

SSR Realty Advisors
San Francisco, CA

RREEF Funds
San Francisco, CA

TCW Associates Realty / Westmark
Los Angeles, CA

RREEF Funds (REITs)
Chicago, IL

U.S. Realty Advisors, LLC
New York, NY

San Diego City Employees' Retirement System Statement of Investment Objectives and Policies

As of June 30, 2005

Investment Goal

SDCERS' investment program goal is to ensure that sufficient financial assets are available to provide members and their beneficiaries with all benefits due as specified by plan sponsors in their plan documents. SDCERS' goal is to earn, on a long-term average, an actuarially assumed rate of return of 8%, and a total real rate of return of 2.5% above the rate of inflation.

General Limitations

In accordance with the City Charter, SDCERS is structured as a separate Trust Fund and is not part of or combined with the City of San Diego's operational investment pool.

SDCERS' Board establishes an overall asset allocation strategy for the 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

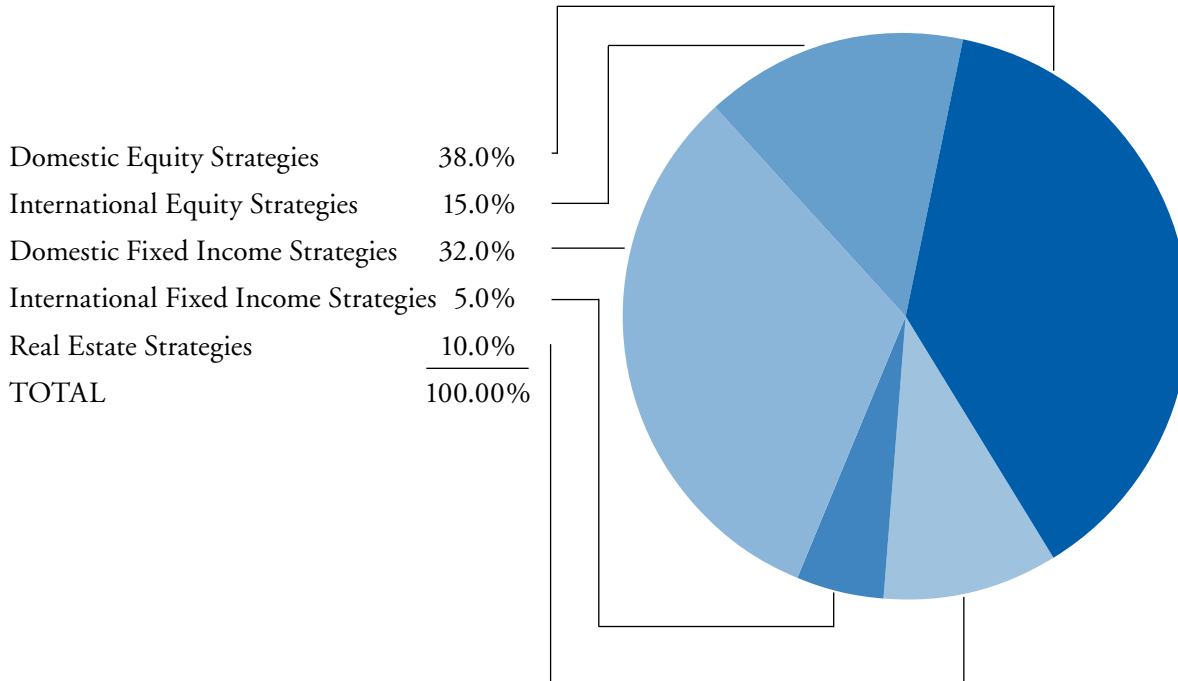
1. Not more than 5% of the entire equity portfolio shall be invested in the common stock of any one company, nor shall any holding exceed 3% of the outstanding common stock of any one company, at the time of initial commitment;
2. Not more than 10% of the equity portfolio, at market value, shall be invested in preferred stocks. Not more than 2% of the entire equity portfolio shall be invested in the preferred stock of 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 entire fixed income portfolio shall be invested in the debt security of any one issue at the time of the 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 or fund, at time of initial commitment;
5. Mortgages must be diversified both by economic region and usage. The combined value of mortgage debt with security interest and other real estate investments shall not exceed 40% of the total Trust Fund, at the time of initial commitment;
6. Real Estate fee simple, co-investments or commingled fund investments, must be diversified both by economic (geographic) region and property type; no international real estate investments are permitted; 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.

Investment Section

San Diego City Employees' Retirement System Target Asset Allocation

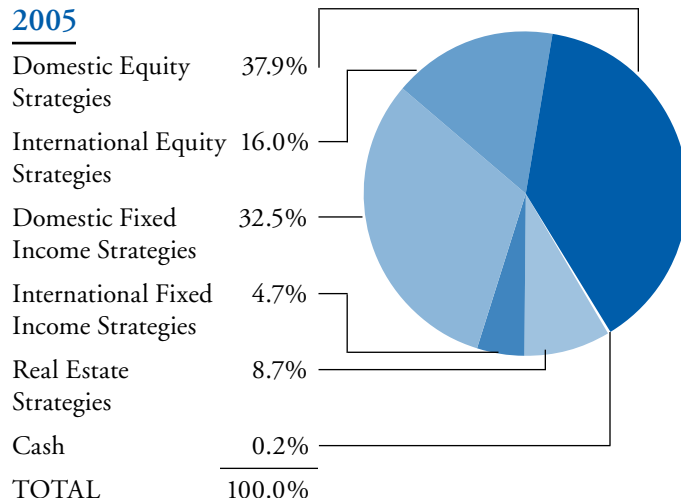
As of June 30, 2005 and 2004



San Diego City Employees' Retirement System Actual Asset Diversification – Investments At Fair Value

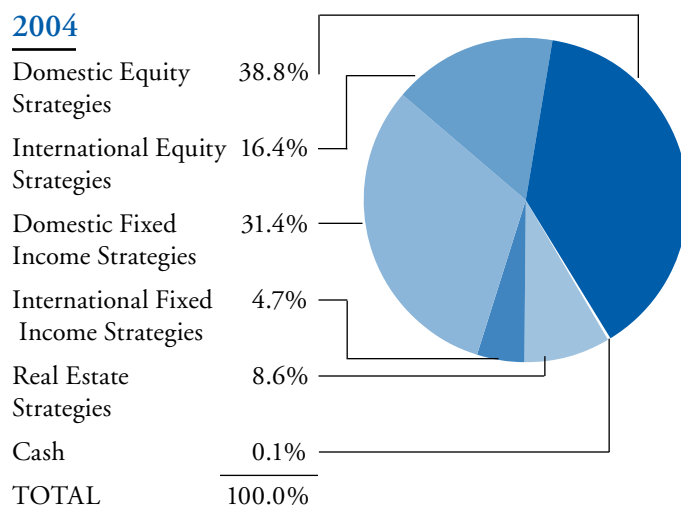
As of the Years Ended June 30, 2005 and 2004

2005



Domestic Equity Strategies	\$1,407,186,596
International Equity Strategies	594,947,042
Domestic Fixed Income Strategies	1,207,844,678
International Fixed Income Strategies	172,494,993
Real Estate Strategies	321,907,838
Cash	7,090,352
Total Investments, At Fair Value	3,711,471,499
Less Pending Transactions	(75,749,467)
Total Net Investments	\$3,635,722,032

2004



Domestic Equity Strategies	\$1,271,464,422
International Equity Strategies	539,343,173
Domestic Fixed Income Strategies	1,030,002,991
International Fixed Income Strategies	154,837,163
Real Estate Strategies	282,242,314
Cash	3,655,549
Total Investments, At Fair Value	3,281,545,612
Less Pending Transactions	(40,693,038)
Total Net Investments	\$3,240,852,574

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. Investment strategy totals by asset class here will differ from those that appear in the audited financial statements. For GASB reporting purposes, investments 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.

Investment Section

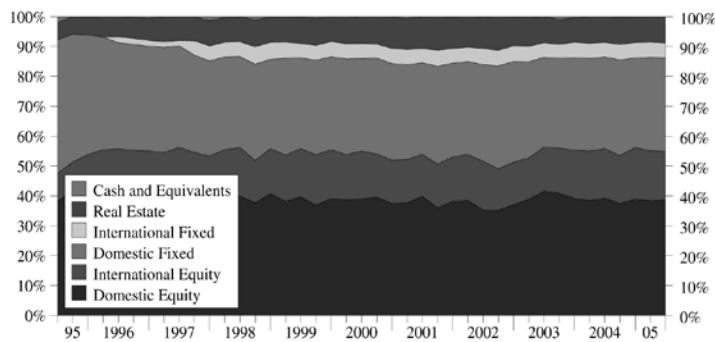
San Diego City Employees' Retirement System Historical Asset Allocation (Actual) Ten Year History for Fiscal Years 1996 - 2005



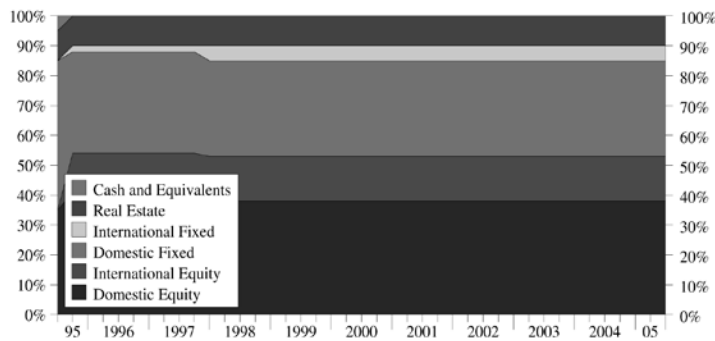
Actual vs Target Historical Asset Allocation

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.

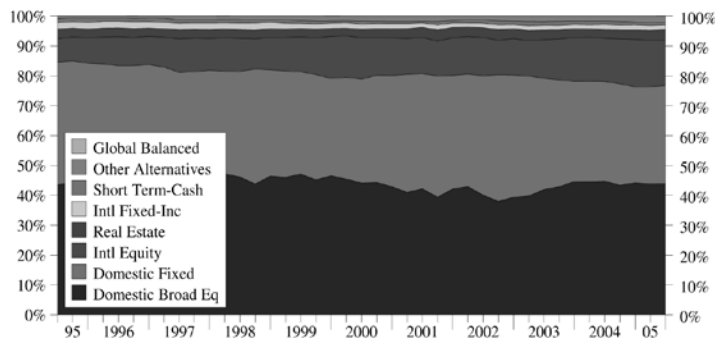
Actual Historical Asset Allocation



Target Historical Asset Allocation

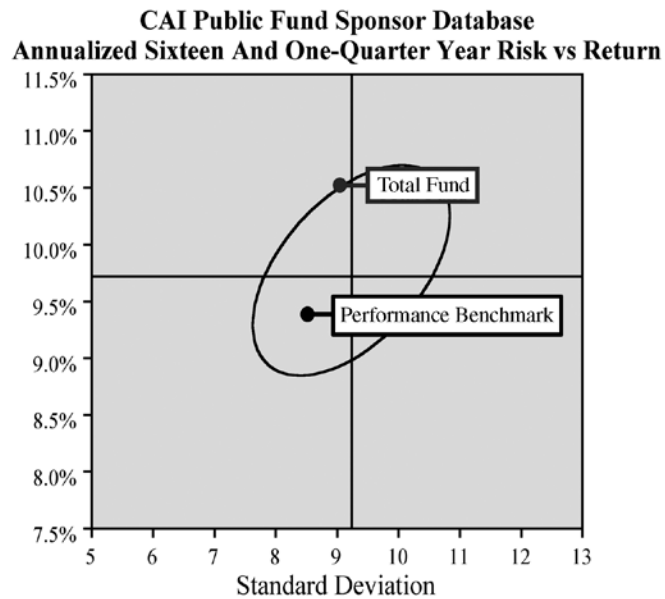
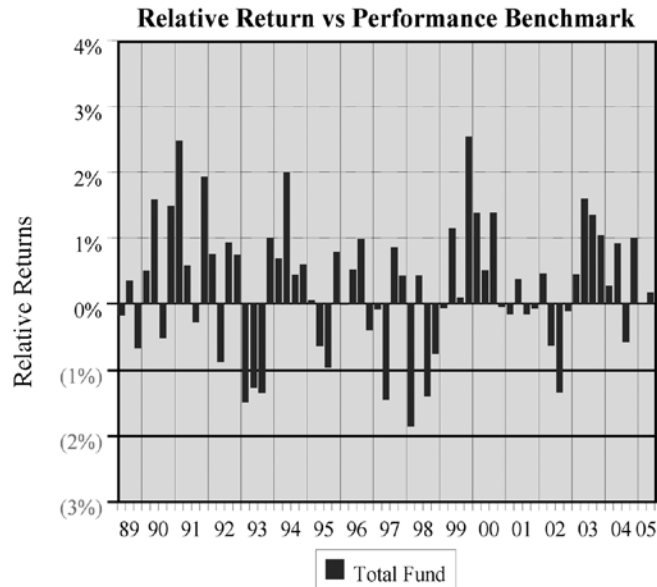


Average CAI Public Fund Sponsor Database Historical Asset Allocation



* Current Quarter Target = 22.8% S&P 500, 20.5% L/B Agg, 12.0% MSCI ACWI ex-US, 9.6% ML 1-5 Govt/Corp, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 7.5% NCREIF Total Index, 5.0% Citi Non-US Gvt Bd Idx, 3.0% EMI World ex US Index, 2.5% Dow Jones Wilshire REIT and 1.9% ML All Conv.

San Diego City Employees' Retirement System
Historical Risk vs. Return Analysis
 Since Inception of Diversified Investment Program
 June 30, 1989 through June 30, 2005



Investment Section

San Diego City Employees' Retirement System Schedule of Largest Equity Holdings

As of Years Ended June 30, 2005 and 2004

2005

<u>Rank</u>	<u>Shares</u>	<u>Equity Securities (Stocks)</u>	<u>CUSIP</u>	<u>Market Value</u>	<u>Percentage of Total Net Investments</u>
1	266,235	Progressive Corp.	743315103	\$26,306,680	0.72%
2	634,758	Yahoo! Inc.	984332106	21,994,365	0.60
3	262,232	Genentech, Inc.	368710406	21,051,985	0.58
4	505,684	eBay Inc.	278642103	16,692,629	0.46
5	545,427	Network Appliance, Inc.	64120L104	15,419,221	0.42
6	446,731	Amazon.com Inc.	023135106	14,777,861	0.41
7	47,500	Google Inc.	38259P508	13,972,125	0.38
8	349,779	Dell Inc.	24702R101	13,819,769	0.38
9	399,092	Qualcomm Inc.	747525103	13,174,027	0.36
10	151,100	Apollo Group, Inc.	037604105	11,819,042	0.33
Totals				\$169,027,704	4.64%

2004

<u>Rank</u>	<u>Shares</u>	<u>Equity Securities (Stocks)</u>	<u>CUSIP</u>	<u>Market Value</u>	<u>Percentage of Total Net Investments</u>
1	646,028	Yahoo! Inc.	984332106	\$23,470,197	0.72%
2	273,912	Progressive Corp.	743315103	23,364,694	0.72
3	346,531	Amazon.com Inc.	023135106	18,851,286	0.58
4	193,642	eBay Inc.	278642103	17,805,382	0.55
5	307,632	Genentech, Inc.	368710406	17,288,918	0.53
6	266,896	Maxim Integrated Products, Inc.	57772K101	13,990,688	0.43
7	233,745	Amgen Inc.	031162100	12,755,465	0.39
8	383,041	General Electric Co.	369604103	12,410,528	0.38
9	553,307	Network Appliance, Inc.	64120L104	11,912,700	0.37
10	487,772	Cisco Systems, Inc.	17275R102	11,560,196	0.36
Totals				\$163,410,054	5.03%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System Schedule of Largest Fixed Income Holdings

As of Years Ended June 30, 2005 and 2004

2005

<u>Rank</u>	<u>Par</u>	<u>Fixed Income (Bonds)</u>	<u>CUSIP</u>	<u>Market Value</u>	<u>Percentage of Total Net Investments</u>
1	45,441,000	United States Treasury Notes	912828AN0	\$44,787,786	1.23%
2	27,340,000	FNMA TBA Jul 30 Single Family	01F052672	21,285,470	0.59
3	16,093,000	United States Treasury Bonds	912810FB9	20,324,957	0.56
4	18,000,000	FNMA TBA Aug 15 Single Fam	01F050486	18,180,000	0.50
5	17,000,000	FNMA TBA Aug 30 Single Fam	01F050684	16,964,140	0.47
6	11,207,000	Netherlands Kingdom of	730959II6	15,430,599	0.42
7	14941926	FNMA Pool 819714	31406TVF5	15,126,949	0.42
8	9,700,000	Dutch Govt	B03CQVII5	12,012,220	0.33
9	6,040,000	Treasury	324523II2	10,914,084	0.30
10	9,999,004	FNMA Pool 725425	31402C4J8	10,152,894	0.28
Totals				\$185,179,099	5.09%

2004

<u>Rank</u>	<u>Par</u>	<u>Fixed Income (Bonds)</u>	<u>CUSIP</u>	<u>Market Value</u>	<u>Percentage of Total Net Investments</u>
1	27,340,000	FNMA TBA Jul 30 Single Family	01F050676	\$26,406,596	0.81%
2	15,473,970	United States Treasury Notes	9128274Y5	17,248,641	0.53
3	12,418,000	United States Treasury Bonds	912810FB9	13,613,233	0.42
4	13,265,000	United States Treasury Notes	912828BH2	12,952,028	0.40
5	10,630,000	United States Treasury Notes	9128277L0	10,980,458	0.34
6	7,909,006	Germany (Fed Rep)	99SRRGII1	9,564,758	0.30
7	8,754,000	United States Treasury Notes	9128275S7	8,892,149	0.27
8	7,896,100	Small Business Admin Partin CTF	831641CX1	8,601,853	0.27
9	8,600,000	FNMA TBA Jul 30 Single Family	01F052672	8,555,657	0.26
10	837,000,000	International Bank For Recon & Dev	541464II6	8,088,098	0.25
Totals				\$124,903,471	3.85%

A complete list of portfolio holdings is available upon request.

Investment Section

San Diego City Employees' Retirement System Schedules of Commissions

For the Year Ended June 30, 2005

2005

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	Citigroup Global Markets, Inc.	26,213,799	\$635,393	\$0.024
2	UBS AG	21,543,548	631,840	0.029
3	Merrill Lynch & Co., Inc.	20,797,649	595,635	0.029
4	Goldman Sachs & Company	12,462,874	440,492	0.035
5	Credit Suisse First Boston Corp.	12,189,054	350,095	0.029
6	Lehman Brothers, Inc.	14,907,554	343,739	0.023
7	Morgan Stanley & Co.	11,528,371	277,044	0.024
8	Jefferies & Company, Inc.	12,728,991	269,053	0.021
9	Investment Technology Group, Inc.	15,912,838	246,041	0.015
10	Bear Stearns & Co., Inc.	7,060,834	214,656	0.030
11	Bank of America Securities LLC	3,534,629	129,779	0.037
12	Cantor Fitzgerald & Co.	6,349,672	124,568	0.020
13	Deutsche Bank Securities, Inc.	5,533,902	121,182	0.022
14	Rochdale Securities Corp.	1,867,221	99,391	0.053
15	BNY Clearing Services LLC	4,838,594	93,331	0.019
16	JP Morgan Securities, Inc.	6,330,855	93,256	0.015
17	Pershing LLC	2,639,319	87,015	0.033
18	Instinet	2,245,419	86,157	0.038
19	B-Trade Services LLC	2,914,360	79,120	0.027
20	Nomura Securities International, Inc.	6,455,015	78,261	0.012
21	Stephen M. Ferretti Inc.	3,332,908	66,658	0.020
22	National Financial Services Corp.	1,520,069	62,406	0.041
23	Broadcort Capital	1,065,112	59,861	0.056
24	Wachovia Securities, LLC.	1,229,718	58,791	0.048
25	Legg Mason Wood Walker Inc.	1,081,330	50,034	0.046
	All Other Brokers	50,234,575	1,550,769	0.031
Totals		256,517,910	\$6,844,568	\$0.027

Year-Over-Year Changes: 5.39% increase in total shares traded; 21.67% decrease in total commissions paid; 25.00% decrease in commissions per share paid.

San Diego City Employees' Retirement System Schedule of Commissions (continued)

For the Year Ended June 30, 2004

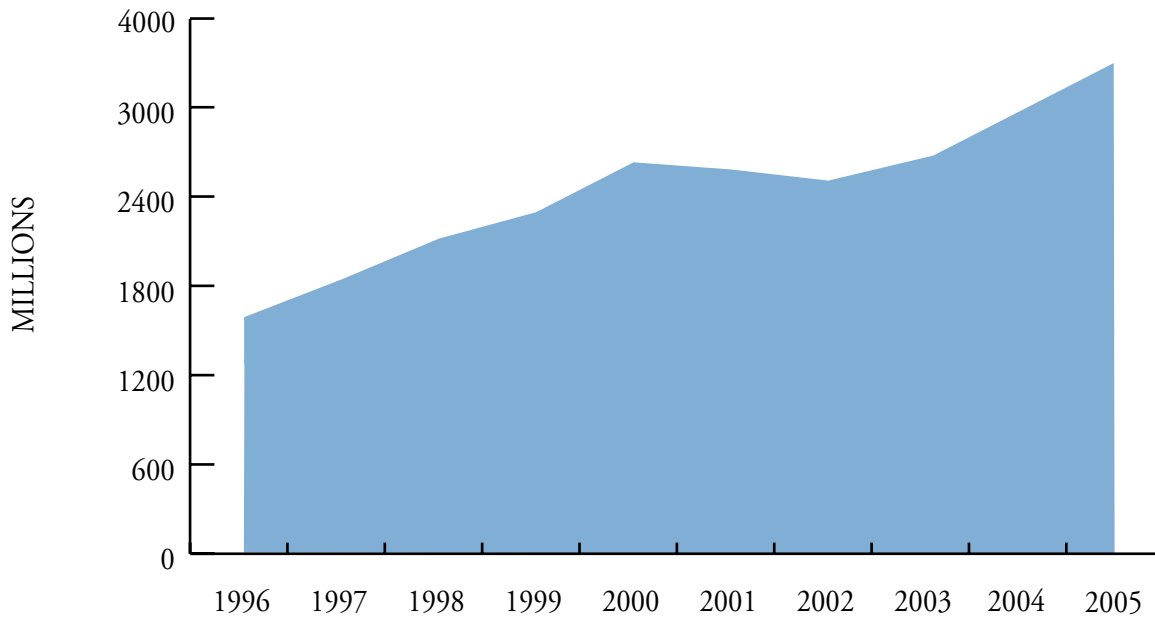
2004

<u>Rank</u>	<u>Brokerage Firm</u>	<u>Number of Shares</u>	<u>Total Commissions</u>	<u>Commission Per Share</u>
1	Goldman Sachs & Company	18,173,841	\$1,217,364	\$0.067
2	Morgan Stanley & Co.	16,119,780	852,664	0.053
3	Citigroup Global Markets, Inc.	20,294,551	769,965	0.038
4	UBS PaineWebber, Inc.	13,656,555	522,326	0.038
5	Merrill Lynch & Co., Inc.	22,675,147	436,983	0.019
6	Investment Technology Group, Inc.	18,109,653	342,577	0.019
7	ABN AMRO	9,823,203	312,020	0.032
8	Bear Stearns & Co., Inc.	8,749,017	296,942	0.034
9	Lehman Brothers, Inc.	7,740,983	271,961	0.035
10	Credit Suisse First Boston Corp.	7,560,475	220,389	0.029
11	Jefferies & Company, Inc.	7,675,409	197,641	0.026
12	Bank of America Securities LLC	4,141,665	193,506	0.047
13	Wells Fargo Securities LLC	5,318,426	183,248	0.034
14	Westminster	2,531,394	148,041	0.058
15	Wachovia Securities, LLC	3,229,586	147,669	0.046
16	Cantor Fitzgerald & Co.	5,168,101	135,404	0.026
17	Charles Schwab & Co. LLC	2,764,803	123,608	0.045
18	BNY Clearing Services LLC	4,415,625	105,986	0.024
19	Deutsche Bank Securities, Inc.	3,568,840	104,208	0.029
20	Standard & Poors Securities, Inc.	1,619,106	87,853	0.054
21	JP Morgan Securities, Inc.	1,732,252	85,822	0.050
22	Keefe Bruyette & Woods, Inc.	1,720,757	85,414	0.050
23	CIBC World Markets Corp.	1,985,447	84,292	0.042
24	Pershing LLC	1,603,991	72,712	0.045
25	Broadcort Capital	1,136,842	64,840	0.057
	All Other Brokers	51,893,463	1,674,951	0.032
	Totals	243,408,912	\$8,738,385	\$0.036

Investment Section

San Diego City Employees' Retirement System Growth of Investments, At Fair Value

For Ten Years Ended June 30, 2005

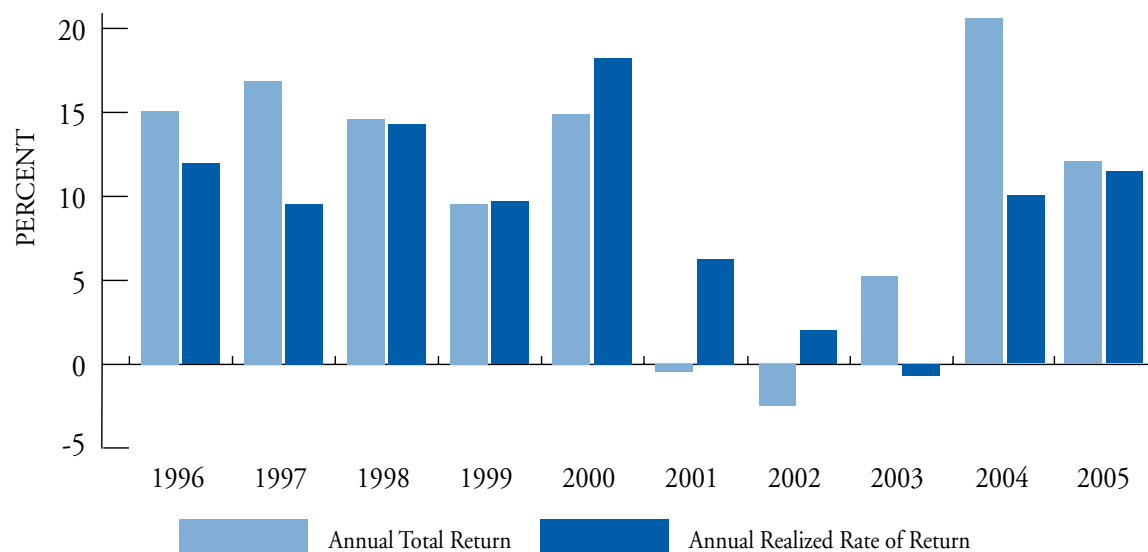


<u>Fiscal Year</u>	<u>Fair Value¹</u>
1996	1,590,285,263
1997	1,843,391,624
1998	2,116,909,236
1999	2,295,022,045
2000	2,629,874,234
2001	2,582,009,762
2002	2,507,014,627
2003	2,656,058,457
2004	3,240,852,574
2005	3,450,751,987

¹ Fair 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 Historical Investment Performance

For Ten Fiscal Years Ended June 30, 2005



<u>Fiscal Year</u>	<u>Annual Total Return</u>	<u>Annual Realized Rate of Return</u>
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)%
2004	20.21%	9.76%
2005	10.80%	10.02%

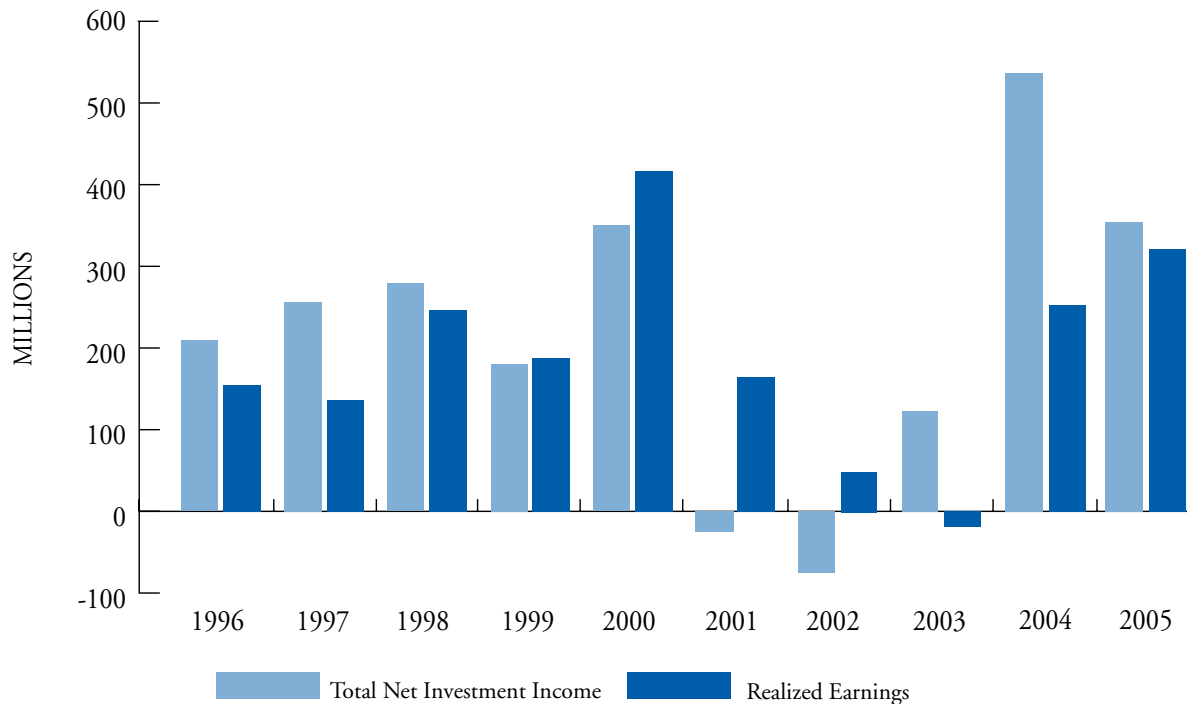
Annual Total Return measures fund performance in terms of the aggregate change in SDCERS' market value of investments from the beginning of the measurement period to the end of the measurement period. The Annual Realized Rate of Return measures the gains or losses from actual sales of invested assets plus dividends and income earned during the period. The payment of certain SDCERS' contingent retirement benefits is dependent upon the level of annual realized earnings. For further information, please see the Notes to the Financial Statements in the Financial Section of this CAFR.

Investment Section

San Diego City Employees' Retirement System

Historical Investment Performance (continued)

For Ten Fiscal Years Ended June 30, 2005



Net Investment Income Income earned as of June 30 each year

<u>Fiscal Year</u>	<u>Total Net Investment Income</u>	<u>Realized Earnings¹</u>
1996	209,227,674	155,077,454
1997	255,998,283	136,687,652
1998	278,681,878	246,768,067
1999	180,463,938	187,942,463
2000	349,654,651	417,057,074
2001	(25,126,082)	164,115,281
2002	(75,934,760)	49,082,291
2003	122,729,552	(18,644,596)
2004	536,317,974	260,239,046
2005	349,310,948	310,061,227

¹ Realized Earnings are depicted in this historical schedule as the payment of certain SDCERS' contingent benefits are dependent upon the level of annual realized earnings generated 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

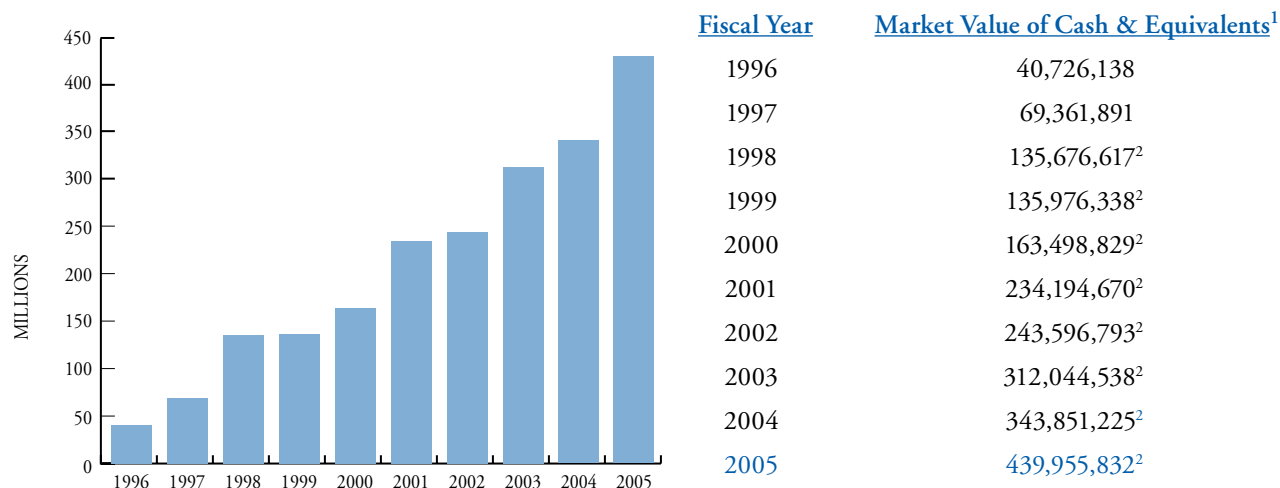
Values Stated on a Trade Date Basis, Gross of Pending Transactions

For Ten Fiscal Years Ended June 30, 2005

Cash & Cash Equivalent Holdings

Valuation done June 30 each year

Cash and Cash Equivalents are investments with maturities of 90 days or less



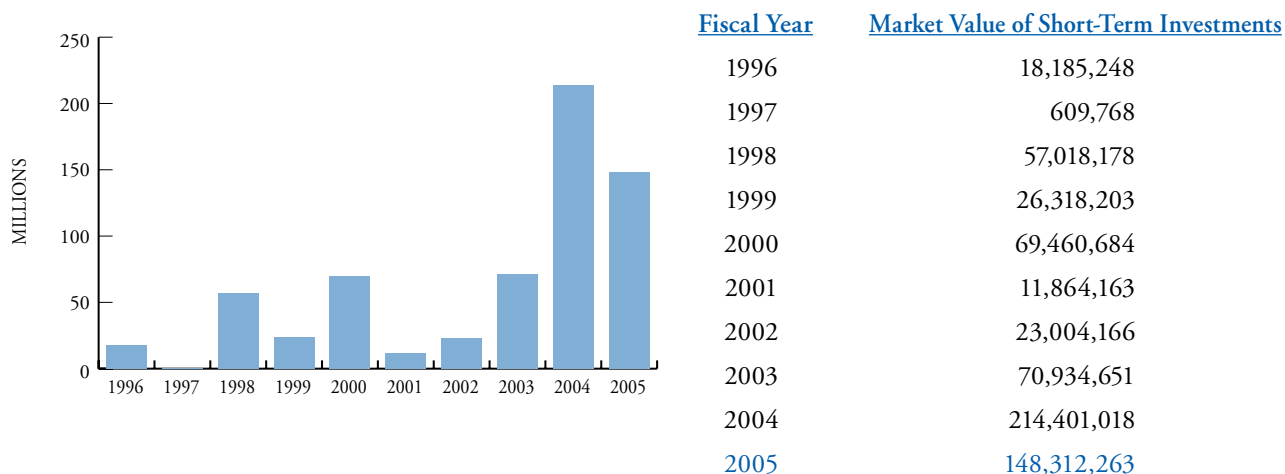
¹ SDCERS does not have a target allocation to cash. In accordance with GASB Statement No. 25, assets are classified by security type; therefore, residual cash held in an investment manager's portfolio is reported here.

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 unsecuritized 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



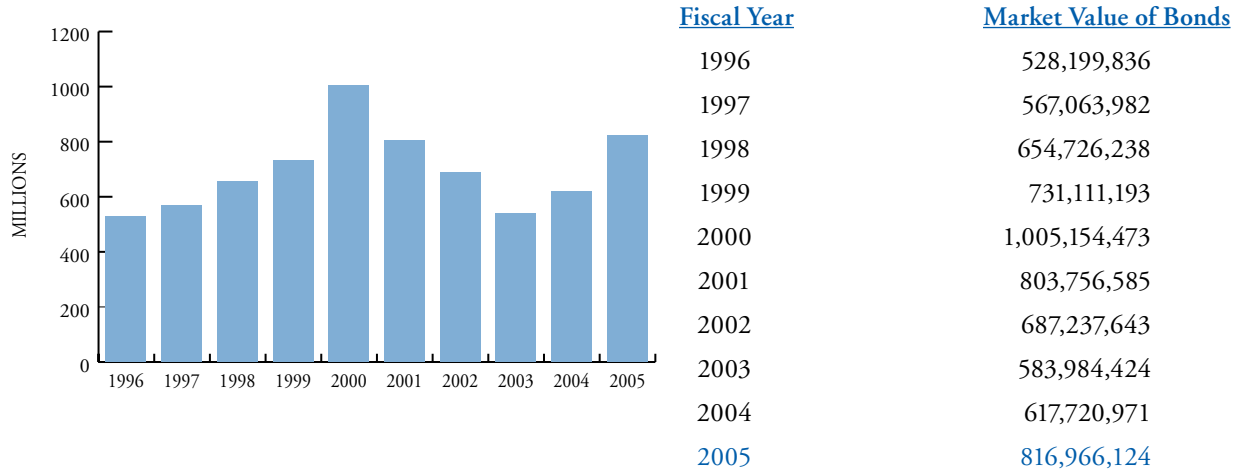
Investment Section

San Diego City Employees' Retirement System Historical Asset Holdings Information (continued)

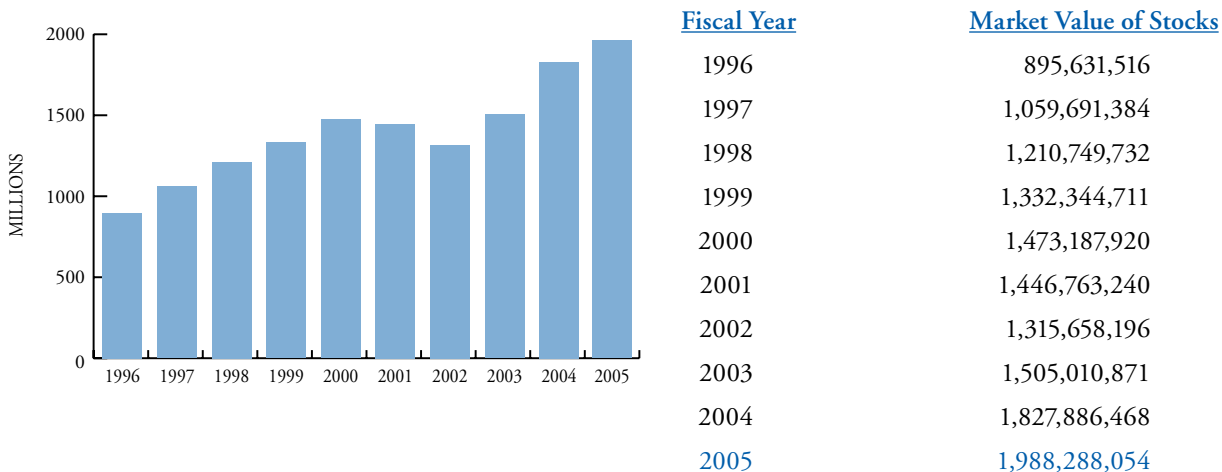
Values Stated on a Trade Date Basis, Gross of Pending Transactions

For Ten Fiscal Years Ended June 30, 2004

Domestic and International Fixed Income (Bond) Holdings Valuation done June 30 each year



Domestic and International Equity (Stock) Holdings Valuation done June 30 each year

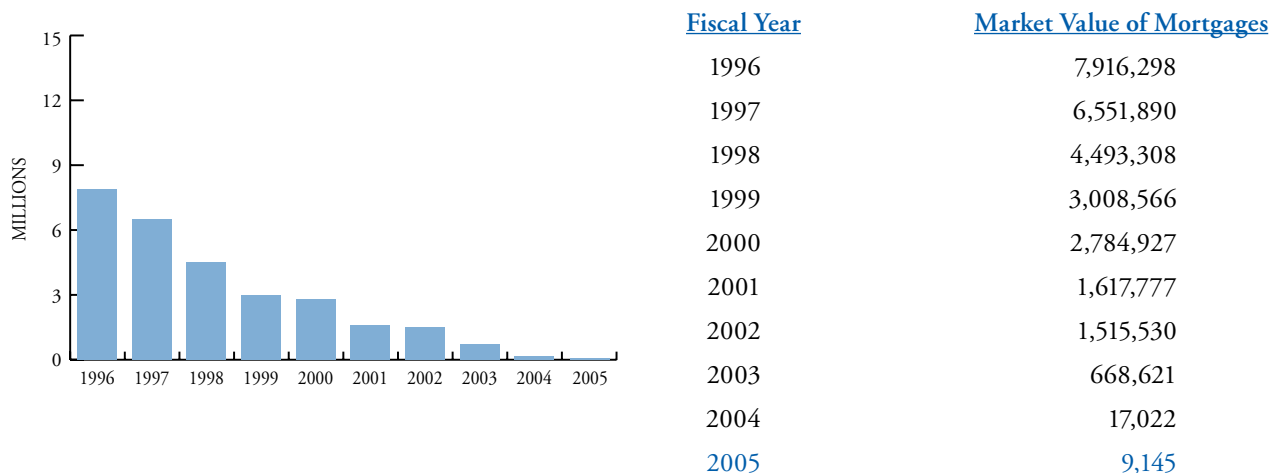


San Diego City Employees' Retirement System Historical Asset Holdings Information (continued)

Values Stated on a Trade Date Basis, Gross of Pending Transactions
For Ten Years Ended June 30, 2004

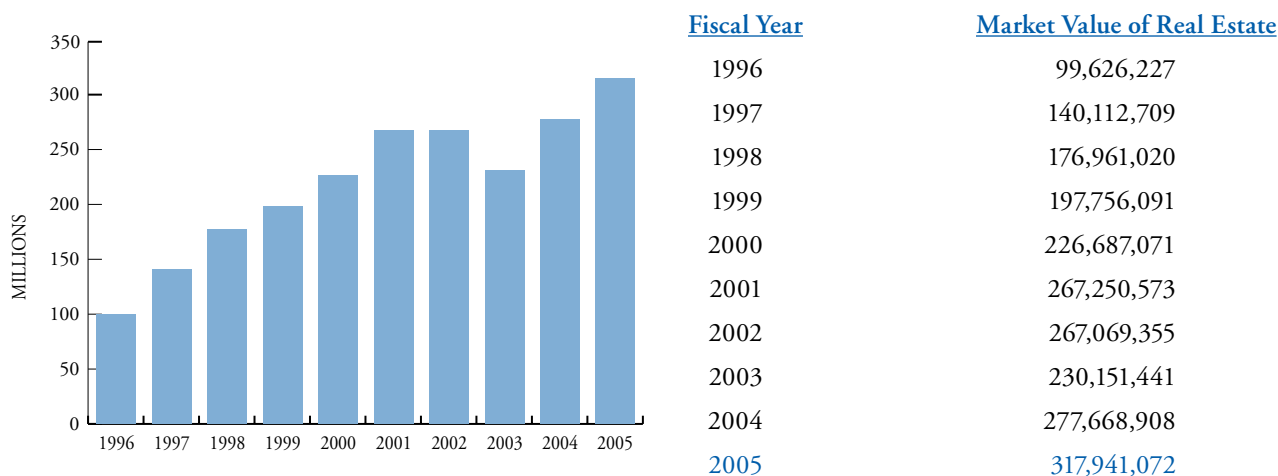
Mortgage Holdings

Valuation done June 30 each year



Real Estate Holdings (includes REITs)

Valuation done June 30 each year¹



¹ Market value of real estate portfolio is lagged by up to two quarters. Values may be slightly higher or lower than what was experienced on June 30 for FY 1996-2002 due to any appraisal activity. Values for FY 2003, FY 2004 and FY 2005 are correctly stated as of June 30 for each year.

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IV. Actuarial Section



Actuary's Certification Letter



Classic Values, Innovative Advice

April 26, 2007

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

Dear Members of the Board:

Actuarial valuations for the San Diego City Employees' Retirement System (SDCERS) are performed annually. The results of the June 30, 2005 actuarial valuation of SDCERS are summarized in this letter.

Funding Objective

The funding objective of SDCERS is to establish contribution rates which, over time, will remain level as a percent of payroll. Under this approach the contribution rate is based on the normal cost rate and a 28 year amortization of any Unfunded Actuarial Liability (UAL) for the City, and 16 year amortization of any UAL for both the Unified Port District and the Airport Authority.

Assumptions

The actuarial assumptions used in performing the June 30, 2005 valuation were recommended by the prior actuary based on their review of SDCERS experience for the four year period ending June 30, 2001 and adopted by the Board of Trustees. The assumptions as a whole represent our best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of SDCERS could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*.

Reliance on Others

In preparing our report, we relied without audit, on information (some oral and some written) supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year's data.

Supporting Schedules

Using historically provided information from the prior actuary along with 2005 results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and the Statistical Section.



Compliance with Code of San Diego §24.0100-0200 and Charter section 149

We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the San Diego Unified Port District and the San Diego Airport Authority.

Certification

I, Gene Kalwarski, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

I certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principals and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board and Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. As such, it reflects the actuary's responsibility under Section 5.8 of ASOP No. 4 "for assessing the implications of the overall results, in terms of short- and long-range benefit security and expected cost progression."

Sincerely,
Cheiron



Gene Kalwarski, FSA
Consulting Actuary

San Diego City Employees' Retirement System Summary of Valuation Results

Overview

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of the System,
- Historical trends in the financial condition of the System,
- The SDCERS contribution rates, and
- Information required by the Governmental Accounting Standards Board (GASB).

On the pages that follow, we present:

1. The actuary's general comments on the valuation;
2. Historical trends showing the System's funding progress and contributions;
3. Detailed information on employer and employee contribution rates;
4. Summary of actuarial assumptions and methods;
5. Schedule of membership data;
6. Schedule of retirees and beneficiaries;
7. Solvency test;
8. Analysis of financial experience;
9. Summary of SDCERS benefit provisions; and
10. Various tables needed to support the statistical section.

San Diego City Employees' Retirement System Summary of Valuation Results (continued)

1. General Comments

This valuation represents Cheiron's first valuation performed for SDCERS. Before completing this valuation, it was necessary to recalculate the prior year's valuation performed by Gabriel Roeder Smith (GRS) and be able to replicate those results within tolerable limits. Our recalculation produced costs and liabilities within the range of permitted tolerance required by the IRS (5%) for matching a prior actuary's valuation work in the private sector.

Our next step in performing the June 30, 2005 valuation was to evaluate the methods and assumptions used and benefits valued in the prior valuation. Our analyses of several factors lead us to conclude and recommend to the Board that this June 30, 2005 actuarial valuation be performed on the same basis as the June 30, 2004 valuation.

The funding methodology employed is the **Projected Unit Credit Cost Method**. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost represents for each active participant, the present value as of the valuation date of that portion of the projected benefit assigned to the current year. Subtracting from the normal cost the expected employee contribution for the year yields the employer's normal cost contribution. The difference between the PUC Actuarial Liability and the actuarial value of assets is the unfunded actuarial liability.

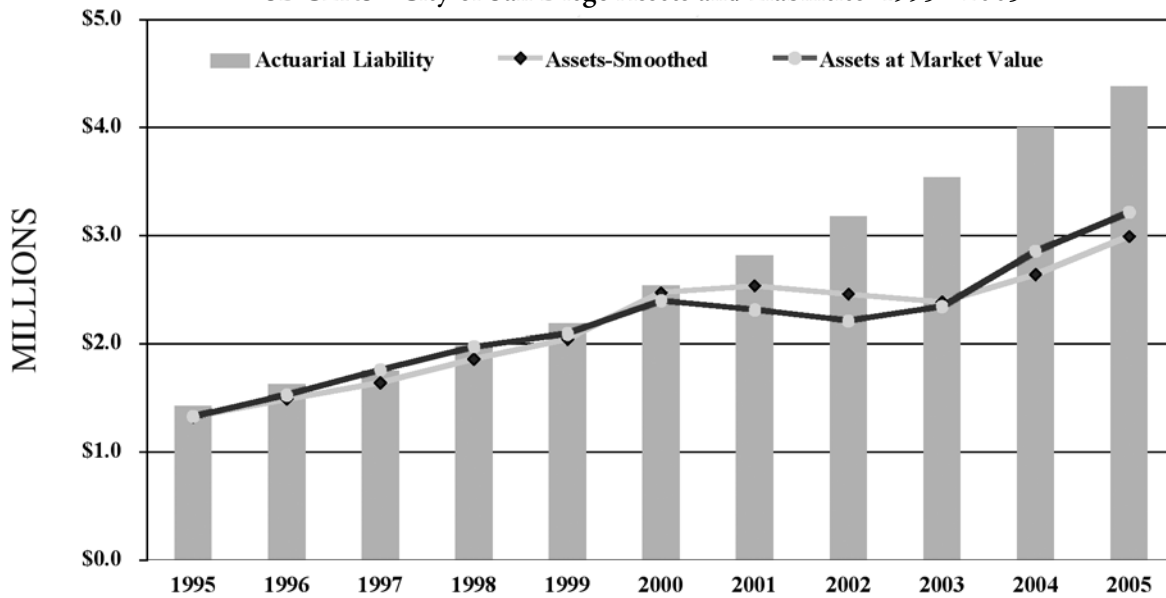
The City's June 30, 2005 UAL is amortized over 28 years. The Unified Port District and the Airport Authority's June 30, 2005 UAL is amortized over 16 years.

San Diego City Employees' Retirement System
 Summary of Valuation Results (continued)

2. Historical Trends

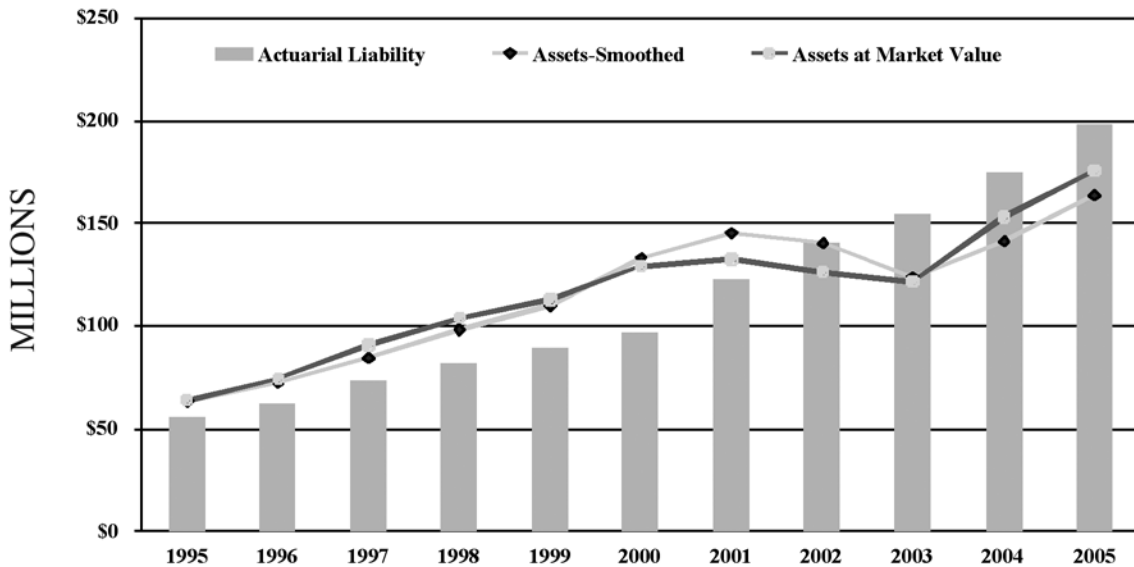
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 1995 - 2005



Funded Ratio	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Funded Ratio	92.7%	91.4%	93.3%	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%
UAL	\$0.10	\$0.14	\$0.12	\$0.13	\$0.15	\$0.07	\$0.28	\$0.72	\$1.16	\$1.37	\$1.39

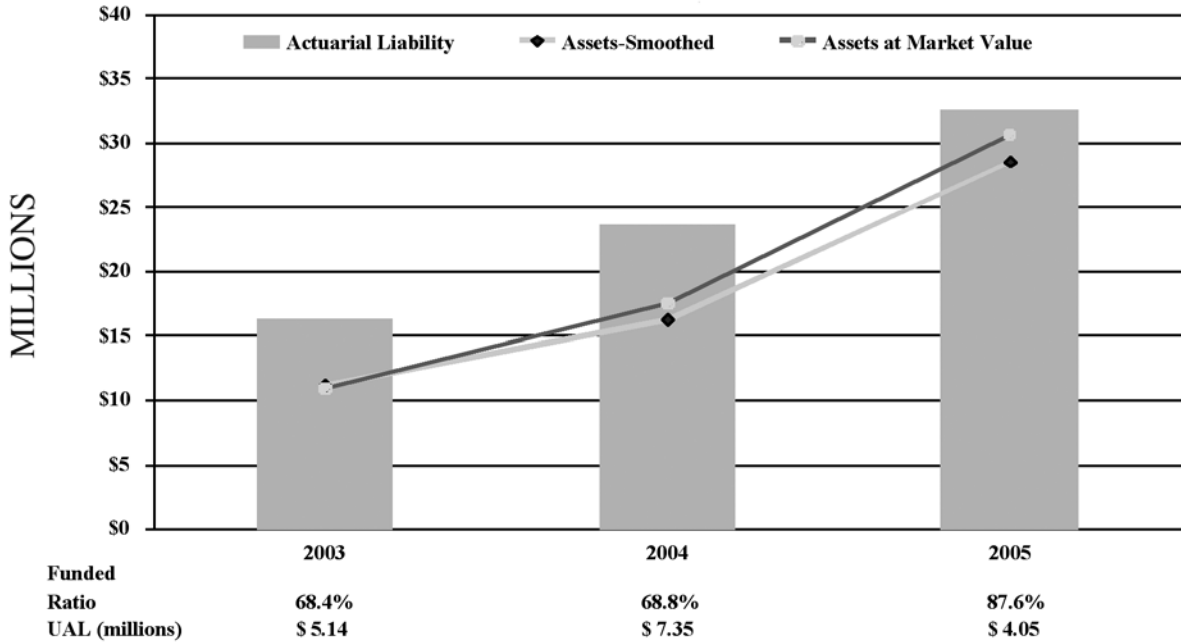
SDCERS - Unified Port District Assets and Liabilities 1995 - 2005



Funded Ratio	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Funded Ratio	114.4%	116.5%	114.9%	120.1%	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%
UAL	\$ (7.97)	\$ (10.28)	\$ (10.95)	\$ (16.37)	\$ (20.50)	\$ (36.02)	\$ (22.15)	\$ (0.42)	\$ 30.42	\$ 33.99	\$ 34.38

San Diego City Employees' Retirement System
 Summary of Valuation Results (continued)

SDCERS - Unified Port District Assets and Liabilities 1995 - 2005

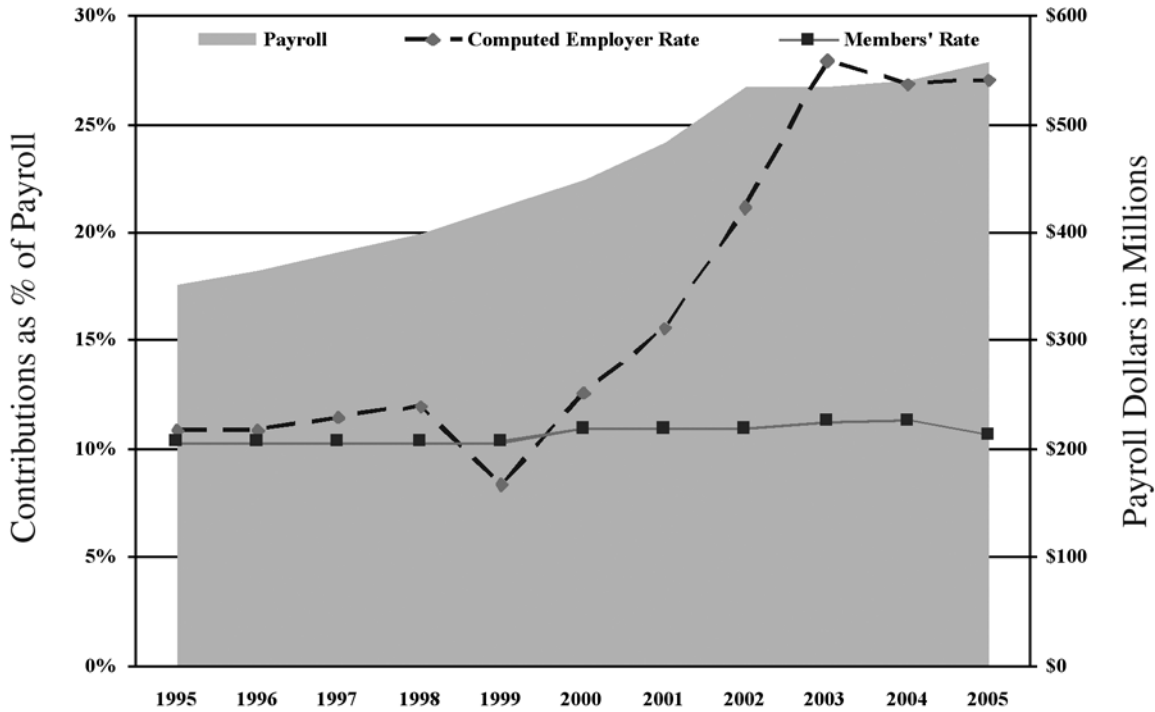


For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

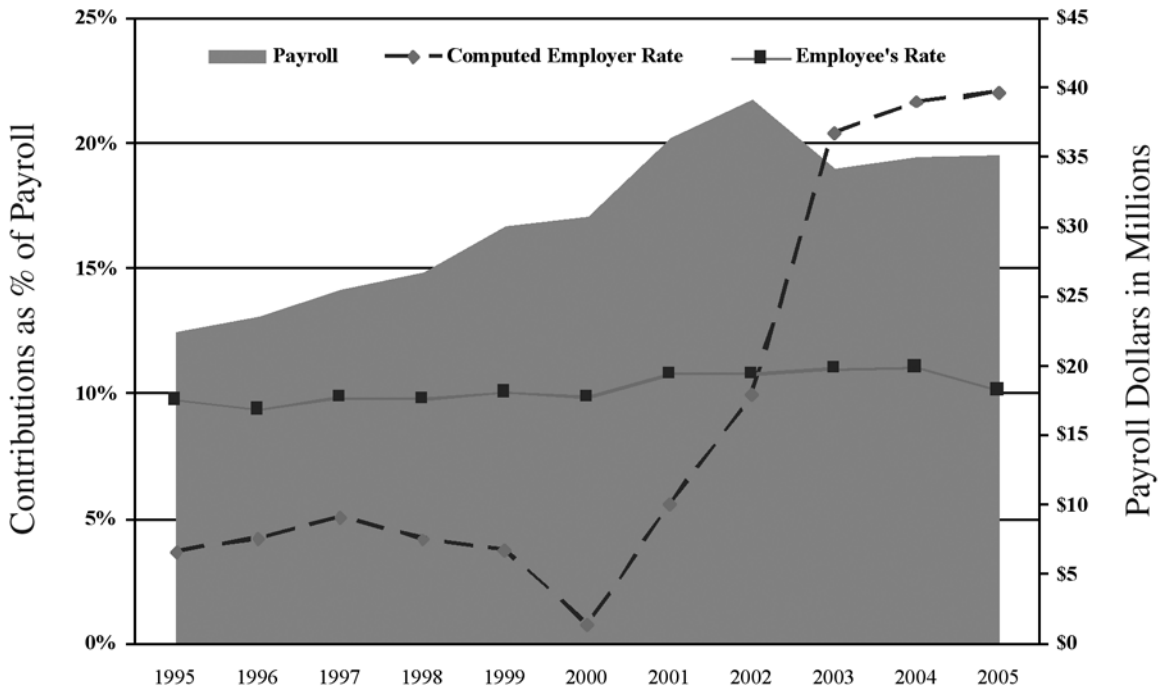
As you can see, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade.

San Diego City Employees' Retirement System
 Summary of Valuation Results (continued)

SDCERS - City of San Diego and Member Contribution Rates 1995 - 2005

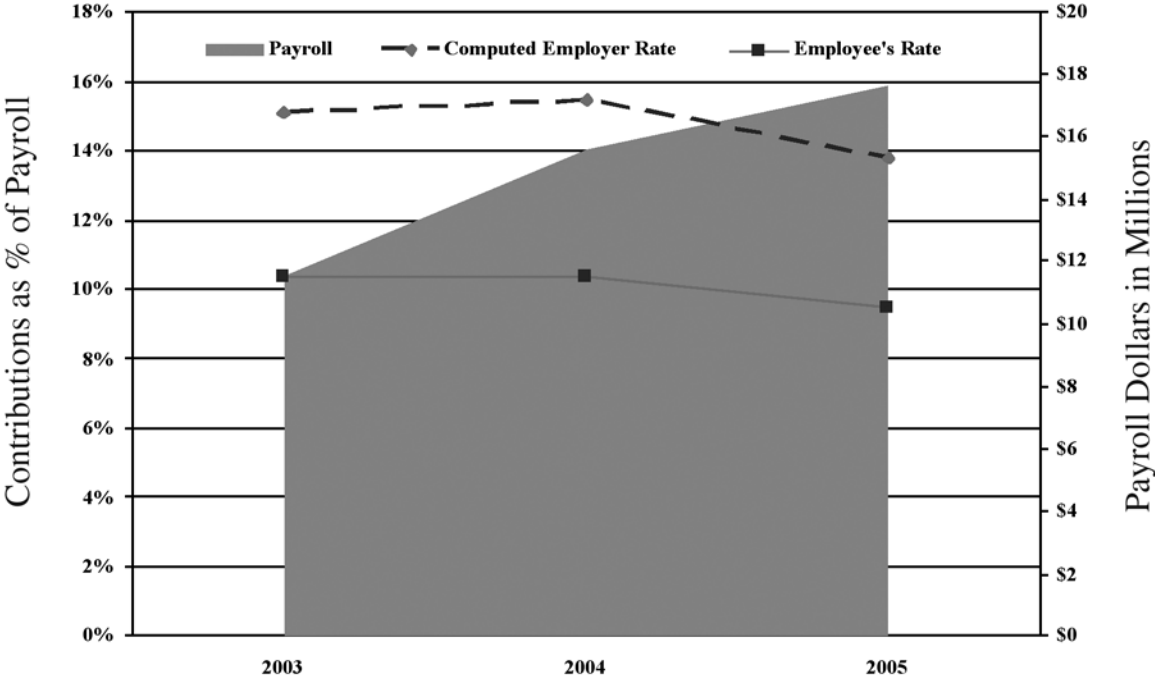


SDCERS - Unified Port District and Member Contribution Rates 1995 - 2005



San Diego City Employees' Retirement System
 Summary of Valuation Results (continued)

SDCERS - Airport Authority and Member Contribution Rates 1995 - 2005



The grey area shows the payroll (right hand scale). The dotted black line shows the contributions made by both the employees (left hand scale). The light-gray line shows the Employer contribution rate as a percent of payroll (left hand scale).

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System Summary of Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Item	June 30, 2005	June 30, 2004 ¹	% Change
Unfunded Actuarial Liability (millions)	\$1,394.0	\$1,368.65	1.9%
Funding Ratio- using assets smoothed	68.20%	65.80%	
Fiscal Year	2007	2006	
City Contribution Rate during year	28.06%	27.91%	
City Contribution Rate start of year	27.00%	26.86%	
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	\$162 million	n/a	
• if paid throughout the year	\$168 million	n/a	

SDCERS - City of San Diego - Membership Total

Item	June 30, 2005	June 30, 2004 ¹	% Change
Active Counts	9,436	9,749	(3.2%)
Terminated Vesteds	1,998	1,884	6.1%
Disabled	1,239	1,247	(0.6%)
Retirees	3,728	3,480	7.1%
Beneficiaries	1,028	996	3.2%
Total City Members	17,429	17,356	0.4%
Active Member Payroll	\$557,630,735	\$540,108,941	3.2%
Average Pay per Active Member	59,096	55,409	6.7%
Annual Benefits Paid	\$188,991,695	n/a	n/a

SDCERS - City of San Diego - Assets & Liabilities

Item	June 30, 2005	June 30, 2004 ¹	% Change
Actives	\$2,058,660,269	\$1,950,338,311	5.6%
Terminated Vesteds	135,169,560	100,329,445	34.7%
Disabled	344,346,695	*	n/a
Retirees	1,737,804,362	1,946,660,328	12.2%
Beneficiaries	101,112,062	*	n/a
Total Actuarial Liability	4,377,092,948	3,997,328,084	9.5%
Market Value Assets	\$3,205,721,975	\$2,847,479,155	12.6%
Actuarial Value Assets	2,983,079,852	2,628,680,052	13.5%
Unfunded Actuarial Liability	\$1,394,013,096	\$1,368,648,032	1.9%
Funding Ratio-Actuarial Value	68.2%	65.8%	3.6%

SDCERS - City of San Diego - Contributions

Item	June 30, 2005	June 30, 2004 ¹	% Change
Gross Normal Cost %	24.90%	24.98%	(0.3%)
Member Cost %	10.61%	11.33%	(6.4%)
Employer Normal Cost %	14.29%	13.65%	4.7%
Employer Unfunded Cost %	13.77%	14.26%	(3.4%)
Total Employer Cost %	28.06%	27.91%	0.5%
Employer Cost % Beginning of Year	27.00%	26.86%	0.5%

¹ The June 30, 2004 valuation information was provided by GRS, the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System

Summary of Valuation Results (continued)

SDCERS - Unified Port District

Item	June 30, 2005	June 30, 2004 ¹	% Change
Unfunded Actuarial Liability (millions)	\$34.40	\$33.99	1.1%
Funding Ratio- using assets smoothed	82.60%	80.60%	
Fiscal Year	2007	2006	
City Contribution Rate during year	22.86%	22.48%	
City Contribution Rate start of year	22.00%	21.63%	
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	\$8.3 million	n/a	
• if paid throughout the year	\$8.6 million	n/a	

SDCERS - Unified Port District - Membership Total

Item	June 30, 2005	June 30, 2004 ¹	% Change
Active Counts	558	575	(3.0%)
Terminated Vesteds	250	228	9.6%
Disabled	60	59	1.7%
Retirees	192	180	6.7%
Beneficiaries	54	51	5.9%
Total City Members	1,114	1,093	1.9%
Active Member Payroll	\$35,077,367	\$34,915,741	0.5%
Average Pay per Active Member	62,863	60,723	3.5%
Annual Benefits Paid	\$8,686,978	n/a	n/a

SDCERS - Unified Port District - Assets & Liabilities

Item	June 30, 2005	June 30, 2004 ¹	% Change
Actives	\$101,504,753	\$92,635,727	9.6%
Terminated Vesteds	10,324,670	6,736,830	53.3%
Disabled	12,722,419	*	*
Retirees	67,889,543	75,993,641	13.5%
Beneficiaries	5,630,515	*	*
Total Actuarial Liability	198,071,900	175,366,198	12.9%
Market Value Assets	\$175,908,318	\$153,009,204	15.0%
Actuarial Value Assets	163,691,226	141,374,886	15.8%
Unfunded Actuarial Liability	\$34,380,674	\$33,991,312	1.1%
Funding Ratio-Actuarial Value	82.6%	80.6%	2.5%

SDCERS - Unified Port District - Contributions

Item	June 30, 2005	June 30, 2004 ¹	% Change
Gross Normal Cost %	25.09%	25.75%	(2.6%)
Member Cost %	10.09%	11.05%	(8.7%)
Employer Normal Cost %	15.00%	14.70%	2.0%
Employer Unfunded Cost %	7.86%	7.78%	1.0%
Total Employer Cost %	22.86%	22.48%	1.7%
Employer Cost % Beginning of Year	22.00%	21.63%	1.7%

¹ The June 30, 2004 valuation information was provided by GRS, the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System Summary of Valuation Results (continued)

SDCERS - Airport Authority

Item	June 30, 2005	June 30, 2004 ¹	% Change
Unfunded Actuarial Liability (millions)	\$4.10	\$7.40	(44.9%)
Funding Ratio- using assets smoothed	87.60%	68.80%	
Fiscal Year	2007	2006	
City Contribution Rate during year	14.30%	16.01%	
City Contribution Rate start of year	13.76%	15.41%	
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	\$2.6 million	n/a	
• if paid throughout the year	\$2.7 million	n/a	

SDCERS - Airport Authority - Membership Total

Item	June 30, 2005	June 30, 2004 ¹	% Change
Active Counts	284	265	7.2%
Terminated Vesteds	26	12	116.7%
Disabled	-	-	0.0%
Retirees	7	3	133.3%
Beneficiaries	-	-	0.0%
Total City Members	317	280	13.2%
Active Member Payroll	\$17,608,879	\$15,605,857	12.8%
Average Pay per Active Member	62,003	58,890	5.3%
Annual Benefits Paid	\$271,965	n/a	n/a

SDCERS - Airport Authority - Assets & Liabilities

Item	June 30, 2005	June 30, 2004 ¹	% Change
Actives	\$28,731,396	\$22,539,642	27.5%
Terminated Vesteds	1,158,282	243,555	375.6%
Disabled	-	*	n/a
Retirees	2,713,220	795,263	241.2%
Beneficiaries	-	*	n/a
Total Actuarial Liability	32,602,898	23,578,460	38.3%
Market Value Assets	\$30,682,414	\$17,559,7355	74.7%
Actuarial Value Assets	28,551,475	16,224,550	76.0%
Unfunded Actuarial Liability	\$4,051,423	\$7,353,910	(44.9%)
Funding Ratio-Actuarial Value	87.6%	68.8%	27.3%

SDCERS - Airport Authority - Contributions

Item	June 30, 2005	June 30, 2004 ¹	% Change
Gross Normal Cost %	21.92%	22.56%	(2.8%)
Member Cost %	<u>9.46%</u>	<u>10.31%</u>	(8.2%)
Employer Normal Cost %	12.46%	12.25%	1.7%
Employer Unfunded Cost %	<u>1.84%</u>	<u>3.76%</u>	(51.1%)
Total Employer Cost %	14.30%	16.01%	(10.5%)
Employer Cost % Beginning of Year	13.76%	15.41%	(10.7%)

¹ The June 30, 2004 valuation information was provided by GRS, the prior actuary. Chevron is not responsible for this information.

San Diego City Employees' Retirement System Summary of Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The funding method used for GASB disclosure purposes is the Projected Unit Credit Cost Method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution.

The normal cost represents for each active participant, the present value as of the valuation date of that portion of the projected benefit assigned to the current year. Subtracting from the normal cost the expected employee contribution for the year yields the employer's normal cost contribution.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

City of San Diego

The current Unfunded Actuarial Liability is amortized over 28 years as of the 6/30/2005 valuation. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

Unified Port District and San Diego Regional County Airport Authority

The current Unfunded Actuarial Liability is amortized over 16 years as of the 6/30/2005 valuation. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

The System's contributions are calculated using the same basic actuarial method (PUC).

B. Actuarial Value of Assets

For purposes of determining the System's contribution to the plan, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate the average over the past 5 years of the ratio of net book value to net market value. The current book value is then multiplied by this average percentage. The assets for all contributing employers are commingled for investment purposes. The assets are apportioned amongst the three contributing employers, and then amongst the different member groups.

C. Changes Since Last Valuation

There have been no changes since the last valuation to the Funding Method or Actuarial Value of Assets.

San Diego City Employees' Retirement System
Summary of Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

All members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female).

Rates of Mortality for Active Lives at Selected Ages

Age	General		Safety
	Male	Female	
20	0.04%	0.02%	0.04%
25	0.05	0.03	0.05
30	0.07	0.03	0.05
35	0.09	0.04	0.09
40	0.09	0.05	0.09
45	0.12	0.08	0.12
50	0.17	0.10	0.17
55	0.28	0.15	0.28
60	0.48	0.25	0.48
65	0.86	0.48	0.86
70	1.56	0.93	1.56

All active member deaths are assumed to be duty related for Safety members and not duty-related for other members.

All retired healthy members use the Uninsured Pensioner 1994 (UP1994) table set back 2 years (male and female).

Rates of Mortality for Retired Healthy Lives at Selected Ages

Age	Male	Female
40	0.10%	0.06%
45	0.15	0.09
50	0.23	0.13
55	0.39	0.21
60	0.68	0.36
65	1.23	0.72
70	2.14	1.26
75	3.35	1.97
80	5.40	3.41
85	8.87	5.90
90	13.65	10.09

San Diego City Employees' Retirement System

Summary of Valuation Results (continued)

Disabled members use the Uninsured Pensioner 1994 (UP1994) male only table set forward five years.

Rates of Mortality for Disabled Lives at Selected Ages

Age	General	Safety
20	0.07%	0.06%
25	0.09	0.08
30	0.09	0.09
35	0.12	0.10
40	0.17	0.13
45	0.28	0.20
50	0.48	0.35
55	0.86	0.60
60	1.56	1.09
65	2.55	1.94
70	4.00	3.06

Termination of Employment: (Prior to Normal Retirement Eligibility)

Rates of Termination at Selected Ages and Service

Service	Age	General	Safety
0	All	5.63%	2.20%
1	All	5.53	2.20
2	All	4.33	2.15
3	All	4.33	2.05
4	All	4.24	2.00
5 & Over	20	4.62	2.12
	25	4.62	2.12
	30	3.13	1.48
	35	2.32	0.93
	40	1.60	0.39
	45	1.34	0.20
	50	1.03	0.07
	55	0.77	0.03
	60	0.00	0.00

20% of terminating employees, with 5+ 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
Summary of Valuation Results (continued)

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.06%	0.54%
25	0.08	0.60
30	0.10	0.65
35	0.16	0.71
40	0.22	0.90
45	0.33	1.15
50	0.50	1.25
55	0.75	1.50
60	0.97	-

70% of the disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

Family Composition

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be four years younger than the male spouse.

San Diego City Employees' Retirement System
Summary of Valuation Results (continued)

*Retirement***Rates of Retirement at Selected Ages**

Age	General	Elected Officials	Safety
50	-	-	10%
51	-	-	10
52	-	-	10
53	-	15%	10
54	-	1	20
55	20%	5	40
56	10	3	40
57	10	4	40
58	15	5	50
59	15	6	80
60	20	60	85
61	25	25	90
62	50	37	100
63	40	23	100
64	25	34	100
65	50	68	100
66	40	69	100
67	40	74	100
68	40	80	100
69	40	90	100
70	100	100	100

In addition, if a Safety member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members in the City, we assume that retirement will occur provided they have at least 10 years of service (four years for Elected Officers) on the later of attained age or:

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

Elected Officers: Earlier at age 55 or age 53 and 8+ years of service.

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

For vested deferred members in the Unified Port District and the Airport Authority, we assume that retirement will occur provided they have at least five years of service (excluding the five year permissible purchased 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 member's contributions with interest.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System Summary of Valuation Results (continued)

E. Economic Assumptions

Investment Return: 8.0% compounded per annum, net of expenses.

**Interest Credited to
Member Contributions:** 8.0% compounded per annum.

Rate of Wage Increase: 4.25% compounded per annum.

**Additional Merit
Wage Increase:**

Years of Service at Valuation Date	General	Safety
0	4.50%	7.50%
1	3.50%	6.50%
2	2.50%	5.50%
3	1.50%	3.00%
4	0.50%	1.50%
5+	0.50%	0.50%

**Rate of Increase in
Cost-of-Living:** 2.00% compounded per annum.
4.25% compounded per annum for a closed group of 98 special City safety officers.

**Total Payroll Increase
(For amortization):** 4.25% compounded per annum.

COLA Annuity Benefit: For active members, there is a 2.5% load on valued benefits for the City and the Unified Port District and 2.0% load for the Airport Authority. This is to anticipate the impact of the annuitized employee COLA contributions at retirement.

F. Changes Since Last Valuation

There have been no changes since the last valuation to the Demographic or Economic Assumptions.

San Diego City Employees' Retirement System Schedule of Active Member Valuation Data

SDCERS - City of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2005	9,436	\$557,630,735	\$59,096	6.65%
6/30/2004	9,749	540,180,941	55,409	4.88
6/30/2003	10,100	533,595,405	52,831	2.76
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

SDCERS - Unified Port of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2005	558	\$35,077,367	\$62,863	3.52%
6/30/2004	575	34,915,741	60,723	8.24
6/30/2003	609	34,163,647	56,098	0.00
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

SDCERS - San Diego County Regional Airport Authority

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2005	284	\$17,608,879	\$62,003	5.29%
6/30/2004	265	15,605,857	58,890	5.80
6/30/2003	208	11,577,127	55,659	8.54
12/31/2002	173	8,871,283	51,279	n/a

Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System
 Schedule of Retirees and Beneficiaries
 Added to and Removed From Rolls

SDCERS - City of San Diego

Valuation Date	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowance
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/05	443	\$18,168,020	58.6	171	\$2,342,920	80.4	5,995	\$180,189,027	67.1	11.71%	\$30,057
6/30/04	434	16,057,596	59.0	178	2,634,535	79.8	5,723	161,294,618	67.2	11.30	28,184
6/30/03	470	22,966,042	n/a	146	2,035,123	n/a	5,467	144,916,588	67.2	19.22	26,508
6/30/02	168	6,924,718	n/a	37	479,153	n/a	5,143	121,554,577	67.2	7.92	23,635
6/30/01	386	15,610,998	n/a	163	1,918,967	n/a	5,012	112,637,558	67.7	18.13	22,474
6/30/00	251	8,798,554	n/a	119	1,273,240	n/a	4,789	95,348,751	68.1	8.57	19,910

SDCERS - Unified Port of San Diego

Valuation Date	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowance
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/05	20	\$786,944	59.0	4	\$38,109	81.2	306	\$7,652,853	68.5	12.86%	\$25,009
6/30/04	26	895,159	61.8	10	135,199	76.7	290	6,780,541	68.3	15.08	23,381
6/30/03	15	520,260	n/a	19	454,851	n/a	274	5,892,202	68.2	3.15	21,504
12/31/02	26	901,784	n/a	11	449,156	n/a	278	5,712,542	68.6	8.61	20,549
6/30/02	18	532,224	n/a	1	16,552	n/a	263	5,259,914	68.4	21.00	20,000
6/30/01	9	241,083	n/a	5	121,845	n/a	246	4,346,932	68.3	4.88	17,670
6/30/00	11	302,123	n/a	1	10,818	n/a	242	4,144,798	68.5	9.71	17,127

SDCERS - San Diego County Regional Airport Authority

Valuation Date	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowance
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/05	4	\$147,730	61.9	-	-	n/a	7	\$220,945	64.9	207.81%	\$31,564
6/30/04	2	46,165	66.6	-	-	n/a	3	71,779	67.1	185.84	23,926
6/30/03	1	25,112	n/a	-	-	n/a	1	25,112	66.1	-	25,112
6/30/02	-	-	n/a	-	-	n/a	-	-	-	-	-

Results from 6/30/2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

**San Diego City Employees' Retirement System
Solvency Test**

Aggregate Accrued Liabilities for **City of San Diego**

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets ¹	(1)	(2)	(3)
6/30/05	\$457,550	\$2,183,263	\$1,736,279	\$2,983,080	100.00%	100.00%	19.71%
6/30/04	414,986	1,946,660	1,635,681	2,628,680	100.00	100.00	16.33
6/30/03 ⁴	379,284	1,741,490	1,411,852	2,375,431	100.00	100.00	18.04
6/30/02	353,686	1,440,392	1,374,842	2,448,208	100.00	100.00	47.58
6/30/01	296,851	1,337,799	1,174,888	2,525,645	100.00	100.00	75.84
6/30/00 ²	276,352	1,170,075	1,082,347	2,459,815	100.00	100.00	93.63

¹ Actuarial Value of Assets ² Reflects non-contingent Corbett benefit increases ³ Reflects General benefit increases

Unified Port of San Diego

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets ¹	(1)	(2)	(3)
6/30/05	\$15,122	\$86,242	\$96,708	\$163,691	100.00%	100.00%	64.45%
6/30/04	12,885	75,994	86,487	141,375	100.00	100.00	60.70
6/30/03 ⁴	13,264	65,581	75,455	123,884	100.00	100.00	59.69
12/31/02 ³	11,578	63,843	62,403	125,619	100.00	100.00	80.44
6/30/02	12,317	57,650	70,230	140,613	100.00	100.00	100.00
6/30/01	10,754	52,025	60,347	145,278	100.00	100.00	100.00
6/30/00	9,609	44,774	42,777	133,183	100.00	100.00	100.00

¹ Actuarial Value of Assets ² Interim (mid year) actuarial valuation performed due to split of San Diego County Regional Airport Authority from Unified Port of San Diego ³ Reflects General benefit increases

San Diego County Regional Airport Authority

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets ¹	(1)	(2)	(3)
6/30/05	\$4,255	\$2,713	\$25,635	\$28,551	100.00%	100.00%	84.19%
6/30/04	2,935	795	19,848	16,225	100.00	100.00	62.95
6/30/03	1,877	295	14,107	11,142	100.00	100.00	63.59
12/31/02 ²	1,509	0	10,018	11,028	100.00	100.00	95.00

¹ Actuarial Value of Assets ² Interim (mid-year) actuarial valuations performed due to split of San Diego County Regional Airport Authority from Unified Port of San Diego.

Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System

Analysis of Financial Experience

Gain and Loss in Accrued Liability During Years Ended June 30

Resulting from Differences Between Assumed Experience and Actual Experience

SDCERS - City of San Diego

Valuation Date	6/30/2005	6/30/2004
Elements of Experience Gain/(Loss)		
1. Investment Experience		
If there is greater investment income than assumed, there is a gain. If less, there is a loss.	\$82,500,398	\$34,002,415
2. Demographic and Payroll Experience		
Includes Payroll, Turnover, and Retirement different than assumed.	\$(34,818,266)	\$(37,185,394)
3. "Permissive" Purchased Service		
If the contributions to purchase "permissible" service is more than the liability incurred by the purchase service, there is a gain. If less, there is a loss.	\$(7,570,308)	\$(27,100,000)
4. Special Benefit Gain/(Loss)		
Includes 13th Check, <u>Corbett</u> Settlement increase, Supplemental COLA, and Contribution rate increase.	\$(11,743,844)	\$(23,525,467)
5. Other Gain/(Loss)		
Other Corrections/Miscellaneous — If a correction results in a reduction of liability, there is a gain. If an increase, there is a loss.	\$8,407,902	\$(4,315,128)
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	\$3,775,882	\$(58,123,574)
A1. Beginning of Year Actuarial Liability	\$3,997,328,084	\$3,532,625,521
Gain/(Loss) Percentage: A1 divided by A	0.92%	(1.65%)
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	\$(35,852,494)	-
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	-	-
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	\$923,388	\$(58,123,574)

Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Analysis of Financial Experience (continued)
Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

SDCERS - Unified Port District		
Valuation Date	6/30/2005	6/30/2004
Elements of Experience Gain/(Loss)		
1. Investment Experience		
If there is greater investment income than assumed, there is a gain. If less, there is a loss.	\$3,062,374	\$692,000
2. Demographic and Payroll Experience		
Includes Payroll, Turnover, and Retirement different than assumed.	\$(356,557)	\$(3,044,099)
3. "Permissive" Purchased Service		
If the contributions to purchase "permissible" service is more than the liability incurred by the purchase service, there is a gain. If less, there is a loss.	\$(2,343,287)	\$(1,658,000)
4. Special Benefit Gain/(Loss)		
Includes 13th Check, <u>Corbett</u> Settlement increase, Supplemental COLA, and Contribution rate increase.	\$(165,713)	\$(292,000)
5. Other Gain/(Loss)		
Other Corrections/Miscellaneous — If a correction results in a reduction of liability, there is a gain. If an increase, there is a loss.	\$(749,364)	\$2,232,000
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	\$(552,547)	\$(2,070,099)
A1. Beginning of Year Actuarial Liability	\$175,366,198	\$154,299,669
Gain/(Loss) Percentage: A1 divided by A	(0.32%)	(1.34%)
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	\$(49,448)	-
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	-	-
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	\$(601,995)	\$(2,070,099)

Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System

Analysis of Financial Experience (continued)

Gain and Loss in Accrued Liability During Years Ended June 30

Resulting from Differences Between Assumed Experience and Actual Experience

SDCERS - Airport Authority

Valuation Date	6/30/2005	6/30/2004
Elements of Experience Gain/(Loss)		
1. Investment Experience		
If there is greater investment income than assumed, there is a gain. If less, there is a loss.	\$1,380,592	\$560,000
2. Demographic and Payroll Experience		
Includes Payroll, Turnover, and Retirement different than assumed.	\$(1,539,018)	\$(973,850)
3. "Permissive" Purchased Service		
If the contributions to purchase "permissible" service is more than the liability incurred by the purchase service, there is a gain. If less, there is a loss.	\$(1,160,074)	\$(407,000)
4. Special Benefit Gain/(Loss)		
Includes 13th Check, Corbett Settlement increase, Supplemental COLA, and Contribution rate increase.	\$(3,125)	-
5. Other Gain/(Loss)		
Other Corrections/Miscellaneous — If a correction results in a reduction of liability, there is a gain. If an increase, there is a loss.	\$114,177	\$(1,384,000)
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	\$(1,207,448)	\$(2,204,850)
A1. Beginning of Year Actuarial Liability	\$23,578,460	\$16,278,613
Gain/(Loss) Percentage: A1 divided by A	(5.12%)	(13.54%)
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	\$4,464,525	-
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	-	-
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	\$3,257,077	\$(2,204,850)

Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System Summary of SDCERS' Benefit Provisions

The following pages illustrate the various benefit provisions for the City's, Port's and Airport's SDCERS participants.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)

As of June 30, 2005

City of San Diego

1. Membership Requirements	Membership is mandatory upon employment with the City, for all full, three-quarter, and half-time classified employees and any unclassified employees hired on or after August 11, 1993.
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.
3. Service Retirement Eligibility	
General Members	Age 62 with 10 years of service credit, or age 55 with 20 years of service credit.
Safety Members (includes Fire, Lifeguard & Police)	Age 55 with 10 years of service credit, or age 50 with 20 years of service credit.
Elected Officers	Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year for each year under age 55.
Benefit Formula Per Year of Service	
General Members	Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 2.8% at age 65, not to exceed 90% of Final Compensation.
General Members (Andrecht-Covered) (Applies to Airport only)	n/a
Executive General Members - Port & Airport only (where not specifically identified, treated as part of General Members)	n/a
Safety Members (City - Fire & Police, Port - Harbor Police)	Choice of: (1) 2.5% per year of service at age 50, increasing to 2.9999% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation.
Safety Members (City - Lifeguard)	Choice of: (1) 2.2% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.
Elected Officers	3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Membership is mandatory upon employment for all full-time Port employees.

Membership is mandatory upon employment for all full-time Airport employees.

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.

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.

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

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

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

n/a

n/a

n/a

Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.

Service Retirement calculated at 2.5% at age 55, and increasing to 3.0% at age 60, not to exceed 90% of Final Compensation.

n/a

Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.

Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.

Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.

Choice of: (1) 2.5 % at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.

n/a

n/a

n/a

n/a

n/a

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)

As of June 30, 2005

City of San Diego

Retirement Payment Options

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

San Diego City Employees' Retirement System

Summary of SDCERS Benefit Provisions (continued)

As of June 30, 2005

City of San Diego

4. Non-Industrial Disability	
Eligibility All Members	Ten years of service credit.
Benefit Formula Per Year of Service General Members	Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.
Safety Members	Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.
Elected Officers	Earned service retirement benefit.
5. Industrial Disability	
Eligibility All Members	No age or service requirement
Benefit Formula Per Year of Service General Members	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.
Safety Members	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.
Elected Officers	Earned service retirement benefit.
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.
7. Non-Industrial Death After Eligible to Retire for Service	50% of earned benefit payable to eligible surviving spouse.
8. Industrial Death	
General Members	50% of the final compensation divided into 12 equal payments each year.
Safety Members	50% of the final compensation divided into 12 equal payments each year.
9. Death After Retirement	Continuance to specified beneficiary based upon retirement payment option selected. \$2,000 payable in lump-sum to the beneficiary or the estate of the retiree.
10. Withdrawal Provisions	
	1. Less than ten years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.
	2. Ten or more years of service credit - If contributions are left on deposit, the member is entitled to earned benefits, commencing anytime after eligible to retire.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Ten years of service credit.

Ten years of service credit.

Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

n/a

n/a

n/a

No age or service requirement.

No age or service requirement.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

n/a

n/a

n/a

Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.

Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.

50% of earned benefit payable to eligible surviving spouse.

50% of earned benefit payable to eligible surviving spouse.

50% of the final compensation divided into 12 equal payments each year.

50% of the final compensation divided into 12 equal payments each year.

50% of the final compensation divided into 12 equal payments each year.

n/a

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

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

1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.

1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.

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

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

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2005

City of San Diego

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 Plan Sponsor Contribution Rate	Determined by the Projected Unit Credit Funding Method with a 30-year closed amortization of any Unfunded Actuarial Accrued Liability beginning on July 1, 2003.
13. Member Contributions	Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.
14. Internal Revenue Code Compliance	Benefits provided by SDCERS' Plans 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

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.

n/a

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

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

Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.

Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.

Benefits provided by SDCERS' Plans 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 SDCERS' Plans 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, 2005

Deferred Retirement Option Plan (DROP)

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

A SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, he or she will have access to a lump-sum benefit in addition to his or her normal monthly retirement allowance when he or she retires. DROP was initially offered by SDCERS' sponsors on a trial basis for a three-year period ending March 31, 2000. It has since become a permanent retirement option. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for his or her respective employer and receives a regular paycheck. Both the plan sponsor and the DROP Participant no longer make 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 he/she enters 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 and cannot be changed 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; this specific time period cannot be modified once agreed to. A DROP participant must end employment with his or her employer on or before the end of the selected DROP participation period.

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 employee 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 (no employer contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance as determined when entering DROP;
4. COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by the SDCERS 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 distribution. Once a participant leaves DROP, they begin receiving their monthly retirement allowance.

San Diego City Employees' Retirement System
Schedule of Allowances Being Paid
 Service and Disability Retirees and Beneficiaries

SDCERS - City of San Diego

Valuation Year	6/30/2005		6/30/2004	
	Count	Annual Allowance	Count	Annual Allowance
Type of Allowance				
Service Retirement	3,728	\$141,153,674	3,480	\$123,675,151
Disability Retirement	1,239	29,094,290	1,247	28,351,092
Death Before Retirement	30	568,576	31	588,900
Death After Retirement	998	9,372,487	965	8,679,475
Total Allowances	5,995	\$180,189,027	5,723	\$161,294,618

SDCERS - Unified Port District

Valuation Year	6/30/2005		6/30/2004	
	Count	Annual Allowance	Count	Annual Allowance
Type of Allowance				
Service Retirement	192	\$6,003,129	180	\$5,220,222
Disability Retirement	60	1,081,191	59	1,054,400
Death Before Retirement	1	9,908	1	9,714
Death After Retirement	53	558,626	50	496,204
Total Allowances	306	\$7,652,853	290	\$6,780,540

SDCERS - Airport Authority

Valuation Year	6/30/2005		6/30/2004	
	Count	Annual Allowance	Count	Annual Allowance
Type of Allowance				
Service Retirement	7	\$220,945	3	\$71,779
Disability Retirement	-	-	-	-
Death Before Retirement	-	-	-	-
Death After Retirement	-	-	-	-
Total Allowances	7	\$220,945	3	\$71,779

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System Schedule of Average Benefit Payment Amounts

SDCERS - City of San Diego

Valuation Year	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00
Total						
Count	5,995	5,723	5,467	5,143	5,012	4,789
Annual Salary	\$180,189,027	\$161,294,618	\$144,916,588	\$121,554,576	\$112,637,558	\$95,348,751
Averages						
Annual Allowance	\$30,057	\$28,184	\$26,508	\$23,635	\$22,474	\$19,910
Percentage Increase Over Prior Year	6.65%	6.32%	12.15%	5.1%	12.88%	5.58%
Attained Age	67.1	67.2	67.2	67.7	67.5	68.1
Age at Retirement	54.8	54.3	54.2	54.2	54.2	68.1
Service Years at Retirement	23.1	22.9	22.7	21.7	21.2	20.9
New Retirees*						
Count	370	313	470	168	386	251
Average Age	56.0	56.5	56.9	55.7	56.1	56.3
Average Allowance	\$47,034	\$44,307	\$48,864	\$41,219	\$40,443	\$35,054
Percent Increase Over Prior Year	6.15%	(9.33%)	18.55%	1.92%	15.37%	(2.82%)

SDCERS - Unified Port District

Valuation Year	6/30/05	6/30/04	6/30/03	12/31/02	6/30/02	6/30/01	6/30/00
Total							
Count	306	290	274	278	263	246	242
Annual Salary	\$180,189,027	\$161,294,618	\$144,916,588	\$5,712,542	\$121,554,576	\$112,637,558	\$95,348,751
Averages							
Annual Allowance	\$25,009	\$23,381	\$21,504	\$20,549	\$20,000	\$17,670	\$17,127
Percentage Increase Over Prior Year	6.96%	8.73%	4.65%	2.75%	13.18%	3.17%	5.22%
Attained Age	68.5	68.3	68.2	68.6	68.4	68.3	68.5
Age at Retirement	57.6	57.6	57.3	57.4	57.4	57.4	57.7
Service Years at Retirement	17.4	17.0	16.7	16.6	16.5	15.8	16.1
New Retirees*							
Count	16	23	15	26	18	9	11
Average Age	57.4	62.3	59.0	59.0	60.0	56.6	59.2
Average Allowance	\$45,636	\$37,080	\$34,684	\$34,684	\$29,568	\$26,787	\$25,920
Percent Increase Over Prior Year	23.07%	6.91%	17.30%	n/a	10.38%	3.34%	58.22%

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Schedule of Average Benefit Payment Amounts (continued)

SDCERS - Airport Authority				
<u>Valuation Year</u>	<u>6/30/05</u>	<u>6/30/04</u>	<u>6/30/03</u>	<u>6/30/02</u>
<u>Total</u>				
Count	7	3	1	-
Annual Salary	\$220,945	\$71,779	\$25,112	-
<u>Averages</u>				
Annual Allowance	\$31,564	\$23,926	\$25,112	n/a
Percentage Increase Over Prior Year	31.92%	(4.72%)	n/a	n/a
Attained Age	64.9	67.1	66.1	n/a
Age at Retirement	63.7	66.1	65.0	n/a
Service Years at Retirement	14.7	12.9	10.2	n/a
<u>New Retirees*</u>				
Count	4	2	1	n/a
Average Age	61.9	66.7	66.1	n/a
Average Allowance	\$36,933	\$23,082	\$25,112	n/a
Percent Increase Over Prior Year	60.01%	(8.08%)	n/a	n/a

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), the prior actuary. Cheiron is not responsible for this information.

Actuarial Section - June 30, 2005

San Diego City Employees' Retirement System Schedule of Active Members

SDCERS - City of San Diego

Valuation Year	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00
Total						
Count	9,436	9,749	10,100	10,409	9,892	9,913
Annual Salary	\$557,630,735	\$540,180,940	\$533,595,405	\$535,156,545	\$481,863,319	\$448,501,827
Averages						
Annual Salary	\$59,096	\$55,409	\$52,831	\$51,413	\$48,712	\$45,244
Percentage Increase Over Prior Year	6.65%	4.88%	2.76%	5.54%	7.67%	2.89%
Current Age	43.0	42.8	42.4	42.4	42.1	42.2
Years of Service Credit	12.9	12.7	11.5	11.3	10.7	10.7

SDCERS - Unified Port District

Valuation Year	6/30/05	6/30/04	6/30/03	12/31/02	6/30/02	6/30/01	6/30/00
Total							
Count	558	575	609	606	736	734	654
Annual Salary	\$35,077,367	\$34,915,741	\$34,163,647	\$33,995,335	\$39,063,314	\$36,425,136	\$30,621,242
Averages							
Annual Salary	\$62,863	\$60,723	\$56,098	\$56,098	\$53,075	\$49,626	\$46,821
Percentage Increase Over Prior Year	3.52%	8.24%	5.70%	n/a	6.95%	5.99%	3.04%
Current Age	44.6	44.4	44.7	44.6	44.4	43.8	43.9
Years of Service Credit	9.6	9.1	8.2	8.2	8.2	7.7	7.8

SDCERS - Airport Authority

Valuation Year	6/30/05	6/30/04	6/30/03	6/30/02
Total				
Count	284	265	208	173
Annual Salary	\$17,608,879	\$15,605,857	\$11,577,127	8,871,283
Averages				
Annual Salary	\$62,003	\$58,890	\$55,659	\$51,279
Percentage Increase Over Prior Year	5.29%	5.80%	8.54%	n/a
Current Age	44.0	43.4	43.5	42.9
Years of Service Credit	6.5	5.9	6.0	6.5

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System Schedule of Inactive Members

SDCERS - City of San Diego

Valuation Year	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00
Total						
Count	1,998	1,884	1,723	1,499	1,438	1,016
Contribution Balances	\$50,420,350	\$39,051,767	\$31,484,749	\$25,808,549	\$23,501,628	\$18,620,827
Averages						
Current Age	44.1	43.7	43.7	43.1	42.9	44.3
Years of Service Credit	7.0	6.7	6.4	6.6	6.8	7.5
Contribution Balance	\$25,235	\$20,728	\$18,273	\$17,217	\$16,343	\$18,328

SDCERS - Unified Port District

Valuation Year	6/30/05	6/30/04	6/30/03	12/31/02	6/30/02	6/30/01	6/30/00
Total							
Count	250	228	194	186	196	163	142
Contribution Balances	\$3,355,126	\$2,252,989	\$1,348,216	\$1,235,981	\$1,276,922	\$1,135,633	\$938,416
Averages							
Current Age	45.6	44.7	44.7	43.9	43.4	44.2	41.6
Years of Service Credit	4.8	4.5	3.9	4.1	4.1	4.3	3.7
Contribution Balance	\$13,421	\$9,882	\$6,950	\$6,645	\$6,515	\$6,967	\$6,609

SDCERS - Airport Authority

Valuation Year	6/30/05	6/30/04	6/30/03	6/30/02
Total				
Count	26	12	7	-
Contribution Balances	\$243,263	\$47,659	\$9,808	-
Averages				
Current Age	47.5	45.3	45.9	n/a
Years of Service Credit	4.1	3.3	0.9	n/a
Contribution Balance	\$9,356	\$3,972	\$1,401	n/a

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), the prior actuary. Cheiron is not responsible for this information.

Actuary's Certification Letter



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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

March 4, 2007

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, 2004. The valuation is intended to provide a measure of the funding status of the Retirement System. The funded ratios for the three employers participating in SDCERS are as follows as of the last valuation date of June 30, 2004:

	<u>2003 Valuation</u>	<u>2004 Valuation</u>
City of San Diego	67.2%	65.8%
Unified Port District (UPD)	80.3	80.6
Airport Authority (AA)	68.4	68.8

The City's actual contribution rate, relating to the valuation, will increase due to a negotiated agreement per the "Gleason settlement." The City extended their amortization period to 29 years in accordance with the Gleason settlement.

In general, the assumptions and methods used in this valuation for funding purposes meet the disclosure requirements stated in GASB Statement 25. However, the City may decide to treat "contingent Corbett" settlement benefits in a manner differently for expensing purposes than what was requested by the Retirement Board for funding purposes. It is also possible that the City may wish to treat the long-standing treatment of the "13th check" as a possible liability if it is deemed with certainty that this benefit would continue to be paid.

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.

There were experience losses as follows, with percents in parentheses representing the loss as a percent of valuation liabilities at the beginning of the valuation period:

March 4, 2007

Experience Loss (Millions)

City of San Diego	\$58.1 (1.6%)
Unified Port District (UPD)	2.1 (1.3%)
Airport Authority (AA)	2.2 (13.5%)

1. All schedules in the actuarial section were based on information obtained from the June 30, 2004 valuation reports. The following is a list of schedules in the Actuarial Section provided by us for this report.

While we did not specifically assemble any of the schedules in the Financial and Statistical Sections, we understand that specific data from the June 30, 2004 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, 2004 Valuations

- The **actuarial assumptions and methods** shown in the supporting schedules were recommended and calculated by the actuary and adopted by SDCERS' Board. These assumptions and methods are reviewed and approved annually by SDCERS' Board for each actuarial valuation report. The various economic assumptions currently being used in the actuarial valuations for all three plan sponsors have been in effect since July 1, 1997.
- The **investment rate of return** used in calculating the actuarial valuations was 8.0% per year, compounded annually.
- The **real rate of return** used is the difference between the investment rate of return and the inflation rate. The assumed inflation rate was 4.25%.

Investment Return	8.00%
minus Inflation	4.25%
<hr/>	
Real Rate of Return	3.75%

- The **actuarial value of assets** is determined using the net market value and net book value (cost) of plan assets. Taking the gross values and deducting liabilities and reserves 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 assets.
- The **probabilities of withdrawal** from active employment, before member is age and service retirement eligible, are shown in Schedule 1.
- The **probabilities of retirement** with an age and service allowance are shown in Schedule 2.
- Total **active member payroll** was assumed to increase as follows:

Inflation	4.25%
plus Merit & Longevity	0.50%
<hr/>	
Total	4.75%

San Diego City Employees' Retirement System
Summary of Actuarial Assumptions and Methods (continued)

Used for the June 30, 2004 Valuations

- The **mortality table** used in evaluating allowances to be paid was the 1994 Uninsured Pension Mortality table. These assumptions are used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. The City's SDCERS' Plan assumes the data is set back two years for retirees and set forward five years for disability retirees. The Port's and Airport's SDCERS' Plans assume the data is set back two years for retirees, set forward five years for General disabilitants and set forward two years for Safety disabilitants. Related values are shown below:

Future Life Expectancy (Years)

Sample Ages	Retirants		Disabilitants	
	Men	Women	General	Safety
45	36.07	40.44	30.01	32.80
50	31.37	35.64	25.49	28.18
55	26.78	30.90	21.20	23.74
60	22.38	26.27	17.26	19.57
65	18.28	21.86	13.77	15.81
70	14.61	17.80	10.66	12.48
75	11.35	14.03	7.97	9.52
80	8.48	10.61	5.86	7.07

- Salary increase rates** do not vary by age, but do reflect an additional merit component for those members with zero to four years of service at the valuation date.

Years of Service at Valuation Date	City, Port & Airport General	City & Port Safety
0	4.5%	7.5%
1	3.5%	6.5%
2	2.5%	5.5%
3	1.5%	3.0%
4	0.5%	1.5%

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

Actuarial Section - June 30, 2004

San Diego City Employees' Retirement System Summary of Actuarial Assumptions and Methods (continued)

Used for the June 30, 2004 Valuations

- 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. The City and Port are amortizing any unfunded liabilities over a 30-year, closed amortization period that began on July 1, 2003 (29 years remaining as of the June 30, 2004, actuarial valuation) for the City and July 1, 1991 (17 years remaining as of the June 30, 2004 actuarial valuation) for the Port. The Airport is amortizing any unfunded liabilities over an 18.5-year, closed amortization period that began on January 1, 2003 (17 years remaining as of the June 30, 2004, actuarial valuation).
- The report findings of SDCERS' **last study of actuarial experience** were presented to SDCERS' Board in January 2003. Any adopted assumption changes were considered for SDCERS' plan sponsors in their June 30, 2003, actuarial valuations. The experience investigation analyzed statistical data from the annual actuarial valuations for the period July 1, 1997, through June 30, 2001. The June 30, 2003, City actuarial valuation did not incorporate any of the recommended assumption changes from the experience study. The June 30, 2003, Port and Airport actuarial valuations incorporated recommended adjustments related to: rates of withdrawal, disability, service retirement, mortality, and salary increases.
- The **member statistical data** on which the valuations were based was furnished by SDCERS' executive management team, 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 (MAAA).

San Diego City Employees' Retirement System
Summary of Actuarial Assumptions and Methods (continued)
 Used for the June 30, 2004 Valuations

SCHEDULE 1

Withdrawal From Active Employment Before Age & Service Retirement
Percent of Active Members Separating Within Next Year

The rates of separation from active membership in this table measure the probabilities of members leaving employment. These rates do not include separation due to retirement or death.

Sample Ages	Years of Service	City of San Diego Unified Port of San Diego and San Diego County Regional Airport Authority			
		Disability ¹		Other ²	
		General	Safety ³	General	Safety ³
All	0			5.60%	2.20%
1				5.50	2.20
2				4.30	2.20
3				4.30	2.10
4				4.20	2.00
20	5 & Over	0.06%	0.54%	4.60	2.10
25		0.08	0.60	4.60	2.10
30		0.10	0.65	3.10	1.50
35		0.16	0.71	2.30	0.90
40		0.22	0.90	1.60	0.40
45		0.33	1.15	1.30	0.20
50		0.50	1.25	1.00	0.10
55		0.75	1.50	0.80	0.00
60		0.97	0.00	0.00	0.00

¹ 70% of the General Disabilities and 85% of the Safety Disabilities are assumed to be Industrial. Non-industrial disability is subject to service requirement.

² 20% of terminating employees, with 10+ years of service (with the City) or 5+ years of service (with the Port or Airport) at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

³ The Safety information is only applicable to the City and Port as the Airport does not have any Safety members.

Actuarial Section - June 30, 2004

San Diego City Employees' Retirement System
Summary of Actuarial Assumptions and Methods (continued)
 Used for the June 30, 2004 Valuations

SCHEDULE 2

Percent of Active Members Retiring Within Next Year

The rates of retirement in this table are used to measure the probability of eligible active members retiring during the next year.

Retirement Ages	Safety Members ¹	General Members	Elected Officers ²
50	10.00%	---	---
51	10.00	---	---
52	10.00	---	---
53	10.00	---	15.00%
54	20.00	---	1.00
55	40.00	20.00%	5.00
56	40.00	10.00	3.00
57	40.00	10.00	4.00
58	50.00	15.00	5.00
59	80.00	15.00	6.00
60	85.00	20.00	60.00
61	90.00	25.00	25.00
62	100.00	50.00	37.00
63	100.00	40.00	23.00
64	100.00	25.00	34.00
65	100.00	50.00	68.00
66	100.00	40.00	69.00
67	100.00	40.00	74.00
68	100.00	40.00	80.00
69	100.00	40.00	90.00
70	100.00	100.00	100.00

¹ Applies only to City and Port. ² Applies only to City.

- City deferred vested Members were assumed to retire provided they have 10 years of service (or 4 years for an Elected Officer) on the later of attained age or:
- Port and Airport 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 with 20+ years of service

Safety Members¹: Earlier of age 55 or age 50 with 20+ years of service

Elected Officers²: Earlier of age 55 with 4+ years of service or at an age less than 55 with 8+ years of service with a 2% reduction for each year less than age 55

If the inactive member is not vested for a service retirement, the liability for that member 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 the Years Ended June 30

City of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2004	9749	\$540,180,941	\$55,409	4.88%
6/30/2003	10,100	533,595,405	52,831	2.76
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

Unified Port of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2004	575	\$34,915,741	\$60,723	8.24%
6/30/2003	609	34,163,647	56,098	0.00
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

San Diego County Regional Airport Authority

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2004	265	\$15,605,857	\$58,890	5.80%
6/30/2003	208	11,577,127	55,659	8.54
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. As a result, interim actuarial valuations were prepared for the Unified Port of San Diego and the San Diego County Regional Airport Authority as of December 31, 2002.

Actuarial Section - June 30, 2004

**San Diego City Employees' Retirement System
Schedule of Retirees and Beneficiaries Added to
and Removed From Rolls**

For the Years Ended June 30

City of San Diego

Valuation Date	Added		Removed		Total		% Increase In Annual Allowances	Average Annual Allowance
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/04	434	\$16,057,596	178	\$2,634,535	5,723	\$161,294,618	11.30%	\$28,184
6/30/03	470	22,966,042	146	2,035,123	5,467	144,916,588	19.22	26,508
6/30/02	168	6,924,718	37	479,153	5,143	121,554,577	7.92	23,635
6/30/01	386	15,610,998	163	1,918,967	5,012	112,637,558	18.13	22,474
6/30/00	251	8,798,554	119	1,273,240	4,789	95,348,751	8.57	19,910
6/30/99	319	11,506,968	81	1,720,856	4,657	87,823,437	14.79	18,858

Unified Port of San Diego

Valuation Date	Added		Removed		Total		% Increase In Annual Allowances	Average Annual Allowance
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/04	26	\$895,159	10	\$135,199	290	\$6,780,541	15.08%	\$23,381
6/30/03	15	520,260	19	454,851	274	5,892,202	3.15	21,504
12/31/02	26	901,784	11	449,156	278	5,712,542	8.61	20,549
6/30/02 ¹	18	532,224	1	16,552	263	5,259,914	21.00	20,000
6/30/01	9	241,083	5	121,845	246	4,346,932	4.88	17,670
6/30/00	11	302,123	1	10,818	242	4,144,798	9.71	17,127
6/30/99	7	114,675	2	19,293	232	3,777,935	4.64	16,284
6/30/98	24	743,928	6	62,433	227	3,610,346	25.73	15,905

¹ Benefits include the 7% Andrecht Increase and the 2% COLA.

San Diego County Regional Airport Authority

Valuation Date	Added		Removed		Total		% Increase In Annual Allowances	Average Annual Allowance
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/04	2	\$46,164	0	\$0	3	\$71,779	185.84%	\$23,926
6/30/03	1	25,112	0	0	1	25,112	n/a	25,112
12/31/02	No valuation activity to report							

NOTE: DROP recipients (for all plan sponsors) are treated as retirees in the above three tables. DROP was instituted in 1997. Due to cost of living adjustments (COLA), the rolls at end of the year will not "sum" to additions and removals of new and deceased benefit recipients.

**San Diego City Employees' Retirement System
Solvency Test**

For the Years Ended June 30

City of San Diego

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
6/30/04	\$414,986	\$1,946,660	\$1,635,681	\$2,628,680	100.00%	100.00%	16.33%
6/30/03 ⁴	379,284	1,741,490	1,411,852	2,375,431	100.00	100.00	18.04
6/30/02	353,686	1,440,392	1,374,842	2,448,208	100.00	100.00	47.58
6/30/01	296,851	1,337,799	1,174,888	2,525,645	100.00	100.00	75.84
6/30/00 ³	276,352	1,170,075	1,082,347	2,459,815	100.00	100.00	93.63
6/30/99	238,278	1,026,395	916,874	2,033,153	100.00	100.00	83.82
6/30/98 ²	220,415	885,586	873,667	1,852,151	100.00	100.00	85.40

¹ Actuarial Value of Assets ² Reflects revised actuarial and economic assumptions ³ Reflects non-contingent Corbett benefit increases ⁴ Reflects General benefit increases

Unified Port of San Diego

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
6/30/04	\$12,885	\$75,994	\$86,487	\$141,375	100.00%	100.00%	60.70%
6/30/03 ⁴	13,264	65,581	75,455	123,884	100.00	100.00	59.69
12/31/02 ³	11,578	63,843	62,403	125,619	100.00	100.00	80.44
6/30/02	12,317	57,650	70,230	140,613	100.00	100.00	100.00
6/30/01	10,754	52,025	60,347	145,278	100.00	100.00	100.00
6/30/00	9,609	44,774	42,777	133,183	100.00	100.00	100.00
6/30/99	8,792	40,725	40,292	110,310	100.00	100.00	100.00
6/30/98 ²	7,325	39,282	35,026	98,007	100.00	100.00	100.00

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 ⁴ Reflects General benefit increases

San Diego County Regional Airport Authority

Valuation Date	Aggregate Accrued Liabilities For (\$ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Member Service Credit	Reported Assets ¹	(1)	(2)	(3)
6/30/04	2935	795	\$19,848	\$16,225	100.00%	100.00%	62.95%
6/30/03	1,877	295	14,107	11,142	100.00	100.00	63.59
12/31/02 ²	1,509	0	10,018	11,028	100.00	100.00	95.00

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.

Actuarial Section - June 30, 2004

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). Sizable year-to-year fluctuations are common.

Valuation Date	City of San Diego					
	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99
Estimated Gain (Loss) Attributed to Investment Experience	\$34,002,415	\$(286,400,000)	\$(312,953,654)	\$(95,647,385)	\$290,700,000	\$74,892,018
Estimated Gain (Loss) Attributed to Pay Increases	2,700,000	23,100,000	(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	(6,300,000)	---	---	---	---	---
Estimated Gain (Loss) Attributed to Employee Turnover, Pre-Retirement Mortality, Retirement Incidence, Purchase of Service, Data Corrections and Miscellaneous Factors	(88,525,989)	(40,399,305)	(26,861,501)	(60,521,599)	(22,834,750)	(58,277,111)
Total Estimated Experience Gain (Loss)	\$(58,123,574)	\$(303,699,305)	\$(364,815,155)	\$(193,168,984)	\$286,639,160	\$29,750,299

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 together.

Reconciling Differences Between Assumed Experience and Actual Experience

Once actual experience has occurred and been observed, it will not likely 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 a continued adjustment in financial position and funded status.

Unified Port of San Diego							San Diego County Regional Airport Authority ¹	City of San Diego/ Unified Port of San Diego ²	
6/30/04	6/30/03	12/31/02	6/30/02	6/30/01	6/30/00	6/30/99	6/30/04	6/30/03	6/30/98
\$692,00	\$(8,150,891)	\$(10,838,574)	\$(14,923,620)	\$1,304,928	\$14,962,558	\$3,854,203	\$560,000	\$(641,718)	\$101,000,000
(2,230,000)	1,771,000	(1,915,000)	(1,708,425)	(2,462,678)	36,100	(288,881)	(483,000)	(247,000)	9,141,984
(204,008)	480,000	(520,130)	(511,278)	1,267,497	(896,871)	(523,992)	---	---	---
(328,099)	(4,348,544)	2,176,599	(3,145,376)	(3,009,643)	992,586	559,703	(2,281,850)	(1,124,984)	(79,055,974)
\$(2,070,099)	\$(10,248,435)	\$(11,097,105)	\$(20,288,699)	\$(2,899,896)	\$15,094,373	\$3,601,033	\$(2,204,850)	\$(2,013,702)	\$31,086,010

Actuarial Section - June 30, 2004

San Diego City Employees' Retirement System

Analysis of Financial Experience (continued)

For the Years Ended June 30

Valuation Date	City of San Diego					
	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99
Experience Gain (Loss)	\$(58,123,874)	\$(303,699,305)	\$(364,815,155)	\$(193,168,984)	\$286,639,160	\$29,750,299
Beginning of Year Accrued Liabilities	3,532,625,521	3,168,921,175	2,809,537,745	2,528,773,900	2,181,547,453	1,979,668,038
Gain (Loss) Percentage of Liabilities	(1.65)%	(9.58)%	(12.98)%	(7.64)%	13.14%	1.50%
Net Increase/Decrease In Liabilities	\$363,704,346	\$359,383,430	\$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 together.

Unified Port of San Diego							San Diego County Regional Airport Authority ¹	City of San Diego/ Unified Port of San Diego ²	
6/30/04	6/30/03	12/31/02 ¹	6/30/02	6/30/01	6/30/00	6/30/99	6/30/04	6/30/03	6/30/98
\$(2,070,099)	\$(10,248,435)	\$(11,097,105)	\$(20,288,699)	\$(2,899,896)	\$15,094,373	\$3,601,033	\$(2,204,850)	\$(2,013,702)	\$31,086,010
154,299,669	137,824,047	140,196,959	123,125,659	97,159,852	89,808,543	81,632,570	16,278,613	11,526,293	1,822,432,018
(1.34)%	(7.44)%	(7.92)%	(16.48)%	(2.98)%	16.81%	4.41%	(13.54)%	(17.47)%	1.71%
\$16,475,622	\$(2,372,912)	\$17,071,300	\$25,965,807	\$7,351,310	\$8,175,973	n/a ²	\$4,752,320	\$(11,526,293)	\$139,827,486

Actuarial Section - June 30, 2004

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)

June 30, 2004 (City): The City's net loss of \$58.1 million was a result of unexpected retirements, additional service credit purchased and benefit increases associated with the Corbett judgement. These losses were offset by savings generated from investment earnings greater than the actuarial assumed rate of 8%, lower than anticipated active member pay increases and data refinements on inactive members. This year's net loss further increased the City's liabilities to \$363.7 million over SDCERS' prior year liabilities.

June 30, 2004 (Port): The Port's net loss of \$2.07 million was a result of higher than anticipated active member pay increases, unexpected retirements, pay increases for new retirees and additional service credit purchased. These losses were offset by savings generated from investment earnings greater than the actuarial assumed rate of 8%, an administrative expense credit, higher than expected employee turnover and data refinements on inactive members. This year's net loss further increased the Port's liabilities to \$16.5 million over SDCERS' prior year liabilities.

June 30, 2004 (Airport): The Airport's net loss of \$2.2 million was a result of higher than anticipated active member pay increases, unexpected retirements, additional service credit purchased and additional members (and their associated liabilities) transferred from the Port to the Airport during fiscal 2004. These losses were offset by savings generated from investment earnings greater than the actuarial assumed rate of 8%, an administrative expense credit. This year's net loss further increased the Airport's liabilities to \$4.8 million over SDCERS' prior year liabilities.

June 30, 2003 (City): The City's net loss of \$303.7 million was a result of investments earning less than the actuarial assumed rate of return of 8%, unexpected retirements and additional service credit purchased. In addition, losses accrued to the City's SDCERS' plan due to less than expected active member turnover and pre-retirement mortality. These losses were offset by savings generated from lower than anticipated active member pay increases and data refinements on inactive members. This year's net loss further increased the City's SDCERS' liabilities to \$359.4 million over SDCERS' prior year liabilities.

June 30, 2003 (Port): The Port's net loss of \$10.2 million was a result of investments earning less than the actuarial assumed rate of return of 8%, unexpected retiree data corrections and additional service credit purchased. In addition, losses accrued to the Port's SDCERS' plan due to less than expected active member turnover and pre-retirement mortality. These losses were offset by savings generated from less than anticipated active member pay increases and more than expected post-retirement mortality. Although there was a net loss in experience, overall the Port's SDCERS' liabilities decreased by \$2.3 million over prior year liabilities (valued as of the December 31, 2002 actuarial valuation), primarily due to the transfer of additional members (and their associated liabilities) to the Airport's SDCERS' plan.

June 30, 2003 (Airport): The Airport's net loss of \$2.0 million was a result of earning less than the actuarial assumed rate of return of 8%, greater than expected active member pay increases, additional service credit purchased and additional members (and their associated liabilities) transferred from the Port to the Airport during fiscal year 2003. Additional losses accrued to the Airport's SDCERS' plan as a result of less than expected active member turnover, pre-retirement mortality and retirements. This year's loss increased the Airport's SDCERS' liabilities of \$11.5 million over the prior year liabilities (valued as of the December 31, 2002 interim actuarial valuation) in which the Airport had no accrued liabilities. The results of the Airport's June 30, 2003, actuarial valuation was the first time a net loss was experienced for the Airport's plan.

San Diego City Employees' Retirement System

Analysis of Financial Experience (continued)

For the Years Ended June 30

December 31, 2002 (interim actuarial valuation for the Port): The net loss of \$11.1 million was a result of investments earning less than the actuarial assumed rate of return of 8% and more than expected active member pay increases, combined with less than expected active member turnover and pre-retirement mortality. This year's net loss further increased the Port's SDCERS' liabilities to \$17.1 million over SDCERS' prior year liabilities. The results of the December 31, 2002, interim actuarial valuation again demonstrated a loss by SDCERS.

June 30, 2002: The net losses of \$364.8 million (City) and \$20.3 million (Port) were a result of investments earning less than the actuarial assumed rate of return of 8% and more than expected active member pay increases, combined with less than expected active member 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 for this plan.

June 30, 2001: The net losses of \$193.2 million (City) and \$2.9 million (Port) were a result of investments earning less than the actuarial assumed rate of return of 8% and more than expected active member pay increases, combined with less than expected active member 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 net loss was experienced by SDCERS.

June 30, 2000: The net gains of \$286.6 million (City) and \$15.1 million (Port) were a result of investments earning more than the actuarial assumed rate of return of 8% and the savings from expected active member pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected active member turnover and pre- and post-retirement mortality. These gains helped to reduce the overall increase in SDCERS' liabilities to \$201.9 million (City) and \$8.2 million (Port) over SDCERS' prior year liabilities.

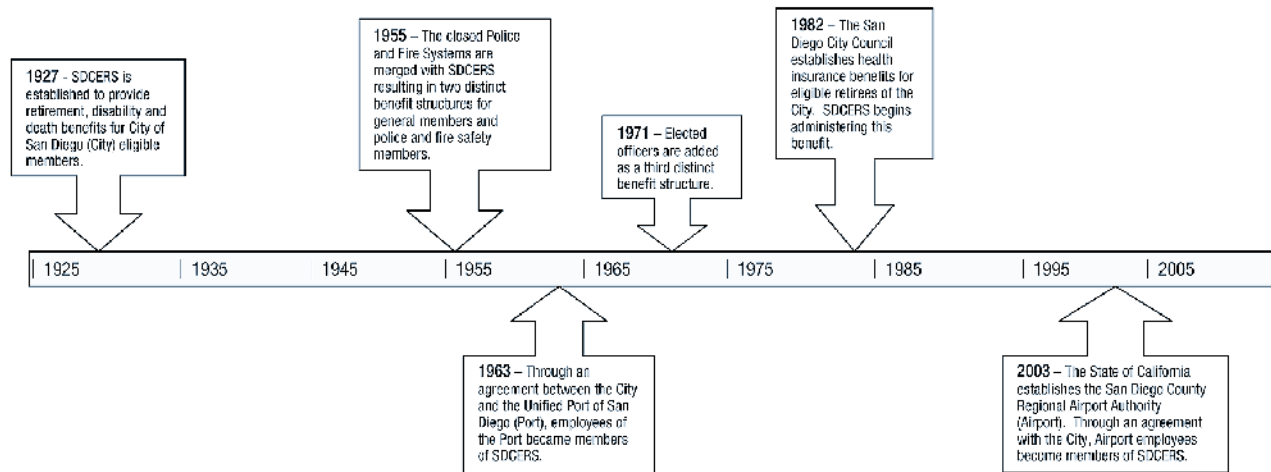
June 30, 1999: The net gains of \$29.7 million (City) and \$3.6 million (Port) were a result of investments earning more than the actuarial assumed rate of return of 8% and the net savings from expected active member pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected active member turnover, and, pre- and post-retirement mortality. These gains helped to reduce the overall increase in SDCERS' liabilities to \$157.2 million (City and Port) over SDCERS' prior year liabilities.

June 30, 1998: The net gain of \$31.1 million was a result of investments earning more than the actuarial assumed rate of return of 8% and savings from expected active member pay increases exceeding losses due to less than expected active member turnover and pre-retirement mortality. This gain helped to reduce the overall increase in SDCERS' liabilities to \$139.8 million over SDCERS' prior year liabilities.

San Diego City Employees' Retirement System Summary of SDCERS Benefit Provisions

As of June 30, 2005

SDCERS' History and Description



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, SDCERS' Plan specifies a formula to be used to calculate the amount that would need to be contributed by plan sponsors and members each year until retirement. To maintain stable 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 for the Defined Benefit Pension Plan are valued at \$3.451 billion as of June 30, 2005 and \$3.08 billion as of June 30, 2004.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)

As of June 30, 2004

The following pages describe the various benefit provisions for SDCERS members employed by the City, Port and Airport.

San Diego City Employees' Retirement System

Summary of SDCERS' Benefit Provisions (continued)

As of June 30, 2005

City of San Diego

1. Membership Requirements	Membership is mandatory upon employment with the City, for all full, three-quarter, and half-time classified employees and all unclassified employees hired on or after 8/11/93.
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.
3. Service Retirement Eligibility	
General Members	Age 62 with 10 years of service credit, or age 55 with 20 years of service credit.
Safety Members (includes Fire, Lifeguard & Police)	Age 55 with 10 years of service credit, or age 50 with 20 years of service credit.
Elected Officers	Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year for each year under age 55.
Benefit Formula Per Year of Service	
General Members	Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 2.8% at age 65, not to exceed 90% of Final Compensation.
General Members (Andrecht-Covered) (Applies to Airport only)	n/a
Executive General Members - Port & Airport only (where not specifically identified, treated as part of General Members)	n/a
Safety Members (City - Fire & Police, Port - Harbor Police)	Choice of: (1) 2.5% per year of service at age 50, increasing to 2.9999% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation.
Safety Members (City - Lifeguard)	Choice of: (1) 2.2% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.
Elected Officers	3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Membership is mandatory upon employment for all full-time Port employees.

Membership is mandatory upon employment for all full-time Airport employees.

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.

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.

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

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

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

n/a

n/a

n/a

Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.

Service Retirement calculated at 2.5% at age 55, and increasing to 3.0% at age 60, not to exceed 90% of Final Compensation.

n/a

Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.

Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.

Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.

Choice of: (1) 2.5 % at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.

n/a

n/a

n/a

n/a

n/a

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)

As of June 30, 2004

City of San Diego

Retirement Payment Options

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for the member's lifetime and guarantees the member's spouse a 50% automatic continuance after the member dies for the rest of the spouse's life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat these contributions as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - The member receives a reduced monthly retirement allowance until the member's death. If the member dies before receiving the total amount of his or her accumulated contributions, SDCERS will pay the balance to the member's beneficiary or estate. If the member dies after the member's annuity payments exceed his or her accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, the member's spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of the beneficiary's life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, his or her beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of the beneficiary's life. The amount of the reduction depends upon the age difference between the member and the beneficiary.

Option 4 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, his or her beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of the beneficiary's life. The higher the percentage to the beneficiary and the greater the age difference between the member and the beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and is eligible to receive a Social Security Old Age benefit. The member would receive an increased monthly allowance from SDCERS based on the member's estimated Social Security Old Age benefit. When the member turns 65, SDCERS will then actuarially reduce the member's monthly retirement allowance for the remainder of his or her life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, the member's surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for the member's lifetime and guarantees the member's spouse a 50% automatic continuance after the member dies for the rest of the spouse's life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat these contributions as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - The member receives a reduced monthly retirement allowance until the member's death. If the member dies before receiving the total amount of his or her accumulated contributions, SDCERS will pay the balance to the member's beneficiary or estate. If the member dies after the member's annuity payments exceed his or her accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, the member's spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of the beneficiary's life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, his or her beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of the beneficiary's life. The higher the percentage to the beneficiary and the greater the age difference between the member and the beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and is eligible to receive a Social Security Old Age benefit. The member would receive an increased monthly allowance from SDCERS based on the member's estimated Social Security Old Age benefit. When the member turns 65, SDCERS will then actuarially reduce the member's monthly retirement allowance for the remainder of his or her life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, the member's surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for the member's lifetime and guarantees the member's spouse a 50% automatic continuance after the member dies for the rest of the spouse's life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat these contributions as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - The member receives a reduced monthly retirement allowance until the member's death. If the member dies before receiving the total amount of his or her accumulated contributions, SDCERS will pay the balance to the member's beneficiary or estate. If the member dies after the member's annuity payments exceed his or her accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, the member's spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of the beneficiary's life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - The member receives a reduced monthly retirement allowance until the member's death. When the member dies, his or her beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of the beneficiary's life. The higher the percentage to the beneficiary and the greater the age difference between the member and the beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and is eligible to receive a Social Security Old Age benefit. The member would receive an increased monthly allowance from SDCERS based on the member's estimated Social Security Old Age benefit. When the member turns 65, SDCERS will then actuarially reduce the member's monthly retirement allowance for the remainder of his or her life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, the member's surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)

As of June 30, 2004

City of San Diego

4. Non-Industrial Disability	
Eligibility All Members	Ten years of service credit.
Benefit Formula Per Year of Service	
General Members	Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.
Safety Members	Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.
Elected Officers	Earned service retirement benefit.
5. Industrial Disability	
Eligibility All Members	No age or service requirement
Benefit Formula Per Year of Service	
General Members	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.
Safety Members	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.
Elected Officers	Earned service retirement benefit.
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.
7. Non-Industrial Death After Eligible to Retire for Service	50% of earned benefit payable to eligible surviving spouse.
8. Industrial Death	
General Members	50% of the final compensation divided into 12 equal payments each year.
Safety Members	50% of the final compensation divided into 12 equal payments each year.
9. Death After Retirement	Continuance to specified beneficiary based upon retirement payment option selected. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.
10. Withdrawal Provisions	
	1. Less than ten years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.
	2. Ten or more years of service credit - If contributions are left on deposit, the member is entitled to earned benefits, commencing anytime after eligible to retire.

Unified Port of San Diego

San Diego County
Regional Airport Authority

Ten years of service credit.

Ten years of service credit.

Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

Choice of: (1) 1.8% per year of service; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible.

n/a

n/a

n/a

No age or service requirement.

No age or service requirement.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.

n/a

n/a

n/a

Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.

Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.

50% of earned benefit payable to eligible surviving spouse.

50% of earned benefit payable to eligible surviving spouse.

50% of the final compensation divided into 12 equal payments each year.

50% of the final compensation divided into 12 equal payments each year.

50% of the final compensation divided into 12 equal payments each year.

n/a

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

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

1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.

1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest.

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

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

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2004

City of San Diego

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 Plan Sponsor Contribution Rate	Determined by the Projected Unit Credit Funding Method with a 30-year closed amortization of any Unfunded Actuarial Accrued Liability beginning on 7/1/2003.
13. Member Contributions	Vary by age at time of entrance into SDCERS. Any portion of these contributions paid by the plan sponsor (employer) are not directly reflected in either the member (employee) contributions or related refund calculations.
14. Internal Revenue Code Compliance	Benefits provided by SDCERS' Plans 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

Determined by the Projected Unit Credit Funding Method with a 30-year closed amortization of any 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 any Unfunded Actuarial Accrued Liability beginning on 1/1/2003.

Benefits provided by SDCERS' Plans 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 SDCERS' Plans 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, 2004

Deferred Retirement Option Plan (DROP)

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

A SDCERS member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, he or she will have access to a lump-sum benefit in addition to his or her normal monthly retirement allowance when he or she retires. 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 retirement option. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for his or her respective employer and receives a regular paycheck. The plan sponsor and the DROP participant stop making 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 upon entering 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 and cannot be changed 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; this specific time period cannot be modified once agreed to. A DROP participant must end employment with his or her employer on or before the end of the selected DROP participation period.

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 employee 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 (no employer contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance as determined when entering DROP;
4. COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by the SDCERS 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.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
 As of June 30, 2004

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

Post-Employment Healthcare Benefits

SDCERS administers the single-employer Post-Employment Healthcare Benefits Plan for eligible City of San Diego retirees and/or their beneficiaries. Post-Employment Healthcare Benefits for members retiring from City employment are based on their health eligibility status. City retirees are either health-eligible or non-health-eligible. SDCERS also administers a special healthcare benefit for spouses and dependents of eligible City employees who have died while in the line of duty.

To determine eligibility, a retiree must meet the following conditions: was on the Active Payroll of the City of San Diego on or after October 5, 1980, retired on or after October 6, 1980, and is eligible for and is receiving a pension allowance from SDCERS. SDCERS' health-eligible retirees may obtain health insurance coverage with the company and plan of their choice including any City-sponsored, union-sponsored or privately secured health plan. Medicare eligible retirees may receive reimbursement for their Medicare Part B premium and reimbursement/payment of their health premiums. Non-Medicare eligible retirees may receive reimbursement/payment of health premiums only.

If a retiree does not meet the above conditions, then the retiree may be eligible to receive a non-health-eligible benefit. To receive this benefit, a retiree must meet the following conditions: Retired or terminated employment as a vested member of the City of San Diego prior to October 6, 1980, and is eligible for and is receiving a pension allowance from SDCERS. The health benefit for non-health-eligible retirees is a reimbursement of up to \$1,200 per fiscal year for a combination of both Medicare Part B premiums and medical expenses (including co-pays, prescription costs, premiums for health and hospital insurance coverage).

The Death in the Line of Duty Widow/Widower healthcare benefit is paid to eligible spouses. Death in the Line of Duty Widows/Widowers and their dependent children are eligible to be enrolled in a City-sponsored health plan. They receive payment for health insurance premiums and Medicare Part B premiums up to the annual flexible dollar amount for active City SDCERS' members.

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V. Statistical Section



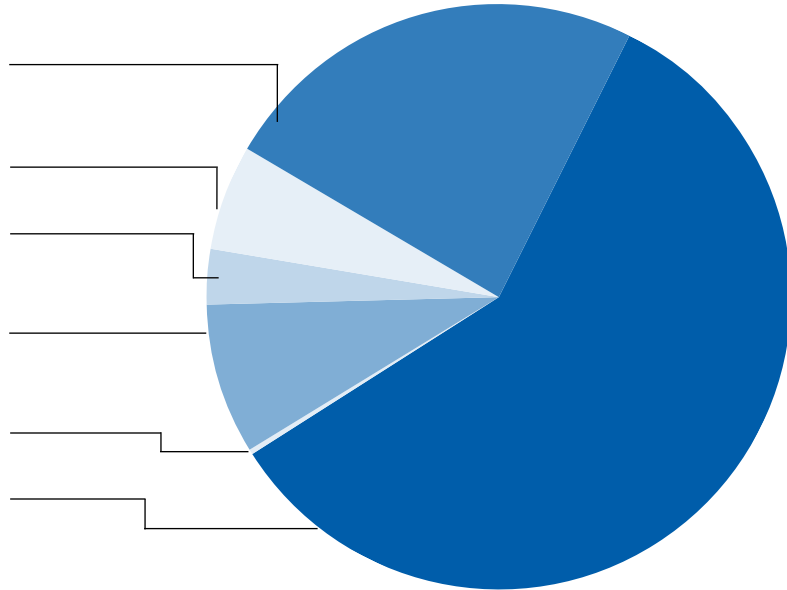
Statistical Section

San Diego City Employees' Retirement System Schedule of Additions to Plan Net Assets by Source

For Fiscal Years Ended June 30

FY 2005 Additions

Plan Sponsors' Contributions	24.24%
Members' Contributions Paid by Plan Sponsors	5.69%
Members' Contributions	3.15%
Members' Contributions for Purchased Service	8.23%
Earned Interest on PSC Installment Contracts	0.26%
Net Investment Income	58.45%
TOTAL	100.00%



San Diego City Employees' Retirement System
 Schedule of Additions to Plan Net Assets by Source (continued)
 For Fiscal Years Ended June 30

	Fiscal Year	Plan Sponsors' Contributions	Members' Contributions Paid By Plan Sponsors	Members' Contributions	Members' Contributions for Service Purchased	Earned Interest on PSC Installment Contracts ¹	DROP Contributions (plus Pension Allowances)	Net Investment Income ²	Other Income	Total Additions
Dollars	2005	\$145,238,133	\$33,988,447	\$18,859,980	\$49,339,098	\$1,583,235	\$0 ⁵	\$350,209,486	\$0	\$599,218,379
% of total		24.24%	5.67%	3.15%	8.23%	0.26%	0.00%	58.45%	0.00%	100.00%
Dollars	2004	87,861,650	33,951,427	16,299,646	75,419,976	907,814	0 ⁵	537,196,172	0	751,636,685
% of total		11.69	4.52	2.17	10.03	0.12	0.00	71.47	0.00	100.00
Dollars	2003	72,558,680 ³	31,606,145	20,917,653	40,016,896	477,758	0 ⁵	122,729,552	0	288,306,684
% of Total		25.17	10.96	7.26	13.88	0.17	0.00	42.57	0.00	100.00
Dollars	2002	49,962,365	28,794,143	24,192,104	29,353,981	n/a	29,892,770	(75,934,760)	459,087	86,719,690
% of Total		57.61	33.20	27.90	33.85		34.47	-87.56	0.53	100.00
Dollars	2001	44,598,473	25,566,207	35,413,089 ⁴	n/a	n/a	28,303,009	(25,126,082)	371,123	109,125,819
% of Total		40.87	23.43	32.45			25.94	-23.02	0.34	100.00
Dollars	2000	40,001,210	24,271,821	28,874,726 ⁴	n/a	n/a	17,334,525	349,654,651	308,302	460,445,235
% of Total		8.69	5.27	6.27			3.76	75.94	0.07	100.00
Dollars	1999	35,901,367 ³	23,439,812	30,081,241 ⁴	n/a	n/a	11,770,221	180,463,938	290,335	281,946,914
% of Total		12.73	8.31	10.67			4.17	64.01	0.10	100.00
Dollars	1998	32,497,329	22,148,460	24,217,798 ⁴	n/a	n/a	7,939,756	278,681,878	697,110	366,182,331
% of Total		8.87	6.05	6.61			2.17	76.10	0.19	100.00
Dollars	1997	29,165,584	21,211,659	15,770,286 ⁴	n/a	n/a	n/a ⁶	255,771,887	414,807	322,334,223
% of Total		9.05	6.58	4.89				79.35	0.13	100.00
Dollars	1996	26,121,560	19,964,925	16,222,995 ⁴	n/a	n/a	n/a ⁶	208,982,187	420,350	271,712,017
% of Total		9.61	7.35	5.97				76.91	0.15	100.00

¹ Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' independent auditor to conform with generally accepted accounting principles. In prior years, Earned Interest on PSC Installment Contracts was included in Members' Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

² Net Investment Income includes all SDCERS' earnings for both the Defined Benefit Pension Plan and the Post-Employment Healthcare Benefits Plan.

³ Amount includes an additional plan sponsor contribution made by the City of San Diego for a portion of their net pension obligation applicable to fiscal years 1997 - 2002, totaling \$9,923,538. For further details concerning this additional plan sponsor contribution, see the Schedules of Plan Sponsors' Contributions and the Notes to Schedules of Plan Sponsors' Contributions in the Required Supplementary Information located in the Financial Section.

⁴ Prior to 2002, Members' Contributions included Contributions for Purchased Service.

⁵ Reflects restatement of Deferred Retirement Option Program (DROP) as a plan liability effective June 30, 2004 with June 30, 2003 restated.

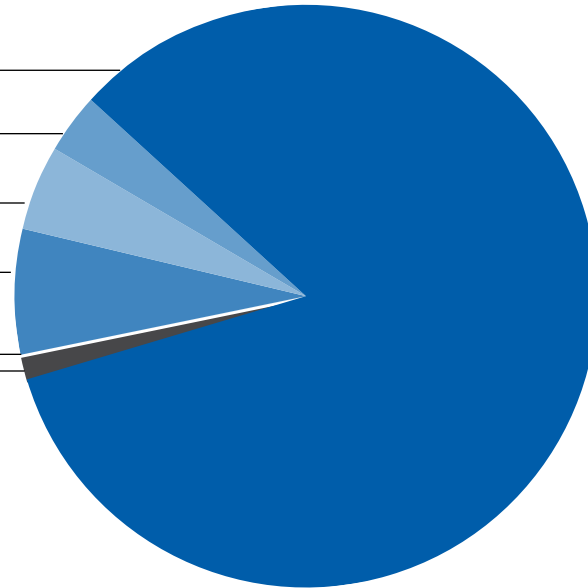
⁶ DROP began in FY 1998.

Statistical Section

San Diego City Employees' Retirement System
Schedule of Deductions from Plan Net Assets by Type
For Fiscal Years Ended June 30

FY 2005 Deductions

Retirement, Death and Disability Benefits	83.67%
Health Insurance Payments	3.29%
Administrative Expenses	4.98%
DROP Program Interest Expense	6.88%
Allowance for Uncollectable Purchased Service Payments	0.01%
Refund of Members' Contributions	1.17%
TOTAL	100.00%



San Diego City Employees' Retirement System
 Schedule of Deductions from Plan Net Assets by Type (continued)
 For Fiscal Years Ended June 30

	Fiscal Year	Retirement, Death and Disability Benefits	Health Insurance Payments	Administrative Expenses	DROP Program Interest Expense	Allowance for Uncollectable Purchased Service Payments ¹	Litigation Settlement Expense ²	Refund of Members' Contributions	Total Deductions
Dollars	2005	\$201,006,814 ³	\$7,910,366	\$11,960,392	\$16,520,216 ³	\$12,096	n/a	\$2,802,986	\$240,212,870
% of Total		83.67%	3.29%	4.98%	6.88%	0.01%		1.17%	100.00%
Dollars	2004	161,658,640 ³	12,829,903	10,163,263	12,735,149 ³	244,704	1,249,292	2,108,909	200,989,860
% of Total		80.43	6.38	5.06	6.34	0.12	0.62	1.05	100.00
Dollars	2003	146,396,141 ³	11,450,200	8,155,205	9,218,281 ³	68,693	n/a	1,378,787	176,667,307
% of Total		82.86	6.48	4.62	5.22	0.04		0.78	100.00
Dollars	2002	141,037,774	8,882,138	7,866,835	n/a	147,913	n/a	994,740	158,929,400
% of Total		88.74	5.59	4.95		0.09		0.63	100.00
Dollars	2001	145,991,812	7,207,618	6,279,578	n/a	n/a	n/a	1,462,746	160,941,754
% of Total		90.71	4.48	3.90				0.91	100.00
Dollars	2000	105,179,379	5,413,222	5,835,241	n/a	n/a	n/a	1,250,997	117,678,839
% of Total		89.38	4.60	4.96				1.06	100.00
Dollars	1999	92,902,635	5,400,264	3,235,667	n/a	n/a	n/a	1,643,187	103,181,753
% of Total		90.04	5.23	3.14				1.59	100.00
Dollars	1998	78,946,428	4,368,879	4,231,411	n/a	n/a	n/a	1,468,813	89,015,531
% of Total		88.69	4.91	4.75				1.65	100.00
Dollars	1997	65,606,901	0 ⁵	4,582,812	n/a	n/a	n/a	1,741,230	71,930,943
% of Total		91.21	-	6.37				2.42	100.00
Dollars	1996	60,850,581	0 ⁵	2,738,906	n/a	n/a	n/a	1,358,596	64,948,083
% of Total		93.69	-	4.22				2.09	100.00

¹ Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' independent auditor to conform with generally accepted accounting principles. In prior years, an allowance was not included as an offset to the Receivable of Members' Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

² Litigation Settlement Expense is SDCERS' portion of the plaintiff's attorney fee awarded as a result of the Gleason settlement reached in July 2004. For additional information on this expense and the Gleason settlement, refer to *Note 6. Legal Action* in the Notes to the Financial Statements in the Financial Section.

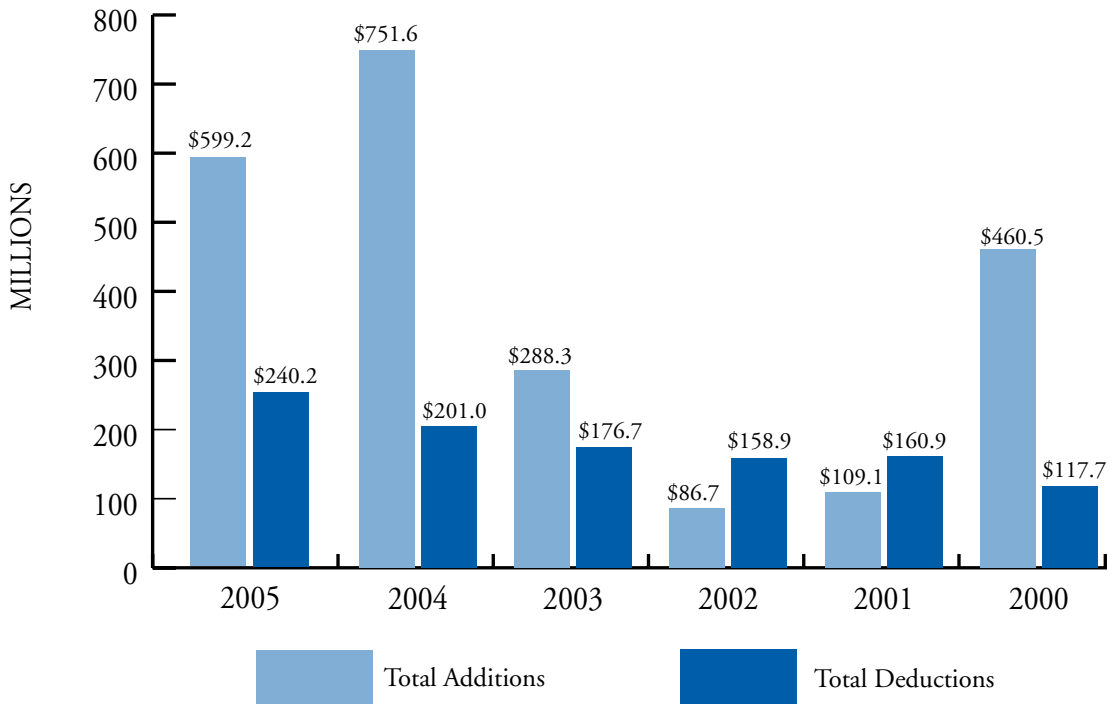
³ A change in accounting treatment of the Deferred Retirement Option Program (DROP) assets to report DROP as a plan liability was implemented in FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP payments are now processed through the DROP liability account instead of through the State of Plan Net Assets and interest granted on DROP program balances as an expense.

⁴ The FY 2005 health insurance payments are not comparable to other years' payments because the FY 2005 amount represents payments for only part of the year, up to the point of the depletion of the health insurance in this plan. At which time, the City started funding healthcare benefits directly by making contributions to a separate healthcare insurance fund for this plan.

⁵ A new post-retirement healthcare benefit was implemented, available to Health Eligible Retirees, effective August 1, 1997.

Statistical Section

San Diego City Employees' Retirement System
Comparison of Additions by Source and
Deductions by Type
For The Years Ended June 30



San Diego City Employees' Retirement System
 Comparison of Additions by Source and
 Deductions by Type (continued)
 For The Years Ended June 30

Fiscal Year	Total Net Plan Assets All Plans	Additions All Plans	Additions as a % of Total Plan Net Assets	Deductions All Plans	Deductions as a % of Total Plan Net Assets	Additions as a % of Deductions
2005	\$3,451,751,987	\$599,218,379	17.36%	\$240,212,870	6.96%	249.45% ¹
2004	3,092,746,478	751,636,685	24.30	200,989,860	6.50	373.97 ¹
2003	2,542,099,653	288,306,684	11.34	176,667,307	6.95	163.19 ¹
2002	2,527,890,311	86,719,690	3.43	158,929,400	6.29	54.56
2001	2,599,281,332	109,125,819	4.20	160,941,754	6.19	67.80
2000	2,652,492,234	460,445,235	17.36	117,678,839	4.44	391.27
1999	2,309,725,838	281,946,914	12.21	103,181,753	4.47	273.25
1998	2,130,960,676	366,182,331	17.18	89,015,531	4.18	411.37
1997	1,853,793,876	322,334,223	17.39	71,930,943	3.88	448.12
1996	1,603,253,873	271,712,017	16.95	64,948,083	4.05	418.35

¹ A change in accounting treatment of the Deferred Retirement Option Program (DROP) assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP payments are now processed through the DROP liability account instead of through the State of Plan Net Assets and interest granted on DROP program balances as an expense.

Statistical Section

San Diego City Employees' Retirement System Schedule of Allowances Being Paid Service and Disability Retirees and Beneficiaries As of Years Ended June 30

		City of San Diego				
	As of Years Ended	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ^{2 & 3}	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	6/30/2005	3,728	1,239	-	1,028	5,995
Annual Allowances		\$141,153,674	\$29,094,290	\$0	\$9,941,063	\$180,189,027
No. of Allowances	6/30/2004	3,480	1,247	31	965	5,723
Annuals Allowances		123,675,151	28,351,092	588,900	8,679,475	161,294,618
No. of Allowances	6/30/2003	3,260	1,239	30	938	5,467
Annual Allowances		109,471,010	27,164,406	509,400	7,771,772	144,916,588
No. of Allowances	6/30/2002	3,043	1,247	42	811	5,143
Annuals Allowances		89,330,198	25,716,957	599,081	5,908,340	121,554,576
No. of Allowances	6/30/2001	2,945	1,238	40	789	5,012
Annual Allowances		81,737,884	24,732,266	543,007	5,624,401	112,637,558
No. of Allowances	6/30/2000	2,753	1,207	38	791	4,789
Annuals Allowances		66,442,363	23,253,156	499,506	5,153,726	95,348,751
No. of Allowances	6/30/1999	2,673	1,181	38	765	4,657
Annual Allowances		60,775,471	21,753,769	457,814	4,763,209	87,750,263
No. of Allowances	6/30/1998	2,505	1,135	44	735	4,419
Annuals Allowances		51,843,793	19,846,719	508,597	4,308,071	76,507,180
No. of Allowances	6/30/1997	2,289	1,100	40	694	4,123
Annual Allowances		39,791,110	18,534,046	453,587	3,893,362	62,672,105
No. of Allowances	6/30/1996	2,259	1,089	34	670	4,052
Annuals Allowances		36,660,920	17,651,958	326,343	3,585,453	58,224,674

Sources: SDCERS' actuary and/or actuarial valuations.

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 21, 2002; therefore, no allowances were paid on behalf of the Airport.

² Total deaths before retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

³ Effective June 30, 2005, Deaths Before Retirement category not reported separately.

Unified Port of San Diego

	As of Years Ended	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ^{2 & 3}	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	6/30/2005	192	60	-	54	306
Annual Allowances		\$6,003,129	\$1,081,191	\$0	\$568,534	\$7,652,854
No. of Allowances	6/30/2004	180	59	1	50	290
Annuals Allowances		5,220,223	1,054,400	9,714	496,204	6,780,541
No. of Allowances	6/30/2003	162	60	1	51	274
Annual Allowances		4,343,496	1,022,188	28,160	498,358	5,892,202
No. of Allowances	12/31/2002 ¹	167	62	1	48	278
Annuals Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	6/30/2002	158	60	2	43	263
Annuals Allowances		3,892,413	988,565	19,653	359,284	5,259,915
No. of Allowances	6/30/2001	142	58	2	44	246
Annual Allowances		3,108,368	883,234	18,438	336,892	4,346,932
No. of Allowances	6/30/2000	145	57	2	38	242
Annuals Allowances		3,106,843	800,421	17,854	219,680	4,144,798
No. of Allowances	6/30/1999	138	55	2	37	232
Annual Allowances		2,800,000	755,817	17,530	203,177	3,776,524
No. of Allowances	6/30/1998	138	51	2	36	227
Annuals Allowances		2,719,069	685,244	17,128	188,904	3,610,345
No. of Allowances	6/30/1997	122	49	2	36	209
Annual Allowances		2,057,591	626,618	16,801	170,413	2,871,423
No. of Allowances	6/30/1996	119	49	2	38	208
Annuals Allowances		1,922,944	593,049	16,547	157,865	2,690,405

Statistical Section

San Diego City Employees' Retirement System Schedule of Allowances Being Paid

Service and Disability Retirees and Beneficiaries (continued)

As of Years Ended June 30¹

San Diego County Regional Airport Authority

	As of Years Ended	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ^{2 & 3}	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	6/30/2005	7	-	-	-	7
Annual Allowances		\$220,945	\$0	\$0	\$0	\$220,945
No. of Allowances	6/30/2004	3	-	-	-	3
Annuals Allowances		71,779	-	-	-	71,779
No. of Allowances	6/30/2003	1	-	-	-	1
Annual Allowances		25,112	-	-	-	25,112

Sources: SDCERS' actuary and/or actuarial valuations.

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 Total deaths before retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

³ Effective June 30, 2005, the total Deaths Before Retirement category was not reported separately.

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Statistical Section

San Diego City Employees' Retirement System Schedule of Average Benefit Payment Amounts

As of Years Ended June 30⁴

City of San Diego

As of Years Ended	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98
Totals								
Number of Allowances	5,995	5,723	5,467	5,143	5,012	4,789	4,657	4,419
Annual Allowances Paid	\$180,189,027	\$161,294,618	\$144,916,588	\$121,554,576	\$112,637,558	\$95,348,751	\$87,823,437	\$76,507,181
Averages								
Annual Allowance	\$30,057	\$28,184	\$26,508	\$23,635	\$22,474	\$19,910	\$18,858	\$17,313
Percentage Increase Over Prior Year	6.65%	6.32%	12.16%	5.17%	12.88%	5.66%	8.92%	13.89%
Attained Age	67.1	67.2	67.2	67.7	67.5	68.1	68.0	68.3
Age At Retirement	54.7	54.2	54.2	54.2	54.2	54.4	54.5	54.5
Service Years At Retirement	23.1	22.9	22.7	21.7	21.2	20.9	20.9	21.0
New Retirees²								
Number of Allowances	427	313	470	168	386	251	319	241
Average Age	58.6	56.5	56.9	55.7	56.1	56.3	55.6	56.2
Average Allowance	\$41,011	\$44,307	\$48,864	\$41,219	\$40,443	\$35,054	\$36,072	\$33,642
Percent Increase Over Prior Year	(7.44%)	(9.33%)	18.55%	1.92%	15.37%	(2.82%)	7.22%	10.00%

Sources: SDCERS' actuary and/or actuarial valuations.

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 the Andrecht settlement; \$18,907 average annual allowance after 7% Andrecht increase.

⁴ Years ended June 30, 1997 and June 30, 1996 data not available.

Unified Port of San Diego									San Diego County Regional Airport Authority		
6/30/05	6/30/04	6/30/03	12/31/02 ¹	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/05 ¹	6/30/04 ¹	6/30/03 ¹
306	290	274	278	263	246	242	232	227	7	3	1
\$7,652,853	\$6,780,541	\$5,892,202	\$5,712,542	\$5,259,914	\$4,346,932	\$4,144,798	\$3,776,524	\$3,610,346	\$220,945	\$71,779	\$25,112
\$25,009	\$23,381	\$21,504	\$20,549	\$20,000	\$17,670 ³	\$17,127	\$16,278	\$15,905	\$31,564	\$23,926	\$25,112
6.96%	8.73%	4.65%	2.75%	13.19%	3.17%	5.22%	23.45%	15.77%	31.92%	(4.72%)	n/a
68.5	68.3	68.2	68.6	68.4	68.3	68.5	68.5	68.7	64.9	67.1	66.1
57.6	57.6	57.3	57.4	57.4	57.4	57.7	58.0	58.6	63.7	66.1	65.0
17.4	17.0	16.7	16.6	16.5	15.8	16.1	16.0	16.7	14.7	12.9	10.2
17	23	15	26	18	9	11	7	24	4	2	1
59.0	62.3	59.0	59.0	60.0	56.6	59.2	55.4	60.8	61.9	66.7	66.1
\$39,347	\$37,080	\$34,684	\$34,684	\$29,568	\$26,787	\$25,920	\$16,382	\$30,997	\$36,933	\$23,082	\$25,112
13.44%	6.91%	17.30%	n/a	10.38%	3.34%	58.22%	(47.15%)	90.00%	60.01%	(8.08%)	n/a

Statistical Section

San Diego City Employees' Retirement System Schedule of Active Members

As of Years Ended June 30³

City of San Diego

As of Years Ended	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98
Totals								
Number of Members	9,436	9,749	10,100	10,409	9,892	9,913	9,654	9,359
Salaries	\$557,630,735	\$540,180,941	\$533,595,405	\$535,156,545	\$481,863,319	\$448,501,827	\$424,515,969	\$399,035,094
Averages								
Annual Salary	\$59,096	\$55,409	\$52,831	\$51,413	\$48,712	\$45,244	\$43,973	\$42,637
Percentage Increase Over Prior Year	6.65%	4.88%	2.76%	5.54%	7.67%	2.89%	3.13%	3.74%
Current Age	43.0	42.8	42.4	42.4	42.1	42.2	41.9	41.8
Years Service Credit ²	12.9	12.7	11.5	11.3	10.7	10.7	10.7	10.8

Sources: SDCERS' actuary and/or actuarial valuations.

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 June 30, 2003, December 31, 2002 and June 30, 2002 actuarial valuations include purchased service credit.

³ Years ended June 30, 1997 and June 30, 1996 data not available.

Unified Port of San Diego									San Diego County Regional Airport Authority			
6/30/05	6/30/04	6/30/03	12/31/02 ¹	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/05	6/30/04	6/30/03	12/31/02 ¹
558	575	609	606	736	734	654	661	616	284	265	208	173
\$35,077,367	\$34,915,741	\$34,163,647	\$33,995,335	\$39,063,314	\$36,425,136	\$30,621,242	\$30,034,900	\$26,672,111	\$17,608,879	\$15,605,857	\$11,577,857	\$8,871,283
\$62,863	\$60,723	\$56,098	\$56,098	\$53,075	\$49,626	\$46,821	\$45,439	\$43,299	\$62,003	\$58,890	\$55,659	\$51,279
3.52%	8.24%	5.70%	n/a	6.95%	5.99%	3.04%	4.94%	0.27%	5.29%	5.80%	8.54%	n/a
44.6	44.5	44.7	44.6	44.4	43.8	43.9	43.7	43.5	44.0	43.4	43.5	42.9
9.6	9.1	8.7	8.2	8.2	7.7	7.8	7.5	7.4	6.5	5.9	6.0	6.5

Statistical Section

San Diego City Employees' Retirement System Schedule of Inactive Members¹

As of Years Ended June 30⁵

City of San Diego

As of Years Ended	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98
Totals								
Number of Inactive Members	1,998	1,884	1,723	1,499	1,438	1,016	800	791
Other Members ³	0	0	0	0	0	0	0	344
Total Members	1,998	1,884	1,723	1,499	1,438	1,016	800	1,135
Member Contribution Balances								
Inactive Members	\$50,420,350	\$39,051,767	\$31,484,749	\$25,808,549	\$23,501,628	\$18,620,827	\$12,244,598	\$12,281,289
Other Members ³								19,829,472
Total Contribution Balances	\$50,420,350	\$39,051,767	\$31,484,749	\$25,808,549	\$23,501,628	\$18,620,827	\$12,244,598	\$32,110,761
Member Averages								
Member Age	44.1	43.7	43.7	43.1	42.9	44.3	43.1	42.6
Service Years Earned ⁴	7.0	6.7	6.4	6.6	6.8	7.5	6.6	7.4
Contribution Balance	\$25,235	\$20,728	\$18,273	\$17,217	\$16,343	\$18,328	\$15,306	\$15,526

Sources: SDCERS' actuary and/or actuarial valuations.

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 SDCERS' 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 (Port); interim actuarial valuations were performed to reflect the two separate employers. All inactive SDCERS members remained with the Port as of December 31, 2002; therefore, all contributions for inactive Port SDCERS members remained with the Port.

³ Other Members may include withdrawals, deaths, disabilities, and service retirements which are in transition.

⁴ City's June 30, 2002 actuarial valuation includes years of purchased service.

⁵ Years ended June 30, 1997 and June 30, 1996 data not available.

Unified Port of San Diego										San Diego County Regional Airport Authority		
6/30/05	6/30/04	6/30/03	12/31/02 ²	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98		6/30/05	6/30/04	6/30/03 ²
250	228	194	186	196	163	142	99	91		26	12	7
0	0	0	0	0	0	0	0	37		0	0	0
250	228	194	186	196	163	142	99	128		2	12	7
\$3,355,126	\$2,252,989	\$1,348,216	\$1,235,981	\$1,276,922	\$1,135,633	\$938,416	\$631,050	\$567,632		\$243,263	\$47,659	\$9,808
								1,372,784		0	0	0
\$3,355,126	\$2,252,989	\$1,348,216	\$1,235,981	\$1,276,922	\$1,135,633	\$938,416	\$631,050	\$1,940,416		\$243,263	\$47,659	\$9,808
45.6	44.7	44.7	43.9	43.4	44.2	41.6	42.6	41.5		47.5	45.3	45.9
4.8	4.5	3.9	4.1	4.1	4.3	3.7	3.6	4.1		4.1	3.3	0.9
\$13,421	\$9,882	\$6,950	\$6,645	\$6,515	\$6,967	\$6,609	\$6,374	\$6,238		\$9,356	\$3,972	\$1,401

San Diego City Employees' Retirement System Schedule of Participating Plan Sponsors



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Unified Port of San Diego
3165 Pacific Highway
San Diego, CA 92101-1128
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San Diego County Regional Airport Authority
3225 North Harbor Drive
San Diego, CA 92101-1022
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**This Comprehensive Annual Financial Report
is available on SDCERS' Web site (www.sdcers.org)
in the Adobe Portable Document Format (PDF file).**