San Diego City Employees' Retirement System
San Diego, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

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.

Cover Photo:
Balboa Park
San Diego, California
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San Diego, California

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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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(619) 525-3600 / Toll Free (800) 774-4977
www.sdcers.org

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Transmittal Letter

SDCERS
San Diego City Employees' Retirement System

December 21, 2007

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

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, 2006 (FY 2006), with comparative data for the fiscal year ended June 30, 2005 (FY 2005) for the San Diego City Employees' Retirement System (SDCERS or System). This CAFR has been prepared in conformance with the principles and standards for reporting as set forth by the Governmental Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement. Management believes the data presented is accurate in all material respects.

Publication of this and previous CAFRs has been possible since the City of San Diego's (City) issuance of its FY 2003 CAFR in March 2007. The City's delay in issuing its FY 2003 CAFR resulted from investigations into the funding of SDCERS and other City- related public disclosures and issues. (News reports concerning these issues are available on-line at www.signonsandiego.com/news/metro/pension/.) In August 2005, SDCERS' Board retained Navigant Consulting to conduct an independent investigation into those issues, and in January 2006, Navigant Consulting issued its report to the Board, the results of which are discussed later in this letter. In February 2005, the City retained Kroll, Inc. and formed an independent Audit Committee, which issued a Report in August 2006. The Report is available on-line at www.sandiego.gov/mayor/news/breakingnews.shtml. 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.

A number of significant developments occurred in FY 2006.

Actuarial. In October 2005, the Board approved the selection of Cheiron, Inc. to serve as the System's actuary. Cheiron issued the June 30, 2005 actuarial valuations for our three plan sponsors in May 2006.

Staff Developments. In November 2005, Bob Wilson joined SDCERS as its Assistant Retirement Administrator. On January 6, 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 6. Legal Action* in the Notes to the Financial Statements in the Financial Section). In January 2006, Roxanne Story Parks was appointed Interim General Counsel, a position she held until she became our Chief Compliance Officer in November

2006. An Internal Audit position was created, which was ultimately filled by Bob Wilson in August 2007. I became Administrator/CEO on May 1, 2006.

Navigant Report. On January 20, 2006, Navigant Consulting, Inc. issued its report to the Board that concluded there had been a breach of fiduciary duty by former SDCERS Board members in approving the 1996 Manager's Proposal (MP1) and the 2002 Contribution Agreement (MP2) proposed by the City. The Report also concluded that SDCERS violated federal tax law and jeopardized the Trust Fund's tax-exempt status by using Trust Fund assets to pay benefit and administrative costs of retiree health care, misapplying the Corbett settlement provisions related to disability retirement benefits, and accepting employer contributions from labor unions to fund Presidential Leave benefits for certain union presidents. The Navigant Report is available on-line at www.sdcers.org.

The Navigant Report recommended changes to SDCERS in governance and oversight, actuarial funding, 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. SDCERS' Navigant Report Committee, which methodically reviewed the Report's major issues, issued its report in December 2006, a copy of which is available on-line at www.sdcers.org.

IRS Filings. In July 2005, SDCERS filed with the IRS an application for a Tax Determination Letter and a request for a compliance statement under the IRS' Voluntary Correction Program (VCP). The initial VCP filing addressed a correction to the City's Presidential Leave Program for presidents of certain labor unions that represent City employees. Since that time, SDCERS has made additional VCP filings concerning compensation, contribution and benefit limits, minimum distribution requirements, distribution rollover compliance, the Deferred Retirement Option Program (DROP), disability benefit overpayments, conversion of annual leave to purchase service credits, and post-employment health benefits and administrative expenses. SDCERS' position is that no penalties should be imposed for any compliance failures. At its December 2007 meeting, the SDCERS Board unanimously approved a Compliance Statement with the IRS. This is a great accomplishment, and more information on the the IRS resolution is set out in *Note 7 . Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

Investments. SDCERS' total investment return for FY 2006 was 12.7% compared to 10.8% for FY 2005. The one-year investment performance benchmark returns for these periods were 10.3% and 10.2%, respectively. As of June 30, 2006, SDCERS' annualized total investment return was +14.5% over the past three years, +9.1% over the past five years, and +10.0% over the past ten years. The performance benchmark returns for these same periods were +12.1%, +7.7% and +8.9%, respectively.

SDCERS' target and actual asset allocation, as of June 30, 2006 and June 30, 2005, and recent and long-term investment performance are all included in the Investment Section.

The FY 2006 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 2006 to SDCERS.

The **Financial Section** presents the Independent Auditors' Report prepared by Macias Gini & O'Connell, Management's Discussion and Analysis of SDCERS' financial condition, audited financial statements for FY 2006 and FY 2005, 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 2006.

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** includes SDCERS' Actuary's Certification Letter, prepared by Cheiron 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. In addition, an FY 2006 Popular Annual Financial Report will be mailed to all of SDCERS' active members, retirees and beneficiaries and will be available on-line at www.sdcers.org.

Acknowledgments. This CAFR reflects the combined effort of SDCERS' management and staff under the Board's leadership. I would like to express my appreciation to SDCERS' Trustees and all of 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 and CEO

San Diego City Employees' Retirement System
Members of SDCERS' Board of Administration
As of June 30, 2006

Peter E. Preovolos, President
Mayoral Appointee

Steven W. Meyer, Vice-President
Elected General Member

Peter Q. Davis
Mayoral Appointee

Joseph T. Flynn
Elected Retiree

Thomas C. Hebrank
Mayoral Appointee

V. Wayne Kennedy
Mayoral Appointee

Richard M. Kipperman
Mayoral Appointee

Franklin R. Lamberth
Elected General Member

George A. Murray
Mayoral Appointee

Jo Anne SawyerKnoll
Ex-Officio, Mayoral Designee

William J. Sheffler
Mayoral Appointee

Mark C. Sullivan
Elected Safety (Police) Member

John G. Thomson
Elected Safety (Fire) Member

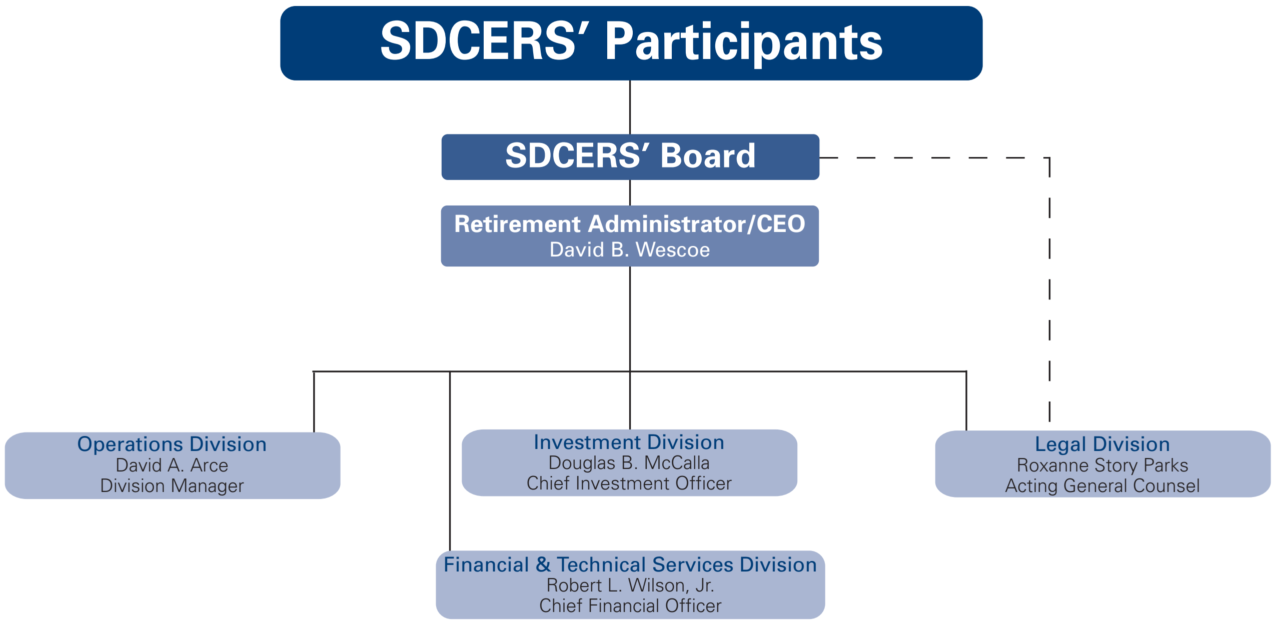
San Diego City Employees' Retirement System
Board Committees

As of June 30, 2006

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, 2006, were as follows:

Committee	Responsibilities
Audit Committee Richard M. Kipperman (Chair) Steven W. Meyer Peter E. Preovolos	Responsible for: providing oversight of financial reporting process, the system of internal controls, and the independent audit process.
Business and Procedures Committee Mark C. Sullivan (Chair) Joseph T. Flynn V. Wayne Kennedy Richard M. Kipperman Peter E. Preovolos	Responsible for: reviewing SDCERS' business and procedures and recommending needed changes; developing strategic planning and performance plans; reviewing actuarial valuations; reviewing and approving the annual budget; developing board rules; and facilitating training programs for Board members.
Disability Committee William J. Sheffler (Chair) Jo Anne SawyerKnoll Franklin R. Lamberth Peter E. Preovolos John G. Thomson	Responsible for: hearing staff recommendations on disability applications; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.
Executive Committee Peter E. Preovolos (Chair) Thomas C. Hebrank Steven W. Meyer William J. Sheffler Mark C. Sullivan	Responsible for: reviewing the Board agendas; developing the performance plan for the Administrator and Chief Compliance Officer; and annual performance evaluations.
Investment Committee Thomas C. Hebrank (Chair) Peter Q. Davis Steven W. Meyer George A. Murray Peter E. Preovolos William J. Sheffler	Responsible for: monitoring investment performance; market conditions; and recommending changes to the Investment Policy Statement.

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2006



San Diego City Employees' Retirement System
Professional Services
As of June 30, 2006

Actuary
Cheiron
McLean, VA

Consulting and Professional Services

JPI Printing Inc.
San Diego, CA

Levi, Ray & Shoup
Springfield, IL

Linea Solutions
Los Angeles, CA

Marathon Communications, Inc.
Los Angeles, CA

Mercer Human Resources Consulting
Denver, CO

National Direct Mailing Corporation
Poway, CA

Navigant Consulting, Inc
Chicago, 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
The Townsend Group
San Francisco, CA

SDCERS' medical and legal service providers are located in Other Supplementary Information in the Financial Section. SDCERS' Investment Managers are identified in the Investment Section.

Report from SDCERS' Current Board President

December 21, 2007

Dear SDCERS Constituents:

I was elected president of the San Diego City Employees' Retirement System (SDCERS) Board of Administration in April 2007, and this is already my second transmittal letter to you. This is tangible proof of the progress SDCERS is making in getting its financial reporting current after the City of San Diego issued its FY 2003 CAFR earlier this year.

As I mentioned in my June letter, SDCERS continues to address governance and operational issues, and a number of initiatives have been commenced or completed to strengthen controls and oversight. As David Wescoe, SDCERS' Administrator mentioned in his Transmittal Letter a few pages earlier in this CAFR, FY 2006 was a year of great progress, although much remains to be done.

Since the new SDCERS Board of Administration was installed as a result of Proposition H in April 2005, we have had to spend the majority of our time and energy addressing problems from the past. While we have made great progress on many issues, we still have a few challenges remaining. Our progress has been complicated at times by having to divert both human and financial resources to facing various external legal and other challenges. While some of these have been the necessary fallout from prior problems and neglect, some of it has been an unnecessary and costly distraction.

It is the strong desire of the SDCERS Board and staff to put the past behind us. We plan to accomplish this not by ignoring the problems and unresolved issues from the past, but by continuing to address them head on and in an open and public manner. When we speak of reform, we do so not as rhetoric, but with actions that are supported by tangible progress and real results. We have engaged outside professionals to perform a complete top to bottom review of SDCERS, and we have embraced and enacted all of their recommendations. As a result of these actions and in many other ways, we have reformed SDCERS – we have a new Board and administrative team in place, new outside professionals in critical areas, new conservative, industry-standard actuarial methods and assumptions in place, and resolution of our VCP filing with the IRS. And, all the while, SDCERS has continued to provide outstanding investment returns for its members and plan sponsors.

Our goal now is to be able to focus all of our energies on what is truly important – providing world-class service to SDCERS' members and beneficiaries. While we have never lost sight of this goal, we hope that we will be able to focus even more of our time and energy in serving you. In my next report to you, I plan to outline our accomplishments in this area.

Sincerely,

Thomas C Hebrank

Thomas C. Hebrank
President, SDCERS Board of Administration

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2. Financial

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

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Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

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 statements 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, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the San Diego City Employees' Retirement System as of June 30, 2006 and 2005, and the changes in plan net assets for the years 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.

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As discussed in Note 7, the June 30, 2006 actuarial valuations for each plan sponsor reflect several changes in the actuarial methodologies. As presented in the schedule of funding progress on page 81, based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2006, 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 billion. In addition, the City's contribution funding method for the fiscal years 2001-2005 was not in accordance with Governmental Accounting Standards Board Statement No. 25.

The Management's Discussion and Analysis on pages 14 through 23, the Schedules of Funding Progress on pages 81 through 86 and the Schedules of Plan Sponsors' Contributions on pages 87 and 88 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 Gini & O'Connell LLP

Certified Public Accountants

San Diego, California
December 21, 2007

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, 2006 (FY 2006) and June 30, 2005 (FY 2005), with results also compared to the fiscal year ended June 30, 2004 (FY 2004). 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 also included in the financial statements through December 31, 2004. As of January 2005, there were no assets held by SDCERS in the HCB Plan.

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 San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport).

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 the 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

Defined Benefit Pension Plan (DB Plan)

As of June 30, 2006, the DB Plan had $4.014 billion in total net assets held in trust for the payment of pension benefits compared to net assets of $3.452 billion at June 30, 2005. This represents a 16.3% increase, or $562 million, over FY 2005. The FY 2006 increase resulted from plan sponsor and member contributions ($351 million), net investment earnings ($456 million), and other income of $15 million for the year, offset by benefit payments and administrative expenses ($260 million). In FY 2005, SDCERS experienced an 11.9% increase in net assets, or $368 million, over FY 2004 net assets of $3.084 billion.

As of June 30, 2006, additions to DB Plan net assets (additions) totaled $822.1 million, an increase of $222.8 million (37.2%) from FY 2005 additions of $599.2 million, due to an increase in net investment earnings of $105.5 million, increased plan sponsor and member contributions of $101.8 million, and <u>Hanson, Bridgett</u> litigation settlement proceeds of $15.5 million (see *Note 6. Legal Action* in the Notes to the Financial Statements). In FY 2005, SDCERS experienced a decrease of $152.0 million (-20.2%) in additions over FY 2004 additions of $751.3 million.

As of June 30, 2006, deductions from DB Plan net assets (deductions) for benefits and expenses totaled $260.0 million, a $27.7 million increase (11.9%), compared to FY 2005 deductions of $232.3 million. In FY 2005, SDCERS deductions increased $44.4 million (23.6%) over FY 2004 deductions of $187.9 million.

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 that 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.

As of June 30, 2006, the City's funded status was 79.9%. This means that for every dollar of benefits due the City had approximately 79.9 cents in actuarial assets available for payment. The City's funded status as of the June 30, 2005 actuarial valuation was 68.2%.

As of June 30, 2006, the Port's funded status was 92.1%. This means that for every dollar of benefits due, the Port had approximately 92.1 cents in actuarial assets available for payment. The Port's funded status as of the June 30, 2005 actuarial valuation was 82.6%.

As of June 30, 2006, the Airport's funded status was 111.7%. This means that for every dollar of benefits due, the Airport had approximately $1.117 in actuarial assets available for payment. The Airport's funded status as of the June 30, 2005 actuarial valuation was 87.6%.

In September and October 2006, the Board approved the following actuarial methodology changes that were recommended by Cheiron, SDCERS' actuary. They are reflected 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 among SDCERS' three plan sponsors, based on actual cash flows attributable to each plan sponsor.
- Inclusion of the 13th check and the City's Corbett liabilities 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 active members' future benefits payable from the SDCERS DB Plan fund at the maximum benefit level allowable under Internal Revenue Code Section 415.

The funded status improvements of the plan sponsors in FY 2006 were attributable to favorable investment and liability experience, contributions above expected amounts, and changes in actuarial methods. In FY 2006, SDCERS investment returns were 12.7% compared to the actuarial expected return of 8.0%. At the same time, reductions in the City and Port work force and payroll increases less than expected contributed to an experience gain. Contributions above expected amounts included $108.3 million from City tobacco revenue bond proceeds, plus the transfer of its year-end balance of its dedicated UAAL Contribution Fund (see *Note 6. Legal Action* in the Notes to the Financial Statements) that was in addition to the City's Annual Required Contribution (ARC) payment. The actuarial method change associated with the asset smoothing method improved the City's funded status, which partially offset the recognition of certain liabilities that previously were excluded from actuarial liabilities. See the Analysis of Financial Experience schedules in the Actuarial Section for additional information on the items that favorably impacted the plan sponsor's funded status.

The funded status improvements for FY 2006, together with annualized investment returns for the three and five-year periods ended June 30, 2006, of 14.5% and 9.1%, respectively, have contributed to funded status improvements for all three plan sponsors since FY 2004. The Port and the Airport make annual plan sponsor contributions in accordance with their ARCs as determined by SDCERS' actuary. Ten years of historical funded status information for the City and the Port and five 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)

As of June 30, 2006 and June 30, 2005, there were no assets in the HCB. Following the depletion of the $9.1 million of HCB plan assets in December 2004, the City separately funds retiree healthcare benefits directly from the City's annual budget. These monies are not part of the SDCERS Trust Fund and are reported in the City' financial statements. SDCERS continues to coordinate benefits for the HBC Plan, and its costs to do so are reimbursed by the City.

For the fiscal year ended June 30, 2005, SDCERS did not allocate the HCB Plan any earnings because the Plan's assets were depleted during the year.

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.

Overview of Financial Statements

SDCERS' audited financial statements 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 (unaudited), 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. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2006 and June 30, 2005.

The Statements of Changes in Plan Net Assets provides an income statement presentation of annual additions to and deductions from plan assets for the DB Plan and the HCB Plan for the fiscal years ended 2006 and 2005, respectively.

Both Statements comply with GASB Statement Nos. 3, 5, 12, 25, 26, 28, 31, and 40, which require certain disclosures and the use of the full accrual method of accounting. SDCERS complies with all material requirements of these accounting standards.

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 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 (DB Plan) and the Post-Employment Healthcare Benefit Plan (HCP 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, 2006, totaled $4.014 billion, a 16.3% increase compared to net assets of $3.452 billion as of June 30, 2005. FY 2005 plan net assets were 11.9% higher than FY 2004 net assets of $3.084 billion. All net assets are available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is set out in Table 1 as follows.

Table 1: Defined Benefit Pension Plan Net Assets

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Cash and Cash Equivalents	$493,192,881	$440,955,832	$52,237,049	11.85%	$440,955,832	$334,714,816	$106,241,016	31.74%
Receivables	43,230,846	49,009,979	(5,779,133)	-11.79%	49,009,979	43,237,013	5,772,966	13.35%
Securities Sold	48,576,193	85,818,964	(37,242,771)	-43.40%	85,818,964	44,965,113	40,853,851	90.86%
Investments, at Fair Value	3,826,865,975	3,271,515,667	555,350,308	16.98%	3,271,515,667	2,937,694,387	333,821,280	11.36%
Securities Lending Cash Collateral	581,289,763	434,363,945	146,925,818	33.83%	434,363,945	319,748,403	114,615,542	35.85%
Properties at Cost plus Pre-paid Expenses	125,080	141,680	(16,600)	-11.72%	141,680	193,471	(51,791)	-26.77%
Total Assets	$4,993,280,738	$4,281,806,067	$711,474,671	16.62%	$4,281,806,067	$3,680,553,203	$601,252,864	16.34%
Current Liabilities	231,833,993	234,121,704	(2,287,711)	-0.98%	234,121,704	191,483,693	42,638,011	22.27%
Securities Purchased	166,332,290	161,568,431	4,763,859	2.95%	161,568,431	85,658,151	75,910,280	88.62%
Securities Lending Obligations	581,289,763	434,363,945	146,925,818	33.83%	434,363,945	319,748,403	114,615,542	35.85%
Total Liabilities	$979,456,046	$830,054,080	$149,401,966	18.00%	$830,054,080	$596,890,247	$233,163,833	39.06%
Plan Net Assets Held in Trust for Payment of Defined Benefit Pension Benefits	$4,013,824,692	$3,451,751,987	$562,072,705	16.28%	$3,451,751,987	$3,083,662,956	$368,089,031	11.94%

Post-Employment Healthcare Benefit Plan (HCB Plan)

As of June 30, 2006 and June 30, 2005, there were no net assets held in trust for the payment of post-employment healthcare benefits. In FY 2005, the HCB Plan's assets were all paid out. In February 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

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Pooled Investments	-	-	-	0.00%	-	$9,136,409	$(9,136,409)	-100.00%
Total Assets	-	-	-	0.00%	-	$9,136,409	$(9,136,409)	-100.00%
Current Liabilities	-	-	-	0.00%	-	52,887	(52,887)	-100.00%
Total Liabilities	-	-	-	0.00%	-	$52,887	$(52,887)	-100.00%
Plan Net Assets Held in Trust for Payment of Post-Employment Healthcare Benefits	-	-	-	0.00%	-	$9,083,522	$(9,083,522)	-100.00%

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 54% of plan assets ($2.13 billion reserved out of $3.64 billion in total reserves) as of June 30, 2006, compared to 50% of plan assets ($1.56 billion reserved out of $3.14 billion in total reserves) as of June 30, 2005. A complete listing of SDCERS' reserves and comparative balances for FY 2006 and FY 2005 are set out in the Notes to the Financial Statements.

Current Year Results

Strong investment results plus significant plan sponsor contributions increased additions in FY 2006 plan net assets. These additions exceeded current year benefit payments and deductions, resulting in an increase in plan net assets compared to FY 2005. Key elements of FY 2006 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 from 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 2006 were $822.1 million compared to $599.2 million and $751.3 million for FY 2005 and FY 2004, respectively. A comparative summary is set out in Table 3 below.

Table 3: Defined Benefit Pension Plan Contributions and Investment Earnings

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Sponsors' Contributions	$282,770,428	$145,238,133	$137,532,295	94.69%	$145,238,133	$87,861,650	$57,376,483	65.30%
Members' Contributions Paid by Employers	23,632,010	33,988,447	(10,356,437)	-30.47%	33,988,447	33,951,427	37,020	0.11%
Members' Contributions	32,959,653	18,859,980	14,099,673	74.76%	18,859,980	16,299,646	2,560,334	15.71%
Members' Contributions for Purchased Service Credit	9,645,793	49,339,098	(39,693,305)	-80.45%	49,339,098	75,419,976	(26,080,878)	-34.58%
Earned Interest on Purchased Service Installment Contracts	1,825,921	1,583,235	242,686	15.33%	1,583,235	907,814	675,421	74.40%
Total Net Investment Earnings[1]	455,726,222	350,209,486	105,516,736	30.13%	350,209,486	536,820,063	(186,610,577)	-34.76%
Other Income	15,500,000	-	15,500,000	n/a	-	-	-	n/a
Total Additions	$822,060,027	$599,218,379	$222,841,648	37.19%	$599,218,379	$751,260,576	($152,042,197)	-20.24%

[1] Stated net of investment expenses of $18,315,686, $16,330,752 and $14,781,389 for FY 2006, FY 2005 and FY 2004, respectively.

FY 2006 plan sponsor contributions totaled $282.8 million, an increase of $137.6 million (94.7%) compared to their contributions of $145.2 million in FY 2005. This compares to a 65.3% FY 2005 increase, or $57.4 million, over FY 2004's contributions of $87.9 million. The most significant reason for the increase is the City made an additional contribution of $108.3 million from City tobacco revenue bond proceeds, plus the transfer of its year-end balance of its dedicated UAAL Fund (see *Note 6. Legal Action* and *Note 7. Subsequent Events* in the Notes to the Financial Statements). 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.

FY 2006 members contributions paid by plan sponsors totaled $23.6 million, a decrease of $10.4 million (-30.5%) compared to $34.0 million in both FY 2005 and in FY 2004.

FY 2006 members contributions totaled $33.0 million, an increase of $14.1 million (74.8%) compared to $18.9 million in FY 2005. FY 2005 members contributions increased by $2.6 million (15.7%) from $16.3 million in FY 2004. Increases in members' contributions from FY 2005 to FY 2006 occurred because the City reduced the percentage of member contributions it paid on behalf of its employees.

FY 2006 members contributions for purchased service credit totaled $9.6 million, a decrease of $39.7 million (-80.5%) compared to $49.3 million in FY 2005. FY 2005 members contributions for purchased service credit decreased $26.1 million (-34.6%) from $75.4 million in FY 2004. The FY 2006 and FY 2005 decreases in members contributions were due to reduced participation by employees in the purchase of service credit program.

In FY 2006, net investment earnings totaled $455.7 million, an increase of $105.5 million (30.1%) over FY 2005. By comparison, FY 2005 net investment earnings totaled $350.2 million, a decrease of 34.8%, or $186.6 million compared to net investment earnings of $536.8 million in FY 2004.

A report on SDCERS' investment activity is provided in the Investment Section by Callan Associates, SDCERS' Investment Consultant. This report provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2006, FY 2005 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2006 was +12.7%, compared to +10.8% and +20.2% as of June 30, 2005 and June 30, 2004, respectively. SDCERS' investment performance was in the top 8% of the public fund universe for the trailing year ended June 30, 2006 and in the top 10% of public pension funds in the Callan Associates database over the three-, five-, and ten-year periods ended June 30, 2006. Over the ten-year period ended June 30, 2006, SDCERS' investment performance of 10.0% ranked in the top 3%.

FY 2006 Other Income reflects litigation settlement proceeds of $15.5 million from the Hanson, Bridgett settlement (see *Note 6. Legal Action* in the Notes to the Financial Statements.

Deductions from Plan Assets

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

Defined Benefit Pension Plan (DB Plan)

Total deductions for FY 2006 totaled $260.0 million. Deductions for FY 2005 and FY 2004 totaled $232.3 million and $187.9 million, respectively. A comparative summary is set out in Table 4 below.

Table 4: Defined Benefit Pension Plan Payments and Other Deductions

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Retirement and Disability Allowances and Other Benefit Payments	$214,704,695	$201,006,814	$13,697,881	6.81%	$201,006,814	$161,658,640	$39,348,174	24.34%
Refunds of Members' Contributions	4,559,977	2,802,986	1,756,991	62.68%	2,802,986	2,108,909	694,077	32.91%
Administrative Expenses	18,438,356	11,960,392	6,477,964	54.16%	11,960,392	9,888,752	2,071,640	20.95%
DROP Program Interest Expenses	17,748,612	16,520,216	1,228,396	7.44%	16,520,216	12,735,149	3,785,067	29.72%
Litigation Settlement Expense	4,535,682	-	4,535,682	-	-	1,249,292	(1,249,292)	-100.00%
Allowance for Uncollectable Purchased Service Payments	–	12,096	<12,096>	-100.00%	12,096	244,704	(232,608)	-95.06%
Total Deductions	$259,987,322	$232,302,504	$27,684,818	11.92%	$232,302,504	$187,885,446	$44,417,058	23.64%

In FY 2006, retirement, disability allowances and other benefit payments totaled $214.7 million, or $13.7 million (6.8%) more than FY 2005's payments of $201.0 million. FY 2005's retirement and disability allowances and other benefit payments were 24.3% greater ($39.3 million) than in FY 2004, which totaled $161.7 million.

In FY 2006, refunds of members' contributions totaled $4.6 million, a 62.7% increase ($1.8 million) compared to FY 2005 refunds of $2.8 million. FY 2005 refunds of members' contributions increased by 32.9%, or $0.7 million, over refunds of members' contributions in FY 2004, of $2.1 million.

FY 2006 administrative expenses totaled $18.4 million, an increase of 54.2%, or $6.5 million, over FY 2005 expenses of $12.0 million. Legal fees associated with ongoing litigation and consulting fees associated with the Navigant Report discussed in the Transmittal Letter on Page 3 accounted for most of this increase. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details. FY 2005 administrative expenses increased by 20.9%, or $2.1 million, over FY 2004's administrative expenses of $9.9 million.

FY 2006 DROP Program interest expenses totaled $17.7 million, an increase of 7.4%, or $1.2 million over FY 2005 expenses of $16.5 million. FY 2005 DROP Program interest expenses increased by 29.7%, or $3.8 million, over FY 2004's expense of $12.7 million.

FY 2006 included litigation settlement expenses of $4.5 million from the Hanson, Bridgett settlement (see *Note 6. Legal Action* in the Notes to the Financial Statements.

Coverage - Total Additions Compared to Total Deductions

The increase in plan net assets in FY 2006 continued the experience of FY 2005 and FY 2004, where total additions to the pension plan significantly exceeded total deductions. As set out in Table 5 below, FY 2006 additions of $822.1 million provided more than three times coverage, or 316.2%, of FY 2006 deductions of $260.0 million. In FY 2005, additions of $599.2 million provided two and one-half times coverage, or 258.0%, of FY 2005 deductions of $232.3 million. In FY 2006 and FY 2005, SDCERS experienced an overall increase in plan net assets of $562.1 million and $366.9 million, respectively. FY 2004 additions of $751.3 million supplied nearly four times coverage, or 399.9%, of FY 2004's deductions of $187.9 million, resulting in an overall net increase of $563.4 million in net assets.

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

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Total Additions (Table 3)	$822,060,027	$599,218,379	$222,841,648	37.19%	$599,218,379	$751,260,576	$(152,042,197)	-20.24%
Less Total Deductions (Table 4)	259,987,322	232,302,504	27,684,818	11.92%	232,302,504	187,885,446	44,417,058	23.64%
Net Increase (Decrease) in Defined Benefit Pension Plan's Net Assets	$562,072,705	$366,915,875	$195,156,830	53.19%	$366,915,875	$563,375,130	$(196,459,255)	-34.87%
Additions as a Percentage of Current Year Deductions	316.19%	257.95%	-	n/a	257.95%	399.85%	-	n/a

Additions, Deductions and Changes in Plan Net Assets

Post-Employment Healthcare Benefit Plan (HCB Plan)

There was no activity for the HCB Plan in FY 2006. In FY 2005, the HCB Plan was not allocated any earnings because all available cash was spent during the year, and the City did not contribute to the HCB Plan in FY 2005. The City paid benefits from the FY 2004 carryover balance of $9.1 million, and then funded healthcare benefits directly during FY 2005 after HCB funds were depleted. Beginning in January 2005, 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 are now reported in the City's financial statements.

Table 6 below reflects the changes in HCB Plan assets for FY 2006 and 2005.

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

	2006	2005	Increase/ (Decrease)	Percentage Change	2005	2004	Increase/ (Decrease)	Percentage Change
Total Net Investment Earnings	-	-	-	-	-	$376,109	$(376,109)	-100.00%
Total Additions	-	-	-	-	-	$376,109	$(376,109)	-100.00%
Health Insurance Payments	-	$7,910,366	$(7,910,366)	-100.00%	$7,910,366	$12,829,903	$(4,919,537)	-38.34%
Administrative Expenses	-	-	-	-	-	274,511	(274,511)	-100.00%
Total Deductions	-	$7,910,366	$(7,910,366)	-100.00%	$7,910,366	$13,104,414	$(5,194,048)	-39.64%
Net Increase (Decease)	-	(7,910,366)	7,910,366	100.00%	(7,910,366)	(12,728,305)	4,817,939	37.85%
Transfer of Plan Net Assets[1]	-	$(1,173,156)	$1,173,156	100.00%	(1,173,156)	-	(1,173,156)	100.00%
Net Increase (Decrease) in Post-Employment Healthcare Benefit Plan's Net Assets	-	$(9,083,522)	$9,083,522	100.00%	$(9,083,522)	$(12,728,305)	$3,644,783	28.64%

[1] 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 Municipal Code.

As part of SDCERS' Voluntary Correction Program (VCP) filing with the Internal Revenue Service (IRS), it was determined that the costs incurred by SDCERS in the coordination 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 the City reimbursed SDCERS for these costs. Beginning in FY 2006, SDCERS invoices 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 issues either 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.

San Diego City Employees' Retirement System
Statements of Plan Net Assets

June 30, 2006 and June 30, 2005

	2006		2005	
	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	$3,960,205	-	$2,173,813	-
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	489,232,676	-	438,782,019	-
Total Cash and Cash Equivalents	493,192,881	-	440,955,832	-
Receivables				
Plan Sponsors' and Members' Contributions	9,799,286	-	13,318,684	-
Members' - Purchased Service Contracts	20,300,054	-	23,214,041	-
Accrued Interest Receivable	13,131,506	-	12,477,254	-
Securities Sold	48,576,193	-	85,818,964	-
Total Receivables	91,807,039	-	134,828,943	-
Investments, at Fair Value				
Short-Term Investments	192,171,460	-	148,312,263	-
Domestic Fixed Income Securities	774,124,852	-	650,394,370	-
International Fixed Income Securities	166,742,930	-	166,571,754	-
Domestic Equity Securities	1,605,508,248	-	1,408,072,427	-
International Equity Securities	703,112,207	-	580,214,627	-
Mortgages	5,916	-	9,154	-
Directly-Owned Real Estate Assets and Real Estate Equity Securities	385,200,362	-	317,941,072	-
Total Investments	3,826,865,975	-	3,271,515,667	-
Securities Lending Cash Collateral	581,289,763	-	434,363,945	-
Total Investments Including Securities Lending Cash Collateral	4,408,155,738	-	3,705,879,612	-
Prepaid Expenses	8,955		300	
Properties at Cost, Net of Accumulated Depreciation of $289,924 and $253,787, Respectively	116,125	-	141,380	-
TOTAL ASSETS	$4,993,280,738	-	$4,281,806,067	-
LIABILITIES				
Accounts Payable	$923,558	-	$461,515	-
Investment Related Fees Payable	4,588,059	-	3,846,249	-
Accrued Wages and Benefits	513,366	-	702,742	-
DROP Program Liability	225,570,341	-	228,511,194	-
Pension Liability	238,669	-	600,004	-
Securities Purchased	166,332,290	-	161,568,431	-
Securities Lending Obligations for Cash Collateral	581,289,763	-	434,363,945	-
TOTAL LIABILITIES	$979,456,046	-	$830,054,080	-
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION 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.)	$4,013,824,692	-	$3,451,751,987	-

For a further understanding of the Statements of Plan Net Assets, 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, 2006 and June 30, 2005

	2006 Defined Benefit Pension Plan	2006 Post-Employment Healthcare Benefit Plan	2005 Defined Benefit Pension Plan	2005 Post-Employment Healthcare Benefit Plan
ADDITIONS				
Contributions				
City of San Diego (City)				
Plan Sponsor	$271,349,109	-	$130,000,000	-
Members' Portion Paid by Plan Sponsor	19,261,595	-	29,893,945	-
Members'	31,426,532	-	17,123,839	-
Members' for Purchased Service	8,220,378	-	45,703,461	-
Total City Contributions	330,257,614	-	222,721,245	-
Unified Port of San Diego (Port)				
Plan Sponsor	8,121,319	-	7,613,081	-
Members' Portion Paid by Plan Sponsor	2,958,863	-	2,762,902	-
Members'	1,023,924	-	1,174,034	-
Members' for Purchased Service	1,029,739	-	2,716,550	-
Total Port Contributions	13,133,845	-	14,266,567	-
San Diego County Regional Airport Authority (Airport)				
Plan Sponsor	3,300,000	-	7,625,052	-
Members' Portion Paid by Plan Sponsor	1,411,552	-	1,331,600	-
Members'	509,197	-	562,107	-
Members' for Purchased Service	395,676	-	919,087	-
Total Airport Contributions	5,616,425	-	10,437,846	-
Earned Interest on Purchased Service Installment Contracts	1,825,921	-	1,583,235	-
Total Contributions	350,833,805	-	249,008,893	-
Investment Earnings				
Net Appreciation (Depreciation) in Fair Value of Investments				
Equity (Stocks)	323,221,701	-	185,752,215	-
Fixed Income (Bonds)	(39,172,930)	-	27,835,694	-
Real Estate Equity and Real Estate Securities (Stocks)	61,993,612	-	51,956,089	-
Total Net Appreciation (Depreciation) in Fair Value of Investments	346,042,383	-	265,543,998	-
Investment Income				
Equity (Stocks) - Dividends, Litigation Settlements	50,626,139	-	44,727,630	-
Fixed Income (Bonds) - Interest	65,542,688	-	44,066,392	-
Mortgages - Income	774	-	1,110	-
Real Estate - Income	10,472,870	-	11,302,610	-
Total Investment Income	126,642,471	-	100,097,742	-
Less Investment Expenses	(18,315,686)	-	(16,330,752)	-
Total Net Investment Income	454,369,168	-	349,310,988	-
Securities Lending Income				
Gross Earnings	21,260,897	-	8,045,405	-
Borrower Rebates	(19,405,965)	-	(6,814,663)	-
Administrative Expenses (Lending Agent)	(497,878)	-	(332,244)	-
Net Securities Lending Income	1,357,054	-	898,498	-
Total Net Investment Earnings	455,726,222	-	350,209,486	
Other Income				
Litigation Proceeds	15,500,000	-	-	-
TOTAL ADDITIONS	$822,060,027	-	$599,218,379	-

San Diego City Employees' Retirement System
Statements of Changes in Plan Net Assets (continued)
June 30, 2006 and June 30, 2005

	2006		2005	
	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	$204,170,364	-	$180,246,564	-
13th Check	4,358,823	-	4,139,464	-
Health Insurance	-	-	-	$7,910,366
Corbett Benefit	5,498,098	-	16,023,644	-
Death Benefit	677,410	-	597,142	-
Total Benefit Payments	214,704,695	-	201,006,814	7,910,366
Refunds of Members' Contributions	4,559,977	-	2,802,986	-
Administrative Expenses	18,438,356	-	11,960,392	-
DROP Program Interest Expenses	17,748,612	-	16,520,216	-
Litigation Settlement Expense	4,535,682	-	-	-
Allowance for Uncollectable Purchased Service Payments	—	-	12,096	-
TOTAL DEDUCTIONS	$259,987,322	-	$232,302,504	$7,910,366
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION AND POST-EMPLOYMENT HEALTHCARE BENEFITS				
BEGINNING OF YEAR	$3,451,751,987	-	$3,083,662,956	$9,083,522
Transfer of Plan Net Assets	-	-	1,173,156	(1,173,156)
NET INCREASE (DECREASE)	562,072,705	-	366,915,875	(7,910,366)
END OF YEAR	$4,013,824,692	-	$3,451,751,987	-

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

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2006 and June 30, 2005

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, 2006, 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 (FY 2005 and 2006) and Healthcare Benefit Plan Trust Fund (FY 2005 only; there was no Healthcare Benefit Plan activity in SDCERS' financials for FY 2006).

Member contributions are recognized in the period in which they 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 $3,960,205 and $2,173,813 on deposit in the pool as of June 30, 2006 and June 30, 2005, respectively.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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

SDCERS does not have a target investment allocation to cash. The balances in the audited financial statements of Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents totaled $489,232,676 as of June 30, 2006, and $438,782,019 as of June 30, 2005. These balances represent a significant portion of plan assets that are identified as the cash collateral, invested in U.S. Government Federal Funds, from three market neutral portfolios (long and short U.S. equity positions) held with prime brokers (agents). These market neutral portfolios totaled $397,119,095 as of June 30, 2006, and $346,826,274 as of June 30, 2005. The market neutral portfolios are classified as domestic fixed income (short duration - defensive) investment strategies in SDCERS' strategic target asset allocation.

Receivables

SDCERS' receivables include items representing accrued employer and employee 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 balance 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 its 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 Statements 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 capital 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
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June 30, 2006 and June 30, 2005

Liabilities

Liabilities reflect accrued financial obligations of SDCERS as of June 30, 2006, including the repayment of securities lending collateral at a future date. In accordance with GASB Statement No. 25, securities purchased represent 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 a tax-qualified Trust Fund under Section 401(a) of the Internal Revenue Code (IRC). All of SDCERS administration expenses are 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. In July 2005, SDCERS filed a request for a determination letter (Form 5300) from the Internal Revenue Service. While a determination letter is not required for SDCERS' plan to be tax-qualified, it will confirm SDCERS' status as a qualified governmental pension plan. That request remains pending at this time.

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.

Implementation of New Accounting Pronouncements

SDCERS 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

2. Plan Descriptions

General

SDCERS is the agent of a multiple-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.

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 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, except for elected officers who have the choice as to whether or not to join.

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

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS' total number of participants increased by 252 in FY 2006. This was comprised of a net decrease of 173 Members and a net increase of 425 Retirees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Membership

		As of June 30, 2006				As of June 30, 2005			
		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 2006: 12,379 2005: 12,552 Decrease: (173)	Active Vested	3,578	1,449	346	127	3,686	1,597	316	104
	Deferred Vested	594	138	94	14	476	101	86	10
	Active Non-Vested	2,831	1,029	186	168	3,122	1,031	242	180
	Inactive Non-Vested	1,389	238	167	31	1,256	165	164	16
Retirees 2006: 6,733 2005: 6,308 Increase: 425	Retired[1]	3,270	2,172	299	5	3,102	2,055	291	4
	DROP Participants[2]	530	429	26	2	478	360	15	3
Total Members and Retirees 2006: 19,112 2005: 18,860 Increase: 252	Totals	12,192	5,455	1,118	347	12,120	5,309	1,114	317

[1] There are 31 additional members counted in 2006 compared to 2005 due to members who receive benefits from more than one plan. 13 City-Gen, 17 City-Safety, 1 Port.

[2] There are 50 additional DROP members counted in 2006 compared to 2005 due to members who receive benefits from more than one plan. 24 City-Gen, 24 City-Safety, 2 Port.

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 the San Diego Municipal Code.

Eligibility Requirements

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

Health-eligible Benefit

City retirees are either health-eligible or non-health-eligible. To be "health eligible," a retiree must: (1) have been on the active City payroll on or after October 5, 1980; (2) retired on or after October 6, 1980; and (3) be eligible for and receiving a pension allowance from SDCERS. As of June 30, 2006, 3,765 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 $566.98 per month in addition to the monthly Medicare Part B premium ($88.50 per month for 2006). These amounts change annually. Non-Medicare eligible retirees may receive reimbursement or payment of health premiums only, up to $602.04 per month. This amount changes annually.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 before October 6, 1980, and are receiving a pension allowance from SDCERS. As of June 30, 2006, there were 601 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 24 eligible benefit recipients as of June 30, 2006.

Contributions

The HCB Plan is funded by the City. In FY 2006 and FY 2005, 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.

The City completed its most recent actuarial valuation for the HCB Plan dated as of June 30, 2007.

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, 2006 and June 30, 2005

3. Deposits and Investments

Cash

At June 30, 2006 and June 30, 2005, SDCERS' cash or equity in pooled cash and investments, cash and cash equivalents, and investments were as follows:

	June 30, 2006	June 30, 2005
Cash or equity in pooled cash and investments on deposit with the City of San Diego	$3,960,205	$2,173,813
Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents[1]	489,232,676	438,782,019
Net investments (including accrued interest receivable, plus accrued interest on investments purchased, plus receivable for securities sold less liability for securities purchased)	3,722,241,384	3,208,243,454
Totals	$4,215,434,265	$3,649,199,286

[1] Includes cash collateral from market neutral portfolios (defensive, domestic fixed income investment strategy) that totaled $397,119,095 as of June 30, 2006, and $346,826,274 as of June 30, 2005. These amounts also include residual cash of $86,047,039 as of June 30, 2006, and $71,598,118 as of June 30, 2005, 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 authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the City Council. These investments include 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 that 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 $410,233,183 as of June 30, 2006, and $310,061,227 as of June 30, 2005. Realized gains and losses determine whether or not certain SDCERS contingent benefits will be paid each fiscal year, in accordance with the San Diego Municipal Code.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Through its investment objectives and policies, SDCERS' Board has placed considerable importance on both generating a reasonable rate of return above inflation in order to ensure the payment of benefits to retirees and on the preservation of capital. Investments are made only after the risks are clearly understood and the impact on SDCERS' total Trust Fund portfolio is analyzed.

Portfolio Risk – Credit, Interest Rate, and Foreign Currency

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. The returns of fixed income strategies vary less than equity returns, 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, 2006 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, All Qualities. SDCERS' overall portfolio diversification limits the fixed income 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.

The market neutral and convertible bond strategies do not exhibit interest rate risk nor is duration a relevant determinant in structuring these portfolios. Convertible securities are positively correlated to interest rates; if interest rates increase convertible bonds are not likely to lose value like a traditional fixed income security (bond). The valuation of a convertible security is tied to the value of a company's common stock. 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. SDCERS' market neutral strategy was added to SDCERS' fixed income strategy in 1998. This strategy 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. The balance of SDCERS' fixed income portfolio (25.5% target of total invested assets) is sensitive to credit risk and interest rate risk.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. Nationally recognized statistical rating organizations assign ratings to measuring credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors. SDCERS employs a Domestic fixed income manager that invests in convertible bonds. When assessing convertible bonds, credit risk is not heavily relied upon in the decision to purchase the convertible bond because it is the performance of the underlying common stock of that company that predicts 80% of the return of the convertible bond. SDCERS also employs two core-plus bond managers that invest in a wide variety of fixed income and derivative securities. The investment management agreements between SDCERS' and its two core-plus bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' Domestic core plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other Domestic core-plus fixed income manager is limited to U.S. fixed income investments only.

The permitted securities and 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, such as: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (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 Emerging Market Bond Index Global and the Emerging Markets Local Index Plus
- 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 for countries rated below BBB- is 3%
- 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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 CDs, TDs, and commercial paper
- U.S. and Eurodollar floating rate notes and CDs
- 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 securities
- Certificates of Deposit
- Euro Treasury Deposits*
- Municipal 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

* Only applies to permitted investments for manager with tactical discretion to invest in Non-U.S. fixed income strategies.

Additional portfolio structure parameters within the specific 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, 2006 and June 30, 2005

The following tables identify the credit quality of each of SDCERS' Domestic core-plus fixed income strategies based on portfolio holdings as of June 30, 2006 and June 30, 2005.

Domestic Fixed Income Portfolio
(with tactical discretion to invest in non-U.S. fixed income securities)
Credit Risk Analysis as of June 30, 2006

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Credit Obligations	U.S. Government & Agency Obligations	International Government Obligations	Collateralized Mortgage Obligations	Short-Term/ Other
AAA	Aaa	$245,808,173	-	$30,605,970	$1,307,739	$213,894,464	-
AAA	NR	8,540,542	-	-	-	8,540,542	-
A1	P1	20,608,582	-	-	-	-	$20,608,582
A1+	P1	74,848,484	-	-	-	-	74,848,484
AA+	Aa2	360,570	$360,570	-	-	-	-
AA	Aa1	12,218,088	586,158	1,149,454	(1,019,560)[1]	-	11,502,036
AA	Aa2	(1,215,853)	186,917	-	(1,402,770)[1]	-	-
AA-	Aa1	8,424,927	-	-	-	-	8,424,927
AA-	Aa3	(13,392,030)	-	(1,455)[1]	(13,390,575)[1]	-	-
A+	A1	3,104,798	-	-	-	-	3,104,798
A+	Aa3	-	-	-	-	-	-
A	A1	6,391,262	562,681	(2,670)[1]	4,743,480	-	1,087,771
A	A2	-	-	-	-	-	-
A-	A2	987,513	-	-	186,338	-	801,175
A-	Baa2	201,676	201,676	-	-	-	-
BBB+	A2	1,824,785	1,724,730	-	-	-	100,055
BBB	Baa1	2,063,565	186,412	-	1,877,153	-	-
BBB	A3	492,000	492,000	-	-	-	-
BBB	Baa3	2,686,107	2,686,107	-	-	-	-
BB	Ba3	1,335,150	694,750	-	640,400	-	-
BB	Ba1	2,597,932	2,597,932	-	-	-	-
B	B2	2,123,500	2,123,500	-	-	-	-
B	B3	10,753	10,753	-	-	-	-
B+	Caa2	2,695,422	2,695,422	-	-	-	-
NR	NR	22,176,500	-	8,978,484[2]	13,198,016	-	-
NR	AAA	818,447	818,447	-	-	-	-
NR	Aa2	(3,305)	-	(3,305)[1]	-	-	-
TOTALS		$405,707,587	$15,928,055	$40,726,478	$6,140,221	$222,435,006	$120,477,827

[1] Negative amounts are representative of pay fixed interest rate swaps.

[2] This value represents swaptions that are not rated.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government Obligations	Collateralized Mortgage Obligations	Short-Term/ Other
AAA	Aaa	$209,932,115	-	-	$41,731,413	$9,914,239	$158,286,463	-
AAA	NA	889,651	-	-	-	-	889,651	-
A1	P1	20,439,162	-	-	-	-	-	$20,439,162
A1+	P1	70,127,693	-	-	-	-	-	70,127,693
AA+	Aa2	683,884	-	$395,115	-	288,769	-	-
AA	Aa1	(152,920)	-	-	-	(152,920)[1]	-	-
AA-	Aa1	391,704	-	-	-	391,704	-	-
A+	A1	199,956	-	-	-	-	-	199,956
A+	Aa3	1,178,819	-	-	-	1,178,819	-	-
A	A2	3,556,665	$3,556,665	-	-	-	-	-
A-	A2	335,086	-	335,086	-	-	-	-
BBB	A3	3,602,287	-	502,225	-	-	-	3,100,062
BBB	Baa3	2,284,692	-	2,284,692	-	-	-	-
BBB	Baa1	1,054,480	-	-	-	1,054,480	-	-
BBB-	Baa3	6,220,239	-	1,030,954	-	5,189,285	-	-
BB+	Ba1	5,316,723	-	4,604,719	-	-	-	712,004
BB	Baa2	4,032,949	-	3,215,041	-	-	-	817,908
BB	Ba3	1,468,750	-	-	-	1,468,750	-	-
BB-	B1	4,798,153	-	3,220,639	-	1.577.514	-	-
B	Caa2	10,588	-	10,588	-	-	-	-
B-	Caa1	911,250	-	911,250	-	-	-	-
CCC+	Caa1	828,000	-	828,000	-	-	-	-
NR	NR	18,037,104	-	1,317,235	-	16,719,869	-	-
NR	AAA	3,703,261	-	-	3,703,261	-	-	-
Total		$359,850,291	$3,556,665	$18,655,544	$45,434,674	$37,630,509	$159,176,114	$95,396,785

[1] Negative amounts are representative of pay fixed interest rate swaps.

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Domestic Fixed Income Portfolio
Credit Risk Analysis By Rating Agency as of June 30, 2006

S&P Quality Rating	Total Fair Value	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
US Treasury	$158,812,140	$158,383,145	-	$428,995	-
AAA	112,110,239	-	$3,005,365	99,802,415	$ 9,302,459
AA+	3,364,368	-	-	-	3,364,368
A+	11,758,938	-	11,758,938	-	-
A-	15,437,901	-	15,437,901	-	-
A	4,566,883	-	4,566,883	-	-
BBB+	6,855,988	-	6,855,988	-	-
BBB	3,801,042	-	3,801,042	-	-
BBB-	20,400,584	-	20,400,584	-	-
BB+	4,195,014	-	4,195,014	-	-
BB	15,700,099	-	15,700,099	-	-
BB-	3,692,558	-	3,400,348	-	292,210
B+	8,743,038	-	8,743,038	-	-
B-	339,230	-	339,230	-	-
NA	3,882,353	-	-	3,882,353	-
NR[1]	55,358,652	-	-	55,358,652	-
Totals	$429,019,027	$158,383,145	$98,204,430	$159,472,415	$12,959,037

Moody's Quality Rating	Total Fair Value	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
U.S. Treasury	$158,812,140	$158,383,145	-	$428,995	-
Aaa	56,797,054	-	$3,005,365	44,489,230	$9,302,459
Aa3	8,187,178	-	8,187,178	-	-
A1	8,138,643	-	8,138,643	-	-
A2	6,710,575	-	6,710,575	-	-
Baa1	4,913,984	-	4,913,984	-	-
Baa2	13,980,704	-	13,980,704	-	-
Baa3	16,991,522	-	16,991,522	-	-
Ba1	14,818,564	-	14,818,564	-	-
Ba2	14,894,027	-	14,601,817	-	292,210
Ba3	3,584,812	-	3,584,812	-	-
B3	3,271,266	-	3,271,266	-	-
NA	62,559,906	-	-	59,195,538	3,364,368
NR[1]	55,358,652	-	-	55,358,652	-
Totals	$429,019,027	$158,383,145	$98,204,430	$159,472,415	$12,959,037

[1] Issued by governmental agencies.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Domestic Fixed Income Portfolio
Credit Risk Analysis By Rating Agency as of June 30, 2005

S&P Quality Rating	Total Fair Value	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
US Treasury	$84,086,721	$80,371,856	-	$3,714,865	-
Agency	3,563,414	3,563,414	-	-	-
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	5,985,368	-	352,276	5,633,092	-
NR[1]	47,318,299	-	-	47,318,299	-
Totals	$349,908,905	$83,935,270	$90,799,554	$144,889,124	$30,284,957

Moody's Quality Rating	Total	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
U.S. Treasury	$84,086,721	$80,371,856	-	$3,714,865	-
Agency	3,563,414	3,563,414	-	-	-
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	45,219,153	-	2,046,661	39,306,000	3,866,492
NR[1]	47,318,299	-	-	47,318,299	-
Totals	$349,908,905	$83,935,270	$90,799,554	$144,889,124	$30,284,957

[1] Issued by governmental agencies.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 has the following credit and market risk parameters: 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. Credit ratings refer to the long-term foreign currency rating.

The tables below display the credit quality of SDCERS' international fixed income strategy as of June 30, 2006 and June 30, 2005.

International Fixed Income Portfolio
Credit Risk Analysis as of June 30, 2006

Credit Rating	Total Market Value	Cash & Forward Foreign Exchange	Asset Backed Securities	Credit Obligations	International Government & Agency Obligations
AAA	$145,802,629	$5,874,534	$3,321,877	$25,890,505	$110,715,713
AA+	7,807,780	-	-	-	7,807,780
AA-	14,321,263	-	-	-	14,321,263
A-	3,428,396	-	-	345,609	3,082,787
BBB	1,804,844	-	-	-	1,804,844
BB-	1,274,886	-	-	-	1,274,886
B+	537,069	-	-	-	537,069
B	396,542	-	-	-	396,542
B-	408,956	-	-	-	408,956
Totals	$175,782,365	$5,874,534	$3,321,877	$26,236,114	$140,349,840

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

International Fixed Income Portfolio
Credit Risk Analysis 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-	11,740,994	-	-	-	11,740,994
A-	3,315,979	-	-	383,859	2,932,120
BBB	985,576	-	-	-	985,576
BBB-	3,929,562	-	-	-	3,929,562
BB-	1,019,423	-	-	-	1,019,423
B+	4,515,429	-	-	-	4,515,429
B	160,100	-	-	-	160,100
B-	513,694	-	-	-	513,694
Totals	$176,269,315	$6,318,844	$3,611,670	$26,755,314	$139,583,487

Concentration guidelines for this portfolio are as follows:

The developed market component of the portfolio may be invested in the following securities: sovereign and supranational, Eurodollar bonds, corporate bonds 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 and 40 issues at any given time. Portfolio turnover is expected to be about 180% per year. In the developed market component, 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 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 Emerging Market Bond Index Global and the Emerging Local Markets Index Plus.
- 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 for countries rated below BBB- is 3%.
- 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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.

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.

SDCERS' Domestic convertible bond portfolio is not subject to interest rate risk as convertible bonds are usually positively correlated to interest rate movements versus other fixed income securities.

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, 2006 and June 30, 2005.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Domestic Fixed Income Portfolio
(with tactical discretion to invest in non-U.S. fixed income securities)
Portfolio Duration Analysis as of June 30, 2006

Type of Security	Fair Value	% of Fair Value	Effective Duration (in years)	Effective Duration Contribution to Portfolio (in years)	% Duration of Portfolio
Credit Obligations:					
Corporate Bonds	$3,551,142	0.9%	5.60	0.05	0.9%
High Yield	8,122,356	2.0%	1.86	0.04	0.7%
Municipal Bonds	4,254,557	1.0%	15.21	0.16	3.1%
U.S. Government & Agency Obligations:					
US Treasuries	31,275,443	7.7%	6.32	0.49	9.4%
US Agencies	9,451,035	2.3%	4.18	0.10	1.9%
International Government:					
Sovereign & Yankee Bonds	3,436,331	0.8%	(23.67)[1]	(0.20)	-3.9%
Emerging Markets	2,703,890	0.7%	3.35	0.02	0.4%
Collateralized Mortgage Obligations:					
Mortgages[2]	202,839,330	50.0%	4.96	2.48	48.0%
Collateralized Mortgage Obligations[2]	19,595,676	4.8%	2.90	0.14	2.7%
Short-Term/Other:					
Miscellaneous	4,163,093	1.0%	1.88	0.02	0.4%
Cash/Cash Equivalents	116,314,735	28.7%	6.55	1.88	36.3%
Total Portfolio	$405,707,588	100.0%		5.17	100.0%

[1] Due to the very small market value percentage, the sector duration for Sovereign and Yankee bonds appears inflated. The negative duration contribution from the Non-U.S. sector was an expression of the manager's view that intermediate interest rates in Europe and Japan would rise. This exposure was put in place in the International Sector Fund via pay fixed interest rate swaps, bringing the sector fund duration to -2.52 years (while having a positive market value) and the duration contribution from that commingled vehicle to -0.08 years. The remaining -0.12 years of duration contribution came from direct investments in pay fixed interest rate swaps.

[2] Mortgages represent agency pass-through securities and Collateralized Mortgage Obligations represent structured products backed by mortgages with this manager holding specific traunches.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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

Type of Security	Fair Value	% of Fair Value	Effective Duration (in years)	Effective Duration Contribution to Portfolio (in years)	% Duration of Portfolio
Securitized:					
Asset Backed Securities	$3,556,665	0.99%	2.50	0.02	0.6%
Credit Obligations:					
Corporate Bonds	8,828,904	2.5%	1.42	0.03	0.9%
High Yield	5,627,937	1.6%	3.97	0.06	1.6%
Municipal Bonds	4,198,703	1.2%	16.68	0.19	4.9%
U.S. Government & Agency Obligations:					
US Treasuries	35,988,648	10.0%	9.21	0.92	23.1%
US Agencies	9,446,026	2.6%	3.20	0.08	2.1%
International Government:					
Sovereign & Yankee Bonds	28,340,480	7.9%	10.22	0.81	20.2%
Emerging Markets	9,290,029	2.6%	5.11	0.13	3.3%
Collateralized Mortgage Obligations:					
Mortgages	147,085,144	40.9%	2.47	1.01	25.3%
Collateralized Mortgage Obligations	12,090,970	3.4%	3.87	0.13	3.3%
Short-Term/Other:					
Miscellaneous	8,045,466	2.2%	2.14	0.05	1.2%
Cash/Cash Equivalents	87,351,319	24.3%	2.25	0.55	13.7%
Total Portfolio	$359,850,291	100.0%		3.99	100.0%

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Domestic Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2006

Type of Security	Fair Value	Effective Duration	Benchmark Duration	Difference
Governments	$158,383,145	5.74	4.50	1.24
Corporates	98,204,430	4.56	5.82	-1.26
Mortgage Backed Securities	159,472,415	3.57	4.57	-1.00
Asset-Backed Securities	12,959,037	3.98	2.76	1.22
Cash Equivalents[1]	(13,555,868)	(0.01)	0.00	-0.01
Totals	$415,463,159	4.76	4.80	-0.04

Domestic Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2005

Type of Security	Fair Value	Effective Duration	Benchmark Duration	Difference
Governments	$83,935,269	5.83	4.81	1.02
Corporates	90,799,554	5.34	5.99	-0.65
Mortgage Backed Securities	144,889,123	2.31	2.44	-0.13
Asset-Backed Securities	30,284,958	0.94	2.63	-1.69
Cash Equivalents[1]	12,384,592	0.06	0	0.06
Totals	$362,293,496	3.69	4.16	-0.47

The above strategy is restricted to an average duration of +/- 1 year from that of the effective duration of the Lehman Brothers Aggregate Index.

[1] Net cash expense is included on this schedule, as cash is a portfolio duration arrangement tool in fixed income investing.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

International Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2006

Type of Security	Fair Value	Effective Duration	Benchmark Duration	Difference
Cash and Forward Foreign Exchange	$5,874,534	0.00	0.00	0.00
Asset Backed Securities	3,321,877	4.48	0.00	4.48
Credit Obligations	26,236,114	3.70	0.00	3.70
International Government & Agency	140,349,840	6.57	6.12	0.45
Totals	$175,782,365	5.88	6.12	(0.24)

International Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2005

Type of Security	Fair 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	0.00	0.00	0.00
International Government & Agency	139,583,489	6.97	6.18	0.79
Totals	$176,269,318	6.28	6.18	0.09

The above strategy 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, 2006 and June 30, 2005

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. As of June 30, 2006 and June 30, 2005, SDCERS had no single issuer that exceeded 5% of 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. There are no general policies addressing the concentration of credit risk, however, as noted previously in the discussion of credit risk. However, specific investment guidelines with each manager place limitations on the maximum holdings in any one issuer.

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, 2006, and June 30, 2005, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. Cash and cash equivalents on deposit with SDCERS' custodial bank totaled $92,113,581 as of June 30, 2006, and $91,955,745 as of June 30, 2005.

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled $8,699,643 and $2,368,349 as of June 30, 2006, and June 30, 2005, respectively and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled $581,289,763 and $434,363,945 as of June 30, 2006, and June 30, 2005, is also at risk as it invested is a pooled vehicle managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section in the Notes to the Financial Statements

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 tables represent securities held in a foreign currency as of June 30, 2006 and June 30, 2005.

Foreign Exchange Risk as of June 30, 2006
(All Values are in U.S. Dollars)

Local Currency Name	Cash	Equity	Fixed Income	Other	Total
Australian Pound	$5,102,846	$4,509,971	-	-	$9,612,817
Brazilian Real	30,765	2,923,663	-	-	2,954,428
Canadian Dollar	122,274	24,210,090	$10,248,742	-	34,581,106
Danish Krone	-	1,205,125	8,295,364	-	9,500,489
Euro	5,914,270	228,531,381	66,871,625	-	301,317,276
Hong Kong Dollar	43,277	7,605,189	-	-	7,648,466
Hungarian Forint	-	1,099,077	-	-	1,099,077
Indonesian Rupiah	15,571	1,762,922	-	-	1,778,493
Israeli Shekel	-	401,719	-	-	401,719
Japanese Yen	1,699,954	133,700,083	43,483,258	-	178,883,295
Mexican Peso	-	2,374,704	-	-	2,374,704
New Zealand Dollar	-	925,383	-	-	925,383
Norwegian Krone	-	6,630,100	11,490,116	-	18,120,216
Philippine Peso	(2)	516,408	-	-	516,406
Singapore Dollar	-	16,083,191	-	-	16,083,191
South African Rand	404,296	4,896,050	-	-	5,300,346
South Korean Won	77	12,549,690	2,803,600	-	15,353,367
Swedish Krona	-	9,159,372	-	-	9,159,372
Swiss Franc	2	42,711,326	-	-	42,711,328
Thailand Baht	-	2,402,587	-	-	2,402,587
UK Pound	100,851	84,081,926	19,399,402	$(79,350)	103,502,829
Totals	$13,434,181	$588,279,957	$162,592,107	$(79,350)	$764,226,895

The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

The negative value on Other represents Put Options written denominated in Pound Sterling and the negative value in Cash in the Philippine Peso resulted from pending trade activity at year-end in securities denominated in that currency.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Foreign Exchange Risk
as of June 30, 2005
(All Values are in U.S. Dollars)

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	3,562,908	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
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
UK Pound	75,801	81,788,022	10,822,438	-	92,686,261
Totals	$5,264,622	$467,510,397	$166,010,001	$973,958	$639,758,978

The Other category represents Rights denominated in Singapore Dollars and Depository Receipts denominated in Swedish Krona.

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 able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. As such, SDCERS does not have a policy to strategically hedge against fluctuations in foreign exchange rates. SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their Investment Management Agreements.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Derivative Instruments

SDCERS' investment managers, as permitted by their specific investment guidelines in their investment advisory agreement, may invest in or otherwise enter into transactions involving derivative financial instruments, consistent with the objectives established by the Board's Investment Policy Statement. These instruments include futures, options and swaps and by Board policy may not be used to leverage SDCERS' portfolio. These instruments are used primarily to enhance a portfolio's performance and reduce the portfolio's risk or volatility. SDCERS could be exposed to credit risk if a counterparty fails to perform; however, 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 mitigated through the use of exchange traded contracts on organized exchanges. 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 a manager's Specific Investment Guidelines, through the buying or selling of instruments or entering into offsetting 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, 2006 and June 30, 2005, were as follows:

	At June 30, 2006
Money Market Futures	$542,695,850
Government Bond Futures	27,843,077
Options	(1,533,176)
Swaps	23,268
Total Derivatives	$569,029,019

	At June 30, 2005
Money Market Futures	$181,010,038
Government Bond Futures	22,889,243
Options	(102,281)
Swaps	373,746
Total Derivatives	$204,170,746

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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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.

Investments Highly Sensitive to Interest Rate Changes

SDCERS' fixed income investment managers construct portfolios that contain fixed income and derivative securities that all have attributes of convexity and are all sensitive in varying degrees to changes in interest rates. SDCERS' managers select securities that when aggregated together create an overall investment strategy and total portfolio duration.

Domestic Fixed Income Manager (with tactical discretion to invest in non-U.S. securities)

SDCERS' domestic fixed income manager (with tactical discretion to invest in Non-U.S. securities) uses two methods to measure interest rate sensitivity. The first measure is "Bull" Duration or the scenario whereby interest rates decline by 50 basis points. The second measure is "Bear" Duration, or the scenario whereby interest rates rise by 50 basis points. The analysis of interest rate change import on duration for this portfolio as of June 30, 2006, and June 30, 2005, is shown in the tables below.

<u>As of June 30, 2006</u>

Total Effective Duration:	5.17 years.
Bull Duration:	4.50 years – portfolio duration shortens by -0.67 during a 50 basis point rally (contraction risk).
Bear Duration:	5.64 years – portfolio duration lengthens by +0.47 years during a 50 basis point sell off (extension risk).

<u>As of June June 30, 2005</u>

Total Duration:	3.99 years.
Bull Duration:	3.32 years – portfolio duration shortens by -0.67 during a 50 basis point rally (contraction risk).
Bear Duration:	4.62 years – portfolio duration lengthens by +0.63 years during a 50 basis point sell off (extension risk).

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Domestic Fixed Income Manager

SDCERS' core plus domestic fixed income manager views the interest sensitivity, i.e., duration, of this portfolio based on the aggregate holdings. The composite characteristics of SDCERS' portfolio represent an average sensitivity within one year of the Lehman Brothers Aggregate Index benchmark.

Despite particular characteristics of individual holdings that are different than the portfolio average, these holdings are selected for inclusion in the portfolio for various attributes that each may contribute to overall portfolio interest rate sensitivity. Yield curve positioning is one rationale, for which holdings may be situated to benefit from a steepening or flattening in the term structure of interest rates. Alternatively, other holdings may represent attractive yielding interest rate hedges, such as the interest only strips, that tend to outperform when rates move higher and prepayments slow on underlying mortgages. Finally, other holdings are purchased when they represent attractively priced future cash flows. The total value of securities that are more highly sensitive to interest changes in this portfolio as of June 30, 2006, and June 30, 2005 are depicted in the tables below.

As of June 30, 2006

Holdings (U.S. Treasury and Corporate securities) with greater than 10 years duration totaled $34,351,469, or 8.27% of the portfolio.

Holdings with interest only strips and inverse floating rate notes totaled $9,845,087, or 2.37% of the portfolio.

As of June 30, 2005

Holdings (U.S. Treasury and Corporate securities) with greater than 10 years duration totaled $36,149,322, or 9.98% of the portfolio.

Holdings with interest only strips and inverse floating rate notes totaled $9,200,384, or 2.54% of the portfolio.

International Fixed Income Manager

The analysis for this portfolio as of June 30, 2006, and June 30, 2005, is displayed in the tables below.

As of June 30, 2006

Total Effective Duration:	5.88 years.
Duration with 50 basis point decrease in interest rates:	-2.7138% decrease in portfolio value.

As of June 30, 2005

Total Effective Duration:	6.28 years.
Duration with 50 basis point decrease in interest rates:	-2.6070% decrease in portfolio value.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

Real Estate

SDCERS' target allocation to real estate is 10%. The historical target portfolio diversification consisted of 75% invested in stable, fully-leased, income producing properties including apartments, retail, office, and industrial properties, and 25% allocated to Real Estate Investment Trust (REIT) securities. Performance of SDCERS' real estate program was benchmarked 75% to the NCREIF Property Index and 25% to the Wilshire REIT Index. In FY 2005, SDCERS' Board approved a new real estate strategic plan with a long-term return objective to earn 2.5% above the NCREIF Property Index. A new real estate asset allocation was selected in FY 2006 to be comprised of greater than or equal to 30% in stable real estate investments and less than or equal to 70% in enhanced and high return real estate investments, which includes REITs and limited partnership investments in commingled real estate funds. SDCERS is moving towards this policy allocation by making new equity capital commitments to real estate commingled fund vehicles that target enhanced and high return strategies. As of June 30, 2006 and June 30, 2005, real estate investments totaled $385,200,362 and $317,941,072, respectively.

Securities Lending

SDCERS has agreed with a fiscal agent, currently its custodial bank State Street Bank & Trust Company, 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 currency 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 did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were 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 Unites 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 FY 2006 and FY 2005, 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 if a borrower fails to return or pay distributions on a loaned security. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

As of June 30, 2006, and June 30, 2005, securities on loan collateralized by cash had a fair value of $569,927,875, and $421,756,079, respectively, and a collateral value of $581,289,763 and $434,363,945, 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, 2006, and June 30, 2005, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $8,699,643 and $2,368,349, respectively, and a collateral value of $9,072,864 and $2,401,627, respectively, which were not reported in the assets or liabilities in the accompanying Statements of Plan Net Assets for the DB Plan per GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2006, and June 30, 2005, for its securities lending activities was $590,362,627 and $436,765,572, respectively.

The cash collateral received for lent securities was 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 securities 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, 2006, this investment pool had an average duration of 49 days and an average weighted maturity of 450 days. As of June 30, 2005, this same investment pool had an average duration of 40 days and an average weighted maturity of 410 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.

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 2006, the normal cost and actuarial accrued liability are determined using the Projected Unit Credit (PUC) actuarial funding method.

In FY 2005, the City started contributions in accordance with the terms of the Gleason settlement, and starting in FY 2006, contributions were made at a full actuarially-determined rate using the PUC method (see *Note 6. Legal Action* in the Notes to the Financial Statements). In addition, in FY 2006 the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Dedicated UAAL Contribution Fund. 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 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 (27 years remaining as of the June 30, 2006 actuarial valuation).

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 (15 years remaining as of the June 30, 2006 actuarial valuation). The Airport's UAAL is being funded over an 18.5-year closed amortization period that began January 1, 2003 (15 years remaining as of the June 30, 2006 actuarial valuation).

The Annual Required Contribution (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 City's FY 2003 audit performed by the certified public accounting firm KPMG. The restated ARC amounts reflect the cumulative impacts of contribution under funding that occurred during the years 1997 through 2005 and include 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 PUC actuarial funding methodology.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
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)		
	General	Safety	Weighted Total
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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 participants.

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)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 participants.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

FY 2007 Contribution Rates (As of July 1, 2006)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2005, Actuarial Valuation)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
Normal Cost[1]	11.26%	19.93%	19.61%	20.29%	17.65%	14.29%
Amortization Payment[1]	9.87	30.28	18.93	26.42	13.97	13.77
Subtotal	21.13	50.21	38.54	46.71	31.62	28.06
Adjusted for payment at the beginning of the year (July 1, 2006)	20.33	48.31	37.09	44.95	30.43	27.00
Total Contribution Rates	20.33%	48.31%	37.09%	44.95%	30.43%	27.00%

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

FY 2007 Contribution Rates (As of July 1, 2006)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2005, Actuarial Valuation)			
	General	Executives	Safety	Weighted Total
Normal Cost[1]	13.43%	19.09%	18.53%	15.00%
Amortization Payment[1]	7.95	6.13	7.88	7.86
Subtotal	21.38	25.22	26.41	22.86
Adjusted for payment at the beginning of the year (July 1, 2006)	20.57	24.27	25.41	22.00
Total Contribution Rates	20.57%	24.27%	25.41%	22.00%

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

FY 2007 Contribution Rates (As of July 1, 2006)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2005, Actuarial Valuation)
	All Members
Normal Cost[1]	12.46%
Amortization Payment[1]	1.84
Subtotal	14.30
Adjusted for payment at the beginning of the year (July 1, 2006)	13.76
Total Contribution Rates	13.76%

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

Members are required to contribute a percentage of their annual salary to SDCERS. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general and elected officers). 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 2006 Member Average Contribution Rate	**FY 2005** Member Average Contribution Rates	**FY 2007** Member Average Contribution Rates
Actuarial Valuation Dates	6/30/2004	6/30/2003	6/30/2005
City of San Diego			
General Members[1]	10.57%	10.54%	9.86%
Safety Members[1]	12.88%	12.86%	12.07%
Unified Port of San Diego			
General Members[1]	10.24%	10.28%	9.30%
Safety Members[1]	13.04%	12.98%	11.94%
San Diego County Regional Airport Authority			
All Members	10.31%	10.31%	9.46%

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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

In accordance with the Fiscal Year 2006 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary, after the exhaustion of the Employee Contribution Rate Reserve:

5.89%	for Elected Officers
2.40% to 5.40%	for General Members
4.10%	for Police Members
4.30%	for Fire Members
4.30%	for Lifeguard 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. The 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 that began in FY 2003, these discounts were reduced from 22.00% to 5.00% for general members and from 7.00% to 1.00% for safety members. In FY 2005, the discounts were reduced to 9.25% for general members and 2.50% for safety members. In FY 2006, the discounts were further reduced to 5.00% for general members and 1.00% for safety members.

For Fiscal Year 2006, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

7.00% for General Members
8.80% for Safety Members
8.50% for Management Members

For Fiscal Year 2006, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

7.00% for General Members
8.50% for Management Members

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

SDCERS' members are 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.

A SDCERS' member may pay for purchases of service credit 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, 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 vary, but generally may not 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, 2006, a total of 1,057 members were making payments on installment contracts compared to 1,269 at June 30, 2005. 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 $20,300,054 and $23,214,041 net of allowances for uncollectible payments of $413,538 and $473,406 has been included in the accompanying Statements of Plan Net Assets for the DB Plan at June 30, 2006 and June 30, 2005, respectively. The annual change in the allowance for uncollectible payments is charged as an operating expense. The expense amounts included for FY 2006 and FY 2005 totaled $0 and $12,096, respectively.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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 as of June 30 each year, valued at:

	2006	2005
Reserved for Investments in Properties	$116,125	$141,380
Reserved for Receivables	20,300,054	23,214,041
Reserved for Encumbrances	1,404,130	1,030,778
Reserved for Members' Contributions	567,783,338	538,250,574
Reserved for Plan Sponsors' Contributions	116,992,757	474,215,383
Reserved for Current Retired Members	2,126,403,964	1,562,088,464
Plan Continuation Liability	1,432,445,000	1,409,993,000
Fund Deficit - Equivalent to Plan Continuation Liability	(1,432,445,000)	(1,409,993,000)
Reserved for Supplemental COLA	17,412,147	19,579,118
Reserved for Members' Contribution Rate Increase Payments	-	8,562,815
Undistributed Earnings Reserve	619,818,817	344,884,797
Reserved for Liabilities	172,768,228	167,178,942
Total Reserves[1]	$3,642,999,560	$3,139,146,292

[1] Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of $3,772,505,287 as of June 30, 2006, and $3,230,513,047 as of June 30, 2005. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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

Reserved for Receivables - Balance of funds 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 portion of the plan's actuarial accrued liabilities that were not funded as of the prior valuation date. It is calculated as the actuarial present value of credited projected benefits minus the actuarial value of assets 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 27 years remaining as of the June 30, 2006 actuarial valuation. The Port's UAAL is being amortized over a closed 30-year period with 15 years remaining as of the June 30, 2006 actuarial valuation. The Airport's UAAL is being amortized over a closed 18.5-year period with 15 years remaining as of the June 30, 2006 actuarial valuation.

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, whichever 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 contribution offset, and an additional 1.00% safety member contribution offset. This reserve was depleted during FY 2006.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

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. Due to the delay in issuing previous CAFRs, the FY 2004 surplus was credited to the Reserve for Employers' Contributions in June 2007, and the FY 2005 surplus will be credited in November 2007.

Reserved for Liabilities - Funds sufficient to pay liabilities incurred as of June 30, 2006 and June 30, 2005. Payables includes a liability 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 the court approved 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 collateral to SDCERS in the form of trust deeds on real property worth $375 million. The trust deeds were to be reconveyed by SDCERS in three equal installments of $125 million annually on the later of the date SDCERS received the City's contribution for the fiscal year or July 1. The last City payment to SDCERS under the settlement agreement was made on July 1, 2007 (for FY 2008) and the corresponding reconveyance of the trust deeds on the City's real property was executed on November 9, 2007.

In addition, the Court awarded the plaintiffs attorney's 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.

On July 1, 2005, SDCERS received a total of $174.4 million in employer contribution based on annual required contribution payments for FY 2006. This was comprised of $163.0 million from the City, $8.1 million from the Port and $3.3 million from the Airport. In June 2006, the City paid

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additional FY 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.

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

<u>McGuigan v. the City of San Diego,</u> San Diego Superior Court case number GIC 849883.

William J. McGuigan filed a class action 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. SDCERS was not a party to this case.

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. SDCERS received the $100 million payment referenced in the term sheet in June 2006. It is possible pending future proceedings that the $73 million amount may be reduced by the amount of attorneys' fees paid to the plaintiffs' class counsel.

<u>Newsome v. San Diego City Employees' Retirement System</u>, 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: (1) $100 million; or (2) an amount sufficient to allow SDCERS to achieve a funded ratio of 82.3%.

<u>San Diego City Employees' Retirement System v. City of San Diego & City Attorney Michael Aguirre</u>, and related cross complaint, San Diego Superior Court case number GIC 841845 and <u>San Diego City Employees' Retirement System v. City of San Diego</u>, San Diego Superior Court case number GIC 851286.

On January 27, 2005, the Board filed a lawsuit against the City and its City Attorney seeking a judicial declaration that SDCERS is entitled to retain its own legal counsel and demanding return of SDCERS' privileged documents seized from certain SDCERS' Board members' City offices. The case is assigned to Judge Jeffrey Barton.

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 under Manager's Proposals 1 and 2 (MP1 and MP2) are illegal and void. SDCERS also filed a compulsory cross-complaint to the City's cross-complaint seeking recovery of the all monies owed by the City to SDCERS but not paid because of MP1 and 2.

SDCERS' motion for summary adjudication on its first cause of action 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 City Attorney, was granted on March 6, 2006. A petition for writ of mandate filed with the Fourth District Court of Appeal on April 3, 2006 by the City Attorney seeking to set aside Judge Barton's ruling was denied.

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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.

Trial of this action has commenced. The Court divided the trial into three phases. Trial on Phase 1 began October 25, 2006, and finished on November 29, 2006. On December 14, 2006, the Court issued its proposed 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 judgment, which in 2000 increased retirement benefits for all active and retired SDCERS members, from challenging the MP1 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 all necessary parties must be joined before the City proceeds with the remaining relief sought in its Fifth Amended Cross-Complaint. The Court also found, without prejudice, that the Unions did not carry their burden on whether the matter constitutes a justiciable controversy. On December 27, 2006, the City filed an objection to the Court's proposed statement of decision and requested a hearing on the same. The Court entered its final decision on Phase 1, substantially denying most of the City's claims. The City filed a writ to the Fourth District Court of Appeal on the issues set forth in the trial court's final decision, which was denied. The City then filed a petition for review to the California Supreme Court, which was denied.

On April 23, 2007, the Court issued a ruling directing the City Attorney to file a Sixth Amended Cross-complaint which conformed to the Court's ruling following Phase 1 regarding proper claims and parties against which such claims may be asserted. The Court held a hearing on June 21, 2007, at which all of the Intervenors' challenges to the Sixth Amended Cross-complaint were heard. A second hearing was held on July 24, 2007, to address new case law affecting the statute of limitations applicable to California Government Code section 1090.

On August 3, 2007, the Court issued a ruling that dismissed the City's Sixth Amended Cross-Complaint with prejudice on the grounds the claims remaining following Phase 1 were barred by the currently-applicable statute of limitations as a matter of law. Following an additional hearing, the Court confirmed its ruling on August 14, 2007. Judgment was entered on that ruling on September 17, 2007. The City appealed that ruling on September 26, 2007. After further hearings, the Court set a motion to stay the trial pending the outcome of the City's appeal on October 9, 2007, and for summary adjudication of issues on the City's affirmative defenses to SDCERS' Compulsory Cross-complaint for October 22, 2007.

On October 9, 2007, Judge Barton stayed all proceedings pending the City's appeal and scheduled a status conference on May 23, 2008. On October 24, 2007, SDCERS filed a motion to dismiss the City's appeal with the Fourth District Court of Appeal.

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

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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 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, 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 Manager's Proposals 1 and 2 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 to the U.S. Ninth Circuit Court of Appeals. The District Court did not stay the proceedings upon notice of the appeals, and these appeals were subsequently dismissed.

On February 8, 2006, the Court ruled that the POA could not seek money damages on behalf of POA members, 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, followed by a subsequent motion for summary judgment in February. The primary argument in these motions was that the POA 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 POA filed motions for summary judgment against each defendant. In May 2007, the Court issued an order granting SDCERS' motions for summary judgment regarding all of the POA'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 judgment regarding claims for injunctive and declaratory relief.

The Court also granted the portion of the City's motion for summary judgment pertaining to the 2005 collective bargaining process between the City and the POA. The POA alleged defendants' conduct during the labor negotiations violated its federal civil rights. The Court found that the POA

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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 judgment ruling and, if not, whether the federal action should be dismissed altogether. On June 26, 2007, the Court granted the remaining motions for summary judgment and dismissed the rest of the case for lack of federal jurisdiction.

On August 24, 2007, the Court awarded costs to SDCERS and the City as prevailing parties but denied an award of attorney's fees. SDCERS subsequently filed a Rule 11 motion seeking partial payment of its attorney fees from the POA's attorneys, which was denied by the Court on October 9, 2007. The POA filed Notices of Appeal with the Ninth Circuit Court of Appeals on September 9, 2007 and September 19, 2007.

<u>City of San Diego v. San Diego City Employees' Retirement System</u>, 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.

<u>San Diego City Employees' Retirement System v. Hanson, Bridgett, Marcus, Vlahos & Rudy, et. al.</u>, 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 $15.5 million less attorneys' fees of $4.4 million for a net recovery of $11.1 million in full settlement of the matter. The matter is fully resolved.

<u>City of San Diego v. Callan Associates, Inc., and Gabriel Roeder Smith & Company,</u> 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 pursuant to the settlement, 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."

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

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 the class period of August 3, 1999 to August 6, 2003. 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 (1) 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 (2) 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.

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 and the pleadings were finalized as of that date.

On December 21, 2007, the SDCERS Board voted to withdraw as co-lead plaintiff in this litigation. The remaining co-lead plaintiffs, who are all institutional investors, will continue to prosecute the case. As a class member, SDCERS will still receive its proportional share of any recovery in this case.

United States of America v. R. Saathoff, et. al., U.S. District Court, Southern District, 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.

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.

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In August 2007, Ms. Lexin filed a motion seeking to disqualify the U.S. Attorney's Office from prosecuting the case. The Court has not yet ruled on the motion, nor have any trial dates been set.

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

In May 2005, San Diego County'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 a party in this litigation.

The charges survived the preliminary hearing and a trial court level appeal of that result. The defendants appealed, and 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.

On September 7, 2007, the Court of Appeal ruled in favor of the People and held that the District Attorney may continue prosecution of its case against each of the six defendants. No trial date has been set.

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.

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. The allegations and claims made in this lawsuit are essentially identical to those made in the POA's previously filed lawsuit, case number 05CV1581. The primary difference in this case is that class members are seeking 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 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. SDCERS filed a motion to dismiss the conspiracy allegations. That motion was granted

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in June 2007. This case has not been certified as a class action and there is no pending motion to that end.

San Diego Police Officers' Association v. Michael Aguirre, City of San Diego, San Diego City Employees' Retirement System, et. al., San Diego Superior Court case number 37-2007-000075432-CU-MC-CTL

On September 21, 2007, the POA filed a state court action that appears to be identical in all relevant respects to the state law claims made in its now-dismissed federal court action discussed in Note 6. The POA served in December 2007.

City of San Diego v. San Diego City Employees' Retirement System, et. al., San Diego Superior Court case number 37-2007-000077604-CU-MC-CTL

On October 15, 2007, the City filed a complaint for declaratory relief alleging that an actual and justiciable controversy has arisen between the City and SDCERS regarding whether the effective date for certain retirement and health benefit changes for new City hires is July 1, 2005 or February 16, 2007. The City seeks in this action a judicial determination that the benefit changes apply to any City employee hired after July 1, 2005. The benefit changes at issue are: (1) elimination of the "13th check" benefit; (2) elimination of eligibility to participate in the DROP program; (3) elimination of the right to purchase up to 5 years of additional service credit; and (4) the elimination of retiree health benefits.

On November 19, 2007, SDCERS filed a demurrer to the complaint on the grounds that the City had failed to name as indispensable parties the individual City employees who would be affected by any judgement.

Pricing of Purchased Service Credit Contracts

In 1997, the City approved amendments to the Municipal Code to permit employees to purchase up to five years of additional service credit towards their retirement benefits. The Code requires that purchasing employees pay the amount the SDCERS Board "determines to be the employer and employee cost" of the additional service credit.

Since 1997, nearly 6,000 City employees have entered into contracts under the purchase of service credit (PSC) program. Between 1997 and November 2003, the former SDCERS Board charged a single price per year of service for all general employees and another single price for all safety employees. During that time period, City-approved increases in retirement benefits increased the value of each year of additional service credit. In November 2003 the Board increased the prices of future PSC purchases. Those prices have remained constant since then.

On September 21, 2007, the current SDCERS Board announced that it has been engaged in a thorough review of the PSC program. The Board has been advised by its actuary, Cheiron, that the purchased service credit rates in place for contracts entered into since November 2003 cover the full projected cost to the System. Cheiron also confirmed that the prices charged prior to that date did not cover the full projected cost of purchased service credits. The shortfall totals an estimated $146 million, and has been included in the System's UAAL since the inception of the PSC program and is being recovered through the Annual Required Contribution payments made by SDCERS' plan sponsors. These issues also affect the Port and Airport and their respective employees, although to a lesser extent than the City.

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The Board carefully considered its options regarding the prior pricing of PSC contracts. These options included: with respect to some or all of past PSC contracts, continuing to amortize the associated liability as part of the System's UAAL; recovering past overpayments of benefits and renegotiating or adjusting contracts either to provide for additional member payments or reduced amounts of service credit for some or all of the affected member contracts; and initiating declaratory relief litigation to establish the respective rights and obligations of the City, SDCERS and the members. In evaluating its options, the Board also considered, among other things, the basis on which the prior Board made its pricing determinations, the length of time that has passed since many of these contracts were entered into and whether the members relied in good faith on the prices they were asked to pay for their purchases.

On November 16, 2007, the Board announced that it had determined, by a unanimous vote of 8-0, to allow the existing purchase of service contracts to remain as formulated and to continue to amortize the shortfall through the existing unfunded actuarial liability.

On November 20, 2007, the City Attorney filed a Petition for Writ of Mandate against SDCERS, by and through its Board of Administration, challenging the Board's determination. The Petition was served on SDCERS on December 4, 2007.

Pension Reform Commission Information

The City '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. Accordingly, two ballot measures – Propositions G and H – were put before the voters in the November 2, 2004 City 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. In addition, this measure adds language to the City Charter that precludes the City and SDCERS' Board from entering into any future multi-year contracts or agreements delaying full funding of the 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. The City Attorney has written to the IRS on this matter, but has not taken any formal legal action regarding 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

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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 was comprised of 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.

Securities and Exchange Commission (SEC) Investigation

Beginning in 2004, the SEC started an investigation into whether the City made material misrepresentations in certain bond disclosures regarding the method by which it funds SDCERS. 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 subject of the investigation and was not a party to the settlement.

IRS Tax Determination Letter and Voluntary Correction Program Filings

SDCERS is operated as a qualified governmental defined benefit plan under Internal Revenue Code (IRC) Sections 401(a) and 414(d). In order to confirm and maintain its qualified status, in July 2005, SDCERS filed with the Internal Revenue Service (IRS) an application for a Determination Letter (Form 5300). At the same time, SDCERS filed an initial request for a compliance statement under the IRS' Voluntary Correction Program (VCP).

The initial VCP filing addressed a correction relating to the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees. Subsequently, SDCERS made additional VCP filings concerning compensation limits under IRC section 401(a)(17); minimum distribution requirements under section 401(a)(9); eligible rollover distribution compliance under section 401(a)(31); minimum required distributions from the Deferred Retirement Option Plan (DROP) program; disability benefit overpayments; conversion of annual leave to purchased service credits; retiree healthcare benefits and health administrative expenses under section 401(h); benefit and compensation limits under sections 415(b), 415(c) and 415(n); and remedial plan amendments.

The IRS issued a Compliance Statement to SDCERS on December 20, 2007, identifying 14 failures and acceptable corrections based upon the SDCERS VCP filings. The Compliance Statement was executed by the President of the SDCERS Board of Administration and the City's Chief Operating Officer on December 20, 2007. The SDCERS Board unanimously ratified the Board President's execution of the Compliance Statement on December 21, 2007. SDCERS is still awaiting issuance of a Determination Letter by the IRS. The Compliance Statement was subsequently approved and executed by the IRS. The Compliance Statement requires that certain corrective actions be taken (including passage of a tax compliance ordinance approved by the IRS) within

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150 days of the IRS signature date on the Compliance Statement. There is no certainty that the City Council will adopt the necessary ordinance.

SDCERS is in the process of taking certain corrective actions and the SDCERS Board must also adopt Board Rules that have already been reviewed and approved by the IRS. Failure to complete those corrective actions would invalidate the Compliance Statement.

The Compliance Statement preserves the qualified status of the SDCERS Plan. The Compliance Statement imposed no fines or penalties on SDCERS or the City. In the Compliance Statement, the IRS noted certain amounts that needed to be restored to the SDCERS: (1) $31,618,356, including interest, of retiree medical benefits paid from the SDCERS Trust Fund per City Ordinance between 1982 and 1991; (2) $2,211,895, including interest, of unreimbursed costs of administering the retiree medical benefit between 1982 and July 1, 2006; (3) $4,209,221, including interest, of plan benefits paid from the SDCERS Trust Fund that exceeded IRC Section 415(b) limits, from fiscal year 1995 until the date of the Compliance Statement; and (4) $1,222,543, including interest, of disability benefits overpaid during fiscal years 2001 through 2005. The IRS agreed that the City had fully paid these amounts through $142,642,180 of supplemental contributions to SDCERS in excess of the annual required contributions during fiscal years 2006, 2007 and 2008.

The Compliance Statement also requires that SDCERS reduce or eliminate the benefits of certain SDCERS members, and that SDCERS pursue recovery of overpayments that have been made to these members.

SDCERS filed a request with the IRS in November 2006 for a private letter ruling approving the Preservation of Benefit (POB) Plans established by the City, the Unified Port District and the Airport Authority. The IRS has split this request into three separate requests – one for each plan sponsor. The POB Plans are qualified excess benefit arrangements established by each plan sponsor under IRC section 415(m) to pay promised benefits to their retirees that exceed the IRC Section 415(b) limits. The SDCERS Board established a separate trust fund for each POB Plan in February 2007, with the intention that calendar year 2007 would be the first year the POB Plan would be funded and pay current year benefits. The IRS subsequently indicated to SDCERS that the POB Plan must be administered on a fiscal year basis. Based upon analysis by its actuary, Cheiron, SDCERS provided the City with an updated cost projection of approximately $1,000,000 to be paid from the POB in FY 2008. This projection includes the POB benefit for current retirees, plus a 10% provision for the potential of additional retirees during the balance of year who may have benefits in excess of Section 415(b) limits, and for SDCERS administrative costs to support the POB Plan. The City transferred $500,000 into a new POB account in December 2007 to begin funding the POB payments. With the issuance of the Compliance Statement, SDCERS has stopped paying benefits in excess of the 415(b) limits from the SDCERS Trust Fund. Excess benefits will be paid only from the POB Plans. The private letter ruling requests are still pending with the IRS.

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.

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Navigant Report

In August 2005, SDCERS' Board approved the retention of Navigant Consulting, Inc., through its special fiduciary counsel Reish Luftman Reicher & Cohen, 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 former SDCERS Board members breached their fiduciary duties by approving MP1 and MP2. 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 IRS 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.

In response to Navigant's report, the Board established the Navigant Report Committee to recommend appropriate reform actions to the Board for approval and implementation.

The 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 Committee recommended the creation of internal auditor and chief compliance officer positions at SDCERS.

Plan Sponsors' Contributions

For FY 2007 contributions, SDCERS received on July 1, 2006 a total of $173 million: $162.0 million from the City, $8.3 million from the Port and $2.7 million from the Airport. For FY 2008 contributions, SDCERS received on July 1, 2007 a total of $174.4 million: $165.0 million from the City, $6.9 million from the Port, and $2.5 million 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

In accordance with FY 2007 and FY 2008 salary ordinances, member contributions ranging from 1.4% to 5.89% of pension-eligible salary were paid by the City.

Group Trust

In March 2007, to fulfill requirements in the City Charter and Municipal Code that the assets of each SDCERS Plan be used to pay benefits and expenses relating only to that Plan, the SDCERS Board adopted a Declaration of Group Trust, effective July 1, 2007. Under a group trust, the City, Port, and Airport's plans will be legally treated as separate Plans. Unlike a multiple-employer plan, under a group trust the assets of one employer's Plan will not be available in the event of an insolvency to pay benefits under any other employer's Plan. Assets of each sponsor's Plan will be commingled for investment purposes only.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

The Port and Airport have executed their Participation and Administration Agreements, and on September 25, 2007, the San Diego City Council adopted a necessary enabling resolution approving the Participation and Administration Agreements of the City, Port, and Airport, subject to the review and approval of the initial apportionment of assets among the three plan sponsors by the City's actuary and outside auditor. This approval is pending. Separate financial statements will be presented in SDCERS' FY 2008 CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan, as will be the case under a group trust. SDCERS is working with its custodian, State Street Bank, to implement the necessary accounting procedures to present separate financial statements while the assets remain commingled for investment purposes.

Actuarial Valuations

In September and October 2006, the Board approved the following actuarial methodology changes that were recommended by Cheiron, SDCERS' actuary. They are reflected 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 among SDCERS' three plan sponsors, based on actual cash flows attributable to each plan sponsor.
- Inclusion of the 13th check and the City's Corbett liabilities 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 active members' future benefits payable from the SDCERS DB Plan 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 FY 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 Accrued Liability (UAAL) 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, SDCERS' actuarial firm, Cheiron presented its report to the Board regarding the amortization of the UAAL 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 UAAL 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 UAAL attributable to future benefit increases be amortized on 5-year fixed schedules;

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

- Changes in the UAAL 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 UAAL for the Port and the Airport, to be implemented in the June 30, 2007 valuation as follows:

- Amortize the UAAL 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.

In January 2008, the Board received Cheiron's actuarial valuation reports as of June 30, 2007 for all three SDCERS plan sponsors. These reports will be formally presented to the SDCERS Board in January and approved by the Board in February, 2008. As of June 30, 2007, the unaudited funded ratio and UAAL for each plan sponsor was:

- City of San Diego: 78.9% and $1,183.5 million;
- Unified Port District: 93.2% and $16.7 million; and
- Airport Authority: 108.8% and $4.1 million surplus.

These figures are based on the same actuarial assumptions used in the June 30, 2006 valuation, but reflect the methodology change from PUC to EAN approved by the Board in October, 2006. Copies of the actuarial reports may be found on the SDCERS.org web site, and will be analyzed in more detail in the FY2007 CAFR that will be published later in FY2008.

New GASB Pronouncements

GASB Statement No. 43, *Financial Reporting for Postemployment Plans Other Than Pension Plans,* which is effective for the year ended June 30, 2007, provides uniform financial reporting standards for plans that provide postemployment benefits such as healthcare benefits. Should the City establish a trust and formally appoint SDCERS as administrator of the plan, this statement may require SDCERS to obtain actuarial valuations, and report in its financial statements, this funded status and funding progress of the City's health benefits program.

GASB Statement No. 50, *Pension Disclosures*, which is effective for the year ended June 30, 2008, will require the DB Plan to disclose certain information regarding the funded status and actuarial methods and assumptions used in the most recent actuarial valuations in the notes to the financial statements rather than required supplementary information. In addition, GASB Statement No. 50 will require the DB Plan to disclose the methods and assumptions used to determine the fair value of investments, such as real estate investments, for which quoted market prices are not available.

Undistributed Earnings Reserve

Sections 24.1501 and 24.1502 of the San Diego Municipal Code define the computation of Surplus Undistributed Earnings (SUE), as well as how the Surplus is distributed by SDCERS' management. SUE is comprised of investment earnings received during the previous fiscal year

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2006 and June 30, 2005

less certain expenses and contingent benefits as outlined in the Municipal Code. SUE is credited to the reserve for employer contributions for the purpose of reducing SDCERS' system liability following a review of the calculations by the outside auditors as required by the Municipal Code.

In November 2007, SDCERS received the Macias, Gini & O'Connell report on applying the agreed-upon procedures on the analysis of changes in undistributed earnings reserve for the year ended June 30, 2005. This report was presented to the Board at its November 2007 meeting to authorize the transfer of $186 million of FY 2005 earnings to the reserve for employer's contributions.

Corbett Settlement Payments and 13th Check Payments

In fiscal years 2007 and 2008, two SUE 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 2007 and 2008 based upon investment earnings received that were generated in fiscal years 2006 and 2007, respectively. Corbett benefit payments totaled $5,613,906 in fiscal year 2007 and $5,464,719 in fiscal year 2008. 13th Check benefit payments totaled $4,522,573 in fiscal year 2007 and $4,671,764 in fiscal year 2008.

SDCERS supports the elimination of the use of investment earnings to pay these benefits, and since the FY 2006 actuarial valuation its actuary has reflected the associated contingent liabilities in the valuation liabilities. As a result, beginning with FY 2008, the actuarial cost of the benefits is paid for as a part of the City's annual required contribution. However, until the City enacts ordinance language that eliminates the surplus investment earnings concept and sets forth an alternative means to calculate and pay the benefit, SDCERS is bound by the terms of the plan document to calculate annual realized investment earnings and pay the benefits in accordance with this calculation.

Subprime Market Activity

The recent events surrounding subprime residential mortgage-backed securities and the housing real estate market have not to date materially affected investment performance. Future investment returns could be adversely impacted due to market liquidity issues or "credit crunch" experienced as a result of the fall out in the collateralized debt obligation markets and forecasts of a economic slow down or recession.

SDCERS invests in a diversified portfolio with allocations to equities, fixed income and real estate, both domestically and internationally to reduce risk. SDCERS' portfolio has a neutral market weight to equity securities classified as financial companies. SDCERS is minimally exposed to asset-backed securities that are collateralized by subprime mortgages. SDCERS' domestic fixed income managers invest in Agency pass through mortgage securities that are guaranteed by the U.S. Government. Additionally, in any collateralized mortgage obligations or asset-backed securities, SDCERS' managers invest in the most highly-rated, self-liquidating (near to maturity), senior positions.

Management has contacted all of SDCERS' publicly-traded investment managers to understand the risks to their portfolios resulting from recent market activity. Based on these conversations, management believes that SDCERS' investment managers have positioned their respective portfolios to protect against various market factors. Management will continue to monitor manager investment performance in accordance with SDCERS' Investment Policy Statement.

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 (1997 - 2006)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/06[5]	$3,981,932	$4,982,699	79.9%	$1,000,768	$534,103	187.4%
6/30/05	2,983,080	4,377,093	68.2	1,394,013	557,631	250.0
6/30/04[4]	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[3]	2,525,645	2,809,538	89.9	283,893	481,864	58.9
6/30/00[2]	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[1]	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

[1] Reflects revised actuarial and economic assumptions.
[2] Reflects non-contingent Corbett benefit increases.
[3] Funded status was slightly overstated due to the unavailability and thus unincorporated liabilities resulting from purchases of service credit by members.
[4] Reflects revised actuarial assumptions
[5] Reflects revised actuarial methodologies

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 (27 years remaining as of the June 30, 2006 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 (1997 - 2006)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/06[7]	$203,286	$220,637	92.1%	$17,351	$33,927	51.1%
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

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.

7 Reflects revised actuarial methodologies.

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 (15 years remaining as of the June 30, 2006, actuarial valuation).

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 (2002 - 2006)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
6/30/06[4]	$41,222	$36,905	111.7%	$(4,317)	$19,116	-22.6%
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 Airport, separate from but comprised of former 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 updated actuarial assumptions.

[4] Reflects revised actuarial methodologies.

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 (15 years remaining as of the June 30, 2006, 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, 2006.

SDCERS' utilizes the Projected Unit Credit (PUC) actuarial funding methodology to determine costs.

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%
Merit increase:	0.50% to 7.5%, based upon years of service at valuation date

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. Membership data was reviewed for reasonableness, but was not audited by the actuary.

In September and October 2006, the Board approved the following actuarial methodology changes that were recommended by Cheiron, SDCERS' actuary. They are reflected in the plan sponsor's June 30, 2006 valuation reports:

- The "the expected asset value" smoothing method, used to determine the actual value of assets
- A new asset apportionment method among SDCERS' three plan sponsors, based on actual cash flows attributable to each plan sponsor.
- Inclusion of the 13th check and the City's Corbett liabilities 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 active members' future benefits payable from the SDCERS DB Plan fund at the maximum benefit level allowable under Internal Revenue Code Section 415.

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.

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

2. Actuarial Terms Defined

Valuation Assets: The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation. In September, 2006 the Board adopted a new actuarial valuation method. As part of the implementation of the new method, valuation assets as of June 30, 2006 have been set to market value. Beginning with the June 30, 2007 valuation, the Valuation Assets will reflect a weighted average giving 25% weight to the current market value and 75% weight to the prior year's actuarial value, increased by expected interest and contributions and decreased by benefit payments and expenses. The old method applied a five-year average of the ratio of market value to book value to the current year's net book value.

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

Annual Required Contribution (ARC): The employer required contribution amount for GASB 25 disclosure purposes.

Funded Ratio: This ratio 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.

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, 2006, the City had a funded status of 79.9%. This is compared to the City's funded status of 68.2% as of the June 30, 2005 actuarial valuation.

As of the June 30, 2006 actuarial valuation, the City's UAAL was $1 billion compared to $1.39 billion 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

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 (27 years remaining at June 30, 2006), 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, 2006, the Port had a funded status of 92.1%. This is compared to the Port's SDCERS' funded status of 82.6% as of the June 30, 2005 actuarial valuation.

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

As of the June 30, 2006 actuarial valuation, the Port had a UAAL of $17.4 million, compared to $34.4 million at June 30, 2005. The Port's UAAL is being amortized over a closed 30-year period, with 15 years remaining at June 30, 2006.

San Diego County Regional Airport Authority

As of June 30, 2006, the Airport had a funded status of 111.7%. This is compared to the Airport's funded status of 87.6% as of the June 30, 2005 actuarial valuation.

The schedule for the Airport Authority presented above reports the last five 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.

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 Years Ended June 30 (2001 - 2006)
($ in Thousands)

SDCERS' actuary calculates annual employer contribution rates using an actuarial funding methodology 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 its authority under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

SDCERS' presentation of the City's ARC for the six years period from 2001 through 2006 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

	2006	2005	2004	2003	2002	2001
Annual Required Contributions (ARC)	$170,071	$181,284	$140,168	$91,947	$68,046	$58,768
Contributions Made to SDCERS	271,349[7]	122,089[1, 6]	69,002[1,3,5,6]	58,650[1,2,4,6]	40,862[1,4,6]	29,567[1,4,6]
Difference - Over/(Under) Contributed	101,278	(59,195)	(71,166)	(33,297)	(27,184)	(29,201)
Percentage of ARC Contributed	159.55%	67.35%	49.23%	63.79%	60.05%	50.31%

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 (ARC) 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 (covered) payroll.

4 Contributions made for 2001 through 2003 were at rates per the 1996 Manager's Proposal (MP1).

5 Contributions made for 2004 were in accordance with the 2002 Contribution Agreement (MP2). This agreement was nullified by the Gleason Settlement in 2005.

6 Contributions for 2005 were a fixed amount in accordance with the Gleason Settlement. The City's contribution funding method during 2001 through 2005 was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation (NPO) is included in the City of San Diego's Comprehensive Annual Financial Report.

7 Contributions for 2006 were made at a full actuarially-determined rate using the Projected Unit Credit (PUC) method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Dedicated UAAL Contribution Fund year-end balance.

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 (2001 - 2006)

	2006	2005	2004	2003	2002	2001
Annual Required Contributions (ARC)	$8,121,319[2]	$7,613,081[1]	$4,594,580[1]	$2,210,040[1]	$218,618[1]	$1,213,404[1]
Contributions Made to SDCERS	8,121,319	7,613,081	4,594,580	2,210,040	218,618	1,213,404
Difference - Over/(Under) Contributed	-	-	-	-	-	-
Percentage of ARC Contributed	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

[1] Annual Required Contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

[2] ARC figures provided by plan sponsor; ARC calculated using annual covered payroll.

San Diego County Regional Airport Authority
Schedule of Plan Sponsors' Contributions
For the Four Years Ended June 30 (2003 - 2006)

	2006	2005	2004	2003
Annual Required Contributions (ARC)	$2,878,928[3]	$2,312,309[1]	$1,435,000[1]	n/a
Contributions Made to SDCERS	3,300,000	7,625,052	$1,435,000[2]	$248,796[2]
Difference - Over/(Under) Contributed	421,072	5,312,743	-	-
Percentage of ARC Contributed	114.63%	329.76%	100.00%	n/a

[1] Annual Required Contributions (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.

[3] ARC figures provided by plan sponsor, ARC calculated using annual covered payroll.

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, and 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 by the City, on an annual basis.

Contributions made for 2001 through 2003 were at rates per the 1996 Managers' Proposal 1 (MP1). Under this proposal, 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 on July 1, 1996) at 7.33% of that year's City's budgeted/actual payroll; the scheduled contribution rates increased by 0.50% each year thereafter. This agreement between the City and SDCERS accounts for the average annual difference of 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. MP 1 set contribution rates through 2006; however, in 2002, the City requested changes to this agreement. The actuarial valuation of June 30, 2002 triggered a provision in MP1 to increase annual required plan sponsor contributions from the City, based on the 82.2% funded status floor.

Contributions made for 2004 were in accordance with the 2002 Contribution Agreement known as Managers' Proposal 2 (MP2). This agreement arose from the City's request, noted above, for changes to MP1. Under MP2, 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 MP1. While MP2 provided for subsequent contribution rate increases in future fiscal years, MP 2 was nullified by the Gleason settlement in 2005 and, as such, 2004 was the only year in which City contributions were determined by MP2.

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

Contributions for 2005 were a fixed amount in accordance with the Gleason settlement. This contribution method, as well as the contribution methods for 2001 through 2004, was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation is included in the City of San Diego's Comprehensive Annual Financial Report.

Contributions for 2006 were made at a full actuarially-determined rate using the PUC method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its dedicated UAAL Contribution Fund year-end balance. The higher City contributions in fiscal years 2005 and 2006 have contributed to the increase in the City's current SDCERS funded status to 79.9%. Effective in FY 2006 through FY 2008, the City has made and will make full actuarial contributions based upon the terms of the Gleason settlement. The funding/contributions discussed above have resulted in litigation that is discussed in *Note 6, Legal Action*.

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, and to provide services to the region's citizens without having to substantially increase its annual employer contribution to SDCERS. Additionally, the Port has enjoyed a funded status of over 100%, on average, over the last decade. The Port's current funded status is 92.1%.

San Diego County Regional Airport Authority
This schedule depicts 3.5 years of historical information with respect to the Airport's ARC versus the actual plan sponsor contributions made by the Airport. Since its inception, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 111.7%.

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, the Airport paid plan sponsor contributions accrued through the second half of FY 2003 to SDCERS.

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

SDCERS' administrative expenses are 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, 2006 and June 30, 2005

	FY 2006				FY 2005			
	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	$3,881,891	$3,881,891	$3,528,895	$352,996	$3,791,958	$3,791,958	$3,564,827	$227,131
Fringe Benefits	1,598,967	1,598,967	1,660,212	(61,245)	1,497,895	1,497,895	1,537,550	(39,655)
Total Personnel	5,480,858	5,480,858	5,189,107	291,751	5,289,853	5,289,853	5,102,377	187,476
Supplies and Professional Services	26,699,741	35,597,498	34,407,127	1,190,371	21,523,289	22,465,184	21,867,167	598,017
Information Technology	954,334	904,141	1,572,295	(668,154)	930,681	888,786	1,192,068	(303,282)
Energy/Utilities	70,602	70,602	31,792	38,810	55,411	55,411	35,414	19,997
Equipment Outlay	11,174	11,174	53,266	(42,092)	11,174	11,174	44,549	(33,375)
Depreciation Expense	-	-	36,137	(36,137)	-	-	49,569	(49,569)
Total Non-Personnel	27,735,851	36,583,415	36,100,617	482,798	22,520,555	23,420,555	23,188,767	231,788
Totals	$33,216,709	$42,064,273	$41,289,724	$774,549	$27,810,408	$28,710,408	$28,291,144	$419,264

	FY 2006	FY 2005
Basis Points as a Percentage of Plan Net Assets[1]	102.89	81.99
Reconciliation:		
Administrative Expenses	$18,438,356	$11,960,392
Fees Paid to Investment Professionals	18,315,686	16,330,752
Litigation Settlement Expense	4,535,682	0
Totals	$41,289,724	$28,291,144
Payments to Consultants (component part of Total Administrative Expenses)	$12,129,983	$5,715,172

[1] One basis point = 1/100 of one percent.

Please see additional schedules that follow in Other Supplementary Information for a breakdown of each of the three categories identified above.

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

Schedule of Administrative Expenses
For the Years Ended June 30, 2006 and June 30, 2005

	2006	2005
Personnel Services		
Salaries	$3,528,895	$3,564,827
Fringe Benefits	572,615	532,443
SDCERS Retirement Defined Benefit Contributions	874,045	789,484
Supplemental Pension Savings Plan (SPSP) Contributions	213,552	215,623
Total Personnel Services	5,189,107	5,102,377
Professional Services		
Actuary Services	106,035	199,410
Audit Services	2,787	-
Contracted Services	5,148,774	998,745
Member Benefits System Development Services	312,926	571,414
Legal Fees	4,640,471	2,478,510
Data Processing/Computer Services	1,572,295	1,192,068
Accounting Department Charges	346,695	275,025
Total Professional Services	12,129,983	5,715,172
Communication		
Postage	101,929	120,563
Telephone	31,792	35,414
Travel	54,311	41,345
Total Communication	188,032	197,322
Rentals		
Office Space	585,527	537,364
Equipment	53,266	44,549
Total Rentals	638,793	581,913
Office Operations		
Office Supplies & Administration	159,493	216,686
Training, Memberships & Tuition Reimbursement	66,095	46,551
Miscellaneous Fees & Charges	30,716	50,802
Depreciation Expense	36,137	49,569
Total Office Operations	292,441	363,608
Total Administrative Expenses	$18,438,356	$11,960,392

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

Schedule of Payments to Consultants
For the Years Ended June 30, 2006 and June 30, 2005

Individual or Firm	2006	2005
Cheiron, Inc.	$103,035	-
Doctors & Disability Services (see next page for full listing)	139,040	$101,390
Gabriel, Roeder, Smith & Company	3,000	199,410
Legal Firms & Professional Legal Services (see next page for full listing)	4,640,471	2,615,704
Levi, Ray & Shoup	312,926	571,414
Linea Solutions	1,319,113	362,844
Marathon Communications, Inc.	276,355	-
Mellon Consultants *(formerly Buck Consultants)*	-	21,500
Mercer Human Resources Consulting	29,386	111,799
Navigant Consultanting, Inc.	2,672,077	-
Nuffer, Tucker, Smith, Inc.	-	17,390
San Diego Data Processing Corporation	1,572,295	1,192,068
Various Providers	1,062,285	521,653
Total Payments to Consultants and Professional Service Providers	$12,129,983	$5,715,172
Additional Legal Firms & Professional Legal Services for Litigation Settlement	$4,535,682	-

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

Schedule of Payments to Consultants
For the Year Ended June 30, 2006

SDCERS used the following Doctors' services:

California Orthopaedic Institute
Medical Associates, Inc.
William S. Adsit, M.D.

The Neurology Center
Michael Lobatz, M.D.

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

Southwest & Associates
Michael Kimball, M.D.
A. Lyle Rosenfield, M.D.

Other Doctors
Dominick Addario, M.D.
William P. Curran, Jr., M.D.
Dean C. Delis, Ph.D.
Pierre Hendricks, M.D.
L. Mercer McKinley, M.D.
Robert E. Neveln, Ph.D.
Thomas J. Wegman, Ph.D.

SDCERS paid the following Professional Legal Services Firms:

Bannan, Green, Frank & Terzian LLP
Gerald Blank, Esq.
Byrne & Nixon, LLP
Stephen G. Cline
Benjamin Coleman, Esq.
Mario G. Conte, Esq.
Michael L. Crowley, Esq.
Dixon, Truman & Fisher
Hay Group, Inc.
Ice Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbitration Services)
Knut S. Johnson, Esq.
Thomas E. Lambert, CPA, APC
Lightfoot, Valdevelde, Et Al.
McDermott Will & Emery LLP
Littler Mendelson, PC
Joseph Milchen, Esq.
John A. Mitchell
Reish, Luftman, Reicher & Cohen
Roake & Roake, APC
Seltzer Caplan McMahon Vitek, APC
Steefel, Levitt & Weiss

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, 2006 and June 30, 2005

	2006			2005		
	Market Value of Assets Under Management[1]	Total Fees Paid	Basis Points[4]	Market Value of Assets Under Management[1]	Total Fees Paid	Basis Points
Investment Manager Fees						
Domestic Equity Managers	$1,617,702,573	$7,188,360	44.44	$1,407,186,596	$6,180,437	43.92
International Equity Managers	722,444,955	3,114,252	43.11	594,947,042	2,758,899	46.37
Domestic Fixed Income Managers	1,413,809,724	4,544,196	32.14	1,207,844,678	4,202,851	34.80
International Fixed Income Managers	172,807,035	427,562	24.74	172,494,993	469,278	27.21
Real Estate Managers	388,633,169	2,230,574	57.40	321,907,838	2,053,354	63.79
Cash	4,010,239	n/a	n/a	7,090,351	n/a	n/a
Total Investment Manager Fees	$4,319,407,695	$17,504,944	44.67	$3,711,471,498	$15,664,821	44.55
Other Investment Service Fees						
Custodian Services	n/a	243,408	0.62[2]	n/a	$212,250	0.62[3]
Investment Consultants	n/a	527,131	1.35[2]	n/a	415,098	1.21[3]
Investment Accounting Applications	n/a	40,203	0.10[2]	n/a	38,585	0.11[3]
Total Other Investment Service Fees	n/a	810,742	2.07[2]	n/a	$665,933	1.94[3]
Total Fees Paid to Investment Professionals		$18,315,686	46.74[3]		$16,330,752	47.49[3]

[1] Market Values of Assets Under Management, as of June 30, 2006, and June 30, 2005, for SDCERS' investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds and real estate, and net of receivables and payables of cash for pending transactions (settlement date based) in each strategy.

[2] June 30, 2006 - Basis Points calculation based upon $3,918,598,652, which is the average of FY 2006 Total Net Investments plus Cash and Cash Equivalents totaling $4,200,475,272 and FY 2005 Total Net Investments plus Cash and Cash Equivalents totaling $3,636,722,032.

[3] June 30, 2005 - Basis Points calculation based upon $3,438,787,303, which is the average of FY 2005 Total Net Investments plus Cash and Cash Equivalents totaling $3,636,722,032 and FY 2004 Total Net Investments plus Cash and Cash Equivalents totaling $3,240,852,574.

[4] 1/100 of one percent.

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3. Investments

Investment Consultant's Statement

CALLAN ASSOCIATES INC

July 18, 2007

JAMES A. CALLAHAN, CFA

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

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Dear Mr. Wescoe:

This letter reviews the investment performance of the San Diego City Employees' Retirement System (SDCERS) for the fiscal years ended June 30, 2006 (FY 2006) as compared to June 30, 2005 (FY 2005).

During fiscal year 2006 and fiscal year 2005, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with the CFA Centre for Financial Market Integrity Global Investment Performance Standards (GIPS). 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 2006

Slowing GDP growth in the fourth quarter of 2005 gave way to a big jump in the first quarter of 2006 (+5.6%) just to decline to a more moderate gain of 2.5% in the quarter ending June 2006. A new Fed Chairman, Ben Bernanke, was appointed on February 1, 2006. Rising interest rates, high oil prices and a drop in housing starts created turmoil in the bond markets. For the first time since 1999, the domestic fixed income market fell two consecutive quarters, ending the fiscal year down 0.8%. Global inflation fears combined with rising interest rates resulted in international fixed income posting a flat return for the fiscal year in spite of a falling U.S. dollar.

101 CALIFORNIA STREET, SUITE 3500, SAN FRANCISCO, CALIFORNIA 94111 TELEPHONE 415.974.5060 FACSIMILE 415.512.0524

Uncertainty over inflation and Fed rate policy affected the domestic equity markets as well. Nearly all major U.S. equity indices fell in the last quarter of the fiscal year. For the entire fiscal year, value outperformed growth in both large and small cap. Small cap outperformed large cap with the Russell 2000 and S&P 500 up 14.6% and 8.6% respectively.

International equity markets had a terrific fiscal year getting off to a good start with the MSCI EAFE Index up 10.4% in the quarter ending September 30, 2005. With the exception of the quarter ending June 2005, international equity returns were up over 9% per quarter. The MSCI EAFE Index ended the fiscal year up 26.6%. Small cap stocks internationally also posted very strong returns for the fiscal year, up 31.5%.

Real estate continued to perform well in fiscal year 2006. The NCREIF Property index gained 18.7% while the Dow Jones Wilshire REIT index returned 19.1%. Increasing occupancy rates and supply constraints supported the real estate markets throughout the fiscal year. Strong cash flows from investors also supported property markets during the year.

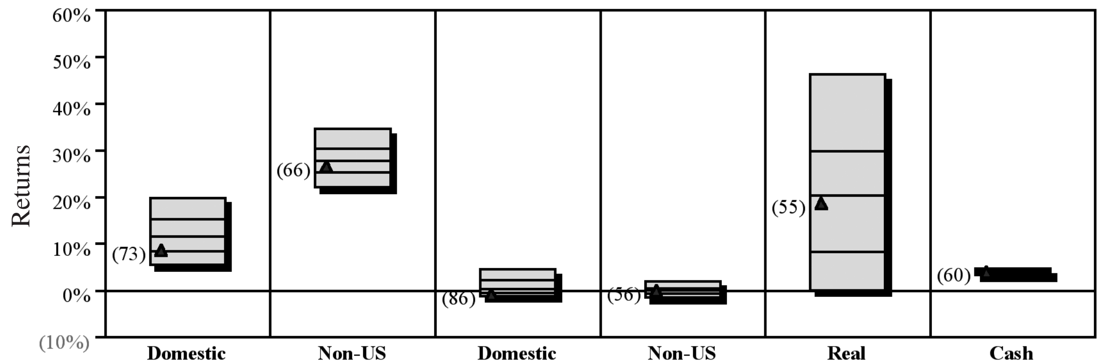
Highlights of Fiscal Year 2005

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 U.S. small cap market, returned +9.5% and the MSCI EAFE Index returned +13.7%. As in recent years, value stocks tended to outperform growth stocks on a style basis for 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 downgrading to non-investment grade bond status for General Motors and Ford. 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 markets' stellar fourth quarter 2004, in which the MSCI EAFE Index returned +15.3%, enabled it to overcome otherwise flat returns due to a rising U.S. 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.

Active Manager Returns as Compared to Relative Benchmark Returns

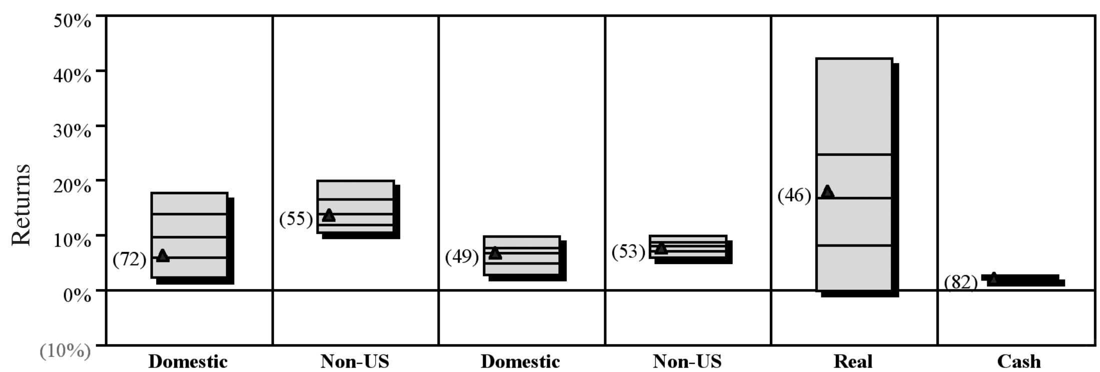
The charts on the follow page depict the performance of Callan's investment manager database by asset category for the years ended June 30, 2006, and June 30, 2005. The performance of the major market indices is also plotted. During fiscal year 2006, a majority of public markets active managers were successful in beating their benchmarks.

Range of Separate Account Manager Returns by Asset Class
One Year Ended June 30, 2006



	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Non-US Fixed-Income vs Citi Non-US Gov	Real Estate vs NCREIF Index	Cash Equivalents vs 3 Mon T-Bills
10th Percentile	19.85	34.55	4.56	2.04	46.22	4.69
25th Percentile	15.25	30.32	2.24	0.45	29.84	4.34
Median	11.64	27.75	0.33	0.05	20.36	4.18
75th Percentile	8.46	25.28	(0.44)	(0.59)	8.30	3.63
90th Percentile	5.53	22.09	(1.14)	(1.49)	0.07	3.31
Index ▲	8.63	26.56	(0.81)	(0.01)	18.67	3.98

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



	Domestic Equity vs S&P 500	Non-US Equity vs MSCI EAFE	Domestic Fixed-Income vs LB Aggr Bd	Non-US Fixed-Income vs Citi Non-US Gov	Real Estate vs NCREIF Index	Cash Equivalents vs 3 Mon T-Bills
10th Percentile	17.72	19.98	9.82	9.87	42.17	2.68
25th Percentile	13.90	16.53	7.74	8.70	24.74	2.40
Median	9.70	13.85	6.76	8.03	16.75	2.28
75th Percentile	5.92	11.89	4.83	7.09	8.19	2.20
90th Percentile	2.33	10.49	2.82	5.96	(0.11)	1.96
Index ▲	6.32	13.65	6.80	7.75	18.02	2.15

SDCERS' Fiscal Year 2006 Investment Performance as Compared to Fiscal Year 2005

For the one-year period ended June 30, 2006, SDCERS' total fund, time-weighted return of +12.7% was approximately 240 basis points ahead of SDCERS' custom policy performance benchmark return of +10.3% and well ahead SDCERS' actuarial annual rate of return assumption of +8.0%. SDCERS' fiscal year 2006 total fund return exceeded fiscal year 2005 total fund return of +10.8%, which also exceeded SDCERS' custom policy performance benchmark return of +10.2% 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, 2006:

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

International Equities
12.0% 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% Dow Jones 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 +9.1% ranks in the first percentile of the Callan public pension plan peer universe and is 140 basis points annualized ahead of SDCERS' custom policy performance benchmark return of 7.7%.

SDCERS' Domestic Equity Performance

After posting a fiscal year 2005 return of +9.4%, SDCERS' domestic equity composite returned a strong +11.7% during the twelve months ended June 30, 2006. This performance surpassed SDCERS' blended domestic equity performance benchmark return of +10.7%. During fiscal year 2005, SDCERS' domestic equity composite return ranked in the 13th percentile in the Callan peer universe. Fiscal year 2006 was also impressive, as SDCERS' domestic equity composite return ranked in the 17th percentile among Callan's peer universe. During the same fiscal year 2006 time period, the median public pension plan's domestic equity composite in the Callan peer universe returned +10.2%. 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- and five-year periods by healthy margins and ranked in the third and second percentiles respectively among public pension plans in the Callan peer universe for the two fiscal year periods.

SDCERS' International Equity Performance

SDCERS' international equity composite returned +29.5% for the year ended June 30, 2006, well ahead of fiscal year 2005's strong return of +15.9%. The fiscal year 2006 return exceeded SDCERS' blended international equity performance benchmark return of +29.0%. SDCERS' international equity composite return for fiscal year 2006 ranks in the 13th percentile versus other public pension plans in the Callan peer universe. During fiscal year 2005, SDCERS' international equity composite return ranked in the first quartile 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 strong results in relative terms for the fiscal year ended June 30, 2006. A return of +4.0% for the trailing year ranked SDCERS' performance in the third percentile of public pension plans in the Callan peer universe, outpacing SDCERS' blended domestic fixed income performance benchmark return of +0.4%. Over the same period last year, SDCERS' fiscal year 2005 domestic fixed income return of +6.6% outpaced SDCERS' blended domestic fixed income performance benchmark return of +5.3% and ranked in the 66th percentile of the Callan peer universe. SDCERS' domestic fixed income composite longer-term cumulative return exceeds the fixed income benchmark and ranks in the second and 34th percentiles for the three- and five-year periods respectively.

SDCERS' International Fixed Income Performance

For the twelve months ended June 30, 2006, SDCERS' international fixed income portfolio returned -0.1% lagging SDCERS' international fixed income performance benchmark return of -0.0% and trailing the Callan public pension plan peer universe's median return of +0.3%. International fixed income returns were hurt by rising interest rates globally. For the period ended June 30, 2005, the international fixed income portfolio returned +9.6%, handily beating SDCERS' international fixed income performance benchmark return of +7.8% by 180 basis points. 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. For the five-year period ending June 30, 2006, SDCERS international fixed income portfolio produced a return of +10.3%, a premium of 5.3% per annum over the U.S. bond market as measured by the Lehman Brothers Aggregate Index.

SDCERS' Real Estate Performance

Fueled by the exceptional performance of both the public and private markets during the past year, SDCERS' real estate composite produced an impressive return of +27.6% for the one-year period ending June 30, 2006; this ranked SDCERS' real estate performance in the top quartile in the Callan public pension plan peer universe. Over this same time period, SDCERS' blended real estate performance benchmark returned +19.7%. Longer-term results for the real estate portfolio are equally as impressive. For the trailing three- and five-year periods ended June 30, 2006, SDCERS' real estate composite return totaled +25.2% and +18.1% annualized respectively, well in excess of SDCERS' blended real estate performance benchmark returns of 18.4% and 13.45% respectively. This longer-term performance ranks SDCERS' returns in the top quartile in the Callan peer universe.

In Summary

The fiscal year ended June 30, 2006, proved to be strong for U.S. and non-U.S. equity markets and relatively weak for fixed income markets. Fiscal year 2005 posted stronger U.S. and non-U.S. fixed income returns. Real estate was an outstanding performer in both fiscal years. SDCERS' disciplined and diversified investment approach over these two years has led to excellent relative performance, ranking SDCERS' total fund performance in the seventh percentile for fiscal year 2006 and in the 13th percentile for fiscal year 2005 when compared to the Callan public pension plan peer universe database. As in fiscal year 2005, SDCERS outperformed its custom policy performance benchmark return in fiscal year 2006. On an absolute basis, SDCERS participated significantly in the fiscal year 2006 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 2006 return of +12.7%. 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
Executive Vice President & Manager
Head of Fund Sponsor Consulting

San Diego City Employees' Retirement System
Asset Class Investment Returns[1]

Performance Comparison
For the One-Year Periods Ended June 30, 2006 and 2005

	2006	2005
SDCERS' Domestic Equity Performance	**11.67%**	**9.41%**
Domestic Equity Benchmark	10.74%	8.49%
comprised of:		
Standard & Poor's 500 (60% weight)	8.63%	6.32%
Standard & Poor's MidCap 400 (20% weight)	12.97%	14.03%
Russell 2000 (20% weight)	14.58%	9.45%
SDCERS' International Equity Performance	**29.48%**	**15.91%**
International Equity Benchmark	29.02%	17.63%
comprised of:		
MSCI AC World Free Ex-US Index (80% weight)	28.40%	16.95%
EMI World Ex-US Index (20% weight)	31.45%	20.31%
SDCERS' Domestic Fixed Income Performance	**3.95%**	**6.62%**
Domestic Fixed Income Benchmark	0.37%	5.27%
comprised of:		
Lehman Aggregate Bond Index (64% weight)	-0.81%	6.80%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	1.12%	2.89%
ML Convertible Index, All Qualities (6% weight)	9.37%	0.06%
SDCERS' International Fixed Income Performance	**-0.12%**	**9.61%**
International Fixed Income Benchmark	-0.01%	7.75%
comprised of:		
Citigroup Non-U.S. Gov't Bond (100% weight)		
SDCERS' Real Estate Performance	**27.57%**	**23.77%**
Real Estate Benchmark	19.67%	21.45%
comprised of:		
NCREIF Index (75% weight)	18.67%	18.02%
Dow Jones Wilshire REIT Index (25% weight)	22.00%	34.15%
SDCERS' Total Fund Performance	**12.73%**	**10.80%**
Total Fund Performance Benchmark	10.28%	10.16%
comprised of:		
S&P 500 (22.8%); L/B Aggr (20.5%); MSCI AC World ex-US Free (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 All Convertible (1.9%).		

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

San Diego City Employees' Retirement System
Asset Class Investment Returns[1]

Long Term Performance[2]
As of June 30, 2006

	Annualized Performance		
	3-Year	5-Year	10-Year
SDCERS' Domestic Equity Performance	16.33%	6.92%	9.93%
Domestic Equity Benchmark	14.11%	5.10%	9.69%
comprised of:			
Standard & Poor's 500 (60% weight)	11.22%	2.49%	8.32%
Standard & Poor's MidCap 400 (20% weight)	18.14%	9.30%	13.82%
Russell 2000 (20% weight)	18.70%	8.50%	9.05%
SDCERS' International Equity Performance	27.36%	13.40%	12.56%
International Equity Benchmark	27.09%	13.27%	7.25%
comprised of:			
MSCI AC World Free Ex-US Index (80% weight)	25.78%	11.85%	7.16%
EMI World Ex-US Index (20% weight)	31.67%	17.90%	8.65%
SDCERS' Domestic Fixed Income Performance	4.75%	5.38%	6.84%
Domestic Fixed Income Benchmark	2.24%	4.55%	6.22%
comprised of:			
Lehman Aggregate Bond Index (64% weight)	2.05%	4.97%	6.22%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	1.46%	3.91%	5.35%
ML Convertible Index, All Qualities (6% weight)	9.69%	5.71%	8.67%
SDCERS' International Fixed Income Performance	5.52%	10.26%	5.78%
International Fixed Income Benchmark	5.05%	9.61%	4.98%
comprised of:			
Citigroup Non-U.S. Gov't Bond (100% weight)			
SDCERS' Real Estate Performance	25.20%	18.08%	14.54%
Real Estate Benchmark	18.36%	13.45%	12.68%
comprised of:			
NCREIF Index (75% weight)	15.79%	12.00%	12.41%
Wilshire REIT Index (25% weight)	27.68%	20.13%	16.14%
SDCERS' Total Fund Performance	14.51%	9.09%	10.00%
Total Fund Performance Benchmark	12.13%	7.69%	8.89%
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 (7.6%); 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, 2006

Domestic Equity Investment Managers

Delta Asset Management
Los Angeles, CA

Dimensional Fund Advisors
Santa Monica, CA

Dodge & Cox
San Francisco, CA

Globeflex Capital, L.P.
San Diego, CA

INTECH Enhanced Investment Technologies (Janus)
Palm Beach Gardens, FL

Putnam Investments
Boston, MA

Sector Capital
Memphis, TN

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

Wall Street Associates
La Jolla, CA

Domestic Fixed Income Investment Managers

Metropolitan West Asset Management
Los Angeles, CA

Nicholas Applegate Capital Management
San Diego, CA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

Pyramis Global Advisors (Fidelity)
Boston, MA

Salus Capital Management, Inc.
Los Angeles, CA

SSI Investment Management, Inc.
Beverly Hills, CA

International Equity Managers

Brandes Investment Partners
San Diego, CA

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

Nicholas Applegate Capital Management
San Diego, CA

Putnam Investments
Boston, MA

San Diego City Employees' Retirement System
Investment Managers (continued)
As of June 30, 2006

International Fixed Income Investment Managers

Rogge Global Partners
London, England

Real Estate Investment Managers

Blackrock Realty Advisors
San Francisco, CA

Cornerstone Real Estate Advisers
Glastonbury, CT

Invesco Real Estate
Dallas, TX

RREEF Funds
San Francisco, 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, 2006

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.

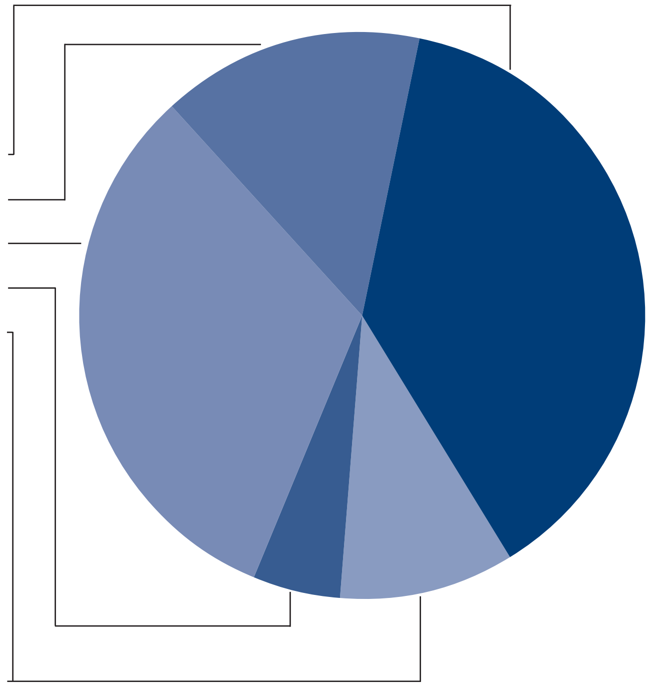
Diversification

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; 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.

San Diego City Employees' Retirement System
Target Asset Allocation
As of June 30, 2006 and 2005

Domestic Equity Strategies	38.0%
International Equity Strategies	15.0%
Domestic Fixed Income Strategies	32.0%
International Fixed Income Strategies	5.0%
Real Estate Strategies	10.0%
TOTAL	100.00%

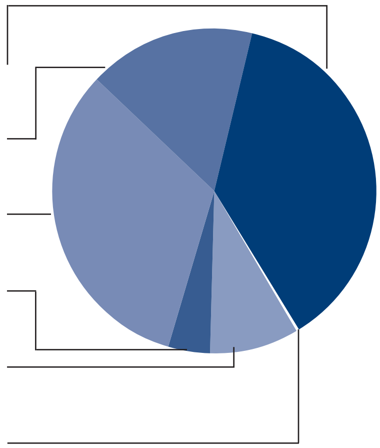


San Diego City Employees' Retirement System
Actual Asset Diversification – Investments At Fair Value

As of the Years Ended June 30, 2006 and 2005

2006

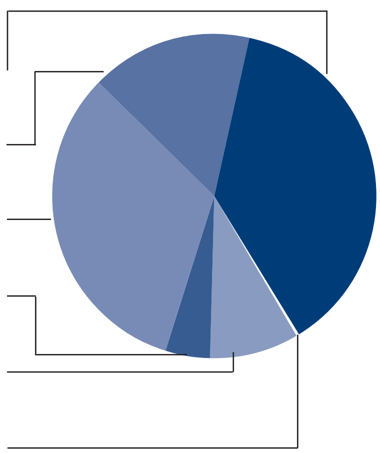
Domestic Equity Strategies	37.5%
International Equity Strategies	16.7%
Domestic Fixed Income Strategies	32.7%
International Fixed Income Strategies	4.0%
Real Estate Strategies	9.0%
Cash	0.1%
TOTAL	100.0%



Domestic Equity Strategies	$1,618,353,734
International Equity Strategies	703,112,207
Domestic Fixed Income Strategies	774,124,852
International Fixed Income Strategies	166,742,930
Real Estate Strategies	385,206,278
Cash	685,364,341
Total Investments, At Fair Value	4,320,058,856
Less Pending Transactions	(117,756,097)
Total Net Investments	$4,202,302,759

2005

Domestic Equity Strategies	37.9%
International Equity Strategies	16.0%
Domestic Fixed Income Strategies	32.5%
International Fixed Income Strategies	4.7%
Real Estate Strategies	8.7%
Cash	0.2%
TOTAL	100.0%



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	8,090,352
Total Investments, At Fair Value	3,712,471,499
Less Pending Transactions	(75,749,467)
Total Net Investments	$3,636,722,032

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.

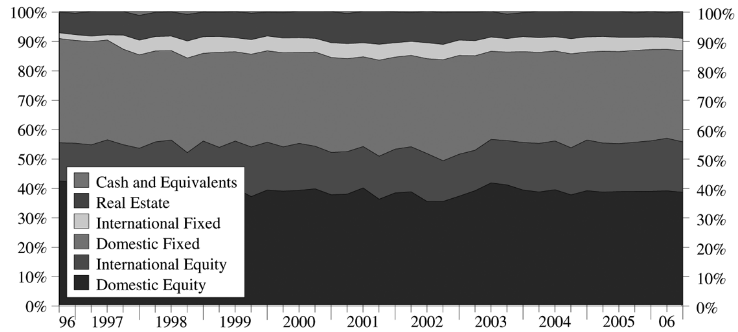
San Diego City Employees' Retirement System
Historical Asset Allocation (Actual)

Ten Year History for Fiscal Years 1997 - 2006 (July 1, 1996 - June 30, 2006)

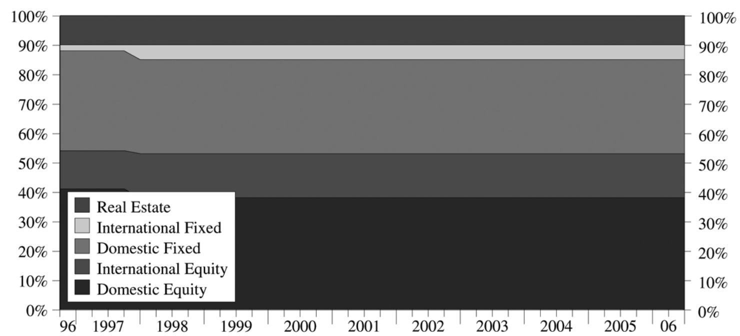
Actual vs Target Historical Asset Allocation

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.

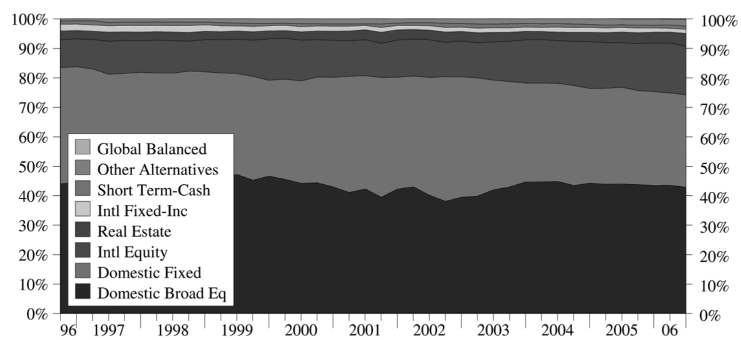
Actual Historical Asset Allocation



Target Historical Asset Allocation



Average CAI Public Fund Sponsor Database Historical Asset Allocation

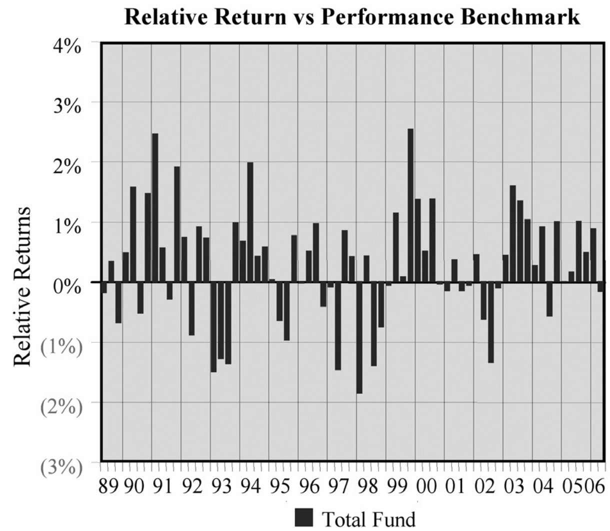


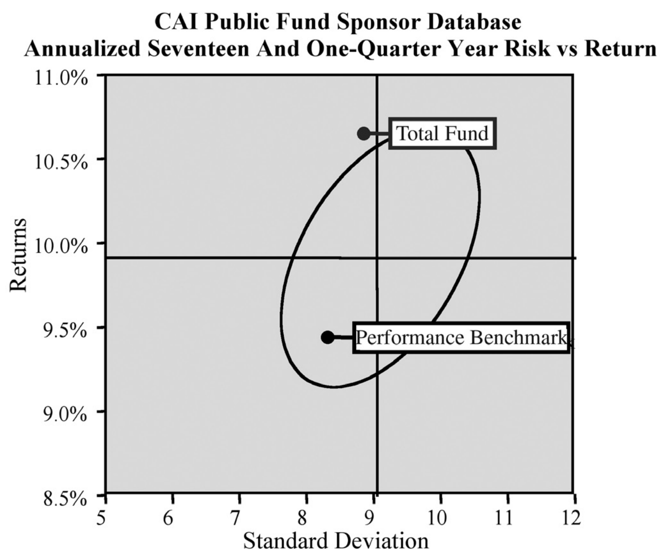
* Current Quarter Target = 22.8% S&P 500, 20.5% L/B Agg, 12.0% MSCI ACWI ex-US, 9.6% ML 1-5 Govt/Corp, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 7.5% NCREIF Total Index, 5.0% Citi Non-US Gvt Bd Idx, 3.0% EMI World ex US Index, 2.5% Dow Jones Wilshire REIT and 1.9% ML All Conv.

San Diego City Employees' Retirement System

San Diego City Employees' Retirement System
Historical Risk vs. Return Analysis
Since Inception of Diversified Investment Program

March 30, 1989 through June 30, 2006 (17.25 years)





San Diego City Employees' Retirement System
Schedule of Largest Equity Holdings
At Years Ended June 30, 2006 and 2005

2006

Rank	Shares	Equity Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
1	343,930	Schlumberger Ltd	806857108	$22,393,282	0.53%
2	50,300	Google Inc.	38259P508	21,092,299	0.50
3	602,196	Hewlett Packard Co.	428236103	19,077,569	0.45
4	534,027	Network Appliance ,Inc.	64120L104	18,851,153	0.45
5	602,584	eBay Inc.	278642103	17,649,685	0.42
6	426,492	Qualcomm Inc.	747525103	17,089,534	0.41
7	191,132	Genentech Inc.	368710406	15,634,598	0.37
8	410,300	Countrywide Financial Corp.	222372104	15,624,224	0.37
9	648,294	Pfizer Inc.	717081103	15,215,460	0.36
10	44,903	Nestle SA	712387901	14,075,716	0.34
			Totals	$176,703,520	4.20%

2005

Rank	Shares	Equity Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
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	0.32
			Totals	$169,027,704	4.64%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Largest Fixed Income Holdings
At Years Ended June 30, 2006 and 2005

2006

Rank	Par	Fixed Income Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
1	67,800,000	FNMA TBA Jul 30 Single Family 5.5% 01 Dec 2099	01F052672	$65,093,295	1.55%
2	60,499,000	United States Treasury Notes 4.25% 15 Nov 2014	912828DC1	56,906,872	1.35
3	33,232,000	United States Treasury Notes Strips Principal 0% 15 Aug 2009	912820EA1	28,390,692	0.68
4	24,335,000	FNMA TBA Jul 30 Single Family 5% 01 Dec 2099	01F050676	22,747,521	0.54
5	17,854,000	United State Treasury Notes 4.875% 15 May 2009	912828FE5	17,734,043	0.42
6	18,059,000	United States Treasury Notes Strips Principal 3.375% 15 Oct 2009	912828CX6	17,119,369	0.41
7	14,984,000	Unites States Treasury Bonds 6.125% 15 Nov 2027	912810FB9	16,557,320	0.39
8	12,057,000	Netherlands 5% 15 Jul 2012	730959II6	16,304,681	0.39
9	12,872,648	FNMA Pool 819714 5% 01 Apr 2020	31406TVF5	12,422,609	0.30
10	9,700,000	Netherlands 3% 15 Jan 2010	B03CQVII5	12,095,311	0.29
			Totals	$265,371,712	6.32%

2005

Rank	Par	Fixed Income Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
1	45,441,000	United States Treasury Notes 3% 15 Jul 2012	912828AN0	$44,787,786	1.23%
2	21,000,000	FNMA TBA Jul 30 Single Family 5.5% 01 Dec 2099	01F052672	21,285,470	0.59
3	16,093,000	United States Treasury Bonds 6.125% 15 Nov 2027	912810FB9	20,324,957	0.56
4	18,000,000	FNMA TBA Aug 15 Single Fam 5% 01 Dec 2099	01F050486	18,180,000	0.50
5	17,000,000	FNMA TBA Aug 30 Single Fam 5% 01 Dec 2099	01F050684	16,964,140	0.47
6	11,207,000	Netherlands 5% 15 Jul 2012	730959II6	15,430,599	0.42
7	14,941,926	FNMA Pool 819714 5% 01 Apr 2020	31406TVF5	15,126,949	0.42
8	9,700,000	Netherlands 3% 15 Jan 2010	B03CQVII5	12,012,220	0.33
9	6,040,000	U.K. Treasury 4.25% 07 Mar 2036	324523II2	10,914,084	0.30
10	9,999,004	FNMA Pool 725425 5.5% 01 Apr 2034	31402C4J8	10,152,894	0.28
			Totals	$185,179,099	5.10%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedules of Commissions
For the Year Ended June 30, 2006

2006

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	Citigroup Global Markets, Inc.	23,627,522	$566,834	$0.024
2	Goldman Sachs & Co.	17,822,836	491,147	0.028
3	UBS AG	18,547,384	490,619	0.026
4	Investment Technology Group, Inc.	24,997,523	454,956	0.018
5	Merrill Lynch & Co., Inc.	19,994,061	448,291	0.022
6	Credit Suisse First Boston Corp.	47,723,384	349,077	0.007
7	Lehman Brothers, Inc.	12,012,214	242,324	0.020
8	Morgan Stanley & Co.	16,070,002	222,268	0.014
9	JP Morgan Securities, Inc.	49,164,288	194,736	0.004
10	Bear Stearns & Co., Inc.	8,568,804	170,403	0.020
11	BNY Clearing Services, LLC	9,274,940	159,663	0.017
12	Pershing LLC	4,885,124	157,279	0.032
13	Deutsche Bank Securities, Inc.	8,730,379	142,060	0.016
14	Cantor Fitzgerald & Co.	5,659,449	136,695	0.024
15	State Street Brokerage Services	5,589,995	133,386	0.024
16	Bank of America Securities LLC	2,647,369	110,617	0.042
17	Jefferies & Company, Inc.	4,418,055	99,996	0.023
18	Nomura Securities International, Inc.	8,706,264	94,819	0.011
19	B-Trade Services LLC	1,653,157	80,120	0.048
20	Rochdale Securities Corp.	1,564,255	66,288	0.042
21	Instinet	2,120,032	66,151	0.031
22	SG Americas Securities, LLC	1,636,319	60,483	0.037
23	LiquidNet, Inc.	1,797,903	58,564	0.033
24	Warburg Dillon Read	40,886,085	57,162	0.001
25	O'Neil, William and Co., Inc.	1,643,810	54,106	0.033
	All Other Brokers	90,662,315	1,637,806	0.018
Totals		430,403,469	$6,745,851	$0.016

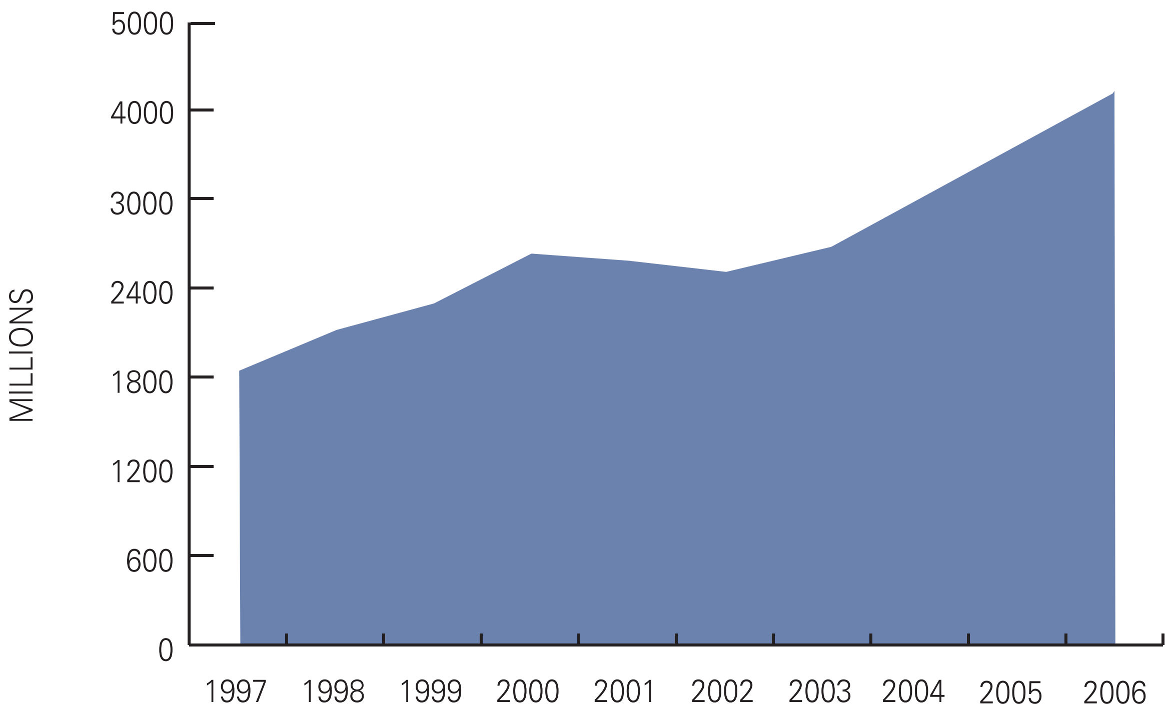
Year-Over-Year Changes: 67.79% increase in total shares traded; 1.44% decrease in total commissions paid; 41.26% decrease in commissions per share paid.

* The decrease in the commissions per share from FY2005 to FY2006 can be attributed to increased usage of electronic trading platforms and to international trade commissions being priced as a basis point rate on the value of the securities traded. Once these basis point based commissions are converted back to a cost per share price, the international trading cost per share is often lower, compared to domestic commission charges at a cents per share rate. Factors contributing to the increase in number of shares traded in FY 2006 over FY 2005 include larger employer contributions, the replacement of a domestic equity manager and market conditions.

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

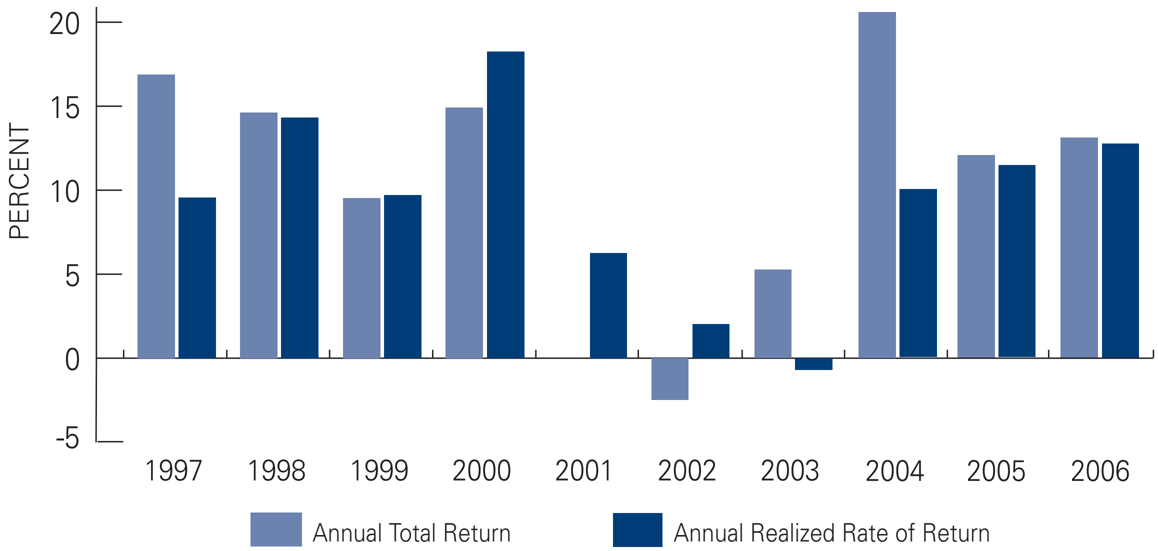
San Diego City Employees' Retirement System
Growth of Investments, At Fair Value
For Ten Years Ended June 30, 2006



Fiscal Year	Fair Value[1]
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	3,636,722,032
2006	4,202,302,759

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

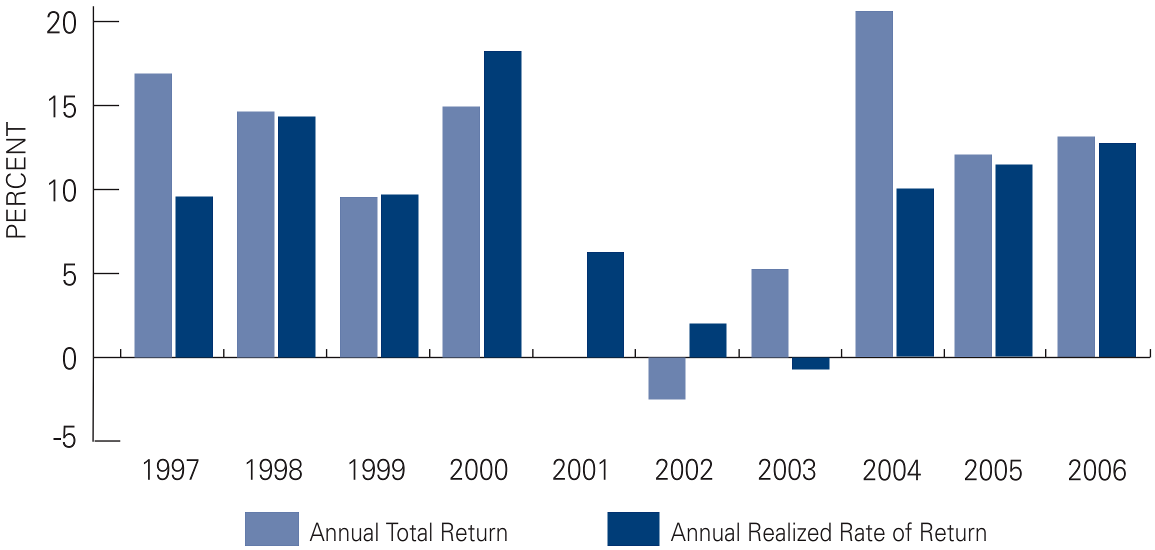
San Diego City Employees' Retirement System
Historical Investment Performance
For Ten Fiscal Years Ended June 30, 2006



Fiscal Year	Annual Total Return	Annual Realized Rate of Return
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
2006	12.73	12.04

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.

San Diego City Employees' Retirement System
Historical Investment Performance (continued)
For Ten Fiscal Years Ended June 30, 2006



Net Investment Income
Income earned as of June 30 each year

Fiscal Year	Total Net Investment Income	Realized Earnings[1]
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	349,310,988	310,061,227
2006	454,369,168	410,233,183

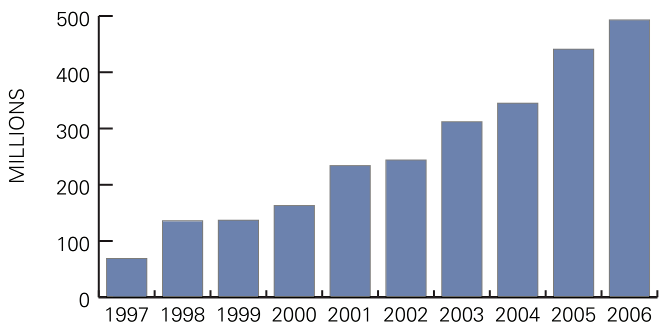
[1] Realized Earnings are depicted in this historical schedule as the payment of certain SDCERS' contingent benefits are dependent upon the level of annual realized earnings generated on invested assets. The calculation of realized gains and losses disclosed is independent of the calculation of net appreciation (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, 2006

Cash & Cash Equivalent Holdings

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



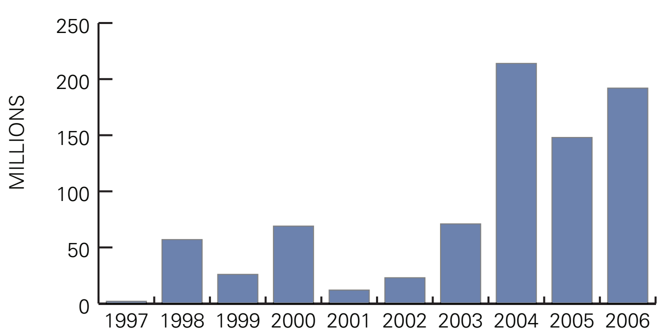
Fiscal Year	Market Value of Cash & Cash Equivalents[1]
1997	$69,361,891
1998	135,676,617[2]
1999	135,976,338[2]
2000	163,498,829[2]
2001	234,194,670[2]
2002	243,596,793[2]
2003	312,044,538[2]
2004	343,851,225[2]
2005	440,955,832[2]
2006	493,192,881[2]

[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



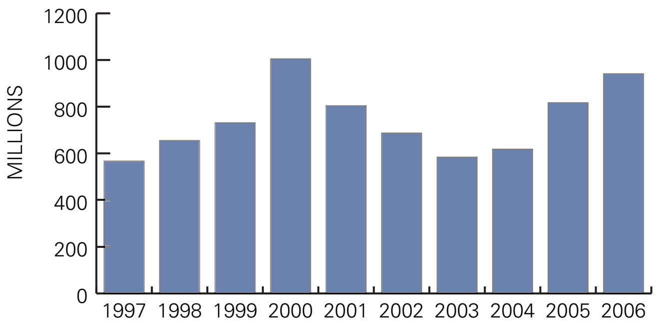
Fiscal Year	Market Value of Short-Term Investments
1997	$609,768
1998	57,018,178
1999	26,318,203
2000	69,460,684
2001	11,864,163
2002	23,004,166
2003	70,934,651
2004	214,401,018
2005	148,312,263
2006	192,171,460

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, 2006

Domestic and International Fixed Income Holdings

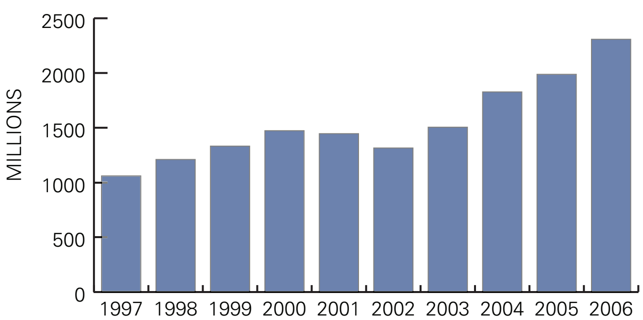
Valuation done June 30 each year



Fiscal Year	Market Value of Bonds
1997	$567,063,982
1998	654,726,238
1999	731,111,193
2000	1,005,154,473
2001	803,756,585
2002	687,237,643
2003	583,984,424
2004	617,720,971
2005	816,966,124
2006	940,867,782

Domestic and International Equity Holdings

Valuation done June 30 each year



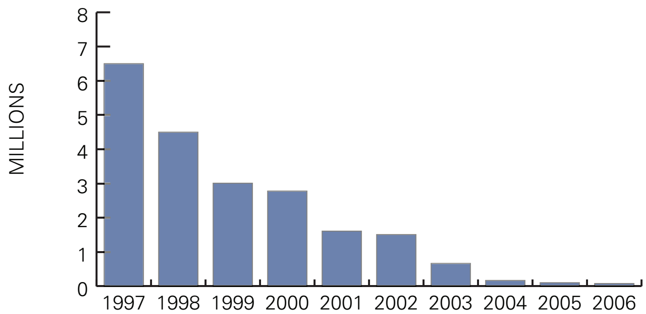
Fiscal Year	Market Value of Stocks
1997	$1,059,691,384
1998	1,210,749,732
1999	1,332,344,711
2000	1,473,187,920
2001	1,446,763,240
2002	1,315,658,196
2003	1,505,010,871
2004	1,827,886,468
2005	1,988,288,054
2006	2,308,620,455

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, 2006

Mortgage Holdings

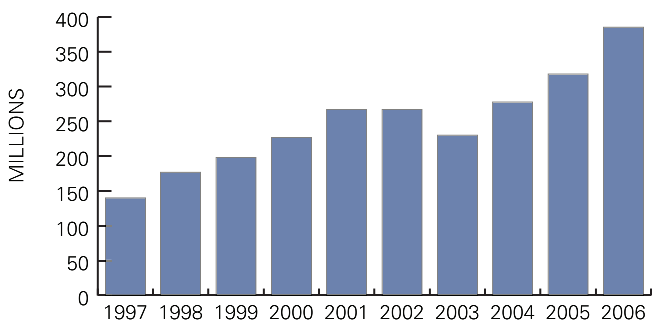
Valuation done June 30 each year



Fiscal Year	Market Value of Mortgages
1997	$6,551,890
1998	4,493,308
1999	3,008,566
2000	2,784,927
2001	1,617,777
2002	1,515,530
2003	668,621
2004	17,022
2005	9,145
2006	5,916

Real Estate Holdings (includes REITs)

Valuation done June 30 each year[1]



Fiscal Year	Market Value of Real Estate
1997	$140,112,709
1998	176,961,020
1999	197,756,091
2000	226,687,071
2001	267,250,573
2002	267,069,355
2003	230,151,441
2004	277,668,908
2005	317,941,072
2006	385,200,362

[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 appraisal activity. Values for FY 2003 - FY 2006 are correctly stated as of June 30 for each year.

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4. Actuarial

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

May 15, 2007

Members of the Retirement Board
San Diego City Employees' Retirement Systems
401 B Street, Suite 400
San Diego, California 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, 2006 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 27 year amortization of any unfunded actuarial liability (UAL) for the City, and 15 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, 2006 valuation were the same as those used in the June 30, 2005 valuation and were based on the 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 Governmental 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 2006 results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and the Statistical Section.

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

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 principles 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

Consulting Actuary

San Diego City Employees' Retirement System
Summary of June 30, 2006 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 Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

1. General Comments

The June 30, 2006 Actuarial Valuation results are based on the same actuarial assumptions used by Cheiron in its June 30, 2005 valuation. However, the 2006 valuation reflects a number of methodology changes that Cheiron recommended and the Board approved. These changes include:

- The use of the "expected asset value" smoothing method. For June 30, 2006, the asset value is set to market value as of the same date, with the actual smoothing method commencing on June 30, 2007.
- A "cash flow" apportionment method that will directly reflect, as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.
- All "contingent" liabilities (Corbett settlement increase and the 13th check) are now reflected in the June 30, 2006 valuation liabilities.
- Reflecting both the future liabilities for DROP retirements and supplemental Cost of Living Adjustments (COLA) as well as the asset reserves held for such liabilities in assets and liabilities. Previously, both amounts were excluded from reported assets and liabilities.
- All future benefits payable from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code (IRC) Section 415.
- Benefits and resulting liabilities for current and future disabled participants have been reduced to reflect the legal decision that the Corbett judgment and plan document do not authorize a 10% increase to non-service eligible disability retirees.
- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

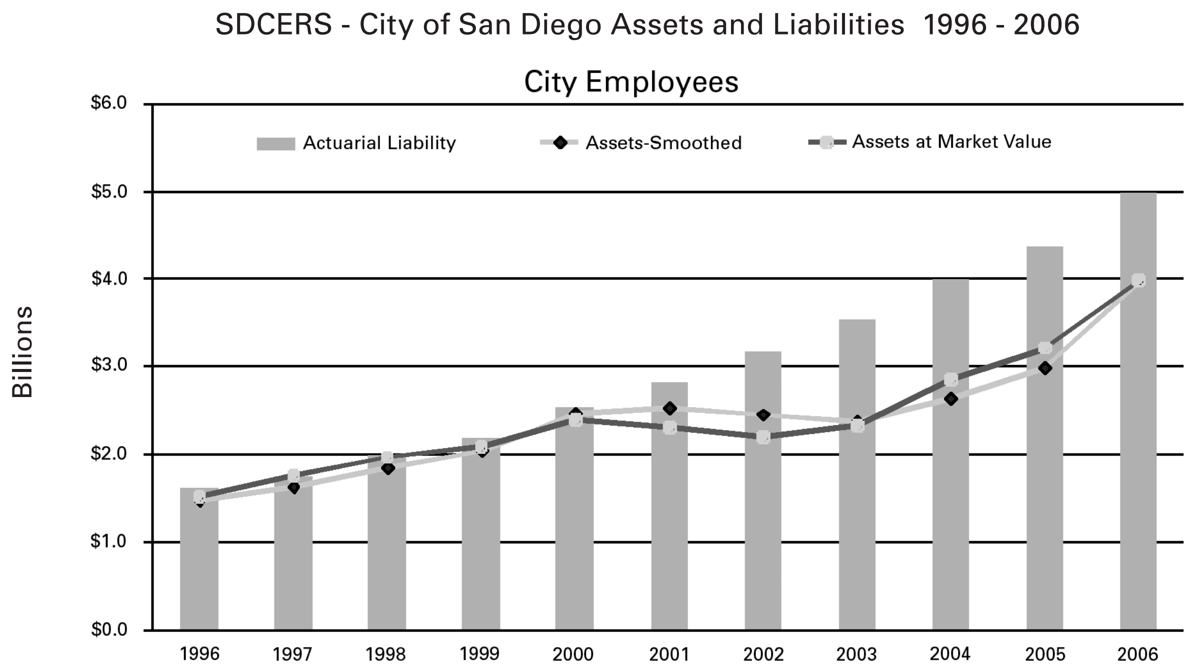
The valuation reports for each of the employers in SDCERS show the itemized effects of these changes on the Unfunded Actuarial Accrued Liability and the Gain/Loss experience for the year.

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 Accrued Liability. The City's June 30, 2006 UAAL is amortized over 27 years. The Unified Port District and the Airport Authority's June 30, 2006 UAAL is amortized over 15 years.

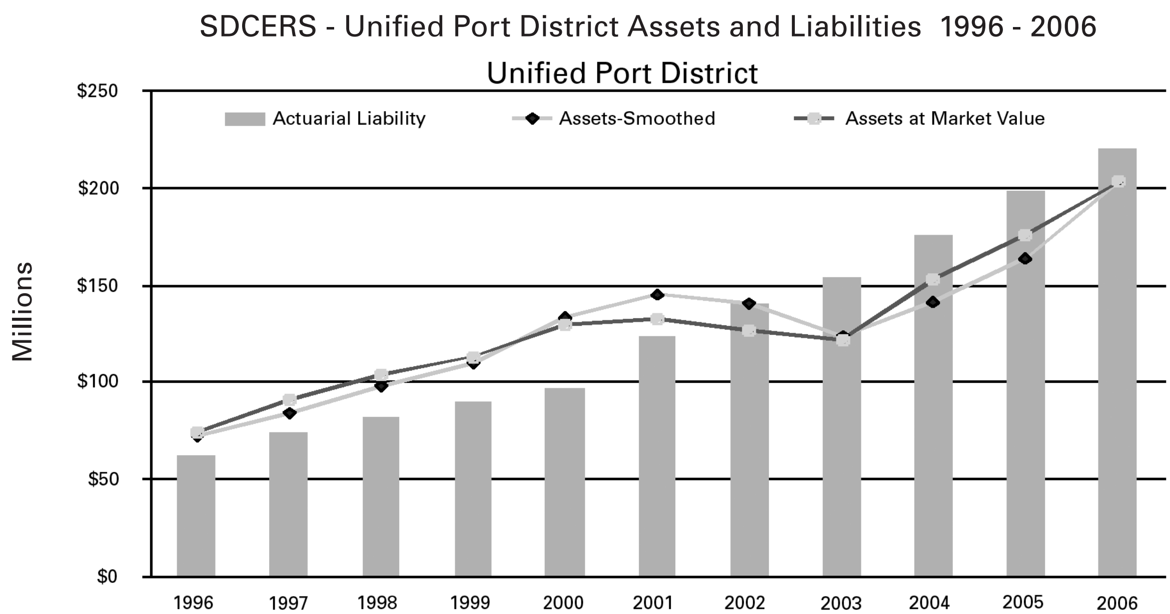
San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

2. Historical Trends

Assets and Liabilities



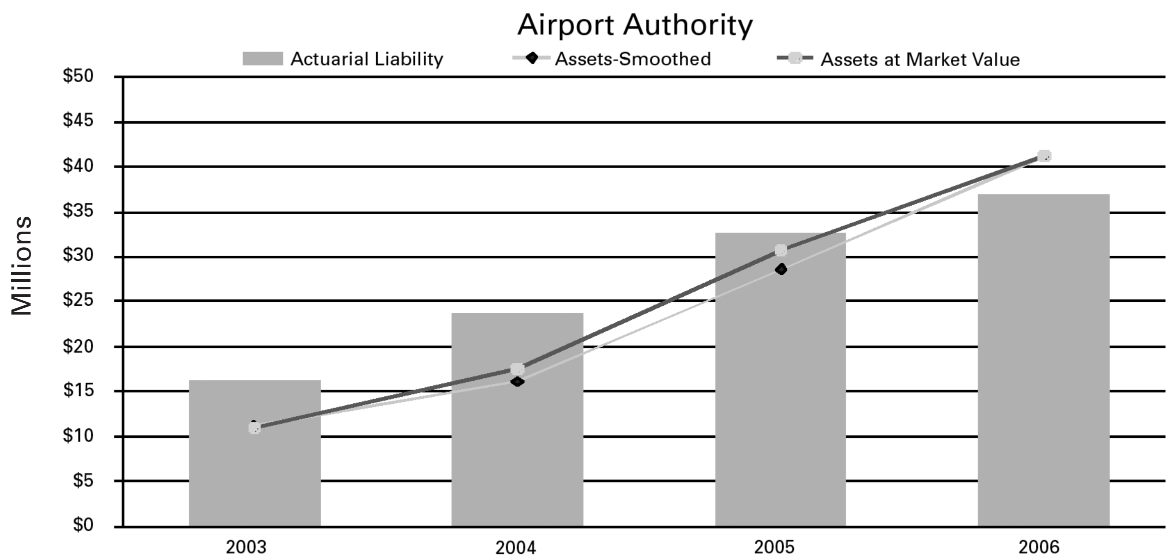
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Funded Ratio	91.4%	93.3%	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%
UAL	$ 0.14	$ 0.12	$ 0.13	$ 0.15	$ 0.07	$ 0.28	$ 0.72	$ 1.16	$ 1.37	$ 1.39	$ 1.00



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Funded Ratio	116.5%	114.9%	120.1%	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%
UAL	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.04)	$ (0.02)	$ (0.00)	$ 0.03	$ 0.03	$ 0.03	$ 0.02

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

SDCERS - Airport Authority Assets and Liabilities 2003 - 2006



	2003	2004	2005	2006
Funded Ratio	68.4%	68.8%	87.6%	111.7%
UAL (millions)	$ 5.14	$ 7.35	$ 4.05	$ (4.32)

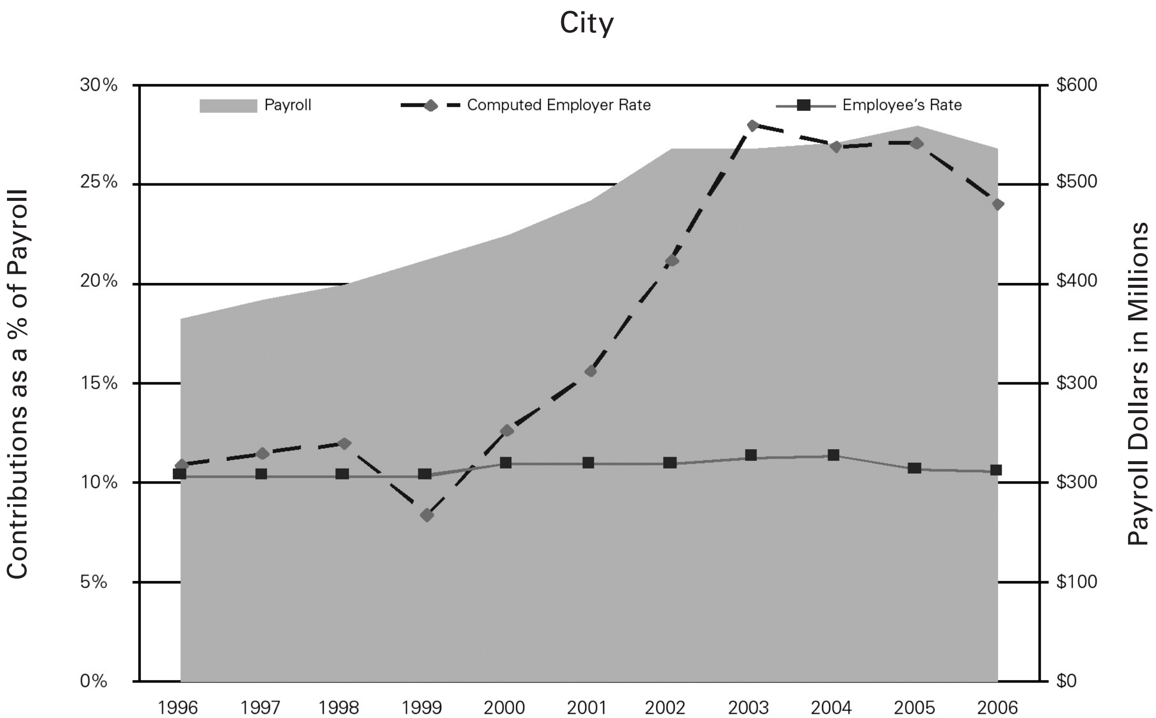
For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

As demonstrated above, SDCERS 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. June 30, 2006 has shown substantial improvements due to the increase in investment returns among other factors.

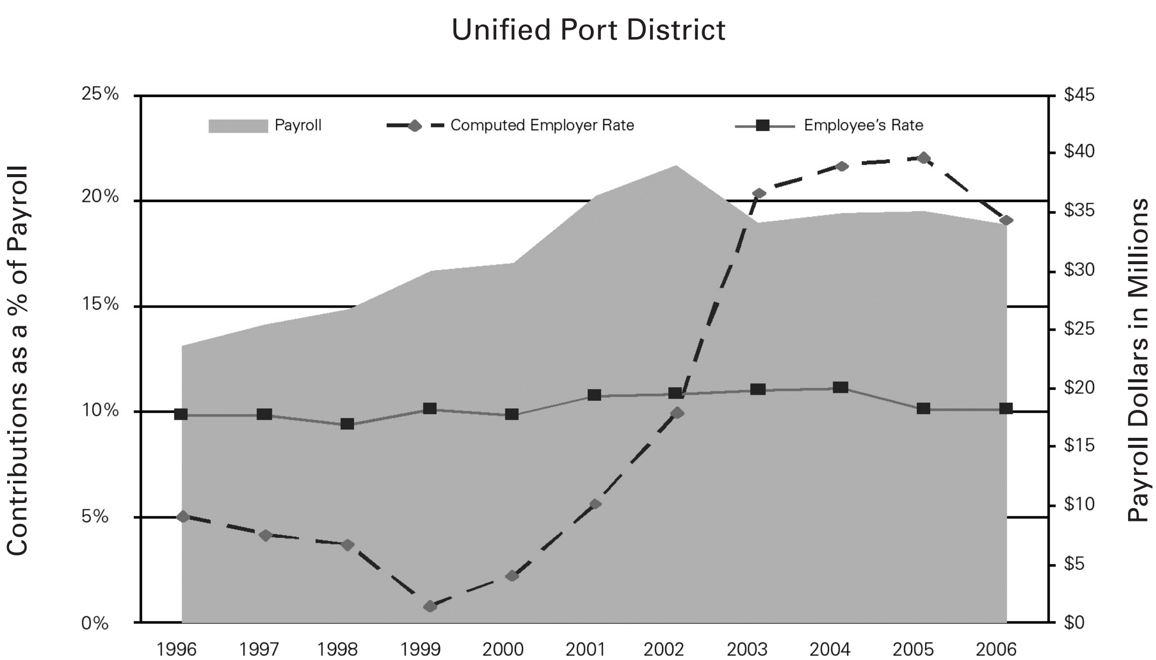
San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates 1996 - 2006

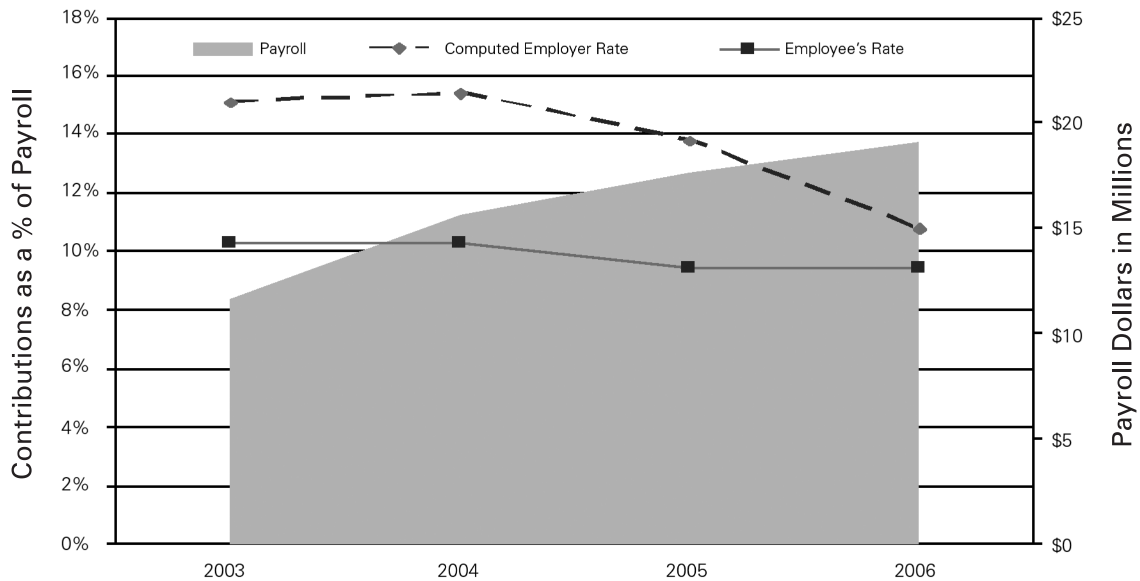


SDCERS - Unified Port District and Member Contribution Rates 1996 - 2006



San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)
Contributions

SDCERS - Airport Authority and Member Contribution Rates 1996 - 2006
Airport Authority



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).

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Item	June 30, 2006	June 30, 2005	% Change
Unfunded Actuarial Liability (millions)	$1,000.8	$1,394.01	-28.2%
Funding Ratio- using assets smoothed	79.9%	68.2%	17.2%
Fiscal Year	**2008**	**2007**	
City Contribution Rate during year	24.95%	28.06%	-11.1%
City Contribution Rate start of year	24.01%	27.00%	-11.1%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$137.7 million	$162 million	
• if paid throughout the year	$143.1 million	$168 million	

SDCERS - City of San Diego - Membership Total

Item	June 30, 2006	June 30, 2005	% Change
Actives	8,887	9,436	-5.8%
Terminated Vesteds	2,359	1,998	18.1%
Disabled	1,237	1,239	-0.2%
Retirees	4,118	3,728	10.5%
Beneficiaries	1,046	1,028	1.8%
Total City Members	17,647	17,429	1.3%
Active Member Payroll	$534,102,800	$557,630,735	-4.2%
Average Pay per Active Member	60,099	59,096	1.7%

SDCERS - City of San Diego - Assets & Liabilities

Item	June 30, 2006	June 30, 2005	% Change
Actives	$1,970,655,791	$2,058,660,269	-4.3%
Terminated Vesteds	189,840,833	135,169,560	40.4%
Disabled	371,327,233	344,346,695	7.8%
Retirees	2,335,419,143	1,737,804,362	34.4%
Beneficiaries	115,456,455	101,112,062	14.2%
Total Actuarial Liability	4,982,699,455	4,377,092,948	13.8%
Market Value Assets	$3,981,931,694	$3,205,721,975	24.2%
Actuarial Value Assets	3,981,931,694	2,983,079,852	33.5%
Unfunded Actuarial Liability	$1,000,767,761	$1,394,013,096	-28.2%
Funding Ratio-Actuarial Value	79.9%	68.2%	17.3%

SDCERS - City of San Diego - Contributions

Item	June 30, 2006	June 30, 2005	% Change
Gross Normal Cost %	24.94%	24.90%	0.2%
Member Cost %	10.54%	10.61%	-0.7%
Employer Normal Cost %	14.40%	14.29%	0.8%
Employer Unfunded Cost %	10.55%	13.77%	-23.4%
Total Employer Cost %	24.95%	28.06%	-11.1%
Employer Cost % Beginning of Year	24.01%	27.00%	-11.1%

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

SDCERS - Unified Port District

Item	June 30, 2006	June 30, 2005	% Change
Unfunded Actuarial Liability (millions)	$17.4	$34.40	-49.4%
Funding Ratio- using assets smoothed	82.6%	82.6%	0.0%
Fiscal Year	**2008**	**2007**	
UPD Contribution Rate during year	19.83%	22.86%	-13.2%
UPD Contribution Rate start of year	19.08%	22.00%	-13.2%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$6.9 million	$8.3 million	
• if paid throughout the year	$7.3 million	$8.6 million	

SDCERS - Unified Port District - Membership Total

Item	June 30, 2006	June 30, 2005	% Change
Actives	532	558	-4.7%
Terminated Vesteds	261	250	4.4%
Disabled	62	60	3.3%
Retirees	211	192	9.9%
Beneficiaries	52	54	-3.7%
Total UPD Members	1,118	1,114	0.4%
Active Member Payroll	$33,927,372	$35,077,367	-3.3%
Average Pay per Active Member	63,773	62,863	1.4%

SDCERS - Unified Port District - Assets & Liabilities

Item	June 30, 2006	June 30, 2005	% Change
Actives	$105,432,437	$101,504,753	3.9%
Terminated Vesteds	13,662,803	10,324,670	32.3%
Disabled	13,848,390	12,722,419	8.9%
Retirees	81,768,654	67,889,543	20.4%
Beneficiaries	5,924,995	5,630,515	5.2%
Total Actuarial Liability	220,637,279	198,071,900	11.4%
Market Value Assets	$203,285,828	$175,908,318	15.6%
Actuarial Value Assets	203,285,828	163,691,226	24.2%
Unfunded Actuarial Liability	$17,351,451	$34,380,674	-49.5%
Funding Ratio-Actuarial Value	92.1%	82.6%	11.5%

SDCERS - Unified Port District - Contributions

Item	June 30, 2006	June 30, 2005	% Change
Gross Normal Cost %	25.65%	25.09%	2.2%
Member Cost %	10.12%	10.09%	0.2%
Employer Normal Cost %	15.53%	15.00%	3.6%
Employer Unfunded Cost %	4.30%	7.86%	-45.3%
Total Employer Cost %	19.83%	22.86%	-13.2%
Employer Cost % Beginning of Year	19.08%	22.00%	-13.2%

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

SDCERS - Airport Authority

Item	June 30, 2006	June 30, 2005	% Change
Unfunded Actuarial Liability (millions)	$(4.3)	$4.1	-206.1%
Funding Ratio- using assets smoothed	111.7%	87.6%	27.6%
Fiscal Year	**2008**	**2007**	
City Contribution Rate during year	11.21%	14.30%	-21.6%
City Contribution Rate start of year	10.79%	13.76%	-21.6%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$2.2 million	$2.6 million	
• if paid throughout the year	$2.3 million	$2.7 million	

SDCERS - Airport Authority - Membership Total

Item	June 30, 2006	June 30, 2005	% Change
Actives	295	284	3.9%
Terminated Vesteds	45	26	73.1%
Disabled	-	-	-
Retirees	6	7	-14.3%
Beneficiaries	1	-	-
Total City Members	347	317	9.5%
Active Member Payroll	$19,115,804	$17,608,879	8.6%
Average Pay per Active Member	64,799	62,003	4.5%

SDCERS - Airport Authority - Assets & Liabilities

Item	June 30, 2006	June 30, 2005	% Change
Actives	$32,089,522	$28,731,396	11.7%
Terminated Vesteds	2,032,231	1,158,282	75.5%
Disabled	-	-	
Retirees	2,479,827	2,713,220	-8.6%
Beneficiaries	303,635	-	
Total Actuarial Liability	36,905,216	32,602,898	13.2%
Market Value Assets	$41,222,279	$30,682,414	34.4%
Actuarial Value Assets	41,222,279	28,551,475	44.4%
Unfunded Actuarial Liability	$(4,317,063)	$4,051,423	-206.6%
Funding Ratio-Actuarial Value	111.7%	87.6%	27.5%

SDCERS - Airport Authority - Contributions

Item	June 30, 2006	June 30, 2005	% Change
Gross Normal Cost %	22.55%	21.92%	2.9%
Member Cost %	9.44%	9.46%	-0.2%
Employer Normal Cost %	13.11%	12.46%	5.2%
Employer Unfunded Cost %	-1.90%	1.84%	-203.3%
Total Employer Cost %	11.21%	14.30%	-21.6%
Employer Cost % Beginning of Year	10.79%	13.76%	-21.6%

San Diego City Employees' Retirement System
Summary of June 30, 2006 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.

<u>City of San Diego</u>
The current Unfunded Actuarial Liability is amortized over 27 years as of the 6/30/2006 valuation. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

<u>Unified Port District and San Diego Regional County Airport Authority</u>
The current Unfunded Actuarial Liability is amortized over 15 years as of the 6/30/2006 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 actuarial costing method (PUC).

B. Actuarial Value of Assets

For purposes of determining contributions 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.

The actuarial value of assets is a weighted average giving 25% weight to the current market value and 75% weight to the prior year's actuarial value increased by expected interest and contributions and decreased by benefit payments and expenses. This is mathematically equivalent to recognizing 100% of the actuarially assumed interest rate, plus contribution, less payment each year and 25% of the portion of each year's returns that have not already been reflected in asset values. This method will start in the June 30, 2007 valuation. The actuarial value of assets for the June 30, 2006 valuation is determined to be the market value as of June 30, 2006.

San Diego City Employees' Retirement System
Summary of June 30, 2006 Valuation Results (continued)

C. Changes Since Last Valuation

- The use of "expected asset value" smoothing method. For June 30, 2006, the actuarial value of assets was set to market value (see Section 4.B).

- A "cash flow" apportionment method that will directly reflect, as of June 30, 2005 and forward, the actual cash flows attributable to each plan sponsor since June 30, 2005.

- All "contingent" liabilities (Corbett settlement increase and the 13th check) are now reflected in the June 30, 2006 valuation liabilities.

- Reflecting both the future liabilities for DROP retirements and supplemental Cost of Living Adjustments (COLA) as well as the asset reserves held for such liabilities in assets and liabilities. Previously, both amounts were excluded from reported assets and liabilities.

- All future benefits payable from the SDCERS' Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code Section 415.

- Benefits and resulting liabilities for current and future disabled participants have been reduced to reflect the legal decision that the Corbett judgment and plan document do not authorize a 10% increase to non-service eligible disability retirees.

- Minor adjustments in the allocation of liabilities amongst the three plan sponsors were made to ensure that when participants have service with more than one contributing employer the resulting liability allocation is equitably determined.

San Diego City Employees' Retirement System
Summary of June 30, 2006 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). Set back is a period of years that a standard published table (i.e., mortality) is referenced backwards in age. It is the opposite for set forward. SDCERS uses set backs and set forwards to compensate for mortality experiences in its work force.

Rates of Mortality for Active Lives at Selected Ages

	General		Safety
Age	Male	Female	
20	0.04%	0.02%	0.04%
25	0.05	0.03	0.05
30	0.07	0.03	0.07
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 June 30, 2006 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-plus 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 June 30, 2006 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 4 years younger than the male spouse.

San Diego City Employees' Retirement System
Summary of June 30, 2006 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 (4 years for Elected Officers) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20-plus years of service

Elected Officers: Earlier at age 55 or age 53 and 8-plus years of service

Safety Members: Earlier of age 55 or age 50 and 20-plus 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-plus years of service

Safety Members: Earlier of age 55 or age 50 and 20-plus years of service

If the inactive member is not vested, the liability is the member's contributions with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2006 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

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2006	8,887	$534,102,801	$60,099	1.70%
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	481,863,318	48,712	7.67

SDCERS - Unified Port of San Diego

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2006	532	$33,927,372	$63,773	1.45%
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	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

SDCERS - San Diego County Regional Airport Authority

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2006	295	$19,115,804	$64,799	4.51%
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 Gabriel, Roeder, Smith & Company, (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System

6. Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

SDCERS - City of San Diego

	Added			Removed			Total			% Increase	Average
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	In Annual Allowances	Annual Allowance
6/30/06[1]	619	$24,676,720	56.6	213	$3,150,596	80.7	6,401	$213,747,320	66.6	18.62%	$33,393
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	22,966,080	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

SDCERS - Unified Port of San Diego

	Added			Removed			Total			% Increase	Average
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	In Annual Allowances	Annual Allowance
6/30/06[1]	29	$1,131,237	57.4	10	$333,265	80.2	325	$8,731,137	68.2	14.09%	$26,865
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

SDCERS - San Diego County Regional Airport Authority

	Added			Removed			Total			% Increase	Average
Year Ended	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	In Annual Allowances	Annual Allowance
6/30/06[1]	1	$21,612	53.5	1	$39,833	65.5	7	$207,688	64.1	-6.00%	$29,670
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	-	-	-	-	-

[1] Reflects contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

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

San Diego City Employees' Retirement System
7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

	Aggregate Actuarial Liabilities for ($ In Thousands)				Portion of Actuarial Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets[1]	(1)	(2)	(3)
6/30/06[3]	$456,562	$2,822,203	$1,703,935	$3,981,932	100.00%	100.00%	41.27%
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[2]	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

[1] Actuarial Value of Assets [2] Reflects General benefit increases [3] Reflects contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

Unified Port of San Diego

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets[1]	(1)	(2)	(3)
6/30/06[4]	$16,140	$101,542	$102,956	$203,286	100.00%	100.00%	83.15%
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[3]	13,264	65,581	75,455	123,884	100.00	100.00	59.69
12/31/02[2]	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

[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
[3] Reflects General benefit increases [4] Reflects contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

San Diego County Regional Airport Authority

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Remaining Active Members' Liabilities	Reported Assets[1]	(1)	(2)	(3)
6/30/06[3]	$5,402	$2,783	$28,720	$41,222	100.00%	100.00%	100.00%
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.
[3] Reflects contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

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

8. 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	6/30/2006	6/30/2005
Elements of Experience Gain/(Loss)		
1. Investment Experience If there is greater investment income than assumed, there is a gain. If less, a loss.	$158,924,281	$82,500,398
2. Demographic and Payroll Experience Includes Payroll, Turnover, and Retirements different than assumed.	47,511,100	(34,818,266)
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, a loss.	(1,185,894)	(7,570,308)
4. Special Benefit Gain/(Loss) Includes 13th Check, Corbett Settlement increase, Supplemental COLA, and Contribution rate increase.	-	(11,743,844)
5. Other Gain/(Loss) Other Corrections/Miscellaneous — If a correction results in a reduction of liability, there is a gain. If an increase, is a loss.	-	8,407,902
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	$205,249,486	$36,775,882
A1. Beginning of Year Actuarial Liability	$4,377,092,948	$3,997,328,084
Gain/(Loss) Percentage: A divided by A1	4.69%	0.92%
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	$105,585,215	$(35,852,494)
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	$103,804,347	-
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	$414,639,048	$923,388

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	6/30/2006	6/30/2005
Elements of Experience Gain/(Loss)		
1. Investment Experience If there is greater investment income than assumed, there is a gain. If less, a loss.	$20,926,668	$3,062,374
2. Demographic and Payroll Experience Includes Payroll, Turnover, and Retirements different than assumed.	(452,851)	(356,557)
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, a loss.	(335,003)	(2,343,287)
4. Special Benefit Gain/(Loss) Includes 13th Check Supplemental COLA, and Contribution rate increase.	-	(165,713)
5. Other Gain/(Loss) Other Corrections/Miscellaneous — If a correction results in a reduction of liability, there is a gain. If an increase, is a loss.	-	(749,364)
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	**$20,138,814**	**$(552,547)**
A1. Beginning of Year Actuarial Liability	$198,071,900	$175,366,198
Gain/(Loss) Percentage: A divided by A1	**10.17%**	**-0.32%**
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	**$1,208,470**	**$(49,448)**
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	**$(4,803,734)**	**-**
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	**$16,543,551**	**$(601,995)**

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	6/30/2006	6/30/2005
Elements of Experience Gain/(Loss)		
1. Investment Experience If there is greater investment income than assumed, there is a gain. If less, a loss.	$5,886,918	$1,380,592
2. Demographic and Payroll Experience Includes Payroll, Turnover, and Retirements different than assumed.	2,863,554	(1,539,018)
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, a loss.	(17,608)	(1,160,074)
4. Special Benefit Gain/(Loss) Includes 13th Check 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, is a loss.	-	114,177
A. Total Estimated Experience Gain/(Loss): sum 1 through 5	$8,732,864	$(1,207,448)
A1. Beginning of Year Actuarial Liability	$32,602,898	$23,578,460
Gain/(Loss) Percentage: A divided by A1	26.79%	-5.12%
Elements of Contributions Gain/(Loss)		
B. Total Estimated Contributions Gain/(Loss):	$2,396,714	$4,464,525
Elements of Actuarial Changes Gain/(Loss)		
C. Total Estimated Actuarial Changes Gain/(Loss):	$(2,817,278)	-
Total Gain/(Loss)		
Total Estimated Gain/(Loss): sum of A, B and C	$8,312,300	$3,257,077

San Diego City Employees' Retirement System

9. Summary of SDCERS' Benefit Provisions

The following pages illustrate the various benefit provisions for the City's, Port's and Airport's SDCERS participants. For a complete description of these benefits, please call SDCERS at (800) 774-4977 or (619) 525-3600 and request a Summary Plan Description for the plan that you are a member of or the member group you are interested in.

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San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2006

	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 08/11/1993.
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
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.	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, 2006

	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 is 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:	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.	**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 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 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 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.	**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 is 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.	**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 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, 2006

	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 a dditional 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.	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.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2006

	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 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 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.
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, 2006

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors (employers) to provide SDCERS' members (employees) 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 the member's respective employer (plan sponsor) and receives a regular paycheck. Both the plan sponsor (employer) 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 when 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 5 years; this specific time period cannot be modified once agreed to. A DROP Participant must end employment with his or her employer (plan sponsor) 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. The 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.

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 2006

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, the member begins receiving a monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when the Participant leaves employment and begins 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.

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

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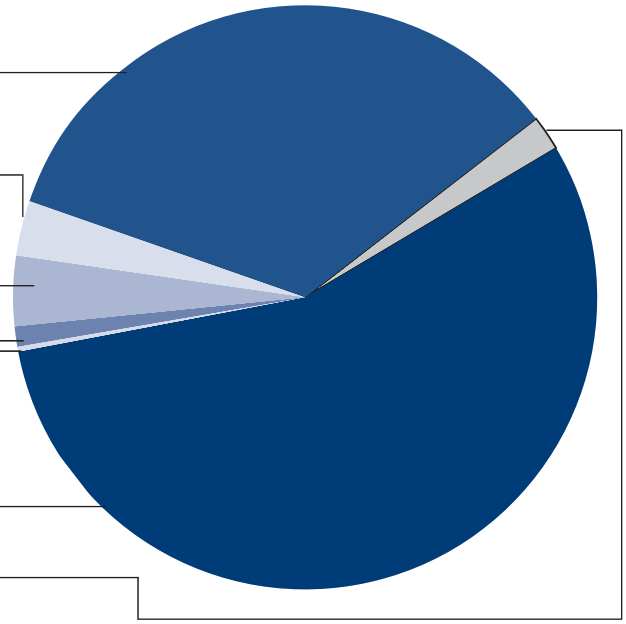
5. Statistical

San Diego City Employees' Retirement System
Schedule of Additions to Plan Net Assets by Source

For Fiscal Year Ended June 30, 2006

FY 2006 Additions

Plan Sponsors' Contributions	34.40%
Members' Contributions Paid by Plan Sponsors	2.87%
Members' Contributions	4.01%
Members' Contributions for Service Purchased	1.17%
Earned Interest on PSC Installment Contracts	0.22%
Net Investment Income	55.44%
Other Income	1.89%
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	2006	$282,770,428	$23,632,010	$32,959,653	$9,645,793	$1,825,921	-[5]	$455,726,222	$15,500,000	$822,060,027
% of total		34.40%	2.87%	4.01%	1.17%	0.22%	-	55.44%	1.89%	100.00%
Dollars	2005	145,238,133	33,988,447	18,859,980	49,339,098	1,583,235	-[5]	350,209,486	-	599,218,379
% of total		24.24	5.67	3.15	8.23	0.26	-	58.45	-	100.00
Dollars	2004	87,861,650	33,951,427	16,299,646	75,419,976	907,814	-[5]	537,196,172	-	751,636,685
% of total		11.69	4.52	2.17	10.03	0.12	-	71.47	-	100.00
Dollars	2003	72,558,680[3]	31,606,145	20,917,653	40,016,896	477,758	-[5]	122,729,552	-	288,306,684
% of Total		25.17	10.96	7.26	13.88	0.17	-	42.57	-	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	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

[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.

[4] Prior to 2002, Members' Contributions included Contributions for Purchased Service.

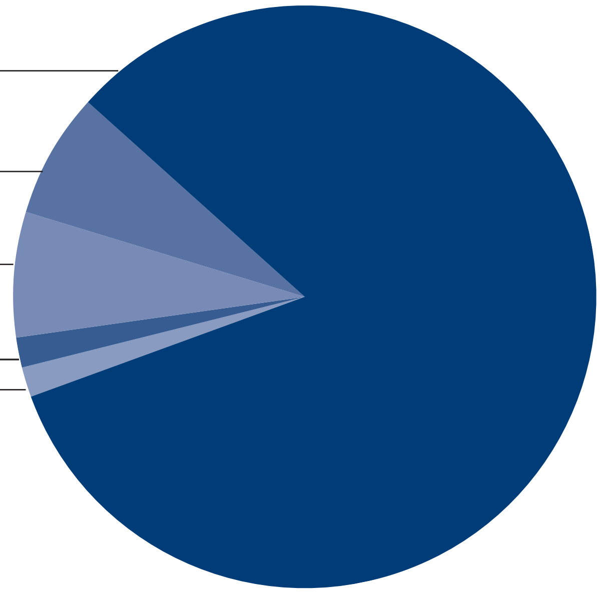
[5] Reflects restatement of DROP as a plan liability effective June 30, 2004 with June 30, 2003 restated.

[6] DROP began in FY 1998.

San Diego City Employees' Retirement System
Schedule of Deductions from Plan Net Assets by Type
For Fiscal Year Ended June 30, 2006

FY 2006 Deductions

Retirement, Death and Disability Benefits	82.58%
Administrative Expenses	7.09%
DROP Program Interest Expense	6.83%
Litigation Settlement Expense	1.74%
Refund of Members' Contributions	1.76%
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[3]	Allowance for Uncollectable Purchased Service Payments[1]	Litigation Settlement Expense[2]	Refund of Members' Contributions	Total Deductions
Dollars	2006	$214,704,695[3]	-	$18,438,356	$17,748,612	-	$4,535,682	$4,559,977	$259,987,322
% of Total		82.58%	-	7.09%	6.83%	-	1.74%	1.76%	100.00%
Dollars	2005	201,006,814[3]	$7,910,366[4]	11,960,392	16,520,216	$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	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	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	-[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

[1] Allowance for Uncollectible 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 FY 2004 and the Hanson, Bridgett settlement in FY 2006. For additional information on these expenses and the associated settlements, refer to *Note 6. Legal Action* in the Notes to the Financial Statements in the Financial Section.

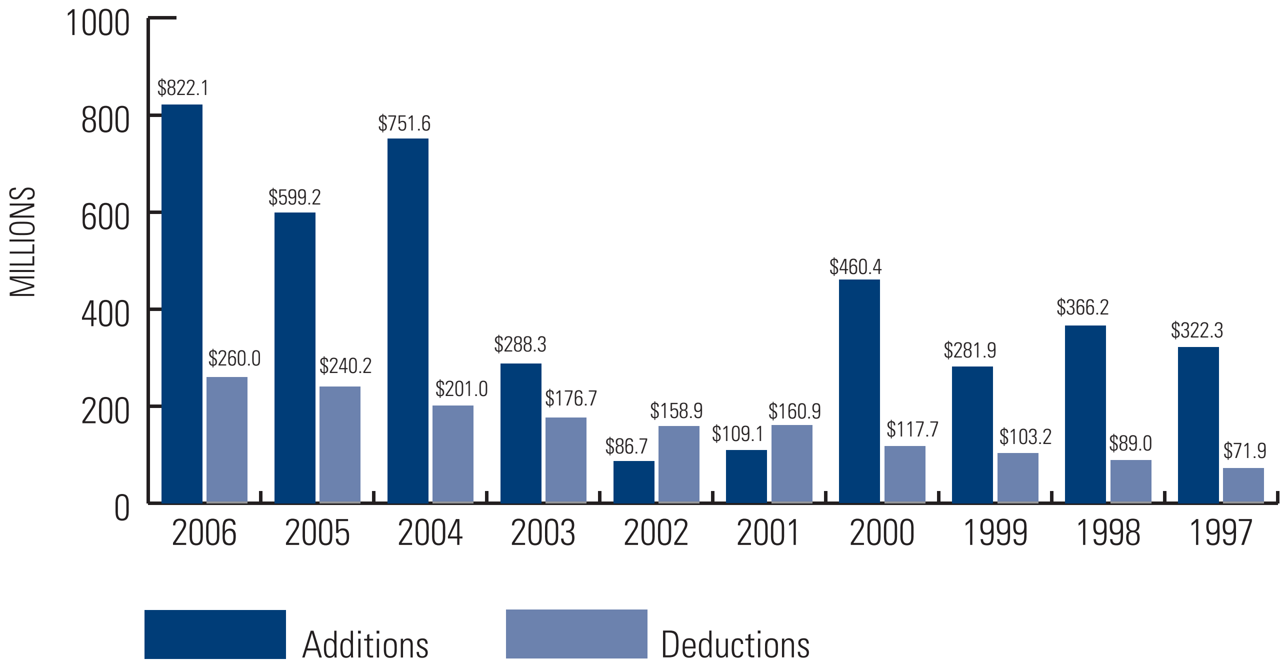
[3] A change in accounting treatment of DROP assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the 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 Statement of Plan Net Assets and interest granted on DROP balances as a deduction.

[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 HCB funds. In FY 2005, 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.

San Diego City Employees' Retirement System
Comparison of Additions by Source and Deductions by Type

For Fiscal Years Ended June 30



San Diego City Employees' Retirement System
Comparison of Additions by Source and Deductions by Type (continued)

For Fiscal 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
2006	$4,013,824,692	$822,060,027	20.48%	$259,987,322	6.48%	316.19%[1]
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

[1] A change in accounting treatment of 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 contributions and payments are now processed through the DROP liability account instead of through the Statement of Plan Net Assets and interest granted on DROP balances as a deduction.

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 Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement[2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2006	4,118	1,237	29	1,017	6,401
Annual Allowances		$170,186,825	$31,992,059	$594,020	$10,974,416	$213,747,320
No. of Allowances	2005	3,728	1,239	30	998	5,995
Annual Allowances		141,153,674	29,094,290	568,576	9,372,487	180,189,027
No. of Allowances	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	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	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	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	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	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	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	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

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.

Unified Port of San Diego

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement[1, 2]	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		$6,949,595	$1,175,661	$10,106	$595,775	$8,731,137
No. of Allowances	2005	192	60	1	53	306
Annual Allowances		6,003,129	1,081,191	9,908	558,626	7,652,854
No. of Allowances	2004	180	59	1	50	290
Annuals Allowances		5,220,223	1,054,400	9,714	496,204	6,780,541
No. of Allowances	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	2002	158	60	2	43	263
Annual Allowances		3,892,413	988,565	19,653	359,284	5,259,915
No. of Allowances	2001	142	58	2	44	246
Annuals Allowances		3,108,368	883,234	18,438	336,892	4,346,932
No. of Allowances	2000	145	57	2	38	242
Annual Allowances		3,106,843	800,421	17,854	219,680	4,144,798
No. of Allowances	1999	138	55	2	37	232
Annuals Allowances		2,800,000	755,817	17,530	203,177	3,776,524
No. of Allowances	1998	138	51	2	36	227
Annual Allowances		2,719,069	685,244	17,128	188,904	3,610,345
No. of Allowances	1997	122	49	2	36	209
Annual Allowances		2,057,591	626,618	16,801	170,413	2,871,423

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

As of Years Ended June 30

San Diego County Regional Airport Authority[1]

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		$186,077	-	-	$21,612	$207,689
No. of Allowances	2005	7	-	-	-	7
Annual Allowances		220,945	-	-	-	220,945
No. of Allowances	2004	3	-	-	-	3
Annuals Allowances		71,779	-	-	-	71,779
No. of Allowances	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.

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San Diego City Employees' Retirement System
Schedule of Average Benefit Payment Amounts
As of Years Ended June 30[4]

	City of San Diego								
Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals									
Number of Allowances	6,401	5,995	5,723	5,467	5,143	5,012	4,789	4,657	4,419
Annual Allowances Paid	$213,747,320	$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	$33,393	$30,057	$28,184	$26,508	$23,635	$22,474	$19,910	$18,858	$17,313
Percentage Increase Over Prior Year	11.10%	6.65%	6.32%	12.15%	5.17%	12.88%	5.58%	8.92%	13.89%
Attained Age	66.6	67.1	67.2	67.2	67.7	67.5	68.1	68.0	68.3
Age At Retirement	54.8	54.8	54.2	54.2	54.2	54.2	54.4	54.5	54.5
Service Years At Retirement	23.4	23.1	22.9	22.7	21.7	21.2	20.9	20.9	21.0
New Retirees[2]									
Number of Allowances	486	370	313	470	168	386	251	319	241
Average Age	54.8	56.0	56.5	56.9	55.7	56.1	56.3	55.6	56.2
Average Allowance	$48,366	$47,034	$44,307	$48,864	$41,219	$40,443	$35,054	$36,072	$33,642
Percent Increase Over Prior Year	2.83%	6.15%	-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 Service and disability retirees only (including DROP participants); beneficiaries excluded.

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

4 Year ended June 30, 1997 data not available.

Unified Port of San Diego										San Diego County Regional Airport Authority[1]			
2006	2005	2004	2003	12/31/02[1]	2002	2001	2000	1999	1998	2006	2005	2004	2003
325	306	290	274	278	263	246	242	232	227	7	7	3	1
$8,731,137	$7,652,853	$6,780,540	$5,892,202	$5,712,542	$5,259,914	$4,346,932	$4,144,798	$3,776,524	$3,610,346	$207,688	$220,945	$71,779	$25,112
$26,865	$25,009	$23,381	$21,504	$20,549	$20,000	$17,670[3]	$17,127	$16,278	$15,905	$29,670	$31,564	$23,926	$25,112
7.42%	6.96%	8.73%	4.65%	2.75%	13.18%	3.17%	5.22%	23.45%	15.77%	-6.00%	31.92%	-4.72%	n/a
68.2	68.5	68.3	68.2	68.6	68.4	68.3	68.5	68.5	68.7	64.1	64.9	67.1	66.1
57.5	57.6	57.6	57.3	57.4	57.4	57.4	57.7	58.0	58.6	63.8	63.7	66.1	65.0
17.5	17.4	17.0	16.7	16.6	16.5	15.8	16.1	16.0	16.7	14.7	14.7	12.9	10.2
26	16	23	15	26	18	9	11	7	24	-	4	2	1
57.2	57.4	62.3	59.0	59.0	60.0	56.6	59.2	55.4	60.8	-	61.9	66.7	66.1
$42,466	$45,636	$37,080	$34,684	$34,684	$29,568	$26,787	$25,920	$16,382	$30,997	-	$36,933	$23,082	$25,112
-6.95%	23.07%	6.91%	17.30%	n/a	10.38%	3.34%	58.22%	-47.15%	90.00%	n/a	60.01%	-8.08%	n/a

San Diego City Employees' Retirement System
Schedule of Active Members[3]
As of Years Ended June 30

	City of San Diego								
Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals									
Number of Members	8,887	9,436	9,749	10,100	10,409	9,892	9,913	9,654	9,359
Salaries	$534,102,801	$557,630,735	$540,180,940	$533,595,405	$535,156,545	$481,863,319	$448,501,827	$424,515,969	$399,035,094
Averages									
Annual Salary	$60,099	$59,096	$55,409	$52,831	$51,413	$48,712	$45,244	$43,973	$42,637
Percentage Increase Over Prior Year	1.70%	6.65%	4.88%	2.76%	5.54%	7.67%	2.89%	3.13%	3.74%
Current Age	43.3	43.0	42.8	42.4	42.4	42.1	42.2	41.9	41.8
Years Service Credit[2]	13.1	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 Actuarial valuations include purchased service credit from June 30, 2002 forward.

3 Year ended June 30, 1997 data not available.

Unified Port of San Diego										San Diego County Regional Airport Authority[1]				
2006	2005	2004	2003	12/31/02[1]	2002	2001	2000	1999	1998	2006	2005	2004	2003	12/31/02
532	558	575	609	606	736	734	654	661	616	295	284	265	208	173
$33,927,372	$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	$19,115,804	$17,608,879	$15,605,857	$11,577,857	$8,871,283
$63,773	$62,863	$60,723	$56,098	$56,098	$53,075	$49,626	$46,821	$45,439	$43,299	$64,799	$62,003	$58,890	$55,659	$51,279
1.45%	3.52%	8.24%	5.70%	n/a	6.95%	5.99%	3.04%	4.94%	0.27%	4.51%	5.29%	5.80%	8.54%	n/a
44.8	44.6	44.5	44.7	44.6	44.4	43.8	43.9	43.7	43.5	44.9	44.0	43.4	43.5	42.9
10.0	9.6	9.1	8.7	8.2	8.2	7.7	7.8	7.5	7.4	7.2	6.5	5.9	6.0	6.5

San Diego City Employees' Retirement System
Schedule of Inactive Members[1]
As of Years Ended June 30[5]

	City of San Diego								
As of Years Ended	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals									
Number of Inactive Members	2,359	1,998	1,884	1,723	1,499	1,438	1,016	800	791
Other Members[3]	-	-	-	-	-	-	-	-	344
Total Members	2,359	1,998	1,884	1,723	1,499	1,438	1,016	800	1,135
Member Contribution Balances									
Inactive Members	$71,328,108	$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	$71,328,108	$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	43.6	44.1	43.7	43.7	43.1	42.9	44.3	43.1	42.6
Service Years Earned[4]	7.4	7.0	6.7	6.4	6.6	6.8	7.5	6.6	7.4
Contribution Balance	$30,237	$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 (refunds), deaths, disabilities, and service retirements, which are in transition.

4 Actuarial valuations include purchased service credit from June 30, 2002 forward.

5 Year ended June 30, 1997 data not available.

Unified Port of San Diego										San Diego County Regional Airport Authority[2]			
2006	2005	2004	2003	12/31/02[2]	2002	2001	2000	1999	1998	2006	2005	2004	2003
261	250	228	194	186	196	163	142	99	91	45	26	12	7
-	-	-	-	-	-	-	-	-	37	-	-	-	
261	250	228	194	186	196	163	142	99	128	45	26	12	7
$3,909,366	$3,355,126	$2,252,989	$1,348,216	$1,235,981	$1,276,922	$1,135,633	$938,416	$631,050	$567,632	$597,226	$243,263	$47,659	$9,808
-	-	-	-	-	-	-	-	-	1,372,784	-	-	-	-
$3,909,366	$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	$597,226	$243,263	$47,659	$9,808
46.2	45.6	44.7	44.7	43.9	43.4	44.2	41.6	42.6	41.5	46.6	47.5	45.3	45.9
5.1	4.8	4.5	3.9	4.1	4.1	4.3	3.7	3.6	4.1	4.1	4.1	3.3	0.9
$14,978	$13,421	$9,882	$6,950	$6,645	$6,515	$6,967	$6,609	$6,374	$6,238	$13,272	$9,356	$3,972	$1,401

San Diego City Employees' Retirement System
Schedule of Participating Plan Sponsors

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

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

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

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SDCERS
San Diego City Employees' Retirement System

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in the Adobe Portable Document Format (PDF file).