San Diego City Employees' Retirement System
San Diego, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

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.

Cover Photo:
San Diego Skyline
San Diego, California
Taken by Quang-Tuan Luong

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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.

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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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Contents

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1. Introduction

Transmittal Letter

SDCERS
San Diego City Employees' Retirement System

March 31, 2008

To the Members, Retirees, Beneficiaries, Plan Sponsors,
Trustees and Audit Committee of the
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Members, Retirees, Beneficiaries, Plan Sponsors, Trustees and Audit Committee members::

I am pleased to present the San Diego City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) and accompanying Operations Summary for the fiscal year ended June 30, 2007 (FY 2007).

This is the fourth CAFR Transmittal Letter I have authored since I joined SDCERS less than two years ago - and the first that actually covers my tenure as Administrator. This CAFR brings us current in our financial reporting and is an important achievement for SDCERS since the new Board of Administration was constituted in April 2005. FY 2007 was a year of many other significant achievements for SDCERS, too.

Actuarial Improvements. In February 2007, SDCERS' actuary, Cheiron, issued its June 30, 2006 Actuarial Valuations for our three plan sponsors. The 2006 Valuations are the result of a systematic and thorough actuarial funding study undertaken by Cheiron and reflect the transparent transition to more widely-accepted and adopted actuarial methods. In addition to confirming SDCERS' strong FY 2006 investment returns, the 2006 Valuations included the apportionment of SDCERS' Trust Fund assets among plan sponsors based on individual cash flows attributable to each plan sponsor; the full recognition and funding of certain liabilities that had been considered "contingent" in nature; the use of a more widely-accepted asset smoothing method; the proper treatment of certain disability payments; and the proper treatment of benefit payments made in excess of Internal Revenue Code section 415.

In addition, the Board voted to return to the Entry Age Normal (EAN) actuarial funding method effective with the June 30, 2007 actuarial valuation. EAN will replace the less widely-accepted Projected Unit Credit (PUC) funding method.

Audit Committee and Independent Audit Firm. In August 2006, the Board established an independent Audit Committee to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process and compliance with laws, regulations and internal policies and procedures. Three non-Trustee San Diego citizens comprise the majority of the five-member Audit Committee making this a truly independent committee. SDCERS' Internal Auditor reports directly to the Audit Committee to ensure that position is independent from management. With this arrangement, SDCERS' audit structure is more independent and less influenced by management than most publicly-traded companies. I am very proud of this and the many other new governance policies and procedures that SDCERS has implemented. I am also pleased to report that SDCERS retained Macias Gini & O'Connell LLP, a recognized leader in auditing California pension plans, as our independent audit firm.

Group Trust. To ensure that the assets of our three plan sponsors are separated from each other consistent with the City Charter and Municipal Code, the Board adopted a Group Trust in March 2007. The Group Trust provides that each plan sponsor's plan will be administered as a separate trust, and each plan sponsor has entered into a Participation and Administration Agreement with SDCERS that establishes the terms under which SDCERS administers their retirement plan. This, too, is a significant governance achievement for SDCERS and our plan sponsors.

Investment Results. SDCERS' total investment return for FY 2007 was 16.5% compared to 12.7% for FY 2006. The one-year investment performance benchmark returns for these periods were 16.25% and 10.3%, respectively. As of June 30, 2007, SDCERS' annualized total investment return was +13.3% over the past three years, +13.0% over the past five years, and +10.0% over the past ten years. The performance benchmark returns for these same periods were +12.2%, +11.4% and +8.7%, respectively. SDCERS' target and actual asset allocation, as of June 30, 2007 and June 30, 2006, and recent and long-term investment performance are all included in the Investment Section.

Navigant Report Committee. Navigant Consulting's January 2006 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 an Ad-Hoc Navigant Report Committee to review the Report's findings and recommend appropriate reforms to the Board. Consistent with this charter, the Ad-Hoc Navigant Report Committee held a series of public meetings that examined the Navigant Report in detail. Following this public process, the Ad-Hoc 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. The Navigant Consulting and the Ad-Hoc Committee reports are available on-line at www.sdcers.org.

Organizational Improvements. FY 2007 was a year of important staff and organizational changes. In an effort to streamline the organization, I formed an Executive Staff team of eight direct reports who are responsible for audit, benefit administration, compliance, finance, information technology, investments, legal and member services. SDCERS' Executive Staff, and their division colleagues, are capable and experienced, and they have accomplished a great deal during the year.

Tax Compliance. In July 2005, SDCERS filed an application for a Determination Letter with the Internal Revenue Service and a request for a compliance statement under the IRS' Voluntary Correction Program (VCP). The initial VCP filing addressed a number of issues with respect to the City's retirement plan and SDCERS' administration of the plan. During FY 2007, staff and outside tax counsel worked diligently with the IRS to resolve these issues. This work lead to the resolution of all outstanding IRS issues when, in December 2007, the Board unanimously approved a Compliance Statement with the IRS. More information on the IRS resolution is set out in *Note 7. Subsequent Events* in the Notes to the Financial Statements in the Financial Section.

The FY 2007 CAFR. The financial statements included in this CAFR have been prepared by SDCERS' management, which is responsible for the integrity and fairness of the data presented, including the many amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States of America. The basic financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB). All the financial information presented is consistent with these financial statements. GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditors, and should be read in conjunction with it.

SDCERS has established a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are reliable. In addition, our Internal Auditor reviews our internal controls and operations and he reports regularly to the Audit Committee. The SDCERS Audit Committee reviews the audit findings and recommendations for improvement in internal control and the actions of management to implement these recommendations.

The CAFR, which is available upon request and on-line at www.sdcers.org, is divided into five sections:

The **Introductory Section** contains Transmittal Letters and organizational information.

The **Financial Section** presents the Independent Auditors' Report prepared by Macias Gini & O'Connell, MD&A, audited financial statements for FY 2007 and FY 2006, and other financial and operational information.

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.

Acknowledgments. I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our plan sponsors, members, and the citizens of our community have been well served by their stewardship of this organization.

In particular, I would like to recognize Peter Preovolos and Steve Meyer whose terms as Board President and Vice President ended in April 2007. Both are terrific Trustees, and their advice and guidance to me during my first year at SDCERS were invaluable.

Finally, I would like to thank each of my SDCERS colleagues for their daily dedication, commitment and hard work to ensure the System's success. Staff's efforts, combined with those of a great group of professionals and investment managers, have helped provide for the financial security of all our members, retirees and beneficiaries.

It is a pleasure and an honor to serve as SDCERS' Administrator and CEO. If you ever have a question or concern about any aspect of our operations, 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, 2007

San Diego City Employees' Retirement System
Board Committees

As of June 30, 2007

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 various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The composition and responsibilities of the standing committees as of June 30, 2007 were as follows:

Audit Committee

Armon Kamesar (Chair) Marilyn Creson Brown H. Michael Collins Thomas C. Hebrank Steven W. Meyer	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) Susan S. Gonick V. Wayne Kennedy Franklin R. Lamberth Carmen C. Lutes	Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.

Disability Committee

William J. Sheffler (Chair) Thomas C. Hebrank Franklin R. Lamberth Peter E. Preovolos Jo Anne SawyerKnoll John G. Thomson	Responsible for reviewing 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.

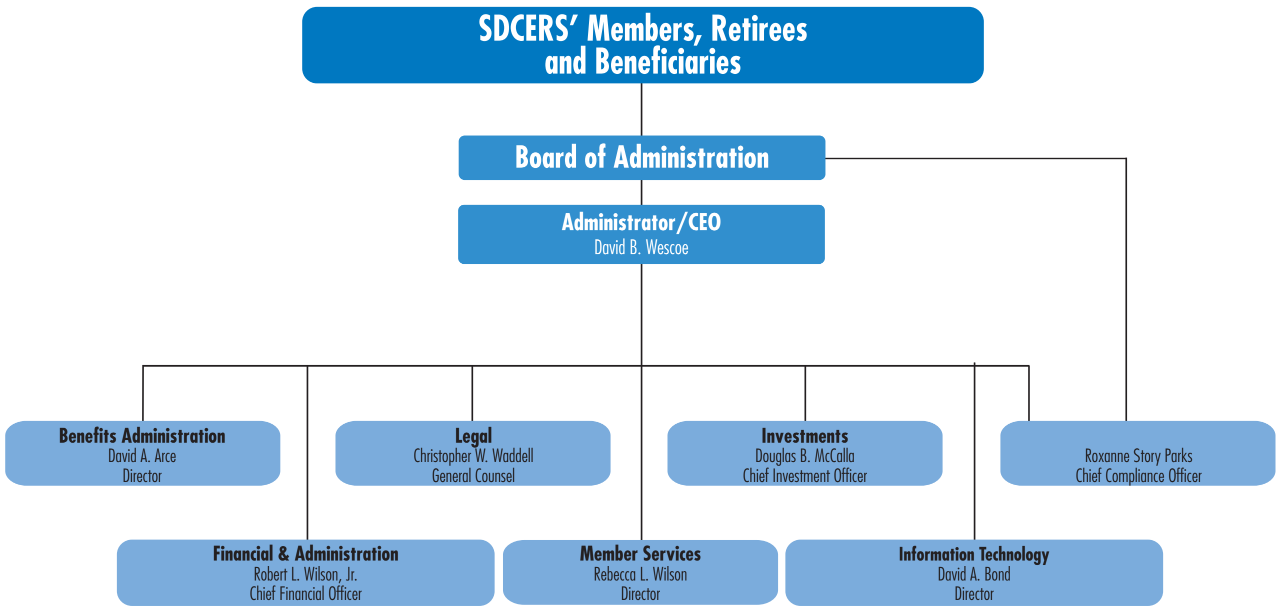
Executive Committee

Thomas C. Hebrank (Chair) Steven W. Meyer William J. Sheffler Mark C. Sullivan	Responsible for reviewing board agendas; and developing the performance plan and evaluating the performance of the Administrator and Chief Compliance Officer.

Investment Committee

Steven W. Meyer (Chair) Thomas C. Hebrank George A. Murray William J. Sheffler	Responsible for monitoring investment performance; and recommending changes to the Investment Policy Statement.

San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2007



Report from SDCERS' Board President

SDCERS
San Diego City Employees' Retirement System

March 31, 2008

Dear SDCERS Constituents:

Although not much time has passed since the last CAFR letter that I wrote, so much has changed. I am happy to report that the news has been very favorable.

In the last few months, we have accomplished two major milestones that have put SDCERS on the right track with the Internal Revenue Service – we have completed the Voluntary Correction Program ("VCP") with the IRS, and we have received a favorable tax Determination Letter from them as well. What does this mean in plain English? It means that the SDCERS Board went voluntarily to the IRS to address some questionable practices from the past, received guidance from the IRS on how to bring the retirement fund back into compliance, and then took the action necessary to do so. Once the San Diego City Council passes an ordinance to correct some items in the municipal code (which we expect them to do shortly), SDCERS will be assured that our retirement plan is in full compliance with IRS guidelines, and there are no lingering questions regarding the tax exempt status of our retirement plan.

Another significant item we have recently faced involved Purchase of Service Credits ("PSC") – members' ability to buy years of service credit, which the SDCERS Board was tasked with pricing at a level that was cost neutral to the plan sponsors. Upon actuarial review, we discovered that they had not been accurately priced prior to November 2003, and that our plan sponsors were negatively impacted by this underpricing. The SDCERS Board conducted an extensive review and fact finding mission regarding PSC's, and held public forums to get input from our plan sponsors, our members, legal experts and many others. One of the things I personally learned through this experience is that not all problems have perfect solutions. The SDCERS Board ultimately decided, by a unanimous vote, to allow existing PSC contracts to remain as formulated and to continue to amortize the pricing shortfalls through the existing unfunded actuarial liability. While this solution was not beneficial to all, it was made through a careful, deliberate and public process, and I believe we made the best decision possible under the circumstances in exercising our fiduciary duty and discretion.

Finally, in my last CAFR letter, I promised to deliver an update on our goal of providing world-class service to our members and beneficiaries. This year, we reorganized SDCERS' Operations group into Benefits Administration and Member Services. This realignment of responsibilities and focus on specialization has improved the two major service areas of SDCERS: benefit calculations and member counseling. By creating subject matter experts in Benefits Administration, staff is able to obtain a greater depth of knowledge in specific areas. Additionally, we have redirected the focus of the retirement counselors away from calculating benefits and onto the art of communicating those benefits and the process by which members can obtain them.

Following the reorganization, staff embarked on an ongoing process improvement program that reviews internal and external processes. By streamlining and refining the steps necessary to accomplish major tasks, staff is better able to serve our members, plan sponsors and the public with their requests. Finally, staff embarked on a search for new web development services to improve and enhance the SDCERS website. The focal point of the Web improvement project is the ability for members to access their retirement account information online, in a secure environment, 24/7.

I look forward to delivering my next status report to you. Although much has been accomplished, we still have more to do.

Sincerely,

Thomas C Hebrank

Thomas C. Hebrank
President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2007

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

National Direct Mailing Corporation
Poway, CA

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
San Diego, CA

Investment Consultant
Callan Associates
San Francisco, CA

Real Estate Consultant
The Townsend Group
San Francisco, CA

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

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2. Financial

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2007 and 2006, 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, 2007 and 2006, 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 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.

As discussed in Note 7, the June 30, 2007 actuarial valuations for each plan sponsor reflect several changes in the actuarial methodologies. As presented in the schedule of funding progress on page 68, based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2007, 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 $1.18 billion. In addition, the City's contribution funding method for the fiscal years 2002 through 2005 was not in accordance with Governmental Accounting Standards Board Statement No. 25.

The Management's Discussion and Analysis on pages 14 through 20, the Schedules of Funding Progress on pages 68 through 73 and the Schedules of Plan Sponsors' Contributions on pages 74 through 77 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
March 31, 2008

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, 2007 (FY 2007) and June 30, 2006 (FY 2006), with results also compared to the fiscal year ended June 30, 2005 (FY 2005).

SDCERS' funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the Unified Port of San Diego (Port), and the San Diego County Regional Airport Authority (Airport).

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. SDCERS' management does not believe that the outcome of any of them will have a material adverse impact on SDCERS' financial condition.

Financial Highlights

As of June 30, 2007, the Defined Benefit Pension Plan (DB Plan) had $4.682 billion in total net assets held in trust for the payment of pension benefits compared to net assets of $4.014 billion at June 30, 2006. This represents a 16.6% increase, or $668 million, over FY 2006. The FY 2007 increase resulted from plan sponsor and member contributions ($255 million), and net investment earnings ($690 million), offset by benefit payments and administrative expenses ($278 million). In FY 2006, SDCERS experienced a 16.3% increase in net assets, or $562 million over FY 2005 net assets of $3.452 billion.

As of June 30, 2007, additions to DB Plan net assets (additions) totaled $945.9 million, an increase of $123.8 million (15.1%) from FY 2006 additions of $822.1 million. Increased net investment earnings of $234.1 million were partially offset by reduced plan sponsor and member contributions of $95.4 million and 2006 litigation settlement proceeds of $14.9 million (see *Note 6. Legal Action,* SDCERS vs. Hanson, Bridget et al., in the Notes to the Financial Statements). In FY 2006, SDCERS experienced an increase of $222.8 million (37.2%) in additions over FY 2005 additions of $599.2 million.

As of June 30, 2007, deductions from DB Plan net assets (deductions) for benefits and expenses totaled $278.0 million, an $18.0 million increase (6.9%), compared to FY 2006 deductions of $260.0 million. In FY 2006, SDCERS deductions increased $27.7 million (11.9%) over FY 2005 deductions of $232.3 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board of Administration (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 Liability (UAL) 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, 2007, the City's funded status, which was calculated pursuant to the Entry Age Normal (EAN) actuarial funding method, was 78.8%. This means that for every dollar of benefits due the City had approximately 78.8 cents in actuarial assets available for payment. The City's funded status as of the June 30, 2006 actuarial valuation, which was calculated pursuant to the Project Unit Credit (PUC) actuarial funding method, was 79.9%.

As of June 30, 2007, the Port's funded status under EAN was 93.5%. This means that for every dollar of benefits due, the Port had approximately 93.5 cents in actuarial assets available for payment. The Port's funded status as of the June 30, 2006 actuarial valuation under PUC was 92.1%.

As of June 30, 2007, the Airport's funded status under EAN was 109.0%. This means that for every dollar of benefits due, the Airport had approximately $1.09 in actuarial assets available for payment. The Airport's funded status as of the June 30, 2006 actuarial valuation under PUC was 111.7%.

The June 30, 2007 Actuarial Valuations were based on the same actuarial assumptions used in the June 30, 2006 Actuarial Valuations but reflect a number of methodology changes adopted by the SDCERS Board in September and October 2006. These methodology changes include the following:

- The return to using the most widely-accepted actuarial funding method, Entry Age Normal (EAN), instead of the Projected Unit Credit (PUC) actuarial funding method;
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). Last year's June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used through the 2006 Valuation pursuant to the Gleason judgment (see *Note 6. Legal Action* – Gleason, et al. v. SDCERS in the Notes to the Financial Statements);
- To avoid any "negative amortization" of the UAL, the plan sponsors are to pay a minimum of the full interest on the UAL plus the Normal Cost;
- The use of the Expected Value of Assets asset smoothing method; and
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 were removed.)

Before the completion of the June 30, 2008 Valuation, SDCERS' actuary will complete an experience study encompassing a detailed analysis of the demographic and economic assumptions used in the actuarial valuation. As a result of that study, further assumption changes may be made, and these will be discussed in detail in the June 30, 2008 Actuarial Valuation.

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 presented in the Actuarial Section, and the Actuarial Valuations can be found online at sdcers.org.

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; 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, 2007 and June 30, 2006.

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 for the fiscal years ended 2007 and 2006, respectively.

Both Statements comply with Governmental Accounting Standards Board (GASB) Statement Nos. 3, 5, 25, 28, 31 and 40 that 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 employee retirement system.

The **Required Supplementary Information** provides information concerning plan sponsors' progress in funding their obligations. 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 5 below summarize and compare SDCERS' financial results for the current and prior fiscal years for the DB Plan and the Post-Employment Healthcare Benefit Plan (HCB) for the first seven months of FY 2005.

The DB Plan's net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2007 totaled $4.682 billion, a 16.6% increase compared to net assets of $4.014 billion as of June 30, 2006. FY 2006 plan net assets were 16.3% higher than FY 2005 net assets of $3.452 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

	2007	2006	Increase/ (Decrease)	Percentage Change	2006	2005	Increase/ (Decrease)	Percentage Change
Cash and Cash Equivalents	$528,285,188	$493,192,881	$35,092,307	7.12%	$493,192,881	$440,955,832	$52,237,049	11.85%
Receivables	40,003,580	43,230,846	(3,227,266)	-7.47%	43,230,846	49,009,979	(5,779,133)	-11.79%
Securities Sold	79,153,778	48,576,193	30,577,585	62.95%	48,576,193	85,818,964	(37,242,771)	-43.40%
Investments, at Fair Value	4,402,945,236	3,826,865,975	576,079,261	15.05%	3,826,865,975	3,271,515,667	555,350,308	16.98%
Securities Lending Cash Collateral	854,630,428	581,289,763	273,340,665	47.02%	581,289,763	434,363,945	146,925,818	33.83%
Properties at Cost plus Pre-paid Expenses	264,388	125,080	139,308	111.38%	125,080	141,680	(16,600)	-11.72%
Total Assets	$5,905,282,598	$4,993,280,738	$912,001,860	18.26%	$4,993,280,738	$4,281,806,067	$711,474,671	16.62%
Benefits & Other Liabilities	280,909,851	231,833,993	49,075,858	21.17%	231,833,993	234,121,704	(2,287,711)	-0.98%
Securities Purchased	88,021,859	166,332,290	(78,310,431)	-47.08%	166,332,290	161,568,431	4,763,859	2.95%
Securities Lending Obligations	854,630,428	581,289,763	273,340,665	47.02%	581,289,763	434,363,945	146,925,818	33.83%
Total Liabilities	$1,223,562,138	$979,456,046	$244,106,092	24.92%	$979,456,046	$830,054,080	$149,401,966	18.00%
Plan Net Assets Held in Trust for Payment of Defined Benefit Pension Benefits	$4,681,720,460	$4,013,824,692	$667,895,768	16.64%	$4,013,824,692	$3,451,751,987	$562,072,705	16.28%

Reserves

Pension plans establish reserves to set apart plan net assets for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of current retired members' expected benefits and other items.

The largest reserve balances are for accumulated benefits payable to retired SDCERS members. These comprise approximately 42% of plan assets ($1.96 billion reserved out of $3.99 billion in total reserves) as of June 30, 2007, compared to 54% of plan assets ($2.13 billion reserved out of $3.64 billion in total reserves) as of June 30, 2006. Reserves for Plan Sponsor Contributions at June 30, 2007 were $442.0 million, up $325.0 million from June 30, 2006. A complete listing of SDCERS' reserves and comparative balances for FY 2007 and FY 2006 are set out in Notes to the Financial Statements.

Current Year Results

Strong investment results plus significant plan sponsor contributions increased additions in FY 2007 plan net assets. These additions exceeded current year benefit payments and deductions, resulting in an increase in plan net assets compared to FY 2006. Key elements of FY 2007 results and year-over-year comparisons are summarized below.

Additions to Plan Assets

Revenues needed to pay current retirement benefits and accrued 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).

Total DB Plan additions for FY 2007 were $945.9 million compared to $822.1 million and $599.3 million for FY 2006 and FY 2005, respectively. A comparative summary is set out in Table 2 below.

Table 2: Defined Benefit Pension Plan Contributions and Investment Earnings

	2007	2006	Increase/ (Decrease)	Percentage Change	2006	2005	Increase/ (Decrease)	Percentage Change
Employers' Contributions	$181,388,065	$282,770,428	$(101,382,363)	-35.85%	$282,770,428	$145,238,133	$137,532,295	94.69%
Members' Contributions Paid by Employers	22,728,577	23,632,010	(903,433)	-3.82%	23,632,010	33,988,447	(10,356,437)	-30.47%
Members' Contributions	43,927,921	32,959,653	10,968,268	33.28%	32,959,653	18,859,980	14,099,673	74.76%
Members' Contributions for Purchased Service Credit	6,042,961	9,645,793	(3,602,832)	-37.35%	9,645,793	49,339,098	(39,693,305)	-80.45%
Earned Interest on Purchased Service Installment Contracts	1,352,182	1,825,921	(473,739)	-25.95%	1,825,921	1,583,235	242,686	15.33%
Total Net Investment Earnings[1]	689,860,139	455,726,222	234,133,917	51.38%	455,726,222	350,209,486	105,516,736	-30.13%
Other Income	619,044	15,500,000	(14,880,956)	-96.01%	15,500,000	–	15,500,000	N/A
Total Additions	$945,918,889	$822,060,027	$123,858,862	15.07%	$822,060,027	$599,218,379	$222,841,648	37.19%

[1] Stated net of investment deductions of $21,681,992, $18,315,686 and $16,330,752 for FY 2007, FY 2006, and FY 2005, respectively.

FY 2007 employer contributions totaled $181.4 million, a decrease of $101.4 million (-35.9%) compared to their contributions of $282.8 million in FY 2006. This compares to a 94.7% FY 2006 increase, or $137.5 million, over FY 2005's contributions of $145.2 million. In FY2006, the City made a one-time extra payment of $100 million from tobacco revenue bond proceeds. The remaining increase of approximately $36 million in FY2006 when compared to FY2005 is due to increased ARC contributions (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 2007 member contributions paid by plan sponsors totaled $22.7 million, a decrease of $0.9 million (-3.8%) compared to $23.6 million in FY 2006. FY 2006 member contributions paid by plan sponsors decreased by $10.4 million (-30.4%) from $34.0 million in FY 2005.

FY 2007 member contributions totaled $43.9 million, an increase of $11.0 million (33.3%) compared to $33.0 million in FY 2006. FY 2006 member contributions increased by $14.1million (74.8%) from $18.9 million in FY 2005. Increases in members' contributions in FY 2006 and again in FY 2007 occurred because the City has progressively lowered the percentage of member contributions it paid on behalf of its employees.

FY 2007 member contributions for purchased service credit totaled $6.0 million, a decrease of $3.6 million (-37.4%) compared to $9.6 million in FY 2006. FY 2006 member contributions for purchased service credit decreased $39.7 million (-80.4%) from $49.3 million in FY 2005. The FY 2007 and FY 2006 decreases in member contributions were due to reduced participation by employees in the purchase of service credit program.

In FY 2007, net investment earnings totaled $689.9 million, an increase of $234.1 million (51.4%) due to improved investment performance over FY 2006 as discussed below. By comparison, FY 2006 net investment earnings totaled $455.7 million, an increase of 30.1%, or $105.5 million compared to net investment earnings of $350.2 million in FY 2005.

A report on SDCERS' investment activity by Callan Associates, SDCERS' Investment Consultant, is provided in the Investment Section. 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 2007, FY 2006 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2007 was +16.5%, compared to +12.7% and +10.8% as of June 30, 2006 and June 30, 2005, respectively. According to the Callan Associates database of public fund performance, SDCERS' investment performance was in the top 65% for the year ended June 30, 2007, and in the top 13% and 2% over the five-, and ten-year periods ended June 30, 2007.

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

Deductions from DB Plan Assets

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

Deductions for FY 2007 were $278.0 million. Deductions for FY 2006 and FY 2005 totaled $260.0 million and $232.3 million, respectively.

A comparative summary is set out in Table 3 below.

Table 3: Defined Benefit Pension Plan Payments and Other Deductions

	2007	2006	Increase/ (Decrease)	Percentage Change	2006	2005	Increase/ (Decrease)	Percentage Change
Retirement and Disability Allowances and Other Benefit Payments	$235,262,751	$214,704,695	$20,558,056	9.58%	$214,704,695	$201,006,814	$13,697,881	6.81%
Refunds of Members' Contributions	3,393,507	4,559,977	(1,166,470)	-25.58%	4,559,977	2,802,986	1,756,991	62.68%
Administrative Deductions	19,103,395	18,438,356	665,039	3.61%	18,438,356	11,960,392	6,477,964	54.16%
DROP Program Interest Deduction	20,263,468	17,748,612	2,514,856	14.17%	17,748,612	16,520,216	1,228,396	7.44%
Litigation Settlement Deduction	–	4,535,682	(4,535,682)	–	4,535,682	–	4,535,682	–
Allowance for Uncollectable Purchased Service Payments	–	–	–	–	–	12,096	(12,096)	-100.00%
Total Deductions	$278,023,121	$259,987,322	$18,035,799	6.94%	$259,987,322	$232,302,504	$27,684,818	11.92%

In FY 2007, retirement, disability allowances and other benefit payments totaled $235.3 million, $20.6 million (9.6%) more than FY 2006's payments of $214.7 million. A 5% increase in the number of retirees accounted for the majority of the payment increase. FY 2006 retirement and disability allowances and other benefit payments were $13.7 million (6.8%) more than in FY 2005, which totaled $201.0 million.

In FY 2007, refunds of member contributions totaled $3.4 million, a 25.6% decrease ($1.2 million) compared to FY 2006 refunds of $4.6 million. FY 2006 refunds of member contributions increased by 62.7%, or $1.8 million, over refunds of member contributions in FY 2005 of $2.8 million.

FY 2007 administrative expenses totaled $19.1 million, an increase of 4.0%, or $0.7 million, over FY 2006 expenses of $18.4 million. FY 2006 administrative expenses increased by 54.2%, or $6.5 million, over FY 2005 administrative expenses of $12.0 million. Legal fees associated with litigation and consulting fees 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 2007 Deferred Retirement Option Program (DROP) interest expenses totaled $20.3 million, an increase of 14.2%, or $2.5 million over FY 2006 expenses of $17.7 million. A 21% increase in DROP reserves upon which interest is paid accounted for the increase in DROP interest expense. FY 2006 DROP Program interest expenses increased by 7.4%, or $1.2 million, over FY 2005 expenses of $16.5 million.

FY 2006 included litigation settlement expenses of $4.5 million (see *Note 6. Legal Action* - SDCERS v. Hanson, Bridgett, et al. in the Notes to the Financial Statements).

Table 4: Increase in Defined Benefit Pension Plan Net Assets

	2007	2006	Increase/ (Decrease)	Percentage Change	2006	2005	Increase/ (Decrease)	Percentage Change
Total Additions (Table 2)	$945,918,889	$822,060,027	$123,858,862	15.07%	$822,060,027	$599,218,379	$222,841,648	37.19%
Less Total Deductions (Table 3)	278,023,121	259,987,322	18,035,799	6.94%	259,987,322	232,302,504	27,684,818	11.92%
Net Increase (Decrease) in Defined Benefit Pension Plan's Net Assets	$667,895,768	$562,072,705	$105,823,063	18.83%	$562,072,705	$366,915,875	$195,156,830	53.19%
Additions as a Percentage of Current Year Deductions	340.23%	316.19%	–	N/A	316.19%	257.95%	–	N/A

Coverage - Total Additions Compared to Total Deductions

The increase in plan net assets in FY 2007 continued the experience of FY 2006 and FY 2005, where total additions to the pension plan significantly exceeded total deductions. As set out in Table 4 above, FY 2007 additions of $945.9 million provided more than three times coverage, or 340.2%, of FY 2007 deductions of $278.0 million. In FY 2006, additions of $822.1 million provided over three times coverage, or 316.2%, of FY 2006 deductions of $260.0 million. In FY 2007 and FY 2006, SDCERS experienced an overall increase in plan net assets of $667.9 million and $562.1 million, respectively. FY 2005 additions of $599.2 million supplied two and one-half times coverage, or 258.0%, of FY 2005's deductions of $232.3 million, resulting in an overall net increase of $366.9 million in net assets.

Additions, Deductions and Changes in Plan Net Assets

Post-Employment Healthcare Benefit Plan (HCB Plan)

HCB funds are not part of the SDCERS trust fund and are reported in the City's financial statements. Beginning in February 2005, the City funded healthcare benefits on a pay-as-you-go basis from its annual budget. Prior to February 2005, benefits were paid from a SDCERS HCB reserve with a FY 2004 carryover balance of $9.1 million, and then the City funded healthcare benefits directly during FY 2005 after HCB funds were depleted. The City's 2005 financial statements reflect a full accounting of the City's HCB Plan.

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, 2007 and June 30, 2006

	2007	2006
ASSETS		
Cash and Cash Equivalents		
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$490,168	$3,960,205
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	527,795,020	489,232,676
Total Cash and Cash Equivalents	528,285,188	493,192,881
Receivables		
Plan Sponsors' and Members' Contributions	9,025,135	9,799,286
Members' - Purchased Service Contracts	17,247,817	20,300,054
Accrued Interest Receivable	13,730,628	13,131,506
Securities Sold	79,153,778	48,576,193
Total Receivables	119,157,358	91,807,039
Investments, at Fair Value		
Short-Term Investments	52,998,771	192,171,460
Domestic Fixed Income Securities	810,554,203	774,124,852
International Fixed Income Securities	176,388,316	166,742,930
Domestic Equity Securities	2,021,799,800	1,605,508,248
International Equity Securities	900,229,222	703,112,207
Mortgages	2,674	5,916
Directly-Owned Real Estate Assets and Real Estate Equity Securities	440,972,250	385,200,362
Total Investments	4,402,945,236	3,826,865,975
Securities Lending Cash Collateral	854,630,428	581,289,763
Total Investments Including Securities Lending Cash Collateral	5,257,575,664	4,408,155,738
Prepaid Expenses	62,918	8,955
Properties at Cost, Net of Accumulated Depreciation of $317,783 and $289,924, respectively	201,470	116,125
TOTAL ASSETS	$5,905,282,598	$4,993,280,738
LIABILITIES		
Accounts Payable	$2,552,199	$923,558
Investment Related Fees Payable	5,413,448	4,588,059
Accrued Wages and Benefits	572,026	513,366
DROP Program Liability	271,595,956	225,570,341
Pension Liability	776,222	238,669
Securities Purchased	88,021,859	166,332,290
Securities Lending Obligations for Cash Collateral	854,630,428	581,289,763
TOTAL LIABILITIES	$1,223,562,138	$979,456,046
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.)	$4,681,720,460	$4,013,824,692

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
For the years ended June 30, 2007 and June 30, 2006

	2007	2006
Contributions		
City of San Diego (City)		
Plan Sponsor	$169,126,073	$271,349,109
Members' Portion Paid by Plan Sponsor	18,270,490	19,261,595
Members'	41,999,595	31,426,532
Members' for Purchased Service	5,962,973	8,220,378
Total City Contributions	235,359,131	330,257,614
Unified Port of San Diego (Port)		
Plan Sponsor	9,300,000	8,121,319
Members' Portion Paid by Plan Sponsor	2,879,725	2,958,863
Members'	1,242,276	1,023,924
Members' for Purchased Service	64,920	1,029,739
Total Port Contributions	13,486,921	13,133,845
San Diego County Regional Airport Authority (Airport)		
Plan Sponsor	2,961,992	3,300,000
Members' Portion Paid by Plan Sponsor	1,578,362	1,411,552
Members'	686,050	509,197
Members' for Purchased Service	15,068	395,676
Total Airport Contributions	5,241,472	5,616,425
Earned Interest on Purchased Service Installment Contracts	1,352,182	1,825,921
Total Contributions	255,439,706	350,833,805
Investment Earnings		
Net Appreciation (Depreciation) in Fair Value of Investments		
Equity	492,378,369	323,221,701
Fixed Income	25,703,535	(39,172,930)
Real Estate Equity and Real Estate Securities	39,493,059	61,993,612
Total Net Appreciation in Fair Value of Investments	557,574,963	346,042,383
Investment Income		
Equity Dividends, Litigation Settlements	63,459,329	50,626,139
Fixed Income - Interest	79,741,577	65,542,688
Mortgages - Income	351	774
Real Estate - Income	9,034,724	10,472,870
Total Investment Income	152,235,981	126,642,471
Less Investment Expenses	(21,681,992)	(18,315,686)
Total Net Investment Income	688,128,952	454,369,168
Securities Lending Income		
Gross Earnings	35,579,779	21,260,897
Borrower Rebates	(33,216,240)	(19,405,965)
Administrative Expenses (Lending Agent)	(632,352)	(497,878)
Net Securities Lending Income	1,731,187	1,357,054
Total Net Investment Earnings	689,860,139	455,726,222
Other Income		
Litigation Proceeds	–	15,500,000
Other Income	619,044	–
Total Other Income	619,044	15,500,000
TOTAL ADDITIONS	$945,918,889	$822,060,027

San Diego City Employees' Retirement System
Statements of Changes in Plan Net Assets (continued)
For the years ended June 30, 2007 and June 30, 2006

	2007	2006
DEDUCTIONS		
Benefit Payments		
Monthly Retirement and Disability Allowances	$224,669,237	$204,170,364
13th Check	4,522,573	4,358,823
Corbett Benefit	5,613,906	5,498,098
Death Benefit	457,035	677,410
Total Benefit Payments	235,262,751	214,704,695
Refunds of Members' Contributions	3,393,507	4,559,977
Administrative Expenses	19,103,395	18,438,356
DROP Program Interest Expenses	20,263,468	17,748,612
Litigation Settlement Expense	–	4,535,682
TOTAL DEDUCTIONS	278,023,121	259,987,322
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION BENEFITS		
BEGINNING OF YEAR	4,013,824,692	3,451,751,987
NET INCREASE	667,895,768	562,072,705
END OF YEAR	$4,681,720,460	$4,013,824,692

For a full understanding of this Statement of Changes in Plan Net Assets, please see the accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2007 and June 30, 2006

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, 2007 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.

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).

Member contributions are recognized in the period in which they are due. Plan sponsor 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 $490,168 and $3,960,205 on deposit in the pool as of June 30, 2007 and June 30, 2006, respectively.

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

SDCERS does not have a target investment allocation to cash. The balances in the audited financial statements of Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents totaled $527,795,020 as of June 30, 2007, and $489,232,676 as of June 30, 2006. 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 $433,414,612 as of June 30, 2007, and $397,119,095 as of June 30, 2006. 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 member contributions for executed purchase of service contracts where payment is pending. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Investments

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. Through its agents, SDCERS also holds investments in non-publicly traded institutional investments funds. These institutional investment funds are comprised of exchange traded securities, the market values of which are provided by the respective custodians. 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

Liabilities

Liabilities reflect accrued financial obligations of SDCERS as of June 30, 2007 and 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. Also included within Liabilities are DROP reserves equal to the DROP contributions and associated earnings included in Total Assets. In addition, a Pension Liability is shown representing that portion of the City's Net Pension Obligation that is apportioned to SDCERS employees.

Expenses

SDCERS is a qualified governmental defined benefit plan under 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 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) with the Internal Revenue Service. While a determination letter is not required for the DB plan to be tax-qualified, it confirms SDCERS' status as a qualified governmental pension plan. The IRS issued the determination letter for SDCERS on January 25, 2008 (See *Note 7 – Subsequent Events* – IRS Tax Determination Letter).

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.

2. Plan Descriptions

General

SDCERS is an agent multiple-employer qualified governmental defined benefit plan established in 1927 by the City. It is administered by the 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, the State of California established the San Diego County Regional Airport Authority (Airport) 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 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.

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 a blended component unit and reported as a pension trust fund in fiduciary funds.

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 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 217 in FY 2007. This was comprised of a net decrease of 90 Members and increase of 307 Retirees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Membership

		As of June 30, 2007				As of June 30, 2006			
		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 2007: 12,289 2006: 12,379 Decrease: (90)	Active Vested	3,449	1,439	371	139	3,578	1,449	346	127
	Deferred Vested	685	161	61	18	594	138	94	14
	Active Non-Vested	2,623	983	188	185	2,831	1,029	186	168
	Inactive Non-Vested	1,472	288	193	34	1,389	238	167	31
Retirees 2007: 7,040 2006: 6,733 Increase: 307	Retired	3,402	2,232	314	9	3,270	2,172	299	5
	DROP Participants	602	443	35	3	530	429	26	2
Total Members and Retirees 2007: 19,329 2006: 19,112 Increase: 217	Totals	12,233	5,546	1,162	388	12,192	5,455	1,118	347

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. The City is the HCB Plan's administrator. 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.

HCB Plan Contributions

The HCB Plan is funded entirely by the City. In FY 2007 and FY 2006, the City did not make any contributions to the HCB Plan. Instead, the City benefits were paid from City contributions made to a separate City healthcare benefit fund. These contributions are budgeted in the City's annual operating budget as a current-year expense of the City.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

3. Deposits and Investments

Cash

At June 30, 2007 and June 30, 2006, SDCERS' cash or equity in pooled cash and investments and cash and cash equivalents were as follows:

	June 30, 2007	June 30, 2006
Cash or equity in pooled cash and investments on deposit with the City of San Diego	$490,168	$3,960,205$
Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents[1]	527,795,020	489,232,676
Total Cash and Cash Equivalents	528,285,188	493,192,881

[1] Includes cash collateral from market neutral portfolios (defensive, domestic fixed income strategy) that totaled $433,414,612 as of June 30, 2007 and $397,119,095 as of June 30, 2006. This amount also includes residual cash of $89,391,808 as of June 30, 2007 and $86,047,039 as of June 30, 2006, for transaction settlements, held in each 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 are reserved for paying currently monthly accrued benefits and SDCERS' operational expenses.

Investments

The Board of Administration 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 are recorded at market value each day and must be settled at expiration date. 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 $464,180,996 for the year ended June 30, 2007, and $410,233,183 for the year ended June 30, 2006. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.

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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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 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, 2007 was 34%. The entire allocation is externally-managed and is comprised as follows: 18% to core-plus domestic fixed income, which is benchmarked against the Lehman Aggregate Bond Index; 9% to an unsecuritized market neutral strategy, which is benchmarked to the Merrill Lynch 1 - 5 year Government/Corporate Index; 4% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond index; and, 3% to convertible bond securities, which is 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 and duration is not relevant in structuring these portfolios. 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. Convertible securities are not likely to decrease in value during a rising interest rate environment because their valuation is tied to the underlying value of the company's common stock. This low correlation to fixed income assets provides additional diversification to the portfolio's fixed income allocation. 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 (22% target of total invested assets) is sensitive to credit risk and interest rate risk.

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 measure 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 less important in the decision to purchase the convertible bond because it is the performance of the underlying common stock of that company that impacts the majority 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 domestic core-plus fixed income managers are as follows:

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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

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*

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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 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, Standard & Poors (S&P), Fitch.

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, 2007 and June 30, 2006.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Domestic Fixed Income Portfolio
(with tactical discretion to invest in non-U.S. fixed income securities)
As of June 30, 2007

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	$169,038,172	$–	$7,913,397	$177,609	$160,947,166	$–
AAA	NR	7,233,096	–	–	–	7,233,096	–
AA+	AAA	12,003,117	–	12,003,117	–	–	–
AA	Aaa	3,017,031	–-	3,018,044	(1,013)[1]	–	–
AA	Aa1	8,022,580	885,918	9,019,914	(1,883,252)[1]	–	–
AA	Aa2	(962,068)	190,704	–	(1,152,772)[1]	–	–
AA-	Aa1	55,861,293	–	54,843,038	1,018,255	–	–
AA-	Aa2	496,691	496,691	–	–	–	–
AA-	Aa3	26,907,824	–	(5,881,506)[1]	(4,104,100)[1]	–	36,893,430
NR	Aa3	700,075	–	–	–	–	700,075
A+	A1	15,237,410	100,822	(13,011)[1]	5,041,091	–	10,108,508
A+	Aa3	32,385,847	309,318	28,101,514	–	–	3,975,015
A	A1 2	88,606	288,606	–	–	–	–
A	A2	5,990,593	605,190	–	190,596	–	5,194,807
A	Aa3	573,672	474,194	–	99,478	–	–
A-	Aaa	1,701,467	–	–	–	–	1,701,467
A-	Aa3	1,145,454	1,145,454	–	–	–	–
A-	Baa1	800,748	–	–	–	–	800,748
BBB+	Baa2	881,722	881,722	–	–	–	–
BBB	A2	191,546	191,546	–	–	–	–
BBB	A3	4,602,518	–	–	–	–	4,602,518
BBB	Baa1	3,188,854	–	–	80,947	–	3,107,907
BBB	Baa2	202,063	202,063	–	–	–	–
BBB	Baa3	1,483,211	1,483,211	–	–	–	–
BBB-	Ba1	726,250	726,250	–	–	–	–
BBB-	Baa3	1,601,814	–	–	–	–	1,601,814
BBB-	NR	488,105	–	–	488,105	–	–
BB+	Ba1	4,082,693	4,082,693	–	–	–	–
BB+	Ba2	5,460,833	–	–	5,460,833	–	–
BB	Ba1	416,000	416,000	–	–	–	–
BB-	Ba3	1,779,635	1,779,635	–	–	–	–
BB-	B1	1,904,533	–	–	1,904,533	–	–
B+	B1	11,000	11,000	–	–	–	–
B	B1	99,893	99,893	–	–	–	–
NR	NR	38,482,671	(7,929,845)[2]	(21,224,453)[3]	67,636,969	–	–
Totals		$406,044,949	$6,441,065	$87,780,054	$74,957,279	$168,180,262	$68,686,289

[1] Negative amounts are representative of pay fixed interest rate swaps.
[2] These amounts include swaptions that are not rated.
[3] These amounts include short positions in exchange traded futures and options that are not rated.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Domestic Fixed Income Portfolio
(with tactical discretion to invest in non-U.S. fixed income securities)
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		$405,707,588	$15,928,055	$40,726,478	$6,140,221	$222,435,006	$120,477,828

[1] Negative amounts are representative of pay fixed interest rate swaps.
[2] This value represents swaptions that are not rated.

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, 2007 and June 30, 2006

Domestic Fixed Income Portfolio
Credit Risk Analysis By Rating Agency as of June 30, 2007

S&P Quality Rating	Total Fair Value	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
U.S. Treasury	$148,902,166	$148,663,921	$–	$238,245	$–
AAA	135,501,764	–	2,908,255	124,025,405	8,568,104
AA+	2,259,858	–	–	–	2,259,858
AA	1,895,746	–	1,895,746	–	–
AA-	3,056,428	–	3,056,428	–	–
A+	16,712,251	–	16,712,251	–	–
A	458,652	–	458,652	–	–
A-	11,669,514	–	11,669,514	–	–
BBB+	6,284,985	–	6,284,985	–	–
BBB	6,468,582	–	6,468,582	–	–
BBB-	13,334,478	–	13,334,478	–	–
BB+	6,060,845	–	6,060,845	–	–
BB	10,585,074	–	10,585,074	–	–
BB-	233,391	–	–	–	233,391
B+	–	–	–	–	–
B	4,412,812	–	4,412,812	–	–
B-	1,198,418	–	1,198,418	–	–
NR	8,425,344	–	–	8,425,344	–
NR[1]	45,305,949	–	–	45,305,949	–
Totals	$422,766,257	$148,663,921	$85,046,040	$177,994,943	$11,061,353

Moody's Quality Rating	Total Fair Value	Governments	Corporates	Mortgage-Backed Securities	Asset-Backed Securities
U.S. Treasury	$148,902,166	$148,663,921	$–	$238,245	$–
Aaa	71,281,126	–	3,728,052	58,984,970	8,568,104
Aa1	4,682,832	–	4,682,832	–	–
Aa2	–	–	–	–	–
Aa3	8,236,852	–	8,236,852	–	–
A1	7,307,647	–	7,307,647	–	–
A2	3,218,763	–	3,218,763	–	–
A3	4,074,714	–	4,074,714	–	–
Baa1	5,645,952	–	5,645,952	–	–
Baa2	9,049,912	–	9,049,912	–	–
Baa3	8,981,125	–	8,981,125	–	–
Ba1	13,176,933	–	13,176,933	–	–
Ba2	233,391	–	–	–	233,391
Ba3	4,118,074	–	4,118,074	–	–
B1	4,412,812	–	4,412,812	–	–
B2	–	–	–	–	–
B3	1,198,418	–	1,198,418	–	–
NR	82,939,591	–	7,213,954	73,465,779	2,259,858
NR[1]	45,305,949	–	–	45,305,949	–
Totals	$422,766,257	$148,663,921	$85,046,040	$177,994,943	$11,061,353

[1] Issued by governmental agencies.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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
U.S. Treasury	$158,812,140	$158,383,145	$–	$428,99	$–
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-	339,23	–	339,23	–	–
NR	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	–	–
NR	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, 2007 and June 30, 2006

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, e.g., Moody's, S&P, or 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, 2007 and June 30, 2006.

International Fixed Income Portfolio
Credit Risk Analysis as of June 30, 2007

S&P Credit Rating	Total Fair Value	Cash & Forward Foreign Exchange	Asset-Backed Securities	Credit Obligations	International Government & Agency Obligations
AAA	$123,781,116	$1,100,108	$13,868,560	$13,857,603	$94,954,84
AA+	7,973,483	–	–	–	7,973,483
AA	24,649,745	–	–	–	24,649,745
A	3,131,607	–	–	3,131,607	–
A-	4,348,494	–	–	2,481,490	1,867,004
BBB+	178,978	–	–	178,978	–
BBB	4,070,028	–	–	1,577,771	2,492,257
BBB-	805,547	–	–	805,547	–
BB	2,661,975	–	–	–	2,661,975
BB-	1,948,020	–	–	–	1,948,020
B+	6,981,103	–	–	–	6,981,103
Totals	$180,530,096	$1,100,108	$13,868,560	$22,032,996	$143,528,432

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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

S&P Credit Rating	Total Fair 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	–	–	345,60	3,082,787
BBB	1,804,844	–	–	–	1,804,844
BB-	1,274,886	–	–	–	1,274,886
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

SDCERS adheres to concentration guidelines for the international fixed income portfolio. 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 international fixed income 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 international fixed income portfolio. Investments may be in both dollar and non-dollar (local currency) denominated instruments.

Emerging Market investments are subject to the following conditions:

- 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, 2007 and June 30, 2006

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 0.5 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 positively correlated to interest rate movements versus other fixed income securities.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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, 2007 and June 30, 2006.

Domestic Fixed Income Portfolio

(with tactical discretion to invest in non-U.S. fixed income securities)
Portfolio Duration Analysis as of June 30, 2007

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	$(3,240,977)[2]	-0.8%	-13.29	0.11	2.2%
High Yield	7,804,643	1.9%	1.73	0.03	0.7%
Municipal Bonds	1,877,399	0.5%	7.90	0.04	0.8%
U.S. Government & Agency:					
US Treasuries	81,348,362	20.0%	2.95	0.59	12.3%
US Agencies	6,431,692	1.6%	5.09	0.08	1.7%
International Government:					
Sovereign & Yankee Bonds	39,384,662	9.7%	-2.71	-0.26	-5.5%
Emerging Markets	35,572,617	8.8%	4.45	0.40	8.3%
Collateralized Mortgage Obligations:					
Mortgages[1]	149,339,596	36.8%	4.41	1.62	33.8%
Collateralized Mortgage Obligations[1]	18,840,666	4.6%	2.67	0.12	2.6%
Short-Term/Other:					
Miscellaneous	3,820,344	0.9%	1.58	0.01	0.3%
Cash/Cash Equivalents	64,865,945	16.0%	12.88	2.06	42.9%
Total Portfolio	$406,044,949	100.0%		4.80	100.0%

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

[2] The negative fair value and duration for corporate bonds results from the market value of credit default swaps.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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:					
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[1]	3,436,331	0.8%	-23.67	-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.

The domestic fixed income 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, 2007 and June 30, 2006

Domestic Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2007

Type of Security	Total Fair Value	Effective Duration	Benchmark Duration	Difference
Governments	$148,663,921	5.75	4.48	1.27
Corporates	85,046,040	4.39	6.11	-1.72
Mortgage Backed Securities	177,994,943	3.64	4.24	-0.60
Asset-Backed Securities	11,061,352	3.75	2.85	0.90
Cash Equivalents[1]	15,996,375	0.04	0.00	0.04
Totals	$438,762,631	4.70	4.70	0.00

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

Type of Security	Total 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

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, 2007 and June 30, 2006

International Fixed Income Portfolio
Portfolio Duration Analysis as of June 30, 2007

Type of Security	Fair Value	Effective Duration	Benchmark Duration	Difference
Cash and Forward Foreign Exchange	$1,100,108	0.00	0.00	0.00
Asset Backed Securities	13,868,560	7.61	0.00	7.61
Credit Obligations	22,032,996	9.02	0.00	9.02
International Government & Agency	143,528,432	5.76	6.27	-0.51
Totals	$180,530,096	6.27	6.27	0.00

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

The above strategy is restricted to an average duration of between 0.5 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, 2007 and June 30, 2006

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, 2007 and June 30, 2006, SDCERS had no single issuer that exceeded 5% of total investments, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. While there are no general policies addressing the concentration of credit risk, 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, 2007 and June 30, 2006, 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 $94,380,408 as of June 30, 2007 and $92,113,581 as of June 30, 2006.

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 $29,535,197 and $8,699,643 as of June 30, 2007 and June 30, 2006, 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 $854,630,428 and $581,289,763 as of June 30, 2007 and June 30, 2006, is also at risk as it's invested in 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, 2007 and June 30, 2006

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, 2007 and June 30, 2006.

Foreign Currency Risk
As of June 30, 2007
(All values are in U.S. Dollars)

Local Currency Name	Cash	Equity	Fixed Income	Total
Austrailian Dollar	$210,217	$20,319,570	$9,346,737	$29,876,524
Brazilian Real	–	910,592	–	910,592
Canadian Dollar	66,984	13,586,687	2,561,692	16,215,363
Danish Krone	30,227	1,057,475	13,074,230	14,161,932
Euro Currency	615,883	324,331,673	71,099,845	396,047,401
Hong Kong Dollar	15,115	13,082,503	–	13,097,618
Indonesian Rupiah	6,876	4,384,378	–	4,391,254
Japanese Yen	1,501,736	149,724,036	48,859,798	200,085,570
Mexican Peso	–	1,822,359	–	1,822,359
New Zealand Dollar	–	1,331,198	–	1,331,198
Norwegian Krone	2,986	9,012,402	–	9,015,388
Singapore Dollar	50,801	9,585,256	–	9,636,057
South Korean Won	1,399	27,789,906	1,623,788	29,415,093
Swedish Krona	402,696	20,556,058	5,434,886	26,393,640
Swiss Franc	22,025	35,090,550	–	35,112,575
UK Pound	355,537	124,304,230	11,057,609	135,717,376
Totals	$3,282,482	$756,888,873	$163,058,585	$923,229,940

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Foreign Currency Risk
As of June 30, 2006
(All values are in U.S. Dollars[1])

Local Currency Name	Cash	Equity	Fixed Income	Other[2]	Total
Austrailian Dollar	$5,102,846	$4,509,971	$–	$–	$9,612,817
Brazilian Real	30,76	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 Currency	5,914,270	228,531,381	66,871,625	–	301,317,276
Hong Kong Dollar	43,27	7,605,189	–	–	7,648,466
Hungarian Forint	–	1,099,077	–	–	1,099,077
Indonesian Rupiah	15,57	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	–	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

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

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

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 an 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 hedge against fluctuations in foreign exchange rates. SDCERS' investment managers may hedge currencies at their discretion pursuant to specific guidelines included in their investment management agreements.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Derivative Instruments

SDCERS' investment managers, as permitted by their specific investment guidelines, may 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 but, by Board policy, may not be used to leverage SDCERS' portfolio, i.e., to use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used primarily to enhance a portfolio's performance and reduce the portfolio's risk or volatility. To reduce credit risk exposure, SDCERS enters into derivative transactions with counterparty institutions with a credit rating of least A-, and to date no losses due to or resulting from counterparty non-performance on derivative financial instruments have been incurred. Credit risk is also mitigated through the use of exchange-traded contracts on exchanges subject to regulatory oversight. 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, 2007 and June 30, 2006, were as follows:

	At June 30, 2007	At June 30, 2006
Money Market Futures	$712,880,807	$542,695,850
Government Bond Futures	(27,652,418)	27,843,077
Options	(177,111)	(1,533,176)
Swaps	(2,515,225)	23,268
Total Derivatives	$682,536,053	$569,029,019

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 principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Option contracts provide the 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 purchaser chooses to exercise the option. SDCERS uses exchange-traded and over-the-counter options. Options are sold and proceeds are 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. In call option contracts, if interest rates remained steady or declined during the option contract periods, the contracts would expire unexercised. By contrast, in put option contracts, if interest rates rose sufficiently to result in the purchase of the securities on or before the end of the option periods, this would occur at prices attractive to the portfolio manager.

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Investments Highly Sensitive to Interest Rate Changes

SDCERS' fixed income investment managers construct portfolios that have attributes of differing price sensitivity (also known as convexity) and interest rate sensitivity. Convexity measures the movement in bond prices in response to interest rate changes, and is a useful tool in managing the market risk of a bond portfolio. Interest rate sensitivity measures the impact of interest rate changes on the duration of a bond portfolio. SDCERS' managers select securities that when aggregated 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 scenarios to measure interest rate sensitivity. The first measure is Bull Duration or the scenario where interest rates decline by 50 basis points. The second measure is Bear Duration or the scenario where interest rates rise by 50 basis points. The analysis of interest rate change on duration for this portfolio as of June 30, 2007 and June 30, 2006, is shown in the tables below.

As of June 30, 2007

Total Effective Duration of the fixed income portfolio:	4.80 years.
Bull Duration:	4.27 years – portfolio duration shortens by -0.53 during a 50 basis point rally.
Bear Duration:	5.18 years – portfolio duration lengthens by +0.38 years during a 50 basis point sell off.

As of June 30, 2006

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

Domestic Fixed Income Manager

SDCERS' core-plus domestic fixed income manager applies multiple value-added strategies in the pursuit to outperform their benchmark, to achieve below average volatility, and to preserve capital. Various strategies include the use of yield curve management in an effort to take advantage of a steepening or flattening in the yield curve, i.e., a change in interest rates where the spread between the yield on the long-term and short-term bonds has increased, or conversely when the spread between the yields has decreased. The manager also makes shifts in the duration of the portfolio and looks at all sectors of the bond market. In some cases, the manager may select issues which are more highly sensitive to interest rate changes than the average holding but contribute to the overall strategy of the portfolio. The total value of securities that are more highly sensitive to interest changes in this portfolio as of June 30, 2007, and June 30, 2006 are depicted in the tables below.

As of June 30, 2007

Holdings (U.S. Treasury and Corporate securities) with greater than 10 years duration totaled $45,790,510, or 10.44% of the portfolio.

Holdings with interest only strips and inverse floating rate notes totaled $7,240,957, or 1.66% of the portfolio.

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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

International Fixed Income Manager

The analysis for this portfolio as of June 30, 2007, and June 30, 2006, is displayed in the tables below.

As of June 30, 2007

Total Effective Duration:	4.70 years.
Duration with 50 basis point decrease in interest rates:	-0.165 years.

As of June 30, 2006

Total Effective Duration:	5.88 years.
Duration with 50 basis point decrease in interest rates:	-2.714 years.

Real Estate

SDCERS' target allocation to real estate is 11%. The real estate investment program is structured with a target allocation of approximately 30% in stable core real estate and approximately 70% to enhanced, high return and opportunistic real estate opportunities. The 70% target is divided between REIT securities (25%) and limited partnership investments in commingled real estate funds (45%). No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. As SDCERS adds non-U.S. investments to its real estate portfolio, new capital commitments will be made to pool funds that target enhanced and high return strategies. As of June 30, 2007 and June 30, 2006, real estate investments totaled $440,972,250 and $385,200,362, respectively.

Securities Lending

SDCERS has entered into an agreement with its custodial bank, State Street Bank & Trust Company, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral. A simultaneous agreement is entered into by which State Street 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 does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the 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 2007 and FY 2006, 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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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.

As of June 30, 2007 and June 30, 2006, securities on loan collateralized by cash had a fair value of $831,415,438, and $569,927,875, respectively, and a collateral value of $854,630,428 and $581,289,763, 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, 2007 and June 30, 2006, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $29,535,197 and $8,699,643, respectively, and a collateral value of $34,074,568 and $9,072,864, 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, 2007 and June 30, 2006, for its securities lending activities was $888,704,996 and $590,362,627, respectively.

The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other lenders of securities of qualified tax-exempt plans, in a collective investment pool. Because the 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, 2007, this investment pool had an average duration of 68.25 days and an average weighted maturity of 532.81 days for USD collateral. As of June 30, 2006, this same investment pool had an average duration of 49 days and an average weighted maturity of 450 days. Beginning in FY 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. The Euro collateral pool had an average duration of 49 days and an average weight maturity of 871 days.

By extending 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined rates designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. In FY 2007, the Normal Cost and Actuarial Accrued Liability were determined using the Projected Unit Credit (PUC) actuarial funding method. Beginning in FY 2009, the Entry Age Normal (EAN) actuarial funding method will be used, in accordance with methodology changes approved by the Board in September and October 2006.

In FY 2005, the City started making 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). The City made contributions above this amount from the City tobacco revenue bond proceeds (FY 2006 only) plus the transfer of its Retirement UAL SDCERS Reserve Fund (FY 2006 and FY 2007). 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, the Port made contributions above this amount in FY 2007, and the Airport made contributions above this amount in both FY 2006 and FY 2007.

In addition to regular plan sponsor contributions, the City's UAL is being amortized over a 20-year period beginning with the June 30, 2007 Actuarial Valuation. The June 30, 2006 Actuarial Valuation used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment. To avoid any "negative amortization" of the UAL, the City will pay a minimum of the full interest on the UAL plus the Normal Cost. The Port's UAL is being funded as a level percent of payroll over a 30-year, closed amortization period that began July 1, 1991 (14 years remaining as of the June 30, 2007 actuarial valuation). The Airport's UAL is being funded over an 18.5-year closed amortization period that began January 1, 2003 (14 years remaining as of the June 30, 2007 actuarial valuation).

The Annual Required Contribution (ARC) and the amount of contributions made to SDCERS by the City for the four year period from 2002 to 2006 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 ARC amounts were restated to reflect the cumulative impacts of contribution under funding that occurred during the years 1997 through 2005 and include 13th check and Corbett benefits as an actuarial liability, which had previously been excluded.

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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
Total Contribution Rate	21.13	50.21	38.54	46.71	31.62	28.06
Total Contribution Rate if paid 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%

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
Total Contribution Rate	21.38	25.22	26.41	22.86
Total Contribution Rate if paid 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%

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
Total Contribution Rate	14.30
Total Contribution Rate if paid 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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
Total Contribution Rate	21.04	59.44	40.78	41.57	39.60	27.91
Total Contribution Rate if paid 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%

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
Total Contribution Rate	21.46	25.45	22.48
Total Contribution Rate if paid at the beginning of the year (July 1, 2005)	20.65	24.49	21.63
Total Contribution Rates	20.65%	24.49%	21.63%

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
Total Contribution Rate	16.01
Total Contribution Rate if paid 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

FY 2008 Contribution Rates (As of July 1, 2007)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2006, Actuarial Valuation)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
Normal Cost[1]	11.41%	19.53%	19.67%	20.70%	17.96%	14.40%
Amortization Payment[1]	8.05	18.43	14.07	18.24	10.57	10.55
Total Contribution Rate	19.46	37.96	33.74	38.94	28.53	24.95
Total Contribution Rate if paid at the beginning of the year (July 1, 2007)	18.73	36.53	32.46	37.47	27.45	24.01
Total Contribution Rates	18.73%	36.53%	32.46%	37.47%	27.45%	24.01%

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2006, Actuarial Valuation)			
	General	Executives	Safety	Weighted Total
Normal Cost[1]	14.24%	19.11%	18.50%	15.53%
Amortization Payment[1]	4.28	7.00	4.11	4.30
Total Contribution Rate	18.52	26.11	22.61	19.83
Total Contribution Rate if paid at the beginning of the year (July 1, 2007)	17.82	25.13	21.74	19.08
Total Contribution Rates	17.82%	25.13%	21.74%	19.08%

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2006, Actuarial Valuation)
	All Members
Normal Cost[1]	13.11%
Amortization Payment[1]	-1.90
Total Contribution Rate	11.21
Total Contribution Rate if paid at the beginning of the year (July 1, 2007)	10.79
Total Contribution Rates	10.79%

[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, 2007 and June 30, 2006

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 member's 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 2007 Member Average Contribution Rates	FY 2006 Member Average Contribution Rates	FY 2008 Member Average Contribution Rates
Actuarial Valuation Dates	6/30/2005	6/30/2004	6/30/2006
City of San Diego			
General Members[1]	9.86%	10.57%	9.87%
Safety Members[1]	12.07%	12.88%	11.87%
Unified Port of San Diego			
General Members[1]	9.30%	10.24%	9.27%
Safety Members[1]	11.94%	13.04%	11.93%
San Diego County Regional Airport Authority			
All Members	9.46%	10.31%	9.44%

[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, 2007 and June 30, 2006

All or part of the member's contribution rate may be subject to a reduction for member contributions paid by the employer, as determined through annual meet and confer negotiations between the employers and employee bargaining groups. 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 2007 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

For Elected Officers:	5.89%
For General Members:	2.40% to 5.40%
For Police Members:	4.10%
For Fire Members:	4.30%
For Lifeguard Members:	4.30%

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 discount is 5.00% for general members and 1.00% for safety members.

For FY 2007, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	5.00% to 7.00%
For Safety Members:	8.80%
For Management Members:	6.5% to 10.3%

For FY 2007, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	7.00%
For Management Members:	8.50%

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

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 that City members may purchase service credit. For Airport members and Port members, their respective plan documents outline the purchase of service credit provisions.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. Airport 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 members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port, and Airport for employees hired on or after February 16, 2007, October 1, 2005 and October 3, 2006, respectively.

A member may pay for purchases of service credit by: lump sum payments from personal funds; 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 bi-weekly installment payment plans. Both pre-tax and post-tax payment plans are permitted. The length of the installment contracts varies but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

The table below describes a member's cost to purchase one year of service credit:

	Cost as of November 2003 (% of Current Salary)
City of San Diego	
General Members	27%
Safety Members	37%
Legislative Members	50%
Port/Airport	As of July 2004
General Members	32%
Safety Members	38%
Executive Members	34%

As of June 30, 2007, a total of 945 members were making payments on installment contracts compared to 1,057 at June 30, 2006. Service credit purchased under an installment contract is not an actuarial accrued liability of SDCERS until the purchase is paid by the member. A receivable for purchased service contracts (both installment contracts and pending lump sum payments) totaling $17,247,817 and $20,300,054 has been included in the accompanying Statements of Plan Net Assets for the DB Plan at June 30, 2007 and June 30, 2006, respectively.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

5. Reserve Balances

The San Diego Municipal Code authorizes the 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.

Reserve balances as of June 30 each year, valued at:

	2007	2006
Reserved for Investments in Properties	$201,470	$116,125
Reserved for Receivables	17,220,695	20,300,054
Reserved for Encumbrances	2,673,387	1,404,130
Reserved for Members' Contributions	610,083,552	567,783,338
Reserved for Plan Sponsors' Contributions	441,957,553	116,992,757
Reserved for Current Retired Members	1,957,279,341	2,126,403,964
Plan Continuation Liability	1,013,802,149	1,432,445,000
Fund Deficit - Equivalent to Plan Continuation Liability	(1,013,802,149)	(1,432,445,000)
Reserved for Supplemental COLA	15,280,975	17,412,147
Undistributed Earnings Reserve	846,068,996	619,818,817
Reserved for Liabilities	97,495,611	172,768,228
Total Reserves[1]	$3,988,261,580	$3,642,999,560

[1] Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of $4,139,785,758 as of June 30, 2007, and $3,772,505,287 as of June 30, 2006. 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, 2007 and June 30, 2006

Reserved for Investments in Properties - This represents the un-depreciated cost of SDCERS office equipment.

Reserve for Receivables - This represents the 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 - This represents the balance of contractual liabilities incurred but not yet paid at year-end.

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

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

Reserved for Current Retired Members - This represents 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 - This 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 Liability (UAL) totaled for all three plan sponsors. Values are based on the June 30, 2006 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability - This represents the dollar amount not reserved for the portion of UAL of the City's, Port's, and Airport's plans. The City's UAL is being amortized over a 20-year period beginning with the June 30, 2007 Actuarial Valuation. The June 30, 2006 Actuarial Valuation used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment. To avoid any "negative amortization" of the UAL, the City will pay a minimum of the full interest on the UAL plus the Normal Cost. The Port's UAL is being amortized over a closed 30-year period with 14 years remaining as of the June 30, 2007 actuarial valuation. The Airport's UAL is being amortized over a closed 18.5-year period with 14 years remaining as of the June 30, 2007 actuarial valuation.

Reserved for Supplemental COLA - These are 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.

Undistributed Earnings Reserve - This 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 Plan Sponsors' Contributions in order to reduce SDCERS' current liabilities. Due to the delay in issuing previous CAFRs, the FY 2005 surplus was credited to the Reserve for Plan Sponsors' Contributions in November, 2007, and the FY 2006 and FY 2007 surplus will be credited upon completion of the City's FY 2006 and FY 2007 CAFRs in 2008.

Reserved for Liabilities - These are funds sufficient to pay liabilities incurred as of June 30, 2007 and June 30, 2006. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

6. Legal Action

In the normal course of business, SDCERS is involved in or threatened with 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.

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

In January 2003, a class action complaint was filed by a retired City employee (James F. Gleason), 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 plaintiff's attorneys' fees and legal costs totaling $3,086,529. The City was ordered to pay 60% and SDCERS was ordered to pay 40% of the total. SDCERS' portion, including interest, totaled $1,249,292 and was paid in January 2005.

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

A retired City employee (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 receive credit for paying SDCERS $100 million, consisting of bond proceeds from a tobacco litigation securitization transaction; and 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 the $73 million amount may be reduced by the amount of attorneys' fees paid to the plaintiffs' class counsel.

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

In November 2005, a former employee of the City (William Newsome), 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: $100 million; or an amount sufficient to allow SDCERS to achieve a funded ratio of 82.3%.

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

On January 27, 2005, SDCERS filed a lawsuit against the City and the 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 Board members' City offices.

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 all monies owed by the City to SDCERS but not paid because of MP1 and MP2.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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 the trial court's ruling was denied.

The City filed a motion for summary judgment in March 2006 on its 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 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 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 directed the City Attorney to file an amended cross-complaint which conformed to its 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 Interveners' challenges to the 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 dismissed the City's 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. The City appealed the Court's ruling on September 26, 2007. On October 9, 2007, the Court 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.

<u>People of the State of California v. Lawrence Grissom et. al,</u> 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 Board members. The action sought monetary penalties, an order setting aside specified Board actions, injunctive relief, costs and attorneys' fees for alleged violations of the Political Reform Act of 1974. In March 2006, the Court granted Ms. Chapin's demurrer to the City's 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.

<u>SDCERS v. City of San Diego</u>, 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. San Diego City Employees' Retirement System, et. al. and related consolidated cases, and the S.E.C. and U.S. Attorney investigations related to City bond disclosures and MP2. SDCERS dismissed the case in November 2006.

<u>San Diego Police Officers' Association v. Michael Aguirre, et al</u>., 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, Mr. Grissom, past and present members of the City Council and certain former Board members and City officials. The POA alleges that the City engaged in unfair labor negotiation tactics and asserts claims related to MP1 and MP2 and healthcare benefits.

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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

In January and February 2007, SDCERS filed two motions for summary judgment. The primary argument in these motions was that the POA could not maintain its claims for monetary, declaratory or injunctive relief, inpart, 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 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 attorneys' fees. SDCERS subsequently filed a motion seeking partial payment of its attorneys' fees from the POA's attorneys, which was denied by the Court on October 9, 2007. The POA filed notices of appeal with the U.S. Ninth Circuit Court of Appeals on September 9, 2007 and September 19, 2007.

<u>Aaron, et al. v. Aguirre, et al.,</u> 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 San Diego Police Officers' Association v. Aguirre, et al, U. S. District Court, case number 05CV1581. The primary difference in this case is that current and former POA 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. This lawsuit has not been certified as a class action.

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 plaintiffs filed an amended complaint that was in most respects identical to the prior complaint that had been dismissed, and SDCERS filed a motion to dismiss the amended complaint. In March 2007, the Court dismissed without leave to amend the POA plaintiff's causes of action against SDCERS for (1) breach of contract; (2) conversion; and (3) interference with contract. The Court also dismissed a conspiracy cause of action with leave to amend.

In April 2007, the Aaron plaintiffs filed another amended complaint. In accordance with the Court's prior ruling, this amended complaint did not include causes of action for breach of contract, conversion or interference with contract but did re-allege the conspiracy cause of action against SDCERS. SDCERS filed a motion to dismiss the amended complaint. That motion was granted in June 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 Board improperly approved payment of criminal defense costs for Mr. Grissom and Ms.Chapin. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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

In August 2005, the City filed a complaint for damages against Callan Associates, SDCERS' investment consultant, and Gabriel Roeder Smith, SDCERS' former actuary, for professional negligence, intentional fraud-affirmative misrepresentation and intentional fraud-concealment. SDCERS is not a party to this case. In November 2006, Callan and the City agreed to settle the complaint. Although Callan paid $4.5 million to the City 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."

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 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 an amended complaint 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 amended complaint.

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 like SDCERS, will continue to prosecute the case and SDCERS' counsel will continue as co-lead counsel. SDCERS will remain as a class member and will receive its proportionate 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 Board members and staff relating to MP2. 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 Board members Ron Saathoff, Cathy Lexin and Terry Webster, as well as Mr. Grissom and Ms. Chapin. The indictment states charges arising from alleged conspiracy to commit wire and mail fraud; mail fraud; and aiding and abetting.

In March 2006, the 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.

A motion by the defense to remove the trial judge is pending. Trial dates, which were scheduled for March, 2008, have been vacated.

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 Board Members (Ms.Lexin, Mr. 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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. On November 28, 2007, the California Supreme Court granted a Petition for Review of the Court of Appeal's decision.

In the Matter of City of San Diego, California, Securities Act Release No. 8751, November 14, 2006.

In 2004, the SEC commenced 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.

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.

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 *San Diego Police Officers' Association v. Aguirre, et al,* U.S. District Court case number 05CV1581, the now-dismissed federal court action discussed in *Note 6, Legal Action*. The POA served the complaint on SDCERS in December 2007. On January 28, 2008, SDCERS filed a demurrer and motion to strike which are set for hearing on April 11, 2008.

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 "Deferred Retirement Option Plan" (DROP) program; (3) elimination of the right to purchase up to five 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 judgment. On March 17, 2008, the Court sustained SDCERS' demurrer to the complaint, and ordered that City employees hired between July 1, 2005 and February 16, 2007 be joined as parties on the grounds the City's complaint could potentially impair their right to receive certain pension benefits.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court Case Number 37-2007-00081912-CU-WM-CTL

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 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 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 former Board increased the prices of future PSC purchases. Those prices have remained constant since then.

On September 21, 2007, the then 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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

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 UAL 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.

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 UAL; 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 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 the Board, challenging the Board's determination. The petition was served on SDCERS on December 4. 2007. SDCERS answered the petition and filed a demurrer.

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

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

IRS Tax Determination Letter and Voluntary Correction Program Filings

SDCERS is a qualified governmental defined benefit plan under the Internal Revenue Code (IRC). In order to confirm and maintain its qualified status, in July 2005, SDCERS filed with the IRS an application for a Determination Letter. 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; minimum distribution requirements; eligible rollover distribution compliance; minimum required distributions from the DROP program; disability benefit overpayments; conversion of annual leave to purchased service credits; retiree healthcare benefits and health administrative expenses; benefit and compensation limits; 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. The IRS signed the Compliance Statement on January 10, 2008. The Compliance Statement requires that certain corrective actions be taken (including passage of a tax compliance ordinance approved by the IRS) on or before June 9, 2008. 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 affirms 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 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 has already 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.

On January 25, 2008, the IRS issued SDCERS a Favorable Determination Letter, forming SDCERS' tax-qualified status. The Determination Letter is conditioned upon the Board's adoption of certain IRS-approved Board Rules, and the City's adoption of the technical compliance ordinance, on or before April 25, 2008. This is earlier than the deadline for completion of corrections under the Compliance Statement. There is no certainty that the City Council will adopt the necessary ordinance within the required time frame.

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 that 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 and another $500,000 in February, 2008 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Plan Sponsors' Contributions

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. The City contribution reflects a payment of $137.7 million for its ARC, and $27.3 million in additional contributions.

Each plan sponsor paid its contribution at the beginning of the year in order to fully invest its 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 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 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 to pay benefits under any other employer's plan if one or more of the employers becomes insolvent. Assets of each sponsor's plan will be pooled for investment purposes only.

The City, Port and Airport have approved 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. To confirm the separation of the City, Port and Airport plans, SDCERS will file requests with the IRS for separate determination letters for the Port and Airport during 2008. Separate financial statements will be presented in SDCERS' FY2008 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 pooled for investment purposes.

Actuarial Valuations

In January 2008, the Board received Cheiron's actuarial valuation reports as of June 30, 2007 for all three SDCERS plan sponsors. These reports were approved by the SDCERS Board in February, 2008. As of June 30, 2007, the funded ratio and UAL for each plan sponsor were:

	Funded Ratio	UAL
City of San Diego:	78.8%	$1,184.2 million
Unified Port District:	93.5%	$16.0 million
Airport Authority:	109.0%	$4.2 million surplus

The June 30, 2007 actuarial valuations were based on the same actuarial assumptions used in the June 30, 2006 valuation but reflect a number of methodology changes. The changes were adopted by the SDCERS Board in September and October 2006 and incorporated into the June 30, 2006 valuation, with additional changes adopted by the Board in March 2007 and incorporated into the June 30, 2007 valuation, as follows::

- The return to using the most widely-accepted actuarial funding method, Entry Age Normal (EAN), instead of the Projected Unit Credit (PUC) actuarial funding method. The EAN method will determine contribution rates beginning in FY 2009.
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). Last year's June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment.
- To avoid any "negative amortization" of the UAL, the plan sponsors will pay a minimum of the full interest on the UAL plus the Normal Cost.
- The use of the Expected Value of Assets asset smoothing method.
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 had been removed.)

Actuarial Valuations are available on-line at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2007 and June 30, 2006

Undistributed Earnings Reserve

The San Diego Municipal Code defines the computation of Surplus Undistributed Earnings (SUE), as well as how the surplus is distributed by SDCERS. SUE are comprised of investment earnings received during the previous fiscal year less certain expenses and contingent benefits as outlined in the Municipal Code. SUE are credited to the reserves for employer contributions for the purpose of reducing SDCERS' system liability following a review of the calculations by the City's independent auditors as required by the Municipal Code.

In November 2007, SDCERS received a report from Macias Gini & O'Connell, the City's independent auditors, 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 approved by the Board in November 2007, which authorizes the transfer of $186 million of FY 2005 earnings to the reserves for plan sponsors' contributions.

Corbett Settlement Payments and 13th Check Payments

In FY 2008, two contingent benefits payable to eligible retired members qualified for payment per Municipal Code provisions. The two benefits, Corbett and 13th check, are contingent on sufficient annual realized investment earnings received.

These benefits were paid during FY 2008 based upon investment earnings received that were generated in FY 2007. Corbett benefits payments totaled $5,464,719, and 13th check benefit payments totaled $4,671,764.

SDCERS supports the elimination of the use of investment earnings to pay these benefits, and since the FY 2006 actuarial valuation Cheiron has reflected the associated contingent liabilities in the City's valuation liabilities. As a result, beginning in 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 SUE concept and sets forth an alternative means to qualify and pay the benefit, SDCERS must, according to the terms of the plan document, continue to calculate annual realized investment earnings and pay the benefits in accordance with this determination.

Subprime Market Activity

The recent events surrounding subprime residential mortgage-backed securities and the housing real estate market have not to date materially affected SDCERS' investment performance. However, there can be no certainty that future investment returns will not be adversely impacted due to market liquidity issues or a "credit crunch" due to the fall out in the collateralized debt obligation markets. To reduce risk, 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.

City Attorney's Interim Reports

The San Diego City Attorney has issued interim reports concerning SDCERS that are available on-line at www.sandiego.gov/cityattorney/reports/index.shtml.

8. 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, the funded status and funding progress of the City's health benefits program. GASB Statement No. 50, *Pension Disclosures*, which is effective for the fiscal year ending 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 in the required supplementary information section.

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.

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 (1998 - 2007)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAL[7]	Member Payroll	UAL Ratio to Member Payroll
6/30/07[6]	$4,413,411	$5,597,653	78.8%	$1,184,242	$512,440	231.1%
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

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

6 Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).

7 Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which is being amortized over a 20-year period with no negative amortization as of the June 20, 2007 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 (1998 - 2007)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAL[8]	Member Payroll	UAL Ratio to Member Payroll
6/30/07[7]	$230,585	$246,538	93.5%	$15,953	$37,160	42.9%
6/30/06[6]	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[4,5]	123,884	154,300	80.3	30,415	34,164	89.0
12/31/02[3]	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[2]	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[1]	98,007	81,633	120.1	(16,374)	26,672	(61.4)

[1] Reflects revised actuarial assumptions.

[2] Reflects Andrecht Settlement.

[3] Effective January 1, 2003, the State of California established a separate agency, the San Diego County Regional Airport Authority (Airport), separate from but comprised of former 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.

[4] Reflects revised actuarial assumptions and benefit increases effective April 1, 2004.

[5] Reflects benefit increases for Port general employees.

[6] Reflects revised actuarial methodologies.

[7] Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details.)

[8] Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which is being amortized over a closed, 30-year period which began July 1, 1991 (14 years remaining as of the June 30, 2007, 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	UAL[6]	Member Payroll	UAAL Ratio to Member Payroll
6/30/07[5]	$50,812	$46,637	109.0%	($4,176)	$21,957	-19.0%
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 San Diego County Regional Airport Authority (Airport), separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. An interim actuarial valuation, as of December 31, 2002, was performed by SDCERS' actuary to separate the Airport's accrued liabilities and actuarial value of assets from the Port's accrued liabilities and actuarial value of assets. All retirees remained with the Port for valuation purposes.

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

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

[4] Reflects revised actuarial methodologies.

[5] Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).

[6] Actuarial gains and losses reduce or increase the Unfunded Actuarial Liability (UAL) which is being amortized over a closed, 18.5-year period which began January 1, 2003 (14 years remaining as of the June 30, 2007, 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 retirement plan. An annual actuarial valuation for the City, the Port and the Airport was performed as of June 30, 2007.

1. Key Actuarial Assumptions

In the June 30, 2007 valuation, the normal cost and actuarial accrued liability are determined using the Entry Age Normal (EAN) actuarial funding method. In the June 30, 2006 valuation the Projected Unit Credit actuarial funding method was used.

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

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

Active member payroll was assumed to increase annually as follows:

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

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

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

The June 30, 2007 Actuarial Valuations were based on the same actuarial assumptions used in the June 30, 2006 valuation but reflect a number of methodology changes adopted by the SDCERS Board after careful and public consideration in September and October 2006. The methodology changes include the following:

- The return to using the most widely-accepted actuarial funding method, Entry Age Normal (EAN), instead of the PUC actuarial funding method. The EAN method will determine contribution rates beginning in FY 2009.
- A 20-year amortization period for the pay down of the June 30, 2007 UAL (City only). Last year's June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment.
- To avoid any "negative amortization" of the UAL, the plan sponsors will pay a minimum of the full interest on the UAL plus the Normal Cost.
- The use of the Expected Value of Assets asset smoothing method.
- The removal of all liabilities for future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified retirement plan under Internal Revenue Code Section 415. (In the 2006 Valuation, only liabilities for then active members in excess of Section 415 had been removed.)

Actuarial Valuations are available on-line at www.sdcers.org.

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, the Actuarial Value of Assets as of June 30, 2006 was set to market value. Beginning with the June 30, 2007 Valuation, the Actuarial Value of Assets reflects 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 the Actuarial Value of 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 Liability (UAL): The difference between Actuarial Accrued Liabilities and Actuarial Value of Assets. Also called Unfunded Actuarial Accrued Liability (UAAL).

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.

UAL Ratio to Member Payroll: This ratio is calculated by dividing the UAL 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.

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

3. Commentary

City of San Diego

As of June 30, 2007, the City had a funded status of 78.8%, using the new EAN funding method. This is compared to the City's funded status of 79.9% as of the June 30, 2006 actuarial valuation, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the City's funded status would have been 82.6%.

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

As of the June 30, 2007 actuarial valuation, the City's UAL was $1.18 billion, using the new EAN funding method, compared to $1.00 billion at June 30, 2006, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the City's UAL would have been $0.932 billion.

A 20-year amortization period is being used for the pay down of the June 30, 2007 UAL. Last year's June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required to be used in the 2006 Valuation by the Gleason judgment. 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, 2007, the Port had a funded status of 93.5%, using the new EAN funding method. This is compared to the Port's SDCERS' funded status of 92.1% as of the June 30, 2006 actuarial valuation, under the PUC method. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Port's funded status would have been 95.9%.

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

As of the June 30, 2007 actuarial valuation, the Port had a UAL of $16.0 million using the new EAN funding method, compared to $17.4 million, under the PUC method, at June 30, 2006. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Port's UAL would have been $9.9 million. The Port's UAL is being amortized over a closed 30-year period, with 14 years remaining at June 30, 2007.

San Diego County Regional Airport Authority

As of June 30, 2007, the Airport had a funded status of 109.0%, using the new EAN funding method. This is compared to the Airport's funded status of 111.7%, under the PUC method, as of the June 30, 2006 actuarial valuation. If the June 30, 2007 actuarial valuation had been prepared using the PUC method, the Airport's funded status would have been 115.4%.

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 Six Years Ended June 30 (2002 - 2007)
($ in Thousands)

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

	2007	2006	2005	2004	2003	2002
Annual Required Contributions (ARC)	$162,000[1]	$170,071[2]	$181,284[2]	$140,168[2]	$91,947[2]	$68,046[2]
Contributions Made to SDCERS	169,126[10]	271,349[9]	122,089[3,8]	69,002[3,5,7,8]	58,650[3,4,6,8]	40,862[3,6,8]
Difference - Over/(Under) Contributed	7,126	101,278	(59,195)	(71,166)	(33,297)	(27,184)
Percentage of ARC Contributed	104.40%	159.55%	67.35%	49.23%	63.79%	60.05%

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

2 The City's ARC for the five year period from 2002 through 2006 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

3 Adjusted contributions per City, including adjustment to reduce "contributions made" for healthcare benefit expenses paid.

4 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, as calculated by SDCERS' actuary, versus the "Minimum City-Paid Blended Rates" employer contributions paid by the City on behalf of the Proprietary and Fiduciary Funds.

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

6 Contributions made for 2002 and 2003 were at rates per the 1996 Manager's Proposal (MP1).

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

8 Contributions for 2005 were a fixed amount in accordance with the Gleason Settlement. The City's contribution funding method during 2002 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.

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

10 Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount by transferring its Retirement UAAL SDCERS Reserve 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 (2002 - 2007)

	2007	2006	2005	2004	2003	2002
Annual Required Contributions (ARC)	$8,300,000[1]	$8,121,319[2]	$7,613,081[1]	$4,594,580[1]	$2,210,040[1]	$218,618[1]
Contributions Made to SDCERS	9,300,000	8,121,319	7,613,081	4,594,580	2,210,040	218,618
Difference - Over/(Under) Contributed	1,000,000	–	–	–	–	–
Percentage of ARC Contributed	112.05%	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 Five Years Ended June 30 (2003 - 2007)

	2007	2006	2005	2004	2003
Annual Required Contributions (ARC)	$2,600,000[1]	$2,878,928[3]	$2,312,309[1]	$1,435,000[1]	N/A
Contributions Made to SDCERS	2,961,992	3,300,000	7,625,052	$1,435,000[2]	$248,796[2]
Difference - Over/(Under) Contributed	361,992	421,072	5,312,743	–	–
Percentage of ARC Contributed	113.92%	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 benefits (current and future liabilities). 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. The actuary must make assumptions 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, this 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. This information 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 the above schedules of plan sponsor contributions, 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 compared to the actual contributions made by the City.

Contributions made for FY 2002 and FY 2003 were at rates acccording to 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. MP1 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 FY 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, MP2 was nullified by the Gleason settlement in FY 2005 and, as such, FY 2004 was the only year in which City contributions were determined by MP2.

Contributions for FY 2005 were a fixed amount in accordance with the Gleason settlement. This contribution method, as well as the contribution methods for FYs 2002 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 these years in the City of San Diego's Comprehensive Annual Financial Report.

Contributions for FY 2006 and FY 2007 were made at a full actuarially-determined rate using the PUC method. In 2006 the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its dedicated UAL Reserve Fund year-end balance for both FY 2006 and FY 2007. The higher City contributions in FYs 2006 and 2007 have contributed to the increase in the City's current SDCERS funded status to 78.8%. Effective in FY 2006 through FY 2008, the City has 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*.

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

Unified Port of San Diego

The Schedule contains six years of historical information comparing the Port's ARC to its contributions. Over the past six years, the Port has contributed 100% or more of the amount recommended by SDCERS' actuary. The Port's current funded status is 93.5%.

San Diego County Regional Airport Authority

The Schedule contains 4.5 years of historical information comparing the Airport's ARC to its contributions. Since its inception, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 109.0%.

The Airport was formed effective 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. 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 deducted from plan assets. Fees for investment management, actuarial services, custodial bank services and other 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 Years ended June 30, 2007 and June 30, 2006

	FY 2007				FY 2006			
	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	$4,410,146	$4,410,146	$3,749,068	$661,078	$3,881,891	$3,881,891	$3,528,895	$352,996
Fringe Benefits	2,018,312	2,018,312	2,364,347	191,518	1,598,967	1,598,967	1,660,212	(61,245)
Total Personnel	6,428,458	6,428,458	6,113,415	852,596	5,480,858	5,480,858	5,189,107	291,751
Supplies and Professional Services	31,694,985	31,843,338	32,225,586	(382,248)	26,699,741	35,597,498	34,407,127	1,190,371
Information Technology	1,262,860	1,204,507	1,970,102	(765,595)	954,334	904,141	1,572,295	(668,154)
Energy/Utilities	73,116	73,116	29,684	43,432	70,602	70,602	31,792	38,810
Equipment Outlay	11,17	11,174	418,740	(407,566)	11,174	11,174	53,266	(42,092)
Depreciation Expense	–	–	27,860	(27,860)	–	–	36,137	(36,137)
Total Non-Personnel	33,042,135	33,132,135	34,671,972	(1,539,837)	27,735,851	36,583,415	36,100,617	482,798
Totals	$39,470,593	$39,560,593	$40,785,387	($687,241)	$33,216,709	$42,064,273	$41,289,724	$774,549

	FY 2007	FY 2006
Basis Points as a Percentage of Plan Net Assets[1]	86.27	102.89
Reconciliation:		
Administrative Expenses	$19,103,395	$18,438,356
Fees Paid to Investment Professionals	21,681,992	18,315,686
Litigation Settlement Expense	0	4,535,682
Totals	$40,785,387	$41,289,724
Payments to Consultants (component part of Total Administrative Expenses)	$11,356,357	$12,129,983

[1] One basis point = 1/100th 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, 2007 and June 30, 2006

	2007	2006
Personnel Services		
Salaries	$3,749,068	$3,528,895
Fringe Benefits	633,464	572,615
SDCERS Retirement Defined Benefit Contributions	1,505,260	874,045
Supplemental Pension Savings Plan (SPSP) Contributions	225,623	213,552
Total Personnel Services	6,113,415	5,189,107
Professional Services		
Actuary Services	778,595	106,035
Audit Services	128,470	2,787
Contracted Services	2,867,241	5,148,774
Member Benefits System Development Services	796,156	312,926
Legal Fees	4,815,793	4,640,471
Data Processing/Computer Services	1,970,102	1,572,295
Accounting Department Charges	–	346,695
Total Professional Services	11,356,357	12,129,983
Communication		
Postage	83,355	101,929
Telephone	29,684	31,792
Travel	93,624	54,311
Total Communication	206,663	188,032
Rentals		
Office Space	702,393	585,527
Equipment	418,740	53,266
Total Rentals	1,121,133	638,793
Office Operations		
Office Supplies & Administration	176,802	159,493
Training, Memberships & Tuition Reimbursement	57,293	66,095
Miscellaneous Fees & Charges	43,872	30,716
Depreciation Expense	27,860	36,137
Total Office Operations	305,827	292,441
Total Administrative Expenses	$19,103,395	$18,438,356

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

Schedule of Payments to Consultants
For the Years Ended June 30, 2007 and June 30, 2006

Individual or Firm	2007	2006	Nature of Service
Doctors & Disability Services (see next page for full listing)	$157,843	$139,040	Medical Consulting
Cheiron, Inc.	732,695	103,035	Actuary
Legal Firms & Professional Legal Services (see next page for full listing)	4,815,793	4,640,471	Legal, Arbitration, Mediation, Court Reporting
Levi, Ray & Shoup	796,156	312,926	Member Benefit Systems Development
Linea Solutions	1,953,761	1,319,113	Electronic Data Management System (EDMS) Consulting Project
Navigant Consulting, Inc.	25,926	2,672,077	Reports/Investigation
Marathon Communications, Inc.	103,602	276,355	Strategic Communications
San Diego Data Processing Corporation	1,970,102	1,572,295	Computer/Applications Support
Various Providers	800,479	1,094,671	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	$11,356,357	$12,129,983	
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, 2007

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
- Hans Anderson, M.D.
- Michael Kimball, M.D.
- A. Lyle Rosenfield, M.D.

Other Doctors
- Dominick Addario, M.D.
- William P. Curran, Jr., M.D.
- Robert M. Epsten, M.D.
- Richard Greenfield, M.D.
- Pierre Hendricks, M.D.
- L. Mercer McKinley, M.D.
- Robert E. Neveln, M.D.
- Walter W. Strauser, M.D.
- Thomas J. Wegman, Ph.D.

SDCERS paid the following Professional Legal Services Firms:

Baker & McKenzie, LLP
Gerald Blank, Esq.
Bradford & Barthel, LLP
Branton & Wilson
Brown Law Group, ALC
Byrne & Nixon, LLP
Corbin & Fitzgerald, LLP
Cox, Castle & Nicholson, LLP
Dixon, Truman & Fisher
Gibbs & Fuerst
Hay Group, Inc.
Ice Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbitration Services)
Knut S. Johnson, Esq.
Richard H. Koppes
Thomas E. Lambert, CPA, APC
Lightfoot, Valdevelde, Et Al.
John A. Mitchell
Robert H. Mnookin
Michael Pancer
Peterson & Associates
Pillsbury Winthrop, LLP
Quinn Emanuel Urquhart, LLP
Reedsmith, LLP
Seltzer Caplan McMahon Vitek, APC
Steefel, Levitt & Weiss
Warren, McVeigh & Griffin, Inc.
Howard B. Wiener

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, 2007 and June 30, 2006

	2007			2006		
	Market Value of Assets Under Management[1]	Total Fees Paid	Basis Points	Market Value of Assets Under Management[1]	Total Fees Paid	Basis Points
Investment Manager Fees						
Domestic Equity Managers	$1,944,554,673	$8,093,989	41.62	$1,617,702,573	$7,188,360	44.44
International Equity Managers	927,196,864	3,910,300	42.17	722,444,955	3,114,252	43.11
Domestic Fixed Income Managers	1,438,409,071	5,049,948	35.11	1,413,809,724	4,544,196	32.14
International Fixed Income Managers	177,576,094	442,115	24.90	172,807,035	427,562	24.74
Real Estate Managers	442,822,597	3,366,841	76.03	388,633,169	2,230,574	57.40
Cash	669,021	N/A	N/A	4,010,239	N/A	N/A
Total Investment Manager Fees	$4,931,228,321	$20,863,192	42.31	$4,319,407,695	$17,504,944	40.54
Other Investment Service Fees						
Custodian Services	N/A	$246,045	0.54[2]	N/A	$243,408	0.62[3]
Investment Consultants	N/A	531,874	1.17[2]	N/A	527,131	1.35[3]
Investment Accounting Applications	N/A	40,881	0.09[2]	N/A	40,203	0.10[3]
Total Other Investment Service Fees	N/A	$818,800	1.79[2]	N/A	$810,742	2.07[3]
Total Fees Paid to Investment Professionals	N/A	$21,681,992	47.53[2]	N/A	$18,315,686	46.74[3]

1 Market Values of Assets Under Management, as of June 30, 2007, and June 30, 2006, 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 nets receivables and payables of cash for pending transactions (settlement date based) in each strategy.

2 June 30, 2007 - Basis Points calculation based upon $4,562,026,018 which is the average of FY 2007 Total Net Investments plus Cash and Cash Equivalents equaling $4,922,400,438 and FY 2006 Total Net Investments plus Cash and Cash Equivalents equaling $4,201,651,598.

3 June 30, 2006 - Basis Points calculation based upon $3,919,186,815 which is the average of FY 2006 Total Net Investments plus Cash and Cash Equivalents equaling $4,201.651,598 and FY 2005 Total Net Investments plus Cash and Cash Equivalents equaling $3,636,722,032.

3. Investments

Investment Consultant's Statement

CALLAN ASSOCIATES INC

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

November 19, 2007

JAMES A. CALLAHAN, CFA

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

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, 2007 (FY 2007) as compared to June 30, 2006 (FY 2006).

During fiscal year 2007 and fiscal year 2006, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the information underlying the performance data. The performance calculations were made in compliance with CFA Institute (formerly AIMR) Performance Presentation Standards. Callan Associates Inc. serves as SDCERS' independent investment consultant and evaluates SDCERS' performance in relation to market indices, appropriate manager peer groups, and other public pension plans.

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

Highlights of Fiscal Year 2007

Fiscal year 2007 saw continued vigor in the economy with strong corporate profits. However, near the end of the period, weakness in the housing market, sharply rising mortgage defaults and high energy price increases led to increased volatility. In the third quarter of 2006, the slowdown in the housing market picked up steam and defaults on sub-prime mortgages rose. Investor concern over slower economic growth from reduced consumer spending and the weakening housing market led to a drop of more than 5% in the S&P 500 in the first quarter of 2007. After a relatively weak first quarter (+0.7%), GDP grew 3.4% in the second quarter fueled by non-residential construction, investment spending and exports. During the second quarter, the S&P 500 Index eclipsed the historical peak it set in March 2000. However, investor concerns

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over rising interest rates, a slowing housing market, the run-up of crude oil and the continuing sub-prime implosion resulted in a late-quarter slide that pushed the index down from its record high. As a counter-punch to the gloom of declining market sentiment, job growth was strong during the quarter and average hourly earnings were up from a year ago. Fixed income had a tumultuous quarter marked by re-emerging interest rate volatility, a surge in economic optimism and inflation concerns.

Overall, the capital markets produced strong returns across all asset classes for fiscal year 2007. Strong economic growth in the U.S. and abroad led to excellent equity returns with the S&P 500 and MSCI EAFE index up 20.6% and 27.0% respectively. Large capitalization stocks beat small capitalization stocks and growth stocks showed renewed leadership over the fiscal year. Interest rates ended the year lower across the curve and the yield curve returned to a more normal upward slope. The Lehman Aggregate returned 6.1% for fiscal year 2007 after posting a negative return in the quarter ended June 30, 2007. Private real estate had another good year, returning 17.2% in fiscal year 2007. Public real estate securities, after being up 21.4% through the three quarters ended March 31, 2007, sold off in the quarter ended June 30, 2007 (down 8.8%). The NAREIT Index returned 10.7% for fiscal year 2007

Highlights of Fiscal Year 2006

Slowing GDP growth in the quarter ended December 31, 2005 gave way to a big jump in the quarter ended March 31, 2006, (+5.6%) just to decline to a more moderate gain of 2.5% in the quarter ended June 30, 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 2006 at -0.8%. Global inflation fears combined with rising interest rates resulted in international fixed income posting a flat return for fiscal year 2006 in spite of a falling U.S. dollar.

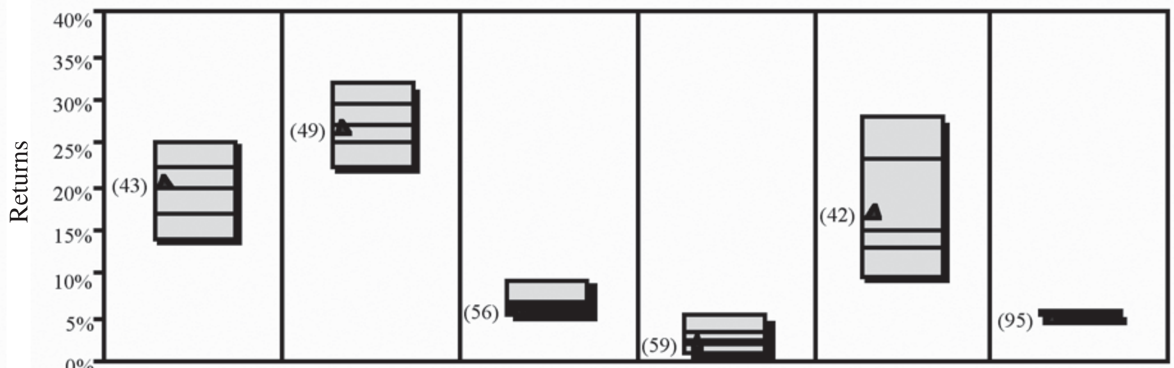
Uncertainty over inflation and Fed rate policy affected the domestic equity markets as well. Nearly all major U.S. equity indices fell in the last quarter of fiscal year 2006. For the entire fiscal year, value outperformed growth in both large capitalization stocks and small capitalization stocks. Small capitalization stocks outperformed large capitalization stocks with the Russell 2000 and S&P 500 Indices up 14.6% and 8.6%, respectively for fiscal year 2006.

International equity markets had a terrific fiscal year 2006 getting off to a good start with the EAFE Index up 10.4% in the quarter ended September 30, 2005. With the exception of the quarter ended June 30, 2005, international equity returns were up over 9% per quarter. The EAFE Index ended the year up 26.6%. International Small capitalization stocks 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 NAREIT Index returned 19.1%. Increasing occupancy rates and supply constrained regions supported the real estate markets throughout the year. Strong cash flows from investors also supported property markets during the year.

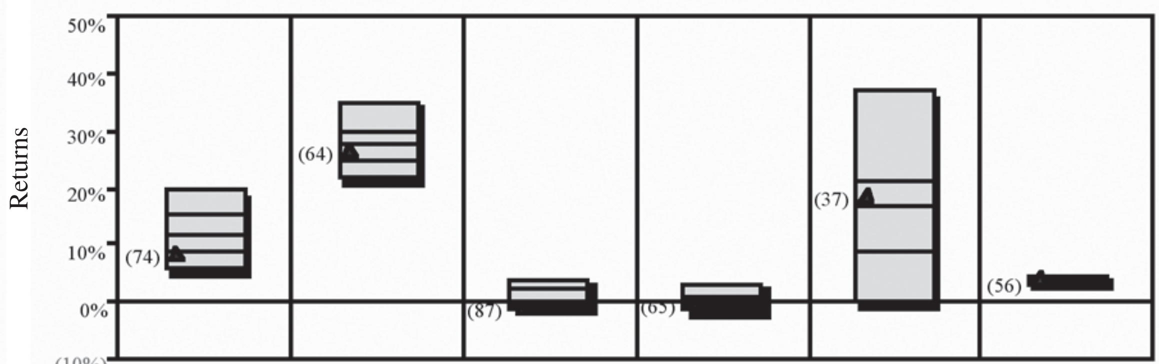
The chart below depicts the performance of Callan's investment manager database by asset category for the fiscal years ended June 30, 2007, and June 30, 2006. The performance of the major market indices is also plotted. Active fixed income managers, both domestic and international, were successful in beating their benchmarks while equity managers struggled a bit in fiscal year 2007 compared to fiscal year 2006.

Range of Separate Account Manager Returns by Asset Class
One Year Ended June 30, 2007



	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	25.37	31.81	9.30	5.11	27.85	5.67
25th Percentile	22.42	29.37	6.88	3.42	23.16	5.58
Median	20.10	26.88	6.21	2.37	15.24	5.49
75th Percentile	16.95	25.09	5.74	1.87	13.27	5.41
90th Percentile	14.04	22.37	5.37	0.82	9.82	5.26
Index ▲	20.59	27.00	6.12	2.20	17.24	5.21

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	19.52	35.14	3.99	3.12	37.07	4.65
25th Percentile	15.10	29.93	2.02	0.67	21.44	4.34
Median	11.63	27.94	0.31	0.27	16.69	4.15
75th Percentile	8.54	25.13	(0.41)	(0.67)	8.79	3.53
90th Percentile	5.85	21.84	(1.08)	(1.49)	0.07	3.31
Index ▲	8.63	26.56	(0.81)	(0.01)	18.67	3.98

SDCERS' Fiscal Year 2007 Investment Performance as Compared to Fiscal Year 2006

For the one-year period ended June 30, 2007, SDCERS' total fund, time-weighted return of +16.5% ahead of SDCERS' custom policy performance benchmark return of +16.3% and well ahead of SDCERS' actuarial annual rate of return assumption of +8.0%. SDCERS' fiscal year 2007 total fund return exceeded fiscal year 2006 total fund return of +12.7%, which exceeded SDCERS' custom policy performance benchmark return of +10.3% 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, 2007:

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

International Equities
13.6% MSCI All Country World ex. U.S. Free, 3.4% EMI World Ex-U.S

Domestic Fixed Income
18.0% Lehman Brothers Aggregate, 9.0% Merrill Lynch 1-5 Year Govt/Corp, and 3.0% Merrill Lynch All Convertible

International Fixed Income
4.0% Citigroup Non-U.S. World Government Bond

Domestic Real Estate
8.3% NCREIF, and 2.8% Dow Jones Wilshire REIT

SDCERS' total fund return performed below the median public pension plan in the Callan peer universe database for fiscal year 2007. 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 +13.0% ranks in the 13th percentile of the Callan public pension plan peer universe and is over 150 basis points ahead of SDCERS' custom policy performance benchmark on an annualized basis.

SDCERS' Domestic Equity Performance

After posting a fiscal year 2006 return of +11.7%, SDCERS' domestic equity composite returned a strong +18.9% during the four quarters ended June 30, 2007. This performance lagged SDCERS' blended domestic equity performance benchmark return of +19.4% by 50 basis points and ranked 64th percentile. During fiscal year 2006, SDCERS' domestic equity composite return ranked in the 17th percentile in the Callan peer universe. SDCERS' domestic equity composite returns exceeded SDCERS' blended domestic equity performance benchmark returns for the trailing three-year and five-year periods by healthy margins and ranked in the 21st and 4th percentiles respectively among public pension plans in the Callan peer universe for both periods.

SDCERS' International Equity Performance

SDCERS' international equity composite returned an outstanding +32.3% for the year ended June 30, 2007, ahead of fiscal year 2006's strong return of +29.5%. The fiscal year 2007 return exceeded SDCERS' blended international equity performance benchmark return of +30.5% by 180 basis points. SDCERS' international equity composite return for fiscal year 2007 ranks in the 5th percentile versus other public pension plans in the Callan peer universe. Exposure to international small capitalization stocks, combined with excellent performance from SDCERS' small cap managers, provided the absolute and relative performance. During fiscal year 2006, SDCERS' international equity composite return ranked in the 13th percentile of the Callan peer universe. Longer-term performance for SDCERS' international equity composite is also impressive when measured against SDCERS' blended international equity performance benchmark and the Callan public pension plan peer universe median return. Over a ten year period, international equity returns for the System have compounded at 13.0% per annum ranking in the top decile.

SDCERS' Domestic Fixed Income Performance

SDCERS' domestic fixed income composite posted strong results in absolute and relative terms for the fiscal year ended June 30, 2007. A return of +7.3% for the trailing year ranked SDCERS' performance in the 17th percentile of public pension plans in the Callan peer universe, outpacing SDCERS' blended domestic fixed income performance benchmark return of 6.9%. SDCERS' fiscal year 2006 domestic fixed income return of +4.0% outpaced SDCERS' blended domestic fixed income performance benchmark return of +0.4% and ranked in the 3rd percentile of the Callan peer universe. SDCERS' domestic fixed income composite long-term annualized return exceeds the fixed income benchmark and the Lehman Aggregate and ranks in the 6th and 27th percentile for the three and five-year periods respectively.

SDCERS' International Fixed Income Performance

For the twelve months ended June 30, 2007, SDCERS' international fixed income portfolio returned 2.7% exceeding the SDCERS' international fixed income performance benchmark return of 2.2% by 50 basis points and ranked in the 35th percentile in Callan's peer universe. International fixed income returns were bolstered by the continued decline in the U.S. dollar versus the yen, euro and sterling. 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, 2007, SDCERS international fixed income portfolio produced a return of 7.8%, a premium of 340 basis points per annum over the Lehman Aggregate.

SDCERS' Real Estate Performance

Fueled by the exceptional performance of the both the public and private markets during the past year, SDCERS' real estate composite produced a solid +14.6% return for the one-year period ending June 30, 2007; this ranked SDCERS' real estate performance around median in the Callan peer universe. Over this same time period, SDCERS' blended real estate performance benchmark returned +16.1%. Longer-term results for the real estate portfolio are impressive. For the trailing three and five-year periods ended June 30, 2007, SDCERS' real estate composite return totaled +21.9% and +19.2% annualized respectively, well in excess of SDCERS' blended real estate performance benchmark. The five-year performance ranks SDCERS' returns in the top quartile in the Callan peer universe.

In summary, the fiscal year ended June 30, 2007, proved to be strong for equity and fixed income relative to history. Fiscal year 2007 posted stronger U.S. equity and fixed income returns than fiscal year 2006. Real estate was an outstanding performer in both fiscal years. SDCERS' disciplined and diversified investment approach over these two years has led to good absolute and relative performance. In fiscal year 2007, SDCERS was able to exceed the overall performance benchmark. On an absolute basis, the fund participated significantly in the fiscal year 2007 equity rally while maintaining a prudent exposure to more stable return asset classes such as fixed income and real estate. In combination, SDCERS' total investment portfolio produced a fiscal year 2007 return of +16.5%. SDCERS' impressive results achieved during this recent period were driven by the superior absolute performance in domestic equities, and real estate, and superior absolute and relative performance in international equities and domestic fixed income.

Sincerely,

James A. Callahan, CFA
Executive Vice President

Janet Becker-Wold, CFA
Senior Vice President

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

Performance Comparison

For the One-Year Periods Ended June 30, 2007 and 2006

	2007	2006
SDCERS' Domestic Equity Performance	**18.93%**	**11.67%**
Domestic Equity Benchmark comprised of:	19.41%	10.74%
Standard & Poor's 500 (60% weight)	20.59%	8.63%
Standard & Poor's MidCap 400 (20% weight)	18.51%	12.97%
Russell 2000 (20% weight)	16.43%	14.58%
SDCERS' International Equity Performance	**32.29%**	**29.48%**
International Equity Benchmark comprised of:	30.47%	29.02%
MSCI AC World Free Ex-US Index (80% weight)	30.15%	28.40%
EMI World Ex-US Index (20% weight)	31.69%	31.45%
SDCERS' Domestic Fixed Income Performance	**7.30%**	**3.95%**
Domestic Fixed Income Benchmark comprised of:	6.90%	0.37%
Lehman Aggregate Bond Index (60% weight)	6.12%	-0.81%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	5.55%	1.12%
ML Convertible Index, All Qualities (10% weight)	15.38%	9.37%
SDCERS' International Fixed Income Performance	**2.72%**	**-0.12%**
International Fixed Income Benchmark comprised of:	2.20%	-0.01%
Citigroup Non-U.S. Gov't Bond (100% weight)		
SDCERS' Real Estate Performance	**14.59%**	**27.57%**
Real Estate Benchmark comprised of:	16.09%	19.67%
NCREIF Index (75% weight)	17.24%	18.67%
Dow Jones Wilshire REIT Index (25% weight)	11.68%	22.00%
SDCERS' Total Fund Performance	**16.50%**	**12.73%**
Total Fund Performance Benchmark comprised of: S&P 500 (22.8%); L/B Aggr (18%); MSCI AC World ex-US Free (13.6%); ML 1-5 Gov't Corp (9.0%); Russell 2000 (7.6%); S&P MidCap 400 (7.6%); NCREIF (8.3%); Citigroup Non-U.S. Gov't Bond (4.0%); EMI World ex-US (3.4%); Wilshire REIT (2.7%); and ML All Convertible (3.0%).	16.25%	10.28%

[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, 2007

	Annualized Performance		
	3-Year	**5-Year**	**10-Year**
SDCERS' Domestic Equity Performance	**13.26%**	**13.99%**	**9.86%**
Domestic Equity Benchmark comprised of:	12.78%	12.09%	8.88%
Standard & Poor's 500 (60% weight)	11.68%	10.71%	7.13%
Standard & Poor's MidCap 400 (20% weight)	15.15%	14.17%	13.37%
Russell 2000 (20% weight)	13.45%	13.88%	9.06%
SDCERS' International Equity Performance	**25.68%**	**21.52%**	**13.01%**
International Equity Benchmark comprised of:	25.57%	20.92%	9.02%
MSCI AC World Free Ex-US Index (80% weight)	25.03%	19.93%	8.58%
EMI World Ex-US Index (20% weight)	27.70%	24.82%	11.44%
SDCERS' Domestic Fixed Income Performance	**5.95%**	**5.52%**	**6.54%**
Domestic Fixed Income Benchmark comprised of:	4.14%	4.66%	6.04%
Lehman Aggregate Bond Index (60% weight)	3.98%	4.48%	6.02%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	3.17%	3.51%	5.22%
ML Convertible Index, All Qualities (10% weight)	8.09%	9.22%	8.33%
SDCERS' International Fixed Income Performance	**3.99%**	**7.82%**	**5.59%**
International Fixed Income Benchmark comprised of:	3.26%	6.91%	4.95%
Citigroup Non-U.S. Gov't Bond (100% weight)	3.26%	6.91%	4.95%
SDCERS' Real Estate Performance	**21.86%**	**19.16%**	**14.39%**
Real Estate Benchmark comprised of:	19.05%	15.28%	12.26%
NCREIF Index (75% weight)	17.98%	14.39%	13.05%
Wilshire REIT Index (25% weight)	22.26%	19.24%	13.91%
SDCERS' Total Fund Performance	**13.32%**	**13.02%**	**9.96%**
Total Fund Performance Benchmark comprised of: S&P 500 (22.8%); L/B Aggr (18%); MSCI AC World Free ex-US (13.6%); ML 1-5 Gov't Corp (9.0%); Russell 2000 (7.6%); Citigroup Non-U.S. Gov't Bond (4.0%); S&P MidCap 400 (7.6%); NCREIF (8.3%); Citigroup Non-US EMI World ex-US (3.4%); Wilshire REIT (2.7%); and ML Convertible Index, All Qualities (3.0%)	12.19%	11.44%	8.72%

[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, 2007

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

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 Investment Managers

Brandes Investment Partners
San Diego, CA

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

McKinley Capital Management Inc.
Anchorage, AK

Nicholas Applegate Capital Management
San Diego, CA

San Diego City Employees' Retirement System
Investment Managers (continued)
As of June 30, 2007

International Fixed Income Investment Managers

Rogge Global Partners
London, England

Real Estate Investment Managers

Capmark Investments
Horsham, PAA

Cornerstone Real Estate Advisers
Glastonbury, CT

Invesco Real Estate
Dallas, TX

Pacific Coast Capital Partners
El Segundo, CA
Pyramis (Fidelity) Real Estate

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, 2007

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.

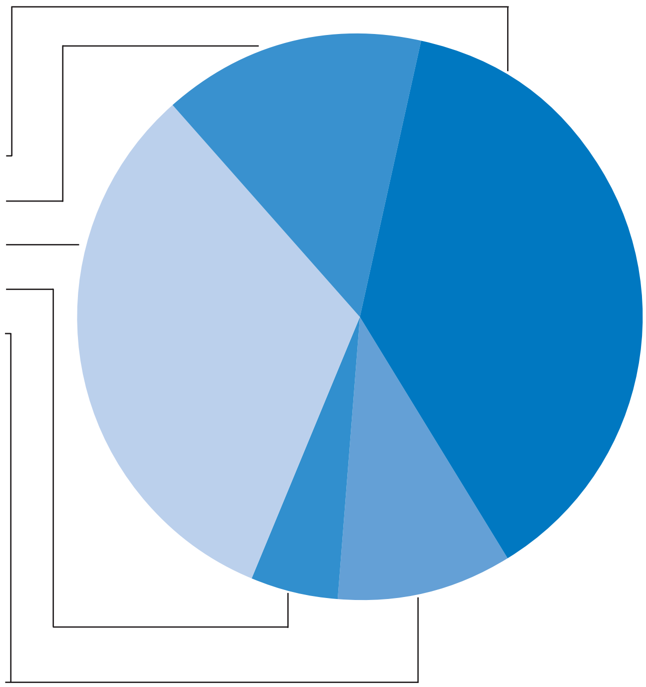
Diversification

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.

This summary of SDCERS' Investment Policy Statement is as of May 18, 2007. SDCERS' investment policy is available upon request.

San Diego City Employees' Retirement System
Target Asset Allocation
As of June 30, 2007 and 2006

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%

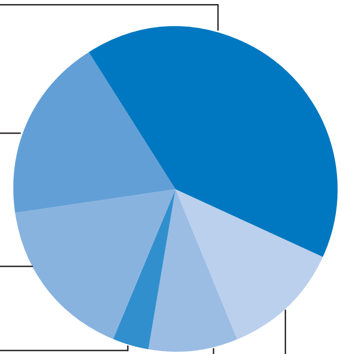


San Diego City Employees' Retirement System
Actual Asset Diversification – Investments At Fair Value

As of the Years Ended June 30, 2007 and 2006

2007

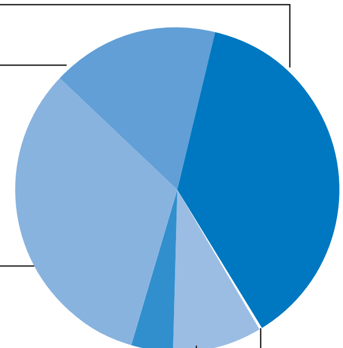
Domestic Equity Strategies	41.0%
International Equity Strategies	18.3%
Domestic Fixed Income Strategies	16.4%
International Fixed Income Strategies	3.6%
Real Estate Strategies	8.9%
Cash	11.8%
TOTAL	100.0%



Domestic Equity Strategies	$2,021,799,800
International Equity Strategies	900,229,222
Domestic Fixed Income Strategies	810,554,203
International Fixed Income Strategies	176,388,316
Real Estate Strategies	440,974,924
Cash	581,283,959
Total Investments, At Fair Value	4,931,230,424
Less Pending Transactions	(8,868,081)
Total Net Investments	$ 4,922,362,343

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%



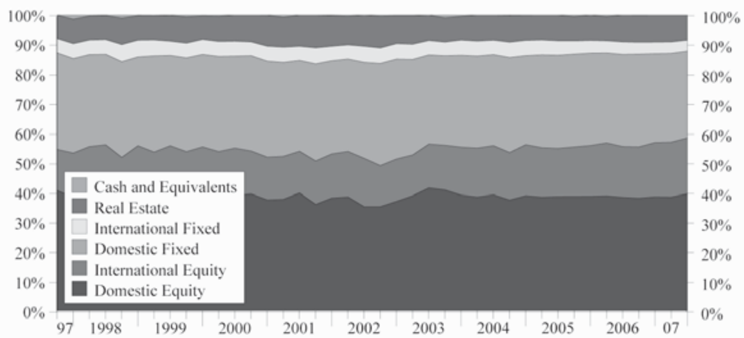
Domestic Equity Strategies	$1,618,353,734
International Equity Strategies	703,112,207
Domestic Fixed Income Strategies	774,124,852
International Fixed Income Strategies	166,742,930
Real Estate Strategies	385,206,278
Cash	685,364,341
Total Investments, At Fair Value	4,320,058,856
Less Pending Transactions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

San Diego City Employees' Retirement System
Historical Asset Allocation (Actual)
Ten Year History for Fiscal Years 1998 - 2007 (July 1, 1997 - June 30, 2007)

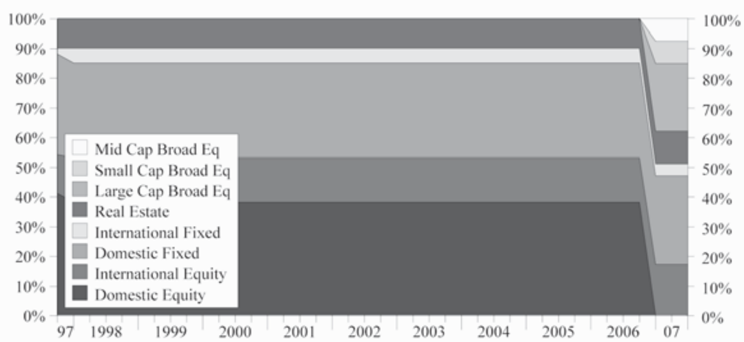
Actual vs Target Historical Asset Allocation

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.

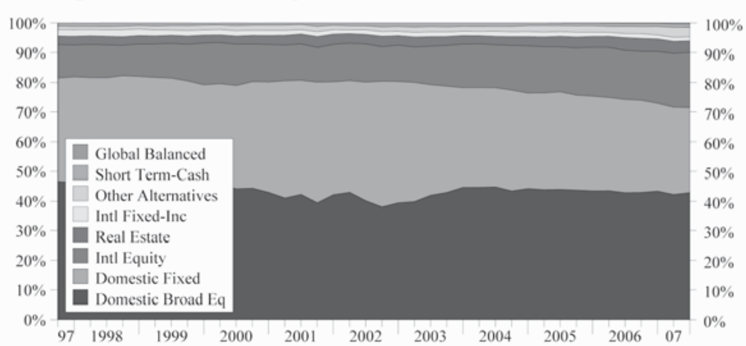
Actual Historical Asset Allocation



Target Historical Asset Allocation



Average CAI Public Fund Sponsor Database Historical Asset Allocation

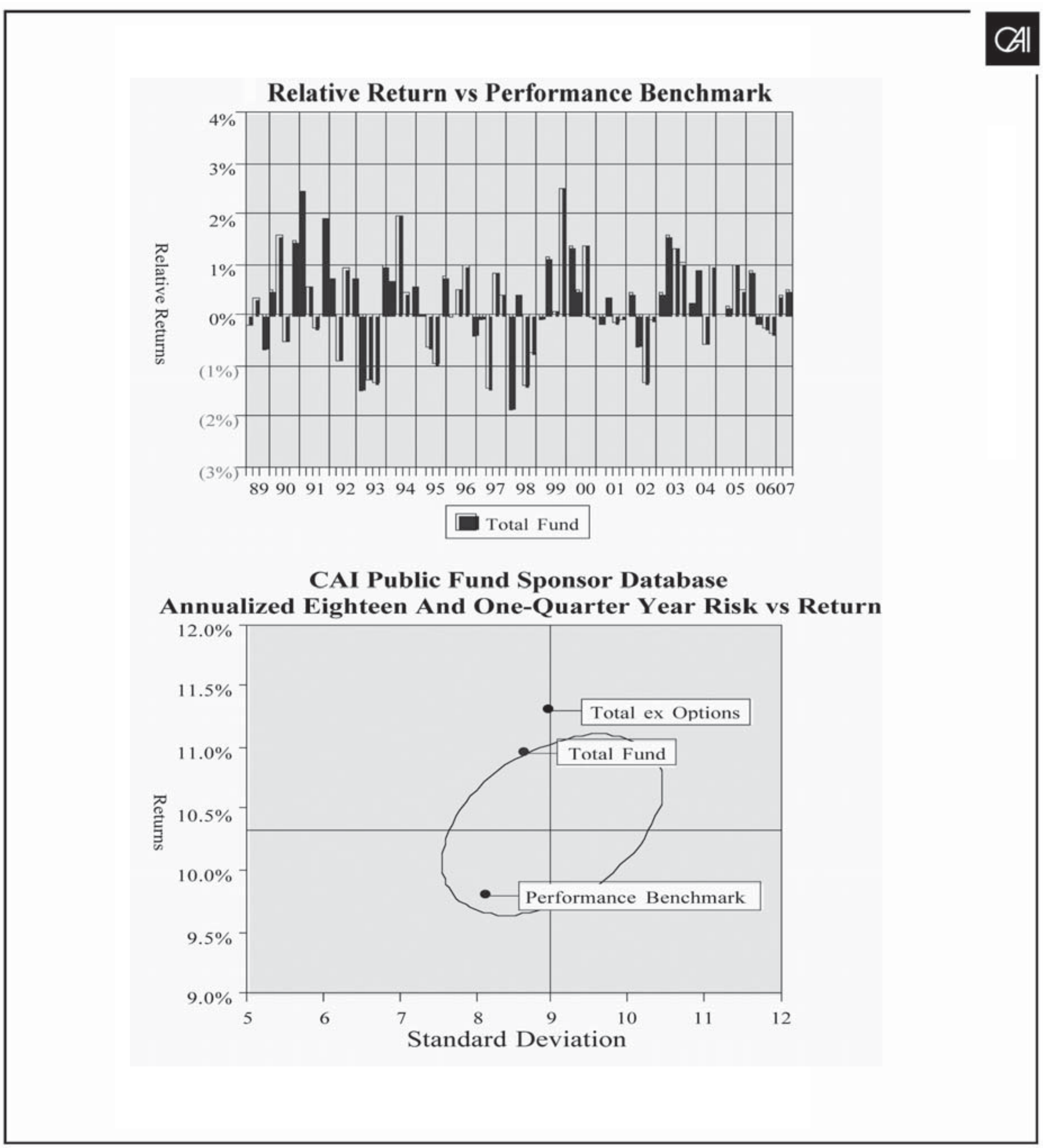


* Current Quarter Target = 22.8% S&P 500, 18.0% L/B Agg, 13.6% MSCI ACWI ex-US, 9.0% ML 1-5 Govt/Corp, 8.3% NCREIF Total Index, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 4.0% Citi Non-US Gvt Bd Idx, 3.4% EMI World ex US Index, 3.0% ML All Conv and 2.8% Dow Jones Wilshire REIT.

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, 2007 (18.25 years)



San Diego City Employees' Retirement System
Schedule of Largest Equity Holdings
At Years Ended June 30, 2007 and 2006

2007

Rank	Shares	Equity Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
1	508,745	Schlumberger Ltd	806857108	$43,212,800	0.88%
2	787,692	Qualcomm Inc.	747525103	34,177,956	0.69
3	455,955	Amazon.com Inc.	023135106	31,191,882	0.63
4	59,165	Google Inc.	38259P508	30,965,778	0.63
5	682,666	General Electric Co.	369604103	26,132,454	0.53
6	872,548	Progressive Corp. Ohio	743315103	20,880,074	0.42
7	476,200	Salesforce.com Inc.	79466L302	20,409,932	0.41
8	719,900	Comcast Corp.	20030N101	20,243,588	0.41
9	448,921	Hewlett Packard Co.	428236103	20,030,855	0.41
10	609,384	eBay Inc.	278642103	19,609,977	0.40
			Totals	$266,855,296	5.41%

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%

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, 2007 and 2006

2007

Rank	Par	Fixed Income Securities	CUSIP	Fair Market Value	Percentage of Total Net Investments
1	35,741,000	United States Treasury Notes 4.5% 31 Mar 2012	912828GM6	$35,084,817	0.71%
2	20,150,000	United States Treaury Notes 4.875% 15 Feb 2012	9128277L0	20,126,386	0.41
3	17,345,000	United States Treasury Bonds 6.125% 15 Nov 2027	912810FB9	19,339,675	0.39
4	18,750,913	FNMA Pool 745336 5% 1 Mar 2036	31403DBD0	17,608,277	0.36
5	12,057,000	Netherlands 5% 15 Jul 2012	730959II6	16,591,343	0.34
6	15,519,359	FNMA Pool 901668 6% 1 Oct 2036	31410YW59	15,359,317	0.31
7	15,177,000	United States Treasury Notes 4.875% 30 Apr 2011	912828FD7	15,153,286	0.31
8	14,000,000	FNMA TBA Jul 30 Single Family 5% 1 Dec 2099	01F050676	13,109,687	0.27
9	9,700,000	Netherlands 3% 15 Jan 2010	B03CQVII5	12,631,344	0.26
10	12,140,000	United States Treasury Notes 4.75% 31 Jan 2012	912828GF1	12,049,898	0.24
			Totals	$177,054,030	3.60%

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	$265,371,713	6.32%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedules of Commissions

For the Years Ended June 30

2007

Rank	Number Brokerage Firm	Total of Shares	Commission Commissions	Per Share
1	UBS AG	47,322,947	$578,964	$0.012
2	Citigroup Global Markets, Inc.	22,810,962	539,254	0.024
3	Investment Technology Group, Inc.	29,650,532	490,422	0.017
4	Merrill Lynch & Co., Inc.	24,471,311	466,875	0.019
5	Goldman Sachs & Co.	18,766,776	376,358	0.020
6	State Street Brokerage Services	51,620,072	350,608	0.007
7	Credit Suisse First Boston Corp.	26,700,655	285,204	0.011
8	Cantor Fitzgerald & Co.	8,132,231	262,674	0.032
9	Morgan Stanley & Co.	9,787,556	202,259	0.021
10	Bear Stearns & Co., Inc.	9,424,567	200,464	0.021
11	Pershing LLC	5,800,097	187,247	0.032
12	Lehman Brothers, Inc.	6,930,920	186,946	0.027
13	Deutsche Bank Securities, Inc.	10,151,571	169,264	0.017
14	BNY Clearing Services, LLC	5,424,032	100,268	0.018
15	Instinet	9,853,851	87,824	0.009
16	JP Morgan Securities, Inc.	5,252,614	79,818	0.015
17	Nomura Securities International, Inc.	5,230,087	74,767	0.014
18	Jefferies & Company, Inc.	3,517,677	72,771	0.021
19	National Financial Services Corp.	2,555,334	70,559	0.028
20	Bank of America Securities LLC	2,427,884	65,905	0.027
21	Calyon	5,340,617	60,084	0.011
22	RBC Capital Markets	1,538,810	56,070	0.036
23	LiquidNet, Inc.	1,797,903	58,564	0.033
24	ABN AMRO Bank NV	5,661,722	53,384	0.009
25	LiquidNet, Inc.	1,850,401	52,446	0.028
	All Other Brokers	54,729,290	1,367,797	0.025
Totals		376,830,844	$6,495,947	$0.017

Year-Over-Year Changes: 12.45% decrease in total shares traded; 3.70% decrease in total commissions paid; 6.25% increase in commissions per share paid.

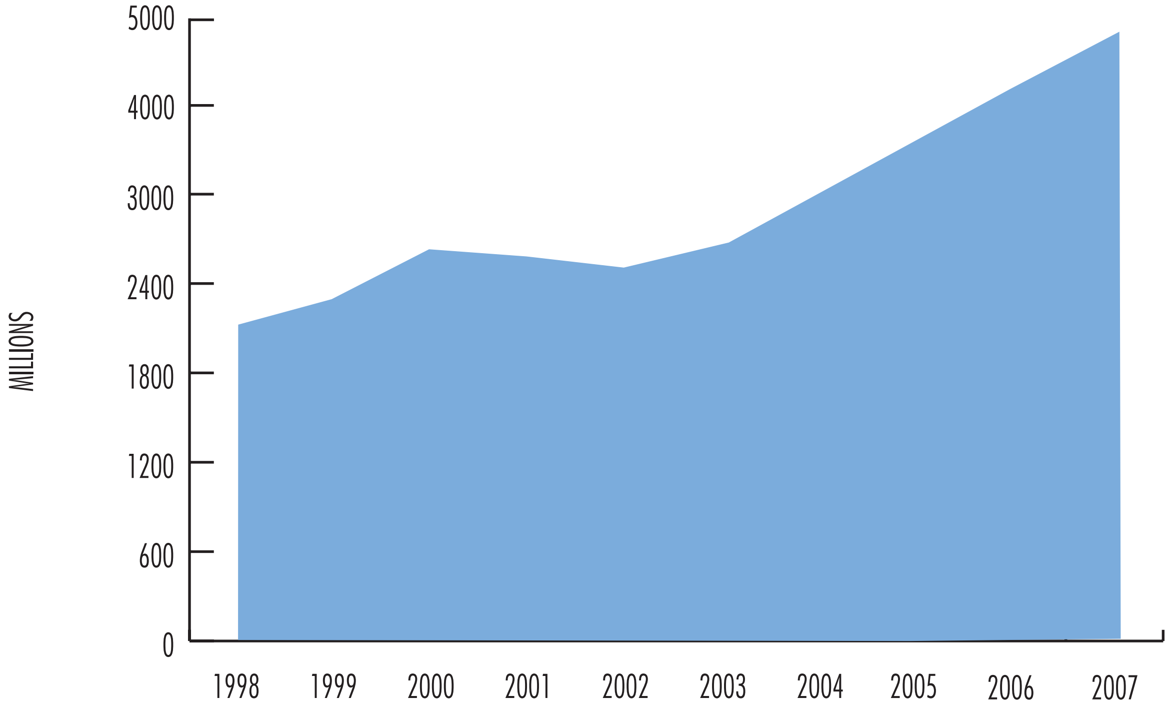
San Diego City Employees' Retirement System
Schedule of Commissions (continued)
For the Years Ended June 30

2006

Rank	Number Brokerage Firm	Total of Shares	Commission Commissions	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.	5,533,902	121,182	0.022
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	$6,745,850	$0.016

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

For Ten Years Ended June 30, 2007

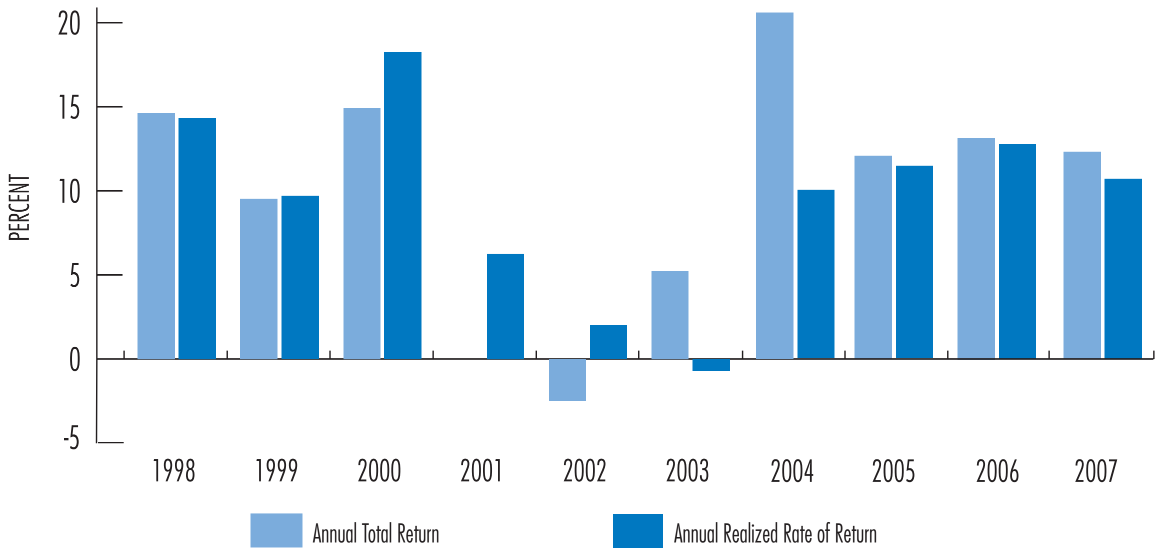


Fiscal Year	Fair Value[1]
1998	$2,116,909,236
1999	2,295,022,045
2000	2,629,874,234
2001	2,582,009,762
2002	2,507,014,627
2003	2,656,058,457
2004	3,240,852,574
2005	3,636,722,032
2006	4,202,302,759
2007	4,922,362,343

[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, 2007

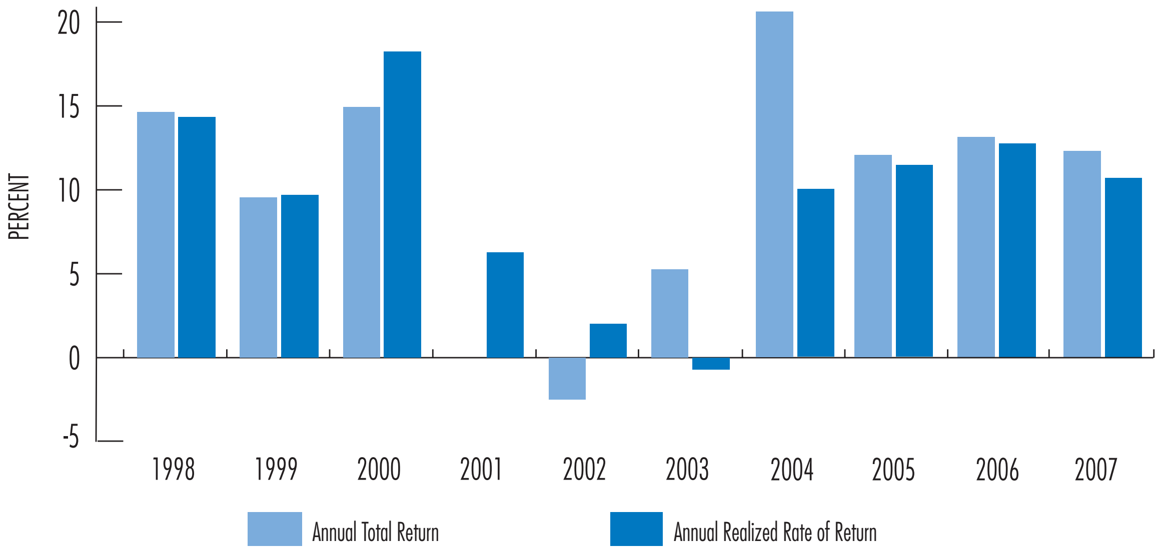


Fiscal Year	Annual Total Return	Annual Realized Rate of Return
1998	14.64%	14.33%
1999	9.59	9.70
2000	15.18	18.24
2001	(0.75)	6.26
2002	(2.40)	2.02
2003	5.44	(0.96)
2004	20.21	9.76
2005	10.80	10.02
2006	12.73	12.04
2007	16.50	11.94

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, 2007



Net Investment Income
Income earned as of June 30 each year

Fiscal Year	Total Net Investment Income	Realized Earnings[1]
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
2007	668,128,952	464,180,996

[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.

4. Actuarial

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

February 29, 2008
Members of the Retirement Board
San Diego City Employees' Retirement Systems
401 West "A" 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, 2007 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 20 year amortization of any Unfunded Actuarial Liability (UAL) for the City, and 14 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, 2007 valuation were the same as those used in the June 30, 2006 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 Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans.

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

Supporting Schedules
Using historically provided information from the prior actuary along with 2007 results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial 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

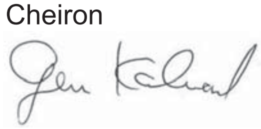
We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the Unified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

Certification

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

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

Sincerely,
Cheiron



Gene Kalwarski, FSA
Consulting Actuary

San Diego City Employees' Retirement System
Summary of June 30, 2007 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, 2007 Valuation Results (continued)

1. General Comments

This valuation represents Cheiron's third valuation performed for SDCERS. These results are based on the same actuarial assumptions used in the June 30, 2006 valuation, but reflect a number of methodology changes that were approved by the SDCERS Board. These changes include:

- The move from Projected Unit Credit (PUC) to Entry Age Normal (EAN) actuarial funding method.
- The amortization of the June 30, 2007 UAL for the City of San Diego will be over twenty years. The June 30, 2006 UAL for the City of San Diego was amortized over 27 years. The amortization of the June 30, 2007 UAL for the Unified Port District and Airport Authority will be over 14 years. The June 30, 2006 UAL for the Unified Port District and Airport Authority was over 15 years.
- To avoid "negative amortization," the minimum contribution will be Normal Cost plus full interest on the UAL.
- The change to a new actuarial value of asset smoothing method. For June 30, 2007 and going forward, the actuarial value of assets will be based on the Expected Value of Assets method.
- Liabilities have been removed for all future payments that are projected to be in excess of the maximum benefit level payable from a tax qualified defined benefit plan under Internal Revenue Service Code (IRC) Section 415. In the June 30, 2006 valuation, only liabilities for the then active members in excess of Section 415 limits had been removed.
- Eligibility for the 13th check for active members applies to members hired before February 16, 2007. It was formerly applicable to members hired before July 1, 2005.

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

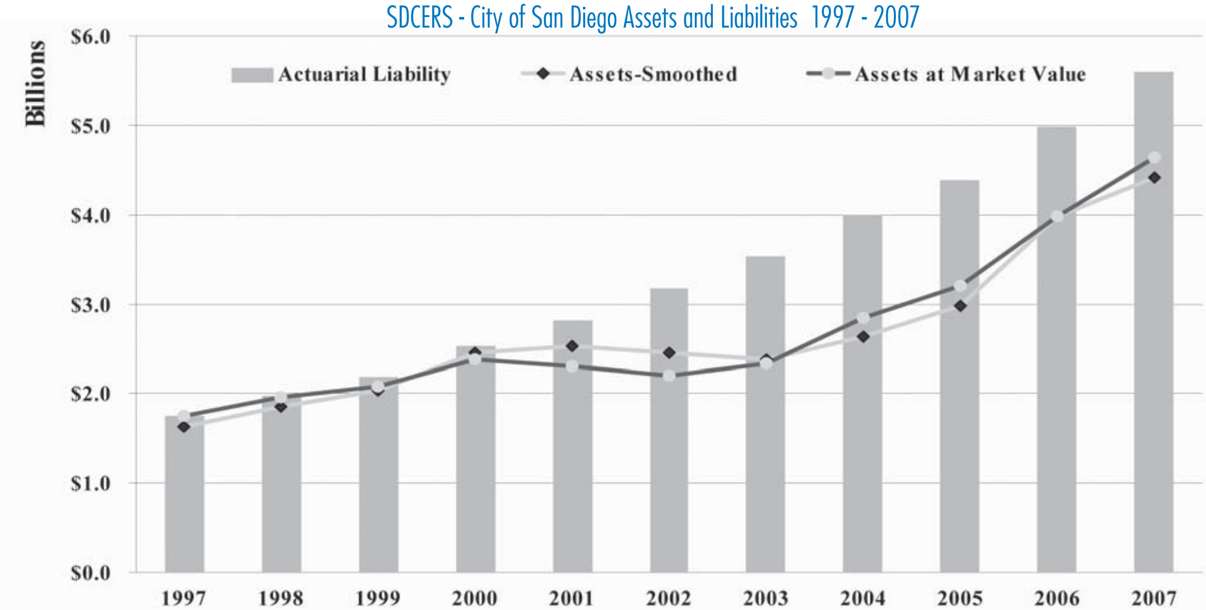
The actuarial funding methodology for the June 30, 2007 actuarial valuation and going forward is the **Entry Age Normal** (EAN) actuarial funding method. Under this method, there are two components to the total contribution: the **normal cost**, and the **unfunded actuarial liability contribution**. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. Per the Board's decision in May 2007, the City of San Diego UAL for FY 2009 is to be amortized over 20 years, with no negative amortization. The Unified Port District and the Airport Authority's June 30, 2007 UAL is amortized over 14 years.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

2. Historical Trends

Assets and Liabilities

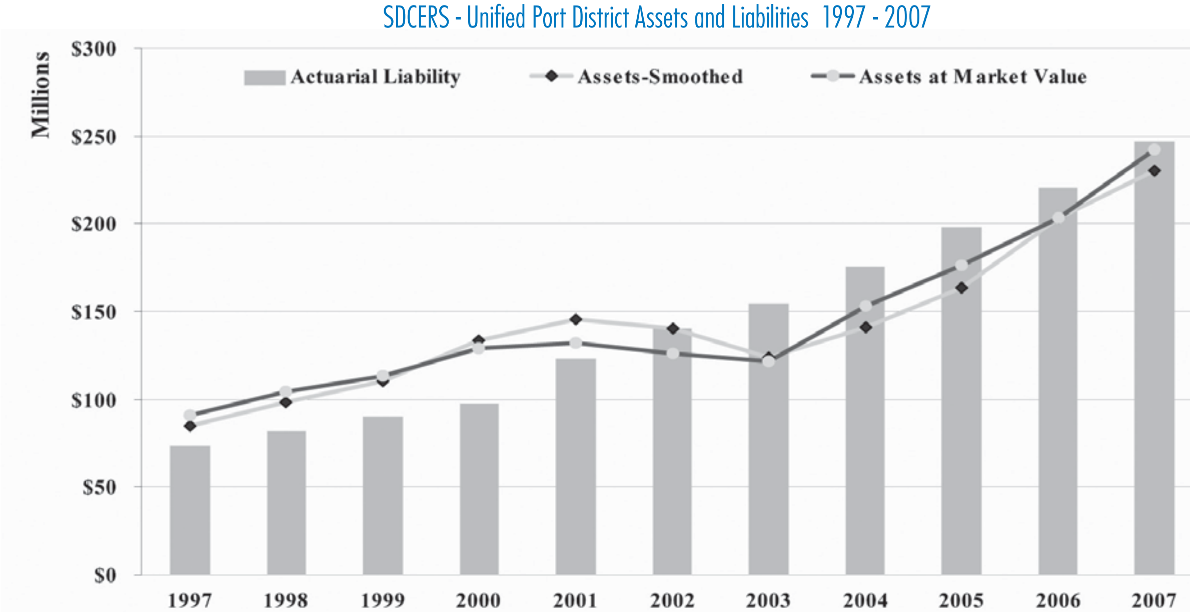
SDCERS - City of San Diego Assets and Liabilities 1997 - 2007



Funded Ratio	93.3%	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%
UAL	$ 0.12	$ 0.13	$ 0.15	$ 0.07	$ 0.28	$ 0.72	$ 1.16	$ 1.37	$ 1.39	$ 1.00	$ 1.18 *

* Liability Method for 2007 has changed from PUC to EAN.

SDCERS - Unified Port District Assets and Liabilities 1997 - 2007



Funded Ratio	114.9%	120.1%	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%
UAL (millions)	$ (10.9)	$ (16.4)	$ (20.5)	$ (36.0)	$ (22.2)	$ (0.4)	$ 30.4	$ 34.0	$ 34.4	$ 17.4	$ 16.0 *

* Liability Method for 2007 has changed from PUC to EAN.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - Airport Authority Assets and Liabilities 2003 - 2007

* Liability Method for 2007 has changed from PUC to EAN.

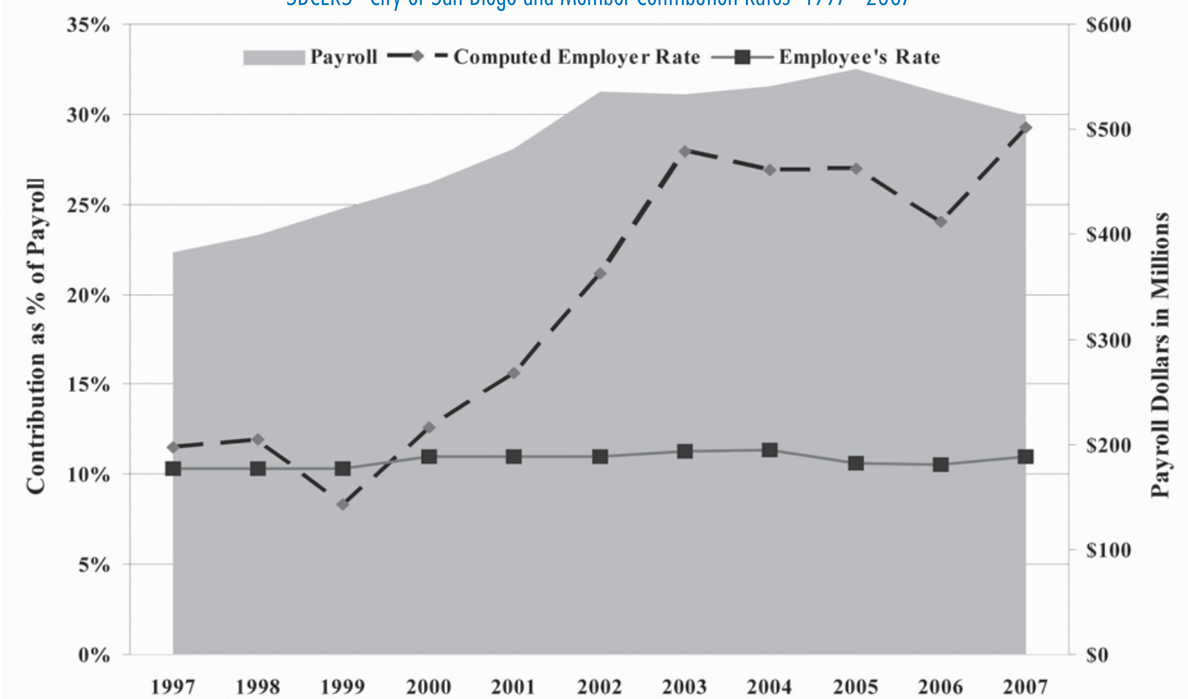
For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

As demonstrated above, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. The past three years have shown substantial improvements due to the increase in investment returns among other factors. In 2007, the investment returns were offset by the change in funding methods from PUC to EAN.

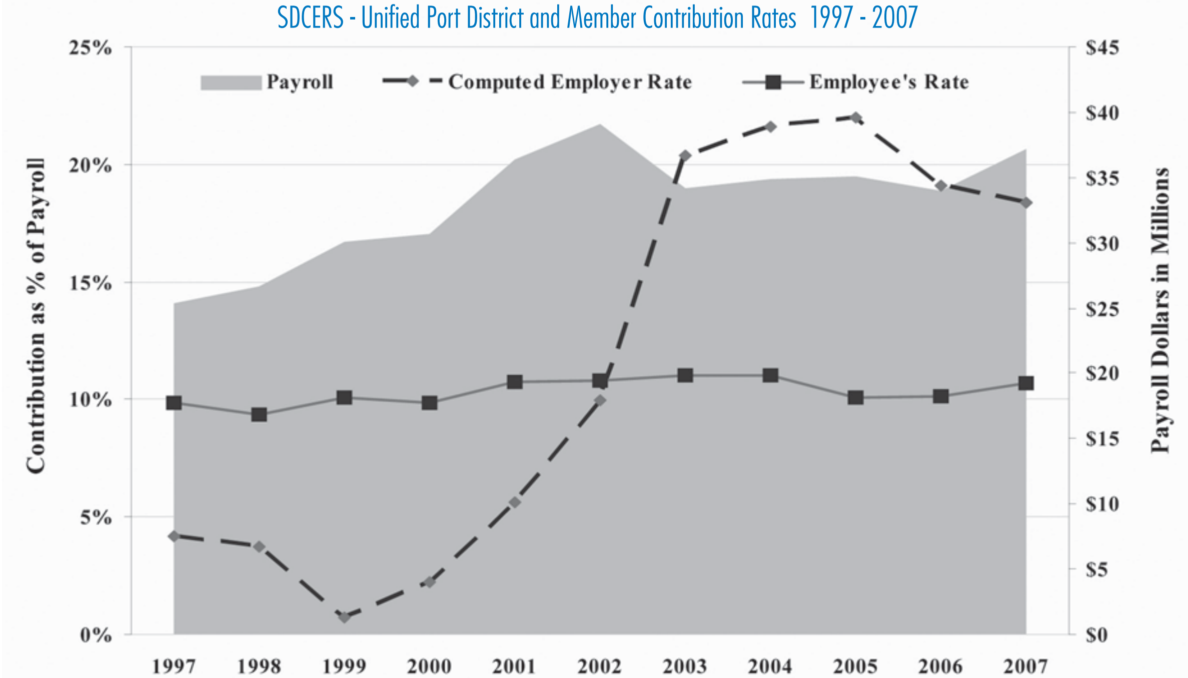
San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates 1997 - 2007

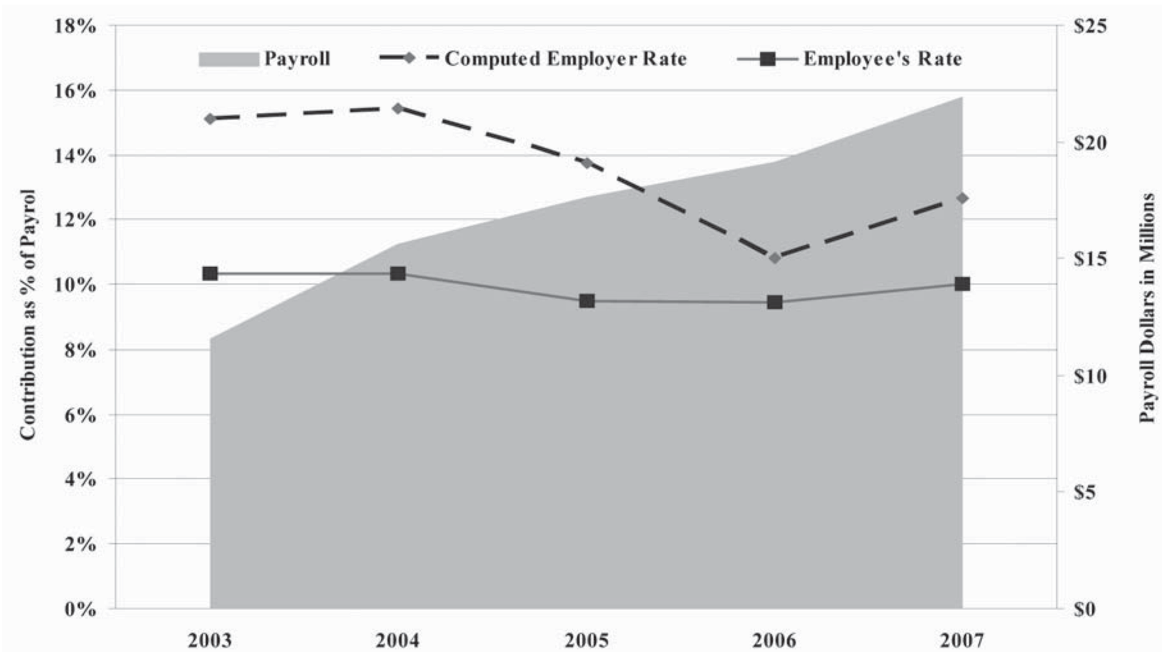


SDCERS - Unified Port District and Member Contribution Rates 1997 - 2007



San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)
Contributions

SDCERS - Airport Authority and Member Contribution Rates 1997 - 2007



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, 2007 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Valuation Date	June 30, 2007	June 30, 2006
New funding method:		
Entry Age Normal UAL (millions)	$1,184.2	$1,210.0
Entry Age Normal Funding Ratio	78.8%	76.7%
Prior funding method:		
Projected Unit Credit UAL (millions)	$932.1	$1,000.8
Projected Unit Credit Funding Ratio	82.6%	79.9%
Fiscal Year*	**2009**	**2008**
City Contribution Rate during year	30.45%	24.95%
City Contribution Rate start of year	29.30%	24.01%
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	$161.7 million	$137.7 million
• if paid throughout the year	$168.1 million	$143.1 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2007	June 30, 2006	% Change
Actives	8,494	8,887	-4.4%
Terminated Vested	2,606	2,359	10.5%
Disabled	1,245	1,237	0.6%
Retirees	4,354	4,118	5.7%
Beneficiaries	1,080	1,046	3.3%
Total City Members	17,779	17,647	0.7%
Active Member Payroll	$512,440,197	$534,102,800	-4.1%
Average Pay per Active Member	60,330	60,099	0.4%

SDCERS - City of San Diego - Assets & Liabilities

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Actives	$2,256,487,761	$2,179,917,661	3.5%
Terminated Vested	239,571,040	189,840,833	26.2%
Disabled	383,228,325	371,327,233	3.2%
Retirees	2,589,431,710	2,335,419,143	10.9%
Beneficiaries	128,934,025	115,456,455	11.7%
Total Actuarial Liability	$5,597,652,861	$5,191,961,325	7.8%
Market Value Assets	$4,641,340,923	$3,981,931,694	16.6%
Actuarial Value Assets	4,413,410,812	3,981,931,694	10.8%
Unfunded Actuarial Liability	1,184,242,049	1,210,029,631	-2.1%
Funding Ratio-Actuarial Value	78.8%	76.7%	2.1%
PUC-Prior funding method	**June 30, 2007**	**June 30, 2006**	**% Change**
Actives	$2,004,330,450	$1,970,655,791	1.7%
Terminated Vested	239,571,040	189,840,833	26.2%
Disabled	383,228,325	371,327,233	3.2%
Retirees	2,589,431,710	2,335,419,143	10.9%
Beneficiaries	128,934,025	115,456,455	11.7%
Total Actuarial Liability	$5,345,495,550	$4,982,699,455	7.3%
Market Value Assets	$4,641,340,923	$3,981,931,694	16.6%
Actuarial Value Assets	4,413,410,812	3,981,931,694	10.8%
Unfunded Actuarial Liability	932,084,738	1,000,767,761	-6.9%
Funding Ratio-Actuarial Value	82.6%	79.9%	2.7%

* FY 2009 reflects Entry Age Normal Funding, 20-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 27-year amortization, and allows for negative amortization.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - City of San Diego - Contributions

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	23.89%	23.39%	2.2%
Member Cost %	10.97%	10.54%	4.0%
Employer Normal Cost %	12.92%	12.85%	0.6%
Employer Unfunded Liability Cost %	15.78%	12.75%	23.8%
Negative Amortization Adjustment Cost %	1.75%	N/A	N/A
Total Employer Cost %	30.45%	25.60%	18.9%
Employer Cost % Beginning of Year	29.30%	24.63%	18.9%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$161.7 million	$141.5 million	14.3%
• if paid throughout the year	$168.1 million	$147.0 million	14.3%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	25.56%	24.94%	2.5%
Member Cost %	10.97%	10.54%	4.0%
Employer Normal Cost %	14.59%	14.40%	1.3%
Employer Unfunded Liability Cost %	12.42%	10.55%	17.7%
Total Employer Cost %	27.01%	24.95%	8.3%
Employer Cost % Beginning of Year	25.99%	24.01%	8.3%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$143.1 million	$137.7 million	3.9%
• if paid throughout the year	$148.8 million	$143.1 million	3.9%

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - Unified Port District

Valuation Date	June 30, 2007	June 30, 2006
New funding method:		
Entry Age Normal UAL (millions)	$16.0	$22.9
Entry Age Normal Funding Ratio	93.5%	89.9%
Prior funding method:		
Projected Unit Credit UAL (millions)	$9.9	$17.4
Projected Unit Credit Funding Ratio	95.9%	92.1%
Fiscal Year*	2009	2008
City Contribution Rate during year	19.09%	19.83%
City Contribution Rate start of year	18.37%	24.01%
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	$7.3 million	$6.9 million
• if paid throughout the year	$7.6 million	$7.2 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2007	June 30, 2006	% Change
Actives	559	532	5.1%
Terminated Vested	254	261	-2.7%
Disabled	61	62	-1.6%
Retirees	233	211	10.4%
Beneficiaries	55	52	5.8%
Total City Members	1,162	1,118	3.9%
Active Member Payroll	$37,159,870	$33,927,372	9.5%
Average Pay per Active Member	66,476	63,773	4.2%

SDCERS - Unified Port District - Assets & Liabilities

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Actives	$121,588,551	$110,949,011	3.5%
Terminated Vested	9,928,803	13,662,803	26.2%
Disabled	13,772,668	13,848,390	3.2%
Retirees	94,376,832	81,768,654	10.9%
Beneficiaries	6,871,472	5,924,995	11.7%
Total Actuarial Liability	$246,538,326	$226,153,853	7.8%
Market Value Assets	$242,403,219	$203,285,828	16.6%
Actuarial Value Assets	230,584,904	203,285,828	10.8%
Unfunded Actuarial Liability	15,953,422	22,868,025	-2.1%
Funding Ratio-Actuarial Value	93.5%	89.9%	2.1%

PUC-Prior funding method	June 30, 2007	June 30, 2006	% Change
Actives	$115,550,611	$105,432,437	9.6%
Terminated Vested	9,928,803	13,662,803	-27.3%
Disabled	13,772,668	13,848,390	-0.5%
Retirees	94,376,832	81,768,654	15.4%
Beneficiaries	6,871,472	5,924,995	16.0%
Total Actuarial Liability	$240,500,386	$220,637,279	9.0%
Market Value Assets	$242,403,219	$203,285,828	19.2%
Actuarial Value Assets	230,584,904	203,285,828	13.4%
Unfunded Actuarial Liability	99,915,482	17,351,451	-42.9%
Funding Ratio-Actuarial Value	95.9%	92.1%	3.8%

* FY 2009 reflects Entry Age Normal Funding, 14-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 15-year amortization, and allows for negative amortization.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - Unified Port District - Contributions

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	25.99%	25.86%	0.5%
Member Cost %	10.71%	10.12%	5.8%
Employer Normal Cost %	15.28%	15.74%	-2.9%
Employer Unfunded Liability Cost %	3.81%	5.67%	-32.8%
Negative Amortization Adjustment Cost %	0.00%	N/A	N/A
Total Employer Cost %	19.09%	21.41%	-10.8%
Employer Cost % Beginning of Year	18.37%	20.60%	-10.8%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$7.3 million	$7.5 million	-2.5%
• if paid throughout the year	$7.6 million	$7.8 million	-2.5%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	25.44%	25.65%	-0.8%
Member Cost %	10.71%	10.12%	5.8%
Employer Normal Cost %	14.73%	15.53%	-5.2%
Employer Unfunded Liability Cost %	2.37%	4.3%	-44.9%
Total Employer Cost %	17.10%	19.83%	-13.8%
Employer Cost % Beginning of Year	16.45%	19.08%	-13.8%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$6.5 million	$6.9 million	-5.7%
• if paid throughout the year	$6.8 million	$7.2 million	-5.7%

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - Airport Authority

Valuation Date	June 30, 2007	June 30, 2006
New funding method:		
Entry Age Normal UAL (millions)	$-4.2	$-2.0
Entry Age Normal Funding Ratio	109.0%	105.1%
Prior funding method:		
Projected Unit Credit UAL (millions)	$-6.8	$-4.3
Projected Unit Credit Funding Ratio	115.4%	111.7%
Fiscal Year*	2009	2008
City Contribution Rate during year	13.15%	11.21%
City Contribution Rate start of year	12.66%	10.79%
Annual Required Contribution (GASB):		
• if paid at the beginning of the year	$3.0 million	$2.2 million
• if paid throughout the year	$3.1 million	$2.3 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2007	June 30, 2006	% Change
Actives	324	295	9.8%
Terminated Vested	52	45	15.6%
Disabled	-	-	-
Retirees	11	6	83.3%
Beneficiaries	1	1	0.0%
Total City Members	388	347	11.8%
Active Member Payroll	$21,956,656	$19,115,804	14.9%
Average Pay per Active Member	67,767	64,799	4.6%

SDCERS - Airport Authority - Assets & Liabilities

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Actives	$40,418,489	$34,399,808	17.5%
Terminated Vested	1,930,181	2,032,231	-5.0%
Disabled	-	-	-
Retirees	3,981,919	2,479,827	60.6%
Beneficiaries	305,966	303,635	0.8%
Total Actuarial Liability	$46,636,555	$39,215,501	18.9%
Market Value Assets	$53,305,476	$41,222,279	29.3%
Actuarial Value Assets	50,812,142	41,222,279	23.3%
Unfunded Actuarial Liability	(4,175,587)	(2,006,778)	108.1%
Funding Ratio-Actuarial Value	109.0%	105.1%	3.9%

PUC-Prior funding method	June 30, 2007	June 30, 2006	% Change
Actives	$37,810,326	$32,089,522	17.8%
Terminated Vested	1,930,181	2,032,231	-5.0%
Disabled	-	-	-
Retirees	3,981,919	2,479,827	72.9%
Beneficiaries	305,966	303,635	0.0%
Total Actuarial Liability	$44,028,392	$36,905,216	19.3%
Market Value Assets	$53,305,476	$41,222,279	29.3%
Actuarial Value Assets	50,812,142	41,222,279	23.3%
Unfunded Actuarial Liability	(6,783,750)	(4,317,063)	57.1%
Funding Ratio-Actuarial Value	115.4%	111.7%	3.7%

* FY 2009 reflects Entry Age Normal Funding, 14-year amortization, and no negative amortization. FY 2008 reflects Projected Unit Credit Funding, 15-year amortization, and allows for negative amortization.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

SDCERS - Airport Authority - Contributions

EAN – New funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	24.86%	24.45%	1.7%
Member Cost %	10.02%	9.44%	6.1%
Employer Normal Cost %	14.84%	15.01%	-1.1%
Employer Unfunded Liability Cost %	-1.69%	-0.88%	92.0%
Negative Amortization Adjustment Cost %	0.00%	N/A	N/A
Total Employer Cost %	13.15%	14.13%	-6.9%
Employer Cost % Beginning of Year	12.66%	13.60%	-6.9%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$3.0 million	$2.8 million	6.8%
• if paid throughout the year	$3.1 million	$2.9 million	6.8%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	23.17%	22.55%	2.7%
Member Cost %	10.02%	9.44%	6.1%
Employer Normal Cost %	13.15%	13.11%	0.2%
Employer Unfunded Liability Cost %	-2.74%	-1.90%	44.2%
Total Employer Cost %	10.41%	11.21%	-7.2%
Employer Cost % Beginning of Year	10.01%	10.79%	-7.2%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$2.3 million	$2.2 million	6.4%
• if paid throughout the year	$2.4 million	$2.3 million	6.4%

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial liability is amortized by annual payments as follows:

City of San Diego
The current Unfunded Actuarial Liability is amortized over 20 years as of the 6/30/2007 valuation. In addition to the 20 year amortization, the UAL payment shall not produce negative amortization on the UAL. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

Unified Port of San Diego and San Diego County Regional Airport Authority
The current Unfunded Actuarial Liability is amortized over 14 years as of the 6/30/2007 valuation. In addition to the 14 year amortization, the UAL payment shall not produce negative amortization on the UAL. The payments are a level percentage of pay, assuming a payroll increase of 4.25%.

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

B. Actuarial Value of Assets

For the purposes of determining the City of San Diego's contribution to SDCERS, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

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 was initiated 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, 2007 Valuation Results (continued)

C. Changes Since Last Valuation

- Funding for the plan is based on the Entry Age Normal actuarial funding method rather than the Projected Unit Credit actuarial funding method.
- The June 30, 2007 UAL will be amortized over 20 years for the City of San Diego and 14 years for the Unified Port District and Airport Authority and:
  - Future Gains/(Losses) amortized over 15 years.
  - Future Benefit Changes for the City of San Diego are amortized over 5 years. Future Benefit Changes for the Unified Port District and Airport Authority are amortized over shorter of 20 years or period over which benefit changes are paid
  - Future Changes in methods or assumptions amortized over 30 years.
- There is no negative amortization on the unfunded liability payments.
- The change to a new actuarial value of asset smoothing method. For June 30, 2007 and going forward, the actuarial value of assets will be based on the Expected Value of Assets method.
- All future benefits payable for inactives from the SDCERS Trust Fund are capped at the maximum benefit level allowable under Internal Revenue Service Code (IRC) Section 415. (Active participants benefits were capped under Section 415 as of the June 30, 2006 valuation.)
- Eligibility for the 13th check for active members applies to members hired before February 16, 2007. It was formerly members hired before July 1, 2005.

San Diego City Employees' Retirement System
Summary of June 30, 2007 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, 2007 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, 2007 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, 2007 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+ years of service

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

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

For vested deferred members in the Unified Port District and the Airport Authority, we assume that retirement will occur provided they have at least 5 years of service (excluding the 5 year permissible purchased service) on the later of attained age or:

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

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

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

San Diego City Employees' Retirement System
Summary of June 30, 2007 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
Summary of June 30, 2007 Valuation Results (continued)

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
6/30/2007	8,494	$512,440,197	$60,330	0.38%
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

SDCERS - Unified Port District

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2007	559	$37,159,870	$66,476	4.24%
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

SDCERS - Airport Authority

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2007	324	$21,956,656	$67,767	4.58%
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
Summary of June 30, 2007 Valuation Results (continued)

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

SDCERS - City of San Diego

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/07	486	$19,465,413	59.2	208	$3,634,273	81.8	6,679	$234,162,141	66.5	9.55%	$35,059
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

SDCERS - Unified Port of San Diego

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/07	38	$1,147,197	62.5	14	$276,143	80.1	349	$9,786,345	67.9	12.09%	$28,041
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

SDCERS - Airport Authority

Year Ended	Added Count	Added Annual Allowances	Added Avg. Age	Removed Count	Removed Annual Allowances	Removed Avg. Age	Total Count	Total Annual Allowances	Total Avg. Age	% Increase In Annual Allowances	Average Annual Allowances
6/30/07	5	$115,187	65.0	-	-	N/A	12	$327,559	65.1	57.72%	$27,297
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] June 30, 2006 and later valuations reflect 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
Summary of June 30, 2007 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

	Aggregate Actuarial Liabilities for ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/07[4]	$482,526	$3,101,594	$2,013,532	$4,413,411	100.00%	100.00%	41.19%
6/30/06[2]	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[3]	1,946,660	1,635,681	2,628,680	100.00	100.00	16.33
6/30/03	375,000[3]	1,741,490	1,416,126	2,375,431	100.00	100.00	18.28
6/30/02	353,686	1,440,392	1,374,742	2,448,208	100.00	100.00	47.58

[1] Actuarial Value of Assets. [2] Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits. [3] Estimated by Cheiron. [4] The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

SDCERS - Unified Port of San Diego

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/07[6]	$18,374	$115,021	$113,143	$230,585	100.00%	100.00%	85.90%
6/30/06[4]	16,140	101,542	102,955	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[5]	75,994	86,487	141,375	100.00	100.00	60.70
6/30/03[3]	12,000[5]	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

[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 District. [3] Reflects General benefit increases. [4] Reflects contingent liabilities (13th check), DROP reserves, and IRC section 415 limits. [5] Estimated by Cheiron. [6] The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

SDCERS - Airport Authority

	Aggregate Accrued Liabilities For ($ In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
Valuation Date	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets[1]			
6/30/07[5]	$6,681	$4,288	$35,668	$50,812	100.00%	100.00%	111.71%
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[4]	795	19,848	16,225	100.00	100.00	62.95
6/30/03	2,200[4]	300	13,779	11,142	100.00	100.00	62.72
12/31/02[2]	1,509	0	10,018	11,028	100.00	100.00	95.02

[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 District. [3] Reflects contingent liabilities (13th check), DROP reserves and IRC section 415 limits. [4] Estimated by Cheiron. [5] The June 30, 2007 actuarial liability is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2007 Valuation Results (continued)

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

Development of Gain/(Loss) SDCERS - City of San Diego

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2007	$74,938,588	$(39,748,777)	$35,189,811	$(225,348,741)	$(190,158,930)
6/30/2006	158,924,281	46,325,305	205,249,586	209,389,562	414,639,148
6/30/2005	82,500,398	(45,724,516)	36,775,882	(35,852,494)	923,388
6/30/2004	34,002,415	(92,125,989)	(58,123,574)	NA	(58,123,574)
6/30/2003	(286,400,000)	(17,299,305)	(303,699,305)	NA	(303,699,305)
6/30/2002	(312,953,654)	(51,861,501)	(364,815,155)	NA	(364,815,155)

Development of Gain/(Loss) SDCERS - Unified Port District

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2007	$4,899,047	$(1,904,568)	$2,994,479	$(3,322,298)	$(327,819)
6/30/2006	20,926,668	(787,854)	20,138,814	(3,595,264)	16,543,550
6/30/2005	3,062,374	(3,614,921)	(552,547)	(49,448)	(601,995)
6/30/2004	692,000	(2,762,000)	(2,070,000)	NA	(2,070,000)
6/30/2003	(8,150,891)	(2,097,544)	(10,248,435)	NA	(10,248,435)
12/31/2002	(10,878,574)	(218,531)	(11,097,105)	NA	(11,097,105)
6/30/2002	(14,923,620)	(5,365,079)	(20,288,699)	NA	(20,288,699)

Development of Gain/(Loss) SDCERS - Airport Authority

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2007	$909,618	$266,769	$1,176,387	$(2,029,171)	$(852,784)
6/30/2006	5,886,918	2,845,946	8,732,864	(420,564)	8,312,300
6/30/2005	1,380,592	(2,588,040)	(1,207,448)	4,464,525	3,257,077
6/30/2004	560,000	(2,764,850)	(2,204,850)	NA	(2,204,850)
6/30/2003	(641,718)	(1,371,994)	(2,013,712)	NA	(2,013,712)

Results from 6/30/2004 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
Summary of June 30, 2007 Valuation Results (continued)

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.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2007

	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 8/11/1993.
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, 2007

	City of San Diego
Retirement Payment Options	Choice of: **Maximum Benefit** - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.
	Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.
	Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
	Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.
	Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.
	Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement.

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

San Diego City Employees' Retirement System
Summary of SDCERS Benefit Provisions (continued)
As of June 30, 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
NA	N/A
No age or service requirement.	No age or service requirement.
Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.
Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible.	N/A
N/A	N/A
Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.	Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation.
50% of earned benefit payable to eligible surviving spouse.	50% of earned benefit payable to eligible surviving spouse.
50% of the final compensation divided into 12 equal payments each year.	50% of the final compensation divided into 12 equal payments each year.
50% of the final compensation divided into 12 equal payments each year.	N/A
Continuance to specified beneficiary based upon retirement payment option selected. $2,000 payable in lump-sum to the beneficiary or the estate of the retiree.	Continuance to specified beneficiary based upon retirement payment option selected. $2,000 payable in lump-sum to the beneficiary or the estate of the retiree.
1. Less than five years of service credit - Member may receive a refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest. 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, 2007

	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 Entry Age Normal Funding Method with a 20-year closed amortization of any Unfunded Actuarial Accrued Liability beginning on 7/1/2007. To avoid "negative amortization," the minimum contribution will be Normal Cost plus full interest on the UAL.
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 Entry Age Normal Funding Method Method with a 30-year closed amortization of any Unfunded Actuarial Accrued Liability beginning on 7/1/1991.	Determined by the Entry Age Normal Funding Method 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, 2007

Deferred Retirement Option Plan (DROP)

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

A SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, they will have access to a lump sum or annuity 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 their respective plan sponsor and receives a regular paycheck. Both the plan sponsor and the DROP Participant no longer make retirement contributions to SDCERS, and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer-offered benefits available to regular employees.

A SDCERS' member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable 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 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 employee 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 SDCERS' Board.

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

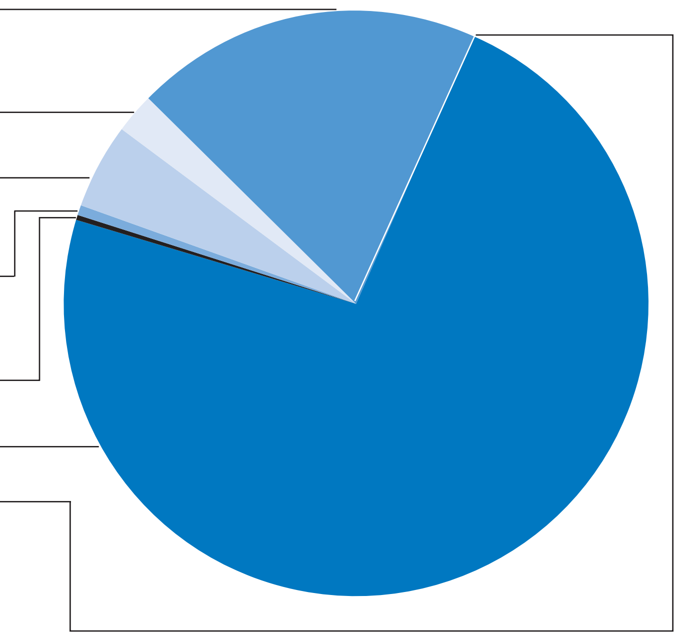
SDCERS will distribute the funds in a participant's DROP account when the member leaves employment and begins retirement. The distribution is made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the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

5. Statistical

San Diego City Employees' Retirement System
Schedule of Additions to Plan Net Assets by Source
For Fiscal Year Ended June 30, 2007

FY 2007 Additions

Plan Sponsors' Contributions	19.18%
Members' Contributions Paid by Plan Sponsors	2.40%
Members' Contributions	4.64%
Members' Contributions for Purchased Service	0.64%
Earned Interest on PSC Installment Contracts	0.14%
Net Investment Income	72.93%
Other Income	0.07%
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	2007	$181,388,065	$22,728,577	$43,927,921	$6,042,961	$1,352,182	-[5]	$689,860,139	$619,044	$945,918,889
% of total		19.18%	2.40%	4.64%	0.64%	0.14%	-	72.93%	0.07%	100.00%
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

[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 (Employees) 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 (employer) contribution made by the City of San Diego for a portion of their net pension obligation applicable to fiscal years 1997 - 2002, totaling $9,923,538. For further details concerning this additional plan sponsor (employer) contribution, please see the Schedules of Plan Sponsors' (Employers') Contributions and the Notes to Schedules of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information located in the Financial Section.

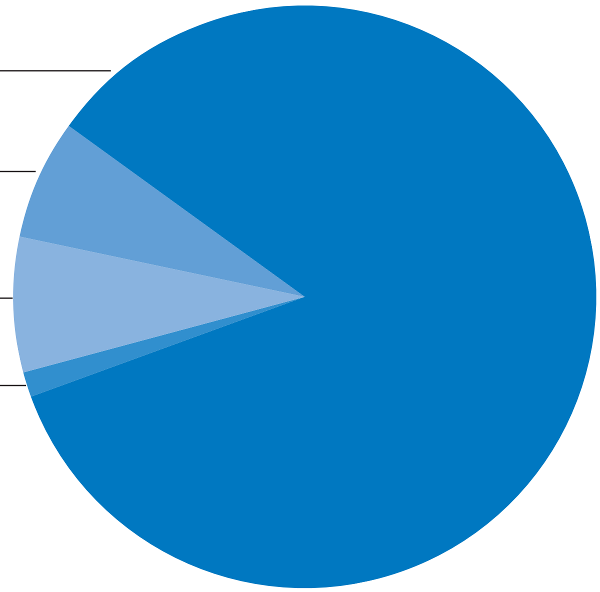
[4] Prior to 2002, Members' Contributions included Contributions for Purchased Service.

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

San Diego City Employees' Retirement System
Schedule of Deductions from Plan Net Assets by Type
For Fiscal Year Ended June 30, 2007

FY 2007 Deductions

Retirement, Death and Disability Benefits	84.62%
Administrative Expenses	6.87%
DROP Program Interest Expense	7.29%
Refund of Members' Contributions	1.22%
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[4]	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	2007	$235,262,751[3]	-	$19,103,395	$20,263,468	-	-	$3,393,507	$278,023,121
% of Total		84.62%	-	6.87%	7.29%	-	-	1.22%	100.00%
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

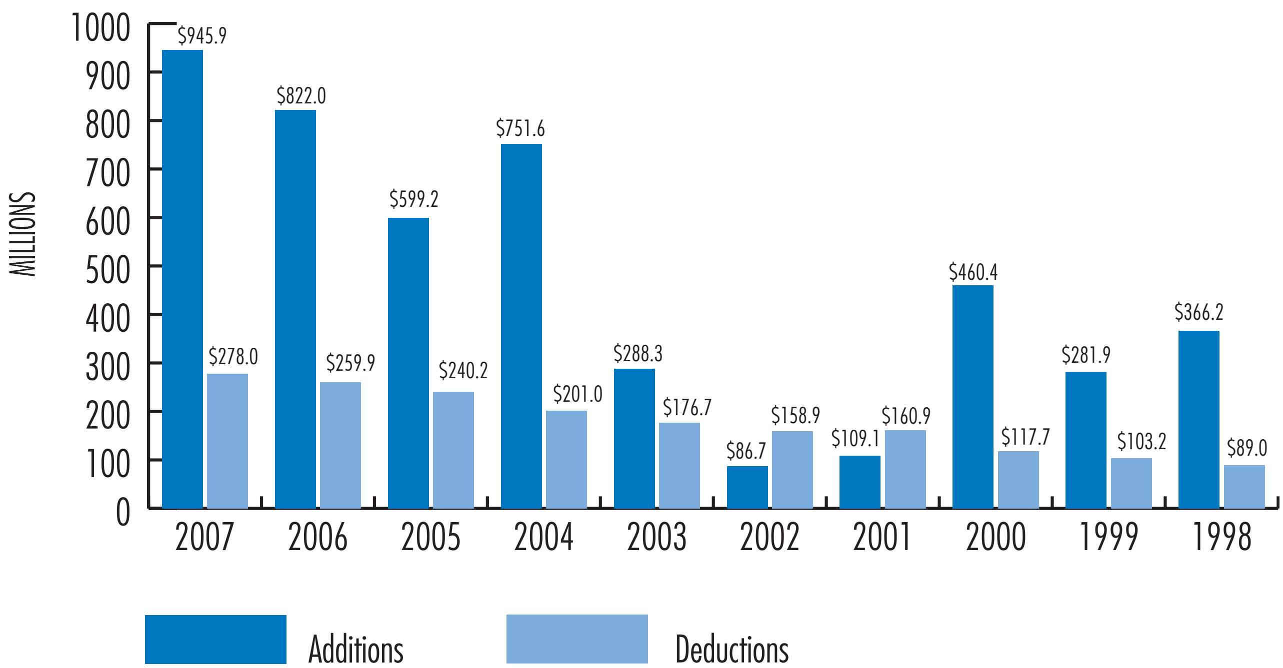
[1] Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' prior independent auditor. SDCERS current independent auditor approves of management's practice to show purchased service receivables at gross values, since any contract cancellation reduces contract liability by an offsetting amount.

[2] Litigation Settlement Expense is SDCERS' portion of the plaintiff's attorney fee awarded as a result of the FY 2005 Gleason settlement and the Hanson, Bridgett settlement in FY 2006. For additional information on these expenses and the 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 program balances as a deduction.

[4] In FY 2005, the City started funding healthcare benefits directly by making contributions to a separate healthcare insurance fund for this plan.

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[1]
2007	$4,681,720,460	$945,918,889	20.20%	$278,023,121	5.94%	340.23%
2006	4,013,824,692	822,060,027	20.48	259,987,322	6.48	316.19
2005	3,451,751,987	599,218,379	17.36	240,212,870	6.96	249.45
2004	3,092,746,478	751,636,685	24.30	200,989,860	6.50	373.97
2003	2,542,099,653	288,306,684	11.34	176,667,307	6.95	163.19
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

[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 program 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	2007	4,354	1,245	28	1,052	6,679
Annual Allowances		$187,827,706	$33,422,130	$605,485	$12,306,821	$234,162,142
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
Annuals 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
Annual 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
Annuals 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
Annual 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
Annuals 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
Annual 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
Annuals 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
Annual Allowances		51,843,793	19,846,719	508,597	4,308,071	76,507,180

[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 (plan sponsors). 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[1]

	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	2007	233	61	1	54	349
Annual Allowances		$7,910,274	$1,175,107	$10,970	$689,993	$9,786,344
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
Annuals Allowances		6,003,129	1,081,191	9,908	558,626	7,652,854
No. of Allowances	2004	180	59	1	50	290
Annual Allowances		5,220,223	1,054,400	9,714	496,204	6,780,541
No. of Allowances	2003	162	60	1	51	274
Annuals 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
Annual Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	2002	158	60	2	43	263
Annuals Allowances		3,892,413	988,565	19,653	359,284	5,259,915
No. of Allowances	2001	142	58	2	44	245
Annual Allowances		3,108,368	883,234	18,438	336,892	4,346,932
No. of Allowances	2000	145	57	2	38	242
Annuals Allowances		3,106,843	800,421	17,854	219,680	4,144,798
No. of Allowances	1999	138	55	2	37	232
Annual 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

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	2007	11	-	-	1	12
Annual Allowances		$305,518	-	-	$22,040	$327,558
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		186,077	-	-	21,612	207,689
No. of Allowances	2005	7	-	-	-	7
Annuals Allowances		220,945	-	-	-	220,945
No. of Allowances	2004	3	-	-	-	3
Annual Allowances		71,779	-	-	-	71,779
No. of Allowances	2003	1	-	-	-	1
Annual Allowances		25,112	-	-	-	25,112

[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 (plan sponsors. 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

City of San Diego

Fiscal Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals										
Number of Allowances	6,679	6,401	5,995	5,723	5,467	5,143	5,012	4,789	4,657	4,419
Annual Allowances Paid	$234,162,141	$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	$35,059	$33,393	$30,057	$28,184	$26,508	$23,635	$22,474	$19,910	$18,858	$17,313
Percentage Increase Over Prior Year	4.99%	11.10%	6.65%	6.32%	12.15%	5.17%	12.88%	5.58%	8.92%	13.89%
Attained Age	66.5	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	54.8	54.2	54.2	54.2	54.2	54.4	54.5	54.5
Service Years At Retirement	23.5	23.4	23.1	22.9	22.7	21.7	21.2	20.9	20.9	21.0
New Retirees[2]										
Number of Allowances	384	486	370	313	470	168	386	251	319	241
Average Age	56.1	54.8	56.0	56.5	56.9	55.7	56.1	56.3	55.6	56.2
Average Allowance	$46,735	$48,366	$47,034	$44,307	$48,864	$41,219	$40,443	$35,054	$36,072	$33,642
Percent Increase Over Prior Year	-3.37%	2.83%	6.15%	-9.33%	18.55%	1.92%	15.37%	-2.82%	7.22%	10.00%

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 valaution.

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

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

Unified Port of San Diego[1]											San Diego County Regional Airport Authority[1]				
2007	2006	2005	2004	2003	12/31/02	2002	2001	2000	1999	1998	2007	2006	2005	2004	2003
349	325	306	290	274	278	263	246	242	232	227	12	7	7	3	1
$9,786,345	$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	$327,559	$207,688	$220,945	$71,779	$25,112
$28,041	$26,865	$25,009	$23,381	$21,504	$20,549	$20,000	$17,670[3]	$17,127	$16,278	$15,905	$27,297	$29,670	$31,564	$23,926	$25,112
4.38%	7.42%	6.96%	8.73%	4.65%	2.75%	13.18%	3.17%	5.22%	23.45%	15.77%	-8.00%	-6.00%	31.92%	-4.72%	N/A
67.9	68.2	68.5	68.3	68.2	68.6	68.4	68.3	68.5	68.5	68.7	65.4	64.1	64.9	67.1	66.1
57.6	57.5	57.6	57.6	57.3	57.4	57.4	57.4	57.7	58.0	58.6	64.6	63.8	63.7	66.1	65.0
17.5	17.5	17.4	17.0	16.7	16.6	16.5	15.8	16.1	16.0	16.7	14.6	14.7	14.7	12.9	10.2
31	26	16	23	15	26	18	9	11	7	24	5	-	4	2	1
60	57.2	57.4	62.3	59.0	59.0	60.0	56.6	59.2	55.4	60.8	65.0	-	61.9	66.7	66.1
$33,740	$42,466	$45,636	$37,080	$34,684	$34,684	$29,568	$26,787	$25,920	$16,382	$30,997	$23,037	-	$36,933	$23,082	$25,112
-20.55%	-6.95%	23.07%	6.91%	17.30%	N/A	10.38%	3.34%	58.22%	-47.15%	90.00%	N/A	N/A	60.01%	-8.08%	N/A

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

City of San Diego

Fiscal Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals										
Number of Members	8,494	8,887	9,436	9,749	10,100	10,409	9,892	9,913	9,654	9,359
Salaries	$512,440,197	$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	$60,330	$60,099	$59,096	$55,409	$52,831	$51,413	$48,712	$45,244	$43,973	$42,637
Percentage Increase Over Prior Year	0.38%	1.70%	6.65%	4.88%	2.76%	5.54%	7.67%	2.89%	3.13%	3.74%
Current Age	43.6	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	10.0

[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.

Unified Port of San Diego[1]											San Diego County Regional Airport Authority[1]					
2007	2006	2005	2004	2003	12/31/02	2002	2001	2000	1999	1998	2007	2006	2005	2004	2003	12/31/02[1]
559	532	558	575	609	606	736	734	654	661	616	324	295	284	265	208	173
$37,159,870	$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	$21,956,656	$19,115,804	$17,608,879	$15,605,857	$11,577,857	$8,871,283
$66,476	$63,773	$62,863	$60,723	$56,098	$56,098	$53,075	$49,626	$46,821	$45,439	$43,299	$67,767	$64,799	$62,003	$58,890	$55,659	$51,279
4.24%	1.45%	3.52%	8.24%	5.70%	N/A	6.95%	5.99%	3.04%	4.94%	0.27%	4.58%	4.51%	5.29%	5.80%	8.54%	N/A
44.5	44.8	44.6	44.5	44.7	44.6	44.4	43.8	43.9	43.7	43.5	45.4	44.9	44.0	43.4	43.5	42.9
9.9	10.0	9.6	9.1	8.7	8.2	8.2	7.7	7.8	7.5	7.4	7.2	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

	City of San Diego									
As of Years Ended	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Totals										
Number of Inactive Members	2,606	2,359	1,998	1,884	1,723	1,499	1,438	1,016	800	791
Other Members[3]	-	-	-	-	-	-	-	-	-	344
Total Members	2,606	2,359	1,998	1,884	1,723	1,499	1,438	1,016	800	1,135
Member Contribution Balances										
Inactive Members	$90,347,344	$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	$90,347,344	$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	43.8	43.6	44.1	43.7	43.7	43.1	42.9	44.3	43.1	42.6
Service Years Earned[4]	7.7	7.4	7.0	6.7	6.4	6.6	6.8	7.5	6.6	7.4
Contribution Balance	$34,669	$30,237	$25,235	$20,728	$18,273	$17,217	$16,343	$18,328	$15,306	$15,526

1 Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive 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.

Unified Port of San Diego[2]											San Diego County Regional Airport Authority[2]				
2007	2006	2005	2004	2003	12/31/02	2002	2001	2000	1999	1998	2007	2006	2005	2004	2003
254	261	250	228	194	186	196	163	142	99	91	52	45	26	12	7
-	-	-	-	-	-	-	-	-	-	37	-	-	-	-	-
254	261	250	228	194	186	196	163	142	99	128	52	45	26	12	7
$3,345,129	$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	$736,406	$597,226	$243,263	$47,659	$9,808
-	-	-	-	-	-	-	-	-	-	1,372,784	-	-	-	-	-
$3,345,129	$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	$736,406	$597,226	$243,263	$47,659	$9,808
46.1	46.2	45.6	44.7	44.7	43.9	43.4	44.2	41.6	42.6	41.5	47.6	46.6	47.5	45.3	45.9
4.6	5.1	4.8	4.5	3.9	4.1	4.1	4.3	3.7	3.6	4.1	4.3	4.1	4.1	3.3	0.9
$13,170	$14,978	$13,421	$9,882	$6,950	$6,645	$6,515	$6,967	$6,609	$6,374	$6,238	$14,162	$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

SDCERS
San Diego City Employees' Retirement System

401 West A Street, Suite 400, San Diego, CA 92101-7991
Toll Free (800) 774-4977 Local (619) 525-3600
www.sdcers.org

This Comprehensive Annual Financial Report
is available on SDCERS' Web site (www.sdcers.org)
in the Adobe Portable Document Format (PDF file).