San Diego City Employees' Retirement System San Diego, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

San Diego City Employees' Retirement System

San Diego, California

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.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

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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1. Introduction

1. Introduction

Transmittal Letter

SDCERS
San Diego City Employees' Retirement System

December 17, 2008

To the Members, Retirees, Beneficiaries, Plan Sponsors, Trustees and Audit Committee of the San Diego City Employees' Retirement System:

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, 2008 (FY 2008).

Fiscal year 2008 was a year of many significant achievements for SDCERS.

Actuarial Improvements. In January 2008, SDCERS' actuary, Cheiron, issued its June 30, 2007 Actuarial Valuations for our three plan sponsors. The 2007 Valuations include 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 replaces the less widely-accepted Projected Unit Credit (PUC) funding method used since 1992.

Audit Committee and Internal Audit. SDCERS has 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, Marilyn Brown, Michael Collins and Armon Kamesar, comprise the majority of the five-member Audit Committee, making it truly independent. Mr. Kamesar recently completed his term as Committee Chair, and he was succeeded by Mr. Collins. At its October meeting, the Board reappointed Mr. Kamesar to a four-year term on the Committee. SDCERS is extremely fortunate to have these three talented and experienced financial professionals serving on this important Committee.

In August 2007, the Audit Committee selected Bob Wilson to be SDCERS' first full-time Internal Auditor. As Internal Auditor, Bob reports directly to the Audit Committee to ensure that position is independent from SDCERS management. Bob, who joined SDCERS in 2005 as Assistant Administrator after serving 27 years in the City's Auditor and Comptroller Department, is one of the most experienced auditors in the public pension arena. He has been a great asset to the Audit Committee and SDCERS. With an independent Audit Committee and Internal Auditor, SDCERS' audit structure is more independent and less influenced by management than most publicly-traded companies.

Group Trust Created. In March 2007, the Board adopted a Group Trust to ensure the assets of our three plan sponsors are separated from each other consistent with the City Charter and Municipal Code. The Group Trust provides that each 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. These Agreements were approved by the San Diego City Council, as required by the City Charter, in February 2008.

Investment Results. SDCERS' total investment return for FY 2008 was -4.66% compared to 16.5% for FY 2007. As of June 30, 2008, SDCERS' annualized total investment return was +7.78% over the past three years, +10.77% over the past five years, and +7.96% over the past ten years.

As should be no surprise, the current turmoil in the global financial markets has impacted SDCERS' investments just as it has every other institutional and individual investor. However, it is important to keep in mind during these times that SDCERS invests for the very long term. For example, we invest contributions for a newly-hired employee who might work for thirty years until 2038 and then, when they retire, we may pay them for thirty years (until 2068) based on their life expectancy. If they leave a spousal continuance, a portion of their retirement payment could continue for another ten years to 2078. As a result, SDCERS' investment philosophy and strategy is focused on long-term results. Short-term market dislocations - even those as severe as what we are experiencing today - are, in relation to SDCERS' time horizon, just that: short-term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.

Finally, the market downturn since July 1, 2008 reflects just over one quarter of SDCERS' four-quarter fiscal 2009 year. Only when all four fiscal quarters have been concluded, on June 30, 2009, will the impact of the current market condition be known.

Because of the long-term nature of SDCERS' obligations and investment strategies, overreaction to short-term results can lead to emotional or irrational investment decisions. SDCERS has never, and should never, manage its portfolio for the short term. Indeed, because recent declines in SDCERS' equity portfolio have pushed those asset levels below our investment targets for equities, SDCERS has rebalanced the portfolio by buying equities.

SDCERS' target and actual asset allocation, as of June 30, 2008 and June 30, 2007, and recent and long-term investment performance are all included in the Investment Section.

Organizational Improvements. SDCERS' management team and staff are capable and experienced, and they have accomplished a great deal during the year. Important recent additions to SDCERS' management team include Mark Hovey, our Chief Financial Officer, and Cynthia Queen, our Member Services Director. Cynthia replaced Rebecca Wilson, SDCERS' first Member Services Division Director, who was promoted to Chief of Staff. Another important staff move was the promotion of Elaine Reagan as General Counsel. Elaine replaced Christopher Waddell who served SDCERS with distinction but chose to return to Sacramento to rejoin his family full-time.

To maintain the Investment Division's long-term record of performance, we have added two investment professionals to the group: Liza Crisafi as Deputy Chief Investment Officer and Corey BuuHoan as an Investment Officer. In addition, Jamie Hamrick was promoted to Investment Officer. With four Investment professionals, assisted by Christina Tamayo, SDCERS has a well-trained and experienced group managing our investment portfolio.

Tax Compliance Confirmed. In December 2007, the Board unanimously approved a Compliance Statement with the Internal Revenue Service that resolved all of SDCERS' outstanding IRS issues. SDCERS had proactively entered the Internal Revenue Service's Voluntary Correction Program in July 2005 after conducting a comprehensive review of plan operations to identify any areas of non-compliance with federal tax law.

Following receipt of the Compliance Statement, SDCERS received a favorable IRS Determination Letter in January 2008 confirming SDCERS' status as a tax-qualified plan. Governmental pension plans, like SDCERS, are not required to have a Determination Letter, and not many have one that is current. SDCERS' Determination Letter positively affirms that the plan complies with IRS rules. This is important because it confirms for SDCERS' members and plan sponsors that contributions made to SDCERS may be made on a pre-tax basis and investment earnings made by SDCERS on those contributions can grow tax-free.

New Office Space. SDCERS opened for business in our new space at 401 West A Street on July 30, 2007. The move, which concluded a thorough and detailed process, was completed on time and under budget. The new space is very functional and "member friendly" and will result in significant cost savings.

Audited Financial Statements. 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.

Internal Controls. 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.

Organization of the CAFR. This 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 2008 and FY 2007, 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 SDCERS.

Raymond Ellis and Mark Oemcke, our two newest Trustees, were appointed by the Mayor, confirmed by the City Council and sworn in as Trustees at the Board's October 2008 meeting. Both bring great financial experience and energy to the Board. Trustee George Murray's last meeting was in October. Refusing to abandon his post until his successor was sworn in, George served for an additional 19 months after his term expired. He served with great distinction, and we all will miss his wisdom, judgment and humor very much.

Finally, I would like to thank my SDCERS colleagues. Each one works hard and takes very seriously their role in providing for the financial security of our members, retirees and beneficiaries. While it is fashionable in some circles to belittle public employees, SDCERS' staff is dedicated and committed to ensure the System's success. Their individual efforts, combined with those of a great group of professionals and investment managers, inspires me each day.

As I have said many times, SDCERS has accomplished more over the past few years than any other public pension system in the country. If you doubt it, please read the "Progress Report on the San Diego City Employees' Retirement System" on our website. These achievements, many of which are noted above, are due to the leadership of our Trustees, the hard work of SDCERS' employees and the support of our members, retirees and beneficiaries.

It is a pleasure and an honor to work with and serve you as SDCERS' Administrator and CEO.

Respectfully submitted,

David B. Wescoe
Administrator/CEO

San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2008

Board of Administration

Thomas C. Hebrank, President
Mayoral Appointee

Mark C. Sullivan, Vice-President
Elected Safety (Police) Member

Susan S. Gonick
Mayoral Appointee

David A. Hall
Elected Retiree

V. Wayne Kennedy
Mayoral Appointee

Franklin R. Lamberth
Elected General Member

Steven W. Meyer
Elected General Member

George A. Murray
Mayoral Appointee

Peter E. Preovolos
Mayoral Appointee

Jo Anne SawyerKnoll
Ex-Officio, Mayoral Designee

William J. Sheffler
Mayoral Appointee

John G. Thomson
Elected Safety (Fire) Member

Vacant
Mayoral Appointee

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2008

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that 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, 2008 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 Governance Committee

Mark C. Sullivan (Chair)
Susan S. Gonick
Thomas C. Hebrank
V. Wayne Kennedy
Jo Anne SawyerKnoll
John G. Thomson

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)
David A. Hall
Thomas C. Hebrank
Franklin R. Lamberth
Peter E. Preovolos
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

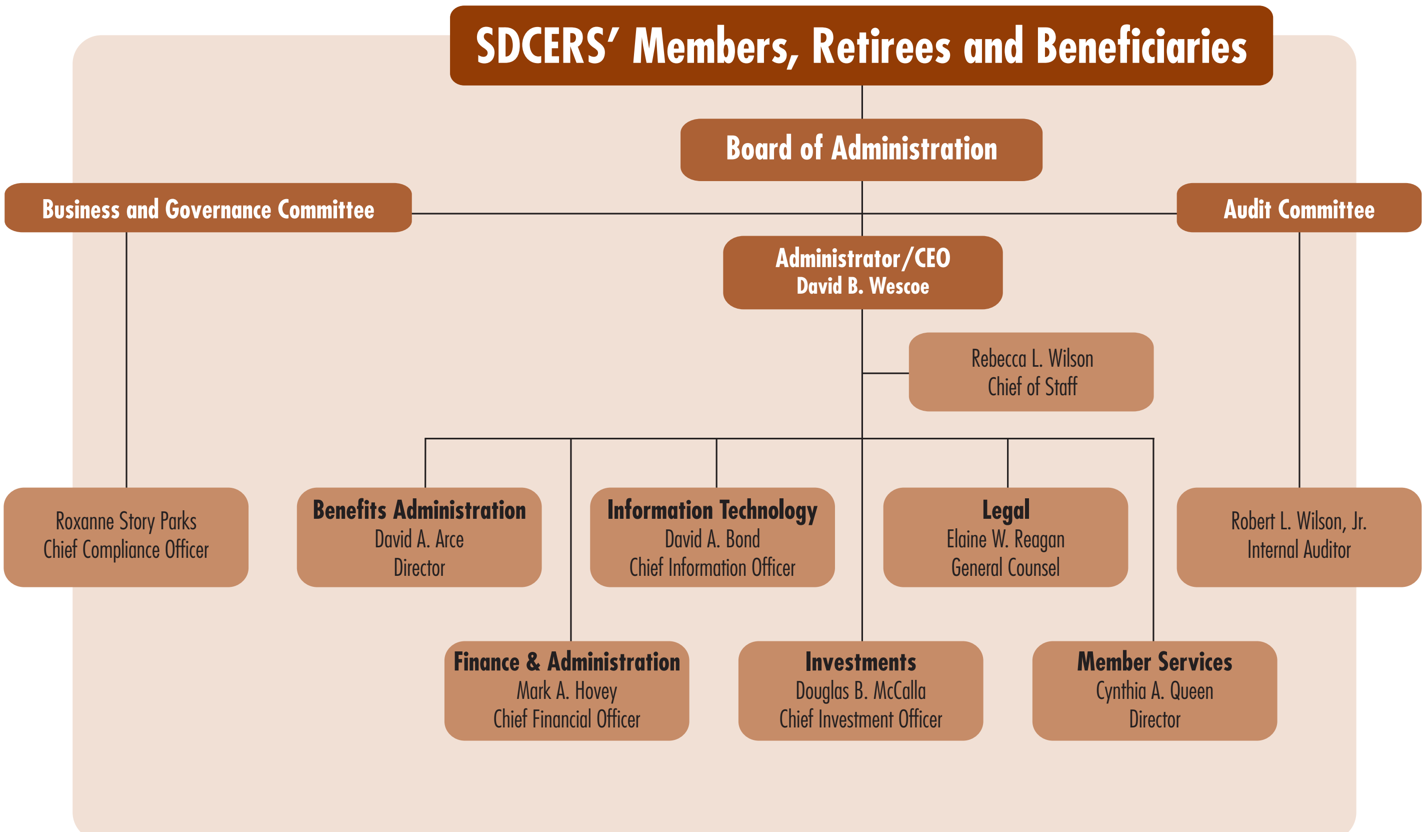
Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Administrator/CEO and the Chief Compliance Officer.

Investment Committee

Steven W. Meyer (Chair)
Susan S. Gonick
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, 2008



Report from SDCERS' Board President

SDCERS
San Diego City Employees' Retirement System

December 17, 2008

Dear SDCERS Constituents:

Most of us know the ancient Chinese blessing/curse "May you live in interesting times". I think few of us have lived it the way SDCERS has.

The past several years have been filled with many accomplishments – an increased funding ratio, resolution of tax compliance issues, adopting good governance practices, and organizational improvements, just to name a few. I had a conversation with a San Diego city official recently, who remarked that with problems recently experienced at other city agencies, SDCERS is now the organization that is held up as the example of "best practices" in corporate governance. I dared to say we were on the verge of accomplishing one of our primary goals – a return to normalcy. No more scandal, no more headlines, no more endless litigation…..

Then along came the global market downturn to fulfill the prophecy. While SDCERS has no real exposure to hedge funds, derivatives or the subprime collapse, we are not immune to the global marketplace, and we are experiencing market losses just like everyone else. There are a few important points to remember, however. First and foremost, we have a long-term investment time horizon of forty years or longer. SDCERS' investment portfolio is well-diversified over different asset classes and follows a disciplined investment process. We have more than sufficient assets and liquidity to continue to pay benefits well into the future, and our beneficiaries need not worry about receiving their benefits. And with the actuarial principles the Board has adopted, the inherent volatility of the marketplace is "smoothed" over time which minimizes the corresponding fluctuations in plan sponsor annual required contributions.

So, as we move forward, we will continue our progress toward normalcy by continuing to overcome the challenges that confront us. SDCERS is an organization that is more professional, responsive, transparent, and cutting-edge than ever before. We pledge to continue this progress with the goal of providing the best service that we can for our members.

Sincerely,

Thomas C Hebrank

Thomas C. Hebrank

President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2008

Actuary
Cheiron
McLean, VA

Consulting and Professional Services
JPI Printing Inc.
San Diego, CA

Levi, Ray & Shoup
Springfield, IL

Linea Solutions
Los Angeles, CA

EMC Corporation
Chicago, IL

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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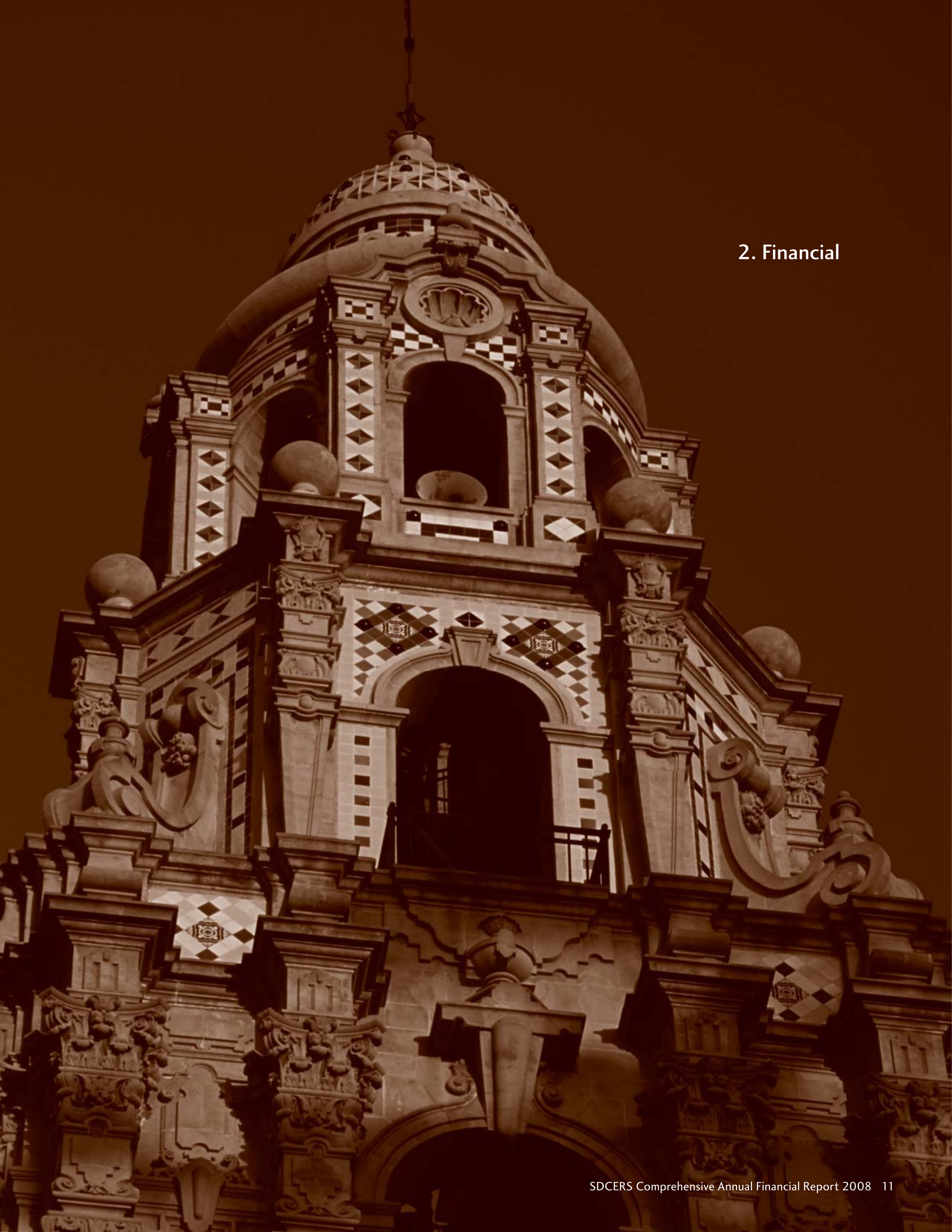

2. Financial

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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

SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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 fiduciary net assets of the Group Trust of the San Diego City Employees' Retirement System (SDCERS), a component unit of the City of San Diego, as of June 30, 2008 and 2007, and the related statements of changes in fiduciary net assets for the years then ended. We have also audited the accompanying statement of fiduciary net assets of the Preservation of Benefits agency fund of SDCERS as of June 30, 2008 and the related statement of changes in fiduciary assets and liabilities for the year then ended. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 fiduciary net assets of the Group Trust of the San Diego City Employees' Retirement System as of June 30, 2008 and 2007, the fiduciary net assets of the Preservation of Benefits agency fund as of June 30, 2008, and the changes in fiduciary net assets of the Group Trust for the years ended June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, certain errors resulting in a misstatement of previously reported net assets as of June 30, 2007, as well as amounts reported for the year ended June 30, 2008, were discovered by SDCERS' management during the current year. Accordingly, the June 30, 2007 and 2008 financial statements have been restated to correct the errors.

As discussed in Note 1 to the financial statements, effective July 1, 2007, SDCERS adopted a Declaration of Group Trust and accordingly, is presenting separate financial statements for each plan covered under the Group Trust in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25.

As also described further in Note 1, SDCERS also adopted the provisions of GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27*, during the year ended June 30, 2008.

As discussed in Notes 10 and 11 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 6 to the financial statements, the June 30, 2007 actuarial valuations for each plan sponsor reflect several changes in the actuarial methodologies. Further, the funded status presented in Note 6 and 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.

The global financial markets have experienced significant volatility. As a result, the fair value of SDCERS' investments has declined since June 30, 2008, as described in Note 11 to the financial statements.

The Management's Discussion and Analysis on pages 14 through 21, the Schedules of Funding Progress on pages 67 through 72 and the Schedules of Plan Sponsors' Contributions on pages 73 through 76 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

San Diego, California
December 15, 2008, except for Note 12,
as to which the date is February 19, 2009

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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, 2008 (FY 2008) and June 30, 2007 (FY 2007), with results also compared to the fiscal year ended June 30, 2006 (FY 2006).

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).

The SDCERS Board of Administration adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port, and Airport Authority's plans are treated as separate plans, with assets of each sponsor's plan pooled for investment purposes only. Separate financial statements for 2008 only are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. In addition, the discussion and analysis compares financial information between 2008 and 2007 for the total of all three plans, rather than the separate plans, as the information for each separate plan is not available for 2007. *See Note 1. Summary of Significant Accounting Policies* for more details on the Group Trust.

Financial Highlights

As of June 30, 2008, the SDCERS Group Trust had $4.385 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of $4.682 billion at June 30, 2007. This represents a $297 million decrease (-6.3%) from FY 2007. The FY 2008 decrease reflects plan sponsor and member contributions ($251 million), offset by net investment losses ($251 million) and benefit payments and administrative expenses ($297 million). In FY 2007, SDCERS experienced a $668 million increase (16.6%) in total net assets from FY 2006 total net assets of $4.014 billion.

For FY 2008, contributions were offset by investment losses, resulting in net additions of $(0.2) million to the Group Trust net assets, a decrease of $946.1 million (100%) from FY 2007 additions of $945.9 million. Decreased net investment earnings of $941.2 million were the main factor in the reduction from last year. In FY 2007, SDCERS experienced an increase of $123.9 million (15.1%) in additions over FY 2006 additions of $822.1 million.

As of June 30, 2008, deductions from Group Trust net assets for benefits and expenses totaled $296.7 million, an $18.7 million increase (6.7%), compared to FY 2007 deductions of $278.0 million. In FY 2007, SDCERS deductions increased $18.0 million (6.9%) from FY 2006 deductions of $260.0 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the SDCERS' 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 a pension plan's 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. The actuarial valuation as of June 30, 2008 for all three plan sponsors was received on December 11, 2008. See *Note 11. Subsequent Events* for additional information.

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 Board in September and October 2006. These methodology changes included the following:

- The return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN), from 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). The 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 10. Legal Action* – Gleason, et al. v. SDCERS);
- To avoid any "negative amortization" of the UAL, the plan sponsors are to pay 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.)

As of June 30, 2007, the City's funded status, calculated pursuant to the 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.

As of June 30, 2007, the Port's funded status under EAN was 93.5%; for every dollar of benefits due, the Port had approximately 93.5 cents in actuarial assets available for payment.

As of June 30, 2007, the Airport's funded status under EAN was 109.0%; for every dollar of benefits due, the Airport had approximately $1.09 in actuarial assets available for payment.

In September 2008, the Board approved demographic and economic actuarial assumption changes as outlined in the actuary's Experience Study presented to the Board in July 2008. The revised assumptions will be incorporated into the June 30, 2008 Actuarial Valuation. Highlights of the assumption changes are discussed in more detail in *Note 6. Funded Status and Actuarial Methods and Assumptions.*

Ten years of historical funded status information for the City and the Port and six 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 *Note 6. Funded Status and Actuarial Methods and Assumptions,* and in the Actuarial Section. The Actuarial Valuations can be found online at sdcers.org.

As discussed in *Note 10. Legal Action* and *Note 11. Subsequent Events,* SDCERS 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.

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 Group Trust. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2008 and June 30, 2007. As of July 1, 2007, the City, Port and Airport plans have been separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the proportional interest of each plan and trust are accounted for separately, as presented in this year's Statements of Plan Net Assets.

The **Statements of Changes in Plan Net Assets** provide an income statement presentation of annual additions to and deductions from plan assets for the Group Trust for the FY 2008 and 2007, respectively. The FY 2008 Statement also presents separate reporting for the City, Port, and Airport, as does the Statement of Plan Net Assets.

Both Statements comply with Governmental Accounting Standards Board (GASB) Statement Nos. 3, 5, 25, 28, 31, 40 and 50 that require certain disclosures and the use of the full accrual method of accounting.

Both Statements were prepared using the accrual basis of accounting and report information about SDCERS' financial activities, including all assets and liabilities. 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.

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 benefit 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 Payments to Consultants, and a Schedule of Fees Paid to Investment Professionals. All Supporting Schedules are included after the Required Supplementary Information.

SDCERS' management is responsible for the accuracy, completeness, and fair presentation of this information and all disclosures.

Financial Analysis

Tables 1 through 4 below summarize and compare SDCERS' financial results for the current and prior fiscal years for the Group Trust.

The Group Trust's net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2008 totaled $4.385 billion, a $296.9 million decrease (-6.3%) compared to net assets of $4.682 billion as of June 30, 2007. Investment returns of -4.66% for the year accounted for the decline in net assets. FY 2007 plan net assets were 16.6% higher than FY 2006 net assets of $4.014 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: Group Trust Net Assets

	2008	2007	Increase/ (Decrease)	Percentage Change	2007	2006	Increase/ (Decrease)	Percentage Change
Cash and Cash Equivalents	$506,522,453	$528,285,188	($21,762,735)	-4.1%	$528,285,188	$493,192,881	$35,092,307	7.1%
Receivables	34,620,230	40,003,580	(5,383,350)	-13.5%	40,003,580	43,230,846	(3,227,266)	-7.5%
Securities Sold	100,068,286	79,153,778	20,914,508	26.4%	79,153,778	48,576,193	30,577,585	63.0%
Investments, at Fair Value	4,311,901,688	4,402,945,236	(91,043,548)	-2.1%	4,402,945,236	3,826,865,975	576,079,261	15.0%
Securities Lending Cash Collateral	674,085,233	854,630,428	(180,545,195)	-21.1%	854,630,428	581,289,763	273,340,665	47.0%
Properties at Cost plus Pre-paid Expenses	538,493	264,388	274,105	103.7%	264,388	125,080	139,308	111.4%
Total Assets	$5,627,736,383	$5,905,282,598	($277,546,215)	-4.7%	$5,905,282,598	$4,993,280,738	$912,001,860	18.3%
Current Liabilities	$319,294,524	$280,909,851	$38,384,673	13.7%	$280,909,851	$231,833,993	$49,075,858	21.2%
Securities Purchased	249,509,540	88,021,859	161,487,681	183.5%	88,021,859	166,332,290	(78,310,431)	-47.1%
Securities Lending Obligations	674,085,233	854,630,428	(180,545,195)	-21.1%	854,630,428	581,289,763	273,340,665	47.0%
Total Liabilities	$1,242,889,297	$1,223,562,138	$ 19,327,159	1.6%	$1,223,562,138	$979,456,046	$244,106,092	24.9%
Plan Net Assets Held in Trust for the Payment of Defined Benefit Pension Benefits	$4,384,847,086	$4,681,720,460	($296,873,374)	-6.3%	$4,681,720,460	$4,013,824,692	$667,895,768	16.6%

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 50% of plan assets ($2.2 billion reserved out of $4.4 billion in total reserves) as of June 30, 2008, and were also 50% of plan assets ($2.0 billion reserved out of $4.0 billion in total reserves) as of June 30, 2007. Reserves for Plan Sponsor Contributions at June 30, 2008 were $391.1 million, down $50.9 million from June 30, 2007. A complete listing of SDCERS' reserves and comparative balances for FY 2008 and FY 2007 are set out in *Note 5. Reserve Balances.*

Current Year Results

Key elements of FY 2008 results and year-over-year comparisons are summarized below.

Additions to Plan Assets

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

For FY 2008, contributions were offset by investment losses, resulting in net negative additions of $0.2 million, a decrease of $946.1 million from FY 2007 additions of $945.9 million. A comparative summary is set out in Table 2 below.

Table 2: Group Trust Contributions and Investment Earnings

	2008	2007	Increase/ (Decrease)	Percentage Change	2007	2006	Increase/ (Decrease)	Percentage Change
Employers' Contributions	$175,000,938	$181,388,065	($6,387,127)	-3.5%	$181,388,065	$282,770,428	($101,382,363)	-35.9%
Members' Contributions Paid by Employers	20,216,479	22,728,577	(2,512,098)	-11.1%	22,728,577	23,632,010	(903,433)	-3.8%
Members' Contributions	47,287,014	43,927,921	3,359,093	7.6%	43,927,921	32,959,653	10,968,268	33.3%
Members' Contributions for Purchased Service Credit	7,262,118	6,042,961	1,219,157	20.2%	6,042,961	9,645,793	(3,602,832)	-37.4%
Earned Interest on Purchased Service Installment Contracts	1,022,247	1,352,182	(329,935)	-24.4%	1,352,182	1,825,921	(473,739)	-25.9%
Total Net Investment Earnings[1]	(251,289,907)	689,860,139	(941,150,046)	-136.4%	689,860,139	455,726,222	234,133,917	51.4%
Other Income	335,210	619,044	(283,834)	-45.9%	619,044	15,500,000	(14,880,956)	-96.0%
Total Additions	($165,901)	$945,918,889	($946,084,790)	-100.0%	$945,918,889	$822,060,027	$123,858,862	15.1%

[1] Stated net of investment deductions of $23,974,639, $21,681,992, and $18,315,686 for FY 2008, FY 2007, and FY 2006, respectively.

FY 2008 employer contributions totaled $175.0 million, a decrease of $6.4 million (-3.5%) compared to their contributions of $181.4 million in FY 2007. The Annual Required Contribution (ARC) for all three plan sponsors was lower in FY 2008 than in FY 2007, accounting for the reduced current year contributions. This compares to a $101.4 million FY 2007 decrease (35.9%) from FY 2006's contributions of $282.8 million. In FY 2006, the City made a one-time additional payment of $100 million from tobacco revenue bond proceeds. 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 2008 member contributions paid by plan sponsors totaled $20.2 million, a decrease of $2.5 million (-11.1%) compared to $22.7 million in FY 2007. The FY 2008 City salary ordinance lowered the contribution offset rate paid by the City compared to the FY 2007 rate, accounting for the reduction in contributions paid by the City. FY 2007 member contributions paid by plan sponsors decreased by $0.9 million (-3.8%) from $23.6 million in FY 2006.

FY 2008 member contributions totaled $47.3 million, an increase of $3.4 million (7.6%) compared to $43.9 million in FY 2007. FY 2007 member contributions increased by $11.0 million (33.3%) from $33.0 million in FY 2006. Increases in members' contributions in FY 2007 and again in FY 2008 occurred because the City has progressively lowered the percentage of member contributions it paid on behalf of its employees.

FY 2008 member contributions for purchased service credit totaled $7.3 million, an increase of $1.2 million (20.2%) compared to $6.0 million in FY 2007. FY 2007 member contributions for purchased service credit decreased $3.6 million (-37.4%) from $9.6 million in FY 2006. Annual fluctuations in purchase service credit activity vary each year depending on the number of participating members.

In FY 2008, net investment losses totaled $251.3 million, a decrease of $941.1 million (-136.4%) due to lower investment performance from FY 2007. Depreciation in the fair value of equity holdings accounted for $894.6 million of the decrease, real estate holdings another $69.7 million of the decrease, while fixed income holdings appreciated by $17.6 million. By comparison, FY 2007 net investment earnings totaled $689.9 million, an increase of 51.4%, or $234.1 million compared to net investment earnings of $455.7 million in FY 2006.

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 2008, FY 2007 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2008 was -4.66%, compared to +16.5% and +12.7% as of June 30, 2007 and June 30, 2006, respectively. According to the Callan Associates database of public fund performance, SDCERS' investment performance was in the top 51% for the year ended June 30, 2008, and in the top 15% and 4% over the five-, and ten-year periods ended June 30, 2008.

FY 2006 Other Income reflects litigation settlement proceeds of $15.5 million.

Deductions from DB Plan Assets

SDCERS administers lifetime retirement annuities, survivor benefits, and permanent disability benefits. The costs of these programs include recurring pension benefit payments and refunds of contributions to terminated members.

Deductions for FY 2008 were $296.7 million. Deductions for FY 2007 and FY 2006 totaled $278.0 million and $260.0 million, respectively.

A comparative summary is set out in Table 3 below.

Table 3: Group Trust Payments and Other Deductions

	2008	2007	Increase/ (Decrease)	Percentage Change	2007	2006	Increase/ (Decrease)	Percentage Change
Retirement and Disability Allowances and Other Benefit Payments	$254,013,756	$235,262,751	$18,751,005	8.0%	$235,262,751	$214,704,695	$20,558,056	9.6%
Refunds of Members' Contributions	3,866,690	3,393,507	473,183	13.9%	3,393,507	4,559,977	(1,166,470)	-25.6%
Administrative Deductions	15,776,346	19,103,395	(3,327,049)	-17.4%	19,103,395	18,438,356	665,039	3.6%
DROP Interest Deduction	23,050,681	20,263,468	2,787,213	13.8%	20,263,468	17,748,612	2,514,856	14.2%
Litigation Settlement Deduction	-	-	-	0.0%	-	4,535,682	(4,535,682)	0.0%
Total Deductions	$296,707,473	$278,023,121	$18,684,352	6.7%	$278,023,121	$259,987,322	$18,035,799	6.9%

In FY 2008, retirement, disability allowances and other benefit payments totaled $254.0 million, $18.8 million (8.0%) more than FY 2007's payments of $235.3 million. FY 2007 retirement and disability allowances and other benefit payments were $20.6 million (9.6%) more than in FY 2006, which totaled $214.7 million. An increasing number of total retirees in FY 2007 and again FY 2008 account for the increased payments each year.

In FY 2008, refunds of member contributions totaled $3.9 million, a $0.5 million increase (13.9%) compared to FY 2007 refunds of $3.4 million. FY 2007 refunds of member contributions decreased by $1.2 million (25.6%) from refunds of member contributions in FY 2006 of $4.6 million. The annual fluctuations in refunds of member contributions are not indicative of any notable trend.

FY 2008 administrative expenses totaled $15.8 million, a decrease of $3.3 million (17.4%) from FY 2007 expenses of $19.1 million. Outside data processing costs and outside legal costs were lower in FY 2008 following the completion of several projects and legal cases in FY 2007. FY 2007 administrative expenses increased by $0.7 million (4.0%) over FY 2006 administrative expenses of $18.4 million. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details.

FY 2008 Deferred Retirement Option Program (DROP) interest expenses totaled $23.1 million, an increase of $2.8 million (13.8%) over FY 2007 expenses of $20.3 million. A 15% increase in DROP reserves, which earned interest, accounted for the increase in DROP interest expense. FY 2007 DROP Program interest expenses increased by $2.5 million (14.2%) over FY 2006 expenses of $17.7 million, the increased FY 2007 expense again reflective of increased contributions to participant DROP balances.

FY 2006 included litigation settlement expenses of $4.5 million.

Table 4: Increase in Group Trust Net Assets

	2008	2007	Increase/ (Decrease)	Percentage Change	2007	2006	Increase/ (Decrease)	Percentage Change
Total Additions (Table 2)	($165,901)	$945,918,889	($946,084,790)	-100.0%	$945,918,889	$822,060,027	$123,858,862	15.1%
Less Total Deductions (Table 3)	296,707,473	278,023,121	18,684,352	6.7%	278,023,121	259,987,322	18,035,799	6.9%
Net Increase (Decrease) in Defined Benefit Pension Plan's Net Assets	($296,873,374)	$667,895,768	($964,769,142)	-144.4%	$667,895,768	$562,072,705	$105,823,063	18.8%
Additions as a Percentage of Current Year Deductions	-0.1%	340.2%	-	n/a	340.2%	316.2%	-	n/a

Coverage - Total Additions Compared to Total Deductions

As set out in Table 4 above, contributions in FY 2008 were offset by investment losses, resulting in net additions of $(0.2) million. In FY 2007, additions of $945.9 million provided over three times coverage, or 340.2%, of FY 2007 deductions of $278.0 million. In FY 2008 and FY 2007, SDCERS experienced an overall change in plan net assets of ($296.9) million and $667.9 million, respectively. FY 2006 additions of $822.1 million supplied three times coverage, or 316.2%, of FY 2006's deductions of $260.0 million, reflecting an overall net increase of $562.1 million in net assets.

Post-Employment Healthcare Benefit Plan (HCB Plan)

Post-employment Healthcare Benefit Plan funds are not part of the SDCERS trust fund and are reported in the City's financial statements.

Stock Market Volatility

The turmoil in the global financial markets in calendar 2008 has impacted negatively SDCERS' investment portfolio. SDCERS' investment performance for the quarter ending September 30, 2008, the most recent period for which investment performance has been measured, was -10.1%. However, this performance reflects only one quarter of SDCERS' four-quarter 2009 fiscal year. Because SDCERS' actuary uses the final investment return as of June 30, 2009 to determine a plan sponsor's ARC, only when all four fiscal quarters have been concluded, on June 30, 2009, and the ARC payment calculated, will the impact of the current investment market be known. Once calculated by the actuary, that ARC will not be paid by our plan sponsors until the following fiscal year, beginning in July 2010.

The ARC that the plan sponsors will pay for the fiscal year beginning on July 1, 2009 will be based on fiscal year investment returns from July 1, 2007 through June 30, 2008.

San Diego City Employees' Retirement System
Statements of Plan Net Assets
June 30, 2008 and June 30, 2007

	2008				2007
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$4,809,779	$253,312	$59,091	$5,122,182	$490,168
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	470,819,764	24,796,190	5,784,317	501,400,271	527,795,020
Total Cash and Cash Equivalents	475,629,543	25,049,502	5,843,408	506,522,453	528,285,188
Receivables					
Plan Sponsors' and Members' Contributions	3,230,740	140,754	83,595	3,455,089	9,025,135
Members' - Purchased Service Contracts	12,089,911	1,463,441	787,443	14,340,795	17,247,817
Accrued Interest Receivable	15,798,225	832,030	194,091	16,824,346	13,730,628
Securities Sold	93,965,101	4,948,765	1,154,420	100,068,286	79,153,778
Total Receivables	125,083,977	7,384,990	2,219,549	134,688,516	119,157,358
Investments, at Fair Value					
Short-Term Investments	39,689,891	2,090,307	487,615	42,267,813	52,998,771
Domestic Fixed Income Securities	937,723,140	49,386,120	11,520,517	998,629,777	810,554,203
International Fixed Income Securities	171,952,888	9,056,070	2,112,549	183,121,507	176,388,316
Domestic Equity Securities	1,672,227,162	88,069,504	20,544,360	1,780,841,026	2,021,799,800
International Equity Securities	769,528,850	40,528,001	9,454,145	819,510,996	900,229,222
Mortgages	-	-	-	-	2,674
Directly-Owned Real Estate Assets and Real Estate Equity Securities	457,795,978	24,110,280	5,624,311	487,530,569	440,972,250
Total Investments	4,048,917,909	213,240,282	49,743,497	4,311,901,688	4,402,945,236
Securities Lending Cash Collateral	632,972,636	33,336,132	7,776,465	674,085,233	854,630,428
Total Investments Including Securities Lending Cash Collateral	4,681,890,545	246,576,414	57,519,962	4,985,986,921	5,257,575,664
Prepaid Expenses	14,708	775	181	15,664	62,918
Capital Assets at Cost, Net of Accumulated Depreciation of $379,862 and $317,783, respectively	490,941	25,856	6,032	522,829	201,470
TOTAL ASSETS	$5,283,109,714	$279,037,537	$65,589,132	$5,627,736,383	$5,905,282,598
LIABILITIES					
Accounts Payable	$724,390	$38,151	$8,899	$771,440	$2,552,199
Investment Related Fees Payable	4,963,163	261,390	60,977	5,285,530	5,413,448
Accrued Wages and Benefits	661,963	34,863	8,133	704,959	572,026
DROP Liability	305,299,867	5,889,582	566,924	311,756,373	271,595,956
Pension Liability	776,222	-	-	776,222	776,222
Securities Purchased	234,291,901	12,339,216	2,878,423	249,509,540	88,021,859
Securities Lending Obligations for Cash Collateral	632,972,635	33,336,132	7,776,466	674,085,233	854,630,428
TOTAL LIABILITIES	$1,179,690,141	$51,899,334	$11,299,822	$1,242,889,297	$1,223,562,138
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION BENEFITS	$4,103,419,573	$227,138,203	$54,289,310	$4,384,847,086	$4,681,720,460

(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.)

For a full understanding of the Statements of Plan Net Assets, please see the accompanying Notes to the Financial Statements, which follow.

San Diego City Employees' Retirement System
Statements of Changes in Plan Net Assets
For the years ended June 30, 2008 and June 30, 2007

	2008				2007
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	$165,580,938	$6,900,000	$2,520,000	$175,000,938	$181,388,065
Members' Portion Paid by Plan Sponsor	15,737,432	2,829,220	1,649,827	20,216,479	22,728,577
Members'	45,203,311	1,343,753	739,950	47,287,014	43,927,921
Members' for Purchased Service	6,790,375	442,790	28,953	7,262,118	6,042,961
Earned Interest on Purchased Service Installment Contracts	832,177	125,366	64,704	1,022,247	1,352,182
Total Contributions	234,144,233	11,641,129	5,003,434	250,788,796	255,439,706
Investment Earnings					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity	(377,899,855)	(19,786,635)	(4,517,880)	(402,204,370)	492,378,369
Fixed Income	40,712,529	2,081,554	472,272	43,266,355	25,703,535
Real Estate Equity and Real Estate Securities	(28,333,716)	(1,491,484)	(340,886)	(30,166,086)	39,493,059
Total Net Appreciation (Depreciation) in Fair Value of Investments	(365,521,042)	(19,196,565)	(4,386,494)	(389,104,101)	557,574,963
Investment Income (Loss)					
Equity - Dividends	67,177,716	3,513,742	802,292	71,493,750	63,459,329
Fixed Income - Interest	72,016,432	3,760,225	858,219	76,634,876	79,741,577
Real Estate - Income	7,832,467	409,248	93,430	8,335,145	9,035,075
Total Investment Income	147,026,615	7,683,215	1,753,941	156,463,771	152,235,981
Less Investment Expenses	(22,528,620)	(1,177,270)	(268,749)	(23,974,639)	(21,681,992)
Total Net Investment Income (Loss)	(241,023,047)	(12,690,620)	(2,901,302)	(256,614,969)	688,128,952
Securities Lending Income					
Gross Earnings	35,099,127	1,832,646	418,276	37,350,049	35,579,779
Borrower Rebates	(28,314,169)	(1,478,380)	(337,420)	(30,129,969)	(33,216,240)
Administrative Expenses (Lending Agent)	(1,780,814)	(92,982)	(21,222)	(1,895,018)	(632,352)
Net Securities Lending Income	5,004,144	261,284	59,634	5,325,062	1,731,187
Total Net Investment Earnings	(236,018,903)	(12,429,336)	(2,841,668)	(251,289,907)	689,860,139
Other Income	314,839	16,580	3,791	335,210	619,044
TOTAL ADDITIONS	($1,559,831)	($771,627)	$2,165,557	($165,901)	$945,918,889

(Continued on Page 24)

San Diego City Employees' Retirement System
Statements of Changes in Plan Net Assets (continued)
For the years ended June 30, 2008 and June 30, 2007

	2008				2007
	City of San Diego	Unified Port District	Airport Authority	Total	Total
DEDUCTIONS					
Benefit Payments					
Monthly Retirement and Disability Allowances	$232,880,929	$10,048,165	$404,745	$243,333,839	$224,669,237
13th Check	4,527,141	168,975	4,014	4,700,130	4,522,573
Corbett Benefit	5,524,855	-	-	5,524,855	5,613,906
Death Benefit	444,932	10,000	-	454,932	457,035
Total Benefit Payments	243,377,857	10,227,140	408,759	254,013,756	235,262,751
Refunds of Members' Contributions	3,581,254	71,249	214,187	3,866,690	3,393,507
Administrative Expenses	14,572,788	881,517	322,041	15,776,346	19,103,395
DROP Interest Expenses	22,634,121	378,501	38,059	23,050,681	20,263,468
TOTAL DEDUCTIONS	284,166,020	11,558,407	983,046	296,707,473	278,023,121
NET ASSETS HELD IN TRUST FOR PAYMENT OF PENSION BENEFITS					
BEGINNING OF YEAR	4,389,145,424	239,468,237	53,106,799	4,681,720,460	4,013,824,692
NET INCREASE (DECREASE)	(285,725,851)	(12,330,034)	1,182,511	(296,873,374)	667,895,768
END OF YEAR	$4,103,419,573	$227,138,203	$54,289,310	$4,384,847,086	$4,681,720,460

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

San Diego City Employees' Retirement System
Statement of Fiduciary Net Assets - Agency Fund
City of San Diego Preservation of Benefits Fund
As of June 30, 2008

ASSETS		
Cash and Cash Equivalents		
Cash or Equity in Pooled Cash and Investments with the City of San Diego	$	14,607
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents		111,413
Total Cash and Cash Equivalents		126,020
Receivables		
Accrued Interest Receivable		714
Total Receivables		714
TOTAL ASSETS	$	126,734
LIABILITIES		
Accounts Payable	$	331
Sundry Trust Liability		126,403
TOTAL LIABILITIES	$	126,734
NET ASSETS	$	(0)

For a full understanding of the Statement of Fiduciary Net Assets, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2008 and June 30, 2007

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 10. Legal Action and Note 11. Subsequent Events* provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2008 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.

In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 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. Under the 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 approved their respective Participation and Administration Agreements, and in September 2007, the City Council adopted a necessary enabling resolution approving each Agreement. To confirm the separation of the City, Port and Airport plans, SDCERS filed requests with the IRS for separate determination letters for the Port and Airport during 2008. These requests remain pending. Separate financial statements are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. Separate statements are presented for 2008 only, as that is the year for which separate plans were effective. SDCERS worked with its custodian, State Street Bank & Trust Company (State Street), to implement the necessary accounting procedures to present separate financial statements by plan sponsor even while the assets remain pooled for investment purposes.

GASB Statement No. 50, *Pension Disclosures*, which is effective for the fiscal year ending June 30, 2008 and was implemented by SDCERS during 2008, requires the Group Trust 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 requires the Group Trust 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.

SDCERS is also the fiduciary of an agency fund for the City of San Diego's Preservation of Benefit Plan. The agency fund accounts for assets held by SDCERS in a trustee capacity or as an agent on behalf of the City. The agency fund is custodial in nature and does not measure the results of operations. See *Note 8. Preservation of Benefit Plan Activity* for additional information.

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 in accordance with SDCERS' Group Trust. SDCERS' investments are stated

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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 departments 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 $5,122,182 and $490,168 on deposit in the pool as of June 30, 2008 and June 30, 2007, respectively.

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

The balances in the audited financial statements of Cash and Cash Equivalents on Deposit with the Custodial Bank and Fiscal Agents totaled $501,400,271 as of June 30, 2008, and $527,795,020 as of June 30, 2007. 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 $432,367,755 as of June 30, 2008, and $433,414,612 as of June 30, 2007. The market neutral portfolios are classified as domestic fixed income (short duration - defensive) investment strategies in SDCERS' strategic target asset allocation. SDCERS does not have a target investment allocation to cash.

Receivables

SDCERS' receivables reflect 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.

Investments

The 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. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the 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, provides the market values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment 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

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Liabilities

Liabilities reflect accrued financial obligations of SDCERS as of June 30, 2008 and June 30, 2007, 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. 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' administrative expenses are paid from plan assets. Fees for investment management, actuarial services, custodial bank services and other operational costs are netted against annual additions to plan assets.

Income Taxes

Under Internal Revenue Code Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS' Group Trust and the three separate defined benefit plans participating in the Group Trust are 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 a defined benefit 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. In June and August 2008, SDCERS filed applications for determination letters for the Group Trust and for the separate plans and trusts sponsored by the City, Port and Airport. Those applications are pending (See *Note 7. IRS Tax Determination Letter and Voluntary Correction Program Filings)*.

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 valuation 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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements in order to conform to the 2008 presentation.

2. Plan Descriptions

General

SDCERS administers three separate defined benefit pension plans for the City, Port and Airport, and SDCERS 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 Airport as a separate agency. In 2003, the Airport entered into an agreement with SDCERS to have SDCERS administer its defined benefit plan.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified multiple employer defined benefit plan for the City, the Port and the Airport. However, as of July 1, 2007, the City, Port and Airport plans have been separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust, which was

San Diego City Employees' Retirement System
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established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, whose plans cover all eligible employees. In 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 Plans provide for five-year vesting for employees to be eligible to receive pension benefits. The City Plan 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 (www.sandiego.gov/comptroller/reports/index.shtml) as a blended component unit and reported as a pension trust fund in fiduciary funds.

Membership

All City, Port and Airport employees receiving employment benefits are eligible to participate in SDCERS. Salaried employees hired on or after August 11, 1993, became members of SDCERS upon employment, except for elected officers who have the option 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 463 in FY 2008. This was comprised of a net increase of 185 Members and increase of 278 Retirees.

			As of June 30, 2008				As of June 30, 2007			
			City General Members	City Safety Members	Port All Members	Airport All Members	City General Members	City Safety Members	Port All Mem-bers	Airport All Members
Members		Active Vested	3,392	1,417	372	164	3,449	1,439	371	139
2008:	12,474	Deferred Vested	734	168	70	22	685	161	61	18
2007:	12,289	Active Non-Vested	2,588	1,090	193	177	2,623	983	188	185
Increase:	185	Inactive Non-Vested	1,521	320	206	40	1,472	288	193	34
Retirees		Retired	3,560	2,341	322	11	3,402	2,232	314	9
2008:	7,318									
2007:	7,040	DROP Participants	609	430	39	6	602	443	35	3
Increase:	278									
Total Members and Retirees										
2008:	19,792	Totals	12,404	5,766	1,202	420	12,233	5,546	1,162	388
2007:	19,329									
Increase:	463									

San Diego City Employees' Retirement System
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Post-Employment Healthcare Benefit Plan (HCB Plan)

Pursuant to the San Diego Municipal Code, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's post-employment healthcare benefit plan for health-eligible retirees. 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. The HCB Plan is funded by the City.

3. Deposits and Investments

Cash

At June 30, 2008 and June 30, 2007 SDCERS' cash or equity in pooled cash and investments and cash and cash equivalents were as follows:

	June 30, 2008	June 30, 2007
Cash or equity in pooled cash and investments on deposit with the City of San Diego	$5,122,182	$490,168
Cash and cash equivalents on deposit with Custodial Bank and Fiscal Agents[1]	501,400,271	527,795,020
Total Cash and Cash Equivalents	$506,522,453	$528,285,188

[1] Includes cash collateral from market neutral portfolios (defensive, domestic fixed income strategy) that totaled $432,367,755 as of June 30, 2008 and $433,414,612 as of June 30, 2007. This amount also includes residual cash of $69,032,516 as of June 30, 2008 and $94,380,408 as of June 30, 2007, 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 benefits and SDCERS' operational expenses.

Investments

The Board has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the City Council. These investments include bonds, notes or other obligations, real estate investments, common stock, preferred stock and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. An asset class that may be risky on its own could lessen the risk of the total portfolio due to its low correlation with other asset classes in the portfolio. Investment policies permit SDCERS' Board to invest in financial futures contracts provided the contracts do not hedge 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 $294,973,905 for the year ended June 30, 2008, and $464,180,996 for the year ended June 30, 2007. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
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Through its investment objectives and policies, the Board has placed considerable importance on both generating a reasonable rate of return above inflation and on the preservation of capital. Investments are made only after the risk/reward trade offs are clearly understood.

Portfolio Risk – Credit, Interest Rate, and Foreign Currency

SDCERS investment portfolio includes fixed income strategies to diversify the investment portfolio. 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. 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, 2008 was 34%. The fixed income 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 underlying borrower to a debt instrument will not fulfill its obligations. Nationally-recognized statistical rating organizations assign ratings to measuring credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors. SDCERS employs a domestic fixed income manager that invests in convertible bonds. When assessing convertible bonds, credit risk is 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.

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The permitted securities and derivatives for the two domestic core-plus fixed income managers are as follows:

Fixed Income Securities (including "stripped" issues):

U.S. Treasuries and Agencies

U.S. corporate securities

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

U.S. traditional preferred and adjustable rate preferreds

Mortgage pass-through securities, such as: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC); savings and loans, and banks, and collateralized mortgage obligations

Asset-backed and Commercial Mortgage-Backed Securities

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, term deposits, and commercial paper

U.S. and Eurodollar floating rate notes and CDs

U.S. money market funds and bank short-term investment funds

Foreign Government and Supra-National Agencies*

San Diego City Employees' Retirement System
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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

Other: Fixed Income Commingled and Mutual Funds (as approved)

* 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:

80% Baa/BBB* and 20% B* for a domestic core-plus fixed income manager; and

Ba/BB* for core-plus fixed income manager with tactical discretion to invest in Non-U.S. fixed income strategies.

* Or refers to an equivalent rating by at least one of the major rating services, e.g., Moody's, S&P, Fitch.

The permitted securities for SDCERS' domestic convertible bond portfolio are as follows:

Convertible bonds

Convertible preferred stocks

Common stocks

Straight debt and synthetic convertibles

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Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

SDCERS' domestic convertible bond portfolio will generally maintain an average rating of at least BB+.

The permitted securities and derivatives for SDCERS' International fixed income portfolio are as follows:

Developed Markets Investments

- Sovereign and supranationals
- Eurodollar bonds
- Corporates
- Mortgages of companies or governmental agencies located in developed countries

Emerging Market Investments

- Sovereign and corporate debt in countries outside the Citi World Government Bond Index ex-U.S.

Derivatives

- Interest Rate Futures
- Options and Swaptions on eligible instruments
- Interest Rate and Currency Swaps
- Foreign Exchange Forwards and Spot Transactions
- Covered put and call options may be written against bonds and currencies to generate additional income.

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, Fitch. Credit ratings refer to the long-term foreign currency rating.

The following tables identify the credit quality of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2008 and June 30, 2007.

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June 30, 2008 and June 30, 2007

Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)
As of June 30, 2008

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Collateralized Mortgage Obligations	Corporates[1]	U.S. Government & Agency Obligations[2]	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
U.S. Treasury	U.S. Treasury	$73,528,253	$ -	$ -	$ 73,528,253	$ -	$ -	$ -	$ -	$ -
AAA	Aaa	482,317,302	68,496,032	5,773,765	261,768,625	6,981,207	8,220,677	22,270,831	108,806,165	–
AAA	Aa1	984,478	–	–	984,478	–	–	–	–	–
AAA	NR	72,565,199	71,553,526	–	–	1,011,673	–	–	–	–
AA+	Aaa	3,067,691	–	1,986,422	–	–	–	1,081,268	–	–
AA	Aaa	30,221,271	–	843,523	–	–	–	9,603,321	19,774,428	–
AA+	Aa1	8,209,891	–	8,209,891	–	–	–	–	–	–
AA+	Aa3	565,823	–	–	565,823	–	–	–	–	–
AA+	A3	436,478	–	–	–	436,478	–	–	–	–
AA	Aa1	16,655,500	–	14,280,471	573,702	–	–	1,801,326	–	–
AA	Aa2	4,411,737	–	4,018,885	392,851	–	–	–	–	–
AA	Aa3	1,377,245	–	398,152	–	979,093	–	–	–	–
AA	NR	1,097,480	–	1,097,480	–	–	–	–	–	–
AA-	Aaa	443,046	–	–	443,046	–	–	–	–	–
AA-	Aa1	4,017,854	–	3,077,007	–	–	–	940,848	–	–
AA-	Aa2	4,653,111	–	4,222,796	–	–	–	430,314	–	–
AA-	Aa3	37,263,389	–	36,375,800	–	–	–	887,589	–	–
AA-	A1	614,015	–	614,015	–	–	–	–	–	–
AA-	Baa1	1,516,402	–	1,516,402	–	–	–	–	–	–
A+	Aa2	6,409,315	–	6,409,315	–	–	–	–	–	–
A+	Aa3	14,592,143	–	13,320,123	–	–	–	1,272,020	–	–
A+	A1	16,324,659	–	16,324,659	–	–	–	–	–	–
A+	Baa1	4,646,558	–	4,646,558	–	–	–	–	–	–
A	Aaa	1,866,875	–	–	–	1,866,875	–	–	–	–
A	Aa2	277,509	–	–	–	277,509	–	–	–	–
A	Aa3	2,112,589	–	2,112,589	–	–	–	–	–	–
A	A1	17,229,718	–	17,229,718	–	–	–	–	–	–
A	A2	22,192,351	–	19,942,856	–	–	–	2,249,496	–	–
A	Baa3	780,607	–	780,607	–	–	–	–	–	–
A	NR	764,750	–	764,750	–	–	–	–	–	–
A-	Aa3	1,076,916	–	1,076,916	–	–	–	–	–	–
A-	A2	5,032,333	–	4,117,190	–	–	–	915,142	–	–
A-	A3	4,903,217	–	4,903,217	–	–	–	–	–	–
A-	Baa1	7,626,376	–	7,626,376	–	–	–	–	–	–
A-	Baa2	294,043	–	–	–	294,043	–	–	–	–

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)
As of June 30, 2008 (continued)

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Collateralized Mortgage Obligations	Corporates[1]	U.S. Government & Agency Obligations[2]	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
BBB+	Baa1	4,624,771	–	3,604,106	–	–	–	1,020,665	–	–
BBB+	Baa2	8,125,802	–	7,417,937	–	707,865	–	–	–	–
BBB+	Baa3	4,731,099	–	4,731,099	–	–	–	–	–	–
BBB+	NR	1,766,218	–	1,459,395	–	–	–	306,823	–	–
BBB	A2	172,038	–	172,038	–	–	–	–	–	–
BBB	A3	2,952,951	–	2,487,716	–	–	–	465,235	–	–
BBB	Baa1	1,560,021	–	1,491,844	–	68,177	–	–	–	–
BBB	Baa2	4,480,334	–	3,905,639	–	574,695	–	–	–	–
BBB	Baa3	4,010,633	–	1,027,331	2,983,302	–	–	–	–	–
BBB-	Baa2	3,011,541	–	–	–	3,011,541	–	–	–	–
BBB-	Ba1	2,259,283	–	2,259,283	–	–	–	–	–	–
BBB-	Baa3	1,285,115	–	1,285,115	–	–	–	–	–	–
BBB-	NR	4,437,791	–	460,291	–	3,977,500	–	–	–	–
BB+	Ba1	28,084	–	28,084	–	–	–	–	–	–
BB+	Ba2	480,926	–	–	–	–	–	–	480,926	–
BB+	Ba3	1,397,070	–	1,397,070	–	–	–	–	–	–
BB+	Baa3	9,044,350	–	6,873,098	–	2,171,252	–	–	–	–
BB	Ba1	2,017,033	–	2,017,033	–	–	–	–	–	–
BB	Baa3	1,018,069	–	–	–	1,018,069	–	–	–	–
BB-	B3	342,323	–	–	–	342,323	–	–	–	–
BB-	Ba2	180,006	180,006	–	–	–	–	–	–	–
BB-	Ba3	1,636,964	–	1,636,964	–	–	–	–	–	–
B+	B1	10,670	–	10,670	–	–	–	–	–	–
B+	B2	2,206,750	–	2,206,750	–	–	–	–	–	–
B	B1	4,581,425	–	4,581,425	–	–	–	–	–	–
B	B3	2,164,015	–	2,164,015	–	–	–	–	–	–
NR	A1	5,756,858	–	5,756,858	–	–	–	–	–	–
NR	A2	176,276	–	–	–	–	–	176,276	–	–
NR	Aaa	18,237,474	9,099,043	–	–	1,564,165	–	7,574,266	–	–
NR	Aa2	1,975,622	–	–	–	–	–	1,975,622	–	–
NR	Baa2	110,506	–	–	–	–	–	–	–	110,506
NR	NR	279,160,956	578,624	123,556,622	138,480,864	5,571,211	10,973,636	–	–	–
Totals		$1,224,019,097	$149,907,231	$362,199,866	$479,720,944	$30,853,676	$19,194,313	$52,971,042	$129,061,519	$ 110,506

[1]Corporates include convertible bonds from SDCERS' convertible bond manager.
[2]Includes municipal holdings as well.

San Diego City Employees' Retirement System
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Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)

As of June 30, 2007

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Collateralized Mortgage Obligations	Corporates[1]	U.S. Government & Agency Obligations[2]	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
U.S. Treasury	U.S. Treasury	$145,185,029	$ -	$ -	$145,185,029	$ -	$ -	$ -	$ -	$ -
AAA	Aaa	364,513,998	55,729,412	6,285,935	201,676,630	21,009,414	2,045,715	–	77,766,892	–
AAA	NR	80,722,279	79,264,450	–	233,656	1,224,173	–	–	–	–
AA+	Aaa	3,068,569	–	1,999,841	–	1,068,728	–	–	–	–
AA	Aaa	9,956,964	–	1,719,789	–	–	–	8,237,176	–	–
AA+	Aa1	10,216,848	–	2,504,418	–	–	–	–	7,712,430	–
AA	Aa1	17,101,928	–	16,507,454	594,474	–	–	–	–	–
AA	Aa2	7,989,244	–	3,491,251	–	–	4,497,994	–	–	–
AA-	Aaa	3,098,064	–	–	–	–	3,098,064	–	–	–
AA-	Aa1	2,403,955	–	2,403,955	–	–	–	–	–	–
AA-	Aa2	495,485	–	495,485	–	–	–	–	–	–
AA-	Aa3	14,313,190	–	10,714,765	–	–	3,598,425	–	–	–
A+	Aa1	3,527,832	–	3,527,832	–	–	–	–	–	–
A+	Aa3	11,926,677	–	10,627,526	–	–	1,299,151	–	–	–
A+	A1	16,981,377	–	16,181,724	–	–	799,654	–	–	–
A	Aa3	572,954	–	291,583	–	281,371	–	–	–	–
A	A1	739,553	–	739,553	–	–	–	–	–	–
A	A2	7,302,484	–	5,996,431	–	–	–	1,306,053	–	–
A-	Aa3	1,143,600	–	1,143,600	–	–	–	–	–	–
A-	A2	3,236,122	–	3,236,122	–	–	–	–	–	–
A-	A3	4,238,955	–	4,026,099	–	–	–	–	212,855	–
A-	Baa1	4,775,911	–	4,775,911	–	–	–	–	–	–
A-	Baa2	349,547	–	–	–	349,547	–	–	–	–
BBB+	Baa2	4,727,145	–	2,573,137	–	845,646	–	–	541,584	766,777
BBB+	Baa3	3,645,536	–	3,645,536	–	–	–	–	–	–
BBB	A2	197,261	–	197,261	–	–	–	–	–	–
BBB	A3	421,004	–	–	–	–	–	421,004	–	–
BBB	Baa1	7,863,615	–	6,921,078	–	80,533	–	–	862,004	–
BBB	Baa2	893,445	–	195,244	–	698,201	–	–	–	–

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Credit Quality of SDCERS' Fixed Income Strategies (Domestic & International)

As of June 30, 2007 (continued)

S&P Quality Rating	Moody's Quality Rating	Total Fair Value	Collateralized Mortgage Obligations	Corporates[1]	U.S. Government & Agency Obligations[2]	Asset-Backed Securities	Short-Term/ Other	International Corporates	International Government Obligations	International Asset-Backed Securities
BBB	Baa3	2,017,221	–	929,011	1,088,210	–	–	–	–	–
BBB	NR	1,603,753	–	1,603,753	–	–	–	–	–	–
BBB-	Baa2	3,963,965	–	–	–	3,571,125	–	392,840	–	–
BBB-	Ba1	4,302,781	–	4,302,781	–	–	–	–	–	–
BBB-	Baa3	4,461,416	–	1,301,157	–	3,160,259	–	–	–	–
BBB-	NR	4,898,235	–	4,898,235	–	–	–	–	–	–
BB+	Ba1	6,092,963	–	6,092,963	–	–	–	–	–	–
BB+	Ba2	1,624,000	–	–	–	–	–	–	1,624,000	–
BB+	Ba3	1,301,025	–	–	–	–	–	–	1,301,025	–
BB	Ba1	5,537,145	–	5,537,145	–	–	–	–	–	–
BB	Ba3	4,105,928	–	4,105,928	–	–	–	–	–	–
BB	Baa1	1,000,160	–	–	–	–	–	1,000,160	–	–
BB	Baa3	1,244,764	–	–	–	1,244,764	–	–	–	–
BB-	B1	3,130,001	–	–	–	–	–	–	3,130,001	–
BB-	B3	1,175,624	–	–	–	1,175,624	–	–	–	–
BB-	Ba2	232,748	232,748	–	–	–	–	–	–	-
BB-	Ba3	1,771,134	–	1,771,134	–	–	–	–	–	–
B+	B1	10,945	–	10,945	–	–	–	–	–	–
B+	NR	2,290,362	–	–	–	–	–	–	2,290,362	–
B	B1	4,325,829	–	4,325,829	–	–	–	–	–	–
NR	Aaa	16,952,678	10,391,910	1,066,927	–	2,425,398	–	3,068,444	–	–
NR	Aa3	3,469,949	–	3,469,949	–	–	–	–	–	–
NR	A3	1,623,788	–	–	–	–	–	–	1,623,788	–
NR	NR	231,196,305	2,703,605	121,864,631	5,681,717	8,241,859	28,580,073	32,306,862	31,817,559	–
Totals		$1,039,941,290	$148,322,124	$271,481,918	$354,459,716	$45,376,642	$43,919,075	$46,732,538	$128,882,500	$ 766,777

[1]Corporates include convertible bonds from SDCERS' convertible bond manager.

[2]Includes municipal holdings as well.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, GNMA securities have been included in this credit risk disclosure as AAA/Aaa and NR/NR. NR represents those securities that are not rated by one of the nationally recognized statistical rating organizations (NRSROs).

Concentration guidelines for the domestic core-plus fixed income portfolios are as follows:

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

• Issue	2.5% - 3% of portfolio
• Issuer	2.5% - 5% of portfolio
• Emerging Market Exposure (U.S. dollar)	10% - 15% of portfolio
• Foreign Investments*	30% of portfolio
• Foreign Currency Exposure*	25% of non-U.S. dollar investments

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

Concentration guidelines for the international fixed income portfolio are as follows:

- In the developed market component, no more than 20% of the portfolio will be invested in any single sovereign issue.
- The maximum amount to any non-sovereign issuer (excluding AAA agencies and supranationals) will be 3%.
- The maximum exposure to emerging market countries shall not exceed 30% of the market value of the international fixed income portfolio.
- The maximum exposure to any single emerging market country rated investment grade by a major rating agency is 5% and for those countries rated below BBB- (or equivalent) is 3%.

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.

Convertible bonds are typically not subject to interest rate risk as convertible bonds are positively correlated to interest rate movements versus other fixed income securities. In SDCERS' domestic convertible bond portfolio, there were nine securities as of June 30, 2008 and three securities as of June 30, 2007 which had interest rate sensitivity. These securities (convertible bonds and preferred stock) have been included in the presentation of the interest rate risk exposure.

The following tables identify the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2008 and June 30, 2007.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2008

Type of Security	Effective Duration (in years)	Fair Value[1]
Collateralized Mortgage Obligations:		
Collateralized Mortgage Obligations	4.24	$149,907,231
Corporates:		
Convertible Bonds	10.30	125,572,918
Corporate Bonds	4.22	289,591,004
Preferred Stock	7.43	19,498,282
Government & Agency Obligations:		
FHLMC	4.80	38,024,532
FNMA	4.62	329,491,968
GNMA I	4.56	5,270,503
GNMA II	1.45	1,077,043
Government Issues	5.24	226,936,146
Municipals	8.20	7,982,272
Asset-Backed Securities:		
Other Asset-Backed Securities	2.91	30,964,182
Short-Term / Other:		
Short-Term	0.25	21,023,004
Options-Futures	0.00	(69,438)
Total	4.60	$1,245,269,647

[1]Fair Value is different from Plan Net Asset investments by $21,250,550, as the Fair Value amount includes preferred stock holdings that have a duration, and it excludes credit default swaps, mutual funds, and short-term investment funds for which duration cannot be calculated.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2007

Type of Security	Effective Duration (in years)	Fair Value[1]
Collateralized Mortgage Obligations:		
Collateralized Mortgage Obligations	3.73	$148,322,124
Corporates:		
Convertible Bonds	2.05	116,461,044
Corporate Bonds	2.50	201,746,911
Government & Agency Obligations:		
U.S. Treasury STRIP	11.87	3,876,103
FHLMC	4.89	32,261,836
FNMA	4.54	170,308,034
GNMA I	0.73	2,243,576
GNMA II	0.80	1,375,475
Government Issues	5.82	271,594,509
Municipals	11.10	1,682,684
Asset-Backed Securities:		
Credit Card Receivables	0.52	900,844
Other Asset-Backed	4.96	45,242,575
Short-Term / Other:		
Short-Term	0.00	46,611,411
Total	4.27	$1,042,627,126

[1]Fair Value is different from Plan Net Asset investments by $2,685,836, which consists of interest rate swaps and other short-term instruments for which duration cannot be calculated.

SDCERS' domestic core-plus fixed income manager that has tactical discretion to invest in non-U.S fixed income strategies is restricted to a duration of +/- 2 years from that of the effective duration of the Lehman Brothers Aggregate Index. The other domestic core-plus fixed income manager is restricted to a duration of +/- 1 year from that of the effective duration of the Lehman Brothers Aggregate Index. The international fixed income manager should have a duration within +/- 2 years of the Citi World Government Bond Index ex-U.S.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

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, 2008 and June 30, 2007, 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. With respect to 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, 2008, and June 30, 2007, 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 $69,032,516 as of June 30, 2008, and $94,380,408 as of June 30, 2007.

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 $118,694,052 and $29,535,197 as of June 30, 2008, and June 30, 2007, 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 $674,085,233 and $854,630,428 as of June 30, 2008, and June 30, 2007, is also at risk as it is 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, 2008 and June 30, 2007

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, 2008 and June 30, 2007.

Foreign Currency Risk[1]

As of June 30, 2008
(All Values are in U.S. Dollars)

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollar	$845,437	$18,803,635	$13,161,937	$32,811,009
Canadian Dollar	173,782	17,329,482	2,844,857	20,348,122
Swiss Franc	195,696	55,033,265	-	55,228,961
Czech Koruna	-	5,526,956	-	5,526,956
Danish Krone	1,804	7,381,012	4,453,740	11,836,555
Euro Currency	1,545,296	213,331,045	81,006,541	295,882,883
UK Pound	1,025,796	146,672,975	11,070,546	158,769,317
Hong Kong Dollar	579,939	29,468,972	-	30,048,911
Indonesian Rupiah	-	4,563,362	-	4,563,362
Japanese Yen	2,302,950	138,106,832	52,193,439	192,603,220
South Korean Won	1,242	3,926,488	-	3,927,730
Norwegian Krone	444,317	1,086,348	-	1,530,665
New Zealand Dollar	-	906,694	-	906,694
Swedish Krona	14,907	8,005,486	18,741,075	26,761,468
Singapore Dollar	237,438	3,546,311	-	3,783,750
South African Rand	-	4,915,551	-	4,915,551
Total	$7,368,604	$658,604,414	$183,472,135	$849,445,153

[1]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, 2008 and June 30, 2007

Foreign Currency Risk[1]
As of June 30, 2007
(All Values are in U.S. Dollars)

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian 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
Total	$3,282,482	$756,888,873	$163,058,585	$923,229,940

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

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 their specific investment guidelines included in each of their investment management agreements.

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. The notional or contractual amount of futures contracts as of June 30, 2008 and June 30, 2007 was $417,353,965 and $730,275,105, respectively. The fair value of of options and swaps, included in the short-term investments line on the Statement of Plan Net Assets, was ($1,636,403) and ($2,692,337) as of June 30, 2008 and June 30, 2007, respectively.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

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.

Investments Highly Sensitive to Interest Rate Changes

SDCERS has investments that contain terms that increase the sensitivity of their fair values to increasing interest rates. The total value of securities that are more highly sensitive to interest changes in the portfolio as of June 30, 2008, and June 30, 2007 are depicted in the table below.

	June 30, 2008		June 30, 2007	
	Market Value	Percent of Fixed Income Portfolio	Market Value	Percent of Fixed Income Portfolio
Asset Backed Securities	$3,825,605	0.313%	$24,727,475	2.38%
Interest Only Strips	1,442,261	0.118	4,783,568	0.46
Inverse Floating Rate Notes	3,774,227	0.308	4,356,327	0.42
Holdings with Greater 10 Years Duration	63,873,052	5.218	45,991,951	4.42

Although SDCERS holds such investments, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

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% allocated 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. Unfunded capital commitments as of June 30, 2008 totaled $156,889,035. As of June 30, 2008 and June 30, 2007, real estate investments totaled $487,530,569 and $440,972,250, respectively.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Securities Lending

SDCERS has entered into an agreement with State Street 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, 102% 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, 105% of the market value of the loaned securities.

During FY 2008 and FY 2007, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. There were no such failures by any borrower during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street. 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, 2008, and June 30, 2007, securities on loan collateralized by cash had a fair value of $652,974,378, and $831,415,438, respectively, and a collateral value of $674,085,233 and $854,630,428, respectively, which were reported in the assets and liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2008, and June 30, 2007, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of $118,694,052 and $29,535,197, respectively, and a collateral value of $123,657,711 and $34,074,568, respectively, which were not reported in the assets or liabilities in the accompanying Statements of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2008, and June 30, 2007, for its securities lending activities was $797,742,944 and $888,704,996, 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, 2008, this investment pool had an average duration of 41.84 days and an average weighted maturity of 395.61 days for USD collateral. As of June 30, 2007, this same investment pool had an average duration of 68.25 days and an average weighted maturity of 532.81 days. Beginning in FY 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2008, the Euro collateral pool had an average duration of 37 days and an average weight maturity of 603 days. As of June 30, 2007, this same Euro collateral pool had an average duration of 49 days and an average weighted final maturity of 871 days.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk and collateral reinvestment risk. However, State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined rates designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. For FY 2008 contributions, the Normal Cost and Actuarial Accrued Liability were determined using the Projected Unit Credit (PUC) actuarial funding method. Beginning in FY 2009, contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, in accordance with methodology changes approved by the Board in September and October 2006.

In FY 2006, the City paid the Annual Required Contribution (ARC) at a full actuarially-determined rate using the PUC method (see *Note 10. 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 the City's Retirement UAL Reserve Fund (FY 2006 and FY 2007). In FY 2008, the City contributed the ARC plus an additional amount to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year's retiree health expenses. The Port and the Airport both make annual plan sponsor contributions to SDCERS based upon the ARC 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 2007 and FY 2008.

The City's June 30, 2006 Actuarial Valuation used a 27-year amortization period that was required by the Gleason settlement. Beginning with the June 30, 2007 Actuarial Valuation, the City's UAL will be amortized over a closed 20-year period, and the first payment was made in FY 2009 on July 1, 2008. The ARC formula now includes an amount to ensure there is no negative amortization of the City's UAL during the 20 year period. 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 ARC and the amount of contributions made to SDCERS by the City for the three year period from 2003 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. The PUC actuarial funding methodology was used to compute the contribution rates for FY 2007 and FY 2008, while EAN methodology was used for the FY 2009 contribution rates.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

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

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

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

[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, 2008 and June 30, 2007

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

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

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

[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, 2008 and June 30, 2007

FY 2009 Contribution Rates (As of July 1, 2008)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2007, Actuarial Valuation)					
	General	Elected Officers	Police	Fire	Lifeguard	Weighted Total
Normal Cost[1]	9.87%	20.64%	18.59%	17.83%	20.39%	12.92%
Amortization Payment[1,2]	13.84	27.10	23.07	27.41	18.21	17.53
Total Contribution Rate	23.71	47.74	41.66	45.24	38.60	30.45
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	22.81	45.94	40.08	43.54	37.14	29.30

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Unified Port of San Diego (June 30, 2007, Actuarial Valuation)		
	General	Elected Officers	Police
Normal Cost[1]	13.94%	18.40%	15.28%
Amortization Payment[1,2]	3.80	3.75	3.81
Total Contribution Rate	17.74	22.15	19.09
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	17.07	21.31	18.37

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2007, Actuarial Valuation)
	All Members
Normal Cost[1]	14.84%
Amortization Payment[1,2]	-1.69
Total Contribution Rate	13.15
Total Contribution Rate if paid at the beginning of the year (July 1, 2008)	12.66

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

[2]To avoid "negative amortization," the amortization payment includes full interest on the UAL.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Members are required to contribute a percentage of their annual salary to the Group Trust. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general and elected officers).

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 2008 Member Average Contribution Rates	FY 2007 Member Average Contribution Rates	FY 2009 Member Average Contribution Rates
Actuarial Valuation Dates	6/30/2006	6/30/2005	6/30/2007
City of San Diego			
General Members[1]	9.87%	9.86%	10.06%
Safety Members[1]	11.87%	12.07%	12.69%
Unified Port of San Diego			
General Members[1]	9.27%	9.30%	9.83%
Safety Members[1]	11.93%	11.94%	12.74%
San Diego County Regional Airport Authority			
All Members	9.44%	9.46%	10.02%

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

All or part of the member's contribution rate 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 FY 2008 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:	1.40% to 5.40%
For Police Members:	4.10%
For Fire Members:	4.30%
For Lifeguard Members:	3.30% to 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

For FY 2008, 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 2008, 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.

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%

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

As of June 30, 2008, a total of 802 members were making payments on installment contracts compared to 945 at June 30, 2007. 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 $14,340,795 and $17,247,817 has been included in the accompanying Statements of Plan Net Assets for the DB Plan at June 30, 2008 and June 30, 2007, respectively.

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:

	2008	2007
Reserved for Investments in Properties	$522,829	$201,470
Reserved for Receivables	14,336,726	17,220,695
Reserved for Encumbrances	349,598	2,673,387
Reserved for Members' Contributions	666,616,991	610,083,552
Reserved for Plan Sponsors' Contributions	391,096,458	441,957,553
Reserved for Current Retired Members	2,227,434,010	1,957,279,341
Plan Continuation Liability	1,196,019,884	1,013,802,149
Fund Deficit - Equivalent to Plan Continuation Liability	(1,196,019,884)	(1,013,802,149)
Reserved for Supplemental COLA	14,212,561	15,280,975
Undistributed Earnings Reserve	801,612,591	846,068,996
Total Reserves[1]	$4,116,181,764	$3,890,765,969

[1] 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) at June 30 of each year. Unrealized gains at June 30, 2007 and 2008 were $790,954,491 and $268,665,322, respectively.

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

Reserved 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' contribution balances 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

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, 2007 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.

Reserved for Supplemental COLA. These are funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1982 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. The City's external auditor has completed their review of the FY 2006 calculations and their report will be submitted for approval at the December Board meeting. The FY 2007 surplus will be credited upon completion of the City's external auditor review of the associated calculations and Board approval.

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2007 is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAL as A Percentage Of Covered Payroll ((b – a) / c)
City	$4,413,411	$5,597,653	$1,184,242	78.8%	$512,440	231.1%
Port	230,585	246,538	15,953	93.5%	37,160	42.9%
Airport	50,812	46,637	(4,175)	109.0%	21,957	-19.0%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent, closed	Level percent, closed	Level percent, closed
Remaining amortization period	20 years, with no negative amortization	14 years, with no negative amortization	14 years, with no negative amortization
Asset valuation method	Smoothed market, 25% current market and 75% prior AVA	Smoothed market, 25% current market and 75% prior AVA	Smoothed market, 25% current market and 75% prior AVA
Actuarial Assumptions:			
- Investment rate of return	8.0%	8.0%	8.0%
- Wage inflation	4.25%	4.25%	4.25%
- Additional merit increase	0.5% - 7.5%	0.5% - 7.5%	0.5% - 4.5%
- Cost of living increase	2%	2%	2%

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, which were adopted by the 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; 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 had been removed.)

These changes, incorporated into the June 30, 2007 actuarial valuation, affect the City, Port, and Airport's FY 2009 ARC. The FY 2008 ARC was based upon the June 30, 2006 actuarial valuation prepared using the PUC funding method, a 27-year UAL amortization policy (City only), no provision for negative amortization, and with actuarial asset values set to market value.

Actuarial Valuations for the City, Port, and Airport are available on-line at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

Actuarial Experience Study and Assumption Changes

In July 2008, the Board received Cheiron's Experience Study Results and Recommendations for the period covering July 1, 2004 to June 30, 2007. At the September 2008 Board meeting, the following Actuarial Assumption changes recommended by Cheiron in the Experience Study were formally approved:

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

The financial impact of all economic and demographic assumption changes will be determined after the June 30, 2008 actuarial valuation is completed. Based on the June 30, 2007 valuation data, Cheiron estimated that the net impact of the new assumptions will produce results very close to those determined on the prior assumptions. The complete Experience Study is on-line at www.sdcers.org.

7. IRS Tax Determination Letter and Voluntary Correction Program Filings

SDCERS is a qualified governmental defined benefit plan under the Internal Revenue Code (IRC). To confirm and maintain its qualified status, SDCERS filed with the IRS an application for a Determination Letter in July 2005. 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 Deferred Retirement Option Program (DROP); 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.

On December 20, 2007, the IRS issued a Compliance Statement to SDCERS that affirmed the qualified status of the SDCERS Plan and imposed no fines or penalties on SDCERS or the City, and identified 14 failures and acceptable corrections based upon the SDCERS' VCP filings. The Compliance Statement required that certain corrective actions be taken (including passage of a tax compliance ordinance approved by the IRS) on or before June 9, 2008. All required corrections were completed before the June 9, 2008 deadline.

In the Compliance Statement, the IRS noted certain amounts that needed to be restored to SDCERS: (1) $31,618,356, including interest, for retiree medical benefits paid from the SDCERS Trust Fund per City Ordinance between 1982 and 1991; (2) $2,211,895, including interest, for unreimbursed costs of administering the retiree medical benefit between 1982 and July 1, 2006; (3) $4,209,221, including interest, for 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, for disability benefits overpaid during fiscal years 2001 through 2005. However, the IRS agreed that the City had 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.

San Diego City Employees' Retirement System
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The Compliance Statement also required 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. Some overpayments have been collected in full and for others the collection process is underway. On January 25, 2008, the IRS issued SDCERS a favorable Determination Letter, confirming SDCERS' tax-qualified status.

The Determination Letter was 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. Both actions were completed in accordance with the Determination Letter.

8. Preservation of Benefit Plan (POB Plan) Activity

With the IRS issuance of the Compliance Statement in December 2007, SDCERS stopped paying benefits above IRC Section 415(b) limits from the SDCERS Trust Fund. These benefits are now paid from the POB Plans. The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans on a pay-as-you-go basis. Benefits payable from and the costs of administering the POB Plans, as determined by SDCERS and its actuary, are paid by the respective plan sponsor. To date, there have been no payments to or from the Port or Airport's POB Plan.

The plan sponsor retains title to any assets, including cash or other investments, that they designate to pay POB Plan benefits. The City deposited $1,000,000 to its POB Plan to pay benefits for FY2008, with an additional $9,468 of interest income recorded on the funds. Actual benefits paid from the City's POB Plan in FY 2008 totaled $883,034, including $12,658 of administrative costs. The remaining balance of $126,434 will be carried forward to pay the City's FY 2009 POB Plan expenditures, currently estimated at $1,227,044. In July 2008, the City transferred $500,000 into the POB Plan to fund FY 2009 payments and transferred another $610,078 in November 2008, for a total of $1,110,078. The POB Plan will be included in the City's financial statements and CAFR.

9. Leases

Operating Leases

The following is a schedule of future minimum rental payments required under an operating lease entered into by SDCERS that has an initial, non-cancelable lease term in excess of one year as of June 30, 2008:

Year Ending June 30	
2009	$799,894
2010	897,805
2011	931,588
2012	962,793
2013	996,862
2014-2018	5,535,990
2019-2023	99,056
Total	$10,223,988

Rent expense related to operating leases was $53,948 for the year ended June 30, 2008.

10. Legal Action

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

In January 2003, a class action complaint was filed by a retired City employee (James F. Gleason) alleging that beginning in FY 1997 and continuing to the date of the complaint that the City failed to contribute amounts required by the San Diego City Charter and San Diego Municipal Code to SDCERS. A settlement was approved by the Court in July 2004 with the City paying amounts based on the actuarially calculated rates for each fiscal year covered by the settlement.

Prior to final approval of the settlement agreement, the City made a $130 million contribution to SDCERS for FY 2005 on July 1, 2004 that was not actuarially determined. For fiscal years 2006, 2007 and 2008, the City's contribution was determined by SDCERS' actuary using a 30-year fixed amortization period.

In order to secure its contribution obligations for fiscal years 2006, 2007 and 2008 under the settlement, in 2005 the City provided collateral to SDCERS in the form of trust deeds on real property worth $375 million. The trust deeds were reconveyed by SDCERS in three equal annual installments of $125 million annually. The last City contribution to SDCERS under the settlement was made on July 1, 2007 (for fiscal year 2008) and the corresponding final reconveyance of the trust deeds on the City's real property occurred in November 2007.

William J. McGuigan, et al. v. City of San Diego, San Diego Superior Court, case number GIC 849883.

In June 2005, a retired City employee (William J. McGuigan) filed a class action complaint 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 the action, but it was impacted by its settlement.

In December 2006, the Court approved the settlement on the following terms: the City (1) will receive credit for having paid SDCERS $100 million in June 2006; and (2) will pay SDCERS an additional $73 million over 5 years, to be secured by property of comparable value. In SDCERS V. City of San Diego, Case Number. 841845, SDCERS contends that the City is not entitled to credit for the $100 million payment because the payment, consisting of bond proceeds from a tobacco securitization transaction, was made to SDCERS in June 2006, six months before the McGuigan matter was settled. SDCERS has not received any of the additional $73 million due under the settlement. The case has been appealed by the San Diego Police Officers' Association (POA).

San Diego City Employees' Retirement System v. City of San Diego and City Attorney Michael Aguirre, 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.

In January 2005, SDCERS filed a lawsuit (Case Number GIC 841845) against the City and the City Attorney, Michael Aguirre, seeking a judicial declaration that SDCERS is entitled to retain its own legal counsel and demanding the return of SDCERS' privileged documents seized from certain SDCERS 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 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.

In July 2005, SDCERS filed a second lawsuit (Case Number GIC 851286) seeking a judicial determination of the legality of paying contested retirement benefits to its members. The City cross-complained seeking to "roll-back" retirement benefits approved by the City Council in November 2002 on the grounds that the benefits had been illegally granted. SDCERS filed a compulsory cross-complaint seeking damages for the cost of the benefits approved by the City Council. These two cases (GIC 841845 and GIC 851286) were consolidated.

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 was granted on March 6, 2006. The City Attorney's Petition for Writ of Mandate to set aside the trial court's ruling filed with the Fourth District Court of Appeal on April 3, 2006 was denied.

Trial of this action commenced in October 2006 and was divided into three phases. Phase 1 of the trial was completed on November 29, 2006. On December 14, 2006, the Court issued its proposed statement of

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decision ruling 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 proceeded with the remaining relief sought in its cross-complaint and found, without prejudice, that the Unions did not carry their burden on whether the matter constitutes a justiciable controversy. The City filed an objection to the proposed statement of decision on December 27, 2006 and requested a hearing. The Court entered its final decision on Phase 1, substantially denying most of the City's claims. The City's writ to the Fourth District Court of Appeal was denied as was the City's petition for review to the California Supreme Court.

The City filed an amended cross-complaint which the Court dismissed, with prejudice, on August 3, 2007, finding that the claims remaining following Phase 1 were barred by the currently-applicable statute of limitations as a matter of law. In September 2007, judgment was entered in SDCERS' favor in the benefits-related litigation filed by SDCERS in July 2005.

The City appealed the Court's ruling in both cases. On October 9, 2007, the Court stayed all proceedings pending the City's appeal. On October 24, 2007, SDCERS filed a motion to dismiss the City's appeal with the Fourth District Court of Appeal. On November 15, 2007, the Court of Appeal ordered that SDCERS' Motion to Dismiss would be considered with the appeal. On December 8 , 2008, the Appellate Court dismissed the appeal finding that the appeal was premature. The case will be remanded to the trial court for trial on the issues presented by SDCERS' cross-complaint. If SDCERS prevails on its cross-complaint, the financial impact to SDCERS would be an increase in funding, potentially in excess of $248 million.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2007-00077604-CU-MC-CTL.

In October 2007, the City filed a declaratory relief action against SDCERS for a judicial declaration that changes to Municipal Code section 24.1201.1, which was amended by ordinance on January 17, 2007, and became effective on February 16, 2007 eliminating: (1) eligibility to participate in the Deferred Retirement Option Plan (DROP), (2) elimination of the "13th check" benefit; (2) elimination of the right to purchase up to five years of additional service credit and (4) elimination of retiree health benefits applies to all employees hired after July 1, 2005. SDCERS demurred to the complaint on the grounds that the City failed to name as defendants those individual employees whose retirement benefits would be affected by a determination of the effective date of the amendments to Municipal Code section 24.1201.1. SDCERS' demurrer was sustained in March 2008. The City has filed an amended complaint naming a defendant class of employees.

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

In February 1997, the City approved amendments to the Municipal Code permitting employees to purchase up to five years of additional service credit towards their retirement benefits. The Code requires that employees pay the amount the Board "determines to be the employer and employee cost" of the service credit. Since 1997, nearly 6,000 City employees have entered into contracts to purchase service. Between 1997 and November 2003, the former SDCERS Board charged a single price per year of service for all general employees and another single price for all safety employees. During that time period, City-approved increases in retirement benefits increased the value of each year of service credit. In November 2003, the former SDCERS Board increased the price of future PSC purchases. Those prices have remained constant since then.

Beginning in September 2007, the SDCERS Board undertook a thorough review of the PSC program. SDCERS' actuary, Cheiron, has advised the SDCERS Board that the purchased service credit rates in place for contracts entered into since November 2003 cover the full projected cost to the System. Cheiron has also confirmed that the prices charged prior to that date did not cover the full projected cost of purchased service credits

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with the shortfall totaling an estimated $146 million. This shortfall 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 the SDCERS' plan sponsors. These issues also affect the Port and Airport and their respective employees, although to a lesser extent than the City. The SDCERS Board carefully considered its options and announced on November 16, 2007 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.

In November 2007, the City, through the City Attorney, filed a Petition for Writ of Mandate seeking to set aside the Board's decision not to seek revisions to thousands of purchase-of-service contracts entered into by SDCERS' members between 1997 and November 2003. The Petition also sought an order that the Board "take no further action absent full compliance with San Diego Municipal Code Sec. 24.1312." The City Council later voted to proceed only against non-retirees and the City filed a First Amended Writ Petition. On October 15, 2008, the court continued the Hearing on Petition to November 10, 2008 and requested supplemental briefing on the impact of language contained in San Diego City Charter section 143. On November 13, 2008, the Court issued its final ruling ordering that the Board set aside its November 16, 2007 action. The Court held that SDCERS' November 2007 decision to continue to amortize the funding shortfall through the City's existing unfunded actuarial liability was contrary to SDMC sec. 24.1312 and City Charter section 143, which requires that "the City's contributions shall be substantially equal to that required of employees" but that the City "shall not be required to contribute in excess of that amount, except in the case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of employees." The court found that at least part of the funding shortfall did not accrue under a "new or revised retirement plan because of past service of employees" because at least some of the service credits were purchased after the retroactive increases to the retirement factor multiplier were established. The court found that it was unlawful to charge the City for the portion of the shortfall resulting from service credits purchased between the establishment of the new rates in August 2003 and November 1, 2003. The Court declined to order that the Board take no further action absent full compliance with the Municipal Code. The ruling, as worded by the court, is unclear as to what, if any action, SDCERS must take. SDCERS is working with its counsel to evaluate the decision and is unable to determine the impact of the decision on the system at this time.

San Diego Police Officers' Association (POA) v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 05CV1581.

In August 2005, the POA as a representative body filed a complaint for damages, declaratory and injunctive relief against the City Attorney, the City, SDCERS, former Retirement Administrator Larry Grissom, past and present members of the City Council, certain former Board members, the former City Auditor, and the past and present City Managers. The POA alleged that the City had engaged in unfair labor negotiation tactics and asserted claims related to MP1 and MP2 and healthcare benefits. Judgment was entered in favor of defendants and the action was dismissed in August 2007.

The POA filed its notice of appeal in September 2007, but did not appeal the District Court's ruling that SDCERS cannot be assessed monetary damages. The appeal is now pending before the Ninth Circuit Court of Appeals. Oral argument was held on October 23, 2008.

Erica Aaron, et al. v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 06CV1451.

In July 2006, Erica Aaron filed a class action lawsuit on behalf of active and retired members of the POA naming SDCERS and others as defendants. The lawsuit is essentially identical in substance to POA v. Aguirre, Case No. 05CV1581. The primary difference between the class action and the representative action is that class members are permitted to seek their individual alleged damages from defendants, which is an amount that far exceeds what the POA could seek as a representative body.

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SDCERS won its motion for summary judgment on September 2, 2008. On October 1, 2008, the plaintiffs filed an appeal in the Ninth Circuit Court of Appeals.

San Diego Police Officers' Association v. Michael Aguirre, et al., San Diego Superior Court, case number 37-2007-00075432-CU-MC-CTL.

In September 2007, the POA filed a complaint in Superior Court for damages, declaratory and injunctive relief against the City Attorney, the City, SDCERS, various past and present members of the City Council, various former Board members, the former City Auditor, two former City Managers and a former Deputy City Manager. The allegations in this complaint mirror those in POA v. Aguirre, Case No. 05CV1581 concerning alleged improprieties surrounding the passage and implementation of MP1 and MP2. The POA initiated this action when the District Court refused to exercise supplemental jurisdiction over the State law claims after dismissing on summary judgment all of the POA's Federal law claims.

After a series of successful demurrers and motions to strike filed by both SDCERS and its co-defendants, the POA filed a Second Amended Complaint on June 12, 2008. On July 15, 2008, SDCERS filed a demurrer and motion to strike the Second Amended Complaint. The motions were heard on October 31, 2008 at which time the parties stipulated to stay the case pending a decision in SDCERS v. City of San Diego, Case No. GIC 841845.

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

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. In January 2006, the Grand Jury filed indictments against former Board members, Ron Saathoff, Cathy Lexin, and Terri Webster, as well as SDCERS' former Retirement Administrator, Lawrence B. Grissom, and SDCERS' former General Counsel, Loraine Chapin. The indictment states charges arising from alleged violations of Title 18, U.S.C. Section 371, conspiracy to commit wire and mail fraud; Title 18, U.S.C. Sections 1343 and 1346, mail fraud; and Title 18, U.S.C. Section 2, Aiding and Abetting. A motion by the defense to remove the trial judge was denied in May 2008. Trial dates, which were scheduled for March 2008, have been vacated. In October 2008, the U.S. Attorney's Office amended the indictment to include additional wire and mail fraud charges.

Pursuant to a Board Resolution approved by the Board in March 2006, SDCERS has entered into defense agreements with Mr. Grissom and Ms. Chapin. 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. In FY 2008, SDCERS paid $105,385 in defense costs for Mr. Grissom and $118,031 in defense costs for Ms. Chapin. The total defense costs paid to date are $717,250 for Mr. Grissom and $515,705 for Ms. Chapin.

San Diego Municipal Employees' Association, et al. vs. City of San Diego, et. al., San Diego Superior Court case No. 37-2008-00096145.

In June 2008, Judie Italiano, former president of the San Diego Municipal Employees' Association (MEA), and the MEA filed a claim against SDCERS, its current and former Board members and current and former employees and agents pursuant to the Tort Claims Act. Presenting a claim under the Act is a prerequisite to initiating litigation against a public entity such as SDCERS. Claims are asserted against SDCERS, its current and former Board members and current and former employees and agents for breach of contract, breach of pension agreements, negligence, breach of fiduciary duty, misrepresentation and deprivation of due process.

The claim arises from an IRS decision that SDCERS lacked the legal authority to pay any pension benefits based upon the City's Presidential Leave Benefit.

On December 19, 2007, SDCERS received a Compliance Statement from the IRS regarding the operation of SDCERS' plan. The Compliance Statement was signed by SDCERS' Board President on December 20, 2007 and ratified by the SDCERS' Board of Administration at its December 2007 meeting. The Compliance

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Statement arose from SDCERS' participation in the IRS' Voluntary Correction Program, which resulted in a complete review of SDCERS' plan and operations. Among other things, the IRS concluded that SDCERS was not legally entitled to pay Ms. Italiano benefits based upon her service as president of the MEA, which is not a SDCERS' plan sponsor.

The IRS decision required that SDCERS recalculate Ms. Italiano's benefit, using only her City service and salary to establish eligibility for and the amount of her retirement allowance. As a result, Ms. Italiano was not eligible for a retirement benefit because she did not have sufficient years of service with the City to qualify for retirement. SDCERS terminated Ms. Italiano's retirement allowance effective December 2007. In addition, since Ms. Italiano had been collecting a retirement allowance, SDCERS is seeking to collect from Ms. Italiano approximately $275,000 in retirement benefits paid up to the termination of her retirement allowance. The IRS also required that SDCERS return to the MEA contributions accepted by SDCERS for the president's union service.

In the claim, Ms. Italiano and the MEA assert that the Presidential Leave Benefit was included in a contractual agreement between Ms. Italiano's former employer, the City of San Diego and the MEA; and, thus, SDCERS is required to pay Ms. Italiano a retirement allowance based on the Presidential Leave Benefit. They further dispute that there has been any overpayment to Ms. Italiano. Italiano seeks the restoration of her pension benefits as well as other damages, including emotional distress and attorneys' fees she claims as the result of SDCERS ratification of the IRS Compliance Statement.

The claim was denied by operation of law 45 days after it was served upon SDCERS. On November 14, 2008, a complaint was filed in the San Diego Superior Court for unconstitutional impairment of contract; violation of public policy and negligence against the City of San Diego, its City Council, San Diego City Retirement System and its Board of Administration. The complaint has not yet been served on SDCERS or its Board of Administration.

Claims by Police Officers' Association and Police Officer Union Presidents, Garry Collins, Harry Eastus and James Farrar against SDCERS, designated SDCERS' employees and the City of San Diego.

In June 2008, former presidents of the San Diego Police Officers' Association (POA), Garry Collins, Harry Eastus and James Farrar, and the POA filed a claim pursuant to the Tort Claims Act. Presenting a claim under the Act is a prerequisite to initiating litigation against a public entity such as SDCERS. Claims are asserted against SDCERS, designated SDCERS' employees and the City of San Diego for breach of contract, breach of pension agreements, negligence, breach of fiduciary duty and misrepresentation.

The claim arises from the same IRS decision described in the claim of MEA and Italiano described above regarding the IRS decision that SDCERS lacked the legal authority to pay any pension benefits based upon the City's Presidential Leave Benefit.

Collins, Eastus and Farrar all served as presidents for the POA. The IRS Compliance Statement also addressed the retirement benefits for Collins, Eastus and Farrar. When the Compliance Statement was ratified, Eastus was already retired and receiving a monthly retirement allowance. Collins and Farrar had entered the Deferred Retirement Option Plan (DROP). When a member enters DROP, they cease to accrue any additional benefits, and the member's retirement allowance is calculated based on the member's years of service and salary at the time of entrance into DROP. This amount is credited to the Member's DROP Participation Account each month until the member exits DROP and terminates employment. The IRS decision required that SDCERS recalculate and correct the retirement allowance of Eastus and DROP accounts for Collins and Farrar using only their City service and salary and to return to the POA contributions accepted by SDCERS for the presidents' union service. As a result, Collins and Farrar's retirement allowance was reduced with a resulting reduction in each of their DROP accounts. Mr. Eastus' retirement allowance was also reduced.

The claimants seek specific performance and/or damages, including damages for emotional distress and attorney's fees they claim as the result of SDCERS ratification of the IRS Compliance Statement.

The claims were denied by operation of law 45 days after they were served on SDCERS.

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11. Subsequent Events

San Diego City Firefighters, Local 145 and Robert Blizzard v. San Diego City Employees' Retirement System and City of San Diego, San Diego Superior Court, case number 37-2008-000932170-CU-OE-CTL.

In October 2008, the San Diego City Firefighters, Local 145 and Robert Blizzard, a paramedic, filed a Petition for Writ of Mandate as a representative action seeking to compel SDCERS to recalculate Mr. Blizzard's retirement benefits, and all other class representatives, to include that portion of his salary paid at time and one-half and to calculate benefits for all similarly situated paramedics in the same manner. SDCERS' counsel is evaluating the case and will timely file responsive pleadings.

Mark Annis, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00092949-CU-BC-CTL

In October 2008, a class action was filed by Mark Annis on behalf of active and retired San Diego police officers. The lawsuit asserts causes of actions for violation of public policy, violation of the Meyer-Millias-Brown Act, breach of fiduciary duty, breach of trust, breach of contract, fraud and seeking an accounting, declaratory relief and a writ of mandate. The claims arise from the alleged "systemic under-funding of the San Diego pension system, which rendered it actuarially unsound." SDCERS' counsel is evaluating the claim and will timely file responsive pleadings.

Erica Aaron, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00093078-CU-OE-CTL.

On October 2, 2008, a class action was filed by Erica Aaron on behalf of active and retired San Diego police officers. The lawsuit asserts causes of action for violation of public policy, violation of the Meyer-Milias-Brown Act, breach of fiduciary duty, breach of trust, breach of contract, seeking an accounting, writ of mandate and declaratory relief. The claims arise from the alleged "systemic under-funding of the San Diego pension system, which rendered it actuarially unsound." SDCERS counsel is evaluating the claim and will timely file responsive pleadings when SDCERS is served with the complaint. It is not possible at this time to estimate the financial impact of this case.

IRS Private Letter Ruling on Preservation of Benefit Plans

In November 2006, SDCERS filed a request with the IRS 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 split this request into three separate requests – one for each plan sponsor. The 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 Plans would be funded and pay current year benefits.

On October 28, 2008, the IRS issued three Private Letter Rulings approving the three POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the DB Plans that exceed the IRC Section 415(b) limits.

Pursuant to the Compliance Statement, the IRS has required that the POB Plans be administered on a fiscal year basis until FY 2009. Thereafter, they would be administered on a calendar year basis.

Plan Sponsors' Contributions

On July 1, 2008, SDCERS received a total of $172.0 million in FY 2009 Plan Sponsor contributions: $161.7 million from the City, $7.3 million from the Unified Port District, and $3.0 million from the Airport Authority.

Each plan sponsor paid its contribution at the beginning of the fiscal 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.

Undistributed Earnings Reserve

Prior to October 11, 2008, the Municipal Code provided a definition of "Surplus Investment Earnings," which

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2008 and June 30, 2007

were comprised of investment earnings (defined in Municipal Code Section 24.0103 as the sum of net interest received and net realized gains from the sale of investments) less certain expenses and the Corbett and 13th check benefits. SDCERS supported the elimination of the use of investment earnings to pay these benefits, and since the City's 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 has been paid for as a part of the City's annual required contribution.

On September 2, 2008, the City passed an ordinance that eliminated the concept of surplus investment earnings as a source of paying benefits. This ordinance took effect on October 11, 2008. The passage of this ordinance brings the plan document into harmony with SDCERS' current practice of including these benefits as actuarial liabilities to be paid out of plan assets but will not otherwise materially change the way SDCERS has paid the benefits in past years.

Stock Market Volatility

Like every other public sector pension systems, SDCERS is exposed to general market risk and investment values that fluctuate with market volatility. Therefore, the turmoil in the global financial markets in calendar 2008 has impacted SDCERS' just as it has every other institutional and individual investor. The impact on SDCERS from the current market downturn will depend upon how deep the downturn is, how long it lasts, and when it occurs within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of SDCERS and the plan sponsors' Annual Required Contribution (ARC).

SDCERS' market investment return for the quarter ending September 30, 2008, the most recent period for which investment performance has been measured, was down 10.1%. However, market value of assets is just one variable the actuary uses to determine a plan sponsor's ARC. For example, the actuary calculates an actuarial value of assets that spreads fluctuations in annual investment returns over a multi-year period. Other actuarial variables can also offset negative investment returns. These include favorable experience in the inflation, disability, termination, active mortality or salary increase rates. Therefore, it is difficult to estimate an accurate actuarial valuation based only on the change in the market value of assets because of the possible offsetting impact of other variables. Because of the interrelationship of so many actuarial factors, the only actuarial numbers that can be relied on for accuracy are those contained in SDCERS' June 30 actuarial valuations.

Total Group Trust cash, cash equivalents, and investments assets were $4.818 billion as of June 30, 2008, and declined to $3.923 billion (unaudited) as of October 31, 2008. The market's downturn since July 1, 2008 represents less than half of SDCERS' fiscal 2009 year, however. Because the actuary uses the 12-month fiscal year's final investment return to determine a plan sponsor's ARC, only when the fiscal year is completed, on June 30, 2009, will the impact of the current market condition be accurately quantified as to the impact on plan sponsor ARC payments for FY 2011.

Actuarial Valuations as of June 30, 2008

On December 19, 2008, the Board received Cheiron's actuarial valuation reports as of June 30, 2008 for the City, Port, and Airport. These reports are scheduled to be approved the the Board in January 2009. As of June 30, 2008, the funded ratio and UAL were:

	Funded Ratio	UAL
City	78.2%	$1,300.7 million
Port	91.2%	$23.6 million
Airport	101.7%	$0.9 million surplus

The June 30, 2008 valuations were prepared using revised assumptions approved by the Board in September 2008 following the receipt of Cheiron's Experience Study in July 2008 (see *Note 6. Funded Status and Actuarial Methods and Assumptions*).

The valuations are available on-line at www.sdcers.org.

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12. Restated Financial Statements

On January 20, 2009, SDCERS accounting staff discovered an error affecting the beginning FY 2008 allocation of net assets by plan sponsor. Following consultation with the SDCERS Audit Committee, the outside auditors, and plan sponsors, SDCERS has restated the FY2008 financial statements on pages 22 – 24. In addition, Administrative Expenses in the Statements of Changes in Net Plan Assets were reapportioned among the three plan sponsors to reflect the related Group Trust provisions. A summary of the net changes:

	City	Port	Airport	Total
Originally reported Net Assets as of June 30, 2007	$4,401,304,918	$229,866,861	$50,548,681	$4,681,720,460
Revised Net Assets as of June 30, 2007	4,389,145,424	239,468,237	53,106,799	4,681,720,460
Net Change Net Assets	(12,159,494)	9,601,376	2,558,118	-
Originally reported FY08 Administrative Expenses	15,108,211	630,024	38,111	15,776,346
Revised FY08 Administrative Expenses	14,572,788	881,517	3 22,041	15,776,346
Net Change Administrative Expenses	535,423	(251,493)	(283,930)	-
Originally reported Net Assets as of June 30, 2008	4,115,043,644	217,788,320	52,015,122	4,384,847,086
Revised Net Assets as of June 30, 2008	4,103,419,573	227,138,203	54,289,310	4,384,847,086
Net Change Net Assets	(11,624,071)	9,349,883	2,274,188	-

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)

Valuation Date	Valuation Assets	Continuation Indicators 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	$512,400	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 30, 2007 Actuarial Valuation.

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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
Notes to the Schedules of Funding Progress
For the Years Ended June 30

San Diego County Regional Airport Authority
Schedule of Funding Progress
For the Years Ended June 30 (2002 - 2007)
($ in Thousands)

		Continuation Indicators				
Valuation Date	Valuation Assets	AAL	Funded Ratio	UAL[6]	Member Payroll	UAL 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. The most recent 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%
Wage Inflation rate:	4.25%
Additional Merit increases:	0.50% to 7.5%

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 *Note 6. Funded Status and Actuarial Methods and Assumptions, and 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.

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 to pay down the June 30, 2007 UAL commencing on July 1, 2008 for Fiscal Year 2009. The June 30, 2006 Actuarial Valuation for the City used a 27-year amortization period that was required by the Gleason settlement. For further information on this settlement, see *Note 10. Legal Action* in the Notes to the Financial Statements.

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

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 (2003 - 2008)
($ in Thousands)

SDCERS' actuary calculates annual employer contribution rates using the entry age normal actuarial funding methodology. The City's Contributions Made to SDCERS have differed 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.

	2008	2007	2006	2005	2004	2003
Annual Required Contributions (ARC)	$137,700[1]	$162,000[1]	$170,071[2]	$181,284[2]	$140,168[2]	$91,947[2]
Contributions Made to SDCERS	165,581[11]	169,126[10]	271,349[9]	122,089[3,8]	69,002[3,5,7,8]	58,650[3,4,6,8]
Difference - Over/ (Under) Contributed	27,881	7,126	101,278	(59,195)	(71,166)	(33,297)
Percentage of ARC Contributed	120.2%	104.4%	159.6%	67.4%	49.2%	63.8%

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

[2] The City's ARC for the four year period from 2003 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 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 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 2003 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 UAL SDCERS Reserve Fund year-end balance.

[11] Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City contributed an additional $20 million to ensure no negative amortization of the UAL, and $7.3 million to reimburse SDCERS for assets spent on prior year's retiree health expenses.

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 (2003 - 2008)

	2008	2007	2006	2005	2004	2003
Annual Required Contributions (ARC)	$6,900,000[1]	$8,300,000[1]	$8,121,319[2]	$7,613,081[1]	$4,594,580[1]	$2,210,040[1]
Contributions Made to SDCERS	6,900,000	9,300,000	8,121,319	7,613,081	4,594,580	2,210,040
Difference - Over/ (Under) Contributed	–	1,000,000	–	–	–	–
Percentage of ARC Contributed	100.0%	112.1%	100.0%	100.0%	100.0%	100.0%

[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 Six Years Ended June 30 (2003 - 2008)

	2008	2007	2006	2005	2004	2003
Annual Required Contributions (ARC)	$2,200,000[1]	$2,600,000[1]	$2,878,928[3]	$2,312,309[1]	$1,435,000[1]	N/A
Contributions Made to SDCERS	2,520,000	2,961,992	3,300,000	7,625,052	$1,435,000[2]	$248,796[2]
Difference - Over/ (Under) Contributed	320,000	361,992	421,072	5,312,743	–	–
Percentage of ARC Contributed	114.5 %	113.9%	114.6%	329.8%	100.0%	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 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 2003 were at rates according 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.

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

Contributions 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 2003 and 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, FY 2007, and FY 2008 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 City made additional contributions in FY 2008 to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year's retiree health expenses. Effective in FY 2006 through FY 2008, the City made 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 10. Legal Action.*

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 5.5 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, separate from but comprised of former Unified Port of San Diego (Port) employees and newly hired employees. For FY 2003, the Airport made contributions to SDCERS for the January 1, 2003 to June 30, 2003 period only.

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, 2008 and June 30, 2007

	FY 2008			FY 2007		
	Budget	Actual Expenditures	Under / (Over) Budget	Budget	Actual Expenditures	Under / (Over) Budget
Administrative Expenses						
Salaries and Personnel	$7,332,163	$6,786,633	$545,530	$6,428,458	$6,113,415	$315,043
Data Processing & Special Projects	4,458,450	3,620,105	838,345	4,439,530	5,431,595	(992,065)
Legal/External	3,645,000	2,262,767	1,382,233	3,815,000	4,652,332	(837,332)
Disability	467,500	603,604	(136,104)	457,500	379,718	77,782
General Operations	1,963,812	2,503,237	(539,425)	1,994,536	2,526,335	(531,799)
Total Administrative Expenses	$17,866,925	$15,776,346	$2,090,579	$17,135,024	$19,103,395	($1,968,371)
Investment Management Services	24,158,201	23,974,639	183,562	22,425,569	21,681,992	743,577
Totals	$42,025,126	$39,750,985	$2,274,141	$39,560,593	$40,785,387	($1,224,794)

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

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

Schedule of Administrative Expenses
For the Years Ended June 30, 2008 and June 30, 2007

	2008	2007
Salaries and Personnel	$6,786,633	$6,113,415
Data Processing & Special Projects		
Data Processing and Computer Services	2,243,558	2,046,376
Contracted Services	1,376,547	3,385,219
Total Data Processing & Special Projects	3,620,105	5,431,595
Legal/External		
Outside Legal Counsel	2,262,767	4,652,332
Disability		
Medical Consulting and Disability Review	603,604	379,718
General Operations		
Actuary Services	671,077	778,595
Audit Services	222,471	128,471
Office Operations Expenses	395,715	624,236
Fiduciary Insurance	337,293	-
Rent	53,948	702,393
Travel & Training	107,222	98,062
Professional Services	651,003	166,718
Depreciation Expense	64,507	27,860
Total General Operations	2,503,237	2,526,335
Total Administrative Expenses	$15,776,346	$19,103,395

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

Schedule of Payments to Consultants[1]
For the Years Ended June 30, 2008 and June 30, 2007

Individual or Firm	2008	2007	Nature of Service
Doctors & Disability Services (see below for full listing)	$269,726	$157,843	Medical Consulting
Cheiron, Inc.	671,077	732,695	Actuary
Legal Firms & Professional Legal Services (see below for full listing)	2,262,767	4,815,793	Legal, Arbitration, Mediation, Court Reporting
Levi, Ray & Shoup	433,621	796,156	Member Benefit Systems Development
Linea Solutions	1,975,048	1,953,761	Electronic Data Management System Consulting Project
Macias Gini & O'Connell LLP	222,471	128,471	Audit
EMC Corporation	96,559	31,637	Software Support
San Diego Data Processing Corporation	2,033,910	1,970,102	Computer/Applications Support
Various Providers	578,547	769,899	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	$8,543,726	$11,356,357	

[1] Payments to consultants and service providers are included within each of the five spending categories noted on the Schedule of Administrative Expenses.

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

Schedule of Payments to Consultants
For the Year Ended June 30, 2008

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.
- William S. Adsit, M.D.
- L. Randall Mohler, M.D.

The Neurology Center
- Michael Lobatz, M.D.

So. California Cardiology Medical Group
- Steven Gross, M.D.

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

Other Doctors
- Dominick Addario, M.D.
- Daniel J. Bressler, M.D.
- William Chapman, M.D.
- William P. Curran, Jr., M.D.
- Robert M. Epsten, M.D.
- Donald Green, D.P.M.
- Richard Greenfield, M.D.
- Pierre Hendricks, M.D.
- Sohaib Kureshi, M.D.
- L. Mercer McKinley, M.D.
- Mark Mikulics, M.D.
- Robert E. Neveln, M.D.
- Laurence Saben, M.D.
- James Scalone, D.O.
- Walter W. Strauser, M.D.
- Robert Warren, M.D.
- Thomas J. Wegman, Ph.D.
- Kevin Yoo, M.D.

SDCERS paid the following Legal Firms & Professional Legal Services Firms:

Baker & McKenzie, LLP
Byrne & Nixon, LLP
Cooley Godward Kronish, LLP
Geary D. Cortes
Cox, Castle & Nicholson, LLP
Dixon, Truman & Fisher
Law Offices of Amie J. Flynn
Gibbs & Fuerst
Groom Law Group
Hay Group, Inc
Ice Miller Legal and Business Advisors
Irell & Manella, LLP
JAMS (Judicial Arbitration Services)
Lightfoot, Vandevelde, Sadowsky, et al.
Manatt, Phelps & Phillips, LLP
Olson, Hagel & Fishburn, LLP
Michael Pancer
Paul Hastings, Janofsky & Walker, LLP
Peterson & Associates
Pillsbury Winthrop Shaw Pittman, LLP
Reedsmith, LLP
Seltzer Caplan McMahon Vitek, APC
Steefel, Levitt & Weiss
Stockwell, Harris, Widom, Woolverton & Muehl
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, 2008 and June 30, 2007

	2008			2007		
	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	$1,768,557,174	$8,129,604	45.97	$1,944,554,673	$8,093,989	41.62
International Equity Managers	822,320,737	4,584,697	55.75	927,196,864	3,910,300	42.17
Domestic Fixed Income Managers	1,533,671,468	5,239,493	34.16	1,438,409,071	5,049,948	35.11
International Fixed Income Managers	196,873,563	473,964	24.07	177,576,094	442,115	24.90
Real Estate Managers	489,631,476	4,730,354	96.61	442,822,597	3,366,841	76.03
Cash	7,369,723	n/a	n/a	669,021	n/a	n/a
Total Investment Manager Fees	$4,818,424,140	$23,158,112	48.06	$4,931,228,321	$20,863,192	42.31
Other Investment Service Fees						
Custodian Services		238,463	0.50 [2]		246,045	0.54 [3]
Investment Consultants		536,566	1.12 [2]		531,874	1.17 [3]
Investment Accounting Applications		41,498	0.09 [2]		40,881	0.09 [3]
Total Other Investment Service Fees		$816,527	1.70 [2]		$818,800	1.80 [3]
Total Fees Paid to Investment Professionals		$23,974,639	50.02 [2]		$21,681,992	47.55 [3]

[1] Market Values of Assets Under Management, as of June 30, 2008, and June 30, 2007, 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, 2008 - Basis Points calculation based upon $4,792,866,440 which is the average of FY 2008 Total Net Investments plus Cash and Cash Equivalents equaling $4,663,860,704 and FY 2007 Total Net Investments plus Cash and Cash Equivalents equaling $4,921,872,175.

[3] June 30, 2007 - Basis Points calculation based upon $4,560,107,365 which is the average of FY 2007 Total Net Investments plus Cash and Cash Equivalents equaling $4,921,872,175 and FY 2006 Total Net Investments plus Cash and Cash Equivalents equaling $4,198,342,554.

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

Statement of Changes in Assets and Liabilities
San Diego City Employee's Retirement System Agency Fund
City of San Diego Preservation of Benefits Fund

As of June 30, 2008

ASSETS	
Beginning Balance	$ -
Additions	1,009,467
Deductions	(882,733)
Ending Balance	126,734
LIABILITIES	
Beginning Balance	$ -
Additions	1,009,467
Deductions	(882,733)
Ending Balance	126,734

3. Investments

Investment Consultant's Statement

CALLAN ASSOCIATES INC

JAMES A. CALLAHAN, CFA

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

October 27, 2008

Mr. David Wescoe
Retirement Administrator/CEO
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 921001

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, 2008 (FY 2008) as compared to June 30, 2007 (FY 2007).

During fiscal year 2008 and fiscal year 2007, 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 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 2008

Fiscal year 2008 was characterized by a rapid unwinding of the real estate market, a credit and liquidity crisis and a slowdown in economic growth. In an attempt to mitigate the mortgage meltdown, the Federal Reserve took aggressive measures lowering the federal funds from 5.25% to 2.0% in 7 cuts. Despite these efforts, the cost of funds to companies and individuals actually rose over the past year due to an increased level of risk aversion in the credit market which resulted in a precipitous decline in both home prices and home sales. In addition to the housing woes, the consumer also faced a surge in inflation during fiscal year 2008. Driven by a precipitous rise in commodities (crude oil, natural gas and gold were up 70%, 57% and 43% year-over-year) the Consumer Price Index hit a 17 year high of 5% in the final quarter of 2008. The combination of declining home values and mounting inflation led to an uneasy consumer. As of June 2008, the consumer confidence number, as measured by the University of Michigan's Index of Consumer Sentiment, was at a level that hadn't been seen in over 28 years.

Investor concern over slower economic growth from reduced consumer spending and the weakening housing market led to a drop of 13.1% in the S&P 500 for fiscal year 2008. After the economy grew at 4.8% in the quarter ending June 2007, the first quarter of fiscal 2008 showed

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another quarter of solid growth and another 4.8% GDP growth number. Following two subsequent slowing quarters where GDP fell .2% and rose .9%, the economy grew 3.3% in the final quarter. This growth was fueled by the immediate spending of the stimulus payments consumers received as well as an increase in exports as a result of the soft dollar. Despite the strong GDP number, the S&P 500 was unable to reverse its declining trend losing 2.7% in the quarter ended June 30, 2008.

Overall, the equity markets produced negative returns across all domestic market segments for fiscal year 2008. As is the case in most bear markets, large capitalization stocks held up better than small capitalization stocks, with the S&P 500 losing 13.1% compared to the 16.2% loss incurred by the Russell 2000. For the year, growth outperformed value by a large margin in both the large and small cap arena. The Russell 2000 growth index lost 10.8% for the year, half of what the Russell 2000 value lost. The gap between growth and value was even more pronounced among large cap securities. The S&P 500 growth index lost 5.8%, finishing well ahead of the 20.3% loss of the S&P 500 value index.

Developed international equity markets were unable to escape the spill-over of a slowing domestic economy during fiscal year 2008. The EAFE Index, after returning 27.0% in fiscal year 2007, lost 10.6% in 2008. The ACWI and ACWI ex US were also down 8.8% and 6.2% respectively for the year. Emerging Markets were the only international asset class that was able to buck the global downtrend, returning 4.9% for the fiscal year.

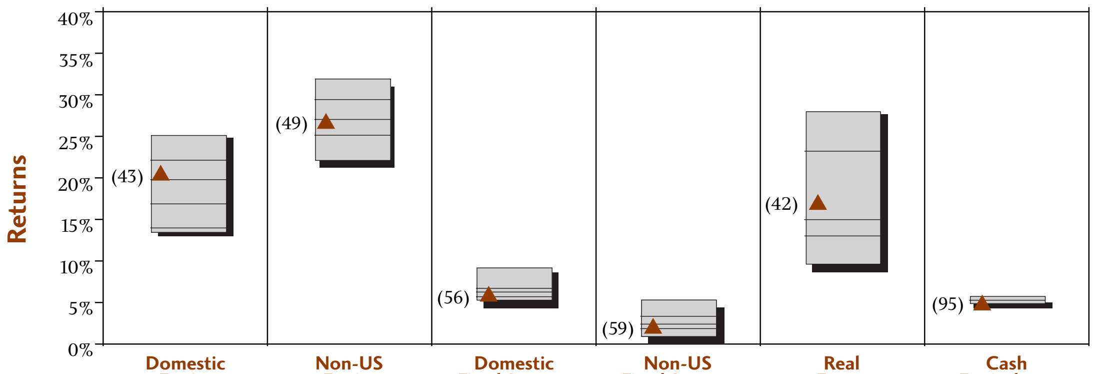
Interest rates ended the fiscal year lower across the curve, especially on the short end which led to a steepening of the yield curve. Despite falling interest rates, spreads sectors struggled due to a flight-to-quality that occurred throughout most of fiscal year 2008. On the back of declining interest rates and strong performance from the government sector (up 9.8%), the Lehman Aggregate gained 7.1%. Spread sectors, on the other hand, posted weak performance with asset backed securities down -2.1% and commercial mortgage backed securities up 1.1%.

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 prices increased 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 over rising interest rates, a slowing housing market, the run-up of crude oil and the continuing subprime 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.

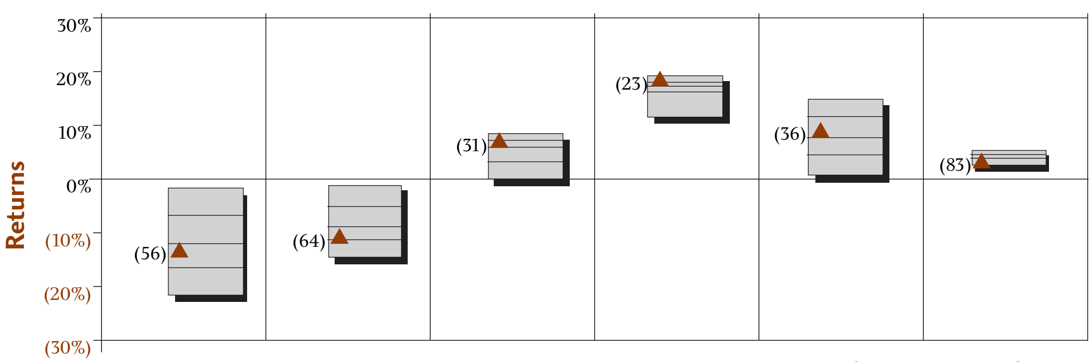
Overall, the capital markets produced strong returns across all asset classes for fiscal year 2007. Strong economic growth in the U.S. and abroad led to excellent equity returns with the S&P 500 and MSCI EAFE index up 20.6% and 27.0% respectively. Large capitalization stocks beat small capitalization 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.

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, 2008



	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	(1.68)	(0.95)	8.50	19.37	14.82	5.29
25th Percentile	(6.99)	(4.89)	7.41	18.39	11.87	4.62
Median	(12.22)	(8.96)	6.01	17.29	7.63	4.35
75th Percentile	(16.85)	(11.60)	3.57	15.91	4.30	4.12
90th Percentile	(21.74)	(14.96)	(0.05)	11.68	0.72	2.51
Index ▲	(13.12)	(10.61)	7.12	18.72	9.20	3.63

SDCERS' Fiscal Year 2008 Investment Performance as Compared to Fiscal Year 2007

For the one-year period ended June 30, 2008, SDCERS' total fund, time-weighted return of -4.7% trailed the custom policy performance benchmark return of -3.52% and also fell short of the actuarial annual rate of return assumption of 8.0%. The fiscal year 2008 total fund return trailed the fiscal year 2007 total fund return of 16.2%, which was just short of the custom policy performance benchmark return of 16.3% 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, 2008:

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

The total fund return performed above the median public pension plan in the Callan peer universe for fiscal year 2008. Long-term results consistently rank SDCERS' performance in the top quartile of this peer universe. Specifically, over the last five years the annualized total fund return of 10.8% ranked in the 15th percentile against peers and is 120 basis points ahead of the custom policy performance benchmark on an annualized basis.

SDCERS' Domestic Equity Performance

After posting a fiscal year 2007 return of 18.9%, SDCERS' domestic equity composite returned -13.5% during the four quarters ended June 30, 2008. This performance lagged its blended domestic equity performance benchmark return of -12.6% by 90 basis points and ranked in the 62nd percentile of Callan's public fund domestic equity database. During fiscal year 2007, the domestic equity composite return ranked in the 64th percentile in the same Callan peer universe. The domestic equity composite return fell short of the blended domestic equity performance benchmark return for the trailing three-year period, but exceeded the performance benchmark for the trailing five-year period. The SDCERS' composite ranked in the 51st and 14th percentiles for the trailing three and five-year periods respectively among public pension plans in the Callan peer universe for both periods.

SDCERS' International Equity Performance

SDCERS' international equity composite lost 11.2% for the year ended June 30, 2008, well behind the strong return of 32.3% for fiscal year 2007. The fiscal year 2008 return underperformed the blended international equity performance benchmark return of -7.9% by 330 basis points and ranked in the 84th percentile versus other public pension plans in the Callan peer universe. Brandes underperformed its benchmark by 830 basis points and was the main detractor to the international composite. During fiscal year 2007, SDCERS' international equity composite return ranked in the 5th percentile of the Callan peer universe. Longer-term performance for the international equity composite is also impressive when measured against the blended international equity performance benchmark and the Callan public pension plan peer universe median return. A 12.3% per annum return over a ten year period ranked the international equity composite in the 5th percentile.

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, 2008. A return of 7.7% for the trailing year ranked in the 7th percentile of public pension plans in the Callan peer universe, outpacing the blended domestic fixed income performance benchmark return of 5.7%. SDCERS' fiscal year 2007 domestic fixed income return of 7.3% also outpaced the blended domestic fixed income performance benchmark return of 6.9% and ranked in the 17th percentile of the Callan peer universe. The domestic fixed income composite long-term annualized return exceeds the fixed income benchmark and the Lehman Aggregate and ranks in the top percentile for the three and five-year periods.

SDCERS' International Fixed Income Performance

For the twelve months ended June 30, 2008, the international fixed income portfolio returned 16.7%, underperforming the international fixed income performance benchmark return of 18.7% by 200 basis points and ranked in the 63rd percentile in Callan's peer universe. International fixed income returns were bolstered by the continued decline in the U.S. Dollar versus the Euro and the Yen. The 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, 2008, the international fixed income portfolio produced a return of 7.1%, a premium of 320 basis points per annum over the Lehman Aggregate.

SDCERS' Real Estate Performance

As a result of the bursting of the housing bubble, real estate suffered for the fiscal year. The SDCERS public real estate portfolio declined -13.8% besting the Dow Jones Wilshire REIT index by 1.5%. Over the five years ending June 2008, public real estate contributed a strong 16.6% per annum. The private real estate portfolio posted a gain of +1.6% lagging the NCREIF index for the fiscal year. The total real estate composite return of -3.0% lagged the total real estate benchmark. For the trailing three and five-year periods ended June 30, 2008, SDCERS' real estate composite return totaled +12.4% and +16.9% annualized respectively. The five-year performance ranks SDCERS' returns in the top 30th percentile in the Callan peer universe.

With the bursting of the housing bubble, the problems with banks, and the slowing economy, the fiscal year ended June 30, 2008 proved to be strong for fixed income and very challenging for equity. Fiscal year 2008 posted stronger fixed income returns, both domestically and internationally, than fiscal year 2007. However, equity returns, both domestically and internationally, fell far short of the positive returns of fiscal year 2007. In a very challenging year for active management, the System underperformed the target benchmark while ranking above median in Callan's Public Fund Sponsor Universe. Over the five-year period, diversification and active management have contributed to the System's success in exceeding both the total fund benchmark and the actuarial rate of return.

Sincerely,

Janet Becker-Wold

Janet Becker-Wold, CFA
Senior Vice President

James A. Callahan, CFA
Executive Vice President

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

Performance Comparison
For the One-Year Periods Ended June 30, 2008 and 2007

	2008	2007
SDCERS' Domestic Equity Performance	**-13.46%**	**18.93%**
Domestic Equity Benchmark, comprised of:	-12.56%	19.41%
Standard & Poor's 500 (60% weight)	-13.12%	20.59%
Standard & Poor's MidCap 400 (20% weight)	-7.34%	18.51%
Russell 2000 (20% weight)	-16.19%	16.43%
SDCERS' International Equity Performance	**-11.16%**	**32.29%**
International Equity Benchmark, comprised of:	-7.88%	30.47%
MSCI AC World Free Ex-US Index (80% weight)	-6.20%	30.15%
Citigroup EMI World Ex-US Index (20% weight)	-14.49%	31.69%
SDCERS' Domestic Fixed Income Performance	**7.71%**	**7.30%**
Domestic Fixed Income Benchmark, comprised of:	5.74%	6.90%
Lehman Brothers Aggregate Bond Index (60% weight)	7.12%	6.12%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	7.09%	5.55%
Merrill Lynch Convertible Index, All Qualities (10% weight)	-6.36%	15.38%
SDCERS' International Fixed Income Performance	**16.67%**	**2.72%**
International Fixed Income Benchmark, comprised of:	18.72%	2.20%
Citigroup Non-U.S. Gov't Bond (100% weight)	18.72%	2.20%
SDCERS' Real Estate Performance	**-2.95%**	**14.59%**
Real Estate Benchmark, comprised of:	2.83%	16.09%
NCREIF Property Index (75% weight)	9.20%	17.24%
Wilshire REIT Index (25% weight)	-15.26%	11.68%
SDCERS' Total Fund Performance	**-4.66%**	**16.50%**
Total Fund Performance Benchmark, comprised of:	-3.52%	16.25%
S&P 500 (22.8%); L/B Aggr (18.0%);		
MSCI AC World exUS 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%);		
Citigroup EMI World ex-US (3.4%); Wilshire REIT (2.7%); and ML All Convertible (3.0%).		

[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, 2008

	Annualized Performance		
	3-YEAR	**5-YEAR**	**10-YEAR**
SDCERS' Domestic Equity Performance	**4.75%**	**10.13%**	**6.22%**
Domestic Equity Benchmark , comprised of:	4.96%	9.18%	4.90%
Standard & Poor's 500 (60% weight)	4.41%	7.58%	2.88%
Standard & Poor's MidCap 400 (20% weight)	7.45%	12.61%	9.84%
Russell 2000 (20% weight)	3.79%	10.29%	5.52%
SDCERS' International Equity Performance	**15.02%**	**19.41%**	**10.68%**
International Equity Benchmark, comprised of:	15.74%	19.79%	8.40%
MSCI AC World Free Ex-US Index (80% weight)	16.16%	19.42%	7.73%
EMI World Ex-US Index (20% weight)	13.97%	20.78%	9.65%
SDCERS' Domestic Fixed Income Performance	**6.30%**	**5.84%**	**6.19%**
Domestic Fixed Income Benchmark, comprised of:	4.30%	3.85%	5.57%
Lehman Aggregate Bond Index (60% weight)	4.09%	3.85%	5.68%
Merrill Lynch 1-5 Year Gov't/Corp (30% weight)	4.56%	3.38%	5.18%
ML Convertible Index, All Qualities (10% weight)	5.72%	6.33%	5.81%
SDCERS' International Fixed Income Performance	**6.18%**	**7.09%**	**6.76%**
International Fixed Income Benchmark, comprised of:	6.65%	7.06%	6.67%
Citigroup Non-U.S. Gov't Bond (100% weight)	6.65%	7.06%	6.67%
SDCERS' Real Estate Performance	**12.37%**	**16.89%**	**13.02%**
Real Estate Benchmark, comprised of:	12.63%	14.63%	11.45%
NCREIF Property Index (75% weight)	14.97%	14.73%	12.23%
Wilshire REIT Index (25% weight)	4.91%	14.52%	11.25%
SDCERS' Total Fund Performance	**7.78%**	**10.77%**	**7.96%**
Total Fund Performance Benchmark, comprised of:	7.34%	9.60%	6.84%
S&P 500 (22.8%); L/B Aggr (18.0%);			
MSCI AC World exUS 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%);			
Citigroup EMI World ex-US (3.4%); Wilshire REIT (2.7%);			
and ML All Convertible (3.0%).			

[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, 2008

Domestic Equity Investment Managers

Delta Asset Management
Los Angeles, CA

Globeflex Capital, L.P.
San Diego, CA

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

Dimensional Fund Advisors
Santa Monica, CA

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

Wall Street Associates
La Jolla, CA

Dodge & Cox
San Francisco, CA

Putnam Investments
Boston, MA

Domestic Fixed Income Investment Managers

Metropolitan West Asset Management
Los Angeles, CA

Pyramis Global Advisors (Fidelity)
Boston, MA

Nicholas Applegate Capital Management
San Diego, CA

Salus Capital Management, Inc.
Los Angeles, CA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

SSI Investment Management, Inc.
Beverly Hills, CA

International Equity Investment Managers

Brandes Investment Partners
San Diego, CA

McKinley Capital Management Inc.
Anchorage, AK

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

Globeflex Capital, L.P.
San Diego, CA

International Fixed Income Investment Managers

Rogge Global Partners
London, England

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

Real Estate Investment Managers

Capmark Investments
Horsham, PA

Europa Capital
London, England

Pyramis (Fidelity) Real Estate
Boston, MA

Colony Capital, LLC
Los Angeles, CA

Invesco Real Estate
Dallas, TX

RREEF Funds
San Francisco, CA

Cornerstone Real Estate Advisers
Glastonbury, CT

Pacific Coast Capital Partners
El Segundo, CA

RREEF Funds (REITs)
Chicago, IL

San Diego City Employees' Retirement System
Statement of Investment Objectives and Policies
As of June 30, 2008

Consistent with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total real rate of return in excess of SDCERS' actuarial assumed rate of real return of 3.75%.
- SDCERS' assets will be managed on a total return basis, which takes into account the considerable importance of the preservation of capital. Additionally, SDCERS follows the principle that different degrees of investment risk exist and are generally rewarded with varying degrees of return over the long term.
- SDCERS will operate in an efficient manner that fulfills its fiduciary responsibility and contributes to the overall effectiveness of the organization.

It is the purpose of SDCERS' investment program to ensure that sufficient financial assets are available to provide SDCERS' participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents. Therefore, the participants' and beneficiaries' financial interests shall take precedence over all other financial interests.

To achieve these objectives, SDCERS allocates its investment assets pursuant to a strategic, long-term perspective of the capital markets. Additionally, SDCERS models and manages its investment program based on principals outlined under the Prudent Expert standard.

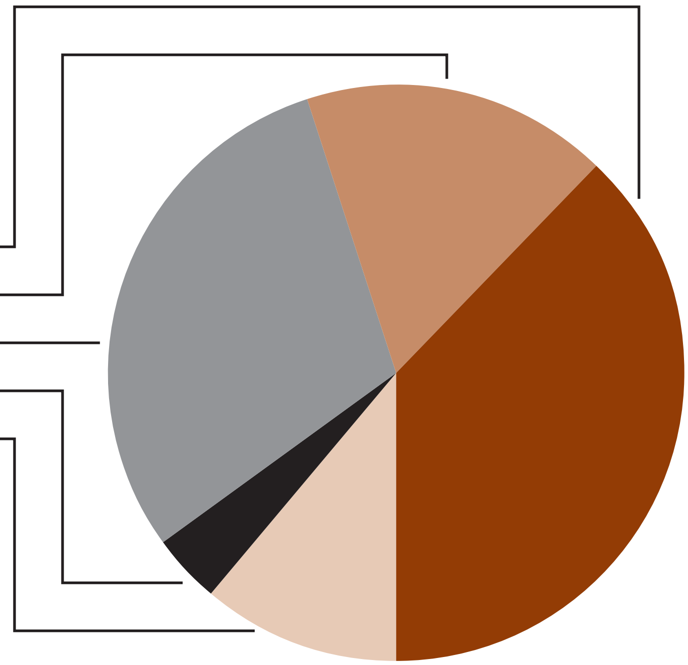
* * *

These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' Investment Program.

A copy of the IPS is available upon request or on SDCERS' website – www.sdcers.org.

San Diego City Employees' Retirement System
Target Asset Allocation*
As of June 30, 2008 and 2007

Domestic Equity Strategies	38.0%
International Equity Strategies	17.0%
Domestic Fixed Income Strategies	30.0%
International Fixed Income Strategies	4.0%
Real Estate Strategies	11.0%
Total	100.0%

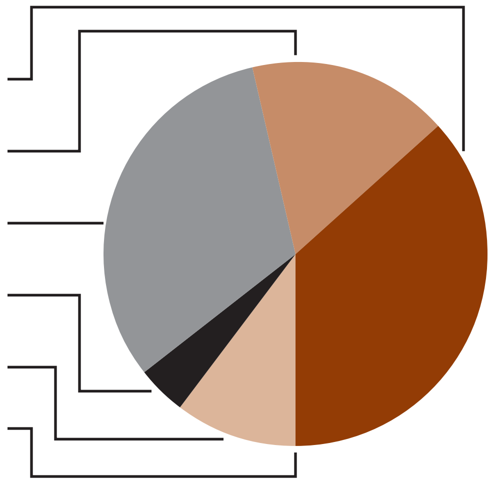


* In September 2007, private equity was added as a new asset class at a target allocation of 5%, which is expected to be funded over several years. Domestic equity allocations will be proportionally reduced from 38% to 33% in one percent increments as private equity capital is invested and the allocation increases from zero to five percent of total assets.

San Diego City Employees' Retirement System
Actual Asset Diversification – Investments At Fair Value
As of the Years Ended June 30, 2008 and 2007

2008

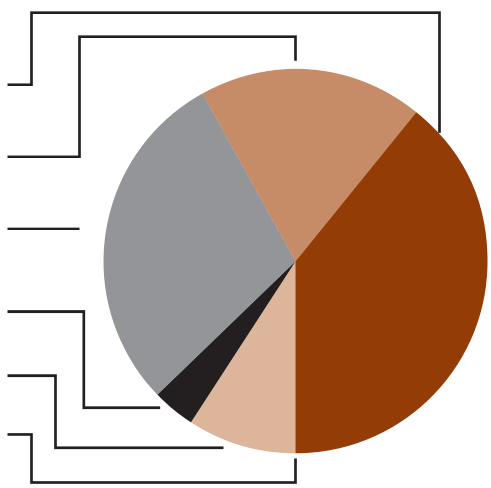
Domestic Equity Strategies	36.7%
International Equity Strategies	17.1%
Domestic Fixed Income Strategies	31.9%
International Fixed Income Strategies	4.1%
Real Estate Strategies	10.2%
Cash	0.0%
	100.0%



Domestic Equity Strategies	$1,768,557,174
International Equity Strategies	822,320,737
Domestic Fixed Income Strategies	1,533,671,468
International Fixed Income Strategies	196,873,563
Real Estate Strategies	489,631,476
Cash	2,247,541
Total Investments, At Fair Value	4,813,301,959
Less Pending Transactions	(149,441,254)
Total Net Investments	$4,663,860,705

2007

Domestic Equity Strategies	39.4%
International Equity Strategies	18.8%
Domestic Fixed Income Strategies	29.2%
International Fixed Income Strategies	3.6%
Real Estate Strategies	9.0%
Cash	0.0%
	100.0%



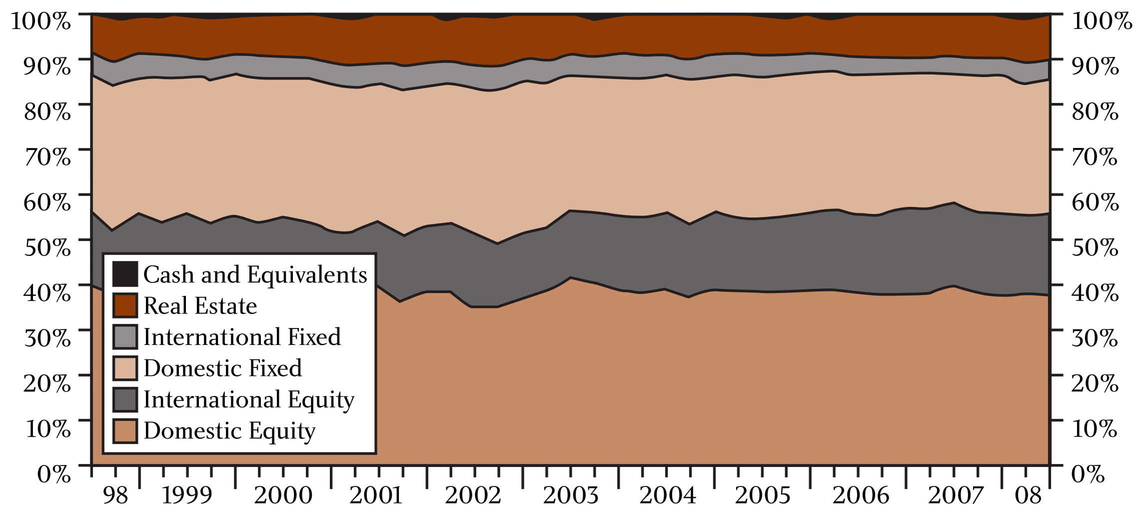
Domestic Equity Strategies	$1,944,554,673
International Equity Strategies	927,196,864
Domestic Fixed Income Strategies	1,438,409,071
International Fixed Income Strategies	177,576,094
Real Estate Strategies	442,822,597
Cash	180,956
Total Investments, At Fair Value	4,930,740,256
Less Pending Transactions	(8,868,081)
Total Net Investments	$4,921,872,175

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

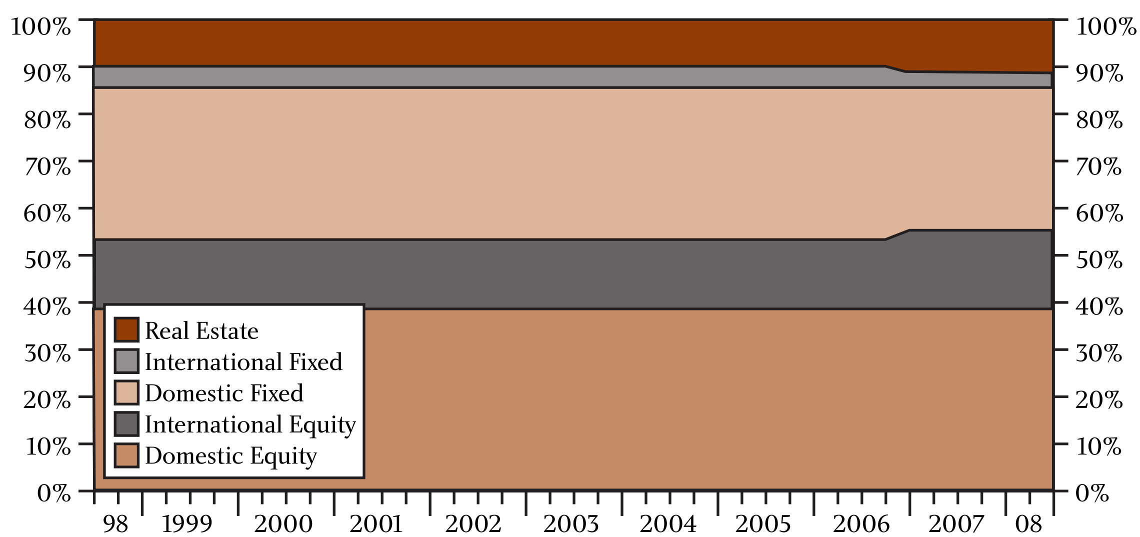
San Diego City Employees' Retirement System
Historical Asset Allocation (Actual)
Ten Year History for Fiscal Years 1999 - 2008 (July 1, 1998 - June 30, 2008)

The historical asset allocation for a fund is 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 the Callan Associates Inc.(CAI) Public Fund Sponsor Database.

Actual Historical Asset Allocation



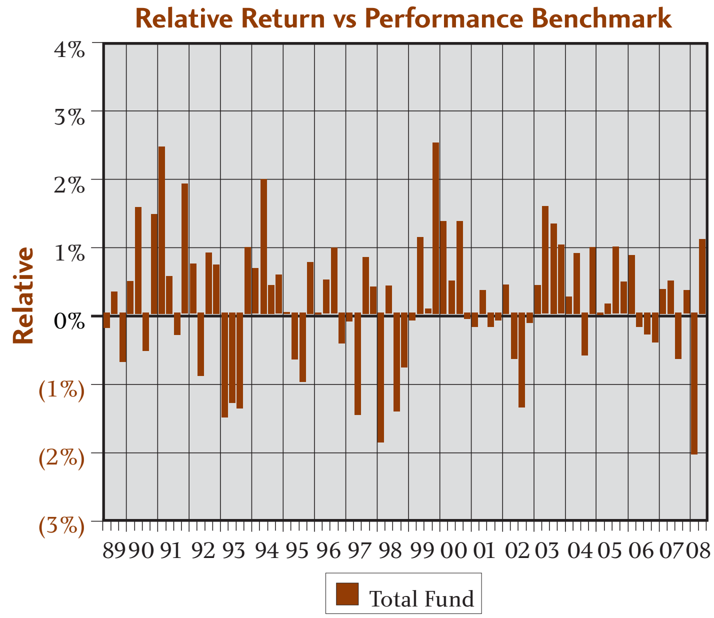
Target Historical Asset Allocation

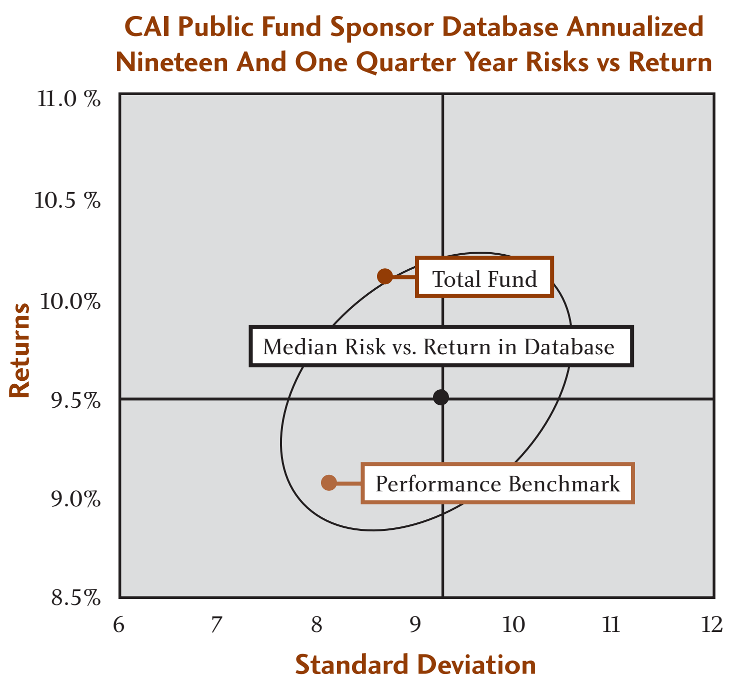


* Current Quarter Target = 22.8% S&P 500, 18.0% L/B Agg, 13.6% MSCI ACWI ex-US, 9.0% ML 1-5 Govt/ Corp, 8.3% NCREIF Total Index, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 4.0% Citi Non-US Gvt Bd Idx, 3.4% EMI World ex US Idx, 3.0% ML All Conv and 2.8% Dow Jones Wilshire REIT.

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

March 30, 1989 through June 30, 2008 (19.25 years)





This chart shows the annualized risk-adjusted return of the fund since March 1989, when the Board implemented a multiple active manager structure as part of the asset allocation strategy.

San Diego City Employees' Retirement System
Schedule of Largest Equity Holdings
At Years Ended June 30, 2008 and 2007

2008

Rank	Shares	Equity Securities	CUSIP	Market Value	Percentage of Total Net Investments
1	290,037	Schlumberger Ltd	806857108	$31,158,675	0.72%
2	51,365	Google Inc.	38259P508	27,039,563	0.63%
3	563,588	Qualcomm Inc.	747525103	25,006,400	0.58%
4	528,464	Hewlett Packard Co.	428236103	23,363,393	0.54%
5	353,012	Procter and Gamble Co.	742718109	21,466,660	0.50%
6	290,955	Amazon.com Inc.	023135106	21,335,730	0.49%
7	364,290	Wal-Mart Stores, Inc.	931142103	20,473,098	0.47%
8	290,000	Salesforce.com Inc.	79466L302	19,786,700	0.46%
9	109,875	Apple Inc.	037833100	18,397,470	0.43%
10	149,370	Research in Motion Ltd.	760975102	17,461,353	0.40%
			Totals	$225,489,042	4.19%

2007

Rank	Shares	Equity Securities	CUSIP	Market Value	Percentage of Total Net Investments
1	508,745	Schlumberger Ltd	806857108	$43,212,800	0.98%
2	787,692	Qualcomm Inc.	747525103	34,177,956	0.78%
3	455,955	Amazon.com Inc.	023135106	31,191,882	0.71%
4	59,165	Google Inc.	38259P508	30,965,778	0.70%
5	682,666	General Electric Co.	369604103	26,132,454	0.59%
6	872,548	Progressive Corp. Ohio	743315103	20,880,074	0.47%
7	476,200	Salesforce.com Inc.	79466L302	20,409,932	0.46%
8	719,900	Comcast Corp.	20030N101	20,243,588	0.46%
9	448,921	Hewlett Packard Co.	428236103	20,030,855	0.45%
10	609,384	eBay Inc.	278642103	19,609,977	0.45%
			Totals	$266,855,296	5.41%

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, 2008 and 2007

2008

Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	54,395,000	FNMA TBA Jul 30 Single Family 5.5% 1 Dec 2099	01F052672	$53,596,073	1.24%
2	35,525,000	FNMA TBA Jul 30 Single Family 5.0% 1 Dec 2099	01F050676	34,040,165	0.79%
3	23,683,000	US Treasury N/B 2.5% 31 Mar 2013	912828HV5	22,851,319	0.53%
4	18,810,000	United States Treasury Notes 5.125% 15 May 2016	912828FF2	20,518,330	0.47%
5	12,057,000	Netherlands (Kingdom of) 5.0% 15 Jul 2012	730959II6	19,125,582	0.44%
6	15,015,000	FNMA TBA Jul 30 Single Family 6.0% 1 Dec 2099	01F060675	15,145,209	0.35%
7	14,764,310	FNMA Pool 889579 6.0% 1 May 2038	31410KJY1	14,913,106	0.35%
8	9,700,000	Dutch Govt 3.0% 15 Jan 2010	B03CQVII5	14,891,594	0.34%
9	12,210,174	FNMA Pool 906270 6.0% 1 Jan 2037	31411E2B2	12,352,308	0.29%
10	10,158,000	US Treasury Bonds 6.125% 15 Nov 2027	912810FB9	12,151,508	0.28%
			Totals	$219,585,194	5.08%

2007

Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	35,741,000	United States Treasury Notes 4.5% 31 Mar 2012	912828GM6	$35,084,817	0.80%
2	20,150,000	United States Treasury Notes 4.875% 15 Feb 2012	9128277L0	20,126,386	0.46%
3	17,345,000	United States Treasury Bonds 6.125% 15 Nov 2027	912810FB9	19,339,675	0.44%
4	18,750,913	FNMA Pool 745336 5% 1 Mar 2036	31403DBD0	17,608,277	0.40%
5	12,057,000	Netherlands 5% 15 Jul 2012	730959II6	16,591,343	0.38%
6	15,519,359	FNMA Pool 901668 6% 1 Oct 2036	31410YW59	15,359,317	0.35%
7	15,177,000	United States Treasury Notes 4.875% 30 Apr 2011	912828FD7	15,153,286	0.34%
8	14,000,000	FNMA TBA Jul 30 Single Family 5% 1 Dec 2099	01F050676	13,109,687	0.30%
9	9,700,000	Netherlands 3% 15 Jan 2010	B03CQVII5	12,631,344	0.29%
10	12,140,000	United States Treasury Notes 4.75% 31 Jan 2012	912828GF1	12,049,898	0.27%
			Totals	$177,054,030	4.02%

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

2008

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	UBS AG	31,907,135	$861,449	$0.027
2	Merrill Lynch & Co., Inc.	20,964,226	599,647	0.029
3	Investment Technology Group, Inc.	21,847,962	365,964	0.017
4	Citigroup Global Markets, Inc.	11,403,810	324,821	0.029
5	Instinet	10,045,073	306,706	0.031
6	Bear Stearns & Co., Inc.	10,776,647	273,046	0.025
7	Goldman Sachs & Co.	10,756,470	247,672	0.023
8	Credit Suisse First Boston Corp.	8,356,688	235,570	0.028
9	Morgan Stanley & Co.	73,410,720	234,010	0.003
10	Pershing LLC	8,793,523	228,443	0.026
11	Cantor Fitzgerald & Co.	6,535,789	226,239	0.035
12	Lehman Brothers, Inc.	9,532,331	191,055	0.020
13	Jefferies & Company, Inc.	7,730,445	187,587	0.024
14	JP Morgan Securities, Inc.	7,317,334	184,427	0.025
15	BNY Clearing Services, LLC	7,192,745	125,653	0.018
16	LiquidNet, Inc.	3,362,553	119,614	0.036
17	State Street Brokerage Services	17,550,478	103,132	0.006
18	ITG, Inc.	8,702,998	102,423	0.012
19	Deutsche Bank Securities, Inc.	4,831,931	101,659	0.021
20	National Financial Services Corp.	2,970,234	92,524	0.031
21	RBC Capital Markets	1,736,801	68,954	0.040
22	Macquarie Securities Limited	7,053,545	64,821	0.009
23	Nomura Securities International, Inc.	11,287,655	63,835	0.006
24	Bank of America Securities LLC	2,499,466	63,257	0.025
25	Intercapital Investors, Inc.	2,097,127	62,700	0.030
	All Other Brokers	80,346,433	1,353,286	0.017
	Totals	389,010,199	$6,788,494	$0.018

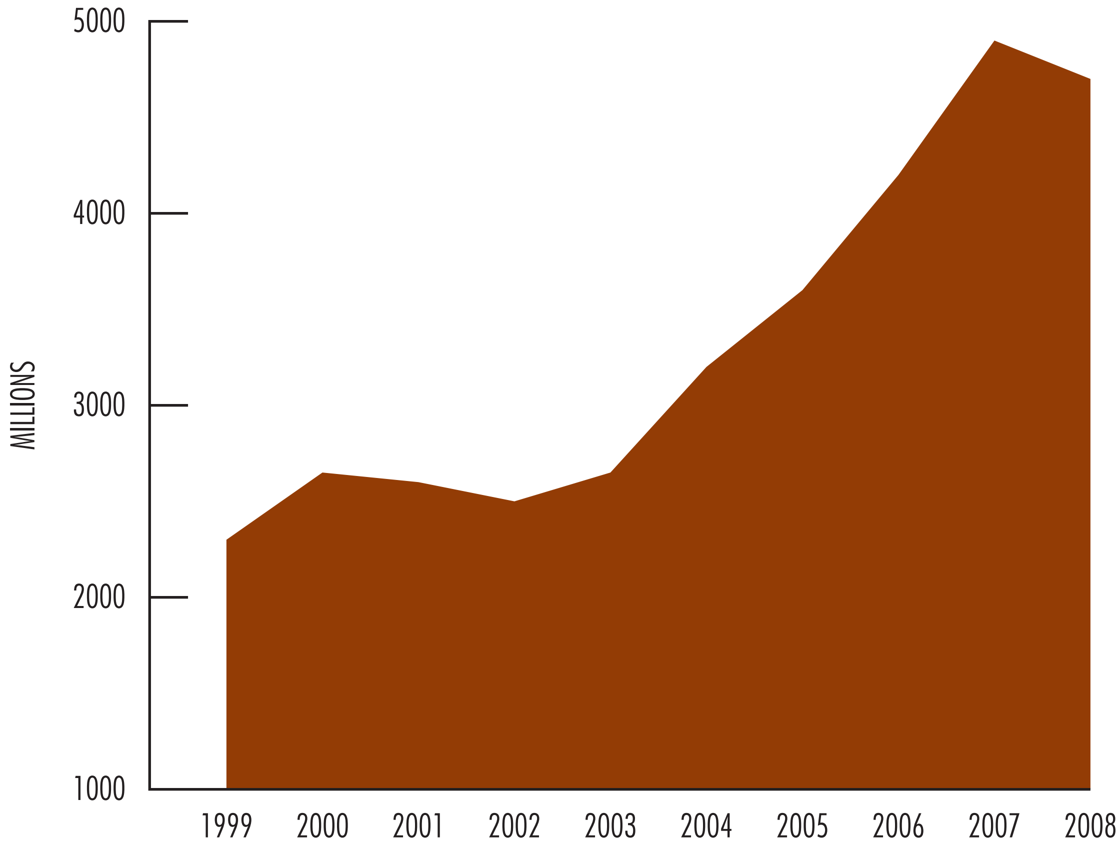
Year-Over-Year Changes: 3.23% increase in total shares traded; 4.50% increase in total commissions paid; 5.88% change in commissions per share paid.

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

2007

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission 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	Intercapital Investors, Inc.	1,878,328	57,715	0.031
23	RBC Capital Markets	1,538,810	56,070	0.036
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	$6,495,946	$0.017

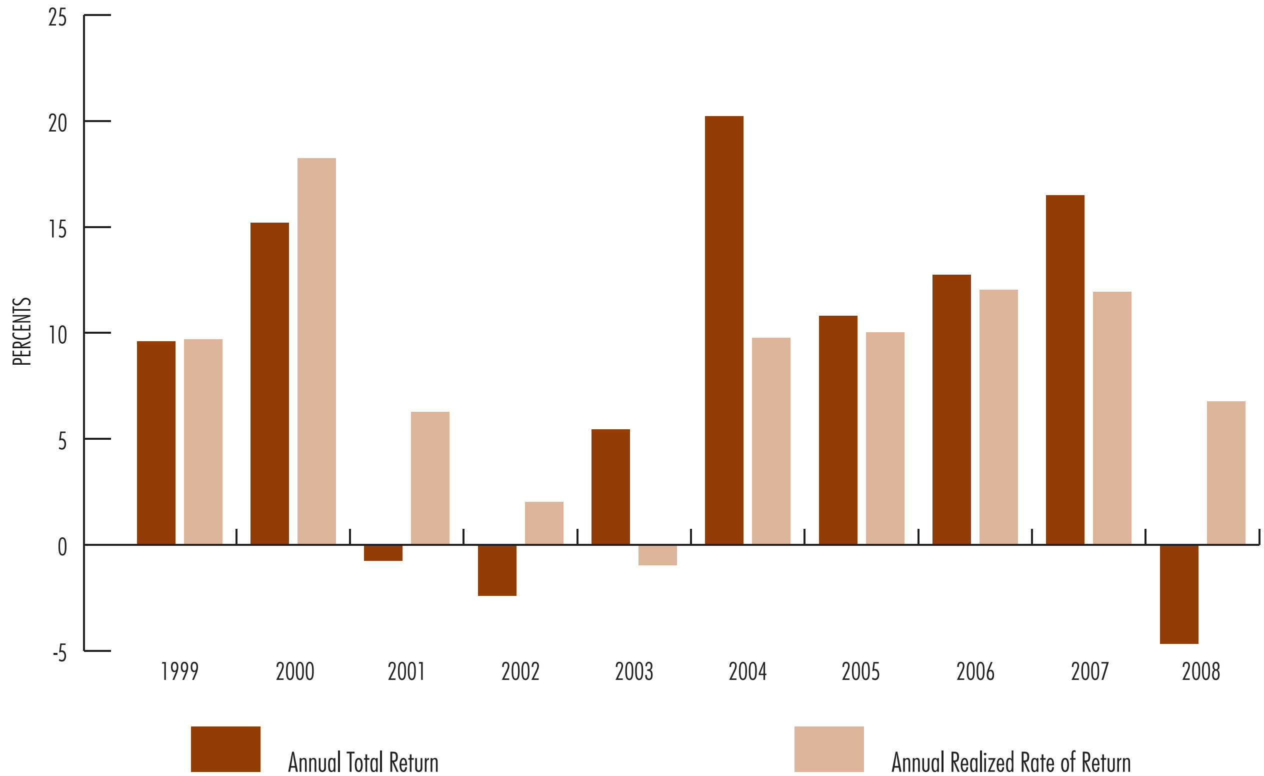
San Diego City Employees' Retirement System
Growth of Investments, At Fair Value
For Ten Years Ended June 30, 2008



Fiscal Year	Fair Value[1]
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
2008	4,663,860,705

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

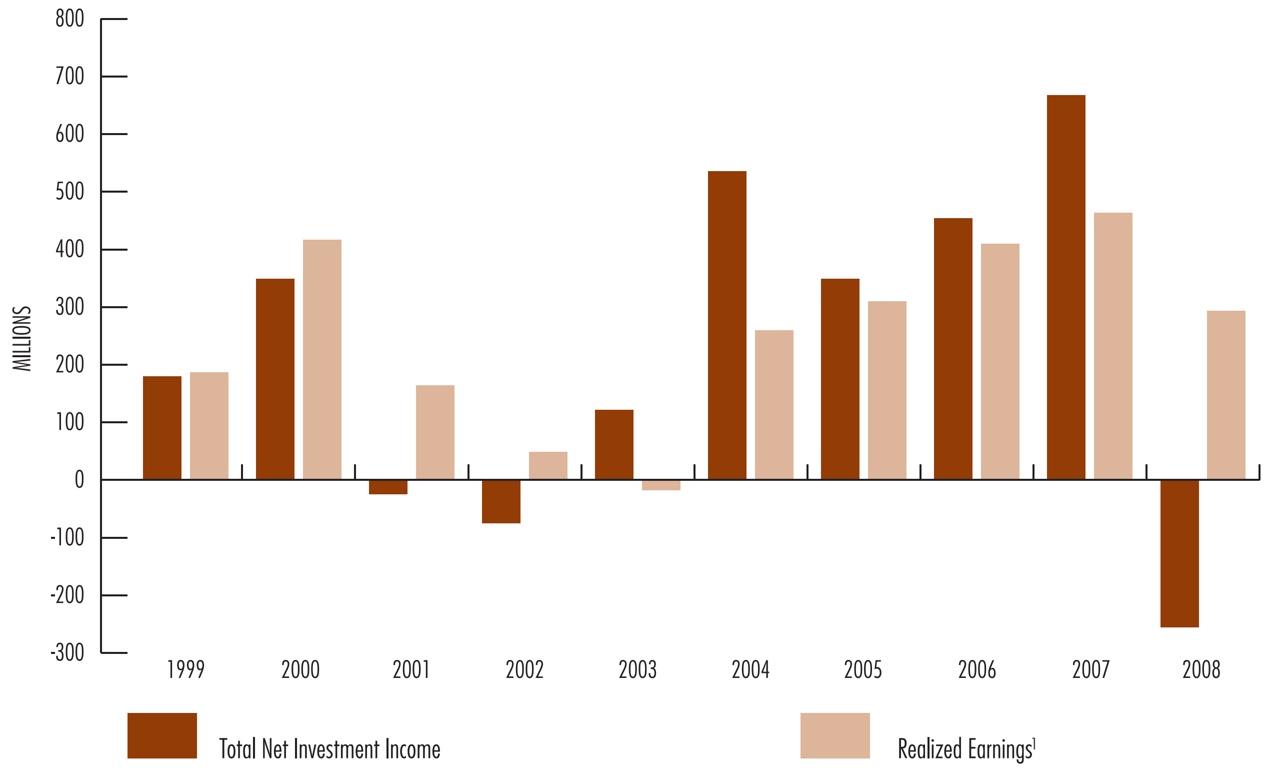
San Diego City Employees' Retirement System
Historical Investment Performance
For Ten Fiscal Years Ended June 30, 2008



Fiscal Year	Annual Total Return	Annual Realized Rate of Return
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
2008	(4.66)	6.76

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 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, 2008



Net Investment Income
Income earned as of June 30 each year

Fiscal Year	Total Net Investment Income	Realized Earnings[1]
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
2008	(256,614,969)	294,973,905

[1] Realized Earnings are depicted in this historical schedule as the payment of certain 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.

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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.

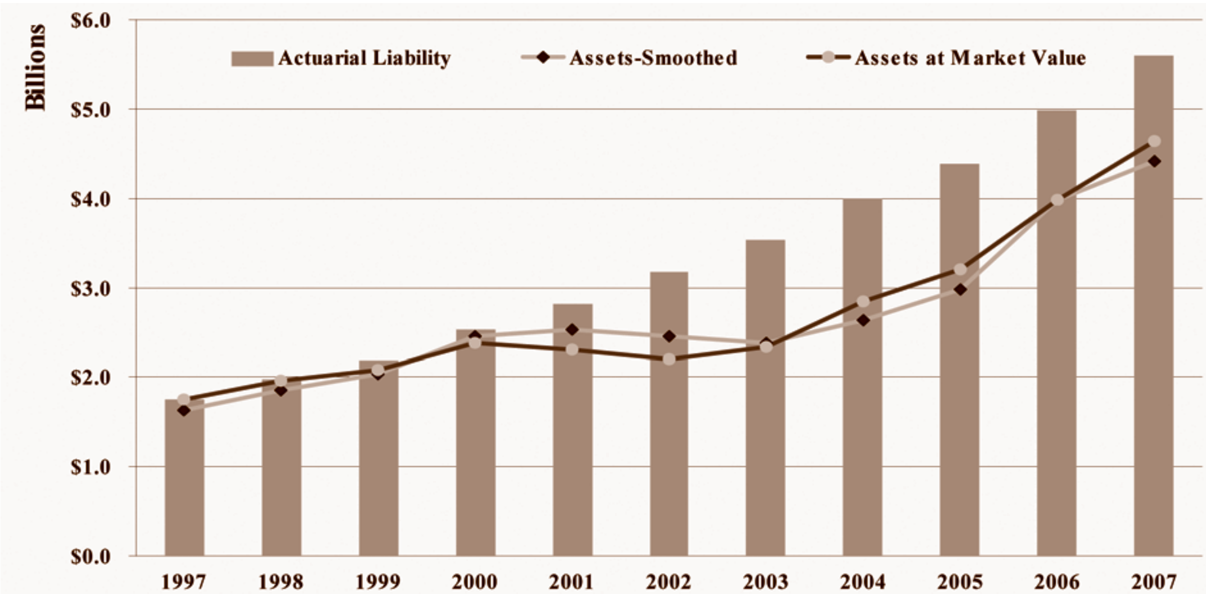
The actuarial funding methodology for the June 30, 2007 actuarial valuation and going forward is the **Entry Age Normal** (EAN) actuarial funding method. Under this method, there are two components to the total contribution: the **normal cost**, and the **unfunded actuarial liability contribution**. 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

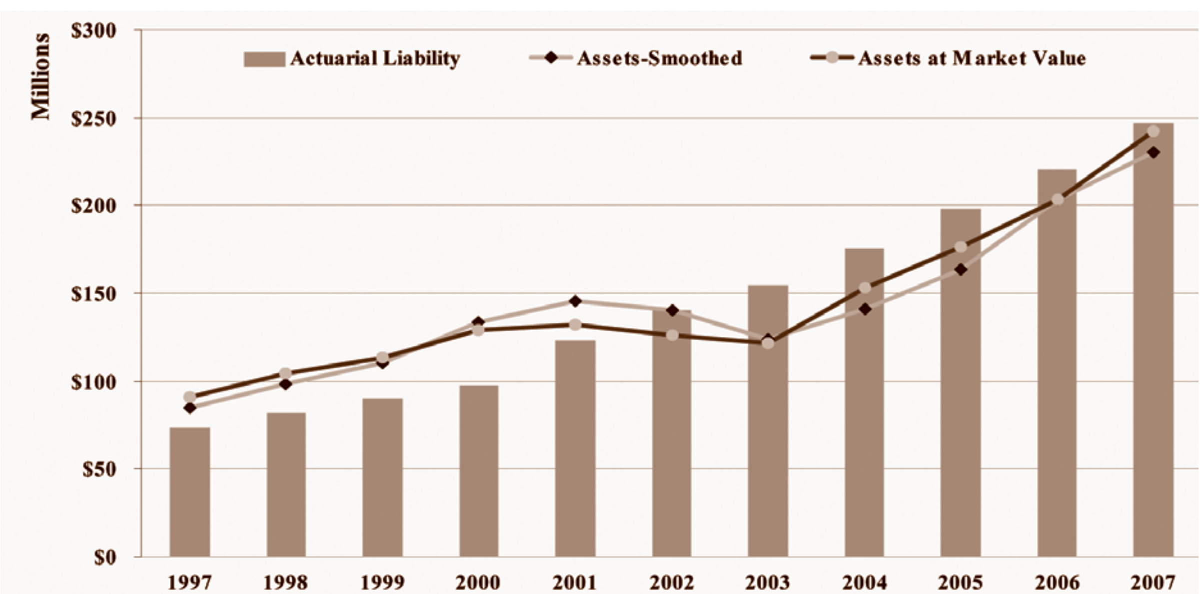
SDCERS - City of San Diego Assets and Liabilities 1997 - 2007



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

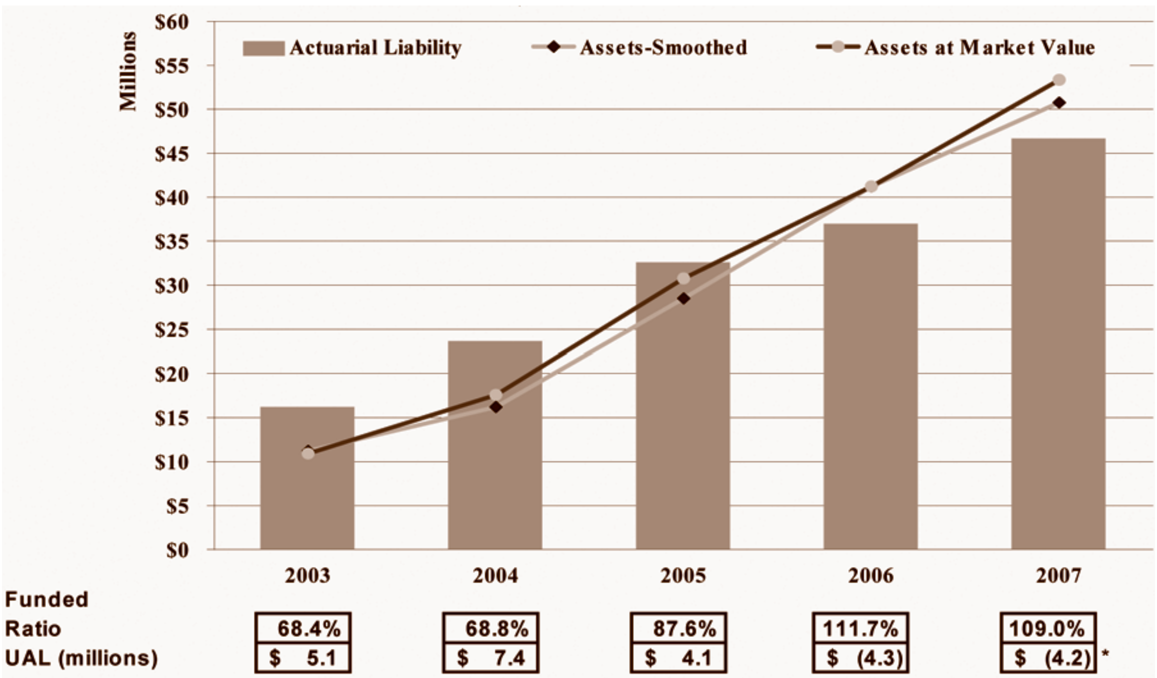


Funded Ratio	114.9%	120.1%	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%
UAL (millions)	$ (10.9)	$ (16.4)	$ (20.5)	$ (36.0)	$ (22.2)	$ (0.4)	$ 30.4	$ 34.0	$ 34.4	$ 17.4	$ 16.0 *

* 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



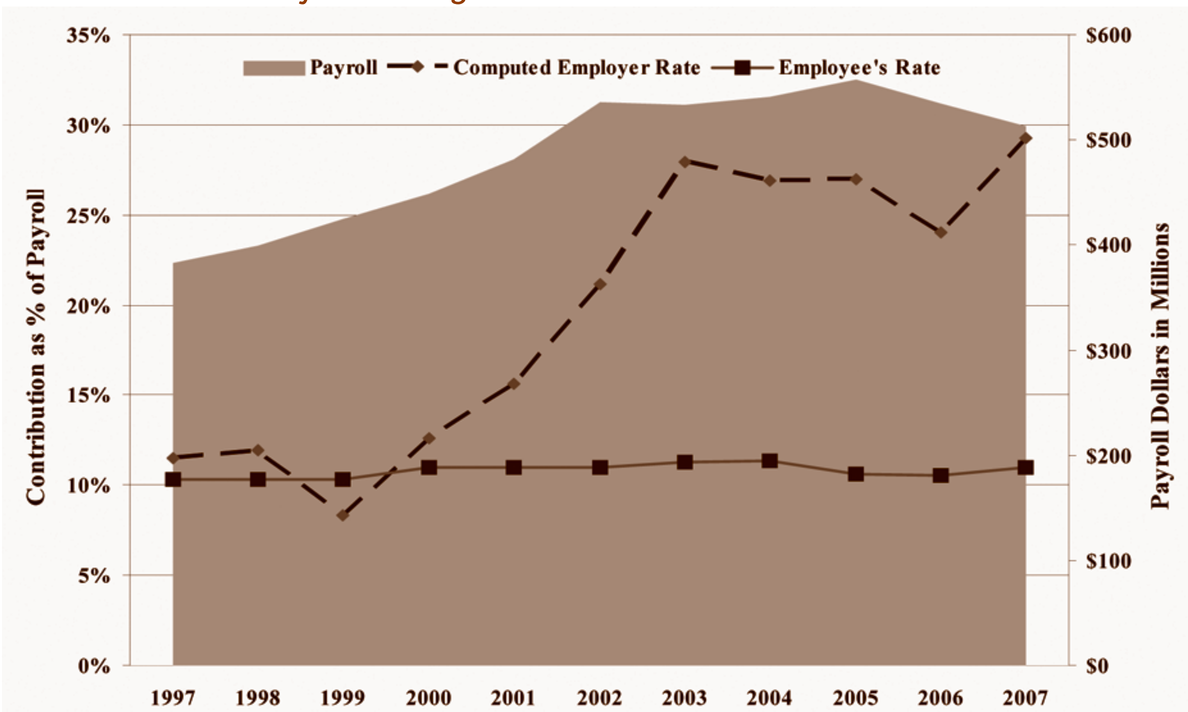
* Liability Method for 2007 has changed from PUC to EAN.

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.

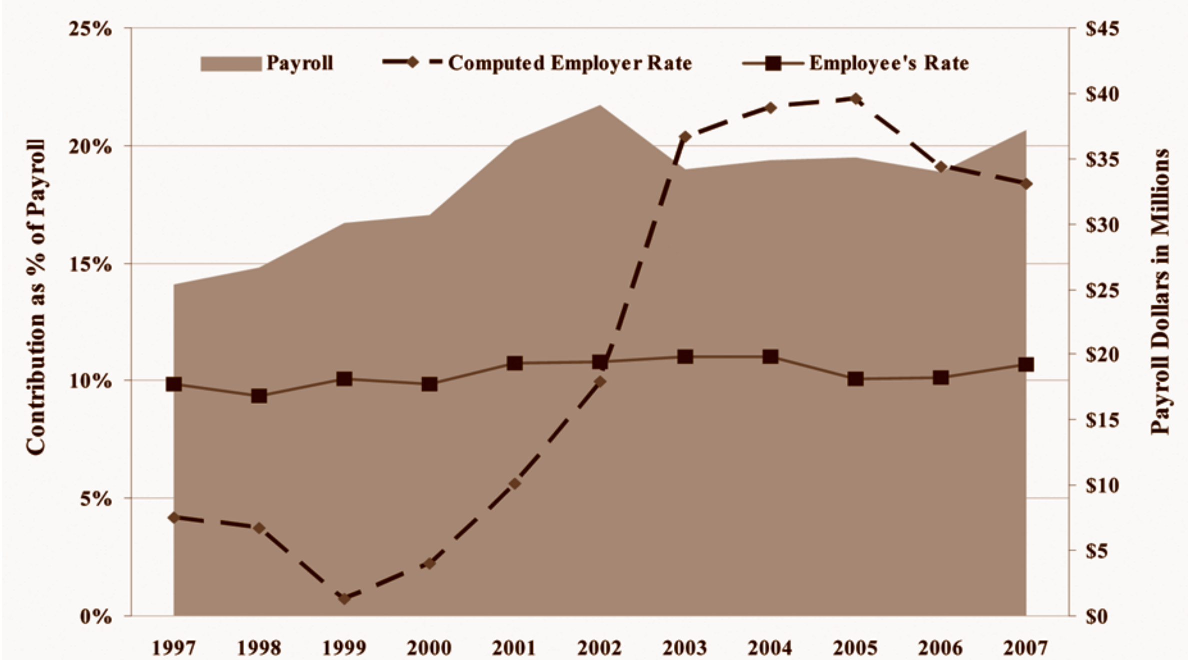
As demonstrated above, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. The past three years have shown substantial improvements due to the increase in investment returns among other 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

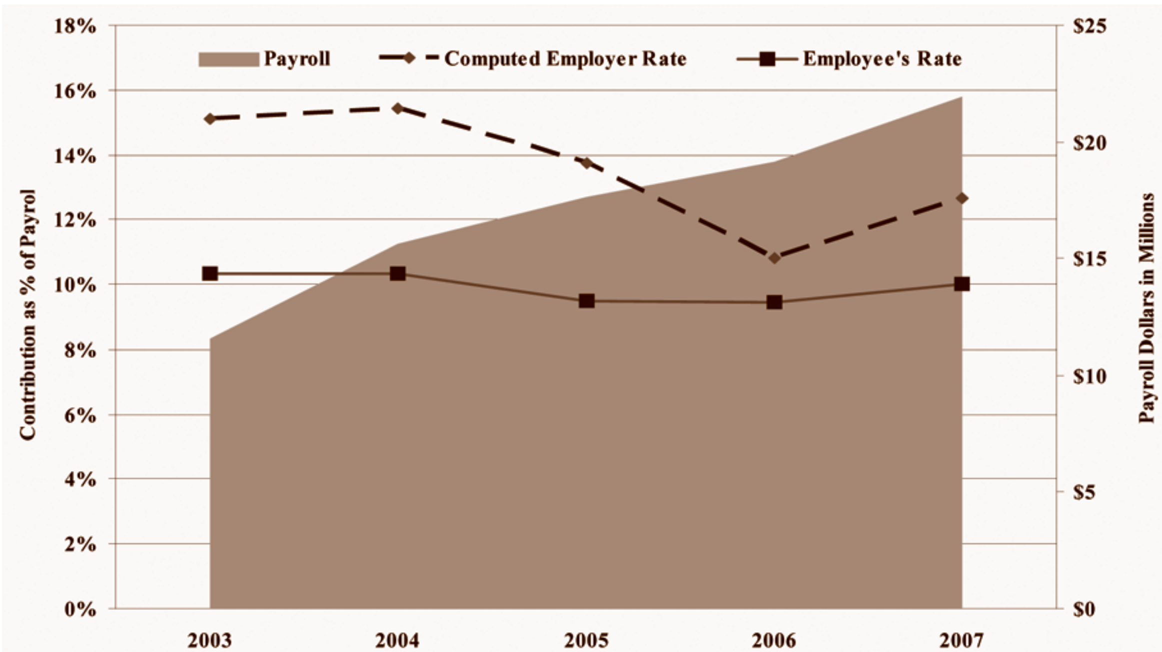


SDCERS - Unified Port District and Member Contribution Rates 1997 - 2007



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%	0.5%
Member Cost %	10.97%	10.54%	0.4%
Employer Normal Cost %	12.92%	12.85%	0.1%
Employer Unfunded Liability Cost %	15.78%	12.75%	3.0%
Negative Amortization Adjustment Cost %	1.75%	N/A	N/A
Total Employer Cost %	30.45%	25.60%	4.9%
Employer Cost % Beginning of Year	29.30%	24.63%	4.7%
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	14.4%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	25.56%	24.94%	0.6%
Member Cost %	10.97%	10.54%	0.4%
Employer Normal Cost %	14.59%	14.40%	0.2%
Employer Unfunded Liability Cost %	12.42%	10.55%	1.9%
Total Employer Cost %	27.01%	24.95%	2.1%
Employer Cost % Beginning of Year	25.99%	24.01%	2.0%
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	4.0%

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	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	$246,538,326	$226,153,853	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	15,953,422	22,868,025	-30.2%
Funding Ratio-Actuarial Value	93.5%	89.9%	3.6%

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	9,915,482	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%	0.1%
Member Cost %	10.71%	10.12%	0.6%
Employer Normal Cost %	15.28%	15.74%	-0.5%
Employer Unfunded Liability Cost %	3.81%	5.67%	-1.9%
Negative Amortization Adjustment Cost %	0.00%	N/A	N/A
Total Employer Cost %	19.09%	21.41%	-2.3%
Employer Cost % Beginning of Year	18.37%	20.60%	-2.2%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$7.3 million	$7.5 million	-2.7%
• if paid throughout the year	$7.6 million	$7.8 million	-2.6%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	25.44%	25.65%	-0.2%
Member Cost %	10.71%	10.12%	0.6%
Employer Normal Cost %	14.73%	15.53%	-0.8%
Employer Unfunded Liability Cost %	2.37%	4.3%	-1.9%
Total Employer Cost %	17.10%	19.83%	-2.7%
Employer Cost % Beginning of Year	16.45%	19.08%	-2.6%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$6.5 million	$6.9 million	-5.8%
• if paid throughout the year	$6.8 million	$7.2 million	-5.6%

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	60.6%
Beneficiaries	305,966	303,635	0.8%
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%	0.4%
Member Cost %	10.02%	9.44%	0.6%
Employer Normal Cost %	14.84%	15.01%	-0.2%
Employer Unfunded Liability Cost %	-1.69%	-0.88%	-0.8%
Negative Amortization Adjustment Cost %	0.00%	N/A	N/A
Total Employer Cost %	13.15%	14.13%	-1.0%
Employer Cost % Beginning of Year	12.66%	13.60%	-0.9%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$3.0 million	$2.8 million	7.1%
• if paid throughout the year	$3.1 million	$2.9 million	6.9%

PUC – Prior funding method	June 30, 2007	June 30, 2006	% Change
Gross Normal Cost %	23.17%	22.55%	0.6%
Member Cost %	10.02%	9.44%	0.6%
Employer Normal Cost %	13.15%	13.11%	0.0%
Employer Unfunded Liability Cost %	-2.74%	-1.90%	-0.8%
Total Employer Cost %	10.41%	11.21%	-0.8%
Employer Cost % Beginning of Year	10.01%	10.79%	-0.8%
Annual Required Contribution (GASB):			
• if paid at the beginning of the year	$2.3 million	$2.2 million	4.5%
• if paid throughout the year	$2.4 million	$2.3 million	4.3%

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 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

Choice of:

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

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

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

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

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

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

San Diego County Regional Airport Authority

Choice of:

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

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

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

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

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

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

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

	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 (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	2008	$175,000,938	$20,216,479	$47,287,014	$7,262,118	$1,022,247	-[5]	($251,289,907)	$335,210	($165,901)
% of total		105,485.16%	12,185.87%	28,503.15%	4,377.38%	616.18%	-	-151,469.80%	202.05%	100.00%
Dollars	2007	181,388,065	22,728,577	43,927,961	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

[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 (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	2008	$254,013,756	-	$15,776,346	$23,050,681	-	-	$3,866,690	$296,707,473
% of Total		85.61%	-	5.32%	7.77%	-	-	1.30%	100.00%
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

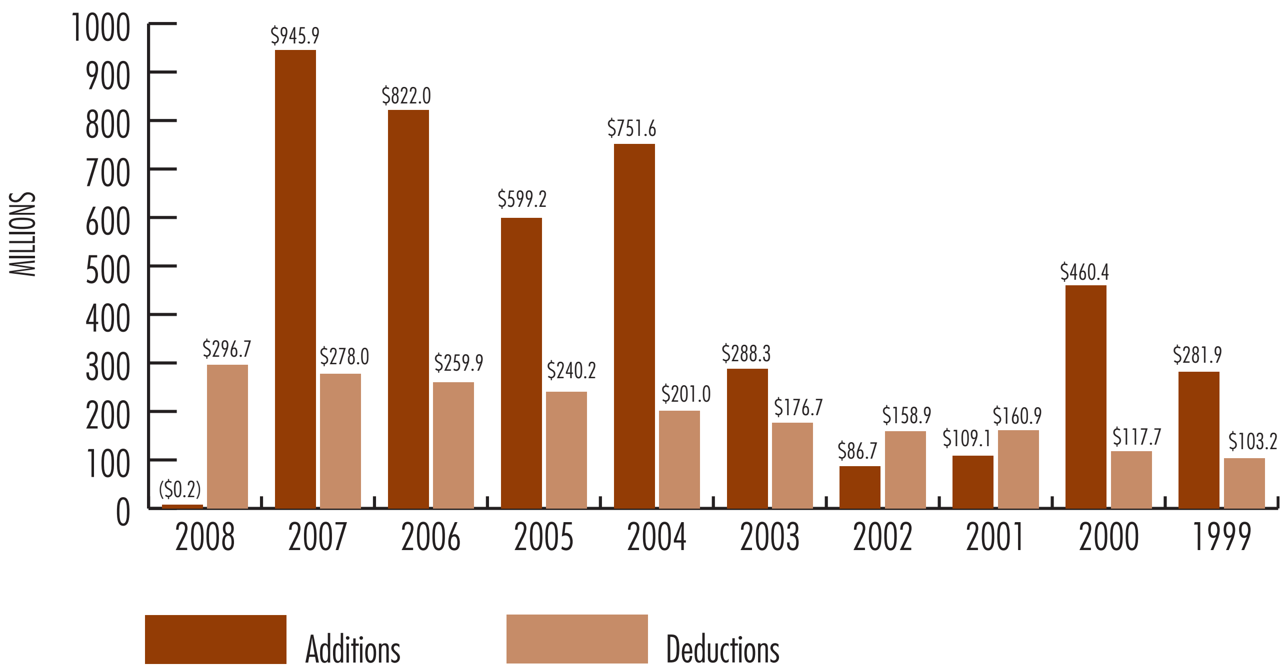
[1] Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' prior independent auditor. SDCERS current independent auditor approves of management's 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]
2008	$4,115,043,644	($165,901)	0.00%	$296,707,473	7.21%	-0.06%
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

[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
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
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 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