



SDCERS

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

A Defined Benefit Pension Plan for
Employees of the City of San Diego, the San Diego Unified Port District
and the San Diego County Regional Airport Authority.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

Issued by:

Mark A. Hovey

Chief Executive Officer

Robert J. Buscher

Chief Financial Officer

401 West A Street, Suite 400, San Diego, CA 92101-7991

(619) 525-3600 / Toll Free (800) 774-4977

www.sdcers.org

Contents

1. Introductory Section

Transmittal Letter from the Chief Executive Officer	2
GFOA Certificate of Excellence	5
Organization	
Board of Administration	6
Board of Administration Committees	7
Organization Chart	8
Report from SDCERS' Board President	9
Professional Services	10

2. Financial Section

Independent Auditor's Report	12
Management's Discussion and Analysis	14
Financial Statements	
Statement of Plan Net Assets	22
Statement of Changes in Plan Net Assets	23
Statement of Fiduciary Assets and Liabilities – Agency Funds	24
Notes to the Financial Statements	25
Required Supplementary Information	
Schedules of Funding Progress	54
Notes to the Schedules of Funding Progress	55
Schedules of Plan Sponsor Contributions.....	57
Notes to the Schedules of Plan Sponsor Contributions.....	59
Other Supplementary Information - Supporting Schedules	
Schedule of Administrative Expenses	60
Schedule of Fees Paid to Investment Professionals.....	61
Schedule of Payments to Consultants.....	62
Statement of Changes in Assets and Liabilities – Agency Funds.....	64

3. Investment Section

Investment Consultant's Statement, provided by Hewitt EnnisKnupp	66
Asset Class Investment Returns	68
Investment Managers.....	69
Summary of Investment Goals and Philosophy.....	70
Target and Actual Asset Allocation	71
Schedules of Largest Equity and Fixed Income Holdings.....	72
Schedule of Commissions	73
Growth of Investments, at Fair Value	74

4. Actuarial Section

Actuary's Certification Letter	76
Summary of June 30, 2010 Valuation Results	78
Summary of SDCERS' Benefit Provisions	100

5. Statistical Section

Changes in Plan Net Assets	110
Changes in Plan Net Assets by Plan Sponsor	110
Additions to Plan Net Assets by Source.....	111
Deductions from Plan Net Assets by Type	112
Allowances Being Paid – Service and Disability Retirees and Beneficiaries.....	113
Retired Members by Type of Benefit.....	116
Average Benefit Payment Amounts.....	117
Average Benefit Payment Amounts by Year of Retirement.....	118
Active Members	119
Inactive Members.....	120
Participating Plan Sponsors	121



1. INTRODUCTORY

Transmittal Letter



December 6, 2011

To the Participants, Plan Sponsors and Trustees 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) for the fiscal year ended June 30, 2011 (FY 2011).

SDCERS' Background and History. SDCERS was established in 1927 by the City of San Diego to provide retirement, disability and death benefits to its participants. Employees of the San Diego Unified Port District became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became members in 2003.

To attain the appropriate level of funding for each member, SDCERS' actuary specifies a formula to calculate the amount that would need to be contributed by participating Plan Sponsors and members each year until retirement. SDCERS invests these contributions utilizing a long-term investment strategy consisting of a diversified mix of equities, fixed income, real estate, and private equity. Plan sponsor and member contributions, along with investment earnings, represent the three funding sources from which SDCERS pays benefits and its operational expenses.

Investment Results. SDCERS' investment returns were strong for FY 2011, with final results of 24.2% compared to 13.4% for FY 2010. As of June 30, 2011, SDCERS' annualized total investment return was 4.4% over the past three years, 4.8% over the past five years, and 6.9% over the past ten years, which is in the top 6% for public pension plans.

It is important to remember that SDCERS' obligations reach well into the future. As such, SDCERS' investment philosophy and strategy remain focused on long-term results. SDCERS has never, and should never, manage its portfolio for the short-term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long-term.

Investment returns have been unstable since July 1, 2011, with uncertainty on federal spending cuts and the European economy creating volatility in the investment markets. Since our goal is to achieve long-term results, SDCERS remains focused on sound investment strategies that should moderate this volatility over time. SDCERS' target and actual asset allocations as of June 30, 2011, and recent and long-term investment performance, are included in the Investment Section.

Funding Status. SDCERS engages an independent actuarial consulting firm to conduct annual actuarial valuations. The valuation purpose is to reassess benefit commitments for comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The June 30, 2010 actuarial valuations, the most recent available, for our three Plan Sponsors are summarized in this CAFR, and show that the City's plan is 67.1% funded, the Unified Port District's plan is 75.3% funded and the Airport Authority's plan is 96.0% funded. The City and Unified Port District ratios are relatively stable from a year ago, while the Airport Authority ratio showed improvement due to additional employer contributions above the Annual Required Contribution (ARC). Given the actuarial asset smoothing methodology used in the valuations, investment gains from FY 2010 were partially offset by losses from FY 2009. Investment gains in FY 2011 will also be smoothed, with 75% of gains from FY 2011 deferred to future actuarial valuations. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

FY 2010 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2010 CAFR the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement "is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management." This award continues our renewed recognition that began with the FY 2008 CAFR and is the direct result of extraordinary work by our Finance, Investment and Legal teams.

Selection of New Pension Administration Software. Following an exhaustive evaluation of available pension administration software alternatives that would enhance operating efficiencies and functionality over our current software, SDCERS hired Sagitec Solutions LLC to provide our next generation system. SDCERS also retained L.R. Wechsler as our implementation vendor for this project. The multi-year project is scheduled to go live in January 2014 and is expected to deliver more timely, accurate data and important efficiency improvements.

Operational Initiative to Correct Historical Purchase of Service Credit (PSC) Underpricing. In response to a June 2010 appellate court ruling, SDCERS undertook a major operational initiative to correct PSC underpricing that originated in 2003/2004. Approximately 2,000 current and former City and Airport employees were affected by the PSC underpricing. These employees are now making choices to receive a refund and reduce their service time, accept a pro-rated reduction of their service time or pay additional funds to comply with the court's ruling. The correction process is expected to be completed by the end of December 2011.

Investment Team Making Things Happen. SDCERS' Investment team again had an ambitious and productive year. A key accomplishment was the completion of a comprehensive risk analysis. The objective of the analysis was to ensure key risks that could impact SDCERS' portfolio were identified and that adequate processes and controls exist to monitor and mitigate those risks. With outside consultant Hewitt EnnisKnupp's assistance, it was determined that SDCERS has policies and procedures in place to monitor and minimize each of the risks identified, and that the portfolio is being managed in a prudent and efficient manner. The Investment team also issued an updated Investment Policy Statement, and completed an asset allocation review which resulted in new asset classes for emerging market debt, infrastructure and an opportunity fund. Finally, an investment manager structure review was completed, leading SDCERS to move approximately 25% of the portfolio value to passive (i.e., index) funds to reduce investment risk and outside management fees.

SDCERS Employees Receive Recognition. In October 2011, SDCERS recognized three employee "Superstars" for FY 2011: Chris Linen, Michelle Wegner-Maleki and Robyn Bullard. These colleagues had an extremely positive impact on SDCERS and our participants, and we are very proud of their accomplishments. Their contributions have been, and will continue to be, invaluable to SDCERS.

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

SDCERS' management is responsible for the accuracy, completeness and fair presentation of information, and all disclosures in this report. The accounting firm of Macias Gini & O'Connell LLP provides audit services to SDCERS. Their opinion on the financial statements states that SDCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements.

Introductory Section

Internal Controls. SDCERS has established and maintains a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are free from material misstatement. However, we recognize that even sound internal controls have their inherent limitations. Therefore, internal controls are reviewed to ensure that SDCERS' operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard SDCERS' assets. Our Internal Auditor reviews our internal controls and operations, and reports regularly to the Board's Audit Committee, which reviews the audit findings and recommendations for improvement in internal controls and the actions of management to implement these recommendations, if any.

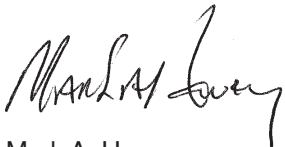
Acknowledgments. I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our Plan Sponsors, members and the citizens of our community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

I would particularly like to thank former Board members Susan S. Gonick, David A. Hall and Franklin R. Lamberth, who completed their service in FY 2011, and especially thank former Board President Mark C. Sullivan for providing outstanding leadership over the past several years. Each will be greatly missed by SDCERS. This year, SDCERS welcomes elected members Patrick S. Lane, Thomas A. Sullivan and Richard E. Wilken to the Board.

Finally, I would like to thank my SDCERS colleagues. Each staff member works hard and diligently to provide financial security for our members, retirees and beneficiaries. SDCERS' staff is dedicated and committed to ensuring the System's stability and success. Their individual efforts, combined with those of a great group of professional advisors and investment managers, are key to our ongoing success.

It is a pleasure and an honor to serve you.

Respectfully submitted,



Mark A. Hovey
Chief Executive Officer

**San Diego City Employees' Retirement System
GFOA Certificate of Excellence**

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego City
Employees' Retirement System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

**San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2011**

BOARD OF ADMINISTRATION			Raymond G. Ellis, President MAYORAL APPOINTEE
Herb W. Morgan, Vice President MAYORAL APPOINTEE		Alan J. Arrollado ELECTED SAFETY (FIRE) MEMBER	
	Gregory J. Bych EX-OFFICIO, MAYORAL DESIGNEE		V. Wayne Kennedy MAYORAL APPOINTEE
Edward W. Kitrosser MAYORAL APPOINTEE		Patrick S. Lane ELECTED GENERAL MEMBER	
	Steven W. Meyer ELECTED GENERAL MEMBER		Mark E. Demcke MAYORAL APPOINTEE
Thomas A. Sullivan ELECTED SAFETY (POLICE) MEMBER		Richard R. Tartre MAYORAL APPOINTEE	
	Richard E. Wilken ELECTED RETIREE	Vacant MAYORAL APPOINTEE	

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2011

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, 2011 were as follows:

Audit Committee

<p>Marilyn Creson Brown (Chair)* H. Michael Collins* Raymond G. Ellis Edward W. Kitrosser David W. Kramer*</p>	<p>Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process. Recommends to the full Board the acceptance of the CAFR, as well as acknowledgment and receipt of the external auditor's Report to the Board of Administration and opinion on the audited financial statements. Develops the performance plan and evaluates the performance of the Internal Auditor. The Audit Committee Charter requires three members to be independent, non-Board members appointed by the Board and such members are denoted by the "*" at left.</p>
---	---

Business and Governance Committee

<p>Raymond G. Ellis (Chair) V. Wayne Kennedy Edward W. Kitrosser Steven W. Meyer</p>	<p>Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.</p>
---	--

Disability Committee

<p>Alan J. Arrollado (Chair) Raymond G. Ellis Edward W. Kitrosser Patrick S. Lane Richard R. Tartre Richard E. Wilken</p>	<p>Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board; 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.</p>
--	--

Executive Committee

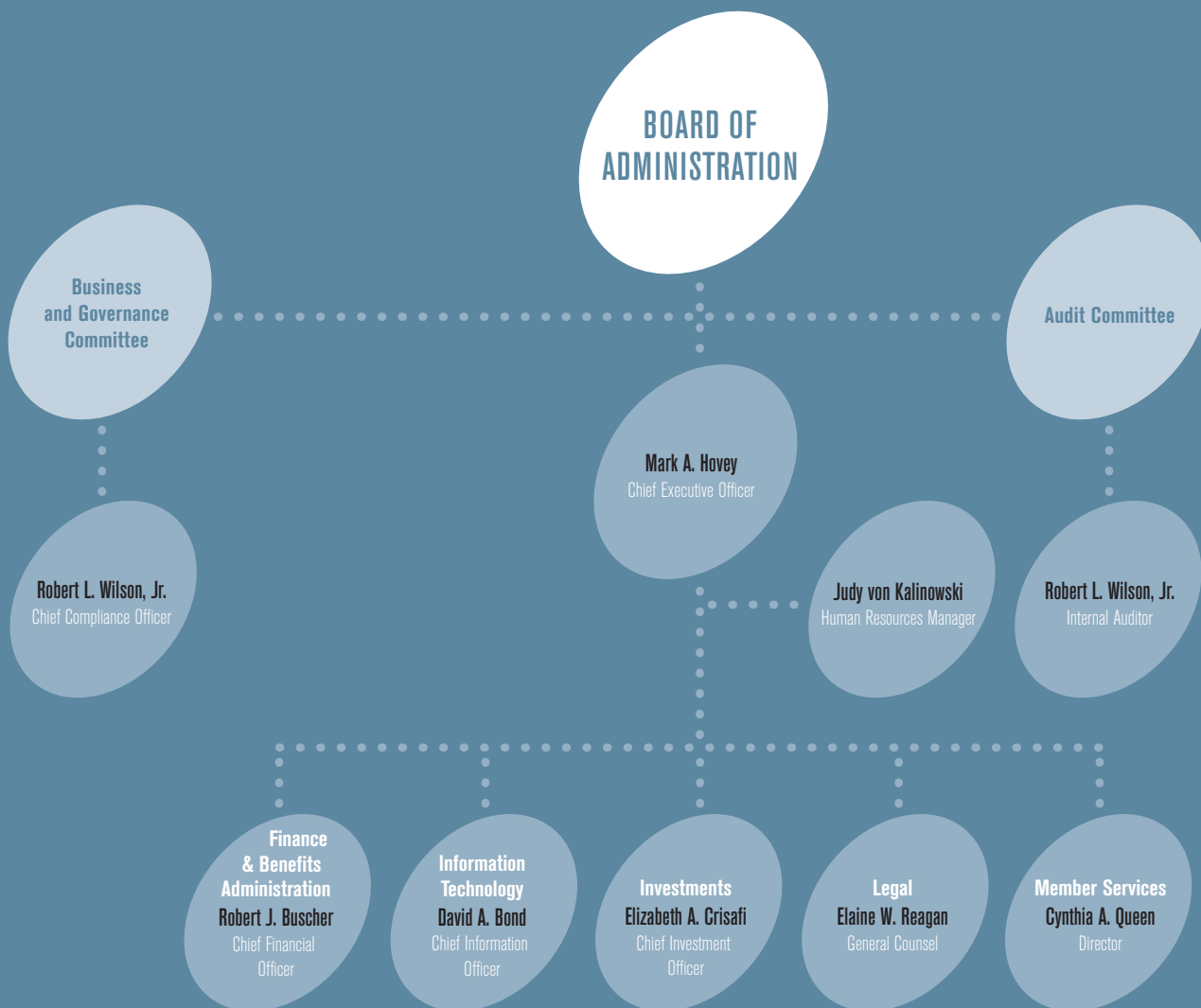
<p>Raymond G. Ellis (Chair) Alan J. Arrollado Steven W. Meyer</p>	<p>Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Chief Executive Officer and the Chief Compliance Officer.</p>
--	---

Investment Committee

<p>Steven W. Meyer (Chair) Gregory J. Bych Raymond G. Ellis Herb W. Morgan Mark E. Oemcke Richard R. Tartre</p>	<p>Responsible for monitoring investment performance; hiring and terminating investment managers and consultants; and recommending changes to the Investment Policy Statement.</p>
--	--

**San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2011**

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



Report from SDCERS' Board President



December 6, 2011

Dear SDCERS Constituents:

As the elected Board President of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present the Comprehensive Annual Financial Report for Fiscal Year 2011. This past year has been very strong in many respects, but has had several major challenges, too.

The investment and financial results were very solid. Our overall portfolio experienced gains in excess of 24%, which far exceeded the assumed rate of return of 7.75% and added approximately \$1 billion to the assets of the System. As we have noted in the past, meeting this return objective is paramount to ensuring that approximately 70% of the benefits we pay out to members comes from investment returns.

Mark Hovey has made a smooth transition into his role as CEO of SDCERS. Mark successfully recruited several new staff members to round out his very capable executive and management team. The SDCERS staff, working closely with the Board of Administration, has continued to control organizational costs and made further progress in driving investment management costs down. The result is a stronger, more stable trust fund.

However, SDCERS still has challenges to resolve. We have invested tremendous time, energy and effort in fulfilling the court ordered Purchase of Service Credit (PSC) correction. This has impacted every department and employee within SDCERS. While we have made significant progress in helping our members navigate this extremely complicated resolution, we are still in the midst of this task. Legal challenges and subsequent litigation continue with the City of San Diego and members affected by the PSC correction. We will endeavor to resolve these matters in the most efficient and cost effective manner. We have not yet replaced our Board colleague, Susan Gonick, who resigned in March as a result of concerns over trustee indemnification. We continue to work diligently on filling this position and addressing the underlying issue of indemnification.

The SDCERS Board is committed to continuing to defend its independence from any political influence and to continue prudently managing plan assets for the purpose of administering the promised benefits to the approximately 20,000 active, deferred and retired SDCERS members and their beneficiaries.

I would like to extend the Board's appreciation to our members and retirees for their ongoing support, and to our staff for their effort and commitment to the continued successful operation of SDCERS. I would also like to express my deep gratitude to each member of the SDCERS Board of Administration for their dedication and efforts throughout this past year.

Sincerely,

A handwritten signature in black ink, appearing to read "Ray Ellis", is written over a light blue horizontal line.

Raymond G. Ellis

President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2011

Actuary Cheiron McLean, VA	
Consulting and Professional Services	
San Diego Data Processing Corporation San Diego, CA	Aon Risk Services, Inc. of So Cal Irvine, CA
Levi, Ray & Shoup Springfield, IL	Sagitec Solutions, LLC Little Canada, MN
Linea Solutions Los Angeles, CA	JPI Printing, Inc. 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 Hewitt EnnisKnupp, Inc. Chicago, IL	
Real Estate Consultant The Townsend Group San Francisco, CA	
Private Equity Consultants	
Credit Suisse Securities (USA) LLC New York, NY	StepStone Group LLC San Diego, 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.



2. FINANCIAL



Sacramento • Walnut Creek • Oakland • Los Angeles/Century City • Newport Beach • San Diego

mgocpa.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan 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, 2011 and the related statement of changes in plan net assets for the year then ended. We have also audited the accompanying statement of fiduciary assets and liabilities of the agency funds of SDCERS as of June 30, 2011. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from SDCERS' 2010 financial statements on which our report dated December 8, 2010, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Group Trust of the San Diego City Employees' Retirement System as of June 30, 2011, the fiduciary assets and liabilities of the agency funds as of June 30, 2011 and the changes in plan net assets of the Group Trust for year then ended, in conformity with accounting principles generally accepted in the United States of America.

As presented in the funded status in Note 6 and based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2010, 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 \$2.1 billion.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of SDCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

3000 S Street
Suite 300
Sacramento
CA 95816

2121 N. California Blvd.
Suite 750
Walnut Creek
CA 94596

505 14th Street
5th Floor
Oakland
CA 94612

2029 Century Park East
Suite 500
Los Angeles
CA 90067

4675 MacArthur Ct.
Suite 600
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 21, the Schedules of Funding Progress on pages 54 through 56 and the Schedules of Plan Sponsors' Contributions on pages 57 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SDCERS' financial statements as a whole. The introductory, investment, actuarial and statistical sections and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Jini & O'Connell LLP

San Diego, California
December 5, 2011

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview and analysis of SDCERS' financial condition for the fiscal year ended June 30, 2011 (FY 2011), with results also compared to the fiscal year ended June 30, 2010 (FY 2010).

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

The SDCERS Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. The Internal Revenue Service issued a favorable determination letter with respect to the Group Trust on September 10, 2009. Under the Group Trust, the City, Port and Airport plans are treated as separate plans, with assets of each pooled for investment purposes only. Separate financial statements for FY 2011 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 FY 2011 and FY 2010 for the total of all three plans, rather than the separate plans. See *Note 1. Summary of Significant Accounting Policies* for more details on the Group Trust.

Financial Highlights

As of June 30, 2011, the SDCERS Group Trust had \$4.770 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of \$3.786 billion at June 30, 2010. This represents a \$983.8 million increase (26.0%) from FY 2010. The FY 2011 increase reflects plan sponsor and member contributions (\$356.0 million) plus net investment gains (\$1.040 billion), offset by benefit payments and administrative expenses (\$412.0 million).

For FY 2011, total contributions plus net investment gains resulted in total additions of \$1.396 billion to the Group Trust net assets, an increase of \$623.8 million from FY 2010 total additions of \$772.0 million. An increase in net investment earnings of \$548.5 million was the main factor in the improvement over last year.

As of June 30, 2011, deductions from Group Trust net assets for benefits and expenses totaled \$412.0 million, a \$71.6 million increase (21.0%) compared to FY 2010 deductions of \$340.4 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board for approval. Dividing the Actuarial Value of Assets (AVA) by the Actuarial Accrued Liabilities (AAL) results in a funded ratio that is a 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.

SDCERS recently engaged its actuarial consultant to conduct a Plan Experience Study for the period July 1, 2007 through June 30, 2010. At its September 30, 2011 meeting, the Board approved several actuarial assumption changes resulting from the study. These assumption changes will be implemented as part of the June 30, 2011 actuarial valuations for all three plan sponsors, which are expected to be received in January 2012.

As of June 30, 2010, the City's funded status, calculated pursuant to the Entry Age Normal (EAN) actuarial funding method, was 67.1%. This means that for every dollar of current and future benefits due, the City had approximately 67.1 cents in actuarial assets available for payment.

As of June 30, 2010, the Port's funded status under EAN was 75.3%. For every dollar of current and future benefits due, the Port had approximately 75.3 cents in actuarial assets available for payment.

As of June 30, 2010, the Airport's funded status under EAN was 96.0%. For every dollar of current and future benefits due, the Airport had approximately 96.0 cents in actuarial assets available for payment.

Six years of historical funded status information for the City, Port and 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 www.sdcers.org.

As discussed in *Note 9. Legal Action* and *Note 10. 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.

On June 7, 2010, final judgment was rendered in the case, *City of San Diego v. San Diego City Employees' Retirement System* (see *Note 9. Legal Action*) regarding underpricing of certain purchase of service credit contracts (PSCs) issued in 2003/2004. The judgment essentially required SDCERS to correct the underpricing, based on each member's individual selection, by either collecting the amount of the underpricing from the member, cancelling the PSC contract and issuing a refund to the member or adjusting the amount of purchased service time to reflect the underpaid amount. (Although this case was closed, the ensuing correction process resulted in new litigation being brought against SDCERS. See *Note 10. Subsequent Events, Purchase of Service Credit Contracts*, for more specifics on the new litigation.)

A total of 2,010 City and Airport PSCs were affected. (The Port chose to not require correction of any impacted contracts.) As of November 4, 2011, corrective option selection forms had been received from 1,938 of the impacted members. Based on the corrective options selected, an additional amount of \$32.8 million was payable by members to SDCERS to correct the underpricing of affected PSCs. However, for those members choosing to cancel their affected PSCs, refunds totaling \$31.3 million were payable by SDCERS to the members. As a result of payments received and refunds issued by SDCERS in FY 2011, at June 30, 2011, the financial statements include a remaining balance of \$30.7 million in receivables from members and \$29.0 million in refunds payable to members. The net impact in FY 2011 of all corrections is an estimated \$1.5 million payable to SDCERS. SDCERS expects to complete the correction process by December 2011.

Overview of Financial Statements

SDCERS' audited financial statements are comprised of the following six items:

1. Statement of Plan Net Assets;
2. Statement of Changes in Plan Net Assets;
3. Statement of Fiduciary Assets and Liabilities - Agency Funds;
4. Notes to the Financial Statements;
5. Required Supplementary Information; and
6. Other Supplementary Information - Supporting Schedules.

The **Statement 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, 2011, with comparative totals as of June 30, 2010. As of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the interests of each plan and trust are accounted for separately, as presented in this year's Statement of Plan Net Assets.

The **Statement of Changes in Plan Net Assets** provides an income statement presentation of annual additions to and deductions from Group Trust plan assets for FY 2011, with comparative totals for FY 2010. The FY 2011 Statement also presents separate reporting for the City, Port and Airport, consistent with the Statement of Plan Net Assets.

Both Statements comply with all applicable Governmental Accounting Standards Board (GASB) statements 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 **Statement of Fiduciary Assets and Liabilities - Agency Funds** is a balance sheet presentation of assets and liabilities for the Agency Funds. It discloses the assets available to cover future payments to members eligible for Preservation of Benefit distributions, as well as administrative expenses. It also reflects liabilities owed as of June 30, 2011.

The **Notes to the Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS' financial condition. *Note 1. Summary of Significant Accounting Policies* provides information on the assumptions and methods used in the presentation of SDCERS' financial statements. It also provides for the basis used for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) 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 Schedule of Administrative Expenses, a Schedule of Payments to Consultants, a Schedule of Fees Paid to Investment Professionals and a Statement of Changes in Assets and Liabilities – Agency Funds. 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 in accordance with U.S. GAAP.

Financial Analysis

Tables 1 and 2 below summarize and compare SDCERS' financial results for the current and prior fiscal year 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, 2011 totaled \$4.770 billion, a \$983.8 million increase (26.0%) compared to net assets of \$3.786 billion as of June 30, 2010. Investment returns of 24.2% for the year accounted for the most significant portion of the increase in net assets. 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 below.

Table 1: Plan Net Assets (Dollars in Thousands)

	2011	2010	Percentage Change
Cash and Cash Equivalents	\$386,667	\$404,513	-4.4%
Receivables	85,479	85,028	0.5
Investments, at Fair Value	4,920,326	3,835,399	28.3
Securities Lending Cash Collateral	326,600	492,171	-33.6
Capital Assets plus Prepaid Expenses	2,313	1,625	42.3
Total Assets	\$5,721,385	\$4,818,736	18.7%
Current Liabilities	190,438	149,322	27.5
DROP Liabilities	434,547	391,283	11.1
Securities Lending Obligations	326,600	492,171	-33.6
Total Liabilities	\$951,585	\$1,032,776	-7.9%
Plan Net Assets	\$4,769,800	\$3,785,960	26.0%

Reserves

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

The largest reserve balance is for accumulated benefits payable to retired SDCERS members. This comprises approximately 32% of plan assets (\$1.541 billion reserved out of \$4.468 billion in total reserves) as of June 30, 2011. Reserves for Plan Sponsor Contributions at June 30, 2011 were \$1.509 billion, up \$364.8 million from June 30, 2010. A complete listing of SDCERS' reserves and corresponding balances for FY 2011 are set out in *Note 5. Reserve Balances*.

Current Year Results

Key elements of FY 2011 results and year-over-year comparisons are summarized below.

Additions to Plan Net Assets, necessary 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 2011, contributions and investment gains combined to provide total additions of \$1.396 billion, an increase of \$623.8 million over FY 2010 total additions of \$772.0 million.

Deductions from Plan Net Assets reflect SDCERS' administration of 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 2011 were \$412.0 million, an increase of \$71.6 million from FY 2010 deductions of \$340.4 million.

A comparative summary of additions and deductions is set out in Table 2 below.

Table 2: Changes in Plan Net Assets (Dollars in Thousands)

	2011	2010	Percentage Change
Additions:			
Plan Sponsor Contributions	\$245,098	\$207,334	18.2%
Member Contributions and Other Contributions	110,899	73,347	51.2
Net Investment Earnings	1,039,851	491,338	111.6
Total Additions	\$1,395,848	\$772,019	80.8%
Deductions:			
Benefit Payments	336,460	296,554	13.5
Refunds of Member Contributions	35,119	3,478	909.7
Administrative Expenses	15,551	14,968	3.9
DROP Interest Expense	24,878	25,375	-2.0
Total Deductions	\$412,008	\$340,375	21.0%
Changes in Plan Net Assets	\$983,840	\$431,644	127.9%

FY 2011 plan sponsor contributions totaled \$245.1 million, an increase of \$37.8 million (18.2%) compared to contributions of \$207.3 million in FY 2010. The Annual Required Contribution (ARC) for all three plan sponsors in FY 2011 was higher than the ARC in FY 2010. For further information about plan sponsor contributions, see *Note 4. Contributions* in the Notes to the Financial Statements and the Schedules of Plan Sponsor Contributions in the Required Supplementary Information.

FY 2011 member contributions and member contributions paid by plan sponsors totaled \$110.9 million, up \$37.6 million, or 51.2%, from FY 2010. The increase was largely driven by additional contributions of \$32.8 million associated with the PSC correction process.

In FY 2011, net investment earnings totaled \$1.040 billion, an increase of \$548.5 million (111.6%) due to improved investment performance over FY 2010. Appreciation in the fair value of equity holdings accounted for \$422.8 million of the increase, real estate holdings improved by \$114.6 million, fixed income holdings added another \$4.1 million and private equity \$2.2 million. Dividend, interest and other income of \$111.6 million increased \$8.2 million from FY 2010.

A report on SDCERS' investment activity by Hewitt EnnisKnupp, 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 2011 and long-term investment performance.

SDCERS' one-year investment return as of June 30, 2011 was 24.2%, net of investment management fees. According to the Hewitt EnnisKnupp database of public fund performance, SDCERS' investment performance was in the 10th percentile for the year ended June 30, 2011. Longer-term performance has been stronger, and SDCERS ranks in the top 6% for the ten-year period ended June 30, 2011.

In FY 2011, member benefit payments totaled \$336.5 million, \$39.9 million (13.5%) more than FY 2010's payments of \$296.6 million. A 4.9% increase in the number of total retirees in FY 2011, annual cost of living increases and supplemental benefits contributed to the increased payments.

In FY 2011, refunds of member contributions totaled \$35.1 million, a \$31.6 million increase compared to FY 2010 refunds. The annual fluctuation was due to refunds of member contributions associated with the PSC Correction process.

FY 2011 administrative expenses totaled \$15.6 million, an increase of \$0.6 million (3.9%) over FY 2010 expenses of \$15.0 million. Increased legal costs associated with both ongoing and new litigation helped drive the higher level of expenses. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details.

FY 2011 Deferred Retirement Option Plan (DROP) interest expenses totaled \$24.9 million, a decrease of \$0.5 million (2.0%) from FY 2010 expenses of \$25.4 million.

Analysis of Balances and Results by Plan Sponsor

Tables 3 and 4 below summarize and compare SDCERS' financial results for the current and prior fiscal year by plan sponsor.

Table 3: Plan Net Assets by Sponsor (Dollars in Thousands)

	As of June 30, 2011			As of June 30, 2010		
	City	Port	Airport	City	Port	Airport
Cash & Cash Equivalents	\$360,302	\$19,973	\$6,392	\$377,795	\$20,483	\$6,235
Receivables	79,976	3,348	2,155	78,720	4,619	1,689
Investments, at Fair Value	4,584,838	254,154	81,334	3,582,071	194,204	59,124
Securities Lending Cash Collateral	304,331	16,870	5,399	459,663	24,921	7,587
Capital Assets plus Prepaid Expenses	2,155	120	38	1,518	82	25
Total Assets	\$5,331,602	\$294,465	\$95,318	\$4,499,767	\$244,309	\$74,660
Current Liabilities	179,212	8,215	3,011	139,564	7,480	2,278
DROP Liabilities	423,668	9,830	1,049	382,002	8,417	864
Securities Lending Obligations	304,331	16,870	5,399	459,663	24,921	7,587
Total Liabilities	\$907,211	\$34,915	\$9,459	\$981,229	\$40,818	\$10,729
Plan Net Assets	\$4,424,391	\$259,550	\$85,859	\$3,518,538	\$203,491	\$63,931

City plan net assets of \$4.424 billion at June 30, 2011 were up \$905.9 million (25.7%) from \$3.519 billion at June 30, 2010. Investment earnings of \$970.4 million in FY 2011 helped generate the positive change in plan net assets.

Port plan net assets of \$259.6 million at June 30, 2011 were up \$56.1 million (27.5%) from \$203.5 million at June 30, 2010. The Port experienced \$53.8 million of investment earnings in FY 2011 which contributed to the increase in net assets.

Airport plan net assets of \$85.9 million at June 30, 2011 were up \$21.9 million (34.3%) from \$63.9 million at June 30, 2010. The Airport experienced \$15.7 million of investment earnings in FY 2011 which contributed to the increase in net assets.

Table 4: Changes in Plan Net Assets by Sponsor (Dollars in Thousands)

	For the year ended June 30, 2011			For the year ended June 30, 2010		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	\$229,297	\$11,501	\$4,300	\$192,533	\$7,201	\$7,600
Member Contributions and Other Contributions	100,644	6,378	3,877	65,746	4,547	3,054
Net Investment Earnings	970,353	53,830	15,668	459,879	25,534	5,925
Total Additions	\$1,300,294	\$71,709	\$23,845	\$718,158	\$37,282	\$16,579
Deductions:						
Benefit Payments	321,227	14,113	1,120	283,631	12,038	885
Refunds of Member Contributions	34,380	272	467	3,314	101	63
Administrative Expenses	14,468	788	295	13,921	758	289
DROP Interest Expense	24,366	477	35	24,884	458	33
Total Deductions	\$394,441	\$15,650	\$1,917	\$325,750	\$13,355	\$1,270
Changes in Plan Net Assets	\$905,853	\$56,059	\$21,928	\$392,408	\$23,927	\$15,309

City plan net assets increased \$905.9 million in FY 2011, an improvement of \$513.4 million over FY 2010. Net investment earnings of \$970.4 million, which showed a year-over-year change of \$510.5 million, accounted for most of the improvement. Plan sponsor contributions in FY 2011 were up \$36.8 million (19.1%) over FY 2010, and member contributions in FY 2011 were up from FY 2010 by 53.1%. Benefit payments of \$321.2 million were up \$37.6 million (13.3%) in FY 2011, reflecting a combination of increased number of retirees, cost of living adjustments, higher average benefit payment amounts and the disbursement of 13th Check and Corbett Benefit payments (which were not required to be paid out in FY 2010). Refunds of member contributions were up \$31.1 million, primarily due to the PSC correction issue. DROP interest expense of \$24.4 million was down \$0.5 million, or 2.1% from FY 2010, reflecting a lowering of the DROP interest crediting rate.

Port plan net assets increased \$56.1 million in FY 2011, an improvement of \$32.1 million over FY 2010. Net investment earnings were \$53.8 million in FY 2011 compared to net investment earnings of \$25.5 million in FY 2010. Plan sponsor and member contributions in FY 2011 increased 59.7% and 40.3%, respectively, compared to FY 2010. Benefit payments were up \$2.1 million (17.2%) in FY 2011, reflecting an increased number of retirees and cost of living adjustments in FY 2011. Year-over-year changes in other deduction line items were not significant.

Airport plan net assets increased \$21.9 million in FY 2011, an improvement of \$6.6 million over FY 2010. The increase in FY 2011 was driven by net investment earnings of \$15.7 million, plus plan sponsor and member contributions of \$4.3 million and \$3.9 million, respectively. Total deductions were \$1.9 million in FY 2011, up \$0.6 million from FY 2010 due mainly to PSC correction refunds and increased benefit payments.

Post-Employment Healthcare Benefit Plan (HCB Plan)

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

San Diego City Employees' Retirement System

Statement of Plan Net Assets

As of June 30, 2011 (with Comparative Totals as of June 30, 2010) (Dollars in Thousands)

	2011				2010
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash on Deposit with Wells Fargo Bank	\$879	\$49	\$16	\$944	\$348
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	359,423	19,924	6,376	385,723	404,165
Total Cash and Cash Equivalents	360,302	19,973	6,392	386,667	404,513
Receivables					
Plan Sponsors and Member Contributions	4,041	167	107	4,315	3,675
Members - Purchased Service Contracts	38,041	1,080	1,376	40,497	10,046
Accrued Interest Receivable	11,463	636	203	12,302	12,670
Securities Sold	26,431	1,465	469	28,365	58,637
Total Receivables	79,976	3,348	2,155	85,479	85,028
Investments, at Fair Value					
Domestic Fixed Income Securities	1,239,440	68,707	21,987	1,330,134	862,339
International Fixed Income Securities	235,688	13,065	4,181	252,934	153,079
Domestic Equity Securities	1,559,358	86,441	27,663	1,673,462	1,765,726
International Equity Securities	984,965	54,600	17,473	1,057,038	655,441
Real Estate	484,315	26,847	8,592	519,754	360,990
Private Equity	81,072	4,494	1,438	87,004	37,824
Total Investments	4,584,838	254,154	81,334	4,920,326	3,835,399
Securities Lending Cash Collateral	304,331	16,870	5,399	326,600	492,171
Total Investments Including Securities Lending Cash Collateral	4,889,169	271,024	86,733	5,246,926	4,327,570
Prepaid Expenses	247	14	4	265	363
Properties at Cost, Net of Accumulated Depreciation of \$814 and \$602, respectively	1,908	106	34	2,048	1,262
TOTAL ASSETS	\$5,331,602	\$294,465	\$95,318	\$5,721,385	\$4,818,736
LIABILITIES					
Accounts Payable	\$3,409	\$163	\$53	\$3,625	\$2,372
Accrued Investment Fees	2,865	159	51	3,075	8,166
Accrued Wages and Benefits	800	44	14	858	804
Member - Purchased Service Contracts Payable	28,619	-	380	28,999	-
DROP Liability	423,668	9,830	1,049	434,547	391,283
Net Pension and Other Post Employment Obligations	1,949	-	-	1,949	1,586
Securities Purchased	141,570	7,849	2,513	151,932	136,394
Securities Lending Obligations for Cash Collateral	304,331	16,870	5,399	326,600	492,171
TOTAL LIABILITIES	\$907,211	\$34,915	\$9,459	\$951,585	\$1,032,776
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$4,424,391	\$259,550	\$85,859	\$4,769,800	\$3,785,960

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

San Diego City Employees' Retirement System Statement of Changes in Plan Net Assets

For the year ended June 30, 2011 (with Comparative Totals for the year ended June 30, 2010)

(Dollars in Thousands)

	2011				2010
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	\$229,297	\$11,501	\$4,300	\$245,098	\$207,334
Member Portion Paid by Plan Sponsor	6,473	2,902	1,872	11,247	12,313
Member	55,988	1,296	810	58,094	56,340
Member for Purchased Service	37,652	2,122	1,161	40,935	3,936
Earned Interest on Purchased Service Installment Contract	531	58	34	623	758
Total Contributions	329,941	17,879	8,177	355,997	280,681
Investment Earnings					
Net Appreciation in Fair Value of Investments					
Equity Securities	658,629	36,518	10,631	705,778	283,006
Fixed Income Securities	139,578	7,736	2,260	149,574	145,487
Real Estate	84,235	4,691	1,394	90,320	(24,249)
Private Equity	7,990	446	135	8,571	6,373
Total Net Appreciation in Fair Value of Investments	890,432	49,391	14,420	954,243	410,617
Dividend Income	44,751	2,487	734	47,972	47,179
Interest Income	35,727	1,984	583	38,294	41,727
Real Estate Income	16,288	907	269	17,464	12,453
Private Equity Income	5,586	312	94	5,992	-
Other Income	285	16	5	306	293
Securities Lending Income					
Gross Earnings	2,675	149	44	2,868	3,048
Less: Borrower Rebates & Bank Charges	(1,188)	(66)	(19)	(1,273)	(1,274)
Net Securities Lending Income	1,487	83	25	1,595	1,774
Total Investment Income	994,556	55,180	16,130	1,065,866	514,043
Investment Expenses	(24,203)	(1,350)	(462)	(26,015)	(22,705)
Total Net Investment Earnings	970,353	53,830	15,668	1,039,851	491,338
TOTAL ADDITIONS	\$1,300,294	\$71,709	\$23,845	\$1,395,848	\$772,019
DEDUCTIONS					
Benefits Payments					
Monthly Retirement and Disability Allowances	\$304,856	\$13,907	\$1,108	\$319,871	\$295,987
13th Check	5,080	186	9	5,275	16
Corbett Benefit	10,954	-	-	10,954	139
Death Benefit	337	20	3	360	412
Total Benefit Payments	321,227	14,113	1,120	336,460	296,554
Refunds of Member Contributions	34,380	272	467	35,119	3,478
Administrative Expenses	14,468	788	295	15,551	14,968
DROP Interest Expense	24,366	477	35	24,878	25,375
TOTAL DEDUCTIONS	\$394,441	\$15,650	\$1,917	\$412,008	\$340,375
NET INCREASE	905,853	56,059	21,928	983,840	431,644
NET ASSETS AT JULY 1	3,518,538	203,491	63,931	3,785,960	3,354,316
NET ASSETS AT JUNE 30	\$4,424,391	\$259,550	\$85,859	\$4,769,800	\$3,785,960

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

San Diego City Employees' Retirement System
Statement of Fiduciary Assets and Liabilities - Agency Funds
As of June 30, 2011 (Dollars in Thousands)

ASSETS	Total
Cash and Cash Equivalents	
Cash on Deposit with San Diego Metropolitan Credit Union	\$21
Total Cash and Cash Equivalents	<u>21</u>
Receivables	
Accounts Receivable	22
Total Receivables	<u>22</u>
TOTAL ASSETS	<u>\$43</u>
LIABILITIES	
Accounts Payable	\$22
Sundry Trust Liability	21
TOTAL LIABILITIES	<u>43</u>
NET ASSETS	<u>\$ -</u>

For a full understanding of the Statement of Fiduciary Assets and Liabilities - Agency Funds, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2011

FINANCIAL STATEMENTS

The following information supplements the audited financial statements of SDCERS. *Note 9. Legal Action* and *Note 10. Subsequent Events* provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2011 through the date of the auditor's report.

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 plans are legally treated as separate plans. Unlike a multiple-employer plan, under a group trust the assets of one employer's plan are not legally 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 are pooled for investment purposes only.

The City, Port and Airport approved their respective Participation and Administration Agreements, and in September 2007, the San Diego 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 Group Trust, City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009 and for the Airport retirement plan and trust in September 2010. A determination on the applications for the City's and Port's retirement plan and trusts 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 FY 2011 only, in accordance with GASB requirements.

SDCERS is also the fiduciary for agency funds for the City's and Port's Preservation of Benefit Plan. The agency funds account for assets held by SDCERS in a trustee capacity or as an agent on behalf of the City and Port. The agency funds are custodial in nature and do not measure the results of operations. 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 Port and the Airport. In October 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 defined benefit (DB) plans that exceed the IRC Section 415(b) limits. See *Note 7. 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 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Receivables

SDCERS' receivables reflect accrued employer and employee contributions due to SDCERS and member contributions for executed purchase of service credit contracts where payment is pending. See *Note 4. Contributions* and *Note 10. Subsequent Events* for additional discussion and disclosure regarding purchase of service credit 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 Statement of Plan Net Assets. SDCERS' custodian, State Street Bank and Trust Company (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. Private equity assets are valued by the private equity managers giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These fair values are reviewed by SDCERS' Private Equity Discretionary Consultants.

Capital Assets

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

Office Equipment	10-15 years
Computer Equipment	3 years

Liabilities

Liabilities reflect financial obligations of SDCERS as of June 30, 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. DROP is a voluntary program created by SDCERS' plan sponsors to provide members with an alternative method to accrue benefits in SDCERS. See the Actuarial Section for further details on the DROP program. In addition, a Net Pension Obligation (NPO) and Net Other Post Employment Obligation (OPEB) is shown representing that portion of the City's NPO and OPEB that is apportioned to SDCERS employees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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 is made in the financial statements. 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. 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. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009 and for the Airport plan and trust in September 2010. The applications for the City and Port plans and trusts remain pending.

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 Pension Benefits as of the date of the financial statements. These estimates also affect the actuarial information included in the footnotes and 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.

Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for the prior year information to be presented in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SDCERS' financial statements for the year ended June 30, 2010, from which the summarized information was derived.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

2. Plan Descriptions

General

SDCERS administers three separate defined benefit pension plans for the City, Port and Airport, and SDCERS provides 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, Port and Airport. However, as of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was 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 actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year 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. Beginning January 1, 2009, new Port employees do not begin to earn a benefit until their sixth year of employment. 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, except for employees hired after July 1, 2005.

SDCERS is included in the City's CAFR as a blended component unit and reported as a pension trust fund in its 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 DROP participants) and Members (active members and inactive members entitled to benefits but not yet receiving them).

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS' total number of participants increased by 16 in FY 2011. This was comprised of a net decrease of 379 Members and an increase of 395 Retirees and DROP participants.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

As of June 30, 2011

	City General Members	City Safety Members	Port All Members	Airport All Members	Total Members
Active	5,497	2,293	464	344	8,598
Inactive	2,366	530	287	75	3,258
Retirees	4,201	2,721	433	28	7,383
DROP Participants	554	426	31	10	1,021
Totals	12,618	5,970	1,215	457	20,260

City 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 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 and reported in its CAFR.

3. Deposits and Investments

Cash

At June 30, 2011, SDCERS' cash balance was \$0.9 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$385.7 million, which includes cash collateral for SDCERS' cash overlay program of \$92.3 million, residual cash held in each manager's portfolio, which is invested overnight by SDCERS' custodial bank, of \$290.0, and cash balances available to pay benefits and expenses of \$3.4 million. 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, private equity and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the 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 results in the recognition of a gain or loss under GASB Statement No. 25.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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 that totaled \$685.1 million for the year ended June 30, 2011. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.

Through its investment objectives and policies, 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.

Securities Lending

SDCERS has entered into an agreement with State Street Bank and Trust Company (State Street), its custodial bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. 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 and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2011, 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. SDCERS incurred 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.

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. 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, as well as all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2011, securities on loan collateralized by cash had a fair value of \$319.2 million, and a collateral value of \$326.6 million, which was reported in the assets and liabilities in the accompanying Statement of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. The collateral value exceeds the fair value of the securities on loan because borrowers are required to deliver collateral for each loan up to 102% for domestic loans and 105% for international loans. As of June 30, 2011, securities on loan collateralized by securities, irrevocable letters of credit or tri-party collateral had a fair value of \$78.8 million, and a collateral value of \$82.3 million, which were not reported in the assets or liabilities in the accompanying Statement 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, 2011 for its securities lending activities was \$408.9 million.

During the fiscal year, SDCERS and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. In July 2010, State Street announced a restructuring of the securities lending collateral funds. Each fund

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

was separated into two pools, a liquidity pool and a duration pool. The split allows SDCERS greater flexibility in managing the available liquidity in the investments in the collateral funds and the outstanding balance of securities on loan. SDCERS invests in two collateral funds, the Quality D Short-Term Investment Fund (Quality D) and the State Street Global Securities Lending Euro Trust (Euro Trust).

The restructuring of the Quality D and the Euro Trust was completed in December 2010. At the time of the restructuring, the liquidity pool consisted solely of assets whose amortized values approximated their fair market values and that had a final maturity of 90 days or less from the date of the restructuring. Due to the inherent extension risk, any asset-backed securities were not included in the liquidity pool even if they had a final maturity date of less than 90 days from the date of the restructuring. These assets were held in the duration pool. As these asset-backed securities pay down and mature, the cash generated will be transferred from the duration pool to the liquidity pool. The duration pool will consist primarily of investments with expected maturities of greater than 90 days at the time of restructuring and will not accept new investments of cash collateral. SDCERS will have its own specified percentage interest in each security held in the duration pool, and such percentage interest will not vary over time unless one or more other participants in the pool withdraw their interests in kind. The duration pool does not permit cash redemptions, but rather withdrawals on an in-kind basis. The duration funds continue to receive payments and have not realized any defaults.

As of June 30, 2011, SDCERS had \$220.5 million invested in the Quality D liquidity collateral pool, which had an average duration of 31.67 days and an average weighted final maturity of 61.80 days; SDCERS had \$84.5 million invested in the Quality D duration pool, which had an average duration of 35.97 days and an average weighted final maturity of 484.43 days. As of June 30, 2011, SDCERS had \$5.5 million invested in the Euro Trust liquidity pool, which had an average duration of 11 days and an average weighted final maturity of 30 days; SDCERS had \$16.1 million invested in the Euro Trust duration pool, which had an average duration of 41 days and an average weighted final maturity of 1,149 days. Duration is a measure of time based on the weighted average of all cash flows for the securities in the collateral pools. Alternatively, the weighted average final maturity measures when all final maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

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' long term target allocation to fixed income strategies as of June 30, 2011 was 25%, which includes domestic fixed income and emerging market debt. As of June 30, 2011, SDCERS' asset allocation to fixed income was 29%, as it included a 4% allocation to non-U.S. fixed income, which was subsequently terminated. The fixed income allocation is externally-managed and is comprised as follows: 22% to core domestic fixed income, which is benchmarked against the Barclays Capital Aggregate Bond Index; 4% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond Index; and 3% to emerging market debt, which is benchmarked to 50% JP Morgan Emerging Market Bond Index Global Diversified and 50% JP Morgan Global Bond Index-Emerging Market Global Diversified. A 3% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch Convertible Index, All Qualities, is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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 (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

SDCERS employs two core bond managers and an emerging market debt manager that invest in a wide variety of U.S. and non-U.S. fixed income and derivative securities, fixed income mutual funds and one passive core fixed income index fund. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core fixed income manager is limited to U.S. fixed income investments only.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (market value weighted); and, minimum credit quality at time of purchase of BB+ for the two domestic fixed income managers.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The permitted securities and derivatives for SDCERS' international fixed income portfolio include investments in developed and emerging markets and derivatives. In developed markets, investments may be made in sovereign and supranationals, Eurodollar bonds, corporates and mortgages. Emerging market investments are defined as sovereign and corporate debt outside the index of the Citi World Government Bond Index ex-US. Derivative investments may include interest rate futures, options, swaps, FX forward contracts and spot transactions. 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 BBB- or equivalent rating by at least one of the major rating services, e.g., Moody's, S&P, Fitch.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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

As of June 30, 2011

(Dollars in Thousands)

S&P Quality Rating	Total Fair Value	Commercial Mortgage-Backed Securities	Mortgage- Backed Securities	Adjustable- Rate Mortgages	Collateralized Mortgage Obligations	Corporates ¹	Government & Agency Obligations ²	Asset-Backed Securities	Short-Term/ Other
US Treasury	\$62,550	\$-	\$-	\$-	\$-	\$-	\$62,550	\$-	\$-
AAA	297,925	18,437	879	3,827	37,529	12,707	214,115	10,431	-
AA+	9,961	1,622	-	-	-	7,042	1,297	-	-
AA	41,591	-	-	-	-	18,650	17,241	-	5,700
AA-	19,282	-	-	-	127	12,181	6,974	-	-
A+	50,605	7,238	-	-	-	28,833	14,534	-	-
A	67,011	1,748	-	-	-	51,319	13,105	839	-
A-	38,544	3,410	-	-	-	28,662	6,472	-	-
BBB+	17,316	105	-	-	70	17,141	-	-	-
BBB	18,292	-	-	-	882	15,960	1,450	-	-
BBB-	27,311	-	-	-	-	25,131	2,180	-	-
BB+	3,501	-	-	-	-	3,501	-	-	-
BB	2,736	-	-	-	-	2,736	-	-	-
BB-	7,888	-	-	-	-	6,287	1,601	-	-
B+	3,314	-	-	-	-	3,314	-	-	-
B	2,608	-	-	-	-	2,608	-	-	-
NR	907,770	5,859	1,307	-	6,212	153,838	109,651	17,254	613,649 ³
A-1+	2,595	-	-	-	-	-	-	-	2,595
A-1	2,268	-	-	-	-	-	-	-	2,268
Totals	\$1,583,068	\$38,419	\$2,186	\$3,827	\$44,820	\$ 389,910	\$451,170	\$28,524	\$624,212

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

² Includes international and municipal holdings.

³ Includes fixed income mutual fund investments of \$604,645. These institutional quality fund investments are not directly rated by major credit rating agencies, such as S&P. Instead, these fund investments are managed to an average credit rating for the entire fund. Following is a table which depicts the average credit rating for each fund.

Name of Institutional Mutual Fund	Fair Value	Average Credit Rating
BlackRock U.S. Debt NL Fund	\$278,690	AA
MetWest Enhanced TALF Strategy	32,865	AAA
MetWest High Yield Fund B	19,096	B+
PIMCO PAPS High Yield Portfolio	15,621	BB-
PIMCO PAPS International Portfolio	16,379	AA
PIMCO PAPS Short-Term Floating NAV II Portfolio	166,626	AA+
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	75,368	BBB-
Total	\$604,645	-

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities have been included in this credit risk disclosure as AAA. NR represents those securities that are not rated by one of the NRSROs.

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, 2011, 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 Corporation (FDIC). Cash and cash equivalents on deposit with SDCERS' custodial bank totaled \$385.7 million as of June 30, 2011. SDCERS does not have a specific policy relating to custodial credit risk.

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 \$82.3 million as of June 30, 2011 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 \$326.6 million as of June 30, 2011, is also at risk as it is invested in a pooled vehicle managed by the custodian. The investment characteristics of the collateral pools are disclosed in the Securities Lending section in the Notes to the Financial Statements.

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, 2011, 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 by issue, SDCERS' Investment Policy Statement states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact. The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2011
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value ^{1,4}
Asset-Backed Securities		
Asset-Backed Securities	1.44	\$28,524
Adjustable Rate Mortgages		
Adjustable Rate Mortgages	1.20	3,827
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	2.90	38,419
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	3.42	44,820
Corporate Bonds²		
Corporate Bonds	3.76	249,258
Government & Agency Obligations		
Agency Securities	2.16	67,417
Municipals	11.40	26,400
Other Government Securities	3.84	11,322
Pass-Thru Securities	4.74	120,021
Sovereign Debt Securities	6.54	152,922
Supranational Debt Securities	7.17	10,538
Treasury Securities	8.77	62,550
Mortgage-Backed Securities		
Mortgage-Backed Securities	5.53	2,186
Short-Term/Other³		
Foreign Currency ⁴	0.09	13,437
Money Market Securities	0.24	17,166
Total	4.73	\$848,807

¹ Fair Value does not include convertible bonds of \$140,652, fixed income mutual funds of \$604,645 and derivative instruments of (\$11,036). Convertible bonds and derivatives do not exhibit interest rate risk and duration cannot be calculated. The table below shows the effective duration for each of SDCERS' fixed income mutual funds.

² Corporates do not include convertible securities of \$140,652.

³ Short Term/Other does not include derivative instruments, short term instruments and mutual funds of \$593,609.

⁴ Foreign Currency of \$13,437 has been added to this schedule as the duration was available.

Name of Institutional Mutual Fund	Effective Duration	Fair Value
BlackRock U.S. Debt NL Fund	4.56	\$278,690
MetWest Enhanced TALF Strategy	0.40	32,865
MetWest High Yield Fund B	3.20	19,096
PIMCO PAPS High Yield Portfolio	4.50	15,621
PIMCO PAPS International Portfolio	9.99	16,379
PIMCO PAPS Short-Term Floating NAV II Portfolio	0.20	166,626
Wellington Trust Company CIF II Opportunistic Emerging Markets Debt Portfolio	5.95	75,368
Total	-	\$604,645

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table above discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2011, that are highly sensitive to interest changes due to factors other than term to maturity are shown in the following table.

Investments Highly Sensitive to Interest Rate Changes

As of June 30, 2011

(Dollars in Thousands)

Type of Security	Market Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	\$9,788	0.9%
Asset Backed Securities	9,235	0.9
Floating Rate Notes	131,198	12.5
Range Notes	9,091	0.9
Total	\$159,312	15.2%

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents securities held in a foreign currency as of June 30, 2011.

Foreign Currency Risk¹

As of June 30, 2011

(Dollars in Thousands)

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollar	\$360	\$16,692	\$12,779	\$29,831
Brazilian Real	-	443	27	470
Canadian Dollar	570	22,896	24,501	47,967
Chinese Renminbi	(168)	-	-	(168)
Chinese Yuan	169	117	-	286
Danish Krone	59	3,842	2,760	6,661
Euro Currency	5,669	166,212	129,510	301,391
Hong Kong Dollar	360	34,080	-	34,440
Indonesian Rupiah	-	902	-	902
Israel Shekel	10	1,795	-	1,805
Japanese Yen	1,425	114,635	15,483	131,543
Malaysian Ringgit	-	1,977	-	1,977
Mexican Peso	-	374	8,464	8,838
New Zealand Dollar	19	1,281	-	1,300
Norwegian Krone	233	4,702	-	4,935
Philippine Peso	-	245	-	245
Polish Zloty	-	-	721	721
Singapore Dollar	227	5,116	-	5,343
South African Rand	2	2,590	-	2,592
South Korean Won	-	15,856	5,118	20,974
Swedish Krona	244	13,852	919	15,015
Swiss Franc	548	30,626	-	31,174
Taiwan Dollar	515	5,118	-	5,633
Thailand Baht	-	2,613	-	2,613
Turkish Lira	-	-	-	-
United Kingdom Pound	336	95,178	13,108	108,622
Totals	\$10,578	\$541,142	\$213,390	\$765,110

¹ This schedule does not include the foreign currency exposure to four international equity and one international fixed income institutional mutual fund investments.

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. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Derivative Instruments

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, SDCERS has provided a summary of derivative instrument activities during the reporting period and the related risks. As of June 30, 2011, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Plan Net Assets.

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 SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e., use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Portfolio Risk discussion, which precedes this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2011.

Investment Derivative Disclosure (Dollars in Thousands)

Investment Derivative Instruments	Changes in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Credit Default Swaps	Investment Income / (Loss)	\$(75)	Swaps	\$(567)	\$66,603
Fixed Income Futures	Investment Income / (Loss)	7,455	Futures	-	579,543
Fixed Income Options	Investment Income / (Loss)	1,939	Options	(1,201)	(298,700)
Foreign Currency Futures	Investment Income / (Loss)	1,237	Futures	-	10,400
Futures Options Written	Investment Income / (Loss)	611	Options	(150)	(586)
Foreign Currency Forwards	Investment Income / (Loss)	(5,286)	Long Term Instruments	(252)	176,107
Index Futures	Investment Income / (Loss)	65,687	Futures	-	173
Interest Rate Swaps	Investment Income / (Loss)	(3,443)	Swaps	(734)	97,375
Rights	Investment Income / (Loss)	382	Common Stock	7	49
Warrants	Investment Income / (Loss)	9	Common Stock	-	-
Total Derivative Instruments		\$68,516		\$(2,897)	\$630,964

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2011. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2011.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2011:

Counterparty Credit Risk (Dollars in Thousands)

Counterparty Name	Fair Value	S&P Rating
Deutsche Bank AG London	\$182	A+
Citibank N.A.	124	A+
UBS AG	69	A+
BNP Paribas SA	60	AA
Credit Suisse London Branch (GFX)	57	A+
Bank of America N.A.	52	A+
Morgan Stanley Capital Services Inc.	52	A
Royal Bank of Canada	52	AA-
JPMorgan Chase Bank	51	AA-
Credit Suisse Securities (USA) LLC	30	A+
Credit Suisse Financial Products	20	A+
Merrill Lynch Pierce Fenner & Smith Inc.	15	A
HSBC Bank USA	11	AA
Morgan Stanley and Co. International PLC	8	A
JPMorgan Chase Bank N.A.	7	AA-
Barclays Capital	7	AA-
UBS AG London	5	A+
Goldman Sachs International	3	A
Barclays Bank PLC Wholesale	3	AA-
Total	\$808	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2011 was \$0.8 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2011, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2011, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2011, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

Investment Maturities (Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	\$(567)	\$4	\$(412)	\$(159)	\$-
Fixed Income Options	(1,201)	(762)	(365)	(74)	-
Interest Rate Swaps	(734)	3	12	(223)	(526)
Total	\$(2,502)	\$(755)	\$(765)	\$(456)	\$(526)

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments.

**Derivative Instruments Highly
Sensitive to Interest Rate Changes**
As of June 30, 2011
(Dollars in Thousands)

Investment Type	Fair Value	Notional
Credit Default Swaps	\$(567)	\$66,603
Fixed Income Futures	-	579,543
Fixed Income Options	(1,201)	(298,700)
Interest Rate Swaps	(734)	97,375
Total	\$(2,502)	\$444,821

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Foreign Currency Risk

At June 30, 2011, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

Currency Name	Foreign Currency Forwards				Total
	Fixed Income Options	Net Receivables	Net Payables	Interest Rate Swaps	
Australian Dollar	\$-	\$-	\$(86,254)	\$-	\$(86,254)
Brazilian Real	-	-	-	26,625	26,625
Canadian Dollar	-	13,566	(152,732)	-	(139,166)
Swiss Franc	-	954	-	-	954
Chilean Peso	-	(461)	-	-	(461)
Yuan Renminbi	-	509	-	-	509
Danish Krone	-	(3,782)	(2,653)	-	(6,435)
Euro Currency	7,104	64,377	(239,812)	(32,946)	(201,277)
Pound Sterling	-	(1,761)	225,432	-	223,671
Japanese Yen	-	(21,238)	-	-	(21,238)
South Korean Won	-	-	(21,045)	-	(21,045)
Mexican Peso	-	3,433	(22,656)	-	(19,223)
Malaysian Ringgit	-	6,743	-	-	6,743
Norwegian Krone	-	30,690	-	-	30,690
Peruvian Nouveau Sol	-	990	(1,803)	-	(813)
Philippine Peso	-	(36,919)	-	-	(36,919)
Polish Zloty	-	(4,680)	3,322	-	(1,358)
Swedish Krona	-	(9,424)	-	-	(9,424)
Singapore Dollar	-	2,728	-	-	2,728
Total	\$7,104	\$45,725	\$(298,201)	\$(6,321)	\$(251,693)

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of \$3.7 million. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Contingent Features

At June 30, 2011, SDCERS did not hold any positions in derivatives containing contingent features.

Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition targets: 25% in public real estate securities and 75% in private real estate investments. The private portfolio is further diversified with a target of 60% in core real estate and 40% in value-add and opportunistic real estate. 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. Unfunded capital commitments as of June 30, 2011 totaled \$116.4 million. As of June 30, 2011, real estate investments totaled \$519.8 million.

Private Equity

SDCERS' target allocation to private equity is 5%. The Board has approved an opportunistic portfolio composition with a focus on value and current income-producing strategies. Unfunded capital commitments as of June 30, 2011 totaled \$220.2 million. As of June 30, 2011, private equity investments totaled \$87.0 million.

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined amounts designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. Contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, in accordance with methodology changes approved by the Board in 2006.

The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability (UAL). The UAL for FY 2012, which began July 1, 2011, is amortized over several different periods. For all Plan Sponsors, the fiscal year ending June 30, 2010 experience loss is amortized over 15 years, the fiscal year ending June 30, 2009 experience loss is amortized over 14 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 28 years, and the outstanding balance for the fiscal year ending June 30, 2008 experience loss is amortized over 13 years. For the City, the outstanding balance of the June 30, 2007 UAL is amortized over 17 years, while for the Port and Airport, such UAL is amortized over 11 years. The June 30, 2010 UAL reduction from the anticipated impact of the PSC correction for the City and the Airport is amortized over 14 years and 15 years, respectively (with a double credit for the City in FY 2012 only, due to the "overpayment" in FY 2011). Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year. Amortized amounts are included as part of the ARC.

The City, Port and Airport make annual plan sponsor contributions to SDCERS based upon the ARC as determined by SDCERS' actuary. In addition, the City made contributions above the ARC amount in FY 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

The following table illustrates the required plan sponsors' contribution rates, as a percent of payroll, as calculated annually by SDCERS' actuary, Cheiron.

FY 2011 Contribution Rates (As of July 1, 2010)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2009, Actuarial Valuation)					Weighted Total
	General	Elected Officers	Police	Fire	Lifeguard	
Normal Cost ¹	9.15%	30.53%	14.40%	14.29%	17.17%	11.14%
Amortization Payment ^{1,2}	25.82	39.15	36.22	44.85	29.24	30.61
Total Contribution Rate	34.97	69.68	50.61	59.14	46.41	41.75

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego Unified Port District (June 30, 2009, Actuarial Valuation)				Weighted Total
	General	Executives	Police		
Normal Cost ¹	12.15%	14.73%	16.84%		13.57%
Amortization Payment ^{1,2}	13.41	29.44	14.17		14.04
Total Contribution Rate	25.55	44.17	31.01		27.61

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2009, Actuarial Valuation)			Weighted Total
	General	Executives		
Normal Cost ¹	13.75%	16.16%		13.89%
Amortization Payment ^{1,2}	2.59	4.75		2.71
Total Contribution Rate	16.34	20.91		16.60

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

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

Members are required to contribute a percentage of their annual salary to each plan in 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 FY 2012 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.

	City	Port	Airport
General Members ^{1,3}	10.34%	10.18%	10.43%
Safety Members ^{2,3}	14.95	13.11	n/a
All Members	12.14	11.07	10.43

¹General Members includes Elected Officers and Executives.

²Safety Members includes Police, Fire and Lifeguard Members, as applicable.

³Based on most recent estimates of member contribution rates for FY 2012 which were contained in the June 30, 2010 valuation report.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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 2011 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

For Elected Officers:	0.00%
For General Members:	0.00% to 3.40%
For Police Members:	0.00%
For Fire Members:	0.00%
For Lifeguard Members:	0.00% to 5.30%

The City's aggregate member contributions made to SDCERS are discounted (prior to being contributed to SDCERS) by the anticipated savings from member terminations from City employment. The discount is 5.00% for general members and 1.00% for safety members.

For FY 2011, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	6.00% to 7.00%
For Safety Members:	8.80%
For Management Members:	7.50% to 8.50%

For FY 2011, 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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 have been permitted. However, guidance by the Internal Revenue Service allows new pay plans to be funded with only post-tax dollars. 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.

On December 19, 2008, the Board approved a revised pricing methodology for purchase of service applications received after that date. The new pricing formula is based on the age and service of each requesting member, with an automated calculator being utilized instead of published tables. An update to the pricing in the automated calculator was approved by the Board in December 2010.

As of June 30, 2011, a total of 563 members were making payments on the installment contracts. 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 \$9.8 million has been included in the accompanying Statement of Plan Net Assets at June 30, 2011. An additional \$30.7 million was also included in this receivable due to the PSC correction project.

As addressed in *Note 9. Legal Action, City of San Diego v. San Diego City Employees' Retirement System*, on June 7, 2010, the Court of Appeal upheld a trial Court's ruling which deemed a number of underpriced PSCs issued by SDCERS, following an August 2003 Board decision, to be not legally authorized. SDCERS' Board decided not to appeal this ruling and the judgment is now final.

SDCERS has developed a correction process for the underpriced PSC contracts to resolve the actuarial impact of the PSC underfunding. Correction options for members who entered into a PSC during the affected time period were presented to the Board and approved at their October 1, 2010 meeting. Also at that meeting, the Board authorized staff to submit this correction process to the Internal Revenue Service under the Voluntary Correction Program (VCP) for review and approval by the IRS to ensure that SDCERS maintains the tax-qualified status of the Plan. The VCP filings were made with the IRS on December 3, 2010. As of June 30, 2011, the IRS had not assigned the VCP filing to an agent but had orally advised SDCERS that the correction procedures instituted by the Board were consistent with the IRS correction guidelines.

Staff presented an overview of the correction process and the number of contracts, employees and amounts involved to each of the three Plan Sponsors. Approximately 2,300 members of the City, Port and Airport had contracts that were underpriced. Preliminary calculations indicated the additional amount payable to SDCERS by affected members due to the underpricing was approximately \$100 million. However, members were also allowed to correct the underpricing by cancelling and receiving a refund of their original contract or by reducing the years of purchased service credit to what was effectively paid. The Plan Sponsors were requested to decide if any of the affected PSCs should be exempted from correction. The City and Airport decided to not exempt any PSCs from correction, whereas the Port chose to exempt all affected PSCs.

A total of 2,010 City and Airport PSCs were affected. As of November 4, 2011, corrective option selection forms had been received from 1,938 of the impacted members. Based on the corrective options selected, an additional amount of \$32.8 million was payable by members to SDCERS to correct the underpricing of affected PSCs. However, for those members choosing to cancel their affected PSCs, refunds totaling \$31.3 million were payable by SDCERS to the member. The net impact of all corrections is an estimated \$1.5 million payable to SDCERS. As a result of payments received and refunds issued by SDCERS in FY 2011, at June 30, 2011, the financial statements include a remaining balance of \$30.7 million in receivables from members and \$29.0 in refunds payable to members. SDCERS expects to complete the correction process by December 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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, 2011 (in thousands):

	2011
Reserve for Investments in Properties	\$145
Reserve for Receivables	40,518
Reserve for Member Contributions	777,705
Reserve for Plan Sponsor Contributions	1,508,964
Reserve for Current Retired Members	1,541,363
Plan Continuation Liability	2,224,902
Fund Deficit - Equivalent to Plan Continuation Liability	(2,224,902)
Reserve for Supplemental COLA	6,096
Undistributed Earnings Reserve	592,770
Total Reserves¹	\$4,467,561

¹Total Reserves will differ from Plan Net Assets Held in Trust for Pension Benefits in the audited financial statements as investments are stated at fair value (market value) at June 30 each year. Unrealized gains at June 30, 2011 were \$302.2 million.

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

Reserve for Receivables. This represents the balance of funds expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

Reserve for Member Contributions. This represents the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserve for Plan Sponsor Contributions. This represents the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

Reserve for Current Retired Members. Upon retirement, member contribution balances are transferred from Reserve for Member Contributions to this reserve, along with sufficient funds from the Plan Sponsor Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Plan Continuation Liability. This represents the portion of the plan's actuarial accrued liabilities that were not funded as of the prior valuation date. It is calculated as the actuarial present value of credited projected benefits minus the actuarial value of assets and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Liability (UAL) totaled for all three plan sponsors. Values are based on the June 30, 2010 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.

Reserve 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.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the member and plan sponsor reserve accounts in accordance with the Board-established assumed rate of interest. At the beginning of each fiscal year, any Undistributed Earnings from the prior fiscal year are credited to the Reserve for Plan Sponsor Contributions.

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2010 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	\$4,382,047	\$6,527,224	\$2,145,177	67.1%	\$530,238	404.6%
Port	233,788	310,467	76,679	75.3	39,165	195.8
Airport	73,401	76,447	3,046	96.0	25,596	11.9

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.

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2010	June 30, 2010	June 30, 2010
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	17 years for 2007 UAL; 13 years for 2008 exp. loss; 14 years for 2009 exp. loss; 15 years for 2010 exp. loss; 14 years for 2010 PSC gain; 28 years for 2008 assumption changes; no negative amortization	11 years for 2007 UAL; 13 years for 2008 exp. loss; 14 years for 2009 exp. loss; 15 years for 2010 exp. loss; - 28 years for 2008 assumption changes; no negative amortization	11 years for 2007 UAL; 13 years for 2008 exp. gain; 14 years for 2009 exp. loss; 15 years for 2010 exp. gain; 15 years for 2010 PSC gain; 28 years for 2008 assumption changes; no negative amortization
Asset valuation method ¹	Smoothed market 25% current market and 75% expected AVA	Smoothed market 25% current market and 75% expected AVA	Smoothed market 25% current market and 75% expected AVA
Actuarial Assumptions:			
- Investment rate of return	7.75%	7.75%	7.75%
- Wage inflation	4.0%	4.0%	4.0%
- Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	0.5% - 5.0%
- Cost of living increase	2%	2%	2%

¹In no event will the actuarial value of assets ever be less than 80% of the market value of assets nor greater than 120% of the market value of assets.

The complete Actuarial Valuations for the City, Port and Airport are available at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

7. Preservation of Benefit (POB) Plan Activity

In 2008, the IRS issued three Private Letter Rulings approving the City, Port and Airport 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.

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. The plan sponsor retains title to any assets, including cash or other investments, that they designate to pay POB Plan benefits. 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 Airport's POB Plan.

The City made monthly payments into the POB Plan in FY 2011 totaling \$1.323 million. Actual payments from the City's POB Plan in FY 2011 totaled \$1.335 million. A balance of \$0.003 million remained in the fund at June 30, 2011 and will be carried forward to pay the City's FY 2012 POB Plan expenditures, currently estimated at \$1.781 million.

The Port deposited \$0.180 million into its POB Plan to pay benefits and administrative costs for FY 2011. Actual payments from the Port's POB Plan in FY 2011 totaled \$0.163 million. A balance of \$0.018 million remained in the fund at June 30, 2011 and will be carried forward to pay the Port's FY 2012 POB Plan expenditures, currently estimated at \$0.306 million. In July 2011, the Port transferred \$0.136 million into the POB Plan to fund FY 2012 payments.

POB Plan activity is disclosed within this CAFR's Agency Fund disclosures and is also included in the City's and Port's financial statements and CAFRs.

8. Lease

Operating Lease

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, 2011:

Year Ending June 30 (in thousands)	
2012	\$963
2013	997
2014	1,031
2015	1,069
2016	1,107
2017-2019	2,429
<u>Total</u>	<u>\$7,596</u>

Rent expense related to the operating lease was \$0.912 million for the year ended June 30, 2011.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

9. Legal Action

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 complaint for declaratory relief asserting SDCERS' right to employ its own legal counsel, on which SDCERS prevailed by way of motion for summary judgment in March 2006. This matter was consolidated with multiple other lawsuits between the City, SDCERS and City employees' unions over the legality of certain pension benefits the City granted during the past decade. In 2007, the unions prevailed on all claims at the trial Court level, and the City appealed. In December 2008, the Court of Appeal dismissed the City's appeal as premature and transferred the case back to the trial Court for trial of SDCERS' compulsory cross-complaint against the City for recovery of past underfunding of SDCERS. In November 2009, the City's motion for summary judgment on SDCERS' cross-complaint was denied. On March 16, 2010, the trial Court granted the City's pre-trial motion for judgment on the pleadings as to one of SDCERS' three causes of action for past underfunding. Due to the nature of the Court's ruling, the Board elected not to amend the dismissed cause of action, and on April 23, 2010, dismissed its remaining causes of action. Final judgment was entered on November 22, 2010. The monies at issue in the portion of the litigation resolved by the Court's ruling on the City's motion for judgment on the pleadings continue to be recovered through the portion of the City's annual employer contribution attributable to the unfunded accrued liability. On January 7, 2011, the City filed a notice of appeal, which was voluntarily dismissed on June 15, 2011.

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 certain pension benefits were eliminated from SDCERS' retirement plan effective July 1, 2005. SDCERS contended that the benefits were not eliminated until February 16, 2007. 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 filed an amended complaint naming a defendant class of employees. Notice of the litigation was sent to class members and defendant class counsel was assigned. All parties filed cross-motions for summary judgment, and on June 17, 2010, the Court ruled the effective date of the contested plan changes is July 1, 2005. On September 10 and 23, 2010 the defendant subclasses of affected employees appealed the judgment entered upon the Court's ruling. On October 21, 2010, SDCERS also appealed the judgment and on November 15, 2010 voluntarily dismissed its appeal. The case is concluded as to SDCERS.

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

In November 2007, the City filed a petition for a writ of mandate seeking an order vacating a decision by the Board to continue to amortize the portion of the unfunded accrued actuarial liability attributable to underpriced purchased service credits (PSCs) as part of the City's UAL. In November 2008, the Court granted the petition and directed that the Board's November 16, 2007 vote be set aside only to the extent it continued to authorize amortization of underfunding resulting from underpriced PSCs purchased between August 15 and November 1, 2003, by employees who had not retired as of November 20, 2007. SDCERS appealed the Court's decision. On June 7, 2010, the Court of Appeal upheld the trial Court's ruling. SDCERS' Board decided not to appeal this ruling and the judgment is final.

At its November 2010 meeting, the SDCERS Board enacted a Board Rule requiring correction of all affected PSCs. SDCERS expects to complete the correction process by December 2011 and estimates the net additional amount payable to SDCERS by affected members due to the underpricing is approximately \$1.5 million.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

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

In October 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 and breach of contract and seeks an accounting, writ of mandate and declaratory relief.

In March 2009, the parties stipulated to a stay in the proceedings until the resolution of the related proceedings in state Court in POA v. Aguirre, Case No. 37-2007-00075432-CU-MC-CTL. On March 8, 2010, counsel for plaintiffs moved to withdraw from the representation, and the Court granted the motion. On June 4, 2010, the Court determined that the named plaintiff, Erica Aaron, could not proceed in pro per on behalf of the other plaintiffs, and thus the class action claims in the complaint were stricken. The Court held a hearing on August 27, 2010 on an Order to Show Cause for Dismissal of Action due to Ms. Aaron's failure to prosecute the action. When Ms. Aaron failed to appear for that hearing, the Court dismissed the action. No appeal was filed within the applicable time period and the dismissal is now final.

San Diego Municipal Employees' Association, et al. v. City of San Diego, et al., San Diego Superior Court case number 37-2008-00096145.

In June 2008, a complaint was filed against the City and SDCERS by Judith Italiano and the Municipal Employees' Association (MEA) stating claims against SDCERS for breach of fiduciary duty, infliction of emotional distress and restoration of her pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in conjunction with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects.

All parties filed cross-motions for summary judgment, and on June 18, 2010, the Court denied plaintiffs' motion against SDCERS in its entirety, granted SDCERS' motion against plaintiff Judith Italiano as to her claims for a writ of mandate and declaratory relief compelling SDCERS to pay her pension, and denied SDCERS' motion as to her causes of action for breach of fiduciary duty, intentional infliction of emotional distress and negligent infliction of emotional distress. Contingent upon Court approval of a good faith settlement motion, SDCERS has agreed to settle with plaintiffs for a net amount of \$448,224. On October 8, 2010, plaintiffs and SDCERS filed a settlement of the remaining causes of action for approval by the Court. On December 13, 2010, the Court entered an order finding that the settlement between SDCERS and plaintiffs was made in "good faith." On January 3, 2011, the City filed a Petition for Writ of Mandate seeking to reverse the "good faith" finding. On February 7, 2011, the Court of Appeal denied the City's Petition. On May 24, 2011 the Court entered a final judgment and the plaintiffs dismissed with prejudice their claims against SDCERS. The time for the filing of a notice of appeal has expired. On August 3, 2011, SDCERS paid the plaintiffs the settlement amount by paying \$448,224 to fund an annuity for Ms. Italiano. This amount was accrued in the SDCERS financial statements as of June 30, 2011. The case is now concluded.

City of San Diego v. San Diego Police Officers Association, San Diego Superior Court, case number 37-2009-86499-CU-PT-CTL

In April and May 2009, respectively, the City and San Diego Police Officers' Association (POA) filed cross actions seeking rulings on whether police officer employees have vested pension rights in the DROP benefit and under what circumstances the City can modify or eliminate the benefit. (DROP allows an eligible member to accrue retirement benefits in a special account for not more than five years while still employed with the plan sponsor. DROP Participants must exit DROP and terminate employment at the end of the DROP Participation Period.) After a hearing, the Court denied the POA's request for a preliminary injunction, ordered the parties to meet and confer on the DROP issues, and deferred ruling on several substantive issues pending the outcome of the parties' meet and confer sessions. On October 29, 2009, the POA appealed the Court's denial of its preliminary injunction motion and other interim rulings. SDCERS filed an amicus brief in the appeal. On April

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2011

12, 2011, the Court of Appeal affirmed the Court's order denying the POA's request for preliminary injunction and dismissed the remaining portions of the appeal as not yet appealable. The case returned to the trial Court and hearings for summary judgment/summary adjudication motions are scheduled for March 15, 2012. If the POA prevails, SDCERS may be required to increase interest credited to DROP accounts and DROP annuities. SDCERS is unable at this time to estimate the financial impact the case would have on SDCERS should the litigation be successful.

San Diego City Firefighters, Local 145 et al. v. San Diego City Employees' Retirement System and City of San Diego, San Diego Superior Court, case number 37-2009-00099066-CU-WW-CTL

In September 2009, a complaint was filed against the City and SDCERS by the San Diego City Firefighters, Local 145, Ronald Saathoff and nine individual plaintiffs known collectively as the Annual Leave Plaintiffs stating claims against SDCERS for breach of fiduciary duty and restoration of pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in compliance with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects. The litigation also involves claims of the Annual Leave Plaintiffs regarding the IRS decision in the December 1997 Compliance Statement that SDCERS lacked the legal authority to allow firefighter members to use annual leave time with the City to "purchase" service credit in SDCERS, also known as the Cashless Leave Benefit. On March 12, 2010, the Court sustained SDCERS' demurrer to the first amended complaint without leave to amend, and final judgment was entered thereon. On May 6, 2010, plaintiffs appealed the judgment. All of the parties have requested oral argument on the appeal but no hearing date has been scheduled by the Court of Appeal.

City of San Diego vs. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37 2010 00091207 CU WM CTL

On May 3, 2010, the City filed a petition for writ of mandate ordering SDCERS to charge City employees half of the pension plan's investment losses. SDCERS asked the Court to dismiss the lawsuit at the pleading stage. Without ruling on the merits, on September 24, 2010, the Court declined to dismiss the lawsuit on the grounds that it would be premature to do so without a more fully developed record. On October 8, 2010 and thereafter, several unions of City employees sought to intervene in the action. The union intervention was granted by the Court despite City opposition on November 14, 2010. On January 19, 2011, SDCERS and the intervening unions separately moved to change venue. On February 10, 2011, the Court granted SDCERS' motion to change venue and ordered that the case be transferred to the Superior Court in Los Angeles County. On February 28, 2011, the City petitioned the Court of Appeal for a writ of mandate challenging the venue transfer order, which caused the San Diego Court to hold the transfer in abeyance pending the outcome at the Court of Appeal. The Court of Appeal held oral argument on the City's writ of mandate concerning venue transfer on October 12, 2011. On November 10, 2011, the Court of Appeal issued its ruling granting the City's Writ in part. The Court of Appeal instructed the trial court to vacate its order transferring the case to Los Angeles and to, instead, request that the Judicial Council assign a disinterested judge from a neutral county to hear the case in San Diego. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. If the lawsuit were successful, it would not change the City's pension plan assets or liabilities. Rather, the City seeks to increase the amount City employees must contribute to the pension plan, and decrease the amount the City must contribute to cover any investment losses.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

10. Subsequent Events

Purchase of Service Credit Contracts

Ananta Baidya, et al. v. San Diego City Employees' Retirement System, et al., San Diego Superior Court, Case No. 37-2011-00096237-CU-PO-CTL

On August 12, 2011, a complaint was filed against SDCERS on behalf of a class of SDCERS members who are or were City employees (or their beneficiaries) who purchased PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal decision of June 7, 2010, in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description of this case in *Note 9* above.) The complaint seeks unspecified money damages pursuant to causes of action for breaches of common law and constitutional fiduciary duties. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims.

Kelly Lancaster, et al. v. San Diego City Employees' Retirement System, et al., San Diego Superior Court, Case No. 37-2011-00096238-CU-PO-CTL

On August 12, 2011, a complaint was filed against SDCERS on behalf of a class of certain SDCERS members who are or were employees of the San Diego County Regional Airport Authority (or their beneficiaries) who purchased PSCs between April 16 and June 29, 2004, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal decision of June 7, 2010, in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description of this case in *Note 9* above.) The complaint seeks unspecified money damages pursuant to causes of action for breaches of common law and constitutional fiduciary duties. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims.

Patrick Lenhart, et al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00096587-CU-BC-CTL

On August 19, 2011, a complaint was filed against SDCERS on behalf of a class of certain SDCERS "safety members" who are or were City employees (or their beneficiaries) who purchased PSCs between August 15 and November 1, 2003, and whose alleged PSC contracts were thereafter not honored following the Court of Appeal decision of June 7, 2010 in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description of this case in *Note 9* above.) The complaint seeks unspecified money damages pursuant to causes of action for breach of contract and breach of constitutional and common law fiduciary duties. It additionally seeks a writ of mandate to compel SDCERS to cease an alleged practice of charging safety members purchasing PSCs, the cost of disability retirement and to compel SDCERS to calculate and refund to the safety members the amounts of the alleged unspecified overcharge since 1993. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2011

Rodito Arbitria, et al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00096899-CU-PO-CTL

On August 26, 2011, a complaint was filed by in excess of 300 members of SDCERS who are or were employees of the City (or their beneficiaries) who purchased PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal's decision of June 7, 2010 in the case City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. (See description of this case in *Note 9* above.) The City is also named as a defendant. The complaint seeks equitable relief in the form of an order directing SDCERS to cease and desist from taking any adverse action against the plaintiffs as a result of the above-referenced June 7, 2010 Court of Appeal decision and an order to honor all such PSCs purchased during the referenced time period. The complaint also seeks unspecified money damages pursuant to causes of action for breach of common law and constitutional fiduciary duties and breach of contract. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims.

Plan Sponsor Contributions

On July 1, 2011, SDCERS received a total of \$247.6 million in FY 2012 Plan Sponsor contributions: \$231.2 million from the City, \$12.6 million from the Unified Port District and \$3.8 million from the Airport.

The plan sponsors historically have paid their contributions at the beginning of the fiscal year in order to fully invest contributions for the entire fiscal year and to take advantage of an actuarial discount in the calculation of the ARC.

U. S. Treasury Debt Downgrade

In August 2011, Standard and Poor's (S&P) downgraded U.S. Treasury debt from a AAA rating to a AA+ rating. At June 30, 2011, SDCERS owned \$203.6 million in U.S. agency securities and \$62.6 million in U.S. Treasury obligations.

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

City of San Diego

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/10	\$4,382,047	\$6,527,224	67.1%	\$2,145,176	\$530,238	404.6%
6/30/09	4,175,229	6,281,636	66.5	2,106,407	536,591	392.6
6/30/08 ¹	4,660,346	5,963,549	78.1	1,303,203	535,774	243.2
6/30/07 ²	4,413,411	5,597,653	78.8	1,184,242	512,440	231.1
6/30/06 ³	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

San Diego Unified Port District

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/10	\$233,788	\$310,467	75.3%	\$76,679	\$39,165	195.8%
6/30/09	223,879	288,698	77.5	64,819	40,370	160.6
6/30/08 ¹	245,580	267,036	92.0	21,456	38,635	55.5
6/30/07 ²	230,585	246,538	93.5	15,953	37,160	42.9
6/30/06 ³	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

San Diego County Regional Airport Authority

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/10	\$73,401	\$76,447	96.0%	\$3,047	\$25,596	11.9%
6/30/09	58,981	67,871	86.9	8,890	24,693	36.0
6/30/08 ¹	58,096	56,808	102.3	(1,288)	23,488	-5.5
6/30/07 ²	50,812	46,637	109.0	(4,176)	21,957	-19.0
6/30/06 ³	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

¹Reflects revised actuarial assumptions

²Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, EAN. (See Actuarial Section for more details).

³Reflects revised actuarial methodologies

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 valuations for the City, Port and Airport were performed as of June 30, 2010.

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

1. Key Actuarial Assumptions

In the June 30, 2010 valuation, the normal cost and actuarial accrued liability are determined using the EAN actuarial funding method.

The June 30, 2010 actuarial valuations were based on revised actuarial assumptions approved by the Board in September 2008.

- 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 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.

Actuarial Valuations are available online 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.

2. Actuarial Terms Defined

Valuation Assets: The value of cash, investments and other property belonging to a pension plan are used by the actuary for the purpose of an Actuarial Valuation. Beginning with the June 30, 2007 valuation, the Actuarial Value of Assets is equal to 100% of the prior year's expected actuarial value of assets (assuming 7.75% earnings for the year) plus 25% of the difference between the current actual market value of assets and the expected actuarial value of assets.

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).

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

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 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, 2010, the City had a funded status of 67.1%, using the EAN funding method.

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

As of the June 30, 2010 actuarial valuation, the City's UAL was \$2.1 billion, using the EAN funding method. The City's then-existing June 30, 2007 UAL is being amortized over a closed 20-year period, with 17 years remaining at June 30, 2010. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2010, are each amortized over a closed 15-year period.

San Diego Unified Port District

As of June 30, 2010, the Port had a funded status of 75.3%, using the EAN funding method.

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

As of the June 30, 2010 actuarial valuation, the Port had a UAL of \$76.7 million using the EAN funding method. The Port's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 11 years remaining at June 30, 2010. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2010, are each amortized over a closed 15-year period.

San Diego County Regional Airport Authority

As of June 30, 2010, the Airport had a funded status of 96.0%, using the EAN funding method.

The schedule for the Airport presented above reports the last six years of historical funding progress information.

As of the June 30, 2010 actuarial valuation, the Airport had a UAL of \$3.0 million using the EAN funding method. The Airport's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 11 years remaining at June 30, 2010. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2010, are each amortized over a closed 15-year period.

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

**City of San Diego
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2006 - 2011)**
(Dollars in Thousands)

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

	2011	2010	2009	2008	2007	2006
Annual Required Contributions (ARC)	\$229,100 ³	\$154,200 ³	\$161,700 ³	\$137,700 ³	\$162,000 ³	\$170,071 ¹
Contributions Made to SDCERS	229,297	192,533 ⁶	162,475	165,581 ⁵	169,126 ⁴	271,349 ²
Difference - Over/ (Under) Contributed	197	38,333	775	27,881	7,126	101,278
Percentage of ARC Contributed	100.0%	124.9%	100.5%	120.2%	104.4%	159.6%

¹ The City's ARC for 2006 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

² 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 UAL SDCERS Reserve Fund year-end balance.

³ ARC figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

⁴ 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.

⁵ 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.

⁶ Contributions for 2010 were made at a full actuarially-determined rate using the Entry Age Normal method. In addition, the City made contributions above this amount associated with final settlement of certain resolved litigation.

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

San Diego Unified Port District
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2006 - 2011)
(Dollars in Thousands)

	2011	2010	2009	2008	2007	2006
Annual Required Contributions (ARC)	\$11,500 ¹	\$7,200 ¹	\$7,300 ¹	\$6,900 ¹	\$8,300 ¹	\$8,121 ²
Contributions Made to SDCERS	11,501	7,201	7,340 ³	6,900	9,300	8,121
Difference - Over/ (Under) Contributed	1	1	40	-	1,000	-
Percentage of ARC Contributed	100.0%	100.0%	100.5%	100.0%	112.1%	100.0%

¹ 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.

³ The Port prepaid their FY2010 ARC of \$7.2 million.

San Diego County Regional Airport Authority
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2006 - 2011)
(Dollars in Thousands)

	2011	2010	2009	2008	2007	2006
Annual Required Contributions (ARC)	\$4,300 ¹	\$3,000 ¹	\$3,000 ¹	\$2,200 ¹	\$2,600 ¹	\$2,879 ²
Contributions Made to SDCERS	4300	7,600 ³	3,035	2,520	2,962	3,300
Difference - Over/ (Under) Contributed	-	4,600	35	320	362	421
Percentage of ARC Contributed	100.0%	253.3%	101.2%	114.5%	113.9%	114.6%

¹ 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.

³ In 2010, in addition to the full ARC payment, the Airport voluntarily contributed an additional \$4.6 million to achieve certain funding level thresholds.

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Plan Sponsor 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 ARC necessary to fund the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsor 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 for FY 2006, FY 2007 and FY 2008 were made at a full actuarially-determined rate using the Projected Unit Credit 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 a legal settlement.

Contributions for FY 2009, FY 2010 and FY 2011 were made at a full actuarially-determined rate using the EAN method. In addition, in FY 2010 the City made contributions above this amount associated with final settlement of a resolved legal case. Over the past six years, the City has contributed 100% or more of the amount recommended by SDCERS' actuary. The City's current funded status is 67.1%.

San Diego Unified Port District

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 75.3%.

San Diego County Regional Airport Authority

The Schedule contains six years of historical information comparing the Airport's ARC to its contributions. Over the past six years, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 96.0%.

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

Schedule of Administrative Expenses
For the Year Ended June 30, 2011
(Dollars in Thousands)

Salaries and Personnel	\$6,617
Data Processing	
Data Processing and Computer Services	1,677
Contracted Services	343
Total Data Processing	2,020
Legal/External	
Litigation/Fiduciary	3,123
Disability	202
Total Legal/External	3,325
General Operations	
Rent	912
Office Operations Expenses	900
Actuary Services	696
Fiduciary Insurance	563
Depreciation Expense	212
Disability Processing	141
Audit Services	103
Travel & Training	62
Total General Operations	3,589
GRAND TOTAL	\$15,551

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

Schedule of Fees Paid to Investment Professionals
For the Year Ended June 30, 2011
(Dollars in Thousands)

	Market Value of Assets Under Management ¹	Total Fees Paid
Investment Manager Fees		
Domestic Equity Managers	\$2,069,162	\$6,941
International Equity Managers	948,328	3,763
Domestic Fixed Income Managers	1,213,657	3,467
International Fixed Income Managers	330,201	431
Real Estate Managers	523,226	4,863
Private Equity Managers	87,625	5,193
Cash & Cash Overlay	133,850	255
Total Investment Manager Fees	\$5,306,049	\$24,913
Other Investment Service Fees		
Custodian Services		303
Investment Consultants		706
Investment Accounting Applications		38
Legal Services		55
Total Other Investment Service Fees		\$1,102
Total Fees Paid to Investment Professionals		\$26,015

¹ Market Values of Assets Under Management 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 the receivable and payable of cash for pending transactions (settlement date based) in each strategy.

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

Schedule of Payments to Consultants
For the Year Ended June 30, 2011
(Dollars in Thousands)

Individual or Firm		Nature of Service
Legal Firms & Professional Legal Services	\$3,324	Legal, Arbitration, Mediation, Court Reporting
(see next page for full listing)		
San Diego Data Processing Corporation	1,677	Computer/Applications Support
Cheiron, Inc.	696	Actuary
Aon Risk Services, Inc.	563	Fiduciary Insurance
Levi, Ray & Shoup	302	Member Benefit Systems Development
Sagitec Solutions, LLC	255	Pension Administration System Development
Linea Solutions	157	Mainframe Conversion
Macias Gini & O'Connell LLP	103	Audit
Doctors & Disability Services	89	Medical Consulting
(see next page for full listing)		
L.R. Wechsler, LTD	63	Pension Administration System Consulting
Various Providers	117	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	\$7,346	

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

Schedule of Payments to Consultants (continued)
For the Year Ended June 30, 2011

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.

William S. Adsit, M.D.

Michael Quinn, D.P.M.

So. California Cardiology Medical Group

Steven Gross, M.D.

Southwest & Associates

Michael Kimball, M.D.

Robert Warren, M.D.

Other Doctors

Dominick Addario, M.D.

Zaven Bilezikjian, M.D.

Daniel J. Bressler, M.D.

William P. Curran, Jr., M.D.

William Hughson, M.D.

L. Mercer McKinley, M.D.

Mark Mikulics, M.D.

Robert E. Neveln, M.D.

James Scalone, D.O.

Gregory Schwab, M.D.

SDCERS paid the following Legal & Professional Legal Services Firms:

ADR (Alternate Dispute Resolutions) Services, Inc

Cooley Godward Kronish, LLP

Geary D. Cortes

Cox, Castle & Nicholson, LLP

Gibbs & Fuerst

Ice Miller Legal and Business Advisors

Irell & Manella, LLP

JAMS (Judicial Arbitration Services)

Judicate West

Kirby Noonan Lance & Hoge LLP

Manatt, Phelps & Phillips, LLP

Maxie Rheinheimer Stephens & Vrevich, LLP

Olson, Hagel & Fishburn, LLP

Michael Pancer

Paul Hastings, Janofsky & Walker, LLP

Peterson & Associates

Seltzer Caplan McMahon Vitek, APC

Law Offices of Sean D. Stephens

Veritext San Diego Reporting Co.

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

Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2011
(Dollars in Thousands)

City of San Diego Preservation of Benefits Fund				
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$15	\$1,323	\$1,335	\$3
Accounts Receivable	-	15	-	15
TOTAL ASSETS	\$15	\$1,338	\$1,335	\$18
LIABILITIES				
Accounts Payable	-	15	-	15
Sundry Trust Liability	15	1,323	1,335	3
TOTAL LIABILITIES	\$15	\$1,338	\$1,335	\$18
San Diego Unified Port District Preservation of Benefits Fund				
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$1	\$180	\$163	\$18
Accounts Receivable	-	7	-	7
TOTAL ASSETS	\$1	\$187	\$163	\$25
LIABILITIES				
Accounts Payable	-	7	-	7
Sundry Trust Liability	1	180	163	18
TOTAL LIABILITIES	\$1	\$187	\$163	\$25
Preservation of Benefits Funds - Combined				
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash on Deposit with San Diego Metropolitan Credit Union	\$16	\$1,503	\$1,498	\$21
Accounts Receivable	-	22	-	22
TOTAL ASSETS	\$16	\$1,525	\$1,498	\$43
LIABILITIES				
Accounts Payable	-	22	-	22
Sundry Trust Liability	16	1,503	1,498	21
TOTAL LIABILITIES	\$16	\$1,525	\$1,498	\$43



3. INVESTMENT

Investment Consultant's Statement



October 14, 2011

Mr. Mark Hovey
Chief Executive Officer
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mr. Hovey:

This letter provides a brief overview of the performance of the investments of the San Diego City Employees' Retirement System (SDCERS) during the Fiscal Year ending June 30, 2011 (FY 2011).

Amongst extraordinary volatility and a multitude of unnerving global events, FY 2011 resulted in strong gains across most major global capital markets, in particular within global equities. Despite mixed economic indicators, a persistently high unemployment rate, and fears of a double dip recession, the fiscal year began with a broad market rally. Markets reacted favorably to strong corporate earnings and the Fed's ongoing commitment to stimulating economic growth. However, despite the promising start to the fiscal year, investor confidence did not go unchallenged. The sovereign debt crisis in the Eurozone was ever-present and constantly wavering investor confidence. Political unrest erupted in the Middle East and North Africa and sent oil prices soaring. Japan was hit by a devastating earthquake and subsequent tsunami, creating a nuclear disaster and disrupting global supply chains. The fiscal year ended with the U.S. debt ceiling impasse and the threat of a U.S debt downgrade. Remarkably, in the face of much uncertainty, the markets remained resilient.

Broad domestic equity markets returned 32.4% during the extremely volatile fiscal year. U.S. small cap securities led the way with an exceptional 37.4% return. Developed international markets posted a 30.4% return and modestly trailed the U.S. markets primarily due to the ongoing Eurozone debt issues. Emerging markets, faced with inflationary concerns and slowing export growth, fared slightly worse, though still returned 27.8% during the fiscal year. The broad U.S. fixed income market posted favorable gains for the FY 2011, with a 3.9% return. As Treasury yields remained low, investors looked to other segments of the bond market for yield. High yield securities benefited from the pursuit and returned 15.6% during the fiscal year.

As the economic recovery remained sluggish and inflation remained subdued, the Federal Open Markets Committee maintained the Federal Funds Target Range of 0.00 - 0.25% throughout FY 2011. The Fed also

Hewitt EnnisKnupp, Inc.
10 South Riverside Plaza, Suite 1600 | Chicago, IL 60606
t 312.715.1700 | f 312.715.1952 | www.hewitthenisknupp.com

Page 2
October 14, 2011

recommitted itself to a second phase of accommodative monetary policy, as the economic recovery was deemed insufficient to drive down unemployment and the Fed could not warrant a pullback in their asset purchasing program. Widely known as QE2, the Fed expanded its holdings of long-term Treasury securities from November 2010 through June 2011 to promote a stronger pace of economic recovery. While the program bolstered equity markets and helped the economy avoid sliding back into a recession, economic growth remained anemic at the end of the fiscal year. Expectations for a rate hike continued to be pushed further out into the future as economic growth continued to struggle and unemployment remained high. However, the Fed remains committed to aiding the economic recovery and announced in September additional easing measures.

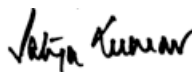
Among all the “noise” during FY 2011, the SDCERS’ Trust Fund achieved its greatest fiscal year return since 1987. The Fund returned 24.2% and outpaced its Policy Benchmark by 1.8 percentage points. The Fund grew by approximately \$1 billion and ended the fiscal year with \$5.3 billion in assets, exceeding asset levels prior to the 2008 financial crisis. Domestic equity was a notable contributor to the Total Fund return, posting a 32.7% return for the fiscal year. Within domestic equity, the intentional small cap bias was particularly beneficial to the asset class performance. The Fund’s international equity and real estate allocations also enhanced performance, as they returned 30.5% and 27.4%, respectively.

The SDCERS’ Trust Fund also went through significant restructuring during FY 2011. Following the completion of the asset/liability study, many of the SDCERS Board-approved recommendations were implemented during FY 2011. Most notably, the public market asset classes were restructured to more efficiently use both active and passive management, effectively reducing investment manager fees by approximately \$6.3 million per year. Additionally, the opportunistic and emerging market debt asset classes were initially funded towards the end of the fiscal year to provide further diversification benefits. Most recently, a 5% allocation to a newly formed global equity asset class was approved. With additional plans in the pipeline, the SDCERS’ portfolio continues to progress towards the investment structure that is consistent with the program’s long-term goals.

Sincerely,



Steve Voss
Principal



Satya Kumar, CFA
Principal

San Diego City Employees' Retirement System

Asset Class Investment Returns^{1, 2, 3}

For the Periods Ended June 30, 2011

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Domestic Equity Performance	32.7%	5.1%	3.6%	5.3%
Benchmark: Dow Jones U.S. Total Stock Market (100% weight)	32.8%	5.3%	4.1%	4.6%
International Equity Performance	30.5%	-2.4%	1.8%	7.4%
Benchmark: MSCI AC World Ex-US IMI Index (100% weight)	31.1%	0.4%	4.0%	8.5%
Domestic Fixed Income Performance	6.5%	8.3%	8.1%	7.0%
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	3.9%	5.4%	5.8%	5.3%
International Fixed Income Performance	13.8%	6.4%	7.6%	8.9%
Benchmark: Citigroup World Govt Bond Index Non-U.S. (100% weight)	13.9%	6.2%	7.8%	8.7%
Emerging Market Debt Performance⁵	N/A	N/A	N/A	N/A
Benchmark: JPM EMBI Global Diversified (50% weight)	15.5%	11.1%	12.0%	N/A
JPM GBI-EM Global Diversified (50% weight)				
Opportunity Fund Performance⁴	14.1%	N/A	N/A	N/A
Benchmark: Barclays Capital Aggregate Bond Index (100% weight)	3.9%	6.5%	6.5%	5.7%
Real Estate Performance	27.4%	-4.1%	-0.4%	8.8%
Benchmark: NCREIF Property Index + 50 basis points (75% weight)	21.3%	0.1%	4.2%	9.3%
FTSE EPRA/NAREIT Developed REIT Index (25% weight)				
Private Equity Performance⁵	N/A	N/A	N/A	N/A
Benchmark: S&P 500 + 3.0% (100% weight)	33.7%	6.3%	5.9%	5.7%
Total Fund Performance⁶	24.2%	4.4%	4.8%	6.9%
Benchmark comprised of:	22.4%	5.1%	5.4%	6.6%
Dow Jones U.S. Total Stock Market Index (41%);				
MSCI AC World ex-US IMI (20%);				
Barclays Capital Agg (24%);				
Custom Real Estate Benchmark (11%)				
Citigroup WGBI Non-U.S. (4%);				

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.

³ Net of fees returns began to be calculated in FY2011. Prior to that, all returns are gross of fees.

⁴ As of June 30, 2011, the Opportunity Fund only had one investment, which is benchmarked to the Barclays Capital Aggregate Index. As more investments are added, the Opportunity Fund will begin using the benchmark of 78% MSCI All Country World Index and 22% Barclays Capital Aggregate Bond Index. The 3, 5 and 10-year performance numbers are not available as this investment was funded in 2009.

⁵ This allocation is currently being funded. Performance will not be available until a meaningful allocation is reached.

⁶ The 1-year gross of fees return for the Total Fund Performance was 24.6%.

San Diego City Employees' Retirement System
Investment Managers
As of June 30, 2011

Domestic Equity Investment Managers

Allianz Global Investors Capital

San Diego, CA

Dodge & Cox

San Francisco, CA

Perimeter Capital Management

Atlanta, GA

BlackRock Institutional Trust Company

New York, NY

Fisher Investments

Woodside, CA

Wall Street Associates

La Jolla, CA

Dimensional Fund Advisors

Santa Monica, CA

**INTECH Enhanced Investment
Technologies (Janus)**

Palm Beach Gardens, FL

Domestic Fixed Income Investment Managers

Pacific Investment Management Company (PIMCO)

Newport Beach, CA

The TCW Group, Inc./MetWest

Los Angeles, CA

International Equity Investment Managers

Aberdeen Asset Management

Philadelphia, PA

Brandes Investment Partners

San Diego, CA

Grantham, Mayo, Van Otterloo & Co. LLC

Boston, MA

BlackRock Institutional Trust Company

New York, NY

Globeflex Capital, L.P.

San Diego, CA

McKinley Capital Management Inc.

Anchorage, AK

International Fixed Income Investment Managers

Rogge Global Partners

London, England

Stone Harbor Investment Partners

New York, NY

Wellington Management Company

Boston, MA

Real Estate Investment Managers

Colony Capital, LLC

Los Angeles, CA

Invesco Real Estate

Dallas, TX

Pacific Coast Capital Partners

El Segundo, CA

Cornerstone Real Estate Advisers

Glastonbury, CT

J.P. Morgan Asset Management

New York, NY

RREEF Funds

San Francisco, CA

Europa Capital

London, England

Long Wharf Real Estate Partners (Fidelity)

Boston, MA

RREEF Funds (REITs)

Chicago, IL

Greystar Real Estate Partners, LLC

Charleston, SC

Normandy Real Estate Partners (Capmark)

Plymouth Meeting, PA

UBS Realty Investors

Plymouth Meeting, PA

Private Equity Discretionary Consultants

Credit Suisse Private Equity, Inc.

New York, NY

StepStone Group, LLC

San Diego, CA

**San Diego City Employees' Retirement System
Summary of Investment Goals and Philosophy
As of June 30, 2011**

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 rate of return in excess of SDCERS' actuarial investment return assumption of 7.75%.
- SDCERS should seek to earn a return in excess of its policy benchmark over the long term.
- SDCERS' assets will be managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve these objectives, SDCERS allocates its investment assets with a strategic, long-term perspective of the capital markets.

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. In addition, SDCERS manages its investment program based on principles outlined under the Prudent Expert standard. SDCERS also diversifies the investments so as to maximize the probability of achieving the actuarial rate of return while minimizing risk.

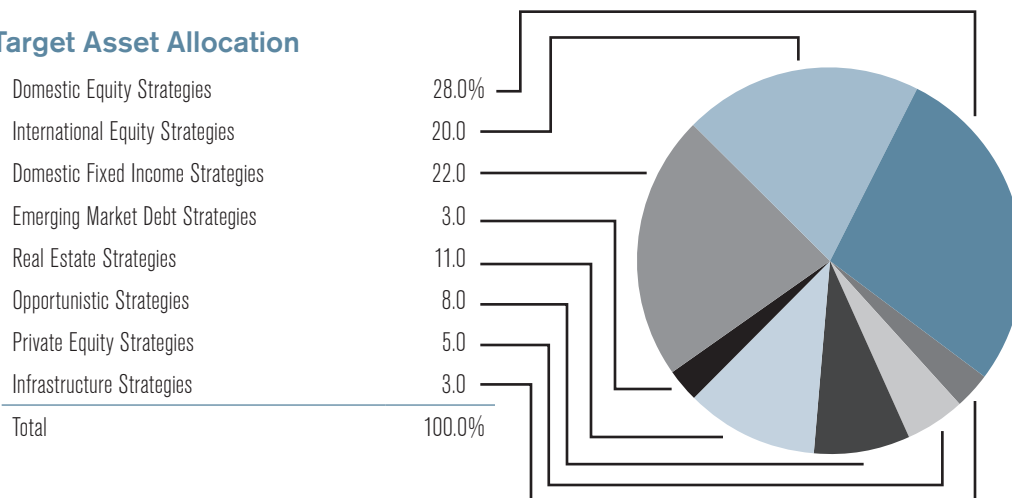
* * *

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.

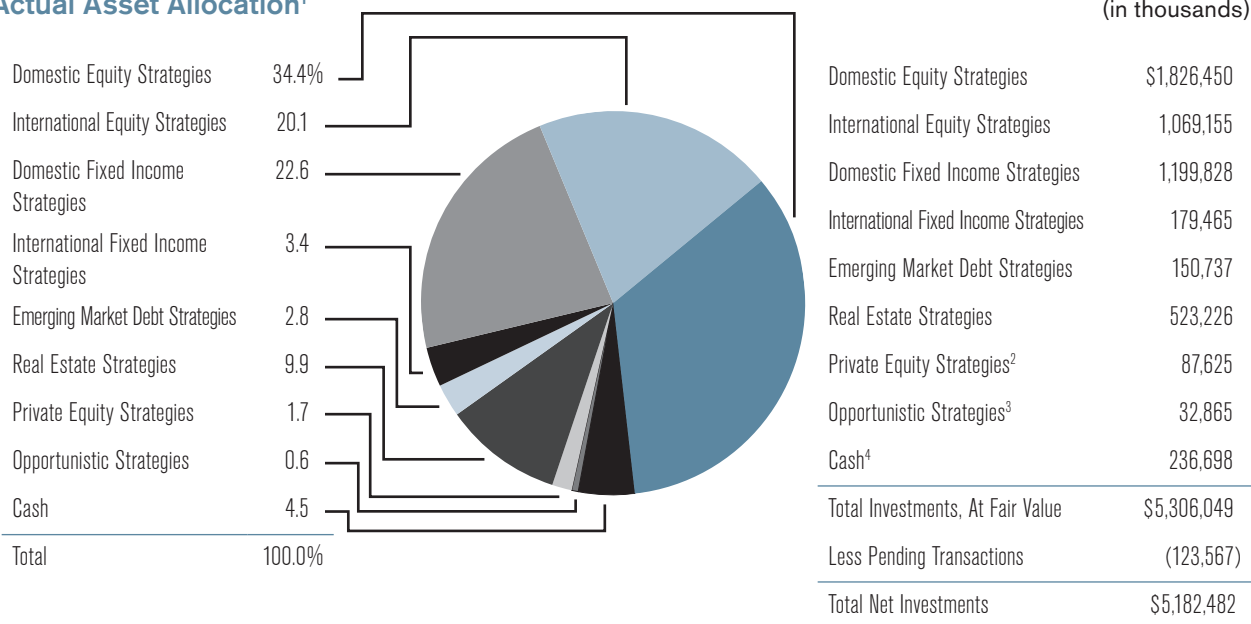
A copy of the IPS is available upon request or on SDCERS' website – www.sdcers.org.

San Diego City Employees' Retirement System As of June 30, 2011

Target Asset Allocation



Actual Asset Allocation¹



¹ 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. 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, real estate and private equity.

² 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. This allocation will be funded from domestic equity.

³ In September 2010, allocations to Opportunistic and Infrastructure Strategies were approved. Investments in Opportunistic Strategies will be funded pro-rata from domestic and international equities and domestic fixed income. Investments in Infrastructure Strategies will be funded from domestic equities.

⁴ SDCERS does not have a target allocation to cash. The cash balance as of June 30, 2011 was due to portfolio restructuring activity.

San Diego City Employees' Retirement System

At June 30, 2011 (in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	257	Hewlett Packard Co.	428236103	\$9,340	0.2%
2	494	General Electric Co.	369604103	9,321	0.2
3	340	Comcast Corp Class A	20030N101	8,616	0.2
4	155	Capital One Financial Corp.	14040H105	8,004	0.2
5	77	Chevron Corp	166764100	7,910	0.2
6	91	Schlumberger Ltd.	806857108	7,896	0.2
7	378	Pfizer Inc.	717081103	7,777	0.1
8	275	Wells Fargo & Co.	949746101	7,717	0.1
9	133	Total S.A.	B15C55900	7,700	0.1
10	325	Eni S.p.A.	714505906	7,694	0.1
Total				\$81,975	1.6%

Schedule of Largest Fixed Income Holdings

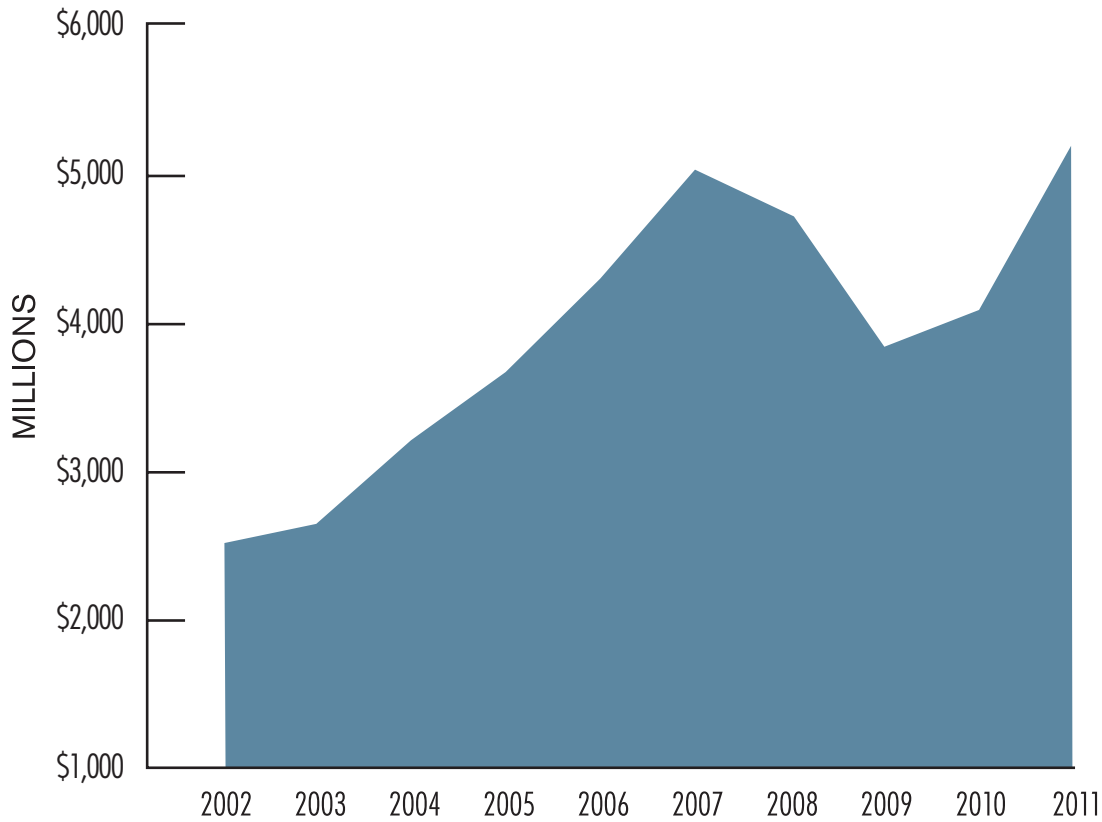
Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	21,300	Interest Rate Swap- Rec EUR Fixed 3.5% 21 Sep 2021	99S09SHT1	\$30,875	0.6%
2	9,757	Netherlands Government 5% 15 Jul 2012	730959II6	14,641	0.3
3	7,240	Federal Republic of Germany 4.25% 04 Jul 2039	B1P8H1II4	11,390	0.2
4	6,970	Federal Republic of Germany 3.25% 04 Jul 2015	B0964LI18	10,579	0.2
5	10,400	Credit Default Swap- Rec USD Fixed 1% 20 Jun 2016	99S09P2B2	10,439	0.2
6	6,700	Italian Treasury- Fixed 4.5% 01 Feb 2020	B00H21II9	9,689	0.2
7	9,980	US Treasury N/B 2.625% 15 Nov 2020	912828PC8	9,612	0.2
8	7,300	Spanish Government 4.65% 30 Jul 2025	B3M35ZII2	9,537	0.2
9	5,820	Netherlands Government 4.25% 15 Jul 2013	753556II2	8,865	0.2
10	5,734	Federal Republic of Germany 3.5% 04 Jan 2016	B0S5YPII7	8,785	0.1
Total				\$124,412	2.4%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2011 (in thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	Societe Generale	7,617	\$343	\$0.045
2	State Street Global Markets, LLC	44,597	328	0.007
3	Merrill Lynch & Co., Inc.	22,917	238	0.010
4	Morgan Stanley & Co., Inc.	12,227	234	0.019
5	Citigroup Global Markets, Inc.	12,327	198	0.016
6	UBS Securities LLC	23,554	190	0.008
7	Goldman Sachs & Co.	12,947	163	0.013
8	State Street Bank and Trust	30,012	159	0.005
9	Credit Suisse Securities	16,051	158	0.010
10	Instinet Inc	11,719	151	0.013
11	JPMorgan Chase & Co.	21,538	150	0.007
12	Jefferies & Company, Inc.	6,157	127	0.021
13	Cantor Fitzgerald & Co.	3,127	115	0.037
14	Nomura Securities International, Inc.	16,216	105	0.006
15	Knight Equity Markets L.P.	4,455	92	0.021
16	Chicago Analytic Trading Co., LLC	1,974	78	0.040
17	Macquarie Group Limited	13,318	78	0.006
18	Barclays Capital Inc.	4,016	68	0.017
19	Liquidnet Holdings, Inc.	2,648	68	0.026
20	Deutsche Bank Securities, Inc.	3,832	60	0.016
21	JonesTrading Institutional Services LLC	1,444	54	0.038
22	BNY ConvergEX Group	2,073	47	0.023
23	Pershing LLC	2,142	46	0.022
24	Credit Agricole CIB	1,387	38	0.027
25	Stifel, Nicolaus & Co., Inc	1,163	34	0.030
	All Other Brokers	350,312	919	0.003
	Total	629,770	\$4,241	\$0.007

**San Diego City Employees' Retirement System
Growth of Investments, at Fair Value
For Ten Years Ended June 30, 2011**



Fiscal Year	Fair Value ¹ (in thousands)
2002	\$2,507,015
2003	2,656,058
2004	3,240,853
2005	3,636,722
2006	4,202,303
2007	4,922,362
2008	4,663,861
2009	3,697,249
2010	4,161,807
2011	5,182,482

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



4. ACTUARIAL

Actuary's Certification Letter



Classic Values, Innovative Advice

November 11, 2011

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, 2010 actuarial valuation of SDCERS are summarized in this letter.

Funding Objective

The funding objective of SDCERS is to fully fund the plan's liabilities with contributions 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 an amortization of any UAL.

Funding Method

The actuarial funding method for the actuarial valuation is the **Entry Age Normal** actuarial funding method. 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 (UAL). The UAL is amortized over the periods described below for each plan sponsor.

Amortization of Unfunded Actuarial Liability

In May 2007, the SDCERS Board adopted the following closed amortization periods which have been used to calculate the portion of the June 30, 2010 contribution rate that is attributable to the UAL for all three plan sponsors. The amortization period for the then-existing June 30, 2007 UAL for each plan sponsor was set at 20 years for the City, 14 years for the UPD, and 14 years for the Airport Authority. For all three plan sponsors, the amortization of future experience gains and losses was set at 15 years, and the amortization of changes in actuarial methods or assumptions was set at 30 years. The Board also adopted an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year.

Assumptions

The June 30, 2010 valuation results for the City and Airport Authority each include one difference from the basis used in the June 30, 2009 valuations. This difference is a \$50 million (\$1.75 million for APA) reduction in the UAL due to the estimated impact of the correction of underpriced purchased service contracts during the 2003 (2004 for APA) "window period."

All other assumptions and methods remain the same as in the June 30, 2009 valuation. 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*.

Plan Provisions

City General and Police Members hired on or after July 1, 2009 participate in new plans. All other plan provisions remain the same as in the June 30, 2009 valuation.

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, member data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year's data.

Supporting Schedules

Using historical information (pre-2005 results provided by the prior actuary) along with results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and most in the Statistical Section. We have also reviewed for accuracy the trend data prepared by SDCERS' staff in the Required Supplementary Information of the Financial Section.

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

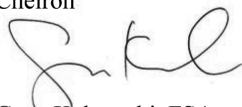
We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the San Diego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

Certification

In preparing our report, we relied without audit, on information supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

I hereby certify that, to the best of my knowledge, this report and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

Sincerely,
Cheiron



Gene Kalwarski, FSA
Principal Consulting Actuary

San Diego City Employees' Retirement System Summary of June 30, 2010 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, and
9. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System Summary of June 30, 2010 Valuation Results (continued)

1. General Comments

The June 30, 2010 valuation results for the City and Airport Authority each include one difference from the basis used in the June 30, 2009 valuations. This difference is a \$50 million (\$1.75 million for APA) reduction in the UAL due to the estimated impact of the correction of underpriced purchased service contracts during the 2003 (2004 for APA) "window period." All other assumptions and methods are the same as in the June 30, 2009 valuation.

City General and Police Members hired on or after July 1, 2009 participate in new plans with lower benefits and costs. All other plan provisions are the same as in the June 30, 2009 valuation.

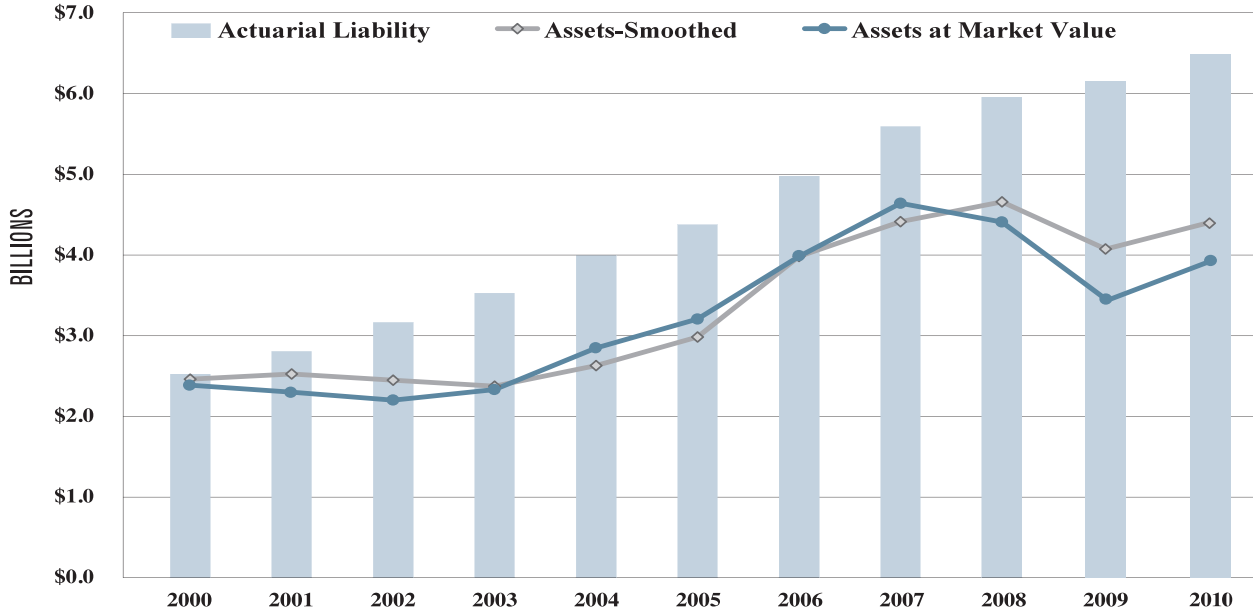
The UAL for each plan sponsor is split into several tiers, each using a different amortization period. The outstanding balance at June 30, 2010 of the June 30, 2007 UAL was amortized over 17 years for the City, and over 11 years for the UPD and the Airport Authority. For all three plan sponsors, the outstanding balance at June 30, 2010 of the June 30, 2008 UAL due to assumption changes was amortized over 28 years, and the outstanding balance of the June 30, 2008 UAL due to actuarial experience was amortized over 13 years. The outstanding balance at June 30, 2010 of the June 30, 2009 UAL due to actuarial experience was amortized over 14 years. The fiscal year ending June 30, 2010 experience loss is amortized over 15 years and the June 30, 2010 UAL reduction from the anticipated impact of the PSC correction for the City and the Airport Authority is amortized over 14 years and 15 years, respectively (with a double credit for the City in FY 2012 only, due to the "overpayment" in FY 2011). Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

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 of the UAL as well.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

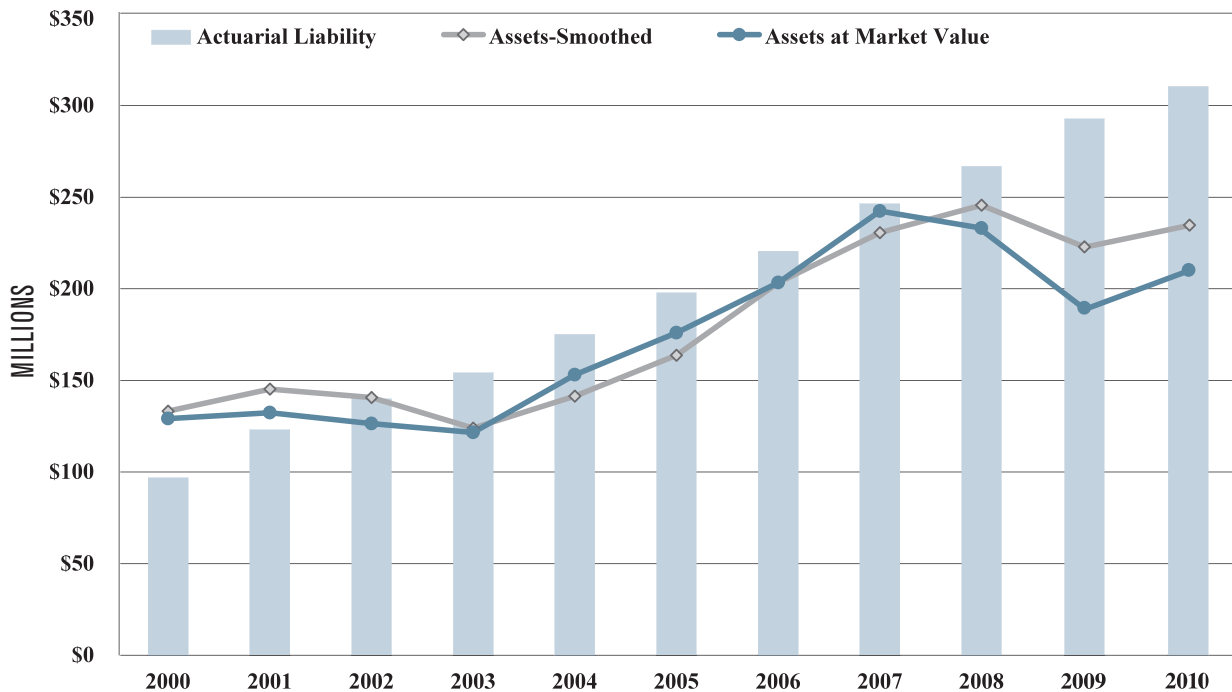
2. Historical Trends
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 2000 - 2010



Funding Ratio	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%	66.5%	67.1%
UAL (billions)	\$ 0.07	\$ 0.28	\$ 0.72	\$ 1.16	\$ 1.37	\$ 1.39	\$ 1.00	\$ 1.18	\$ 1.30	\$ 2.11	\$ 2.15

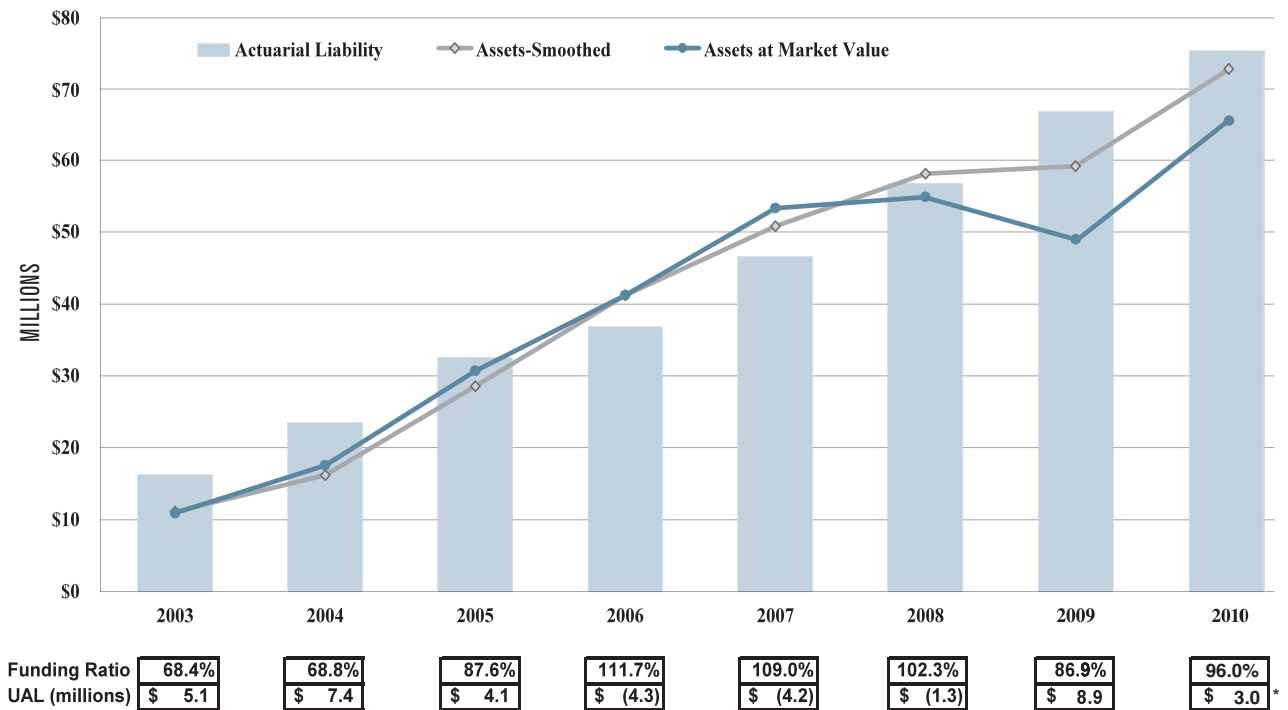
SDCERS - Unified Port District Assets and Liabilities 2000 - 2010



Funding Ratio	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%	92.0%	77.5%	75.3%
UAL (millions)	\$ (36.0)	\$ (22.2)	\$ (0.4)	\$ 30.4	\$ 34.0	\$ 34.4	\$ 17.4	\$ 16.0	\$ 21.5	\$ 64.8	\$ 76.7

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

SDCERS - Airport Authority Assets and Liabilities 2003 - 2010



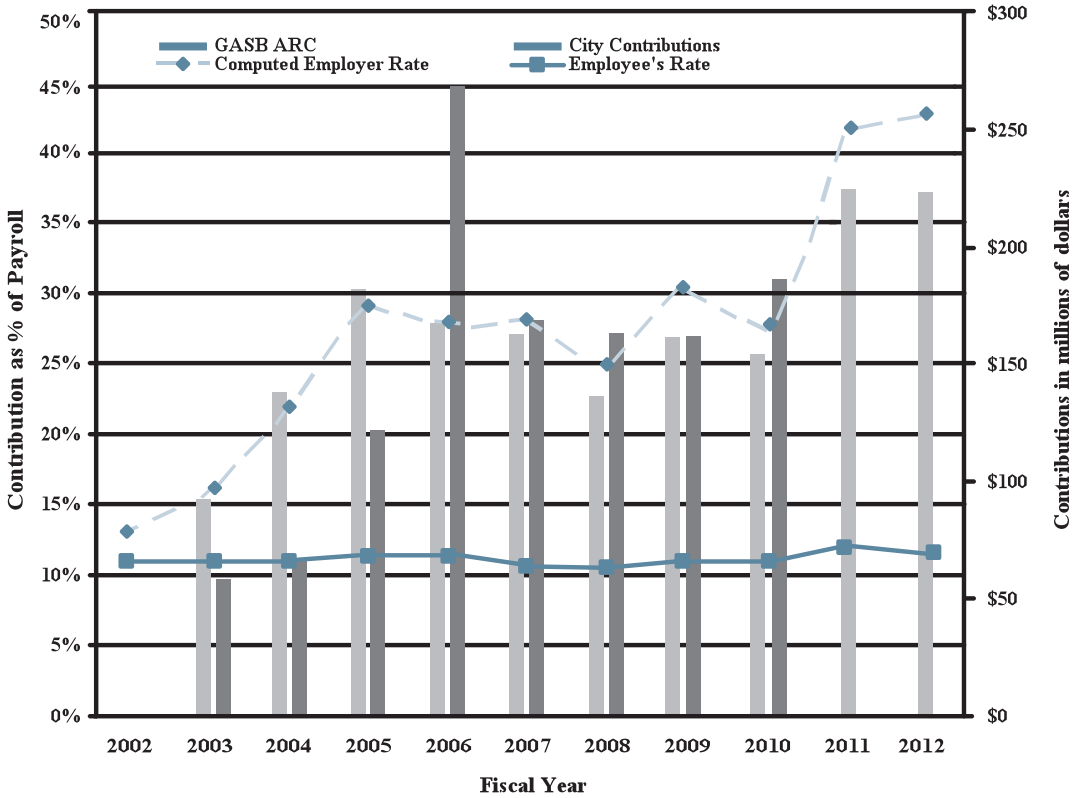
* The UAL for 2007 and after is calculated using the Entry Age Normal method. 2006 and prior years are calculated using the Projected Unit Credit method.

For funding purposes, the target amount is represented by the top of the 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.

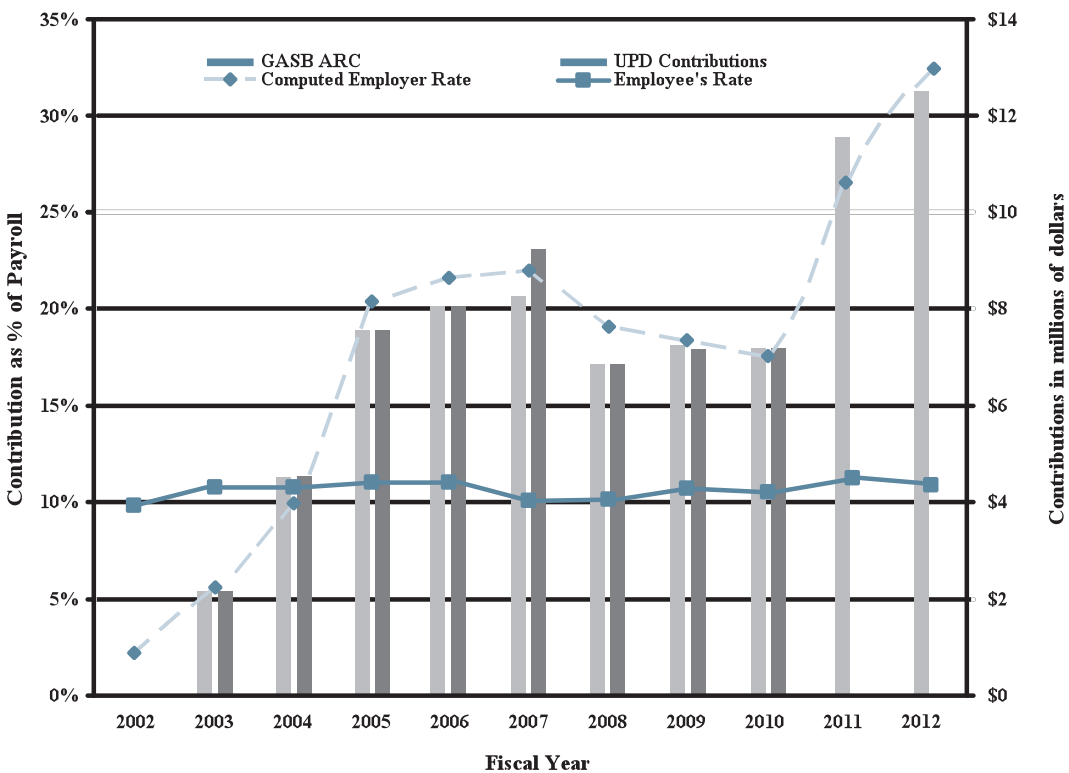
As demonstrated in the previous charts, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. From 2003 to 2007, the funded percentage improved due to the increase in investment returns among other factors. In 2008, negative investment returns and a change in actuarial assumptions caused the funded percentage to decrease, and in 2009 the funded percentage decreased significantly due to investment losses.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)
Contribution Rates

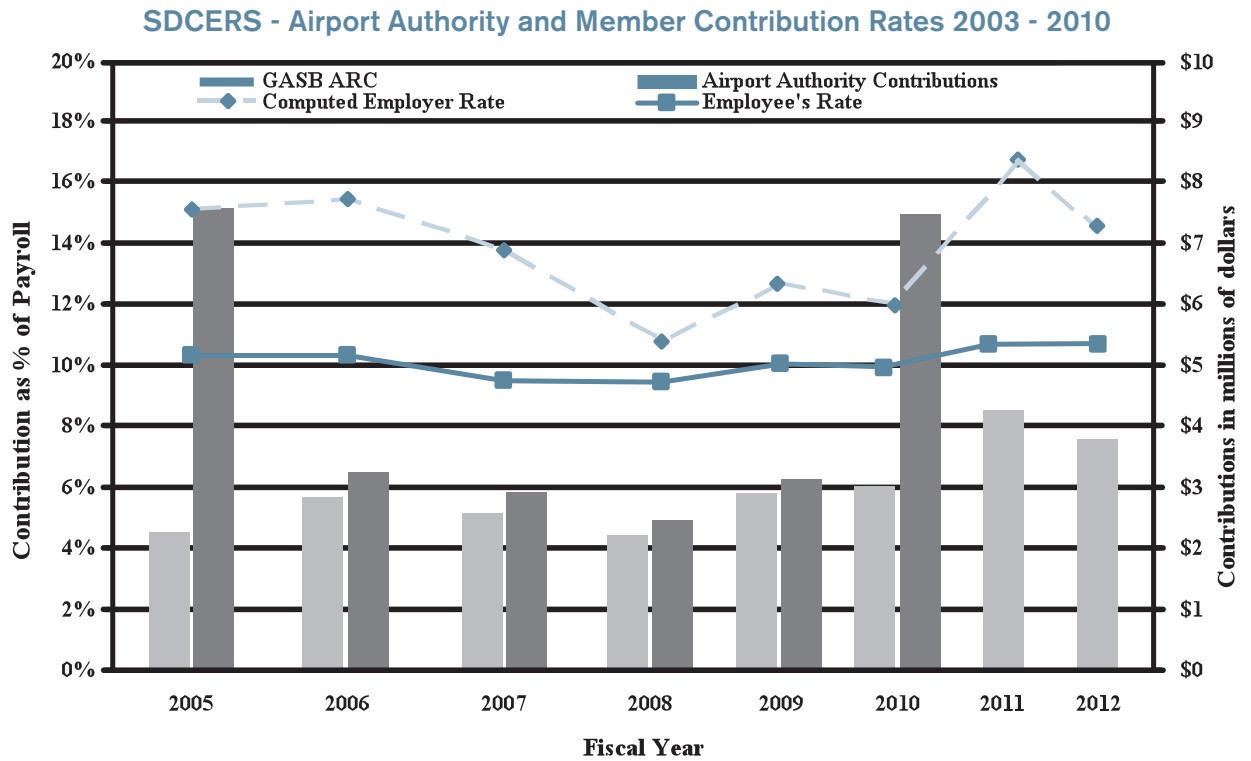
SDCERS - City of San Diego and Member Contribution Rates 2000 - 2010



SDCERS - Unified Port District and Member Contribution Rates 2000 - 2010



San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)
Contribution Rates



The light bars show the actuarially computed GASB ARC in dollars, while the dark bars show the actual contribution paid by the plan sponsor (right hand scale). The dotted line shows the employer contribution each year as a percent of payroll (left hand scale). The solid line shows employees' contributions as a percent of payroll (left hand scale).

San Diego City Employees' Retirement System Summary of June 30, 2010 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego

Valuation Date	June 30, 2010	June 30, 2009
Unfunded Actuarial Liability (millions)	\$2,145.2	\$2,106.4
Funding Ratio	67.1%	66.5%
City Contribution Rate	42.68%	41.75%

Fiscal Year	2012	2011
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	\$231.2 million	\$229.1 million
• if paid throughout the year	\$240.0 million	\$237.8 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2010	June 30, 2009	% Change
Active Counts	8,120	8,273	-1.8%
Terminated Vested	2,874	2,827	1.7
Disabled	1,241	1,257	-1.3
Retirees	5,189	4,975	4.3
Beneficiaries	1,151	1,137	1.2
Total City Members	18,575	18,469	0.6%
Active Member Payroll	\$530,238,355	\$536,591,287	-1.2%
Average Pay per Active Member	65,300	64,861	0.7

SDCERS - City of San Diego - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2010	June 30, 2009	% Change
Actives	\$2,350,543,474	\$2,353,326,545	-0.1%
Terminated Vested	264,567,702	255,124,776	3.7
Disabled	414,366,545	408,598,894	1.4
Retirees	3,344,070,643	3,118,227,002	7.2
Beneficiaries	153,675,387	146,358,891	5.0
Total Actuarial (EAN) Liability	\$6,527,223,751	\$6,281,636,108	3.9%
Market Value Assets	\$3,900,537,904	\$3,479,357,154	12.1%
Actuarial Value Assets	4,382,047,254	4,175,228,585	5.0
Unfunded Actuarial Liability	\$2,145,176,496	\$2,106,407,523	1.8%
Funding Ratio-Actuarial Value	67.1%	66.5%	0.6%

SDCERS - City of San Diego - Contributions

EAN Funding Method	June 30, 2010	June 30, 2009	% Change
Total Normal Cost % Projected to FY 2012	23.63%	23.28%	0.35%
Members Contribution % Projected to FY 2012	11.97	12.14	-0.17
Employer Normal Cost % Projected to FY 2012	11.66%	11.14%	0.52%
Employer Unfunded Liability Cost %	31.02%	30.61%	0.41%
Negative Amortization Adjustment Cost %	0.00	0.00	0.00
Total Employer Cost %	42.68%	41.75%	0.93%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$231.2 million	\$229.1 million	0.94%
• if paid throughout the year	\$240.0 million	\$237.8 million	0.94%

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

SDCERS - Unified Port District

Valuation Date	June 30, 2010	June 30, 2009
Unfunded Actuarial Liability (millions)	\$76.7	\$64.8
Funding Ratio	75.3%	77.5%
UPD Contribution Rate	33.16%	27.61%

Fiscal Year	2012	2011
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	\$12.6 million	\$11.5 million
• if paid throughout the year	\$13.1 million	\$12.0 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2010	June 30, 2009	% Change
Active Counts	532	564	-5.7%
Terminated Vested	289	281	2.8
Disabled	62	63	-1.6
Retirees	282	268	5.2
Beneficiaries	58	60	-3.3
Total UPD Members	1,223	1,236	-1.1%
Active Member Payroll	\$39,164,664	\$40,370,258	-3.0%
Average Pay per Active Member	73,618	71,578	2.8

SDCERS - Unified Port District - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2010	June 30, 2009	% Change
Actives	\$145,577,561	\$137,987,124	5.5%
Terminated Vested	14,701,905	12,908,003	13.9
Disabled	14,613,575	14,884,521	-1.8
Retirees	127,751,767	115,138,009	11.0
Beneficiaries	7,822,489	7,780,488	0.5
Total Actuarial Liability	\$310,467,297	\$288,698,145	7.5%
Market Value Assets	\$211,908,439	\$186,565,603	13.6%
Actuarial Value Assets	233,788,278	223,878,723	4.4
Unfunded Actuarial Liability	\$76,679,019	\$64,819,422	18.3%
Funding Ratio-Actuarial Value	75.3%	77.5%	-2.2%

SDCERS - Unified Port District - Contributions

EAN Funding Method	June 30, 2010	June 30, 2009	% Change
Total Normal Cost % Projected to FY 2012	26.14%	24.07%	2.07%
Members Contribution % Projected to FY 2012	11.13	10.50	0.63
Employer Normal Cost % Projected to FY 2012	15.01%	13.57%	1.44%
Employer Unfunded Liability Cost %	18.15%	14.04%	4.11%
Negative Amortization Adjustment Cost %	0.00	0.00	0.00
Total Employer Cost %	33.16%	27.61%	5.55%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$12.6 million	\$11.5 million	9.25%
• if paid throughout the year	\$13.1 million	\$12.0 million	9.25%

San Diego City Employees' Retirement System

Summary of June 30, 2010 Valuation Results (continued)

SDCERS - Airport Authority

Valuation Date	June 30, 2010	June 30, 2009
Unfunded Actuarial Liability (millions)	\$3.0	\$8.9
Funding Ratio	96.0%	86.9%
Airport Contribution Rate	14.54%	16.60%

Fiscal Year	2012	2011
Annual Required Contribution (GASB ARC):		
• if paid at the beginning of the year	\$3.8 million	\$4.3 million
• if paid throughout the year	\$3.9 million	\$4.5 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2010	June 30, 2009	% Change
Active Counts	347	338	2.7%
Terminated Vested	72	68	5.9
Disabled	1	1	0.0
Retirees	23	20	15.0
Beneficiaries	2	1	100.0
Total Airport Authority Members	445	428	4.0%
Active Member Payroll	\$25,595,623	\$24,693,427	3.7%
Average Pay per Active Member	73,763	73,057	1.0

SDCERS - Airport Authority - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2010	June 30, 2009	% Change
Actives	\$61,081,174	\$55,169,739	10.7%
Terminated Vested	3,534,206	2,777,562	27.2
Disabled	215,217	213,239	0.9
Retirees	11,093,491	9,405,538	17.9
Beneficiaries	523,385	304,867	71.7
Total Actuarial Liability	\$76,447,473	\$67,870,945	12.6%
Market Value Assets	\$64,795,807	\$49,150,920	31.8%
Actuarial Value Assets	73,400,892	58,981,105	24.4
Unfunded Actuarial Liability	\$3,046,581	\$8,889,841	-65.7%
Funding Ratio-Actuarial Value	96.0%	86.9%	9.1%

SDCERS - Airport Authority - Contributions

EAN Funding Method	June 30, 2010	June 30, 2009	% Change
Total Normal Cost %	24.29%	24.42%	-0.13%
Members Contribution %	10.45	10.53	-0.08
Employer Normal Cost %	13.84%	13.89%	-0.05%
Employer Unfunded Liability Cost %	0.38%	2.64%	-2.26%
Negative Amortization Adjustment Cost %	0.32	0.07	0.25
Total Employer Cost %	14.54%	16.60%	-2.06%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$3.8 million	\$4.3 million	-11.82%
• if paid throughout the year	\$3.9 million	\$4.5 million	-11.82%

San Diego City Employees' Retirement System Summary of June 30, 2010 Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal actuarial funding method was used to determine the actuarial liability. The normal cost (associated with active employees only) 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 for active employees 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. The payments are determined as a level percentage of pay, assuming payroll increases 4.00% per year. The UAL for FY 2012 is to be amortized over several different periods, and is as follows:

City of San Diego

The June 30, 2010 experience loss is amortized over 15 years, the June 30, 2010 UAL reduction from the anticipated impact of the PSC correction is amortized over 14 years (with a double credit in FY 2012 only, due to the "overpayment" in FY 2011), the outstanding balance of the June 30, 2009 UAL experience loss is amortized over 14 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 28 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 13 years and the outstanding balance of the June 30, 2007 UAL is amortized over 17 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

San Diego Unified Port District and San Diego County Regional Airport Authority

The June 30, 2010 experience loss (experience gain for Airport Authority) is amortized over 15 years, the June 30, 2010 UAL reduction from the anticipated impact of the PSC correction (APA only) is amortized over 15 years, the outstanding balance of the June 30, 2009 UAL experience loss is amortized over 14 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 28 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 13 years and the outstanding balance of the June 30, 2007 UAL is amortized over 11 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

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

San Diego City Employees' Retirement System Summary of June 30, 2010 Valuation Results (continued)

B. Actuarial Value of Assets

For the purposes of determining the Plan Sponsor's contributions 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 each year is equal to 100% of the *expected actuarial value of assets*¹ plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets, nor ever greater than 120% of the market value of assets.

C. Method Changes Since Last Valuation

The City's June 30, 2010 valuation results include one difference from the basis used in the June 30, 2009 valuation. This difference is a \$50 million reduction in the UAL due to the estimated impact of the correction of underpriced purchased service contracts during the 2003 "window period."

The Airport Authority's June 30, 2010 valuation results include one difference from the basis used in the June 30, 2009 valuation. This difference is a \$1.75 million reduction in the UAL due to the estimated impact of the correction of underpriced purchase service contracts during the 2004 "window period."

¹ The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased with actual contributions made, decreased with actual disbursements made, all items (prior assets, contributions and disbursements) further adjusted with expected investment returns for the year.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

General members follow the RP2000 Combined Healthy table (male and female) projected to 2008. Safety members follow the Male RP2000 projected to 2008, set forward two years. Set forward two years means that when a member is currently age 50 the actuary uses the age 52 mortality rate. SDCERS uses setbacks and set forwards to compensate for mortality experience in its work force.

Rates of Mortality for Active Lives at Selected Ages

Age	General		Safety
	Male	Female	
20	0.03%	0.02%	0.03%
25	0.03	0.02	0.04
30	0.04	0.02	0.05
35	0.07	0.04	0.09
40	0.10	0.06	0.11
45	0.14	0.10	0.15
50	0.18	0.15	0.23
55	0.31	0.25	0.41
60	0.59	0.49	0.78
65	1.14	0.93	1.45
70	1.97	1.61	2.42

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 RP2000 Combined Healthy table (male and female). Safety members use the RP2000 Combined Healthy table set forward two years (male and female).

Rates of Mortality for Retired Healthy Lives at Selected Ages

Age	General		Safety	
	Male	Female	Male	Female
40	0.11%	0.07%	0.12%	0.09%
45	0.15	0.11	0.17	0.13
50	0.21	0.17	0.27	0.20
55	0.36	0.27	0.47	0.35
60	0.67	0.51	0.88	0.67
65	1.27	0.97	1.61	1.22
70	2.22	1.67	2.73	2.07
75	3.78	2.81	4.69	3.41
80	6.44	4.59	8.05	5.63
85	11.08	7.74	13.60	9.63
90	18.34	13.17	21.66	15.76

San Diego City Employees' Retirement System

Summary of June 30, 2010 Valuation Results (continued)

Disabled General members use Uninsured Pensioner 1994 (UP 1994) male only table set forward five years.
 Disabled Safety members use Uninsured Pensioner 1994 (UP 1994) male only table set forward two 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 5+ years*

Age	General	Safety
20	12.78%	5.00%
25	8.33	4.07
30	5.83	3.57
35	4.60	3.07
40	3.36	2.67
45	2.78	2.33
50	2.78	2.33
55	2.78	2.33
60	2.78	2.33

*Add 1% to every age for each year of service under 5 years.

20% of terminating employees, with 10+ years of service at termination (5+ years of service at termination for UPD and Airport employees), are assumed to subsequently work for a reciprocal employer and receive 4.50% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.04%	0.40%
25	0.06	0.40
30	0.07	0.40
35	0.11	0.50
40	0.15	0.63
45	0.23	0.82
50	0.35	0.95
55	0.53	1.80
60	0.68	-

60% of the General disabilities and 80% of the Safety 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, 2010 Valuation Results (continued)

Retirement

Rates of Retirement by Service Years

Service	General	Safety
5-9*	9%	9%
10-19	33	32
20	41	32
21	33	14
22	35	18
23	37	23
24	39	27
25	41	32
26	42	36
27	44	41
28	46	45
29	48	50
30	50	100
31	51	100
32	53	100
33	55	100
34	57	100
35+	100	100

SDCERS - City of San Diego
Rates of Retirement by Age

Age	General 2009 Plan	Police 2009 Plan
50	-	10%
51	-	10
52	-	10
53	-	10
54	-	20
55	3%	40
56	3	40
57	3	40
58	5	50
59	5	80
60	10	85
61	15	90
62	20	100
63	30	100
64	40	100
65	50	100
66	50	100
67	50	100
68	50	100
69	50	100
70	100	100

*Service years 5-9 apply only to UPD and Airport Authority beginning at age 62; City employees become retirement eligible after 10 years of service beginning at age 62. Retirement eligibility may apply to earlier ages depending on service level (see benefits section) .

In addition, if a Police-2009 Plan Member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (5 years for both UPD and Airport Authority employees, 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

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

Rates of Retirement at Selected Ages

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

For vested deferred Elected Officials, we assume that retirement will occur provided they have at least 4 years of service on the later of attained age or the earlier of age 55 or age 53 and 8+ 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, 2010 Valuation Results (continued)

E. Economic Assumptions

- Investment Return: 7.75% compounded per annum, net of expenses.
- Interest Credited to Member Contributions: 7.75% compounded per annum.
- Rate of Wage Increase: 4.00% compounded per annum (for the July 1, 2010 "across the board" payroll increases, actual reported payroll increases were used).

Additional Merit Wage Increase:	Years of Service at Valuation Date	General	Safety
	0	5.00%	8.00%
1	4.00%	7.00%	
2	3.00%	6.00%	
3	2.00%	3.50%	
4	1.00%	2.00%	
5+	0.50%	0.50%	

- Rate of Increase in Cost-of-Living: 2.00% compounded per annum.
 4.00% compounded per annum for a closed group of special City safety officers.

- Total Payroll Increase (For amortization): 4.00% compounded per annum.

- COLA Annuity Benefit: For active members, there is a load on liabilities for retirement allowances to anticipate the impact of the annuitized employee COLA contributions at retirement. The load is 2.5% for the Unified Port District and 2.0% for the Airport Authority, and varies by membership for the City as follows:

General	Elected	Police	Fire	Lifeguard
2.19%	2.5%	3.51%	3.69%	3.58%

F. Assumption Changes Since Last Valuation

The DROP interest crediting rate used to value the liability for account balances was reduced from 3.54% to 2.9% to reflect the Board's adoption of this rate at its December 2009 meeting.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2010	8,120	\$530,238,356	\$65,300	0.68%
6/30/2009	8,273	536,591,287	64,861	2.74
6/30/2008	8,487	535,774,438	63,129	4.64
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

SDCERS - Unified Port District

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2010	532	\$39,164,664	\$73,618	2.85%
6/30/2009	564	40,370,258	71,578	4.68
6/30/2008	565	38,634,835	68,380	2.87
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

SDCERS - Airport Authority

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll</u>	<u>Average Annual Payroll</u>	<u>% Increases In Average Annual Pay</u>
6/30/2010	347	\$25,595,623	\$73,763	0.97%
6/30/2009	338	24,693,427	73,057	6.06
6/30/2008	341	23,488,283	68,881	1.64
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

San Diego City Employees' Retirement System

Summary of June 30, 2010 Valuation Results (continued)

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

SDCERS - City of San Diego

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/10	441	\$19,192,613	58.0	227	\$4,443,897	79.6	7,581	\$303,457,617	66.4	7.01%	\$40,029
6/30/09	629	28,495,488	57.7	200	3,531,559	80.9	7,369	283,586,563	66.3	11.69	38,484
6/30/08	446	19,239,330	58.2	185	3,487,942	79.8	6,940	253,894,388	66.6	8.43	36,584
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

SDCERS - Unified Port District

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/10	20	\$931,654	58.3	9	\$123,377	79.7	402	\$12,910,178	68.3	8.78%	\$32,115
6/30/09	38	1,315,959	60.4	8	189,559	77.8	391	11,867,970	68.1	12.20	30,353
6/30/08	24	825,588	61.6	12	207,767	74.8	361	10,577,683	68.2	8.09	29,301
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

SDCERS - Airport Authority

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/10	4	\$130,624	60.9	-	-	N/A	26	\$929,350	63.8	18.84%	\$35,744
6/30/09	5	286,756	57.2	-	-	N/A	22	782,035	63.3	62.84	35,547
6/30/08	5	148,248	59.3	-	-	N/A	17	480,239	64.1	46.61	28,249
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

¹ June 30, 2006 and later valuations reflect contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

San Diego City Employees' Retirement System
Summary of June 30, 2010 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

Valuation Date	Aggregate Actuarial Liabilities for (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/10	\$584,296	\$3,912,113	\$2,030,816	\$4,382,047	100.00%	97.08%	0.00%
6/30/09	535,797	3,673,185	2,072,655	4,175,229	100.00	99.08	0.00
6/30/08	522,966	3,286,668	2,153,916	4,660,346	100.00	100.00	39.50
6/30/07 ²	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19
6/30/06 ³	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27
6/30/05	457,550	2,183,263	1,736,279	2,983,080	100.00	100.00	19.71

SDCERS - Unified Port District

Valuation Date	Aggregate Accrued Liabilities for (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/10	\$21,999	\$150,188	\$138,280	\$233,788	100.00%	100.00%	44.55%
6/30/09	20,784	137,803	130,112	223,879	100.00	100.00	50.18
6/30/08	19,397	123,029	124,611	245,580	100.00	100.00	82.78
6/30/07 ²	18,374	115,021	113,143	230,585	100.00	100.00	85.90
6/30/06 ³	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

SDCERS - Airport Authority

Valuation Date	Aggregate Accrued Liabilities for (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/10	\$10,611	\$11,832	\$54,004	\$73,401	100.00%	100.00%	94.36%
6/30/09	9,120	9,924	48,827	58,981	100.00	100.00	81.79
6/30/08	7,335	6,341	43,131	58,096	100.00	100.00	102.99
6/30/07 ²	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	115.03
6/30/05	4,255	2,713	25,635	28,551	100.00	100.00	84.19

¹ Actuarial Value of Assets.

² 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.

³ Reflects contingent liabilities (13th check), DROP reserves, and IRC Section 415 limits.

San Diego City Employees' Retirement System
Summary of June 30, 2010 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
6/30/2010	\$ (141,536,346)	\$70,506,309	\$ (71,030,037)	\$90,933,819	\$19,903,782
6/30/2009	(811,380,431)	(7,525,648)	(818,906,079)	8,244,901	(810,661,178)
6/30/2008	(81,306,075)	31,375,539	(49,930,537)	(47,421,879)	(97,352,416)
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

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
6/30/2010	\$ (7,317,424)	\$ (1,513,654)	\$ (8,831,078)	\$62,510	\$ (8,768,568)
6/30/2009	(42,227,122)	(2,379,929)	(44,607,050)	843,209	(43,763,842)
6/30/2008	(4,428,892)	2,429,387	(1,999,505)	(2,615,672)	(4,615,176)
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)

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
6/30/2010	\$ (1,903,032)	\$1,930,821	\$27,790	\$6,826,579	\$6,854,369
6/30/2009	(9,584,108)	(1,391,991)	(10,976,099)	1,083,115	(9,892,984)
6/30/2008	(1,350,066)	1,842,772	492,707	(1,944,924)	(1,452,217)
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

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.

This page intentionally left blank

**San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2010**

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 hired on or after July 1, 1991 and any unclassified employees hired on or after August 11, 1993. (§24.0104)
2. Monthly Base Salary for Benefits	Highest consecutive 12 month average in any qualified employment with a California government jurisdiction subject to a 10% increase for those who joined the system before July 1, 2002, if the General or Safety Member elects such an increase in lieu of an increased benefit formula. (§24.0103) For General Members hired on or after July 1, 2009, the average of highest three years in any qualified employment with a California governmental jurisdiction. (§24.0103)
3. Service Retirement Eligibility	General Members - Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (§141 of City Charter) Safety Members (includes Fire, Lifeguard & Police) - Age 55 with 10 years of service credit, or age 50 with 20 years of service credit. (§141 of City Charter) 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. (§24.1705)
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. (§24.0402) General Members hired between July 1, 2002 and June 30, 2009 - 2.5% per year of service at age 55, increasing to 2.8% per year of service at age 65. (§24.0402) General Members hired on or after July 1, 2009 - 1.0% per year of service at age 55, increasing to 2.6% at age 65. (§24.0402.1)
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. (§24.0402) Police Members hired on or after July 1, 2009, 2.5% at age 50, increasing to 3.0% at age 55. (§24.0403)
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. (§24.0402)
Elected Officers	3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55. (§24.1705)

Unified Port District

San Diego County
Regional Airport Authority

<p>Salaried Employees - immediate eligibility upon employment (compulsory) for all Safety Members and for General Members hired before January 1, 2009. For General Members hired on or after January 1, 2009, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the 1st day of their 6th year of employment. (§0102, 0103, 0301)</p>	<p>Membership is mandatory upon employment for all full-time Airport employees. (§0103)</p>
<p>Highest one-year average for General Members hired before October 1, 2006, and all Safety Members. For General Members hired on or after October 1, 2006, and all Miscellaneous Members, highest 3-year average. (§0102) Subject to a 10% increase for General Members hired on or before November 9, 2001 and all Safety Members, if the Member elects such increase in lieu of an increased benefit formula. (§0300)</p>	<p>Average of highest contiguous 26 bi-weekly pay periods, subject to a 10% increase if an eligible Member elects such increase in lieu of an increased benefit formula. (§0102, 0300)</p>
<p>General Members - Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. (§0300)</p> <p>Miscellaneous Members - Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. Miscellaneous Members begin earning service credit during their sixth year of employment. (§0301)</p> <p>Elected Officers - Age 55 with 5 years of service credit, or age 50 with 20 years of service credit. (§0301)</p>	<p>General Members - Age 62 with 5 years of service, or age 55 with 20 years of service. Excludes 5 year permissible purchased service. (§0300)</p>
<p>General Members hired on or before November 9, 2001 - Choice of (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65; (2) 2.25% per year of service at age 55 increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, increasing to 3.0% at age 65. (§0300(g), 0300(i))</p> <p>General Members hired on or after November 10, 2001 and before January 1, 2009 - 2.5% per year of service at age 55, increasing to 3.0% at age 65 with a benefit cap of 90% of Final Average Compensation. (§0300(h))</p> <p>Miscellaneous Members (hired on or after January 1, 2009) - The formula is: (1) for years 1-5 of service credit, 0.75% of Final Compensation per year; (2) for years 6-10 of service credit, 1% of Final Compensation per year; (3) for years 11-15 of service credit, 1.25% of Final Compensation per year; and (4) beginning with service credit year 15, 1.5% of Final Compensation per year. (§0301(g))</p>	<p>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.</p>
<p>Executive General Members hired before January 1, 2009 - 3% per year of service at age 55.</p>	<p>Effective December 21, 2002, Service Retirement calculated at 3.0% per year of service at age 55.</p>
<p>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</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2010

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 eligible spouse or domestic partner 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. (§24.0402, 24.0403)

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. (§24.0603)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§24.0605)

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. (§24.0606)

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. (§24.0607)

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and is eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement. (§24.0608)

Unified Port District

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 eligible spouse or domestic partner 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. (§0600)

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. (§0602)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§0604)

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. (§0605)

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. (§0606)

Social Security Integrated Option - N/A

Choice of:

Maximum Benefit - Provides the highest possible monthly allowance to the member for their lifetime and guarantees their eligible spouse or domestic partner 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. (§0600)

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. (§0602)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their 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. (§0604)

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. (§0605)

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. (§0606)

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member is eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement. (§0607)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2010

City of San Diego

4. Non-Industrial Disability	Ten years of service credit. (Charter §141)
Eligibility All Members	
Benefit Formula Per Year of Service	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. (§24.0502, 24.0506)
General Members	
Miscellaneous Members (Port only)	N/A
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. (§24.0502, 24.0504)
Elected Officers	Earned service retirement benefit. (§24.1707)
5. Industrial Disability	No age or service requirement. (§24.0501)
Eligibility All Members	
Benefit Formula Per Year of Service	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)
General Members	
Miscellaneous Members (Port only)	N/A
Safety Members	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0503)
Elected Officers	Earned service retirement benefit. (§24.1707)
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus one month's salary for each completed year of service, to a maximum of six months salary. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service	50% of earned benefit payable to eligible surviving spouse. (§24.0704)
8. Industrial Death	50% of the final average compensation preceding death, payable to eligible spouse, domestic partner, or eligible child. (§24.0705)
General Members	
Safety Members	50% of the final average compensation preceding death, payable to eligible spouse, domestic partner, or eligible child. (§24.0705)

Unified Port District

San Diego County
Regional Airport Authority

Ten years of service credit. General Members hired on or after January 1, 2009 must have 10 years of service credit, which means 15 years of Port employment. (§0503)	Ten years of service credit. (§0502)
For General Members hired before January 1, 2009, the greater of 1.5% per year of service, one-third of final compensation, or the earned service retirement benefit. (§0506)	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. (§0503)
For Miscellaneous Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit. (§0507)	N/A
Greater of 1.8% per year of service, one-third of final compensation, or the earned service retirement benefit. (§0505)	N/A
N/A	N/A
No age or service requirement for Members hired before January 1, 2009. Miscellaneous Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial disability benefit. (§0500)	No age or service requirement. (§0500)
For General Members hired before January 1, 2009, greater of one-third of final compensation, or the earned service retirement benefit. (§0502)	Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§0501)
For Miscellaneous Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit. (§0503)	N/A
Greater of one-half of final compensation, or the earned service retirement benefit. (§0501)	N/A
N/A	N/A
Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary. Miscellaneous Members (hired on or after January 1, 2009) must have 5 years of Port employment to be eligible for a non-industrial death benefit. (§701, 0701)	Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary. (§0701)
50% of earned benefit payable to eligible surviving spouse, domestic partner, or child under 21 years of age. Miscellaneous Members (hired on or after January 1, 2009) must have 5 years of Port employment to be eligible for a non-industrial death benefit. (§701, 0703)	50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. (§0703)
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age. Miscellaneous Members (hired on or after January 1, 2009) must have 5 years of Port employment to be eligible for an industrial death benefit. (§0704)	50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age. (§0704)
50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age. (§0704)	N/A

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2010

City of San Diego

9. Death After Retirement	50% of member's unmodified allowance continued to eligible spouse. (§24.0601)
	\$2,000 payable in lump sum to the beneficiary of the retiree. (§24.0710)
10. Withdrawal Provisions	<p>1. Less than ten years of service - Refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§24.0206, 24.0306, 24.1005)</p> <p>2. Ten or more years of service - If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. (§24.0206, 24.0306)</p>
11. Post-Retirement Cost-of-Living Benefits General Members	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)
Safety Members	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)
12. Cola Annuity	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§24.0103)
13. Member Contributions	Vary by age at time of entrance into SDCERS. (§24.0201, 24.0301) Any portion of these contributions paid by the plan sponsor (employer), are not directly reflected in either the member (employee) contributions or related refund calculations.
14. Internal Revenue Code Compliance	Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code. (§24.1004)
15. Blended Benefit with Participating Agencies	Members may retire and receive benefits from multiple Plan IDs (e.g. – a City police officer could have also worked for the Unified Port District). (Port and Airport Plans @ §0400)

Unified Port District

San Diego County
Regional Airport Authority

50% of member's unmodified allowance continued to eligible surviving spouse or domestic partner. (§0600) \$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§0708)	50% of member's unmodified allowance continued to eligible surviving spouse or domestic partner. (§0600) \$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§0708)
1. Less than five years of service credit (ten years of service if employee terminated before December 31, 2002) - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§0205, 0401)	1. Less than five years of service credit - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§0205, 0401)
2. Five or more years of service credit (ten or more years of service if employee terminated before December 31, 2002) - If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. (§0205)	2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire. (§0205)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)
Based on changes in Consumer Price Index, to a maximum of 2% per year. (§1301)	N/A
Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)
Vary by age at time of entrance into SDCERS (§0200). While a significant portion of these contributions may be "offset," such offsets are not directly reflected in either the employee contributions or related refund calculations.	Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor (employer) are not directly reflected in either the member (employee) contributions or related refund calculations.
Benefits provided by the SDCERS' Trust Fund 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.
Members may retire and receive benefits from multiple Plan IDs (e.g. – a Unified Port District Employee could have also worked for the Airport Authority). (Port and Airport Plans @ §0400)	Members may retire and receive benefits from multiple Plan IDs (e.g. – an Airport Authority member could have also worked for the Unified Port District). (Port and Airport Plans @ §0400)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2010

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 their normal monthly retirement allowance when they retire. DROP was initially offered by SDCERS' sponsors on a trial basis for a three-year period ending March 31, 2000. The option to enter DROP was discontinued by the City, Port and Airport for employees hired on or after July 1, 2005, October 1, 2005 and October 3, 2006, respectively. 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 their employer (plan sponsor) on or before the end of the selected DROP participation period.

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

1. A DROP participant's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
2. The plan sponsor's contributions – 3.05% of salary each pay period of participation in DROP (no employer contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by 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 they leave employment and begin retirement. The distribution is made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the Internal Revenue Code.

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



5. STATISTICAL

Statistical Section

This section provides additional historical perspective, context and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures and supplementary information. This section also provides multi-year trends of financial and operating information to facilitate comprehensive understanding of how SDCERS' financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for SDCERS' net assets, additions, deductions and different types of retirement benefits. The financial and operating trend information is located on the following pages.

San Diego City Employees' Retirement System Changes in Plan Net Assets

For the Years Ended June 30

10-Year Review (Dollars in Thousands)

Fiscal Year	Additions	Deductions	Net Change	Net Assets	
				Beginning of Year	End of Year
2011	1,395,848	\$412,008	\$983,840	\$3,785,960	\$4,769,800
2010	772,019	340,375	431,644	3,354,316	3,785,960
2009	(707,507)	323,024	(1,030,531)	4,384,847	3,354,316
2008	(166)	296,707	(296,873)	4,681,720	4,384,847
2007	945,919	278,023	667,896	4,013,825	4,681,720
2006	822,060	259,987	562,073	3,451,752	4,013,825
2005	599,218	240,213	359,006	3,092,746	3,451,752
2004	751,637	200,990	550,647	2,542,100	3,092,746
2003	288,307	176,667	111,639	2,527,890	2,542,100
2002	86,720	158,929	(72,210)	2,599,281	2,527,890

San Diego City Employees' Retirement System Changes in Plan Net Assets by Plan Sponsor¹

For the Years Ended June 30 (Dollars in Thousands)

	Fiscal Year	Additions	Deductions	Net Change	Net Assets	
					Beginning of Year	End of Year
City of San Diego	2011	\$1,300,294	\$394,441	\$905,853	\$3,518,538	\$4,424,391
	2010	718,158	325,750	392,408	3,126,130	3,518,538
	2009	(667,706)	309,584	(977,290)	4,103,420	3,126,130
	2008	(1,560)	284,166	(285,726)	4,389,146	4,103,420
San Diego Unified Port District	2011	\$71,709	\$15,650	\$56,059	\$203,491	\$259,550
	2010	37,282	13,355	23,927	179,564	203,491
	2009	(35,155)	12,419	(47,574)	227,138	179,564
	2008	(772)	11,558	(12,330)	239,468	227,138
San Diego County Regional Airport Authority	2011	\$23,845	\$1,917	\$21,928	\$63,931	\$85,859
	2010	16,579	1,270	15,309	48,622	63,931
	2009	(4,646)	1,021	(5,667)	54,289	48,622
	2008	2,166	983	1,183	53,106	54,289

¹ In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are legally treated as separate plans. Prior to July 1, 2007, the SDCERS plan was a multiple-employer plan and changes in net assets was not captured for each individual plan sponsor.

San Diego City Employees' Retirement System
Additions to Plan Net Assets by Source
For Fiscal Years Ended June 30
(Dollars in Thousands)

	Fiscal Year	Plan Sponsor Contributions	Member Contributions Paid By Plan Sponsors	Member Contributions	Member Contributions for Service Purchased	Earned Interest on PSC Installment Contracts ¹	DROP Contributions (Plus Pension Allowances) ⁴	Net Investment Income ²	Other Income	Total Additions
Dollars	2011	\$245,098	\$11,247	\$58,094	\$40,935	\$623	\$ -	\$1,039,545	\$306	\$1,395,848
% of Total		17.6%	0.8%	4.2%	2.9%	0.0%	-	74.5%	0.0%	100.0%
Dollars	2010	207,334	12,313	56,340	3,936	758	-	491,045	293	772,019
% of Total		26.9	1.6	7.3	0.5	0.1	-	63.6	0.0	100.0
Dollars	2009	172,850	25,284	45,362	4,167	927	-	(956,422)	325	(707,507)
% of Total		24.4	3.6	6.4	0.6	0.1	-	-135.2	0.0	100.0
Dollars	2008	175,001	20,217	47,287	7,262	1,022	-	(251,290)	335	(166)
% of Total		105,422.3	12,178.9	28,486.1	4,374.7	615.7	-	-151,379.5	201.8	100.0
Dollars	2007	181,388	22,729	43,928	6,043	1,352	-	689,860	619	945,919
% of Total		19.2	2.4	4.6	0.6	0.1	-	72.9	0.1	100.0
Dollars	2006	282,770	23,632	32,960	9,646	1,826	-	455,726	15,500	822,060
% of Total		34.4	2.9	4.0	1.2	0.2	-	55.4	1.9	100.0
Dollars	2005	145,238	33,989	18,860	49,339	1,583	-	350,209	-	599,218
% of Total		24.2	5.7	3.1	8.2	0.3	-	58.4	-	100.0
Dollars	2004	87,862	33,951	16,300	75,420	908	-	537,196	-	751,637
% of Total		11.7	4.5	2.2	10.0	0.1	-	71.5	-	100.0
Dollars	2003	72,559 ³	31,606	20,918	40,017	478	-	122,729	-	288,307
% of Total		25.2	11.0	7.3	13.9	0.2	-	42.6	-	100.0
Dollars	2002	49,963	28,794	24,192	29,354	-	29,893	(75,935)	459	86,720
% of Total		57.6	33.2	27.9	33.8	-	34.5	-87.6	0.5	100.0

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 Member (Employee) Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

² For years prior to 2006, 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 Reflects restatement of DROP as a plan liability effective June 30, 2004 with June 30, 2003 restated.

**San Diego City Employees' Retirement System
Deductions from Plan Net Assets by Type
For Fiscal Years Ended June 30**

(Dollars in Thousands)

	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 Member Contributions	Total Deductions
Dollars	2011	\$336,460	\$ -	\$15,551	\$24,878	\$ -	\$ -	\$35,119	\$412,008
% of Total		81.7%	-	3.8%	6.0%	-	-	8.5%	100.0%
Dollars	2010	296,554	-	14,968	25,375	-	-	3,478	340,375
% of Total		87.1	-	4.4	7.5	-	-	1.0	100.0
Dollars	2009	277,131	-	14,726	27,098	-	-	4,069	323,024
% of Total		85.8	-	4.6	8.4	-	-	1.3	100.0
Dollars	2008	254,014	-	15,776	23,050	-	-	3,867	296,707
% of Total		85.6	-	5.3	7.8	-	-	1.3	100.0
Dollars	2007	235,263 ³	-	19,103	20,263	-	-	3,394	278,023
% of Total		84.6	-	6.9	7.3	-	-	1.2	100.0
Dollars	2006	214,705 ³	-	18,438	17,748	-	4,536	4,560	259,987
% of Total		82.6	-	7.1	6.8	-	1.7	1.8	100.0
Dollars	2005	201,007 ³	7,910 ⁴	11,961	16,520	12	-	2,803	240,213
% of Total		83.7	3.3	5.0	6.9	0.0	-	1.2	100.0
Dollars	2004	161,659 ³	12,830	10,163	12,735	245	1,249	2,109	200,990
% of Total		80.4	6.4	5.1	6.3	0.1	0.6	1.0	100.0
Dollars	2003	145,396 ³	11,450	8,155	9,218	69	-	1,379	175,667
% of Total		82.8	6.5	4.6	5.2	0.0	-	0.8	100.0
Dollars	2002	141,038	8,882	7,867	-	148	-	994	158,929
% of Total		88.7	5.6	5.0	-	0.1	-	0.6	100.0

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.

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
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	2010	5,189	1,241	27	1,124	7,581
Annual Allowances		\$249,905,055	\$37,142,983	\$702,943	\$15,706,635	\$303,457,617
No. of Allowances	2009	4,975	1,257	27	1,110	7,369
Annual Allowances		231,698,837	36,337,577	688,948	14,861,201	283,586,563
No. of Allowances	2008	4,597	1,244	28	1,071	6,940
Annual Allowances		205,288,070	34,628,149	617,394	13,360,775	253,894,388
No. of Allowances	2007	4,354	1,245	28	1,052	6,679
Annual Allowances		187,827,705	33,422,130	605,485	12,306,821	234,162,141
No. of Allowances	2006	4,118	1,237	29	1,017	6,401
Annuals Allowances		170,186,825	31,992,059	594,020	10,974,416	213,747,320
No. of Allowances	2005	3,728	1,239	30	998	5,995
Annual Allowances		141,153,674	29,094,290	568,576	9,372,487	180,189,027
No. of Allowances	2004	3,480	1,247	31	965	5,723
Annuals Allowances		123,675,151	28,351,092	588,900	8,679,475	161,294,618
No. of Allowances	2003	3,260	1,239	30	938	5,467
Annual Allowances		109,471,010	27,164,406	509,400	7,771,772	144,916,588
No. of Allowances	2002	3,043	1,247	42	811	5,143
Annuals Allowances		89,330,198	25,716,957	599,081	5,908,340	121,554,576
No. of Allowances	2001	2,945	1,238	40	789	5,012
Annual Allowances		81,737,884	24,732,266	543,007	5,624,401	112,637,558

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

San Diego Unified Port District¹

	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	2010	282	62	1	57	402
Annual Allowances		\$10,778,285	\$1,276,645	\$11,601	\$843,646	\$12,910,178
No. of Allowances	2009	268	63	1	59	391
Annual Allowances		9,744,449	1,279,376	11,387	832,758	11,867,970
No. of Allowances	2008	246	60	1	54	361
Annual Allowances		8,693,247	1,184,093	11,177	689,165	10,577,683
No. of Allowances	2007	233	61	1	54	349
Annual Allowances		7,910,275	1,175,107	10,970	689,993	9,786,345
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137
No. of Allowances	2005	192	60	1	53	306
Annual Allowances		6,003,128	1,081,191	9,908	558,626	7,652,853
No. of Allowances	2004	180	59	1	50	290
Annual Allowances		5,220,222	1,054,400	9,714	496,204	6,780,540
No. of Allowances	2003	162	60	1	51	274
Annual Allowances		4,343,496	1,022,188	28,160	498,358	5,892,202
No. of Allowances	12/31/2002 ¹	167	62	1	48	278
Annual Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	2002	158	60	2	43	263
Annual Allowances		3,892,412	988,565	19,653	359,284	5,259,914
No. of Allowances	2001	142	58	2	44	246
Annual Allowances		3,108,368	883,234	18,438	336,892	4,346,932

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

San Diego County Regional Airport Authority¹

	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	2010	23	1	-	2	26
Annual Allowances		\$875,275	\$14,349	-	\$39,726	\$929,350
No. of Allowances	2009	20	1	-	1	22
Annual Allowances		745,037	14,074	-	22,924	782,035
No. of Allowances	2008	16	-	-	1	17
Annual Allowances		457,761	-	-	22,478	480,239
No. of Allowances	2007	11	-	-	1	12
Annual Allowances		305,519	-	-	22,040	327,559
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		186,076	-	-	21,612	207,688
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 San Diego Unified Port District (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.

² Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

**San Diego City Employees' Retirement System
Retired Members by Type of Benefit
For the Year Ended June 30, 2010**

City of San Diego

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	1,289	375	201	713
\$1,001 - \$2,000	1,574	820	462	292
\$2,001 - \$3,000	1,356	973	295	88
\$3,001 - \$4,000	899	750	113	36
\$4,001 - \$5,000	738	678	49	11
\$5,001 - \$6,000	707	643	58	6
\$6,001 - \$7,000	487	443	43	1
\$7,001 - \$8,000	272	254	15	3
\$8,001 - \$9,000	120	117	3	-
\$9,001 - \$10,000	68	67	1	-
Over \$10,000	71	69	1	1
	7,581	5,189	1,241	1,151

San Diego Unified Port District

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	75	33	7	35
\$1,001 - \$2,000	113	64	36	13
\$2,001 - \$3,000	92	69	17	6
\$3,001 - \$4,000	47	44	1	2
\$4,001 - \$5,000	29	27	1	1
\$5,001 - \$6,000	18	18	-	-
\$6,001 - \$7,000	11	11	-	-
\$7,001 - \$8,000	4	3	-	1
\$8,001 - \$9,000	3	3	-	-
\$9,001 - \$10,000	4	4	-	-
Over \$10,000	6	6	-	-
	402	282	62	58

San Diego County Regional Airport Authority

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	3	3	-	-
\$1,001 - \$2,000	7	4	1	2
\$2,001 - \$3,000	8	8	-	-
\$3,001 - \$4,000	3	3	-	-
\$4,001 - \$5,000	1	1	-	-
\$5,001 - \$6,000	1	1	-	-
\$6,001 - \$7,000	1	1	-	-
\$7,001 - \$8,000	-	-	-	-
\$8,001 - \$9,000	2	2	-	-
\$9,001 - \$10,000	-	-	-	-
Over \$10,000	-	-	-	-
	26	23	1	2

Note: Data above reflects the number of retirement allowances paid. Death beneficiaries includes lump sum payments to beneficiaries for members who died before or after retirement.

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

Fiscal Year	Number of Allowances	Annual Allowances Paid	Averages				
			Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
City of San Diego							
2010	7,581	\$303,457,617	\$40,029	4.01%	66.4	55.3	23.7
2009	7,369	283,586,563	38,484	5.19	66.3	55.3	23.6
2008	6,940	253,894,388	36,584	4.35	66.6	55.0	23.5
2007	6,679	234,162,141	35,059	4.99	66.5	54.8	23.5
2006	6,401	213,747,320	33,393	11.10	66.6	54.8	23.4
2005	5,995	180,189,027	30,057	6.65	67.1	54.8	23.1
2004	5,723	161,294,618	28,184	6.32	67.2	54.2	22.9
2003	5,467	144,916,588	26,508	12.15	67.2	54.2	22.7
2002	5,143	121,554,576	23,635	5.17	67.7	54.2	21.7
2001	5,012	112,637,558	22,474	12.88	67.5	54.2	21.2
San Diego Unified Port District¹							
2010	402	\$12,910,178	\$32,115	5.81%	68.3	57.8	17.6
2009	391	11,867,970	30,353	3.59	68.1	57.9	17.6
2008	361	10,577,683	29,301	4.49	68.2	57.6	17.7
2007	349	9,786,345	28,041	4.38	67.9	57.6	17.5
2006	325	8,731,137	26,865	7.42	68.2	57.5	17.5
2005	306	7,652,853	25,009	6.96	68.5	57.6	17.4
2004	290	6,780,540	23,381	8.73	68.3	57.6	17.0
2003	274	5,892,202	21,504	4.65	68.2	57.3	16.7
12/31/02	278	5,712,542	20,549	2.75	68.6	57.4	16.6
2002	263	5,259,914	20,000	13.18	68.4	57.4	16.5
2001	246	4,346,932	17,670 ²	3.17	68.3	57.4	15.8
San Diego County Regional Airport Authority¹							
2010	26	\$929,350	\$35,744	0.55%	63.8	61.4	16.9
2009	22	782,035	35,547	25.83	63.3	61.3	16.6
2008	17	480,239	28,249	3.49	64.1	62.7	17.0
2007	12	327,559	27,297	-8.00	65.4	64.6	14.6
2006	7	207,688	29,670	-6.00	64.1	63.8	14.7
2005	7	220,945	31,564	31.92	64.9	63.7	14.7
2004	3	71,779	23,926	-4.72	67.1	66.1	12.9
2003	1	25,112	25,112	N/A	66.1	65.0	10.2

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

² Prior to Andrecht Settlement; \$18,907 average annual allowance after 7% Andrecht increase.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹
As of Fiscal Years Ended June 30

		Years Of Creditable Service							
		0-5	6-10	11-15	16-20	21-25	26-30	31+	
City of San Diego	2010	Average Monthly Benefit	\$525	\$1,304	\$1,840	\$2,502	\$3,786	\$5,480	\$5,425
		Average Final Monthly Salary	5,050	6,757	5,142	5,127	5,975	6,783	5,927
		Number of New Retirees	2	6	29	19	119	90	58
	2009	Average Monthly Benefit	1,132	1,312	1,794	2,996	3,816	5,651	5,580
		Average Final Monthly Salary	11,391	6,365	5,120	6,072	6,077	7,169	6,152
		Number of New Retirees	3	5	46	32	165	152	82
	2008	Average Monthly Benefit	128	1,101	1,716	2,358	3,421	5,357	5,455
		Average Final Monthly Salary	5,022	3,553	5,098	4,828	5,623	6,951	6,128
		Number of New Retirees	2	9	34	23	122	106	69
	2007	Average Monthly Benefit	1,323	1,744	1,498	2,245	3,091	5,737	5,277
		Average Final Monthly Salary	2,624	9,753	4,766	4,545	5,250	7,271	5,938
		Number of New Retirees	1	5	35	26	147	92	78
	2006	Average Monthly Benefit	228	2,068	1,712	2,316	3,340	5,250	5,150
		Average Final Monthly Salary	5,998	6,112	4,804	5,152	5,445	6,564	5,705
		Number of New Retirees	1	3	32	24	165	149	112
San Diego Unified Port District	2010	Average Monthly Benefit	\$104	\$2,570	\$2,566	\$3,775	\$4,193	\$7,125	\$7,642
		Average Final Monthly Salary	4,126	8,805	6,953	7,523	6,929	8,058	8,648
		Number of New Retirees	1	2	3	2	3	2	3
	2009	Average Monthly Benefit	76	1,073	2,916	2,695	4,727	4,523	2,684
		Average Final Monthly Salary	5,629	4,790	8,284	5,326	7,274	10,093	5,553
		Number of New Retirees	1	4	6	4	8	3	2
	2008	Average Monthly Benefit	222	490	1,237	2,308	4,223	5,484	-
		Average Final Monthly Salary	5,225	3,263	2,951	4,425	6,940	6,512	-
		Number of New Retirees	2	1	6	7	2	6	-
	2007	Average Monthly Benefit	133	1,419	2,311	3,625	2,893	3,127	5,023
		Average Final Monthly Salary	5,347	5,155	6,829	7,494	4,870	4,446	6,304
		Number of New Retirees	3	3	4	9	10	1	1
	2006	Average Monthly Benefit	369	2,861	1,440	3,415	4,175	5,949	5,196
		Average Final Monthly Salary	4,437	7,552	4,632	7,449	6,544	7,670	6,127
		Number of New Retirees	4	3	2	3	8	4	2
San Diego County Regional Airport Authority	2010	Average Monthly Benefit	\$-	\$1,926	\$-	\$-	\$802	\$-	\$7,986
		Average Final Monthly Salary	-	8,496	-	-	4,117	-	9,289
		Number of New Retirees	-	1	-	-	1	-	1
	2009	Average Monthly Benefit	-	877	-	8,125	-	-	5,409
		Average Final Monthly Salary	-	5,996	-	15,016	-	-	7,338
		Number of New Retirees	-	1	-	2	-	-	1
	2008	Average Monthly Benefit	928	-	-	2,929	2,169	3,339	-
		Average Final Monthly Salary	8,466	-	-	5,484	3,908	4,424	-
		Number of New Retirees	1	-	-	2	1	1	-
	2007	Average Monthly Benefit	-	1,038	2,827	2,271	-	-	-
		Average Final Monthly Salary	-	3,951	6,470	4,504	-	-	-
		Number of New Retirees	-	2	1	2	-	-	-
	2006	Average Monthly Benefit	-	-	-	-	-	-	-
		Average Final Monthly Salary	-	-	-	-	-	-	-
		Number of New Retirees	-	-	-	-	-	-	-

¹ Retirees only (including DROP participants); beneficiaries excluded. Historical data prior to 2006 unavailable due to system constraints.

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

Fiscal Year	Number of Members	Salaries	Averages			
			Annual Salary	Percentage Increase Over Prior Year	Current Age	Years Service Credit ²
City of San Diego						
2010	8,120	\$530,238,356	\$65,300	0.68%	43.7	13.1
2009	8,273	536,591,286	64,861	2.74	43.4	13.0
2008	8,487	535,774,438	63,129	4.64	43.5	13.2
2007	8,494	512,440,197	60,330	0.38	43.6	13.1
2006	8,887	534,102,801	60,099	1.70	43.3	12.9
2005	9,436	557,630,735	59,096	6.65	43.0	12.7
2004	9,749	540,180,940	55,409	4.88	42.8	11.5
2003	10,100	533,595,405	52,831	2.76	42.4	11.3
2002	10,409	535,156,545	51,413	5.54	42.4	10.7
2001	9,892	481,863,319	48,712	7.67	42.1	10.7
San Diego Unified Port District¹						
2010	532	\$39,164,664	\$73,618	2.85%	45.0	10.8
2009	564	40,370,258	71,578	4.68	44.3	9.9
2008	565	38,634,835	68,380	2.87	44.3	9.7
2007	559	37,159,870	66,476	4.24	44.5	9.9
2006	532	33,927,372	63,773	1.45	44.8	10.0
2005	558	35,077,367	62,863	3.52	44.6	9.6
2004	575	34,915,741	60,723	8.24	44.5	9.1
2003	609	34,163,647	56,098	5.70	44.7	8.7
12/31/02	606	33,995,335	56,098	N/A	44.6	8.2
2002	736	39,063,314	53,075	6.95	44.4	8.2
2001	734	36,425,136	49,626	5.99	43.8	7.7
San Diego County Regional Airport Authority¹						
2010	347	\$25,595,623	\$73,763	0.97%	46.8	8.5
2009	338	24,693,427	73,057	6.06	46.4	8.0
2008	341	23,488,283	68,881	1.64	45.5	7.2
2007	324	21,956,656	67,767	4.58	45.4	7.2
2006	295	19,115,804	64,799	4.51	44.9	7.2
2005	284	17,608,879	62,003	5.29	44.0	6.5
2004	265	15,605,857	58,890	5.80	43.4	5.9
2003	208	11,577,857	55,659	8.54	43.5	6.0
12/31/02	173	8,871,283	51,279	N/A	42.9	6.5

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the San Diego Unified Port District (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.

**San Diego City Employees' Retirement System
Inactive Members¹
As of Years Ended June 30**

Fiscal Year	Number of Inactive Members	Total Contribution Balances	Averages		
			Member Age	Service Years Earned ³	Contribution Balance
City of San Diego					
2010	2,874	\$112,729,129	44.9	7.2	\$39,224
2009	2,827	106,837,122	44.4	7.4	37,792
2008	2,743	100,703,014	44.2	7.7	36,713
2007	2,606	90,347,344	43.8	7.7	34,669
2006	2,359	71,328,108	43.6	7.4	30,237
2005	1,998	50,420,350	44.1	7.0	25,235
2004	1,884	39,051,767	43.7	6.7	20,728
2003	1,723	31,484,749	43.7	6.4	18,273
2002	1,499	25,808,549	43.1	6.6	17,217
2001	1,438	23,501,628	42.9	6.8	16,343
San Diego Unified Port District²					
2010	289	\$4,619,732	47.8	4.4	\$15,985
2009	281	4,043,994	47.1	4.3	14,391
2008	276	3,987,972	46.6	4.6	14,449
2007	254	3,345,129	46.1	4.6	13,170
2006	261	3,909,366	46.2	5.1	14,978
2005	250	3,355,126	45.6	4.8	13,421
2004	228	2,252,989	44.7	4.5	9,882
2003	194	1,348,216	44.7	3.9	6,950
12/31/02	186	1,235,981	43.9	4.1	6,645
2002	196	1,276,922	43.4	4.1	6,515
2001	163	1,135,633	44.2	4.3	6,967
San Diego County Regional Airport Authority²					
2010	72	\$1,104,304	46.7	3.7	\$15,338
2009	68	921,442	46.9	3.5	13,551
2008	62	1,033,782	46.4	4.1	16,674
2007	52	736,406	47.6	4.3	14,162
2006	45	597,226	46.6	4.1	13,272
2005	26	243,263	47.5	4.1	9,356
2004	12	47,659	45.3	3.3	3,972
2003	7	9,808	45.9	0.9	1,401

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 San Diego Unified Port District (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 Actuarial valuations include purchased service credit from June 30, 2002 forward.

**San Diego City Employees' Retirement System
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**

San Diego Unified Port District

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



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

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