San Diego County Employees Retirement Association

Comprehensive Annual Financial Report
County of San Diego, California Retirement System
A Component Unit of the County of San Diego, California
For the Fiscal Year Ended June 30, 2001

San Diego, California

Issued by:
Brian P. White
Chief Executive Officer
and
William F. Betts, CIA, CBA, CFSA
Internal Auditor &
Acting Chief Financial Officer

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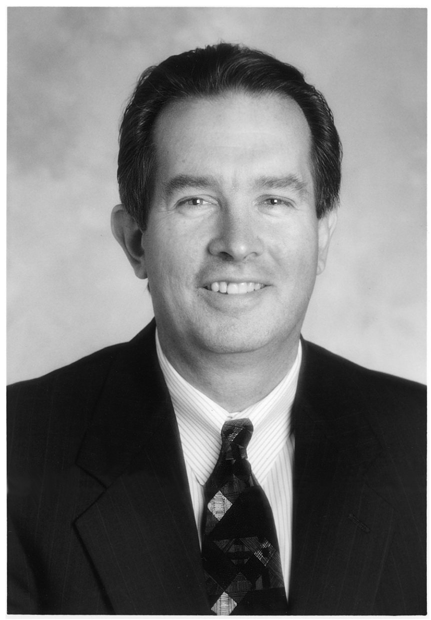

Brian P. White
Chief Executive Officer

San Diego County Employees
Retirement Association

Introductory Section

Letter of Transmittal

October 11, 2001

Board of Retirement
San Diego County Employees Retirement Association
401 West A Street, Suite 1300
San Diego, California 92101-7906

Dear Board Members,

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the San Diego County Employees Retirement Association (SDCERA, or the Association) for the fiscal year ended June 30, 2001, its 61st year of operation.

The San Diego County Employees Retirement Association is a public employee retirement system that was established by the County of San Diego on July 1, 1939, and is administered by the Board of Retirement (Board) to provide service retirement, disability, death, and survivor benefits for its members under the California Government Code, Section 31450, et.seq. (County Employees Retirement Law of 1937).

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of the Association. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Association.

The 2001 report is presented in five sections.

The Introductory Section contains a letter of transmittal, the identification of the administrative organization and professional consultants used by the Association, as well as a summary of plan provisions. This letter of transmittal also contains a summary of major initiatives and significant events that occurred during the year.

The Financial Section presents the financial condition and funding status of the SDCERA. This section also includes management's discussion and analysis of SDCERA's financial activities. KPMG LLP, the Association's independent auditor, has audited the accompanying financial statements.

The Investment Section provides an overview of SDCERA's investment program. This section contains the Chief Investment Officer's report, a summary of our investment policies, the fund's strategic asset allocation, investment performance results, and other portfolio information.

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tel 619.515.0130, fax 619.515.0177, www.sdcera.org

The Actuarial Section contains the independent actuary's certification, a summary of actuarial assumptions and methods, and actuarial statistics.

The Statistical Section presents information pertaining to SDCERA's operations on a multi-year basis.

ACCOUNTING SYSTEMS AND REPORTS

This CAFR was prepared in conformity with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, and the County Employees Retirement Law of 1937.

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made.

KPMG LLP, the Association's independent auditors, has audited the accompanying financial statements. Management believes that an adequate system of internal control is in place and that the accompanying statements, schedules and tables are fairly presented.

FINANCIAL AND ECONOMIC SUMMARY

The fiscal year ended June 30, 2001, was marked by a dramatic slowing in economic growth and a sharp downturn in the equity markets. Real gross domestic product rose only 1.2% during the fiscal year, compared to 5.2% growth during the prior fiscal year. Most of the major equity investment benchmarks registered double-digit declines, with the exception of a small increase in the Russell 2000, a widely used benchmark for small capitalization stocks. The bond market rallied in response to the slowdown in the economy. The total return of the Lehman Brothers Aggregate index was 11.23%.

The origins of the slowdown in the economy were set in the rapid growth experienced in the prior few years. To curtail potential inflationary pressures, the Federal Reserve increased the federal funds rate steadily from early 1999 through June 2000 in an effort to bring about a deceleration in economic growth. During the fiscal year ending June 2001, as the effects of the prior monetary restraint began to be felt and as the boom in spending on technology-related items began to fade, the slowdown became quite visible. Reports of layoffs became widespread, as the unemployment rate rose to 4.5% from 4.0% a year earlier. As the intensity of the slowdown became apparent, the Federal Reserve reversed course in January 2001 and initiated a series of reductions in the target federal funds rate, which fell to 3.75% by June 30, 2001, compared to 6.5% a year earlier. Inflation remained relatively subdued during the year, as the consumer price index rose 3.2%.

The reversal in equity prices was particularly evident in the technology-heavy NASDAQ index, which rose 47.7% in the fiscal year ended June 30, 2000, and then declined 45.5% during the following year. The total return of the S&P 500 was –14.83% during the fiscal year ended June 30, 2001. Small capitalization stocks, whose performance had trailed that of large cap stocks during the late 1990s, came back into favor. The total return of the Russell 2000 was 0.57%. Value stocks, whose performance trailed that of growth stocks during the late 1990s, came back to the fore in a dramatic fashion. The total returns of the Russell 1000 and 2000 Growth indices were –36.17% and –23.35%, respectively, while the total returns of the corresponding Value indices were 10.34% and 30.79%.

Foreign equities were generally affected by forces similar to those in the United States, but the declines in the euro and the yen resulted in even more unfavorable returns for U.S. investors. The total return of the Salomon Smith Barney Primary Market Index excluding the United States was –22.56%.

Equity markets continued to retrench during the summer of 2001, but then the horrific developments of September 11th dealt another blow. Although the human tragedy will always be foremost on our minds, the economic consequences may even be enough to push the U.S. economy into recession. Nevertheless, the combination of the Federal Reserve's more accommodative monetary policy and the tax rebates should help lead to an eventual resumption of economic growth. Typically, the equity markets rebound before the turnaround in corporate profits is evident. At SDCERA, we know that equity markets will hit all sorts of bumps in the road over time, some major and some minor, but the discipline of staying invested and adhering to an asset allocation policy has great rewards over the long term.

INVESTMENTS

On a market value basis, the total net assets held in trust declined from $4,272.6 million at June 30, 2000, to $3,816.9 million at June 30, 2001. For the fiscal year 2001, investments provided a return of –8.40%, net of fees, reflecting market conditions throughout the year. The Association's annualized rate of return, net of fees, was 5.97% over the last three years and 10.20% over the last five years. SDCERA's annualized net return over the last five years has outperformed the actuarially assumed rate of 8.25%.

FUNDING

The actuarial accrued liability and actuarial value of assets of the Association on June 30, 2000, as presented in the most current actuarial report available, amounted to $3,248.8 million and $3,568.7 million, respectively. This results in a funding surplus of $319.9 million. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is one method to determine the "funding ratio". This ratio is an indicator which measures a retirement association's funding progress and current funded status; generally, the greater this percentage, the stronger the retirement association. A higher level of funding gives members a greater degree of assurance that their retirement benefits are secure.

At June 30, 2000, the date of our latest Actuarial Report, the funding ratio for the Association is 109.8%, compared to 107.4% at June 30, 1999. A historical perspective of funding levels for the Association is presented in the Financial Section of this report.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS FOR THE YEAR

The Association instituted new, retirement-specific job classifications and implemented a performance management compensation plan.

Major changes were made to the Association's website, enhancing the Association's ability to communicate with its members. In addition, newsletters were sent to members each quarter.

The Association held 32 retirement planning seminars throughout the year, which were attended by over 600 members.

Standard & Poor's upgraded the Association's rating from AA to AA+. This rating reflects SDCERA's credit strengths, which include a very high funded ratio, strong coverage of benefit obligations by annual revenues and by assets, and the Association's independence from the county.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Retirement to perform professional services that are essential to the effective and efficient operation of the Association. Opinions from our certified public accountants, KPMG LLP, and our actuary, Gabriel, Roeder, Smith and Company are included in this report. Other consultants are listed on page 12 of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Employees Retirement Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, of which the contents conform to the program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Transactions of the Association are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

ACKNOWLEDGEMENTS

The compilation of this report could not have been accomplished without the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

I would like to take this opportunity to express my appreciation for the assistance given by the staff members who contributed to its preparation. Their combined efforts have produced a report that will enable the Board, the members and the County to better evaluate and understand the San Diego County Employees Retirement Association. I also want to express my thanks to the Board of Retirement for its dedicated effort and to the retirement staff for its commitment to SDCERA, a combination that assures the Association's continued successful operation.

Copies of this report are available at the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101-7906.

Respectfully submitted,

BP White

Brian P. White,
Chief Executive Officer

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING
YEAR ENDED JUNE 30, 2000

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County Employees Retirement Association, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

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.

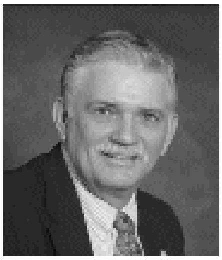
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

San Diego County Employees Retirement Association

Board of Retirement Trustees



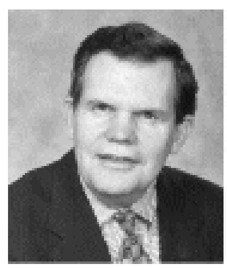
Chairman
Captain E.F. “Skip” Murphy, Jr.
Elected by safety members
Present term expires
December 31, 2001

Secretary
Carlos Gonzalez
Elected by general members
Present term expires
June 30, 2002

Trustee
Bart J. Hartman
Treasurer -- Tax Collector
Member mandated by law
Member while he holds this elected position

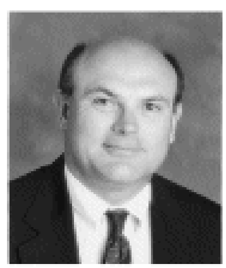
Trustee
Michael Branch
Appointed by the Board of Supervisors
Present term expires
December 31, 2001

Trustee
David E. DeVol
Appointment by the Board of Supervisors
Present term expires
June 30, 2003



Trustee
Ernest J. Dronenburg, Jr.
Appointment by the Board of Supervisors
Present term expires
June 30, 2001

Trustee
James W. Feeley
Elected by retired members
Present term expires
June 30, 2002

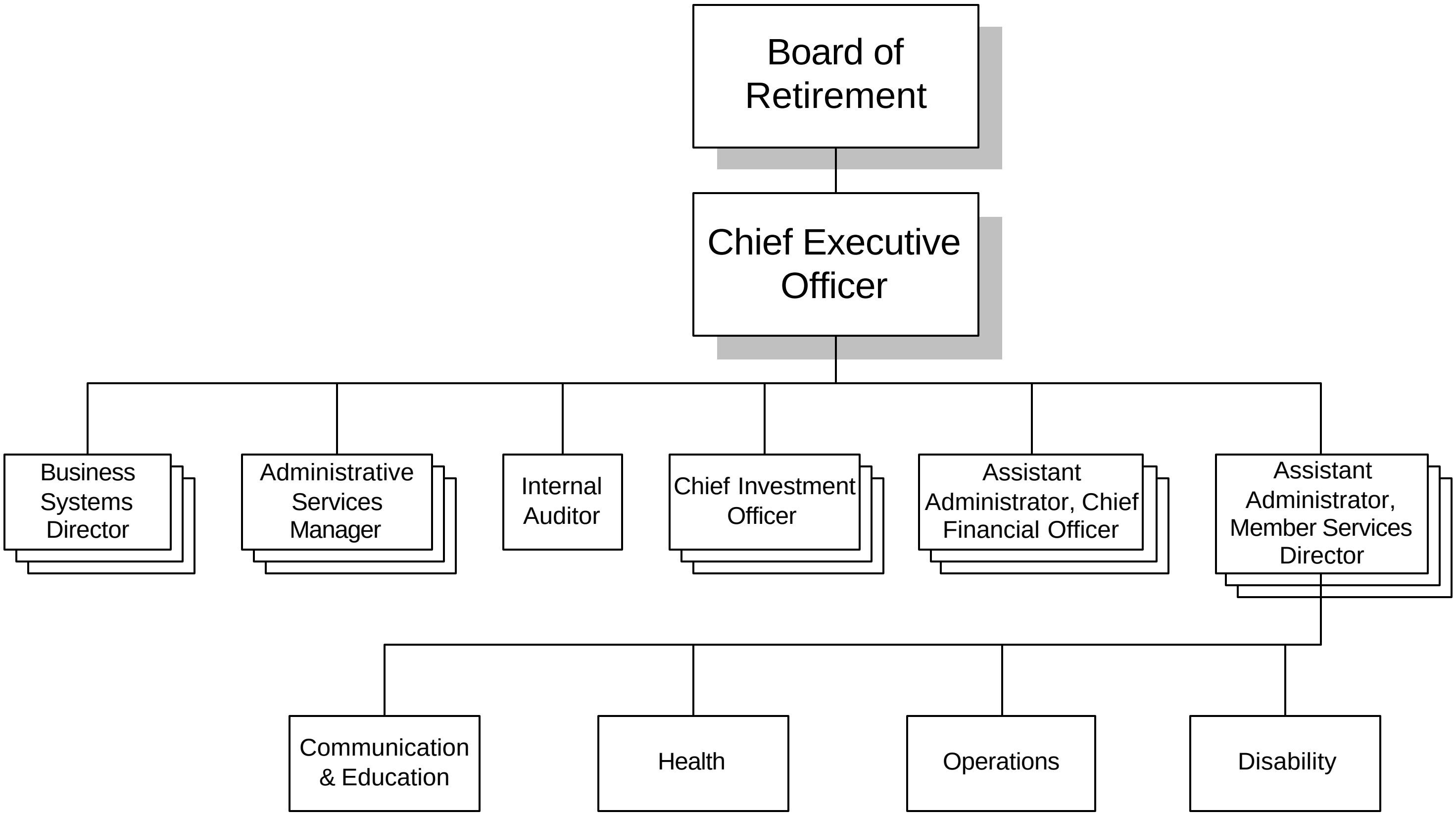


Trustee
P. Garth Gartrell
Appointment by the Board of Supervisors
Present term expires
June 30, 2002

Trustee
Marilyn A. Wiczynski
Elected by general members
Present term expires
June 30, 2001

SDCERA Organization Chart

June 30, 2001



Professional Consultants

Auditor

KPMG LLP
750 B Street, Suite 1500
San Diego, California 92101

Custodian

The Bank of New York
One Wall Street
New York, New York 10286

Investment Consultants

The Bank of New York
One Wall Street
New York, New York 10286

The Townsend Group, Institutional Real Estate
1500 West Third Street, Suite 410
Cleveland, Ohio 44113-1453

Barra Rogers Casey
One Parklands Drive
Darien, CT 06820-1460

RP Consulting Group
4020 Park Street, Suite 102
St. Petersburg, Florida 33709

Cambridge Capital Advisors, Inc.
One Winthrop Square, Suite 500
Boston, MA 02110-1276

Actuary

Gabriel, Roeder, Smith & Company
9171 Towne Centre Drive
San Diego, California 92122

Legal Counsel

County Counsel of San Diego
1600 Pacific Highway
San Diego, California 92101

Hillyer & Irwin, A Professional Corporation
550 West C Street, 16th Floor
San Diego, California 92101-3540

Jones, Day, Reavis & Pogue
555 West 5th Street, Suite 4600
Los Angeles, California 90013-1025

Branton & Wilson, A Professional Corporation
701 B Street, Suite 1255
San Diego, California 92101

Benefit Consultant

William M. Mercer, Inc.
1100 Town & County Road, Suite 1500
City of Orange, California 92868

Financial Section

750 B Street
San Diego, CA 92101

Independent Auditors' Report

The Members of the San Diego
County Board of Retirement:

We have audited the accompanying statement of plan net assets of the San Diego County Employees Retirement Association (SDCERA) as of June 30, 2001, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of SDCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the San Diego County Employees Retirement Association as of June 30, 2001, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules I and II in the Financial Section are not a required part of the basic financial statements of SDCERA, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information; however, we did not audit and do not express an opinion on such information.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules III and IV and the Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SDCERA. Schedules III and IV have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the Investment, Actuarial and Statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 17, 2001

William F. Betts, CIA, CBA, CFSA
Internal Auditor / Acting Chief Financial Officer

SDCERA

Supporting The Membership

San Diego County Employees Retirement Association

October 1, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS

San Diego County Employees Retirement Association (SDCERA, the Association or the Plan) is the public employee retirement system established by the County of San Diego (County) on July 1, 1939, and is administered by the Board of Retirement (Board) to provide retirement, disability, death, and survivor benefits for its employees under the County Employees Retirement Act of 1937. Our discussion and analysis of the financial performance of the San Diego County Employees Retirement Association (SDCERA, or the Association) provides an overview of the Association's financial activities for the fiscal year ended June 30, 2001. Please read it in conjunction with the Letter of Transmittal, in the Introductory Section of the SDCERA Comprehensive Annual Financial Report, and the Financial Statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- Net assets held in trust by the SDCERA, as reported on the *Statement of Plan Assets*, totaled $3,816,867,274 as of June 30, 2001. Net assets decreased by $455,739,118, or 10.7%, consistent with economic and market conditions throughout the year. Financial and economic factors are also discussed in the Letter of Transmittal from the Chief Executive Officer and in the Investment Section of this report.
- The *Statement of Changes in Plan Net Assets* reflects a decrease of $292,882,463 in additions to plan net assets. Of this amount, $465,471,805 represents depreciation in the fair value of investments. This was partially offset by interest and other investment income of $120,676,898. County and employee contributions totaled $51,912,444.
- The *Statement of Changes in Plan Net Assets* reflects total deductions from plan net assets of $162,856,655, an increase of 9.4% over prior year deductions of $148,858,784. The majority of this increase represents increased benefits paid.
- SDCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2000, the date of the last actuarial valuation, the funded ratio for the SDCERA was approximately 109.8%. In general, this indicates that for every dollar of benefits due to SDCERA's members, assets of $1.10 are available to cover the obligation. Health benefits are not guaranteed and, accordingly, an actuarial valuation is not performed.
- On June 30, 2000, SDCERA established a health benefits account under the Internal Revenue Code section 401(h) to allow the continued payment of health benefits to retirees and beneficiaries on a pre-tax basis. The initial contribution to the account in fiscal year 2001 was $18,975,000.
- SDCERA invests the retirement and health benefit funds on a pooled basis. Investment profits and/or losses are allocated monthly based upon the fund balance at the beginning of the month.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT AND FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report includes two financial statements. The *Statement of Plan Net Assets* provides a snapshot of account balances at the end of the year. This statement reports the assets available for future payments to County retirees and any current liabilities that are owed at this time. These assets, less liabilities, give the reader a clear picture of the amount of funds that are available for future payments. The *Statement of Changes in Plan Net Assets,* on the other hand, gives the reader a view of current year additions and deductions to the Plan.

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Both statements are in compliance with Governmental Accounting Standard Board (GASB) Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*; GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*; GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions;* and GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These statements provide standards regarding certain disclosures and the use of accounting by State and Local Governments. SDCERA complies with all material requirements of these pronouncements.

THE STATEMENT OF RETIREMENT PLAN NET ASSETS AND STATEMENT OF CHANGES IN RETIREMENT PLAN NET ASSETS

The most important question asked about SDCERA's financial condition is, "Do we have sufficient assets to pay the benefits that have been promised to the membership?" The financial statements report information about SDCERA's activities in a way that helps answer this question. Our current funding ratio is 109.8%, which means we are over-funded in that we have $1.10 for each $1.00 of liability. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid and all investment gains and losses are shown at transaction date, not settlement date. Further, both realized and unrealized gains and losses on investments are presented and all Property, Plant and Equipment (fixed assets) are depreciated over their useful lives.

These two financial statements report SDCERA net assets – the difference between assets and liabilities — as one way to measure the Plan's financial position. Over time, increases and decreases in SDCERA net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as market conditions, to assess SDCERA's overall health.

ADDITIONS TO RETIREMENT PLAN NET ASSETS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments.

During the year ended June 30, 2001, total additions to plan net assets decreased by 147.9% from the prior year due primarily to decreased investment values. Overall, additions decreased by $903.8 million compared to the prior year. Net investment income decreased by 161.1%, while total contributions increased by 11.6%. The investment section of this report reviews the results of investment activity for the fiscal year 2001.

On June 30, 2000, SDCERA established a health benefits account under the Internal Revenue Code section 401(h) to allow the continued payment of health benefits to retirees and beneficiaries on a pre-tax basis. Health benefits were previously paid from a reserve created from excess retirement fund earnings. Health benefits are not guaranteed and no liability for future benefits has been actuarially determined. Retirement and health benefit funds are invested on a commingled basis and gains and losses are allocated to the funds on the basis of the beginning fund balances each month.

Employer contributions reported in the table below include both retirement and health benefit funds received from the County of San Diego. In fiscal year 2001, $18,975,000 of the County's combined contribution was reserved for retiree health benefits. Net investment income also includes gains and losses resulting from the investment of the commingled funds. Investment losses of $1,005,000 have been allocated to the health benefits 401(h) account in accordance with the established allocation methodology. The balance in the health benefits 401(h) account is disclosed separately in Note 6 to the Financial Statements, entitled Reserves and Designations of Plan Assets.

Additions to Plan Net Assets	2001	2000	Increase / (Decrease) Amount	Increase / (Decrease) Percentage
County of San Diego	$ 41,123,265	$ 38,166,867	$ 2,956,398	7.7%
Members	10,789,179	8,359,553	2,429,626	29.1%
Net Investment Income	(344,794,907)	564,383,781	(909,178,688)	(161.1%)
Total	**($ 292,882,463)**	**$ 610,910,201**	**($ 903,792,664)**	**(147.9%)**

DEDUCTIONS FROM RETIREMENT PLAN NET ASSETS

The primary deductions of the Plan include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement plan. Deductions for fiscal year 2001 totaled $162.9 million, an increase of 9.4% over 2000. The increase in benefits paid resulted primarily from an increase in the number of benefits paid, and an increase in the average benefit amount.

Administrative expenses are approved in an annual budget by the SDCERA Board and represented 0.17% and 0.12% of total assets in 2001 and 2000, respectively. Under the California State Government Code, Section 31580.2, administration expenses incurred in any given year shall not exceed 0.18% of the total assets of the retirement system. SDCERA has consistently met its budgets and continues to expect to do so.

Deductions in Plan Net Assets	**2001**	**2000**	**Increase / (Decrease) Amount**	**Increase / (Decrease) Percentage**
Service Retirement and Disability Benefits Paid	$ 135,450,912	$ 124,693,729	$ 10,757,183	8.6%
Members Death Benefits	423,016	710,914	(287,898)	(40.5%)
Health Benefits Paid	10,778,016	9,016,409	1,761,607	19.5%
STAR Cost of Living Allowance	8,176,532	8,143,522	33,010	0.4%
Refunds Paid	1,645,201	976,202	668,999	68.5%
Administrative	6,382,978	5,318,008	1,064,970	20.0%
Total	**$ 162,856,655**	**$ 148,858,784**	**$ 13,997,871**	**9.4%**

The deductions in plan net assets of $162.9 million during 2001, combined with the negative contribution to plan net assets of $292.9 million, which is depicted on the previous page, accounts for the net decrease in plan assets of $455.7 million in 2001.

REPORTING SDCERA'S FIDUCIARY RESPONSIBILITIES

SDCERA is a fiduciary for the County of San Diego public employee retirement system. Accordingly, SDCERA is responsible for these assets under our trust arrangement, and they can only be used for trust beneficiaries and payment of plan expenses. SDCERA is responsible for ensuring that the assets reported in our financial statements are used for their intended purposes of paying retirement and health benefits to the employees of the County of San Diego.

THE RETIREMENT FUND AS A WHOLE

Although the fund's combined net assets decreased during the past year, management believes, and actuarial studies concur, that SDCERA is in a financial position to meet its obligations to the retired and current employees of San Diego County. The current financial position results from a very strong and successful investment program in prior years, cost control, and strategic planning. Management believes there will continue to be sufficient assets to meet all benefit obligations.

CONTACTING SDCERA'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of SDCERA's finances and to show SDCERA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact William F. Betts, CIA, SDCERA Internal Auditor / Acting Chief Financial Officer, 401 West A Street, 13th Floor, San Diego, California 92101-7906.

Respectfully submitted,

William F. Betts

William F. Betts, CIA, CBA, CFSA
Internal Auditor / Acting Chief Financial Officer

Statement of Plan Net Assets

As of June 30, 2001
(with comparative amounts for June 30, 2000)

	2001	2000
Assets:		
Cash and short-term investments:		
Cash in County Pool	$4,911,773	$ 1,654,282
Cash and cash equivalents with fiscal agents	29,059,139	23,057,259
Total cash and short-term investments	**33,970,912**	**24,711,541**
Receivables:		
Employer/employee contributions	2,887,735	1,846,840
Accrued interest and dividends	18,444,882	23,082,351
Settlement of securities sold	30,264,379	26,676,629
Total receivables	**51,596,996**	**51,605,820**
Investments at fair value:		
Domestic equity securities	907,410,459	1,004,431,566
Cash, cash equivalents, and securities for domestic equity swaps and futures	671,279,736	873,866,619
Total domestic equity securities and cash	**1,578,690,195**	**1,878,298,185**
International equity securities	830,259,604	845,765,502
Cash, cash equivalents, and securities for international equity swaps and futures	43,452,156	178,225,224
Total international equity securities and cash	**873,711,760**	**1,023,990,726**
Total equity securities and cash	**2,452,401,955**	**2,902,288,911**
Investment of cash collateral on securities lending	**183,183,619**	**206,065,212**
United States government obligations	318,646,218	262,815,953
Domestic corporate bonds	402,163,964	473,926,119
International bonds	292,681,701	290,620,091
Cash for bond swaps and futures	13,884,891	47,928,999
Total bonds and cash	**1,027,376,774**	**1,075,291,162**
Alternative investments	145,626,757	127,074,107
Real estate	250,708,019	177,248,111
Total investments	**4,059,297,124**	**4,487,967,503**
Property, plant and equipment, net	1,502,621	1,436,877
Total assets	**4,146,367,653**	**4,565,721,741**
Liabilities:		
Securities lending	183,183,619	206,065,212
Settlement of securities purchased	139,239,720	60,627,184
Professional services	4,119,509	5,155,218
Death benefits	310,896	291,978
Retirement benefits	188,061	134,627
Refunds to members	241,126	0
Health insurance premiums	905,404	177,709
Cash in transit	809,585	20,378,627
Other liabilities	502,459	284,794
Total liabilities	**329,500,379**	**293,115,349**
Commitments and contingencies (note 7)		
Net Assets Held in Trust for Pension Benefits (see Funding Progress on Page 32)	**$3,816,867,274**	**$4,272,606,392**

See accompanying notes to the financial statements.

Statement of Changes in Plan Net Assets

For the year ended June 30, 2001 (with comparative amounts for the year ended June 30, 2000)

	2001	2000
Additions to Plan Net Assets		
Contributions:		
County contribution	$41,123,265	$ 38,166,867
Plan member contributions	10,789,179	8,359,553
Total contributions	**51,912,444**	**46,526,420**
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Stocks	(319,711,229)	327,388,330
Bonds	(5,781,339)	108,959,348
Foreign currency	16,692,575	(8,863,912)
Real property	22,721,763	23,364,111
Swaps and futures	(187,842,818)	20,636,472
Managed futures	8,449,243	(14,605,581)
Total net appreciation (depreciation) in fair value of investments	**(465,471,805)**	**456,878,768**
Interest income:		
Bonds	82,055,356	69,910,322
Cash	30,739,691	35,142,296
Total interest income	**112,795,047**	**105,052,618**
Other:		
Dividends on stock investments	25,658,920	17,870,254
Real estate equity investment income	7,776,576	6,105,753
Securities lending	14,527,312	13,911,948
Commission recapture	176,085	211,905
Other income	633,089	265,867
Total other	**48,771,982**	**38,365,727**
Less: Investment expenses (principally investment managers' fees)	27,401,005	22,942,761
Less: Securities lending rebates and bank charges	13,489,126	12,970,571
Net investment income	**(344,794,907)**	**564,383,781**
Total additions to plan net assets	**(292,882,463)**	**610,910,201**
Deductions from Plan Net Assets		
Benefits:		
General and safety members:		
Service retirement and disability benefits	135,450,912	124,693,729
Death benefits	423,016	710,914
Total benefits for general and safety members	**135,873,928**	**125,404,643**
Health benefits	10,778,016	9,016,409
STAR cost of living allowance	8,176,532	8,143,522
Refunds of contributions (general and safety members)	1,645,201	976,202
Salaries, services, supplies, and overhead	6,382,978	5,318,008
Total deductions from plan net assets	**162,856,655**	**148,858,784**
Net increase (decrease) in plan assets	**(455,739,118)**	**462,051,417**
Net assets held in trust for pension benefits:		
Beginning of the year	4,272,606,392	3,810,554,975
End of the year	**$3,816,867,274**	**$4,272,606,392**

See accompanying notes to the financial statements.

Notes to the Financial Statements
June 30, 2001

1. DESCRIPTION OF PLAN

San Diego County Employees Retirement Association (SDCERA, the Association or the Plan) is the public employee retirement system established by the County of San Diego (County) on July 1, 1939, and is administered by the Board of Retirement (Board) to provide retirement, disability, death, and survivor benefits for its employees under the County Employees Retirement Act of 1937. SDCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of San Diego. SDCERA is a component unit of the County of San Diego. SDCERA's annual financial statements are included in the County's financial reports as a pension trust fund. SDCERA is a single employer defined benefit plan. SDCERA's financial statements may be obtained by writing to San Diego County Employees Retirement Association, 401 West A Street, San Diego, California 92101, or by calling (619) 515-6800.

All employees (other than hourly, emergency, temporary, provisional, seasonal, and those employed less than half time) are members of the San Diego County Employees Retirement Association. Coverage begins with the first biweekly payroll period of the month following employment. All benefits vest after five years of service. There are two types of membership:

Safety Members
Permanent or interim employees engaged in the performance of active law enforcement are considered safety members and are not covered by Social Security. Probation officers were added to this group in 1999.

General Members
All eligible employees not classified as safety members, hired after January 1, 1958, are considered general members and are covered by Social Security. Employees who worked for the County prior to January 1, 1958, who did not choose to join the integrated plan, are covered only by the County Employees Retirement System as it was established under the County Retirement Law of 1937.

Tier I and Tier II
On August 15, 1978, by ordinance, the County Board of Supervisors established a second tier (Tier II) of retirement benefits for employees entering the retirement system after October 1, 1978.

Members eligible to enter the system prior to October 1, 1978, are designated as Tier I members. Tier I is closed to new entrants. Members who retire at or after age 57 (50 for safety members) with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of their final salary for each year of credited service or at a slightly higher percentage as the retirement age advances beyond 57 (maximum percentage is at age 55 for Safety Members). Final salary is the employees' average salary subject to benefits during any one year of credited service elected by the member. Members with ten years credited service may retire at or after age 50, at any age with 30 or more years of service (twenty years for Safety members) or at age 70 regardless of service.

Tier II is the current open system for members becoming eligible to enter the system on October 1, 1978, and after. Members who retire at or after age 61¼ (50 for safety members) with 10 years of credited service are entitled to an annual retirement benefit. This benefit is payable monthly for life, in an amount equal to 2% of their final average salary for each year of credited service or at a slightly higher percentage as the retirement age advances beyond 61¼ (maximum percentage is at age 55 for Safety Members). Final average salary for Tier II employees is the average annual salary subject to retirement over any three years of credited service elected by the member. Members with 10 years credited service may retire at or after age 55 (50 for safety members). Members may also retire at any age with 30 years of service (20 years for Safety Members) or at age 70 regardless of the number of years of service.

Cost-of-Living Adjustments
Cost-of-living adjustments are based on changes in the Consumer Price Index for the San Diego area and are limited to 3% for Tier I members and 2% for Tier II members per year. A STAR cost of living allowance reserve was established on June 30, 1998. This reserve increases benefits of certain retirees who have lost purchasing power over the years due to periods of high inflation.

Membership Summary
At June 30, 2001, SDCERA membership consisted of retired members or their beneficiaries, active members, and terminated members entitled to benefits but not yet receiving them (deferred members), as follows:

	General	**Safety**	**Total**
Active Members:			
Tier I	1,311	236	1,547
Tier II	12,659	2,171	14,830
Total Active Members	**13,970**	**2,407**	**16,377**
Terminated Members:			
Tier I	331	17	348
Tier II	2,712	231	2,943
Total Terminated Members	**3,043**	**248**	**3,291**
Retired Members:			
Tier I	6,110	570	6,680
Tier II	1,961	280	2,241
Total Retired Members	**8,071**	**850**	**8,921**
Total of All Members	**25,084**	**3,505**	**28,589**

Terminated Members' Deferred Allowance and Withdrawal Benefits
A member leaving covered employment after completing five years of credited service becomes eligible for a deferred allowance, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions. Members with less than five years of service are refunded their accumulated employee contributions with interest, except that County-paid employee contributions under various Memorandums of Understanding (salary negotiations) are not refundable.

Death and Disability Benefits
Non-Service Disability
Eligibility: Five years of service
Benefit formula per year of service: In general, the benefit formula per year of service is 1.8% of average salary for Tier I and safety members and 1.5% of average salary for Tier II members per year of service.

Duty Disability
Eligibility: No age or service requirements
Benefit: 50% of salary

Ordinary Death Before Vesting
Benefit: The refund amount includes employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary. County-paid employee contributions resulting from Memorandums of Understanding (salary negotiations) are not refundable.

Ordinary Death After Eligible to Retire for Service or Non-Service Disability
Benefit: 60% of earned benefit payable to surviving eligible spouse

Duty Death
Benefit: 50% of salary payable to spouse

Death After Retirement
Benefit: 60% of member's service or ordinary disability retirement benefit is continued to eligible spouse.

Duty Disability Survivorship Benefits
Benefit: 100% of member's retirement benefit continued to spouse

Retiree Health Benefits

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement annually approves the payments of such benefits. The County's Board of Supervisors and the Board of Retirement adopted a funding mechanism under section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be recorded in a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure that the funding of the retiree retirement benefits are made whole and complete. The health benefits account was initially funded with $18,975,000 that the Board has designated for use solely to pay retirement health benefits. Currently, a health allowance is paid to retirees, under 65 years of age, with at least 10 years of service, with the amount varying according to length of service. Those over 65, with at least 10 years of service, who are Medicare eligible, receive reimbursement for Part B; those not eligible for Medicare receive an allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governmental Accounting Standard Board (GASB) Statements No. 33 and No. 34

Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis —for State and Local Government" has been implemented in the accompanying financial statements and notes. Full accrual accounting has been applied in both the current and comparative years including the Notes to the Financial Statements and the Required Supplementary Information. The Association has also implemented GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", with no change occurring in the way that the Association accounts for nonexchange transactions. Implementation of GASB Statements No. 33 and No. 34 had no effect on Plan net assets.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employee services are performed. Benefits, refunds and administrative expenses are recognized as expense when the liability is incurred.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

Cash and Short-Term Investments

Cash and short-term investments consist of cash and securities with fiscal agents and deposits held in a pooled account with the County of San Diego. All participants in the pool proportionately share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash.

Cash Equivalents

Cash equivalents for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

Investments

The County Employees Retirement Law of 1937 (Law) grants exclusive control to the Board of Retirement over the investment of SDCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

Investments are reported at fair value in the accompanying Statement of Plan Net Assets based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost.

Real estate investments consist of real estate equities primarily in office and industrial properties located throughout the United States and are reported at their estimated fair value, which has been determined by appraisals performed by each independent real estate advisor.

Cash, Cash Equivalents, and Securities for Swaps and Futures Contracts
SDCERA utilizes various financial instruments, such as equity swap agreements and stock and bond futures contracts, that allow SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. The Board has adopted a policy whereby cash, cash equivalents, and securities in amounts at least equal to the exposures resulting from these agreements are segregated and identified in the accounting records as "Cash, Cash Equivalents, and Securities for Swaps and Futures". The amounts reported reflect the fair value of the swap and futures contracts, which include cash, cash equivalents, securities, and any net unrealized gains and losses associated with the contracts.

These financial instruments are intended to be equivalent to the asset they are designed to emulate, and management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to the direct cash investments. SDCERA will only execute a swap agreement with counter parties rated A or higher. The use of swap agreements does expose the Plan to the risk of dealing with financial counter parties and their ability to meet the terms of the contracts. However, all swaps are fully collateralized by cash at least equal to the notional value of the most recent cash reset. The use of leverage, or insufficient collateral, is strictly prohibited as a trading strategy by SDCERA's investment policies.

Income Taxes
The Internal Revenue Service has ruled that Plans such as SDCERA's qualify under Section 401(a) of the Internal Revenue Code and are therefore not subject to tax under present income tax laws. On March 4, 1998, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively. County counsel believes there are no outstanding income tax issues at this time.

Property, Plant and Equipment
Fixed assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a three to five year life for computer software, three years for hardware, and five to ten years for office equipment and leasehold improvements. The cost and accumulated depreciation of property, plant and equipment at June 30, 2001, are as follows:

	2001
Computer hardware and software	$1,348,653
Office furniture and fixtures	567,054
Leasehold improvements	640,188
Total Property, Plant & Equipment	**2,555,895**
Less: accumulated depreciation	1,053,274
Net Property, Plant & Equipment	**$1,502,621**

3. Cash, Cash Equivalents, and Cash Collateral on Securities Lending

Cash and cash equivalents, at June 30, 2001, consisted of the following:

Description of Cash		**Bank Balances & Carrying Amount**
Cash and cash equivalents with fiscal agents		$105,196,700
Cash and cash equivalents for swaps and futures with The Bank of New York		33,970,912
	Total	**$139,167,612**

The Plan's cash, cash equivalents, and cash collateral on securities lending are categorized in the following manner:

Category 1: Includes cash, cash equivalents, and cash collateral that are insured or collateralized with securities held by fiscal agent in the Plan's name.

Category 2: Includes cash and cash equivalents collateralized with securities held by the pledging fiscal agent and trust department in the Plan's name.

Category 3: Includes collateralized cash and cash equivalents, held by fiscal agent but not in the Plan's name.

The entire balance of $139,167,612 is classified as Category 1 at June 30, 2001.

Securities Lending

Under provisions of state statutes, SDCERA lends U.S. government obligations and domestic and international bonds and equities to various brokers for collateral that will be returned for the same securities plus a fee in the future. The fiscal agent manages the securities lending program and receives cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the securities loaned is generally matched with the term to maturity of the investment of the cash collateral. Such matching existed at fiscal year-end. As with other extensions of credit, SDCERA may bear the risk of delay in recovery or of rights in the collateral should the borrower of the securities fail financially. At year-end, SDCERA has no credit risk exposure to borrowers.

Investments

The Plan's investments are categorized in the following manner:

Category 1: Includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name.

Category 2: Includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Plan's name.

Category 3: Includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent, but not in the Plan's name.

A summary of Plan investments within the categories listed above as of June 30, 2001, follows:

	Investment Category				
Description:	**1**	**3**	**Uncategorized**	**Total Fair Value**	**Cost**
U.S. Government Obligations:					
Not on securities loaned	$304,869,574			$ 304,869,574	$289,361,768
On securities loaned for cash collateral			13,776,644	13,776,644	14,876,550
Domestic Corporate Bonds:					
Not on securities loaned	322,156,890			322,156,890	353,638,388
On securities loaned for cash collateral			64,583,807	64,583,807	71,295,473
Domestic Equity Securities:					
Not on securities loaned	1,436,338,251			1,436,338,251	1,408,673,915
On securities loaned for cash collateral			73,041,384	73,041,384	68,127,798
International Equity Securities:					
Not on securities loaned	848,630,833			848,630,833	908,968,291
On securities loaned for cash collateral			18,502,945	18,502,945	16,378,489
International Bonds:					
Not on securities loaned	290,450,611			290,450,611	304,730,198
On securities loaned for cash collateral			2,231,090	2,231,090	3,342,354
Municipal Bonds:					
Not on securities loaned					
Investment of cash collateral received on securities lending:					
Bank Obligations		$29,996,052		29,996,052	29,996,052
U.S. Gov't Obligations		147,995,223		147,995,223	147,995,223
Repurchase Agreement		5,192,344		5,192,344	5,192,344
Cash in County Pool:			4,911,773	4,911,773	4,911,773
Total	**$3,202,446,159**	**$183,183,619**	**$177,047,643**	**$3,562,677,421**	**$3,627,488,616**

Note: There were no investments in Category 2 as of June 30, 2001.

Reconciliation of the summary of Plan investments above to total investments per the Statement of Plan Net Assets available for benefits as of June 30, 2001, is as follows:

Total investments per Statement of Plan Net Assets	$4,059,297,124
Less investments in real estate and alternative investments	396,334,776
Less cash, cash equivalents, and cash collateral for swaps and futures (included in deposits)	105,196,700
Plus cash in County Pool	4,911,773
Total investments summarized above	**$3,562,677,421**

At June 30, 2001, $4,911,773 of the Plan's cash resources were invested in the County's Investment Pool and are included in cash and short-term investments in the accompanying Statement of Plan Net Assets. Approximately 0.12% of investments of the Plan are in the County Pool. Monies invested in derivatives through the County pool are considered immaterial.

4. FUNDING POLICY

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry age actuarial cost method having the following characteristics:

(i) The annual normal costs for each active member, payable from the date of entry into the system to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and

(ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Members are required by statute (Sections 31621, 31621.2, and 31639.25 of the California Government Code) to contribute a percentage of covered salary to SDCERA. Member contribution rates are determined by an actuarial valuation and incorporate actuarial assumptions such as interest rate earned, annual salary increase rate, and anticipated mortality among service retired members. (Note: Although Section 31873 of the California Government Code requires that the cost of living raises during retirement are to be funded by both member and county contributions, the cost of living contributions do not have to be accounted for separately and are now shown combined with the basic contributions.)

The County has negotiated to pay all or a portion of most, but not all, employee contributions. In some cases, the employer has agreed to pay a portion of the required employee contributions phased in over a five-year period. The employee contributions deducted from the employee's salary are treated as pre-tax contributions under Section 414(h) of the Internal Revenue Code.

The County is required by statute (Section 31453.5 and 31454 of the California Government Code) to contribute a percentage of covered salary to SDCERA. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry-age actuarial funding method. In February 1994, the County of San Diego issued Pension Obligation Bonds in the amount of $430,430,000. The County transferred $428,501,323 of the proceeds to the SDCERA to pay off a portion of the unfunded actuarial accrued liabilities (UAAL). The remaining UAAL is being spread evenly over five years expressed as a percentage of payroll and added to the normal cost. An excess of valuation assets over actuarial accrued liabilities is expressed as a percentage of payroll and applied as a credit toward normal costs.

The following schedule summarizes the contribution rates in effect at June 30, 2001. Contribution rates are expressed as a percentage of covered payroll**:**

Member Classification	**Member Rates**	**Employer Rate**
General Members	4.76 – 12.48%	None*
Safety Members	6.51 – 14.40%	None*

*Employer rates are “none” because the credit that results from the negative unfunded actuarial accrued liabilities (UAAL) offsets the County’s normal cost rate.

During the year, contributions totaled $51,912,444, which included $10,789,179 for employee contributions, and $41,123,265 for employee contributions paid by the County.

The SDCERA is an independent governmental entity. As such, the entire expense of administration of the retirement system is charged against the earnings of the Plan. Fees for investment counsel, portfolio evaluation, custodial and actuarial service for investment-related activities are a reduction in earnings from investments as provided for in Section 31596.1 of the California Government Code.

5. ANNUAL PENSION COST

For the current fiscal year, the County's annual pension cost was zero and was equal to the County's required and actual contribution. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 1998 and June 30, 1999, actuarial valuations based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0% (Tier I members) and 2.0% (Tier II members). The annual pension cost is the same as the annual pension contribution.

6. RESERVES AND DESIGNATIONS OF PLAN ASSETS

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. County, member, and retirement allowance reserves are fully funded. Cost-of-living reserves, which were shown separately in previous reports, are now combined with the appropriate basic reserve.

Set forth below are descriptions of the purpose of each reserve and designation account.

The reserve for member contributions includes:

- Contributions from plan members
- Contributions from terminated members
- Contributions representing members who have bought back prior years' service credits for prior service in certain public agencies
- Contributions made by former employees who have not yet applied for their retirement benefits.

The reserve for County contributions includes:

- County contributions to the retirement plan for active members

The reserve for retirement allowances includes:

- Amounts transferred from member contributions (annuity) received net of the employee's portion of benefits paid for retired pension members
- Amounts transferred from County contributions (pension) made in prior years for active members upon retirement

A STAR cost of living allowance reserve was established on June 30, 1998. This reserve benefits certain retirees who have lost purchasing power over the years due to periods of high inflation.

The reserve for health benefits designates funds that may be used for future payments related to the retiree health benefits program.

The reserve for undistributed earnings represents actual earnings in excess of the investment assumption rate of the Plan.

The reserve for unrealized earnings represents the difference between the book value and the fair value of Plan assets.

The health benefits 401(h) account was established based on the Board of Supervisors and the Board of Retirement adoption of a funding mechanism under section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be recorded in a separate account each year. The health benefits 401(h) account was initially funded with $18,975,000 that can only be used to pay retirement health benefits. Any investment income earned on the account balance increases the balance and any losses reduce it. Costs of administering the health benefits 401(h) account are charged to the Reserve for Health Benefits.

Allocation of contributions to the various reserve accounts and designations of net assets follows:

Description	**Total Reserve ($000s)**
Reserve for member contributions:	
Active	$189,770
Deferred	24,164
Unlocated separated members	211
Subtotal	**214,145**
Reserve for County contributions:	
Current service provision	1,093,386
Subtotal	**1,093,386**
Reserve for retirement allowances:	
Annuity	150,262
Pension	1,304,503
Subtotal	**1,454,765**
Total	**2,762,296**
Reserve for health benefits	181,527
Reserve for Star Cola	45,000
Reserve for undistributed earnings	717,586
Reserve for unrealized earnings	103,267
Retirement Fund Total	**3,809,676**
Health Benefits 401(h)	**7,191**
Total Fund	**3,816,867**

7. COMMITMENTS AND CONTINGENCIES

Managed Futures

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

Ventura Decision Final Pay Computation

On October 1, 1997, the California Supreme Court rendered its opinion in the matter of Ventura County Deputy Sheriff's Association vs. County of Ventura. As a result of this opinion, the twenty county retirement systems in California, including SDCERA, were required to increase retirement benefits. The Board of Retirement applied the changes prospectively for active members starting October 1, 1997, and retroactively for retired members who retired after October 1, 1997, as of the effective date. The total actuarial cost of past and future retirement benefits based on the new benefit guidelines has not yet been determined due to the extensive research required.

SDCERA has been named as a defendant in three related lawsuits, which have been coordinated with other county retirement systems' lawsuits in Superior Court in the City and County of San Francisco. The plaintiffs are seeking the recalculation of "final compensation" as it is defined in the California Government Code Section 31462.1 and "compensation earnable" as defined in Section 31462, in accordance with the California Supreme Court Ventura decision, and to recalculate the resulting pensions of retired members, including beneficiaries, who were receiving pension payments on or after October 1, 1994, both prospectively and retroactive to that date. This recalculation would result in increased employer and employee contributions to the Plan and increased benefits and refunds paid to participants and beneficiaries.

The Court ruled in July 2000 that terminal pay, flexible benefits, and employer payment of employee contributions need not be included in the final compensation calculation. On August 31, 2001, the Court ruled that the added benefits resulting from the Ventura decision must be included in the final compensation computations of SDCERA retirees who were retired on or after three years prior to the commencement of the action in San Diego County. The unfunded liability based on the trial court's ruling is estimated to be $5.4 million. If the entire matter is ultimately appealed and plaintiffs were to prevail on all issues, the unfunded liability is estimated to be approximately $500 million. Management of SDCERA believes, based in part on discussions with legal counsel, that the likelihood of an unfavorable outcome on appeal is low.

Real Estate Purchase Commitments

Not reflected in the accompanying Statement of Plan Net Assets are commitments to acquire real estate for investment totaling $94 million.

Retirement Enhancements

The County has negotiated certain retirement enhancements as part of contract settlements with employee bargaining units that could become effective in March 2002. Because the effective date is contingent upon the resolution of several outstanding issues, the March date is tentative at this time. Implementation is contingent upon the conclusion of labor negotiations with two remaining employee organizations, the resolution of pending retirement litigation, decisions regarding the method of funding the additional benefits, and finally, approval by the County's Board of Supervisors. If implemented, the enhancements include the elimination of Tier II for both general and safety members, the introduction of a "3% at age 50" formula for safety members and a new optional Tier A for active general members. Preliminary actuarial estimates indicate that the Plan's accrued liability would increase by approximately $990 million, including additional reserve requirements for COLA and retiree health. The Association has been working with its actuarial consultant to assess the financial impact of these enhancements, also taking into consideration the current investment market, to ensure that the Plan remains in sound financial condition in accordance with accepted actuarial principles.

There is no single all-encompassing indicator that measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability. This information was determined as part of the actuarial valuations at the dates indicated. The required supplementary information that follows has not been subject to audit.

Significant actuarial assumptions used as of the latest actuarial valuation, dated June 30, 2000, follow:

Valuation date	June 30, 2000
Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent-open
Remaining amortization period	Five years
Asset valuation method	Five year smoothed market
Actuarial assumptions:	
Investment Rate of Return*	8.25 %
Projected salary increases*	4.5 %
Cost-of-living adjustments for retirees	3.0 % for Tier I
Cost-of-living adjustments for retirees	2.0 % for Tier II
Inflation	4.0 %

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, June 30, 2000

*Includes inflation at 4.0 % for both Rate of Return and Salary Increases. The Actuary also uses an additional merit and longevity increases for employees with less than five years of service.

Schedule I – Funding Progress Indicators – Historic Comparison
(In Thousands of Dollars)

Valuation Date/Note	Valuation Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded (Over-funded) Actuarial Accrued Liability	Member Payroll	Unfunded (Over-funded) Actuarial Accrued Liability as a % of Payroll
6/30/89	$ 853,852	$ 1,327,127	64.3%	$ 473,275	$ 391,329	120.9%
6/30/90	941,482	1,447,574	65.0%	506,092	444,841	113.8%
6/30/91 [2,3,4]	1,124,418	1,588,594	70.8%	464,176	494,285	93.9%
6/30/92	1,274,729	1,748,589	72.9%	473,860	525,411	90.2%
6/30/93 [2]	1,438,093	1,891,844	76.0%	453,751	533,124	85.1%
6/30/94 [5]	1,947,310	2,006,689	97.0%	59,379	535,981	11.1%
6/30/95	2,086,777	2,148,606	97.1%	61,829	550,737	11.2%
6/30/95 [4]	2,172,890	2,148,606	101.1%	(24,284)	550,737	(4.4%)
6/30/96	2,370,519	2,275,887	104.2%	(94,632)	561,692	(16.8%)
6/30/96 [1,2]	2,370,519	2,340,663	101.3%	(29,856)	561,692	(5.3%)
6/30/97	2,688,098	2,505,271	107.3%	(182,827)	581,453	(31.4%)
6/30/97 [1,2]	2,688,098	2,487,917	108.0%	(200,181)	581,453	(34.4%)
6/30/98	2,990,733	2,644,916	113.1%	(345,817)	599,847	(57.7%)
6/30/98 [6]	2,834,571	2,677,593	105.9%	(156,978)	599,847	(26.2%)
6/30/99	3,211,872	2,990,111	107.4%	(221,761)	642,780	(34.5%)
6/30/00 [2]	3,568,671	3,248,822	109.8%	(319,849)	672,477	(47.6%)
6/30/01	NA	NA	NA	NA	NA	NA

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, June 30, 2001, Page 14

Notes:

1 After change in economic assumptions
2 After change in actuarial assumptions
3 After including the Reserve for Future Deficiencies in the assets allocated for funding
4 After change in asset valuation method
5 After Pension Obligation Bond
6 Reflects supplemental benefit reserve transfer of $156.2 million and assumption increases totaling $32.7 million.
NA The Actuarial Report for June 30, 2001 is not yet available.

Schedule II – Contributions from the County of San Diego
(In Thousands of Dollars)

Year Ended June 30	Actuarially required contributions (ARC)	Contributions made as a % of ARC[1]	Amortization factor (in years)
1991	$52,700	100.00%	12.88
1992	60,100	100.00%	12.33
1993	63,989	100.00%	5.00/11.29
1994	48,591	100.00%	5.00
1995	33,305	100.00%	5.00
1996	37,577	100.00%	5.00
1997	23,269	100.00%	5.00
1998	24,320	100.00%	5.00
1999	0	100.00%	5.00
2000[2]	14,341	0.00%	5.00
2001	NA	NA	NA

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Va luation, June 30, 2000, Page 61

Notes

1 Excludes contributions related to the Pension Obligation Bond of February 1994 and County pick-ups of employee contributions.

2 There is no Net Pension Obligation prior to fiscal year 2000. Actuarially required contributions and contributions made have always been identical. SDCERA’s actuarial consultants have indicated in their report dated June 30, 2000, that the County’s expensing policy need not be the same as its funding policy. This amount could be changed with a change in amortization factor.

NA The Actuarial Report for June 30, 2001 is not yet available.

Schedule III – Administrative Expenses
As of June 30, 2001 and 2000

Type of Expense	2001	2000
Salaries & Benefits	$3,173,117	$2,581,833
Professional Fees	1,035,753	874,033
County Overhead Charges	295,242	209,372
Equipment Purchases & Maintenance	151,183	200,291
Rent and Lease Expense	651,331	507,993
Other Administrative Expenses	1,076,352	944,486
Total Administrative Expenses	**$6,382,978**	**$5,318,008**

Schedule IV – Schedule of Investment Expenses and Professional Fees
As of June 30, 2001 and 2000

	2001	2000
Investment Managers' Fees:		
Fixed income managers:		
Zazove Associates	$ 2,971,956	$ 812,333
Nicholas Applegate Convertible Fund	1,039,077	1,300,533
W.R. Huff Asset Management Company, LLP	704,174	480,604
Oaktree Capital Management, LLC	696,682	467,252
Rogge Global Partners, Inc.	626,757	261,557
TCW Asset Management Company	483,436	388,363
Lotsoff Capital Management	325,655	568,523
Pacific Investment Management Company (PIMCO)	272,186	0
Rothschild International Asset Management, Ltd.	215,522	180,389
Hutchinson Richardson Investment Mgt., LLC	0	1,451,871
Hoisington Investment Management Company	0	160,407
Lindahl Capital Management	0	111,324
Total fixed income managers	**7,335,445**	**6,183,156**
Other managers:		
Freeman Associates (Investment Research Co.)	1,863,338	413,862
Bridgewater	273,013	112,356
First Quadrant – Large Cap	58,047	222,365
First Quadrant – Small Cap	56,801	227,184
First Quadrant – Canadian	77,333	235,366
First Quadrant – United Kingdom	73,731	173,642
Total other managers	**2,402,263**	**1,384,775**
Domestic equity managers:		
Duncan Hurst Capital Management - Large Cap	1,458,359	1,540,171
Nicholas Applegate Emerging Growth	855,998	1,369,757
Duncan Hurst Capital Management – Small Cap	517,968	1,063,325
Salus	490,778	748,002
Dimensional Fund Advisor	451,190	479,004
Delta Asset Management – Large Cap	336,671	562,826
Duncan Hurst Capital Management – Micro Cap	242,783	295,784
Numeric Investors – Large Cap	189,246	140,286
Denali Advisors, LLC	170,038	0
Westridge Capital Management, Inc.	80,766	0
Trinity Investment Management	0	302,527
Total domestic equity managers	**4,793,797**	**6,501,682**

(Continued on the next page)

Schedule IV – Schedule of Investment Expenses and Professional Fees (continued)
As of June 30, 2001 and 2000

	2001	2000
International equity managers:		
QFS	4,615,760	1,495,362
Delaware International Advisers Ltd.	723,369	514,857
FX Concepts Inc.	691,622	586,139
Fidelity Management Trust Company	660,469	0
Jennison Associate Capital	656,031	887,129
Capital Guardian Trust Company	368,546	534,506
Capital Guardian Emerging Markets	0	17,765
BZW Barclays Global Investors	0	50,593
Total international equity managers	**7,715,797**	**4,086,351**
Alternative equity managers:		
Capital Guardian Private Markets	$ 332,695	$ 374,952
Belvedere Capital, Ltd.	203,125	181,815
Relational Partners	193,049	295,784
Sorrento Ventures	186,513	93,098
Hennessy & Simmons IV	169,000	0
Thomas Lee Equity Fund	147,278	67,500
Oakhill Capital Partners	72,622	126,436
Forward Ventures	40,192	57,814
Meritech Capital Partners, LP	33,000	0
Total alternative equity managers	**1,377,474**	**1,197,399**
Real estate managers:		
RReef Real Estate Securities Advisers, Inc.	638,166	326,493
ING Realty	239,753	375,688
Total real estate managers	**877,919**	**702,181**
Total investment managers' fees	**24,502,695**	**20,055,544**
Master Custodian & Cash Management:		
Bank Of New York - Domestic and Global Securities	**1,083,943**	**1,312,747**
Other Investment Service Fees:		
Cambridge Capital Advisors	478,613	301,350
Mount Lucas Index Management	251,571	146,875
RP Consulting Group Inc. - managed futures	195,720	293,620
Haugen Financial Systems, Inc.	171,243	25,985
Barra, RogersCasey, Inc.	144,366	238,918
The Townsend Group	57,500	81,250
Plexus Group, Inc.	30,000	37,500
Zepher Associates – Analytics	15,000	30,000
S&P 500 Analytics	7,500	7,500
Frank Russell Company	6,250	7,250
K.P.A. Advisory Services	0	5,250
Other (EFFR Analytics)	600	20,329
Total other investment service fees	**1,358,363**	**1,195,827**
Actuary Fees:		
Gabriel, Roeder, Smith and Company	**188,755**	**89,195**
Investment Legal Fees and Other Expenses:		
Hillyer & Irwin, attorneys at law	14,020	61,868
Branton & Wilson Corporation	22,135	0
Other legal expenses	3,649	31,370
Investment hardware and software, analytics	66,118	80,244
Investment lease expenses	31,888	42,436
Other investment expenses	129,439	73,530
Total investment legal fees and other	**267,249**	**289,448**
Total Investment Expenses and Professional Fees	**$27,401,005**	**$22,942,761**

Investment Section

Jerry Woodham, Chief Investment Officer

San Diego County Employees
Retirement Association

Report from the Chief Investment Officer

October 1, 2001

Members of the Board:

- It is October 1, 2001, almost three weeks since the terrorist attacks on New York City and Washington, DC. This report and the accompanying notes are primarily concerned with events occurring during the past fiscal year. This year is somewhat different. The attacks occurred on September 11, 2001. U.S. capital markets were immediately closed and did not reopen until Monday, September 17, 2001. The Dow Jones Industrials declined 7.1% on the 17th and continued to decline for the next four trading days, down 14.3% for the week. During the second week following the attacks (September 24–28), the Dow gained 7.4%.

- While the market decline on September 17, 2001 was severe, capital markets have experienced worse. Since 1889, we have seen at least six one-day declines of more than 7.1%. The most severe one-day periods in recent history were –22.6% on October 19, 1987, and –7.2% on October 27, 1997. The first two days of the great depression saw returns of –12.8% on October 28, 1929, and –11.7% on the following day, October 29, 1929.

- It is worth noting that the market change for the full week of September 17–21, 2001 (–14.3%) was the worst since the depression. The worst such five-day return during the depression was a decline of approximately 25%. Twenty-four significant external events affected the stock market between 1940 and 1998. In most cases, the markets recovered rather quickly. The major exception to this was the Arab oil embargo of 1973. The market is still reacting to the two most significant events since 1998, the bursting of the dot.com/high-tech bubble in early 2000 and the attacks on September 11, 2001.

- The key question now is, what happens next? Market gains for the second week of post-attack trading were heartening. However, significant volatility will probably continue for some time. The U.S. economy was on the verge of a recession before the attacks occurred and we will now almost certainly move into one. The future level of economic activity is dependent upon several factors, among them whether we see additional terrorist attacks, the severity and outcome of U.S. military responses to past and future attacks and the long term impact of these events on consumer, corporate and government spending. By the time you read this, some answers will be obvious. Today, they are not.

- Returns for FY 2001 were not as good as last year, either on a nominal or relative basis. The retirement fund posted a total return of –8.4% (after fees) for the year ending June 30, 2001, compared to 15.8% for FY 2000. The overall market experienced problems in FY 2001, as shown by the following key market indices: S&P500 –14.8%, Russell 1000 Growth –36.2%, Russell 1000 Value 10.3%, Russell 2000 0.6%, Russell 2000 Growth –23.4%, Russell 2000 Value 30.8%, EAFE –23.6%, Lehman Aggregate 11.2%, NAREIT 24.2% and 91 day US Treasuries 5.9%. The fund ranked in the 75th percentile in the TUCS public funds universe in FY 2001, compared to 10th in FY 2000. Performance compared to custom benchmarks was mixed.

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- We beat the custom benchmarks for the total fund and real estate and trailed for domestic and international equities and fixed income. While we exceeded our benchmark for alternative equities, returns were still negative for the category. Real estate was the best performing asset for the year, providing a return of 16.9%. This was well ahead of TUCS real estate at 11.6% and NCREIF Property Index at 11.9%. Even though total portfolio returns were not as high as we had hoped, proper diversification helped mitigate the damage.

- While 12-month returns were low, long-term returns remain quite good. The five-year return of 10.2%, after fees, was in the 40th percentile in the TUCS public funds universe, while the ten-year return of 11.2% was 28th percentile. We should expect short-term periods, such as FY 2001, when SDCERA returns diverge from the public funds universe. However, the long-term asset allocation is sound. We should review this allocation regularly and make adjustments, as necessary. We should invest with a long-term focus, remembering that the long term is made up of many short-term periods. While our policy is to avoid attempts at market timing, these short-term periods may provide opportunities to which we should respond.

- This is my first report to you as Chief Investment Officer. I look forward to our mutual challenge of producing returns, which will help San Diego County maintain the commitments made to active and retired members regarding their retirement benefits. We should view our relationship with managers as a partnership. In this partnership, we hire the best managers available, work them hard, monitor them closely and keep fees as low as possible. Risks are inherent when we invest in modern capital markets. Our goal should be to produce an acceptable combination of high returns with reasonable risk.

Sincerely,

Jerry Woodham
Chief Investment Officer

OUTLINE OF INVESTMENT POLICIES

SDCERA's investment program is managed in accordance with the California Government Code, Section 31450, et.seq. (County Employees Retirement Law of 1937), which provides that:

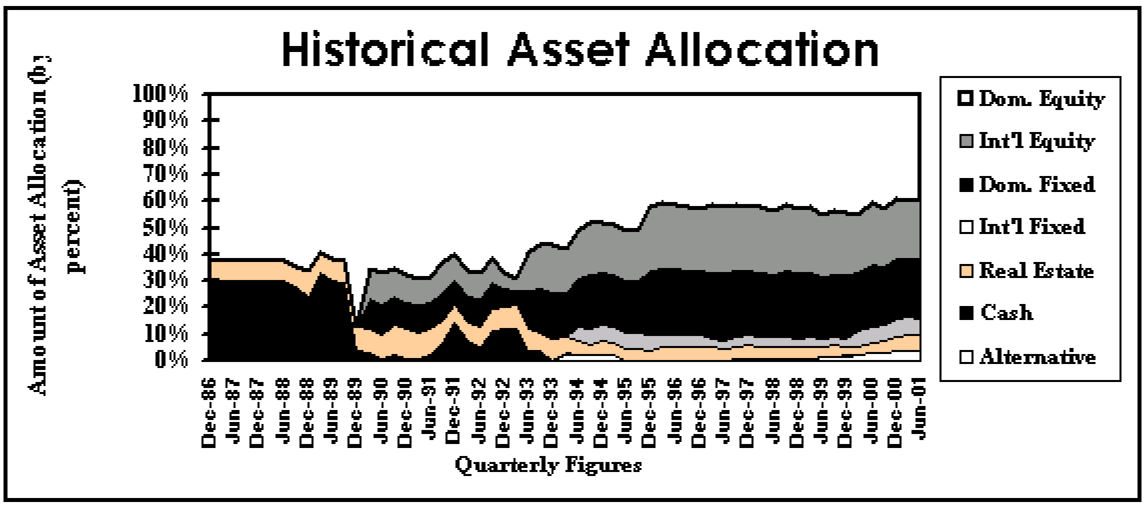
The Board and its officers and employees shall discharge their duties with respect to the system:

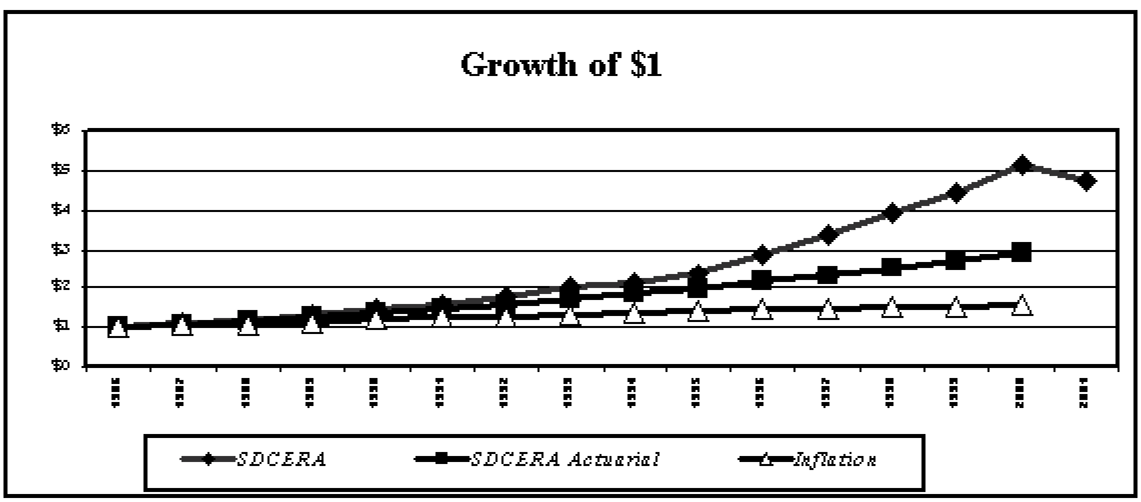
(a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

(b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

The Board has adopted an investment policy statement and related policies that ensure that the plan is managed to the prudent person standard. These policies set investment return and risk objectives (both at the manager and plan level) and provide for extensive diversification of assets, securities lending, commission recapture, value added strategies, proxy voting, and corporate governance issues. Proxy voting issues are delegated to the investment managers to comply with board policy.





Performance Results
Year Ended June 30, 2001

	Reported in Percentages			
Investment	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Total Plan	-8.40	5.97	10.20	11.17
Custom Benchmark (1)	-10.15	4.10	8.53	10.29
TUCS Public Plan Ranking Percentile	75	18	40	28
Domestic Equity	-9.97	6.08	13.36	15.11
Custom Benchmark (2)	-9.44	6.07	14.51	15.70
S&P 500 Index	-14.83	3.90	14.47	15.09
TUCS Domestic Equity Ranking Percentile	49	45	57	52
International Equity	-23.96	-1.31	2.60	N/A
Custom Benchmark (3)	-21.71	2.27	5.52	8.67
MSCI EAFE Index	-23.60	-1.25	2.89	6.38
TUCS Int'l Accounts Ranking Percentile	65	84	75	N/A
Fixed Income	3.14	9.51	11.09	10.60
Custom Benchmark (4)	11.10	6.06	7.76	8.47
Lehman Aggregate Bond Index	11.23	6.25	7.48	7.87
TUCS Fixed-Income Accounts Percentile	90	1	1	1
Real Estate	16.86	10.21	11.15	N/A
Benchmark (5)	11.88	12.49	12.70	6.91
TUCS Real Estate Ranking Percentile	23	38	45	N/A

TUCS is the Trust Universe Comparison Service, a nationally recognized performance universe (1st percentile is best).

Notes:

Benchmarks consist of the following:

1. 32% Russell 1000 Index; 8.0% Russell 2000 Index; 3.8% First Boston Convertible; 14.4% Salomon World PMI ex U.S.; 3.6% Salomon EMI ex. U.S.; 7% Baring Emerging Mkts; 3.7% Lehman Aggregate; 7.0% Salomon Non-US WGBI Unhedged; 7.0% Salomon Cash Pay High Yield; 3.5 % Barclays US Inflation Linked; 4.0% Alternative Equity; 6.0% Russell NCRIEF Property Index.

2. 73% Russell 1000 Index; 18.3% Russell 2000 Index, 8.7% First Boston Convertible.

3. 57.6% EAFE Index; 14.4% Salomon Extended Market Index; 28% Barings Emerging Market Index

4. 17.5% Lehman Aggregate; 33.0% Salomon non-US Government GBI, 33.0% Saloman Cash Pay High Yield Index; 16.5% Barclays US Inflation Linked.

5. NCRIEF Property Index

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

Chart of Actual Asset Allocation
As of June 30, 2001

Asset	Target Percent	Actual Percent
Domestic Equity	43.80%	43.39%
International Equity	25.00%	23.78%
Fixed Income	21.20%	22.32%
Real Estate	06.00%	06.64%
Alternative Investments	04.00%	03.81%
Cash	–	00.06%
Totals	**100.00%**	**100.00%**

Schedule of Top 10 Equity and Fixed Income Securities
As of June 30, 2001

Top 10 Equity Securities		
Shares	**Security Name**	**Market Value**
384,021	Citigroup Inc.	$ 20,291,670
215,000	General Electric	10,481,250
112,563	Exxon Mobil Corp.	9,832,378
115,800	Kohls Corp.	7,264,134
170,000	Pfizer Inc.	6,808,500
120,100	Concord Efs Inc.	6,246,401
115,399	Verizon Communications Inc.	6,173,846
110,100	Peoplesoft Inc.	5,420,223
105,500	Automatic Data Processing Inc.	5,243,350
100,478	Philip Morris Companies.	5,099,258

Top 10 Fixed Income Securities			
Par/Book Value	**Security Name**	**CUSIP #**	**Market Value**
$ 69,836,491	AMR Enhanced Yield Business Trust	00178W956	$69,836,491
60,500,000	U. S. Treasury Notes Inflation Index	9128273A8	68,060,375
34,000,000	U. S. Treasury Notes Inflation Index	9128273T7	38,057,245
26,700,000	U. S. Treasury Notes Tips	9128272M3	30,167,125
25,500,000	U. S. Treasury Bonds Infl. Index	912810FH6	29,370,076
27,000,000	FNMA 15 Year September 6% TBA	31499J9C7	26,527,500
22,100,000	U. S. Treasury Notes Inflation Index	9128274Y5	24,613,976
15,000,000	U. S. Treasury Inflation Index	912810FD5	16,791,138
14,000,000	FNMA 30 Year August 6.5% TBA	30299H9DE	13,772,500
14,905,000	Italy (Republic of) 5.5 Nov 2010	46541Z9Y9	12,721,441

A complete list of portfolio holdings is available upon request.

Schedule of Commissions – Domestic
As of June 30, 2001

No.	Brokerage	Number of Shares Traded	Total Commissions (in dollars)	Cost of Commissions per Share (in dollars)	Percent of Total Commissions Paid
1	Bear Stearns	3,062,144	$98,502	$0.0322	9.12%
2	Investment Technology Group	3,651,477	93,755	0.0257	8.68%
3	Instinet Corporation	5,416,272	91,745	0.0169	8.49%
4	Lehman Brothers Inc.	1,189,731	62,430	0.0525	5.78%
5	Jeffries & Company Inc.	1,290,445	56,648	0.0439	5.24%
6	Lynch Jones & Ryan Inc.	1,052,900	53,220	0.0505	4.93%
7	Merrill Lynch	966,264	52,120	0.0539	4.83%
8	Robertson Stephens Inc.	1,005,929	50,444	0.0501	4.67%
9	Morgan Stanley & Co.	679,807	34,622	0.0509	3.21%
10	Prudential Securities	677,755	33,973	0.0501	3.15%
11	Goldman Sachs & Co.	548,399	29,938	0.0546	2.77%
12	Bridge Trading Co.	476,667	23,833	0.0500	2.21%
13	All other*	11,293,399	398,778	0.0353	36.92%
	Total	**31,311,189**	**$1,080,008**	**$0.0345**	**100.00%**

SDCERA has commission recapture arrangements with Frank Russell Securities, Lynch, Jones & Ryan, Capital Institutional Services (CIS), Autranet and Fidelity.

*Includes approximately 99 additional firms, each with less than 2% of total trades.

Schedule of Commissions—International
As of June 30, 2001

No.	Brokerage	Number of Shares Traded	Total Commissions (in dollars)	Cost of Commissions per Share (in dollars)	Percent of Total Commissions Paid
1	UBS AG (Warburgs)	3,528,210	$89,329	$0.0253	12.24%
2	Goldman Sachs, New York	3,510,931	33,033	0.0094	4.53%
3	Morgan Stanley & Co.	2,350,281	25,904	0.0110	3.55%
4	Salomon Smith Barney	283,631	18,716	0.0660	2.56%
5	Deutsche Bank Securities	765,669	18,406	0.0240	2.52%
6	Lehman Brothers International	1,396,432	18,229	0.0131	2.50%
7	Merrill Lynch	1,252,368	18,204	0.0145	2.49%
8	JP Morgan Secs	491,306	17,262	0.0351	2.36%
9	Goldman Sachs International London	1,335,707	14,978	0.0112	2.05%
10	Other* *	27,883,979	476,002	0.0171	65.20%
	Total	**42,798,514**	**$730,063**	**$0.0262**	**100.00%**

** Includes 96 additional firms, each with less than 2% of total trades.

Summary of Investment Portfolio by Type
As of June 30, 2001

Investment Description	Fair Market Value	Percent of Total Market Value
Common Stocks:		
Materials and Services	$ 135,565,635	3.55%
Consumer Non-Durable	124,528,405	3.26%
Financial	110,472,778	2.90%
Technology	90,875,402	2.38%
Energy	39,442,759	1.03%
Utilities	32,364,932	0.85%
Capital Goods and Services	13,948,297	0.37%
Consumer Durable	9,178,304	0.24%
Transportation	7,701,542	0.20%
Miscellaneous Common Stocks	308,058,353	8.07%
Convertible Securities	35,274,052	0.93%
Equitized Pool Cash (S&P 500 Futures)	43,608,700	1.14%
Managers Equitized Cash (S&P Futures)	22,578,109	0.59%
Equity Enhanced (S&P 500 Swaps)	584,382,519	15.31%
Total Domestic Equity Securities	**1,557,979,787**	**40.82%**
International:		
International Equity	830,259,604	21.75%
EAFE in Local Swaps and Futures	43,452,156	1.14%
Eafetized cash (S&P 500 Futures)	20,710,407	0.54%
Total International Equity Securities	**894,422,167**	**23.43%**
Total Equities	**2,452,401,954**	**64.25%**
Fixed-Income:		
Government Bonds	318,646,218	8.35%
Corporate Bonds	315,615,154	8.27%
International Bonds	292,681,701	7.67%
Convertible Bonds	86,548,810	2.27%
Fixed Income Futures	13,884,891	0.36%
Total Fixed-Income	**1,027,376,774**	**26.92%**
Other Investments:		
Real Estate	250,708,019	6.57%
Alternative Investments	145,626,757	3.81%
Cash and cash equivalents with fiscal agents	33,970,912	0.89%
Other non investment assets and liabilities	(93,217,142)	-2.44%
Total Other Investments	**337,088,546**	**8.83%**
Net Investment Portfolio as of June 30, 2001	**$ 3,816,867,274**	**100.00 %**

Summary of Investment Portfolio by Manager/Asset Type
As of June 30, 2001

Securities Description	Asset Type	Market Value
Domestic Stocks:		
S&P 500 Enhanced	S&P 500 Index	$ 584,382,519
Denali Asset Management	Large Cap Value	189,575,937
Dimensional Fund	Small Cap Value	186,344,142
Nicholas Applegate	Convertible	139,089,450
Duncan Hurst	Large/Mid Cap Growth	137,693,709
Delta Asset Management	Large Cap Neutral	89,755,944
Nicholas Applegate	Small Cap Growth	80,685,627
Numeric Investors	Long/Short Equitized S&P	80,098,810
Equitized Cash (Liquidity & Managers)	S&P 500 Index	66,186,810
Duncan Hurst	Small Cap & Micro Cap Growth	63,522,311
Westridge Capital	Large Cap Neutral	36,822,775
Total Domestic Stocks (2001 43.34%; 2000 44.76%)		**1,654,158,034**
International Stocks:		
Fidelity Investments	EAFE	172,786,966
Delaware International	EAFE Value	153,434,908
Genesis	Emerging Markets	145,870,890
Capital Guardian	Emerging Markets	123,923,572
Capital Guardian Trust Co.	Small Cap	118,663,849
Jennison Associates	EAFE Growth	115,067,450
EAFE Enhanced	EAFE Index Swap	43,452,156
EAFEtized Cash	EAFE Local Index	20,710,407
FX Concepts	Currency forwards	1,491,770
OSV/QFS	Currency Overlay	(351,158)
FX Concepts	Currency Overlay	(629,668)
Total International Stocks (2001 23.43%; 2000 25.8%)		**894,421,142**
Total Stocks (2001 66.77%; 2000 70.60%)		**2,548,579,176**
Fixed Income:		
PIMCO	Inflation protection	248,442,675
Rogge International	International Fixed Income	141,701,521
Rothschild	International Fixed Income	123,721,289
TCW	Fixed Income	120,297,965
Oaktree Capital Management, LLC	High Yield	107,473,728
W.R. Huff Asset Management	High Yield	106,561,212
Managed Futures	Managed Futures	32,911,924
Zazove	High Yield	23,784,183
Fixed Income Futures	Fixed Income	13,884,891
OCM High Yield Convertible	High Yield	12,419,141
Total Fixed Income (2001 24.40%; 2000 21.77%)		**931,198,529**
Alternative Investments and Other:		
Real Estate (2001 6.57% 2000 21.77%)	Real Estate	250,708,019
Alternative Equity	Alternative equity venture capital	145,626,757
Receivables (2001 1.29% 2000 1.47%)	Accounts Receivable	49,328,754
Cash (2001 0.89% 2000 0.58%)	Cash	33,970,912
Unequitized Cash	Unequitized Cash	2,269,267
Fixed Assets, Net	Property, plant & equipment	1,502,621
Current Liabilities (2001 –3.83% 2000 –1.56%)	Accounts Payable	(146,316,761)
Net Investment Portfolio as of June 30, 2001		**$ 3,816,867,274**

Schedule of Swaps, Futures, Bondized, Eafetized, and Equitized Cash
As of June 30, 2001

The following tables are a summary of the San Diego County Employees Retirement Association's Swap, Bondized, Eafetized, and Equitized Cash as of June 30, 2001:

Schedule of Swaps, Futures, Bondized, Eafetized, and Equitized Cash

Description			
In Domestic Equity Swaps and Futures:		**Notional Amount**	**Market Value**
S&P 500 Swap Ending (9/21/02)		$93,660,163	$95,206,334
S&P 500 Swap Ending (4/19/02)		84,651,812	83,261,478
S&P 500 Swap Ending (12/15/01)		74,502,539	75,734,263
S&P 500 Swap Ending (6/15/01)		73,334,929	75,005,073
S&P 500 Swap Ending (4/26/02)		52,232,720	52,083,425
S&P 500 Swap Ending (3/16/02)		49,683,354	50,503,241
S&P 500 Swap Ending (3/16/02)		45,270,592	46,017,659
S&P 500 Swap Ending (12/15/01)		32,383,842	32,919,233
S&P 500 Swap Ending (9/21/01)		32,060,293	32,589,554
S&P 500 Swap Ending (7/31/01)		23,999,164	23,641,430
S&P 500 Swap Ending (6/15/01)		17,032,720	17,420,829
	Subtotal	**578,812,128**	**584,382,519**
In International Equity Swaps and Futures:			
EAFE in Dollars (7/31/01)		46,921,334	43,452,156
	Subtotal	**46,921,334**	**43,452,156**
	Total Swaps, Futures, Bondized, and Equitized Cash	**$625,733,462**	**$627,834,675**

Collateralization:		**Notional Amount**	**Market Value**
Lotsoff Capital Management		$186,077,021	$186,629,024
Alpha Short Term Investment Fund Cash		28,949,116	28,949,116
Bridgewater		96,072,521	97,460,126
Investment Research Company		78,904,290	82,692,948
Salus Capital Management		106,142,467	109,150,291
Zazove Associates		137,231,154	131,060,994
	Total Collateral	**$633,376,569**	**$635,942,499**
	Less: Notional value of Swap Investments		**625,733,462**
	Over Collateralization		**$10,209,037**

Schedule of Swaps, Futures, Bondized, Eafetized, and Equitized Cash (continued)

Description	Detail	Cash	Market Value
In Futures:			
Domestic Equity Managers Equitized Cash		$23,637,125	$23,570,085
EAFE Futures		20,462,873	20,883,433
Equitized Liquidity		45,673,435	45,609,645
Fixed Income Futures – Bondized		15,423,267	13,848,375
Total Futures		**105,196,700**	**103,911,538**
Cash in STMM (BNY), in County and Margin Accounts (see Total Cash below)		139,167,612	
Excess Collateralization		**$ 33,970,912**	
Recap of Cash:			
Cash in STMM with Bank of New York:			
Domestic Equity Managers	$ 22,146,375		
EAFE Futures	19,147,939		
Equitized cash	38,329,412		
Fixed Income Managers & Real Estate Cash	33,960,812		
Fixed Income Futures (Bondized)	15,305,816		
Sub total cash with Bank of New York:		**$ 128,890,354**	
Cash in San Diego County Pool		4,911,773	
Petty Cash		100	
Margin Cash at Lehman		5,365,385	
Total Cash:		**$ 139,167,612**	
Recap of Calculation of Un-equitized Cash:			
Cash in Accounts Payable Account at BNY		$ 10,000	
Petty Cash		100	
Cash in STMM - Fixed Income and REIT Managers		33,960,812	
Excess Cash			**$ 33,970,912**

Actuarial Section

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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October 4, 2001

Members of the Retirement Board
San Diego County Employees' Retirement Association

Members of the Board:

The fundamental financial objective of the San Diego County Employees' Retirement Association is to establish contribution rates which, expressed as percents of active member payroll, will remain approximately level from generation to generation of County taxpayers.

To test how well the fundamental objective is being achieved, annual actuarial valuations are made. These valuations adjust employer contributions, up or down as the case may be, for differences in the past year between assumed financial experiences and actual financial experiences. In addition, these valuations determine the reserve strength of the Association.

Using data as of June 30, 2000, an actuarial valuation was performed. Summary information about the contribution rates and funded ratios are shown in this Annual Report. We relied on unaudited data given to us by the County. However, we performed a test as to reasonableness which preceded the commencement of our valuation work. For example, we compiled and analyzed a list of relevant summary data that incorporated average attained ages, average salaries, average benefit payout, and average service length for relevant subgroups of County participants. We sent a letter summarizing such data to the County for their review and comment prior to commencement of our valuation work.

Assumptions concerning future experience are needed for computing employer contribution rates. No less frequently than every three years, assumed and actual experience is compared. An experience study was performed in May, 2000. Periodically, one or more of the assumptions about the future are changed by the Retirement Board after consulting with the actuary. Only one relatively minor assumption change was made in the 2000 valuation.

Several schedules, including the History of Employer Contribution Rates, Development of Funding Value of Assets and various demographic summaries, are taken directly from our actuarial valuation report and incorporated into this CAFR.

All assumptions and methods for funding purposes are in accordance with GASB Statement #25.

The current funded ratio continues to be in excess of 100%.

On the basis of the 2000 valuation, it is our opinion that the Association continues in excellent condition in accordance with actuarial principles of level cost financing.

Respectfully submitted,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

Note: All below schedules are based on the June 30, 2000 Actuarial Report. Accordingly, some tables do not include June 30, 2001 amounts except in cases where they were available or could be calculated.

Short-Term Sol vency Test
Year Ended June 30, 2000
(in thousands of dollars)

					Portion of Accrued Liability Covered by Valuation Assets		
Valuation Date	**Active Member Contri-butions (Note 1)**	**Liability for Retired Participants**	**Liability for Active Members (Employer Financed Portion)**	**Valuation Assets**	**Active Member Contri-butions**	**Liability for Retired Participants**	**Liability for Active Members (Employer Financed Portion)**
12/31/88	$ 150,206	$ 611,967	$ 413,426	$ 812,527	100%	100%	69%
06/30/89	162,839	640,657	523,631	853,852	100%	100%	64%
06/30/90	167,321	701,493	578,760	941,482	100%	100%	65%
06/30/91	173,822	744,494	670,278	1,124,418	100%	100%	71%
06/30/92	182,180	801,432	764,977	1,274,729	100%	100%	73%
06/30/93	186,398	857,616	847,830	1,438,093	100%	100%	76%
06/30/94	190,351	921,331	895,007	1,947,310	100%	100%	97%
06/30/95	195,588	983,481	974,537	2,172,890	100%	100%	100%
06/30/96	190,164	1,023,047	1,127,452	2,370,519	100%	100%	100%
06/30/97	193,072	1,093,600	1,201,245	2,688,098	100%	100%	100%
06/30/98	198,968	1,193,667	1,284,958	2,834,571	100%	100%	100%
06/30/99	201,234	1,313,729	1,345,249	3,211,872	100%	100%	100%
06/30/00	202,531	1,463,827	1,582,464	3,568,671	100%	100%	100%

Prepared by: Gabriel, Roeder, Smith & Company

Note 1 Beginning in 1998, vested deferred retirants are included in this amount.

History of Employer Contribution Rates
Year Ended June 30, 2000

Year Ended	General Members			Probation Members (Note 1)			Safety Members		
	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %
12/31/88	5.25	6.19	11.44				11.14	8.79	19.93
06/30/89	3.15	7.93	11.08				9.80	12.56	22.36
06/30/90	3.12	7.86	10.98				9.75	12.17	21.92
06/30/91	4.55	6.80	11.35				11.26	10.62	21.88
06/30/92	4.36	6.81	11.17				11.65	11.01	22.66
06/30/93	4.10	.87	4.97				11.23	0.54	11.77
06/30/94	3.88	2.34	6.22				10.83	1.50	12.33
06/30/95	3.89	(0.98)	2.91				11.57	(0.33)	11.24
06/30/96	4.18	(0.70)	3.48				10.91	(3.07)	7.24
06/30/97	5.70	(6.30)	(0.60)				12.21	(9.93)	2.28
06/30/98	6.17	(4.58)	1.59	10.46	(4.58)	5.88	12.45	(8.50)	3.95
06/30/99	5.81	(7.17)	(1.36)				11.72	(6.04)	5.68
06/30/00	5.90	(9.72)	(3.82)				11.82	(8.86)	2.96

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 5

Note 1 Probation members changed to separate status during fiscal year 1998. Probation members are included as Safety members beginning in 1999.

UAAL = Amortization of Unfunded Actuarial Accrued Liability

Active Member Valuation Data (Membership History)

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Salary
1988	General	12,168	$ 316,667,699	$ 26,025	1.5%
	Safety	1,444	48,983,096	33,922	(1.1%)
	Total	13,612	365,650,795	26,862	1.1%
1989	General	12,475	337,546,912	27,058	4.0%
	Safety	1,487	53,781,974	36,168	6.6%
	Total	13,962	391,328,886	28,028	4.3%
1990	General	13,719	386,711,511	28,188	4.2%
	Safety	1,590	58,129,377	36,559	1.1%
	Total	15,309	444,840,888	29,057	3.7%
1991	General	14,328	430,279,604	30,031	6.5%
	Safety	1,648	64,005,225	38,604	5.6%
	Total	15,986	494,284,829	30,920	6.4%
1992	General	14,291	455,062,632	31,843	6.0%
	Safety	1,730	70,348,597	40,664	5.3%
	Total	16,021	525,411,229	32,795	6.1$
1993	General	14,281	458,657,038	32,117	0.9%
	Safety	1,873	74,467,447	39,758	(2.2%)
	Total	16,154	533,124,485	33,003	0.6%
1994	General	14,216	457,892,699	32,210	0.3%
	Safety	1,964	78,088,054	39,760	0.0%
	Total	16,180	535,980,753	33,126	0.4%
1995	General	14,485	466,127,341	32,180	(0.1%)
	Safety	2,015	84,610,006	41,990	5.6%
	Total	16,500	550,737,347	33,378	0.8%
1996	General	14,507	476,031,864	32,814	2.0%
	Safety	2,017	85,659,671	42,469	1.1%
	Total	16,524	561,691,535	33,992	1.8%
1997	General	14,528	487,741,678	33,375	2.3%
	Safety	2,107	93,711,771	44,476	4.7%
	Total	16,635	581,453,449	34,954	2.8%
1998	General	13,309	463,845,263	35,039	5.0%
	Probation	919	34,690,424	37,748	N/A
	Safety	2,213	100,435,870	45,384	2.0%
	Total	16,441	598,971,557	36,432	4.2%
1999	General	13,263	490,306,213	36,968	5.5%
	Safety	3,316	152,474,091	45,981	1.3%
	Total	16,579	642,780,304	38,771	6.4%
2000	General	13,287	511,290,009	38,480	4.1%
	Safety	3,382	161,186,721	47,660	3.7%
	Total	16,669	672,476,730	40,343	4.1%

Source: Gabriel, Roeder, Smith & Company, 1996-2000 Experience Investigation, Page 7

Note: Probation members are included in the Safety category beginning in 1999.

Demographic Activity of Retirants and Beneficiaries

	Membership						Total Retiree	Percent	
		Adds		Withdrawals				Increase in	Average
Year	Begin	#	$	#	$	Ending	Payroll	Payroll	Benefit
1991	6,416	360	N/A	202	N/A	6,574	$ 63,307,638	8.3%	$ 9,630
1992	6,574	388	N/A	203	N/A	6,759	68,741,191	8.6%	10,170
1993	6,759	369	N/A	197	N/A	6,931	74,286,817	8.1%	10,718
1994	6,931	373	N/A	198	N/A	7,106	80,270,720	8.1%	11,296
1995	7,106	486	N/A	296	N/A	7,294	86,660,001	8.0%	11,881
1996	7,294	434	N/A	229	N/A	7,499	93,627,577	8.0%	12,485
1997	7,499	316	$4,860,080	123	N/A	7,692	99,998,279	6.8%	13,000
1998	7,692	447	7,057,332	184	N/A	7,955	107,752,376	7.7%	13,545
1999	7,955	640	7,704,060	303	N/A	8,292	118,154,737	5.2%	14,250
2000	8,292	543	11,203,719	132	N/A	8,703	131,163,025	5.8%	15,071

Source: Gabriel, Roeder, Smith & Company, 1996-2000 Experience Investigation, Page 10

N/A = Not available

Development of Funding Value of Assets

Funding Value Details	**Plan Year 6/30/96**	**Plan Year 6/30/97**	**Plan Year 6/30/98**	**Plan Year 6/30/99** [2]	**Plan Year 6/30/00**
A. Funding Value Beginning of Year	$2,172,889,638	$2,370,519,097	$2,688,097,675	$2,834,571,391	$3,211,872,429
B. Gross Market Value End of Year [1]	2,709,480,962	3,116,456,802	3,539,640,771	3,834,322,248	4,362,148,191
C. Gross Market Value Beginning of Year	2,264,735,931	2,709,480,962	3,116,456,802	3,539,640,771	3,834,322,248
D. Non-investment Cash Flow	(14,264,957)	(34,718,735)	(50,634,868)	(76,466,415)	(85,172,434)
D1. Employer contributions					38,166,867
E. Investment Income					
E1. Market Total = B-C2-D	459,009,988	441,694,575	473,818,837	371,147,892	612,998,377
E2. 8.25% (8% pre-6/30/97) Recognition	173,260,573	188,252,778	219,679,370	230,697,900	263,040,496
E3. Phased-in Recognition = E1-E2	285,749,415	253,441,797	254,139,467	140,449,992	349,957,881
F. Phased-in Recognition					
F1. Current Year = E3 x 20%	57,149,883	50,688,359	50,827,893	28,089,998	69,991,576
F2. First Prior Year	23,851,103	57,149,883	50,688,359	50,827,893	28,089,998
F3. Second Prior Year	(35,396,117)	23,851,103	57,149,883	50,688,359	50,827,893
F4. Third Prior Year	16,139,159	(35,396,117)	23,851,103	57,149,883	50,688,359
F5. Fourth Prior Year	27,708,607	16,139,159	(35,396,117)	23,851,103	57,149,883
F6. Total Recognized Gain	89,452,635	112,432,387	147,121,121	210,607,237	256,747,710
G. Preliminary Funding Value End of Year = A2+D+E2+F6	2,421,337,889	2,636,485,527	3,004,263,299	3,199,410,113	3,646,488,201
H. Excludable Reserves					
H1. End of Year	98,702,838	47,090,690	216,782,598	199,079,545	276,897,137
H2. Beginning of Year	47,884,046	98,702,838	47,090,690	216,782,598	199,079,545
H3. Change = H1-H2	50,818,792	(51,612,148)	169,691,908	(17,703,053)	77,817,592
I. Final Funding Value = G-H3	**$2,370,519,097**	**$2,688,097,675**	**$2,834,571,391**	**$3,211,872,429** [2]	**3,568,670,609**

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 23

Notes:

[1] Gross market value end of year is net of "wash" items related to securities lending.

[2] Reflects historical reconciliation adjustment of $5,240,737.

Actuarial Cost Methods
June 30, 2000

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry age actuarial cost method having the following characteristics:

(i) The annual normal costs for each active member, payable from the date of entry into the system to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Financing of Unfunded Actuarial Accrued Liability. The balance of unfunded actuarial accrued liabilities is funded (or credited, if negative) in five equal installments.

Active member payroll in aggregate was assumed to increase 4.0% a year for the purpose of determining the level percent contributions, although individual annual salary increase rates will increase at least 4.5% per year for the purpose of projecting individual benefits.

Deferred Member Actuarial Accrued Liability. Data provided includes date of hire, date of birth, date of termination, and last pay. Service credit, highest average salary, and deferred retirement age were estimated based on the data provided. The estimates were used to compute the retirement benefit upon which the liabilities are based.

Actuarial Assumptions:
Used for the Annual Valuation, June 30, 2000

The contribution requirements and benefit values of the fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished using the actuarial cost methods described above.

The principal areas of financial risk that require assumptions about future experiences are:

(i) long-term rates of investment return to be generated by the assets of the fund
(ii) patterns of pay increases to members
(iii) rates of mortality among members, retirants, and beneficiaries
(iv) rates of withdrawal of active members (without entitlement to a retirement benefit)
(v) rates of disability among members
(vi) the age patterns of actual retirements.

In making a valuation, the monetary effect of each assumption is calculated for as long as a present-covered person survives. That period of time that can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary, and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

The investment return rate used for the actuarial valuation calculations was 8.25% a year, net of administrative expenses, compounded annually. This assumption, used to equate the value of payments due at different points in time, is adopted by the Retirement Board. The rate is comprises of two elements:

Description	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00
Inflation	4.50%	4.00%	4.00%	4.00%	4.00%
Real Rate of Return	3.50%	4.25%	4.25%	4.25%	4.25%
Total	8.00%	8.25%	8.25%	8.25%	8.25%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 50

Actuarial Assumptions
Used for the June 30, 2000, Valuation (continued)

Administrative expenses have averaged 0.1% over the last three valuations. Since the 8.25% assumed rate of return is currently net of administrative expenses, the comparable gross rate would be 8.35%. Currently, no administrative expenses are explicitly recognized in the valuation.

The inflation rate used for the actuarial valuation calculations was 4.0% per year, compounded annually. It represents the difference between the investment return rate and the assumed real rate of return.

Inflation actually experienced, as measured by the Consumer Price Index for urban wage earners, has been as follows:

Consumer Price Index Urban Wage Earners and Clerical Workers Before 1978
All Urban Consumers After 1977

10 Year Moving Averages	
June 30, 1960	2.2%
June 30, 1970	2.7%
June 30, 1980	7.9%
June 30, 1990	4.6%
June 30, 2000	2.9%
50-Year Average	4.0%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 49

Interest credited to member contributions is 8.25 %, compounded semi-annually.

The following table represents salary increase rates, revised with the June 30, 1998 valuation, used to project current pays to those upon which a benefit will be based. Rates do not vary by age.

Annual Rate of Salary Increase	
Description	**6/30/00**
Inflation	4.00%
Merit and longevity	0.50%[1]
Total	**4.50%**

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 50

[1] We also use an additional merit and longevity increases for employees with less than five years of service:

Years of Service at Valuation Date	Safety	General
0	6.00%	3.0%
1	5.00%	2.5%
2	4.00%	2.0%
3	2.50%	1.5%
4	1.25%	1.0%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 50

Historic Summary of Payroll

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
12/31/88	13,612	$ 365,650,795	7.4	$ 26,862	1.1
06/30/89	13,962	391,328,886	7.0	28,028	4.3
06/30/90	15,309	444,840,888	13.7	29,057	3.7
06/30/91	15,986	494,284,829	11.1	30,920	6.4
06/30/92	16,021	525,411,229	6.3	32,795	6.1
06/30/93	16,154	533,124,485	1.5	33,003	0.6
06/30/94	16,180	535,980,753	0.5	33,126	0.4
06/30/95	16,500	550,737,347	2.8	33,378	0.8
06/30/96	16,524	561,691,535	2.0	33,992	1.8
06/30/97	16,635	581,453,449	3.5	34,954	2.8
06/30/98	16,441	598,971,557	3.0	36,432	4.2
06/30/99	16,579	642,780,304	7.3	38,771	6.4
06/30/00	16,669	672,476,730	4.6	40,343	4.1

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 51
Actuarial assumptions used for the June 30, 2000 valuation

Historic Summary of Assumptions

	Year Ended					3 Year	5 Year
Assumption	6/30/00	6/30/99	6/30/98	6/30/97	6/30/96	Average	Average
Inflation [1]	4.7%	3.4%	1.4%	2.4%	2.2%	2.4%	2.1
Assumed						4.0 [3]	4.0 [3]
Average Pay Increase	4.1	6.4 [7]	4.2	2.8	1.8	4.5	3.2
Assumed						4.0 [3]	4.0 [3]
Merit and Longevity Pay Increase	(0.6)	3.0	2.8 [6]	0.4	(0.4)	2.1	1.0
Assumed						0.5	0.5
Total Payroll	4.6	7.3 [7]	3.0	3.5	2.0	4.6	3.7
Assumed						4.0 [3]	4.0 [3]
Investment Return Rate [2]	16.3	15.8	13.1	14.4	9.6	14.4	13.0
Assumed						8.25 [4]	8.25 [4]
Real Rate of Investment Return	11.6	12.4	11.7	12.0	7.4	12.0	10.9
Assumed						4.25 [5]	4.25 [5]
Admin. Expenses (% of Assets)	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Assumed						0.0	0.0

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 53

[1] Based on Consumer Price Index for San Diego, All Items, 1982-84=100.
[2] Based on actuarial value of assets, *not* market value or book value.
[3] Effective with June 30, 1997 valuation, this assumption has been reduced from 4.5% to 4.0%.
[4] Effective with June 30, 1997 valuation, this assumption has been increased from 8.0% to 8.25%.
[5] Effective with June 30, 1997 valuation, this assumption has been increased from 3.5% to 4.25%.
[6] Includes certain items as pension compensation that were previously excluded per the "Ventura" decision. This decision is discussed in Note No. 7 to the Financial Statements on page 30.
[7] Includes 0.3% increase due to inclusion of bonus pay.

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death.). This assumption measures the probabilities of members remaining in employment. Starting with the June 30, 1997 valuation, all employees, eligible to retire, are assumed to not withdraw accumulated member contributions upon separation from service.

Percent of Active Members Separating Within the Next Year

Sample Ages	Years of Service	Disability			Other	
		General Male	General Female	Safety	General	Safety
All	0				22.75%	11.00%
	1				12.00%	6.00%
	2				9.75%	4.00%
	3				7.75%	4.00%
	4				6.50%	4.00%
20	5 and over	.02%	-.00%	.02%	15.00%	9.00%
25		.02%	-.00%	.02%	12.50%	9.00%
30		.03%	.02%	.30%	8.50%	6.00%
35		.07%	.04%	.68%	5.75%	2.50%
40		.17%	.08%	1.18%	4.25%	1.75%
45		.31%	.15%	1.78%	3.50%	1.25%
50		.48%	.24%	2.60%	2.50%	1.00%
55		.70%	.34%	-.00%	1.75%	1.00%
60		.46%	.42%	-.00%	1.75%	1.00%

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 54

It is assumed that 100% of the safety disabilities and 60% of the general disabilities are duty-related. It is also assumed that 40% of separating active members will continue employment with a reciprocal employer and receive assumed inflation increases during their subsequent employment with a reciprocal employer.

The post-retirement mortality table used was the 1994 Uninsured Pensioner Mortality Table. The Board has adopted the mortality table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. For disabilitants, there is a 10-year age set forward for general disabilitants and a 5-year age set forward for Safety disabilitants. Related values are shown below.

Future Life Expectancy (Years)			% Dying Within Next Year		
Sample Ages	Retirants		Retirants		Sample Ages
	Male	Female	Male	Female	
45	34.68	39.01	.17%	.10%	45
50	30.01	34.24	.28%	.15%	50
55	25.49	29.53	.48%	.25%	55
60	21.20	24.97	.86%	.48%	60
65	17.26	20.69	1.56%	.93%	65
70	13.77	16.77	2.55%	1.48%	70
75	10.66	13.11	4.00%	2.44%	75
80	7.97	9.88	6.67%	4.24%	80

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 55

The active member mortality table used was the 1994 Uninsured Pensioner Mortality Table. This assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, line-of-duty death, and death while eligible for retirement or disability.

Sample Ages	% of Active Members Dying Within Next Year	
	Male	Female
30	.09%	.04%
35	.09%	.05%
40	.12%	.08%
45	.17%	.10%
50	.28%	.15%
55	.48%	.25%
60	.86%	.48%
65	1.56%	.93%

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 55

The rates of retirement used to measure the probability of eligible members retiring during the next year:

Retirement Ages	Safety Members	Probation Members	General Members
48	5.0%	0.0%	-%
49	5.0%	0.0%	-%
50	10.3%	6.0%	3.0%
51	10.3%	7.0%	3.0%
52	10.3%	8.0%	5.0%
53	10.3%	9.0%	5.0%
54	10.3%	10.0%	6.0%
55	25.3%	15.0%	7.4%
56	25.3%	20.0%	8.4%
57	25.3%	25.0%	10.4%
58	30.3%	30.0%	10.4%
59	30.3%	30.0%	10.4%
60	50.3%	30.0%	11.4%
61	50.3%	30.0%	15.4%
62	50.3%	50.3%	23.4%
63	50.3%	50.3%	15.4%
64	50.3%	50.3%	20.4%
65	100.0%	100.0%	28.4%
66	100.0%	100.0%	28.4%
67	100.0%	100.0%	30.4%
68	100.0%	100.0%	30.4%
69	100.0%	100.0%	40.4%
70	100.0%	100.0%	100.0%

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, Page 56

For deferred vested members, the following retirement assumption is made:

Non-reciprocals: When initially eligible to retire.

Reciprocals: Later of age 55 or eligibility to retire.

In determining eligibility to retire for this purpose service "tacking" from date of separation of service is assumed.

The rates of employer pick-up vary by employee with an average of 7.0% of compensation for general members, and 9.5% for safety members. Such amounts picked up are not eligible for future refund. However, we have changed some of our methodology regarding new hires, during or after 1996, during their first five years of service.

Member refunds. All or part of the employee contribution rate is subject to potential "pick-up" by the employer. The member rates provided in the census are prior to any applicable pick-up. The average pick-up is 7.0% for general members and 9.5% for safety members. Such pick-up and related accumulated interest are not to be refunded to employees at termination. The County's liability for potential refunds is reduced to reflect this. The crediting rate on member accounts is 4.125%, credited semi-annually.

Integrated member contributions. Rates provided in the census apply to salary amounts over $350 per month in the case of employees with integrated benefits. Rates applicable to the first $350 per month of salary are not provided. Due to the small portion of salary to which a different rate is applied and the substantial portion of total member contributions subject to employer pick-up, for simplicity, rates provided were assumed to apply to total salary.

Survivor benefits: Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital status: 80% of men and 50% of women were assumed married at retirement.

Spouse census: Women were assumed to be 4 years younger than men.

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Statistical Section

Schedule of Contributions from the County of San Diego
(in Millions of Dollars)

Year Ended	Actuarially Required Contribution (ARC)[1]	Contributions made as a Percentage of ARC[2]	Amortization Factor in Years	Net Pension Obligation (NPO)
1991	$52,700	100.00%	12.88	0
1992	60,100	100.00%	12.23	0
1993	63,989	100.00%	5.00/11.29	0
1994	48,591	100.00%	5.00	0
1995	33,305	100.00%	5.00	0
1996	37,534	100.00%	5.00	0
1997	23,475	100.00%	5.00	0
1998	24,320	100.00%	5.00	0
1999	0	100.00%	5.00	0
2000	14,341	0.0%	5.00	14,341[3]

Source: SDCERA Annual Actuarial Report, page 61, and computed percentage

[1] Excludes contributions related to the Pension Obligation Bond of February 1994 and County pick-ups of employee contributions.
[2] Based on actuarial value of assets and not market value or book value.
[3] There is no Net Pension Obligation prior to fiscal year 2000. Actuarially required contributions and contributions made have always been identical. SDCERA's actuarial consultants have indicated in their report dated June 30, 2000, that the County's expensing policy need not be the same as its funding policy. This amount could be changed with a change in amortization factor.

Schedule of Revenue by Source
(in Millions of Dollars)

Member Contributions			Employer Contributions			
Year Ending	Dollar Contributions	Employer Offset	Dollar Contributions	Amount of Annual Covered Payroll	Investment Income	Total Contributions
00/01	$10.8	$41.1	$00.0	0.00%	($344.8)	($292.9)
99/00	8.4	38.1	00.0	0.00%	564.4	610.9
98/99	7.4	36.4	00.0	0.00%	396.0	439.9
97/98	6.7	37.2	14.6	3.00%	466.9	525.5
96/97	6.2	38.1	23.5	4.04%[1]	495.7	563.5
95/96	5.3	37.3	37.5	6.67%	415.2	495.3
94/95	5.4	38.2	33.3	4.19%	279.0	355.9
93/94[2]	5.4	35.3	48.6	5.93%	116.9	206.2
92/93	5.8	35.0	64.0	12.71%	145.6	250.4
91/92	5.4	34.3	60.1	12.41%	121.1	220.9
90/91	6.1	25.8	52.7	12.63%	90.0	174.6

Source: SDCERA Comprehensive Annual Financial Report

Notes:
[1] Based on valuation payroll at end of fiscal year
[2] Does not include $428.5 in Pension Obligation Bonds issued in 1994

Schedule of Expenses by Type As of June 30th Each Year
(in Millions of Dollars)

Year Ending	Administrative Expenses	Retirement Benefits Paid including STAR Cola	Medical Payments	Refunds/Death Benefits	Total Payments
00/01	$6.4	$143.6	$10.8	$2.1	$162.9
99/00	5.3	132.8	9.0	1.7	148.8
98/99	4.8	121.3	7.9	1.4	135.4
97/98	4.5	103.7	6.6	0.9	115.7
96/97	3.9	97.0	6.5	1.3	108.7
95/96	2.7	90.2	7.4	1.5	101.8
94/95	1.8	86.8	7.9	0.7	97.2
93/94	1.2	77.5	8.0	1.2	87.9
92/93	1.2	71.9	8.3	1.4	82.8
91/92	1.4	65.0	7.7	0.9	75.0
90/91	0.7	61.0	7.2	1.1	70.0

Source: SDCERA Comprehensive Annual Financial Report

Schedule of Benefit Expenses by Type As of June 30th Each Year
(in Millions of Dollars)

Age and Service				Disability Benefits Retirants			Refunds		
Year End	Retirants	Survivors	Death in Service	Duty	Non-Duty	Survivor	Death	Separation	Total
2000	$102.9	$6.0	$1.6	$15.2	$3.6	$2.0	$0.7	$1.0	$1.7
1999	91.9	5.4	1.6	14.2	3.4	1.7	0.3	1.2	1.5
1998	83.8	4.5	1.4	12.4	3.1	1.0	0.3	1.0	1.3
1997	79.2	4.0	1.4	11.1	3.0	1.3	0.3	1.1	1.4
1996	74.5	3.6	1.2	10.3	2.8	1.2	0.3	1.2	1.5
1995	69.9	2.3	1.0	9.4	2.8	1.2	0.2	0.5	0.7
1994	64.8	2.1	0.9	8.8	2.6	1.2	N/A	N/A	1.2
1993	59.9	2.2	0.9	8.1	2.3	0.9	N/A	N/A	1.4
1992	55.6	2.2	0.9	7.2	2.0	0.9	N/A	N/A	0.9
1991	51.2	2.3	0.9	6.1	1.9	0.9	N/A	N/A	1.2

Source: Gabriel, Roeder, Smith & Company

Retirants and Beneficiaries, General Members, June 30, 2000
Tabulated by Type of Benefit Being Paid (In Numbers of Members)

	Tier I		Tier II	
Type of Benefit	**Number of Retirants or Beneficiaries**	**Annual Benefits**	**Number of Retirants or Beneficiaries**	**Annual Benefits**
Service Retirement:				
Straight Life	1,264	$15,685,508	141	$948,211
Cash Refund Annuity	20	170,833	9	80,069
Joint and 50% Survivor	5	82,274	1	11,175
Joint and 100% Survivor	42	583,477	23	165,669
Automatic Joint and 60% Survivor	3,200	53,051,165	912	8,302,526
Social Security Equated[1]	371	9,845,758	181	2,085,613
Beneficiary	652	5,316,196	24	138,694
Total Service Retirement	**5,554**	**$84,753,211**	**1,291**	**$11,731,957**
Non Service Disability Retirement:				
Straight Life	89	$826,041	35	$291,882
Cash Refund Annuity	1	4,854	1	7,463
Joint and 50% Survivor			2	21,754
Joint and 100% Survivor	1	7,789		
Automatic Joint and 60% Survivor	95	1,110,025	104	976,409
Beneficiary of deceased disabilitant	81	1,058,582	33	207,437
Duty Disability Retirement:				
Straight Life	63	1,006,243	58	789,930
Cash Refund Annuity			1	13,229
Joint and 50% Survivor			1	8,354
Automatic Joint and 60% Survivor	126	2,3247,231	186	2,845,339
Other	12	139,174		
Beneficiary of deceased disabilitant	19	248,638	3	52,897
Total Disability Retirement	**487**	**6,748,577**	**424**	**5,214,694**
Death Before Retirement	123	1,091,395	34	214,983
Total Benefits Being Paid	**6,164**	**$92,575,183**	**1,749**	**$17,161,634**

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 26
Note 1 In previous years, included on this schedule as Straight Life.

Retirants and Beneficiaries, Safety Members, June 30, 2000
Tabulated by Type of Benefit Being Paid (In Numbers of Members)

	Tier I		Tier II	
Type of Benefit	**Number of Retirants or Beneficiaries**	**Annual Benefits**	**Number of Retirants or Beneficiaries**	**Annual Benefits**
Service Retirement:				
Straight Life	31	$830,914	1	$9,131
Joint and 50% Surv ivor	1	34,930		
Joint and 100% Survivor	3	116,641	1	12,785
Automatic Joint and 60% Survivor	266	9,726,332	34	574,592
Social Security Equated[1]	11	466,724	8	120,533
Beneficiary	26	476,751	1	23,827
Total Service Retirement	**338**	**$11,652,292**	**45**	**$740,868**
Disability Retirement:				
Ordinary Retirement				
Straight Life	2	27,368		
Automatic Joint and 60% Survivor	11	198,467	7	85,872
Beneficiary of deceased disabilitant	2	15,650		
Duty Disability Retirement:				
Straight Life	31	673,278	32	657,571
Automatic Joint and 100% Survivor	123	3,218,488	150	3,336,482
Other	14	182,745		
Beneficiary of deceased disabilitant	14	294,946	5	84,437
Total Disability Retirement	**197**	**4,610,942**	**194**	**4,164,362**
Death Before Retirement				
(Automatic Joint and 60% Survivor)	11	170,497	5	87,247
Total Benefits Being Paid	**546**	**$16,433,731**	**244**	**$4,992,477**

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, Page 27
Note 1 In previous years, included on this schedule as Straight Life.

Schedule of Membership

Year Endi ng June 30	**Retirees**	**Annual Benefits**	**Average Annual Benefits**	**Number of Active Employees**	**Annual Covered Salary**	**Average Salary**	**Deferred Members**
2000	8,703	$131.2M	$15,071	16,669	$672.5M	$40,343	3,081
1999	8,292	118.2M	14,250	16,579	642.8M	38,771	2,653
1998	7,955	107.8M	13,545	16,441	599.0M	36,432	2,271
1997	7,692	100.0M	13,000	16,635	581.5M	34,954	1,929
1996	7,499	93.6M	12,485	16,524	561.7M	33,922	1,588
1995	7,294	86.7M	11,881	16,500	550.7M	33,378	1,401
1994	7,106	80.3M	11,296	16,180	536.0M	33,128	1,189
1993	6,931	74.3M	10,718	16,154	533.1M	33,003	1,091
1992	6,759	68.7M	10,170	16,021	525.4M	32,795	1,044
1991	6,574	63.3M	9,630	15,586	494.3M	30,920	943
1990	6,416	58.5M	9,114	15,309	444.8M	32,795	861

Source: SDCERA Annual Actuarial Valuation Report

Schedule of Active Membership By Tier
(Number of Members)

	General Members		Probation Members		Safety Members		
Year Ending June 30	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Tier I**	**Tier II**	**Total Membership**
2000	1,387	11,900	**	**	391	2,991	16,669
1999	1,528	11,735	**	**	449	2,867	16,579
1998	1.578	11,731	166	753	281	1,932	16,441
1997	1,944	12,584	*	*	297	1,810	16,635
1996	2,094	12,413	*	*	311	1,706	16,524
1995	2,267	12,218	*	*	330	1,685	16,500
1994	2,422	11,794	*	*	349	1,615	16,180
1993	2,616	11,665	*	*	357	1,516	16,154
1992	2,826	11,465	*	*	382	1,348	16,021
1991	3,002	11,326	*	*	397	1,261	15,986

Source: SDCERA Annual Actuarial Valuation Report
* Previously included in General Members
** Included in Safety Members

Schedule of Average Benefit Payments

Year Ending	Number of Retirees	Total Paid	Average Per Retiree
6/30/00	8,703	$131,163,025	$15,071
6/30/99	8,292	118,154,737	14,250
6/30/98	7,955	107,752,376	13,545
6/30/97	7,692	99,998,280	13,000
6/30/96	7,499	93,627,577	12,485
6/30/95	7,294	86,660,001	11,881
6/30/94	7,106	80,270,720	11,296
6/30/93	6,931	74,286,817	10,718
6/30/92	6,759	68,741,191	10,170
6/30/91	6,574	63,307,638	9,630
6/30/90	6,416	58,472,570	9,114
6/30/89	6,162	53,161,400	8,627
12/31/88	6,001	49,201,600	8,199
12/31/87	5,773	44,403,125	7,692
12/31/86	5,594	41,041,329	7,337

Source: SDCERA Annual Actuarial Valuation Report