

San Diego City Employees' Retirement System
San Diego, California

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2005

A Defined Benefit Pension Plan for Employees of the City of San Diego, the Unified Port of San Diego, and the San Diego County Regional Airport Authority, and a Post-Employment Healthcare Benefit Plan for Employees of the City of San Diego.

San Diego City Employees' Retirement System (SDCERS) pledges to continually deliver accurate and timely benefits through prudent administration and safeguarding of SDCERS, while ensuring the Retirement System Trust Fund's maximum safety, integrity, and growth.

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RETIREMENT BOARD

Steve Meyer, President
Joe Flynn
Richard Kipperman
Tom King
Bill Lopez
Tom Page
Peter Prevolos
William Sheffler
Susan Snow
Mark Sullivan
John Thomson
John Torres
Robert Wallace

EXECUTIVE MANAGEMENT TEAM

Lawrence B. Grissom, Retirement Administrator
Paul Barnett, Asst. Retirement Administrator
Lori Chapin, General Counsel
Douglas B. McCalla, Chief Investment Officer
Patrick Lane, Division Manager
David Arce, Division Manager

**The Retirement Board meets monthly on the third Friday of each month, at 8:30AM.
Meetings are open to the public.**

CONTACT INFORMATION

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Cover Photo:
Point Loma Lighthouse
San Diego, California
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Transmittal Letter



June 1, 2007

SDCERS Board of Administration, Members, Beneficiaries and Plan Sponsors
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101-4298

I am pleased to present this Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2005 (FY 2005), with comparative data for the fiscal year ended June 30, 2004 (FY 2004) for the San Diego City Employees' Retirement System (SDCERS or the System).

SDCERS is governed by a thirteen-member Board of Administration. With the approval of Proposition H in November 2004, the composition of SDCERS' Board changed, effective April 1, 2005, to include: two members elected by general members; one member elected by Fire/Safety members; one member elected by Police/Safety members; one member elected by retired members; one member appointed by the Mayor; and seven public members who are appointed by the Mayor and confirmed by the City Council.

Significant SDCERS activity occurred in FY 2005.

- Beginning in January 2004, Mercer Human Resources Consulting and Mercer Investments conducted five comprehensive audits of SDCERS: an Actuarial Audit to review the work of SDCERS' actuary; a Federal Compliance Review to review compliance with federal and state laws governing public retirement systems; a Custodial Evaluation to review SDCERS' custodial bank and its procedures to safeguard and manage our investment assets; an Investment Operations Audit to review SDCERS' procedures with its investment managers and investment accounting practices; and a Best Practices Audit to review SDCERS' membership service. Mercer's recommendations were reviewed and prioritized and almost all of them have been implemented. This process significantly strengthened SDCERS' operations.
- In May 2005, based on Mercer's recommendation, SDCERS' Board approved filing an application for a Tax Determination Letter and participation in the Voluntary Correction Program with the Internal Revenue Service (IRS). These filings are discussed in "Post-FY 2005 Progress: IRS filings" below.
- SDCERS' actuary completed its Report of an Experience Investigation covering the period from July 1, 2001 to June 30, 2004. This Investigation was made for the purpose of analyzing financial risk areas related to mortality, withdrawal, disability, retirement, pay projection factors and investment return.
- In October 2004, the City Council requested that SDCERS prepare an actuarial analysis of the City's Deferred Retirement Option Program (DROP), and SDCERS' actuary prepared two reports in response.

Investments

SDCERS' total investment return for FY 2005 was 10.8% compared to 20.2% for FY 2004. The one-year investment performance benchmark returns for these periods were 10.2% and 16%, respectively.

As of June 30, 2005, SDCERS' annualized total investment return was +12% over the past three years, +6.4% over the past five years, and +10.2% over the past ten years. The performance benchmark returns for these same periods were +10.3%, +5.1% and +9.3%, respectively.

Post-FY 2005 Progress: Navigant Report

In August 2005, SDCERS' Board retained Navigant Consulting, Inc. to conduct an independent investigation into allegations of wrongdoing by SDCERS.

Navigant issued a report to the Board in January 2006 that concluded that there had been a breach of fiduciary duty by former SDCERS Board members approving the 1996 Manager's Proposal and 2002 Contribution Agreement presented by the City. Legal analysis of Navigant's findings concluded that approval of these agreements also violated state and municipal law. Finally, the Navigant Report concluded that the payment of certain benefits using Trust Fund assets to pay for benefit and administrative costs of retiree health care, Corbett settlement provisions related to disability retirement benefits and Presidential Leave benefits had violated Internal Revenue Code rules, jeopardizing the Trust Fund's tax exempt status. The Navigant Report is available on-line at www.sdcers.org.

The Navigant Report recommended changes in governance and oversight, actuarial soundness, tax compliance, training and education, and SDCERS' independence from the City. In response to Navigant's findings and recommendations, the Board established an ad-hoc committee to recommend appropriate reform actions to the Board for approval and implementation. The ad-hoc Navigant Report Committee, which methodically reviewed the Navigant Report's major issues, issued its report in December 2006. A copy is available on-line at www.sdcers.org.

Post-FY 2005 Progress: IRS Filings

In July 2005, SDCERS filed with the IRS an application for a Tax Determination Letter and a request for a compliance statement from the IRS under the Voluntary Correction Program (VCP). The initial VCP filing addressed a correction to the City's Presidential Leave Program for presidents of certain labor organizations that represent City employees. Since that time, additional VCP filings have been made concerning compensation limits, minimum distribution requirements, distribution rollover compliance, DROP, disability benefit overpayments, cashless leave/purchase of service credits, post employment health benefits and health administrative expenses, and benefit and compensation limits. SDCERS' position is that no penalties should be imposed for any compliance failures. Although this is a reasonable position, we cannot predict whether the IRS will accept it.

Acknowledgments

This report reflects the combined effort of SDCERS' management and staff under the Board's leadership. It is intended to provide complete and reliable information with respect to the Board's stewardship of SDCERS. Both this PAFR and the entire Comprehensive Annual Financial Report (CAFR) are available in hard copy to all members and beneficiaries, upon request, and on-line at www.sdcers.org.

I would like to express my appreciation to the Board of Administration and all my SDCERS colleagues for their dedication and hard work. I would also like to thank our consultants, investment managers, and the many others who work diligently to ensure SDCERS' success.

If you have questions about this PAFR or any aspect of SDCERS' operations, please contact us.

Respectfully submitted,



David B. Wescoe
Administrator/CEO

SDCERS' SUMMARY FINANCIAL STATEMENTS

Statements of Plan Net Assets as of June 30 (\$ in millions)

	2005		2004	
	Defined Benefit Pension Plan	Post-Employment Healthcare Benefits	Defined Benefit Pension Plan	Post-Employment Healthcare Benefits
Cash and Cash Equivalents	\$440,955,832		\$334,714,816	\$9,136,409
Receivables	49,009,979		43,237,013	
Securities Sold	85,818,964		44,965,113	
Investments, at Fair Value	3,271,515,667		2,937,694,387	
Securities Lending Collateral	434,363,945		319,748,403	
Fixed Assets and Prepaid Expenses	141,680		193,471	
Total Assets	\$4,281,806,067		\$3,680,553,203	\$9,136,409
Current Liabilities	\$234,121,704		\$191,483,693	\$52,887
Securities Purchased	161,568,431		85,658,151	
Securities Lending Obligations	434,363,945		319,748,403	
Total Liabilities	\$830,054,080		\$596,890,247	\$52,887
Net Assets Held in Trust for the Payment of Benefits	\$3,451,751,987		\$3,083,662,956	\$9,083,522

Statements of Changes in Plan Net Assets as of June 30 (\$ in millions)

	2005		2004	
	Defined Benefit Pension Plan	Post-Employment Healthcare Benefits	Defined Benefit Pension Plan	Post-Employment Healthcare Benefits
Sponsor and Members' Contributions	\$249,008,893		\$214,440,513	
Total Net Investment Income	350,209,486		536,820,063	\$376,109
Total Additions to Plan Assets	\$599,218,379		\$751,260,576	\$376,109
Monthly Retirement Allowances	\$201,006,814		\$161,658,640	
Health Insurance Payments		\$7,910,366		\$12,829,903
Other Benefit Payments	16,532,312		14,229,145	
Total Benefit Payments	217,539,126	7,910,366	175,887,785	12,829,903
Refunds of Members' Contributions	2,802,986		2,108,909	
Administrative and Depreciation Expenses	11,960,392		9,888,752	274,511
Total Deductions from Plan Assets	\$232,302,504	\$7,910,366	\$187,885,446	\$13,104,414
Net Assets Held in Trust for the Payment of Benefits				
Beginning of Year	\$3,083,662,956	\$ 9,083,522	\$2,520,287,826	\$21,811,827
Transfer of Plan Net Assets	1,173,156	(1,173,156)		
Net Increase (Decrease)	366,915,875	(7,910,366)	563,375,130	(12,728,305)
End of Year	\$3,451,751,987	\$0	\$3,083,662,956	\$9,083,522

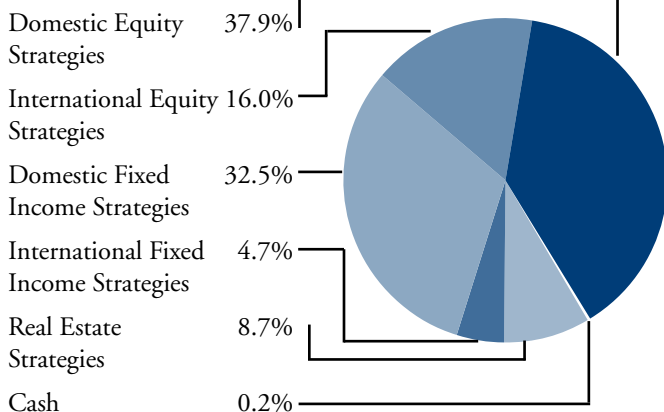
The above financial statements are a summary depiction of SDCERS' audited financial statements. The complete audited financial statements and pertinent notes to the financial statements can be found in *SDCERS' FY 2005 CAFR*. The basic financial statements of SDCERS, as presented in *SDCERS' FY 2005 CAFR*, have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, established financial reporting standards for defined benefit plans by which *SDCERS' FY 2005 CAFR* complies with in the presentation of the financial statements and note disclosures.

SDCERS' INVESTMENT ALLOCATIONS

SDCERS' diversified target investment allocations for the years ended June 30, 2005 and 2004, were as follows: 38% U.S. domestic equity; 15% international (non-U.S.) equity; 32% U.S. domestic fixed income; 5% international (non-U.S.) fixed income; and 10% real estate (U.S. directly-owned assets and REIT stocks). SDCERS does not have a target allocation to cash. SDCERS exercises an opportunistic, yet disciplined rebalancing process to maintain asset allocation exposures and control risk.

Actual Investment Allocations as of June 30, 2005

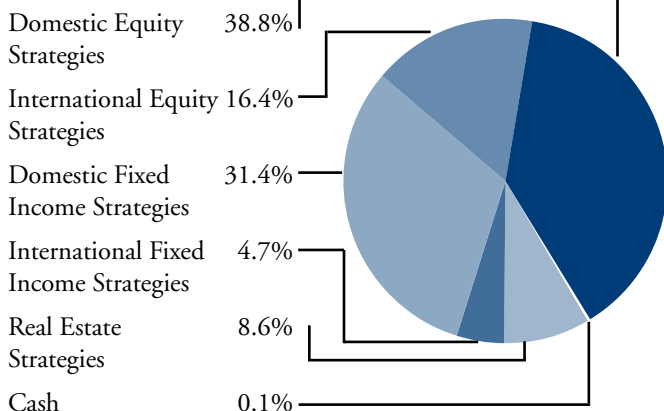
2005



Domestic Equity Strategies	\$1,407,186,596
International Equity Strategies	594,947,042
Domestic Fixed Income Strategies	1,207,844,678
International Fixed Income Strategies	172,494,993
Real Estate Strategies	321,907,838
Cash	7,090,352
Total Investments, At Fair Value	3,711,471,499
Less Pending Transactions	(75,749,467)
Total Net Investments	\$3,635,722,032

Actual Investment Allocations as of June 30, 2004

2004

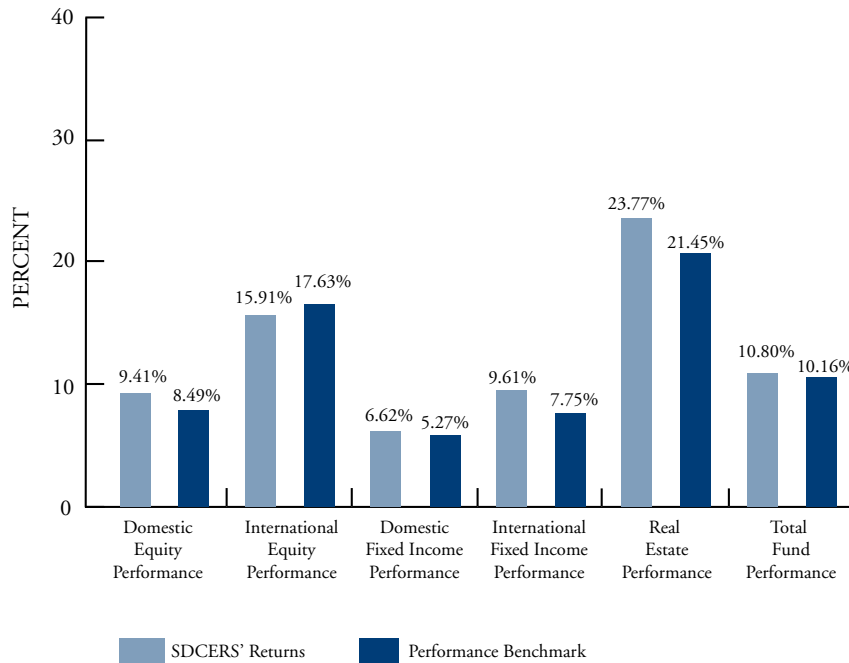


Domestic Equity Strategies	\$1,271,464,422
International Equity Strategies	539,343,173
Domestic Fixed Income Strategies	1,030,002,991
International Fixed Income Strategies	154,837,163
Real Estate Strategies	282,242,314
Cash	3,655,549
Total Investments, At Fair Value	3,281,545,612
Less Pending Transactions	(40,693,038)
Total Net Investments	\$3,240,852,574

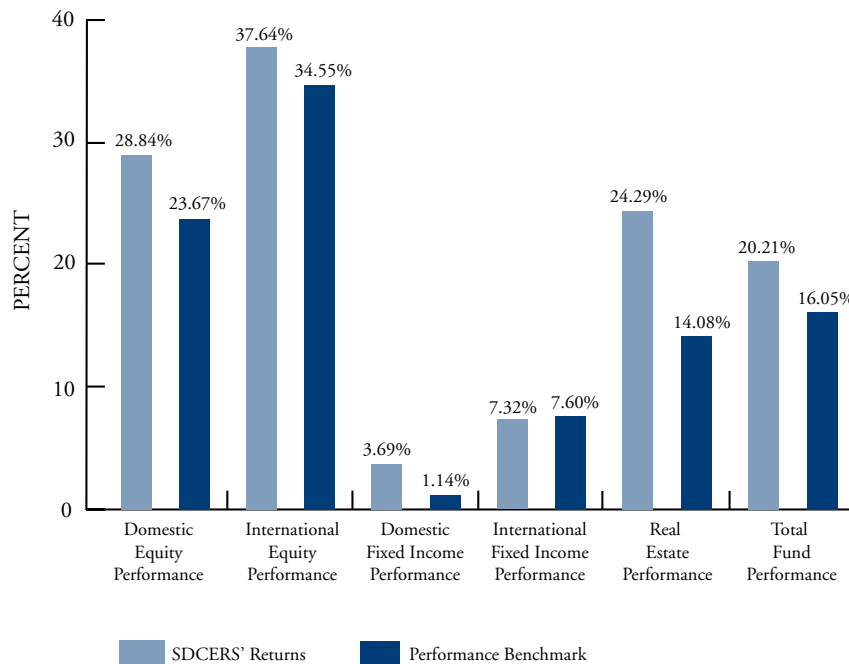
Actual asset allocation values illustrated above are based upon SDCERS' investment managers' specific strategies. Each portfolio, including all securities and cash held by an investment manager, is categorized based upon the strategy that SDCERS hired that manager to execute. SDCERS does not have a target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

SDCERS' INVESTMENT RETURNS

For the One-Year Ended June 30, 2005



For the One-Year Ended June 30, 2004



As of June 30, 2005, SDCERS' annualized 3-year, 5-year and 10-year Total Fund Performance was +11.98%, +6.35% and +10.23%, respectively, as compared to SDCERS' Custom Blended Total Fund Performance Benchmark annualized returns of +10.26%, +5.12% and +9.32% over the same time period.

**PLAN SPONSOR DATA
CITY OF SAN DIEGO**

SDCERS increased by 73 participants (City): -199 members and +272 retirees

	6/30/2005	6/30/2004
Active & Inactive Members	11,434	11,633
Retired Members & DROP Participants	5,995	5,723
Totals	17,429	17,356

**The following four tables present data from the actuarial valuations
as of June 30, 2005 and June 30, 2004**

Funded Ratio increased by 2.4% as of June 2005 from June 2004

(\$ in thousands)	6/30/2005	6/30/2004
Actuarial Value of Assets	\$2,983,080	\$2,628,680
Actuarial Accrued Liability	\$4,377,093	\$3,997,328
Funded Ratio	68.2%	65.8%
Unfunded Actuarial Accrued Liability	\$1,394,013	\$1,368,648

Allowances Being Paid +272 recipients, +6.6% in amount as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	3,728	\$37,863	3,480	\$35,539
Disability Retirement Annuity	1,239	23,482	1,247	22,735
Death Before Retirement Payment	0	0	31	18,997
Death After Retirement Annuity	1,028	9,670	965	8,994
Totals	5,995	\$30,057	5,723	\$28,184

Active Members -313; average salaries +6.7% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Salary	No.	Avg. Salary
Totals	9,436	\$59,096	9,749	\$55,409

Inactive Members +114; average contribution balance +21.7% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	1,998	\$25,235	1,884	\$20,728

PLAN SPONSOR DATA
UNIFIED PORT OF SAN DIEGO

SDCERS increased by 21 participants (Port): +5 members and +16 retirees

	6/30/2005	6/30/2004
Active & Inactive Members	808	803
Retired Members & DROP Participants	306	290
Totals	1,114	1,093

**The following four tables present data from the actuarial valuations
as of June 30, 2005 and June 30, 2004**

Funded Ratio increased by 2.0% as of June 2005 from June 2004

(\$ in thousands)	6/30/2005	6/30/2004
Actuarial Value of Assets	\$163,691	\$141,375
Actuarial Accrued Liability	\$198,072	\$175,366
Funded Ratio	82.6%	80.6%
Unfunded Actuarial Accrued Liability	\$34,381	\$33,991

Allowances Being Paid +16 recipients, +7.0% in amount as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	192	\$31,266	180	\$29,001
Disability Retirement Annuity	60	18,020	59	17,871
Death Before Retirement Payment	0	0	1	9,714
Death After Retirement Annuity	54	10,528	50	9,924
Totals	306	\$25,009	290	\$23,381

Active Members -17; average salaries +3.5% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	558	\$62,863	575	\$60,723

Inactive Members +22; average contribution balances +35.8% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	250	\$13,421	228	\$9,882

PLAN SPONSOR DATA
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

SDCERS increased by 37 participants (Airport): +33 members and +4 retirees

	6/30/2005	6/30/2004
Active & Inactive Members	310	277
Retired Members & DROP Participants	7	3
Totals	317	280

**The following four tables present data from the actuarial valuations
as of June 30, 2005 and June 30, 2004**

Funded Ratio increased by 18.8% as of June 2005 from June 2004

(\$ in thousands)	6/30/2005	6/30/2004
Actuarial Value of Assets	\$28,551	\$16,225
Actuarial Accrued Liability	\$32,603	\$23,579
Funded Ratio	87.6%	68.8%
Unfunded Actuarial Accrued Liability	\$4,051	\$7,354

Allowances Being Paid +4 recipients, +31.9% in amount as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	7	\$31,564	3	\$23,926
Disability Retirement Annuity	0	0	0	0
Death Before Retirement Payment	0	0	0	0
Death After Retirement Annuity	0	0	0	0
Totals	7	\$31,564	3	\$23,926

Active Members +19; average salaries +5.3% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	284	\$62,003	265	\$58,890

Inactive Members +14; average contribution balances +135.5% as of June 2005 from June 2004

	6/30/2005		6/30/2004	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	26	\$9,356	12	\$3,972

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM SCHEDULE OF PARTICIPATING PLAN SPONSORS



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



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



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



401 West A Street, Suite 400
San Diego, CA 92101-4298
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Web site: www.sdccers.org

This Popular Annual Financial Report contains summary information derived from SDCERS' FY 2005 *Comprehensive Annual Financial Report* (CAFR). For complete information regarding SDCERS' financial status, please refer to SDCERS' FY 2005 CAFR, which is available on SDCERS' Web site at www.sdccers.org.