

San Diego City Employees' Retirement System  
San Diego, California

# Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2007



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

*The San Diego City Employees' Retirement System's (SDCERS) mission is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.*

## WHAT'S INSIDE

Letter from SDCERS' Administrator/CEO .....	3
SDCERS' Summary Financial Statements .....	5
SDCERS' Investment Allocations.....	6
SDCERS' Investment Returns.....	7
Plan Sponsor Data - City of San Diego .....	8
Plan Sponsor Data - Unified Port of San Diego.....	9
Plan Sponsor Data - San Diego County Regional Airport Authority.....	10

## RETIREMENT BOARD

Thomas C. Hebrank, President  
Mark C. Sullivan, Vice-President  
Susan S. Gonick  
V. Wayne Kennedy  
Franklin R. Lamberth  
Carmen C. Lutes  
Steven W. Meyer  
George A. Murray  
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Jo Anne SawyerKnoll  
William J. Sheffler  
John G. Thomson

## EXECUTIVE MANAGEMENT TEAM

David B. Wescoe, Retirement Administrator  
Robert L. Wilson, Jr., Chief Financial Officer  
Christopher W. Waddell, General Counsel  
Douglas B. McCalla, Chief Investment Officer  
Roxanne Story Parks, Chief Compliance Officer  
David A. Arce, Director, Benefits Administration  
Rebecca L. Wilson, Director, Member Services  
David A. Bond, Director, Information Technology

**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:  
San Diego Skyline  
Taken by Quang-Tuan Luong

## TRANSMITTAL LETTER



March 31, 2008

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

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

I am pleased to present this Popular Annual Financial Report (PAFR) and accompanying Operations Summary for the fiscal year ended June 30, 2007 (FY 2007).

With the publication of SDCERS' FY 2007 Comprehensive Annual Financial Report, SDCERS is now current in its financial reporting. While not the only achievement by SDCERS over the past two years, it is perhaps the most important. Other achievements include:

**Actuarial Improvements.** In February 2007, SDCERS' actuary, Cheiron, issued its June 30, 2006 Actuarial Valuations for our three plan sponsors that are the result of a systematic and thorough actuarial funding study and reflect the transparent transition to more widely-accepted and adopted actuarial methods.

**Audit Committee and Independent Audit Firm.** In August 2006, the Board established an independent Audit Committee to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process and compliance with laws, regulations and internal policies and procedures. Three non-Trustee San Diego citizens comprise the majority of the five-member Audit Committee, making this a truly independent committee. SDCERS' Internal Auditor reports directly to the Audit Committee to ensure that position is independent from management.

**Group Trust.** To ensure that the assets of our three plan sponsors are separated from each other consistent with the City Charter and Municipal Code, the Board adopted a Group Trust in March 2007.

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

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

**Tax Compliance.** In July 2005, SDCERS filed an application for a Determination Letter with the Internal Revenue Service and a request for a compliance statement under the IRS' Voluntary Correction Program (VCP). All outstanding IRS issues were resolved when, in December 2007, the Board unanimously approved a Compliance Statement with the IRS.

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

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

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

Respectfully submitted,



David B. Wescoe  
Administrator and CEO

## SDCERS' SUMMARY FINANCIAL STATEMENTS

Statements of Plan Net Assets as of June 30

	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents	\$528,285,188	\$493,192,881
Receivables	40,003,580	43,230,846
Securities Sold	79,153,778	48,576,193
Investments, at Fair Value	4,402,945,236	3,826,865,975
Securities Lending Collateral	854,630,428	581,289,763
Fixed Assets and Prepaid Expenses	264,388	125,080
<b>Total Assets</b>	<b>\$5,905,282,598</b>	<b>\$4,993,280,738</b>
Current Liabilities	\$280,909,851	\$231,833,993
Securities Purchased	88,021,859	166,332,290
Securities Lending Obligations	854,630,428	581,289,763
<b>Total Liabilities</b>	<b>\$1,223,562,138</b>	<b>\$979,456,046</b>
<b>Net Assets Held in Trust for the Payment of Benefits</b>	<b>\$4,681,720,460</b>	<b>\$4,013,824,692</b>

Statements of Changes in Plan Net Assets as of June 30

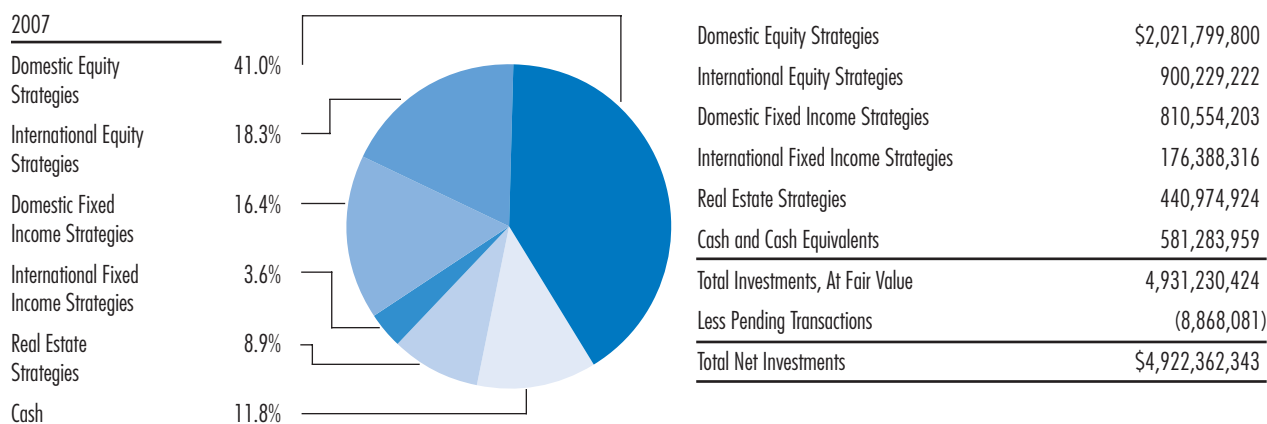
	<u>2007</u>	<u>2006</u>
Sponsor and Members' Contributions	\$255,439,706	\$350,833,805
Total Net Investment Income	689,860,139	455,726,222
Litigation Proceeds and Other Income	619,044	15,500,000
<b>Total Additions to Plan Assets</b>	<b>\$945,918,889</b>	<b>\$822,060,027</b>
Monthly Retirement Allowances	\$235,262,751	\$214,704,695
Other Benefit Payments	20,263,468	17,748,612
Refunds of Members' Contributions	3,393,507	4,559,977
Administrative, Depreciation & Litigation Expenses	19,103,395	22,974,038
<b>Total Deductions from Plan Assets</b>	<b>\$278,023,121</b>	<b>\$259,987,322</b>
<b>Net Assets Held in Trust for the Payment of Benefits</b>		
Beginning of Year	\$4,013,824,692	\$3,451,751,987
Net Increase	667,895,768	562,072,705
<b>End of Year</b>	<b>\$4,681,720,460</b>	<b>\$4,013,824,692</b>

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 2007 CAFR*. The basic financial statements of SDCERS, as presented in *SDCERS' FY 2007 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 2007 CAFR* complies with in the presentation of the financial statements and note disclosures.

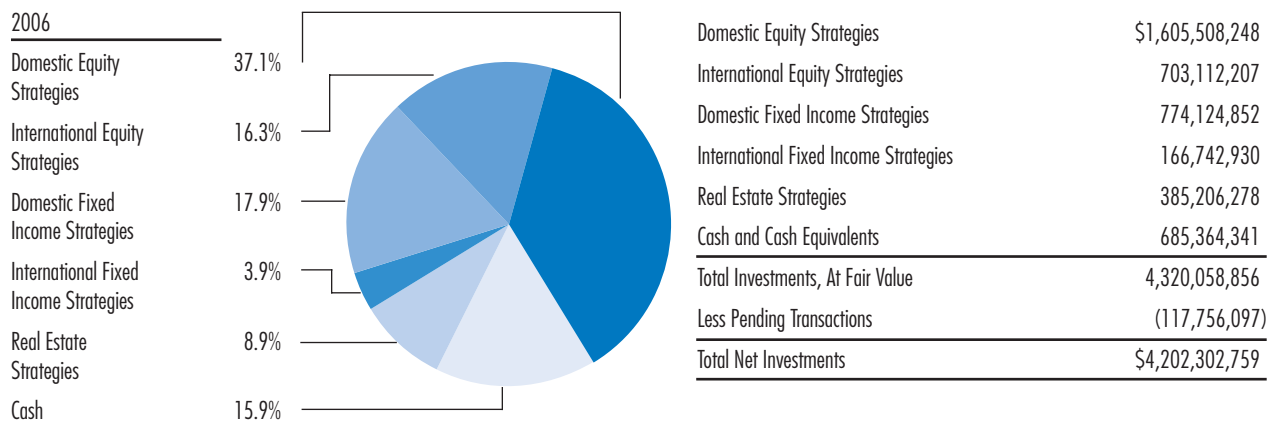
## SDCERS' INVESTMENT ALLOCATIONS

SDCERS' diversified target investment allocations for the years ended June 30, 2007 and 2006, 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, 2007

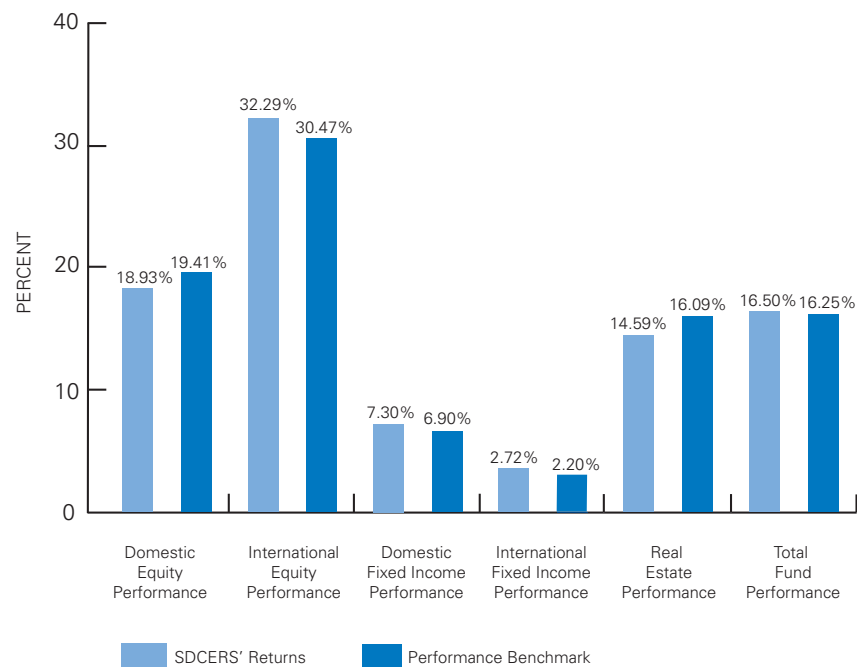


### Actual Investment Allocations as of June 30, 2006

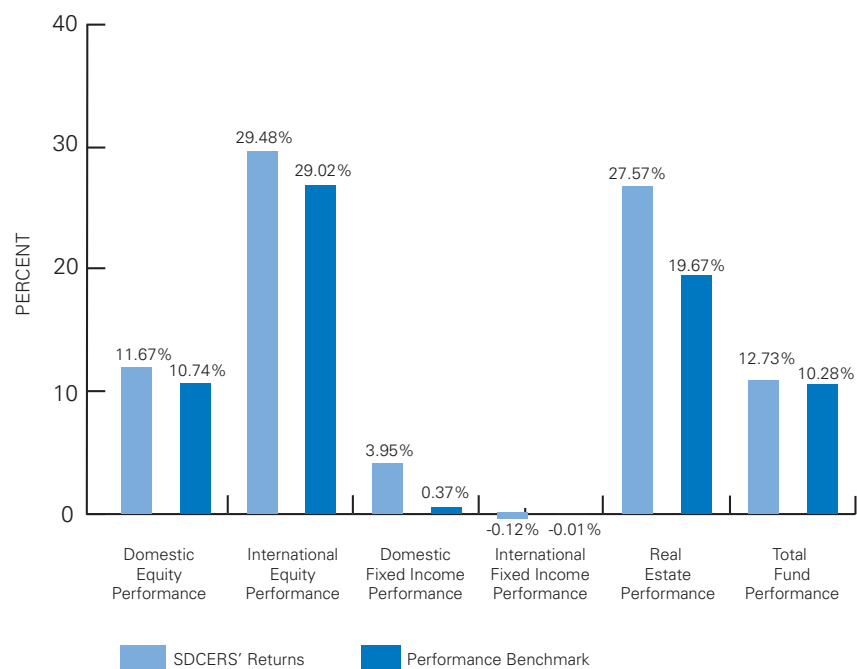


## SDCERS' INVESTMENT RETURNS

### For the One-Year Ended June 30, 2007



### For the One-Year Ended June 30, 2006



As of June 30, 2007, SDCERS' annualized 3-year, 5-year and 10-year Total Fund Performance was +13.32%, +13.02% and +9.96%, respectively, as compared to SDCERS' Custom Blended Total Fund Performance Benchmark annualized returns of +12.19%, +11.44% and +8.72% over the same time period.

**PLAN SPONSOR DATA**  
**CITY OF SAN DIEGO**

*Membership increased by 132 participants: -146 members and +278 retirees*

	6/30/2007	6/30/2006
Active & Inactive Members	11,100	11,246
Retired Members & DROP Participants	6,679	6,401
Totals	17,779	17,647

**The following four tables present data from the actuarial valuations  
as of June 30, 2007 and June 30, 2006**

*Funding Progress decreased by 1.1% as of June 2007 from June 2006*

(\$ in thousands)	6/30/2007	6/30/2006
Actuarial Value of Assets	\$4,413,411	\$3,981,932
Actuarial Accrued Liability	\$5,597,653	\$4,982,699
Funded Ratio	78.8%	79.9%
Unfunded Actuarial Liability	\$1,184,242	\$1,000,768

*Allowances Being Paid: +278 number of recipients; +5.0% in average allowance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	4,354	\$43,139	4,118	\$41,328
Disability Retirement Annuity	1,245	26,845	1,237	25,863
Death Before Retirement Payment	28	21,624	29	20,483
Death After Retirement Annuity	1,052	11,698	1,017	10,791
Totals	6,679	\$35,059	6,401	\$33,393

*Active Members: -393 number of members; +0.4% in average annual salary as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	8,494	\$60,330	8,887	\$60,099

*Inactive Members: +247 number of members; +14.7% in average contribution balance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	2,606	\$34,669	2,359	\$30,237



**PLAN SPONSOR DATA**  
**UNIFIED PORT OF SAN DIEGO**

*Membership increased by 44 participants: +20 members and +24 retirees*

	6/30/2007	6/30/2006
Active & Inactive Members	813	793
Retired Members & DROP Participants	349	325
<b>Totals</b>	<b>1,162</b>	<b>1,118</b>

**The following four tables present data from the actuarial valuations  
as of June 30, 2007 and June 30, 2006**

*Funding Progress increased by 1.4% as of June 2007 from June 2006*

(\$ in thousands)	6/30/2007	6/30/2006
Actuarial Value of Assets	\$230,585	\$203,286
Actuarial Accrued Liability	\$246,538	\$220,637
Funded Ratio	93.5%	92.1%
Unfunded Actuarial Liability	\$15,953	\$17,351

*Allowances Being Paid: +24 number of recipients; +4.4% in average allowance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	233	\$33,950	211	\$32,936
Disability Retirement Annuity	61	19,264	62	18,962
Death Before Retirement Payment	1	10,970	1	10,106
Death After Retirement Annuity	54	12,778	51	11,682
<b>Totals</b>	<b>349</b>	<b>\$28,041</b>	<b>325</b>	<b>\$26,865</b>

*Active Members: +27 number of members; +4.2% in average annual salary as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
<b>Totals</b>	<b>559</b>	<b>\$66,476</b>	<b>532</b>	<b>\$63,773</b>

*Inactive Members: -7 number of members; -12.1% in average contribution balance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
<b>Totals</b>	<b>254</b>	<b>\$13,170</b>	<b>261</b>	<b>\$14,978</b>

**PLAN SPONSOR DATA**  
**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY**

*Membership increased by 41 participants: +36 members and +5 retirees*

	6/30/2007	6/30/2006
Active & Inactive Members	376	340
Retired Members & DROP Participants	12	7
Totals	388	347

**The following four tables present data from the actuarial valuations  
as of June 30, 2007 and June 30, 2006**

*Funding Progress decreased by 2.7% as of June 2007 from June 2006*

(\$ in thousands)	6/30/2007	6/30/2006
Actuarial Value of Assets	\$50,812	\$41,222
Actuarial Accrued Liability	\$46,637	\$36,905
Funded Ratio	109.0%	111.7%
Unfunded Actuarial Liability	(\$4,176)	(\$4,317)

*Allowances Being Paid: +5 number of recipients; -8.0% in average allowance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	11	\$27,774	6	\$31,013
Disability Retirement Annuity	0	0	0	0
Death Before Retirement Payment	0	0	0	0
Death After Retirement Annuity	1	22,040	1	21,612
Totals	12	\$27,297	7	\$29,670

*Active Members: +29 number of members; +4.6% in average annual salary as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	324	\$67,767	295	\$64,799

*Inactive Members: +7 number of members; +6.7% in average contribution balance as of June 2007 from June 2006*

	6/30/2007		6/30/2006	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	52	\$14,162	45	\$13,272

**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](http://www.sandiego.gov)



**Unified Port of San Diego**

3165 Pacific Highway  
San Diego, CA 92101-1128  
(619) 686-6200  
[www.portofsandiego.org](http://www.portofsandiego.org)



**San Diego County Regional Airport Authority**

3225 North Harbor Drive  
San Diego, CA 92101-1022  
(619) 400-2400  
[www.san.org](http://www.san.org)



401 West A Street, Suite 400  
San Diego, CA 92101-7991  
(800) 774-4977 or (619) 525-3600  
[www.sdcers.org](http://www.sdcers.org)

*This Popular Annual Financial Report contains summary information derived from SDCERS' FY 2007 Comprehensive Annual Financial Report (CAFR). For complete information regarding SDCERS' financial status, please refer to SDCERS' FY 2007 CAFR, which is available on SDCERS' Web site at [www.sdcers.org](http://www.sdcers.org).*