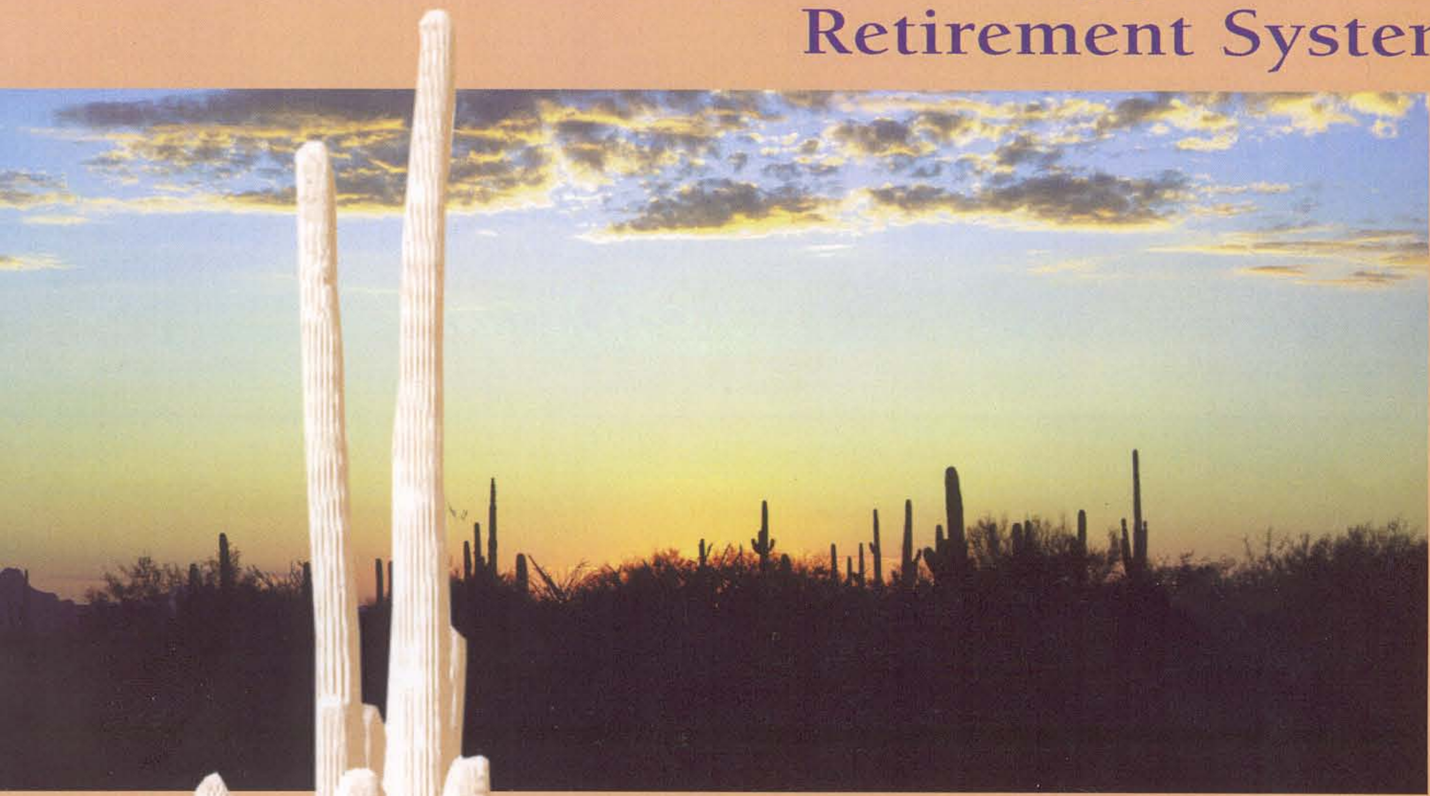
City of Tucson

Tucson Supplemental Retirement System



A Component Unit of the
City of Tucson, Arizona

Comprehensive Annual Financial Report

Fiscal Year July 1, 2005 Through June 30, 2006

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
(A Component Unit of the City of Tucson, Arizona)

Comprehensive Annual Financial Report
For Fiscal Year Ended
JUNE 30, 2006

Issued by the City of Tucson, Finance Department, Treasury Division

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INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Tucson Supplemental Retirement System, Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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

December 15, 2006

Chairman and Members of the Retirement Board
Tucson Supplemental Retirement System

The Comprehensive Annual Financial Report (CAFR) of the Tucson Supplemental Retirement System ("TSRS" or the "System") for the year ended June 30, 2006, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of TSRS. A narrative introduction, overview and analysis can be found in Management's Discussion and Analysis beginning on page 3.

This report consists of five sections:

- the **Introductory Section**, which contains this letter of transmittal and the organizational structure;
- the **Financial Section**, which contains the Independent Auditor's Report, Management's Discussion and Analysis, the audited financial statements, notes to the financial statements, and relevant supplemental information and supporting schedules for the fiscal year ended June 30, 2006;
- the **Investment Section**, which contains a letter from the Investment Consultant, an outline of investment policies, investment results, asset allocation and other investment schedules;
- the **Actuarial Section**, which contains the independent actuary's certification letter and results of the annual actuarial valuation; and
- the **Statistical Section,** which provides financial and demographic data pertaining to TSRS.

The Tucson Supplemental Retirement System was established in 1953 to provide retirement, survivor, and disability benefits to eligible City of Tucson (City) employees. Substantially all full-time and certain part-time employees, with the exception of those covered by the Arizona Public Safety Personnel Retirement System or the Elected Officials Retirement Plan of Arizona, are covered by TSRS.

A member of the System is eligible for normal retirement upon the earlier of (1) reaching the age of 62, or (2) when a combination of the employee's age and years of creditable service including accrued and unused sick leave and vacation leave equal the sum of 80. Early service retirement benefits are also available for members who attain the age of 55 with 20 or more years of creditable service.

Record keeping, financial statement, and investment control responsibilities of TSRS have been performed by the Accounting and Treasury Divisions of the City's Finance Department. TSRS uses the accrual basis of accounting. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Internal accounting controls provide reliable financial records for preparation of financial statements, and provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition.

Budgetary Controls

Annually, the budget for the System must be approved by the Board of Trustees. The budget is also included in the City of Tucson annual budget which is recommended by the City Manager for adoption by the Mayor and Council.

Provisions of the Tucson City Code require unanimous approval of all System expenses by the Board of Trustees. Quarterly, the Board of Trustees reviews the financial report and expenses listing and ratifies all expenses.

Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a period of forty years from July 1, 1982. Sixteen years remain from July 1, 2006.

Major Initiatives

During the fiscal year 2006, the City Code was amended to allow members of the Tucson Supplemental Retirement system opportunities to transfer service credits from previous employers or purchase additional creditable service. Effective September 1, 2004, active members that have prior government service residing in another government pension system may choose to transfer these credits to TSRS. In addition, members may elect to purchase eligible service credits that were formerly limited to a maximum of five years.

The Board granted an ad hoc retirement benefit increase as of August 1, 2006 for retirees with retirement dates prior to July 1, 1996, based on the total number of credited years of service at retirement, benefiting those retired for the longer periods and most affected by inflationary trends. Of the 1,878 retirees in the system, a total of 805 received a benefit increase.

Funding Status

Analysis of the funding progress measures the net assets available for benefits against the actuarially accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2006, the fund was 79.9% funded versus 77.6% funded as of June 30, 2005. The actuarially accrued liability increased from $693,870,831 to $735,793,483 an increase of 6% and the actuarial value of assets available for benefits increased by 9.2% from $538,788,828 to $588,227,845. The System's unfunded actuarial accrued liability decreased by $7,516,365 during this plan year. Elements associated with this change include experience losses attributable to pay increases of $5,581,000 and retiree mortality of $1,409,000. A combination of experience gains attributable to investment returns in the amount of $9,049,000 and employee turnover, pre-retirement mortality and other factors amounting to a gain of $5,903,000 helped offset losses. Actuarial liabilities increased as a result of the ad hoc COLA granted in August 2006 of $1.42 million. On June 30, 2006, the City of Tucson initiated an intergovernmental agreement with Pima County, effecting a transfer of 250 active participants in TSRS to County employment. This transfer, as well as other normal activity that took place during the year dropped TSRS active member rolls by 10%. Vested inactive membership increased by 136 members that have requested a transfer of service to the Arizona State Retirement System after the end of this fiscal year.

Investment Activities

The Board of Trustees reviews manager reports and schedules investment manager meetings throughout the year to review performance, economic outlook, and investment strategy. The Treasury Division staff monitors the investment portfolios and provides monthly reports to the Board regarding target and actual allocation levels and any unusual investment activities.

Net investment gain amounted to $57,549,259. The net investment gain is comprised of bond interest, dividend income, real estate income, security lending income and realized and unrealized gains and losses on securities. The rate of return for the total fund for the year was 10.65%. For the last five years, the System has had an annualized return of 6.24%.

TSRS asset allocation targets are 49% U.S. equities, 15% foreign equities, 8% real estate and 28% fixed income. These percentages reflect the current diversification posture as of June 30, 2006 and represent the board's prudent judgement in the pursuit of maximum returns at acceptable levels of risk.

During the fall of 2005, the Board of Trustees decided to increase diversification of the existing portfolio by adding two new enhanced index equity products. After careful evaluation and with the assistance of the System's investment consultant, the Board chose two large cap enhanced index equity funds managed by PIMCO and Barclays Global Investors, respectively. Each manager received approximately a 5% allocation from current equity portfolio accounts. The new Barclays *Alpha Tilts* account was funded with a $29.6 million transfer from the existing Barclays Russell 1000 Index account and the new PIMCO *StocksPlus* account was funded with a $30.8 million transfer from the existing Alliance S&P 500 Index account. Funding for Barclays Alpha Tilts was completed in January 2006 and funding for PIMCO StocksPlus was completed at the end of March 2006.

Funding commenced during the current fiscal year for the two new real estate accounts established towards the end of the prior fiscal year. After a series of capital calls, the $8.1 million funding commitment for the J.P. Morgan Income & Growth Fund was finally completed in May 2006. As of June 30, 2006, the LaSalle Income and Growth Fund IV was 33% funded with $5.4 of the $8.1 million commitment still outstanding.

In accordance with investment policy, the System's asset classes were rebalanced in May 2006. This consisted of moving $15.5 million from international equity to fixed income. This adjustment brought these asset classes within their target allocation percentages.

Hewitt Investment Group continues as investment consultant to the System and Mellon Trust continues to serve as master custodian.

Professional Services

The Retirement Board retains money managers and other professionals to prudently discharge its fiduciary responsibility for the proper administration of the System. Opinions of the independent auditors and the actuary are included in this report. The professionals retained by the Board are listed on page vii of this report.

Acknowledgments

This report is intended to provide information as a means for making management decisions, complying with statutory provisions, and demonstrating responsible stewardship for assets of the System. The preparation of this report reflects the combined efforts of TSRS staff, the City of Tucson Finance Department, and others that have worked diligently to assure the successful operation of TSRS. A special word of appreciation is due to Enid Moore-Cranshaw, Principal Accountant and to Claire Beaubien, Administrative Assistant, who both contributed many hours to produce this report. The direction and support extended by the Board of Trustees is also greatly appreciated.

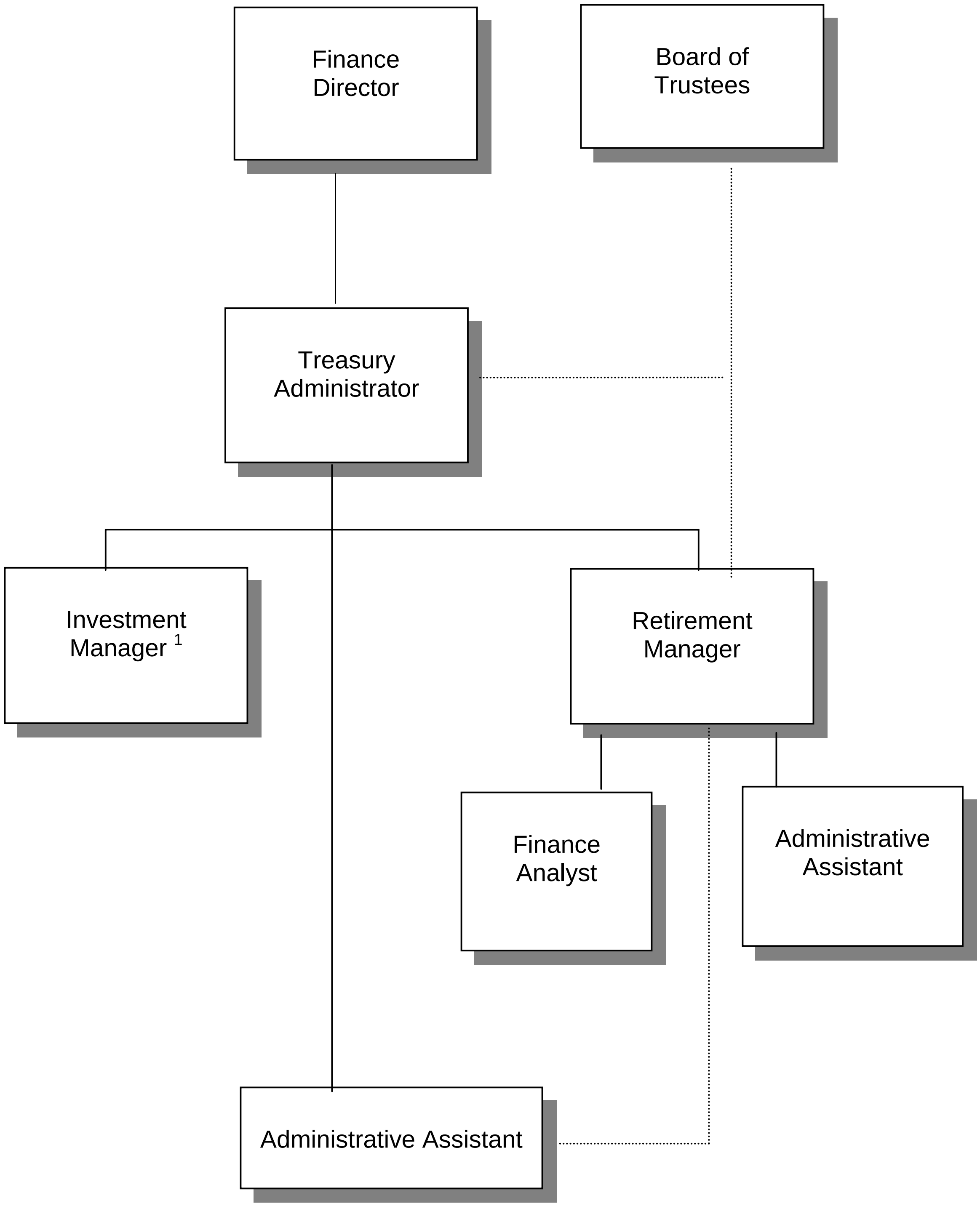
In addition, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TSRS for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. However, TSRS has received this award for each of the 10 consecutive years it has participated in the GFOA program. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,

Michael A. Hermanson, CPA
Retirement Manager

Organizational Chart



Note [1]: A listing of the investment managers for the System can be found on page vii.

Administrative Organization

BOARD OF TRUSTEES
Brian Bjorndahl
Chairman

John Moore
City Manager's Appointee

J. Scott Douthitt
Finance Director

Cindy Bezaury
Human Resources Director

John O'Hare
Employee Representative

Marie Nemerguth
Employee Representative

Paul D. Miner
Retiree Representative

TREASURY STAFF
Robert Leko
Treasury Administrator

Allan Bentkowski, CPA
Investment Manager

Michael A. Hermanson, CPA
Retirement Manager

Doris Rentschler, CFP
Finance Analyst

Claudia Proios
Administrative Assistant

Claire Beaubien, CPS
Administrative Assistant

ACCOUNTING
Enid Moore-Crenshaw
Principal Accountant

LEGAL
Frank W. Kern
Principal Assistant City Attorney

ACTUARY
Gabriel, Roeder, Smith & Company
San Diego, CA

AUDITOR
Heinfeld, Meech & Company, P.C.
Tucson, AZ

INVESTMENT MANAGERS
Alliance Capital Management Corporation
New York, NY

Barclays Global Investors
San Francisco, CA

Causeway Capital Management
Los Angeles, CA

Fidelity Management Trust Company
Boston, MA

JP Morgan Fleming Asset Management
San Francisco, CA

Julius Baer Investment Management LLC
New York, NY

LaSalle Investment Manangement
Chicago, IL

Pacific Investment Management Company
Newport Beach, CA

Trust Company of the West
Los Angeles, CA

INVESTMENT CONSULTANT
Hewitt Investment Group
Lincolnshire, IL

CUSTODIAN BANK
Mellon Trust
San Francisco, CA

CITY OF

FOUNDED 1775

TUCSON

FINANCIAL SECTION

HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
Kera Badalamenti, CPA

10120 N. Oracle Road
Tucson, Arizona 85704
(520) 742-2611
Fax (520) 742-2718

www.heinfeldmeech.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Tucson Supplemental Retirement System:

We have audited the accompanying financial statements of the Tucson Supplemental Retirement System (the System), a component unit of the City of Tucson, Arizona, as of and for the year ended June 30, 2006, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. 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 respective financial position of the Tucson Supplemental Retirement System, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress and schedule of employer contributions on pages 20 and 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, supporting schedules of the financial section, investment section, actuarial section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules in the financial section 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 introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

November 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Tucson Supplemental Retirement System (TSRS) for the plan year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page ii of this report.

Financial Highlights

- The net assets of TSRS as of the close of the plan year ending June 30, 2006 are $615,375,947 (net assets held in Trust for Pension Benefits). All of the net assets are available to meet TSRS's ongoing obligations to plan participants and their beneficiaries.

- TSRS's increase in total net assets held in trust for pension benefits increased by $56,233,749 or 10.1%, primarily as a result of increases in the market value of the System's assets.

- TSRS's funding objective is to establish and receive contributions, which will remain approximately level from year to year and thereby minimize inter-generational cost transfers. As of June 30, 2006, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 79.9%.

- Revenues (Additions to Plan Net Assets) for the year were $91,844,780, which includes member and employer contributions plus transfers from other systems totaling $34,295,521, and an Investment gain of $62,263,814 reduced by Investment Expenses of $4,714,555.

- Expenses (Deductions from Plan Net Assets) increased from $33,185,744 to $35,611,031 over the prior year, or approximately 7.3%. The increase in deductions was largely due to benefit payments increasing over the prior year in the amount of $2,118,156; in addition to increases in administrative expenses of $44,047; and refunds and transfers to other systems over the prior year of $263,054; bringing the total increase in expenses to $2,425,257.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to TSRS's financial statements, which are comprised of these components:

1. Statement of Plan Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves, including details of the system's investments, actuarial analysis, and various statistical information found in sections under those names.

The Statement of Plan Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Plan Net Assets, on the other hand, provides a view of current year additions to and deductions from the plan.

Both statements are in compliance with Governmental Accounting Standards Board (GASB) Statements Pronouncements 25, 26, 28, 33, 34, 37, 38, and 40. In addition, implementation of GASB Statement No. 44 has been applied for the first time to this year's statistical section. These pronouncements require certain disclosures and require state and local governments to report using the full accrual method of accounting. TSRS complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about TSRS's activities. 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 were taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all capital assets (fixed assets) are depreciated over their useful lives.

These two statements report TSRS's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – as one way to measure the system's financial position. Over time, increases and decreases in TSRS's net assets are one indicator of whether its financial condition is improving or deteriorating. (See TSRS's financial statements on pages 8 and 9 of this report).

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 10-20 of this report).

Other information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning TSRS's progress in funding its obligations to provide pension benefits to members (See Required Supplementary Information on page 21 and 22 of this report).

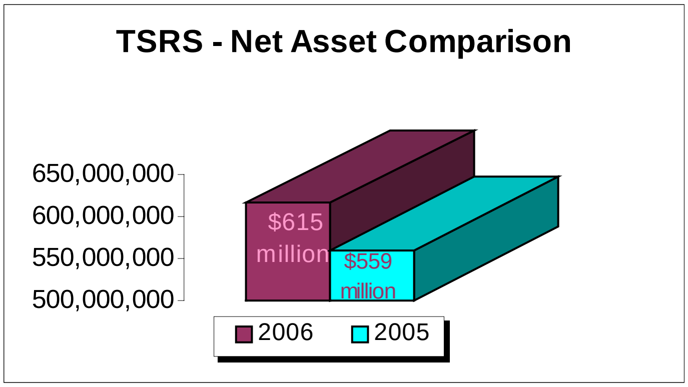
The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information on pensions. (See Supporting Schedules on page 23 of this report.)

<u>Financial Analysis</u>

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table on page 5). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2006. Currently $615,375,947 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

As of June 30, 2006, net assets increased by 10.1% over the prior year primarily due to increases in the fair value of investments in excess of increases in liabilities.

Additions to Plan Net Assets



Net Assets - TSRS

Assets	June 30, 2006	June 30, 2005	Total % Change
Cash, Cash Equivalents and Receivables	$ 17,528,763	$ 8,800,214	99.2%
Investments	633,018,554	565,108,888	12.0%
Securities and Lending Cash Collateral	54,345,243	33,158,524	63.9%
Capital Assets, Net	8,122	10,748	24.4%
Total Assets	**$ 704,900,682**	**$ 607,078,374**	**16.1%**
Liabilities			
Accounts Payable and Other Payables	$ 597,292	$ 489,571	22.0%
Due to Securities Lending Borrowers	54,345,243	33,158,524	63.9%
Due to Brokers and unredeemed warrants	34,582,200	14,288,081	142.0%
Total Liabilities	**$ 89,524,735**	**$ 47,936,176**	**86.8%**
Total Net Assets	**$ 615,375,947**	**$ 559,142,198**	**10.1%**

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year ended June 30, 2006 totaled $96,559,335.

Additions to Net Assets - TSRS

	June 30, 2006	June 30, 2005	Total % Change
Additions			
City Contributions	$ 24,319,911	$ 21,423,488	13.5%
Employee Contributions and Transfers from Other Systems	$ 8,818,038	$ 8,496,007	3.8%
Employee Contributions from Purchases of Service	$ 1,157,572	$ 1,972,509	-41.3%
Investment Income and Securities Lending Income	$ 57,549,259	$ 44,972,358	28.0%
Total Additions	**$ 91,844,780**	**$ 76,864,362**	**19.5%**

Employer contributions increased by $2,896,423 or 13.5% and employee contributions increased by $322,031 or 3.8%. Higher employer contribution rates were the primary cause for Employer contribution increases, increased salaries increased both the Employer and the Employee contributions. Additionally, the system received $1,157,572 in employee contributions due to a program that allows employees to purchase prior governmental service credits which began January 1, 2002. The net investment gains are due to increases in asset values related to domestic and international financial markets.

Deductions from Plan Net Assets

The principal purpose for which the System was created was to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The costs of such programs include recurring benefit payments as designated by the System, refund of contributions to terminated employees, the cost of administering the System and expenses incurred in the investment of the System's assets.

Expenses for fiscal year 2006 totaled $35,611,031 or an increase of 7.3% over fiscal year 2005 expenses. The increase in annuity benefits is due to normal and early retirements during the year. The change in refunds results from the account balances related to employees terminating employment with the City of Tucson.

Deductions to Net Assets - TSRS

		June 30, 2006		June 30, 2005	Total % Change
Deductions					
Retirement Benefits	$	(33,475,950)	$	(31,357,794)	6.8%
Refund of Contributions and Transfers to Other Systems		(1,701,731)		(1,438,677)	18.3%
Administrative Expenses		(433,350)		(389,303)	11.3%
Total Deductions	**$**	**(35,611,031)**	**$**	**(33,185,774)**	**7.3%**
Net Increase in Plan Assets	**$**	**56,233,749**	**$**	**43,678,588**	**28.7%**

Reserves

The system places an amount into a separate Reserve for Employee Contributions for all amounts contributed by members. Deductions are made from this account when the member retires, transfers balances to other retirement systems, or when a member terminates employment and requests a refund. As of the plan year ended June 30, 2006, the balance in this reserve account increased by $5,041,235 to $140,387,532.

Upon retirement, the system places an amount in Reserves for Retirement Benefits equivalent to the present value of the actuarial benefit selected by the member. When the present value is determined, amounts are added to this reserve from amounts in the Reserve for Employee Contributions and from the Unreserved Net Assets balance to fully fund the expected liability. During the plan year ended June 30, 2006, this reserve account balance increased by $28,432,692 to $326,828,088.

The impact of gains and losses recognized during the plan year ended June 30, 2006 affects the amount remaining in the Unreserved Net Assets. Employer funding is added to the Unreserved Net Assets balance. At retirement, amounts needed to fully fund retirement benefits is transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. Unreserved Net Assets increased during the plan year by $22,759,822 to $148,160,327.

TSRS's Fiduciary Responsibilities

TSRS's Board of Trustees and management staff are fiduciaries of the pension trust fund. Under the City of Tucson Code the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Retirement Board of Trustees, our membership, taxpayers, investment managers and other interested parties with a general overview of TSRS's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Tucson Supplemental Retirement System
Attention: Retirement Manager
City Hall, 1st floor - Retirement Office
255 West Alameda Street
Tucson, Arizona 85701

Tucson Supplemental Retirement System
Statement of Plan Net Assets
Year Ended June 30, 2006

Assets		
Cash Deposits/Pooled Investments	$	2,454,299
Receivables:		
City Contributions (Note 3)		952,300
Employee Contributions (Note 3)		334,603
Due From Brokers		12,409,329
Interest and Dividends		1,378,232
Total Receivables		15,074,464
Investments, at Fair Value (Notes 4, 5, and 6):		
Short-term Investments		32,930,560
Securities Lending Cash Collateral		54,345,243
U. S. Treasuries, Agencies & other Government Bonds		81,768,212
Corporate Bonds		23,401,093
Corporate Stocks		295,296,426
International Bonds		849,051
International Equity		87,427,560
Bonds Mutual Fund		63,757,699
Real Estate		47,587,953
Total Investments, at Fair Value		687,363,797
Capital Assets, At Cost (Net of Accumulated Depreciation)		8,122
Total Assets		704,900,682
Liabilities		
Accounts Payable		592,104
Accrued Wages Payable		5,188
Due to Securities Lending Borrowers (Note 5)		54,345,243
Due to Brokers		34,580,909
Unredeemed Warrants		1,291
Total Liabilities		89,524,735
Net Assets Held in Trust for Pension Benefits		
(Note 3 and Schedule of Funding Progess, page 21)	$	615,375,947

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Statement of Changes in Plan Net Assets
Year Ended June 30, 2006

Additions	
Contributions (Note 3):	
City	$ 24,319,911
Employee	8,197,437
Employee Purchase of Service Credit	1,157,572
Transfers from Other Systems	620,601
Total Contributions	34,295,521
Investment Income:	
Net Gain in Fair	
Value of Investments	48,195,450
Interest	4,144,414
Dividends	8,187,034
Securities Lending Income (Note 5)	1,683,061
Miscellaneous Income	53,855
	62,263,814
Less Investment Expenses:	
Interest Expense - Securities Lending	1,618,232
Other Investment Expense	3,096,323
Total Investment Expense	4,714,555
Net Investment Gain	57,549,259
Total Additions	91,844,780
Deductions	
Benefits	33,475,950
Refunds	1,219,263
Transfers to Other Systems	482,468
Administrative Expenses	433,350
Total Deductions	35,611,031
Net Increase in Plan Net Assets	56,233,749
Net Assets Held in Trust for Pension Benefits	
July 1, 2005	559,142,198
June 30, 2006	$ 615,375,947

See Accompanying Notes to Financial Statements.

Tucson Supplemental Retirement System
Notes to Financial Statements
Year Ended June 30, 2006

1. DESCRIPTION OF THE PLAN

A. *Authorization, Purpose, and Administration of the System* - The Tucson Supplemental Retirement System (the “System” or “TSRS”) is a single-employer defined benefit plan for City of Tucson (“City”) employees. It was established in the City Charter to provide its members with a supplement to the retirement and disability benefits of the social security system. The System is governed by a seven member Board of Trustees: a chairman who is appointed by the Mayor and Council, the City’s directors of human resources and of finance, two members elected by the membership of the System, a retired member elected by the System’s retirees, and one member appointed by the City Manager. Benefit provisions and changes in benefits or funding are recommended by the Board of Trustees and must be approved by Mayor and Council.

B. *Plan Membership* - The System covers substantially all City of Tucson, Arizona, employees, except for appointed officials and staff who may elect not to join, and commissioned police and fire personnel and elected officials, who are covered under other plans. Employees participate in the System immediately upon beginning employment with the City. Employee membership data as of June 30, 2006 is as follows:

Active plan participants:	
Vested	2,467
Nonvested	780
Total active plan participants	3,247
Current retirees and beneficiaries	1,878
Terminated vested participants	394

C. *Plan Benefits*

1. *Retirement Benefits* - Any employee who has attained the earlier of age 62, or a combination of the employee’s age and years of creditable service equaling the sum of 80, is entitled to receive monthly retirement benefits calculated at 2.25% of average final monthly compensation multiplied by the number of years of creditable service. Average final monthly compensation is defined as the highest compensation of 36 successive months during the 120 months immediately preceding retirement. Accrued unused sick leave and vacation leave at the final salary may be substituted for an equal number of hours at the beginning of the 36 month period.

1. DESCRIPTION OF THE PLAN (Continued)

An employee who retires after attaining age 55 with 20 or more years of creditable service is entitled to early retirement benefits reduced to the actuarial equivalent of the amount to which the employee would have been entitled upon attaining normal retirement.

An employee is always fully vested in his/her individual contributions. Upon termination of employment for reasons other than retirement, employees having five or more years of creditable service (terminated vested participants) may leave their contributions in the System and begin drawing a retirement allowance when they reach either their normal retirement date or early retirement date.

Periodically, at the recommendation of the Board of Trustees and with the approval of the Mayor and Council, cost of living increases are given to members who retired before a determined date.

2. *Disability Benefits* - Employees having five or more years of creditable service under the System are eligible to receive a disability allowance for as long as they are mentally or physically incapacitated.

3. *Death Benefits* - The beneficiary of an employee, who selected a retirement option and died while eligible to retire, shall receive a benefit based upon the selected option.

   The beneficiary of an employee who died while eligible to retire but had not selected an option, may choose to receive 50% of the amount the employee's regular retirement benefits would have been at the time of death, or a refund, comprised of both the employee and vested employer contributions plus interest thereon.

   The beneficiary of an employee who was not eligible for any retirement benefits, but had more than five years of creditable service, may receive either a lump sum of both employee and employer contributions plus interest or the actuarial equivalent of 50% of normal retirement benefits based on years of creditable service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCUSSION OF PLAN ASSETS

A. ***Reporting Entity*** - Due to the extent of the System's financial and operational relationship with the City of Tucson, the System is considered a component unit of the City's financial reporting entity and is included in its Comprehensive Annual Financial Report as a pension trust fund.

B. ***Basis of Accounting*** - The System's financial statements are prepared using the accrual basis of accounting using the economic resources measurement focus. Employee and employer contributions are recognized when due, pursuant to formal commitments. Benefits and refunds are recognized when due and payable in accordance with the plan provisions.

C. ***Investments*** -Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

The cost of common stock sold is determined on the average cost method. Realized and unrealized gains or losses are reflected in revenues.

At June 30, 2006, there were no individual investments, other than those issued or guaranteed by the United States government, that represented 5 percent or more of plan net assets.

D. ***Deposits*** - In accordance with the City Charter and state statutes, the System is authorized to deposit money in certificates of deposit and interest-bearing accounts provided that deposits in excess of the insured amount are collateralized. State statutes require collateral pledged for deposits to be held in the System's name by a bank other than the pledging bank or by the pledging bank's trust department.

E. ***Capital Assets –*** Capital assets of the System currently include only moveable equipment items, which are stated at historical cost net of accumulated depreciation. The straight-line method of depreciation is used over an estimated useful life of 6 years. The equipment capitalization threshold is $5,000.

F. ***Benefit Changes –*** An Ad Hoc Cost of Living Adjustment granted August 1, 2006 for retirees and beneficiaries retired prior to July 1, 1996, accounting for a $1,035,876 increase in actuarial liabilities.

G. ***Administrative Costs*** - All costs of administering the plan are financed by the employer and member contributions made, based upon recommended contribution rates in effect for the year, applied on active member covered payroll.

3. CONTRIBUTIONS AND RESERVES

A. Funding Requirements

1. *Employee Contributions* - Currently, employee contributions are 5% of regular salary and are made through payroll deductions. A reserve is established for contributions and earnings allocations, less amounts transferred to the reserve for retirement benefits which includes retirement and disability and amounts reserved for terminated employees. If an employee leaves covered employment before attaining five years service credit, the accumulated contributions plus interest are refunded to the employee or his designated beneficiary. There are no long-term contracts for employee contributions to the System.

2. *Employer Contributions* - The City contributes the remaining amounts necessary to finance employee participation in the System and to fund the costs of administering the System. Employer contributions are actuarially determined based on a level percentage of payroll method. There are no long-term contracts for employer contributions to the plan System.

B. Net Assets

Two general types of net asset reserves are maintained within the System. The Reserve for Employee Contributions contains the employee and employer contributions for all contributing members of the System, plus allocated interest earnings. At the time an employee retires or defers retirement, the actuarial value of the individual’s retirement benefits is transferred to the Reserve for Retirement Benefits, which is decreased by payments to retirees and increased by interest earnings. The reserves are fully funded.

Earnings of the System are allocated semi-annually (at June 30 and December 31) to the reserves which comprise net assets. For the year ended June 30, 2006, allocations were based on rates of return of 7.5% per annum. Any unallocated earnings remain in unreserved net assets.

The net assets at June 30, 2006, consisted of the following components:

Reserved for employee contributions	$	140,387,532
Reserved for retirement benefits		326,828,088
Unreserved net assets		148,160,327
Net Assets	$	615,375,947

4. INVESTMENTS

The pension fund is governed by a Board of Trustees. The Board of Trustees is required by City Code in making investment decisions, to exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of the capital. Investments of the System are held separately from those of other City funds by investment custodians. Quoted market prices have been used to value investments as of June 30, 2006. Investments that do not have an established market exchange are reported at estimated fair value. Estimated fair value for real estate investments are established by third party appraisers.

The System's investments at June 30, 2006 are listed below. These investments are either held by the System or its agent in the System's name and are either insured, registered or collateralized. A portion of these investments is subject to credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and/or foreign currency risk. The Government Accounting Standards Board (GASB) Statement 40 requires the System to disclose such risks which are all discussed in the sections that follow.

All System investments are reflected in the following schedule with the exception of amounts held in the City's investment pool account. The City maintains an investment pool account for City funds. Bi-weekly contributions for the Tucson Supplemental Retirement System are held in the City's investment pool account and are used to pay recurring expenditures. The $2,454,299 of cash and deposits in the City's investment pool account are invested in money market fund consisting of U.S. Treasuries and separately held issues of federal agency and U.S. corporate bonds with ratings no lower than A2 as reported by Moody's.

Investments	**Fair Value**
United States Issues:	
U.S. Treasury, Agency & Other Bonds not on Securities Loan	$ 63,992,720
Corporate Bonds not on Securities Loan	20,767,875
Corporate Stocks not on Securities Loan	271,972,932
Non-United States issues:	
International Bonds not on Securities Loan	849,051
International Equity not on Securities Loan	78,676,179
Subtotal	436,258,757
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:	
U.S. Treasury, Agency & Other Bonds	17,775,492
U.S. Corporate Bonds	2,633,218
U.S. Corporate Stocks	23,323,494
International Equities	8,751,381
Subtotal	52,483,585
Securities Lending Short-Term Collateral Investment Pool	54,345,243
Bond Mutual Funds	63,757,699
Money Market/Short Term Investments	32,930,560
Real Estate	47,587,953
Subtotal	198,621,455
Total Investments, at Fair Value	$ 687,363,797

A. **Credit Risk –** As defined by GASB Statement 40, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Associated with credit risk is concentration of credit risk and custodial credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The System presently maintains one internally managed and one externally managed fixed income (bond) account, which are exposed to some form of credit risk. The investment policy guidelines for securities purchased for the internally managed fixed income account are as follows:

- With the exception of securities issued by or guaranteed by the U.S. Treasury or U.S. Government agencies and instrumentalities, the maximum position in a single issuer's securities should not exceed 5% of the portfolio's assets at current market value
- Exposure to corporate bonds should be limited to 50% of the portfolio
- The investment manager is expected to maintain a weighted average bond portfolio quality rating of at least "AA"
- Securities, at the time of purchase, shall be rated no lower than "A3" by Moody's and "A-" by Standard & Poors

The TSRS Board has given the external fixed income manager discretion to invest in a broad array of public and private asset classes, instruments and investment vehicles in order to meet or exceed the agreed upon investment return benchmark. However, the following specific investment policy guidelines pertain to the external fixed income manager:

- The maximum position in a single issuer (excluding obligations of U.S. Government and its Agencies) should not exceed 5% of the portfolio's assets at current market value
- The portfolio should maintain an average quality of at least "A"
- Money market instruments must be rated in one of the two highest categories by a nationally recognized rating agency
- The minimum rating of individual issues should be CCC as rated by Moody's, Standard & Poors or Fitch
- Should an issue be downgraded below the minimum, the manager will determine the appropriate action to be taken

The System currently does not have a policy regarding custodial credit risk for deposits or investments as defined in the Credit Risk section above. As of June 30, 2006 the System was exposed to custodial credit risk for deposits in the amount of $3.1 million. There was no exposure to custodial credit risk for investments as of June 30, 2006.

The System had the following credit risk structure as of June 30, 2006:

Credit Risk Structure

Investment Type	Holdings	Average Credit Rating	Fair Value	Percent of Grand Total
Cash and Cash Equivalents:				
Short Term Invesment Fund	1	AA3	$ 13,636,246	
Commercial Paper	3	AA3	5,489,723	
U.S. Treasury Bills - Less than 1 Year	2	AAA	558,499	
U.S. Agency Discount Notes	4	AAA	10,597,817	
Repurchase Agreements	1	AAA	4,800,000	
Sub Total	11		35,082,285	17.13%
U.S. Treasury Issues	13	(n/a)	3,570,433	1.74%
U.S. Agency & Other Government Obligations	48	AA1	78,197,779	38.18%
Asset Backed Securities	1	AAA	271,461	0.13%
Call Options	2	AA3	(692)	0.00%
U.S. Corporate Bonds:				
CMO Corporate	3	AAA	1,204,786	
Banks & Finance	14	A2	11,453,660	
Industrials	12	A3	8,941,686	
Utilities	2	BA3	1,578,960	
Sub Total	31		23,179,092	11.32%
International Bonds	5	BA1	748,331	0.37%
Fixed Income Swaps	78	A2	(2,420)	0.00%
Bond Mutual Funds	5	AAA - BA3	63,757,699	31.13%
Grand Total	194		$ 204,803,968	100.00%

B. Interest Rate Risk – As defined by the Government Accounting standards Board (GASB) in Statement 40, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. For fixed income securities, there is an inverse relationship between the change in interest rates and their fair value. For example, in a rising interest rate environment the value of fixed income securities will tend to fall by varying degrees depending on the length of their maturities. In general, the value of fixed income securities with a longer duration will tend to decrease more than shorter duration securities in a rising interest rate environment.

The System's investment policy regarding interest rate risk for the internally managed fixed income account is to limit duration to within two years (plus or minus) of the investment performance benchmark: the Lehman Brothers (LB) Government/Credit Bond Index. For the externally managed fixed income account, the investment policy is to limit duration to within 30% of the custom benchmark which is defined as 70% LB Mortgage Index, 15% LB Credit Index, 15% LB High Yield Index.

The System had the following maturity structure as of June 30, 2006:

Maturity Structure

	Investment Maturities (in Years)				
Investment Type	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**	**Total Fair Value**
Short Term Investment Fund	$ 13,636,246	$ -	$ -	$ -	$ 13,636,246
U.S. Treasury Issues	5,358,499	4,088,944	(3,284,173)	2,765,662	8,928,932
U.S. Agency & Other Government Obligations	11,603,607	17,722,860	14,325,245	45,143,884	88,795,596
Asset Backed Securities	-	-	-	271,462	271,462
Call Options	(692)	-	-	-	(692)
U.S. Corporate Bonds	7,596,309	7,817,491	9,344,888	3,910,126	28,668,814
International Bonds	113,721	-	26,176	608,434	748,331
Fixed Income Swaps	838	(18,372)	(4,809)	19,923	(2,420)
Bond Mutual Funds (5.96 yrs Weighted Average Maturity)	-	-	-	-	63,757,699
Total	$ 38,308,528	$ 29,610,923	$ 20,407,327	$ 52,719,491	$ 204,803,968
Average Modified Duration:					
Internal Account	**3.80**	yrs			
External Account	**2.95**	yrs			

C. **Foreign Currency Risk** – As defined by the Governmental Accounting Standards Board (GASB) in Statement 40, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The TSRS Board has given the System's international equity managers discretion to invest in a broad array of common and preferred stocks, convertibles and warrants of companies headquartered outside of the United States in order to meet or exceed their agreed upon investment return benchmarks. However, the following specific investment policy guidelines pertain to these managers:

- Investments in any single country market should not exceed more than 4 times the weight of the country in the benchmark index or 50% of portfolio assets, whichever is lower
- If a country has a greater than 50% weight in the index, the maximum exposure to that country in the portfolio may be as high as its weight in the index
- No more than 30% of each manager's portfolio should be invested in "emerging markets" (i.e., markets that are not included in the Morgan Stanley Capital International Europe, Australia and Far East Index)

- Managers are permitted to enter into hedging strategies, including cross-currency hedges, using forward currency exchange contracts and currency options
- Derivatives should not be used for the purpose of speculation or for leveraging the portfolio

The TSRS fund had the following foreign currency risk exposure as of June 30, 2006:

Foreign Currency Risk Exposure

Asset Type Category	Fair Value	Totals by Currency	Percent of Grand Total
AUSTRALIAN DOLLAR			
Equity	360,998	360,998	0.06%
BRITISH POUND STERLING			
Cash & Cash Equivalents	23,904		
Forward Foreign Exchange Contracts Receivable	587,003		
Payable for Forward Foreign Exchange Contracts	(336,825)		
Equity	10,950,273		
Fixed Income Securities	89,991	11,314,346	1.85%
CANADIAN DOLLAR			
Equity	1,836,952	1,836,952	0.30%
CHINESE YUAN RENMINBI			
Forward Foreign Exchange Contracts Receivable	1,139,234	1,139,234	0.19%
EURO CURRENCY UNIT			
Cash & Cash Equivalents	78,654		
Cash Offset for Futures Contracts	(2,801,624)		
Forward Foreign Exchange Contracts Receivable	1,281,518		
Payable for Investments Purchased	(23,003)		
Equity	16,983,748		
Fixed Income Securities	(131)		
Futures Contracts	2,801,624	18,320,786	3.00%
HONG KONG DOLLAR			
Equity	2,141,254	2,141,254	0.35%
JAPANESE YEN			
Cash & Cash Equivalents	(9,985)		
Forward Foreign Exchange Contracts Receivable	2,711,426		
Payable for Forward Foreign Exchange Contracts	(854,940)		
Equity	4,977,500		
Fixed Income Securities	124,581	6,948,582	1.14%
NORWEGIAN KRONE			
Payable for Forward Foreign Exchange Contracts	(5,750)		
Receivable for Investments Sold	5,750		
Equity	1,565,044	1,565,044	0.26%
SINGAPORE DOLLAR			
Equity	424,195	424,195	0.07%
SOUTH KOREAN WON			
Equity	2,175,724	2,175,724	0.36%
SWISS FRANC			
Cash & Cash Equivalents	5		
Equity	2,756,729	2,756,734	0.45%
U.S. DOLLAR			
Cash & Cash Equivalents	32,802,637		
Cash Offset for Futures Contracts	(54,855,659)		
Forward Foreign Exchange Contracts Receivable	1,194,255		
Payable for Forward Foreign Exchange Contracts	(5,813,774)		
Payable for Investments Purchased	(34,403,853)		
Receivable for Investments Sold	12,286,525		
Equity	308,203,752		
Fixed Income Securities	169,561,613		
Futures Contracts	54,855,659		
Private Equity	39,393,404		
Real Estate	38,542,368	561,766,927	91.98%
Grand Total		610,750,776	100.00%

5. SECURITIES LENDING

The Board of Trustees for the Tucson Supplemental Retirement System permits the custodian bank, Mellon Trust, to lend securities to broker-dealers and other entities. Each loan is executed with a simultaneous agreement to return the collateral for the same securities in the future. The custodian bank lends U.S. securities for collateral initially valued at 102% of the market value plus any accrued interest. Non-U.S. securities are loaned for collateral initially valued at 105% of the market value of the securities plus any accrued interest. Collateral is marked-to-market daily. If the market value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day.

In the event of a borrower's default, the custodian bank is obligated to indemnify the lender if, and to the extent that, the fair value of the collateral is insufficient to replace the loaned securities. Mellon Trust's responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations covering securities lending.

Although the average term of the security loans is one week, each loan can be terminated at will by either the lender or the borrower. Cash collateral is invested in a short-term investment pool, which on average had a weighted maturity of 30 days. The relationship between the maturities of the investment pool and the security loans are affected by the maturities of the loans made by other entities that use the agent's pool.

The lender cannot pledge or sell collateral securities received until, and unless, a borrower defaults. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses known to the securities lending agent. As of June 30, 2006, the lenders had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

6. DERIVATIVES

The Tucson Supplemental Retirement System permits the use of foreign exchange contracts by its international equity and external fixed income managers. Derivatives are also permitted in the portfolio, including financial futures, forwards, options and swaps on fixed income securities.

Forward foreign exchange contracts for the purchase of sale of foreign currency were entered into to settle specific transactions, for investment and hedging purposes and to modify the foreign currency exposure of international securities held. The duration of these contracts typically was three months or less and, for those used to settle specific transactions, typically was three business days. During the terms of such forward contracts, the System was exposed to counterparty risk, which is the risk of loss of the amount expected to be delivered under a forward agreement in the event of the default or bankruptcy of a forward agreement counterparty. This risk is controlled through dealing with a number of different counterparties reasonably deemed to be creditworthy by the manager.

The System also permits the use of financial futures and options by its external fixed income manager to reduce or eliminate undesirable/unintended risks, to maintain desirable risks so as to improve the portfolio's return patterns, and to enhance portfolio liquidity, flexibility and/or efficiency. The external fixed income manager used long and short positions in exchange-traded government futures during the year to modify exposure to various parts of the yield curve and to modify the risk characteristics of the portfolio. The government futures positions were fully supported by cash and cash equivalents. The net market exposure as of June 30, 2006 was $(20,059,391). Money market futures were also used to gain exposure to future short-term interest rates. The net market exposure as of June 30, 2006 was $77,716,675. Additionally, forward and mortgage "to be announced" securities (TBAs) were used in the portfolio during the period; the net market value of these positions was $(4,862,851) and $27,422,563, respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of $53,808.

Interest rate swaps are used to provide high-grade agency/corporate exposure. Swaps also provide an effective and inexpensive means by which to quickly adjust portfolio duration, maturity mix and sector exposure. Swaps are over-the-counter transactions as opposed to being traded on an organized exchange. Counterparty risk is limited by execution under standardized International Swap and Derivatives Association Agreements. These standardized contracts reduce legal risk and increase speed of execution that, in turn, improves liquidity. A swaption is simply an option on a swap and is used for the same purposes as options and swaps. Credit default swaps provide attractive means of hedging event risk and increasing/decreasing credit exposure. These securities are backed by high-grade liquid securities and are subject to the System's minimum quality and issue limits. The portfolio held the following net market exposure in swaps and credit default swaps of $(36,540) and $9,273, respectively.

Required Supplementary Information
Schedule of Funding Progress
($ Amounts in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b)-(a)	Funded Ratio (a)/(b)	Active Member Covered Payroll (c)	Unfunded AAL as a Percentage of Active Member Covered Payroll ((b-a)/c)
1991	$164,268	$203,288	$39,020	80.8%	$ 86,830	44.9%
1992	179,570	216,483	36,913	82.9	86,205	42.8
1993	197,282	239,472	42,190	82.4	92,867	45.4
1994	213,541	261,712	48,171	81.6	94,180	51.1
1995	237,713	282,040	44,327	84.3	99,847	44.4
1996	266,740	300,607	33,867	88.7	105,230	32.2
1997	304,684	327,378	22,694	93.1	110,189	20.6
1998	353,056	348,966	(4,090)	101.2	113,729	-
1999	402,875	400,224	(2,651)	100.7	126,817	-
2000	453,954	437,750	(16,204)	103.7	134,088	-
2001	470,672	495,359	24,687	95.0	145,059	17.0
2002	463,102	553,947	90,845	83.6	153,580	59.2
2003	458,857	601,173	142,316	76.3	143,164	99.4
2004	494,987	645,351	150,364	76.7	149,782	100.4
2005	538,789	693,871	155,082	77.6	162,149	95.6
2006	588,228	735,793	147,565	79.9	155,855	94.7

Note: Schedule provided by actuary, Gabriel, Roeder, Smith & Company.

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Beginning July 1,	Actuarial Valuation Date June 30	Annual Required Contribution[1]	Percent Contributed
1997	1996	$ 9,800,579	100.0
1998	1997	9,475,558	100.0
1999	1998	9,707,235	100.0
2000	1999	10,125,248	100.0
2001	2000	9,088,970	100.0
2002	2001	12,765,619	100.0
2003	2002	18,457,476	100.0
2004	2003	21,657,270	100.0
2005	2004	23,643,630	100.0
2006	2005	25,958,330	
2007	2006	25,232,745	

[1]P*rojected amount:* *Actual required contribution dollar amount will be based on the computed contribution rate and the actual pensionable payroll for the period.*

Notes to Required Supplementary Information
Summary of Actuarial Methods and Assumptions

Valuation Date	June 30, 2006
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, closed
Remaining Amortization Period	16 years
Asset Valuation Method	Smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases*	4.25% - 9.25%
*Includes Inflation	4.25%

Note: Schedule provided by actuary, Gabriel, Roeder, Smith & Company.

Supporting Schedules
June 30, 2006

Schedule of Administrative Expenses

Personal Services		
Staff Salaries	$	160,299
Fringe Benefits		66,919
Total Personal Services		227,218
Professional Services		
Accounting		132,030
Actuary		18,400
Total Professional Services		150,430
Miscellaneous		
Professional Development		5,321
Printing and Supplies		14,769
Depreciation		2,626
Postage		25,135
Books, Periodicals and Records		644
Other		7,207
Total Miscellaneous		55,702
Total Administrative Expenses	**$**	**433,350**

Schedule of Investment Expenses

Custody	$	312,306
Investment Consultant		143,000
Investment Management		2,641,017
Security Lending Management		56,719
Interest on Securities Lending (Rebate)		1,561,513
Total Investment Expenses	**$**	**4,714,555**

CITY OF
FOUNDED
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TUCSON

INVESTMENT SECTION

Hewitt

Hewitt Associates
100 Half Day Road
Lincolnshire, IL 60069
Tel (847) 295-5000
Fax 847-771-7960

www.hewitt.com

November 28, 2006

The Board of Trustees
Tucson Supplemental Retirement System
City Hall
255 West Almeda Street
Tucson, AZ 85726-7210

Dear Board Members:

The investment section which follows summarizes the Tucson Supplemental Retirement System (TSRS) Retirement Plan's investment activity through fiscal year-end June 30, 2006. The exhibits provide:

- An outline of investment policies;
- An outline of investment objectives;
- Investment results for the total portfolio and by investment manager over several measurement periods;
- The allocation and diversification of plan assets by investment manager and asset class;
- The shift in asset allocation across major asset classes over the past five years;
- A market value summary of the ten largest bond and equity holdings as of June 30, 2006; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

Mellon Trust served as custodian for a majority of plan assets. In addition, several of the investments are held in commingled vehicles with various custodians: the real estate portfolios, an index fund and an enhanced index fund managed by Barclays, an international equity fund managed by Julius Baer, and the fixed income funds and enhanced index equity fund managed by PIMCO. The investment activity summarized in this section is based primarily on the financial reporting provided by Mellon Trust. Hewitt has confirmed the investment performance as calculated from the Mellon Trust statements with the financial data as submitted to us by the respective investment managers.

Hewitt

The Board of Trustees
Page 2
November 28, 2006

General Observations
Over the past year, Hewitt Investment Group (HIG) provided quarterly investment performance analysis of all investment portfolios relative to appropriate market benchmarks and peer groups. Each investment manager has been evaluated for adherence to investment policy guidelines, objectives, and consistency of style.

This fiscal year's evaluation of the investment program led to additional diversification within the large capitalization equity allocation. A 5% allocation was made to an enhanced index equity fund managed by PIMCO (benchmarked to the S&P 500 Index). The funding came from a reduction in the S&P 500 Index strategy. A separate 5% allocation was also made to an enhanced index fund managed by Barclays (benchmarked to the Russell 1000 Value Index). This funding came from a reduction in the Russell 1000 Value Index strategy.

As indicated in the following exhibits, the TSRS Retirement Plan assets increased due to continued strength in the equity markets as well as strong results from real estate. The total portfolio return for the fiscal year was 10.7% compared to 10.0% for the Custom Index. The outperformance was attributable to strong returns from several of the Plan's managers, including the active domestic small cap manager, the two JPMorgan real estate funds, the Julius Baer international equity fund, and the internally and externally managed fixed income portfolios. These gains more than offset the relative shortfall of the TCW large capitalization equity portfolio and the Causeway international equity portfolio.

Sincerely,

Hewitt Investment Group

Robert P. Van Den Brink

RVD:cr
cc: Mr. Charles J. Ford, Hewitt Investment Group
Mr. Mark A. Klimek, Hewitt Investment Group

Outline of Investment Policies

The asset allocation policy includes a 64% allocation to equity securities: 38% to large U.S. stocks, split among S&P 500 index, enhanced index, large capitalization growth and value accounts; 11% to mid and small-cap U.S. stock accounts; and 15% to foreign stock growth and value accounts. There is also an allocation of 28% to fixed income and an allocation of 8% to equity real estate.

The Board has set an asset allocation target range on each asset class, sub-class, and manager. The Board of Trustees has adopted a policy of rebalancing the portfolio when the actual allocation falls above or below the target range.

Over the long term, asset allocation policy will be the primary determinant of the returns generated by the TSRS pension fund and the associated volatility of returns. In particular, the level of equity exposure is the key element within the TSRS pension investment policies.

In developing asset allocation policies for its pension plan, the Board examined asset and liability projections to evaluate possible results over the next ten years. These projections examined the risk/return tradeoffs of alternative asset classes, as well as alternative levels of equity exposure. Through incorporating the results of these projections with its risk posture, as well as considering typical practices and practical investment issues, the Board has developed the following asset mix guidelines:

	Percent of Total Pension Fund		
	Minimum	**Target**	**Maximum**
Equities:			
Large Capitalization	33%	38%	43%
Small/Mid Capitalization	7%	11%	15%
International	13%	15%	17%
Total Equities	**59%**	**64%**	**69%**
Fixed Income	**23%**	**28%**	**33%**
Real Estate	**6%**	**8%**	**10%**

Separate target ranges are also set for each investment manager within an asset class and are monitored in conjunction with the overall asset allocation. TSRS monitors its asset mix and rebalances its portfolio mix at any time that a primary asset class (i.e., equities, fixed-income, and real estate), secondary asset class (i.e., domestic equities, international equities), portfolio style, or manager reaches the minimum or maximum allocation specified. Staff is authorized to direct rebalancing and report to Board.

Investment Objectives

Total Pension Fund Performance Objectives[1]

The TSRS Pension Fund's return will be, in part, a function of the capital market environment in which the plan's investment managers operate. Therefore, regardless of whether or not the market environment permits the achievement of substantial real returns, the TSRS expects any active investment managers that it retains to produce results that are above average relative to other actively-managed funds and relative to passive alternatives. Investment managers should cover the fees paid and provide a return increment that justifies the risk assumed in active management.

On a rolling three-year basis, the annualized total return of the portfolio should exceed the annualized total return of the following custom index:

- Standard & Poor's 500 Stock Index (41% weight)
- Russell 2000 Stock Index (11% weight)
- MSCI All Country World, ex-U.S. Stock Index (15% weight)
- Lehman Brothers Aggregate Bond Index (25% weight)
- Lehman Brothers High Yield Bond Index (3% weight)
- NCREIF Real Estate Index (5% weight)

[1] The investment objectives defined herein assume that performance comparisons will be based on a before-fee analysis, unless otherwise indicated.

Individual Managers Performance Objectives

On a rolling three year basis, the annualized total return earned by an actively managed portfolio should place the account in a competitive ranking (i.e., top 40%) relative to a peer group of managers. In addition, the managers should outperform the following market index benchmarks:

TCW (Large Cap Growth Equity)
- Exceed the annualized total return of the Russell 1000 Growth Index.

Barclays Global Investors (Russell 1000 Value Index)
- Match the annualized total return of the Russell 1000 Value Index.

Alliance Capital (S&P 500 Index)
- Match the annualized total return of the S&P 500 Index.

Barclays Global Investors (Large Cap Value Enhanced Index)
- Exceed the annualized total return of the Russell 1000 Value Index.

PIMCO (Enhanced Index)
- Exceed the annualized return of the S&P 500 Index.

TCW (Small/Mid Cap Equity)
- Exceed the annualized total return of the Russell 2500 Index.

Fidelity (Small Cap Equity)
- Exceed the annualized total return of the Russell 2000 Stock Index.

Julius Baer (International Equity)
- Exceed the annualized total return of the MSCI AC World ex-U.S. Index.

Causeway Capital Management (International Value Equity)
- Exceed the annualized total return of the MSCI EAFE Index.

PIMCO (Custom Fixed Income)
- Exceed the annualized total return of a customized fixed income benchmark composed of 70% LB Mortgage, 15% LB Credit, and 15% LB High Yield Index.

Internally Managed (U.S. Fixed Income)
- Exceed the annualized total return of the LB Government/Credit Bond Index.

JPMorgan Strategic Property Fund (Core Real Estate)
- Exceed the annualized total return of the NCREIF Real Estate Index.

LaSalle Income & Growth Fund IV (Value Added Real Estate)
- Exceed the annualized total return of the NCREIF Real Estate Index.

JPMorgan Income & Growth Fund (Value Added Real Estate)
- Exceed the annualized total return of the NCREIF Real Estate Index.

Investment Results by Year
Last Ten Fiscal Years Ended June 30, 2006

Year Ended	Annual Return	3-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
6/30/06	10.65%	12.52%	6.24%	7.84%
6/30/05	9.3%	10%	2.4%	8.4%
6/30/04	17.8%	3.8%	2.6%	9.3%
6/30/03	3.3%	(4.4%)	1.5%	7.9%
6/30/02	(8.1%)	(2.2%)	4.1%	8.6%
6/30/01	(8.1%)	4.2%	9.5%	10.7%
6/30/00	10.5%	13.2%	14.8%	12.4%
6/30/99	11.4%	15.7%	16.5%	12.1%
6/30/98	17.9%	17.5%	14.8%	12.7%
6/30/97	17.7%	17.5%	13.1%	11.1%

Schedule of Investment Results
For Periods Ended June 30, 2006

	One Year	Annualized Returns (1) Three Years	Five Years
TOTAL PORTFOLIO			
TSRS	10.65%	12.52%	6.24%
Custom Benchmark (2)	10.04%	12.00%	6.41%
EQUITY FUNDS			
Alliance S&P 500 Index	8.69%	11.20%	2.58%
S & P 500 Index	8.64%	11.22%	2.50%
PIMCO StocksPLUS	-	(account established April, 2006)	
S & P 500 Index	8.64%	11.22%	2.50%
Barclays Russell 1000 Value Index	12.11%	15.71%	6.90%
Russell 1000 Value Index	12.10%	15.69%	6.89%
Barclays Russell 1000 Value Alpha Tilts	-	(account established January, 2006)	
Russell 1000 Value Index	12.10%	15.69%	6.89%
TCW Concentrated Core	4.26%	10.10%	2.17%
Russell 1000 Growth Index	6.12%	8.36%	-0.76%
TCW Value Opportunities	12.53%	(account established May, 2004)	
Russell 2500 Index	13.53%	19.16%	9.65%
Fidelity Small Cap	17.56%	22.94%	10.52%
Russell 2000 Index	14.56%	18.69%	8.49%
Causeway International Value Equity	21.69%	(account established January, 2005)	
MSCI EAFE Index	26.57%	23.94%	10.02%
Julius Baer International Equity	32.58%	(account established October, 2004)	
MSCI All Country World ex-U.S. Index	27.90%	25.30%	11.43%
FIXED INCOME FUNDS			
Internally Managed Bonds	0.40%	2.45%	5.33%
Lehman Government/Credit Bond Index	-1.51%	1.60%	5.13%
PIMCO Custom Fixed Income	1.83%	4.90%	(account established June, 2002)
Custom Index (3)	0.68%	3.60%	5.45%
REAL ESTATE FUNDS			
JPM Strategic Property Fund	19.76%	16.97%	12.57%
NCREIF Real Estate Index	18.67%	15.79%	12.02%
LaSalle Income & Growth Fund IV	-	(account established June, 2005)	
NCREIF Real Estate Index	18.67%	15.79%	12.02%
JPM Income and Growth Fund	-	(account established June, 2005)	
NCREIF Real Estate Index	18.67%	15.79%	12.02%

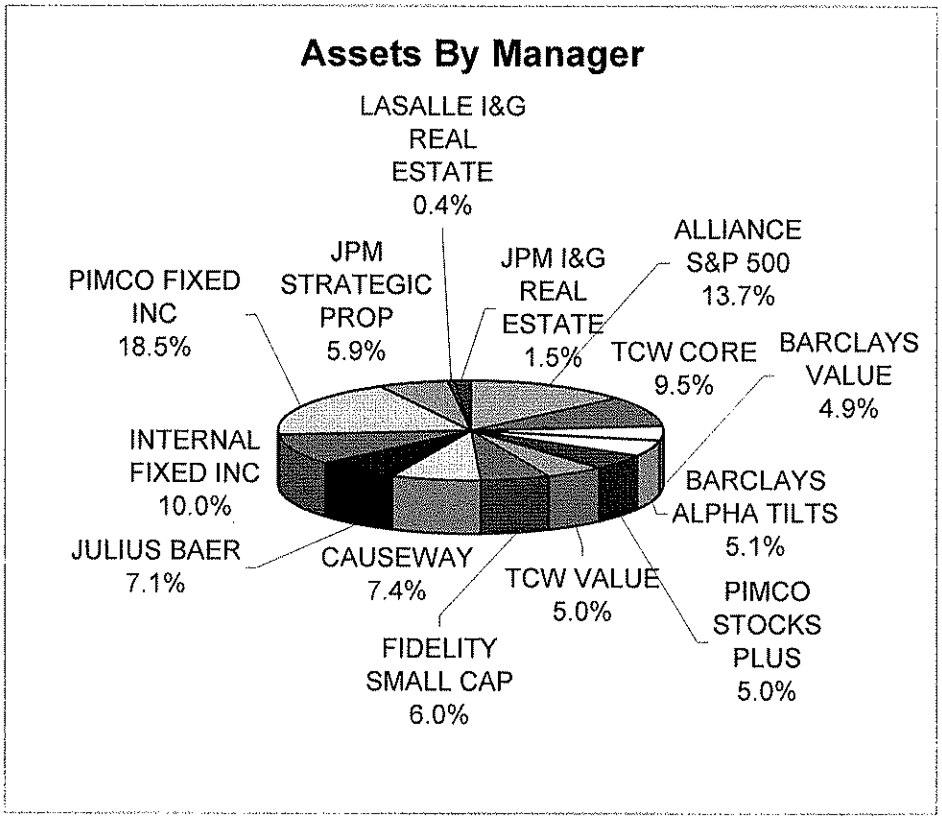
Notes: All data provided by independent investment consultant, Hewitt Investment Group
(1) Geometrically compounded, time-weighted rates of return
(2) Custom Benchmark = 41% S&P 500 Index + 11% Russell 2000 + 25% Lehman Aggregate + 3% Lehman High Yield + 15% MSCI AC WF ex-US + 5% Real Estate-NCREIF
(3) Custom Index = 70% Lehman Mortgage + 15% Lehman Credit +15% Lehman High Yield

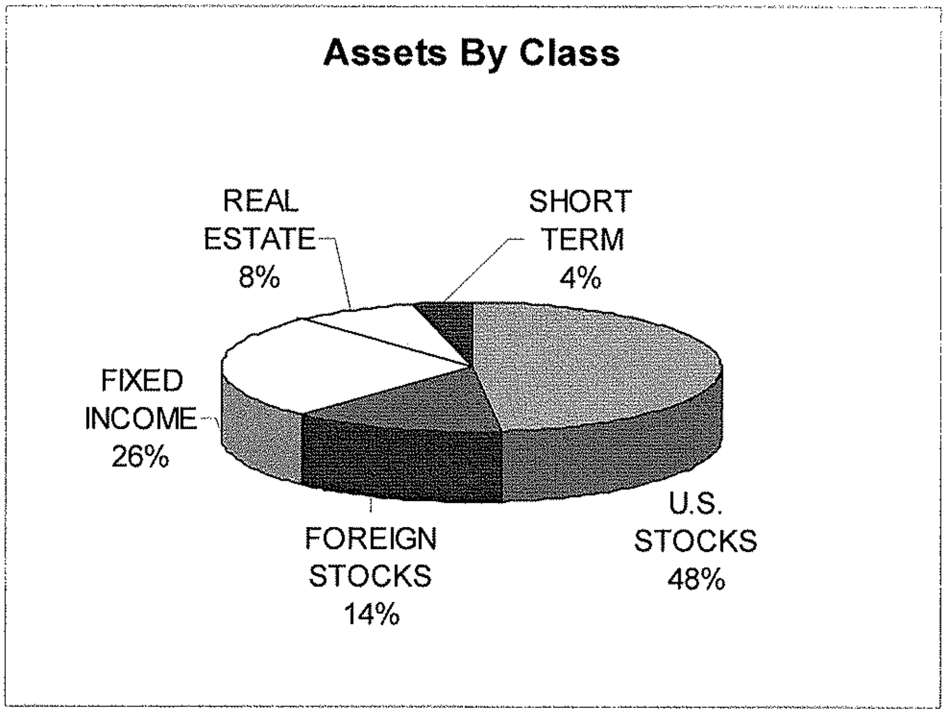
Investment Summary
By Manager and Type of Investment (in thousands)
June 30, 2006

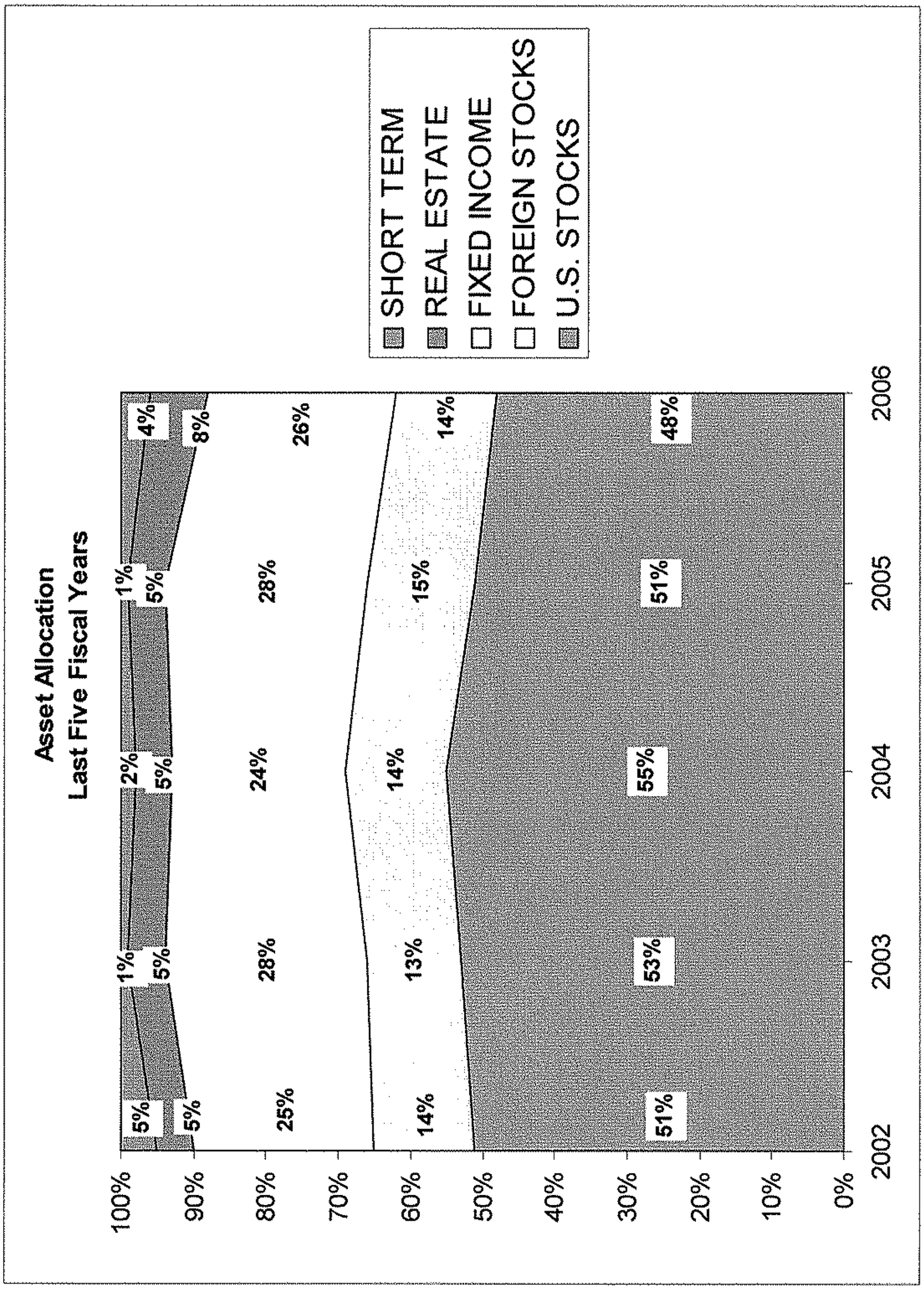
Manager	Style	Large U.S. Stocks	Small/Mid U.S. Stocks	Foreign Stocks	Fixed Income	Real Estate	Short Term	Total	Manager Percent of Total	Manager Percent of Target
Alliance Capital Management	S & P 500 Index	$ 83,414					$ 347	$ 83,761	13.7%	13.0%
TCW Concentrated Core	Large Cap Growth	$ 54,692					$ 3,325	$ 58,017	9.5%	10.0%
Barclays Russell Value Index	Large Cap Value Index	$ 30,078					$ -	$ 30,078	4.9%	5.0%
Barclays Alpha Tilts	Enhanced Index	$ 31,488					$ -	$ 31,488	5.1%	5.0%
PIMCO StocksPlus	Enhanced Index	$ 30,348					$ -	$ 30,348	5.0%	5.0%
TCW Value Opportunities	Mid Cap Core		$ 29,630				$ 1,171	$ 30,801	5.0%	5.0%
Fidelity Management Trust Co.	Small Cap Core		$ 35,645				$ 905	$ 36,550	6.0%	6.0%
Causeway Capital Management	Foreign Stocks			$ 44,172			$ 993	$ 45,165	7.4%	7.5%
Julius Baer	Foreign Stocks			$ 43,255			$ -	$ 43,255	7.1%	7.5%
Internally Managed Fixed Income	U. S. Bonds				$ 46,251		$ 15,104	$ 61,355	10.0%	10.0%
PIMCO Custom Fixed Income	U.S. & Foreign Bonds				$ 113,312		$ -	$ 113,312	18.5%	18.0%
JPM Strategic Property Fund	Core Real Estate					$ 35,865	$ -	$ 35,865	5.9%	5.0%
LaSalle Income & Growth	Value Added Real Estate					$ 2,678	$ -	$ 2,678	0.4%	1.5%
JPM Income & Growth	Value Added Real Estate					$ 9,048	$ -	$ 9,048	1.5%	1.5%
Liquidity	Cash & Cash Equivalents						$ 287	$ 287	0.0%	0.0%
TOTAL		$ 230,020	$ 65,275	$ 87,427	$ 159,563	$ 47,591	$ 22,132	$ 612,008	100.0%	100.0%
Percent of Market Value		37%	11%	14%	26%	8%	4%	100%		
Target Allocation		38%	11%	15%	28%	8%	0%	100%		

Notes: (1) The Investment Summary does not include the City pooled investment account. (2) Assets are reflected on a trade date basis.
(3) Short-term investments have been adjusted for the net impact of unsettled transactions in order to report on a trade date basis. (4) Each asset class includes accrued income.

Manager and Asset Diversification
June 30, 2006






Asset Allocation
Last Five Fiscal Years
SHORT TERM
REAL ESTATE
FIXED INCOME
FOREIGN STOCKS
U.S. STOCKS
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2002
2003
2004
2005
2006
5%
5%
25%
14%
51%
1%
5%
28%
13%
53%
2%
5%
24%
14%
55%
1%
5%
28%
15%
51%
4%
8%
26%
14%
48%

Ten Largest Bond Holdings
(By Market Value)
June 30, 2006
(dollars in thousands)

Par Value	Bond	Coupon Rate	Due	Rating (1)	Market Value
$ 19,300	FNMA Mortgage TBA	5.500%	07/01/35	AAA	$ 18,534
9,749	FNMA Mortgage Pool Acct. #0713972	5.500%	07/01/33	AAA	9,391
9,500	FNMA Mortgage TBA	5.000%	07/01/36	AAA	8,880
4,800	US Treasury Repurchase Agreement	4.580%	07/03/06	AAA	4,800
4,260	Federal National Mortgage Association	4.375%	07/17/13	AAA	3,931
3,100	FHLB Discount Note	4.880%	07/03/06	P1	3,099
3,028	FHLMC Discount Note	4.910%	07/18/06	P1	3,000
3,029	MAXCAP Commercial Paper	5.010%	07/20/06	P1	3,000
3,025	FHLB Discount Note	4.890%	07/14/06	P1	2,999
2,500	Federal Farm Credit Bank	4.950%	05/16/12	AAA	2,416

(1) Rated by Moodys

Ten Largest Stock Holdings
(By Market Value)
June 30, 2006
(dollars in thousands)

Shares	Stock	Market Value
193,420	Progressive Corp.	$ 4,973
9,930	Google Inc.	4,164
57,310	Schlumberger LTD	3,731
99,375	Network Appliance Inc.	3,521
117,000	eBay Inc.	3,427
100,300	General Electric	3,306
77,000	Qualcomm Inc.	3,085
75,600	Amazon.com Inc.	2,924
74,798	Countrywide Financial Corp.	2,848
34,760	Genentech Inc.	2,843

Schedule of Fees
June 30, 2006

		Assets Under Management		Fees
Investment Manager Fees				
Fixed Income Managers				
City of Tucson, Treasury Division	$	61,354,826	$	52,433
PIMCO (Custom Fixed Income)		113,311,987		328,358
Total Fixed Income		174,666,813		380,791
Equity Managers				
Alliance Capital Management	$	83,761,070	$	43,936
Barclays Russell Value Index		30,078,441		17,354
Barclays Alpha Tilts		31,487,845		68,650
Causeway Capital Management		45,165,445		311,830
Fidelity Management Trust		36,549,683		274,370
Julius Baer		43,255,145		539,389
PIMCO StocksPlus		30,347,819		-
TCW Concentrated Core		58,016,591		369,319
TCW Value Opportunities		30,801,263		230,780
Total Equity	$	389,463,302	$	1,855,629
Liquidity Account		287,317		-
Real Estate Manager				
JPM Strategic Property Fund	$	35,864,867	$	338,043
JPM Income & Growth Fund		9,047,585		66,554
LaSalle Income & Growth Fund IV		2,677,740		-
Total Real Estate	$	47,590,192	$	404,597
Total Assets (Trade date basis)	$	612,007,624		
Total Investment Management Fees			$	2,641,017
Other Investment Service Fees				
Custodian Fees				
Mellon Trust			$	312,306
Security Lending - Rebate, Bank & Administration Fees				
Mellon Trust			$	1,618,232
Consulting and Performance Management				
Hewitt Investment Group			$	143,000
Total Other Investment Service Fees			$	2,073,538

Schedule of Commissions
June 30, 2006

Broker Description	Shares	Commissions	Commissions Per Share
MERRILL LYNCH PIERCE FENNER SMITH INC NY	402,758	17,633	$ 0.0438
INVESTMENT TECHNOLOGY GROUPS, NEW YORK	1,036,072	17,282	0.0167
LIQUIDNET INC, BROOKLYN	356,364	11,059	0.0310
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	552,985	10,934	0.0198
BEAR STEARNS & CO INC, NY	316,867	10,650	0.0336
MORGAN STANLEY & CO INC, NY	606,258	9,278	0.0153
GOLDMAN SACHS & CO, NY	302,819	8,764	0.0289
GOLDMAN SACHS EXECUTION & CLEARING, NY	256,616	7,866	0.0307
NATIONAL FINL SVCS CORP, NEW YORK	489,970	7,545	0.0154
CITIGROUP GBL MKTS INC, NEW YORK	206,035	7,147	0.0347
UBS SECURITIES LLC, STAMFORD	212,681	6,964	0.0327
LEHMAN BROS INC, NEW YORK	265,860	6,578	0.0247
DEUTSCHE BK SECS INC, NY (NWSCUS33)	262,097	6,442	0.0246
BANC OF AMERICA SECS LLC, CHARLOTTE	174,571	6,376	0.0365
MORGAN J P SECS INC, NEW YORK	201,465	5,849	0.0290
PIPER JAFFRAY & CO, MINNEAPOLIS	139,013	5,206	0.0374
MERRILL LYNCH INTL LONDON EQUITIES	298,536	4,504	0.0151
JEFFERIES & CO INC, NEW YORK	251,085	4,199	0.0167
BEAR STEARNS SEC CORP, BROOKLYN	100,775	3,239	0.0321
WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE	81,100	3,176	0.0392
PERSHING LLC, JERSEY CITY	72,100	3,101	0.0430
PRUDENTIAL EQUITY GROUP, NEW YORK	113,640	2,897	0.0255
RBC CAPITAL MARKETS CORP, NEW YORK	59,984	2,771	0.0462
CIBC WORLD MARKETS CORP, NEW YORK	55,315	2,550	0.0461
UBS EQUITIES, LONDON	113,992	2,483	0.0218
BAIRD, ROBERT W & CO INC, MILWAUKEE	55,570	2,444	0.0440
A G EDWARDS & SONS INC, ST LOUIS	56,035	2,369	0.0423
CANACCORD ADAMS INC, BOSTON	54,230	2,358	0.0435
DRESDNER KLEINWORT BENSON, NEW YORK	127,782	2,178	0.0170
KEEFE BRUYETTE AND WOODS, JERSEY CITY	53,735	2,171	0.0404
FRIEDMAN BILLINGS, WASHINGTON DC	47,985	2,066	0.0430
FIRST ALBANY CAPITAL INC, ALBANY	44,110	2,022	0.0458
SG SEC (LONDON) LTD, LONDON	42,496	1,896	0.0446
SALOMON BROS UK EQUITY TALISMAN	114,380	1,737	0.0152
INSTINET CORP, NY	55,005	1,723	0.0313
SALOMON BROS INTL LTD, LONDON	25,564	1,720	0.0673
SG AMERICAS SECURITIES LLC, NEW YORK	54,800	1,716	0.0313
SCOTT STRINGFELLOW INC, RICHMOND	33,220	1,562	0.0470
BERNSTEIN SANFORD C & CO, NEW YORK	31,265	1,512	0.0483
LEHMAN BROTHERS INTL EUROPE, SEOUL	7,122	1,496	0.2101
FRANK RUSSELL SEC INC, NEW YORK	30,845	1,496	0.0485
MERRILL LYNCH PIERCE FENNER, WILMINGTON	132,946	1,406	0.0106
MCDONALD & CO, NEW YORK	31,474	1,389	0.0441
THOMAS WEISEL PARTNERS, SAN FRANCISCO	30,890	1,339	0.0433
CITIGROUP GBL MKTS/SALOMON, NEW YORK	39,961	1,329	0.0333
ABG SECS, OSLO	17,373	1,167	0.0672
WILLIAM BLAIR & CO, CHICAGO	24,663	1,080	0.0438
MERRILL LYNCH PROFESSIONAL CLRG, PURCHAS	22,460	1,052	0.0468
J P MORGAN SEC LTD/STOCK LENDING, LONDON	63,317	1,034	0.0163
CANTOR FITZGERALD & CO INC, NEW YORK	32,562	1,004	0.0308
JANNEY MONTGOMERY SCOTT, PHILADELPHIA	25,250	1,002	0.0397
VARIOUS BROKERS - $1,000 OR LESS	1,556,830	39,876	0.0256
TOTAL	**9,740,828**	**$ 256,637**	
AVERAGE COMMISSION RATE			**$ 0.0263**

ACTUARIAL SECTION

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
9171 Towne Centre Drive
Suite 440
San Diego, CA 92122-1238
858.535.1300 phone
858.535.1415 fax
www.gabrielroeder.com

November 29, 2006

The Board of Trustees
Tucson Supplemental Retirement System
City Hall – 255 W. Alameda Street
Tucson, Arizona 85726–7210

The funding objective of the Retirement System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Tucson citizens.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to provide for normal cost plus level percent of payroll financing of unfunded actuarial accrued liability (UAAL). The actuarial assumptions and methods meet the parameters set forth in Statement No. 25 of the Governmental Accounting Standards Board.

Actuarial valuations are performed annually. The most recent actuarial valuation was made as of June 30, 2006. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 79.9% funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 16 years and applied as a charge to the computed normal cost. This is a decrease of one year from the period used in the June 30, 2005 valuation.

Data for the annual valuation was furnished by the Retirement System Administrator and was checked by us for internal completeness and year-to-year consistency. We prepared all of the schedules in the actuarial section with the exception of retirants and beneficiaries added to and removed from rolls. In the financial section, we prepared the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Summary of Actuarial Methods and Assumptions. Valuation assets were based on a smoothed market value which annually recognizes investment earnings up to the assumed 7.75% rate and 25% of any excess.

Respectfully submitted,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

Actuarial Cost Method

Normal cost contributions were computed as follows:

The series of contributions, payable from date of employment, sufficient to accumulate at time of retirement the discounted value of each member's projected pension and potential survivor's pension was computed, using the assumptions summarized on the following pages, so that each contribution in the series is a constant percentage of the member's year by year projected compensation (entry- age normal actuarial cost method).

Actuarial accrued liability was computed and financed as follows:

(1) Retirants and beneficiaries. The discounted value of pensions likely to be paid retired members and their potential survivors were computed using the investment return and mortality assumptions.

(2) Active members and former members. The actuarial accrued liability associated with service rendered prior to the valuation date, including experience gains and losses, was computed using the investment return, mortality and other factors outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount, if any, was amortized over 16 years as of June 30, 2006.

Actuarial Assumptions

Level-percent contribution requirements and actuarial present values are calculated by using the entry-age actuarial cost method and assumptions concerning future experiences in the financial risk areas of a retirement plan. Actuarial gains and losses are amortized as a level percent of payroll over a closed period of 16 years from June 30, 2006. The assumptions are selected based upon the recommendation of the actuary.

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

(i) long-term rates of investment return to be generated by the assets of the system

(ii) patterns of pay increases to members

(iii) rates of mortality among members, retirants and beneficiaries

(iv) rates of withdrawal of active members

(v) rates of disability among active members

(vi) the age patterns of actual retirements.

In making a valuation, the monetary effect of each assumption projected is for as long as a present covered person or potential beneficiary survives — a period of time which can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience. 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 one or more of the assumptions are modified to reflect experience trends (but not random or temporary year to year fluctuations). The Board of Trustees adopts the assumptions based upon recommendations of the actuary. The demographic assumptions were last revised and adopted for the June 30, 2004 actuarial valuation following an actuarial investigation of experience of the Retirement System covering the period July 1, 1998 through June 30, 2003.

Investment Return. 7.75% a year, compounded annually. This consists of a real rate of return of 3.5% a year plus a long-term rate of inflation of 4.25% a year.

This assumption is used to equate the value of payments due at different points in time. The approximate internal rate of investment return, for the purpose of comparison with the assumed rate is as follows:

Year Ended June 30

	2006	2005	2004	2003	2002	3 Year Avg.	5 Year Avg
Investment Return Rate	9.1%	9.5%	(0.9)%	(2.1)%	4.2%	9.3%	4.9%
Assumed Rate	9.4%	9.1%	9.5%	(0.9)%	(2.1)%	7.75%	7.75%

This rate of return should not be used for measurement of an investment advisor's performance or for comparisons with other plans -- to do so will mislead.

Pay Projections. These assumptions are used to project current pays to those that will determine average final compensation. The assumptions should consist of the same inflation component used for the investment return assumption plus an age graded component to reflect promotion and seniority increments.

Less than Five Years of Service				Five or More Years of Service			
Service	Inflation Component	Merit & Seniority	Total	Sample Ages	Inflation Component	Merity & Seniority	Total
0	4.25%	5.00%	9.25%	20	4.25%	2.61%	6.86%
1	4.25	4.50	8.75	25	4.25	2.12	6.37
2	4.25	4.00	8.25	30	4.25	1.82	6.07
3	4.25	3.50	7.75	35	4.25	1.61	5.86
4	4.25	3.00	7.25	40	4.25	1.45	5.70
				45	4.25	1.14	5.39
				50	4.25	.77	5.02
				55	4.25	.45	4.70
				60	4.25	.11	4.36
				65	4.25	.00	4.25

The pay increase assumptions will produce 4.25% annual increases in active member payroll (the base rate) given a constant active member group size. This is the same payroll growth assumption used to amortize unfunded actuarial accrued liability. In addition, an assumption that final average compensation will be increased by 2.2% to reflect unused sick leave.

Pre-Retirement Mortality Table. The 1994 Group Annuity Mortality Table set back one year for men. This assumption is used to measure the probabilities of members dying before retirement.

Sample Ages	Future Life Expetancy (years) Men	Women	Deaths per 1,000 Lives Men	Woman
50	31.6	34.9	2.3	1.4
55	27.0	30.2	4.0	2.3
60	22.7	25.6	7.1	4.4
65	18.6	21.3	12.9	8.6
70	15.0	17.3	21.7	13.7
75	11.7	13.6	34.1	22.7
80	8.9	10.3	55.9	39.4
85	6.6	7.5	89.6	67.7

Post-Retirement Mortality Table. The 1994 Group Annuity Mortality Table set back two years for men and women. This assumption is used to measure the probabilities of each benefit payment being made after retirement. Disability mortality is set forward ten years.

Sample Ages	Present Value of $1 Monthly for Life Men	Women	Future Life Expectancy (years) Men	Women	Deaths per 1,000 Lives Men	Women
50	$134.76	$141.48	28.9	33.0	3.2	1.7
55	126.12	134.40	24.4	28.3	5.6	2.9
60	115.68	125.52	20.2	23.8	10.1	5.8
65	103.80	114.96	16.4	19.7	18.0	10.8
70	90.84	102.60	13.0	15.8	28.5	16.5
75	76.56	88.20	10.0	12.2	45.2	28.4
80	62.40	72.72	7.4	9.1	75.5	49.2
85	49.20	57.24	5.4	6.6	115.7	84.0

Rates of Retirement. Rates of retirement are used to measure the probablities of an eligible member retiring during the next year. For those ages 62+, the Rule of 80 retirement rates only applies if the Rule of 80 is attained by age 62.

	Percentage of Those Eligible Retiring During Year		
Retirement Ages	Rule of 80	Age Based	Early
50	25%		
51	25		
52	25		
53	25		
54	25		
55	25		8%
56	25		8
57	25		8
58	25		8
59	25		8
60	25		
61	25		
62	25	33%	
63	25	19	
64	25	28	
65	25	30	
66	25	38	
67	25	47	
68	25	75	
69	25	90	
70	25	100	

Deferred vested members are assumed to retire at age 62.

Rates of Separation from Active Membership. This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire.

Sample Ages	Years of Creditable Service	Probability of Termination During Year
Any	0	15.00%
	1	10.00
	2	9.00
	3	7.50
	4	7.00
25	5 & Over	6.30
30		5.90
35		3.90
40		2.90
45		2.20
50		1.80
55		1.70
60		1.70

Rates of Disability. This assumption measures the probabilities of a member becoming disabled. The rates do not apply to members who are eligible to retire.

Sample Ages	% of Active Members Becoming Disabled During Next Year
25	0.04%
30	0.06
35	0.11
40	0.16
45	0.24
50	0.38
55	0.65
60	0.94

Disabled life mortality is measured by the 1994 Group Annuity Mortality Table, as previously noted, with ages set forward 10 years. It is assumed that no valued disability retirement benefits will be offset by Worker's Compensation benefits.

Forfeiture of Vested Benefits. The assumption is that 55% of the actuarial present value of vested termination benefits will be forfeited by a withdrawal of accumulated contributions.

Active Member Group Size. The number of active members was assumed to remain constant.

Active Members as of June 30, 2006
By Attained Age and Years of Service

Years of Service to Valuation Date

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	Total No.	Total Valuation Payroll
< 20	1	0	0	0		0	0	1	25,522
20-24	33	1	0	0	0	0	0	34	941,054
25-29	107	48	0	0	0	0	0	155	5,304,915
30-34	120	101	19	0	0	0	0	240	9,179,893
35-39	137	135	71	12	0	0	0	355	14,618,011
40-44	118	127	122	69	11	0	0	447	20,683,393
45-49	117	146	109	107	125	21	0	625	30,644,412
50-54	80	115	95	127	118	117	15	667	34,399,276
55-59	49	68	60	129	80	52	39	477	26,413,907
60	7	10	14	15	13	6	6	71	4,012,316
61	1	4	10	9	2	2	9	37	2,346,563
62	3	9	6	8	2	7	3	38	2,141,751
63	2	3	6	10	3	3	4	31	1,542,430
64	3	1	6	4	4	0	1	19	1,072,124
65	1	3	0	4	2	2	0	12	732,787
66	0	0	2	0	2	1	0	5	290,002
67	0	3	1	3	1	1	1	10	438,645
68	0	2	1	1	0	0	0	4	133,848
69	0	1	3	3	1	0	1	9	508,822
70	0	1	0	0	1	0	0	2	68,349
71	1	1	0	0	1	1	0	4	178,755
72	0	0	1	0	0	0	0	1	44,949
73	0	0	0	0	0	0	0	0	-
74	0	0	0	0	1	0	0	1	38,584
75	0	0	0	0	0	0	0	0	-
76	0	0	0	0	0	0	0	0	-
77	0	0	0	0	1	0	1	2	94,854
78	0	0	0	0	0	0	0	0	-
79	0	0	0	0	0	0	0	0	-
Totals	780	779	526	501	368	213	80	3,247	155,855,162

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	46.6 years
Service:	12.1 years
Annual Pay:	$48,000

Active Members Included in Valuation
Comparative Schedule

Valuation Date	Active Members	Annual Payroll	Average Age	Average Service	Average Pay	Vested Inactive Members
6-30-81	2,510	$45,222,228	41.2	7.9	$18,017	N/A
6-30-82	2,425	44,344,257	41.0	8.1	18,286	34
6-30-83	2,461	48,699,681	41.1	8.5	19,789	36
6-30-84	2,524	55,259,857	41.3	8.7	21,894	32
6-30-85	2,572	59,317,696	41.5	8.9	23,063	25
6-30-86	2,748	65,046,166	41.4	8.7	23,670	33
6-30-87	2,832	69,759,507	41.8	9.0	24,633	34
6-30-88	2,943	72,449,162	41.9	9.0	24,617	40
6-30-89[1]	3,250	81,386,395	41.8	8.6	25,042	40
6-30-90	3,246	86,478,158	42.1	8.7	26,641	42
6-30-91	3,195	86,829,527	42.4	9.0	27,177	38
6-30-92	3,149	86,205,432	42.9	9.4	27,375	48
6-30-93	3,224	92,867,286	43.3	9.8	28,805	45
6-30-94	3,287	94,180,104	43.6	10.1	28,652	40
6-30-95	3,284	99,847,171	43.9	10.2	30,404	45
6-30-96	3,378	105,229,504	43.9	10.2	31,151	43
6-30-97	3,430	110,188,751	44.3	10.9	32,125	52
6-30-98	3,484	113,729,143	44.5	11.0	32,643	104
6-30-99	3,550	126,816,830	44.8	10.7	35,723	119
6-30-00	3,600	134,088,074	45.2	11.0	37,247	81
6-30-01	3,669	145,058,897	45.4	11.1	39,536	107
6-30-02	3,626	153,580,185	45.7	11.6	42,355	111
6-30-03	3,364	143,164,205	45.5	11.2	42,558	125
6-30-04	3,476	149,781,753	45.9	11.4	43,090	130
6-30-05	3,609	162,149,200	46.2	11.4	44,929	148
6-30-06	3,247	155,855,162	46.6	12.1	48,000	394[2]

[1] *An amendment eliminated the one-year service requirement for participation in the Retirement System.*
[2] *Includes 136 former Library employees requesting a transfer of service to ASRS.*

Solvency Test

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Member (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
6/30/91	$44,496,039	$ 72,419,436	$ 86,372,322	$164,268,134	100.0%	100.0%	54.8%
6/30/92	49,238,019	80,342,604	86,902,648	179,569,858	100.0	100.0	57.5
6/30/93	55,146,786	85,832,484	98,492,344	197,281,861	100.0	100.0	57.2
6/30/94	60,424,161	95,449,308	105,838,311	213,540,661	100.0	100.0	54.5
6/30/95	66,316,408	102,511,728	113,211,848	237,712,863	100.0	100.0	60.8
6/30/96	72,294,235	109,572,672	118,739,900	266,740,007	100.0	100.0	71.5
6/30/97	78,991,358	119,508,312	128,878,531	304,684,444	100.0	100.0	82.4
6/30/98	85,106,175	129,345,816	134,514,294	353,056,577	100.0	100.0	103.0
6/30/99	92,367,491	139,805,832	168,050,794	402,875,158	100.0	100.0	101.6
6/30/00	100,413,022	150,527,136	186,809,583	453,953,722	100.0	100.0	108.7
6/30/01	108,696,394	161,740,968	224,921,223	470,671,667	100.0	100.0	89.0
6/30/02	118,913,979	187,508,568	247,524,186	463,101,526	100.0	100.0	63.3
6/30/03	110,195,709	275,193,384	215,784,329	458,856,831	100.0	100.0	34.0
6/30/04	123,643,527	286,698,084	235,009,321	494,986,798	100.00	100.0	36.0
6/30/05	135,346,297	298,395,396	260,129,138	538,788,828	100.0	100.0	40.4
6/30/06	140,387,532	326,828,088	268,577,863	588,227,845	100.0	100.0	45.1

Comparative Schedule of Annual Pension Benefits Paid

Year Ending June 30	No.	Annual Pensions	% Increase	No. of Active Per Retired	Pensions as % of Active Payroll	Average Pensions	Actuarial Present Value of Pensions	Expected Removals No.	Expected Removals Pensions
1982	514	$1,891,620	%	4.7	4.3%	$3,680	$16,170,360	16.2	$50,616
1983	558	2,182,851	15.4	4.4	4.5	3,912	18,686,808	18.2	59,064
1984	602	2,566,459	17.6	4.2	4.6	4,263	22,307,232	20.2	70,140
1985	639	2,961,564	15.4	4.0	5.0	4,635	25,885,272	21.8	80,640
1986*	667	3,523,332	19.0	4.1	5.4	5,282	30,111,048	20.6	61,404
1987	706	3,911,729	11.0	4.0	5.6	5,541	33,313,200	23.0	97,632
1988	737	4,543,907	16.2	4.0	6.3	6,165	39,117,420	25.5	111,516
1989*	780	5,344,719	17.6	4.2#	6.6	6,852	46,556,352	26.6	133,860
1990	832	6,488,714	21.4	3.9	7.5	7,799	57,430,128	28.5	150,864
1991*	918	8,111,103	25.0	3.5	9.3	8,836	72,419,436	29.8	172,608
1992	965	9,010,345	11.1	3.3	10.5	9,337	80,342,604	32.3	208,068
1993*	989	9,704,929	7.7	3.3	10.5	9,813	85,832,484	34.3	235,068
1994	1,035	10,612,612	9.4	3.2	11.3	10,254	95,449,308	35.8	263,340
1995*	1,065	11,429,402	7.7	3.1	11.4	10,732	102,511,728	35.8	270,600
1996	1,105	12,236,298	7.1	3.1	11.6	11,074	109,572,672	37.7	302,952
1997*	1,156	13,391,185	9.4	3.0	12.2	11,594	119,508,312	39.4	325,440
1998	1,208	14,479,476	8.1	2.9	12.7	11,986	129,345,816	42.4	370,344
1999*	1,260	15,721,865	8.6	2.8	12.4	12,478	139,805,832	44.2	402,504
2000*	1,301	16,966,042	7.9	2.8	12.7	13,041	150,527,136	46.2	445,464
2001*	1,355	18,505,247	9.1	2.7	12.8	13,657	161,740,968	47.1	484,776
2002*	1,442@	21,273,162	15.0	2.5	13.9	14,753	187,508,568	53.3	622,236
2003*	1,742~	29,767,500	39.9	1.9	20.8	17,088	275,193,384	58.2	742,908
2004*	1,753	30,491,864	2.4	2.0	20.4	17,394	286,698,084	55.7	717,888
2005*	1,793	32,027,305	5.0	2.0	19.8	17,862	298,395,396	58.3	781,152
2006*	1,878	35,091,468	9.6	1.7	22.5	18,686	326,828,088	61.1	857,760

*Includes ad hoc cost-of-living increases.
#Reflects increase in the number of active members as a result of an amendment which eliminated the one year service requirement for participation in the Retirement System.
@Reflects increase in the number of retirees resulting from a temporary amendment that reduced requirements for retirement eligibility.
~Reflects increase in the number of retirees resulting from temporary amendments that reduced requirements for retirement eligibility and provided added retirement incentives during a limited period.

Experience Gains (Losses)
Comparative Schedule

		Year Ended 6-30-06	Year Ended 6-30-05
(1)	UAAL[1] at start of year	$155,082,003	$150,364,134
(2)	+ Employer Normal Cost[3]	11,813,862	11,387,122
(3)	- Actual employer contributions[3]	24,319,912	21,423,488
(4)	+ Interest accrual on (1), (2) and (3)	11,534,246	11,264,311
(5)	Expected UAAL before changes	154,110,199	151,592,079
(6)	+ Change from amendments	1,416,960	1,035,876
(7)	+ Change from assumptions	0	2,284,983
(8)	Expected UAAL after changes	155,527,159	154,912,938
(9)	Actual UAAL	147,565,638	155,082,003
10)	Experience gain (loss) (8) - (9)	7,961,521	(169,065)
11)	As % of beginning of year AAL[2]	1.1%	(0.0%)

[1] Unfunded actuarial accrued liability.

[2] Actuarial accrued liability.

[3] Normal cost and contributions net of employee portion

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls End of Year		Average Annual Allowance	Percentage Increase in Allowance
Fiscal Year	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
6/30/93	50	$612,123	26	$137,859	989	$9,704,929	$9,813	5.1%
6/30/94	66	1,032,555	20	124,872	1,035	10,612,612	10,254	4.5%
6/30/95	56	775,199	26	195,769	1,065	11,429,402	10,732	4.7%
6/30/96	84	1,214,444	44	407,548	1,105	12,236,298	11,074	3.2%
6/30/97	67	1,088,667	16	189,380	1,156	13,402,664	11,594	4.6%
6/30/98	87	1,311,839	35	223,548	1,208	14,479,476	11,986	3.5%
6/30/99	89	1,385,899	37	420,950	1,260	15,721,865	12,478	4.1%
6/30/00	77	1,302,723	36	298,207	1,301	16,966,042	13,041	4.5%
6/30/01	100	1,731,056	46	354,215	1,355	18,505,247	13,657	4.7%
6/30/02	133	2,926,543	46	158,628	1,442	21,273,162	14,753	8.0%
6/30/03	327	8,450,695	27	225,815	1,742	29,767,534	17,088	15.8%
6/30/04	37	649,387	26	261,771	1,753	30,491,864	17,394	17.9%
6/30/05	68	3,498,948	42	485,633	1,791	31,990,842	17,796	23.1%
6/30/06	101	2,335,032	53	656,383	1,878	35,092,308	18,686	4.6%

Summary of Benefit Provisions Evaluated or Considered (June 30, 2006)

Normal Retirement (no reduction factor)

Eligibility - Age 62, or a combination of age and creditable service equal to 80.

Amount - Creditable service times 2.25% of average final compensation.

Average Final Compensation – The average monthly creditable compensation for the period of 36 consecutive months during which the member's creditable compensation was the highest during the 120 months immediately preceding the date of retirement. Effective July 1, 2000, accrued unused sick leave at the final salary may be substituted for an equal number of hours at the beginning of the 36 month period.

Early Retirement (reduction factor)

Eligibility - Age 55 with 20 or more years of creditable service.

Amount - An amount computed as for normal retirement but reduced by 1/2 of 1% per month for each month (6% per year) retirement precedes normal retirement.

Deferred Retirement (vested termination**)**

Eligibility - 5 or more years of creditable service. Terminated employee may apply for a benefit at age 62 or when a combination of age and creditable service equals 80, or elect a refund of employee contributions in lieu of a deferred retirement benefit.

Amount - An amount computed as for normal retirement.

Disability Retirement

Eligibility - 5 or more years of creditable service. Requires inability of an individual to perform the function of their job classification because of a member's disability expected to be long-term or to result in death.

Amount - An amount computed as for normal retirement. Worker's Compensation benefits are offset, if earned income and employer-related disability compensation (from other than the System) equal or exceed 80% of average final compensation.

Pre-Retirement Survivor Benefits

Eligibility - death of member with 5 or more years of creditable service.

Amount - Lump sum payment equal to twice the member's contributions, with interest. In lieu of the lump sum a surviving spouse may elect 50% of the deceased member's normal retirement amount accrued at time of death.

Other Termination Benefits

Eligibility - termination of employment without eligibility for any other benefit.

Amount - accumulated contributions at time of termination.

Employee Contributions

5.0% of salary. Employee contribution balances are credited with a rate of 7.5% per annum.

City Contributions

Actuarially determined amounts which together with employee contributions and investment earnings will fund the obligations of the System in accordance with accepted actuarial principles.

Post-Retirement Adjustments

Ad hoc increases have been granted from time to time. The most recent ad hoc increase was granted August 1, 2006 to retirants and beneficiaries retired prior to July 1, 1996 in the amount of $1 per month for each year of credited service of retirement.

STATISTICAL SECTION

Schedule of Revenues by Source

Year Ending June 30	Member Contributions (2, 3)	Employer Contributions Dollars (2)	Employer Contributions % of Annual Covered Payroll	Investment Income (1)	Total
1997	$ 5,746,463	$ 9,292,926	8.38	$ 53,919,504	$ 68,958,893
1998	5,964,922	9,800,579	8.38	61,823,095	77,588,596
1999	6,125,599	9,475,558	7.91	47,004,546	62,605,703
2000	6,777,350	9,707,236	7.35	47,955,383	64,439,969
2001	7,285,058	10,123,248	7.35	(43,217,890)	(25,809,584)
2002	13,126,025	10,544,412	7.35	(39,990,731)	(16,320,294)
2003	12,719,518	12,771,777	8.41	12,737,072	38,228,367
2004	9,065,575	16,067,515	11.17	76,678,740	101,811,830
2005	10,468,516	21,423,488	14.03	44,972,358	76,864,362
2006	9,975,610	24,319,911	15.04	62,263,814	96,559,335

(1) Includes miscellaneous income.

(2) Includes transfers from other retirement systems and for 2002 forward, purchase of service payments.

(3) Member contributions are 5% annually.

Schedule of Expenses by Type

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds and Transfers to Other Systems	Total
1997	$ 12,718,492	$ 200,284	$ 1,044,460	$ 13,963,236
1998	14,032,797	286,313	1,383,054	15,702,164
1999	15,047,061	330,953	1,033,565	16,411,579
2000	16,557,265	314,432	1,460,696	18,332,393
2001	18,042,307	347,975	1,361,881	19,752,163
2002	20,009,180	341,569	906,241	21,256,990
2003	23,855,130	373,718	1,189,624	25,418,472
2004	30,259,921	380,407	1,612,169	32,252,497
2005	32,027,305	389,303	1,438,677	33,855,285
2006	33,475,950	433,350	1,701,731	35,611,031

Schedule of Benefit Expenses by Type

Year Ending June 30	Age and Service Benefits		Disability Benefits		Refunds and Transfers to Other Systems (1)	Total
	Retirees	Survivors (1)	Retirees	Survivors		
1997	$ 11,171,620	$ 874,389	$ 591,025	$ 81,458	$ 1,044,460	$ 13,762,952
1998	12,242,902	1,001,762	664,125	124,008	1,383,054	15,415,851
1999	13,078,700	1,030,740	794,476	143,145	1,033,565	16,080,626
2000	14,128,928	1,285,244	1,026,252	116,841	1,460,696	18,017,960
2001	15,304,313	1,286,911	1,265,302	185,781	1,361,881	19,404,188
2002	16,973,784	1,336,239	1,466,490	232,667	906,241	20,915,421
2003	20,209,887	1,910,393	1,541,162	193,688	1,189,624	25,044,754
2004	26,533,141	1,862,198	1,646,927	`217655	1,612,169	31,872,090
2005	28,001,136	1,971,833	1,818,087	236,249	1,438,677	33,465,982
2006	28,946,679	2,377,127	1,763,061	389,083	1,701,732	35,177,682

(1) Includes Death in Service Benefits.

Retired Members by Type of Benefit

As of June 30, 2006

Amount of Monthly Benefit	Number of Retirees	Type of Retirement[a] 1	2	3	4	Option Selected[b] 1	2	3	4	5	6	7	8
Deferred	225												
$ 1 - $ 250	43	34	8	1	-	27	2	1	1	3	3	5	1
$ 251 - $ 500	191	106	42	27	16	111	5	3	3	23	8	29	9
$ 501 - $ 750	215	125	48	30	12	112	3	2	3	41	19	27	8
$ 751 - $ 1,000	201	131	37	31	2	93	-	2	-	49	22	30	5
$ 1,001 - $ 1,250	215	158	32	20	5	97	2	-	2	46	26	38	4
$ 1,251 - $ 1,500	202	165	19	18	-	85	3	2	3	36	37	36	-
$ 1,501 - $ 1,750	186	173	5	8	-	74	1	1	-	41	33	36	-
$ 1,751 - $ 2,000	162	151	4	7	-	54	-	-	-	43	32	33	-
$ 2,001 - $ 2,250	114	103	5	6	-	46	1	4	-	34	13	15	1
$ 2,251 - $ 2,500	80	77	-	2	1	35	-	-	-	24	9	12	-
$ 2,501 - $ 2,750	61	60	1	-	-	35	-	1	1	11	8	5	-
$ 2,751 - $ 3,000	47	47	-	-	-	28	-	-	-	6	6	7	-
$ 3,001 - $ 3,250	33	33	-	-	-	17	-	-	1	5	4	6	-
$ 3,251 - $ 3,500	18	17	1	-	-	6	-	-	-	4	4	4	-
$ 3,501 - $ 3,750	23	23	-	-	-	15	-	-	1	2	1	4	-
$ 3,751 - $ 4,000	16	15	1	-	-	10	-	-	-	1	2	3	-
$ 4,001 - $ 4,250	13	13	-	-	-	6	-	-	-	3	-	4	-
$ 4,251 - $ 4,500	12	12	-	-	-	7	-	-	-	3	2	-	-
$ 4,501 - and over	46	46	-	-	-	18	-	1	1	13	7	6	-
	2,103	1,489	203	150	36	876	17	17	16	388	236	300	28

Notes:

[a]Type of retirement

1 - Normal retirement for age and service
2 - Beneficiary payment, normal retirement
3 - Disabiltiy retirement
4 - Beneficiary payment, disability retirement

[b]Option selected:

1 - Single life; beneficiary receives lump sum of member's unused contributions
2 - Beneficiary receives remainder of 5 yr term, if applicable
3 - Beneficiary receives remainder of 10 yr term, if applicable
4 - Beneficiary receives remainder of 15 yr term, if applicable
5 - Beneficary receives 75% of member's reduced benefit
6 - Beneficary receives 50% of member's reduced benefit
7 - Beneficary receives 100% of member's reduced benefit
8 - Beneficiary receives death benefit of 50% of member's unreduced single life benefit

Average Monthly Benefit Payments to New Retirees
June 30, 2006

Retirement Effective Dates For Fiscal Years Ending June 30	Years of Credited Service					
	1-9	10-14	15-19	20-24	25-29	30+
2006						
Avg Monthly Benefit	$ 610	$ 802	$ 1,304	$ 1,974	$ 3,141	$ 4,001
Avg Monthly Final Avg Compensation	$ 4,046	$ 2,803	$ 3,245	$ 4,006	$ 4,970	$ 5,561
Number of Active Retirees	20	14	25	27	33	20
2005						
Avg Monthly Benefit	$ 563	$ 912	$ 1,095	$ 1,803	$ 3,291	$ 3,615
Avg Monthly Final Avg Compensation	$ 3,518	$ 3,722	$ 3,017	$ 3,884	$ 5,623	$ 4,883
Number of Active Retirees	8	3	10	20	17	10
2004						
Avg Monthly Benefit	$339	$895	$1,245	$1,547	$2,508	$2,876
Avg Monthly Final Avg Compensation	$2,519	$3,398	$3,500	$3,483	$4,292	$4,323
Number of Active Retirees	4	10	6	7	8	2
2003						
Avg Monthly Benefit	$595	$734	$1,213	$1,772	$2,380	$3,421
Avg Monthly Final Avg Compensation	$3,350	$2,851	$3,358	$3,705	$4,209	$5,047
Number of Active Retirees	10	18	31	41	145	62
2002						
Avg Monthly Benefit	$465	$615	$1,106	$1,236	$2,372	$3,071
Avg Monthly Final Avg Compensation	$2,620	$2,213	$2,882	$2,455	$3,921	$4,147
Number of Active Retirees	9	10	24	20	61	9
2001						
Avg Monthly Benefit	$395	$642	$907	$1,665	$1,900	$2,543
Avg Monthly Final Avg Compensation	$2,098	$2,238	$2,340	$3,124	$3,199	$3,461
Number of Active Retirees	8	20	16	20	24	12
2000						
Avg Monthly Benefit	$433	$720	$927	$1,749	$2,269	$1,884
Avg Monthly Final Avg Compensation	$2,640	$2,499	$2,316	$3,420	$3,749	$2,736
Number of Active Retirees	10	14	12	17	21	3
1999						
Avg Monthly Benefit	$338	$510	$865	$1,415	$1,738	$3,014
Avg Monthly Final Avg Compensation	$2,244	$1,855	$2,270	$3,033	$3,064	$4,737
Number of Active Retirees	9	17	5	20	34	4
1998						
Avg Monthly Benefit	$360	$707	$1,011	$1,356	$1,841	$1,934
Avg Monthly Final Avg Compensation	$2,390	$2,571	$2,654	$2,907	$3,245	$3,040
Number of Active Retirees	14	8	10	27	24	4
1997						
Avg Monthly Benefit	$327	$677	$986	$1,257	$1,753	$1,924
Avg Monthly Final Avg Compensation	$2,062	$2,893	$2,801	$2,576	$2,791	$2,859
Number of Active Retirees	6	5	4	22	23	7

Demographics of Retired and Active Members
June 30, 2006

Retired Members

	Retirees			Survivors/Beneficiaries		
Ages	Male	Female	Total	Male	Female	Total
Under 55	53	48	101	3	17	20
55 to 59	193	94	287	-	23	23
60 to 64	233	94	327	1	30	31
65 to 69	193	106	299	-	33	33
70 to 74	199	59	258	4	37	41
75 to 79	113	62	175	2	36	38
80 to 84	71	39	110	7	29	36
85 to 89	44	19	63	2	14	16
90 to 94	11	5	16	-	1	1
95 to 100	1	2	3	-	-	-
101 and over	-	-	-	-	-	-
Total	1,111	528	1,639	19	220	239

Active Members

	Active Members			Percentage Distribution		
Ages	Male	Female	Total	Male	Female	Total
Under 20	1	2	3	0.03%	0.06%	0.09%
20 to 29	103	103	206	3.17%	3.17%	6.34%
30 to 39	321	302	623	9.88%	9.30%	19.18%
40 to 49	650	455	1105	20.01%	14.01%	34.02%
50 to 59	688	426	1114	21.18%	13.12%	34.30%
60 to 69	110	78	188	3.39%	2.40%	5.79%
70 and over	6	3	9	0.18%	0.09%	0.28%
Total	1,879	1,369	3,248	57.85%	42.15%	100.00%

Employee and Employer Contribution Rates
Last Ten Fiscal Years

Fiscal Year	Employee Rate (percentage)	Employer Rate (percentage)
96/97	5.0	8.38
97/98	5.0	7.91
98/99	5.0	7.35
99/00	5.0	7.35
00/01	5.0	7.35
01/02	5.0	8.41
02/03	5.0	11.17
03/04	5.0	14.06
04/05	5.0	14.83
05/06	5.0	15.04

Tucson Supplemental Retirement System
Changes In Net Assets, Last Ten Years
Fiscal Years Ending June 30,

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Additions									
Employer Pension Contributions	$9,245,449	$9,613,102	$9,475,558	$9,637,727	$10,058,627	$10,544,412	$12,771,777	$15,966,754	$21,423,488
Employee Pension Contributions	$5,524,817	$5,723,920	$6,029,769	$6,561,513	$6,842,538	$7,198,340	$7,583,019	$6,563,651	$7,638,608
Transfers from Other Systems	$269,123	$428,479	$95,830	$285,346	$507,140	$207,164	$525,986	$294,722	$857,399
Employee Contributions from Purchases of Service Credit[1]						$5,720,521	$4,610,513	$2,307,962	$1,972,509
Net Investment Gain (Loss)	$53,919,504	$61,823,095	$47,004,546	$47,955,383	($43,217,890)	($39,990,731)	$12,737,072	$76,678,740	$44,972,358
Total Additions	$68,958,893	$77,588,596	$62,605,703	$64,439,969	($25,809,585)	($16,320,294)	$38,228,367	$101,811,829	$76,864,362
Deductions									
Retirement Benefits Paid	$12,718,492	$14,032,797	$15,047,061	$16,557,265	$18,042,307	$20,009,180	$23,855,130	$30,259,921	$31,357,794
Refunds of Contributions	$1,018,169	$1,290,139	$1,017,511	$1,173,181	$1,124,689	$806,074	$1,186,455	$1,249,453	$1,229,267
Transfers to Other Systems	$26,291	$92,915	$16,054	$287,515	$237,192	$100,167	$3,169	$362,716	$209,410
Administrative Expenses	$200,284	$286,313	$330,953	$314,432	$347,974	$341,569	$373,718	$380,407	$389,303
Total Deductions	$13,963,236	$15,702,164	$16,411,579	$18,332,393	$19,752,162	$21,256,990	$25,418,472	$32,252,497	$33,185,774
Change in Net Assets	$54,995,657	$61,886,432	$46,194,124	$46,107,576	($45,561,747)	($37,577,284)	$12,809,895	$69,559,332	$43,678,588

[1]Employee Purchase of Service Program Began with FYE 2002

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