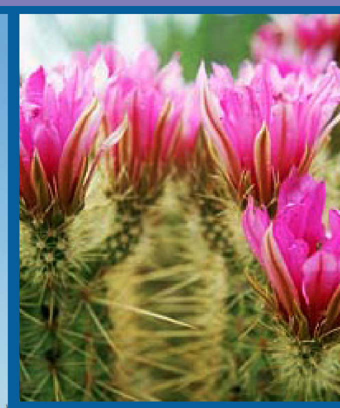

## City of Tucson

# Tucson Supplemental Retirement System

A Component Unit of the
City of Tucson, Arizona
Comprehensive Annual
Financial Report

Fiscal Year July 1, 2006 Through June 30, 2007

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

## Comprehensive Annual Financial Report
## For Fiscal Year Ended
## JUNE 30, 2007

Issued by the City of Tucson, Finance Department, Risk Management Division

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TUCSON

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## Introductory Section



## Financial Section



## Investment Section (Unaudited)

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## Actuarial Section (Unaudited)



## Statistical Section (Unaudited)

# INTRODUCTION

# 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, 2006

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.

President

Executive Director

CITY OF TUCSON

December 21, 2007

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, 2007, 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, 2007;
- 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 fixed period of fifteen years.

**Major Initiatives**

The Board granted an ad hoc retirement benefit increase as of August 1, 2006 for retirees with retirement dates prior to July 1, 2004, 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 at that time, a total of 806 received a benefit increase.

During the fiscal year 2007, the City Code was amended to allow TSRS retirees the ability to be rehired by the City of Tucson without an annual limit on the number of hours that could be worked and still receive a TSRS pension. TSRS retirees were formerly limited to 1,000 hours annually. Also during the past year, an amendment was passed that allows non-spousal beneficiaries to rollover inherited pension account balances to their individual retirement accounts. Adding this provision follows what was passed by the United States Congress in the Pension Protection Act of 2006.

Effective for the fiscal year ending June 30, 2007, the Board changed the method previously used for amortizing unfunded liabilities from a declining closed period of amortization to a 15 year fixed period of amortization. Also during this past year, the contribution rate paid by employees hired after June 30, 2006 changed from 5% to a payment that equals 40% of the recommended actuarial funding rate. Recognizing the burden associated with an increased contribution rate, the Board recommended that the first year change be limited to a rate of 7.5%, adding a provision that states any future annual rate increase would be limited to 2.5% and could not fall below 5%.

Finally, effective July 1, 2006, an ordinance was passed that created a new retirement option called the End of Service Program. This program is available to all employees who have met normal eligibility for retirement (rule of 80 or age 62) and offers the opportunity to accumulate up to one year's worth of pension benefits payable at the end of the final year of service. An incentive feature was also added to this year's End of Service Program, creating the possibility of retiring not more than six months after entering the program and receiving an amount equal to what was accumulated in the participant's account. A limited window for the incentive ran between the dates of July 1st to November 30th, 2006. This year the program provided 111 members with an incentive payment and 14 others participated in the regular (non-incentive) End of Service Program.

The City of Tucson entered into an Intergovernmental Agreement with Pima County, transferring all Library employees during the prior year. As a result, many of those employees requested their TSRS service credits to be transferred to Arizona State Retirement System, through a reciprocal transfer agreement. Due to this agreement, a large amount of transfers occurred during the current fiscal year.

## Funding Status

Analysis of the funding progress for TSRS 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, 2007, the system's funded ratio increased from the prior year 79.9% level to 83.1%. The actuarially accrued liability increased from $735,793,483 to $763,538,930, an increase of 3.8% and the actuarial value of assets available for benefits increased by 7.9% from $588,227,845 to $634,763,193. The System's unfunded actuarial accrued liability decreased by $18,789,901 during this plan year. Elements associated with this change include experience losses attributable to retiree mortality of $2,700,000 and experience gains attributable to investment returns of $20,404,000 and employee turnover, pre-retirement mortality and other gains of $6,464,000 helped to generate a net gain for the year. Actuarial liabilities increased as a result of the ad hoc COLA granted in August, 2006, of $3.68 million.

## 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 $99,329,593. 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 17.19%. For the last five years, the System has had an annualized return of 11.52%.

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, 2007 and represent the board's prudent judgement in the pursuit of maximum returns at acceptable levels of risk.

Funding for LaSalle Income and Growth Fund IV, which commenced in July 2005, continued through the current fiscal year. During the current fiscal year, this Lasalle Fund experienced five capital calls for a total of $3.7 million. As of June 30, 2007, the fund was 79% funded with $1.7 of the $8.1 million commitment still outstanding.

In accordance with investment policy, the System's asset classes were rebalanced in June 2007. This consisted of moving $12.7 million from U.S. 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 Bank, N.A. 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 Carla Casem, 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.

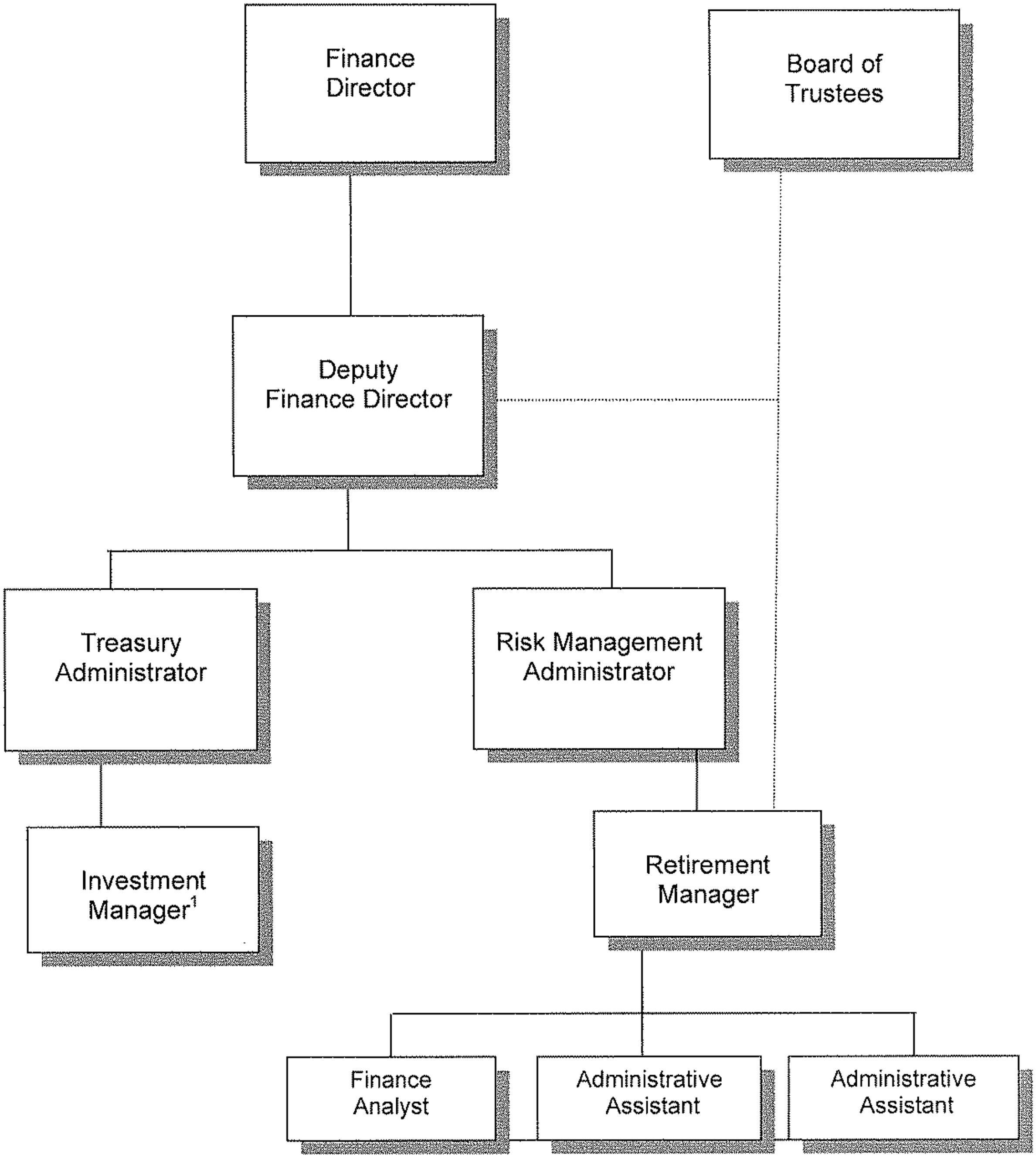
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tucson Supplemental Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 11th consecutive year that the Tucson Supplemental Retirement System has achieved this prestigious award. 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. 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

**Organization Chart**




Note[1]: A listing of the external 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

Jim Cameron
Finance Director

Cindy Bezaury
Human Resources Director

John O'Hare
Employee Representative

Gage Andrews
Employee Representative

Paul D. Miner
Retiree Representative

**FINANCE**
Joe Ladenburg
Deputy Director

**TREASURY STAFF**
Ellen Hitchings
Treasury Administrator

Allan Bentkowski, CPA
Investment Manager

### RISK MANAGEMENT STAFF

Joel Peterson
Risk Management Administrator

Michael A. Hermanson, CPA
Retirement Manager

Doris Rentschler, CFP
Finance Analyst

Claudia Proios
Administrative Assistant

Claire Beaubien, CPS
Administrative Assistant

**ACCOUNTING**
Carla Casem
Principal Accountant

**LEGAL**
Frank W. Kern
Principal Assistant City Attorney

**ACTUARY**
Gabriel, Roeder, Smith & Company
Denver, CO

**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 Co. (Pyramis)
Boston, MA

JP Morgan Asset Management
San Francisco, CA

Julius Baer Investment Management LLC
New York, NY

LaSalle Investment Management
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 Bank, N.A.
San Francisco, CA

CITY OF

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TUCSON

# FINANCIAL

# 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
Kara Badalamenti, CPA, CGFM

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

## 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, 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007, on our consideration of the Tucson Supplemental Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress and schedule of employer contributions on pages 21 and 22 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

December 20, 2007

## 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, 2007. 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, 2007 are $695,975,075 (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 $80,599,128 or 13.1%, 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, 2007, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 83.1%.

- Revenues (Additions to Plan Net Assets) for the year were $134,964,736, which includes member and employer contributions plus transfers from other systems and contributions from other sources totaling $35,635,143, and an Investment gain of $105,279,917 reduced by Investment Expenses of $5,950,324.

- Expenses (Deductions from Plan Net Assets) increased from $35,611,031 to $54,365,608 over the prior year, or approximately 52.7%. The increase in deductions was primarily due to the increase in the amount of transfers to Arizona State Retirement System associated with a large number of former employees moving to the Pima County Library system in the amount of $11,404,473 and from benefit payments increasing over the prior year in the amount of $6,943,972 from new retirements; in addition to increases in administrative expenses of $52,119; bringing the total increase in expenses to $18,754,577.

*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 comply with applicable Governmental Accounting Standards Board (GASB) Statements. In addition, implementation of GASB Statement No. 50 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).

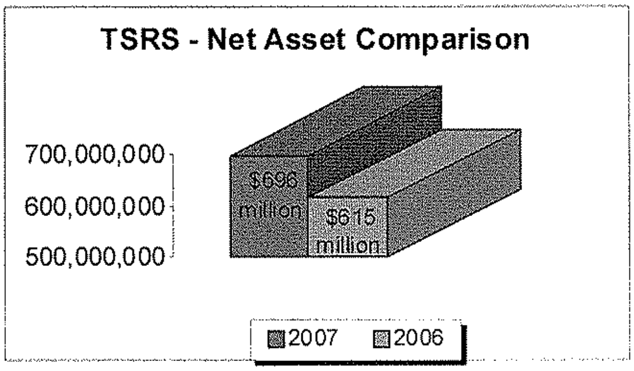
*Other information.* In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning TSRS's progress in funding its obligations to provide pension benefits to members (See Required Supplementary Information on page 21 and 22 of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

## Financial Analysis

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, 2007. Currently $695,975,075 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

## *Additions to Plan Net Assets*




| Assets | Net Assets - TSRS 6/30/07 | 6/30/06 | % change |
|---|---|---|---|
| Cash, Cash Equivalents and Receivables | $ 25,411,739 | $ 17,528,763 | 45.0% |
| Investments | 710,621,407 | 633,018,554 | 12.3% |
| Prepaid Expenses | 60,000 | - | 100.0% |
| Securities Lending Cash Collateral | 66,511,147 | 54,345,243 | 22.4% |
| Capital Assets, Net | 5,597 | 8,122 | -31.1% |
| **Total Assets** | **$ 802,609,890** | **$ 704,900,682** | **13.9%** |
| **Liabilities** | | | |
| Accounts Payable and Other Payables | $ 1,439,349 | $ 597,292 | 141.0% |
| Due to Securities Lending Borrowers | 66,511,147 | 54,345,243 | 22.4% |
| Due to Brokers | 38,684,319 | 34,582,200 | 11.9% |
| **Total Liabilities** | **$ 106,634,815** | **$ 89,524,735** | **19.1%** |
| **Total Net Assets** | **$ 695,975,075** | **$ 615,375,947** | **13.1%** |

As of June 30, 2007, $695,975,075 in Plan Net Assets are held in Trust for the payment of pension benefits, as identified in the Statement of Plan Assets on page 8. This amount represents an increase of 13.1% from June 30, 2006. The increase is attributable primarily to gains experienced in the financial markets, which impacted TSRS' investment performance.

| Additions to Net Assets - TSRS | Additions to Net Assets - TSRS 6/30/07 | 6/30/06 | % change |
|---|---|---|---|
| City Contributions | $ 22,670,418 | $ 24,319,911 | -6.8% |
| Employee Contributions | 8,120,057 | 8,197,437 | -0.9% |
| Purchase of Service Credit | 1,008,980 | 1,157,572 | -12.8% |
| Transfers and contributions from other systems | 3,835,688 | 620,601 | 518.1% |
| Investment income and securities lending income | 99,329,593 | 57,549,259 | 72.6% |
| **Total Additions** | **$ 134,964,736** | **$ 91,844,780** | **46.9%** |

Employer contributions decreased by $1,649,493 or -6.8% and employee contributions decreased by $77,380 or -0.9%. A combination of policy changes implemented this year caused overall pension contributions to decrease. Eligible employees electing to enter the end of service program and the transfer of Library employees that are now working for Pima County in this fiscal year caused overall covered payroll to decrease by approximately $13 million resulting in lower contributions received by the system.

During this fiscal year, the system received 48 transfers totaling $3,794,093, or an increase of 518% over the prior year's transfer amount of 13 transfers amounting to $620,601. A total of $1,008,980 was collected from employee purchases of prior service credits, a program that began on January 1, 2002. The net investment gains are due to increases in asset values related to TSRS portfolio investments in domestic and international financial markets.

*Deductions from Plan Net Assets*

The principal purpose for which the System was created was to provide supplemental 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 2007 totaled $54,365,608; or an increase of 52.7% over fiscal year 2006 expenses. Most of the $18,754,577 increase was attributable to net additions to the pension payroll amounting to $6,943,972 for benefits paid to 213 new retirees. This includes the incentive amounts paid to the End of Service Program participants during this fiscal year of $1,703,554. Also significant was the increase in transfers to other systems, amounting to a total of $11,886,941 for this fiscal year, or an increase of $11,404,473 over the previous fiscal year. A majority of these transfers were associated with former City of Tucson library employees that elected to move their active membership from TSRS to Arizona State Retirement System during the fiscal year.

| | Deductions from Net Assets - TSRS | | |
|---|---|---|---|
| **Deductions from Net Assets** | **06/30/07** | **06/30/06** | **% change** |
| Retirement Benefits | $ 40,419,922 | $ 33,475,950 | 20.7% |
| Refund of Contributions | 1,573,276 | 1,219,263 | 29.0% |
| Transfers to Other Systems | 11,886,941 | 482,468 | 2363.8% |
| Administrative Expenses | 485,469 | 433,350 | 12.0% |
| Total Deductions | $ 54,365,608 | $ 35,611,031 | 52.7% |
| **Net Increase in Plan Assets** | **$ 80,599,128** | **$ 56,233,749** | **43.3%** |

*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, 2007, the balance in this reserve account decreased by $4,358,636 to $136,028,896.

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, 2007, this reserve account balance increased by $44,669,552 to $371,497,680.

The impact of gains and losses recognized during the plan year ended June 30, 2007 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 $40,288,172 to $188,448,499.

*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, 2007

| | | |
|---|---|---|
| **Assets** | | |
| Cash Deposits/Pooled Investments | $ | 1,920,497 |
| Receivables: | | |
| City Contributions (Note 3) | | 879,847 |
| Employee Contributions (Note 3) | | 312,585 |
| Due From Brokers | | 20,647,788 |
| Interest and Dividends | | 1,651,022 |
| Total Receivables | | 23,491,242 |
| Investments, at Fair Value (Notes 4, 5, and 6): | | |
| Short Term Investments | | 18,428,330 |
| Securities Lending Cash Collateral | | 66,511,147 |
| U.S. Treasuries, Agencies & other Government Bonds | | 109,949,529 |
| Corporate Bonds | | 25,637,062 |
| U.S. Corporate Stocks | | 330,829,215 |
| International Bonds | | 957,895 |
| International Equity | | 107,910,578 |
| Bond Mutual Funds | | 59,157,205 |
| Real Estate | | 57,751,593 |
| Total Investments, at Fair Value | | 777,132,554 |
| Other Assets | | |
| Prepaid Expenses - TSRS Admin System Implementation | | 60,000 |
| Capital Assets, At Cost, Net of Accumulated Depreciation of $2,145 | | 5,597 |
| Total Assets | | 802,609,890 |
| **Liabilities** | | |
| Accounts Payable | | 1,426,488 |
| Accrued Wages Payable | | 4,529 |
| Due to Securities Lending Borrowers (Note 5) | | 66,511,147 |
| Due to Other Agencies | | 5 |
| Due to Brokers | | 38,684,319 |
| Refundable Deposits | | 8,327 |
| Total Liabilities | | 106,634,815 |
| **Net Assets Held in Trust for Pension Benefits** (Note 3 and Schedule of Funding Progress, page 21) | $ | 695,975,075 |

See Accompanying Notes to Financial Statements

**Tucson Supplemental Retirement System**
**Statement of Changes in Plan Net Assets**
**Year Ended June 30, 2007**

| | | |
|---|---|---|
| **Additions** | | |
| Contributions (Note 3) | | |
| City | $ | 22,670,418 |
| Employee | | 8,120,057 |
| Purchase of Service | | 1,008,980 |
| Contributions from Other Sources | | 41,595 |
| Transfers from Other Systems | | 3,794,093 |
| Total Contributions | | 35,635,143 |
| | | |
| Investment Income: | | |
| Net Gain in Fair | | |
| Value of Investments | | 85,493,111 |
| Interest | | 7,649,621 |
| Dividends | | 9,537,064 |
| Securities Lending Income (Note 5) | | 2,594,083 |
| Miscellaneous Income | | 6,038 |
| | | 105,279,917 |
| | | |
| Less Investment Expenses: | | |
| Securities Lending | | 2,517,081 |
| Other Investment Expense | | 3,433,243 |
| Total Investment Expense | | 5,950,324 |
| Net Investment Gain | | 99,329,593 |
| Total | | 134,964,736 |
| | | |
| **Deductions** | | |
| Benefits | | 40,419,922 |
| Refunds | | 1,573,276 |
| Transfers to Other Systems | | 11,886,941 |
| Administrative Expenses | | 485,469 |
| Total Deductions | | 54,365,608 |
| | | |
| **Net Increase in Plan Net Assets** | | 80,599,128 |
| | | |
| **Net Assets Held in Trust for Pension Benefits** | | |
| July 1, 2006 | | 615,375,947 |
| June 30, 2007 | $ | 695,975,075 |

See Accompanying Notes to Financial Statements

# Tucson Supplemental Retirement System
# Notes to Financial Statements
# Year Ended June 30, 2007

## 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.

| | |
|---|---|
| Active plan participants: | |
| Vested | 2,363 |
| Nonvested | 963 |
| Total active plan participants | 3,326 |
| Current retirees and beneficiaries | 2,018 |
| Terminated vested participants | 223 |

***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, 2007 is as follows:

***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 is 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, ad hoc benefit 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, 2007, 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, 2007 for retirees and beneficiaries retired prior to July 1, 2004, accounting for a $3.68 million 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 for employees hired prior to July 1, 2006. Beginning this fiscal year, employees hired after June 30, 2006 are paying an amount equal to 40% of the actuarially recommended contribution rate. For this fiscal year, the rate for new employees was 7.5%. 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, 2007, 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, 2007, consisted of the following components:

| | | |
|---|---|---|
| Reserved for employee contributions | $ | 136,028,896 |
| Reserved for retirement benefits | | 371,497,680 |
| Unreserved net assets | | 188,448,499 |
| Net Assets | $ | 695,975,075 |

## 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, 2007. 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, 2007 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 $1,920,497 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 | $ 100,670,532 |
| Corporate Bonds not on Securities Loan | 24,550,609 |
| Corporate Stocks not on Securities Loan | 288,488,716 |
| Non-United States issues: | |
| International Bonds not on Securities Loan | 957,895 |
| International Equity not on Securities Loan | 96,494,589 |
| Subtotal | 511,162,341 |
| | |
| Investments Held by Broker-Dealers under Securities Loans with Cash Collateral: | |
| U.S. Treasury, Agency & Other Bonds | 9,278,997 |
| U.S. Corporate Bonds | 1,086,453 |
| U.S. Corporate Stocks | 42,340,499 |
| International Equities | 11,415,989 |
| Subtotal | 64,121,938 |
| | |
| Securities Lending Short-Term Collateral Investment Pool | 66,511,147 |
| Bond Mutual Funds | 59,157,205 |
| Money Market/Short Term Investments | 18,428,330 |
| Real Estate | 57,751,593 |
| Subtotal | 201,848,275 |
| | |
| Total Investments, at Fair Value | $ 777,132,554 |

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, 2007 the System was exposed to custodial credit risk for deposits in the amount of $40,000. There was no exposure to custodial credit risk for investments as of June 30, 2007.

The System had the following credit risk structure as of June 30, 2007:

**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 | $ 15,463,513 | |
| Commercial Paper | 1 | P-1 | 1,218,792 | |
| U.S. Treasury Bills - Less than 1 Year | 2 | UST | 925,313 | |
| Options | 10 | AAA | 792,568 | |
| Sub Total | 14 | | 18,400,186 | 8.59% |
| U.S. Treasury Issues | 14 | UST | 2,337,473 | 1.09% |
| U.S. Agency & Other Government Obligations | | | | |
| U.S. Agency Issues | 45 | AGY | 55,123,739 | |
| Mortgage Backed Secrities (MBS) | 50 | AGY | 52,488,317 | |
| Sub Total | 95 | | 107,612,056 | 50.26% |
| Corporate & Other Fixed Income Instruments | | | | |
| Collateralized Mortgage Obligations (CMO) | 3 | AAA | 881,411 | |
| Banks & Finance | 13 | A2 | 10,344,527 | |
| Industrials | 14 | BAA2 | 10,546,834 | |
| Utilities | 3 | BAA3 | 2,410,648 | |
| Fixed Income Swaps | 107 | A1 | 1,346,156 | |
| Financial Futures | 12 | AAA | 107,338 | |
| Sub Total | 152 | | 25,636,914 | 11.97% |
| International Bonds | 16 | AA3 | 957,896 | 0.45% |
| Bond Mutual Funds | 4 | AAA-BA1 | 59,157,205 | 27.63% |
| Grand Total | 295 | | $ 214,101,730 | 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, 2007:

**Maturity Structure**

| Investment Type | Investment Maturities (in Years) Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | Total Fair Value |
|---|---|---|---|---|---|
| Short Term Investment Fund | $ 15,463,513 | $ - | $ - | $ - | $ 15,463,513 |
| U.S. Treasury Issues | 925,313 | 3,257,790 | (3,092,853) | 2,172,536 | 3,262,786 |
| U.S. Agency & Other Government Obligations | | 20,956,663 | 22,795,341 | 63,860,052 | 107,612,056 |
| Options | 792,568 | - | - | - | 792,568 |
| Corporate & Other Fixed Income Instruments | 3,771,170 | 11,019,639 | 7,839,236 | 4,225,661 | 26,855,706 |
| International Bonds | - | 723,814 | (27,690) | 261,772 | 957,896 |
| Bond Mutual Funds (7.21 yrs Weighted Average Maturity) | - | - | - | - | 59,157,205 |
| Total | $ 20,952,564 | $ 35,957,906 | $ 27,514,034 | $ 70,520,021 | $ 214,101,730 |
| **Average Modified Duration:** | | | | | |
| Internal Account | **5.48** | yrs | | | |
| External Account | **4.66** | 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, 2007:

**Foreign Currency Risk Exposure**

| Asset Type Category | Fair Value | Totals by Currency | Percent of Grand Total |
|---|---|---|---|
| AUSTRALIAN DOLLAR | | | |
| Cash & Cash Equivalents | 2,251 | | |
| Payable for Forward Foreign Exchange Contracts | (8,481) | (6,230) | 0.00% |
| BRITISH POUND STERLING | | | |
| Cash & Cash Equivalents | 204,282 | | |
| Cash Offset For Futures Contacts | (9,866,577) | | |
| FFX Contracts Receivable | 132,512 | | |
| Payable for Forward Foreign Exchange Contracts | (757,983) | | |
| Payable forInvestments Purchased | (132,512) | | |
| Receivable for Investments Sold | 3 | | |
| Equity | 11,820,593 | | |
| Fixed Income Securities | 622,514 | | |
| Futures Contracts | 9,866,577 | 11,889,409 | 1.72% |
| CANADIAN DOLLAR | | | |
| FFX Contracts Receivable | 29,863 | | |
| Payable forInvestments Purchased | (29,863) | | |
| Equity | 1,577,263 | 1,577,263 | 0.23% |
| CHINESE YUAN RENMINBI | | | |
| FFX Contracts Receivable | 2,381,685 | 2,381,685 | 0.34% |
| EURO CURRENCY UNIT | | | |
| Cash & Cash Equivalents | 466,491 | | |
| FFX Contracts Receivable | 666,924 | | |
| Payable for Investments Purchased | (76,197) | | |
| Equity | 23,486,949 | | |
| Fixed Income Securities | (4,088) | 24,540,079 | 3.54% |
| HONG KONG DOLLAR | | | |
| Equity | 2,515,197 | 2,515,197 | 0.36% |
| JAPANESE YEN | | | |
| Cash & Cash Equivalents | 16,209 | | |
| FFX Contracts Receivable | 2,038,822 | | |
| Equity | 5,127,006 | | |
| Fixed Income Securities | 5,834 | 7,187,871 | 1.04% |
| Mexican New Peso | | | |
| Cash & Cash Equivalents | 304 | | |
| Fixed Income Securities | 4,575 | 4,879 | 0.00% |
| NORWEGIAN KRONE | | | |
| Cash & Cash Equivalents | 8 | | |
| Equity | 1,495,556 | 1,495,564 | 0.22% |
| Russian Rubel (New) | | | |
| FFX Contracts Receivable | 229,383 | 229,383 | 0.03% |
| SOUTH KOREAN WON | | | |
| Equity | 2,293,964 | 2,293,964 | 0.33% |
| Swedish Krona | | | |
| Equity | 1,257,429 | 1,257,429 | 0.18% |
| SWISS FRANC | | | |
| Payable for Forward Foreign Exchange Contracts | (50,237) | | |
| Receivable for Investments Sold | 50,237 | | |
| Equity | 3,391,264 | 3,391,264 | 0.49% |
| U.S. DOLLAR | | | |
| Cash & Cash Equivalents | 17,710,641 | | |
| Cash Offset for Futures Contracts | (143,906,766) | | |
| FFX Contracts Receivable | 813,273 | | |
| Payable for Forward Foreign Exchange Contracts | (5,487,698) | | |
| Payable for Investments Purchased | (38,061,292) | | |
| Receivable for Investments Sold | 20,324,359 | | |
| Convertible Securities | 418,125 | | |
| Equity | 350,537,827 | | |
| Fixed Income Securities | 194,557,743 | | |
| Futures Contracts | 144,014,103 | | |
| Private Equity | 44,819,524 | | |
| Real Estate | 48,168,817 | 633,908,656 | 91.52% |
| Grand Total | | 692,666,413 | 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. As of June 30, 2007, the market value of securities on loan was $64,121,938. 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, 2007, 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 or 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 the external fixed income managers 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, 2007 was $(32,657,547). Money market futures were also used to gain exposure to future short-term interest rates. The net market exposure as of June 30, 2007 was $186,430,890. 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 $1,707,493 and $19,585,651, respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of $911,006.

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 $(10,537) and $1,466,968, 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 |
| 2007 | 634,763 | 763,539 | 128,776 | 83.1 | 159,250 | 80.9 |

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 | 10,123,248 | 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 | 100.0 |
| 2007 | 2006 | 25,232,745 | 100.0 |
| 2008 | 2007 | 24,527,969 | |

[1]*Projected 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, 2007 |
| Actuarial Cost Method | Individual Entry Age |
| Amortization Method | Level percent-of-payroll, closed |
| Amortization Period | 15 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, 2007

### Schedule of Administrative Expenses

| | | |
|---|---|---|
| **Personal Services** | | |
| Staff Salaries | $ | 168,472 |
| Fringe Benefits | | 69,723 |
| *Total Personal Services* | $ | 238,195 |
| **Professional Services** | | |
| Accounting | | 169,445 |
| Actuary | | 24,060 |
| *Total Professional Services* | | 193,505 |
| Miscellaneous | | |
| Professional Development | | 7,875 |
| Printing and Supplies | | 13,703 |
| Depreciation | | 2,145 |
| Postage | | 20,983 |
| Other | | 9,063 |
| Total Miscellaneous | | 53,769 |
| ***Total Administrative Expenses*** | ***$*** | ***485,469*** |

### Schedule of Investment Expenses

| | | |
|---|---|---|
| Custody | | 326,454 |
| Investment Consultant | | 143,000 |
| Investment Management | | 2,963,789 |
| Security Lending - Bank & Administration | | 68,048 |
| Securities Lending - Rebates Paid | | 2,449,033 |
| ***Total Investment Expenses*** | ***$*** | ***5,950,324*** |

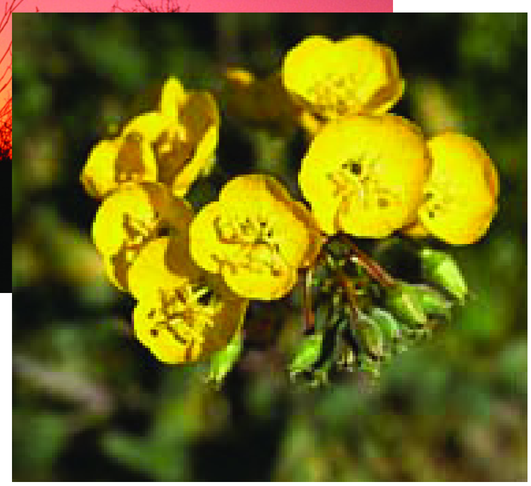
CITY OF

FOUNDED

1775

TUCSON

# INVESTMENT



# INVESTMENT SECTION

# Hewitt

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

www.hewitt.com

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Mauritius
Mexico
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South Korea
Spain
Sweden
Switzerland
Thailand
United Kingdom
United States
Venezuela

December 13, 2007

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, 2007. 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, 2007; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

Mellon Bank, N.A. (Mellon) 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. Hewitt has confirmed the investment performance as calculated from the Mellon statements with the financial data as submitted to us by the respective investment managers. We endorse the Global Investment Performance Standards (GIPS®).

Hewitt

The Board of Trustees
Page 2
December 13, 2007

**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.

During the fiscal year the investment program was evaluated on a periodic basis, and no changes were made from an asset allocation or investment structure standpoint. However, the Fund's domestic large capitalization growth equity manager, TCW Asset Management, has not been meeting its performance benchmark. Subsequent to the fiscal year end, a new large capitalization growth equity manager was selected to replace TCW.

As indicated in the following exhibits, the TSRS Retirement Plan assets increased due to strong performance in the equity and real estate portfolios. The total portfolio return for the fiscal year was 17.2% compared to 17.2% for the Custom Index. Most of the Plan's managers produced results that were in line with the respective benchmarks. In addition, value-added returns were produced from the active small/mid cap managers, the Julius Baer international equity fund, and the LaSalle real estate fund. These gains offset the relative shortfall of the TCW large capitalization equity portfolio and the Barclays enhanced index equity portfolio.

Sincerely,

Hewitt Investment Group

Robert P. Van Den Brink

RVD:cr
cc: Mr. Mark A. Klimek, Hewitt Investment Group
Mr. Justin Patton, 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 (38% 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 (8% 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 (Pyramis) (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, 2007

| Year Ended | Annual Return | 3-Year Annualized Return | 5-Year Annualized Return | 10-Year Annualized Return |
|---|---|---|---|---|
| 6/30/07 | 17.2% | 12.3% | 11.5% | 7.8% |
| 6/30/06 | 10.7% | 12.5% | 6.2% | 7.8% |
| 6/30/05 | 9.3% | 10.0% | 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% |

## Schedule of Investment Results
## For Periods Ended June 30, 2007

| | One Year | Annualized Returns (1) Three Years | Five Years |
|---|---|---|---|
| **TOTAL PORTFOLIO** | | | |
| TSRS | 17.19% | 12.31% | 11.52% |
| Custom Benchmark (2) | 17.21% | 12.07% | 11.31% |
| | | | |
| **EQUITY FUNDS** | | | |
| Alliance S&P 500 Index | 20.62% | 11.71% | 10.73% |
| S & P 500 Index | 20.59% | 11.68% | 10.71% |
| | | | |
| PIMCO StocksPLUS | 20.11% | (account established April, 2006) | |
| S & P 500 Index | 20.59% | 11.68% | 10.71% |
| | | | |
| Barclays Russell 1000 Value Index | 22.02% | 16.00% | 13.36% |
| Russell 1000 Value Index | 21.84% | 15.92% | 13.30% |
| | | | |
| Barclays Russell 1000 Value Alpha Tilts | 18.75% | (account established January, 2006) | |
| Russell 1000 Value Index | 21.84% | 15.92% | 13.30% |
| | | | |
| TCW Concentrated Core | 12.08% | 5.19% | 11.23% |
| Russell 1000 Growth Index | 19.06% | 8.72% | 9.29% |
| | | | |
| TCW Value Opportunities | 19.72% | (account established May, 2004) | |
| Russell 2500 Index | 18.73% | 14.96% | 15.30% |
| | | | |
| Fidelity (Pyramis) Small Cap | 20.59% | 18.21% | 16.37% |
| Russell 2000 Index | 16.44% | 13.45% | 13.88% |
| | | | |
| Causeway International Value Equity | 27.23% | (account established January, 2005) | |
| MSCI EAFE Index | 27.02% | 22.25% | 17.74% |
| | | | |
| Julius Baer International Equity | 36.52% | (account established October, 2004) | |
| MSCI All Country World ex-U.S. Index | 29.62% | 24.53% | 19.46% |
| | | | |
| **FIXED INCOME FUNDS** | | | |
| Internally Managed Bonds | 6.03% | 4.03% | 4.81% |
| Lehman Government/Credit Bond Index | 6.02% | 3.85% | 4.70% |
| | | | |
| PIMCO Custom Fixed Income | 7.08% | 5.83% | (account established June, 2002) |
| Custom Index (3) | 7.21% | 4.97% | 5.51% |
| | | | |
| **REAL ESTATE FUNDS** | | | |
| JPM Strategic Property Fund | 17.42% | 19.17% | 15.51% |
| NCREIF Real Estate Index | 17.24% | 17.98% | 14.39% |
| | | | |
| LaSalle Income & Growth Fund IV | 29.79% | (account established June, 2005) | |
| NCREIF Real Estate Index | 17.24% | 17.98% | 14.39% |
| | | | |
| JPM Income and Growth Fund | 16.86% | (account established June, 2005) | |
| NCREIF Real Estate Index | 17.24% | 17.98% | 14.39% |

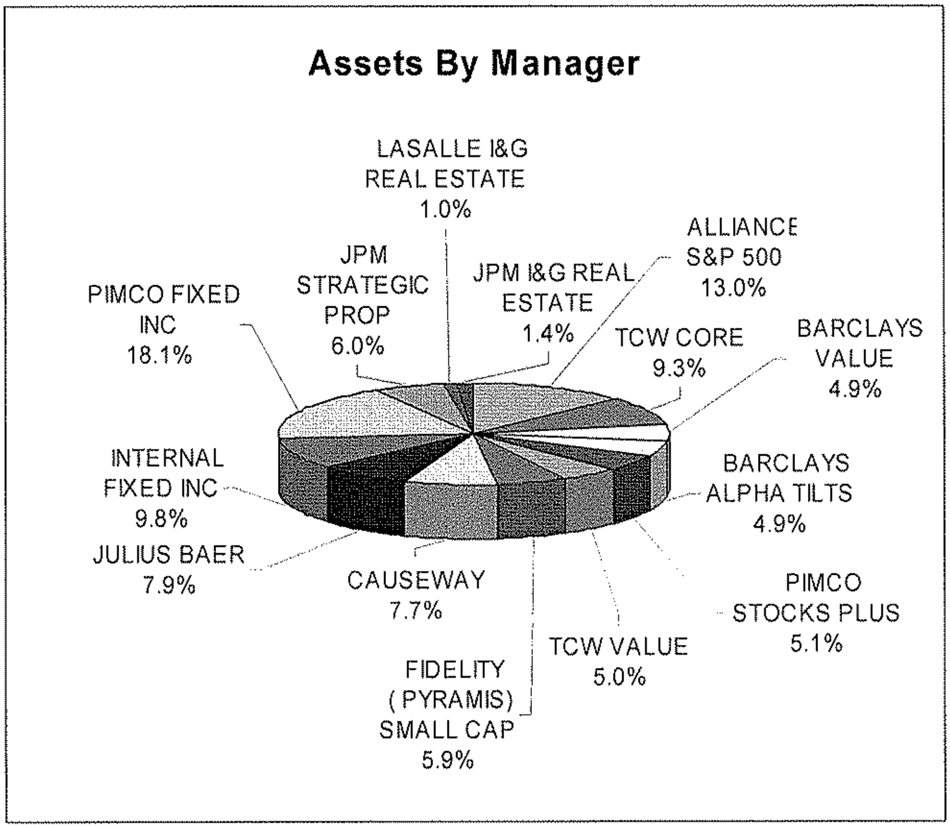
Notes: All data provided by independent investment consultant, Hewitt Investment Group
(1) Geometrically compounded, time-weighted rates of return
(2) Custom Benchmark = 38% S&P 500 Index + 11% Russell 2000 + 25% Lehman Aggregate + 3% Lehman High Yield + 15% MSCI AC WF ex-US + 8% Real Estate-NCREIF
(3) Custom Index = 70% Lehman Mortgage + 15% Lehman Credit +15% Lehman High Yield

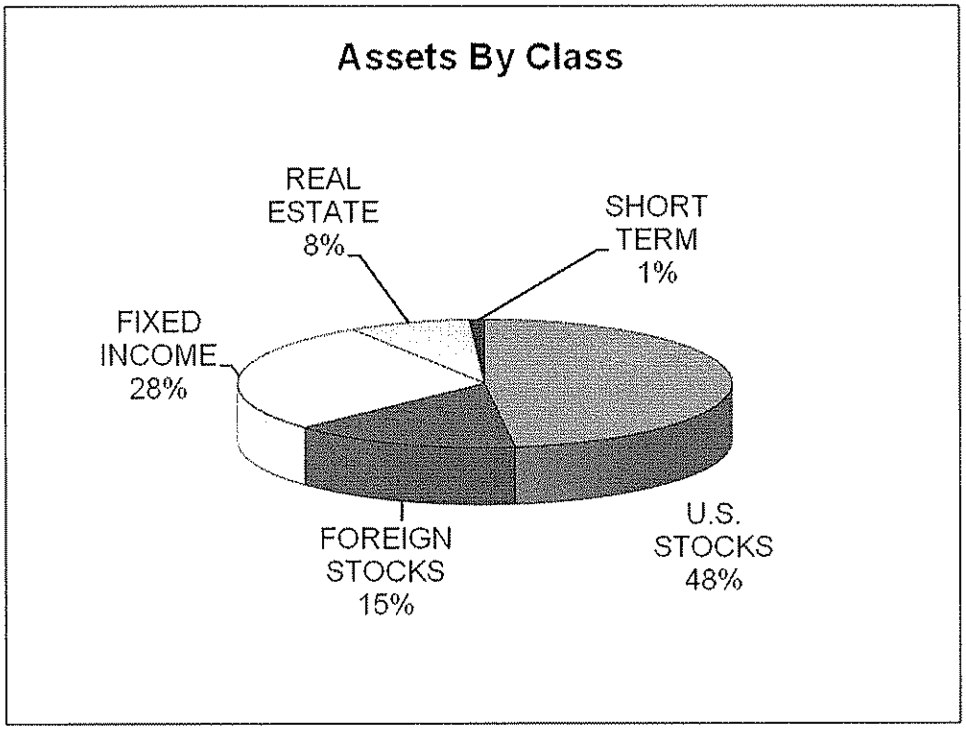
# Investment Summary
## By Manager and Type of Investment (in thousands)
## June 30, 2007

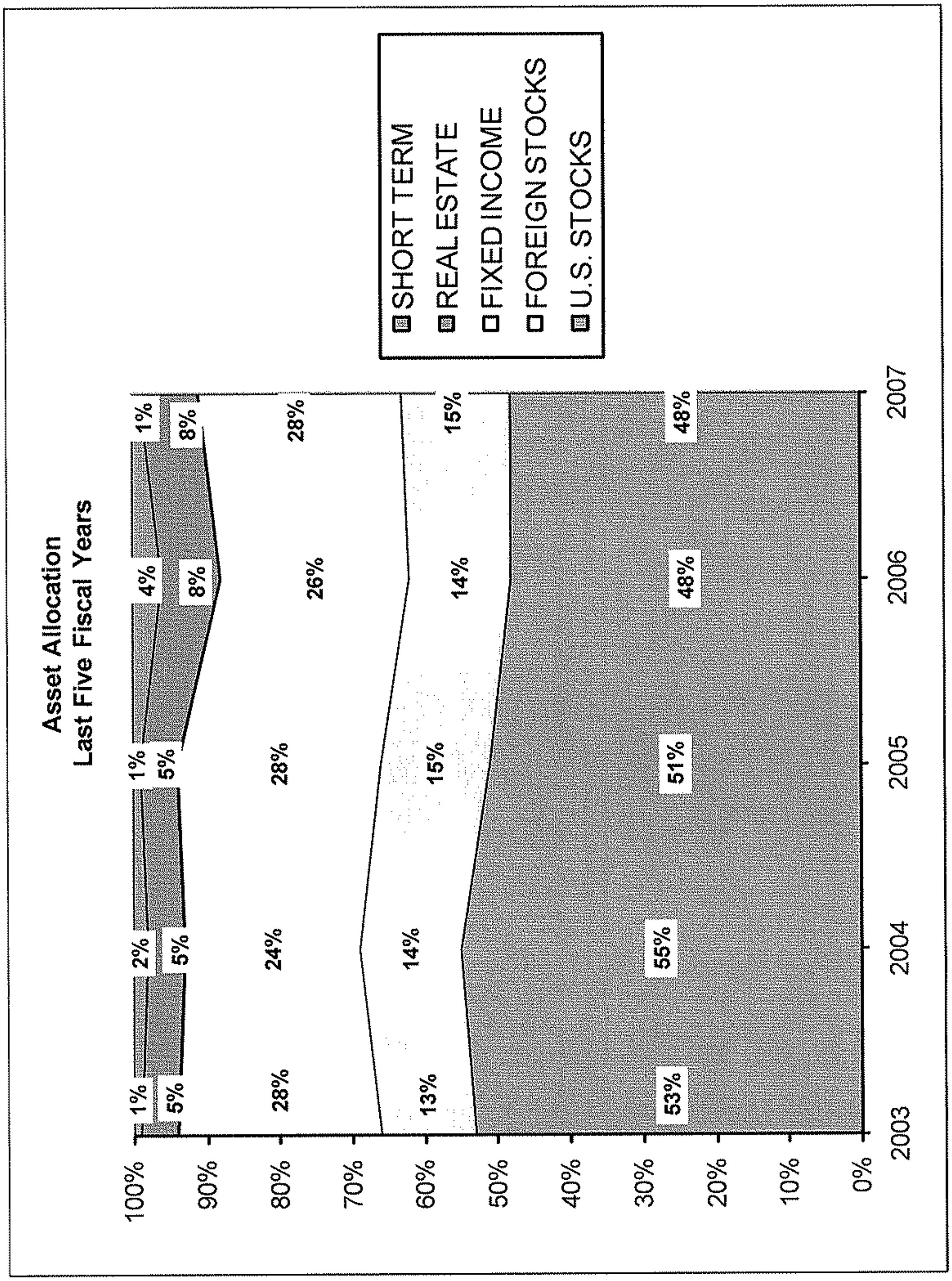
| Manager | Style | Large U.S. Stocks | Small/Mid U.S. Stocks | Foreign Stocks | Fixed Income | Real Estate | Short Term | Total | Manager Percent of Total | Manager Percent of Target |
|---|---|---|---|---|---|---|---|---|---|---|
| Alliance Capital Management | S & P 500 Index | $ 90,279 | | | | | $ 249 | $ 90,528 | 13.0% | 13.0% |
| TCW Concentrated Core | Large Cap Growth | $ 63,862 | | | | | $ 722 | $ 64,584 | 9.3% | 10.0% |
| Barclays Russell Value Index | Large Cap Value Index | $ 34,085 | | | | | $ - | $ 34,085 | 4.9% | 5.0% |
| Barclays Alpha Tilts | Enhanced Index | $ 33,825 | | | | | $ - | $ 33,825 | 4.9% | 5.0% |
| PIMCO StocksPlus | Enhanced Index | $ 35,239 | | | | | $ - | $ 35,239 | 5.1% | 5.0% |
| TCW Value Opportunities | Mid Cap Core | | $ 33,004 | | | | $ 1,500 | $ 34,504 | 5.0% | 5.0% |
| Fidelity Mgmt Trust Co.(Pyramis) | Small Cap Core | | $ 40,536 | | | | $ 420 | $ 40,956 | 5.9% | 6.0% |
| Causeway Capital Management | Foreign Stocks | | | $ 52,965 | | | $ 771 | $ 53,736 | 7.7% | 7.5% |
| Julius Baer | Foreign Stocks | | | $ 54,945 | | | $ - | $ 54,945 | 7.9% | 7.5% |
| Internally Managed Fixed Income | U. S. Bonds | | | | $ 65,567 | | $ 2,139 | $ 67,706 | 9.8% | 10.0% |
| PIMCO Custom Fixed Income | U.S. & Foreign Bonds | | | | $ 125,383 | | $ - | $ 125,383 | 18.1% | 18.0% |
| JPM Strategic Property Fund | Core Real Estate | | | | | $ 41,712 | $ - | $ 41,712 | 6.0% | 5.0% |
| LaSalle Income & Growth | Value Added Real Estate | | | | | $ 6,457 | $ 664 | $ 7,121 | 1.0% | 1.5% |
| JPM Income & Growth | Value Added Real Estate | | | | | $ 9,581 | $ - | $ 9,581 | 1.4% | 1.5% |
| Liquidity | Cash & Cash Equivalents | | | | | | $ 263 | $ 263 | 0.0% | 0.0% |
| TOTAL | | $ 257,290 | $ 73,540 | $ 107,910 | $ 190,950 | $ 57,750 | $ 6,728 | $ 694,168 | 100.0% | 100.0% |
| | | | | | | | | | | |
| Percent of Market Value | | 37% | 11% | 15% | 28% | 8% | 1% | 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, 2007




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%
2003
2004
2005
2006
2007
1%
5%
28%
13%
53%
2%
5%
24%
14%
55%
1%
5%
28%
15%
51%
4%
8%
26%
14%
48%
1%
8%
28%
15%
48%

## Ten Largest Bond Holdings
## (By Market Value)
## June 30, 2007
(dollars in thousands)

| Par Value | Bond | Coupon Rate | Due | Rating (1) | Market Value |
|---|---|---|---|---|---|
| $ 14,300 | FNMA Mortgage TBA | 5.500% | 07/01/37 | AAA | $ 13,791 |
| 8,523 | FNMA Mortgage Pool Acct. #0713972 | 5.500% | 07/01/33 | AAA | 8,242 |
| 6,500 | US Treasury Notes | 4.500% | 03/31/12 | AAA | 6,383 |
| 6,500 | FNMA Mortgage TBA | 5.000% | 07/01/37 | AAA | 6,090 |
| 4,582 | FNMA Mortgage Pool Acct. # 0730638 | 4.000% | 08/01/18 | AAA | 4,256 |
| 4,260 | FNMA Discount Note | 4.375% | 07/17/13 | AAA | 4,046 |
| 3,500 | FNMA Mortgage TBA | 5.500% | 08/01/37 | AAA | 3,373 |
| 3,272 | GNMA Mortgage Pool Acct. #0669066 | 5.000% | 06/15/37 | AAA | 3,094 |
| 2,500 | Federal Farm Credit Bank | 4.950% | 05/16/12 | AAA | 2,448 |
| 2,268 | FNMA Mortgage Acct. # 0893294 | 6.000% | 08/01/36 | AAA | 2,245 |

(1) Rated by Moodys

## Ten Largest Stock Holdings
## (By Market Value)
## June 30, 2007
(dollars in thousands)

| Shares | Stock | Market Value |
|---|---|---|
| 82,285 | Schlumberger LTD | $ 6,989 |
| 142,700 | Qualcomm Inc. | 6,192 |
| 83,290 | Amazon.com Inc. | 5,698 |
| 10,085 | Google Inc. | 5,271 |
| 117,900 | General Electric | 4,513 |
| 161,220 | Progressive Corp | 3,858 |
| 81,800 | Salesforce Com Inc. | 3,506 |
| 38,241 | Exxon Mobile Corp | 3,208 |
| 105,235 | Network Appliance Inc. | 3,072 |
| 80,540 | Commerce Bancorp Inc. | 2,979 |

*A complete list of portfolio holdings is available by contacting the City of Tucson, Treasury Division, 255 W. Alameda, 5-west, Tucson, AZ 85701-1303*

# Schedule of Fees
# June 30, 2007

| | Assets Under Management | Fees |
|---|---|---|
| **Investment Manager Fees** | | |
| *Fixed Income Managers* | | |
| City of Tucson, Treasury Division | $ 67,705,640 | $ 27,430 |
| PIMCO (Custom Fixed Income) | 125,382,559 | 350,942 |
| Total Fixed Income | 193,088,199 | 378,372 |
| *Equity Managers* | | |
| Alliance Capital Management | $ 90,527,653 | $ 35,669 |
| Barclays Russell Value Index | 34,084,876 | 13,275 |
| Barclays Alpha Tilts | 33,825,030 | 148,514 |
| Causeway Capital Management | 53,735,553 | 326,957 |
| Fidelity Management Trust (Pyramis) | 40,956,135 | 284,945 |
| Julius Baer | 54,945,359 | 532,152 |
| PIMCO StocksPlus | 35,238,747 | 18,043 |
| TCW Concentrated Core | 64,583,675 | 365,930 |
| TCW Value Opportunities | 34,504,083 | 252,672 |
| Total Equity | $ 442,401,111 | $ 1,978,157 |
| Liquidity Account | 262,745 | - |
| *Real Estate Manager* | | |
| JPM Strategic Property Fund | $ 41,712,476 | $ 388,904 |
| JPM Income & Growth Fund | 9,582,777 | 165,702 |
| LaSalle Income & Growth Fund IV | 7,120,544 | 52,654 |
| Total Real Estate | $ 58,415,797 | $ 607,260 |
| Total Assets (Trade date basis) | $ 694,167,852 | |
| Total Investment Management Fees | | $ 2,963,789 |
| **Other Investment Service Fees** | | |
| *Custodian Fees* | | |
| Mellon Bank, N.A. | | $ 326,454 |
| *Security Lending - Rebate, Bank & Administration Fees* | | |
| Mellon Bank, N.A. | | $ 2,517,081 |
| *Consulting and Performance Management* | | |
| Hewitt Investment Group | | $ 143,000 |
| Total Other Investment Service Fees | | $ 2,986,535 |

## Schedule of Commissions
## June 30, 2007

| Broker Description | Shares | Commissions | Commissions Per Share |
|---|---|---|---|
| CREDIT SUISSE, NEW YORK (CSFBUS33XXX) | 978,614 | $ 14,937 | $ 0.0153 |
| MERRILL LYNCH PIERCE FENNER SMITH INC NY | 598,499 | 12,874 | 0.0215 |
| GOLDMAN SACHS & CO, NY | 406,039 | 9,225 | 0.0227 |
| LIQUIDNET INC, BROOKLYN | 338,617 | 9,001 | 0.0266 |
| MORGAN STANLEY & CO INC, NY | 946,314 | 7,820 | 0.0083 |
| LEHMAN BROTHERS INC, NEW YORK | 303,151 | 7,160 | 0.0236 |
| CITIGROUP GBL MKTS INC, NEW YORK | 261,528 | 7,146 | 0.0273 |
| NATIONAL FINL SVCS CORP, NEW YORK | 382,159 | 6,004 | 0.0157 |
| GOLDMAN SACHS EXECUTION & CLEARING, NY | 170,687 | 5,520 | 0.0323 |
| BANC OF AMERICA SECS LLC, CHARLOTTE | 196,140 | 5,231 | 0.0267 |
| MORGAN J P SECS INC, NEW YORK | 275,038 | 5,080 | 0.0185 |
| BROADCOURT CAP CORP/SUB OF MLPF&S, NY | 114,224 | 4,842 | 0.0424 |
| DEUTSCHE BK SECS INC, NY (NWSCUS33) | 433,810 | 4,529 | 0.0104 |
| UBS SECURITIES LLB, STAMFORD | 186,086 | 4,517 | 0.0243 |
| BEAR STEARNS & CO INC, NEW YORK | 234,907 | 4,364 | 0.0186 |
| JEFFERIES & CO INC, NEW YORK | 204,120 | 3,833 | 0.0188 |
| UBS EQUITIES, LONDON | 221,308 | 3,358 | 0.0152 |
| NOMURA SECS INTL INC, NEW YORK102,31 | 9 | 2,576 | 0.0252 |
| INSTINET CORP, NY | 62,782 | 2,454 | 0.0391 |
| LEHMAN BROS INTL, LONDON | 81,551 | 2,242 | 0.0275 |
| CANTOR FITZGERALD & CO INC, NEW YORK | 70,943 | 2,100 | 0.0296 |
| PERSHING LLC, JERSEY CITY | 48,300 | 2,085 | 0.0432 |
| BERNSTEIN SANFORD C & CO, NEW YORK | 50,753 | 1,943 | 0.0383 |
| SG SEC (LONDON) LTD, LONDON | 83,241 | 1,938 | 0.0233 |
| MERRILL LYNCH PIERCE FENNER, WILMINGTON | 394,881 | 1,904 | 0.0048 |
| MERRILL LYNCH INTL, LONDON EQUITIES | 80,794 | 1,900 | 0.0235 |
| WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE | 89,100 | 1,871 | 0.0210 |
| CITIGROUP GBL MKTS/SALOMON, NEW YORK | 139,779 | 1,709 | 0.0122 |
| STIFEL NICOLAUS | 49,634 | 1,706 | 0.0344 |
| INVESTMENT TECHNOLOGY GROUPS, NEW YORK | 72,545 | 1,636 | 0.0226 |
| BEAR STEARNS SEC CORP, BROOKLYN | 39,325 | 1,635 | 0.0416 |
| KNIGHT SEC BROADCORT, JERSEY CITY | 41,988 | 1,625 | 0.0387 |
| BAIRD, ROBERT W & CO INC, MILWAUKEE | 56,621 | 1,498 | 0.0265 |
| A G EDWARDS & SONS INC, ST LOUIS | 33,739 | 1,383 | 0.0410 |
| RBC CAPITAL MARKETS CORP, NEW YORK | 43,995 | 1,282 | 0.0291 |
| FRIEDMAN BILLINGS, WASHINGTON DC | 29,467 | 1,275 | 0.0433 |
| CITIGROUP GLOBAL MARKETS LTD, LONDON | 20,710 | 1,158 | 0.0559 |
| CITATION GROUP, NY | 27,162 | 1,145 | 0.0422 |
| CREDIT SUISSE, (EUROPE) SEOUL | 24,208 | 1,045 | 0.0432 |
| WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE | 25,689 | 1,035 | 0.0403 |
| KEEFE BRUYETTE AND WOODS, JERSEY CITY | 24,508 | 1,028 | 0.0419 |
| VARIOUS BROKERS - $1,000 OR LESS | 2,223,280 | 38,732 | 0.0174 |
| **TOTAL** | **10,168,555** | **$ 194,346** | |
| **AVERAGE COMMISSION RATE** | | | **$ 0.0191** |

# ACTUARIAL

# ACTUARIAL SECTION

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
4600 S. Ulster Street
Suite 700
Denver, CO 80237-2882
303.846.3031 phone
303.846.3028 fax
www.gabrielroeder.com

December 13, 2007

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, 2007. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 83.1% funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 15 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, 2006 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,

Leslie L. Thompson

Leslie Thompson, EA, FSA, MAAA
Senior Consultant

## 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 15 years as of June 30, 2007.

## 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 15 years from June 30, 2007. 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**

| | 2007 | 2006 | 2005 | 2004 | 2003 | 3 Year Avg. | 5 Year Avg. |
|---|---|---|---|---|---|---|---|
| Investment Return Rate[1] | 11.3% | 9.4% | 9.1% | 9.5% | (0.9)% | 9.93% | 7.58% |
| Real Rate of Investment Return[1] | 8.2% | 5.06% | 6.8% | 6.9% | (2.9)% | 6.65% | 4.69% |

[1]Based on actuarial value of assets, not market value

These rates 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**

| Service | Inflation Component | Merit & Seniority | Total |
|---|---|---|---|
| 0 | 4.25% | 5.00% | 9.25% |
| 1 | 4.25 | 4.50 | 8.75 |
| 2 | 4.25 | 4.00 | 8.25 |
| 3 | 4.25 | 3.50 | 7.75 |
| 4 | 4.25 | 3.00 | 7.25 |

**Five or More Years of Service**

| Sample Ages | Inflation Component | Merity & Seniority | Total |
|---|---|---|---|
| 20 | 4.25% | 2.61% | 6.86% |
| 25 | 4.25 | 2.12 | 6.37 |
| 30 | 4.25 | 1.82 | 6.07 |
| 35 | 4.25 | 1.61 | 5.86 |
| 40 | 4.25 | 1.45 | 5.70 |
| 45 | 4.25 | 1.14 | 5.39 |
| 50 | 4.25 | 0.77 | 5.02 |
| 55 | 4.25 | 0.45 | 4.70 |
| 60 | 4.25 | 0.11 | 4.36 |
| 65 | 4.25 | 0.00 | 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 is made that final average compensation will be increased by 2.2% to reflect unused sick leave for service retirements.

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

| Sample | Future Life Expetancy (years) | | Deaths per 1,000 Lives | |
|---|---|---|---|---|
| Ages | Men | Women | 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 | Present Value of $1 Monthly for Life | | Future Life Expectancy (years) | | Deaths per 1,000 Lives | |
|---|---|---|---|---|---|---|
| Ages | Men | Women | Men | Women | 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 | 100 | 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.

**End of Service (EOS) Program.** The assumption is that 100% of active participants eligible to enter the EOS program do so. It is assumed that a participant electing the program will stay for 12 months. Interest at 4.851% is applied to the EOS program accumulated balances for half a year. There were no modifications made to the incidence of retirement for those entering the EOS program.

## Active Members as of June 30, 2007
## By Attained Age and Years of Service

| Attained Age | Years of Service to Valuation Date | | | | | | | | Total Valuation Payroll |
|---|---|---|---|---|---|---|---|---|---|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | Total No. | |
| < 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20-24 | 48 | 0 | 0 | 0 | 0 | 0 | 0 | 48 | 1,321,570 |
| 25-29 | 141 | 37 | 0 | 0 | 0 | 0 | 0 | 178 | 5,853,973 |
| 30-34 | 156 | 91 | 22 | 0 | 0 | 0 | 0 | 269 | 10,159,926 |
| 35-39 | 154 | 128 | 84 | 11 | 0 | 0 | 0 | 377 | 15,507,446 |
| 40-44 | 138 | 103 | 131 | 64 | 11 | 0 | 0 | 447 | 20,639,638 |
| 45-49 | 139 | 129 | 117 | 103 | 99 | 20 | 1 | 608 | 29,874,656 |
| 50-54 | 104 | 112 | 109 | 106 | 130 | 103 | 11 | 675 | 35,700,235 |
| 55-59 | 54 | 81 | 58 | 112 | 95 | 38 | 42 | 480 | 26,371,769 |
| 60 | 12 | 6 | 6 | 20 | 14 | 4 | 4 | 66 | 3,897,612 |
| 61 | 8 | 9 | 16 | 11 | 12 | 3 | 3 | 62 | 3,482,710 |
| 62 | 1 | 4 | 10 | 8 | 0 | 3 | 6 | 32 | 1,980,327 |
| 63 | 6 | 4 | 5 | 4 | 1 | 1 | 2 | 23 | 1,215,885 |
| 64 | 3 | 1 | 6 | 6 | 1 | 1 | 4 | 22 | 1,179,757 |
| 65 | 2 | 3 | 3 | 1 | 3 | 0 | 1 | 13 | 843,502 |
| 66 | 1 | 0 | 1 | 0 | 1 | 1 | 0 | 4 | 208,291 |
| 67 | 0 | 0 | - | 1 | 1 | 0 | 0 | 2 | 101,962 |
| 68 | 0 | 1 | 1 | 1 | 2 | 1 | 0 | 6 | 271,544 |
| 69 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 3 | 101,046 |
| 70 | 0 | 1 | 2 | 1 | 0 | 0 | 0 | 4 | 230,610 |
| 71 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 2 | 70,429 |
| 72 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 3 | 145,454 |
| 73 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 46,342 |
| 74 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| 75 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| 76 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| 77 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45,138 |
| 78 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | - |
| 79 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Totals | 968 | 713 | 574 | 449 | 371 | 177 | 74 | 3,326 | 159,249,822 |

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

| | |
|---|---|
| Age: | 46.2 years |
| Service: | 11.4 years |
| Annual Pay: | $47,880 |

## 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] |
| 6-30-07 | 3,326 | 159,249,822 | 46.2 | 11.4 | 47,880 | 223 |

[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

| Valuation Date | Aggregate Accrued Liabilities For (1) Active Member Contributions | (2) Retirants and Beneficiaries | (3) Active Member (Employer Financed Portion) | Valuation Assets | Portion of Accrued Liabilities Covered by Reported 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 |
| 6/30/07 | 136,028,896 | 371,497,680 | 256,012,354 | 634,763,193 | 100.0 | 100.0 | 49.7 |

## 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 |
| 2007* | 2,018§ | 39,883,032 | 13.7 | 1.6 | 25.0 | 19,764 | 371,497,680 | 66.3 | 977,328 |

*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.

§Reflects increase in the number of retirees resulting from temporary amendments that provided added retirement incentives during a limited period.

## *Experience Gains (Losses)*
## *Comparative Schedule*

| | | Year Ended 6-30-07 | Year Ended 6-30-06 |
|---|---|---|---|
| (1) | UAAL[1] at start of year | $147,565,638 | $155,082,003 |
| (2) | + Employer Normal Cost[3] | 11,958,234 | 11,813,862 |
| (3) | - Actual employer contributions[3] | 22,712,013 | 24,319,912 |
| (4) | + Interest accrual on (1), (2) and (3) | 11,019,628 | 11,534,246 |
| (5) | Expected UAAL before changes | 147,831,487 | 154,110,199 |
| (6) | + Change from amendments | 3,677,256 | 1,416,960 |
| (7) | + Change from assumptions | 1,435,059 | 0 |
| (8) | Expected UAAL after changes | 152,943,802 | 155,527,159 |
| (9) | Actual UAAL | 128,775,737 | 147,565,638 |
| (10) | Experience gain (loss) (8) - (9) | 24,168,065 | 7,961,521 |
| (11) | As % of beginning of year AAL[2] | 3.3% | 1.1% |

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% |
| 6/30/07 | 213 | 6,055,096 | 36 | 403,347 | 2,018 | 39,883,032 | 19,764 | 5.7% |

## Summary of Benefit Provisions Evaluated or Considered (June 30, 2007)

### **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

Employees hired prior to July 1, 2006 contribute 5.0% of their salary. Employees hired after July 1, 2006 contributed 7.5% of their salary for the fiscal year end June 30, 2007.

## 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, 2004 in the amount of $1 per month for each year of credited service of retirement.

Statistical Section

# STATISTICAL

# STATISTICAL SECTION

**Statement of Changes in Plan Net Assets - Last Ten Fiscal Years**

**Fiscal Year Ending June 30,**

| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Additions** | | | | | | | | | | |
| | $ 22,670,418 | $ 24,319,911 | $ 21,423,488 | $ 15,966,754 | $ 12,771,777 | $ 10,544,412 | $ 10,058,627 | $ 9,637,727 | $ 9,475,558 | $ 9,613,102 |
| Employee Contributions | 8,120,057 | 8,197,437 | 7,638,608 | 6,563,651 | 7,583,019 | 7,198,340 | 6,842,538 | 6,561,513 | 6,029,769 | 5,723,920 |
| Purchase of Service | 1,008,980 | 1,157,572 | 1,972,509 | 2,307,962 | 4,610,513 | 5,720,521 | - | - | - | - |
| Contributions from Other Sources | 41,595 | - | 857,399 | - | - | - | - | - | - | - |
| Transfers from Other Systems | 3,794,093 | 620,601 | - | 294,722 | 525,986 | 207,164 | 507,140 | 285,346 | 95,830 | 428,479 |
| Total Contributions | $ 35,635,143 | $ 34,295,521 | $ 31,892,004 | $ 25,133,089 | $ 25,491,295 | $ 23,670,437 | $ 17,408,305 | $ 16,484,586 | $ 15,601,157 | $ 15,765,501 |
| **Investment Income** | | | | | | | | | | |
| Net Gain (Loss) in Fair Value of Investments | $ 85,493,111 | $ 48,195,450 | $ 33,977,326 | $ 67,110,061 | $ 3,704,778 | $ (49,179,615) | $ (55,456,160) | $ 36,155,275 | $ 35,694,105 | $ 50,694,019 |
| Interest | 7,649,621 | 4,144,414 | 3,692,702 | 4,051,824 | 2,261,333 | 5,601,284 | 8,916,345 | 7,269,025 | 7,930,802 | 8,018,229 |
| Dividends | 9,537,064 | 8,187,034 | 9,779,723 | 7,691,638 | 8,105,077 | 3,618,645 | 3,775,296 | 3,935,240 | 3,550,558 | 2,648,155 |
| Real Estate Income | - | - | - | 16,209 | 405,794 | 2,103,123 | 1,637,669 | 2,851,266 | 1,398,611 | 1,333,126 |
| Securities Lending Income | 2,594,083 | 1,683,061 | 879,477 | 417,044 | 340,493 | 520,029 | 1,758,074 | 1,555,169 | 2,390,572 | 4,903,546 |
| Miscellaneous Income | 6,038 | 53,855 | 43,387 | 24,744 | 24,675 | - | - | - | - | - |
| | $ 105,279,917 | $ 62,263,814 | $ 48,372,615 | $ 79,311,520 | $ 14,842,150 | $ (37,336,534) | $ (39,368,776) | $ 51,765,975 | $ 50,964,648 | $ 67,597,075 |
| **Less Investment Expenses:** | | | | | | | | | | |
| Securities Lending | $ 2,517,081 | $ 1,618,232 | $ 819,201 | $ 324,034 | $ 252,297 | $ 427,017 | $ 1,563,976 | $ 1,339,814 | $ 2,268,593 | $ - |
| Other Investment Expense | 3,433,243 | 3,096,323 | 2,581,056 | 2,308,746 | 1,852,781 | 2,227,180 | 2,285,138 | 2,470,778 | 1,691,509 | 5,773,980 |
| Total Investment Expense | $ 5,950,324 | $ 4,714,555 | $ 3,400,257 | $ 2,632,780 | $ 2,105,078 | $ 2,654,197 | $ 3,849,114 | $ 3,810,592 | $ 3,960,102 | $ 5,773,980 |
| Net Investment Gain | $ 99,329,593 | $ 57,549,259 | $ 44,972,358 | $ 76,678,740 | $ 12,737,072 | $ (39,990,731) | $ (43,217,890) | $ 47,955,383 | $ 47,004,546 | $ 61,823,095 |
| **Total Additions** | $ 134,964,736 | $ 91,844,780 | $ 76,864,362 | $ 101,811,829 | $ 38,228,367 | $ (16,320,294) | $ (25,809,585) | $ 64,439,969 | $ 62,605,703 | $ 77,588,596 |
| **Deductions** | | | | | | | | | | |
| Benefits | $ 40,419,922 | $ 33,475,950 | $ 31,357,794 | $ 30,259,921 | $ 23,855,130 | $ 20,009,180 | $ 18,042,307 | $ 16,557,265 | $ 15,047,061 | $ 14,032,797 |
| Refunds | 1,573,276 | 1,219,263 | 1,229,267 | 1,249,453 | 1,186,455 | 806,074 | 1,124,689 | 1,173,181 | 1,017,511 | 1,290,139 |
| Transfers to Other Systems | 11,886,941 | 482,469 | 209,410 | 362,716 | 3,169 | 100,167 | 237,192 | 287,515 | 16,054 | 92,915 |
| Administrative Expenses | 485,469 | 433,350 | 389,303 | 380,407 | 373,718 | 341,569 | 347,974 | 304,457 | 330,953 | 286,313 |
| Loss on Increase of Threshold on Fixed Assets | - | - | - | - | - | - | - | 9,975 | - | - |
| **Total Deductions** | $ 54,365,608 | $ 35,611,032 | $ 33,185,774 | $ 32,252,497 | $ 25,418,472 | $ 21,256,990 | $ 19,752,162 | $ 18,332,393 | $ 16,411,579 | $ 15,702,164 |
| **Net Change in Plan Net Assets** | $ 80,599,128 | $ 56,233,748 | $ 43,678,588 | $ 69,559,332 | $ 12,809,895 | $ (37,577,284) | $ (45,561,747) | $ 46,107,576 | $ 46,194,124 | $ 61,886,432 |

## Retired Members by Type of Benefit
## As of June 30, 2007

| 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 | | | | | | | | | | | | | |
| $ 1 - $ 250 | 42 | 32 | 10 | - | - | 25 | 2 | 1 | 1 | 3 | 3 | 5 | 2 |
| $ 251 - $ 500 | 184 | 102 | 39 | 27 | 16 | 107 | 4 | 2 | 2 | 23 | 6 | 32 | 8 |
| $ 501 - $ 750 | 220 | 123 | 55 | 28 | 14 | 107 | 4 | 2 | 4 | 45 | 21 | 28 | 9 |
| $ 751 - $ 1,000 | 209 | 136 | 40 | 31 | 2 | 104 | - | 2 | - | 47 | 19 | 31 | 6 |
| $ 1,001 - $ 1,250 | 218 | 158 | 31 | 25 | 4 | 107 | 1 | - | 2 | 43 | 25 | 37 | 3 |
| $ 1,251 - $ 1,500 | 216 | 171 | 24 | 20 | 1 | 86 | 4 | 2 | 3 | 41 | 37 | 42 | 1 |
| $ 1,501 - $ 1,750 | 199 | 182 | 7 | 10 | - | 79 | 1 | 1 | 2 | 40 | 35 | 41 | - |
| $ 1,751 - $ 2,000 | 175 | 161 | 5 | 9 | - | 59 | - | - | - | 48 | 33 | 35 | - |
| $ 2,001 - $ 2,250 | 129 | 118 | 5 | 6 | - | 54 | 1 | 4 | - | 37 | 14 | 18 | 1 |
| $ 2,251 - $ 2,500 | 96 | 93 | - | 3 | - | 40 | - | - | - | 30 | 11 | 15 | - |
| $ 2,501 - $ 2,750 | 76 | 75 | 1 | - | - | 41 | - | 1 | 1 | 14 | 10 | 9 | - |
| $ 2,751 - $ 3,000 | 54 | 54 | - | - | - | 34 | - | - | - | 7 | 7 | 6 | - |
| $ 3,001 - $ 3,250 | 42 | 42 | - | - | - | 22 | - | - | 1 | 8 | 3 | 8 | - |
| $ 3,251 - $ 3,500 | 20 | 19 | 1 | - | - | 7 | - | - | - | 4 | 5 | 4 | - |
| $ 3,501 - $ 3,750 | 25 | 25 | - | - | - | 16 | - | - | 1 | 3 | 1 | 4 | - |
| $ 3,751 - $ 4,000 | 19 | 18 | 1 | - | - | 14 | - | - | - | 1 | 1 | 3 | - |
| $ 4,001 - $ 4,250 | 18 | 18 | - | - | - | 8 | - | - | - | 3 | 1 | 6 | - |
| $ 4,251 - $ 4,500 | 14 | 14 | - | - | - | 7 | - | - | - | 3 | 4 | - | - |
| $ 4,501 - and over | 62 | 62 | - | - | - | 27 | - | 1 | 1 | 13 | 11 | 9 | - |
| | 2,018 | 1,603 | 219 | 159 | 37 | 944 | 17 | 16 | 18 | 413 | 247 | 333 | 30 |

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

**Average Monthly Benefit Payments to New Retirees**
**Last Ten Fiscal Years**

| Retirement Effective Dates For Fiscal Years Ending June 30 | Years of Credited Service 1-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Avg Monthly Benefit | $ 648 | $ 725 | $ 1,360 | $ 2,010 | $ 2,999 | $ 3,730 |
| Avg Monthly Final Avg Compensation | $ 3,947 | $ 2,922 | $ 3,687 | $ 4,258 | $ 5,086 | $ 5,589 |
| Number of Active Retirees | 12 | 11 | 33 | 42 | 55 | 48 |
| **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 |

## Demographics of Retired and Active Members
## June 30, 2007

### Retired Members

| Ages | Retirees | | | Survivors/Beneficiaries | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Under 55 | 44 | 58 | 102 | 2 | 19 | 21 |
| 55 to 59 | 203 | 104 | 307 | 2 | 19 | 21 |
| 60 to 64 | 265 | 104 | 369 | 1 | 28 | 29 |
| 65 to 69 | 213 | 115 | 328 | - | 42 | 42 |
| 70 to 74 | 199 | 70 | 269 | 4 | 36 | 40 |
| 75 to 79 | 117 | 63 | 180 | 1 | 39 | 40 |
| 80 to 84 | 77 | 43 | 120 | 8 | 32 | 40 |
| 85 to 89 | 43 | 18 | 61 | 2 | 18 | 20 |
| 90 to 94 | 15 | 8 | 23 | - | 3 | 3 |
| 95 to 100 | 1 | 1 | 2 | - | - | - |
| 101 and over | - | 1 | 1 | - | - | - |
| Total | 1,177 | 585 | 1,762 | 20 | 236 | 256 |

### Active Members

| Ages | Active Members | | | Percentage Distribution | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Under 20 | 1 | 1 | 2 | 0.03% | 0.03% | 0.06% |
| 20 to 29 | 125 | 125 | 250 | 3.74% | 3.74% | 7.49% |
| 30 to 39 | 339 | 327 | 666 | 10.15% | 9.79% | 19.95% |
| 40 to 49 | 640 | 455 | 1095 | 19.17% | 13.63% | 32.79% |
| 50 to 59 | 682 | 428 | 1110 | 20.43% | 12.82% | 33.24% |
| 60 to 69 | 133 | 76 | 209 | 3.98% | 2.28% | 6.26% |
| 70 and over | 6 | 1 | 7 | 0.18% | 0.03% | 0.21% |
| Total | 1926 | 1413 | 3339 | 57.68% | 42.32% | 100.00% |

## Employee and Employer Contribution Rates
### Last Ten Fiscal Years

| Fiscal Year | Employee Rate (percentage) | | Employer Rate (percentage) | |
|---|---|---|---|---|
| 98/99 | 5.0 | | 7.90 | |
| 99/00 | 5.0 | | 7.35 | |
| 00/01 | 5.0 | | 7.35 | |
| 01/02 | 5.0 | | 7.35 | |
| 02/03 | 5.0 | | 8.41 | |
| 03/04 | 5.0 | | 11.17 | |
| 04/05 | 5.0 | | 14.06 | |
| 05/06 | 5.0 | | 14.83 | |
| | hired prior to 7/1/06 | hired after 6/30/06 | hired prior to 7/1/06 | hired after 6/30/06 |
| 06/07* | 5.0 | 7.5 | 15.04 | 12.54 |
| 07/08* | 5.0 | 8.084 | 15.21 | 12.126 |

*TSRS modified the employee contribution rates for employees hired after July 1, 2006.

Employee hired before that date remain at the fixed 5% employee contributions. The sum of the employee and employer contributions equal the actuarial funding requirement of 20.54% for FY07 and 20.21% for FY08.

Benefit and Refund Deductions from Net Assets by Type

Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
| **Type of Benefit** | | | | | | | | | | |
| Service Benefits: | | | | | | | | | | |
| Retirees | 31,993,340 | 28,946,679 | 27,440,364 | 26,533,141 | 20,209,887 | 16,973,784 | 15,304,313 | 14,148,928 | 13,129,994 | 12,242,902 |
| EOSP(1) | 4,069,547 | - | - | - | - | - | - | - | - | - |
| Survivors(2) | 2,236,330 | 2,229,540 | 1,860,300 | 1,646,238 | 1,681,008 | 1,311,864 | 1,182,857 | 1,072,099 | 993,573 | 905,714 |
| Disabilty Benefits: | | | | | | | | | | |
| Retirees | 1,847,725 | 1,763,061 | 1,717,457 | 1,646,927 | 1,541,162 | 1,466,490 | 1,265,302 | 1,026,252 | 800,176 | 664,125 |
| Survivors | 272,980 | 536,670 | 339,672 | 433,615 | 423,073 | 257,041 | 289,834 | 309,986 | 123,318 | 220,055 |
| Total Benefits | 40,419,922 | 33,475,950 | 31,357,794 | 30,259,921 | 23,855,130 | 20,009,180 | 18,042,307 | 16,557,265 | 15,047,061 | 14,032,797 |
| **Type of Refund** | | | | | | | | | | |
| Death | 70,309 | 147,588 | 86,361 | 223,073 | 296,371 | 3,074 | 106,071 | 211,988 | 58,540 | 88,856 |
| Separation | 1,502,967 | 1,219,264 | 1,225,670 | 1,242,340 | 890,084 | 803,000 | 1,018,618 | 961,193 | 958,971 | 1,297,330 |
| Transfer | 11,886,941 | 482,469 | 209,410 | 362,716 | 3,169 | 100,167 | 237,192 | 287,515 | 16,054 | 92,915 |
| Total Refunds | 13,460,218 | 1,849,320 | 1,521,441 | 1,828,129 | 1,189,625 | 906,242 | 1,361,881 | 1,460,697 | 1,033,564 | 1,479,101 |

(1) EOSP - An End of Service Program benefit option became available for the first time this year, allowing retiring employees to accumulate up to one year's worth of benefit payments during their final year of employment

(2) Includes Death in service pension benefits

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TUCSON