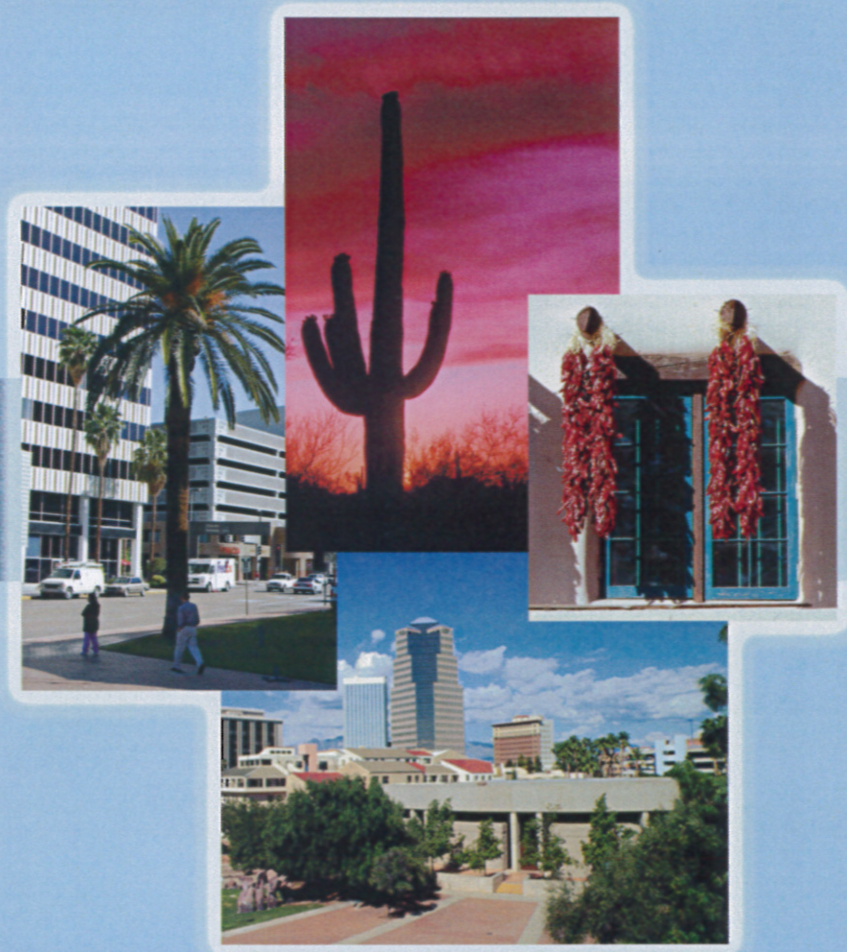
City of Tucson, Arizona



Tucson Supplemental Retirement System

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

Fiscal Year July 1, 2009- June 30, 2010

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

Comprehensive Annual Financial Report
For Fiscal Year Ended
JUNE 30, 2010

Issued by the City of Tucson, Human Resources Department, Retirement Division

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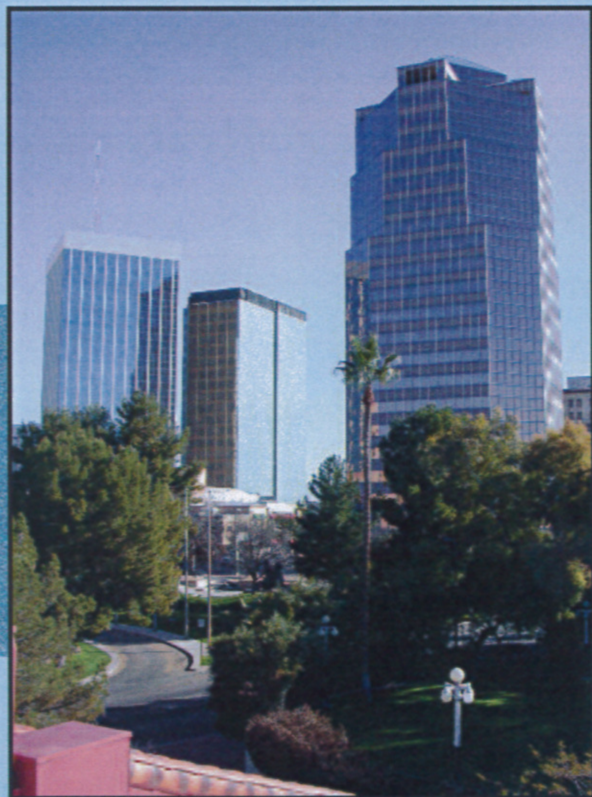


Introduction Section

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, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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

President

Executive Director

CITY OF TUCSON

December 20, 2010

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, 2010, 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, 2010;

- 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. For members hired after June 30, 2009, a minimum of five years accrued service is required to retire at age 62. 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 is the responsibility of the Human Resource Department, Employee Benefits and Retirement Section. Financial statements 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

During the fiscal year ended June 30, 2010, the TSRS Board of Trustees recommended few changes to Article III, Chapter 22 of the Tucson City Code. Budget shortfalls experienced by the City continued; which required the City to impose a furlough pay policy to balance the budget. This policy required all active members to forego 9 days or 72 hours of annual pay causing active members to lose 3.5% of their normal annual service credit hours. During the fiscal year ended June 30, 2010, the TSRS Board agreed to temporarily absorb this loss by crediting active members for furlough hours without requiring contributions, and stated this action would be discontinued after the current fiscal year ends. Other changes to the Code included adopting simplified reporting requirements for members retiring under the disability benefits and added default benefit provisions for designated beneficiaries of members that die while eligible to receive retirement benefits.

Funding Status

Analysis of the funding progress for TSRS measures the net assets available for benefits against the actuarial accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2010, the system's funded ratio decreased from the prior year 77.4% level to 71.0% on an actuarial valuation basis, and from 56.8% to 56.4% on a market value basis. The actuarial accrued liability increased from $859,485,158 to $904,480,336, resulting in an increase of 5.24%; the actuarial value of assets allocated to funding and available for benefits decreased by 3.53% from $665,298,494 to $641,818,551. The unfunded actuarial accrued liability increased by $68,475,121 in the current plan year. Elements associated with the change in accrued liability include experience gains attributable to pay increases of $14,415,700 and net losses from retiree mortality, retirement incidence, and new entrants of $2,771,300 and employee turnover, pre-retirement mortality and other factors of $15,740,900. In addition, there were losses from investment experience of $49,132,900, and a $17,622,800 loss charged due to a change in the actuarial rates assumed for post-retirement mortality. From time to time, one or more assumptions are modified to reflect experience trends following an actuarial investigation of actual system experience. The post-retirement mortality assumption change was the second year of a five year phase-in adopted from the system's most recent five year experience study.

Investment Activities

The Board of Trustees (the "Board") 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 $50,301,956. The net investment gain or loss is comprised of bond interest, dividend income, real estate income, security lending income, investment expenses and realized and unrealized gains and losses on securities. The rate of return for the total fund for the year was 11.60%. For the last five years, the System has had an annualized return of 1.77%.

TSRS asset allocation targets are 46% U.S. equities, 15% foreign equities, 8% real estate, 26% fixed income and 5% infrastructure. These percentages reflect the current diversification posture as of June 30, 2010 and represent the board's prudent judgment in the pursuit of maximum returns at acceptable levels of risk.

During the spring of 2010, the Board completed their mid cap U.S. equity manager search for a suitable replacement for TCW's mid cap value equity strategy. After careful evaluation and with the assistance of the System's investment consultant, the Board chose to hire Champlain Investment Partners. TCW's termination was effective June 30, 2010 and the transition to Champlain was completed in the first half of July, 2010. Funding continued for three previously hired limited partnership real estate and infrastructure managers. As of June 30, 2010, the funding level for the LaSalle Income and Growth Fund IV, Macquarie European Infrastructure Fund III and SteelRiver Infrastructure Fund North America stood at approximately 97%, 84% and 62%, respectively.

In accordance with investment policy, the System's asset classes were rebalanced throughout the fiscal year. Due to the increasing liquidity requirements needed to pay retiree pensions, $20.9 million was moved out of various asset classes, in monthly increments, to the City's investment pool account. This amount was utilized throughout the fiscal year to make up the shortfall between pension contributions and distributions. This movement of funds had a "self-balancing" effect between equities, fixed income, real estate and infrastructure which helped to keep those asset classes within their target allocation percentage ranges.

Hewitt Investment Group continues as investment consultant to the System and BNY Mellon 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 Vivian Newsheller, Principal Accountant, Allan Bentkowski, CPA, Investment Manager, and Claire Beaubien who all contributed many hours to produce this report. The direction and support extended by the Board of Trustees is also greatly appreciated.

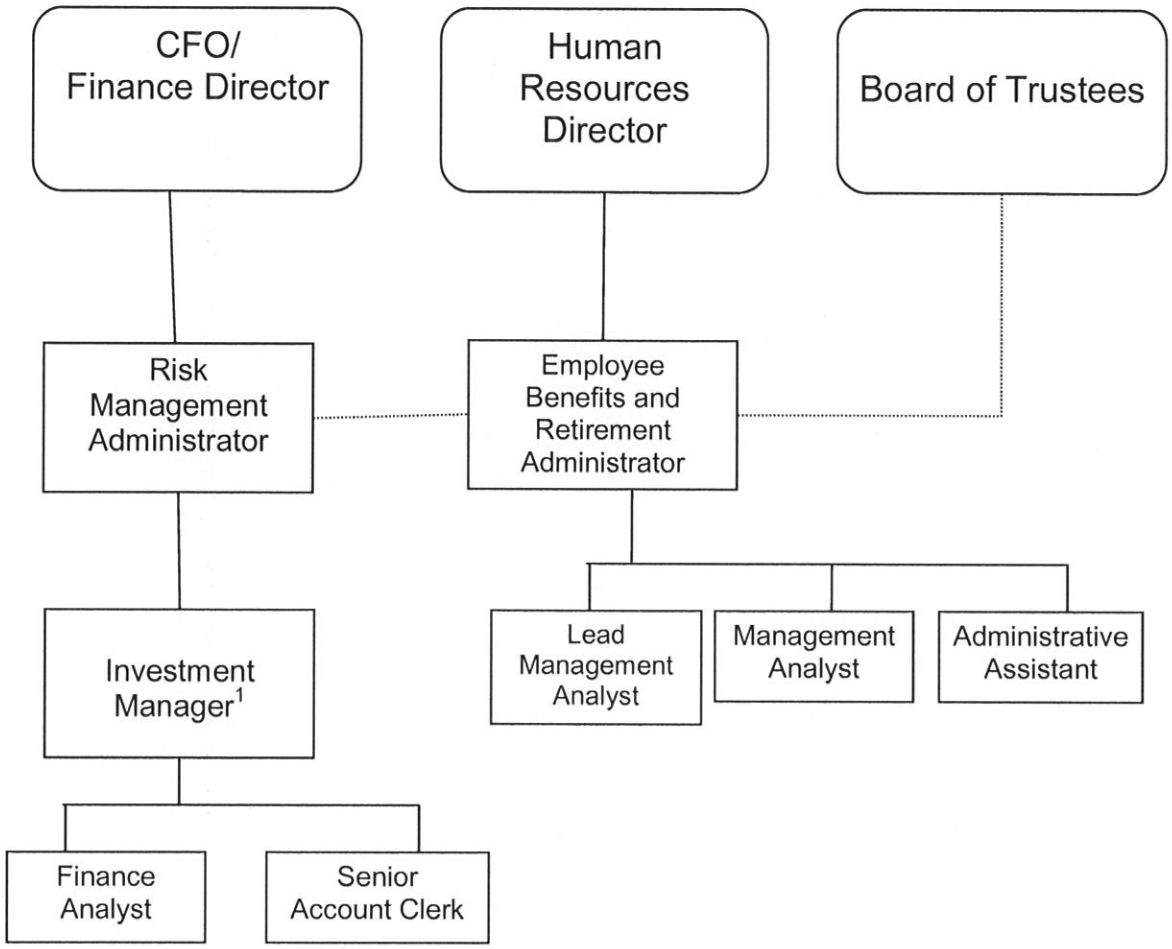
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tucson Supplemental Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the 14th 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
Employee Benefits and Plan Administrator

Organization Chart



[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

Kevin Larson
City Manager's Appointee

Kelly Gottschalk
CFO/Finance Director

Cindy Bezaury
Human Resources Director

Walter "Brandy" Kadous
Employee Representative

Gage Andrews
Employee Representative

Jean Wilkins
Retiree Representative

FINANCE
RISK MANAGEMENT STAFF
Joel Peterson
Risk Management Administrator

Allan Bentkowski, CPA
Investment Manager

John Behrens
Finance Analyst

Deborah Gagnier-Campbell
Sr. Account Clerk

HUMAN RESOURCES
EMPLOYEE BENEFITS AND
RETIREMENT STAFF

Michael A. Hermanson, CPA
Employee Benefits & Retirement Administrator

Doris Rentschler, CFP
Lead Finance Analyst

Michael Jesse,
Finance Analyst

Claire Beaubien, CPS
Administrative Assistant

ACCOUNTING
Vivian Newsheller
Principal Accountant

LEGAL
David Deibel
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

BlackRock Institutional Trust Company, N.A.
San Francisco, CA

Causeway Capital Management
Los Angeles, CA

Friess Associates, LLC
Greenville, DE

Pyramis Global Advisors
Smithfield, RI

JP Morgan Asset Management
San Francisco, CA

Artio 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

Macquarie Capital (USA), Inc.
New York, NY

SteelRiver Infrastructure
New York, NY

INVESTMENT CONSULTANT
Hewitt Investment Group
Lincolnshire, IL

CUSTODIAN BANK
BNY Mellon
New York, NY

CITY OF

FOUNDED

1775

TUCSON

Financial Section

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

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (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, 2010, 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, 2010, 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.

As described in Note 6, the Tucson Supplemental Retirement System implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, 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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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of funding and progress and schedule of employer contributions on pages 23 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TSRS's financial statements as a whole. 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 financial statements. The Supporting Schedules in the Financial Section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

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

December 20, 2010

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, 2010. 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, 2010 are $514,121,521 (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 for this plan year in total net assets held in trust for pension benefits were $29,482,2193, or 6.1%, 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, 2010, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 71.0% on an actuarial basis, 56.4% using the market value basis.

- Revenues (Additions to Plan Net Assets) for the year were $84,863,801, which includes member and employer contributions plus transfers from other systems and contributions from other sources totaling $34,561,845, Investment earnings income of $14,280,009 and a net gain in fair value of investments of $40,143,355 reduced further by Investment Expenses of $4,121,408.

- Expenses (Deductions from Plan Net Assets) decreased from $57,205,907 in the prior year to $55,381,608 or approximately 3.2%. The net decrease in deductions resulted from a decrease in pension benefits of $295,967, increased refunds of $420,404 and decreased administrative expenses of $191,760, offset by an increase in the cost of transfers to the Arizona State Retirement System of $1,756,976; bringing the total decrease in expenses to $1,824,299.

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. 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 – is 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 10-22 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 23 and 24 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 25 of this report.)

<u>*Financial Analysis*</u>

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table on page 5). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2010. Currently $514,121,521 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

Assets		**6/30/10**		**6/30/09**	**% change**
Cash, Cash Equivalents and Receivables	$	21,422,648	$	43,496,843	-50.7%
Investments		532,745,082		460,450,833	15.7%
Securities Lending Cash Collateral		36,617,146		13,097,459	179.6%
Capital Assets, Net		89,527		116,077	-22.9%
Total Assets	**$**	**590,874,403**	**$**	**517,161,212**	**14.3%**
Liabilities					
Accounts Payable and Other Payables	$	1,157,230	$	803,380	44.0%
Due to Securities Lending Borrowers		36,617,146		13,097,459	179.6%
Due to Brokers		38,978,506		18,621,045	109.3%
Total Liabilities	**$**	**76,752,882**	**$**	**32,521,884**	**136.0%**
Total Net Assets	**$**	**514,121,521**	**$**	**484,639,328**	**6.1%**

As of June 30, 2010, $514,121,521 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 6.08% from June 30, 2009. The increase is attributable primarily to investment gains experienced in the financial markets, which impacted TSRS' investment performance.

Additions to Plan Net Assets

Additions to Net Assets - TSRS		**6/30/10**		**6/30/09**	**% change**
Employer Contributions	$	23,260,609	$	21,279,535	9.3%
Employee Contributions		8,041,748		8,156,115	-1.4%
Purchase of Service Credit		1,556,832		1,565,164	-0.5%
Transfers and contributions from other sources		1,702,656		1,729,702	-1.6%
Investment and securities lending income		50,301,956		(141,112,496)	135.6%
Total Additions	**$**	**84,863,801**	**$**	**(108,381,980)**	**178.3%**

Employer contributions increased by $1,981,074 or 9.3% and employee contributions decreased by $114,367 or about 1.4%. An increase in the contribution rate was the primary cause for this increase, even though some of that was offset by decreases in covered payroll. A total of $1,556,832 was received from employees purchasing service credits, which was $8,332, or .05% less than the prior fiscal year. Transfers from other systems also dropped from the prior year by 1.6% or $27,046. Net investment income for the current year increased by $191,414,452, or 135.6% from the prior year, caused by rebounding portfolio values in the domestic and international financial markets severely depressed in the prior year.

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, refunds of contributions to terminated employees, the cost of administering the System and expenses incurred in the investment of the System's assets.

Total Deductions for fiscal year 2010 were $55,381,608, representing a decrease of 3.2% from fiscal year 2009 expenses. The largest contributors to lower deductions this year were attributed to diminished member account transfers to other retirement systems of $1,756,976, or 66.2% lower than FY 2009 and administrative expenses falling by $191,760 or 22.2% lower than the previous year. In addition, a slight decrease in the amount of payments to retirees of $295,967, or .6% less also occurred. Offsetting those decreases, membership refunds accounted for a significant increase in expenses of $420,404, or 24.9% over the prior year.

Deductions from Net Assets		**06/30/10**		**06/30/09**	**% change**
Retirement Benefits	$	51,700,541	$	51,996,508	-0.6%
Refund of Contributions		2,110,360		1,689,956	24.9%
Transfers to Other Systems		898,085		2,655,061	-66.2%
Administrative Expenses		672,622		864,382	-22.2%
Total Deductions	$	55,381,608	$	57,205,907	-3.2%
Net Increase/(Decrease) in Plan Assets	**$**	**29,482,193**	**$**	**(165,587,887)**	**-117.8%**

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, 2010, the balance in this reserve account increased by $6,591,051 to $140,224,998.

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, 2010, this reserve account balance increased by $30,277,211 to $525,200,232.

The impact of gains recognized during the plan year ended June 30, 2010 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 are transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. As a result of the change in market values of the system's assets during the current year, the Unreserved Net Assets increased by $7,386,069 to a negative balance of $151,303,709.

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: TSRS Plan Administrator
City Hall, 5th floor - Retirement Office
255 West Alameda Street
Tucson, Arizona 85701

Tucson Supplemental Retirement System
Statement of Plan Net Assets
Year Ended June 30, 2010

Assets		
Cash Deposits/Pooled Investments	$	1,466,202
Receivables:		
Accounts Receivable		
Employer Contributions Receivable (Note 3)		851,641
Employee Contributions (Note 3)		297,188
Due From Brokers		17,334,274
Interest and Dividends		1,473,343
Total Receivables		19,956,446
Investments, at Fair Value (Notes 4, 5, and 6):		
Short Term Investments		21,663,971
Securities Lending Cash Collateral		36,617,146
U.S. Treasuries, Agencies & Other Government Bonds		100,410,544
Corporate Bonds & Other Fixed Income Instruments		40,879,228
U.S. Corporate Stocks		231,462,232
International Fixed Income		13,283,363
International Equity		68,626,183
Real Estate		30,221,020
Infrastructure Investments		26,198,541
Total Investments, at Fair Value		569,362,228
Capital Assets, At Cost, Net of Accumulated Depreciation of $69767		89,527
Total Assets		590,874,403
Liabilities		
Accounts Payable		1,139,542
Accrued Wages Payable		16,806
Due to Securities Lending Borrowers (Note 5)		36,617,146
Due to Brokers		38,978,506
Refundable Deposits		882
Total Liabilities		76,752,882
Net Assets Held in Trust for Pension Benefits	$	514,121,521

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Statement of Changes in Plan Net Assets
Year Ended June 30, 2010

Additions		
Contributions (Note 3:)		
City	$	23,260,609
Employee		8,041,748
Purchase of Service		1,556,832
Contributions from Other Sources		50,000
Transfers from Other Systems		1,652,656
Total Contributions		34,561,845
Investment Income:		
Net Gain(Loss) in Fair		
Value of Investments		40,143,355
Interest		7,441,435
Dividends		6,743,309
Securities Lending Income (Note 5)		91,625
Miscellaneous Income		3,640
		54,423,364
Less Investment Expenses:		
Securities Lending Fees		25,401
Investment Management		4,096,007
Total Investment Expense		4,121,408
Net Investment Gain(Loss)		50,301,956
Total Additions		84,863,801
Deductions		
Benefits		51,700,541
Refunds		2,110,360
Transfers to Other Systems		898,085
Administrative Expenses		672,622
Total Deductions		55,381,608
Net Increase (Decrease) in Plan Net Assets		29,482,193
Net Assets Held in Trust for Pension Benefits		
July 1, 2009		484,639,328
June 30, 2010	$	514,121,521

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Notes to Financial Statements
Year Ended June 30, 2010

1. DESCRIPTION OF THE PLAN

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

B. *Plan Membership* - The System covers substantially all City of Tucson, Arizona, employees, except for appointed officials and staff who may elect not to join, and commissioned police and fire personnel and elected officials, who are covered under other plans. Employees participate in the System immediately upon beginning employment with the City. Employee membership data as of June 30, 2010 is as follows:

Active plan participants:	
Vested	2,245
Nonvested	737
Total active plan participants	2,982
Current retirees and beneficiaries	2,450
Terminated vested participants	215

C. *Plan Benefits*

1. *Retirement Benefits* - Any employee hired prior to July 1, 2009, 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. Employees hired after July 1, 2009 receive the same benefit, but are required to have a minimum of five years accrued 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.

2. *Disability Benefits* - Employees with ten or more years of creditable service, who are not yet eligible to retire and who have a total and permanent disability may apply for disability retirement.

3. *Death Benefits* - The beneficiary of an employee who pre-selected a retirement option and died while eligible to retire, shall receive a benefit based upon the selected option if the member has made such an election by June 30, 2009.

   The spousal beneficiary of an employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, may choose to receive a benefit equal to a 100% joint and survivor annuity based on the member's years of credited service and average final monthly compensation at the time of the member's death, or may elect to receive a lump sum payment of twice the members account balance plus interest, measured on the date of death.

   The named beneficiary of an employee who is other than the spouse of the employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, may choose to receive a benefit equal to a 15 year term certain benefit to the named beneficiary, or the beneficiary may elect to receive a lump sum payment of twice the members account balance plus interest, measured on the date of death.

   Multiple designated beneficiaries of an employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, receive a lump sum payment of twice the members account balance plus interest, measured on the date of death.

   The beneficiary of an employee who was not eligible for any retirement benefits, but had more than five years of creditable service, may receive a lump sum payment of twice the member account balance plus interest, measured on the date of death.

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, 2010, 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 moveable equipment items and the capitalized cost of pension administration software, stated at historical cost net of accumulated depreciation. The straight-line method of depreciation for capitalized equipment and software is used over an estimated useful life of 6 years. The capitalization threshold is $5,000.

F. Benefit Changes – The TSRS Board of Trustees shall determine, pursuant to its formal policy and in its discretion whether the System shall fund an annual supplemental post retirement benefit payment to retired members and beneficiaries.

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. Employees hired after June 30, 2006 are paying an amount equal to 40% of the annual required contribution rate. For this fiscal year, the rate for new employees was 9.428%. 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 determined by the system actuary, 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 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. At the year ended June 30, 2010, allocations were based on rates of return of 6.00% per annum. Any unallocated earnings remain in unreserved net assets.

The net assets at June 30, 2010, consisted of the following components:

Reserved for employee contributions	$	140,224,998
Reserved for retirement benefits		525,200,232
Unreserved net assets		-151,303,709
Net Assets	$	514,121,521

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 there from, 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, 2010. 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, 2010 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 $1,466,202 of cash and deposits in the City's investment pool account are invested in money market funds consisting of U.S. Treasuries and agencies 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**
U.S. Issues not on Securities Loan:		
U.S. Treasuries, Agencies & Other Government Bonds	$	97,496,184
Corporate Bonds & Other Fixed Income Instruments		34,501,447
Equities		208,398,569
Non-U.S. Issues not on Securities Loan:		
International Bonds		13,283,362
International Equities		65,860,768
Subtotal		419,540,330
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
U.S. Treasuries, Agencies & Other Government Bonds		2,914,361
Corporate Bonds & Other Fixed Income Instruments		6,377,782
U.S. Equity		23,063,663
International Bonds		-
International Equities		2,765,415
Subtotal		35,121,221
Securities Lending Short-Term Collateral Investment Pool		36,617,146
Money Market Funds/Short-Term Investments		21,588,971
Real Estate Funds		30,221,020
Infrastructure Funds		26,198,541
Subtotal		114,625,678
Total Deposits and Investments	$	569,287,229

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, 2010 the System was exposed to custodial credit risk for deposits in the amount of $362 and custodial credit risk for investments of $671,000.

The System had the following credit risk structure as of June 30, 2010:

Credit Risk Structure

Investment Type	Holdings	Average Credit Rating	Fair Value	Percent of Grand Total
Cash and Cash Equivalents:				
Cash & Short Term Investment Fund	2	AAA	$ 18,891,446	
U.S. Agency - Less than 1 Year	1	AAA	2,697,525	
Sub Total	3		21,588,971	12.26%
U.S. Treasury Notes & Bonds:	15	UST	10,881,158	6.18%
U.S. Agency & Other Government Obligations:				
U.S. Agency Bonds	34	AAA	80,768,982	
Municipal Bonds	11	AA2	8,760,404	
Sub Total	45		89,529,386	50.82%
Corporate & Other Fixed Income Instruments:				
Collateralized Mortgage Obligations (CMO)	2	AA3	251,240	
Fixed Income Swaps & Options	61	A2	(150,146) (1)	
Banks & Finance	17	A3	12,406,374	
Industrials	9	BAA2	11,519,450	
Utilities	8	BAA1	8,428,325	
Other Corporate Issues	8	A3	7,265,425	
Convertible Securities	3	BA2	1,113,700	
Futures Contracts	7	AAA	44,861	
Sub Total	115		40,879,229	23.21%
International Bonds:	34	A3	13,283,362	7.54%
Grand Total	212		$ 176,162,106	100%

Footnotes:

(1) A negative value in any of the instruments noted above is the result of netting long and short positions against each other. This strategy is utilized as a means to mitigate interest rate risk obtained from holding long positions in mortgages and/or corporate bonds.

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 Barclays Capital (BC) 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% BC Mortgage Index, 15% BC Credit Index, 15% BC High Yield Index.

The System had the following maturity structure as of June 30, 2010:

Maturity Structure

Investment Type	Investment Maturities (in Years): Less Than 1	1 - 5	6 - 10	More Than 10	Total Fair Value
Cash & Short Term Investment Fund	$ 18,891,446	$ -	$ -	$ -	$ 18,891,446
U.S. Treasury Issues	-	-	3,060,638	7,820,520	10,881,158
U.S. Agency & Other Government Obligations	2,697,525	16,127,067	6,053,590	67,348,729	92,226,911
Corporate & Other Fixed Income Instruments	2,135,811	11,099,975	20,393,195	7,250,248	40,879,229
International Bonds	1,990,188	8,117,216	1,426,505	1,749,453	13,283,362
Total	$ 25,714,970	$ 35,344,258	$ 30,933,928	$ 84,168,950	$ 176,162,106
Average Modified Duration:					
Internal Account	**5.49**	yrs			
External Account	**6.11**	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, 2010:

Foreign Currency Risk Exposure

Currency		Fair Value (1)	Percent of Total
Australian Dollar	$	5,943	0.001%
Brazil Real		395,640	0.077%
British Pound Sterling		4,505,250	0.882%
Canadian Dollar		566,474	0.111%
Chinese Yuan Renminbi		2,482,646	0.486%
Euro Currency Unit		28,675,825	5.611%
Hong Kong Dollar		1,213,739	0.238%
Japanese Yen		6,698,015	1.311%
Mexican New Peso		(472) (2)	0.000%
New Taiwan Dollar		(1,780) (2)	0.000%
Norwegian Krone		672,872	0.132%
Singapore Dollar		596,089	0.117%
South Korean Won		2,432,721	0.476%
Swedish Krona		476,419	0.093%
Swiss Franc		4,348,516	0.851%
U.S. Dollar		457,955,387	89.615%
TOTAL	$	511,023,284	100%

Footnotes:

(1) Over 50% of the total fair value is held in equity securities.

(2) A negative currency position is obtained by accepting an obligation to deliver the designated currency to a counterparty at a specified date in the future. This position is favorable for portfolio returns if the currency depreciates in value versus the U.S. dollar over the period of the contract.

5. SECURITIES LENDING

The Board of Trustees for the Tucson Supplemental Retirement System permits the custodian bank, BNY Mellon, 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 fair value of the securities plus any accrued interest. Non-U.S. securities are loaned for collateral initially valued at 105% of the fair value of the securities plus any accrued interest. Collateral is marked-to-market daily. As of June 30, 2010, the carrying amount and fair value of securities on loan was $35,121,221. If the fair 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. BNY Mellon'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, 2010, 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 limited use of derivatives by its international equity and external fixed income managers. Examples of derivative instruments permitted, but not limited to, are foreign exchange contracts, financial futures, forwards, options, swaps and swaptions. All derivative instruments utilized are considered "Investment Derivative Instruments" as defined in GASB 53 "Accounting and Financial Reporting for Derivative Instruments." The System implemented GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments* for the year ended June 30, 2010. The statement addresses the recognition, measurement, and disclosure regarding derivative instruments entered into by the System.

The following table is a summary of the various derivative instruments utilized by the System's external fixed income manager as of June 30, 2010. Changes in Fair Value is included as part of the overall Increase (Decrease) in Fair Value of Investments in the Statement of Changes in Plan Net Assets. Fair Value is included as part of investments listed under Corporate Bonds & Other Fixed Income Instruments in the Statement of Plan Net Assets.

Investment Derivative Instrument		Notional Amount	Changes in Fair Value	Fair Value	Principal Risk
Credit Default Swaps		$ 15,646,300	$ (280,664)	$ 287,987	Credit
Foreign Forward Currencies	(1)	-	$ 188,434	$ (672,453)	Foreign Currency
Exchange Traded Futures	(1)	-	$ (779,987)	$ 40,311,060	Interest Rate/ Foreign Currency
Interest Rate Swaps	(2)	10,300,000	$ 18,478	$ (13,375)	Interest Rate
Exchange Traded Options		$ (51,400,000)	$ 12,055	$ (6,475)	Interest Rate
OTC Swaptions		$ (30,900,000)	$ (181,449)	$ (377,854)	Interest Rate

Footnotes:

(1) Notional amount is denominated in various foreign currencies

(2) Notional amount is denominated in Brazilian dollars

Whenever possible, the investment manager will base the valuation of securities on market information; however, where market quotes are not readily available, an independent third party pricing vendor will be utilized. Exchange traded securities are an example of securities where market quotes are available, whereas over-the counter (OTC) securities are not traded over standardized markets.

In addition to the principal risks noted above, Forward Foreign Currencies, Credit Default Swaps and Interest Rate Swaps are also subject to counterparty risk. In general, counterparty risk is the risk of loss of an amount expected to be delivered under an agreement in the event of the default or bankruptcy of the counterparty. Generally, counterparty risk is controlled through dealing with a number of different counterparties reasonably deemed to be creditworthy by the investment manager. Counterparty risk with swaps is limited by execution under standardized International Swap and Derivatives Association Agreements. These contracts allow for the mutual exchange of collateral should an overall unsecured market value exceed a certain threshold (e.g., $250,000).

Credit, interest rate and foreign currency risks are addressed in previous sections of Note 4. These risks, applicable to other fixed income and foreign investments, are not substantially different from principal risks associated with derivative instruments.

7. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2010, the most recent actuarial valuation date, the plan was 71.0% funded on an actuarial value basis, 56.4% using the market value. The actuarial accrued liability for benefits was $904.5 million and the actuarial value of assets was $641.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of $262.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $141.5 million, and the ratio of UAAL to the covered payroll was 185.7 percent. This information was calculated in accordance with the parameters set forth in paragraphs 35 and 36 of Statement No. 25 of the Governmental Accounting Standards Board.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. ACTUARIAL METHODS AND ASSUMPTIONS

In the June 30, 2010 actuarial valuation, the level-percent contribution requirements and actuarial present values are calculated using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 3.50% to 7.00% per year. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include postretirement benefit increases, because there is no guarantee or requirement that future increases will be granted. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of legal or contractual funding limitations, since they do not apply. The actuarial value of assets was determined using techniques that spread the effects of short term volatility in the market value of assets over a five-year smoothing period, which was first adopted for the plan year ended June 30, 2009. The Unfunded Actuarial Accrued Liability is being amortized as a level percentage of payroll on an open period of 15 years. This period of amortization has been used since the plan year ended June 30, 2007. The assumptions are selected based upon the recommendation of the plan's actuary.

Required Supplementary Information
Schedule of Funding Progress

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
2008	650,227	822,205	171,978	79.1	153,982	111.7
2009	665,298	859,485	194,187	77.4	149,925	129.5
2010	641,819	904,480	262,661	71.0	141,459	185.7

$ Amounts are in thousands.

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Beginning July 1,	Actuarial Valuation Date June 30	Annual Required Contribution	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	24,358,460	100.0
2009	2008	27,601,156	100.0
2010	2009	28,756,890	100.0
2011	2010	34,824,621[1]	

[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, 2010
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, open
Amortization Period	15 years
Asset Valuation Method	Smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases*	3.50-7.50%
Payroll Growth Rate	3.50%
*Includes Inflation	3.50%

Supporting Schedules
June 30, 2010
Schedule of Administrative Expenses

Personal Services		
Staff Salaries	$	216,914
Fringe Benefits		83,427
Total Personal Services	$	300,341
Professional Services		
Accounting		166,653
Actuary		30,039
Legal		27,774
Total Professional Services		224,466
Miscellaneous		
Professional Development		7,961
Printing and Supplies		12,382
Depreciation		26,549
Postage		17,769
Computer Software Maintenance		25,410
Insurance		19,403
Other		38,341
Total Miscellaneous		147,815
Total Administrative Expenses	**$**	**672,622**

Schedule of Investment Expenses

Custody	$	269,160
Investment Consultant		150,000
Investment Management		3,672,282
Security Lending Management		25,401
Other Investment Expense		4,565
Total Investment Expenses	**$**	**4,121,408**

CITY OF

FOUNDED 1775

TUCSON

Investment Section

Hewitt ennisknupp
An Aon Company

November 30, 2010

The Board of Trustees
Tucson Supplemental Retirement System
City Hall
255 West Alameda 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, 2010. 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, 2010; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

BNY Mellon (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 and infrastructure portfolios, an index fund and an enhanced index fund managed by BlackRock, an international equity fund managed by Artio, 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 EnnisKnupp 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 EnnisKnupp, Inc.
100 Half Day Road | Lincolnshire, IL 60069

General Observations

Over the past year, Hewitt EnnisKnupp, Inc. (HEK) 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, two of the Plan's domestic equity managers, TCW Asset Management and BlackRock Alpha Tilts, had not been meeting the respective performance benchmarks. Prior to the fiscal year end, a new mid cap equity manager was selected to replace TCW. The transition to the new manager occurred in the beginning of the 2011 fiscal year. In addition, the assets from the BlackRock Alpha Tilts portfolio were transferred to the BlackRock Russell 1000 Value Index portfolio during the new fiscal year. Friess Associates, the large cap growth manager, continued to under perform its benchmark during the fiscal year. TSRS will continue to monitor the situation closely and may evaluate alternative managers if performance does not improve.

As indicated in the following exhibits, the TSRS Retirement Plan assets rebounded as global equity and fixed income markets produced strong absolute returns. The total portfolio return for the fiscal year was 11.6% compared to 12.2% for the Custom Index. Several of the Plan's managers produced value-added results (e.g., PIMCO equity and fixed income, Pyramis, and Causeway). Contributing to the shortfall were the TCW, BlackRock (both subsequently terminated as mentioned above), and Friess portfolios, as well as the value-added real estate portfolios. We should note that in recent months, including the first three months of the 2011 fiscal year, real estate markets have improved considerably and returns have moved into positive territory.

Sincerely,

Hewitt EnnisKnupp, Inc.

Robert P. Van Den Brink, CFA

cc: Mr. Scott Cooprider, Hewitt EnnisKnupp, Inc.
Mr. Justin Patton, Hewitt EnnisKnupp, Inc.

Outline of Investment Policies

The asset allocation policy includes a 61% allocation to equity securities: 36% to large U.S. stocks, split among S&P 500 index, enhanced index, large capitalization growth and value accounts; 10% to mid-cap and small-cap U.S. stock accounts; and 15% to foreign stock growth and value accounts. There is also an allocation of 26% to fixed income, 8% to equity real estate and 5% to infrastructure.

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	31%	36%	41%
Small/Mid Capitalization	6%	10%	14%
International	13%	15%	17%
Total Equities	**56%**	**61%**	**66%**
Fixed Income	**21%**	**26%**	**31%**
Real Estate	**6%**	**8%**	**10%**
Infrastructure	**3%**	**5%**	**7%**

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 the 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 (36% weight)
- Russell 2000 Stock Index (10% weight)
- MSCI All Country World, ex-U.S. Stock Index (15% weight)
- Barclays Capital Aggregate Bond Index (23% weight)
- Barclays Capital High Yield Bond Index (3% weight)
- NCREIF ODCE Real Estate Index (8% weight)
- CPI + 4% (5% weight)

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

Individual Managers Performance Objectives

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

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

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

PIMCO StocksPlus (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.

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

Artio (Julius Baer)Global Investors (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% BC Mortgage, 15% BC Credit, and 15% BC High Yield Index.

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

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

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

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

Individual Managers Performance Objectives (Continued)

Macquarie European Infrastructure Fund 3 (European Infrastructure)
- Exceed the annualized total return of the CPI + 4%.

SteelRiver Infrastructure Fund North America (North American Infrastructure)
- Exceed the annualized total return of the CPI + 4%.

Investment Results by Year
Last Ten Fiscal Years Ended June 30, 2010

Year Ended	Annual Return	3-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
6/30/10	11.6%	-5.6%	1.8%	2.1%
6/30/09	-21.0%	-4.1%	1.3%	2.0%
6/30/08	-4.6%	7.3%	9.8%	5.5%
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%

Schedule of Investment Results
For Periods Ended June 30, 2010

	One Year	Annualized Returns (1) Three Years	Five Years
TOTAL PORTFOLIO			
TSRS	11.60%	-5.58%	1.77%
Custom Benchmark (2)	12.18%	-4.60%	2.30%
EQUITY FUNDS			
Alliance S&P 500 Index	14.66%	-9.58%	-0.63%
S & P 500 Index	14.43%	-9.81%	-0.79%
PIMCO StocksPlus	23.94%	-7.09%	(account established April 2006)
S & P 500 Index	14.43%	-9.81%	-0.79%
BlackRock Russell 1000 Value Index	17.21%	-12.09%	-1.46%
Russell 1000 Value Index	16.92%	-12.32%	-1.64%
BlackRock Russell 1000 Value Alpha Tilts	12.76%	-14.32%	(account established January 2006)
Russell 1000 Value Index	16.92%	-12.32%	-1.64%
Friess Associates	5.57%	-	(account established December 2007)
Russell 1000 Growth Index	13.62%	-6.91%	0.38%
TCW Value Opportunities	18.07%	-9.31%	0.10%
Russell 2500 Index	24.03%	-7.98%	0.98%
Pyramis Small Cap	24.32%	-7.22%	2.51%
Russell 2000 Index	21.48%	-8.60%	0.37%
Causeway International Value Equity	14.55%	-10.92%	1.82%
MSCI EAFE Index	5.93%	-13.38%	0.88%
Artio International Equity	8.91%	-13.31%	3.35%
MSCI All Country World ex-U.S. Index	10.43%	-10.70%	3.38%
FIXED INCOME FUNDS			
Internally Managed Bonds	7.98%	6.86%	5.37%
Barclays Government/Credit Bond Index	9.65%	7.37%	5.27%
PIMCO Custom Fixed Income	14.37%	8.58%	6.90%
Custom Index (3)	11.32%	8.08%	6.38%

Schedule of Investment Results
For Periods Ended June 30, 2010 (Continued)

	One Year	Annualized Returns (1) Three Years	Five Years
REAL ESTATE FUNDS			
JPM Strategic Property Fund	-5.66%	-8.77%	1.32%
NCREIF ODCE Index	-5.98%	-10.97%	-0.21%
LaSalle Income & Growth Fund IV	-14.58%	-15.77%	(not funded as of June, 2005)
NCREIF ODCE Index	-5.98%	-10.97%	-0.21%
JPM Income and Growth Fund	-12.80%	-23.94%	(not funded as of June, 2005)
NCREIF ODCE Index	-5.98%	-10.97%	-0.21%
INFRASTRUCTURE FUNDS			
Macquarie European Infrastructure Fund 3	-	(funding still in process)	
CPI + 4%	5.09%	5.62%	6.43%
SteelRiver Infrastructure Fund North America	-	(funding still in process)	
CPI + 4%	5.09%	5.62%	6.43%

Notes: All data provided by independent investment consultant, Hewitt Investment Group
(1) Geometrically compounded, time-weighted rates of return
(2) Custom Benchmark = 36% S&P 500 Index + 10% Russell 2000 + 23% Barclays Aggregate + 3% Barclays High Yield + 15% MSCI AC WF ex-US + 8% Real Estate-NCREIF ODCE + 5% CPI+4%

Manager and Asset Diversification (in thousands)
June 30, 2010

	Actual		Target	
Manager	**Amount**	**Percentage**	**Amount**	**Percentage**
Alliance Capital	$ 58,249	11.4%	$ 56,374	11.0%
Friess Associates	42,078	8.2%	51,249	10.0%
BlackRock Russell Value	26,346	5.1%	25,624	5.0%
BlackRockl Alpha Tilts	23,942	4.7%	25,624	5.0%
PIMCO StocksPlus	27,557	5.4%	25,624	5.0%
Large U.S. Stocks	**178,172**	**34.8%**	**184,496**	**36.0%**
TCW Value Opportunities	25,023	4.9%	25,624	5.0%
Pyramis Global Advisors	30,822	6.0%	25,624	5.0%
Small/Mid-Cap U.S. Stocks	**55,845**	**10.9%**	**51,249**	**10.0%**
Causeway Capital	35,926	7.0%	38,436	7.5%
Artio International Equity Fund	33,496	6.5%	38,436	7.5%
Foreign (International) Stocks	**69,422**	**13.5%**	**76,873**	**15.0%**
Total Equities	**303,439**	**59.2%**	**312,617**	**61.0%**
In-house Fixed Income	45,828	8.9%	41,000	8.0%
PIMCO Custom Fixed Income	103,006	20.1%	92,247	18.0%
Fixed Income (Bonds)	**148,834**	**29.0%**	**133,247**	**26.0%**
JPM Strategic Property Fund	21,296	4.2%	25,625	5.0%
LaSalle Income & Growth Fund	5,497	1.1%	7,687	1.5%
JPM Income & Growth Fund	4,257	0.8%	7,687	1.5%
Real Estate	**31,050**	**6.1%**	**41,000**	**8.0%**
Macquarie (MEIF3)	15,122	3.0%	12,812	2.5%
SteelRiver IFNA	13,601	2.7%	12,812	2.5%
Infrastructure	**28,723**	**5.6%**	**25,624**	**5.0%**
Liquidity Fund	439	0.1%	-	0.0%
Total	**$ 512,485**	**100%**	**$ 512,488**	**100%**

Asset Allocation by Asset Class
Last Five Fiscal Years

Asset Class	2006	2007	2008	2009	2010
U.S. Stocks	48%	48%	47%	44%	46%
Foreign (International) Stocks	14%	15%	14%	13%	13%
Total Equities	62%	63%	61%	57%	59%
Fixed Income (Bonds)	26%	28%	27%	29%	29%
Real Estate	8%	8%	9%	8%	6%
Infrastructure	0%	0%	0%	5%	5%
Cash	4%	1%	3%	1%	1%
	100%	100%	100%	100%	100%

Ten Largest Bond Holdings
(By Market Value)
June 30, 2010
(dollars in thousands)

Par Value	Bond	Coupon Rate	Due	Rating (1)	Market Value
$ 27,379	FHLMC MULTICLASS MTG	Variable	05/15/37	AAA	$ 27,208
14,000	FNMA SF MTG	5.500%	08/01/40	AAA	14,980
3,814	FNMA POOL #0AD0249	5.500%	04/01/37	AAA	4,116
3,000	FNMA SF MTG	6.000%	07/01/40	AAA	3,254
3,000	FNMA SF MTG	6.000%	08/01/40	AAA	3,245
1,600	U.S. TREASURY	7.250%	08/15/22	UST	2,229
2,000	FEDERAL HOME LOAN BK CONS BD	5.200%	01/18/23	AAA	2,142
1,975	FNMA POOL #0AC9853	4.500%	02/01/40	AAA	2,050
2,000	HCA INC	7.250%	09/15/20	BA3	2,010
1,900	GOVERNMENT OF CANADA	1.500%	03/01/12	AAA	1,795

(1) Rated by Moodys

Ten Largest Stock Holdings
(By Market Value)
June 30, 2010
(dollars in thousands)

Shares	Stock	Market Value
12,950	APPLE INC	$ 3,257
93,550	CISCO	1,994
31,985	EXXON MOBIL CORP	1,825
78,888	MICROSOFT CORP	1,815
90,250	INTEL CORP	1,755
51,150	BROADCOM CORP	1,686
33,450	THERMO FISHER SCIENTIFIC INC	1,641
89,550	EMC CORP	1,639
19,100	OCCIDENTAL PETROLEUM CORP	1,474
45,016	CAMERON INTERNATIONAL CORP	1,464

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, 2010

	Assets Under Management	Fees
Investment Manager Fees		
Fixed Income Managers		
City of Tucson, Treasury Division	$ 45,828,195	$ 36,000
PIMCO (Custom Fixed Income)	103,006,127	340,981
Total Fixed Income	$ 148,834,322	$ 376,981
Equity Managers		
Alliance Capital Management	$ 58,249,568	$ 26,159
BlackRock Russell Value Index	26,345,595	10,876
BlackRock Alpha Tilts	23,942,343	118,715
Friess Associates	42,077,767	445,739
Causeway Capital Management	35,925,659	257,676
Pyramis Global Advisors	30,822,297	227,235
Artio	33,495,584	364,244
PIMCO StocksPlus	27,556,612	713,840
TCW Value Opportunities	25,023,594	204,696
Total Equity	$ 303,439,019	$ 2,369,180
Liquidity Account	439,170	-
Real Estate Managers		
JPM Strategic Property Fund	$ 21,295,652	$ 219,794
JPM Income & Growth Fund	4,257,157	73,542
LaSalle Income & Growth Fund IV	5,496,798	100,430
Total Real Estate	$ 31,049,607	$ 393,766
Infrastructure Managers		
Macquarie (MEIF3)	$ 15,121,765	$ 244,923
SteelRiver IFNA	13,601,389	287,432
Total Infrastructure	$ 28,723,154	$ 532,355
Total Assets (Trade date basis)	**$ 512,485,272**	
Total Investment Management Fees		**$ 3,672,282**
Other Investment Service Fees		
Custodian Fees		
BNY Mellon		$ 269,160
Security Lending - Rebate, Bank & Administration Fees		
BNY Mellon		25,401
Consulting and Performance Management		
Hewitt Investment Group		150,000
Miscellaneous Investment Expenses		4,565
Total Other Investment Service Fees		**$ 449,126**

Schedule of Commissions
June 30, 2010

Broker Description	Shares	Commissions	Commissions Per Share
BNY CONVERGEX / LJR, HOUSTON	1,317,100	$ 40,646	$ 0.0309
INSTINET CORP, NY	712,677	26,856	0.0377
MERRILL LYNCH PIERCE FENNER SMITH INC NY	810,691	21,550	0.0266
UBS SECURITIES LLC, STAMFORD	1,041,698	19,767	0.0190
INVESTMENT TECHNOLOGY GROUP, NEW YORK	642,435	18,441	0.0287
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	734,583	15,337	0.0209
MORGAN STANLEY & CO INC, NY	507,536	13,913	0.0274
CITIGROUP GBL MKTS INC, NEW YORK	591,530	12,052	0.0204
ITG INC, NEW YORK	682,393	11,262	0.0165
JEFFERIES & CO INC, NEW YORK	284,883	9,223	0.0324
LIQUIDNET INC, BROOKLYN	289,721	8,999	0.0311
PERSHING LLC, JERSEY CITY	288,732	8,157	0.0283
GOLDMAN SACHS & CO, NY	215,555	6,870	0.0319
J.P. MORGAN CLEARING CORP, NEW YORK	245,879	6,424	0.0261
DEUTSCHE BK SECS INC, NY (NWSCUS33)	293,194	6,362	0.0217
SJ LEVINSON & SONS LLC, JERSEY CITY	186,400	5,592	0.0300
BARCLAYS CAPITAL LE, JERSEY CITY	136,295	5,500	0.0404
BAIRD, ROBERT W & CO INC, MILWAUKEE	134,050	4,622	0.0345
GOLDMAN SACHS EXECUTION & CLEARING, NY	236,638	4,598	0.0194
RBC CAPITAL MARKETS CORP, MINNEAPOLIS	122,100	3,858	0.0316
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	106,730	3,849	0.0361
CITIGROUP GLOBAL MARKETS LTD, LONDON	142,300	3,533	0.0248
STIFEL NICOLAUS	105,105	3,463	0.0330
UBS EQUITIES, LONDON	298,639	3,426	0.0115
DEMATTED MONNESS LLC, NEW YORK	81,900	3,276	0.0400
BERNSTEIN SANFORD C & CO, NEW YORK	85,290	3,226	0.0378
J P MORGAN SECURITIES INC, BROOKLYN	72,897	2,947	0.0404
BARCLAYS CAPITAL INC./LE, NEW JERSEY	132,935	2,937	0.0221
LADENBURG THALMAN & CO, WEEHAWKEN	76,400	2,935	0.0384
OPPENHEIMER & CO INC, NEW YORK	86,540	2,744	0.0317
THOMAS WEISEL PARTNERS, SAN FRANCISCO	67,730	2,715	0.0401
GLEACHER & COMPANY SECS INC, BROOKLYN	67,000	2,680	0.0400
MACQUARIE SECURITIES(USA)INC JERSEY CITY	70,350	2,613	0.0371
COWEN AND COMPANY LLC, NEW YORK	60,550	2,431	0.0401
BUCKINGHAM RESEARCH GRP INC, BROOKLYN	70,200	2,399	0.0342
AVONDALE PARTNERS LLC, NASHVILLE	59,800	2,392	0.0400
ONEIL WILLIAM & CO INC/BCC,LOS ANGELES	58,100	2,324	0.0400
NATIONAL FINL SVCS CORP, NEW YORK	77,484	2,165	0.0279
GORDON HASKETT CAP CORP, NJ	53,700	2,110	0.0393
FRIEDMAN BILLINGS, WASHINGTON DC	52,145	2,089	0.0401
PACIFIC CREST SEC, PORTLAND	51,400	2,056	0.0400
MERRILL LYNCH INTL LONDON EQUITIES	131,983	2,018	0.0153
VARIOUS BROKERS - $2,000 OR LESS	2,656,074	77,781	0.0293
TOTALS	**14,139,342**	$ **388,138**	
AVERAGE COMMISSION RATE			$ **0.0275**

Actuarial Section

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
7900 East Union Avenue
Suite 1100
Denver, CO 80237-2746
303.217.7600 phone
303.217.7609 fax
www.gabrielroeder.com

November 11, 2010

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. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System.

Actuarial valuations are performed annually. The most recent actuarial valuation was completed as of June 30, 2010. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 71.0% funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 15 years to develop the annual amortization payment amount. The annual required contribution is the sum of the amortization payment and the normal cost for the year. The amortization period is a 15-year open period and is reflected in the June 30, 2010 actuarial valuation.

Data for the annual valuation was furnished by the Retirement System Administrator and was checked by GRS 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, GRS prepared the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Summary of Actuarial Methods and Assumptions.

The undersigned is a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with over 30 years of experience in performing valuations.

Respectfully submitted,

Leslie L. Thompson

Leslie L. Thompson, FSA, FCA, EA, 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 was computed as the discounted value of each member's projected pension and potential survivor's pension, using the assumptions summarized on the following pages. 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 to 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 assumptions outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount was amortized over 15 years as of June 30, 2010.

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 an open period of 15 years effective June 30, 2010. 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, and

(vi) the age patterns of actual retirements

Through the valuation process, the monetary effect of each expected assumption against actual experience is projected for the lifetime of each covered member and potential beneficiary.

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 for the June 30, 2009 actuarial valuation following an actuarial investigation of experience of the Retirement System covering the period July 1, 2003 through June 30, 2008.

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

	2010	**2009**	**2008**	**2007**	**2006**	**3 Year Avg.**	**5 Year Avg.**
Investment Return Rate[1]	-0.4%	6.2%	4.5%	11.3%	9.4%	3.4%	6.1%
Real Rate of Investment Return	-1.0%	7.5%	-0.5%	8.2%	5.0%	2.0%	3.8%

[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 which 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	3.50%	4.00%	7.50%
1	3.50	3.50	7.00
2	3.50	3.00	6.50
3	3.50	2.50	6.00
4	3.50	2.00	5.50

Five or More Years of Service

Sample Ages	Inflation Component	Merit & Seniority	Total
20	3.50%	2.00%	5.50%
25	3.50	2.00	5.50
30	3.50	2.00	5.50
35	3.50	2.00	5.50
40	3.50	1.50	5.00
45	3.50	1.00	4.50
50	3.50	0.75	4.25
55	3.50	0.75	4.25
60	3.50	0.75	4.25
65	3.50	0.00	3.50

The pay increase assumptions will produce 3.50% 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 and vested terminations.

Pre-Retirement Mortality Table. The 1994 Group Annuity Mortality Table with no set back and multiplier of 80%. This assumption is used to measure the probabilities of members dying before retirement.

Sample	Future Life Expectancy (years)		Deaths per 1,000 Lives	
Ages	Men	Women	Men	Women
50	32.8	36.9	2.1	1.1
55	28.2	32.2	3.5	1.8
60	23.8	27.5	6.4	3.6
65	19.7	23.1	11.6	6.9
70	16.0	19.0	19.0	11.0
75	12.6	15.2	29.8	18.1
80	9.7	11.7	49.6	31.5
85	7.3	8.7	77.8	54.2

Post-Retirement Mortality Table. The 1994 Group Annuity Mortality Table set forward one year for men and women with a multiplier of 80%. This assumption is used to measure the probabilities of each benefit payment being made after retirement. Disability mortality is set forward eight years.

Present Value of $1 Monthly for Life		Future Life Expectancy (years)		Healthy Deaths per 1,000 Lives		Disabled Deaths per 1,000 Lives	
Men	Women	Men	Women	Men	Women	Men	Women
$139.27	$144.83	31.9	36.0	2.3	1.3	7.1	3.4
131.85	138.89	27.3	31.2	4.0	2.1	12.9	6.7
122.61	131.17	23.0	26.6	7.2	4.1	21.7	11.8
111.82	121.82	18.9	22.3	13.0	7.8	34.1	18.3
99.79	110.72	15.3	18.2	20.8	12.0	55.9	31.7
86.30	97.33	12.0	14.4	32.7	20.3	89.6	54.9
72.12	82.48	9.2	11.1	54.9	35.2	139.5	93.8
58.65	67.14	6.9	8.2	84.6	60.3	215.7	155.9

Rates of Retirement. Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year. For those ages 62 and older, 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	0.01%
30	0.02
35	0.03
40	0.05
45	0.07
50	0.11
55	0.19
60	0.28
65	0.25

Disabled life mortality is measured by the 1994 Group Annuity Mortality Table, as previously noted, with ages set forward 8 years. It is assumed that no valued disability retirement benefits will be offset for Worker's Compensation benefits or Earned income received by the disabled retiree.

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.

Marital Status. 80% of men and women were assumed married at retirement.

Spouse Status. Women were assumed to be 3 years younger than men.

Assumed Age for Commencement for Deferred Benefits. Members electing to receive a deferred benefit are assumed to commence receipt at age 62.

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 the maximum 12 month period. Interest is applied to the EOS program accumulated balances for each month the participant remains in the program.

There were no modifications made to the incidence of retirement for those entering the EOS program.

Active Members as of June 30, 2010
By Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date								
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	Total No.	Total Valuation Payroll
< 20	-	-	-	-	-	-	-	-	-
20-24	20	1	-	-	-	-	-	21	$ 608,588
25-29	86	21	-	-	-	-	-	107	3,366,022
30-34	123	96	19	-	-	-	-	238	8,864,939
35-39	122	114	80	18	-	-	-	334	13,598,749
40-44	109	113	119	53	14	1	-	409	18,256,347
45-49	101	94	121	107	77	6	2	508	24,451,710
50-54	79	104	139	86	114	94	7	623	32,207,265
55-59	61	69	81	83	104	45	28	471	24,809,302
60	6	7	8	15	19	4	4	63	3,259,404
61	9	7	14	10	10	4	4	58	3,010,794
62	7	7	10	7	13	2	6	52	3,096,972
63	6	2	1	11	5	1	1	27	1,681,888
64	3	7	5	4	5	-	2	26	1,569,809
65	1	1	4	6	-	-	2	14	987,137
66	2	3	1	2	-	-	1	9	463,260
67	-	1	2	1	1	-	3	8	431,471
68	2	1	-	-	-	-	1	4	295,963
69	-	-	1	-	1	-	-	2	106,787
70	-	-	-	-	-	1	-	1	56,389
71	-	-	1	-	1	-	-	2	65,915
72	-	-	-	-	-	-	-	-	-
73	-	-	1	-	1	-	-	2	153,421
74	-	-	-	-	-	-	-	-	-
75	-	2	-	-	-	-	-	2	67,288
76	-	-	-	1	-	-	-	1	49,837
77	-	-	-	-	-	-	-	-	-
78	-	-	-	-	-	-	-	-	-
79	-	-	-	-	-	-	-	-	-

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

Age:	47.1 years
Service:	12.1 years
Annual Pay:	$47,438

Active Members Included in Valuation Comparative Schedule

Valuation Date	Active Members	Annual Payroll	Average Age	Average Service	Average Pay	Vested Inactive Members
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
6-30-08	3,251	153,982,399	45.7	10.6	47,365	202
6-30-09	3,175	149,924,649	46.3	11.2	47,220	205
6-30-10	2,982	141,459,257	47.1	12.1	47,438	215

[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
6/30/08	125,331,432	473,240,976	223,632,380	650,227,215	100.0	100.0	23.1
6/30/09	133,633,947	494,923,021	230,928,190	665,298,494	100.0	100.0	15.9
6/30/10	140,224,998	525,200,232	239,055,106	641,818,551	100.0	95.5	0.0

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
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
2008	2,307	49,489,643	24.1	1.4	32.1	21,452	473,240,976	74.4	1,134,019
2009	2,365	50,810,927	2.7	1.3	33.9	21,485	494,923,021	63.8	994,553
2010	2,450	53,115,267	4.5	1.2	37.5	21,680	525,200,232	58.9	948,815

**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 6-30-10	Year Ended 6-30-09
(1)	UAAL[1] at start of year	$194,186,664	$171,977,573
(2)	+ Normal Cost	17,785,354	19,310,270
(3)	- Actual contributions	34,561,845	32,730,516
(4)	+ Interest accrual on (1), (2) and (3)	14,399,377	12,808,228
(5)	Expected UAAL before changes	191,809,551	171,365,555
(6)	Change due to experience study	17,622,839 [3]	24,427,892
(7)	- Change due to asset method	0	(74,824,794)
(8)	+ Change due to death & disability benefits	0	1,163,010
(9)	Expected UAAL after changes	209,432,390	122,131,663
(10)	Actual UAAL	262,661,785	194,186,664
(11)	Experience gain (loss) (9) - (10)	(53,229,395)	(72,055,011)
(12)	As % of beginning of year AAL[2]	(6.2%)	(6.6%)

1 Unfunded actuarial accrued liability.

2 Actuarial accrued liability.

3 Change in 2010 is due to mortality change phased in from 2008 Experience Study.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year	Added to Rolls		Removed from Rolls		Rolls End of Year		Average Annual Allowance	Percentage Increase in Allowance
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowance		
6/30/2005	68	$3,498,948	42	$485,633	1,793	$ 32,027,305	17,862	
6/30/2006	101	$2,335,032	53	$656,383	1,878	$ 35,091,468	18,686	4.61%
6/30/2007	213	$6,055,096	36	$403,347	2,018	$ 39,883,032	19,764	5.77%
6/30/2008	313	$10,001,857	24	$395,246	2,307	$ 49,489,643	21,452	8.54%
6/30/2009	112	$2,005,399	54	$683,947	2,365	$ 50,810,927	21,485	0.15%
6/30/2010	141	$3,089,275	56	$784,935	2,450	$ 53,115,267	21,680	0.91%

Summary of Benefit Provisions Evaluated or Considered (June 30, 2010)

Normal Retirement (no reduction factor)

Eligibility - Age 62, or a combination of age and creditable service equal to 80 (for those hired on or after July 1, 2009, eligibility at age 62 requires a minimum of 5 years of accrued service).

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 accrued service. Deferred retirement benefits for terminated vested employee becomes automatic at age 62 or when a combination of age and creditable service equals 80, unless the member elects to withdraw the employee contribution account in lieu of a deferred retirement benefit.

Amount - An amount computed as for normal retirement.

Disability Retirement

Eligibility – Eligibility requires 10 or more years of credited service and a disability that is total and permanent.

Amount - An amount computed as for normal retirement. Disability Retirement Benefits are offset, if the combination of all employer-provided benefits exceeds 100% of the members adjusted income base, then members pension benefit from TSRS is reduced so income does not exceed the 100% maximum allowed.

Pre-Retirement Survivor Benefits

Eligibility - 5 or more years of accrued 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 the time of death.

Eligibility - 5 or more years of accrued service and not eligible to retire.

Amount - Lump sum payment equal to twice the member's contributions, with interest.

Eligibility – After attaining eligibility for retirement, in the event the member dies prior to submitting an application for retirement benefits:

Amount – If the member is married, a default provision allows the member's spouse to elect to receive either a lump sum payment of twice the member's contributions account, or receive a lifetime annuity benefit determined as if the member had elected a joint & last survivor benefit of 100% survivor annuity prior to death. If the member is not married and has named a single non-spousal beneficiary, the beneficiary may elect to receive either a lump sum payment of twice the member's contributions account, or receive a 15 year annuity benefit determined as if the member elected payment of a 15 year term certain annuity. If the member has named multiple designated beneficiaries, a lump sum refund of the member's account balance will be paid to the named beneficiaries.

Other Termination Benefits

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

Amount - accumulated contributions and interest in members account at time of termination.

Employee Contributions

Interest is credited to member accumulated contributions accounts as simple interest two times per year at an annual interest rate of 6%. For those hired prior to July 1, 2006, employee contributions are 5.00% of salary. For those hired on or after July 1, 2006, employee contributions are 40% of the total required contribution. For those hired after July 1, 2009, employee contribution will be a minimum of 40% and a maximum of 50% of the total required contribution.

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

The TSRS Board has established formal policies to determine whether the system shall fund an annual supplemental post retirement benefit payment to retired members and beneficiaries.

End of Service (EOS) Program

Eligibility – Eligibility for this program occurs when a member reaches normal service retirement eligibility either by attaining age 62 or when the member's age and years of creditable service, plus unused sick and vacation leave totals at least 80 points.

Benefit – Accumulation of up to one year's worth of pension benefit payments that will be payable at the end of the final year of service with interest accruals based on the US 90-day Treasury Bill rate. During participation in the End of Service Program, the member will not accrue creditable service that is a determining factor in calculating a member's permanent monthly pension benefit. Additionally, no pension benefit will be paid to the participant while they are in the program.

Election Period – The period available for members to elect participation is scheduled to run from July 1, 2006 to December 31, 2010.

Program Period – The maximum period an eligible participant can stay in the program is 12 months after which the participant must retire. No Employee Contributions will be due for compensable earnings during the member's participation in the program.

Statistical Section

Statistical Section

This section of the Tucson Supplemental Retirement System's comprehensive annual financial report (CAFR) provides detailed financial and non-financial information, often considered relevant to users. The statistical section presents certain information on a trend basis; that is, a summary of information that is provided for each year in a ten-year period. Other non-trend schedules present demographic and participation information for our active and retired membership. Each schedule is defined below with an explanation and an identification of the source of the data.

Statement of Changes in Plan Net Assets
This schedule provides the additions and deductions to the plan for the past ten years. The change in net assets is provided to illustrate whether or not sufficient resources are available in the current fiscal year to cover plan benefits. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

Schedule of Retired Members by Type of Benefit
This schedule provides the number of retired members by type of benefit. The TSRS plan benefits include payments for normal retirement benefits, disability benefits, survivor benefits, and term certain benefits paid to members, beneficiaries and alternate payees. The schedule is developed using TSRS' database.

Schedule of Average Monthly Benefit Payments to New Retirees
This schedule provides the average monthly benefit payments made to new retirees, using six ranges of years of credited service by year. This information is provided to illustrate changes in benefit payments as the amount of service earned increases and indicates the number of employees retired during each of the last 10 years. This schedule is developed using TSRS' database.

Demographics of Retired and Active Members
This schedule provides the age demographics of all retirees, survivors and beneficiaries of retired members for this year only. Similarly, age demographics for the systems active membership is indicated. This schedule is developed using TSRS' database.

Employee and Employer Contribution Rates
This schedule provides the contribution rates paid by the Plan sponsor and by City employees during the past 10 years. This schedule is a historical summary of the actual rates paid.

Benefit and Refund Deductions from Net Assets by Type
This schedule provides the benefits paid to all service and disability retirees during each of the last 10 years. In addition, the lump sum payments to members elected to participate in the End of Service program since 2007 and refunds associated with member deaths, separation from service and transfers to other retirement systems are summarized. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

Retiree Benefit and Service Summary
This schedule indicates average retiree benefits paid to retirees, based on the number of years retired, indicating eight age categories and the years of credited service served. This schedule is developed using TSRS' database.

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

Fiscal Year Ending June 30,

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Additions										
City Contributions	$ 23,260,609	$ 21,279,535	$ 23,902,286	$ 22,670,418	$ 24,319,911	$ 21,423,488	$ 15,966,754	$ 12,771,777	$ 10,544,412	$ 10,058,627
Employee Contributions	8,041,748	8,156,115	8,591,124	8,120,057	8,197,437	7,638,608	6,563,651	7,583,019	7,198,340	6,842,538
Purchase of Service	1,556,832	1,565,164	5,186,289	1,008,980	1,157,572	1,972,509	2,307,962	4,610,513	5,720,521	-
Contributions from Other Sources	50,000	140,512	130,784	41,595	-	857,399	-	-	-	-
Transfers from Other Systems	1,652,656	1,589,190	2,012,917	3,794,093	620,601	-	294,722	525,986	207,164	507,140
Total Contributions	$ 34,561,845	$ 32,730,516	$ 39,823,400	$ 35,635,143	$ 34,295,521	$ 31,892,004	$ 25,133,089	$ 25,491,295	$ 23,670,437	$ 17,408,305
Investment Income										
Net Gain (Loss) in Fair Value of Investments	$ 40,143,355	$ (155,121,980)	$ (50,256,771)	$ 85,493,111	$ 48,195,450	$ 33,977,326	$ 67,110,061	$ 3,704,778	$ (49,179,615)	$ (55,456,160)
Interest	7,441,435	11,087,144	10,815,803	7,649,621	4,144,414	3,692,702	4,051,824	2,261,333	5,601,284	8,916,345
Dividends	6,743,309	7,219,584	10,009,694	9,537,064	8,187,034	9,779,723	7,691,638	8,105,077	3,618,645	3,775,296
Real Estate Income	-	-	-	-	-	-	16,209	405,794	2,103,123	1,637,669
Securities Lending Income	91,625	359,394	1,881,706	2,594,083	1,683,061	879,477	417,044	340,493	520,029	1,758,074
Miscellaneous Income	3,640	120,820	152,848	6,038	53,855	43,387	24,744	24,675	-	-
	$ 54,423,364	$ (136,335,038)	$ (27,396,720)	$ 105,279,917	$ 62,263,814	$ 48,372,615	$ 79,311,520	$ 14,842,150	$ (37,336,534)	$ (39,368,776)
Less Investment Expenses:										
Securities Lending	$ 25,401	$ 197,429	$ 1,708,227	$ 2,517,081	$ 1,618,232	$ 819,201	$ 324,034	$ 252,297	$ 427,017	$ 1,563,976
Other Investment Expense	4,096,007	4,580,028	4,129,652	3,433,243	3,096,323	2,581,056	2,308,746	1,852,781	2,227,180	2,285,138
Total Investment Expense	4,121,408	4,777,457	$ 5,837,879	$ 5,950,324	$ 4,714,555	$ 3,400,257	$ 2,632,780	$ 2,105,078	$ 2,654,197	$ 3,849,114
Net Investment Gain	50,301,956	(141,112,495)	$ (33,234,599)	$ 99,329,593	$ 57,549,259	$ 44,972,358	$ 76,678,740	$ 12,737,072	$ (39,990,731)	$ (43,217,890)
Total Additions	$ 84,863,801	$ (108,381,979)	$ 6,588,801	$ 134,964,736	$ 91,844,780	$ 76,864,362	$ 101,811,829	$ 38,228,367	$ (16,320,294)	$ (25,809,585)
Deductions										
Benefits	$ 51,700,541	$ 51,996,508	$ 46,211,560	$ 40,419,922	$ 33,475,950	$ 31,357,794	$ 30,259,921	$ 23,855,130	$ 20,009,180	$ 18,042,307
Refunds	2,110,360	1,689,956	1,265,235	1,573,276	1,219,263	1,229,267	1,249,453	1,186,455	806,074	1,124,689
Transfers to Other Systems	898,085	2,655,061	4,340,520	11,886,941	482,469	209,410	362,716	3,169	100,167	237,192
Administrative Expenses	672,622	864,382	519,346	485,469	433,350	389,303	380,407	373,718	341,569	347,974
Loss on Increase of Threshold on Fixed Assets	-	-	-	-	-	-	-	-	-	-
Total Deductions	$ 55,381,608	$ 57,205,907	$ 52,336,661	$ 54,365,608	$ 35,611,032	$ 33,185,774	$ 32,252,497	$ 25,418,472	$ 21,256,990	$ 19,752,162
Net Change in Plan Net Assets	**$ 29,482,193**	**$ (165,587,886)**	**$ (45,747,860)**	**$ 80,599,128**	**$ 56,233,748**	**$ 43,678,588**	**$ 69,559,332**	**$ 12,809,895**	**$ (37,577,284)**	**$ (45,561,747)**

Retired Members by Type of Benefit
As of June 30, 2010

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
$ 1 - $ 250	43	31	9	2	1	28	-	1	1	5	4	4
$ 251 - $ 500	186	99	45	22	20	110	2	1	4	25	10	34
$ 501 - $ 750	230	136	47	34	13	128	4	2	3	42	20	31
$ 751 - $ 1,000	234	149	48	31	6	127	-	2	1	49	19	36
$ 1,001 - $ 1,250	249	187	33	26	3	132	-	-	1	43	28	45
$ 1,251 - $ 1,500	237	190	28	16	3	97	2	4	2	46	37	49
$ 1,501 - $ 1,750	228	207	9	12	-	102	-	-	2	44	37	43
$ 1,751 - $ 2,000	216	201	5	10	-	91	-	2	1	49	36	37
$ 2,001 - $ 2,250	160	152	4	4	-	70	1	3	-	44	17	25
$ 2,251 - $ 2,500	134	130	-	4	-	58	-	-	1	39	14	22
$ 2,501 - $ 2,750	116	113	2	1	-	67	-	1	1	20	10	17
$ 2,751 - $ 3,000	85	84	-	1	-	52	-	-	-	9	12	12
$ 3,001 - $ 3,250	64	64	-	-	-	32	-	-	2	11	4	15
$ 3,251 - $ 3,500	35	34	1	-	-	19	-	-	-	6	8	2
$ 3,501 - $ 3,750	44	44	-	-	-	29	-	-	-	8	2	5
$ 3,751 - $ 4,000	29	28	1	-	-	18	-	-	1	2	1	7
$ 4,001 - $ 4,250	28	27	1	-	-	17	-	-	-	3	1	7
$ 4,251 - $ 4,500	22	22	-	-	-	12	-	-	-	4	5	1
$ 4,501 - and over	110	109	1	-	-	53	-	1	2	21	13	20
	2,450	2,007	234	163	46	1,242	9	17	22	470	278	412

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

Retirement Effective Dates	Years of Credited Service					
For Fiscal Years Ending June 30	1-9	10-14	15-19	20-24	25-29	30+
2010						
Avg Monthly Benefit	$ 481	$ 931	$ 1,466	$ 2,374	$ 2,386	$ 3,376
Avg Monthly Final Avg Compensation	$ 3,229	$ 2,976	$ 3,841	$ 5,148	$ 4,251	$ 4,871
Number of Active/EOSP retirees	23	16	13	35	23	13
2009 *						
Avg Monthly Benefit	$ 620	$ 1,117	$ 1,452	$ 2,165	$ 3,475	$ 2,811
Avg Monthly Final Avg Compensation	$ 3,474	$ 3,823	$ 3,671	$ 4,281	$ 5,775	$ 3,942
Number of Active/EOSP retirees	14	13	12	23	15	9
2008 *						
Avg Monthly Benefit	$ 645	$ 1,076	$ 1,502	$ 2,258	$ 3,133	$ 3,944
Avg Monthly Final Avg Compensation	$ 4,302	$ 4,542	$ 3,869	$ 5,094	$ 5,310	$ 6,222
Number of Active/EOSP retirees	18	16	27	74	84	63
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

*includes EOSP Participants still employed and alt. payees receiving benefits

Demographics of Retired and Active Members
June 30, 2010

Retired Members

	Retirees			Survivors/Beneficiaries		
Ages	Male	Female	Total	Male	Female	Total
Under 55	40	56	96	3	23	26
55 to 59	187	151	338	3	18	21
60 to 64	344	183	527	1	36	37
65 to 69	280	151	431	1	41	42
70 to 74	197	99	296	1	38	39
75 to 79	160	52	212	3	44	47
80 to 84	91	49	140	3	44	47
85 to 89	49	32	81	5	25	30
90 to 94	17	11	28	1	9	10
95 to 100	-	2	2	-	-	-
101 and over	-	-	-	-	-	-
Total	1,365	786	2,151	21	278	299

Active Members

	Active Members			Percentage Distribution		
Ages	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	0.00%	0.00%	0.00%
20 to 29	77	75	152	2.58%	2.52%	5.10%
30 to 39	304	292	596	10.19%	9.79%	19.99%
40 to 49	525	404	929	17.61%	13.54%	31.15%
50 to 59	669	398	1067	22.43%	13.35%	35.78%
60 to 69	166	65	231	5.57%	2.18%	7.75%
70 and over	5	2	7	0.17%	0.07%	0.23%
Total	1,746	1,236	2,982	58.55%	41.45%	100.00%

Employee and Employer Contribution Rates
Last Ten Fiscal Years

Fiscal Year	Employee Rate (percentage)		Employer Rate (percentage)		Total Contribution
	Fixed	Variable	Fixed	Variable	
01/02	5.0	n/a	7.35	n/a	12.35
02/03	5.0	n/a	8.41	n/a	13.41
03/04	5.0	n/a	11.17	n/a	16.17
04/05	5.0	n/a	14.06	n/a	19.06
05/06	5.0	n/a	14.83	n/a	19.83
06/07*	5.0	7.5	15.04	12.54	20.04
07/08*	5.0	8.084	15.21	12.126	20.21
08/09*	5.0	7.788	14.47	11.682	19.47
09/10*	5.0	8.852	17.13	13.278	22.13
10/11*	5.0	9.428	18.57	14.142	23.57

*Employees hired on or after July 1, 2006 pay a variable rate, which changes annually to 40% of the actuarially recommended contribution rate for the system.

Benefit and Refund Deductions from Net Assets by Type

Last Ten Fiscal Years

	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit										
Service Benefits:										
Retirees	45,580,606	40,123,580	39,940,472	31,993,340	28,946,679	27,440,364	26,533,141	20,209,887	16,973,784	15,304,313
EOSP lump sum(1)	997,448	6,805,342	1,495,136	4,069,547	-	-	-	-	-	-
Survivors(2)	2,757,941	2,700,791	2,499,152	2,236,330	2,229,540	1,860,300	1,646,238	1,681,008	1,311,864	1,182,857
Disabilty Benefits:										
Retirees	2,015,248	1,969,239	1,999,565	1,847,725	1,763,061	1,717,457	1,646,927	1,541,162	1,466,490	1,265,302
Survivors	349,299	397,556	277,235	272,980	536,670	339,672	433,615	423,073	257,041	289,834
Total Benefits	51,700,541	51,996,508	46,211,560	40,419,922	33,475,950	31,357,794	30,259,921	23,855,130	20,009,180	18,042,307
Type of Refund										
Death	250,047	299,778	96,935	70,309	147,588	86,361	223,073	296,371	3,074	106,071
Separation	1,860,312	1,390,177	1,168,300	1,502,967	1,219,264	1,225,670	1,242,340	890,084	803,000	1,018,618
Transfer	898,085	2,655,061	4,340,520	11,886,941	482,469	209,410	362,716	3,169	100,167	237,192
Total Refunds	3,008,445	4,345,017	5,605,755	13,460,218	1,849,320	1,521,441	1,828,129	1,189,625	906,242	1,361,881

(1) EOSP - An End of Service Program benefit option became available for the first time in FY2007, 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

Tucson Supplemental Retirement System
Retiree Benefit and Service Summary

# yrs Retired	Average Benefit	Total Monthly Benefit pmts	# of Retiree	Age at 6/30/10								Years of Credited Service		
				<55	55-59	60-64	65-69	70-74	75-79	80-84	=>85	<10	10-19	20>
<5	2,311	1,881,551	814	92	242	291	146	37	3	3	0	90	174	550
5-9	2,023	1,280,423	633	17	95	236	187	85	10	2	1	37	145	451
10-14	1,367	512,445	375	11	16	26	120	122	66	10	4	41	103	231
15-19	1,361	406,839	299	2	5	10	15	73	114	71	9	37	83	179
20-24	1,236	246,024	199	0	1	1	4	11	56	80	46	18	58	123
25-29	790	9,072	114	0	0	0	1	6	8	18	81	17	48	49
30>	557	8,919	16	0	0	0	0	1	2	3	10	4	7	5
	1,774	4,345,273	2,450	122	359	564	473	335	259	187	151	244	618	1588

Note: Includes alternate payees and survivors

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