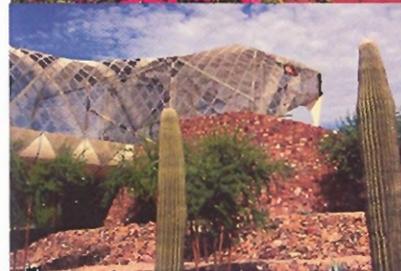


CITY OF TUCSON

Tucson Supplemental Retirement System



A Component Unit of the
City of Tucson, Arizona

Comprehensive Annual
Financial Report

Fiscal Year July 1, 2002
Through June 30, 2003





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

**Comprehensive Annual Financial Report
For Fiscal Year Ended
JUNE 30, 2003**

Issued by the City of Tucson, Finance Department, Treasury 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, 2002

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



President

Executive Director



**CITY OF
TUCSON
TUCSON SUPPLEMENTAL
RETIREMENT SYSTEM**

December 15, 2003

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, 2003, 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, 2003;
- the **Investment Section**, which contains a letter from the Investment Consultant, an outline of investment policies, investment results, asset allocation and other investment schedules;
- the **Actuarial Section**, which contains the independent actuary's certification letter and results of the annual actuarial valuation; and
- the **Statistical Section**, which provides financial and demographic data pertaining to TSRS.

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

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

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

Budgetary Controls

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

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

Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a period of forty years from July 1, 1982. Nineteen years remain from July 1, 2003.

Major Initiatives

During fiscal year 2003, the City Code was amended to offer two retirement incentives and an early retirement option for members whose age and years of creditable service totaled 75 or more. A prorated reduction in the benefit factor applied to benefits taken under this early retirement. A total of 64 employees retired under the special early retirement option.

During the incentive period, the City offered employees a benefit choice of either one-half of annual longevity pay for a period of 3 years or 100% of medical insurance premiums paid for the member and one dependent until the retiree reaches Medicare eligibility. A total of 227 employees retired during this special incentive period with 11 employees choosing to receive the longevity payment option.

The Board granted an ad hoc retirement benefit increase as of July 1, 2003 for retirees with retirement dates prior to July 1, 1993. The increase was based on the total number of years in retirement, benefiting those retired for the longer periods and most affected by inflationary trends. Of the 1,742 retirees in the system, a total of 611 received a benefit increase.

Funding Status

Analysis of the funding progress measures the net assets available for benefits against the actuarially accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2003, the fund was 76.3% funded versus 83.6% funded as of June 30, 2002. The actuarially accrued liability increased from \$553,946,733 to \$601,173,422, an increase of 8.5% and the actuarial value of assets available for benefits decreased 0.9% from \$463,101,526 to \$458,856,831. Of the \$51,471,384 increase in actuarially accrued unfunded liabilities, \$41,369,000 was attributable to investment experience losses, \$3,946,000 to retiree mortality, \$2,181,000 to service purchases, and \$8,936,000 to retirement incidence. These losses were offset by experience gains of \$10,784,000 from less than expected pay increases and other miscellaneous factors. There were no changes in liabilities due to assumption changes. The decrease in the actuarial value of assets was smaller than market losses due to the actuarial smoothing method utilized.

Investment Activities

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

Net investment gain amounted to \$12,737,072. The net investment gain is comprised of bond interest, dividend income, real estate income, security lending income and realized and unrealized gains and losses on securities. The rate of return for the total fund for the year was 3.3%. For the last five years, the System has had an annualized return of 1.5%.

TSRS asset allocation targets are 52% U.S. equities, 15% foreign equities, 5% real estate and 28% fixed income. The diversification posture as of June 30, 2003 represents the Board's prudent judgment in the pursuit of maximum returns at acceptable levels of risk.

There were no investment management changes during the 2003 fiscal year. However, Sit Investment Associates was placed on watch status during this year for performance concerns. Hewitt Investment Group continues as investment consultant to the System and Mellon Trust continues to serve as master custodian.

In accordance with investment policy, the System's asset classes were rebalanced in July 2002. This consisted of moving \$10 million from fixed income to domestic equity. This adjustment brought these asset classes within their target allocation percentages.

JPMorgan Fleming Asset Management, hired in fiscal year 2001, was fully funded during the current fiscal year with the final distribution of funds from an account terminated with Sentinel Real Estate.

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 who have worked diligently to assure the successful operation of TSRS. A special word of appreciation is due to Sally Menninga, Senior Accountant, who contributed many hours to produce this report. The direction and support extended by the Board of Trustees is also greatly appreciated.

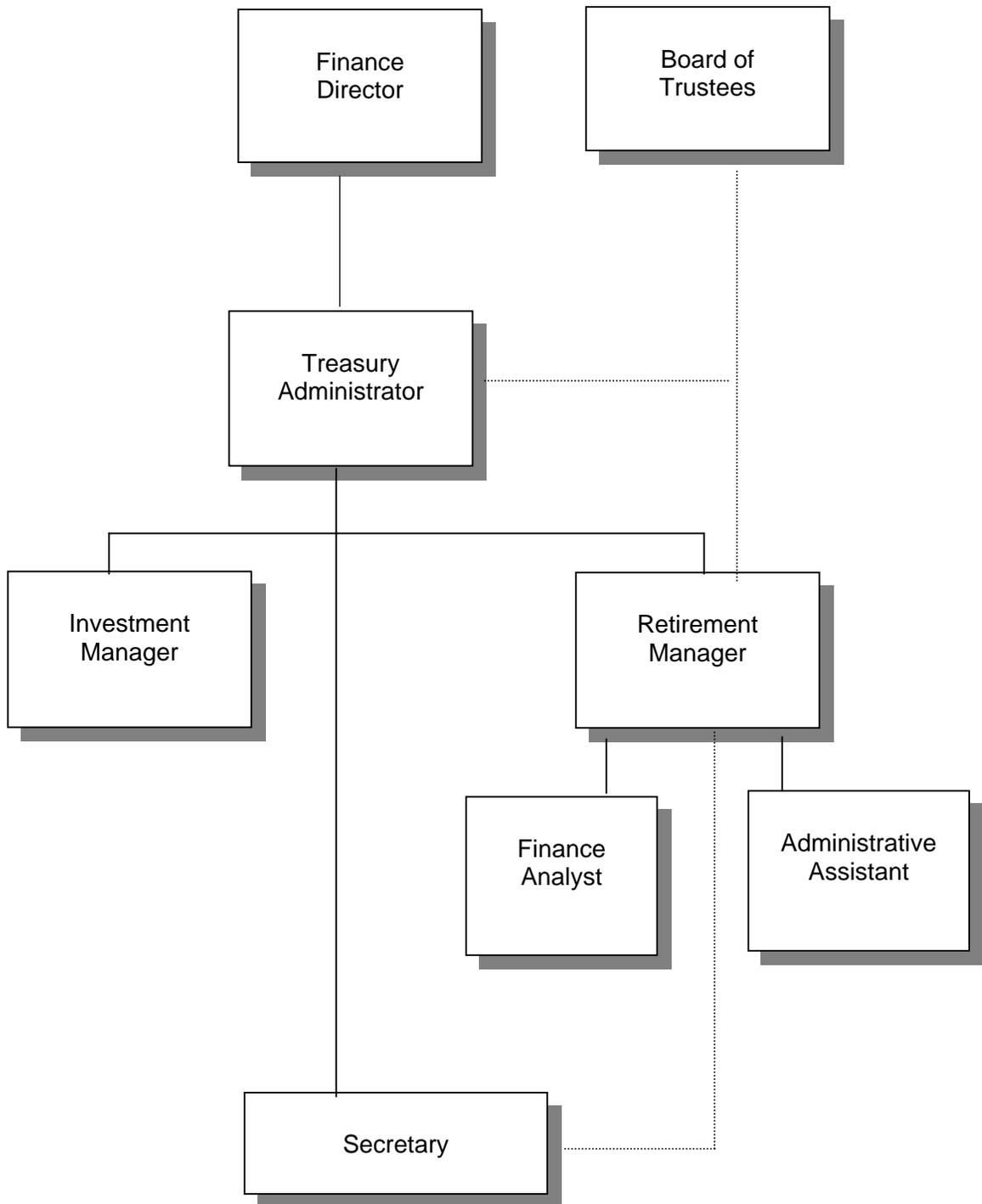
In addition, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TSRS for its comprehensive annual financial report for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,

Michael A. Hermanson, CPA
Retirement Manager

Organizational Chart



Administrative Organization**BOARD OF TRUSTEES**

Brian Bjorndahl
Chairman

J. Scott Douthitt
Finance Director

Suzanne Machain
Acting Human Resources Director

John O'Hare
Employee Representative

Marie Nemerguth
Employee Representative

Paul D. Miner
Retiree Representative

TREASURY STAFF

Joe Ladenburg
Treasury Administrator

Joel Peterson
Investment Manager

Michael A. Hermanson, CPA
Retirement Manager

Doris Rentschler, CFP
Finance Analyst

Claudia Proios
Administrative Assistant

Claire Beaubien, CPS
Treasury Secretary

ACCOUNTING

Sally Menninga, CPA
Senior Accountant

LEGAL

Frank W. Kern
Principal Assistant City Attorney

ACTUARY

Gabriel, Roeder, Smith & Company
San Diego, CA

AUDITOR

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

INVESTMENT MANAGERS

Alliance Capital Management Corporation
New York, NY

Bank of Ireland Asset Management
Santa Monica, CA

Barclays Global Investors
San Francisco, CA

Fidelity Management Trust Company
Boston, MA

JP Morgan Fleming Asset Management
San Francisco, CA

Pacific Investment Management Company
Newport Beach, CA

Sit Investment Associates
Minneapolis, MN

Trust Company of the West
Los Angeles, CA

INVESTMENT CONSULTANT

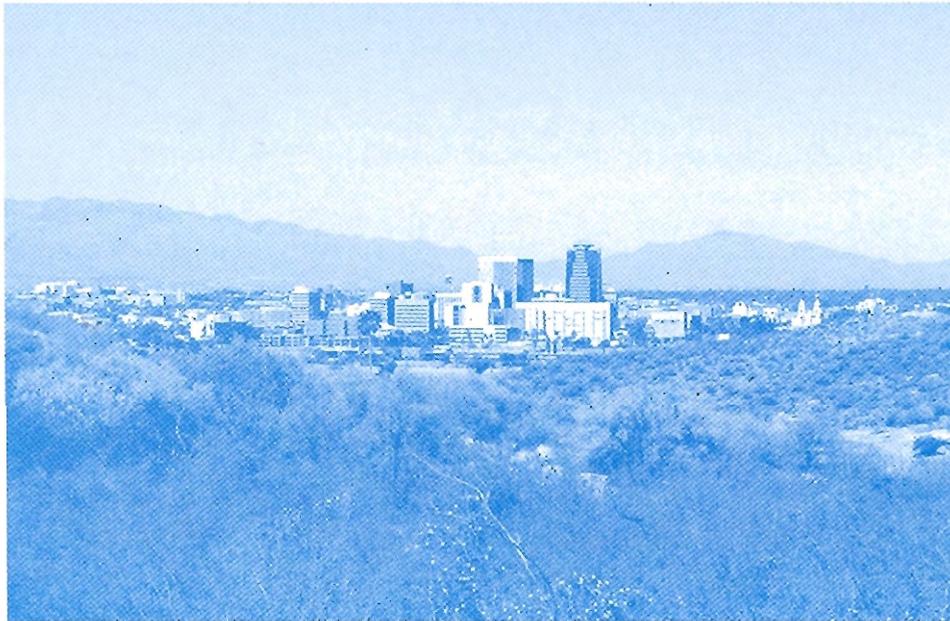
Hewitt Investment Group
Lincolnshire, IL

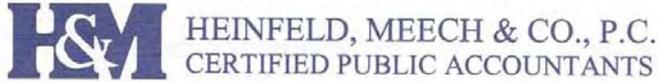
CUSTODIAN BANK

Mellon Trust
San Francisco, CA



Financial Section





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

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Tucson Supplemental Retirement System Board:

We have audited the accompanying financial statements of the Tucson Supplemental Retirement System (the Plan), a component unit of the City of Tucson, Arizona, as of and for the year ended June 30, 2003, which collectively comprise the Plan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Plan'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 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, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress and schedule of employer contributions on pages 18 and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Heinfeld, Meech & Co., P.C.

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

December 10, 2003

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, 2003. 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, 2003 are \$445,904,278 (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 total net assets held in trust for pension benefits increased by \$12,809,895, or 3.0%, 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, 2003, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 76.3%.
- Revenue (Additions to Plan Net Assets) for the year were \$38,228,367, which includes member and employer contributions of \$25,491,295, and an Investment gain of \$14,842,150 reduced by Investment Expenses of \$2,105,078.
- Expenses (Deductions from Plan Net Assets) increased from \$21,256,990 to \$25,418,472 over the prior year, or approximately 19.6%. The increase was due largely to an increase in benefit payments of \$3,845,950, refunds and transfers to other systems totaling \$283,383 and a small increase in administrative expenses of \$32,149; bringing the total increase in expenses to \$4,161,482.

Overview of the Financial Statements

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

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

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

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

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

Both statements are in compliance with Governmental Accounting Standards Board (GASB) Statements Pronouncements 25, 26, 28, 33, 34, 37 and 38. These pronouncements require certain disclosures and require state and local governments to report using the full accrual method of accounting. TSRS complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about TSRS's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses were taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all capital assets (fixed assets) are depreciated over their useful lives.

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

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 10-17 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 18 and 19 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 20 of this report.)

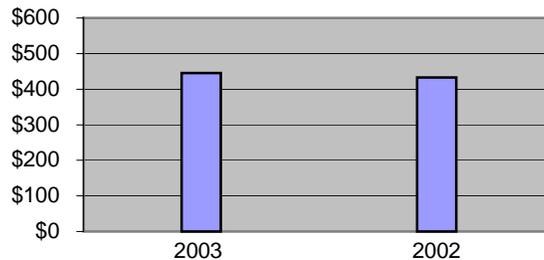
Financial Analysis

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table below). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2003. Currently \$445,904,278 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

As of June 30, 2003, net assets increased by 3.0% over the prior year primarily due to increases in the fair value of investments and a decrease in liabilities.

Additions to Plan Net Assets

Net Assets - TSRS
(Dollars in Millions)



Net Assets - TSRS
(Dollars in Thousands)

	June 30, 2003	June 30, 2002	Total % Change
Assets			
Cash, Cash Equivalents, and Receivables	\$ 7,937,073	\$ 45,401,068	-82.5%
Investments	460,099,639	428,241,052	7.4%
Securities Lending Cash Collateral	30,913,316	16,675,716	85.4%
Capital Assets, Net	4,809	6,035	-20.3%
Total Assets	\$ 498,954,837	\$ 490,323,871	1.8%
Liabilities			
Accounts Payable and Other Payables	653,333	528,886	23.5%
Due to Securities Lending Borrowers	30,913,316	16,675,716	85.4%
Due to Brokers	21,483,910	40,024,886	-46.3%
Total Liabilities	\$ 53,050,559	\$ 57,229,488	-7.3%
Total Net Assets	\$ 445,904,278	\$ 433,094,383	3.0%

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year ended June 30, 2003 totaled \$38,228,367.

Changes in Net Assets - TSRS
(Dollars in Thousands)

	June 30, 2003	June 30, 2002	Total % Change
Additions			
City Contributions	\$ 12,771,777	\$ 10,544,412	21.1%
Employee Contributions and Transfers from Other Systems	8,109,005	7,405,504	9.5%
Employee Contributions from Purchases of Service	4,610,513	5,720,521	-19.4%
Investment (Loss) and Securities Lending Income	12,737,072	(39,990,731)	131.9%
Total Additions	\$ 38,228,367	\$ (16,320,294)	334.2%

Employer contributions increased by \$2,227,365 or 21.1% and employee contributions increased by \$703,501 or 9.5%. Employer and employee contributions increased due to an increase in salaries. Additionally, the system received \$4,610,513 in employee contributions due to a program allowing employees to purchase prior governmental service credits that began January 1, 2002. The net investment gains are due to increases in asset values related to domestic and international financial markets.

Deductions from Plan Net Assets

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

Changes in Net Assets - TSRS
(Dollars in Thousands)

	June 30, 2003	June 30, 2002	Total % Change
Deductions			
Retirement Benefits	\$ (23,855,130)	\$ (20,009,180)	19.2%
Refund of Contributions and Transfers to Other Systems	(1,189,624)	(906,241)	31.3%
Administrative Expenses	(373,718)	(341,569)	9.4%
Total Deductions	\$ (25,418,472)	\$ (21,256,990)	19.6%

Expenses for fiscal year 2003 totaled \$25,418,472 or an increase of 19.6% over fiscal year 2002 expenses. The increase in annuity benefits is due to normal and early retirements during the year. The change in refunds results from the account balances related to employees terminating employment with the City of Tucson.

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, 2003, the balance in this reserve account decreased by \$8,718,270 to \$110,195,709.

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, 2003, this reserve account balance increased by \$83,727,779 to \$273,481,479.

The impact of gains and losses recognized during the plan year ended June 30, 2003 affects the amount remaining in the Unreserved Net Assets. Employer funding is added to the Unreserved Net Assets balance. At retirement, amounts needed to fully fund retirement benefits is transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. The net change in Unreserved Net Assets during the plan year was a reduction of \$62,199,614 to \$62,227,090.

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
City Hall, 1st floor - Retirement Office
255 West Alameda Street
Tucson, Arizona 85701

Tucson Supplemental Retirement System
Statement of Plan Net Assets
June 30, 2003

Assets

Cash Deposits/Pooled Investments	\$	816,098
Receivables:		
City Contributions (Note 3)		1,043,983
Employee Contributions (Note 3)		668,198
Interest and Dividends		1,302,441
Due From Brokers		4,106,353
Due From Other Funds		-
Total Receivables		7,120,975
Investments, at Fair Value (Notes 4, 5, and 6):		
Short-term Investments		8,049,662
Securities Lending Cash Collateral		30,913,316
U.S. Government Obligations		48,493,780
Corporate Bonds		23,829,052
Corporate Common Stocks		233,386,666
Preferred Stocks		885,640
International Bonds		3,112,867
International Equity		57,067,609
Mortgage Bonds Mutual Fund		62,191,225
Real Estate		23,083,138
Total Investments, at Fair Value		491,012,955
Capital Assets, At Cost, Net of Accumulated Depreciation		4,809
Total Assets		498,954,837
Liabilities		
Accounts Payable		625,121
Accrued Wages Payable		28,212
Due to Other Funds		-
Due to Other Agencies		-
Due to Securities Lending Borrowers (Note 5)		30,913,316
Due to Brokers		21,483,910
Total Liabilities		53,050,559
Net Assets Held in Trust for Pension Benefits (Note 3)	\$	445,904,278
(Schedule of Funding Progress)		

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Statement of Changes in Plan Net Assets
Year Ended June 30, 2003

Additions

Contributions (Note 3):

City	\$ 12,771,777
Employee	7,583,019
Employee Purchase of Service Credit	4,610,513
Transfers from Other Systems	525,986
Total Contributions	<u>25,491,295</u>

Investment Income:

Net Gain in Fair Value of Investments	3,704,778
Interest	2,261,333
Dividends	8,105,077
Real Estate Income	405,794
Securities Lending Income (Note 5)	340,493
Miscellaneous Income	24,675
	<u>14,842,150</u>

Less Investment Expenses:

Securities Lending Interest and Fees	252,297
Other Investment Expense	1,852,781
Total Investment Expense	<u>2,105,078</u>
Net Investment Gain	<u>12,737,072</u>
Total Additions	<u>38,228,367</u>

Deductions

Benefits	23,855,130
Refunds	1,186,455
Transfers to Other Systems	3,169
Administrative Expenses	373,718
Total Deductions	<u>25,418,472</u>

Net Increase in Plan Net Assets

12,809,895

Net Assets Held in Trust for Pension Benefits

July 1, 2002	<u>433,094,383</u>
June 30, 2003	<u>\$ 445,904,278</u>

See Accompanying Notes to Financial Statements.

**Tucson Supplemental Retirement System
Notes to Financial Statements
Year Ended June 30, 2003**

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, 2003 is as follows:

Active plan participants:	
Vested	2,407
Nonvested	<u>957</u>
Total active plan participants	<u><u>3,364</u></u>
Current retirees and beneficiaries	1,742
Terminated vested participants	125

C. Plan Benefits

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

1. DESCRIPTION OF THE PLAN (Continued)

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

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

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

2. *Disability Benefits* - Employees having five or more years of creditable service under the System are eligible to receive a disability allowance for as long as they are mentally or physically incapacitated.
3. *Death Benefits* - The beneficiary of an employee, who selected a retirement option and died while eligible to retire, shall receive a benefit based upon the selected option.

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

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

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

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

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

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

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

At June 30, 2003, 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 101% collateralized. State statutes require collateral pledged for deposits to be held in the System's name by a bank other than the pledging bank or by the pledging bank's trust department.

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

F. Benefit Changes - An Ad Hoc Cost of Living Adjustment granted July 1, 2003 for retirees and beneficiaries retired prior to July 1, 1993, accounting for a \$917,532 increase in actuarial liabilities.

3. CONTRIBUTIONS AND RESERVES

A. Funding Requirements

1. **Employee Contributions** - Currently, employee contributions are 5% of regular salary and are made through payroll deductions. A reserve is established for contributions and earnings allocations, less amounts transferred to the reserve for retirement benefits which includes retirement and disability and amounts reserved for terminated employees. If an employee leaves covered employment before attaining five years service credit, the accumulated contributions plus

interest are refunded to the employee or his designated beneficiary. There are no long-term contracts for employee contributions to the System.

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

B. Net Assets

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

Earnings of the System are allocated semi-annually (at June 30 and December 31) to the reserves which comprise net assets. For the year ended June 30, 2003, allocations were based on rates of return of 7.5% per annum. Any unallocated earnings remain in unreserved net assets.

The net assets at June 30, 2003, consisted of the following components:

Reserved for employee contributions	\$ 110,195,709
Reserved for retirement benefits	273,481,479
Unreserved net assets	<u>62,227,090</u>
Net Assets	<u><u>\$ 445,904,278</u></u>

4. INVESTMENTS

The pension fund is governed by a Board of Trustees. The Board of Trustees is required by City Code in making investment decisions, to exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of the capital. Investments of the System are held separately from those of other City funds by investment custodians. Quoted market prices have been used to value investments as of June 30, 2003. 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, 2003, have been categorized, in accordance with GASB requirements, to give an indication of the level of risk assumed. Category 1 includes investments which are held by the System or its agent in the System's name or are insured or registered. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counter party, or by its trust department or agent but not in the System's name. As of June 30, 2003, all investment securities were in risk Category 1, with the exception of those investments not required to be categorized.

All System investments are reflected in the following schedule with the exception of amounts held in the City's investment pool. The City maintains an investment pool for City funds. Bi-weekly contributions for the Tucson Supplemental Retirement System are held in the City's investment pool and are used to pay recurring expenditures. The \$816,098 of cash and deposits in the City's investment pool is not subject to credit risk classification.

	<u>Fair Value</u>
Investments - Category 1	
United States issues:	
Government and agency securities not on securities loan	\$ 39,958,280
Corporate bonds not on securities loan	20,110,661
Corporate stocks not on securities loan	224,060,673
Non-United States issues:	
International bonds not on securities loan	3,112,867
International equity not on securities loan	49,732,618
Subtotal	<u>336,975,099</u>
 Investments - Not categorized	
Investments held by broker-dealers under securities loans with cash collateral:	
US government and agency securities	8,535,500
US corporate fixed income securities	3,718,391
US equities	9,781,663
International equities	7,764,961
Securities lending short-term collateral investment pool	30,913,316
Mortgage Bonds Mutual Fund	62,191,225
Money market funds	8,049,662
Real Estate	23,083,138
Total Investments, at Fair Value	<u><u>\$ 491,012,955</u></u>

5. SECURITIES LENDING

City Code and the Board of Trustees for the System permit the System's custodian bank, Mellon Trust to lend System 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 System's custodian bank lends US securities for collateral initially valued at 102% of the market value plus any accrued interest. Non-US securities are loaned for collateral initially valued at 105% of the market value of the securities plus any accrued interest. Collateral is marked-to-market daily. If the market value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day.

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

Although the average term of the System's security loans is one week, each loan can be terminated at will by either the System or the borrower. Cash collateral is invested in a short-term investment pool, which on average had a weighted maturity of 30 days. Because the relationship between the maturities of the investment pool and the System's security loans is affected by the maturities of the loans made by other entities that use the agent's pool, the System cannot match maturities.

The System 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, 2003, the System had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

6. DERIVATIVES

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

Forward foreign exchange contracts for the purchase or sale of foreign currency were entered into for investment and hedging purposes, to modify the foreign currency exposure of international securities held. The duration of these contracts typically was three months or less and represented a net value of (\$3,652,168) as of June 30, 2003.

During this period the portfolio was exposed to counterparty risk through the use of forward foreign exchange contracts, which could give rise to a loss if foreign exchange rates move in an adverse fashion. This risk is controlled through dealing with a number of different counterparties of high credit standing which have been approved by the manager through a stringent screening process.

The System also permits the use of financial futures and options by its external fixed income manager to reduce or eliminate undesirable/unintended risks, to maintain desirable risks so as to improve the portfolio's return patterns, and to enhance portfolio liquidity, flexibility and/or efficiency. The external fixed income manager used long and short positions in exchange-traded U S Treasury futures during the year to modify exposure to various parts of the yield curve and to modify the risk characteristics of the portfolio that were open as of June 30, 2003. The government futures positions were fully supported by cash and cash equivalents. The net market exposure as of June 30, 2003 was \$39,360. As of the same date, the portfolio contained net market exposure to put and call options of (\$2,137) and (\$240), respectively.

Interest rate swaps are used to provide high-grade agency/corporate exposure. Swaps also provide an effective and inexpensive means by which to quickly adjust portfolio duration, maturity mix and sector exposure. Swaps are over-the-counter transactions as opposed to being traded on an organized exchange. Counterparty risk is limited by execution under standardized International Swap and Derivatives Association Agreements. These standardized contracts reduce legal risk and increase speed of execution that, in turn, improves liquidity. A swaption is simply an option on a swap and is used for the same purposes as options and swaps. Credit default swaps provide attractive means of hedging event risk and increasing/decreasing credit exposure. These securities are backed by high-grade liquid securities and are subject to the System's minimum quality and issue limits. Additionally, the portfolio held the following net market exposure in swaps, put swaptions, call swaptions and credit default swaps of \$12,889,399, (\$34,909), (\$202,696) and \$15,319, respectively.

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

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

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

**Required Supplementary Information
Schedule of Employer Contributions**

Fiscal Year Beginning July 1,	Actuarial Valuation Date June 30	Annual Required Contribution	Percent Contributed
1991	1991	\$ 6,381,379	100.0%
1992	1992	6,965,971	100.0
1993	1993	7,164,106	100.0
1994	1994	7,626,120	100.0
1995	1995	8,632,755	100.0
1996	1996	9,292,926	100.0
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	10,576,565	100.0
2002	2001	12,765,619	100.0
2003	2002	18,457,476*	
2004	2003	21,657,270*	

* *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, 2003
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, closed
Remaining Amortization Period	19 years
Asset Valuation Method	smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	8.0%
Projected Salary Increases*	5.0% - 8.8%
*Includes Inflation	5.0%

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

Supporting Schedules
June 30, 2003
Schedule of Administrative Expenses

Personal Services

Staff Salaries	\$ 180,591
Fringe Benefits	41,677
<i>Total Personal Services</i>	<u>222,268</u>

Professional Services

Accounting	65,310
Legal	-
Actuary	44,425
Other	2,972
<i>Total Professional Services</i>	<u>112,707</u>

Miscellaneous

Professional Development	1,498
Printing and Supplies	28,422
Depreciation	1,226
Other	7,597
<i>Total Miscellaneous</i>	<u>38,743</u>

Total Administrative Expenses \$ 373,718

Schedule of Investment Expenses

Custody	\$ 185,606
Investment Consultant	137,000
Investment Management	1,530,175
Security Lending Management	62,968
Interest on Securities Lending	189,329
Total Investment Expenses	<u><u>\$ 2,105,078</u></u>

Payments for Professional Services

Gabriel, Roeder, Smith & Co. - \$44,425 Actuarial Services

Investment Section





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www.hewitt.com

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Sweden
Switzerland
Thailand
United Kingdom
United States
Venezuela

November 26, 2003

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, 2003. 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, 2003; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

Mellon Trust served as custodian for all plan assets with the exception of the real estate portfolio, an index fund with Barclays, and the fixed income funds managed by PIMCO. The investment activity summarized in this section is based primarily on the financial reporting provided by the Mellon Trust. We believe investment results for all managers are consistent with the Association for Investment Management and Research (AIMR) performance presentation standards. Hewitt also has confirmed the investment performance as calculated from the Mellon Trust statements with the financial data as submitted to us by the respective investment managers. Each investment manager has further indicated compliance with AIMR standards.

General Observations

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

Hewitt

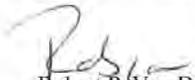
The Board of Trustees
Page 2
November 26, 2003

This fiscal year's evaluation of existing investment managers did not lead to any changes to the Fund. However, as noted below, the Fund's international equity managers are being monitored closely due to performance concerns.

As indicated in the following exhibits, the TSRS Retirement Plan assets increased modestly as equity markets around the world produced mixed results while bond markets produced double-digit gains. The total portfolio return for the fiscal year was 3.3% compared to 3.8% for the Custom Index. The underperformance was attributable primarily to the weak returns from both of the Fund's international equity managers, Sit Investment Associates and Bank of Ireland. Sit's relative results have improved modestly, but the firm remains on a watch list and is subject to termination should performance continue to trail that of relevant benchmarks. Bank of Ireland's performance weakness is more recent and is not on a watch list at this time. However, Bank of Ireland will be monitored closely due to the performance shortfall.

Sincerely,

Hewitt Investment Group



Robert P. Van Den Brink

RVD:cr

cc: Mr. Ryan T. Bidlack, Hewitt Investment Group
Mr. Mark A. Klimek, Hewitt Investment Group
Mr. Nate Krogman, Hewitt Investment Group

Outline of Investment Policies

The asset allocation policy includes a 67% allocation to equity securities: 41% to large U.S. stocks, split among an S&P 500 index account and large capitalization growth and value accounts, 11% to small U.S. stocks, and 15% to foreign stocks. There is also an allocation of 28% to fixed income and an allocation of 5% to equity real estate.

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

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

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

	Percent of Total Pension Fund		
	Minimum	Target	Maximum
Equities:			
Large Capitalization	36%	41%	46%
Small Capitalization	9%	11%	13%
International	13%	15%	17%
Total Equities	62%	67%	72%
Fixed Income	23%	28%	33%
Real Estate	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 Board.

Investment Objectives

Total Pension Fund Performance Objectives¹

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

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

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

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

Individual Managers Performance Objectives

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

TCW (Large Cap Growth)

- Exceed the annualized total return of the Russell 1000 Growth Index.

Barclays (Large Cap Value)

- Match the annualized total return of the Russell 1000 Value Index.

Fidelity (Small Cap Equity)

- Exceed the annualized total return of the Russell 2000 Stock Index.

Alliance Capital (S&P 500 Stock Index)

- Match the annualized total return of the S&P 500 Stock Index.

Bank of Ireland (International Equity)

- Exceed the annualized total return of the MSCI All Country World Free ex-U.S. Index.

Sit Associates (International Equity)

- Exceed the annualized total return of the MSCI All Country World Free ex-U.S. Growth Index.

Internally Managed (U.S. Fixed Income)

- Exceed the annualized total return of the Lehman Brothers Government Credit Bond Index.

PIMCO (Total Return)

- Exceed the annualized total return of a customized fixed income benchmark which is comprised of 70% LB Mortgage, 15% LB Credit, and 15% LB High Yield

JPMorgan Strategic Property Fund (Real Estate)

- Exceed the annualized total return of the NCREIF Real Estate Index.

**Investment Results by Year
Last Ten Fiscal Years Ended June 30, 2003**

<u>Year Ended</u>	<u>Annual Return</u>	<u>3-Year Annualized Return</u>	<u>5-Year Annualized Return</u>	<u>10-Year Annualized Return</u>
6/30/03	3.3%	(4.4%)	1.5%	7.9%
6/30/02	(8.1%)	(2.2%)	4.1%	8.6%
6/30/01	(8.1%)	4.2%	9.5%	10.7%
6/30/00	10.5%	13.2%	14.8%	12.4%
6/30/99	11.4%	15.7%	16.5%	12.1%
6/30/98	17.9%	17.5%	14.8%	12.7%
6/30/97	17.7%	17.5%	13.1%	11.1%
6/30/96	16.1%	12.7%	11.9%	10.8%
6/30/95	18.6%	10.7%	10.0%	12.1%
6/30/94	3.5%	6.9%	8.0%	N.A.

**Schedule of Investment Results
For Periods Ended June 30, 2003**

	<u>Annualized Returns (1)</u>		
	One Year	Three Years	Five Years
TOTAL PORTFOLIO			
TSRS	3.3%	(4.4%)	1.5%
Custom Benchmark (2)	3.8%	(3.4%)	2.6%
EQUITY FUNDS			
Alliance Capital	0.4%	(11.1%)	(1.5%)
S & P 500 Index	0.3%	(11.2%)	(1.6%)
Barclays	(1.0%)	(account established April, 2001)	
Russell 1000 Value Index	(1.0%)	-	-
TCW	13.8%	(account established June, 2001)	
Russell 1000 Growth Index	3.0%	-	-
Fidelity Select Small Cap	(4.8%)	(3.7%)	2.1%
Russell 2000 Growth Index	(1.6%)	(3.3%)	1.0%
Bank of Ireland	(9.2%)	(12.3%)	-
MSCI All Country WF ex-US Index	(4.2%)	(12.5%)	-
SIT Associates	(7.4%)	(23.5%)	-
MSCI All Country WF ex-US Growth Index	(5.7%)	(17.3%)	-
FIXED INCOME FUNDS			
Internal Management	10.9%	10.7%	7.8%
Lehman Government Credit Index	13.1%	10.8%	7.8%
PIMCO	11.2%	(account established June, 2002)	
Custom Index (3)	9.7%	-	-
REAL ESTATE FUND			
JPM Strategic Property Fund	9.5%	(account established October, 2000)	
NCREIF Real Estate Index	7.6%	-	-

Notes: All data provided by independent investment consultant, Hewitt Investment Group

(1) Geometrically compounded, time-weighted rates of return

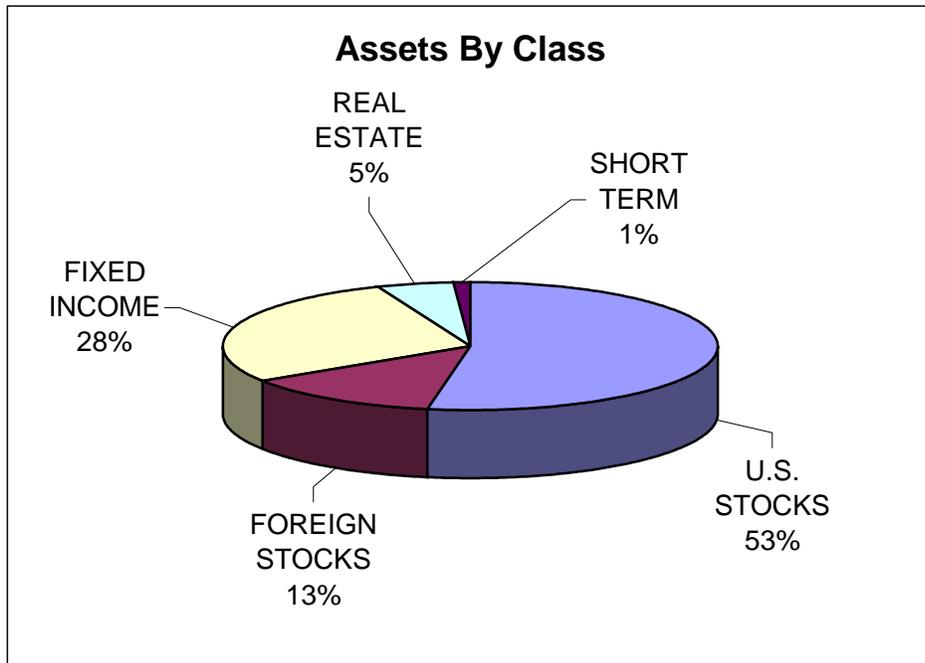
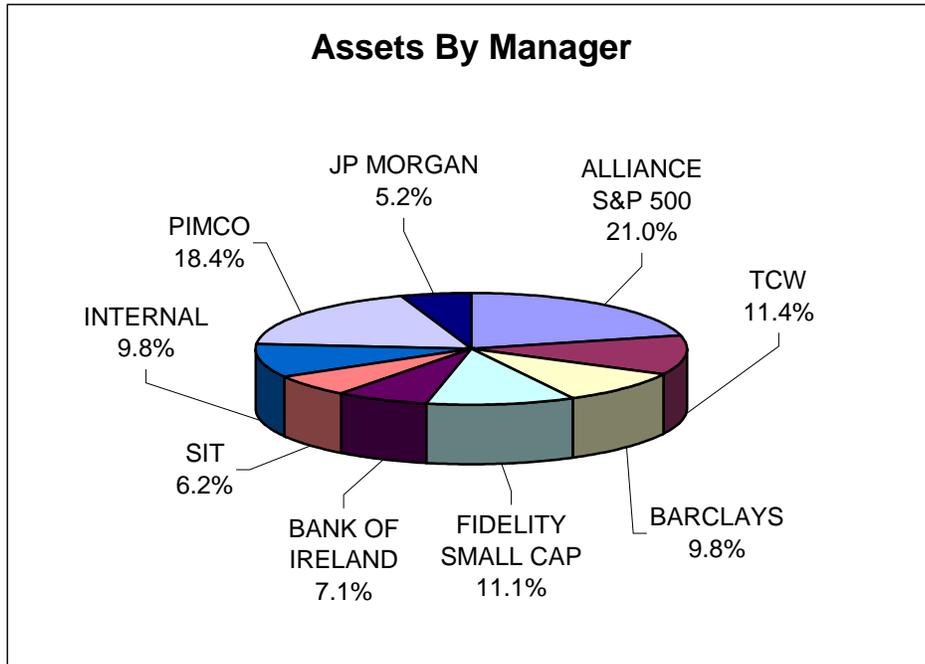
(2) Custom Benchmark = 41% S&P 500 Index + 11% Russell 2000 + 25% Lehman Aggregate + 3% Lehman High Yield + 15% MSCI AC WF ex-US + 5% Real Estate-NCREIF

(3) Custom Index = 70% Lehman Mortgage + 15% Lehman Credit + 15% Lehman High Yield

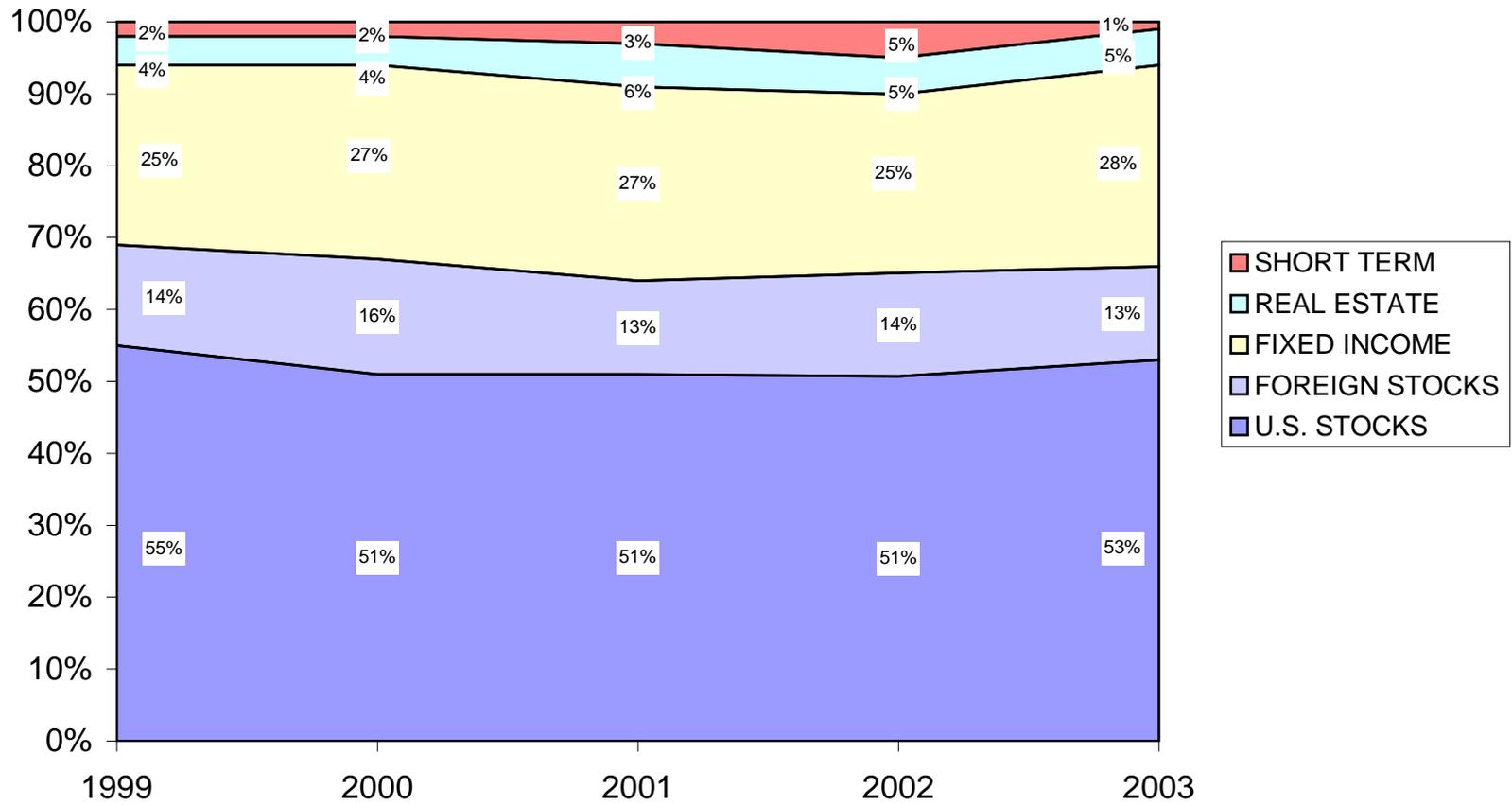
Investment Summary
By Manager and Type of Investment (in thousands)
June 30, 2003

Manager	Style	Large U.S. Stocks	Small U. S. Stocks	Foreign Stocks	Fixed Income	Real Estate	Short Term	Total	Manager Percent of Total	Manager Percent of Target
Alliance Capital Management	S & P 500 Index	\$ 92,633					\$ 712	\$ 93,345	21.0%	21.0%
TCW	Large Cap Growth	\$ 48,806					\$ 1,781	\$ 50,587	11.4%	10.0%
Barclays Russell Value Index	Large Cap Value	\$ 43,446					\$ -	\$ 43,446	9.8%	10.0%
Fidelity Management Trust Co	Small Cap Core		\$ 48,501				\$ 676	\$ 49,177	11.1%	11.0%
Bank of Ireland Asset Mgt	Foreign Stocks			\$ 30,549			\$ 998	\$ 31,547	7.1%	7.5%
Sit Associates	Foreign Stocks			\$ 26,948			\$ 595	\$ 27,543	6.2%	7.5%
Internal Management	U. S. Bonds				\$ 41,526		\$ 1,951	\$ 43,477	9.8%	10.0%
PIMCO	U.S. & Foreign Bonds				\$ 81,644		\$ -	\$ 81,644	18.4%	18.0%
JP Morgan Real Estate	Real Estate Equity					\$ 23,083	\$ 4	\$ 23,087	5.2%	5.0%
Liquidity	Cash & Cash Equivalents						\$ 152	\$ 152	0.0%	0.0%
TOTAL		\$ 184,885	\$ 48,501	\$ 57,497	\$ 123,170	\$ 23,083	\$ 6,869	\$ 444,005	100.0%	100.0%

Manager and Asset Diversification June 30, 2003



Asset Allocation Last Five Fiscal Years



**Ten Largest Bond Holdings
(By Market Value)
June 30, 2003**
(dollars in thousands)

Par Value	Bond	Coupon Rate	Due	Rating (1)	Market Value
\$ 8,800	Federal National Mortgage Assoc MBS	6.500%	07/01/33	AAA	\$ 9,177
5,000	Federal Farm Credit Banks	5.750%	09/01/05	AAA	5,441
4,000	Federal National Mortgage Assoc MBS	6.000%	07/01/18	AAA	4,174
2,300	Bundesrepublik Deutschland Bonds	5.250%	01/04/11	AAA	2,932
2,263	US Treasury Inflation Index Notes	3.375%	01/15/07	AAA	2,484
2,000	US Treasury Notes	6.875%	05/15/06	AAA	2,293
2,000	Federal Home Loan Bank	4.125%	11/15/06	AAA	2,139
2,000	Ford Motor Co	7.250%	10/01/08	Baa1	2,092
2,000	Federal Home Loan Mortgage Corp	6.500%	08/01/32	AAA	2,085
2,000	US Treasury Notes	3.875%	02/15/13	AAA	2,059

(1) Rated by Moodys

**Ten Largest Stock Holdings
(By Market Value)
June 30, 2003**
(dollars in thousands)

Shares	Stock	Market Value
102,560	General Electric Co	\$ 2,941
110,200	Microsoft Corp	2,826
82,222	Pfizer Inc	2,808
69,354	Exxon Mobil Corp	2,491
45,540	Wal Mart Stores Inc	2,444
52,908	Citigroup Inc	2,264
8,944	Nestle SA	1,846
29,540	UBS AG	1,643
10,852	Total SA	1,640
30,660	Johnson & Johnson Co	1,585

A complete list of portfolio holdings is available by contacting the City of Tucson, Treasury Division, 255 W. Alameda, 5th Floor, P.O. Box 27210, Tucson, AZ 85726

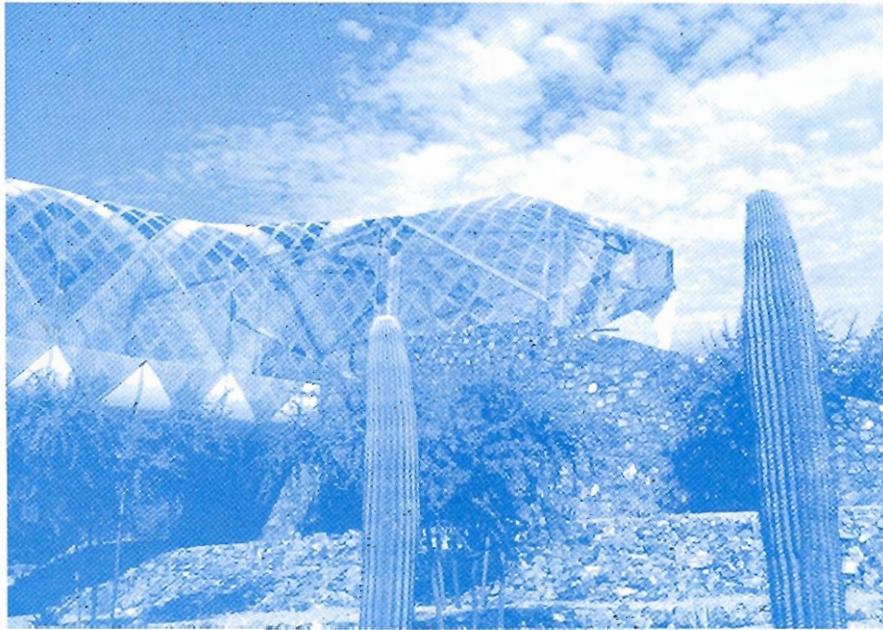
Schedule of Fees
Year Ended June 30, 2003

	Assets Under Management	Fees
	(dollars in thousands)	
Investment Manager Fees		
<i>Fixed Income Managers</i>		
City of Tucson, Treasury Division	\$ 43,477	\$ 52,550
PIMCO	<u>81,644</u>	<u>276,799</u>
Total Fixed Income	125,121	329,349
<i>Equity Managers</i>		
Alliance Capital Management	93,345	22,789
Bank of Ireland Asset Management	31,547	216,959
Barclays Russell Value Index	43,446	3,854
Fidelity Management Trust	49,177	310,577
Trust Company of the West (TCW)	50,587	269,241
SIT Associates	<u>27,543</u>	<u>188,970</u>
Total Equity	295,645	1,012,390
Liquidity	152	-
Real Estate	<u>23,087</u>	<u>188,436</u>
Total Assets (Trade date basis)	<u>\$ 444,005</u>	
Total Investment Management Fees		<u>\$ 1,530,175</u>
Other Investment Service Fees		
<i>Custodian Fees</i>		
Mellon Trust		\$ 185,606
<i>Security Lending Fees</i>		
Mellon Trust		62,968
<i>Consulting and Performance Management</i>		
Hewitt Investment Group		<u>137,000</u>
Total Other Investment Service Fees		<u>\$ 385,574</u>

Schedule of Commissions
Year Ended June 30, 2003

Broker Description	Shares	Commissions	Commission Per Share
MERRILL LYNCH PIERCE FENNER SMITH INC NY	553,683	\$ 18,366	\$ 0.0332
LEHMAN BROS INC, NEW YORK	713,641	15,966	0.0224
INVESTMENT TECHNOLOGY GROUPS, NEW YORK	820,099	14,433	0.0176
MORGAN STANLEY & CO INC, NY	458,949	13,654	0.0297
BANC OF AMERICA SECS LLC, CHARLOTTE	254,230	12,336	0.0485
MORGAN J P SECS INC, NEW YORK	224,620	11,204	0.0499
GOLDMAN SACHS & CO, NY	223,555	10,125	0.0151
CREDIT SUISSE FIRST BOSTON CORP, N Y	410,021	9,458	0.0231
KNIGHT SEC BROADCORT, JERSEY CITY	171,432	8,358	0.0488
JEFFERIES & CO INC, NEW YORK	152,528	7,608	0.0499
DEUTSCHE BANC ALEX BROWN INC, NEW YORK	180,779	7,332	0.0406
FIDELITY CAP MKTS (DIV OF NFSC), BOSTON	450,992	6,788	0.0493
CITIGROUP GLOBAL MARKETS INC, NEW YORK	127,570	6,252	0.0490
BEAR STEARNS SEC CORP, BROOKLYN	297,835	6,181	0.0208
THOMAS & WEISEL INC, SAN FRANCISCO	126,055	6,099	0.0484
SG COWEN SECS CORP, NEW YORK	122,100	5,841	0.0478
UBS SECURITIES LLC, NEW YORK	106,220	5,233	0.0493
FIRST UNION CAP MKTS, CHARLOTTE	106,793	5,202	0.0464
OPPENHEIMER & CO INC, NEW YORK	97,605	4,712	0.0483
DAIN RAUSCHER INC, MINNEAPOLIS	83,525	4,146	0.0496
WEEDEN & CO, NEW YORK	99,200	3,819	0.0385
WACHOVIA SECURITIES LLC, NEW YORK	78,470	3,452	0.0440
SCHWAB CHARLES & CO INC, SAN FRANCISCO	74,365	3,449	0.0464
PIPER JAFFRAY & HOPWOOD, INC, MINNEAPOLIS	58,750	2,938	0.0500
E TRADE SECURITIES INC, PALO ALTO	161,141	2,880	0.0179
BAIRD, ROBERT W & CO INC, MILWAUKEE	53,550	2,678	0.0500
CITATION GROUP, NY	52,437	2,622	0.0500
LEGG MASON WOOD WALKER INC, BALTIMORE	49,610	2,481	0.0500
EXECUTION SERVICES INC, NEW YORK	44,085	2,204	0.0500
INSTINET CORP, NY	141,020	2,124	0.0151
CREDIT SUISSE FIRST BOSTON (EUROPE), LONDON	48,795	2,062	0.0423
LAZARD FRERES & CO, NEW YORK	40,000	2,000	0.0500
CANTOR FITZGERALD & CO INC, NEW YORK	67,302	1,939	0.0288
HSBC SECS INC, NEW YORK	134,745	1,937	0.0144
ADAMS HARKNESS & HILL INC, BOSTON	41,777	1,921	0.0460
SOUTHWEST SECURITIES INC, DALLAS	37,590	1,880	0.0500
FRANK RUSSEL SEC INC, NEW YORK	32,835	1,642	0.0074
FIRST ANALYSIS SECURITIES CORP, CHICAGO	32,700	1,635	0.0441
SCOTT STRINGFELLOW INC, RICHMOND	30,400	1,520	0.0500
MORGAN KEEGAN & CO INC, MEMPHIS	27,380	1,369	0.0500
LEHMAN BROS, LONDON	42,687	1,363	0.0319
UNION BANK SWITZERLAND SECS, LONDON	180,302	1,339	0.0074
NEEDHAM & CO, NEW YORK	28,675	1,264	0.0441
CITIGROUP GBL MARKETS/SALOMAN, NEW YORK	81,669	1,237	0.0151
KEEFE BRUYETT & WOODS INC, NEW YORK	23,900	1,195	0.0500
BROWN BROS HARRIMAN & CO, NEW YORK	23,835	1,192	0.0500
FOX PITT KELTON INC, NEW YORK	26,000	1,078	0.0415
WELLS FARGO SEC LLC, NEW YORK	21,245	1,062	0.0500
CIBC WORLD MKTS-A UNIT OF CIBC OPCO,NY	30,300	1,016	0.0335
VARIOUS BROKERS - \$1,000 OR LESS	<u>2,588,228</u>	<u>33,002</u>	0.0128
TOTAL	10,035,225	\$ 269,590	
AVERAGE COMMISSION RATE			\$ 0.0269

Actuarial Section



**GABRIEL, ROEDER, SMITH & COMPANY****Consultants & Actuaries**

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

November 24, 2003

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

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

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

Actuarial valuations are performed annually. The most recent actuarial valuation was made as of June 30, 2003. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 76.3% funded by accrued assets. The unfunded liability was amortized as a level percent of payroll over 19 years and applied as a charge to the computed normal cost. This is a decrease of one year from the period used in the June 30, 2002 valuation.

Data for the annual valuation was furnished by the Retirement System Administrator and was checked by us for internal completeness and year-to-year consistency. We prepared all of the schedules in the actuarial section with the exception of retirants and beneficiaries added to and removed from rolls. In the financial section, we prepared the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Summary of Actuarial Methods and Assumptions. Valuation assets were based on a smoothed market value which annually recognizes investment earnings up to the assumed 8% rate and 25% of any excess (deficiency).

On the basis of the 2003 valuation, it is our opinion that the Retirement System continues in sound condition in accordance with the actuarial principles of level cost financing.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Rick A. Roeder'.

Rick A. Roeder, EA, FSA, MAAA

Actuarial Cost Method

Normal cost contributions were computed as follows:

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

Actuarial accrued liability was computed and financed as follows:

- (1) Retirants and beneficiaries. The discounted value of pensions likely to be paid retired members and their potential survivors were computed using the investment return and mortality assumptions. The computed amount was reduced by applicable valuation assets and the unfunded amount, if any, was amortized over an open period of 19 years from June 30, 2003.
- (2) Active members and former members. The actuarial accrued liability associated with service rendered prior to the valuation date, including experience gains and losses, was computed using the investment return, mortality and other factors outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount, if any, was amortized over 19 years from June 30, 2003. If valuation assets exceed the actuarial accrued liability, the excess was amortized 19 years and applied as a credit toward the computed normal cost.

Actuarial Assumptions

Level-percent contribution requirements and actuarial present values are calculated by using the entry-age actuarial cost method and assumptions concerning future experiences in the financial risk areas of a retirement plan. Actuarial gains and losses are amortized as a level percent of payroll over a closed period of 19 years from June 30, 2003. The assumptions are selected based upon the recommendation of the actuary.

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

- (i) long-term rates of investment return to be generated by the assets of the system
- (ii) patterns of pay increases to members
- (iii) rates of mortality among members, retirants and beneficiaries
- (iv) rates of withdrawal of active members
- (v) rates of disability among active members
- (vi) the age patterns of actual retirements.

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

Actual experience of the system will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time one or more of the assumptions are modified to reflect experience trends (but not random or temporary year to year fluctuations). The Board of Trustees adopts the assumptions based upon recommendations of the actuary. The demographic assumptions were revised and adopted for the June 30, 1999 actuarial valuation following an actuarial investigation of experience of the Retirement System covering the period July 1, 1992 through June 30, 1998.

Investment Return. Eight percent (8.0%) a year, compounded annually. This consists of a real rate of return of 3.0% a year plus a long-term rate of inflation of 5.0% a year. These rates were first used for the June 30, 1986 actuarial valuation.

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

	2003	2002	2001	2000	1999	1998
Nominal rate	-.93%	-2.1%	4.2%	13.2%	14.4%	15.8%

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

Pay Projections. These assumptions are used to project current pays to those 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.

Sample Ages	Annual Rate of Pay Increase		
	Inflation Component	Merit & Seniority	Total
20	5.0%	3.8%	8.8%
25	5.0	3.1	8.1
30	5.0	2.7	7.7
35	5.0	2.4	7.4
40	5.0	2.1	7.1
45	5.0	1.7	6.7
50	5.0	1.1	6.1
55	5.0	0.7	5.7
60	5.0	0.2	5.2
65	5.0	0.0	5.0

Pay Projections continued

The pay increase assumptions will produce 5.0 percent annual increases in active member payroll (the base rate) given a constant active member group size. This is the same payroll growth assumption used to amortize unfunded actuarial accrued

liability. In addition, an assumption that final average compensation will be increasing by 1.5% to reflect unused sick leave.

Changes actually experienced in average pay and total payroll have been as follows:

	Year Ended June 30					3 Year Average	5 Year Average
	2003	2002	2001	2000	1999		
Average pay	0.5%	7.1%	6.1%	4.3%	9.4%	4.6%	5.5%
Total payroll	-6.8%	5.9%	8.2%	5.7%	11.5%	2.4%	4.9%

Mortality Table. The 1984 Group Annuity Mortality Table (1971 GAM projected), set back 0 years for men and 6 years for women. This assumption is used to measure the probabilities of members dying before retirement, and the probabilities of each pension payment being made after retirement. This table was first used for the June 30, 1994 actuarial valuation. Sample values are shown below.

Sample Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$128.99	\$136.93	27.5	32.9
55	120.81	130.44	23.3	28.4
60	110.81	122.57	19.3	24.1
65	98.93	112.97	15.6	20.1
70	85.89	101.45	12.3	16.3
75	72.86	88.53	9.5	12.9
80	59.70	75.51	7.2	10.0
85	48.45	62.23	5.4	7.6

Rates of Retirement. Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year.

<u>Age of Member</u>	<u>Percentage of Those Eligible Retiring During Year</u>			
	<u>Rule of 80</u>	<u>Age Based</u>		<u>Early</u>
		<u>Male</u>	<u>Female</u>	
50	25%			
51	25			
52	25			
53	25			
54	25			
55	25			10%
56	25			10
57	25			10
58	25			10
59	25			10
60	25			
61	25			
62	25	40%	30%	
63	25	20	20	
64	25	25	35	
65	25	30	35	
66	25	40	40	
67	25	50	50	
68	25	80	80	
69	25	90	90	
70+	25	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. These rates were first used for the June 30, 1999 annual actuarial valuation.

<u>Sample Ages</u>	<u>Years of Creditable Service</u>	<u>Probability of Termination During Year</u>	
		<u>Male</u>	<u>Female</u>
Any	0	15.0%	19.0%
	1	10.0	14.0
	2	8.0	12.0
	3	7.5	8.5
	4	7.0	8.0
25	5 & Over	7.0	8.0
30		6.5	7.5
35		4.3	5.0
40		3.4	3.4
45		2.4	2.7
50		2.0	2.2
55		2.0	2.0
60	2.0	2.0	

Rates of Disability. This assumption measures the probabilities of a member becoming disabled. These rates were first used for the June 30, 1999 annual actuarial valuation.

Sample Ages	% of Active Members Becoming Disabled During Next Year
25	0.02%
30	0.04
35	0.07
40	0.10
45	0.14
50	0.23
55	0.38
60	0.55

Disabled life mortality is measured by the 1984 Group Annuity Mortality Table, as previously noted, with ages set forward 10 years. It is assumed that 40% of valued disability benefits are assumed to be offset by Worker's Compensation benefits.

Forfeiture of Vested Benefits. The assumption is that 50% of the actuarial present value of vested termination benefits will be forfeited by a withdrawal of accumulated contributions.

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

Demographic assumptions were revised for the June 30, 1999 actuarial valuation following an actuarial investigation of experience of the Retirement System.

**Active Members As Of June 30, 2003
By Attained Age And Years Of Service**

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
<20								-	\$ -
20-24	45							45	1,234,587
25-29	144	20						164	5,080,422
30-34	158	129	12					299	10,459,181
35-39	139	154	74	13				380	14,264,099
40-44	147	134	114	97	13	1		506	20,748,553
45-49	153	142	136	148	136	17		732	31,996,460
50-54	90	96	128	143	86	102	8	653	31,368,593
55-59	56	59	83	84	41	62	9	394	19,437,619
60	5	11	15	8	3	7	3	52	2,390,323
61	3	8	11	10	6	1	2	41	1,794,123
62	3	2	2	8	2	2		19	960,835
63		1	3	1	2	1		8	344,152
64	5	2	4	5	1		2	19	839,496
65	1	4	3	4	2		1	15	590,620
66	1	5	2	4	2	2		16	710,473
67	2			2	1			5	174,798
68	3	2	1	1	1			8	474,983
69		1			1			2	80,437
71				1				1	34,087
72		1						1	27,033
74			1	1			1	3	127,129
78			1					1	26,202
Totals	955	771	590	530	297	195	26	3,364	\$143,164,205

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

Age: 45.5 years
Service: 11.2 years
Annual Pay: \$42,558

**Active Members Included In Valuation
Comparative Schedule**

Valuation Date	Active Members	Annual Payroll	Average		Pay	Vested Inactive Members
			Age	Service		
6-30-81	2,510	\$45,222,228	41.2 yrs.	7.9 yrs.	\$18,017	n/a
6-30-82	2,425	44,344,257	41.0	8.1	18,286	34
6-30-83	2,461	48,699,681	41.1	8.5	19,789	36
6-30-84	2,524	55,259,857	41.3	8.7	21,894	32
6-30-85	2,572	59,317,696	41.5	8.9	23,063	25
6-30-86	2,748	65,046,166	41.4	8.7	23,670	33
6-30-87	2,832	69,759,507	41.8	9.0	24,633	34
6-30-88	2,943	72,449,162	41.9	9.0	24,617	40
6-30-89*	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

* An amendment eliminated the one year service requirement for participation in the Retirement System.

Solvency Test

Valuation Date	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Member (Employer Financed Portion)		(1)	(2)	(3)
	6/30/91	\$44,496,039	\$ 72,419,436		\$ 86,372,322	\$164,268,134	100.0%
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

Comparative Schedule of Annual Pension Benefit Information

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.	Pensions
1982	514	\$1,891,620	%	4.7	4.3%	\$3,680	\$16,170,360	16.2	\$50,616
1983	558	2,182,851	15.4	4.4	4.5	3,912	18,686,808	18.2	59,064
1984	602	2,566,459	17.6	4.2	4.6	4,263	22,307,232	20.2	70,140
1985	639	2,961,564	15.4	4.0	5.0	4,635	25,885,272	21.8	80,640
1986*	667	3,523,332	19.0	4.1	5.4	5,282	30,111,048	20.6	61,404
1987	706	3,911,729	11.0	4.0	5.6	5,541	33,313,200	23.0	97,632
1988	737	4,543,907	16.2	4.0	6.3	6,165	39,117,420	25.5	111,516
1989*#	780	5,344,719	17.6	4.2	6.6	6,852	46,556,352	26.6	133,860
1990	832	6,488,714	21.4	3.9	7.5	7,799	57,430,128	28.5	150,864
1991*	918	8,111,103	25.0	3.5	9.3	8,836	72,419,436	29.8	172,608
1992	965	9,010,345	11.1	3.3	10.5	9,337	80,342,604	32.3	208,068
1993*	989	9,704,929	7.7	3.3	10.5	9,813	85,832,484	34.3	235,068
1994	1,035	10,612,612	9.4	3.2	11.3	10,254	95,449,308	35.8	263,340
1995*	1,065	11,429,402	7.7	3.1	11.4	10,732	102,511,728	35.8	270,600
1996	1,105	12,236,298	7.1	3.1	11.6	11,074	109,572,672	37.7	302,952
1997*	1,156	13,391,185	9.4	3.0	12.2	11,594	119,508,312	39.4	325,440
1998	1,208	14,479,476	8.1	2.9	12.7	11,986	129,345,816	42.4	370,344
1999*	1,260	15,721,865	8.6	2.8	12.4	12,478	139,805,832	44.2	402,504
2000*	1,301	16,966,042	7.9	2.8	12.7	13,041	150,527,136	46.2	445,464
2001*	1,355	18,505,247	9.1	2.7	12.8	13,657	161,740,968	47.1	484,776
2002*@	1,442	21,273,162	15.0	2.5	13.9	14,753	187,508,568	53.3	622,236
2003*~	1,742	29,767,500	39.9	1.9	20.8	17,088	275,193,384	58.2	742,908

*Includes ad hoc cost-of-living increases.

#Reflects increase in the number of active members as a result of an amendment which eliminated the one year service requirement for participation in the Retirement System.

@Reflects increase in the number of retirees resulting from a temporary amendment that reduced requirements for retirement eligibility.

~Reflects increase in the number of retirees resulting from temporary amendments that reduced requirements for retirement eligibility and provided added retirement incentives during a limited period.

**Experience Gains (Losses)
Comparative Schedule**

	Year Ended 6-30-03	Year Ended 6-30-02
(1) UAAL* at start of year	\$90,845,207	\$24,686,918
(2) + Employer Normal Cost***	10,890,519	10,512,096
(3) - Actual employer contributions***	12,771,777	10,576,565
(4) + Interest accrual on (1), (2) and (3)	7,192,366	1,972,375
(5) Expected UAAL before changes	96,156,315	26,594,824
(6) + Change from amendments	917,532	2,376,336
(7) + Change from assumptions	0	0
(8) Expected UAAL after changes	97,073,847	28,971,160
(9) Actual UAAL	142,316,591	90,845,207
(10) Experience gain (loss) (8) - (9)	(45,242,744)	(61,874,047)
(11) As % of beginning of year AAL**	(8.2%)	(12.5%)

* *Unfunded actuarial accrued liability.*

** *Actuarial accrued liability.*

*** *Normal Cost and contributions net of employee portion.*

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls End of Year</u>		Average Annual Allowance	Percentage Increase in Average Allowance
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
1993	50	\$ 612,123	26	\$ 137,859	989	\$ 9,704,929	\$ 9,813	5.1%
1994	66	1,032,555	20	124,872	1035	10,612,612	10,254	4.5%
1995	56	775,199	26	195,769	1065	11,429,402	10,732	4.7%
1996	84	1,214,444	44	407,548	1105	12,236,298	11,074	3.2%
1997	67	1,088,667	16	189,380	1156	13,391,185	11,584	4.6%
1998	87	1,311,839	35	223,548	1208	14,479,476	11,986	3.5%
1999	89	1,385,899	37	420,950	1260	15,721,865	12,478	4.1%
2000	77	1,302,723	36	298,207	1301	16,966,042	13,041	4.5%
2001	100	1,731,056	46	354,215	1355	18,505,247	13,657	4.7%
2002	133	2,926,543	46	158,628	1442	21,273,162	14,753	8.0%
2003	327	8,450,695	27	225,815	1742	29,767,534	17,088	15.8%

Summary of Benefit Provisions Evaluated or Considered (June 30, 2003)

NORMAL RETIREMENT (NO REDUCTION FACTOR)

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

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

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

EARLY RETIREMENT (REDUCTION FACTOR)

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

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

DEFERRED RETIREMENT (VESTED TERMINATION)

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

Amount - An amount computed as for normal retirement.

DISABILITY RETIREMENT

Eligibility - 5 or more years of creditable service. Requires inability to perform the duties of any available City position because of a disability expected to be long-term or to result in death.

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

PRE-RETIREMENT SURVIVOR BENEFITS

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

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

OTHER TERMINATION BENEFITS

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

Amount - accumulated contributions at time of termination.

EMPLOYEE CONTRIBUTIONS

5.0% of salary.

CITY CONTRIBUTIONS

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

POST-RETIREMENT ADJUSTMENTS

Ad hoc increases have been granted from time to time. The most recent ad hoc increase was granted July 1, 2003 to retirants and beneficiaries retired prior to July 1, 1993 in the amount of \$1 per month for each year in retirement.

Statistical Section



Schedule of Revenues by Source

Year Ending June 30	Member Contributions (2, 3)	<u>Employer Contributions</u>		Investment Income (1)	Total
		Dollars (2)	% of Annual Covered Payroll		
1997	\$ 5,746,463	\$ 9,292,926	8.38%	\$ 53,919,504	\$ 68,958,893
1998	5,964,922	9,800,579	8.38%	61,823,095	77,588,596
1999	6,125,599	9,475,558	7.91%	47,004,546	62,605,703
2000	6,777,350	9,707,236	7.35%	47,955,383	64,439,969
2001	7,285,058	10,123,248	7.35%	(43,217,890)	(25,809,584)
2002	13,126,025	10,544,412	7.35%	(39,990,731)	(16,320,294)
2003	12,719,518	12,771,777	8.41%	12,737,072	38,228,367

(1) Includes miscellaneous income.

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

(3) Member contributions are 5% annually.

Schedule of Expenses by Type

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds and Transfers to Other Systems	Total
1998	14,032,797	286,313	1,383,054	15,702,164
1999	15,047,061	330,953	1,033,565	16,411,579
2000	16,557,265	314,432	1,460,696	18,332,393
2001	18,042,307	347,975	1,361,881	19,752,163
2002	20,009,180	341,569	906,241	21,256,990
2003	23,855,130	373,718	1,189,624	25,418,472

(1) Includes miscellaneous income

Schedule of Benefit Expenses by Type

Year Ending June 30	<u>Age and Service Benefits</u>		<u>Disability Benefits</u>		Refunds and Transfers to Other Systems (1)	Total
	Retirees	Survivors (1)	Retirees	Survivors		
1997	\$ 11,171,620	\$ 874,389	\$ 591,025	\$ 81,458	\$ 1,044,460	\$ 13,762,952
1998	12,242,902	1,001,762	664,125	124,008	1,383,054	15,415,851
1999	13,078,700	1,030,740	794,476	143,145	1,033,565	16,080,626
2000	14,128,928	1,285,244	1,026,252	116,841	1,460,696	18,017,960
2001	15,304,313	1,286,911	1,265,302	185,781	1,361,881	19,404,188
2002	16,973,784	1,336,239	1,466,490	232,667	906,241	20,915,421
2003	20,209,887	1,910,393	1,541,162	193,688	1,189,624	25,044,754

(1) Includes Death in Service Benefits.

Retiree Member Data

Monthly Benefit	Number Of Retirees	Type of Retirement			
		Service		Disability	
		Retiree	Beneficiary	Retiree	Beneficiary
\$ 1 - \$ 250	63	49	13	-	1
251 - 500	183	109	33	25	16
501 - 750	233	143	47	32	11
751 - 1,000	189	131	27	27	4
1,001 - 1,250	199	152	30	16	1
1,251 - 1,500	189	163	11	15	-
1,501 - 1,750	173	162	4	7	-
1,751 - 2,000	149	141	3	5	-
2,001 - 2,250	102	96	1	5	-
2,251 - 2,500	62	59	-	3	-
2,501 - 2,750	48	46	1	1	-
2,751 - 3,000	41	41	-	-	-
3,001 - 3,250	27	27	-	-	-
3,251 - 3,500	15	14	1	-	-
3,501 - 3,750	15	15	-	-	-
3,751 - 4,000	14	14	-	-	-
4,001 - 4,250	10	10	-	-	-
4,251 - 4,500	18	18	-	-	-
4,501 - and over	12	12	-	-	-
	<u>1,742</u>	<u>1,402</u>	<u>171</u>	<u>136</u>	<u>33</u>
Deferred	125				
	<u>1,867</u>				

Monthly Benefit	Number Of Retirees	Option Selected							Death Service Benefit
		Single Life Annuity	Term Certain With Life Annuity			Joint And Survivor Annuity			
			5 Year	10 Year	15 Year	50%	75%	100%	
\$ 1 - \$ 250	63	36	6	2	1	5	3	9	1
251 - 500	185	109	6	5	4	20	7	25	9
501 - 750	231	121	3	5	3	46	19	28	6
751 - 1,000	189	93	1	2	-	39	20	29	5
1,001 - 1,250	200	88	1	-	2	47	25	32	5
1,251 - 1,500	188	71	4	3	3	36	35	36	-
1,501 - 1,750	174	65	-	1	-	45	33	30	-
1,751 - 2,000	148	53	-	-	-	41	25	29	-
2,001 - 2,250	102	42	1	1	-	30	16	12	-
2,251 - 2,500	62	30	-	1	-	17	5	9	-
2,501 - 2,750	48	25	-	1	-	11	8	3	-
2,751 - 3,000	41	22	-	-	-	6	6	7	-
3,001 - 3,250	27	12	-	-	1	5	5	4	-
3,251 - 3,500	15	6	-	-	-	3	3	3	-
3,501 - 3,750	14	10	-	-	1	2	-	1	-
3,751 - 4,000	15	9	-	-	-	-	3	3	-
4,001 - 4,250	10	4	-	-	-	2	1	3	-
4,251 - 4,500	4	4	-	-	-	-	-	-	-
4,501 - and over	26	10	-	1	1	6	5	3	-
	<u>1,742</u>	<u>810</u>	<u>22</u>	<u>22</u>	<u>16</u>	<u>361</u>	<u>219</u>	<u>266</u>	<u>26</u>
Deferred	125								
	<u>1,867</u>								

Average Monthly Benefit Payments to New Retirees

Retirement Effective Dates For Fiscal Years Ending June 30	Years of Credited Service					
	1-9	10-14	15-19	20-24	25-29	30+
2003						
Avg Monthly Benefit	\$595	\$734	\$1,213	\$1,772	\$2,380	\$3,421
Avg Monthly Final Avg Compensation	\$3,350	\$2,851	\$3,358	\$3,705	\$4,209	\$5,047
Number of Active Retirees	10	18	31	41	145	62
2002						
Avg Monthly Benefit	\$465	\$615	\$1,106	\$1,236	\$2,372	\$3,071
Avg Monthly Final Avg Compensation	\$2,620	\$2,213	\$2,882	\$2,455	\$3,921	\$4,147
Number of Active Retirees	9	10	24	20	61	9
2001						
Avg Monthly Benefit	\$395	\$642	\$907	\$1,665	\$1,900	\$2,543
Avg Monthly Final Avg Compensation	\$2,098	\$2,238	\$2,340	\$3,124	\$3,199	\$3,461
Number of Active Retirees	8	20	16	20	24	12
2000						
Avg Monthly Benefit	\$433	\$720	\$927	\$1,749	\$2,269	\$1,884
Avg Monthly Final Avg Compensation	\$2,640	\$2,499	\$2,316	\$3,420	\$3,749	\$2,736
Number of Active Retirees	10	14	12	17	21	3
1999						
Avg Monthly Benefit	\$338	\$510	\$865	\$1,415	\$1,738	\$3,014
Avg Monthly Final Avg Compensation	\$2,244	\$1,855	\$2,270	\$3,033	\$3,064	\$4,737
Number of Active Retirees	9	17	5	20	34	4
1998						
Avg Monthly Benefit	\$360	\$707	\$1,011	\$1,356	\$1,841	\$1,934
Avg Monthly Final Avg Compensation	\$2,390	\$2,571	\$2,654	\$2,907	\$3,245	\$3,040
Number of Active Retirees	14	8	10	27	24	4



