City of Tucson

Tucson Supplemental Retirement System

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

Fiscal Year July 1, 2007 Through June 30, 2008

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

Comprehensive Annual Financial Report
For Fiscal Year Ended
JUNE 30, 2008

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

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INTRODUCTION

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, 2007

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

December 22, 2008

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, 2008, 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, 2008;
- the **Investment Section**, which contains a letter from the Investment Consultant, an outline of investment policies, investment results, asset allocation and other investment schedules;
- the **Actuarial Section**, which contains the independent actuary's certification letter and results of the annual actuarial valuation; and
- the **Statistical Section,** which provides financial and demographic data pertaining to TSRS.

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

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

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

Budgetary Controls

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

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

Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a fixed period of fifteen years.

Major Initiatives

The Board granted an ad hoc retirement benefit increase as of July 1, 2006 for retirees with retirement dates prior to July 1, 2004, based on the total number of credited years of service at retirement, benefiting those retired for the longer periods and most affected by inflationary trends. Of the 2,018 retirees in the system at that time, a total of 1,658 received a benefit increase.

During the fiscal year 2008, the City Code was amended to provide the following temporary features aimed at providing employees with incentives to retire: Employees whose age and years of credited service adding to 75 points could retire early with a reduced pension that is actuarially neutral to the pension system. An optional incentive added to the regular 12 month End of Service Program allowed retiring employees an accelerated option to retire in six months and receive a matching amount equal to what was accumulated in their participant account. This limited window provided 210 members with an incentive payment and 7 others participated in the regular (non-incentive) End of Service Program. Finally, a limited provision for employees to purchase creditable "permissive" service was added to enable employees to buy service credit in the pension plan without requiring employees to provide evidence that they worked these years for a governmental entity. This provision allowed 41 employees to purchase creditable service and retire this year.

Funding Status

Analysis of the funding progress for TSRS measures the net assets available for benefits against the actuarially accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2008, the system's funded ratio decreased from the prior year 83.1% level to 79.1%. The actuarially accrued liability increased from $763,538,930 to $822,204,788 an increase of 7.7% and the actuarial value of assets available for benefits increased by 2.4%

from $634,763,193 to $650,227,215. The System's unfunded actuarial accrued liability increased by $43,201,836 during this plan year. Elements associated with this change include experience losses attributable to retiree mortality of $1,700,000, investment losses of $14,700,000, retirement incidence and new entrants losses of $16,100,000, employee turnover and pre-retirement mortality losses attributing $15,000,000 offset slightly by the gains from active employee pay increases of $4,300,000 generated a net loss for the year.

Investment Activities

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

Net investment loss amounted to ($33,234,599). The net investment gain or loss 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 (4.63%). For the last five years, the System has had an annualized return of 9.75%.

TSRS asset allocation targets are 49% U.S. equities, 15% foreign equities, 8% real estate and 28% fixed income. These percentages reflect the current diversification posture as of June 30, 2008 and represent the board's prudent judgement in the pursuit of maximum returns at acceptable levels of risk.

During the fall of 2007, the Board completed their large cap growth, U.S. equity manager search for a suitable replacement for TCW's Concentrated Core Equity Strategy. After careful evaluation and with the assistance of the System's investment consultant, the Board chose to hire Friess Associates. The transition from TCW to Friess was completed in December, 2007. In a continuing effort to increase diversification of the System's investment portfolio, the Board decided to add an infrastructure component to the investment policy and allocation strategy. As a result, the Board voted to invest in two infrastructure limited partnership arrangements at the conclusion of its manager search and interview process in May, 2008. Macquarie European Infrastructure Fund III, L.P. (MEIF III) and Babcock & Brown Infrastructure Fund North America, L.P. (BBIFNA) were chosen to manage $40 million, or 5% of total System assets, split evenly between each infrastructure fund. As of June 30, 2008, no funding or formal funding investment policy had been established for either of these arrangements. Funding for real estate continued with three more capital calls totaling $1.4 million for the LaSalle Income and Growth Fund IV (LaSalle). As of June 30, 2008, 97% of the $8.1 million commitment to LaSalle had been co mpleted.

In accordance with investment policy, the System's asset classes were rebalanced in January and March 2008. In January, a total of $5 million each was moved from real estate and fixed income for a total of $10 million to U.S. equity. In March, another $8 million was moved from fixed income to U.S. equity. These adjustments kept those asset classes within their target allocation percentage ranges.

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

Professional Services

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

Acknowledgments

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

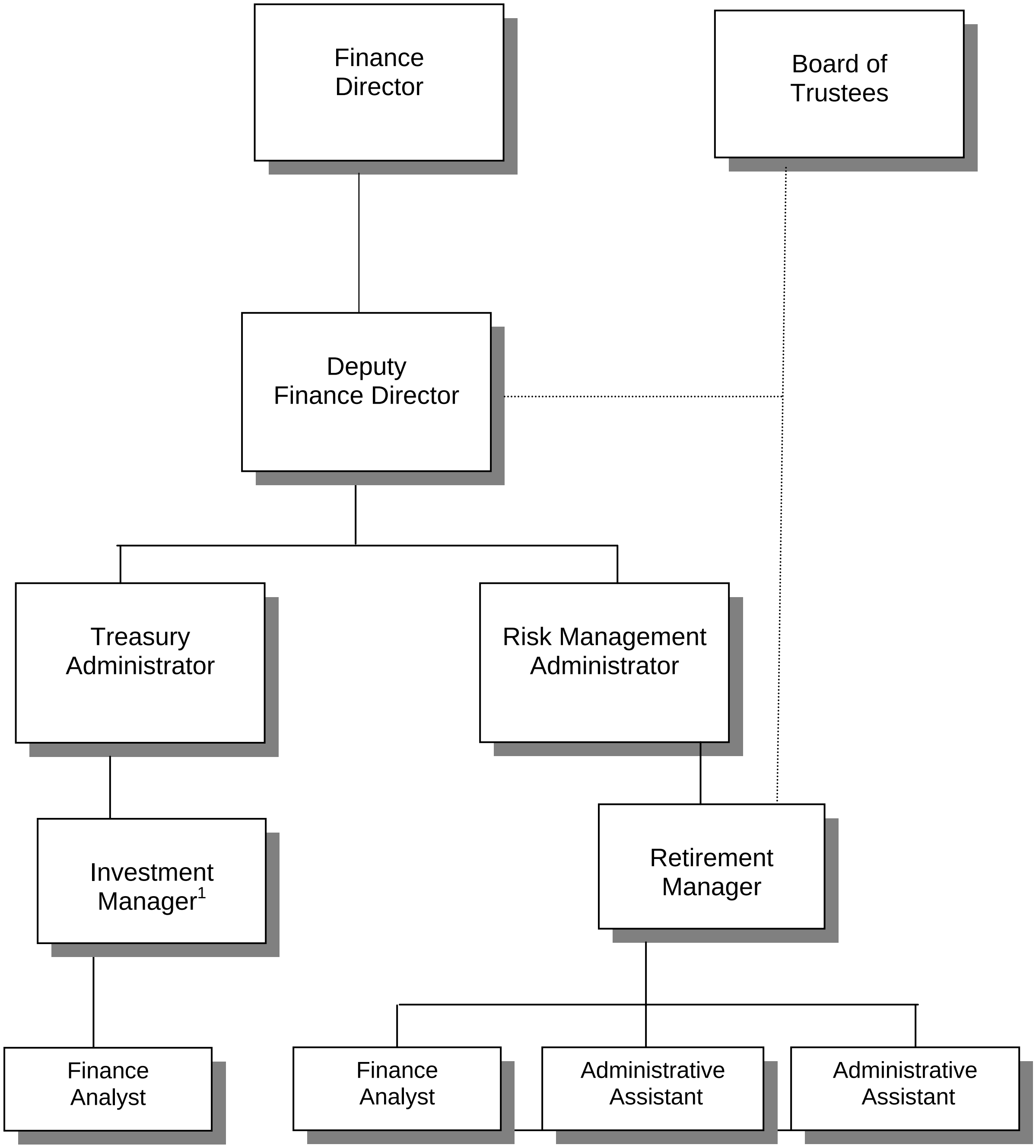
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tucson Supplemental Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 12th consecutive year that the Tucson Supplemental Retirement System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Respectfully submitted,

Michael A. Hermanson, CPA
Retirement Manager

Organization Chart



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

Administrative Organization

BOARD OF TRUSTEES

Brian Bjorndahl
Chairman

John Moore
City Manager's Appointee

David Cormier
Interim Finance Director

Cindy Bezaury
Human Resources Director

John O'Hare
Employee Representative

Gage Andrews
Employee Representative

Paul D. Miner
Retiree Representative

FINANCE
Joe Ladenburg
Deputy Director

TREASURY STAFF
Ellen Hitchings
Treasury Administrator

Allan Bentkowski, CPA
Investment Manager

John Behrens
Finance Analyst

RISK MANAGEMENT STAFF

Joel Peterson
Risk Management Administrator

Michael A. Hermanson, CPA
Retirement Manager

Doris Rentschler, CFP
Finance Analyst

Claire Beaubien, CPS
Administrative Assistant

ACCOUNTING
Vivian Newsheller
Principal Accountant

LEGAL
Frank W. Kern
Principal Assistant City Attorney

ACTUARY
Gabriel, Roeder, Smith & Company
Denver, CO

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

INVESTMENT MANAGERS
Alliance Capital Management Corporation
New York, NY

Barclays Global Investors
San Francisco, CA

Causeway Capital Management
Los Angeles, CA

Friess Associates, LLC
Greenville, DE

Pyramis Global Advisors (Fidelity)
Smithfield, RI

JP Morgan Asset Management
San Francisco, CA

Julius Baer Investment Management LLC
(Artio)
New York, NY

LaSalle Investment Management
Chicago, IL

Pacific Investment Management Company
Newport Beach, CA

Trust Company of the West
Los Angeles, CA

INVESTMENT CONSULTANT
Hewitt Investment Group
Lincolnshire, IL

CUSTODIAN BANK
BNY Mellon
New York, NY

CITY OF
FOUNDED
1775
TUCSON

FINANCIAL

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

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

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Tucson Supplemental Retirement System:

We have audited the accompanying financial statements of the Tucson Supplemental Retirement System (the System), a component unit of the City of Tucson, Arizona, as of and for the year ended June 30, 2008, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tucson Supplemental Retirement System, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the Tucson Supplemental Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress and schedule of employer contributions on pages 22 and 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Heinfeld, Meech & Co., P.C.

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

December 17, 2008

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, 2008. 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, 2008 are $650,227,215 (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 decrease for this plan year in total net assets held in trust for pension benefits of $45,747,860, or 6.57%, primarily as a result of decreases 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, 2008, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 79.1%.

- Revenues (Additions to Plan Net Assets) for the year were $6,588,801, which includes member and employer contributions plus transfers from other systems and contributions from other sources totaling $39,823,400, Investment income of $22,860,051 and an Investment loss of $50,256,771 reduced by Investment Expenses of $5,837,879.

- Expenses (Deductions from Plan Net Assets) decreased from $54,365,608 to $52,336,661 over the prior year, or approximately 3.73%. The decrease in deductions was primarily due to lower amounts of refunds of $308,041, a decrease in transfers to Arizona State Retirement System of $7,546,421 offset by benefit payments increasing over the prior year in the amount of $5,791,638 from new retirements and increases in administrative expenses of $33,877; bringing the total decrease in expenses to $2,028,947.

Overview of the Financial Statements

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

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

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

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

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

Both statements comply with applicable Governmental Accounting Standards Board (GASB) Statements. These pronouncements require certain disclosures and require state and local governments to report using the full accrual method of accounting. TSRS complies with all material requirements of these pronouncements.

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

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

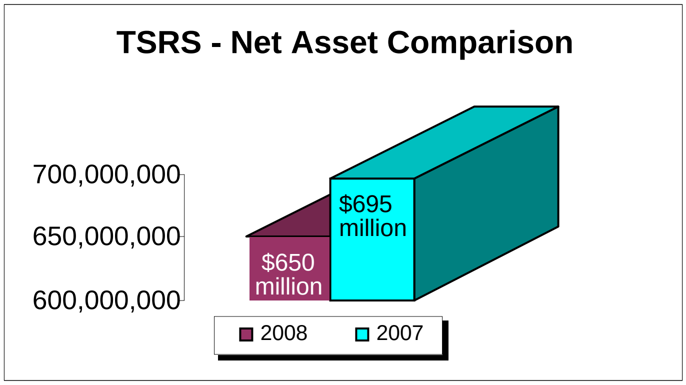
Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 10-21 of this report).

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 22 and 23 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 24 of this report.)

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table on page 5). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2008. Currently $650,227,215 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.



Changes in Total Plan Net Assets

Assets		**6/30/08**		**6/30/07**	**% change**
Cash, Cash Equivalents and Receivables	$	87,311,068	$	25,411,739	243.6%
Investments		654,935,256		710,621,407	-7.8%
Prepaid Expenses		-		60,000	100.0%
Securities Lending Cash Collateral		30,555,540		66,511,147	-54.1%
Capital Assets, Net		142,589		5,597	2447.6%
Total Assets	**$**	**772,944,453**	**$**	**802,609,890**	**-3.7%**
Liabilities					
Accounts Payable and Other Payables	$	4,513,665	$	1,439,349	213.6%
Due to Securities Lending Borrowers		30,555,540		66,511,147	-54.1%
Due to Brokers		87,648,033		38,684,319	126.6%
Total Liabilities	**$**	**122,717,238**	**$**	**106,634,815**	**15.1%**
Total Net Assets	**$**	**650,227,215**	**$**	**695,975,075**	**-6.6%**

As of June 30, 2008, $650,227,215 in Plan Net Assets are held in Trust for the payment of pension benefits, as identified in the Statement of Plan Assets on page 8. This amount represents a decrease of 6.6% from June 30, 2007. The decrease is attributable primarily to losses experienced in the financial markets, which impacted TSRS' investment performance.

Additions to Plan Net Assets

Additions to Net Assets - TSRS		**6/30/08**		**6/30/07**	**% change**
City Contributions	$	23,902,286	$	22,670,418	5.4%
Employee Contributions		8,591,124		8,120,057	5.8%
Purchase of Service Credit		5,186,289		1,008,980	414.0%
Transfers and contributions from other systems		2,143,701		3,835,688	-44.1%
Investment income and securities lending income		(33,234,599)		99,329,593	-133.5%
Total Additions	**$**	**6,588,801**	**$**	**134,964,736**	**-95.1%**

Employer contributions increased by $1,231,868 or 5.4% and employee contributions increased by $471,067 or 5.8%. Despite an overall decrease in covered payroll from last year, the effect of increased contribution rates and policy changes affecting contribution rates implemented previously caused overall pension contributions to increase. A total of $5,186,289 was collected from employees purchasing prior service credits for either uncovered prior government service or from permissive service credits. The net investment losses are due to decreases in asset values related to TSRS portfolio investments in the domestic and international financial markets.

Deductions from Plan Net Assets

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

Expenses for fiscal year 2008 totaled $52,336,661, a decrease of 3.7% from fiscal year 2007 expenses. This decrease in total deductions resulted from a decrease in transfers to other systems in the amount of $7,546,421 over the previous fiscal year. The majority of these transfers in the prior year were associated with former City of Tucson library employees electing to move their active membership from TSRS to Arizona State Retirement System. Offsetting these decreases, were retirement benefits increasing by $5,791,638 due to an increase in the number of pension benefits paid to 282 employees who retired during this plan year. Included in the retirement benefit increase were the End of Service incentive payments made for retirements this year totaling $1,498,136.

Deductions from Net Assets		**06/30/08**		**06/30/07**	**% change**
Retirement Benefits	$	46,211,560	$	40,419,922	14.3%
Refund of Contributions		1,265,235		1,573,276	-19.6%
Transfers to Other Systems		4,340,520		11,886,941	-63.5%
Administrative Expenses		519,346		485,469	7.0%
Total Deductions	$	52,336,661	$	54,365,608	-3.7%
Net Increase/(Decrease) in Plan Assets	**$**	**(45,747,860)**	**$**	**80,599,128**	**-156.8%**

Reserves

The system places an amount into a separate Reserve for Employee Contributions for all amounts contributed by members. Deductions are made from this account when the member retires, transfers balances to other retirement systems, or when a member terminates employment and requests a refund. As of the plan year ended June 30, 2008, the balance in this reserve account decreased by $10,697,464 to $125,331,432.

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, 2008, this reserve account balance increased by $101,743,296 to $473,240,976.

The impact of gains and losses recognized during the plan year ended June 30, 2008 affects the amount remaining in the Unreserved Net Assets. Employer funding is added to the Unreserved Net Assets balance. At retirement, amounts needed to fully fund retirement benefits are transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. Unreserved Net Assets decreased during the plan year by $136,796,692 to $51,654,807.

TSRS's Fiduciary Responsibilities

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

Requests for Information

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

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

Tucson Supplemental Retirement System
Statement of Plan Net Assets
Year Ended June 30, 2008

Assets		
Cash Deposits/Pooled Investments	$	2,305,463
Receivables:		
City Contributions (Note 3)		867,187
Employee Contributions (Note 3)		324,079
Due From Brokers		81,208,509
Interest and Dividends		2,605,830
Total Receivables		85,005,605
Investments, at Fair Value (Notes 4, 5, and 6):		
Short Term Investments		23,993,420
Securities Lending Cash Collateral		30,555,540
U.S. Treasuries, Agencies & other Government Bonds		51,943,862
Corporate Bonds		55,559,256
U.S. Corporate Stocks		307,173,811
International Bonds		9,733,683
International Equity		91,514,361
Bond Mutual Funds		59,412,613
Real Estate		55,604,250
Total Investments, at Fair Value		685,490,796
Capital Assets, At Cost, Net of Accumulated Depreciation of $16,706		142,589
Total Assets		772,944,453
Liabilities		
Accounts Payable		4,507,202
Accrued Wages Payable		5,670
Due to Securities Lending Borrowers (Note 5)		30,555,540
Due to Brokers		87,648,033
Refundable Deposits		793
Total Liabilities		122,717,238
Net Assets Held in Trust for Pension Benefits (Note 3 and Schedule of Funding Progress)	$	650,227,215

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Statement of Changes in Plan Net Assets
Year Ended June 30, 2008

Additions		
Contributions (Note 3:)		
City	$	23,902,286
Employee		8,591,124
Purchase of Service		5,186,289
Contributions from Other Sources		130,784
Transfers from Other Systems		2,012,917
Total Contributions		39,823,400
Investment Income:		
Net Gain(Loss) in Fair Value of Investments		(50,256,771)
Interest		10,815,803
Dividends		10,009,694
Securities Lending Income (Note 5)		1,881,706
Miscellaneous Income		152,848
		(27,396,720)
Less Investment Expenses:		
Interest Expense - Securities Lending		1,708,227
Other Investment Expense		4,129,652
Total Investment Expense		5,837,879
Net Investment Gain(Loss)		(33,234,599)
Total		6,588,801
Deductions		
Benefits		46,211,560
Refunds		1,265,235
Transfers to Other Systems		4,340,520
Administrative Expenses		519,346
Total Deductions		52,336,661
Net Decrease in Plan Net Assets		(45,747,860)
Net Assets Held in Trust for Pension Benefits		
July 1, 2007		695,975,075
June 30, 2008	$	650,227,215

See Accompanying Notes to Financial Statements.

Tucson Supplemental Retirement System
Notes to Financial Statements
Year Ended June 30, 2008

1. DESCRIPTION OF THE PLAN

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

Active plan participants:	
Vested	2,175
Nonvested	1,076
Total active plan participants	3,251
Current retirees and beneficiaries	2,307
Terminated vested participants	202

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, 2008 is as follows:

C. Plan Benefits

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

1. DESCRIPTION OF THE PLAN (Continued)

An employee who retires after attaining age 55 with 20 or more years of creditable service is entitled to early retirement benefits reduced to the actuarial equivalent of the amount to which the employee would have been entitled upon attaining normal retirement. A temporary provision during this plan year was added, allowing any employee who had attained a combined age and years of creditable service equaling the sum of 75 to retire early. This provision ended a brief period after the plan year end, on September 30, 2008.

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

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

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

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

   The spousal beneficiary of an employee who died while eligible to receive benefits but had not pre-selected a benefit option, may choose to receive a benefit equal to one-half of the single life annuity based on the member's years of credited service and average final monthly compensation at the time of the member's death.

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

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

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

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

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

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

At June 30, 2008, there were no individual investments, other than those issued or guaranteed by the United States government, that represented 5 percent or more of plan net assets.

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

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

F. ***Benefit Changes –*** An Ad Hoc Cost of Living Adjustment granted July 1, 2007 for retirees and beneficiaries retired prior to July 1, 2004, accounting for a $3.68 million increase in actuarial liabilities.

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

3. CONTRIBUTIONS AND RESERVES

A. Funding Requirements

1. *Employee Contributions* - Currently, employee contributions are 5% of regular salary and are made through payroll deductions for employees hired prior to July 1, 2006. Employees hired after June 30, 2006 are paying an amount equal to 40% of the actuarially recommended contribution rate. For this fiscal year, the rate for new employees was 8.084%. 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 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, 2008, 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, 2008, consisted of the following components:

Reserved for employee contributions	$	125,331,432
Reserved for retirement benefits		473,240,976
Unreserved net assets		51,654,807
Net Assets	$	650,227,215

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, 2008. 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, 2008 are listed below. These investments are either held by the System or its agent in the System's name and are either insured, registered or collateralized. A portion of these investments is subject to credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and/or foreign currency risk. The Government Accounting Standards Board (GASB) Statement 40 requires the System to disclose such risks which are all discussed in the sections that follow.

All System investments are reflected in the following schedule with the exception of amounts held in the City's investment pool account. The City maintains an investment pool account for City funds. Bi-weekly contributions for the Tucson Supplemental Retirement System are held in the City's investment pool account and are used to pay recurring expenditures. The $2,305,463 of cash and deposits in the City's investment pool account are invested in money market fund consisting of U.S. Treasuries and separately held issues of federal agency and U.S. corporate bonds with ratings no lower than A2 as reported by Moody's.

Investments	**Fair Value**
United States Issues not on Securities Loan:	
U.S. Treasuries, Agencies & other Government Bonds	$ 48,904,936
Corporate Bonds	55,559,256
Corporate Stocks	286,272,382
Non-United States Issues not on Securites Loan:	
International Bonds	9,733,683
International Equity	86,558,751
Subtotal	487,029,008
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:	
U.S. Treasuries, Agencies & other Government Bonds	3,038,926
U.S. Corporate Stocks	20,901,429
International Equity	4,955,609
Subtotal	28,895,964
Securities Lending Short-Term Collateral Investment Pool	30,555,540
Bond Mutual Funds	59,412,613
Short Term Investments	23,993,420
Real Estate	55,604,251
Subtotal	169,565,824
Total Investments, at Fair Value	$ 685,490,796

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

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

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

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

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

The System currently does not have a policy regarding custodial credit risk for deposits or investments as defined in the Credit Risk section above. As of June 30, 2008 the System was exposed to custodial credit risk for deposits in the amount of $2,500. There was no exposure to custodial credit risk for investments as of June 30, 2008.

The System had the following credit risk structure as of June 30, 2008:

Credit Risk Structure

Investment Type	Holdings	Average Credit Rating	Fair Value	Percent of Grand Total
Cash and Cash Equivalents:				
Cash & Short Term Investment Fund	2	AAA	$ 5,951,217	
Commercial Paper	4	P-2	5,784,335	
U.S. Treasury Bills - Less than 1 Year	3	UST	3,982,159	
U.S. Agency Bonds - Less than 1 Year	2	AGY	1,496,466	
Options	6	AAA	696,907	
Sub Total	17		17,911,084	9.21%
U.S. Treasury Notes & Bonds:	27	UST	(53,832,003) (1)	-27.67%
U.S. Agency & Other Government Obligations:				
U.S. Agency Bonds	34	AGY	41,723,579	
Mortgage Backed Securities (MBS)	43	AGY	61,996,546	
State General Obligation Bonds	2	A1	2,055,740	
Sub Total	79		105,775,865	54.37%
Corporate & Other Fixed Income Instruments:				
Collateralized Mortgage Obligations (CMO)	3	AAA	642,786	
Banks & Finance	33	A1	38,417,464	
Industrials	17	BAA2	15,445,685	
Utilities	7	BAA1	7,480,324	
Fixed Income Swaps & Call Options	211	A1	(1,318,904) (1)	
Convertible Securities	2	A1	830,200	
Sub Total	273		61,497,555	31.61%
International Bonds:	5	AA1	3,795,384	1.95%
Bond Mutual Funds:	4	AAA - BA1	59,412,613	30.54%
Grand Total	405		$ 194,560,498	100.00%

Footnotes:

(1) A negative value in U. S. Treasury Notes & Bonds indicates that a short position was taken in these instruments. This was done to hedge interest rate risk obtained from holding long positions in mortgages and corporate bonds. The investment strategy employed in this case, after netting the long and short positions against each other, enables the TSRS portfolio to benefit if mortgages and corporate bonds outperform Treasuries, regardless of changes in interest rates.

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

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

The System had the following maturity structure as of June 30, 2008:

Maturity Structure

	Investment Maturities (in Years)				
Investment Type	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**	**Total Fair Value**
Cash & Short Term Investment Fund	$ 5,951,217	$ -	$ -	$ -	$ 5,951,217
U.S. Treasury Issues	3,982,159	(39,082,850) (1)	(26,645,240) (1)	11,896,087	(49,849,844)
U.S. Agency & Other Government Obligations	1,496,466	18,220,831	11,032,908	76,522,126	107,272,331
Options	696,907	-	-	-	696,907
Corporate & Other Fixed Income Instruments	10,231,878	14,380,274	19,663,421	23,006,318	67,281,891
International Bonds	-	920,581	-	2,874,802	3,795,383
Bond Mutual Funds Average Effective Maturity: 4.01 Years	-	-	-	-	59,412,613
Total	$ 22,358,627	$ (5,561,164)	$ 4,051,089	$ 114,299,333	$ 194,560,498
Average Modified Duration:					
Internal Account	**6.41**	yrs			
External Account	**6.42**	yrs			

Footnotes:

(1) A negative value in U. S. Treasury Notes & Bonds indicates that a short position was taken in these instruments. This was done to hedge interest rate risk obtained from holding long positions in mortgages and corporate bonds. The investment strategy employed in this case, after netting the long and short positions against each other, enables the TSRS portfolio to benefit if mortgages and corporate bonds outperform Treasuries, regardless of changes in interest rates.

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

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

- Investments in any single country market should not exceed more than 4 times the weight of the country in the benchmark index or 50% of portfolio assets, whichever is lower

- If a country has a greater than 50% weight in the index, the maximum exposure to that country in the portfolio may be as high as its weight in the index

- No more than 30% of each manager's portfolio should be invested in "emerging markets" (i.e., markets that are not included in the Morgan Stanley Capital International Europe, Australia and Far East Index)

- Managers are permitted to enter into hedging strategies, including cross-currency hedges, using forward currency exchange contracts and currency options

- Derivatives should not be used for the purpose of speculation or for leveraging the portfolio

The TSRS fund had the following foreign currency risk exposure as of June 30, 2008:

Foreign Currency Risk Exposure

Currency & Asset Type Category	Fair Value (1), (2)	Totals by Currency	Percent of Grand Total
AUSTRALIAN DOLLAR			
CASH & CASH EQUIVALENTS	2,598		
RECEIVABLE FOR INVESTMENTS SOLD	18,396		
FIXED INCOME SECURITIES	(16,448)	4,547	**0.00%**
BRAZIL REAL			
FFX CONTRACTS RECEIVABLE	496,611		
FIXED INCOME SECURITIES	(544,315)	(47,703)	**-0.01%**
BRITISH POUND STERLING			
CASH & CASH EQUIVALENTS	155,990		
CASH OFFSET FOR FUTURES CONTRACTS	(3,424,740)		
FFX CONTRACTS RECEIVABLE	121,038		
PAYABLE FOR FORWARD FOREIGN EXCHANGE CONTRACTS	(1,609,210)		
RECEIVABLE FOR INVESTMENTS SOLD	6,130		
EQUITY	7,839,254		
FIXED INCOME SECURITIES	(359,990)		
FUTURES CONTRACTS	3,424,740	6,153,212	**0.95%**
CANADIAN DOLLAR			
EQUITY	1,995,792	1,995,792	**0.31%**
CHINESE YUAN RENMINBI			
FFX CONTRACTS RECEIVABLE	2,553,143	2,553,143	**0.39%**
EURO CURRENCY UNIT			
CASH & CASH EQUIVALENTS	325,856		
CASH OFFSET FOR FUTURES CONTRACTS	10,195,715		
FFX CONTRACTS RECEIVABLE	245,323		
PAYABLE FOR FORWARD FOREIGN EXCHANGE CONTRACTS	(1,950,073)		
PAYABLE FOR INVESTMENTS PURCHASED	(3,142,368)		
RECEIVABLE FOR INVESTMENTS SOLD	83,250		
EQUITY	22,034,954		
FIXED INCOME SECURITIES	2,737,424		
FUTURES CONTRACTS	(10,195,715)	20,334,367	**3.13%**
HONG KONG DOLLAR			
EQUITY	856,766	856,766	**0.13%**
JAPANESE YEN			
CASH & CASH EQUIVALENTS	18,180		
PAYABLE FOR FORWARD FOREIGN EXCHANGE CONTRACTS	(937,299)		
PAYABLE FOR INVESTMENTS PURCHASED	(1,809)		
EQUITY	4,915,579		
FIXED INCOME SECURITIES	(10,286)	3,984,365	**0.61%**
MEXICAN NEW PESO			
CASH & CASH EQUIVALENTS	3,196		
FIXED INCOME SECURITIES	(80,385)	(77,189)	**-0.01%**
NORWEGIAN KRONE			
CASH & CASH EQUIVALENTS	44		
EQUITY	926,675	926,719	**0.14%**
RUSSIAN RUBEL (NEW)			
FFX CONTRACTS RECEIVABLE	498,819		
PAYABLE FOR FORWARD FOREIGN EXCHANGE CONTRACTS	(251,320)	247,499	**0.04%**
SOUTH KOREAN WON			
FFX CONTRACTS RECEIVABLE	24,263		
PAYABLE FOR INVESTMENTS PURCHASED	(24,263)		
EQUITY	1,518,877	1,518,877	**0.23%**
SWEDISH KRONA			
EQUITY	1,894,081	1,894,081	**0.29%**
SWISS FRANC			
EQUITY	2,444,292	2,444,292	**0.38%**
U.S. DOLLAR			
CASH & CASH EQUIVALENTS	(22,418,072)		
CASH OFFSET FOR FUTURES CONTRACTS	(50,561,303)		
FFX CONTRACTS RECEIVABLE	4,698,012		
PAYABLE FOR FORWARD FOREIGN EXCHANGE CONTRACTS	(3,861,890)		
PAYABLE FOR INVESTMENTS PURCHASED	(38,119,593)		
RECEIVABLE FOR INVESTMENTS SOLD	80,976,130		
CONVERTIBLE SECURITIES	830,200		
EQUITY	322,875,799		
FIXED INCOME SECURITIES	174,093,214		
FUTURES CONTRACTS	50,561,303		
PREFERRED SECURITIES	555,390		
PRIVATE EQUITY	41,015,641		
REAL ESTATE	45,419,319	606,064,152	**93.41%**
GRAND TOTAL		**648,852,920**	**100.00%**

Footnotes:

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

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

5. SECURITIES LENDING

The Board of Trustees for the Tucson Supplemental Retirement System permits the custodian bank, BNY Mellon, to lend securities to broker-dealers and other entities. Each loan is executed with a simultaneous agreement to return the collateral for the same securities in the future. The custodian bank lends U.S. securities for collateral initially valued at 102% of the fair value plus any accrued interest. Non-U.S. securities are loaned for collateral initially valued at 105% of the fair value of the securities plus any accrued interest. Collateral is marked-to-market daily. As of June 30, 2008, the carrying amount and fair value of securities on loan was $28,895,964. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day.

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

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

The lender cannot pledge or sell collateral securities received until, and unless, a borrower defaults. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses known to the securities lending agent. As of June 30, 2008, the lenders had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

6. DERIVATIVES

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

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

The System also permits the use of financial futures and options by the external fixed income managers to reduce or eliminate undesirable/unintended risks, to maintain desirable risks so as to improve the portfolio's return patterns, and to enhance portfolio liquidity, flexibility and/or efficiency. The external fixed income manager used long and short positions in exchange-traded government futures during the year to modify exposure to various parts of the yield curve and to modify the risk characteristics of the portfolio. The government futures positions were fully supported by cash and cash equivalents. The net market exposure as of June 30, 2008 was ($49,826,444). Money market futures were also used to gain exposure to future short-term interest rates. The net market exposure as of June 30, 2008 was $93,616,772. Additionally, forward and mortgage "to be announced" securities (TBAs) were used in the portfolio during the period; the net market value of these positions was ($57,622,805) and $15,945,042, respectively. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of $891,294.

Interest rate swaps are used to provide high-grade agency/corporate exposure. Swaps also provide an effective and inexpensive means by which to quickly adjust portfolio duration, maturity mix and sector exposure. Swaps are over-the-counter transactions as opposed to being traded on an organized exchange. Counterparty risk is limited by execution under standardized International Swap and Derivatives Association Agreements. These standardized contracts reduce legal risk and increase speed of execution that, in turn, improves liquidity. A swaption is simply an option on a swap and is used for the same purposes as options and swaps. Credit default swaps provide attractive means of hedging event risk and increasing/decreasing credit exposure. These securities are backed by high-grade liquid securities and are subject to the System's minimum quality and issue limits. The portfolio held the following net market exposure in swaps and credit default swaps of ($2,541,616) and $1,028,323, respectively.

7. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2008, the most recent actuarial valuation date, the plan was 79.1% funded. The actuarial accrued liability for benefits was $822.2 million and the actuarial value of assets was $650.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $172 million. The covered payroll (annual payroll of active employees covered by the plan) was $154 million, and the ratio of UAAL to the covered payroll was 111.7 percent. This information was calculated in accordance with the parameters set forth in paragraphs 35 and 36 of Statement No. 25 of the Governmental Accounting Standards Board.

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

8. ACTUARIAL METHODS AND ASSUMPTIONS

In the June 30, 2008 actuarial valuation, the level-percent contribution requirements and actuarial present values are calculated using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 9.25% per year. Both (a) and (b) included an inflation component of 4.25%. The assumptions did not include postretirement benefit increases, because there is no guarantee or requirement that future increases will be granted. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of legal or contractual funding limitations, since they do not apply. The actuarial value of assets was determined using techniques that spread the effects of short term volatility in the market value of assets over a four-year smoothing period. The Unfunded Actuarial Accrued Liability7 is being amortized as a level percentage of payroll on an open period of 15 years. This period of amortization has been used since the plan year ended June 30, 2007. The assumptions are selected based upon the recommendation of the plan's actuary.

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

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b)-(a)	Funded Ratio (a)/(b)	Active Member Covered Payroll (c)	Unfunded AAL as a Percentage of Active Member Covered Payroll ((b-a)/c)
1991	$164,268	$203,288	$39,020	80.8%	$ 86,830	44.9%
1992	179,570	216,483	36,913	82.9	86,205	42.8
1993	197,282	239,472	42,190	82.4	92,867	45.4
1994	213,541	261,712	48,171	81.6	94,180	51.1
1995	237,713	282,040	44,327	84.3	99,847	44.4
1996	266,740	300,607	33,867	88.7	105,230	32.2
1997	304,684	327,378	22,694	93.1	110,189	20.6
1998	353,056	348,966	(4,090)	101.2	113,729	-
1999	402,875	400,224	(2,651)	100.7	126,817	-
2000	453,954	437,750	(16,204)	103.7	134,088	-
2001	470,672	495,359	24,687	95.0	145,059	17.0
2002	463,102	553,947	90,845	83.6	153,580	59.2
2003	458,857	601,173	142,316	76.3	143,164	99.4
2004	494,987	645,351	150,364	76.7	149,782	100.4
2005	538,789	693,871	155,082	77.6	162,149	95.6
2006	588,228	735,793	147,565	79.9	155,855	94.7
2007	634,763	763,539	128,776	83.1	159,250	80.9
2008	650,227	822,205	171,978	79.1	153,982	111.7

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

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Beginning July 1,	Actuarial Valuation Date June 30	Annual Required Contribution	Percent Contributed
1997	1996	$ 9,800,579	100.0
1998	1997	9,475,558	100.0
1999	1998	9,707,235	100.0
2000	1999	10,123,248	100.0
2001	2000	9,088,970	100.0
2002	2001	12,765,619	100.0
2003	2002	18,457,476	100.0
2004	2003	21,657,270	100.0
2005	2004	23,643,630	100.0
2006	2005	25,958,330	100.0
2007	2006	25,232,745	100.0
2008	2007	24,358,460	100.0
2009	2008	27,601,156[1]	

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

Notes to Required Supplementary Information
Summary of Actuarial Methods and Assumptions

Valuation Date	June 30, 2008
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, closed
Amortization Period	15 years
Asset Valuation Method	Smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases*	4.25% - 9.25%
*Includes Inflation	4.25%

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

Supporting Schedules
June 30, 2008

Schedule of Administrative Expenses

Personal Services		
Staff Salaries	$	164,101
Fringe Benefits		67,986
Total Personal Services	$	232,087
Professional Services		
Accounting		204,117
Actuary		38,971
Total Professional Services		243,088
Miscellaneous		
Professional Development		10,927
Printing and Supplies		8,002
Depreciation		13,907
Postage		4,628
Other		6,707
Total Miscellaneous		44,171
Total Administrative Expenses	***$***	***519,346***

Schedule of Investment Expenses

Custody		327,784
Interest Expense		414,789
Investment Consultant		150,000
Investment Management		3,237,079
Securities Lending Management		130,627
Interest on Securities Lending (Rebate)		1,577,600
Total Investment Expenses	***$***	***5,837,879***

CITY OF

FOUNDED 1775

TUCSON

INVESTMENT

Hewitt Investment Group LLC
100 Half Day Road
Lincolnshire, IL 60069
Tel 847.295.5000 Fax 847.771.2252
www.hewittinvest.com

Hewitt

December 15, 2008

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, 2008. 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, 2008; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

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

Hewitt

The Board of Trustees
Page 2
December 15, 2008

General Observations

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

This fiscal year's evaluation of existing investment managers led to the termination of the Plan's large cap growth manager, TCW Asset Management. The Board went through a diligent selection process to identify a new large cap growth manager and hired Friess Associates. The Board also decided to broaden the Plan's diversification by initiating an allocation to infrastructure investments, with a target of approximately 5% of Plan assets. The allocation will be funded through a reduction in the U.S. equity and fixed income manager targets. Through the selection process, TSRS selected Macquarie European Infrastructure Fund III, L.P. and Babcock & Brown Infrastructure Fund North America, L.P. to each manage approximately one-half of the allocation. Subsequent to year end, the policy statement was updated to reflect the new strategies, and investments in the new infrastructure funds were made.

As indicated in the following exhibits, the TSRS Retirement Plan assets declined due to the weakening investment environment, particularly in the equity markets. The total portfolio return for the fiscal year was -4.6% compared to -5.6% for the Custom Index. Many of the Plan's managers produced results that were in line with the respective benchmarks. While equity manager returns were negative across the various sectors, Friess and TCW Value Opportunities added incremental returns on a relative basis, offsetting some of the underperformance from the international equity managers. In addition, PIMCO's fixed income results and a modest overweight to real estate helped offset the relative shortfall of two of the real estate portfolios.

Sincerely,

Hewitt Investment Group LLC

Robert P. Van Den Brink, CFA

RVD:cr
cc: Mr. Mark A. Klimek, Hewitt Investment Group LLC
Mr. Justin Patton, Hewitt Investment Group LLC

Outline of Investment Policies

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

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

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

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

	Percent of Total Pension Fund (1)		
	Minimum	**Target**	**Maximum**
Equities:			
Large Capitalization	33%	38%	43%
Small/Mid Capitalization	7%	11%	15%
International	13%	15%	17%
Total Equities	**59%**	**64%**	**69%**
Fixed Income	**23%**	**28%**	**33%**
Real Estate	**6%**	**8%**	**10%**

(1) As of 6/30/08, the addition of infrastructure as a separate asset class had not been formally adopted by the Board of Trustees. A revised Investment Policy Statement, approved in fiscal year 2009, added a 5% asset allocation target for infrastructure and correspondingly reduced the asset allocation target for equities from 64% to 61% and for fixed income from 28% to 26%. The target asset allocation for real estate remained unchanged.

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

Investment Objectives

Total Pension Fund Performance Objectives[1]
The TSRS Pension Fund's return will be, in part, a function of the capital market environment in which the plan's investment managers operate. Therefore, regardless of whether or not the market environment permits the achievement of substantial real returns, the TSRS expects any active investment managers that it retains to produce results that are above average relative to other actively-managed funds and relative to passive alternatives. Investment managers should cover the fees paid and provide a return increment that justifies the risk assumed in active management.

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

- Standard & Poor's 500 Stock Index (38% weight)
- Russell 2000 Stock Index (11% weight)
- MSCI All Country World, ex-U.S. Stock Index (15% weight)
- Lehman Brothers Aggregate Bond Index (25% weight)
- Lehman Brothers High Yield Bond Index (3% weight)
- NCREIF Real Estate Index (8% weight)

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

Individual Managers Performance Objectives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Results by Year
Last Ten Fiscal Years Ended June 30, 2008

Year Ended	Annual Return	3-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
6/30/08	(4.6%)	7.3%	9.8%	5.5%
6/30/07	17.2%	12.3%	11.5%	7.8%
6/30/06	10.7%	12.5%	6.2%	7.8%
6/30/05	9.3%	10.0%	2.4%	8.4%
6/30/04	17.8%	3.8%	2.6%	9.3%
6/30/03	3.3%	(4.4%)	1.5%	7.9%
6/30/02	(8.1%)	(2.2%)	4.1%	8.6%
6/30/01	(8.1%)	4.2%	9.5%	10.7%
6/30/00	10.5%	13.2%	14.8%	12.4%
6/30/99	11.4%	15.7%	16.5%	12.1%

Schedule of Investment Results
For Periods Ended June 30, 2008

	One Year	Annualized Returns (1) Three Years	Five Years
TOTAL PORTFOLIO			
TSRS	-4.63%	7.34%	9.75%
Custom Benchmark (2)	-5.57%	6.79%	9.23%
EQUITY FUNDS			
Alliance S&P 500 Index	-13.01%	4.48%	7.61%
S & P 500 Index	-13.11%	4.41%	7.59%
PIMCO StocksPLUS	-12.39%	(account established April, 2006)	
S & P 500 Index	-13.11%	1.44%	4.41%
Barclays Russell 1000 Value Index	-18.64%	3.63%	8.99%
Russell 1000 Value Index	-18.78%	3.52%	8.91%
Barclays Russell 1000 Value Alpha Tilts	-19.71%	(account established January, 2006)	
Russell 1000 Value Index	-18.78%	3.52%	8.91%
Friess Associates	-	(account established December, 2007)	
Russell 1000 Growth Index	-5.96%	5.92%	7.33%
TCW Value Opportunities	-11.12%	6.19%	(account established May, 2004)
Russell 2500 Index	-14.28%	4.94%	11.49%
Pyramis (Fidelity) Small Cap	-15.27%	6.30%	13.68%
Russell 2000 Index	-16.19%	3.78%	10.29%
Causeway International Value Equity	-12.09%	10.82%	(account established January, 2005)
MSCI EAFE Index	-10.61%	12.85%	16.67%
Julius Baer International Equity (Artio)	-8.11%	18.48%	(account established October, 2004)
MSCI All Country World ex-U.S. Index	-6.65%	15.67%	18.94%
FIXED INCOME FUNDS			
Internally Managed Bonds	6.24%	4.19%	3.91%
Lehman Government/Credit Bond Index	7.24%	3.84%	3.58%
PIMCO Custom Fixed Income	7.20%	5.34%	5.79%
Custom Index (3)	5.71%	4.50%	4.74%
REAL ESTATE FUNDS			
JPM Strategic Property Fund	9.43%	15.45%	15.51%
NCREIF Real Estate Index	9.20%	14.96%	14.72%
LaSalle Income & Growth Fund IV	2.02%	(account established June, 2005)	
NCREIF Real Estate Index	9.20%	14.96%	14.72%
JPM Income and Growth Fund	0.61%	(account established June, 2005)	
NCREIF Real Estate Index	9.20%	14.96%	14.72%

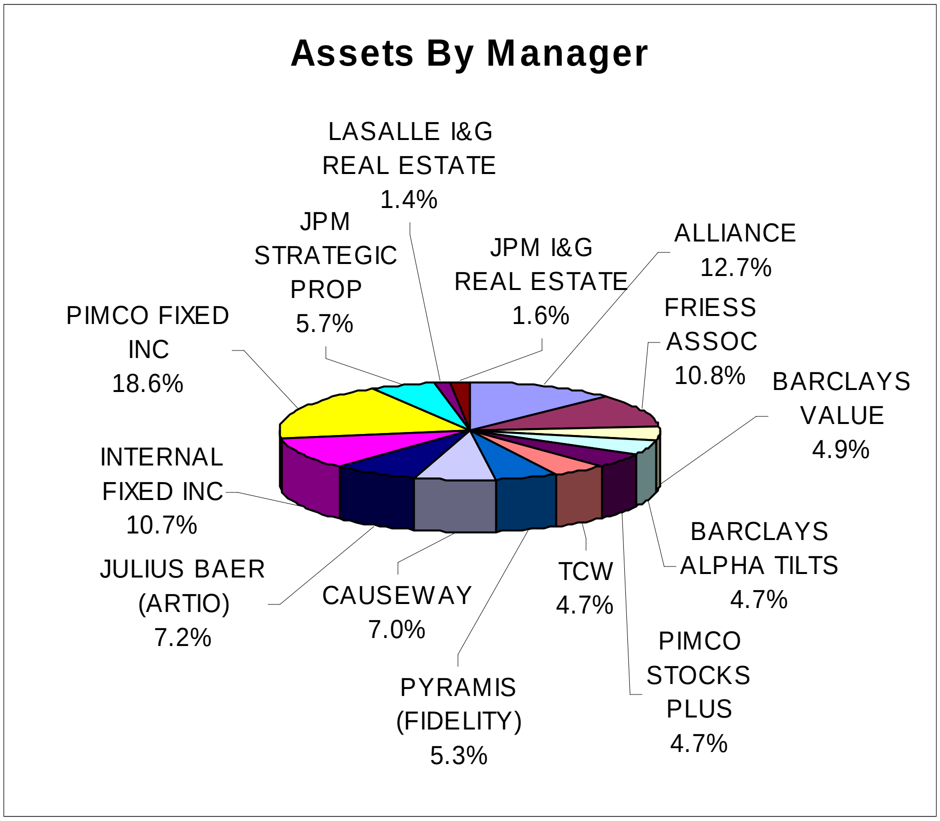
Notes: All data provided by independent investment consultant, Hewitt Investment Group
(1) Geometrically compounded, time-weighted rates of return
(2) Custom Benchmark = 38% S&P 500 Index + 11% Russell 2000 + 25% Lehman Aggregate + 3% Lehman High Yield + 15% MSCI AC WF ex-US + 8% Real Estate-NCREIF
(3)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

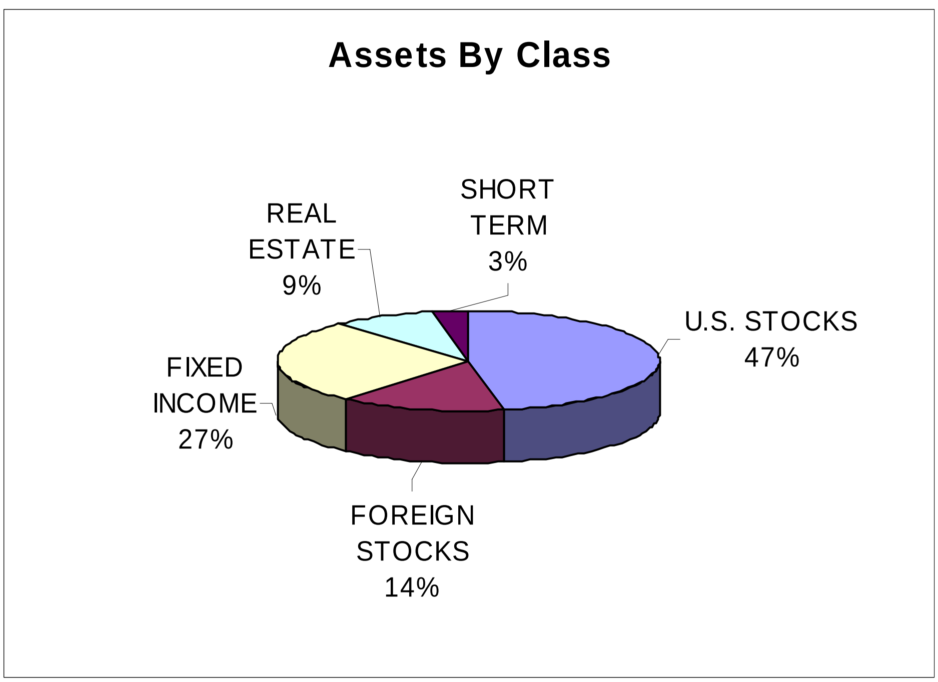
Investment Summary
By Manager and Type of Investment (in thousands)
June 30, 2008

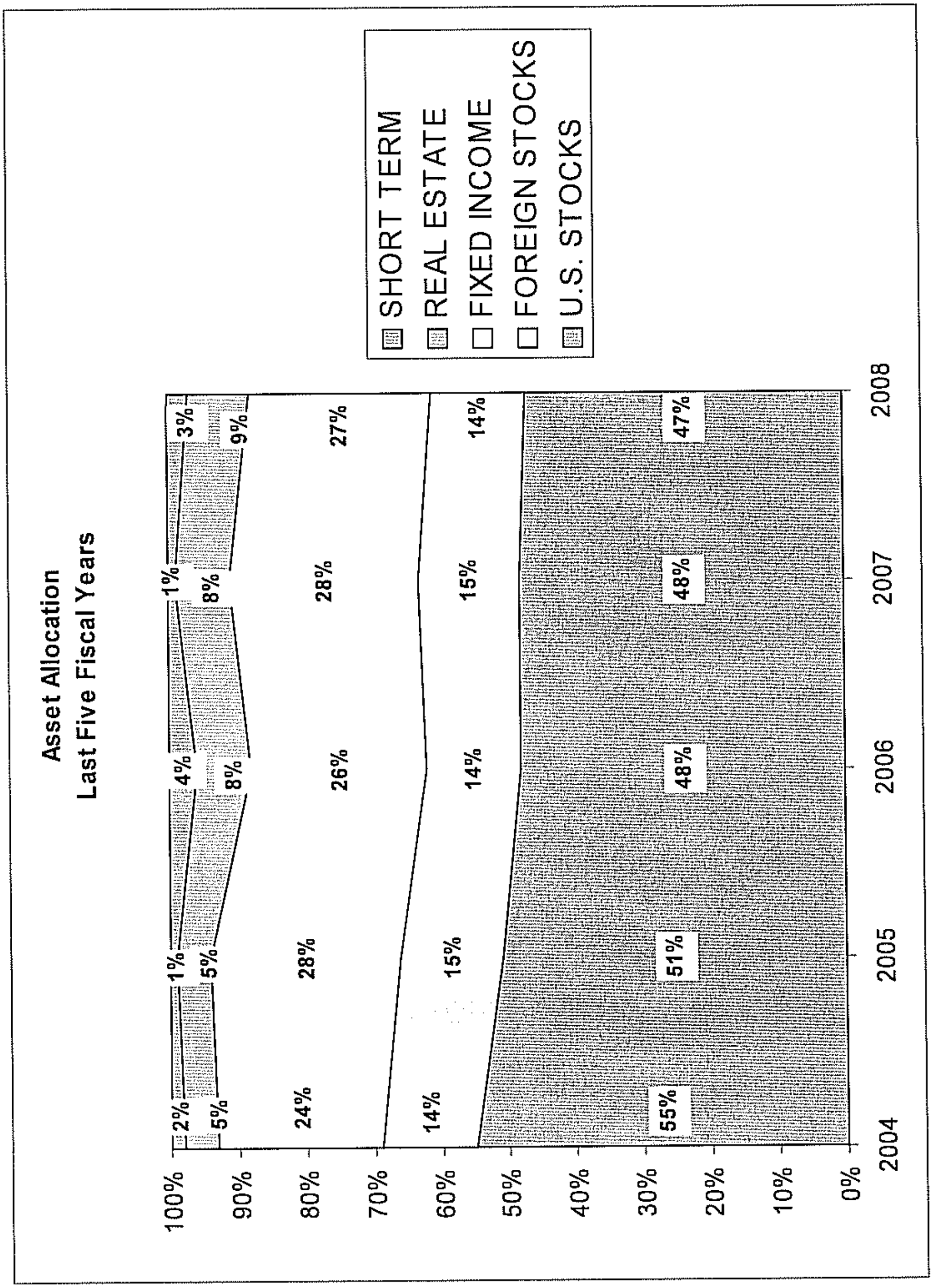
Manager	Style	Large U.S. Stocks	Small/Mid U.S. Stocks	Foreign Stocks	Fixed Income	Real Estate	Short Term	Total	Manager Percent of Total	Manager Percent of Target
Alliance Capital Management	S & P 500 Index	$ 82,213					$ 190	$ 82,403	13.0%	13.0%
Friess Associates	Large Cap Growth	$ 68,983					$ 1,260	$ 70,243	9.3%	10.0%
Barclays Russell Value Index	Large Cap Value Index	$ 31,577					$ -	$ 31,577	4.9%	5.0%
Barclays Alpha Tilts	Enhanced Index	$ 30,862					$ -	$ 30,862	4.9%	5.0%
PIMCO StocksPlus	Enhanced Index	$ 30,833					$ -	$ 30,833	5.1%	5.0%
TCW Value Opportunities	Mid Cap Core		$ 28,755				$ 1,641	$ 30,396	5.0%	5.0%
Pyramis Global Advisors (Fidelity)	Small Cap Core		$ 33,395				$ 1,036	$ 34,431	5.9%	6.0%
Causeway Capital Management	Foreign Stocks-Value			$ 44,426			$ 1,107	$ 45,533	7.7%	7.5%
Julius Baer (Artio)	Foreign Stocks-Core			$ 47,088			$ -	$ 47,088	7.9%	7.5%
Internally Managed Fixed Income	U. S. Bonds				$ 61,794		$ 8,093	$ 69,887	9.8%	10.0%
PIMCO Custom Fixed Income	U.S. & Foreign Bonds				$ 115,411		$ 5,662	$ 121,073	18.1%	18.0%
JPM Strategic Property Fund	Core Real Estate					$ 37,058	$ -	$ 37,058	6.0%	5.0%
LaSalle Income & Growth	Value Added Real Estate					$ 8,361	$ 691	$ 9,052	1.0%	1.5%
JPM Income & Growth	Value Added Real Estate					$ 10,185	$ -	$ 10,185	1.4%	1.5%
Liquidity	Cash & Cash Equivalents						$ 301	$ 301	0.0%	0.0%
TOTAL		$ 244,468	$ 62,150	$ 91,514	$ 177,205	$ 55,604	$ 19,981	$ 650,922	100.0%	100.0%
Percent of Market Value		37%	10%	14%	27%	9%	3%	100%		
Target Allocation		38%	11%	15%	28%	8%	0%	100%		

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

Manager and Asset Diversification
June 30, 2008






Asset Allocation
Last Five Fiscal Years
SHORT TERM
REAL ESTATE
FIXED INCOME
FOREIGN STOCKS
U.S. STOCKS
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2004
2005
2006
2007
2008
2%
5%
24%
14%
55%
1%
5%
28%
15%
51%
4%
8%
26%
14%
48%
1%
8%
28%
15%
48%
3%
9%
27%
14%
47%

Ten Largest Bond Holdings
(By Market Value)
June 30, 2008
(dollars in thousands)

Par Value	Bond	Coupon Rate	Due	Rating (1)	Market Value
$ 8,500	U S TREASURY BONDS	4.375%	02/15/38	UST	$ 8,288
7,485	FNMA POOL #0713972	5.500%	07/01/33	AGY	7,395
6,776	FNMA POOL #0256843	5.500%	08/01/37	AGY	6,681
5,300	FNMA SF MTG	6.000%	07/01/38	AGY	5,347
5,350	FNMA POOL #0889584	5.500%	01/01/37	AGY	5,278
4,260	FEDERAL NATL MTG ASSN DEBS	4.375%	07/17/13	AGY	4,276
4,300	FNMA SF MTG	5.000%	07/01/38	AGY	4,121
4,400	GOLDMAN SACHS GROUP INC SUB NT	6.750%	10/01/37	A1	4,044
3,994	FNMA POOL #0730638	4.000%	08/01/18	AGY	3,767
3,000	FNMA SF MTG	5.500%	07/01/38	AGY	2,957

(1) Rated by Moodys

Ten Largest Stock Holdings
(By Market Value)
June 30, 2008
(dollars in thousands)

Shares	Stock	Market Value
66,400	THERMO FISHER SCIENTIFIC	$ 3,700
69,800	WEATHERFORD INTERNATIONAL LTD	3,461
39,072	EXXON MOBIL CORP	3,443
17,900	FLUOR CORP NEW COM	3,331
157,707	ORACLE CORPORATION COM	3,312
83,677	CVS CAREMARK CORP	3,311
46,982	COSTCO WHSL CORP NEW COM	3,295
59,600	NABORS INDUSTRIES LTD SHS	2,934
54,600	GILEAD SCIENCES INC COM	2,891
59,400	TEVA PHARMACEUTICAL INDS ADR	2,721

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

Schedule of Fees
June 30, 2008

		Assets Under Management		Fees
Investment Manager Fees				
Fixed Income Managers				
City of Tucson, Treasury Division	$	69,887,068	$	27,430
PIMCO (Custom Fixed Income)		121,072,942		387,252
Total Fixed Income		190,960,010		414,682
Equity Managers				
Alliance Capital Management	$	82,403,149	$	35,541
Barclays Russell Value Index		31,576,909		13,095
Barclays Alpha Tilts		30,862,336		140,627
Friess Associates		70,242,744		377,948
Causeway Capital Management		45,532,892		335,064
Pyramis Global Advisors (Fidelity)		34,430,639		271,889
Julius Baer (Artio)		47,088,089		502,395
PIMCO StocksPlus		30,832,711		56,190
TCW Concentrated Core		-		168,172
TCW Value Opportunities		30,396,278		242,634
Total Equity	$	403,365,747	$	2,143,555
Liquidity Account		300,885		-
Real Estate Manager				
JPM Strategic Property Fund	$	37,058,345	$	404,908
JPM Income & Growth Fund		10,184,931		180,884
LaSalle Income & Growth Fund IV		9,051,890		93,050
Total Real Estate	$	56,295,166	$	678,842
Total Assets (Trade date basis)	$	650,921,808		
Total Investment Management Fees			$	3,237,079
Other Investment Service Fees				
Custodian Fees				
BNY Mellon			$	327,784
Security Lending - Rebate, Bank & Administration Fees				
BNY Mellon			$	1,708,227
Consulting and Performance Management				
Hewitt Investment Group			$	150,000
Total Other Investment Service Fees			$	2,186,011

Schedule of Commissions
June 30, 2008

Broker Description	Shares	Commissions	Commissions Per Share
BNY CONVERGEX / LJR, HOUSTON	1,158,900	$ 44,333	$ 0.0383
BNY CONVERGEX, NEW YORK	2,143,603	41,203	0.0192
INSTINET CORP, NY	711,698	26,952	0.0379
MERRILL LYNCH PIERCE FENNER SMITH INC NY	815,266	18,460	0.0226
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	794,101	17,572	0.0221
LEHMAN BROS INC, NEW YORK	647,761	16,415	0.0253
MORGAN STANLEY & CO INC, NY	962,944	14,649	0.0152
INVESTMENT TECHNOLOGY GROUPS, NEW YORK	561,225	13,386	0.0239
UBS SECURITIES LLC, STAMFORD	548,873	13,376	0.0244
LIQUIDNET INC, BROOKLYN	339,533	11,938	0.0352
DEUTSCHE BK SECS INC, NY (NWSCUS33)	455,029	9,592	0.0211
CITIGROUP GBL MKTS INC, NEW YORK	348,445	9,506	0.0273
MORGAN J P SECS INC, NEW YORK	345,740	8,335	0.0241
GOLDMAN SACHS & CO, NY	249,742	7,967	0.0319
GOLDMAN SACHS EXECUTION & CLEARING, NY	223,772	7,439	0.0332
J.P. MORGAN SECURITIES INC, NEW YORK	289,950	6,131	0.0211
ITG INC, NEW YORK	316,197	4,307	0.0136
NATIONAL FINL SVCS CORP, NEW YORK	287,905	4,280	0.0149
BAIRD, ROBERT W & CO INC, MILWAUKEE	116,410	4,200	0.0361
BANC OF AMERICA SECS LLC, CHARLOTTE	138,270	3,740	0.0270
COWEN AND COMPANY LLC, NEW YORK	87,876	3,702	0.0421
JEFFERIES & CO INC, NEW YORK	108,798	3,536	0.0325
FRIEDMAN BILLINGS, WASHINGTON DC	79,686	3,300	0.0414
RBC CAPITAL MARKETS CORP, MINNEAPOLIS	89,110	3,276	0.0368
WEEDEN & CO, NEW YORK	148,291	3,243	0.0219
BEAR STEARNS SEC CORP, BROOKLYN	77,670	3,079	0.0396
KEEFE BRUYETTE AND WOODS, JERSEY CITY	72,050	2,771	0.0385
STIFEL NICOLAUS	74,430	2,652	0.0356
JOHNSON RICE & CO, NEW ORLEANS	64,900	2,623	0.0404
WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE	58,710	2,570	0.0438
LEHMAN BROS INTL, LONDON	152,364	2,433	0.0160
BROADCOURT CAP CORP/SUB OF MLPF&S,NY	54,554	2,256	0.0414
CANTOR FITZGERALD & CO INC, NEW YORK	65,635	2,218	0.0338
GORDON HASKETT CAP CORP, NJ	49,700	2,184	0.0439
DEMATTED MONNESS LLC, NEW YORK	54,400	2,176	0.0400
OPPENHEIMER & CO INC, NEW YORK	50,685	2,068	0.0408
PERSHING LLC, JERSEY CITY	48,443	2,039	0.0421
AVONDALE PARTNERS LLC, NASHVILLE	47,800	1,981	0.0414
PIPER JAFFRAY & CO, MINNEAPOLIS	51,829	1,891	0.0365
MERRILL LYNCH INTL LONDON EQUITIES	144,972	1,757	0.0121
UBS EQUITIES, LONDON	123,431	1,660	0.0135
WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE	77,447	1,626	0.0210
SG SEC (LONDON) LTD, LONDON	138,318	1,606	0.0116
PACIFIC CREST SEC, PORTLAND	37,365	1,578	0.0422
STANFORD GROUP COMPANY, JERSEY CITY	37,700	1,556	0.0413
BMO CAPITAL MARKETS CORP, NEW YORK	35,600	1,491	0.0419
CITIGROUP GLOBAL MARKETS LTD, LONDON	72,234	1,453	0.0201
SUNTRUST CAPITAL MARKETS INC, ATLANTA	35,290	1,448	0.0410
WILLIAM BLAIR & CO, CHICAGO	33,830	1,414	0.0418
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	31,520	1,385	0.0439
RBC CAPITAL MARK**INVALID DO NOT USE**	46,300	1,384	0.0299
RIDGE CLEARING & OUTSOURCING, NEW YORK	45,612	1,368	0.0300
ALBERT FRIED & COMPANY LLC, NEW YORK	43,400	1,276	0.0294
KEVIN DANN PARTNERS LLC, NEW YORK	31,500	1,266	0.0402
STERNE AGEE & LEACH INC	31,000	1,240	0.0400
KNIGHT SEC BROADCORT, JERSEY CITY	37,925	1,222	0.0322
VANDHAM SECURITIES CORP, NEW YORK	28,100	1,192	0.0424
MORGAN KEEGAN & CO INC, MEMPHIS	27,300	1,092	0.0400
LADENBURG THALMAN & CO, WEEHAWKEN	24,200	1,089	0.0450
DAVY STOCKBROKERS, DUBLIN	35,849	1,073	0.0299
ROBBINS & HENDERSON LLC, NEW YORK	52,400	1,048	0.0200
LAZARD CAPITAL MARKETS LLC, NEW YORK	23,600	1,030	0.0436
VARIOUS BROKERS - $1,000 OR LESS	1,761,641	36,712	0.0208
TOTAL	**15,848,829**	**401,741**	
AVERAGE COMMISSION RATE			**$ 0.0253**

CITY OF

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TUCSON

ACTUARIAL

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December 17, 2008

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 completed as of June 30, 2008. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 79.1% funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 15 years and applied as a charge to the computed normal cost. The amortization period is a 15-year open period and is reflected in the June 30, 2008 actuarial valuation.

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

Respectfully submitted,

Leslie L Thompson

Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

Actuarial Cost Method

Normal cost contributions were computed as follows:

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

Actuarial accrued liability was computed and financed as follows:

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

2. Active members and former members. The actuarial accrued liability associated with service rendered prior to the valuation date, including experience gains and losses, was computed using the investment return, mortality and other assumptions outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount was amortized over 15 years as of June 30, 2008.

Actuarial Assumptions

Level-percent contribution requirements and actuarial present values are calculated by using the entry-age actuarial cost method and assumptions concerning future experiences in the financial risk areas of a retirement plan. Actuarial gains and losses are amortized as a level percent of payroll over an open period of 15 years from June 30, 2008. 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

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

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

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

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

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

Year Ended June 30

	2008	2007	2006	2005	2004	3 Year Avg.	5 Year Avg.
Investment Return Rate[1]	4.5%	11.3%	9.4%	9.1%	9.5%	8.3%	8.7%
Real Rate of Investment Return	-0.5%	8.2%	5.0%	6.8%	6.9%	4.1%	5.2%

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

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

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

Less than Five Years of Service

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

Five or More Years of Service

Sample Ages	Inflation Component	Merity & Seniority	Total
20	4.25%	2.61%	6.86%
25	4.25	2.12	6.37
30	4.25	1.82	6.07
35	4.25	1.61	5.86
40	4.25	1.45	5.70
45	4.25	1.14	5.39
50	4.25	0.77	5.02
55	4.25	0.45	4.70
60	4.25	0.11	4.36
65	4.25	0.00	4.25

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

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

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

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

Sample	Present Value of $1 Monthly for Life		Future Life Expectancy (years)		Healthy Deaths per 1,000 Lives		Disabled Deaths per 1,000 Lives	
Ages	Men	Women	Men	Women	Men	Women	Men	Women
50	$134.76	$141.48	28.9	33.0	3.2	1.7	8	4.4
55	126.12	134.40	24.4	28.3	5.6	2.9	14.5	8.6
60	115.68	125.52	20.2	23.8	10.1	5.8	23.7	13.7
65	103.80	114.96	16.4	19.7	18.0	10.8	37.2	22.7
70	90.84	102.60	13.0	15.8	28.5	16.5	62	39.4
75	76.56	88.20	10.0	12.2	45.2	28.4	97.2	67.7
80	62.40	72.72	7.4	9.1	75.5	49.2	152.9	116.3
85	49.20	57.24	5.4	6.6	115.7	84.0	233.6	186.2

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

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

Deferred vested members are assumed to retire at age 62.

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

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

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

Sample Ages	% of Active Members Becoming Disabled During Next Year
25	0.04%
30	0.06
35	0.11
40	0.16
45	0.24
50	0.38
55	0.65
60	0.94
65	0.83

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

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

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

End of Service (EOS) Program. The assumption is that 100% of active participants eligible to enter the EOS program do so. It is assumed that a participant electing the program will stay for the maximum 12 month period. Interest is applied and added for each month the participant remains in the EOS program. There were no modifications made to the incidence of retirement for those entering the EOS program.

Active Members as of June 30, 2008
By Attained Age and Years of Service

Years of Service to Valuation Date

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	Total No.	Total Valuation Payroll
< 20	0	0	0	0	0	0	0	0	0
20-24	58	0	0	0	0	0	0	58	1,667,390
25-29	155	27	0	0	0	0	0	182	6,109,360
30-34	173	91	16	0	0	0	0	280	10,423,962
35-39	171	113	105	10	0	0	0	399	16,682,525
40-44	145	98	129	71	12	0	0	455	21,194,763
45-49	145	103	100	97	83	13	2	543	26,456,380
50-54	122	124	119	114	116	69	4	668	34,450,961
55-59	66	59	72	103	90	28	24	442	24,284,855
60	10	14	11	14	10	3	4	66	3,818,566
61	11	4	5	17	6	2	1	46	2,677,626
62	8	6	9	10	5	2	3	43	2,349,672
63	1	2	7	4	1	0	3	18	1,181,434
64	7	3	3	3	0	0	1	17	845,189
65	1	3	4	1	1	0	4	14	741,310
66	2	1	1	1	1	0	1	7	483,059
67	0	0	1	0	1	0	0	2	106,787
68	0	0	0	0	0	1	0	1	56,389
69	1	1	0	1	0	0	0	3	114,546
70	0	0	0	0	0	0	0	0	0
71	0	1	1	0	1	0	0	3	190,507
72	0	1	0	0	0	0	0	1	32,344
73	0	2	0	0	0	0	0	2	67,288
74	0	0	1	0	0	0	0	1	47,486
75	0	0	0	0	0	0	0	0	0
76	0	0	0	0	0	0	0	0	0
77	0	0	0	0	0	0	0	0	0
78	0	0	0	0	0	0	0	0	0
79	0	0	0	0	0	0	0	0	0
Totals	1076	653	584	446	327	118	47	3,251	153,982,399

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

Age:	45.7 years
Service:	10.6 years
Annual Pay:	$47,365

Active Members Included in Valuation
Comparative Schedule

Valuation Date	Active Members	Annual Payroll	Average Age	Average Service	Average Pay	Vested Inactive Members
6-30-81	2,510	$45,222,228	41.2	7.9	$18,017	N/A
6-30-82	2,425	44,344,257	41.0	8.1	18,286	34
6-30-83	2,461	48,699,681	41.1	8.5	19,789	36
6-30-84	2,524	55,259,857	41.3	8.7	21,894	32
6-30-85	2,572	59,317,696	41.5	8.9	23,063	25
6-30-86	2,748	65,046,166	41.4	8.7	23,670	33
6-30-87	2,832	69,759,507	41.8	9.0	24,633	34
6-30-88	2,943	72,449,162	41.9	9.0	24,617	40
6-30-89[1]	3,250	81,386,395	41.8	8.6	25,042	40
6-30-90	3,246	86,478,158	42.1	8.7	26,641	42
6-30-91	3,195	86,829,527	42.4	9.0	27,177	38
6-30-92	3,149	86,205,432	42.9	9.4	27,375	48
6-30-93	3,224	92,867,286	43.3	9.8	28,805	45
6-30-94	3,287	94,180,104	43.6	10.1	28,652	40
6-30-95	3,284	99,847,171	43.9	10.2	30,404	45
6-30-96	3,378	105,229,504	43.9	10.2	31,151	43
6-30-97	3,430	110,188,751	44.3	10.9	32,125	52
6-30-98	3,484	113,729,143	44.5	11.0	32,643	104
6-30-99	3,550	126,816,830	44.8	10.7	35,723	119
6-30-00	3,600	134,088,074	45.2	11.0	37,247	81
6-30-01	3,669	145,058,897	45.4	11.1	39,536	107
6-30-02	3,626	153,580,185	45.7	11.6	42,355	111
6-30-03	3,364	143,164,205	45.5	11.2	42,558	125
6-30-04	3,476	149,781,753	45.9	11.4	43,090	130
6-30-05	3,609	162,149,200	46.2	11.4	44,929	148
6-30-06	3,247	155,855,162	46.6	12.1	48,000	394[2]
6-30-07	3,326	159,249,822	46.2	11.4	47,880	223
6-30-08	3,251	153,982,399	45.7	10.6	47,365	202

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

Solvency Test

Valuation Date	Aggregate Accrued Liabilities For: (1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Member (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets: (1)	(2)	(3)
6/30/91	$44,496,039	$ 72,419,436	$ 86,372,322	$164,268,134	100.0%	100.0%	54.8%
6/30/92	49,238,019	80,342,604	86,902,648	179,569,858	100.0	100.0	57.5
6/30/93	55,146,786	85,832,484	98,492,344	197,281,861	100.0	100.0	57.2
6/30/94	60,424,161	95,449,308	105,838,311	213,540,661	100.0	100.0	54.5
6/30/95	66,316,408	102,511,728	113,211,848	237,712,863	100.0	100.0	60.8
6/30/96	72,294,235	109,572,672	118,739,900	266,740,007	100.0	100.0	71.5
6/30/97	78,991,358	119,508,312	128,878,531	304,684,444	100.0	100.0	82.4
6/30/98	85,106,175	129,345,816	134,514,294	353,056,577	100.0	100.0	103.0
6/30/99	92,367,491	139,805,832	168,050,794	402,875,158	100.0	100.0	101.6
6/30/00	100,413,022	150,527,136	186,809,583	453,953,722	100.0	100.0	108.7
6/30/01	108,696,394	161,740,968	224,921,223	470,671,667	100.0	100.0	89.0
6/30/02	118,913,979	187,508,568	247,524,186	463,101,526	100.0	100.0	63.3
6/30/03	110,195,709	275,193,384	215,784,329	458,856,831	100.0	100.0	34.0
6/30/04	123,643,527	286,698,084	235,009,321	494,986,798	100.00	100.0	36.0
6/30/05	135,346,297	298,395,396	260,129,138	538,788,828	100.0	100.0	40.4
6/30/06	140,387,532	326,828,088	268,577,863	588,227,845	100.0	100.0	45.1
6/30/07	136,028,896	371,497,680	256,012,354	634,763,193	100.0	100.0	49.7
6/30/08	125,331,432	473,240,976	223,632,380	650,227,215	100.0	100.0	23.1

Comparative Schedule of Annual Pension Benefits Paid

Year Ending June 30	No.	Annual Pensions	% Increase	No. of Active Per Retired	Pensions as % of Active Payroll	Average Pensions	Actuarial Present Value of Pensions	Expected Removals No.	Expected Removals Pensions
1982	514	$1,891,620	%	4.7	4.3%	$3,680	$16,170,360	16.2	$50,616
1983	558	2,182,851	15.4	4.4	4.5	3,912	18,686,808	18.2	59,064
1984	602	2,566,459	17.6	4.2	4.6	4,263	22,307,232	20.2	70,140
1985	639	2,961,564	15.4	4.0	5.0	4,635	25,885,272	21.8	80,640
1986*	667	3,523,332	19.0	4.1	5.4	5,282	30,111,048	20.6	61,404
1987	706	3,911,729	11.0	4.0	5.6	5,541	33,313,200	23.0	97,632
1988	737	4,543,907	16.2	4.0	6.3	6,165	39,117,420	25.5	111,516
1989*	780	5,344,719	17.6	4.2#	6.6	6,852	46,556,352	26.6	133,860
1990	832	6,488,714	21.4	3.9	7.5	7,799	57,430,128	28.5	150,864
1991*	918	8,111,103	25.0	3.5	9.3	8,836	72,419,436	29.8	172,608
1992	965	9,010,345	11.1	3.3	10.5	9,337	80,342,604	32.3	208,068
1993*	989	9,704,929	7.7	3.3	10.5	9,813	85,832,484	34.3	235,068
1994	1,035	10,612,612	9.4	3.2	11.3	10,254	95,449,308	35.8	263,340
1995*	1,065	11,429,402	7.7	3.1	11.4	10,732	102,511,728	35.8	270,600
1996	1,105	12,236,298	7.1	3.1	11.6	11,074	109,572,672	37.7	302,952
1997*	1,156	13,391,185	9.4	3.0	12.2	11,594	119,508,312	39.4	325,440
1998	1,208	14,479,476	8.1	2.9	12.7	11,986	129,345,816	42.4	370,344
1999*	1,260	15,721,865	8.6	2.8	12.4	12,478	139,805,832	44.2	402,504
2000*	1,301	16,966,042	7.9	2.8	12.7	13,041	150,527,136	46.2	445,464
2001*	1,355	18,505,247	9.1	2.7	12.8	13,657	161,740,968	47.1	484,776
2002*	1,442@	21,273,162	15.0	2.5	13.9	14,753	187,508,568	53.3	622,236
2003*	1,742~	29,767,500	39.9	1.9	20.8	17,088	275,193,384	58.2	742,908
2004*	1,753	30,491,864	2.4	2.0	20.4	17,394	286,698,084	55.7	717,888
2005*	1,793	32,027,305	5.0	2.0	19.8	17,862	298,395,396	58.3	781,152
2006*	1,878	35,091,468	9.6	1.7	22.5	18,686	326,828,088	61.1	857,760
2007*	2,018[§]	39,883,032	13.7	1.6	25.0	19,764	371,497,680	66.3	977,328
2008	2,307	49,489,643	24.1	1.4	32.1	21,452	473,240,976	74.4	1,134,019

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

Experience Gains (Losses)
Comparative Schedule

		Year Ended 6-30-08	Year Ended 6-30-07[3]
(1)	UAAL[1] at start of year	$128,775,737	$147,565,638
(2)	+ Normal Cost	19,808,134	11,958,234
(3)	- Actual contributions	39,823,401	22,712,013
(4)	+ Interest accrual on (1), (2) and (3)	9,204,528	11,019,628
(5)	Expected UAAL before changes	117,964,998	147,831,487
(6)	+ Change from amendments	0	3,677,256
(7)	+ Change from DROP	3,832,654	1,435,059
(8)	+ Change New Entrant Contributions	(115,314)	0
(9)	Expected UAAL after changes	121,682,338	152,943,802
(10)	Actual UAAL	171,977,573	128,775,737
(11)	Experience gain (loss) (8) - (9)	(50,295,235)	24,168,065
(12)	As % of beginning of year AAL[2]	(6.6%)	3.3%

1 Unfunded actuarial accrued liability.

2 Actuarial accrued liability.

3 Normal cost and contributions net of employee portion

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		End of Year Rolls			
Fiscal Year	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Avg. Annual Allowances	% Increase in Allowance
6/30/93	50	$612,123	26	$137,859	989	$9,704,929	$9,813	5.1%
6/30/94	66	1,032,555	20	124,872	1,035	10,612,612	10,254	4.5%
6/30/95	56	775,199	26	195,769	1,065	11,429,402	10,732	4.7%
6/30/96	84	1,214,444	44	407,548	1,105	12,236,298	11,074	3.2%
6/30/97	67	1,088,667	16	189,380	1,156	13,402,664	11,594	4.6%
6/30/98	87	1,311,839	35	223,548	1,208	14,479,476	11,986	3.5%
6/30/99	89	1,385,899	37	420,950	1,260	15,721,865	12,478	4.1%
6/30/00	77	1,302,723	36	298,207	1,301	16,966,042	13,041	4.5%
6/30/01	100	1,731,056	46	354,215	1,355	18,505,247	13,657	4.7%
6/30/02	133	2,926,543	46	158,628	1,442	21,273,162	14,753	8.0%
6/30/03	327	8,450,695	27	225,815	1,742	29,767,534	17,088	15.8%
6/30/04	37	649,387	26	261,771	1,753	30,491,864	17,394	17.9%
6/30/05	68	3,498,948	42	485,633	1,791	31,990,842	17,796	23.1%
6/30/06	101	2,335,032	53	656,383	1,878	35,092,308	18,686	4.6%
6/30/07*	213	6,055,096	36	403,347	2,018	39,883,032	19,764	5.7%
6/30/08*	316	10,007,610	27	400,999	2,307	49,489,643	21,452	8.5%

*Although the End of Service Program began prior to June 30, 2007, additions to rolls did not include any employees electing to participate in that program until the fiscal year ended June 30, 2008.

Summary of Benefit Provisions Evaluated or Considered (June 30, 2008)

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.

Note: - During the fiscal year ended June 30, 2008, a temporary early retirement provision was added to allow members that had attained a combination of age and creditable service equal to 75, but less than 80. This provision imposed a benefit reduction that is actuarially neutral to the pension system.

Deferred Retirement (vested termination**)**

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

Amount - An amount computed as for normal retirement.

Disability Retirement

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

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

Pre-Retirement Survivor Benefits

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

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

Other Termination Benefits

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

Amount - accumulated contributions at time of termination.

Employee Contributions

Employees hired prior to July 1, 2006 contribute 5.0% of their salary. Employees hired after July 1, 2007 contributed 7.788% of their salary for the fiscal year end June 30, 2008.

City Contributions

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

Post-Retirement Adjustments

Ad hoc increases have been granted from time to time. The most recent ad hoc increase was granted August 1, 2007 to retirants and beneficiaries retired prior to July 1, 2004 in the amount of $1 per month for each year of credited service of retirement.

STATISTICAL

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

Fiscal Year Ending June 30,

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Additions										
Employer Contributions	$ 23,902,286	$ 22,670,418	$ 24,319,911	$ 21,423,488	$ 15,966,754	$ 12,771,777	$ 10,544,412	$ 10,058,627	$ 9,637,727	$ 9,475,558
Employee Contributions	8,591,124	8,120,057	8,197,437	7,638,608	6,563,651	7,583,019	7,198,340	6,842,538	6,561,513	6,029,769
Purchase of Service	5,186,289	1,008,980	1,157,572	1,972,509	2,307,962	4,610,513	5,720,521	-	-	-
Contributions from Other Sources	130,784	41,595	-	857,399	-	-	-	-	-	-
Transfers from Other Systems	2,012,917	3,794,093	620,601	-	294,722	525,986	207,164	507,140	285,346	95,830
Total Contributions	$ 39,823,400	$ 35,635,143	$ 34,295,521	$ 31,892,004	$ 25,133,089	$ 25,491,295	$ 23,670,437	$ 17,408,305	$ 16,484,586	$ 15,601,157
Investment Income										
Net Gain (Loss) in Fair Value of Investments	$ (50,256,771)	$ 85,493,111	$ 48,195,450	$ 33,977,326	$ 67,110,061	$ 3,704,778	$ (49,179,615)	$ (55,456,160)	$ 36,155,275	$ 35,694,105
Interest	10,815,803	7,649,621	4,144,414	3,692,702	4,051,824	2,261,333	5,601,284	8,916,345	7,269,025	7,930,802
Dividends	10,009,694	9,537,064	8,187,034	9,779,723	7,691,638	8,105,077	3,618,645	3,775,296	3,935,240	3,550,558
Real Estate Income	-	-	-	-	16,209	405,794	2,103,123	1,637,669	2,851,266	1,398,611
Securities Lending Income	1,881,706	2,594,083	1,683,061	879,477	417,044	340,493	520,029	1,758,074	1,555,169	2,390,572
Miscellaneous Income	152,848	6,038	53,855	43,387	24,744	24,675	-	-	-	-
	$ (27,396,720)	$ 105,279,917	$ 62,263,814	$ 48,372,615	$ 79,311,520	$ 14,842,150	$ (37,336,534)	$ (39,368,776)	$ 51,765,975	$ 50,964,648
Less Investment Expenses:										
Interest Expense - Securities Lending	$ 1,708,227	$ 2,517,081	$ 1,618,232	$ 819,201	$ 324,034	$ 252,297	$ 427,017	$ 1,563,976	$ 1,339,814	$ 2,268,593
Other Investment Expense	4,129,652	3,433,243	3,096,323	2,581,056	2,308,746	1,852,781	2,227,180	2,285,138	2,470,778	1,691,509
Total Investment Expense	$ 5,837,879	$ 5,950,324	$ 4,714,555	$ 3,400,257	$ 2,632,780	$ 2,105,078	$ 2,654,197	$ 3,849,114	$ 3,810,592	$ 3,960,102
Net Investment Gain	$ (33,234,599)	$ 99,329,593	$ 57,549,259	$ 44,972,358	$ 76,678,740	$ 12,737,072	$ (39,990,731)	$ (43,217,890)	$ 47,955,383	$ 47,004,546
Total Additions	$ 6,588,801	$ 134,964,736	$ 91,844,780	$ 76,864,362	$ 101,811,829	$ 38,228,367	$ (16,320,294)	$ (25,809,585)	$ 64,439,969	$ 62,605,703
Deductions										
Benefits	$ 46,211,560	$ 40,419,922	$ 33,475,950	$ 31,357,794	$ 30,259,921	$ 23,855,130	$ 20,009,180	$ 18,042,307	$ 16,557,265	$ 15,047,061
Refunds	1,265,235	1,573,276	1,219,263	1,229,267	1,249,453	1,186,455	806,074	1,124,689	1,173,181	1,017,511
Transfers to Other Systems	4,340,520	11,886,941	482,469	209,410	362,716	3,169	100,167	237,192	287,515	16,054
Administrative Expenses	519,346	485,469	433,350	389,303	380,407	373,718	341,569	347,974	304,457	330,953
Loss on Increase of Threshold on Fixed Assets	-	-	-	-	-	-	-	-	9,975	-
Total Deductions	$ 52,336,661	$ 54,365,608	$ 35,611,032	$ 33,185,774	$ 32,252,497	$ 25,418,472	$ 21,256,990	$ 19,752,162	$ 18,332,393	$ 16,411,579
Net Change in Plan Net Assets	$ (45,747,860)	$ 80,599,128	$ 56,233,748	$ 43,678,588	$ 69,559,332	$ 12,809,895	$ (37,577,284)	$ (45,561,747)	$ 46,107,576	$ 46,194,124

This statement summarizes, by category, sources for additions and deletions to changes in Plan Net Assets for a ten year period.

Retired Members by Type of Benefit
As of June 30, 2008

Amount of Monthly Benefit	Number of Retirees	Type of Retirement[a] 1	2	3	4	Option Selected[b] 1	2	3	4	5	6	7	8
Deferred													
$ 1 - $ 250	39	29	9	1	-	27	1	1	1	3	2	4	-
$ 251 - $ 500	181	103	40	24	14	111	4	2	2	23	7	32	-
$ 501 - $ 750	223	128	52	30	13	123	5	2	3	42	20	28	-
$ 751 - $ 1,000	225	143	43	33	6	121	-	2	1	47	18	36	-
$ 1,001 - $ 1,250	240	180	33	24	3	124	1	-	2	42	28	43	-
$ 1,251 - $ 1,500	231	183	27	19	2	95	3	4	3	45	33	48	-
$ 1,501 - $ 1,750	221	203	7	11	-	96	1	-	2	43	39	40	-
$ 1,751 - $ 2,000	197	181	6	10	-	75	-	1	1	46	38	36	-
$ 2,001 - $ 2,250	149	140	4	5	-	64	1	3	-	41	17	23	-
$ 2,251 - $ 2,500	121	118	-	3	-	53	-	-	1	37	11	19	-
$ 2,501 - $ 2,750	97	96	1	-	-	58	-	1	1	16	10	13	-
$ 2,751 - $ 3,000	81	80	-	1	-	51	-	-	-	9	12	9	-
$ 3,001 - $ 3,250	61	61	-	-	-	29	-	-	2	10	5	15	-
$ 3,251 - $ 3,500	33	31	2	-	-	15	-	-	-	7	7	4	-
$ 3,501 - $ 3,750	38	38	-	-	-	26	-	-	-	6	2	4	-
$ 3,751 - $ 4,000	27	26	1	-	-	16	-	-	1	2	1	7	-
$ 4,001 - $ 4,250	26	25	1	-	-	15	-	-	-	1	1	7	-
$ 4,251 - $ 4,500	19	19	-	-	-	10	-	-	-	4	4	1	-
$ 4,501 - and over	98	98	-	-	-	46	-	1	2	19	12	18	-
	2,307	1,882	226	161	38	1,155	16	17	22	443	267	387	-

Notes:

[a]Type of retirement

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

[b]Option selected:

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

This schedule indicates the retirement benefit option types selected and paid to members, showing the level of income and the number of retirees in each category.

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+
2008 *						
Avg Monthly Benefit	$ 645	$ 1,076	$ 1,502	$ 2,258	$ 3,133	$ 3,944
Avg Monthly Final Avg Compensation	$ 4,302	$ 4,542	$ 3,869	$ 5,094	$ 5,310	$ 6,222
Number of Active/EOSP retirees	18	16	27	74	84	63
2007						
Avg Monthly Benefit	$ 648	$ 725	$ 1,360	$ 2,010	$ 2,999	$ 3,730
Avg Monthly Final Avg Compensation	$ 3,947	$ 2,922	$ 3,687	$ 4,258	$ 5,086	$ 5,589
Number of Active Retirees	12	11	33	42	55	48
2006						
Avg Monthly Benefit	$ 610	$ 802	$ 1,304	$ 1,974	$ 3,141	$ 4,001
Avg Monthly Final Avg Compensation	$ 4,046	$ 2,803	$ 3,245	$ 4,006	$ 4,970	$ 5,561
Number of Active Retirees	20	14	25	27	33	20
2005						
Avg Monthly Benefit	$ 563	$ 912	$ 1,095	$ 1,803	$ 3,291	$ 3,615
Avg Monthly Final Avg Compensation	$ 3,518	$ 3,722	$ 3,017	$ 3,884	$ 5,623	$ 4,883
Number of Active Retirees	8	3	10	20	17	10
2004						
Avg Monthly Benefit	$339	$895	$1,245	$1,547	$2,508	$2,876
Avg Monthly Final Avg Compensation	$2,519	$3,398	$3,500	$3,483	$4,292	$4,323
Number of Active Retirees	4	10	6	7	8	2
2003						
Avg Monthly Benefit	$595	$734	$1,213	$1,772	$2,380	$3,421
Avg Monthly Final Avg Compensation	$3,350	$2,851	$3,358	$3,705	$4,209	$5,047
Number of Active Retirees	10	18	31	41	145	62
2002						
Avg Monthly Benefit	$465	$615	$1,106	$1,236	$2,372	$3,071
Avg Monthly Final Avg Compensation	$2,620	$2,213	$2,882	$2,455	$3,921	$4,147
Number of Active Retirees	9	10	24	20	61	9
2001						
Avg Monthly Benefit	$395	$642	$907	$1,665	$1,900	$2,543
Avg Monthly Final Avg Compensation	$2,098	$2,238	$2,340	$3,124	$3,199	$3,461
Number of Active Retirees	8	20	16	20	24	12
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

This schedule indicates average monthly benefits paid to new retirees for each of the last 10 years, grouped by years of credited service attained at retirement.

*2008 is the first year retiree benefits include End of Service Program (EOSP) retirees in the monthly benefit amounts.

Demographics of Retired and Active Members
June 30, 2008

Retired Members

	Retirees			Survivors/Beneficiaries		
Ages	Male	Female	Total	Male	Female	Total
Under 55	60	91	151	3	18	21
55 to 59	229	140	369	1	17	18
60 to 64	321	137	458	1	29	30
65 to 69	224	130	354		42	42
70 to 74	207	80	287	3	36	39
75 to 79	133	62	195	2	38	40
80 to 84	79	41	120	6	36	42
85 to 89	51	24	75	4	20	24
90 to 94	15	13	28	-	7	7
95 to 100	4	2	6	-	-	-
101 and over	-	1	1	-	-	-
Total	1,323	721	2,044	20	243	263

Active Members

	Active Members			Percentage Distribution		
Ages	Male	Female	Total	Male	Female	Total
Under 20	1	0	1	0.03%	0.00%	0.03%
20 to 29	129	137	266	3.97%	4.21%	8.18%
30 to 39	348	337	685	10.70%	10.37%	21.07%
40 to 49	606	450	1056	18.64%	13.84%	32.48%
50 to 59	673	389	1062	20.70%	11.97%	32.67%
60 to 69	118	56	174	3.63%	1.72%	5.35%
70 and over	4	3	7	0.12%	0.09%	0.22%
Total	1879	1372	3251	57.80%	42.20%	100.00%

This schedule shows the age demographics of all retirees, survivors and beneficiaries for retired members this year. In addition, age demographics for active members are shown by gender for this year.

Employee and Employer Contribution Rates
Last Ten Fiscal Years

Fiscal Year	Employee Rates applicable		Employer Rate (percentage)		Total Contribution
	Fixed	Variable	Fixed	Variable	
99/00	5.0	n/a	7.35	n/a	12.35
00/01	5.0	n/a	7.35	n/a	12.35
01/02	5.0	n/a	7.35	n/a	12.35
02/03	5.0	n/a	8.41	n/a	13.41
03/04	5.0	n/a	11.17	n/a	16.17
04/05	5.0	n/a	14.06	n/a	19.06
05/06	5.0	n/a	14.83	n/a	19.83
06/07*	5.0	7.5	15.04	12.54	20.04
07/08*	5.0	8.084	15.21	12.126	20.21
08/09*	5.0	7.788	14.47	11.682	19.47

* Employee contribution rates for employees hired after July 1, 2006 pay a variable rate, which changes annually to 40% of the actuarially recommended contribution rate for the syster

This schedule indicates the contribution rates paid for creditable compensation by employees and the sponsoring employer over the past 10 years.

Benefit and Refund Deductions from Net Assets by Type

Last Ten Fiscal Years

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Type of Benefit										
Service Benefits:										
Retirees	39,940,472	31,993,340	28,946,679	27,440,364	26,533,141	20,209,867	16,973,784	15,304,313	14,148,926	13,129,994
EOSP lump sum[1]	1,495,136	4,069,547	-	-	-	-	-	-	-	-
Survivors[2]	2,499,152	2,236,330	2,229,540	1,860,300	1,646,238	1,681,008	1,311,664	1,182,857	1,072,099	993,573
Disabilty Benefits:										
Retirees	1,999,565	1,847,725	1,763,061	1,717,457	1,646,927	1,541,162	1,466,490	1,265,302	1,026,252	800,176
Survivors	277,235	272,980	536,670	339,672	433,615	423,073	257,041	289,834	309,986	123,318
Total Benefits	46,211,560	40,419,922	33,475,950	31,357,794	30,259,921	23,855,130	20,009,180	18,042,307	16,557,265	15,047,061
Type of Refund										
Death	96,935	70,309	147,588	86,361	223,073	296,371	3,074	106,071	211,988	58,540
Separation	1,168,300	1,502,967	1,219,264	1,225,670	1,242,340	890,084	803,000	1,018,618	961,193	958,971
Transfer	4,340,520	11,886,941	482,469	209,410	362,716	3,169	100,167	237,192	287,515	16,054
Total Refunds	5,605,755	13,460,218	1,849,320	1,521,441	1,828,129	1,189,625	906,242	1,361,881	1,460,697	1,033,564

[1] EOSP - An End of Service Program benefit option became available for the first time in FY2007, allowing retiring employees to accumulate up to one year's worth of benefit payments during their final year of employment

[2] Includes Death in service pension benefits

This schedule provides additional details of benefit and refund payments made during each of the last ten years.

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