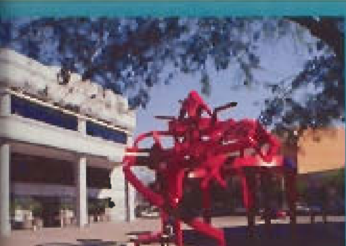
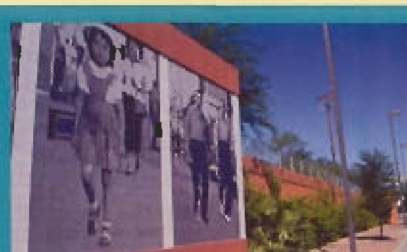
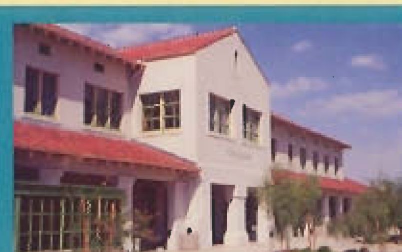
City of Tucson

Tucson Supplemental Retirement System

A Component Unit of the
City of Tucson, Arizona

Comprehensive Annual
Financial Report



Fiscal Year July 1, 2003
Through June 30, 2004

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

Comprehensive Annual Financial Report
For Fiscal Year Ended
JUNE 30, 2004

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

CITY OF

FOUNDED 1775

TUCSON

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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, 2003

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 15, 2004

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, 2004, 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, 2004;
- the **Investment Section**, which contains a letter from the Investment Consultant, an outline of investment policies, investment results, asset allocation and other investment schedules;
- the **Actuarial Section**, which contains the independent actuary's certification letter and results of the annual actuarial valuation; and
- the **Statistical Section,** which provides financial and demographic data pertaining to TSRS.

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

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

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

Budgetary Controls

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

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

Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a period of forty years from July 1, 1982. Eighteen years remain from July 1, 2004.

Major Initiatives

The Board granted an ad hoc retirement benefit increase as of July 1, 2004 for retirees with retirement dates prior to July 1, 2001. The increase was based on the number of years of creditable service each member had at retirement. Of the 1,753 retirees in the system, a total of 1,254 received a benefit increase.

Funding Status

Analysis of the funding progress measures the net assets available for benefits against the actuarially accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2004, the fund was 76.7% funded versus 76.3% funded as of June 30, 2003. The actuarially accrued liability increased from $601,173,422 to $645,350,932, an increase of 7.4% and the actuarial value of assets available for benefits increased by 7.9% from $458,856,831 to $494,986,798. Of the $8,047,543 increase in actuarially accrued unfunded liabilities, $3,505,000 was attributable to retiree mortality losses and $2,618,000 was associated with a combination of employee turnover and pre-retirement mortality losses. These losses were offset by gains of $12,694,000 from less than expected pay increases and $6,826,000 from investment experience. During the plan year ended June 30, 2004, the Board of Trustees commissioned the System's actuary to complete a five-year experience investigation covering the period July 1, 1998 through June 30, 2003. As a result, the Board adopted changes in actuarial assumptons resulting in an increase in liabilities of $13.2 million. These changes included the assumed investment return on assets from 8% to 7.75% and reducing the inflation assumption from 5% to 4.25%.

Investment Activities

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

Net investment gain amounted to $76,678,740. The net investment gain is comprised of bond interest, dividend income, real estate income, security lending income and realized and unrealized gains and losses on securities. The rate of return for the total fund for the year was 17.8%. For the last five years, the System has had an annualized return of 2.6%.

TSRS asset allocation targets are 52% U.S. equities, 15% foreign equities, 5% real estate and 28% fixed income. The diversification posture as of June 30, 2004 represents the Board's prudent judgment in the pursuit of maximum returns at acceptable levels of risk.

In May 2004, a small/mid-cap U.S. equity portfolio manager was added to the existing externally managed accounts to provide additional diversification and to improve overall returns. Approximately $25 million was transferred from the small-cap U.S. equity account managed by Fidelity Management Trust Company to the new account managed by TCW (entitled the "TCW Value Opportunities Fund"). There were no other investment management changes during the 2004 fiscal year. However, Sit Investment Associates remained on watch status and Bank of Ireland was added to watch status for consistently under performing its benchmark during the year. Hewitt Investment Group continues as investment consultant to the System and Mellon Trust continues to serve as master custodian.

In accordance with investment policy, the System's asset classes were rebalanced in January 2004. This consisted of moving $5 million from domestic equity to fixed income. This adjustment brought these asset classes within their target allocation percentages.

Professional Services

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

Acknowledgments

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

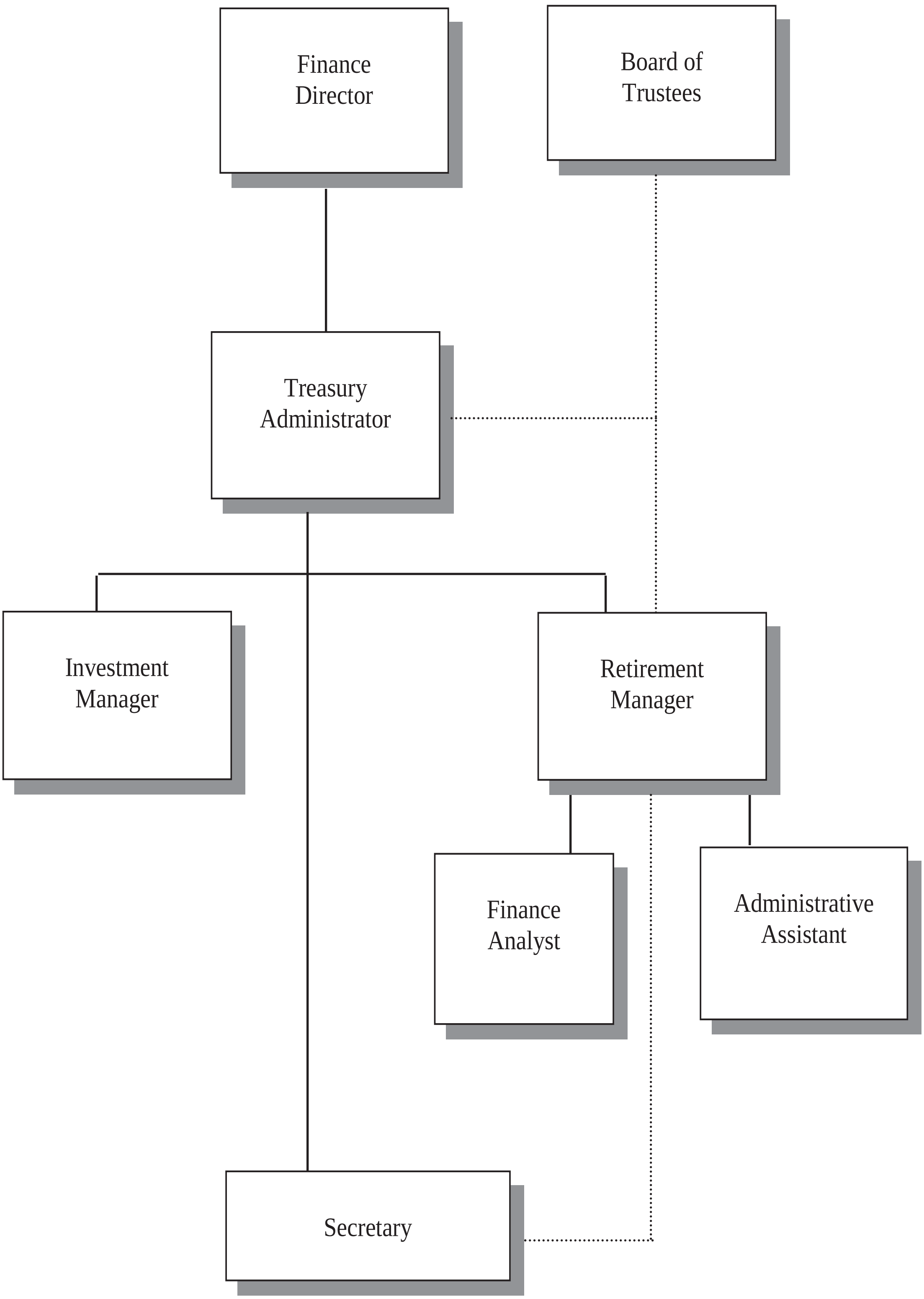
In addition, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TSRS for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. However, TSRS has received this prestigious award for each of the 8 consecutive years it has participated in the GFOA program. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,

Michael A. Hermanson, CPA
Retirement Manager

Organizational Chart



Administrative Organization

BOARD OF TRUSTEES
Brian Bjorndahl
Chairman

J. Scott Douthitt
Finance Director

Teri Traaen
Human Resources Director

John Moore
City Manager Appointee

John O'Hare
Employee Representative

Marie Nemerguth
Employee Representative

Paul D. Miner
Retiree Representative

TREASURY STAFF
Robert Leko
Treasury Administrator

Allan Bentkowski, CPA
Investment Manager

Michael A. Hermanson, CPA
Retirement Manager

Doris Rentschler, CFP
Finance Analyst

Claudia Proios
Administrative Assistant

Claire Beaubien, CPS
Treasury Secretary

ACCOUNTING
Sally Menninga, CPA
Senior Accountant

LEGAL
Frank W. Kern
Principal Assistant City Attorney

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

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

INVESTMENT MANAGERS
Alliance Capital Management Corporation
New York, NY

Bank of Ireland Asset Management
Santa Monica, CA

Barclays Global Investors
San Francisco, CA

Fidelity Management Trust Company
Boston, MA

JP Morgan Fleming Asset Management
San Francisco, CA

Pacific Investment Management Company
Newport Beach, CA

Sit Investment Associates
Minneapolis, MN

Trust Company of the West
Los Angeles, CA

INVESTMENT CONSULTANT
Hewitt Investment Group
Lincolnshire, IL

CUSTODIAN BANK
Mellon Trust
San Francisco, CA

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

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

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Tucson, Arizona 85704
(520) 742-2611
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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, 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tucson Supplemental Retirement System, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 10, 2004

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, 2004. 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, 2004 are $515,463,610 (net assets held in Trust for Pension Benefits). All of the net assets are available to meet TSRS's ongoing obligations to plan participants and their beneficiaries.

- TSRS's total net assets held in trust for pension benefits increased by $69,559,332, or 15.6%, primarily as a result of increases in the market value of the System's assets.

- TSRS's funding objective is to establish and receive contributions, which will remain approximately level from year to year and thereby minimize inter-generational cost transfers. As of June 30, 2004, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 76.7%.

- Revenues (Additions to Plan Net Assets) for the year were $101,811,829, which includes member and employer contributions of $25,133,089, and an Investment gain of $79,311,520 reduced by Investment Expenses of $2,632,780.

- Expenses (Deductions from Plan Net Assets) increased from $25,418,472 to $32,252,497 over the prior year, or approximately 26.9%. The increase was due largely to an increase in benefit payments of $6,404,791, refunds and transfers to other systems totaling $422,545 and a small increase in administrative expenses of $6,689; bringing the total increase in expenses to $6,834,025.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

Other information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning TSRS's progress in funding its obligations to provide pension benefits to members. (See Required Supplementary Information on pages 18 and 19 of this report.)

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the Required Supplementary Information on pensions. (See Supporting Schedules on page 20 of this report.)

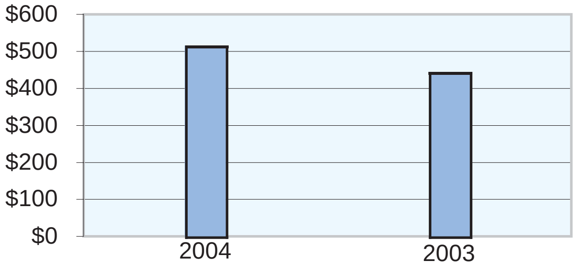
Financial Analysis

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table below). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2004. Currently, $515,463,610 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

As of June 30, 2004, net assets increased by 15.6% over the prior year primarily due to increases in the fair value of investments and a decrease in liabilities.

Additions to Plan Net Assets

Net Assets - TSRS
(Dollars in Millions)



Net Assets - TSRS

	June 30, 2004	June 30, 2003	Total % Change
Assets			
Cash, Cash Equivalents, and Receivables	$ 14,104,864	$ 7,937,073	77.7%
Investments	511,320,814	460,099,639	11.1%
Securities Lending Cash Collateral	42,663,441	30,913,316	38.0%
Capital Assets, Net	3,578	4,809	-25.6%
Total Assets	**$ 568,092,697**	**$ 498,954,837**	13.9%
Liabilities			
Accounts Payable and Other Payables	539,706	653,333	-17.4%
Due to Securities Lending Borrowers	42,663,441	30,913,316	38.0%
Due to Brokers & Unredeemed Warrants	9,425,940	21,483,910	-56.1%
Total Liabilities	**$ 52,629,087**	**$ 53,050,559**	-0.8%
Total Net Assets	**$ 515,463,610**	**$ 445,904,278**	15.6%

The collection of employer and employee contributions, as well as income from investments, provide the reserves need to finance retirement benefits. Contributions and investment income for fiscal year ended June 30, 2004 totaled $101,811,829.

Changes in Net Assets - TSRS

	June 30, 2004	June 30, 2003	Total % of Change	Total % Change
Additions				
City Contributions	$ 15,966,754	$ 12,771,777	25%	25%
Employee Contributions and Transfers from Other Systems	6,858,373	8,109,005	(15.42%)	-15.42%
Employee Contributions from Purchases of Service	2,307,962	4,610,513	(49.9%)	-49.9%
Investment (Loss) and Securities Lending Income	76,678,740	12,737,072	502%	502.0%
Total Additions	**$ 101,811,829**	**$ 38,228,367**	**166.3%**	**166.3%**

Employer contributions increased by $3,194,977 or 25.0% due to a 26% increase in the employer funding rate from the prior year. Employee contributions decreased by $1,250,632 or (15.4%) as a result of the reduced amount of payroll caused by retirements occurring at the end of the prior year and a hiring freeze that existed during the current year. Additionally, members participating in a service purchase program that began January 1, 2002 contributed a total of $2,307,962 during the year ending June 30, 2004.

Deductions from Plan Net Assets

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

Expenses for fiscal year 2004 totaled $32,252,497 or an increase of 26.9% over fiscal year 2003 expenses. The increase in annuity benefits is due to normal and early retirements late in the prior year, with the full effect being realized during the current year. The change in refunds results from the account balances related to employees terminating employment with the City of Tucson.

Changes in Net Assets - TSRS

	June 30, 2004	June 30, 2003	Total % Change
Deductions			
Retirement Benefits	-$30,259,921	-$23,855,130	26.8%
Refund of Contributions and Transfers to Other Systems	-1,612,169	-1,189,624	35.5%
Administrative Expenses	-380,407	-373,718	1.8%
Total Deductions	**-$32,252,497**	**-$25,418,472**	**26.9%**

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, 2004, the balance in this reserve account increased by $13,447,818 to $123,643,527.

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, 2004, this reserve account balance increased by $13,216,605 to $286,698,084.

The impact of gains and losses recognized during the plan year ended June 30, 2004 affects the amount remaining in the Unreserved Net Assets. Employer funding is added to the Unreserved Net Assets balance. At retirement, the amounts needed to fully fund retirement benefits is transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. The net change in Unreserved Net Assets during the plan year was an increase of $42,894,909 to $105,121,999.

TSRS's Fiduciary Responsibilities

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

Requests for Information

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

Tucson Supplemental Retirement System
City Hall, 1st Floor - Retirement Office
255 West Alameda Street
Tucson, Arizona 85701

Tucson Supplemental Retirement System
Statement of Plan Net Assets
June 30, 2004

Assets		
Cash Deposits/Pooled Investments	$	229,086
Receivables:		
City Contributions (Note 3)		1,308,745
Employee Contributions (Note 3)		632,356
Interest and Dividends		1,386,671
Due From Brokers		10,548,006
Total Receivables		13,875,778
Investments, at Fair Value (Notes 4, 5, and 6):		
Short-term Investments		5,424,514
Securities Lending Cash Collateral		42,663,441
U.S. Government Obligations		27,460,226
Corporate Bonds		23,301,259
Corporate Common Stocks		283,797,576
Preferred Stocks		480,048
International Bonds		4,879,453
International Equity		70,951,985
Mortgage Bonds Mutual Fund		69,660,073
Real Estate		25,365,680
Total Investments, at Fair Value		553,984,255
Capital Assets, At Cost, Net of Accumulated Depreciation		3,578
Total Assets		568,092,697
Liabilities		
Accounts Payable		535,254
Accrued Wages Payable		4,452
Due to Securities Lending Borrowers (Note 5)		42,663,441
Due to Brokers		9,424,084
Unredeemed Warrants		1,856
Total Liabilities		52,629,087
Net Assets Held in Trust for Pension Benefits (Note 3)	$	515,463,610

See Accompanying Notes to Financial Statements

Tucson Supplemental Retirement System
Statement of Changes in Plan Net Assets
Year Ended June 30, 2004

Additions		
Contributions (Note 3):		
City	$	15,966,754
Employee		6,563,651
Employee Purchase of Service Credit		2,307,962
Transfers from Other Systems		294,722
Total Contributions		25,133,089
Investment Income:		
Net Gain in Fair		
Value of Investments		67,110,061
Interest		4,051,824
Dividends		7,691,638
Real Estate Income		16,209
Securities Lending Income (Note 5)		417,044
Miscellaneous Income		24,744
		79,311,520
Less Investment Expenses:		
Securities Lending Interest and Fees		324,034
Other Investment Expense		2,308,746
Total Investment Expense		2,632,780
Net Investment Gain		76,678,740
Total Additions		101,811,829
Deductions		
Benefits		30,259,921
Refunds		1,249,453
Transfers to Other Systems		362,716
Administrative Expenses		380,407
Total Deductions		32,252,497
Net Increase in Plan Net Assets		69,559,332
Net Assets Held in Trust for Pension Benefits		
July 1, 2003		445,904,278
June 30, 2004	$	515,463,610

See Accompanying Notes to Financial Statements.

Tucson Supplemental Retirement System
Notes to Financial Statements
Year Ended June 30, 2004

1. DESCRIPTION OF THE PLAN

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

B. Plan Membership - The System covers substantially all City of Tucson, Arizona, employees, except for appointed officials and staff who may elect not to join, and commissioned police and fire personnel and elected officials, who are covered under other plans. Employees participate in the System immediately upon beginning employment with the City. Employee membership data as of June 30, 2004 is as follows:

Active plan participants:	
Vested	2,518
Nonvested	958
Total active plan participants	3,476
Current retirees and beneficiaries	1,753
Terminated vested participants	130

C. Plan Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

At June 30, 2004, 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. Cash 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. Initial cash deposits are held in the City's investment pool. 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, 2004 for retirees and beneficiaries retired prior to July 1, 2001, accounted for a $2,390,664 increase in actuarial liabilities.

3. CONTRIBUTIONS AND RESERVES

A. Funding Requirements

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

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

B. Net Assets

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

Earnings of the System are allocated semi-annually (at June 30 and December 31) to the reserves which comprise net assets. For the year ended June 30, 2004, 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, 2004, consisted of the following components:

Reserved for employee contributions	$	123,643,527
Reserved for retirement benefits		286,698,084
Unreserved net assets		105,121,999
Net Assets	$	515,463,610

4. INVESTMENTS

The pension fund is governed by a Board of Trustees. In making investment decisions, the Board of Trustees is required by City Code 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, 2004. 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, 2004, have been categorized, in accordance with GASB requirements, to give an indication of the level of risk assumed. Category 1 includes investments which are held by the System or its agent in the System's name or are insured or registered. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counter party, or by its trust department or agent but not in the System's name. As of June 30, 2004, all investment securities were in risk Category 1, with the exception of those investments not required to be categorized.

All System investments are reflected in the following schedule with the exception of amounts held in the City's investment pool. The City maintains an investment pool for City funds. Bi-weekly contributions for the Tucson Supplemental Retirement System are held in the City's investment pool and are used to pay recurring expenditures. The $229,086 of cash and deposits in the City's investment pool is not subject to credit risk classification.

		Fair Value
Investments - Category 1		
United States issues:		
Government and agency securities		
not on securities loan	$	16,713,474
Corporate bonds not on securities loan		19,356,362
Corporate stocks not on securities loan		269,052,440
Non-United States issues:		
International bonds not on securities loan		4,596,656
International equity not on securities loan		59,657,652
Subtotal		369,376,584
Investments - Not categorized		
Investments held by broker-dealers under securities loans with cash collateral:		
US government and agency securities		10,746,752
US corporate fixed income securities		3,944,897
US equities		14,745,136
International bonds		282,797
International equities		11,774,381
Securities lending short-term collateral investment pool		42,663,441
Mortgage Bonds Mutual Fund		69,660,073
Money market funds		5,424,514
Real Estate		25,365,680
Total Investments, at Fair Value	$	553,984,255

5. SECURITIES LENDING

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

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

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

The System cannot pledge or sell collateral securities received until and unless a borrower defaults. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses known to the securities lending agent. As of June 30, 2004, the System had no credit risk exposure to borrowers because the fair value of collateral held exceed the fair value of securities loaned.

6. DERIVATIVES

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

Forward foreign exchange contracts for the purchase or sale of foreign currency were entered into for investment and hedging purposes, to modify the foreign currency exposure of international securities held. The duration of these contracts typically was three months or less. During this period the portfolio was exposed to counterparty risk through the use of forward foreign exchange contracts which could give rise to a loss if foreign exchange rates move in an adverse fashion. This risk is controlled through dealing with a number of different counterparties of high credit standing which have been approved by the manager through a stringent screening process.

The System also permits the use of financial futures and options by its external fixed income manager to reduce or eliminate undesirable/unintended risks, to maintain desirable risks so as to improve the portfolio's return patterns, and to enhance portfolio liquidity, flexibility and/or efficiency. The external fixed income manager used long and short positions in exchange-traded U.S. Treasury futures during the year to modify exposure to various parts of the yield curve and to modify the risk characteristics of the portfolio. The government futures positions were fully supported by cash and cash equivalents. The net market exposure as of June 30, 2004 was $0. As of the same date, the portfolio contained net market exposure to put and call options (including swaptions) of ($34,951).

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 issuer limits. The portfolio held the following net market exposure in swaps and credit default swaps of $21,210,647 and $(3,495,382), respectively.

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

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

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

* *Demographic and economic assumptions were revised for the plan year ended 6/30/04.*

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Beginning July 1,	Actuarial Valuation Date June 30	Annual Required Contribution	Percent Contributed
1991	1990	$ 6,381,379	100.0%
1992	1991	6,965,971	100.0
1993	1992	7,164,106	100.0
1994	1993	7,626,120	100.0
1995	1994	8,632,755	100.0
1996	1995	9,292,926	100.0
1997	1996	9,800,579	100.0
1998	1997	9,475,558	100.0
1999	1998	9,707,235	100.0
2000	1999	10,123,248	100.0
2001	2000	9,088,970	100.0
2002	2001	12,765,619	100.0
2003	2002	18,457,476	100.0
2004	2003	21,657,270*	
2005	2004	23,643,630*	

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, 2004
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, closed
Remaining Amortization Period	18 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, 2004
Schedule of Administrative Expenses

Personal Services	
Staff Salaries	$ 182,407
Fringe Benefits	51,347
Total Personal Services	233,754
Professional Services	
Accounting	67,466
Legal	-
Actuary	23,750
Other	952
Total Professional Services	92,168
Miscellaneous	
Professional Development	1,223
Printing and Supplies	41,553
Depreciation	1,230
Other	10,479
Total Miscellaneous	54,485
Total Administrative Expenses	$ 380,407

Schedule of Investment Expenses

Custody	$ 230,439
Investment Consultant	137,000
Investment Management	1,941,307
Security Lending Management	74,181
Interest on Securities Lending	249,853
Total Investment Expenses	$ 2,632,780

Hewitt

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www.hewitt.com

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Slovenia
South Korea
Spain
Sweden
Switzerland
Thailand
United Kingdom
United States
Venezuela

November 22, 2004

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, 2004. 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, 2004; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

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

General Observations

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

Hewitt

The Board of Trustees
Page 2
November 22, 2004

This fiscal year's evaluation of existing investment managers led to the selection TCW Asset Management (TCW) for a small-mid cap U.S. equity portfolio to provide additional diversification and to improve overall returns. However, the Fund's international equity managers, Sit Investment Associates and Bank of Ireland, have not been meeting their respective benchmarks. Subsequent to the fiscal year end, new international equity managers were selected to replace Sit and Bank of Ireland.

As indicated in the following exhibits, the TSRS Retirement Plan assets increased meaningfully as equity markets around the world rebounded, while bond markets also produced modest gains. The total portfolio return for the fiscal year was 17.8% compared to 17.0% for the Custom Index. The outperformance was attributable primarily to the strong returns from the Fund's active domestic equity managers, TCW Asset Management (existing large cap growth portfolio) and Fidelity Investments, as well as the Fund's bond portfolios. These gains offset the relative shortfall of the international equity managers noted above. (Please note that the international equity managers produced strong absolute returns in excess of 24%, but trailed the stated benchmarks.)

Sincerely,

Hewitt Investment Group

Rob

Robert P. Van Den Brink

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

Outline of Investment Policies

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

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

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

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

	Percent of Total Pension Fund		
	Minimum	**Target**	**Maximum**
Equities:			
Large Capitalization	36%	41%	46%
Small/Mid Capitalization	7%	11%	15%
International	13%	15%	17%
Total Equities	62%	67%	72%
Fixed Income	23%	28%	33%
Real Estate	3%	5%	7%

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

Investment Objectives

Total Pension Fund Performance Objectives[1]

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

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

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

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

Individual Managers Performance Objectives

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

TCW (Large Cap Growth)

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

Barclays (Large Cap Value)

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

TCW (Mid Cap Equity)

- Exceed the annualized total return of the Russell 2500 index.

Fidelity (Small Cap Equity)

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

Alliance Capital (S&P 500 Stock Index)

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

Bank of Ireland (International Equity)

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

Sit Associates (International Equity)

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

Internally Managed (U.S. Fixed Income)

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

PIMCO (Total Return)

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

JPMorgan Strategic Property Fund (Real Estate)

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

Investment Results by Year
Last Ten Fiscal Years Ended June 30, 2004

Year Ended	Annual Return	3-Year Annualized Return	5-Year Annualized Return	10-Year Annualized Return
6/30/04	17.8%	3.8%	2.6%	9.3%
6/30/03	3.3%	(4.4%)	1.5%	7.9%
6/30/02	(8.1%)	(2.2%)	4.1%	8.6%
6/30/01	(8.1%)	4.2%	9.5%	10.7%
6/30/00	10.5%	13.2%	14.8%	12.4%
6/30/99	11.4%	15.7%	16.5%	12.1%
6/30/98	17.9%	17.5%	14.8%	12.7%
6/30/97	17.7%	17.5%	13.1%	11.1%
6/30/96	16.1%	12.7%	11.9%	10.8%
6/30/95	18.6%	10.7%	10.0%	12.1%

Schedule of Investment Results
For Periods Ended June 30, 2004

		Annualized Returns (1)	
	One Year	Three Years	Five Years
TOTAL PORTFOLIO			
TSRS	17.8%	3.8%	2.6%
Custom Benchmark (2)	17.0%	4.3%	2.9%
EQUITY FUNDS			
Alliance Capital	19.0%	(0.6%)	(2.1%)
S & P 500 Index	19.1%	(0.7%)	(2.2%)
Barclays	21.1%	3.0%	-
Russell 1000 Value Index	21.1%	3.0%	-
TCW Concentrated Core	28.5%	2.3%	-
Russell 1000 Index	17.9%	(3.7%)	-
Fidelity Select Small Cap	35.7%	6.4%	7.6%
Russell 2000 Index	33.4%	6.2%	6.6%
TCW Value Opportunities	(account established May, 2004)		
Russell 2500 Index			
Bank of Ireland	24.4%	1.3%	0.7%
MSCI All Country WF ex-US Index	32.5%	5.3%	1.0%
Sit Associates	24.6%	(3.8%)	(5.7%)
MSCI All Country WF ex-US Growth Index	26.8%	3.2%	(2.3%)
FIXED INCOME FUNDS			
Internal Management	1.3%	6.9%	7.5%
Lehman Government Credit Index	(0.7%)	6.7%	7.1%
PIMCO	4.3%	(account established June, 2002)	
Custom Index (3)	3.1%	-	-
REAL ESTATE FUND			
JPM Strategic Property Fund	10.0%	8.5%	-
NCREIF Real Estate Index	10.8%	8.7%	-

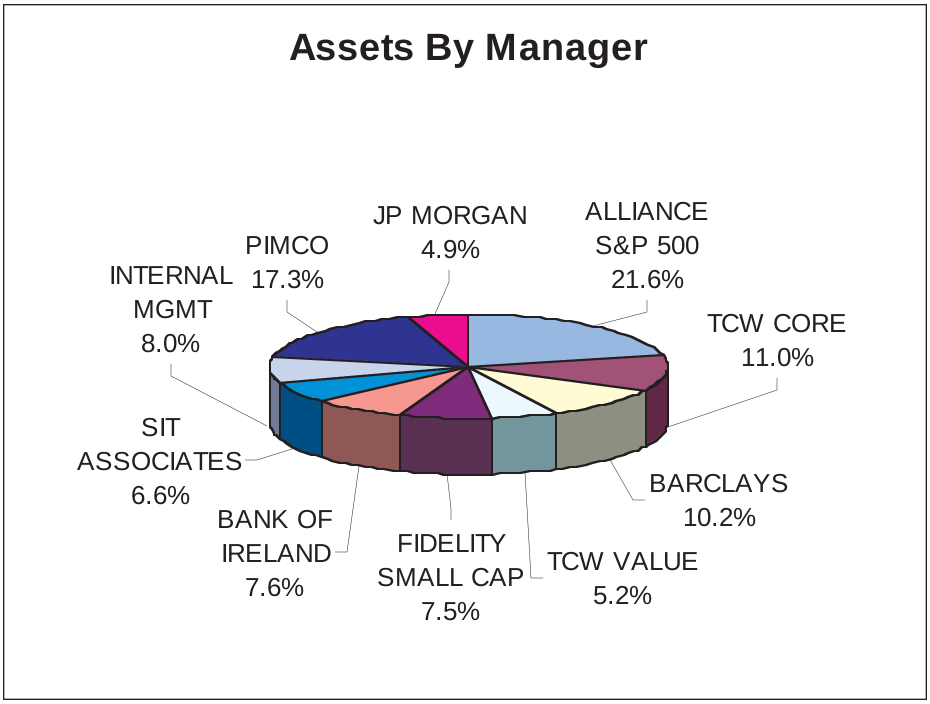
Notes: All data provided by independent investment consultant, Hewitt Investment Group
(1) Geometrically compounded, time-weighted rates of return
(2) Custom Benchmark = 41% S&P 500 Index + 11% Russell 2000 + 25% Lehman Aggregate + 3% Lehman High Yield + 15% MSCI AC WF ex-US + 5% Real Estate-NCREIF
(3)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

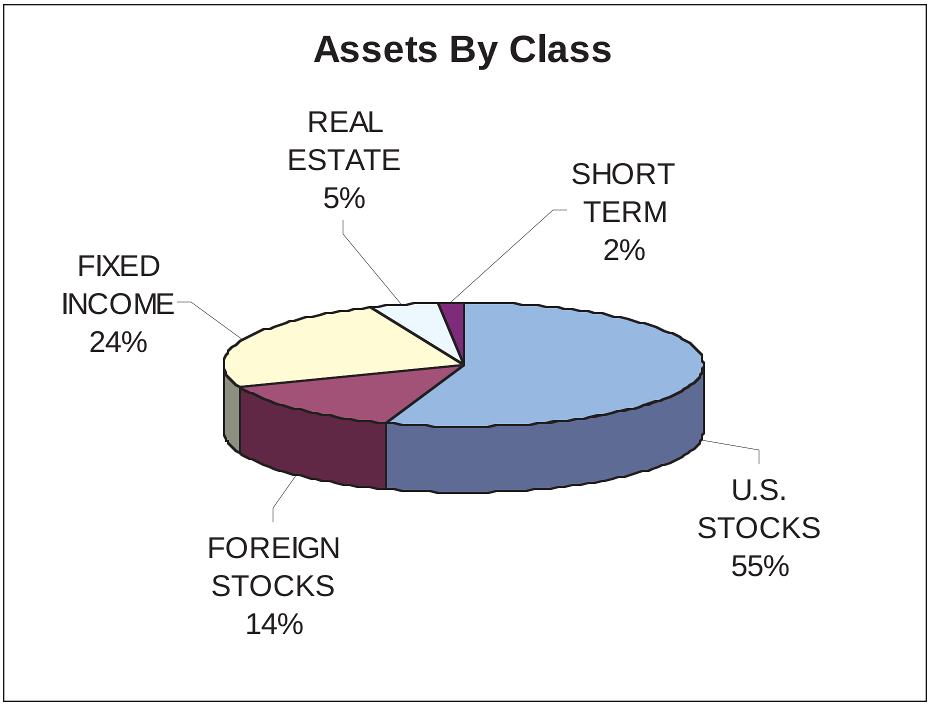
Investment Summary
By Manager and Type of Investment (in thousands)
June 30, 2004

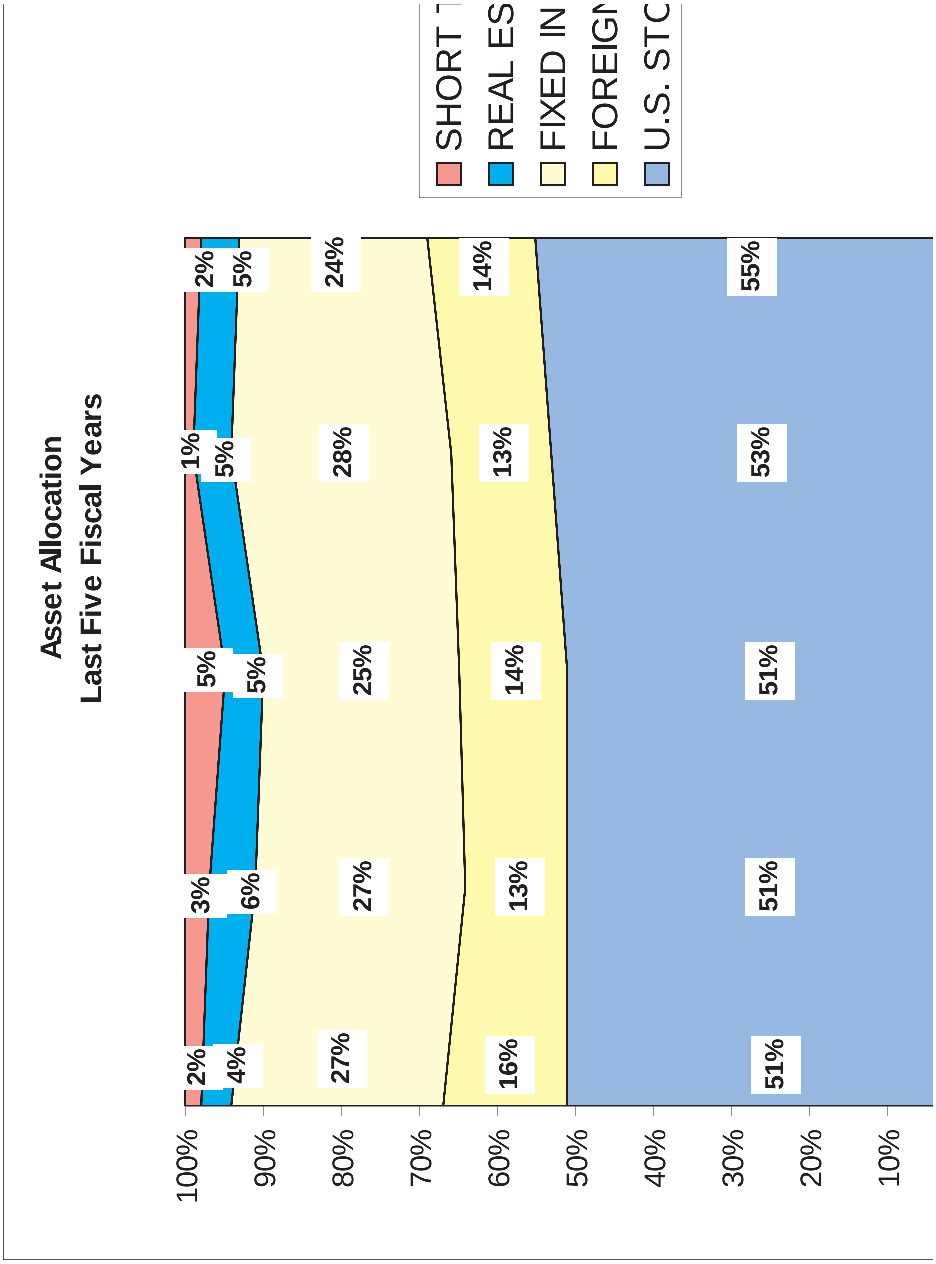
Manager	Style	Large U.S. Stocks	Small/Mid U.S. Stocks	Foreign Stocks	Fixed Income	Real Estate	Short Term	Total	Manager Percent of Total	Manager Percent of Target
Alliance Capital Management	S & P 500 Index	$ 110,734					$ 274	$ 111,008	21.6%	21.0%
TCW Concentrated Core	Large Cap Growth	$ 56,346					$ 260	$ 56,606	11.0%	10.0%
Barclays Russell Value Index	Large Cap Value	$ 52,616					$ -	$ 52,616	10.2%	10.0%
TCW Value Opportunities	Mid Cap Core		$ 25,665				$ 1,184	$ 26,849	5.2%	5.0%
Fidelity Management Trust Co	Small Cap Core		$ 38,436				$ 315	$ 38,751	7.5%	6.0%
Bank of Ireland Asset Mgt	Foreign Stocks			$ 38,385			$ 454	$ 38,839	7.6%	7.5%
Sit Associates	Foreign Stocks			$ 33,047			$ 956	$ 34,003	6.6%	7.5%
Internal Management	U. S. Bonds				$ 40,174		$ 829	$ 41,003	8.0%	10.0%
PIMCO	U.S. & Foreign Bonds				$ 85,127		$ 3,662	$ 88,789	17.3%	18.0%
JP Morgan Real Estate	Real Estate Equity					$ 25,366	$ -	$ 25,366	4.9%	5.0%
Liquidity	Cash & Cash Equivalents						$ 158	$ 158	0.0%	0.0%
TOTAL		$ 219,696	$ 64,101	$ 71,432	$ 125,301	$ 25,366	$ 8,092	$ 513,988	100.0%	100.0%
Percent of Market Value		43%	12%	14%	24%	5%	2%	100%		
Target Allocation		41%	11%	15%	28%	5%	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, 2004






Asset Allocation
Last Five Fiscal Years
SHORT T
REAL ES
FIXED IN
FOREIGN
U.S. STC
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
2%
4%
27%
16%
51%
3%
6%
27%
13%
51%
5%
5%
25%
14%
51%
1%
5%
28%
13%
53%
2%
5%
24%
14%
55%

Ten Largest Bond Holdings
(By Market Value)
June 30, 2004
(dollars in thousands)

Par Value	Bond	Coupon Rate	Due	Rating (1)		Market Value
5,000	Federal Farm Credit Bank	5.750%	09/01/05	AAA	$	5,194
2,300	Germany Federative Republic Bonds	4.125%	07/04/08	AAA		2,870
2,700	US Treasury Notes	4.875%	02/15/12	AAA		2,789
2,700	US Treasury Notes	1.625%	04/30/05	AAA		2,693
2,000	US Treasury Notes	6.875%	05/15/06	AAA		2,154
2,000	Ford Motor Co	7.250%	10/01/08	Baa1		2,129
2,000	Federal Home Loan Bank	4.125%	11/15/06	AAA		2,042
2,000	Federal Home Loan Mortgage Corp	6.000%	06/23/14	AAA		2,024
2,000	Federal Home Loan Bank	5.740%	04/22/19	AAA		1,992
2,000	US Treasury Notes	3.875%	02/15/13	AAA		1,912

(1) Rated by Moodys

Ten Largest Stock Holdings
(By Market Value)
June 30, 2004
(dollars in thousands)

Shares	Stock		Market Value
110,400	General Electric	$	3,577
112,600	Microsoft		3,216
68,854	Exxon Mobil		3,058
79,522	Pfizer		2,726
53,708	Citigroup		2,497
45,140	Wal Mart		2,382
7,886	Nestle		2,103
10,226	Total		1,950
27,149	American International Group		1,935
68,000	Intel		1,877

A complete list of portfolio holdings is available by contacting the City of Tucson, Treasury Division, 255 W. Alameda, 5th Floor, PO Box 27210, Tucson, AZ 85726-7210.

Schedule of Fees
Year Ended June 30, 2004

	Assets Under Management	Fees
Investment Manager Fees		
Fixed Income Managers		
City of Tucson, Treasury Division	$ 41,003,208	$ 54,636
PIMCO	88,789,213	273,224
Total Fixed Income	129,792,421	327,860
Equity Managers		
Alliance Capital Management	111,008,239	40,568
Bank of Ireland Asset Management	38,839,430	272,595
Barclays Russell Value Index	52,616,148	29,547
Fidelity Management Trust	38,751,685	389,500
TCW Concentrated Core	56,606,025	360,287
TCW Value Opportunities	26,849,209	24,001
Sit Associates	34,002,318	251,766
Total Equity	358,673,054	1,368,264
Liquidity	158,098	-
Real Estate	25,365,708	245,183
Total Assets (Trade date basis)	$ 513,989,281	
Total Investment Management Fees		$ 1,941,307
Other Investment Service Fees		
Custodian Fees		
Mellon Trust		$ 230,439
Security Lending - Bank and Administration Fees		
Mellon Trust		74,181
Consulting and Performance Measurement		
Hewitt Investment Group		137,000
Total Other Investment Service Fees		$ 441,620

Schedule of Commissions
Year Ended June 30, 2004

Broker Description	Shares		Commissions		Commission Per Share
WEEDEN & CO, NEW YORK	1,443,299	$	43,483	$	0.0301
MERRILL LYNCH PIERCE FENNER SMITH INC NY	857,291		35,667		0.0416
INVESTMENT TECHNOLOGY GROUPS, NEW YORK	919,191		18,195		0.0198
BEAR STEARNS & CO INC, NY	485,333		17,181		0.0354
MORGAN STANLEY & CO INC, NY	666,345		14,628		0.0220
LEHMAN BROS INC, NEW YORK	269,405		12,066		0.0448
JEFFERIES & CO INC, NEW YORK	339,118		11,297		0.0333
SCHWAB CHARLES & CO INC, SAN FRANCISCO	226,105		10,459		0.0463
GOLDMAN SACHS & CO, NY	259,603		8,399		0.0324
CITIGROUP GBL MKTS INC, NEW YORK	166,420		8,241		0.0495
BANC OF AMERICA SECS LLC, CHARLOTTE	167,730		7,907		0.0471
UBS SECURITIES LLC, STAMFORD	197,595		7,356		0.0372
WACHOVIA CAPITAL MARKETS LLC, CHARLOTTE	144,200		7,210		0.0500
NATIONAL FINL SVCS CORP, NEW YORK	390,755		7,165		0.0183
WACHOVIA SECURITIES LLC, NEW YORK	129,150		6,458		0.0500
CREDIT SUISSE FIRST BOSTON CORP, N Y	125,015		5,697		0.0456
PIPER JAFFRAY & CO, MINNEAPOLIS	113,330		5,667		0.0500
SG AMERICAS SECURITIES LLC, NEW YORK	130,313		5,556		0.0426
PERSHING LLC, JERSEY CITY	99,153		4,821		0.0486
ADAMS HARKNESS & HILL INC, BOSTON	93,483		4,452		0.0476
MERRILL LYNCH PIERCE FENNER, WILMINGTON	192,553		4,158		0.0216
BROADCOURT CAP CORP/SUB OF MLPF&S,NY	82,930		4,147		0.0500
CREDIT LYONNAIS SECURITIES INC, NEW YORK	721,415		4,006		0.0056
DEUTSCHE BANC ALEX BROWN INC, NEW YORK	78,065		3,992		0.0511
KNIGHT SEC BROADCORT, JERSEY CITY	94,430		3,954		0.0419
CIBC WORLD MARKETS CORP, NEW YORK	73,405		3,528		0.0481
UBS FINANCIAL SERVICES INC, WEEHAWKEN	72,313		3,490		0.0483
MCDONALD & CO, NEW YORK	69,285		3,464		0.0500
IMPERIAL CAPITAL LLC, BEVERLY HILLS	68,805		3,430		0.0499
MORGAN J P SECS INC, NEW YORK	58,704		2,935		0.0500
DAIN RAUSCHER INC, MINN	57,655		2,883		0.0500
BAIRD, ROBERT W & CO INC, MILWAUKEE	53,810		2,691		0.0500
LEGG MASON WOOD WALKER INC, BALTIMORE	51,400		2,570		0.0500
ISI GROUP INC, NY	49,235		2,462		0.0500
CITATION GROUP, NY	48,215		2,411		0.0500
CITIGROUP GBL MKTS/SALOMON, NEW YORK	197,129		2,282		0.0116
E TRADE SECURITIES INC, PALO ALTO	49,500		2,235		0.0452
DEUTSCHE BK AG (INTL EQUITIES), LONDON	316,374		2,216		0.0070
HSBC SECS INC, NEW YORK	158,500		1,903		0.0120
S G WARBURG, SEOUL	3,760		1,767		0.4701
GOLDMAN SACHS INTL, LONDON	77,268		1,722		0.0223
MERRILL LYNCH INTL (2L), LONDON	151,853		1,704		0.0112
FIDELITY CAP MKTS (DIV OF NFSC), BOSTON	98,989		1,666		0.0168
NOMURA SECS INTL INC, NEW YORK	23,181		1,643		0.0709
FIRST ALBANY CAPITAL INC, ALBANY	39,462		1,597		0.0405
MORGAN KEEGAN & CO INC, MEMPHIS	31,337		1,567		0.0500
MERRILL LYNCH INTL LONDON EQUITIES	17,515		1,566		0.0894
CANTOR FITZGERALD & CO INC, NEW YORK	51,235		1,536		0.0300
MERRILL LYNCH PROFESSIONAL CLRG, PURCHASE	33,900		1,519		0.0448
SCOTT STRINGFELLOW INC, RICHMOND	30,200		1,510		0.0500
UBS EQUITIES, LONDON	204,369		1,510		0.0074
RBC CAPITAL MARKETS CORP, NEW YORK	33,815		1,462		0.0432
JANNEY MONTGOMERY SCOTT, PHILADELPHIA	28,315		1,416		0.0500
UNION BANK OF SWITZERLAND, HONG KONG	155,500		1,397		0.0090
UBS WARBURG ASIA LTD, HONG KONG	212,709		1,261		0.0059
BURNS FRY HOARE GOVETTE INC, NEW YORK	29,570		1,259		0.0426
CREDIT LYONNAIS SECS (ASIA), HONG KONG	274,596		1,237		0.0045
NEUBERGER & BERMAN	42,800		1,235		0.0289
BEAR STEARNS SEC CORP, BROOKLYN	45,675		1,203		0.0263
MIZUHO SECURITIES USA INC. NEW YORK	35,537		1,194		0.0336
MORGAN STANLEY & CO INTL, LONDON	45,995		1,131		0.0246
CS FIRST BOSTON EQUITIES, LONDON	227,108		1,128		0.0050
CREDIT SUISSE FIRST BOSTON (EUROPE)SEOUL	7,120		1,090		0.1531
WELLS FARGO SEC LLC, NEW YORK	20,810		1,041		0.0500
BARING SECURITIES LTD, HONG KONG	9,066		1,019		0.1124
VARIOUS BROKERS - $1,000 OR LESS	2,346,896		34,110		0.0145
TOTAL	**13,995,138**	**$**	**371,148**		
AVERAGE COMMISSION RATE				**$**	**0.0265**

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

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November 30, 2004

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

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

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

Actuarial valuations are performed annually. The most recent actuarial valuation was made as of June 30, 2004. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 76.7% (78.3% prior to assumption changes) funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 18 years and applied as a charge to the computed normal cost. This is a decrease of one year from the period used in the June 30, 2003 valuation.

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

On the basis of the 2004 valuation, it is our opinion that the Retirement System continues in sound condition in accordance with the actuarial principles of level cost financing.

Respectfully submitted,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

Actuarial Cost Method

Normal cost contributions were computed as follows:

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

Actuarial accrued liability was computed and financed as follows:

(1) Retirants and beneficiaries. The discounted value of pensions likely to be paid retired members and their potential survivors were computed using the investment return and mortality assumptions. The computed amount was reduced by applicable valuation assets and the unfunded amount, if any, was amortized over an open period of 18 years from June 30, 2004.

(2) Active members and former members. The actuarial accrued liability associated with service rendered prior to the valuation date, including experience gains and losses, was computed using the investment return, mortality and other factors outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount, if any, was amortized over 18 years from June 30, 2004. If valuation assets exceed the actuarial accrued liability, the excess was amortized 18 years and applied as a credit toward the computed normal cost.

Actuarial Assumptions

Level-percent contribution requirements and actuarial present values are calculated by using the entry-age actuarial cost method and assumptions concerning future experiences in the financial risk areas of a retirement plan. Actuarial gains and losses are amortized as a level percent of payroll over a closed period of 18 years from June 30, 2004. The assumptions are selected based upon the recommendation of the actuary.

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

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

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

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

From time to time one or more of the assumptions are modified to reflect experience trends (but not random or temporary year to year fluctuations). The Board of Trustees adopts the assumptions based upon recommendations of the actuary. The demographic assumptions were revised and adopted for the June 30, 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, was 8.0% in prior valuation. This consists of a real rate of return of 3.5% (was 3.0%) a year plus a long-term rate of inflation of 4.25% (was 5.0%) 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

	2004	2003	2002	2001	2000	1999
Nominal rate	9.5%	-0.93%	-2.1%	4.2%	13.2%	14.4%

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

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

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

Sample Ages	Future Life Expectancy (years)		Deaths per 1,000 Lives	
	Men	Women	Men	Women
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

We are assuming, on average, that final average compensation will be increased by 2.2% (1.5% used in prior valuation) to reflect unused sick leave.

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

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

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.

Rates of Retirement. Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year. For those ages 62+, the Rule of 80 retirement rates only applies if the Rule of 80 is attained by age 62. Some rates were modified from the 2003 valuation.

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

Deferred vested members are assumed to retire at age 62.

Rates of Separation from Active Membership. This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire. Rates were lowered from the 2003 valuation.

Sample Ages	Years of Creditable Service	Probability of Termination During Year
Any	0	15.0 %
	1	10.0
	2	9.0
	3	7.5
	4	7.0
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. Rates were increased from the 2003 valuation.

Sample Ages	% of Active Members Becoming Disabled During Next Year
25	0.02%
30	0.06
35	0.11
40	0.16
45	0.24
50	0.38
55	0.65
60	0.94

Disabled life mortality is measured by the 1994 Group Annuity Mortality Table, as previously noted, with ages set forward 10 years. It is assumed that 40% of valued disability benefits are assumed to be offset by Worker's Compensation benefits.

Forfeiture of Vested Benefits. The assumption is that 55% (in prior valuations, was 50%) of the actuarial present value of vested termination benefits will be forfeited by a withdrawal of accumulated contributions.

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

Demographic assumptions were revised for the June 30, 2004 actuarial valuation following an actuarial investigation of experience of the Retirement System.

Active Members As of June 30, 2004
By Attained Age and Years of Service

Attained	Years of Service to Valuation Date							Totals	
Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
<20	-	-	-	-	-	-	-	-	-
20-24	38	1	-	-	-	-	-	39	1,048,549
25-29	153	25	-	-	-	-	-	178	5,644,205
30-34	150	121	14	1	-	-	-	286	9,977,510
35-39	161	147	70	13	1	-	-	392	14,623,685
40-44	134	148	109	99	9	2	-	501	20,586,380
45-49	151	157	107	156	126	23	-	720	31,677,873
50-54	88	101	106	166	101	113	13	688	33,148,917
55-59	57	65	82	107	58	62	20	451	22,765,211
60	5	8	11	10	7	7	2	50	2,442,750
61	5	9	12	12	4	5	5	52	2,425,528
62	6	4	7	10	4	1	2	34	1,541,588
63	2	3	1	6	3	3	-	18	981,579
64	-	-	3	2	2	1	-	8	351,106
65	3	4	1	7	2	-	2	19	858,322
66	-	3	2	3	1	-	-	9	326,726
67	1	3	3	4	2	1	-	14	647,204
68	1	1	-	-	2	-	-	4	139,464
69	3	2	-	1	-	1	-	7	362,586
70	-	-	1	-	-	-	-	1	40,518
71	-	-	-	-	-	-	-	-	-
72	-	-	-	-	1	-	-	1	34,778
73	-	1	-	-	-	-	-	1	27,581
74	-	-	-	-	-	-	-	-	-
75	-	-	-	2	-	-	1	3	129,693
76	-	-	-	-	-	-	-	-	-
77	-	-	-	-	-	-	-	-	-
78	-	-	-	-	-	-	-	-	-
Totals	**958**	**803**	**529**	**599**	**323**	**219**	**45**	**3476**	**$ 149,781,753**

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

Age:	45.91 years
Service:	11.4 years
Annual Pay:	$43,090

Active Members Included in Valuation
Comparative Schedule

Valuation Date	Active Members	Annual Payroll	Average Age	Average Service	Average Pay	% Increase In Pay	Vested Inactive Members
06-30-81	2510	$45,222,228	41.2 yrs	7.9 yrs.	18,017	-	n/a
01-06-00	2425	44,344,257	41.0	8.1	18,286	1.5%	34
06-30-83	2461	48,699,681	41.1	8.5	19,789	8.2%	36
06-30-84	2524	55,259,857	41.3	8.7	21,894	10.6%	32
06-30-85	2572	59,317,696	41.5	8.9	23,063	5.3%	25
06-30-86	2748	65,046,166	41.4	8.7	23,670	6.8%	33
06-30-87	2832	69,759,507	41.8	9.0	24,633	4.1%	34
06-30-88	2943	72,449,162	41.9	9.0	24,617	-0.1%	40
6/30/89*	3250	81,386,395	41.8	8.6	25,042	1.7%	40
01-06-00	3246	86,478,158	42.1	8.7	26,641	6.4%	42
06-30-91	3195	86,829,527	42.4	9.0	27,177	2.0%	38
06-30-92	3149	86,205,432	42.9	9.4	27,375	0.7%	48
06-30-93	3224	92,867,286	43.3	9.8	28,805	5.2%	45
06-30-94	3287	94,180,104	43.6	10.1	28,653	-0.5%	40
06-30-95	3284	99,847,171	43.9	10.2	30,404	6.1%	45
06-30-96	3378	105,229,504	43.9	10.2	31,151	2.5%	43
06-30-97	3430	110,188,751	44.3	10.9	32,125	3.1%	52
06-30-98	3484	113,729,143	44.5	11.0	32,643	1.6%	104
06-30-99	3550	126,816,830	44.8	10.7	35,723	9.4%	119
06-30-00	3600	134,088,074	45.2	11.0	37,247	4.3%	81
06-30-01	3669	145,058,897	45.4	11.1	39,536	6.1%	107
06-30-02	3626	153,580,185	45.7	11.6	42,355	7.1%	111
06-30-03	3364	143,164,205	45.5	11.2	42,558	0.5%	125
06-30-04	3476	149,781,753	45.9	11.4	43,090	1.3%	130

* An amendment eliminated the one year service requirement for participation in the retirement system.

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	100.0	100.0	36.0

Historical Comparison of Pensions Paid

Valuation Date June 30	Retired Members	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

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.

Experience Gains (Losses)
Comparative Schedule

		Year Ended 6-30-04	Year Ended 6-30-03
(1)	UAAL* at start of year	$142,316,591	$90,845,207
(2)	+ Employer Normal Cost***	10,692,527	10,890,519
(3)	- Actual employer contributions***	15,966,754	12,771,777
(4)	+ Interest accrual on (1), (2) and (3)	11,174,358	7,192,366
(5)	Expected UAAL before changes	148,216,722	96,156,315
(6)	+ Change from amendments	2,391,024	917,532
(7)	+ Change from assumptions	13,153,116	0
(8)	Expected UAAL after changes	163,760,862	97,073,847
(9)	Actual UAAL	150,364,134	142,316,591
(10)	Experience gain (loss) (8) - (9)	13,396,728	(45,242,744)
(11)	As % of beginning of year AAL**	2.2	(8.2%)

* *Unfunded actuarial accrued liability.*

** *Actuarial accrued liability.*

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

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year	Added to Rolls Number	Removed from Rolls Annual Allowances	Removed from Rolls Number	Rolls End of Year Annual Allowances	Rolls End of Year Number	Average Annual Allowances	Annual Allowances	Percentage Increase in Average Allowance
1993	50	$ 612,123	28	$ 137,859	989	$ 9,704,929	9,813	5.1%
1994	66	1,032,555	20	124,872	1035	10,612,612	10,254	4.5%
1995	56	775,199	26	195,769	1065	11,429,402	10,732	4.7%
1996	84	1,214,444	44	407,548	1105	12,236,298	11,074	3.2%
1997	67	1,088,667	16	189,380	1156	13,391,185	11,584	4.6%
1998	87	1,311,839	35	223,548	1208	14,479,476	11,986	3.5%
1999	89	1,385,899	37	420,950	1260	157,211,865	12,478	4.1%
2000	77	1,302,723	36	298,207	1301	16,966,042	13,041	4.5%
2001	100	1,731,056	46	354,215	1355	18,505,247	13,657	4.7%
2002	133	2,926,543	46	158,628	1442	21,273,162	14,753	8.0%
2003	327	8,450,695	27	225,815	1742	29,767,534	17,088	15.8%
2004	37	649,387	26	261,771	1753	30,491,864	17,394	17.9%

Summary of Benefit Provisions Evaluated or Considered (June 30, 2004)

NORMAL RETIREMENT (NO REDUCTION FACTOR)

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

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

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

EARLY RETIREMENT (REDUCTION FACTOR)

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

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

DEFERRED RETIREMENT (VESTED TERMINATION)

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

Amount - An amount computed as for normal retirement.

DISABILITY RETIREMENT

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

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

PRE-RETIREMENT SURVIVOR BENEFITS

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

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

OTHER TERMINATION BENEFITS

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

Amount - accumulated contributions at time of termination.

EMPLOYEE CONTRIBUTIONS

5.0% of salary.

CITY CONTRIBUTIONS

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

POST-RETIREMENT ADJUSTMENTS

Ad hoc increases have been granted from time to time. The most recent ad hoc increase was granted July 1, 2004 to retirants and beneficiaries retired prior to July 1, 2001 in the amount of $1 per month for each year of credited service at retirement.

Schedule of Revenues by Source

Year Ending June 30	Member Contributions (2, 3)	Employer Contributions: Dollars (2)	Employer Contributions: % of Annual Covered Payroll	Investment Income (1)	Total
1997	$ 5,746,463	$ 9,292,926	8.38	$ 53,919,504	$ 68,958,893
1998	5,964,922	9,800,579	8.38	61,823,095	77,588,596
1999	6,125,599	9,475,558	7.91	47,004,546	62,605,703
2000	6,777,350	9,707,236	7.35	47,955,383	64,439,969
2001	7,285,058	10,123,248	7.35	(43,217,890)	(25,809,584)
2002	13,126,025	10,544,412	7.35	(39,990,731)	(16,320,294)
2003	12,719,518	12,771,777	8.41	12,737,072	38,228,367
2004	9,166,335	15,966,754	11.17	76,678,740	101,811,829

(1) Includes miscellaneous income.
(2) Includes transfers from other retirement systems and, since 2002, purchase of service payments.
(3) Member contributions are 5% annually.

Schedule of Expenses by Type

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

Schedule of Benefit Expenses by Type

Year Ending June 30	Age and Service Benefits: Retirees	Age and Service Benefits: Survivors (1)	Disability Benefits: Retirees	Disability Benefits: Survivors	Refunds and Transfers to Other Systems (1)	Total
1997	$ 11,171,620	$ 874,389	$ 591,025	$ 81,458	$ 1,044,460	$ 13,762,952
1998	12,242,902	1,001,762	664,125	124,008	1,383,054	15,415,851
1999	13,078,700	1,030,740	794,476	143,145	1,033,565	16,080,626
2000	14,128,928	1,285,244	1,026,252	116,841	1,460,696	18,017,960
2001	15,304,313	1,286,911	1,265,302	185,781	1,361,881	19,404,188
2002	16,973,784	1,336,239	1,466,490	232,667	906,241	20,915,421
2003	20,209,887	1,910,393	1,541,162	193,688	1,189,624	25,044,754
2004	26,533,141	1,862,198	1,646,927	217,655	1,612,169	31,872,090

(1) Includes Death in Service Benefits.

Retireee Member Data

Monthly Benefit	Number of Retirees	Type of Retirement: Service Retiree	Service Beneficiary	Disability Retiree	Disability Beneficiary
$ 1 - $ 250	62	48	12	1	1
$ 251 - $ 500	180	103	37	24	16
$ 501 - $ 750	232	140	46	35	11
$ 751 - $ 1,000	192	130	31	27	4
$ 1,001 - $ 1,250	200	150	31	17	2
$ 1,251 - $ 1,500	194	165	14	15	-
$ 1,501 - $ 1,750	173	161	4	8	-
$ 1,751 - $ 2,000	148	139	3	6	-
$ 2,001 - $ 2,250	104	97	2	5	-
$ 2,251 - $ 2,500	61	58	-	3	-
$ 2,501 - $ 2,750	51	49	1	1	-
$ 2,751 - $ 3,000	41	41	-	-	-
$ 3,001 - $ 3,250	27	27	-	-	-
$ 3,251 - $ 3,500	15	14	1	-	-
$ 3,501 - $ 3,750	17	17	-	-	-
$ 3,751 - $ 4,000	15	15	-	-	-
$ 4,001 - $ 4,250	10	10	-	-	-
$ 4,251 - $ 4,500	4	4	-	-	-
$ 4,501 - and over	27	27	-	-	-
	1,753	1,395	182	142	34
deferred	130				
	1,883				

Monthly Benefit	Number of Retirees	Option Selected: Single Life Annuity	Term Certain with Life Annuity: 5 year	10 year	15 year	Joint and Survivor Annuity: 50%	75%	100%	Death Service Benefit
$ 1 - $ 250	62	37	5	2	2	5	3	7	1
$ 251 - $ 500	180	103	5	4	3	20	8	27	10
$ 501 - $ 750	232	123	2	4	4	46	18	29	6
$ 751 - $ 1,000	192	92	2	2	-	43	20	28	5
$ 1,001 - $ 1,250	200	86	1	-	2	50	24	34	3
$ 1,251 - $ 1,500	194	76	4	2	2	36	38	36	-
$ 1,501 - $ 1,750	173	63	-	1	-	45	33	31	-
$ 1,751 - $ 2,000	148	55	-	-	-	39	26	28	-
$ 2,001 - $ 2,250	104	42	1	1	-	31	16	13	-
$ 2,251 - $ 2,500	61	29	-	1	-	18	4	9	-
$ 2,501 - $ 2,750	51	27	-	1	-	11	8	4	-
$ 2,751 - $ 3,000	41	22	-	-	-	6	6	7	-
$ 3,001 - $ 3,250	27	12	-	-	1	5	5	4	-
$ 3,251 - $ 3,500	15	6	-	-	-	3	3	3	-
$ 3,501 - $ 3,750	17	10	-	-	1	2	1	3	-
$ 3,751 - $ 4,000	15	10	-	-	-	-	2	3	-
$ 4,001 - $ 4,250	10	4	-	-	-	2	1	3	-
$ 4,251 - $ 4,500	4	4	-	-	-	-	-	-	-
$ 4,501 - and over	27	11	-	1	1	6	5	3	-
	1,753	812	20	19	16	368	221	272	25
deferred	130								
	1,883								

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+
2004						
Avg Monthly Benefit	$339	$895	$1,245	$1,547	$2,508	$2,876
Avg Monthly Final Avg Compensation	$2,519	$3,398	$3,500	$3,483	$4,292	$4,323
Number of Active Retirees	4	10	6	7	8	2
2003						
Avg Monthly Benefit	$595	$734	$1,213	$1,772	$2,380	$3,421
Avg Monthly Final Avg Compensation	$3,350	$2,851	$3,358	$3,705	$4,209	$5,047
Number of Active Retirees	10	18	31	41	145	62
2002						
Avg Monthly Benefit	$465	$615	$1,106	$1,236	$2,372	$3,071
Avg Monthly Final Avg Compensation	$2,620	$2,213	$2,882	$2,455	$3,921	$4,147
Number of Active Retirees	9	10	24	20	61	9
2001						
Avg Monthly Benefit	$395	$642	$907	$1,665	$1,900	$2,543
Avg Monthly Final Avg Compensation	$2,098	$2,238	$2,340	$3,124	$3,199	$3,461
Number of Active Retirees	8	20	16	20	24	12
2000						
Avg Monthly Benefit	$433	$720	$927	$1,749	$2,269	$1,884
Avg Monthly Final Avg Compensation	$2,640	$2,499	$2,316	$3,420	$3,749	$2,736
Number of Active Retirees	10	14	12	17	21	3
1999						
Avg Monthly Benefit	$338	$510	$865	$1,415	$1,738	$3,014
Avg Monthly Final Avg Compensation	$2,244	$1,855	$2,270	$3,033	$3,064	$4,737
Number of Active Retirees	9	17	5	20	34	4
1998						
Avg Monthly Benefit	$360	$707	$1,011	$1,356	$1,841	$1,934
Avg Monthly Final Avg Compensation	$2,390	$2,571	$2,654	$2,907	$3,245	$3,040
Number of Active Retirees	14	8	10	27	24	4