CORRECTIONS OFFICER RETIREMENT PLAN



27th COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Our Vision, Mission & Values

VISION

- Invest, secure and manage responsibly the retirement funds of its members in accordance with all legal, investment and financial requirements and in a manner consistent with the quality to which its members have become accustomed.

MISSION

- To be a low cost, highly personalized quality service provider of funds management and benefit services.
- To manage long-term investments with the goal of consistently outperforming over time the composite weighted market return benchmark net of all investment related costs so as to assure the financial integrity of the funds and the security of the benefits these funds provide.

VALUES

- Do what is best for our members and financial health and integrity of the System.
- Be proactive.
- Committed to high quality, uniform, sustainable service.
- Innovative and cost effective in Plan administration and services.
- Use best practices in HR management.

Corrections Officer Retirement Plan

A Pension Trust Fund of the State of Arizona

Twenty-Seventh
Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2013

Prepared by the Staff of PSPRS

Public Safety Personnel Retirement System
3010 E. Camelback Road, Suite 200
Phoenix, AZ 85016
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INTRODUCTORY SECTION

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Arizona Corrections Officer Retirement Plan

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Jeffrey R. Emer

Executive Director/CEO

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
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James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Jared A. Smout
Deputy Administrator

December 12, 2013

The Honorable Janice K. Brewer
Governor of the State of Arizona
Executive Tower
1700 W. Washington
Phoenix, Arizona 85007

Dear Governor Brewer:

The Board of Trustees of the Public Safety Personnel Retirement System (PSPRS) respectfully submits the Twenty-seventh Comprehensive Annual Financial Report (CAFR) for the Corrections Officer Retirement Plan (CORP) for the fiscal year ended June 30, 2013 (FY'13), in accordance with the provisions of A.R.S. Section 38-883.

The CORP's Funding Status

As of fiscal year-end, the financial status of the CORP, as reflected in its funding ratio, decreased from 67.8% at June 30, 2012 to 66.9% at June 30, 2013. This decrease continues the funding ratio erosion that resumed four years ago following a modest improvement in FY'08 that interrupted six consecutive years of funding status decline. It is important to note that the FY'13 decline in the funding ratio occurred, despite the fact that the CORP experienced a far-better-than-expected 10.64% rate of return on its invested assets.

The continuing funding ratio decline that began in FY'02 is due primarily to the asset value losses and negative rates of return that the Plan experienced in FY'01 and FY'02 ($155.8 million) coupled with the additional losses and negative rates of return the Plan experienced in FY'08 and FY'09 and then again in FY'12. The losses in FY'01 and FY'02 were largely the result of a lack of investment diversification and an over-concentration in high technology and telecommunication stocks and bonds at a time when the "tech-telecom bubble" was deflating. The FY'08 and FY'09 losses were the result of the impact on the financial markets of the collapse of the U.S. housing market and the intense global recession that followed.

The FY'12 asset value loss was the result of two factors: first, weakness and volatility in the financial markets – especially the international equity markets – that resulted from weakness in the U.S. and global economies; and, second, an actual rate of return that was significantly less than the Plan's benchmark return (2.89%) for the fiscal year.

A second factor that has also contributed significantly to the funding erosion was the downward revision in the Plan's actuarial assumption for investment return. (That assumption was reduced by the Board by one-half of 1% from 8.5% in FY'10 to 8.0% in FY'12 and was reduced further to 7.8% for FY'13 in an attempt to more accurately reflect the System's long term investment returns.) Downward revision in this assumption reduces the projected rate of growth in Plan assets relative to the rate of growth in liability for benefits and that, in turn, diminishes the Plan's funding ratio (and adds to the employer contribution requirement). It should be noted that an over stated investment assumption will also adversely impact the Plan's funding ratio when less than expected returns are factored into the actuarial valuation.

How to move the Plan back to an annual pattern of steadily improving funding ratios remains the principal challenge facing the PSPRS System and its Board of Trustees. Although the System has no control or influence over the performance of the U.S. and global financial markets and the world economies, the Board has taken the initiative to fully diversify the System's financial market exposures to reduce overall risk and volatility.

It should be noted that the Plan's funding ratio decreased during fiscal years 2010 and 2011 even though the Plan had strong rates of return in those years (13.47% in FY'10 and 17.37% in FY'11). The same thing happened again during FY'13 when the rate of return was 10.64%. This is because the CORP uses a seven year averaging process ("smoothing") to determine the fiscal year-end actuarial value of assets. Under this methodology, only one-seventh of any fiscal year's investment gain or loss is reflected in that year's results. The remaining six-sevenths are rolled forward and reflected in the results over the next succeeding six fiscal years. So, although one-seventh of the FY'13 10.64% return is reflected in the Plan's fiscal year-end results, those results also reflect one-seventh portions of the -7.27%, -17.73% and -0.79% returns that the CORP experienced during FY'08, FY'09 and FY'12 respectively. Because the remainder of the FY'08, FY'09 and FY'12 investment losses will be factored into the Plan's funding ratios over the next several fiscal years, the forecast is that the Plan's funding will continue to deteriorate until the years of asset value losses drop out of the calculation of the funding ratio. While it is possible that this trend could be arrested, and perhaps reversed, by several consecutive years of much better-than-expected rates of return, it is also possible that funded status deterioration could be exacerbated if the Arizona Supreme Court fails to uphold the statutory changes that were made by the 2011 pension reform bill (SB 1609) to diminish the so-called COLA formula.

Before the changes made by the pension reform bill, the CORP statutes required that in any year in which the Plan generated an investment return in excess of 9%, one-half of any return over 9% had to be diverted into the CORP's Reserve for Future Benefit Increases ("The Reserve"). These Reserve assets were then used to finance life-time post-retirement adjustments payable to the Plan's eligible beneficiaries. However, whenever assets were allocated to the Reserve, those same assets were denied to the underfunded Plan and were not available to help fund the Plan's growing liabilities for benefits. If the Arizona Supreme Court overturns the pension reform bill's COLA changes, the System would have to revive and restore retroactively the old COLA formula. If that happens, it will have significantly adverse consequences for the financial status of the Plan and will further increase employer contribution requirements.

Employer Contribution Rates

Any change in the CORP's June 30th fiscal year-end funding ratio impacts the employer contribution rate as of the following July 1st. Since the Plan's FY'13 funding ratio declined, the CORP employers' contribution rates will increase as of July 1, 2014 (the start of employer FY'15). The CORP aggregate employer contribution rate will total 14.46%, consisting of a 7.12% "normal cost" component (to cover the cost of future service to be performed by the covered employee groups) and a 7.34% component for the amortization of the unfunded actuarial accrued liability (which is related to service performed in the past).

As the Plan's funding ratio has eroded, the employer contribution requirements have been rising in large year-over-year increments. The employer aggregate rate crested at 8.65% of payroll in employer FY'09. For the next two years, the aggregate rate remained relatively stable. But based on the Plan's FY'10, FY'11 and FY'12 results, the aggregate employer rate began to increase again, rising to 9.5% in employer FY'12, 11.31% in employer FY'13 and 13.68% in employer FY'14. Given the further erosion in the Plan's funding status as of the end of FY'13, the aggregate employer rate is scheduled to increase to 14.46% of payroll during employer FY'15. That represents a 78 basis point increase over the current employer FY'14 aggregate rate. This increase in the employer rate reflects the same combination of factors that have contributed to the funding ratio erosion, including the performance of the financial markets and the actuarial assumption revisions adopted by the Board, based on recommendations from the System's actuaries. With further erosion in the Plan's funding status expected to occur over the next several years, the forecast is that the employer contribution rates will continue to increase unless the Plan benefits from several consecutive years of far-better-than-expected investment returns. If the Arizona Supreme Court overturns the pension reform bill's statutory changes in the COLA formula, employer rates will rise even more.

FY'13 Investment Results

As indicated above, the FY'13 PSPRS Plan investment return was 10.64%. That was 56 basis points higher than the 10.08% benchmark return for the Plan and 279 basis points higher than the 7.85% actuarial assumed rate of return. Ten of the Plan's asset classes had positive returns for the fiscal year; the only exception was "Risk Parity" which had a -1.17% return. In addition, all asset classes outperformed their respective benchmarks, except for "U.S. Equity," "Private Equity," "Risk Parity" and "Real Estate." However, U.S. Equity, Private Equity and Real Estate had strong positive returns for the year (21.26%, 13.25% and 7.73%, respectively).

Going forward into CORP's fiscal year 2014, two points should be noted. First, the values of the Plan's legacy real estate, which consists primarily of residential property concentrated in Arizona and the Southwest U.S., are continuing to rise, thus creating opportunities to liquidate many of these properties at a gain and reallocate the proceeds into more diversified real estate exposures. Second, during FY'13 the new COLA formula authorized by the 2011 pension reform bill became effective; this new formula will result in a post-retirement benefit adjustment for eligible CORP beneficiaries as of July, 2014. That adjustment, which is roughly estimated to be less than 1%, will absorb nearly $6.5 million of the Plan's FY'13 investment return.

Conclusion

To improve the CORP's funded status and reduce the rate of increase in employer contribution rates, the System must generate, on a consistent basis, annual rates of return that meet or exceed the Plan's return expectations. In pursuit of that goal, PSPRS has gone through a complete restructuring of the way in which the System manages and invests its assets with a view to dramatically increasing asset allocation diversification and diversification within asset classes. In the process, the Plan's former heavy reliance on equities has declined considerably and so has the risk level. This is helping to limit asset value losses in down financial market cycles. In addition, as the Plan's portfolio managers demonstrate their ability to perform at, or above, expectations, increasing amounts of Plan assets will be committed to those portfolio relationships while assets are taken away from managers that have failed to perform as expected.

While today the CORP is far better positioned to weather the volatility of the financial markets and perform up to expectations over the long term, there are still serious risks over which we, as a Board of Trustees, have no control, such as fiscal grid-lock at the federal level in the U.S., economic malaise and financial market stagnation in Europe, and declining rates of economic growth in Asia and the emerging markets of Africa, Latin America, the Middle East and South and Southeast Asia. These risks are simply a consequence of the reality that Plan assets must be invested in the financial markets and cannot be totally immunized against the consequences of what happens when those financial markets perform poorly, as was demonstrated in FY'08 and FY'09 and again in FY'12.

As members of the PSPRS Board of Trustees, we intend to continue our efforts to secure the long-term financial integrity of the CORP and to faithfully serve the interests of the Plan's participants and beneficiaries.

We appreciate having the opportunity to serve the State of Arizona, its political subdivisions and the PSPRS' members and we look forward to continuing to serve as Trustees for PSPRS.

Respectfully submitted,

Brian P. Tobin, Chairman
of the Board of Trustees

Gregory Ferguson, Vice Chairman
of the Board of Trustees

Jeff Allen McHenry, Member
of the Board of Trustees

Richard J. Petrenka, Member
of the Board of Trustees

Randie A. Stein, Member
of the Board of Trustees

Lauren Kingry, Member
of the Board of Trustees

William C. Davis, Member
of the Board of Trustees

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Deputy Administrator

December 12, 2013

The Members of the Board of Trustees
Public Safety Personnel Retirement System (PSPRS)
3010 E. Camelback Road, Suite 200
Phoenix, Arizona 85016

Members:

Here is the Twenty-seventh Comprehensive Annual Financial Report (CAFR) of the operations and financial condition of the Arizona Corrections Officer Retirement Plan (CORP). This report is for the fiscal year ended June 30, 2013. The Plan is a uniform statewide retirement system that provides retirement, disability and survivor benefits, post-retirement adjustments and health insurance premium subsidies for state, county and local corrections officers, dispatchers and probation, surveillance and juvenile detention officers.

Arizona Revised Statutes Title 38 requires the Board of Trustees to transmit to the Governor and the Legislature this annual report within six months of the close of each fiscal year. Incorporated in this Report are the audited financial statements, management's discussion and analysis, and other financial data from the June 30, 2013 report of Heinfeld, Meech & Co. P.C., Certified Public Accountants and auditors for the System. Also included are the actuarial certification statement and the actuarial balance sheet from the June 30, 2013 actuarial valuation prepared by the System's actuary, Gabriel, Roeder, Smith & Co. (GRS).

Financial Information Reporting

The primary responsibility for the integrity and objectivity of the financial statements and related financial data rests with the management of the System. The financial statements were prepared in conformity with generally accepted accounting principles appropriate for government-sponsored defined benefit pension plans. Management believes that all other financial information included in this annual report is consistent with those financial statements.

It is the System's policy to have and maintain an effective system of accounting controls. We believe our controls are adequate to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal controls based on the recognition that the costs of such systems should be related to the benefits to be derived. Management believes the System's controls provide this appropriate balance.

The System uses the accrual basis of accounting for both revenues and 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 at least twenty but not more than thirty years.

Revenues

Revenues for the Plan are derived from three sources: member contributions, employer contributions, and realized and unrealized returns on the invested assets of the Plan. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the Plan had an investment gain of $138.3 million this fiscal year. That was augmented by revenue from member contributions of $51.5 million, and direct employer contributions (including Alternative Contributions) of $65.6 million. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

Administrative and Investment Expenses

The CORP's FY'13 administrative and investment-related expenses totaled $14.6 million. Administrative and investment expenses were approximately 89 basis points of the total assets managed. This is reasonable when compared with other public retirement systems. A dedicated staff and constantly improving internal technology and expertise has enabled management to keep costs reasonable.

Investments

The total rate of return on the CORP assets for the fiscal year was 10.64% on a net of fees basis. This return was well above the System's 7.85% actuarial assumed rate of return; it was also above the Plan's benchmark return of 10.08% for the fiscal year. The Investment Section of this Report contains, among other things, graphs depicting the Plan's performance, a detailed summary of the investment portfolio, and commissions paid to investment professionals who provide services to the System. All Plan investments were held in trust by BNY Mellon, the System's custodian bank.

Enacted Legislation

During FY'13, the State Legislature approved, and the Governor signed, SB1173 which made various changes to the CORP statutes including a provision to prohibit members from taking a loan against, or removing contributions from, their account prior to termination. It also allows the making of pension payments retroactively for a period of up to 180 days prior to the date of benefit application. Finally, it bars any health insurance premium subsidy for members who retire or become survivors (after the effective date of the bill) but who are subsequently reemployed and participate in employer-provided health insurance.

Actuarial and Funding Information

Funding a retirement system on a sound actuarial reserve basis involves the accumula-tion of substantial reserves to guarantee the payment of promised benefits. These reserves are invested and the rate of investment earnings, over time, is a major factor in determining the employer contribution requirement to meet the calculated level cost of the Plan.

The CORP is funded by a statutory participant contribution rate of 8.41% of gross payroll for those participants to whom ordinary disability benefit protection was extended in FY'08 and a contribution rate of 7.96 % for all other participants in the Plan. The Plan's additional funding comes from the realized and unrealized returns on the invested assets of the Plan and from the employer contribution that is expressed as a level percent of gross payroll and reset annually, depending on the actuarial valuation results for the employer's group that is participating in the Plan.

The most commonly used measure of a retirement system's funding progress is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the CORP had been declining for six out of the last seven years through FY'07. Following modest improvement in FY'08, the funding ratio started to deteriorate again in FY'09; this trend continued right through FY'13. The primary factor responsible for this negative trend has been the asset value losses that the Plan sustained as a result of poor financial market performance in FY'08, FY'09 and again in FY'12; that poor performance yielded negative rates of return for the CORP. At June 30, 2013, the CORP's funding ratio was only 66.9% -- down from 67.8% the year before. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08, FY'09 and FY'12 asset value losses is yet to be reflected in the funding ratio of the Plan; therefore, the expectation is that the funding ratio will continue to deteriorate further in the future until those asset value loss years drop out of the calculation of the actuarial value of assets. This trend, however, could be ameliorated or even reversed if the CORP has several successive years of superior investment returns.

While each employer has a different contribution rate, depending on the liability for its group of participating employees, the current aggregate rate for the contributing employers is 13.68%. The aggregate rate that will take effect on July 1, 2014 based on the CORP's FY'13 results will be 14.46%. Further decline in the Plan's funding ratio will cause employer rates to rise even further in the future.

Post Retirement Benefit Increases

State statutes long provided for an annual benefit increase for PSPRS Plan retirees (or their survivors) two years after retirement, regardless of age, or when the retiree (or survivor) attained age 55 and had been retired for a year. These increases were limited to four percent of the average benefit being paid at the end of the prior fiscal year. A benefit increase schedule demonstrating the effect of these provisions can be found in the Statistical Section of this CAFR.

These benefit adjustments were fully funded on a present value basis from the assets contained in the PSPRS Plan's Reserve for Future Benefit Increases. In any year in which the Plan generated a return in excess of 9%, one-half of the return in excess of 9% was diverted to the Reserve and withheld from the underlying and underfunded Plan. However, the 2011 pension reform bill, SB 1609, changed all this.

As of May 31, 2011, the new law prohibited any further transfers of assets to the PSPRS Reserve. The assets remaining in the Reserve were used to finance a retiree benefit adjustment in FY'12 and were exhausted after that. An entirely new post-retirement adjustment formula that was included in SB 1609 took effect on July 1, 2013. As a result, there will be a small retiree benefit adjustment in July, 2014 because the CORP investment return was in excess of the 10.50% threshold required by the new formula and because the Plan's funding ratio at June 30, 2013 was above the 60% threshold level that the new formula also requires. In the future, this new formula is expected to provide periodic, but not annual, adjustments for retirees and the Plan's other beneficiaries.

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for the CORP's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the nineteenth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our FY'13 CAFR continues to meet the Certificate of Achievement Program's requirements. We are, therefore, submitting it to the GFOA to determine its eligibility for a certificate.

New Developments and Management Initiatives

During this past fiscal year, the PSPRS Board of Trustees continued its strategic initiative that has changed the way in which the Plan's assets are managed and invested. (See the Board of Trustees' transmittal letter to the Governor that begins on page .) In addition, there were other developments and initiatives that are worthy of note. These included the following:

A. Integrating PSPRS Personnel Administration with the Requirements of Arizona Department of Administration (ADOA)
- Since PSPRS became subject to the State's Personnel System in September 2012, the PSPRS personnel manual has been revised so that all rules and policies are in-line with the State's Personnel System.
- With PSPRS now subject to ADOA's Managing Accountability and Performance (MAP) system, PSPRS supervisors are now monitoring employee performance to identify positive performance and poor performance where coaching may be necessary. This should assist in making the performance review process more dynamic and meaningful to each employee.
- PSPRS is in the process of enhancing its screening procedures when considering candidates for agency positions and has undertaken to secure a Governor's Office Executive Order that will authorize PSPRS to conduct credit and criminal background checks and require psychological, drug, and other forms of testing when considering candidates for supervisory and other sensitive positions.

B. Reorganizing the Investment Department and Enhancing its Operational Procedures
- The Investment Department has been reorganized with responsibilities reallocated among existing staff; the focus is now on monitoring existing external manager relationships with a much reduced need for new manager searches.

C. Reconfiguration of the Investment Department's Compensation Structure
- Given the Board's approval of the suspension of the Investment Department's Incentive Compensation Program and in recognition of the increased responsibilities assumed by the Department's personnel, recommendations are being formulated for modifications to the salary ranges for all job classifications, with adjustments to base pay where appropriate.

D. Internal Reorganization and Staffing
- Having re-incorporated the Health Insurance Department staff into the Retired Members Department, training is being provided so that more staff support is available for aiding retired members who have health and other types of insurance issues.
- With respect to the Investment Department, a new Deputy CIO for Risk has been hired who will enable the System managers to be more conscious of the risks to which the System's fund is exposed and to find ways to minimize the potential impact of those risks. In addition, a search is underway to screen qualified candidates to fill the position of in-house Investment Counsel.

E. Audits, Oversight and Follow-up Action
- The AZ Auditor General is expected to issue soon a report with respect to the methodology used in valuing some of the System's real estate assets and the values resulting from that methodology; modifications in the System's FY'12 financial statements will be made in order to conform with any recommendations contained in that report.
- The System's annual audit by Heinfeld Meech & Co.was completed with no significant finding reported; the Internal Auditor is continuing monthly investments compliance reviews and is reviewing and approving all capital calls made with respect to investment commitments approved by the System.

F. Local Board Network Outreach and Support

- The System continued its comprehensive and multi-year effort to assure that the PRPRS and CORP local board networks are properly structured and functioning so as to assure uniform administration of the statutory responsibilities delegated to them. Staff and other resources continue to be dedicated to this initiative. The programming necessary for the implementation of a web site for use by the local boards is underway; once implemented, it will enable the local boards to send new beneficiary data electronically and process benefit claim applications on line.

G. IT Operations and Program Development

- The Operations staff has upgraded the Denver back-up site servers and installed an Intrusion Prevention System on the Denver site firewall. The staff is also: 1) creating a test lab to mirror production using reclaimed servers from the Denver site; 2) setting up a new scanner for document imaging; 3) upgrading the inventory database and the mail server (to exchange 2013); 4) installing the latest version of Backup Exec; and 5) implementing a virtual server for the System's database.
- The IT Programming staff will be: 1) implementing the online retirement application process capability on the local board web site; and 2) completing the Record Retention Project, which includes a rewrite of the PSPRS procedural processes.

H. New Initiative

- The staff will complete the planning for, and the implementation of, the new EORP Defined Contribution Plan, using Nationwide Retirement Solutions initially as the 3rd Party Administrator.

Conclusion

This CORP CAFR is a product of the collective efforts of the staff, under the direction of the System's Board of Trustees. It is intended to provide complete and reliable information that will facilitate the management decision process and it serves as a means for determining compliance with the System's governance and investment policies and legal requirements. Copies of this Report are provided to the Governor, State Auditor, Legislature and all our member constituency groups. We hope all recipients of this Report find it informative and useful.

I would like to take this opportunity to express my gratitude to the members of the Board of Trustees, the staff, the System's advisors, and all others who have contributed to the administrative operations of the System. I look forward to the challenge of moving the System forward with a program of constructive and comprehensive change that will maintain high quality customer service and restore the CORP to a state of financial soundness.

Respectfully submitted,

James M. Hacking
Administrator

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(AS OF JUNE 30, 2013)

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Randie A. Stein

Trustee

Lauren W. Kingry

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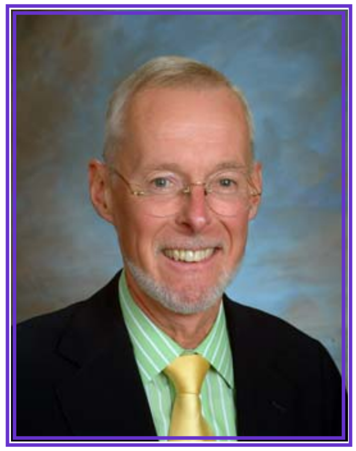
William C. Davis

Trustee

EXECUTIVE STAFF AND ORGANIZATIONAL CHART



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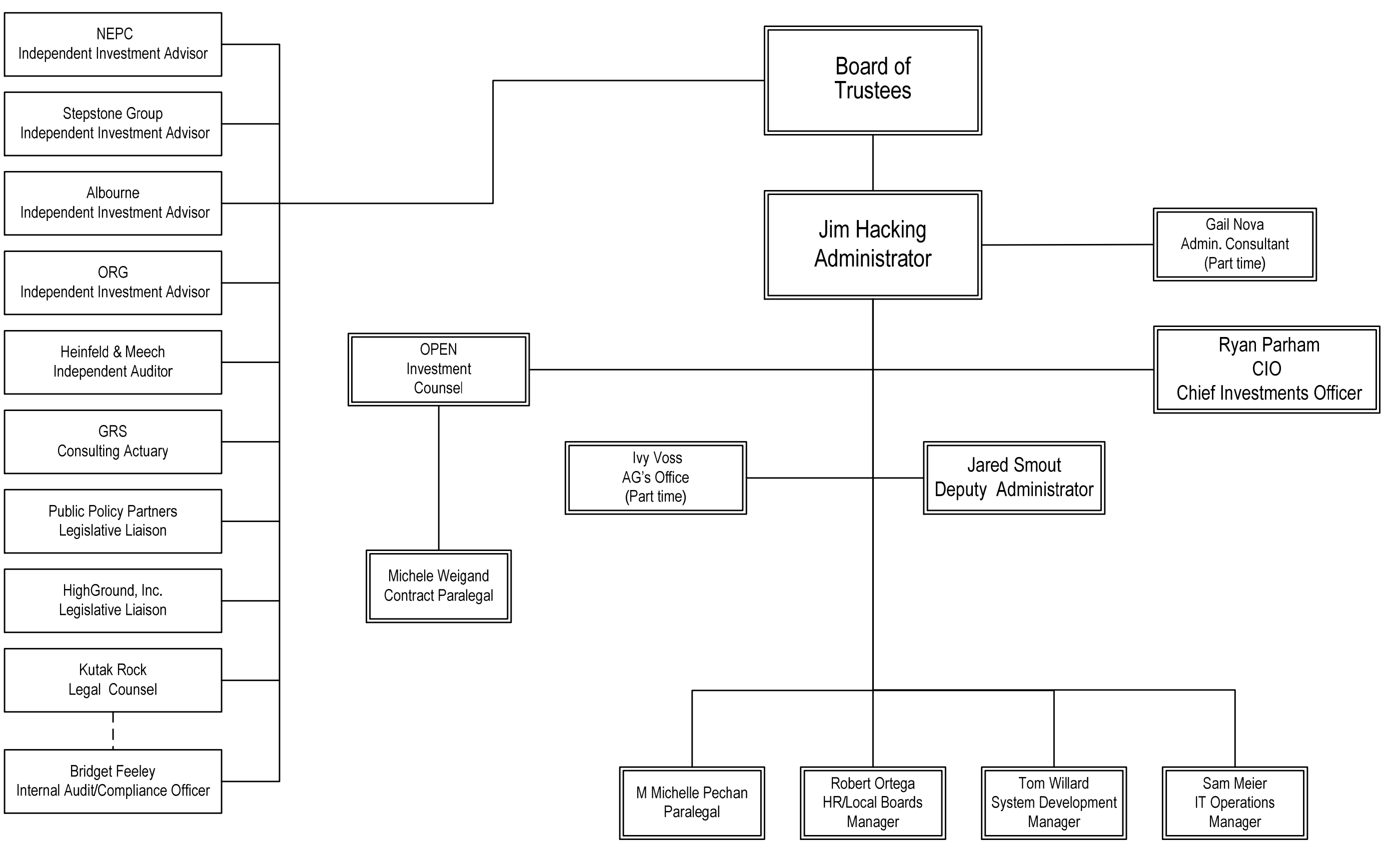

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BNY MELLON ASSET SERVICING	Independent Investment Advisor
BUCK CONSULTING, LLC	Compensation Consultant
COOLEY LLP	Investment Counsel
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GABRIEL ROEDER SMITH & COMPANY	Actuary
GOODWIN PROCTER	Legislative Liaison
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PILLSBURY	Investment Counsel
PUBLIC POLICY PARTNERS	Legislative Liaison
ROPES & GRAY LLP	Investment Counsel
STEPSTONE GROUP LLC	Equity Advisors
STEPTOE & JOHNSON, LLP	Litigation Counsel

A schedule of Administrative Consultant fees may be found in the Financial Section. A schedule of Investment Consultant fees, Brokerage Commissions and Research Expense may be found in the Investment Section.

FINANCIAL SECTION

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CPAs and Business Consultants

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Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Public Safety Personnel Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of Corrections Officer Retirement Plan (CORP), a pension trust fund of the State of Arizona, which comprise the Statement of Plan Net Position as of June 30, 2013, and the related Statement of Changes in Plan Net Position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CORP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CORP's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Corrections Officer Retirement Plan, as of June 30, 2013, and the respective changes in its net position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Report on Prior Year Information

We have previously audited CORP's 2012 financial statements, and our report dated November 20, 2012, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress and Schedule of Employer Contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the CORP's financial statements. The Introductory Section, Supporting Schedules Information, Other Supplementary Information, Investment Section, Actuarial Section and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supporting Schedules Information and the Other Supplementary Information, as listed in the table of contents under the Financial Section, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedules Information and the Other Supplementary Information is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory Section, Investment Section, Actuarial Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Corrections Officer Retirement Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corrections Officer Retirement Plan's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 12, 2013

CORP MANAGEMENT DISCUSSION & ANALYSIS

The Corrections Officer Retirement Plan's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Plan's financial activity, identify changes in the Plan's financial position and identify any issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, it is intended to be read in conjunction with the Transmittal Letter, Financial Statements and Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- The Corrections Officer Retirement Plan (CORP) had a total rate of return (net of fees) of 10.64% this year. Our total portfolio out performed the target fund benchmark by 56 basis points. This is an improvement from the prior year's return of –0.79%.
- The Future Benefit Increase Reserve was depleted in 2012 and received no excess earnings in 2013.
- Retirement benefits paid totaled $94.81 million for the current year, compared to $87.98 million for the previous year. This represents a 7.77% increase from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using this Comprehensive Annual Financial Report (CAFR)
This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand the Plan as an operating entity. The statements and notes then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and The Statement of Changes in Net Position
These statements include all assets and liabilities of the Plan using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. These two statements report the Plan's net position and changes in them. Net position is the difference between assets and liabilities, one way to measure the financial health, or financial position. Over time, increases or decreases in the net position are one indicator of the financial health of the Plan.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following The Statement of Net Position and The Statement of Changes in Net Position.

Required Supplementary Information
The basic financial statements are followed by a section of required supplemental information. This section includes the Schedule of Funding Progress and the Schedule of Employer Contributions.

The Schedule of Funding Progress
Shows the ratio of assets as a percentage of the actuarial accrued liability (funding ratio) and the ratio of unfunded actuarial accrued liabilities to member payroll. The trend in these two ratios provides information about the financial strength of the Plan. Improvement is indicated when the funding ratio is increasing and the ratio of the unfunded actuarial accrued liability to payroll is decreasing.

The Schedule of Employer Contributions
Shows the Annual Required Contributions by fiscal year. The purpose of this schedule is to provide information about the required contributions of the employers and the extent to which those contributions are being made. The information should assist users in understanding the changes and possible reasons for the changes in the Plan's funding status over time.

Supporting Schedules and Supplementary Information
The Supporting Schedules and Other Supplemental Information Section include the Supporting Schedule of Changes in Fund Balance Reserves, Supporting Schedule of Administrative Expenses and Payments to Consultants, the Supplemental Schedule of Cash Receipts and Cash Disbursements and the Agency Fund Statement of Changes in Assets and Liabilities (see Note 7). The total columns and information provided on these schedules carry forward to the applicable financial statement.

FINANCIAL ANALYSIS OF THE PLAN

The following schedules present comparative summary financial statements of the System for FY2013 and FY2012. Following each schedule is a brief summary of the significant changes noted in these schedules.

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET POSITION

	As of 06/30/2013	As of 06/30/2012	Change	% Change
Cash and Short-Term Investments	$ 29,639,900	$ 26,714,223	$ 2,925,677	10.95%
Total Receivables	5,117,432	13,222,192	(8,104,760)	(61.30)%
Total Investments	1,379,625,470	1,246,563,764	133,061,706	10.67%
Securities Lending Collateral	43,752,548	25,984,058	17,768,490	68.38%
Net Capital Assets	645,015	654,291	(9,276)	(1.42)%
Total Plan Assets	**1,458,780,365**	**1,313,138,528**	**145,641,837**	**11.09%**
Accrued Accounts Payable	1,912,740	2,020,987	(108,247)	(5.36)%
Investment Purchases Payable	3,535,056	2,979,876	555,180	18.63%
Securities Lending Collateral	43,752,548	25,984,058	17,768,490	68.38%
Total Plan Liabilities	**49,200,344**	**30,984,921**	**18,215,423**	**58.79%**
Net Assets	**$ 1,409,580,021**	**$ 1,282,153,607**	**$ 127,426,414**	**9.94%**

Summary Comparative Statements of Plan Net Assets Analysis

The total plan net position held in trust for benefits at June 30, 2013 were $1.41 billion, a 9.94% increase from $1.28 billion at June 30, 2012. The increase in net position is primarily due to favorable financial markets during the fiscal year. The increase in cash or decrease in receivables is attributable to normal fluctuations in investment income receivables during the year. CORP is fully deploying cash in other investments vehicles like exchange traded funds, equities, fixed income and private equity. Detailed information regarding the Plan's investment portfolio is included in the investment section of this report. The decrease in security lending collateral is due to normal fluctuations in the lending program as well as an increase in exposure to other alternative investments. The investment of the collateral fluctuated in a similar manner. *See Note 14.

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET POSITION

	2013	2012	Change	% Change
ADDITIONS				
Total Contributions	$ 117,074,466	$ 109,020,723	$ 8,053,743	7.39%
Net Investment Income	138,267,533	(15,165,360)	153,432,893	1,011.73%
Transfers and Service Purchases	184,576	368,484	(183,908)	(49.91)%
Total Additions (Reductions)	**255,526,575**	**94,223,847**	**161,302,728**	**171.19%**
DEDUCTIONS				
Benefits	94,813,343	87,977,793	6,835,550	7.77%
Service Transfers and Refunds	32,020,128	26,707,547	5,312,581	19.89%
Administrative Expenses	1,266,690	1,182,692	83,998	7.10%
Total Deductions	**128,100,161**	**115,868,032**	**12,232,129**	**10.56%**
Net Increase (Decrease)	**127,426,414**	**(21,644,185)**	**149,070,599**	**688.73%**
Balance Beginning of Year - July 1	**1,282,153,607**	**1,303,797,792**	**(21,644,185)**	**(1.66)%**
Balance End of Year - June 30	**$ 1,409,580,021**	**$ 1,282,153,607**	**$ 127,426,414**	**9.94%**

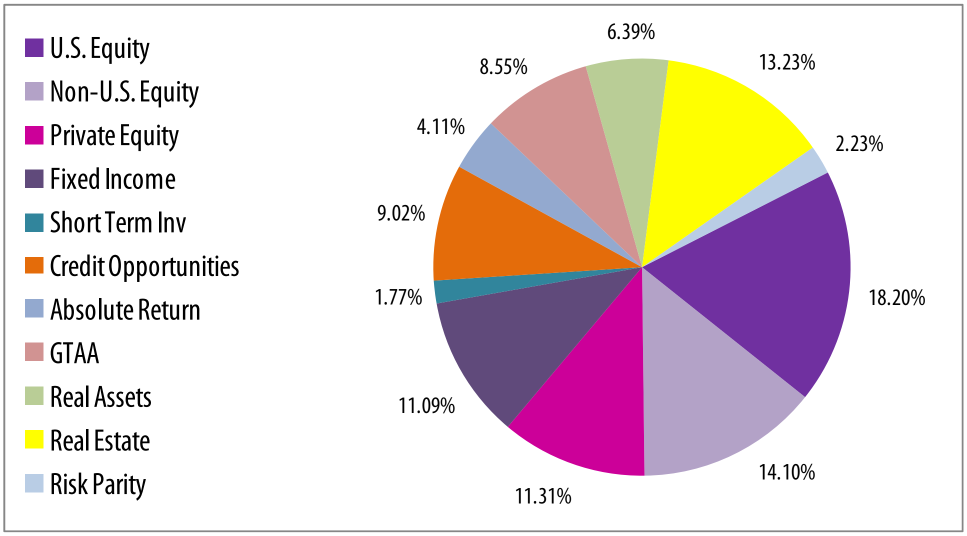
Summary Comparative Statements of Changes in Plan Net Assets Analysis

Employer and employee contributions for FY2013 increased $8.05 million due to increased employee and employer contribution rates during fiscal year 2013.

For FY 2013, PSPRS recognized a net investment gain of $138.27 million which compares to an $15.17 million loss in the previous year. This 1,011.73% increase was due to the positive returns in the financial markets during the fiscal year.

Deductions from the PSPRS net position held in trust for benefits consist primarily of pension, disability, survivor benefits, member refunds and administrative expenses. For FY 2013, these deductions totaled $94.81 million, an increase of 7.77% from the $87.98 million paid during FY 2012. Refunds and service transfers increased $5.31 million over the prior year which equates to 19.89%. Refunds represent a return of contributions held on account when a member leaves employment. This increase is due to current economic conditions that have led to layoffs and reduction of many governmental services. Administrative expenses increased 7.10%. *See Note 14.

INVESTMENT ACTIVITIES

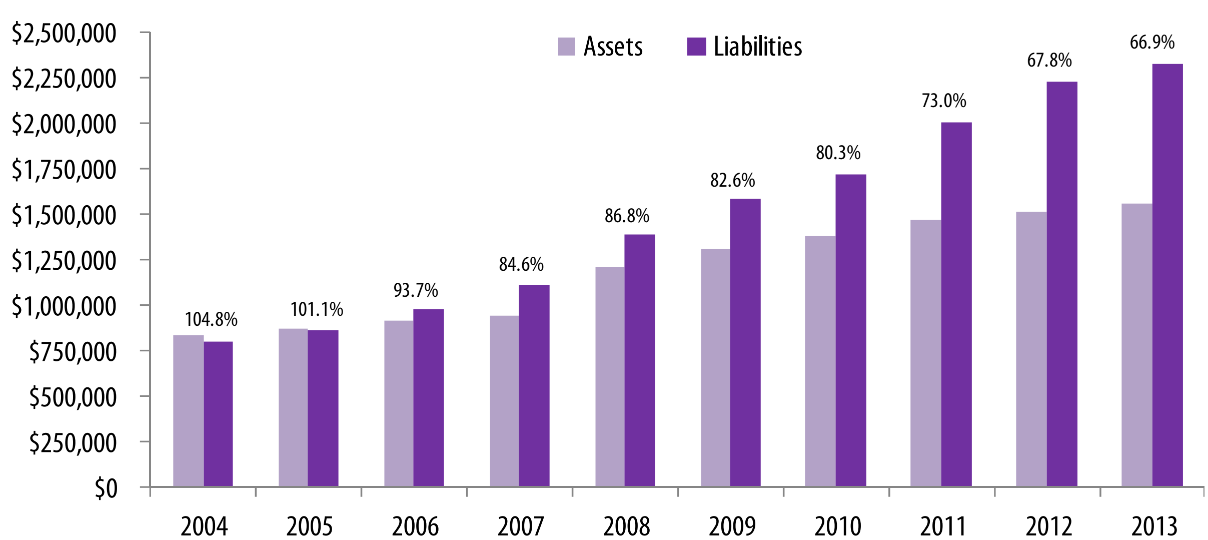


During FY 2007, the Board of Trustees adopted a more diversified asset allocation policy and began an asset management restructuring that has been deployed over the past four years. As illustration, at the end of FY07, 72.8% of the entire investment portfolio was invested in equities versus 32.3% at the end of FY2013. Fixed income had remained about 19% of the entire portfolio prior to being reduced to 11.1% in FY2013. However, alternative investments have increased from 3.5% in FY07 to 54.8% in FY2013.

At June 30, 2013, CORP held $454.86 million in equities. The FY 2013 rate of return for Total CORP equities was 18.22% versus a benchmark rate of return of 18.07%. At June 30, 2013, CORP held $156.19 million in fixed income securities. The FY 2013 rate of return for CORP fixed income securities was 1.35% versus a benchmark rate of return of -2.18%. The benchmarks for both equities and fixed income securities are representative of the returns that could be expected in a similar investing environment. More detailed information regarding the Plan's investment portfolio can be found in the investment section of this report.

CORP earns additional income by lending investment securities to brokers. This was done on a pooled basis by our custodial banks, BNY Mellon. The brokers provide collateral and generally use the borrowed securities to cover short trades and failed trades.

HISTORICAL TRENDS



Accounting standards require that the "Statement of Plan Position" reflect investment asset values at fair market value and include only benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the plan is provided in the "Schedule of Funding Progress." The asset value stated in the "Schedule of Funding Progress" is the actuarial value of assets as determined by calculating the ratio of the market value to book value of assets and the actuarial gains/losses smoothed over a seven year period. Actuarial valuations of the CORP assets and benefit obligations for the retirement plan are performed annually. The most recent actuarial valuation available is as of June 30, 2013.

At June 30, 2013, the total funded status of the CORP decreased to 66.9% from 67.8% at FYE 2012. This decrease in funded status is related primarily to the seven year smoothing period with only 1/7 of the investment gain from the FY2013 investment return being reflected in the calculation. The market value smoothing techniques used in this valuation of the Plan recognize both past and present investment gains and losses. A more detailed discussion of the funding status can be found in the Administrator's Letter of Transmittal in the Introductory Section of this report.

REQUEST FOR INFORMATION

This report is designed to provide a general overview of the Corrections Officer Retirement Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Corrections Officer Retirement Plan, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016.

STATEMENT OF PLAN NET POSITION

JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

	JUNE 30, 2013	JUNE 30, 2012
ASSETS		
Cash and Short-Term Investments	$ 29,639,900	$ 26,714,223
RECEIVABLES		
Member Contributions	857,932	724,497
Employer Contributions	1,203,920	871,209
Interest and Dividends	1,417,573	1,187,705
Investment Sales	1,625,731	10,429,796
Other	12,276	8,985
Total Receivables	**5,117,432**	**13,222,192**
INVESTMENTS AT FAIR VALUE (NOTES 2 AND 3)		
U.S. Equity	256,644,032	246,770,817
Non U.S. Equity	198,214,057	180,837,395
GTAA	120,617,283	121,141,513
Fixed Income	156,185,967	173,504,736
Credit Opportunities	127,251,244	110,507,909
Private Equity	160,061,132	130,833,258
Real Assets	89,688,236	79,934,282
Real Estate	181,576,794	158,417,533
Absolute Return	57,962,926	44,616,321
Risk Parity	31,423,799	-
Total Investments	**1,379,625,470**	**1,246,563,764**
Securities Lending Collateral	43,752,548	25,984,058
CAPITAL ASSETS (NOTE 4)		
Land	86,588	86,588
Building	661,246	648,990
Funiture, Fixtures & Equipment	202,387	188,615
Total Capital Assets	**950,221**	**924,193**
Accumulated Depreciation	(305,206)	(269,902)
Net Capital Assets	**645,015**	**654,291**
TOTAL PLAN ASSETS	**1,458,780,365**	**1,313,763,831**
LIABILITIES		
Accrued Accounts Payable	1,912,740	2,020,987
Investment Purchases Payable	3,535,056	2,979,876
Securities Lending Collateral	43,752,548	25,984,058
Total Plan Liabilities	**49,200,344**	**30,984,921**
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	**1,409,580,021**	**1,282,778,910**
NET POSITION RESERVES		
Refundable Members' Reserve	383,894,028	373,835,801
Employers' Reserve	1,025,685,993	908,317,806
Future Benefit Increase Reserve	-	-
Total Net Position Reserves	**$ 1,409,580,021**	**$ 1,282,153,607**

*Fair Value of Real Estate for FY2012 was reduced by $4,825,340. See Note 14.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN PLAN NET POSITION

FISCAL YEAR ENDING 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013	2012
ADDITIONS		
Contributions		
Members' Contributions (NOTES 2,5)	$ 50,648,775	$ 51,967,894
Employers' Contributions (NOTES 2,5)	65,407,507	56,056,555
Members' Service Purchase	814,501	850,866
Alternate Employer Contributions	203,683	145,408
Total Contributions	**117,074,466**	**109,020,723**
Investment Income		
From Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments (NOTES 2,3)	124,825,292	(26,801,870)
Interest	1,247,455	2,759,487
Dividends	10,168,614	9,802,634
Other Income	15,177,032	4,790,299
From Securities Lending Activities		
Securities Lending Activities (NOTE 3)		
Securities Lending Income	45,804	88,481
Borrower Rebates	210,973	249,950
Agents Share of Income	(38,318)	(50,486)
Net Securities Lending Income	**218,459**	**287,945**
Total Investment Income (Loss)	**151,636,852**	**(9,161,505)**
Less Investment Expense	(13,369,319)	(6,003,855)
Net Investment Income (Loss)	**138,267,533**	**(15,165,360)**
Transfers Into System	184,576	368,484
Total Additions (Reductions)	**255,526,575**	**94,223,847**
DEDUCTIONS		
Pension Benefits (NOTE 2)	93,179,451	85,684,902
DROP Benefits (NOTE 2)	1,633,892	2,292,891
Refunds To Terminated Members (NOTE 2)	31,179,499	25,743,514
Administrative Expenses	1,266,690	1,182,692
Transfers Out of System	840,629	964,033
Total Deductions	**128,100,161**	**115,868,032**
NET INCREASE (DECREASE)	**127,426,414**	**(21,644,185)**
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year, July 1	1,282,153,607	1,303,797,792
End of Year, June 30	**$ 1,409,580,021**	**$ 1,282,153,607**

*Net Appreciation for FY2012 was reduced by $4,825,340. See Note 14.

The accompanying notes are an integral part of these financial statements.

CORP NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: PLAN DESCRIPTION

ORGANIZATION

The Corrections Officer Retirement Plan (CORP), a pension trust fund of the State of Arizona, is an agent multiple employer public employee retirement plan established by Title 38, Chapter 5, Article 6 of the Arizona Revised Statutes, to provide benefits for prison and jail employees of certain state, county and local governments. The Board of Trustees (formerly Fund Manager) of the Public Safety Personnel Retirement System (PSPRS) and 26 local boards administer the CORP Plan.

Effective August 6, 1999, it became the Governor's responsibility to appoint all members of the Board of Trustees. Effective April 28, 2010, SB 1006 was passed that changed the name of the Fund Manager to Board of Trustees and expanded the size of the Board from five to seven members. SB 1006 also increased the term from three to five years. There will be a transitional period during which the terms of office may vary. The Board of Trustees is responsible for the investment of the Plan's assets, setting employer contribution rates in accordance with an actuarial study, adopting a budget, hiring personnel to administer the Plan, setting up records, setting up accounts for each member, paying benefits and the general protection and administration of the System. Substantial investment experience is required for the member of the Board that represents the state as an employer and the two public members of the Board.

Each eligible group participating in the Plan has a five-member local board. In general, each member serves a fixed four-year term. Each local board is responsible for determining eligibility for membership, service credits, eligibility for benefits, the timing of benefit payments, and the amount of benefits for its eligible group of employees. The various governing bodies pay all costs associated with the administration of the local boards.

The addition or deletion of eligible groups does not require the approval of the other participating employers. The Board of Trustees approves new eligible groups for participation. The CORP is reported as a component unit of the State of Arizona.

The Board of Trustees of the CORP is also responsible for the investment and general administration of two other statewide retirement plans-the Elected Officials' Retirement Plan and the Public Safety Personnel Retirement System. The investments and expenses of these plans were held and accounted for separately from those of the CORP until September 1, 2008. Arizona Revised Statutes Section 38-848 was amended by Laws 2008, Ch. 286, § 22 to authorize the Board of Trustees to commingle the assets of the fund and the assets of all other plans entrusted to its management. Accordingly, the assets of these plans have been unitized but all receipts and earnings are credited and charges of payments are made to the appropriate employer, system or plan.

Since none of the plans have the authority to impose their will on any of the other plans, each plan is reported as its own stand-alone government.

At June 30, 2013 and 2012, the number of participating local government employer groups was:

GROUP	2013	2012
County AOC	15	15
Cities	1	1
Detention	14	13
Dispatchers	8	8
State Agencies	3	3
Total Employers	**41**	**40**

Any county or city in the State of Arizona may elect to have its eligible employees (generally, prison or jail personnel who have direct inmate contact) covered by CORP. At June 30, 2013 and 2012, statewide CORP membership consisted of::

	RETIREMENT PLAN		INSURANCE SUBSIDY	
MEMBERSHIP TYPE	2013	2012	2013	2012
Retirees	3,810	3,476	2,027	1,934
Terminated Vested	1,463	1,101	-	-
Current Vested	4,646	4,586	-	-
Current Non-Vested	9,934	10,405	-	-
Total Members	**19,853**	**19,568**	**2,027**	**1,934**

CORP provides retirement benefits as well as death and disability benefits. Generally, all benefits vest after five years of credited service.

A summary of benefit and plan provisions follows:

SUMMARY OF BENEFITS

PURPOSE (A.R.S. § 38-900.01b)

To provide a uniform, consistent and equitable statewide program for those eligible corrections officers as defined by the Plan.

AVERAGE MONTHLY BENEFIT

Employees who became a member of the Plan on or before December 31, 2011, an average of your highest thirty-six (36) consecutive months of salary within the last ten (10) years (i.e., 120 months) of service. A.R.S. § 38-881(7).

Employees who become a member of the Plan on or after January 1, 2012, an average of your highest sixty (60) consecutive months of salary within the last ten (10) years (i.e., 120 months) of service.

Salary means the base salary, shift differential, military and holiday pay paid a member for personal services rendered in a designated position to a participating employer on a regular monthly, semi-monthly or biweekly payroll basis. Salary includes amounts that are subject to deferred compensation for tax shelter agreements. For the purposes of computing retirement benefits, "base salary" does not include any extra monies, including overtime pay, shift differential pay, holiday pay, fringe benefit pay (such as uniform allowance, cell phone or mileage reimbursement) and similar extra payments. A.R.S. § 38-881(41).

BENEFIT INCREASE / COST OF LIVING ADJUSTMENT (COLA)

A retired member or survivor of a retired member may receive a benefit increase <u>if monies are available</u> (*See* A.R.S. § 38-905). However, effective July 1, 2013 (A.R.S. § 38-905.02) and each July 1 thereafter, as long as there are no monies left to pay under the old benefit increase structure (*See* A.R.S. § 38-905), a benefit increase will be issued as long as the following criteria have been met:

- Retired members who became a member on or before December 31, 2011, or the survivor of a retired member, was receiving benefits on or before July 31 of the two previous years, OR was 55 or older on July 1 of the current year and receiving benefits on or before July 31 of the previous year.
- Retired members who became a member on or after January 1, 2012, or the survivor of a retired member, was 55 or older on July 1 of the current year and is receiving benefits, OR the retired member was under 55 on July 1 of the current year, was receiving an accidental disability retirement benefit and was receiving benefits on or before July 31 of the two previous years, OR a survivor was under 55 on July 1 of the current year, is the survivor of a member who was killed in the line of duty and was receiving benefits on or before July 31 of the two previous years.

The increase will be calculated based on (if there are insufficient earnings to cover the maximum increases, the percentage increase is limited to the earnings available):

- If the ratio of the actuarial value of assets to liabilities is 60-64% and the total return is more than 10.5% for the prior fiscal year, 2% maximum increase to all eligible retirees and survivors.
- If the ratio of the actuarial value of assets to liabilities is 65-69% and the total return is more than 10.5% for the prior fiscal year, 2.5% maximum increase to all eligible retirees and survivors.
- If the ratio of the actuarial value of assets to liabilities is 70-74% and the total return is more than 10.5% for the prior fiscal year, 3% maximum increase to all eligible retirees and survivors.
- If the ratio of the actuarial value of assets to liabilities is 75-79% and the total return is more than 10.5% for the prior fiscal year, 3.5% maximum increase to all eligible retirees and survivor.
- If the ratio of the actuarial value of assets to liabilities is 80% or more and the total return is more than 10.5% for the prior fiscal year, 4% maximum increase to all eligible retirees and survivors

From and after December 31, 2015, legislature may enact permanent one-time benefit increases after an analysis of the effect of the increase on the Plan by the Joint Legislative Budget Committee (JLBC). A.R.S. § 38-905.03.

CONTRIBUTIONS

Contribution rates through June 30, 2014 for all non-dispatchers shall contribute 8.41% and all full-time dispatchers shall contribute 7.96% of salary to the Plan on a pre-tax basis by payroll deduction. The contribution rate for members will change each fiscal year. A.R.S. § 38-891(H). A member may not, under any circumstance, borrow from, take a loan against or remove contributions from the member's account before the termination of membership in the plan or the receipt of a pension. A.R.S. § 38-891(B).

CREDITED SERVICE

Service in a designated position for which member contributions have been made to the Plan, or transferred to the Plan from another retirement system for public employees of this state. A.R.S. § 38-881(11).

DEATH BENEFITS - ACTIVE MEMBER

Spouse's Pension. The surviving spouse of an active member will receive a Spouse's Pension each month for lifetime. The Spouse's Pension is 40% of the member's average monthly salary. If the member was killed in the line of duty, the spouse will receive 100% of the member's average monthly benefit compensation. A.R.S. § 38-888, OR

Guardian Benefit. If there is no surviving spouse, or the pension of the surviving spouse is terminated, and there is at least one (1) eligible child, a Guardian Benefit of 40% (based on the member's average monthly salary) may be paid to the guardian of the (unmarried) child(ren) each month until each child turns 18, or under 23 years of age only during any period that the (unmarried) child is a full-time student. An eligible Child's Pension shall become payable directly to the eligible child when the eligible child reaches the age of 18, if the person remains eligible to receive the pension and is not subject to a guardianship or conservatorship due to disability or incapacity. If a Guardian Benefit is paid to a disabled child (the child's disability occurred prior to the age of 23) and remains a dependent of the guardian, the benefit is payable for the lifetime of the child. A.R.S. § 38-904(B), OR

Balance of Contributions. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive two (2) times the member's contributions. If the surviving beneficiary does not claim the benefit, the Local Board has the authority to pay the member's nearest of kin, or estate. A.R.S. §§ 38-904(A and B) and 38-904(A).

DEATH BENEFITS - INACTIVE MEMBER

Balance of Contributions. If the member was inactive, the member's named beneficiary on file will receive two (2) times the member's contributions. If the surviving beneficiary does not claim the benefit, the Local Board has the authority to pay the member's nearest of kin, or estate. A.R.S. §§ 38-881(27) and 38-904(A).

DEATH BENEFITS - RETIRED MEMBER

Spouse's Pension. If married for at least two (2) consecutive years at the time of the member's death, the surviving spouse will receive a Spouse's Pension each month for lifetime based on 80% of the member's pension benefit. A.R.S. § 38-887, OR

Guardian Benefit. If there is no surviving spouse, or the pension of the surviving spouse is terminated, and there is at least one (1) eligible child, a Guardian Benefit of 80% (based on the member's pension) may be paid to the guardian of the (unmarried) child(ren) each month until each child turns 18, or under 23 years of age only during any period that the (unmarried) child is a full-time student. An eligible Child's Pension shall become payable directly to the eligible child when the eligible child reaches the age of 18, if the person remains eligible to receive the pension and is not subject to a guardianship or conservatorship due to disability or incapacity. If a Guardian Benefit is paid to a disabled child (the child's disability occurred prior to the age of 23) and remains a dependent of the guardian, the benefit is payable for the lifetime of the child. A.R.S. §§ 38-881(18) and 38-904(B), OR

Balance of Contributions. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive the balance of the member's accumulated contributions less the pension payments made to the member. If the surviving beneficiary does not claim the benefit, the Local Board has the authority to pay the member's nearest of kin, or estate. A.R.S. §§ 38-889 and 38-904(A).

ACCIDENTAL DISABILITY

A physical or mental condition which totally and permanently prevents an employee from performing a reasonable range of duties within the employee's department, that was incurred in the performance of the employee's duties and was the result of either physical contact with inmates, or responding to a confrontational situation with inmates, or a job-related motor vehicle accident, and was not the result of a physical or mental condition that existed or occurred before the employee's date of membership in the Plan. A.R.S. § 38-881(1).

Eligibility for an accidental disability will be determined by the Local Board upon an independent medical examination. For members with a membership date on or before December 31, 2011, the monthly benefit is 50% of the member's average monthly compensation. (There is no credited service requirement.) For members with a membership date on or after January 1, 2012 with less than 25 years of credited service, the monthly benefit is 50% of the member's average monthly compensation. For members with 25 or more years of credited service, the monthly benefit is 62.5% of the member's average monthly compensation. The Local Board may require periodic medical re-evaluations until the member reaches age 62. Accidental disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.

TOTAL AND PERMANENT (CATASTROPHIC) DISABILITY

A physical or mental condition which totally and permanently prevents a member from engaging in any gainful employment, that is in the direct and proximate result of the member's performance of the employee's duties and is not the result of a physical or mental condition or injury that existed or occurred before the member's date of membership in the Plan. A.R.S. § 38-881(44).

Eligibility for a total and permanent disability will be determined by the Local Board upon an independent medical examination. For members with a membership date on or before December 31, 2011, the monthly benefit is 50% of the member's average monthly compensation. (There is no credited service requirement.) For members with a membership date on or after January 1, 2012 with less than 25 years of credited service, the monthly benefit is 50% of the member's average monthly compensation. For members with 25 or more years of credited service, the monthly benefit is 62.5% of the member's average monthly compensation. The Local Board may require periodic medical re-evaluations until the member reaches age 62. The total and permanent disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.

ORDINARY DISABILITY

A physical condition which totally and permanently prevents an employee from performing a reasonable range of duties within the employee's department, or a mental condition that totally and permanently prevents the employee from engaging in any substantial gainful activity, and was not the result of a condition that existed or occurred before the employee's date of membership in the Plan. Dispatchers disabled on/after September 21, 2006 and non dispatchers disabled on/after September 26, 2008 may qualify for an ordinary disability. A.R.S. §§ 38-881(30) and 38-886.01.

Eligibility for an ordinary disability will be determined by the Local Board upon an independent medical examination. The monthly benefit is a percentage of normal retirement based on the employee's years of credited service divided by twenty (20) for membership on or before December 31, 2011 (except a full-time dispatcher, the service requirement is 25 years), or twenty-five (25) for membership on or after January 1, 2012. The Local Board may require periodic medical re-evaluations until the member reaches age 62. Ordinary disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.01.

DIVORCE / DOMESTIC RELATIONS ORDER

If the member has been involved in a divorce(s), please provide the CORP with a complete copy of the Divorce Decree(s) and any attachments or exhibits if referenced in the Decree(s). Upon receipt, additional correspondence will be provided to the parties. If the retirement account is required to be split, a Domestic Relations Order (DRO) will need to be prepared. To ensure that the language in the DRO is acceptable, it is recommended to provide the CORP with a draft copy of the DRO for review and approval prior to submitting it to the court. A.R.S. § 38-910.

REVERSE DEFERRED RETIREMENT OPTION PLAN (REVERSE DROP)

Beginning July 1, 2006 and through June 30, 2016, the CORP shall offer the Reverse Deferred Retirement Option Plan (Reverse DROP) to members that are eligible for a normal pension (based on service and age) applicable to a membership date that is either prior to, or after January 1, 2012 (who is not awarded an accidental, ordinary or total and permanent disability pension). Under the Reverse DROP, the member must voluntarily and irrevocably elect to terminate employment and receive a normal retirement upon participation in the Reverse DROP. The Reverse DROP date is the first day of the month immediately following completion of required credited service, or a date not more than sixty (60) consecutive months before the date the member elects to participate in the Reverse DROP, whichever is later.

The member's pension will be calculated using the factors of credited service and average monthly benefit compensation in effect on the Reverse DROP Date. The lump sum distribution is credited as though it accrued monthly from the Reverse DROP date to the date the member elected to participate in the Reverse DROP (plus interest equal to the yield on a five (5) year Treasury note as of the first day of the month as published by the Federal Reserve Board).

Neither the member nor the employer is entitled to a refund of contributions made between the Reverse DROP date and the date the member elects to participate in the Reverse DROP. A.R.S. § 38-885.01.

*If participating in Reverse DROP, the member's service cannot be less than service required for normal retirement (based on service and age) applicable to a membership date that is either prior to, or after January 1, 2012. In other words, service must be greater than 24/25, respectively, in order to receive a Reverse DROP benefit.

Pursuant to statute, the Reverse DROP option will no longer be available after June 30, 2016

ELIGIBILITY

Designated positions for the following employers that elect to join the Plan are eligible to participate in the CORP if the employee's customary employment is for at least forty (40) hours per week, or as defined by statute. A.R.S. § 38-881(13):

- For a County: A county detention officer and non-uniformed employee's of a sheriff's department whose primary duties require direct inmate contact.
- For the State Department of Corrections and the Department of Juvenile Correction: Specific positions are eligible to participate. Refer to the statute for specific positions.
- For a City or Town, a City or Town Detention Officer.
- For an employer of an eligible group as defined in A.R.S. § 38-842, full-time dispatchers.
- For the judiciary, probation, surveillance, and juvenile detention officers and those positions designated by the Local Board.
- For the Department of Public Safety, state detention officers.

Dispatchers hired after November 24, 2009 must participate in the Arizona State Retirement System. A.R.S. § 38-902(C) .

HEALTH INSURANCE

Pursuant to A.R.S. §§ 38-906, 38-651.01 and 38-782, retirees and survivors under the Plan that elect group health insurance and/or accident insurance coverage through the Arizona State Retirement System group plan (ASRS), the Arizona Department of Administration (ADOA) group plan, or a group plan through an employer of the CORP, the Plan will pay up to the following Premium Benefit amount:

SINGLE		**FAMILY**		
Not Medicare Eligible	Medicare Eligible	All Not Medicare Eligible	All Medicare Eligible	One With Medicare
$150.00	$100.00	$260.00	$170.00	$215.00

JOINDERS

Specific positions and employers may participate in the CORP if the governing body of the employer enters into a joinder agreement to bring such employees into the CORP. The joinder agreement shall be in accordance with the provisions of this Plan. The transfer of the Arizona defined benefit state retirement System or Plan shall be transferred within ninety days after the employer's effective date. A.R.S. § 38-902.

REFUNDS

Employees who became a member on or before December 31, 2011, pursuant to A.R.S. § 38-884, upon termination of employment (for any reason other than death or retirement) within twenty (20) days after filing an application with the CORP, the member will receive a lump-sum payment (less mandated tax withholding) of accumulated contributions (less any benefits paid or any amounts owed to the Plan) - thus, forfeiting all membership rights and credited service in the Plan upon receipt of refund of contributions. If the member has five (5) or more years of credited service, an additional percentage of contributions will be refunded to the member according to the member's years of service as stated below:

5 to 5.9 years of service = 25% of additional member contributions.
6 to 6.9 years of service = 40% of additional member contributions.
7 to 7.9 years of service = 55% of additional member contributions.
8 to 8.9 years of service = 70% of additional member contributions.
9 to 9.9 years of service = 85% of additional member contributions.
10 or more years of service = 100% of member contributions plus 3% interest if left on deposit after 30 days.

Employees who became a member on or after January 1, 2012, pursuant to A.R.S. § 38-884(E), upon termination of employment (for any reason other than death or retirement) within twenty (20) days after filing an application with CORP, shall receive a lump-sum payment of ONLY their accumulated contributions plus interest at a rate determined by the board (currently 3%) as of the date of termination (less any benefits paid or any amounts owed to the Plan) - thus, forfeiting all membership rights and credited service in the Plan upon receipt of refund of contributions. The member will NOT receive the additional percentage of contributions as stated above.

Note: Arizona Revised Statutes do not allow a CORP member to borrow against your retirement account. A refund of your contributions can only be paid to you upon termination of your employment with the CORP employer.

REQUEST TO REMAIN IN CORP

The local board of the state department of corrections, or the department of juvenile corrections may specify a position within the department as a designated position if the position is filled by an employee who has at least five (5) years of credited service under the Plan, is transferred to temporarily fill the position, provides a written request to the local board (within 90 days of being transferred) to specify the position as a designated position. When the employee leaves the position, the position is no longer a designated position. A.R.S. § 38-891(E). (*Form C20*)

The local board of the state department of corrections, or the department of juvenile corrections may specify a designated position within the department as a non-designated position if the position is filled by an employee who has at least five years of credited service under the Arizona State Retirement System and who provides a written request to the local board (within 90 days of being transferred) to specify the position as a non-designated position. When the employee leaves the position, the position reverts to a designated position. A.R.S. § 38-891(F).

The local board of the judiciary may specify positions within the Administrative Office of the Courts (AOC) that require direct contact with and primarily provide training or technical expertise to county probation, surveillance or juvenile detention officers as a designated position if the position is filled by an employee who is a member of the Plan currently employed in a designated position as a probation, surveillance or juvenile detention officer that has at least five years of credited service under the Plan. An employee who fills such a position shall make a written request to the local board to specify the position as a designated position within ninety days of accepting the position. When the employee leaves the position, the position reverts to a non-designated position. A.R.S. § 38-891(G).

RETIREMENT ELIGIBILITY AND CALCULATION

Employees who became a member on or before December 31, 2011:

Normal Retirement. Pursuant to A.R.S. §§ 38-881 (7, 11, 27, 28, 41 and 43) and 38-885, retirement benefits will commence the first day of month following termination of employment and based upon the following:

- 20 years of credited service but less than 25 years of credited service, or 80 points (age plus credited service) if membership date is on/after 8/9/01: 50% of the member's average monthly salary plus 2% of member's average monthly salary multiplied by each year of credited service over 20 (include fractional years).
- 25 years of credited service for dispatchers, or 80 points (age plus credited service) if membership date is on/after 8/9/01: 50% of the member's average monthly salary plus 2.5% of member's average monthly salary multiplied by each year of credited service over 20 (include fractional years). (12-years maximum so that the benefit does not exceed the 80% of the average monthly salary)
- 20 years of service but less than 20 years of credited service, or 80 points if membership date is on/after 8/9/01: Member's average monthly salary multiplied by each year of credited service (include fractional years) multiplied by 2.5%.
- 80 points (age plus credited service) if membership date is PRIOR to 8/9/01: Member's average monthly salary multiplied by each year of credited service (include fractional years) multiplied by 2.5% (maximum 75% of average monthly salary).
- Age 62 with 10 years of service but less than 20 years of credited service: Member's average monthly salary multiplied by each year of credited service (include fractional years) multiplied by 2.5%.

Note: The maximum pension is capped at 80% of the average monthly salary (which a person would receive at 32 years of credited service).

Deferred Annuity. Inactive members (not making contributions to the Plan) that have at least ten (10) years of credited service may elect to receive a Deferred Annuity at the age of sixty-two (62). This annuity is a lifetime monthly payment that is actuarially equivalent to the member's accumulated contributions in the Plan plus an equal amount paid by the employer. This annuity is not a retirement benefit and annuitants are not entitled to survivor benefits, benefit increases, or the group health insurance subsidy. A.R.S. § 38-911(A).

Employees who became a member on or after January 1, 2012:

Normal Retirement. Pursuant to A.R.S. §§ 38-881 (7, 11, 27, 28, 41 and 43) and 38-885, retirement benefits will commence the first day of month following termination of employment and based upon the following:

- Age 62 with 10 years of service: 62.5% of the member's average monthly salary plus 2.5% of the average monthly salary multiplied by each year of credited service over 25 (include fractional years).
- Age 52.5 with 25 or more years of credited service: 62.5% of the member's average monthly salary plus 2.5% of the average monthly salary multiplied by each year of credited service over 25 (include fractional years).
- Age 52.5 with 25 years of service but less than 25 years of credited service: Average monthly salary multiplied by the member's total credited service multiplied by 2.5%.

Employees who became a member on or after January 1, 2012 are not eligible for a "Deferred Annuity." However, a member who attains the service requirement for a normal retirement, but does not meet the age requirement, may elect to leave contributions on account until reaching the age requirement and then elect to receive a retirement benefit (survivor benefits, benefit increases, or the group health insurance subsidy). A.R.S. § 38-911(B).

RETURN TO WORK AFTER RETIREMENT

A retired member may become re-employed and continue to receive a pension if the employment occurs twelve (12) months or more after retirement. The retired member shall not contribute to the fund and shall not accrue credited service. A.R.S. § 38-884(K).

If a retired member becomes employed by an employer in a designated position before twelve (12) months after retirement, the retired member's pension shall be suspended during reemployment in a designated position and the retired member shall not make contributions to the Plan nor accrue credited service during such reemployment. A.R.S. § 38-884(K).

If you are receiving an accidental or total and permanent disability retirement (*and have not reached normal retirement*) and have become employed by an employer under the Plan, your disability retirement will cease. However, your local board will need to review and determination your return to work eligibility. If benefits are suspended and upon eligibility for (re)retirement, the service from the disabilty retirement will be considered "service" and not "credited" service and your average monthly compensation will be based on the compensation from the new employment. A.R.S. § 38-886 (D and G).

If a retired member returns to work in any capacity in a designated position ordinarily filled by an employee, the employer is required to pay an alternate contribution rate to the CORP. The current alternate contribution rate is 6.18%. A.R.S. § 38-891.01.

Effective July 20, 2011, the premium benefit (subsidy) will not apply if the retired member or survivor is reemployed and participates in health care coverage provided by the member's or survivors new employer. A.R.S. § 38-906(D).

SALARY

Salary is defined as the base salary/wages, shift differential pay, military differential and holiday pay paid to an employee for personal services rendered in a designated position to a participating employer on a regular monthly, semimonthly or biweekly payroll basis. For the purposes of the paragraph above, "base salary/wages" means the amount of compensation each member is regularly paid for personal services rendered before the addition of any extra monies, including overtime pay, shift differential, holiday pay, sale of compensatory time, fringe benefit pay and similar extra payments. A.R.S. § 38-881(41).

SERVICE PURCHASE

Purchase of Prior Active Military Service. (Form 18). Members with at least ten (10) years of credited service with the Plan may purchase up to sixty (60) months of credited service for periods of active military service performed before employment with their current employer (even if the member receives a military pension). A.R.S. § 38 -907(A). Active members may also receive credited service limited to sixty (60) months if ordered/volunteered to active military service while working for the current employer if the criteria is met pursuant to A.R.S. § 38-907. The member shall pay the members contributions, upon which the employer shall make employer contributions. If member performs military service due to presidential call-up, the employer shall make the employer and employee contributions not to exceed forty-eight (48) months pursuant to A.R.S.38-907 (G). For more information, contact your employer.

Purchase of Prior Service from an Out-of-State Agency. (Form COSS). Active members with at least five (5) years of credited service with the Plan that have previous service with an agency of the U.S. Government, a state of the U.S., or a political subdivision of a state of the U.S. as a full-time paid corrections officer, or full-time paid certified peace officer may elect to redeem up to sixty (60) months of any part of the prior service if the prior service is not on account with any other retirement system. A.R.S. § 38-909.

Purchase of Prior Forfeited Service within the SAME Retirement Plan. If a former member becomes RE-EMPLOYED with the SAME EMPLOYER and, within two (2) years after the former member's termination date and applies with the Plan (within ninety days of reemployment), may elect to purchase all of the previously forfeited credited service. The amount required to reinstate the credited service is the amount previously withdrawn plus interest at the rate of 9% compounded annually from the date of withdrawal to the date of repayment and the reimbursement is required to be paid within one (1) year from the date of reemployment. A.R.S. § 38-884(I). (*Form C1B*), OR

If the statutory requirements above are not met, the member may still purchase some or all of the previously forfeited credited service calculated based on an amount computed by the Plan's actuary to equal the actuarial present value of the account. A.R.S. § 38-884(J). (*Form C2*).

Purchase of Service Between the Arizona Retirement Plans/Systems. (Form U2). Members of any of the four Arizona state retirement System/Plans that have credited service under another Arizona state retirement System/Plan may redeem the credited service to their current Arizona state retirement System/Plan by paying the full actuarial present value of the credited service into the current Arizona retirement System/Plan with the approval of the CORP or governing board. A.R.S. § 38-922.

TAXATION OF RETIREMENT BENEFITS

All CORP retirement benefits in excess of $2,500 annually will be subject to Arizona state tax. A.R.S. §§ 38-896, and 43-1022.

TRANSFERS

Transfer of Contributions Between CORP Employers. (Form C1A). A member who terminates employment with an employer and accepts a position with the same or another employer participating in the Plan shall have their credited service transferred to their record with the new employer if they leave their accumulated contributions on deposit with the Plan. The period not employed shall not be considered as credited service. A.R.S. § 38-908.

Transfer of Service Between the Arizona Retirement Plans/Systems. (Form U2). Members of any of the four Arizona state retirement System/Plans that have credited service under another Arizona state retirement System/Plan may transfer the credited service to their current Arizona state retirement System/Plan by transferring the full actuarial present value of the credited service into the current Arizona retirement System/Plan with the approval of the CORP or governing board. A reduced credited service amount may be transferred based on the transfer of the actuarial present value of the credited service under the prior Arizona state System/Plan. A.R.S. §§ 38-921 and 38-922.

Transfer of Service Between Municipal Retirement Systems & Special Retirement Plans. (Form U2A). An active or inactive member of a retirement System or Plan of a municipality of this state *(i.e., City of Phoenix and City of Tucson)* or of the CORP may transfer the service to their current retirement System or Plan based on the member's accumulated contributions plus interest, or the member may elect a reduced service amount to be transferred based on the actuarial present value. A.R.S. §§ 38-923 and 38-924.

CONTINGENT LIABILITIES

The System is a party in various litigation matters. While the final outcome cannot be determined at this time, management is of the opinion that the final outcome will be favorable or the final obligation, if any, for these legal actions will not have a material adverse effect on the System's financial position or results of operations.

This is not an official version of the Arizona Revised Statutes. If there are any differences or discrepancies, the official version will prevail.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

CORP financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid.

Furniture, fixtures and equipment purchases costing $10,000 or more, when acquired, are capitalized at cost. Improvements, which increase the useful life of the property, are also capitalized. Investment income net of administrative and investment expenses are allocated to each employer group based on the average relative fund size for each employer group for that year.

By state statute, the Plan is required to provide information in the financial statements used to calculate Net Effective Yield. Net Effective Yield includes only realized gains and losses. The Net Realized Gains (Losses) used in this calculation totaled $68,918,508 for FYE 2013 and $38,880,876 for FYE 2012. This calculation is independent of the calculation of the change in the fair value of investments and may include unrealized amounts from prior periods.

NEW ACCOUNTING PRONOUNCEMENT

GASB Statement No. 63. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, was issued and is effective for periods beginning after December 15, 2011. There is no effect on the CORP financial statements.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2013. Actual results could differ from those estimates.

NOTE 3: CASH AND INVESTMENTS

CASH

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Plan's deposits may not be returned. The deposits are held in two financial institutions with a balance of up to $250,000 (permanently guaranteed as of July 21, 2010) insured by the Federal Deposit Insurance Corporation (FDIC). The Plan mitigates custodial credit risk for deposits by requiring the financial institution to pledge securities from an acceptable list in an amount at least equal to 102% of the aggregate amount of the deposits on a daily basis.

In addition to the FDIC insurance coverage on the operating and money market accounts of CORP, Wells Fargo pledged the following securities to Public Safety Personnel Retirement System, CORP, and the Elected Officials' Retirement Plan on June 30, 2013, as collateral:

Description	CPN	Maturity	Market Value
FN AR9197	3.00%	3-1-2043	4,266,706
FN T5899	3.00%	6-1-2043	325,169
FN AB6848	3.00%	11-1-2042	2,266,667
FN AB7741	3.00%	1-1-2043	780,271
FN AE0215	4.00%	12-1-2039	6,990,942
FN AE0385	4.00%	9-1-2040	13,485,729
TOTAL			**28,115,484**

All monies shall be secured by the depository in which they are deposited and held to the same extent and in the same manner as required by the general depository law of the state. Cash balances represent both operating and cash accounts held by the bank and investment cash on deposit with the investment custodian. All deposits are carried at cost plus accrued interest. The following table is a schedule of the aggregate book and bank balances of all cash accounts as of June 30, 2013:

	REPORTED AMOUNT	BANK BALANCE
Pension Trust Fund	$ 26,855,301	$ 26,855,301
Operating Fund	2,784,599	2,784,599
Total Deposits	**$ 29,639,900**	**$ 29,639,900**

INVESTMENTS

CORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair value as determined by fixed-income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows.

Statutes enacted by the Arizona Legislature authorize the Board of Trustees to make investments in accordance with the "Prudent Man" rule. The Board of Trustees is not limited to so-called "Legal Investments for Trustees." In making every investment, the board shall exercise the judgment and care under the circumstances then prevailing which men of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided:

1) That not more than eighty percent of the combined assets of the system or other plans that the board manages shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
2) That not more than five percent of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the United States government or corporate stock issued by a bank or insurance company.
3) That not more than five percent of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.
5) That corporate stocks and exchange traded funds eligible for purchase shall be restricted to stocks and exchange traded funds that, except for bank stocks, insurance stocks and membership interests in limited liability companies, are either:
    a) Listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §78ll).
    b) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §78ll).
    c) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state.
    d) Listed or approved on issuance for listing on an exchange registered of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than twenty percent of the combined assets of the system and other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation.
    e) An exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the investment company act of 1940 (15 United States Code Section 80a-1 through 80a-64) and that is both traded on a public exchange and based on a publicly recognized index.

A.R.S. § 38-848.B as amended in 2008 authorized the Board of Trustees to commingle the assets of all the plans entrusted to its management, subject to the crediting of receipts and earnings and charging of payments to the appropriate employer, system or plan. As a result, the various assets of the Public Safety Retirement System, Elected Officials' Retirement Plan, and the Corrections Officer Retirement Plan were unitized beginning September 1, 2008 into the PSPRS Trust. Investments for each fund are allocated daily via a constant dollar unitization methodology. Realized and unrealized gains are allocated monthly using the same methodology.

At June 30, 2013, the fair value of the PSPRS Trust and the allocation for each system and plan was as follows:

PLAN	UNITIZED	PERCENT
PSPRS	5,495,283,314	76.22%
CORP	1,405,983,893	19.50%
EORP	308,517,628	4.28%
TRUST TOTAL	**7,209,784,835**	**100.00%**

CUSTODIAL CREDIT RISK

Custodial Credit Risk is the risk that CORP will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterpart to the investment or deposit transaction fails. As of June 30, 2013, CORP has no fund or deposits that were not covered by depository insurance or collateralized with securities held by our banks' trust department or agent; nor does CORP have any investments that are not registered in the name of CORP or the PSPRS Trust and are either held by the counterpart or the counterpart's trust department or agent.

CREDIT RISK

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. As of June 30, 2013, the Plan's fixed income assets that were not government guaranteed represented 94.9% of the fixed income portfolio.

Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. According to those guidelines, the fixed income portfolio must have a minimum weighted average quality rating of A3/A-. Fixed income securities must have a minimum quality rating of Baa3/BBB– at the time purchase. The portion of the bond portfolio in securities rated Baa3/BBB– through Baa1/BBB+ must be 20% or less of the fair value of the fixed income portfolio.

Included in the fixed income portfolio are cash equivalents or commercial paper. Commercial Paper must have a minimum quality rating of A-1/P-1 at the time of purchase. Investments in derivatives are limited to collateralized mortgage obligations (CMO), collateralized bond obligations (CBO), collateralized debt obligations (CDO), and asset-backed securities (ABS).

In preparing this report, collateral for securities lending has been excluded because it is invested in a securities lending collateral investment pool.

The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities.

AVERAGE CREDIT QUALITY AND EXPOSURE LEVELS OF NON-GOVERNMENT GUARANTEED SECURITIES

FIXED SECURITY TYPE	FAIR VALUE JUNE 30, 2013	% OF ALL FIXED INCOME ASSETS	WEIGHTED AVG. CREDIT
Corporate Bonds	143,669,495	96.90%	AA
Mortgages	-	0.00%	BBB
CBO	4,522,719	3.10%	Below BBB
TOTAL	**$ 148,192,214**	**100.00%**	

RATINGS DISPERSION DETAIL

CREDIT RATING LEVEL	CORPORATE BONDS	MORTGAGES	CBO
AAA	-	-	-
AA	1,455,381	-	-
A	4,915,827	-	-
BBB	7,470,801	-	-
Below BBB	1,958,227	-	2,115,808
Not Rated	127,869,259	-	2,406,911
Total	**$ 143,669,495**	**$ -**	**$ 4,522,719**

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. Other than bonds used as direct obligations of and fully guaranteed by the U.S. Government, not more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency or corporation.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using segmented time distributions. It is widely used in the management of fixed income portfolios in that it quantifies the risk of interest rate changes. The Plan does invest in fixed income securities with floating rates that contain coupon adjustment mechanisms in a rising interest rate environment.

The following tables quantify, to the fullest extent possible, the interest rate risk of the Plan's fixed income assets.

SEGMENTED TIME DISTRIBUTION BY SECURITY TYPE
(INCLUDING GOVERNMENT GUARANTEED SECURITIES)

FIXED INCOME SECURITY	<1	1-5	6-10	11-15	16-20	>20
Corporate	-	5,670,798	5,581,389	558,571	379,654	131,479,083
Agencies	-	-	-	-	4,298,716	3,695,037
Mortgages	-	-	-	-	-	-
CBO	-	-	2,406,911	-	-	2,115,808
Total	**$ -**	**$ 5,670,798**	**$ 7,988,300**	**$ 558,571**	**$ 4,678,370**	**$ 137,289,928**

CALLABLE BONDS BY SECURITY TYPE
(INCLUDING GOVERNMENT GUARANTEED SECURITIES)

FIXED INCOME SECURITY TYPE	FAIR VALUE JUNE 30, 2013	% OF ALL FIXED INCOME ASSETS
Corporate	975,007	0.62%
Agencies	-	0.00%
Totals	**$ 975,007**	**0.62%**

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment. The CORP is allowed to invest part of its assets in foreign investments.

The following table shows the System's exposure to foreign currency risk (U. S. dollars):

FOREIGN CURRENCY RISK

CURRENCY	SHORT TERM	FIXED INCOME	EQUITY	OTHER	TOTAL
AUSTRALIAN DOLLAR	4,612	-	10,065,587	-	10,070,199
BRAZIL REAL	2,052	-	258,921	-	260,973
CANADIAN DOLLAR	(325,009)	-	12,734,099	-	12,409,090
DANISH KRONE	3,829	-	1,474,275	-	1,478,104
EURO CURRENCY UNIT	452,372	-	35,825,795	31,226,798	67,504,965
HONG KONG DOLLAR	1,773,616	-	3,749,218	-	5,522,834
ISRAELI SHEKEL	16,345	-	596,286	-	612,631
JAPANESE YEN	176,635	-	28,600,582	-	28,777,217
MEXICAN NEW PESO	2,499	-	189,910	-	192,409
NEW TAIWAN DOLLAR	20,690	-	192,699	-	213,389
NEW ZEALAND DOLLAR	1,303	-	189,114	-	190,417
NORWEGIAN KRONE	26,147	-	1,418,513	-	1,444,660
POUND STERLING	97,290	-	26,335,189	7,091,959	33,524,438
SINGAPORE DOLLAR	21,914	-	1,979,168	-	2,001,082
SWEDISH KRONA	76,071	-	3,963,304	-	4,039,375
SWISS FRANC	(354,432)	-	10,718,933	-	10,364,501
TOTAL MARKET VALUE	**1,995,934**	**-**	**138,291,593**	**38,318,757**	**178,606,284**

DERIVATIVES

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, options contracts, and forward foreign currency exchange. The Board of Trustees has adopted a derivative policy that specifically authorizes external investment managers to enter into certain derivative contracts based on an analysis that the use of such derivatives will have a positive impact on the Trust's ability to manage its underlying assets and liabilities. The PSPRS Trust investment program, indirectly through its external managers, holds investments in futures contracts. The external money managers enter into these certain derivative instruments primarily to enhance the performance and reduce the volatility of the PSPRS portfolio, to gain or hedge exposure to certain markets, and to manage interest rate risk. The external managers are required to follow certain controls, documentation and risk management procedures when employing these financial instruments.

The fair value exposure associated with these derivative instruments was recorded on the financial statements as a portion of the unrealized gains and losses related to U.S. Equity and Fixed Income. The total of unrealized losses for CORP was $592,577 at June 30, 2013 consisting of U.S. Equity (loss of $598,808) and Risk Parity (gain of $6,231). Interest risk associated with these investments are included in the tables on page 35.

SECURITY LENDING PROGRAM

The Plan is party to a securities lending agreement with a bank. The bank, on behalf of the Plan, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The Plan requires collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value.

As of June 30, 2013 the fair value of securities on loan was $42,513,284 and the collateral was $43,752,548 for Corrections Officer Retirement Plan. The Plan receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent.

The Plan participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower. All matched loans shall have matched collateral investments. The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2013, the weighted average maturity was 60 days for all investments purchased with cash collateral from unmatched loans. The Plan has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Plan.

Prior to the current fiscal year, under this program, the Plan has not experienced any defaults or losses on these loans. However, in November 2008 CORP was informed that due to recent market events one or more securities lending collateral vehicles that held assets had been impaired. This potential liability will be realized upon settlement of the recovery process or if there becomes a liquidity issue with the collateral pool. A liability of $1,503,974 has been recorded as CORP's share.

ASSET CLASS	OUT ON LOAN	TOTAL AVAILABLE TO LOAN	% OF AVAILABLE TO LOAN
Equities	41,096,018	84,099,566	48.87%
Agencies	-	-	-
Treasuries	-	-	-
Exchange Traded	1,417,266	2,326,033	60.93%
Totals	**42,513,284**	**86,425,599**	**49.19%**

VALUATION PROCESS FOR NON-EXCHANGE TRADED INVESTMENTS

The Public Safety Personnel Retirement System does not value any non-publicly traded assets. All of the System's non-publicly-traded assets are managed by external managers, who value the investments under their management in accordance with their established valuation policies, which may include discounted cash flow methodologies (such as purchase offers) or market comparable pricing is otherwise unavailable or appears imprudent to employ. Upon receipt of an external manager's valuation of assets under its management, that valuation is provided to the System's custodian bank which then reflects the valuation on the System's books of account.

NOTE 4: CAPITAL ASSETS

These assets are stated at cost, and depreciable assets are depreciated using the straight-line method over the estimated life of the asset. Repairs and maintenance are charged to expense as incurred. Depreciation expense for June 30, 2013 was $35,304.

The table below is a schedule of the capital asset account balances as of June 30, 2013, and June 30, 2012, and changes to those account balances during the year ended June 30, 2013.

SCHEDULE OF CAPITAL ASSET ACCOUNT BALANCES

	LAND	BUILDING AND IMPROVEMENTS	FURNITURE, FIXTURES AND EQUIPMENT	TOTAL CAPITAL ASSETS
CAPITAL ASSETS				
Balance June 30, 2012	$ 86,588	$ 648,990	$ 188,615	$ 924,193
Additions	-	12,256	13,773	26,029
Deletions	-	-	-	-
Balance June 30, 2013	**86,588**	**661,246**	**202,387**	**950,222**
ACCUMULATED DEPRECIATION				
Balance June 30, 2012	-	(125,525)	(144,377)	(269,902)
Additions	-	(19,053)	(16,251)	(35,304)
Deletions	-	-	-	-
Balance June 30, 2013	**-**	**(144,578)**	**(160,628)**	**(305,206)**
Net Capital Assets	**$ 86,588**	**$ 516,668**	**$ 41,759**	**$ 645,016**

NOTE 5: CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using a projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities and assets in excess of actuarial accrued liabilities are being amortized as a level percent of payroll over a 23 year period. Beginning July 1, 2007, the minimum employer contribution rate was established at 6%.

During the year ended June 30, 2013, contributions totaling $118,886,017 ($68,237,242 employer [$60,042,614 pension and $8,194,628 health insurance subsidy contributions in excess of the benefits paid] and $50,648,775 member) were made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2011. The employer contributions consisted of approximately $39,035,805 for normal cost [$33,670,912 pension and $5,364,893 health insurance subsidy] plus $29,201,437 for amortization of the actuarial accrued liability in aggregate [$26,371,702 pension and $2,829,735 health insurance subsidy]. Employer contributions represented 11.31% of covered payroll [6.47% for normal costs (6.08% pension and 0.39% health insurance) and 4.84% for amortization of assets in excess of the actuarial accrued liability in aggregate (4.01% pension and 0.83% health insurance)]. Member contributions represented 7.96% (Dispatchers) and 8.41% (Non-Dispatchers) of covered payroll and are attributable to normal costs.

NOTE 6: OTHER BENEFITS

The PSPRS adopted a supplemental defined contribution plan for all contributing members of an eligible group. An eligible group is defined as the employees of the Board of Trustees, PSPRS, the CORP and the EORP. The employees of any of these eligible groups must make an election to participate within two years after the employee first meets the eligibility requirements to participate in the plan. The election to participate is irrevocable and continues for the remainder of the employee's employment with the employer. If an employee elects to participate, the employee must contribute at least 1% of the employee's gross compensation. The IRS maintains that the Employers designate the amounts contributed by each employee. All amounts contributed are subject to the discretion and control of the Employer. Employee contributions and earnings to the plan are immediately vested. Employer contributions, if any, are vested based on the following schedule:

Less than one year of service	0%
One year but less than two	20%
Two years but less than three	40%
Three years but less than four	60%
Four years but less than five	80%
Five years or more	100%

PSPRS administers the supplemental defined contribution plan through Nationwide Retirement Solutions, Inc. All contributions are sent directly to the third party administrator from the participating employer groups.

NOTE 7: HEALTH INSURANCE SUBSIDY- AGENCY FUND

The plan description, summary of significant accounting policies, investment policies and contributions required for the health insurance subsidy are the same as the retirement plan and can be found under Notes 1, 2 and 5. The health insurance premium subsidy provided by A.R.S. §38-857 consists of a fixed dollar amount set by statute and paid by the System on behalf of eligible retired members. The subsidized health benefits are provided and administered by the Arizona State Retirement System, Arizona Department of Administration or the participating employer of the retired member. According to Governmental Accounting Standards Board (GASB) Statement No. 43, the health insurance subsidy paid by the System represents other post employment benefits. The Plan does not administer a separate healthcare plan as defined under IRC §401(h) or an equivalent arrangement. In addition, the Plan is not statutorily authorized to maintain a separate account for the health insurance subsidy assets and benefit payments. Therefore, in accordance with GASB No. 43, the healthcare subsidy is reported as an agency fund. All assets of the Plan are available to pay both pension benefits and health insurance subsidy. The pension benefits and health insurance subsidy are funded through employer contributions based on an annual actuarial valuation. Contributions are separately accounted for by employer but are not segregated by contribution type.

Contributions in excess of the health benefit subsidy payments are reported in the retirement plan. Therefore, no accumulated assets or liabilities to participating employers are reported in the agency fund. For FY2013 contributions collected for the health insurance subsidy amounted to $8,194,628 and the health benefit subsidy payments were $2,829,735. The excess contributions of $5,364,893 were added to the retirement plan for reporting purposes. Effective FY2008, each participating employer is required by GASB Statement No. 45 to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan and actuarial methods and assumptions used.

NOTE 8: PLAN TERMINATION

CORP and its related plans are administered in accordance with Arizona statutes. These statutes do provide for termination of the plans under A.R.S. 41-3016.18. The plans are scheduled to terminate on July 1, 2016.

NOTE 9: CONTINGENCIES

Some of our real estate partners in the investments categorized as "other investments" have obtained third party financing, which is secured by real property. The Plan has entered into Capital Call Agreements with regards to these third party financing arrangements. The Capital Call Agreements, in the unlikely event of default, limit the Plan to the amount of the defaulted payment or the original terms of the investment approved by the Board of Trustees, whichever is less. In management's opinion, any loss realized due to current economic conditions will not have a material effect on the financial statements.

As stated in Note 3 – Cash and Investments (under the Security Lending Program heading), the Plan was notified of a situation involving one or more security lending collateral vehicles that held assets which have been impaired as a result of recent market events. An estimate of the unrealized loss is approximately $7.7 million for all three plans and has been recorded as a liability. It is anticipated that a final resolution will be reached this next fiscal year.

NOTE 10: FUNDING STATUS AND PROGRESS

The Plan's funded status (excluding health insurance subsidy) as of the most recent valuation data is as follows:

(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
6/30/2013	1,559,583	2,236,693	677,110	69.70%	604,068	112.10%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial methods and assumptions used for the pension benefits are as follows:

Valuation Date:	June 30, 2013
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Payroll, Closed
Remaining Amortization Period:	23 years closed for unfunded accrued actuarial liability
Asset Valuation Method:	7-Year Smoothed Market Value, 80%/120% Market
Investment Rate of Return:	7.85%
Projected Salary Increases:	4.50% to 7.75% which includes inflation at 4.50%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Consistent with this perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial calculations are based on the benefits provided under the terms of the Plan in effect at the time of each valuation. These benefits are described in Note 1 under "Summary of Benefits".

NOTE 11: REQUIRED SCHEDULES

The Schedule of Funding Progress and the Schedule of Employer Contributions are presented immediately following the notes to the financial statements.

NOTE 12: GASB 67

The GASB has issued Statement No. 67, "Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25" This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

NOTE 13: PENDING LAWSUITS

There are four pending lawsuits challenging reforms, effected by Senate Bill 1609 in 2011, to the Public Safety Personnel Retirement System and the other plans it administers. All four lawsuits were filed in the Superior Court of Arizona in Maricopa County. Two were brought by, respectively, retired and active judges challenging changes to the Elected Officials' Retirement Plan (EORP); the other two were brought by, respectively, retired and active law-enforcement officers challenging changes to the PSPRS plan. However, the outcome of each lawsuit will certainly have ramifications for all plans. One of the lawsuits against EORP was ruled not in EORP's favor and has been appealed to the Arizona Supreme Court where oral arguments were heard on June 4, 2013. We are still awaiting the ruling. The three other lawsuits have been stayed pending the outcome of the one being appealed.

NOTE 14: RESTATEMENT OF NET ASSETS AND EMPLOYER RESERVE BALANCES

For year ended June 30, 2012, changes to the methodology determining the fair value of the Real Estate portfolio resulted in a reduction of $4,825,340. This change is reflected in a reduction of Net Appreciation which reduced the Employer Reserve by $4,825,340. All schedules presenting a balance for FY 2012 reflect the reduction.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS $ (A)*	ACTUARIAL ACCRUED LIABILITY (AAL) AT ENTRY AGE $ (B)*	UNFUNDED AAL (EXCESS) (UAAL) $ (B-A)*	FUNDED RATIO (A/B)	COVERED PAYROLL $ (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((B-A)/C))
06-30-04	833,621	795,775	(37,846)	104.8%	381,942	(9.9)%
06-30-05	872,981	906,025	33,044	96.4%	404,156	8.2%
06-30-06	919,867	981,207	61,340	93.7%	437,743	14.0%
06-30-07	940,126	1,061,811	121,685	88.5%	515,428	23.6%
06-30-08	1,207,026	1,336,662	129,636	90.3%	642,621	20.2%
06-30-09	1,309,124	1,515,563	206,439	86.4%	630,825	32.7%
06-30-10	1,382,144	1,648,733	266,589	83.8%	616,481	43.2%
06-30-11	1,466,750	1,914,464	447,715	76.6%	609,243	73.5%
06-30-12	1,512,989	2,140,662	627,673	70.7%	626,223	100.2%
06-30-13	1,559,583	2,236,693	677,110	69.7%	604,068	112.1%

** Entry Age Normal Cost method through 6-30-05. Projected Unit Credit method from 6-30-06 through 6-30-10. Entry Age Normal since 6-30-11.*
** Beginning 6-30-07, funded ratio calculation does not include AAL for the health insurance premium subsidy. If the AAL for the health insurance premium subsidy were included, the funded ratio would be 84.6% for 2007, 86.8% for 2008, 82.6% for 2009, 80.3% for 2010, 73.0% for 2011, 67.8% for 2012 and 66.9% for 2013.*
** See Notes to the Schedules of Required Supplementary Information.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	EMPLOYER CONTRIBUTIONS		
FISCAL YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED	
2004	14,555,335	100.00%	
2005	16,291,914	100.00%	
2006	24,028,050	100.00%	
2007	22,709,507	120.00%	*
2008	43,858,925	108.00%	*
2009	53,807,249	108.10%	*
2010	52,064,974	105.40%	*
2011	49,303,602	105.50%	*
2012	56,056,555	105.20%	*
2013	65,407,507	104.30%	*

** Total Employer Contributions received during FY2007 were $24,622,693. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $5,742,051. The benefits paid for the health insurance subsidy were $1,913,186. The difference between the calculated annual required contributions and the benefits paid of $3,828,865 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 120.0% for the retirement plan.*
** Total Employer Contributions received during FY2008 were $150,729,218. This included $104,797,048 for a group transfer from Arizona State Retirement System to CORP. This amount was not used in the ARC calculation. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $5,398,020. The benefits paid for the health insurance subsidy were $2,073,245. The difference between the calculated annual required contributions and the benefits paid of $3,324,775 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 108.0% for the retirement plan.*

**Total Employer Contributions received during FY2009 were $56,015,138. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $6,245,994. The benefits paid for the health insurance subsidy were $2,207,889. The difference between the calculated annual required contributions and the benefits paid of $4,038,105 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 108.1% for the retirement plan.*

** Total Employer Contributions received during FY2010 were $54,437,078. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $5,178,444. The benefits paid for the health insurance subsidy were $2,372,104. The difference between the calculated annual required contributions and the benefits paid of $2,806,340 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 105.4% for the retirement plan.*

** Total Employer Contributions received during FY2011 were $52,002,731. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $8,074,426. The benefits paid for the health insurance subsidy were $2,699,129. The difference between the calculated annual required contributions and the benefits paid of $5,375,297 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 105.5% for the retirement plan.*

** Total Employer Contributions received during FY2012 were $58,946,996. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $8,371,142. The benefits paid for the health insurance subsidy were $2,890,441. The difference between the calculated annual required contributions and the benefits paid of $5,480,701 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 105.2% for the retirement plan.*

** Total Employer Contributions received during FY2012 were $68,237,242. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $8,194,628. The benefits paid for the health insurance subsidy were $2,829,735. The difference between the calculated annual required contributions and the benefits paid of $5,364,893 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 104.3% for the retirement plan.*

** See Notes to the Schedules of Required Supplementary Information.*

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL METHODS AND ASSUMPTIONS FOR VALUATIONS PERFORMED JUNE 30, 2013

The entry age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. A closed 23-year amortization period were used for the June 30, 2013 valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market return over a 7-year period. The investment return rate assumption used is 7.85% per year, compounded annually (net of investment expenses). Projected salary increase assumptions are based on 4.50% to 7.75%, which include a price inflation assumption of 4.50% per year.

The Actuarial Standards of Practice require that the Funding Value of Assets fall within a reasonable range around the Market Value. Although some actuarial judgment is used to determine what is deemed 'reasonable', a ratio approaching 140% is on the high end. We recommend that consideration be given to establishing an asset corridor for the June 30, 2013 actuarial valuation. An asset corridor, sometimes called a "Collar", is a limitation on the amount by which the Funding Value is permitted to differ from Market Value. A corridor of 20% to 25% is a common standard, although many systems have relaxed their standards in response to the extraordinary events of late 2008 and early 2009. It is not anticipated that this change would have any immediate impact on the contribution rate as the Funding Value of Assets was within 15% of the Market Value. However, implementing this now would protect the System from having the Funding Value of assets stray too far away (either below or above) from the true value of assets in the fund. The actuary recommends that a 20% corridor be added to the Funding Value of Assets Calculation.

Each of the 27 participating employer groups has its own actuarial study. Data presented here is an aggregation of the data from each individual plan study. The data should not be interpreted as being indicative of the status of any individual plan.

Actuarial valuations are prepared annually as of June 30 for each participating employer. To facilitate budgetary planning needs, employer contribution requirements are provided for each participating employer's fiscal year that commences after the following fiscal year end. For example, the contribution requirements for fiscal year 2013 were determined by actuarial valuations as of June 30, 2011.

SCHEDULE OF CHANGES IN RESERVE BALANCE
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	REFUNDABLE MEMBERS' RESERVE	EMPLOYERS' RESERVE	FUTURE BENEFIT INCREASE RESERVE
BALANCE AS OF JUNE 30, 2011	**$ 358,456,820**	**$ 945,340,972**	**$ -**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	51,967,894		
Employers' Contributions		59,092,404	
Earnings (Loss) on Investments Net of Investment Expenses		(15,165,360)	
Pension and Insurance Benefits		(90,868,234)	
Refunds to Terminated Members	(17,452,728)	(8,290,786)	
Administrative Expenses		(1,182,692)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets			
Amount Utilized by Benefit Increases Granted			
Net Transfers In (Out) and Purchase of Service Credits	630,423	(375,106)	
Balances Transferred to Employers' Reserve due to Retirement	(19,766,608)	19,766,608	
BALANCE AS OF JUNE 30, 2012	**373,835,801**	**908,317,806**	**-**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	51,463,275		
Employers' Contributions		68,440,925	
Earnings (Loss) on Investments Net of Investment Expenses		138,267,533	
Pension and Insurance Benefits		(97,643,078)	
Refunds to Terminated Members	(20,401,566)	(10,777,932)	
Administrative Expenses		(1,266,690)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets			
Amount Utilized by Benefit Increases Granted			
Net Transfers In (Out) and Purchase of Service Credits	(355,280)	(300,773)	
Balances Transferred to Employers' Reserve due to Retirement	(20,648,202)	20,648,202	
BALANCE AS OF JUNE 30, 2013	**$ 383,894,028**	**$ 1,025,685,993**	**$ -**

*See Note 14.

SUPPORTING SCHEDULES INFORMATION

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECEIPTS		
Members' Contributions	$ 50,515,340	$ 53,114,089
Employers' Contributions	65,278,479	57,241,294
Interest	1,235,410	2,923,819
Dividends	9,950,791	9,929,874
Other Income	15,173,741	4,803,017
Securities Lending Income	214,579	313,155
Transfer In	184,576	368,484
Service Purchase	814,501	850,866
Maturities and Sales of:		
U S Equity	50,445,686	43,134,049
NON-U S Equity	59,160,564	30,799,083
GTAA	8,234,336	43,152,694
Fixed Income	28,972,892	129,166,781
Absolute Return	5,897,409	1,031,809
Credit Opportunities	39,692,984	26,283,230
Private Equity	12,499,137	41,983,051
Real Assets	16,488,584	82,072,791
Real Estate	6,622,095	10,601,463
Risk Parity	4,726,465	-
Total Receipts	**376,107,569**	**537,769,549**
DISBURSEMENTS		
Pension Benefits	93,179,451	85,684,902
Refunds to Terminiated Members	31,179,499	25,743,514
Drop Benefits	1,633,892	2,292,891
Investment and Administrative Expenses	14,744,256	6,998,772
Transfer Out	840,629	964,033
Acquisitions of:		
U S Equity	4,537,286	40,500,797
NON-U S Equity	56,301,758	51,302,515
GTAA	3,211,601	42,068,046
Fixed Income	10,228,648	56,740,341
Absolute Return	9,697,663	10,729,284
Credit Opportunities	49,243,383	21,763,023
Private Equity	24,552,113	61,227,578
Real Assets	24,226,593	91,543,418
Real Estate	13,923,610	42,664,757
Risk Parity	35,681,510	-
Total Disbursements	**373,181,892**	**540,223,871**
INCREASE (DECREASE) IN CASH	**2,925,677**	**(2,454,322)**
BEGINNING CASH BALANCE - July 1	26,714,223	29,168,545
ENDING CASH BALANCE - June 30	**$ 29,639,900**	**$ 26,714,223**

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

EXPENSE CATEGORY	ADMINISTRATIVE	INVESTMENT	TOTAL
Accounting and Auditing Services	$ 20,317	$ -	$ 20,317
Actuarial Services	28,801	-	28,801
Board of Trustees Initiatives	90,198	-	90,198
Building Expense	32,099	-	32,099
Communications	8,295	-	8,295
Computer Related Expense	27,312	-	27,312
Contractual Services	12,349	-	12,349
Depreciation Expense	35,304	-	35,304
Furniture and Equipment	2,180	9	2,189
Investment Services	-	12,695,908	12,695,908
Legal Services	132,453	120,917	253,370
Local Board Training	-	-	-
Payroll Taxes and Fringe Benefits	204,417	67,446	271,863
Postage Expenses	1,999	-	1,999
Printing and Publications	3,068	-	3,068
Professional Services	71,434	249,504	320,938
Salaries and Wages	580,145	215,113	795,258
Supplies and Services	6,438	-	6,438
Training Expenses	5,125	6,284	11,409
Travel Expense	4,756	14,138	18,894
TOTAL	**$ 1,266,690**	**$ 13,369,319**	**$ 14,636,009**

SCHEDULE OF CONSULTANT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

CONSULTANT	SERVICE PROVIDED	FEES PAID
ALBOURNE AMERICA, LLC	International Alternative Investment Consultant	$ 112,320
BNY MELLON ASSET SERVICING	Independent Investment Advisor	40,633
BUCK CONSULTING, LLC	Compensation Consultant	15,359
COOLEY LLP	Investment Counsel	4,320
ERNST & YOUNG LLP	Investment Consultant	40,131
FOLEY & LARDNER, LLC	Investment Counsel	12,405
FOSTER PEPPER	Investment Counsel	972
GABRIEL ROEDER SMITH & COMPANY	Actuary	52,358
GOODWIN PROCTER	Legislative Liaison	6,687
HEINFELD, MEECH & CO.	Independent Auditor	17,676
HIGHGROUND, INC	Legislative Liaison	15,912
JACKSON WALKER LLP	Investment Counsel	10,880
KUTAK ROCK LLP	General Counsel	139,951
LIGHT STONE SOLUTIONS, LLC	Due Diligence	30,545
NEPC, LLC	Independent Investment Advisor	83,850
OFFICE OF THE ATTORNEY GENERAL	General Counsel	14,176
ORG PORTFOLIO MANAGEMENT LLC	Real Estate Consultant	52,283
OSAM INC.	IT Counsel	4,280
PATRICE ROBINSON CONSULTING	IT Consultant	8,942
PILLSBURY	Investment Counsel	3,370
PUBLIC POLICY PARTNERS	Legislative Liaison	23,400
ROPES & GRAY LLP	Investment Counsel	102
STEPSTONE GROUP LLC	Equity Advisors	19,500
STEPTOE & JOHNSON, LLP	Litigation Counsel	58,499
TOTAL		**$ 768,552**

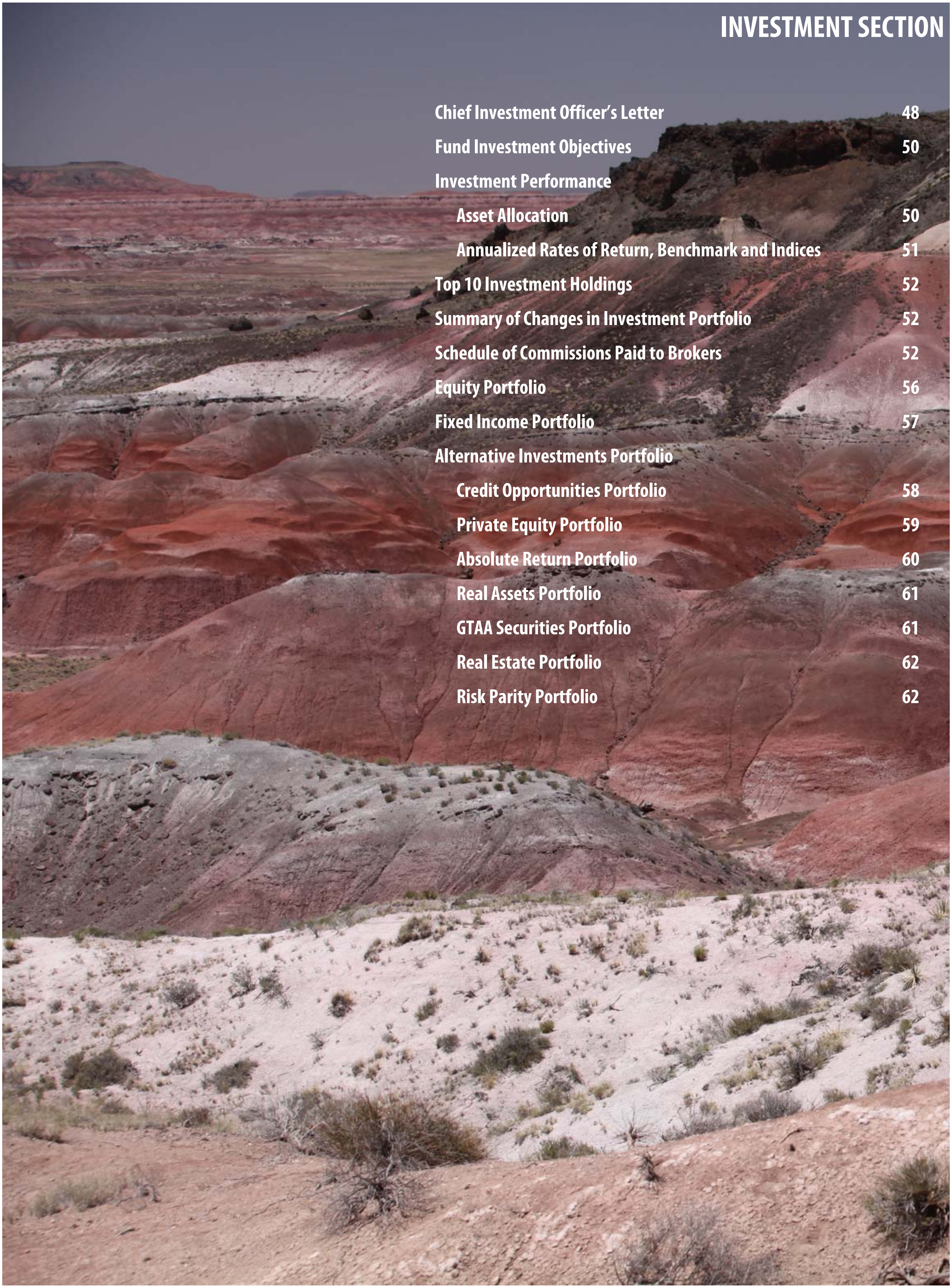
HEALTH INSURANCE PREMIUM SUBSIDY
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2013

HEALTH INSURANCE PREMIUM SUBSIDY	BEGINNING BALANCE	ADDITIONS	DELETIONS	ENDING BALANCE
ASSETS				
Cash	$ -	$ 2,829,735	$ 2,829,735	$ -
Total Assets	**-**	**2,829,735**	**2,829,735**	**-**
LIABILITIES				
Benefits Payable	-	2,829,735	2,829,735	-
Total Liabilities	**$ -**	**$ 2,829,735**	**$ 2,829,735**	**$ -**

HEALTH INSURANCE PREMIUM SUBSIDY
AGENCY FUND
SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
06/30/07	0	$48,990	$48,990	0.00%	$515,428	9.50%
06/30/08	0	53,701	53,701	0.00%	642,621	8.40%
06/30/09	0	68,731	68,731	0.00%	630,825	10.90%
06/30/10	0	73,272	73,272	0.00%	616,481	11.90%
06/30/11	0	94,105	94,105	0.00%	609,243	15.40%
06/30/12	0	90,882	90,882	0.00%	626,223	14.50%
06/30/13	0	93,544	93,544	0.00%	604,068	15.50%

** GASB reporting requires discretely reporting the health insurance premium subsidy separately from the retirement plan. As a result, the funded ratio for the retirement plan does not include this portion for the health insurance premium subsidy. If you include the actuarial accrued liabilities for the health insurance premium subsidy with the retirement plan, the funded ratio for 2007, 2008 , 2009, 2010, 2011, 2012 and 2013 would be 84.6%, 86.8%, 82.6%, 80.3%, 73.0%, 67.8% and 66.9% respectively.*



INVESTMENT SECTION

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016-4416
www.psprs.com
TELEPHONE: (602) 255-5575
FAX: (602) 255-5572

James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Jared A. Smout
Deputy Administrator

December 12, 2013

The Board of Trustees and
The Administrator of the
Arizona Public Safety Personnel Retirement System

Members:

As the Chief Investment Officer of the Public Safety Personnel Retirement System (PSPRS) during the fiscal year beginning July 1, 2012 and ending June 30, 2013, I submit the following comments and observations for your consideration and for the consideration of the respective parties in interest of the System:

INTRODUCTION

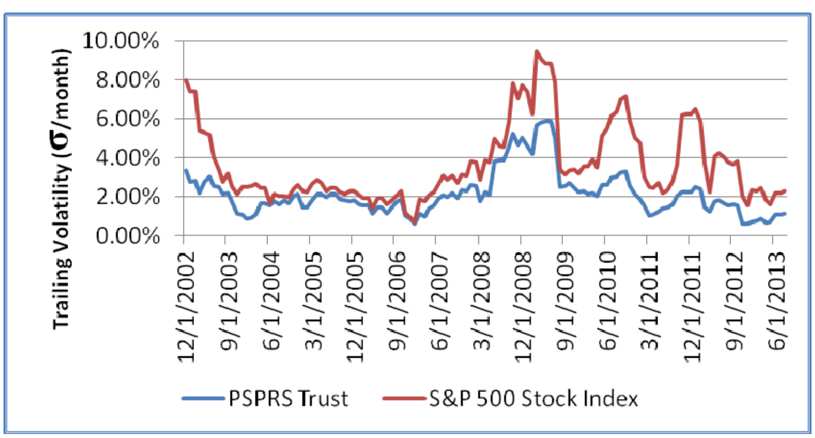
On behalf of the PSPRS investment team, it is a pleasure to provide this annual update of investment activities of the PSPRS Trust for the fiscal year ending June 30, 2013. In commenting last year about the development of the PSPRS investment portfolio I mentioned that the end of 2012 marked the third year of having substantially deployed our more diversified, lower risk portfolio. The close of 2013 is the fourth year of that work and I am pleased to note that our four year return is about 9.94%. In 2013 alone we returned approximately 10.64%. This is exactly the increase in consistency we have been charged with delivering to the PSPRS system. Capturing most of the upside of the markets while limiting the downside is our ultimate goal.

NOT ALL EGGS IN ONE BASKET

Recall from previous years that the historic PSPRS portfolio had a large concentration in U.S. equities. At times more than 70% of the total fund was invested in U.S. large cap stocks. The allowed the fund to perform well when the U.S. stock market went up but also to perform very poorly when the U.S. stock market went down. Today total equity concentration is about 30% of the portfolio and that exposure is broadly diversified. The portfolio has more than 100 external managers deploying an even greater number of different investment strategies. These investments are in 11 different asset classes and literally span the global markets. When some markets are down, others are up. When some strategies lag others are leaders. The net result is a much more complex but also a much more stable portfolio.

LOWER RISK

For the past five years the total volatility of the PSPRS portfolio has been roughly one half that of the equity markets.



The practical implications of this shift can be seen in the following worst case stress model results:

Events	Today's Portfolio	PSPRS Trust Actual
Asian Crisis of 1997	8.2%	n.a.
Russian/LTCM Crisis 1998	-5.0%	n.a.
WTC Attacks - Sept. 11	-2.5%	n.a.
Stock Market Crash 2002	-5.4%	n.a.
August Crisis 2007	3.3%	1.6%
January Crisis 2008	-2.2%	-2.7%
Credit Crunch 2008 (Aug to Nov)	-9.1%	-23.1%
Crisis 2009 (Jan-Feb)	-5.5%	-12.9%

These stress tests lead to the conclusion that the PSPRS portfolio might half in the neighborhood of one half as much exposure to undesirable risks as it had five years ago, while maintaining a comparable expected return.

We will certainly deliver a smaller return than other funds that have 50% or 60% equities when the equity markets are strongly rising, but we will have considerably less losses when those equity markets drop precipitously. In the long run a stable return will outperform the more volatile ups and downs by a significant margin.

THE PSPRS TEAM

Our system has benefitted greatly from a talented and dedicated group of current and former employees. The effective efforts of our staff have been joined by several teams of outside consultants positioned in markets around the world that help to monitor, analyze and evaluate current and future investment opportunities. In addition to this reservoir of talent we further benefit from our ongoing active partnerships with some the best and brightest investment organizations in the world. Literally hundreds of people across every time zone and geography combine their efforts to help PSPRS achieve its investment objectives.

Without the support of our Administrator, the members of the PSPRS board and all of the other employees of PSPRS our recent progress would have been impossible, and our future successes unattainable.

Respectfully and Gratefully Submitted,

Ryan P. Parham
Chief Investment Officer

FUND INVESTMENT OBJECTIVES

The objective of the Fund is to ensure the integrity of the Elected Officials' Retirement Plan, Public Safety Personnel Retirement Plan and the Corrections Officer Retirement Plan in order to adequately fund benefit levels for members as stated in Title 38, Chapter 5, Articles 3,4 and 6 of the Arizona Revised Statutes and as amended from time to time by the Legislature. To achieve the objective, the Fund will do the following:

- Maintain a goal for the Fund's assets to be equal to the Fund's liabilities within a twenty year period.
- Annually adjust the employer contribution rates based on the recommendations made by the annual actuarial evaluations.
- Determine a reasonable contribution rate necessary to fund benefits approved by the legislature and then reduce the variation in the employer contribution rate over time to the Fund.
- Preserve and enhance the capital of the Fund through effective management of the portfolio in order to take advantage of attractive opportunities various markets and market sectors have to offer.
- Provide the opportunity for increased benefits for retirees as the legislature may from time to time enact through systematic growth of the investment fund.

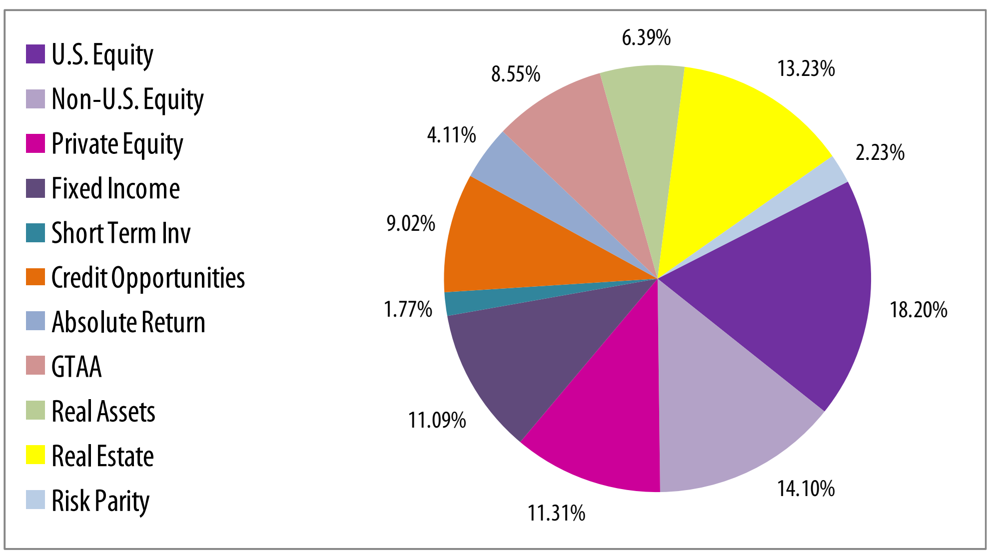
Consistent with the Fund objectives, the primary investment objective of the Fund is to maximize long-term real (after inflation) investment returns recognizing established risk (volatility) parameters and the need to preserve capital by:

- Deriving a reasonable asset allocation model that attempts to fully achieve the primary investment objective, over the long term.
- Consistent with these objectives and the direction of the Board of Trustees, strategically allocating within asset classes and investment styles in order to enhance investment returns.
- Regularly reviewing the status of investments.
- Regularly assessing the need to adjust the mix, type and composition of the investment classes within the allocation ranges.

The possibility of short-term declines in the market value of the Fund or the Fund's assets is a recognized consequence of achieving potentially higher long-term investment returns.

The time horizon for evaluating total Fund investment performance shall be long-term.

ASSET ALLOCATION
JUNE 30, 2013



ANNUALIZED RATES OF RETURN*
JUNE 30, 2013

Description	1 Year	3 Years	5 Years	10 Years
PSPRS - Total Fund	10.64%	8.82%	3.75%	5.84%
Target Fund Benchmark	*10.08%*	*9.96%*	*3.28%*	*4.28%*
Total Equity	18.22%	12.96%	5.07%	
Target Equity Benchmark	*18.07%*	*14.03%*	*4.17%*	
U.S. Equity	21.04%	16.37%	N/A	
Russell 3000	*21.46%*	*18.63%*	*7.25%*	
Non-U.S. Equity	14.66%	8.23%	N/A	
MSCI ACWI Ex-US Net	*13.63%*	*7.99%*	*-0.80%*	
Private Equity	11.52%	14.23%	7.58%	
Russell 3000 + 100 bps	*22.46%*	*19.64%*	*8.91%*	
Fixed Income	1.35%	3.96%	4.69%	
BC US Aggregate	*-2.18%*	*3.55%*	*3.68%*	
Credit Opportunities	12.52%	10.12%	5.68%	
BofA ML US High Yield BB-B Constrained	*8.02%*	*8.97%*	*N/A*	
Absolute Return	18.00%	N/A	N/A	
BofA ML 3-Month T-Bill + 200 bps	*2.11%*	*2.11%*	*N/A*	
GTAA	3.45%	9.05%	N/A	
3-Month LIBOR + 300bps	*3.33%*	*3.36%*	*N/A*	
Real Assets	3.49%	3.59%	N/A	
CPI + 200 bps	*3.76%*	*4.33%*	*N/A*	
Real Estate	7.73%	-0.51%	-3.98%	
NCREIF NPI	*10.73%*	*13.14%*	*2.79%*	
Risk Parity	-1.32%	N/A	N/A	
BC Global Agg, MSCI AC World Net, Dow Jones UBS Ind	*2.58%*	*N/A*	*N/A*	
Short Term Investments	0.13%	-0.10%	0.18%	
BofA ML 3-Month T-Bill	*0.11%*	*0.11%*	*0.29%*	

*Time weighted rate of return based on the market rate of return (net of fees).

Target Fund Benchmarks (Effective Dates)

July 1, 2012 - Present: 18% Russell 3000, 14% MSCI World Ex-US Net, 9% Russell 3000 + 100 bps, 12% BC Global Aggregate, 12% Credit Opportunities Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 8% 3-Month LIBOR + 300 bps, 7% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.

July 1, 2010 - June 30, 2012: 20% Russell 3000, 15% MSCI World Ex-US Net, 8% 3-Month LIBOR + 300 bps, 20% BC US Aggregate, 4% BofA ML 3-Month T-Bill + 200 bps, 9% BofA ML US High Yield BB-B Constrained, 8% Russell 3000 + 100 bps, 6% CPI + 200 bps, 8% NCREIF NPI and 2% BofA ML 3-Month T-Bill.

April 1, 2009 - June 30, 2010: 30% Russell 3000, 20% MSCI World Ex-US Net, 20% BC US Aggregate, 8% NCREIF NPI, 8% Russell 3000 + 100 bps, 8% BofA ML US High Yield BB-B Constrained, 5% CPI + 200 bps and 1% BofA ML 3-Month T-Bill.

July 1, 2007 - March 31, 2009: 46% Wilshire 5000, 21% MSCI World Ex-US Net, 20% BC Gov/Cred, 6% NCREIF NPI, 6% Wilshire 5000 +300 bps and 1% BofA ML 3-Month T-Bill.

Target Equity Benchmarks (Effective Dates)

July 1, 2010 - Present: 57.14% Russell 3000 and 42.86% MSCI World Ex-US Net.

April 1, 2009 - June 30, 2010: 60% Russell 3000 and 40% MSCI World Ex-US Net.

July 1, 2007 - March 31, 2009: 67.69% Wilshire 5000 and 32.31% MSCI World Ex-US Net.

EQUITY PORTFOLIO TOP 10 HOLDINGS
JUNE 30, 2013

Description	Shares	Fair Value
MCSI WORLD EX-US INDEX	10,548,644	126,967,224
RUSSELL 3000 SECURITIES	2,516,934	106,921,799
CRESTLINE ALPHA	31,758,462	31,758,462
VANGUARD FTSE EMERGING MARKETS	717,053	27,818,060
ACADIAN US MANAGED	571,821	22,358,948
EAGLE SMALL CAR GR	722,640	17,425,582
THB MICRO CAP	1,564,701	14,850,184
RANGER SMALL CAP	491,849	14,413,003
KKR EQ STRATEGIES	12,940,786	12,940,786
SOUTHPOINT	12,910,691	12,910,691

FIXED INCOME PORTFOLIO TOP 10 HOLDINGS
JUNE 30, 2013

Description	Shares	Fair Value
BGI CORE ACTIVE BOND FUND	3,358,673	77,833,610
FRANKLIN TEMPLETON EMD	15,549,584	15,549,584
CAPITAL GUARDIAN EMERGING	906,323	12,833,535
GOLDENTREE HIGH YIELD VALUE	11,003,435	11,003,435
IGUAZU PARTNERS LP	9,003,194	9,003,195
BANK OF AMERICA NA	2,535,137	2,427,850
CBO HLDGS III 04-3 CL A 144A	2,415,264	2,406,911
FNMA GTD REMIC P/T 11-8 AV	2,145,116	2,232,872
CBO HLDGS III 1A 04-1 C-2 144A	2,034,550	2,115,808
FHLMC MULTICLASS MTG 3561 B	1,950,105	2,065,844

SUMMARY OF CHANGES IN INVESTMENT PORTFOLIO
JUNE 30, 2013
(IN THOUSANDS)

	JUNE 30, 2012 BALANCE					JUNE 30, 2013 BALANCE		
DESCRIPTION	PERCENT AT FAIR VALUE	FAIR VALUE	BOOK VALUE	ACQUIRED	MATURED AND SOLD	FAIR VALUE	BOOK VALUE	PERCENT AT FAIR VALUE
U. S. Equity	19.78%	246,771	208,946	71,456	71,564	256,644	208,838	18.61%
Non U. S. Equity	14.51%	180,837	180,914	33,366	30,812	198,214	183,468	14.37%
GTAA	9.72%	121,142	102,914	5,850	9,044	120,617	99,720	8.74%
Fixed Income	13.92%	173,505	154,062	11,242	25,078	156,186	140,226	11.32%
Absolute Return	3.58%	44,616	41,313	9,908	5,123	57,963	46,098	4.20%
Credit Opportunities	8.87%	110,508	98,101	49,087	28,963	127,251	118,225	9.22%
Private Equity	10.50%	130,833	116,378	25,225	1,732	160,061	139,871	11.60%
Real Assets	6.41%	79,934	74,608	23,244	14,938	89,688	82,914	6.50%
Real Estate	12.71%	158,418	190,466	14,498	3,811	181,577	201,153	13.16%
Risk Parity				35,874	4,575	31,424	31,299	2.28%
Total Portfolio	**100.00%**	**1,246,564**	**1,167,702**	**279,750**	**195,640**	**1,379,625**	**1,251,812**	**100.00%**

*See Note 14.

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2013

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
B.RILEY & CO.,LLC, LOS ANGELES	12,247	0.0297	364
BAIRD, ROBERT W & CO INC, MILWAUKEE	57,331	0.0397	2,275
BARCLAYS BK PLC, NEW YORK	143,668	0.0182	2,610
BARCLAYS CAPITAL LE, JERSEY CITY	503,058	0.0103	5,199
BARCLAYS CAPITAL, LONDON (BARCGB33)	1,410	0.0149	21
BARRINGTON RESEARCH ASSOCIATES, BROOKLYN	2,028	0.0399	81
BB&T SECURITIES, LLC, RICHMOND	20,137	0.0400	805
BENCHMARK COMPANY LLC, BROOKLYN	839	0.0250	21
BERNSTEIN SANFORD C & CO, NEW YORK	255,485	0.0181	4,623
BLOOMBERG TRADEBOOK LLC, NEW YORK	241,529	0.0200	4,831
BMO CAPITAL MARKETS CORP, NEW YORK	19,564	0.0314	615
BNY BROKERAGE, NEW YORK	93,313	0.0050	467

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2013

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
BNY CONVERGEX, NEW YORK	3,505	0.0046	16
BREAN MURRAY, CARRET & CO, LAKE SUCCESS	3,394	0.0224	76
BROCKHOUSE AND COOPER, MONTREAL	12,300	0.0135	166
BTIG LLC, SAN FRANCISCO	73,637	0.0211	1,553
CANACCORD GENUITY INC.NEY YORK	6,163	0.0363	224
CANACCORD GENUITY INC, JERSEY CITY	12,089	0.0359	434
CANTOR FITZGERALD & CO INC, NEW YORK	47,637	0.0198	945
CAPITAL ONE SOUTHCOAST INC, NEW ORLEANS	9,611	0.0400	384
CHEEVERS & CO. INC.,CHICAGO	1,034	0.0251	26
CITIGROUP GBL MKTS AUSTRALIA PTY, SYDNEY	9,583	0.0094	90
CITIGROUP GBL MKTS INC, NEW YORK	17,233	0.0216	373
CITIGROUP GBL MKTS/SALOMON, NEW YORK	63,267	0.0055	348
CITIGROUP GLOBAL MARKETS LTD, LONDON	4,634	0.0069	32
CJS SECURITIES INC, JERSEY CITY	1,560	0.0397	62
COMPASS POINT RESEARCH & TR, JERSEY CITY	65,956	0.0285	1,877
COWEN AND COMPANY LLC, NEW YORK	37,533	0.0287	1,078
CRAIG HALLUM, MINNEAPOLIS	107,181	0.0280	2,998
CREDIT LYONNAIS SECS (ASIA), HONG KONG	14,899	0.0011	17
CREDIT RESEARCH & TRADING LLC, JERSEY	3,176	0.0368	117
CREDIT SUISSE (EUROPE), LONDON	62,154	0.0042	258
CREDIT SUISSE AUSTRALIA EQ, MELBOURNE	59,629	0.0031	187
CREDIT SUISSE, NEW YORK (CSUS)	66,929	0.0069	461
DAIWA SECS (HK) LTD, HONG KONG	8,834	0.0058	51
DAVIDSON(D A) & CO INC, NEW YORK	3,539	0.0184	65
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	165,623	0.0038	624
DEUTSCHE BK SECS INC, NY (NWSCUS33)	122,042	0.0138	1,684
DIRECT ACCESS PARTNERS LLC, JERSEY CITY	184	0.0217	4
DOMINICK & DOMINICK, JERSEY CITY	1,463	0.0294	43
DOUGHERTY COMPANY, BROOKLYN	21,471	0.0315	676
EVERCORE GROUP LLC, JERSEY CITY	1,655	0.0471	78
EXECUTION LTD, LONDON	2,681	0.0034	9
FBN SECURITIES INC, JERSEY CITY	137	0.0292	4
FBR CAPITAL MARKETS & CO, ARLINGTON	13,610	0.0324	441
FIG PARTNERS LLC, ATLANTA	66,214	0.0348	2,307
FIRST ANALYSIS SECS CORP, CHICAGO	13,731	0.0470	646
FIRST CLEARING LLC, RICHMOND	399	0.0351	14
GLOBAL HUNTER SEC. LLC, NEW ORLEANS	635	0.0299	19
GLOBAL HUNTER SECURITIES LTD,JERSEY	2,847	0.0306	87
GOLDMAN SACHS & CO, NY	99,280	0.0985	9,778
GOLDMAN SACHS EXECUTION & CLEARING, NY	102,465	0.0147	1,504
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	89,119	0.0044	390
GUGGENHEIM CAPITAL MKT LLC, JERSEY CITY	5,078	0.0437	222
HOWARD WEIL INCORPORATED, NEW ORLEANS	2,457	0.0399	98
HSBC BANK AUSTRALIA LTD, SYDNEY	119,504	0.0023	278

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2013

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
HSBC SECS INC, NEW YORK	2,660	0.0064	17
INSTINET CORP, NEW YORK	65,981	0.0140	926
INSTINET EUROPE LIMITED, LONDON	45,261	0.0039	177
INSTINET, SINGAPORE	12,676	0.0019	24
INVESTMENT TECHNOLOGY GROUP LTD,DUBLIN	99,845	0.0019	193
INVESTMENT TECHNOLOGY GROUP, NEW YORK	28,015	0.0118	330
ISI GROUP INC, NY	492,981	0.0110	5,442
ITG AUSTRALIA LTD, MELBOURNE	225	0.0178	4
ITG CANADA CORP, TORONTO	5,519	0.0134	74
ITG HONG KONG LIMITED, HONG KONG	16,248	0.0015	24
ITG/POSIT, NEW YORK	16,272	0.0132	215
J P MORGAN SEC, SYDNEY	314	0.0127	4
J P MORGAN SECURITIES INC, BROOKLYN	40,745	0.0127	517
J.P. MORGAN CLEARING CORP, NEW YORK	53,832	0.0218	1,171
JANNEY MONTGOMERY SCOTT, PHILADELPHIA	330	0.0212	7
JEFFERIES & CO INC, NEW YORK	116,702	0.0233	2,715
JEFFERIES & CO LTD, LONDON	29,262	0.0054	158
JMP SECURITIES, SAN FRANCISCO	10,270	0.0432	444
JOHNSON RICE & CO, NEW ORLEANS	32,622	0.0399	1,300
JONESTRADING INSTL SVCS LLC, WESTLAKE	87,947	0.0197	1,733
KEEFE BRUYETTE AND WOODS, JERSEY CITY	61,468	0.0322	1,977
KEYBANC CAPITAL MARKETS INC, NEW YORK	54,476	0.0349	1,899
KNIGHT DIRECT LLC, JERSEY CITY	9,756	0.0200	195
KNIGHT EQUITY MARKETS L.P.,JERSEY CITY	273,184	0.0226	6,186
LAZARD CAPITAL MARKETS LLC, NEW YORK	15,444	0.0295	455
LEERINK SWANN & CO, JERSEY CITY	5,572	0.0255	142
LEK SECURITIES CORP, NEW YORK	11,550	0.0200	231
LIQUIDNET INC, BROOKLYN	253,125	0.0195	4,944
LOOP CAPITAL MARKETS LLC	6,306	0.0057	36
MACQUARIE BANK LTD, HONG KONG	5,552	0.0027	15
MACQUARIE CAPITAL (USA) INC., NEW YORK	25,043	0.0072	180
MACQUARIE EQUITIES LTD, SYDNEY	6,576	0.0071	47
MACQUARIE SECURITIES LIMITED, HONG KONG	1,950	0.0026	5
MERRILL LYNCH INTL LONDON EQUITIES	179,142	0.0033	591
MERRILL LYNCH PIERCE FENNER SMITH INC NY	62,661	0.0157	981
MERRILL LYNCH PIERCE FENNER, WILMINGTON	48,291	0.0053	257
MISCHLER FINL/EQUITIES, CORONA DELMAR	122	0.0082	1
MKM PARTNERS LLC, GREENWICH	10,238	0.0264	270
MONNESS CRESPI HARDT & CO INC, JERSEY	6,682	0.0216	144
MORGAN STANLEY & CO INC, NY	2,478,925	0.0048	11,837
MORGAN STANLEY SECURITIES LTD, LONDON	79,095	0.0010	79
MS SECS SVCS INC INTL, BROOKLYN	3,615	0.0136	49
NATIONAL FINL SVCS CORP, NEW YORK	2,755	0.0338	93
NEEDHAM & CO, NEW YORK	40,547	0.0317	1,286

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2013

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
NEWEDGE USA LLC, NEW YORK	29	16.4138	476
NOMURA SECS INTL INC, NEW YORK	104,999	0.0146	1,532
NOMURA SECS INTL, LONDON	52,965	0.0015	79
NON-BROKER CORP ACTIONS, BOSTON	3,042	0.0141	43
NORTHLAND SECS INC, JERSEY CITY	5,207	0.0336	175
OPPENHEIMER & CO INC, NEW YORK	56,239	0.0378	2,127
PACIFIC CREST SECURITIES, PORTLAND	12,663	0.0314	398
PERSHING LLC, JERSEY CITY	39,849	0.0134	533
PERSHING SECURITIES LTD, LONDON	708	0.0141	10
PICKERING ENERGY PARTNERS, HOUSTON	5,147	0.0451	232
PIPER JAFFRAY & CO, MINNEAPOLIS	74,965	0.0309	2,315
PULSE TRADING LLC, BOSTON	365,997	0.0282	10,318
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	44,964	0.0363	1,633
RBC CAPITAL MARKETS LLC, NEW YORK	1,238,825	0.0054	6,699
RBC DOMINION SECS INC, TORONTO (DOMA)	13,027	0.0151	197
ROCHDALE SECURITIES CORP	328	0.0213	7
ROTH CAPITAL PARTNERS LLC, IRVINE	18,948	0.0281	532
ROYAL BANK OF CANADA, TORONTO (RBCT)	13,032	0.0039	51
SANDLER O'NEILL & PARTNERS, NEW YORK	75,800	0.0330	2,499
SCARSDALE EQUITIES LLC, JERSEY CITY	9,763	0.0428	418
SCOTIA CAPITAL (USA) INC, NEW YORK	5,466	0.0494	270
SG AMERICAS SECURITIES LLC, NEW YORK	18,741	0.0240	450
SG SEC (LONDON) LTD, LONDON	14,356	0.0025	36
SIDOTI & CO LLC, NEW YORK	49,813	0.0379	1,890
STATE STREET BK & TR CO (SEC), LONDON	43,217	0.0032	137
STEPHENS INC, LITTLE ROCK	50,142	0.0383	1,922
STERNE AGEE & LEACH INC	14,562	0.0431	627
STIFEL NICOLAUS	44,037	0.0305	1,345
SUNTRUST CAPITAL MARKETS INC, ATLANTA	11,504	0.0346	398
TD WATERHOUSE SEC, TORONTO (GIST)	327	0.0153	5
THINKEQUITY PARTNERS LLC, MINNEAPOLIS	5,359	0.0467	250
UBS AG, AUSTRALIA BR, SYDNEY	2,795	0.0039	11
UBS EQUITIES, LONDON	6,154	0.0034	21
UBS FINANCIAL SERVICES INC, WEEHAWKEN	2,925	0.0051	15
UBS SECURITIES CANADA, TORONTO (BWIT)	6,835	0.0145	99
UBS SECURITIES LLC, STAMFORD	8,652	0.0134	116
UBS WARBURG AUSTRALIA EQUITIES, SYDNEY	33,910	0.0058	196
WEDBUSH MORGAN SECS INC, LOS ANGELES	4,553	0.0389	177
WEDGE SECURITIES LLC, JERSEY CITY	880	0.0398	35
WEEDEN & CO, NEW YORK	172,667	0.0245	4,232
WILLIAM BLAIR & CO, CHICAGO	67,733	0.0273	1,851
WILLIAMS CAPITAL GROUP LP, JERSEY CITY	3,842	0.0141	54
WUNDERLICH SECURITIES INC, MEMPHIS	35,318	0.0382	1,350
TOTAL COMMISSIONS	**10,416,748**	**0.0140**	**145,792**

U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2013

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
571,821	ACADIAN US MANAGED	20,459,912	22,358,948	1,899,036
31,758,462	CRESTLINE ALPHA	29,251,578	31,758,462	2,506,884
722,640	EAGLE SMALL CAR GR	14,110,179	17,425,582	3,315,403
305,010	FRONTPOINT ALPHA	353,113	305,010	(48,103)
322,249	GOTHAM INSTL SELECT	8,653,886	8,693,111	39,225
293,016	GOTHAM VALUE 1000	8,744,491	8,837,645	93,154
117,301	GOTHAM VALUE 2000	1,948,552	1,997,455	48,903
12,940,786	KKR EQ STRATEGIES	11,700,631	12,940,786	1,240,155
491,849	RANGER SMALL CAP	12,192,765	14,413,003	2,220,238
12,910,691	SOUTHPOINT	11,700,631	12,910,691	1,210,060
327	RUSSELL 1000 MINI FUTURE	0	(570,041)	(570,041)
25	RUSSELL 2000 MINI IND FUTURE	0	(28,767)	(28,767)
2,516,934	RUSSELL 3000 SECURITIES	74,836,850	106,921,799	32,084,949
1,564,701	THB MICRO CAP	11,506,070	14,850,184	3,344,114
195,183	THB SMALL CAP VAL	3,379,412	3,830,164	450,752
64,710,995	**TOTAL US EQUITY PORTFOLIO**	**208,838,070**	**256,644,032**	**47,805,962**

NON-U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2013

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
10,548,644	MCSI WORLD EX-US INDEX	114,777,838	126,967,224	12,189,386
1,319,901	BGI FRONTIER	5,850,700	8,657,169	2,806,469
9,807,278	ESG CBE	9,750,526	9,807,278	56,752
1,027,408	GOTHAM 400 INTL	6,610,198	6,410,143	(200,055)
456,706	GOTHAM INSTL INTL	6,491,414	6,339,011	(152,403)
81,904	ISHARES MSCI CANADA ETF	2,215,720	2,141,801	(73,919)
25,546	ISHARES MSCI EAFE ETF	1,292,667	1,463,807	171,140
74,416	ISHARES MSCI SOUTH KOREA	4,405,685	3,958,932	(446,753)
21,003	VANGUARD FTSE ALL-WORLD EX-US	905,123	928,736	23,613
717,053	VANGUARD FTSE EMERGING MARKETS	27,457,598	27,818,060	360,462
9,048	VANGUARD FTSE EUROPE ETF	384,942	435,504	50,562
4,187	VANGUARD FTSE PACIFIC ETF	212,566	233,775	21,209
66,304	WISDOMTREE EMERGING MARKETS SM	3,112,654	3,052,617	(60,037)
24,159,398	**TOTAL NON-US EQUITY PORTFOLIO**	**183,467,631**	**198,214,057**	**14,746,426**

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2013

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
205,827	FHLMC POOL #H1-0069	6.00%	11/01/2036	206,025	222,312
194,388	FHLMC POOL #H1-5010	6.00%	11/01/2036	194,569	209,748
1,264,795	FHLMC MULTICLASS MTG 4012 MW	3.50%	03/15/2042	1,270,873	1,256,105
1,950,105	FHLMC MULTICLASS MTG 3740 KD	4.00%	11/15/2038	1,908,289	2,006,873
2,145,116	FNMA GTD REMIC P/T 11-8 AV	4.00%	01/25/2030	2,100,258	2,232,872
1,950,105	FHLMC MULTICLASS MTG 3561 B	4.00%	08/15/2029	1,928,950	2,065,844
7,710,336	**TOTAL US GOVERNMENT SECURITIES**			**7,608,964**	**7,993,754**

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
CORPORATE BONDS					
457,291	ACA ABS 2006-1 LTD 1A A3L 144A	1.82%	06/10/2041	137,056	5
375,980	ASSOCIATES CORP OF NORTH AMERI	6.95%	11/01/2018	359,854	445,273
975,053	AUSTRALIA & NEW ZEALAND B 144A	4.88%	01/12/2021	1,001,628	1,069,340
37,070	AUTO BD RECEIVABLES TR 94-A	6.40%	04/15/2009	37,070	0
2,535,137	BANK OF AMERICA NA	0.57%	06/15/2017	2,308,344	2,427,850
390,021	BANK ONE CORP	8.00%	04/29/2027	383,419	523,634
3,358,673	BGI CORE ACTIVE BOND FUND	0.00%	01/00/1900	66,611,255	77,833,610
906,323	CAPITAL GUARDIAN EMERGING	0.00%	01/00/1900	11,700,632	12,833,535
2,415,264	CBO HLDGS III 04-3 CL A 144A	1.00%	06/01/2019	2,406,911	2,406,911
2,034,550	CBO HLDGS III 1A 04-1 C-2 144A	7.00%	02/10/2038	2,115,808	2,115,808
975,053	CHICAGO PARKING METERS LL 144A	5.49%	12/30/2020	1,072,783	1,012,543
166,929	CONAGRA FOODS INC	9.75%	03/01/2021	186,235	217,505
292,516	CON-WAY INC	6.70%	05/01/2034	251,955	292,577
15,549,584	FRANKLIN TEMPLETON EMD	0.00%	01/00/1900	13,650,736	15,549,584
585,032	GENERAL ELECTRIC CAPITAL CORP	0.54%	08/07/2018	538,228	570,353
975,053	GILEAD SCIENCES INC	4.50%	04/01/2021	989,378	1,056,596
11,003,435	GOLDENTREE HIGH YIELD VALUE	0.00%	01/00/1900	9,750,526	11,003,435
682,537	GOLDMAN SACHS GROUP INC/THE	6.75%	10/01/2037	714,446	699,163
235	GRACIE INTERNATIONAL CREDIT	0.00%	01/00/1900	487,526	448,164
1,267,568	HSBC FINANCE CORP	0.70%	06/01/2016	1,213,897	1,256,693
9,003,194	IGUAZU PARTNERS LP	0.00%	01/00/1900	7,800,421	9,003,195
34,487	JP MORGAN MBS SERI R2 3A1 144A	4.84%	04/28/2026	34,828	34,937
682,537	MORGAN STANLEY	6.38%	07/24/2042	685,522	761,480
34,621	MORGAN STANLEY ABS CAPI NC1 M2	2.52%	12/27/2033	30,501	34,469
27,380	MORGAN STANLEY ABS CAPI NC2 M2	1.99%	12/25/2033	23,240	21,454
975,053	NABORS INDUSTRIES INC	9.25%	01/15/2019	1,219,737	1,209,777
235,272	NORTH STREET REFE 3A CTFS 144A	4.02%	04/30/2031	213,378	213,378
975,053	NORTH STREET REFE 3A NOTE 144A	1.27%	04/30/2031	338,664	166,276
945,801	PACIFIC BELL TELEPHONE CO	7.38%	07/15/2043	958,122	975,007
682,537	PROTECTIVE LIFE CORP	8.45%	10/15/2039	780,328	876,398

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2013

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
CORPORATE BONDS					
1,170,063	SECURITY MUTUAL LIFE CO OF NEW	9.38%	12/15/2016	1,197,735	1,197,735
1,950,105	TRAINER WORTHAM FI 2A A3L 144A	2.02%	04/10/2037	1,417,028	20
932,429	TRI-COMMAND MILITARY HOUS 144A	5.38%	02/15/2048	835,865	760,946
390,021	UNITED UTILITIES PLC	4.55%	06/19/2018	368,067	405,134
390,021	WACHOVIA CORP	0.54%	06/15/2017	372,062	383,387
370,520	WESTERN GROUP HOUSING LP 144A	6.75%	03/15/2057	423,901	386,041
63,782,398	**TOTAL US CORPORATE BONDS**			**132,617,086**	**148,192,213**
71,492,734	**TOTAL FIXED INCOME PORTFOLIO**			**140,226,050**	**156,185,967**

CREDIT OPPORTUNITIES PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
APOLLO EUR PRIN FIN	15,269,850	15,151,550	(118,300)
BLACKROCK MTG INV PE	0	5,897,555	5,897,555
CASTLE CREEK TARP	6,674,967	6,809,984	135,017
CENTERBRIDGE SC I	894,418	5,424,682	4,530,264
CENTERBRIDGE SC II	3,230,463	3,460,330	229,867
CREDIT OPPS PUBLIC	1,429,820	1,484,052	54,232
EJF DEBT OPPS FUND	7,800,421	10,581,953	2,781,532
ESG CME FUND	14,625,789	12,847,572	(1,778,217)
GS CREDIT OPPS 2008	122,152	261,558	139,406
HELIOS MARITIME	5,850,316	6,261,726	411,410
OHA STRATEGIC CREDIT	973,256	2,770,465	1,797,209
PAG ASIA OPP FUND	7,800,421	8,743,755	943,334
PAG SPEC SITUATIONS	2,555,624	2,591,009	35,385
PNMAC MORTG OPP	25,351,368	18,682,161	(6,669,207)
SJC DIR LENDING II	1,749,959	1,739,713	(10,246)
SJC DIRECT LENDING	5,143,734	5,344,924	201,190
STARK ABS OPPS	121,564	176,975	55,411
TENNENBAUM DIP	147,426	102,547	(44,879)
TPG OP II	10,683,053	11,223,369	540,316
WEST FACE LT OPPS	7,800,422	7,695,364	(105,058)
TOTAL CREDIT OPPORTUNITIES PORTFOLIO	**118,225,023**	**127,251,244**	**9,026,221**

PRIVATE EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ABRY PARTNERS	2,591,168	2,460,459	(130,709)
ACTIS ENERGY 3	436,686	436,686	0
APOLLO INV FD VII	7,293,100	10,517,497	3,224,397
AVALON VENTURES IX	2,613,141	2,777,941	164,800
AVALON VENTURES X	468,025	398,159	(69,866)
BARING ASIA PE V	2,445,173	2,906,493	461,320
BCP V	3,832,733	4,627,055	794,322
BERKSHIRE PARTN VIII	980,824	1,003,926	23,102
CASTLE CREEK	8,002,022	10,611,740	2,609,718
CENTERBRIDGE CP II	5,255,140	5,730,217	475,077
CHARLESBANK VII	3,214,034	3,896,938	682,904
CORTEC V	1,900,752	2,301,653	400,901
DAG II CO-INV	3,422,858	983,434	(2,439,424)
DAG III CO-INV	2,305,247	3,277,460	972,213
DAG IV CO-INV	4,234,776	5,626,281	1,391,505
DAG IV DIRECT	4,689,940	4,786,503	96,563
DAG V COINV	780,042	779,509	(533)
DAG V DIRECT	1,179,814	1,251,815	72,001
DAG VENTURES II	1,018,184	734,095	(284,089)
DAG VENTURES III	2,490,152	2,402,777	(87,375)
DFJ MERCURY II	3,113,979	3,689,725	575,746
DRUG RYLTY II CO-INV	952,370	940,081	(12,289)
DRUG RYLTY II DIRECT	1,711,647	2,211,054	499,407
EQT VI	2,239,580	2,092,095	(147,485)
INSIGHT EQUITY II	6,545,078	7,215,122	670,044
INSIGHT MEZZANINE I	214,380	236,030	21,650
JMI EQUITY FUND VII	2,409,018	2,367,192	(41,826)
LADDER	4,425,874	5,857,855	1,431,981
LITTLE JOHN FUND IV	4,615,591	5,857,244	1,241,653
LITTLEJOHN IV COINV	731,260	1,633,877	902,617
LONGWORTH VP III	1,926,704	2,417,362	490,658
MADRONA VENTURES V	82,879	73,781	(9,098)
MESIROW FINANCIAL	3,101,832	2,009,598	(1,092,234)
MIDOCEAN CO-INV	1,151,137	1,869,643	718,506
MIDOCEAN PTNS	6,306,635	7,119,720	813,085
MILLENNIUM TV II	2,145,116	2,232,286	87,170
OAKTREE EPF III	4,674,096	4,753,904	79,808
PATRIA BRAZIL IV	220,325	229,182	8,857
PENINSULA EQ PTNS	831,942	838,648	6,706
PROSPECTOR EQ CAP	557,289	220,572	(336,717)

PRIVATE EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
SP TRIDENT FUND V	3,584,482	3,841,518	257,036
SP TRIDENT V COINV	866,361	972,713	106,352
STEPSTONE SECONDARY	10,380,120	13,589,697	3,209,577
STERLING GROUP III	2,583,422	3,929,628	1,346,206
TOWERBROOK III	4,355,467	5,671,362	1,315,895
TRUSTBRIDGE PARTN IV	2,681,563	2,775,413	93,850
VALLEY VENT III ANNX	511,110	267,499	(243,611)
VALLEY VENTURES III	1,548,405	660,442	(887,963)
VISTA EQUITY FUND IV	4,308,126	4,570,353	262,227
VIVO VENTURES VII	1,941,228	2,406,898	465,670
TOTAL PRIVATE EQUITY PORTFOLIO	**139,870,827**	**160,061,132**	**20,190,305**

ABSOLUTE RETURN PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
DAVIDSON KEMPNER	13,650,736	15,233,116	1,582,380
GSAM HF SEED 2011	8,757,783	9,355,925	598,142
LSV SPEC OPP FD IV	2,376,388	4,457,703	2,081,315
LSV SPEC OPPS FD III	3,652,724	7,122,518	3,469,794
LUXOR CAP PARTNERS	4,009,142	4,609,217	600,075
OZ MASTER FUND	13,650,736	17,184,447	3,533,711
TOTAL ABSOLUTE RETURN PORTFOLIO	**46,097,509**	**57,962,926**	**11,865,417**

REAL ASSETS PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALTERNA I	4,602,146	6,296,262	1,694,116
ALTERNA CORE CAPITAL ASSETS	532,353	532,353	0
CONSERVATION FORESTRY FUND I	3,087,043	2,875,424	(211,619)
CONSERVATN FOREST II	4,667,926	5,126,594	458,668
DENHAM COMMODITY PARTNERS VI	1,452,839	1,367,375	(85,464)
LD COMMODITIES ALPHA FD LTD	4,875,263	4,881,387	6,124
EIF US POWER FUND IV	1,829,418	1,072,501	(756,917)
ENCAP ENERGY CAPITAL FUND IX	384,035	378,686	(5,349)
TRUST IN ENERGY RECAP FUND	1,865,366	2,035,293	169,927
FUNDAMENTAL PARTNERS II	6,022,090	6,651,709	629,619
GEOSPHERE	0	202,114	202,114
HELIOS SUNBEAM OPPORTUNITIES	4,875,263	4,584,120	(291,143)
JP MORGAN AIRRO FUND	4,209,309	5,143,378	934,069
JP MORGAN AIRRO SIDECAR LP	4,403,037	5,280,718	877,681
MACQUARIE EUR INFRASTRUCT III	3,998,657	5,533,854	1,535,197
MACQUARIE INFRASTRUCTURE II US	4,148,340	6,101,628	1,953,288
ORG SECONDARY - REAL ASSETS	3,988,797	5,819,586	1,830,789
TAYLOR WOODS PARTNERS LP	4,875,263	5,392,195	516,932
FIRST TRUST ISE-REVERE NATURAL	2,504,334	2,494,818	(9,516)
MARKET VECTORS GOLD MINERS ETF	974,348	540,144	(434,204)
MARKET VECTORS - AGRIBUSINESS	2,349,168	2,309,971	(39,197)
SPDR GOLD SHARES	4,620,024	3,402,859	(1,217,165)
SPDR S&P METALS & MINING ETF	2,534,005	1,996,224	(537,781)
ENERGY SELECT SECTOR SPDR FUND	2,550,001	2,750,005	200,004
UTILITIES SELECT SECTOR SPDR F	976,939	978,188	1,249
TVEST CROSSOVER III	1,908,031	1,774,612	(133,419)
VIRIDIAN FUND LTD	4,680,252	4,166,238	(514,014)
TOTAL REAL ASSETS PORTFOLIO	**82,914,247**	**89,688,236**	**6,773,989**

GTAA SECURITIES PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
BLACKROCK GBL ASCENT	26,216,607	25,220,467	(996,140)
BLUETREND FUND	17,697,738	17,872,693	174,955
BRIDGEWATER GTAA	30,454,731	48,313,586	17,858,855
BRIDGEWATER PAMM	5,850,316	5,755,872	(94,444)
DE SHAW MULTI ASSET	19,501,052	23,454,665	3,953,613
TOTAL ABSOLUTE RETURN PORTFOLIO	**99,720,444**	**120,617,283**	**20,896,839**

REAL ESTATE PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALCION II	3,119,799	2,897,853	(221,946)
APEX FUND I	11,530,825	4,392,807	(7,138,018)
APEX FUND II	1,983,890	1,642,964	(340,926)
AREA VEF DIR	8,816,982	9,142,829	325,847
BREP VI	10,231,974	14,474,376	4,242,402
CATALYST EURO	9,616,142	8,071,365	(1,544,777)
CLEARBELL II	151,547	150,175	(1,372)
CLSA FUDO CAP II	4,992,240	5,523,206	530,966
DESERT TROON	74,214,499	60,251,424	(13,963,075)
GREENFIELD VI	3,350,874	3,676,736	325,862
H2 CREDIT PARTNERS	7,800,421	9,555,740	1,755,319
HARRISON ST RE	10,616,298	11,930,645	1,314,347
HARRISON ST RE COINV	1,462,579	1,904,963	442,384
IRON POINT RE	11,405,345	13,029,518	1,624,173
IRON POINT RE II	591,071	566,942	(24,129)
LUBERT ADLER FD VI B	4,711,630	4,907,062	195,432
MOUNT GRANGE	5,874,500	6,941,785	1,067,285
ORG SECONDARY RE	6,010,124	7,619,952	1,609,828
OWH BERKANA DEV	978,795	423,173	(555,622)
OWH BERKANA HLD	1,964,149	2,180,218	216,069
PATRON IV	358,392	377,934	19,542
PEBBLECREEK	7,420,150	2,174,367	(5,245,783)
PIVOTAL EQUITY	487,526	1,813,595	1,326,069
WALTON MEXICO	7,693,165	6,952,113	(741,052)
WHISP CANYON OWC	5,769,839	975,052	(4,794,787)
TOTAL REAL ESTATE PORTFOLIO	**201,152,756**	**181,576,794**	**(19,575,962)**

RISK PARITY PORTFOLIO
YEAR ENDED JUNE 30, 2013

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALL WEATHER PORTFOLIO	23,388,010	23,953,078	565,068
US TREAS-CPI INFLATION INDEX	7,905,181	7,458,672	(446,509)
US TREAS BOND FUTURE (CBT)	0	6,231	6,231
USD/EUR SPOT OPTION 2013	5,850	5,818	(32)
TOTAL RISK PARITY PORTFOLIO	**31,299,041**	**31,423,799**	**124,758**

ACTUARIAL SECTION

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
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October 28, 2013

The Board of Trustees
Arizona Corrections Officer Retirement Plan
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016-4416

Re: Arizona Corrections Officer Retirement Plan

Attention: James Hacking, Administrator

The purpose of the annual actuarial valuation of the Arizona Corrections Officer Retirement Plan as of June 30, 2013 is to:

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and non-retired members.
- Compare assets with accrued liabilities to assess the funded condition.
- Compute the recommended employers' contribution for the Fiscal Year beginning July 1, 2014.

The valuation should not be relied upon for any other purpose.

The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2013.

The valuation was based upon information furnished by the plan's administrative staff concerning Retirement System benefits, financial transactions, and active members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided. The actuary summarizes and tabulates population data in order to analyze longer-term trends. The following schedules were prepared by the actuary and provided to the administrative staff to be included in the "Actuarial Section" of the June 30, 2013 CAFR:

- Aggregate Actuarial Balance Sheet as of June 30, 2013
- Summary of Valuation Assumptions
- Solvency Test
- Summary of Active Member Data
- Summary of Retirees and Inactive Members
- Schedule of Experience Gain/(Loss) for year ended June 30, 2013

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The Board of Trustees
October 28, 2013
Page 2

GRS did not prepare any of the schedules included in the "Financial Section" of the June 30, 2013 CAFR. However, we did provide certain pieces of information that were used in that section, such as the Actuarial Accrued Liability and the Actuarial Value of Assets.

Assets are valued on a market related basis. This method recognizes the assumed return fully each year and spreads each year's gain or loss above or below assumed return over a closed seven-year period. The continuing effect of prior asset losses was dampened by the 7-year smoothing period, and further offset by the effect of lower than assumed pay increases. There remains $143 million of unrecognized investment losses that will in the absence of other gains, drive the contribution rate up over the next several years.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board of Trustees adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2013 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2006-2011 period. Future actuarial measurements may differ significantly from those presented in the valuations due to such factors as experience differing from that anticipated by the actuarial assumptions, changes in plan provisions, changes in actuarial assumptions or methods, or changes in applicable law.

The June 30, 2013 actuarial valuation reflected the following changes:

- Assumption and method changes:
  - Investment return was decreased from 8.00% to 7.85%
  - Wage inflation was decreased from 5.00% to 4.50%.

In order to gain a full understanding of the actuarial condition of the plan, it is important to read the full actuarial report that we have provided to the System.

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The Board of Trustees October 28, 2013 Page 3
Brian B. Murphy and Mark Buis are Members of the American Academy of Actuaries (M.A.A.A.), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Brian B. Murphy

Brian B. Murphy, F.S.A., M.A.A.A.

Mark Buis

Mark Buis, F.S.A, M.A.A.A

BBM/MB:sc

AGGREGATE ACTUARIAL BALANCE SHEET
YEAR ENDED JUNE 30, 2013

ACTUARIAL ASSETS	2013
ACCRUED ASSETS	
Member Accumulated Contributions	$ 382,417,196
Employer and Benefit Payment Reserves	1,034,382,320
Funding Value Adjustment	142,783,710
Total Accrued Assets	**1,559,583,226**
PROSPECTIVE ASSETS	
Member Contributions	344,081,567
Employer Normal Costs	283,853,358
Employer Unfunded Actuarial Accrued Liability	770,654,535
Total Prospective Assets	**1,398,589,460**
Total Actuarial Assets	**$ 2,958,172,686**

ACTUARIAL PRESENT VALUES (LIABILITY)	2013
PENSIONS IN PAYMENT STATUS	
Pensions in payment status	$ 1,011,477,965
PROSPECTIVE PAYMENTS	
Retirement Payments	1,785,900,018
Health Insurance Payments	75,852,333
Member Contribution Refunds	84,942,370
Pension Increase Reserve	
Total Prospective Payments	**1,946,694,721**
Total Actuarial Present Values (Liabilities)	**$ 2,958,172,686**

SUMMARY OF VALUATION ASSUMPTIONS

ECONOMIC ASSUMPTIONS
Interest Rate: 7.85% (net of expenses)
Salary Increases: 4.50% for inflation

HEALTHY MORTALITY TABLE
RP2000 Health Annuitant Mortality Table adjusted by 105% for both males and females.
This assumption was first used for the FY2012 valuation of the System.

DISABLED MORTALITY TABLES
RP2000 Health Annuitant Mortality Table set forward 10 years for both males and females.
This assumption was first used for the FY2012 valuation of the System.

MORTALITY RATES AND LIFE EXPECTANCY
HEALTHY MORTALITY

SAMPLE AGES	PROBABILITY OF DYING NEXT YEAR		FUTURE LIFE EXPECTANCY (YEARS)	
	MEN	WOMEN	MEN	WOMEN
50	.21%	.17%	30.37	33.14
55	.36%	.27%	25.76	28.47
60	.67%	.51%	21.35	23.95
65	1.27%	.97%	17.24	19.72
70	2.22%	1.67%	13.54	15.86
75	3.78%	2.81%	10.27	12.40
80	6.44%	4.59%	7.50	9.38

MORTALITY RATES AND LIFE EXPECTANCY
DISABLED MORTALITY

SAMPLE AGES	PROBABILITY OF DYING NEXT YEAR		FUTURE LIFE EXPECTANCY (YEARS)	
	MEN	WOMEN	MEN	WOMEN
50	.67%	.51%	21.74	24.38
55	1.27%	.98%	17.61	20.12
60	2.22%	1.67%	13.88	16.23
65	3.78%	2.81%	10.57	12.74
70	6.44%	4.59%	7.75	9.68
75	11.08%	7.74%	5.49	7.09
80	18.34%	13.17%	3.86	5.15

ACTIVE MEMBERS MORTALITY TABLE
Sample rates of mortality for death-in-service set forward 0 years for both males and females.
This assumption was first used for the FY2012 valuation of the System.

MORTALITY RATES
ACTIVE MEMBERS

SAMPLE AGES	PROBABILITY OF DYING NEXT YEAR	
	MEN	WOMEN
50	.21%	.17%
55	.36%	.27%
60	.67%	.51%
65	1.27%	.97%

Active members are eligible to retire normally at any age with 20 years of service (25 years for dispatchers), at age 62 with 10 years of service, or when a combination of age and credited service is equal to or greater than 80 years.

These rates adopted by the Board of Trustees, as recommended by the Plan's actuary, were first used for the June 30, 2007 valuation.

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

MARRIAGE ASSUMPTION
80% of males and females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

PAY INCREASE TIMING
Six months after the valuation date.

DECREMENT TIMING
Decrements of all types are assumed to occur mid-year.

ELIGIBILITY TESTING
Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

DECREMENT RELATIVITY
Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

DECREMENT OPERATION
Disability and turnover decrements do not operate during retirement eligibility.

SERVICE CREDIT ACCRUALS
It is assumed that members accrue one year of service credit per year.

INCIDENCE OF CONTRIBUTIONS
Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

NORMAL FORM OF BENEFIT
A straight life payment is the assumed normal form of benefit for members who are not married, and the 80% Joint and Survivor form of payment with no reduction, for married members. 80% of members are assumed to be married at time of retirement.

BENEFIT SERVICE
Exact fractional service is used to determine the amount of benefit payable.

NORMAL COST PERCENTAGE
For the purposes of calculating the Normal Cost as a percent of payroll under the Projected Unit Credit Cost Method, the Normal Cost was projected with interest to the applicable Fiscal Year and divided by the Payroll projected with wage base to the applicable Fiscal Year.

HEALTH CARE UTILIZATION
70% of future retirees are expected to utilize health care. 80% of those are assumed to be married.

FUTURE COST OF LIVING INCREASES
Future cost of living increases are not reflected in the liabilities. The 2012 Experience Study recommended reducing the expected rate of return by approximately 0.5% to account for this contingency.

SOLVENCY TEST

Testing the financial solvency of a retirement plan can be done in several ways. The funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the plan are level in concept and soundly executed, and if the plan continues its present operations pattern for the indefinite future, the plan will pay all promised benefits when due - the ultimate test of financial soundness.

A short term solvency test is one means of checking a plan's progress under its funding program. In a short term solvency test, the plan's present assets (cash and investments) are compared with:

- Active member contributions on deposit.
- The liabilities for future benefits to present retired lives.
- The liabilities for service already rendered by active members.

In a plan that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the plan has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare. All amounts presented are in thousands.

	AGGREGATE ACCRUED LIABILITIES						
YEAR ENDED JUNE 30,	ACTIVE MEMBER CONT. $ (1)	RETIRANTS AND BENEFICIARIES $ (2)	ACTIVE MEMBERS (ER PORTION) $ (3)	VALUATION ASSETS AVAILABLE FOR BENEFITS $ (2)	PORTION OF ACCRUED LIABILITIES COVERED BY NET ASSETS AVAILABLE FOR BENEFITS (1)	(2)	(3)
2004	165,145	278,403	352,227	833,621	100.00%	100.00%	100.00%
2005	178,353	332,199	395,473	872,981	100.00%	100.00%	91.60%
2006	193,819	384,513	402,876	919,868	100.00%	100.00%	84.80%
2007	213,688	430,172	466,941	940,126	100.00%	100.00%	63.40%
2008	296,317	504,462	589,584	1,027,026	100.00%	100.00%	68.90%
2009	314,100	586,596	683,597	1,309,124	100.00%	100.00%	59.70%
2010	345,122	689,910	686,973	1,382,144	100.00%	100.00%	50.50%
2011	353,892	823,664	831,013	1,466,750	100.00%	100.00%	34.80%
2012	373,726	918,771	939,047	1,512,989	100.00%	100.00%	23.50%
2013	382,417	1,011,478	936,343	1,559,583	100.00%	100.00%	17.70%

See Schedule of Funding Progress in the Required Supplementary Information.

AGE AND SERVICE DISTRIBUTION

Listed below is a summary of Active Members by age group, years of service and annual compensation. The summary points out that there were 14,580 active members in the Plan as of June 30, 2013, compared to 14,991 for the prior year.

ATTAINED	YEARS OF SERVICE TO VALUATION DATE							TOTALS	
AGE	0-4	5-9	10-14	15-19	20-24	25-29	30+	NO.	AVG. SALARY
< 25	1,047	12						1,059	33,706
25-29	1,797	538	3					2,338	35,698
30-34	935	1,027	208	3				2,173	39,154
35-39	601	772	585	134				2,092	42,111
40-44	555	570	523	434	57			2,139	44,067
45-49	369	410	358	314	180	17		1,648	45,133
50-54	228	325	277	253	126	84	8	1,301	45,736
55-59	180	218	256	180	97	53	12	996	45,522
60-69	86	172	141	112	51	38	13	613	46,066
70+	24	68	62	35	21	8	3	221	45,333
Total	**5,822**	**4,112**	**2,413**	**1,465**	**532**	**200**	**36**	**14,580**	**41,431**

COMPARATIVE SCHEDULE

YEAR ENDED JUNE 30,	ACTIVE MEMEBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVERAGE SALARY	INCREASE IN AVG. PAY
2004	11,583	381,942	38.7	6.0	32,974	0.90%
2005	11,752	404,156	39.6	6.0	34,390	4.30%
2006	11,914	437,744	39.3	6.2	36,742	6.80%
2007	12,780	515,428	39.0	6.0	40,331	9.80%
2008	14,716	642,621	39.6	7.0	43,668	8.30%
2009	14,580	630,825	40.2	7.4	43,266	(0.90)%
2010	14,319	616,481	40.3	7.8	43,053	(0.50)%
2011	14,565	609,243	40.1	7.7	41,829	(2.80)%
2012	14,991	626,223	39.8	7.7	41,773	(0.10)%
2013	14,580	604,068	39.7	8.0	41,431	(0.80)%

SUMMARY OF RETIREES AND INACTIVE MEMBERS

RETIREES AND BENEFICIARIES

YEAR ENDED JUNE 30,	NUMBER REMOVED FROM ROLES	NUMBER ADDED TO ROLES	TOTALS	ANNUAL ALLOWANCES REMOVED FROM ROLES	ANNUAL ALLOWANCES ADDED TO ROLES	ANNUAL PENSIONS	PERCENT INCREASE	AVERAGE PENSION
2004	32	205	1,536	435,860	5,033,961	26,261,143	21.30%	17,097
2005	61	258	1,733	3,761,718	8,829,800	31,329,225	19.30%	18,078
2006	46	232	1,919	2,405,616	4,807,848	37,272,180	19.00%	19,065
2007	68	272	2,123	971,820	6,365,640	42,666,000	14.00%	20,097
2008	100	405	2,428	2,197,553	10,594,200	51,062,647	19.70%	21,031
2009	118	281	2,591	1,532,671	9,559,615	59,089,591	15.70%	22,806
2010	52	369	2,908	850,373	11,529,838	69,769,056	18.10%	23,992
2011	48	396	3,256	880,983	12,749,577	81,637,650	17.00%	25,073
2012	64	284	3,476	1,078,072	7,358,770	87,918,348	7.70%	25,293
2013	69	403	3,810	1,418,636	9,965,863	96,465,575	9.70%	25,319

**Effective June 30, 2004, started reporting the annual allowances removed from roles and annual allowances added to roles. This information was not available prior to the effective date.*

As of June 30, 2013, there were 1,463 inactive members in the Plan who had not withdrawn their accumulated member contributions. They are broken down by attained age and years of service as follows:

INACTIVE MEMBERS

ATTAINED AGE	YEARS OF SERVICE TO VALUATION DATE 0-4	5-9	10-14	15-19	20+	TOTAL
< 30	373	14				387
30-39	354	81	18	1		454
40-44	125	24	23	4		176
45-49	92	13	17	3		125
50-54	58	18	19	7	3	105
55-59	58	18	35	12	2	125
60-69	40	11	28	7	3	89
70 +	2					2
Total	**1,102**	**179**	**140**	**34**	**8**	**1,463**

SCHEDULE OF EXPERIENCE GAIN (LOSS)
YEAR ENDED JUNE 30, 2013

(1)	UAAL* at start of year	718,554,839
(2)	Normal cost from last valuation	97,313,446
(3)	Actual Contributions	119,904,199
(4)	Interest accrual	56,580,756
(5)	Expected UAAL before changes (1)+(2)-(3)+(4)	752,544,842
(6)	Change from benefit increases	-
(7)	Changes in actuarial methods & actuary	19,055,874
(8)	Change in Reserve for future pension increases	-
(9)	Expected UAAL after changes: (5) + (6) + (7) + (8)	771,600,716
(10)	Actual UAAL at end of year	770,654,535
(11)	**Experience Gain (Loss) (9)-(10)**	**946,181**

** Unfunded Actuarial Accrued Liability*

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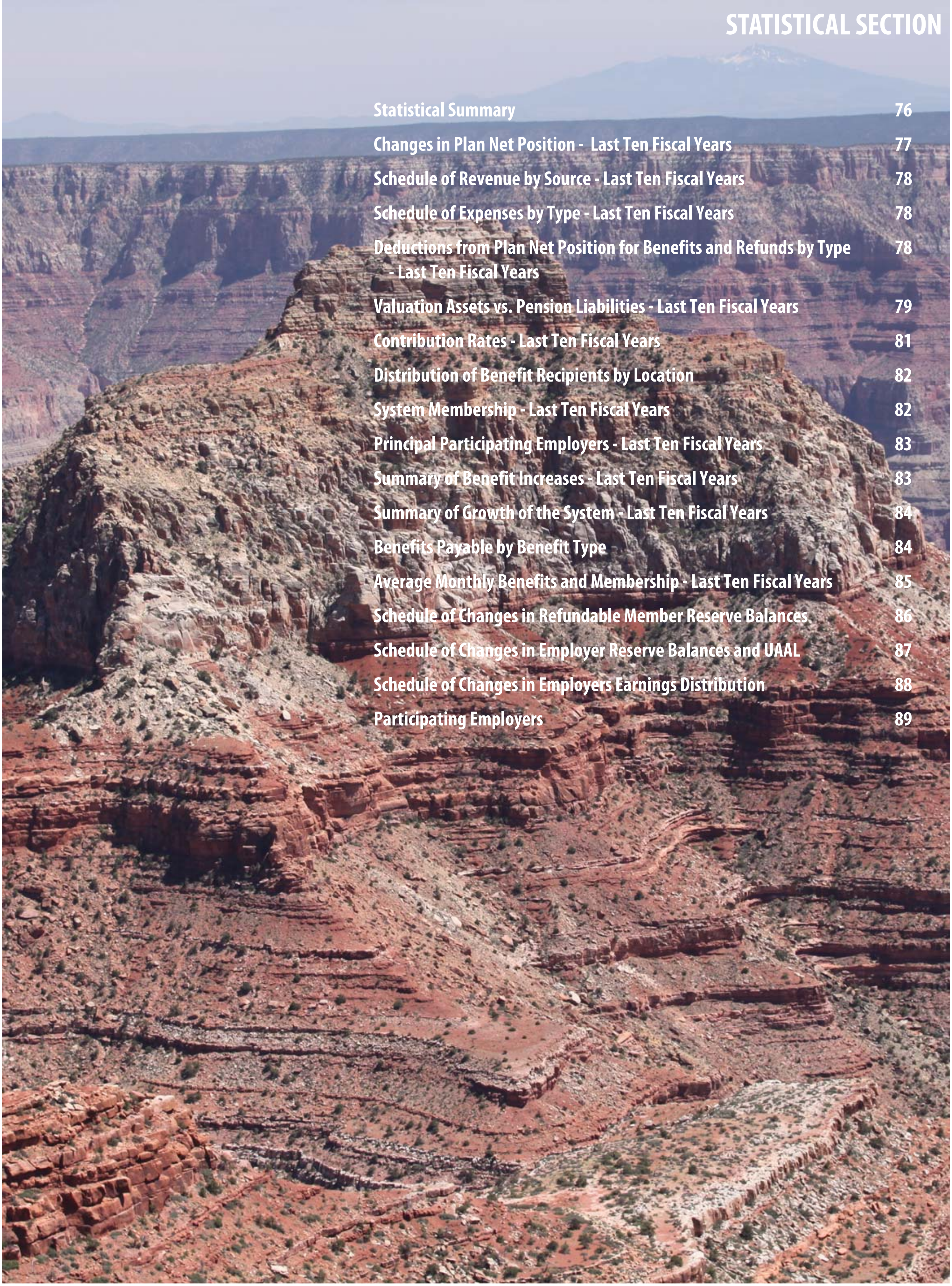
STATISTICAL SECTION



FINANCIAL TRENDS

SUMMARY

The Statistical Section provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements, notes to the financial statements and required supplemental information to understand and assess the economic condition of CORP.

Financial trend information is intended to assist users in understanding and assessing the changes in the financial position over time. Schedules and charts presenting financial trend information are Schedule of Changes in Net Assets, Schedule of Revenue by Source, Schedule of Expenses by Type, Deductions from Net Assets for Benefits and Refunds by Type, Valuation Assets vs. Pension Liabilities, and Contribution Rates.

Operating information is intended to provide contextual information about the operations and resources of CORP to assist readers in using financial statement information to understand and assess the economic condition. Schedules and charts presenting operating information are Membership in the Retirement Plan*, Principal Participating Employers, Benefit Participants by Location, Summary of the Growth of the Plan, Benefits Payable*, Average Monthly Benefit Amounts*, Summary of Benefit Increases*, Schedule of Changes in Employers' Reserve Balances, Schedule of Changes in Refundable Member Reserve Balances, Schedule of Employers' Earnings Distribution, and Participating Employers.

Schedules and information are derived from CORP internal sources unless otherwise indicated.
* Schedules and data are provided by actuarial consultant Gabriel Roeder Smith & Company.

CHANGES IN PLAN NET POSITION LAST 10 FISCAL YEARS
(IN THOUSANDS)

	2013	2012	2011	2010	2009
ADDITIONS					
Member Contributions	$ 50,649	$ 51,968	$ 50,891	$ 54,481	$ 53,098
Employer Contributions	68,441	59,092	52,003	54,437	56,015
Net Investment Gain (Loss)	138,268	(15,165)	193,212	129,267	(216,314)
Member Service Purchase	814	851	777	733	429
Transfers IN	185	368	242	543	352
Total Additions (Reductions)	**258,357**	**97,114**	**297,125**	**239,461**	**(106,419)**
DEDUCTIONS					
Pension & Insurance Benefits	97,643	90,867	79,058	66,412	57,697
Refunds To Terminated Members	31,179	25,744	24,928	19,775	14,879
Administrative Expenses	1,267	1,183	1,185	915	1,065
Transfers OUT	841	964	945	586	512
Total Deductions	**130,930**	**118,758**	**106,116**	**87,688**	**74,153**
NET INCREASE (DECREASE)	**127,427**	**(21,644)**	**191,009**	**151,773**	**(180,572)**
NET POSITION HELD IN TRUST					
Beginning of Fiscal Year, July 1	1,282,154	1,303,798	1,112,789	961,016	1,141,588
End of Fiscal Year, June 30	**$ 1,409,581**	**$ 1,282,154**	**$ 1,303,798**	**$1,112,789**	**$961,016**

	2008	2007	2006	2005	2004
ADDITIONS					
Member Contributions	$ 111,098	$ 41,355	$ 37,134	$ 34,590	$ 31,338
Employer Contributions	150,729	24,623	24,028	16,292	14,555
Net Investment Gain (Loss)	(68,040)	144,850	64,198	66,277	91,300
Member Service Purchase	871	930	994	719	0
Transfers IN	3,217	456	1,234	1,071	1,460
Total Additions (Reductions)	**197,875**	**212,214**	**127,588**	**118,948**	**138,653**
DEDUCTIONS					
Pension & Insurance Benefits	51,046	41,630	36,709	31,098	26,624
Refunds To Terminated Members	16,212	16,634	15,741	16,653	14,053
Administrative Expenses	1,103	732	674	922	541
Transfers OUT	864	2,063	1,555	637	1,139
Total Deductions	**69,225**	**61,060**	**54,679**	**49,310**	**42,357**
NET INCREASE (DECREASE)	**128,650**	**151,155**	**72,909**	**69,639**	**96,297**
NET POSITION HELD IN TRUST					
Beginning of Fiscal Year, July 1	1,012,938	861,783	788,874	719,235	622,939
End of Fiscal Year, June 30	**$1,141,588**	**$1,012,938**	**$861,783**	**$788,874**	**$719,235**

*See Note 14.

FINANCIAL TRENDS

SCHEDULE OF REVENUE BY SOURCE (ALL PLANS COMBINED)
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	MEMBER CONT.	EMPLOYER CONT.	% OF COVERED PAYROLL	INVESTMENT INCOME (LOSS)	TRANSFERRED IN FROM OTHER PLANS	TOTAL
2004	31,337,579	14,555,335	3.95%	91,300,470	1,459,965	138,653,349
2005	34,589,714	16,291,914	4.07%	66,277,084	1,789,618	118,948,330
2006	37,134,076	24,028,050	5.47%	64,197,983	2,228,116	127,588,225
2007	41,354,907	24,622,693	4.46%	144,850,095	1,386,706	212,214,401
2008	111,097,660	150,729,218	6.72%	(68,039,675)	4,087,988	197,875,191
2009	53,098,136	56,015,138	8.65%	(216,313,556)	781,196	(106,419,086)
2010	54,480,961	54,437,078	7.49%	129,267,190	1,276,087	239,461,316
2011	50,891,168	52,002,731	8.57%	193,212,289	1,018,286	297,124,474
2012	51,967,894	59,092,404	9.50%	(15,165,360)	1,219,350	97,114,288
2013	50,648,775	68,440,925	11.31%	138,267,533	999,077	258,356,310

*See Note 14.

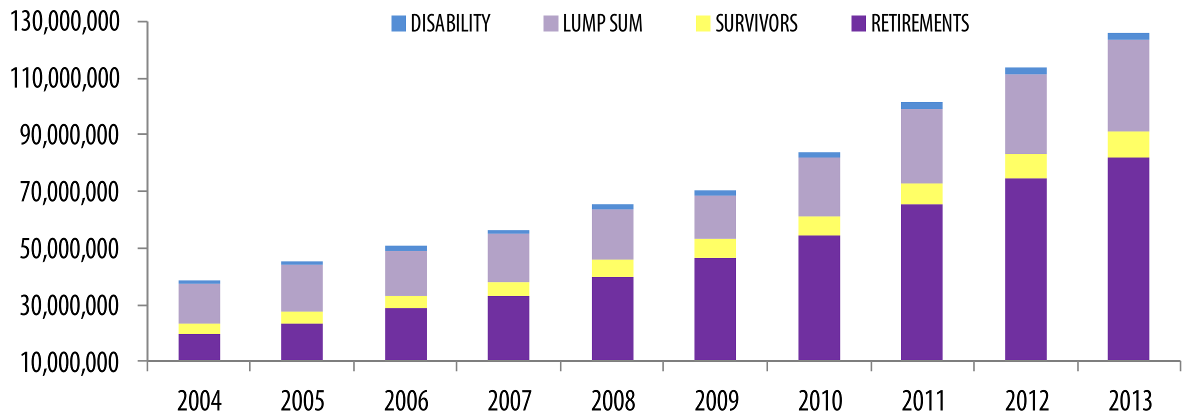
SCHEDULE OF EXPENSES BY TYPE (ALL PLANS COMBINED)
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	BENEFITS	ADMIN. EXPENSES	REFUNDS	TRANSFERRED TO OTHER PLANS	TOTAL
2004	26,623,619	541,070	14,053,002	1,138,940	42,356,631
2005	31,097,950	922,183	16,652,638	637,008	49,309,779
2006	36,708,528	674,058	15,741,460	1,555,240	54,679,286
2007	41,630,057	732,236	16,634,320	2,062,977	61,059,590
2008	51,045,908	1,102,992	16,211,929	864,053	69,224,882
2009	57,696,778	1,064,825	14,879,342	511,697	74,152,642
2010	66,411,778	915,378	19,774,873	586,100	87,688,129
2011	79,058,399	1,184,756	24,927,660	945,170	106,115,985
2012	90,868,234	1,182,692	25,743,514	964,033	118,758,473
2013	97,643,078	1,266,690	31,179,499	840,629	130,929,896

DEDUCTIONS FROM NET ASSETS FOR BENEFITS AND REFUNDS BY TYPE
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	NORMAL BENEFITS	SURVIVOR BENEFITS	DISABILITY BENEFITS	TOTAL BENEFITS	DROP PROGRAM	SEPARATION REFUNDS	HEALTH INSURANCE SUBSIDY*
2004	19,442,835	3,677,576	1,178,761	24,299,172	-	14,053,002	2,324,447
2005	23,519,992	3,871,675	1,305,434	28,697,101	-	16,652,638	2,400,849
2006	28,928,172	4,472,559	1,449,215	34,849,946	-	15,741,460	1,858,582
2007	33,341,839	4,860,093	1,514,939	39,716,871	-	16,634,320	1,913,186
2008	39,831,873	5,934,454	1,625,680	47,392,007	1,580,656	16,211,929	2,073,245
2009	46,752,709	6,685,021	1,805,702	55,243,432	245,457	14,879,342	2,207,889
2010	54,722,001	6,740,427	1,914,842	63,377,270	662,404	19,774,873	2,372,104
2011	65,448,261	7,467,220	2,105,741	75,021,222	1,338,048	24,927,660	2,699,129
2012	74,822,948	8,602,328	2,259,626	85,684,902	2,292,891	25,743,514	2,890,441
2013	81,829,318	9,043,592	2,306,541	93,179,451	1,633,892	31,179,499	2,829,735

** Health Insurance Subsidy payments are reported as an offset to Employer Contributions. The detail appears in the notes below the Schedule of Employer Contributions on page 39.*



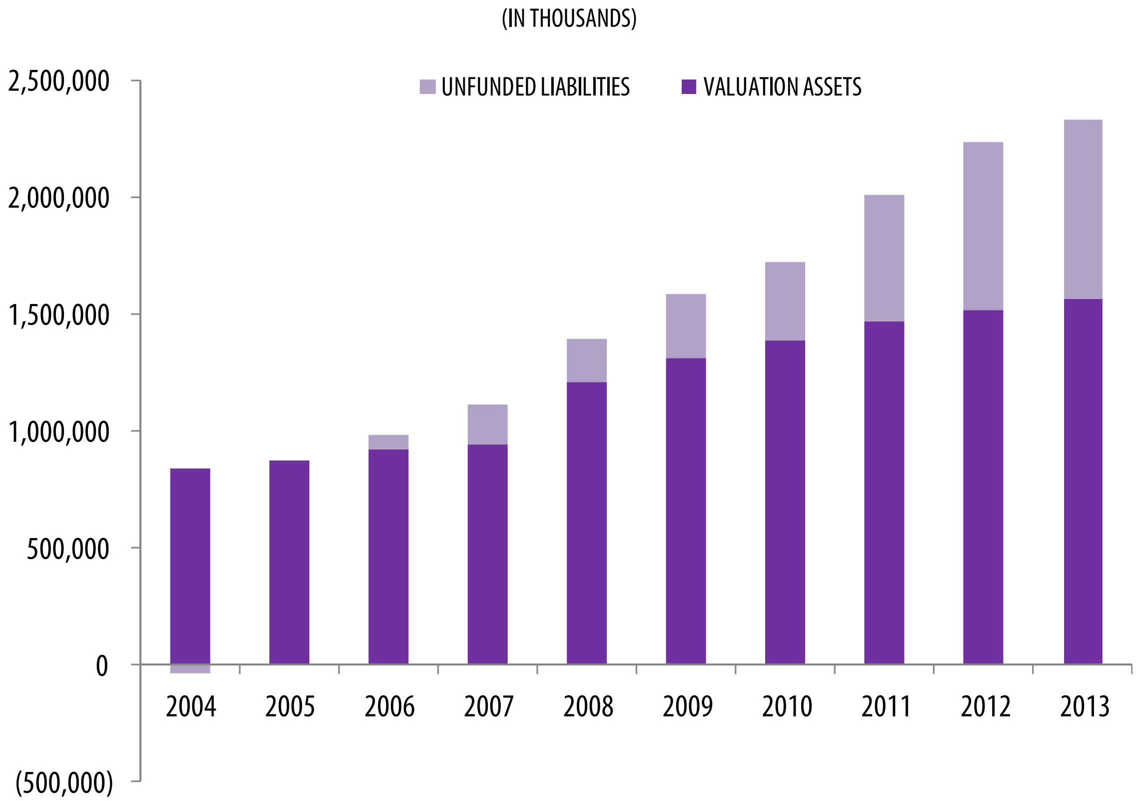
VALUATION ASSETS vs. PENSION LIABILITIES
INCLUDES HEALTH INSURANCE SUBSIDY
LAST TEN FISCAL YEARS
(IN THOUSANDS)

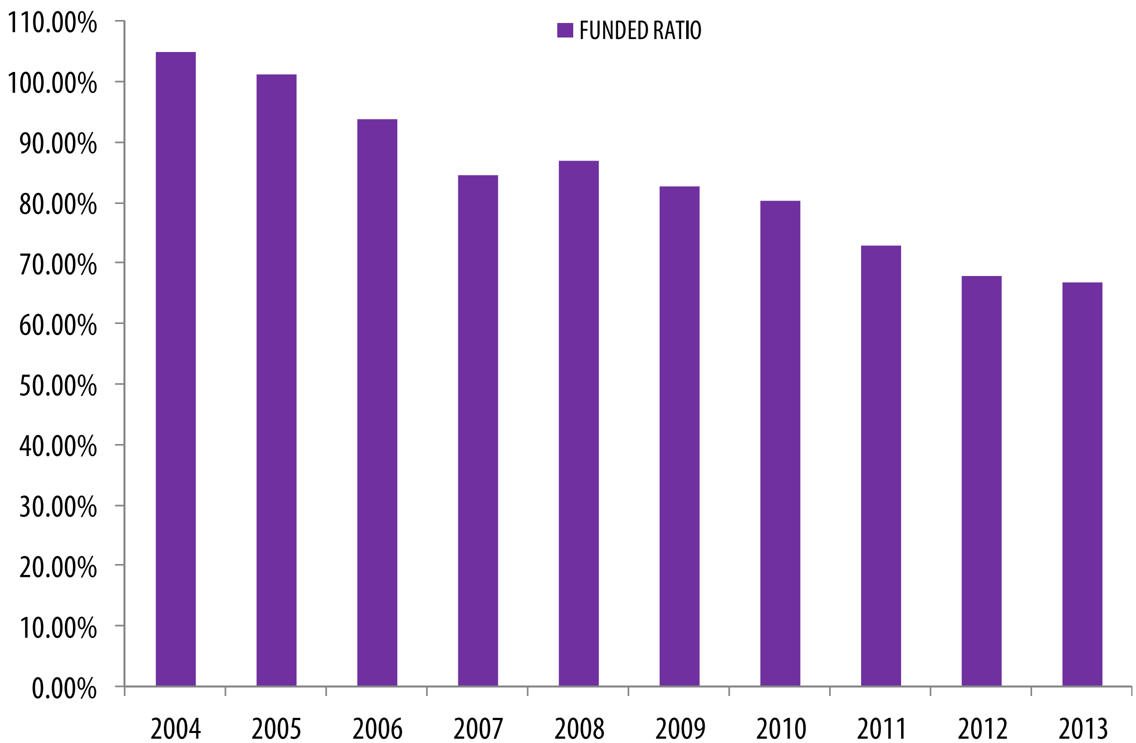
YEAR ENDING JUNE 30,	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO
2004	833,621	(37,846)	795,775	104.80%
2005	872,981	(9,190)	863,791	101.10%
2006	919,867	61,340	981,207	93.70%
2007	940,126	170,675	1,110,801	84.60%
2008	1,207,026	183,337	1,390,363	86.80%
2009	1,309,124	275,169	1,584,293	82.60%
2010	1,382,144	339,862	1,722,006	80.30%
2011	1,466,750	541,820	2,008,569	73.00%
2012	1,512,989	718,555	2,231,544	67.80%
2013	1,559,583	770,655	2,330,238	66.90%

SCHEDULE OF BENEFITS BY TYPE AND RANGE
FISCAL YEAR 2013

MONTHLY BENEFIT AMOUNT	NORMAL BENEFITS	SURVIVOR BENEFITS	DISABILITY BENEFITS	TOTAL BENEFITS
Under 1,000	12	7	5	24
1,001-2,000	285	100	5	390
2,001-3,000	410	262	24	696
3,001-4,000	636	111	58	805
4,001-5,000	800	24	16	840
5,001-6,000	461	18	4	483
6,001-7,000	248	6	2	256
7,001-8,000	124	1	0	125
8,001-9,000	82	1	1	84
9,001-10,000	46	0	0	46
Over 10,001	61	0	0	61
Totals	**3,165**	**530**	**115**	**3,810**

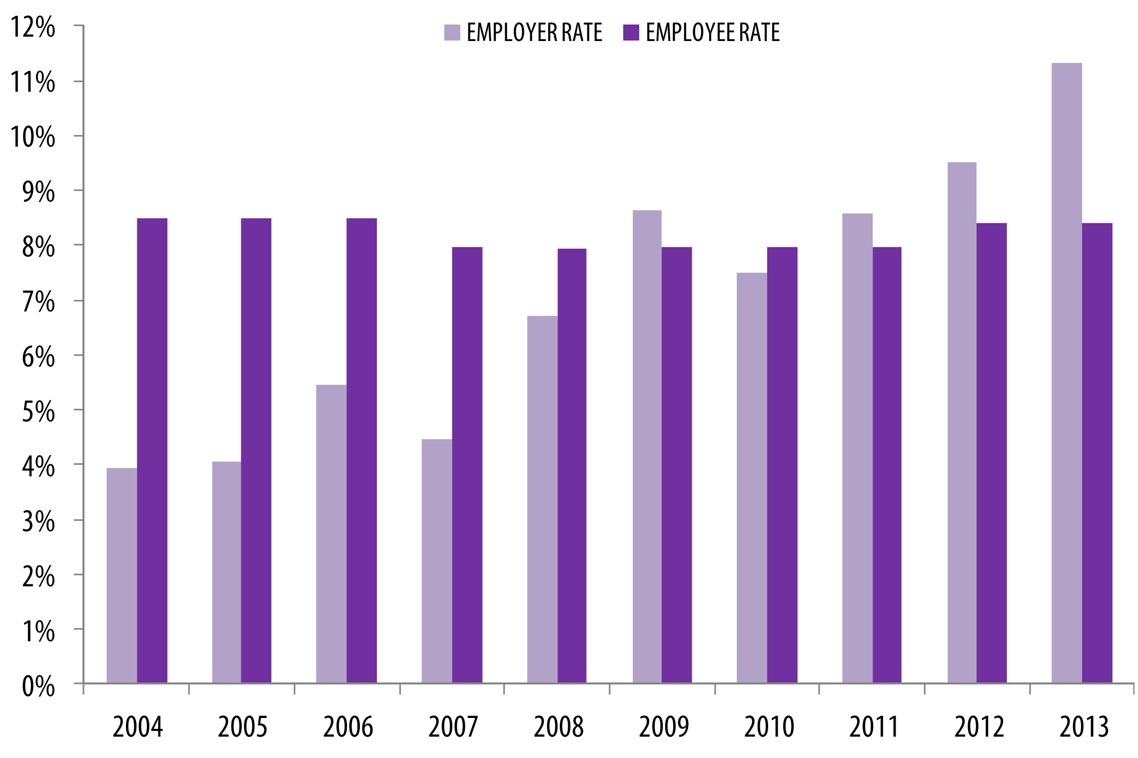
FINANCIAL TRENDS





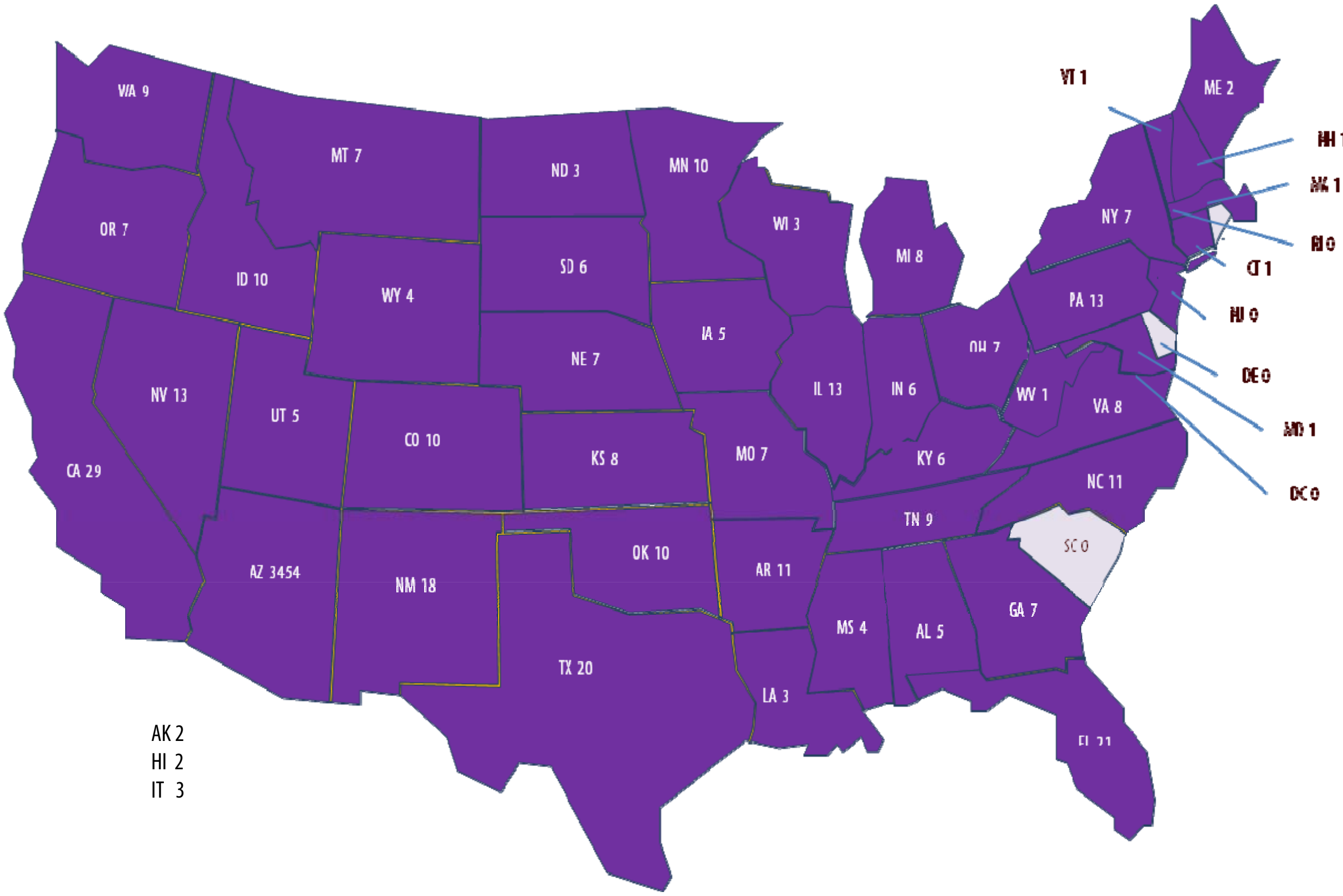
CONTRIBUTION RATES
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	AVERAGE EMPLOYER RATE	EMPLOYEE RATE
2004	3.95%	8.50%
2005	4.07%	8.50%
2006	5.47%	8.50%
2007	4.46%	7.96%
2008	6.72%	7.93%
2009	8.65%	7.96%
2010	7.49%	7.96%
2011	8.57%	7.96%
2012	9.50%	8.41%
2013	11.31%	8.41%



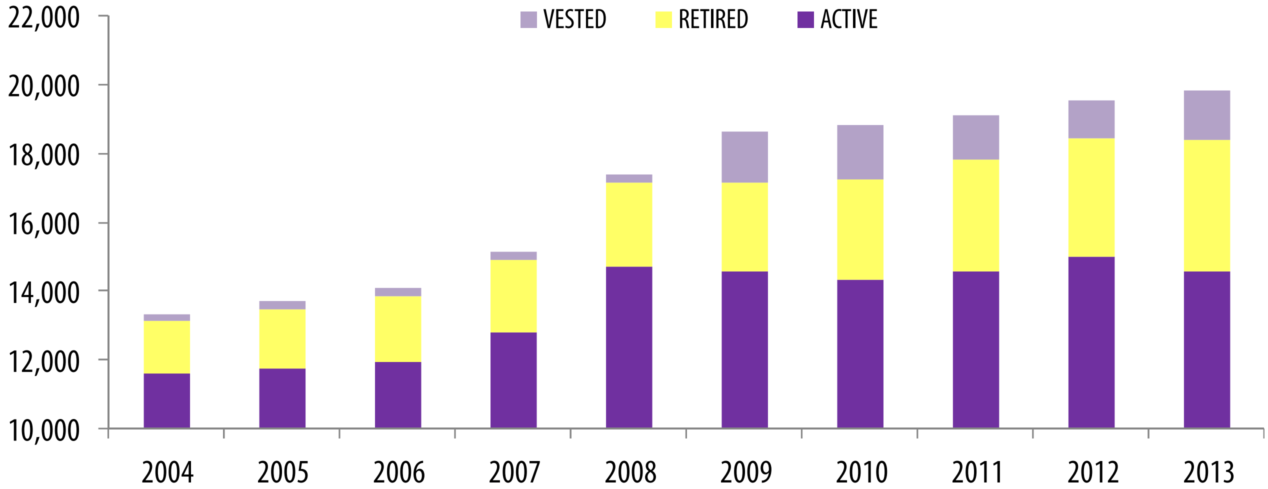
OPERATING INFORMATION

DISTRIBUTION OF BENEFIT RECIPIENTS BY LOCATION



MEMBERSHIP IN RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	ACTIVE	BENEFICIARY RETIRED	TERMINATED VESTED	TOTAL
2004	11,583	1,536	185	13,304
2005	11,752	1,733	196	13,681
2006	11,914	1,955	229	14,098
2007	12,780	2,123	233	15,136
2008	14,716	2,428	273	17,417
2009	14,580	2,591	1,476	18,647
2010	14,319	2,908	1,601	18,828
2011	14,565	3,256	1,300	19,121
2012	14,991	3,476	1,101	19,568
2013	14,580	3,810	1,463	19,853



PRINCIPAL PARTICIPATING EMPLOYERS
LAST TEN FISCAL YEARS

	2013			2004		
EMPLOYER	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**
STATE	8,786	1	60.26%	8,198	1	70.77%
MARICOPA COUNTY	2,089	2	14.33%	1,318	2	11.38%
PIMA COUNTY	475	3	3.26%	427	3	3.69%
PINAL COUNTY	265	4	1.82%	113	6	0.98%
YAVAPAI COUNTY	162	5	1.11%	190	4	1.64%
YUMA COUNTY	143	6	0.98%	150	5	1.30%
MOHAVE COUNTY	112	7	0.77%	74	7	0.64%
COCONINO COUNTY	98	8	0.67%	70	8	0.60%
GILA COUNTY	63	9	0.43%	45	10	0.39%
COCHISE COUNTY	55	10	0.38%	66	9	0.57%
ALL OTHERS	2,332		15.99%	932		8.04%
TOTAL	**14,580**		**100.00%**	**11,583**		**100.00%**

SUMMARY OF BENEFIT INCREASES
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	UTILIZED TO FUND COLA	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2004	5.77%	18,478,098	(7,810,709)	45,912,625	4.00%
2005	0.23%	810,817	(9,545,626)	41,415,092	4.00%
2006	0.00%	-	(11,506,060)	33,292,645	4.00%
2007	7.77%	35,123,022	(13,572,783)	60,426,061	4.00%
2008	0.00%	-	(15,533,554)	40,633,678	4.00%
2009	0.00%	-	(18,197,108)	15,124,946	4.00%
2010	4.47%	22,836,733	(21,264,230)	18,734,779	4.00%
2011	0.00%	-	(21,989,010)	-	4.00%
2012	-	-	-	-	-
2013	-	-	-	-	-

SUMMARY OF GROWTH OF THE SYSTEM
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	TOTAL ASSETS AT BOOK	INVESTMENT REALIZED EARNINGS	ASSUMED ACTUARIAL YIELD	NET EFFECTIVE YIELD	AVERAGE EMPLOYER RATE
2004	615,695,876	23,472,984	9.00%	3.98%	3.95%
2005	662,258,326	43,327,649	8.75%	7.01%	4.07%
2006	744,246,872	73,445,862	8.50%	11.18%	5.47%
2007	840,116,484	90,731,938	8.50%	12.14%	4.46%
2008	1,108,093,837	125,821,779	8.50%	13.50%	6.72%
2009	1,057,808,935	(175,258,029)	8.50%	-13.04%	8.65%
2010	1,095,569,678	(322,346)	8.50%	1.50%	7.49%
2011	1,162,499,803	56,158,378	8.25%	6.43%	8.57%
2012	1,205,454,963	38,880,876	8.00%	4.27%	9.50%
2013	1,283,208,335	68,918,508	7.85%	7.20%	11.31%

BENEFITS PAYABLE JUNE 30, 2013
BY TYPE OF BENEFIT

PENSIONS BEING PAID	NO.	ANNUAL PENSIONS	AVERAGE PENSIONS
RETIRED MEMBERS			
Service Pensions	3,164	85,438,594	27,003
Disability Pensions	115	2,342,222	20,367
Total Retired Members	**3,279**	**87,780,816**	**26,771**
SURVIVORS OF MEMBERS			
Spouses	494	8,191,426	16,582
Children w/Guardians	37	493,333	13,333
Total Survivors of Members	**531**	**8,684,759**	**16,355**
TOTAL PENSIONS BEING PAID	**3,810**	**96,465,575**	**25,319**

	AVERAGE AGE	AVERAGE SERVICE	AVG. AGE AT RETIREMENT
Normal retired members	63.5	19.8	56.7
Disability retired members	55.6	9.6	45.7
Spouse beneficiaries	65.7	12.2	52.2

AVERAGE MONTHLY BENEFIT AMOUNTS
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,		YEARS OF CREDITED SERVICE BY CATEGORY <5	5-10	10-15	15-20	20-25	25-30	30+	ALL MEMBERS
2004	Average monthly benefit								1,425
	Average final average salary								2,701
	Number of retirees								1,536
2005	Average monthly benefit								1,507
	Average final average salary								2,779
	Number of retirees								1,733
2006	Average monthly benefit								1,589
	Average final average salary								2,892
	Number of retirees								1,955
2007	Average monthly benefit								1,675
	Average final average salary								3,096
	Number of retirees								2,123
2008	Average monthly benefit	1,093	998	1,028	1,467	2,055	2,934	3,506	1,753
	Average final average salary								3,354
	Number of retirees	122	158	554	391	849	288	66	2,428
2009	Average monthly benefit	1,155	1,080	1,079	1,596	2,227	3,311	4,019	1,900
	Average final average salary								3,535
	Number of retirees	126	164	614	400	930	290	67	2,591
2010	Average monthly benefit	1,208	1,133	1,131	1,669	2,308	3,397	4,189	1,999
	Average final average salary								3,606
	Number of retirees	132	172	671	438	1,078	335	82	2,908
2011	Average monthly benefit	1,235	1,172	1,169	1,733	2,364	3,424	4,322	2,089
	Average final average salary								3,682
	Number of retirees	138	176	715	458	1,272	399	98	3,256
2012	Average monthly benefit	1,233	1,185	1,168	1,733	2,363	3,392	4,435	2,108
	Average final average salary								3,743
	Number of retirees	142	170	740	477	1,406	434	107	3,476
2013	Average monthly benefit	1,243	1,189	1,176	1,721	2,357	3,373	4,333	2,110
	Average final average salary								3,808
	Number of retirees	148	169	811	524	1,566	477	115	3,810

** Detailed information not available prior to fiscal year ending June 30, 2008.*

OPERATING INFORMATION

SCHEDULE OF CHANGES IN REFUNDABLE MEMBER RESERVE BALANCES
FISCAL YEAR ENDED JUNE 30, 2013

SYSTEM	2012 BALANCES	RESERVE TRANSFERS	CONTRIBUTIONS RECEIVED	WITHDRAWN MEMBERS	2013 BALANCES
ADMIN. OFFICE OF THE COURT	71,102,740	(3,350,334)	8,481,808	(1,488,428)	74,745,785
APACHE COUNTY - DETENTION	299,359	232	51,608	(67,384)	283,815
CITY OF AVONDALE - DETENTION	291,035	0	46,391	0	337,426
CITY OF SOMERTON - DISPATCHERS	108,487	0	15,223	(9,707)	114,003
COCHISE COUNTY - DETENTION	1,242,393	(58,046)	175,968	(109,487)	1,250,828
COCONINO COUNTY - DETENTION	1,689,715	(166,776)	369,593	(73,297)	1,819,235
DEPARTMENT OF CORRECTIONS - DETENTION	200,804,052	(12,346,338)	28,059,221	(14,033,288)	202,483,646
DEPARTMENT OF PUBLIC SAFETY	2,407,155	(71,862)	221,803	(73,034)	2,484,062
D.P.S. - DETENTION	0	0	14,523	0	14,523
DEPT OF JUVENILE CORRECTIONS-DETENTION	12,883,604	(822,935)	1,657,549	(930,598)	12,787,620
GILA COUNTY - DETENTION	996,733	(42,920)	193,300	(49,086)	1,098,027
GILA COUNTY - DISPATCHERS	287,327	(40,622)	21,738	(19,868)	248,575
GRAHAM COUNTY - DETENTION	490,059	(2,110)	93,219	(62,011)	519,156
GRAHAM COUNTY - DISPATCHERS	144,759	0	21,885	(23,324)	143,320
MARICOPA COUNTY - DETENTION	52,272,346	(2,804,393)	7,501,303	(1,659,291)	55,309,966
MOHAVE COUNTY - DETENTION	1,386,242	(55,530)	319,153	(248,656)	1,401,210
NAVAJO COUNTY - DETENTION	788,347	(72,075)	150,264	(54,598)	811,939
PIMA COUNTY - DETENTION	347,488	0	34,575	(10,629)	371,434
PINAL COUNTY - DETENTION	12,279,282	(773,979)	1,694,174	(663,542)	12,535,935
PINAL COUNTY - DISPATCHERS	6,739,773	(223,135)	1,099,703	(271,464)	7,344,877
SANTA CRUZ COUNTY - DETENTION	468,590	(6,391)	58,216	(34,600)	485,814
TOWN OF MARANA - DISPATCHERS	419,395	(4,654)	120,096	(72,806)	462,031
ORO VALLEY - DISPATCHERS	308,101	0	38,219	(34,529)	311,791
TOWN OF WICKENBURG-DISPATCHERS	93,793	0	13,678	0	107,470
YAVAPAI COUNTY - DETENTION	3,152,352	(62,855)	521,096	(252,335)	3,358,258
YAVAPAI COUNTY - DISPATCHERS	148,334	0	22,190	(27,745)	142,779
YUMA COUNTY - DETENTION	2,684,342	(98,757)	466,775	(131,859)	2,920,501
TOTAL	**373,835,801**	**(21,003,481)**	**51,463,274**	**(20,401,566)**	**383,894,028**

SCHEDULE OF CHANGES IN EMPLOYER RESERVE BALANCES AND UNFUNDED ACTUARIAL ACCRUED LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2013

SYSTEM	2012 BALANCES	RESERVE TRANSFERS	CONTRIB RECEIVED	PENSION PAYMENTS	SUBSIDY PAYMENTS	DROP PAYMENT	ENHANCED REFUNDS	DIST. OF EARNINGS	2013 BALANCES	UNFUNDED AAL 2012
ADMIN. OFFICE OF THE COURT	173,765,140	3,808,352	13,063,051	(13,610,114)	(306,145)	0	(712,606)	26,578,334	202,586,011	154,189,421
APACHE COUNTY - CORP	957,942	(232)	50,356	(91,338)	(750)	0	(58,453)	128,630	986,156	293,908
CITY OF AVONDALE - DETENTION	393,607	0	50,444	0	0	0	0	78,622	522,673	276,555
CITY OF SOMERTON - DISPATCHERS	234,045	0	24,174	(31,707)	(600)	0	0	36,597	262,509	397,781
COCHISE COUNTY - CORP	3,354,576	24,094	224,276	(342,090)	(4,406)	0	(59,925)	485,013	3,681,538	2,033,227
COCONINO COUNTY - CORP	3,484,180	(11,755)	271,441	(133,665)	(4,910)	0	(17,066)	567,439	4,155,664	1,020,260
DEPARTMENT OF CORRECTIONS - CORP	495,223,587	11,458,073	36,807,686	(56,255,801)	(1,966,110)	0	(7,970,048)	73,779,516	551,076,903	386,470,115
DEPARTMENT OF PUBLIC SAFETY	4,271,272	71,862	220,131	(179,797)	(7,799)	0	(11,223)	725,399	5,089,845	3,253,284
DEPARTMENT OF PUBLIC SAFETY DETEN-TION	0	0	(7,177)	0	0	0	0	394	(6,783)	0
DEPT OF JUVENILE CORRECTIONS-CORP	44,335,047	895,646	2,304,443	(5,594,935)	(192,591)	0	(561,025)	5,962,860	47,149,445	27,918,703
GILA COUNTY - CORP	1,881,936	11,992	201,303	(76,136)	(850)	0	(2,594)	321,347	2,336,997	313,937
GILA COUNTY - DISPATCHERS	921,625	40,622	18,919	(78,893)	0	0	(7,947)	126,121	1,020,448	298,626
GRAHAM COUNTY - DETENTION	1,123,060	(187)	89,004	(102,304)	(2,580)	0	(7,411)	173,312	1,272,894	460,516
GRAHAM COUNTY - DISPATCHERS	238,769	0	16,370	0	0	0	(18,436)	40,946	277,649	(5,527)
MARICOPA COUNTY - CORP	112,199,566	2,820,175	9,488,037	(11,574,645)	(180,981)	(26,318)	(726,955)	17,792,171	129,791,052	90,512,878
MOHAVE COUNTY - CORP	3,875,322	55,880	298,895	(182,723)	(2,052)	0	(110,091)	568,332	4,503,562	(691,802)
NAVAJO COUNTY - CORP	2,091,000	72,075	139,396	(133,216)	0	0	(21,912)	313,104	2,460,447	392,348
PIMA COUNTY - CORP	31,613,198	696,054	2,665,776	(4,322,257)	(142,833)	0	(218,333)	4,650,473	34,942,078	34,889,516
PINAL COUNTY - CORP	11,709,120	256,162	1,091,694	(484,463)	(7,810)	0	(78,128)	2,052,833	14,539,408	6,045,483
PINAL COUNTY - DISPATCHERS	733,036	(2,290)	55,510	(52,469)	0	0	(3,731)	129,641	859,697	666,600
SANTA CRUZ COUNTY - CORP	1,456,521	(1,081)	105,959	(96,855)	0	0	(36,013)	201,982	1,630,514	(160,784)
TOWN OF MARANA - DISPATCHERS	334,331	0	34,906	0	0	0	(8,778)	70,501	430,960	427,402
ORO VALLEY - DISPATCHERS	646,775	0	51,771	(64,891)	(1,200)	0	0	107,154	739,609	793,260
TOWN OF WICKENBURG-DISPATCHERS	242,646	0	24,296	(28,213)	0	0	0	36,607	275,336	243,364
YAVAPAI COUNTY - CORP	5,486,003	53,230	684,215	(696,312)	(4,564)	0	(94,834)	934,403	6,362,141	5,795,139
YAVAPAI COUNTY - DISPATCHERS	431,265	0	18,845	(37,760)	0	0	(5,780)	60,541	467,111	123,909
YUMA COUNTY - CORP	7,314,239	98,757	447,202	(616,438)	(3,553)	0	(46,643)	1,078,567	8,272,129	2,596,720
TOTALS	**908,317,806**	**20,347,429**	**68,440,925**	**(94,787,025)**	**(2,829,735)**	**(26,318)**	**(10,777,932)**	**137,000,843**	**1,025,685,993**	**718,554,839**

*See Note 14.

SCHEDULE OF CHANGES IN EMPLOYER EARNINGS DISTRIBUTION
FISCAL YEAR ENDED JUNE 30, 2013

SYSTEM	2012 EMPLOYER RESERVE	2013 EMPLOYER RESERVE	2012 MEMBER RESERVE	2013 MEMBER RESERVE	COMBINED RESERVES	MEAN BALANCE	FACTOR	INVESTMENT EARNINGS
ADMIN. OFFICE OF THE COURT	173,765,140	176,007,677	71,102,740	74,745,785	495,621,341	123,905,335	19.400%	26,578,334
APACHE COUNTY - CORP	957,942	857,525	299,359	283,815	2,398,642	599,661	0.094%	128,630
CITY OF AVONDALE - DETENTION	393,607	444,051	291,035	337,426	1,466,118	366,530	0.057%	78,622
CITY OF SOMERTON - DISPATCHERS	234,045	225,912	108,487	114,003	682,447	170,612	0.027%	36,597
COCHISE COUNTY - CORP	3,354,576	3,196,524	1,242,393	1,250,828	9,044,321	2,261,080	0.354%	485,013
COCONINO COUNTY - CORP	3,484,180	3,588,225	1,689,715	1,819,235	10,581,356	2,645,339	0.414%	567,439
DEPARTMENT OF CORRECTIONS - CORP	495,223,587	477,297,388	200,804,052	202,483,646	1,375,808,673	343,952,168	53.853%	73,779,516
DEPARTMENT OF PUBLIC SAFETY	4,271,272	4,364,446	2,407,155	2,484,062	13,526,935	3,381,734	0.529%	725,399
DEPARTMENT OF PUBLIC SAFETY DETENTION	0	(7,177)	0	14,523	7,346	1,837	0.000%	394
DEPT OF JUVENILE CORRECTIONS-CORP	44,335,047	41,186,585	12,883,604	12,787,620	111,192,855	27,798,214	4.352%	5,962,860
GILA COUNTY - CORP	1,881,936	2,015,650	996,733	1,098,027	5,992,346	1,498,087	0.235%	321,347
GILA COUNTY - DISPATCHERS	921,625	894,327	287,327	248,575	2,351,854	587,964	0.092%	126,121
GRAHAM COUNTY - DETENTION	1,123,060	1,099,581	490,059	519,156	3,231,856	807,964	0.127%	173,312
GRAHAM COUNTY - DISPATCHERS	238,769	236,703	144,759	143,320	763,550	190,888	0.030%	40,946
MARICOPA COUNTY - CORP	112,199,566	111,998,880	52,272,346	55,309,966	331,780,758	82,945,189	12.987%	17,792,171
MOHAVE COUNTY - CORP	3,875,322	3,935,230	1,386,242	1,401,210	10,598,004	2,649,501	0.415%	568,332
NAVAJO COUNTY - CORP	2,091,000	2,147,343	788,347	811,939	5,838,629	1,459,657	0.229%	313,104
PIMA COUNTY - CORP	31,613,198	30,291,605	12,279,282	12,535,935	86,720,019	21,680,005	3.394%	4,650,473
PINAL COUNTY - CORP	11,709,120	12,486,575	6,739,773	7,344,877	38,280,345	9,570,086	1.498%	2,052,833
PINAL COUNTY - DISPATCHERS	733,036	730,056	468,590	485,814	2,417,495	604,374	0.095%	129,641
SANTA CRUZ COUNTY - CORP	1,456,521	1,428,532	419,395	462,031	3,766,480	941,620	0.147%	201,982
TOWN OF MARANA - DISPATCHERS	334,331	360,459	308,101	311,791	1,314,681	328,670	0.051%	70,501
ORO VALLEY - DISPATCHERS	646,775	632,455	347,488	371,434	1,998,153	499,538	0.078%	107,154
TOWN OF WICKENBURG-DISPATCHERS	242,646	238,729	93,793	107,470	682,638	170,660	0.027%	36,607
YAVAPAI COUNTY - CORP	5,486,003	5,427,738	3,152,352	3,358,258	17,424,351	4,356,088	0.682%	934,403
YAVAPAI COUNTY - DISPATCHERS	431,265	406,570	148,334	142,779	1,128,947	282,237	0.044%	60,541
YUMA COUNTY - CORP	7,314,239	7,193,563	2,684,342	2,920,501	20,112,644	5,028,161	0.787%	1,078,567
TOTALS	**908,317,806**	**888,685,150**	**373,835,801**	**383,894,028**	2,554,732,786	**638,683,197**	**100.000%**	**137,000,843**

*See Note 14.

PARTICIPATING EMPLOYERS

DEPARTMENT OF CORRECTIONS
DEPARTMENT OF JUVENILE CORRECTIONS
DEPARTMENT OF PUBLIC SAFETY - DISPATCHERS
DEPARTMENT OF PUBLIC SAFETY - DETENTION

CITY OF AVONDALE - DETENTION OFFICERS

APACHE COUNTY - AOC
COCHISE COUNTY - AOC
COCONINO COUNTY - AOC
GILA COUNTY - AOC
GRAHAM COUNTY - AOC
GREENLEE COUNTY - AOC
LA PAZ COUNTY - AOC
MARICOPA COUNTY - AOC
MOHAVE COUNTY - AOC
NAVAJO COUNTY - AOC
PIMA COUNTY - AOC
PINAL COUNTY - AOC
SANTA CRUZ COUNTY - AOC
YAVAPAI COUNTY - AOC
YUMA COUNTY - AOC

APACHE COUNTY - DETENTION OFFICERS
COCHISE COUNTY - DETENTION OFFICERS
COCONINO COUNTY - DETENTION OFFICERS
GILA COUNTY - DETENTION OFFICERS
GILA COUNTY - DISPATCHERS
GRAHAM COUNTY - DETENTION OFFICERS
GRAHAM COUNTY - DISPATCHERS
MARICOPA COUNTY - DETENTION OFFICERS
MOHAVE COUNTY - DETENTION OFFICERS
NAVAJO COUNTY - DETENTION OFFICERS
PIMA COUNTY - DETENTION OFFICERS
PINAL COUNTY - DETENTION OFFICERS
PINAL COUNTY - DISPATCHERS
SANTA CRUZ COUNTY - DETENTION OFFICERS
YAVAPAI COUNTY - DETENTION OFFICERS
YAVAPAI COUNTY - DISPATCHERS
YUMA COUNTY - DETENTION OFFICERS
CITY OF SOMERTON - DISPATCHERS
TOWN OF MARANA - DISPATCHERS
TOWN OF ORO VALLEY - DISPATCHERS
TOWN OF WICKENBURG - DISPATCHERS

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