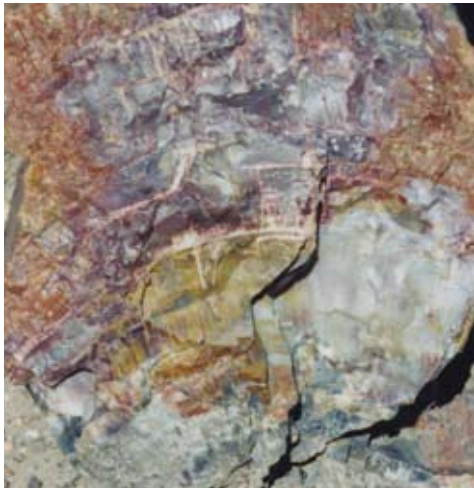
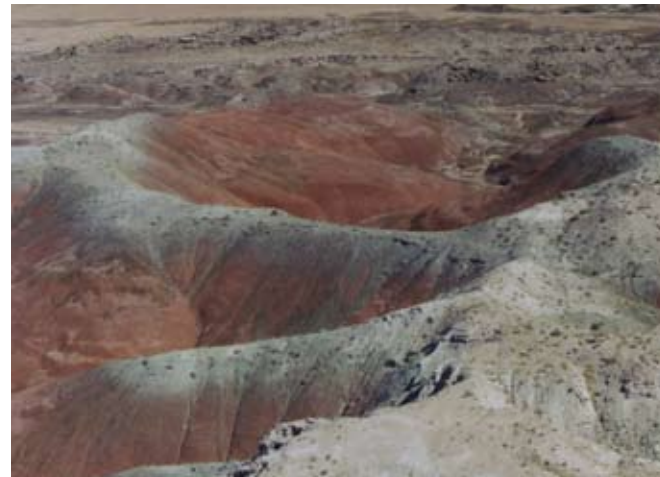


Corrections Officer Retirement Plan



21st COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



For the Fiscal Year ended June 30, 2007

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's best for our members and financial health and integrity of the System
- Proactive
- Committed to high quality, uniform, sustainable service
- Innovative and cost effective in Plan administration and services
- Use best practices in Human Resource management

Corrections Officer Retirement Plan

A Pension Trust Fund of the State of Arizona

Twenty-First Comprehensive Annual Financial Report

**For the Fiscal Year Ended
June 30, 2007**

Prepared by the Staff of PSPRS

Public Safety Personnel Retirement System
3010 E Camelback Road, Suite 200
Phoenix, Arizona 85016
Phone 602-255-5575 Fax 602-255-5572 www.psprs.com

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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, 2006

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



President

Executive Director

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN**Carter Olson**
*Fund Manager Chairman***Billy Shields**
*Fund Manager Vice Chairman***Fritz Beesemyer**
*Fund Manager Member***Brian Delfs**
*Fund Manager Advisor***Mike Galloway**
*Fund Manager Member***James Gentner**
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FAX: (602) 255-5572**James M Hacking**
*Administrator***Ryan Parham** **Tracey D. Peterson**
Interim CIO *Assistant Administrator-COO*

February 8, 2008

The Honorable Janet Napolitano
Governor of the State of Arizona
State Capitol
Phoenix, Arizona 85007

Dear Governor Napolitano:

The Fund Manager of the Public Safety Personnel Retirement System (PSPRS) respectfully submits the Twenty-First Comprehensive Annual Financial Report (CAFR) for the Corrections Officer Retirement Plan (CORP) for the fiscal year ended June 30, 2007 (FY'07), in accordance with the provisions of A.R.S. Section 38-883.

The CORP Funding Ratio

As of fiscal year-end, we must report that the financial status of the CORP, as reflected in its funding ratio, has declined significantly relative to what it was one year earlier. At June 30, 2006 that funding ratio was 93.7%; at June 30, 2007, it was down to 84.6%. But before summarizing the Plan's fiscal year-end funding situation and the factors that occurred during the fiscal year that led to the year-end results, we must first provide some historical perspective.

As you recall, during the 1990s, PSPRS annually generated investment returns well in excess of the System's actuarially assumed rate of 9%. As a result, throughout the decade and through FY'04, the CORP was more than 100% funded. It appeared that all was well. In reality, however, that was not the case. The financial health of the Plan was predicated on an investment strategy that entailed an extraordinary degree of risk.

During the last half of the 1990's, the Plan's portfolios were increasingly concentrated and invested in "high tech" securities. But in March, 2000, the "tech" bubble began to deflate. From June 30, 2000 to June 30, 2002, the asset value of the CORP declined from \$748 million to \$552 million – an asset value loss of over 26%. Not until June 30, 2005 was the Plan's market value of assets roughly back to where it had been at the end of fiscal year 2000. But by that time, the Plan's liabilities for present and promised future benefits had increased 72.3%.

Since the System uses a seven year averaging process to determine its fiscal year-end actuarial value of assets, the effects of the 2000-2002 asset value loss will not be fully reflected in the Plan's funding ratio until the end of FY'09.

Although the 2000-2002 asset value loss has been by far the major cause of the Plan's funding ratio erosion, other factors also contributed. Some of these include: the less favorable investment environment that caused us to reduce the actuarial expected rate of return on assets from 9.0% to 8.5%; and the statutory provisions that require us to divert 50% of investment returns in excess of 9% into the Plan's Benefit Increase Reserve such that the Reserve assets are not taken into account for funding ratio and employer contribution rate calculations.

Still another factor contributed to the funding ratio deterioration from FY'06 to FY'07. In this most recently completed fiscal year, the System was required to make a variety of changes in actuarial technique and demographic assumptions. These changes, which increased the Plan's unfunded liability, were necessitated

Introductory Section

by actuarial audits conducted by the Legislature's actuarial auditing firm, Segal & Co. and by the System's actuarial auditing firm, Milliman Consultants and Actuaries.

Employer Contribution Rates

When times were good and the CORP was over-funded, the CORP employers' contribution rates were abnormally low. For example, early in the decade the computed aggregate employer contribution was only 1.71%.

But with the decline in the Plan's funding ratio, the employer contribution requirements have been increasing year-by-year. The current aggregate CORP employer contribution requirement is 6.77%. But as a result of the Plan's FY'07 lower funding ratio, that aggregate rate will increase to 8.68%, effective July 1, 2008.

As we move into the new fiscal year, the System's Administrator will undertake consultations with representatives of the System's constituency groups and the contributing employers to determine whether a consensus exists with respect to any of a variety of options that could be employed to limit, in the short term, the degree to which the employer rates will increase next July 1st.

FY'07 Investment Results

The FY'07 rate of return on the invested assets of the CORP was 16.8% -- a rate of return that compares favorably with the 15.1% weighted composite rate of return benchmark for the Plan and with its 8.5% actuarial assumed rate of return. In addition, since the return was in excess of 9%, significant new assets flowed into the Plan's Reserve for Future Benefit Increases. However, when compared to the median returns of a variety of large public pension fund "peer groups" for the same time period, the CORP's investment results were only 3rd quartile. This less-than-median-return result underscores the continuing need to move ahead with the restructuring of the System's asset management function that began during this last fiscal year.

The very disappointing FY'06 rate of return results (i.e., 8.2%) brought us to the realization that we could not reasonably expect to achieve our long-term rate of return objectives if we simply continued to manage the Plan's assets as has been done in the past. The past practice of managing all the System's publicly traded portfolios internally has severely limited the Plan's asset diversification and caused the Plan to underperform its public retirement system "peer" groups. In order to better position the Plan to achieve its rate of return expectations, enhance returns, control risk and diversify the Plan's assets through exposure to a wider mix of financial markets, we began in FY'07 an asset management restructuring. During the fiscal year, the following was accomplished:

- A new independent investment consulting firm (Ennis, Knupp & Associates) was retained in December, 2006;
- A new and more diversified asset allocation was adopted in February;
- A plan for implementing the new asset allocation was adopted in May;
- The Fund Manager accepted the retirement resignation of the System's CIO and authorized a nation-wide search for a new CIO using an executive search firm;
- A new custodian bank (BNY Mellon Bank) was hired in August (effective October 1st); and
- Barclay Global Investors (BGI) was approved in May to manage the transition of the System's equity assets into U.S. and non-U.S index accounts at BGI with the asset transfer expected to occur after the 2007 holiday season.

Had the Plan had its new asset allocation fully implemented throughout FY'07, and had it just gotten market returns for the various asset classes reflected in the new allocation, the Plan's rate of return would have been 19.25%, as opposed to the 16.8% the Plan actually received. Certainly, given the Plan's financial status, we can ill afford to miss out on such additional investment return potential.

As FY'08 proceeds, the asset management restructuring plan contemplates the following:

- Completing the contract negotiations with BGI;
- Transitioning the System's equity assets into index accounts at BGI;

- Completing the CIO search and selection process;
- Modifying the System's asset allocation to incorporate asset types that have relatively low correlations to equities;
- Conducting searches for portfolio managers that can actively manage equity portfolios with global mandates and for managers that can construct portfolios that have relatively low correlations to equity portfolios;
- Reviewing the internally managed bond portfolio and making changes as appropriate; and
- Increasing commitments to real estate and private equity to achieve greater diversification in those areas.

Expectations for the Financial Status of the CORP in the Future

The funding ratio for the Plan should begin to improve and the employer contribution rates should begin to decline once the 2000-2002 asset value losses drop out of the calculation of the actuarial value of assets (i.e., after the close of Plan FY'09). The fact that, for the first time since June 30, 2000, the Plan had a market value of assets greater than the actuarial value of assets at June 30, 2007 would seem to be a harbinger of an improving trend. The implementation of the System's new asset allocation and the achievement of better-than-expected rates of return on invested assets would serve to accelerate and magnify the expected improving trend.

However, there are two things that could delay the expected improvement:

- A sharp and sustained downturn in the U.S. and global economies and financial markets; and
- Having to reduce the System's actuarial rate of return assumption from 8.5% to 8.0% as was recommended by the actuarial auditing firms, Segal & Co. and Milliman Consultants and Actuaries.

System Governance, Administrative and Internal Control Changes

Developments during the twelve months ending June 30, 2007 that strengthened System governance, increased administrative efficiency and productivity or improved internal controls were as follows:

First, a search process was conducted for a new external audit firm to do a very thorough audit of all aspects of System operations. That process resulted in the selection of the certified public accounting firm of Heinfeld, Meech & Co. P.C. for the external audit role, replacing the firm of Barrows & Schatza.

Second, the Board's Governance Policies were reviewed for compliance once again by Cortex Applied Research. Only a few minor variations were identified; some of these may require amendments to the policies.

Third, the System's Compliance Officer/Internal Auditor initiated a project, the object of which is the development of detailed written procedures for all of the System's processes, including those that relate to asset management as well as benefit determination.

Fourth, the firm of Cost Effective Measurement (CEM) was retained to do an evaluation of the System's historical asset management cost effectiveness in relation to the System's peer group. The report will be made public in December.

Fifth, as indicated above, the System carried out its first actuarial audit and implemented all the immediately necessary changes in actuarial technique and demographic assumptions. These are reflected in the Plan's FY'07 actuarial valuation results.

Sixth, as indicated above, the Board retained a new investment consulting firm, Ennis, Knupp & Associates, to provide the Board with advice and analysis with respect to the management of the System's assets that is independent of that received from the System's professional investment staff.

Seventh, the management staff conducted a search process for a firm to do an independent IT assessment. The staff search committee created for that purpose recommended, and the Board approved, the selection of the Torus Business Group for this assignment. The IT assessment will include, among other things, a focus on the options available for improving the System's position with respect to business continuity and disaster recovery.

Finally, the System implemented a new web site to enable CORP contributing employers to transmit electronically payroll deduction records to accelerate the process and improve efficiency.


Introductory Section

Conclusion


As a Board, we intend to continue our commitment to make the changes that are necessary to improve the financial status of the CORP, moderate the required contributions of the Plan's participating employers and 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 its CORP stakeholders and we look forward to continuing to serve as members of the Fund Manager for this System.

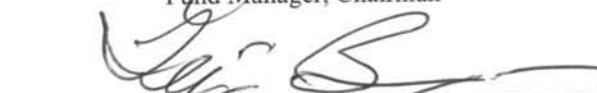
Respectfully submitted,



Carter Olson
Fund Manager, Chairman



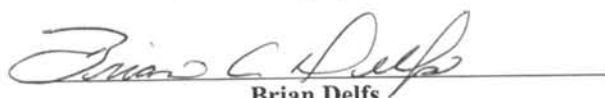
Billy Shields
Fund Manager, Vice Chairman



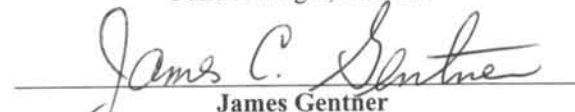
Fritz Beesemyer
Fund Manager, Member



Mike Galloway
Fund Manager, Member



Brian Delfs
Fund Manager, Advisor



James C. Gentner
Fund Manager, Advisor

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James M Hacking
Administrator

Brian Delfs
Fund Manager Advisor

James Gentner
Fund Manager Advisor

Ryan Parham **Tracey D. Peterson**
Interim CIO *Assistant Administrator-COO*

February 8, 2008

The Fund Manager
Public Safety Personnel Retirement System
State of Arizona
Phoenix, Arizona

Gentlemen:

There is presented, herewith, the Twenty-First Comprehensive Annual Financial Report (CAFR) of the operations and financial conditions of the Corrections Officer Retirement Plan (CORP), State of Arizona, for the fiscal year ended June 30, 2007. The Plan is a uniform statewide retirement system that provides retirement, disability and survivor benefits, post retirement adjustments and health insurance subsidies for state, county and local corrections officers, dispatchers, and, most recently, probation, surveillance and juvenile detention officers.

Arizona Revised Statutes Title 38 requires the Fund Manager 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, 2007 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, 2007 actuarial valuation prepared by the System's actuary, Rodwan Consulting Company.

FINANCIAL INFORMATION

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 control 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 to the System are derived from three sources: member contributions, employer contributions and 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 System had a positive investment return this fiscal year that was further enhanced by member contributions and direct employer contributions. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

Introductory Section

Administrative And Investment Expenses

The CORP's FY'07 administrative and investment-related expenses totaled \$991.4 thousand, up from the \$842 thousand during the prior year. Administrative and investment expenses were approximately 10 basis points of the total assets managed. This is very low compared with other public retirement systems. A dedicated staff and constantly improving internal expertise has enabled management to keep costs relatively low even though assets managed have increased over the years and service needs have escalated due to increasing numbers of participants and beneficiaries.

Investments

The total rate of return on the CORP's assets for the fiscal year was 16.8%. The Investment Section of this Report contains graphs depicting the Plan's performance, a detailed summary of the investment portfolio, all investment transactions, and commissions paid to investment professionals who provide services to CORP. All Plan investments were held in trust by the Arizona subsidiary of Wells Fargo, the System's custodian bank.

SYSTEM FINANCIAL OUTLOOK

The following is a summary of the principal trends, and the reasons for those trends, with respect to the financial status of the CORP.

Financial Trends With Respect to Funding Ratios and Employer Contribution Requirements

As Table 1 below shows, the funding ratio of the CORP has declined steadily over the past ten years. During that time, the Plan has gone from an overfunded to an underfunded situation. Table 1 shows the funding ratio calculated using fiscal year-end actuarial value of assets (i.e., an average of the market value of assets over the four years ending June 30th through June 30, 2004 and over the seven years ending June 30th for subsequent fiscal years) and also fiscal year-end market value of assets.

Table 1 – Funding Ratios of the CORP (Actuarial Value & Market Value)

Fiscal Year	Actuarial Value									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CORP	118.1%	133.5%	140.6%	140.1%	123.80%	114.4%	104.8%	101.1%	93.7%	84.6%

Fiscal Year	Market Value									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CORP	135.4%	147.4%	149.2%	115.0%	87.3%	83.5%	84.6%	86.5%	84.4%	85.8%

As the funding ratio of the Plan has declined, the aggregate employer contribution rate has escalated, as Table 2 illustrates. (The employee rate is fixed by statute and is currently 7.96%.)

Table 2 – Aggregate Employer Contribution Rate By Employer Fiscal Year

Fiscal Year	2003	2004	2005	2006	2007	2008	2009
CORP Rate	1.71%	3.95%	4.07%	5.47%	4.46%	6.77%	8.68%

Reasons for the Funding Ratio Decline and the Contribution Rate Increase

The principal reasons for the Plan's funding ratio decline and the employer contribution rate increase are:

- The \$196.1 million asset value loss sustained by the Plan during fiscal years 2001 and 2002;
- The expected less favorable investment environment that caused the System to reduce the actuarial expected rate of return on assets from 9.0% to 8.5%;
- The statutorily required allocation of 50% of investment returns in excess of 9% to the CORP's Benefit Increase Reserve and the fact that the Reserve assets are not taken into account for funding ratio and employer contribution rate calculations; and

- The net increase in liability resulting from the System’s having to make a variety of changes in actuarial technique and demographic assumptions as recommended by the State Legislature’s actuarial auditing firm, Segal & Co. and by the System’s actuarial auditing firm, Milliman Consultants and Actuaries.

Rates of Return on Investments

Table 3 below shows the rates of return of the CORP over the one year ending June 30, 2007 and the annual average returns over the three, five and ten years ending June 30, 2007 relative to the Plan’s weighted composite market return benchmarks for the same periods.

Table 3 – Investment Portfolio Returns

	1 Year	3 Year	5 Year	10 Year
CORP	16.77%	11.32%	10.93%	6.76%
Benchmark*	15.13%	9.89%	9.55%	8.03%

**Benchmark 50% S&P 500, 10% S&P 400, 5% S&P 600, 20% Lehman Gov/Credit, 10% Alternative Investments and 5% 91-Day T-Bill.*

PSPRS Asset Management Restructuring

The past practice of managing all the Plan’s publicly traded portfolios internally has severely limited its asset diversification and caused the Plan to underperform its public retirement system “peer” group. In order to better position the Plan to achieve its rate of return objectives, enhance returns and limit risk through diversification of its assets across a wider mix of financial markets, the System has begun an asset management restructuring. To date the following has occurred:

- A new independent investment consulting firm (Ennis, Knupp & Associates) was retained last December;
- A new and more diversified asset allocation was adopted in February;
- A plan for implementing the new asset allocation was adopted in May;
- The governing Board (i.e., the “Fund Manager”) accepted the retirement resignation of the System’s CIO and authorized a nation-wide search for a new CIO using an executive search firm;
- A new custodian bank (BNY Mellon Bank) was hired in August (effective October 1st); and
- Barclay Global Investors (BGI) was approved in May to manage the transition of the Plan’s equity assets into U.S. and non-U.S index accounts at BGI.

Future steps in the restructuring process include:

- Completing the contract negotiations with BGI;
- Transitioning the System’s equity assets into index accounts at BGI;
- Completing the CIO search and selection process;
- Further modifying the asset allocation to incorporate asset class portfolios that have relatively low correlations with equities;
- Commencing searches for portfolio managers that can actively manage equity portfolios with global mandates and for managers that can manage portfolios that have relatively low correlations with equities;
- Reviewing the internally managed bond portfolio and making changes as appropriate;
- Increasing commitments to real estate and private equities to achieve greater diversification in those areas.

Enacted Legislation

The only legislation enacted during the 2007 session of the Arizona Legislature that impacted the CORP was a minor bill that defines a qualified domestic relations order (DROs) and establishes a specific procedure for processing such DROs.

Introductory Section

Actuarial And Funding Information

Funding a retirement system on a sound actuarial reserve basis involves the accumulation 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 System.

The System is funded through a statutory member contribution of 7.96% of gross payroll, an employer contribution that is expressed as a level percent of gross payroll and reset annually, depending on the results of the Plan's actuarial valuation and the realized and unrealized returns on the invested assets of the Plan.

While each employer has a different contribution rate, depending on the liability for its group of participating employees, the aggregate rate for the contributing employers that will take effect as of July 1, 2008 and that results from the Plan's FY'07 valuation is 8.68%. This rate represents a substantial increase over the 6.77% aggregate rate that is currently in effect.

There is no single all-encompassing test to measure a retirement system's funding progress and current status. A traditional measure 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 has been declining over time and was 84.6% as of June 30, 2007. This funding ratio is substantially less than the 93.7% ratio for the Plan as of June 30, 2006.

The reasons for the erosion in the Plan's funding ratio are set forth in the "System Financial Outlook" section above. However, the two factors that are principally responsible for the decline in the ratio from FY'06 to FY'07 are: 1) the \$196.1 million asset value loss that the Plan sustained during the 2001-2002 fiscal year timeframe (the effects of which will not be fully reflected until the end of Plan year 2009 because of the seven year averaging method that is used in calculating the actuarial value of assets); and 2) the additional unfunded liability that resulted from the changes in actuarial technique and demographic assumptions necessitated by the recommendations from the Legislature's actuarial audit firm, Segal & Company and from the System's actuarial audit firm, Milliman Consultants and Actuaries.

Post Retirement Benefit Increases

State law provides for an annual benefit increase for retirees or their survivors two years after retirement, regardless of age, or when the retiree or survivor attains age 55 and has been retired for a year. These increases are limited to four percent by state law. A benefit increase schedule can be found in the Statistical Section of this CAFR.

These post retirement increases are funded from a portion of the investment returns in excess of 9% that are accumulated in the CORP's Reserve for Future Benefit Increases. These reserves are invested along with all other assets of the Plan. The reserve balance, after subtracting the \$13.6 million needed to fund the July 1, 2007 post retirement increase, was \$60.4 million. The reserve balance reflects a significant increase over the prior year's balance of \$33.3 million. The increase is the result of the Plan's FY'07 16.77% investment return.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for the CORP's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the thirteenth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our FY'07 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

Strategic Initiatives

During this past fiscal year, the CORP's governing board (i.e., the Fund Manager) undertook a category of strategic initiatives that will change the way in which the Plan's assets are managed and invested. (See the "System Financial Outlook" section above for details.) In addition, the System's management implemented a number of initiatives to increase the level of service and resources available to meet the growing needs of the CORP stakeholders. These initiatives fall into the following four categories:

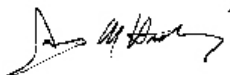
- **Financial Performance:** Initiatives in this category are intended to enable the CORP to achieve its rate of return objectives consistently over time. They include the approval of a new and more diversified asset allocation and a plan to transition the Plan's equity assets to external investment managers and the commencement of the process to retain a new Chief Investment Officer to lead the asset management change agenda.
- **Customer Service:** Implemented initiatives in this category included the augmentation of staffing levels in the Member Services Division and Information Technology Departments to improve the quality, level and timeliness of customer service, counseling for probation, surveillance and juvenile detention officers to enable them decide whether or not to move from the Arizona State Retirement System's Plan to the CORP and more "in-person" training opportunities for the members of CORP Local Boards.
- **Product, Process and Service Improvement:** Initiatives in this category included a continuation of the System's document imaging process, the implementation of new safeguards to protect participant records and data, an IT data base conversion, the automation of the System's payroll process, the addition of a new employer web site to facilitate the transmission of participant contribution deductions and the creation of interactive video conference capability to augment the System's means for providing training for members of CORP Local Boards.
- **Learning and Growth:** Initiatives in this category, which includes a new staff orientation training program, address the need to attract and retain highly qualified employees who are committed to continuously increasing their ability and desire to produce required results, developing and sustaining effective leadership, and fostering a capable and motivated workforce.

SUMMARY

This report is a product of the collective efforts of the System's staff, under the direction of the PSPRS Fund Manager. 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 Fund Manager, the staff, the System's advisors, and all others who have worked so diligently to assure the continued successful operation 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 path of improving financial status.

Respectfully submitted,



James M. Hacking
Administrator

Fund Managers



Carter Olson
Chairman



Billy Shields
Vice Chairman



Fritz Beesemyer
Member



Mike Galloway
Member



Brian Delfs
Advisor



James Gentner
Advisor

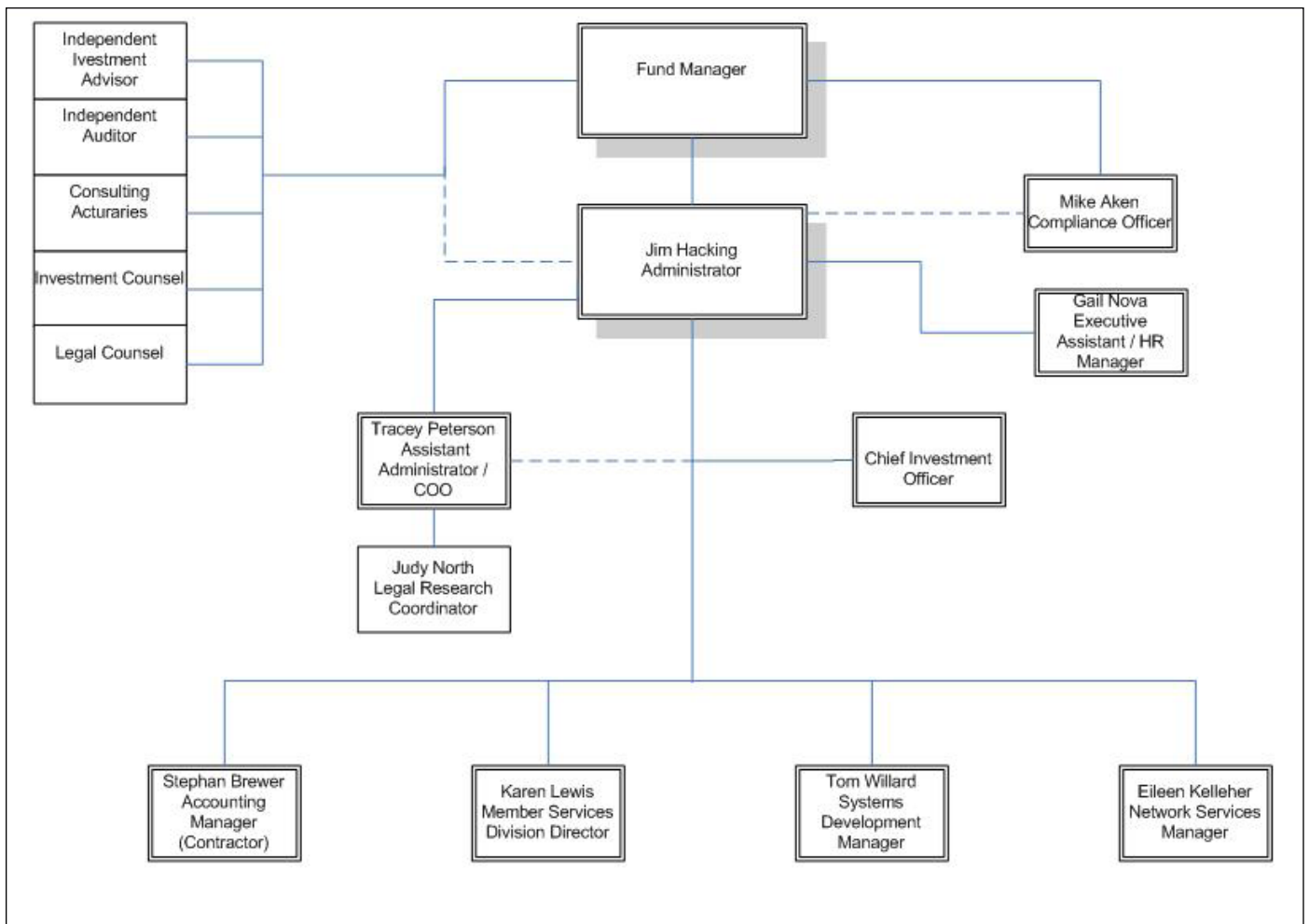
Executive Staff and Organizational Chart



James M. Hacking
Administrator



Tracey D. Peterson
*Assistant Administrator
Chief Operations Officer*



Professional Advisors

Cortex Applied Research

Ennis Knupp & Associates

Heinfeld Meech & Co, P.C.

Kutak Rock, LLP

McLagan Partners, Inc

Rodwan Consulting Group

Rose & Allyn Public Relations

Standard & Poor's Investment Advisory Services LLC

Wells Fargo Bank

Governance Consultant

Investment Advisor

Independent Auditors

General Counsel

Human Resource Consultant

Actuary

Communications Consultant

Investment Consultant

Custodian

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 Investments Section.

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INDEPENDENT AUDITORS' REPORT

Fund Manager
Public Safety Personnel Retirement System
State of Arizona
Phoenix, Arizona:

We have audited the accompanying Statement of Plan Net Assets of the Corrections Officer Retirement Plan (CORP) as of and for the year ended June 30, 2007, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of CORP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2006, presented in the basic financial statements were audited by other accountants and are included for additional analysis only. Neither we nor the other accountants have performed any auditing procedures on this information since the date of their report.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Corrections Officer Retirement Plan, as of June 30, 2007, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2008, 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* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 24 through 28 and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 43 and 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CORP's basic financial statements. The Introductory Section, Supporting Schedules, Other Supplemental Information, Investment Section, Actuarial Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supporting Schedules, as listed in the table of contents under the Financial Section, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Other Supplemental Information, Investment Section, Actuarial Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Heinfeld, Meech & Co., P.C.

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

February 4, 2008

Management Discussion and 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 2007 are as follows:

- The Corrections Officer Retirement Plan (CORP) had a total rate of return of 16.77% this year. Our equity portfolio had a return of 20.54%, which outperformed the stock index by 59 basis points. Our fixed income portfolio had a return of 6.71%, which outperformed the index by 69 basis points.
- As of the close of the fiscal year 2007, the Future Benefit Increase Reserve was \$60.4 million. This will enable another 4% post-retirement adjustment for qualifying retirees or their survivors for the seventeenth consecutive year.
- Retirement benefits paid totaled \$39.7 million for the current year, compared to \$36.7 for the previous year. This represents a 8% increase from the prior year. The majority of this increase is the result of the cost of post-retirement adjustments paid to the retirees or their survivors of the Plan.

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 Assets and The Statement of Changes in Net Assets

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 assets* and changes in them. *Net assets* are the difference between assets and liabilities, one way to measure the financial health, or *financial position*. Over time, *increases or decreases* in the net assets 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 Plan Net Assets and The Statement of Changes in Plan Net Assets.

Required Supplemental 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 Supplemental Information

The Supporting Schedules and Supplemental Information Section includes the Supporting Schedule of Changes in Fund Balance Reserves, Supporting Schedule of Administrative Expenses and Payments to Consultants, Supplemental Schedule of Cash Receipts and Cash Disbursements and the Agency Fund Statement of Changes in Assets & 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

Comparative Statements are included to provide additional analysis of the changes noted on those schedules.

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

	As of 6/30/2007	As of 6/30/2006	Change	%Change
Cash and Equivalents	\$427,900	\$84,244	\$343,656	407.93%
Total Receivables	9,291,148	5,491,056	3,800,091	69.21%
Total Investments	1,014,866,552	856,023,835	158,842,717	18.56%
Securities on Loan	263,196,310	137,546,661	125,649,649	91.35%
Net Capital Assets	725,661	626,082	99,579	15.91%
Total Plan Assets	1,288,507,571	999,771,878	288,735,693	28.88%
Accrued Accounts Payable	904,526	442,491	462,035	104.42%
Investment Purchases Payable	11,469,199	0	11,469,199	0.00
Securities Lending Collateral	263,196,310	137,546,661	125,649,649	91.35%
Total Plan Liabilities	275,570,034	137,989,153	137,580,881	99.70%
Net Assets	\$1,012,937,536	\$ 861,782,725	\$151,154,811	17.54%

The total net assets held in trust for benefits at June 30, 2007 were \$1.0 billion, a 17.54% increase from \$861.7 million at June 30, 2006. The increase in net assets is primarily due to an increase in the financial markets during the fiscal year. The increase in cash and 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 increase in security lending collateral is due to normal fluctuations in the lending program. The investment of the collateral fluctuated in a similar manner and benefited from the market gains as well.

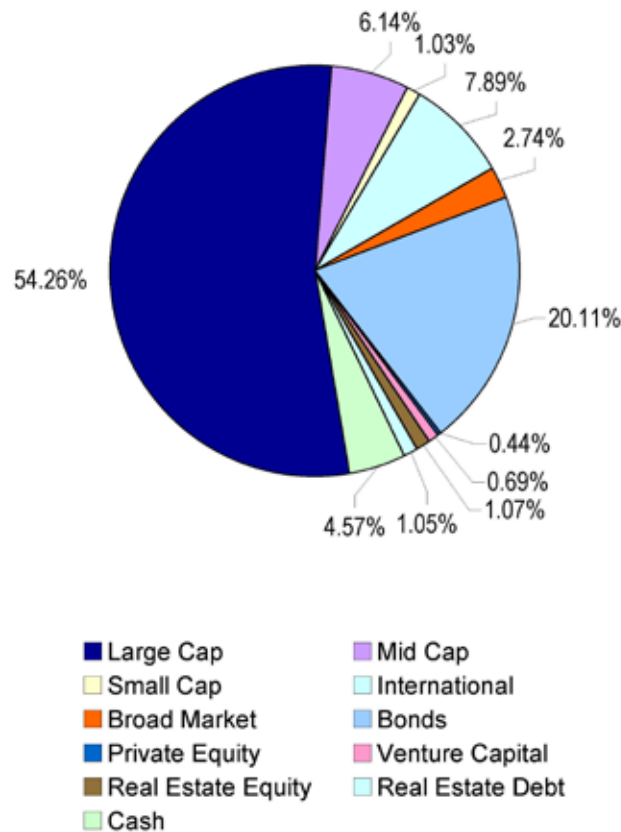
SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

Additions	2007	2006	Change	% Change
Total Contributions	\$64,994,772	\$62,155,794	\$2,838,978	4.57%
Net Investment Income	144,850,095	64,197,984	80,652,111	125.63%
Miscellaneous Income	456,348	1,234,448	(778,100)	(63.03%)
Total Additions	210,301,215	127,588,226	82,712,989	64.83%
Deductions				
Benefits	39,716,871	36,708,528	3,008,343	8.13%
Service Transfers and Refunds	18,697,297	17,296,699	1,400,599	8.10%
Administrative Expenses	732,236	674,058	58,178	8.63%
Total Deductions	59,146,404	54,679,286	4,467,118	8.17%
Net Increase (Decrease)	151,154,811	72,908,940	78,245,871	107.32%
Beginning of Year Plan Net Assets	861,782,725	788,873,785	72,908,940	9.24%
End of Year Plan Net Assets	\$1,012,937,536	\$861,782,725	\$151,154,811	17.54%

Financial Section

Employer and employee contributions slightly increased \$2.8 million due to a temporary reduction in the employer contribution rates from 5.47% to 4.46% and higher payrolls. The governing board adopted a number of actuarial changes that included extending the period over which unfunded liabilities could be amortized from 20 to 30 years, reducing the salary growth assumption from 6% to 5% and changing the method for calculating the accrued liability from entry age normal method to the projected unit credit method. The combination of these actuarial assumption changes resulted in a slight reduction of the employer contribution rate for FY 2007. For FY 2007, CORP recognized net investment income of \$144.9 million which compares to \$64.2 million in the previous year. This 125.63% increase was due to the positive returns in the financial markets during the fiscal year. Deductions from the CORP net assets held in trust for benefits consist primarily of pension, disability, health insurance subsidies, survivor benefits, member refunds and administrative expenses. For FY 2007, these deductions totaled \$59.1 million, an increase of 8.17% from the \$54.7 million paid during FY 2006.

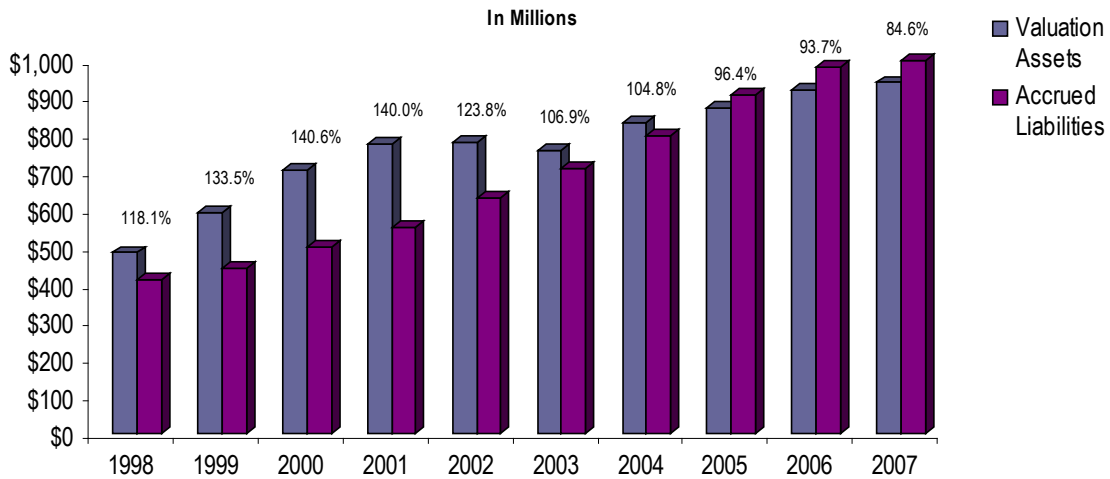
Investment Activities



During FY 2007, the Fund Manager adopted a more diversified asset allocation policy which resulted in an investment total rate of return of 16.77%. At June 30, 2007, CORP held \$731.8 million in equities. The FY 2007 rate of return for CORP equities was 20.54% versus a benchmark rate of return of 19.95%. At June 30, 2007, CORP held \$283.1 million in fixed income securities. The FY 2007 rate of return for CORP fixed income securities was 6.71% versus a benchmark rate of return of 6.02%. 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 is done on a pooled basis by our custodial bank, Wells Fargo. 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 Assets” 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, 2007.

At June 30, 2007, the total funded status of the CORP decreased to 84.6% from 93.7% at FYE 2006. This decrease in funded status is related primarily to recognition of investment losses in fiscal years 2001 and 2002. These losses should be fully reflected by FYE 2009. 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.

Implementation of GASB No. 43

Historically, the contributions, pension benefits, including the health insurance premium subsidy payments, actuarial accrued liabilities and the funded ratio were reported by the Plan as a single, combined pension benefit. However, for FY’07, the Plan was required to implement Government Accounting Standards Board (GASB) Statement No. 43. This statement requires that the system separately report the assets and liabilities associated with the health insurance premium subsidy by discretely presenting the assets and the liabilities separately from the retirement plan.

The Plan is not statutorily authorized to separately account for the assets, income and/or benefit payments of a supplemental health care benefit. Additionally, the Plan does not administer the health insurance premium subsidy through a separate health care plan as defined by the Internal Revenue Code §401 (h). As mentioned earlier, the Plan has always recognized, reported and funded the actuarial accrued liability for the health insurance premium benefit as another form of postemployment benefit, similar to the disability benefit. Assets and liabilities are not discretely presented for the disability benefits or any other benefits provided under the plan.

The characteristics of the plan have resulted in unique and unusual reporting of the benefit under the requirements of GASB Statement No. 43. Complying with this new statement will result in the following changes to the financial statements and actuarial disclosures for the Plan’s pension benefits:

- Contributions and benefits paid totaling \$1,913,186 for the health insurance premium subsidy will no longer be reported on the Statement of Changes in Plan Net Assets with the financial information for the retirement plan. This information will be reported separately as an “Agency Fund” (unaudited) and can be found in the Statement of Changes in Assets & Liabilities in the Other Supplementary Information section included in the Financial Section of the report.

Financial Section

- The Schedule of Funding Progress will no longer include the liability for the health insurance premium subsidy. This will increase the System's funded ratio. The funded ratio without the health insurance premium subsidy liability is calculated as 88.5%. If the liability associated with the health insurance premium subsidy were to be included, the funded ratio is calculated as 84.6%.
- The Schedule of Employer Contributions will include the annual required employer contributions for the retirement plan plus the difference between the annual required contributions calculated for the health insurance premium subsidy and the benefits paid. For FY '07, this amounted to a difference of \$3,828,865 added back to the employer contributions, which gives the "appearance" that the contributions for the retirement plan were over funded and the contributions for the health insurance premium subsidy were under funded. If a portion of the system assets were allocated to both the retirement and health insurance subsidy benefits, the percentage contributed for both benefits would be 100% funded.
- Beginning FY '08, the participating employer groups will implement GASB Statement No. 45. This statement will require the participating employers to report the liabilities associated with the health insurance premium subsidy as well as any other supplemental healthcare benefits provided to the retiree under the healthcare plans that they administer (sponsor).

The management of the Plan maintains that the reporting described above has limitations and decreases the reporting transparency of the health insurance premium subsidy. Management will continue to evaluate options to enhance the reporting of the health insurance premium subsidy benefit payments, employer contributions, and actuarial required disclosures.

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 ASSETS
AT JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Retirement Plan	
ASSETS	2007	2006
Cash and Short Term Investments	\$427,900	\$84,244
Receivables		
Members' Contributions	1,366,277	1,154,386
Employers' Contributions	815,234	754,857
Interest and Dividends	3,836,299	3,581,813
Investment Sales	3,267,941	-
Other	5,397	-
Total Receivables	<u>9,291,148</u>	<u>5,491,056</u>
Investments at Fair Value (Notes 2 and 3)		
U.S. Government Securities	97,894,657	75,552,924
Corporate Bonds	106,271,472	107,348,335
Corporate Notes	45,859,630	44,788,459
Equities	731,764,348	600,804,056
Alternative Investments	33,076,445	27,530,063
Total Investments	<u>1,014,866,552</u>	<u>856,023,835</u>
Securities Lending Collateral	263,196,310	137,546,661
Capital Assets (Note 4)		
Land	86,590	86,590
Building	568,715	527,298
Furniture, Fixtures & Equipment	139,731	49,401
Total Capital Assets	<u>795,036</u>	<u>663,289</u>
Accumulated Depreciation	(69,376)	(37,207)
Net Capital Assets	<u>725,661</u>	<u>626,082</u>
Total Plan Assets	<u>1,288,507,571</u>	<u>999,771,878</u>
LIABILITIES		
Accrued Accounts Payable	904,526	442,491
Investment Purchases Payable	11,469,199	-
Securities Lending Collateral	263,196,310	137,546,661
Total Plan Liabilities	<u>275,570,034</u>	<u>137,989,153</u>
Net Assets Held in Trust for Pension Benefits	<u>1,012,937,536</u>	<u>861,782,725</u>
Net Asset Reserves		
Refundable Members' Reserve	213,688,264	193,818,602
Employers' Reserve	738,823,211	634,671,478
Future Benefit Increase Reserve	60,426,061	33,292,645
Total Net Asset Reserves	<u>\$1,012,937,536</u>	<u>\$861,782,725</u>

*A schedule of funding progress is presented immediately following the notes to the financial statements.
The accompanying notes are an integral part of these financial statements.*

**STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007 WITH
COMPARATIVE TOTALS FOR 2006**

	Retirement Plan	
	2007	2006
Additions		
Contributions		
Members' Contributions (Notes 2 and 5)	\$41,354,907	\$37,134,076
Employers' Contributions (Notes 2 and 5)	18,880,642	24,028,050
Member Service Purchase	930,358	993,668
Intrafund Transfers (Notes 10)	3,828,865	-
Total Contributions	64,994,772	62,155,794
Net (Depreciation) Appreciation		
in Fair Value of Investments (Notes 2 and 3)	115,077,315	39,302,942
Interest	16,746,087	15,359,482
Dividends	13,001,824	9,514,230
Securities Lending Activities		
Securities Lending Income	\$11,638,421	\$7,821,993
Borrower Rebates	(11,163,553)	(7,551,160)
Agents Share of Income	(190,808)	(81,231)
Net Securities Lending Income (Note 3)	\$284,060	\$189,602
Investment Income	145,109,286	64,366,256
Less Investment Expense	(259,191)	(168,272)
Net Investment Income	144,850,095	64,197,984
Amounts Transferred from Other State-Sponsored Pension Plans and	456,348	1,234,448
Total Additions	210,301,215	127,588,226
Deductions		
Retirement Benefits (Note 1)	39,716,871	36,708,528
Refunds to Terminated Members (Note 1)	16,634,320	15,741,460
Administrative Expenses	732,236	674,058
Amounts Transferred to Other State-Sponsored Pension Plans	2,062,977	1,555,239
Total Deductions	59,146,404	54,679,286
Net (Decrease) Increase	151,154,811	72,908,940
Net Assets Held In Trust for Pension Benefits		
Beginning of Year - July 1	861,782,725	788,873,785
End of Year - June 30	\$1,012,937,536	\$861,782,725

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

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 Fund Manager of the Public Safety Personnel Retirement System (PSPRS) administers the CORP Plan.

The Fund Manager is a five member board. Effective August 6, 1999, it became the Governor's responsibility to appoint all members of the Fund Manager, who serve a fixed three-year term. The Fund Manager 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. Senate Bill 1378, which was enacted August 12, 2005, requires substantial investment experience for the member of the Fund Manager that represents the state as an employer and the public member of the Fund Manager.

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

The Fund Manager 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 are held and accounted for separately from those of the CORP.

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, 2007 and 2006, the number of participating local government employer groups were:

	<u>2007</u>	<u>2006</u>
Counties-Detention	13	13
Dispatchers	6	6
State Agencies	2	2
Total Employers	<u>21</u>	<u>21</u>

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, 2007 and 2006, statewide CORP membership consisted of:

	Retirement Plan		Health Insurance Subsidy	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Retirees	2,123	1,955	1,112	1,009
Terminated vested employees	233	229		
Current Employees:				
Vested	5,508	5,460		
Non-vested	7,272	6,454		
Total Members	<u>15,136</u>	<u>14,098</u>	<u>1,112</u>	<u>1,009</u>

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

Financial Section

A summary of benefit and plan provisions follows:

Summary of Benefits:

Purpose (A.R.S. §38-900.01.B)

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

Eligibility (A.R.S. §38-881)

- A. For a county, a county detention officer or a non-uniformed employee of a sheriff's department whose customary employment is at least 40 hours per week and whose primary duties require direct inmate contact, if the county elects to join the Plan.
- B. For the State Department of Corrections, correctional service officers, state correctional program officers and certain other designated positions within the department that are prescribed by statute and whose customary employment is for at least 40 hours per week. For the State Department of Juvenile Corrections, youth corrections officers, youth program officers and certain other designated positions within the department that are prescribed by statute and whose customary employment is for at least 40 hours per week.
- C. For a city or town, a city or town detention officer whose customary employment is for at least 40 hours per week, if the city or town elects to join the Plan.
- D. For an employer in the Public Safety Personnel Retirement System, full-time dispatchers whose customary employment is for at least 40 hours per week, if the employer elects to join the Plan. Beginning July 1, 2006, the minimum employer contribution rate will increase from 4% to 5%.
- E. For the Judiciary, probation, surveillance, and juvenile detention officers as defined by statutes.

Contributions (A.R.S. §38-891)

Each member shall contribute 8.5% of salary to the Plan on a pre-tax basis by payroll deduction. Each employer shall contribute a level percent of salary as determined by actuarial valuation to ensure proper funding for the Plan but not less than 6% of salary. For any employer whose actual contribution rate is less than 6% of salary for fiscal year 2006-2007 and each year thereafter, that employer's contribution rate shall be at least 5% and not more than the employer's actual contribution rate.

Credited Service (A.R.S. §38-881.6)

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.

Average Monthly Salary (A.R.S. §38-881.3)

One thirty-sixth (1/36) of aggregate salary that is paid a member during the highest three consecutive years out of the last 10 years of service.

Salary (A.R.S. §38-881.22)

The base salary, base wages, shift differential pay and holiday pay paid to a member in a designated position for personal services rendered to a participating employer that is paid on a regular monthly, semimonthly or biweekly payroll basis. For the purposes of this paragraph, "base salary" means the amount of compensation each member is regularly paid for personal services rendered to an employer before the addition of any extra monies, including overtime pay, shift differential pay, holiday pay, payments for the sale of compensatory time, fringe benefit pay and similar extra payments. Beginning July 1, 2008, if the actuarial valuation of the CORP that determines that the funding ratio of the accrued assets to accrued liabilities is at least 100%, overtime pay shall be included in the definition of "salary".

Reverse DROP (A.R.S. §38-885.01)

Beginning July 1, 2006, through June 30, 2011, the Fund Manager shall offer the Reverse DROP plan to members on a voluntary basis. Any member who is eligible for a normal pension and who has at least 24 or more years of cred-

ited service under the Plan may elect to participate in the Reverse DROP. 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 member elects a "Reverse DROP Date" that is the first day of the month immediately following completion of 24 years of credited service or a date not more than 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. In addition, a lump sum distribution reflecting an amount that is credited as though accrued monthly from the Reverse DROP Date to the date the member elected to participate in the Reverse DROP is paid out. This amount is credited with an interest rate equal to the yield on a 5 year Treasury note as of the first day of the month as published by the Federal Reserve Board, and can either be paid to the member or paid to an eligible retirement plan or individual retirement account. Neither the member, nor the employer, are entitled to a refund of contributions made between the Reverse DROP Date and the date the member elects to participate in the Reverse DROP.

Normal Retirement Date (A.R.S. §38-885.B)

Commences first day of month following completion of 20 years of service, except that for a full-time dispatcher, upon completion of 25 years of service, a member's 62nd birthday and completion of 10 years of service, or the month where the sum of the member's age and years of credited service equals 80. The amount of monthly normal pension is based on credited service and average monthly salary as follows:

- For retirement with 20 years of credited service but less than 25 years of credited service, 50% of average monthly salary for the first 20 years of credited service, plus 2% of average monthly salary for each year of credited service between 20 and 25. (A.R.S. §38-885.C.1)
- For retirement with less than 20 years of credited service, 2.5% of average monthly salary times the member's years of credited service. (A.R.S. §38-885.C.2)
- For retirement with 25 or more years of credited service, 50% of average monthly salary for the first 20 years of credited service, plus 2.5% of average monthly salary for each year of credited service above 20 years, up to a maximum of 80% of average monthly salary. (A.R.S. §38-885.C.1)

Return to Work (A.R.S. §38-884.J, K) (Effective until June 30, 2008)

A retired member who retired before January 1, 2006, may become employed by a participating employer in a designated position and still continue to receive a pension if the employment occurs at least 90 days after retirement and if the employment involves substantial direct inmate contact. The retired member shall not contribute to the CORP and shall not accrue credited service.

Accidental Disability Retirement (A.R.S. §38-881.1)

A physical or mental condition which totally and permanently prevents an employee from performing a reasonable range of duties within the employee's department, was incurred in the performance of the employee's duties and was the result of either physical contact with inmates, 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 or injury that existed or occurred before the member's date of membership in the Plan. The Local Board shall base eligibility for an accidental disability or a total and permanent disability on medical evidence and determination that such a disability exists. No credited service requirement. The monthly pension is 50% of the member's average monthly salary. The Local Board may require periodic medical re-evaluations until the member reaches age 62. Accidental disability or a total and permanent disability pension terminates if the Local Board finds the retired member no longer meets the requirements for the disability pension. (A.R.S. §38-886)

Total and Permanent Disability Retirement (A.R.S. §38-881.24)

A physical or mental condition which totally and permanently prevents a member from engaging in any gainful employment, is the direct and proximate result of the member's performance of their duty as an employee 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. The Local Board shall base eligibility for an accidental disability or a total and permanent disability on medical evidence and determination that such a disability exists. No credited service requirement. The monthly pension is 50% of the member's average monthly salary. The Local Board

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may require periodic medical re-evaluations until the member reaches age 62. Accidental disability or a total and permanent disability pension terminates if the Local Board finds the retired member no longer meets the requirements for the disability pension. (A.R.S. §38-886)

Survivor Pension (A.R.S. §38-887)

The surviving spouse of a member who dies in service or after retirement is eligible for benefits, which commence on the first day of the month following the death of the member, as follows:

Surviving spouse of retired member: 80% of retired member's pension at time of death. Requires two years of marriage at time of death. Terminates on death of surviving spouse. (A.R.S. §38-887) Surviving spouse of a non-retired member: 40% of deceased member's average monthly salary. Requires two years of marriage at time of death. Terminates on death of surviving spouse. For a member killed in the line of duty, the spouse's pension is 100% of deceased member's average monthly benefit compensation. (A.R.S. §38-888)

Death Benefits (A.R.S. §38-904)

1. If an active or inactive member dies and no pension is payable, the member's beneficiary is entitled to receive two times the member's contributions to the CORP.
2. If there is no eligible surviving spouse or if the pension of the surviving spouse is terminated, surviving unmarried children of a deceased retired or active member are entitled to a pension until age 18, or age 23 if a full-time student. A disabled child is also entitled to a pension if the disability began before age 23. The amount of the pension is an equal share of the surviving spouse's pension.

Termination Refund (A.R.S. §38-884.C)

Upon termination of employment, for any reason other than death or retirement, a member shall, within 20 days after filing an application with the Fund Manager, receive a lump-sum payment, equal to his accumulated contributions, as of the date of termination, less any benefits paid or any amounts owed to the Plan. A member forfeits all membership rights and credited service in the Plan upon receipt of refund of contributions. If the member has five or more years of credited service upon termination they shall receive an additional amount according to the schedule below.

- 5 to 5.9—25% of member contributions deducted from the member's salary pursuant to ARS 38-891.B
- 6 to 6.9—40% of member contributions deducted from the member's salary pursuant to ARS 38-891.B
- 7 to 7.9—55% of member contributions deducted from the member's salary pursuant to ARS 38-891.B
- 8 to 8.9—70% of member contributions deducted from the member's salary pursuant to ARS 38-891.B
- 9 to 9.9—85% of member contributions deducted from the member's salary pursuant to ARS 38-891.B
- 10 or more—100% of member contributions deducted from the member's salary pursuant to ARS 38-891.B, plus interest at 3% if left on deposit after 30 days.

Transfer Of Contributions (A.R.S. §38-908) (Use 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.

Reemployment and Repayment Of Contributions (A.R.S. §38-884.H) (Use Form C1B)

A member who terminates and takes a refund of his contributions may elect only upon reemployment within two years with the same employer in a designated position, to recover the prior credited service if the member submits a written election to reinstate the forfeited credited service within 90 days after reemployment and reimburses the Plan within one year. 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.

Reemployment After Retirement (A.R.S. §38-884.J)

A retired member who becomes an employee in a designated position subsequent to retirement shall have the pension suspended during reemployment in a designated position and shall not make contributions to the Plan nor accrue credited service during such reemployment.

Transfer Into Or Out Of Plan (A.R.S. §38-901)

A member, who changes employment or transfers or is assigned to a non-eligible position, because of a change in duties or otherwise, may elect one of the following options:

1. Leave service credits and contributions on account with the CORP.
2. Apply for a refund of accumulated member contributions (forfeiting all service credits and membership rights).
3. Transfer all service credits to the Arizona retirement system or plan applicable to the new position pursuant to the requirements for transfer between Arizona state retirement systems.

A member who begins employment with a participating employer in this Plan and who has credited service from a different Arizona state retirement system may transfer or redeem prior service to this Plan pursuant to the requirements for transfer between Arizona state retirement systems.

Redemption Of Prior Service (A.R.S. §38-909 and §38-884.I) (Use Form COSS)

Active members who previously contributed to the Plan but who refunded their contributions thereby forfeiting credited service under the Plan may redeem some or all of this credited service. The member must pay the actuarial present value of the increase of credited service resulting from the purchase of forfeited time in order to redeem this service (Use Form C2). Additionally, active members who had previous service in this state as an employee with an employer now covered by the plan or who had 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 any part of the prior service by paying into the plan any amounts required under A.R.S. §38-909.B if the prior service is not on account with any other retirement system.

Purchase Of Prior Active Military Service (A.R.S. §38-907) (Use Form 18)

A member may purchase up to four years of prior active military time even if the member will receive a military pension. The member must pay the actuarial present value of the increase of credited service resulting from this purchase.

Transfer Between State Retirement Systems (A.R.S. §38-921 and §38-922) (Use Form U-2)

Members of any of the four Arizona state retirement systems or plans who have credited service under another Arizona state retirement system or plan may transfer or redeem the credited service to their current Arizona state retirement system or plan by paying or transferring the full actuarial present value of the credited service into their current Arizona retirement system or plan with approval of the Fund Manager or retirement boards involved. 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 or plan.

COLA Benefit Increases (A.R.S. §38-905)

Effective July 1 of each year, each retired member or survivor of a retired member may be entitled to a permanent benefit increase in their base benefit. The maximum amount of the increase is 4% of the benefit being received on the preceding June 30 and is contingent upon sufficient excess investment earnings for the fund. To be eligible for the increase the member or survivor must be age 55 or older on July 1 of the current year and was receiving benefits on or before July 31 of the previous year. A member or survivor is also eligible if they were receiving benefits on or before July 31 of the two previous years regardless of age.

Health Insurance Premium Subsidy (A.R.S. §38-906) (See Note 7)

For CORP retirees or survivors who have elected group health and accident insurance coverage provided and administered by the state or another CORP employer, the CORP will pay up the following amounts:

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Single:

Not Medicare Eligible \$150.00

Medicare Eligible \$100.00

Family:

All Medicare Eligible \$170.00

One with Medicare \$215.00

All Not Medicare Eligible \$260.00

State Taxation of CORP Benefits (A.R.S. §38-896 and §43-1022)

Effective tax year commencing January 1, 1989, all CORP retirement benefits in excess of \$2,500 annually will be subject to Arizona state tax.

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. Pension and Health insurance 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 \$5,000 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 \$59,765,472 for FYE 2007 and \$48,382,548 for FYE 2006. This calculation is independent of the calculation of the change in the fair value of investments and may include unrealized amounts from prior periods.

Note 3 – Cash & Investments

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 one financial institution with a balance of up to \$100,000 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 CORP, Public Safety Personnel Retirement System and the Elected Officials' Retirement Plan on June 30, 2007, as collateral:

\$24,638,000 FNIONP878442 6.00% Maturity Date 07/01/36

\$3,135,000 FNIONP256327 6.00% Maturity Date 7/01/36

\$670,000 FNIONP256327 6.00% Maturity Date 7/01/36

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, 2007:

	Reported Amount	Bank Balance
Collateralized	\$427,900	\$327,819
Uncollateralized	-0-	-0-
Total Deposits	\$427,900	\$327,819

The difference between the reported balance and the bank balance is a dividend payment recorded by CORP on June 29, 2007; the cash was received by Wells Fargo on July 2, 2007.

Investments

CORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at Fair Value, which approximates Cost. 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 market value. Direct-ed real estate and venture capital investments are reported at cost. Investment income is recognized as earned.

Statutes enacted by the Arizona Legislature authorize the Fund Manager to make investments in accordance with the “Prudent Man” rule. The Fund Manager is not limited to so-called “Legal Investments for Trustees.”

In making every investment, the Fund Manager 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 seventy percent of the pension fund 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 pension fund shall be invested in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States Government.
3. That not more than five percent of the voting stock of any one corporation shall be owned.
4. That corporate stocks eligible for purchase shall be restricted to stocks that, except for bank stocks and insurance stocks, 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 §7811);
 - 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 §7811)
 - C) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state; or
 - 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 ten percent of the pension fund shall be invested in foreign equity securities on these exchanges, based on the cost value of the stocks irrespective of capital appreciation. A.R.S. §38-848.D.

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, 2007, CORP had no fund or deposits that were not covered by depository insurance or collateralized with securities held by Wells Fargo Bank’s trust department or agent. Nor does CORP have any investments that are not registered in the name of CORP and are either held by the counterpart or the counterpart’s trust department or agent.

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Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the System. As of June 30, 2007, the Plan's fixed income assets that were not government guaranteed represented 93% 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, 2007	% of all Fixed Income Assets	Weighted Avg. Credit	Dispersion Requiring Further Exposure
Corporate Bonds	\$97,187,217	39%	A	See below
Mortgages	1,169,720	0%	AA	None
Agencies	79,565,826	32%	AAA	None
CBO	5,481,004	2%	A	See below
CDO	2,433,532	1%	A	See below
Commercial Paper	45,859,630	18%	A1P1	See below
Total	\$231,696,929	93%		

Ratings Dispersion Detail

Credit Rating Level	Corporate Bonds	CBO	CDO	Commercial Paper
AAA	\$3,835,975			
AA	12,342,412			
A	50,490,114	3,383,004	1,360,000	45,859,630
BBB	27,665,716	2,098,000	1,073,532	
BB	1,374,490			
B	1,478,510			
Total	\$97,187,217	\$5,481,004	\$2,433,532	\$45,859,630

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)**

Security	Fixed Income						TOTALS
	<1	1 -5	6 - 10	11 - 15	16 - 20	>20	
Corporates		20,040,265	11,361,284	10,338,395	11,301,692	44,145,581	97,187,217
Agencies	1,392,930		22,623,063	24,175,648	6,265,204	25,108,981	79,565,826
CBO			2,098,000	737,158		2,645,846	5,481,004
CDO			1,360,000			1,073,532	2,433,532
Commercial Paper	45,859,630	-0-	-0-	-0-	-0-	-0-	45,859,630
Totals	\$47,252,560	\$20,040,265	\$37,442,347	\$35,251,201	\$17,566,895	\$72,973,939	230,527,207

**Callable Bonds by Security Type
(including Government Guaranteed Securities)**

Fixed Income Security Type	Fair Value June 30, 2007	% of All Fixed Income Assets
Corporates	\$18,576,141	6%
Agencies	41,995,063	15%
Totals	\$60,571,204	21%

Foreign Currency Risk

Foreign currency risk is direct risk that changes in exchange rates will adversely impact the fair value of an investment. Because it has no international holdings, CORP does not have any foreign currency risk exposure.

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, 2007 the fair value of securities on loan was \$257,099,902 and the collateral was \$263,196,310. 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. Additionally, at least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2007, the weighted average maturity was 20 days for all investments purchased with cash collateral from unmatched loans. The

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Plan has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Plan. Under this program, the Plan has not experienced any defaults or losses on these loans.

Asset Class	Out on Loan	Total Available to Loan	% of Available to Loan
Equities	\$175,261,015	\$731,764,348	24%
Agencies	54,111,012	79,565,826	68%
Treasuries	18,328,831	18,328,831	100%
Corporate Bonds	9,399,044	106,271,472	9%
Totals	\$257,099,902	\$935,930,477	27%

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, 2007 and 2006 was \$32,169. A new office facility located at 3010 E. Camelback Road was purchased in June of 2004. The property consists of a two-story building, the bottom floor of which is fully leased. The administrative staff of the System occupies the second floor.

The table below is a schedule of the capital asset account balances as of June 30, 2006, and June 30, 2007, and changes to those account balances during the year ended June 30, 2007.

Schedule of Capital Asset Account Balances

Capital Assets	Land	Building and Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Balance June 30, 2006	\$86,590	\$527,298	\$49,401	\$663,289
Additions		41,417	90,330	131,747
Deletions	-0-	-0-	-0-	-0-
Balance June 30, 2007	86,590	568,715	139,731	795,036
Accumulated Depreciation				
Balance June 30, 2006	-0-	(26,636)	(10,571)	(37,207)
Additions	-0-	(14,882)	(17,287)	(32,169)
Deletions	-0-	-0-	-0-	-0-
Balance June 30, 2007	-0-	(41,518)	(27,858)	(69,376)
Net capital assets	\$86,590	\$527,197	\$111,873	\$725,661

NOTE 5 – Contributions Required and Contributions Made

The Plan'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 all benefits when due. The normal cost and actuarial accrued liability are determined using 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 closed thirty (30) year period (29 years remaining as of June 30, 2007). Assets in excess of actuarial accrued liabilities are amortized over an open period of twenty (20) years. Beginning July 1, 2006, the minimum employer contribution rate increased from 5% to 6%.

During the year ended June 30, 2007, contributions totaling \$64,064,414 (\$22,709,507 employer [\$18,880,642 pension and \$3,828,865 health insurance subsidy contributions in excess of benefits paid], and \$41,354,907 member) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of June 30, 2005. The employer contributions consisted of approximately \$25,494,084 for normal cost [\$22,623,059 pension and \$2,871,025 health insurance subsidy] less (\$871,391) for amortization of the unfunded actuarial accrued liability in aggregate [(\$3,742,416) pension and \$2,871,025 health insurance sub-

sidy]. Employer contributions represented 5.06% of covered payroll. [5.24% for normal costs (4.65% pension and 0.59% health insurance) and (0.18%) for amortization of assets in excess of the actuarial accrued liability in aggregate (0.77% pension and 0.59% health insurance subsidy)]. Member contributions represented 8.50% 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 Fund Manager, 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 a third party administrator. All contributions are sent directly to the third party administrator from the participating employer groups.

NOTE 7 – Health Insurance Subsidy

The plan description, summary of significant accounting 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 3. The health insurance premium subsidy provided by A.R.S. § 38-906 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 Plan 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 the 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 FY '07, contributions collected for the health insurance subsidy amounted to \$5,742,051 and the health benefit subsidy payments were \$1,913,186. The excess contributions of \$3,828,865 were added to the retirement plan for reporting purposes. Effective FY '08, 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.

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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 Fund Manager, whichever is less.

NOTE 10 – Funding Status and Progress

The Plan’s funded status as of the most recent valuation data is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) EANC/PUC* (b)	(in thousands)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)		
RETIREMENT PLAN						
6/30/07	\$940,126	\$1,061,811	\$121,685	88.5%	\$515,428	23.6%

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, 2007
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percent of Payroll, Closed
Remaining Amortization Period:	29 years closed for unfunded actuarial accrued liability, 20 years open for excess
Asset Valuation Method:	7-Year Smoothed Market Value
Investment Rate of Return:	8.50%
Projected Salary Increases:	5.50% - 9.00%, which includes inflation at 5.00%

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 System 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 statement.

SCHEDULE OF FUNDING PROGRESS

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) EANC/PUC ¹ (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio ² (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
RETIREMENT PLAN						
6-30-98	\$484,956	\$410,531	\$(74,425)	118.1%	\$261,700	-28.4%
6-30-99	\$592,152	\$443,676	\$(148,476)	133.5%	\$305,478	-48.6%
6-30-00	\$704,991	\$501,323	\$(203,668)	140.6%	\$339,440	-60.0%
6-30-01	\$776,177	\$554,387	\$(221,790)	140.0%	\$339,783	-65.3%
6-30-02	\$782,446	\$632,238	\$(150,208)	123.8%	\$330,428	-45.5%
6-30-03	\$758,579	\$709,298	\$(49,281)	106.9%	\$358,161	-13.8%
6-30-04	\$833,621	\$795,775	\$(37,846)	104.8%	\$381,942	-9.9%
6-30-05	\$872,981	\$906,025	\$33,044	96.4%	\$404,156	8.2%
6-30-06	\$919,867	\$981,207	\$61,340	93.7%	\$437,743	14.0%
6-30-07	\$940,126	\$1,061,811	\$121,685	88.5%	\$515,428	23.6%

¹Entry Age Normal Cost method through 6-30-2004. Projected Unit Credit method from 6-30-2005.

²Beginning 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 was included, the funded ratio would be 84.6%.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Retirement Plan Employer Contributions

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	\$17,063,015	100%
1999	\$17,109,704	100%
2000	\$16,876,163	100%
2001	\$14,927,396	100%
2002	\$7,101,112	100%
2003	\$7,397,595	100%
2004	\$14,555,335	100%
2005	\$16,291,914	100%
2006	\$24,028,050	100%
2007 ¹	\$18,880,642	120%

See notes to the Schedules of Required Supplementary Information

¹Total Employer Contributions received during Fiscal Year Ended June 30, 2007 were \$24,622,693. GASB reporting requires discretely presenting the health insurance premium subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance premium subsidy were calculated to be \$5,742,051. The benefits paid for the health insurance premium 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 120.3% for the retirement plan.

Required Supplemental Information**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION:**

The historical trend information for the pension benefits are presented as required supplemental information. There were no significant factors affecting trends as of the June 30, 2007 valuation. Actuarial studies are completed in accordance with GASB Statement 25. Each of the 21 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 2007 were determined by actuarial valuations as of June 30, 2005.

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

Valuation Date:	June 30, 2007
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level percent of Payroll, Closed
Remaining Amortization Period:	29 years closed for unfunded actuarial accrued liability, 20 years open for excess
Asset Valuation Method:	7-Year Smoothed Market Value
Investment Rate of Return:	8.50%
Projected Salary Increases:	5.50% - 9.00%, which includes inflation at 5.00%

SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Refundable Members' Reserve	Employers' Reserve	Future Benefit Increase Reserve
Balance - June 30, 2005	\$178,348,020	\$569,110,673	\$41,415,092
Distribution of Revenues and Expenses			
Members' Contributions	37,138,950		
Employers' Contributions		24,023,176	
Earnings (Loss) on Investments Net of Investment Expenses		64,197,984	
Pension and Insurance Benefits		(36,708,528)	
Refunds to Terminated Members	(11,684,656)	(4,056,804)	
Administrative Expenses		(674,058)	
Distribution of Transfers			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets		(3,383,613)	3,383,613
Amount Utilized by Benefit Increases Granted		11,506,060	(11,506,060)
Net Transfers from (to) Other State-Sponsored Pension Plans and Purchase of Service Credits	818,534	(145,656)	
Inter-System Transfers -- Member Account Balances Transferred to Employers' Reserve due to Retirement	(10,802,245)	10,802,245	
Balance - June 30, 2006	\$193,818,602	\$634,671,478	\$33,292,645
Distribution of Revenues and Expenses			
Members' Contributions	41,354,907		
Employers' Contributions		24,622,693	
Earnings (Loss) on Investments Net of Investment Expenses		144,850,095	
Pension and Insurance Benefits		(41,630,057)	
Refunds to Terminated Members	(12,040,497)	(4,593,823)	
Administrative Expenses		(732,236)	
Distribution of Transfers			
Excess Investment Earnings to be used for Future Benefit Increases		(35,123,022)	35,123,022
Earnings (Loss) on Excess Investment Earnings Account Assets		(5,583,177)	5,583,177
Amount Utilized by Benefit Increases Granted		13,572,783	(13,572,783)
Net Transfers from (to) Other State-Sponsored Pension Plans and Purchase of Service Credits	930,358		
Inter-System Transfers -- Member Account Balances Transferred to Employers' Reserve due to Retirement	(9,751,251)	9,751,251	
Balance - June 30, 2007	\$213,688,264	\$738,823,211	\$60,426,061

Financial Section
Supporting Schedules Information

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECEIPTS		
Members' Contributions	\$41,143,015	\$36,069,752
Employers' Contributions	24,562,317	23,321,365
Interest	16,700,707	14,601,891
Dividends	12,866,713	9,688,975
Real Estate Income (Net)	(1,672)	4,341
Securities Lending Income	210,063	193,749
Amounts Transferred from Other		
State-Sponsored Pension Plans	1,280,777	1,234,448
Purchase of Service Credits	930,358	993,668
Due To Other Pension Plan	7,130,388	
Maturities and Sales of		
U.S. Government Securities	4,636,640	4,556,672
Corporate Bonds	31,670,175	26,055,946
Corporate Notes	2,818,515,352	1,586,157,808
Alternative Investments	11,229,390	40,749,186
Equities	250,969,579	133,944,204
Total Receipts	<u>3,221,843,801</u>	<u>1,877,572,004</u>
DISBURSEMENTS		
Pension Benefits	41,630,057	36,708,528
Refunds to Terminated Members	16,634,320	15,741,460
Investment and Administrative Expenses	991,426	821,242
Amounts Transferred to Other		
State-Sponsored Pension Plans	1,238,608	1,555,239
Due From Other Pension Plan	-	708,796
Acquisitions of		
U.S. Government Securities	26,488,334	43,323,156
Corporate Bonds	30,825,332	19,625,031
Corporate Notes	2,819,586,523	1,587,244,603
Alternative Investments	13,842,930	12,667,465
Equities	270,262,615	159,636,515
Total Disbursements	<u>3,221,500,145</u>	<u>1,878,032,034</u>
INCREASE IN CASH	343,657	(460,030)
BEGINNING CASH BALANCE - July 1	84,244	544,274
ENDING CASH BALANCE - June 30	<u>\$427,900</u>	<u>\$84,244</u>

**SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>
Accounting and Auditing Services	\$5,250	\$-	\$5,250
Actuarial Services	33,242	-	33,242
Communications	6,208	1,231	7,439
Computer Related Expense	32,919	6,526	39,446
Contractual Services	12,881	2,554	15,435
Depreciation Expense	26,885	5,330	32,216
Fund Manager Initiatives	6,929	1,374	8,303
Furniture and Equipment	1,969	390	2,359
Investment Services	-	39,358	39,358
Local Board Training	1,978	392	2,370
Supplies & Service	11,825	2,344	14,169
Payroll Taxes and Fringe Benefits	103,739	31,612	135,351
Postage Expenses	8,700	1,725	10,425
Professional Services	141,779	34,873	176,652
Salaries and Wages	317,791	124,799	442,590
Training Expenses	20,140	6,682	26,822
	<u>\$732,236</u>	<u>\$259,191</u>	<u>\$991,426</u>

SCHEDULE OF CONSULTANT EXPENSES

<u>Consultants</u>	<u>Fees Paid</u>
Barrows & Schatza, PLC	\$5,250
Clark Consulting, Inc.	4,142
Cortex Applied Research, Inc.	5,214
Kutak Rock, LLP	110,224
McLagan Partners, Inc.	703
Milliman	15,435
Pridestaff	2,400
Rodwan Consulting Group	33,242
Rose & Allyn Public Relations	7,101
Spinelli	1,329
Standard & Poor's	5,547
Stivers Staffing Services	13,448
Systems Integration Solutions, Inc.	4,236
	<u>\$208,271</u>

Financial Section
Other Supplemental Information

**AGENCY FUND-HEALTH INSURANCE PREMIUM SUBSIDY STATEMENT OF
CHANGES IN ASSETS & LIABILITIES (unaudited)
FOR THE YEAR ENDED JUNE 30, 2007**

	Balance at Beginning of Year	Additions	Deletions	Balance at End of Year
Health Insurance Subsidy				
Assets				
Cash	-	1,913,186	1,913,186	0
Total Assets	0	1,913,186	1,913,186	0
Liabilities				
Benefits Payable	-	1,913,186	1,913,186	0
Total Liabilities	0	1,913,186	1,913,186	0

**HEALTH INSURANCE PREMIUM SUBSIDY
SCHEDULE OF FUNDING PROGRESS**
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) EANC/PUC* (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/07	\$-	\$48,990	\$48,990	0%	\$515,428	10%

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 on page 43 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 is 84.6%.



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**STANDARD
& POOR'S**

**Standard & Poor's Investment
Advisory Services LLC**

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New York, NY 10041-0003
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212 438 3929 Fax

September 14, 2007

The Fund Manager
Correction Officers Retirement Plan
of the State of Arizona
3010 E. Camelback Road Ste. 200
Phoenix, Arizona 85016

Dear Sirs:

The attached charts and tables depict the investment performance for the Correction Officers Retirement Plan of the State of Arizona. The performance results shown are based entirely on data provided by the plan's staff and does not constitute an audit on Standard & Poor's part. We note that Standard & Poor's has assumed that all data that has been supplied by the staff is accurate and complete and that Standard & Poor's has not taken steps to verify same. We also note that the performance was calculated by using linked daily returns. This methodology takes daily cash inflows and outflows into account. In previous years, the performance was calculated under the assumption that cash inflows and outflows take place uniformly throughout each month.

The performance data include realized and unrealized capital gains and losses, as well as interest and dividend income earned by the fund.

Based on the foregoing, during the past fiscal year, the stock portfolio underperformed the S&P 500 index, but outperformed a target equity benchmark consisting of the S&P 500, S&P Midcap 400 and S&P Smallcap 600 weighted in fixed proportions. The bond portfolio outperformed the Lehman Government/Credit Index.

Sincerely,



David Braverman
Vice President

www.standardandpoors.com

Fund Investment Objectives

The objective of the Fund is to ensure the integrity of the Public Safety Personnel Retirement System 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:

1. Maintain a goal for the Fund's assets to be equal to the Fund's liabilities within any twenty-year period;
2. Annually adjust the employer contribution rates based on the recommendations made by the annual actuarial valuations;
3. 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;
4. 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;
5. Provide the opportunity for increased benefits for retirees as the legislature may from time to time enact through systematic growth of the investments of the fund.

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

1. Deriving a reasonable asset allocation model that attempts to fully achieve the primary investment objective, over the long term,
2. Consistent with these policies and the direction of the Fund Manager, strategically allocating within asset classes and investment styles in order to enhance investment returns. This strategic allocation must at all times be within ranges set forth in these Policies.
3. Regularly reviewing the status of investments,
4. 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 is long-term.

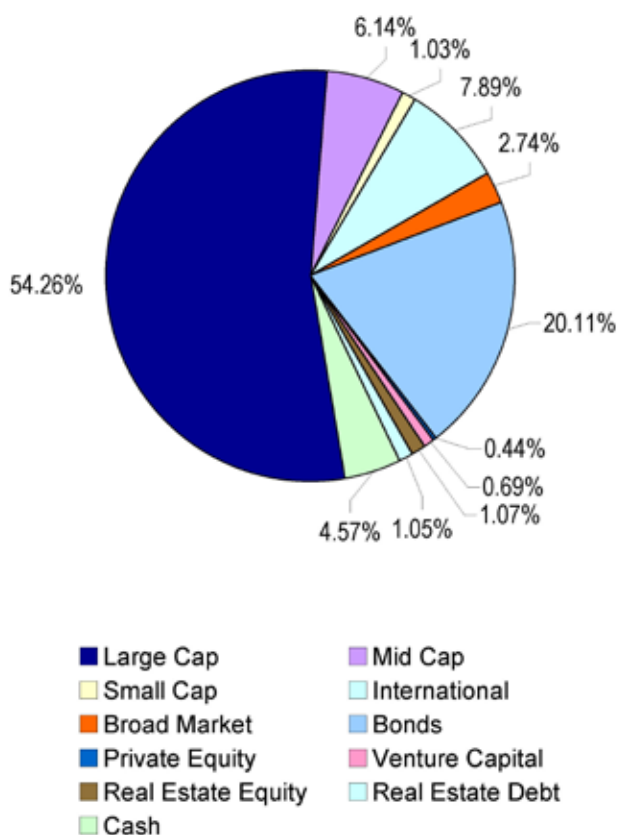
Investments Section

Annualized Rates of Return

	1 Year	3 Year	5 Year	10 Year
CORP Total Fund*	16.77%	11.32%	10.93%	6.75%
Balanced Index	15.13%	8.23%	7.84%	6.78%
CORP Domestic Equity*	20.54%	11.99%	11.93%	5.92%
Equity Benchmark	19.95%	11.47%	10.59%	6.83%
CORP Fixed Income*	6.71%	5.51%	6.23%	6.64%
Lehman Aggregate Index	6.02%	3.84%	4.70%	6.06%

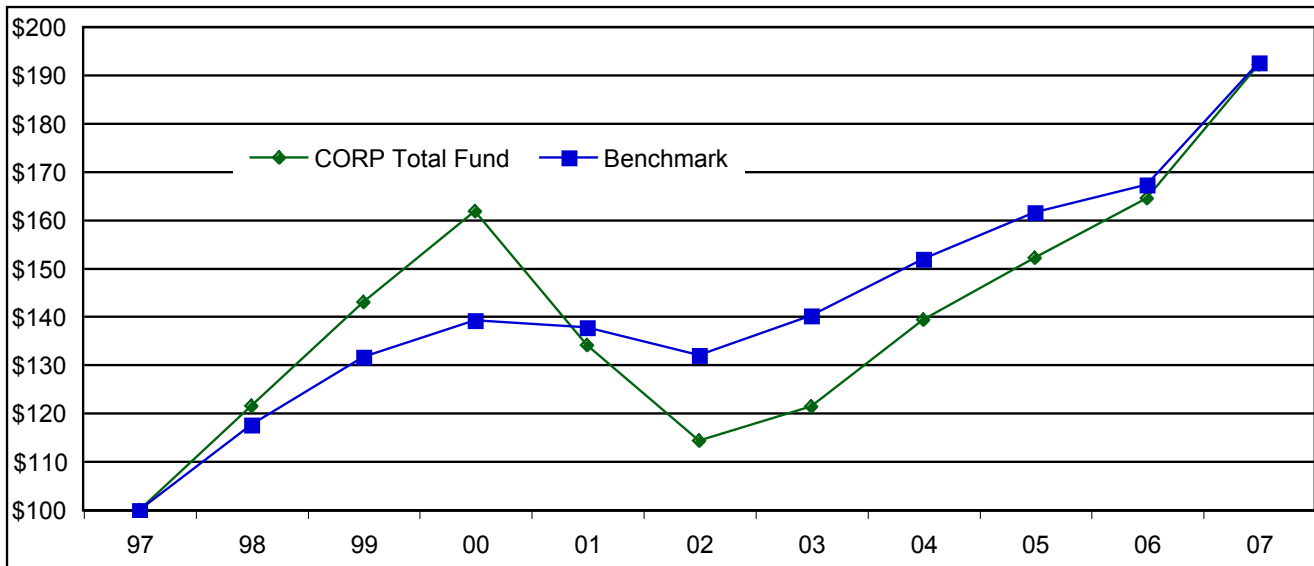
*Time weighted rate of return based on the market rate of return

Asset Allocation

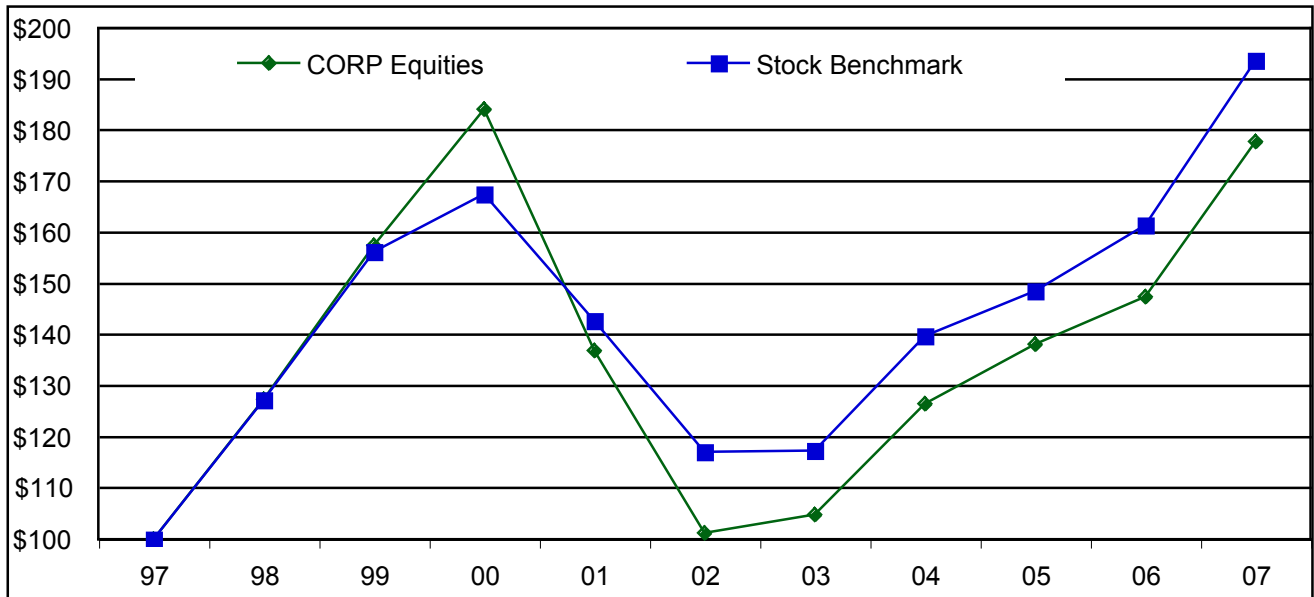


Ten Year Cumulative Return, Benchmark & Indices

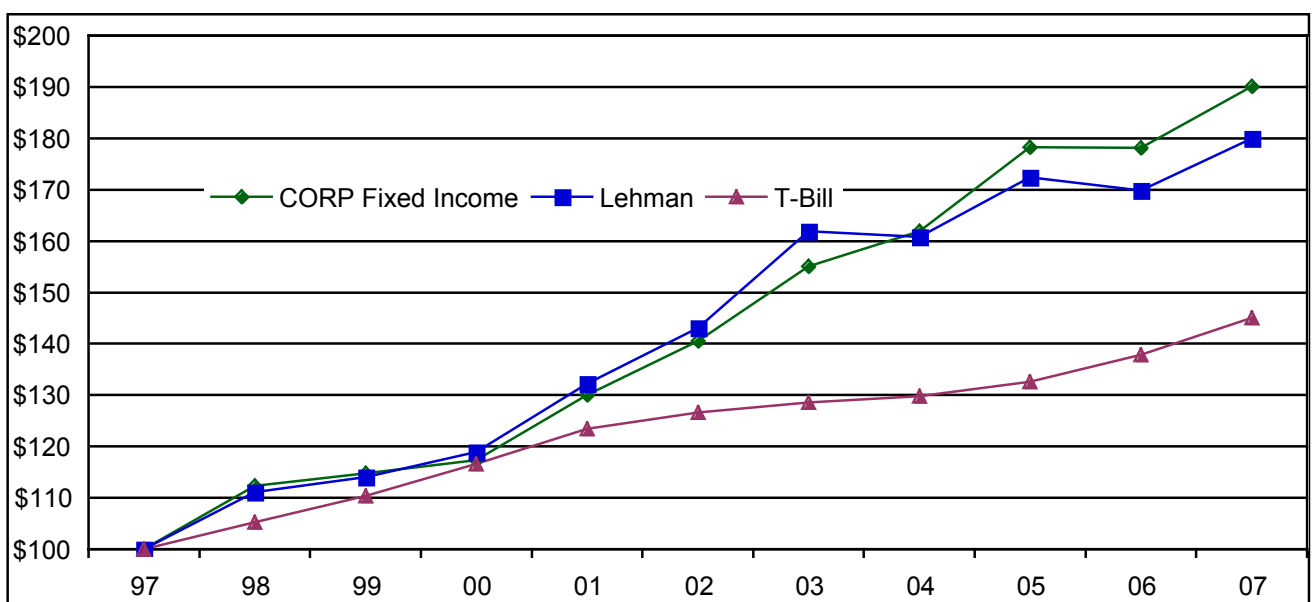
Total Fund



Stock



Fixed Income



TOP 10 EQUITY HOLDINGS

JUNE 30, 2007

SHARES	DESCRIPTION	FAIR VALUE
356,700	EXXON MOBIL CORP	29,919,996
174,460	VANGUARD TOTAL STOCK MARKET ETF	26,060,835
157,600	iSHARES MSCI EMERGING MARKET ETF	20,748,040
472,100	GENERAL ELECTRIC CO	18,071,988
334,300	CITIGROUP, INC.	17,146,247
276,300	BANK OF AMERICA CORPORATION	13,508,307
456,300	MICROSOFT CORPORATION	13,447,161
156,400	iSHARES EAFE INDEX ETF	12,632,428
198,000	PROCTER & GAMBLE COMPANY	12,115,620
138,900	CHEVRON CORP	11,700,936

TOP 10 CORPORATE BOND HOLDINGS

JUNE 30, 2007

PAR VALUE	DESCRIPTION	FAIR VALUE
4,800,000	BAYER HYPO-VEREINSBANK	5,859,600
4,100,000	HUTCHISON WHAMPOA FINANCIAL	4,516,560
4,200,000	AMERICAN AIRLINES	4,441,500
3,282,334	REG DIVERSIFIED FUNDING SR NOTES	3,647,559
3,750,000	PROTECTIVE LIFE CPI+150	3,529,275
3,750,000	HARTFORD LIFE GLOBAL FDG TRUST	3,516,825
2,891,083	PREFERRED CPO	3,057,638
2,678,400	MMCAPS FUNDING I LTD/INC	2,932,848
2,000,000	SECURITY MUTUAL LIFE NEW YORK	2,475,940
2,328,000	WESTINGHOUSE ELECTRIC	2,377,912

**SUMMARY OF CHANGES TO INVESTMENT PORTFOLIO
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(in thousands)

Description	Percent at Fair Value	Balance June 30, 2006		Acquisi- tions	Maturities and Sales	(Premium) Discount	Balance June 30, 2007		Percent at Fair Value
		Fair Value	Book Value				Fair Value	Book Value	
U.S. Treasury Obligations	1.40%	11,946	9,937	6,443		15	18,329	16,365	1.81%
Federal Agency Obligations	7.43%	63,607	65,417	20,045	4,637		79,566	80,825	7.84%
Total Government Securities	8.83%	75,553	75,354	26,488	4,637	15	97,895	97,190	9.65%
Corporate Bonds	12.54%	107,348	104,578	30,825	30,270	129	106,271	105,004	10.47%
Total Bond Portfolio	21.36%	182,901	179,932	57,314	34,907	144	204,166	202,194	20.12%
Corporate Notes	5.23%	44,788	44,788	2,819,587	2,818,515		45,860	45,860	4.52%
Equities	70.18%	600,804	486,238	270,263	195,607		731,764	560,893	72.10%
Alternative Investments	3.22%	27,530	27,530	13,843	8,297		33,076	33,076	3.26%
Total Portfolio	100.00%	856,024	738,488	3,161,006	3,057,326	144	1,014,867	842,023	100.00%

**SCHEDULE OF BROKER COMMISSIONS &
INVESTMENT MANAGMENT COSTS**

FISCAL YEAR ENDED JUNE 30, 2007

Broker	Number Of Shares Traded	Average Com- mission	Total Commissions
ABEL / NOSER CORP.	833,332	.015	\$12,499
BLOOMBERG TRADEBOOK LLC	1,640,793	.010	\$16,407
GREENBERG FINANCIAL GROUP	1,404,420	.020	\$28,088
INVESTORS CAPITAL CORPORATION	826,100	.020	\$16,522
ISI GROUP, INC.	893,000	.040	\$35,720
MORGAN STANLEY DEAN WITTER	1,013,300	.020	\$20,266
REGAL SECURITIES INC.	354,700	.020	\$7,094
SAMCO FINANCIAL SERVICES, INC.	827,550	.020	\$16,551
SANFORD C. BERNSTEIN & CO., LLC	1,022,650	.040	\$40,906
U.S. FINANCIAL INVESTMENTS INC.	718,469	.020	\$14,369
UBS / PAINE WEBBER	1,758,708	.020	\$35,174
WELLS FARGO BANK	247,843	.000	-0-
TOTAL COMMISSIONS	11,540,866	.020	\$243,598

Investments Section

EQUITY PORTFOLIO

JUNE 30, 2007

Shares	Description	Price	Fair Value
36,900	3M COMPANY	86.79	3,202,551
72,100	ABBOTT LABORATORIES	53.55	3,860,955
40,800	ABERCROMBIE & FITCH	72.98	2,977,584
50,500	ADOBE SYSTEMS	40.15	2,027,575
31,100	AETNA INC	49.40	1,536,340
67,600	AFLAC INC	51.40	3,474,640
17,400	ALCAN INC	81.30	1,414,620
14,870	ALLEGHENY TECHNOLOGIES INC	104.88	1,559,566
52,800	ALLIANZ AG HOLDING	23.27	1,228,656
105,750	ALLSTATE CORPORATION	61.51	6,504,683
143,500	ALTRIA GROUP INC	70.14	10,065,090
78,200	AMDOCS LTD	39.82	3,113,924
61,500	AMERICAN CAPITAL STRATEGIES LTD	42.52	2,614,980
154,100	AMERICAN INT'L GROUP	70.03	10,791,623
118,400	AMGEN	55.29	6,546,336
60,400	APACHE CORPORATION	81.59	4,928,036
57,200	APPLE COMPUTER INC	122.04	6,980,688
126,800	APPLIED MATERIALS	19.87	2,519,516
72,300	ARCH COAL INC	34.80	2,516,040
90,400	ARCHER-DANIELS-MIDLAND COMPANY	33.09	2,991,336
90,100	AUTOMATIC DATA PROCESSING	48.47	4,367,147
276,300	BANK OF AMERICA CORPORATION	48.89	13,508,307
12,400	BASF AG	130.71	1,620,804
72,400	BED BATH & BEYOND	35.99	2,605,676
121,700	BEST BUY CO INC	46.67	5,679,739
117,600	BOEING CO.	96.16	11,308,416
22,525	BROADBRIDGE FINANCIAL SOLUTIONS	19.12	430,678
6,000	BURLINGTON NORTHERN SANTE FE	85.14	510,840
42,500	CANADIAN NATIONAL RAILWAY	50.93	2,164,525
72,100	CAPITAL ONE FINANCIAL	78.44	5,655,524
40,200	CAREER EDUCATION CORP.	33.77	1,357,554
14,695	CARLISLE COMPANIES INC	46.51	683,464
4,600	CARPENTER TECHNOLOGY	130.31	599,426
62,500	CELGENE CORP	57.33	3,583,125
50,000	CENTEX CORP	40.10	2,005,000
14,400	CENTURY TELEPHONE INC	49.05	706,320
22,232	CHATTEM INC	63.38	1,409,064
40,300	CHESAPEAKE ENERGY	34.60	1,394,380
138,900	CHEVRON CORP	84.24	11,700,936
63,900	CHICO'S FAS INC	24.34	1,555,326
62,100	CHINA MOBILE LIMITED	53.90	3,347,190
55,900	CHUBB CORPORATION	54.14	3,026,426
48,000	CIMAREX ENERGY CO	39.41	1,891,680
396,900	CISCO SYSTEMS	27.85	11,053,665
334,300	CITIGROUP, INC.	51.29	17,146,247

Shares	Description	Price	Fair Value
207,200	CITIZENS COMMUNICATIONS	15.27	3,163,944
130,500	CITRIX SYSTEMS INC	33.67	4,393,935
34,110	CLARCOR INC	37.43	1,276,737
59,100	COACH INC	47.39	2,800,749
94,800	COCA-COLA CO	52.31	4,958,988
58,600	COLGATE PALMOLIVE CO	64.85	3,800,210
101,900	COMCAST CORP-SPECIAL CLA	27.96	2,849,124
71,800	COMMERCE BANCORP, INC.	36.99	2,655,882
100,500	CONSTELLATION BRANDS	24.28	2,440,140
54,600	CONSTELLATION ENERGY GROUP INC	87.17	4,759,482
168,900	CORNING INCORPORATED	25.55	4,315,395
29,320	COVANCE INC	68.56	2,010,179
29,700	CULLEN/FROST BANKERS	53.47	1,588,059
188,339	CVS/CAREMARK CORP	36.45	6,864,957
60,300	DELL INC	28.55	1,721,565
59,000	DOW CHEMICAL	44.22	2,608,980
105,600	DUKE ENERGY CORPORATION	18.30	1,932,480
33,500	E.ON AG	55.64	1,863,940
163,900	EMC CORP	18.10	2,966,590
72,100	EMULEX CORP.	21.84	1,574,664
47,800	ENDO PHARMACEUTICAL HOLDINGS INC	34.23	1,636,194
15,100	ENERGEN CORP	54.94	829,594
45,400	EXELON CORP	72.60	3,296,040
40,000	EXPRESS SCRIPTS	50.01	2,000,400
356,700	EXXON MOBIL CORP	83.88	29,919,996
72,100	FEDEX CORPORATION	110.97	8,000,937
69,400	FISERV INC	56.80	3,941,920
16,900	FMC CORP	89.39	1,510,691
44,300	FRANKLIN RESOURCES INC	132.47	5,868,421
55,000	GARMIN LIMITED	73.97	4,068,350
54,400	GENENTECH, INC.	75.66	4,115,904
472,100	GENERAL ELECTRIC CO	38.28	18,071,988
71,900	GENZYME CORPORATION	64.40	4,630,360
191,200	GILEAD SCIENCES, INC	38.80	7,418,560
31,400	GLOBALSANTAFE CORP	72.25	2,268,650
35,100	GOLDMAN SACHS GROUP INC	216.75	7,607,925
36,200	GRAINGER (W W) INC	93.05	3,368,410
9,250	GUITAR CENTER INC	59.81	553,243
44,475	HARRIS CORPORATION	54.55	2,426,111
79,740	HARTFORD FINANCIAL SERVICES GROUP	98.51	7,855,187
171,000	HOME DEPOT	39.35	6,728,850
22,600	HOME PROPERTIES INC.	51.93	1,173,618
166,100	INTEL CORPORATION	23.74	3,943,214
102,800	INTERNATIONAL BUSINESS MACH.	105.25	10,819,700
11,900	INTUITIVE SURGICAL INC	138.77	1,651,363

Investments Section

Shares	Description	Price	Fair Value
156,400	iSHARES EAFE INDEX ETF	80.77	12,632,428
157,600	iSHARES MSCI EMERGING MARKET ETF	131.65	20,748,040
20,400	ISHARES RUSSELL 3000 INDEX ETF	87.03	1,775,412
66,694	JACOBS ENGINEERING GROUP INC.	57.51	3,835,572
105,300	JOHNSON & JOHNSON CO	61.62	6,488,586
135,600	JP MORGAN CHASE & CO	48.45	6,569,820
31,700	KELLOGG CO	51.79	1,641,743
150,000	KING PHARMACEUTICALS INC	20.46	3,069,000
27,100	KOHL'S CORP	71.03	1,924,913
53,305	KRAFT FOODS INC	35.25	1,879,001
62,902	LANDSTAR SYSTEMS, INC	48.25	3,035,022
54,500	LEHMAN BROTHERS HOLDINGS	75.80	4,131,100
106,200	LILLY ELI	55.88	5,934,456
62,800	LINEAR TECHNOLOGY CORP	36.18	2,272,104
51,500	LOCKHEED MARTIN CORP	94.13	4,847,695
68,800	LOGITECH INTERNATIONAL SA	26.39	1,815,632
40,500	MANITOWOC COMPANY INC.	80.38	3,255,390
67,400	MCAFEE INC	35.20	2,372,480
77,800	MCDONALDS CORPORATION	50.76	3,949,128
72,000	MERRILL LYNCH & CO INC	83.58	6,017,760
67,700	METLIFE INC.	64.48	4,365,296
129,300	MICROCHIP TECHNOLOGY INC.	37.04	4,789,272
456,300	MICROSOFT CORPORATION	29.47	13,447,161
63,300	NABORS INDUSTRIES, LTD	33.38	2,112,954
111,700	NOKIA CORPORATION	28.11	3,139,887
40,700	NORDSTROM INC	51.12	2,080,584
58,152	ODYSSEY HEALTHCARE INC	11.86	689,683
51,600	OLIN CORP.	21.00	1,083,600
27,000	OMNICOM GROUP	52.92	1,428,840
45,500	ONEOK INC	50.41	2,293,655
130,900	PEPSICO INC.	64.85	8,488,865
113,700	PETSMART, INC	32.45	3,689,565
406,400	PFIZER INC.	25.57	10,391,648
42,900	PMI GROUP INC.	44.67	1,916,343
68,625	POOL CORPORATION	39.03	2,678,434
21,000	PPL CORP	46.79	982,590
198,000	PROCTER & GAMBLE COMPANY	61.19	12,115,620
45,400	PSYCHIATRIC SOLUTIONS INC	36.26	1,646,204
130,740	QUALCOMM INCORPORATED	43.39	5,672,809
126,000	QUIKSILVER, INC	14.13	1,780,380
39,800	RESMED INC	41.26	1,642,148
37,200	ROBERT HALF INTERNATIONAL	36.50	1,357,800
49,800	RPM INTERNATIONAL INC	23.11	1,150,878
63,200	SANDISK CORPORATION	48.94	3,093,008
56,900	SAP AG	51.07	2,905,883

Investments Section

Shares	Description	Price	Fair Value
67,100	SATYAM COMPUTER SERVICES LTD	24.76	1,661,396
104,800	SCHLUMBERGER LTD	84.94	8,901,712
28,300	SCOTTS CO'A'	42.94	1,215,202
51,072	SEALED AIR	31.02	1,584,253
64,980	SEI INVESTMENTS COMPANY	29.04	1,887,019
24,100	SEMPRA ENERGY	59.23	1,427,443
12,900	SOVRAN SELF STORAGE	48.16	621,264
52,800	SPECTRA ENERGY CORP	25.96	1,370,688
35,200	SPRINT NEXTEL CORPORATION	20.71	728,992
160,900	STAPLES, INC.	23.73	3,818,157
28,100	STERICYCLE INC	44.46	1,249,326
69,200	STRATEGIC HOTELS & RESORTS	22.49	1,556,308
47,900	SUPERIOR ENERGY SERVICES	39.92	1,912,168
86,600	T. ROWE PRICE GROUP INC	51.89	4,493,674
22,600	TARGET CORP	63.60	1,437,360
144,200	TELE NORTE LESTE PARTICIPACOES SA	18.97	2,735,474
85,500	TELEFONES DE MEXICO	37.89	3,239,595
113,500	TEVA PHARMACEUTICAL INDUSTRIES LTD	41.25	4,681,875
205,200	TEXAS INSTRUMENTS	37.63	7,721,676
56,900	TOTAL SA	80.98	4,607,762
40,600	TRINITY INDUSTRIES INC	43.54	1,767,724
60,400	UNITED TECHNOLOGIES CORP	70.93	4,284,172
23,500	URS CORP	48.55	1,140,925
12,800	VALERO ENERGY CORPORATION	73.86	945,408
113,300	VANGUARD EMERGING MARKETS ETF	91.29	10,343,157
62,700	VANGUARD SMALL CAP VALUE ETF	74.83	4,691,841
248,041	VANGUARD SMALL CAP VALUE MUTUAL FUND	17.94	4,449,849
174,460	VANGUARD TOTAL STOCK MARKET ETF	149.38	26,060,835
61,300	VARIAN MEDICAL SYSTEMS INC	42.51	2,605,863
162,100	VERIZON COMMUNICATIONS	41.17	6,673,657
50,000	VERTEX PHARMACEUTICALS	28.56	1,428,000
106,000	WACHOVIA CORP	51.25	5,432,500
90,300	WALGREEN COMPANY	43.54	3,931,662
49,700	WAL-MART STORES	48.11	2,391,067
71,100	WELLPOINT INC	79.83	5,675,913
130,100	WESTERN DIGITAL CORP	19.35	2,517,435
92,200	YUM BRANDS INC.	32.72	3,016,784
TOTAL EQUITY PORTFOLIO			731,764,348

Investments Section

EQUITY ACQUIRED JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Shares	Dividend Rate	Income	Yield	Average Cost	Cost
3M COMPANY	36,900	0.4800	17,712	0.63	76.17	2,810,766
ABBOTT LABORATORIES	2,300	0.3250	748	0.61	52.87	121,601
ABERCROMBIE & FITCH	1,300	0.1750	228	0.23	74.49	96,837
ADOBE SYSTEMS	3,600	0.0125	45	0.03	39.04	140,544
AFFILIATED COMPUTER SERVICES	1,000	-	-	-	51.33	51,330
AFLAC INC	67,600	0.2050	13,858	0.45	45.83	3,098,088
ALCAN INC	1,200	0.2000	240	0.39	51.04	61,248
ALLEGHENY TECHNOLOGIES INC	14,870	0.1300	1,933	0.14	95.87	1,425,557
ALLIANZ AG HOLDING	70,400	0.4063	28,600	2.52	16.14	1,136,365
ALLSTATE CORPORATION	5,700	0.3800	2,166	0.64	59.63	339,891
ALTRIA GROUP INC	143,500	0.6900	99,015	0.85	81.38	11,677,892
AMDOCS LTD	27,905	-	-	-	35.24	983,360
AMERICAN CAPITAL STRATEGIES LTD	2,800	0.9100	2,548	2.11	43.04	120,512
AMERICAN INT'L GROUP	4,900	0.2000	980	0.29	69.74	341,726
AMGEN	5,400	-	-	-	62.30	336,420
APACHE CORPORATION	2,300	0.1500	345	0.22	68.00	156,400
APPLE COMPUTER INC	57,200	-	-	-	86.67	4,957,289
APPLIED MATERIALS	1,800	0.0600	108	0.33	18.18	32,724
ARCH COAL INC	72,300	0.0700	5,061	0.22	31.64	2,287,527
ARCHER-DANIELS-MIDLAND COMPANY	90,400	0.1150	10,396	0.37	31.10	2,811,664
ARRIS GROUP	140,300	-	-	-	11.51	1,615,463
AUTOMATIC DATA PROCESSING	2,800	0.2300	644	0.47	48.80	136,640
BASF AG	4,000	3.2179	12,872	3.81	84.44	337,754
BED BATH & BEYOND	1,700	-	-	-	39.39	66,963
BEST BUY CO INC	3,800	0.1000	380	0.21	46.52	176,776
BJ SERVICES COMPANY	6,000	-	-	-	32.08	192,473
BOEING CO.	59,300	0.3500	20,755	0.40	86.43	5,125,141
BURLINGTON NORTHERN SANTE FE	1,100	0.2500	275	0.32	76.99	84,689
CANADIAN NATIONAL RAILWAY	1,000	0.1978	198	0.45	43.68	43,680
CAPITAL ONE FINANCIAL	2,200	0.0267	59	0.04	75.86	166,892
CAREER EDUCATION CORP.	81,200	-	-	-	25.93	2,105,584
CAREMARK RX INC	1,000	-	-	-	61.63	61,630
CARLISLE COMPANIES INC	34,100	0.1350	4,604	0.16	82.53	2,814,144
CARPENTER TECHNOLOGY	5,000	0.3000	1,500	0.28	108.10	540,515
CELGENE CORP	62,500	-	-	-	56.58	3,536,245
CENTEX CORP	50,000	0.0400	2,000	0.08	48.35	2,417,688
CENTURY TELEPHONE INC	1,900	0.0650	124	0.15	44.33	84,227
CHATTEM INC	2,700	-	-	-	51.04	137,808
CHESAPEAKE ENERGY	1,700	0.0675	115	0.22	30.23	51,391
CHEVRON CORP	25,400	0.5800	14,732	0.89	65.43	1,661,946
CHICO'S FAS INC	2,900	-	-	-	20.42	59,218
CHINA MOBILE LIMITED	62,100	0.5316	33,010	1.16	45.71	2,838,498

Investments Section

Description	Shares	Dividend Rate	Income	Yield	Average Cost	Cost
CHUBB CORPORATION	1,400	0.2900	406	0.59	49.20	68,880
CIMAREX ENERGY CO	28,900	0.0400	1,156	0.09	42.12	1,217,173
CISCO SYSTEMS	10,800	-	-	-	25.96	280,368
CITIGROUP, INC.	10,500	0.5400	5,670	1.07	50.58	531,090
CITIZENS COMMUNICATIONS	6,500	0.2500	1,625	1.69	14.81	96,265
CITRIX SYSTEMS INC	101,000	-	-	-	30.27	3,057,637
CLARCOR INC	1,500	0.0725	109	0.23	30.95	46,425
COACH INC	29,300	-	-	-	30.04	880,044
COCA-COLA CO	25,200	0.3400	8,568	0.64	52.77	1,329,788
COLGATE PALMOLIVE CO	1,800	0.3600	648	0.54	66.59	119,862
COMCAST CORP-SPECIAL CL A	3,200	-	-	-	25.73	82,336
COMMERCE BANCORP, INC.	2,300	0.1300	299	0.39	33.47	76,981
CONSTELLATION BRANDS	3,100	-	-	-	19.25	59,675
CONSTELLATION ENERGY GROUP INC	1,800	0.4350	783	0.56	78.21	140,778
CORNING INCORPORATED	168,900	0.0500	8,445	0.23	21.65	3,657,467
COVANCE INC	1,800	-	-	-	60.14	108,252
CULLEN/FROST BANKERS	38,900	0.4000	15,560	0.74	54.20	2,108,394
CVS/CAREMARK CORP	4,200	0.0600	252	0.19	31.30	131,460
D. R. HORTON	28,300	0.1500	4,245	0.59	25.37	717,993
DOW CHEMICAL	1,100	0.4200	462	0.99	42.42	46,662
DUKE ENERGY CORPORATION	3,300	0.2200	726	1.13	19.55	64,515
E.ON AG	33,500	1.5123	50,662	4.07	37.15	1,244,633
EMC CORP	7,300	-	-	-	13.40	97,820
EMULEX CORP.	3,000	-	-	-	17.75	53,250
ENDO PHARMACEUTICAL HOLDINGS INC	17,800	-	-	-	29.74	529,369
ENERGEN CORP	500	0.1150	58	0.24	47.09	23,545
EXELON CORP	1,400	0.4400	616	0.68	64.81	90,734
EXPRESS SCRIPTS	700	-	-	-	74.56	52,192
EXXON MOBIL CORP	11,200	0.3500	3,920	0.49	71.00	795,200
FEDEX CORPORATION	2,200	0.1000	220	0.09	112.57	247,654
FISERV INC	2,200	-	-	-	52.14	114,708
FMC CORP	1,000	0.2100	210	0.29	72.77	72,770
FRANKLIN RESOURCES INC	1,700	0.1500	255	0.13	115.35	196,095
GARMIN LIMITED	55,000	0.5000	27,500	1.09	45.89	2,523,838
GENENTECH, INC.	1,700	-	-	-	82.28	139,876
GENERAL ELECTRIC CO	472,100	0.2800	132,188	0.81	34.63	16,347,829
GENZYME CORPORATION	2,200	-	-	-	60.48	133,056
GILEAD SCIENCES, INC	3,300	-	-	-	70.72	233,376
GLOBALSANTAFE CORP	900	0.2250	203	0.40	56.64	50,976
GOLDMAN SACHS GROUP INC	1,000	0.3500	350	0.18	197.37	197,370
GRAINGER (W W) INC	1,100	0.3500	385	0.47	75.07	82,577
GUITAR CENTER INC	1,700	-	-	-	43.61	74,137
HARRIS CORPORATION	101,300	0.1100	11,143	0.26	42.82	4,337,484
HARTFORD FINANCIAL SERVICES GROUP	3,100	0.5000	1,550	0.52	95.63	296,453
HOME DEPOT	5,400	0.2250	1,215	0.58	38.80	209,520

Investments Section

Description	Shares	Dividend Rate	Income	Yield	Average Cost	Cost
HOME PROPERTIES INC.	22,600	0.6500	14,690	1.10	58.93	1,331,813
INDYMAC BANCORP INC	23,000	-	-	-	46.39	1,067,078
INTEL CORPORATION	4,300	0.1125	484	0.58	19.40	83,420
INTERNATIONAL BUSINESS MACH.	3,300	0.4000	1,320	0.43	93.80	309,540
INTUITIVE SURGICAL INC	33,400	-	-	-	94.25	3,148,050
iSHARES EAFE INDEX ETF	156,400	1.5335	239,833	1.91	80.18	12,540,872
iSHARES MSCI EMERGING MARKET ETF	157,600	1.5725	247,828	1.36	115.33	18,175,617
ISHARES RUSSELL 3000 INDEX ETF	20,400	0.3259	6,648	0.37	88.04	1,796,069
JACKSON HEWITT TAX SERVICE INC	700	-	-	-	32.64	22,846
JACOBS ENGINEERING GROUP INC.	1,900	-	-	-	87.97	167,143
JP MORGAN CHASE & CO	30,700	0.3800	11,666	0.75	50.62	1,553,953
KELLOGG CO	31,700	0.2910	9,225	0.58	50.04	1,586,258
KING PHARMACEUTICALS INC	150,000	-	-	-	18.20	2,729,809
KOHL'S CORP	800	-	-	-	70.72	56,576
LABORATORY CORP OF AMERICA HOLDINGS	18,000	-	-	-	78.54	1,413,696
LANDSTAR SYSTEMS, INC	2,900	0.0375	109	0.09	43.27	125,483
LILLY ELI	3,100	0.4250	1,318	0.81	52.23	161,913
LINEAR TECHNOLOGY CORP	36,700	0.1800	6,606	0.57	31.78	1,166,291
LOCKHEED MARTIN CORP	51,500	0.3500	18,025	0.39	89.10	4,588,587
LOGITECH INTERNATIONAL SA	102,900	-	-	-	28.91	2,974,643
MANITOWOC COMPANY INC.	28,400	0.0350	994	0.08	44.46	1,262,570
MCAFFEE INC	22,500	-	-	-	24.84	558,799
MCDONALDS CORPORATION	77,800	1.0000	77,800	2.79	35.90	2,793,025
MERRILL LYNCH & CO INC	16,900	0.3500	5,915	0.39	90.03	1,521,548
METLIFE INC.	2,100	0.5900	1,239	0.95	62.23	130,683
MICROCHIP TECHNOLOGY INC.	59,900	0.2800	16,772	0.87	32.04	1,919,329
MICROSOFT CORPORATION	13,700	0.1000	1,370	0.36	27.83	381,271
NABORS INDUSTRIES, LTD	1,500	-	-	-	29.45	44,175
NOKIA CORPORATION	3,500	0.4157	1,455	1.94	21.45	75,075
NORDSTROM INC	14,500	0.1350	1,958	0.29	46.63	676,090
ODYSSEY HEALTHCARE INC	102,900	-	-	-	13.18	1,355,820
OLIN CORP.	1,600	0.2000	320	1.21	16.59	26,544
OMNICOM GROUP	400	0.1500	60	0.14	104.29	41,716
ONEOK INC	1,400	0.3600	504	0.88	40.87	57,218
PEPSICO INC.	4,300	0.3750	1,613	0.59	63.26	272,018
PETSMART, INC	57,100	0.0300	1,713	0.11	27.07	1,545,724
PFIZER INC.	74,700	0.2900	21,663	1.22	23.84	1,781,057
PMI GROUP INC.	42,900	0.0525	2,252	0.11	46.74	2,005,292
POOL CORPORATION	3,500	0.1200	420	0.34	35.33	123,655
PPL CORP	21,000	0.3050	6,405	0.86	35.64	748,375
PROCTER & GAMBLE COMPANY	6,600	0.3500	2,310	0.56	62.94	415,404
PSYCHIATRIC SOLUTIONS INC	43,880	-	-	-	38.11	1,672,269
QUALCOMM INCORPORATED	74,800	0.1400	10,472	0.38	37.26	2,787,222
QUIKSILVER, INC	3,900	-	-	-	13.59	53,001
RESMED INC	24,000	-	-	-	41.60	998,402

Investments Section

Description	Shares	Dividend Rate	Income	Yield	Average Cost	Cost
ROBERT HALF INTERNATIONAL	6,600	0.1000	660	0.27	37.04	244,452
RPM INTERNATIONAL INC	18,000	0.1750	3,150	0.91	19.20	345,605
SANDISK CORPORATION	63,200	-	-	-	42.79	2,704,243
SAP AG	56,900	0.6198	35,267	1.28	48.30	2,748,297
SATYAM COMPUTER SERVICES LTD	34,650	0.0356	1,234	0.10	33.94	1,176,118
SCHLUMBERGER LTD	104,800	0.1750	18,340	0.28	62.44	6,543,819
SCOTTS CO'A	9,700	0.1250	1,213	0.29	43.28	419,781
SEALED AIR	1,200	0.1000	120	0.16	62.20	74,640
SEI INVESTMENTS COMPANY	2,200	0.1400	308	0.24	59.00	129,800
SEMPRA ENERGY	600	0.3100	186	0.52	59.39	35,634
SOVRAN SELF STORAGE	400	0.6200	248	1.09	57.07	22,828
SPECTRA ENERGY CORP	1,650	0.2200	363	0.88	25.14	41,481
SPRINT NEXTEL CORPORATION	64,900	0.0250	1,623	0.13	18.87	1,224,654
STAPLES, INC.	49,600	0.2900	14,384	1.09	26.49	1,313,746
STRATEGIC HOTELS & RESORTS	2,700	0.2400	648	1.19	20.24	54,648
SUPERIOR ENERGY SERVICES	1,500	-	-	-	32.27	48,405
T. ROWE PRICE GROUP INC	4,000	0.1700	680	0.37	46.02	184,080
TARGET CORP	22,600	0.1400	3,164	0.25	56.86	1,285,094
TELE NORTE LESTE PARTICIPACOES SA	144,200	0.0386	5,568	0.29	13.52	1,950,245
TELEFONES DE MEXICO	2,700	0.2022	546	0.69	29.45	79,515
TEVA PHARMACEUTICAL INDUSTRIES LTD	113,500	0.0833	9,455	0.24	34.88	3,958,351
TEXAS INSTRUMENTS	65,900	0.0800	5,272	0.26	30.47	2,007,782
TOTAL SA	56,900	1.1424	65,001	1.75	65.20	3,710,090
TRINITY INDUSTRIES INC	40,600	0.0600	2,436	0.18	34.08	1,383,846
UNITED TECHNOLOGIES CORP	60,400	0.3200	19,328	0.51	62.69	3,786,400
URS CORP	1,000	-	-	-	41.65	41,650
VALERO ENERGY CORPORATION	1,400	0.1200	168	0.21	57.84	80,976
VANGUARD EMERGING MARKETS ETF	113,300	1.3390	151,709	1.82	73.61	8,340,167
VANGUARD SMALL CAP VALUE ETF	62,700	0.0580	3,637	0.08	71.06	4,455,278
VANGUARD SMALL CAP VALUE MUTUAL FUND	248,041	0.3230	80,117	1.90	17.04	4,227,350
VANGUARD TOTAL STOCK MARKET ETF	174,460	0.5710	99,617	0.38	150.96	26,336,729
VARIAN MEDICAL SYSTEMS INC	61,300	-	-	-	46.03	2,821,553
VCA ANTECH, INC.	18,000	-	-	-	32.12	578,137
VERIZON COMMUNICATIONS	5,100	0.4050	2,066	1.11	36.48	186,048
VERTEX PHARMACEUTICALS	50,000	-	-	-	29.81	1,490,380
WACHOVIA CORP	35,800	0.5600	20,048	1.04	54.01	1,933,660
WALGREEN COMPANY	2,400	0.0950	228	0.21	44.45	106,680
WAL-MART STORES	3,200	0.2200	704	0.46	48.04	153,728
WELLPOINT INC	2,300	-	-	-	80.08	184,184
WESTERN DIGITAL CORP	130,100	-	-	-	20.32	2,643,395
YUM BRANDS INC.	46,100	0.1500	6,915	0.25	59.73	2,753,592
TOTAL EQUITIES ACQUIRED	5,811,456		1,822,060		46.51	270,262,615

Investments Section

EQUITY SOLD JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
ADOBE SYSTEMS	40,000	35.18	722,704	683,523	94.58%
ADVANCED MICRO DEVICES	52,000	24.82	1,501,495	(212,090)	-14.13%
AETNA INC	108,000	42.61	2,265,189	2,334,285	103.05%
AFFILIATED COMPUTER SERVICES	53,900	57.41	2,912,159	181,065	6.22%
ALBERTO CULVER CO	34,900	29.57	1,159,843	(128,704)	-11.10%
ALCAN INC	19,000	81.73	713,840	838,837	117.51%
ALLIANZ AG HOLDING	17,600	22.93	284,091	119,371	42.02%
ALLSTATE CORPORATION	74,050	62.03	2,481,025	2,110,407	85.06%
ALLTEL CORPORATION	43,700	62.77	2,046,050	696,094	34.02%
ALTERA CORPORATION	87,600	17.34	1,786,429	(269,242)	-15.07%
AMERICAN CAPITAL STRATEGIES LTD	28,400	47.06	986,596	349,630	35.44%
AMERICAN EXPRESS	43,600	58.55	1,374,194	1,177,561	85.69%
AMERICAN STANDARD COMPANY INC	78,400	39.57	2,098,305	1,001,775	47.74%
AMGEN	53,000	59.71	2,151,827	1,011,429	47.00%
ANALOG DEVICES, INC.	30,800	33.19	2,179,136	(1,157,667)	-53.13%
ANHEUSER BUSCH COMPANY	21,900	48.83	1,133,567	(64,705)	-5.71%
APACHE CORPORATION	37,500	64.67	921,217	1,502,994	163.15%
ARACRUZ CELULOSE SA	17,000	50.20	885,072	(32,454)	-3.67%
ARRIS GROUP	140,300	13.49	1,615,463	274,772	17.01%
AUTOZONE INC	17,400	118.68	1,528,038	536,606	35.12%
BALL CORP	20,700	40.39	860,884	(25,308)	-2.94%
BANK OF AMERICA CORPORATION	55,400	52.37	1,871,769	1,028,551	54.95%
BASF AG	3,500	124.61	275,334	160,761	58.39%
BEAR STEARNS COMPANY	26,300	159.34	2,401,130	1,788,661	74.49%
BED BATH & BEYOND	17,000	40.75	665,241	26,859	4.04%
BJ SERVICES COMPANY	67,000	30.96	1,373,218	699,748	50.96%
BURLINGTON NORTHERN SANTE FE	50,600	79.10	2,373,389	1,627,747	0.00%
CACI INTERNATIONAL	16,100	48.75	977,106	(192,571)	-19.71%
CANADIAN NATIONAL RAILWAY	37,700	43.13	600,313	1,024,870	170.72%
CAREER EDUCATION CORP.	41,000	35.55	1,063,164	394,146	37.07%
CARLISLE COMPANIES INC	53,505	45.94	2,207,783	249,410	11.30%
CARPENTER TECHNOLOGY	400	113.99	43,241	2,355	5.45%
CENTURY TELEPHONE INC	79,100	43.36	2,674,309	753,897	28.19%
CEPHALON INC	15,600	55.21	1,165,910	(304,988)	-26.16%
CHATTEM INC	22,768	62.45	866,800	554,878	64.01%
CHECK POINT SOFTWARE TECHNOLOGIES LTD	30,600	16.59	578,754	(71,725)	0.00%
CHESAPEAKE ENERGY	18,000	33.05	567,995	26,575	4.68%
CHICO'S FAS INC	21,600	18.96	654,962	(245,892)	-37.54%
CIMAREX ENERGY CO	10,900	40.81	438,450	6,252	1.43%
CISCO SYSTEMS	33,000	17.68	366,570	215,691	58.84%
CLARCOR INC	15,590	36.74	490,668	81,992	16.71%
COACH INC	49,500	-	1,509,947	1,033,554	100.00%
COMMUNITY HEALTH SYSTEMS INC	69,900	33.72	2,766,297	(411,935)	-14.89%

Investments Section

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
CONSTELLATION BRANDS	35,000	27.74	551,174	418,847	75.99%
CON-WAY INC.	52,060	50.02	2,505,624	97,034	3.87%
COVANCE INC	29,380	67.67	1,278,838	709,127	55.45%
CULLEN/FROST BANKERS	9,200	52.93	498,643	(11,752)	-2.36%
D. R. HORTON	60,000	21.94	1,331,482	(15,920)	-1.20%
DANAHER CORP.	34,900	71.74	2,021,387	481,048	23.80%
DEAN FOODS	91,400	44.07	2,342,448	1,682,987	71.85%
DELL INC	27,000	21.10	1,034,068	(464,917)	0.00%
DENTSPLY INTERNATIONAL INC	96,000	-	2,736,262	333,559	100.00%
DEVON ENERGY CORPORATION	22,600	58.93	922,772	408,621	44.28%
DOW CHEMICAL	21,000	39.63	905,196	(73,884)	-8.16%
EMC CORP	70,300	15.47	817,999	268,972	32.88%
EXPRESS SCRIPTS	51,000	67.16	614,004	2,810,102	457.67%
FISERV INC	37,500	48.37	1,430,816	382,308	26.72%
FLEXTRONICS INTERNATIONAL	183,800	11.11	2,541,230	(503,450)	-19.81%
FMC CORP	15,000	87.66	743,705	570,992	76.78%
FORTUNE BRANDS, INC.	69,800	80.63	4,117,159	1,508,621	36.64%
FRANKLIN RESOURCES INC	10,000	118.60	519,685	666,081	128.17%
GANNETT COMPANY	35,100	52.52	2,589,587	(747,031)	-28.85%
GILEAD SCIENCES, INC	38,000	69.53	758,071	1,882,289	248.30%
GLOBALSANTAFE CORP	48,000	51.63	1,667,317	809,685	48.56%
GOLDMAN SACHS GROUP INC	5,200	187.20	624,059	349,227	55.96%
GUITAR CENTER INC	62,350	49.78	3,135,307	(32,458)	-1.04%
HARRIS CORPORATION	56,825	51.43	2,433,145	488,548	20.08%
HARTFORD FINANCIAL SERVICES GROUP	21,060	102.65	1,141,758	1,019,797	89.32%
HERSHEY FOODS CORPORATION	35,200	53.14	1,847,392	22,221	1.20%
HYDRIL	13,800	67.10	819,152	106,220	12.97%
IDEARC INC	7,850	35.86	195,131	86,174	44.16%
INDYMAC BANCORP INC	69,000	38.07	3,077,964	(453,034)	-14.72%
INGERSOLL-RAND 'A'	115,300	41.95	4,292,129	541,789	12.62%
INTEL CORPORATION	60,000	17.70	1,703,555	(642,650)	-37.72%
INTERNATIONAL BUSINESS MACH.	18,500	73.30	1,066,189	289,113	27.12%
INTUITIVE SURGICAL INC	21,500	128.52	2,026,440	736,056	36.32%
JABIL CIRCUIT	66,800	23.98	1,488,089	111,210	7.47%
JACKSON HEWITT TAX SERVICE INC	700	36.16	22,846	2,449	10.72%
JACOBS ENGINEERING GROUP INC.	59,306	57.24	1,079,639	2,314,497	214.38%
JOHNSON & JOHNSON CO	52,000	62.11	2,941,979	286,610	9.74%
KRAFT FOODS INC	46,000	31.61	1,289,614	163,984	12.72%
LABORATORY CORP OF AMERICA HOLDINGS	18,000	79.08	1,413,696	9,523	0.67%
LANDSTAR SYSTEMS, INC	123,998	44.76	1,798,462	3,749,079	208.46%
LEHMAN BROTHERS HOLDINGS	24,000	75.41	1,019,934	789,474	77.40%
LENNAR CORP Class A	26,300	52.98	774,287	617,967	79.81%
LOGITECH INTERNATIONAL SA	34,100	26.84	985,766	(70,825)	-7.18%
MANITOWOC COMPANY INC.	9,300	77.60	299,808	421,733	140.67%
MCAFEE INC	7,400	35.17	207,044	53,121	25.66%

Investments Section

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
MEDTRONIC, INC.	13,100	47.03	628,690	(12,878)	-2.05%
MERRILL LYNCH & CO INC	19,000	85.61	1,501,635	124,677	8.30%
MICROSOFT CORPORATION	92,000	30.09	3,178,328	(411,615)	-12.95%
MOTOROLA INC	126,500	20.87	2,963,802	(327,354)	-11.05%
MOVADO GROUP INC	45,500	29.73	950,224	401,220	42.22%
MYLAN LABORATORIES	67,900	20.41	1,457,206	(72,605)	-4.98%
NABORS INDUSTRIES, LTD	112,000	31.56	3,090,203	440,978	14.27%
ODYSSEY HEALTHCARE INC	44,748	12.52	589,604	(29,937)	-5.08%
OLIN CORP.	2,300	20.01	47,446	(1,447)	-3.05%
PEPSICO INC.	30,000	64.72	1,431,803	508,582	35.52%
PETCO ANIMAL SUPPLIES INC	50,200	28.32	1,167,109	252,857	21.67%
POOL CORPORATION	74,475	39.15	1,019,706	1,895,270	185.86%
POWERWAVE TECHNOLOGIES INC	164,300	6.68	1,980,055	(887,746)	-44.83%
PSYCHIATRIC SOLUTIONS INC	33,380	36.15	1,064,372	141,967	13.34%
QUALCOMM INCORPORATED	49,260	44.14	1,927,198	246,422	12.79%
REGIONS FINANCIAL CORP	25,437	34.70	693,322	188,795	27.23%
RESMED INC	100	41.71	3,102	1,068	34.44%
RESPIRONICS INC	11,800	34.79	404,071	6,203	1.54%
RPM INTERNATIONAL INC	15,900	22.95	295,038	69,777	23.65%
SALLY BEAUTY HOLDINGS INC	25,900	7.78	133,597	67,380	50.44%
SCHOLASTIC CORPORATION	20,000	29.02	574,281	5,411	0.94%
SEALED AIR	20,528	31.24	528,911	112,079	21.19%
SEI INVESTMENTS COMPANY	54,160	59.01	2,049,364	1,145,917	55.92%
SEMPRA ENERGY	33,000	57.72	1,067,162	836,107	78.35%
SKYWEST INC	29,100	25.90	563,643	189,483	33.62%
SMITH INTERNATIONAL INC	30,600	43.24	997,242	325,345	32.62%
SPRINT NEXTEL CORPORATION	131,100	20.13	2,511,759	124,507	4.96%
ST. JUDE MEDICAL	122,100	36.88	2,570,300	1,928,793	75.04%
STEAK N SHAKE	12,470	14.32	231,464	(53,192)	-22.98%
STERICYCLE INC	38,000	63.73	2,037,452	383,638	18.83%
STRATEGIC HOTELS & RESORTS	16,700	23.29	347,567	41,207	11.86%
SYSCO CORPORATION	61,100	35.35	1,835,490	323,318	17.61%
T. ROWE PRICE GROUP INC	74,800	51.19	1,554,260	2,273,784	146.29%
TYCO INTERNATIONAL LTD.	83,400	25.58	2,791,710	(659,825)	-23.64%
UGI CORP	29,300	24.88	605,080	122,663	20.27%
UNITED NATURAL FOODS	53,600	30.79	1,684,779	(35,505)	-2.11%
UNITED PARCEL SERVICE	69,800	73.55	5,115,584	16,024	0.31%
URS CORP	9,800	49.22	392,291	89,984	22.94%
UTI WORLDWIDE INC	39,300	23.34	918,419	(2,036)	-0.22%
VALERO ENERGY CORPORATION	59,100	67.09	2,508,237	1,455,992	58.05%
VCA ANTECH, INC.	40,500	32.37	1,102,387	207,773	18.85%
VISHAY INTERTECHNOLOGY INC	39,600	15.55	1,049,915	(434,930)	-41.43%
VORNADO REALTY TRUST	39,200	109.25	1,728,633	2,553,226	147.70%
WALGREEN COMPANY	25,000	48.85	463,652	757,060	163.28%
WAL-MART STORES	136,800	48.29	7,388,971	(786,123)	-10.64%
WASTE CONNECTIONS	16,700	37.45	471,343	153,655	32.60%

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
WILLIAMS COMPANIES, INC.	61,100	26.49	1,451,902	165,245	11.38%
WINDSTREAM CORPORATION	45,182	13.14	453,367	139,593	30.79%
WINNEBAGO INDUSTRIES INC	26,200	29.28	935,311	(168,702)	-18.04%
TOTAL EQUITY SOLD	6,168,382	40.71	195,607,312	55,362,268	28.30%

BOND PORTFOLIO

JUNE 30, 2007

Par Value	Description	Coupon	Fair Value
U.S. TREASURY OBLIGATIONS			
800,000	U.S. TREASURY BDS 2.00% 01/15/2026	2.000	724,624
1,000,000	U.S. TREASURY BOND 7.500 11/15/2016	7.500	1,179,300
2,000,000	U.S. TREASURY BOND 8.125 08/15/2019	8.125	2,529,060
3,000,000	U.S. TREASURY BOND 9.125 05/15/2018	9.125	3,992,340
1,000,000	U.S. TREASURY BOND 8.000 11/15/2021	8.000	1,279,450
750,000	U.S. TREASURY BONDS 4.50% 02/15/2036	4.500	679,103
700,000	U.S. TREASURY INFL IDX N/B 2012	3.000	819,912
700,000	U.S. TREASURY NOTE 4.875% 06/30/2009	4.875	699,125
750,000	U.S. TREASURY NTS 4.50% 04/30/2009	4.500	744,900
750,000	U.S. TREASURY NTS 4.50% 05/15/2017	4.500	719,063
1,200,000	U.S. TREASURY NTS 4.875% 05/31/2009	4.875	1,199,628
2,300,000	U.S. TREASURY NTS INFL IX N/B	1.875	2,309,324
750,000	U.S. TREASURY NTS TIPS 2.00% 04/15/2012	2.000	727,913
700,000	U.S. TREASURY WI INFL IDX N/B	0.875	725,090
16,400,000	TOTAL U.S. TREASURY OBLIGATIONS		18,328,831
FEDERAL AGENCY OBLIGATIONS			
239,000	FED HM LN MTG 5.0 6/18/18	5.000	224,517
750,000	FED HM LN MTG 6.25 4/7/21	6.250	739,913
700,000	FED HM LN MTG 5.00% 02/15/2025	5.000	649,250
725,782	FED HOME LN 6.00 11/01/2036 3128N5R76	6.000	715,406
671,029	FED HOME LN 6.00 11/01/2036 3128N0CE8	6.000	661,435
1,309,773	FED HOME LN MTG 6.50% 10/01/2036	6.500	1,318,456
849,705	FED HOME LOAN MTG CORP PARTN	6.500	855,339
2,643,062	FED NATL MTG ASSN 6.50% 11/01/2036	6.500	2,658,101
700,000	FEDERAL FARM CR 5.85% 05/16/2017	5.850	689,500
800,000	FEDERAL FARM CR BKS CONS SYST	5.300	777,752
1,425,000	FEDERAL FARM CR BKS CONS SYSTEM	5.150	1,378,246
3,795,000	FEDERAL FARM CREDIT 5.5%	5.500	3,646,767
3,400,000	FEDERAL FARM CREDIT BANK	5.300	3,218,304
900,000	FEDERAL FARM CREDIT BK CONST SYST 5.40%	5.400	877,500
600,000	FEDERAL FARM CREDIT BKS 00719	5.000	585,936
701,609	FEDERAL HOME LN 6.00% 12/01/2036	6.000	695,652
1,053,910	FEDERAL HOME LN 6.50 10/01/36	6.500	1,060,897

Investments Section

Par Value	Description	Coupon	Fair Value
800,000	FEDERAL HOME LN BKS 5.33% 7/23/18	5.330	764,504
1,250,000	FEDERAL HOME LN BKS 5.375 07/07/15	5.375	1,218,750
600,000	FEDERAL HOME LN MTG 6.00% 01/26/2022	6.000	586,212
672,338	FEDERAL HOME LN MTG 6.50% 04/01/2037	6.500	680,322
250,000	FEDERAL HOME LOAN BANK 5.125% 7/10/2023	5.125	230,390
1,818,000	FEDERAL HOME LOAN BK #00710	6.000	1,809,019
1,550,000	FEDERAL HOME LOAN BKS 00218	5.150	1,523,852
1,300,000	FEDERAL HOME LOAN BKS 5.35% 2015	5.350	1,264,653
1,100,000	FEDERAL HOME LOAN BKS TR #00575	5.650	1,061,500
6,150,000	FEDERAL HOME LOAN BKS TR#00553 5.38%	5.380	5,855,969
1,375,000	FEDERAL HOME LOAN BKS TR#00766	5.250	1,334,176
1,266,000	FEDERAL HOME LOAN MTG CORP FHR 3159 PB	6.000	1,267,317
1,200,000	FEDERAL HOME LOAN MTG MED TERM NOTE	5.400	1,169,292
2,910,670	FEDERAL NATL MTG ASSN 6.00% 10/01/36	6.000	2,869,018
703,598	FEDERAL NATL MTG ASSN 6.50% 10/01/36	6.500	707,601
700,000	FHR 3172 PC	6.000	697,228
895,510	FNMA 4.40 12/25/12	4.400	859,149
1,695,578	FNMA 4.45 08/25/12	4.450	1,626,874
270,000	FNMA 5.00 11/15/12	5.000	263,504
750,000	FNMA 5.00 11/25/21	5.000	693,630
5,100,000	FNMA 6.00 05/24/19	6.000	5,023,500
4,600,000	FNMA 5.25% 7/14/2015	5.250	4,464,898
1,448,824	FNMA FNR 2003-42 EP	4.000	1,367,052
500,000	FNMA FNR 2005-27 AB	5.500	488,850
1,037,000	FNMA FNR 2005-27 AC	5.500	979,125
1,369,770	FNMA FNR 2005-45 BG	4.500	1,254,641
540,000	FNMA GTD REMI 5.50% 2031	5.500	527,402
700,000	FNR 2006-60 PC	6.000	695,702
1,500,000	FREDDIE MAC 5.000 07/02/2018	5.000	1,403,835
2,000,000	FREDDIE MAC 5.000 08/10/2012	5.000	1,955,320
2,500,000	FREDDIE MAC 5.250 07/28/2015	5.250	2,425,775
700,000	FREDDIE MAC 6.000 06/01/2036	6.000	698,390
606,000	FREDDIE MAC 5.00% 12/14/2018	5.000	569,452
700,000	FREDDIE MAC 6.00% 12/15/2006	6.000	697,228
1,500,000	GNMA 2003-012RE 5.50% 2031	5.500	1,481,925
1,530,000	GNMA 2003-034PC 5.50% 2032	5.500	1,508,274
108,835	GNMA Pool #173878	9.000	116,477
85,413	GNMA Pool #176431	9.000	91,410
24,236	GNMA Pool #202505	9.000	26,030
23,278	GNMA Pool #217956	10.000	25,667
58,651	GNMA Pool #226529	9.000	62,895
2,266	GNMA Pool #232237	9.000	2,438
34,870	GNMA Pool #234937	9.000	37,392
39,809	GNMA Pool #238600	10.000	43,894
12,541	GNMA Pool #238840	9.000	13,449

Investments Section

Par Value	Description	Coupon	Fair Value
15,178	GNMA Pool #248951	9.000	16,276
5,553	GNMA Pool #252056	9.000	5,955
11,172	GNMA Pool #256195	9.000	11,981
10,852	GNMA Pool #285803	9.000	11,673
6,481	GNMA Pool #298952	9.000	6,979
9,788	GNMA Pool #303324	9.000	10,541
12,207	GNMA Pool #304625	9.000	13,147
21,061	GNMA Pool #305187	9.000	22,682
72,369	GNMA Pool #330725	8.000	76,548
407,411	GNMA Pool #375887	7.000	424,571
90,344	GNMA Pool #377589	7.500	94,685
167,070	GNMA Pool #386038	7.000	174,107
92,866	GNMA Pool #389845	8.000	98,386
123,434	GNMA Pool #398831	8.000	130,927
87,280	GNMA Pool #403979	8.500	94,131
135,402	GNMA Pool #421711	7.500	141,915
29,900	GNMA Pool #427556	7.500	31,338
173,088	GNMA Pool #432701	8.000	183,594
113,895	GNMA Pool #434101	7.000	118,732
185,669	GNMA Pool #434237	6.000	185,385
13,400	GNMA Pool #439645	8.000	14,213
14,668	GNMA Pool #441619	7.500	15,367
60,947	GNMA Pool #458918	7.000	63,535
92,221	GNMA Pool #475872	7.000	96,138
236,878	GNMA Pool #499876	7.000	246,941
367,799	GNMA Pool #499905	7.000	383,423
188,347	GNMA Pool #499907	7.000	196,348
146,917	GNMA Pool #507496	7.000	153,158
28,129	GNMA Pool #510958	7.000	29,324
32,039	GNMA Pool #512888	7.000	33,400
77,686	GNMA Pool #513367	7.000	80,986
181,252	GNMA Pool #530611	6.500	185,046
274,144	GNMA Pool #530631	6.500	279,882
108,044	GNMA Pool #539629	6.500	110,306
62,986	GNMA Pool #548963	6.500	64,304
32,026	GNMA Pool #549915	6.500	32,697
827,111	GNMA Pool #552514	6.500	843,686
241,804	GNMA Pool #560189	6.500	246,865
334,869	GNMA Pool #780076	8.000	354,559
172,329	GNMA Pool #780220	7.500	180,445
61,098	GNMA Pool #780896	7.000	63,702
850,000	GNR 2006-41 VB 6.00% 03/20/24	6.000	840,999
81,417,771	TOTAL FEDERAL AGENCY OBLIGATIONS		79,565,826

Investments Section

Par Value	Description	Coupon	Fair Value
	CORPORATE BONDS		
298,924	ACA ABS 2006-1 A-3L LTD	6.890	298,924
768,000	AGRIUM INC DEB 7.125 5/23/36	7.125	796,024
800,000	ALBERTSON'S INC DEBS 8.70% 2030	8.700	878,512
450,000	ALCOA INC NT 5.95% 02/01/2037	5.950	418,748
1,150,000	ALLTEL CORP 7.875% 07/01/2032	7.875	974,234
4,200,000	AMERICAN AIRLINES	7.858	4,441,500
800,000	ANADARKO FINANCE SR NT	7.500	859,552
994,000	AT&T BROADBAND CORP	9.455	1,261,535
1,000,000	BANC ONE CORP	8.000	1,194,590
4,800,000	BAYER HYPO-VEREINSBANK	8.741	5,859,600
1,400,000	BAYERISCHE LANDESBANK	0.000	1,183,140
1,400,000	BEAR STEARNS CO INC	0.000	1,400,000
900,000	BELL ATLANTIC MARYLAND 2023	7.150	932,085
1,114,903	CBO HOLDINGS III LTD.	7.000	1,114,903
737,158	CBO HOLDINGS SPIRIT 2004-3A	6.500	737,158
2,098,000	CHARTWELL CBO 10/10/12	6.510	2,098,000
1,090,000	CLEAR CHANNEL COMM 6.875% 2018	6.875	957,238
850,000	CNF INC SR DEB 6.7% 05/01/2034	6.700	787,423
450,000	CONAGRA FOODS INC	7.000	468,765
953,000	CONAGRA FOODS INC 5.819 06/15/2017	5.819	927,679
197,000	CONAGRA FOODS INC 9.75% 2021	9.750	247,527
1,201,000	CONTINENTAL AIRLINES INC	6.320	1,201,000
952,000	CONTINENTAL AIRLINES INC	6.503	955,570
475,617	CONTINENTAL AIRLINES INC	7.256	494,642
1,050,000	CORNING INC NT 7.25% 08/15/2036	7.250	1,082,330
540,000	FIRST DATA CORPORATION	4.700	519,669
850,000	GLOBAL MARINE INC 7.00% 06/01/2028	7.000	857,378
500,000	GOLDMAN SACHS	5.125	475,120
1,000,000	GOLDMAN SACHS GROUP INC.	8.000	1,102,400
1,000,000	GTE SOUTHWEST INC 1ST MTG 8.5%	8.500	1,169,720
3,750,000	HARTFORD LIFE GLOBAL FDG TRUST	5.170	3,516,825
450,000	HJ HEINZ FINANCE	6.750	438,350
1,250,000	HOME DEPOT INC SR NT 5.875	5.875	1,113,750
1,000,000	HUNTINGTON BANKS SUB NTS	6.600	1,034,880
4,100,000	HUTCHISON WHAMPOA FINANCIAL	7.450	4,516,560
500,000	HUTCHISON WHAMPOA INTL LTD	7.450	551,860
894,400	JEFFERIES GROUP 6.25 01/15/36	6.250	838,098
800,000	JOHNSON CTLS INC 6.00% 01/15/2036	6.000	753,288
700,000	KNIGHT RIDDER INC 5.75% 2017	5.750	598,990
900,000	KPN NV 8.375% 10/01/2030	8.380	1,009,179
510,000	KROGER CO 7.50% 04/01/2031	7.500	535,582
650,000	LEHMAN BROS HDLGS FLOAT 05/14	6.470	597,610
2,000,000	LEHMAN BROTHERS HOLDINGS INC	8.800	2,341,480
200,000	LIBERTY MUTUAL INSURANCE	7.875	218,554
900,000	MASCO CORP 6.50% 08/15/2032	6.500	819,243

Investments Section

Par Value	Description	Coupon	Fair Value
2,678,400	MMCAPS FUNDING I LTD/INC	8.030	2,932,848
1,900,000	MORGAN STANLEY	4.750	1,774,296
402,000	NEWS AMER HLDGS INC 7.43% 10/01/26	7.430	430,823
800,000	NORTH STREET 2001-3A CTFS	9.135	800,000
400,000	NORTH STREET 2001-3A NOTE FLT	6.415	380,000
800,000	ONEOK PARTNERS LTD 6.65% 10/01/2036	6.650	793,472
1,722,000	PACIFIC BELL DEB 7.375 07/15/2043	7.375	1,764,482
1,077,248	PACIFIC SHORES CDO	7.808	1,073,532
1,360,000	PERITUS CDO 8.37% 05/24/2015	8.370	1,360,000
900,000	PETROLIAM NASIONAL BERHD PETROL 144A	7.625	1,056,150
600,000	PHELPS DODGE CORP 9.50% 06/01/2031	9.500	775,500
701,600	PLAINS ALL AMERICAN PIPELINE 6.65%	6.650	691,750
2,891,083	PREFERRED CPO	8.946	3,057,638
1,840,000	PREMAT ACA TRUST SERIES 1	6.640	1,879,376
1,135,810	PRINCIPAL LIFE INC FDG FRN	5.651	1,030,452
3,750,000	PROTECTIVE LIFE CPI+150	4.920	3,529,275
3,282,334	REG DIVERSIFIED FUNDING SR NOTES	9.250	3,647,559
480,000	RELIANCE STL & ALUM 6.85% 11/15/2036A	6.850	478,138
450,000	ROYAL CARIBBEAN DEBS 7.50% 10/15/27	7.500	428,261
850,000	SAFeway INC SR DEB 7.45 09/15/2027	7.450	873,945
450,000	SARA LEE CORP	6.130	402,570
1,000,000	SECURITY BENEFIT	8.750	1,147,090
2,000,000	SECURITY MUTUAL LIFE NEW YORK	9.375	2,475,940
456,160	SERVICEMASTER COMPANY 7.10% 03/01/18	7.100	395,509
750,000	SOUTHERN COPPER CORP NT 7.50 07/27/35	7.500	805,155
900,000	SPRINT CAPITAL CORP 8.75% 03/15/2032	8.750	1,010,817
900,000	TECK COMINCO LTD 6.125% 2035	6.125	832,203
900,000	TELECOM ITALIA CAP GTD SR NT	7.200	925,254
600,000	TEVA PHARMACEUTICAL 6.150%	6.150	560,868
800,000	TIME WARNER ENT DEBS 2023	8.375	918,352
950,000	TOYOTA MTR CREDIT FLTR	4.248	903,127
2,400,000	TRAINER WORTHAM FIRST REP CBO	7.257	1,530,942
1,300,000	TRANSOCEAN SEDCO FOREX 7.375 04/15/18	7.375	1,398,930
850,000	TRIBUNE COMPANY 6.61% 2027	6.610	599,998
2,000,000	UNION CENTRAL LIFE	8.200	2,138,560
800,000	UNITED UTILITIES	4.550	694,120
1,000,000	UPM-KYMMENE CORP 7.45% 2027	7.450	1,022,840
960,000	US CELLULAR CORP	6.700	868,810
320,000	WESTERN UNION CO 6.20% 11/17/2036	6.200	306,246
2,328,000	WESTINGHOUSE ELECTRIC	7.875	2,377,912
800,000	WESTVACO CORP 8.20 01/15/30	8.200	846,392
750,000	WYETH	6.450	773,130
103,858,636	TOTAL CORPORATE BONDS		106,271,472
201,676,407	TOTAL BOND PORTFOLIO		204,166,129

BONDS ACQUIRED
JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
CORPORATE BONDS					
ACA ABS 2006-1 A-3L LTD	78.8750	299,094	235,910	3,320	239,231
AGRIUM INC DEB 7.125 5/23/36	104.0000	440,000	457,600	8,448	466,048
AGRIUM INC DEB 7.125 5/23/36	100.6000	328,000	329,968	3,506	333,474
ALCOA INC NT 5.95% 02/01/2037	95.5340	450,000	429,903	8,256	438,159
ALLTEL CORP 7.875% 07/01/2032	101.1250	300,000	303,375	8,991	312,366
ALLTEL CORP 7.875% 07/01/2032	111.2350	850,000	945,498	22,684	968,182
ANADARKO FINANCE SR NT	111.2500	800,000	890,000	25,500	915,500
BAYER HYPO-VEREINSBANK	124.8720	800,000	998,976	22,144	1,021,120
CHARTWELL CBO 10/10/12	94.3750	850,000	802,188	17,609	819,796
CNF INC SR DEB 6.7% 05/01/2034	97.5000	850,000	828,750	18,984	847,734
CONAGRA FOODS 5.819% 6/15/2017	96.6890	953,000	921,446	-	921,446
CONAGRA FOODS INC 5.819 06/15/2017	96.8470	953,000	922,952	-	922,952
CORNING INC NT 7.25% 08/15/2036	104.9500	1,050,000	1,101,975	23,049	1,125,024
GLOBAL MARINE INC 7.00% 06/01/2028	105.1530	850,000	893,801	24,131	917,931
HOME DEPOT INC SR NT 5.875	94.4960	450,000	425,232	11,897	437,129
HOME DEPOT INC SR NT 5.875	96.1000	800,000	768,800	13,708	782,508
JEFFERIES GROUP 6.25 01/15/36	97.2700	894,400	869,983	13,354	883,337
JOHNSON CTLS INC 6.00% 01/15/2036	95.5300	800,000	764,240	13,333	777,573
KPN NV 8.375% 10/01/2030	114.8500	900,000	1,033,650	32,454	1,066,104
KROGER CO 7.50% 04/01/2031	107.5000	510,000	548,250	1,275	549,525
MASCO CORP 6.50% 08/15/2032	97.8000	900,000	880,200	3,413	883,613
NEWS AMER HLDGS INC 7.43% 10/01/26	106.8600	402,000	429,577	12,446	442,023
ONEOK PARTNERS LTD 6.65% 10/01/2036	100.7500	800,000	806,000	4,433	810,433
PACIFIC BELL DEB 7.375 07/15/2043	105.7800	867,000	917,113	18,650	935,762
PACIFIC BELL DEB 7.375 07/15/2043	105.8500	855,000	905,018	12,786	917,804
PERITUS CDO 8.37% 05/24/2015	101.5000	1,360,000	1,380,400	14,545	1,394,945
PHELPS DODGE CORP 9.50% 06/01/2031	124.3000	600,000	745,800	792	746,592
PLAINS ALL AMERICAN PIPELINE 6.65%	102.9500	701,600	722,297	21,514	743,811
RELIANCE STL & ALUM 6.85% 11/15/2036	102.3500	480,000	491,280	1,370	492,650
RELIANCE STL & ALUM 6.85% 11/15/2036A	102.3249	480,000	491,159	-	491,159
ROYAL CARIBBEAN DEBS 7.50% 10/15/27	99.0000	450,000	445,500	3,094	448,594
SAFEWAY INC SR DEB 7.45 09/15/2027	105.0000	850,000	892,500	29,201	921,701
SERVICEMASTER COMPANY 7.10% 03/01/18	89.6250	456,160	408,833	4,678	413,512
SOUTHERN COPPER CORP NT 7.50 07/27/35	103.6000	750,000	777,000	5,157	782,157
SPRINT CAPITAL CORP 8.75% 03/15/2032	122.3750	900,000	1,101,375	37,407	1,138,782
TECK COMINCO LTD 6.125% 2035	94.9960	900,000	854,964	24,807	879,771
TELECOM ITALIA CAP GTD SR NT	103.0500	900,000	927,450	11,520	938,970
TEVA PHARMACEUTICAL 6.150%	90.4470	600,000	542,682	18,040	560,722
TRANSOCEAN SEDCO FOREX 7.375 04/15/18	106.9500	450,000	481,275	5,808	487,083
TRANSOCEAN SEDCO FOREX 7.375 04/15/18	110.8250	850,000	942,013	11,667	953,679

Investments Section

Description	Purchase Price	Par Value	Principal	Accrued Interest	Total Amount
WESTERN UNION CO 6.20% 11/17/2036	97.0000	320,000	310,400	8,212	318,612
WESTVACO CORP 8.20 01/15/30	112.5000	800,000	900,000	15,671	915,671
TOTAL CORPORATE BONDS		29,799,254	30,825,332	537,852	31,363,183
FEDERAL AGENCY OBLIGATIONS					
FED HM LN MTG 5.0 6/18/18	91.5938	239,000	218,909	1,228	220,137
FED HM LN MTG 6.25 4/7/21	98.5000	750,000	738,750	14,063	752,813
FED HM LN MTG 5.00% 02/15/2025	92.7500	700,000	649,250	389	649,639
FED HOME LN 6.00 11/01/2036 3128N5R76	100.8125	783,527	789,893	1,436	791,329
FED HOME LN 6.00 11/01/2036 3128N0CE8	100.8125	716,609	722,431	1,314	723,745
FED HOME LN MTG 6.50% 10/01/2036	101.6875	1,330,000	1,352,444	7,204	1,359,648
FED HOME LOAN MTG CORP PARTN	101.6875	850,000	864,344	1,688	866,032
FED NATL MTG ASSN 6.50% 11/01/2036	101.7969	3,400,000	3,461,094	7,981	3,469,074
FEDERAL FARM CR 5.85% 05/16/2017	98.5000	700,000	689,500	5,233	694,733
FEDERAL HOME LN 6.00% 12/01/2036	100.2188	710,119	711,673	3,432	715,105
FEDERAL HOME LN 6.50 10/01/36	101.8750	1,151,359	1,172,947	2,287	1,175,233
FEDERAL HOME LN BKS 5.33% 7/23/18	94.3500	800,000	754,800	1,303	756,103
FEDERAL HOME LN MTG 6.00% 01/26/2022	98.8750	600,000	593,250	12,900	606,150
FEDERAL HOME LN MTG 6.50% 04/01/2037	101.1875	672,338	680,322	486	680,807
FEDERAL HOME LOAN BANK 5.125% 7/10/2023	89.3750	250,000	223,438	71	223,509
FEDERAL NATL MTG ASSN 6.00% 10/01/36	100.8125	3,373,116	3,400,522	6,184	3,406,707
FEDERAL NATL MTG ASSN 6.50% 10/01/36	101.5000	843,525	856,178	4,417	860,595
FHR 3172 PC	99.5000	700,000	696,500	1,283	697,783
FNR 2006-60 PC	-	-	-	3,383	3,383
FREDDIE MAC 5.00% 12/14/2018	99.5344	606,000	603,178	-	603,178
GNR 2006-41 VB 6.00% 03/20/24	101.8438	850,000	865,672	2,125	867,797
TOTAL FEDERAL AGENCY OBLIGATIONS		20,025,592	20,045,094	78,406	20,123,500
U.S. TREASURY OBLIGATIONS					
U.S. TREASURY BDS 2.00% 01/15/2026	97.7170	800,000	781,736	4,897	786,633
U.S. TREASURY BONDS 4.50% 02/15/2036	92.1094	750,000	690,820	9,603	700,423
U.S. TREASURY NOTE 4.875% 06/30/2009	100.0276	700,000	700,193	185	700,378
U.S. TREASURY NTS 4.50% 04/30/2009	99.3906	750,000	745,430	2,660	748,089
U.S. TREASURY NTS 4.50% 05/15/2017	97.2500	750,000	729,375	1,284	730,659
U.S. TREASURY NTS 4.875% 05/31/2009	99.8594	1,200,000	1,198,313	799	1,199,112
U.S. TREASURY NTS INFL IX N/B	101.3164	850,000	861,189	2,055	863,245
U.S. TREASURY NTS TIPS 2.00% 04/15/2012	98.1579	750,000	736,184	2,664	738,848
TOTAL U.S. TREASURY OBLIGATIONS		6,550,000	6,443,240	24,148	6,467,388
TOTAL BONDS ACQUIRED		56,374,846	57,313,665	640,406	57,954,071

Investments Section

BONDS SOLD JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Coupon	Par Value	Sale Price	Accrued Interest	Amortized Cost	Gain or (Loss)
CORPORATE BONDS						
ACA ABS 2006-1 A-3L LTD	6.890	170	78.94	-	134	-
ALBERTSON'S INC 7.25% 2013	7.250	425,000	103.00	8,645	408,137	29,613
AUTOZONE INC 5.50% 2015	5.500	1,150,000	97.75	23,192	1,095,984	28,141
CBO HOLDINGS III LTD.	7.000	14,303	94.80	-	13,559	-
CBO HOLDINGS SPIRIT 2004-3A	6.500	53,453	99.25	-	53,050	-
CONAGRA FOODS 5.819% 6/15/2017	5.819	953,000	96.85	-	922,952	-
CONAGRA FOODS INC 9.75% 2021	9.750	953,000	131.48	-	1,210,720	42,294
CONTINENTAL AIRLINES INC	7.918	4,443,000	104.75	156,354	4,477,722	176,320
CONTINENTAL AIRLINES INC	7.256	38,281	95.90	-	36,712	-
FIRST DATA CORPORATION	4.700	360,000	98.54	4,324	340,747	13,997
FIRST HAWAIIAN CAPITAL TRUST	8.343	3,000,000	105.50	59,792	3,132,228	32,772
FORD MOTOR CO	6.625	750,000	71.38	20,288	578,997	(43,684)
FORD MOTOR COMPANY	9.500	690,000	90.00	24,035	689,852	(68,852)
FORD MTR CR CO GLOBAL NT	5.700	1,350,000	99.81	-	1,347,470	-
GLENCORE FUNDING LLC GTD NT	6.000	360,000	97.70	7,020	342,645	9,075
JPM CAPITAL TRUST I	7.540	1,000,000	103.77	14,871	1,062,618	(24,918)
JPM CAPITAL TRUST II	7.950	4,000,000	103.98	16,783	4,132,802	26,198
LIBERTY MUTUAL INSURANCE	7.875	200,000	115.36	788	190,421	40,299
MMCAPS FUNDING I LTD/INC	8.030	180,279	89.31	-	160,999	-
NORTH STREET 2001-3A NOTE FLT	6.415	400,000	92.50	3,531	354,673	15,327
PREFERRED CPO	8.946	108,917	96.10	-	104,671	-
RELIANCE STL & ALUM 6.85% 11/15/2036	6.850	480,000	102.32	-	491,159	-
USF&G CAPITAL II, SERIES B	8.470	2,000,000	104.75	23,998	2,157,670	(62,670)
WEYERHAUSER CO DEBS	7.950	450,000	108.58	8,149	503,626	(15,039)
WYETH	6.450	750,000	101.35	23,516	718,697	41,428
ZAIS INVESTMENT GRADE LTD	6.655	3,750,000	100.00	-	2,707,921	1,042,079
ZURICH CAPITAL TRUST I	8.376	3,000,000	105.05	66,309	3,034,116	117,384
TOTAL CORPORATE BONDS		30,859,403		461,592	30,270,283	1,399,764
FEDERAL AGENCY OBLIGATIONS						
FED HOME LN 6.00 11/01/2036 3128N5R76	6.000	57,744	99.16	-	57,257	-
FED HOME LN 6.00 11/01/2036 3128N0CE8	6.000	45,580	99.17	-	45,200	-
FED HOME LN MTG 6.50% 10/01/2036	6.500	20,227	98.31	-	19,885	-
FED HOME LOAN MTG CORP PARTN	6.500	295	98.31	-	290	-
FED NATL MTG ASSN 6.50% 11/01/2036	6.500	756,938	98.20	-	743,279	-
FEDERAL HOME LN 6.00% 12/01/2036	6.000	8,511	99.78	-	8,492	-
FEDERAL HOME LN 6.50 10/01/36	6.500	97,449	98.02	-	95,515	-
FEDERAL NATL MTG ASSN 6.00% 10/01/36	6.000	462,446	99.21	-	458,808	-
FEDERAL NATL MTG ASSN 6.50% 10/01/36	6.500	139,927	98.53	-	137,866	-
FNMA 4.40 12/25/12	4.400	150,593	99.71	-	150,162	-

Description	Coupon	Par Value	Sale Price	Accrued Interest	Amortized Cost	Gain or (Loss)
FNMA 4.45 08/25/12	4.450	394,240	99.68	-	392,963	-
FNMA FNR 2003-42 EP	4.000	279,601	98.39	-	275,100	-
FNMA FNR 2005-45 BG	4.500	102,862	97.24	-	100,018	-
FREDDIE MAC 5.250 11/05/2012	5.250	600,000	100.62	-	603,986	(263)
GNMA Pool Subtotal		1,571,105		-	1,548,066	-
TOTAL FEDERAL AGENCY OBLIGATIONS		4,687,519		-	4,636,888	(263)
TOTAL BONDS SOLD		35,546,923		461,592	34,907,170	1,399,501

CORPORATE NOTE PORTFOLIO

JUNE 30, 2007

Date Acquired	Description	Interest Rate	Maturity Date	Cost	Amount of Interest	Maturity Value
06/18/2007	ADVANTAGE ASSET	5.320	07/16/2007	4,879,725	20,275	4,900,000
06/18/2007	CATAPULT PMX FUNDING LLC	5.330	07/12/2007	2,989,340	10,660	3,000,000
06/19/2007	CENTRESTAR CAPITAL I	5.410	08/01/2007	794,830	5,170	800,000
06/12/2007	DAVENPORT CDO I	5.345	07/02/2007	996,433	2,968	999,401
06/21/2007	EBURY FINANCE	5.350	07/05/2007	349,272	728	350,000
06/20/2007	MAXIMILIAN CAPITAL CORP	5.310	08/16/2007	247,898	2,102	250,000
06/06/2007	MORRIGAN TRR FUNDING	5.310	07/17/2007	5,864,320	35,680	5,900,000
06/18/2007	MORRIGAN TRR FUNDING	5.350	07/06/2007	7,978,600	21,400	8,000,000
06/21/2007	MORRIGAN TRR FUNDING	5.350	07/05/2007	2,325,152	4,848	2,330,000
06/22/2007	MORRIGAN TRR FUNDING	5.360	07/05/2007	4,990,322	9,678	5,000,000
06/01/2007	PANTERRA FUNDING LLC	5.310	07/11/2007	1,938,495	11,505	1,950,000
06/20/2007	PANTERRA FUNDING LLC	5.310	08/06/2007	983,137	6,863	990,000
06/19/2007	RAFFLES PLACE	5.330	07/27/2007	4,176,370	23,630	4,200,000
06/11/2007	RHINELAND FUNDING	5.330	07/03/2007	2,641,368	8,632	2,650,000
06/13/2007	RHINELAND FUNDING	5.330	07/12/2007	398,283	1,717	400,000
06/20/2007	SAINT GEORGE BANK	5.310	08/13/2007	248,009	1,991	250,000
06/12/2007	TSL (USA) INC	5.340	07/10/2007	4,058,075	16,925	4,075,000
TOTAL CORPORATE NOTES				45,859,630	184,771	46,044,401

ALTERNATIVE INVESTMENTS PORTFOLIO

JUNE 30, 2007

Description	Cost
12th St & Bell Road	217,002
27th Ave & Georgia	87,706
29th Ave & Camelback	120,216
30th Avenue & Colter	206,038
32nd St & Van Buren	594,286
44th Ave & Northern	71,314
67th Avenue & Greenway East	171,421
Beazer Morning Sun Farms	26,377
Beazer Verrado	14,538
CIMARRON (Pivotal Debt)	2,964,810
Colgate Willow Springs	821,103
Colorado	1,296,540
Colorado (Pivotal Debt)	1,694,420
Colorado II (Pivotal Debt)	912,380
Conservation Forestry	1,458,027
DAG IIA Co-Investment	686,000
DAG III Co-Investment	61,740
DAG III LP Direct	205,457
DAG VENTURES II-QP, L.P.	540,475
DTD Devco 5 Township Square	(133,907)
DTR1 - Skyline Ranch Marketplace	439,040
DTR1 Perimeter Ctr (Old GE, Centex, ?)	166,788
DTR10 Perimeter Old GE New Parking Ofc	260,680
DTR10 Perimeter Old GE New Parking Ofc	439,040
EQUITY PARTNERSHIP (Nest Featherings)	117,701
Hassayampa	351,232
Hassayampa	175,616
MESIROW CAPITAL PARTNERS IX	1,421,706
MidOcean Partners III Direct	1,633,978
NXTV, L.L.C.	2,216,239
OWH Berkana Development	10,976
OWH Berkana Holdings, LLC	10,976
PEBBLECREEK PROPERTIES	9,145
PENINSULA EQUITY PARTNERS	102,178
Peoria Town Center DTD dev7	912,380
Peoria Town Center DTD dev7	329,280
PIVOTAL CIMARRON, LLC	2,345,944
PIVOTAL SANDIA, LLC	975,492
PIVOTAL SCOTTSDALE 123, LLC	190,746
PIVOTAL SPA I, LLC	1,767,345
Power Marketplace I	195,510
Power Marketplace I	164,640
Power Marketplace II	130,340
Power Marketplace II	285,376

Description	Cost
Power Ranch	0
PROSPECTOR EQUITY CAPITAL	423,613
Roy's Place Phase 2 - Member Capital	124,728
Roy's Place Phase 2 - Mez Loan	365,887
SANDIA (Pivotal Debt)	1,029,642
Savannah Estates	(0)
Scottsdale 123, L.L.C.	61,740
Skyline Ranch Marketplace	521,360
Sossaman Estates - Member Capital	100,589
Sossaman Estates - Mez Loan	299,478
Tierra Verde (Fairways)	603,680
Tortosa	(0)
Trailside Point	67,777
VALLEY VENTURES III	2,723,705
Valley Ventures III Annex Fund	61,740
WHISPERING CANYON	8,713
Working Capital	8,986
WORKING CAPITAL (Pivotal Debt)	6,516
TOTAL ALTERNATIVE INVESTMENT PORTFOLIO	33,076,445

ALTERNATIVE INVESTMENTS ACQUIRED

JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Cost
12th St & Bell Road	39,384
27th Ave & Georgia	47,693
29th Ave & Camelback	11,540
30th Avenue & Colter	36,353
32nd St & Van Buren	44,490
44th Ave & Northern	11,283
67th Avenue & Greenway East	16,897
Cibola Vista (Engle)	15,161
CIMARRON (Pivotal Debt)	449,673
Colgate Willow Springs	821,103
Colorado	926,100
Colorado (Pivotal Debt)	130,340
Conservation Forestry	1,458,027
DAG IIA Co-Investment	686,000
DAG III Co-Investment	61,740
DAG III LP Direct	205,457
DAG VENTURES II-QP, L.P.	540,475
DTR10 Perimeter Old GE New Parking Ofc	439,040
DTR10 Perimeter Old GE New Parking Ofc	260,680
Loop 101 State Land	153,280
Loop 101 State Land Debt	182,020
MESIROW CAPITAL PARTNERS IX	1,451,842
MidOcean Partners III Direct	1,638,028

Investments Section

Description	Cost
NXTV,L.L.C.	74,088
PENINSULA EQUITY PARTNERS	102,178
PIVOTAL CIMARRON, LLC	864,360
Pivotal Fountain Hills	1,423,724
PIVOTAL SANDIA, LLC	172,872
Power Marketplace II	175,616
PROSPECTOR EQUITY CAPITAL	50,991
Roy's Place Phase 2 - Member Capital	137,139
Roy's Place Phase 2 - Mez Loan	385,530
SANDIA (Pivotal Debt)	508,326
Sossaman Estates - Mez Loan	28,088
VALLEY VENTURES III	150,851
Valley Ventures III Annex Fund	61,740
WHISPERING CANYON	80,820
TOTAL ALTERNATIVE INVESTMENTS ACQUIRED	13,842,930

ALTERNATIVE INVESTMENTS SOLD

JULY 1, 2006 THROUGH JUNE 30, 2007

Description	Cost	Capital Gains (Loss)
Beazer Homes Roy's Place	114,461	-
Beazer Morning Sun Farms	21,266	-
Beazer Verrado	7,546	-
CENTURY PLAZA HOTEL (CPH I, LLC)	-	551,447
Cibola Vista (Engle)	39,790	-
Cibola Vista (Lennar)	12,523	6,209
CIMARRON (Pivotal Debt)	-	-
Colorado (Pivotal Debt)	-	-
Colorado II (Pivotal Debt)	-	-
Copper Creek	-	-
Cortessa	-	44,609
Curtis	44,961	7,903
DTD Devco 5 Township Square	133,907	11,378
DTR1 Perimeter Ctr (Old GE,Centex)	143,682	335,257
EQUITY PARTNERSHIP (Nest Featherings)	7,859	-
Evans Ranch	48,647	3,542
Fairways Corporate Center	1,446,774	-
GRAND INN	-	6
GRAND INN - NOTE	89,531	-
HARBOR BAY CAMPUS	-	21,020
Highland Groves	6,389	7,399
La Mirada	-	571,601
Lennar Phoenix	133,357	36,098
Loop 101 State Land	153,280	-
Loop 101 State Land Debt	182,020	-
Meritage-Verrado	-	48,542

Investments Section

Description	Cost	Capital Gains (Loss)
MESIROW CAPITAL PARTNERS IX	30,136	-
MidOcean Partners III Direct	4,050	-
NXTV, LLC (Pivotal Debt)	-	-
PEBBLECREEK PROPERTIES	-	68,600
Perimeter DHL (224)	878,080	-
Perimeter Ctr (Old GE/ DHL224/ Centex)	1,902,964	-
Pivotal Fountain Hills	1,423,724	-
Power Ranch	52,514	-
Rio Paseo	-	-
Roy's Place Phase 2 - Member Capital	12,411	-
Roy's Place Phase 2 - Mez Loan	19,643	-
SANDIA (Pivotal Debt)	-	-
Santan Vista	-	66,181
Savannah Estates	81,874	1,372
Seville Office	-	260,030
Seville Retail	-	606,737
Sossaman Estates - Member Capital	-	-
Sossaman Estates - Mez Loan	55,999	-
TALLEY PROPERTIES	-	-
TOREEON GC	246,884	81,634
Torreon	455,504	151,606
Tortosa	96,503	-
Townley Square	32,421	41,317
Westpark	107,473	10,353
WHISPERING CANYON	308,387	-
Working Capital	1,990	-
TOTAL ALTERNATIVE INVESTMENTS SOLD	8,296,548	2,932,841



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October 31, 2007

The Fund Manager
Arizona Corrections Officer Retirement Plan
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016-4416

Attention: James Hacking, Administrator

The purpose of the annual actuarial valuations of the Arizona Corrections Officer Retirement Plan is to determine the liabilities and funding requirements for the participating groups. We certify that the June 30, 2007 annual actuarial valuations were made in accordance with recognized actuarial methods.

Data for the annual valuations was furnished by the Administrator and was checked by us for internal completeness and year to year consistency, but was not otherwise audited. The actuary prepared all of the schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section of the Comprehensive Annual Financial Report.

The actuarial assumptions were adopted by the Fund Manager based upon the recommendations of the actuary and the results of experience studies, the most recent of which covered the 5 year period ended June 30, 2006. The assumptions and methods conform to the parameters established in Governmental Accounting Standards Board Statement 25. Actuarial gains (losses) were amortized as level percents of payroll over 29 years.

The funding value of assets is a smoothed market value which spreads differences between the actual and assumed investment return over a seven year period.

On the basis of the June 30, 2007 valuation, it is our opinion that the liabilities of the Retirement Plan are being funded as incurred in accordance with sound actuarial principles.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Sandra W. Rodwan'.

Sandra W. Rodwan
Member, American Academy of Actuaries

Aggregate Actuarial Balance Sheet June 30, 2007

Actuarial Assets

Accrued Assets		
Member accumulated contributions	\$213,688,264	
Employer and benefit payment reserves	686,831,775	
Funding value adjustment	100,032,100	
Total accrued assets*	\$1,000,552,139	
Prospective assets (computed value)		
Member contributions	307,590,022	
Employer normal costs	316,893,414	
Employer unfunded actuarial accrued liability	170,674,932	
Total prospective assets	795,158,368	
Total Actuarial Assets	\$1,795,710,507	

* Includes \$60,426,061 reserve for payment of ad-hoc pension increases. The net funding value of assets is \$940,126,078.

Actuarial Present Values (Liability)

Pensions in payment status		
Service pensions	\$ 356,309,379	
Disability pensions	15,782,301	
Survivor pensions	40,815,201	
Health insurance	17,265,492	
Total benefit values	\$430,172,373	
Prospective pension payments and refunds (future retirements)		1,251,926,122
Prospective health insurance payments (future retirements)		53,035,110
Reserve for future pension increases		60,426,061
Stabilization reserve account		150,841
Total Actuarial Present Values (Liability)		\$1,795,710,507

Summary of Valuation Assumptions**Economic Assumptions**

Interest Rate: 8.50% (net of expenses)

Salary Increases: 5.00% for inflation and 0.50% for other across-the-board increased, plus age-related merit and longevity.

Sample Annual Rates of Salary Increase

Age	Across-the-Board	Merit and Longevity	Other	Total
20	5.00%	3.0%	0.5%	8.50%
25	5.00	3.0	0.5	8.50
30	5.00	2.6	0.5	8.10
35	5.00	1.1	0.5	6.60
40	5.00	0.2	0.5	5.70
45	5.00	0.2	0.5	5.70
50	5.00	0.2	0.5	5.70
55	5.00	0.1	0.5	5.60
60	5.00	-	0.5	5.50
65	5.00	-	0.5	5.50

Demographic Assumptions

Retiree Non-Disability Mortality rates: RP 2000 Healthy Annuitant Mortality Table, male ages set forward 2 years and female ages set forward 2 years (first used for June 30, 2007 valuation).

Active Member Non-Disability Mortality Rates: RP 2000 Employees Mortality Table, male ages set forward 3 years and female ages set forward 3 years (first used for June 30, 2007 valuation)

Single Life Retirement Values

Sample Ages	Retirees		Active Members		Retirees		Active Members	
	Present Value of \$100 Monthly For Life		Present Value of \$100 Monthly For Life		Future Life Expectancy (Years)		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women	Men	Women
20	\$14,470	\$14,548	\$14,500	\$14,563	57.08	60.55	59.11	63.24
25	14,353	14,456	14,399	14,478	52.19	55.61	54.22	58.30
30	14,181	14,321	14,253	14,357	47.29	50.67	49.34	53.38
35	13,945	14,134	14,060	14,191	42.45	45.78	44.52	48.50
40	13,618	13,870	13,795	13,961	37.65	40.92	39.75	43.67
45	13,153	13,504	13,431	13,650	32.90	36.12	35.03	38.90
50	12,585	13,012	12,929	13,225	28.39	31.42	30.38	34.20
55	11,927	12,377	12,239	12,648	24.16	26.89	25.81	29.61
60	11,028	11,578	11,317	11,875	20.00	22.58	21.38	25.14
65	9,924	10,610	10,072	10,821	16.09	18.55	17.11	20.81
70	8,634	9,454	8,570	9,552	12.54	14.82	13.29	16.93
75	7,206	8,156	7,305	8,485	9.42	11.50	10.57	14.13
80	5,741	6,748	6,284	7,613	6.81	8.62	8.77	12.22
85	4,394	5,348	6,095	7,438	4.80	6.27	8.42	11.69
90	3,338	4,221	6,084	7,341	3.43	4.64	8.30	11.30

Actuarial Section

Disability Retiree Mortality Rates: Non-disability rates set-forward 5 years.

Termination of Employment: Service-related rates.

Disability Rates: Age related rates.

The sample rates are as follows:

Sample Ages	Years of Service	Percent of Active Members	
		Separating Within the Year	Disabled Within the Year
All	0	25.0%	
	1	20.0	
	2	18.0	
	3	15.0	
	4	14.0	
	5-10	10.0	
	10 Plus	4.0	
25	All		0.04%
30			0.04
35			0.05
40			0.07
45			0.08
50			0.10
55			0.10
60			0.15

Rates first used for June 30, 2007 valuation

Married Assumption: 90%

Health subsidy utilization assumption: 8%

Percent of Active Members Retiring within Year Following Attainment of Indicated Service

Service	Percent of Active Members Retiring During Next Year
20	
21	
22	30%
30	
25	
23	25
24	25
25	40
26	40
27	30
28	15
29	15
30	30
31	30
32	65
33	65
34	100

Active members are eligible to retire at any age with 20 (25 years for dispatchers) years of service, at age 62 with 10 years of service or when the sum of age and service equals at least 80.

These rates, adopted by the Fund Manager, as recommended by the Plan’s actuary, were first used for the June 30, 2007 valuations.

Actuarial Method Used for the Valuation

Normal Cost. Normal cost and the actuarial present values between service rendered before and after the valuation date were determined using the projected unit credit actuarial cost method having the following characteristics:

- The annual normal costs for each individual active member, payable from date of hire to date of retirement, are sufficient to accumulate the value of the member’s benefit at the time of retirement;
- Each annual normal cost is the portion of the actuarial present value allocated to the current year. The normal cost is expected to increase as accrued service increases.

Actuarial Accrued Liability. The actuarial accrued liability is the portion of actuarial present value allocated to service rendered prior to the valuation date, including experience gains and losses. The actuarial accrued liability was computed using the assumptions summarized in this report. Accrued valuation assets were subtracted from the computed actuarial accrued liability. Any unfunded amount would be amortized as level percent of payroll over a period of 29 years. If accrued valuation assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.

Active member payroll was assumed to increase 5.50% annually for the purpose of computing the amortization payment (credit) as a level percent of payroll.

SOLVENCY TEST

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:

1. Active member contributions on deposit;
2. The liabilities for future benefits to present retired lives;
3. 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.

Valuation Date	Aggregate Accrued Liabilities for			Valuation Assets Available for Benefits	Portion of Accrued Liabilities Covered by Net Assets Available for Benefits		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
6-30-98	\$93,758	\$66,343	\$250,430	\$484,956	100.0%	100.0%	100.0%
6-30-99	\$106,390	\$95,116	\$242,170	\$592,152	100.0%	100.0%	100.0%
6-30-00	\$119,562	\$107,650	\$274,111	\$704,991	100.0%	100.0%	100.0%
6-30-01	\$132,404	\$133,492	\$288,491	\$776,177	100.0%	100.0%	100.0%
6-30-02	\$143,888	\$185,594	\$303,756	\$782,446	100.0%	100.0%	100.0%
6-30-03	\$152,454	\$219,737	\$337,107	\$758,579	100.0%	100.0%	100.0%
6-30-04	\$165,145	\$278,403	\$352,227	\$833,621	100.0%	100.0%	100.0%
6-30-05	\$178,353	\$332,199	\$395,473	\$872,981	100.0%	100.0%	91.6%
6-30-06	\$193,819	\$384,513	\$402,876	\$919,868	100.0%	100.0%	84.8%
6-30-07	\$213,688	\$430,172	\$466,941	\$940,126	100.0%	100.0%	63.4%

See Schedule of Funding Progress in the Required Supplementary Information.

**Actuarial Section
Summary of Active Member Data**

Age and Service Distribution

Attained- Age	Service							No.	Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29	Over 30		
Under 20	87							87	\$2,829,600
20-24	1,359	8						1,367	46,900,508
25-29	1,636	285	2					1,923	70,278,810
30-34	1,178	613	153					1,944	76,061,740
35-39	969	505	320	95				1,889	77,786,225
40-44	674	362	301	243	29	1		1,610	67,712,892
45-49	535	369	245	194	78	12	1	1,434	61,546,047
50-54	407	268	185	155	66	21	1	1,103	48,048,142
55-59	274	203	161	134	78	21	4	875	39,221,241
60-64	119	127	89	72	24	6	2	439	20,119,003
65-69	25	28	19	7	5	1		85	3,889,395
70-74	9	1	4	4	3			21	928,783
75-79		2						2	74,583
80-84		1						1	30,672
Totals	7,272	2,772	1,479	904	283	62	8	12,780	\$515,427,641

**Group Averages:
Age: 39.0 years
Service: 6.0 years
Annual Pay: \$40,331**

Comparative Schedule

FYE 06/30	Active members	Valuation Payroll (+000)	Avg. Salary	Aggregate Employer rate
1998	9,571	\$261,700	\$27,343	6.63%
1999	10,901	\$305,478	\$28,023	5.98%
2000	11,290	\$339,440	\$30,066	5.14%
2001	11,047	\$339,783	\$30,758	1.88%
2002	10,464	\$330,428	\$31,578	1.15%
2003	10,964	\$358,161	\$32,667	1.71%
2004	11,583	\$381,942	\$32,974	3.95%
2005	11,752	\$404,156	\$34,390	4.07%
2006	11,914	\$437,744	\$36,742	5.47%
2007	12,780	\$515,428	\$40,331	4.46%
2008				6.77%
2009				8.68%

Actuarial Section

Summary of Retirants and Inactive Data

SUMMARY OF RETIRANTS AND BENEFICIARIES

Valuation Date	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
6/30/98	15	125	708			\$6,884,614	29.8%	\$9,924
6/30/99	21	138	825			\$9,642,797	40.1%	\$11,688
6/30/00	25	125	925			\$11,042,151	14.5%	\$11,937
6/30/01	40	155	1,040			\$13,446,069	21.8%	\$12,929
6/30/02	30	208	1,218			\$17,660,064	31.3%	\$14,499
6/30/03	32	177	1,363			\$21,653,042	22.6%	\$15,886
6/30/04	32	205	1,536	\$435,860	\$5,033,961	\$26,261,143	21.3%	\$17,097
6/30/05	61	258	1,733	\$3,761,718	\$8,829,800	\$31,329,225	19.3%	\$18,078
6/30/06	46	232	1,919	\$2,405,616	\$4,807,848	\$37,272,180	19.0%	\$19,065
6/30/07	68	272	2,123	\$971,820	\$6,365,640	\$42,666,000	14.0%	\$20,097

* 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.

SUMMARY OF INACTIVE MEMBER DATA

Attained Age	Years of Service to Valuation Date					Totals
	0 - 4	5 - 9	10 - 14	15 - 19	20+	
< 20	1					1
20 - 29	431	10				441
30 - 39	295	48	16			359
40 - 44	94	10	6	4		114
45 - 49	77	8	8	2		95
50 - 54	68	12	23	7		110
55 - 59	57	10	23	11		101
60 - 69	37	8	18	7	1	71
70+	4	1				5
Totals	1,064	107	94	31	1	1,297

Schedule of Experience Gain/Loss

Year Ended June 30, 2007

Derivation	
(1) UAAL ^a at start of year	\$61,339,713
(2) Normal cost	65,035,651
(3) Funding method contributions	65,977,600
(4) Interest accrual	5,173,842
(5) Expected UAAL before changes	65,571,606
(6) Change from amendments	none
(7) Change from assumption and method revisions	3,079,263
(8) Expected UAAL after changes	68,650,869
(9) Actual UAAL	170,674,932
(9) Gain(Loss)	(102,024,063)
(10) Percent of AAL ^b	(10.40%)

^a *Unfunded Actuarial Accrued Liability*

^b *Actuarial Accrued Liability at beginning of year*



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CHANGE IN PLAN NET ASSETS

(in thousands)

LAST TEN YEARS ENDED JUNE 30, 2007

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Additions:										
Member Contributions	\$41,355	\$37,134	\$34,590	\$31,338	\$30,331	\$29,532	\$28,966	\$28,009	\$24,409	\$21,647
Employer Contributions ¹	24,623	24,028	16,292	14,555	7,398	7,101	14,927	16,876	17,110	17,063
Net Investment Gain (Loss)	144,851	64,198	66,2779	91,300	35,698	(100,518)	(138,560)	92,772	102,170	99,003
Member Service Purchase	930	994	719							
Amounts transferred from Other State Plans	456	1,234	1,071	1,460	3,189	1,325	-	-	-	-
Total Additions	212,214	127,588	118,948	138,653	76,616	(62,559)	(94,666)	137,658	143,688	137,714
Deductions:										
Pension and Insurance Benefits ¹	41,630	36,709	31,098	26,624	22,507	17,576	13,433	10,777	8,917	6,884
Refunds to Terminated Members	16,634	15,741	16,653	14,053	16,023	14,271	14,610	14,385	9,044	8,416
Administrative Expenses	732	674	922	541	427	397,	366	345	348	330
Amounts Transferred to Other State Plans	2,063	1,555	637	1,139	1,049	2,060	1,498	616	409	460
Total Deductions	61,060	54,679	49,310	42,357	40,006	34,305	29,907	26,123	18,718	16,090
Net (Decrease) Increase	151,155	72,909	69,639	96,297	36,610	(96,864)	(124,573)	111,535	124,970	121,624
Net Assets Held In Trust										
Beginning of Year - July 1	861,783	788,874	719,235	622,939	586,328	683,192	807,766	696,231	571,261	449,637
Ending of Year - June 30	\$1,012,938	\$861,783	\$788,874	\$719,235	\$622,939	\$586,328	\$683,192	\$807,766	\$696,231	\$571,261

¹See Note 7 on Page 41. Amounts include health insurance subsidy contributions and benefits paid.

Principal Participating Employers - Current Year and Nine years ago

Participating Employer	2007			1998		
	Covered Employees	Rank	% of Membership	Covered Employees	Rank	% of Membership
State	9,096	1	71.17%	7,572	1	79.11%
Maricopa County	2,064	2	16.15%	1,060	2	11.08%
Pima County	493	3	3.86%	396	3	4.14%
Pinal County	245	4	1.92%	-		0.00%
Yavapai County	204	5	1.60%	98	5	1.02%
Yuma County	156	6	1.22%	165	4	1.72%
Coconino County	85	7	0.67%	52	8	0.54%
Mohave County	84	8	0.66%	76	6	0.79%
Gila County	68	9	0.53%	-		0.00%
Cochise County	67	10	0.52%	62	7	0.65%
All Others	218		1.71%	90		0.94%
	12,780		100.00%	9,571		100.00%

Schedule Of Benefit Expenses By Type

Fiscal Year	Normal Benefits	Survivor Benefits	Disability Benefits	Insurance Benefits ¹	Totals
1998	\$4,713,170	\$1,223,055	\$481,804	\$465,567	\$6,883,596
1999	\$5,957,350	\$1,801,580	\$614,275	\$544,245	\$8,917,450
2000	\$7,416,745	\$2,013,181	\$706,266	\$640,817	\$10,777,009
2001	\$9,266,426	\$2,587,972	\$849,350	\$729,751	\$13,433,499
2002	\$12,301,106	\$2,494,885	\$986,621	\$1,793,839	\$17,576,451
2003	\$15,678,608	\$3,469,345	\$1,045,433	\$2,313,406	\$22,506,792
2004	\$19,442,835	\$3,677,576	\$1,178,761	\$2,324,447	\$26,623,619
2005	\$23,519,992	\$3,871,675	\$1,305,434	\$2,400,849	\$31,097,950
2006	\$28,928,172	\$4,472,559	\$1,449,215	\$1,858,582	\$36,708,528
2007	\$33,341,839	\$4,860,093	\$1,514,939	\$1,913,186	\$41,630,057

¹ See Note 7 on Page 41.

Statistical Section

Demographics

Summary of Retired Members and Survivors

FYE 06/30	Service Pension		Disability Pension		Survivor Pension		Total Pensions	
	Number	Average	Number	Average	Number	Average	Number	Average
1998	516	\$10,068	42	\$12,976	150	\$7,632	708	\$9,724
1999	599	\$12,327	49	\$13,346	177	\$9,068	825	\$11,688
2000	672	\$12,453	55	\$14,011	198	\$9,612	925	\$11,937
2001	748	\$13,689	64	\$14,447	228	\$10,009	1,040	\$12,929
2002	903	\$15,619	68	\$14,862	247	\$10,306	1,218	\$14,499
2003	1,029	\$17,064	70	\$15,569	264	\$11,381	1,363	\$15,886
2004	1,138	\$18,229	107	\$18,960	291	\$11,985	1,536	\$17,097
2005	1,339	\$19,472	80	\$17,055	314	\$12,395	1,733	\$18,078
2006	1,528	\$20,490	82	\$17,742	345	\$13,070	1,955	\$19,065
2007	1,698	\$21,469	85	\$18,328	340	\$13,687	2,123	\$20,097

Pension Benefits and Insurance Subsidy By Years Of Service

Service In Years	Service		Disability		Survivors		Totals	
	Annual Pensions	Annual Subsidy	Annual Pensions	Annual Subsidy	Annual Pensions	Annual Subsidy	Annual Pensions	Annual Subsidy
Children					398,096		398,096	
0-4			273,314	4,980	779,924	18,098	1,053,238	23,078
5-9	295,323	35,700	438,867	19,128	1,046,145	29,079	1,780,335	83,907
10-14	4,789,127	354,143	552,500	33,913	916,760	30,125	6,258,387	418,181
15-19	5,207,991	290,548	208,818	8,130	784,614	21,453	6,201,423	320,131
20-24	16,799,377	729,995	51,514		478,246	13,404	17,329,137	743,399
25-29	8,066,824	337,158	32,904	3,120	200,880	7,540	8,300,608	347,818
30-34	1,058,118	27,620			48,901	1,200	1,107,019	28,820
35-39	202,111	5,400					202,111	5,400
40-44	35,646	2,040					35,646	2,040
Totals	36,454,517	1,782,604	1,557,917	69,271	4,653,566	120,899	42,666,000	1,972,774

Summary of Retired Members and Survivors

Pensions Being Paid	Number	Annual Pensions	Average Pensions
Retired Members			
Service Pensions	1,698	\$36,454,517	\$21,469
Disability Pensions	85	1,557,917	18,328
Totals	1,783	38,012,434	21,319
Survivors			
Spouses	312	4,114,575	13,188
Children with Guardians*	31	398,096	12,842
Totals	340	4,653,566	13,687
Total Pensions Being Paid		2,123	\$42,666,000
			\$20,097
	Average Age	Average Service (Years)	Average Retirement Age
Service	63.5	18.5	57.7
Disability	52.7	9.3	44.6
Spouse Beneficiary	61.2	10.6	50.2

Summaries of Retired Members and Survivors

June 30, 2007
Pension Benefits by Amounts

Service	Service No.	Disability No.	Survivors No.	Totals No.
Children w/Guardians			31	31
\$1 - \$499	34		13	47
500 - 999	320	2	91	413
1000 - 1999	794	75	192	1,061
2000 - 2999	397	8	12	417
3000 - 3999	109		1	110
4000 & over	44			44
Totals	1,698	85	340	2,123

Statistical Section
Operating Information

SUMMARY OF BENEFIT INCREASES

Fiscal Year Ended	Excess Yield per Statute	Excess Earnings	Utilized	Excess Earnings Available	Benefit Increase 4% Cap
6/30/98	12.85%	7,939,027	(1,391,471)	15,510,421	32.41
6/30/99	8.60%	26,583,952	(2,369,795)	42,454,412	38.96
6/30/00	4.20%	14,971,383	(3,253,379)	59,784,889	39.79
6/30/01	0.00%	-	(3,761,946)	45,820,054	4.00%
6/30/02	0.00%	-	(4,650,770)	34,452,064	4.00%
6/30/03	0.00%	-	(5,878,909)	30,709,183	4.00%
6/30/04	5.77%	18,478,098	(7,810,709)	45,912,625	4.00%
6/30/05	0.23%	810,817	(9,545,626)	41,415,092	4.00%
6/30/06	0.00%	-	(11,506,060)	33,292,645	4.00%
6/30/07	7.77%	35,123,022	(13,572,783)	60,426,061	4.00%

SUMMARY OF GROWTH OF THE PLAN

Fiscal Year	Total Assets at Book	Realized Earnings from Investments	Assumed Actuarial Yield	Net Effective Yield	Average Employer Cost
1998	\$426,352,295	\$38,356,983	9.00%	10.21%	6.63%
1999	\$519,862,471	\$70,754,167	9.00%	16.23%	5.98%
2000	\$588,205,472	\$49,627,757	9.00%	9.39%	5.14%
2001	\$631,618,088	\$29,491,487	9.00%	4.96%	1.88%
2002	\$646,861,802	\$11,656,015	9.00%	1.84%	1.15%
2003	\$587,318,350	\$(60,384,405)	9.00%	-9.33%	1.71%
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%	5.49%
2007	\$840,116,484	\$90,731,938	8.50%	12.14%	7.01%

STATEMENT OF CHANGES IN REFUNDABLE MEMBER RESERVES

FISCAL YEAR ENDED JUNE 30, 2007

SYS #	SYSTEM	BALANCES 6/30/06	RESERVE TRANSFERS	CONTRIBUTIONS RECEIVED	WITHDRAWN MEMBERS	BALANCES 6/30/07
520	APACHE COUNTY - Detention	229,233	-	52,235	(23,722)	257,747
525	COCHISE COUNTY - Detention	984,608	(16,197)	157,521	(60,096)	1,065,836
530	COCONINO COUNTY - Detention	1,022,948	9,496	267,007	(75,266)	1,224,181
500	DEPARTMENT OF CORRECTIONS - Detention	134,317,719	(7,427,034)	27,717,287	(8,647,314)	145,960,658
501	DEPT OF JUVENILE CORRECTIONS - Detention	13,134,130	(1,064,595)	2,875,389	(875,625)	14,069,299
503	GILA COUNTY - Detention	368,743	(12,608)	163,482	(71,624)	447,994
558	GILA COUNTY - Dispatchers	222,948	5,894	56,271	(27,168)	257,944
504	GRAHAM COUNTY - Detention	162,999	(1,838)	65,015	(26,030)	200,147
560	GRAHAM COUNTY - Dispatchers	35,565	-	26,321	0.00	61,886
505	MARICOPA COUNTY - Detention	27,215,699	(1,329,670)	6,891,937	(1,217,069)	31,560,897
535	MOHAVE COUNTY - Detention	636,560	(103,396)	216,106	(34,460)	714,809
545	NAVAJO COUNTY - Detention	390,538	133	117,508	(25,662)	482,517
515	PIMA COUNTY - Detention	8,502,864	(372,250)	1,671,114	(297,203)	9,504,524
502	PINAL COUNTY - Detention	1,892,896	144,085	674,299	(199,792)	2,511,486
555	PINAL COUNTY - Dispatchers	217,409	(29,753)	52,246	(9,208)	230,694
540	SANTA CRUZ COUNTY - Detention	275,641	(5,336)	57,163	(9,634)	317,834
557	TOWN OF MARANA - Dispatchers	84,888	-	43,74	(9,703)	118,927
556	TOWN OF ORO VALLEY - Dispatchers	321,548	-	48,237	0.00	369,785
559	TOWN OF WICKENBURG - Dispatchers	43,901	-	19,548	0.00	63,448
550	YAVAPAI COUNTY - Detention	2,072,266	(120,544)	646,636	(168,185)	2,430,174
510	YUMA COUNTY - Detention	1,685,498	(51,490)	466,204	(262,735)	1,837,478
TOTAL		193,818,602	(10,375,106)	42,285,265	(12,040,497)	213,688,264

SCHEDULE OF CHANGES IN EMPLOYERS' RESERVE - YEAR ENDED JUNE 30, 2007
AND UNFUNDED ACCRUED NORMAL COSTS AT JUNE 30, 2006

SYS #.	SYSTEM	BALANCES 6/30/06	RESERVE TRANSFERS	CONTRIB RECEIVED	PENSION PAYMENT	ENHANCED REFUNDS	DISTRIBUTION OF EARNINGS	BALANCES 6/30/07	ACRUED NORMAL COSTS
520	APACHE COUNTY - Detention	621,034	-	30,727	(39,685)	(5,267)	101,833	708,641	(23,427)
525	COCHISE COUNTY - Detention	2,684,442	(37,094)	92,664	(173,085)	(25,646)	432,086	2,973,366	(61,902)
530	COCONINO COUNTY - Detention	1,610,311	40,110	150,659	(16,409)	(10,178)	334,445	2,108,939	(487,602)
500	DEPARTMENT OF CORRECTIONS - Detention	384,579,629	6,402,998	15,861,108	(30,042,995)	(3,822,315)	61,630,572	434,608,997	37,887,116
501	DEPT OF JUVENILE CORRECTIONS - Detention	37,007,885	1,118,387	1,633,103	(2,741,006)	(181,853)	6,000,595	42,837,112	2,389,826
503	GILA COUNTY - Detention	711,463	(2,104)	96,332	(31,459)	(9,025)	136,191	901,398	(72,790)
558	GILA COUNTY - Dispatchers	549,359	15,033	34,777	-	(2,718)	96,600	693,050	(43,594)
504	GRAHAM COUNTY - Detention	616,509	(5,546)	85,818	(32,894)	(796)	97,552	760,644	(51,642)
560	GRAHAM COUNTY - Dispatchers	40,486	-	15,482	-	-	11,515	67,483	(6,302)
505	MARICOPA COUNTY - Detention	75,144,686	570,887	4,012,929	(5,208,934)	(206,740)	12,365,713	86,678,541	16,901,462
535	MOHAVE COUNTY - Detention	2,607,056	44,804	127,121	(94,273)	-	394,494	3,079,201	(1,476,598)
545	NAVAJO COUNTY - Detention	1,011,739	(437)	69,149	(37,936)	-	173,834	1,216,350	(242,330)
515	PIMA COUNTY - Detention	26,544,491	374,716	1,224,291	(2,248,415)	(84,358)	4,178,392	29,989,117	6,573,715
502	PINAL COUNTY - Detention	3,862,914	256,589	396,641	(90,764)	(85,594)	748,655	5,088,442	363,555
555	PINAL COUNTY - Dispatchers	550,220	(141,811)	30,733	(16,278)	-	84,395	507,260	191,875
540	SANTA CRUZ COUNTY - Detention	1,206,729	(6,573)	33,623	(35,179)	-	178,080	1,376,680	(726,891)
557	TOWN OF MARANA - Dispatchers	66,404	-	25,731	-	-	21,518	113,653	106,349
556	TOWN OF ORO VALLEY - Dispatchers	398,432	-	35,184	(33,726)	-	88,461	488,351	250,506
559	TOWN OF WICKENBURG - Dispatchers	137,754	-	11,965	(14,340)	-	22,594	157,973	107,404
550	YAVAPAI COUNTY - Detention	4,518,785	114,472	380,415	(446,870)	(37,458)	804,683	5,334,027	1,159,052
510	YUMA COUNTY - Detention	5,957,944	24,045	274,240	(325,808)	(121,875)	907,945	6,716,491	(1,398,069)
TOTAL		550,428,271	8,768,477	24,622,693	(41,630,057)	(4,593,823)	88,810,153	626,405,714	61,339,713

EARNINGS DISTRIBUTION
FISCAL YEAR ENDED JUNE 30, 2007

SYS #	SYSTEM	EMPLOYER RESERVE 6/30/06	EMPLOYER RESERVE 6/30/07	MEMBER RESERVE 6/30/06	COMBINED RESERVES	MEAN BALANCE	FACTOR	INVTMNT EARNINGS
520	APACHE COUNTY - Detention	621,034	606,808	229,233	1,714,822	857,411	0.1147%	101,833
525	COCHISE COUNTY - Detention	2,684,448	2,541,281	984,608	7,276,167	3,638,083	0.4865%	432,086
530	COCONINO COUNTY - Detention	1,610,311	1,774,494	1,022,948	5,631,934	2,815,967	0.3766%	334,445
500	DEPARTMENT OF CORRECTIONS - Detention	384,579,629	372,978,425	134,317,719	1,037,836,431	518,918,215	69.3959%	61,630,572
501	DEPT OF JUVENILE CORRECTIONS - Detention	37,007,885	36,836,517	13,134,130	101,047,831	50,523,916	6.7567%	6,000,595
503	GILA COUNTY - Detention	711,463	765,207	368,743	2,293,407	1,146,703	0.1534%	136,191
558	GILA COUNTY - Dispatchers	549,359	596,450	222,948	1,626,701	813,351	0.1088%	96,600
504	GRAHAM COUNTY - Detention	616,509	663,091	162,999	1,642,747	821,374	0.1098%	97,552
560	GRAHAM COUNTY - Dispatchers	40,486	55,968	35,565	193,905	96,953	0.0130%	11,515
505	MARICOPA COUNTY - Detention	75,144,686	74,312,828	27,215,699	208,234,110	104,117,055	13.9238%	12,365,713
535	MOHAVE COUNTY - Detention	2,607,056	2,684,707	636,560	6,643,132	3,321,566	0.4442%	394,494
545	NAVAJO COUNTY - Detention	1,011,739	1,042,515	390,538	2,927,309	1,463,655	0.1957%	173,834
515	PIMA COUNTY - Detention	26,544,491	25,810,725	8,502,864	70,362,604	35,181,302	4.7049%	4,178,392
502	PINAL COUNTY - Detention	3,862,914	4,339,787	1,892,896	12,607,083	6,303,541	0.8430%	748,655
555	PINAL COUNTY - Dispatchers	550,220	422,865	217,409	1,421,188	710,594	0.0950%	84,395
540	SANTA CRUZ COUNTY - Detention	1,206,729	1,198,600	275,641	2,998,803	1,499,401	0.2005%	178,080
557	TOWN OF MARANA - Dispatchers	66,404	92,135	84,888	362,354	181,177	0.0242%	21,518
556	TOWN OF ORO VALLEY - Dispatchers	398,432	399,890	321,548	1,489,654	744,827	0.0996%	88,461.
559	TOWN OF WICKENBURG - Dispatchers	137,754	135,379	43,901	380,481	190,241	0.0254%	22,594
550	YAVAPAI COUNTY - Detention	4,518,785	4,529,344	2,072,266	13,550,569	6,775,284	0.9061%	804,683
510	YUMA COUNTY - Detention	5,957,944	5,808,546	1,685,498	15,289,466	7,644,733	1.0223%	907,945
021	TOTAL	550,428,271	537,595,560	193,818,602	1,495,530,697	747,765,348	100.00%	88,810,153

PARTICIPATING EMPLOYERS

APACHE COUNTY
COCHISE COUNTY
COCONINO COUNTY
DEPARTMENT OF CORRECTIONS
DEPT OF JUVENILE CORRECTIONS
GILA COUNTY
GILA COUNTY DISPATCHERS
GRAHAM COUNTY
GRAHAM COUNTY DISPATCHERS
MARICOPA COUNTY
MOHAVE COUNTY
NAVAJO COUNTY
PIMA COUNTY
PINAL COUNTY
PINAL COUNTY DISPATCHERS
SANTA CRUZ COUNTY
TOWN OF MARANA DISPATCHERS
TOWN OF ORO VALLEY DISPATCHERS
TOWN OF WICKENBURG DISPATCHERS
YAVAPAI COUNTY
YUMA COUNTY