

# Corrections Officer Retirement Plan



22nd COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



*For the Fiscal Year ended June 30, 2008*

# Our Vision, Mission & Values

## Vision

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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

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- 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

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- 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-Second Comprehensive Annual Financial Report**

**For the Fiscal Year Ended  
June 30, 2008**

**Prepared by the Staff of PSPRS**

Public Safety Personnel Retirement System  
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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, 2007

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



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



## Fund Manager Report

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
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 ELECTED OFFICIALS' RETIREMENT PLAN  
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*Administrator*

**Ryan Parham**  
*Acting CIO*

**Tracey D. Peterson**  
*Assistant Administrator-COO*

December 17, 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-Second Comprehensive Annual Financial Report (CAFR) for the Corrections Officer Retirement Plan (CORP) for the fiscal year ended June 30, 2008 (FY'08), in accordance with the provisions of A.R.S. Section 38-883.

### **The CORP Plan's Funding Ratio**

As of fiscal year-end, the financial status of the CORP Plan, as reflected in its funding ratio, increased somewhat relative to what it was one year earlier. At June 30, 2008 the funding ratio was 86.8%; at June 30, 2007, it was 84.6%. This modest improvement in the CORP financial status follows funding ratio declines in six out of the last seven fiscal years. This improvement occurred despite the fact that the Plan had a negative rate of return on its invested assets for the fiscal year. For further detailed information on the Plan's net assets and changes in net assets that occurred during the fiscal year, please refer to the Management's Discussion and Analysis section of this Comprehensive Annual Financial Report (CAFR).

Before delving further into the CORP Plan's fiscal year-end results and the factors that contributed to those results, some historical perspective is needed.

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'06, the CORP Plan was more than 100% funded, although the funding ratio had started to decline as of FY'01. It appeared that all was well. In reality, however, that was not the case. The financial health of the Plan was seriously compromised due to an investment strategy that entailed a high 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 prices of technology and telecommunications securities, which had become extremely overvalued, began to decline rapidly. From June 30, 2000 to June 30, 2002, the market value of assets of the CORP Plan declined from \$748.0 million to \$551.9 million – an asset value loss of 26.2%. 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 ("smoothing") to determine its fiscal year-end actuarial value of assets, the effects of the 2000-2002 asset value losses will not be completely reflected in the Plan's funding ratio until the end of FY'09. However, the losses which the Plan sustained during FY'01 dropped out of the calculation of the actuarial value of assets as of the end of FY'08. That is one of the reasons why the funding ratio for the Plan improved. The other reason – and, in fact the main reason -- relates to the transfer into the CORP Plan from the Arizona State Retirement System (ASRS) of a better funded group of 2,200 probation, surveillance and juvenile detention officers who brought with them an additional \$169.3 million of assets.

# Introductory Section

Although the 2000-2002 asset value losses have been by far the major cause of the Plan's funding ratio erosion from FY'01 through FY'07 (with the exception of one year), other factors also contributed. These include, in descending order of importance:

- actuarial demographic assumption and methodology changes (made necessary by FY'07 actuarial audits) that increased the Plan's unfunded liability and reduced its funding ratio; and
- a decrease in the actuarial rate of return assumption from 9% to 8.5%.

In addition, there are statutory provisions that require the diversion of 50% of investment returns in excess of 9% into the CORP Plan's Benefit Increase Reserve. These Reserve assets are used to finance the cost of the post-retirement adjustments payable to eligible beneficiaries of the Plan. However, these Reserve assets are not taken into account for funding ratio and employer contribution rate calculations.

## Employer Contribution Rates

When times were good and the CORP Plan was over-funded, the CORP employers' contribution rates were abnormally low. (Each employer has its own rate that reflects the benefit liability for its own covered group.) 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 8.68%. But as a result of the Plan's FY'08 higher funding ratio, that aggregate rate will decrease to 8.38%, effective July 1, 2009. However, this decrease in the aggregate contribution rate is something of an illusion, since it now appears that twelve out of the twenty-one CORP contributing employers will experience a rate increase to one degree or another relative to the rate they are currently paying.

The reason that what is the case at the total Plan level is not necessarily the case for each employer group within the Plan relates to the beneficial effect the transfer into CORP of the probation, surveillance and juvenile detention officer group had on the Plan's overall and aggregate results. But, since each employer has its own contribution rate which is based on its own participant group's experience and benefit liability, the positive effect of the group transfer on the results for the CORP Plan as a whole does not impact other individual employer group results within the Plan.

As we move into the new fiscal year, the System's Administrator will undertake consultations with representatives of the Plans' 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 reduce the employer contribution rates that will otherwise go into effect next July 1<sup>st</sup>.

## FY'08 Investment Results

The FY'08 rate of investment return for the CORP Plan was -7.05% -- a rate of return that was 1.32% less than the -5.73% weighted composite rate of return benchmark for the Plan. It was also far less than the 8.5% actuarial assumed rate of return.

Clearly, the Plan's FY'08 investment result was disappointing. That result was attributable to the downturn in the financial markets, especially the equity and residential real estate markets. Nevertheless, the System uses a seven year "smoothing" process in the calculation of the fiscal year-end "actuarial value of assets" and that helps to mitigate the impact of the investment loss. In addition, as indicated above, the asset value losses that the Plan sustained in FY'01 dropped out of the FY'08 asset value calculation and the CORP Plan generally benefitted from the financial impact associated with the probation, surveillance and juvenile detention officer group transfer. At the total Plan level, the net effect was an increase in the funding ratio and a 0.30% of payroll decrease in the aggregate employer contribution rate.

Because the CORP Plan's actual rate of return was less than 9%, no new assets flowed into the Plan's Reserve for Future Benefit Increases. Even so, the Reserve's balance, after subtracting the nearly \$15.53 million cost of the post-retirement adjustment that took effect July 1, 2008, remained in excess of \$40.6 million. That should assure that a full adjustment will be paid to all eligible beneficiaries next July 1<sup>st</sup>.

The fiscal year-end return placed the CORP Plan in the 4th (bottom) quartile relative to the results for the over 100 public retirement systems included in the ICC Public Fund Universe, which is the CORP Plan's "peer group." 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 FY'07 and continued throughout FY'08.

The disappointing FY'06 rate of return result (i.e., 8.3%) for the CORP Plan 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 severely limited the Plan's asset diversification and caused the Plan to underperform its public retirement system "peer" group for a very long period of time. 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. For more information on what was accomplished during FY'08 with respect to this restructuring process and what has been done so far in FY'09, please see the letter from the System's Acting Chief Investment Officer (CIO) in the Investment Section of this CAFR.

## Expectations for the Financial Status of the CORP Plan in the Future

At the conclusion of the CORP Plan's FY'09, the asset value loss that the Plan sustained in FY'02 will drop out of the calculation of the actuarial value of assets. Given that, and if FY'09 turns out to be a reasonably good year for the financial markets, which seems admittedly remote at this time, and if the System is able to achieve or exceed its actuarial assumed rate of return of 8.5%, the CORP Plan should continue to experience gradual improvement in its funding ratio. As that happens, the aggregate CORP employer contribution rate should continue to decline. The further implementation, and ultimately the completion, of the System's asset management restructuring process should serve to accelerate and magnify the expected positive funding ratio and employer contribution rate trends.

However, there are risks, both realized and potential, that could delay or even reverse the expected improvement. These are:

- a sharp and sustained downturn in the U.S. and global economies and financial markets that would cause the System to fall short of achieving its rate of return expectations; 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 that conducted the System's actuarial audits in FY'07.

As we have moved into System FY'09, and especially during September and October, the U.S. and global economies have weakened and the financial markets, especially the equity markets, have become sharply negative and volatile. Whether these trends will continue or whether economic and financial conditions will improve cannot be predicted with any certainty. We shall simply have to wait and see how things turn out as of June 30, 2009.

## 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 Plan, 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.

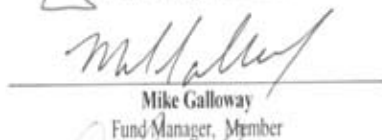
Respectfully submitted,



Carter Olson  
Fund Manager, Chairman



Billy Shields  
Fund Manager, Vice Chairman



Mike Galloway  
Fund Manager, Member



Timothy J. Dunne  
Fund Manager, Member



Lori Roediger  
Fund Manager, Member



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*Fund Manager Member*

**James M Hacking**  
*Administrator*

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

December 17, 2008

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

Fund Manager Members:

Here is the Twenty-Second Comprehensive Annual Financial Report (CAFR) of the operations and financial condition of the Arizona Corrections Officer Retirement Plan (CORP). This report is for the fiscal year ended June 30, 2008. 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 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, 2008 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, 2008 actuarial valuation prepared by the System's actuary, Rodwan Consulting Company.

### **Financial Information Reporting**

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

It is the System's policy to have and maintain an effective system of accounting controls. We believe our controls are adequate to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal 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 for the Plan are derived from three sources: member contributions, employer contributions, and realized and unrealized returns on the invested assets of the Plan. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the Plan had an investment loss of \$68.0 million this fiscal year. However, that was more than offset by the positive flow of revenue from member contributions of \$111.1 million and direct employer contributions of \$150.7 million. 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'08 administrative and investment-related expenses totaled \$2.2 million, up from nearly \$1.0 million the year before. Administrative and investment expenses were approximately 19 basis points of the total assets managed. This is still 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 assets for the fiscal year was -7.05%. This negative return was the result of the sharp decline and turmoil in the domestic and international equity and fixed income markets and the contraction of residential real estate values. 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 PSPRS. All Plan investments were held in trust by BNY Mellon, the System's custodian bank.

## **Enacted Legislation**

In April, 2008, the Governor signed into law a bill that provides the System's Fund Manager with two new explicit authorities. The first gives the Fund Manager the authority to use external asset managers as needed. This will enable the PSPRS System to deploy assets for investment purposes among a far wider and much more diversified array of domestic and global financial markets than has been the case in the past.

The second authority will enable the System to commingle the assets of its three Plans in a single trust vehicle for investment purposes. This should serve to reduce substantially the System's transaction and other investment-related costs over time.

Another bill pertaining to CORP that was enacted adds ordinary disability benefit protection for those participants in the Plan who have heretofore lacked such protection. The cost of the ordinary disability benefit coverage will be reflected in the contribution rate paid by those participants to whom the coverage is extended. Their new contribution rate is set at 8.41% of salary. However, once the CORP becomes fully funded, the cost of this new benefit protection will shift from these participants to their employers; at that point, the contribution rate of these participants will revert to the lower rate of 7.96% of salary.

## **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 Plan.

The CORP is funded, in part, through a statutory participant contribution rate of 8.41% of gross payroll for those participants to whom was extended the new ordinary disability benefit protection and a contribution rate of 7.96% for all other participants in the Plan. The Plan's additional funding comes from the employer contribution that is expressed as a level percent of gross payroll and is reset annually, depending on the results of the Plan's actuarial valuation and from 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 current aggregate rate for the contributing employers is 8.68%. The aggregate rate that will take effect on July 1, 2009 will be 8.38%. This new and lower aggregate rate is the result of an increase in the CORP's FY'08 funding ratio.

While there is no single all-encompassing test to measure a retirement system's funding progress and current status, the most commonly used 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 had been declining for six out of the last seven years through FY'07. At that point in time, the Plan's funding ratio was 84.6%. However, as of June 30, 2008, the ratio improved slightly to 86.8%, despite the fact that the Plan had a negative rate of return (-7.05%) on its invested assets. The reasons for this funding ratio improvement are set forth in the Fund Manager's transmittal letter to the Governor.

## **Post Retirement Benefit Increases**

State law provides for an annual benefit increase for CORP 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 a maximum of four percent. 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 \$15.5 million needed to fund the July 1, 2008 post retirement increase, was \$40.63 million. Thus, despite the fact that no new assets flowed into the Reserve in FY'08 due to the Plan's negative rate of investment return, the reserve balance remains substantial. This assures that annual adjustments will continue without interruption, at least for the next two to three years.

## **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, 2007. This was the fourteenth 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'08 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.

## **New Developments and Management Initiatives**

During this past fiscal year, the PSPRS Fund Manager continued its strategic initiative that will change the way in which the CORP's assets are managed and invested. (See the Fund Manager's transmittal letter to the Governor that begins on page ) In addition, there were other developments and initiatives that strengthened System governance, increased administrative efficiency and productivity or improved internal controls.

- The Governor appointed, and the State Senate confirmed, three new members for the Fund Manager; as a result, the System has a full, five member governing Board. All the new members received the benefit of an orientation that was prepared and conducted by staff.
- An independent, Information Technology (IT) consulting firm, the Torus Business Group, was retained to do a complete assessment of the PSPRS IT systems environment and data base development. In addition, the firm was asked to set forth options to address unmet needs, especially with respect to disaster recovery and business continuity capability. The Torus Group's report was released in February and many of its recommendations were reflected in the strategic plan and administrative budget for system FY'09.
- An intra-Member Services Division reorganization was planned and was approved as part of the FY'09 administrative budget process to centralized the staff and other resources necessary to provide, on a systematic and on-going basis, education, training and support for the networks of PSPRS and CORP local boards. To date, the education and outreach efforts have been much appreciated by the members of the local boards and the board secretaries.
- The accounting firm of Ernst & Young was retained to resolve any GAAP, GASB, reporting or accounting issues that may be associated with the commingling of the assets of the PSPRS System's three Plans in a single trust vehicle for purposes of investment. Input was solicited from representatives of the System's custodian bank, BNY Mellon, its external auditor, Heinfeld, Meech & Co., its legal counsel, Kutak, Rock, and from appropriate internal staff.
- Three management positions, Chief Investment Officer (CIO), Member Services Division Director and Finance and Accounting Manager, were filled with well-qualified and experienced professionals.
- In December, 2007, a spokesman from Cost Effective Measurement (CEM) presented to the Board a thorough evaluation of the System's historical asset management cost effectiveness in relation to the returns generated and relative to the System's peer group. The CEM evaluation corroborated the findings contained in an earlier FY'07 report from the investment consulting firm of Ennis, Knupp & Associates (E,K&A).
- The System's staff carried out in a timely fashion the annual strategic planning process and then formulated and presented to the Board a budget for System FY'09. The Board approved the budget in June.

## Introductory Section

- In the IT Departments, two staff positions were filled – one in Operations, the other in Program Development. The Operations position addresses a “key” employee back-up need. The Program Development position added much needed capacity and made it possible to complete a data base conversion.
- The System’s multi-year document imaging (i.e., scanning) project moved forward with the expectation that it will be completed during System FY’09. The objective of the project is to have all participant and beneficiary paper records available and accessible electronically.
- The System’s new web site that enables employers to transmit payroll deduction records electronically was fully implemented.
- At fiscal year-end, the System initiated an RFP process to secure a new independent investment advisor for the Fund Manager to replace the firm of E,K&A which resigned the engagement in mid-June.
- The remodeling and renovation of the 1st floor of the PSPRS building was completed; the portion not occupied by PSPRS staff is now under a long-term lease with the Dinan Company.

### **New Initiatives for System FY’09**

As we have moved through the first four months of the new fiscal year (FY’09), some new initiatives have been completed; others are underway; and still others are planned.

First, the RFP process for the selection of a new independent investment advisor for the Fund Manager was concluded. New England Pension Consultants (NEPC) was selected for the engagement and is already working with the System’s Investment Department staff to develop a new asset allocation and new investment and derivative policies. A large portion of the assets of the Plans will be outsourced to external asset managers following the adoption of the new allocation and policies by the Fund Manager.

Second, the assets of the System’s three Plans were commingled for investment purposes in a single trust vehicle. The transfer of the assets occurred in September.

Third, the IT Operations Department set up and tested the offsite (i.e., Denver, CO) facility that will serve the System’s disaster recovery and systems back-up needs.

Fourth, the accounting firm of Ernst & Young was retained in August to conduct an assessment of PSPRS’ internal audit and compliance needs. This project will include, among other things, an assessment of the System’s control environment and the development of an audit plan.

Fifth, the IT Program Development Department will integrate into the existing system a payroll program that meets present and projected needs and will begin to create the capability for participants to apply for benefits electronically. Also, the Department will continue its efforts to automate all forms of benefit payments via ACH transfers.

Sixth, the System’s Administrator and lobbyists will consult with the System’s constituent group and employer representatives to inform them as to the financial status of the System’s Plans and the employer contribution requirements that will take effect July 1, 2009.

Seventh, draft legislation will be developed in advance of the start of the Arizona legislative session to bring state statutory provisions into harmony with IRS and other federal statutes and with long-standing administrative practices.

Eighth, the document imaging (i.e., scanning) project will be completed before fiscal year-end.

Finally, PSPRS and CORP local board training and support will continue to be a key focus of the new entity created within the System’s Member Services Division for that purpose.

### **Summary**

This CORP CAFR is a product of the collective efforts of the staff, under the direction of the System’s 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 maintain the CORP on the path of improving financial status.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James M. Hacking". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping tail.

James M. Hacking

Administrator

# Introductory Section

## Fund Manager



**Carter Olson**  
*Chairman*



**Billy Shields**  
*Vice Chairman*



**Mike Galloway**  
*Member*



**Tim Dunne**  
*Member*



**Lori Roediger**  
*Member*



**Brian Delfs**  
*Advisor*

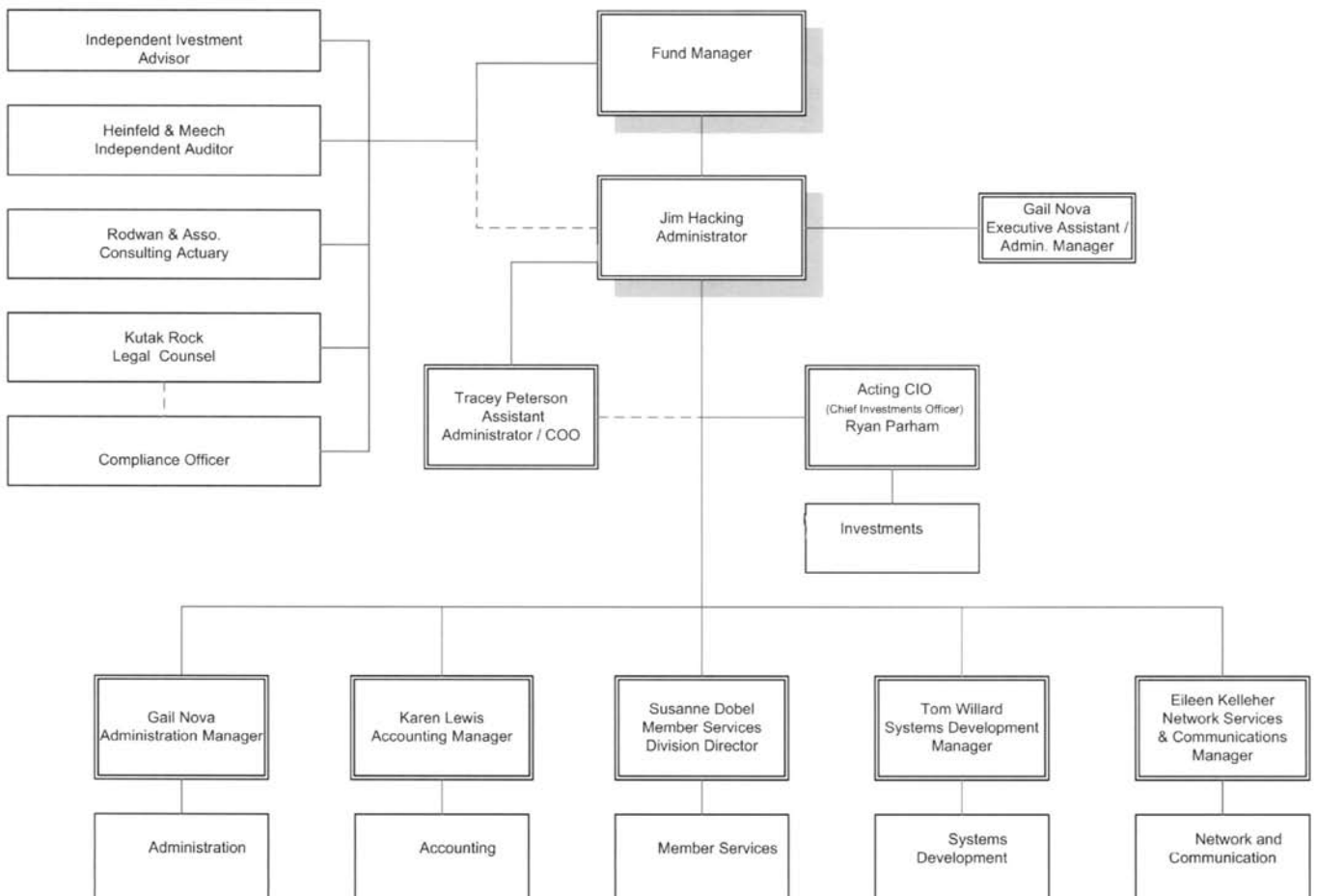
Executive Staff and Organizational Chart



**Jim Hacking**  
Administrator



**Tracey Peterson**  
Assistant Administrator  
Chief Operations Officer



## Introductory Section

### Professional Advisors

Ennis Knupp & Associates\*

Heinfeld Meech & Co, P.C.

Kutak Rock, LLP

McLagan Partners, Inc

Rodwan Consulting Group

ORG Portfolio Management, LLC

Step Stone Group, LLC

Albourne America, LLC

Bank of New York Mellon

Investment Advisor

Independent Auditors

General Counsel

Human Resource Consultant

Actuary

Real Estate Consultant

Alternative Investments Consultant

International Alternative  
Investments 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.

\* Resigned engagement effective July 30, 2008. Currently conducting a search to hire a replacement Investment Advisor for the Fund Manager.

# Financial Section

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

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Tucson, Arizona 85704  
Tel (520) 742-2611  
Fax (520) 742-2718

## 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, 2008, 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, 2007, presented in the basic financial statements are included for additional analysis only. Our audit report dated February 4, 2008 expressed an unqualified opinion on those statements; however, we have not performed any auditing procedures on this information since the date of our 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, 2008, 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 December 12, 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.

The Management's Discussion and Analysis on pages 24 through 28 and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 45 and 46 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

December 12, 2008

# MANAGEMENT DISCUSSION & ANALYSIS

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

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

## Financial Highlights

Key financial highlights for 2008 are as follows:

- The Corrections Officer Retirement Plan (CORP) had a total rate of return of -7.05% this year. Our equity portfolio had a return of -11.43%, which underperformed the stock index by 85 basis points. Our fixed income portfolio had a return of 3.52%, which underperformed the index by 372 basis points.
- As of the close of the fiscal year 2008, the Future Benefit Increase Reserve was \$40.6 million. This will enable another 4% post-retirement adjustment for qualifying retirees or their survivors for the eighteenth consecutive year.
- Retirement benefits paid totaled \$49.0 million for the current year, compared to \$39.7 million for the previous year. This represents a 23.3% 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 Net Assets* and *The Statement of Changes in 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 Payments to Consultants, the Supplemental Schedule of Cash Receipts and Cash Disbursements and the Agency Fund Statement of Changes in Assets and Liabilities (see Note 7). The total columns and information provided on these schedules carry forward to the applicable financial statement.

**Financial Analysis of the Plan**

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

**SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS**

	As of 6/30/2008	As of 6/30/2007	Change	%Change
Cash and Equivalents	\$58,316,455	\$427,900	\$57,888,555	13,528.52%
Total Receivables	18,382,933	9,291,148	9,091,786	97.85%
Total Investments	1,088,157,479	1,014,866,552	73,290,927	7.22%
Securities on Loan	240,882,045	263,196,310	(22,314,265)	(8.48)%
Net Capital Assets	733,871	725,661	8,210	1.13%
Total Plan Assets	1,406,472,783	1,288,507,571	117,965,212	9.16%
Accrued Accounts Payable	1,651,054	904,526	746,528	82.53%
Investment Purchases Payable	22,351,839	11,469,199	10,882,640	94.89
Securities Lending Collateral	240,882,045	263,196,310	(22,314,265)	(8.48)%
Total Plan Liabilities	264,884,938	275,570,034	(10,685,096)	(3.88)%
Net Assets	\$1,141,587,845	\$1,012,937,536	\$128,650,309	12.70%

The total net assets held in trust for benefits at June 30, 2008 were \$1.1 billion, a 12.70% increase from \$1.0 billion at June 30, 2007. The increase in net assets is primarily due to an increase in membership in the Plan 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 decrease in security lending collateral is due to normal fluctuations in the lending program. The investment of the collateral fluctuated in a similar manner.

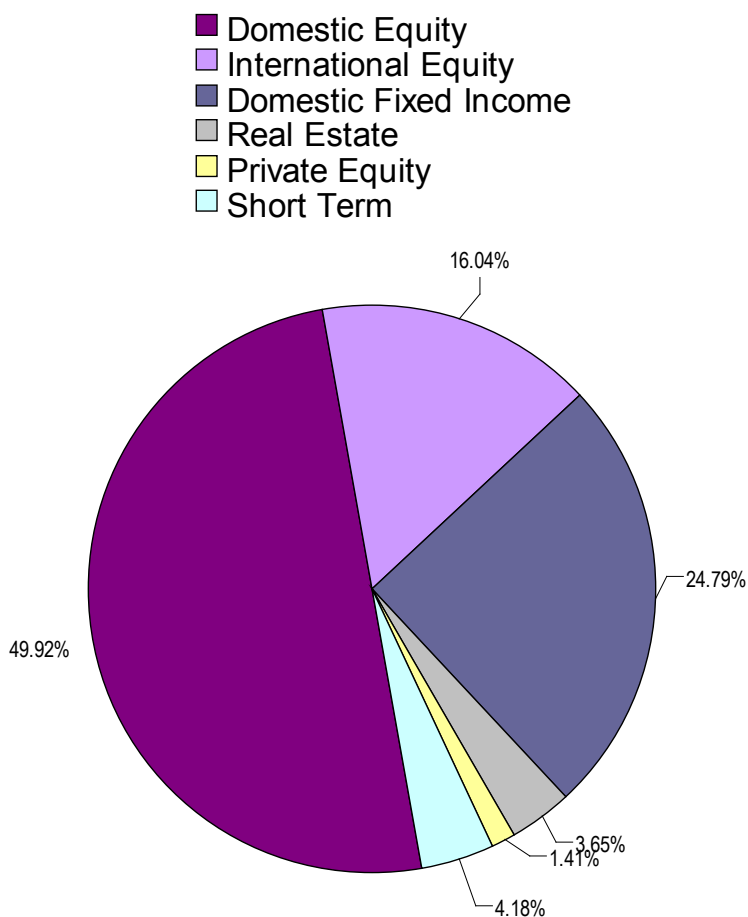
**SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS**

	2008	2007	Change	% Change
Total Contributions	\$260,624,397	\$64,994,772	\$195,629,625	300.99%
Net Investment Income	(68,039,675)	144,850,095	(212,889,770)	(146.97)%
Transfers from Other Plans	3,217,224	456,348	2,760,876	604.99%
Total Additions	195,801,946	210,301,215	(14,499,269)	(6.89)%
Benefits	48,972,663	39,716,871	9,255,792	23.30%
Refunds and Transfers	17,075,982	18,697,298	(1,621,316)	(8.67)%
Administrative Expenses	1,102,992	732,236	370,756	50.63%
Total Deductions	67,151,638	59,146,404	8,005,234	13.53%
Net Increase (Decrease)	128,650,309	151,154,811	(22,504,502)	(14.88)%
Beginning of Year Plan Net Assets	1,012,937,536	861,782,725	151,154,811	17.54%
End of Year Plan Net Assets	\$1,141,587,845	\$1,012,937,536	\$128,650,309	12.70%

## Financial Section

Employer and employee contributions increased \$195.6 million due to an increase in the consolidated employer contribution rates from 5.00% (minimum rate) to 6.72% and higher payrolls. Additionally, membership in the plan increased. The governing board adopted a number of actuarial changes in 2006 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. For FY 2008, CORP recognized a net investment loss of \$68.0 million which compares to a gain of \$144.8 million in the previous year. This 146.97% decrease was due to the less than favorable 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 2008, these deductions totaled \$67.2 million, an increase of 13.53% from the \$59.1 million paid during FY 2007.

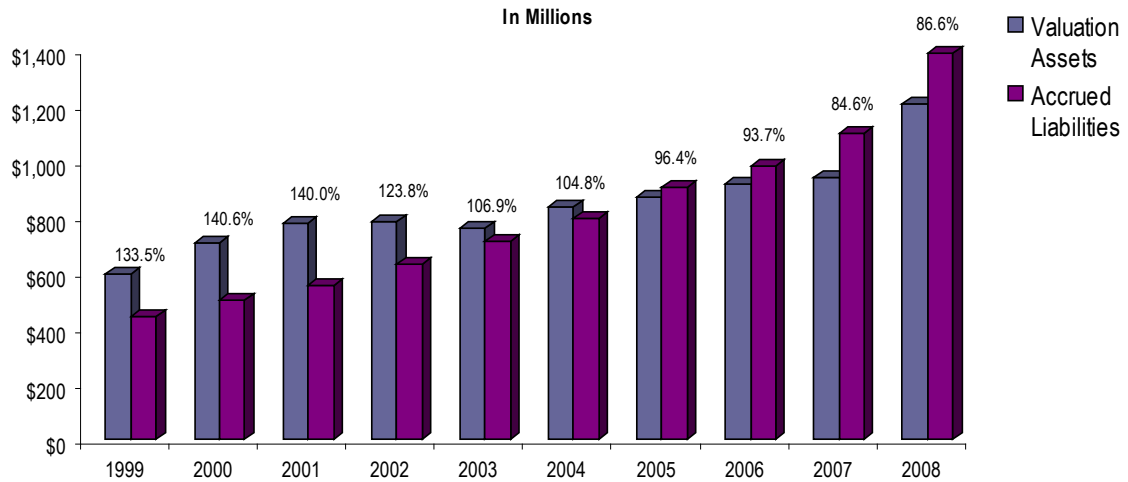
## Investment Activities



During FY 2008, the fund manager adopted a more diversified asset allocation policy but due to the unfavorable markets the investment total rate of return was -7.05%. At June 30, 2008, CORP held \$737.9 million in equities. The FY 2008 rate of return for CORP equities was -11.43% versus a benchmark rate of return of 10.58%. At June 30, 2008, CORP held \$276.3 million in fixed income securities. The FY 2008 rate of return for CORP fixed income securities was 3.52% versus a benchmark rate of return of 7.24%. The benchmarks for both equities and fixed income securities are representative of the returns that could be expected in a similar investing environment. More detailed information regarding the Plan's investment portfolio can be found in the investment section of this report.

CORP earns additional income by lending investment securities to brokers. This was done on a pooled basis by our custodial banks, Wells Fargo (July through September 2007) and BNY Mellon (October 2007 through June 2008). 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, 2008.

At June 30, 2008, the total funded status of the CORP increased to 86.8% from 84.6% at FYE 2007. This increase in funded status is related primarily to full recognition of the investment loss in fiscal years 2001.. 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. 43/45

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, beginning in 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 \$2,073,245 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 Plan's funded ratio. The funded ratio without the health insurance premium subsidy liability is calculated as 90.3%. If the liability associated with the health insurance premium subsidy were to be included, the funded ratio is calculated as 86.8%.
- 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 '08, this amounted to a difference of \$3,324,775 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 plan assets were allocated to both the retirement and health insurance subsidy benefits, the percentage contributed for both benefits would be 100% funded.
- Beginning in FY '08, the participating employer groups implemented 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, 2008 WITH COMPARATIVE TOTALS FOR 2007**

	2008	2007
<b>ASSETS</b>		
Cash and Short Term Investments	\$58,316,455	\$427,900
<b>Receivables</b>		
Members' Contributions	1,777,843	1,366,277
Employers' Contributions	1,588,177	815,234
Interest and Dividends	4,014,873	3,836,299
Investment Sales	10,996,536	3,267,941
Other	5,504	5,397
<b>Total Receivables</b>	18,382,933	9,291,148
<b>Investments at Fair Value (Notes 2 and 3)</b>		
U.S. Government Securities	152,258,675	97,894,657
Corporate Bonds	124,033,952	106,271,472
Corporate Notes	-	45,859,630
Corporate Stocks	737,894,545	731,764,348
Other Investments	73,970,307	33,076,445
<b>Total Investments</b>	1,088,157,479	1,014,866,552
Securities Lending Collateral	240,882,045	263,196,310
<b>Capital Assets (Note 4)</b>		
Land	86,590	86,590
Building	615,531	568,715
Furniture, Fixtures & Equipment	140,973	139,731
<b>Total Capital Assets</b>	843,094	795,036
Accumulated Depreciation	(109,224)	(69,376)
<b>Net Capital Assets</b>	733,871	725,661
<b>Total Plan Assets</b>	1,406,472,783	1,288,507,571
<b>Liabilities</b>		
Accrued Accounts Payable	1,651,054	904,526
Investment Purchases Payable	22,351,839	11,469,199
Securities Lending Collateral	240,882,045	263,196,310
<b>Total Plan Liabilities</b>	264,884,938	275,570,034
<b>Net Assets Held in Trust for Pension Benefits</b>	1,141,587,845	1,012,937,536
<b>Net Asset Reserves</b>		
Refundable Members' Reserve	296,317,101	213,688,264
Employers' Reserve	804,637,066	738,823,211
Future Benefit Increase Reserve	40,633,678	60,426,061
<b>Total Net Asset Reserves</b>	1,141,587,845	\$1,012,937,536

*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 CHANGE IN PLAN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008 WITH COMPARATIVE TOTALS FOR 2007**

	<u>2008</u>	<u>2007</u>
<b>Additions</b>		
Contributions		
Members' Contributions (Notes 2 and 5)	\$111,097,660	\$41,354,907
Employers' Contributions (Notes 2 and 5)	148,655,973	22,709,507
Member Service Purchase	870,764	930,358
Total Contributions	<u>260,624,397</u>	<u>64,994,772</u>
Net Appreciation (Depreciation)		
in Fair Value of Investments (Notes 2 and 3)	(102,765,251)	115,077,315
Interest	17,870,589	16,746,087
Dividends	16,816,987	13,001,824
Securities Lending Activities		
Securities Lending Income	7,311,167	11,638,421
Borrower Rebates	(5,964,507)	(11,163,553)
Agents Share of Income	(227,123)	(190,808)
Net Securities Lending Income (Note 3)	<u>1,119,537</u>	<u>284,060</u>
	<u>(66,958,138)</u>	<u>145,109,286</u>
Less Investment Expense	<u>(1,081,537)</u>	<u>(259,191)</u>
Net Investment Income	<u>(68,039,675)</u>	<u>144,850,095</u>
Amounts Transferred from Other State-Sponsored Pension Plans and Service Credits Purchased	3,217,224	456,348
Total Additions	<u>195,801,946</u>	<u>210,301,215</u>
<b>Deductions</b>		
Pension Benefits (Note 1)	48,972,663	39,716,871
Refunds to Terminated Members (Note 1)	16,211,929	16,634,320
Administrative Expenses	1,102,992	732,236
Amounts Transferred to Other State-Sponsored Pension Plans	864,053	2,062,977
Total Deductions	<u>67,151,638</u>	<u>59,146,404</u>
Net Increase (Decrease)	128,650,309	151,154,811
Net Assets Held In Trust for Pension Benefits		
Beginning of Year - July 1	<u>1,012,937,536</u>	<u>861,782,725</u>
End of Year - June 30	<u>\$1,141,587,845</u>	<u>\$1,012,937,536</u>

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

## CORP Notes to the Financial Statements

### Note 1-Plan Description:

**Organization**-The Corrections Officer Retirement Plan (CORP), a pension trust fund of the State of Arizona, is a cost sharing 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, 2008 and 2007, the number of participating local government employer groups was:

	<u>2008</u>	<u>2007</u>
Counties	14	13
Dispatchers	8	6
State Agencies	2	2
Total Employers	24	21

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, 2008 and 2007, statewide CORP membership consisted of:

	<u>Retirement Plan</u>		<u>Health Insurance Subsidy</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Retirees	2,428	2,123	1,248	1,112
Terminated vested employees	273	233		
Current Employees:				
Vested	7,298	5,508		
Non-vested	7,418	7,272		
Total Members	17,417	15,136	1,248	1,112

## **Financial Section**

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

A summary of benefit and plan provisions follows:

### **Summary of Benefits:**

#### **Purpose (A.R.S. §38-900.01.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 7.96% of salary to the Plan on a pre-tax basis by payroll deduction. Beginning the first pay period ending after September 26, 2008, all non-dispatchers to contribute 8.41% of their salary until the year following a determination that CORP is 100% funded at which time the member contribution rate falls to 7.96%. 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. §38-881.8)**

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.

#### **Detention Officers (A.R.S. §38-881; A.R.S. §38-893; A.R.S. §38-902)**

Allows Department of Public Safety detention officers to participate in CORP after CORP is 100% funded. For those detention officers designated to participate in CORP on the joinder date, all assets and service from ASRS shall be transferred to CORP, if any.

#### **Judicial Department (A.R.S. §38-881; A.R.S. §38-891)**

The list of positions eligible to participate in CORP is expanded to include a person employed by the Administrative Office of the Courts who has been a member of CORP for a minimum of five years and who has assumed a new position whose responsibilities involve training county probation, surveillance or juvenile detention officers. The person must make a written request to the local judicial board within 90 days of accepting the position. When the employee leaves the position, the position reverts back to a non-designated position.



**Average Monthly Salary (A.R.S. §38-881.5)**

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. §38-881.33)**

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 credited 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 termination of employment and one of the following: (1) completion of 20 years of service, except that for a full-time dispatcher, upon completion of 25 years of service, (2) a member’s 62<sup>nd</sup> birthday and completion of 10 years of service, or (3) 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)

**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, that was incurred in the performance of the employee’s duties and was the result of either physical contact with inmates, responding to a confrontational

## **Financial Section**

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. §38-881.36)**

A physical or mental condition that 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 may require periodic medical re-evaluations until the member reaches age 62. An 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)

### **Ordinary Disability Retirement (Not Service Connected) (A.R.S. §38-891)**

A total and permanent physical disability preventing performance of a reasonable range of duties within the employee's department prior to normal retirement date. Benefit is a percentage of normal retirement. The percentage is computed based on the employee's years of credited service divided by 20, except for dispatchers which is 25.

### **Survivor Pension (A.R.S. §38-887; A.R.S. §38-888)**

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.

#### **Joinders; Credited Service (A.R.S. §38-902)**

Dispatchers who are designated to participate in CORP shall have all credited service that represents credited service in a designated position from any other Arizona defined benefit retirement plan transferred to CORP as of the joinder date. The amount of time within which an Arizona defined benefit plan must transfer assets to CORP is increased to 90 days from 60 days.

#### **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. A member who changes employment or transfers or is assigned to a non-eligible position, because of a change in duties or otherwise, with the same or another employer of this state or a municipality of this state participating in a different retirement system or plan, is entitled to have all credited service transferred to the retirement System or Plan applicable to the new position pursuant to the requirements for transfer between Arizona state retirement systems.
- B. 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.

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### **Redemption Of Prior Service (A.R.S. §38-909; A.R.S. §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; A.R.S. §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; A.R.S. §38-782)**

For CORP retirees or survivors, and their eligible dependents, 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:

Single		Family		
Not Medicare Eligible	Medicare Eligible	All Not Medicare Eligible	All Medicare Eligible	One with Medicare
\$150.00	\$100.00	\$260.00	\$170.00	\$215.00

Through June 30, 2009, a retiree or survivor who is eligible for Medicare and who lives in a nonservice area receives up to the following amounts in addition to the subsidy listed above after they have paid an out-of-pocket expense as set forth below. A nonservice area is defined as an area in this state where the state retiree group insurance program or employer's retiree health insurance program does not provide or administer a health maintenance organization (HMO) for which the member or survivor is eligible.

The subsidy consists of up to the following amounts:

<b>Single</b>	<b>Family</b>	
Medicare Eligible	Retired Member and one dependent Medicare Eligible	Only Retired Member Medicare Eligible
\$170.00 after \$100.00 paid out-of-pocket	\$350.00 after \$200.00 paid out-of-pocket	\$470.00 after \$400.00 paid out-of-pocket

**State Taxation Of CORP Benefits (A.R.S. §38-896; A.R.S. §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.

**Domestic Relations Order; procedures; payments (A.R.S. §38-910)**

When a member has a divorce decree that splits pension benefits or refunds, CORP requires a Plan-approved Domestic Relations Order (DRO). This new statute details the basic requirements and sets forth a procedure for providing a certified copy of a DRO to CORP.

**Note 2-Summary of Significant Accounting Policies and Plan Asset Matters:**

**Basis of Accounting**

CORP financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid. Furniture, fixtures and equipment purchases costing \$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 \$90,014,666 for FYE 2008 and \$59,765,472 for FYE 2007. 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 (temporarily increased to \$250,000 per depositor October 3, 2008, through December 31, 2009) insured by the Federal Deposit Insurance Corporation (FDIC). The Plan mitigates custodial credit risk for deposits by requiring the financial institution to pledge securities from an acceptable list in an amount at least equal to 102% of the aggregate amount of the deposits on a daily basis.

In addition to the FDIC insurance coverage on the operating and money market accounts of CORP, Wells Fargo pledged the following securities to Public Safety Personnel Retirement System, CORP, and the Elected Officials’ Retirement Plan on June 30, 2008, as collateral:

\$24,638,000 FNIONP878442 6.50% Maturity Date 05/01/36

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.

## Financial Section

Cash balances represent both operating and cash accounts held by the bank and investment cash on deposit with the investment custodian. Formerly all accounts were held at Wells Fargo Bank. A new custodian bank for investments only (BNY Mellon) was retained in August 2007 (effective October 1, 2007). 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, 2008:

	Reported Amount	Bank Balance
Pension Trust Fund	\$58,310,685	\$58,310,685
Operating Fund	5,770	5,770
Total Deposits	\$58,316,455	\$58,316,455

### 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 as determined by the fixed-income broker/dealers. Directed real estate and venture capital investments were historically reported at cost but were marked-to-market during the fiscal year using appraisals to estimate the fair market value. 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 eighty percent of the combined assets of the system or other plans that the fund manager manages shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
- 2) That not more than five percent of the combined assets of the system or other plans that the fund manager manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the United States Government or corporate stock issued by a bank or insurance company.
- 3) That not more than five percent of the voting stock of any one corporation shall be owned by the system and other plans that the fund manager administers, except that this limitation does not apply to membership interests in limited liability companies.
- 4) That corporate stocks and exchange traded funds eligible for purchase shall be restricted to stocks and exchange traded funds that, except for bank stocks, insurance stocks and membership interests in limited liability companies, are either:
  - A) Listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §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.
  - D) Listed or approved on issuance for listing on an exchange registered of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that

no more than twenty percent of the combined assets of the system and other plans that the fund manager manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation.

- E) An exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the investment company act of 1940 (15 United States Code Section 80a-1 through 80a-64) and that is both traded on a public exchange and based on a publicly recognized index.

**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, 2008, CORP has no fund or deposits that were not covered by depository insurance or collateralized with securities held by our custodial banks. 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.

**Credit Risk**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. As of June 30, 2008, the Plan’s fixed income assets that were not government guaranteed represented 69.0% 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, 2008	% of all Fixed Income Assets	Weighted Avg. Credit	Dispersion Requiring Further Exposure
Corporate Bonds	\$70,251,358	26%	A	See below
Mortgages	8,635,256	3%	AAA	See below
Agencies	105,734,730	38%	AAA	None
CBO	3,923,387	1%	BBB	See below
CDO	2,080,748	1%	A	See below
Total	\$190,625,479	69%		

**Ratings Dispersion Detail**

Credit Rating Level	Corporate Bonds	Mortgages	CBO	CDO
AAA	\$3,487,585	\$7,700,297		
AA	8,078,296	532,686		
A	29,722,537	402,273	1,867,125	1,074,768
BBB	23,907,198		2,056,262	1,005,980
Below BBB	5,055,743			
Total	\$70,251,358	8,635,256	\$3,923,387	\$2,080,748

**Concentration of credit risk**

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

**Interest rate risk**

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

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

**Segmented Time Distribution by Security Type  
(including Government Guaranteed Securities)**

Fixed Income Security	<1	1 - 5	6 – 10	11 - 15	16 - 20	>20
Corporates	2,158,030	10,183,203	10,702,916	2,678,919	5,929,844	38,598,447
Agencies	0	94,407,358	13,244,504	9,217,573	16,524,636	19,528,545
CBO		2,056,262	0	679,936		1,187,189
CDO			1,074,788			1,005,980
Totals	\$2,158,030	\$106,646,822	\$25,022,188	\$12,576,429	\$22,454,480	\$60,320,161

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

Fixed Income Security Type	Fair Value June 30, 2008	% of All Fixed Income Assets
Corporates	\$3,415,086	1.23%
Agencies	-0-	-0-
Totals	\$3,415,086	1.23%

**Foreign Currency Risk**

Foreign currency risk is the 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, 2008 the fair value of securities on loan was \$234,108,936 and the collateral was \$240,882,045. The Plan receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent.

The Plan participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower.

All matched loans shall have matched collateral investments.

The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2008, the weighted average maturity was 58 days for all investments purchased with cash collateral from unmatched loans. The Plan has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Plan. Prior to June 30, 2008, under this program, the Plan has not experienced any defaults or losses on these loans. However, for the period ending November 2008, CORP was informed that due to recent market events one or more securities lending collateral vehicles that held assets have been impaired. This potential liability will be realized upon settlement of the recovery process or if there becomes a liquidity issue with the collateral pool.

<u>Asset Class</u>	<u>Out on Loan</u>	<u>Total Available to Loan</u>	<u>% of Available to Loan</u>
Equities	\$178,418,210	\$737,894,545	24%
Agencies	5,285,756	105,294,333	5%
Treasuries	50,159,861	50,159,861	100%
Corporate Bonds	245,109	124,033,952	20%
Totals	\$234,108,936	\$1,017,382,691	23%

### 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, 2008 and 2007 was \$41,080 and \$32,169, respectively. 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 two-thirds is fully leased. The administrative staff of the System occupies the remainder of the space.

The table below is a schedule of the capital asset account balances as of June 30, 2007, and June 30, 2008, and changes to those account balances during the year ended June 30, 2008.

**Schedule of Capital Asset Account Balances**

<b>Capital Assets</b>	<b>Land</b>	<b>Building and Improvements</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Total Capital Assets</b>
Balance June 30, 2007	\$86,590	\$568,715	\$139,731	\$795,036
Additions		46,816	1,242	48,058
Deletions	-0-	-0-	-0-	-0-
Balance June 30, 2008	86,590	615,531	140,973	843,094
<b>Accumulated Depreciation</b>				
Balance June 30, 2007	-0-	(40,860)	(28,516)	(69,376)
Additions	-0-	(15,734)	(24,773)	(40,507)
Deletions	-0-	-0-	660	660
Balance June 30, 2008	-0-	(56,594)	(52,629)	(109,224)
Net capital assets	\$86,590	\$558,937	\$88,343	\$733,871

**NOTE 5 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE**

The Retirement 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 benefits when due. The normal cost and actuarial accrued liability are determined using a projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities and assets in excess of actuarial accrued liabilities are being amortized as a level percent of payroll over a twenty-eight (28) year period. Beginning July 1, 2006, the minimum employer contribution rate was established at 6%.

During the year ended June 30, 2008, contributions totaling \$97,632,464 (\$45,932,170 employer, and \$51,700,294 member) were made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2006. The employer contributions consisted of approximately \$39,433,110 for normal cost plus (\$6,499,060) for amortization of the unfunded actuarial accrued liability in aggregate. Employer contributions represented 6.72% of covered payroll. [6.07% for normal costs and 0.65% for amortization of assets in excess of the actuarial accrued liability in aggregate.] Member contributions represented 7.96% 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- AGENCY FUND**

The plan description, summary of significant accounting policies, investment policies and contributions required for the health insurance subsidy are the same as the retirement plan and can be found under Notes 1, 2, 3 and 5. The health insurance premium subsidy provided by A.R.S. §38-857 consists of a fixed dollar amount set by statute and paid by the System on behalf of eligible retired members. The subsidized health benefits are provided and administered by the Arizona State Retirement System, Arizona Department of Administration or the participating employer of the retired member. According to Governmental Accounting Standards Board (GASB) Statement No. 43, the health insurance subsidy paid by the System represents other post employment benefits. The Plan does not administer a separate healthcare plan as defined under IRC §401(h) or an equivalent arrangement. In addition, the Plan is not statutorily authorized to maintain a separate account for the health insurance subsidy assets and benefit payments. Therefore, in accordance with GASB No. 43, the healthcare subsidy is reported as an agency fund. All assets of the Plan are available to pay both pension benefits and health insurance subsidy. The pension benefits and health insurance subsidy are funded through employer contributions based on an annual actuarial valuation. Contributions are separately accounted for by employer but are not segregated by contribution type. Contributions in excess of the health benefit subsidy payments are reported in the retirement plan. Therefore, no accumulated assets or liabilities to participating employers are reported in the agency fund. For FY'08, contributions collected for the health insurance subsidy amounted to \$5,398,020 and the health benefit subsidy payments were \$2,073,245. The excess contributions of \$3,324,775 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.

#### **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. In management's opinion, any loss realized due to current economic conditions will not have a material effect on the financial statements.

As stated in Note 3 – Cash and Investments under the Security Lending Program heading, the Plan has been apprised of a situation involving one or more security lending collateral vehicles that held assets which have been impaired as a result of recent market events. An estimate of the maximum potential loss is approximately \$11.3 million dollars for all three plans. The actual realized loss is undeterminable and in management's opinion, the realized loss as a result of the collateral impairment will not have a material effect on the financial statements.

**NOTE 10 – FUNDING STATUS AND PROGRESS**

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

(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)
<b>RETIREMENT PLAN</b>						
6/30/2008	\$1,207,026	\$1,336,662	\$129,636	90.3%	\$642,621	20.2%

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, 2008
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll, Closed
Remaining Amortization Period:	28 years closed for unfunded accrued Actuarial 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 Plan in effect at the time of each valuation. These benefits are described in Note 1 under “Summary of Benefits”.

**NOTE 11 – REQUIRED SCHEDULES**

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

### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a) <sup>2</sup>	Actuarial Accrued Liability (AAL) at Entry Age (b)	Unfunded (Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-99	\$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%
6-30-08	\$1,207,026	\$1,336,662	\$129,636	90.3%	\$642,621	20.2%

<sup>1</sup> Entry Age Normal Cost method through 6-30-04. Projected Unit Credit method from 6-30-06 to the present.

<sup>2</sup> Beginning 6-30-07, funded ratio calculation does not include AAL for the health insurance premium subsidy. If the AAL for the health insurance premium subsidy were included, the funded ratio would be 84.6% for 6-30-07 and 86.8% for 6-30-08.

See Notes to the Schedules of Required Supplementary Information.

See accompanying Independent Auditors' Report.

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Employer Contributions	
	Annual Required Contributions	Percentage Contributed
1999	\$17,109,704	100.00%
2000	\$16,876,163	100.00%
2001	\$14,927,396	100.00%
2002	\$7,101,112	100.00%
2003	\$7,397,595	100.00%
2004	\$14,555,335	100.00%
2005	\$16,291,914	100.00%
2006	\$24,028,050	100.00%
2007 <sup>1</sup>	\$18,880,642	120.00%
2008 <sup>2</sup>	\$40,534,150	108.00%

<sup>1</sup>Total Employer Contributions received during FY'07 were \$24,622,693. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be \$5,742,051. The benefits paid for the health insurance subsidy were \$1,913,186. The difference between the calculated annual required contributions and the benefits paid of \$3,828,865 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 120.0% for the retirement plan.

<sup>2</sup>Total Employer Contributions received during FY'08 were \$150,729,218. This included \$104,797,048 for a group transfer from Arizona State Retirement System to CORP. This amount was not used in the ARC calculation. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be \$5,398,020. The benefits paid for the health insurance subsidy were \$2,073,245. The difference between the calculated annual required contributions and the benefits paid of \$3,324,775 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 108.0% for the retirement plan.

See Notes to the Schedules of Required Supplementary Information.

See accompanying Independent Auditors' Report.

## **Financial Section Required Supplemental Information**

### **NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION:**

#### **Actuarial Methods and Assumptions for Valuations Performed June 30, 2008**

The projected unit credit actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. An open 20-year amortization for excess and a closed 28-year amortization period were used for the June 30, 2008 valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market return over a 7-year period. The investment return rate assumption used is 8.5% per year, compounded annually (net of investment expenses). Projected salary increase assumptions are based on 5.5%-9.0%, which include a price inflation assumption of 5.5% per year.

Each of the 24 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 2008 were determined by actuarial valuations as of June 30, 2006.

## Supporting Schedules Information

## SCHEDULE OF CHANGES IN FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	Refundable Members' Reserve	Employers' Reserve	Future Benefit Increase Reserve
<b>Balance - June 30, 2006</b>	<u>\$193,818,602</u>	<u>\$634,671,478</u>	<u>\$33,292,645</u>
<b>Distribution of Revenues and Expenses</b>			
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)	
<b>Distribution of Transfers</b>			
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	(623,855)  (9,751,251)	(982,775)  9,751,251	
<b>Balance - June 30, 2007</b>	<u>\$213,688,264</u>	<u>\$738,823,211</u>	<u>\$60,426,061</u>
<b>Distribution of Revenues and Expenses</b>			
Members' Contributions	111,097,660		
Employers' Contributions		150,729,218	
Earnings (Loss) on Investments Net of Investment Expenses		(68,039,675)	
Pension and Insurance Benefits		(51,045,908)	
Refunds to Terminated Members	(12,049,460)	(4,162,469)	
Administrative Expenses		(1,102,992)	
<b>Distribution of Transfers</b>			
Excess Investment Earnings to be used for Future Benefit Increases		-	-
Earnings (Loss) on Excess Investment Earnings Account Assets		4,258,829	(4,258,829)
Amount Utilized by Benefit Increases Granted		15,533,554	(15,533,554)
Net Transfers from (to) Other State-Sponsored Pension Plans and Purchase of Service Credits	870,764		
Inter-System Transfers -- Member Account Balances Transferred to Employers' Reserve due to Retirement	1,047,216  (18,337,344)	1,305,955  18,337,344	
<b>Balance - June 30, 2008</b>	<u>\$296,317,101</u>	<u>\$804,637,066</u>	<u>\$40,633,678</u>

**Financial Section**  
**Supporting Schedules Information**

**SCHEDULE OF RECEIPTS AND DISBURSEMENTS**

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>RECEIPTS</b>		
Members' Contributions	\$110,686,095	\$41,143,015
Employers' Contributions	149,956,274	24,562,317
Interest	18,962,722	16,700,707
Dividends	15,459,721	12,866,713
Real Estate Income (Net)	2,390,646	(1,672)
Securities Lending Income	1,205,465	210,063
Amounts Transferred from Other		
State-Sponsored Pension Plans	3,217,224	1,280,777
and Purchase of Service Credits	870,764	930,358
Due To Other Pension Plan	-	7,130,388
Maturities and Sales of		
U.S. Government Securities	81,591,774	4,636,640
Corporate Bonds	45,965,431	31,670,175
Corporate Notes	45,859,630	2,818,515,352
Other Investments	6,609,768	11,229,390
Common Stock	319,751,432	250,969,579
<b>Total Receipts</b>	<u>802,526,947</u>	<u>3,221,843,801</u>
<b>DISBURSEMENTS</b>		
Pension Benefits	51,045,908	41,630,057
Refunds to Terminated Members	16,211,929	16,634,320
Investment and Administrative Expenses	492,968	991,426
Amounts Transferred to Other		
State-Sponsored Pension Plans	864,053	1,238,608
Acquisitions of		
U.S. Government Securities	131,065,994	26,488,334
Corporate Bonds	73,103,057	30,825,332
Corporate Notes	-	2,819,586,523
Other Investments	28,487,367	13,842,930
Common Stock	443,367,115	270,262,615
<b>Total Disbursements</b>	<u>744,638,392</u>	<u>3,221,500,145</u>
INCREASE IN CASH	57,888,555	343,656
BEGINNING CASH BALANCE - July 1	427,900	84,244
ENDING CASH BALANCE - June 30	<u>\$58,316,455</u>	<u>\$427,900</u>



**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Administrative</u>	<u>Investment</u>	<u>Total</u>
Accounting and Auditing Services	\$17,505	\$-	\$17,505
Actuarial Services	30,500	-	30,500
Building Expenses	1,856	-	1,856
Communications	6,241	-	6,241
Computer Related Expense	23,782	5,764	29,546
Contractual Services	30,818	-	30,818
Depreciation Expense	40,507	-	40,507
Fund Manager Initiatives	9,524	-	9,524
Furniture and Equipment	776	140	916
Investment Services	-	491,909	491,909
Local Board Training	943	-	943
Supplies & Service	8,543	-	8,543
Payroll Taxes and Fringe Benefits	170,420	63,954	234,374
Postage Expenses	13,629	-	13,629
Professional Services	304,804	287,797	592,601
Printing & Publications	12,659	-	12,659
Salaries and Wages	413,776	214,553	628,329
Travel Expenses	6,765	13,684	20,449
Training Expenses	9,944	3,736	13,680
	<u>\$1,102,992</u>	<u>\$1,081,537</u>	<u>\$2,184,529</u>

**SCHEDULE OF CONSULTANT EXPENSES**

<u>Consultants</u>	<u>Fees Paid</u>
Albourne America, LLC	3,516
Cortex Applied Research, Inc.	4,131
Cushman & Wakefield of Arizona, Inc.	17,931
Ennis Knupp	42,190
Ernst & Young LLP	26,909
Heinfeld Meech & Co., PC	17,505
Highground, Inc.	12,697
Kutak Rock, LLP	330,575
Light Stone Solutions, LLC	8,189
McLagan Partners, Inc.	835
Mellon Global Securities	9,520
Peak Performance Consulting	995
Rodwan Consulting Group	24,061
Standard & Poor's	13,184
Public Policy Partners	9,887
Wells Fargo Bank	17,874
	<u>\$539,998</u>

**Financial Section  
Other Supplemental Information**

**AGENCY FUND-HEALTH INSURANCE PREMIUM SUBSIDY  
STATEMENT OF CHANGES IN ASSETS & LIABILITIES**

For the year ended June 30, 2008

	Balance at Beginning of Year	Additions	Deletions	Balance at End of Year
<b>Health Insurance Premium Subsidy</b>				
Assets				
Cash	-	2,073,245	2,073,245	0
Total Assets	0	2,073,245	2,073,245	0
Liabilities				
Benefits Payable	-	2,073,245	2,073,245	0
Total Liabilities	0	2,073,245	2,073,245	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	0.0%	\$515,428	9.5%
6-30-08		\$53,701	\$53,701	0.0%	\$642,621	8.4%

*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% and 86.8% respectively.*

# Investment Section

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# Investments Section

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
CORRECTIONS OFFICER RETIREMENT PLAN  
ELECTED OFFICIALS' RETIREMENT PLAN  
3010 East Camelback Road, Suite 200  
Phoenix, Arizona 85016-4416  
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TELEPHONE: (602) 255-5575  
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**Carter Olson**  
*Fund Manager Chairman*

**Billy Shields**  
*Fund Manager Vice Chairman*

**Mike Galloway**  
*Fund Manager Member*  
**Brian Delfs**  
*Fund Manager Advisor*

**Tim Dunne**  
*Fund Manager Member*  
**Lori Roediger**  
*Fund Manager Member*

**James M Hacking**  
*Administrator*

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

December 17, 2008

The Fund Manager and Administrator  
Correction Officers Retirement Plan

Dear Sirs/ Madam:

As Acting Chief Investment Officer, effective October 23, 2008, I submit the following comments as the Chief Investment Officer's portion of the Corrections Officers Retirement Plan's (CORP) Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2008. Data used in formulating this response has been generated by internal staff after review of and reference to data generated by the CORP custodian bank, BNY-Mellon.

## MORE DIVERSIFIED STRATEGIES

After the devastating losses the fund suffered at the end of the "dot com" valuation bubble, the CORP board, staff and consultants began the process of expanding the CORP investment core strategy. That process has been ongoing and has involved the fund manager members who have served at various times since then, a variety of external consultants and the professional investment staff.

The chief objectives of the changing CORP investment strategy have been to:

- Diversify the portfolio away from extreme dependence upon publicly traded U.S. large and mid cap equities,
- Diversify the deployment of system assets to obtain global markets exposures,
- Diversify the portfolio away from what had been an almost completely internally managed strategy,
- Diversify the portfolio into attractive alternative investments on an opportunistic basis
- Increase internal staff's capabilities and expertise

CORP continued its asset allocation move in these directions during fiscal year 2007-2008. Asset allocations as of June 30<sup>th</sup> for the previous five years are as follows:

Asset Class	03-04	04-05	05-06	06-07	07-08
US Equities	71.57	69.31	69.18	65.10	49.86
Int'l Equities	0.66	.55	1.28	8.01	15.87
Fixed Income	18.03	19.93	21.36	20.37	24.92
Real Estate	5.24	3.95	2.70	2.28	4.61
Private Equity	0.30	0.29	0.61	1.22	1.79
Cash Equivalents	4.20	5.98	4.87	3.02	2.94

## ALTERNATIVE INVESTMENTS

CORP also continued its movement into a more diversified portfolio making a total of 10 different commitments in alternatives in fiscal year 2007-2008. These alternatives include investments in:

US Private Equity	US Venture Capital
US Real Estate	US Infrastructure
European Private Equity	European Infrastructure
Dislocated Debt	Opportunistic Investments

## CUSTODY AND UNITIZATION

Two of the structural foundations of a more diversified portfolio are a custodian bank with truly global reach in all custody services and a unitized structure. In fiscal year 2007-2008 CORP completed its transfer of assets to BNY- Mellon as the system's new custodian bank. Following the enactment of authorizing legislation the system's plans were pre-positioned to be moved into a unitized trust structure.

## EXPANDING CAPABILITIES

In addition to expanding the Investments Department's staff, and enhancing our due diligence capabilities the System has also added the services of three specialist external consulting groups: ORG Real Property, Albourne America LLC, and StepStone Group LL. These are in addition to the Fund Manager's generalist consultant.

## PERFORMANCE

CORP returned (-7.05%) for the fiscal year 2007-2008. This negative return trailed the Plan's benchmark by 1.32% and was largely the result of below benchmark performance in equities, positive but below benchmark performance in fixed income and mark-to-market write-down's of some residential real estate assets. The CORP fixed income portfolio was not materially impacted by the market's sub-prime events due to its minimal exposure to these types of assets.

## GOALS AND OBJECTIVES

In the coming year the Investment Staff expects to:

- Complete a new Asset Allocation Study which will utilize current capital market assumptions reflecting recent changes in the global investment landscape;
- Formalize an asset allocation to Global "Real Assets";
- Partner with New England Pension Consultants (NEPC), the Fund Manager's new generalist consultant, to add value to the fund by accessing a diversified array of market opportunities;
- Explore low cost, nimble exposures to more efficient markets (portable alpha strategies etc.);
- Continue diversified deployments in Global Alternative Investments.

## CONCLUSION

The CORP portfolio is much more diversified than in past years and continues to migrate toward a more optimal portfolio allocation that will provide less volatility and returns consistent with our assumed earnings expectations.

Transitioning the portfolio and the CORP organization from almost 100% internally managed domestic assets toward a more global portfolio has been a significant undertaking requiring the collective resources of all of the Fund Managers, Professional Staff, Enabling Legislation, sophisticated Custodian Bank support and a range of External Consultant contributions.

I am pleased to report that much of the "heavy lifting," transitional work has been successfully accomplished. We have more tools, more flexibility and more opportunities at our disposal than we previously enjoyed; all of which will be deployed to meet our long term return expectations and the long term needs of the plan and our beneficiaries.

Respectfully Submitted,

Ryan P. Parham  
Acting Chief Investment Officer

### 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.

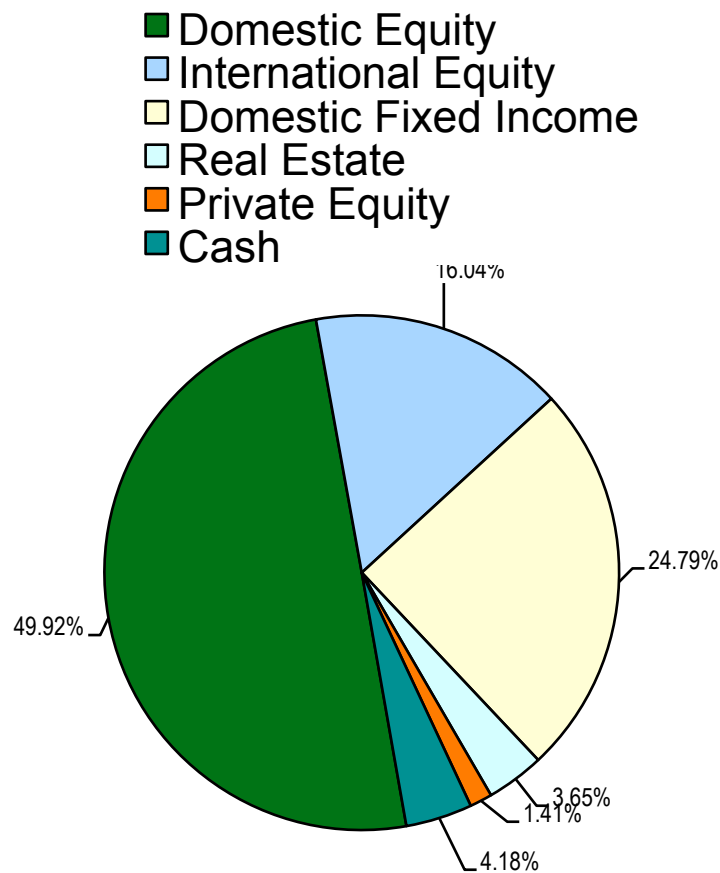
The time horizon for evaluating total fund investment performance is long-term.

### Annualized Rates of Return

	1 Year	3 Year	5 Year	10 Year	20 Year
CORP Total Fund*	-7.05%	5.50%	8.04%	3.94%	8.78%
Balanced Index	-5.73%	3.97%	5.31%	4.44%	8.19%
CORP Equity*	-11.43%	4.47%	8.48%	2.16%	9.89%
Equity Benchmark	-10.58%	5.23%	8.09%	3.12%	9.52%
CORP Fixed Income*	3.52%	3.35%	4.90%	5.79%	7.79%
Lehman Aggregate Index	7.24%	3.84%	3.58%	5.68%	7.37%

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

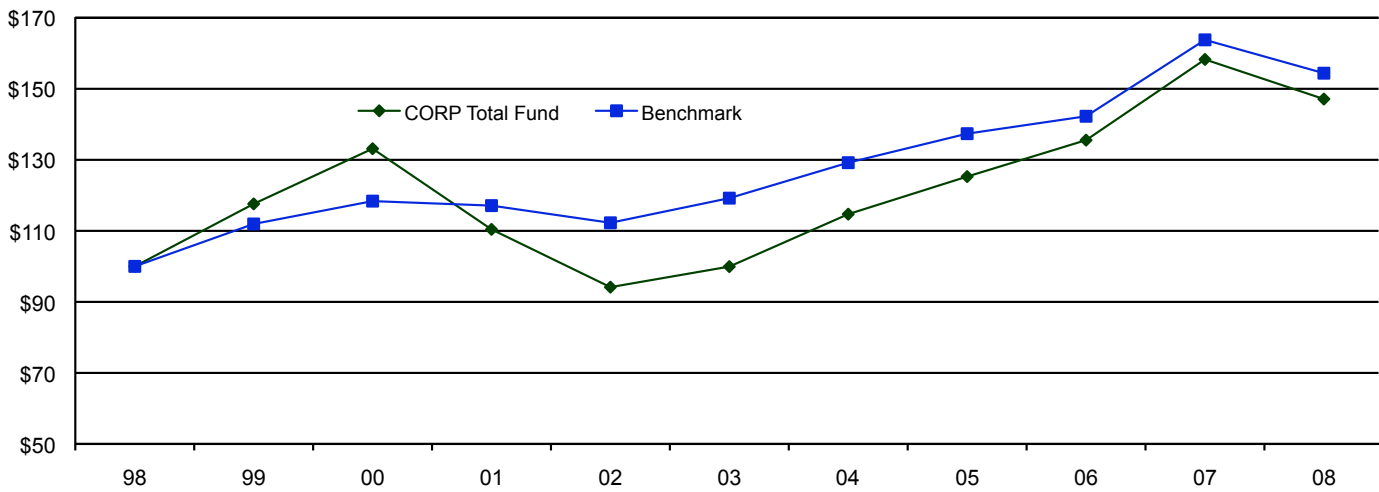
### Asset Allocation



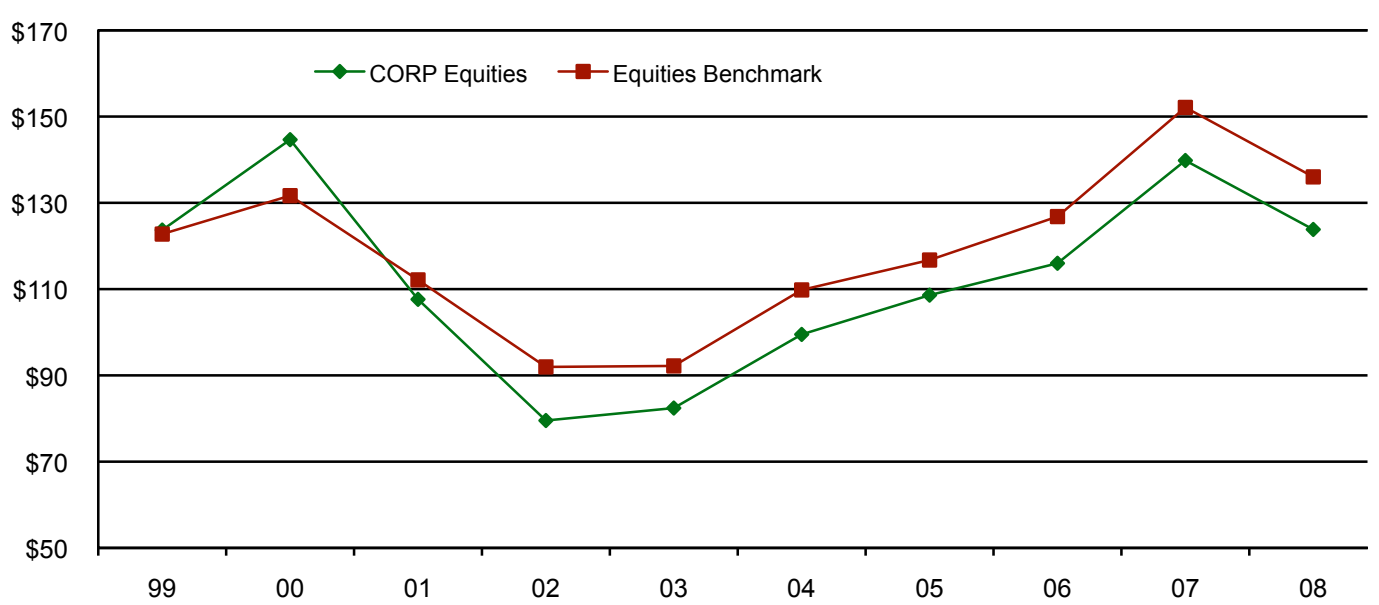
# Investments Section

## Ten Year Cumulative Return, Benchmark & Indices

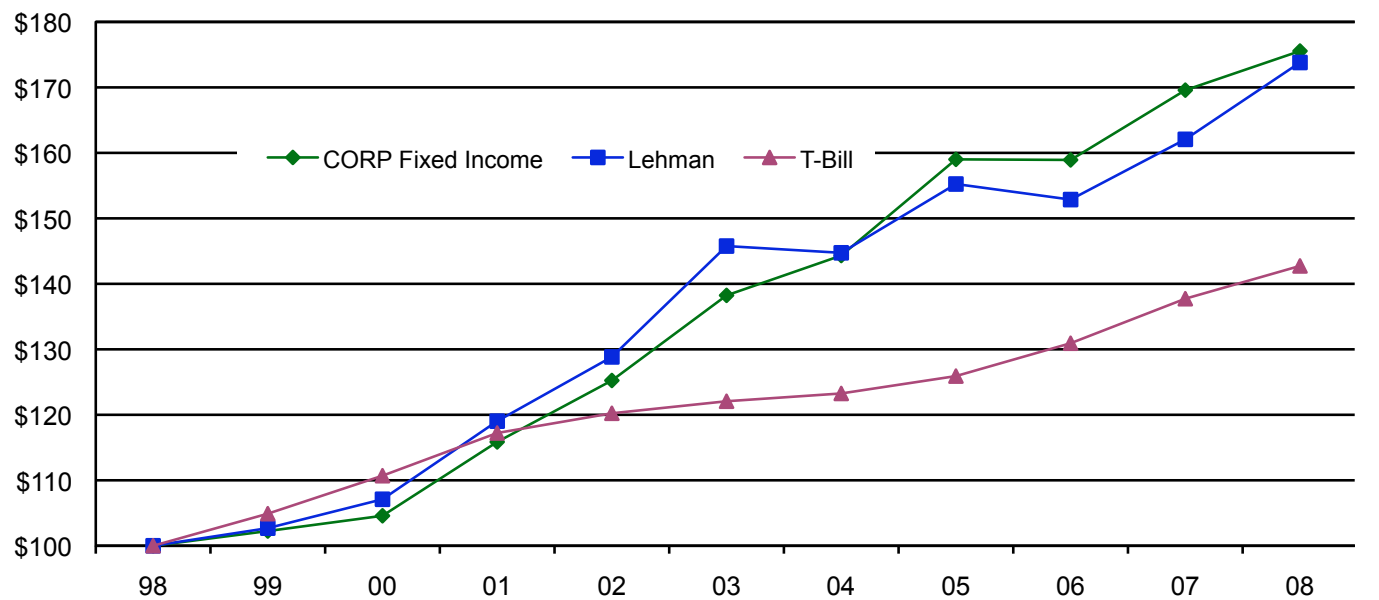
Total Fund



Stock



Fixed Income





**TOP 10 EQUITY HOLDINGS**  
**FISCAL YEAR ENDED JUNE 30, 2008**

Shares	Description	Fair Value
4,228,920	National City Corp	\$20,171,948
1,177,100	Citigroup Inc	\$19,728,196
811,460	Bank of America	\$19,369,550
3,223,900	Washington Mutual	\$15,893,827
974,300	Wachovia	\$15,130,879
456,300	Microsoft Corp	\$12,552,813
198,000	Proctor & Gamble	\$12,040,380
411,100	General Electric	\$10,972,259
130,900	Pepsico Inc	\$8,323,931
47,700	Apple Inc	\$7,986,888

**TOP 10 FIXED INCOME HOLDINGS**  
**FISCAL YEAR ENDED JUNE 30, 2008**

Shares/Par	Description	Fair Value
50,650,000	Federal Home Loan Mtg	\$50,763,137
44,000,000	US Treasury Notes	\$43,445,600
20,776,658	GS Credit Opps Fund	\$20,776,658
11,137,628	Blackrock Mortgage Investors	\$11,137,628
10,000,000	Federal Home Loan Mtg	\$10,176,000
6,150,000	Federal Home Loan Bank	\$6,145,018
5,000,000	First Horizon P/T	\$4,953,000
4,600,000	Federal Natl Mtg Assn	\$4,602,760
4,800,000	HVB Fdg Tr	\$4,502,976
4,000,000	Federal Home Loan Mtg	\$4,004,120

# Investments Section

## SUMMARY OF CHANGES IN INVESTMENT PORTFOLIO FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Description	Percent at Fair Value	Balance June 30, 2007			Maturities and Sales	Balance June 30, 2008		Percent at Fair Value
		Fair Value	Book Value	Acquisitions		Fair Value	Book Value	
U.S. Treasury Obligations	1.83%	101,373	90,771	34,252		101,373	90,771	9.32%
Federal Agency Obligations	8.29%	459,312	467,725	102,309	28,451	459,312	467,725	42.21%
U. S. Government Securities	9.65%	97,895	97,190	131,066	77,275	152,259	150,981	13.99%
Corporate Bonds	10.47%	106,271	105,004	73,103	45,692	124,034	132,415	11.40%
<b>Total Fixed Income Portfolio</b>	<b>20.12%</b>	<b>204,166</b>	<b>202,194</b>	<b>204,169</b>	<b>122,967</b>	<b>276,293</b>	<b>283,396</b>	<b>25.39%</b>
Corporate Notes	4.52%	45,860	45,860	0	45,860	0	0	0.00%
Common Stock	72.10%	731,764	560,893	443,178	235,113	737,895	768,958	67.81%
Alternative Investments	3.26%	33,076	33,076	28,487	5,823	73,970	55,740	6.80%
<b>Total Portfolio</b>	<b>100.00%</b>	<b>1,014,866</b>	<b>842,023</b>	<b>675,834</b>	<b>409,763</b>	<b>1,088,158</b>	<b>1,108,094</b>	<b>100.00%</b>

## SCHEDULE OF COMMISSIONS PAID TO BROKERS FISCAL YEAR ENDED JUNE 30, 2008

Broker	Number Of Shares Traded	Average Commission	Total Commissions
B TRADE SVCS, LLC	4,368,002	.010	43,680
BLOOMBERG TRADEBOOK LLC	4,141,471	.010	41,415
CITIGROUP GLOBAL MARKETS INC	1,046,076	.026	26,794
PENSION FINANCIAL SERVICES INC	9,459,300	.001	12,593
UBS / PAINE WEBBER	79,000	.010	790
<b>TOTAL COMMISSIONS</b>	<b>19,093,849</b>	<b>.007</b>	<b>125,272</b>

**EQUITY PORTFOLIO**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Shares	Security	Cost	Fair Value	Unrealized Gain/(Loss)
36,900	3M CO	2,810,766	2,567,871	(242,895)
72,100	ABBOTT LABS COM	2,127,405	3,819,137	1,691,732
3,110	ABERCROMBIE & FITCH CO CLA	103,482	194,935	91,453
39,410	ADOBE SYS INC DEL COM	733,700	1,552,360	818,660
20,240	AES CORP COM	427,983	388,810	(39,173)
31,100	AETNA INC COM NEW	652,290	1,260,483	608,193
62,620	AFLAC INC COM	2,869,856	3,932,536	1,062,680
6,010	AIR PRODS & CHEMS INC COM	579,443	594,149	14,705
22,630	ALCOA INC COM	807,936	806,081	(1,856)
14,870	ALLEGHENY TECHNOLOGIES INC COM	1,425,557	881,494	(544,063)
52,800	ALLIANZ SE ADR	852,274	921,360	69,086
105,750	ALLSTATE CORP COM	3,543,125	4,821,143	1,278,018
143,500	ALTRIA GROUP INC	2,602,973	2,950,360	347,387
7,742	AMDOCS LTD COM	265,480	227,770	(37,710)
32,450	AMERICAN CAP STRATEGIES LTD	1,127,290	771,337	(355,954)
12,110	AMERICAN ELEC PWR INC COM	580,072	487,185	(92,886)
21,025	AMERICAN EXPRESS CO COM	1,150,364	792,012	(358,352)
122,050	AMERICAN INTL GROUP INC COM	6,362,259	3,229,443	(3,132,816)
118,400	AMGEN INC	4,807,101	5,583,744	776,643
47,700	APPLE INC	4,133,963	7,986,888	3,852,925
106,870	APPLIED MATLS INC COM	1,813,218	2,040,148	226,931
64,090	ARCHER DANIELS MIDLAND CO COM	1,993,358	2,163,038	169,680
158,800	AT & T INC COM	6,534,723	5,349,972	(1,184,751)
80,000	AUTOMATIC DATA PROCESSING INC	2,899,690	3,352,000	452,310
31,170	BANK NEW YORK MELLON CORP COM	1,502,116	1,179,161	(322,955)
811,460	BANK OF AMERICA CORP	24,846,784	19,369,550	(5,477,234)
72,400	BED BATH & BEYOND INC COM	2,833,583	2,034,440	(799,143)
121,700	BEST BUY INC COM	4,297,970	4,819,320	521,350
117,600	BOEING CO COM	7,995,338	7,728,672	(266,666)
55,830	BRISTOL MYERS SQUIBB CO COM	1,609,180	1,146,190	(462,990)
42,500	CANADIAN NATL RY CO COM	693,613	2,043,400	1,349,787
38,090	CAPITAL ONE FINL CORP	3,215,465	1,447,801	(1,767,665)
15,500	CAREER ED CORP COM	401,928	226,455	(175,473)
1,830	CARPENTER TECHNOLOGY CORP COM	98,914	79,880	(19,035)
62,500	CELGENE CORP	3,536,245	3,991,875	455,630
655	CHATTEM INC COM	24,937	42,608	17,671
63,900	CHICOS FAS INC COM	1,908,879	343,143	(1,565,736)
55,900	CHUBB CORP COM	2,858,809	2,739,659	(119,150)
325,900	CISCO SYS INC COM	3,751,859	7,580,434	3,828,575
1,177,100	CITIGROUP INC COM	30,634,708	19,728,196	(10,906,512)
17,600	CITIZENS COMMUNICATIONS CO	207,424	199,584	(7,840)
28,274	CITRIX SYS INC COM	835,940	831,538	(4,402)
1,642	CLARCOR INC	51,679	57,634	5,955
59,100	COACH INC COM	1,802,785	1,706,808	(95,977)

# Investments Section

Shares	Security	Cost	Fair Value	Unrealized Gain/(Loss)
94,800	COCA COLA CO COM	4,773,766	4,927,704	153,938
58,600	COLGATE PALMOLIVE CO	3,120,092	4,049,260	929,168
88,265	COMCAST CORP NEW CL A SPL	1,929,503	1,655,851	(273,652)
33,380	CONSTELLATION BRANDS INC CL A	529,268	662,927	133,658
6,508	CONSTELLATION ENGY GRP INC COM	283,491	534,307	250,816
21,395	CORNING INC COM	463,301	493,155	29,854
2,244	COVANCE INC COM	97,676	193,029	95,353
2,215	CULLEN FROST BANKERS INC COM	120,054	110,418	(9,636)
188,339	CVS CAREMARK CORP	5,163,431	7,452,574	2,289,144
60,300	DELL INC COM	2,309,419	1,319,364	(990,055)
52,280	DISNEY WALT CO COM	1,696,293	1,631,136	(65,157)
17,640	DOMINION RES INC VA NEW COM	840,491	837,724	(2,768)
59,000	DOW CHEM CO COM	2,542,416	2,059,690	(482,726)
26,424	DU PONT E I DE NEMOURS & CO	1,149,741	1,133,325	(16,416)
10,500	DUKE ENERGY CORP NEW COM	168,319	182,490	14,171
9,230	EDISON INTL COM	499,264	474,237	(25,026)
121,270	EMC CORP MASS	1,411,077	1,781,456	370,380
15,100	ENERGEN CORP	502,184	1,178,253	676,069
5,730	ENTERGY CORP NEW COM	712,077	690,350	(21,726)
176,020	ETF VANGUARD EXTENDED MKT ETF	8,884,902	8,580,975	(303,927)
599,767	ETF VANGUARD PACIFIC ETF	37,557,645	37,467,445	(90,201)
62,700	ETF VANGUARD SMALL-CAPVALUE	4,455,278	3,648,513	(806,765)
1,475,120	ETF VANGUARD TOTAL STOCK	108,326,001	94,540,441	(13,785,560)
45,400	EXELON CORP COM	2,251,815	4,084,184	1,832,369
29,720	EXPRESS SCRIPTS INC COM STK	211,421	1,864,038	1,652,617
72,100	FEDEX CORP COM	5,442,376	5,680,759	238,383
8,260	FIRSTENERGY CORP COM	635,457	680,046	44,589
24,510	FISERV INC COM	946,047	1,112,019	165,971
18,880	FMC CORP NEW COM	468,038	1,462,067	994,029
44,300	FRANKLIN RES INC COM	2,409,955	4,060,095	1,650,141
9,610	FREEPORT MCMORAN COPPER & GOLD	979,605	1,126,196	146,591
9,800	GARMIN LTD REG SHS	449,702	419,832	(29,870)
19,650	GENENTECH INC	760,349	1,491,435	731,086
411,100	GENERAL ELEC CO COM	14,235,528	10,972,259	(3,263,269)
9,500	GENZYME CORP COM	546,593	682,860	136,267
33,760	GILEAD SCIENCES INC COM	366,326	1,787,592	1,421,266
23,215	GOLDMAN SACHS GROUP INC COM	2,837,230	4,060,304	1,223,074
6,570	GOOGLE INC CL A	4,430,467	3,458,579	(971,888)
29,800	GRAINGER W W INC COM	1,855,579	2,437,640	582,061
5,037	HARRIS CORP DEL COM	215,675	254,318	38,643
69,540	HARTFORD FINL SVCS GROUP INC	3,770,078	4,490,198	720,120
69,060	HEWLETT PACKARD CO COM	3,540,279	3,053,143	(487,136)
171,000	HOME DEPOT INC COM	3,121,307	4,004,820	883,513
1,930	HOME PROPERITIES INC	113,735	92,756	(20,979)
65,455	IBM CORP COM	3,848,287	7,758,381	3,910,095
166,100	INTEL CORP	4,677,340	3,567,828	(1,109,512)

# Investments Section

Shares	Security	Cost	Fair Value	Unrealized Gain/(Loss)
12,680	INTERNATIONAL PAPER CO COM	402,495	295,444	(107,051)
1,933	INTUITIVE SURGICAL INC	182,191	520,750	338,559
271,695	ISHARES MSCI CDA INDEX FD	8,528,065	9,009,406	481,341
999,076	ISHARES TR MSCI EAFE INDEX FD	76,111,939	68,606,549	(7,505,390)
226,600	ISHARES TR MSCI EMERGING MKTS	27,358,273	30,754,152	3,395,879
20,400	ISHARES TR RUSSELL 3000 INDEX	1,796,069	1,527,960	(268,109)
3,964	JACOBS ENGR GROUP INC COM	72,163	319,895	247,732
92,200	JOHNSON & JOHNSON COM	5,216,356	5,932,148	715,792
135,600	JPMORGAN CHASE & CO COM	4,985,210	4,652,436	(332,774)
31,700	KELLOGG CO COM	1,586,258	1,522,234	(64,024)
273,900	KEYCORP NEW COM	3,068,617	3,007,422	(61,195)
38,000	KING PHARMACEUTICALS INC COM	691,552	397,860	(293,692)
27,100	KOHL'S CORP COM	1,330,155	1,085,084	(245,071)
53,305	KRAFT FOODS INC CL A	1,494,396	1,516,527	22,132
2,264	LANDSTAR SYS INC COM	33,780	125,018	91,238
16,918	LEHMAN BROS HLDGS INC COM	718,968	335,146	(383,823)
106,200	LILLY ELI & CO COM	6,013,946	4,902,192	(1,111,754)
46,140	LINEAR TECHNOLOGY CORP COM	1,601,503	1,502,780	(98,723)
51,500	LOCKHEED MARTIN CORP COM	4,588,587	5,080,990	492,403
28,145	LOGITECH INTERNATIONAL SA	813,618	754,286	(59,332)
4,105	MANITOWOC INC COM	66,167	133,536	67,368
34,600	MCAFEE INC	968,071	1,177,438	209,367
77,800	MCDONALDS CORP COM	2,793,025	4,373,916	1,580,891
32,190	MEDTRONIC INC COM	1,606,941	1,665,833	58,892
58,660	MERCK & CO INC COM	3,516,963	2,210,895	(1,306,068)
54,420	MERRILL LYNCH & CO INC	4,300,999	1,725,658	(2,575,341)
67,700	METLIFE INC COM	3,416,674	3,572,529	155,855
31,750	MICROCHIP TECHNOLOGY INC COM	930,355	969,645	39,290
456,300	MICROSOFT CORP COM	15,671,791	12,552,813	(3,118,979)
14,860	MONSANTO CO NEW COM	1,535,715	1,878,898	343,184
19,485	MORGAN STANLEY	959,362	702,824	(256,538)
4,228,920	NATIONAL CITY CORP COM	21,408,298	20,171,948	(1,236,350)
10,700	NEWMONT MINING CORP HOLDING CO	571,551	558,112	(13,439)
111,700	NOKIA CORP SPON ADR SER A COM	1,833,890	2,736,650	902,760
40,700	NORDSTROM INC WASH COM	1,650,166	1,233,210	(416,956)
7,935	NUCOR CORP	456,217	592,506	136,290
12,350	OLIN CORP COM PAR \$1.00	254,764	323,323	68,559
27,000	OMNICOM GROUP INC USD0.15 COM	1,119,905	1,211,760	91,855
104,600	ORACLE CORPORATION COM	2,246,214	2,196,600	(49,614)
130,900	PEPSICO INC COM	6,314,228	8,323,931	2,009,703
61,205	PETSMART INC	1,533,289	1,221,040	(312,249)
406,400	PFIZER INC COM STK USD0.05	11,126,207	7,099,808	(4,026,399)
11,380	PG&E CORP COM	505,825	451,672	(54,153)
143,500	PHILIP MORRIS INTL INC COM	6,290,910	7,087,465	796,555
19,140	POOL CORP COM	264,745	339,926	75,182
21,000	PPL CORP COM	748,375	1,097,670	349,295

# Investments Section

Shares	Security	Cost	Fair Value	Unrealized Gain/(Loss)
8,220	PRAXAIR INC COM	717,997	774,653	56,656
66,200	PRICE T ROWE GROUP INC COM	1,384,921	3,738,314	2,353,393
198,000	PROCTER & GAMBLE CO COM	9,514,695	12,040,380	2,525,685
8,939	PSYCHIATRIC SOLUTIONS INC	285,034	338,252	53,218
14,840	PUBLIC SVC ENTERPRISE GROUP	754,506	681,601	(72,905)
84,745	QUALCOMM INC	3,315,477	3,760,136	444,658
22,500	QUIKSILVER INC COM	221,433	220,950	(483)
11,790	RESMED INC	365,689	421,375	55,686
37,200	ROBERT HALF INTL INC COM	1,425,004	891,684	(533,320)
21,840	RPM INTERNATIONAL INC	405,259	449,904	44,645
31,350	SANDISK CORP	1,341,425	586,245	(755,180)
56,900	SAP AKIENGESELLSCHAFT SPONS	2,748,297	2,965,059	216,762
51,710	SCHERING PLOUGH CORP COM	1,438,542	1,018,170	(420,372)
1,515	SCOTTS MIRACLE-GRO COMPANY	60,101	26,619	(33,482)
29,612	SEALED AIR CORP NEW COM	762,963	562,924	(200,039)
4,390	SEI INVESTMENT CO COM	87,780	103,253	15,473
24,100	SEMPRA ENERGY COM	795,583	1,360,445	564,862
21,720	SOUTHERN CO COM	874,860	758,462	(116,398)
3,394	SOVRAN SELF STORAGE INC COM	156,173	141,055	(15,118)
160,900	STAPLES INC COM	3,294,506	3,821,375	526,869
3,060	STERICYCLE INC COM	90,226	158,202	67,976
12,929	STRATEGIC HOTELS & RESORTS INC	269,083	121,145	(147,939)
48,200	TARGET CORP COM	2,831,617	2,240,818	(590,799)
167,600	TEXAS INSTRS INC COM	4,463,160	4,719,616	256,456
107,350	TIME WARNER INC	1,807,060	1,588,780	(218,280)
10,150	TRINITY INDS INC	345,962	352,104	6,142
60,400	UNITED TECHNOLOGIES CORP COM	3,786,400	3,726,680	(59,720)
35,050	UNITEDHEALTH GROUP INC COM	2,017,689	920,063	(1,097,627)
20,600	URS CORP NEW	824,612	864,582	39,970
156,890	US BANCORP DEL COM NEW	4,848,941	4,375,662	(473,279)
226,600	VANGUARD EMERGING MARKETS ETF	8,340,167	10,604,880	2,264,713
254,139	VANGUARD INDEX FDS SMALL	4,321,174	3,547,780	(773,394)
240,030	VANGUARD INTL EQUITY INDEX FD	13,902,433	12,733,592	(1,168,842)
33,200	VARIAN MED SYS INC COM	1,528,149	1,721,420	193,271
162,100	VERIZON COMMUNICATIONS COM	5,290,206	5,738,340	448,134
974,300	WACHOVIA CORP NEW COM	22,105,168	15,130,879	(6,974,289)
26,120	WAL MART STORES INC COM	1,393,179	1,467,944	74,765
50,835	WALGREEN CO	977,789	1,652,646	674,857
3,223,900	WASHINGTON MUTUAL INC COM	20,659,839	15,893,827	(4,766,012)
52,802	WELLPOINT INC	2,929,091	2,516,543	(412,547)
80,625	WELLS FARGO & CO NEW COM	2,481,365	1,914,844	(566,521)
7,575	WESTERN DIGITAL CORP DEL COM	153,910	261,565	107,655
5,990	WEYERHAEUSER CO COM	420,290	306,329	(113,961)
37,650	WYETH COM	1,820,888	1,805,694	(15,194)
92,200	YUM BRANDS INC	2,753,592	3,235,298	481,706
24,592,832	TOTAL EQUITIES	768,958,357	737,894,545	(31,063,811)

**EQUITY ACQUIRED**  
DURING THE FISCAL YEAR ENDED JUNE 30, 2008

Description	Shares	Average Cost	Cost
AES CORP COM	20,240	21.15	427,983
AIR PRODS & CHEMS INC COM	6,010	96.41	579,443
ALCOA INC COM	22,630	35.70	807,936
AMERICAN ELEC PWR INC COM	12,110	47.90	580,072
AMERICAN EXPRESS CO COM	43,960	54.71	2,405,232
AT & T INC COM	158,800	41.15	6,534,723
BANK NEW YORK MELLON CORP COM	31,170	48.19	1,502,116
BANK OF AMERICA CORP	568,800	29.27	16,648,167
BRISTOL MYERS SQUIBB CO COM	55,830	28.82	1,609,180
CHINA MOBILE LIMITED ADR	9,700	90.61	878,957
CITIGROUP INC COM	842,800	19.77	16,659,990
CITIZENS COMMUNICATIONS CO	7,670	10.72	82,250
CONOCOPHILLIPS	42,270	84.27	3,562,017
DISNEY WALT CO COM	52,280	32.45	1,696,293
DOMINION RES INC VA NEW COM	17,640	47.65	840,491
DU PONT E I DE NEMOURS & CO	26,424	43.51	1,149,741
EDISON INTL COM	9,230	54.09	499,264
ENTERGY CORP NEW COM	5,730	124.27	712,077
ETF VANGUARD EXTENDED MKT ETF	176,020	50.48	8,884,902
ETF VANGUARD PACIFIC ETF	599,767	62.62	37,557,645
ETF VANGUARD TOTAL STOCK	1,305,060	63.33	82,654,397
FAIRPOINT COMMUNICATIONS INC	3,057	7.66	23,427
FIRSTENERGY CORP COM	8,260	76.93	635,457
FMC CORP NEW COM	12,500	-	0
FREEPORT MCMORAN COPPER & GOLD	9,610	101.94	979,605
GOOGLE INC CL A	6,570	674.35	4,430,467
HEWLETT PACKARD CO COM	69,060	51.26	3,540,279
INTERNATIONAL PAPER CO COM	12,680	31.74	402,495
ISHARES MSCI CDA INDEX FD	286,695	31.39	8,999,440
ISHARES TR MSCI EAFE INDEX FD	1,075,676	76.17	81,933,492
ISHARES TR MSCI EMERGING MKTS	69,000	133.08	9,182,656
KEYCORP NEW COM	273,900	11.20	3,068,617
MANITOWOC INC COM	40,500	-	0
MEDTRONIC INC COM	32,190	49.92	1,606,941
MERCK & CO INC COM	58,660	59.96	3,516,963
MONSANTO CO NEW COM	14,860	103.35	1,535,715
MORGAN STANLEY	30,190	49.24	1,486,433
NATIONAL CITY CORP COM	4,228,920	5.06	21,408,298
NEWMONT MINING CORP HOLDING CO	10,700	53.42	571,551
NUCOR CORP	7,935	57.49	456,217
OCCIDENTAL PETE CORP COM	23,690	71.26	1,688,063
ORACLE CORPORATION COM	104,600	21.47	2,246,214
PG&E CORP COM	11,380	44.45	505,825

## Investments Section

Description	Shares	Average Cost	Cost
PHILIP MORRIS INTL INC COM	143,500	43.84	6,290,910
PRAXAIR INC COM	8,220	87.35	717,997
PUBLIC SVC ENTERPRISE GROUP	14,840	50.84	754,506
PUTNAM FDS TR PRIME MONEY	70,626	1.00	70,626
SCHERING PLOUGH CORP COM	51,710	27.82	1,438,542
SCHLUMBERGER LTD COM	10,110	96.58	976,418
SOUTHERN CO COM	21,720	40.28	874,860
TARGET CORP COM	25,600	60.41	1,546,523
TIME WARNER INC	107,350	16.83	1,807,060
TRANSOCEAN INC NEW SHS	14,937	74.34	1,110,417
UNITEDHEALTH GROUP INC COM	35,050	57.57	2,017,689
US BANCORP DEL COM NEW	156,890	30.91	4,848,941
VANGUARD EMERGING MARKETS ETF	113,300	-	-
VANGUARD EUROPEAN ETF	390,115	75.53	29,466,227
VANGUARD INDEX FDS SMALL	6,098	15.39	93,824
VANGUARD INTL EQUITY INDEX FD	240,030	57.92	13,902,433
WACHOVIA CORP NEW COM	868,300	19.23	16,695,872
WAL MART STORES INC COM	4,620	47.83	220,965
WASHINGTON MUTUAL INC COM	3,223,900	6.41	20,659,839
WELLS FARGO & CO NEW COM	95,915	30.78	2,951,939
WEYERHAEUSER CO COM	5,990	70.17	420,290
WYETH COM	37,650	48.36	1,820,888
<b>TOTAL EQUITY ACQUIRED</b>	<b>16,051,245</b>	<b>27.61</b>	<b>443,177,796</b>



**EQUITY SOLD**  
**DURING THE FISCAL YEAR ENDED JUNE 30, 2008**

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
ABERCROMBIE & FITCH CO CL A	37,690	79.710	1,254,090	1,750,145	139.55%
ADOBE SYS INC DEL COM	11,090	41.560	206,464	254,435	123.23%
AFLAC INC COM	4,980	60.500	228,232	73,083	32.02%
ALCAN INC	17,400	101.000	653,727	1,103,673	168.83%
ALTRIA GROUP INC	0		6,290,910	0	0.00%
AMDOCS LTD COM	70,458	34.130	2,416,065	(11,428)	-0.47%
AMERICAN CAP STRATEGIES LTD	29,050	34.680	1,009,177	(1,735)	-0.17%
AMERICAN EXPRESS CO COM	22,935	43.840	1,254,868	(249,308)	-19.87%
AMERICAN INTL GROUP INC COM	32,050	45.490	1,670,712	(212,817)	-12.74%
APACHE CORP COM	60,400	130.910	1,583,672	6,323,358	399.28%
APPLE INC	9,500	177.610	823,326	863,968	104.94%
APPLIED MATLS INC COM	19,930	18.500	338,144	30,541	9.03%
ARCH COAL INC COM	72,300	49.320	2,287,527	1,278,442	55.89%
ARCHER DANIELS MIDLAND CO COM	26,310	39.390	818,306	217,917	26.63%
AUTOMATIC DATA PROCESSING INC	10,100	42.540	366,086	63,578	17.37%
BANK OF AMERICA CORP	33,640	38.920	1,136,576	172,635	15.19%
BASF SE SPONSORED ADR	12,400	139.630	975,468	755,925	77.49%
BROADRIDGE FINL SOLUTIONS INC	22,525	19.820	349,608	96,842	27.70%
BROADWING CLASS ACTION PROCEEDS	0	-	0	92,440	
BURLINGTON NORTHERN SANTE FE	6,000	87.210	286,437	236,831	82.68%
CAPITAL ONE FINL CORP	34,010	50.100	2,871,042	(1,167,195)	-40.65%
CAREER ED CORP COM	24,700	24.040	640,492	(46,633)	-7.28%
CARLISLE COMPANIES INC	14,695	47.840	606,362	96,714	15.95%
CARPENTER TECHNOLOGY CORP COM	2,770	201.880	398,360	160,844	40.38%
CENTEX	50,000	37.760	2,417,688	(529,913)	-21.92%
CENTURY TELEPHONE INC	14,400	48.660	489,070	211,627	43.27%
CHATTEM INC COM	21,577	72.480	821,458	742,392	90.37%
CHESAPEAKE ENERGY CORP COM	40,300	49.660	1,269,425	731,891	57.66%
CHEVRON CORPORATION COM	138,900	98.250	7,362,772	6,284,317	85.35%
CHINA MOBILE LIMITED ADR	71,800	88.090	3,717,455	2,607,413	70.14%
CIMAREX ENERGY CO	48,000	43.620	1,930,789	162,971	8.44%
CISCO SYS INC COM	71,000	26.220	817,373	1,044,343	127.77%
CITIZENS COMMUNICATIONS CO	197,270	11.520	2,486,718	(214,991)	-8.65%
CITRIX SYS INC COM	102,226	38.940	3,022,382	958,792	31.72%
CLARCOR INC	32,468	38.110	1,021,873	215,357	21.07%
COMCAST CORP NEW CL A SPL	13,635	18.290	298,066	(48,628)	-16.31%
COMMERCE BANCORP	71,800	35.600	1,624,635	931,117	57.31%
CONOCOPHILLIPS	42,270	92.850	3,562,017	362,852	10.19%
CONSTELLATION BRANDS INC CL A	67,120	22.670	1,064,245	457,186	42.96%
CONSTELLATION ENGY GRP INC COM	48,092	101.660	2,094,903	2,794,352	133.39%
CORNING INC COM	147,505	24.050	3,194,166	352,815	11.05%
COVANCE INC COM	27,076	87.540	1,178,551	1,191,626	101.11%
CULLEN FROST BANKERS INC COM	27,485	50.660	1,489,697	(97,341)	-6.53%

# Investments Section

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
DUKE ENERGY CORP NEW COM	95,100	17.780	1,524,492	166,393	10.91%
E ON AG SPONSORED ADR	33,500	68.080	1,244,633	1,035,939	83.23%
EMC CORP MASS	42,630	16.510	496,035	207,645	41.86%
EMULEX CORP NEW	72,100	17.040	1,279,090	(50,435)	-3.94%
ENDO PHARMACEUTICALS HLDGS INC	47,800	27.050	1,486,942	(193,841)	-13.04%
ETF VANGUARD TOTAL STOCK	4,400	153.280	665,125	9,323	1.40%
EXPRESS SCRIPTS INC COM STK	10,280	74.470	73,130	692,443	946.87%
EXXON MOBIL CORP	356,700	87.430	14,711,740	16,475,097	111.99%
FAIRPOINT COMMUNICATIONS INC	3,057	6.800	23,427	(2,625)	-11.20%
FISERV INC COM	44,890	52.860	1,732,683	640,015	36.94%
FMC CORP NEW COM	10,520	74.590	369,869	414,802	112.15%
GARMIN LTD REG SHS	45,200	96.600	2,074,136	2,292,193	110.51%
GENENTECH INC	34,750	68.170	1,344,637	1,024,410	76.18%
GENERAL ELEC CO COM	61,000	26.530	2,112,302	(494,194)	-23.40%
GENZYME CORP COM	62,400	75.590	3,590,251	1,126,501	31.38%
GILEAD SCIENCES INC COM	157,440	46.650	1,708,365	5,635,762	329.89%
GLOBALSANTAFE CORPORATION SHS	31,400	22.460	1,110,417	0	-36.49%
GOLDMAN SACHS GROUP INC COM	11,885	167.610	1,452,530	539,511	37.14%
GRAINGER W W INC COM	6,400	84.120	398,514	139,841	35.09%
GUITAR CENTER INC	9,250	60.230	464,585	92,559	19.92%
HARRIS CORP DEL COM	39,438	62.470	1,688,664	774,863	45.89%
HARTFORD FINL SVCS GROUP INC	10,200	98.370	552,988	450,338	81.44%
HOME PROPERITIES INC	20,670	43.640	1,218,078	(316,126)	-25.95%
IBM CORP COM	37,345	105.860	2,195,619	1,757,632	80.05%
INTUITIVE SURGICAL INC	9,967	296.610	939,420	2,016,877	214.69%
ISHARES MSCI CDA INDEX FD	15,000	31.730	471,375	4,566	0.97%
ISHARES TR MSCI EAFE INDEX FD	233,000	79.130	18,362,425	74,865	0.41%
JACOBS ENGR GROUP INC COM	62,730	83.030	1,141,972	4,066,667	356.11%
JOHNSON & JOHNSON COM	13,100	64.490	741,153	103,692	13.99%
KING PHARMACEUTICALS INC COM	112,000	10.420	2,038,257	(871,195)	-42.74%
LANDSTAR SYS INC COM	60,638	44.020	904,752	1,764,277	195.00%
LEHMAN BROS HLDGS INC COM	37,582	54.190	1,597,131	439,616	27.53%
LINEAR TECHNOLOGY CORP COM	16,660	30.440	578,263	(71,215)	-12.32%
LOGITECH INTERNATIONAL SA	40,655	26.980	1,175,259	(78,531)	-6.68%
MANITOWOC INC COM	76,895	48.130	1,239,449	2,461,506	198.60%
MCAFFEE INC	32,800	34.640	917,709	218,559	23.82%
MERRILL LYNCH & CO INC	17,580	43.230	1,389,408	(629,462)	-45.30%
MICROCHIP TECHNOLOGY INC COM	97,550	30.490	2,858,461	116,316	4.07%
MORGAN STANLEY	10,705	45.350	527,071	(41,559)	-7.88%
NABORS INDUSTRIES LTD SHS	63,300	39.870	1,749,305	774,699	44.29%
OCCIDENTAL PETE CORP COM	23,690	88.900	1,688,063	417,975	24.76%
ODYSSEY HEALTHCARE INC COM	58,152	11.560	766,216	(93,953)	-12.26%
OLIN CORP COM PAR \$1.00	39,250	18.270	809,676	(92,445)	-11.42%
ONEOK INC NEW COM	45,500	46.700	1,262,755	862,259	68.28%
PETSMART INC	52,495	22.540	1,315,088	(131,966)	-10.03%
PMI GROUP INC	42,900	16.570	2,005,292	(1,294,471)	-64.55%

## Investments Section

Description	Shares Sold	Sale Price	Cost	Gain (Loss) on Sale	% Gain on Sale
POOL CORP COM	49,485	26.610	684,478	632,228	92.37%
PRICE T ROWE GROUP INC COM	20,400	51.950	426,773	632,999	148.32%
PSYCHIATRIC SOLUTIONS INC	36,461	33.020	1,162,615	41,230	3.55%
PUTNAM FDS TR PRIME MONEY	70,626	1.000	70,626	0	0.00%
QUALCOMM INC	45,995	37.290	1,799,462	(84,307)	-4.69%
QUIKSILVER INC COM	103,500	8.550	1,018,591	(133,713)	-13.13%
RESMED INC	28,010	47.880	868,782	472,314	54.37%
RPM INTERNATIONAL INC	27,960	22.570	518,821	112,327	21.65%
SANDISK CORP	31,850	29.920	1,362,819	(409,826)	-30.07%
SATYAM COMPUTER SVCS LTD ADR	67,100	26.690	1,176,118	615,109	52.30%
SCHLUMBERGER LTD COM	114,910	99.490	7,520,237	3,912,061	52.02%
SCOTTS MIRACLE-GRO COMPANY	26,785	38.700	1,062,577	(26,094)	-2.46%
SEALED AIR CORP NEW COM	21,460	28.580	552,924	60,475	10.94%
SEI INVESTMENT CO COM	60,590	31.570	1,211,518	701,372	57.89%
SOVRAN SELF STORAGE INC COM	9,506	41.230	437,413	(45,468)	-10.39%
SPECTRA ENERGY CORP COM	52,800	26.960	1,215,278	207,966	17.11%
SPRINT NEXTEL CORP COM SER 1	35,200	21.460	674,496	80,930	12.00%
STERICYCLE INC COM	25,040	60.130	738,318	767,393	103.94%
STRATEGIC HOTELS & RESORTS INC	56,271	17.240	1,171,134	(200,814)	-17.15%
SUPERIOR ENERGY SERVICES INC	47,900	37.990	1,195,731	623,785	52.17%
TELE NORTE LESTE PARTICIPACOES	144,200	19.870	1,950,245	914,367	46.88%
TELEFONOS DE MEXICO SAB ADR	85,500	36.960	1,977,096	1,183,050	59.84%
TEVA PHARMACEUTICAL INDS ADR	113,500	44.530	3,958,351	1,096,291	27.70%
TEXAS INSTRS INC COM	37,600	31.090	1,001,282	167,790	16.76%
TOTAL SA ADR	56,900	80.730	3,710,090	883,203	23.81%
TRANSOCEAN INC NEW SHS	14,937	144.900	1,110,417	1,053,886	94.91%
TRINITY INDS INC	30,450	26.570	1,037,884	(228,762)	-22.04%
URS CORP NEW	2,900	49.530	116,086	27,542	23.73%
VALPERO ENERGY CORP	12,800	76.550	544,947	434,917	79.81%
VANGUARD EUROPEAN ETF	390,115	65.840	29,466,227	(3,782,951)	-12.84%
VARIAN MED SYS INC COM	28,100	47.510	1,293,403	41,729	3.23%
VERTEX PHARMACEUTICALS INC COM	50,000	24.280	1,513,807	(275,327)	-18.53%
WAL MART STORES INC COM	28,200	57.060	1,504,121	105,066	6.99%
WALGREEN CO	39,465	39.560	759,092	802,128	105.67%
WELLPOINT INC	18,298	87.860	1,015,047	592,701	58.39%
WELLS FARGO & CO NEW COM	15,290	29.930	470,574	(12,906)	-2.74%
WILLIAMS COS CLASS ACTION PROCEEDS	0	-	0	25,730	
WORLD COM CLASS ACTION PROCEEDS	0	-	0	23,792	
WESTERN DIGITAL CORP DEL COM	122,525	29.710	2,489,485	1,151,117	46.24%
<b>TOTAL EQUITIES SOLD</b>	<b>6,340,990</b>		<b>235,112,544</b>	<b>84,638,888</b>	<b>36.00%</b>

**FIXED INCOME PORTFOLIO**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Par Value	Security	Coupon Rate	Maturity	Cost	Fair Value
U.S. GOVERNMENT SECURITIES					
1,425,000	FEDERAL FARM CR BK CONS SYSTEM	5.15%	5/5/2015	1,422,506	1,419,870
900,000	FEDERAL FARM CR BKS CONS BDS	5.40%	10/6/2015	890,065	899,982
6,150,000	FEDERAL HOME LN BK CONS BD	5.38%	6/16/2020	6,120,871	6,145,019
1,100,000	FEDERAL HOME LN BKS CONS BD	5.65%	9/21/2020	1,098,879	1,100,033
800,000	FEDERAL HOME LN BKS CONS BD	5.33%	7/23/2018	762,008	797,816
606,000	FEDERAL HOME LN MTG CORP DEB	5.00%	12/14/2018	603,545	567,398
50,650,000	FEDERAL HOME LN MTG CORP MTN	3.65%	12/30/2009	50,650,000	50,763,137
10,000,000	FEDERAL HOME LN MTG CORP MTN	6.00%	6/7/2027	10,014,207	10,176,000
4,000,000	FEDERAL HOME LN MTG CORP MTN	6.00%	4/16/2037	3,995,188	4,004,120
1,500,000	FEDERAL HOME LN MTG CORP MTN	5.00%	7/2/2018	1,401,450	1,479,600
1,500,000	FEDERAL HOME LN MTG CORP MTN	6.00%	12/17/2027	1,498,249	1,499,550
600,000	FEDERAL HOME LN MTG CORP MTN	6.00%	1/26/2022	593,745	600,282
239,000	FEDERAL HOME LN MTG CORP MTN	5.00%	6/11/2018	222,210	233,957
4,600,000	FEDERAL NATL MTG ASSN DEBS	5.25%	7/14/2015	4,560,438	4,602,760
589,946	FHLMC POOL #G0-8168	6.00%	12/1/2036	591,131	595,249
669,846	FHLMC POOL #H1-0069	6.00%	11/1/2036	674,951	672,150
559,259	FHLMC POOL #H1-5010	6.00%	11/1/2036	563,521	561,182
1,818,000	FHLMC MULTICLASS MTG	6.00%	8/15/2032	1,819,274	1,851,051
700,000	FHLMC MULTICLASS MTG	5.00%	2/15/2025	653,486	669,872
700,000	FHLMC MULTICLASS MTG	6.00%	11/15/2032	695,282	712,698
700,000	FHLMC MULTICLASS MTG	6.00%	8/15/2032	697,368	720,587
700,000	FHLMC MULTICLASS MTG	6.00%	8/15/2032	701,309	710,073
1,266,000	FHLMC MULTICLASS MTG 3159 PB	6.00%	1/15/2029	1,275,196	1,304,043
1,212,877	FNMA GTD REMIC P/T	4.00%	11/25/2022	1,197,249	1,203,962
540,000	FNMA GTD REMIC P/T 03-42 CL PE	5.50%	12/25/2031	524,631	538,202
411,884	FNMA GTD REMIC P/T 05-27 AB	5.50%	2/25/2034	412,960	403,687
1,037,000	FNMA GTD REMIC P/T 05-27 AC	5.50%	8/25/2034	1,039,263	996,153
1,360,992	FNMA GTD REMIC P/T 05-45 BG	4.50%	6/25/2025	1,325,968	1,271,997
700,000	FNMA GTD REMIC P/T 06-60 PC	6.00%	6/25/2032	700,814	708,939
98,230	GNMA POOL #0173878	9.00%	8/15/2016	97,275	104,662
69,142	GNMA POOL #0176431	9.00%	8/15/2016	67,124	73,904
5,036	GNMA POOL #0202505	9.00%	10/15/2019	4,932	5,306
20,898	GNMA POOL #0217956	10.00%	11/15/2017	20,681	22,840
55,141	GNMA POOL #0226529	9.00%	6/15/2018	51,055	59,169
1,734	GNMA POOL #0232237	9.00%	1/15/2020	1,691	1,790
32,885	GNMA POOL #0234937	9.00%	3/15/2018	30,558	35,307
37,298	GNMA POOL #0238600	10.00%	11/15/2017	37,072	40,353
11,821	GNMA POOL #0238840	9.00%	5/15/2018	11,018	12,692
10,371	GNMA POOL #0248951	9.00%	5/15/2018	9,841	11,141
5,055	GNMA POOL #0252056	9.00%	6/15/2018	4,923	5,383
10,096	GNMA POOL #0285803	9.00%	3/15/2020	9,672	10,802

# Investments Section

Par Value	Security	Coupon Rate	Maturity	Cost	Fair Value
6,171	GNMA POOL #0298952	9.00%	4/15/2021	6,171	6,648
9,288	GNMA POOL #0303324	9.00%	4/15/2021	9,288	9,993
11,532	GNMA POOL #0304625	9.00%	3/15/2021	11,529	12,427
20,168	GNMA POOL #0305187	9.00%	6/15/2021	20,162	21,755
44,834	GNMA POOL #0330725	8.00%	7/15/2022	44,554	48,187
362,999	GNMA POOL #0375887	7.00%	5/15/2024	340,686	384,598
79,106	GNMA POOL #0377589	7.50%	8/15/2025	78,998	84,288
141,649	GNMA POOL #0386038	7.00%	6/15/2024	133,342	150,066
89,756	GNMA POOL #0389845	8.00%	9/15/2024	88,228	96,506
119,974	GNMA POOL #0398831	8.00%	8/15/2026	119,793	129,047
83,280	GNMA POOL #0403979	8.50%	10/15/2024	81,923	89,710
97,523	GNMA POOL #0421711	7.50%	4/15/2026	97,406	103,927
25,704	GNMA POOL #0427556	7.50%	3/15/2026	25,631	27,391
129,775	GNMA POOL #0432701	8.00%	6/15/2026	129,772	139,598
100,750	GNMA POOL #0434101	7.00%	12/15/2028	98,837	106,322
171,700	GNMA POOL #0434237	6.00%	3/15/2029	159,454	175,012
13,109	GNMA POOL #0439645	8.00%	9/15/2026	13,100	14,100
14,419	GNMA POOL #0441619	7.50%	11/15/2029	14,364	15,360
57,744	GNMA POOL #0458918	7.00%	8/15/2028	56,734	60,943
75,788	GNMA POOL #0475872	7.00%	7/15/2028	75,195	79,990
218,506	GNMA POOL #0499876	7.00%	6/15/2029	217,386	230,533
287,371	GNMA POOL #0499905	7.00%	5/15/2029	285,377	303,211
143,624	GNMA POOL #0499907	7.00%	5/15/2029	137,882	151,535
125,104	GNMA POOL #0507496	7.00%	6/15/2029	121,405	131,989
22,308	GNMA POOL #0510958	7.00%	5/15/2029	22,153	23,537
31,131	GNMA POOL #0512888	7.00%	7/15/2029	30,210	32,844
64,593	GNMA POOL #0513367	7.00%	8/15/2029	61,941	68,144
137,820	GNMA POOL #0530611	6.50%	5/15/2031	137,706	144,091
225,762	GNMA POOL #0530631	6.50%	6/15/2031	224,787	236,034
87,400	GNMA POOL #0539629	6.50%	4/15/2031	87,080	91,377
61,897	GNMA POOL #0548963	6.50%	3/15/2031	61,747	64,109
31,302	GNMA POOL #0549915	6.50%	5/15/2031	31,189	32,419
615,553	GNMA POOL #0552514	6.50%	4/15/2032	614,286	637,233
236,767	GNMA POOL #0560189	6.50%	4/15/2031	236,134	245,219
281,298	GNMA POOL #0780076	8.00%	2/15/2025	276,377	301,127
144,017	GNMA POOL #0780220	7.50%	8/15/2025	143,965	155,697
51,400	GNMA POOL #0780896	7.00%	11/15/2028	50,378	54,126
1,500,000	GNMA GTD REMIC P/T 03-12 PE	5.50%	12/16/2031	1,472,494	1,504,815
1,530,000	GNMA GTD REMIC P/T 03-34 MX-PC	5.50%	2/16/2032	1,505,983	1,537,711
44,000,000	U S TREASURY NOTES	1.75%	3/31/2010	43,202,223	43,445,600
2,539,683	US TREAS-CPI INFLATION INDEX	1.88%	7/15/2015	2,554,483	2,660,064
865,712	US TREAS-CPI INFLATION INDEX	2.00%	1/15/2026	848,592	858,678
<b>52,250,027</b>	<b>TOTAL U.S. GOVERNMENT SECURITIES</b>			<b>150,980,545</b>	<b>152,258,675</b>

# Investments Section

Par Value	Security	Coupon Rate	Maturity	Cost	Fair Value
CORPORATE BONDS					
1,279,062	ABFS MTG LN 03-2 CL M 144A	3.76%	4/25/2034	1,117,095	814,212
313,165	ACA ABS 06 1 LTD/ACA A-3L 144A	4.54%	6/10/2041	252,271	20,108
450,000	ALCOA INC NT	5.95%	2/1/2037	430,666	399,447
1,239,649	ALTERNATIVE LN 07 20 CL A-12	6.25%	8/25/2047	1,212,398	1,034,562
662,990	ALTERNATIVE LN 07 3T1 CL 2-A-1	6.00%	3/25/2027	658,791	568,799
4,200,000	AMERICAN AIRLS PASS THRU TR 01	7.86%	10/1/2011	4,199,265	3,906,000
1,600,000	AMERICAN GEN FIN CORP MEDIUM	6.90%	12/15/2017	1,588,997	1,394,496
800,000	ANADARKO FIN CO SR NT	7.50%	5/1/2031	885,353	857,504
900,000	ANSLEY PK ABS CL C 144A	4.27%	10/1/2046	123,833	123,833
76,038	AUTO BD RECEIVABLES TR 94-A	6.40%	4/15/2009	37,072	-
1,000,000	BANC ONE CORP DEBS	8.00%	4/29/2027	1,019,102	1,082,660
11,137,628	BLACKROCK MORTGAGE INVESTORS	0.00%	1/1/1900	10,919,065	11,137,628
680,165	CBO HLDGS III 04-3 CL A 144A	1.00%	6/1/2019	675,825	675,825
1,103,505	CBO HLDGS III 1A 04-1 C-2 144A	7.00%	2/10/2038	1,156,935	1,156,935
2,098,000	CHARTWELL CBO I NT CL B 144A	6.57%	10/10/2012	2,024,863	2,024,863
900,000	CHASEPEAKE & POTOMAC TEL CO MD	7.15%	5/1/2023	900,000	909,558
1,146,010	CHL MTG P/T 07 13 CL A-1	6.00%	8/25/2037	1,140,807	1,102,393
3,362,155	CIMARRON DEBT FUND	0.00%	1/1/1900	3,616,510	3,362,155
1,090,000	CLEAR CHANNEL COMMUNICATIONS	6.88%	6/15/2018	1,094,049	643,100
850,000	CNF INC SR DEB	6.70%	5/1/2034	830,159	756,891
1,824,760	COLORADO DEBT FUND	0.00%	1/1/1900	2,476,460	1,824,760
912,380	COLORADO II	0.00%	1/1/1900	912,380	912,380
197,000	CONAGRA INC NTS	9.75%	3/1/2021	243,558	254,037
692,000	CONTINENTAL AIRLS 01-1 CL A 2	6.50%	6/15/2011	691,765	640,100
1,201,000	CONTINENTAL AIRLS 98-3 CL A2	6.32%	11/1/2008	1,202,078	1,194,563
440,317	CONTINENTAL AIRLS 99-2 CL A-1	7.26%	3/15/2020	455,390	416,099
1,050,000	CORNING INC NT	7.25%	8/15/2036	1,099,766	1,065,099
632,953	CREDIT SUISSE FB 03-8 CL D-B-2	6.24%	4/25/2033	614,721	529,395
400,000	DEUTSCHE BK CAYMAN 2001-3 144A	3.80%	4/30/2031	358,607	68,212
5,000,000	FIRST HORIZON P/T 06 3 CL 1A8	6.25%	11/25/2036	5,030,151	4,953,000
20,776,658	GS CREDIT OPPS FUND 2008	0.00%	1/1/1900	21,237,500	20,776,658
1,000,000	GTE SOUTHWEST INC 1ST MTG	8.50%	11/15/2031	1,162,158	1,180,330
700,000	HARRAHS OPER INC GTD SR NT	5.63%	6/1/2015	553,121	379,778
1,250,000	HOME DEPOT INC SR NT	5.88%	12/16/2036	1,196,249	1,021,100
1,000,000	HUNTINGTON NATL BK MTN # 00001	6.60%	6/15/2018	948,148	869,370
4,800,000	HVB FDG TR SILENT PARTN 144A	8.74%	6/30/2031	4,447,815	4,502,976
291,561	J P MORGAN RESI 02-R2 CL 3A1	6.00%	4/28/2026	283,072	295,841
894,400	JEFFERIES GROUP INC NEW SR DEB	6.25%	1/15/2036	871,420	653,744
800,000	JOHNSON CTLS INC NT	6.00%	1/15/2036	766,300	731,872
700,000	KNIGHT RIDER INC NT	5.75%	9/1/2017	667,879	482,482
2,000,000	LEHMAN BROS HLDGS INC	8.80%	3/1/2015	2,098,722	2,125,620
650,000	LEHMAN BROTHERS HLDGS #TR00491	5.94%	5/12/2014	650,000	584,818
200,000	LIBERTY MUTUAL INS CO 144A	7.88%	10/15/2026	191,221	214,218
900,000	MASCO CORP NT	6.50%	8/15/2032	881,588	734,481

# Investments Section

Par Value	Security	Coupon Rate	Maturity	Cost	Fair Value
2,605,638	MMCAPS FDG I LTD SR NT 144A	8.03%	6/15/2031	2,828,270	2,527,469
212,179	MORGAN STANLEY ABS 03 NC10 M2	4.26%	10/25/2033	190,236	143,357
195,801	MORGAN STANLEY ABS 04-NC1 M2	4.01%	11/25/2033	169,329	166,703
112,321	MORGAN STANLEY ABS 04-NC2 M2	3.66%	12/25/2033	104,718	91,861
1,425,000	MURPHY OIL CORP NT	7.05%	5/1/2029	1,448,635	1,412,531
402,000	NEWS AMER HLDGS INC	7.43%	10/1/2026	427,059	429,638
3,000,000	NEXEN INC NT	6.40%	5/15/2037	2,931,419	2,840,640
800,000	NORTH STREET REFERENCED LINKED	6.55%	8/30/2030	704,082	704,082
800,000	ONEOK PARTNERS LP GTD SR NT	6.65%	10/1/2036	805,663	762,504
1,722,000	PACIFIC BELL	7.38%	7/15/2043	1,814,145	1,789,812
1,077,248	PACIFIC SHORES CDO C 144A 3C7	5.09%	7/3/2037	999,614	999,614
1,360,000	PERITUS I CDO LTD CL B 144A	5.81%	5/24/2015	1,376,316	1,063,792
835,805	PIVOTAL PROMONTORY DEBT FD	0.00%	1/1/1900	928,673	835,805
6,517	PIVOTAL WORKING CAPITAL (DEBT)	0.00%	1/1/1900	6,516	6,517
701,600	PLAINS ALL AMERN PIPELINE LP	6.65%	1/15/2037	721,455	654,347
2,036,205	PREFERRED CPO A / B 144A	8.95%	7/26/2030	2,111,335	2,111,335
1,840,000	PREMIUM ASSET TR ACA 144A	3.94%	3/11/2010	1,840,000	644,000
1,135,810	PRINCIPAL LIFE MTN # 00108	5.34%	3/1/2012	1,121,528	1,125,872
3,750,000	PROTECTIVE LIFE SECD #TR00063	5.68%	5/10/2010	3,750,000	3,761,700
3,282,334	REGIONAL DIVERSIFIED FDG 144A	9.25%	3/15/2030	3,559,911	3,774,684
480,000	RELIANCE STL & ALUM CO	6.85%	11/15/2036	490,688	445,046
450,000	ROYAL CARIBBEAN CRUISES SR NTS	7.50%	10/15/2027	445,748	386,447
1,290,366	SANDIA DEBT FUND	0.00%	1/1/1900	1,551,002	1,290,366
109,073	SBA LOAN NESTING FEATHERS	0.00%	1/1/1900	109,073	109,073
1,000,000	SECURITY BENEFIT LIFE INS 144A	8.75%	5/15/2016	1,055,500	1,044,370
2,000,000	SECURITY MUT LIFE INS CO 144A	9.38%	12/15/2016	2,115,683	2,115,683
456,160	SERVICEMASTER CO NTS	7.10%	3/1/2018	414,026	251,705
900,000	SPRINT CAP CORP NT	8.75%	3/15/2032	1,087,031	857,250
900,000	TECK COMINCO LTD SR NT	6.13%	10/1/2035	857,753	796,707
900,000	TELECOM ITALIA CAP GTD SR NT	7.20%	7/18/2036	925,817	870,192
850,000	TIMES MIRROR CO NEW DEBS	6.61%	9/15/2027	835,869	340,000
950,000	TOYOTA MTR CR CORP MTN TR00423	4.94%	10/27/2008	950,000	950,295
2,400,000	TRAINER WORTHAM FIRST A3L 144A	7.11%	4/10/2037	1,605,990	1,605,990
2,000,000	UNION CENTR LIFE NOTES 144A	8.20%	11/1/2026	2,016,527	2,226,860
960,000	UNITED STATES CELLULAR CORP SR	6.70%	12/15/2033	940,880	860,093
800,000	UNITED UTILS PLC NT	4.55%	6/19/2018	708,284	691,600
1,000,000	UPM-KYMMENE CORP NTS 144A	7.45%	11/26/2027	1,044,507	868,430
3,000,000	VALERO ENERGY CORP NT	6.63%	6/15/2037	3,049,032	2,750,640
320,000	WESTERN UN CO NT	6.20%	11/17/2036	310,793	298,602
1,000,000	WESTINGHOUSE ELEC CORP NT	7.88%	9/1/2023	1,138,397	1,046,440
132,267,451	TOTAL CORPORATE BONDS			132,414,626	124,033,952
284,517,478	TOTAL BOND PORTFOLIO			283,395,171	276,292,626

# Investments Section

## FIXED INCOME ACQUIRED FIXED INCOME PORTFOLIO DURING THE FISCAL YEAR ENDED JUNE 30, 2008

Description	Coupon	Maturity	Purchase- Price	Par Value	Amount
<b>U. S. GOVERNMENT SECURITIES</b>					
FEDERAL FARM CR BK CONS SYSTEM	0.05	5/5/2015		0	365
FEDERAL FARM CR BKS CONS BDS	0.05	10/6/2015		0	1,371
FEDERAL FARM CR BKS CONS SYS	0.06	12/11/2018	100.00	500,000	500,000
FEDERAL HOME LN BK CONS BD	0.05	6/16/2020		0	2,441
FEDERAL HOME LN BKS CONS BD	0.06	9/21/2020		0	92
FEDERAL HOME LN BKS CONS BD	0.05	7/23/2018		0	3,785
FEDERAL HOME LN MTG CORP DEB	0.05	12/14/2018		0	235
FEDERAL HOME LN MTG CORP MTN	0.06	1/26/2022		0	462
FEDERAL HOME LN MTG CORP MTN	0.05	6/11/2018		0	1,692
FEDERAL HOME LN MTG CORP MTN	0.05	7/2/2018		0	9,874
FEDERAL HOME LN MTG CORP MTN	0.06	12/17/2027	99.880	1,500,000	1,498,249
FEDERAL HOME LN MTG CORP MTN	0.06	4/16/2037	99.880	4,000,000	3,995,188
FEDERAL HOME LN MTG CORP MTN	0.06	6/7/2027	100.150	10,000,000	10,015,000
FEDERAL HOME LN MTG CORP MTN	0.04	12/30/2009	100.000	50,650,000	50,650,000
FEDERAL NATL MTG ASSN DEBS	0.05	7/14/2015		0	5,636
FEDERAL NATL MTG ASSN DEBS	0.06	5/11/2022	97.140	1,790,000	1,738,881
FHLMC MULTICLASS MTG	0.06	11/15/2032		0	371
FHLMC MULTICLASS MTG	0.05	2/15/2025		0	4,236
FNMA GTD REMIC P/T 03-42 CL PE	0.06	12/25/2031		0	1,075
FNMA GTD REMIC P/T 06-60 PC	0.06	6/25/2032		0	3,654
GNMA GTD REMIC P/T 03-12 PE	0.06	12/16/2031		0	2,007
GNMA GTD REMIC P/T 03-34 MX-PC	0.06	2/16/2032		0	1,699
U S TREASURY BONDS	0.05	2/15/1937	102.910	900,000	926,156
U S TREASURY NOTES	0.04	10/31/2009	99.730	1,190,000	1,186,839
U S TREASURY NOTES	0.04	10/31/2012	99.340	2,550,000	2,533,266
U S TREASURY NOTES	0.02	3/31/2010	98.160	51,000,000	50,062,344
UNITED STATES TREASURY NOTES	0.05	8/15/2017	104.540	7,070,000	7,390,828
US TREAS-CPI INFLATION INDEX	0.02	4/15/2012	100.000	27,799	27,799
US TREAS-CPI INFLATION INDEX	0.02	1/15/2026	101.480	66,096	67,074
US TREAS-CPI INFLATION INDEX	0.01	4/15/2010	100.000	76,454	76,454
US TREAS-CPI INFLATION INDEX	0.03	7/15/2012	100.000	118,111	118,111
US TREAS-CPI INFLATION INDEX	0.02	7/15/2015	100.000	240,810	240,810
TOTAL U.S. GOVERNMENT SECURITIES ACQUIRED				131,679,270	131,065,994
<b>CORPORATE BONDS</b>					
ABFS MTG LN 03-2 CL M 144A	0.04	4/25/2034	87.34	1,281,047	1,118,824
ACA ABS 06 1 LTD/ACA A-3L 144A	0.05	6/10/2041	113.43	14,241	16,153
ALCOA INC NT	0.06	2/1/2037		0	678
ALTERNATIVE LN 07 20 CL A-12	0.06	8/25/2047	97.75	1,272,006	1,243,386
ALTERNATIVE LN 07 3T1 CL 2-A-1	0.06	3/25/2027	99.34	728,120	723,341
AMERICAN AIRLS PASS THRU TR 01	0.08	10/1/2011		0	229
AMERICAN GEN FIN CORP MEDIUM	0.07	12/15/2017	99.31	1,600,000	1,588,997



# Investments Section

Description	Coupon	Maturity	Purchase- Price	Par Value	Amount
ANSLEY PK ABS CL C 144A	0.04	10/1/2046	13.76	900,000	123,833
AT & T INC GLOBAL NT	0.06	1/15/2038	98.45	400,000	393,804
AUTO BD RECEIVABLES TR 94-A	0.06	4/15/2009	48.75	76,038	37,072
BLACKROCK MORTGAGE INVESTORS	0.00	1/1/1900	98.04	11,137,628	10,919,065
CHARTWELL CBO I NT CL B 144A	0.07	10/10/2012		0	17,335
CHL MTG P/T 07 13 CL A-1	0.06	8/25/2037	99.53	1,262,449	1,256,531
CIMARRON DEBT FUND	0.00	1/1/1900	100.00	3,616,510	3,616,510
CNF INC SR DEB	0.07	5/1/2034		0	770
COLORADO DEBT FUND	0.00	1/1/1900	100.00	2,476,460	2,476,460
COLORADO II	0.00	1/1/1900	100.00	1,824,760	1,824,760
CREDIT SUISSE FB 03-8 CL D-B-2	0.06	4/25/2033	96.84	672,487	651,262
CVS CAREMARK CORP SR NT	0.06	6/1/2027	97.32	5,000,000	4,865,750
DEUTSCHE BK CAYMAN 2001-3 144A	0.04	4/30/2031		0	1,860
FIRST HORIZON P/T 06 3 CL 1A8	0.06	11/25/2036	100.60	5,000,000	5,030,151
GS CREDIT OPPS FUND 2008	0.00	1/1/1900	100.00	21,237,500	21,237,500
HARRAHS OPER INC GTD SR NT	0.06	6/1/2015	79.02	700,000	553,121
HOME DEPOT INC SR NT	0.06	12/16/2036		0	1,893
HUNTINGTON NATL BK MTN # 00001	0.07	6/15/2018		0	5,219
HVB FDG TR SILENT PARTN 144A	0.09	6/30/2031		0	15,702
J P MORGAN RESI 02-R2 CL 3A1	0.06	4/28/2026	97.00	672,109	651,943
JEFFERIES GROUP INC NEW SR DEB	0.06	1/15/2036		0	836
JOHNSON CTLS INC NT	0.06	1/15/2036		0	1,226
KNIGHT RIDER INC NT	0.06	9/1/2017		0	3,510
LIBERTY MUTUAL INS CO 144A	0.08	10/15/2026		0	481
MASCO CORP NT	0.07	8/15/2032		0	765
MCDONALDS CORP	0.06	1/8/2028	102.83	522,000	536,747
MMCAPS FDG I LTD SR NT 144A	0.08	6/15/2031		5,988	0
MORGAN STANLEY ABS 03 NC10 M2	0.04	10/25/2033	89.00	472,794	420,787
MORGAN STANLEY ABS 04-NC1 M2	0.04	11/25/2033	85.50	200,000	171,000
MORGAN STANLEY ABS 04-NC2 M2	0.04	12/25/2033	93.00	169,591	157,719
MURPHY OIL CORP NT	0.07	5/1/2029	101.66	1,425,000	1,448,635
NEXEN INC NT	0.06	5/15/2037	97.71	3,000,000	2,931,419
NORTH STREET REFERENCED LINKED	0.07	8/30/2030		0	4,306
PACIFIC SHORES CDO C 144A 3C7	0.05	7/3/2037		0	2,748
PIVOTAL PROMONTORY DEBT FD	0.00	1/1/1900	100.00	928,673	928,673
PIVOTAL WORKING CAPITAL (DEBT)	0.00	1/1/1900	99.99	13,033	13,031
PRINCIPAL LIFE MTN # 00108	0.05	3/1/2012		0	3,904
RALI SER 2006 QS16 CL A-8	0.06	11/25/1936	77.50	1,523,000	1,180,325
ROYAL CARIBBEAN CRUISES SR NTS	0.08	10/15/2027		0	221
SANDIA DEBT FUND	0.00	1/1/1900	100.00	1,551,002	1,551,002
SBA LOAN NESTING FEATHERS	0.00	1/1/1900	100.00	223,987	223,987
SERVICEMASTER CO NTS	0.07	3/1/2018		0	4,369
TECK COMINCO LTD SR NT	0.06	10/1/2035		0	1,554
TIMES MIRROR CO NEW DEBS	0.07	9/15/2027		0	737
TRAINER WORTHAM FIRST A3L 144A	0.07	4/10/2037		0	28,260

## Investments Section

Description	Coupon	Maturity	Purchase- Price	Par Value	Amount
UNITED STATES CELLULAR CORP SR	0.07	12/15/2033		0	753
UNITED UTILS PLC NT	0.05	6/19/2018		0	9,222
VALERO ENERGY CORP NT	0.07	6/15/2037	101.68	3,000,000	3,050,400
WASHOVIA BK NATL ASSN MTN	0.07	1/15/1938	98.40	1,140,000	1,121,760
WESTERN UN CO NT	0.06	11/17/2036		0	325
WYETH SR NT	0.07	2/1/2034	103.58	900,000	932,211
TOTAL CORPORATE BONDS ACQUIRED				74,946,420	73,103,057
TOTAL FIXED INCOME ACQUIRED				206,625,690	204,169,051

**FIXED INCOME SOLD**  
**DURING THE FISCAL YEAR ENDED JUNE 30, 2008**

Description	Coupon	Maturity	Par Value	Sale Price	Sales Amount	Amortized Cost	Gain or (Loss)
U. S. GOVERNMENT SECURITIES							
FEDERAL FARM CR BK CONS SYSTEM	5.30%	07/21/20	3,400,000	100.2	3,408,500	3,364,610	41,909
FEDERAL FARM CR BKS CONS BD	5.00%	07/27/12	600,000	100.0	600,000	600,000	-
FEDERAL FARM CR BKS CONS BDS	5.30%	06/22/15	800,000	100.0	800,000	799,355	580
FEDERAL FARM CR BKS CONS BDS	5.85%	05/16/17	700,000	100.0	700,000	689,500	7,086
FEDERAL FARM CR BKS CONS SYS	5.50%	08/17/20	3,795,000	101.0	3,832,950	3,736,279	93,402
FEDERAL FARM CR BKS CONS SYS	5.60%	12/11/18	500,000	100.0	500,000	500,000	-
FEDERAL HOME LN BKS CONS BD	5.13%	07/10/23	250,000	93.0	232,500	224,952	6,063
FEDERAL HOME LN BKS CONS BD	5.25%	06/15/15	1,375,000	100.0	1,375,000	1,365,310	8,933
FEDERAL HOME LN BKS CONS BD	5.38%	07/07/15	1,250,000	100.0	1,250,000	1,247,971	3,147
FEDERAL HOME LN BKS CONS BD	5.25%	07/28/15	2,500,000	100.0	2,500,000	2,490,916	8,154
FEDERAL HOME LN BKS CONS BD	5.15%	08/03/12	1,550,000	100.0	1,550,000	1,546,477	3,524
FEDERAL HOME LN BKS CONS BD	5.35%	09/21/15	1,300,000	100.0	1,300,000	1,281,749	16,483
FEDERAL HOME LN MTG CORP MTN	6.00%	06/07/27	0		794	794	-
FEDERAL HOME LN MTG CORP MTN	5.00%	08/10/12	2,000,000	100.0	2,000,000	2,000,000	-
FEDERAL HOME LN MTG CORP MTN	5.40%	09/22/15	1,200,000	100.0	1,200,000	1,196,544	3,149
FEDERAL HOME LN MTG CORP MTN	6.25%	04/07/21	750,000	100.0	750,000	739,478	7,544
FEDERAL NATL MTG ASSN	4.45%	08/25/12	1,695,578	99.1	1,680,883	1,690,951	(10,992)
FEDERAL NATL MTG ASSN DEBS	5.75%	05/11/22	1,790,000	102.5	1,834,750	1,738,881	93,558
FEDERAL NATL MTG ASSN MTN	6.00%	05/24/19	5,100,000	100.0	5,100,000	5,099,977	22
FEDERAL NATL MTG ASSN MTN	5.00%	11/15/12	270,000	100.0	270,000	270,000	-
FEDERAL NATL MTG ASSN MTN	4.40%	12/25/12	895,510	98.4	881,433	893,441	(12,504)
FHLMC POOL #A5-9248	6.50%	04/01/37	672,338	100.9	678,124	680,322	4,146
FHLMC POOL #G0-8168	6.00%	12/01/36	111,663	100.0	111,625	111,988	(363)
FHLMC POOL #H0-0335	6.50%	10/01/36	1,053,910	102.1	1,075,930	1,070,554	10,739
FHLMC POOL #H0-0341	6.50%	10/01/36	1,309,773	102.2	1,338,251	1,328,438	15,179
FHLMC POOL #H0-1557	6.50%	09/01/36	849,705	101.5	862,740	861,782	7,676
FHLMC POOL #H1-0069	6.00%	11/01/36	1,183	99.8	1,181	1,381	(200)
FHLMC POOL #H1-5010	6.00%	11/01/36	166,524	99.9	166,322	167,997	(1,675)
FHLMC MULTICLASS MTG	6.00%	08/15/32	0		101	101	-
FHLMC MULTICLASS MTG	6.00%	08/15/32	0		3,510	3,510	-
FHLMC MULTICLASS MTG	6.00%	08/15/32	0		104	104	-
FHLMC MULTICLASS MTG 3159 PB	6.00%	01/15/29	0		806	806	-
FNMA POOL #0256446	6.50%	10/01/36	703,598	101.2	711,720	712,647	1,810
FNMA POOL #0903956	6.00%	10/01/36	2,910,670	101.4	2,950,772	2,932,121	23,078
FNMA POOL #0904913	6.50%	11/01/36	2,643,062	101.4	2,680,270	2,684,032	11,392
FNMA GTD REMIC P/T	4.00%	11/25/22	235,947	99.6	235,040	230,900	4,141
FNMA GTD REMIC P/T 05-27 AB	5.50%	02/25/34	88,116	100.0	88,116	88,433	(317)
FNMA GTD REMIC P/T 05-27 AC	5.50%	08/25/34	0		148	148	-
FNMA GTD REMIC P/T 05-30 VB	5.00%	11/25/21	750,000	97.0	727,500	746,082	(18,892)
FNMA GTD REMIC P/T 05-45 BG	4.50%	06/25/25	8,778	97.2	8,532	5,485	3,048
GNMA POOL #0173878	9.00%	08/15/16	10,605	99.7	10,578	10,404	174
GNMA POOL #0176431	9.00%	08/15/16	16,271	99.7	16,222	15,566	656

# Investments Section

Description	Coupon	Maturity	Par Value	Sale Price	Sales Amount	Amortized Cost	Gain or (Loss)
GNMA POOL #0202505	9.00%	10/15/19	19,200	100.0	19,191	18,767	423
GNMA POOL #0217956	10.00%	11/15/17	2,381	99.8	2,375	2,337	39
GNMA POOL #0226529	9.00%	06/15/18	3,510	98.1	3,443	2,923	520
GNMA POOL #0232237	9.00%	01/15/20	532	99.4	529	515	14
GNMA POOL #0234937	9.00%	03/15/18	1,985	98.2	1,948	1,653	295
GNMA POOL #0238600	10.00%	11/15/17	2,511	99.8	2,507	2,476	31
GNMA POOL #0238840	9.00%	05/15/18	720	98.3	707	606	101
GNMA POOL #0248951	9.00%	05/15/18	4,807	99.8	4,796	4,502	294
GNMA POOL #0252056	9.00%	06/15/18	498	99.3	494	474	21
GNMA POOL #0256195	9.00%	08/15/18	11,172	99.9	11,164	10,572	592
GNMA POOL #0285803	9.00%	03/15/20	757	98.9	748	696	53
GNMA POOL #0298952	9.00%	04/15/21	310	100.0	310	310	-
GNMA POOL #0303324	9.00%	04/15/21	500	100.0	500	500	-
GNMA POOL #0304625	9.00%	03/15/21	675	100.0	675	675	0
GNMA POOL #0305187	9.00%	06/15/21	893	100.0	893	893	1
GNMA POOL #0330725	8.00%	07/15/22	27,536	100.0	27,532	27,340	192
GNMA POOL #0375887	7.00%	05/15/24	44,412	99.5	44,178	40,498	3,680
GNMA POOL #0377589	7.50%	08/15/25	11,238	99.9	11,223	11,208	15
GNMA POOL #0386038	7.00%	06/15/24	25,421	98.5	25,049	23,469	1,579
GNMA POOL #0389845	8.00%	09/15/24	3,110	99.6	3,096	2,984	113
GNMA POOL #0398831	8.00%	08/15/26	3,460	100.0	3,459	3,447	12
GNMA POOL #0403979	8.50%	10/15/24	4,000	99.6	3,983	3,869	114
GNMA POOL #0421711	7.50%	04/15/26	37,879	100.0	37,877	37,826	51
GNMA POOL #0427556	7.50%	03/15/26	4,196	100.0	4,194	4,181	14
GNMA POOL #0432701	8.00%	06/15/26	43,313	100.0	43,313	43,312	1
GNMA POOL #0434101	7.00%	12/15/28	13,145	99.9	13,127	12,816	312
GNMA POOL #0434237	6.00%	03/15/29	13,969	99.3	13,872	12,493	1,379
GNMA POOL #0439645	8.00%	09/15/26	291	100.0	291	291	1
GNMA POOL #0441619	7.50%	11/15/29	250	99.9	250	247	3
GNMA POOL #0458918	7.00%	08/15/28	3,203	99.5	3,187	3,107	80
GNMA POOL #0475872	7.00%	07/15/28	16,433	100.0	16,428	16,277	151
GNMA POOL #0499876	7.00%	06/15/29	18,372	100.0	18,366	18,234	131
GNMA POOL #0499905	7.00%	05/15/29	80,428	100.0	80,411	79,778	633
GNMA POOL #0499907	7.00%	05/15/29	44,723	97.3	43,535	42,665	871
GNMA POOL #0507496	7.00%	06/15/29	21,814	97.3	21,226	21,013	213
GNMA POOL #0510958	7.00%	05/15/29	5,821	100.0	5,820	5,774	46
GNMA POOL #0512888	7.00%	07/15/29	909	99.2	902	848	54
GNMA POOL #0513367	7.00%	08/15/29	13,092	99.9	13,076	12,442	635
GNMA POOL #0530611	6.50%	05/15/31	43,432	100.0	43,431	43,391	40
GNMA POOL #0530631	6.50%	06/15/31	48,382	99.9	48,312	48,134	178
GNMA POOL #0539629	6.50%	04/15/31	20,644	99.8	20,604	20,556	49
GNMA POOL #0548963	6.50%	03/15/31	1,090	99.9	1,089	1,082	7
GNMA POOL #0549915	6.50%	05/15/31	724	99.9	723	718	6
GNMA POOL #0552514	6.50%	04/15/32	211,558	100.0	211,498	210,987	511
GNMA POOL #0560189	6.50%	04/15/31	5,038	99.9	5,035	5,003	32
GNMA POOL #0780076	8.00%	02/15/25	53,571	99.6	53,340	52,369	971

# Investments Section

Description	Coupon	Maturity	Par Value	Sale Price	Sales Amount	Amortized Cost	Gain or (Loss)
GNMA POOL #0780220	7.50%	08/15/25	28,312	100.0	28,309	28,299	10
GNMA POOL #0780896	7.00%	11/15/28	9,698	99.3	9,632	9,460	172
GNMA GTD REMIC P/T 06-41 VB	6.00%	03/20/24	850,000	101.0	858,500	864,127	(4,357)
U S TREASURY BONDS	7.50%	11/15/16	1,000,000	129.8	1,298,125	977,515	318,995
U S TREASURY BONDS	9.13%	05/15/18	3,000,000	146.4	4,393,125	3,000,000	1,393,125
U S TREASURY BONDS	8.13%	08/15/19	2,000,000	139.7	2,793,750	2,001,113	792,637
U S TREASURY BONDS	8.00%	11/15/21	1,000,000	141.5	1,414,688	1,000,000	414,688
U S TREASURY BONDS	4.50%	02/15/36	750,000	101.2	758,789	691,007	66,395
U S TREASURY BONDS	4.75%	02/15/37	900,000	105.3	947,531	926,156	21,574
U S TREASURY NOTES	1.75%	03/31/10	7,000,000	98.7	6,909,375	6,860,121	36,323
U S TREASURY NOTES	4.50%	05/15/17	750,000	108.2	811,406	729,562	80,405
U S TREASURY NOTES	3.63%	10/31/09	1,190,000	101.1	1,202,750	1,186,839	15,737
U S TREASURY NOTES	3.88%	10/31/12	2,550,000	103.3	2,634,734	2,533,266	100,913
U.S. TREASURY NOTE	4.88%	06/30/09	700,000	102.6	718,002	700,193	10,871
U.S. TREASURY NTS	4.50%	04/30/09	750,000	101.8	763,176	745,645	6,966
U.S. TREASURY NTS	4.88%	05/31/09	1,200,000	102.1	1,225,669	1,198,373	14,118
UNITED STATES TREASURY NOTES	4.75%	08/15/17	7,070,000	109.1	7,711,369	7,390,828	327,434
US TREAS-CPI INFLATION INDEX	1.88%	07/15/15	1,127	100.0	1,127	3,242	-2,115
US TREAS-CPI INFLATION INDEX	2.00%	01/15/26	384	100.0	384	376	8
US TREAS-CPI INFLATION INDEX	3.00%	07/15/12	818,111	128.2	1,048,732	904,086	167,208
US TREAS-CPI INFLATION INDEX	0.88%	04/15/10	776,454	113.2	879,046	776,907	102,286
US TREAS-CPI INFLATION INDEX	2.00%	04/15/12	777,799	112.4	874,345	764,085	107,851
TOTAL U.S. GOVERNMENT SECURITIES SOLD			77,247,013		81,585,671	77,275,433	4,316,341

## CORPORATE BONDS

ABFS MTG LN 03-2 CL M 144A	0.038	04/25/34	1,985	100.0	1,985	1,729	256
AGRIUM INC	0.071	05/23/36	768,000	102.9	790,080	787,012	3,680
ALBERTSONS INC SR DEB	0.087	05/01/30	800,000	107.0	856,000	799,849	56,148
ALLTEL CORP SR NT	0.079	07/01/32	1,150,000	107.7	1,238,919	1,246,411	(3,850)
ALTERNATIVE LN 07 20 CL A-12	0.063	08/25/47	32,357	99.5	32,210	30,988	1,222
ALTERNATIVE LN 07 3T1 CL 2-A-1	0.060	03/25/27	65,129	100.0	65,129	64,550	579
ANADARKO FIN CO SR NT	0.075	05/01/31	0		3,746	3,746	0
AT & T INC GLOBAL NT	0.063	01/15/38	400,000	100.5	402,000	393,804	8,113
AT&T BROADBAND CORP NT	0.095	11/15/22	994,000	120.9	1,201,746	1,009,383	193,163
BANC ONE CORP DEBS	0.080	04/29/27	0		1,017	1,017	0
BAYERISCHE LANDESBK INSTL C/D			1,400,000	100.0	1,400,000	1,400,000	0
BEAR STEARNS COS INC MEDIUM			1,400,000	100.0	1,400,000	1,400,000	0
CBO HLDGS III 04-3 CL A 144A	0.010	06/01/19	56,993	100.0	56,993	56,177	816
CBO HLDGS III 1A 04-1 C-2 144A	0.070	02/10/38	11,398	98.4	11,211	13,825	(2,613)
CHL MTG P/T 07 13 CL A-1	0.060	08/25/37	116,438	100.0	116,382	115,724	658
CIMARRON DEBT FUND	0.000	01/01/1900	254,355		-	0	0
CLEAR CHANNEL COMMUNICATIONS	0.069	06/15/18	0		408	408	0
COLORADO DEBT FUND			651,700		-	0	0
COLORADO II			912,380		-	912,380	0
CONAGRA FOODS INC SR NT	0.058	06/15/17	953,000	98.0	933,940	923,034	10,024

# Investments Section

Description	Coupon	Maturity	Par Value	Sale Price	Sales Amount	Amortized Cost	Gain or (Loss)
CONAGRA INC NTS	0.098	03/01/21	0		3,684	3,684	0
CONAGRA INC SR NTS	0.070	10/01/28	450,000	103.5	465,750	477,062	(10,228)
CONTINENTAL AIRLS 01-1 CL A 2	0.065	06/15/11	260,000	100.5	261,300	259,801	1,409
CONTINENTAL AIRLS 98-3 CL A2	0.063	11/01/08	0		3,183	3,183	0
CONTINENTAL AIRLS 99-2 CL A-1	0.073	03/15/20	35,301	98.1	34,639	37,924	(3,284)
CORNING INC NT	0.073	08/15/36	0		2,009	2,009	0
CREDIT SUISSE FB 03-8 CL D-B-2	0.062	04/25/33	39,535	99.7	39,409	36,540	2,869
CVS CAREMARK CORP SR NT	0.063	06/01/27	5,000,000	98.1	4,905,000	4,865,750	35,020
FIRST DATA CORPORATION			540,000	98.3	530,863	511,898	14,445
GLOBAL MARINE INC NTS	0.070	06/01/28	850,000	102.2	869,125	893,431	(22,374)
GOLDMAN SACHS GROUP INC SR NT	0.051	01/15/15	500,000	97.8	489,000	502,815	(13,649)
GOLDMAN SACHS GROUP LP NT 144A	0.080	03/01/13	1,000,000	108.5	1,085,000	998,536	86,224
GS CREDIT OPPTS FUND 2008			460,842		-	0	0
GTE SOUTHWEST INC 1ST MTG	0.085	11/15/31	0		6,952	6,952	0
HARTFORD LIFE GBL MTN #TR00004			3,750,000	98.5	3,693,750	3,734,782	(45,391)
HEINZ H J FIN CO GTD NT	0.068	03/15/32	450,000	100.5	452,250	487,409	(33,865)
HUTCHISON WHAMPOA FIN CI 144A	0.075	08/01/17	4,100,000	108.5	4,446,450	4,337,637	126,968
HUTCHISON WHAMPOA INTL 144A	0.075	11/24/33	500,000	102.5	512,500	472,405	40,576
J P MORGAN RESI 02-R2 CL 3A1	0.060	04/28/26	380,548	97.3	370,458	368,870	(74)
KROGER CO NT	0.075	04/01/31	510,000	109.2	557,175	547,905	10,594
LEHMAN BROS HLDGS INC	0.088	03/01/15	0		14,845	14,845	0
MCDONALDS CORP	0.064	01/08/28	522,000	102.1	533,014	536,747	(3,309)
MMCAPS FDG I LTD SR NT 144A	0.080	06/15/31	78,750	100.0	78,750	102,415	(23,665)
MORGAN STANLEY ABS 03 NC10 M2	0.043	10/25/33	260,615	97.0	252,679	230,551	22,129
MORGAN STANLEY ABS 04-NC1 M2	0.040	11/25/33	4,199	100.0	4,199	1,671	2,528
MORGAN STANLEY ABS 04-NC2 M2	0.037	12/25/33	57,270	100.0	57,270	53,001	4,269
MORGAN STANLEY GLOBAL SUB NT	0.048	04/01/14	1,900,000	93.2	1,771,218	1,853,376	(85,277)
NEWS AMER HLDGS INC	0.074	10/01/26	0		1,376	1,376	0
ONEOK PARTNERS LP GTD SR NT	0.067	10/01/36	0		201	201	0
PACIFIC BELL	0.074	07/15/43	0		3,478	3,478	0
PERITUS I CDO LTD CL B 144A	0.058	05/24/15	0		2,453	2,453	0
PETROLIAM NASIONAL BHD BD 144A	0.076	10/15/26	900,000	123.6	1,112,400	999,831	116,650
PHELPS DODGE CORP NT	0.095	06/01/31	600,000	133.2	799,500	742,425	61,721
PIVOTAL PROMONTORY DEBT FD	0.000	01/01/1900	92,867		-	0	0
PIVOTAL WORKING CAPITAL (DEBT)	0.000	01/01/1900	6,516		-	6,516	0
PLAINS ALL AMERN PIPELINE LP	0.067	01/15/37	0		697	697	0
PREFERRED CPO A / B 144A	0.089	07/26/30	854,878	25.2	215,834	891,264	0
RALI SER 2006 QS16 CL A-8	0.060	11/25/36	1,523,000	57.5	875,725	1,180,325	(311,517)
REGIONAL DIVERSIFIED FDG 144A	0.093	03/15/30	0		27,238	27,238	0
RELIANCE STL & ALUM CO	0.069	11/15/36	0		378	378	0
ROYAL KPN NV NT	0.084	10/01/30	900,000	118.2	1,063,800	1,029,120	37,159
SAFEWAY INC SR DEBS	0.075	09/15/27	850,000	106.6	906,100	890,819	17,007
SANDIA DEBT FUND	0.000	01/01/1900	260,636		-	0	0
SARA LEE CORP NT	0.061	11/01/32	450,000	91.8	412,875	421,284	(9,424)
SBA LOAN NESTING FEATHERS	0.000	01/01/1900	114,914		-	114,914	58,847
SECURITY BENEFIT LIFE INS 144A	0.088	05/15/16	0		7,065	7,065	0

## Investments Section

Description	Coupon	Maturity	Par Value	Sale Price	Sales Amount	Amortized Cost	Gain or (Loss)
SECURITY MUT LIFE INS CO 144A	0.094	12/15/16	0		13,707	13,707	0
SOUTHERN COPPER CORP DEL NT	0.075	07/27/35	750,000	104.2	781,875	776,223	6,415
SPRINT CAP CORP NT	0.088	03/15/32	0		7,906	7,906	0
TELECOM ITALIA CAP GTD SR NT	0.072	07/18/36	0		922	922	0
TEVA PHARMACEUTICAL FIN CO LLC	0.062	02/01/36	600,000	96.0	576,000	544,490	30,596
TIME WARNER ENTMT CO LP SR DEB	0.084	03/15/23	800,000	113.5	907,600	900,468	10,127
TRANSOCEAN SEDCO FOREX INC NT	0.074	04/15/18	1,300,000	109.8	1,426,750	1,418,931	16,993
UNION CENTR LIFE NOTES 144A	0.082	11/01/26	0		903	903	0
UPM-KYMMENE CORP NTS 144A	0.075	11/26/27	0		2,299	2,299	0
VALERO ENERGY CORP NT	0.066	06/15/37	0		1,368	1,368	0
WASHOVIA BK NATL ASSN MTN	0.066	01/15/38	1,140,000	96.7	1,102,414	1,121,760	(19,587)
WESTINGHOUSE ELEC CORP NT	0.079	09/01/23	1,328,000	105.6	1,402,700	1,533,076	(117,451)
WESTVACO CORP NT	0.082	01/15/30	800,000	105.0	840,000	896,905	(54,881)
WYETH	0.065	04/15/18	750,000	104.6	784,681	720,475	57,723
WYETH SR NT	0.065	02/01/34	900,000	103.4	930,600	932,211	(1,317)
TOTAL CORPORATE BONDS			46,537,605		44,161,083	45,692,261	273,171
TOTAL FIXED INCOME SOLD			123,784,619		125,746,754	122,967,694	4,589,512

**ALTERNATIVE INVESTMENTS PORTFOLIO**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Description	Cost	Fair Value	Unrealized Gain/(Loss)
<u>REAL ESTATE</u>			
APEX CAPITAL	1,665,897	(2,185,723)	(3,851,620)
BLACKSTONE REAL ESTATE PART VI	3,537,857	3,537,857	
COLGATE WILLOW SPRINGS	821,103	821,103	
DESERT TROON	21,201,265	22,554,535	882,166
HASSYMPA	526,848		(526,848)
OWH BERKANA	1,737,554	1,940,514	202,960
PEBBLECREEK	9,145	5,254,760	5,245,615
PIVOTAL HOLDING	8,200,291	22,683,987	14,483,696
OWC WHISPERING CANYON	6,798	3,511,149	3,504,351
TOTAL REAL ESTATE	37,706,757	58,118,181	19,940,320
<u>PRIVATE EQUITY</u>			
APOLLO INVESTMENT FUND VII	699,565	699,565	
BLACKSTONE CAPITAL PARTNERS	1,030,553	1,037,650	7,097
CONSERVATION FORESTRY FUND I	1,780,763	1,929,043	148,280
DAG VENTURES II CO-INVEST	3,223,165	4,447,373	1,224,208
DAG VENTURES II DIRECT	1,889,293	1,937,485	48,192
MESIROW CAPITAL PARTNERS IX	2,110,184	1,866,524	(243,661)
MIDOCEAN PARTNER III CO-INVEST	171,500	171,500	
MIDOCEAN PARTNER III DIRECT	1,852,012	1,652,950	(199,062)
PENNINSULA EQUITY PARTNERS	237,794	218,674	(19,119)
NXTV	2,216,239	340,668	(1,875,571)
PROSPECTOR EQUITY CAPITAL	205,242	231,778	26,536
VALLEY VENTURES III ANNEX	216,090	216,090	
VALLEY VENTURES III	2,401,152	1,102,826	(1,298,326)
TOTAL PRIVATE EQUITY	18,033,552	15,852,126	(2,181,426)
TOTAL ALTERNATIVE INVESTMENTS	55,740,309	73,970,307	17,758,894



**ALTERNATIVE INVESTMENTS ACQUIRED**  
**DURING THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Description</b>	<b>Cost</b>
APEX CAPITAL	775,215
APOLLO INVESTMENT FUND VII	699,565
BLACKSTONE CAPITAL PARTNERS	1,030,553
BLACKSTONE REAL ESTATE PART VI	3,537,857
CONSERVATION FORESTRY FUND I	322,736
DAG VENTURES II CO-INVEST	2,955,968
DAG VENTURES II DIRECT	662,818
DESERT TROON	16,887,058
MESIROW CAPITAL PARTNERS IX	688,478
MIDOCEAN PARTNER III CO-INVEST	171,500
MIDOCEAN PARTNER III DIRECT	218,034
OWH BERKANA	247,619
PENNINSULA EQUITY PARTNERS	135,616
VALLEY VENTURES III ANNEX	154,350
<b>TOTAL ALTERNATIVE INVESTMENTS ACQUIRED</b>	<b>28,487,367</b>

## Investments Section

### ALTERNATIVE INVESTMENTS SOLD DURING THE FISCAL YEAR ENDED JUNE 30, 2008

<b>Description</b>	<b>Cost</b>	<b>Capital Gains (Loss)</b>
APEX CAPITAL	40,915	444,500
DESERT TROON	67,777	341,765
OWC WHISPERING CANYON	1,915	-
PIVOTAL HOLDING	5,054,270	-
PROSPECTOR EQUITY CAPITAL	218,371	-
SBA LOAN NEST F	117,701	-
VALLEY VENTURES III	322,553	-
<b>TOTAL ALTERNATIVE INVESTMENTS SOLD</b>	<b>5,823,503</b>	<b>786,265</b>



# Actuarial Section

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December 12, 2008

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, 2008 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 28 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, 2008 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, 2008

## Actuarial Assets

Accrued Assets		
Member Accumulated contributions	\$296,317,101	
Employer and benefit payment reserves	885,904,422	
Funding value adjustment	65,438,346,	
Total accrued assets*		\$1,247,659,869
Prospective assets (computed value)		
Member contributions	\$340,013,233	
Employer normal costs	394,673,798	
Employer unfunded actuarial accrued liability	195,685,853	
Total prospective assets		\$930,372,884
Total Actuarial Assets		\$2,178,032,753

\*Includes \$45,912,625 reserve for payment of ad-hoc pension increases. The net funding value of assets is \$833,620,994.

## Actuarial Present Values (Liability)

Pensions in payment status		
Service pensions	\$422,968,684	
Disability pensions	16,481,065	
Survivor pensions	45,154,919	
Health insurance	19,857,206	
Total Benefit values		\$504,172,541
Prospective pension payments (future retirements)		\$1,564,172,541
Prospective health insurance payments (future retirements)		56,415,958
Prospective refunds of member contributions		40,633,678
Reserve for future pension increases		12,348,702
Total Actuarial Present Values (Liability)		\$2,178,032,753

**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**

<b>Age</b>	<b>Across-the-Board</b>	<b>Merit and Longevity</b>	<b>Other</b>	<b>Total</b>
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

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

# Actuarial Section

**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%	(All years of service)
	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:** 80%



Retirement Rates; Age-related rates based on the following schedule:

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

Service	Percent of Active Members Retiring During Next Year
20	30%
21	30%
22	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 28 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**

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

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

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 (2)	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)
6-30-99	\$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%
6-30-08	\$296,317	\$504,462	\$589,584	\$1,207,026	100.0%	100.0%	68.9%

See Schedule of Funding Progress in the Required Supplementary Information.

### AGE AND SERVICE DISTRIBUTION

Listed below is a summary of Active Members by age group, years of service and annual compensation. The summary points out that there were 14,716 members in the Plan as of June 30, 2008, compared to 12,780 for the prior year.

Attained Age	Years of Service to Valuation Date							Totals	
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus	No.	Valuation Payroll
< 20	70							70	\$2,410,968
20 - 24	1,231	10						1,241	\$44,828,679
25 - 29	1,838	364	4					2,206	\$85,604,003
30 - 34	1,288	807	201	2				2,298	\$96,171,443
35 - 39	966	688	480	124	1			2,259	\$100,529,946
40 - 44	661	495	361	345	64	1		1,927	\$88,720,845
45 - 49	537	374	295	264	170	18		1,658	\$77,558,062
50 - 54	402	343	216	194	149	40	10	1,354	\$64,537,474
55 - 59	278	236	178	182	97	33	18	1,022	\$49,247,331
60 - 69	134	185	149	102	63	15	3	651	\$31,592,749
70+	13	6	3	4	3	1		30	\$1,419,977
<b>Totals</b>	<b>7,418</b>	<b>3,508</b>	<b>1,887</b>	<b>1,217</b>	<b>547</b>	<b>108</b>	<b>31</b>	<b>14,716</b>	<b>\$642,621,477</b>

### COMPARATIVE SCHEDULE

Fiscal Year Ended	Employer Units	Active Members	Total Payroll (+000)	Averages			
				Age (years)	Service (years)	Pay	Increase in Average Pay
6-30-99	12	10,901	\$305,478	37.8	5.2	\$28,023	2.5%
6-30-00	12	11,290	\$339,440	38.1	5.3	\$30,066	7.3%
6-30-01	12	11,047	\$339,783	38.1	6.6	\$30,758	2.3%
6-30-02	12	10,464	\$330,428	38.7	6.0	\$31,578	2.7%
6-30-03	15	10,964	\$358,161	38.8	6.0	\$32,667	3.4%
6-30-04	16	11,583	\$381,942	38.7	6.0	\$32,974	0.9%
6-30-05	19	11,752	\$404,156	39.6	6.0	\$34,390	4.3%
6-30-06	21	11,914	\$437,744	39.3	6.2	\$36,742	6.8%
6-30-07	21	12,780	\$515,428	39.0	6.0	\$40,331	9.8%
6-30-08	24	14,716	\$642,621	39.6	7.0	\$43,668	8.3%

**Actuarial Section**  
**Summary of Retirants and Inactive Data**

**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
6/30/1999	21	138	825			\$9,642,797	40.1%	\$26,211
6/30/2000	25	125	925			\$11,042,151	14.5%	\$11,938
6/30/2001	40	155	1,040			\$13,446,069	21.8%	\$12,929
6/30/2002	30	208	1,218			\$17,660,064	31.3%	\$14,499
6/30/2003	32	177	1,363			\$21,653,042	22.6%	\$15,886
6/30/2004	32	205	1,536	\$435,860	\$5,033,961	\$26,261,143	21.3%	\$17,097
6/30/2005	61	258	1,733	\$3,761,718	\$8,829,800	\$31,329,225	19.3%	\$18,078
6/30/2006	46	232	1,919	\$2,405,616	\$4,807,848	\$37,272,180	19.0%	\$19,065
6/30/2007	68	272	2,123	\$971,820	\$6,365,640	\$42,666,000	14.0%	\$20,097
6/30/2008	100	405	2,428	\$2,197,553	\$10,594,200	\$51,062,647	19.7%	\$21,031

\*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.

**INACTIVE MEMBERS**

Attained Age	Years of Service to Valuation Date					Totals
	0 - 4	5 - 9	10 - 14	15 - 19	20+	
< 20	10					10
20 - 29	631	11				642
30 - 39	451	56	15			522
40 - 44	133	14	12	4		163
45 - 49	129	13	12	4	2	160
50 - 54	95	8	26	5	2	136
55 - 59	83	16	23	12	1	135
60 - 69	71	10	18	8	1	108
70+	5					5
<b>Totals</b>	<b>1,608</b>	<b>128</b>	<b>106</b>	<b>33</b>	<b>6</b>	<b>1,881</b>

**SCHEDULE OF EXPERIENCE GAIN/(LOSS)**

For the Fiscal Year Ended June 30, 2008

(1) UAAL* at start of year	170,674,932
(2) Normal cost for year	77,607,436
(3) Funding Method Contribution	(97,632,464)
(4) Interest accrued on (1), (2) and (3)	13,656,305
(5) Expected UAAL before changes	164,306,209
[(1)+(2)-(3)+(4)]	
(6) Change from amendments***	10,000,000
(7) Change from assumption revision	None
(8) Expected UAAL after changes	174,306,209
(9) Actual UAAL	183,337,151
(10) Gain(+)/Loss(-) (8)-(9)	(9,030,942)
(11) Percent of actuarial accrued liability**	-0.8%

*\*Unfunded actuarial accrued liability**\*\*Actuarial accrued liability**\*\*\*Estimated*





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# Statistical Section

## Financial Trends

### SUMMARY

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

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

**Revenue capacity information** is intended to assist users in understanding and assessing the factors affecting the ability of CORP to generate own-source revenue, specifically investment income. The schedule presenting revenue capacity information is the Rate of Return by Type of Investment.

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

*Schedules and information are derived from CORP internal sources unless otherwise indicated.*

*\*Schedules and data are provided by actuarial consultant Rodwan Consulting Company*



**Changes in Net Assets  
Last 10 Fiscal Years**

<b>Retirement Plan</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Additions:</b>					
Member Contributions	\$111,097,660	\$41,354,907	\$37,134,076	\$34,589,714	\$31,337,579
Employer Contributions	148,655,973	22,709,507	24,028,050	16,291,914	14,555,335
Net Investment Gain (Loss)	(68,039,675)	144,850,095	64,197,984	66,277,084	91,300,470
Member Service Purchase	870,764	930,358	993,668	718,850	
Amounts transferred from Other State Plans	3,217,224	456,348	1,234,448	1,070,768	1,459,965
Total Additions	<u>195,801,946</u>	<u>210,301,215</u>	<u>127,588,226</u>	<u>118,948,330</u>	<u>138,653,349</u>
<b>Deductions:</b>					
Pension and Health Insurance Subsidy Benefits <sup>1</sup>	48,972,663	39,716,871	36,708,528	31,097,950	26,623,619
Refunds to Terminated Members	16,211,929	16,634,320	15,741,460	16,652,638	14,053,002
Administrative Expenses	1,102,992	732,236	674,058	922,183	541,070
Amounts Transferred to Other State Plans	864,053	2,062,977	1,555,240	637,008	1,138,940
Total Deductions	<u>67,151,638</u>	<u>59,146,404</u>	<u>54,679,286</u>	<u>49,309,779</u>	<u>42,356,631</u>
Net (Decrease) Increase	128,650,309	151,154,811	72,908,940	69,638,551	96,296,718
<b>Net Assets Held In Trust</b>					
Beginning of Year - July 1	1,012,937,536	861,782,725	788,873,785	719,235,234	622,938,516
Ending of Year - June 30	<u>\$1,141,587,845</u>	<u>\$1,012,937,536</u>	<u>\$861,782,725</u>	<u>\$788,873,785</u>	<u>\$719,235,234</u>

<sup>1</sup>See Note 7 on page 42

<b>Retirement Plan</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Additions:</b>					
Member Contributions	\$30,330,914	\$29,532,366	\$28,966,162	\$28,009,210	\$24,408,816
Employer Contributions	7,397,595	7,101,112	14,927,396	16,876,163	17,109,704
Net Investment Gain (Loss)	35,698,266	(100,518,025)	(138,559,756)	92,772,177	102,169,586
Member Service Purchase					
Amounts transferred from Other State Plans	3,189,325	1,325,465	-	-	-
Total Additions	<u>76,616,100</u>	<u>(62,559,082)</u>	<u>(94,666,198)</u>	<u>137,657,550</u>	<u>143,688,106</u>
<b>Deductions:</b>					
Pension and Health Insurance Subsidy Benefits <sup>1</sup>	22,506,792	17,576,451	13,433,499	10,777,009	8,917,450
Refunds to Terminated Members	16,022,697	14,271,104	14,609,539	14,385,327	9,043,573
Administrative Expenses	427,150	397,110	365,742	344,542	348,302
Amounts Transferred to Other State Plans	1,049,418	2,060,223	1,498,459	616,142	408,806
Total Deductions	<u>40,006,057</u>	<u>34,304,888</u>	<u>29,907,239</u>	<u>26,123,020</u>	<u>18,718,131</u>
Net (Decrease) Increase	36,610,043	(96,863,970)	(124,573,437)	111,534,530	124,969,975
<b>Net Assets Held In Trust</b>					
Beginning of Year - July 1	586,328,473	683,192,443	807,765,880	696,231,350	571,261,375
Ending of Year - June 30	<u>\$622,938,516</u>	<u>\$586,328,473</u>	<u>\$683,192,443</u>	<u>\$807,765,880</u>	<u>\$696,231,350</u>

<sup>1</sup>See Note 7 on page 42

**Statistical Section  
Demographics**

**Schedule of Revenue by Source - All Plans Combined**  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Member Contributions</b>	<b>Employer Contributions</b>	<b>% of Covered Payroll</b>	<b>Investment Income (Loss)</b>	<b>Amounts Transferred from Other Plans</b>	<b>Total</b>
1999	24,408,816	17,109,704	5.98%	102,169,586	-	143,688,106
2000	28,009,210	16,876,163	5.14%	92,772,177	-	137,657,550
2001	28,966,162	14,927,396	1.88%	(138,559,756)	-	(94,666,198)
2002	29,532,366	7,101,112	1.15%	(100,518,025)	1,325,465	(62,559,082)
2003	30,330,914	7,397,595	1.71%	35,698,266	3,189,325	76,616,100
2004	31,337,579	14,555,335	3.95%	91,300,470	1,459,965	138,653,349
2005	34,589,714	16,291,914	4.07%	66,277,084	1,789,618	118,948,330
2006	37,134,076	24,028,050	5.47%	64,197,983	2,228,116	127,588,225
2007	41,354,907	24,622,693	4.46%	144,850,095	1,386,706	212,214,401
2008	111,097,660	150,729,218	6.72%	(68,039,675)	4,087,988	197,875,191

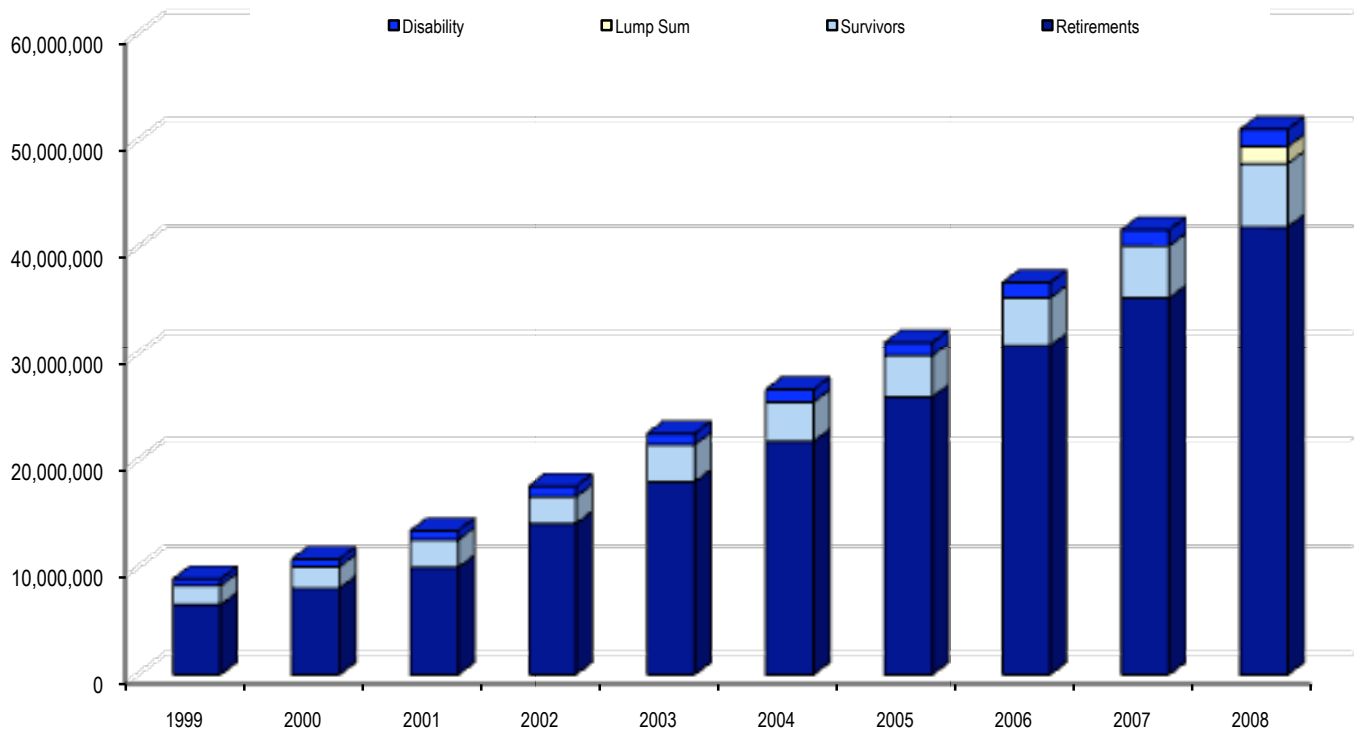
**Schedule of Expenses by Type - All Plans Combined**  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Benefits</b>	<b>Administrative Expenses</b>	<b>Refunds</b>	<b>Amounts Transferred from Other Plans</b>	<b>Total</b>
1999	8,917,450	348,302	9,043,573	408,806	18,718,131
2000	10,777,009	344,542	14,385,327	616,142	26,123,020
2001	13,433,499	365,742	14,609,539	1,498,459	29,907,239
2002	17,576,451	397,110	14,271,104	2,060,223	34,304,888
2003	22,506,792	427,150	16,022,697	1,049,418	40,006,057
2004	26,623,619	541,070	14,053,002	1,138,940	42,356,631
2005	31,097,950	922,183	16,652,638	637,008	49,309,779
2006	36,708,528	674,058	15,741,460	1,555,240	54,679,286
2007	41,630,057	732,236	16,634,320	2,062,977	61,059,590
2008	51,045,908	1,102,992	16,211,929	864,053	69,224,882

**Deductions From Net Assets for Benefits and Refunds by Type**  
Last Ten Fiscal Years

Fiscal Year	Normal Benefits	Survivor Benefits	Disability Benefits	Health Insurance Subsidy <sup>1</sup>	DROP Benefits	Total Benefits	Refunds
1999	5,957,350	1,801,580	614,275	544,245	-	8,917,450	9,043,573
2000	7,416,745	2,013,181	706,266	640,817	-	10,777,009	14,385,327
2001	9,266,426	2,587,972	849,350	729,751	-	13,433,499	14,609,539
2002	12,301,106	2,494,885	986,621	1,793,839	-	17,576,451	14,271,104
2003	15,678,608	3,469,345	1,045,433	2,313,406	-	22,506,792	16,022,697
2004	19,442,835	3,677,576	1,178,761	2,324,447	-	26,623,619	14,053,002
2005	23,519,992	3,871,675	1,305,434	2,400,849	-	31,097,950	16,652,638
2006	28,928,172	4,472,559	1,449,215	1,858,582	-	36,708,528	15,741,460
2007	33,341,839	4,860,093	1,514,939	1,913,186	-	41,630,057	16,634,320
2008	39,831,873	5,934,454	1,625,680	2,073,245	1,580,656	51,045,908	16,211,929

<sup>1</sup>See Note 7 on page 42



# Statistical Section

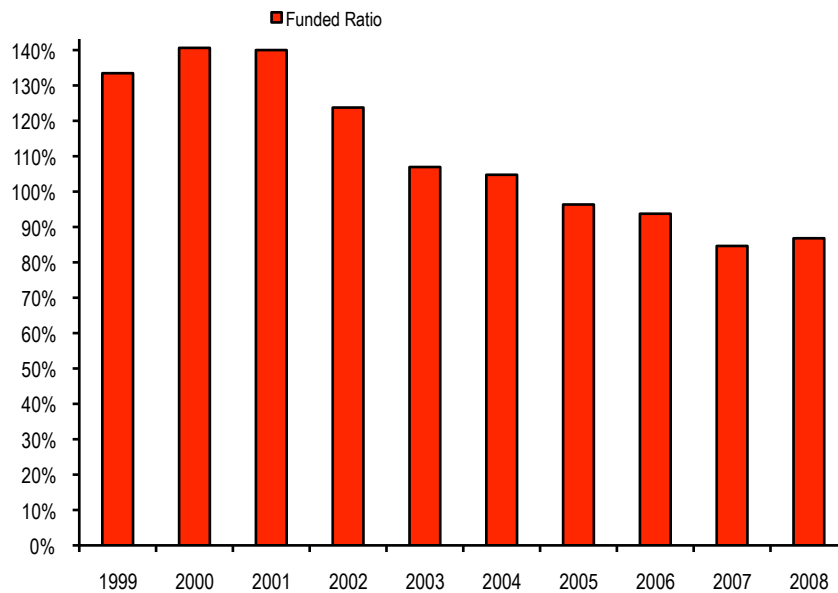
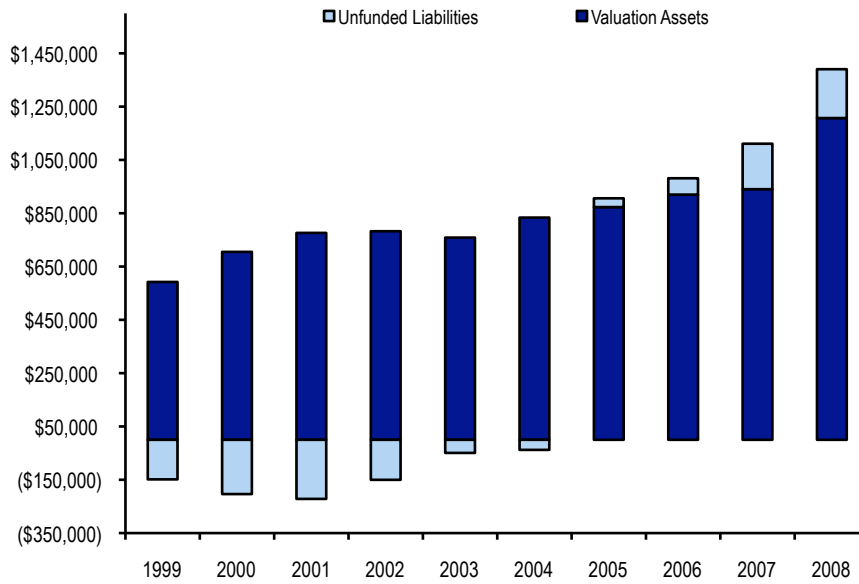
## Operating Information

All Plans Combined - Includes Health Insurance Subsidy

### Valuation Assets vs. Pension Liabilities

Last Ten Fiscal Years

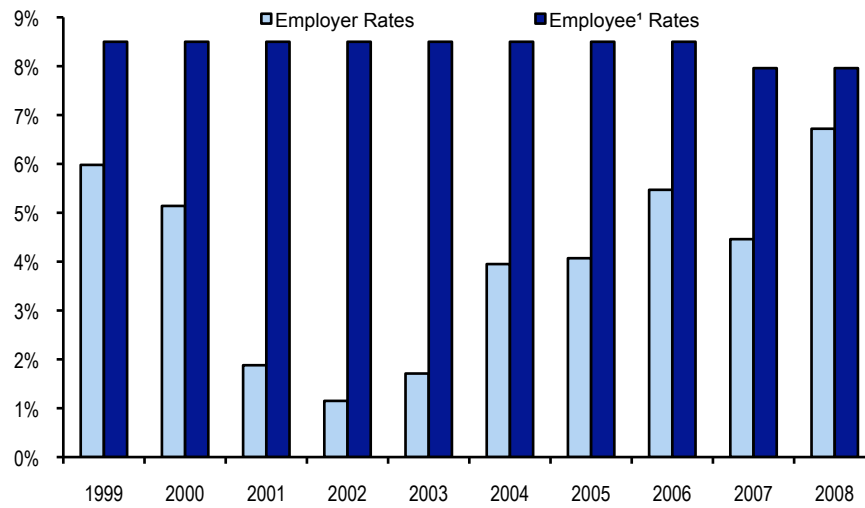
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratio
1999	592,152	(148,476)	443,676	133.5%
2000	704,991	(203,668)	501,323	140.6%
2001	776,177	(221,790)	554,387	140.0%
2002	782,446	(150,208)	632,238	123.8%
2003	758,579	(49,281)	709,298	106.9%
2004	833,621	(37,846)	795,775	104.8%
2005	872,981	33,044	906,025	96.4%
2006	919,867	61,340	981,207	93.7%
2007	940,126	170,675	1,110,801	84.6%
2008	1,207,015	183,348	1,390,363	86.8%



**Contribution Rates  
Last Ten Fiscal Years**

Fiscal Year	Average	
	Employer Rates	Employee <sup>1</sup> Rates
1999	5.98%	8.50%
2000	5.14%	8.50%
2001	1.88%	8.50%
2002	1.15%	8.50%
2003	1.71%	8.50%
2004	3.95%	8.50%
2005	4.07%	8.50%
2006	5.47%	8.50%
2007	4.46%	7.96%
2008	6.72%	7.96%

*<sup>1</sup>Employee Contribution rates are fixed by Arizona Revised Statutes*



# Statistical Section

## Operating Information

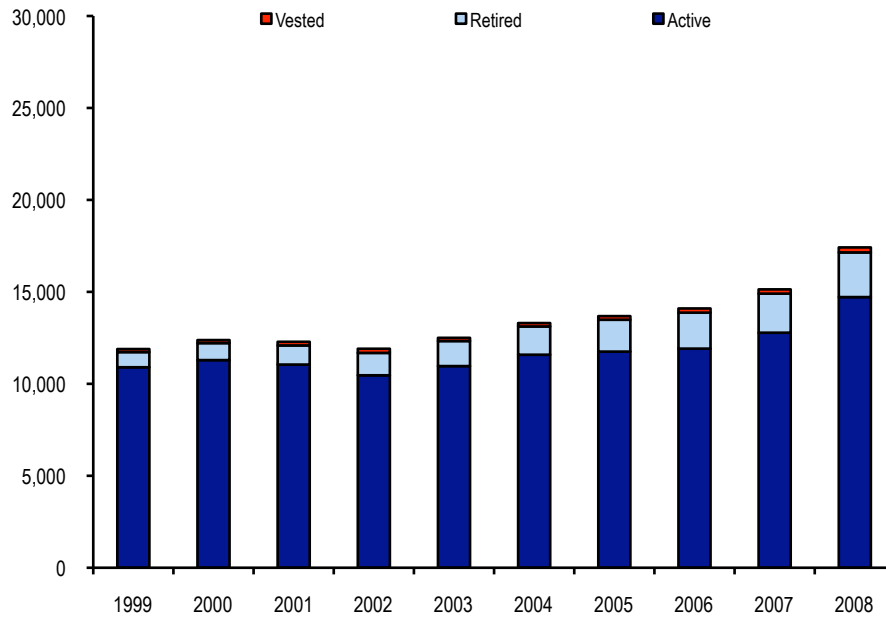
### Rate of Return by Type of Investment Last Ten Fiscal Years

Fiscal Year	Equity	Fixed Income	Alternative Investments	Total
1999	23.67%	2.23%		17.58%
2000	16.92%	2.26%		13.20%
2001	-25.61%	10.76%		-17.09%
2002	-26.12%	8.08%		-14.75%
2003	3.61%	10.36%		6.13%
2004	20.69%	4.38%		14.75%
2005	9.13%	10.16%		9.21%
2006	6.78%	-0.07%	148.24%	8.17%
2007	20.54%	6.71%	20.24%	16.77%
2008	-11.43%	3.52%	7.03%	-7.05%

*Note: Detailed information not available prior to fiscal year 2006.*

**Membership in Retirement System  
Last Ten Fiscal Years**

Fiscal Year	Active	Beneficiaries Retired	Terminated/ Vested	Totals
1999	10,901	825	165	11,891
2000	11,290	925	164	12,379
2001	11,047	1,040	199	12,286
2002	10,464	1,218	226	11,908
2003	10,964	1,363	174	12,501
2004	11,583	1,536	185	13,304
2005	11,752	1,733	196	13,681
2006	11,914	1,955	229	14,098
2007	12,780	2,123	233	15,136
2008	14,716	2,428	273	17,417



**Principal Participating Employers**  
 Current Year and Nine Years Ago

Participating Employer	2008			1999		
	Covered Employees	Rank	% of Membership	Covered Employees	Rank	% of Membership
State	8,760	1	59.53%	8,737	1	80.15%
Administrative Office of the Courts	2,257	2	15.34%	-		0.00%
Maricopa County	2,053	3	13.95%	1,163	2	10.67%
Pima County	515	4	3.50%	409	3	3.75%
Pinal County	258	5	1.75%	-		0.00%
Yavapai County	178	6	1.21%	106	5	0.97%
Yuma County	152	7	1.03%	197	4	1.81%
Coconino County	87	8	0.59%	58	7	0.53%
Mohave County	85	9	0.58%	77	6	0.71%
Gila County	63	10	0.43%	-		0.00%
All Others	308		2.09%	154		1.41%
	<u>14,716</u>		<u>100.00%</u>	<u>10,901</u>		<u>100.00%</u>



## SUMMARY OF GROWTH OF THE SYSTEM

Last Ten Fiscal Years

Fiscal Year	Total Assets at Book	Realized Earnings from Investments	Assumed Actuarial Yield	Net Effective Yield	Average Employer Rates
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%	5.47%
2007	\$840,116,484	\$90,731,938	8.50%	12.14%	4.46%
2008	\$1,108,093,837	\$125,821,779	8.50%	13.50%	6.72%

## Benefits Payable June 30, 2008

Tabulated by Type of Benefit

### SUMMARY OF RETIRED MEMBERS AND SURVIVORS - JUNE 30, 2008

Pensions Being Paid*		Number	Annual Pensions	Average Pensions
Retired Members	- Service Pensions	1,949	\$43,829,121	\$22,488
	- Disability Pensions	89	\$1,682,001	\$18,899
	Totals	2,038	\$45,511,122	\$22,331
Survivors of Members	- Spouses	351	\$5,073,011	\$14,453
	- Children with Guardians**	39	\$478,514	\$12,270
	Totals	390	\$5,551,525	\$14,235
	Total Pensions Being Paid	2,428	\$51,062,647	\$21,031

\* Does not include pensions payable to children whose parent is being paid a survivor pension.

	Average Age	Average Service (yrs)	Average Age at Retirement (yrs)
Normal retired members	63.1	19.1	57.2
Disability retired members	53.6	9.6	44.8
Spouse beneficiaries	62.6	11.3	51.7

**Average Monthly Benefit Amounts**  
 Ten Fiscal Years Ended June 30, 2008

		Years Credited Service by Category						All	
		<5	5-10	10-15	15-20	20-25	25-30	30+	Members
1999	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$974
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,250
	Number of retirees	-	-	-	-	-	-	-	825
2000	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$995
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,373
	Number of retirees	-	-	-	-	-	-	-	925
2001	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,077
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,468
	Number of retirees	-	-	-	-	-	-	-	1,040
2002	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,208
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,567
	Number of retirees	-	-	-	-	-	-	-	1,218
2003	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,324
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,639
	Number of retirees	-	-	-	-	-	-	-	1,363
2004	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,425
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,701
	Number of retirees	-	-	-	-	-	-	-	1,536
2005	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,507
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,779
	Number of retirees	-	-	-	-	-	-	-	1,733
2006	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,589
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$2,892
	Number of retirees	-	-	-	-	-	-	-	1,955
2007	Average monthly benefit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$1,675
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$3,096
	Number of retirees	-	-	-	-	-	-	-	2,123
2008	Average monthly benefit	\$1,093	\$998	\$1,028	\$1,467	\$2,055	\$2,934	\$3,506	\$1,753
	Average final average salary	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$3,354
	Number of retirees	122	158	554	391	849	288	66	2,428

Note: Detailed information not available prior to fiscal year 2008.

## Summary of Benefit Increases

Ten Fiscal Years Ended June 30, 2008

Fiscal Year	Excess Yield per Statute	Excess Earnings	Utilized to pay COLA	Excess Earnings Available	Benefit Increase 4% Cap
1999	8.60%	26,583,952	(2,369,795)	42,454,412	38.96
2000	4.20%	14,971,383	(3,253,379)	59,784,889	39.79
2001	0.00%	-	(3,761,946)	45,820,054	4.00%
2002	0.00%	-	(4,650,770)	34,452,064	4.00%
2003	0.00%	-	(5,878,909)	30,709,183	4.00%
2004	5.77%	18,478,098	(7,810,709)	45,912,625	4.00%
2005	0.23%	810,817	(9,545,626)	41,415,092	4.00%
2006	0.00%	-	(11,506,060)	33,292,645	4.00%
2007	7.77%	35,123,022	(13,572,783)	60,426,061	4.00%
2008	0.00%	-	(15,533,554)	40,633,678	4.00%

### Schedule of Changes in Employers' Reserve Balances and Unfunded Actuarial Accrued Liabilities

Fiscal Year Ended June 30, 2008 (unless otherwise indicated)

SYS NO.	SYSTEM	BALANCES 6/30/2007	RESERVE TRANSFERS	CONTRIB RECEIVED	PENSION PAYMENT	SUBSIDY PAYMENT	ENHANCED REFUNDS	DISTRIBUTION OF EARNINGS	BALANCES 6/30/2008	UNFUNDED AAL 6/30/2007
575	ADMINISTRATIVE OFFICE OF THE COURTS	0	11,450,615	114,829,098	(3,341,939)	(58,927)	(161,478)	10,159,961	132,877,329	-
520	APACHE COUNTY - Detention	708,641	(1,837)	48,077	(41,273)	0	0	109,421	823,029	46,817
562	CITY OF SOMERTON - Dispatchers	0	95,329	13,371	0	0	0	11,433	120,133	-
525	COCHISE COUNTY - Detention	2,973,366	150,543	124,957	(225,243)	(2,479)	(102,409)	437,972	3,356,707	326,041
530	COCONINO COUNTY - Detention	2,108,939	(44,993)	159,220	(18,665)	(150)	(19,730)	373,902	2,558,524	(411,644)
500	DEPARTMENT OF CORRECTIONS - Detention	434,608,997	5,919,848	24,099,557	(32,605,751)	(1,544,674)	(2,907,104)	64,471,795	492,042,668	116,996,469
501	DEPT OF JUVENILE CORRECTIONS - Detention	42,837,112	397,778	2,305,671	(3,111,267)	(153,381)	(391,712)	6,281,803	48,166,005	8,502,572
503	GILA COUNTY - Detention	901,398	9,456	121,638	(14,541)	0	(10,233)	162,012	1,169,728	106,944
558	GILA COUNTY - Dispatchers	693,050	0	42,127	0	0	(1,484)	109,865	843,558	113,224
504	GRAHAM COUNTY - Detention	760,644	28,592	44,736	(36,995)	0	0	110,056	907,031	3,127
560	GRAHAM COUNTY - Dispatchers	67,483	80,096	17,616	0	0	0	22,549	187,744	(29,853)
505	MARICOPA COUNTY - Detention	86,678,541	577,003	5,639,471	(5,736,334)	(123,367)	(230,458)	13,345,793	100,150,648	33,445,280
535	MOHAVE COUNTY - Detention	3,079,201	(41,640)	142,579	(123,645)	(9,927)	0	425,302	3,471,870	(1,322,655)
545	NAVAJO COUNTY - Detention	1,216,350	2,932	77,421	(58,785)	0	(2,788)	192,859	1,427,988	(131,132)
515	PIMA COUNTY - Detention	29,989,117	589,720	1,512,826	(2,547,440)	(162,739)	(70,218)	4,341,224	33,652,490	10,291,876
502	PINAL COUNTY - Detention	5,088,442	470,785	665,001	(100,737)	(3,000)	(77,407)	945,289	6,988,373	1,374,882
555	PINAL COUNTY - Dispatchers	507,260	24,467	40,729	(22,867)	0	0	85,397	634,987	338,635
540	SANTA CRUZ COUNTY - Detention	1,376,680	49,320	34,480	(65,438)	(1,200)	(5,695)	182,622	1,570,770	(643,012)
557	TOWN OF MARANA - Dispatchers	113,653	(27)	28,519	0	0	0	29,564	171,709	118,542
556	TOWN OF ORO VALLEY - Dispatchers	488,351	116,162	36,214	(59,031)	(1,788)	0	95,692	675,601	318,221
559	TOWN OF WICKENBURG - Dispatchers	157,973	0	19,150	(14,340)	0	0	25,394	188,177	150,838
550	YAVAPAI COUNTY - Detention	5,334,027	(543,475)	424,455	(475,397)	(11,487)	(25,406)	821,858	5,524,576	1,630,062
561	YAVAPAI COUNTY - Dispatchers	0	219,371	28,653	0	0	0	22,060	270,083	-
510	YUMA COUNTY - Detention	6,716,491	93,254	273,652	(372,976)	(127)	(156,349)	937,072	7,491,017	(714,473)
	TOTAL	626,405,714	19,643,298	150,729,218	(48,972,664)	(2,073,245)	(4,162,469)	103,700,892	845,270,744	170,510,761

## Schedule of Changes in Refundable Member Reserve Balances

Fiscal Year Ended June 30, 2008 (unless otherwise indicated)

SYS No.	SYSTEM	BALANCES 6/30/2007	RESERVE TRANSFERS	CONTRI- BUTIONS RECEIVED	WITHDRAWN MEMBERS	BALANCES 6/30/2008
575	ADMINISTRATIVE OFFICE OF THE COURTS	0	(7,175,137)	68,895,820	(445,302)	61,275,381
520	APACHE COUNTY - Detention	257,747	(2,165)	58,157	(12,167)	301,572
562	CITY OF SOMERTON - Dispatchers	0	85,137	13,205	0	98,342
525	COCHISE COUNTY - Detention	1,065,836	(110,669)	155,213	(136,833)	973,547
530	COCONINO COUNTY - Detention	1,224,181	(125,872)	256,146	(100,977)	1,253,478
500	DEPARTMENT OF CORRECTIONS - Detention	145,960,658	(6,818,916)	27,847,803	(7,572,123)	159,417,423
501	DEPT OF JUVENILE CORRECTIONS - Detention	14,069,299	(660,645)	2,761,906	(1,200,269)	14,970,290
503	GILA COUNTY - Detention	447,994	8,456	157,327	(36,922)	576,854
558	GILA COUNTY - Dispatchers	257,944	0	60,311	(13,332)	304,923
504	GRAHAM COUNTY - Detention	200,148	(28,592)	70,827	(7,085)	235,298
560	GRAHAM COUNTY - Dispatchers	61,886	32,056	28,044	(8,199)	113,786
505	MARICOPA COUNTY - Detention	31,560,897	(920,133)	7,321,699	(1,319,886)	36,642,577
535	MOHAVE COUNTY - Detention	714,809	(25,804)	226,866	(54,396)	861,475
545	NAVAJO COUNTY - Detention	482,517	(14,323)	123,169	(32,764)	558,599
515	PIMA COUNTY - Detention	9,504,524	(998,037)	1,677,169	(370,772)	9,812,884
502	PINAL COUNTY - Detention	2,511,486	229,137	938,445	(203,288)	3,475,781
555	PINAL COUNTY - Dispatchers	230,694	(34,690)	63,421	(458)	258,967
540	SANTA CRUZ COUNTY - Detention	317,834	(121,399)	53,699	(25,592)	224,541
557	TOWN OF MARANA - Dispatchers	118,927	(111)	45,339	(3,482)	160,673
556	TOWN OF ORO VALLEY - Dispatchers	369,785	(116,162)	41,280	0	294,902
559	TOWN OF WICKENBURG - Dispatchers	63,448	0	17,289	(5,068)	75,669
550	YAVAPAI COUNTY - Detention	2,430,174	(517,114)	691,724	(188,189)	2,416,596
561	YAVAPAI COUNTY - Dispatchers	0	124,955	28,123	(1,611)	151,467
510	YUMA COUNTY - Detention	1,837,478	(100,100)	435,448	(310,747)	1,862,078
TOTAL		213,688,264	(17,290,128)	111,968,424	(12,049,460)	296,317,101

**Schedule of Employers' Earnings Distribution**

Fiscal Year Ended June 30, 2008 (unless otherwise indicated)

SYS #	SYSTEM	EMPLOYER RESERVE 6/30/2007	EMPLOYER RESERVE 6/30/2008	MEMBER RESERVE 6/30/2007	MEMBER RESERVE 6/30/2008	COMBINED RESERVES	MEAN BALANCE	FACTOR	INVTMNT EARNINGS
575	ADMINISTRATIVE OFFICE OF THE COURTS	-	122,717,368	-	61,275,381	183,992,749	91,996,374	9.797%	10,159,961
520	APACHE COUNTY - Detention	708,641	713,608	257,747	301,572	1,981,568	990,784	0.106%	109,421
562	CITY OF SOMERTON - Dispatchers	-	108,701	-	98,342	207,043	103,522	0.011%	11,433
525	COCHISE COUNTY - Detention	2,973,366	2,918,735	1,065,836	973,547	7,931,485	3,965,742	0.422%	437,972
530	COCONINO COUNTY - Detention	2,108,939	2,184,621	1,224,181	1,253,478	6,771,219	3,385,609	0.361%	373,902
500	DEPARTMENT OF CORRECTIONS - Detention	434,608,997	427,570,874	145,960,658	159,417,423	1,167,557,952	583,778,976	62.171%	64,471,795
501	DEPT OF JUVENILE CORRECTIONS - Detention	42,837,112	41,884,201	14,069,299	14,970,290	113,760,902	56,880,451	6.058%	6,281,803
503	GILA COUNTY - Detention	901,398	1,007,717	447,994	576,854	2,933,962	1,466,981	0.156%	162,012
558	GILA COUNTY - Dispatchers	693,050	733,693	257,944	304,923	1,989,610	994,805	0.106%	109,865
504	GRAHAM COUNTY - Detention	760,644	796,976	200,148	235,298	1,993,065	996,532	0.106%	110,056
560	GRAHAM COUNTY - Dispatchers	67,483	165,195	61,886	113,786	408,350	204,175	0.022%	22,549
505	MARICOPA COUNTY - Detention	86,678,541	86,804,856	31,560,897	36,642,577	241,686,870	120,843,435	12.870%	13,345,793
535	MOHAVE COUNTY - Detention	3,079,201	3,046,568	714,809	861,475	7,702,053	3,851,027	0.410%	425,302
545	NAVAJO COUNTY - Detention	1,216,350	1,235,129	482,517	558,599	3,492,595	1,746,298	0.186%	192,859
515	PIMA COUNTY - Detention	29,989,117	29,311,267	9,504,524	9,812,884	78,617,792	39,308,896	4.186%	4,341,224
502	PINAL COUNTY - Detention	5,088,442	6,043,084	2,511,486	3,475,781	17,118,793	8,559,396	0.912%	945,289
555	PINAL COUNTY - Dispatchers	507,260	549,589	230,694	258,967	1,546,510	773,255	0.082%	85,397
540	SANTA CRUZ COUNTY - Detention	1,376,680	1,388,148	317,834	224,541	3,307,202	1,653,601	0.176%	182,622
557	TOWN OF MARANA - Dispatchers	113,653	142,145	118,927	160,673	535,398	267,699	0.029%	29,564
556	TOWN OF ORO VALLEY - Dispatchers	488,351	579,909	369,785	294,902	1,732,947	866,473	0.092%	95,692
559	TOWN OF WICKENBURG - Dispatchers	157,973	162,783	63,448	75,669	459,873	229,936	0.024%	25,394
550	YAVAPAI COUNTY - Detention	5,334,027	4,702,718	2,430,174	2,416,596	14,883,514	7,441,757	0.793%	821,858
561	YAVAPAI COUNTY - Dispatchers	-	248,024	-	151,467	399,490	199,745	0.021%	22,060
510	YUMA COUNTY - Detention	6,716,491	6,553,945	1,837,478	1,862,078	16,969,992	8,484,996	0.904%	937,072
024	TOTAL	626,405,714	741,569,852	213,688,264	296,317,101	1,877,980,930	938,990,465	100.00%	103,700,892

# PARTICIPATING EMPLOYERS

ADMINISTRATIVE OFFICE OF THE COURTS

APACHE COUNTY

CITY OF SOMERTON DISPATCHERS

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

YAVAPAI COUNTY DISPATCHERS

YUMA COUNTY

