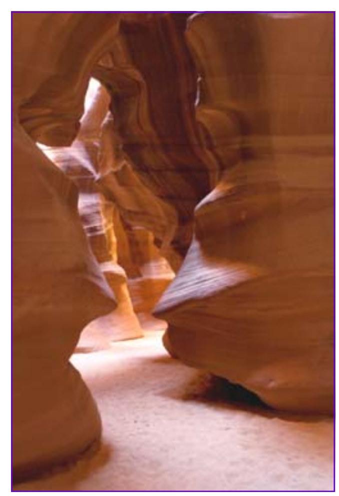
CORRECTIONS OFFICER RETIREMENT PLAN



24th COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA





FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Our Vision, Mission & Values

VISION

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

MISSION

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

VALUES

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

Corrections Officer Retirement Plan

A Pension Trust Fund of the State of Arizona

Twenty-Fourth Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2010

Prepared by the Staff of PSPRS

Public Safety Personnel Retirement System
3010 E. Camelback Road, Suite 200
Phoenix, AZ 85016
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TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

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INTRODUCTORY SECTION

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, 2009

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

President

Executive Director

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

Ryan Parham
Chief Investment Officer

Tracey D. Peterson
Assistant Administrator-COO

December 3, 2010

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

Dear Governor Brewer:

The Board of Trustees of the Public Safety Personnel Retirement System (PSPRS) respectfully submits the Twenty-fourth Comprehensive Annual Financial Report (CAFR) for the Corrections Officer Retirement Plan (CORP) for the fiscal year ended June 30, 2010 (FY'10), in accordance with the provisions of A.R.S. Section 38-883.

The CORP's Funding Ratio

As of fiscal year-end, the financial status of the CORP, as reflected in its funding ratio, decreased from 82.6% at June 30, 2009 to 80.3% at June 30, 2010. This decrease continues the funding ratio erosion that resumed last year following a modest improvement in FY'08 that interrupted six consecutive years of funding status decline. This negative trend in the financial condition of the Plan is due in large part to the asset value losses and negative rates of return that the Plan experienced in FY'01 and FY'02 and again in FY'08 and FY'09. Those losses were largely the result of a lack of diversification in the deployment of the Plan's assets for investment purposes.

The funding ratio decrease this fiscal year occurred despite the fact that the Plan had an FY'10 rate of return (13.47%) that was well in excess of its actuarial assumed rate of return (8.5%). (For further information on the Plan's net assets and changes in net assets, please refer to the subsequent Management's Discussion and Analysis section of this Comprehensive Annual Financial Report (CAFR) which begins on page 20.)

Because the Plan uses a seven-year averaging process ("smoothing") to determine its fiscal year-end actuarial value of assets, only one-seventh of any fiscal year's investment gain or loss is reflected in that year's results. The remaining six-sevenths are rolled forward and reflected in the results over the next six fiscal years. That means that only one-seventh of the positive return that the Plan experienced in FY'10 is reflected in this fiscal year's results. That was more than offset by factoring into the FY'10 results, one-seventh portions of the -7.19% and -17.45% returns that the Plan experienced during FY'08 and FY'09 respectively. Those negative returns were due to the collapse of the U.S. housing market and the intense recession that followed. Because the remainder of the FY'08 and FY'09 investment losses will be factored into the Plan's financial status results over the next several fiscal years, the expectation is that the Plan's funding ratio will continue to deteriorate unless this trend is offset by several consecutive years of much better-than-expected rates of return or changes in the Plan's employee contribution rate and benefit structure or both.

If the CORP's funding ratio were calculated using fiscal year-end market value (rather than actuarial value) of assets, the Plan's funded status would be only 65.0%, rather than 80.3%. How to move the Plan, within a ten to twenty year time period, back to a state of financial soundness with an 80% funding ratio or better, calculated using market value, is clearly the principal challenge facing the PSPRS Board of Trustees.

Although the investment losses that the Plan sustained in FY'08 and FY'09 have taken, and will continue to take, their toll on the financial status of the Plan, the principal structural impediment to restoring the Plan to a state of financial soundness in a reasonable period of time is the post retirement adjustment structure. Current CORP statutes require that in any year in which the Plan generates an investment return in excess of 9%, one-half of the excess return over 9% must be diverted into the CORP's Reserve for Future Benefit Increases ("The 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. The Board of Trustees at their meeting on September 15, 2010 were told by the System's actuaries from Gabriel, Roeder, Smith & Co. (GRS) that this diversion of excess return in good investment return years makes the PSPRS-administered Plans "unsustainable."

Employer Contribution Rates

Any change in the CORP's fiscal year-end funding ratio impacts the employer contribution rate two fiscal years later. For example, a funding ratio change in Plan FY'10 will affect the employer contribution requirement during employer FY'12.

When times were good and the CORP 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 current decade the computed aggregate employer contribution was only 1.71% of payroll.

But as the CORP's funding ratio eroded, the employer contribution requirement rose steadily until employer FY'09 when the aggregate rate crested at 8.68% of payroll. Although the aggregate employer rate declined modestly in employer FY'10, it is currently at 8.59%. Based on the CORP's FY'10 results, the employer rate is projected to increase again, with a 9.50% aggregate rate payable in employer FY'12. That represents a 0.91% of payroll increase over the current rate. This increase in the employer aggregate rate reflects a combination of factors including the negative returns from FY'08 and FY'09 as well as the fact that covered payroll and salaries did not increase as expected. With further erosion in the CORP's funding status expected to occur over the next several years, the forecast is that the employer rate will continue to increase unless significant Plan changes are made.

As the new fiscal year progresses, the Board of Trustees and the System's Administrator will consult with representatives of the Plans' constituency groups and the contributing employers in an attempt to create a consensus for a combination of legislative changes that will reverse the present funding ratio/employer contribution rate trends and restore the CORP to a state of financial soundness within a reasonable period of time. But if these efforts to achieve a consensus fail or fall short, the PSPRS Board members, in their capacity as fiduciaries, will propose to the Legislature changes designed to assure the sustainability of the Plan.

FY'10 Investment Results

The FY'10 net of fee rate of investment return for the CORP was 13.47%. The return was 1.37% higher than the Plan's weighted composite rate of return benchmark, which was 12.10%. In addition, on a "peer group" basis, the return was good enough to place the CORP in the second quartile (rank 32) of the public funds included in the ICC Public Fund Universe of 100 public retirement systems.

Clearly, the FY'10 investment result was much higher than the Plan's 8.5% actuarial assumed rate of return. However, because the return was in excess of 9%, one-half of the return in excess of 9% -- a total of $22.8 million -- was diverted to the Plan's Reserve and, therefore, will not be available to help improve the Plan's funding ratio/employer contribution rate situation described above.

Clearly, the FY'10 in-flow of new assets to the Plan's Reserve was significant. However, it was only slightly greater than the $21.3 million that was withdrawn from the Reserve to fully fund the post-retirement increase that was paid at the statutory maximum of 4% to all of the Plan's eligible benefit recipients on July 1, 2010. That excess of income over out-go left a Reserve balance of $18.7 million. However, absent an infusion of new assets at June 30, 2011, the Reserve balance would only be sufficient to finance a partial post-retirement adjustment as of July 1, 2011. Moreover, as the number of eligible beneficiaries increases and the average benefit payable rises, the out-go from the CORP's Reserve will continue to increase. Therefore, it is expected that, at some point, the Reserve's balance will no longer be able to finance annual adjustments at the statutory 4% maximum.

The Strategy to Improve the Plan's Funding Ratio and Decrease Employer Contribution Requirements

To help improve the CORP's funded status and reduce employer contribution rates, the System must generate, on a consistent basis, annual rates of return that meet or exceed the CORP's return expectations. In pursuit of that goal, PSPRS has been, for the last four fiscal years, going through a complete restructuring of the way in which the System manages and invests its Plans' assets with a view to dramatically increasing asset allocation diversification and diversification within asset classes. In the process, the CORP's over-weight reliance on equities has declined considerably and so has the total Fund's volatility.

Unfortunately, according to our GRS actuaries, we have a five percent or less probability of our being able to invest our way back to an 80% or higher funding status within ten to twenty years. Therefore, in advance of the 2011 legislative session, the PSPRS Board of Trustees intends to put forward a variety of legislative changes that will, in the aggregate, give us a seventy-five percent or higher probability of achieving our stated funding goal within our stated time-frame and we shall seek the support of our constituency groups and the System's employers and their organizations in this effort.

Conclusion

As members of the PSPRS Board of Trustees, we intend to continue our efforts to assure the financial integrity of the System and its Plans and to faithfully serve the interests of the Plan's participants and beneficiaries.

We appreciate having the opportunity to serve the State of Arizona, its political subdivisions and its CORP stakeholders and we look forward to continuing to serve as members of the Board of Trustees for this System.

Respectfully submitted,

Brian Tobin
Chairman

Lori Roediger
Vice Chairperson

Tim Dunne
Tim Dunne
Trustee

Gregory Ferguson
Trustee

Alan Maguire
Trustee

Jeff McHenry
Trustee

Randie Stein
Randie Stein
Trustee

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Administrator

Ryan Parham
Chief Investment Officer

Tracey D. Peterson
Assistant Administrator-COO

December 3, 2010

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

Members:

Here is the Twenty-fourth 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, 2010. 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 Board of Trustees to transmit to the Governor and the Legislature this annual report within six months of the close of each fiscal year. Incorporated in this report are the audited financial statements, management's discussion and analysis, and other financial data from the June 30, 2010 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, 2010 actuarial valuation prepared by the System's actuary, Gabriel, Roeder, Smith & Co. (GRS).

Financial Information Reporting

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

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

The System uses the accrual basis of accounting for both revenues and expenses. Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a period of at least twenty but not more than thirty years.

Revenues

Revenues for the Plan are derived from three sources: member contributions, employer contributions, and realized and unrealized returns on the invested assets of the Plan. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the Plan had an investment gain of $129.3 million this fiscal year. That was supplemented by revenue from member contributions of $54.5 million, direct employer contributions of $52.1 million, and insurance premium taxes of $2.4 million. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

Administrative and Investment Expenses

The CORP's FY'10 administrative and investment-related expenses totaled $5.1 million, the same as last year. Administrative and investment expenses were approximately 47 basis points of the total assets managed. This is reasonable when 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 are being outsourced to external portfolio managers and even though service needs have escalated due to increasing numbers of participants and beneficiaries and the desire to provide consistent support to the CORP network of local boards that have important administrative functions to perform.

Investments

The total rate of return on the PSPRS Plan assets for the fiscal year was 13.47% on a net of fees basis. This return was well in excess of the System's 8.5% actuarial assumed rate of return and also well in excess of the 9% statutory "threshold" that causes a new in-flow of assets ($22.8 million) to the Plan's Reserve for Future Benefit Increases. The Investment Section of this Report contains, among other things, graphs depicting the Plan's performance, a detailed summary of the investment portfolio, and commissions paid to investment professionals who provide services to PSPRS. All Plan investments were held in trust by BNY Mellon, the System's custodian bank.

Enacted Legislation

During FY'10 the State Legislature approved, and the Governor signed, two bills that were of significance. The first was SB1124 that extended the Reverse Deferred Retirement Option Plan ("Reverse DROP") from June 30, 2011 through June 30, 2016.

The second bill, SB1006, changed the name of the Fund Manager to Board of Trustees, added two new Governor-appointed members to the Board (bringing the total to seven) and extended the terms of office for newly appointed Board members from three to five years.

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 by a statutory participant contribution rate of 8.41% of gross payroll for those participants to whom was extended ordinary disability benefit protection in FY'08 and a contribution rate of 7.96 % for all other participants in the Plan. The Plan's additional funding comes primarily from employer contributions, 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.

The most commonly used measure of a retirement system's funding progress is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the CORP had been declining for six out of the last seven years through FY'07. At that point in time, the Plan's funding ratio was 84.6%. Following modest improvement in FY'08, the funding ratio started to deteriorate again in FY'09; this trend continued during FY'10 with the ratio falling to 80.3%. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08 and FY'09 negative rates of return are yet to be reflected in the funding ratio of the CORP; therefore, the expectation is that the funding ratio will deteriorate further in the future.

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 8.57%. The aggregate rate that will take effect on July 1, 2011 will be 9.50%. Further decline in the Plan's funding ratio will cause employer rates to rise even further.

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 benefit adjustments are fully funded on a present value basis from the assets that are accumulated in the CORP's Reserve for Future Benefit Increases. In any year in which the Plan generates a return in excess of 9%, one-half of the return in excess of 9% is diverted to the Reserve. (The Plan's FY'10 13.47% return resulted in a $22.8 million flow of new assets into the Reserve.) These reserve assets are invested along with all other assets of the Plan.

The current Reserve balance, after subtracting the $21.3 million needed to fund the present value of the July 1, 2010 post retirement increase, is $18.7 million. Absent an infusion of new assets into the CORP Reserve during FY'11, the Reserve's balance would only be sufficient to finance a partial post-retirement adjustment as of July 1, 2011.

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for the CORP's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the sixteenth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our FY'10 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 Board of Trustees continued its strategic initiative that has changed the way in which the CORP's assets are managed and invested. (See the Board of Trustees' transmittal letter to the Governor that begins on page 7) In addition, there were other developments and initiatives that are worthy of note. These included the following:

- The FY'10 actual level of administrative spending was kept significantly below the budgeted amount and the FY'11 budget that was approved by the Board came in at less than 95% of the FY'10 actual level of spending.
- The System continued its comprehensive and multi-year effort to assure that the CORP and PRPRS local board networks are properly structured and functioning so as to assure uniform administration of the statutory responsibilities delegated to them. Staff and other resources continue to be dedicated to this initiative. Within the last twelve months, the System's outreach efforts to provide training and education to local boards were intensified through more on-site visits, group meetings/consultations via conference call, video conference and webinars, the development of training modules which were made accessible through the PSPRS web site, the continued publication of a monthly local board newsletter, and the creation of a Local Board Reference Guide.
- The Internal Auditor/Compliance Officer developed and received approval for her annual audit plan and continued her monthly investments compliance review. In addition, the Auditor took over responsibility for approving capital calls made with respect to investment commitments approved by the Board.
- The System's multi-year document imaging (i.e., scanning) project continued to progress. Once the project is completed, a new "Work Flow" project will be initiated in accordance with the System's Strategic Plan.
- The System's IT Program Development staff created and implemented a new Members Only web site that enables members to view their account information, including their monthly bank deposit information.
- The Program Development staff also implemented a one thousand concurrent user "GoToMeeting.com" capability for Board of Trustee meetings and local board and other training meetings.
- A new once-a-day online database backup capability through Ibackup.com was implemented; this is in addition to our hourly backup to our secondary Denver site.
- The System's Disaster Recovery/Business Continuity capability was augmented by creating Disaster Recovery plans for the database application, the timing of the pension payroll process and key employee availability following a disaster.
- The T1 line connection between the Phoenix headquarters and the PSPRS Denver backup facility was replaced with a microwave connection and the bandwidth to the Denver facility was substantially increased to better accommodate our file transfer needs.

New Initiatives for System FY'11

As we have moved through the first four months of the new fiscal year (FY'11), some new initiatives are underway and still others are planned. These include:

- Completing the RFP process for legal services that the Board requested and conducting an RFP process for external audit services after completion of the current audit cycle;
- Keeping administrative expenses significantly under the FY'11 budgeted levels and holding the recommended FY'12 administrative budget to a level not to exceed 95% of FY'11 actual expenditures;
- Discontinuing the practice of mailing monthly bank deposit notices to beneficiaries following our educating them as to how to access their monthly payment information on-line via the Members Only website;
- Continuing to reduce the number of payment checks PSPRS issues monthly by converting more of them to ACH transfers and initiating the use of "pay cards;"
- Adding to the local board outreach, organization, education and training effort by creating a local board web site or "module" within the PSPRS database to make it possible for local board personnel to input or update data directly without having the PSPRS staff do it for them; and
- Securing the enactment of legislative proposals to restructure and redesign provisions of the PSPRS Plans, including CORP, to restore them to a state of financial soundness within a reasonable period of time and reduce employer contribution requirements in the process.

Summary

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

I would like to take this opportunity to express my gratitude to the members of the Board of Trustees, the staff, the System's advisors, and all others who have worked so diligently to assure the continued successful operation of the System. I look forward to the challenge of moving the System forward with a program of constructive and comprehensive change that will maintain high quality customer service and restore the PSPRS Plan to a state of financial soundness.

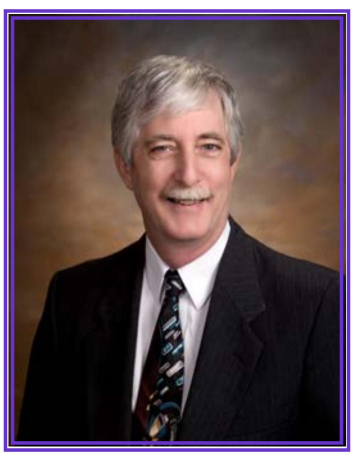
Respectfully submitted,

James M. Hacking
Administrator

BOARD OF TRUSTEES
(AS OF JUNE 30, 2010)

Brian Tobin
Interim Chairman

Lori Roediger
Vice Chairperson

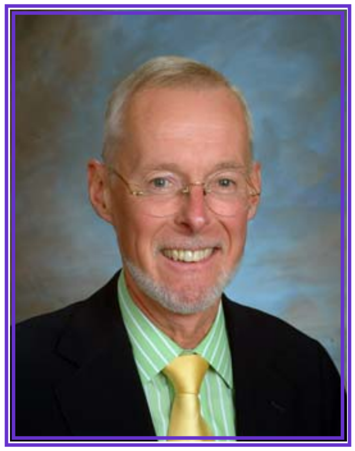


Tim Dunne
Trustee

Gregory Ferguson
Trustee

Alan Maguire
Trustee

EXECUTIVE STAFF AND ORGANIZATIONAL CHART



James M. Hacking

Administrator

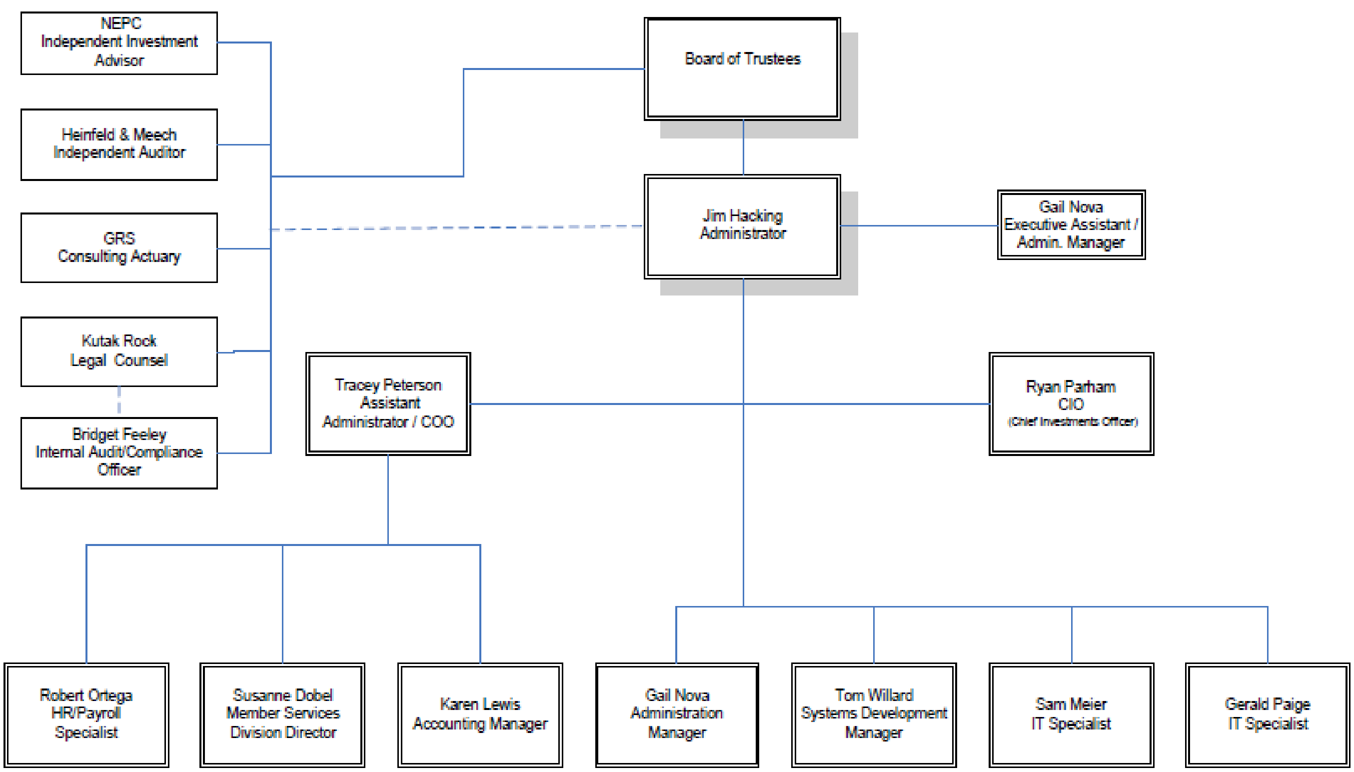
Ryan Parham

Chief Investment Officer

Tracey D. Peterson

Assistant Administrator

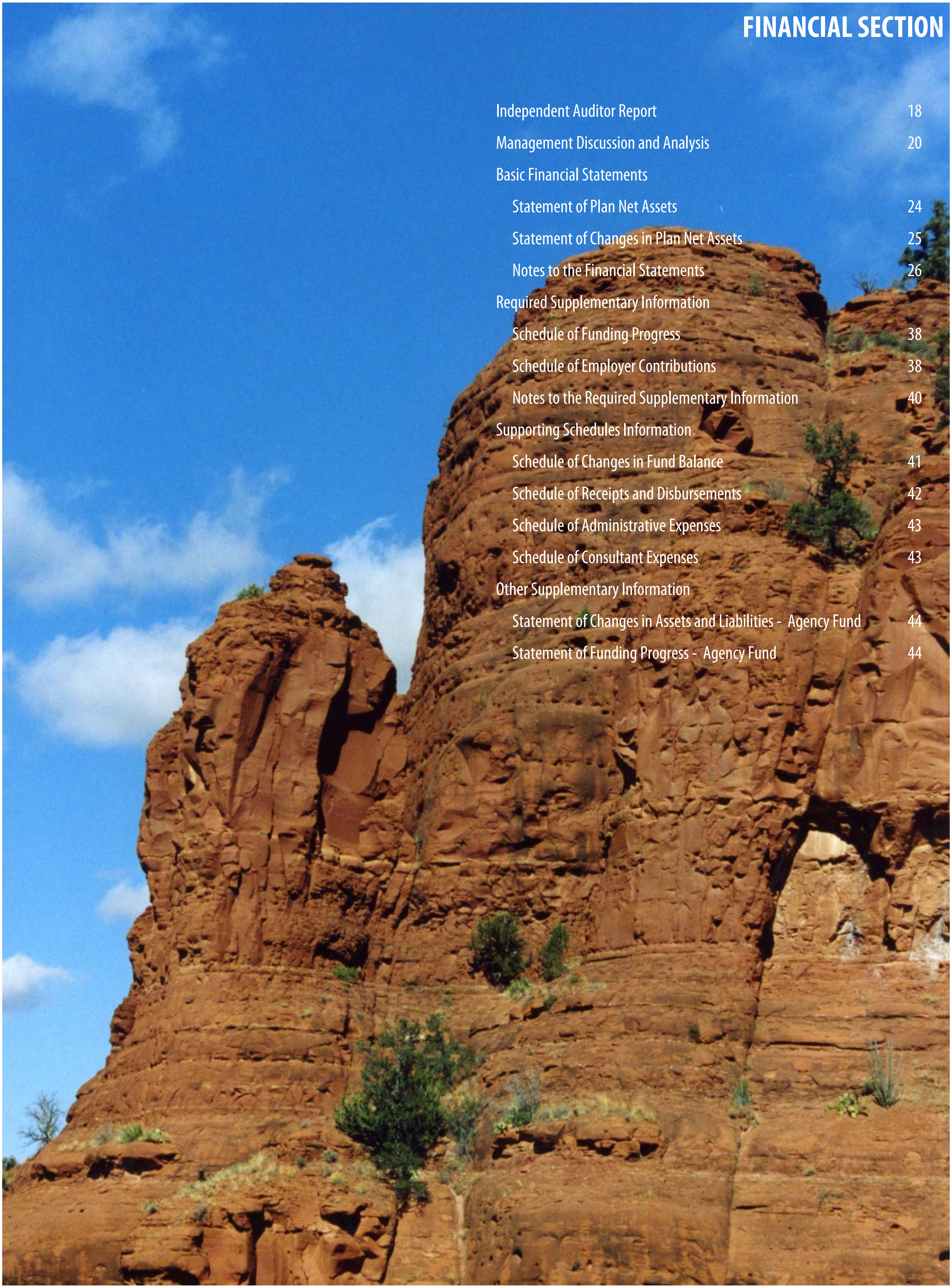
Chief Operations Officer



PROFESSIONAL ADVISORS

Albourne America, LLC	International Alternative Investment Consultant
Bank of New York Mellon	Custodian
Gabriel, Roeder, Smith & Company	Actuary
Heinfeld Meech & Co., P.C.	Independent Auditors
HighGround, Inc.	Legislative Liaison
Kutak Rock, LLP	General Counsel
McLagan Partners, Inc.	Human Resource Consultant
NEPC, LLC	Independent Investment Advisor
Public Policy Partners	Legislative Liaison
ORG Portfolio Management, LLC	Real Estate Consultant
Step Stone Group, LLC	Alternative Investment Consultant

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



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

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Public Safety Personnel Retirement System

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, 2010, 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, 2009, presented in the basic financial statements are included for additional analysis only. Our audit report dated December 1, 2009, 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, 2010, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Corrections Officer Retirement Plan implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010, which represents a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the Corrections Officer Retirement Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 23 and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CORP's financial statements. The Introductory Section, Supporting Schedules Information, Other Supplementary Information, Investment Section, Actuarial Section and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Supporting Schedules Information and Other Supplementary Information, as listed in the table of contents under the Financial Section, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section, Investment Section, Actuarial Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the 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 3, 2010

CORP MANAGEMENT DISCUSSION & ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 are as follows:

- The Corrections Officer Retirement Plan (CORP) had a total rate of return (net of fees) of 13.47% this year. Our total portfolio outperformed the target fund benchmark by 137 basis points. This is a significant improvement over the prior year's return of -17.75%.
- As of the close of the fiscal year 2010, the Future Benefit Increase Reserve was $18.7 million. The infusion of new assets into the Reserve was sufficient to finance a full 4% post-retirement adjustment as of July 1, 2010. However, payment of a post-retirement adjustment for July 1, 2011 will again depend on an additional infusion of new assets into the Reserve.
- Retirement benefits paid totaled $64.0 million for the current year, compared to $55.5 million for the previous year. This represents a 15.4% 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 and an increase in retirements.

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 Supplementary Information

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

The Schedule of Funding Progress

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

The Schedule of Employer Contributions

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

Supporting Schedules and Supplementary Information

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

FINANCIAL ANALYSIS OF THE PLAN

The following schedules present comparative summary financial statements of the System for FY10 and FY09. Following each schedule is a brief summary of the significant changes noted in these schedules.

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

	As of 06/30/2010	As of 06/30/2009	Change	% Change
Cash and Short-Term Investments	$ 12,494,835	$ 16,515,717	$ (4,020,881)	(24.35)%
Total Receivables	18,943,401	5,513,315	13,430,087	243.59
Total Investments	1,092,448,589	942,245,820	150,202,767	15.94
Securities Lending Collateral	120,324,821	148,494,789	(28,169,968)	(18.97)
Net Capital Assets	675,362	694,518	(19,156)	(2.76)
Total Plan Assets	**1,244,887,008**	**1,113,464,157**	**131,422,851**	**11.80**
Accrued Accounts Payable	1,813,876	1,915,885	(102,009)	(5.32)
Investment Purchases Payable	9,959,008	2,037,367	7,921,641	388.82
Securities Lending Collateral	120,324,821	148,494,789	(28,169,968)	(18.97)
Total Plan Liabilities	**132,097,705**	**152,448,041**	**(20,350,336)**	**(13.35)**
Net Assets	**$1,112,789,303**	**$961,016,116**	**$151,773,187**	**15.79 %**

Summary Comparative Statements of Plan Net Assets Analysis

The total plan net assets held in trust for benefits at June 30, 2010 were $1.1billion, a 15.79% increase from $961.0 million at June 30, 2009. The increase in net assets is primarily due to favorable financial markets during the fiscal year. The decrease in cash or increase in receivables is attributable to normal fluctuations in investment income receivables during the year. CORP is fully deploying cash in other investments vehicles like exchange traded funds, equities, fixed income and private equity. Detailed information regarding the Plan's investment portfolio is included in the investment section of this report. The decrease in security lending collateral is due to normal fluctuations in the lending program as well as an increase in exposure to other alternative investments. The investment of the collateral fluctuated in a similar manner.

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

	2010	2009	Change	% Change
ADDITIONS				
Total Contributions	$ 107,279,216	$ 107,334,882	$ (55,666)	(0.05)%
Net Investment Income	129,267,190	(216,313,556)	345,580,746	159.76
Transfers and Service Purchases	542,806	370,781	172,025	46.40
Total Additions (Reductions)	**237,089,212**	**(108,607,893)**	**345,697,105**	**318.30**
DEDUCTIONS				
Benefits	64,039,674	55,488,890	8,550,784	15.41
Service Transfers and Refunds	20,360,973	15,410,121	4,950,852	32.13
Administrative Expenses	915,378	1,064,826	(149,448)	(14.03)
Total Deductions	**85,316,025**	**71,963,836**	**13,352,189**	**18.55**
Net Increase (Decrease)	**151,773,187**	**(180,571,729)**	**332,344,916**	**184.05**
Balance Beginning of Year - July 1	**961,016,116**	**1,141,587,845**	**(180,571,729)**	**(15.82)**
Balance End of Year - June 30	**$1,112,789,303**	**$961,016,116**	**$151,773,187**	**15.79 %**

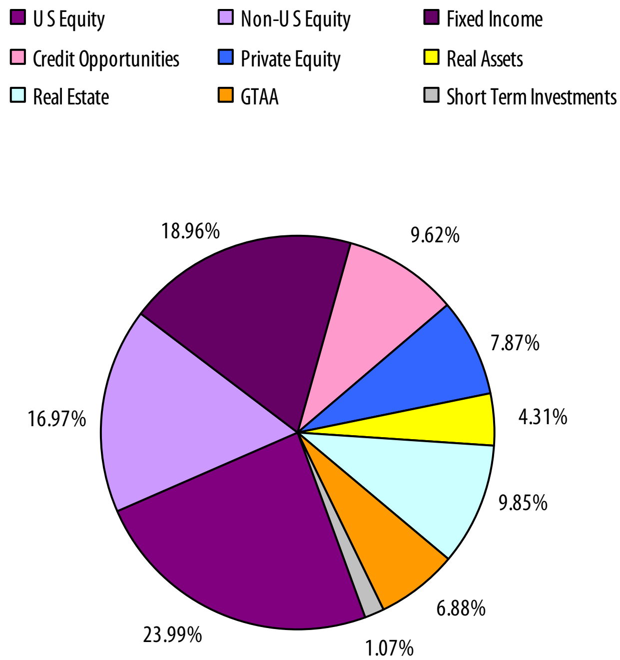
Summary Comparative Statements of Changes in Plan Net Assets Analysis

There was a slight decrease in employer and employee contributions of $55.6 thousand in relation to 2009 due to a decrease in the employer contribution rates from 8.65% to 7.49%. Additionally, due to economic conditions, layoffs and furloughs have resulted in a decline in salaries paid active members.

For FY 2010, CORP recognized a net investment gain of $129.3 million which compares to a loss of $216.3 million in the previous year. This 159.8% increase in income was due to the more positive returns in the financial markets during the fiscal year.

Deductions from the CORP net assets held in trust for benefits consist primarily of pension, disability, survivor benefits, member refunds and administrative expenses. For FY 2010, these deductions totaled $85.3 million, an increase of 18.6% from the $72.0 million paid during FY 2009. The total benefit payments increase is due to a net increase in the number of benefit recipients plus post-retirement adjustments provided to existing benefit recipients. Details of these changes can be found on pages 69 and 70 of the *Actuarial Section* of this report. Refunds increased $5.0 million over the prior year (32.13%). Refunds represent a return of contributions held on account when a member leaves employment. This increase is due to current economic conditions that have led to layoffs and reduction of many governmental services. Administrative expenses were less due to a decrease in legal and professional services from the prior year.

INVESTMENT ACTIVITIES

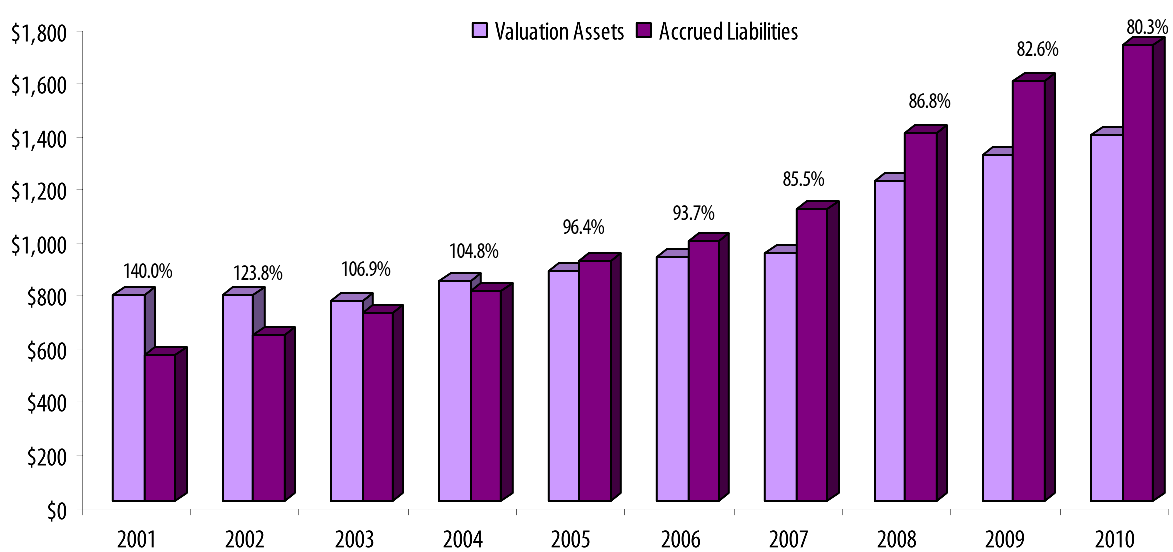


During FY 2007, the Board of Trustees adopted a more diversified asset allocation policy and began an asset management restructuring that has been deployed over the past three years. As illustration, at the end of FY07, 72.8% of the entire investment portfolio was invested in equities versus 41.2% at the end of FY10. Fixed income has remained about 19% of the entire portfolio. However, alternative investments have increased from 3.5% in FY07 to 39.8% in FY10.

At June 30, 2010, CORP held $454.5 million in equities. The FY 2010 rate of return for Total CORP equities was13.73% versus a benchmark rate of return of13.66%. At June 30, 2010, CORP held $210.4 million in fixed income securities. The FY 2010 rate of return for CORP fixed income securities was13.84% versus a benchmark rate of return of 9.50%. The benchmarks for both equities and fixed income securities are representative of the returns that could be expected in a similar investing environment. More detailed information regarding the Plan's investment portfolio can be found in the investment section of this report.

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

HISTORICAL TRENDS



Accounting standards require that the "Statement of Plan 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, 2010.

At June 30, 2010, the total funded status of the CORP decreased to 80.3% from 82.6% at FYE 2009. This decrease in funded status is related primarily to seven year smoothing period with only ½ of the investment gain from the FY10 investment return being reflected in the calculation. The market value smoothing techniques used in this valuation of the Plan recognize both past and present investment gains and losses. A more detailed discussion of the funding status can be found in the Administrator's Letter of Transmittal in the Introductory Section of this report.

REQUEST FOR INFORMATION

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

STATEMENT OF PLAN NET ASSETS

JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR 2009

	JUNE 30, 2010	JUNE 30, 2009
ASSETS		
Cash and Short-Term Investments	$ 12,494,835	$ 16,515,717
RECEIVABLES		
Member Contributions	1,800,020	1,869,727
Employer Contributions	1,816,092	1,946,819
Interest and Dividends	1,274,245	1,659,100
Investment Sales	14,041,201	-
Other	11,843	37,669
Total Receivables	**18,943,401**	**5,513,315**
INVESTMENTS AT FAIR VALUE (NOTES 2 AND 3)		
U.S. Equity	266,195,299	332,968,853
Non U.S. Equity	188,346,257	184,263,280
GTAA	76,359,082	-
Fixed Income	210,411,164	181,945,647
Credit Opportunities	106,705,613	72,544,612
Private Equity	87,361,965	34,446,746
Real Assets	47,817,466	39,514,858
Real Estate	109,251,743	96,561,824
Total Investments	**1,092,448,589**	**942,245,820**
Securities Lending Collateral	120,324,821	148,494,789
CAPITAL ASSETS (NOTE 4)		
Land	86,588	86,590
Building	627,784	615,531
Funiture, Fixtures & Equipment	153,015	143,131
Total Capital Assets	**867,387**	**845,252**
Accumulated Depreciation	(192,025)	(150,734)
Net Capital Assets	**675,362**	**694,518**
TOTAL PLAN ASSETS	**1,244,887,008**	**1,113,464,157**
LIABILITIES		
Accrued Accounts Payable	1,813,876	1,915,885
Investment Purchases Payable	9,959,008	2,037,367
Securities Lending Collateral	120,324,821	148,494,789
Total Plan Liabilities	**132,097,705**	**152,448,041**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**1,112,789,303**	**$ 961,016,116**
NET ASSET RESERVES		
Refundable Members' Reserve	345,295,534	323,648,713
Employers' Reserve	748,758,990	622,242,457
Future Benefit Increase Reserve	18,734,779	15,124,946
Total Net Asset Reserves	**$1,112,789,303**	**$961,016,116**

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

STATEMENT OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDING 2010 WITH COMPARATIVE TOTALS FOR 2009

	2010	2009
ADDITIONS		
Contributions		
Members' Contributions (NOTES 2,5)	$ 54,480,961	$ 53,098,136
Employers' Contributions (NOTES 2,5)	52,064,974	53,807,249
Members' Service Purchase	733,281	429,497
Total Contributions	**107,279,216**	**107,334,882**
Investment Income		
From Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments (NOTES 2,3)	112,839,752	(246,296,350)
Interest	5,894,277	13,715,476
Dividends	13,081,882	18,577,190
Other Income	913,857	5,845
From Securities Lending Activities		
Securities Lending Activities (NOTE 3)		
Securities Lending Income	594,459	2,686,311
Borrower Rebates	281,430	(614,220)
Agents Share of Income	(133,197)	(310,806)
Net Securities Lending Income	**742,692**	**1,761,286**
Total Investment Income (Loss)	**133,472,460**	**(212,236,553)**
Less Investment Expense	(4,205,270)	(4,077,003)
Net Investment Income (Loss)	**129,267,190**	**(216,313,556)**
Transfers Into System & Service Purchases	542,806	370,781
Total Additions (Reductions)	**237,089,212**	**(108,607,893)**
DEDUCTIONS		
Pension Benefits (NOTE 2)	63,377,270	55,243,433
DROP Benefits (NOTE 2)	662,404	245,457
Refunds To Terminated Members (NOTE 2)	19,774,873	14,879,341
Administrative Expenses	915,378	1,064,826
Transfers Out of System	586,100	530,780
Total Deductions	**85,316,025**	**71,963,836**
NET INCREASE (DECREASE)	**151,773,187**	**(180,571,729)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year, July 1	961,016,116	1,141,587,845
End of Year, June 30	**$1,112,789,303**	**$961,016,116**

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 Board of Trustees (formerly Fund Manager) of the Public Safety Personnel Retirement System (PSPRS) and 26 local boards administer the CORP Plan.

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

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

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

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

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

At June 30, 2010 and 2009, the number of participating local government employer groups was:

GROUP	2010	2009
Counties	14	14
Cities	1	1
Dispatchers	8	8
State Agencies	3	2
Total Employers	**26**	**25**

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, 2009 and 2008, statewide CORP membership consisted of::

	RETIREMENT PLAN		INSURANCE SUBSIDY	
MEMBERSHIP TYPE	**2010**	**2009**	**2010**	**2009**
Retirees	2,908	2,591	1,588	1,372
Terminated Vested	1,601	1,476	0	0
Current Vested	8,167	6,775	0	0
Current Non-Vested	6,152	7,805	0	0
Total Members	**18,828**	**18,647**	**1,588**	**1,372**

CORP provides retirement benefits as well as death and disability benefits. Generally, all benefits vest after five years of credited service.
A summary of benefit and plan provisions follows:

SUMMARY OF BENEFITS

PURPOSE (A.R.S. § 38-900.01b)
To provide a uniform, consistent and equitable statewide program for those eligible corrections officers as defined by the Plan.

AVERAGE MONTHLY BENEFIT

An average of your highest 36 consecutive months of salary within the last 10 years (i.e., 120 months) of service. Salary includes base wages, shift and military differential pay, holiday and overtime pay that is paid a member for personal services rendered in a designated position to a participating employer on a regular monthly, semi-monthly or biweekly payroll basis.

For the purposes of computing retirement benefits, "base salary" does not include any extra monies, including overtime pay, shift differential pay, holiday pay, fringe benefit pay (such as uniform allowance, cell phone or mileage reimbursement) and similar extra payments. A.R.S. § 38-881 (7)(41).

BENEFIT INCREASE / COST OF LIVING ADJUSTMENT (COLA)

Contingent upon the excess investment earnings, effective July 1 of each year, eligible retired members or survivors may be entitled to a permanent benefit increase in their base benefit. To be eligible for the increase, the retired member or survivor must be either age 55 or older on July 1 of the current year and receiving benefits on or before July 31 of the previous year, or the retired member or survivor has been receiving benefits on or before July 31 of the previous two years. The maximum amount of the increase is 4% of the average normal benefit being received on the preceding June 30. A.R.S. § 38-905.

CONTRIBUTIONS

All non-dispatchers (members) shall contribute 8.41% of salary to the Plan on a pre-tax basis by payroll deduction unless or until CORP is 100% funded (if 100% funded, all non-dispatchers shall contribute 7.96%). A.R.S. § 38-891(I). All dispatchers (members) shall contribute 7.96% of salary. A.R.S. § 38-891(I).

Employers shall contribute a percent of salary determined by actuarial valuations to ensure proper funding for the Plan (but not less than 6% of the employee's salary). For any employer whose actual contribution rate is less than 6% for fiscal year 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. A.R.S. § 38-891(H and A).

CREDITED SERVICE

Service in a designated position for which member contributions have been made to the Plan, or transferred to the Plan from another retirement system for public employees of this state. A.R.S. § 38-881(10). Members are eligible to receive credited service limited to 60 months if called to active duty while working for the current employer. A.R.S. § 38-907.

DEATH BENEFITS - ACTIVE MEMBER

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

Guardian Benefit. If there is no surviving spouse and there is at least one eligible child, a guardian benefit of 40% of the member's average monthly salary will be paid to the guardian of the eligible child(ren) until the child turns 18, or until the age of 23 if the attending full-time school between the ages of 18 and 23. If a guardian benefit is paid to a disabled child (the child's disability occurred prior to the age of 23) and remains a dependent of the guardian, the benefit is payable for the lifetime of the child. A.R.S. § 38-904(B), OR

Balance of Contributions. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive two times the member's contributions. A.R.S. § 38-904.

DEATH BENEFITS - INACTIVE MEMBER

Balance of Contributions. If the member was inactive, the member's named beneficiary on file will receive two times the member's contributions. A.R.S. §§ 38-881(27) and 38-904.

DEATH BENEFITS - RETIRED MEMBER

Spouse's Pension. The surviving spouse of a retired member will receive 80% of member's pension benefit for lifetime. Requires two consecutive years of marriage at time of death. A.R.S. § 38-887, OR

Guardian Benefit. If there is no surviving spouse, or the pension of the surviving spouse is terminated, a guardian benefit (80% of member's pension) may be paid to the guardian of the surviving unmarried child(ren) until the child(ren) turns 18, or until the age of 23 if attending full-time school between the ages of 18 and 23. If a guardian benefit is paid to a disabled child (the child's disability occurred prior to the age of 23) and remains a dependent of the guardian, the benefit is payable for the lifetime of the child. A.R.S. §§ 38-881(18) and 38-904, OR

Balance of Contributions. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive the balance of the member's accumulated contributions less the pension payments made to the member. If there is no beneficiary, the balance of the member's accumulated contributions will be paid to the legal representative of the last surviving individual who was being paid the benefit. A.R.S. § 38-889.

DEFERRED ANNUITY

Members that have at least 10 years of credited service and terminate employment on or after 9/30/2009 may elect to receive a Deferred Annuity at the age of 62. This annuity is a lifetime monthly payment that is actuarially equivalent to the member's accumulated contributions in the plan plus an equal amount paid by the employer. This annuity is not a retirement benefit and annuitants are not entitled to survivor benefits, benefit increases, or the group health insurance subsidy. A.R.S. § 38-911. Members that terminate prior to 9/30/2009 may only refund, or transfer his/her contributions to another retirement system. A.R.S. § 38-884.

ACCIDENTAL DISABILITY

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

Eligibility for an accidental disability will be determined by the Local Board upon an independent medical examination. The monthly benefit is 50% of the member's average monthly salary. (There is no credited service requirement.) The Local Board may require periodic medical re-evaluations until the member reaches age 62. Accidental disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.

CATASTROPHIC DISABILITY

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

Eligibility for a total and permanent disability will be determined by the Local Board upon an independent medical examination. The monthly benefit is 50% of the member's average monthly salary. (There is no credited service requirement.) The Local Board may require periodic medical re-evaluations until the member reaches age 62. The total and permanent disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.

ORDINARY DISABILITY

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

Eligibility for an ordinary disability will be determined by the Local Board upon an independent medical examination. The benefit is a percentage of normal retirement and is based on the employee's years of credited service divided by 20 (dispatchers are divided by 25). The Local Board may require periodic medical re-evaluations until the member reaches age 62. Ordinary disability terminates if the Local Board finds the retired member no longer meets the requirements for the disability benefit. A.R.S. § 38-886.01.

REVERSE DEFERRED RETIREMENT OPTION PLAN (REVERSE DROP)

Beginning July 1, 2006, through June 30, 2016, the CORP shall offer the Reverse Deferred Retirement Option Plan (Reverse DROP) to members that are eligible for a normal pension (who is not awarded an accidental, ordinary or total and permanent disability pension) and have at least 24 or more years of credited service (dispatchers must have at least 25 years) 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 Reverse DROP date that is the first day of the month immediately following completion of 24 years of credited service (for dispatchers, 25 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. The lump sum distribution is credited as though it accrued monthly from the Reverse DROP date to the date the member elected to participate in the Reverse DROP (plus interest equal to the yield on a 5-year Treasury note as of the first day of the month as published by the Federal Reserve Board).

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

ELIGIBILITY

Designated positions for the following employers that elect to join the Plan are eligible to participate in the CORP if the employee's customary employment is for at least 40 hours per week, or as defined by statute. A.R.S. § 38-881(12):

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

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

HEALTH INSURANCE

For CORP retirees, survivors and their eligible dependents that elect group health insurance and/or accident insurance coverage administered by CORP or another state recognized employer plan, the CORP will pay up to the following amount. A.R.S. §§ 38-906, 38-651.01 and 38-782.

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

JOINDERS

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

REFUNDS

Pursuant to A.R.S. § 38-884, upon termination of employment (for any reason other than death or retirement) within 20 days after filing an application with the CORP, a member shall receive a lump-sum payment of accumulated contributions (less any benefits paid or any amounts owed to the Plan). The 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, an additional percentage of contributions will be refunded to the member according to the member's years of service as stated below:

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

REQUEST TO REMAIN IN CORP

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

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

RETIREMENT ELIGIBILITY AND CALCULATION

Pursuant to A.R.S. § 38-885, retirement benefits are calculated as follows:

- *20 years of credited service but less than 25 years of credited service (not available to dispatchers), or 80 points (age plus service) if membership date is on/after 8/9/01*: 2% for each year of credited service over 20 years
- *25 or more years of credited service, or 80 points if membership date is on/after 8/9/01:* 2.5% for each year of credited service over 20 years (with a maximum of 12 years)
- *Less than 20 years of credited service and 80 points if membership date is on/after 8/9/01:* credited service multiplied by 2.5%
- *80 points and membership date is PRIOR to 8/9/01:* credited service multiplied by 2.5% (maximum of 75% of the average monthly compensation/salary)
- *Age 62 with 10 years of service:* credited service multiplied by 2.5%.

RETURN TO WORK AFTER RETIREMENT

A retired member may become re-employed and continue to receive a pension if the employment occurs 12 months or more after retirement effective date December 31, 2008. The retired member shall not contribute to the fund and shall not accrue credited service. A.R.S. § 38-884 (J) and HB 2326, Sec. 15(A).

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

Retired CORP members that returned to work, entitled to continue to receive a pension from the plan pursuant to Laws 2006, Chapter 241, section 1 and who is employed by an employer of the CORP as of 9/30/2009 is entitled to again begin receiving the retired member's pension from the plan effective 9/30/2009. (HB 2326, Section 12, Previous return to work retirees).

SALARY

Salary is defined as the base salary/wages, shift differential pay, military differential and holiday pay paid to an employee for personal services rendered in a designated position to a participating employer on a regular monthly, semimonthly or biweekly payroll basis.

For the purposes of the paragraph above, "base salary/wages" means the amount of compensation each member is regularly paid for personal services rendered before the addition of any extra monies, including overtime pay, shift differential, holiday pay, sale of compensatory time, fringe benefit pay and similar extra payments. A.R.S. § 38-881(41).

SERVICE PURCHASE

Purchase of Prior Active Military Service. Members may purchase up to 48 months of credited service for periods of active military service performed before employment with their current employer (even if the member receives a military pension). A.R.S. § 38-907.

Purchase of Prior Service from an Out-of-State Agency. Active members that have previous service with an agency of the U.S. Government, a state of the U.S., or a political subdivision of a state of the U.S. as a full-time paid corrections officer, or full-time paid certified peace officer may elect to redeem any part of the prior service if the prior service is not on account with any other retirement system. A.R.S. § 38-909.

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

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

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

TAXATION OF RETIREMENT BENEFITS

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

TRANSFERS

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

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

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

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

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

BASIS OF ACCOUNTING

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

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

By state statute, the Plan is required to provide information in the financial statements used to calculate Net Effective Yield. Net Effective Yield includes only realized gains and losses. The Net Realized Gains (Losses) used in this calculation totaled $(322,346) for FYE 2010 and $(175,258,029) for FYE 2009. This calculation is independent of the calculation of the change in the fair value of investments and may include unrealized amounts from prior periods.

The Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* for the year ended June 30, 2010. Statement No. 53 addresses the recognition, measurement, and disclosures regarding derivative instruments entered into by the Plan.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2010. Actual results could differ from those estimates.

NOTE 3: CASH AND INVESTMENTS

CASH

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

In addition to the FDIC insurance coverage on the operating and money market accounts of CORP, Wells Fargo pledged the following securities to Public Safety Personnel Retirement System, CORP, and the Elected Officials' Retirement Plan on June 30, 2010, as collateral:

Description	CPN	Maturity	Market Value
FED NATL MTG ASSN POOL #257449	6.00	11/1/2038	$ 6,302,267
FED NATL MTG ASSN POOL #885515	6.00	7/1/2036	2,798,720
FED NATL MTG ASSN POOL #911370	6.00	2/1/2037	2,150,459
FED NATL MTG ASSN POOL #930769	6.00	3/1/2039	4,802,040
FED NATL MTG ASSN POOL #950981	6.00	10/1/2037	6,864,700
TOTAL			**$22,918,186**

All monies shall be secured by the depository in which they are deposited and held to the same extent and in the same manner as required by the general depository law of the state. Cash balances represent both operating and cash accounts held by the bank and investment cash on deposit with the investment custodian. All deposits are carried at cost plus accrued interest. The following table is a schedule of the aggregate book and bank balances of all cash accounts as of June 30, 2010:

	REPORTED AMOUNT	BANK BALANCE
Pension Trust Fund	$ 11,821,199	$ 11,821,199
Operating Fund	673,636	673,636
Total Deposits	**$12,494,835**	**$12,494,835**

INVESTMENTS

CORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at cost which approximates fair value. 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 fixed-income broker/dealers. Directed real estate and venture capital investments are reported at fair value using appraisals to estimate the fair value. Appraisals will be performed every three years on a rolling schedule unless circumstances warrant otherwise. Investment income is recognized as earned.

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

1) That not more than eighty percent of the combined assets of the system or other plans that the board manages shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
2) That not more than five percent of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the United States Government or corporate stock issued by a bank or insurance company.
3) That not more than five percent of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.

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 §78ll).
   b) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §78ll).
   c) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state.
   d) Listed or approved on issuance for listing on an exchange registered of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than twenty percent of the combined assets of the system and other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation.
   e) An exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the investment company act of 1940 (15 United States Code Section 80a-1 through 80a-64) and that is both traded on a public exchange and based on a publicly recognized index.

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

At June 30, 2010, the fair market value of the PSPRS Trust and the allocation for each system and plan was as follows:

PLAN	UNITIZED	PERCENT
PSPRS	$4,553,738,626	76.66%
CORP	1,108,804,113	18.67%
EORP	277,865,254	4.68%
TOTAL	**$5,940,407,993**	**100.00%**

A small portion of the assets (cash and real estate) remain outside the comingled funds, representing less than 2 basis points of the total.

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, 2010, CORP has no fund or deposits that were not covered by depository insurance or collateralized with securities held by our banks' trust department or agent; nor does CORP have any investments that are not registered in the name of CORP or the PSPRS Trust and are either held by the counterpart or the counterpart's trust department or agent.

CREDIT RISK

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. As of June 30, 2010, the Plan's fixed income assets that were not government guaranteed represented 94.0% 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, 2010	% OF ALL FIXED INCOME ASSETS	WEIGHTED AVG. CREDIT
Corporate Bonds	$ 187,671,532	94.80%	AA
Mortgages	2,085,899	1.10%	Below BB
CBO	5,225,277	2.60%	A
CDO	2,874,117	1.50%	A
Total	**$197,856,825**	**100.00%**	**AA**

RATINGS DISPERSION DETAIL

CREDIT RATING LEVEL	CORPORATE BONDS	MORTGAGES	CBO	CDO
AAA	$ -	$ 128,812	$ -	$ -
AA	173,943,320	-	-	-
A	6,962,698	-	4,341,943	2,874,117
BBB	6,484,872	-	-	-
Below BBB	280,642	1,957,087	883,334	-
Total	**$187,671,532**	**$2,085,899**	**$5,225,277**	**$2,874,117**

CONCENTRATION OF CREDIT RISK

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

INTEREST RATE RISK

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

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

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

FIXED INCOME SECURITY	<1	1-5	6-10	11-15	16-20	>20
Corporate	$-	$ 939,306	$ 5,392,801	$ 2,162,590	$ 1,154,106	$ 180,108,628
Agencies	-	-	4,765,010	3,091,592	2,303,529	2,394,206
CBO	-	-	2,299,723	-	-	2,925,555
CDO	-	-	-	-	-	2,874,117
Total	**$-**	**$939,306**	**$12,457,534**	**$5,254,182**	**$3,457,635**	**$188,302,506**

CALLABLE BONDS BY SECURITY TYPE
(INCLUDING GOVERNMENT GUARANTEED SECURITIES)

FIXED INCOME SECURITY TYPE	FAIR VALUE JUNE 30, 2010	% OF ALL FIXED INCOME ASSETS
Corporate	$ 1,957,476	0.99%
Agencies	-	0.00%
Total	**$1,957,476**	**0.99%**

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment. The PSPRS is allowed to invest part of its assets in foreign investments. According to Arizona state statutes, no more than twenty per cent of the combined assets of the system and other plans that the Board of Trustees manages shall be invested in foreign securities.

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

FOREIGN CURRENCY RISK

CURRENCY TYPE	HOLDINGS	FAIR VALUE
Australian Dollar	10,795	$ 9,118
British Pound Sterling	26,827	40,136
Canadian Dollar	26,441	24,882
Danish Krone	22,250	3,659
Euro Currency Unit	15,401	18,864
Hong Kong Dollar	55,988	7,190
Israeli Shekel	55,337	14,257
Japanese Yen	15,225,592	172,060
New Zealand Dollar	1,881	1,293
Norwegian Krone	48,233	7,417
Singapore Dollar	6,496	4,653
Swedish Krona	39,472	5,072
Swiss Franc	7,442	6,902
Total Market Value		**$315,503**

DERIVATIVES

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

The fair value exposure associated with these derivative instruments was recorded on the financial statements as a portion of the unrealized gains and losses related to U.S. Equity and Fixed Income. The total of unrealized losses for CORP was $3,214,803 at June 30, 2010 consisting of U.S. Equity (loss of $3,222,200) and Fixed Income (gain of $7,397). Interest risk associated with these investments are included in the tables on page 33.

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, 2010 the fair value of securities on loan was $117,191,296 and the collateral was $120,324,821 for Corrections Officer Retirement Plan. The Plan receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent.

The Plan participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower. All matched loans shall have matched collateral investments. The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2010, the weighted average maturity was 36 days for all investments purchased with cash collateral from unmatched loans. The Plan has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Plan.

Prior to the current fiscal year, under this program, the Plan has not experienced any defaults or losses on these loans. However, in November 2008 CORP was informed that due to recent market events one or more securities lending collateral vehicles that held assets had been impaired. This potential liability will be realized upon settlement of the recovery process or if there becomes a liquidity issue with the collateral pool. A liability of $2,037,367 has been recorded as CORP's share.

ASSET CLASS	OUT ON LOAN	TOTAL AVAILABLE TO LOAN	% OF AVAILABLE TO LOAN
Equities	$ 110,197,609	$ 454,541,556	24.24%
Agencies	-	5,688,424	0.00%
Treasuries	979,644	6,865,914	14.27%
Exchange Traded	6,014,043	633,103,537	0.95%
Totals	**$117,191,296**	**$1,100,199,431**	**10.65%**

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, 2010 was $41,291.

The table below is a schedule of the capital asset account balances as of June 30, 2009, and June 30, 2010, and changes to those account balances during the year ended June 30, 2010.

SCHEDULE OF CAPITAL ASSET ACCOUNT BALANCES

	LAND	BUILDING AND IMPROVEMENTS	FURNITURE, FIXTURES AND EQUIPMENT	TOTAL CAPITAL ASSETS
CAPITAL ASSETS				
Balance June 30, 2009	$ 86,588	$ 615,533	$ 143,131	$ 845,252
Additions	-	12,251	9,884	22,135
Deletions	-	-	-	-
Balance June 30, 2010	**86,588**	**627,784**	**153,015**	**867,387**
ACCUMULATED DEPRECIATION				
Balance June 30, 2009	-	(73,116)	(77,619)	(150,734)
Additions	-	(16,759)	(24,532)	(41,291)
Deletions	-	-	-	-
Balance June 30, 2010	-	(89,875)	(102,150)	(192,025)
Net Capital Assets	**$86,588**	**$537,909**	**$50,865**	**$675,362**

NOTE 5: CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using a projected unit credit actuarial funding method. Unfunded actuarial accrued liabilities and assets in excess of actuarial accrued liabilities are being amortized as a level percent of payroll over a twenty-six (26) year period. Beginning July 1, 2007, the minimum employer contribution rate was established at 6%.

During the year ended June 30, 2010, contributions totaling $108,918,039 ($54,437,078 employer [$49,258,634 pension and $5,178,444 health insurance subsidy contributions in excess of the benefits paid] and $54,480,961 member) were made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2008. The employer contributions consisted of approximately $44,334,603 for normal cost [$41,683,733 pension and $2,650,870 health insurance subsidy] plus $10,102,475 for amortization of the actuarial accrued liability in aggregate [$7,574,901 pension and $2,527,574 health insurance subsidy]. Employer contributions represented 7.49% of covered payroll [6.10% for normal costs (5.67% pension and .43% health insurance) and 1.39% for amortization of assets in excess of the actuarial accrued liability in aggregate (0.98% pension and 0.41% health insurance)]. Member contributions represented 7.96% (Dispatchers) and 8.41% (Non-Dispatchers) of covered payroll and are attributable to normal costs.

NOTE 6: OTHER BENEFITS

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

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

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

NOTE 7: HEALTH INSURANCE SUBSIDY- AGENCY FUND

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

Contributions in excess of the health benefit subsidy payments are reported in the retirement plan. Therefore, no accumulated assets or liabilities to participating employers are reported in the agency fund. For FY '10 contributions collected for the health insurance subsidy amounted to $5,178,444 and the health benefit subsidy payments were $2,372,104. The excess contributions of $2,806,340 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 Board of Trustees, whichever is less. In management's opinion, any loss realized due to current economic conditions will not have a material effect on the financial statements.

As stated in Note 3 – Cash and Investments (under the Security Lending Program heading), the Plan was notified of a situation involving one or more security lending collateral vehicles that held assets which have been impaired as a result of recent market events. An estimate of the unrealized loss is approximately 11.3 million dollars for all three plans and has been recorded as a liability. It is anticipated that a final resolution will be reached this next fiscal year.

NOTE 10: FUNDING STATUS AND PROGRESS

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

(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
06/30/10	$1,382,144	$1,648,733	$266,589	83.8%	$616,481	43.24%

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, 2010
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll, Closed
Remaining Amortization Period:	26 years closed for unfunded accrued actuarial liability, 20 years open for excess
Asset Valuation Method:	7-Year Smoothed Market Value
Investment Rate of Return:	8.5%
Projected Salary Increases:	5.50-8.50% which includes inflation at 5.50%

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

NOTE 11: REQUIRED SCHEDULES

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS $ (A)*	ACTUARIAL ACCRUED LIABILITY (AAL) AT ENTRY AGE $ (B)*	UNFUNDED AAL (EXCESS) (UAAL) $ (B-A)*	FUNDED RATIO (A/B)	COVERED PAYROLL $ (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((B-A)/C))
06-30-01	776,177	554,387	(221,790)	140.0%	339,783	(65.3)%
06-30-02	782,446	632,238	(150,208)	123.8%	330,428	(45.5)%
06-30-03	758,579	709,298	(49,281)	106.9%	358,161	(13.8)%
06-30-04	833,621	795,775	(37,846)	104.8%	381,942	(9.9)%
06-30-05	872,981	906,025	33,044	96.4%	404,156	8.2 %
06-30-06	919,867	981,207	61,340	93.7%	437,743	14.0 %
06-30-07	940,126	1,061,811	121,685	88.5%	515,428	23.6 %
06-30-08	1,207,026	1,336,662	129,636	90.3%	642,621	20.2 %
06-30-09	1,309,124	1,515,563	206,439	86.4%	630,825	32.7 %
06-30-10	1,382,144	1,648,733	266,589	83.8%	616,481	43.24%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FISCAL YEAR ENDED JUNE 30,	EMPLOYER CONTRIBUTIONS: ANNUAL REQUIRED CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS: PERCENTAGE CONTRIBUTED	
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	22,709,507	120.00%	*
2008	43,858,925	108.00%	*
2009	53,807,249	108.10%	*
2010	52,064,974	105.39%	*

** 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.*

** 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.*

**Total Employer Contributions received during FY'09 were $56,015,138. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $6,245,994. The benefits paid for the health insurance subsidy were $2,207,889. The difference between the calculated annual required contributions and the benefits paid of $4,038,105 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 108.1% for the retirement plan.*

** Total Employer Contributions received during FY'10 were $54,437,078. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $5,178,444. The benefits paid for the health insurance subsidy were $2,372,104. The difference between the calculated annual required contributions and the benefits paid of $2,806,340 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 105.4% for the retirement plan.*

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

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL METHODS AND ASSUMPTIONS FOR VALUATIONS PERFORMED JUNE 30, 2010

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 period for excess and a closed 26-year amortization period were used for the June 30, 2010 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%, which include a price inflation assumption of 5.5% per year.

Each of the 26 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 2010 were determined by actuarial valuations as of June 30, 2008.

SCHEDULE OF CHANGES IN FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	REFUNDABLE MEMBERS' RESERVE	EMPLOYERS' RESERVE	FUTURE BENEFIT INCREASE RESERVE
BALANCE AS OF JUNE 30, 2008	**$296,317,101**	**$804,637,066**	**$40,633,678**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	53,098,136		
Employers' Contributions		56,015,138	
Earnings (Loss) on Investments Net of Investment Expenses		(216,313,556)	
Pension and Insurance Benefits		(57,696,779)	
Refunds to Terminated Members	(10,965,953)	(3,913,388)	
Administrative Expenses		(1,064,825)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets		7,311,624	(7,311,624)
Amount Utilized by Benefit Increases Granted		18,197,108	(18,197,108)
Net Transfers In (Out) and Purchase of Service Credits	491,927	(222,429)	
Balances Transferred to Employers' Reserve due to Retirement	(15,292,498)	15,292,498	
BALANCE AS OF JUNE 30, 2009	**$323,648,713**	**$622,242,457**	**$15,124,946**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	54,480,961		
Employers' Contributions		54,437,078	
Earnings (Loss) on Investments Net of Investment Expenses		129,267,190	
Pension and Insurance Benefits		(66,411,778)	
Refunds to Terminated Members	(14,091,546)	(5,683,327)	
Administrative Expenses		(915,378)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases		(22,836,733)	22,836,733
Earnings (Loss) on Excess Investment Earnings Account Assets		(2,037,330)	2,037,330
Amount Utilized by Benefit Increases Granted		21,264,230	(21,264,230)
Net Transfers In (Out) and Purchase of Service Credits	765,400	(75,402)	
Balances Transferred to Employers' Reserve due to Retirement	(19,507,994)	19,507,983	
BALANCE AS OF JUNE 30, 2010	**$345,295,534**	**$748,758,990**	**$18,734,779**

SUPPORTING SCHEDULES INFORMATION

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECEIPTS		
Members' Contributions	$ 54,550,666	$ 53,006,253
Employers' Contributions	54,567,804	55,624,332
Interest	6,659,955	14,513,439
Dividends	12,701,058	20,135,000
Other Income	913,857	5,845
Securities Lending Income	742,692	1,761,286
Transfer In	542,806	370,781
Service Purchase	733,281	429,498
Maturities and Sales of:		
Short-Term Investment	-	-
U S Equity	911,632,351	942,786,256
Non-U s Equity	468,109,282	333,742,306
GTAA	37,280,026	-
Fixed Income	71,892,654	589,887,819
Credit Opportunities	43,168,021	42,150,808
Private Equity	98,644,506	15,348,928
Real Assets	51,266,316	9,916,934
Real Estate	21,279,045	59,415,517
Total Receipts	**1,834,684,321**	**2,139,095,002**
DISBURSEMENTS		
Pension Benefits	65,749,374	57,451,322
Refunds to Terminated Members	19,774,873	14,879,342
Drop Benefits	662,404	245,457
Investment and Administrative Expenses	5,177,677	2,304,824
Transfer Out	586,089	530,781
Acquisitions of:		
Short-Term Investment	-	-
U S Equity	805,543,343	863,499,453
Non-U s Equity	460,508,183	398,380,139
GTAA	111,879,442	-
Fixed Income	71,750,654	556,760,413
Credit Opportunities	53,951,570	92,429,643
Private Equity	138,237,744	42,126,859
Real Assets	57,570,900	42,786,016
Real Estate	47,312,951	109,501,491
Total Disbursements	**1,838,705,203**	**2,180,895,740**
INCREASE (DECREASE) IN CASH	(4,020,882)	(41,800,738)
BEGINNING CASH BALANCE - July 1	16,515,717	58,316,455
ENDING CASH BALANCE - June 30	**$ 12,494,835**	**$ 16,515,717**

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

EXPENSE CATEGORY	ADMINISTRATIVE	INVESTMENT	TOTAL
Accounting and Auditing Services	$ 21,838	$ -	$ 21,838
Actuarial Services	50,456	-	50,456
Building Expense	40,836	-	40,836
Communications	3,274	-	3,274
Computer Related Expense	42,013	5,387	47,400
Contractual Services	23,458	-	23,458
Depreciation Expense	41,291	-	41,291
Fund Manager Initiatives	6,014	-	6,014
Furniture and Equipment	935	-	935
Investment Services	-	3,268,976	3,268,976
Legal Services	20,885	256,394	277,279
Local Board Training	13,580	-	13,580
Payroll Taxes and Fringe Benefits	191,105	83,602	274,708
Postage Expenses	22,503	-	22,503
Printing and Publications	13,899	-	13,899
Professional Services	29,237	395,096	424,333
Salaries and Wages	378,198	173,676	551,874
Supplies and Services	5,900	-	5,900
Training Expenses	8,021	8,994	17,015
Travel Expense	1,934	13,145	15,079
TOTAL	**$915,379**	**$4,205,270**	**$5,120,649**

SCHEDULE OF CONSULTANT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

CONSULTANT	SERVICE PROVIDED	FEES PAID
Albourne America, LLC	International Alternative Investment Consultant	$ 123,120
Alliance Resource Consulting, LLC	Executive Recruitment	2,421
BNY Mellon Asset Servicing	Independent Investment Advisor	46,717
Brazen Technology, Inc.	IT Consultant	30,774
CB Richard Ellis	Real Estate Consultant	8,991
Cortex Applied Research, Inc.	Governance Advisor	3,155
Cushman & Wakefield	Real Estate Consultant	9,720
Gabriel Roeder Smith & Company	Actuary	47,750
Heinfeld, Meech & Co.	Independent Auditors	21,838
Highground, Inc.	Legislative Liaison	21,870
Kutak Rock LLP	General Counsel	277,279
Light Stone Solutions, LLC	Due Diligence	68,490
NEPC, LLC	Independent Investment Advisor	112,995
ORG Portfolio Management LLC	Real Estate Consultant	88,088
OSAM, Inc.	IT Consultant	4,743
Page, Gerald	IT Consultant	8,077
Public Policy Partners	Legislative Liaison	29,167
Rodwan Consulting Company	Actuary	2,706
Sherwood Systems	Accounting Consultant	2,889
Smout, Jared	Accounting Consultant	7,290
Stepstone Group LLC	Alternative Investment Consultant	85,050
TOTAL		**$1,003,129**

OTHER SUPPLEMENTARY INFORMATION

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

HEALTH INSURANCE PREMIUM SUBSIDY	BEGINNING BALANCE	ADDITIONS	DELETIONS	ENDING BALANCE
ASSETS				
Cash	$ 0	$ 2,372,104	$ 2,372,104	$ 0
Total Assets	**0**	**2,372,104**	**2,372,104**	**0**
LIABILITIES				
Benefits Payable	0	2,372,104	2,372,104	0
Total Liabilities	**$ 0**	**$2,372,104**	**$2,372,104**	**$0**

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

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
06/30/07	0	$48,990	$48,990	0.0%	$515,428	9.5%
06/30/08	0	53,701	53,701	0.0%	642,621	8.4%
06/30/09	0	68,731	68,731	0.0%	630,825	10.9%
06/30/10	0	73,272	73,272	0.0%	616,481	11.9%

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

INVESTMENT SECTION

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN

3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016-4416
www.psprs.com
TELEPHONE: (602) 255-5575
FAX: (602) 255-5572

James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Tracey D. Peterson
Assistant Administrator-COO

December 3, 2010

Members:

As the Chief Investment Officer of the Public Safety Personnel Retirement System (PSPRS) during the fiscal year beginning July 1, 2009 and ending June 30, 2010, I submit the following comments and observations for your consideration and for the consideration of the respective parties in interest of the System:

HISTORY

Until recently the investment activities of PSPRS focused on internally managed domestic public securities (Stocks and Bonds), with some allocations to Arizona Real Estate. As with "baskets and eggs" this created concentrations of risks, particularly a concentration of risk in U.S. large Cap growth stocks. When U.S. domiciled equities did well, so did PSPRS. When U.S. equities performed poorly, so did PSPRS with a corresponding erosion in our funding ratios. While each of the System's Plans have slightly different liabilities and slightly different funding ratios, the trend in funding ratios has been down during the last several years. While it might be argued that going up high in good years offsets going down low in bad years, a simple illustration demonstrates the continuing problems with this volatility.

> *Assume that a fund begins a year with $100.00 and in that year suffers a 20% loss, ending with a balance of $80.00. In the next year assume that the markets recover and the fund increases in value 20%. This new return brings the fund only back to $96.00. Over this two year example the fund's net return is negative. In the case of retirement funds with demographics similar to ours, during this two year period the liabilities of the fund would continue to grow unabated and the funding ratio of the fund would decline.*

Our historic performance with large concentrations in U.S. equities has been extremely volatile, reflecting major losses in asset value resulting from the "Dot Com" market decline early in the decade and the most recent economic and financial market calamities. This volatility over our last ten years demonstrates precisely the example cited above as follows:

FY	Return %	FY	Return%
2010	13.47	2005	9.23
2009	-17.99	2004	14.77
2008	-7.05	2003	6.15
2007	16.77	2002	-14.73
2006	8.19	2001	-17.07

This return distribution has six up years and four down years. The average return per year is about +1.17% with an arithmetic return of +11.74%. But that return is deceiving. Because of the "Time Value of Money" and compounding effects, the PSPRS 10 year return is really +0.28%. Our liabilities compounded to an amount more than that, thus reducing our funding ratios. During this period PSRPS investment managers have consistently outperformed but that relative outperformance was outpaced by the portfolio volatility driven by extreme reliance on Domestic Equities. In the universe of public pension plans, manager outperformance cannot overcome asset allocation performance as asset allocation usually accounts for more than 85% of total fund performance.

2008 TO THE PRESENT

Recognizing these problems the PSPRS Administrator and the PSPRS Board began a program to broadly diversity the Fund's asset allocation and manager concentration. There was significant progress to this end in 2008-2009 which has continued through fiscal year 2009-2010. U.S. Equity exposure has been reduced from about 65% in 2007 to about 24% in 2010. Total equities have been reduced from about 73% of the portfolio in 2007 to about 41% in 2010. Within equities, the Fund currently enjoys exposures to domestic equities, developed international equities and to emerging and to frontier markets. Current asset allocation targets will reduce our total equity exposures to about 35% of the total portfolio with true global diversity.

The large historic equity exposures have been replaced with allocations to Credit Opportunities, Real Assets (Timber, Commodities, Infrastructure etc.) Global Tactical Asset Allocation (GTAA) Strategies, Private Equity, Real Estate and Absolute Return Strategies. The specific purpose of this diversification is to generate returns from multiple asset classes, multiple geographies and multiple strategies. This means that we will not "live or die" by one asset class, one geography and one strategy. Our financial eggs are distributed widely in different baskets, many of which go up when others go down or are largely uninfluenced by events which "spoil a basket" in another area.

In the Fiscal year 2008-2009 the effect of this diversification proved immediately valuable. While the fund was down more than 17% in that time frame, we would have been down much more if we had kept our traditional equity allocation. Many of our peers were down significantly more than 20%.

In this fiscal year 2009-2010, equities had a strong recovery. We participated in that recovery and returned 13.47% for the total fund net of fees. However, consistent with our strategy, our participation was not solely dependent upon equities. For example, our credit opportunities portfolio of approximately one half of a billion dollars returned 33.85% in this time period. That return was generated in positions higher in the capital structure (including in many cases credit tranches that were AAA and AA rated) than equities, with significantly more downside protection than equities could have provided. In this situation, the System's Plans benefited from more return than equities would have given us and with less risk.

The Fund's fiduciary consultant NEPC, has recently confirmed the System's Investment Department's staff's assessment that our current asset allocation delivers a higher probability of reaching our assumed earnings rate of return of 8.25% with significantly less risk. In all likelihood we will continue to participate in most of the market's upside but also have significantly less participation in the market's downside.

CONCLUSION

The continued diversification of the fund will enable the System's Plans to generate better risk adjusted returns than was the case with PSPRS' historic allocations and will help to protect funding ratios from the effects of exaggerated volatility. When combined with expected continued manager outperformance, this diversification should in the mid and long term, improve PSPRS funding ratios and enhance the stability of our System.

Respectfully Submitted,

Ryan P. Parham

Ryan Parham

FUND INVESTMENT OBJECTIVES

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

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

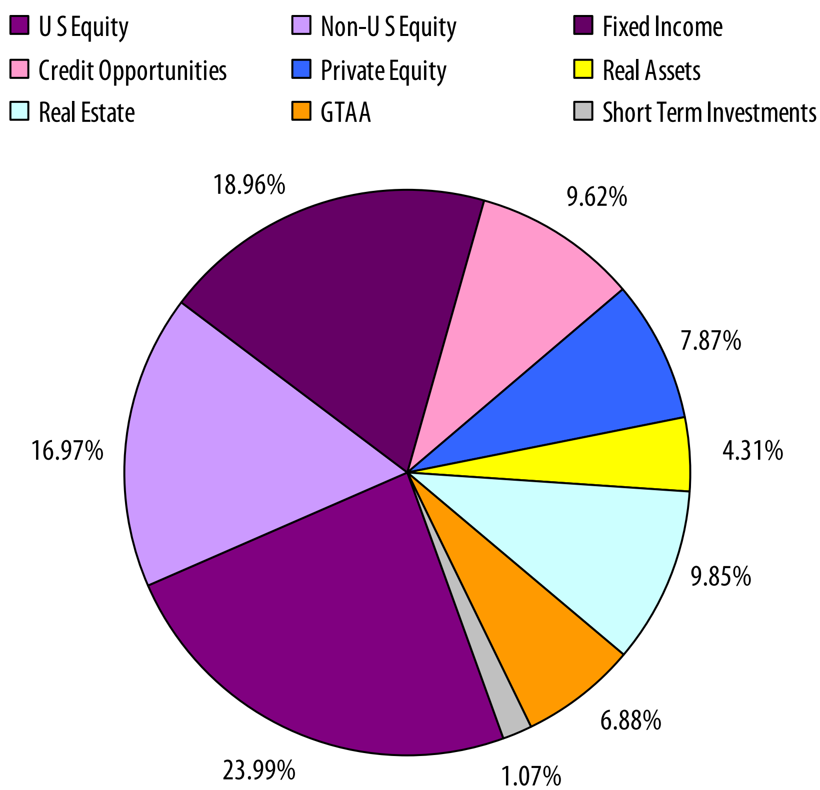
Consistent with the Fund objectives, the primary investment objective of the Fund is to maximize long-term real (after inflation) investment returns recognizing established risk (volatility) parameters and the need to preserve capital by:

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

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

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

ASSET ALLOCATION
JUNE 30, 2010



ANNUALIZED RATES OF RETURN*
JUNE 30, 2010

Description	1 Year	3 Years	5 Years	10 Years
PSPRS - Total Fund	13.47%	-4.72%	1.79%	0.28%
Target Fund Benchmark	*12.10%*	*-5.89%*	*-0.13%*	*1.43%*
Total Equity	13.73%	-7.80%	0.18%	
Target Equity Benchmark	*13.66%*	*-9.56%*	*-0.73%*	
U.S. Equity	16.95%	N/A	N/A	
Russell 3000	*15.72%*	*-9.47%*	*-0.48%*	
Non-U.S. Equity	8.99%	N/A	N/A	
MSCI ACWI Ex-US Net	*10.43%*	*-10.70%*	*3.38%*	
Fixed Income	13.84%	4.94%	4.27%	
BC Aggregate	*9.50%*	*7.55%*	*5.54%*	
Credit Opportunities	33.85%	N/A	N/A	
ML US High Yield BB-B Constrained	21.65%	5.60%	6.11%	
Private Equity	26.68%	-5.50%	N/A	
Russell 3000 + 100 bps	*16.72%*	*-8.47%*	*0.52%*	
Real Assets	5.85%	N/A	N/A	
CPI + 200 bps	*2.92%*	*3.52%*	*4.27%*	
Real Estate	-12.63%	-1.38%	N/A	
NCREIF NPI	*-1.48%*	-4.71%	3.78%	
Short Term Investments	0.28%	1.86%	3.08%	
ML Treasury 91 day Actual	*0.16%*	*1.57%*	*2.76%*	

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

Target Fund Benchmarks (Effective Dates)

April 1, 2009 - June 30, 2010: 30% Russell 3000, 20% MSCI World Ex-US Net, 20% BC Aggregate, 8% NCREIF NPI, 8% Russell 3000 + 100 bps, 8% ML US High Yield BB-B Constrained, 5% CPI + 200 bps and 1% 91-Day T-Bill

July 1, 2007 - March 31, 2009: 46% Wilshire 5000, 21% MSCI World Ex-US Net, 20% BC Gov/Cred, 6% NCREIF NPI, 6% Wilshire 5000 +300 bps and 1% 91-Day T-Bill

July 1, 2006 - June 30, 2007: 50% S&P 500, 10% S&P 400, 5% S&P 600, 20% BC Gov/Cred, 10% Expected Annual Return for Real Estate of 8.00% and 5% 91-Day T-Bill

July 1, 2002 - June 30, 2006: 45% S&P 500, 45% BC Gov/Cred and 10% 91-Day T-Bill

Target Equity Benchmarks (Effective Dates)

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

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

July 1, 2006 - June 30, 2007: 76.92% S&P 500, 15.39% S&P 400 and 7.69% S&P 600

July 1, 2002 - June 30, 2006: 100% S&P 500

EQUITY PORTFOLIO TOP 10 HOLDINGS
JUNE 30, 2010

Description	Shares	Fair Value
VANGUARD INSTL INDEX FD TOTAL	1,944,402	$44,974,018
CRESTLINE CS 3000 FUND L.P.	24,788,489	24,788,489
ISHARES MSCI EMERGING MARKETS	606,050	22,617,769
FRONTPOINT MULTI-STRATEGY FUND	18,233,003	18,233,003
VANGUARD INTL EQUITY INDEX FD	461,230	17,701,989
GAM TRADING STRATEGY	13,999,090	13,999,090
VANGUARD EMERGING MARKETS ETF	290,585	11,039,321
VANGUARD STAR FD DEVELOPED MKT	989,055	8,090,472
BGI FRONTIER MARKETS FUND	1,263,345	7,042,880
ETF VANGUARD PACIFIC ETF	119,846	5,699,859

FIXED INCOME PORTFOLIO TOP 10 HOLDINGS
JUNE 30, 2010

Description	Shares	Fair Value
BGI CORE ACTIVE BOND FUND	6,768,673	$139,121,474
VANGUARD BD INDEX FD INC TOTAL	399,095	32,478,323
SECURITY MUT LIFE INS CO 144A	2,799,818	2,923,492
U S TREASURY NOTE	2,426,509	2,539,487
CBO HLDGS III 04-3 CL A 144A	2,311,772	2,299,723
PREFERRED CPO A / B 144A	1,995,617	2,221,219
CBO HLDGS III 1A 04-1 C-2 144A	1,954,636	2,042,220
U S TREASURY NOTE	1,866,545	1,873,694
SPDR BARCLAYS CAPITAL INTL	31,154	1,674,535
U S TREASURY NOTE	1,493,236	1,499,777

SUMMARY OF CHANGES IN INVESTMENT PORTFOLIO
JUNE 30, 2010
(IN THOUSANDS)

	JUNE 30, 2009 BALANCE					JUNE 30, 2010 BALANCE		
DESCRIPTION	PERCENT AT FAIR VALUE	FAIR VALUE	BOOK VALUE	ACQUIRED	MATURED AND SOLD	FAIR VALUE	BOOK VALUE	PERCENT AT FAIR VALUE
U. S. Equity	35.34%	$ 332,969	$ 399,610	$ 804,943	$ 938,107	$ 266,195	$ 266,446	24.83%
Non U. S. Equity	19.56%	184,263	176,902	460,681	447,584	188,346	189,999	17.70%
GTAA	0.00%	-	-	111,880	37,218	76,359	74,662	6.96%
Fixed Income	19.31%	181,946	194,321	78,917	79,235	210,411	194,003	18.08%
Credit Opportunities	7.70%	72,545	78,751	53,951	36,198	106,706	96,504	8.99%
Private Equity	3.66%	34,447	40,635	138,237	93,462	87,362	85,410	7.96%
Real Assets	4.19%	39,515	38,669	57,671	49,978	47,817	46,362	4.32%
Real Estate	10.25%	96,562	108,114	47,312	35,652	109,252	119,774	11.16%
Total Portfolio	**100.00%**	**$942,247**	**$1,037,002**	**$1,753,592**	**$1,717,434**	**$1,092,448**	**$1,073,160**	**100.00%**

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2010

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
ABN AMRO BANK NV, LONDON	235,952	0.0004	$ 95
BARCLAYS CAPITAL LE, JERSEY CITY	348,166	0.0016	570
BLOOMBERG TRADEBOOK LLC, NEW YORK	26,575,501	0.0002	5,758
BNY BROKERAGE, NEW YORK	113,781	0.0009	101
BROCKHOUSE AND COOPER, MONTREAL	127,831	0.0004	53
CIBC WORLD MKTS INC, TORONTO	10,664	0.0003	3
CITATION GROUP/BCC CLRG, NEW YORK	1,701,157	0.0006	975
CITIGROUP GBL MKTS AUSTRALIA PTY, SYDNEY	15,108	0.0005	8
CITIGROUP GBL MKTS INC, NEW YORK	148,773	0.0009	135
CITIGROUP GBL MKTS SINGAPORE SEC PVT LTD	38,625	0.0005	19
CITIGROUP GBL MKTS/SALOMON, NEW YORK	219,617	0.0005	107
CITIGROUP GLOBAL MARKETS LTD, LONDON	3,077,836	0.0003	863

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2010

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
CITIGROUP GLOBAL MARKETS U.K., LONDON	1,488,838	0.0003	$ 410
CREDIT SUISSE (EUROPE), LONDON	781,567	0.0003	215
CREDIT SUISSE, NEW YORK	134,561	0.0004	50
DEUTSCHE BK INTL EQ, LONDN	127,635	0.0003	42
DEUTSCHE BK SECS INC, NY	91,510	0.0005	44
GOLDMAN SACHS & CO, NY	313,519	0.0005	157
GOLDMAN SACHS INTL, LONDON	1,360,794	0.0003	472
INSTINET AUSTRALIA CLEARING SERV, SYDNEY	17,705	0.0005	9
INSTINET EUROPE LIMITED, LONDON	57,832	0.0004	23
INVESTMENT TECHNOLOGY GROUP, NEW YORK	2,119,353	0.0005	1,110
ITG (EUROPE) LTD, DUBLIN	455,786	0.0004	198
ITG CANADA CORP, TORONTO	405,879	0.0005	218
ITG HONG KONG LIMITED, HONG KONG	2,069,568	0.0004	832
ITG/POSIT, NEW YORK	19,820	0.0004	7
J P MORGAN SEC, SYDNEY	42,733	0.0005	21
JP MORGAN SECS ASIA PACIFIC, HONG KONG	85,049	0.0004	34
KNIGHT SEC BROADCORT, JERSEY CITY	1,307	0.0086	11
MERRILL LYNCH INTL LONDON EQUITIES	65,188	0.0003	23
MERRILL LYNCH PIERCE FENNER SMITH INC NY	115,658	0.0011	132
MERRILL LYNCH PIERCE FENNER, WILMINGTON	42,417	0.0009	37
MORGAN STANLEY & CO INC, NY	706,798	0.0004	281
NOMURA INTERNATIONAL LTD, HONG KONG	2,582	0.0005	1
NOMURA SECS INTL, LONDON	73,574	0.0004	31
PENSON FINANCIAL SERVICES INC, DALLAS	113,639,159	0.0001	8,619
RBC DOMINION SECS INC, TORONTO	710,334	0.0004	314
STATE STREET BANK ASSET MGMT DIV, BOSTON	539,727	0.0002	114
STATE STREET BK & TR CO (SEC), LONDON	7,357,627	0.0004	3,309
STATE STREET GLOBAL MARKETS LLC, BOSTON	154,059,057	0.0003	45,417
UBS EQUITIES, LONDON	66,572	0.0003	23
UBS FINANCIAL SERVICES INC, WEEHAWKEN	21,559,021	0.0001	2,594
UBS WARBURG ASIA LTD, HONG KONG	260,769	0.0005	130
TOTAL COMMISSIONS	**341,384,946**	**0.0002**	**$73,566**

U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2010

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
6,531,098	RUSSELL 3000 SECURITIES	$ 166,452,286	$ 167,422,892	$ 970,606
66	RUSSELL 2000 MINI IND FUTURES	-	(365,250)	(365,250)
41	S & P MID 400 EMINI FUTURES	-	(273,692)	(273,692)
625	S&P 500 EMINI INDEX FUTURES	-	(2,583,251)	(2,583,251)
24,788,489	CRESTLINE CS 3000 FUND L.P.	24,825,054	24,788,489	(36,565)
18,233,003	FRONTPOINT MULTI-STRATEGY FUND	18,665,454	18,233,003	(432,451)
13,999,090	GAM TRADING STRATEGY	13,999,090	13,999,090	-
1,944,402	VANGUARD INSTL INDEX FD TOTAL	42,503,760	44,974,018	2,470,258
65,496,814	**TOTAL U.S. EQUITY PORTFOLIO**	**$266,445,644**	**$266,195,299**	**$ (250,345)**

NON-U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2010

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
13,490,860	MSCI WORLD EX-US INDEX	$ 124,179,492	$ 114,389,970	$ (9,789,522)
989,055	VANGUARD STAR FD DEVELOPED MKT	9,610,794	8,090,472	(1,520,322)
70,929	ISHARES MSCI CDA INDEX FD	1,874,277	1,763,997	(110,280)
606,049	ISHARES MSCI EMERGING MARKETS	16,000,853	22,617,769	6,616,916
461,230	VANGUARD INTL EQUITY INDEX FD	18,484,013	17,701,989	(782,024)
290,585	VANGUARD EMERGING MARKETS ETF	7,924,112	11,039,321	3,115,209
119,846	ETF VANGUARD PACIFIC ETF	6,325,204	5,699,859	(625,345)
1,263,345	BGI FRONTIER MARKETS FUND	5,600,004	7,042,880	1,442,876
17,291,899	**TOTAL NON-U.S. EQUITY PORTFOLIO**	**$189,998,749**	**$188,346,257**	**$(1,652,492)**

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2010

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
531,200	FHLMC POOL #H1-0069	6.00%	11/01/2036	$531,790	$575,225
505,804	FHLMC POOL #H1-5010	6.00%	11/01/2036	506,367	547,725
10,365	GNMA POOL #0153415	9.00%	04/15/2016	10,810	11,474
2,763	GNMA POOL #0156462	9.00%	07/15/2016	2,885	3,059
6,068	GNMA POOL #0157733	9.00%	05/15/2016	6,333	6,718
4,447	GNMA POOL #0158992	9.00%	06/15/2016	4,592	4,922
5,197	GNMA POOL #0159801	9.00%	09/15/2019	5,497	5,939
3,222	GNMA POOL #0160350	9.00%	05/15/2016	3,334	3,567
11,022	GNMA POOL #0161684	9.00%	07/15/2016	11,516	12,201
9,640	GNMA POOL #0164501	9.00%	08/15/2016	10,067	10,672
18,935	GNMA POOL #0164681	9.00%	10/15/2016	19,791	20,961
7,205	GNMA POOL #0164924	9.00%	09/15/2016	7,512	7,976
8,022	GNMA POOL #0165172	9.00%	06/15/2016	8,370	8,881
3,814	GNMA POOL #0165863	9.00%	08/15/2016	3,984	4,222
6,857	GNMA POOL #0168283	9.00%	08/15/2016	7,164	7,591
2,363	GNMA POOL #0172800	9.00%	08/15/2016	2,467	2,616
5,397	GNMA POOL #0173847	9.00%	09/15/2016	5,625	5,974
8,328	GNMA POOL #0173878	9.00%	08/15/2016	8,683	9,219
3,641	GNMA POOL #0174829	9.00%	09/15/2016	3,794	4,031
10,513	GNMA POOL #0176431	9.00%	08/15/2016	10,985	11,637
4,134	GNMA POOL #0178234	9.00%	11/15/2016	4,326	4,576
2,514	GNMA POOL #0181945	9.00%	04/15/2020	2,664	2,884
421	GNMA POOL #0182127	9.00%	11/15/2016	440	466
2,731	GNMA POOL #0182491	9.00%	12/15/2016	2,857	3,023
1,269	GNMA POOL #0182914	9.00%	10/15/2016	1,323	1,405
7,187	GNMA POOL #0183553	9.00%	08/15/2017	7,536	8,013
4,410	GNMA POOL #0183715	9.00%	11/15/2016	4,615	4,882
27,112	GNMA POOL #0183733	9.00%	01/15/2017	28,392	30,228
1,340	GNMA POOL #0185639	9.00%	11/15/2016	1,396	1,483
8,329	GNMA POOL #0187705	9.00%	01/15/2017	8,709	9,286
9,730	GNMA POOL #0190921	9.00%	12/15/2016	10,172	10,770
6,136	GNMA POOL #0191648	9.00%	05/15/2017	6,433	6,841
4,112	GNMA POOL #0191943	9.00%	07/15/2018	4,328	4,685
8,570	GNMA POOL #0194468	9.00%	12/15/2016	8,954	9,487
564	GNMA POOL #0202505	9.00%	10/15/2019	587	582
7,077	GNMA POOL #0206683	9.00%	04/15/2020	7,493	8,119
6,680	GNMA POOL #0207671	9.00%	07/15/2018	7,033	7,611
1,015	GNMA POOL #0208705	9.00%	05/15/2020	1,072	1,142
7,498	GNMA POOL #0210798	9.00%	07/15/2018	7,894	8,543
5,477	GNMA POOL #0216520	9.00%	05/15/2017	5,741	6,106
2,748	GNMA POOL #0217956	10.00%	11/15/2017	2,931	3,087
9,911	GNMA POOL #0221509	9.00%	12/15/2016	10,344	10,971
9,219	GNMA POOL #0223282	9.00%	05/15/2018	9,708	10,505
3,184	GNMA POOL #0223307	9.00%	04/15/2018	3,352	3,628

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2010

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
8,781	GNMA POOL #0226529	9.00%	06/15/2018	$ 9,242	$ 10,005
2,703	GNMA POOL #0227210	9.00%	09/15/2017	2,834	3,014
2,641	GNMA POOL #0228184	9.00%	05/15/2018	2,782	3,010
3,556	GNMA POOL #0228233	9.00%	05/15/2018	3,724	4,052
6,860	GNMA POOL #0229731	9.00%	07/15/2017	7,195	7,649
5,879	GNMA POOL #0234450	9.00%	04/15/2018	6,181	6,698
281	GNMA POOL #0234695	10.00%	12/15/2017	301	315
5,283	GNMA POOL #0234937	9.00%	03/15/2018	5,561	6,020
3,814	GNMA POOL #0235280	9.00%	04/15/2018	4,016	4,346
7,349	GNMA POOL #0236041	10.00%	11/15/2017	7,794	8,235
3,796	GNMA POOL #0236835	10.00%	11/15/2017	4,026	4,263
607	GNMA POOL #0236939	9.00%	04/15/2018	639	691
16,954	GNMA POOL #0237138	10.00%	10/15/2017	18,212	19,042
2,447	GNMA POOL #0237195	9.00%	06/15/2018	2,564	2,713
595	GNMA POOL #0238133	9.00%	04/15/2018	623	661
5,842	GNMA POOL #0238600	10.00%	11/15/2017	6,187	6,561
2,785	GNMA POOL #0247506	9.00%	01/15/2020	2,947	3,194
1,675	GNMA POOL #0248951	9.00%	05/15/2018	1,764	1,909
18,001	GNMA POOL #0249621	9.00%	05/15/2018	18,946	20,510
2,813	GNMA POOL #0250933	9.00%	06/15/2018	2,963	3,205
6,482	GNMA POOL #0252052	9.00%	06/15/2018	6,743	7,385
17,502	GNMA POOL #0252055	9.00%	06/15/2018	18,437	19,941
1,408	GNMA POOL #0252306	9.00%	04/15/2018	1,480	1,605
1,861	GNMA POOL #0252538	9.00%	05/15/2018	1,957	2,120
1,840	GNMA POOL #0257869	9.00%	09/15/2019	1,946	2,102
736	GNMA POOL #0262845	9.00%	03/15/2020	780	845
11,656	GNMA POOL #0266545	9.00%	01/15/2019	12,291	13,318
11,334	GNMA POOL #0271090	9.00%	10/15/2019	11,977	12,951
4,133	GNMA POOL #0273548	9.00%	09/15/2019	4,373	4,723
8,367	GNMA POOL #0274140	9.00%	09/15/2019	8,846	9,561
2,102	GNMA POOL #0277907	9.00%	11/15/2019	2,224	2,401
3,228	GNMA POOL #0284420	9.00%	02/15/2020	3,417	3,703
2,658	GNMA POOL #0285593	9.00%	02/15/2020	2,816	3,050
8,482	GNMA POOL #0286371	9.00%	02/15/2020	8,963	9,626
339	GNMA POOL #0286427	9.00%	04/15/2020	346	388
4,506	GNMA POOL #0287851	9.00%	04/15/2020	4,776	5,169
4,315	GNMA POOL #0290000	9.00%	04/15/2020	4,567	4,950
3,765	GNMA POOL #0290057	9.00%	06/15/2020	3,992	4,319
3,603	GNMA POOL #0298952	9.00%	04/15/2021	3,823	4,153
1,519	GNMA POOL #0303324	9.00%	04/15/2021	1,610	1,751
1,296	GNMA POOL #0304625	9.00%	03/15/2021	1,375	1,494
3,380	GNMA POOL #0305187	9.00%	06/15/2021	3,590	3,895
5,390	GNMA POOL #0319521	8.00%	02/15/2022	5,702	6,215
7,666	GNMA POOL #0330725	8.00%	07/15/2022	8,127	8,839

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2010

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
38,614	GNMA POOL #0337419	7.00%	06/15/2023	$ 40,493	$ 43,566
27,975	GNMA POOL #0345731	8.00%	05/15/2024	29,724	32,406
5,929	GNMA POOL #0352219	8.00%	04/15/2023	6,288	6,855
39,161	GNMA POOL #0352964	7.00%	05/15/2024	41,071	44,240
67,388	GNMA POOL #0366756	7.00%	03/15/2024	70,675	76,127
41,994	GNMA POOL #0371734	7.00%	04/15/2024	44,039	47,439
61,730	GNMA POOL #0375887	7.00%	05/15/2024	64,744	69,735
95,046	GNMA POOL #0377589	7.50%	08/15/2025	100,160	107,969
32,368	GNMA POOL #0386030	7.00%	05/15/2024	33,946	36,565
15,098	GNMA POOL #0386038	7.00%	06/15/2024	15,834	17,056
8,502	GNMA POOL #0390014	7.00%	06/15/2024	8,917	9,605
50,030	GNMA POOL #0391992	7.00%	03/15/2024	52,474	56,518
59,742	GNMA POOL #0398831	8.00%	08/15/2026	63,613	69,096
8,362	GNMA POOL #0402544	7.50%	04/15/2026	8,817	9,496
63,094	GNMA POOL #0403979	8.50%	10/15/2024	67,134	73,188
36,968	GNMA POOL #0405618	7.50%	04/15/2026	38,983	41,982
5,230	GNMA POOL #0406811	7.50%	01/15/2026	5,514	5,939
8,612	GNMA POOL #0417666	7.50%	08/15/2025	9,076	9,783
38,010	GNMA POOL #0421711	7.50%	04/15/2026	40,076	43,165
2,088	GNMA POOL #0427556	7.50%	03/15/2026	2,201	2,372
9,067	GNMA POOL #0427558	7.50%	04/15/2026	9,561	10,297
20,020	GNMA POOL #0429356	7.50%	03/15/2026	21,106	22,735
16,083	GNMA POOL #0430384	8.00%	08/15/2026	17,062	18,602
49,720	GNMA POOL #0432701	8.00%	06/15/2026	52,933	57,504
28,504	GNMA POOL #0433892	7.00%	07/15/2028	29,863	32,378
19,188	GNMA POOL #0434101	7.00%	12/15/2028	20,104	21,796
54,122	GNMA POOL #0434237	6.00%	03/15/2029	54,967	59,894
6,823	GNMA POOL #0438772	8.00%	08/15/2026	7,265	7,891
7,171	GNMA POOL #0438778	8.00%	08/15/2026	7,636	8,294
13,204	GNMA POOL #0439645	8.00%	09/15/2026	14,059	15,271
26,341	GNMA POOL #0450368	7.00%	08/15/2028	27,598	29,921
13,065	GNMA POOL #0458918	7.00%	08/15/2028	13,687	14,840
43,109	GNMA POOL #0464692	7.00%	07/15/2028	45,166	48,967
27,294	GNMA POOL #0466888	7.00%	07/15/2028	28,595	31,003
68,542	GNMA POOL #0469797	7.00%	12/15/2028	71,814	77,857
48,047	GNMA POOL #0470493	7.00%	06/15/2029	50,341	54,609
34,795	GNMA POOL #0472997	7.00%	06/15/2029	36,454	39,547
10,729	GNMA POOL #0475872	7.00%	07/15/2028	11,241	12,188
6,918	GNMA POOL #0478875	7.50%	11/15/2029	7,307	7,879
35,031	GNMA POOL #0478881	7.50%	11/15/2029	36,996	39,894
39,342	GNMA POOL #0482784	7.00%	10/15/2028	41,221	44,689
17,081	GNMA POOL #0485451	6.50%	05/15/2031	17,566	19,131
36,501	GNMA POOL #0486539	7.00%	09/15/2028	38,242	41,462
8,243	GNMA POOL #0486761	7.00%	12/15/2028	8,636	9,363

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2010

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
9,303	GNMA POOL #0487221	7.00%	05/15/2029	$ 9,747	$ 10,574
24,474	GNMA POOL #0487222	7.00%	05/15/2029	25,640	27,817
38,186	GNMA POOL #0493996	7.00%	07/15/2029	40,008	43,401
78,736	GNMA POOL #0499876	7.00%	06/15/2029	82,496	89,489
50,188	GNMA POOL #0499905	7.00%	05/15/2029	52,586	57,043
41,147	GNMA POOL #0499907	7.00%	05/15/2029	43,112	46,767
44,554	GNMA POOL #0500931	7.00%	06/15/2029	47,021	50,640
224,763	GNMA POOL #0503019	6.00%	03/15/2029	228,264	248,736
139,391	GNMA POOL #0505728	7.00%	06/15/2029	146,041	158,429
30,932	GNMA POOL #0506075	7.00%	11/15/2029	32,410	35,157
37,190	GNMA POOL #0507496	7.00%	06/15/2029	38,966	42,269
16,037	GNMA POOL #0509328	7.00%	06/15/2029	16,801	18,228
6,057	GNMA POOL #0510100	7.00%	07/15/2029	6,346	6,885
7,137	GNMA POOL #0510302	7.00%	08/15/2029	7,477	8,112
34,460	GNMA POOL #0510958	7.00%	05/15/2029	36,105	39,167
7,968	GNMA POOL #0510983	7.00%	06/15/2029	8,348	9,056
40,511	GNMA POOL #0512888	7.00%	07/15/2029	42,447	46,044
49,548	GNMA POOL #0512915	7.00%	07/15/2029	51,914	56,315
22,918	GNMA POOL #0513367	7.00%	08/15/2029	24,013	26,049
4,967	GNMA POOL #0520045	6.50%	06/15/2031	5,108	5,563
48,293	GNMA POOL #0530203	6.50%	04/15/2031	50,123	54,090
102,187	GNMA POOL #0530611	6.50%	05/15/2031	106,062	114,453
79,044	GNMA POOL #0530631	6.50%	06/15/2031	82,041	88,531
19,295	GNMA POOL #0539629	6.50%	04/15/2031	20,025	21,611
46,023	GNMA POOL #0541464	6.50%	06/15/2031	47,329	51,547
25,357	GNMA POOL #0548963	6.50%	03/15/2031	26,078	28,401
16,080	GNMA POOL #0549889	6.50%	05/15/2031	16,536	18,010
110,712	GNMA POOL #0552514	6.50%	04/15/2032	113,835	123,378
284,111	GNMA POOL #0552518	6.50%	04/15/2032	292,129	316,617
37,212	GNMA POOL #0557424	6.50%	05/15/2031	38,269	41,678
23,766	GNMA POOL #0557467	6.50%	05/15/2031	24,442	26,618
82,044	GNMA POOL #0560189	6.50%	04/15/2031	84,375	91,892
182,079	GNMA POOL #0780076	8.00%	02/15/2025	193,380	210,582
204,021	GNMA POOL #0780220	7.50%	08/15/2025	219,374	231,998
7,320	GNMA POOL #0780896	7.00%	11/15/2028	7,669	8,313
28,463	GNMA POOL #0781129	7.00%	11/15/2028	29,819	32,324
2,426,508	U S TREASURY NOTE	3.50%	05/15/2020	2,517,793	2,539,484
933,273	U S TREASURY NOTE	2.75%	05/31/2017	937,630	952,955
1,493,236	U S TREASURY NOTE	2.50%	06/30/2017	1,499,536	1,499,777
1,866,545	U S TREASURY NOTE	1.88%	06/30/2015	1,874,012	1,873,694
11,795,318	**TOTAL U.S. GOVERNMENT SECURITIES**			**$12,091,031**	**$12,554,338**

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2010

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
CORPORATE BONDS					
412,835	ACA ABS LTD 144A	VAR	06/10/2041	$ 70,771	$ 4
373,309	ANADARKO FIN CO SR NT	7.50%	05/01/2031	386,893	313,957
559,964	ASSOC CORP NA BDS	6.95%	11/01/2018	522,440	573,201
35,482	AUTO BD RECEIVABLES TR 94-A			35,482	-
373,309	AXA SA US$ SUB NT	8.60%	12/15/2030	359,952	421,649
373,309	BANC ONE CORP DEBS	8.00%	04/29/2027	365,619	460,253
373,309	BANK AMER CORP SR NT	5.75%	12/01/2017	337,494	387,151
6,768,674	BGI CORE ACTIVE BOND FUND			123,366,081	139,121,474
373,309	BURLINGTON RESOURCES FINANCE	7.40%	12/01/2031	344,735	466,789
2,311,772	CBO HLDGS III 04-3 CL A 144A	1.00%	06/01/2019	2,299,723	2,299,723
1,954,636	CBO HLDGS III 1A 04-1 C-2 144A	7.00%	02/10/2038	2,042,220	2,042,220
933,273	CHASEPEAKE & POTOMAC TEL CO MD	7.15%	05/01/2023	929,335	998,854
373,309	CITIGROUP INC	6.13%	05/15/2018	339,067	389,615
279,982	CNF INC SR DEB	6.70%	05/01/2034	235,566	279,615
159,776	CONAGRA INC NTS	9.75%	03/01/2021	185,489	217,855
942,605	CONTINENTAL AIRLS 01-1 CL A 2	6.50%	06/15/2011	910,258	939,306
373,309	CORNING INC NT	7.25%	08/15/2036	374,537	417,901
11,033	DELTA FDG HM EQ LN TR 99-3 M-2	VAR	01/15/2030	2,096	24
933,273	DEUTSCHE BK CAYMAN 2001-3 144A	VAR	04/30/2030	221,634	159,151
125,218	J P MORGAN RESI 02-R2 CL 3A1	6.00%	04/28/2026	126,742	128,812
933,273	MACQUARIE GROUP LTD 144A	6.00%	01/14/2020	927,904	945,881
892,257	MID OCEAN CBO CL A 144A	6.56%	11/05/2036	893,852	883,334
164,245	MORGAN STANLEY ABS 03 NC10 M2	VAR	10/25/2033	106,825	75,144
120,351	MORGAN STANLEY ABS 04-NC1 M2	VAR	11/25/2033	103,927	99,996
43,985	MORGAN STANLEY ABS 04-NC2 M2	VAR	12/25/2033	36,360	23,327
746,618	MORGAN STANLEY SR MEDIUM TERM	5.95%	12/28/2017	656,298	756,070
489,968	MURPHY OIL CORP NT	7.05%	05/01/2029	491,350	565,041
373,309	NATIONAL RURAL UTILITIES COOPE	8.00%	03/01/2032	420,633	481,289
373,309	NEXEN INC NT	6.40%	05/15/2037	337,284	389,290
746,618	NORTH STREET REFERENCED LINKED	VAR	08/30/2030	665,173	665,173
905,275	PACIFIC BELL	7.38%	07/15/2043	918,210	958,622
817,115	PACIFIC SHORES CDO C 144A 3C7	VAR	07/03/2037	765,726	82
1,995,617	PREFERRED CPO A / B 144A	8.95%	07/26/2030	1,535,237	2,221,219
656,453	PREFERRED CPO A / B 144A	8.95%	07/26/2030	652,899	652,899
979,936	PREMIUM ASSET TR ACA 144A			979,936	-
121,381	SBA LOAN NESTING FEATHERS			121,381	121,381
2,799,818	SECURITY MUT LIFE INS CO 144A	9.38%	12/15/2016	2,923,492	2,923,492
559,964	SHELL INTL FIN B V GTD NT	6.38%	12/15/2038	616,401	668,989
31,154	SPDR BARCLAYS CAPITAL INTL			1,848,212	1,674,535
1,866,545	TRAINER WORTHAM FIRST A3L 144A	VAR	04/10/2037	1,291,914	1,291,914
373,309	UNITED UTILS PLC NT	4.55%	06/19/2018	339,599	363,271
399,095	VANGUARD BD INDEX FD INC TOTAL			31,823,183	32,478,323
34,431,281	**TOTAL CORPORATE BONDS**			**$181,911,930**	**$197,856,826**
46,226,599	**TOTAL FIXED INCOME PORTFOLIO**			**$194,002,961**	**$210,411,164**

CREDIT OPPORTUNITIES PORTFOLIO
YEAR ENDED JUNE 30, 2010

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
BLACKROCK MORTGAGE INVESTORS	$ 13,779,577	$ 15,545,527	$ 1,765,950
CENTERBRIDGE	5,226,327	6,791,779	1,565,452
COMMERCE STREET INCOME PARTNER	7,018,604	8,182,793	1,164,189
GS CREDIT OPPS FUND 2008	20,148,372	22,730,434	2,582,062
NISSWA FIXED INCOME FUND LP	5,599,636	5,737,947	138,311
OHA STRATEGIC CREDIT	3,839,917	4,991,215	1,151,298
PSPRS PNMAC MORTGOPP	24,265,090	24,910,585	645,495
PSPRS-APOLLO EUR NPL	8,303,785	9,211,139	907,354
TENNENBAUM DIP	856,676	911,868	55,192
WATERSTONE MARKET NEUTRAL	7,466,182	7,692,326	226,144
TOTAL CREDIT OPPORTUNITIES PORTFOLIO	**$96,504,166**	**$106,705,613**	**$10,201,447**

PRIVATE EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2010

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ABRY PARTNERS	$ 4,766,604	$ 9,455,286	$ 4,688,682
APOLLO INVESTMENT FUND VII	4,848,395	5,881,720	1,033,325
BLACKSTONE CAPITAL PARTNERS V	3,459,536	3,468,997	9,461
CASTLE CREEK	2,773,924	3,223,660	449,736
CHARLESBANK EQUITY FUND VII	732,328	710,401	(21,927)
DAG VENTURES II CO-INVEST	3,532,026	1,251,900	(2,280,126)
DAG VENTURES II DIRECT	982,880	772,544	(210,336)
DAG VENTURES III CO-INVEST	2,348,648	2,245,577	(103,071)
DAG VENTURES III DIRECT	2,258,967	2,093,547	(165,420)
DAG VENTURES IV CO-INVEST LP	3,506,359	3,495,287	(11,072)
DAG VENTURES IV LP	2,056,788	2,234,311	177,523
DFJ MERCURY II	933,273	933,273	-
DRUG RYLTY II CO=INV	541,974	595,054	53,080
DRUG RYLTY II DIRECT	605,186	553,154	(52,032)
INSIGHT EQUITY II	52,300	45,271	(7,029)
INSIGHT EQUITY MEZZANINE I	42,881	43,999	1,118
ISHARES RUSSELL 2000 INDEX FUN	32,419,996	32,401,557	(18,439)
LADDER	3,601,605	4,125,332	523,727
LITTLEJOHN FUND IV	343,403	343,403	-
LONGWORTH VP III	617,827	449,385	(168,442)
MESIROW CAPITAL PARTNERS IX	2,928,885	2,547,508	(381,377)
MIDOCEAN PARTNER III CO-INVEST	233,318	126,738	(106,580)
MIDOCEAN PARTNER III DIRECT	3,314,106	1,896,994	(1,417,112)
MILLENNIUM TECHNOLOGY	186,655	186,655	-
PENINSULA EQUITY PARTNERS	611,433	503,561	(107,872)
PROSPECTOR EQUITY CAPITAL	617,794	427,458	(190,336)
STEPSTONE AZ SECONDARY	3,116,946	3,333,276	216,330
STERLING GROUP PARTNERS III	10,176	10,176	-
TOWERBROOK INVESTORS III	1,771,838	2,225,126	453,288
TRIDENT V LP	480,822	480,822	-
VALLEY VENTURES III	1,316,062	1,007,780	(308,282)
VALLEY VENTURES III ANNEX	397,375	292,213	(105,162)
TOTAL PRIVATE EQUITY PORTFOLIO	**$85,410,310**	**$87,361,965**	**$1,951,655**

REAL ASSETS PORTFOLIO
YEAR ENDED JUNE 30, 2010

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALTERNA I	$ 1,623,018	$ 1,769,944	$ 146,926
BLUEGOLD CAPITAL FUND LTD	2,239,855	2,035,591	(204,264)
CONSERVATION FORESTRY FUND I	3,836,619	3,812,733	(23,886)
CONSERVATN FOREST II	2,317,882	2,196,058	(121,824)
GEOSPHERE	3,733,091	3,728,441	(4,650)
HAWKER CAPITAL HARRIER FUND	3,733,091	3,494,822	(238,269)
HELIOS SUNBEAM OPPORTUNITIES	3,733,091	3,594,682	(138,409)
JP MORGAN AIRRO FUND	1,624,906	1,578,387	(46,519)
MACQUARIE EUR INFRASTRUCT III	3,222,710	3,038,595	(184,115)
MACQUARIE INFRASTRUCTURE II US	2,209,120	2,310,730	101,610
ORG SECONDARY - REAL ASSETS	3,876,142	6,146,945	2,270,803
SPDR SER TR DB INTL GOVT	2,767,103	2,505,642	(261,461)
US 10YR NOTE FUTURES	0	33,370	33,370
US 5YR TREAS NTS FUTURES	0	(5,280)	(5,280)
US TREAS BD FUTURES	0	(13,658)	(13,658)
US TREAS-CPI INFLAT	2,923,954	3,034,817	110,863
US TREAS-CPI INFLATION INDEX	6,281,136	6,357,765	76,629
US ULTRA BOND (CBT)	0	(7,035)	(7,035)
VIRIDIAN FUND LTD	2,239,854	2,204,917	(34,937)
TOTAL REAL ASSETS PORTFOLIO	**$46,361,572**	**$47,817,466**	**$1,455,894**

REAL ESTATE PORTFOLIO
YEAR ENDED JUNE 30, 2010

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALCION II	$ 198,119	$ 198,119	$ -
APEX FUND I	10,938,786	12,340,153	1,401,367
APEX FUND II	1,828,024	2,101,957	273,933
BREP VI	5,613,765	3,628,365	(1,985,400)
CLSA FUDO CAP II	558,672	566,705	8,033
COLGATE WILLOW SPRINGS	821,103	821,103	-
DESERT TROON	58,248,655	52,290,924	(5,957,731)
HARRISON ST RE	11,497,920	10,854,557	(643,363)
HARRISON ST RE COINV	1,399,909	1,702,019	302,110
ORG SECONDARY FUND	1,182,061	1,127,273	(54,788)
OWH BERKANA DEV	912,633	912,633	-
OWH BERKANA HLD	1,888,611	1,334,311	(554,300)
PEBBLECREEK	7,148,869	7,148,869	-
PIVOTAL EQUITY	466,636	527,299	60,663
PSPRS-CATALYST EURO	1,408,847	102,004	(1,306,843)
PSPRS-IRONPOINTRE	6,444,135	6,010,730	(433,405)
PSPRS-MOUNT GRANGE	1,490,671	861,418	(629,253)
PSPRS-WALTONMEXICO	2,333,182	1,329,583	(1,003,599)
WALTON FUND V	15,992	15,992	-
WHISP CANYON OWC	5,377,729	5,377,729	-
TOTAL PRIVATE EQUITY PORTFOLIO	**$119,774,319**	**$109,251,743**	**$(10,522,576)**

GTAA SECURITIES PORTFOLIO
YEAR ENDED JUNE 30, 2010

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
BLACKROCK GLOBAL ASCENT L	$ 37,330,908	$ 35,951,999	$(1,378,909)
BRIDGEWATER PURE ALPHA	37,330,907	40,407,083	3,076,176
TOTAL GTAA PORTFOLIO	**$74,661,815**	**$76,359,082**	**$1,697,267**

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ACTUARIAL SECTION

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October 29, 2010

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

Re: Arizona Corrections Officer Retirement Plan Actuarial Valuation as of June 30, 2010

Ladies and Gentlemen:

The results of the June 30, 2010 annual actuarial valuations of members covered by the Arizona Corrections Officer Retirement Plan (CORP) are presented in this report. The purpose of the valuations is to measure CORP's funding progress and to establish contribution rates for the 2011-2012 fiscal year.

The valuations are based upon current plan provisions of the Arizona Corrections Officer Retirement Plan. All promised benefits are included in the actuarially calculated contribution rates. These provisions are summarized in Section F.

In preparing this report we relied, without audit, on information (some oral and some written) supplied by the State Retirement System. This information includes, but is not limited to, statutory provisions, employee and retiree census, and financial information. In our examination of this data, we have found it to be reasonably consistent and comparable with data used for other purposes. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

GRS's work product was prepared exclusively for the Arizona Corrections Officer Retirement Plan for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the System's operations, and uses System data, which GRS has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of GRS's work product who desires professional guidance should not rely upon GRS's work product, but should engage qualified professionals for advice appropriate to its own specific needs. Any distribution of this report must be provided in its entirety including this cover letter, unless prior written consent is obtained from GRS.

The valuations were completed by qualified actuaries in accordance with accepted actuarial procedures prescribed by the Actuarial Standards Board. All of the actuaries submitting this report are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produced results that are reasonable.

Respectfully submitted,

Brian B. Murphy, F.S.A., M.A.A.A. Mark Buis, F.S.A, M.A.A.A Cathy Nagy, F.S.A., M.A.A.A.

BBM/CN/MB:sc

AGGREGATE ACTUARIAL BALANCE SHEET
YEAR ENDED JUNE 30, 2010

ACTUARIAL ASSETS	**2010**
ACCRUED ASSETS	
Member Accumulated Contributions	$ 333,355,204
Employer and Benefit Payment Reserves	779,434,099
Funding Value Adjustment	288,089,496
Total Accrued Assets	**1,400,878,799**
PROSPECTIVE ASSETS	
Member Contributions	317,436,272
Employer Normal Costs	381,207,493
Employer Unfunded Actuarial Accrued Liability	339,861,626
Total Prospective Assets	**1,038,505,391**
Total Actuarial Assets	**$ 2,439,384,190**

ACTUARIAL PRESENT VALUES (LIABILITY)	**2010**
PENSIONS IN PAYMENT STATUS	
Pensions in payment status	689,910,459
PROSPECTIVE PAYMENTS	
Retirement Payments	1,556,733,073
Health Insurance Payments	76,676,049
Member Contribution Refunds	97,329,830
Pension Increase Reserve	18,734,779
Total Prospective Payments	**1,749,473,731**
Total Actuarial Present Values (Liabilities)	**$ 2,439,384,190**

SUMMARY OF VALUATION ASSUMPTIONS

ECONOMIC ASSUMPTIONS
Interest Rate: 8.50% (net of expenses)
Salary Increases: 5.50% for inflation

DEMOGRAPHIC ASSUMPTIONS
Retired Member Non-Disability Mortality Rates: RP2000 Health Annuitant Mortality Table, male ages set forward 2 years and female ages set forward 2 years.
Active Member Non-Disability Mortality Rates: RP2000 Health Annuitant Mortality Table, male ages set forward 3 years and female ages set forward 3 years.

HEALTHY MORTALITY TABLES
This assumption is used to measure the probabilities of each benefit payment being made after retirement.
For disabled members, non-disability rates with a five year set forward were used.

MORTALITY RATES AND LIFE EXPECTANCY
RETIRED MEMBERS

SAMPLE AGES	PROBABILITY OF DYING NEXT YEAR		FUTURE LIFE EXPECTANCY (YEARS)	
	MEN	WOMEN	MEN	WOMEN
50	.56%	.26%	28.39	31.42
55	.64%	.44%	24.16	26.89
60	.99%	.77%	20.00	22.58
65	1.65%	1.25%	16.09	18.55
70	2.73%	2.07%	12.54	14.82
75	4.69%	3.41%	9.42	11.50
80	8.05%	5.63%	6.81	8.62

MORTALITY RATES AND LIFE EXPECTANCY
ACTIVE MEMBERS

SAMPLE AGES	PROBABILITY OF DYING NEXT YEAR		FUTURE LIFE EXPECTANCY (YEARS)	
	MEN	WOMEN	MEN	WOMEN
50	.26%	.21%	30.38	34.23
55	.40%	.33%	25.80	29.63
60	.65%	.50%	21.37	25.17
65	.91%	.69%	17.09	20.84
70	3.04%	2.30%	13.27	16.96
75	5.21%	3.76%	10.55	14.17
80	8.97%	6.25%	8.74	12.26

Retirement Rates: Service related rates based on the following schedule

PERCENT OF ACTIVE MEMBERS RETIRING WITHIN YEAR
FOLLOWING ATTAINMENT OF INDICATED YEARS OF SERVICE

SERVICE IN YEARS	% RETIRING NEXT YEAR	SERVICE IN YEARS	% RETIRING NEXT YEAR	SERVICE IN YEARS	% RETIRING NEXT YEAR
20	30%	**25**	40%	**30**	30%
21	30%	**26**	40%	**31**	30%
22	25%	**27**	30%	**32**	65%
23	25%	**28**	15%	**33**	65%
24	25%	**29**	15%	**34**	100%

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

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

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

MARRIAGE ASSUMPTION
90% of males and females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

PAY INCREASE TIMING
Six months after the valuation date.

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

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

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

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

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

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

NORMAL FORM OF BENEFIT
A straight life payment is the assumed normal form of benefit for members who are not married, and the 75% Joint and Survivor form of payment with no reduction, for married members. 90% of members are assumed to be married at time of retirement.

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

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

HEALTH CARE UTILIZATION
80% of future retirees are expected to utilize health care. 90% of those are assumed to be married.

SOLVENCY TEST

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

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

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

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

	AGGREGATE ACCRUED LIABILITIES				PORTION OF ACCRUED LIABILITIES COVERED BY NET ASSETS AVAILABLE FOR BENEFITS		
YEAR ENDED JUNE 30,	ACTIVE MEMBER CONT. $ (1)	RETIRANTS AND BENEFICIARIES $ (2)	ACTIVE MEMBERS (ER PORTION) $ (3)	VALUATION ASSETS AVAILABLE FOR BENEFITS $ (2)	(1)	(2)	(3)
2001	132,404	133,492	288,491	776,177	100.0%	100.0%	100.0%
2002	143,888	185,594	303,756	782,446	100.0%	100.0%	100.0%
2003	152,454	219,737	337,107	758,579	100.0%	100.0%	100.0%
2004	165,145	278,403	352,227	833,621	100.0%	100.0%	100.0%
2005	178,353	332,199	395,473	872,981	100.0%	100.0%	91.6%
2006	193,819	384,513	402,876	919,868	100.0%	100.0%	84.8%
2007	213,688	430,172	466,941	940,126	100.0%	100.0%	63.4%
2008	296,317	504,462	589,584	1,027,026	100.0%	100.0%	68.9%
2009	314,100	586,596	683,597	1,309,124	100.0%	100.0%	59.7%
2010	345,122	689,910	686,973	1,382,144	100.0%	100.0%	50.5%

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 14,319 active members in the Plan as of June 30, 2010, compared to 14,580 for the prior year.

ATTAINED	YEARS OF SERVICE TO VALUATION DATE							TOTALS	
AGE	0-4	5-9	10-14	15-19	20-24	25-29	30+	NO.	AVG. SALARY
< 25	812	14						826	33,694
25-29	1,605	436	2					2,043	37,350
30-34	1,063	836	206					2,105	40,697
35-39	878	691	634	109				2,312	43,303
40-44	656	535	449	350	62			2,052	45,106
45-49	437	400	340	302	210	16		1,705	46,490
50-54	310	345	283	221	150	65	7	1,381	47,025
55-59	235	254	238	156	106	37	19	1,045	47,403
60-69	114	172	143	114	78	24	6	651	47,949
70+	42	68	43	22	17	5	2	199	46,503
Total	**6,152**	**3,751**	**2,338**	**1,274**	**623**	**147**	**34**	**14,319**	**43,053**

COMPARATIVE SCHEDULE

YEAR ENDED JUNE 30,	ACTIVE MEMEBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVERAGE SALARY	INCREASE IN AVG. PAY
2001	11,047	339,783	38.1	6.6	30,758	2.3%
2002	10,464	330,428	38.7	6.0	31,578	2.7%
2003	10,964	358,161	38.8	6.0	32,667	3.4%
2004	11,583	381,942	38.7	6.0	32,974	0.9%
2005	11,752	404,156	39.6	6.0	34,390	4.3%
2006	11,914	437,744	39.3	6.2	36,742	6.8%
2007	12,780	515,428	39.0	6.0	40,331	9.8%
2008	14,716	642,621	39.6	7.0	43,668	8.3%
2009	14,580	630,825	40.2	7.4	43,266	-0.9%
2010	14,319	616,481	40.3	7.8	43,053	-0.5%

SUMMARY OF RETIREES AND INACTIVE MEMBERS

RETIREES AND BENEFICIARIES

YEAR ENDED JUNE 30,	NUMBER REMOVED FROM ROLES	NUMBER ADDED TO ROLES	TOTALS	ANNUAL ALLOWANCES REMOVED FROM ROLES	ANNUAL ALLOWANCES ADDED TO ROLES	ANNUAL PENSIONS	PERCENT INCREASE	AVERAGE PENSION
2001	40	155	1,040			13,446,069	21.8%	12,929
2002	30	208	1,218			17,660,064	31.3%	14,499
2003	32	177	1,363			21,653,042	22.6%	15,886
2004	32	205	1,536	435,860	5,033,961	26,261,143	21.3%	17,097
2005	61	258	1,733	3,761,718	8,829,800	31,329,225	19.3%	18,078
2006	46	232	1,919	2,405,616	4,807,848	37,272,180	19.0%	19,065
2007	68	272	2,123	971,820	6,365,640	42,666,000	14.0%	20,097
2008	100	405	2,428	2,197,553	10,594,200	51,062,647	19.7%	21,031
2009	118	281	2,591	1,532,671	9,559,615	59,089,591	15.7%	22,806
2010	52	369	2,908	850,373	11,529,838	69,769,056	18.1%	23,992

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

As of June 30, 2010, there were 1,601 inactive members in the Plan who had not withdrawn their accumulated member contributions. They are broken down by attained age and years of service as follows:

INACTIVE MEMBERS

ATTAINED AGE	YEARS OF SERVICE TO VALUATION DATE 0-4	5-9	10-14	15-19	20+	TOTAL
< 30	462	8				**470**
30-39	417	61	10			**488**
40-44	122	17	12	2	1	**154**
45-49	103	13	15	3	3	**137**
50-54	83	19	18	6		**126**
55-59	72	12	31	10	2	**127**
60-69	55	14	17	9	2	**97**
70 +	2					**2**
Total	**1,316**	**144**	**103**	**30**	**8**	**1,601**

SCHEDULE OF EXPERIENCE GAIN (LOSS)
YEAR ENDED JUNE 30, 2010

(1)	UAAL* at start of year	$275,169,309
(2)	Normal cost from last valuation	92,401,214
(3)	Actual Contributions	109,651,320
(4)	Interest accrual	22,656,261
(5)	Expected UAAL before changes (1)+(2)+(3)+(4)	280,575,464
(6)	Change from benefit increases	21,264,230
(7)	Changes in actuarial methods & actuary	0
(8)	Change in Reserve for future pension increases	2,324,213
(9)	Expected UAAL after changes: (5) + (6) + (7) + (8)	304,163,907
(10)	Actual UAAL at end of year	339,861,626
(11)	Experience Gain (Loss) (8)-(9)	$ (35,697,719)
(12)	Percent of actuarial accrued liability	(2.3%)

** Unfunded Actuarial Accrued Liability*

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STATISTICAL SECTION

FINANCIAL TRENDS

SUMMARY

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

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

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

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

* Schedules and data are provided by actuarial consultant Gabriel Roeder Smith & Company.

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

	2010	2009	2008	2007	2006
ADDITIONS					
Member Contributions	$ 54,481	$ 53,098	$ 111,098	$ 41,355	$ 37,134
Employer Contributions	54,437	56,015	150,729	24,623	24,028
Net Investment Gain (Loss)	129,267	(216,314)	(68,040)	144,850	64,198
Member Service Purchase	733	429	871	930	994
Transfers IN	543	352	3,217	456	1,234
Total Additions (Reductions)	**239,461**	**(106,419)**	**197,875**	**212,214**	**127,588**
DEDUCTIONS					
Pension & Insurance Benefits	66,412	57,697	51,046	41,630	36,709
Refunds To Terminated Members	19,775	14,879	16,212	16,634	15,741
Administrative Expenses	915	1,065	1,103	732	674
Transfers OUT	586	512	864	2,063	1,555
Total Deductions	**87,688**	**74,153**	**69,225**	**61,060**	**54,679**
NET INCREASE (DECREASE)	**151,773**	**(180,572)**	**128,650**	**151,155**	**72,909**
NET ASSETS HELD IN TRUST					
Beginning of Fiscal Year, July 1	961,016	1,141,588	1,012,938	861,783	788,874
End of Fiscal Year, June 30	**$1,112,789**	**$961,016**	**$1,141,588**	**$1,012,938**	**$861,783**

	2005	2004	2003	2002	2001
ADDITIONS					
Member Contributions	$ 34,590	$ 31,338	$ 30,331	$ 29,532	$ 28,966
Employer Contributions	16,292	14,555	7,398	7,101	14,927
Net Investment Gain (Loss)	66,277	91,300	35,698	(100,518)	(138,560)
Member Service Purchase	719	0	0	0	0
Transfers IN	1,071	1,460	3,189	1,325	0
Total Additions (Reductions)	**118,948**	**138,653**	**76,616**	**(62,559)**	**(94,666)**
DEDUCTIONS					
Pension & Insurance Benefits	31,098	26,624	22,507	17,576	13,433
Refunds To Terminated Members	16,653	14,053	16,023	14,271	14,610
Administrative Expenses	922	541	427	397	366
Transfers OUT	637	1,139	1,049	2,060	1,498
Total Deductions	**49,310**	**42,357**	**40,006**	**34,305**	**29,907**
NET INCREASE (DECREASE)	**69,639**	**96,297**	**36,610**	**(96,864)**	**(124,573)**
NET ASSETS HELD IN TRUST					
Beginning of Fiscal Year, July 1	719,235	622,939	586,328	683,192	807,766
End of Fiscal Year, June 30	**$788,874**	**$719,235**	**$622,939**	**$586,328**	**$683,192**

FINANCIAL TRENDS

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

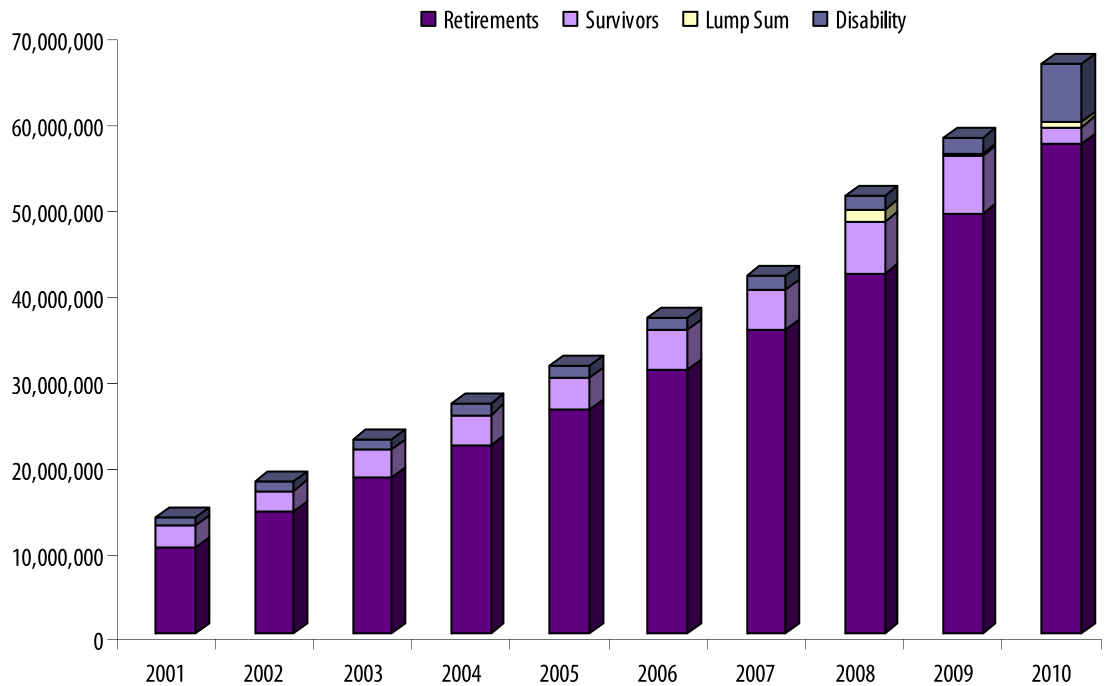
YEAR ENDING JUNE 30,	MEMBER CONT.	EMPLOYER CONT.	% OF COVERED PAYROLL	INVESTMENT INCOME (LOSS)	TRANSFERRED IN FROM OTHER PLANS	TOTAL
2001	28,966,162	14,927,396	1.88%	(138,559,756)	0	(94,666,198)
2002	29,532,366	7,101,112	1.15%	(100,518,025)	1,325,465	(62,559,082)
2003	30,330,914	7,397,595	1.71%	35,698,266	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
2009	53,098,136	56,015,138	8.65%	(216,313,556)	781,196	(106,419,086)
2010	54,480,961	54,437,078	8.38%	129,267,190	1,276,087	239,461,316

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

YEAR ENDING JUNE 30,	BENEFITS	ADMIN. EXPENSES	REFUNDS	TRANSFERRED TO OTHER PLANS	TOTAL
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
2009	57,696,778	1,064,825	14,879,342	511,697	74,152,642
2010	66,411,778	915,378	19,774,873	586,100	87,688,129

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

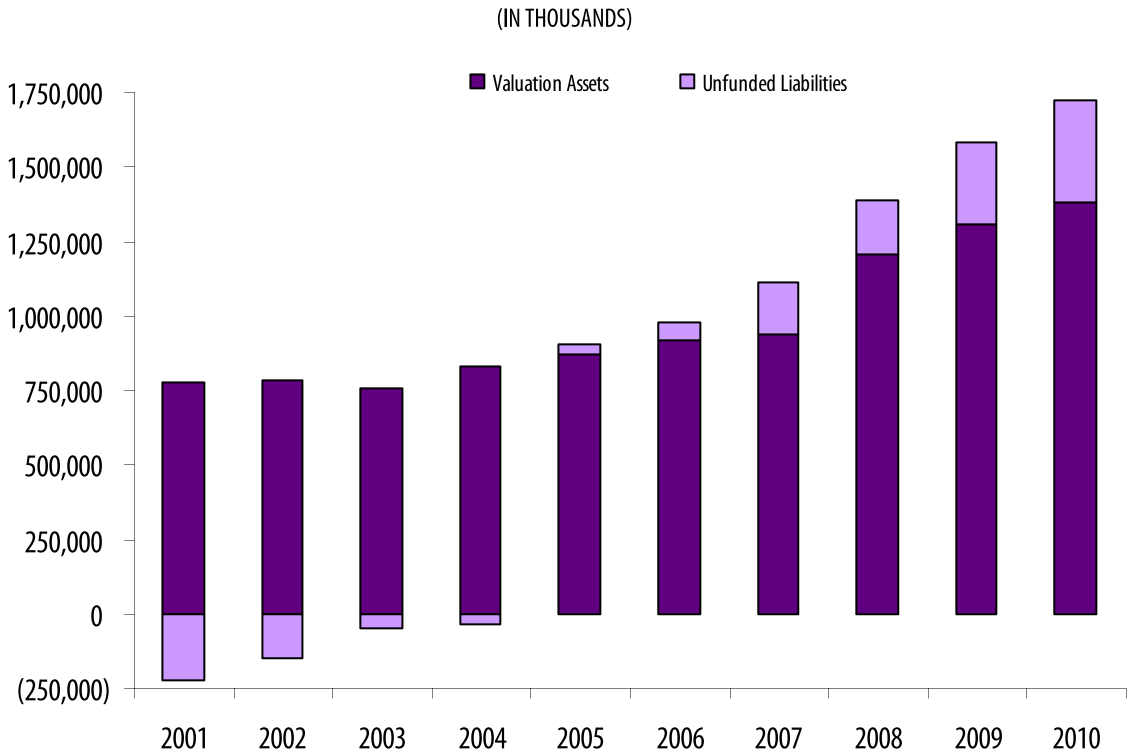
YEAR ENDING JUNE 30,	NORMAL BENEFITS	SURVIVOR BENEFITS	DISABILITY BENEFITS	HEALTH INSURANCE SUBSIDY	DROP BENEFITS	TOTAL BENEFITS	REFUNDS
2001	9,266,426	2,587,972	849,350	729,751	-	13,433,499	14,609,539
2002	12,301,106	2,494,885	986,621	1,793,839	-	17,576,451	14,271,104
2003	15,678,608	3,469,345	1,045,433	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
2009	46,752,709	6,685,021	1,805,702	2,207,889	245,457	57,696,778	14,879,342
2010	54,722,001	6,740,427	1,914,842	2,372,104	662,404	66,411,778	19,774,873

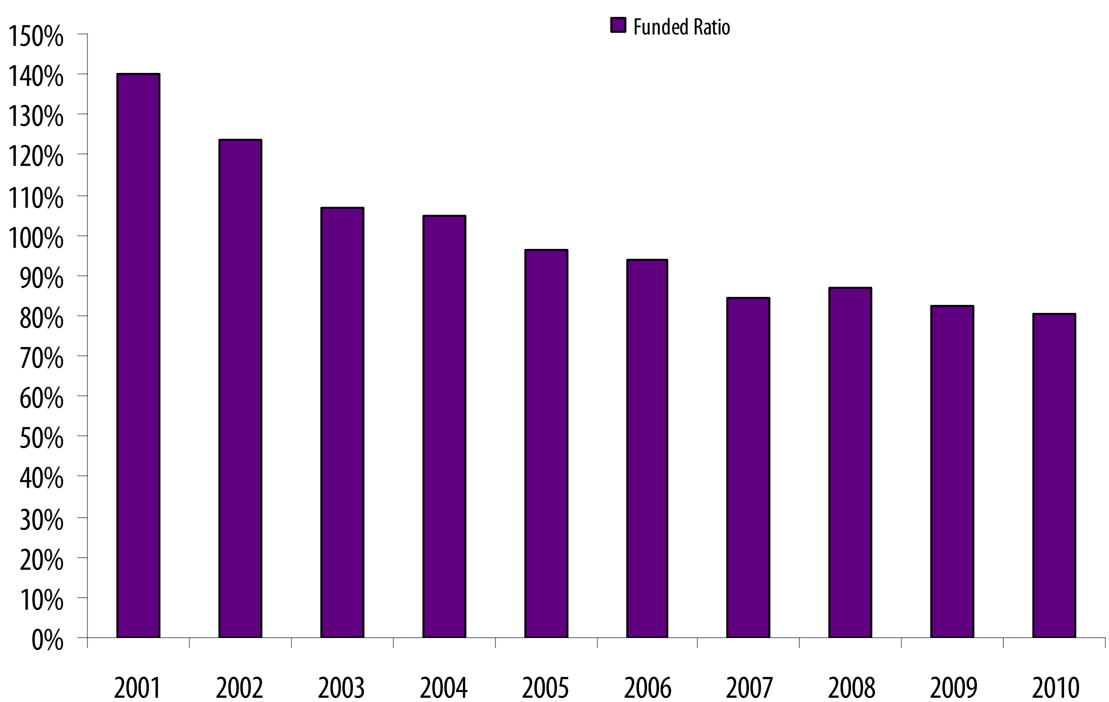


VALUATION ASSETS vs. PENSION LIABILITIES
INCLUDES HEALTH INSURANCE SUBSIDY
LAST TEN FISCAL YEARS
(IN THOUSANDS)

YEAR ENDING JUNE 30,	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO
2001	776,177	(221,790)	554,387	140.0%
2002	782,446	(150,208)	632,238	123.8%
2003	811,791	(102,493)	709,298	114.4%
2004	833,621	(37,846)	795,775	104.8%
2005	872,981	(9,190)	863,791	101.1%
2006	919,867	61,340	981,207	93.7%
2007	940,126	170,675	1,110,801	84.6%
2008	1,207,026	183,337	1,390,363	86.8%
2009	1,309,124	275,169	1,584,293	82.6%
2010	1,382,144	339,862	1,722,006	80.3%

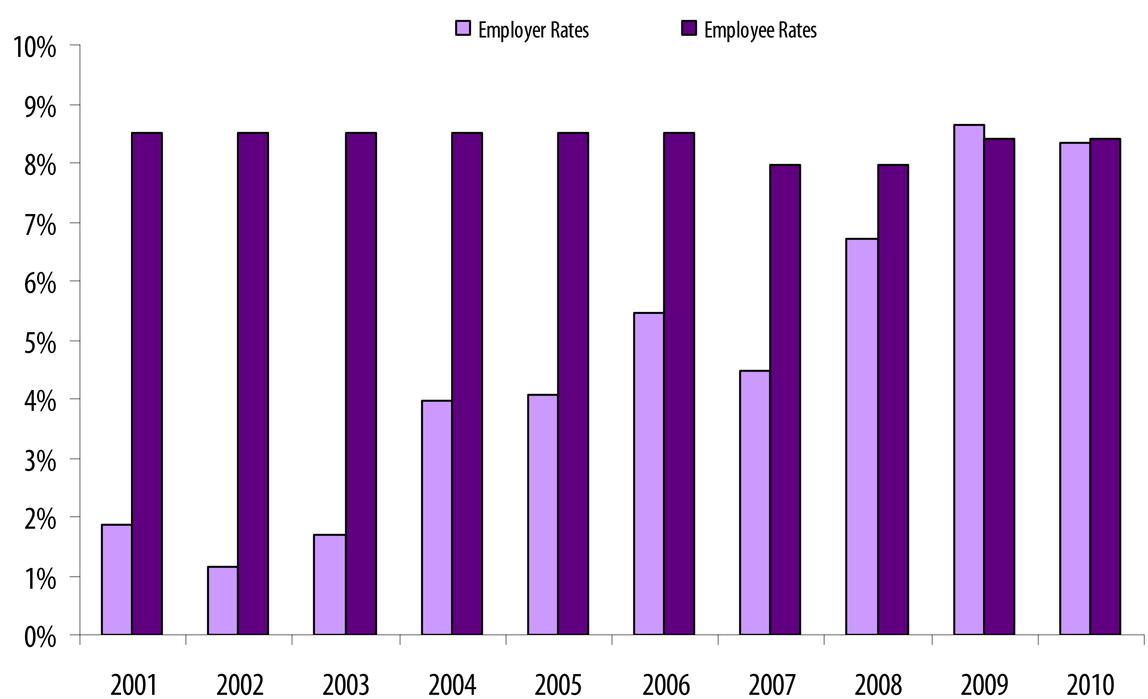
FINANCIAL TRENDS





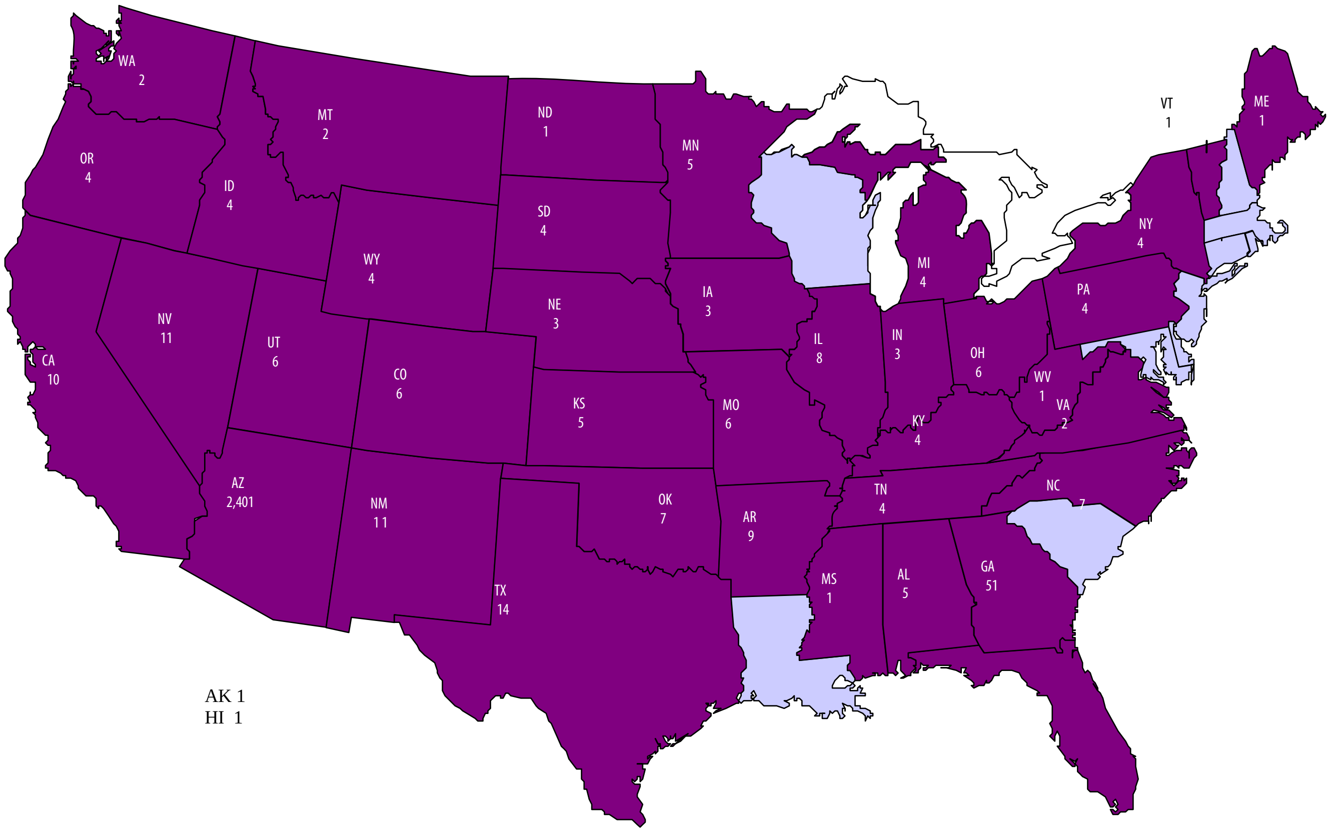
CONTRIBUTION RATES
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	AVERAGE EMPLOYER RATE	EMPLOYEE RATE
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%
2009	8.65%	7.96%
2010	8.38%	7.96%



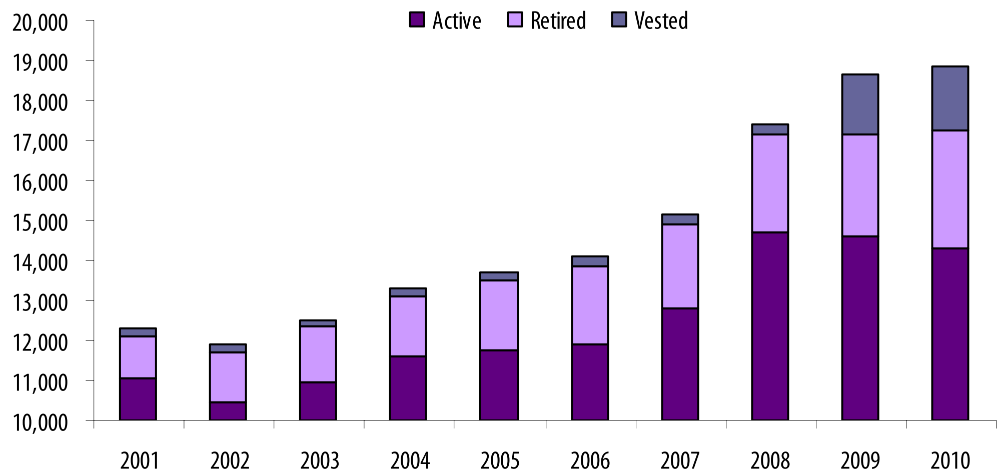
OPERATING INFORMATION

DISTRIBUTION OF BENEFIT RECIPIENTS BY LOCATION



MEMBERSHIP IN RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	ACTIVE	BENEFICIARY RETIRED	TERMINATED VESTED	TOTAL
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
2009	14,580	2,591	1,476	18,647
2010	14,319	2,908	1,601	18,828



PRINCIPAL PARTICIPATING EMPLOYERS
LAST TEN FISCAL YEARS

	2010			2001		
EMPLOYER	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**
State	8,673	1	60.57%	9,092	1	82.30%
Maricopa County	2,030	2	14.18%	1,008	2	9.12%
Courts Admin. Office	2,021	3	14.11%	-	-	-
Pima County	463	4	3.23%	368	3	3.33%
Pinal County	272	5	1.90%	-	-	-
Yavapai County	159	6	1.11%	127	5	1.15%
Yuma County	154	7	1.08%	153	4	1.38%
Coconino County	88	8	0.61%	89	6	0.81%
Mohave County	86	9	0.60%	63	7	0.57%
Gila County	63	10	0.44%	-	-	-
All Others	310		2.16%	147		1.33%
Total	**14,319**		**100.00%**	**11,047**		**100.00%**

SUMMARY OF BENEFIT INCREASES
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	**EXCESS YIELD PER STATUTE**	**EXCESS EARNINGS**	**UTILIZED TO FUND COLA**	**EXCESS EARNINGS AVAILABLE**	**BENEFIT INCREASE 4% CAP**
2001	0.00%	0	(3,761,946)	45,820,054	4.00%
2002	0.00%	0	(4,650,770)	34,452,064	4.00%
2003	0.00%	0	(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%	0	(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%	0	(15,533,554)	40,633,678	4.00%
2009	0.00%	0	(18,197,108)	15,124,946	4.00%
2010	4.47%	22,836,733	(21,264,230)	18,734,779	4.00%

SUMMARY OF GROWTH OF THE SYSTEM
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	TOTAL ASSETS AT BOOK	INVESTMENT REALIZED EARNINGS	ASSUMED ACTUARIAL YIELD	NET EFFECTIVE YIELD	AVERAGE EMPLOYER RATE
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%
2009	1,057,808,935	(175,258,029)	8.50%	-13.04%	8.65%
2010	1,095,569,678	(322,346)	8.50%	1.50%	8.38%

BENEFITS PAYABLE JUNE 30, 2010
BY TYPE OF BENEFIT

PENSIONS BEING PAID	NO.	ANNUAL PENSIONS	AVERAGE PENSIONS
RETIRED MEMBERS			
Service Pensions	2,363	60,741,300	25,705
Disability Pensions	97	1,986,635	20,481
Total Retired Members	**2,460**	**62,727,935**	**25,499**
SURVIVORS OF MEMBERS			
Spouses	408	6,471,818	15,862
Children w/Guardians	40	569,303	14,233
Total Survivors of Members	**448**	**7,041,121**	**15,717**
TOTAL PENSIONS BEING PAID	**2,908**	**69,769,056**	**23,992**

	AVERAGE AGE	AVERAGE SERVICE	AVG. AGE AT RETIREMENT
Normal retired members	63.3	19.3	57.1
Disability retired members	53.8	9.6	44.6
Spouse beneficiaries	63.6	11.6	51.9

AVERAGE MONTHLY BENEFIT AMOUNTS
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,		YEARS OF CREDITED SERVICE BY CATEGORY							
		<5	5-10	10-15	15-20	20-25	25-30	30+	ALL MEMBERS
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
2009	Average monthly benefit	1,155	1,080	1,079	1,596	2,227	3,311	4,019	1,900
	Average final average salary								3,535
	Number of retirees	126	164	614	400	930	290	67	2,591
2010	Average monthly benefit	1,208	1,133	1,131	1,669	2,308	3,397	4,189	1,999
	Average final average salary								3,606
	Number of retirees	132	172	671	438	1,078	335	82	2,908

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

OPERATING INFORMATION

SCHEDULE OF CHANGES IN REFUNDABLE MEMBER RESERVE BALANCES
FISCAL YEAR ENDED JUNE 30, 2010

SYSTEM	2009 BALANCES	RESERVE TRANSFERS	CONTRIBUTIONS RECEIVED	WITHDRAWN MEMBERS	2010 BALANCES
ADMINISTRATIVE OFFICE OF THE COURTS	64,443,445	(4,279,751)	8,661,010	(948,577)	67,876,127
APACHE COUNTY - Detention	342,512	(24,290)	55,372	(30,385)	343,210
CITY OF AVONDALE - Detentiom	224,764	0	40,416	0	265,180
CITY OF SOMERTON - Dispatchers	121,640	0	21,834	0	143,475
COCHISE COUNTY - Detention	1,143,577	(108,035)	182,058	(21,449)	1,196,151
COCONINO COUNTY - Detention	1,473,226	(6,709)	293,503	(58,399)	1,701,621
DEPARTMENT OF CORRECTIONS - Detention	174,359,391	(10,725,019)	28,858,656	(8,543,532)	183,949,496
DEPARTMENT OF PUBLIC SAFETY - Dispatchers	0	(62,584)	2,432,927	(50,030)	2,320,313
DEPT OF JUVENILE CORRECTIONS - Detention	16,137,626	(1,451,715)	2,300,579	(2,177,952)	14,808,538
GILA COUNTY - Detention	725,105	966	184,264	(100,058)	810,277
GILA COUNTY - Dispatchers	306,149	(605)	60,420	(32,954)	333,010
GRAHAM COUNTY - Detention	300,915	(55,071)	87,465	0	333,309
GRAHAM COUNTY - Dispatchers	138,012	0	30,329	(2,677)	165,664
MARICOPA COUNTY - Detention	41,324,516	(1,681,483)	7,443,791	(1,118,168)	45,968,656
MOHAVE COUNTY - Detention	907,599	(340)	247,333	(89,952)	1,064,639
NAVAJO COUNTY - Detention	692,711	(49,064)	160,177	(90,804)	713,020
PIMA COUNTY - Detention	10,546,755	(684,620)	1,693,521	(333,091)	11,222,566
PINAL COUNTY - Detention	4,374,527	21,366	1,122,625	(169,067)	5,349,450
PINAL COUNTY - Dispatchers	285,033	0	86,986	(8,903)	363,116
SANTA CRUZ COUNTY - Detention	271,440	(4,357)	68,653	(30,601)	305,134
TOWN OF MARANA - Dispatchers	205,323	0	48,537	(9,360)	244,500
TOWN OF ORO VALLEY - Dispatchers	321,957	1,971	43,313	(62,658)	304,584
TOWN OF WICKENBURG - Dispatchers	76,091	0	19,626	0	95,717
YAVAPAI COUNTY - Detention	2,681,866	(150,818)	528,781	(70,961)	2,988,868
YAVAPAI COUNTY - Dispatchers	173,370	0	41,949	(24,801)	190,517
YUMA COUNTY - Detention	2,071,162	(215,718)	500,119	(117,168)	2,238,395
TOTAL	**323,648,712**	**(19,475,875)**	**55,214,242**	**(14,091,546)**	**345,295,534**

SCHEDULE OF CHANGES IN EMPLOYER RESERVE BALANCES AND UNFUNDED ACTUARIAL ACCRUED LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2010

SYSTEM	2009 BALANCES	RESERVE TRANSFERS	CONTRIB RECEIVED	PENSION PAYMENTS	SUBSIDY PAYMENTS	ENHANCED REFUNDS	DIST. OF EARNINGS	2010 BALANCES	UNFUNDED AAL 2009
ADMINISTRATIVE OFFICE OF THE COURTS	105,090,105	4,671,557	6,093,701	(6,994,147)	(201,497)	(386,650)	22,806,510	131,079,579	79,450,050
APACHE COUNTY - Detention	619,823	24,290	55,768	(52,131)	0	(5,683)	128,494	770,560	110,005
CITY OF AVONDALE - Detention	145,971	0	28,834	0	0	0	53,487	228,292	(8,778)
CITY OF SOMERTON - Dispatchers	98,389	0	24,824	0	0	0	32,111	155,325	223,877
COCHISE COUNTY - Detention	2,487,215	100,611	157,809	(277,867)	(5,059)	0	480,937	2,943,646	367,401
COCONINO COUNTY - Detention	1,962,557	1,063	236,614	(38,425)	(1,200)	(6,927)	481,031	2,634,713	(336,856)
DEPARTMENT OF CORRECTIONS - Detention	364,986,459	10,542,103	30,955,141	(40,116,939)	(1,681,134)	(3,977,244)	71,517,430	432,225,816	137,979,286
DEPARTMENT OF PUBLIC SAFETY - Dispatchers	0	170,975	2,506,642	(20,464)	0	(2,356)	328,234	2,983,032	0
DEPT OF JUVENILE CORRECTIONS - Detention	35,950,973	1,357,639	2,296,079	(3,968,512)	(154,253)	(695,590)	6,708,594	41,494,931	9,347,399
GILA COUNTY - Detention	1,014,219	(826)	153,574	(43,344)	(183)	(25,160)	240,670	1,338,950	(291,544)
GILA COUNTY - Dispatchers	649,923	(209)	42,583	(14,181)	0	(17,128)	128,656	789,644	202,974
GRAHAM COUNTY - Detention	677,509	61,089	67,940	(74,078)	(2,580)	0	134,696	864,576	(24,192)
GRAHAM COUNTY - Dispatchers	149,829	0	19,051	0	0	0	41,062	209,942	(161,631)
MARICOPA COUNTY - Detention	76,430,551	1,524,097	7,569,189	(7,492,271)	(127,571)	(284,275)	15,922,697	93,542,416	32,796,346
MOHAVE COUNTY - Detention	2,684,639	340	145,931	(146,021)	(2,079)	(7,121)	483,768	3,159,457	(1,466,611)
NAVAJO COUNTY - Detention	1,218,116	54,710	132,562	(54,997)	0	(37,760)	259,710	1,572,341	(103,431)
PIMA COUNTY - Detention	25,036,139	469,651	1,943,228	(3,277,301)	(182,483)	(97,153)	4,664,289	28,556,370	14,572,033
PINAL COUNTY - Detention	5,920,201	128,658	913,603	(157,187)	(4,687)	(33,381)	1,478,597	8,245,804	922,778
PINAL COUNTY - Dispatchers	463,832	0	74,546	(48,778)	0	0	105,665	595,265	303,485
SANTA CRUZ COUNTY - Detention	1,182,090	(1,134)	40,817	(90,042)	0	(22,102)	189,236	1,298,866	(551,966)
TOWN OF MARANA - Dispatchers	131,524	0	30,488	0	0	0	49,043	211,056	69,995
TOWN OF ORO VALLEY - Dispatchers	476,368	(1,971)	52,845	(56,595)	(1,800)	(22,311)	102,225	548,761	553,654
TOWN OF WICKENBURG - Dispatchers	137,781	0	30,327	(15,510)	(140)	0	30,484	182,942	180,626
YAVAPAI COUNTY - Detention	3,952,516	114,219	498,134	(571,070)	(6,873)	(11,518)	897,175	4,872,583	1,961,957
YAVAPAI COUNTY - Dispatchers	228,464	0	31,620	0	0	0	56,240	316,324	(30,952)
YUMA COUNTY - Detention	5,672,211	215,718	335,228	(529,814)	(567)	(50,968)	1,030,770	6,672,578	(896,596)
TOTAL	**637,367,403**	**19,432,580**	**54,437,078**	**(64,039,673)**	**(2,372,104)**	**(5,683,327)**	**128,351,811**	**767,493,768**	**275,169,309**

SCHEDULE OF CHANGES IN EMPLOYER EARNINGS DISTRIBUTION
FISCAL YEAR ENDED JUNE 30, 2010

SYSTEM	2009 EMPLOYER RESERVE	2010 EMPLOYER RESERVE	2009 MEMBER RESERVE	2010 MEMBER RESERVE	COMBINED RESERVES	MEAN BALANCE	FACTOR	INVESTMENT EARNINGS
ADMINISTRATIVE OFFICE OF THE COURTS	105,090,105	131,079,579	64,443,445	67,876,127	368,489,256	184,244,628	17.769%	22,806,510
APACHE COUNTY - Detention	619,823	770,560	342,512	343,210	2,076,105	1,038,053	0.100%	128,494
CITY OF AVONDALE - Detentiom	145,971	228,292	224,764	265,180	864,206	432,103	0.042%	53,487
CITY OF SOMERTON - Dispatchers	98,389	155,325	121,640	143,475	518,829	259,414	0.025%	32,111
COCHISE COUNTY - Detention	2,487,215	2,943,646	1,143,577	1,196,151	7,770,590	3,885,295	0.375%	480,937
COCONINO COUNTY - Detention	1,962,557	2,634,713	1,473,226	1,701,621	7,772,117	3,886,058	0.375%	481,031
DEPARTMENT OF CORRECTIONS - Detention	364,986,459	432,225,816	174,359,391	183,949,496	1,155,521,162	577,760,581	55.720%	71,517,430
DEPARTMENT OF PUBLIC SAFETY	0	2,983,032	0	2,320,313	5,303,345	2,651,672	0.256%	328,234
DEPT OF JUVENILE CORRECTIONS - Detention	35,950,973	41,494,931	16,137,626	14,808,538	108,392,068	54,196,034	5.227%	6,708,594
GILA COUNTY - Detention	1,014,219	1,338,950	725,105	810,277	3,888,551	1,944,275	0.188%	240,670
GILA COUNTY - Dispatchers	649,923	789,644	306,149	333,010	2,078,726	1,039,363	0.100%	128,656
GRAHAM COUNTY - Detention	677,509	864,576	300,915	333,309	2,176,308	1,088,154	0.105%	134,696
GRAHAM COUNTY - Dispatchers	149,829	209,942	138,012	165,664	663,447	331,724	0.032%	41,062
MARICOPA COUNTY - Detention	76,430,551	93,542,416	41,324,516	45,968,656	257,266,139	128,633,069	12.406%	15,922,697
MOHAVE COUNTY - Detention	2,684,639	3,159,457	907,599	1,064,639	7,816,335	3,908,167	0.377%	483,768
NAVAJO COUNTY - Detention	1,218,116	1,572,341	692,711	713,020	4,196,189	2,098,095	0.202%	259,710
PIMA COUNTY - Detention	25,036,139	28,556,370	10,546,755	11,222,566	75,361,830	37,680,915	3.634%	4,664,289
PINAL COUNTY - Detention	5,920,201	8,245,804	4,374,527	5,349,450	23,889,982	11,944,991	1.152%	1,478,597
PINAL COUNTY - Dispatchers	463,832	595,265	285,033	363,116	1,707,246	853,623	0.082%	105,665
SANTA CRUZ COUNTY - Detention	1,182,090	1,298,866	271,440	305,134	3,057,531	1,528,765	0.147%	189,236
TOWN OF MARANA - Dispatchers	131,524	211,056	205,323	244,500	792,403	396,201	0.038%	49,043
TOWN OF ORO VALLEY - Dispatchers	476,368	548,761	321,957	304,584	1,651,670	825,835	0.080%	102,225
TOWN OF WICKENBURG - Dispatchers	137,781	182,942	76,091	95,717	492,531	246,265	0.024%	30,484
YAVAPAI COUNTY - Detention	3,952,516	4,872,583	2,681,866	2,988,868	14,495,833	7,247,916	0.699%	897,175
YAVAPAI COUNTY - Dispatchers	228,464	316,324	173,370	190,517	908,675	454,337	0.044%	56,240
YUMA COUNTY - Detention	5,672,211	6,672,578	2,071,162	2,238,395	16,654,346	8,327,173	0.803%	1,030,770
TOTAL	**637,367,403**	**767,493,768**	**323,648,712**	**345,295,534**	**2,073,805,418**	**1,036,902,709**	**100.000%**	**128,351,811**

PARTICIPATING EMPLOYERS

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

CITY OF AVONDALE - DETENTION OFFICERS

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

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

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