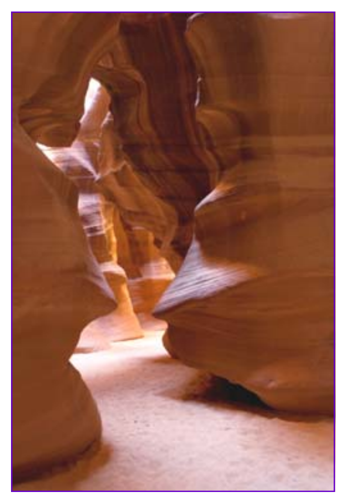
CORRECTIONS OFFICER RETIREMENT PLAN



26th COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA





FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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-Sixth
Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2012

Prepared by the Staff of PSPRS

Public Safety Personnel Retirement System
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Phoenix, AZ 85016
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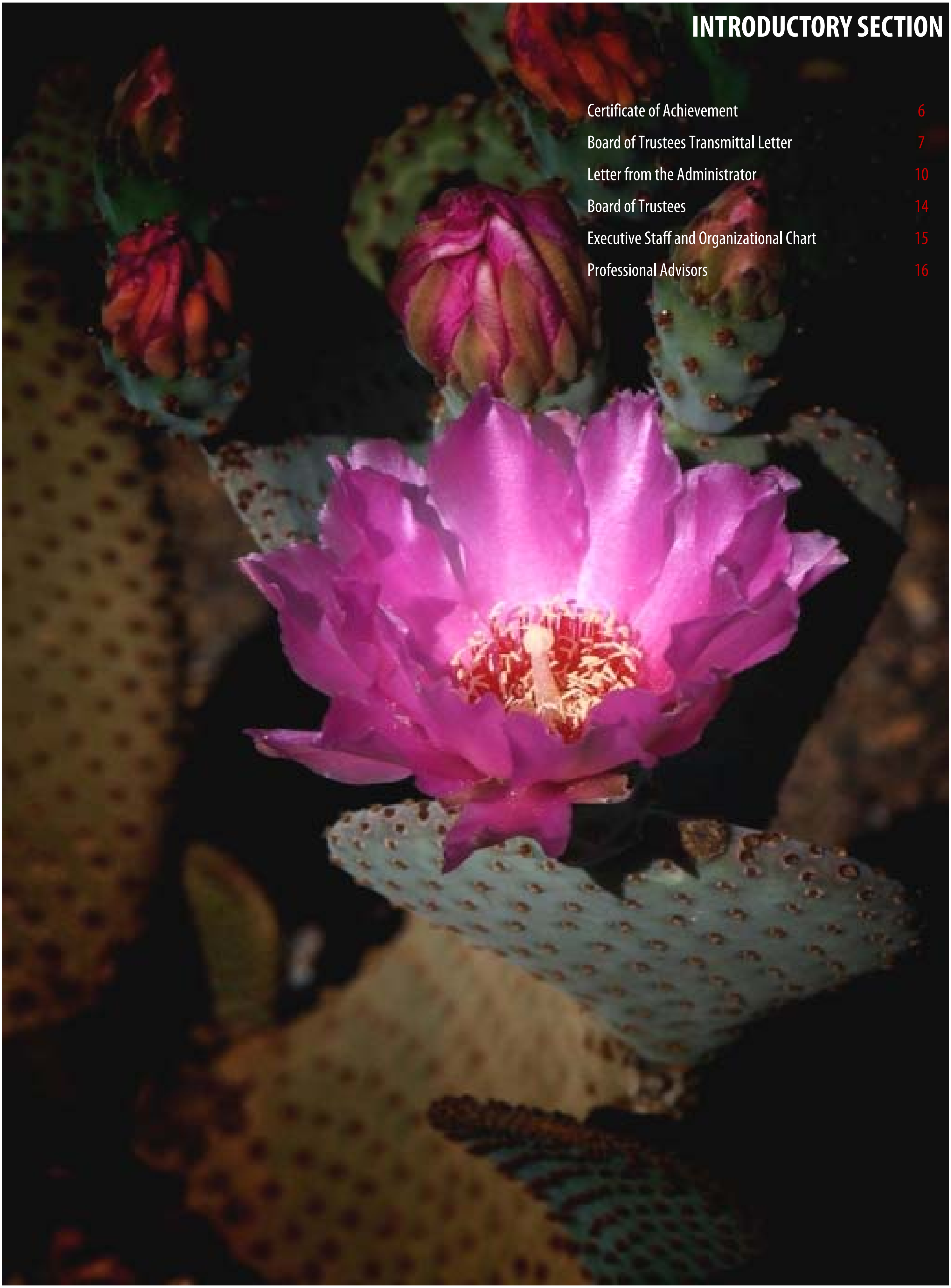

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Arizona Corrections Officer Retirement Plan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
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James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Jared A. Smout
Deputy Administrator

November 20, 2012

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-sixth Comprehensive Annual Financial Report (CAFR) for the Corrections Officer Retirement Plan (CORP) for the fiscal year ended June 30, 2012 (FY'12), in accordance with the provisions of A.R.S. Section 38-883.

The CORP's Funding Status

As of fiscal year-end, the financial status of the CORP, as reflected in its funding ratio, decreased from 73.0% at June 30, 2011 to 67.8% at June 30, 2012. This decrease continues the funding ratio erosion that resumed three years ago following a modest improvement in FY'08 that interrupted six consecutive years of funding status decline.

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

The FY'12 actuarial loss due to investment return that reflects the Plan's -0.79% return (net of fees) was the result of two factors: first, weakness and volatility in the financial markets – especially the international equity markets – that resulted from weakness in the U.S. and global economies; and, second, an actual rate of return that was significantly less than the Plan's benchmark return (2.89%) for the fiscal year.

A second factor that has also contributed significantly to the funding erosion was the downward revision in the Plan's actuarial assumption for investment return. (That assumption was reduced by one-half of 1% from 8.5% in FY'10 to 8.0% in FY'12 and will be reduced further to 7.8% for FY'13.) Downward revision in this assumption reduces the projected rate of growth in Plan assets relative to the rate of growth in liability for benefits and that, in turn, diminishes the Plan's funding ratio (and adds to the employer contribution requirement).

It should be noted that the Plan's funding ratio decreased during fiscal years 2010 and 2011 even though the Plan had strong rates of return in those years (13.47% in FY'10 and 17.37% in FY'11). This is because the CORP uses a seven year averaging process ("smoothing") to determine the fiscal year-end actuarial value of assets. Under this methodology, only one-seventh of any fiscal year's investment gain or loss is reflected in that year's results. The remaining six-sevenths are rolled forward and reflected in the results over the next succeeding six fiscal years. So, although only one-seventh of the -0.79% return that the CORP experienced in FY'12 is reflected in this fiscal year's results, those results also reflect one-seventh portions of the -7.05% and -17.99% returns that the Plan experienced during FY'08 and FY'09 respectively. Because the remainder of the FY'08, FY'09 and FY'12 investment losses will be factored into the CORP's funding ratios over the next several fiscal years, the forecast 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 and/or a significant infusion of additional revenues from sources other than member and employer contributions.

How to move the Plan back to an annual pattern of steadily improving funding ratios remains the principal challenge facing the PSPRS System and its Board of Trustees. Although the System has no control or influence over the performance of the U.S. and global financial markets and the world economies, the Board has taken the initiative to fully diversify the System's financial market exposures to reduce overall risk and volatility. Yet, despite this, the CORP's actual FY'12 investment return of -0.79% was 3.68% (368 basis points) less than the Plan's FY'12 benchmark return of 2.89%. In response, and understanding that relative underperformance can and should be addressed, the Board, in conjunction with the System's staff and investment consultants, has taken steps to assure that this problem is remedied (See **FY'12 Investment Results** below) going forward.

The FY'08, FY'09 and FY'12 investment losses have taken, and will continue to take, their toll on the financial status of the CORP. However, it should be noted that the legal challenges to the 2011 statutory changes relating to the formula for increasing benefits after retirement (i.e., the Plan's COLA formula), would, if successful, further undermine the Plan's finding status. Currently, there are four legal challenges to the COLA changes pending in the state courts. The Board, through its attorney, is defending the legislative changes and has directed the System's staff to approach the Governor's Office, the State Attorney General and Legislative leadership regarding intervening directly in these lawsuits to resist these challenges.

Before the changes made by SB 1609, the CORP statutes required that in any year in which the Plan generated an investment return in excess of 9%, one-half of any return over 9% had to be diverted into the CORP's Reserve for Future Benefit Increases ("The Reserve"). These Reserve assets were then used to finance life-time post-retirement adjustments payable to the Plan's eligible beneficiaries. However, whenever assets were allocated to the Reserve, those same assets were denied to the underfunded Plan and were not taken into account for funding ratio and employer contribution rate calculations. If these statutory provisions had not been changed (i.e., SB 1609 specifically prohibited any new in-flows of investment return assets into the Plan's Reserve, effective May 31, 2011), $49.8 million of FY'11 investment return would have been diverted to the Plan's Reserve. That would have worsened the underfunded status of the Plan as of June 30, 2011. If the Arizona courts overturn the pension reform bill's COLA changes, the System will have to revive and restore the old mechanism which will have adverse consequences for the financial status of the Plan.

Employer Contribution Rates

Any change in the CORP's June 30th fiscal year-end funding ratio impacts the employer contribution rate as of the following July 1st. For example, the Plan's funding ratio decline for the fiscal year ended June 30, 2012 (FY'12) will increase the CORP employers' contribution rates as of July 1, 2013 (the start of employer FY'14). The CORP aggregate employer contribution rate will total 13.68%, consisting of a 7.5% "normal cost" component (to cover the cost of future service to be performed by the covered group) and a 6.18% component for the amortization of the unfunded actuarial accrued liability (associated with service performed in the past).

As the Plan's funding ratio has eroded, the employer contribution requirements have been rising in large year-over-year increments. The employer aggregate rate crested at 8.65% of payroll in employer FY'09. For the next two years, the aggregate rate remained relatively stable. But based on the Plan's FY'10 and FY'11 results, the aggregate employer rate began to increase again, rising to 9.5% in employer FY'12 and 11.31% in FY'13. Given the further erosion in the Plan's funding status as of the end of FY'12, the aggregate employer rate is scheduled to increase to 13.68% of payroll during employer FY'14. That represents a 2.37% of payroll increase over the current employer FY'13 aggregate rate. This increase in the employer rate reflects the same combination of factors that have contributed to the funding ratio erosion, including the performance of the financial markets and the actuarial assumption revisions adopted by the Board, based on recommendations from the System's actuaries. With further erosion in the Plan's funding status expected to occur over the next several years, the forecast is that the employer contribution rates will continue to increase unless the Plan gains from several years of far better than expected investment returns and/or significant infusions of additional revenue from sources other than member and employer contribution rates.

If the current legal challenges to the COLA changes made by SB 1609 are successful, the financial condition of the underfunded CORP will deteriorate significantly.

FY'12 Investment Results

As indicated above, the FY'12 CORP return of -0.79% was 368 basis points less than the 2.89% benchmark return for the Plan. The principal factors contributing to the 368 basis points of underperformance were as follows: First, the FY'12 write down in the value of the legacy residential real estate accounted for 161 basis points of the underperformance. Second, a market timing decision by staff to delay moving U.S. equity assets from BNY Mellon Bank to State Street Global Advisors (at a time when the equity market was rising) cost an additional 66 basis points. Third, the use of an inappropriate index for the Credit Opportunity asset class accounted for an additional 64 basis points. (The use of an index inappropriate for the asset class had the effect of inflating the benchmark return and giving the appearance of underperformance.) Finally, the failure of the active portfolio managers to add value in the U.S. equity asset class accounted for an additional 14 basis points of underperformance. Steps have been, and will continue to be, taken to address the causes of the FY'12 underperformance relative to the benchmark. First, barring some new shock to the housing market in the U.S. Southwest, there should be no further write downs in the values of the legacy residential real estate; indeed, property values have at last begun to rise, creating opportunities to liquidate some of those properties at a gain. Second, all the U.S. equity indexed assets have been moved to State Street Global Advisors and are fully invested. Third, as part of the new asset allocation approved in June, the Credit Opportunities asset class now has an appropriate benchmark assigned to it. Finally, the U.S. equity asset class active portfolio manager investment.

Because of the COLA changes made by the pension reform bill in 2011, there were no adjustments made to the benefits of CORP beneficiaries in July of 2012, as used to be required by law. Having used the $22.0 million CORP Reserve asset balance as of June 30, 2011 to finance a 3.43% permanent life-time increase in benefits for the Plan's eligible beneficiaries that year, the Reserve balance thereafter has been zero. A new statutory post-retirement adjustment formula will become effective on July 1, 2013; that new formula is expected to provide periodic (but not annual) adjustments to post-retirement benefits in the future. If a robust rate of increase in the value of residential real estate in the U.S. southwest enables PSPRS to sell the legacy real estate from the past at significant gains, that could result in some of those gains being used to fund post retirement adjustments for eligible beneficiaries, rather than being used to offset some of the funding ratio deterioration that resulted from the write down in the values of those same properties in past years.

A Short Term Strategy to Improve the Plan's Funding Status and Reduce the Rate of Growth in Employer Contributions

To improve the Plan's funded status and reduce the rate of increase in employer contribution rates, the System must generate, on a consistent basis, annual rates of return that meet or exceed the Plan's return expectations. In pursuit of that goal, PSPRS has gone through a complete restructuring of the way in which the System manages and invests its Plans' assets with a view to dramatically increasing asset allocation diversification and diversification within asset classes. In the process, the Plans' former over-weight reliance on equities has declined considerably and so has the risk level. Nevertheless, because its assets must be invested, the Plan remains exposed to the consequences of poorly performing financial markets, as was evident in FY'08 and FY'09 and again in FY'12.

In the short-term, and while awaiting final court decisions in the lawsuits challenging the changes made by the pension reform bill, the Board of Trustees has directed the System's staff to urge the CORP and other constituent organizations and the employer groups to come forward with legislative proposals to add additional sources of revenue to supplement the revenue derived from contributions and investment return. This seems to be the only means available in the short term to improve the Plan's funding status and reduce the rate of growth in employer contribution rates.

Conclusion

As members of the PSPRS Board of Trustees, we intend to continue our efforts to assure the long-term 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 the CORP's members and we look forward to continuing to serve as Trustees for this System.

Respectfully submitted,

Brian P. Tobin, Chairman
of the Board of Trustees

Gregory Ferguson, Vice Chairman
of the Board of Trustees

Jeff Allen McHenry, Member
of the Board of Trustees

Richard J. Petrenka, Member
of the Board of Trustees

Randie A. Stein, Member
of the Board of Trustees

Lauren Kingry, Member
of the Board of Trustees

William C. Davis, Member
of the Board of Trustees

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James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Jared A. Smout
Deputy Administrator

November 20 , 2012

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-sixth 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, 2012. The Plan is a uniform statewide retirement system that provides retirement, disability and survivor benefits, post-retirement adjustments and health insurance premium subsidies for state, county and local corrections officers, dispatchers and probation, surveillance and juvenile detention officers.

Arizona Revised Statutes Title 38 requires the Board of Trustees to transmit to the Governor and the Legislature this annual report within six months of the close of each fiscal year. Incorporated in this Report are the audited financial statements, management's discussion and analysis, and other financial data from the June 30, 2012 report of Heinfeld, Meech & Co. P.C., Certified Public Accountants and auditors for the System. Also included are the actuarial certi-fication statement and the actuarial balance sheet from the June 30, 2012 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 loss of $10.3 million this fiscal year. That was offset by revenue from member contributions of $52.0 million, and direct employer contributions (including Alternative Contributions) of $59.1 million. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

Administrative and Investment Expenses

The CORP's FY'12 administrative and investment-related expenses totaled $7.2 million, up from the $5.4 million during the prior year. Administrative and investment expenses were approximately 56 basis points of the total assets managed. This is reasonable when compared with other public retirement systems. A dedicated staff and constantly improving internal technology and expertise has enabled management to keep costs reasonable even though we are having to accommodate increased service needs due to increasing numbers of participants and beneficiaries and the desire to provide consistent support to the CORP and PSPRS networks of local boards that have important administrative functions to perform.

Investments

The total rate of return on the CORP assets for the fiscal year was -0.79% on a net of fees basis. This return was well below the System's 8.0% actuarial assumed rate of return; it was also below the Plan's benchmark return of 2.89% for the fiscal year. The Investment Section of this Report contains, among other things, graphs depicting the Plan's performance, a detailed summary of the investment portfolio, and commissions paid to investment professionals who provide services to the System. All Plan investments were held in trust by BNY Mellon, the System's custodian bank.

Enacted Legislation

During FY'12, the State Legislature approved, and the Governor signed, five bills that were of significance. The first was HB2409 which authorizes service credit purchases via payroll deduction. The second was HB2571, which was the Governor's Personnel Reform initiative and which will make the System's agency staff subject to the State's Department of Administration; however, it will have little, if any, substantive effect on the staff. The third bill was SB1115 which eliminated the investment relationship contract warranty requirements that related to illegal immigration and investments in terrorist-supporting nations. The final bill was SB1116 which made many administrative, technical and clarifying changes to the PSPRS, CORP and EORP statutes. These changes included authorization for the use of "swaps" in investment transactions.

Actuarial and Funding Information

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

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

The most commonly used measure of a retirement system's funding progress is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the CORP had been declining for six out of the last seven years through FY'07. Following modest improvement in FY'08, the funding ratio started to deteriorate again in FY'09; this trend continued right through FY'12. The primary factor responsible for this negative trend has been the poor performance of the U.S. and global financial markets in FY'08, FY'09 and again in FY'12; that poor performance yielded negative rates of return for the PSPRS-administered Plans. At June 30, 2012, the CORP's funding ratio was only 67.8. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08, FY'09 and FY'12 negative rates of return is yet to be reflected in the funding ratio of the Plan; 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 11.31%. The aggregate rate that will take effect on July 1, 2013 based on the CORP's FY'12 results will be 13.68%. Further decline in the Plan's funding ratio will cause employer rates to rise even further in the future.

Post Retirement Benefit Increases

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

These benefit adjustments were fully funded on a present value basis from the assets contained in the CORP's Reserve for Future Benefit Increases. In any year in which the Plan generated a return in excess of 9%, one-half of the return in excess of 9% was diverted to the Reserve and withheld from the underlying Fund. For example, the Plan's FY'10 13.47% return resulted in a $22.8 million flow of new assets into the Reserve. However, SB 1609 has changed all this.

As of May 31, 2011, the new law prohibited any further transfers of assets to the CORP Reserve. The $22.0 million asset balance remaining in the CORP Reserve as of June 30, 2011 was used to finance a 3.43% permanent life-time increase in benefits for all the Plan's eligible beneficiaries. To offset the liability associated with the benefit increase, the $22.0 million was withdrawn from the Reserve, leaving a remaining balance of zero. A new post-retirement adjustment formula, that was included in SB 1609, will become effective on July 1, 2013; that new formula is expected to provide periodic (but not annual) post-retirement adjustments to benefits in the future.

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, 2011. This was the eighteenth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our FY'12 CAFR continues to meet the Certificate of Achievement Program's requirements. We are, therefore, submitting it to the GFOA to determine its eligibility for a certificate.

New Developments and Management Initiatives

During this past fiscal year, the PSPRS Board of Trustees continued its strategic initiative that has changed the way in which the Plan's assets are managed and invested. (See the Board of Trustees' transmittal letter to the Governor that begins on page 7) In addition, there were other developments and initiatives that are worthy of note. These included the following:

- The quarterly, administrative budget tracking report was changed to a monthly report and revised to show not just fiscal-year-to-date budget vs actual spending but also budget to fiscal year projected actual spending; the System's Governance Manual was reviewed and amended and, as part of that process, the Board of Trustees approved a revised Investment Policy.
- The administrative budget for FY'13, as approved by the Board, is 2.85% less than the FY'12 budget and 6.51% less than the actual level of spending for FY'12.
- A search process was successfully completed to fill the position of Deputy Administrator, who reports to, and serves at the pleasure of, the Administrator; a successful search process was also completed to fill the position of In-House Investment Counsel. The new counsel, who arrived on staff in August, is expected to perform a significant portion of the investment-related legal work and will monitor and coordinate any investment-related legal work that is performed by external counsel.
- The new Call Center staff, who were hired during FY'11, were trained and are now functioning at such a level of proficiency that the call volume to the processing units (i.e., the Retired and Active Member and Insurance Departments) was reduced by an estimated 60%.
- The System continued its comprehensive and multi-year effort to assure that the CORP and PSPRS 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 (22), group meetings/consultations via conference call, video conference and webinars (6), the development of more training modules (including a Retirement Instruction Manual) and enhanced spreadsheets which were made accessible through the PSPRS web site, continued publication of a monthly local board newsletter (6 issues), the implementation of a new "high three" calculator for use by the local boards and the beginning of the development of a web site for use by the local boards so that they will be able to send new beneficiary data electronically.
- 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 has continued to approve capital calls made with respect to investment commitments approved by the Board.
- At the IT back-up facility in Denver, all the servers were upgraded and are now all under warranty and a secondary Storage Area Network (SAN) was set up to enable frequent replication of all System-critical servers; also, the Server Room at the Phoenix headquarters was upgraded, reconfigured and remodeled such that it now contains all servers, has a fire suppression system, and has redundant power and switching for all critical systems and redundant cooling.
- The monthly beneficiary payroll process was successfully outsourced to Wells Fargo Bank and the Bank also assumed the responsibility for issuing any printed benefit checks and the annual 1099's.
- The IT Programming staff enhanced the Member's Only web site to allow members to change demographic and other personal information online.

New Initiatives for System FY'13

As we have moved through the first four months of the new fiscal year (FY'13), some new initiatives are underway and still others are planned. These include:

- Keeping expenditures during the fiscal year in line with the FY'13 administrative budget that was approved by the Board and providing the Board's Operations, Governance and Audit Committee with monthly budget tracking reports;
- Completing the office renovation project for the purpose of adding more enclosed offices to accommodate our in-house Investment Department, legal counsel, and management needs;
- Communicating with the Steptoe & Johnson attorneys to assure that they are successful in defending the interests of the Board and the System in the legal actions that have been filed challenging the COLA changes contained in the 2011 pension reform bill, SB 1609;
- Assuring that the System's GRS actuaries and staff maintain the detailed records that would be needed just in case any of SB 1609's provisions are successfully challenged in court and the System has to "undo" actions taken in conformance with the new law's requirements;
- Continuing to add to the functionality (i.e., processing new retirements and new hire eligibility determinations online) of the CORP and PSPRS local board web site to facilitate communication and allow direct data entry in a secured environment.
- IT initiatives include: 1) virtualizing the System's Data Base server and setting up site-to-site replication for databases; 2) installing firewalls at both the Phoenix Office and Denver facility; 3) creating a complete "test" environment that mirrors the System's production environment; and 4) continuing to facilitate the development of electronic business processes and the phasing out of paper processes.

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 contributed to the administrative operations of the System. I look forward to the challenge of moving the System forward with a program of constructive and comprehensive change that will maintain high quality customer service and restore the PSPRS Plan to a state of financial soundness.

Respectfully submitted,

James M. Hacking
Administrator

BOARD OF TRUSTEES
(AS OF JUNE 30, 2012)

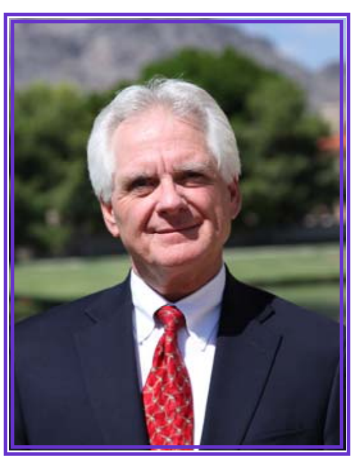
Brian P. Tobin
Chairman

Gregory Ferguson
Vice Chairman

Jeff Allen McHenry
Trustee

Richard J. Petrenka
Trustee

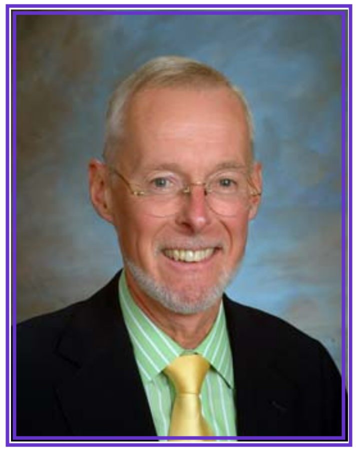
Randie A. Stein
Trustee



Lauren Kingry
Trustee

William C. Davis
Trustee

EXECUTIVE STAFF AND ORGANIZATIONAL CHART



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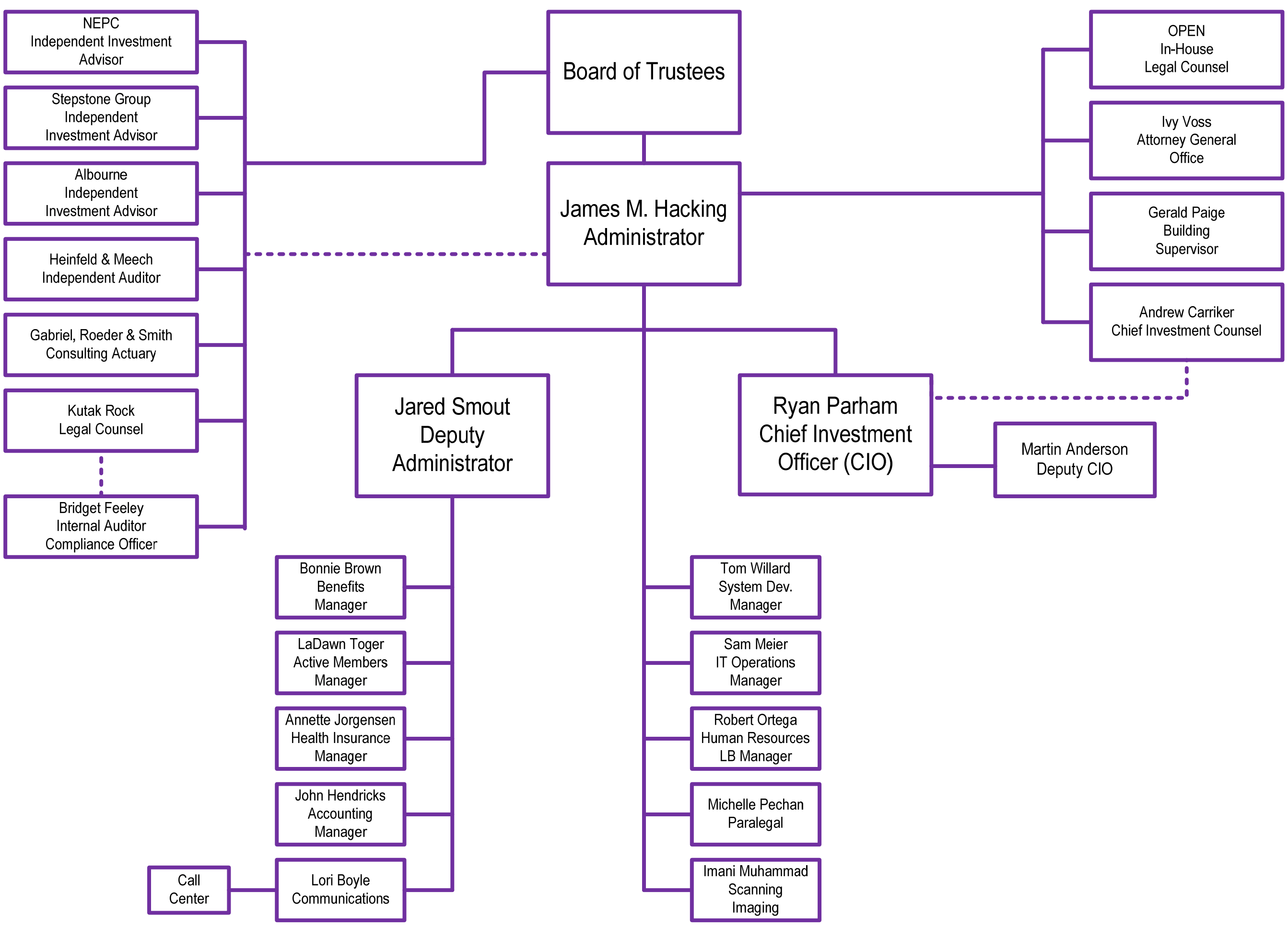
Chief Investment Officer

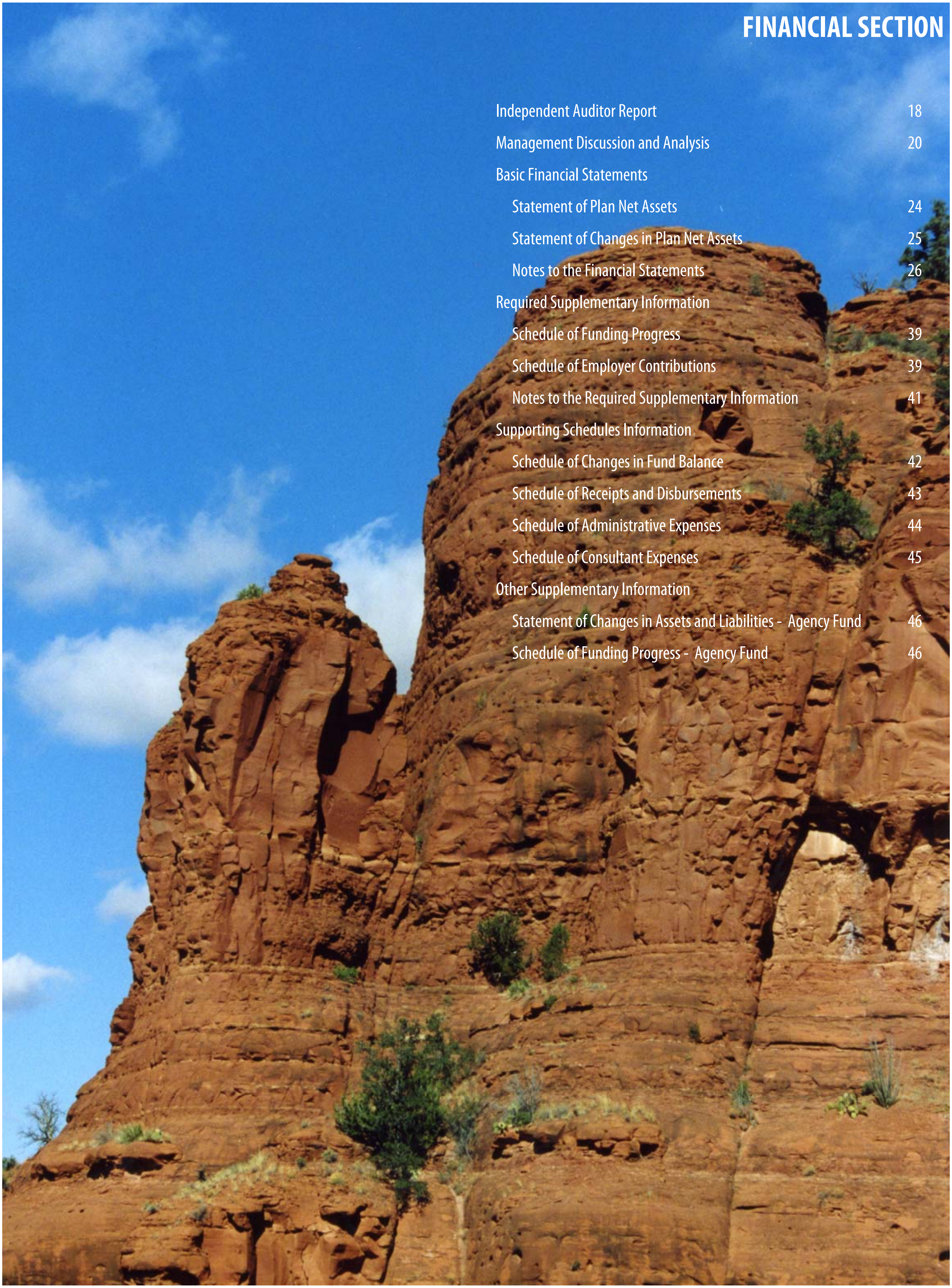
Jared A. Smout
Deputy Administrator



PROFESSIONAL ADVISORS

Albourne America, LLC	International Alternative Investment Consultant
Alliance Resource Consulting LLC	Executive Recruitment
BNY Mellon Asset Servicing	Independent Investment Advisor
Brazen Technology, Inc.	IT Consultant
CB Richard Ellis	Real Estate Consultant
Ernst & Young	Real Estate Consultant
Fleetwood Technology Consulting	IT Consultant
Gabriel Roeder Smith & Company	Actuary
Heinfeld, Meech & Co.	Independent Auditors
Highground, Inc	Legislative Liaison
Kutak Rock LLP	General Counsel
Light Stone Solutions, LLC	Due Diligence
LRS Consulting LLC	Local Board Training
NEPC, LLC	Independent Investment Advisor
Org Portfolio Management LLC	Real Estate Consultant
OSAM Inc.	IT Consultant
Public Policy Partners	Legislative Liaison
Stepstone 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.



FINANCIAL SECTION

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

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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, 2012, 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, 2011, presented in the basic financial statements are included for additional analysis only. Our audit report dated December 9, 2011, 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, 2012, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012, 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 39 through 41 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.
CPAs and Business Consultants

November 20, 2012

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 2012 are as follows:

- The Corrections Officer Retirement Plan (CORP) had a total rate of return (net of fees) of –0.79% this year. Our total portfolio underperformed the target fund benchmark by 368 basis points. This is a decline from the prior year's return of 17.37%.
- As of the close of the fiscal year 2012, the Future Benefit Increase Reserve had been depleted.
- Retirement benefits paid totaled $87.98 million for the current year, compared to $76.36 million for the previous year. This represents a 15.22% increase from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Net 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 FY2012 and FY2011. Following each schedule is a brief summary of the significant changes noted in these schedules.

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

	As of 06/30/2012	As of 06/30/2011	Change	% Change
Cash and Short-Term Investments	$ 26,714,223	$ 29,168,545	$ (2,454,322)	(8.41)%
Total Receivables	13,222,192	5,620,985	7,601,207	135.23%
Total Investments	1,251,389,104	1,278,722,303	(27,333,199)	(2.14)%
Securities Lending Collateral	25,984,058	90,201,160	(64,217,102)	(71.19)%
Net Capital Assets	654,291	646,649	7,642	1.18%
Total Plan Assets	**1,317,963,868**	**1,404,359,642**	**(86,395,774)**	**(6.16)%**
Accrued Accounts Payable	2,020,987	1,833,212	187,775	10.24%
Investment Purchases Payable	2,979,876	8,527,478	(5,547,602)	(65.06)%
Securities Lending Collateral	25,984,058	90,201,160	(64,217,102)	(71.19)%
Total Plan Liabilities	**30,984,921**	**100,561,850**	**(69,576,929)**	**(69.19)%**
Net Assets	**$ 1,286,978,947**	**$ 1,303,797,792**	**$ (16,868,845)**	**(1.29)%**

Summary Comparative Statements of Plan Net Assets Analysis

The total plan net assets held in trust for benefits at June 30, 2012 were $1.29 billion, a 1.29% decrease from $1.30 billion at June 30, 2011. The decrease in net assets is primarily due to unfavorable 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.

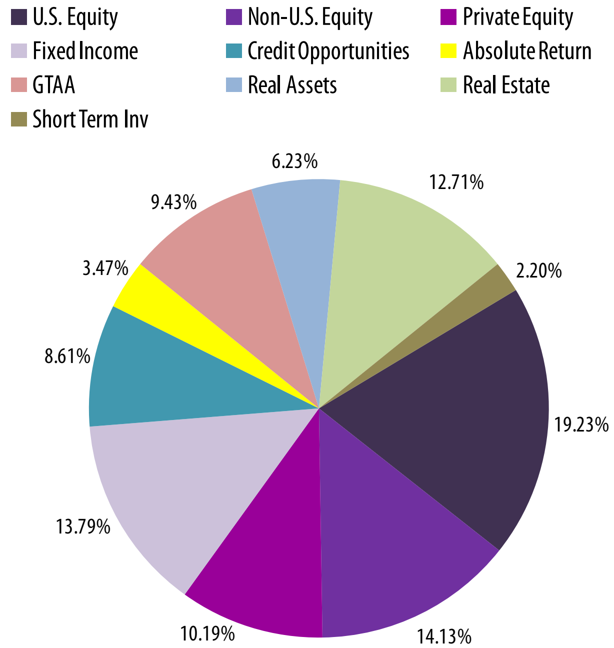
SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

	2012	2011	Change	% Change
ADDITIONS				
Total Contributions	$ 109,020,723	$ 100,971,508	$ 8,049,215	7.97%
Net Investment Income	(10,340,020)	193,212,289	(203,552,309)	(105.35)%
Transfers and Service Purchases	368,484	241,548	126,936	52.55%
Total Additions (Reductions)	**99,049,187**	**294,425,345**	**(195,376,158)**	**(66.36)%**
DEDUCTIONS				
Benefits	87,977,793	76,359,270	11,618,523	15.22%
Service Transfers and Refunds	26,707,547	25,872,830	834,717	3.23%
Administrative Expenses	1,182,692	1,184,756	(2,064)	(0.17)%
Total Deductions	**115,868,032**	**103,416,856**	**12,451,176**	**12.04%**
Net Increase (Decrease)	**(16,818,845)**	**191,008,489**	**(207,827,334)**	**(108.81)%**
Balance Beginning of Year - July 1	**1,303,797,792**	**1,112,789,303**	**191,008,489**	**17.16%**
Balance End of Year - June 30	**$ 1,286,978,947**	**$ 1,303,797,792**	**$ (16,818,845)**	**(1.29)%**

Summary Comparative Statements of Changes in Plan Net Assets Analysis

There was an increase in employer and employee contributions of $8.05 million in relation to 2011 due to an increase in average employer contribution rates from 8.57% in FY2011 to 9.50% in FY2012. For FY2012, CORP recognized a net investment loss of $10.34 million which compares to a gain of $193.21 million in the previous year. This 105.35% decrease in income was due to the more negative 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 FY2012, these deductions totaled $115.87 million, an increase of 12.04% from the $103.42 million paid during FY2011. The total benefit payments increase is due to a net increase in the number of benefit recipients. Details of these changes can be found in the *Actuarial Section* of this report. Service Transfers and Refunds increased 3.23% million over the prior year. 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

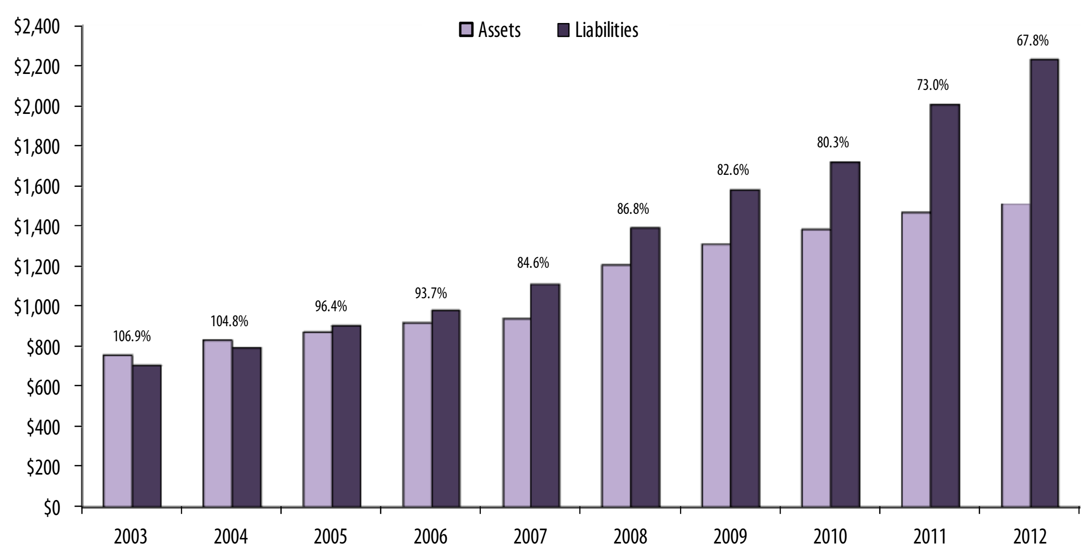


During FY 2007, the Board of Trustees adopted a more diversified asset allocation policy and began an asset management restructuring that has been deployed over the past four years. As illustration, at the end of FY07, 72.8% of the entire investment portfolio was invested in equities versus 33.4% at the end of FY12. Fixed income had remained about 19% of the entire portfolio prior to being reduced to 13.8% in FY2012. However, alternative investments have increased from 3.5% in FY07 to 50.7% in FY12.

At June 30, 2012, CORP held $427.61 million in equities. The FY 2012 rate of return for Total CORP equities was –6.19% versus a benchmark rate of return of –4.36%. At June 30, 2012, CORP held $173.50 million in fixed income securities. The FY 2012 rate of return for CORP fixed income securities was 6.39% versus a benchmark rate of return of 7.47%. 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, 2012.

At June 30, 2012, the total funded status of the CORP decreased to 67.8% from 73.0% at FYE 2011. This decrease in funded status is related primarily to the seven year smoothing period with only 1/7 of the investment gain from the FY2012 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, 2012 WITH COMPARATIVE TOTALS FOR 2011

	JUNE 30, 2012	JUNE 30, 2011
ASSETS		
Cash and Short-Term Investments	$ 26,714,223	$ 29,168,545
RECEIVABLES		
Member Contributions	724,497	1,870,692
Employer Contributions	871,209	1,910,540
Interest and Dividends	1,187,705	1,479,277
Investment Sales	10,429,796	338,773
Other	8,985	21,703
Total Receivables	**13,222,192**	**5,620,985**
INVESTMENTS AT FAIR VALUE (NOTES 2 AND 3)		
U.S. Equity	246,770,817	263,259,903
Non U.S. Equity	180,837,395	195,922,503
GTAA	121,141,513	117,653,995
Fixed Income	173,504,736	241,229,832
Credit Opportunities	110,507,909	115,942,329
Private Equity	130,833,258	103,237,702
Real Assets	79,934,282	69,958,118
Real Estate	163,242,873	138,132,088
Absolute Return	44,616,321	33,385,833
Total Investments	**1,251,389,104**	**1,278,722,303**
Securities Lending Collateral	25,984,058	90,201,160
CAPITAL ASSETS (NOTE 4)		
Land	86,588	86,588
Building	648,990	628,951
Funiture, Fixtures & Equipment	188,615	164,097
Total Capital Assets	**924,193**	**879,636**
Accumulated Depreciation	(269,902)	(232,987)
Net Capital Assets	**654,291**	**646,649**
TOTAL PLAN ASSETS	**1,317,963,868**	**1,404,359,642**
LIABILITIES		
Accrued Accounts Payable	2,020,987	1,833,212
Investment Purchases Payable	2,979,876	8,527,478
Securities Lending Collateral	25,984,058	90,201,160
Total Plan Liabilities	**30,984,921**	**100,561,850**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**1,286,978,947**	**1,303,797,792**
NET ASSET RESERVES		
Refundable Members' Reserve	373,835,801	358,456,820
Employers' Reserve	913,143,146	945,340,972
Future Benefit Increase Reserve	-	-
Total Net Asset Reserves	**1,286,978,947**	**$ 1,303,797,792**

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

STATEMENT OF CHANGES IN PLAN NET ASSETS

FISCAL YEAR ENDING 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012	2011
ADDITIONS		
Contributions		
Members' Contributions (NOTES 2,5)	$ 51,967,894	$ 50,891,168
Employers' Contributions (NOTES 2,5)	56,056,555	49,303,602
Members' Service Purchase	850,866	776,738
Alternate Employer Contributions	145,408	-
Total Contributions	**109,020,723**	**100,971,508**
Investment Income		
From Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments (NOTES 2,3)	(21,976,530)	176,936,936
Interest	2,759,487	2,839,921
Dividends	9,802,634	11,707,978
Other Income	4,790,299	5,340,305
From Securities Lending Activities		
Securities Lending Activities (NOTE 3)		
Securities Lending Income	88,481	410,126
Borrower Rebates	249,950	282,080
Agents Share of Income	(50,486)	(103,763)
Net Securities Lending Income	**287,945**	**588,443**
Total Investment Income (Loss)	**(4,336,165)**	**197,413,583**
Less Investment Expense	(6,003,855)	(4,201,294)
Net Investment Income (Loss)	**(10,340,020)**	**193,212,289**
Transfers Into System	368,484	241,548
Total Additions (Reductions)	**99,049,187**	**294,425,345**
DEDUCTIONS		
Pension Benefits (NOTE 2)	85,684,902	75,021,222
DROP Benefits (NOTE 2)	2,292,891	1,338,048
Refunds To Terminated Members (NOTE 2)	25,743,514	24,927,660
Administrative Expenses	1,182,692	1,184,756
Transfers Out of System	964,033	945,170
Total Deductions	**115,868,032**	**103,416,856**
NET INCREASE (DECREASE)	**(16,818,845)**	**191,008,489**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year, July 1	1,303,797,792	1,112,789,303
End of Year, June 30	**$ 1,286,978,947**	**$ 1,303,797,792**

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

CORP NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: PLAN DESCRIPTION

ORGANIZATION

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

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

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

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

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

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

At June 30, 2012 and 2011, the number of participating local government employer groups was:

GROUP	2012	2011
County AOC	15	15
Cities	1	1
Detention	13	13
Dispatchers	8	8
State Agencies	3	3
Total Employers	**40**	**40**

Any county or city in the State of Arizona may elect to have its eligible employees (generally, prison or jail personnel who have direct inmate contact) covered by CORP. At June 30, 2012 and 2011, statewide CORP membership consisted of::

	RETIREMENT PLAN		INSURANCE SUBSIDY	
MEMBERSHIP TYPE	2012	2011	2012	2011
Retirees	3,476	3,256	1,934	1,795
Terminated Vested	1,101	1,300	-	-
Current Vested	4,586	4,483	-	-
Current Non-Vested	10,405	10,082	-	-
Total Members	**19,568**	**19,121**	**1,934**	**1,795**

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

SUMMARY OF BENEFITS

PURPOSE (A.R.S. § 38-900.01b)

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

AVERAGE MONTHLY BENEFIT

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

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

Salary 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(41).

BENEFIT INCREASE / COST OF LIVING ADJUSTMENT (COLA)

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

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

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

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

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

CONTRIBUTIONS

From July 1, 2012 through June 30, 2013, all non-dispatchers shall contribute 8.41% and all full-time dispatchers shall contribute 7.96% of salary to the Plan on a pre-tax basis by payroll deduction. The contribution rate for members will change each fiscal year. A.R.S. § 38-891(H).

CREDITED SERVICE

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

DEATH BENEFITS - ACTIVE MEMBER

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

Guardian Benefit. If there is no surviving spouse, or the pension of the surviving spouse is terminated, and there is at least one (1) eligible child, a Guardian Benefit of 40% (based on the member's average monthly salary) 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 (2) times the member's contributions. If the surviving beneficiary does not claim the benefit, the Local Board has the authority to pay the member's nearest of kin, or estate. A.R.S. §§ 38-904(A and B).

DEATH BENEFITS - INACTIVE MEMBER

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

DEATH BENEFITS - RETIRED MEMBER

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

Guardian Benefit. If there is no surviving spouse, or the pension of the surviving spouse is terminated, and there is at least one (1) eligible child, a Guardian Benefit of 80% (based on the member's pension) may be paid to the guardian of the 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(19) and 38-904(B), OR

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

ACCIDENTAL DISABILITY

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

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

TOTAL AND PERMANENT (CATASTROPHIC) DISABILITY

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

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

ORDINARY DISABILITY

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

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

DIVORCE / DOMESTIC RELATIONS ORDER

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

REVERSE DEFERRED RETIREMENT OPTION PLAN (REVERSE DROP)

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

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

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

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

ELIGIBILITY

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

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

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

HEALTH INSURANCE

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

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

JOINDERS

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

REFUNDS

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

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

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

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

REQUEST TO REMAIN IN CORP

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

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

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

RETIREMENT ELIGIBILITY AND CALCULATION

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

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

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

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

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

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

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

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

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

RETURN TO WORK AFTER RETIREMENT

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

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

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).

Effective July 20, 2011, the employer is required to pay an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a designated position ordinarily filled by an employee. The current alternate contribution rate is 6.0%. A.R.S. § 38-891.01.

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

SALARY

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

SERVICE PURCHASE

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

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

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

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

Purchase of Service Between the Arizona Retirement Plans/Systems. 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.

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

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

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

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

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

By state statute, the Plan is required to provide information in the financial statements used to calculate Net Effective Yield. Net Effective Yield includes only realized gains and losses. The Net Realized Gains (Losses) used in this calculation totaled $38,880,876 for FYE 2012 and $56,158,378 for FYE 2011. This calculation is independent of the calculation of the change in the fair value of investments and may include unrealized amounts from prior periods.

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, 2012. 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, 2012, as collateral:

Description	CPN	Maturity	Market Value
FNMA Pool AH0006	4.00	12-1-2040	1,655,452
FNMA Pool AH0007	4.00	12-1-2040	2,069,431
FNMA Pool AH0125	3.50	1-1-2041	1,303,689
FNMA Pool AH0946	4.00	12-1-2040	5,899,210
FNMA Pool AH0969	3.50	12-1-2025	36,105
FNMA Pool AH1264	4.00	1-1-2041	183,058
FNMA Pool AH1516	3.00	12-1-2025	4,541,065
FNMA Pool AH3394	4.00	1-1-2041	109,321
FNMA Pool AH6783	4.00	3-1-2041	5,858,140

Description	CPN	Maturity	Market Value
FNMA Pool AH6993	4.50	2-1-2041	5,034,974
FNMA Pool AH7905	4.00	7-1-2041	1,126,561
FNMA Pool AH9937	4.50	5-1-2041	2,260,959
FNMA Pool AI1186	4.00	4-1-2041	212,081
FNMA Pool AI1163	4.50	4-1-2041	1,117,916
FNMA Pool AI6900	3.00	10-1-2026	3,007,744
FNMA Pool AI6897	3.00	10-1-2026	1,238,083
FNMA Pool AJ1625	3.00	10-1-2026	10,543,022
TOTAL			**46,196,811**

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, 2012:

	REPORTED AMOUNT	BANK BALANCE
Pension Trust Fund	$ 24,052,442	$ 24,052,442
Operating Fund	2,661,781	2,661,781
Total Deposits	**$ 26,714,223**	**$ 26,714,223**

INVESTMENTS

CORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair value as determined by fixed-income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows. Joint venture real estate investments are reported at fair value using either appraisals or manager assessment 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.
5) That corporate stocks and exchange traded funds eligible for purchase shall be restricted to stocks and exchange traded funds that, except for bank stocks, insurance stocks and membership interests in limited liability companies, are either:
   a) Listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §78ll).
   b) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §78ll).
   c) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state.
   d) Listed or approved on issuance for listing on an exchange registered of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than twenty percent of the combined assets of the system and other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation.
   e) An exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the investment company act of 1940 (15 United States Code Section 80a-1 through 80a-64) and that is both traded on a public exchange and based on a publicly recognized index.

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

At June 30, 2012, the fair value of the PSPRS Trust and the allocation for each system and plan was as follows:
A small portion of the assets (real estate) remain outside the comingled funds, representing approximately 6 basis points of the total.

PLAN	UNITIZED	PERCENT
PSPRS	5,042,941,294	76.17%
CORP	1,283,259,612	19.38%
EORP	294,171,509	4.45%
TRUST TOTAL	**6,620,372,415**	**100.00%**

CUSTODIAL CREDIT RISK

Custodial Credit Risk is the risk that CORP will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterpart to the investment or deposit transaction fails. As of June 30, 2012, 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, 2012, the Plan's fixed income assets that were not government guaranteed represented 95.1% 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, 2012	% OF ALL FIXED INCOME ASSETS	WEIGHTED AVG. CREDIT
Corporate Bonds	158,296,554	96.0%	A
Mortgages	2,153,463	1.3%	BBB
CBO	4,505,189	2.7%	Below BBB
Total	**164,955,206**	**100.0%**	

RATINGS DISPERSION DETAIL

CREDIT RATING LEVEL	CORPORATE BONDS	MORTGAGES	CBO
AAA	-	-	-
AA	4,058,989	-	-
A	14,326,642	-	2,114,190
BBB	4,324,878	68,104	-
Below BBB	587,384	2,085,359	2,390,999
Not Rated	134,998,661	-	-
Total	**158,296,554**	**2,153,463**	**4,505,189**

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	-	8,382,456	8,513,860	1,501,907	1,149,463	138,748,868
Agencies	-	-	-	-	4,446,132	4,103,398
Mortgages	-	-	-	68,104	699,144	1,386,215
CBO	-	-	2,390,999	-	-	2,114,190
CDO	-	-	-	-	-	-
Total	**-**	**8,382,456**	**10,904,859**	**1,570,011**	**6,294,739**	**146,352,671**

CALLABLE BONDS BY SECURITY TYPE
(INCLUDING GOVERNMENT GUARANTEED SECURITIES)

FIXED INCOME SECURITY TYPE	FAIR VALUE JUNE 30, 2012	% OF ALL FIXED INCOME ASSETS
Corporate	2,012,959	1.16%
Agencies	-	0.00%
Total	**2,012,959**	**1.16%**

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.

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

FOREIGN CURRENCY RISK

CURRENCY	SHORT TERM	FIXED INCOME	EQUITY	OTHER	TOTAL
AUSTRALIAN DOLLAR	10,378	-	8,993,122	-	9,003,500
CANADIAN DOLLAR	17,956	-	12,082,947	-	12,100,903
DANISH KRONE	12,861	-	1,175,299	-	1,188,160
EURO CURRENCY UNIT	59,267	13,312,747	27,555,270	11,860,099	52,787,383
HONG KONG DOLLAR	22,674	-	3,108,713	-	3,131,387
ISRAELI SHEKEL	2,730	-	589,651	-	592,381
JAPANESE YEN	226,674	-	22,153,272	-	22,379,946
NEW ZEALAND DOLLAR	1,198	-	132,036	-	133,234
NORWEGIAN KRONE	6,567	-	942,007	-	948,574
POUND STERLING	37,648	-	23,741,923	5,797,684	29,577,255
SINGAPORE DOLLAR	1,917	-	1,861,263	-	1,863,180
SWEDISH KRONA	6,512	-	3,172,705	-	3,179,217
SWISS FRANC	60,870	-	8,634,990	-	8,695,860
TOTAL MARKET VALUE	**467,252**	**13,312,747**	**114,143,198**	**17,657,783**	**145,580,980**

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 gains for CORP was $775,937 at June 30, 2012 consisting of U.S. Equity (gain of $771,401) and Real Assets (gain of $4,536). Interest risk associated with these investments are included in the tables on page 34.

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, 2012 the fair value of securities on loan was $24,988,379 and the collateral was $25,984,058 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, 2012, the weighted average maturity was 113 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 $2,076,327 has been recorded as CORP's share.

ASSET CLASS	OUT ON LOAN	TOTAL AVAILABLE TO LOAN	% OF AVAILABLE TO LOAN
Equities	$ 13,586,178	$ 24,197,388	56.15%
Agencies	-	-	-
Treasuries	3,281,890	3,293,158	99.66%
Exchange Traded	8,120,311	11,761,856	69.04%
Totals	**$ 24,988,379**	**$ 39,252,402**	**63.66%**

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, 2012 was $36,914.

The table below is a schedule of the capital asset account balances as of June 30, 2011, and June 30, 2012, and changes to those account balances during the year ended June 30, 2012.

SCHEDULE OF CAPITAL ASSET ACCOUNT BALANCES

	LAND	BUILDING AND IMPROVEMENTS	FURNITURE, FIXTURES AND EQUIPMENT	TOTAL CAPITAL ASSETS
CAPITAL ASSETS				
Balance June 30, 2011	$ 86,588	$ 628,951	$ 164,097	$ 879,636
Additions	-	20,039	24,518	44,557
Deletions	-	-	-	-
Balance June 30, 2012	**86,588**	**648,990**	**188,615**	**924,193**
ACCUMULATED DEPRECIATION				
Balance June 30, 2011	-	(107,587)	(125,401)	(232,988)
Additions	-	(17,938)	(18,976)	(36,914)
Deletions	-	-	-	-
Balance June 30, 2012	-	(125,525)	(144,377)	(269,902)
Net Capital Assets	**$ 86,588**	**$ 523,465**	**$ 44,238**	**$ 654,291**

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-five (25) year period. Beginning July 1, 2007, the minimum employer contribution rate was established at 6%.

During the year ended June 30, 2012, contributions totaling $110,914,890 ($58,946,996 employer [$50,575,854 pension and $8,371,142 health insurance subsidy contributions in excess of the benefits paid] and $51,967,894 member) were made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2010. The employer contributions consisted of approximately $41,386,996 for normal cost [$35,906,295 pension and $5,480,701 health insurance subsidy] plus $17,560,000 for amortization of the actuarial accrued liability in aggregate [$14,669,559 pension and $2,890,441 health insurance subsidy]. Employer contributions represented 9.50% of covered payroll [6.67% for normal costs (6.05% pension and .62% health insurance) and 2.83% for amortization of assets in excess of the actuarial accrued liability in aggregate (2.23% pension and 0.60% 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 FY2012 contributions collected for the health insurance subsidy amounted to $8,371,142 and the health benefit subsidy payments were $2,890,441. The excess contributions of $5,480,701 were added to the retirement plan for reporting purposes. Effective FY2008, each participating employer is required by GASB Statement No. 45 to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan and actuarial methods and assumptions used.

NOTE 8: PLAN TERMINATION

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

NOTE 9: CONTINGENCIES

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

As stated in Note 3 – Cash and Investments (under the Security Lending Program heading), the Plan was notified of a situation involving one or more security lending collateral vehicles that held assets which have been impaired as a result of recent market events. An estimate of the unrealized loss is approximately $10.7 million for all three plans and has been recorded as a liability. It is anticipated that a final resolution will be reached this next fiscal year.

NOTE 10: FUNDING STATUS AND PROGRESS

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

(IN THOUSANDS)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
06/30/12	1,512,989	2,140,662	627,673	70.7%	626,223	100.2%

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

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

Valuation Date:	June 30, 2012
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Payroll, Closed
Remaining Amortization Period:	24 years closed for unfunded accrued actuarial liability
Asset Valuation Method:	7-Year Smoothed Market Value, 80%/120% Market
Investment Rate of Return:	8.00%
Projected Salary Increases:	5.00-8.25% which includes inflation at 5.00%

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

NOTE 11: REQUIRED SCHEDULES

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

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))
06-30-03	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	43.2%
06-30-11	1,466,750	1,914,464	447,715	76.6%	609,243	73.5%
06-30-12	1,512,989	2,140,662	627,673	70.7%	626,223	100.2%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	EMPLOYER CONTRIBUTIONS	
FISCAL YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
2003	7,397,595	100.0%
2004	14,555,335	100.0%
2005	16,291,914	100.0%
2006	24,028,050	100.0%
2007	22,709,507	120.0% *
2008	43,858,925	108.0% *
2009	53,807,249	108.1% *
2010	52,064,974	105.4% *
2011	49,303,602	105.5% *
2012	56,056,555	105.2% *

** Total Employer Contributions received during FY2007 were $24,622,693. GASB reporting requires discretely reporting the health insurance subsidy separately from the retirement plan. As a result, the annual required contributions for the health insurance subsidy were calculated to be $5,742,051. The benefits paid for the health insurance subsidy were $1,913,186. The difference between the calculated annual required contributions and the benefits paid of $3,828,865 were then added back to the annual required contributions for the retirement plan. This required calculation resulted in a percent contributed of 120.0% for the retirement plan.*

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

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

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

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

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

** 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, 2012

The entry age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. A closed 24-year amortization period were used for the June 30, 2012 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 8.00% per year, compounded annually (net of investment expenses). Projected salary increase assumptions are based on 5.00% to 8.25%, which include a price inflation assumption of 5.00% per year.

The Actuarial Standards of Practice require that the Funding Value of Assets fall within a reasonable range around the Market Value. Although some actuarial judgment is used to determine what is deemed 'reasonable', a ratio approaching 140% is on the high end. We recommend that consideration be given to establishing an asset corridor for the June 30, 2012 actuarial valuation. An asset corridor, sometimes called a "Collar", is a limitation on the amount by which the Funding Value is permitted to differ from Market Value. A corridor of 20% to 25% is a common standard, although many systems have relaxed their standards in response to the extraordinary events of late 2008 and early 2009. It is not anticipated that this change would have any immediate impact on the contribution rate as the Funding Value of Assets was within 15% of the Market Value. However, implementing this now would protect the System from having the Funding Value of assets stray too far away (either below or above) from the true value of assets in the fund. The actuary recommends that a 20% corridor be added to the Funding Value of Assets Calculation.

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

Actuarial valuations are prepared annually as of June 30 for each participating employer. To facilitate budgetary planning needs, employer contribution requirements are provided for each participating employer's fiscal year that commences after the following fiscal year end. For example, the contribution requirements for fiscal year 2012 were determined by actuarial valuations as of June 30, 2010.

SCHEDULE OF CHANGES IN RESERVE BALANCE
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	REFUNDABLE MEMBERS' RESERVE	EMPLOYERS' RESERVE	FUTURE BENEFIT INCREASE RESERVE
BALANCE AS OF JUNE 30, 2010	**$ 345,295,534**	**$ 748,758,990**	**$ 18,734,779**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	50,891,168		
Employers' Contributions		52,002,731	
Earnings (Loss) on Investments Net of Investment Expenses		193,212,289	
Pension and Insurance Benefits		(79,058,399)	
Refunds to Terminated Members	(16,609,742)	(8,317,918)	
Administrative Expenses		(1,184,756)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets		(3,254,231)	3,254,231
Amount Utilized by Benefit Increases Granted		21,989,010	(21,989,010)
Net Transfers In (Out) and Purchase of Service Credits	458,045	(384,929)	
Balances Transferred to Employers' Reserve due to Retirement	(21,578,185)	21,578,185	
BALANCE AS OF JUNE 30, 2011	**$ 358,456,820**	**$ 945,340,972**	**$ -**
DISTRIBUTION OF REVENUES AND EXPENSES			
Members' Contributions	51,967,894		
Employers' Contributions		59,092,404	
Earnings (Loss) on Investments Net of Investment Expenses		(10,340,020)	
Pension and Insurance Benefits		(90,868,234)	
Refunds to Terminated Members	(17,452,728)	(8,290,786)	
Administrative Expenses		(1,182,692)	
DISTRIBUTION OF TRANSFERS			
Excess Investment Earnings to be used for Future Benefit Increases			
Earnings (Loss) on Excess Investment Earnings Account Assets			
Amount Utilized by Benefit Increases Granted			
Net Transfers In (Out) and Purchase of Service Credits	630,423	(375,106)	
Balances Transferred to Employers' Reserve due to Retirement	(19,766,608)	19,766,608	
BALANCE AS OF JUNE 30, 2012	**$ 373,835,801**	**$ 913,143,146**	**$ -**

SUPPORTING SCHEDULES INFORMATION

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
RECEIPTS		
Members' Contributions	$ 53,114,089	$ 50,820,496
Employers' Contributions	57,241,294	49,209,154
Interest	2,923,819	2,819,198
Dividends	9,929,874	11,523,669
Other Income	4,803,017	5,330,445
Securities Lending Income	313,155	597,287
Transfer In	368,484	241,548
Service Purchase	850,866	776,738
Maturities and Sales of:		
U S Equity	43,134,049	106,023,830
Non-U S Equity	30,799,083	64,301,445
GTAA	43,152,694	7,313,072
Fixed Income	129,166,781	134,984,320
Absolute Return	1,031,809	7,841,922
Credit Opportunities	26,283,230	46,139,181
Private Equity	41,983,051	73,063,294
Real Assets	82,072,791	77,179,225
Real Estate	10,601,463	49,369,355
Total Receipts	**537,769,549**	**687,534,179**
DISBURSEMENTS		
Pension Benefits	85,684,902	75,021,222
Refunds to Terminated Members	25,743,514	24,927,660
Drop Benefits	2,292,891	1,338,048
Investment and Administrative Expenses	6,998,772	5,366,714
Transfer Out	964,033	945,170
Acquisitions of:		
U S Equity	40,500,797	24,455,583
Non-U S Equity	51,302,515	23,197,286
GTAA	42,068,046	28,520,942
Fixed Income	56,740,341	163,931,616
Absolute Return	10,729,284	39,287,329
Credit Opportunities	21,763,023	39,110,116
Private Equity	61,227,578	64,125,207
Real Assets	91,543,418	95,993,419
Real Estate	42,664,757	84,640,157
Total Disbursements	**540,223,871**	**670,860,469**
INCREASE (DECREASE) IN CASH	(2,454,322)	16,673,710
BEGINNING CASH BALANCE - July 1	29,168,545	12,494,835
ENDING CASH BALANCE - June 30	**$ 26,714,223**	**$ 29,168,545**

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

EXPENSE CATEGORY	ADMINISTRATIVE	INVESTMENT	TOTAL
Accounting and Auditing Services	$ 12,732	$ -	$ 12,732
Actuarial Services	9,000	-	9,000
Building Expense	48,292	-	48,292
Communications	9,458	-	9,458
Computer Related Expense	25,042	8,402	33,444
Contractual Services	19,955	-	19,955
Depreciation Expense	36,915	-	36,915
Fund Manager Initiatives	2,306	-	2,306
Furniture and Equipment	1,933	507	2,440
Investment Services	-	5,156,175	5,156,175
Legal Services	172,804	177,251	350,055
Local Board Training	404	-	404
Payroll Taxes and Fringe Benefits	178,200	78,031	256,231
Postage Expenses	4,306	-	4,306
Printing and Publications	3,561	-	3,561
Professional Services	140,870	272,454	413,324
Salaries and Wages	494,420	290,148	784,568
Supplies and Services	10,041	-	10,041
Training Expenses	8,084	2,808	10,892
Travel Expense	4,369	18,079	22,448
TOTAL	**$ 1,182,692**	**$ 6,003,855**	**$ 7,186,547**

SCHEDULE OF CONSULTANT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

CONSULTANT	SERVICE PROVIDED	FEES PAID
ALBOURNE AMERICA, LLC	International Alternative Investment Consultant	$ 103,093
BALLARD SPAHR LLP	Litigation Counsel	5,081
BNY MELLON ASSET SERVICING	Independent Investment Advisor	29,048
COOLEY LLP	Investment Counsel	18,432
FOLEY & LARDNER, LLC	Investment Counsel	11,236
FOSTER PEPPER	Investment Counsel	2,268
GABRIEL ROEDER SMITH & COMPANY	Actuary	9,000
GOODWIN PROCTER	Investment Counsel	6,081
HEINFELD, MEECH & CO.	Independent Auditors	12,732
HIGHGROUND, INC	Legislative Liason	15,115
JACKSON WALKER LLP	Investment Counsel	7,053
KUTAK ROCK LLP	General Counsel	172,591
LIGHT STONE SOLUTIONS, LLC	Due Dilligence	44,011
LRS CONSULTING LLC	Local Board Training	442
MANPOWER	IT Consultant	8,516
MORRISON FOERSTER	Investment Counsel	8,531
NEPC, LLC	Independent Investment Advisor	79,996
OFFICE OF THE ATTORNEY GENERAL	Attorney General Counsel	11,511
ORG PORTFOLIO MANAGEMENT LLC	Real Estate Consultant	68,189
PILLSBURY	IT Consultant	5,116
PUBLIC POLICY PARTNERS	Investment Counsel	19,766
ROPES & GRAY LLP	Investment Counsel	6,266
STEPSTONE GROUP LLC	Equity Advisors	19,378
STEPTOE & JOHNSON, LLP	Litigation Counsel	65,022
TO THE TOP CONSULTING LLC	Local Board Training	1,739
TOTAL		**$ 730,213**

HEALTH INSURANCE PREMIUM SUBSIDY
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

HEALTH INSURANCE PREMIUM SUBSIDY	BEGINNING BALANCE	ADDITIONS	DELETIONS	ENDING BALANCE
ASSETS				
Cash	$ 0	$ 2,890,441	$ 2,890,441	$ 0
Total Assets	**0**	**2,890,441**	**2,890,441**	**0**
LIABILITIES				
Benefits Payable	0	2,890,441	2,890,441	0
Total Liabilities	**$ 0**	**$ 2,890,441**	**$ 2,890,441**	**$0**

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

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (B)	UNFUNDED AAL(UAAL) (B-A)	FUNDED RATIO (A/B)	ANNUAL COVERED PAYROLL (C)	UAAL AS A % OF COVERED PAYROLL ((B-A)/C)
06/30/07	0	$48,990	$48,990	0.0%	$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%
06/30/11	0	94,105	94,105	0.0%	609,243	15.4%
06/30/12	0	90,882	90,882	0.0%	626,223	14.5%

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

INVESTMENT SECTION

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

James M. Hacking
Administrator
Ryan Parham
Chief Investment Officer
Jared A. Smout
Deputy Administrator

November 20, 2012

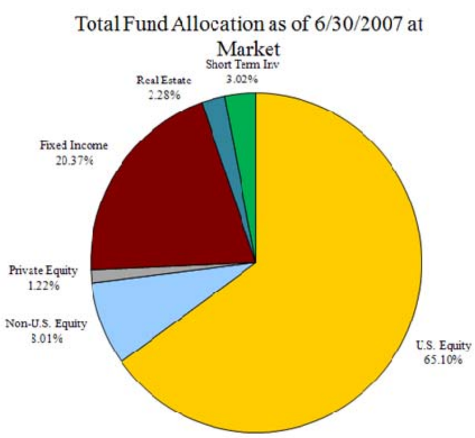
The Board of Trustees and
The Administrator of the
Arizona Public Safety Personnel Retirement System

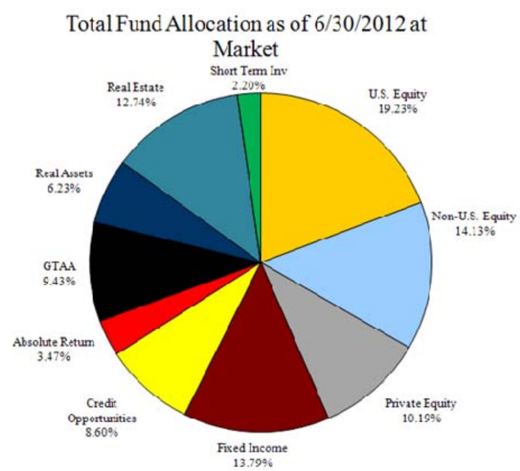
Members:

As the Chief Investment Officer of the Public Safety Personnel Retirement System (PSPRS) during the fiscal year beginning July 1, 2010 and ending June 30, 2011, I submit the following comments and observations for your consideration and for the consideration of the respective parties in interest of the System:

INTRODUCTION

On behalf of the entire PSPRS investment team, it is a pleasure to provide this annual update of investment activities of the Arizona PSPRS Trust for the fiscal year ending June 30, 2012. In commenting on the investment activities of our Trust a review of our history is important. That history, in part, is presented herein. It is not an understatement to say that we have gone through and expect to see more remarkable economic stress and uncertainty. The following charts show the PSPRS asset allocation as of year-end 2007and 2012. The year-end 2007 allocation highlights what was a huge historic dependence on U.S. equities (65.10%). Bonds and stocks were the two major asset classes held in the portfolio. Today's portfolio has ten asset classes with a little more than 30% in global equities. The close of 2012 marks the fourth year since we began this portfolio evolution and the third year of it having been substantially deployed.





WHY DID WE MOVE THE PORTFOLIO AWAY FROM U.S. EQUITIES?

A quick review of the portfolio's historic returns from the year 2000 up to and including 2009 shows the damaging effects of having "our eggs" concentrated in the equities basket.

We had six positive return years during this period including a positive 17.05% in 2007, a positive 14.95% in 2004 and a positive 12.29% in 2000. We also had four negative years. The net of the ups and downs produced a total compounded return over the total period of only 0.25%. With the old portfolio we see clearly the distinct possibility of big "ups" but also big "downs" and the compounding effects of that risk have produced poor returns.

In 2009 the Board approved plans to move the portfolio away from that outsized risk and toward a more diversified structure. This contemplated portfolio would capture most of the upside in big up markets, but not all of it, and it would suffer much less of the downside from big down markets. This proved to be true in the disastrous year of 2009 when our portfolio was down in the crash 17.73%. We had begun to move to the new asset allocation in that year and quickly noted that without those moves, our previous allocation would have been down almost 30%.

Many of our pension peers were down 25% or more. Recent stress tests on our portfolio indicate that we will capture approximately 70% of a strong up-market but only approximately 40% of a strong down-market. Preventing that see-saw of returns produces a superior long term compounded return. This has been a key feature of the endowment investment universe which has historically produced better returns than public pensions.

HOW IS THE NEW PORTFOLIO DIFFERENT AND HOW IS IT PERFORMING?

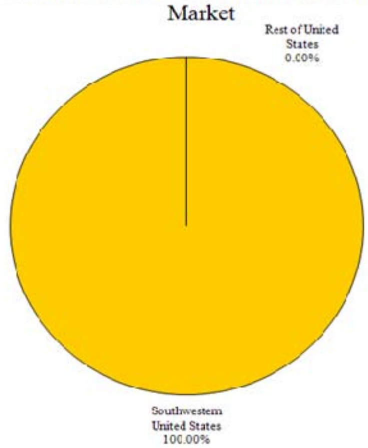
For the fiscal year which ended June 30, 2012 the total fund returned a - 0.79%. This return is disappointing given our assumed earnings rate of 8.00%. But the markets offered very little opportunities for return in this last year. The average pension plan with its larger equity risk returned only about 1.15%. The average endowment, whose allocation is very similar to ours lost about -0.30%. Over the last three years, while the new allocation has been largely deployed, the fund has returned a compounded return of 9.73%, and that includes this year's disappointing net result. Importantly, as we focus on our desire to control downside risk in those three years, the portfolio has been among the top 10% in the nation in a Sortino Ratio risk score and among the top quartile in another broad risk measurement category.

RISK, RETURN AND REAL ESTATE

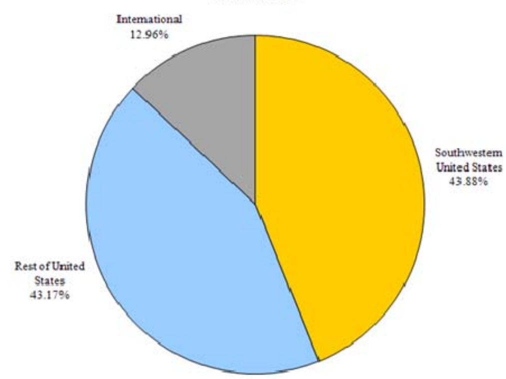
We have created a portfolio that is designed to protect on the downside and capture most of the upside of the markets. It is designed to earn our assumed earnings rate, not in every year, which as you can see from the markets is virtually impossible, but to earn 7.85% on average over longer time frames.

This year's report would be incomplete if I did not comment on the Southwestern United States Real Estate, a story which is near and dear to all Arizonans, and has strongly influenced our portfolio. Just as we were highly concentrated in U. S. Equities in 2007, we were also concentrated in Real Estate in the Southwestern United States. We have felt the negative effects of that concentration quite severely. Without that Southwestern United States concentration in Real Estate we would have returned 0.16% versus a -0.79% in 2012, beating the average endowments. On a three year basis we would have returned 11.62% verses our actual return of 9.73%. To reduce this effect of "all our eggs in volatile baskets" we continue to diversify the Real Estate portfolio as well. The following charts show the PSPRS geographic allocations within Real Estate as of year-end 2007and 2012.

Total Real Estate Allocation as of 6/30/2007 at Market



Total Real Estate Allocation as of 6/30/2012 at Market



INVESTMENT TEAM / CONSULTANTS / INVESTMENT MANAGERS

The PSPRS investment team now includes 10 staff members who have collectively earned 6 Doctorate Degrees, 13 Masters Degrees including 6 MBAs and a host of other degrees. Combined, Tthe team has over 100 years of business and investment experience. Our PSPRS external consultants, Albourne, NEPC, ORG and StepStone now have offices and staff in every major economic region of the world. We have invested with more than 100 external mangers across all 10 asset classes who represent the best managers in the world. To each of these individuals and organizations I extend my gratitude, knowing that they make their best efforts to benefit the retirees, active members, employers and future members of the Arizona Public Safety Personnel Retirement System. We look forward to continuing and improving success.

Respectfully Submitted,

Ryan P. Parham

Ryan P. Parham
Chief Investment Officer

FUND INVESTMENT OBJECTIVES

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

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

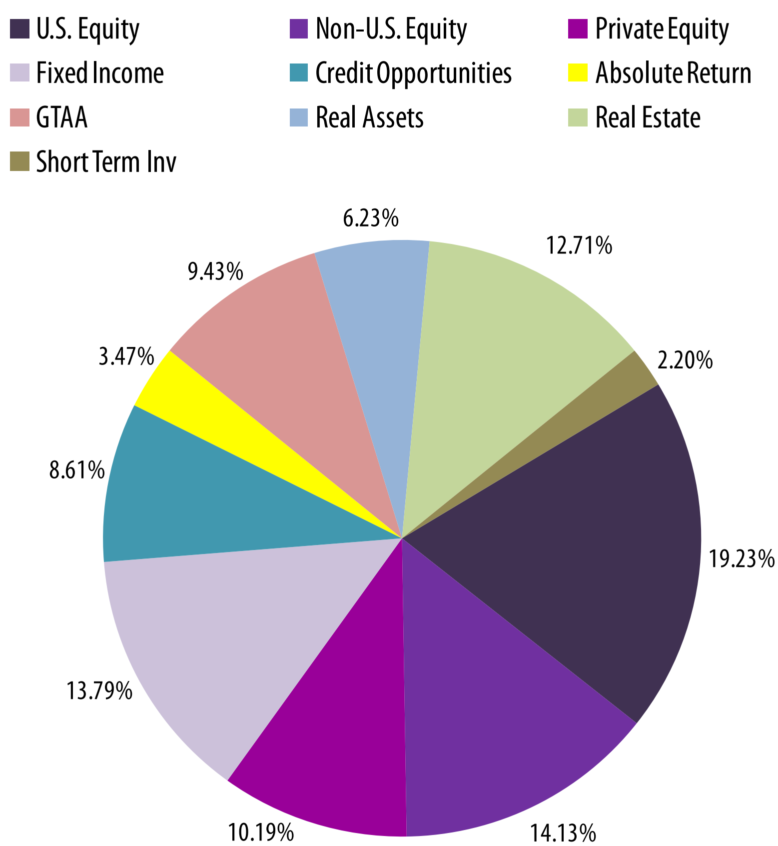
Consistent with the Fund objectives, the primary investment objective of the Fund is to maximize long-term real (after inflation) investment returns recognizing established risk (volatility) parameters and the need to preserve capital by:

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

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

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

ASSET ALLOCATION
JUNE 30, 2012



ANNUALIZED RATES OF RETURN*
JUNE 30, 2012

Description	1 Year	3 Years	5 Years	10 Years
CORP - Total Fund	-0.79%	9.73%	0.14%	5.40%
Target Fund Benchmark	*2.89%*	*10.62%*	*0.13%*	*3.91%*
Total Equity	-6.19%	11.52%	-0.91%	
Target Equity Benchmark	*-4.36%*	*12.59%*	*-1.46%*	
U.S. Equity	0.01%	15.04%	N/A	
Russell 3000	*3.84%*	*16.73%*	*0.40%*	
Non-U.S. Equity	-14.82%	6.41%	N/A	
MSCI ACWI Ex-US Net	*-14.56%*	*6.97%*	*-4.62%*	
Private Equity	6.20%	19.19%	2.44%	
Russell 3000 + 100 bps	*4.84%*	*17.73%*	*1.40%*	
Fixed Income	6.39%	8.06%	5.15%	
BC US Aggregate	*7.47%*	*6.93%*	*6.79%*	
Credit Opportunities	0.26%	16.68%	N/A	
BofA ML US High Yield BB-B Constrained	*7.02%*	*14.25%*	*7.62%*	
Absolute Return	2.86%	N/A	N/A	
BofA ML 3-Month T-Bill + 200 bps	*2.06%*	*2.13%*	*3.00%*	
GTAA	3.42%	N/A	N/A	
3-Month LIBOR + 300bps	*3.43%*	*3.37%*	*4.40%*	
Real Assets	0.55%	4.42%	N/A	
CPI + 200 bps	*3.68%*	*4.05%*	*3.96%*	
Real Estate	-3.84%	-7.23%	-2.61%	
NCREIF NPI	*12.04%*	*8.82%*	*2.51%*	
Short Term Investments	-0.55%	-0.05%	1.02%	
BofA ML 3-Month T-Bill	*0.06%*	*0.12%*	*0.98%*	

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

Target Fund Benchmarks (Effective Dates)

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

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

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

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% BofA ML 3-Month T-Bill

July 1, 2002 - June 30, 2006: 45% S&P 500, 45% BC Gov/Cred and 10% BofA ML 3-Month T-Bill

Target Equity Benchmarks (Effective Dates)

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

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

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

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, 2012

Description	Shares	Fair Value
VANGUARD MSCI EMERGING MKT	863,417	34,476,260
CRESTLINE CS 3000 FUND L.P.	30,117,781	30,117,781
GAM TRADING STRATEGY	19,609,802	19,609,802
ISHARES MSCI EAFE INDEX FUND	263,460	13,162,485
KKR EQUITY STRATEGIES	11,741,567	11,741,567
VANGUARD TOTAL STOCK MARKET ET	120,498	8,398,676
BGI FRONTIER MARKETS FUND	1,311,945	6,825,314
APPLE INC	9,227	5,388,302
EXXON MOBIL CORP	46,094	3,944,293
ISHARES MSCI EMERGING MARKETS	83,137	3,253,558

FIXED INCOME PORTFOLIO TOP 10 HOLDINGS
JUNE 30, 2012

Description	Shares	Fair Value
BGI CORE ACTIVE BOND FUND	3,259,510	75,655,363
FRANKLIN TEMPLETON EMD	14,367,677	14,367,678
CAPITAL GUARDIAN EMERGING	900,860	12,314,751
GOLDENTREE HIGH YIELD VALUE	9,929,122	9,929,123
GRACIE INTERNATIONAL CREDIT	4,663	9,303,802
IGUAZU PARTNERS LP	8,203,911	8,203,912
SJC DIRECT LENDING	5,224,034	5,224,034
SECURITY MUT LIFE INS CO 144A	2,907,524	2,996,158
CBO HLDGS III 04-3 CL A 144A	2,400,704	2,390,999
FNMA GTD REMIC P/T 11-8 AV	2,132,185	2,324,337

SUMMARY OF CHANGES IN INVESTMENT PORTFOLIO
JUNE 30, 2012
(IN THOUSANDS)

	JUNE 30, 2011 BALANCE					JUNE 30, 2012 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	20.59%	263,260	212,798	69,976	73,828	246,771	208,946	19.72%
Non U. S. Equity	15.32%	195,923	158,495	48,741	26,322	180,837	180,914	14.45%
GTAA	9.20%	117,654	99,010	30,896	26,992	121,142	102,914	9.68%
Fixed Income	18.86%	241,230	222,748	54,472	123,158	173,505	154,062	13.86%
Credit Opportunities	9.07%	115,942	97,777	54,456	54,132	110,508	98,101	8.83%
Private Equity	8.07%	103,238	91,061	59,736	34,419	130,833	116,378	10.46%
Real Assets	5.47%	69,958	65,282	84,669	75,343	79,934	74,608	6.39%
Real Estate	10.80%	138,132	156,441	42,208	8,183	163,243	190,466	13.04%
Absolute Return	2.61%	33,386	31,445	10,698	830	44,616	41,313	3.57%
TOTAL PORTFOLIO	**100.00%**	**1,278,723**	**1,135,057**	**455,852**	**423,207**	**1,251,389**	**1,167,702**	**100.00%**

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2012

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
ABN AMRO BK NV (SECS TRADING), HONG KONG	14,997	0.0005	8
BAIRD, ROBERT W & CO INC, MILWAUKEE	541,800	0.0011	574
BARCLAYS CAPITAL LE, JERSEY CITY	2,305,410	0.0004	1,008
BARCLAYS CAPITAL, LONDON (BARCGB33)	332,360	0.0003	116
BENCHMARK COMPANY LLC, BROOKLYN	5,742	0.0066	38
BERNSTEIN SANFORD C & CO, NEW YORK	120,332	0.0002	29
BLOOMBERG TRADEBOOK LLC, NEW YORK	13,932	0.0038	53
BMO CAPITAL MARKETS CORP, NEW YORK	121,772	0.0012	151
BTIG LLC, JERSEY CITY	258,964	0.0017	437
BURKE & QUICK PARTNERS LLC, JERSEY CITY	14,356	0.0054	77
CANACCORD GENUITY INC, JERSEY CITY	100,511	0.0011	113
CANTOR FITZGERALD & CO INC, NEW YORK	177,964	0.0050	894
CAPITAL ONE SOUTHCOAST INC, NEW ORLEANS	81,209	0.0014	111
CIBC WORLD MKTS INC, TORONTO	507,137	0.0004	199

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2012

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
CITIGROUP GBL MKTS AUSTRALIA PTY, SYDNEY	43,775	0.0005	22
CITIGROUP GBL MKTS INC, NEW YORK	2,470,979	0.0005	1,146
CITIGROUP GBL MKTS/SALOMON, NEW YORK	51,982	0.0005	26
CLEARVIEW CORRESPONDENT SRVS,LLC,RICHMON	191,675	0.0013	248
COMPASS POINT RESEARCH & TR, JERSEY CITY	109,054	0.0073	796
COWEN AND COMPANY LLC, NEW YORK	169,576	0.0033	558
CRAIG HALLUM, MINNEAPOLIS	146,934	0.0040	586
CREDIT AGRICOLE CHEUVREUX NORDC,STOCKHOL	10,189	0.0003	3
CREDIT AGRICOLE CHEUVREUX, COURBEVOIE	69,884	0.0003	24
CREDIT SUISSE (EUROPE), LONDON	2,944,902	0.0003	830
CREDIT SUISSE AUSTRALIA EQ, MELBOURNE	481,147	0.0004	198
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	604,899	0.0005	302
DEUTSCHE BK SECS INC, NY (NWSCUS33)	2,592,130	0.0003	794
DOUGHERTY COMPANY, BROOKLYN	141,912	0.0008	120
EXECUTION LTD, LONDON	81,766	0.0003	28
FIG PARTNERS LLC, ATLANTA	267,945	0.0027	731
FIRST ANALYSIS SECS CORP, CHICAGO	214,763	0.0012	247
FRIEDMAN BILLINGS, WASHINGTON DC	55,038	0.0019	103
GOLDMAN SACHS & CO, NY	240,545	0.0018	424
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	114,561	0.0003	40
GUGGENHEIM CAPITAL MKT LLC, JERSEY CITY	45,155	0.0020	91
HOWARD WEIL INCORPORATED, NEW ORLEANS	169,018	0.0016	269
INSTINET EUROPE LIMITED, LONDON	245,684	0.0005	123
INSTINET PACIFIC LTD, HONG KONG	15,868	0.0005	8
INVESTMENT TECHNOLOGY GROUP LTD,DUBLIN	1,069,584	0.0004	387
INVESTMENT TECHNOLOGY GROUP, NEW YORK	2,048,903	0.0004	783
ITG AUSTRALIA LTD, MELBOURNE	145,633	0.0005	73
ITG CANADA CORP, TORONTO	133,238	0.0005	61
ITG HONG KONG LIMITED, HONG KONG	98,449	0.0005	49
J P MORGAN SEC, SYDNEY	28,701	0.0005	14
J P MORGAN SECURITIES INC, BROOKLYN	2,362,540	0.0003	823
JEFFERIES & CO INC, NEW YORK	268,336	0.0019	508
JMP SECURITIES, SAN FRANCISCO	74,936	0.0024	181
JOHNSON RICE & CO, NEW ORLEANS	192,887	0.0011	213
JONESTRADING INSTL SVCS LLC, WESTLAKE	5,492,890	0.0024	13,317
JP MORGAN SECS ASIA PACIFIC, HONG KONG	22,872	0.0005	11
KEEFE BRUYETTE AND WOODS, JERSEY CITY	367,438	0.0022	812
KNIGHT CLEARING SERVICES LLC, JERSEY CIT	704	0.0028	2
KNIGHT DIRECT LLC, JERSEY CITY	37,515	0.0042	157
KNIGHT EQUITY MARKETS L.P.,JERSEY CITY	4,166,971	0.0015	6,307
LAZARD CAPITAL MARKETS LLC, NEW YORK	122,934	0.0021	259
LEHMAN BROTHERS INC, JERSEY CITY	14,286	0.0003	5
LEK SECURITIES CORP, NEW YORK	79,202	0.0026	203
LIQUIDNET INC, BROOKLYN	1,492,922	0.0008	1,129

SCHEDULE OF COMMISSIONS PAID TO BROKERS
YEAR ENDED JUNE 30, 2012

BROKER	NUMBER OF SHARES TRADED	AVERAGE COMMISSION	TOTAL COMMISSIONS
MACQUARIE EQUITIES LTD, SYDNEY	20,452	0.0005	10
MACQUARIE SECURITIES LIMITED, HONG KONG	13,998	0.0005	7
MACQUARIE SECURITIES(USA)INC JERSEY CITY	78,817	0.0016	130
MERRILL LYNCH INTL LONDON EQUITIES	210,110	0.0003	73
MERRILL LYNCH PIERCE FENNER SMITH INC NY	1,084,249	0.0004	440
MERRILL LYNCH PIERCE FENNER, WILMINGTON	154,128	0.0004	69
MITSUBISHI UFJ SECS INTL PLC, LONDON	813,533	0.0004	325
MKM PARTNERS LLC, GREENWICH	45,006	0.0024	109
MORGAN STANLEY & CO INC, NY	195,445	0.0006	112
NATIONAL FINL SVCS CORP, NEW YORK	28,791	0.0015	43
NEEDHAM & CO, NEW YORK	128,496	0.0012	156
NOMURA SECS INTL, LONDON	163,446	0.0003	53
OPPENHEIMER & CO INC, NEW YORK	459,055	0.0023	1,062
PICKERING ENERGY PARTNERS, HOUSTON	195,016	0.0011	208
PIPER JAFFRAY & CO, MINNEAPOLIS	44,472	0.0027	120
PULSE TRADING LLC, BOSTON	5,055,710	0.0018	8,848
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	75,114	0.0028	208
RBC CAPITAL MARKETS LLC, NEW YORK	119,652,016	0.0001	11,755
RBC DOMINION SECS INC, TORONTO (DOMA)	74,527	0.0003	22
SANDLER O'NEILL & PARTNERS, NEW YORK	396,120	0.0020	806
SCARSDALE EQUITIES LLC, JERSEY CITY	128,673	0.0024	306
SIDOTI & CO LLC, NEW YORK	310,074	0.0016	503
STATE STREET BK & TR CO (SEC), LONDON	58,362	0.0006	33
STATE STREET BROKERAGE SVCS, BOSTON	5,282	0.0017	9
STEPHENS INC, LITTLE ROCK	313,545	0.0015	475
STERNE AGEE & LEACH INC	162,158	0.0018	299
STIFEL NICOLAUS	13,412,158	0.0002	2,949
SUNTRUST CAPITAL MARKETS INC, ATLANTA	123,525	0.0013	166
THINKEQUITY PARTNERS LLC, MINNEAPOLIS	98,061	0.0019	185
UBS EQUITIES, LONDON	224,416	0.0005	107
UBS FINANCIAL SERVICES INC, WEEHAWKEN	3,849,321	0.0002	872
UBS SECURITIES LLC, STAMFORD	35,768	0.0034	120
UBS WARBURG ASIA LTD, HONG KONG	11,355	0.0004	4
UBS WARBURG AUSTRALIA EQUITIES, SYDNEY	29,239	0.0005	15
WEDBUSH MORGAN SECS INC, LOS ANGELES	105,373	0.0026	272
WEDGE SECURITIES LLC, JERSEY CITY	6,960	0.0033	23
WEEDEN & CO, NEW YORK	497,119	0.0018	900
WILLIAM BLAIR & CO, CHICAGO	45,288	0.0018	82
WUNDERLICH SECURITIES INC, MEMPHIS	250,189	0.0016	397
TOTAL COMMISSIONS	**182,852,175**	**0.0004**	**69,092**

U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2012

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
3,958,092	RUSSELL 3000 SECURITIES	112,688,537	146,533,137	33,844,600
660	RUSSELL 1000 MINI FUTURES	0	1,751,503	1,751,503
53	RUSSELL 2000 MINI IND FUTURES	0	178,600	178,600
30,117,781	CRESTLINE ALPHA	29,075,244	30,117,781	1,042,537
358,691	FRONTPOINT ALPHA	517,760	358,691	(159,069)
19,609,802	GAM TRADING STRATEGY	19,383,496	19,609,802	226,306
120,498	VANGUARD TOTAL STOCK MARKET ET	8,227,301	8,398,676	171,375
11,741,567	KKR EQ STRATEGIES	11,630,098	11,741,567	111,469
471,615	RANGER SMALL CAP	13,600,265	13,518,822	(81,443)
1,351,551	THB MICRO CAP	10,054,912	10,517,177	462,265
262,720	THB SMALL CAP VAL	3,767,893	4,045,061	277,168
67,993,030	**TOTAL US EQUITY PORTFOLIO**	**208,945,506**	**246,770,817**	**37,825,311**

NON-U.S. EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2012

SHARES	DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
12,643,191	MCSI WORLD EX-US INDEX	117,106,738	114,194,223	(2,912,515)
104,962	ISHARES MSCI CANADA INDEX FUND	2,891,469	2,712,209	(179,260)
83,137	ISHARES MSCI EMERGING MARKETS	2,194,968	3,253,558	1,058,590
263,460	ISHARES MSCI EAFE INDEX FUND	13,355,838	13,162,485	(193,353)
8,994	VANGUARD MSCI EUROPEAN ETF	382,621	385,211	2,590
863,417	VANGUARD MSCI EMERGING MARKETS	33,062,242	34,476,260	1,414,018
59,308	VANGUARD MSCI PACIFIC ETF	3,010,771	2,972,520	(38,251)
1,311,945	BGI FRONTIER MARKETS FUND	5,815,431	6,825,314	1,009,883
65,904	WISDOMTREE EMERGING MARKETS SM	3,093,890	2,855,615	(238,275)
15,404,318	**TOTAL NON-US EQUITY PORTFOLIO**	**180,913,968**	**180,837,395**	**(76,573)**

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2012

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
U.S. GOVERNMENT SECURITIES					
350,756	FHLMC POOL #H1-0069	6.00%	11/01/2036	351,109	383,190
317,898	FHLMC POOL #H1-5010	6.00%	11/01/2036	318,215	347,295
1,257,170	FHLMC MULTICLASS MTG 4012 MW	3.50%	03/15/2042	1,263,422	1,267,982
1,938,350	FHLMC MULTICLASS MTG 3740 KD	4.00%	11/15/2038	1,895,149	2,104,931
2,132,185	FNMA GTD REMIC P/T 11-8 AV	4.00%	01/25/2030	2,084,908	2,324,337
1,938,350	FHLMC MULTICLASS MTG 3561 B	4.00%	08/15/2029	1,916,019	2,121,795
7,934,709	**TOTAL US GOVERNMENT SECURITIES**			**7,828,822**	**8,549,530**

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
CORPORATE BONDS					
445,831	ACA ABS LTD 144A	2.02%	06/10/2041	113,584	4
581,505	ASSOCIATES CORP OF NORTH AMERI	6.95%	11/01/2018	551,893	655,653
969,175	AUSTRALIA & NEW ZEALAND B 144A	4.88%	01/12/2021	999,093	1,062,380
36,847	AUTO BD RECEIVABLES TR 94-A	6.40%	04/15/2009	36,847	0
387,670	AXA SA	8.60%	12/15/2030	375,156	414,663
2,519,854	BANK OF AMERICA NA	0.77%	06/15/2017	2,237,487	2,143,917
387,670	BANK ONE CORP	8.00%	04/29/2027	380,633	493,209
3,259,510	BGI CORE ACTIVE BOND FUND	0.00%		59,407,950	75,655,363
900,860	CAPITAL GUARDIAN EMERGING	0.00%		11,630,098	12,314,751
2,400,704	CBO HLDGS III 04-3 CL A 144A	1.00%	06/01/2019	2,390,999	2,390,999
2,029,829	CBO HLDGS III 1A 04-1 C-2 144A	7.00%	02/10/2038	2,114,190	2,114,190
969,175	CITIGROUP INC	8.50%	05/22/2019	1,148,409	1,196,960
165,923	CONAGRA FOODS INC	9.75%	03/01/2021	187,614	226,494
290,752	CON-WAY INC	6.70%	05/01/2034	248,502	288,839
969,175	DEUTSCHE BK CAYMAN 2001-3 144A	1.45%	04/30/2031	301,167	165,273
14,367,677	FRANKLIN TEMPLETON EMD	0.00%		13,568,447	14,367,678
581,505	GENERAL ELECTRIC CAPITAL CORP	0.74%	08/07/2018	525,869	536,380
969,175	GILEAD SCIENCES INC	4.50%	04/01/2021	985,249	1,077,015
9,929,122	GOLDENTREE HIGH YIELD VALUE	0.00%		9,691,748	9,929,123
678,422	GOLDMAN SACHS GROUP INC/THE	6.75%	10/01/2037	711,446	664,888
4,663	GRACIE INTERNATIONAL CREDIT			9,691,748	9,303,802
1,905,398	HSBC FINANCE CORP	0.90%	06/01/2016	1,797,095	1,746,316
8,203,911	IGUAZU PARTNERS LP			7,753,398	8,203,912
66,554	J P MORGAN RESI 02-R2 CL 3A1	6.00%	04/28/2026	67,261	68,104
969,175	MACQUARIE GROUP LTD 144A	6.00%	01/14/2020	964,770	964,164

FIXED INCOME PORTFOLIO
YEAR ENDED JUNE 30, 2012

PAR VALUE	DESCRIPTION	COUPON RATE	MATURITY	COST	FAIR VALUE
CORPORATE BONDS					
1,938,350	MORGAN STANLEY	5.95%	12/28/2017	1,865,464	1,990,995
39,501	MORGAN STANLEY ABS CAPI NC1 M2	2.57%	12/27/2033	34,571	29,909
31,576	MORGAN STANLEY ABS CAPI NC2 M2	2.05%	12/25/2033	26,568	20,868
387,670	NATIONAL RURAL UTILITIES COOPE	8.00%	03/01/2032	432,275	569,526
387,670	NEXEN INC	6.40%	05/15/2037	353,045	410,806
775,340	NORTH STREET REFERENCED LINKED	4.20%	04/30/2031	699,144	699,144
387,670	NRG ENERGY INC	8.25%	09/01/2020	390,444	401,238
940,100	PACIFIC BELL TELEPHONE CO	7.38%	07/15/2043	952,719	1,004,261
678,422	PROTECTIVE LIFE CORP	8.45%	10/15/2039	779,319	816,651
2,907,524	SECURITY MUT LIFE INS CO 144A	9.38%	12/15/2016	2,996,158	2,996,158
5,224,034	SJC DIRECT LENDING	0.00%		5,226,144	5,224,034
1,938,350	TRAINER WORTHAM FIRST A3L 144A	2.21%	04/10/2037	1,386,215	1,386,215
387,670	UNITED UTILITIES PLC	4.55%	06/19/2018	361,457	402,580
387,670	UNITEDHEALTH GROUP INC	6.50%	06/15/2037	429,397	513,981
969,175	VERIZON MARYLAND INC	7.15%	05/01/2023	965,724	1,008,698
1,550,680	WACHOVIA CORP	0.74%	06/15/2017	1,453,878	1,496,065
72,921,484	**TOTAL US CORPORATE BONDS**			**146,233,175**	**164,955,206**
80,856,193	**TOTAL FIXED INCOME PORTFOLIO**			**154,061,997**	**173,504,736**

CREDIT OPPORTUNITIES PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
BLACKROCK MORTGAGE INVESTORS	2,233,310	6,334,067	4,100,757
CASTLE CREEK AZ TARP	744,489	744,489	0
CENTERBRIDGE	7,258,999	10,596,020	3,337,021
CENTERBRIDGE SC II	775,340	775,340	0
COMMERCE STREET INCOME PARTNER	6,580,995	8,293,479	1,712,484
EJF DEBT OPPORTUNITIES FUND	7,753,398	8,142,876	389,478
GS CREDIT OPPS FUND 2008	121,415	310,528	189,113
ISHARES IBOXX $ HIGH YIELD COR	1,421,201	1,481,760	60,559
OHA STRATEGIC CREDIT	5,374,873	6,736,774	1,361,901
PAC ALLI ASIA SPEC FEEDER LP	1,816,468	1,805,054	(11,414)
PACIFIC ALLIANCE ASIA	7,753,398	8,079,967	326,569
PSPRS PNMAC MORTGOPP	25,198,545	23,768,183	(1,430,362)
PSPRS-APOLLO EUR NPL	10,422,651	13,312,747	2,890,096
STARK ABS OPPORTUNITIES MASTER	1,289,116	1,565,219	276,103
STARK MORTGAGE OPPORTUNITIES	7,753,398	7,798,802	45,404
TENNENBAUM DIP	307,689	197,635	(110,054)
TPG OPPORTUNITIES FUND II LP	3,542,233	3,581,876	39,643
WEST FACE LONG TERM OPP	7,753,399	6,983,093	(770,306)
TOTAL CREDIT OPPORTUNITIES PORTFOLIO	**98,100,917**	**110,507,909**	**12,406,992**

PRIVATE EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ABRY PARTNERS	2,597,669	3,373,421	775,752
APOLLO INVESTMENT FUND VII	7,953,676	11,674,253	3,720,577
AVALON VENTURES IX	1,628,214	1,637,411	9,197
BARING ASIA PRIVATE EQUITY V	1,492,574	1,511,586	19,012
BERKSHIRE FUND VIII LP	192,990	208,715	15,725
BLACKSTONE CAPITAL PARTNERS V	4,296,890	5,069,865	772,975
CASTLE CREEK	6,224,328	8,183,931	1,959,603
CENTERBRIDGE CAPITAL PARTNERS	4,664,940	4,636,422	(28,518)
CHARLESBANK EQUITY FUND VII	2,660,139	3,012,680	352,541
CORTEC GROUP FUND V LP	747,101	765,665	18,564
DAG VENTURES II CO-INVEST	3,402,224	1,034,474	(2,367,750)
DAG VENTURES II DIRECT	1,024,043	865,140	(158,903)
DAG VENTURES III CO-INVEST	2,327,337	2,107,866	(219,471)
DAG VENTURES III DIRECT	2,502,486	2,498,017	(4,469)
DAG VENTURES IV CO-INVEST LP	4,191,904	5,639,211	1,447,307
DAG VENTURES IV LP	4,455,718	5,272,014	816,296
DAG VENTURES V CO-INVEST	775,340	775,340	0
DAG VENTURES V, LP	591,197	558,311	(32,886)
DFJ MERCURY II	2,156,334	2,345,253	188,919
DRUG RYLTY II CO=INV	637,067	720,994	83,927
DRUG RYLTY II DIRECT	1,419,274	1,540,945	121,671
EQT VI LP	492,627	439,800	(52,827)
INSIGHT EQUITY II	4,761,886	5,153,298	391,412
INSIGHT EQUITY MEZZANINE I	125,700	133,497	7,797
JMI EQUITY FUND VII LP	2,033,412	2,038,547	5,135
LADDER	4,399,194	5,289,909	890,715
LITTLEJOHN FUND IV	3,708,704	4,412,902	704,198
LITTLEJOHN IV CO-INVEST LP	719,114	1,169,088	449,974
LONGWORTH VP III	1,131,996	1,296,713	164,717
MESIROW CAPITAL PARTNERS IX	3,083,134	2,624,241	(458,893)

PRIVATE EQUITY PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
MIDOCEAN PARTNER III CO-INVEST	1,265,651	1,371,964	106,313
MIDOCEAN PARTNER III DIRECT	4,872,586	4,778,356	(94,230)
MILLENNIUM TECHNOLOGY	1,531,296	1,454,192	(77,104)
OAKTREE EURO PRINCIPAL III	3,482,910	3,517,850	34,940
PATRIA - BRAZILIAN PRIVATE	256,851	265,428	8,577
PENINSULA EQUITY PARTNERS	826,927	863,147	36,220
PROSPECTOR EQUITY CAPITAL	634,597	422,948	(211,649)
STEPSTONE AZ SECONDARY	10,046,340	14,545,386	4,499,046
STERLING GROUP PARTNERS III	1,800,588	2,160,061	359,473
TOWERBROOK INVESTORS III	3,831,479	5,352,796	1,521,317
TRIDENT V CO-INVEST	553,765	553,765	0
TRIDENT V LP	2,506,912	2,595,942	89,030
TRUSTBRIDGE PARTNERS IV LP	2,344,455	2,260,537	(83,918)
VALLEY VENTURES III	1,539,070	593,668	(945,402)
VALLEY VENTURES III ANNEX	499,887	143,001	(356,886)
VISTA EQUITY PARTNERS FUND IV	2,973,902	2,977,933	4,031
VIVO VENTURES VII LP	1,013,826	986,775	(27,051)
TOTAL PRIVATE EQUITY PORTFOLIO	**116,378,254**	**130,833,258**	**14,455,004**

REAL ASSETS PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALTERNA I	5,168,892	5,973,257	804,365
CONSERVATION FORESTRY FUND I	3,103,690	2,844,753	(258,937)
CONSERVATN FOREST II	4,766,894	4,978,762	211,868
DENHAM COMMODITY PARTNERS VI	307,509	307,509	0
EIF US POWER FUND IV	1,629,150	1,247,170	(381,980)
FUNDAMENTAL PARTNERS II	4,103,768	4,017,622	(86,146)
GEOSPHERE	3,876,699	4,099,365	222,666
HELIOS SUNBEAM OPPORTUNITIES	4,845,875	4,507,042	(338,833)
JP MORGAN AIRRO FUND	2,836,922	2,913,308	76,386
JP MORGAN AIRRO SIDECAR LP	4,338,975	4,099,175	(239,800)
LD COMMODITIES ALPHA FD LTD	4,845,874	4,915,278	69,404
MACQUARIE EUR INFRASTRUCT III	4,016,114	4,930,922	914,808
MACQUARIE INFRASTRUCTURE II US	3,972,639	5,035,794	1,063,155
ORG SECONDARY - REAL ASSETS	5,046,252	6,979,272	1,933,020
TAYLOR WOODS PARTNERS LP	4,845,874	4,504,434	(341,440)
TRUST IN ENERGY RECAP FUND	813,666	793,833	(19,833)
TVEST CROSSOVER III	2,277,561	3,718,657	1,441,096
US 10 YR TREAS NTS FUTURE(CBT)	0	8,768	8,768
US 5YR TREAS NTS FUT (CBT)	0	(1,611)	(1,611)
US TREAS BD FUTURE (CBT)	0	1,484	1,484
US TREAS-CPI	907,015	901,169	(5,846)
US TREAS-CPI INFLATION INDEX	8,252,904	8,567,939	315,035
US ULTRA BOND (CBT)	0	(5,739)	(5,739)
VIRIDIAN FUND LTD	4,652,039	4,596,119	(55,920)
TOTAL REAL ASSETS PORTFOLIO	**74,608,312**	**79,934,282**	**5,325,970**

ABSOLUTE RETURN PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
DAVIDSON KEMPNER INSTITUTIONAL	9,691,748	10,131,444	439,696
GSAM HF SEED 2011	5,344,051	5,371,296	27,245
LSV SPECIAL OPPORTUNITIES FUND	4,954,920	6,549,724	1,594,804
LUXOR CAPITAL PARTNERS	7,753,398	7,723,689	(29,709)
OZ DOMESTIC PARTNERS II LP	13,568,447	14,840,168	1,271,721
TOTAL ABSOLUTE RETURN PORTFOLIO	**41,312,564**	**44,616,321**	**3,303,757**

REAL ESTATE PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
ALCION II	1,102,827	906,989	(195,838)
APEX FUND I	11,461,315	4,366,326	(7,094,989)
APEX FUND II	1,971,931	1,633,059	(338,872)
AREA VEF DIR	9,383,772	9,321,238	(62,534)
BREP VI	10,551,009	13,998,665	3,447,656
CATALYST EURO	9,384,853	6,489,377	(2,895,476)
CLSA FUDO CAP II	2,829,621	3,297,234	467,613
COLGATE WILLOW SPRINGS	821,103	821,103	0
DESERT TROON	69,890,420	51,722,375	(18,168,045)
GREENFIELD VI	1,936,900	1,839,261	(97,639)
H2 CREDIT PARTNERS	7,753,398	8,870,831	1,117,433
HARRISON ST RE	12,407,355	11,598,853	(808,502)
HARRISON ST RE COINV	1,453,762	1,698,095	244,333
IRON POINT RE	12,201,918	12,416,933	215,015
LUBERT ADLER FD VI B	2,699,200	2,775,983	76,783
MOUNT GRANGE	5,175,978	5,797,684	621,706
ORG SECONDARY RE	6,030,737	7,182,225	1,151,488
OWH BERKANA DEV	955,449	514,989	(440,460)
OWH BERKANA HLD	1,952,309	3,359,073	1,406,764
PEBBLECREEK	7,375,420	2,403,553	(4,971,867)
PIVOTAL EQUITY	484,587	533,500	48,913
WALTON FUND V	10,422	7,112	(3,310)
WALTON MEXICO	6,919,908	5,609,130	(1,310,778)
WHISP CANYON OWC	5,711,895	6,079,285	367,390
TOTAL REAL ESTATE PORTFOLIO	**190,466,089**	**163,242,873**	**(27,223,216)**

GTAA SECURITIES PORTFOLIO
YEAR ENDED JUNE 30, 2012

DESCRIPTION	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
BLACKROCK GLOBAL ASCENT L	26,058,567	24,987,630	(1,070,937)
BRIDGEWATER PURE ALPHA	30,271,144	46,159,300	15,888,156
BLUE TREND FUND	19,383,496	20,961,326	1,577,830
ALL WEATHER PORTFOLIO	7,817,760	8,863,648	1,045,888
D. E. SHAW MULTI-ASSET FUND	19,383,496	20,169,609	786,113
TOTAL GTAA PORTFOLIO	**102,914,463**	**121,141,513**	**18,227,050**

ACTUARIAL SECTION

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One Towne Square
Suite 800
Southfield, MI 48076-3723
248.799.9000 phone
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www.gabrielroeder.com

October 19, 2012

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

Re: Arizona Corrections Officer Retirement Plan

Attention: James Hacking, Administrator

The purpose of the annual actuarial valuation of the Arizona Corrections Officer Retirement Plan as of June 30, 2012 is to:

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and non-retired members.
- Compare assets with accrued liabilities to assess the funded condition.
- Compute the recommended employers' contribution for the Fiscal Year beginning July 1, 2013.

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

The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2012.

The valuation was based upon information furnished by the plan's administrative staff concerning Retirement System benefits, financial transactions, and active members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided. The actuary summarizes and tabulates population data in order to analyze longer-term trends. The following schedules were prepared by the actuary and provided to the administrative staff to be included in the "Actuarial Section" of the June 30, 2012 CAFR:

- Aggregate Actuarial Balance Sheet as of June 30, 2012
- Summary of Valuation Assumptions
- Solvency Test
- Summary of Active Member Data
- Summary of Retirees and Inactive Members
- Schedule of Experience Gain/(Loss) for year ended June 30, 2012

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The Board of Trustees
October 19, 2012
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GRS did not prepare any of the schedules included in the "Financial Section" of the June 30, 2012 CAFR. However, we did provide certain pieces of information that were used in that section, such as the Actuarial Accrued Liability and the Actuarial Value of Assets.

Assets are valued on a market related basis. This method recognizes the assumed return fully each year and spreads each year's gain or loss above or below assumed return over a closed seven-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board of Trustees adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2012 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 2006-2011 period. Future actuarial measurements may differ significantly from those presented in the valuations due to such factors as experience differing from that anticipated by the actuarial assumptions, changes in plan provisions, changes in actuarial assumptions or methods, or changes in applicable law. Please note the liabilities for the post retirement health insurance subsidy were calculated based on the same assumptions and actuarial cost methods as indicated for GASB Statement No. 25. It is our understanding that currently assets are not segregated to fund these liabilities. As a result, according to GASB Statement No. 45, these benefits may not be considered to be pre-funded. In that case the 8.00% interest rate assumption may not be appropriate. This issue should be discussed with the auditors and with legal counsel.

The continuing effect of prior asset losses was dampened by the 7-year smoothing period, and further offset by the effect of lower than assumed pay increases. There remains $226 million of unrecognized investment losses that will in the absence of other gains, drive the contribution rate up over the next several years.

The June 30, 2012 actuarial valuation reflected the following changes:

- Assumption and method changes:
    - Investment return was decreased from 8.25% to 8.00%
    - Demographic assumption changes and method changes recommended in the July 1, 2006 through June 30, 2011 Analysis of Actuarial Assumptions and adopted by the Board.

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The actuaries submitting this statement are Members of the American Academy of Actuaries (M.A.A.A.), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

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

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

BBM/MB:lr

AGGREGATE ACTUARIAL BALANCE SHEET
YEAR ENDED JUNE 30, 2012

ACTUARIAL ASSETS	**2012**
ACCRUED ASSETS	
Member Accumulated Contributions	$ 373,726,407
Employer and Benefit Payment Reserves	913,252,540
Funding Value Adjustment	226,010,474
Total Accrued Assets	**1,512,989,421**
PROSPECTIVE ASSETS	
Member Contributions	359,951,722
Employer Normal Costs	314,426,197
Employer Unfunded Actuarial Accrued Liability	718,554,839
Total Prospective Assets	**1,392,932,758**
Total Actuarial Assets	**$ 2,905,922,179**

ACTUARIAL PRESENT VALUES (LIABILITY)	
PENSIONS IN PAYMENT STATUS	
Pensions in payment status	$ 918,771,303
PROSPECTIVE PAYMENTS	
Retirement Payments	1,822,502,276
Health Insurance Payments	74,572,650
Member Contribution Refunds	90,075,950
Pension Increase Reserve	-
Total Prospective Payments	**1,987,150,876**
Total Actuarial Present Values (Liabilities)	**$ 2,905,922,179**

SUMMARY OF VALUATION ASSUMPTIONS

ECONOMIC ASSUMPTIONS
Interest Rate: 8.00% (net of expenses)
Salary Increases: 5.00% for inflation

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

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

MORTALITY RATES AND LIFE EXPECTANCY
HEALTHY MORTALITY

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

MORTALITY RATES AND LIFE EXPECTANCY
DISABLED MORTALITY

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

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

MORTALITY RATES
ACTIVE MEMBERS

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

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

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

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

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

PAY INCREASE TIMING
Six months after the valuation date.

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

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

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

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

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

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

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

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

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

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

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

SOLVENCY TEST

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

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

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

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

	AGGREGATE ACCRUED LIABILITIES				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)
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%
2011	353,892	823,664	831,013	1,466,750	100.0%	100.0%	34.8%
2012	373,726	918,771	939,047	1,512,989	100.0%	100.0%	23.5%

See Schedule of Funding Progress in the Required Supplementary Information.

SUMMARY OF ACTIVE MEMBER DATA

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 14,991 active members in the Plan as of June 30, 2012, compared to 14,565 for the prior year.

ATTAINED AGE	YEARS OF SERVICE TO VALUATION DATE 0-4	5-9	10-14	15-19	20-24	25-29	30+	TOTALS NO.	AVG. SALARY
< 25	1,103	18						1,121	$ 33,353
25-29	1,690	567	2					2,259	36,038
30-34	1,033	998	199	2				2,232	39,283
35-39	704	786	588	123				2,201	42,405
40-44	629	585	515	413	47			2,189	44,435
45-49	410	410	338	313	199	14	1	1,685	45,451
50-54	300	337	292	255	134	67	7	1,392	45,517
55-59	201	255	236	172	98	46	13	1,021	46,004
60-69	102	166	143	126	54	42	12	645	47,651
70+	32	79	67	37	22	6	3	246	46,715
Total	**6,204**	**4,201**	**2,380**	**1,441**	**554**	**175**	**36**	**14,991**	**$ 41,773**

COMPARATIVE SCHEDULE

YEAR ENDED JUNE 30,	ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVERAGE SALARY	INCREASE IN AVG. PAY
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%
2011	14,565	609,243	40.1	7.7	41,829	-2.8%
2012	14,991	626,223	39.8	7.7	41,773	-0.1%

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
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
2011	48	396	3,256	880,983	12,749,577	81,637,650	17.0%	25,073
2012	64	284	3,476	1,078,072	7,358,770	87,918,348	7.7%	25,293

**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, 2012, there were 1,101 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	276	18				294
30-39	255	65	14	1		335
40-44	88	19	18	4		129
45-49	58	14	17	7	1	97
50-54	42	15	18	5	2	82
55-59	33	18	30	8		89
60-69	20	13	27	11	1	72
70 +	2	1				3
Total	**774**	**163**	**124**	**36**	**4**	**1,101**

SCHEDULE OF EXPERIENCE GAIN (LOSS)
YEAR ENDED JUNE 30, 2012

(1)	UAAL* at start of year	541,819,905
(2)	Normal cost from last valuation	92,994,125
(3)	Actual Contributions	111,911,164
(4)	Interest accrual	43,919,813
(5)	Expected UAAL before changes (1)+(2)-(3)+(4)	566,822,679
(6)	Change from benefit increases	-
(7)	Changes in actuarial methods & actuary	112,394,447
(8)	Change in Reserve for future pension increases	-
(9)	Expected UAAL after changes: (5) + (6) + (7) + (8)	679,217,126
(10)	Actual UAAL at end of year	718,554,839
(11)	**Experience Gain (Loss) (9)-(10)**	**(39,337,713)**

** Unfunded Actuarial Accrued Liability*

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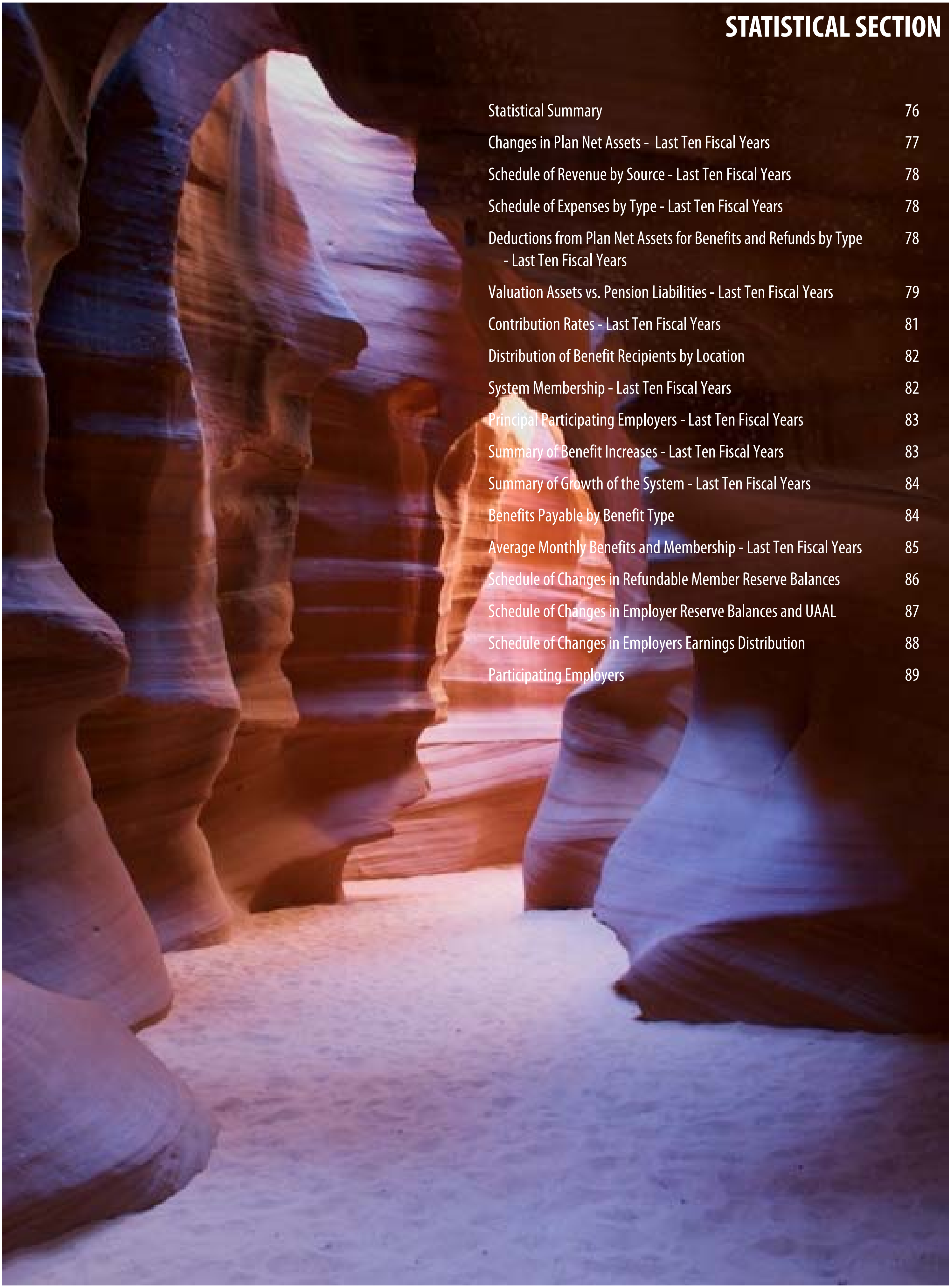


STATISTICAL SECTION

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)

	2012	2011	2010	2009	2008
ADDITIONS					
Member Contributions	$ 51,968	$ 50,891	$ 54,481	$ 53,098	$ 111,098
Employer Contributions	59,092	52,003	54,437	56,015	150,729
Net Investment Gain (Loss)	(10,340)	193,212	129,267	(216,314)	(68,040)
Member Service Purchase	851	777	733	429	871
Transfers IN	368	242	543	352	3,217
Total Additions (Reductions)	**101,939**	**297,125**	**239,461**	**(106,419)**	**197,875**
DEDUCTIONS					
Pension & Insurance Benefits	90,867	79,058	66,412	57,697	51,046
Refunds To Terminated Members	25,744	24,928	19,775	14,879	16,212
Administrative Expenses	1,183	1,185	915	1,065	1,103
Transfers OUT	964	945	586	512	864
Total Deductions	**118,758**	**106,116**	**87,688**	**74,153**	**69,225**
NET INCREASE (DECREASE)	**(16,819)**	**191,009**	**151,773**	**(180,572)**	**128,650**
NET ASSETS HELD IN TRUST					
Beginning of Fiscal Year, July 1	1,303,798	1,112,789	961,016	1,141,588	1,012,938
End of Fiscal Year, June 30	**$ 1,286,979**	**$ 1,303,798**	**$1,112,789**	**$961,016**	**$1,141,588**

	2007	2006	2005	2004	2003
ADDITIONS					
Member Contributions	$ 41,355	$ 37,134	$ 34,590	$ 31,338	$ 30,331
Employer Contributions	24,623	24,028	16,292	14,555	7,398
Net Investment Gain (Loss)	144,850	64,198	66,277	91,300	35,698
Member Service Purchase	930	994	719	0	0
Transfers IN	456	1,234	1,071	1,460	3,189
Total Additions (Reductions)	**212,214**	**127,588**	**118,948**	**138,653**	**76,616**
DEDUCTIONS					
Pension & Insurance Benefits	41,630	36,709	31,098	26,624	22,507
Refunds To Terminated Members	16,634	15,741	16,653	14,053	16,023
Administrative Expenses	732	674	922	541	427
Transfers OUT	2,063	1,555	637	1,139	1,049
Total Deductions	**61,060**	**54,679**	**49,310**	**42,357**	**40,006**
NET INCREASE (DECREASE)	**151,155**	**72,909**	**69,639**	**96,297**	**36,610**
NET ASSETS HELD IN TRUST					
Beginning of Fiscal Year, July 1	861,783	788,874	719,235	622,939	586,328
End of Fiscal Year, June 30	**$1,012,938**	**$861,783**	**$788,874**	**$719,235**	**$622,939**

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
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	7.49%	129,267,190	1,276,087	239,461,316
2011	50,891,168	52,002,731	8.57%	193,212,289	1,018,286	297,124,474
2012	51,967,894	59,092,404	9.50%	(10,340,020)	1,219,350	101,939,628

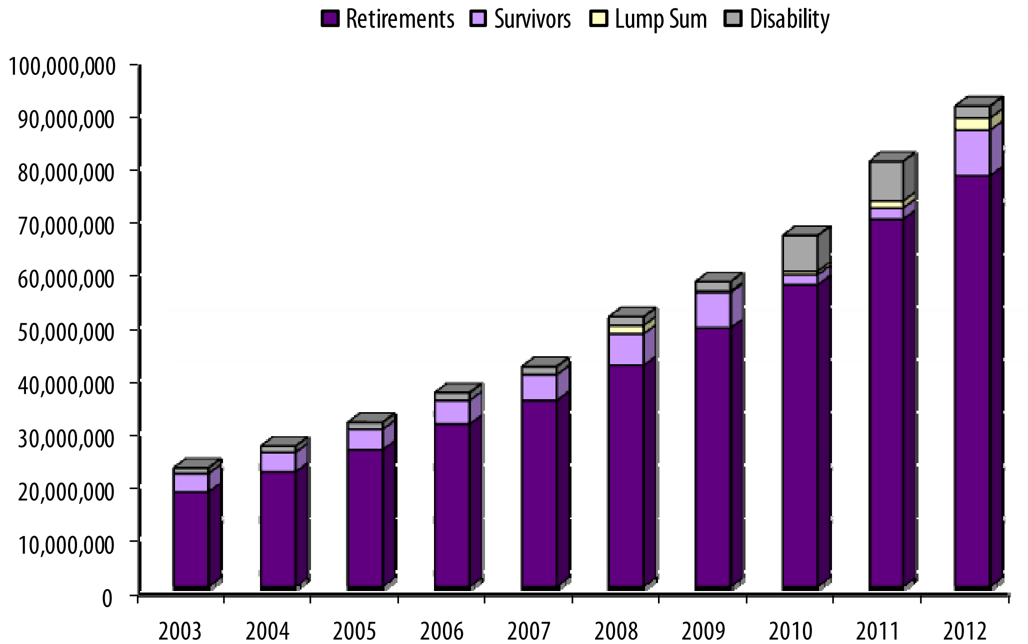
SCHEDULE OF EXPENSES BY TYPE (ALL PLANS COMBINED)
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	BENEFITS	ADMIN. EXPENSES	REFUNDS	TRANSFERRED TO OTHER PLANS	TOTAL
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
2011	79,058,399	1,184,756	24,927,660	945,170	106,115,985
2012	90,868,234	1,182,692	25,743,514	964,033	118,758,473

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

YEAR ENDING JUNE 30,	NORMAL BENEFITS	SURVIVOR BENEFITS	DISABILITY BENEFITS	TOTAL BENEFITS	DROP BENEFITS	REFUNDS	HEALTH INSURANCE SUBSIDY*
2003	15,678,608	3,469,345	1,045,433	20,193,386	-	16,022,697	2,313,406
2004	19,442,835	3,677,576	1,178,761	24,299,172	-	14,053,002	2,324,447
2005	23,519,992	3,871,675	1,305,434	28,697,101	-	16,652,638	2,400,849
2006	28,928,172	4,472,559	1,449,215	34,849,946	-	15,741,460	1,858,582
2007	33,341,839	4,860,093	1,514,939	39,716,871	-	16,634,320	1,913,186
2008	39,831,873	5,934,454	1,625,680	47,392,007	1,580,656	16,211,929	2,073,245
2009	46,752,709	6,685,021	1,805,702	55,243,432	245,457	14,879,342	2,207,889
2010	54,722,001	6,740,427	1,914,842	63,377,270	662,404	19,774,873	2,372,104
2011	65,448,261	7,467,220	2,105,741	75,021,222	1,338,048	24,927,660	2,699,129
2012	74,822,948	8,602,328	2,259,626	85,684,902	2,292,891	25,743,514	2,890,441

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

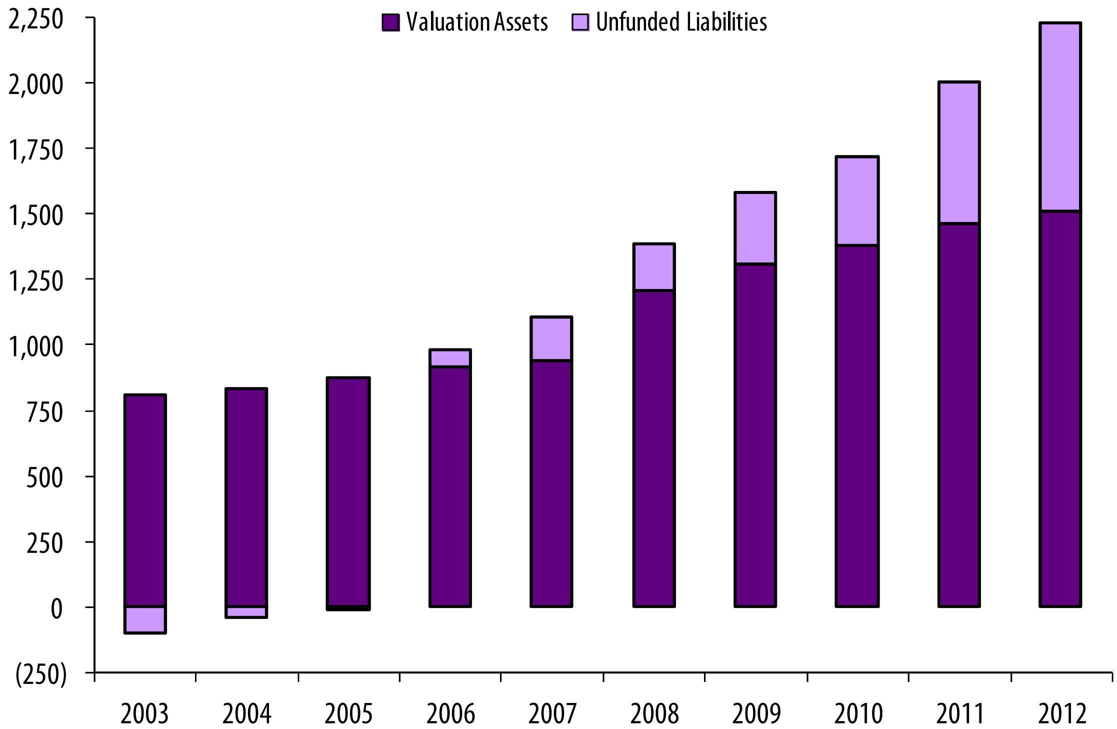


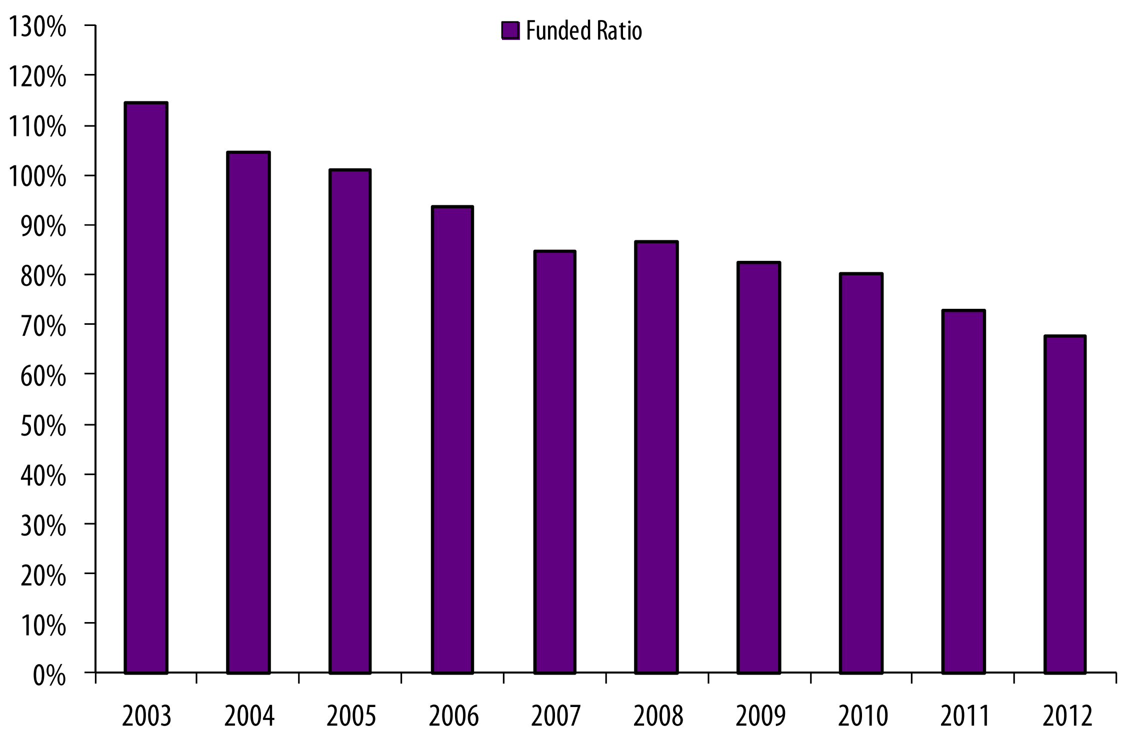
VALUATION ASSETS vs. PENSION LIABILITIES
INCLUDES HEALTH INSURANCE SUBSIDY
LAST TEN FISCAL YEARS
(IN THOUSANDS)

YEAR ENDING JUNE 30,	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO
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%
2011	1,466,750	541,820	2,008,569	73.0%
2012	1,512,989	718,555	2,231,544	67.8%

FINANCIAL TRENDS

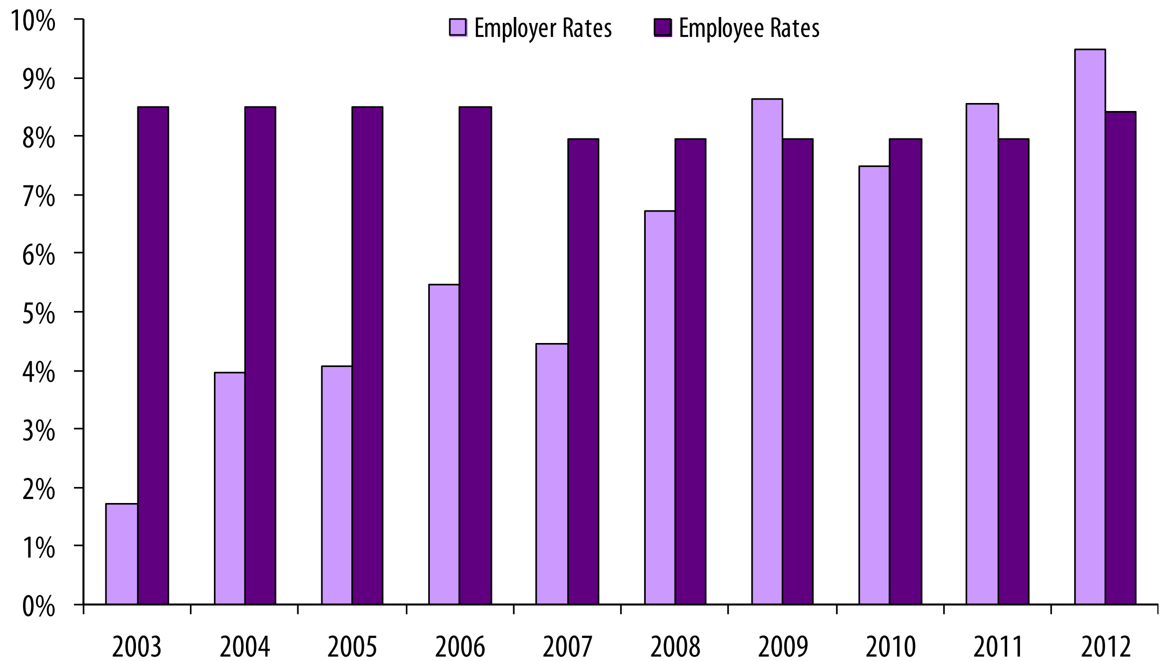
(IN THOUSANDS)





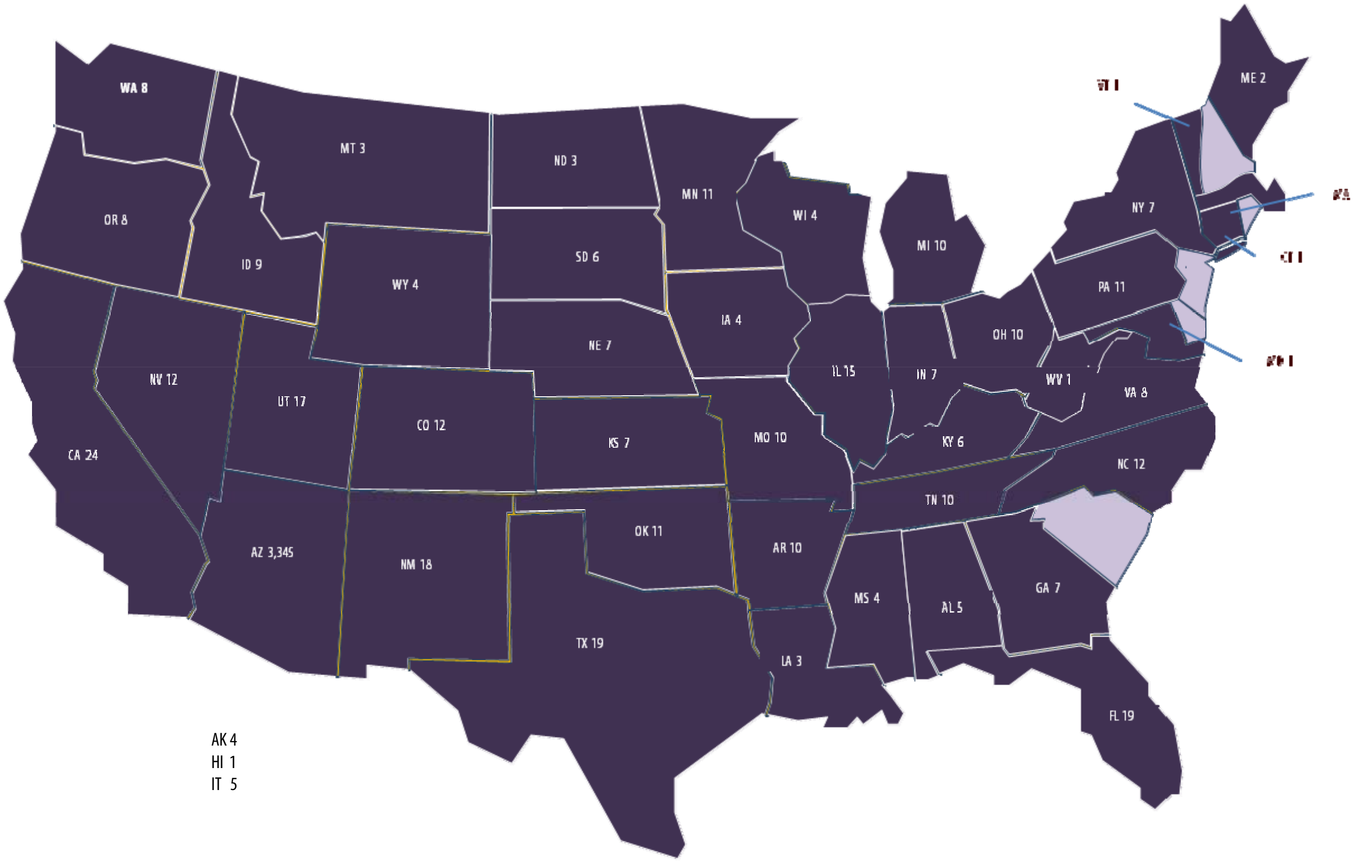
CONTRIBUTION RATES
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	AVERAGE EMPLOYER RATE	EMPLOYEE RATE
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	7.49%	7.96%
2011	8.57%	7.96%
2012	9.50%	8.41%



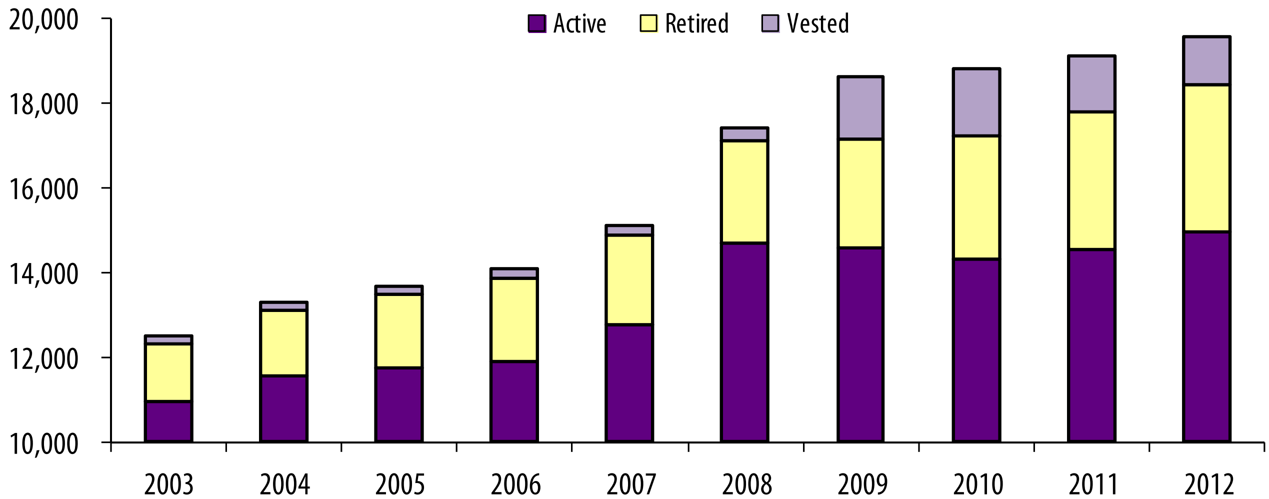
OPERATING INFORMATION

DISTRIBUTION OF BENEFIT RECIPIENTS BY LOCATION



MEMBERSHIP IN RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

YEAR ENDING JUNE 30,	ACTIVE	BENEFICIARY RETIRED	TERMINATED VESTED	TOTAL
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
2011	14,565	3,256	1,300	19,121
2012	14,991	3,476	1,101	19,568



PRINCIPAL PARTICIPATING EMPLOYERS
LAST TEN FISCAL YEARS

	2012			2003		
EMPLOYER	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**	**COVERED EMPLOYEES**	**RANK**	**% OF MEMBERSHIP**
STATE	8,766	1	59.07%	7,943	1	72.45%
MARICOPA COUNTY	2,009	2	13.54%	1,089	2	9.93%
PIMA COUNTY	504	3	3.40%	379	3	3.46%
PINAL COUNTY	268	4	1.81%	120	6	1.09%
YAVAPAI COUNTY	158	5	1.06%	130	5	1.19%
YUMA COUNTY	149	6	1.00%	136	4	1.24%
MOHAVE COUNTY	116	7	0.78%	73	8	0.67%
COCONINO COUNTY	92	8	0.62%	77	7	0.70%
GILA COUNTY	64	9	0.43%	NA	NA	NA
COCHISE COUNTY	60	10	0.40%	66	9	0.60%
ALL OTHERS	2,805		17.89%	951		8.67%
TOTAL	**14,991**		**100.00%**	**10,964**		**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**
2003	0.00%	-	(5,878,909)	30,709,183	4.00%
2004	5.77%	18,478,098	(7,810,709)	45,912,625	4.00%
2005	0.23%	810,817	(9,545,626)	41,415,092	4.00%
2006	0.00%	-	(11,506,060)	33,292,645	4.00%
2007	7.77%	35,123,022	(13,572,783)	60,426,061	4.00%
2008	0.00%	-	(15,533,554)	40,633,678	4.00%
2009	0.00%	-	(18,197,108)	15,124,946	4.00%
2010	4.47%	22,836,733	(21,264,230)	18,734,779	4.00%
2011	0.00%	-	(21,989,010)	-	4.00%
2012	-	-	-	-	-

OPERATING INFORMATION

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
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%	7.49%
2011	1,162,499,803	56,158,378	8.25%	6.43%	8.57%
2012	1,205,454,963	38,880,876	8.00%	4.27%	9.50%

BENEFITS PAYABLE JUNE 30, 2012
BY TYPE OF BENEFIT

PENSIONS BEING PAID	NO.	ANNUAL PENSIONS	AVERAGE PENSIONS
RETIRED MEMBERS			
Service Pensions	2,879	77,707,783	26,991
Disability Pensions	111	2,270,452	20,455
Total Retired Members	**2,990**	**79,978,235**	**26,749**
SURVIVORS OF MEMBERS			
Spouses	455	7,501,504	16,487
Children w/Guardians	31	438,609	14,149
Total Survivors of Members	**486**	**7,940,113**	**16,338**
TOTAL PENSIONS BEING PAID	**3,476**	**87,918,348**	**25,293**

	AVERAGE AGE	AVERAGE SERVICE	AVG. AGE AT RETIREMENT
Normal retired members	63.3	19.7	56.7
Disability retired members	55.4	9.7	45.6
Spouse beneficiaries	64.9	11.9	52.0

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
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
2011	Average monthly benefit	1,235	1,172	1,169	1,733	2,364	3,424	4,322	2,089
	Average final average salary								3,682
	Number of retirees	138	176	715	458	1,272	399	98	3,256
2012	Average monthly benefit	1,233	1,185	1,168	1,733	2,363	3,392	4,435	2,108
	Average final average salary								3,743
	Number of retirees	142	170	740	477	1,406	434	107	3,476

** 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, 2012

SYSTEM	2011 BALANCES	RESERVE TRANSFERS	CONTRIBUTIONS RECEIVED	WITHDRAWN MEMBERS	2012 BALANCES
ADMIN. OFFICE OF THE COURT	69,191,317	(5,048,459)	8,342,292	(1,382,411)	71,102,740
APACHE COUNTY - DETENTION	346,391	(53,633)	57,538	(50,936)	299,359
CITY OF AVONDALE - DETENTION	311,162	0	41,194	(61,322)	291,035
CITY OF SOMERTON - DISPATCHERS	109,630	(2,530)	13,598	(12,211)	108,487
COCHISE COUNTY - DETENTION	1,291,137	(111,815)	197,373	(134,302)	1,242,393
COCONINO COUNTY - DETENTION	1,739,220	(192,170)	276,962	(134,297)	1,689,715
DEPARTMENT OF CORRECTIONS - DETENTION	190,752,847	(9,427,530)	29,789,941	(10,311,205)	200,804,052
DEPARTMENT OF PUBLIC SAFETY	2,397,601	(173,468)	230,688	(47,665)	2,407,155
DEPT OF JUVENILE CORRECTIONS-DETENTION	13,648,820	(1,207,961)	1,662,996	(1,220,251)	12,883,604
GILA COUNTY - DETENTION	903,646	(65,487)	188,925	(30,351)	996,733
GILA COUNTY - DISPATCHERS	339,884	(94,182)	41,625	0	287,327
GRAHAM COUNTY - DETENTION	375,290	36,014	99,682	(20,927)	490,059
GRAHAM COUNTY - DISPATCHERS	188,157	(50,939)	29,854	(22,313)	144,759
MARICOPA COUNTY - DETENTION	49,890,477	(2,590,745)	7,239,111	(2,266,498)	52,272,346
MOHAVE COUNTY - DETENTION	1,213,669	(41,139)	334,343	(120,630)	1,386,242
NAVAJO COUNTY - DETENTION	761,900	(42,483)	156,113	(87,183)	788,347
PIMA COUNTY - DETENTION	11,796,722	(608,485)	1,761,057	(670,012)	12,279,282
PINAL COUNTY - DETENTION	5,985,427	(139,705)	1,108,465	(214,414)	6,739,773
PINAL COUNTY - DISPATCHERS	440,620	(9,979)	66,269	(28,321)	468,590
SANTA CRUZ COUNTY - DETENTION	366,802	838	108,650	(56,895)	419,395
TOWN OF MARANA - DISPATCHERS	267,413	(1,556)	42,243	0	308,101
ORO VALLEY - DISPATCHERS	345,318	(20,316)	38,401	(15,915)	347,488
TOWN OF WICKENBURG-DISPATCHERS	79,517	0	14,276	0	93,793
YAVAPAI COUNTY - DETENTION	3,163,988	(122,487)	493,724	(382,872)	3,152,352
YAVAPAI COUNTY - DISPATCHERS	128,432	0	25,479	(5,577)	148,334
YUMA COUNTY - DETENTION	2,421,435	(18,833)	457,959	(176,219)	2,684,342
TOTAL	**358,456,820**	**(19,987,050)**	**52,818,760**	**(17,452,728)**	**373,835,801**

SCHEDULE OF CHANGES IN EMPLOYER RESERVE BALANCES AND UNFUNDED ACTUARIAL ACCRUED LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2012

SYSTEM	2011 BALANCES	RESERVE TRANSFERS	CONTRIB RECEIVED	PENSION PAYMENTS	SUBSIDY PAYMENTS	DROP PAYMENT	ENHANCED REFUNDS	DIST. OF EARNINGS	2012 BALANCES	UNFUNDED AAL 2011
ADMIN. OFFICE OF THE COURT	171,953,429	5,225,624	12,908,368	(12,341,217)	(294,160)	0	(614,433)	(2,165,592)	174,672,020	126,030,385
APACHE COUNTY - CORP	994,704	45,819	44,016	(77,826)	(1,800)	0	(30,545)	(11,578)	962,791	194,086
CITY OF AVONDALE - DETENTION	384,205	0	33,161	0	0	0	(15,036)	(6,149)	396,182	241,928
CITY OF SOMERTON - DISPATCHERS	256,132	2,530	15,255	(31,707)	(1,800)	0	(1,887)	(3,156)	235,367	288,379
COCHISE COUNTY - CORP	3,525,377	121,831	171,215	(330,411)	(4,806)	0	(69,119)	(41,945)	3,372,141	1,447,024
COCONINO COUNTY - CORP	3,510,355	49,668	189,034	(125,601)	(4,780)	0	(68,600)	(46,445)	3,503,630	468,731
DEPARTMENT OF CORRECTIONS - CORP	522,453,779	9,542,808	31,945,261	(52,397,901)	(2,026,647)	(30,836)	(5,353,792)	(6,279,453)	497,853,219	287,858,083
DEPARTMENT OF PUBLIC SAFETY	4,202,278	106,079	217,357	(154,324)	(7,814)	0	(8,360)	(59,166)	4,296,049	1,803,919
DEPT OF JUVENILE CORRECTIONS-CORP	48,386,002	785,692	1,918,368	(5,261,613)	(198,108)	0	(541,398)	(531,374)	44,557,569	20,701,617
GILA COUNTY - CORP	1,789,584	62,513	128,082	(62,168)	(850)	0	0	(24,827)	1,892,333	37,013
GILA COUNTY - DISPATCHERS	999,510	85,918	33,781	(181,473)	0	0	0	(11,355)	926,380	181,397
GRAHAM COUNTY - DETENTION	1,103,071	69,802	74,614	(102,304)	(2,580)	0	0	(13,775)	1,128,829	143,527
GRAHAM COUNTY - DISPATCHERS	285,478	(54,549)	19,163	0	0	0	(5,904)	(3,819)	240,368	(100,082)
MARICOPA COUNTY - CORP	116,509,786	2,404,291	7,106,289	(10,536,339)	(181,599)	0	(1,011,156)	(1,474,312)	112,816,960	65,923,196
MOHAVE COUNTY - CORP	3,913,581	34,581	198,838	(196,884)	(2,052)	0	(7,066)	(46,291)	3,894,707	(1,084,217)
NAVAJO COUNTY - CORP	2,023,366	109,262	118,578	(117,661)	0	0	(6,735)	(25,241)	2,101,570	37,569
PIMA COUNTY - CORP	33,961,606	435,742	2,233,835	(4,072,423)	(146,275)	0	(232,532)	(399,469)	31,780,483	26,834,426
PINAL COUNTY - CORP	11,329,377	266,771	782,843	(374,642)	(7,020)	0	(62,118)	(159,357)	11,775,854	3,581,177
PINAL COUNTY - DISPATCHERS	768,598	(1,176)	41,627	(52,469)	0	0	(8,303)	(10,742)	737,535	398,831
SANTA CRUZ COUNTY - CORP	1,536,794	5,112	64,598	(96,855)	0	0	(29,234)	(16,841)	1,463,574	(310,969)
TOWN OF MARANA - DISPATCHERS	312,962	1,556	27,543	0	0	0	0	(5,449)	336,612	198,148
ORO VALLEY - DISPATCHERS	686,500	(1,846)	41,270	(64,891)	(1,450)	0	0	(9,028)	650,556	571,107
TOWN OF WICKENBURG-DISPATCHERS	258,136	0	16,984	(28,213)	0	0	0	(3,004)	243,904	197,468
YAVAPAI COUNTY - CORP	5,969,151	55,315	470,845	(717,827)	(5,897)	0	(173,236)	(79,187)	5,519,164	4,724,529
YAVAPAI COUNTY - DISPATCHERS	457,186	0	19,206	(37,760)	0	0	0	(5,192)	433,439	31,221
YUMA COUNTY - CORP	7,770,027	38,157	272,273	(584,446)	(2,803)	0	(51,331)	(89,964)	7,351,913	1,421,412
TOTAL	**945,340,972**	**19,391,501**	**59,092,404**	**(87,946,957)**	**(2,890,441)**	**(30,836)**	**(8,290,786)**	**(11,522,711)**	**913,143,146**	**541,819,905**

SCHEDULE OF CHANGES IN EMPLOYER EARNINGS DISTRIBUTION
FISCAL YEAR ENDED JUNE 30, 2012

SYSTEM	2011 EMPLOYER RESERVE	2012 EMPLOYER RESERVE	2011 MEMBER RESERVE	2012 MEMBER RESERVE	COMBINED RESERVES	MEAN BALANCE	FACTOR	INVESTMENT EARNINGS
ADMIN. OFFICE OF THE COURT	171,953,429	176,837,612	69,191,317	71,102,740	489,085,098	122,271,274	18.794%	(2,165,592)
APACHE COUNTY - CORP	994,704	974,369	346,391	299,359	2,614,822	653,706	0.100%	(11,578)
CITY OF AVONDALE - DETENTION	384,205	402,331	311,162	291,035	1,388,733	347,183	0.053%	(6,149)
CITY OF SOMERTON - DISPATCHERS	256,132	238,523	109,630	108,487	712,773	178,193	0.027%	(3,156)
COCHISE COUNTY - CORP	3,525,377	3,414,086	1,291,137	1,242,393	9,472,992	2,368,248	0.364%	(41,945)
COCONINO COUNTY - CORP	3,510,355	3,550,076	1,739,220	1,689,715	10,489,365	2,622,341	0.403%	(46,445)
DEPARTMENT OF CORRECTIONS - CORP	522,453,779	504,132,673	190,752,847	200,804,052	1,418,143,351	354,535,838	54.496%	(6,279,453)
DEPARTMENT OF PUBLIC SAFETY	4,202,278	4,355,215	2,397,601	2,407,155	13,362,249	3,340,562	0.513%	(59,166)
DEPT OF JUVENILE CORRECTIONS-CORP	48,386,002	45,088,943	13,648,820	12,883,604	120,007,368	30,001,842	4.612%	(531,374)
GILA COUNTY - CORP	1,789,584	1,917,160	903,646	996,733	5,607,123	1,401,781	0.215%	(24,827)
GILA COUNTY - DISPATCHERS	999,510	937,735	339,884	287,327	2,564,456	641,114	0.099%	(11,355)
GRAHAM COUNTY - DETENTION	1,103,071	1,142,604	375,290	490,059	3,111,023	777,756	0.120%	(13,775)
GRAHAM COUNTY - DISPATCHERS	285,478	244,188	188,157	144,759	862,581	215,645	0.033%	(3,819)
MARICOPA COUNTY - CORP	116,509,786	114,291,272	49,890,477	52,272,346	332,963,880	83,240,970	12.795%	(1,474,312)
MOHAVE COUNTY - CORP	3,913,581	3,940,998	1,213,669	1,386,242	10,454,491	2,613,623	0.402%	(46,291)
NAVAJO COUNTY - CORP	2,023,366	2,126,810	761,900	788,347	5,700,423	1,425,106	0.219%	(25,241)
PIMA COUNTY - CORP	33,961,606	32,179,952	11,796,722	12,279,282	90,217,561	22,554,390	3.467%	(399,469)
PINAL COUNTY - CORP	11,329,377	11,935,211	5,985,427	6,739,773	35,989,788	8,997,447	1.383%	(159,357)
PINAL COUNTY - DISPATCHERS	768,598	748,277	440,620	468,590	2,426,085	606,521	0.093%	(10,742)
SANTA CRUZ COUNTY - CORP	1,536,794	1,480,415	366,802	419,395	3,803,405	950,851	0.146%	(16,841)
TOWN OF MARANA - DISPATCHERS	312,962	342,061	267,413	308,101	1,230,536	307,634	0.047%	(5,449)
ORO VALLEY - DISPATCHERS	686,500	659,583	345,318	347,488	2,038,890	509,723	0.078%	(9,028)
TOWN OF WICKENBURG-DISPATCHERS	258,136	246,907	79,517	93,793	678,353	169,588	0.026%	(3,004)
YAVAPAI COUNTY - CORP	5,969,151	5,598,351	3,163,988	3,152,352	17,883,841	4,470,960	0.687%	(79,187)
YAVAPAI COUNTY - DISPATCHERS	457,186	438,631	128,432	148,334	1,172,582	293,146	0.045%	(5,192)
YUMA COUNTY - CORP	7,770,027	7,441,876	2,421,435	2,684,342	20,317,680	5,079,420	0.781%	(89,964)
TOTAL	**945,340,972**	**924,665,857**	**358,456,820**	**373,835,801**	**2,602,299,451**	**650,574,863**	**100.000%**	**(11,522,711)**

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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