

# CORRECTIONS OFFICER

## RETIREMENT PLAN

*Eighteenth*  
*Comprehensive*  
*Annual Financial*  
*Report*

a pension trust fund  
of the state of arizona

18

FOR THE FISCAL YEAR ENDED JUNE 30, 2004



# **CORRECTIONS OFFICER RETIREMENT PLAN**

A PENSION TRUST FUND OF THE STATE OF ARIZONA

EIGHTEENTH COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2004

This report was prepared by the staff of the CORP

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**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
EIGHTEENTH COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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# INTRODUCTORY SECTION

CORRECTIONS OFFICER RETIREMENT PLAN  
EIGHTEENTH COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004

Fund Managers' Report

Letter of Transmittal

Certificate of Achievement for  
Excellence in Financial Reporting

The Retirement Board and  
Administrative Organization

Organizational Chart



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

3010 East Camelback Road, Suite 200  
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James A. Nielsen, C.P.A., J.D.  
Interim Administrator

TELEPHONE: (602) 255-5575  
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Tracey D. Peterson, C.P.A., CFE  
Interim Assistant Administrator

September 22, 2004

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

Dear Governor Napolitano:

The Fund Manager of the Public Safety Personnel Retirement System respectfully submits the Eighteenth Comprehensive Annual Financial Report of the Corrections Officer Retirement Plan for the fiscal year ended June 30, 2004, in accordance with the provisions of A.R.S. 38-883.

We are pleased to report that the Plan is still in very good financial and actuarial condition in spite of the difficult investment environment of the past few years. The Plan's current funding level is 104.8%. We believe this plan to be among the top funded plans in the country. Stakeholders continue to benefit greatly from our excellent performance. In fact, funding levels have increased from a low of 69.0% in 1987 to a high of 140.6% four years ago. The average employer contribution rate, as a percentage of gross payroll is 5.47% for the 2005/06 fiscal year. While the average contribution rate has increased this past year, and may continue to do so for some time, the average contribution rate for our employer groups is still below the normal cost of the Plan at 6.05%, due to our investment earnings.

We realize that we are now in a different investment environment, even from just a few years ago. In order to maintain prudent funding levels, we are reducing our assumed earnings rate from 9.0% to 8.75%, effective July 1, 2004, with subsequent annual reductions of one-quarter of one percent each year thereafter until the rate is reduced to 8.0%. We believe this to be a more realistic rate for our Plan to achieve. The Fund Manager also extended the smoothing period for valuing assets from a four-year period to a seven-year period in order to reduce fluctuations in the future employer contribution rates. Additionally, we will continue to follow a sensible long-term investment approach as well as continuing to control costs. Set forth below are some of the highlights for the fiscal year ending June 30, 2004.

We are pleased to report that for the fiscal year ended June 30, 2004 the Plan had a total rate of return of 14.77%. Additionally, the Plan continues to perform well against the market indexes (S&P 500/NYSE stock and Shearson Lehman Government/Corporate bond) on a long-term basis. The 5, 10 and 15-year total rates of return, including realized as well as unrealized gains and losses, for the total fund were -0.50%, 8.75% and 9.00%, respectively. Benefits paid to retired corrections officers and their beneficiaries for the fiscal year totaled \$26,623,619 compared to \$22,506,792 for the prior year. Total administrative and investment expenses increased from \$497,975 last year to \$632,775 this year. Our administrative and investment expenses are approximately 8 basis points of the total assets managed. This is very low compared with other retirement systems. A dedicated staff and constantly improving internal expertise has allowed management to keep costs low even though our membership and assets managed have increased substantially.

Customer service continues to be a top priority for the Plan. As such, we have undertaken a number of tasks during the past year. Because of the increasing number of members and participating employers in the Plan, we have added a number of highly qualified staff in targeted positions to better serve our members and stakeholders. The increase in staff resulted in the Plan moving our administrative office to a larger and more

secure facility. We have also initiated a document-imaging project in order to maintain a secure copy of our records. Additionally, the Plan is undergoing a governance and investment policy review.

The Plan is currently in a transition period. The Administrator stepped down on June 30, 2004. An interim management team has been in place for the past two years to facilitate a smooth transition during our national search for a replacement. As you can see, we are involved in a number of projects and initiatives in order to further enhance our effectiveness and efficiency in completing the mission of the Plan.

We sincerely appreciate the opportunity of serving the State and County Corrections Officers.

Respectfully submitted,

**PAT CANTELME**

---

Pat Cantelme, Chairman

**W M HANCOCK**

---

Wendy Hancock, Member

**CARTER OLSON**

---

Carter Olson, Member

**KEVIN KEOGH**

---

Kevin Keogh, Member

**BILLY SHIELDS**

---

Billy Shields, Member

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

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Interim Administrator

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FAX: (602) 255-5572

Tracey D. Peterson, C.P.A., CFE  
Interim Assistant Administrator

September 22, 2004

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

Gentlemen:

There is presented, herewith, the Eighteenth Comprehensive Annual Financial Report of the operations and financial conditions of the Corrections Officer Retirement Plan, State of Arizona, for the fiscal year ended June 30, 2004. Incorporated in this report are the audited financial statements, Management's Discussion and Analysis and other financial data from the June 30, 2004 report of Barrows & Schatza, P.L.C., Certified Public Accountants, our auditors for the Plan. Also included are the Actuarial Certification Statement and the Actuarial Balance Sheet from the June 30, 2004 Actuarial Valuation prepared by the Plan's actuary, Rodwan Consulting Company.

This report has been organized into five sections: (1) the Introductory Section containing general information regarding the operations of the Corrections Officer Retirement Plan; (2) the Financial Section containing the Management's Discussion and Analysis and, the financial reports and schedules of the funds administered by the Corrections Officer Retirement Plan; (3) the Investment Section containing detailed lists of the investment transactions and portfolios of the Plan, along with investment performance; (4) the Actuarial Section containing actuarial information regarding the funding of the pension trusts; and, (5) the Statistical Section containing statistical data pertaining to the benefits paid by the Corrections Officer Retirement Plan and growth of the Plan.

#### **TRANSFER OF ASSETS**

House Bill 2310 was passed by the 37th Legislature during the second regular session of 1986. This bill created the Corrections Officer Retirement Plan, provided for the transfer of assets into the new Plan, made the Fund Manager of the Public Safety Personnel Retirement System responsible for the investment and administration of the Plan and made all of its provisions effective July 1, 1986. The bill required the transfer of member account balances plus the matching employer account balances from the Arizona State Retirement System for all new members of the Plan. The bill did not require the transfer of unallocated investment earnings or employer contributions made on behalf of terminated employees and still on deposit in the Arizona State Retirement System. This caused the Plan to start at a distinct disadvantage (only 69% funded); but, through prudent investment over several years, this problem has been overcome, as the Plan is now 104.8% funded.

#### **FINANCIAL INFORMATION**

The primary responsibility for the integrity and objectivity of the financial statements and related financial data rests with the management of the Plan. 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 Plan's policy to maintain a control-conscious environment through an effective system of accounting controls. These controls are adequate to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal control based on the recognition that the costs of such plans should be related to the benefits to be derived. Management believes the Plan's controls provide this appropriate balance.

The Plan uses the accrual basis of accounting for both revenues and expenses. Contributions to the Plan 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 rolling twenty (20) year period.

## REVENUES

Revenues to the Plan are derived from three sources: member contributions, employer contributions, and investment income. As shown by the Schedule of Revenues by Source included in the Statistical Section later in this report, the Plan benefited from an investment gain this fiscal year that was further enhanced by member contributions and employer contributions. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

## ADMINISTRATIVE AND INVESTMENT EXPENSES

The 2003/2004 Administrative and Investment Expenses of the Administrative Office totaled \$632,775 compared to \$497,975 for the prior year. Our administrative and investment expenses are approximately 8 basis points of the total assets managed. This is very low compared with other retirement systems. A dedicated staff and constantly improving internal expertise has allowed management to keep costs low even though our membership and assets managed have increased substantially.

## INVESTMENTS

Since the Plan is well funded, management takes a moderately conservative approach to investing. The Plan invests primarily in bonds rated A or better and blue chip common stock. A detailed summary of the investment portfolio and all investment transactions is presented in the Investment Section. At year-end, the investment portfolio on a fair value basis was made up of 3.72% U. S. Government Securities, 14.28% Corporate Bonds, 4.69% Corporate Notes, 5.61% Other Investments, 0.57% insured Money Market Funds and 71.13% Common Stocks. All investments are held in trust by the Arizona subsidiary of one of the largest banks in the world.

Even with this relatively conservative investment philosophy, the fixed income portfolio has outperformed the Lehman Government/Corporate Bond Index in ten of the last seventeen years and the equity portfolio has outperformed the applicable Index (NYSE until 98/99, S&P 500 thereafter) in eleven of the past sixteen years. The Plan's performance resulted in a 15-year total rate of return of 9.00%. Graphs depicting the fund's extraordinary performance since 1987, the year internal staff took over the portfolio management, can be found in the Investment Section.

## ECONOMIC OUTLOOK

Our employer groups continue to benefit greatly from our outstanding performance. However, we realize that we are now in a different investment environment, even from just a few years ago. In order to maintain prudent funding levels, the Fund Manager reduced the assumed earnings rate from 9.0% to 8.75%, effective July 1, 2004, with subsequent annual reductions of one-quarter of one percent each year thereafter until the rate is reduced to 8.0%. We believe this is a more realistic rate for our Plan to achieve. The Fund Manager also extended the smoothing period from a four-year period to a seven-year period in order to reduce fluctuations in future employer contribution rates. Moreover, we will continue to follow a sensible long-term investment approach as well as continuing to control costs.

## ACTUARIAL AND FUNDING INFORMATION

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

There is no single all-encompassing test to measure a retirement plan's funding progress and current status. A traditional measure is the ratio of assets to unfunded accumulated normal costs, often referred to as the "percent funded." The percent funded for the Plan at June 30, 2004, is 104.8%, which is well ahead of schedule.

The Plan is funded through a member contribution of 8.50% of gross payroll, an employer contribution set by an actuarial valuation expressed as a percent of gross payroll and a distribution of the net earnings of the Plan. While each employer has a different contribution rate, the average for the entire Plan for the 2004/2005 fiscal year would be 4.07% of gross payroll; however, employer contributions cannot fall below 2% as a result of 2000 legislation.

## POST RETIREMENT BENEFIT INCREASES

State law provides for an annual benefit increase for retirees or their survivors either two years after retirement, regardless of age, or when the retiree or survivor attains age 55 and has been retired for a year. These increases are dependent upon the production of excess earnings on a portion of the Plan's assets and are limited to four percent of the average benefit being paid.

Below is a schedule of the increase in monthly benefits granted since this program began:

July 1, 1993 - \$ 5.00  
July 1, 1996 - \$10.00  
July 1, 1997 - \$15.00  
July 1, 1998 - \$25.00  
July 1, 1999 - \$32.41  
July 1, 2000 - \$38.96  
July 1, 2001 - \$39.79  
Cumulative total - \$166.16

July 1, 2002 - 4.0%  
July 1, 2003 - 4.0%  
July 1, 2004 - 4.0%  
July 1, 2005 - 4.0%

Effective July 1, 2002, benefit increases are limited to a maximum of 4% of the benefit being received on the preceding June 30 and contingent upon sufficient excess investment earnings for the fund. A benefit increase schedule showing how these amounts were calculated can be found in the Statistical Section.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the CORP for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the tenth consecutive year that the Plan has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **SUMMARY**

The Plan's actuary, Rodwan Consulting Company, summarized the results of the latest Actuarial Valuation as of June 30, 2004, as follows:

The results of the actuarial valuations of the Arizona Corrections Officer Retirement Plan indicate that benefit obligations are being funded as incurred. Valuation assets are 104.8% of actuarial accrued liability. This excellent level of accrued funding is primarily attributable to favorable investment returns.

The Plan has made excellent progress during the past eighteen years. Funding has increased from 69% to 104.8%. Employer contribution rates have dropped to less than 4.07% on average. All this was accomplished even while improving benefits to members. The service multiplier has been increased from 2% to 2.5%; members can now retire after 20 years of credited service at any age or if the sum of their age and years of credited service equals 80; survivor and disability benefits have been improved and a substantial health insurance subsidy has been added.

I am proud to have been part of the Plan's management team and I look forward to the Plan's continued success in the future.

Respectfully submitted,

**JAMES A NIESEN**

James A. Nielsen, C.P.A., J.D.  
Interim Administrator

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Corrections Officer  
Retirement Plan,  
Arizona

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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



President

Executive Director

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
THE RETIREMENT BOARD AND ADMINISTRATIVE ORGANIZATION**

**THE FUND MANAGER**

		<u>Term Expires</u>
Pat Cantelme Retired Firefighter City of Phoenix	Chairman	January 2005
Wendy Hancock Public Member	Member	January 2005
Carter Olson Pinal County Attorney	Member	January 2006
Kevin Keogh Finance Director City of Phoenix	Member	January 2006
Billy Shields Firefighter City of Phoenix	Member	January 2007

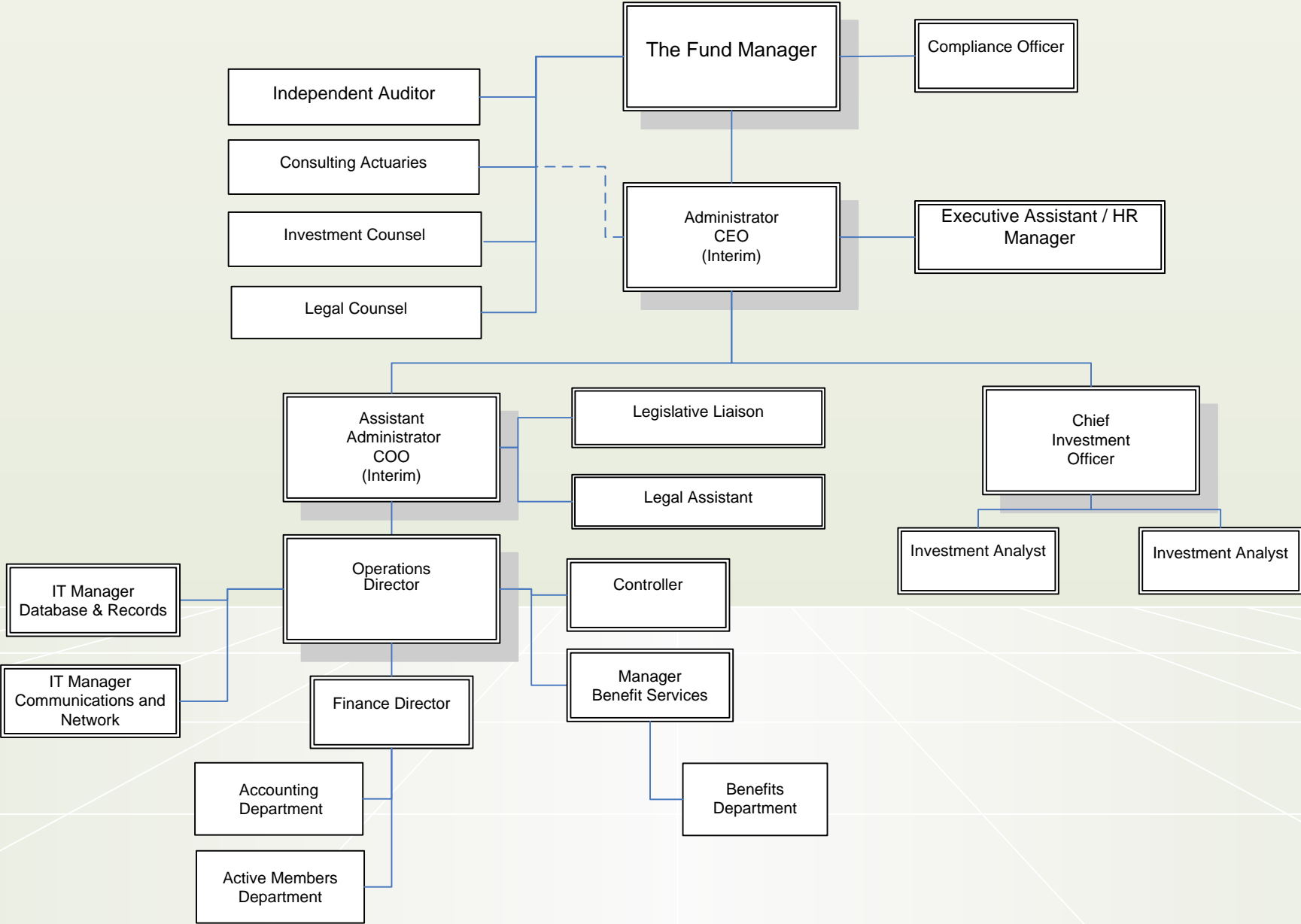
**PROFESSIONAL ADVISORS**

Standard & Poor's Securities, Inc.	Investment Counsel
Rodwan Consulting	Consulting Actuaries
Barrows & Schatza, P.L.C.	Independent Auditors
Lieberman, Dodge, Gerding, Kothe & Anderson, Ltd.	Legal Counsel

**ADMINISTRATIVE STAFF**

James A. Nielsen, CPA, JD	Interim Administrator
Tracey D. Peterson, CPA, CFE	Interim Assistant Administrator
Karen L. Lewis, CPA	Controller
Jared A. Smout, CPA	Finance Director
Martin Anderson	Investment Analyst
Tom Willard	Manager of IT-Database & Records
Eileen Kelleher	Manager of Communications & Network
D. Steven Williams	Legal Assistant
Gail Nova	Executive Assistant
Bonnie Bohman	Manager of Benefit Services
Donald B. Mineer	DROP Coordinator/Special Projects Assistant
LaDawn M. Snodgrass	Senior Active Member Services Specialist
Sheryl D. Saltsman	Senior Active Member Services Specialist
Deborah S. Irwin	Senior Active Member Services Specialist
Lilian L. Leung	Senior Accounting Specialist
Kathleen A. Mattoon	Office Specialist
Annette L. Jorgensen	Senior Benefits Specialist
Lori A. Boyle	Receptionist
Alliene Jonas	Insurance Specialist
Tom Vermande	Insurance Specialist
Tony Jenkins	Benefits Specialist
Janette Trujillo	Active Member Services Specialist
Devin Delap	Benefits Specialist

State of Arizona  
**Corrections Officer Retirement Plan**  
**Organizational Chart**  
 June 30, 2004



# FINANCIAL SECTION

CORRECTIONS OFFICER RETIREMENT PLAN  
EIGHTEENTH COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004

Independent Auditor's Report
Management's Discussion and Analysis
Statements of Plan Net Assets
Statements of Changes in Plan Net Assets
Notes to Financial Statements (Includes Summary of Plan Provisions)
Schedule of Funding Progress
Schedule of Employer Contributions
Supporting Schedule of Changes In Fund Balance Reserves
Supporting Schedule of Administrative and Investment Expenses
Supporting Schedule of Payments to Consultants
Supplemental Schedule of Cash Receipts and Cash Disbursements



**INDEPENDENT AUDITOR'S REPORT**

**FUND MANAGER  
STATE OF ARIZONA PUBLIC SAFETY  
PERSONNEL RETIREMENT SYSTEM  
PHOENIX, ARIZONA**

We have audited the accompanying statements of plan net assets of the **STATE OF ARIZONA CORRECTIONS OFFICER RETIREMENT PLAN** as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended, appearing on pages 18 and 19, respectively. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of **STATE OF ARIZONA CORRECTIONS OFFICER RETIREMENT PLAN** as of June 30, 2004 and 2003, and the results of its operations and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information, Management's Discussion and Analysis, Schedule of Funding Progress and Schedule of Employer Contributions, are required by the Governmental Accounting Standards Board and are not a required part of the basic financial statements. Also, the accompanying additional information, contained on pages 30 to 32, are not required disclosures under Governmental Accounting Standards Board (GASB) statement No. 25 and are not a required part of the basic financial statements. The additional information schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

**BARROWS & SCHATZA, P.L.C.**

September 8, 2004

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004 AND 2003**

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 2004 are as follows:

- The Plan had a total rate of return of 14.77% this year. Our stock portfolio had a return of 20.71% and our fixed income portfolio had a return of 4.40%. We continue to perform well against the market indexes on a long-term basis. The 15-year rate of return for the equity portfolio and fixed income portfolio were 10.30% and 8.19%, respectively, compared to the market index of 10.14% and 7.77%, for the same time period.
- As of the close of the fiscal year 2004, the Future Benefit Increase Reserve was \$45.9 million. This will enable another 4% increase for qualifying retirees or their survivors for the eleventh consecutive year.
- Retirement benefits paid totaled \$26.6 million for the current fiscal year, compared to \$22.5 million for the previous year. This represents a 18.2% increase from the prior year. The majority of this increase is the result of increased health insurance benefits and cost of living adjustments (COLAs) paid to the retirees or their survivors of the Plan.

### **Using this Comprehensive Annual Financial Report (CAFR)**

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

#### *The Statement of Net Assets and The Statement of Changes in Net Assets*

These statements include all assets and liabilities of the Plan using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the Plan's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the financial health, or *financial position*. Over time, *increases or decreases* in the net assets are one indicator of the *financial health* of the Plan.

#### *Notes to the Financial Statements*

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

#### *Required Supplemental Information*

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

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

*Other Supplemental Information*

The Other Supplemental Information Section includes the Supporting Schedule of Changes in Fund Balance Reserves, Supporting Schedule of Payments to Consultants, Supplemental Schedule of Cash Receipts and Cash Disbursements, Schedule of Changes in Employer Reserves, Schedule of Changes in Refundable Member Reserves, and Schedule of Earnings Distribution. The total columns and information provided on these schedules carry forward to the applicable financial statement.

**Financial Analysis**

*Net Assets*

The Plan's Net Assets totaled \$719.2 million (fair value) at the close of the fiscal year 2004, compared to \$622.9 million at the close of the previous fiscal year. This is a 15.5% increase from the prior year. The majority of the increase is the result of market conditions and investment earnings.

**CORRECTIONS OFFICER RETIREMENT PLAN  
NET ASSETS**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current Assets	\$ 4,617,631	\$ 4,483,390	\$ 3,638,271
Investments	<u>860,271,233</u>	<u>815,187,159</u>	<u>756,240,172</u>
Total Assets	864,888,864	819,670,549	759,878,443
Other Liabilities	<u>145,653,630</u>	<u>196,732,033</u>	<u>173,549,970</u>
Total Liabilities	145,653,630	196,732,033	173,549,970
Total Net Assets	<u>\$ 719,235,234</u>	<u>\$ 622,938,516</u>	<u>\$ 586,328,473</u>

The largest portion of the Plan's Net Assets (71%) are invested in Equity Securities; 14% is invested in high quality Corporate Bonds; 4% is invested in Government Securities; 5% is invested in Cash or cash equivalents; and, the remaining 6% is invested in Other investments.

*Changes in Net Assets*

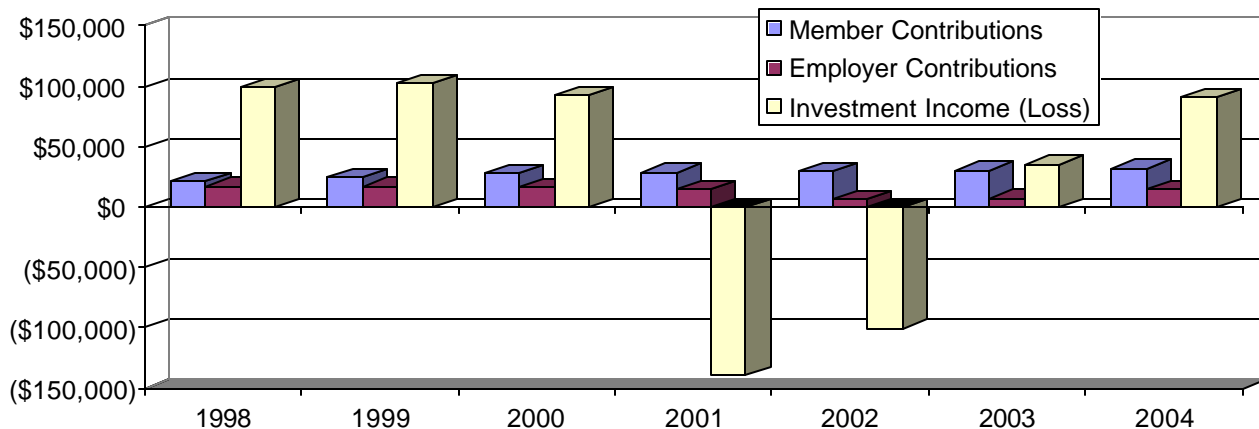
Market conditions and investment earnings have attributed to the majority of the increase in net assets, as noted earlier. Additional key elements of this increase are as follows:

**CORRECTIONS OFFICER RETIREMENT PLAN  
CHANGES IN NET ASSETS**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Additions:			
Contributions	\$ 46,717,913	\$ 37,728,509	\$ 36,633,478
Net Investment Income (Loss)	91,300,470	35,698,266	(100,518,025)
Transfers	<u>634,966</u>	<u>3,189,325</u>	<u>1,325,465</u>
Total Additions	138,653,349	76,616,100	(62,559,082)
Deductions:			
Pension Benefits	26,623,619	22,506,792	17,576,451
Terminated Members Refunds	14,053,002	16,022,697	14,271,104
Administrative Expenses	541,070	427,150	397,110
Transfers	<u>1,138,940</u>	<u>1,049,418</u>	<u>2,060,223</u>
Total Deductions	<u>42,356,631</u>	<u>40,006,057</u>	<u>34,304,888</u>
Change in Net Assets	96,296,718	36,610,043	(96,863,970)
Net Assets, Beginning of Year	<u>622,938,516</u>	<u>586,328,473</u>	<u>683,192,443</u>
Net Assets, End of Year	<u>\$ 719,235,234</u>	<u>\$ 622,938,516</u>	<u>\$ 586,328,473</u>

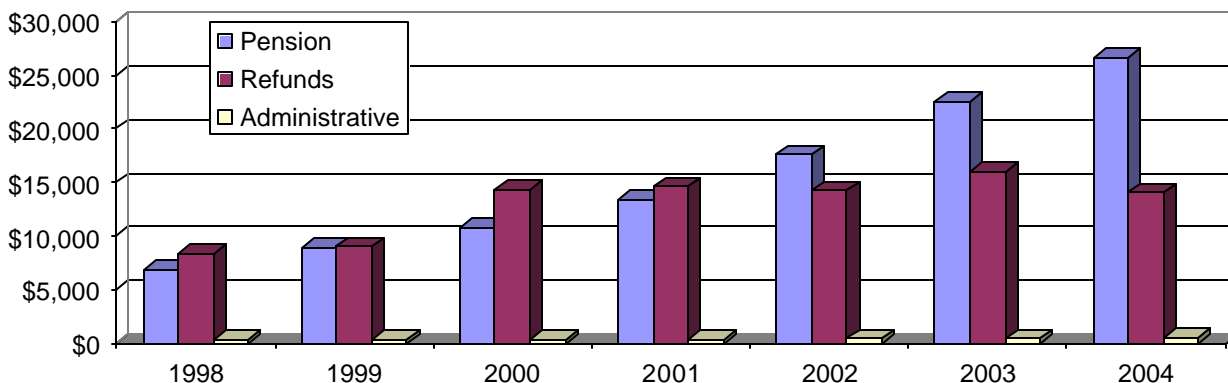
Total contributions and net investment income increased \$64.6 million from those of the prior year, due primarily to market conditions and investment earnings. Total contributions increased from the previous year by \$9.0 million. This increase is primarily due to an increase in employer contribution rates. Member contribution rates are set by Statute and were unchanged from the previous fiscal year. Investment Income increased from the previous year by \$55.6 million. The Investment Section of this report reviews the results of investment activity for 2004.

**Trend in Revenues – by Type**  
**(Member and Employer Contributions, Investment Income (Loss) (in 000's)**



The primary expenses of the Plan include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members who terminated employment during the year and the cost of administering the Plan. Total deductions for fiscal year 2004 were \$42.3 million, an increase of 6% over the prior fiscal year. Pension benefits, to include health insurance subsidies, 20-year retirement, and cost of living adjustments, increased by \$4.1 million or 18% from the previous year. Refunds of contributions to former members decreased \$2.0 million or 12% from the previous year. Administrative expenses increased \$113,920 or 27% from the previous year.

**Trend in Expenses – by Type**  
**(Pension Benefits, Refunds and Administrative Expenses) (in 000's)**



### Economic Factors and Employer Rates

Revenues to the Plan are derived from three sources: member contributions, employer contributions and investment income. Member contribution rates are set by Statute and will remain unchanged at 8.50%. Employer contribution rates are determined annually by an actuarial valuation. The valuation encompasses the rate of investment earnings and the accumulation of substantial reserves to guarantee payment of promised benefits.

Investment gains and losses are smoothed over a seven-year period to stabilize the employer contribution rates from year to year. The Fund Manager, the five member governing board, changed the smoothing period from a four-year period to a seven-year period as of July 1, 2004. Effective the same date, the Fund Manager also reduced the assumed earnings rate from 9.0% to 8.75%, with reductions in quarter increments each year thereafter until the rate is reduced to 8.0%. The Fund Manager did reserve the right to address these issues annually or on an as needed basis.

Additionally, we have met our fund objectives by annually adjusting employer contribution rates based on the recommendations made by the actuarial valuations. The Plan's funding goal is for the actuarial value of the assets to be equal to the actuarial accrued liabilities within any twenty-year period. For the current fiscal year end, our funding ratio is 104.8%. The average employer rate, as a percentage of gross payroll, is 4.07% for the 2004/05 fiscal year. While the employer rate has increased this past year, and may continue to do so for some time, the average contribution rate for our employers is still below the normal cost of the Plan of 5.74%. Employers continue to benefit greatly from our outstanding past and current investment performance.

Management believes, and actuarial studies concur, that the Plan is in a financial position to meet its current obligations. We believe the current financial position will continue to improve due to a prudent conservative long-term investment approach, cost controls and strategic planning.

### **Requests 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, Operations Director, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016.

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
STATEMENTS OF PLAN NET ASSETS  
AS OF JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>Receivables</b>		
Members' Contributions	\$ 81,931	\$ 94,640
Employers' Contributions	39,660	25,741
Interest and Dividends	4,496,040	4,363,009
<b>Total Receivables</b>	<b>4,617,631</b>	<b>4,483,390</b>
	<i>[Book Cost -</i>	<i>[Book Cost -</i>
	<i>For Reference Only]</i>	<i>For Reference Only]</i>
<b>Investments at Fair Value (Note 2)</b>		
U.S. Government Securities	\$ 22,849,503	\$ 44,764,695
Corporate Bonds	94,679,926	105,515,904
Corporate Notes	33,484,486	40,633,249
Corporate Stocks	415,906,767	350,794,899
Other Investments	40,117,734	39,584,740
Money Market Account	4,039,828	1,541,472
Collateral Held in Trust for Securities on Loan	146,378,526	196,640,894
<b>Total Investments</b>	<b>\$ 757,456,770</b>	<b>\$ 779,475,853</b>
<b>Total Plan Assets</b>	<b>864,888,864</b>	<b>819,670,549</b>
Liability- Collateral Subject to Return to Borrower	(145,653,630)	(196,732,033)
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$ 719,235,234</b>	<b>\$ 622,938,516</b>
<b>Net Asset Reserves</b>		
Refundable Members' Reserve	\$ 165,145,474	\$ 152,453,715
Employers' Reserve	508,177,135	439,775,618
Future Benefit Increase Reserve	45,912,625	30,709,183
<b>Total Net Asset Reserves</b>	<b>\$ 719,235,234</b>	<b>\$ 622,938,516</b>

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

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Additions</b>		
Contributions		
Members' Contributions (Notes 1 and 3)	\$ 32,162,578	\$ 30,330,914
Employers' Contributions (Notes 1 and 3)	14,555,335	7,397,595
Total Contributions	46,717,913	37,728,509
Net Appreciation (Depreciation)		
in Fair Value of Investments (Note 2)	73,959,535	16,545,588
Interest	12,458,979	16,006,765
Dividends	4,719,798	2,950,093
Securities Lending Activities		
Securities Lending Income	\$ 2,017,527	\$ 2,670,163
Borrower Rebates	(1,626,998)	(2,259,956)
Agents Share of Income	(136,666)	(143,562)
Net Securities Lending Income (Note 2)	253,863	266,645
	91,392,175	35,769,091
Less Investment Expense	(91,705)	(70,825)
Net Investment Income	91,300,470	35,698,266
Amounts Transferred from Other State-Sponsored Pension Plans and Service Credits Purchased	634,966	3,189,325
<b>Total Additions</b>	<b>138,653,349</b>	<b>76,616,100</b>
<b>Deductions</b>		
Pension and Insurance Benefits (Note 1)	26,623,619	22,506,792
Refunds to Terminated Members (Note 1)	14,053,002	16,022,697
Administrative Expenses	541,070	427,150
Amounts Transferred to Other State-Sponsored Pension Plans	1,138,940	1,049,418
<b>Total Deductions</b>	<b>42,356,631</b>	<b>40,006,057</b>
<b>Net Increase (Decrease)</b>	96,296,718	36,610,043
<b>Net Assets Held In Trust for Pension Benefits</b>		
<b>Beginning of Year - July 1</b>	<b>622,938,516</b>	<b>586,328,473</b>
<b>End of Year - June 30</b>	<b>\$ 719,235,234</b>	<b>\$ 622,938,516</b>

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

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 - PLAN DESCRIPTION**

**Organization**

The Corrections Officer Retirement Plan (CORP), a pension trust fund of the State of Arizona, is an agent multiple-employer public employee retirement plan established by Title 38, Chapter 5, Article 6 of the Arizona Revised Statutes, to provide benefits for prison and jail employees of certain state, county and local governments. The Fund Manager of the Public Safety Personnel Retirement System (PSPRS) and 19 Local Boards jointly administer the Plan.

The Fund Manager is a five-member board. Effective August 6, 1999, it became the Governor's responsibility to appoint all members of the Fund Manager, who serve a fixed three-year term. The Fund Manager is responsible for the investment of the plan's assets, setting employer contribution rates in accordance with an actuarial study, adopting a budget, hiring personnel to administer the plan, setting up records, setting up accounts for each member and each Local Board, paying benefits and the general protection and administration of the Plan.

Each employer participating in the Plan has a five-member Local Board. The chief elected official of the organization appoints three members and two members are elected by the active members of the eligible group. 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, 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 Fund Manager approves new eligible groups for participation. The CORP is not reported as a component unit of any other organization. The Local Boards are reported as component units of their respective sponsoring organization.

The Fund Manager of the CORP is also responsible for the investment and general administration of two other statewide retirement plans—the Public Safety Personnel Retirement System and the Elected Officials' Retirement Plan. The investments and expenses of these plans are held and accounted for separately from those of the CORP. Since none of the plans have the authority to impose their will on any of the other plans, each plan is reported as its own stand-alone government.

At June 30, 2004 and 2003, the number of participating local government employer groups was:

	<b>2004</b>	<b>2003</b>
Counties	12	11
Dispatchers	5	3
State Agencies	2	2
Total Employers	19	16

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 the CORP. At June 30, 2004 and 2003, statewide CORP membership consisted of:

	<b>2004</b>	<b>2003</b>
Retirees and beneficiaries currently receiving benefits	1,536	1,363
Terminated vested employees	127	497
Current employees		
Vested	2,381	2,287
Non-vested	9,202	8,677
Total Members	13,246	12,824

CORP provides retirement benefits as well as death and disability benefits. Generally, all benefits vest after 10 years of credited service. A summary of benefits and Plan provisions follows:

## SUMMARY OF BENEFITS

### **Purpose** (A.R.S. § 38-900.01.B)

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

### **Eligibility** (A.R.S. §38-881)

- A. For a county, a county detention officer or a non-uniformed employee of a sheriff's department whose customary employment is at least forty hours per week and whose primary duties require direct inmate contact, if the county elects to join the Plan.
- B. For the State Department of Corrections, correctional service officers, state correctional program officers and certain other designated positions within the department that are prescribed by statute and whose customary employment is for at least forty hours per week.
- C. For the State Department of Juvenile Corrections, youth corrections officers, youth program officers and certain other designated positions within the department that are prescribed by statute and whose customary employment is for at least forty hours per week.
- D. For a city or town, a city or town detention officer whose customary employment is for at least forty hours per week, if the city or town elects to join the Plan.
- E. For an employer in the Public Safety Personnel Retirement System, full-time dispatchers whose customary employment is for at least forty hours per week, if the employer elects to join the Plan.

### **Contributions** (A.R.S. §38-891)

Each member shall contribute 8.5% of salary to the Plan on a pre-tax basis by payroll deduction. Each employer shall contribute a level percent of salary as determined by actuarial valuation to ensure proper funding for the Plan but not less than 2% of salary.

Beginning with fiscal year 2005-2006, the employer contribution rate shall not be less than 4% of salary. If the aggregate employer contribution rate is calculated to be less than four per cent of salary, beginning July 1 of the following fiscal year the member contribution rate is permanently reduced by an amount equal to the difference between four per cent and the aggregate computed employer rate, but shall not be reduced to less than 7.65 per cent of a member's salary.

### **Credited Service** (A.R.S. §38-881)

Service in a designated position for which member contributions have been made to the Plan or transferred to the Plan from another retirement system for public employees of this state.

### **Average Monthly Salary** (A.R.S. §38-881)

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

### **Salary** (A.R.S. §38-881)

The base salary, base wages, shift differential pay and holiday pay paid to a member in a designated position for personal services rendered to a participating employer that is paid on a regular monthly, semimonthly or biweekly payroll basis.

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

Commences first day of month following completion of twenty years of service, except that for a full-time dispatcher, upon completion of twenty-five years of service, a member's sixty-second birthday and completion of ten years of service, or the month where the sum of the member's age and years of credited service equals eighty.

The amount of monthly normal pension is based on credited service and average monthly salary as follows:

For retirement with twenty years of credited service but less than twenty-five years of credited service, 50% of average monthly salary for the first twenty years of credited service, plus 2% of average monthly salary for each year of credited service between twenty and twenty-five. (A.R.S. §38-885.C, ¶ 1)

For retirement with less than twenty years of credited service, 2-1/2 % of average monthly salary times the member's years of credited service. (A.R.S. §38-885.C, ¶ 2)

For retirement with twenty-five or more years of credited service, 50% of average monthly salary for the first twenty years of credited service, plus 2-1/2% of average monthly salary for each year of credited service above twenty years, up to a maximum of 80% of average monthly salary. (A.R.S. §38-885.C, ¶ 1)

#### **Accidental Disability Retirement (A.R.S. §38-881, ¶ 1)**

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

The Local Board shall base eligibility for an accidental disability or a total and permanent disability on medical evidence and determination that such a disability exists. No credited service requirement. The monthly pension is fifty percent (50%) of the member's average monthly salary. The Local Board may require periodic medical re-evaluations until the member reaches age 62. Accidental disability or a total and permanent disability pension terminates if the Local Board finds the retired member no longer meets the requirements for the disability pension. (A.R.S. §38-886)

#### **Total And Permanent Disability Retirement (A.R.S. §38-881, ¶ 22)**

A physical or mental condition which totally and permanently prevents a member from engaging in any gainful employment, is the direct and proximate result of the member's performance of their duty as an employee and is not the result of a physical or mental condition or injury that existed or occurred before the member's date of membership in the Plan.

The Local Board shall base eligibility for an accidental disability or a total and permanent disability on medical evidence and determination that such a disability exists. No credited service requirement. The monthly pension is fifty percent (50%) of the member's average monthly salary. The Local Board may require periodic medical re-evaluations until the member reaches age 62. Accidental disability or a total and permanent disability pension terminates if the Local Board finds the retired member no longer meets the requirements for the disability pension. (A.R.S. §38-886)

#### **Survivor Pension**

The surviving spouse of a member who dies in service or after retirement is eligible for benefits as follows:

Surviving spouse of retired member; Four-fifths (80%) of retired member's pension at time of death. Requires two years of marriage at time of death. Terminates on death of surviving spouse. (A.R.S. §38-887)

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

The surviving spouse pension commences on first day of month following death of member.

#### **Death Benefits (A.R.S. §38-904)**

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

pension is an equal share of the surviving spouse's pension.

#### **Termination Refund (A.R.S. §38-884.C)**

Upon termination of employment, for any reason other than death or retirement, a member shall, within twenty days after filing an application with the Fund Manager, receive a lump-sum payment, equal to his accumulated contributions, as of the date of termination, less any benefits paid or any amounts owed to the Plan. A member forfeits all membership rights and credited service in the Plan upon receipt of refund of contributions. If the member has 5 or more years of credited service upon termination they shall receive an additional amount according to the schedule below.

5 to 5.9—25% of member contributions deducted from the member's salary pursuant to ARS 38-891.B

6 to 6.9—40% of member contributions deducted from the member's salary pursuant to ARS 38-891.B

7 to 7.9—55% of member contributions deducted from the member's salary pursuant to ARS 38-891.B

8 to 8.9—70% of member contributions deducted from the member's salary pursuant to ARS 38-891.B

9 to 9.9—85% of member contributions deducted from the member's salary pursuant to ARS 38-891.B

10 or more—100% of member contributions deducted from the member's salary pursuant to ARS 38-891.B, plus interest at 3% if left on deposit after 30 days.

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

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. (Use Form C1A)

#### **Reemployment And Repayment Of Contributions (A.R.S. §38-884.H)**

A member who terminates and takes a refund of his contributions may elect only upon reemployment within two years with the same employer in a designated position, to recover the prior credited service if the member submits a written election to reinstate the forfeited credited service within 90 days after reemployment and reimburses the Plan within one year. The amount required to reinstate the credited service is the amount previously withdrawn plus interest at the rate of 9% compounded annually from the date of withdrawal to the date of repayment. (Use Form C1B)

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

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

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

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

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

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

#### **Redemption Of Prior Service (A.R.S. §38-884.I)**

Active members who previously contributed to the Plan but who refunded their contributions thereby forfeiting credited service

under the Plan may redeem some or all of this credited service. The member must pay the actuarial present value of the increase of credited service resulting from the purchase of forfeited time in order to redeem this service. (Use Form C2) Additionally, active members who had previous service in this state as an employee with an employer now covered by the plan or who had previous service with an agency of the U.S. Government, a state of the U.S. or a political subdivision of a state of the U.S. as a full-time paid corrections officer or full-time paid certified peace officer may elect to redeem any part of the prior service by paying into the plan any amounts required under A.R.S. §38-909.B if the prior service is not on account with any other retirement system (Use Form POSS-CORP).

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

A member may purchase up to four years of prior active military time even if the member will receive a military pension<sup>1</sup>. The member must pay the actuarial present value of the increase of credited service resulting from this purchase. (Use Form 18)

**Transfer Between State Retirement Systems** (A.R.S. §38-921 and §38-922)

Members of any of the four Arizona state retirement systems or plans who have credited service under another Arizona state retirement system or plan may transfer or redeem the credited service to their current Arizona state retirement system or plan by paying or transferring the full actuarial present value of the credited service into their current Arizona retirement system or plan with approval of the Fund Manager or retirement boards involved. A reduced credited service amount may be transferred based on the transfer of the actuarial present value of the credited service under the prior Arizona state system or plan. (Use Form U-2)

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

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

**Health Insurance Premium Subsidy** (A.R.S. §38-906)

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

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

Until June 30, 2005, a retiree or survivor who lives in a non-service area receives up to the following amounts in addition to the subsidy listed above after they have paid an out-of-pocket expense as set forth below. A non-service area is defined as an area in this state where the state retiree group insurance program or employer's retiree health insurance program does not provide or administer a health maintenance organization (HMO) for which the member or survivor is eligible. The subsidy consists of up to the following amounts:

Single		Family		
Not Medicare Eligible	Medicare Eligible	All Not Medicare Eligible	All Medicare Eligible	One with Medicare
\$300.00	\$170.00	\$600.00	\$350.00	\$470.00
<u>after</u> \$125.00 paid out-of-pocket	<u>after</u> \$100.00 paid out-of-pocket	<u>after</u> \$425.00 paid out-of-pocket	<u>after</u> \$200.00 paid out-of-pocket	<u>after</u> \$400.00 paid out-of-pocket

<sup>1</sup> Pursuant to *Cantwell v. County of San Mateo*, 631 F.2d 631, 637 (9<sup>th</sup> Cir. 1980), cert. denied, 450 U.S. 998 (1981), the Plan must allow its participants to use up to 48 months of their prior active duty military service on account with the federal government to purchase a corresponding period of credited service with the Plan, notwithstanding any prohibition in § 38-907(A)(3) to the contrary.

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

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

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS**

#### **Basis of Accounting**

CORP financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when they are 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 and equipment purchases, which are not material in amount, are expensed in the year of purchase. Investment income net of administrative and investment expenses is allocated to each employer group based on the average relative fund size for each employer group for that year.

The Plan implemented Statement No. 25 of the Governmental Accounting Standards Board (GASB) for Fiscal Year End 1997. As such, the Plan reports assets on a Fair Value Basis. Certain cost information is provided for reference only and to comply with state law.

The Plan implemented GASB Statement No. 34 for the Fiscal Year End 2002. The purpose of Statement No. 34 is to enhance the understandability and usefulness of state and local government financial reports. To accomplish this, Statement No. 34 requires supplemental information titled Management's Discussion and Analysis (MDA), which precedes the basic financial statements. The MDA will provide an analytical overview of the government's financial activities.

Other GASB Statements were required to be implemented in conjunction with GASB Statement No. 34. Therefore, the Plan has also implemented the following GASB Statements in the current fiscal year: Statement No. 37 – Basic Financial Statements – and MDA for State and Local Governments-Omnibus; and, Statement No. 38 – Certain Financial Statement Note Disclosures.

By state statute, this 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 Gain (Loss) used in this calculation totaled \$6,040,343 for FYE 2004 and \$(79,607,908) for FYE 2003.

#### **Investments**

CORP investments are reported at Fair Value. Fair Values are determined as follows: Short-term investments are reported at Fair Value, which approximates Cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

Statutes enacted by the Arizona Legislature authorize the Fund Manager to make investments in accordance with the "Prudent Man" rule. The Fund Manager is not limited to so-called "Legal Investments for Trustees." (A.R.S. §38-848.D) In making every investment, the Fund Manager shall exercise the judgment and care under the circumstances then prevailing which men of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided:

- 1) That not more than seventy percent of the pension fund shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
- 2) That not more than five percent of the pension fund shall be invested in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States Government.
- 3) That not more than five percent of the voting stock of any one corporation shall be owned.
- 4) That corporate stocks eligible for purchase shall be restricted to stocks that, except for bank stocks and insurance stocks, are either:
  - a) Listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §7811);
  - b) Designated or approved on notice of issuance for designation on the national market system of a national securities

association registered under the Securities Exchange Act of 1934, as amended (15 United States Code §78a through §7811);

- c) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state; or
- d) Listed or approved on issuance for listing on an exchange of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than ten percent of the pension fund shall be invested in foreign equity securities on these exchanges, based on the cost value of the stocks irrespective of capital appreciation.

A.R.S. §38-848.D

The Plan's investment portfolio is in compliance with state law.

Statement No. 3 of the GASB requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the Plan or its agent in the name of the Plan. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Plan's name.

All investments of the Plan (other than those held by broker/dealers under the security loan program and those investments categorized as "Other Investments") meet the criteria of Category 1. "Other Investments", which primarily consists of loans and real estate investments, are not considered securities for purposes of credit risk classification. Substantially all investments are held in the name of the Plan by its custodian bank.

Some of our real estate partners in the investments categorized as "other investments" have obtained third party financing, which is secured by real property. The Plan has entered into Capital Call Agreements with regards to these third party financing arrangements. The Capital Call Agreements, in the unlikely event of default, limit the Plan to the amount of the defaulted payment or the original terms of the investment approved by the Fund Manager, whichever is less.

#### **Money Market Account**

The money market account is on deposit with an Arizona bank. These deposits are insured by federal depository insurance. The money market account is subject to the general depository laws of the State of Arizona, which require deposits to be either insured by the Federal Deposit Insurance Corporation or collateralized by certain securities including U.S. Government obligations and first mortgages.

#### **Securities Lending Income**

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, 2004 and 2003 the fair value of securities on loan was \$142,268,816 (consisting of Stocks-\$114,233,093, Corporate Bonds-\$5,490,944, and Treasuries and Agencies-\$22,544,779) and \$189,453,989 (consisting of Stocks-\$110,724,564, Corporate Bonds-\$32,694,683, and Treasuries and Agencies-\$46,034,742), respectively. 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. 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. All matched loans shall have matched collateral investments. At June 30, 2004, the weighted average maturity was 11 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. Under this program, the Plan has not experienced any defaults or losses on these loans.

#### **NOTE 3 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE**

The Retirement Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age 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 rolling twenty (20) year period. As of the beginning of the fiscal year 2001-2002, the employer contribution rate was a minimum of two percent of compensation. Beginning with fiscal year 2005-2006, the employer contribution rate shall

not be less than 4% of salary.

During the year ended June 30, 2004, contributions totaling \$46,717,913 (\$14,555,335 employer and \$32,162,578 member) was made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2002. The employer contributions consisted of approximately \$25,692,224 for normal cost less (\$11,136,889) for amortization of the assets in excess of the actuarial accrued liability in aggregate. Employer contributions represented 4.07% of covered payroll. [5.74% for normal costs and (1.67)% for amortization of assets in excess of the actuarial accrued liability in aggregate.] Member contributions represented 8.50% of covered payroll and are attributable to normal costs.

During the year ended June 30, 2003 contributions totaling \$37,728,509 (\$7,397,595 employer and \$30,330,914 member) was made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2001. The employer contributions consisted of approximately \$20,660,705 for normal cost less (\$13,263,110) for amortization of the assets in excess of the actuarial accrued liability in aggregate. Employer contributions represented 3.95% of covered payroll. [6.79% for normal costs and (2.84)% for amortization of assets in excess of the actuarial accrued liability in aggregate.] Member contributions represented 8.50% of covered payroll and are attributable to normal costs.

#### **NOTE 4 – REQUIRED SCHEDULES**

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

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS**

While not any one or two numeric indices can fully describe the financial condition of a retirement plan, the ratio of unfunded actuarial accrued liabilities to active member payroll is significant. The ratio of unfunded actuarial accrued liabilities to member payroll is a relative index of condition where inflation is present in both items. Observation of the ratio over a period of years gives an indication of funding achievement. The smaller the index, the stronger the plan's condition. Shown below is a Comparative Schedule (\$ in thousands) since legislation was enacted in 1987, setting up a 40-year amortization schedule. Effective June 30, 1997, Unfunded (Excess) Actuarial Accrued Liabilities are being amortized on a level percent method over a rolling twenty (20) year period.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)<sup>2</sup></b>	<b>Actuarial Liability (AAL) at Entry Age (b)</b>	<b>Unfunded (Excess) AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
6-30-88	\$ 69,842	\$ 76,884	\$ 7,042	90.8%	\$ 117,234	6.0%
6-30-89 <sup>1</sup>	\$ 88,756	\$ 99,113	\$ 10,357	89.6%	\$ 134,520	7.7%
6-30-90 <sup>1</sup>	\$ 108,973	\$ 122,578	\$ 13,605	88.9%	\$ 136,693	10.0%
6-30-91 <sup>1</sup>	\$ 138,901	\$ 146,300	\$ 7,399	94.9%	\$ 153,351	4.8%
6-30-92	\$ 168,553	\$ 163,640	\$ (4,913)	103.0%	\$ 156,257	-3.1%
6-30-93 *	\$ 198,692	\$ 184,299	\$ (14,393)	107.8%	\$ 166,831	-8.6%
6-30-94 <sup>1</sup>	\$ 223,902	\$ 221,487	\$ (2,415)	101.1%	\$ 177,717	-1.4%
6-30-95	\$ 265,006	\$ 254,189	\$ (10,817)	104.3%	\$ 198,603	-5.4%
6-30-96 *	\$ 319,255	\$ 290,518	\$ (28,737)	109.9%	\$ 224,686	-12.8%
6-30-97 <sup>1*</sup>	\$ 393,904	\$ 355,590	\$ (38,314)	110.8%	\$ 249,203	-15.4%
6-30-98	\$ 484,956	\$ 410,531	\$ (74,425)	118.1%	\$ 261,700	-28.4%
6-30-99	\$ 592,152	\$ 443,676	\$ (148,476)	133.5%	\$ 305,478	-48.6%
6-30-00	\$ 704,991	\$ 501,323	\$ (203,668)	140.6%	\$ 339,440	-60.0%
6-30-01	\$ 776,177	\$ 554,387	\$ (221,790)	140.0%	\$ 339,783	-65.3%
6-30-02	\$ 782,446	\$ 632,238	\$ (150,208)	123.8%	\$ 330,428	-45.5%
6-30-03	\$ 758,579	\$ 709,298	\$ (49,281)	106.9%	\$ 358,161	-13.8%
6-30-04	\$ 833,621	\$ 795,775	\$ (37,846)	104.8%	\$ 381,942	-9.9%

\* One-time cost-of-living adjustments for retired members and survivors, effective July 1 were included in this valuation. Future increases for retirees and their survivors are dependent upon excess earnings created by the Plan.

1. Reflects significant Plan amendments or assumption changes.
2. Excludes the amount held in reserve for future benefit increases. Beginning 6-30-95, includes an amount for partial recognition of the difference between market value and book value of Plan assets amortized over a four-year period.

AAL is calculated using the entry-age normal method. Significant assumptions used in determining AAL include: (a) a rate of return on the investment of present and future assets of 8.75% per year compounded annually; (b) projected salary increases of 6.25% per year compounded annually, attributable to an assumed inflation rate of 5.25% and other across-the-board factors of 1.0%; and (c) additional projected salary increases ranging from 0.0% to 3.0% per year, depending on age, attributable to seniority/merit.

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Fiscal Year Ended June 30</b>	<b>Employer Contributions</b>	
	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
1990	\$8,250,984	100.00%
1991	\$9,764,220	100.00%
1992	\$9,492,656	100.00%
1993	\$10,099,143	100.00%
1994	\$10,032,668	100.00%
1995	\$10,565,831	100.00%
1996	\$14,371,254	100.00%
1997	\$16,704,445	100.00%
1998	\$17,063,015	100.00%
1999	\$17,109,704	100.00%
2000	\$16,876,163	100.00%
2001	\$14,927,396	100.00%
2002	\$7,101,112	100.00%
2003	\$7,397,595	100.00%
2004	\$14,555,335	100.00%

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SUPPORTING SCHEDULE OF CHANGES IN FUND BALANCE RESERVES  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<b>Refundable Members' Reserve</b>	<b>Employers' Reserve</b>	<b>Future Benefit Increase Reserve</b>
<b>Balance - June 30, 2002</b>	\$142,887,876	\$ 408,988,533	\$ 34,452,064
<b>Distribution of Revenues and Expenses</b>			
Members' Contributions	30,330,914		
Employers' Contributions		7,397,595	
Earnings (Loss) on Investments Net of Investment Expenses		35,698,266	
Pension and Insurance Benefits		(22,506,792)	
Refunds to Terminated Members	(12,249,563)	(3,773,134)	
Administrative Expenses		(427,150)	
<b>Distribution of Transfers</b>			
Excess Investment Earnings to be used for Future Benefit Increases		-	-
Earnings (Loss) on Excess Investment Earnings Account Assets		(2,136,028)	2,136,028
Amount Utilized by Benefit Increases Granted		5,878,909	(5,878,909)
Net Transfers from Other State-Sponsored Pension Plans	394,919	1,744,988	
Inter-System Transfers -- Employer Account Balances Transferred for Refund Interest	116,696	(116,696)	
Inter-System Transfers -- Member Account Balances Transferred to Employers' Reserve due to Retirement	(9,027,127)	9,027,127	
<b>Balance - June 30, 2003</b>	<b>\$152,453,715</b>	<b>\$ 439,775,618</b>	<b>\$ 30,709,183</b>
<b>Distribution of Revenues and Expenses</b>			
Members' Contributions	32,162,578		
Employers' Contributions		14,555,335	
Earnings (Loss) on Investments Net of Investment Expenses		91,300,470	
Pension and Insurance Benefits		(26,623,619)	
Refunds to Terminated Members	(10,983,071)	(3,069,932)	
Administrative Expenses		(541,070)	
<b>Distribution of Transfers</b>			
Excess Investment Earnings to be used for Future Benefit Increases		(18,478,098)	18,478,098
Earnings (Loss) on Excess Investment Earnings Account Assets		(4,536,053)	4,536,053
Amount Utilized by Benefit Increases Granted		7,810,709	(7,810,709)
Net Transfers from (to) Other State-Sponsored Pension Plans	(247,006)	(256,967)	
Inter-System Transfers -- Employer Account Balances Transferred for Refund Interest	-	-	
Inter-System Transfers -- Member Account Balances Transferred to Employers' Reserve due to Retirement	(8,240,742)	8,240,742	
<b>Balance - June 30, 2004</b>	<b>\$165,145,474</b>	<b>\$ 508,177,135</b>	<b>\$ 45,912,625</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SUPPORTING SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES  
SUPPORTING SCHEDULE OF PAYMENTS TO CONSULTANTS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Administrative</b>	<b>Investment</b>	<b>Total</b>
Accounting and Auditing Services	\$ 5,250	\$ -	\$ 5,250
Actuarial Services	18,650	-	\$ 18,650
Computer Equipment	27,633	3,526	\$ 31,159
Contractual Services	13,016	1,661	\$ 14,677
DC ER Match	15,691	3,003	\$ 18,694
Educational Expenses	13,946	8,332	\$ 22,278
Fund Manager Initiatives	-	1,626	\$ 1,626
Furniture and Equipment	3,822	488	\$ 4,310
Occupancy Expenses	16,209	689	\$ 16,898
Office Supplies	7,480	602	\$ 8,082
Payroll Taxes and Fringe Benefits	66,066	12,644	\$ 78,710
Postage Expenses	17,520	743	\$ 18,263
Printing, Publications and Subscriptions	10,613	478	\$ 11,091
Professional Services	23,504	1,001	\$ 24,505
Salaries and Wages	294,377	56,338	\$ 350,715
Telephone Expenses	6,603	446	\$ 7,049
Travel Expenses	690	128	\$ 818
	<b>\$ 541,070</b>	<b>\$ 91,705</b>	<b>\$ 632,775</b>

**Consultants**

	<b>Fees Paid</b>
Standard & Poor's Securities, Inc. - Investment Counsel	\$ (1)
Rodwan & Nichols - Consulting Actuaries	18,650
Barrows & Schatza, P.L.C. - Auditors	5,250
Lieberman, Dodge, Gerding, Kothe & Anderson, Ltd. - Legal Counsel	24,505
	<b>\$ 48,405</b>

(1) This service was provided to the Plan without charge by Standard & Poor's Securities, Inc. The value of their services is approximately \$22,500

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SUPPLEMENTAL SCHEDULE OF  
CASH RECEIPTS AND CASH DISBURSEMENTS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>RECEIPTS</b>		
Members' Contributions	\$ 32,175,287	\$ 30,448,739
Employers' Contributions	14,541,416	7,423,156
Interest	12,435,288	15,227,596
Dividends	4,602,807	2,842,897
Securities Lending Income	261,513	274,758
Amounts Transferred from Other		
State-Sponsored Pension Plans	634,966	3,189,325
Maturities and Sales of		
U.S. Government Securities	21,915,192	32,887,268
Corporate Bonds	55,993,456	19,927,201
Corporate Notes	1,175,357,828	1,716,843,618
Other Investments	8,840,559	11,519,415
Common Stock	67,763,398	85,692,224
Net Decrease in Money Market Fund	-	27,004
<b>Total Receipts</b>	<b>1,394,521,710</b>	<b>1,926,303,201</b>
<b>DISBURSEMENTS</b>		
Pension Benefits	26,623,619	22,506,792
Refunds to Terminated Members	14,053,002	16,011,467
Investment and Administrative Expenses	632,775	497,975
Amounts Transferred to Other		
State-Sponsored Pension Plans	1,138,940	1,049,418
Acquisitions of		
U.S. Government Securities	-	-
Corporate Bonds	40,170,359	26,625,323
Corporate Notes	1,168,209,065	1,727,990,998
Other Investments	10,799,061	28,287,466
Common Stock	130,396,533	103,333,762
Net Increase in Money Market Fund	2,498,356	-
<b>Total Disbursements</b>	<b>1,394,521,710</b>	<b>1,926,303,201</b>
<b>DECREASE IN CASH</b>	-	-
<b>BEGINNING CASH BALANCE - July 1</b>	-	-
<b>ENDING CASH BALANCE - June 30</b>	<b>\$ -</b>	<b>\$ -</b>

# INVESTMENT SECTION

CORRECTIONS OFFICER RETIREMENT PLAN  
EIGHTEENTH COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2004

Fund Objectives

Investment Performance Data

Supporting Schedule of Commissions Paid to Brokers

Summary of Changes in Investment Portfolio

Detailed List of Investments Acquired

Detailed List of Sales and Redemption of Investments

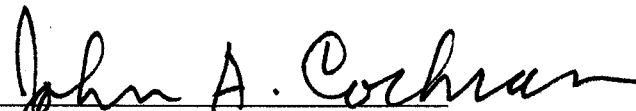
Detailed List of Investments Owned




FUND OBJECTIVES

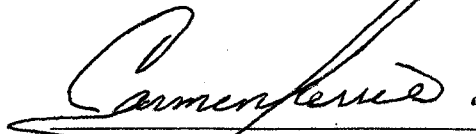
1. The intent of the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan and the Corrections Officer Retirement Plan (hereinafter referred to as the Plan) is to provide the Plan participants benefits as defined in Title 38, chapter 5, articles 3, 4 and 6 of the Arizona Revised Statutes.
2. The Fund Manager and the Administrator will discharge their duties with respect to the Plan solely in the interest of the Plan participants, beneficiaries and employer sponsors. In making every investment, the Fund Manager shall exercise the judgment and care under the circumstances then prevailing which men of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided these investments are made in conformity with all applicable laws.
3. The intention of the Plan is to maintain the benefit level 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 Arizona State Legislature. In order to maintain this benefit level the Plan will annually adjust the employer contribution rate based on the recommendations made by the annual actuarial valuations. The Plan's funding goal is for the Plan assets to be equal to Plan liabilities within any twenty-year period.
4. It is the intent of the Plan to level off or reduce the employer contribution rate to the Plan as well as to provide the opportunity for increased benefits for retirees as the legislature may from time to time enact, through the systematic growth of the investments of the fund.
5. The primary objective of the investment program of the Plan is a reasonable, long-range total rate of return. Inherent in this goal is the preservation and enhancement of capital through effective management of the portfolio in order to take advantage of attractive opportunities various market sectors have to offer.


Adopted this 17<sup>th</sup> day of June, 1998, by the Fund Manager.

  
John A. Cochran, Ph.D., Chairman

  
F. Michael Geddes, Member

  
Donald L. De Ment, Member

  
Carmen Torrie, Member

  
Tony West, Member

Added 11-57-92  
Revised 11-55-97  
Revised 06-45-98

September 9, 2004

The Fund Manager  
Corrections Officer Retirement Plan  
of the State of Arizona  
3010 E. Camelback Rd, Ste 200  
Phoenix, Arizona 85016

Dear Sirs:

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

The performance data include realized and unrealized capital gains and losses, as well as interest and dividend income earned by the fund. We believe these computations were performed in accordance with accepted AIMR procedures.

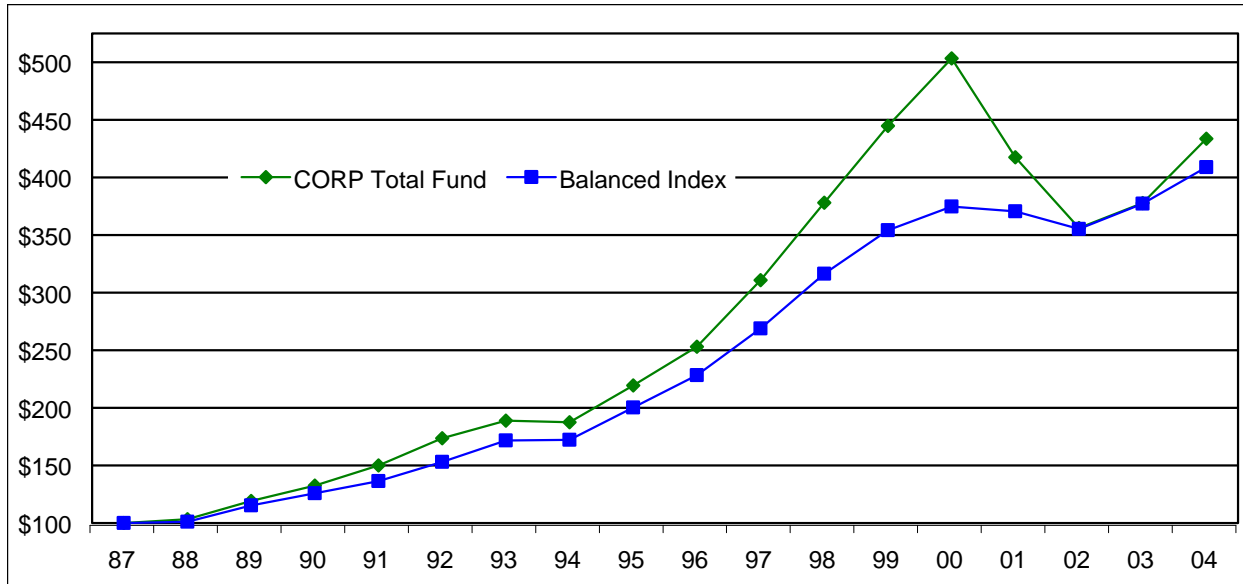
Based on the foregoing, during the past fiscal year, the stock portfolio underperformed the NYSE Index and outperformed the S&P 500 Index, while the bond portfolio outperformed the Lehman Government/Credit Index. The overall fund outperformed a custom benchmark, using bond and stock indices weighted in a fixed proportion. The overall fund has attained a rate of return over the past seventeen years (since inception) that compares favorably with this custom index.

Sincerely,

**DAVID J. BRAVERMAN**

David J. Braverman  
Vice President

**Investment Performance Data  
Cumulative Return - Total Fund  
Corrections Officer Retirement Plan**



FYE	Fair Value	Contribution	Total Return	Balanced Index*
06-30-04	\$ 714,617,603	\$ 4,770,301	14.77%	8.38%
06-30-03	\$ 618,455,126	\$ (4,167)	6.15%	6.18%
06-30-02	\$ 582,690,201	\$ 3,569,034	-14.73%	-4.13%
06-30-01	\$ 679,572,838	\$ 15,092,575	-17.07%	-1.07%
06-30-00	\$ 803,140,980	\$ 20,812,944	13.22%	5.75%
06-30-99	\$ 689,508,750	\$ 19,793,597	17.60%	11.94%
06-30-98	\$ 567,501,186	\$ 22,020,935	21.68%	17.66%
06-30-97	\$ 446,443,126	\$ 21,510,046	22.74%	17.87%
06-30-96	\$ 344,052,534	\$ 17,224,177	15.30%	13.98%
06-30-95	\$ 282,566,544	\$ 13,323,271	17.11%	16.30%
06-30-94	\$ 228,725,251	\$ 12,344,638	-0.70%	0.25%
06-30-93	\$ 218,076,361	\$ 14,234,677	8.79%	12.26%
06-30-92	\$ 186,696,553	\$ 14,047,050	15.67%	12.12%
06-30-91	\$ 148,567,837	\$ 18,448,295	13.23%	8.32%
06-30-90	\$ 113,343,482	\$ 12,540,673	11.24%	9.21%
06-30-89	\$ 90,034,663	\$ 11,245,876	15.21%	13.98%
06-30-88	\$ 67,462,178	\$ 17,014,108	3.40%	1.19%
06-30-87	\$ 48,123,723			

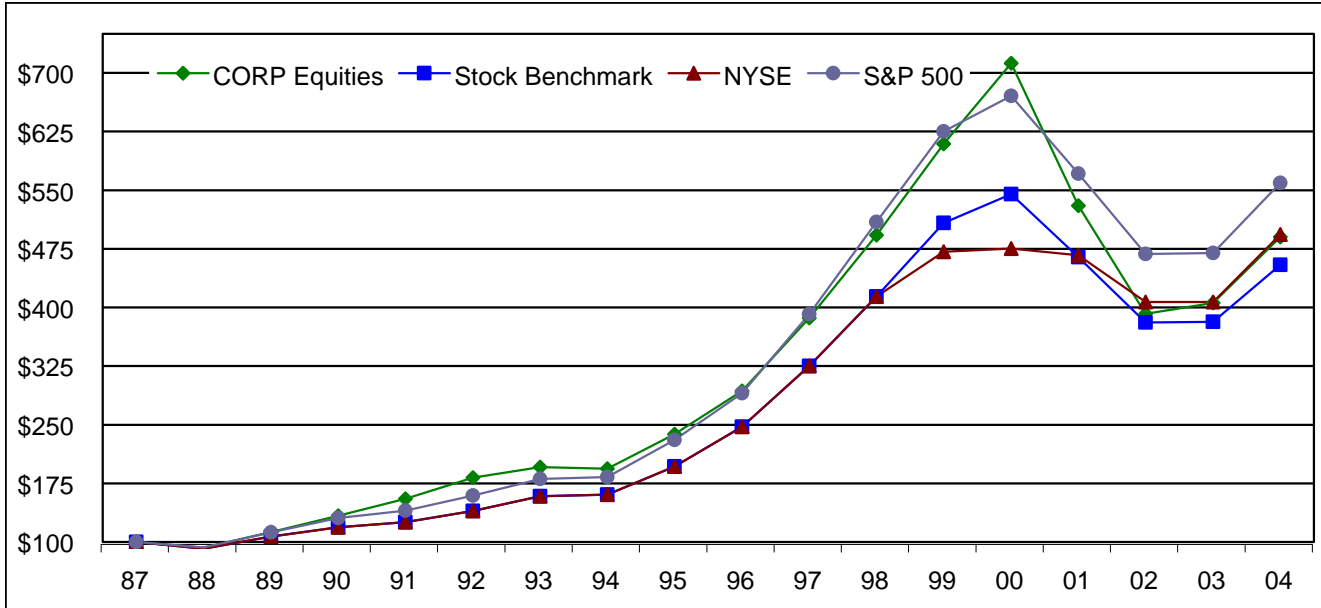
<b>Annualized Returns</b>	<b>3-year</b>	1.28%	3.33%
	<b>5-year</b>	-0.50%	2.91%
	<b>10-year</b>	8.75%	9.04%
	<b>15-year</b>	9.00%	8.80%

\*The Balanced Index is calculated using the following formula: 45% Stock Benchmark + 45% Lehman Government/Credit + 10% 91 Day T-bill.

Our investment universe is the New York Stock Exchange (NYSE) prior to July 21, 1997. Prior to FYE June 30, 1998, the Fund's stock benchmark was the NYSE Composite. S&P 500 is the stock benchmark for each FYE thereafter. The Lehman Government/Credit bond index includes more than 5,000 publicly traded bond issues of \$25 million or more rated Baa or better for a total market value of more than \$2 trillion.

Prior to 1990, the weightings in each asset class were calculated using the fiscal year-end market values. Since 1990, the asset class weightings have been calculated using the average weightings of the quarter's beginning and ending market values.

**Investment Performance Data  
Cumulative Return - Domestic Equities  
Corrections Officer Retirement Plan**

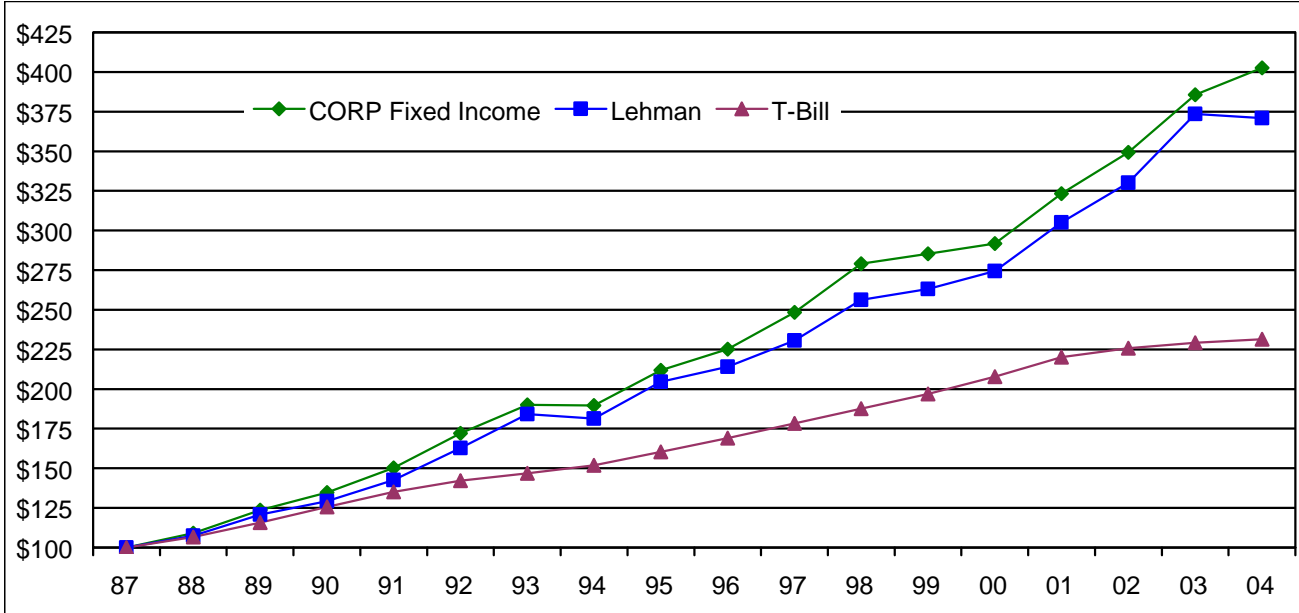


FYE	Fair Value	Contribution	Total Return	Stock* Benchmark	NYSE Index	S&P 500	
06-30-04	\$ 508,338,463	\$ 57,913,337	20.71%	19.11%	21.28%	19.11%	
06-30-03	\$ 367,493,574	\$ 14,569,963	3.63%	0.25%	-0.05%	0.25%	
06-30-02	\$ 341,648,828	\$ 5,214,130	-26.10%	-17.99%	-12.80%	-17.99%	
06-30-01	\$ 455,399,449	\$ (12,369,993)	-25.59%	-14.83%	-1.77%	-14.83%	
06-30-00	\$ 626,591,339	\$ 28,405,378	16.94%	7.25%	0.84%	7.25%	
06-30-99	\$ 509,408,904	\$ 17,401,223	23.69%	22.76%	13.86%	22.76%	
06-30-98	\$ 393,669,809	\$ 33,176,239	27.37%	27.29%	27.29%	30.16%	
06-30-97	\$ 282,295,331	\$ 24,635,056	31.78%	31.51%	31.51%	34.71%	
06-30-96	\$ 192,410,171	\$ 19,911,538	23.35%	25.91%	25.91%	26.00%	
06-30-95	\$ 136,792,031	\$ (8,954,375)	22.83%	22.40%	22.40%	26.06%	
06-30-94	\$ 120,009,219	\$ 9,254,903	-1.14%	1.24%	1.24%	1.23%	
06-30-93	\$ 112,232,875	\$ 35,940,119	7.38%	13.32%	13.32%	13.52%	
06-30-92	\$ 88,979,250	\$ 19,472,103	17.42%	11.59%	11.59%	13.45%	
06-30-91	\$ 58,385,625	\$ 13,099,368	16.47%	5.50%	5.50%	7.39%	
06-30-90	\$ 38,044,750	\$ 12,336,990	18.39%	11.25%	11.25%	16.44%	
06-30-89	\$ 21,228,125	\$ (430,650)	21.75%	16.81%	16.81%	20.53%	
06-30-88	\$ 17,925,000	\$ 4,678,349	-7.46%	-8.57%	-8.57%	-6.92%	
06-30-87	\$ 14,739,500						
<b>Annualized Returns</b>			<b>3-year</b>	-2.58%	-0.70%	1.87%	-0.70%
			<b>5-year</b>	-4.26%	-2.21%	0.92%	-2.21%
			<b>10-year</b>	9.73%	10.97%	11.89%	11.83%
			<b>15-year</b>	10.30%	10.14%	10.74%	11.30%

\*Our investment universe is the New York Stock Exchange (NYSE) prior to July 21, 1997. Prior to FYE June 30, 1998, the Fund's stock benchmark was the NYSE Composite. S&P 500 is the stock benchmark for each FYE thereafter.

Prior to 1990, the weightings in each asset class were calculated using the fiscal year-end market values. Since 1990, the asset class weightings have been calculated using the average weightings of the quarter's beginning and ending market values.

**Investment Performance Data  
Cumulative Return - Fixed Income  
Corrections Officer Retirement Plan**



FYE	Fair Value	Contribution	Total Return	Lehman*	91-Day T-Bill	
06-30-04	\$ 206,279,140	\$ (53,143,036)	4.40%	-0.71%	0.98%	
06-30-03	\$ 250,961,552	\$ (14,574,131)	10.38%	13.14%	1.53%	
06-30-02	\$ 241,041,374	\$ (1,645,095)	8.10%	8.24%	2.57%	
06-30-01	\$ 224,173,388	\$ 27,462,568	10.78%	11.14%	5.89%	
06-30-00	\$ 176,549,641	\$ (7,592,434)	2.28%	4.29%	5.53%	
06-30-99	\$ 180,099,846	\$ 2,392,374	2.25%	2.69%	4.90%	
06-30-98	\$ 173,831,382	\$ (11,155,304)	12.30%	11.08%	5.28%	
06-30-97	\$ 164,147,795	\$ (3,125,010)	10.32%	7.76%	5.43%	
06-30-96	\$ 151,642,363	\$ (2,687,361)	6.26%	4.65%	5.52%	
06-30-95	\$ 145,774,513	\$ 22,277,646	11.71%	12.75%	5.52%	
06-30-94	\$ 108,716,032	\$ 3,089,735	-0.21%	-1.45%	3.37%	
06-30-93	\$ 105,843,386	\$ (7,458,392)	10.45%	13.15%	3.37%	
06-30-92	\$ 97,717,303	\$ (5,425,053)	14.54%	14.17%	5.19%	
06-30-91	\$ 90,182,212	\$ (5,348,927)	11.55%	10.21%	7.55%	
06-30-90	\$ 75,298,732	\$ 203,683	9.01%	7.11%	8.50%	
06-30-89	\$ 68,806,538	\$ 11,676,526	13.18%	12.33%	8.47%	
06-30-88	\$ 49,537,189	\$ 12,335,759	9.18%	7.47%	6.75%	
06-30-87	\$ 33,384,223					
<b>Annualized Returns</b>			<b>3-year</b>	7.60%	6.73%	1.69%
			<b>5-year</b>	7.14%	7.10%	3.28%
			<b>10-year</b>	7.82%	7.41%	4.30%
			<b>15-year</b>	8.19%	7.77%	4.72%

\*The Lehman Government/Credit bond index includes more than 5,000 publicly traded bond issues of \$25 million or more and rated Baa or better for a total market value of more than \$2 trillion.

Prior to 1990, the weightings in each asset class were calculated using the fiscal year-end market values. Since 1990, the asset class weightings have been calculated using the average weightings of the quarter's beginning and ending market values.

Our Fixed Income is comprised of all Bonds, Notes, Other Investments and Money Market securities.

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SUPPORTING SCHEDULE OF COMMISSIONS PAID TO BROKERS  
FISCAL YEAR ENDED JUNE 30, 2004**

<b>Broker</b>	<b>Number of Shares Traded</b>	<b>Average Commission</b>	<b>Commissions</b>
Greenberg Financial Group	589,700	0.049	\$ 28,890.00
Investors Capital Corporation	281,700	0.050	\$ 14,085.00
ISI Group, Inc.	566,010	0.049	\$ 27,700.50
Merrill Lynch	590,500	0.049	\$ 29,155.00
Morgan Stanley Dean Witter	399,402	0.048	\$ 19,277.10
Salomon Smith Barney--Phoenix	330,200	0.049	\$ 16,260.00
Salomon Smith Barney--Scottsdale	449,300	0.049	\$ 22,235.00
Samco Financial Services, Inc.	325,933	0.050	\$ 16,296.65
Standard & Poor's Securities	1,130,000	0.050	\$ 56,050.00
U.S. Financial Investments Inc.	433,500	0.050	\$ 21,675.00
UBS/Paine Webber	463,700	0.048	\$ 22,061.00
Wells Fargo Securities	249,600	0.050	\$ 12,480.00
<b>Total Commissions</b>	<b>5,809,545</b>	<b>0.049</b>	<b>\$ 286,165.25</b>

The Plan typically pays \$ .05 per share traded plus SEC charges on sale transactions. Over the Counter stocks are typically traded net of commissions. The firms with an average commission of less than \$.05 have traded Over the Counter net of commissions for the Plan.

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SUMMARY OF CHANGES IN INVESTMENT PORTFOLIO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Description	Percent at Fair Value	Balance June 30, 2003		Acquisitions	Maturities and Sales	(Premium) Discount	Balance June 30, 2004		Percent at Fair Value
		Fair Value	Book Value				Fair Value	Book Value	
U.S. Treasury Obligations	2.4%	14,626,570.00	10,970,739.53	-	4,001,130.16	2,112.42	9,374,070.00	6,971,721.79	1.3%
Federal Agency Obligations	5.9%	36,371,801.23	33,793,955.40	-	17,916,173.95	-	17,221,846.54	15,877,781.45	2.4%
<b>Total U.S. Government Securities</b>	<b>8.3%</b>	<b>50,998,371.23</b>	<b>44,764,694.93</b>	<b>-</b>	<b>21,917,304.11</b>	<b>2,112.42</b>	<b>26,595,916.54</b>	<b>22,849,503.24</b>	<b>3.7%</b>
Corporate Bonds	19.1%	118,203,720.03	105,515,903.93	40,170,358.86	50,903,173.58	(103,163.38)	102,041,174.98	94,679,925.83	14.3%
<b>Total Bond Portfolio</b>	<b>27.4%</b>	<b>169,202,091.26</b>	<b>150,280,598.86</b>	<b>40,170,358.86</b>	<b>72,820,477.69</b>	<b>(101,050.96)</b>	<b>128,637,091.52</b>	<b>117,529,429.07</b>	<b>18.0%</b>
Corporate Notes	6.6%	40,633,249.28	40,633,249.28	1,168,209,064.57	1,175,357,827.74		33,484,486.11	33,484,486.11	4.7%
Common Stock	59.4%	367,493,573.58	350,794,899.51	130,396,533.53	65,284,666.42		508,338,462.93	415,906,766.62	71.1%
Other Investments	6.4%	39,584,740.54	39,584,740.54	10,799,061.18	10,266,067.47		40,117,734.25	40,117,734.25	5.6%
Money Market Account	0.2%	1,541,471.60	1,541,471.60	2,498,356.35			4,039,827.95	4,039,827.95	0.6%
<b>Total Portfolio</b>	<b>100.0%</b>	<b>618,455,126.26</b>	<b>582,834,959.79</b>	<b>1,352,073,374.49</b>	<b>1,323,729,039.32</b>	<b>(101,050.96)</b>	<b>714,617,602.76</b>	<b>611,078,244.00</b>	<b>100.0%</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**BONDS ACQUIRED**

Security	Coupon	Maturity	Purchase Price	Par Value	Principal	(Premium) Discount	Accrued Interest	Total Amount	Book Yield
<b>CORPORATE BONDS</b>									
AMERICAN AIRLINES	7.858	10/01/11	99.70000	3,400,000.00	3,389,800.00	10,200.00	34,880.79	3,424,680.79	7.88%
BOEING CORPORATION	8.750	08/15/21	123.69000	2,500,000.00	3,092,250.00	(592,250.00)	100,868.06	3,193,118.06	7.07%
CBO HOLDINGS III LTD.	7.000	02/10/38	105.75000	1,155,000.00	1,221,412.50	(66,412.50)	11,453.75	1,232,866.25	6.62%
CONSECO FINANCE	8.060	05/01/31	88.00000	1,000,000.00	880,000.00	120,000.00	6,045.00	886,045.00	9.16%
CONSECO FINANCE	8.060	05/01/31	88.50000	1,000,000.00	885,000.00	115,000.00	4,701.67	889,701.67	9.11%
CONTINENTAL AIRLINES INC	7.256	03/15/20	105.00000	601,654.96	631,737.71	(30,082.75)	15,522.16	647,259.87	6.91%
CONTINENTAL AIRLINES INC	7.918	05/01/10	104.20000	643,000.00	670,006.00	(27,006.00)	10,041.12	680,047.12	7.60%
CONTINENTAL AIRLINES INC	7.918	05/01/10	102.50000	1,800,000.00	1,845,000.00	(45,000.00)	3,959.00	1,848,959.00	7.72%
CONTINENTAL AIRLINES INC	6.320	11/01/08	101.25000	1,201,000.00	1,216,012.50	(15,012.50)	28,252.86	1,244,265.36	6.24%
CONTINENTAL AIRLINES INC	6.503	06/15/11	99.90000	952,000.00	951,048.00	952.00	171.97	951,219.97	6.51%
EASTMAN HILL FUNDING LTD	1.905	09/29/31	52.50000	1,500,000.00	787,500.00	712,500.00	4,921.25	792,421.25	3.63%
FEDERAL HOME LOAN BANK FNMA	6.500	08/28/18	100.00000	3,000,000.00	3,000,000.00	0.00	0.00	3,000,000.00	6.50%
FNMA	5.000	12/30/10	100.00000	1,125,000.00	1,125,000.00	0.00	0.00	1,125,000.00	5.00%
FREDDIE MAC	5.000	07/02/18	90.26100	1,500,000.00	1,353,915.00	146,085.00	12,916.67	1,366,831.67	5.54%
HUTCHISON WHAMPOA FINANCIAL	7.450	08/01/17	103.75000	750,000.00	778,125.00	(28,125.00)	23,126.04	801,251.04	7.18%
HUTCHISON WHAMPOA FINANCIAL	7.450	08/01/17	108.65400	3,000,000.00	3,259,620.00	(259,620.00)	105,541.67	3,365,161.67	6.86%
HUTCHISON WHAMPOA INTL LTD	7.450	11/24/33	93.82500	850,000.00	797,512.50	52,487.50	29,375.76	826,888.26	7.94%
NORTHWEST AIRLINES 1999-2A	7.575	03/01/19	104.12500	1,765,339.40	1,838,159.65	(72,820.25)	39,374.42	1,877,534.07	7.27%
NORTHWEST AIRLINES INC	6.841	04/01/11	98.00000	600,000.00	588,000.00	12,000.00	4,674.68	592,674.68	6.98%
NORTHWEST AIRLINES INC	6.841	04/01/11	100.00000	2,100,000.00	2,100,000.00	0.00	65,445.57	2,165,445.57	6.84%
OAKWOOD MORTGAGE INVESTORS INC	5.190	09/15/19	97.00000	2,533,000.00	2,457,010.00	75,990.00	4,747.26	2,461,757.26	5.35%
PREFERRED CPO	8.946	07/26/30	104.50000	3,000,000.00	3,135,000.00	(135,000.00)	23,110.50	3,158,110.50	8.56%
SIGNATURE 6 LIMITED	7.276	09/27/16	90.10000	500,000.00	450,500.00	49,500.00	7,478.11	457,978.11	8.08%
WYETH	6.450	02/01/24	95.35000	1,500,000.00	1,430,250.00	69,750.00	51,600.00	1,481,850.00	6.76%
ZAIS INVESTMENT GRADE LTD	2.481	12/10/15	61.00000	3,750,000.00	2,287,500.00	1,462,500.00	35,659.06	2,323,159.06	4.07%
<b>TOTAL CORPORATE BONDS</b>				<b>41,725,994.36</b>	<b>40,170,358.86</b>	<b>1,555,635.50</b>	<b>623,867.37</b>	<b>40,794,226.23</b>	<b>6.83%</b>
<b>TOTAL BONDS ACQUIRED</b>				<b>41,725,994.36</b>	<b>40,170,358.86</b>	<b>1,555,635.50</b>	<b>623,867.37</b>	<b>40,794,226.23</b>	<b>6.83%</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004  
SHORT TERM INVESTMENTS MATURED**

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Description	Cost	Amount of Interest	Maturity Value
ABSC CAPITAL	6,249,088.54	911.46	6,250,000.00
AIR LIQUIDE US	4,996,693.75	3,306.25	5,000,000.00
ALTAMIRA FUNDING	4,999,158.33	841.67	5,000,000.00
APRECO INC	5,396,667.00	3,333.00	5,400,000.00
ASSET ONE SECURITIZATION	34,732,577.57	17,422.43	34,750,000.00
AUTOBAHN FUNDING CORP	42,811,797.50	13,202.50	42,825,000.00
BARTON CAPITAL CORP	21,241,385.98	8,614.02	21,250,000.00
BEETHOVEN FUNDING CORPORATION	21,485,641.67	14,358.33	21,500,000.00
BRYANT PARK FUNDING LLC	12,738,678.33	11,321.67	12,750,000.00
CARGILL ASIA PACIFIC LTD	5,499,395.00	605.00	5,500,000.00
CBA (DELAWARE) FINANCE INC	3,999,882.22	117.78	4,000,000.00
CDC COMMERCIAL PAPER PROGRAM	14,495,422.09	4,577.91	14,500,000.00
CHARTA CORP	3,999,102.22	897.78	4,000,000.00
CHECK POINT CHARLIE INC	14,985,816.94	14,183.06	15,000,000.00
CLIPPER RECEIVABLES	26,391,221.75	8,778.25	26,400,000.00
CONCORD MINUTEMAN CAPITAL	5,999,803.33	196.67	6,000,000.00
CONSOLIDATED EDISON COMPANY	3,999,542.22	457.78	4,000,000.00
COUNTRYWIDE HOME LOANS	3,999,320.00	680.00	4,000,000.00
CROWN POINT CAPITAL	20,320,422.59	4,577.41	20,325,000.00
DEXIA DELAWARE LLC	5,796,877.67	3,122.33	5,800,000.00
EAGLE FUNDING CAPITAL	36,492,759.24	7,240.76	36,500,000.00
EMINENT FUNDING	5,499,847.22	152.78	5,500,000.00
EUROHYPO AG	2,999,272.50	727.50	3,000,000.00
EXXON PROJECT	4,999,056.94	943.06	5,000,000.00
FALCON ASSET SECURITIZATION	6,999,027.78	972.22	7,000,000.00
GALLEON CAPITAL	48,198,646.58	1,353.42	48,200,000.00
GENERAL DYNAMICS CORP	5,249,857.08	142.92	5,250,000.00
GENERAL ELECTRIC COMPANY	10,496,145.00	3,855.00	10,500,000.00
GIRO MULTI-FUNDING US CORP	16,698,151.86	1,848.14	16,700,000.00
GREYHAWK FUNDING LLC	12,492,262.50	7,737.50	12,500,000.00
HOLLAND LIMITED SECURITIZATION	1,999,136.67	863.33	2,000,000.00
HUDSON AMERICAN REALTY	10,494,501.39	5,498.61	10,500,000.00
INTERNATIONAL LEASE FINANCE	21,040,188.75	9,811.25	21,050,000.00
LEXINGTON PARKER CAPITAL CORP	10,998,896.66	1,103.34	11,000,000.00
LIBERTY STREET FUNDING	25,498,663.89	1,336.11	25,500,000.00
LONG LANE MASTER TRUST	3,497,114.44	2,885.56	3,500,000.00
MACQUARIE BANK LTD	6,997,550.00	2,450.00	7,000,000.00
MARKET STREET FUNDING	25,681,159.05	18,840.95	25,700,000.00
MARSH & MCLENNAN	4,749,612.08	387.92	4,750,000.00
MAXIMILIAN CAPITAL CORP	6,993,525.00	6,475.00	7,000,000.00
MERRILL LYNCH & CO, INC.	25,170,737.51	4,262.49	25,175,000.00
MONTAUK FUNDING CORP	11,198,109.25	1,890.75	11,200,000.00
NATIONAL AUSTRALIA FUNDING	17,240,807.71	9,192.29	17,250,000.00
NATIONWIDE BUILDING SOCIETY	5,996,296.67	3,703.33	6,000,000.00
NEPTUNE FUNDING	13,792,435.11	7,564.89	13,800,000.00
NESTLE CAPITAL CORP	4,749,879.93	120.07	4,750,000.00
NORDDEUTSCHE LANDESBANK	30,363,729.24	11,270.76	30,375,000.00
ORANGE & ROCKLAND UTILITY	4,999,566.67	433.33	5,000,000.00
PARADIGM FUNDING	30,842,037.45	7,962.55	30,850,000.00
PREFERRED RECEIVABLES FUNDING CORP	5,995,070.00	4,930.00	6,000,000.00
PUBLIC SQUARE FUNDING II	11,499,655.83	344.17	11,500,000.00
REGENCY MARKETS NO. 1	17,491,187.78	8,812.22	17,500,000.00

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004  
SHORT TERM INVESTMENTS MATURED**

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<b>Description</b>	<b>Cost</b>	<b>Amount of Interest</b>	<b>Maturity Value</b>
SILVER TOWER U.S.	6,294,620.50	5,379.50	6,300,000.00
SPARC LLC	4,498,050.00	1,950.00	4,500,000.00
STARBIRD FUNDING CORPORATION	105,710,327.23	14,672.77	105,725,000.00
STEAMBOAT FUNDING	67,587,988.10	12,011.90	67,600,000.00
SUNBELT FUNDING CORP	8,996,492.78	3,507.22	9,000,000.00
SYDNEY CAPITAL CORP	9,742,876.04	7,123.96	9,750,000.00
THREE CROWNS FUNDING	14,498,834.72	1,165.28	14,500,000.00
THUNDER BAY FUNDING	5,999,000.00	1,000.00	6,000,000.00
TOTAL CAPITAL SA	24,247,932.02	2,067.98	24,250,000.00
TRANSAMERICA ASSET FUNDING	5,496,504.44	3,495.56	5,500,000.00
UBS AMERICAS INC	38,996,885.68	3,114.32	39,000,000.00
UBS FINANCE (DELAWARE)	110,532,022.51	17,977.49	110,550,000.00
USAA CAPITAL CORP	5,499,382.78	617.22	5,500,000.00
VICTORIA REC	5,199,436.67	563.33	5,200,000.00
WELLS FARGO & COMPANY	4,497,401.25	2,598.75	4,500,000.00
WORLD OMNI VEHICLE LEASING	29,511,043.88	13,956.12	29,525,000.00
YORKTOWN CAPITAL LLC	16,495,646.66	4,353.34	16,500,000.00
<b>TOTAL SHORT TERM INVESTMENTS MATURED</b>	<b>1,175,357,827.74</b>	<b>342,172.26</b>	<b>1,175,700,000.00</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**COMMON STOCK ACQUIRED**

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<b>Company</b>	<b>No. Shares</b>	<b>Dividend Rate</b>	<b>Annual Income</b>	<b>Book Yield</b>	<b>Average Cost</b>	<b>Book Cost</b>
ABBOTT LABORATORIES	3,100	1.04	3,224.00	2.33%	44.58	138,198.00
ABERCROMBIE & FITCH	35,200	0.50	17,600.00	1.74%	28.77	1,012,736.14
ABM INDUSTRIES INC	15,700	0.40	6,280.00	2.16%	18.50	290,418.82
ADOBE SYSTEMS	2,200	0.05	110.00	0.12%	41.40	91,080.00
ADVANCED ENERGY INDUSTRIES	11,000	-	-	0.00%	22.25	244,750.00
AETNA INC	18,000	0.04	720.00	0.05%	80.74	1,453,311.00
AFFILIATED COMPUTER SERVICES	19,000	-	-	0.00%	48.73	925,799.70
ALBERTO CULVER CO	2,600	0.40	1,040.00	0.68%	58.92	153,187.84
ALLSTATE CORPORATION	33,000	1.12	36,960.00	3.11%	36.00	1,188,084.00
ALLTEL CORPORATION	39,300	1.48	58,164.00	3.22%	46.00	1,807,722.40
AMBAC FINANCIAL GROUP INC	600	0.44	264.00	0.64%	68.94	41,364.00
AMERICA WEST AIRLINES	156,100	-	-	0.00%	14.21	2,217,556.63
AMERICAN EXPRESS	2,500	0.40	1,000.00	0.89%	45.15	112,875.00
AMERICAN INT'L GROUP	1,500	0.30	450.00	0.52%	57.40	86,100.00
AMERICAN ITALIAN PASTA	6,400	-	-	0.00%	40.04	256,285.44
AMERICAN STANDARD COMPANY INC	500	-	-	0.00%	98.08	49,040.00
AMGEN	3,700	-	-	0.00%	60.17	222,629.00
AMSOUTH BANCORPORATION	33,100	0.96	31,776.00	4.44%	21.63	715,889.22
ANALOG DEVICES, INC.	24,100	0.24	5,784.00	0.58%	41.60	1,002,594.26
ANHEUSER BUSCH COMPANY	67,000	0.88	58,960.00	1.70%	51.86	3,474,319.60
ANSYS INC.	7,100	-	-	0.00%	35.03	248,704.56
APACHE CORPORATION	1,900	0.24	456.00	0.34%	70.72	134,368.00
APOLLO GROUP, INC.	41,700	-	-	0.00%	66.24	2,762,290.96
ARGOSY GAMING CO	9,200	-	-	0.00%	27.55	253,431.56
AT&T CORP	38,000	0.95	36,100.00	4.83%	19.68	747,783.00
AUTOMATIC DATA PROCESSING	59,000	0.56	33,040.00	1.46%	38.30	2,259,661.40
AUTOZONE INC	300	-	-	0.00%	95.32	28,596.00
AXCELIS TECHNOLOGIES	22,400	-	-	0.00%	11.33	253,776.73
BANK OF AMERICA CORPORATION	31,900	3.60	114,840.00	4.48%	80.36	2,563,338.20
BENCHMARK ELECTRONICS	6,600	-	-	0.00%	38.39	253,347.60
BJ SERVICES COMPANY	900	-	-	0.00%	31.28	28,152.00
BLACK BOX CORPORATION	5,900	0.20	1,180.00	0.45%	44.20	260,789.43
BOEING CO.	54,800	0.80	43,840.00	2.19%	36.56	2,003,259.50
BOSTON SCIENTIFIC CORPORATION	1,800	-	-	0.00%	35.70	64,260.00
CANADIAN NATIONAL RAILWAY	1,000	0.58	580.00	0.99%	58.45	58,450.00
CAPITAL AUTOMOTIVE REIT	8,800	1.68	14,784.00	5.81%	28.92	254,484.40
CARDINAL HEALTH INC.	41,000	0.12	4,920.00	0.20%	58.86	2,413,361.27
CAREER EDUCATION CORP.	49,900	-	-	0.00%	46.17	2,303,774.52
CARPENTER TECHNOLOGY	6,500	0.33	2,145.00	0.98%	33.84	219,947.06
CATERPILLAR INC	18,000	1.64	29,520.00	1.96%	83.77	1,507,879.93
C-COR.net	22,500	-	-	0.00%	11.10	249,647.41
CHELSEA PROPERTY GROUP	600	2.40	1,440.00	4.59%	52.25	31,350.00
CHOICEPOINT INCORPORATED	1,600	-	-	0.00%	37.99	60,784.00
CISCO SYSTEMS	7,300	-	-	0.00%	22.80	166,440.00
CITIGROUP, INC.	5,800	1.60	9,280.00	3.42%	46.74	271,092.00
CLARCOR INC	5,900	0.50	2,950.00	1.16%	43.04	253,928.42
COCA-COLA CO	1,300	1.00	1,300.00	2.15%	46.42	60,346.00
COHERENT, INC.	18,200	-	-	0.00%	27.64	503,115.04
COLONIAL PROPERTY TRUST	6,900	2.68	18,492.00	7.42%	36.14	249,332.19
COMCAST CORP-SPECIAL CL A	6,000	-	-	0.00%	30.83	184,980.00
COMMERCE BANCORP, INC.	600	0.76	456.00	1.50%	50.76	30,456.00
COMMONWEALTH TELEPHONE ENTERPRISES	6,400	-	-	0.00%	39.50	252,800.00
CONSTELLATION BRANDS	92,100	-	-	0.00%	30.87	2,842,863.40
CONSTELLATION ENERGY GROUP INC	600	1.14	684.00	3.16%	36.12	21,672.00
COOPER COMPANIES	4,550	0.06	273.00	0.11%	53.53	243,578.15
CORINTHIAN COLLEGES, INC	49,100	-	-	0.00%	58.30	2,862,570.93

**STATE OF ARIZONA  
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INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**COMMON STOCK ACQUIRED**

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<b>Company</b>	<b>No. Shares</b>	<b>Dividend Rate</b>	<b>Annual Income</b>	<b>Book Yield</b>	<b>Average Cost</b>	<b>Book Cost</b>
CYMER INC	6,400	-	-	0.00%	39.79	254,643.20
CYTYC CORPORATION	300	-	-	0.00%	12.95	3,885.00
D. R. HORTON	100,800	0.32	32,256.00	0.85%	37.54	3,783,892.81
DEAN FOODS	1,600	-	-	0.00%	32.40	51,840.00
DIAMOND OFFSHORE DRILLING	79,000	0.25	19,750.00	1.07%	23.34	1,843,821.91
DSP GROUP	9,000	-	-	0.00%	27.15	244,366.91
E.I. du PONT de NEMOURS AND CO	18,000	1.40	25,200.00	3.21%	43.55	783,900.00
EASTMAN KODAK COMPANY	23,000	0.50	11,500.00	1.67%	29.89	687,456.20
EGL INC	10,500	-	-	0.00%	23.50	246,750.00
ELECTRONICS BOUTIQUE HOLDINGS CORP.	1,200	-	-	0.00%	24.27	29,124.00
EMC CORP	4,000	-	-	0.00%	13.50	54,000.00
EXPRESS SCRIPTS	2,800	-	-	0.00%	64.20	179,760.00
EXXON MOBIL CORP	39,000	1.08	42,120.00	2.60%	41.58	1,621,429.40
FAIR ISAAC & CO	9,600	0.08	768.00	0.14%	57.09	548,076.00
FEDEX CORPORATION	600	0.28	168.00	0.39%	71.24	42,744.00
FEI COMPANY	9,200	-	-	0.00%	27.39	251,978.16
FILENET CORPORATION	9,300	-	-	0.00%	27.29	253,811.88
FLEXTRONICS INTERNATIONAL	290,500	-	-	0.00%	14.63	4,250,877.03
FORTUNE BRANDS, INC.	25,900	1.20	31,080.00	1.88%	63.83	1,653,082.99
FORWARD AIR CORPORATION	8,100	-	-	0.00%	30.45	246,629.66
FRANKLIN RESOURCES INC	51,000	0.34	17,340.00	0.66%	51.39	2,620,777.85
GANNETT COMPANY	600	1.00	600.00	1.17%	85.80	51,480.00
GENENTECH, INC.	600	-	-	0.00%	85.09	51,054.00
GENERAL MOTORS CORPORATION	11,700	2.00	23,400.00	3.73%	53.60	627,118.83
GENZYME CORPORATION	1,200	-	-	0.00%	46.49	55,788.00
GILEAD SCIENCES, INC	1,100	-	-	0.00%	59.34	65,274.00
GLOBALSANTAFE CORP	1,700	0.20	340.00	0.94%	21.18	36,006.00
GROUP 1 AUTOMOTIVE	7,200	-	-	0.00%	35.21	253,540.04
GUITAR CENTER INC	6,600	-	-	0.00%	38.13	251,682.42
HAEMONETICS CORP.	6,200	-	-	0.00%	20.40	126,449.00
HARMAN INTERNATIONAL INDUSTRIES	3,200	0.05	160.00	0.06%	79.45	254,230.40
HARTFORD FINANCIAL SERVICES GROUP	36,400	1.12	40,768.00	2.07%	54.18	1,972,039.99
HIBBETT SPORTING GOODS	3,800	-	-	0.00%	26.06	99,034.60
HILB, ROGAL & HAMILTON	2,500	-	-	0.00%	35.55	88,868.54
HOLOGIC INC	16,400	-	-	0.00%	15.40	252,624.40
HOME DEPOT	2,500	0.34	850.00	0.93%	36.48	91,200.00
HONEYWELL INTERNATIONAL INC	17,000	0.75	12,750.00	2.09%	35.82	609,002.90
HOT TOPIC	11,000	-	-	0.00%	23.08	253,880.00
HYDRIL	8,800	-	-	0.00%	27.96	246,081.96
INAMED CORPORATION	3,400	-	-	0.00%	75.96	258,272.84
INTEGRA LIFESCIENCES HOLDINGS	9,300	-	-	0.00%	29.11	270,713.58
INTEL CORPORATION	286,200	0.16	45,792.00	0.54%	29.56	8,459,324.28
INTERACTIVECORP	1,800	-	-	0.00%	32.24	58,032.00
INTERNATIONAL BUSINESS MACH.	19,800	0.72	14,256.00	0.87%	82.94	1,642,182.45
INTERNATIONAL PAPER COMPANY	15,200	1.00	15,200.00	2.34%	42.74	649,709.56
INTRADO INC	11,400	-	-	0.00%	22.02	251,069.48
JABIL CIRCUIT	2,500	-	-	0.00%	27.04	67,600.00
JACOBS ENGINEERING GROUP INC.	10,000	-	-	0.00%	47.86	478,587.60
JOHNSON & JOHNSON CO	2,200	1.14	2,508.00	2.21%	51.48	113,256.00
JP MORGAN CHASE & CO	15,600	1.36	21,216.00	3.39%	40.10	625,514.76
KEITHLEY INSTRUMENTS	8,100	-	-	0.00%	15.58	126,184.73
KINDER MORGAN, INC.	1,200	2.25	2,700.00	4.13%	54.44	65,328.00
KULICKE & SOFFA INDUSTRIES	16,000	-	-	0.00%	15.58	249,280.00
LANDSTAR SYSTEMS, INC	1,800	-	-	0.00%	35.60	64,080.00
LENNAR CORP Class A	26,100	0.50	13,050.00	0.59%	84.20	2,197,725.53
LEXMARK INTERNATIONAL GROUP	900	-	-	0.00%	76.76	69,084.00

**STATE OF ARIZONA  
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**COMMON STOCK ACQUIRED**

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<b>Company</b>	<b>No. Shares</b>	<b>Dividend Rate</b>	<b>Annual Income</b>	<b>Book Yield</b>	<b>Average Cost</b>	<b>Book Cost</b>
MBNA CORP	7,600	0.48	3,648.00	1.96%	24.44	185,744.00
MEDIMMUNE, INC.	1,100	-	-	0.00%	23.77	26,147.00
MEDTRONIC, INC.	500	0.34	170.00	0.76%	44.52	22,260.00
MERCK & CO.	28,500	1.48	42,180.00	3.12%	47.46	1,352,664.15
MESA AIR GROUP	24,000	-	-	0.00%	9.67	232,195.20
METLIFE INC.	26,400	0.23	6,072.00	0.80%	28.69	757,441.60
MICROCHIP TECHNOLOGY INC.	1,200	0.16	192.00	0.48%	33.59	40,308.00
MICROSOFT CORPORATION	8,900	0.16	1,424.00	0.62%	25.73	228,997.00
MID ATLANTIC MEDICAL SERVICES	3,900	-	-	0.00%	66.57	259,635.23
MOHAWK INDUSTRIES	600	-	-	0.00%	72.00	43,200.00
MOODY'S CORPORATION	1,200	0.30	360.00	0.53%	56.99	68,388.00
MYLAN LABORATORIES	26,700	0.12	3,204.00	0.36%	33.29	888,897.16
NABORS INDUSTRIES, LTD	1,500	-	-	0.00%	36.45	54,675.00
NATIONAL CITY CORP	900	1.40	1,260.00	4.27%	32.76	29,484.00
NBTY INC	26,000	-	-	0.00%	26.68	693,719.54
NEXTEL COMMUNICATIONS	54,000	-	-	0.00%	24.75	1,336,594.38
NOBLE CORPORATION	1,300	-	-	0.00%	33.71	43,823.00
NOKIA CORPORATION	33,300	0.30	9,990.00	1.93%	15.53	517,179.00
OM GROUP	7,300	-	-	0.00%	31.72	231,579.10
OMNICOM GROUP	58,600	0.90	52,740.00	1.10%	81.91	4,799,749.87
OXFORD HEALTH PLANS, INC.	28,600	0.40	11,440.00	0.95%	42.25	1,208,380.80
P.F. CHANG'S CHINA BISTRO	1,500	-	-	0.00%	52.05	78,075.00
PACTIV CORPORATION	500	-	-	0.00%	21.76	10,880.00
PANERA BREAD 'A'	6,000	-	-	0.00%	42.72	256,291.20
PATINA OIL & GAS	6,800	-	-	0.00%	37.27	253,433.96
PAXAR CORP	17,500	-	-	0.00%	13.90	243,250.00
PEPSICO INC.	21,500	0.92	19,780.00	1.93%	47.65	1,024,400.00
PFIZER INC.	86,400	0.68	58,752.00	1.91%	35.59	3,074,545.28
PHOTON DYNAMICS	6,000	-	-	0.00%	42.81	256,840.05
PLANTRONICS, INC.	2,100	-	-	0.00%	28.97	60,837.00
PRAXAIR INC	41,300	0.60	24,780.00	1.18%	50.65	2,091,833.65
PRE-PAID LEGAL SERVICES	10,400	-	-	0.00%	24.69	256,768.20
PROCTER & GAMBLE COMPANY	11,200	1.00	11,200.00	1.01%	98.79	1,106,444.00
QUIKSILVER, INC	61,200	-	-	0.00%	17.27	1,057,044.60
RARE HOSPITALITY INTERNATIONAL	19,800	-	-	0.00%	25.60	506,793.92
REGIS CORPORATION	25,600	0.16	4,096.00	0.46%	34.53	883,917.06
RENAL CARE GROUP	5,200	-	-	0.00%	46.91	243,950.53
RESPIRONICS INC	400	-	-	0.00%	51.40	20,560.00
RUDOLPH TECHNOLOGIES	9,200	-	-	0.00%	27.39	251,943.00
RYAN'S RESTAURANT GROUP INC	16,300	-	-	0.00%	15.68	255,570.13
SAFEWAY INC	1,600	-	-	0.00%	20.53	32,848.00
SALTON INC	17,100	-	-	0.00%	14.82	253,413.63
SANMINA CORP.	4,700	-	-	0.00%	11.64	54,708.00
SBC COMMUNICATIONS INC.	25,000	1.25	31,250.00	4.82%	25.94	648,537.50
SCHOLASTIC CORPORATION	2,700	-	-	0.00%	33.35	90,045.00
SCOTTS CO'A'	4,800	-	-	0.00%	53.05	254,640.00
SCP POOL CORPORATION	3,200	0.10	320.00	0.28%	36.34	116,288.00
SEALED AIR	34,500	-	-	0.00%	51.16	1,765,072.36
SEI INVESTMENTS COMPANY	2,100	0.20	420.00	0.72%	27.65	58,065.00
SEMPRA ENERGY	57,000	1.00	57,000.00	3.09%	32.34	1,843,279.52
SHAW GROUP	20,500	-	-	0.00%	12.04	246,746.96
SIEBEL SYSTEMS	900	-	-	0.00%	13.25	11,925.00
SMITH, A O CORP	5,200	0.60	3,120.00	2.05%	29.31	152,390.94
SMURFIT-STONE CONTAINER CORP	800	-	-	0.00%	16.17	12,936.00
ST. JUDE MEDICAL	2,400	-	-	0.00%	60.63	145,512.00
STAPLES, INC.	50,800	0.20	10,160.00	0.80%	24.89	1,264,317.00

**STATE OF ARIZONA  
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**COMMON STOCK ACQUIRED**

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<b>Company</b>	<b>No. Shares</b>	<b>Dividend Rate</b>	<b>Annual Income</b>	<b>Book Yield</b>	<b>Average Cost</b>	<b>Book Cost</b>
STEAK N SHAKE	15,900	-	-	0.00%	16.37	260,245.78
STEWART & STEVENSON SERVICES	10,700	0.34	3,638.00	2.01%	16.88	180,662.41
SURMODICS INC	9,000	-	-	0.00%	28.28	254,562.00
SYMANTEC CORPORATION	6,700	-	-	0.00%	31.92	213,864.00
SYSCO CORPORATION	30,700	0.52	15,964.00	1.68%	30.97	950,797.80
T. ROWE PRICE GROUP INC	1,700	0.76	1,292.00	1.81%	42.01	71,417.00
TETRA TECH, INC	13,700	-	-	0.00%	17.84	244,380.60
TEXAS INSTRUMENTS	197,100	0.09	17,739.00	0.37%	24.60	4,849,236.15
THE CHILDREN'S PLACE	10,500	-	-	0.00%	23.85	250,408.38
TRACTOR SUPPLY CO.	5,900	-	-	0.00%	41.55	245,126.65
TYCO INTERNATIONAL LTD.	4,400	0.05	220.00	0.23%	21.87	96,228.00
TYSON FOODS, INC.	2,500	0.16	400.00	1.18%	13.60	34,000.00
URS CORP	8,250	-	-	0.00%	29.73	245,286.05
VIACOM INC.	58,500	0.24	14,040.00	0.56%	42.75	2,500,716.20
VISHAY INTERTECHNOLOGY INC	2,800	-	-	0.00%	20.51	57,428.00
VODAFONE GROUP ADR	3,800	0.39	1,482.00	1.67%	23.30	88,540.00
VORNADO REALTY TRUST	34,100	2.84	96,844.00	5.89%	48.25	1,645,313.26
WACHOVIA CORP	35,000	1.60	56,000.00	3.46%	46.26	1,619,223.53
WALGREEN COMPANY	2,000	0.17	340.00	0.46%	36.58	73,160.00
WAL-MART STORES	4,200	0.52	2,184.00	0.93%	56.08	235,536.00
WASTE CONNECTIONS	6,800	-	-	0.00%	37.16	252,654.62
WEBEX COMMUNICATIONS	18,800	-	-	0.00%	26.46	497,366.93
WILLIAMS COMPANIES, INC.	3,400	0.04	136.00	0.44%	9.11	30,974.00
WINTRUST FINANCIAL	5,700	0.20	1,140.00	0.42%	47.84	272,677.05
ZALE CORP	4,700	-	-	0.00%	52.95	248,865.00
<b>TOTAL COMMON STOCK ACQUIRED</b>	<b>3,801,700</b>		<b>1,477,361.00</b>	<b>1.13%</b>		<b>130,396,533.53</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
INVESTMENTS ACQUIRED  
JULY 1, 2003 THROUGH JUNE 30, 2004  
OTHER INVESTMENTS ACQUIRED**

Name	Coupon	Maturity	Book Cost
<b><i>APEX CAPITAL FUND 1</i></b>			
ARROYO VERDE	11.000		109,688.09
BELL WEST	11.000		35,003.98
CAMPO VERDE	11.000		119,013.51
MERITAGE-VERRADO	11.000		56,458.62
SANTAN VISTA	11.000		101,642.41
VISTA DORADA	11.000		52,647.61
<b>TOTAL APEX CAPITAL FUND 1 ACQUIRED</b>			<b>474,454.22</b>
<b><i>BRIDGE FINANCIAL</i></b>			
BRIDGE FINANCIAL - GRAND INN			5,139.15
<b>TOTAL BRIDGE FINANCIAL ACQUIRED</b>			<b>5,139.15</b>
<b><i>DESERT TROON EQUITY</i></b>			
DTR1, LLC - Perimeter Center			310,469.89
<b>TOTAL DESERT TROON EQUITY ACQUIRED</b>			<b>310,469.89</b>
<b><i>DIVERSIFIED FUNDING GROUP</i></b>			
TIERRA DEL RIO (TDR), L.L.C.	13.000	10/22/2004	895,371.77
<b>TOTAL DIVERSIFIED FUNDING ACQUIRED</b>			<b>895,371.77</b>
<b><i>PIVOTAL EQUITY</i></b>			
NXTV, L.L.C.			327,588.50
PIVOTAL 650, L.L.C.			121,147.56
PIVOTAL CIMARRON, L.L.C.	10.000		362,854.83
PIVOTAL PROMONTORY			641,519.97
PIVOTAL SCOTTSDALE 123, LLC	10.000		382,602.03
<b>TOTAL PIVOTAL ACQUIRED</b>			<b>1,835,712.89</b>
<b><i>SBA LOANS</i></b>			
ALL UNLIMITED	9.750	05/01/2009	46,447.36
ASAYO HOLDING, LTD	9.500	07/01/2010	55,652.35
EQUITY PARTNERSHIP	9.250	05/01/2016	142,495.85
NIARKOS	10.000	05/01/2014	66,421.80
<b>TOTAL SBA LOANS ACQUIRED</b>			<b>311,017.36</b>
<b><i>MISCELLANEOUS</i></b>			
DESERT TROON FINANCE, LLC	10.000	08/27/2005	3,581,498.23
PIVOTAL DEBT FUND	10.000	12/01/2011	2,393,761.62
PROSPECTOR EQUITY CAPITAL		06/01/2009	85,260.02
VALLEY VENTURES III	8.000	09/17/2006	906,376.03
<b>TOTAL MISCELLANEOUS ACQUIRED</b>			<b>6,966,895.90</b>
<b>TOTAL OTHER INVESTMENTS ACQUIRED</b>			<b>10,799,061.18</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SALES AND REDEMPTION OF INVESTMENTS  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**BONDS SOLD**

Security	Coupon	Maturity	Par Value	Sale Price	Accrued Interest	Principal	Amortized Cost	Gain or (Loss)	Amount Due
<b>U.S. TREASURY OBLIGATIONS</b>									
U.S. TREASURY BOND	9.125	05/15/09	4,000,000.00	100.00000	-	4,000,000.00	4,001,130.16	(1,130.16)	4,000,000.00
<b>TOTAL U.S. TREASURY OBLIGATIONS</b>			<b>4,000,000.00</b>			<b>4,000,000.00</b>	<b>4,001,130.16</b>	<b>(1,130.16)</b>	<b>4,000,000.00</b>
<b>FEDERAL AGENCY OBLIGATIONS</b>									
Detailed information for the redemptions of Federal Agency Obligations are too lengthy to include in this report; therefore, only totals are given.									
<b>TOTAL FEDERAL AGENCY OBLIGATIONS</b>						<b>17,916,173.95</b>	<b>17,916,173.95</b>		
<b>CORPORATE BONDS</b>									
AGL CAPITAL TRUST	8.170	06/01/37	2,500,000.00	110.00000	48,793.06	2,750,000.00	2,542,902.67	207,097.33	2,798,793.06
AMERICAN UNITED LIFE INS CO	7.750	03/30/26	2,030,000.00	103.20000	3,496.11	2,094,960.00	2,027,397.55	67,562.45	2,098,456.11
BANKERS TRUST CORP 144A	8.090	12/01/26	2,000,000.00	106.05800	35,056.67	2,121,160.00	2,000,000.00	121,160.00	2,156,216.67
CBO HOLDINGS III LTD.	7.000	02/10/38	3,031.88	94.26396	-	2,857.97	2,857.97	-	2,857.97
CONSECO FINANCE	8.060	05/01/31	2,000,000.00	84.50000	895.56	1,690,000.00	1,769,057.82	(79,057.82)	1,690,895.56
CONTINENTAL AIRLINES INC	7.256	03/15/20	9,317.69	95.03139	-	8,854.73	8,854.73	-	8,854.73
DELTA AIR LINES	7.379	05/18/10	1,529,779.20	94.68522	51,879.30	1,448,474.82	1,529,779.20	(81,304.38)	1,500,354.12
DELTA AIRLINES SERIES 01-1B	7.711	09/18/11	2,000,000.00	90.50000	49,264.72	1,810,000.00	1,992,626.11	(182,626.11)	1,859,264.72
DISCOVER CREDIT	9.100	04/13/12	1,000,000.00	128.10800	8,340.00	1,281,080.00	1,000,000.00	281,080.00	1,289,420.00
FARMERS INSURANCE EXCHANGE	8.625	05/01/24	5,250,000.00	110.87500	67,562.50	5,820,937.50	4,945,920.13	875,017.37	5,888,500.00
FEDERAL HOME LOAN BANK	6.500	08/28/18	3,000,000.00	100.00000	48,750.00	3,000,000.00	3,000,000.00	-	3,048,750.00
FIRST UNION CAPITAL II	7.950	11/15/29	500,000.00	113.73600	10,379.17	568,680.00	455,003.48	113,676.52	579,059.17
GENERAL AMERICAN LIFE INSURANCE CO	7.625	01/15/24	2,500,000.00	110.50000	35,477.43	2,762,500.00	2,249,800.48	512,699.52	2,797,977.43
GOODRICH CORPORATION	7.100	11/15/27	5,000,000.00	100.00000	165,666.67	5,000,000.00	4,574,157.81	425,842.19	5,165,666.67
JOHN HANCOCK MUTUAL LIFE INS CO	7.375	02/15/24	3,000,000.00	112.80000	95,875.00	3,384,000.00	2,841,746.25	542,253.75	3,479,875.00
KEY CORP CAPITAL III	7.750	07/15/29	1,000,000.00	115.12000	17,868.06	1,151,200.00	957,638.42	193,561.58	1,169,068.06
NATIONWIDE MUTUAL INS CO	7.500	02/15/24	3,000,000.00	103.26700	50,000.00	3,098,010.00	2,892,989.65	205,020.35	3,148,010.00
NORTHWEST AIR LINES INC	7.935	04/01/19	268,018.20	91.52784	-	245,311.28	245,311.28	-	245,311.28
NORTHWEST AIR LINES INC	7.041	04/01/22	163,835.08	98.25805	-	160,981.15	160,981.15	-	160,981.15
NORTHWEST AIRLINES 1999-2A	7.575	03/01/19	33,346.92	95.90844	-	31,982.51	31,982.51	-	31,982.51
OAKWOOD MORTGAGE INVESTORS INC	5.190	09/15/19	31,196.61	97.06737	-	30,281.73	30,281.73	-	30,281.73
PMI CAPITAL	8.309	02/01/27	2,000,000.00	107.00000	5,539.33	2,140,000.00	2,055,078.77	84,921.23	2,145,539.33
PRINCIPAL MUTUAL LIFE INSURANCE CO	7.875	03/01/24	2,000,000.00	101.00000	71,750.00	2,020,000.00	1,917,993.50	102,006.50	2,091,750.00
PRUDENTIAL INSURANCE CO OF AMERICA	8.300	07/01/25	1,000,000.00	124.00000	2,997.22	1,240,000.00	983,082.24	256,917.76	1,242,997.22
ROCKWELL INTERNATIONAL	6.700	01/15/28	3,000,000.00	103.35000	29,591.67	3,100,500.00	2,745,506.57	354,993.43	3,130,091.67
SAFECO CAPITAL TRUST	8.072	07/15/37	2,500,000.00	107.77000	8,968.89	2,694,250.00	2,514,910.74	179,339.26	2,703,218.89
SEARS ROEBUCK ACCEPTANCE	7.000	06/01/32	3,000,000.00	108.09600	89,250.00	3,242,880.00	2,439,206.20	803,673.80	3,332,130.00
SECURITY NATIONAL MORTGAGE LOAN	7.870	08/25/30	474,521.12	100.00000	-	474,521.12	474,521.12	-	474,521.12
SOUTHERN COMPANY CAPITAL TRUST	8.190	02/01/37	1,000,000.00	112.20000	11,830.00	1,122,000.00	1,071,341.08	50,658.92	1,133,830.00
UNION CARBIDE CORP	7.875	04/01/23	500,000.00	92.00000	10,637.15	460,000.00	484,624.14	(24,624.14)	470,637.15
US WEST COMMUNICATIONS	7.500	06/15/23	1,000,000.00	93.60000	24,791.67	936,000.00	957,620.28	(21,620.28)	960,791.67
<b>TOTAL CORPORATE BONDS</b>			<b>53,293,046.70</b>		<b>944,660.18</b>	<b>55,891,422.81</b>	<b>50,903,173.58</b>	<b>4,988,249.23</b>	<b>56,836,082.99</b>
<b>TOTAL BONDS SOLD</b>			<b>57,293,046.70</b>		<b>944,660.18</b>	<b>77,807,596.76</b>	<b>72,820,477.69</b>	<b>4,987,119.07</b>	<b>78,752,256.94</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SALES AND REDEMPTION OF INVESTMENTS  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**COMMON STOCK SOLD**

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<b>Company</b>	<b>Shares Sold</b>	<b>Sale Price</b>	<b>Commission Amount</b>	<b>+ SEC Fee</b>	<b>Net Amount</b>	<b>Book Cost</b>	<b>Gain (Loss) on Sale</b>	<b>% Gain on Sale</b>
ADOBE SYSTEMS	32,000	38.4974	1,231,916.32	1,657.67	1,230,258.65	1,097,666.96	132,591.69	12.08%
ADVANCED ENERGY INDUSTRIES	12,100	17.3944	210,472.71	614.86	209,857.85	126,302.66	83,555.19	66.15%
AMERICA WEST AIRLINES	45,000	8.6673	390,028.50	1,815.22	388,213.28	639,270.01	-251,056.73	-39.27%
AMERICAN EXPRESS	26,000	50.5348	1,313,904.70	1,344.30	1,312,560.40	920,550.22	392,010.18	42.58%
AMERICAN ITALIAN PASTA	6,400	37.0008	236,805.12	331.09	236,474.03	256,285.44	-19,811.41	-7.73%
AMSURG CORPORATION	9,800	39.2598	384,746.38	508.02	384,238.36	254,927.58	129,310.78	50.72%
ANIXTER INTERNATIONAL	10,400	22.0613	229,437.80	530.75	228,907.05	254,628.92	-25,721.87	-10.10%
ANSYS INC.	7,100	36.0000	255,600.00	366.97	255,233.03	248,704.56	6,528.47	2.62%
APACHE CORPORATION	12,000	67.3086	807,703.50	637.81	807,065.69	552,377.75	254,687.94	46.11%
AXCELIS TECHNOLOGIES	22,400	11.4926	257,434.63	1,130.05	256,304.58	253,776.73	2,527.85	1.00%
BANK OF AMERICA CORPORATION	29,500	82.1582	2,423,668.20	1,588.44	2,422,079.76	2,137,825.92	284,253.84	13.30%
BJ SERVICES COMPANY	22,000	35.4500	779,900.00	1,136.50	778,763.50	840,496.08	-61,732.58	-7.34%
BLACK BOX CORPORATION	8,500	56.9947	484,454.95	447.68	484,007.27	255,425.00	228,582.27	89.49%
BOEING CO.	24,000	41.7624	1,002,296.70	1,225.10	1,001,071.60	877,339.93	123,731.67	14.10%
BOSTON COMMUNICATIONS GROUP	17,200	13.5000	232,200.00	870.87	231,329.13	258,727.40	-27,398.27	-10.59%
CABLEVISION SYSTEMS CORP	95,000	19.5244	1,854,822.56	4,836.84	1,849,985.72	4,350,370.18	-2,500,384.46	-57.48%
CACI INTERNATIONAL	7,700	41.6684	320,846.80	392.53	320,454.27	252,025.62	68,428.65	27.15%
CAL DIVE INTL	12,500	25.7500	321,875.00	637.57	321,237.43	274,921.73	46,315.70	16.85%
CAREER EDUCATION CORP.	49,900	38.6189	1,927,083.09	2,576.33	1,924,506.76	2,303,774.52	-379,267.76	-16.46%
CATERPILLAR INC	15,900	83.5500	1,328,445.00	857.18	1,327,587.82	716,549.40	611,038.42	85.28%
COHERENT, INC.	9,800	25.6720	251,585.60	501.78	251,083.82	251,251.98	-168.16	-0.07%
COINSTAR INC	16,900	13.4806	227,822.55	855.67	226,966.88	264,348.60	-37,381.72	-14.14%
COMCAST CORP-SPECIAL CL A	17,733	34.2073	606,598.83	915.05	605,683.78	578,136.99	27,546.79	4.76%
COMMUNITY FIRST BANKSHARES	9,700	27.4054	265,832.38	497.45	265,334.93	254,791.46	10,543.47	4.14%
COVAD COMMUNICATONS CLASS ACTION							4,940.77	0.00%
CYMER INC	6,400	43.5600	278,784.00	333.05	278,450.95	254,643.20	23,807.75	9.35%
CYTYC CORPORATION	64,300	14.0142	901,115.70	3,257.21	897,858.49	1,053,454.46	-155,595.97	-14.77%
D. R. HORTON	17,000	28.3000	481,100.00	861.27	480,238.73	425,437.68	54,801.05	12.88%
DOWNEY FINANCIAL	6,500	46.6178	303,015.40	339.20	302,676.20	255,330.50	47,345.70	18.54%
EMC CORP	122,000	14.4130	1,758,384.12	5,432.34	1,752,951.78	1,146,218.58	606,733.20	52.93%
EVERGREEN RESOURCES	11,200	38.5062	431,269.44	570.10	430,699.34	252,683.04	178,016.30	70.45%
FILENET CORPORATION	9,300	28.9766	269,482.52	476.63	269,005.89	253,811.88	15,194.01	5.99%
GENENTECH, INC.	18,500	124.5395	2,303,981.48	978.93	2,303,002.55	847,415.28	1,455,587.27	171.77%
GROUP 1 AUTOMOTIVE	7,200	37.4000	269,280.00	370.52	268,909.48	253,540.04	15,369.44	6.06%
HAEMONETICS CORP.	6,200	30.8712	191,401.60	317.48	191,084.12	126,449.00	64,635.12	51.12%
HAIN CELESTIAL GROUP	16,500	20.9501	345,677.04	841.20	344,835.84	252,331.44	92,504.40	36.66%
HILB, ROGAL & HAMILTON	10,500	31.5740	331,526.75	539.79	330,986.96	340,830.86	-9,843.90	-2.89%
HOME DEPOT	13,000	36.3150	472,095.00	672.10	471,422.90	167,671.16	303,751.74	181.16%
HOSPIRA INC	15,710	26.7506	420,252.67	795.35	419,457.32	292,559.95	126,897.37	43.37%
HOT TOPIC	11,000	28.8040	316,843.68	564.83	316,278.85	253,880.00	62,398.85	24.58%
INAMED CORPORATION	5,100	44.6718	227,826.18	265.67	227,560.51	258,272.84	-30,712.33	-11.89%
KEITHLEY INSTRUMENTS	8,100	23.5967	191,133.36	413.96	190,719.40	126,184.73	64,534.67	51.14%
KINDER MORGAN, INC.	27,000	62.6878	1,692,571.76	1,404.31	1,691,167.45	1,460,677.87	230,489.58	15.78%
LANDRY'S RESTAURANTS	14,900	24.8342	370,029.70	762.33	369,267.37	253,339.02	115,928.35	45.76%
LENNAR CORP Class A	71,500	44.1155	3,154,256.50	3,648.84	3,150,607.66	2,084,194.66	1,066,413.00	51.17%
MEDIMMUNE, INC.	61,100	24.4838	1,495,961.49	3,102.62	1,492,858.87	3,593,553.00	-2,100,694.13	-58.46%
MENTOR CORPORATION	13,100	21.1258	276,747.76	667.97	276,079.79	223,163.67	52,916.12	23.71%
MESA AIR GROUP	24,000	7.6940	184,655.23	964.34	183,690.89	232,195.20	-48,504.31	-20.89%
MID ATLANTIC MERGER							70,200.00	0.00%
MOHAWK INDUSTRIES	21,702	75.4086	1,636,516.38	1,152.38	1,635,364.00	1,544,819.95	90,544.05	5.86%
NOBLE CORPORATION	71,000	35.7649	2,539,308.28	3,627.67	2,535,680.61	3,178,179.77	-642,499.16	-20.22%
NOKIA CORPORATION	45,300	14.0900	638,277.00	1,826.94	636,450.06	722,681.72	-86,231.66	-11.93%
OM GROUP	7,300	25.1000	183,230.00	369.29	182,860.71	231,579.10	-48,718.39	-21.04%
O'REILLY AUTOMOTIVE	9,200	40.0294	368,270.19	468.62	367,801.57	249,245.48	118,556.09	47.57%
OXFORD HEALTH PLANS, INC.	25,000	54.3013	1,357,533.70	1,281.78	1,356,251.92	793,565.74	562,686.18	70.91%
P.F. CHANG'S CHINA BISTRO	94,000	46.9150	4,410,009.03	4,906.48	4,405,102.55	2,485,745.42	1,919,357.13	77.21%
PATINA OIL & GAS	6,800	48.5010	329,807.02	352.87	329,454.15	253,433.96	76,020.19	30.00%
PERFORMANCE FOOD GROUP	8,400	35.0598	294,502.32	426.90	294,075.42	277,356.95	16,718.47	6.03%
PHOTRONICS, INC	19,200	17.8952	343,588.66	973.41	342,615.25	252,524.91	90,090.34	35.68%
PLANTRONICS, INC.	6,000	42.5909	255,545.40	311.96	255,233.44	161,162.33	94,071.11	58.37%
POLARIS INDUSTRIES	5,000	66.3140	331,570.00	265.53	331,304.47	248,465.30	82,839.17	33.34%
PRE-PAID LEGAL SERVICES	10,400	24.9853	259,847.10	526.10	259,321.00	256,768.20	2,552.80	0.99%
QUALCOMM INCORPORATED	31,000	37.5241	1,163,245.98	1,604.45	1,161,641.53	1,416,551.20	-254,909.67	-18.00%
QUEST DIAGNOSTIC	47,000	63.1585	2,968,450.70	2,488.94	2,965,961.76	3,323,601.60	-357,639.84	-10.76%
RARE HOSPITALITY INTERNATIONAL	9,800	25.0640	245,627.18	501.51	245,125.67	252,880.67	-7,755.00	-3.07%
REGIS CORPORATION	9,000	42.3518	381,166.34	458.93	380,707.41	286,856.79	93,850.62	32.72%
REHAB CARE GROUP	6,800	23.8102	161,909.36	347.58	161,561.78	125,745.51	35,816.27	28.48%
RESPIRONICS INC	6,900	44.7363	308,680.47	359.45	308,321.02	242,436.79	65,884.23	27.18%
RUDOLPH TECHNOLOGIES	9,200	20.9510	192,749.20	467.52	192,281.68	251,943.00	-59,661.32	-23.68%

**STATE OF ARIZONA  
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**COMMON STOCK SOLD**

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<b>Company</b>	<b>Shares Sold</b>	<b>Sale Price</b>	<b>Amount</b>	<b>Commission + SEC Fee</b>	<b>Net Amount</b>	<b>Book Cost</b>	<b>Gain (Loss) on Sale</b>	<b>% Gain on Sale</b>
SAFEWAY INC	134,600	22.7621	3,063,772.36	6,873.43	3,056,898.93	4,515,976.70	-1,459,077.77	-32.31%
SALTON INC	17,100	10.9514	187,268.16	862.79	186,405.37	253,413.63	-67,008.26	-26.44%
SANMINA CORP.	59,000	11.2149	661,677.60	2,022.55	659,655.05	1,517,470.84	-857,815.79	-56.53%
SCHOLASTIC CORPORATION	53,000	31.2758	1,657,617.54	2,707.19	1,654,910.35	1,521,843.82	133,066.53	8.74%
SHAW GROUP	20,500	11.9463	244,899.00	825.74	244,073.26	246,746.96	-2,673.70	-1.08%
SIEBEL SYSTEMS	47,900	14.6302	700,786.84	2,183.80	698,603.04	1,652,115.70	-953,512.66	-57.71%
STEAK N SHAKE	8,600	17.8633	153,624.36	437.21	153,187.15	132,130.78	21,056.37	15.94%
SURMODICS INC	17,100	26.0417	445,312.92	875.87	444,437.05	508,060.05	-63,623.00	-12.52%
SYMANTEC CORPORATION	77,400	45.5206	3,523,295.94	3,979.72	3,519,316.22	986,766.60	2,532,549.62	256.65%
SYSTEMS & COMPUTER TECH	16,500	16.3250	269,362.50	837.61	268,524.89	122,739.78	145,785.11	118.78%
TRACTOR SUPPLY CO.	14,200	36.5018	518,325.56	734.26	517,591.30	250,275.00	267,316.30	106.81%
TRIUMPH GROUP	4500	32.9502	148,275.89	231.95	148,043.94	126,225.00	21,818.94	17.29%
TYSON FOODS, INC.	89,000	14.8415	1,320,897.30	4,511.84	1,316,385.46	1,046,959.54	269,425.92	25.73%
UNITED NATURAL FOODS	9,800	38.7808	380,051.90	507.80	379,544.10	250,306.16	129,237.94	51.63%
VODAFONE GROUP ADR	36,000	20.0371	721,337.10	1,833.77	719,503.33	742,532.25	-23,028.92	-3.10%
WATSON WYATT 'A'	12,700	24.0697	305,685.81	649.31	305,036.50	253,929.45	51,107.05	20.13%
WEBEX COMMUNICATIONS	8,500	27.5165	233,890.22	434.14	233,456.08	246,272.50	-12,816.42	-5.20%
WILLIAMS COMPANIES, INC.	62,000	9.8077	608,078.10	2,503.73	605,574.37	1,473,288.57	-867,714.20	-58.90%
WINTRUST FINANCIAL	9,000	30.1601	271,440.90	462.71	270,978.19	253,755.00	17,223.19	6.79%
<b>TOTAL COMMON STOCK SOLD</b>	<b>2,226,045</b>		<b>67,798,307.01</b>	<b>110,049.50</b>	<b>67,688,257.51</b>	<b>65,284,666.42</b>	<b>2,478,731.86</b>	<b>3.80%</b>

**STATE OF ARIZONA  
CORRECTIONS OFFICER RETIREMENT PLAN  
SALES AND REDEMPTION OF INVESTMENTS  
JULY 1, 2003 THROUGH JUNE 30, 2004**

**OTHER INVESTMENTS SOLD**

Name	Coupon	Maturity	Book Cost	Capital Gains (Loss)
<b><i>APEX CAPITAL FUND 1</i></b>				
ARROYO VERDE	11.000		56,727.47	-
ESTRELLA MOUNTAIN RANCH	11.000		46,779.90	-
SANTAN VISTA	11.000		5,405.16	-
VISTA DORADA	11.000		7,696.80	-
<b>TOTAL APEX CAPITAL FUND 1 SOLD</b>			<b>116,609.33</b>	<b>-</b>
<b><i>DESERT TROON</i></b>				
DESERT TROON-DTR1, LLC			410,273.72	-
DTR1, LLC - SEA PORT			271,806.34	-
TOREEON GC			46,155.80	-
<b>TOTAL DESERT TROON SOLD</b>			<b>728,235.86</b>	<b>-</b>
<b><i>PIVOTAL</i></b>				
PIVOTAL DEBT FUND	10.000	12/01/2011	571,456.60	-
PIVOTAL PROMONTORY-LOANS	10.000		675,000.00	-
CENTURY PLAZA HOTEL (CPHI, LLC)			605,821.00	-
HARBOR BAY CAMPUS			80,772.64	-
PIVOTAL NEWS I, L.L.C.			1,570,898.74	-
PIVOTAL SPA I, L.L.C.			84,180.04	-
<b>TOTAL PIVOTAL SOLD</b>			<b>3,588,129.02</b>	<b>-</b>
<b><i>SBA LOANS</i></b>				
ALL UNLIMITED	9.750	05/01/2009	46,447.36	-
ASAYO HOLDING, LTD.	9.500	07/01/2010	337.29	-
EQUITY PARTNERSHIP	9.250	05/01/2016	3,546.32	-
NIARKOS	10.000	05/01/2014	2,107.55	-
<b>TOTAL SBA LOANS SOLD</b>			<b>52,438.52</b>	<b>-</b>
<b><i>MISCELLANEOUS</i></b>				
DESERT TROON FINANCE, LLC	10.000	08/27/2005	5,779,800.00	-
PEBBLECREEK PROPERTIES	10.000	04/01/2005	854.74	-
<b>TOTAL MISCELLANEOUS SOLD</b>			<b>5,780,654.74</b>	<b>-</b>
<b>TOTAL OTHER INVESTMENTS SOLD</b>			<b>10,266,067.47</b>	<b>-</b>

**STATE OF ARIZONA  
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INVESTMENTS OWNED  
JUNE 30, 2004**

**BOND PORTFOLIO**

Par Value	Security	Coupon	Maturity	Book Cost	Book Price	Current Price	Current Value	Gain or (Loss)	Annual Income	Book Yield	YTM	Duration
<b>U.S. TREASURY OBLIGATIONS</b>												
1,000,000.00	U.S. TREASURY BOND	7.500	11/15/2016	970,334.33	97.03343	123.28100	1,232,810.00	262,475.67	75,000.00	7.73	4.98	8.58
3,000,000.00	U.S. TREASURY BOND	9.125	05/15/2018	3,000,000.00	100.00000	140.37500	4,211,250.00	1,211,250.00	273,750.00	9.13	5.06	8.17
2,000,000.00	U.S. TREASURY BOND	8.125	08/15/2019	2,001,387.46	100.06937	130.96900	2,619,380.00	617,992.54	162,500.00	8.12	5.14	8.92
1,000,000.00	U.S. TREASURY BOND	8.000	11/15/2021	1,000,000.00	100.00000	131.06300	1,310,630.00	310,630.00	80,000.00	8.00	5.26	9.71
<b>7,000,000.00</b>	<b>TOTAL U.S. TREASURY OBLIGATIONS</b>			<b>6,971,721.79</b>			<b>9,374,070.00</b>	<b>2,402,348.21</b>	<b>591,250.00</b>	<b>8.48</b>	<b>5.10</b>	<b>8.66</b>
<b>FEDERAL AGENCY OBLIGATIONS</b>												
159,586.56	GNMA Pool #173878	9.000	08/15/2016	157,890.95	98.93750	112.27400	179,174.21	21,283.26	14,362.79	9.10	3.18	5.09
118,713.27	GNMA Pool #174481	9.000	07/15/2016	114,966.39	96.84376	112.27400	133,284.14	18,317.75	10,684.19	9.29	3.18	5.18
205,550.05	GNMA Pool #176431	9.000	08/15/2016	198,998.14	96.81250	112.27400	230,779.26	31,781.12	18,499.50	9.30	3.18	5.21
12,607.89	GNMA Pool #190095	9.000	12/15/2016	11,965.68	94.90628	112.27400	14,155.38	2,189.70	1,134.71	9.48	3.18	5.42
72,757.03	GNMA Pool #202505	9.000	10/15/2019	71,142.72	97.78123	112.74500	82,029.91	10,887.19	6,548.13	9.20	3.18	6.14
52,241.59	GNMA Pool #217956	10.000	11/15/2017	51,655.80	98.87869	111.59900	58,301.09	6,645.29	5,224.16	10.11	8.96	5.36
67,387.86	GNMA Pool #226529	9.000	06/15/2018	62,017.89	92.03125	112.61600	75,889.51	13,871.62	6,064.91	9.78	3.18	6.10
3,591.10	GNMA Pool #232237	9.000	01/15/2020	3,495.71	97.34371	112.84500	4,052.38	556.67	323.20	9.25	3.18	6.24
39,811.41	GNMA Pool #234937	9.000	03/15/2018	36,775.81	92.37505	112.61600	44,834.02	8,058.21	3,583.03	9.74	3.18	6.00
91,875.23	GNMA Pool #238600	10.000	11/15/2017	91,272.31	99.34376	111.59900	102,531.84	11,259.53	9,187.52	10.07	8.96	5.33
14,339.06	GNMA Pool #238840	9.000	05/15/2018	13,290.51	92.68746	112.61600	16,148.08	2,857.57	1,290.52	9.71	3.18	6.03
17,295.39	GNMA Pool #248951	9.000	05/15/2018	16,344.14	94.49998	112.61600	19,477.38	3,133.24	1,556.59	9.52	3.18	5.91
6,792.13	GNMA Pool #252056	9.000	06/15/2018	6,601.11	97.18763	112.61600	7,649.03	1,047.92	611.29	9.26	3.18	5.78
59,001.93	GNMA Pool #256195	9.000	08/15/2018	55,830.59	94.62502	112.61600	66,445.61	10,615.02	5,310.17	9.51	3.18	5.99
61,775.72	GNMA Pool #285597	9.000	03/15/2020	58,957.21	95.43751	112.84500	69,710.81	10,753.60	5,559.81	9.43	3.18	6.41
27,014.84	GNMA Pool #285803	9.000	03/15/2020	25,807.62	95.53127	112.84500	30,484.90	4,677.28	2,431.34	9.42	3.18	6.41
28,954.32	GNMA Pool #298952	9.000	04/15/2021	28,954.32	100.00000	112.92800	32,697.53	3,743.21	2,605.89	9.00	3.18	6.42
17,636.32	GNMA Pool #303324	9.000	04/15/2021	17,636.32	100.00000	112.92800	19,916.34	2,280.02	1,587.27	9.00	3.18	6.42
26,218.24	GNMA Pool #304625	9.000	03/15/2021	26,210.02	99.96865	112.92800	29,607.73	3,397.71	2,359.64	9.00	3.18	6.40
49,092.43	GNMA Pool #305187	9.000	06/15/2021	49,077.08	99.96873	112.92800	55,439.10	6,362.02	4,418.32	9.00	3.18	6.46
163,675.13	GNMA Pool #330725	8.000	07/15/2022	162,601.02	99.34375	110.57100	180,977.23	18,376.21	13,094.01	8.05	3.90	7.03
753,558.41	GNMA Pool #375887	7.000	05/15/2024	705,048.08	93.56250	106.79400	804,755.17	99,707.09	52,749.09	7.48	4.56	8.30
222,290.53	GNMA Pool #377589	7.500	08/15/2025	221,665.36	99.71876	108.15200	240,411.65	18,746.29	16,671.79	7.52	4.08	7.97
344,954.67	GNMA Pool #386038	7.000	06/15/2024	323,772.30	93.85938	106.79400	368,390.89	44,618.59	24,146.83	7.46	4.56	8.30
187,950.24	GNMA Pool #389845	8.000	09/15/2024	184,602.38	98.21875	110.33800	207,380.54	22,778.16	15,036.02	8.15	3.90	7.69
361,828.86	GNMA Pool #398831	8.000	08/15/2026	361,260.75	99.84299	109.99000	397,975.56	36,714.81	28,946.31	8.01	3.90	8.03
146,466.75	GNMA Pool #403979	8.500	10/15/2024	143,970.19	98.29548	111.00100	162,579.56	18,609.37	12,449.67	8.65	4.50	7.55
240,760.08	GNMA Pool #421711	7.500	04/15/2026	240,459.13	99.87500	108.02900	260,090.71	19,631.58	18,057.01	7.51	4.08	8.12
117,468.04	GNMA Pool #427556	7.500	03/15/2026	117,119.32	99.70314	108.02900	126,899.55	9,780.23	8,810.10	7.52	4.08	8.12
540,984.93	GNMA Pool #432701	8.000	06/15/2026	540,984.93	100.00000	109.99000	595,029.32	54,044.39	43,278.79	8.00	3.90	7.98
477,802.95	GNMA Pool #434101	7.000	12/15/2028	468,396.21	98.03125	106.42700	508,511.35	40,115.14	33,446.21	7.14	4.56	9.14
362,796.64	GNMA Pool #434237	6.000	03/15/2029	335,983.71	92.60938	102.77300	372,856.99	36,873.28	21,767.80	6.48	5.42	10.22
34,326.62	GNMA Pool #439645	8.000	09/15/2026	34,303.77	99.93343	109.99000	37,755.85	3,452.08	2,746.13	8.01	3.90	8.04

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Par Value	Security	Coupon	Maturity	Book Cost	Book Price	Current Price	Current Value	Gain or (Loss)	Annual Income	Book Yield	YTM	Duration
78,847.00	GNMA Pool #441619	7.500	11/15/2029	78,538.05	99.60817	107.94200	85,109.03	6,570.98	5,913.53	7.53	4.08	8.98
206,948.63	GNMA Pool #458918	7.000	08/15/2028	203,194.43	98.18593	106.42700	220,249.22	17,054.79	14,486.40	7.13	4.56	9.04
366,923.40	GNMA Pool #475872	7.000	07/15/2028	363,942.15	99.18750	106.42700	390,505.57	26,563.42	25,684.64	7.06	4.56	8.93
1,042,134.17	GNMA Pool #499876	7.000	06/15/2029	1,036,597.83	99.46875	106.35000	1,108,309.69	71,711.86	72,949.39	7.04	4.56	9.13
1,142,375.43	GNMA Pool #499905	7.000	05/15/2029	1,134,164.58	99.28125	106.35000	1,214,916.27	80,751.69	79,966.28	7.05	4.56	9.12
605,198.94	GNMA Pool #499907	7.000	05/15/2029	580,135.51	95.85865	106.35000	643,629.07	63,493.56	42,363.93	7.30	4.56	9.45
235,791.30	GNMA Pool #507496	7.000	06/15/2029	228,570.20	96.93750	106.35000	250,764.05	22,193.85	16,505.39	7.22	4.56	9.37
131,138.63	GNMA Pool #510958	7.000	05/15/2029	130,196.08	99.28126	106.35000	139,465.93	9,269.85	9,179.70	7.05	4.56	9.12
47,533.32	GNMA Pool #512888	7.000	07/15/2029	46,077.62	96.93752	106.35000	50,551.69	4,474.07	3,327.33	7.22	4.56	9.39
156,210.26	GNMA Pool #513367	7.000	08/15/2029	149,568.43	95.74815	106.35000	166,129.61	16,561.18	10,934.72	7.31	4.56	9.52
562,537.55	GNMA Pool #530611	6.500	05/15/2031	562,054.12	99.91406	104.63300	588,599.91	26,545.79	36,564.94	6.51	5.09	9.78
855,675.06	GNMA Pool #530631	6.500	06/15/2031	851,864.74	99.55470	104.63300	895,318.49	43,453.75	55,618.88	6.53	5.09	9.83
364,001.99	GNMA Pool #539629	6.500	04/15/2031	362,636.98	99.62500	104.63300	380,866.20	18,229.22	23,660.13	6.52	5.09	9.79
140,821.67	GNMA Pool #548963	6.500	03/15/2031	140,469.61	99.75000	104.63300	147,345.94	6,876.33	9,153.41	6.52	5.09	9.76
188,339.33	GNMA Pool #549915	6.500	05/15/2031	187,633.05	99.62500	104.63300	197,065.09	9,432.04	12,242.06	6.52	5.09	9.81
2,696,628.85	GNMA Pool #552514	6.500	04/15/2032	2,687,359.19	99.65625	104.61100	2,820,970.41	133,611.22	175,280.88	6.52	5.09	10.02
784,443.26	GNMA Pool #560189	6.500	04/15/2031	782,482.17	99.75000	104.63300	820,786.52	38,304.35	50,988.81	6.52	5.09	9.78
811,225.42	GNMA Pool #780076	8.000	02/15/2025	796,392.65	98.17156	110.48400	896,274.29	99,881.64	64,898.03	8.15	3.90	7.80
427,394.61	GNMA Pool #780220	7.500	08/15/2025	427,249.99	99.96616	108.25600	462,680.31	35,430.32	32,054.60	7.50	4.08	7.95
193,575.82	GNMA Pool #780896	7.000	11/15/2028	189,596.60	97.94436	106.46300	206,086.63	16,490.03	13,550.31	7.15	4.56	9.13
<b>16,124,850.86</b>	<b>TOTAL FEDERAL AGENCY OBLIGATIONS</b>			<b>15,877,781.45</b>	<b>98.46777</b>		<b>17,221,846.54</b>	<b>1,344,065.09</b>	<b>1,149,866.10</b>	<b>7.24</b>	<b>4.59</b>	<b>8.88</b>
<b>CORPORATE BONDS</b>												
3,400,000.00	AMERICAN AIRLINES	7.858	10/01/2011	3,390,040.49	99.70707	99.48000	3,382,320.00	(7,720.49)	267,172.00	7.88	7.95	5.82
8,000,000.00	ANTHEM INSURANCE COMPANY INC	9.000	04/01/2027	8,491,942.18	106.14928	131.87600	10,550,080.00	2,058,137.82	720,000.00	8.48	6.35	9.49
994,000.00	AT&T BROADBAND CORP	9.455	11/15/2022	1,012,382.95	101.84939	128.53800	1,277,667.72	265,284.77	93,982.70	9.28	6.73	8.91
1,000,000.00	BANC ONE CORP	8.000	04/29/2027	1,023,161.08	102.31611	118.50400	1,185,040.00	161,878.92	80,000.00	7.82	6.45	10.61
4,000,000.00	BAYER HYPO-VEREINSBANK	8.741	06/30/2031	3,362,708.27	84.06771	115.38600	4,615,440.00	1,252,731.73	349,640.00	10.40	7.41	12.79
2,500,000.00	BOEING CORPORATION	8.750	08/15/2021	3,062,138.67	122.48555	126.52400	3,163,100.00	100,961.33	218,750.00	7.14	6.20	7.47
1,151,968.12	CBO HOLDINGS III LTD.	7.000	02/10/2038	1,217,507.26	105.68932	100.00000	1,151,968.12	(65,539.14)	80,637.77	6.62	7.00	12.59
1,201,000.00	CONTINENTAL AIRLINES INC	6.320	11/01/2008	1,214,918.90	101.15894	96.67000	1,161,006.70	(53,912.20)	75,903.20	6.25	7.20	3.94
2,443,000.00	CONTINENTAL AIRLINES INC	7.918	05/01/2010	2,511,228.01	102.79280	98.43200	2,404,693.76	(106,534.25)	193,436.74	7.70	8.25	4.76
952,000.00	CONTINENTAL AIRLINES INC	6.503	06/15/2011	951,140.80	99.90975	93.27200	887,949.44	(63,191.36)	61,908.56	6.51	7.77	5.74
592,337.27	CONTINENTAL AIRLINES INC	7.256	03/15/2020	620,922.15	104.82578	97.42200	577,066.82	(43,855.33)	42,979.99	6.92	7.54	9.11
1,500,000.00	COUNTRYWIDE CAPITAL I	8.000	12/15/2026	1,500,000.00	100.00000	106.12600	1,591,890.00	91,890.00	120,000.00	8.00	7.44	10.77
1,500,000.00	EASTMAN HILL FUNDING LTD	1.905	09/29/2031	801,329.36	53.42196	58.00000	870,000.00	68,670.64	28,575.00	3.57	4.62	40.30
2,000,000.00	FIRST EMPIRE CAPITAL TRUST I	8.234	02/01/2027	2,137,773.63	106.88868	109.49500	2,189,900.00	52,126.37	164,680.00	7.70	7.36	9.90
3,000,000.00	FIRST HAWAIIAN CAPITAL TRUST	8.343	07/01/2027	3,145,993.44	104.86645	110.53300	3,315,990.00	169,996.56	250,290.00	7.96	7.38	10.09
1,125,000.00	FNMA	5.000	12/30/2010	1,125,000.00	100.00000	99.43800	1,118,677.50	(6,322.50)	56,250.00	5.00	5.10	5.63
1,000,000.00	FORD HOLDINGS INC	9.375	03/01/2020	1,110,024.88	111.00249	111.68100	1,116,810.00	6,785.12	93,750.00	8.45	8.04	7.63

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1,000,000.00	FORD MOTOR COMPANY	9.500	09/15/2011	999,704.11	99.97041	114.28600	1,142,860.00	143,155.89	95,000.00	9.50	6.89	5.27
1,000,000.00	FORD MOTOR CREDIT	7.250	10/25/2011	1,013,766.32	101.37663	104.42900	1,044,290.00	30,523.68	72,500.00	7.15	6.49	5.83
1,500,000.00	FREDDIE MAC	5.000	07/02/2018	1,362,035.33	90.80236	92.51900	1,387,785.00	25,749.67	75,000.00	5.51	5.79	11.27
1,000,000.00	GENERAL MOTORS NOVA SCOTIA	6.850	10/15/2008	1,034,409.12	103.44091	104.84100	1,048,410.00	14,000.88	68,500.00	6.62	5.62	3.82
5,000,000.00	GMAC	6.875	08/28/2012	5,151,690.56	103.03381	101.72600	5,086,300.00	(65,390.56)	343,750.00	6.67	6.59	6.10
2,000,000.00	GMAC	8.000	11/01/2031	2,000,000.00	100.00000	102.45900	2,049,180.00	49,180.00	160,000.00	8.00	7.78	11.50
1,000,000.00	GOLDMAN SACHS GROUP INC.	8.000	03/01/2013	997,761.44	99.77614	115.84600	1,158,460.00	160,698.56	80,000.00	8.02	5.63	6.34
1,000,000.00	HUNTINGTON BANKS SUB NTS	6.600	06/15/2018	927,312.83	92.73128	106.92200	1,069,220.00	141,907.17	66,000.00	7.12	5.87	10.08
3,750,000.00	HUTCHISON WHAMPOA FINANCIAL	7.450	08/01/2017	4,020,211.62	107.20564	103.13900	3,867,712.50	(152,499.12)	279,375.00	6.95	7.08	7.97
850,000.00	HUTCHISON WHAMPOA INTL LTD	7.450	11/24/2033	797,760.61	93.85419	95.70800	813,518.00	15,757.39	63,325.00	7.94	7.83	13.12
4,000,000.00	JPM CAPITAL TRUST II	7.950	02/01/2027	4,149,341.98	103.73355	107.54800	4,301,920.00	152,578.02	318,000.00	7.66	7.26	10.43
2,000,000.00	LEHMAN BROTHERS HOLDINGS INC	8.800	03/01/2015	2,157,979.28	107.89896	123.87800	2,477,560.00	319,580.72	176,000.00	8.16	5.74	6.54
2,130,000.00	LIBERTY MUTUAL INSURANCE	7.875	10/15/2026	2,016,055.91	94.65051	106.73800	2,273,519.40	257,463.49	167,737.50	8.32	7.26	11.49
2,424,501.45	NORTHWEST AIR LINES INC	7.935	04/01/2019	2,613,035.12	107.77618	106.96200	2,593,295.24	(19,739.88)	192,384.19	7.36	7.17	8.37
2,238,247.11	NORTHWEST AIR LINES INC	7.041	04/01/2022	2,202,209.47	98.38992	96.14400	2,151,940.30	(50,269.17)	157,594.98	7.16	7.43	10.64
1,731,992.48	NORTHWEST AIRLINES 1999-2A	7.575	03/01/2019	1,800,213.53	103.93888	98.30900	1,702,704.49	(97,509.04)	131,198.43	7.29	7.77	8.70
2,700,000.00	NORTHWEST AIRLINES INC	6.841	04/01/2011	2,688,315.35	99.56724	96.90700	2,616,489.00	(71,826.35)	184,707.00	6.87	7.42	5.70
2,501,803.39	OAKWOOD MORTGAGE INVESTORS INC	5.190	09/15/2019	2,432,197.28	97.21776	93.93400	2,350,044.00	(82,153.28)	129,843.60	5.34	5.79	10.83
3,000,000.00	PREFERRED CPO	8.946	07/26/2030	3,130,756.36	104.35855	115.86700	3,476,010.00	345,253.64	268,380.00	8.57	7.54	10.04
1,000,000.00	SECURITY BENEFIT	8.750	05/15/2016	1,083,725.86	108.37259	111.63800	1,116,380.00	32,654.14	87,500.00	8.07	7.28	7.07
2,000,000.00	SECURITY MUTUAL LIFE NEW YORK	9.375	12/15/2016	2,170,396.76	108.51984	131.39390	2,627,878.00	457,481.24	187,500.00	8.64	5.81	7.02
362,920.50	SECURITY NATIONAL MORTGAGE LOAN	7.870	08/25/2030	362,920.50	100.00000	108.08400	392,258.99	29,338.49	28,561.84	7.87	7.18	11.14
500,000.00	SIGNATURE 6 LIMITED	7.276	09/27/2016	453,526.28	90.70526	94.00000	470,000.00	16,473.72	36,380.00	8.02	8.05	9.28
1,500,000.00	UNION CARBIDE CORP	7.875	04/01/2023	1,455,066.70	97.00445	95.50000	1,432,500.00	(22,566.70)	118,125.00	8.12	8.35	10.47
2,000,000.00	UNION CENTRAL LIFE	8.200	11/01/2026	2,020,131.88	101.00659	107.35200	2,147,040.00	126,908.12	164,000.00	8.12	7.52	10.51
2,000,000.00	USF&G CAPITAL II, SERIES B	8.470	01/10/2027	2,173,739.19	108.68696	109.72400	2,194,480.00	20,740.81	169,400.00	7.79	7.56	9.57
1,500,000.00	WYETH	6.450	02/01/2024	1,430,279.24	95.35195	95.09400	1,426,410.00	(3,869.24)	96,750.00	6.76	6.91	11.92
3,750,000.00	ZAIS INVESTMENT GRADE LTD	2.481	12/10/2015	2,320,750.06	61.88667	100.00000	3,750,000.00	1,429,249.94	93,022.50	4.01	2.48	16.28
3,000,000.00	ZURICH CAPITAL TRUST I	8.376	06/01/2037	3,036,421.07	101.21404	110.44700	3,313,410.00	276,988.93	251,280.00	8.28	7.52	11.47
<b>94,798,770.32</b>	<b>TOTAL CORPORATE BONDS</b>			<b>94,679,925.83</b>	<b>99.87463</b>		<b>102,041,174.98</b>	<b>7,361,249.15</b>	<b>7,159,771.00</b>	<b>7.56</b>	<b>6.81</b>	<b>9.71</b>
<b>117,923,621.18</b>	<b>BOND PORTFOLIO TOTALS</b>			<b>117,529,429.07</b>	<b>99.66572</b>		<b>128,637,091.52</b>	<b>11,107,662.45</b>	<b>8,900,887.10</b>	<b>7.57</b>	<b>6.39</b>	<b>9.53</b>

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**CORPORATE NOTES**

<b>Date Acquired</b>	<b>Description</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Cost</b>	<b>Amount of Interest</b>	<b>Maturity Value</b>
06/30/2004	UBS AMERICAS INC	1.420	07/01/2004	10,499,585.83	414.17	10,500,000.00
06/30/2004	STARBIRD FUNDING CORPORATION	1.470	07/01/2004	6,999,714.17	285.83	7,000,000.00
06/08/2004	MARKET STREET FUNDING	1.090	07/07/2004	5,495,170.69	4,829.31	5,500,000.00
06/08/2004	GREYHAWK FUNDING LLC	1.090	07/09/2004	5,494,837.64	5,162.36	5,500,000.00
06/14/2004	ALTAMIRA FUNDING	1.240	07/12/2004	4,995,177.78	4,822.22	5,000,000.00
<b>TOTAL CORPORATE NOTES</b>				<b>33,484,486.11</b>	<b>15,513.89</b>	<b>33,500,000.00</b>

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**COMMON STOCK PORTFOLIO**

Shares	Description	Div Rate	Book Cost per Share	Book Cost	Market Price	Market Value	Annual Income	Gain or (Loss) Amount
157,100	ABBOTT LABORATORIES	1.04	28.073	4,410,220.20	40.760	6,403,396.00	163,384.00	1,993,175.80
35,200	ABERCROMBIE & FITCH	0.50	28.771	1,012,736.14	38.750	1,364,000.00	17,600.00	351,263.86
15,700	ABM INDUSTRIES INC	0.40	18.498	290,418.82	19.470	305,679.00	6,280.00	15,260.18
13,400	ACCREDO HEALTH	-	18.528	248,269.60	38.950	521,930.00	-	273,660.40
76,200	ADOBE SYSTEMS	0.05	34.302	2,613,819.44	46.500	3,543,300.00	3,810.00	929,480.56
11,000	ADVANCED ENERGY INDUSTRIES	-	22.250	244,750.00	15.720	172,920.00	-	(71,830.00)
18,000	AETNA INC	0.04	80.740	1,453,311.00	85.000	1,530,000.00	720.00	76,689.00
19,000	AFFILIATED COMPUTER SERVICES	-	48.726	925,799.70	52.940	1,005,860.00	-	80,060.30
51,900	ALBERTO CULVER CO	0.40	36.442	1,891,360.55	50.140	2,602,266.00	20,760.00	710,905.45
37,800	ALCOA INC	0.60	18.927	715,425.24	33.030	1,248,534.00	22,680.00	533,108.76
164,000	ALLSTATE CORPORATION	1.12	31.305	5,133,941.11	46.550	7,634,200.00	183,680.00	2,500,258.89
132,300	ALLTEL CORPORATION	1.48	57.155	7,561,568.85	50.620	6,697,026.00	195,804.00	(864,542.85)
32,600	AMBAC FINANCIAL GROUP INC	0.44	57.171	1,863,778.12	73.440	2,394,144.00	14,344.00	530,365.88
111,100	AMERICA WEST AIRLINES	-	14.206	1,578,286.62	9.080	1,008,788.00	-	(569,498.62)
100,500	AMERICAN EXPRESS	0.40	35.406	3,558,280.66	51.380	5,163,690.00	40,200.00	1,605,409.34
79,500	AMERICAN INT'L GROUP	0.30	39.516	3,141,495.31	71.280	5,666,760.00	23,850.00	2,525,264.69
73,500	AMERICAN STANDARD COMPANY INC	-	25.667	1,886,491.75	40.310	2,962,785.00	-	1,076,293.25
187,700	AMGEN	-	39.503	7,414,655.57	54.570	10,242,789.00	-	2,828,133.43
33,100	AMSOUTH BANCORPORATION	0.96	21.628	715,889.22	25.470	843,057.00	31,776.00	127,167.78
124,100	ANALOG DEVICES, INC.	0.24	70.751	8,780,220.46	47.080	5,842,628.00	29,784.00	(2,937,592.46)
67,000	ANHEUSER BUSCH COMPANY	0.88	51.856	3,474,319.60	54.000	3,618,000.00	58,960.00	143,680.40
206,810	APACHE CORPORATION	0.24	23.243	4,806,793.25	43.550	9,006,575.50	49,634.40	4,199,782.25
41,700	APOLLO GROUP, INC.	-	66.242	2,762,290.96	88.290	3,681,693.00	-	919,402.04
9,200	ARGOSY GAMING CO	-	27.547	253,431.56	37.600	345,920.00	-	92,488.44
76,400	AT&T CORP	0.95	18.253	1,394,558.04	14.630	1,117,732.00	72,580.00	(276,826.04)
11,900	ATMI INC	-	21.329	253,809.15	27.310	324,989.00	-	71,179.85
59,000	AUTOMATIC DATA PROCESSING	0.56	38.299	2,259,661.40	41.880	2,470,920.00	33,040.00	211,258.60
16,300	AUTOZONE INC	-	87.595	1,427,799.20	80.100	1,305,630.00	-	(122,169.20)
73,400	BANK OF AMERICA CORPORATION	3.60	72.469	5,319,200.78	84.620	6,211,108.00	264,240.00	891,907.22
6,600	BENCHMARK ELECTRONICS	-	38.386	253,347.60	29.100	192,060.00	-	(61,287.60)
49,900	BJ SERVICES COMPANY	-	38.080	1,900,166.01	45.840	2,287,416.00	-	387,249.99
5,900	BLACK BOX CORPORATION	0.20	44.202	260,789.43	47.260	278,834.00	1,180.00	18,044.57
30,800	BOEING CO.	0.80	36.556	1,125,919.57	51.090	1,573,572.00	24,640.00	447,652.43
95,800	BOSTON SCIENTIFIC CORPORATION	-	21.662	2,075,204.77	42.800	4,100,240.00	-	2,025,035.23
82,500	CANADIAN NATIONAL RAILWAY	0.58	31.572	2,604,680.04	43.590	3,596,175.00	47,850.00	991,494.96
8,800	CAPITAL AUTOMOTIVE REIT	1.68	28.919	254,484.40	29.330	258,104.00	14,784.00	3,619.60
59,000	CARDINAL HEALTH INC.	0.12	58.830	3,470,954.87	70.050	4,132,950.00	7,080.00	661,995.13
6,500	CARPENTER TECHNOLOGY	0.33	33.838	219,947.06	34.050	221,325.00	2,145.00	1,377.94
18,000	CATERPILLAR INC	1.64	83.771	1,507,879.93	79.440	1,429,920.00	29,520.00	(77,959.93)
22,500	C-COR.net	-	11.095	249,647.41	10.290	231,525.00	-	(18,122.41)

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5,500	CEPHALON INC	-	46.260	254,430.00	54.000	297,000.00	-	42,570.00
32,600	CHELSEA PROPERTY GROUP	2.40	33.735	1,099,770.08	65.220	2,126,172.00	78,240.00	1,026,401.92
84,266	CHOICEPOINT INCORPORATED	-	38.996	3,286,066.80	45.660	3,847,585.56	-	561,518.76
381,300	CISCO SYSTEMS	-	8.951	3,412,957.95	23.700	9,036,810.00	-	5,623,852.05
291,133	CITIGROUP, INC.	1.60	40.680	11,843,277.97	46.500	13,537,684.50	465,812.80	1,694,406.53
5,900	CLARCOR INC	0.50	43.039	253,928.42	45.800	270,220.00	2,950.00	16,291.58
65,300	COCA-COLA CO	1.00	49.870	3,256,498.00	50.480	3,296,344.00	65,300.00	39,846.00
8,400	COHERENT, INC.	-	29.984	251,863.06	29.850	250,740.00	-	(1,123.06)
6,900	COLONIAL PROPERTY TRUST	2.68	36.135	249,332.19	38.530	265,857.00	18,492.00	16,524.81
278,267	COMCAST CORP-SPECIAL CL A	-	32.602	9,072,150.57	27.610	7,682,951.87	-	(1,389,198.70)
32,600	COMMERCE BANCORP, INC.	0.76	42.979	1,401,117.30	55.010	1,793,326.00	24,776.00	392,208.70
6,400	COMMONWEALTH TELEPHONE ENTERPRISES	-	39.500	252,800.00	44.770	286,528.00	-	33,728.00
92,100	CONSTELLATION BRANDS	-	30.867	2,842,863.40	37.130	3,419,673.00	-	576,809.60
31,600	CONSTELLATION ENERGY GROUP INC	1.14	43.659	1,379,611.50	37.900	1,197,640.00	36,024.00	(181,971.50)
4,550	COOPER COMPANIES	0.06	53.534	243,578.15	63.170	287,423.50	273.00	43,845.35
226,200	CORINTHIAN COLLEGES, INC	-	23.973	5,422,791.25	24.740	5,596,188.00	-	173,396.75
8,100	CULLEN/FROST BANKERS	1.06	30.727	248,886.83	44.750	362,475.00	8,586.00	113,588.17
4,100	CUNO INC	-	32.943	135,066.00	53.350	218,735.00	-	83,669.00
134,200	D. R. HORTON	0.32	25.026	3,358,455.13	28.400	3,811,280.00	42,944.00	452,824.87
85,600	DEAN FOODS	-	29.479	2,523,384.12	37.310	3,193,736.00	-	670,351.88
79,000	DIAMOND OFFSHORE DRILLING	0.25	23.340	1,843,821.91	23.830	1,882,570.00	19,750.00	38,748.09
9,000	DSP GROUP	-	27.152	244,366.91	27.240	245,160.00	-	793.09
38,000	E.I. du PONT de NEMOURS AND CO	1.40	39.438	1,498,628.00	44.420	1,687,960.00	53,200.00	189,332.00
47,700	EASTMAN KODAK COMPANY	0.50	29.417	1,403,202.92	26.980	1,286,946.00	23,850.00	(116,256.92)
10,500	EGL INC	-	23.500	246,750.00	26.600	279,300.00	-	32,550.00
62,700	ELECTRONICS BOUTIQUE HOLDINGS CORP.	-	36.234	2,271,863.52	26.340	1,651,518.00	-	(620,345.52)
128,000	EMC CORP	-	9.408	1,204,192.89	11.400	1,459,200.00	-	255,007.11
141,800	EXPRESS SCRIPTS	-	21.924	3,108,877.84	79.230	11,234,814.00	-	8,125,936.16
297,000	EXXON MOBIL CORP	1.08	37.543	11,150,341.95	44.410	13,189,770.00	320,760.00	2,039,428.05
52,800	FAIR ISAAC & CO	0.08	35.704	1,885,167.58	33.380	1,762,464.00	4,224.00	(122,703.58)
32,600	FEDEX CORPORATION	0.28	49.229	1,604,863.13	81.690	2,663,094.00	9,128.00	1,058,230.87
9,200	FEI COMPANY	-	27.389	251,978.16	23.910	219,972.00	-	(32,006.16)
367,500	FLEXTRONICS INTERNATIONAL	-	13.847	5,088,607.03	15.950	5,861,625.00	-	773,017.97
50,900	FORTUNE BRANDS, INC.	1.20	58.048	2,954,621.39	75.430	3,839,387.00	61,080.00	884,765.61
8,100	FORWARD AIR CORPORATION	-	30.448	246,629.66	37.400	302,940.00	-	56,310.34
51,000	FRANKLIN RESOURCES INC	0.34	51.388	2,620,777.85	50.080	2,554,080.00	17,340.00	(66,697.85)
34,200	GANNETT COMPANY	1.00	73.605	2,517,289.66	84.850	2,901,870.00	34,200.00	384,580.34
26,200	GENENTECH, INC.	-	22.903	600,061.62	56.200	1,472,440.00	-	872,378.38
34,900	GENERAL MOTORS CORPORATION	2.00	38.336	1,337,920.43	46.590	1,625,991.00	69,800.00	288,070.57
65,200	GENZYME CORPORATION	-	57.362	3,739,975.80	47.330	3,085,916.00	-	(654,059.80)

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60,100	GILEAD SCIENCES, INC	-	35.316	2,122,490.20	67.000	4,026,700.00	-	1,904,209.80
86,700	GLOBALSANTAFE CORP	0.20	34.320	2,975,551.89	26.500	2,297,550.00	17,340.00	(678,001.89)
6,600	GUITAR CENTER INC	-	38.134	251,682.42	44.470	293,502.00	-	41,819.58
3,200	HARMAN INTERNATIONAL INDUSTRIES	0.05	79.447	254,230.40	91.000	291,200.00	160.00	36,969.60
92,400	HARTFORD FINANCIAL SERVICES GROUP	1.12	51.401	4,749,414.99	68.740	6,351,576.00	103,488.00	1,602,161.01
10,400	HELIX TECHNOLOGY	0.16	12.155	126,409.19	21.330	221,832.00	1,664.00	95,422.81
3,800	HIBBETT SPORTING GOODS	-	26.062	99,034.60	27.350	103,930.00	-	4,895.40
16,400	HOLOGIC INC	-	15.404	252,624.40	23.250	381,300.00	-	128,675.60
139,500	HOME DEPOT	0.34	13.320	1,858,196.06	35.200	4,910,400.00	47,430.00	3,052,203.94
50,600	HONEYWELL INTERNATIONAL INC	0.75	26.184	1,324,931.54	36.630	1,853,478.00	37,950.00	528,546.46
8,100	HUDSON UNITED BANCORP	1.32	31.095	251,871.60	37.280	301,968.00	10,692.00	50,096.40
8,800	HYDRIL	-	27.964	246,081.96	31.500	277,200.00	-	31,118.04
9,300	INTEGRA LIFESCIENCES HOLDINGS	-	29.109	270,713.58	35.270	328,011.00	-	57,297.42
286,200	INTEL CORPORATION	0.16	29.557	8,459,324.28	27.600	7,899,120.00	45,792.00	(560,204.28)
96,800	INTERACTIVECORP	-	35.333	3,420,215.50	30.140	2,917,552.00	-	(502,663.50)
97,800	INTERNATIONAL BUSINESS MACH.	0.72	52.253	5,110,322.53	88.150	8,621,070.00	70,416.00	3,510,747.47
36,200	INTERNATIONAL PAPER COMPANY	1.00	37.875	1,371,057.46	44.700	1,618,140.00	36,200.00	247,082.54
11,400	INTRADO INC	-	22.024	251,069.48	16.090	183,426.00	-	(67,643.48)
126,500	JABIL CIRCUIT	-	20.853	2,637,943.92	25.180	3,185,270.00	-	547,326.08
58,000	JACOBS ENGINEERING GROUP INC.	-	33.270	1,929,630.00	39.380	2,284,040.00	-	354,410.00
112,200	JOHNSON & JOHNSON CO	1.14	55.713	6,251,024.10	55.700	6,249,540.00	127,908.00	(1,484.10)
48,900	JP MORGAN CHASE & CO	1.36	27.392	1,339,466.76	38.770	1,895,853.00	66,504.00	556,386.24
13,500	KAYDON CORP	0.48	18.849	254,466.85	30.930	417,555.00	6,480.00	163,088.15
35,200	KINDER MORGAN, INC.	2.25	54.099	1,904,291.13	59.290	2,087,008.00	79,200.00	182,716.87
16,000	KULICKE & SOFFA INDUSTRIES	-	15.580	249,280.00	10.960	175,360.00	-	(73,920.00)
97,800	LANDSTAR SYSTEMS, INC	-	25.977	2,540,557.20	52.870	5,170,686.00	-	2,630,128.80
124,700	LENNAR CORP Class A	0.50	29.150	3,634,952.08	44.720	5,576,584.00	62,350.00	1,941,631.92
47,900	LEXMARK INTERNATIONAL GROUP	-	72.989	3,496,171.27	96.530	4,623,787.00	-	1,127,615.73
6,600	MANITOWOC COMPANY INC.	0.28	19.498	128,686.14	33.850	223,410.00	1,848.00	94,723.86
390,100	MBNA CORP	0.48	13.067	5,097,414.06	25.790	10,060,679.00	187,248.00	4,963,264.94
25,500	MEDTRONIC, INC.	0.34	47.969	1,223,200.00	48.720	1,242,360.00	8,670.00	19,160.00
28,500	MERCK & CO.	1.48	47.462	1,352,664.15	47.500	1,353,750.00	42,180.00	1,085.85
26,400	METLIFE INC.	0.23	28.691	757,441.60	35.850	946,440.00	6,072.00	188,998.40
65,200	MICROCHIP TECHNOLOGY INC.	0.16	26.457	1,725,006.74	31.540	2,056,408.00	10,432.00	331,401.26
460,900	MICROSOFT CORPORATION	0.16	36.025	16,603,896.26	28.560	13,163,304.00	73,744.00	(3,440,592.26)
10,200	MOHAWK INDUSTRIES	-	71.184	726,076.46	73.330	747,966.00	-	21,889.54
63,200	MOODY'S CORPORATION	0.30	36.485	2,305,829.82	64.660	4,086,512.00	18,960.00	1,780,682.18
39,700	MYLAN LABORATORIES	0.12	22.390	888,897.16	20.250	803,925.00	4,764.00	(84,972.16)
79,500	NABORS INDUSTRIES, LTD	-	54.227	4,311,037.43	45.220	3,594,990.00	-	(716,047.43)
49,900	NATIONAL CITY CORP	1.40	32.146	1,604,080.00	35.010	1,746,999.00	69,860.00	142,919.00

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26,000	NBTY INC	-	26.682	693,719.54	29.390	764,140.00	-	70,420.46
54,000	NEXTEL COMMUNICATIONS	-	24.752	1,336,594.38	26.660	1,439,640.00	-	103,045.62
23,300	NOBLE CORPORATION	-	44.701	1,041,527.23	37.890	882,837.00	-	(158,690.23)
136,000	NOKIA CORPORATION	0.30	15.953	2,169,640.48	14.540	1,977,440.00	40,800.00	(192,200.48)
58,600	OMNICOM GROUP	0.90	81.907	4,799,749.87	75.890	4,447,154.00	52,740.00	(352,595.87)
66,600	OXFORD HEALTH PLANS, INC.	0.40	31.743	2,114,059.14	55.040	3,665,664.00	26,640.00	1,551,604.86
81,500	P.F. CHANG'S CHINA BISTRO	-	26.915	2,193,603.02	41.150	3,353,725.00	-	1,160,121.98
18,750	PACIFIC SUNWEAR OF CALIFORNIA	-	13.574	254,506.25	19.590	367,312.50	-	112,806.25
32,500	PACTIV CORPORATION	-	16.091	522,940.80	24.940	810,550.00	-	287,609.20
6,000	PANERA BREAD 'A'	-	42.715	256,291.20	35.880	215,280.00	-	(41,011.20)
17,500	PAXAR CORP	-	13.900	243,250.00	19.520	341,600.00	-	98,350.00
145,500	PEPSICO INC.	0.92	46.961	6,832,790.36	53.880	7,839,540.00	133,860.00	1,006,749.64
274,150	PFIZER INC.	0.68	29.144	7,989,805.06	34.280	9,397,862.00	186,422.00	1,408,056.94
6,000	PHOTON DYNAMICS	-	42.807	256,840.05	35.070	210,420.00	-	(46,420.05)
105,100	PLANTRONICS, INC.	-	26.860	2,823,026.77	42.100	4,424,710.00	-	1,601,683.23
59,600	PRAXAIR INC	0.60	35.098	2,091,833.65	39.910	2,378,636.00	35,760.00	286,802.35
148,400	PROCTER & GAMBLE COMPANY	1.00	45.644	6,773,547.96	54.440	8,078,896.00	148,400.00	1,305,348.04
77,200	QUIKSILVER, INC	-	17.013	1,313,389.40	23.810	1,838,132.00	-	524,742.60
10,000	RARE HOSPITALITY INTERNATIONAL	-	25.391	253,913.25	24.900	249,000.00	-	(4,913.25)
26,700	REGIS CORPORATION	0.16	31.873	851,008.47	44.590	1,190,553.00	4,272.00	339,544.53
16,300	RELIANCE STEEL & ALUMINUM	0.24	15.534	253,201.72	40.320	657,216.00	3,912.00	404,014.28
7,800	RENAL CARE GROUP	-	31.276	243,950.53	33.130	258,414.00	-	14,463.47
8,500	RESMED INC	-	30.084	255,716.68	50.960	433,160.00	-	177,443.32
400	RESPIRONICS INC	-	51.400	20,560.00	58.750	23,500.00	-	2,940.00
16,300	RYAN'S RESTAURANT GROUP INC	-	15.679	255,570.13	15.800	257,540.00	-	1,969.87
185,100	SANMINA CORP.	-	25.720	4,760,743.28	9.100	1,684,410.00	-	(3,076,333.28)
61,700	SBC COMMUNICATIONS INC.	1.25	22.168	1,367,765.75	24.250	1,496,225.00	77,125.00	128,459.25
84,700	SCHOLASTIC CORPORATION	-	28.714	2,432,078.73	29.950	2,536,765.00	-	104,686.27
4,800	SCOTTS CO'A'	-	53.050	254,640.00	63.880	306,624.00	-	51,984.00
165,950	SCP POOL CORPORATION	0.10	18.092	3,002,338.61	45.000	7,467,750.00	16,595.00	4,465,411.39
34,500	SEALED AIR	-	51.162	1,765,072.36	53.270	1,837,815.00	-	72,742.64
111,100	SEI INVESTMENTS COMPANY	0.20	39.153	4,349,945.30	29.040	3,226,344.00	22,220.00	(1,123,601.30)
57,000	SEMPRA ENERGY	1.00	32.338	1,843,279.52	34.430	1,962,510.00	57,000.00	119,230.48
5,200	SMITH, A O CORP	0.60	29.306	152,390.94	31.790	165,308.00	3,120.00	12,917.06
42,800	SMURFIT-STONE CONTAINER CORP	-	14.999	641,964.32	19.950	853,860.00	-	211,895.68
126,400	ST. JUDE MEDICAL	-	40.643	5,137,255.59	75.650	9,562,160.00	-	4,424,904.41
50,800	STAPLES, INC.	0.20	24.888	1,264,317.00	29.410	1,494,028.00	10,160.00	229,711.00
7,300	STEAK N SHAKE	-	17.550	128,115.00	18.220	133,006.00	-	4,891.00
21,100	STEEL DYNAMICS	-	12.148	256,330.73	28.630	604,093.00	-	347,762.27
10,700	STEWART & STEVENSON SERVICES	0.34	16.884	180,662.41	17.920	191,744.00	3,638.00	11,081.59

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**COMMON STOCK PORTFOLIO**

Shares	Description	Div Rate	Book Cost per Share	Book Cost	Market Price	Market Value	Annual Income	Gain or (Loss) Amount
275,300	SYMANTEC CORPORATION	-	12.749	3,509,778.35	43.780	12,052,634.00	-	8,542,855.65
96,700	SYSCO CORPORATION	0.52	29.251	2,828,585.48	35.870	3,468,629.00	50,284.00	640,043.52
88,700	T. ROWE PRICE GROUP INC	0.76	39.649	3,516,832.80	50.400	4,470,480.00	67,412.00	953,647.20
13,700	TETRA TECH, INC	-	17.838	244,380.60	16.320	223,584.00	-	(20,796.60)
197,100	TEXAS INSTRUMENTS	0.09	24.603	4,849,236.15	24.180	4,765,878.00	17,739.00	(83,358.15)
10,500	THE CHILDREN'S PLACE	-	23.848	250,408.38	23.520	246,960.00	-	(3,448.38)
5,900	TRACTOR SUPPLY CO.	-	41.547	245,126.65	41.820	246,738.00	-	1,611.35
232,400	TYCO INTERNATIONAL LTD.	0.05	33.474	7,779,296.39	33.140	7,701,736.00	11,620.00	(77,560.39)
44,500	TYSON FOODS, INC.	0.16	11.764	523,479.78	20.950	932,275.00	7,120.00	408,795.22
3,198	UNITEDHEALTH GROUP INC	0.03	81.187	259,635.23	62.250	199,075.50	95.94	(60,559.73)
8,250	URS CORP	-	29.732	245,286.05	27.400	226,050.00	-	(19,236.05)
83,500	VIACOM INC.	0.24	44.299	3,698,928.70	35.720	2,982,620.00	20,040.00	(716,308.70)
141,800	VISHAY INTERTECHNOLOGY INC	-	26.513	3,759,544.34	18.580	2,634,644.00	-	(1,124,900.34)
202,800	VODAFONE GROUP PLC	0.39	20.676	4,193,093.31	22.100	4,481,880.00	79,092.00	288,786.69
116,100	VORNADO REALTY TRUST	2.84	42.791	4,968,002.76	57.110	6,630,471.00	329,724.00	1,662,468.24
35,000	WACHOVIA CORP	1.60	46.264	1,619,223.53	44.500	1,557,500.00	56,000.00	(61,723.53)
104,000	WALGREEN COMPANY	0.17	16.539	1,720,079.02	36.210	3,765,840.00	17,680.00	2,045,760.98
214,200	WAL-MART STORES	0.52	54.228	11,615,645.10	52.760	11,301,192.00	111,384.00	(314,453.10)
10,200	WASTE CONNECTIONS	-	24.770	252,654.62	29.660	302,532.00	-	49,877.38
15,600	WATTS WATER TECHNOLOGIES 'A'	0.28	16.376	255,458.75	26.950	420,420.00	4,368.00	164,961.25
10,300	WEBEX COMMUNICATIONS	-	24.378	251,094.43	21.760	224,128.00	-	(26,966.43)
121,400	WILLIAMS COMPANIES, INC.	0.04	23.763	2,884,794.06	11.900	1,444,660.00	4,856.00	(1,440,134.06)
5,700	WINTRUST FINANCIAL	0.20	47.838	272,677.05	50.510	287,907.00	1,140.00	15,229.95
9,900	YELLOW ROADWAY CORPORATION	-	25.770	255,119.04	39.860	394,614.00	-	139,494.96
9,400	ZALE CORP	-	26.475	248,865.00	27.260	256,244.00	-	7,379.00
<b>TOTAL COMMON STOCK PORTFOLIO</b>				<b>415,906,766.62</b>		<b>508,338,462.93</b>	<b>5,455,626.14</b>	<b>92,431,696.31</b>

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**OTHER INVESTMENTS PORTFOLIO**

Security	Coupon	Maturity	Book Cost	Current Value	Gain or Loss	Annual Income	Book Yield
<b><i>APEX CAPITAL FUND 1</i></b>							
ARROYO VERDE	11.00		52,960.62	52,960.62	-	5,825.67	11.0%
BELL WEST	11.00		35,003.98	35,003.98	-	3,850.44	11.0%
CAMPO VERDE	11.00		119,013.51	119,013.51	-	13,091.49	11.0%
MERITAGE-VERRADO	11.00		56,458.62	56,458.62	-	6,210.45	11.0%
SANTAN VISTA	11.00		96,237.25	96,237.25	-	10,586.10	11.0%
VISTA DORADO	11.00		44,950.81	44,950.81	-	4,944.59	11.0%
<b>TOTAL APEX CAPITAL FUND 1</b>			<b>404,624.79</b>	<b>404,624.79</b>	<b>-</b>	<b>44,508.73</b>	<b>11.0%</b>
<b><i>BRIDGE FINANCIAL LOANS</i></b>							
BRIDGE FINANCIAL--Grand Inn	12.50	09/25/2000	384,102.79	384,102.79	-	-	0.0%
<b>TOTAL BRIDGE FINANCIAL LOANS</b>			<b>384,102.79</b>	<b>384,102.79</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b><i>DIVERSIFIED FUNDING GROUP</i></b>							
TIERRA DEL RIO (TDR), LLC	13.00	10/22/04	3,259,371.77	3,259,371.77	-	423,718.33	13.0%
<b>TOTAL DIVERSIFIED FUNDING GROUP</b>			<b>3,259,371.77</b>	<b>3,259,371.77</b>	<b>-</b>	<b>423,718.33</b>	<b>13.0%</b>
<b><i>PIVOTAL EQUITY</i></b>							
PIVOTAL CIMARRON, LLC	10.00		362,854.83	362,854.83	-	36,285.48	10.0%
PIVOTAL SCOTTSDALE 123, LLC	10.00		382,602.03	382,602.03	-	38,260.20	10.0%
<b>TOTAL PIVOTAL EQUITY</b>			<b>745,456.86</b>	<b>745,456.86</b>		<b>74,545.69</b>	<b>10.0%</b>
<b><i>SBA LOANS</i></b>							
ASAYO HOLDING, LTD.	9.50	07/01/2010	55,315.06	55,315.06	-	5,254.93	9.5%
EQUITY PARTNERSHIP	9.25	05/01/2016	138,949.53	138,949.53	-	12,852.83	9.3%
NIARKOS	10.00	05/01/2014	64,314.25	64,314.25	-	6,431.43	10.0%
<b>TOTAL SBA LOANS</b>			<b>258,578.84</b>	<b>258,578.84</b>		<b>24,539.19</b>	<b>9.5%</b>
<b><i>MISCELLANEOUS</i></b>							
DESERT TROON FINANCE, LLC	10.00	08/27/2005	3,216,698.23	3,216,698.23	-	321,669.82	10.0%
PEBBLECREEK PROPERTIES	10.00	04/01/2005	9,145.26	9,145.26	-	914.53	10.0%
PIVOTAL DEBT FUND	10.00	12/01/2011	4,442,805.02	4,442,805.02	-	444,280.50	10.0%
VALLEY VENTURES III	8.00	09/17/2006	1,370,006.98	1,370,006.98	-	109,600.56	8.0%
<b>TOTAL MISCELLANEOUS</b>			<b>9,038,655.49</b>	<b>9,038,655.49</b>	<b>-</b>	<b>876,465.41</b>	<b>9.7%</b>
<b>TOTAL BEFORE LLC</b>			<b>14,090,790.54</b>	<b>14,090,790.54</b>	<b>-</b>	<b>1,443,777.34</b>	<b>10.2%</b>
<b><i>LLC</i></b>							
DESERT TROON-DTR1, LLC			4,389,726.28	4,389,726.28			
DTR1, LLC - PERIMETER CENTER			310,469.89	310,469.89			
DTR1, LLC-SEA PORT			2,908,193.66	2,908,193.66			
TOREEON GC			493,844.20	493,844.20			
PROSPECTOR EQUITY CAPITAL			125,601.07	125,601.07			
CENTURY PLAZA HOTEL (CPHI, LLC)			7,926,179.00	7,926,179.00			
HARBOR BAY CAMPUS			864,227.36	864,227.36			
NXTV, L.L.C.			827,088.50	827,088.50			
PIVOTAL 650, L.L.C.			1,592,647.56	1,592,647.56			
PIVOTAL NEWS I, L.L.C.			130,101.26	130,101.26			
PIVOTAL PROMONTORY			4,691,519.97	4,691,519.97			
PIVOTAL SPA I, LLC			1,767,344.96	1,767,344.96			
<b>TOTAL LLC</b>			<b>26,026,943.71</b>	<b>26,026,943.71</b>			
<b>TOTAL OTHER INVESTMENTS PORTFOLIO</b>			<b>40,117,734.25</b>	<b>40,117,734.25</b>			

