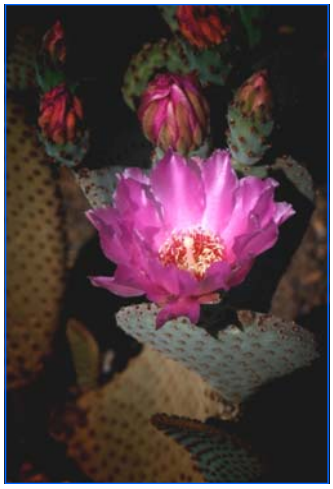
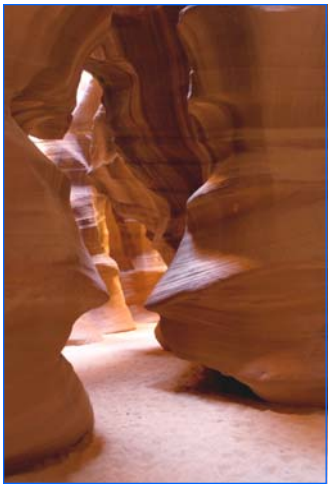
FIRE FIGHTER & PEACE OFFICER CANCER INSURANCE POLICY PROGRAM

14th ANNUAL FINANCIAL REPORT
FOR THE STATE OF ARIZONA





FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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Fire Fighter and Peace Officer Cancer Insurance Policy Program

State of Arizona

Fourteenth
Annual Financial Report

For the Fiscal Year Ended
June 30, 2011

Prepared by the Staff of PSPRS

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

TABLE OF CONTENTS

INTRODUCTORY SECTION

Board of Trustees Report 6

Board of Trustees 7

Executive Staff and Organizational Chart 8

FINANCIAL SECTION

Independent Auditors' Report 10

Management's Discussion and Analysis 12

Basic Financial Statements

- Statement of Plan Net Assets 14
- Statement of Changes in Plan Net Assets 15
- Notes to the Financial Statements 16

Supporting Schedules Information

- Schedule of Administrative Expenses 19
- Schedule of Consultant Expenses 19

Brian Tobin, Chairman
Gregory Ferguson, Trustee
Jeff McHenry, Trustee
Richard Petrenka, Trustee
Randie Stein, Trustee
Lauren Kingry, Trustee

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

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

December 10, 2011

Firefighter and Peace Officer Employers
Fire and Peace Officer Local Board Members

Dear Local Board Members and Employers:

The Board of Trustees of the Public Safety Personnel Retirement System respectfully submits the Fourteenth Annual Financial Report of the Fire Fighter and Peace Officer Cancer Insurance Policy Program for the fiscal year ended June 30, 2011.

We are committed to providing the best possible cancer program based upon the contributions received from the employers. In this regard, the cancer program, which began July 1, 2000 is self-insured. The contributions received this fiscal year were invested in equities and bonds. Effective July 1, 2007 the cancer program was opened to all peace officers of the Public Safety Personnel Retirement System. As a result of the increase in membership, we directed staff to research the long term effects of continued reductions to the required employer contributions and/or increasing benefits. This initiative was undertaken by staff during the current fiscal year. As a result, employer contributions were reduced from $75 to $0 beginning July 1, 2011. Additionally, the insurance program was revised on January 1, 2010 to expand and enhance the benefits for our members.

For the fiscal year ended June 30, 2011 contributions received from the participating local boards were $1.5 million. Benefits paid were $430,406, an increase of 52.4% from the previous year due to the enhanced benefits. Net assets managed increased 29.9% from $13.7 million to $17.8 million.

We sincerely appreciate the opportunity of serving the State of Arizona and its political subdivisions.

Respectfully submitted,

Brian Tobin, Chairman
of the Board of Trustees

Gregory Ferguson, Vice Chairman
of the Board of Trustees

Jeff Allen McHenry, Member
of the Board of Trustees

Richard J. Petrenka, Member
of the Board of Trustees

Randie A. Stein, Member
of the Board of Trustees

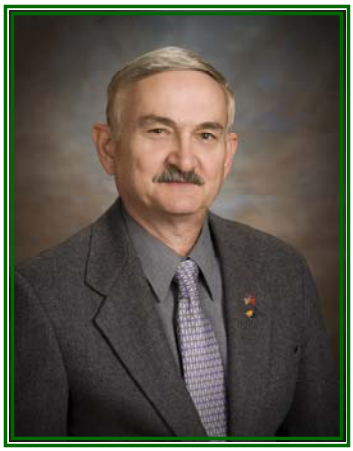
Lauren Kingry, Member
of the Board of Trustees

BOARD OF TRUSTEES

(AS OF JUNE 30, 2011)

Brian Tobin

Chairman



Gregory Ferguson

Trustee

PHOTO
NOT
AVAILABLE

Lauren Kingry

Trustee

Alan Maguire

Trustee

PHOTO
NOT
AVAILABLE

Jeff McHenry

Trustee

Richard Petrenka

Trustee

Randie Stein

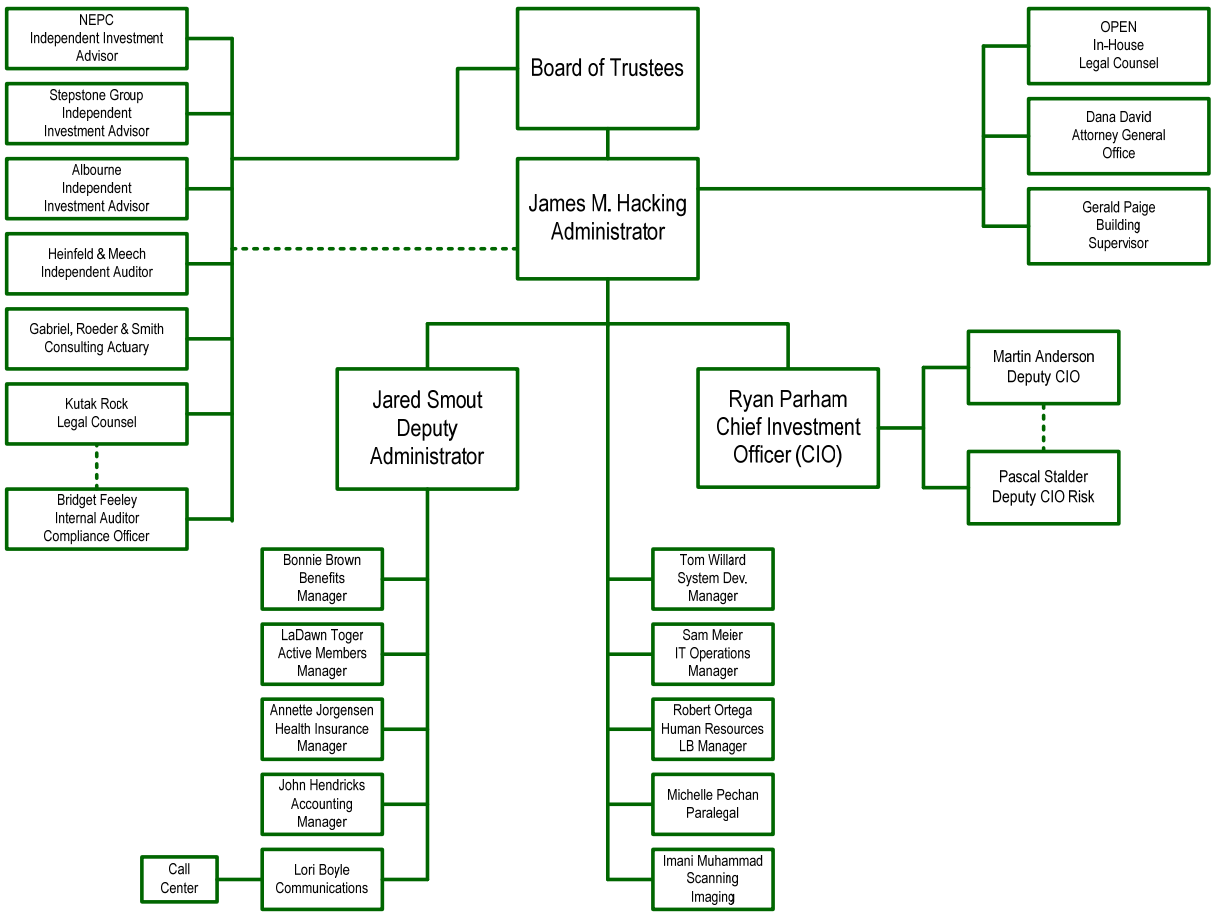
Trustee

EXECUTIVE STAFF AND ORGANIZATIONAL CHART

James M. Hacking
Administrator

Ryan Parham
Chief Investment Officer

Jared A. Smout
Deputy Administrator



FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Public Safety Personnel Retirement System

We have audited the accompanying Statement of Plan Net Assets of the Fire Fighter and Peace Officer Cancer Insurance Policy Program as of and for the year ended June 30, 2011, and the related Statement of Changes in Plan Net Assets for the year then ended. These basic financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2010, presented in the basic financial statements are included for additional analysis only. Our reported dated December 9, 2010, expressed an unqualified opinion on those statements; however, we have not performed any auditing procedures on this information since the date of our report.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Fire Fighter and Peace Officer Cancer Insurance Policy Program, as of June 30, 2011, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2011 on our consideration of the Fire Fighter and Peace Officer Cancer Insurance Policy Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

10120 N. Oracle Road, Tucson, Arizona 85704

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire Fighter and Peace Officer Cancer Insurance Policy Program's financial statements as a whole. The Introductory Section and Supporting Schedules Information of the Financial Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Supporting Schedules Information of the Financial Section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

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

December 10, 2011

FIRE FIGHTER AND PEACE OFFICER CANCER INSURANCE POLICY PROGRAM MANAGEMENT DISCUSSION & ANALYSIS

The Fire Fighter and Peace Officer Cancer Insurance Policy Program's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the FFPOCIPP's financial activity, identify changes in the FFPOCIPP'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 Financial Statements and Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 are as follows:

- The Fire Fighter and Peace Officer Cancer Insurance Policy Program (FFPOCIPP) had a total rate of return of 20.38% this year. The portfolio outperformed the benchmark by 77 basis points.
- Cancer insurance benefits paid totaled $430.4 thousand for the current year, compared to $282.5 thousand for the previous year. This represents a 52.4% increase from the prior year. Most of this increase is due to the enhancement of benefits that were implemented January 1, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using this Annual Financial Report

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 FFPOCIPP as an operating entity. The statements and notes then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Plan Net Assets

This statement reports the health trust fund's assets, liabilities, and resulting net assets available at the end of the fiscal year. It is a snapshot of the financial position of the health trust fund at that specific point in time.

The Statement of Changes in Plan Net Assets

This statement summarizes the health trust fund's financial transactions that have occurred during the fiscal year. It supports the change that has occurred to the prior year's net asset value on the *Statement of Plan Net Assets.* Both of these statements include all assets and liabilities of the FFPOCIPP using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Over time, increases or decreases in the net assets are one indicator of the financial health of the Plan.

Notes to the Financial Statements

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

FINANCIAL ANALYSIS OF THE SYSTEM

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

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

	06/30/2011	06/30/2010	Change	% Change
Cash and Short-Term Investments	840,924	739,370	101,554	13.74%
Total Receivables	15,688	20,664	(4,976)	(24.08)%
Total Investments	17,008,254	12,983,507	4,024,747	31.00%
Securities Lending Collateral	8,158,707	2,996,435	5,162,272	172.28%
Total Plan Assets	**26,023,573**	**16,739,976**	**9,283,597**	**55.46%**
Accrued Accounts Payable	55,723	24,317	31,406	129.15%
Investment Purchases Payable	28,839	30,378	(1,539)	(5.07)%
Securities Lending Collateral	8,158,707	2,996,435	5,162,272	172.28%
Total Plan Liabilities	**8,243,269**	**3,051,130**	**5,192,139**	**170.17%**
Net Assets	**17,780,304**	**13,688,846**	**4,091,458**	**29.89%**

The total plan net assets held in trust for benefits at June 30, 2011 were $17.8 million, a 29.9% increase from $13.7 million at June 30, 2010. The increase in net assets is primarily due to favorable financial markets during the fiscal year. This is evidenced by the Fire Fighter and Peace Officer Insurance Policy Program's positive investment return of 20.38%. The increase in cash and receivables is attributable to normal fluctuations in cash and investment income receivables during the year .

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

	2011	2010	Change	% Change
ADDITIONS				
Total Contributions	1,543,875	2,110,835	(566,960)	(26.86)%
Net Investment Income (Loss)	2,993,875	1,209,020	1,784,855	147.63%
Total Additions (Reductions)	**4,537,750**	**3,319,855**	**1,217,895**	**36.69%**
DEDUCTIONS				
Benefits	430,406	282,458	147,948	52.38%
Administrative Expenses	15,886	22,221	(6,335)	(28.51)%
Total Deductions	**446,292**	**304,679**	**141,613**	**46.48%**
Net Increase (Decrease)	**4,091,458**	**3,015,176**	**1,076,282**	**35.70%**
Balance Beginning of Year - July 1	**13,688,846**	**10,673,670**	**3,015,176**	**28.25%**
Balance End of Year - June 30	**17,780,304**	**13,689,028**	**4,091,458**	**29.89%**

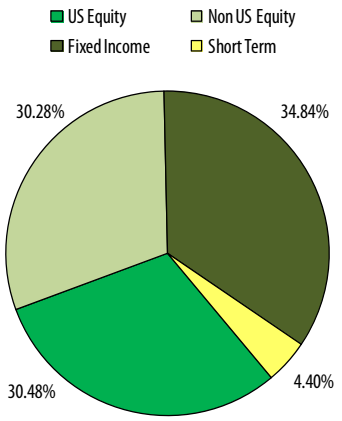
Employer contributions decreased $567 thousand due to a 25% decrease in the contribution amount. For FY2011, FFPOCIPP recognized a net investment gain of $3.0 million which compares to a $1.2 million gain in the previous year. This 147.61% increase in income was due to the positive returns in the financial markets during the fiscal year. Deductions from the FFPOCIPP net assets held in trust for benefits consist primarily of benefit payments and administrative expenses. For FY2011, these deductions totaled $446.3 thousand, an increase of 46.48% from the $304.7 thousand paid during FY2010.

An enhanced schedule of benefits was adopted by the Board of Trustees to be effective January 1, 2008. During the year ended June 30, 2011, the FFPOCIPP paid 30 members for their first occurrence benefit of $8,000. Additionally, the FFPOCIPP paid 19 members surgical and hospital benefits per the schedule of benefits as found on www.psprs.com. Eight death benefits were paid to survivors at $10,000.

The Public Safety Personnel Retirement System administers the FFPOCIPP and an allocation of expenses incurred by the System is charged to the FFPOCIPP. The FFPOCIPP is administered in the same building as the System utilizing staff employed by the System. The allocated expenses for the year ending June 30, 2011 totaled $15,886. The FFPOCIPP is authorized to use up to 10% of total receipts to pay the costs of administering the FFPOCIPP.

INVESTMENT ACTIVITIES

The assets of the FFPOCIPP are managed by the Board of Trustees and staff of Public Safety Personnel Retirement System. Beginning in FY2007 and continuing into FY2011, the Board of Trustees adopted a slightly more diversified asset allocation policy and began an asset management restructuring. The more positive market conditions during the past fiscal year resulted in an investment total rate of return of 20.38% . At June 30, 2011, FFPOCIPP held $17.8 million in its portfolio. The FY2011 total fund performance for FFPOCIPP was 20.38% versus a benchmark rate of return of 19.61%. The benchmark is representative of the returns that could be expected in a similar investing environment.



REQUEST FOR INFORMATION

This report is designed to provide a general overview of the Fire Fighter and Peace Officer Cancer Insurance Policy Program finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Public Safety Personnel Retirement System, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016.

STATEMENT OF PLAN NET ASSETS

JUNE 30, 2011 WITH COMPARATIVE TOTALS FOR 2010

	2011	2010
ASSETS		
Cash and Short-Term Investments (NOTE 3)	$ 840,924	$ 739,370
RECEIVABLES		
Interest and Dividends	15,688	20,664
INVESTMENTS AT FAIR VALUE (NOTES 2 AND 3)		
Fixed Income	6,189,950	5,037,422
U. S. Equity	5,426,870	3,943,051
Non - U. S. Equity	5,391,434	4,003,034
Total Investments	**17,008,254**	**12,983,507**
Securities Lending Collateral	8,158,707	2,996,435
TOTAL PLAN ASSETS	**26,023,573**	**16,739,976**
LIABILITIES		
Accrued Accounts Payable	55,723	24,317
Investment Purchases Payable	28,839	30,378
Securities Lending Collateral	8,158,707	2,996,435
Total Plan Liabilities	**8,243,269**	**3,051,130**
NET ASSETS HELD IN TRUST FOR BENEFITS	**$ 17,780,304**	**$ 13,688,846**

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

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE TOTALS FOR 2010

	2011	2010
ADDITIONS		
Employers' Contributions (NOTE 1)	$ 1,543,875	$ 2,110,835
Investment Income		
From Investing Income		
Net Appreciation (Depreciation) in Fair Value of Investments (NOTE 2)	2,551,537	868,391
Interest	1,396	2,012
Dividends	433,247	338,770
Other Income	4,176	1,342
From Securities Lending Activities		
Security Lending Activities (NOTE 3)		
Securities Lending Income	15,745	12,397
Borrower Rebates	(196)	(494)
Agents Share of Income	(2,331)	(1,785)
Net Securities Lending Income	**13,218**	**10,118**
Total Investment Income (Loss)	**3,003,574**	**1,220,633**
Less Investment Expense	(9,699)	(11,613)
Net Investment Income (Loss)	**2,993,875**	**1,209,020**
Total Additions	**4,537,750**	**3,319,855**
DEDUCTIONS		
Insurance Benefits (NOTE 1)	430,406	282,458
Administrative Expenses	15,886	22,221
Total Deductions	**446,292**	**304,679**
NET INCREASE	**4,091,458**	**3,015,176**
NET ASSETS HELD IN TRUST FOR BENEFITS		
Beginning of Year, July 1	13,688,846	10,673,670
End of Year, June 30	**$ 17,780,304**	**$ 13,688,846**

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

FIRE FIGHTER AND PEACE OFFICER CANCER INSURANCE POLICY PROGRAM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: PLAN DESCRIPTION

ORGANIZATION

The State of Arizona Fire Fighter and Peace Officer Cancer Insurance Policy Program is a multiple-employer cancer insurance program established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes, to provide cancer insurance benefits for active and retired firefighters and peace officers of certain state and local governments. The Board of Trustees (formerly Fund Manager) of the State of Arizona Public Safety Personnel Retirement System administers the Program.

Effective April 28, 2010 SB 1006 was passed that changed the name of the Fund Manager to Board of Trustees and expanded the size of the Board from five to seven. Effective August 6, 1999, it became the Governor's responsibility to appoint all members of the Board of Trustees. SB 1006 also increased the term from three to five years. There will be a transitional period during which the terms of office may vary. The Board of Trustees is responsible for the investment of the FFPOCIPP's assets, hiring personnel to administer the FFPOCIPP, and the general protection and administration of the FFPOCIPP.

The FFPOCIPP provides cancer insurance covering active fire fighters and peace officers of participating employers. Benefits begin upon the fire fighter's or peace officer's date of membership in the PSPRS (excluding pre-existing conditions). Retired members remain eligible for coverage for five months for every year of credited service accumulated toward retirement under the PSPRS. A retired member whose eligibility is expiring may continue to remain eligible for coverage if an election is made with the Board of Trustees and a predetermined premium is paid.

Effective July 1, 2000, the policy became self-insured. The insurance policy is designed by the program administrators and underwritten by the assets of the firefighter and peace officer insurance policy program account established by ARS §38-643. All claims are submitted to PSPRS for adjudication. A revision of the plan was adopted January 1, 2010 that enhanced the benefits available to eligible members. A complete Schedule of Revised Benefits is available on the PSPRS website: psprs.com.

The Fire Fighter and Peace Officer Cancer Insurance Policy Program rely on funding from various employers who are members of the Public Safety Personnel Retirement System.

BENEFITS

The insurance policy provides benefits to all active and limited retired fire fighters and peace officers. The program is a supplemental insurance plan for hospitalization, surgery, radiation and chemotherapy and other cancer related illness benefits. There is a first occurrence benefit of $8,000 and a death benefit of $10,000. The program is self-insured, benefits are limited to the assets in the fire fighter cancer and peace officer insurance policy program account, and those benefits may be reduced or eliminated at any time.

CONTRIBUTIONS

Participating local boards contribute not more than $180 each fiscal year for each fire fighter or peace officer employed at June 30 of the prior fiscal year. Effective July 1, 2007, the Board of Trustees set the contribution rate at $100 for each fire fighter or peace officer. The Board of Trustees reduced the rate to $75 beginning July 1, 2010. The Board of Trustees issued a moratorium on contributions for fiscal year 2012.

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

BASIS OF ACCOUNTING

These financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due, pursuant to statutory requirements. Benefits are paid when claims have been properly submitted and approved. Expenses are recorded when liabilities are incurred.

ESTIMATES

The preparation of financial statements in conformity with accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for benefits. Actual results could differ from those estimates.

METHOD USED TO VALUE INVESTMENTS

FFPOCIPP investments are reported at fair value. Fair values are determined as follows: Short-term investments are reported at cost which approximates fair value. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by fixed-income broker/dealers.

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

NOTE 3: CASH AND INVESTMENTS

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

In addition to the FDIC insurance coverage on the operating and money market accounts of FFPOCIPP, Wells Fargo pledged the following securities to FFPOCIPP as well as all other plans administered by PSPRS on June 30, 2011, as collateral:

Description	CPN	Maturity	Market Value
FED NATL MTG ASSN POOL #867436	6.00	5-1-2036	2,010,834
FED NATL MTG ASSN POOL #868293	6.00	4-1-2036	3,048,232
FED NATL MTG ASSN POOL #888268	6.00	3-1-2037	354,062
FED NATL MTG ASSN POOL #974411	6.00	10-1-2037	1,012,237
FED NATL MTG ASSN POOL #985011	6.00	8-1-2038	876,783
TOTAL			**7,302,148**

All monies shall be secured by the depository in which they are deposited and held to the same extent and in the same manner as required by the general depository law of the state. Cash balances represent both operating and cash accounts held by the bank and investment cash on deposit with the investment custodian. All deposits are carried at cost plus accrued interest. The following table is a schedule of the aggregate book and bank balances of all cash accounts as of June 30, 2011:

	REPORTED AMOUNT	BANK BALANCE
Pension Trust Fund	$ 811,381	$ 811,381
Operating Fund	29,543	29,543
Total Deposits	**$ 840,924**	**$ 840,924**

CUSTODIAL CREDIT RISK

Custodial Credit Risk is the risk that FFPOCIPP will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterpart to the investment or deposit transaction fails. As of June 30, 2011, FFPOCIPP has no fund or deposits that were not covered by depository insurance or collateralized with securities held by our banks' trust department or agent. Nor does FFPOCIPP have any investments that are not registered in the name of FFPOCIPP or the PSPRS Trust, and are either held by the counterpart or the counterpart's trust department or agent.

CREDIT RISK

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the FFPOCIPP. As of June 30, 2011, the FFPOCIPP's fixed income assets were invested in a well diversified bond index fund.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. All of the assets of FFPOCIPP are held in cash management funds, index funds or ETF'S. No single entity holds more than 5% of the portfolio. Therefore, there is no concentration of credit risk.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio by investing in a bond index fund.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. FFPOCIPP's foreign currency risk resides with the international ETF funds comprising about 30.26% of the portfolio. This allows external managers to decide what action to take regarding their respective fund's exposures.

DERIVATIVES

There were no investments in derivatives during the Fiscal Year ending June 30, 2011.

SECURITY LENDING PROGRAM

The FFPOCIPP is party to a securities lending agreement with a bank. The bank, on behalf of the FFPOCIPP, 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 FFPOCIPP 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, 2011 the fair value of securities on loan was $7,926,659 and the collateral was $8,158,707. The FFPOCIPP receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent. The FFPOCIPP participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower. All matched loans shall have matched collateral investments.

The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. Additionally, at least 20% of total collateral investments shall be invested on an overnight basis. At June 30, 2011, the weighted average maturity was 24 days for all investments purchased with cash collateral from unmatched loans. The FFPOCIPP has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the FFPOCIPP.

Prior to the current fiscal year, under this program, the FFPOCIPP has not experienced any defaults or losses on these loans. However, in November 2008 FFOCIP was informed that due to recent market events one or more securities lending collateral vehicles that held assets have been impaired. This potential liability will be realized upon settlement of the recovery process or if there becomes a liquidity issue with the collateral pool. A liability of $28,839 has been recorded as the FFOCIPP's share.

ASSET CLASS	OUT ON LOAN	TOTAL AVAILABLE TO LOAN	% OF AVAILABLE TO LOAN
Equities	$ 5,316,749	$ 10,818,304	49.15%
Agencies	-	-	0.00%
Treasuries	-	-	0.00%
Exchange Traded	2,609,910	6,189,950	42.16%
Totals	**$ 7,926,659**	**$ 17,008,254**	**46.60%**

NOTE 4: CONTINGENCIES

As stated in Note 3 - Cash and Investments (under the Security Lending Program Heading), the FFPOCIPP was notified in November 2008 of a situation involving one or more security lending collateral vehicles that held assets which have been impaired as a result of recent market events. An estimate of the unrealized loss is approximately $10.7 million for all of the plans administered by the PSPRS Trust and has been recorded as a liability proportionately on each plan's balance sheet. Management is pursuing options regarding recoveries, if any, of the liability.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

EXPENSE CATEGORY	ADMINISTRATIVE	INVESTMENT	TOTAL
Accounting and Auditing Services	$ 267	$ -	$ 267
Actuarial Services	1,386	-	1,386
Building Expense	507	-	507
Communications	108	-	108
Computer Related Expense	310	-	310
Contractual Services	128	-	128
Depreciation Expense	-	-	-
Fund Manager Initiatives	44	-	44
Furniture and Equipment	1	9	10
Investment Services	-	-	-
Legal Services	1,569	1,661	3,230
Local Board Training	60	-	60
Payroll Taxes and Fringe Benefits	2,272	780	3,052
Postage Expenses	169	-	196
Printing and Publications	55	-	55
Professional Services	1,785	4,080	5,865
Salaries and Wages	6,748	2,947	9,644
Supplies and Services	377	-	377
Training Expenses	80	24	104
Travel Expense	20	198	218
TOTAL	**$ 15,886**	**$ 9,699**	**$ 25,585**

SCHEDULE OF CONSULTANT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

CONSULTANT	SERVICE PROVIDED	FEES PAID
Albourne America, LLC	International Alternative Investment Consultant	$ 1,672
BNY Mellon Asset Servicing	Independent Investment Advisor	548
Brazen Technology, Inc.	IT Consultant	5
CB Richard Ellis	Real Estate Consultant	20
Fleetwood Technology Consulting	IT Consultant	38
Gabriel Roeder Smith & Company	Actuary	1,382
Heinfeld, Meech & Co.	Independent Auditors	267
Highground, Inc	Legislative Liaison	235
Kutak Rock Llp	General Counsel	3,230
Light Stone Solutions, Llc	Due Diligence	666
LRS Consulting Llc	Local Board Training	73
NEPC, LLC	Independent Investment Advisor	980
ORG Portfolio Management LLC	Real Estate Consultant	894
Osam Inc.	IT Consultant	56
Page, Gerald	IT Consultant	53
Public Policy Partners	Legislative Liaison	314
Sherwood Systems	Accounting Consultant	24
Stepstone Group LLC	Alternative Investment Consultant	261
TOTAL		**$ 10,718**

VISION

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

MISSION

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

VALUES

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

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
3010 EAST CAMELBACK ROAD, SUITE 200
PHOENIX, AZ 85016-4416