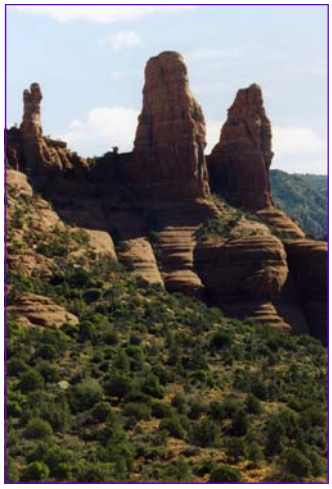
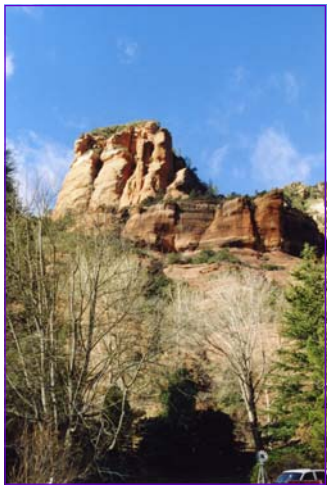
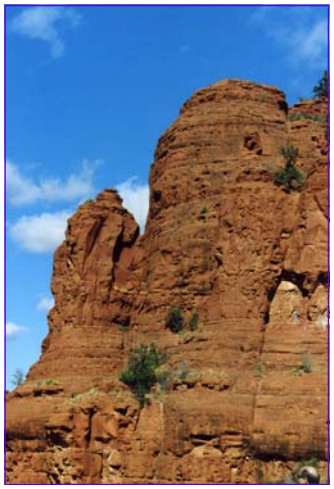
CORRECTIONS OFFICER RETIREMENT PLAN





SUMMARY ANNUAL FINANCIAL REPORT

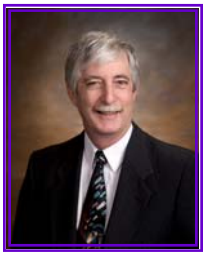
A PENSION TRUST FUND OF THE STATE OF ARIZONA



FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Carter Olson
Chairman

Mike Galloway
Vice Chairman



Tim Dunne
Member

Lori Roediger
Member

Brian Tobin
Member

FUND MANAGER HIGHLIGHTS (BOARD AS OF JUNE 30, 2009)

- Carter Olson, Esq., a board member since 2003, was first elected to the position of Chairman at the September 20, 2005, meeting of the Fund Manager and reelected to the position in September, 2006. Carter is the former Pinal County Attorney and is currently a Superior Court Judge in Pinal County.
- Mike Galloway, who was appointed as a member of the Fund Manager in July of 2007, founded Galloway Asset Management, LLC to serve the financial needs of Police Officers and Firefighters. Prior to becoming a financial planner, he served in the United States Marine Corp and is a retired lieutenant from the Mesa AZ Police Department.
- Tim Dunne, a financial advisor with UBS Financial Services in Tucson, was appointed as a member of the Fund Manager in December of 2007. He earned a BS degree in Psychology and taught the emotionally disturbed for over two years in New York. He established a private counseling agency and later changed to the financial services industry upon achieving a securities license.
- Lori Roediger, a graduate of the University of Arizona with a BS in Business Administration was appointed as a member of the Fund Manager in February of 2008. She moved to San Francisco to pursue a career in finance. She became the Senior Investment Officer for the Federal Home Loan Bank and was later hired by JP Morgan where she was the first salesperson to be made a partner in the history of the firm.
- Brian Tobin, Brian Tobin, who was appointed as a member of the Fund Manager in November of 2008, was hired as a Phoenix Firefighter in 1983. He was elected to the United Phoenix Fire Fighters Association as a trustee in 1987. He has been elected to the Phoenix Fire Fighters Pension Board three times. He became Fire Captain in 1994, Battalion Chief in 2004, and Deputy Chief in 2007.

FISCAL YEAR HIGHLIGHTS

- The Corrections Officer Retirement Plan (CORP) had a total rate of return of (17.99)% this year. Our equity portfolio had a return of (22.20)%, which outperformed the equity benchmark by 421 basis points. Our fixed income portfolio had a return of (1.93)%, which underperformed the fixed income benchmark by 713 basis points.
- As of the close of the fiscal year 2009, the Future Benefit Increase Reserve was $15.1 million. Absent a major infusion of new assets, the Reserve balance would only be sufficient to finance a partial post-retirement adjustment as of July 1, 2010, if any.
- Retirement benefits paid totaled $55.5 million for the current year, compared to $49.0 for the previous year. This represents a 13.3% increase from the prior year.
- The System retained CORTEX Applied Research to conduct a complete review of the PSPRS Governance Policies; the Fund Manager approved the CORTEX recommended modifications. The System's normal practice is to have its Governance Policies reviewed in their entirety every three years.
- The System's staff, with the assistance of a consultant acting in the role of facilitator, undertook and completed before fiscal year-end a project designed to document all of the policies and procedures in use within the organization. There were well over 300 policies and procedures documented; these will now be subject to systematic audit by the System's new internal auditor and compliance officer in order to identify any deficiencies or weaknesses in our controls environment.
- The System conducted an RFP process to secure a new Investment Consultant and Retained Actuary to serve as advisors to the Fund Manager. New England Pension Consultants (NEPC) was retained for the Investment Consultant role; Gabriel, Roeder, Smith & Co. (GRS) was retained as the new actuary.
- The System initiated a comprehensive and multi-year effort to assure that the CORP local board network is properly structured and functioning so as to assure uniform administration of the statutory responsibilities delegated to the local boards. Staff and other resources were dedicated to this initiative. In addition, the System's outreach efforts to provide training and education to local board members were intensified through on-site visits, group meetings/consultations, the development of training modules which were made accessible through the PSPRS web site, and the publication of a monthly local board newsletter.

MESSAGE FROM THE ADMINISTRATOR

Jim Hacking
Administrator

Dear Members,

I am pleased to present the CORP Summary Annual Financial Report for the fiscal year ended June 30, 2009. This report provides financial information about the System's financial status, investment performance, and highlights significant changes that occurred during the year. The information in this report is derived from the Comprehensive Annual Financial Report (CAFR). To view the full CAFR, please refer to the last page of this report.

ACTUARIAL AND FUNDING INFORMATION

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

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

While each employer has a different contribution rate, depending on the liability for its group of participating employees, the current aggregate rate for the contributing employers is 7.49%. The aggregate rate that will take effect on July 1, 2010 will be 8.57%. But only three of the twenty-five groups covered by CORP will experience a contribution rate increase in excess of 1%. Indeed, five of the covered groups will experience a rate decrease of from 1% to 3% of active member payroll. The new aggregate rate, while modestly higher than the current rate, is not as high as originally anticipated, given that the System had a -17.99% rate of return on its invested assets during FY'09.

While there is no single all-encompassing test to measure a retirement system's funding prog-ress and current status, the most commonly used measure is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the CORP had been declining for six out of the last seven years through FY'07. At that point in time, the Plan's funding ratio was 84.6%. At June 30, 2008, the ratio was 86.8%. As of June 30, 2009, the funding ratio is 82.6%. However, if the funding ratio were calculated using FY'09 year-end market value of assets, rather than the actuarial value of assets, the CORP's funding ratio would only be 59.7%. This means that the effects of the FY'09 -17.99% return will remain with us for the next several years and will adversely affect the Plan's financial status going forward. Hopefully, the System will experience better-than-expected rates of return in future years that will more than offset the negative FY'09 return.

POST RETIREMENT BENEFIT INCREASES

State law provides for an annual benefit increase for CORP retirees (or their survivors) two years after retirement, regardless of age, or when the retiree (or survivor) attains age 55 and has been retired for a year. These increases are limited to a maximum of four percent. A benefit increase schedule can be found in the Statistical Section of this CAFR. These post retirement increases are funded from a portion of the investment returns in excess of 9%. These assets are accumulated in the CORP's Reserve for Future Benefit Increases. These Reserve assets are invested along with all other assets of the Plan. The Reserve balance, after subtracting the $18.2 million needed to fund the present value of the July 1, 2009 post retirement increase, was $15.12 million. Absent an infusion of new assets into the CORP Reserve, the Reserve's balance would only be sufficient to finance a partial post-retirement adjustment as of July 1, 2010.

ENACTED LEGISLATION

During FY'09 the State Legislature approved, and the Governor signed, an administrative bill that amends the statutes that govern CORP in order to bring the Plan's provisions into compliance with the requirements of the Internal Revenue Code and Regulations and with other relevant federal laws such as the Uniformed Services Employment and Reemployment Rights Act (USERRA) and the Heroes Earnings Assistance and Relief Tax Act (the "HEART Act").

SUMMARY

I would like to take this opportunity to express my gratitude to the members of the Fund Manager, the staff, the Plan's advisors, and all others who have worked so diligently to assure the continued successful operation of the Plan. I look forward to the challenge of moving the Plan forward with a program of constructive and comprehensive change that will maintain high quality customer service and maintain the CORP on the path of improving financial status.

Respectfully submitted,

James M. Hacking
Administrator

SUMMARY COMPARATIVE STATEMENTS OF PLAN NET ASSETS

Net assets are the resources available to pay pension benefits in the future. Net assets decreased $180.6 million in fiscal year 2009 due to adverse market conditions.

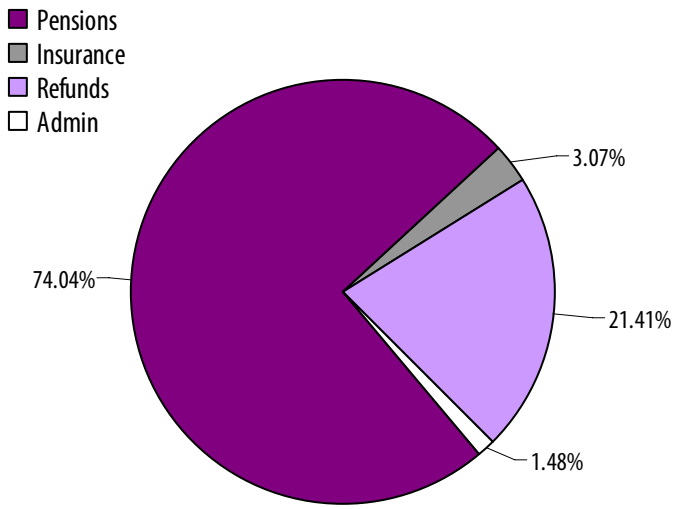
ASSET CATEGORY	YEAR ENDED JUNE 30, 2009	YEAR ENDED JUNE 30, 2008	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Equivalents	$ 16,515,717	$ 58,316,455	$ (41,800,739)	(71.68%)
Total Receivables	5,513,315	18,382,933	(12,869,618)	(70.01%)
Total Investments	942,245,819	1,088,157,479	(145,911,660)	(13.41%)
Securities on Loan	148,494,789	240,882,045	(92,387,256)	(38.35%)
Net Capital Assets	694,518	733,871	(39,353)	(5.36%)
Total Plan Assets	**1,113,464,157**	**1,406,472,783**	**(293,008,626)**	**(20.83%)**
Accrued Accounts Payable	1,915,885	1,651,054	264,831	16.04%
Investment Purchases Payable	2,037,367	22,351,839	(20,314,472)	(90.89%)
Securities Lending Collateral	148,494,789	240,882,045	(92,387,256)	(38.35%)
Total Plan Liabilities	**152,448,041**	**264,884,938**	**(112,436,897)**	**(42.45%)**
Net Assets	**$ 961,016,116**	**$ 1,141,587,845**	**$ (180,571,729)**	**(15.82%)**

SUMMARY COMPARATIVE STATEMENTS OF CHANGE IN PLAN NET ASSETS

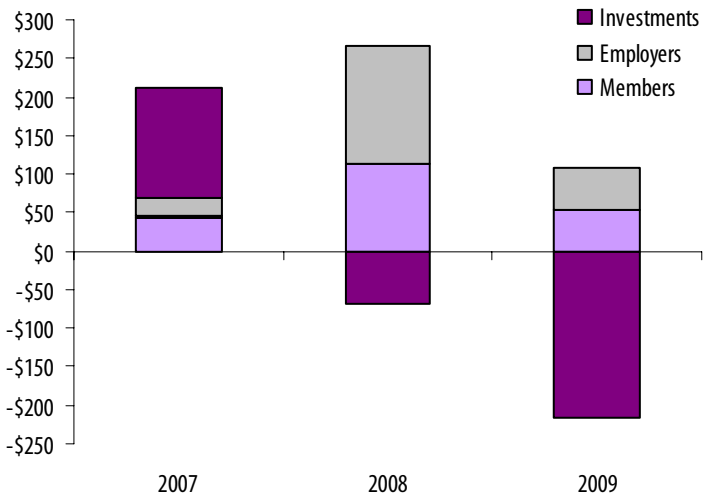
Changes in Net Assets summarize the income and expense components of the plan. Net Investment income decreased 217.92% in fiscal year 2009 due to adverse market conditions.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2009	YEAR ENDED JUNE 30, 2008	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	$ 107,334,882	$ 260,624,397	$ (153,289,515)	(58.82%)
Net Investment Income	(216,313,556)	(68,039,675)	(148,273,881)	(217.92%)
Miscellaneous Income	370,781	3,217,224	(2,846,443)	(88.48%)
Total Additions	**(108,607,893)**	**195,801,946**	**(304,409,839)**	**(155.47%)**
Benefits	55,488,890	48,972,663	6,516,227	13.31%
Refunds to Terminated Members	15,410,121	17,075,982	(1,665,862)	(9.76%)
Administrative Expenses	1,064,826	1,102,992	(38,166)	(3.46%)
Total Deductions	**71,963,836**	**67,151,638**	**4,812,198**	**7.17%**
Net Increase (Decrease)	(180,571,729)	128,650,309	(309,222,038)	(240.36%)
Beginning of Year Net Assets	1,141,587,845	1,012,937,536	128,650,309	12.70%
End of Year Net Assets	**$ 961,016,116**	**$ 1,141,587,845**	**$ (180,571,729)**	**(15.82%)**

EXPENSES BY TYPE



REVENUES BY SOURCE



NOTES FROM THE CHIEF INVESTMENT OFFICER

Ryan Parham
Chief Investment Officer

2008-2009 THE "MELTDOWN" OF THE GLOBAL FINANCIAL SYSTEM

After the previous "dot com" valuation bubble, the CORP board, staff and consultants began the process of expanding the CORP core investment strategy. That process, which includes moving away from our historical overreliance upon U.S. equities, helped CORP to more reliably weather the tremendous volatility of the 2008-2009 fiscal year. CORP achieved returns which were better than many public funds of similar size, better than most endowments during the year and which exceeded our benchmark by several hundred basis points. Asset allocation changes toward greater diversity helped reduce the volatility we otherwise would have experienced during this global economic shock and recession.

ALTERNATIVE INVESTMENTS

As of year end CORP had deployed capital into almost 50 Alternative investments including exposures in:

US Private Equity	US Venture Capital
US Real Estate	International Real Estate
European Private Equity	Real Assets (Including Timber)
Dislocated Debt	Core Capital Assets
US Infrastructure	European Infrastructure

EXPANDING CAPABILITIES

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

GOALS AND OBJECTIVES

In the coming year the Investment Staff expects to:

- Review our Asset Allocation Study which will utilize current capital market assumptions reflecting continuing changes in the global economic landscape,
- Continue deployment in alternatives including capitalizing on opportunities in the secondary markets,
- Add alpha seeking strategies to current index-like exposures in public securities, which are attractive on a risk adjusted basis,
- Continue to deploy portions of the portfolio to external managers so as to capture attractive investment strategies which are difficult or impossible to replicate internally.

INVESTMENT RETURNS

	1 YEAR	3 YEAR	5 YEAR
Total Fund	(17.99)%	(3.81)%	1.02%
Rank*	58	76	88
Benchmark**	(21.13)%	5.05%	(1.18)%
Rank*	83	96	100
Median Public Fund	(16.6)%	(2.3)%	2.4%
PEER COMPARISON			
ASRS***	(18.1)%	(3.8)%	1.2%
COPERS****	(20.43)%	(4.20)%	0.85%

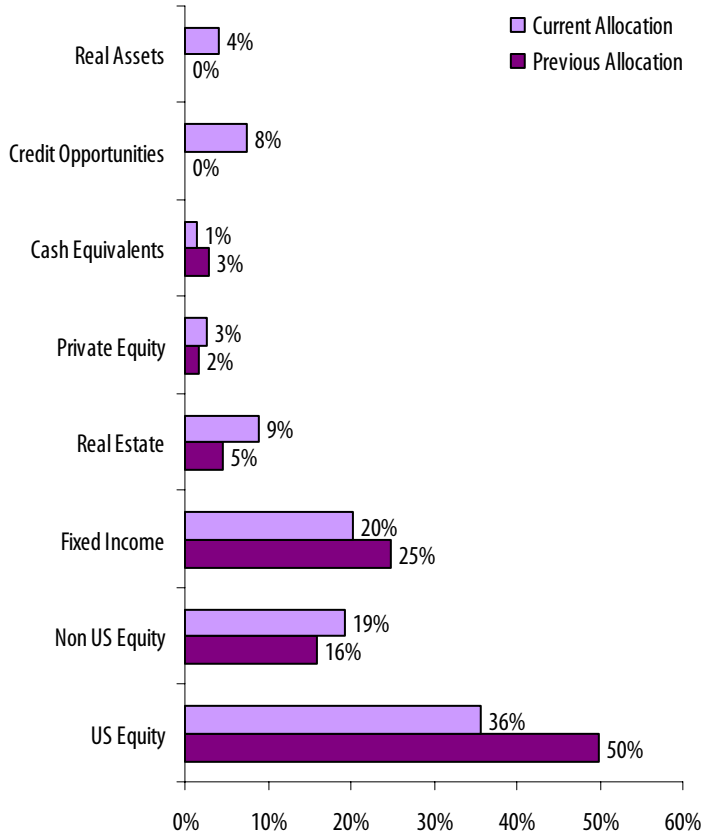
* Rank and Median Fund returns are obtained from a universe of public funds provided by Mellon Analytical Services (Rank 1 = Best, Rank 100 = Worst)

** Benchmark 07/01/08-03/31/09: 46% Wilshire 500, 21% MSCI World Ex-US, 20% Lehman Gov/Credit, 6% NCREIF NPI, 6% Wilshire 5000+300bps, and 1% 91-Day Treasury Bill. Benchmark 04/01/09-06/30/09: 30% Russell 3000, 20% MSCI World Ex-US, 20% BC Capital Aggregate, 8% NCREIF NPI, 8% Russell 3000+100bps, 8% ML US High Yield BB-B Rated Constrained, 5% CPI+200bps, and 1% 91-Day Treasury Bill.

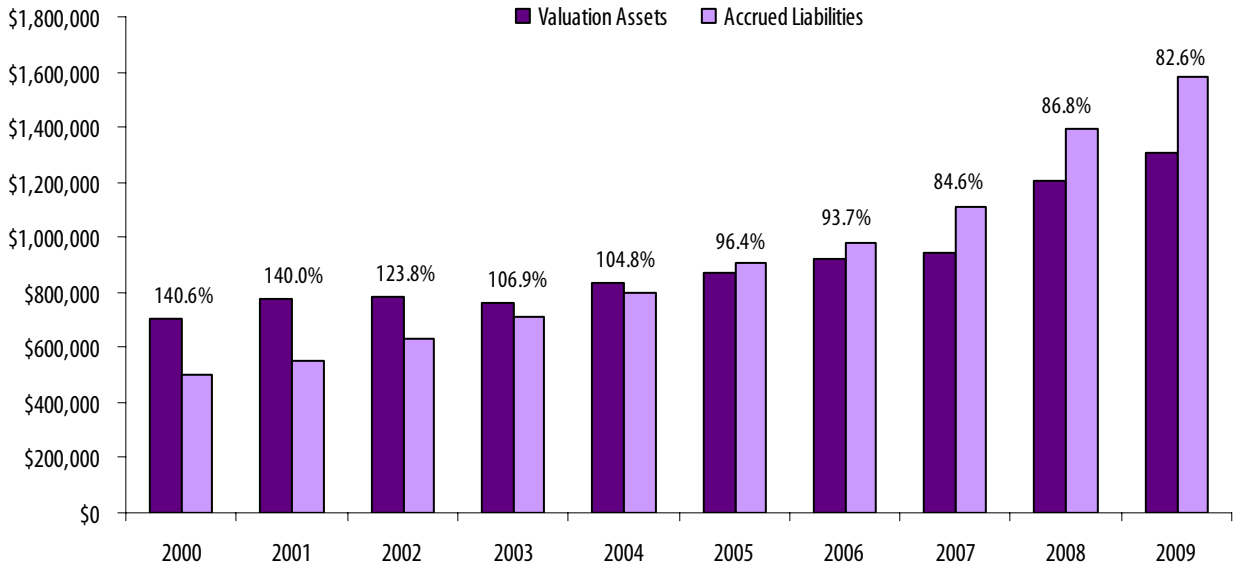
*** Arizona State Retirement System

**** City Of Phoenix Employees Retirement System

ASSET ALLOCATION



FUNDING PROGRESS
(IN MILLIONS)



SUMMARY OF EXPERIENCE GAIN (LOSS)

The Unfunded Actuarial Accrued Liability (UAAL) grew by $24.1 million during fiscal year 2009.

CATEGORY	2009	2008	2007	2006	2005
UAAL Start of Year	$ 183,337,151	$ 170,674,932	$ 61,339,713	$ 33,044,123	$ (37,846,132)
Normal Cost	91,532,707	77,607,436	65,035,651	56,284,702	59,402,954
Funding Method Contributions	(106,905,385)	(97,632,464)	(65,977,600)	(61,162,126)	(51,952,396)
Interest Accrual	14,930,319	13,656,305	5,173,842	2,601,450	(2,985,575)
Expected UAAL Before Changes	182,894,792	164,306,209	65,571,606	30,768,149	(33,381,149)
Change From Amendments	18,197,108	None	None	None	None
Change From Assumption Revision	49,985,063	10,000,000	3,079,263	(43,504,265)	25,725,258
Expected UAAL After Changes	251,076,963	174,306,209	68,650,869	(12,736,116)	(7,655,891)
Actual UAAL	275,169,309	183,337,151	170,674,932	61,339,713	33,044,123
Gain (Loss)	(24,092,346)	(9,030,942)	(102,024,063)	(74,075,829)	(40,700,014)
Percent of Actuarial Accrued Liability	(1.73%)	(0.80%)	(10.40%)	(8.20%)	(5.20%)

HISTORICAL TRENDS

As the unfunded ratio of the plan has declined, the aggregate employer contribution rate has escalated. The employer rate is set in accordance with the results of the annual actuarial valuation. The employee rate is fixed by statute.

The employee rate for dispatchers remains 7.96%.

FISCAL YR ENDED	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)	EMPLOYEE RATE
2000	$ 704,991	$ (203,668)	$ 501,323	140.6%	5.14%	8.50%
2001	$ 776,177	$ (221,790)	$ 554,387	140.0%	1.88%	8.50%
2002	$ 782,446	$ (150,208)	$ 632,238	123.8%	1.15%	8.50%
2003	$ 758,579	$ (49,281)	$ 709,298	106.9%	1.71%	8.50%
2004	$ 833,621	$ (37,846)	$ 795,775	104.8%	3.95%	8.50%
2005	$ 872,981	$ 33,044	$ 906,025	96.4%	4.07%	8.50%
2006	$ 919,867	$ 61,340	$ 981,207	93.7%	5.47%	8.50%
2007	$ 940,126	$ 170,675	$ 1,110,801	84.6%	4.46%	7.96%
2008	$ 1,207,015	$ 183,348	$ 1,390,363	86.8%	6.72%	7.96%
2009	$ 1,309,124	$ 275,169	$ 1,584,293	82.6%	8.65%	8.41%

STATISTICAL DATA

Tracey Peterson
Assistant Administrator
Chief Operations Officer

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	ACTIVE MEMEBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2000	11,290	$ 339,440	38.1	5.3	$ 30,066	7.3%
2001	11,047	$ 339,783	38.1	6.6	$ 30,758	2.3%
2002	10,464	$ 330,428	38.7	6.0	$ 31,578	2.7%
2003	10,964	$ 358,161	38.8	6.0	$ 32,667	3.4%
2004	11,583	$ 381,942	38.7	6.0	$ 32,974	0.9%
2005	11,752	$ 404,156	39.6	6.0	$ 34,390	4.3%
2006	11,914	$ 437,744	39.3	6.2	$ 36,742	6.8%
2007	12,780	$ 515,428	39.0	6.0	$ 40,331	9.8%
2008	14,716	$ 642,621	39.6	7.0	$ 43,668	8.3%
2009	14,580	$ 630,825	40.2	7.4	$ 43,266	-0.9%

Active membership decreased slightly during fiscal year 2009.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
2000	672	55	198	925	$ 11,042,151	$ 11,937	12.2 to 1
2001	748	64	228	1,040	$ 13,446,069	$ 12,929	10.6 to 1
2002	903	68	247	1,218	$ 17,660,064	$ 14,499	8.6 to 1
2003	1,029	70	264	1,363	$ 21,653,042	$ 15,886	8.1 to 1
2004	1,138	107	291	1,536	$ 26,261,143	$ 17,097	7.5 to 1
2005	1,339	80	314	1,733	$ 31,329,225	$ 18,078	6.8 to 1
2006	1,528	82	345	1,955	$ 37,272,182	$ 19,065	6.1 to 1
2007	1,698	85	340	2,123	$ 42,666,000	$ 20,097	6.0 to 1
2008	1,949	89	390	2,428	$ 51,062,647	$ 21,031	6.1 to 1
2009	2,090	93	408	2,591	$ 59,089,591	$ 22,806	5.6 to 1

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	RESERVE UTILIZED	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2000	4.20%	$ 14,971,383	$ (3,253,379)	$ 59,784,889	$ 39.79
2001	-	-	$ (3,761,946)	$ 45,820,054	4.00%
2002	-	-	$ (4,650,770)	$ 34,452,064	4.00%
2003	-	-	$ (5,878,909)	$ 30,709,183	4.00%
2004	5.77%	$ 18,478,098	$ (7,810,709)	$ 45,912,625	4.00%
2005	0.23%	$ 810,817	$ (9,545,626)	$ 41,415,092	4.00%
2006	-	-	$ (11,506,060)	$ 33,292,645	4.00%
2007	7.77%	$ 35,123,022	$ (13,572,783)	$ 60,426,061	4.00%
2008	-	-	$ (15,533,554)	$ 40,633,678	4.00%
2009	-	-	$ (18,197,108)	$ 15,124,946	*

Benefit increases are dependent upon an available balance in the Plan's excess earnings reserve. Excess earnings are accrued when the investment return is greater than 9.0%.

* Absent a large infusion of new assets into the Reserve, the balance would only be sufficient to finance a partial benefit increase for July 1, 2010, if any.

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.

This booklet provides a summary of the data contained in the CORP Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The booklet does not contain all the information and schedules necessary to be in conformance with Generally Accepted Accounting Principles (GAAP). However, the CAFR is produced in conformity with GAAP and can be obtained by visiting our website at www.psprs.com.

PUBLIC SAFETY PERSONNEL
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