CORRECTIONS OFFICER RETIREMENT PLAN



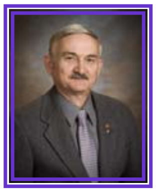
SUMMARY ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Brian Tobin
Chairman



Gregory Ferguson
Vice Chairman

Jeff McHenry
Trustee

Richard Petrenka
Trustee

Randy Stein
Trustee

Lauren Kingry
Trustee

William Davis
Trustee

BOARD OF TRUSTEES HIGHLIGHTS (BOARD AS OF JUNE 30, 2014)

- Brian Tobin, Chairman, 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.
- Greg Ferguson, Vice Chairman, is a graduate of Arizona Western College and Northern Arizona University. He retired from the United States Marine Corps in 1994 after 26 years of service, including a tour in Vietnam. He has performed environmental work with the Yuma Proving Ground and the Arizona Department of Environmental Quality. He is currently serving on the Yuma County Board of Supervisors, where he has served as Chairman and Vice Chairman.
- Jeff McHenry has been a Tempe Police Officer since 1993, and a Police Sargeant since 2004. He is currently assigned to Patrol and is the President of the Tempe Officers Association.
- Richard Petrenka is a graduate of Fairleigh Dickinson University. He served as Arizona Deputy State Treasurer for 16 years. He has also sat on the Boards of the State Water Infrastructure Finance Authority and Greater Arizona Development Authority.
- Randie Stein, a graduate of the University of Arizona, has served as a member of the Senate Staff from 1989-1998. She also served as the Acting Executive Director of the Arizona School Facilities Board and was responsible for the initial implementation of the Students FIRST law.
- Lauren Kingry is the current Superintendent of the Arizona Department of Financial Institutions. He has also previously held CEO positions at Liberty Bank & Trust, Bank of Scottsdale and Valley Capital Bank.
- William Davis is a managing director of the Phoenix public finance group at Piper Jaffray. He provides investment banking and consulting services to many municipal government entities throughout Arizona. He holds the Chartered Financial Analyst designation from the Association for Investment Management and Research .

FISCAL YEAR HIGHLIGHTS

- The Corrections Officer Retirement Plan (CORP) had a total rate of return (net of fees) of 13.28% this year. Our total portfolio underperformed the target fund benchmark by 54 basis points. This is an improvement from the prior year's return of 10.64%
- In compliance with the Supreme Court decision regarding permanent benefit increase (PBI) payments, the Future Benefit Increase Reserve was restored effective FY 2012 for those members who retired effectively on or before July 1, 2011. The retroactive funding of the reserves and the increase for FY 2014, were depleted with the distribution of a retroactive PBI increase and PBI for FY 2014 effective July 1, 2014.
- Retirement benefits paid totaled $110.12 million for the current year, compared to $97.64 million for the previous year. This represents a 12.78% increase from the prior year.

NEW DEVELOPMENTS AND MANAGEMENT INITIATIVES

Our efforts over the past few years to increase communication and education with our Local Boards have been met with great success in helping them to better understand their duties and roles as administrators of their individual plans. Because of the increasing employer contribution rates and the heavier burden it has created, we have expanded these outreach efforts to focus more intently on the financial professionals and other decision makers at the local level, to assist with understanding the various components of their employer liabilities. Furthermore, we have begun assessing how we can provide broader, more robust communication channels and clear, concise messaging to those employers, our membership, and other interested stakeholders. This includes, but is not limited to, more outreach, website redesign, educational sessions and stakeholder meetings, to name a few.

Additionally, organizational efforts to become more efficient were begun in May by focusing more intently on our internal processes and procedures. To foster this process, construction continues on the *Knowledge|Information Management Portal*, a three-tiered, folder-based system for controlling the PSPRS operational documents and records. The portal enables enhanced organizational planning, execution and reporting. It integrates the processes and groups in the organization to create a uniform approach to document management and records retention, thereby increasing efficiency and strengthening decision making. Our goal over the next three to five years is to achieve *International Organization for Standardization (ISO)* Quality Certifications and apply for the Malcolm Baldrige Quality Award, the highest level of national quality recognition a U.S. organization can receive.

Finally, since late fall of 2013, we have been undergoing our sunset review and performance audit with the Office of the Auditor General. The collaborative relationship we have experienced with the Office over the past year has been very enlightening and is providing additional insight for more efficiencies and improvement. We look forward to the release of their report in fall 2015

MESSAGE FROM THE ADMINISTRATOR

Jared Smout
Deputy Administrator

Dear Members,

I am pleased to present the CORP Summary Annual Financial Report for the fiscal year ended June 30, 2014. This report provides financial information about the Plan'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.

HISTORY AND ADMINISTRATION OF THE PLAN

The Plan was established on July 1, 1986 by A.R.S. § 38-882, "in order to provide a uniform, consistent and equitable statewide program for those eligible corrections officers as defined by the plan" (A.R.S. § 38-900.01). In addition to state correctional officers, the Plan members also include county, city or town detention officers, dispatchers and probation officers. CORP is an agent multiple-employer defined benefit plan and is administered at the local level by 26 individual Local Boards in accordance with A.R.S. § 38-893. Each Local Board determines eligibility for membership, normal retirement benefits based on years of service, the annual benefit accrual rate and final average compensation; they also determine eligibility for disability benefits, survivor benefits for spouses and children, post-retirement adjustments and health insurance premium subsidies.

The contributions received from and benefits distributed for each local board are accounted for by the Board of Trustees through the administrative offices of the Plan. However, in accordance with A.R.S. § 38-848, the Board is not responsible for nor has the duty to review the actions or omissions of these Local Boards, but does have the discretion to seek review or rehearing (and does so) to protect the Plan as a whole. Additionally, although not part of the defined benefit plan, the Board also administers a separate cancer insurance program for members of the Plan.

FUNDING STATUS

As of fiscal year-end, the financial status of the CORP, as reflected in its funding ratio, decreased from 66.9% at June 30, 2013, to 59.0% at June 30, 2014. The primary contributor to this decline was the court-ordered reinstatement of the previous mechanism for funding permanent benefit increases (PBI). That mechanism was modified with the passage of SB 1609 in the Fiftieth Legislature, First Regular Session (2011), but was immediately challenged in the courts, along with other key pension reform initiatives, upon enactment. In February 2014, the Arizona Supreme Court affirmed the ruling of the Superior Court in the *Fields* case that changes made to the funding mechanism for PBIs were unconstitutional as applied to already retired members. As such, the liability associated with the reinstatement of the previous PBI mechanism, which included retroactive payments back to 2011, accounted for 6.8% of the overall 7.9% decline.

This PBI mechanism requires that in any year in which the Plan generates an investment return in excess of 9%, one-half of that excess return be diverted into the CORP Reserve for Future Benefit Increases. These Reserve assets finance the PBIs for all eligible beneficiaries. As such, these assets are not used to decrease the Plan's unfunded liabilities, and the unfunded liabilities continue to rise as additional PBIs are awarded. This creates a scenario in which higher investment returns create additional unfunded liabilities that outpace or outmatch the Fund's ability to accumulate assets necessary to cover these liabilities.

Another factor contributing to the funding level decline is the ongoing recognition of asset losses from fiscal years 2008, 2009 and 2012, which continue to offset any gains enjoyed over the past seven-year smoothing period. This accounted for 2.3% of the overall decline in the funding ratio. Fortunately, 2014, is the last year that the Plan will have to account for 2008 losses in our seven-year actuarial smoothing methodology. Unfortunately, the one-seventh share of fiscal 2009 losses that will need to be recognized next fiscal year is $46 million, which will, again, most assuredly impact future gains. Conversely, unexpected demographic changes allowed for a positive increase of 1.2% in the overall changes to the funding ratio.

While the numbers above are presented in the aggregate, it is important to remember that any aggregate number calculated for CORP is for comparison purposes only and does not necessarily reflect the most accurate picture of the Plan. Because CORP is an agent multiple-employer plan, it is comprised of 27 individual plans whose employers are responsible for their own assets and liabilities. As such, each individual plan has its own funding level.

SUMMARY

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

Respectfully submitted,

Jared A. Smout
Deputy Administrator

SUMMARY COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION

Net position are the resources available to pay pension benefits in the future. Net position increased $188.99 million in fiscal year 2014.

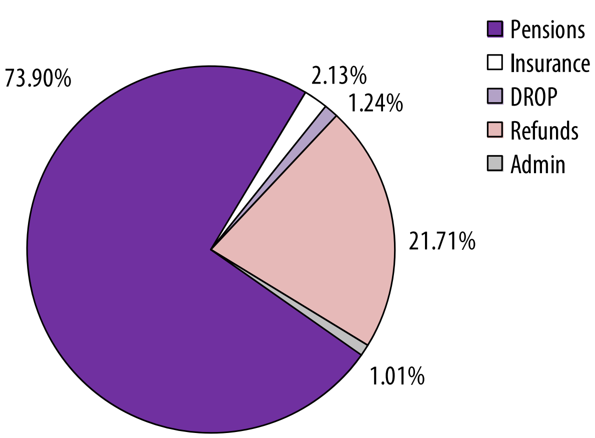
ASSET CATEGORY	YEAR ENDED JUNE 30, 2014	YEAR ENDED JUNE 30, 2013	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Short-Term Investments	59,615,553	29,639,900	29,975,653	101.13%
Total Receivables	12,349,686	5,117,432	7,232,254	141.33%
Total Investments	1,535,686,752	1,379,625,470	156,061,282	11.31%
Securities Lending Collateral	115,258,713	43,752,548	71,506,165	163.43%
Net Capital Assets	621,634	645,015	(23,381)	(3.62)%
Total Plan Assets	**1,723,532,338**	**1,458,780,365**	**264,751,973**	**18.15%**
Accrued Accounts Payable	4,018,522	1,912,740	2,105,782	110.09%
Investment Purchases Payable	5,686,881	3,535,056	2,151,825	60.87%
Securities Lending Collateral	115,258,713	43,752,548	71,506,165	163.43%
Total Plan Liabilities	**124,964,116**	**49,200,344**	**75,763,772**	**153.99%**
Net Assets	**1,598,568,222**	**1,409,580,021**	**188,988,201**	**13.41%**

SUMMARY COMPARATIVE STATEMENTS OF CHANGE IN FIDUCIARY NET POSITION

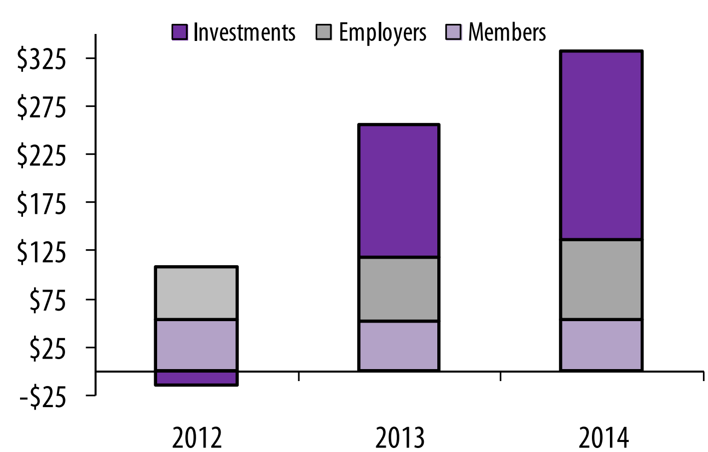
Changes in Net Position summarize the income and expense components of the plan. Net Investment income increased $56.25 million in fiscal year 2014.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2013	YEAR ENDED JUNE 30, 2012	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	136,681,959	119,904,091	16,777,868	13.99%
Net Investment Income (Loss)	194,516,872	138,267,533	56,249,339	40.68%
Transfers IN and Service Purchases	296,833	184,576	112,257	60.82%
Total Additions (Reductions)	**331,495,664**	**258,356,200**	**73,139,464**	**28.31%**
Benefits	110,124,375	97,642,968	12,481,407	12.78%
Transfers OUT and Refunds	30,945,397	32,020,128	(1,074,731)	(3.36)%
Administrative Expenses	1,437,691	1,266,690	171,001	13.50%
Total Deductions	**142,507,463**	**130,929,786**	**11,577,677**	**8.84%**
Net Increase (Decrease)	188,988,201	127,426,414	61,561,787	48.31%
Beginning of Year Net Assets	1,409,580,021	1,282,153,607	127,426,414	9.94%
End of Year Net Assets	**1,598,568,222**	**1,409,580,021**	**188,988,201**	**13.41%**

EXPENSES BY TYPE



REVENUES BY SOURCE



Ryan Parham
Chief Investment Officer

NOTES FROM THE CHIEF INVESTMENT OFFICER

As the Chief Investment Officer of the Public Safety Personnel Retirement System (PSPRS) during the fiscal year beginning July 1, 2013 and ending June 30, 2014, I submit the following comments and observations for your consideration and for the consideration of the respective parties in interest of the System:

DIVERSIFICATION (HOW MUCH UP AND HOW MUCH DOWN)

The Trust's portfolio returns for the fiscal year ending June 30, 2014 continue to come from many diversified sources (10 separate asset classes.) We expect that diversification to help us to *capture* most of strong positive markets and to *protect* us from the worst of devastating negative markets. This was demonstrated in 2014 where we captured almost 3/4 of the returns of stock heavy portfolios. But in Q3 2014, when stocks were hard hit we had only 1/3 of the losses of those portfolios.

For the past five years the total volatility of the PSPRS portfolio has been roughly one half that of the U.S. Stock markets.

THE PSPRS TEAM (A FURTHER NOTE)

We have been much in the news in the last year as a variety of reckless allegations made by former staff members were investigated, often at our request. I am happy to report that, yet again, PSPRS has been exonerated of any wrong doing, most recently by the U.S. Attorney's office. I can further confirm that all members of the PSPRS investment staff are currently paid below the median and below the average of their peers in similar funds throughout the U.S. as reported in a recent compensation survey.

The current PSPRS Investment team brings together more than 100 years of experience, 7 master level degrees along with 5 doctorate level degrees. When we add that to the hundreds of analysts who work within our consultancies in offices around the world, we have expertise, experience and coverage to manage our truly global and diversified portfolio.

I am wonderfully proud of all the hard work that has been done by Staff and our Consultants which has produced these admirable results.

CONCLUSION

We continue to make significant progress in building a high performing and resilient portfolio. Greater stability achieving our expected return will over time improve the funding ratios of the plan. Accomplishing these goals in extremely turbulent economic environments is difficult but has helped to demonstrate the greater downside protection of the portfolio.

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

INVESTMENT RETURNS

	1 YEAR	3 YEAR	5 YEAR
PSPRS Trust Total Fund*	13.28%	7.65%	10.68%
*Balanced Index ** *	*13.82%*	*8.84%*	*11.15%*
PSPRS Trust Equity*	21.20%	10.36%	14.72%
*Equity Benchmark ****	*23.68%*	*11.78%*	*15.82%*
PSPRS Trust Fixed Income*	6.21%	4.62%	6.31%
*Fixed Income Index *****	*7.39%*	*2.57%*	*4.60%*

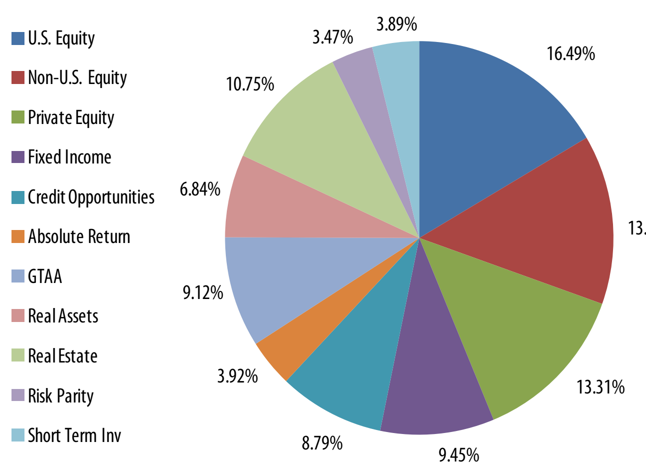
* Time weighted rate of return based on the market rate of return (net of fees).

** Benchmark: 18% Russell 3000, 14% MSCI World Ex-US Net, 9% Russell 3000 + 100 bps, 12% BC Global Aggregate, 12% Credit Opportunities Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 8% 3-Month LIBOR + 300 bps, 7% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.

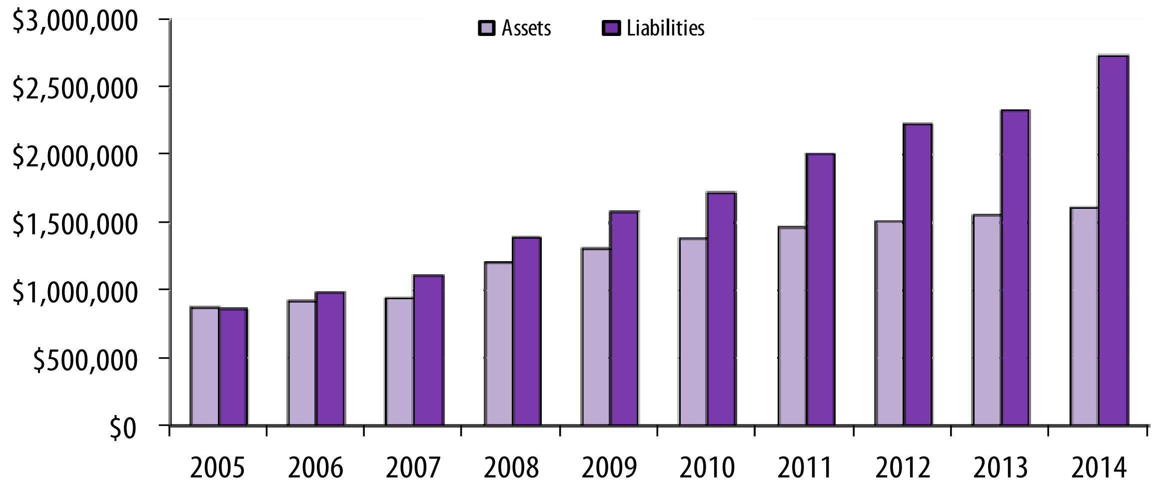
*** Benchmark: 57.14% Russell 3000, and 42.86% MSCI World Ex-US.

**** Benchmark: 100% BC Aggregate.

ASSET ALLOCATION



FUNDING PROGRESS



SUMMARY OF EXPERIENCE GAIN (LOSS)

The Unfunded Actuarial Accrued Liability (UAAL) increased by $70.30 million during fiscal year 2014.

CATEGORY	2014	2013	2012	2011	2010
UAAL Start of Year	771,793,536	718,554,839	541,819,905	339,861,626	$ 275,169,309
Normal Cost	96,352,744	97,313,446	92,994,125	92,997,730	92,401,214
Funding Method Contributions	130,000,717	119,904,199	111,911,164	103,670,636	(109,651,320)
Interest Accrual	59,265,109	56,580,756	43,919,813	28,434,638	22,656,261
Expected UAAL Before Changes	797,410,672	752,544,842	566,822,679	357,623,358	280,575,464
Change From Benefit Increases	258,620,730	-	-	21,989,010	21,264,230
Change in Actuary Methods	-	19,055,874	112,394,447	186,735,447	-
Change in Future Benefit Increase Reserve	-	-	-	(20,327,235)	2,324,213
Expected UAAL After Changes	1,056,031,402	771,600,716	679,217,126	546,020,580	304,163,907
Actual UAAL	1,126,333,650	770,654,535	718,554,839	541,819,905	339,861,626
Gain (Loss)	(70,302,248)	946,181	(39,337,713)	4,200,675	(35,697,719)

HISTORICAL TRENDS (+000)

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%.

VALUATION JUNE 30,	FISCAL YEAR	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)	EMPLOYEE RATE
2005	2007	872,981	(9,190)	863,791	101.1%	4.46%	8.50%
2006	2008	919,867	61,340	981,207	93.7%	6.72%	8.50%
2007	2009	940,126	170,675	1,110,801	84.6%	8.65%	7.96%
2008	2010	1,207,015	183,348	1,390,363	86.8%	8.38%	7.96%
2009	2011	1,309,124	275,169	1,584,293	82.6%	8.57%	8.41%
2010	2012	1,382,144	339,862	1,722,006	80.3%	9.50%	8.41%
2011	2013	1,466,750	541,820	2,008,569	73.0%	11.31%	8.41%
2012	2014	1,512,989	718,555	2,231,544	67.8%	13.68%	8.41%
2013	2015	1,559,583	770,655	2,330,238	66.9%	14.46%	8.41%
2014	2016	1,613,312	1,121,248	2,734,560	59.0%	18.20%	8.41%

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2005	11,752	404,156	39.6	6.0	34,390	4.3%
2006	11,914	437,744	39.3	6.2	36,742	6.8%
2007	12,780	515,428	39.0	6.0	40,331	9.8%
2008	14,716	642,621	39.6	7.0	43,668	8.3%
2009	14,580	630,825	40.2	7.4	43,266	-0.9%
2010	14,319	616,481	40.3	7.8	43,053	-0.5%
2011	14,565	609,243	40.1	7.7	41,829	-2.8%
2012	14,991	626,223	39.8	7.7	41,773	-0.1%
2013	14,580	604,068	39.7	8.0	41,431	-0.8%
2014	14,595	625,264	39.6	8.1	42,841	3.4%

Active membership increased slightly during fiscal year 2014.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
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
2010	2,363	97	448	2,908	69,769,056	23,992	5.0 to 1
2011	2,688	105	463	3,256	81,637,650	25,073	4.5 to 1
2012	2,879	111	486	3,476	87,918,348	25,293	4.3 to 1
2013	3,165	115	530	3,810	96,465,575	25,319	3.8 to 1
2014	3,402	122	566	4,090	107,562,143	26,299	3.6 to 1

Does not include DROP.

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	EARNED ON EXCESS AVAILABLE	UTILIZED TO FUND COLA	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2005	0.23%	810,817	4,237,276	(9,545,626)	41,415,092	4.00%
2006	0.00%	-	3,383,613	(11,506,060)	33,292,645	4.00%
2007	7.77%	35,123,022	5,583,177	(13,572,783)	60,426,061	4.00%
2008	0.00%	-	(4,258,829)	(15,533,554)	40,633,678	4.00%
2009	0.00%	-	(7,311,624)	(18,197,108)	15,124,946	4.00%
2010	4.47%	22,836,733	2,037,330	(21,264,230)	18,734,779	4.00%
2011	0.00%	18,471,995	3,254,231	(25,641,306)	14,819,699	4.00%
2012	0.00%	-	(117,076)	(14,702,623)	-	1.94%
2013	0.00%	4,244,357	-	(4,244,357)	-	0.55%
2014	0.00%	12,916,571	-	(12,916,571)	-	1.59%

Benefit increases are dependent upon an available balance in the Plan's excess earnings reserve.

VISION	MISSION	VALUES
• 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.	• 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.	• 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, 2014. 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 RETIREMENT SYSTEM
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