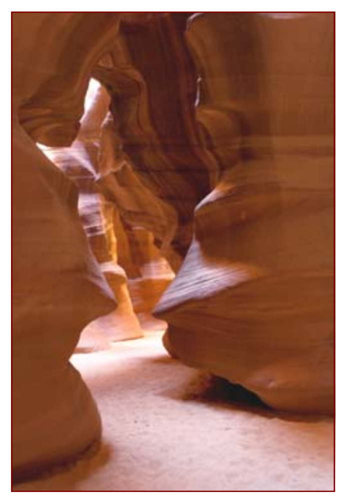
ELECTED OFFICIALS' RETIREMENT PLAN



SUMMARY ANNUAL FINANCIAL REPORT

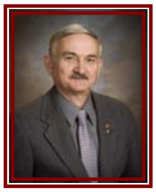
A PENSION TRUST FUND OF THE STATE OF ARIZONA





FOR THE FISCAL YEAR ENDED JUNE 30, 2012


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, 2012)

- 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. *Term expires January 2013.*
- 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. *Term expires January 2017.*
- 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. *Term expires January 2016.*
- 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. *Term expires January 2016.*
- 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. *Term expires January 2013.*
- 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. *Term expires January 2016.*
- 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 . *Term expires January 2017.*

FISCAL YEAR HIGHLIGHTS

- The Public Safety Personnel Retirement System (PSPRS) had a total rate of return of –0.79% this year, which underperformed the benchmark by 368 basis points. Our equity portfolio had a return of –6.19%, which underperformed the equity benchmark by 183 basis points. Our fixed income portfolio had a return of 6.39%, which underperformed the fixed income benchmark by 108 basis points.
- As of June 30, 2012 the Future Benefit Increase Reserve was sufficient to enable a post-retirement adjustment of $153.06 for qualifying retirees or their survivors beginning on July 1, 2013. After this adjustment, the Reserve balance was depleted.
- Retirement benefits paid totaled $507.18 million for the current year, compared to $534.39 million for the previous year. This represents a 5.09% decrease from the prior year.
- The process of filling the positions of Deputy Administrator and In-House Investment Counsel were completed. The new Call Center staff has been trained which reduced the call volume to processing units by an estimated 60%.
- The monthly beneficiary payroll process was successfully outsourced to Wells Fargo Bank and the Bank also assumed the responsibility for issuing any printed benefit checks and the annual 1099's.
- The IT Programming staff enhanced the Member's Only web site to allow members to change demographic and other personal information on-line.

NEW INITIATIVES FOR FY2013

- Preparing the GRS actuaries and staff in case any of SB 1609's provisions are successfully challenged in court and the System has to refund contributions to members or "undo" actions taken in conformance with the new law's requirements.
- Communicating with the Steptoe & Johnson attorneys to assure that they are successful in defending the interests of the Board and the System in the legal actions that have been filed challenging the COLA and member contribution rate increase provisions contained in the 2011 pension reform bill, SB 1609.
- IT initiatives include: 1) virtualizing the System's Data Base server and setting up site-to-site replication for databases; 2) installing firewalls at both the Phoenix Office and Denver facility; 3) creating a complete "test" environment that mirrors the PSPRS production environment; and 4) continuing to facilitate the development of electronic business processes and the phasing out of paper processes.

MESSAGE FROM THE ADMINISTRATOR

Jim Hacking
Administrator

Dear Members,

I am pleased to present the EORP Summary Annual Financial Report for the fiscal year ended June 30, 2012. 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.

ACTUARIAL AND FUNDING INFORMATION

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

The EORP is funded by a statutorily specified member contribution rate (that was 10.0% of gross payroll in FY'12) The Plan's additional funding comes from judicial filing fees, the realized and unrealized returns on the invested assets of the Plan, and from the employer contribution (expressed as a level percent of gross payroll) that is reset annually, depending on the results of the Plan's actuarial valuation. The current unsubsidized contribution rate that is paid by participating cities and towns on behalf of their EORP participants is 36.44%. That unsubsidized rate is projected to increase to 39.62% as of July 1, 2013.

The judicial filing fees that the EORP annually receives subsidize the contribution rate that the state and the counties pay with respect to their EORP participants. The current subsidized rate is 20.87% of payroll. That rate will increase to 25.94% next July 1st.

The most commonly used measure of a retirement system's funding progress is the ratio of the actuarial value of assets to actuarial accrued liability, often referred to as the "percent funded." The percent funded for the EORP had declined steadily for six consecutive years through FY'07. Following modest improvement in FY'08, the funding ratio started to deteriorate again in FY'09; this trend continued right through FY'12. The primary factor responsible for this negative trend has been the poor performance of the U.S. and global financial markets in FY'08, FY'09 and again in FY'12; that poor performance yielded negative rates of return for the PSPRS-administered Plans. At June 30, 2012, the EORP's funding ratio was only 58.4%. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08, FY'09 and FY'12 negative rates of return is yet to be reflected in the funding ratio of the Plan; therefore, the expecta-tion is that the funding ratio will deteriorate further in the future and that, in turn, will cause the employer rates to rise even further.

ENACTED LEGISLATION

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

REVENUES

Revenues for the Plan are derived from four sources: member contributions, employer contributions, judicial filing fees and realized and unrealized returns on the invested assets of the Plan. The Plan had an investment loss of $2.6 million this fiscal year. That was offset by revenue from member contributions of $6.9 million, direct employer contributions of $12.9 million, and judicial filing fees of $8.9 million. Please refer to the Statistical Section for a ten-year history of revenues and expenses.

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,

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 $18.06 million in fiscal year 2012.

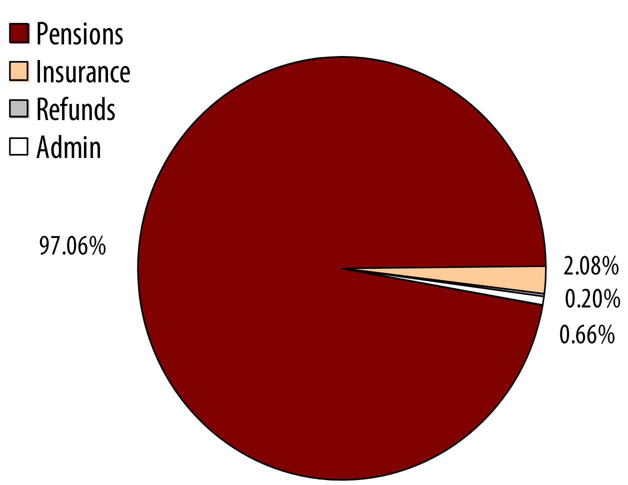
ASSET CATEGORY	YEAR ENDED JUNE 30, 2012	YEAR ENDED JUNE 30, 2011	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Short-Term Investments	$ 5,898,521	$ 7,252,660	$ (1,354,139)	(18.67)%
Total Receivables	4,924,794	2,684,394	2,240,400	83.46%
Total Investments	287,005,321	307,373,912	(20,368,591)	(6.63)%
Securities Lending Collateral	5,956,526	21,672,959	(15,716,433)	(72.52)%
Net Capital Assets	277,749	289,819	(12,070)	(4.16)%
Total Plan Assets	**304,062,911**	**339,273,744**	**($35,210,833)**	**(10.38)%**
Accrued Accounts Payable	468,304	535,195	(66,891)	(12.50)%
Investment Purchases Payable	683,100	2,048,928	(1,365,828)	(66.66)%
Securities Lending Collateral	5,956,526	21,672,959	(15,716,433)	(72.52)%
Total Plan Liabilities	**7,107,930**	**24,257,082**	**(17,149,152)**	**(70.70)%**
Net Assets	**$ 296,954,981**	**$ 315,016,662**	**$ (18,061,681)**	**(5.73)%**

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

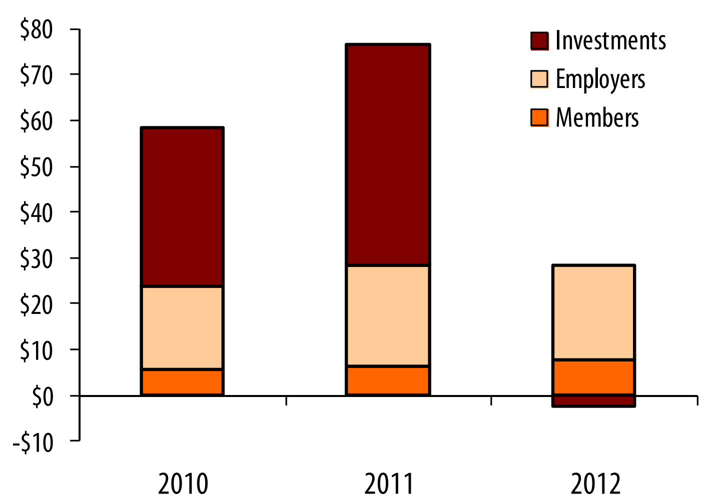
Changes in Net Assets summarize the income and expense components of the plan. Net Investment Income decreased $50.92 million in fiscal year 2012.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2012	YEAR ENDED JUNE 30, 2011	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	$ 28,345,134	$ 27,184,643	$ 1,160,491	4.27%
Net Investment Income (Loss)	(2,641,096)	48,274,987	(50,916,083)	(105.47)%
Transfers IN and Service Purchases	148,679	248,035	(99,356)	(40.06)%
Total Additions (Reductions)	**25,852,717**	**75,707,665**	**(49,854,948)**	**(65.85)%**
Benefits	43,536,995	39,665,718	3,871,277	9.76%
Transfers OUT and Refunds	89,631	244,760	(155,129)	(63.38)%
Administrative Expenses	287,772	324,343	(36,571)	(11.28)%
Total Deductions	**43,914,398**	**40,234,821**	**3,679,577**	**9.15%**
Net Increase (Decrease)	**(18,061,681)**	**35,472,844**	**(53,534,525)**	**(150.92)%**
Beginning of Year Net Assets	**315,016,662**	**279,543,818**	**35,472,844**	**12.69%**
End of Year Net Assets	**$ 296,954,981**	**$ 315,016,662**	**$ (18,061,681)**	**(5.73)%**

EXPENSES BY TYPE



REVENUES BY SOURCE (in millions)



Ryan Parham
Chief Investment Officer

NOTES FROM THE CHIEF INVESTMENT OFFICER

PERFORMANCE COMPUTATION STANDARDS

The investment performance rates of return are calculated on a total return basis, using time-weighted rates of return, based upon market values. Investment amounts are reflected at Fair Market Value. Real Estate, Private Equity, Credit Opportunities and Real Assets are valued on a quarter lag basis adjusted for cash flows.

Performance is calculated on an accrual basis provided that the accrual information is available from the custodian or record-keeper. The rates of return are generated by asset class and include cash holdings.

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

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

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

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

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

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*	-0.79%	9.73%	0.09%
*Balanced Index ** *	*2.89%*	*10.62%*	*0.13%*
PSPRS Trust Equity*	-6.19%	11.52%	-0.91%
*Equity Benchmark *** *	*-4.36%*	*12.59%*	*-1.46%*
PSPRS Trust Fixed Income*	6.39%	8.06%	5.15%
*Fixed Income Index **** *	*7.47%*	*6.93%*	*6.79%*

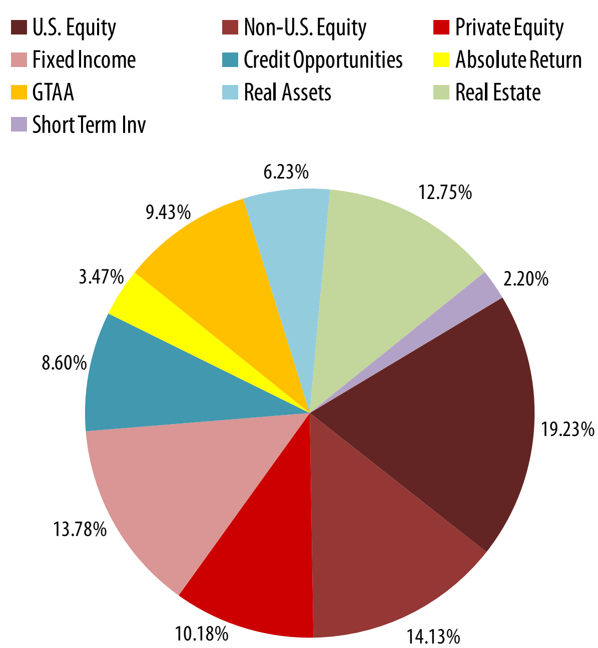
* Time weighted rate of return based on the market rate of return.

** Benchmark: 20% Russell 3000, 15% MSCI World Ex-US Net, 8% 3-Month LIBOR + 300 bps, 20% BC Aggregate, 4% 91-Day T-Bill + 200 bps, 9% ML US High Yield BB-B Constrained, 8% Russell 3000 + 100 bps, 6% CPI + 200 bps, 8% NCREIF NPI and 2% 91-Day T-Bill.

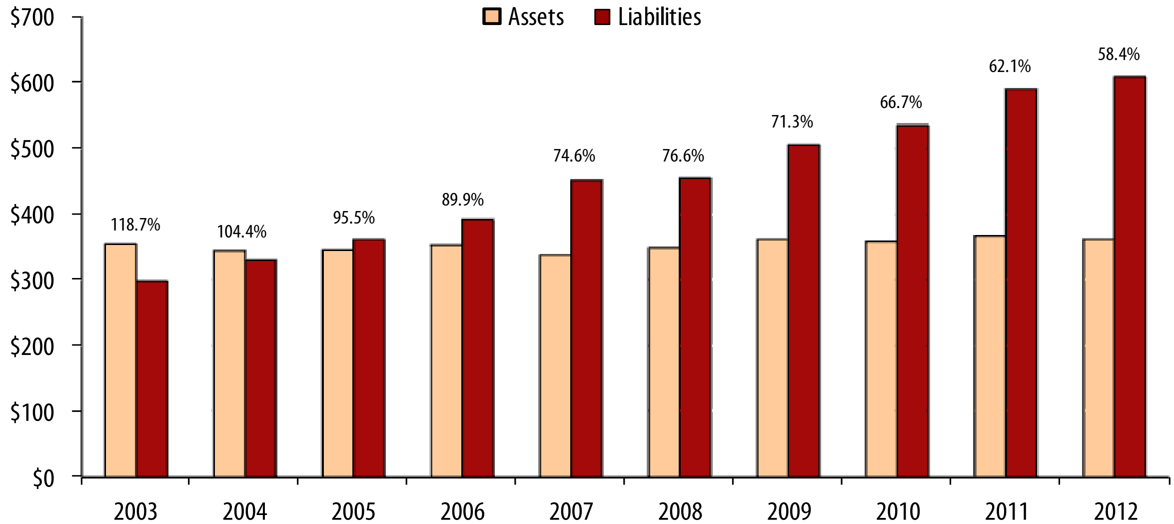
*** Benchmark: 57.14% Russell 3000, and 42.86% MSCI World Ex-US.

**** Benchmark: 100% BC Aggregate.

ASSET ALLOCATION



FUNDING PROGRESS
(IN MILLIONS)



SUMMARY OF EXPERIENCE GAIN (LOSS)

According to this schedule the Unfunded Actuarial Liability increased by $18.49 million during fiscal year 2011.

CATEGORY	2012	2011	2010	2009	2008
UAAL Start of Year	223,892,206	178,428,708	145,240,148	106,327,161	114,582,583
Normal Cost	16,816,095	17,330,114	17,194,500	16,496,846	11,317,429
Funding Method Contributions	29,408,781	28,330,985	(23,883,518)	(21,965,744)	(17,744,324)
Interest Accrual	17,951,659	14,698,903	12,061,129	8,805,381	9,466,397
Expected UAAL Before Changes	229,251,179	182,126,740	150,612,259	109,663,644	117,622,085
Change From Benefit Increases	None	8,290,257	12,367,914	11,319,196	10,302,702
Change in Actuary Methods	6,140,577	26,696,195	None	12,482,467	None
Change in Future Benefit Increase Reserve	None	(7,663,738)	3,116,481	(16,196,206)	None
Expected UAAL After Changes	235,391,756	209,449,454	166,096,654	117,269,101	117,622,085
Actual UAAL	253,882,794	223,892,206	178,428,708	145,240,148	106,327,161
Gain (Loss)	(18,491,038)	(14,442,752)	(12,332,054)	(27,971,047)	11,294,924

HISTORICAL TRENDS (+000)

As the funding 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.

VALUATION JUNE 30,	FISCAL YEAR	VALUATION ASSETS	UNFUNDED LIABILITIES	ACCRUED LIABILITIES	FUNDED RATIO	EMPLOYER RATE (AVG)	EMPLOYEE RATE
2003	2005	353,463	(55,572)	297,891	118.7%	14.54%	7.00%
2004	2006	343,376	(14,455)	328,921	104.4%	20.54%	7.00%
2005	2007	344,604	16,154	360,758	95.5%	18.55%	7.00%
2006	2008	351,701	39,702	391,403	89.9%	20.21%	7.00%
2007	2009	336,717	114,582	451,299	74.6%	28.00%	7.00%
2008	2010	348,013	106,327	454,341	76.6%	26.25%	7.00%
2009	2011	360,950	145,240	506,190	71.3%	29.79%	7.00%
2010	2012	357,342	178,429	535,771	66.7%	32.99%	10.00%
2011	2013	366,429	211,397	577,827	63.4%	36.44%	11.50%
2012	2014	356,346	253,883	610,229	58.4%	39.62%	13.00%

STATISTICAL DATA

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2003	751	49,351	53.0	7.6	65,714	(0.5)%
2004	767	50,624	53.5	8.0	66,003	0.4%
2005	781	53,450	53.8	7.8	68,436	3.7%
2006	800	54,696	54.3	8.3	68,370	(0.1)%
2007	813	61,308	54.4	8.3	75,409	10.3%
2008	824	62,184	54.6	8.4	75,474	0.1%
2009	857	67,777	54.6	8.1	79,086	4.8%
2010	827	66,442	55.1	8.5	80,341	1.6%
2011	845	66,637	54.6	8.0	78,860	(1.9)%
2012	845	67,934	55.3	8.5	80,395	1.9%

Jared Smout
Deputy Administrator

Active membership remained the same during fiscal year 2012.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
2003	546	19	144	709	22,308,359	31,465	1.1 to 1
2004	565	20	145	730	23,854,186	32,677	1.1 to 1
2005	600	18	151	769	26,112,301	33,956	1.0 to 1
2006	615	19	163	797	28,044,340	35,187	1.0 to 1
2007	651	20	155	826	30,380,250	36,780	1.0 to 1
2008	688	16	168	872	32,850,340	37,672	0.9 to 1
2009	708	15	182	905	36,262,571	40,069	0.9 to 1
2010	723	16	182	921	39,337,025	42,711	0.9 to 1
2011	785	16	189	990	43,461,664	43,901	0.9 to 1
2012	785	14	193	992	43,910,140	44,264	0.9 to 1

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	RESERVE UTILIZED	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2003	-	-	(6,375,994)	18,591,900	4.00%
2004	6.02%	12,292,877	(5,958,472)	27,718,251	4.00%
2005	0.56%	1,271,696	(8,027,464)	23,611,516	4.00%
2006	-	-	(8,946,622)	16,523,120	4.00%
2007	8.01%	20,886,734	(9,392,556)	30,827,881	4.00%
2008	-	-	(10,302,702)	18,184,418	4.00%
2009	-	-	(11,319,196)	3,637,670	4.00%
2010	4.47%	15,303,303	(12,367,914)	7,063,353	4.00%
2011	-	-	(8,278,220)	-	2.47%
2012	-	-	-	-	-

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

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 EORP Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. 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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