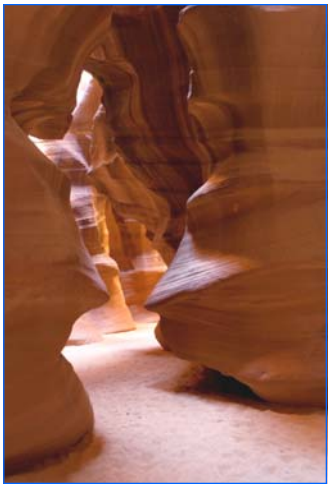
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

SUMMARY ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF ARIZONA



FOR THE FISCAL YEAR ENDED JUNE 30, 2010

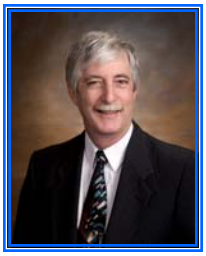
Brian Tobin
Chairman

BOARD OF TRUSTEES HIGHLIGHTS (BOARD AS OF JUNE 30, 2010)

- Brian Tobin, who was appointed as a member of the Board of Trustees 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.
- Lori Roediger, a graduate of the University of Arizona with a BS in Business Administration was appointed as a member of the Board of Trustees 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.

Lori Roediger
Vice Chairperson

- Tim Dunne, a financial advisor with UBS Financial Services in Tucson, was appointed as a member of the Board of Trustees 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.
- Greg Ferguson, a graduate of Arizona Western College and Northern Arizona University, was appointed as a member of the Board of Trustees in August of 2009. 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.
- Alan Maguire, who was appointed as a member of the Board of Trustees in May of 2010, is a graduate of Arizona State University. He is the President and Principal Economist of The Maguire Company. He is past Chairman of the Arizona Town Hall, past chairman of the Arizona State Retirement System and previously served as the Economic Advisor to the Arizona State Senate.



Tim Dunne
Trustee

FISCAL YEAR HIGHLIGHTS

- The Public Safety Personnel Retirement System (PSPRS) had a total rate of return of 13.47% this year. Our equity portfolio had a return of 13.73%, which outperformed the equity benchmark by 7 basis points. Our fixed income portfolio had a return of 13.84%, which outperformed the fixed income benchmark by 434 basis points.
- As of the close of the fiscal year 2010, the Future Benefit Increase Reserve was $275.3 million. This should be sufficient to assure another post-retirement adjustment of $152.84 for qualifying retirees or their survivors beginning on July 1, 2011.
- Retirement benefits paid totaled $469.5 million for the current year, compared to $444.3 for the previous year. This represents a 5.7% increase from the prior year.
- The FY'10 actual level of administrative spending was kept significantly below the budgeted amount and the FY'11 budget that was approved by the Board came in at less than 95% of the FY'10 actual level of spending.
- The Internal Auditor/Compliance Officer developed and received approval for her annual audit plan and continued her monthly investments compliance review. In addition, the Auditor took over responsibility for approving capital calls made with respect to investment commitments approved by the Board.
- The System's multi-year document imaging (i.e., scanning) project continued to progress. Once the project is completed, a new "Work Flow" project will be initiated in accordance with the System's Strategic Plan.
- The System's IT Program Development staff created and implemented a new Members Only web site that enables members to view their account information, including their monthly bank deposit information.
- The Program Development staff also implemented a one thousand concurrent user "GoToMeeting.com" capability for Board of Trustee meetings and local board and other training meetings.
- A new once-a-day online database backup capability through Ibackup.com was implemented; this is in addition to our hourly backup to our secondary Denver site.
- The System's Disaster Recovery/Business Continuity capability was augmented by creating Disaster Recovery plans for the database application, the timing of the pension payroll process and key employee availability following a disaster.
- The T1 line connection between the Phoenix headquarters and the PSPRS Denver backup facility was replaced with a microwave connection and the bandwidth to the Denver facility was substantially increased to better accommodate our file transfer needs.

Gregory Ferguson
Trustee

Alan Maguire
Trustee

MESSAGE FROM THE ADMINISTRATOR

Jim Hacking
Administrator

Dear Members,

I am pleased to present the PSPRS Summary Annual Financial Report for the fiscal year ended June 30, 2010. 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 PSPRS Plan is funded through a statutory member contribution of 7.65% of gross payroll, an employer contribution that is expressed as a level percent of gross payroll and reset annually, depending on the Plan's actuarial valuation results, fire insurance premium tax revenues and the realized and unrealized returns on the invested assets of the Plan. The firefighter groups receive a percentage of the fire insurance premium tax revenues, which serve to reduce the employer contributions that would otherwise be required.

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 PSPRS Plan had declined steadily for six consecutive years through FY'07. Following two years of modest improvement, the funding ratio started to deteriorate again this fiscal year, falling to 65.8%. Given the System's seven year averaging of investment results (actuarial "smoothing"), much of the effect of the FY'08 and FY'09 negative rates of return are yet to be reflected in the funding ratio of the Plan; therefore, the expectation is that the funding ratio will deteriorate further in the future.

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 20.89%. The aggregate rate that will take effect on July 1, 2011 will be 22.68%. Further decline in the Plan's funding ratio will cause employer rates to rise even further.

FUNDING RATIO AND CONTRIBUTION REQUIREMENT IMPROVEMENT STRATEGY

To help improve the Plan's funded status and reduce employer contribution rates, the System must generate, on a consistent basis, annual rates of return that meet or exceed the Plan's return expectations. In pursuit of that goal, PSPRS has been, for the last four fiscal years, going through a complete restructuring of the way in which the System manages and invests its assets with a view to dramatically increasing asset allocation diversification and diversification within asset classes. In the process, the Plan's over-weight reliance on equities has declined considerably and so has the total Fund's volatility.

Unfortunately, according to our actuaries, GRS, we have a five percent or less probability of our being able to invest our way back to an 80% or higher funding status within ten to twenty years. The statutorily required diversion of excess return to the Plan's Reserve is the major factor impeding our ability to achieve that goal and, in the process, provide contribution rate relief to the Plan's employer contributors. Therefore, in advance of the 2011 legislative session, the PSPRS Board of Trustees intends to put forward a variety of legislative changes that will, in the aggregate, give us a seventy-five percent or higher probability of achieving our stated funding goal within our stated time-frame and, in the process, reverse the declining funding ratio and rising contribution trends mentioned above. We, of course, shall seek the support of our constituency groups and the Plan's employers and their organizations in this effort.

SUMMARY

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 increased $470.2 million in fiscal year 2010.

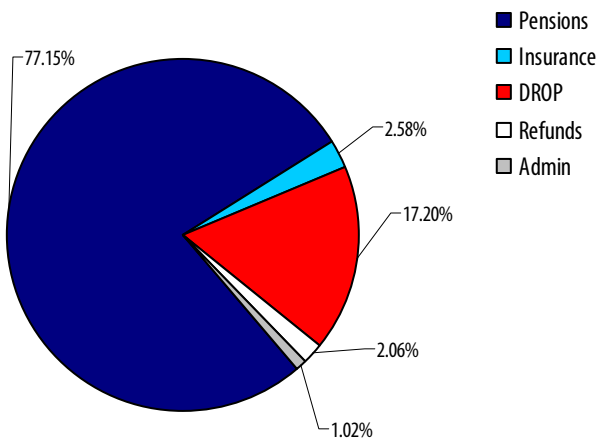
ASSET CATEGORY	YEAR ENDED JUNE 30, 2010	YEAR ENDED JUNE 30,2009	AMOUNT OF CHANGE	PERCENT CHANGE
Cash and Short-Term Investments	$ 54,071,805	$ 73,792,458	$ (19,720,653)	(26.72)%
Total Receivables	81,120,430	25,983,713	55,136,717	212.20
Total Investments	4,488,031,721	4,021,324,149	466,707,572	11.61
Securities Lending Collateral	494,161,031	632,722,191	(138,561,160)	(21.90)
Net Capital Assets	3,836,429	3,943,081	(106,652)	(2.70)
Total Plan Assets	**5,121,221,416**	**4,757,765,592**	**363,455,824**	**7.64**
Accrued Accounts Payable	296,411	650,068	(353,657)	(54.40)
Investment Purchases Payable	40,900,571	8,692,211	32,208,360	370.54
Securities Lending Collateral	494,161,031	632,722,191	(138,561,160)	(21.90)
Total Plan Liabilities	**535,358,013**	**642,064,470**	**(106,706,457)**	**(16.62)**
Net Assets	**$4,585,863,403**	**$4,115,701,122**	**$470,162,281**	**11.42 %**

SUMMARY COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

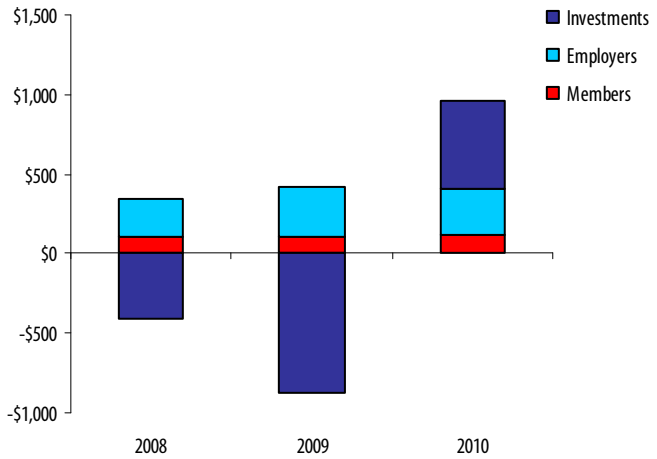
Changes in Net Assets summarize the income and expense components of the plan. Net Investment Income increased $1.4 billion in fiscal year 2010.

ASSET CATEGORY	YEAR ENDED JUNE 30, 2010	YEAR ENDED JUNE 30,2009	AMOUNT OF CHANGE	PERCENT CHANGE
Total Contributions	$ 400,959,722	$ 425,031,518	$ (24,071,796)	(5.66)%
Net Investment Income (Loss)	553,076,513	(872,798,642)	1,425,875,155	163.37
Transfers and Service Purchases	758,603	584,336	174,267	29.82
Total Additions (Reductions)	**954,794,838**	**(447,182,788)**	**1,401,977,626**	**313.51**
Benefits	469,481,695	444,352,210	25,129,485	5.66
Service Transfers and Refunds	10,218,513	7,692,371	2,526,142	32.84
Administrative Expenses	4,932,349	4,352,207	580,142	13.33
Total Deductions	**484,632,557**	**456,396,788**	**28,235,769**	**6.19**
Net Increase (Decrease)	470,162,281	(903,579,576)	1,373,741,857	152.03
Beginning of Year Net Assets	4,115,701,122	5,019,280,698	(903,579,576)	(18.00)
End of Year Net Assets	**$4,585,863,403**	**$4,115,701,122**	**$470,162,281**	**11.42 %**

EXPENSES BY TYPE



REVENUES BY SOURCE (in millions)



NOTES FROM THE CHIEF INVESTMENT OFFICER

Ryan Parham
Chief Investment Officer

2008 TO THE PRESENT

Recognizing these problems the PSPRS Administrator and the PSPRS Board began a program to broadly diversity the Fund's asset allocation and manager concentration. There was significant progress to this end in 2008-2009 which has continued through fiscal year 2009-2010. U.S. Equity exposure has been reduced from about 65% in 2007 to about 24% in 2010. Total equities have been reduced from about 73% of the portfolio in 2007 to about 41% in 2010. Within equities, the Fund currently enjoys exposures to domestic equities, developed international equities and to emerging and to frontier markets. Current asset allocation targets will reduce our total equity exposures to about 35% of the total portfolio with true global diversity.

The large historic equity exposures have been replaced with allocations to Credit Opportunities, Real Assets (Timber, Commodities, Infrastructure etc.) Global Tactical Asset Allocation (GTAA) Strategies, Private Equity, Real Estate and Absolute Return Strategies. The specific purpose of this diversification is to generate returns from multiple asset classes, multiple geographies and multiple strategies. This means that we will not "live or die" by one asset class, one geography and one strategy. Our financial eggs are distributed widely in different baskets, many of which go up when others go down or are largely uninfluenced by events which "spoil a basket" in another area.

In the Fiscal year 2008-2009 the effect of this diversification proved immediately valuable. While the fund was down more than 17% in that time frame, we would have been down much more if we had kept our traditional equity allocation. Many of our peers were down significantly more than 20%.

In this fiscal year 2009-2010, equities had a strong recovery. We participated in that recovery and returned 13.47% for the total fund net of fees. However, consistent with our strategy, our participation was not solely dependent upon equities. For example, our credit opportunities portfolio of approximately one half of a billion dollars returned 33.85% in this time period. That return was generated in positions higher in the capital structure (including in many cases credit tranches that were AAA and AA rated) than equities, with significantly more downside protection than equities could have provided. In this situation, the System's Plans benefited from more return than equities would have given us and with less risk.

The Fund's fiduciary consultant NEPC, has recently confirmed the System's Investment Department's staff's assessment that our current asset allocation delivers a higher probability of reaching our assumed earnings rate of return of 8.25% with significantly less risk. In all likelihood we will continue to participate in most of the market's upside but also have significantly less participation in the market's downside.

CONCLUSION

The continued diversification of the fund will enable the System's Plans to generate better risk adjusted returns than was the case with PSPRS' historic allocations and will help to protect funding ratios from the effects of exaggerated volatility. When combined with expected continued manager outperformance, this diversification should in the mid and long term, improve PSPRS funding ratios and enhance the stability of our System.

INVESTMENT RETURNS

	1 YEAR	3 YEAR	5 YEAR
PSPRS Trust Total Fund*	13.47%	-4.69%	1.88%
Balanced Index **	12.10%	-5.89%	-0.13%
PSPRS Trust Equity*	13.73%	-7.82%	0.16%
Equity Benchmark ***	13.66%	-9.56%	-0.73%
PSPRS Trust Fixed Income*	13.84%	5.10%	4.45%
Fixed Income Index ****	9.50%	7.55%	5.54%

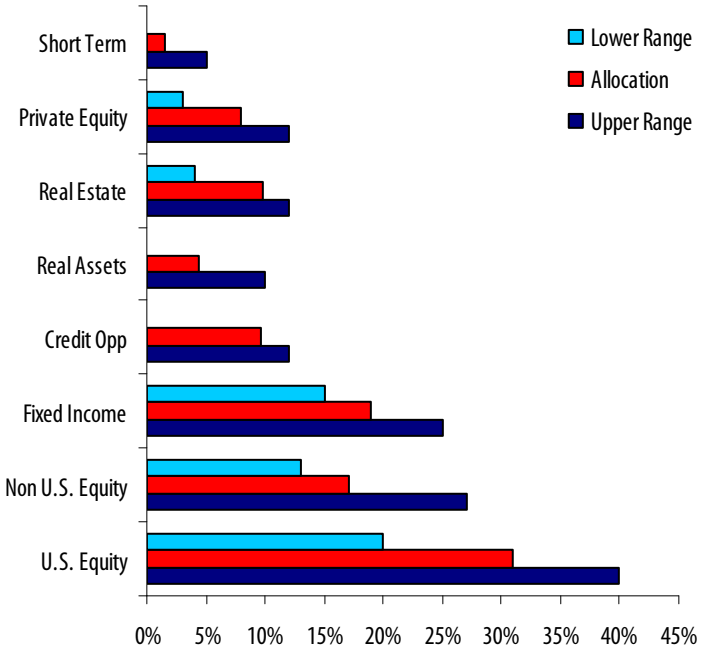
* Time weighted rate of return based on the market rate of return.

** Benchmark: 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.

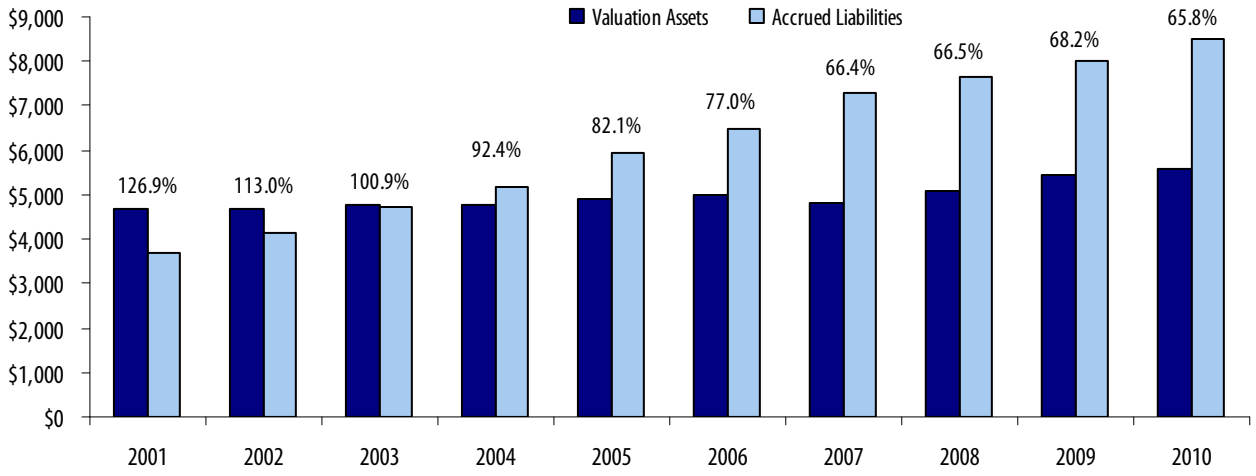
*** Benchmark: 60% Russell 3000, and 40% MSCI World Ex-US.

**** Benchmark: 100% BC Aggregate.

ASSET ALLOCATION



FUNDING PROGRESS
(IN BILLIONS)



SUMMARY OF EXPERIENCE GAIN (LOSS) (+000)

According to this schedule the Unfunded Actuarial Liability increased by $173.1 million during fiscal year 2010.

CATEGORY	2010	2009	2008	2007	2006
UAAL Start of Year	$ 2,543,954	$ 2,567,134	$ 2,438,770	$ 1,495,101	$ 1,064,974
Normal Cost	281,260	275,342	245,345	202,848	174,535
Funding Method Contributions	(413,457)	(429,620)	(330,713)	(262,217)	(202,835)
Interest Accrual	210,618	211,650	203,667	124,561	89,320
Expected UAAL Before Changes	2,622,375	2,624,506	2,557,069	1,560,293	1,125,994
Change From Benefit Increases	139,653	125,692	None	None	None
Change in Actuary Methods	None	(121,887)	None	238,919	(79,201)
Change in Future Benefit Increase Reserve	(34,602)	(260,429)	None	None	None
Expected UAAL After Changes	2,727,426	2,367,882	2,557,069	1,799,212	1,046,793
Actual UAAL	2,900,518	2,543,954	2,567,134	2,438,770	1,495,101
Gain (Loss)	(173,092)	(176,072)	(10,065)	(639,558)	(448,308)
% of Actuarial Accrued Liability	(2.2%)	(2.3%)	(0.1%)	(9.8%)	(7.5%)

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
2001	2003	4,661,941	(987,183)	3,674,758	126.9%	3.75%	7.65%
2002	2004	4,684,386	(540,175)	4,144,211	113.0%	7.66%	7.65%
2003	2005	4,781,377	(41,764)	4,739,613	100.9%	10.05%	7.65%
2004	2006	4,774,313	393,020	5,167,333	92.4%	12.80%	7.65%
2005	2007	4,886,963	1,064,974	5,951,937	82.1%	13.83%	7.65%
2006	2008	4,999,911	1,495,101	6,495,012	77.0%	16.52%	7.65%
2007	2009	4,829,521	2,438,770	7,268,291	66.4%	21.71%	7.65%
2008	2010	5,095,645	2,567,134	7,662,779	66.5%	20.77%	7.65%
2009	2011	5,445,497	2,543,954	7,989,451	68.2%	20.89%	7.65%
2010	2012	5,591,304	2,900,518	8,491,822	65.8%	22.68%	7.65%

STATISTICAL DATA

Tracey Peterson
Assistant Administrator
Chief Operations Officer

ACTIVE MEMBER DATA

FISCAL YEAR ENDED	# ACTIVE MEMBERS	PAYROLL +000	AGE (YEARS)	SERVICE (YEARS)	AVG. PAY	INCREASE IN AVG. PAY
2001	15,473	826,740	37.2	10.0	53,431	5.9%
2002	15,557	854,249	36.9	9.4	54,911	2.8%
2003	15,530	881,285	37.0	9.5	56,747	3.3%
2004	15,852	911,718	37.1	9.5	57,514	1.4%
2005	16,317	974,863	37.6	9.5	59,745	3.9%
2006	17,324	1,073,685	37.4	9.0	61,977	3.7%
2007	18,624	1,228,037	37.3	8.9	65,903	6.3%
2008	19,912	1,383,332	37.3	8.9	69,472	5.4%
2009	19,867	1,415,643	37.8	9.4	71,256	2.6%
2010	19,468	1,400,547	38.4	10.0	71,941	1.0%

Active membership decreased slightly during fiscal year 2010.

RETIRED MEMBER AND SURVIVOR DATA

FISCAL YEAR ENDED	NORMAL	DISABILITY	SURVIVORS	TOTALS	ANNUAL PENSIONS	AVERAGE PENSION	RATIO OF ACTIVE TO RETIRED
2001	4,182	826	774	5,782	170,281,580	29,450	2.7 to 1
2002	4,315	872	802	5,989	184,212,972	30,759	2.6 to 1
2003	4,419	912	853	6,184	207,616,176	33,573	2.5 to 1
2004	4,563	942	891	6,396	224,162,361	35,047	2.5 to 1
2005	4,733	1,012	943	6,688	244,294,740	36,527	2.5 to 1
2006	4,935	1,061	978	6,874	265,826,712	38,671	2.5 to 1
2007	5,625	1,128	880	7,633	307,657,629	40,306	2.4 to 1
2008	5,986	1,195	1,060	8,241	342,845,751	41,602	2.4 to 1
2009	6,307	1,211	1,091	8,609	379,007,918	44,025	2.3 to 1
2010	6,557	1,252	1,145	8,954	410,594,624	45,856	2.2 to 1

Does not include DROP.

SUMMARY OF BENEFIT INCREASES

FISCAL YEAR ENDED	EXCESS YIELD PER STATUTE	EXCESS EARNINGS	RESERVE UTILIZED	EXCESS EARNINGS AVAILABLE	BENEFIT INCREASE 4% CAP
2001	-	-	(54,178,336)	662,898,016	$ 98.17
2002	-	-	(61,603,276)	502,456,646	$ 102.53
2003	-	-	(67,995,889)	468,125,352	$ 111.90
2004	5.97%	107,495,840	(77,066,484)	568,619,029	$ 116.82
2005	0.11%	2,198,002	(85,121,958)	537,513,325	$ 121.76
2006	-	-	(91,412,190)	490,714,741	$ 127.06
2007	8.05%	190,317,350	(101,767,604)	662,931,350	$ 134.34
2008	-	-	(114,771,709)	499,951,273	$ 138.66
2009	-	-	(125,721,193)	285,613,717	$ 146.74
2010	4.47%	90,856,517	(139,653,075)	275,289,327	$ 152.84

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

Excess earnings are accrued when the investment return is greater than 9.0%.

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 PSPRS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. 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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