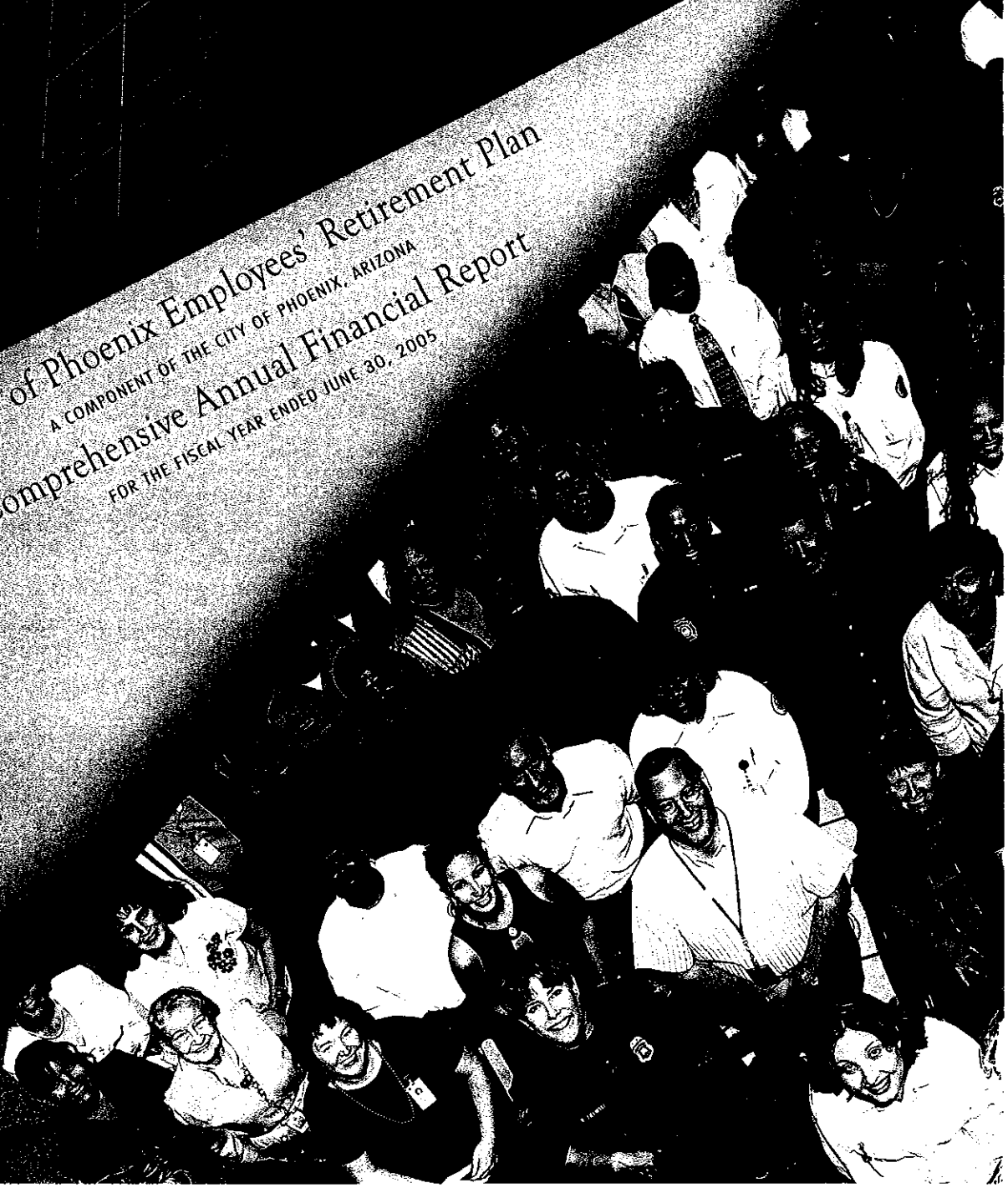


The City of Phoenix Employees' Retirement Plan
A COMPONENT OF THE CITY OF PHOENIX, ARIZONA
Comprehensive Annual Financial Report
FOR THE FISCAL YEAR ENDED JUNE 30, 2005





**CITY OF PHOENIX
EMPLOYEES' RETIREMENT PLAN
(A Component Unit of the City of Phoenix, Arizona)**

**FIFTY- NINTH ANNUAL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 and 2004**

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Prepared by:
City of Phoenix
Employees' Retirement System
and
City of Phoenix
Finance Department

Financial Section

The **Financial Section** contains the opinion of the independent auditors, management's discussion and analysis, the audited financial statements, notes to the financial statements, and relevant supplemental information.

Management's Discussion and Analysis

Dear Members and Retirees:

The City of Phoenix Employees' Retirement System ("COPERS" or the "Plan") is pleased to provide the following analysis of the financial activities for the fiscal years ended June 30, 2005 and 2004. The information provided is intended to be considered in conjunction with the Transmittal letter in the Introductory Section, the Statements provided in the Financial Section of this Comprehensive Annual Financial Report ("CAFR"), and the Notes to the Financial Statements.

Financial Highlights: (in thousands)

- As of June 30, 2005, \$1,549,572 in Plan Net Assets are held in Trust for the payment of pension benefits, as identified in the Statements of Plan Net Assets on page 22. This amount represents an increase of 7.2% from June 30, 2004. The increase is attributable primarily to gains experienced in the financial markets, which impacted COPERS investment performance. The Plan Net Assets as of June 30, 2004 were \$1,445,743 compared to \$1,262,543 as of June 30, 2003. The increase of 14.5% during 2004 was attributable to higher returns experienced in the financial markets, which impacted COPERS' investment performance.
- COPERS' additions to Plan assets, as reported in the Statements of Changes in Plan Net Assets on page 23, for the fiscal year ended June 30, 2005 were \$190,882 compared to \$263,361 for fiscal year ended June 30, 2004 and \$91,351 for fiscal year ended June 30, 2003. The decrease for the current year was attributable primarily to decreases in investment income. The amount as of June 30, 2005, includes employer and employee contributions of \$69,682 and net investment income of \$120,237. Fiscal year ended June 30, 2004 and June 30, 2003, employer and employee contributions were \$64,347 and \$53,942 respectively. The net investment income was \$198,641 and \$36,909 respectively.
- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 8.6% from the fiscal year ended June 30, 2004. This compares to a 9.5% increase in deductions between June 30, 2004 and June 30, 2003. Deductions for fiscal year ended June 30, 2005 were \$87,053 compared to \$80,161 for fiscal year ended June 30, 2004 and \$73,211 for fiscal year ended June 30, 2003. The increases in deductions as of June 30, 2005 and June 30, 2004 are attributable to increased benefits paid during the year.
- The recent Actuarial Valuation prepared as of June 30, 2005 reports the funded ratio to be 84.2%. The funded ratio for fiscal years June 30, 2004 and June 30, 2003 is 84.2% and 88.5% respectively. A smoothed market value of assets was used for the June 30, 2005, June 30, 2004 and June 30, 2003 valuations. This method spreads the difference between the actual and expected investment return over four years.

Using This Annual Report:

This report is prepared to provide information as a means for making management decisions, complying with statutory provisions, and demonstrating the responsible stewardship of the assets of the Plan. The financial statements starting on page 22 in the Financial Section identify the Net Assets Held in Trust for Pension Benefits, and provide a comparison of the current fiscal year to the prior year.

Overview of Financial Statements:

The Financial Section includes the following:

- Comparative Statements of Plan Net Assets (Page 22)
- Comparative Statements of Changes in Plan Net Assets (Page 23)
- Notes to the Financial Statements (Page 24)
- Required Supplementary Information (Page 35)
- Supporting Schedules (Page 37)

Comparative Statements of Plan Net Assets:

This statement identifies the receivables, investments, and liabilities of the Plan to arrive at the Net Assets Held in Trust for Pension Benefits payable to retirees and survivors. The current year information is provided in comparison to the previous year to assist the reader in evaluating the progress of the Plan.

Comparative Statements of Changes in Plan Net Assets:

The Comparative Statements of Changes in Plan Net Assets differs from the Statements of Plan Net Assets by providing the reader with the Plan's additions and deductions for the current year and the previous year. The statement provides the net increase or decrease realized during the year.

Notes to the Financial Statements:

The Notes to the Financial Statements are an integral part of the financial statements. The information provides the reader with a better understanding of the data presented in the financial statements to further evaluate the financial condition and operations of the Plan.

Required Supplementary Information (RSI):

The RSI provides the Plan's funding progress for the last eight years and the funding ratio to identify the Plan's ability to meet its current and future benefit obligations. The Schedule of Employer Contributions for the last ten years includes the City's required dollar amount of contributions made to the Plan. The Notes to the Schedules of Trend Information provide additional information regarding actuarial assumptions and factors affecting trends.

Supporting Schedules:

The Supporting Schedules include Administrative Expenditures and Encumbrances for the current and previous year in operating COPERS. The administrative expenditures are paid by the City of Phoenix and are not recognized in the financial statements. However, in fiscal year 2004, the Retirement Board authorized and paid from the Plan \$340,000 for computer services for COPERS' new computer system, which was not included in the City's budget. This amount is included in the Statement of Changes in Plan Net Assets on page 23. The Schedules of Investment Expenses and Payments to Consultants provide the reader with the cost to the Plan for managing and monitoring the Plan's assets.

Financial Analysis
(in thousands)

The evaluation of the Plan's net assets provides a measurement tool in assessing the progress and performance of the Plan. COPERS' Plan Net Assets as of June 30, 2005, totaled \$1,549,572. This amount represents an increase of 7.2% from Plan Net Assets of \$1,445,743 as of June 30, 2004. The Plan Net Assets as of June 30, 2003 were \$1,262,543. The increase in Plan Net Assets for the current year is as a result of net income from investing activities. The return on investments for fiscal years ended June 30, 2005, 2004 and 2003 was 8.6 percent, 16.0 percent and 3.3 percent respectively. The decrease in investment performance for the current fiscal year was attributable to equity performance of 9.7 percent and 6.2 percent for bonds. The return for equities and bonds as of June 30, 2004 was 24.9 percent and 0.1 percent respectively. The (decline) return for equities and bonds as of June 30, 2003 was (2.2) percent and 10.8 percent respectively.

Table 1: COPERS' Plan Net Assets for June 30, 2005 and 2004 (in thousands)

	2005	2004	Change	% Change
Cash & Cash Equivalents	\$ 62,975	\$ 54,706	\$ 8,269	15.1%
Total Receivables	64,188	55,698	8,490	15.2%
Total Investments	1,662,429	1,533,763	128,666	8.4%
Total Assets	1,789,592	1,644,167	145,425	8.8%
Total Liabilities	240,020	198,424	41,596	21.0%
COPERS' Plan Net Assets	<u>\$ 1,549,572</u>	<u>\$ 1,445,743</u>	<u>\$ 103,829</u>	7.2%

Table 2: COPERS' Plan Net Assets for June 30, 2004 and 2003 (in thousands)

	2004	2003	Change	% Change
Cash & Cash Equivalents	\$ 54,706	\$ 49,425	\$ 5,281	10.7%
Total Receivables	55,698	27,704	27,994	101.0%
Total Investments	1,533,763	1,326,406	207,357	15.6%
Total Assets	1,644,167	1,403,535	240,632	17.1%
Total Liabilities	198,424	140,992	57,432	40.7%
COPERS' Plan Net Assets	<u>\$ 1,445,743</u>	<u>\$ 1,262,543</u>	<u>\$ 183,200</u>	14.5%

Reserves:

COPERS' maintains five accounts to hold reserves for benefit payments. Additions to the reserves come from contributions (employer and employee) and investment income. Distributions from the reserve include monthly pension benefits and increases to eligible pensions under the Pension Equalization Program and the "13th Check." A schedule of reserve account balances is on page 27.

COPERS' Activities:
(in thousands)

COPERS provides retirement pensions/annuities, survivor benefits, member contribution refunds, and disability benefits to qualified members and their beneficiaries. These benefits are financed through employer and member contributions and income from COPERS' investments.

Net investment income, which includes net appreciation in fair value of investments, bond interest, dividend income, net securities lending income and investment expenses for the fiscal year ended June 30, 2005 was \$120,237. This compares to net investment income for June 30, 2004 and June 30, 2003 of \$198,641 and \$36,909 respectively. Deductions increased by 8.6% over the prior fiscal year, primarily as a result of increases in pension payments. This compares to a 9.5% increase in deductions from June 30, 2003 to June 30, 2004. Benefit payments for the fiscal years ending June 30, 2005, 2004 and 2003 were \$83,657, \$76,949 and \$70,234 respectively. The increase in benefit payments for the last two fiscal years is due to an increase in the number of retirees and permanent pension adjustments paid to eligible retirees under the pension equalization program (refer to page 64, for more information on the pension equalization program).

The summary of COPERS' revenues (additions) and expenses (deductions) to plan net assets for the fiscal years ended June 30, 2005, 2004 and 2003 are provided in Table 3 and Table 4 below:

Table 3: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2005 and June 30, 2004 (in thousands)

	2005	2004	Change	% Change
Additions				
Employer Contributions	\$ 43,375	\$ 39,564	\$ 3,811	9.6 %
Member Contributions	26,307	24,783	1,524	6.1
Inter-System Transfers	963	373	590	158.2
Net Investment Income	120,024	198,458	(78,434)	(39.5)
Net Securities Lending Income	213	183	30	16.4
Total	\$ 190,882	\$ 263,361	\$ (72,479)	(27.5) %
Deductions				
Benefit Payments	\$ 83,657	\$ 76,949	\$ 6,708	8.7 %
Refunds	2,508	2,272	236	10.4
Inter-System Transfers	888	600	288	48.0
Other	0	340	(340)	(100.0)
Total	\$ 87,053	\$ 80,161	\$ 6,892	8.6 %
Net Change in Assets	\$ 103,829	\$ 183,200	\$ (79,371)	(43.3) %
Ending Net Assets	\$ 1,549,572	\$ 1,445,743	\$ 103,829	7.2 %

Table 4: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2004 and June 30, 2003 (in thousands)

	2004	2003	Change	% Change
Additions				
Employer Contributions	\$ 39,564	\$ 27,820	\$ 11,744	42.2 %
Member Contributions	24,783	26,122	(1,339)	(5.1)
Inter-System Transfers	373	500	(127)	(25.4)
Net Investment Income	198,458	36,707	161,751	440.7
Net Securities Lending Income	183	202	(19)	(9.4)
Total	\$ 263,361	\$ 91,351	\$ 172,010	188.3 %
Deductions				
Benefit Payments	\$ 76,949	\$ 70,234	\$ 6,715	9.6 %
Refunds	2,272	2,457	(185)	(7.5)
Inter-System Transfers	600	365	235	64.4
Other	340	155	185	119.4
Total	\$ 80,161	\$ 73,211	\$ 6,950	9.5 %
Net Change in Assets	\$ 183,200	\$ 18,140	\$ 165,060	909.9 %
Ending Net Assets	\$ 1,445,743	\$ 1,262,543	\$ 183,200	14.5 %

Requests for Information:

This report is prepared to provide the Retirement Board, members, retirees and citizens with an overview of the plan to assess COPERS' financial position and to show accountability for funds received. Questions regarding the information provided in this financial report or requests for additional information may be addressed to:

COPERS
 101 S. Central Avenue, Suite 600
 Phoenix, AZ 85004
 (602) 534-4400

Statements of Plan Net Assets

June 30, 2005 and 2004

(in thousands)

	2005	2004
ASSETS		
Cash and Cash Equivalents (Note 8)	\$ 62,975	\$ 54,706
Receivables		
City of Phoenix Contributions	954	1,150
Member Contributions	852	708
Interest and Dividends	2,496	2,443
Unsettled Broker Transactions - Sales	59,884	51,396
Other	2	1
Total Receivables	64,188	55,698
Investments, at Fair Value		
Temporary Investments from Securities Lending Collateral (Note 9)	124,467	143,260
Fixed Income	520,272	448,138
Domestic Equities	848,054	792,985
International Equities	169,636	149,380
Total Investments (Note 8)	1,662,429	1,533,763
Total Assets	1,789,592	1,644,167
Liabilities		
Payable for Securities Lending Collateral (Note 9)	124,467	143,260
Unsettled Broker Transactions - Purchases	106,950	48,007
Due to the City of Phoenix (Note 11)	7,041	6,377
Investment Management Fees Payable	1,518	780
Other Payables	44	0
Total Liabilities	240,020	198,424
Commitments and Contingencies (Notes 8, 9 and 12)		
Net Assets Held in Trust for Pension Benefits (Note 3)	\$1,549,572	\$1,445,743

(A Schedule of Funding Progress is presented on page 35)

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

Statements of Changes in Plan Net Assets

For the Fiscal Years Ended June 30, 2005 and 2004

(in thousands)

ADDITIONS	2005	2004
Contributions		
City of Phoenix	\$ 43,375	\$ 39,564
Member	26,307	24,783
Funds from Other Systems (Note 10)	963	373
Total Contributions (Note 5)	70,645	64,720
Investment Income		
From Investing Activities:		
Net Appreciation in Fair Value of Investments	104,864	184,205
Interest	10,615	10,936
Dividends	7,780	6,173
Other	426	460
Total Investment Income	123,685	201,774
Less Investment Expense	(3,661)	(3,316)
Net Income from Investing Activities	120,024	198,458
From Security Lending Activities:		
Security Lending Gross Income	2,758	913
Less Security Lending Activity Expenses:		
Agent Fees	(92)	(79)
Broker Rebates/Collateral Management Fees	(2,453)	(651)
Total Security Lending Expenses	(2,545)	(730)
Net Income from Security Lending Activity	213	183
Total Net Investment Income	120,237	198,641
Total Additions	190,882	263,361
DEDUCTIONS		
Benefit Payments	83,657	76,949
Refunds of Contributions	2,508	2,272
Funds to Other Systems (Note 10)	888	600
Other (Note 4)	0	340
Total Deductions	87,053	80,161
NET INCREASE	103,829	183,200
Net Assets Held in Trust for Pension Benefits (Note 3)		
Beginning of Year	1,445,743	1,262,543
End of Year	\$1,549,572	\$1,445,743

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

Notes to the Financial Statements

For the Fiscal Years Ended June 30, 2005 and 2004

Note 1 - Description of Plan

a. Purpose

The City of Phoenix Employees' Retirement Plan ("COPERS" or the "Plan") is a single-employer, defined benefit pension plan established by the City Charter. Its purpose is to provide retirement, disability retirement and survivor benefits for its members. Members are full-time employees on a work schedule which consists of the number of full-time hours per week designated for the class of employment for the employee's classification and which work schedule is intended to be continuous over a period of twelve months at the aforementioned full-time hours per week. All full-time classified civil service employees and full time appointive officials of the City of Phoenix, ("City") with the exception of sworn police and firefighters, are required, as a condition of employment, to contribute to COPERS.

b. Administration

The general administration, management and operation of COPERS are vested in a nine-member Retirement Board consisting of three elected employee members, four statutory members, a citizen member and a retiree member. The Retirement Board appoints the Retirement Program Administrator, a civil service position, and contracts investment counsel and other services necessary to properly administer the Plan.

c. Plan Amendment and Termination

COPERS is administered in accordance with the Charter of the City of Phoenix (Chapter XXIV, Article II, Employees' Retirement Law of 1953) and can be amended or repealed only by a vote of the people. There are no provisions for termination of COPERS.

d. Membership Data

	June 30	
	2005	2004
Current retirees, beneficiaries and survivors	3,907	3,743
Alternate Payees	61	53
Terminated vested members	623	591
Active members:		
Vested	6,269	6,011
Non-vested	2,767	2,949
Total Members	13,627	13,347

e. Pension Benefits

Benefits are calculated on the basis of a given rate, final average salary and service credit. Members are eligible for retirement benefits at age 60 with ten or more years of service credit; age 62 with five or more years of service credit; or where age and service credits equal 80. The benefit is based on 2% of final average compensation multiplied by the first 32.5 years of service credit, 1% in excess of 32.5 years to 35.5 years, and .5% thereafter. A deferred pension is available at age 62 for members who have five or more years of service credit at time of separation and leave their accumulated contributions in COPERS.

A supplemental post-retirement payment and a permanent benefit increase (under the pension equalization program), may be provided to retirees if sufficient reserves are available at the end of the fiscal year. The reserve is funded if the five-year average investment return exceeds 8 percent.

Notes to the Financial Statements

(Continued)

Note 1 - Description of Plan (Continued)

f. Disability Benefits

A member who becomes permanently disabled for the performance of duty is eligible for a disability benefit if the disability is 1) by reason of a personal injury or disease and the member has ten or more years of service credit, or 2) due to on-the-job injuries, regardless of service credit.

g. Survivor Benefits

Dependents of deceased members may qualify for survivor benefits if the deceased member had ten or more years of service credit, or if the member's death was in the line of duty with the City and compensable under the Workmen's Compensation Act of the State of Arizona. Chapter XXIV, Section 25 of the Charter of the City of Phoenix, specifies the dependents and conditions under which they qualify for survivor benefits.

h. Refunds

Upon separation from employment, a member or beneficiary not entitled to a pension, may withdraw the member's contribution plus applicable interest. An interest rate of 5% for fiscal year 2005 was granted by the Retirement Board to be applied at June 30, 2005 to the members' mean account balances during the fiscal year. The acceptance of a refund cancels the individual's rights and benefits in COPERS. Employer contributions to COPERS are not refundable.

i. Tax Exempt Status of Member Contributions

COPERS has received a favorable letter of determination of qualification from the Internal Revenue Service under Section 401(a) of the Internal Revenue Code. Continued tax-exempt status of COPERS is contingent on future operations remaining in compliance with Section 401(a).

Under Code Section 414(h)(2) and Revenue Ruling 81-36, effective January 1, 1985 the City of Phoenix authorized that a portion of its contributions be earmarked as being made by the members of COPERS, and "picked up" that portion of the designated active member contributions. The portion of COPERS' contribution that is picked up by the City of Phoenix is treated as an employer contribution for federal and state income tax purposes and excluded from the member's gross income until distributed by COPERS.

Note 2 - Summary of Significant Accounting Policies

COPERS is a defined benefit single-employer public employees' retirement system for the City's general municipal employees. The accounting policies of COPERS conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental retirement plans.

The preparation of financial statements in conformity with GAAP require management to make a number of estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and changes therein. Actual results could differ from those estimates.

a. Reporting Entity (Continued)

COPERS prepares and distributes separate financial statements as required by Charter. Its financial statements are also included as a component unit of the City reporting entity due to the significance of COPERS' operational and financial relationships with the City. The City is the only non-employee contributor to the pension plan.

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

a. Reporting Entity (Continued)

Not all employees of the City are covered under COPERS. Police officers and firefighters are covered under the Arizona Public Safety Personnel Retirement System (APSPRS) and elected officials under the Elected Officials Retirement Plan of Arizona (EORPA). APSPRS and EORPA were established by Arizona State Statute and are administered by an independent Board of Trustees. The City's involvement with these plans is limited to the administration of benefits for APSPRS and making the required annual contributions.

b. Basis of Accounting

COPERS financial statements are prepared using the accrual basis of accounting using the economic resources measurement focus. Employee contributions are recognized as revenues in the period in which employee services are performed and the contributions are therefore earned. Employer contributions are recognized at the same time, as the City is formally committed to contributing the actuarially determined amount each year. Benefit payments received the first of each month by retirees are recognized as an expense of the prior month, and refunds are recognized as expenses when due and payable, in accordance with the terms of the plan.

c. Investments

Equity securities and fixed-income securities are reported at fair value (Note 8). Interest and dividend income is recognized on the accrual basis as earned. Purchases and sales of investments are recorded on a trade-date basis. Cash equivalents are determined by using a maturity of less than one year. The fair value of an investment is the amount that the Plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller. The fair values of investments are generally based on published market prices and quotations obtained from major investment firms. For investments where no readily ascertainable market value exists, the Plan's custodian, in consultation with the Plan investment managers, determine fair values for the individual investments. There were no situations during the fiscal year where the fair value was not readily available for COPERS' investments.

d. New Accounting Pronouncement

COPERS implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" with the June 30, 2005 annual financial report. COPERS will implement GASB Statement No. 44 "Economic Condition Reporting: The Statistical Section" with the June 30, 2006 annual financial report. There will not be an impact on the financial statements as a result of implementing GASB Statement No. 44.

Note 3 - Plan Balance Accounts

Various accounts have been established to hold the reserves for benefit payments:

- The **Income Account** is used to account for COPERS' investment and miscellaneous income. At year-end, the Income Account is closed to the Employees' Savings Account, the Pension Accumulation Account, and the Pension Reserve Account, which results in no fund balance in the Income Account.
- The **Employees' Savings Account** is used to account for member contributions, member refunds, and the member portion of investment income. As a condition of employment, each member is required to contribute 5 percent of his/her covered compensation. Accumulated contributions receive regular interest that is computed at the end of each fiscal year on the mean balance in the members' accounts during the year. The rate of interest is established each year by the Board (currently 5 percent). Transfers are made from the Employees' Savings Account to the Pension Reserve Account when a member retires or becomes eligible for disability benefits.

Notes to the Financial Statements

(Continued)

Note 3 - Fund Balance Accounts (Continued)

- The **Pension Accumulation Account** is used to account for employer contributions and for a portion of investment income. The Charter requires the City to contribute an amount that is determined annually by COPERS' retained actuaries. Contributions are based upon a level percentage of payroll funding principle so that the contribution rates do not fluctuate significantly over time. This contribution is over and above the member contributions made by the City. Transfers are made from the Pension Accumulation Account to the Pension Reserve Account when a member retires or becomes eligible for disability benefits.
- The **Pension Reserve Account** is used to account for distributions to retirees and for a portion of investment income. The reserve is fully funded.
- The **Pension Equalization Reserve Account** is used for funding increases to eligible pensions under the Pension Equalization Program and the "13th Check." The Pension Equalization Program was established on October 1, 1991, when voters of the City of Phoenix approved an amendment to the City Charter, allowing pension adjustments to be paid to retired members of COPERS. These adjustments are to be made exclusively from COPERS' investment earnings in excess of 8% over the preceding 5-year period, and may not exceed the Phoenix area Consumer Price Index (CPI). This amendment was effective January 1, 1992, and will benefit only retirees who, as of January 1 of each year, have received at least 36 pension payments.

Following are the fiscal year-end reserve balances as of June 30, 2005 and 2004 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	<u>2005</u>	<u>2004</u>
Employee Savings	\$354,438	\$334,535
Pension Accumulation	283,710	295,619
Pension Reserve	766,287	705,619
Pension Equalization Reserve	28,144	37,243
Convert to Fair Value	<u>116,993</u>	<u>72,727</u>
Total Based on Fair Value	<u>\$1,549,572</u>	<u>\$1,445,743</u>

Note 4 - Administrative Costs

The 2005 Administrative costs of COPERS were \$1,381,809. This amount was paid by the City and not recognized in COPERS' financial statements. This compares to the 2004 administrative costs of \$1,530,246. The 2004 administrative costs were paid as follows: \$1,190,246 by the City and not recognized in COPERS' financial statements; \$340,000 paid by the Plan for computer services for COPERS' new computer system and included in COPERS' Statements of Changes in Plan Net Assets. Investment-related costs are paid directly from Plan assets.

Note 5 - Funding Requirement Determinations and Actual Contributions

City of Phoenix contributions for the fiscal year ended June 30, 2005 were \$43,375,000 equivalent to 9.97% of the estimated annual active member payroll, compared with 9.17% for the fiscal year ended June 30, 2004. Employee contributions for the fiscal year ended June 30, 2005 were \$26,306,000, which represent the required 5% of covered compensation as a condition of employment. The estimated annualized active member payroll at June 30, 2003, was \$416,472,000.

Employer contributions are actuarially determined amounts which, together with member contributions, are sufficient to cover both (i) normal costs of the plan, and (ii) financing of unfunded accrued actuarial costs over a selected period of future years. (See Note 6)

Notes to the Financial Statements (Continued)

Note 6 - Unfunded Actuarial Accrued Liabilities and Actuarial Assumptions

Unfunded actuarial accrued liabilities are determined annually by the consulting actuary. The unfunded actuarial accrued liability as of June 30, 2005 and June 30, 2004 are detailed below (in thousands).

	2005	2004
Actuarial Value of Assets	<u>\$1,511,553</u>	<u>\$1,417,774</u>
Actuarial Accrued Liability		
Active Members	972,634	923,020
Retirees and Beneficiaries Currently Receiving Benefits	798,413	737,683
Terminated Members Not Yet Receiving Benefits	<u>24,467</u>	<u>24,092</u>
Total Actuarial Accrued Liability	<u>1,795,514</u>	<u>1,684,795</u>
Unfunded Actuarial Accrued Liability	<u><u>(\$283,961)</u></u>	<u><u>(\$267,021)</u></u>

Actuarial present values are determined by a consulting actuary applying actuarial assumptions to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements, such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

The actuarial assumptions employed as of June 30, 2005 and June 30, 2004 include the following:

- 1) Investment Return - 8.0%
- 2) Salary Scale – Projected salary increases of 4.5% per year compounded annually attributable to inflation, with another 0.5% to competition and productivity. Additional projected salary increases ranging from 0% to 4.0% per year, depending on age, attributable to merit and longevity.
- 3) Multiple Decrement Tables:
 - a) Death - For determination of member, retiree and beneficiary mortality, the 1971 Group Annuity Mortality Table projected to 2000, set back zero years for males and six years for females was used for 2000 and subsequent years.
 - b) Disability - Based upon COPERS' experience.
 - c) Withdrawal - Based upon COPERS' experience, measures the probability of members terminating employment for reasons other than retirement, death or disability.
- 4) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2003, the June 30, 2004 and the June 30, 2005 valuations. This method spreads the difference between the actual and expected investment return over four years. The method used in prior years spread realized and unrealized gains and losses over four years.

The foregoing actuarial assumptions are based on the presumption that COPERS will continue as presently chartered. If COPERS is terminated or amended, different actuarial assumptions and other factors might be applicable in determining actuarial present values.

Note 7 - Funding Policy

As a condition of employment, members are required to contribute 5% of their salary to COPERS as provided in Chapter XXIV, Section 27, of the City Charter. Present members' accumulated contributions at June 30, 2005 were \$354,437,850, including interest compounded annually compared to \$334,534,707 at June 30, 2004. The City's funding policy is designed to provide annual contributions to COPERS in amounts that are estimated to remain a constant percentage of members' compensation each year, such that, when combined with members'

Notes to the Financial Statements

(Continued)

Note 7 - Funding Policy (Continued)

contributions, all active member benefits will be fully funded as earned. Contributions to the Plan are actuarially determined. The unfunded actuarial accrued liability in excess of applicable value of assets is amortized as a level percent of payroll over 20 years from June 30, 2005.

Note 8 - Investments

COPERS is authorized to invest in common stocks, obligations of the U.S. Treasury, its agencies and instrumentalities, money market accounts, certificates of deposit, the State Treasurer's investment pool, obligations issued or guaranteed by any state or political subdivision thereof, which are rated in the highest short-term or second highest long-term category, and investment grade corporate bonds, debentures, notes and other evidences of indebtedness which are not in default as to principal or interest and are issued or guaranteed by a solvent U.S. corporation. Effective with the Charter change of September 7, 1999, COPERS may invest in any other investment category authorized by a two-thirds vote of the COPERS' Board, exercising the diligence of a prudent person acting in a like capacity.

The City Charter allows up to a 60% investment (at cost) in domestic common stocks. The Board's present policy has resulted in approximately 49% being invested (at cost) in domestic common stocks as of June 30, 2005. The Board's present policy allows up to 10% investment (at cost) in international equities. As of June 30, 2005 approximately 8.7% was invested (at cost) in international equities.

A summary of investments at June 30, 2005 and 2004 is as follows (in thousands):

	2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Temporary Investments from Securities Lending Collateral (Note 9)	\$ 124,467	\$ 124,467	\$ 143,260	\$ 143,260
Fixed Income	489,695	520,272	432,574	448,138
Domestic Equities	791,274	848,054	745,202	792,985
International Equities	140,000	169,636	140,000	149,380
	<u>1,545,436</u>	<u>1,662,429</u>	<u>1,461,036</u>	<u>1,533,763</u>
Cash and Cash Equivalents	<u>62,975</u>	<u>62,975</u>	<u>54,706</u>	<u>54,706</u>
Total Investments	<u>\$ 1,608,411</u>	<u>\$ 1,725,404</u>	<u>\$ 1,515,742</u>	<u>\$ 1,588,469</u>

COPERS' investments are managed by eight professional fund managers and are held by a plan custodian who is COPERS' agent.

COPERS' investment policy permits investment in swaps, futures and options. As of June 30, 2005 the total market value of options held was (\$309,895). The underlying securities for these options were government bonds. As of June 30, 2005 the total market value for swaps was (\$119,516). The underlying securities for these swaps were corporate bonds.

Notes to the Financial Statements (Continued)

Note 8 – Investments (Continued)

The following schedule provides the categories of investments as of June 30, 2005 (in thousands):

<u>Investment Categories</u>	<u>Fair Value</u>
Cash	\$ 615
Short Term Investment Fund	62,360
Cash and Cash Equivalents	<u>62,975</u>
Temporary Investments from Securities Lending Collateral	124,467
Fixed Income:	
Credit Card Receivable	4,681
U S Government Guaranteed Securities	91,087
Government Agencies Securities	108,187
Mortgage Backed Securities	12,240
Asset Backed Securities	8,301
Corporate Bonds	48,144
Commingled Bond Index Fund	247,580
Options (Net)	(310)
Convertibles	362
	<u>520,272</u>
Domestic Equities:	
Common Stocks	607,759
Commingled Equity Index Fund	240,295
	<u>848,054</u>
International Equities	<u>169,636</u>
Total	<u>\$1,725,404</u>

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a depository institution failure, a government will not be able to recover deposits or collateral held by an outside party. As of June 30, 2005, COPERS did not realize any custodial credit risk for deposits. COPERS' policy requires all deposits to be insured and to be held in COPERS' name.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of a failure of a counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, COPERS did not realize any custodial credit risk for investments or securities lending arrangements. Note 9 on page 33, provides detailed information regarding securities lending. COPERS' policy requires all investments to be insured, collateralized and registered in COPERS' or its nominee name.

Notes to the Financial Statements

(Continued)

Note 8 – Investments (Continued)

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. COPERS' investment policy does not allow for an investment in any one issuer that is in excess of five percent of COPERS' total investments, except investments issued or explicitly guaranteed by the U.S. government. As of June 30, 2005, COPERS did not have any investments with any one issuer in excess of five percent.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. COPERS' investment policy allows for a minimum of 8% and a maximum of 12% with a target of 10% of the Plan's total assets in international investments. The current international investment allocation is 9.8% of total Plan assets as of June 30, 2005. The fair market value of COPERS' international commingled equity fund managed by Bank of Ireland was \$169,635,956 as of June 30, 2005.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. COPERS' investment policy permits purchasing any security that is included in the Lehman Aggregate Bond Index and relies on the methodology used by Lehman to determine if a security is investment grade. Average quality rating must be at least AA, and all purchases must be investment grade. COPERS' currently has three managers responsible for fixed income investments. Wells Capital Management and Western Asset Management Company are active bond managers. Northern Trust Investments manages COPERS' commingled index fund representative of the intermediate government and corporate securities sectors of the United States bond and debt market, as characterized by the Lehman Brothers Intermediate Government/Credit Bond Index. The Northern Trust Commingled Bond Index Fund is not rated. Table I on page 32 provides information relating to the credit risk for the fixed income investments in COPERS' Plan as of June 30, 2005.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Typically, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. COPERS' investment policy guidelines require Wells Capital Management to maintain duration within 10% of the Lehman Aggregate Bond Index with duration not below 90% and not higher than 110% of the index. COPERS' investment policy guidelines require Western Asset Management Company to maintain an average weighted duration of portfolio security holdings including futures and options positions within $\pm 20\%$ of the Lehman Aggregate Bond Index. COPERS also diversifies its fixed income investments into active and passive bond management, which further limits the volatility to changes in interest rates. Information about the interest rate risk exposure of the COPERS Plan is provided in Table I on page 32. COPERS' investments, which are highly sensitive to changes in interest rates, are listed in Table II on page 33.

COPERS' investment policy permits the following investments, which include investments that are considered to be highly sensitive to interest rate changes due to long maturities, prepayment options, coupon multipliers, reset dates and similar terms:

- Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies.
- Obligations of U.S. and non-U.S. corporations such as mortgage bonds, convertible and non-convertible notes and debentures.
- Mortgage-backed and asset-backed securities
- Obligations denominated in U.S. dollars of international agencies, supranational entities and foreign governments (or their subdivisions or agencies).
- General obligation bonds, revenue bonds, improvement district bonds, or other evidences of indebtedness of any state of the United States, or any of the counties or incorporated cities, towns and duly organized school districts in the State of Arizona which are not in default as to principal and interest.

Notes to the Financial Statements

(Continued)

Note 8 – Investments (Continued)

- Swaps, forwards, options on swaps, options on forwards.
- Securities defined under Rule 144A and Commercial paper defined under Section 4(2) of the Securities Act of 1933.
- Bank Loans, TBA Securities and Mortgage Dollar Rolls

Table I: Credit Rating and Maturity for COPERS' Fixed Income Investments (in thousands)

	Credit Quality Ratings	Fair Value	Remaining Maturity					Over 25 Years
			0 - 5 Years	6 - 10 Years	11 - 15 Years	16 - 20 Years	21 - 25 Years	
Total Cash		\$ 615	\$ 615	\$ -	\$ -	\$ -	\$ -	\$ -
Short Term Investment Fund	Not Rated	61,582	20,300	-	-	-	-	41,282
Short Term FNMA	AAA	778	778	-	-	-	-	-
Total Short Term Investments		62,360	21,078	-	-	-	-	41,282
Total Options	Not Rated	(310)	(310)	-	-	-	-	-
Convertible	AA	195	195	-	-	-	-	-
Convertible	BB	167	167	-	-	-	-	-
Total Convertibles		362	362	-	-	-	-	-
Total Credit Card Receivable	AAA	4,681	3,119	1,562	-	-	-	4,248
U S Government	Not Rated	4,248	-	-	-	-	-	6,397
U S Government	AAA	86,839	52,687	11,772	-	7,541	8,442	10,645
Total U S Government		91,087	52,687	11,772	-	7,541	8,442	36,278
Government Agency	Not Rated	36,278	-	-	-	-	-	15,642
Government Agency	AAA	69,391	10,104	9,777	6,900	19,372	7,596	1,285
Government Agency	BBB	2,518	-	345	-	-	888	53,205
Government Agency Total		108,187	10,104	10,122	6,900	19,372	8,484	2,457
Mortgage Backed	Not Rated	2,457	-	-	-	-	-	8,553
Mortgage Backed	AAA	9,432	-	411	-	-	468	108
Mortgage Backed	AA	108	-	-	-	-	-	243
Mortgage Backed	A	243	-	-	-	-	-	11,361
Mortgage Backed Total		12,240	-	411	-	-	468	-
Other Asset Backed	Not Rated	312	-	312	-	-	-	-
Other Asset Backed	AAA	7,989	4,040	1,152	484	-	-	2,313
Other Asset Backed Total		8,301	4,040	1,464	484	-	-	2,313
Corporate Bonds	Not Rated	(119)	(119)	-	-	-	-	-
Corporate Bonds	AAA	1,231	709	522	-	-	-	41
Corporate Bonds	AA	3,464	2,606	817	-	-	-	1,251
Corporate Bonds	A	15,112	5,605	7,324	-	-	932	4,921
Corporate Bonds	BBB	22,535	3,597	12,369	778	-	870	1,491
Corporate Bonds	BB	5,921	3,470	572	74	-	314	7,704
Corporate Bonds Total		48,144	15,868	21,604	852	-	2,116	-
Totals by Maturity Dates		335,667	\$ 107,563	\$ 46,935	\$ 8,236	\$ 26,913	\$ 19,510	\$ 126,510
Commingled Bond Index Fund	Not Rated	247,580						
Fixed Income Investments		\$ 583,247						

Notes to the Financial Statements

(Continued)

Note 8 – Investments (Continued)

Table II: Investments Considered Highly Sensitive to Changes in Interest Rates (in thousands)

Security Name	Market Value	Maturity Date	Major Industry	Rating
FNMA TBA July 30 Single FAM	\$ 1,552	12/01/2099	Mortgage Pass Through	Not Rated
Russian FEDN	\$ 888	03/31/2030	US Credit	BBB
Merrill Lynch & Co Inc.	\$ 179	03/12/2007	Corporate	A

COPERS' Plan assets include several collateralized mortgage obligations which could be considered as highly sensitive to interest rate changes depending upon the exercise of prepayment options.

Note 9 – Securities Lending Program

State statutes do not prohibit COPERS from participating in securities lending transactions, and COPERS has, via a Securities Lending Authorization Agreement effective March 5, 2002, authorized State Street Bank and Trust Company ("State Street") to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, State Street lent, at the direction of COPERS, securities and received cash (United States currency) and securities issued or guaranteed by the United States government as collateral. State Street did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

COPERS did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf and State Street indemnified COPERS by agreeing to purchase replacement securities or return cash collateral in the event borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, COPERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2005, such investment pool had an average duration of 25 days and an average weighted maturity of 174 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2005 COPERS had no credit risk exposure to borrowers. The collateral held, and the market value of securities on loan for COPERS as of June 30, 2005, were \$124,466,542 and \$121,418,439 respectively, and as of June 30, 2004, were \$143,260,203 and \$140,904,323 respectively.

Note 10 – Funds To/From Other Systems

Under the provisions of Arizona Revised Statutes, Section ARS 38-730 as amended in 1992, transfers between COPERS and the Arizona State Retirement System ("ASRS") are allowed when the City hires an employee who was formerly covered by ASRS, or a COPERS member who separates from City of Phoenix employment goes to work for an entity that covers its employees under ASRS. The amount of the transfers, in and out of COPERS during 2005, was equal to the present value of the employees' then-vested benefits.

Notes to the Financial Statements

(Continued)

Note 11 – Interfund Balances

On the Statement of Net Assets, the liability, Due to the City of Phoenix, results from the fact that the General City Employees' Retirement Plan does not have a local bank account. The City of Phoenix Payroll Section issues both Retirement pension warrants and employee retirement contribution refund warrants from the City's bank account.

Until Retirement personnel instruct State Street Bank and Trust to wire funds to the City of Phoenix in reimbursement for the warrants, the Retirement Plan is in debt to the City. Also, City employees previously employed by government entities may purchase prior service credits. The dollar amount of these purchases is deposited in the City's bank account, to be later transferred to the Plan's custodian. Until the transfer is made, the City is in debt to the Retirement Plan.

Note 12 – Contingent Liabilities

COPERS is a party in a pending litigation matter. While the final outcome cannot be determined at this time, management is of the opinion that the final obligation, if any, for these legal actions will not have a material adverse effect on the COPERS' financial position or results of operations.

Required Supplementary Information

Schedule of Funding Progress Last Eight Fiscal Years (in thousands)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (3)/(5)
06/30/05	\$ 1,511,553	\$ 1,795,514	\$ 283,961	84.2 %	\$ 467,998	60.68 %
06/30/04	1,417,774	1,684,795	267,021	84.2	445,348	59.96
06/30/03 (a)	1,330,584	1,504,125	173,541	88.5	416,472	41.67
06/30/02	1,273,731	1,390,273	116,542	91.6	404,414	28.82
06/30/01	1,291,338	1,259,564	(31,774)	102.5	376,913	--
06/30/00 (a)	1,219,892	1,199,871	(20,021)	101.7	360,654	--
06/30/99	1,117,497	1,044,425	(73,072)	107.0	336,153	--
06/30/98	984,501	973,048	(11,453)	101.2	322,475	--

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Usually expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the plan.

(a) After changes in benefit provisions and/or actuarial assumptions and actuarial cost methods.

Schedule of Employer Contributions Last Ten Fiscal Years (in thousands)

Fiscal Year	Valuation Date	Annual Required Contribution	Percent Contributed
2004-05	2003	\$ 43,375	100 %
2003-04	2002	39,564	100
2002-03	2001	27,820	100
2001-02	2000	28,295	100
2000-01	1999	22,329	100
1999-00	1998	26,802	100
1998-99	1997	29,186	100
1997-98	1996	30,124	100
1996-97	1995	23,208	100
1995-96	1994	21,218	100

Required Supplementary Information (Continued)

Notes to the Schedules of Trend Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date:	June 30, 2005	June 30, 2004
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period	20 Years	20 Years
Asset Valuation Method	4-Year Smoothed Market Value	4-Year Smoothed Market Value
Actuarial Assumptions:		
Investment Rate of Return	8.0%	8.0%
Projected Salary Increases (1)	5.0% to 9.0%	5.0% to 9.0%
Cost-of-Living Adjustments	None	None
Factors Affecting Trends	None	None

(1) Includes inflation at 4.5%

Additional Supplementary Information

Schedule of Administrative Expenditures and Encumbrances (Non-GAAP Budgetary Basis) For the Fiscal Years Ended June 30, 2005 and 2004

	2005		2004	
	Budget	Actual	Budget	Actual
Personal Services				
Staff Salaries	\$826,634	\$710,141	\$791,652	\$712,418
Insurance	149,049	123,793	141,037	122,923
Social Security	61,285	49,430	58,769	50,588
Retirement	77,284	68,404	65,531	64,521
Total Personal Services	1,114,252	951,768	1,056,989	950,450
Professional Services				
Consultants	51,820	31,518	21,500	19,711
Audit and Accounting	47,750	70,276	27,600	14,227
Medical Advisors	31,768	21,927	31,768	37,273
Computer Services	184,045	192,952	-	340,000
Other	7,769	32,396	62,445	75,131
Total Professional Services	323,152	349,069	143,313	486,342
Communications				
Printing	38,377	38,746	38,842	38,452
Postage	2,800	2,605	2,177	2,955
Travel and Conferences	16,176	9,916	16,820	10,060
Telephone	9,894	10,528	9,768	11,051
Subscriptions and Memberships	2,150	2,676	3,337	3,209
Total Communications	69,397	64,471	70,944	65,727
Miscellaneous				
Supplies	13,675	11,755	13,315	14,132
Office Furniture	2,681	2,583	3,081	2,595
Insurance	983	963	1,265	1,042
Computer Equipment	756	507	5,468	9,715
Other	2,024	693	1,200	243
Total Miscellaneous	20,119	16,501	24,329	27,727
Total Administrative Expenditures and Encumbrances	\$1,526,920	\$1,381,809	\$1,295,575	\$1,530,246

Note: Administrative expenditures of COPERS are budgeted and paid by the City of Phoenix and are not recognized in COPERS' financial statements. However, in fiscal year 2004, the Retirement Board authorized and paid from the Plan \$340,000 for computer services for COPERS' new computer system. That amount is included in the 2004 Statement of Changes in Plan Net Assets and in this schedule.

Additional Supplementary Information (Continued)

Schedule of Investment Expenses For the Fiscal Year Ended June 30, 2005

Payee	Commissions or Fees	Nature of Services
State Street Bank	\$ 77,503	Master Custodian
Bank of Ireland	683,348	Investment Management
Cadence Capital Management	763,842	Investment Management
Columbus Circle Investors	449,314	Investment Management
Eagle Asset Management	12,320	Investment Management
MacKay-Shields Financial Corporation	491,152	Investment Management
Northern Trust Investments	87,937	Investment Management
The Boston Company	578,761	Investment Management
Vanderbilt Capital Advisors	113,117	Investment Management
Wells Capital Management	147,104	Investment Management
Western Asset Management Corporation	157,303	Investment Management
Becker, Burke Associates, Inc.	75,420	Investment Consultant
Foreign Taxes	23,966	Investment Expense
	<u>\$ 3,661,087</u>	

Schedule of Payments to Consultants For the Fiscal Year Ended June 30, 2005

Payee	Fees Paid	Nature of Services
Lieberman Dodge Gerding & Anderson (1)	26,645	Legal Services
Rodwan Consulting Company (1)	31,010	Actuarial Services
	<u>\$ 57,655</u>	

(1) Fees are a component of administrative expenses (budget) of COPERS, paid by the City of Phoenix and are not recognized in COPERS' financial statements.

Investment Section

The **Investment Section** contains the Plan's report on investment activity, its investment policies, and schedules of investment results and related information.

Schedule of Investment Results

For the Fiscal Years Ended June 30, 2005

	1-Year	Annualized	
		3-Years	5-Years
TOTAL PORTFOLIO:			
COPERS	8.6%	9.2%	3.7%
Allocation Index (1)	6.9%	9.7%	3.1%
S & P 500	6.3%	8.3%	-2.4%
Lehman Aggregate	6.8%	5.8%	7.4%
Median of Other Public Plans	8.8%	9.2%	3.9%
EQUITY FUNDS:			
Northern Trust Investments (2)	6.4%	8.3%	-2.3%
S & P 500 Index	6.3%	8.3%	-2.4%
Cadence Capital Management	11.8%	8.4%	0.1%
Russell 1000 Growth Index	1.7%	7.3%	-10.4%
MacKay-Shields Financial Corporation	9.9%	8.2%	8.0%
Russell 1000 Value Index	14.1%	11.0%	6.6%
Eagle Asset Management (3)	--	--	--
Russell 2000 Growth Index	4.3%	11.4%	-4.5%
The Boston Company (4)	9.9%	23.6%	--
Russell Midcap Value Index	21.8%	16.5%	14.9%
Bank of Ireland (5)	13.6%	8.9%	--
EAFE Index	14.1%	12.5%	-0.2%
FIXED INCOME FUNDS:			
Wells Capital Management (6)	--	--	--
Lehman Aggregate Index	6.8%	5.8%	7.4%
Western Asset Management (6)	--	--	--
Lehman Aggregate Index	6.8%	5.8%	7.4%
Northern Trust Investments (7)	4.8%	5.3%	--
Lehman G/C Intermediate Index	4.8%	5.1%	6.9%

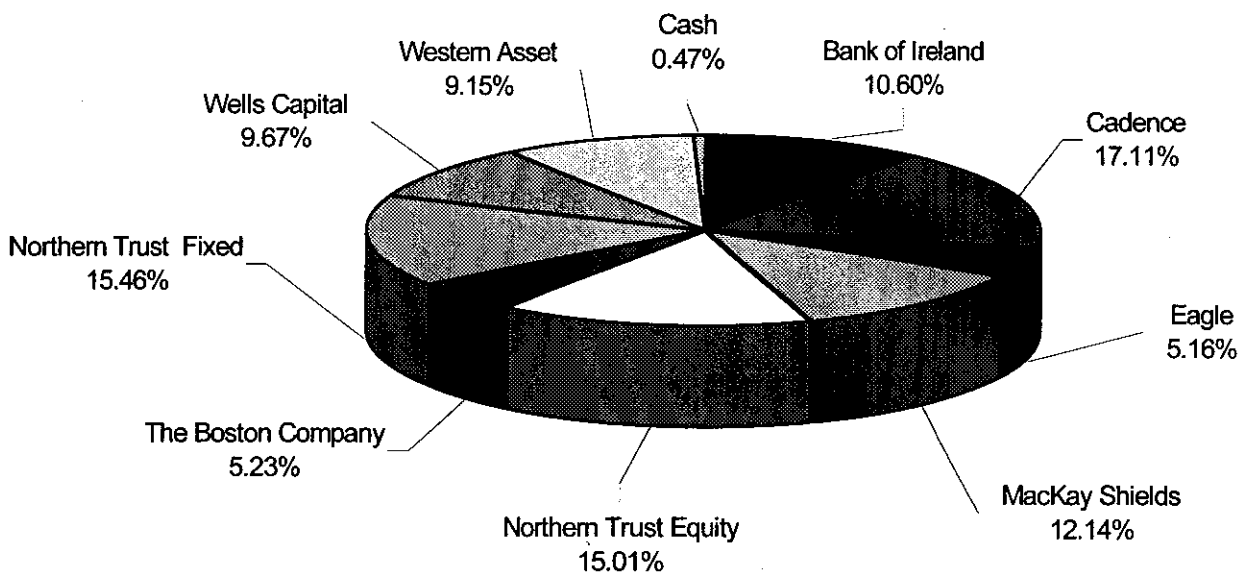
- (1) The Allocation Index is based on the performance of a passive portfolio, invested in the S&P 500, EAFE, and Lehman Aggregate indices, at the same ratios as the Plan was actually allocated throughout the period.
- (2) Northern Trust replaced Deutsche Bank as manager of the S&P 500 Index fund effective 8/1/00.
- (3) Eagle Asset Management added as small cap manager effective 6/15/05; funds transitioned from Columbus Circle. Performance figures would not be representative of the benchmark index.
- (4) The Boston Company added as mid cap manager effective 4/02/02; funds transitioned from Nicholas Applegate. Performance figures would not be representative of the benchmark index.
- (5) Bank of Ireland added 3/01/01 as the manager for the International Commingled Equity Fund.
- (6) Wells Capital Management and Western Asset Management added as core fixed income managers effective January 1, 2005; funds transitioned from Vanderbilt Capital Advisors. Performance figures would not be representative of the benchmark index.
- (7) Northern Trust added as a manager of a Lehman G/C Intermediate Index as of 8/1/00; funds transitioned from Payden & Rygel.

The calculations above were prepared by COPERS' consultant, using a time-weighted rate of return, based on market value and in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

Asset Allocation by Manager

As of June 30, 2005

Manager	Style	Management (in thousands)	% of Portfolio
EQUITY FUNDS			
Bank of Ireland	International	\$169,636	10.60 %
Cadence Capital Management	Large Cap Growth	273,874	17.11
Eagle Asset Management	Small Cap Growth	82,614	5.16
MacKay Shields Financial Corp.	Large Cap Value	194,441	12.14
Northern Trust Investments	S & P 500 Index	240,295	15.01
The Boston Company	Mid Cap Value	83,712	5.23
TOTAL EQUITY FUNDS		1,044,572	65.25
FIXED INCOME FUNDS			
Northern Trust Investments	Defensive Fixed Income	247,580	15.46
Wells Capital Management	Core Fixed Income	154,787	9.67
Western Asset Management	Core Fixed Income	146,497	9.15
COPERS Cash Account	Short Term Income Fund	7,501	0.47
TOTAL FIXED INCOME FUNDS		556,365	34.75
Total Portfolio		\$1,600,937	100.00 %



List of Largest Assets Held

As of June 30, 2005 (dollars in thousands)

Ten Largest Bond Holdings (Market Value)

Par Value	Description	Interest Rate	Due	Rating	Market Value
\$16,685	United States Treasury Notes	1.63%	09/30/2005	AAA	\$16,622
7,750	United States Treasury Notes	3.38%	02/15/2008	AAA	7,694
6,748	FNMA TBA Jul 30 Single Fam	5.50%	12/01/2099	AAA	6,840
6,670	United States Treasury Notes	3.50%	12/15/2009	AAA	6,609
6,300	FNMA TBA Jul 30 Single Fam	6.00%	12/01/2099	AAA	6,459
6,400	FNMA TBA Jul 30 Single Fam	5.00%	12/01/2099	AAA	6,400
5,421	United States Treasury Bonds	5.38%	02/15/2031	AAA	6,397
6,123	FNMA TBA Aug 30 Single Fam	5.50%	12/01/2099	AAA	6,198
6,142	United States Treasury Notes	3.63%	05/31/2007	AAA	6,123
4,556	United States Treasury Bonds	6.25%	05/15/2030	AAA	5,936

Ten Largest Stock Holdings (Market Value)

Shares	Stock	Market Value
235,406	Bank America Corp.	\$10,737
384,950	Sprint Corp	9,658
160,270	Transocean Inc.	8,650
374,410	Motorola Inc.	6,837
239,900	Texas Instruments Inc.	6,734
100,700	Prudential Financial Inc.	6,612
141,100	Citigroup Inc.	6,523
103,970	Allstate Corp.	6,212
360,020	Time Warner Inc. New	6,016
77,700	Hartford Financial Services Group	5,810

A complete list of portfolio holdings is available at COPERS' office.

Schedule of Investment Related Fees

For the Fiscal Year Ended June 30, 2005

	Assets Under Management (in thousands)	Fees	Basis Points
Investment Manager Fees			
Bank of Ireland	\$169,636	\$683,348	40.28
Cadence Capital Management	273,874	763,842	27.89
Columbus Circle Investors (1)	N/A	449,314	N/A
Eagle Asset Management	82,614	12,320	1.49
MacKay Shields Financial Corp.	194,440	491,152	25.26
Northern Trust Investments	487,875	87,937	1.80
The Boston Company	83,712	578,761	69.14
Vanderbilt Capital Advisors (2)	N/A	113,117	N/A
Wells Capital Management	154,788	147,104	9.50
Western Asset Management	146,497	157,303	10.74
 COPERS Cash Account STIF	 <u>7,501</u>	 <u>N/A</u>	
 Total	 <u><u>\$1,600,937</u></u>	 <u><u>\$3,484,198</u></u>	
 Other Investment Service Fees			
Becker, Burke Assoc., Inc. (Consultant)		75,420	
State Street Bank (Custodian)		<u>77,503</u>	
 Total Investment Service Fees		 <u>152,923</u>	
 Total Investment Related Fees		 <u><u>\$3,637,121</u></u>	

(1) Assets transitioned from Columbus Circle Investors to Eagle Asset Management effective June 15, 2005.

(2) Assets transitioned from Vanderbilt Capital Advisors to Wells Capital Management and Western Asset Management January 3, 2005.

Investment Summary

As of June 30, 2005

Type of Investment	Market Value (in thousands)	Percent of Total Market Value
Fixed Income:		
Government Bonds	\$86,329	5.39 %
Corporate Bonds	46,244	2.89
Lehman G/C Index	247,580	15.46
Temporary Investments	203,094	12.69
Total Fixed Income	583,247	36.43
Equity:		
Information Technology	110,294	6.90
Financials	111,659	6.97
Health Care	92,761	5.79
Energy Related	69,955	4.37
Consumer Discretionary	80,951	5.06
Industrials	54,787	3.42
Consumer Staples	27,861	1.74
Telecommunications	20,395	1.27
Utilities	13,141	0.82
Materials	25,955	1.62
International Commingled Equity Fund	169,636	10.60
S&P Equity Index	240,295	15.01
Total Equities	1,017,690	63.57
Total	\$1,600,937	100.00 %

Investment Section

Schedule of Commissions
For the Fiscal Year Ended June 30, 2005

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
ADAMS HARKNESS & HILL INC.	448,910	\$ 20,194	\$ 0.04498
AMERICA'S GROWTH CAPITAL LLC	290,100	13,927	0.04801
BAIRD, ROBERT W., & COMPANY INC.	364,200	17,747	0.04873
BANC AMERICA SECURITY LLC MONTGOMERY	561,428	27,685	0.04931
BEAR STEARNS & CO. INC.	738,700	36,007	0.04874
BEAR STEARNS SECURITIES CORP.	316,117	27,461	0.08687
BNY BROKERAGE INC.	588,310	28,472	0.04840
BRIDGE TRADING	358,449	17,133	0.04780
BROADCORT CAPITAL	2,096,918	102,520	0.04889
CANTOR FITZGERALD & CO.	531,715	22,739	0.04276
CIBC WORLD MARKETS CORP.	859,510	42,092	0.04897
CITIGROUPGLOBAL MARKETS INC.	929,625	42,424	0.04564
COMPASS POINT RESEARCH & TRADING	726,874	34,958	0.04809
CREDIT SUISSE FIRST BOSTON CORP.	569,734	27,718	0.04865
DEUTSCHE BANC SECURITIES INC.	524,307	23,248	0.04434
FIRST ALBANY CAPITAL INC.	338,150	16,404	0.04851
GOLDMAN SACHS & CO.	847,207	38,934	0.04596
HARRIS NESBITT CORP.	328,145	15,929	0.04854
J P MORGAN SECURITIES INC.	758,079	34,214	0.04513
JANNEY MONTGOMERY, SCOTT INC.	295,800	14,552	0.04920
JEFFERIES & COMPANY	316,293	15,211	0.04809
LA BRANCHE FINANCIAL #2	1,202,420	40,091	0.03334
LAZARD FRERES & CO.	368,242	17,705	0.04808
LEERINK SWANN & CO.	579,230	28,604	0.04938
LEGG MASON WOOD WALKER	441,675	18,258	0.04134
LEHMAN BROS. INC.	1,973,306	87,446	0.04431
LIQUIDNETINC	1,422,253	36,230	0.02547
MERRILL LYNCH PROFESSIONAL CLEARING CORP.	1,046,641	50,219	0.04798
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.	628,603	33,884	0.05390
MERRIMAN CURHAN FORD & CO	223,100	10,469	0.04693
MIDWEST RESEARCH SECURITIES	312,090	15,461	0.04954
MORGAN STANLEY CO INC.	853,000	39,174	0.04592
NATIONAL FINANCIAL SERVICES CORP.	313,170	14,983	0.04784
PERSHING LLC	1,154,400	51,289	0.04443
PRUDENTIAL EQUITY GROUP	1,013,415	49,918	0.04926
RAYMOND JAMES & ASSOCIATES INC.	354,000	16,154	0.04563
RBC CAPITAL MARKETS	1,221,155	60,255	0.04934
S.G.COWEN & CO.	1,564,973	72,951	0.04661
SANDLER ONEILL & PART LP	226,120	11,306	0.05000
SANFORD C. BERNSTEIN & CO., LLC	1,118,580	51,898	0.04640
STANDARD & POOR'S SECURITIES, INC.	294,200	12,556	0.04268
STATE STREET BROKERAGE SERVICES	9,716,175	310,012	0.03191
STEPHENS, INC.	320,410	14,354	0.04480
SUNTRUST CAPITAL MARKETS	597,800	25,828	0.04321
THOMAS WEISEL PARTNERS	711,131	32,942	0.04632
U S BANCORP PIPER JAFFRAY INC.	477,562	20,785	0.04352
US CLEARING INSTITUTIONAL TRADING	397,240	17,017	0.04284
UBS SECURITIES LLC	1,195,960	54,999	0.04599
WACHOVIA CAPITAL MARKETS, LLC	677,900	29,967	0.04421
WEDBUSH MORGAN SECURITIES	521,500	24,017	0.04605
WEEDEN & CO	759,990	34,371	0.04522
ALL OTHER BROKERS (1)	20,229,817	202,318	0.01000
TOTAL	<u>64,704,629</u>	<u>\$2,105,030</u>	

(1) Includes brokers with total commissions less than \$10,000 each

Actuarial Section

The **Actuarial Section** contains the actuary's certification letter, supporting schedules prepared by the actuary, and a summary of plan provisions.

Supporting Schedules

Summary of Actuarial Assumptions and Methods

The City of Phoenix Employees' Retirement Board (the "Board") adopts actuarial assumptions and methods which are recommended by the City of Phoenix Employees' Retirement Systems' ("COPERS" or the "Plan") actuary.

Funding Method

The Individual Entry-Age Normal Actuarial Cost method is used in the actuarial valuation. This cost method was adopted effective June 30, 1991. The actuarial accrued liability was amortized as a level percent of payroll over 20 years and added to the computed normal cost.

Asset Valuation Method for Actuarial Purposes

A smoothed market value of assets was used for the June 30, 2005 valuation. This method, which is unchanged from last year, spreads the difference between the actual and expected investment return over four years.

Valuation Data

The data with respect to persons now covered and present assets were furnished by COPERS' administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the actuary. The COPERS' fiscal year coincides with the City's fiscal year (July 1 to June 30).

Economic Assumptions

Investment Return

8.0% annually, compounded annually. Considering other financial assumptions, the 8.0% rate translates to an assumed real rate of return of 3.5% over inflation and 3.0% over across-the-board salary increases. The real rate of return is the rate of investment return over the inflation rate. Adopted 1991.

Active Member Total Payroll

Increasing 5.0% annually, compounded annually, comprised of 4.5% inflation and .5% competition/productivity. In effect, this assumes no change in the number of active members. Adopted 2000.

Experience Study

COPERS' actuary conducts an experience study every five years to determine if any adjustments in actuarial assumptions are necessary. This report reflects the recommendations made by the actuary in the June 30, 1999 study, as adopted by the COPERS' Board June 28, 2000. Rodwan Consulting Company has completed an experience study for the period July 1, 1999 through June 30, 2004. The Board will consider the assumptions recommended by Rodwan Consulting Company during fiscal year 2006 for implementation for the June 30, 2006 Actuarial Valuation.

Supporting Schedules (Continued)

Summary of Actuarial Assumptions and Methods (Continued)

Individual Member Pay Increases

A member's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. Adopted June 28, 2000. For sample ages, the following table describes annual increase percents:

Age	Merit and Longevity	Base	Competition/Productivity	Total	
20	4.0 %	4.5 %	0.5 %	9.0	%
25	3.2	4.5	0.5	8.2	
30	2.8	4.5	0.5	7.8	
35	2.5	4.5	0.5	7.5	
40	2.2	4.5	0.5	7.2	
45	1.7	4.5	0.5	6.7	
50	1.2	4.5	0.5	6.2	
55	0.7	4.5	0.5	5.7	
60	0.2	4.5	0.5	5.2	
65	--	4.5	0.5	5.0	

Decrement Assumptions

Mortality

The mortality table used was the 1971 Group Annuity Mortality Table projected to 2000, set back zero years for males and six years for females. Adopted June 28, 2000.

Retirement

Sample probabilities of retirement with an unreduced age and service pension are shown below. Adopted June 28, 2000.

Percent of Eligible Active Members Retiring Within Next Year (Unreduced)

Retirement Age	Percent Eligible to Retire		Retirement Age	Percent Eligible to Retire	
	Males	Females		Males	Females
50	10	20			
51	10	25	61	20	20
52	10	25	62	35	35
53	15	25	63	15	20
54	15	25	64	25	20
55	25	35	65	45	45
56	20	35	66	25	45
57	20	25	67	25	20
58	20	25	68	25	20
59	20	25	69	30	20
60	20	20	70	100	100

Supporting Schedules (Continued)

Summary of Actuarial Assumptions and Methods (Continued)

Turnover

Adopted June 28, 2000. Rates of separation from employment for reasons other than age and service retirement, death, or disability are:

Sample Ages	Years of Service	Percent Separating Within Next Year	
		Male	Female
All	0	15.0 %	18.0 %
	1	8.0	11.0
	2	7.0	9.0
	3	6.0	8.0
	4	5.0	7.0
25 30 35 40	5 & Over	5.5	6.1
		5.0	5.6
		4.0	4.4
		2.0	2.2
		45	1.5
50	1.6	1.8	
55	1.8	2.0	
60	2.1	2.3	
65	2.3	2.5	

Actuarial Valuation Data - Active Members

Valuation Year	Number	Annual Payroll (in thousands)	Average Pay	% Increase Average Pay
05	9,036	\$467,998	\$51,793	4.2 %
04	8,960	445,348	49,698	6.7
03	8,943	416,472	46,570	3.6
02	9,000	404,414	44,935	4.3
01	8,748	376,913	43,086	0.9
00	8,450	360,654	42,681	3.9
99	8,182	336,153	41,085	3.9
98	8,157	322,475	39,534	5.9
97	7,893	294,678	37,334	2.6
96	7,750	281,940	36,379	5.8

Supporting Schedules (Continued)

Schedule of Retirants and Beneficiaries Added To and Removed From Rolls (dollars in thousands)

Year End	Added to Rolls		Removed		Rolls End of Year		Average Annual Allowance	% Increase in Annual Allowances	
	No.	Annual Allowances	No.	Annual Allow.	No.	Annual Allowances			
		New	PEP (a)						
05	314	\$7,795	\$1,159	150	\$2,554	3,907	\$85,718	\$21,940	8.1 %
04	296	7,610	1,727	145	2,122	3,743	79,318	21,191	9.8
03	259	6,720	1,066	124	1,935	3,592	72,221	20,106	8.8
02	264	5,999	1,786	135	1,689	3,457	66,370	19,199	10.1
01	240	6,665	1,559	83	831	3,328	60,274	18,111	14.0
00	276	8,661	1,056	102	1,047	3,171	52,881	16,671	19.6
99	194	4,173	719	77	805	2,998	44,211	14,747	10.2
98	220	3,985	1,461	116	1,205	2,881	40,124	13,927	11.8
97	213	3,753	1,180	114	1,262	2,777	35,873	12,918	11.4
96	204	2,754	1,266	129	1,100	2,678	32,203	12,025	10.0

(a) Pension Equalization Increase

Solvency Test

Valuation Date	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Assets		
	(1)	(2)	(3)	Valuation Assets (in thousands)	(1)	(2)	(3)
	Active Member Contributions (in thousands)	Retirees and Beneficiaries (in thousands)	Active Members Employer Portion (in thousands)		%	%	%
6/30/2005	\$354,438	\$798,414	\$642,663	\$1,511,553	100	% 100	% 56 %
6/30/2004	334,535	737,684	612,577	1,417,774	100	100	56
6/30/2003	317,582	659,634	526,909	1,330,584	100	100	67
6/30/2002	305,480	605,227	479,566	1,273,731	100	100	76
6/30/2001	278,179	549,592	431,792	1,291,338	100	100	100
6/30/2000	258,011	456,380	485,480	1,219,892	100	100	100
6/30/1999	242,103	401,182	401,140	1,117,497	100	100	100
6/30/1998	220,272	359,401	393,374	984,501	100	100	100
6/30/1997	200,665	319,687	368,616	840,539	100	100	87
6/30/1996	182,320	284,459	352,768	742,076	100	100	78

Supporting Schedules (Continued)

Analysis of Financial Experience

(dollars in thousands)

	Derivation for Year Ended June 30,				
	2005	2004	2003	2002	2001
(1) UAAL at Start of Year	\$267,021	\$173,542	\$116,542	(\$31,774)	(\$20,021)
(2) Normal cost for year	59,355	55,116	52,987	51,008	27,915
(3) Employer Contributions for Year	(69,681)	(64,347)	(53,942)	(53,486)	(22,329)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	20,956	13,490	9,283	(2,641)	(1,379)
(5) Expected UAAL Before Changes	277,651	177,801	124,870	(36,893)	(15,814)
(6) Effect of Assumption Changes	--	--	--	--	--
(7) Effect of Benefit Changes	--	--	--	--	--
(8) Expected UAAL After Changes	277,651	177,801	124,870	(36,893)	(15,814)
(9) Actual UAAL	283,961	267,021	173,541	116,542	(31,774)
(10) Gain (loss) (8) - (9)	(\$6,310)	(\$89,220)	(\$48,671)	(\$153,435)	\$15,960
(11) As % of AAL at Start of Year	(0.4)%	(5.9)%	(3.5)%	(12.2)%	1.3%

UAAL means unfunded actuarial accrued liability
AAL means actuarial accrued liability

The entire cost of the pension increases created by the Pension Equalization Program is funded by a separate reserve, established from investment earnings in excess of the assumed rate on retired life reserves; no increase in the unfunded accrued liability is created.

Summary of Plan Provisions

Purpose

The City of Phoenix Employees' Retirement Plan ("COPERS"), a defined benefit pension plan, was created under and is governed by the Charter of the City of Phoenix (the "Charter") to provide retirement, survivor and disability benefits to the City of Phoenix (the "City") general employees. COPERS is a qualified plan under the Internal Revenue Code.

Administration

The Charter provides that the administration, management and operation of COPERS be vested in a nine-member Retirement Board (the "Board"). The Board has the responsibility of administering the Charter provisions and bears a fiduciary obligation to the City, the taxpayers and the municipal employees and retirees who are the Plan's beneficiaries.

Three of the Board members are elected from and by the active employee members of COPERS, and must have at least ten years of credited service. Four members are statutory, consisting of the City Manager or his delegate, the City Treasurer, the Finance Director and a Deputy City Manager or department head to be selected by the City Manager. The eighth Board member is a citizen, who is a resident of the City of Phoenix and has at least five years experience in retirement administration, but is not employed by the City nor a COPERS' retiree. The ninth board member is a COPERS' retiree and is selected by the employee Board members. A listing of the current Retirement Board is included on page 8 of this report.

Voluntary Retirement

An active member may retire with benefits if he or she ("he") meets the eligibility requirements of:

age 60 with 10 or more years of credited service,

age 62 with 5 or more years of credited service, or

an age which added to his or her ("his") years of credited service equals 80 (Rule of 80).

Final Average Compensation

Final Average Compensation ("FAC") is the average of a member's monthly pay during the 36 consecutive months of credited service producing the highest monthly average contained within the 120 consecutive months of credited service immediately preceding retirement. For most members, this is the last three years of employment. Pursuant to City management and Board action, FAC includes Deferred Compensation (DCP) fringe and travel allowance. Inclusion of travel allowance in FAC was effective July 1995 and the DCP fringe inclusion is retroactive to the inception of the program in 1986. Inclusion of the sick leave payout in the calculation of final average compensation began July 1, 1996. Beginning in fiscal year 96/97, salary adjustments for certain employees (referred to as reimbursement of contributions), are included in the calculation of final average compensation.

Credited Service

A member's unused sick leave shall be added to his credited service upon retirement. COPERS' service credit and benefit calculations must be consistent with the Charter and Board-adopted policies.

Summary of Plan Provisions (Continued)

Purchase of Public Service Credits

On January 28, 1998, the COPERS' Board, after review of legal and actuarial considerations, adopted a program permitting COPERS' members to purchase in-state and out-of-state public service credits, along with non-intervening military service credits, towards their retirement. The basic requirements for this program are contained in Board Policy number 11.25, including the members' payment of contributions and compound interest, consistent with the existing policies for buyback of forfeited service. Members must meet the vesting requirement (five years of COPERS' membership) prior to applying for any purchase of prior service credits, members must apply for any purchase of previous service credits (governmental or military) within one year of vesting, and military purchases are limited to a maximum of five years.

Pension Allowance

The normal retirement benefit is payable monthly for the lifetime of a member. The annual amount equals 2 percent of FAC times credited service up to 32.5 years, plus 1 percent of FAC times service in excess of 32.5 years to 35.5 years, plus 1/2 of 1 percent of FAC times service in excess of 35.5 years. Effective January 2, 2000, the minimum monthly retirement benefit is \$500 per month for retirees with 15 years or more of service and \$250 per month for retirees with less than 15 years.

Deferred Retirement

If a member leaves COPERS' covered employment before age 60, but after completing five or more years of credited service, he becomes eligible for a deferred pension, provided he lives to age 62 and does not withdraw his accumulated contributions.

Disability Retirement

- **Non-Duty**

A member with ten or more years of credited service, who becomes totally and permanently disabled for duty in the employ of the City from other than duty connected causes, is eligible for a non-duty disability benefit computed in the same manner as a pension allowance, based upon his service and average salary at the time of disability.

- **Duty**

A member who becomes totally and permanently disabled for duty in the employ of the City, as a result of a duty-related injury or disease, is eligible for a duty disability benefit computed in the same manner as a pension allowance, regardless of length of service. There is a 15% (of FAC) minimum benefit payable.

Upon termination of the workmen's compensation period, if any, the member shall be given service credit and the disability pension shall be recomputed to include such additional credited service.

- **Disability Assessment Committee Examinations**

The City Charter provides for a Disability Assessment Committee (DAC) consisting of five members: the Personnel Safety Administrator; the Executive Secretary to the Board; two employee members appointed by the Board; and one citizen member (resident of Maricopa County), also appointed by the Board. The DAC determines eligibility for disability benefits under the Charter. Each person alleging a condition of disability or the continuance of such condition shall be required to undergo any medical examinations required by the DAC, but not more than twice annually or after age 60.

Summary of Plan Provisions (Continued)

Survivor Benefits

Dependents of deceased members may qualify for survivor benefits if (1) the deceased member had ten or more years of credited service or (2) the member's death was the result of causes arising out of and in the course of his employment with the City, and is compensable under the Workmen's Compensation Act of the State of Arizona.

If the member had less than ten years of credited service and died as a result of causes arising out of and in the course of his employment, his credited service shall be increased to ten years.

A deceased member's spouse will be paid a benefit equivalent to Option A Standard, 100 percent Joint and Survivor, calculated as if the member had retired the day preceding the date of his death, notwithstanding that he might not have attained age 60. Benefits cease upon death of the survivor.

The voters of the City of Phoenix approved a change to the Charter on September 7, 1999 to increase surviving child pension benefits. Effective January 1, 2000, a deceased member's unmarried child or children under age 18 shall receive a benefit of \$200 per month, regardless of the number of children. The benefit shall cease upon adoption, marriage, death, or upon attainment of age 18.

Post-Retirement Distribution (13th Check)

Each year, based upon a predetermined formula and investment return, a distribution amount (known as the "13th Check") for each eligible retiree and beneficiary may be payable in the form of a supplemental one-time payment, provided an adequate balance in the Pension Equalization Reserve exists. This payment must be made prior to the seventh month after the end of the fiscal year. A minimum 1% of annual pension, for the 13th Check, was established by an amendment to the City Charter, adopted by City of Phoenix voters October 3, 1995.

Pension Equalization Program

A provision for permanent pension adjustments, based on Plan performance was established, effective January 1, 1992. On the basis of COPERS' five-year average rate of return, reported by the Plan's consultant, earnings in excess of 8 percent will be transferred to a Pension Equalization Reserve. The Plan's actuary will determine what percentage pension increase should be applied to eligible retirees who, on January 1, have received 36 pension payments. This permanent increase to the gross pension, under said formula, shall not exceed the Consumer Price Index as calculated by the U.S. Department of Labor, Bureau of Labor Statistics ("Phoenix-Mesa, AZ" for all Urban Consumers).

Optional Forms of Payment

When a COPERS' member makes application for retirement, his benefits are calculated in four optional forms, and he selects the one that best fits his retirement needs. The election of an optional form of payment is made prior to the receipt of the first benefit check. Otherwise, such election is irrevocable. Married members must select Option A Standard unless the spouse signs a consent form authorizing a different option. The four options are as follows:

- **Straight Life Option**

This is the highest payment available to a retiree; however, upon the death of the retiree, monthly payments cease. If the retiree had not received an amount equal to at least his accumulated contributions (inclusive of regular interest to date of retirement) before his death, a refund of the balance of his account is made to his designated beneficiary. The City of Phoenix Charter was amended on September 7, 1999, to establish a minimum pension benefit of \$500 for retirees with 15 years or more of service and \$250 for retirees with less than 15 years.

Summary of Plan Provisions (Continued)

Optional Forms of Payment (Continued)

- **Option A**

This is a continuing survivor option that allows the retiree to receive less than the Straight Life Option, with the provision that the designated survivor will receive 100 percent of the retiree's reduced benefit for the remainder of his lifetime.

Standard: Under this option, should the designated survivor die prior to the retiree, the pension paid the retiree will remain the same.

Pop-Up: This form of Option A is available to all retirees and provides that, should the designated survivor die before the retiree, the reduced pension paid the retiree shall be increased to equal the Straight Life Option for the remainder of the retiree's life. The selection of this form of Option A generally provides an amount less than that available under the Option A Standard.

- **Option B**

This option is also a continuing survivor option similar to Option A above, except that the percentage is changed. Under Option B, the retiree would receive less than the Straight Life Option (more than under Option A) with the designated survivor receiving 50 percent of the retiree's benefit for the remainder of his lifetime.

Standard: Under this option, should the designated survivor die prior to the retiree, the pension paid the retiree will remain the same.

Pop-Up: This form of Option B is available to all retirees and provides that, should the designated survivor die before the retiree, the reduced pension paid the retiree shall be increased to equal the Straight Life Option for the remainder of the retiree's life. The selection of this option generally provides an amount less than that available under the Option B Standard.

- **Option C**

The final of the four options is referred to as a "ten-year certain and life" form. As with the other options, the benefit is payable for the lifetime of the retiree but with the added provision that if the retiree lives less than 10 years after retirement, COPERS will make additional monthly payments to the designated survivor, not to exceed 120 monthly payments (between the retiree and the survivor). Monthly payments cease upon the primary retiree's death if he lives more than 10 years.

Member Contributions

As a condition of employment, each member is required to contribute 5 percent of his covered compensation. The City, however, established a qualified employee "pick-up" plan [under Internal Revenue Code Section 414(h)] effective January 1, 1985. Under this plan, the City pays the required 5 percent on behalf of the members on a pre-tax basis. If a member leaves covered City employment for reasons other than retirement, his accumulated contributions may be refunded to him. Accumulated contributions also include regular interest that is computed at the end of each fiscal year on the mean balance in the member's account during the year. The rate of interest is established each year by the Board (currently 5 percent). If the member dies prior to accruing ten or more years of credited service and not as a result of causes arising out of and in the course of his employment, his accumulated contributions are refunded to his designated beneficiary.

Summary of Plan Provisions (Continued)

Employer Contributions

The Charter requires the City to contribute an amount that is determined annually by COPERS' retained actuaries. Contributions are based upon level percentage of projected payroll funding principles, so that the contribution rates do not fluctuate significantly over time. This contribution is over and above the member contributions made by the City. A chart, showing the City of Phoenix recommended and actual contributions, is included in the Actuarial Section of this report.

It is noted this summary of plan provisions has been written to furnish the members of COPERS and other readers with general information about the system. Since it is a summary, all of the requirements of the Plan are not covered. Details of all benefits can be obtained from Chapter XXIV of the City Charter, which is available in the COPERS' Office. **Although every effort has been made to accurately summarize the benefits under the Plan, the provisions of Chapter XXIV shall prevail in the unlikely event of discrepancies.**

Statistical Section

The **Statistical Section** provides financial and demographic data pertaining to COPERS.

Schedule of Revenues by Source

Last Ten Fiscal Years

(dollars in thousands)

Fiscal Year	Member Contributions	Employer Contributions		Investment Income	Other Additions	Total
		Dollars	% of Covered Payroll			
2004-2005	\$26,307	\$43,375	9.97 %	\$120,237	\$963	\$190,882
2003-2004	24,783	39,564	9.17	198,641	373	263,361
2002-2003	26,122	27,820	6.86	36,909	500	91,351
2001-2002	25,191	28,295	7.24	(88,483)	1,053	(33,944)
2000-2001	22,942	22,329	6.13	(22,405)	359	23,225
1999-2000	19,813	26,802	7.67	107,841	124	154,580
1998-1999	19,603	29,186	9.14	94,896	535	144,220
1997-1998	16,402	30,124	9.86	179,993	394	226,913
1996-1997	15,393	23,208	8.30	140,517	279	179,397
1995-1996	14,661	21,218	8.16	126,590	162	162,631

Schedule of Expenses by Type

Last Ten Fiscal Years

(in thousands)

Fiscal Year	Benefit Payments	Administrative Expenses (1)	Refunds	Other Deductions	Total
2004-2005	\$83,657	--	\$2,508	\$888	\$87,053
2003-2004	76,949	340	2,272	600	80,161
2002-2003	70,234	155	2,457	365	73,211
2001-2002	64,289	75	3,484	657	68,505
2000-2001	57,806	--	3,364	211	61,381
1999-2000	49,409	--	2,941	351	52,701
1998-1999	43,054	--	3,263	297	46,614
1997-1998	38,987	--	2,238	167	41,392
1996-1997	34,571	--	2,103	39	36,713
1995-1996	31,401	--	2,291	3	33,695

- (1) Administrative expenses of COPERS are paid by the City of Phoenix and are not recognized in COPERS' financial statements. However, the \$340,000 for fiscal year 2003-2004 represents computer services for COPERS' new computer system, which was authorized by the Retirement Board and was not included in the City's budget. The \$155,000 for fiscal year 2002-2003 represents computer services and due diligence for COPERS new computer system, which was authorized by the Retirement Board and was not included in the City's budget. The \$75,000 for fiscal year 2001-2002 represents expenses incurred for an organizational study of COPERS office, which was authorized by the Retirement Board and was not included in the City's budget.

Schedule of Benefit Expenses by Type

Last Ten Fiscal Years

Retirement and Survivor Benefits (Annualized based on June payroll) (in thousands)

Fiscal Year	Age & Service	Death In Service	Disability Benefits Retirees		Survivors	Total Benefits*
	Benefits Retirees		Duty	Non-Duty		
2004-2005	\$73,703	\$2,366	\$597	\$1,958	\$7,094	\$85,718
2003-2004	68,192	2,281	577	1,864	6,404	79,318
2002-2003	61,925	1,877	549	1,614	6,256	72,221
2001-2002	56,822	2,015	466	1,656	5,411	66,370
2000-2001	51,373	1,894	465	1,501	5,041	60,274
1999-2000	45,002	1,790	440	1,293	4,356	52,881
1998-1999	37,716	1,473	397	1,163	3,462	44,211
1997-1998	34,125	1,396	373	1,050	3,179	40,123
1996-1997	30,356	1,249	332	964	2,972	35,873
1995-1996	27,142	1,168	339	956	2,598	32,203

*Actual benefit payments made as of June 30, 2005 total \$83,656,749. Amount shown is an annualized amount based on the June 2005 payroll.

Refunds (in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2004-2005	\$228	\$2,280	\$2,508
2003-2004	216	2,056	2,272
2002-2003	391	2,066	2,457
2001-2002	464	3,020	3,484
2000-2001	151	3,213	3,364
1999-2000	20	2,921	2,941
1998-1999	30	3,233	3,263
1997-1998	85	2,153	2,238
1996-1997	153	1,950	2,103
1995-1996	266	2,025	2,291

* Lump sum payment to beneficiaries upon member's death.

Schedule of Retired Members by Type of Benefit June 30, 2005

Monthly Benefit	Number of Retirees	Type of Retirement						
		Deferred	Normal or Voluntary	Duty Disability	Non-Duty Disability	Survivor Payment	Death Benefit	Alternate Payee
Deferred	623	623						
\$ 1 - \$ 300	168	--	91	7	--	33	27	10
301 - 400	98	--	62	6	--	24	4	2
401 - 500	134	--	84	7	5	26	5	7
501 - 600	197	--	94	3	12	75	9	4
601 - 700	171	--	94	6	16	39	11	5
701 - 800	168	--	99	4	19	36	5	5
801 - 900	192	--	107	4	17	47	12	5
901 - 1,000	175	--	114	5	12	28	10	6
1,001 - 1,100	120	--	83	1	8	18	6	4
1,101 - 1,200	169	--	120	1	10	26	9	3
1,201 - 1,300	155	--	119	1	9	14	10	2
1,301 - 1,400	136	--	91	4	4	27	8	2
1,401 - 1,500	124	--	94	4	6	11	7	2
1,501 - 2,000	605	--	514	6	15	50	16	4
2,001 - 2,500	455	--	420	--	5	22	8	--
2,501 - 3,000	345	--	316	--	2	18	9	--
3,001 - 4,000	341	--	330	--	1	7	3	--
4,001 - 5,000	130	--	122	--	2	5	1	--
Over 5,001	85	--	79	--	--	4	2	--
Totals	4,591	623	3,033	59	143	510	162	61

Monthly Benefit	Total	Option Selected						
		Life	Option A		Option B		Option C	Child Benefit
			Standard	Pop-Up	Standard	Pop-Up		
\$ 1 - 300	168	91	27	14	3	2	11	20
301 - 400	98	61	19	7	--	3	8	--
401 - 500	134	70	26	19	2	--	17	--
501 - 600	197	127	32	19	5	5	9	--
601 - 700	171	103	27	14	3	9	15	--
701 - 800	168	90	32	25	9	4	8	--
801 - 900	192	119	36	17	7	7	6	--
901 - 1,000	175	102	34	22	5	5	7	--
1,001 - 1,100	120	60	25	17	3	10	5	--
1,101 - 1,200	169	90	30	16	9	14	10	--
1,201 - 1,300	155	86	24	19	9	8	9	--
1,301 - 1,400	136	68	29	15	4	12	8	--
1,401 - 1,500	124	54	31	21	7	8	3	--
1,501 - 2,000	605	233	150	85	35	61	41	--
2,001 - 2,500	455	164	131	71	26	47	16	--
2,501 - 3,000	345	149	73	45	18	44	16	--
3,001 - 4,000	341	129	92	46	21	39	14	--
4,001 - 5,000	130	50	34	19	10	12	5	--
Over 5,001	85	34	31	9	2	4	5	--
	3,968	1,880	883	500	178	294	213	20
Deferred	623							
Total	4,591							

Schedule of Average Benefit Payment Amounts by Year of Retirement

Last Five Fiscal Years

Retirement Effective Dates For Fiscal Years Ending June 30:	Years of Credited Service (1)					
	5-9	10-14	15-19	20-24	25-29	30+
2005						
Average Monthly Benefit	\$524.15	\$905.56	\$1,582.98	\$2,154.09	\$3,027.18	\$4,141.86
Mean Monthly Final Average Compensation	\$4,004.45	\$4,137.87	\$4,842.52	\$5,246.70	\$5,828.46	\$7,021.72
Number of Active Retirees	23	27	26	47	80	48
2004						
Average Monthly Benefit	\$390.71	\$798.05	\$1,239.61	\$2,189.62	\$2,845.60	\$3,422.11
Mean Monthly Final Average Compensation	\$2,879.58	\$3,589.91	\$4,246.54	\$5,327.76	\$5,436.20	\$5,771.38
Number of Active Retirees	12	17	22	43	58	60
2003						
Average Monthly Benefit	\$401.73	\$760.17	\$1,283.31	\$1,926.88	\$2,883.91	\$3,495.89
Mean Monthly Final Average Compensation	\$3,105.12	\$3,403.87	\$4,228.97	\$4,658.82	\$5,443.17	\$6,164.61
Number of Active Retirees	15	34	37	36	62	52
2002						
Average Monthly Benefit	\$415.84	\$721.98	\$1,316.11	\$1,900.86	\$2,965.31	\$3,850.57
Mean Monthly Final Average Compensation	\$3,207.09	\$3,308.97	\$4,342.85	\$4,674.37	\$5,604.16	\$6,443.17
Number of Active Retirees	14	30	30	29	53	45
2001						
Average Monthly Benefit	\$570.46	\$879.29	\$1,304.04	\$2,092.24	\$2,803.73	\$3,112.97
Mean Monthly Final Average Compensation	\$3,119.69	\$3,889.29	\$4,237.24	\$5,003.11	\$5,346.02	\$5,265.65
Number of Active Retirees	16	30	19	31	72	71
From July 1, 2001 to June 30, 2005						
Average Monthly Benefit	\$460.58	\$813.01	\$1,345.21	\$2,052.74	\$2,905.15	\$3,604.68
Mean Monthly Final Average Compensation	\$3,263.19	\$3,665.98	\$4,379.62	\$4,982.15	\$5,531.60	\$6,133.31
Number of Active Retirees	80	138	134	186	325	276

(1) Does not include sick leave service