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

SIXTIETH ANNUAL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2006 and 2005

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

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Introductory Section

The **Introductory Section** contains the Certificate of Achievement for Excellence in Financial Reporting, the letter of transmittal, the Retirement Board structure, the administrative organization, and the Chairperson's Report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Phoenix

Employees' Retirement Plan

Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

City of Phoenix

RETIREMENT SYSTEMS

December 1, 2006

Chairperson and Members of the Retirement Board
City of Phoenix Employees' Retirement Plan:

The Comprehensive Annual Financial Report ("CAFR") of the City of Phoenix Employees' Retirement Plan ("COPERS" or the "Plan") as of and for the years ended June 30, 2006 and 2005 is hereby submitted. This report consists of five sections:

- the **Introductory Section,** which contains the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, this letter of transmittal, the Retirement Board structure, the administrative organization, and the Chairperson's Report;
- the **Financial Section,** which contains the opinion of the independent auditors based on their audit as required by the Charter of the City of Phoenix, Management's Discussion and Analysis, the audited financial statements, notes to the financial statements, and required supplemental information.
- the **Investment Section,** which contains the Plan's report on investment activity, its investment policies and a schedule of investment results;
- the **Actuarial Section,** which contains the actuary's certification letter, supporting schedules, and a summary of plan provisions;
- the **Statistical Section,** which provides financial and demographic data pertaining to COPERS.

The Plan is governed by the City of Phoenix Employees' Retirement Law of 1953 (Chapter XXIV of the City of Phoenix Charter). This law has been revised over the years, with the latest amendment approved by the City voters September 9, 2003.

COPERS was created to provide retirement, survivor and disability benefits to the City of Phoenix general employees. COPERS is a qualified retirement plan under the Internal Revenue Code. The COPERS Board is trustee of the Plan. Elections are held every three years to elect three Retirement Board members. The last election was held in December 2005. The three elected Board members with terms of January 1, 2006 to December 31, 2008 are: Frank Barriga, Elizabeth Bissa and Cathleen Gleason. Lera Riley Ex-Officio Board Member retired and was replaced by Janet Smith, Acting Personnel Director. Ex-Officio Board Member Alton Washington was replaced by Rick Naimark, Deputy City Manager. Retiree Board Member Gary Gross was replaced by Jim Flanagan. Ex-Officio Board Member Barbara (Alvarez) Lang, Citizen Board Member Linda Reidenbach and Ex-Officio Board Member Bob Wingenroth continue to serve on the Board.

The Mayor and City Council are covered by the Elected Officials Retirement Plan of Arizona ("EORPA"). Sworn police and fire employees are covered by the Arizona Public Safety Personnel Retirement System ("APSPRS"). The administration of the system and responsibility for making the APSPRS provisions effective for each employer are vested in Local Boards. For the City of Phoenix, this responsibility rests with the City of Phoenix Fire Pension Board and the City of Phoenix Police Pension Board. APSPRS benefit payments and investments are handled by a centralized State Board known as "Fund Manager." The EORPA and the APSPRS were created by Arizona State Statutes. These retirement plans publish their own separate financial reports.

101 South Central Avenue, Suite 600 • Phoenix, Arizona 85004 • 602-534-4400 • FAX: 602-495-2008 • TTY: 602-534-5500

FINANCIAL INFORMATION

Responsibility for accuracy of the data, completeness, and fairness of the presentation of the CAFR, including all disclosures, rests with the Retirement Board. The Plan's record-keeping, financial statement and investment control responsibilities have been performed by the Accounts and Treasury Divisions of the City's Finance Department. To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the Plan net assets and changes in Plan net assets. All disclosures necessary to enable the reader to gain an understanding of the Plan's financial activities have been included. The Management's Discussion and Analysis, which begins on page 17, provides analysis of the financial activities for the fiscal years ended June 30, 2006 and 2005.

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to COPERS for its CAFR for the fiscal year ended June 30, 2005.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents meet or exceed program standards. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid only for one year. COPERS has received a Certificate of Achievement for the last twenty-one years. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to the GFOA for consideration again this year.

INTERNAL CONTROLS

Internal controls are procedures designed to protect assets from loss, theft, or misuse; to check the accuracy and reliability of accounting data; to promote operational efficiency; and to encourage compliance with managerial policies. The City of Phoenix Employees' Retirement Board (the "Board") and the City of Phoenix (the "City") management are responsible for establishing a system of internal controls designed to provide reasonable assurance these objectives are met. To help assure the adequacy of the City's (including COPERS') system of internal controls, an Audit Committee consisting of three members of the City Council, the City Manager and other top City officials provide direction to the City Auditor's Department in carrying out an extensive internal audit program, as well as providing liaison with the City's (including COPERS') independent auditors. The City also maintains budgetary controls designed to ensure compliance with legal provisions of the annual budget adopted by the City Council.

This report has been prepared in conformance with the principles of governmental accounting and reporting as set forth by the Governmental Accounting Standards Board. Transactions of COPERS are reported on the accrual basis of accounting. Revenues are recorded when earned, without regard to the date of collection, and expenses are recorded when incurred. The City's internal accounting and audit controls are designed to provide for the accuracy, reliability and integrity of all financial records.

MAJOR INITIATIVES INVOLVING PLAN ADMINISTRATION

The Retirement Law (City Charter) was amended by the City voters through an election held September 9, 2003, to provide for the following: (1) to allow the Disability Retirement Date for City employees retiring with a Disability Retirement to be set as the date the Disability Retirement Application is approved by the Disability Assessment Committee or the Retirement Board; (2) to allow City employees with prior service with the City of Phoenix to restore a portion of any credited service that was forfeited upon repayment, with interest, of the funds withdrawn from the Plan for the amount of credited service sought to be restored (prior to this Charter change employees were not permitted to restore a portion of their forfeited service); (3) repeal all references to a mandatory retirement age for City employees.

ADMINISTRATIVE BUDGET

The City provides an annual budgetary allocation to pay for the general administration of COPERS. The cost paid by the City for COPERS' administration was $1,453,527. Most investment-related expenses, such as investment custody costs, investment manager fees, and consultant fees are paid directly from the Plan's assets. These costs amounted to $4,141,212 for the fiscal year ended June 30, 2006. Administrative and investment costs combined represented 0.29% of total Plan assets.

FUNDING STATUS AND PROGRESS

Fund balances are derived from net assets and are accumulated to meet current and future obligations to retirees and beneficiaries. COPERS' funding objective is to meet these obligations through contributions that remain approximately level as a percent of member payroll. The actuarial valuation as of June 30, 2006 reflects an unfunded actuarial accrued liability of $373,604,613. This amount is primarily the difference between the funding value of assets and the actuarially calculated pension liability. The unfunded actuarial accrued liability will be amortized as a level percent of payroll over future years. The amortization period as of June 30, 2006 is 20 years. A smoothed market value of assets was used for the June 30, 2006 evaluation. This method spreads the difference between the actual and expected investment return over four years. A detailed discussion of the funding of COPERS is provided in the Actuarial Section of this report.

The annual actuarial valuation as of June 30, 2006 includes changes in assumptions which were adopted by the Retirement Board on November 17, 2005 following the Experience Study conducted by COPERS' actuary for the 5-year period ending June 30, 2004. The following is a summary of the changes:

1). Higher rates of withdrawal of active members prior to retirement eligibility, single table used for males and females.

2). Higher rates of normal retirement for males, single table used for males and females.

3). Slightly lower rates of disability under age 40.

4). Mortality in accordance with the RP 2000 Healthy Annuitants Mortality Table.

The net effect of these changes was an increase in the actuarial accrued liability of $49,051,162 and a net increase in the City's computed contribution rate of 0.18% of payroll.

INVESTMENT ACTIVITIES

As of June 30, 2006, COPERS' net asset value of $1.670 billion (at market value) continues to provide a solid financial foundation for the payment of present and future benefits. During last fiscal year, the COPERS' portfolio returned 9.0% and ranked in the 68th percentile compared to funds within the Plan consultant's total universe of all plans. For the last five years, the Plan had an annualized return of 5.8%, ranking in the 68th percentile compared to funds within the Plan consultant's total universe of all plans.

For fiscal year 2006, the combined fixed income investments returned (0.9)% versus the Lehman Brothers Aggregate Bond Index return of (0.8)%. The domestic equity securities returned 11.2% versus the Standard & Poor's 500 Equity Index of 8.6%. The international equity investments returned 26.9% versus 27.1% for the Morgan Stanley Capital International Europe, Australia and the Far East Index.

The Retirement Board voted in 2006 to change COPERS' asset allocation targets to 25% large cap domestic equities, 13% small/mid cap domestic equities, 23% international equities, 20% domestic fixed income, 10% real estate and 9% real return. The procurement and transition to the new asset allocation policy will occur over the next several quarters. The Plan's diversification posture as of and subsequent to June 30, 2006 represents the Board's prudent judgment in its pursuit of maximum returns at acceptable levels of risk. COPERS' portfolio diversification as of June 30, 2006, is 53% domestic equities, 32% domestic fixed income, 10% international equities, and 5% cash equivalents.

The Board conducted a search and awarded the international investment manager contract to Fidelity Management & Trust and Grantham, Mayo, Van Otterloo & Co. LLS ("GMO") to replace Bank of Ireland effective July 2005. The transition, serviced by State Street Global Markets, from Bank of Ireland to Fidelity Management Trust Company and GMO was completed on July 26, 2005.

PROFESSIONAL SERVICES

The Retirement Board retains professional consultants to prudently discharge its fiduciary responsibility for the proper administration of the Plan. Rodwan Consulting Company provides actuarial services and the corresponding certification. State Street Bank has served as the master custodian of COPERS since May 1, 2000. Brokerage trade execution monitoring is compiled by Elkins/McSherry, LLC and reviewed by investment consultant R.V. Kuhns & Associates. COPERS' financial statements are audited by Deloitte & Touche LLP, and a review of operations is performed by the City Auditor's Department. During fiscal year 2006, investment performance analysis, asset allocation review, and consulting was provided by RV Kuhns & Associates. COPERS' investment managers and styles as of June 30, 2006 were:

Equity Managers:

Cadence Capital Management	Large Cap Growth
Eagle Asset Management	Small Cap Growth
Fidelity Management & Trust	International
GMO	International
MacKay-Shields Financial Corporation	Large Cap Value
Northern Trust Investments	S & P Index
The Boston Company	Mid Cap Value

Fixed Income Managers:

Northern Trust Investments	Lehman Br. Govt/Corp. Index
Wells Capital Management	Core Fixed Income
Western Asset Management Company	Core Fixed Income

SUBSEQUENT EVENTS AND ACKNOWLEDGMENTS

The Retirement Board voted at the June 29, 2006 meeting to begin contract negotiations with JP Morgan Investment Management and Morgan Stanley Real Estate Advisors to serve as the Plan's core real estate investment managers. The Retirement Board voted at the September 6, 2006 meeting to contract with Dimensional as the large cap value manager.

The preparation of this report reflects the combined efforts of COPERS staff, the Finance Department Accounts and Treasury Divisions, and others who have worked diligently in the successful operation of COPERS. This report is intended to provide information as a means for making management decisions, complying with statutory provisions, and demonstrating responsible stewardship for the assets of the Plan. The direction and support extended by the Retirement Board and committee members is greatly appreciated.

Respectfully Submitted,

Donna Buelow
Retirement Program Administrator

Retirement Board

Elected Board Members

CATHLEEN GLEASON
Chairperson Retirement Board
Chairperson Charter Amendments
Policies & Procedures Committee

FRANK BARRIGA
Vice Chairperson Retirement Board

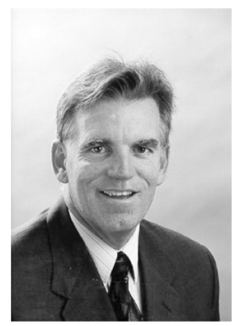
ELIZABETH BISSA
Board Member

Ex-Officio Board Members

BARBARA LANG
Treasurer
City of Phoenix

RICK NAIMARK
Deputy City Manager
City of Phoenix
(City Manager Frank
Fairbank's Delegate)

JANET SMITH
Acting Personnel Director
City of Phoenix

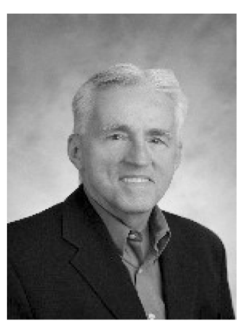


BOB WINGENROTH
Finance Director
City of Phoenix
Chairperson Legal
Review Committee

Citizen Board Member

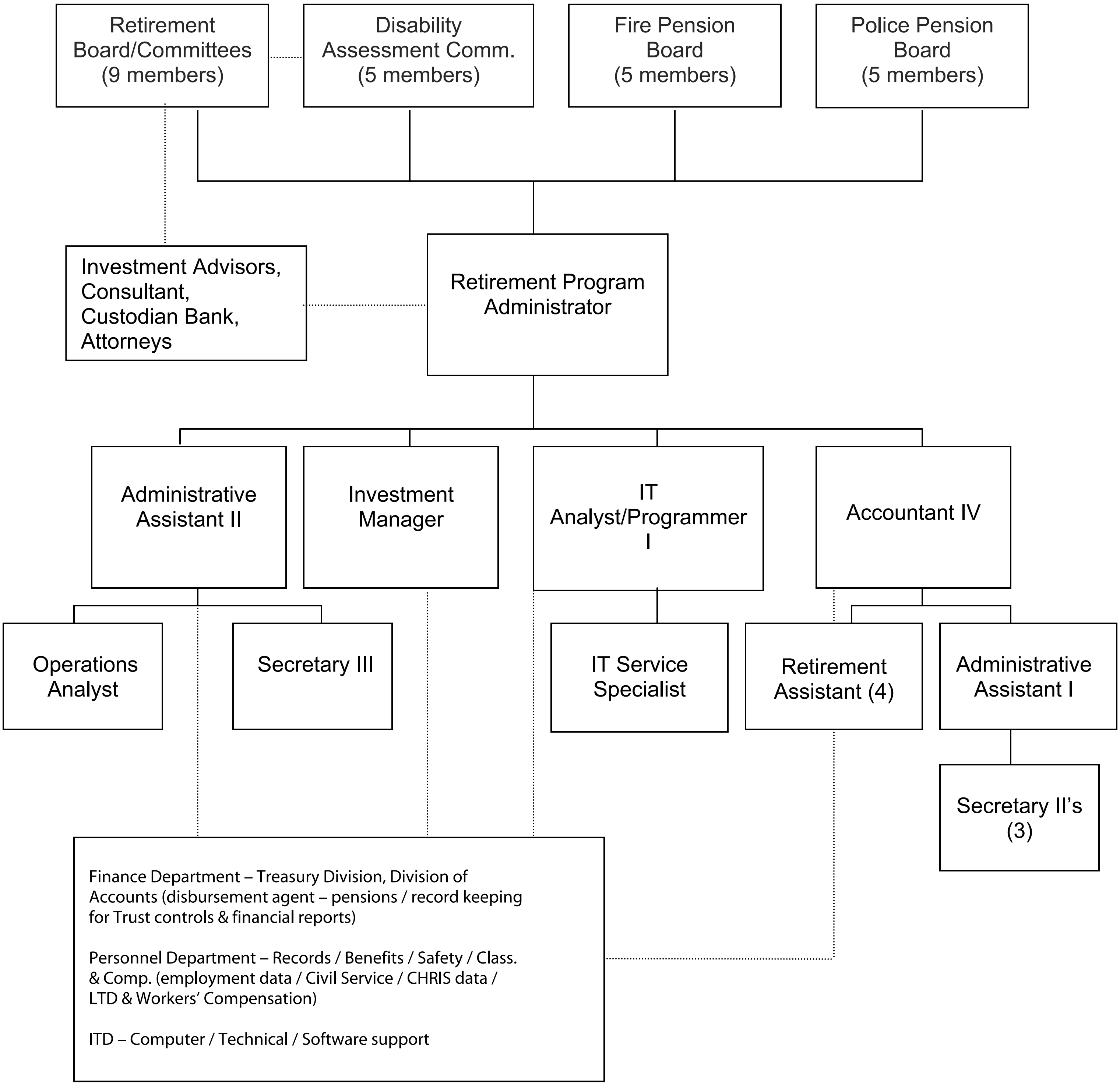
LINDA REIDENBACH
Senior Benefits Analyst
Salt River Project (SRP)
Chairperson Investment Committee

Retiree Board Member



JIM FLANAGAN
Retired City Auditor
City of Phoenix

Administrative Organization



ADMINISTRATIVE STAFF (current)

Donna Buelow
Retirement Program Administrator

Melinda Cady
Secretary II

Amber Cole
Administrative Assistant II

Lollita Cordova
Administrative Assistant I

Lisa Daley
Secretary II

Tim Jackson
Retirement Assistant

Edna Marinelarena
Secretary II

Anna Martinez
Operations Analyst

Gayle Richmond
Retirement Assistant

Bruce Smith
IT Service Specialist

Michael Teeselink
Retirement Assistant

Jackie Temple
Accountant IV

Paula Whisel
Secretary III

Vacant
Investment Manager

Vacant
IT Analyst/Programmer I

Vacant
Retirement Assistant

ACCOUNTING

Finance Department
Bob Wingenroth, Finance Director

TREASURER

Finance Department
Barbara Lang, City Treasurer

LEGAL

Law Department
Gary Verburg, City Attorney

RETIREMENT BOARD COMMITTEES

Investment Committee
Linda Reidenbach, Chairperson
Frank Barriga
Jim Flanagan
Barbara Lang
Bob Wingenroth

Charter Amendments/Policies & Procedures
Cathleen Gleason, Chairperson
Elizabeth Bissa
Jim Flanagan
Barbara Lang
Janet Smith

Legal Review Committee
Bob Wingenroth, Chairperson
Frank Barriga
Elizabeth Bissa
Rick Naimark
Linda Reidenbach

Disability Assessment Committee
Michael C. Jimenez, Chairperson
Peggy Brown
Donna Buelow
Robert Jones, M.D.
Cindy Prejs

CONSULTING SERVICES

Actuary
Rodwan Consulting Company
Royal Oak, MI

Independent Auditor
Deloitte & Touche LLP
Phoenix, AZ
Independent Auditors Under Contract with the City Auditor

Medical Advisors (per case basis)
Several physicians and clinics used for evaluation of disability applicants on a "per case" basis

Master Custodian
State Street Bank
Alameda, CA

Brokerage Transaction Measurement Service
Elkins/McSherry, LLC
New York, NY

Investment Services
Refer to the Investment Section, page 45, 49 and 51

Legal Services
Kutak Rock LLP
Scottsdale, AZ

Yoder Law Offices, P.C.
Phoenix, AZ

City of Phoenix
RETIREMENT SYSTEMS

December 1, 2006

To COPERS' Members and Retirees:

On behalf of the Retirement Board, it is my pleasure to present the City of Phoenix Employees' Retirement System ("COPERS") Comprehensive Annual Financial Report ("CAFR") for the fiscal years ended June 30, 2006 and 2005. This annual report contains information regarding the COPERS' administration, financial statements, investments, actuarial and statistical data.

This CAFR includes changes implemented through the Governmental Accounting Standards Board ("GASB") Statement No.44 *"Economic Condition Reporting: The Statistical Section."* The changes provide additional explanations regarding the information included in the schedules and the source of the data.

The Board's investment consultant, R.V. Kuhns & Associates, provides performance measurement and assists the Board with analysis of investment issues. R.V. Kuhns & Associates reports the COPERS' total fund performance for the year ended June 30, 2006 was 9.0%. The annualized return for the past three and five years was 11.1% and 5.8%, respectively. During the fiscal year ended June 30, 2006, R.V. Kuhns & Associates, prepared and presented an asset allocation study and educational sessions on various asset classes. In June 2006, the Board adopted a revised target allocation to diversify plan assets and increase long-term investment performance. Based on a recommendation from R.V. Kuhns & Associates, the implementation process including competitive procurement processes and asset transition is anticipated to be undertaken and completed over the next several quarters. When completed the plan's allocation will be: 25% large cap domestic equities, 13% small/mid cap domestic equities, 23% international equities, 20% domestic fixed income, 10% real estate and 9% real return.

The Board's actuarial consultant, Rodwan Consulting Company, conducts annual actuarial valuations and periodic experience studies. During the fiscal year ended June 30, 2006, the Board adopted actuarial assumption changes recommended by Rodwan Consulting Company based on an experience study completed for the five years ended June 30, 2004. The actuarial assumption changes were implemented for the Actuarial Valuation as of June 30, 2006. Rodwan Consulting Company reports the Plan has an 81.3% funded ratio as of June 30, 2006, slightly decreased from the funded ratio as of June 30, 2005 of 84.2% due to slightly less favorable experience than expected and the implementation of the assumption changes. The plan sponsor, the City of Phoenix, remains committed to fund the employer's actuarial computed contribution amount.

The COPERS staff continues to provide a high level of service to plan members and retirees. Staff continues to provide counseling and education opportunities independently and though coordination with the City's Personnel Department. During the fiscal year, staff enhanced these efforts through the development and presentation of information at new employee orientation programs and the inclusion of social issues for consideration as employees transition to retirement. In addition to the distribution of annual member statements, this year staff also prepared and distributed a summary of the CAFR report through a Popular Annual Financial Report ("PAFR") for the fiscal years ended June 30, 2005 and 2004. The PAFR was well received and was recognized by the Government Finance Officers Association.

Your COPERS Board continues to work to serve your interests. Please contact the Retirement Office with any questions or comments.

Sincerely,

Cathleen Gleason

Cathleen Gleason
Chairperson, Retirement Board

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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.

Deloitte.

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Fax: +1 602 234 5186
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INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and
Members of the City Council
City of Phoenix Employees
Retirement Plan Retirement Board:

We have audited the accompanying basic financial statements of the City of Phoenix Employees' Retirement System (the "Plan") as of and for the year ended June 30, 2006 and 2005, as listed in the foregoing table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2006 and 2005, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements of the Plan, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The introductory section, the additional supplementary information in the financial section, the investment section, the actuarial section, and the statistical section, listed in the aforementioned table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Plan's management. The additional supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, the investment section, the actuarial section, and the statistical section have not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on them.

Deloitte & Touche LLP

December 1, 2006

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, 2006 and 2005. 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, 2006, $1,670,553 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 7.8% from June 30, 2005. 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, 2005 were $1,549,572 compared to $1,445,743 as of June 30, 2004. The increase of 7.2% during 2005 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, 2006 were $215,957 compared to $190,882 for fiscal year ended June 30, 2005 and $263,361 for fiscal year ended June 30, 2004. The increase for the current year was attributable primarily to increases in investment income. The amount as of June 30, 2006, includes employer and employee contributions of $80,953 and net investment income of $133,934. Fiscal year ended June 30, 2005 and June 30, 2004, employer and employee contributions were $69,682 and $64,347, respectively. The net investment income was $120,237 and $198,641, respectively.

- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 9.1% from the fiscal year ended June 30, 2005. This compares to an 8.6% increase in deductions between June 30, 2005 and June 30, 2004. Deductions for fiscal year ended June 30, 2006 were $94,976 compared to $87,053 for fiscal year ended June 30, 2005 and $80,161 for fiscal year ended June 30, 2004. The increases in deductions as of June 30, 2006 and June 30, 2005 are attributable to increased benefits paid during the year.

- The recent Actuarial Valuation prepared as of June 30, 2006 reports the funded ratio to be 81.3%. The funded ratio for fiscal years June 30, 2005 and June 30, 2004 is 84.2% and 84.2%, respectively. A smoothed market value of assets was used for the June 30, 2006, June 30, 2005 and June 30, 2004 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:

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

<u>Statements of Plan Net Assets:</u>

These statements identify 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.

<u>Statements of Changes in Plan Net Assets:</u>

The Statements of Changes in Plan Net Assets differ 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 statements provide the net increases or decreases realized during the years.

<u>Notes to the Financial Statements:</u>

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.

<u>Required Supplementary Information (RSI):</u>

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.

<u>Additional Supplementary Information:</u>

The Additional Supplementary Information includes 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. The Schedules of Investment Expenses 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, 2006 were $1,670,553. This amount represents an increase of 7.8% from Plan Net Assets of $1,549,572 as of June 30, 2005. The Plan Net Assets as of June 30, 2004 were $1,445,743. 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, 2006, 2005 and 2004 was 9.0%, 8.6% and 16.0%, respectively. The increase in investment performance for the current fiscal year was attributable to domestic equity performance of 11.2% and (0.9)% for bonds. The return for domestic equities and bonds as of June 30, 2005 was 9.7% and 6.2%, respectively. The return for domestic equities and bonds as of June 30, 2004 was 24.9% and 0.1%, respectively.

Table 1: COPERS' Plan Net Assets for June 30, 2006 and 2005 (in thousands)

	2006	2005	Change	% Change
Cash & Cash Equivalents	$ 82,227	$ 62,975	$ 19,252	30.6%
Total Receivables	47,422	64,188	(16,766)	-26.1%
Total Investments	1,819,046	1,662,429	156,617	9.4%
Total Assets	1,948,695	1,789,592	159,103	8.9%
Total Liabilities	278,142	240,020	38,122	15.9%
COPERS' Net Assets	$ 1,670,553	$ 1,549,572	$ 120,981	7.8%

Table 2: 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' Net Assets	$ 1,549,572	$ 1,445,743	$ 103,829	7.2%

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 in Note 3 to the Financial Statement.

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, 2006 was $133,934. This compares to net investment income for June 30, 2005 and June 30, 2004 of $120,237 and $198,641, respectively. Deductions increased by 9.1% over the prior fiscal year, primarily as a result of increases in pension payments. This compares to an 8.6% increase in deductions from June 30, 2004 to June 30, 2005. Benefit payments for the fiscal years ending June 30, 2006, 2005 and 2004 were $91,911, $83,657 and $76,949, 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, 2006, 2005 and 2004 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, 2006 and June 30, 2005 (in thousands)

	2006	2005	Change	% Change
Additions				
Employer Contributions	$ 52,974	$ 43,375	$ 9,599	22.1 %
Member Contributions	27,979	26,307	1,672	6.4 %
Inter-System Transfers	1,070	963	107	11.1 %
Net Investment Income	133,682	120,024	13,658	11.4 %
Net Securities Lending Income	252	213	39	18.3 %
Total	$ 215,957	$ 190,882	$ 25,075	13.1 %
Deductions				
Benefit Payments	$ 91,911	$ 83,657	$ 8,254	9.9 %
Refunds	2,465	2,508	(43)	(1.7) %
Inter-System Transfers	600	888	(288)	(32.4) %
Total	$ 94,976	$ 87,053	$ 7,923	9.1 %
Net Change in Assets	$ 120,981	$ 103,829	$ 17,152	16.5 %
Ending Net Assets	$ 1,670,553	$ 1,549,572	$ 120,981	7.8 %

Table 4: 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 %

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, 2006 and 2005
(in thousands)

	2006	2005
ASSETS		
Cash and Cash Equivalents (Note 8)	$ 82,227	$ 62,975
Receivables		
Due from the City of Phoenix	379	0
City of Phoenix Contributions	1,651	954
Member Contributions	958	852
Interest and Dividends	2,501	2,496
Unsettled Broker Transactions - Sales	41,871	59,884
Other	62	2
Total Receivables	47,422	64,188
Investments, at Fair Value		
Temporary Investments from Securities Lending Collateral (Note 9)	139,066	124,467
Fixed Income	569,542	520,272
Domestic Equities	936,407	848,054
International Equities	174,031	169,636
Total Investments (Note 8)	1,819,046	1,662,429
Total Assets	1,948,695	1,789,592
Liabilities		
Payable for Securities Lending Collateral (Note 9)	139,066	124,467
Unsettled Broker Transactions - Purchases	138,035	106,950
Due to the City of Phoenix (Note 11)	0	7,041
Investment Management Fees Payable	1,034	1,518
Other Payables	7	44
Total Liabilities	278,142	240,020
Commitments and Contingencies (Notes 6, 8, 9 and 12)		
Net Assets Held in Trust for Pension Benefits (Note 3)	$1,670,553	$1,549,572

(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, 2006 and 2005

(in thousands)

	2006	2005
ADDITIONS		
Contributions		
City of Phoenix	$ 52,974	$ 43,375
Member	27,979	26,307
Funds from Other Systems (Note 10)	1,070	963
Total Contributions (Note 5)	82,023	70,645
Net Investment Income		
From Investing Activities:		
Net Appreciation in		
Fair Value of Investments	114,407	104,864
Interest	14,255	10,615
Dividends	8,915	7,780
Other	246	426
Total Investment Income	137,823	123,685
Less Investment Expense	(4,141)	(3,661)
Net Income from Investing Activities	133,682	120,024
From Security Lending Activities:		
Security Lending Gross Income	5,343	2,758
Less Security Lending Activity Expenses:		
Agent Fees	(108)	(92)
Broker Rebates/Collateral Management Fees	(4,983)	(2,453)
Total Security Lending Expenses	(5,091)	(2,545)
Net Income from Security Lending Activities	252	213
Total Net Investment Income	133,934	120,237
Total Additions	215,957	190,882
DEDUCTIONS		
Benefit Payments	91,911	83,657
Refunds of Contributions	2,465	2,508
Funds to Other Systems (Note 10)	600	888
Total Deductions	94,976	87,053
NET INCREASE	120,981	103,829
Net Assets Held in Trust for Pension Benefits (Note 3)		
Beginning of Year	1,549,572	1,445,743
End of Year	$1,670,553	$1,549,572

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

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 providions for termination of COPERS.

d. Membership Data

	June 30	
	2006	2005
Current retirees, beneficiaries and survivors	4,069	3,907
Alternate Payees	64	61
Terminated vested members	690	623
Active members:		
Vested	6,461	6,269
Non-vested	2,799	2,767
Total Members	14,083	13,627

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.

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 2006 was granted by the Retirement Board to be applied at June 30, 2006 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 Internal Revenue 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 requires 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

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.

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. 44 "*Economic Condition Reporting: The Statistical Section*" with the June 30, 2006 annual financial report. There was no impact on the financial statements as a result of implementing GASB Statement No. 44.

Note 3 - Fund 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, the Pension Reserve Account and the Pension Equalization 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.

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, 2006 and 2005 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	2006	2005
Employees' Savings	$374,091	$354,438
Pension Accumulation	314,328	283,710
Pension Reserve	845,886	766,287
Pension Equalization Reserve	10,610	28,144
Convert to Fair Value	125,638	116,993
Total Based on Fair Value	$1,670,553	$1,549,572

Note 4 - Administrative Costs

The 2006 Administrative costs of COPERS were $1,454,000. This amount was paid by the City and not recognized in COPERS' financial statements. This compares to the 2005 administrative costs of $1,382,000. 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, 2006 were $52,974,000 , which is equivalent to 11.20% of the estimated annual active member payroll, compared with 9.97% for the fiscal year ended June 30, 2005. Employee contributions for the fiscal year ended June 30, 2006 were $27,979,000, which represent the required 5% of covered compensation as a condition of employment.

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)

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, 2006 and June 30, 2005 are detailed below (in thousands).

	2006	2005
Actuarial Value of Assets	$1,626,741	$1,511,553
Actuarial Accrued Liability		
Active Members	1,079,082	972,634
Retirees and Beneficiaries Currently Receiving Benefits	892,123	798,413
Terminated Members Not Yet Receiving Benefits	29,141	24,467
Total Actuarial Accrued Liability	2,000,346	1,795,514
Unfunded Actuarial Accrued Liability	($373,605)	($283,961)

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, 2006 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 RP 2000 Healthy Annuitants Mortality Table. The mortality table changed for the June 30, 2006 valuation.

    b) Disability - Based upon COPERS' experience. The rates of disability were changed for the June 30, 2006 valuation.

    c) Withdrawal - Based upon COPERS' experience, measures the probability of members terminating employment for reasons other than retirement, death or disability. The rates of withdrawal were changed for the June 30, 2006 valuation.

4) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2006 valuation. This method, which is unchanged from last year, spreads the difference between the actual and expected investment return 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, 2006 were $374,091,458, including interest compounded annually compared to $354,437,850 at June 30, 2005. 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'

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, 2006.

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.

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, 2006. The Board's present policy allows up to 10% investment (at cost) in international equities. As of June 30, 2006 approximately 8% was invested (at cost) in international equities.

A summary of investments at June 30, 2006 and 2005 is as follows (in thousands):

	2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Temporary Investments from Securities Lending Collateral (Note 9)	$ 139,066	$ 139,066	$ 124,467	$ 124,467
Fixed Income	549,318	569,542	489,695	520,272
Domestic Equities	862,969	936,407	791,274	848,054
International Equities	142,055	174,031	140,000	169,636
	1,693,408	1,819,046	1,545,436	1,662,429
Cash and Cash Equivalents	82,227	82,227	62,975	62,975
Total Investments	$ 1,775,635	$ 1,901,273	$ 1,608,411	$ 1,725,404

COPERS' investments are managed by 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, 2006 the total market value of options held was $13,991. The underlying securities for these options were government bonds. As of June 30, 2006 the total market value for swaps was ($308,535). The underlying securities for these swaps were corporate bonds.

Note 8 – Investments (Continued)

The following schedule provides the categories of investments as of June 30, 2006 (in thousands):

Investment Categories	Fair Value
Cash	$ 1,071
Short-Term Investment Fund	81,156
Cash and Cash Equivalents	82,227
Temporary Investments from Securities Lending Collateral	139,066
Fixed Income:	
Options (Net)	14
Convertibles	167
Credit Card Receivable	2,411
U S Government Guaranteed Securities	39,012
Government Agencies Securities	147,839
Mortgage Backed Securities	47,858
Asset Backed Securities	22,967
Corporate Bonds	54,167
Commingled Bond Index Fund	255,107
	569,542
Domestic Equities:	
Common Stocks	684,979
Commingled Equity Index Fund	251,428
	936,407
International Equities	174,031
Total	$1,901,273

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, 2006, 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, 2006, 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(s) name.

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, 2006, 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 10% of total Plan assets as of June 30, 2006. The fair market value of COPERS' international commingled equity funds managed by Fidelity Management & Trust and GMO was $174,031,000 as of June 30, 2006.

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' as of June 30, 2006.

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 ±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 COPERS is provided in Table I on page 32. COPERS' assets include several collateralized mortgage obligations and mortgage backed securities, which could be considered as highly sensitive to interest rate changes depending upon the exercise of prepayment options.

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, swaps, forwards, options on swaps, options on forwards
- Obligations denominated in U.S. dollars of international agencies, supranational entities and foreign governments (or their subdivisions or agencies).
- 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.

Note 8 – Investments (Continued)

- 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.

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

	Credit Quality Ratings	Fair Value	Remaining Maturity					
			0 - 5 Years	6 - 10 Years	11 - 15 Years	16 - 20 Years	21 - 25 Years	Over 25 Years
Total Cash		**$ 1,071**	**$ 1,071**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Short Term Investment Fund	Not Rated	78,878	58,545	-	-	-	20,333	-
Short Term Government Agency	AAA	2,278	2,278	-	-	-	-	-
Total Short Term Investments		**81,156**	**60,823**	**-**	**-**	**-**	**20,333**	**-**
Total Options	Not Rated	**14**	**14**	**-**	**-**	**-**	**-**	**-**
Total Convertibles	CCC	**167**	**167**	**-**	**-**	**-**	**-**	**-**
Credit Card Receivable	AAA	1,889	698	1,063	-	-	-	128
Credit Card Receivable	A	244	244	-	-	-	-	-
Credit Card Receivable	BBB	278	-	278				
Total Credit Card Receivable		**2,411**	**942**	**1,341**	**-**	**-**	**-**	**128**
U S Government	Not Rated	7,250	-	-	-	-	-	7,250
U S Government	AAA	31,762	7,294	4,458	992	10,316	3,387	5,315
Total U S Government		**39,012**	**7,294**	**4,458**	**992**	**10,316**	**3,387**	**12,565**
Government Agency	Not Rated	72,638	-	-	-	-	-	72,638
Government Agency	AAA	72,105	10,345	4,765	9,471	13,554	7,485	26,485
Government Agency	A	103	-	103	-	-	-	-
Government Agency	BBB	2,993	-	126	361	-	1,067	1,439
Total Government Agency		**147,839**	**10,345**	**4,994**	**9,832**	**13,554**	**8,552**	**100,562**
Mortgage Backed	Not Rated	4,852	2,600	-	-	-	2,252	-
Mortgage Backed	AAA	42,586	-	756	-	-	2,143	39,687
Mortgage Backed	AA	185	-	-	-	-	-	185
Mortgage Backed	A	235	-	-	-	-	-	235
Total Mortgage Backed		**47,858**	**2,600**	**756**	**-**	**-**	**4,395**	**40,107**
Other Asset Backed	Not Rated	1,708	234	228	-	-	-	1,246
Other Asset Backed	AAA	21,163	5,751	1,059	421	587	546	12,799
Other Asset Backed	AA	96	-	-	-	-	-	96
Total Other Asset Backed		**22,967**	**5,985**	**1,287**	**421**	**587**	**546**	**14,141**
Corporate Bonds	Not Rated	363	207	(9)	-	-	-	165
Corporate Bonds	AAA	3,522	2,832	577	113	-	-	-
Corporate Bonds	AA	5,158	4,540	451	-	-	-	167
Corporate Bonds	A	13,424	4,664	6,254	-	865	-	1,641
Corporate Bonds	BBB	26,866	6,169	13,800	852	128	1,039	4,878
Corporate Bonds	BB	3,067	1,495	888	-	-	-	684
Corporate Bonds	B	1,517	1,300	67	-	-	34	116
Corporate Bonds	CCC	250	-	-	-	-	-	250
Total Corporate Bonds		**54,167**	**21,207**	**22,028**	**965**	**993**	**1,073**	**7,901**
Totals by Maturity Dates		**396,662**	**$ 110,448**	**$ 34,864**	**$ 12,210**	**$ 25,450**	**$ 38,286**	**$ 175,404**
Commingled Bond Index Fund	Not Rated	**255,107**						
Fixed Income Investments		**$ 651,769**						

Note 9 – Securities Lending Program

State statutes and City Charter 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, on behalf of COPERS, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government and irrevocable letters of credit 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, 2006, such investment pool had an average duration of 51 days and an average weighted maturity of 191 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, 2006 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, 2006, were $139,066,021 and $137,330,245, respectively, and as of June 30, 2005, were $124,466,542 and $121,418,439 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 2006, was equal to the present value of the employees' then-vested benefits.

Note 11 – Interfund Balances

On the Statement of Net Assets, the liability, Due to the City of Phoenix, results from the fact that COPERS 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 COPERS' financial position or results of operations.

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)
06/30/06		$ 1,626,741	$ 2,000,346	$ 373,605	81.3 %	$ 497,105	75.16 %
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	--

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
2005-06	2004	$ 52,974	100 %
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

Required Supplementary Information (Continued)

Notes to the Required Supplementary 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, 2006	June 30, 2005
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, 2006 and 2005

	2006		2005	
	Budget	Actual	Budget	Actual
Personal Services				
Staff Salaries	$875,912	$754,969	$826,634	$710,141
Insurance	157,819	121,702	149,049	123,793
Social Security	61,468	51,643	61,285	49,430
Retirement	90,077	80,903	77,284	68,404
Total Personal Services	1,185,276	1,009,217	1,114,252	951,768
Professional Services				
Consultants	70,800	82,409	55,160	58,857
Audit and Accounting	57,775	41,775	47,750	70,276
Medical Advisors	39,000	38,998	31,768	21,927
Computer Services	190,357	189,616	184,045	198,009
Total Professional Services	357,932	352,798	318,723	349,069
Communications				
Printing	41,417	42,555	42,806	38,746
Postage	5,800	4,352	2,800	2,605
Travel and Conferences	16,726	5,900	16,176	9,916
Telephone	9,927	11,487	9,894	10,528
Subscriptions and Memberships	2,400	2,912	2,150	2,676
Total Communications	76,270	67,206	73,826	64,471
Miscellaneous				
Supplies	15,175	16,340	13,675	11,755
Office Furniture	3,181	2,601	2,681	2,583
Insurance	1,727	1,078	983	963
Computer Equipment	1,800	3,171	756	507
Other	1,645	1,116	2,024	693
Total Miscellaneous	23,528	24,306	20,119	16,501
Total Administrative Expenditures and Encumbrances	$1,643,006	$1,453,527	$1,526,920	$1,381,809

Note: Administrative expenditures of COPERS are budgeted and paid by the City of Phoenix and are not recognized in COPERS' financial statements.

Schedule of Investment Expenses
For the Fiscal Year Ended June 30, 2006

Payee	Commissions or Fees	Nature of Services
RV Kuhns & Associates	$218,750	Investment Consultant
State Street Bank	76,488	Master Custodian
Bank of Ireland	27,191	Investment Management
Cadence Capital Management	848,487	Investment Management
Eagle Asset Management	489,898	Investment Management
Fidelity Management Trust Company	398,270	Investment Management
MacKay-Shields Financial Corporation	530,465	Investment Management
Northern Trust Investments	89,468	Investment Management
The Boston Company	687,437	Investment Management
Wells Capital Management	297,425	Investment Management
Western Asset Management Corporation	337,081	Investment Management
Foreign Taxes	140,252	Investment Expense
Subtotal	4,141,212	
GMO (1)	582,187	
Total	$4,723,399	

Schedule of Payments to Consultants
For the Fiscal Year Ended June 30, 2006

Payee	Fees Paid	Nature of Services
Kutak Rock LLP (2)	$ 61,581	Legal Services
Rodwan Consulting Company (2)	19,922	Actuarial Services
	$ 81,503	

(1) Because GMO fees are not paid separately as are fees to the other fund managers, they are not included in the investment expenses reported in the Statement of Changes in Net Assets. The fees are a component of the overall performance of the investment.

(2) 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.

RVKuhns
& ASSOCIATES, INC.

October 11, 2006

Board of Trustees
City of Phoenix Employees' Retirement System
c/o Ms. Donna Buelow
Retirement Program Administrator
101 South Central Avenue, Suite 600
Phoenix, Arizona 85005

Dear Board Members:

The past year has been marked by continued positive performance of the U.S. economy, increased corporate profits, a persistent but paused campaign of interest rate increases by the Federal Reserve, and a significant rise in oil prices. U.S. Gross Domestic Product grew in each of the last four quarters as the economy expanded 6.9% since June 30, 2005. Job growth continued in each quarter of the fiscal year, extending an uninterrupted upward trend that has existed since the third quarter of 2003. The unemployment rate declined from 5.0% to 4.6% over the year. While the Federal Reserve raised its short-term interest rate from 3.25% to 5.25% over the course of the last year, the shape of the yield curve flattened as long-term Treasury rates did not rise as far.

The market value of the City of Phoenix Employees' Retirement System (COPERS) assets increased from $1.556 billion to $1.669 billion in the year ended June 30, 2006. Five years ago, the fund was valued at $1.352 billion. In fiscal year 2006, payments from the System to fund benefits and other expenses exceeded contributions by $25.8 million.

Despite three very good years for the equity market, the five-year annualized return for the S&P 500 of 2.5% remains under our long-term projections. Fixed income securities have fared better than equities, but the five-year annualized return of 5.0% for the Lehman Brothers Aggregate Bond Index has been dampened by low yields and rising interest rates. The System's overall investment return over the past year was 9.0% and ranked in the 68th percentile of a universe of similar plans. The System's three-year return of 11.1% ranked in the 66th percentile of the same universe, and the System's five-year return of 5.8% ranked in the 68th percentile of the universe. We are confident that the recent asset allocations implemented by the Board will improve peer rankings in the future.

The System's current investments are diversified. Nearly all segments of the U.S. equity market are represented in the portfolio, and the fixed income portfolio is well diversified across three investment managers. Non-U.S. equity investments have helped to dampen portfolio volatility while enhancing returns. As of June 30, 2006, 46.1% of the System's investments were invested in large-capitalization U.S. equities, 11.2% in small- and mid-capitalization U.S. equities, 10.4% in non-U.S. equities, 32.1% in fixed income investments, and 0.1% in cash equivalents.[1] This investment allocation was consistent with policy guidelines.

[1] Total allocation does not sum to 100% due to rounding.

R.V. Kuhns assists the COPERS board and staff in determining and realizing investment expectations. The System's current actuarial assumed rate of return is 8.0%, which represents the System's long-term return goal. We currently project that the System's assets, as allocated on June 30, 2006, will return an arithmetic long-term average of 7.2%, and that the recently revised target portfolio as of the same date will return an arithmetic average of 7.5%. Both these projections exclude the effect of manager outperformance relative to benchmarks, which we expect to be additive to long-term returns.

We believe that the recent course undertaken by the Board to diversify the System's investments into several new asset classes will enhance future portfolio returns. Over the past year, the Board has approved the inclusion of several new asset classes to the portfolio, including real estate, emerging markets equities, a real return strategy, and international small-capitalization equities. As well, the Board has authorized a new target asset allocation, which we project will provide higher expected returns, at lower levels of risk, than our similar projections for the target portfolio that existed a year ago. We believe that the Board's decisions in this respect will preserve and enhance the System's ability to meet its long-term goals.

The System's investment policies, goals, and objectives, as well as the performance of its assets, transaction costs, and proxy votes, are regularly monitored by the Board and by R.V. Kuhns & Associates. These evaluations include analysis of the investment management firms and the custodial bank that serve the System.

The System's assets are in custody at State Street Bank. Market values and returns referenced above are based upon financial statements prepared by State Street. Their statements are, to the best of our knowledge, reliable. Performance calculations are compliant with CFA Institute standards.

An uncertain market environment demands careful attention and thoughtful treatment of the assets entrusted to the Board's care by the System's employee participants. We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the System to meet its long-term goals and objectives.

Most sincerely,

Russell Kuhns
Chairman and CEO

Rebecca Gratsinger
President

Ryan Harvey
Associate Consultant

Outline of Investment Policies and Objectives

Adopted July, 1990 and subsequently amended

1. COPERS' asset allocation targets (at fair value) as of June 30, 2006 were 55% in domestic stocks, 35% in bonds, and 10% in international stocks. The Retirement Board voted at the June 22, 2006 meeting to change COPERS' asset allocation targets to 25% large cap domestic equities, 13% small/mid cap domestic equities, 23% international equities to allow for a maximum 1.8% to international emerging markets, 20% domestic fixed income, 10% real estate and 9% real return. The asset transition is anticipated to be undertaken and completed over the next several quarters.

2. Each asset class will be broadly diversified to be similar to the market for the asset class. The market for stocks shall be represented by the Russell 1000 Value and Growth Index, the Russell Mid Cap Value Index, the Russell 2000 Growth Index, MSCI EAFE Index, and the S & P 500. The market for bonds shall be represented by the Lehman Aggregate Bond Index.

3. Multiple managers will be employed. Allocations among the managers will be controlled by the Trustees to maintain both diversification and policy guidelines.

4. Investments will conform to the Phoenix City Charter, Chapter 24, Article II, Section 34 (See note 8). All other investments are prohibited.

5. COPERS' main investment objective is to achieve a rate of return that exceeds inflation by at least 3 percent over time. The actuarial assumed rate of return is 8%.

Directed Brokerage Commissions

A directed commissions program was established by COPERS' Board on July 31, 1991. Becker, Burke Associates ("BBA") provided the directed commissions program through December 31, 2003. As of January 1, 2004 State Street Global Markets, LLC ("SSGM") became the provider of the commission recapture program. SSGM has agreed to allocate to the fund 72% of commissions for US trades executed with a network of brokers and 80% for US trades directly with SSGM's Trading Desk, identified and designated by investment managers as "directed." Under this program, COPERS equity managers are requested to execute trades to achieve best execution of fund transactions and to use best efforts to place trades with SSGM. As of June 30, 2006, the total payments received under SSGM was $260,921.

Investment Services Under Contract (as of June 30, 2006)

EQUITY MANAGERS:

Cadence Capital Management Boston, MA
Mary Ellen Melendez

Fidelity Management & Trust Boston, MA
Paul Cahill

GMO Boston, MA
Wendy Malaspina

Eagle Asset Management St. Petersburg, FL
Tom Mulligan

MacKay Shields Financial Corp. New York, NY
Virginia Rose

Northern Trust Investments Chicago, IL
Mac Nickey

The Boston Company Boston, MA
Rob Harkins

FIXED INCOME MANAGERS:

Northern Trust Investments Chicago, IL
Mac Nickey

Wells Capital Management San Francisco, CA
Sandy Willen

Western Asset Management Pasadena, CA
Joseph Carieri

INVESTMENT CONSULTANT:

R V Kuhns & Associates, Inc. Portland, OR
Russell V. Kuhns

Schedule of Investment Results

For the Fiscal Years Ended June 30, 2006

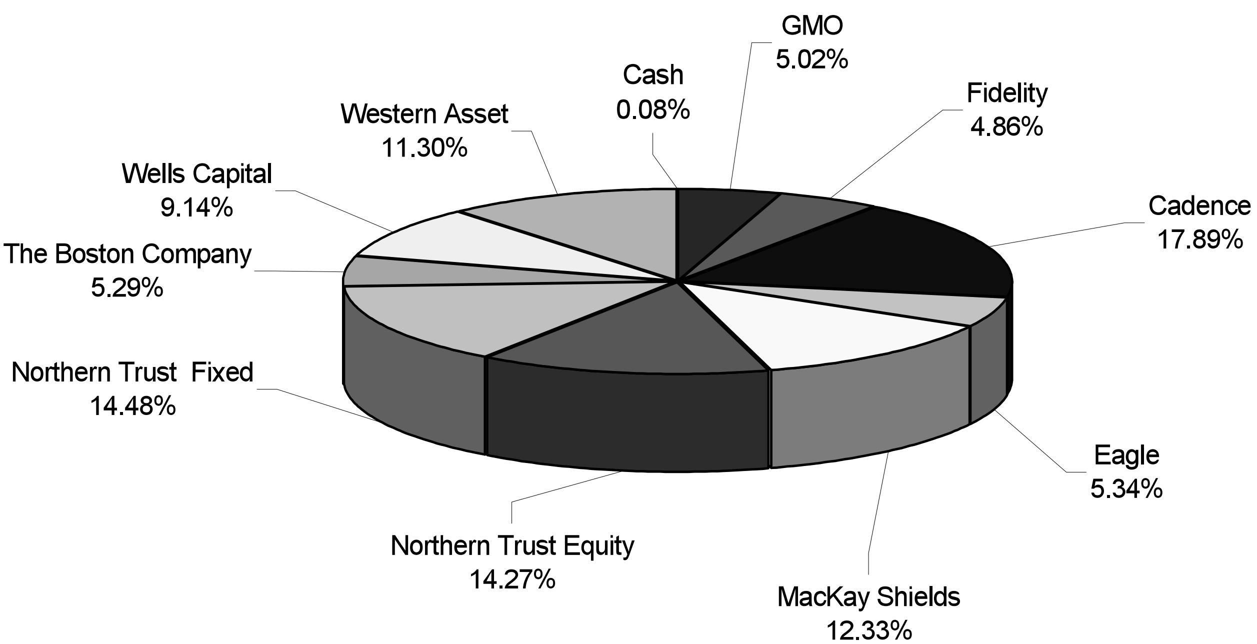
		Annualized	
	1-Year	3-Years	5-Years
TOTAL PORTFOLIO:			
COPERS	9.0%	11.1%	5.8%
S & P 500 Index	8.6%	11.2%	2.5%
Lehman Aggregate Bond Index	-0.8%	2.1%	5.0%
Target Benchmark	7.8%	10.5%	5.4%
R.V. Kuhns All Master Trust Total Fund Median	10.1%	12.2%	6.6%
R.V. Kuhns All Public Plans Total Fund Median	11.3%	13.0%	7.1%
EQUITY FUNDS:			
Cadence Capital Management	11.2%	13.4%	3.5%
Russell 1000 Growth Index	6.1%	8.4%	-0.8%
Eagle Asset Management (1)	14.6%	--	--
Russell 2000 Growth Index	14.6%	16.3%	3.5%
Fidelity Management & Trust (2)	--	--	--
EAFE Index	27.1%	24.4%	10.4%
GMO (3)	--	--	--
EAFE Index	27.1%	24.4%	10.4%
MacKay-Shields Financial Corporation	11.5%	15.4%	5.8%
Russell 1000 Value Index	12.1%	15.7%	6.9%
Northern Trust Investments	8.6%	11.2%	2.5%
S & P 500 Index	8.6%	11.2%	2.5%
The Boston Company (4)	12.5%	21.7%	--
Russell Midcap Value Index	14.3%	22.1%	13.0%
FIXED INCOME FUNDS:			
Wells Capital Management (5)	-0.5%	--	--
Lehman Aggregate Bond Index	-0.8%	2.1%	5.0%
Western Asset Management (6)	-0.9%	--	--
Lehman Aggregate Bond Index	-0.8%	2.1%	5.0%
Northern Trust Investments	-0.1%	1.6%	4.7%
Lehman G/C Intermediate Bond Index	-0.1%	1.5%	4.6%

(1) Eagle Asset Management added as small cap manager effective June 15, 2005; funds transitioned from Columbus Circle. Performance figures would not be representative of the benchmark index.
(2) GMO added July 1, 2005 as an International Commingled Equity Fund manager; funds transitioned from The Bank of Ireland. Performance figures would not be representative of the benchmark index.
(3) Fidelity Management & Trust added July 1, 2005 as an International Commingled Equity Fund manager; funds transitioned from The Bank of Ireland. Performance figures would not be representative of the benchmark index.
(4) The Boston Company added as mid cap manager effective April 2, 2002; funds transitioned from Nicholas Applegate. Performance figures would not be representative of the benchmark index.
(5) Wells Capital Management added as core fixed income manager effective January 1, 2005; funds transitioned from Vanderbilt Capital Advisors. Performance figures would not be representative of the benchmark index.
(6) Western Asset Management added as core fixed income manager effective January 1, 2005; funds transitioned from Vanderbilt Capital Advisors. Performance figures would not be representative of the benchmark index.

The calculations above were prepared by COPERS' consultant, using a time-weighted rate of return, based on market value.

Asset Allocation by Manager
As of June 30, 2006

Manager	Style	Management (in thousands)	% of Portfolio
EQUITY FUNDS			
Fidelity Management & Trust	International	$85,596	4.86 %
GMO	International	88,435	5.02
Cadence Capital Management	Large Cap Growth	315,270	17.89
Eagle Asset Management	Small Cap Growth	94,177	5.34
MacKay Shields Financial Corp.	Large Cap Value	217,269	12.33
Northern Trust Investments	S & P 500 Index	251,428	14.27
The Boston Company	Mid Cap Value	93,323	5.29
TOTAL EQUITY FUNDS		1,145,498	65.00
FIXED INCOME FUNDS			
Northern Trust Investments	Lehman G/C Int. Index	255,106	14.48
Wells Capital Management	Core Fixed Income	161,128	9.14
Western Asset Management	Core Fixed Income	199,138	11.30
COPERS Cash Account	Short Term Income Fund	1,336	0.08
TOTAL FIXED INCOME FUNDS		616,708	35.00
Total Portfolio		$1,762,206	100.00 %



List of Largest Assets Held

As of June 30, 2006 (dollars in thousands)

Ten Largest Bond Holdings (Market Value)

Par Value	Description	Interest Rate	Due	Rating	Market Value
$26,100	FNMA TBA Jul 30 Single Fam	5.00%	12/01/2099	AAA	$24,397
16,358	FNMA TBA Jul 30 Single Fam	5.50%	12/01/2099	AAA	15,705
13,847	FNMA TBA Jul 30 Single Fam	6.00%	12/01/2099	AAA	13,625
5,700	IRS USD	4.71%	10/11/2010	AAA	5,488
4,130	United States Treasury Bonds	6.25%	08/15/2023	AAA	4,556
4,264	United States Treasury Bonds	2.38%	01/15/2025	AAA	4,149
4,110	Federal Home Ln Mtg Corp	3.50%	01/15/2022	AAA	4,019
4,067	FNMA Pool	5.50%	04/01/2034	AAA	3,921
3,966	FNMA TBA Aug 30 Single Fam	6.00%	12/01/2099	AAA	3,899
3,770	IRS USD	4.65%	10/05/2008	AAA	3,689

Ten Largest Stock Holdings (Market Value)

Shares	Stock	Market Value
272,640	Citigroup	$13,152
303,700	Comcast Corp	9,943
157,494	Bank America Corp	7,575
101,400	PNC Financial Services Group	7,115
228,610	Texas Instruments Inc.	6,925
282,000	Pfizer Inc	6,619
119,900	Allstate Corp	6,562
76,700	Hartford Financial Services Group	6,489
144,870	Wyeth	6,434
228,850	AT&T Inc.	6,383

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

Schedule of Investment Related Fees

For the Fiscal Year Ended June 30, 2006

	Assets Under Management (in thousands)	Fees	Basis Points
Investment Manager Fees			
Bank of Ireland (1)	N/A	$27,191	N/A
Cadence Capital Management	315,270	848,487	26.91
Eagle Asset Management	94,177	489,898	52.02
Fidelity Management & Trust	85,596	398,270	46.53
GMO	88,435	582,187	65.83
MacKay Shields Financial Corp.	217,269	530,465	24.42
Northern Trust Investments	506,534	89,468	1.77
The Boston Company	93,323	687,437	73.66
Wells Capital Management	161,128	297,425	18.45
Western Asset Management	199,138	337,081	16.93
Foreign Taxes	N/A	140,252	N/A
COPERS Cash Account STIF	1,336	N/A	N/A
Subtotal	1,762,206	4,428,161	
GMO	88,435	582,187	
Total	$1,850,641	$5,010,348	
Other Investment Service Fees			
RV Kuhns & Associates (Consultant)		218,750	
State Street Bank (Custodian)		76,488	
Total Investment Service Fees		295,238	
Total Investment Related Fees		$5,305,586	

(1) Assets transitioned from Bank of Ireland to Fidelity Management & Trust and GMO effective July 1, 2005.

Investment Summary
As of June 30, 2006

Type of Investment	Market Value (in thousands)	Percent of Total Market Value
Fixed Income:		
Agency	$14,328	0.81 %
Asset Backed	26,548	1.50
CMBS	7,600	0.43
CMO	42,213	2.40
Convertibles	167	0.01
Corporate Bonds	48,886	2.77
Lehman G/C Index	255,106	14.48
Mortgage Pass-Through	139,510	7.92
Municipal	272	0.02
Private Placement	693	0.04
Swaps	(330)	-0.02
US Treasury	26,975	1.53
Yankee	7,560	0.43
Total Fixed Income	569,528	32.32
Equity:		
Consumer Discretionary	105,660	6.00
Consumer Staples	33,616	1.90
Energy Related	60,677	3.44
Financials	119,901	6.80
Health Care	86,892	4.93
Industrials	95,808	5.44
Information Technology	102,465	5.81
International Commingled Equity Fund	174,031	9.88
Materials	34,345	1.95
Telecommunication Services	26,698	1.52
Utilities	18,917	1.07
S&P Equity Index	251,428	14.27
Total Equities	1,110,438	63.01
Cash & Cash Equivalents	82,227	4.67
Options	14	0
Total	$1,762,207	100.00 %

Schedule of Commissions
For the Fiscal Year Ended June 30, 2006

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
BAIRD, ROBERT W., & COMPANY INC.	318,250	$ 15,199	$ 0.0478
BANC AMERICA SECURITY LLC MONTGOMERY	748,880	31,011	0.0414
BEAR STEARNS & CO. INC.	924,433	42,795	0.0463
BEAR STEARNS SECURITIES CORP.	186,451	57,332	0.3075
BNY BROKERAGE INC.	2,056,026	82,958	0.0403
BNY BROKERAGE	303,700	12,148	0.0400
BRIDGE TRADING	381,250	15,473	0.0406
BROADCORT CAPITAL (THRU ML)	2,078,385	89,515	0.0431
CANTOR FITZGERALD & CO.	847,610	36,020	0.0425
CIBC WORLD MARKETS CORP.	632,088	29,776	0.0471
CITATION GROUP	380,500	13,793	0.0362
CITIGROUPGLOBAL MARKETS INC.	683,855	30,085	0.0440
COMPASS POINT RESEARCH & TRADING	1,390,130	58,632	0.0422
CREDIT SUISSE FIRST BOSTON CORP.	596,572	26,710	0.0448
CREDIT SUISSE SECURITIES (USA) LLC	340,458	16,511	0.0485
FIRST ALBANY CAPITAL INC.	338,720	15,522	0.0458
GOLDMAN SACHS & CO.	1,348,799	54,548	0.0404
INVESTMENT TECHNOLOGY GROUP INC.	705,005	14,195	0.0201
J P MORGAN SECURITIES INC.	503,550	21,725	0.0431
JEFFERIES & COMPANY	670,080	27,650	0.0413
JONES & ASSOCIATES INC.	361,840	13,034	0.0360
KEEFE BRUYETTE & WOODS INC.	263,365	11,511	0.0437
KNIGHT SECURITIES	570,990	22,862	0.0400
LA BRANCHE FINANCIAL #2	1,881,225	65,099	0.0346
LAZARD CAPITAL MARKETS LLC	228,130	10,644	0.0467
LEERINK SWANN & CO.	337,915	16,804	0.0497
LEHMAN BROS. INC.	1,424,443	55,592	0.0390
LIQUIDNETINC	1,382,960	44,792	0.0324
MERRILL LYNCH, PIERCE, FENNER & S	4,527,055	26,693	0.0059
MERRILL LYNCH PROFESSIONAL CLEARING CORP.	963,715	47,356	0.0491
MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.	470,337	23,816	0.0506
MIDWEST RESEARCH SECURITIES	473,290	22,990	0.0486
MORGAN STANLEY CO INC.	322,450	13,153	0.0408
NATIONAL FINANCIAL SERV ICES CORP.	452,227	19,560	0.0433
OPPENHEIMER & CO. INC.	456,420	22,304	0.0489
PERSHING SECURITIES LTD	5,060,908	70,074	0.0138
PIPER JAFFRAY	241,070	10,076	0.0418
PRUDENTIAL EQUITY GROUP	883,115	39,291	0.0445
RBC CAPITAL MARKETS	1,063,080	52,404	0.0493
S.G.COWEN & CO.	806,960	39,951	0.0495
SANDLER ONEILL & PART LP	257,090	11,940	0.0464
SANFORD C. BERNSTEIN & CO., LLC	1,178,270	51,449	0.0437
STATE STREET BROKERAGE SERVICES	5,321,286	227,221	0.0427
STEPHENS, INC.	333,810	15,670	0.0469
THOMAS WEISEL PARTNERS	434,765	20,265	0.0466
US CLEARING INSTITUTIONAL TRADING	1,694,560	72,856	0.0430
UBS SECURITIES LLC	733,660	28,739	0.0392
WACHOVIA CAPITAL MARKETS, LLC	370,950	18,445	0.0497
WEEDEN & CO	1,036,090	49,922	0.0482
ALL OTHER BROKERS (1)	10,379,887	241,085	0.0232
TOTAL	59,346,605	$2,057,196	

(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.

RODWAN
consulting company

November 9, 2006

The Retirement Board
City of Phoenix Employees' Retirement Plan
101 South Central Avenue, Suite 600
Phoenix, Arizona 85004

The purpose of the annual actuarial valuation of the City of Phoenix Employees' Retirement Plan is to compute the liabilities of the Plan and the contributions which will satisfy its funding objective. The funding objective is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.

The most recent actuarial valuation was made as of June 30, 2006. The actuarial valuation develops a contribution rate to finance the normal cost and to amortize any unfunded actuarial accrued liability over 20 years in accordance with the Plan's funding objective. The actuarial assumptions and methods are in accordance with Governmental Accounting Standards Board Statement No. 25. We believe the assumptions and methods used in the valuation produce results which are reasonable.

Data for the valuation was provided by the Retirement Program Administrator and was reviewed by us for internal completeness and reasonableness. A smoothed market value which spreads the difference between the actual and assumed rate of return over 4 years was used for the valuation.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report: Schedule of Funding Progress (Financial Section), Schedule of Employer Contributions (Financial Section), Summary of Actuarial Methods and [illegible]

Supporting Schedules

Summary of Actuarial Assumptions and Methods

The City of Phoenix Employees' Retirement Board adopts actuarial assumptions and methods which are recommended by COPERS' 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, 2006 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. 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, 2004 study, as adopted by COPERS' Board November 17, 2005.

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 RP 2000 Mortality Table Healthy Annuitants. Adopted November 17, 2005.

Retirement

Sample probabilities of retirement with an unreduced age and service pension are shown below. Adopted November 17, 2005.

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

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

Summary of Actuarial Assumptions and Methods (Continued)

Turnover

Adopted November 17, 2005. Rates of separation from employment for reasons other than age and service retirement, death, or disability are:

Sample Ages	Years of Service	% of Active Members Separating Within Next Year
All	0	20.0
	1	18.0
	2	12.0
	3	9.0
	4	8.0
25	5 & Over	7.0
30		6.0
35		5.0
40		3.0
45		3.0
50		2.5
55		2.5
60		2.5
65		2.5

Actuarial Valuation Data - Active Members

Valuation Year	Number	Annual Payroll (in thousands)	Average Pay	% Increase Average Pay
06	9,260	$497,105	$53,683	3.6 %
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

Supporting Schedules (Continued)

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

Year End	Added to Rolls No.	Added to Rolls Annual Pensions New	Added to Rolls Annual Pensions PEP (a)	Removed No.	Removed Annual Pensions	Rolls End of Year No.	Rolls End of Year Annual Pensions	Average Annual Pensions	% Increase in Annual Pensions
06	309	$9,247	$1,976	147	$2,144	4,069	$94,797	$23,297	9.0 %
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

(a) Pension Equalization Increase

Solvency Test

Valuation Date	Aggregate Accrued Liabilities for: (1) Active Member Contributions (in thousands)	(2) Retirees and Beneficiaries (in thousands)	(3) Active Members Employer Portion (in thousands)	Valuation Assets (in thousands)	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
6/30/2006	$374,091	$892,123	$734,131	$1,626,741	100 %	100 %	49 %
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

Supporting Schedules (Continued)

Analysis of Financial Experience
(dollars in thousands)

	Derivation for Year Ended June 30,				
	2006	2005	2004	2003	2002
(1) UAAL at Start of Year	$283,961	$267,021	$173,542	$116,542	($31,774)
(2) Normal cost for year	64,510	59,355	55,116	52,987	51,008
(3) Employer Contributions for Year	(80,952)	(69,681)	(64,347)	(53,942)	(53,486)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	22,059	20,956	13,490	9,283	(2,641)
(5) Expected UAAL Before Changes	289,578	277,651	177,801	124,870	(36,893)
(6) Effect of Assumption Changes	49,051	--	--	--	--
(7) Effect of Benefit Changes	--	--	--	--	--
(8) Expected UAAL After Changes	338,629	277,651	177,801	124,870	(36,893)
(9) Actual UAAL	373,605	283,961	267,021	173,541	116,542
(10) Gain (loss) (8) - (9)	($34,976)	($6,310)	($89,220)	($48,671)	($153,435)
(11) As % of AAL at Start of Year	(1.9)%	(0.4)%	(5.9)%	(3.5)%	(12.2)%

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

COPERS is a defined benefit pension plan, was created under and is governed by the Charter of the City of Phoenix to provide retirement, survivor and disability benefits to the City of Phoenix 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 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 7 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 1997, 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. Members are eligible to purchase service credits upon membership with COPERS. 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.

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.

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.

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. The Schedule of Employer Contributions for the Last Ten Fiscal Years in on page 35 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 Plan. 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 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.

Statistical Section

The purpose of the statistical section is to provide the reader with data, which is considered to be pertinent to the financial and economic condition of the retirement plan. Each schedule is defined below with an explanation of the schedule and identifies the source of the data.

Schedule of Changes in Net Assets

This schedule provides the additions and deductions to the plan for the past ten years. The change in net assets is provided to illustrate whether or not sufficient resources are available in the current fiscal year to cover plan benefits. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

Schedule of Benefit Expenses by Type

This schedule provides the benefit expenses of the plan by type for the last ten years. COPERS benefits include payments for service retirements, disability benefits, death in service benefits, child benefits, payment to alternate payees and survivor benefits. This schedule is developed using reports from the City's accounting system. The expenses can be found in COPERS' Statements of Changes in Plan Net Assets for the past ten years.

Schedule of Retired Members by Type of Benefit

This schedule provides the number of retired members by type of benefit. COPERS plan benefits include payments for deferred benefits, normal retirement benefits, disability benefits, survivor benefits, death benefits and payments to alternate payees. The schedule is developed using COPERS' database.

Schedule of Average Benefit Payment Amounts

This schedule provides the average benefit payments per years of credited service. This information is provided to illustrate the changes in benefit payment amounts as the amount of service earned increases. This schedule is developed using COPERS' database.

Schedule of Changes in Net Assets

Last Ten Fiscal Years

(dollars in thousands)

	2006	2005	2004	2003	2002
ADDITIONS					
Member Contributions	$27,979	$26,307	$24,783	$26,122	$25,191
Employer Contributions	52,974	43,375	39,564	27,820	28,295
Funds from Other Systems	1,070	963	373	500	1,053
Net Investment Income (Loss)	133,934	120,237	198,641	36,909	(88,483)
Total Additions to Plan Net Assets	215,957	190,882	263,361	91,351	(33,944)
DEDUCTIONS					
Benefit Payments	91,911	83,657	76,949	70,234	64,289
Refunds of Contributions	2,465	2,508	2,272	2,457	3,484
Funds to Other Systems	600	888	600	365	657
Administrative Expenses			340	155	75
Total Deductions from Plan Net Assets	94,976	87,053	80,161	73,211	68,505
CHANGE IN NET ASSETS	$120,981	$103,829	$183,200	$18,140	($102,449)

	2001	2000	1999	1998	1997
ADDITIONS					
Member Contributions	$22,942	$19,813	$19,603	$16,402	$15,393
Employer Contributions	22,329	26,802	29,186	30,124	23,208
Funds from Other Systems	359	124	535	394	279
Net Investment Income (Loss)	(22,405)	107,841	94,896	179,993	140,517
Total Additions to Plan Net Assets	23,225	154,580	144,220	226,913	179,397
DEDUCTIONS					
Benefit Payments	57,806	49,409	43,054	38,987	34,571
Refunds of Contributions	3,364	2,941	3,263	2,238	2,103
Funds to Other Systems	211	351	297	167	39
Administrative Expenses					
Total Deductions from Plan Net Assets	61,381	52,701	46,614	41,392	36,713
CHANGE IN NET ASSETS	($38,156)	$101,879	$97,606	$185,521	$142,684

Note: 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
(in thousands)

Fiscal Year	Age & Service Benefits Retirees	Death In Service	Disability Benefits Retirees Duty	Disability Benefits Retirees Non-Duty	Survivors	Deferred	Child	Alternate Payee	Total Benefits
2005-2006	$77,829	$2,414	$626	$2,029	$7,319	$1,033	$49	$611	$91,910
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

*Amounts shown are annualized amounts based on the June 30th payroll.

Refunds (in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2005-2006	$347	$2,118	$2,465
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

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

Schedule of Retired Members by Type of Benefit
June 30, 2006

Monthly Benefit	Number of Retirees	Type of Retirement: Deferred	Normal or Voluntary	Duty Disability	Non-Duty Disability	Survivor Payment	Death Benefit	Alternate Payee
Deferred	690	690						
$ 1 - $ 300	69	–	34	1	–	8	17	9
301 - 400	167	–	98	10	1	44	10	4
401 - 500	119	–	70	9	3	25	5	7
501 - 600	133	–	83	3	10	27	7	3
601 - 700	213	–	100	5	13	80	9	6
701 - 800	155	–	97	5	12	29	7	5
801 - 900	173	–	93	1	21	47	5	6
901 - 1,000	175	–	100	7	10	39	15	4
1,001 - 1,100	150	–	103	2	10	22	8	5
1,101 - 1,200	128	–	92	2	9	19	3	3
1,201 - 1,300	163	–	115	–	15	20	10	3
1,301 - 1,400	141	–	103	4	5	19	8	2
1,401 - 1,500	133	–	97	4	4	21	6	1
1,501 - 2,000	605	–	502	8	17	54	19	5
2,001 - 2,500	508	–	455	–	8	34	10	1
2,501 - 3,000	375	–	349	–	3	16	7	–
3,001 - 4,000	412	–	392	–	2	13	5	–
4,001 - 5,000	184	–	178	–	2	3	1	–
Over 5,001	130	–	121	–	–	6	3	–
Totals	4,823	690	3,182	61	145	526	155	64

Monthly Benefit	Total	Option Selected: Life	Option A: Standard	Option A: Pop-Up	Option B: Standard	Option B: Pop-Up	Option C	Child Benefit
$ 1 - 300	69	28	15	6	1	–	2	17
301 - 400	167	105	30	13	2	5	12	–
401 - 500	119	74	26	6	1	–	12	–
501 - 600	133	67	24	27	3	3	9	–
601 - 700	213	147	29	14	4	8	11	–
701 - 800	155	90	26	21	8	3	7	–
801 - 900	173	94	35	21	7	7	9	–
901 - 1,000	175	117	27	15	7	4	5	–
1,001 - 1,100	150	79	38	17	3	6	7	–
1,101 - 1,200	128	59	25	23	4	12	5	–
1,201 - 1,300	163	92	33	12	7	14	5	–
1,301 - 1,400	141	77	17	19	8	9	11	–
1,401 - 1,500	133	63	36	14	5	13	2	–
1,501 - 2,000	605	251	151	86	37	44	36	–
2,001 - 2,500	508	194	143	72	24	52	23	–
2,501 - 3,000	375	144	91	52	26	48	14	–
3,001 - 4,000	412	159	117	55	17	46	18	–
4,001 - 5,000	184	64	51	23	16	21	9	–
Over 5,001	130	52	43	15	6	7	7	–
	4,133	1,956	957	511	186	302	204	17
Deferred	690							
Total	4,823							

Schedule of Average Benefit Payment Amounts
By Year of Retirement

Last Five Fiscal Years

Retirement Effective Dates	Years of Credited Service (1)					
For Fiscal Years Ending June 30:	5-9	10-14	15-19	20-24	25-29	30+
2006						
Average Monthly Benefit	$736.79	$859.23	$1,441.88	$2,144.98	$2,907.38	$4,647.01
Mean Monthly Final Average Compensation	$3,578.06	$3,667.90	$4,560.91	$5,270.84	$5,682.46	$8,548.57
Number of Active Retirees	16	23	36	48	56	75
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
From July 1, 2001 to June 30, 2006						
Average Monthly Benefit	$493.84	$809.00	$1,372.78	$2,063.29	$2,925.88	$3,911.49
Mean Monthly Final Average Compensation	$2,786.61	$3,059.97	$3,820.55	$4,410.53	$5,043.88	$6,009.58
Number of Active Retirees	80	131	151	203	309	280

(1) Does not include sick leave service