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

SIXTY-FIRST ANNUAL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2007 and 2006

101 S. Central Avenue, Suite 600
Phoenix, Arizona 85004
(602) 534-4400
FAX (602) 495-2008

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

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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, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

City of Phoenix
RETIREMENT SYSTEMS

December 18, 2007

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, 2007 and 2006 is hereby submitted. This report consists of the Introductory, Financial, Investment, Actuarial and Statistical sections.

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 City of Phoenix Employees' Retirement Board (the "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. Ex-Officio Board members are Barbara Lang, City Treasurer; Rick Naimark, Deputy City Manager; Janet Smith, Personnel Director; and Bob Wingenroth, Finance Director. The Retiree Board Member is Jim Flanagan. The Citizen Board Member is Linda Reidenbach.

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.

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, 2007 and 2006.

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 comprehensive annual financial report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

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 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

During the fiscal year ended June 30, 2007, the Board adopted an implementation plan for the asset allocation targets adopted in June 2006. Several steps of the implementation plan were completed during the fiscal year.

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 $1,417,000. 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 $4,391,000 for the fiscal year ended June 30, 2007. Administrative and investment costs combined represented 0.25% 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, 2007 reflects an unfunded actuarial accrued liability of $349,611,000. 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, 2007 is 20 years. A smoothed market value of assets was used for the June 30, 2007 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.

INVESTMENT ACTIVITIES

As of June 30, 2007, COPERS' net asset value of $1.931 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 16.50%. For the last five years, the Plan had an annualized return of 10.57%.

The Retirement Board voted in June 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 plan's diversification represents the Board's prudent judgment in pursuit of maximum returns at acceptable levels of risk.

In August 2006, the Retirement Board adopted a transition plan intended to take place over several quarters. During the fiscal year ended June 30, 2007, in coordination with the Board's investment consultant, R.V. Kuhns & Associates, several asset transitions were implemented. As recommended by R.V. Kuhns & Associates, State

Street Bank and Trust Company managed two significant transitions involving several investment managers. R.V. Kuhns & Associates reviewed the pre- and post-trade transition reports provided by State Street Global Markets.

The Board's investment consultant, R.V. Kuhns & Associates, coordinated a search for a domestic equity large-cap value manager. On September 6, 2006, the Board authorized contract negotiations with Dimensional Fund Advisors.

On September 28, 2006, the Board was informed of an organizational name change from Fidelity Management & Trust to Pyramis Global Advisors.

The Board's investment consultant, R.V. Kuhns & Associates, coordinated a search for an international equity small-cap manager. On December 4, 2006, the Board authorized contract negotiations with AXA Rosenberg.

On February 21, 2007, the Board adopted a policy regarding valuation and controls for alternative investments requiring the investment managers to submit the policies and procedures used in periodic portfolio valuation.

On February 21, 2007, the Board adopted a policy change to direct investment managers to vote proxies in the best interest of the plan concerning cumulative voting rights.

The Board's investment consultant, R.V. Kuhns & Associates, coordinated a search for a real return manager. On February 28, 2007, the Board authorized contract negotiations with Research Affiliates.

On February 28, 2007, after review of a recommendation from R.V. Kuhns & Associates, the Board authorized staff and R.V. Kuhns & Associates to invest the initial funding for the real return allocation in a Treasury Inflation Protected Securities ("TIPS") strategy managed by one of the existing fixed-income managers while the contract documents for Research Affiliates were being completed. R.V. Kuhns & Associates recommended Wells Capital Management manage the TIPS strategy. Wells Capital Management managed the strategy from March 2007 through early June 2007 when Research Affiliates began managing the assets.

On May 16, 2007, the Board adopted changes in investment manager allocations following a domestic equity structure study presented by R.V. Kuhns & Associates.

On June 27, 2007, the Board adopted a revised policy regarding the appropriate benchmark for the Plan's investment results following a presentation from R.V. Kuhns & Associates. The Board determined the plan's performance would be compared to other pension funds of similar size in total and risk-adjusted returns over a complete market cycle

The COPERS' actual allocation as of June 30, 2007 is 32% large cap domestic equities, 13% small/mid cap domestic equities, 19% international equities, 23% domestic fixed income, 7% real estate and 6% real return.

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 Clifton Gunderson LLP and a review of operations is performed by the City Auditor's Department. During fiscal year 2007, investment performance analysis, asset allocation review, and investment consulting was provided by R.V. Kuhns & Associates. Transition management services were provided by State Street Global Markets.

COPERS' investment managers and styles as of June 30, 2007 were:

Equity Managers:

AXA Rosenberg	International
Cadence Capital Management	Large Cap Growth
Dimensional Fund Advisors	Large Cap Value
Eagle Asset Management	Small Cap Growth
GMO	International
Northern Trust Investments	Index Core
Pyramis Global Advisors	International
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

Real Estate Managers:
J.P. Morgan
Morgan Stanley

Real Return Manager:
Research Affiliates

SUBSEQUENT EVENTS AND ACKNOWLEDGMENTS

The Board's investment consultant, R.V. Kuhns & Associates, coordinated a search for a domestic small- to mid-cap value manager. On July 11, 2007, the Board authorized contract negotiations with Wellington Management Company. Following a review of organizational changes at Wellington Management Company, on September 26, 2007, the Board directed the discontinuation of contract negotiations with Wellington Management Company. On September 26, 2007, the Board authorized contract negotiations with Cramer Rosenthal McGlynn.

On August 15, 2007 and November 14, 2007, the Board adopted changes in investment manager allocations following domestic equity structure studies presented by R.V. Kuhns & Associates.

On August 15, 2007, the Board adopted a revised benchmark for the Plan's investment results following a presentation from R.V. Kuhns & Associates applicable for the fiscal year ended June 30, 2007. The plan's performance will be compared to the "All Pension Plans $1 Billion to $5 Billion" universe as developed by R.V. Kuhns & Associates.

The preparation of this report reflects the combined efforts of COPERS staff, the Finance Department Accounts, Financial Accounting and Reporting 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 Bl

Donna Buelow
Retirement Program Administrator

Retirement Board

Elected Board Members

CATHLEEN GLEASON
Chairperson Retirement Board

ELIZABETH BISSA
Vice Chairperson
Retirement Board

FRANK BARRIGA
Board Member

Ex-Officio Board Members

BARBARA LANG
Treasurer
City of Phoenix

RICK NAIMARK
Deputy City Manager
City of Phoenix
Chairperson Legal
Review Committee

JANET SMITH
Personnel Director
City of Phoenix
Chairperson Charter
Amendments Policies &
Procedures Committee

BOB WINGENROTH
Finance Director
City of Phoenix

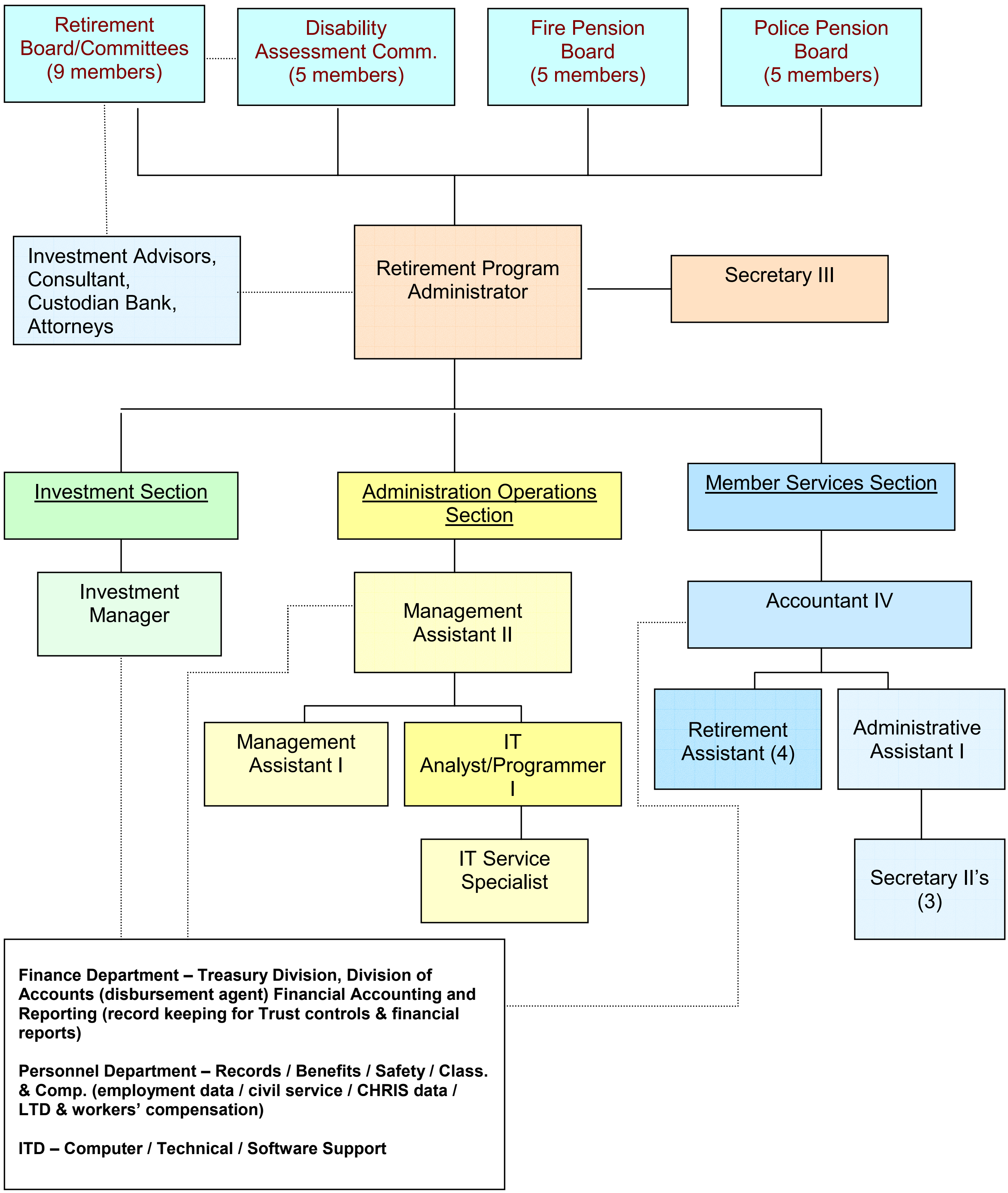
Citizen Board Member

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

Josie Armenta
Retirement Assistant

John Buchanan
Retirement Assistant

Lollita Cordova
Management Assistant I

Lisa Daley
Secretary II

Greg Fitchet
Investment Manager

Stephen Herbert
IT Analyst Programmer

Tim Jackson
Retirement Assistant

Edna Marinelarena
Secretary II

Anna Martinez
Management Assistant II

Tricia Moreno
Secretary II

Michael Teeselink
Retirement Assistant

Jackie Temple
Accountant IV

Paula Whisel
Secretary III

Vacant
Administrative Assistant I

Vacant
IT Service Specialist

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
Elizabeth Bissa
Jim Flanagan
Barbara Lang
Bob Wingenroth

Charter Amendments/Policies & Procedures
Janet Snith, Chairperson
Frank Barriga
Elizabeth Bissa
Jim Flanagan
Cathy Gleason

Legal Review Committee
Rick Naimark, Chairperson
Frank Barriga
Cathy Gleason
Linda Reidenbach
Bob Wingenroth

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

Auditor
Clifton Gunderson LLP
Phoenix, AZ
Certified Public Accountants 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, pages 45, 48, 49 and 51

Legal Services
Kutak Rock LLP
Scottsdale, AZ

Yoder & Langford, P.C.
Phoenix, AZ

City of Phoenix
RETIREMENT SYSTEMS

December 18, 2007

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, 2007 and 2006. This annual report contains information regarding the COPERS' administration, financial statements, investments, actuarial and statistical 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, 2007 was 16.5%. The annualized return for the past three and five years was 11.3% and 10.6%, respectively.

During the fiscal year ended June 30, 2006, R.V. Kuhns & Associates, prepared and presented an asset allocation study along with 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 R.V. Kuhns & Associates' recommendation, the implementation process was scheduled to be completed over the next several quarters. Many of the necessary processes to complete the asset diversification took place during the fiscal year ended June 30, 2007. The implementation was completed in October 2007. The Plan's target allocation is 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.

As of June 30, 2007, Rodwan Consulting Company reports the Plan has an 83.9% funded ratio, slightly increased from the funded ratio as of June 30, 2006 of 81.3% due to more favorable than expected experience based on long-term assumptions. The plan sponsor, the City of Phoenix, remains committed to funding the employer's actuarially computed contribution amount.

The COPERS Board commends staff for continuing to provide a high level of service to plan members and retirees. Staff continues to provide counseling and education opportunities independently and through coordination with the City's Personnel Department. The Board and staff have continued effective communication with active members and retirees through the distribution of annual statements and a summary of the CAFR report through a Popular Annual Financial Report ("PAFR") for the fiscal years ended June 30, 2006 and 2005. The PAFR was well received and was recognized by the Government Finance Officers Association for the second consecutive year.

The COPERS Board is focused on fulfilling our fiduciary obligation to all stakeholders; employees, retirees, the City of Phoenix and its taxpayers. Please contact the Retirement Office with any questions or comments.

Sincerely,

Cathleen Gleason

Cathleen Gleason
Chairperson, Retirement Board

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

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.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the City of Phoenix Employees' Retirement System (the "Plan") as of June 30, 2007, and the related statement of changes in plan net assets for the year then ended. 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 audit. The financial statements of the City of Phoenix Employees' Retirement System as of and for the year ended June 30, 2006, were audited by other auditors whose report, dated December 1, 2006, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 City of Phoenix Employees' Retirement System as of June 30, 2007, and the changes in its net assets for the year 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 on pages 17 through 21 and 36 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Plan's basic financial statements. The additional supplementary information in the financial section for the year ended June 30, 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Phoenix, Arizona
December 18, 2007

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, 2007 and 2006. 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, 2007, $1,930,535 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 15.6% from June 30, 2006. 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, 2006 were $1,670,553 compared to $1,549,572 as of June 30, 2005. The increase of 7.8% during 2006 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, 2007 were $364,916 compared to $215,957 for fiscal year ended June 30, 2006 and $190,882 for fiscal year ended June 30, 2005. The increase for the current year was attributable primarily to increases in investment income. The amount as of June 30, 2007, includes employer and employee contributions of $88,358 and net investment income of $272,051. Fiscal year ended June 30, 2006 and June 30, 2005, employer and employee contributions were $80,953 and $69,682 respectively. The net investment income was $133,934 and $120,237 respectively.

- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 10.5% from the fiscal year ended June 30, 2006. This compares to an 9.1% increase in deductions between June 30, 2006 and June 30, 2005. Deductions for fiscal year ended June 30, 2007 were $104,934 compared to $94,976 for fiscal year ended June 30, 2006 and $87,053 for fiscal year ended June 30, 2005. The increases in deductions as of June 30, 2007 and June 30, 2006 are attributable to increased benefits paid during the year.

- The recent Actuarial Valuation prepared as of June 30, 2007 reports the funded ratio to be 83.9%. The funded ratio for fiscal years June 30, 2006 and June 30, 2005 is 81.3% and 84.2%, respectively. A smoothed market value of assets was used for the June 30, 2007, June 30, 2006 and June 30, 2005 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 36)
- Additional Supplementary Information (Page 38)

Statements of Plan Net Assets:

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.

Statements of Changes in Plan Net Assets:

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.

Notes to the Financial Statements:

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

Required Supplementary Information (RSI):

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

Additional Supplementary Information:

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 COPERS' 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, 2007 were $1,930,535. This amount represents an increase of 15.6% from Plan Net Assets of $1,670,553 as of June 30, 2006. The Plan Net Assets as of June 30, 2005 were $1,549,572. 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, 2007, 2006 and 2005 was 16.5%, 9.0% and 8.6%, respectively. The increase in investment performance for the current fiscal year was attributable to domestic equity performance of 20.0%, international equity performance of 26.7% and 6.1% for bonds. The return for domestic equities and bonds as of June 30, 2006 was 11.2% and (0.9) %, respectively. The return for domestic equities and bonds as of June 30, 2005 was 9.7% and 6.2%, respectively.

Table 1: COPERS' Plan Net Assets for June 30, 2007 and 2006 (in thousands)

	2007	2006	Change	% Change
Cash & Cash Equivalents	$ 73,046	$ 82,227	$ (9,181)	-11.2%
Total Receivables	49,595	47,422	2,173	4.6%
Total Investments	2,232,596	1,819,046	413,550	22.7%
Total Assets	2,355,237	1,948,695	406,542	20.9%
Total Liabilities	424,702	278,142	146,560	52.7%
COPERS' Net Assets	$ 1,930,535	$ 1,670,553	$ 259,982	15.6%

Table 2: 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%

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 Statements.

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, 2007 was $272,051. This compares to net investment income for June 30, 2006 and June 30, 2005 of $133,934 and $120,237, respectively. Deductions increased by 10.5% over the prior fiscal year, primarily as a result of increases in pension payments. This compares to a 9.1% increase in deductions from June 30, 2005 to June 30, 2006. Benefit payments for the fiscal years ending June 30, 2007, 2006 and 2005 were $100,366, $91,911and $83,657, 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 66 for more information on the Pension Equalization Program).

The summary of COPERS' revenues (additions) and expenses (deductions) for the fiscal years ended June 30, 2007, 2006 and 2005 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, 2007 and June 30, 2006 (in thousands)

	2007	2006	Change	% Change
Additions				
Employer Contributions	$ 58,151	$ 52,974	$ 5,177	9.8 %
Members' Contributions	30,207	27,979	2,228	8.0 %
Inter-System Transfers	4,507	1,070	3,437	321.2 %
Net Investment Income	271,692	133,682	138,010	103.2 %
Net Securities Lending Income	359	252	107	42.5 %
Total	$ 364,916	$ 215,957	$ 148,959	69.0 %
Deductions				
Benefit Payments	$ 100,366	$ 91,911	$ 8,455	9.2 %
Refunds	2,770	2,465	305	12.4 %
Inter-System Transfers	1,798	600	1,198	199.7 %
Total	$ 104,934	$ 94,976	$ 9,958	10.5 %
Net Change in Assets	$ 259,982	$ 120,981	$ 139,001	114.9 %
Ending Net Assets	$ 1,930,535	$ 1,670,553	$ 259,982	15.6 %

Table 4: 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 %
Members' 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 %

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, 2007 and 2006

(in thousands)

	2007	2006
ASSETS		
Cash and Cash Equivalents (Note 8)	$ 73,046	$ 82,227
Receivables		
Due from the City of Phoenix (Note 11)	1,327	379
City of Phoenix Contributions	1,821	1,651
Member Contributions	1,039	958
Interest and Dividends	3,880	2,501
Unsettled Broker Transactions - Sales	41,521	41,871
Other	7	62
Total Receivables	49,595	47,422
Investments, at Fair Value		
Temporary Investments from Securities Lending Collateral (Note 9)	283,909	139,066
Fixed Income	496,112	569,542
Domestic Equities	1,081,022	936,407
International Equities	371,553	174,031
Total Investments (Note 8)	2,232,596	1,819,046
Total Assets	2,355,237	1,948,695
Liabilities		
Payable for Securities Lending Collateral (Note 9)	283,909	139,066
Unsettled Broker Transactions - Purchases	139,197	138,035
Investment Management Fees Payable	1,259	1,034
Other Payables	337	7
Total Liabilities	424,702	278,142
Commitments and Contingencies (Notes 8, 9 and 12)		
Net Assets Held in Trust for Pension Benefits (Note 3)	$1,930,535	$1,670,553

(A Schedule of Funding Progress is presented on page 36)

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, 2007 and 2006

(in thousands)

ADDITIONS	2007	2006
Contributions		
City of Phoenix	$ 58,151	$ 52,974
Member	30,207	27,979
Funds from Other Systems (Note 10)	4,507	1,070
Total Contributions (Note 5)	92,865	82,023
Net Investment Income		
From Investing Activities:		
Net Appreciation in		
Fair Value of Investments	241,419	114,407
Interest	18,953	14,255
Dividends	12,808	8,915
Other	2,903	246
Total Investment Income	276,083	137,823
Less Investment Expense	(4,391)	(4,141)
Net Income from Investing Activities	271,692	133,682
From Security Lending Activities:		
Security Lending Gross Income	8,449	5,343
Less Security Lending Activity Expenses:		
Agent Fees	(154)	(108)
Broker Rebates/Collateral Management Fees	(7,936)	(4,983)
Total Security Lending Expenses	(8,090)	(5,091)
Net Income from Security Lending Activities	359	252
Total Net Investment Income	272,051	133,934
Total Additions	364,916	215,957
DEDUCTIONS		
Benefit Payments	100,366	91,911
Refunds of Contributions	2,770	2,465
Funds to Other Systems (Note 10)	1,798	600
Total Deductions	104,934	94,976
NET INCREASE	259,982	120,981
Net Assets Held in Trust for Pension Benefits (Note 3)		
Beginning of Year	1,670,553	1,549,572
End of Year	$1,930,535	$1,670,553

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 provisions for termination of COPERS.

d. Membership Data

	June 30	
	2007	2006
Current retirees, beneficiaries and survivors	4,217	4,069
Alternate Payees	72	64
Terminated vested members	760	690
Active members:		
Vested	6,636	6,461
Non-vested	2,928	2,799
Total Members	14,613	14,083

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 8% for fiscal year 2007 was granted by the Retirement Board to be applied at June 30, 2007 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.

<u>Note 2 - Summary of Significant Accounting Policies (Continued)</u>

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 no more than 90 days. 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.

<u>Note 3 – Net Assets Held in Trust for Pension Benefits</u>

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 8 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 – Net Assets Held in Trust for Pension Benefits (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, 2007 and 2006 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	2007	2006
Employees' Savings	$403,819	$374,091
Pension Accumulation	385,615	314,328
Pension Reserve	929,462	845,886
Pension Equalization Reserve	1,150	10,610
Convert to Fair Value	210,489	125,638
Total Based on Fair Value	$1,930,535	$1,670,553

Note 4 - Administrative Costs

The 2007 Administrative costs of COPERS were $1,417,000. This amount was paid by the City and not recognized in COPERS' financial statements. This compares to the 2006 administrative costs of $1,454,000. 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, 2007 were $58,151,000, which is equivalent to 11.66% of the estimated annual active member payroll, compared with 11.2% for the fiscal year ended June 30, 2006. Employee contributions for the fiscal years ended June 30, 2007and June 30, 2006 were $30,207,000 and $27,979,000 respectively, 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, 2007 and June 30, 2006 are detailed below (in thousands).

	2007	2006
Actuarial Value of Assets	$1,816,508	$1,626,741
Actuarial Accrued Liability		
Active Members	1,169,824	1,079,082
Retirees and Beneficiaries Currently Receiving Benefits	964,006	892,123
Terminated Members Not Yet Receiving Benefits	32,289	29,141
Total Actuarial Accrued Liability	2,166,119	2,000,346
Unfunded Actuarial Accrued Liability	($349,611)	($373,605)

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, 2007 and 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.

   b) Disability - Based upon COPERS' experience.

   c) Withdrawal - Based upon COPERS' experience, measures the probability of members terminating employment for reasons other than retirement, death or disability.

4) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2007 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, 2007 were $403,818,906, including interest compounded annually compared to $374,091,458 at June 30, 2006. 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, 2007.

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 45% being invested (at cost) in domestic common stocks as of June 30, 2007. The Board’s present policy allows up to 23% investment (at fair value) in international equities. As of June 30, 2007 approximately 16% was invested (at fair value) in international equities.

A summary of investments at June 30, 2007 and 2006 is as follows (in thousands):

	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Temporary Investments from Securities Lending Collateral (Note 9)	$ 283,909	$ 283,909	$ 139,066	$ 139,066
Fixed Income	485,950	496,112	549,318	569,542
Domestic Equities	953,582	1,081,022	862,969	936,407
International Equities	298,665	371,553	142,055	174,031
	2,022,106	2,232,596	1,693,408	1,819,046
Cash and Cash Equivalents	73,046	73,046	82,227	82,227
Total Investments	$ 2,095,152	$ 2,305,642	$ 1,775,635	$ 1,901,273

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, 2007 and June 30, 2006, the total market value of options held was $27,992 and $13,991, respectively. As of June 30, 2007 and June 30, 2006, the total market value for swaps was ($393,000) and ($308,535), respectively. The underlying securities for these wages were corporate bonds.

Note 8 – Investments (Continued)

The following schedule provides the categories of investments as of June 30, 2007 (in thousands):

Investment Categories	Fair Value
Cash	$ (4,924)
Short-Term Investment Fund	77,970
Cash and Cash Equivalents	73,046
Temporary Investments from Securities Lending Collateral	283,909
Fixed Income:	
Options (Net)	28
SWAPS	(393)
Convertibles	157
Credit Card Receivable	1,877
U S Government Guaranteed Securities	72,437
Government Agencies Securities	178,167
Mortgage Backed Securities	59,635
Asset Backed Securities	15,524
Corporate Bonds	46,839
International Bonds	16,570
Commingled Bond Index Fund	105,271
	496,112
Domestic Equities:	
Real Estate	132,159
Real Return	94,822
Common Stocks	626,241
Commingled Equity Index Fund	227,800
	1,081,022
International Equities	371,553
Total	$2,305,642

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, 2007, 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.

Note 8 – Investments (Continued)

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, 2007, COPERS did not realize any custodial credit risk for investments or securities lending arrangements. Note 9 on page 34, provides detailed information regarding securities lending. COPERS' policy requires all investments to be insured, collateralized and registered in COPERS' or its nominee(s) name.

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, 2007, 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 includes a target of 23% of the Plan's total assets in international investments. The current actual international investment allocation is 18% of total Plan assets as of June 30, 2007. The fair market value of COPERS' international commingled equity funds managed by Pyramis Global Advisors, GMO and AXA/Rosenberg was $371,553,000 as of June 30, 2007. Dollar denominated holdings accounted for 83.8% of the international investments. Non-dollar denominated holdings amounted to 16.2% and are listed in the table below by currency exposure.

Foreign Currency Exposure
as of June 30, 2007
(in thousands)

Currency	Equity	Cash	Total
Australian Dollar	$2,972	$77	$3,049
Canadian Dollar	4,073	64	4,137
Swiss Franc	4,748	13	4,761
Danish Krone	264	19	283
Euro	21,162	26	21,188
Pounds Sterling	10,140	26	10,166
Hong Kong Dollar	1,473	13	1,486
Japanese Yen	10,037	77	10,114
South Korean Won	2,329	6	2,335
Norwegian Krone	135	77	212
New Zealand Dollar	109	6	115
Swedish Krona	1,506	0	1,506
Singapore Dollar	856	39	895
Total	$59,804	$443	$60,247

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 33 provides information relating to the credit risk for the fixed income investments in COPERS' as of June 30, 2007.

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 services agreement with Wells Capital Management requires them 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 services agreement with Western Asset Management Company directs them 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 33. 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.
- 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		**$ (4,924)**	**$ (4,924)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Short Term Investment Fund	Not Rated	77,671	5,177	-	-	-	72,494	-
Short Term Government Agency	AAA	299	299	-	-	-	-	-
Total Short Term Investments		**77,970**	**5,476**	-	-	-	**72,494**	**-**
Total Options	Not Rated	**28**	**28**	-	-	-	-	-
Total SWAPS	Not Rated	**(393)**	**(280)**	**36**	-	-	-	**(149)**
Total Convertibles	Not Rated	**157**	**157**	-	-	-	-	-
Total Credit Cards Receivable	Not Rated	**1,877**	**1,877**	**-**	-	-	-	**-**
U S Government	Not Rated	6,328	-	-	-	-	-	6,328
U S Government	AAA	66,109	32,938	10,335	987	8,407	5,845	7,597
Total U S Government		**72,437**	**32,938**	**10,335**	**987**	**8,407**	**5,845**	**13,925**
Government Agency	Not Rated	82,564	-	-	-	-	-	82,564
Government Agency	AAA	95,603	4,660	12,300	14,321	16,899	7,183	40,240
Total Government Agency		**178,167**	**4,660**	**12,300**	**14,321**	**16,899**	**7,183**	**122,804**
Mortgage Backed	Not Rated	4,766	-	-	-	-	-	4,766
Mortgage Backed	AAA	53,692	-	271	-	-	2,257	51,164
Mortgage Backed	AA	707	-	-	-	-	-	707
Mortgage Backed	A	470	-	-	-	-	470	-
Total Mortgage Backed		**59,635**	**-**	**271**	-	-	**2,727**	**56,637**
Other Asset Backed	Not Rated	1,305	-	-	-	-	-	1,305
Other Asset Backed	AAA	12,603	4,517	197	500	200	417	6,772
Other Asset Backed	AA	96	-	-	-	-	-	96
Other Asset Backed	BBB	1,154	**-**	304	**-**	148	702	-
Other Asset Backed	B	366	-	-	366	-	-	-
Total Other Asset Backed		**15,524**	**4,517**	**501**	**866**	**348**	**1,119**	**8,173**
Corporate Bonds	Not Rated	1,822	987	835	-	-	-	-
Corporate Bonds	AAA	2,647	2,052	595	-	-	-	-
Corporate Bonds	AA	6,099	4,129	1,834	-	-	-	136
Corporate Bonds	A	11,065	2,589	5,663	-	-	548	2,265
Corporate Bonds	BBB	21,060	8,322	6,486	2,441	-	-	3,811
Corporate Bonds	BB	2,293	1,509	263	245	25	-	251
Corporate Bonds	B	1,688	1,390	70	-	-	-	228
Corporate Bonds	CCC	165	-	-	-	-	165	-
Total Corporate Bonds		**46,839**	**20,978**	**15,746**	**2,686**	**25**	**713**	**6,691**
International Bonds	Not Rated	454	350	104	-	-	-	-
International Bonds	AAA	2,038	2,038	-	-	-	-	-
International Bonds	AA	815	815	-	-	-	-	-
International Bonds	A	3,563	699	1,584	480	-	-	800
International Bonds	BBB	9,413	1,471	3,764	271	-	765	3,142
International Bonds	BB	287	-	287	-	-	-	-
Total International Bonds		**16,570**	**5,373**	**5,739**	**751**	**-**	**765**	**3,942**
Totals by Maturity Dates		**463,887**	**70,800**	**44,928**	**19,611**	**25,679**	**90,846**	**212,023**
Total Commingled Bond Index Fund	Not Rated	**105,271**						
Fixed Income Investments		**569,158**						

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. The Agreement was amended effective November 16, 2006 directing State Street Bank and Trust to invest cash collateral in the Funds for Short-Term Investment – Quality D, replacing the requirement to invest in the Quality A Fund.

During 2007 and 2006, 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 2007 and 2006, 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, 2007, such investment pool had an average duration of 48 days and an average weighted maturity of 168 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, 2007; 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, 2007, were $283,909,161 and $277,927,888, respectively, and as of June 30, 2006, were $139,066,021 and $137,330,245 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 2007 and 2006, was equal to the present value of the employees' then-vested benefits.

Under the provisions of Arizona Revised Statutes, Section ARS 38-923 and 38-924 as amended in 2006, an active or inactive member of COPERS or the Public Safety Personnel Retirement System ("PSPRS") who becomes a member of the other retirement system may transfer service credits from the member's prior retirement system to the member's current retirement system. The amount of the transfers from COPERS during 2007 and 2006, was equal to the member's account.

Note 11 – Interfund Balances

On the Statement of Plan Net Assets, the liability if any, 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.

Required Supplementary Information

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

Actuarial Valuation Date		(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (3)/(5)
06/30/07		$ 1,816,508	$ 2,166,119	$ 349,611	83.9 %	$ 535,079	65.34 %
06/30/06	(a)	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	--

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
2006-07	2005	$ 58,151	100 %
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

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, 2007	June 30, 2006
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%	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, 2007 and 2006

	2007		2006	
	Budget	Actual	Budget	Actual
Personal Services				
Staff Salaries	$928,538	$678,794	$875,912	$754,969
Insurance	155,394	102,688	157,819	121,702
Social Security	58,456	47,193	61,468	51,643
Retirement	95,291	74,241	90,077	80,903
Total Personal Services	1,237,679	902,916	1,185,276	1,009,217
Professional Services				
Consultants	71,220	90,946	70,800	82,409
Audit and Accounting	70,460	75,814	57,775	41,775
Medical Advisors	23,550	20,472	39,000	38,998
Computer Services	223,886	224,940	190,357	189,616
Total Professional Services	389,116	412,172	357,932	352,798
Communications				
Printing	42,501	43,460	41,417	42,555
Postage	4,400	3,670	5,800	4,352
Travel and Conferences	15,126	14,844	16,726	5,900
Telephone	1,490	2,843	9,927	11,487
Subscriptions and Memberships	2,600	3,114	2,400	2,912
Total Communications	66,117	67,931	76,270	67,206
Miscellaneous				
Supplies	13,375	16,605	15,175	16,340
Office Furniture	6,681	6,272	3,181	2,601
Insurance	1,005	1,395	1,727	1,078
Computer Equipment	7,344	7,222	1,800	3,171
Other	3,942	2,094	1,645	1,116
Total Miscellaneous	32,347	33,588	23,528	24,306
Total Administrative Expenditures and Encumbrances	$1,725,259	$1,416,607	$1,643,006	$1,453,527

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, 2007

Payee	Commissions or Fees	Nature of Services
RV Kuhns & Associates	$177,613	Investment Consultant
State Street Bank	104,995	Master Custodian
AXA Rosenberg	192,472	Investment Management
Cadence Capital Management	791,200	Investment Management
Dimensional Fund Advisors	101,164	Investment Management
Eagle Asset Management	573,959	Investment Management
Pyramis Global Advisors	460,372	Investment Management
McKay-Shields	413,438	Investment Management
Northern Trust Investments	90,995	Investment Management
The Boston Company	773,830	Investment Management
Wells Capital Management	322,537	Investment Management
Western Asset Management Corporation	378,091	Investment Management
Foreign Taxes	10,286	Investment Expense
Subtotal	4,390,952	
GMO (1)	728,479	
JP Morgan (1)	79,988	
Morgan Stanley (1)	478,294	
Total	$5,677,713	

Schedule of Payments to Consultants
For the Fiscal Year Ended June 30, 2007

Payee	Fees Paid	Nature of Services
Kutak Rock LLP (2)	$ 56,747	Legal Services
Rodwan Consulting Company (2)	22,536	Actuarial Services
Yoder & Langford, P.C. (2)	10,135	Legal Services
	$ 89,418	

(1) Because GMO, JP Morgan and Morgan Stanley fees are not paid separately as are fees to the other fund managers, they are not included in the investment expenses reported in the Statements 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.

November 5, 2007

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, steady interest rates, and elevated energy prices. U.S. Gross Domestic Product grew in each of the last four quarters as the economy expanded by 1.9% since June 30, 2006.[1] The economy added approximately 1.9 million jobs to nonfarm payrolls, extending an uninterrupted upward trend in job growth that has existed since the third quarter of 2003.[2] The unemployment rate declined from 4.6% to 4.5% during the year. The Federal Reserve held short-term interest rates steady at 5.25% over the course of the fiscal year, while Treasury yields declined slightly across their range of maturities.

The market value of the City of Phoenix Employees' Retirement System (COPERS) assets increased from $1.669 billion to $1.928 billion in the year ended June 30, 2007. Five years ago, the fund was valued at $1.250 billion.

The past year has been very favorable for global equities, and less so for fixed income securities. In the United States, the S&P 500 Index returned 20.6%. International developed markets fared even better, returning 27.5% (as measured by the MSCI EAFE Index). Fixed income securities, plagued by low yields, returned 6.1% (Lehman Brothers Aggregate Bond Index).

The System's overall investment return over the past year was 16.5%, the System's three-year annualized return was 11.3%, and the System's five-year annualized return was 10.6%. The System's current actuarial assumed rate of return is 8.0%, which represents the System's long-term return goal.

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 dampened portfolio volatility while enhancing returns. As of June 30, 2007, 32.1% of the System's investments were invested in

[1] Based on data provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Data for second quarter 2007 are preliminary.
[2] Based on data provided by the U.S. Department of Labor.

large-capitalization U.S. equities, 12.6% in small- and mid-capitalization U.S. equities, 19.3% in non-U.S. equities, 23.3% in fixed income investments, 6.9% in real estate, 5.7% in real return strategies, and 0.1% in cash equivalents. This investment allocation was consistent with policy guidelines.

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 two years, 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 are confident 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 and transaction costs 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 held 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,

Rebecca Gratsinger
President, Chief Consulting Officer,
Senior Consultant, Principal

Ryan Harvey
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, 2007 were 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.

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 Index, the Russell 2000 Growth Index, MSCI EAFE Index, S & P/Citigroup EMI World Ex US Index and the S & P 500 Index. The market for bonds shall be represented by the Lehman Aggregate Bond Index and the Lehman Brothers Govt/Credit Int. Term Bond Index. The market for real estate shall be represented by the NCREIF Property 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 80% of commissions for US trades executed with a network of brokers and 100% 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. For the fiscal year ended June 30, 2007, the total payments received under SSGM were $162,202.

Investment Services Under Contract (as of June 30, 2007)

EQUITY MANAGERS:

AXA Rosenberg Group LLC Ornida, CA
Laurie Hardwick

Cadence Capital Management Boston, MA
Steve Shaw

Dimensional Fund Advisors Santa Monica, CA
John Gray

Eagle Asset Management St. Petersburg, FL
Clay Lindsey

GMO Boston, MA
Wendy Malaspina

Northern Trust Investments Chicago, IL
Mac Nickey

Pyramis Global Advisors Trust Co. Boston, MA
Paul Cahill

The Boston Company Boston, MA
Rob Harkins

TRANSITION MANAGER

State Street Bank and Trust Boston, MA
Christopher Carlin

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

REAL ESTATE MANAGERS:

J.P. Morgan Chase & Co. New York, NY
Karel Lansky

Morgan Stanley Real Estate Advisor New York, NY
Lidia Novak

REAL RETURN MANAGER:

Research Affiliates LLC Pasadena, CA
Janine Nesbit

INVESTMENT CONSULTANT

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

Schedule of Investment Results
For the Fiscal Years Ended June 30, 2007

		Annualized	
	1-Year	3-Years	5-Years
TOTAL PORTFOLIO:			
COPERS	16.5%	11.3%	10.6%
Target Benchmark	18.2%	11.5%	10.6%
R.V. Kuhns All Pension Plans $1B - $5B	17.4%	12.8%	11.5%
EQUITY FUNDS:			
Cadence Capital Management	16.1%	13.0%	10.5%
Russell 1000 Growth Index	19.0%	8.7%	9.3%
Eagle Asset Management (1)	29.4%	--	--
Russell 2000 Growth Index	16.8%	11.8%	13.1%
Pyramis Global Advisors (2)	24.2%	--	--
MSCI EAFE Index	27.5%	22.8%	18.2%
GMO (3)	27.8%	--	--
MSCI EAFE Index	27.5%	22.8%	18.2%
Dimensional Fund Advisors (4)	--	--	--
Russell 1000 Value Index	21.9%	15.9%	13.3%
Northern Trust Investments	20.7%	11.7%	10.8%
S & P 500 Index	20.6%	11.7%	10.7%
The Boston Company	22.2%	14.8%	21.0%
Russell Midcap Index	20.8%	17.2%	16.4%
AXA Rosenberg (5)	--	--	--
S&P/Citigroup EMI World Index	31.7%	27.7%	24.8%
FIXED INCOME FUNDS:			
Wells Capital Management (6)	6.5%	--	--
Lehman Aggregate Bond Index	6.1%	4.0%	4.5%
Western Asset Management (7)	6.8%	--	--
Lehman Aggregate Bond Index	6.1%	4.0%	4.5%
Northern Trust Investments	5.8%	3.5%	4.3%
Lehman G/C Intermediate Bond Index	5.8%	3.4%	4.2%
REAL ESTATE FUNDS:			
J P Morgan (8)	--	--	--
NCREIF Property Index	17.2%	18.0%	14.4%
Morgan Stanley (9)	--	--	--
NCREIF Property Index	17.2%	18.0%	14.4%
REAL RETURN FUND			
Research Affiliates (10)	--	--	--
LB US 1-10 yr TIPS Index (Short Term)	4.2%	3.6%	5.5%
CPI + 4% (Long Term)	6.8%	7.3%	7.1%

Schedule of Investment Results
(Continued)

(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) Pyramis Global Advisors 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. Fidelity Management & Trust changed its name to Pyramis Global Advisors effective October 1, 2006.

(3) 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.

(4) Dimensional Fund Advisors was added as a large cap value manager on April 1, 2007. Funds transitioned from MacKay Shields. Performance figures would not be representative of the benchmark index.

(5) AXA Rosenberg was added as a small/mid cap international equity manager effective April 1, 2007. Performance figures would not be representative of the benchmark index.

(6) 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.

(7) 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.

(8) JP Morgan added as a real estate manager on May 1, 2007. Performance figures would not be representative of the benchmark index.

(9) Morgan Stanley added as a real estate manager on December 1, 2006. Performance figures would not be representative of the benchmark index.

(10) Research Affiliates added as a real return manager on June 6, 2007. 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.

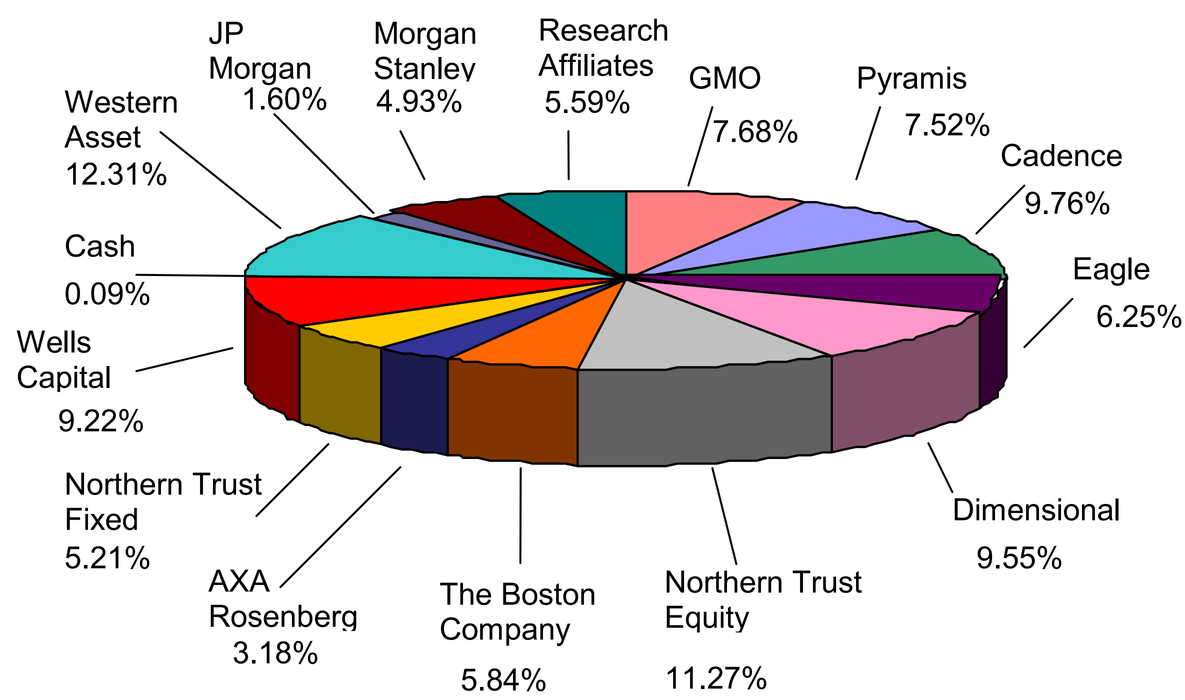
Asset Allocation by Manager
As of June 30, 2007

Manager	Style	Management (in thousands)	% of Portfolio
EQUITY FUNDS			
AXA Rosenberg	International	$ 64,342	3.18 %
Pyramis Global Advisors	International	152,040	7.52
GMO	International	155,171	7.68
Cadence Capital Management	Large Cap Growth	197,400	9.76
Dimensional Fund	Large Cap Value	192,984	9.55
Eagle Asset Management	Small Cap Growth	126,426	6.25
Northern Trust Investments	S & P 500 Index	227,800	11.27
The Boston Company	Mid Cap Value	117,972	5.84
TOTAL EQUITY FUNDS		1,234,135	61.05
FIXED INCOME FUNDS			
Northern Trust Investments	Lehman G/C Int. Index	105,271	5.21
Wells Capital Management	Core Fixed Income	186,361	9.22
Western Asset Management	Core Fixed Income	248,885	12.31
COPERS Cash Account	Short Term Income Fund	1,819	0.09
TOTAL FIXED INCOME FUNDS		542,336	26.83
REAL ESTATE FUNDS			
J P Morgan	Core Real Estate	32,440	1.60
Morgan Stanley	Core Real Estate	99,719	4.93
TOTAL REAL ESTATE FUNDS		132,159	6.53
REAL RETURN FUNDS			
Research Affiliates		113,102	5.59
TOTAL REAL RETURN FUNDS		113,102	5.59
Total Portfolio		$2,021,732	100.00 %

Asset Allocation by Manager

As of June 30, 2007

(Continued)



List of Largest Assets Held

As of June 30, 2007 (dollars in thousands)

Ten Largest Bond Holdings (Market Value)

Par Value	Description	Interest Rate	Due	Rating	Market Value
$22,500	FNMA TBA Jul 30 Single Fam	5.00%	12/01/2099	AAA	$21,069
17,888	FNMA TBA Jul 30 Single Fam	5.50%	12/01/2099	AAA	17,244
12,965	United States Treasury Bonds	4.50%	03/31/2012	AAA	12,767
10,100	FNMA TBA Jul 30 Single Fam	6.00%	12/01/2099	AAA	9,989
8,130	FNMA TBA Aug 30 Single Fam	5.50%	12/01/2099	AAA	7,834
6,420	IRS REC	5.55%	10/18/2008	AAA	6,433
6,441	FNMA TBA Jul 15 Single Fam	5.50%	12/01/2099	AAA	6,343
6,264	IRS REC	5.58%	10/19/2008	AAA	6,279
5,800	FNMA TBA Aug 30 Single Fam	6.00%	12/01/2099	AAA	5,732
5,700	IRS REC	4.71%	10/11/2010	AAA	5,580

Ten Largest Stock Holdings (Market Value)

Shares	Stock	Market Value
203,640	JP Morgan	$9,866
134,760	Metlife Inc	8,689
115,670	Valero Energy Corp	8,543
202,100	Verizon Communications	8,320
385,400	Time Warner Inc	8,109
272,000	Comcast Corp	7,649
131,530	Travelers COS Inc	7,037
80,800	Wellpoint Inc	6,450
64,040	Constellation Energy Group Inc	5,582
124,800	Washington Mut Inc	5,321

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

Schedule of Investment Related Fees
For the Fiscal Year Ended June 30, 2007

	Assets Under Management as of June 30, 2007 (in thousands)	Fees	Basis Points
Investment Manager Fees			
AXA Rosenberg	$64,342	$192,472	29.91
Cadence Capital Management	197,400	791,200	40.08
Dimensional Fund	192,984	101,164	5.24
Eagle Asset Management	126,426	573,959	45.40
Pyramis Global Advisors	152,040	460,372	30.28
GMO	155,171	728,479	46.95
JP Morgan	32,440	79,988	24.66
McKay-Shields	N/A	413,438	N/A
Morgan Stanley	99,719	478,294	47.96
Northern Trust Investments	333,071	90,995	2.73
Research Affiliates	113,102	N/A	N/A
The Boston Company	117,972	773,830	65.59
Wells Capital Management	186,361	322,537	17.31
Western Asset Management	248,885	378,091	15.19
Foreign Taxes	N/A	10,286	N/A
COPERS Cash Account STIF	1,819	N/A	N/A
Total	2,021,732	5,395,105	
Other Investment Service Fees			
RV Kuhns & Associates (Consultant)		177,613	
State Street Bank (Custodian)		104,995	
Total Other Investment Service Fees		282,608	
Total Investment Related Fees		$5,677,713	

Investment Summary
As of June 30, 2007

Type of Investment	Market Value (in thousands)	Percent of Total Market Value
Fixed Income:		
Asset Backed	$ 15,524	0.77 %
Convertibles	157	0.01
Corporate Bonds	46,839	2.32
Commingled Bond Index	105,271	5.21
Credit Card Receivable	1,877	0.09
Government Agencies Securities	178,167	8.81
International Bonds	16,570	0.82
Mortgage Backed Securities	59,635	2.95
Options	28	0.00
Swaps	(393)	-0.02
US Government Guaranteed Securities	72,437	3.58
Total Fixed Income	496,112	24.54
Equity:		
Consumer Discretionary	104,141	5.15
Consumer Staples	25,209	1.25
Energy Related	48,751	2.41
Financials	128,822	6.37
Health Care	58,216	2.88
Industrials	102,707	5.08
Information Technology	84,847	4.20
International Commingled Equity Fund	371,553	18.38
Materials	29,515	1.46
Telecommunication Services	25,688	1.27
Utilities	18,344	0.91
S&P Equity Index	227,800	11.27
Total Equities	1,225,593	60.63
Real Estate:		
Pooled Funds	132,159	6.54
Real Return:	94,822	4.69
Cash & Cash Equivalents	73,046	3.60
Total	$2,021,732	100.00 %

Schedule of Commissions
For the Fiscal Year Ended June 30, 2007

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	1,145,280	$ 47,681	$ 0.0416
BEAR STEARNS + CO INC	776,185	36,033	0.0464
BEAR STEARNS SECURITIES CORP	357,684	88,222	0.2466
BNY BROKERAGE INC	1,020,565	49,585	0.0486
BROADCORTCAPITAL (THRU ML)	1,546,400	61,856	0.0400
CANTOR FITZGERALD + CO.	720,144	25,093	0.0348
CIBC WORLD MARKETS CORP	607,545	23,588	0.0388
CITIGROUPGLOBAL MARKETS INC	866,500	37,978	0.0438
COMPASS POINT RESEARCH AND TRADING	1,005,680	33,150	0.0330
COWEN + CO., LLC	530,460	21,685	0.0409
CREDIT SUISSE SECURITIES (USA) LLC	1,343,660	54,386	0.0405
DEUTSCHE BANK SECURITIES INC	319,740	12,598	0.0394
EDWARDS AG SONS INC	300,115	11,745	0.0391
FRIEDMAN BILLINGS + RAMSEY	289,485	12,909	0.0446
GOLDMAN SACHS + CO	847,700	37,584	0.0443
INSTINET	319,905	12,539	0.0392
INVESTMENT TECHNOLOGY GROUP INC.	696,900	15,237	0.0219
JEFFERIES+ COMPANY INC	1,317,215	52,554	0.0399
KEEFE BRUYETTE + WOODS INC	372,280	13,951	0.0375
KNIGHT SECURITIES	538,423	21,658	0.0402
LA BRANCHE FINANCIAL #2	1,239,540	36,294	0.0293
LEERINK SWANN AND COMPANY	427,990	19,575	0.0457
LEHMAN BROTHERS INC	1,255,416	54,837	0.0437
LIQUIDNETINC	1,269,950	40,592	0.0320
MERRILL LYNCH PROFESSIONAL CLEARING CORP	1,113,280	42,595	0.0383
MERRILL LYNCH,PIERCE,FENNER + SMITH, INC	663,130	30,001	0.0452
MORGAN STANLEY CO INCORPORATED	510,585	18,885	0.0370
OPPENHEIMER & CO. INC.	407,750	18,677	0.0458
PIPER JAFFRAY	348,090	13,119	0.0377
PRUDENTIAL EQUITY GROUP	578,035	23,416	0.0405
RBC CAPITAL MARKETS	590,696	26,023	0.0441
SANDLER ONEILL + PART LP	341,460	14,917	0.0437
SANFORD CBERNSTEIN CO LLC	857,580	36,735	0.0428
STANFORD GROUP CO	249,930	12,093	0.0484
STATE STREET BANK AND TRUST	525,192	27,500	0.0524
STATE STREET BROKERAGE SERVICES	14,119,039	374,475	0.0265
STEPHENS,INC.	639,790	21,929	0.0343
STIFEL NICOLAUS + CO INC	438,600	20,684	0.0472
THOMAS WEISEL PARTNERS LLC	520,505	24,041	0.0462
U S CLEARING INSTITUTIONAL TRADING	690,140	24,668	0.0357
UBS SECURITIES LLC	703,870	24,824	0.0353
WEEDEN + CO.	350,325	15,380	0.0439
WILLIAM BLAIR & COMPANY, L.L.C	489,035	17,255	0.0353
ALL OTHER BROKERS (1)	3,984,349	119,151	0.0299
TOTAL	47,236,143	$ 1,727,698	

(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 8, 2007

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, 2007. 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 Assumptions (Financial and Actuarial Sections), Actuarial Valuation Data (Actuarial Section), Schedule of Retirees and Beneficiaries Added and Removed from Rolls (Actuarial Section), Solvency Test (Actuarial Section), and Analysis of Financial Experience (Actuarial Section).

On the basis of the June 30, 2007 valuation, it is our opinion that the liabilities of the Retirement Plan are being funded as incurred in accordance with sound actuarial principles.

Respectfully submitted

Sandra W Rodwan

Sandra W. Rodwan
Member, American Academy of Actuaries

Actuarial Consultants 2310 E. Eleven Mile Road Royal Oak, Michigan 48067 Tel: (248) 399-8760 Fax: (248) 399-8790

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, 2007 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 0.5% 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	Longevity	Base	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	0.0	4.5	0.5	5.0

Decrement Assumptions

Mortality

The mortality table used was the RP 2000 Mortality Table Combined Healthy. Adopted November 17, 2005. These rates were first used for the June 30, 2006 valuation.

Retirement

Sample probabilities of retirement with an unreduced age and service pension are shown below. Adopted November 17, 2005. These rates were first used for the June 30, 2006 valuation.

Percent of Active Members Retiring Within Year Following Attainment of Indicated Retirement Age

Retirement Age	Percent Retiring	Retirement Age	Percent Retiring
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. These rates were first used for the June 30, 2006 valuation. 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 %
All	1	18.0
All	2	12.0
All	3	9.0
All	4	8.0
25	5 & Over	7.0
30	5 & Over	6.0
35	5 & Over	5.0
40	5 & Over	3.0
45	5 & Over	3.0
50	5 & Over	2.5
55	5 & Over	2.5
60	5 & Over	2.5
65	5 & Over	2.5

Actuarial Valuation Data - Active Members

Valuation Year	Number	Annual Payroll (in thousands)	Average Pay	% Increase Average Pay
07	9,564	$535,079	$55,947	4.2 %
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

Schedule of Retirants and Beneficiaries Added To and Removed From Rolls

(dollars in thousands)

	Added to Rolls			Removed		Rolls End of Year		Average	% Increase
		Annual Pensions							
Year End	No.	New	PEP (a)	No.	Annual Pensions	No.	Annual Pensions	Annual Pensions	in Annual Pensions
07	290	$8,205	$1,519	142	$2,165	4,217	$102,356	$24,272	8.0 %
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

(a) Pension Equalization Increase

Solvency Test

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Assets		
Valuation Date	(1) Active Member Contributions (in thousands)	(2) Retirees and Beneficiaries (in thousands)	(3) Active Members Employer Portion (in thousands)	Valuation Assets (in thousands)	(1)	(2)	(3)
6/30/2007	$403,819	$964,006	$798,294	$1,816,508	100 %	100 %	56 %
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

Analysis of Financial Experience
(dollars in thousands)

	Derivation for Year Ended June 30,				
	2007	2006	2005	2004	2003
(1) UAAL at Start of Year	$373,605	$283,961	$ 267,021	$173,542	$ 116,542
(2) Normal cost for year	66,245	64,510	59,355	55,116	52,987
(3) Employer Contributions for Year	(88,358)	(80,952)	(69,681)	(64,347)	(53,942)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	29,004	22,059	20,956	13,490	9,283
(5) Expected UAAL Before Changes	380,496	289,578	277,651	177,801	124,870
(6) Effect of Assumption Changes	-	49,051	-	-	-
(7) Effect of Benefit Changes	-	-	-	-	-
(8) Expected UAAL After Changes	380,496	338,629	277,651	177,801	124,870
(9) Actual UAAL	349,611	373,605	283,961	267,021	173,541
(10) Gain (loss) (8) - (9)	$30,885	($34,976)	($6,310)	($89,220)	($48,671)
(11) As % of AAL at Start of Year	1.5%	(1.9)%	(0.4)%	(5.9)%	(3.5)%

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 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 has at least five years experience in retirement administration, and is not employed by the City or a COPERS' retiree. The ninth board member is a COPERS' retiree and is elected 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.

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. Effective January 1, 2007, the Board revised the service purchase program. The cost of eligible service shall be based on the full actuarial cost of providing benefits for the period of service being purchased. 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 appointed by the Board who is a resident of Maricopa County, not employed by the City or receiving benefits from the plan and has at least five years experience in a responsible position in the health care field. 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. The Board adopted an 8 percent interest rate for June 30, 2007. If the member dies prior to accruing ten or more years of credited service and not as a result of causes arising out of and in the course of his employment, his accumulated contributions are refunded to his designated beneficiary.

Summary of Plan Provisions (Continued)

Employer Contributions

The Charter requires the City to contribute an amount that is determined annually by COPERS' retained actuaries. Contributions are based upon level percentage of projected payroll funding principles, so that the contribution rates do not fluctuate significantly over time. This contribution is over and above the member contributions made by the City. The Schedule of Employer Contributions for the Last Ten Fiscal Years is located on page 36 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 an identification of 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)

	2007	2006	2005	2004	2003
ADDITIONS					
Member Contributions	$30,207	$27,979	$26,307	$24,783	$26,122
Employer Contributions	58,151	52,974	43,375	39,564	27,820
Funds from Other Systems	4,507	1,070	963	373	500
Net Investment Income (Loss)	272,051	133,934	120,237	198,641	36,909
Total Additions to Plan Net Assets	364,916	215,957	190,882	263,361	91,351
DEDUCTIONS					
Benefit Payments	100,366	91,911	83,657	76,949	70,234
Refunds of Contributions	2,770	2,465	2,508	2,272	2,457
Funds to Other Systems	1,798	600	888	600	365
Administrative Expenses	0	0	0	340	155
Total Deductions from Plan Net Assets	104,934	94,976	87,053	80,161	73,211
CHANGE IN NET ASSETS	$259,982	$120,981	$103,829	$183,200	$18,140

	2002	2001	2000	1999	1998
ADDITIONS					
Member Contributions	$25,191	$22,942	$19,813	$19,603	$16,402
Employer Contributions	28,295	22,329	26,802	29,186	30,124
Funds from Other Systems	1,053	359	124	535	394
Net Investment Income (Loss)	(88,483)	(22,405)	107,841	94,896	179,993
Total Additions to Plan Net Assets	(33,944)	23,225	154,580	144,220	226,913
DEDUCTIONS					
Benefit Payments	64,289	57,806	49,409	43,054	38,987
Refunds of Contributions	3,484	3,364	2,941	3,263	2,238
Funds to Other Systems	657	211	351	297	167
Administrative Expenses	75	0	0	0	0
Total Deductions from Plan Net Assets	68,505	61,381	52,701	46,614	41,392
CHANGE IN NET ASSETS	($102,449)	($38,156)	$101,879	$97,606	$185,521

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
2006-2007	$85,252	$2,509	$668	$2,202	$7,799	$1,208	$39	$681	$100,358
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

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

Refunds
(in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2006-2007	$376	$2,394	$2,770
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

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

Schedule of Retired Members by Type of Benefit
June 30, 2007

Benefit	Retirees	Deferred	Voluntary	Disability	Disability	Payment	Benefit	Payee
Deferred	760	760						
$ 1 - $ 300	48	--	29	1	--	8	--	10
301 - 400	185	--	101	11	15	44	9	5
401 - 500	113	--	62	7	4	30	3	7
501 - 600	142	--	86	4	11	28	9	4
601 - 700	200	--	94	6	13	73	7	7
701 - 800	157	--	96	4	13	31	8	5
801 - 900	162	--	83	3	23	43	5	5
901 - 1,000	175	--	95	7	11	48	10	4
1,001 - 1,100	161	--	110	3	12	20	10	6
1,101 - 1,200	112	--	80	1	9	16	3	3
1,201 - 1,300	163	--	111	--	15	21	10	6
1,301 - 1,400	147	--	110	2	9	16	10	--
1,401 - 1,500	135	--	95	6	4	21	7	2
1,501 - 2,000	609	--	498	9	18	58	19	7
2,001 - 2,500	551	--	488	--	8	41	13	1
2,501 - 3,000	378	--	349	--	4	18	7	--
3,001 - 4,000	482	--	458	--	2	16	6	--
4,001 - 5,000	219	--	212	--	2	4	1	--
Over 5,001	150	--	141	--	--	6	3	--
Totals	5,049	760	3,298	64	173	542	140	72

		Option Selected						
Monthly			Option A		Option B			Child
Benefit	Total	Life	Standard	Pop-Up	Standard	Pop-Up	Option C	Benefit
$ 1 - 300	48	29	12	6	--	--	1	--
301 - 400	185	111	29	9	3	5	13	15
401 - 500	113	70	24	7	1	--	11	--
501 - 600	142	76	27	25	3	3	8	--
601 - 700	200	131	31	16	2	7	13	--
701 - 800	157	94	26	20	3	5	9	--
801 - 900	162	88	32	20	8	5	9	--
901 - 1,000	175	116	30	13	8	3	5	--
1,001 - 1,100	161	84	39	22	3	7	6	--
1,101 - 1,200	112	52	24	18	3	10	5	--
1,201 - 1,300	163	95	29	14	7	13	5	--
1,301 - 1,400	147	80	23	16	7	11	10	--
1,401 - 1,500	135	65	32	16	7	11	4	--
1,501 - 2,000	609	257	151	90	30	44	37	--
2,001 - 2,500	551	216	158	64	30	58	25	--
2,501 - 3,000	378	151	91	55	23	45	13	--
3,001 - 4,000	482	186	141	60	24	51	20	--
4,001 - 5,000	219	83	59	25	17	25	10	--
Over 5,001	150	61	48	16	7	11	7	
Totals	4,289	2,045	1,006	512	186	314	211	15

Deferred	760
Total	5,049

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+
2007						
Average Monthly Benefit	$456.74	$1,008.27	$1,601.26	$2,346.30	$3,248.89	$4,196.41
Mean Monthly Final Average Compensation	$3,719.97	$4,376.90	$4,783.46	$5,305.36	$5,773.94	$6,323.68
Number of Active Retirees	18	14	29	44	67	49
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
From July 1, 2002 to June 30, 2007						
Average Monthly Benefit	$502.02	$866.26	$1,429.81	$2,152.37	$2,982.59	$3,980.66
Mean Monthly Final Average Compensation	$3,457.44	$3,835.29	$4,532.48	$5,161.90	$5,632.85	$6,765.99
Number of Active Retirees	84	115	150	218	323	284

(1) Does not include sick leave service