The City of Phoenix
Employees' Retirement Plan

COMPONENT OF THE CITY OF PHOENIX, ARIZONA

Comprehensive Annual Financial Report

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

Efficient delivery of outstanding public services

Efficient Delivery of Outstanding Public Services

A mission statement defines what an organization is all about. It guides the actions of the organization and sets the framework for strategies that move decision-making forward. Phoenix's newly adopted mission statement does just that:

"To improve the quality of life in Phoenix through efficient delivery of outstanding public services."

Our employees play a major role in a well-run organization that constantly strives for efficient delivery of outstanding public services. The challenge of spending less and creating a smaller, more efficient government has been met with new ideas and new ways of pursuing excellence.

The Water Services Department's Senior Water Quality Inspector Roger Vail works at the 91st Avenue Waste Water Treatment Plant. Employees at the plant perform multiple water quality control tests on a daily basis. Roger suggested measures to streamline a multiple step testing and analysis process. The plan received necessary regulatory approval and now is saving the city nearly $100,000 a year.

Solid Waste Foreman Robert Martinez in the Public Works Department realized that cleaning up trash yards a bit could generate revenue. He started collecting scrap metal material from the various yards and created a bid process to sell the materials to a local metal recycler. The process generated $25,000 from the first recycling event and is expected to generate additional revenue depending on the amount recycled.

There are stories like this throughout the organization; these are just a couple of examples that demonstrate the city's commitment to excellence and to innovation and efficiency. The organization, from the Mayor, City Council, city management, police officers, firefighters, librarians and more are all working together to accomplish our mission and provide the very best services to this great community.

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

SIXTY-SIXTH ANNUAL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 and 2011

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

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Introductory Section

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Phoenix Employees' Retirement Plan, Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

Christopher P Morrill
President

Jeffrey R. Emer
Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

City of Phoenix Employees' Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

City of Phoenix
RETIREMENT SYSTEMS

December 27, 2012

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, 2012 and 2011 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 for the members of the Plan to elect three employee Retirement Board members. The last election was held December 2011. The three elected employee Board members with terms of January 1, 2012 through December 31, 2014 are Elizabeth Bissa, David Hensley and Leslie Scott. Cathleen Gleason was elected by the Board members as the Retiree Board member and Citizen Board member Linda Reidenbach was reelected by the Board members for three-year terms concurrent with the term of the elected employee Board members. The Ex-Officio Board members are Jeff DeWitt, Finance Director; Rick Naimark, Deputy City Manager; Randy Piotrowski, City Treasurer and Janet Smith, Human Resources Director.

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. EORPA and APSPRS benefit payments, investments and overall administration of the Plans are handled by centralized State Boards. The EORPA and the APSPRS were created by Arizona State Statutes. These retirement plans publish 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 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, 2012 and 2011.

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, 2011. 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 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.

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. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. 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 a liaison with the City's (including COPERS') independent auditors. Representatives from the City Auditor's Department meet periodically with the Board to review their audit plans and present the results of the audits. Also, representatives from the independent auditors meet annually with the Board to review their audit plans and receive input from the Board. 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

Following the completion of a procurement process authorized by the Board, at their meeting on July 27, 2011, the Board selected Cheiron, Inc. ("Cheiron") for actuarial and consulting services effective January 1, 2012.

During the fiscal year ended June 30, 2012, the Board's Legal Review Committee began periodic consideration of portfolio monitoring reports from law firms contracted by the Board.

A Pension Reform Task Force was appointed by the Mayor and City Council in January 2011 to work with management, outside consultants and other stakeholders to review and recommend changes to COPERS. Members of the Task Force included the COPERS' Board Chairperson, an active employee member of COPERS, a COPERS' retiree and citizens. I served as an ex-officio, non-voting member. The Task Force reviewed comprehensive information on COPERS' pension system and considered the retirement plans of the most populous cities in the U.S., several Fortune 500 companies headquartered in Phoenix as well as the top employers in Phoenix. The Task Force also reviewed comprehensive information on private sector retirement plans. Following the review of actuarial projections of possible plan changes for future and existing employees, on December 6, 2011, the Task Force recommended the City Council adopt various changes to COPERS for new hires and existing employees. The Task Force's term expired December 2011. The Task Force's recommendations were presented to the City Council in February 2012.

On June 19, 2012, the Phoenix City Council adopted a calendar for referral of pension reform items to the March 2013 ballot. The City Council also directed staff to model, based on the Pension Reform Task Force recommendations, but taking into consideration concerns presented by City staff regarding recruitment and retention, potential plan provisions for new hires.

During the fiscal year ended June 30, 2012, the Board recommended two Board sponsored revisions to the Phoenix City Charter to the City Council. The Retirement Board recommended that the Charter's investment provisions be amended to incorporate a prudent investor standard, replacing security and asset class restrictions with an updated mandate to prudently manage total fund risk.

The Retirement Board also recommended that the document provisions required for tax-qualified retirement plans be incorporated into the Charter. Tax-qualified retirement plans are required to comply with both operational and documentation requirements set forth in the Internal Revenue Code (the "Code"). Historically, the Retirement Board has met its obligations to comply with Code based documentation requirements through the adoption of Board policies.

On May 17, 2012, the Retirement Board acknowledged the City of Phoenix regulation regarding the pensionable nature of sick leave payouts at retirement effective July 8, 2012.

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 $1,620,000. Most investment-related expenses, such as investment custody costs, investment manager fees, and consultant fees are paid directly from the Plan's assets. Certain administrative fees for legal, medical, actuarial and computer services are also paid directly from Plan assets. The investment and administrative costs amounted to $10,252,000 for the fiscal year ended June 30, 2012. Administrative and investment costs combined represented 0.57% 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, which remain approximately level as a percent of member payroll. The actuarial valuation as of June 30, 2012, reflects a funded ratio of 62.2%, 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, 2012 is 20 years. A smoothed market value of assets was used for the June 30, 2012 valuation. 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, 2012, the net asset value of the COPERS' Plan was $1.796 billion at market value. The fiscal year return for the Plan was (0.18)%. The five year annualized return was 0.18%.

The actual allocation as of June 30, 2012, was domestic large capitalization ("cap") equities 16.37%, domestic small/mid cap equities 8.72%, international large cap equities 16.72%, international small/mid cap equities 2.43%, core plus fixed income 24.91%, real estate 11.57%, real return strategy 9.38%, long/short equity 9.45% and cash 0.46%.

At their August 17, 2011, meeting, the Board accepted a recommendation from R.V. Kuhns and Associates ("Kuhns"), the Board's investment consultant, to invest in the Real Estate Capital Asia Partners III real estate fund. A $30 million commitment was approved by the Board.

Kuhns presented two studies to the Board at their August 17, 2011, and September 21, 2011, meetings. The first was a structure study providing potential adjustments to the real return allocation. At the latter meeting, an asset allocation study modeling the effects of those potential changes was reviewed. This included the introduction of emerging market debt as a potential new asset class for the Plan and authorization for Kuhns to conduct a search for potential emerging market debt managers.

During their September 21, 2011, meeting the Board reviewed and accepted a Kuhn's recommendation to limit cash collateral exposure in the securities lending program to $100 million. Securities loaned in excess of the $100 million would have to be collateralized by U.S. Treasury or agency securities.

Kuhns recommended and the Board approved a $20 million commitment to a non-core real estate investment, Wheelock Street Real Estate Fund LP, at the September 21, 2011 meeting.

At their November 9, 2011, meeting the Board reviewed a presentation prepared by Kuhns regarding emerging market debt asset class. Kuhns identified three potential emerging market debt managers. The Board approved a 5% allocation to the emerging market debt asset class.

At their December 14, 2011, meeting the Board interviewed three potential emerging market debt managers. The Board requested an additional analysis from Kuhns, which was presented at the February 15, 2012, meeting. Also at the February 15, 2012, meeting, MFS was selected by the Board as investment manager for the emerging market debt allocation.

Kuhns presented a domestic equity structure study to the Board at the April 19, 2012, meeting. The Board approved Kuhns' recommendation to revise the allocations within the domestic equity asset class. The Board also authorized a search to identify an appropriate large cap index fund and a possible new large cap value manager.

At their April 19, 2012, meeting the Board undertook its annual review of the Plan's securities lending program. The analysis was presented by Kuhns.

The Board received an annual update prepared by Kuhns on the Plan's investment manager fees at their May 17, 2012, meeting.

At their June 21, 2012, meeting the Board received the results of the large cap index fund search conducted by Kuhns. The Board selected State Street Global Advisors to manage an S&P 500 Index Fund.

Three manager roundtables were conducted during the year with presentations to the Board from contracted investment managers. The meetings were held in half-day sessions on May 3, 2012, May 24, 2012 and June 7, 2012.

The Board considered and approved several contract renewals for investment managers during the year.

PROFESSIONAL SERVICES

The Retirement Board retains professional consultants to prudently discharge its fiduciary responsibility for the proper administration of the Plan. Cheiron provides actuarial services and the corresponding certification. State Street Bank serves as the master custodian. Brokerage trade execution monitoring is compiled by Elkins/McSherry, LLC and reviewed by investment consultant Kuhns. COPERS' financial statements are audited by Grant Thornton, LLP and reviews of operations are performed by the City Auditor's Department. Investment performance analysis, asset allocation review and investment consulting is provided by Kuhns.

COPERS' investment managers and styles as of June 30, 2012 were:

Equity Managers:

Baillie Gifford……………………………………………………..International Large Cap Growth
Cadence Capital Management……………………………….….Domestic Large Cap Growth
Cramer Rosenthal McGlynn………………………………………Domestic Small Cap Value
Dimensional Fund Advisors……………………………………….Domestic Large Cap Value
Eagle Asset Management...Domestic Small Cap Growth
Grantham, Mayo & Van Otterloo…………………………………..International Large Cap
Mondrian…………………………………………………………………International Small Cap
SSgA MSCI ACWI ex US Index Fund…………………………International Large Cap Core
SSgA S&P 500 ……………………………………………………Domestic Large Cap Core
The Boston Company………………………………………...……Domestic Mid Cap Value

Fixed Income Managers:

Artio Global Investors…………………………………...…Domestic Core Plus Fixed Income
PIMCO………………………………………...………………Domestic Core Plus Fixed Income
Western Asset Management Company…………………Domestic Core Plus Fixed Income

Hedge Fund Managers:

Pacific Alternative Asset Management Company
K2 Advisors

Real Estate Managers:

JDM Partners
J.P. Morgan
Morgan Stanley
Real Estate Capital Asia Partners
TA Associates
Wheelock Street Real Estate
Wrightwood Capital

Real Return Manager:

Research Affiliates

SUBSEQUENT EVENTS AND ACKNOWLEDGMENTS

Kuhns presented the results of a large cap value domestic equity investment manager search at the August 16, 2012, meeting. Three potential managers made presentations at the October 18, 2012, Board meeting and Robeco Boston Partners was selected.

A portion of the asset transition within the domestic equity allocation was completed August 12, 2012 with transitions between existing managers. Additional transition activity to fund the State Street Global S&P 500 Index Fund was completed September 12, 2012. A transition report was presented to the Board at their November 15, 2012, meeting.

On September 25, 2012, the Phoenix City Council adopted city staff's recommended pension reforms to be presented to the voters in March 2013, with changes effective July 1, 2013. The recommended changes for new hires are:

- Employee contribution rate based on a 50/50 split of actuarially determined rate
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement system ("ASRS") schedule.
- Change Rule of 80 provision to Rule of 87.
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force.
- Allow new city hires with service on account with ASRS prior to July 1, 2011 to join COPERS under current provisions.

The City Council also adopted the COPERS' Board recommendations to:

- Remove some non-standard investment limitations from the Charter.
- Put into the Charter certain IRS-required operational and documentation provisions that are current practice, but should be placed in Charter.

The Plan received the Public Pension Standards Award for Funding and Administration. This award was presented by the Public Pension Coordination Council, a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement. This is the third year the Plan has applied for and received this award.

The preparation of this report reflects the combined efforts of COPERS' staff, the Finance Department 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



LINDA REIDENBACH
Principal Financial Analyst
Salt River Project (SRP)
Chairperson Retirement Board
Citizen Board Member

ELIZABETH BISSA
Vice Chairperson Retirement Board
Elected Board Member

JEFF DEWITT
Finance Director
City of Phoenix
Ex-Officio Board Member



CATHLEEN GLEASON
Retired Budget and Research Director
City of Phoenix
Retiree Board Member

DAVID HENSLEY
Elected Board Member

RICK NAIMARK
Deputy City Manager
City of Phoenix
Ex-Officio Board Member



RANDY PIOTROWSKI
Treasurer
City of Phoenix
Ex-Officio Board Member

LESLIE SCOTT
Elected Board Member

JANET SMITH
Human Resources Director
City of Phoenix
Ex-Officio Board Member

Retirement Board Committees

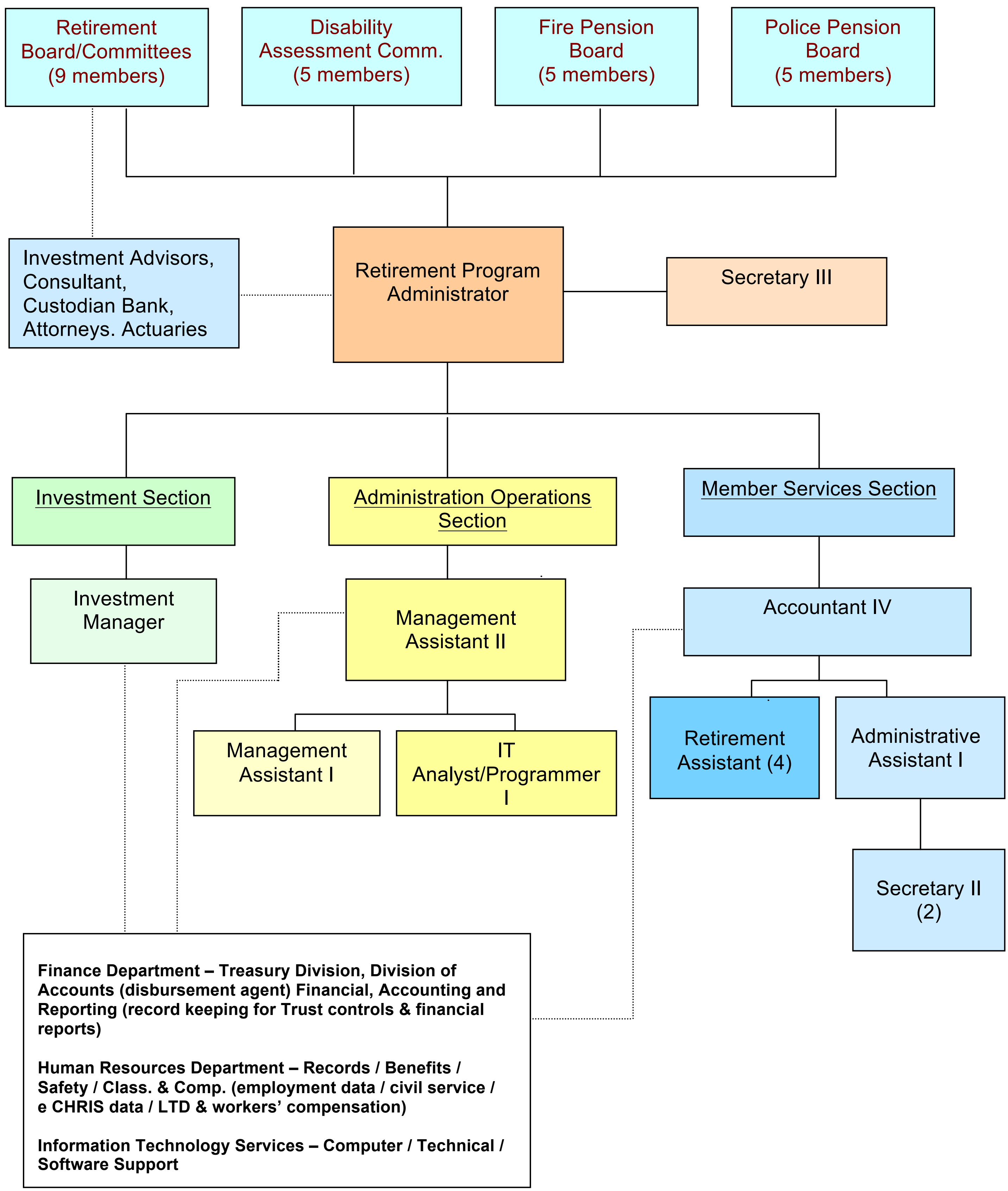
Investment Committee
- **Elizabeth Bissa**, Chairperson
- **Jeff DeWitt**
- **David Hensley**
- **Randy Piotrowski**
- **Leslie Scott**

Legal Review Committee
- **Rick Naimark**, Chairperson
- **Jeff DeWitt**
- **Cathleen Gleason**
- **Randy Piotrowski**
- **Leslie Scott**

Charter Amendments/Policies & Procedures Committee
- **Janet Smith**, Chairperson
- **Elizabeth Bissa**
- **Cathleen Gleason**
- **David Hensley**
- **Linda Reidenbach**

Disability Assessment Committee
- **Donna Buelow**, Chairperson
- **Stanley Flowers**
- **Kathy Haggerty**
- **Robert Jones, M.D.**
- **Amber Williamson**

Administrative Organization



Administrative Organization (Continued)

Administrative Staff

Donna Buelow	Retirement Program Administrator
John Buchanan	Retirement Assistant
Lollita Cordova	Management Assistant I
Greg Fitchet	Investment Manager
Stephen Herbert	IT Analyst Programmer I
Tim Jackson	Retirement Assistant
Terri Jimenez	Administrative Assistant I
Anna Martinez	Management Assistant II
Tricia Quiroz	Secretary II
Adrianna Rodriguez	Secretary II
Josie Romero	Retirement Assistant
Michael Teeselink	Retirement Assistant
Jackie Temple	Accountant IV
Paula Whisel	Secretary III

Accounting

Finance Department

Jeff DeWitt	Finance Director

Treasurer

Finance Department

Randy Piotrowski	City Treasurer

Legal

Law Department

Gary Verburg	City Attorney

Actuary

Cheiron	McLean, VA

Auditor

Grant Thornton LLP	Phoenix, AZ Certified Public Accountants under contract with the City Auditor

Brokerage

Elkins/McSherry, LLC	New York, NY

Investment Services

Refer to Investment Section, page 48

Legal Services

Cohen Milstein Sellers & Toll, PLLC	Washington, D.C.
Keller Rohrback, P.L.C.	Phoenix, AZ
Kessler Topaz Meltzer & Check, LLP	Radnor, PA
Kutak Rock LLP	Scottsdale, AZ
Labaton Sucharow, LLP	New York, NY
Tiffany & Bosco P.A.	Phoenix, AZ
Yoder & Langford, P.C.	Phoenix, AZ

Master Custodian

State Street Bank	Sacramento, CA

Medical Advisors

Several physicians and clinics used for evaluation of disability applicants on a “per case” basis

City of Phoenix
RETIREMENT SYSTEMS

December 27, 2012

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, 2012 and June 30, 2011. 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 ("Kuhns"), provides performance measurement and assists the Board with analysis of investment issues. Kuhns reports the COPERS' total fund performance for the year ended June 30, 2012 was (0.18)%. The annualized return for the past three and five years was 10.14% and 0.18%, respectively.

As reported by Kuhns, the market value of the Plan's assets decreased from $1.824 billion to $1.796 billion in the fiscal year ended June 30, 2012. The long-term returns of the Plan were negatively impacted by the difficult market environment and economic downturn experienced beginning mid-2007 through early 2009.

The Board has implemented a diversified portfolio, in which all segments of the U.S. and International equity markets are represented. The fixed income and real estate allocations are diversified among several managers. Real estate holdings are further diversified among geographic locations and property types. During the fiscal year ended June 30, 2012, the Board further diversified the portfolio through the selection of an additional non-core real estate manager and the restructuring of the domestic equity allocation. The Plan's target allocation was also further diversified through the Board's approval of an allocation to the emerging market debt asset class. In the area of alternative investments, the Board has contracted with two managers who maintain both long and short positions in equities. The real return strategy was implemented in an effort to respond to potential inflation and to provide returns uncorrelated to major markets.

The Board's actuarial consultant, Cheiron, Inc. ("Cheiron"), conducted the annual actuarial valuation. In the actuarial valuation as of June 30, 2012, Cheiron reports the funded ratio of the plan to be 62.2%, a decrease of 4.5% from the June 30, 2011, funded ratio of 66.7%. The plan sponsor, the City of Phoenix, remains committed to funding the employer's actuarially computed contribution amount, which is 22.24% of member payroll for fiscal year 2013-2014.

Representatives from the City Auditor Department and external auditors under contract with the City Auditor meet annually with the Board to review their audit plans, receive input from the Board and present the results of their audits.

The Retirement Board recommended potential changes to the Charter of the City of Phoenix ("Charter") to the Phoenix City Council ("Council") for their review. The current Charter provisions contain a number of limitations on the investment authority of the Board with regard to specific asset classes, which creates an investment environment which is more restrictive than that of many public plans. The Board recommended the Charter's investment provisions be amended to incorporate a prudent investor standard, replacing security and asset class restrictions with a mandate to prudently manage total fund risk. The Board also recommended the documentation provisions required for tax-qualified governmental retirement plans be incorporated into the Charter. Historically, the Board has met its obligation to comply with these requirements through the adoption of Board policies. The Council has approved the inclusion of these items on the ballot for an election in March 2013. The Board appreciates the Council's consideration and adoption of these items for the March 2013 election.

The Retirement Board has been frequently updated regarding the review undertaken by the City's Pension Reform Task Force. The Retirement Board has also been updated regarding the pension reform review undertaken by the Council. Following Council action, a proposition, if adopted by the voters in March 2013, would amend the Charter to put in place new terms of participation in COPERS for employees hired by the City of Phoenix on or after July 1, 2013, and would allow the City to contribute more than its annual actuarially required contribution to the Plan in a fiscal year when the City has the financial ability to do so to reduce Plan liabilities.

COPERS' staff assists each employee during the retirement process. Staff also conducted numerous counseling and educational outreach activities in coordination with the City's Human Resources Department. Staff distributed annual member statements to active members and utilized COPERS' internet site to distribute various information.

The Board and staff have also continued effective communication with the Plan's retirees, which included a presentation for the City of Phoenix Retirees Association members.

The CAFR and the Popular Annual Financial Report ("PAFR") for the fiscal years ended June 30, 2011 and 2010 were again recognized by the Government Finance Officers Association. These reports are accessible through the COPERS' internet site.

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

Sincerely,

Linda Reidenbach

Linda Reidenbach
Chairperson, Retirement Board

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.

Report of Independent Certified Public Accountants

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Phoenix, AZ 85016-9004

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www.GrantThornton.com

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"), for the year ended June 30, 2012, and the related statement of changes in plan net assets for the year ended June 30, 2012. 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 Plan as of and for the year ended June 30, 2011 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 12, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 financial status of the City of Phoenix Employees' Retirement System as of June 30, 2012, and the changes in its financial status for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as well as, the schedule of funding progress and the schedule of employer contributions on pages 17 through 21 and page 38, respectively, be presented to supplement the basic financial statements.

Grant Thornton

Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Plan's financial statements. The additional supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied to the audit of the basic financial statements, and accordingly, we express no opinion on it.

GRANT THORNTON LLP

Phoenix, Arizona
December 27, 2012

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, 2012 and 2011. 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, 2012, $1,795,690 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 a decrease of 1.6% from June 30, 2011. The decrease is attributable primarily to losses experienced in the financial markets, which impacted COPERS' investment performance. The Plan Net Assets as of June 30, 2011 were $1,824,207 compared to $1,535,174 as of June 30, 2010. The increase of 18.8% during 2011 was attributable to higher returns experienced in the financial markets, which impacted COPERS' investment performance.

- COPERS' additions (loss) to Plan Net Assets, as reported in the Statements of Changes in Plan Net Assets on page 23, for the fiscal year ended June 30, 2012 were $132,188 compared to $440,548 for fiscal year ended June 30, 2011 and $264,116 for fiscal year ended June 30, 2010. The decrease for the current year was attributable primarily to investment losses. The amount as of June 30, 2012, includes employer and employee contributions of $133,822 and net investment loss of $(5,664). Fiscal year ended June 30, 2011 and June 30, 2010, employer and employee contributions were $119,613 and $116,481, respectively. The net investment income was $315,936 and $143,016 respectively.

- The Statements of Changes in Plan Net Assets report an increase in deductions in Plan assets of 6.1% from the fiscal year ended June 30, 2011. This compares to a 9.4% increase in deductions between June 30, 2011 and June 30, 2010. Deductions for fiscal year ended June 30, 2012 were $160,705 compared to $151,515 for fiscal year ended June 30, 2011 and $138,500 for fiscal year ended June 30, 2010. The increases in deductions as of June 30, 2012 and June 30, 2011 are attributable to increased benefits paid during each year.

- The recent Actuarial Valuation prepared as of June 30, 2012 reports the funded ratio to be 62.2%. The funded ratio for fiscal years June 30, 2011 and June 30, 2010 was 66.7% and 69.3%, respectively. A smoothed market value of assets was used for the June 30, 2012, June 30, 2011 and June 30, 2010 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:

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 Required Supplementary 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, 2012 were $1,795,690. This amount represents a decrease of 1.6% from Plan Net Assets of $1,824,207 as of June 30, 2011. The Plan Net Assets as of June 30, 2010 were $1,535,174. The Plan Net Assets report Cash & Cash Equivalents as of June 30, 2012 as $28,403 compared to $51,998 for June 30, 2011 resulting in a decrease of $23,595. Cash & Cash Equivalents will fluctuate due to timing of investments managed by the individual fund managers. Uninvested cash will be held in Cash & Cash Equivalents and may change at any point in time. The Plan Net Assets report Total Liabilities as of June 30, 2012 as $167,258 compared to $281,216 for June 30, 2011, the decrease was attributable to a decrease in the amount available for securities lending as the Board limited the cash collateral exposure in the program to $100 million during FY 2011-2012. The return on investments for fiscal years ended June 30, 2012, 2011 and 2010 was (0.18%), 21.33% and 10.32%, respectively. The investment performance for the fiscal year ended June 30, 2012 was attributable to domestic equity performance of (3.6%), international equity performance of (12.11%), real estate performance of 14.86%, real return performance of 1.57%, fixed income performance of 8.31% and long/short equity performance of (2.18%). The investment performance for the fiscal year ended June 30, 2011 was attributable to domestic equity performance of 38.82%, international equity performance of 34.29%, real estate performance of 24.56%, real return performance of 2.43%, fixed income performance of 5.73% and long/short equity performance of 9.53%. The investment performance for the fiscal year ended June 30, 2010 was attributable to domestic equity performance of 19.56%, international equity performance of 6.33%, real estate performance of (6.51%), real return performance of 5.6%, fixed income performance of 15.92% and long/short equity performance of 2.32%.

Table 1: COPERS' Plan Net Assets for June 30, 2012 and 2011 (in thousands)

	2012	2011	Change	% Change
Cash & Cash Equivalents	$ 28,403	$ 51,998	$ (23,595)	(45.4%)
Total Receivables	52,614	62,795	(10,181)	(16.2)
Total Investments	1,881,931	1,990,630	(108,699)	(5.5)
Total Assets	1,962,948	2,105,423	(142,475)	(6.8)
Total Liabilities	167,258	281,216	(113,958)	(40.5)
COPERS' Net Assets	$ 1,795,690	$ 1,824,207	$ (28,517)	(1.6%)

Table 2: COPERS' Plan Net Assets for June 30, 2011 and 2010 (in thousands)

	2011	2010	Change	% Change
Cash & Cash Equivalents	$ 51,998	$ 58,099	$ (6,101)	(10.5%)
Total Receivables	62,795	53,530	9,265	17.3
Total Investments	1,990,630	1,746,428	244,202	14.0
Total Assets	2,105,423	1,858,057	247,366	13.3
Total Liabilities	281,216	322,883	(41,667)	(12.9)
COPERS' Net Assets	$ 1,824,207	$ 1,535,174	$ 289,033	18.8%

Reserves:

COPERS maintains five accounts to hold reserves for benefit payments. Additions to the reserves come from contributions (employer and member) and investment income. Distributions from the reserves 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, 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 and depreciation in fair value of investments, bond interest, dividend income, net securities lending income and investment expenses for the fiscal year ended June 30, 2012 was $(5,664). This compares to net investment income for June 30, 2011 and June 30, 2010 of $315,936 and $143,016 respectively. Employer contributions increased during the fiscal year due to the increase in the actuarial contribution of $105,682 for the fiscal year ended June 30, 2012 compared to $90,965 for the fiscal year ended June 30, 2011. Deductions increased by 6.1% over the prior fiscal year, primarily a result of an increase in the number of retirees. This compares to a 9.4% increase in deductions from June 30, 2010 to June 30, 2011. Benefit payments for the fiscal years ended June 30, 2012, 2011 and 2010 were $156,679, $145,922 and $133,522, respectively. The increase in benefit payments for the last two fiscal years is due to an increase in the number of retirees.

The summary of COPERS' revenues (additions) and expenses (deductions) for the fiscal years ended June 30, 2012, 2011 and 2010 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, 2012 and June 30, 2011 (in thousands)

	2012	2011	Change	% Change
Additions				
Employer Contributions	$ 105,682	$ 90,965	$ 14,717	16.2%
Members' Contributions	28,140	28,648	(508)	(1.8)
Inter-System Transfers	4,030	4,999	(969)	(19.4)
Net Investment Income (Loss)	(6,352)	314,830	(321,182)	(102.0)
Net Securities Lending Income	688	1,106	(418)	(37.8)
Total	132,188	440,548	(308,360)	(70.0)
Deductions				
Benefit Payments	156,679	145,922	10,757	7.4
Refunds	2,333	2,470	(137)	(5.5)
Inter-System Transfers	1,365	2,872	(1,507)	(52.5)
Administrative Expense	328	251	77	30.7
Total	160,705	151,515	9,190	6.1
Net Change in Assets	(28,517)	289,033	(317,550)	(109.9)
Ending Net Assets	$ 1,795,690	$ 1,824,207	$ (28,517)	(1.6%)

Table 4: Additions and Deductions to/from Plan Net Assets for the fiscal years ended June 30, 2011 and June 30, 2010 (in thousands)

	2011	2010	Change	% Change
Additions				
Employer Contributions	$ 90,965	$ 86,241	$ 4,724	5.5%
Members' Contributions	28,648	30,240	(1,592)	(5.3)
Inter-System Transfers	4,999	4,619	380	8.2
Net Investment Income	314,830	142,076	172,754	121.6
Net Securities Lending Income	1,106	940	166	17.7
Total	440,548	264,116	176,432	66.8
Deductions				
Benefit Payments	145,922	133,522	12,400	9.3
Refunds	2,470	2,877	(407)	(14.1)
Inter-System Transfers	2,872	1,699	1,173	69.0
Administrative Expense	251	402	(151)	(37.6)
Total	151,515	138,500	13,015	9.4
Net Change in Assets	289,033	125,616	163,417	130.1
Ending Net Assets	$ 1,824,207	$ 1,535,174	$ 289,033	18.8%

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
200 W. Washington, 10th Floor
Phoenix, AZ 85003
(602) 534-4400
www.phoenix.gov/phxcopers.html

Statements of Plan Net Assets
June 30, 2012 and 2011

(in thousands)

	2012	2011
ASSETS		
Cash and Cash Equivalents (Note 8)	$ 28,403	$ 51,998
Receivables		
Due from the City of Phoenix (Note 12)	95	352
City of Phoenix Contributions	1,158	4,652
Member Contributions	429	1,384
Interest and Dividends	2,224	2,498
Unsettled Broker Transactions - Sales	25,714	51,666
Unsettled Broker Transactions - Foreign Exchange Sales	22,975	2,206
Other	19	37
Total Receivables	52,614	62,795
Investments, at Fair Value		
Temporary Investments from Securities Lending Collateral (Note 9)	87,622	203,281
Fixed Income	327,655	349,426
Domestic Equities and Other	1,100,289	1,031,559
International Equities	366,365	406,364
Total Investments (Note 8)	1,881,931	1,990,630
Total Assets	1,962,948	2,105,423
LIABILITIES		
Payable for Securities Lending Collateral (Note 9)	87,622	203,281
Unsettled Broker Transactions - Purchases	55,332	74,256
Unsettled Broker Transactions - Foreign Exchange Purchases	22,975	2,206
Investment Management Fees Payable	1,305	1,461
Other Payables	24	12
Total Liabilities	167,258	281,216
Commitments and Contingencies (Notes 8, 9 and 12)		
Net Assets Held in Trust for Pension Benefits (Note 3)	$ 1,795,690	$ 1,824,207

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, 2012 and 2011

(in thousands)

	2012	2011
ADDITIONS		
Contributions		
City of Phoenix	$ 105,682	$ 90,965
Member	28,140	28,648
Inter-System Transfers (Note 11)	4,030	4,999
Total Contributions (Note 5)	137,852	124,612
Net Investment Income		
From Investing Activities:		
Net Appreciation/(Depreciation) in Fair Value of Investments	(34,306)	282,389
Interest	9,969	14,382
Dividends	22,411	22,494
Other	190	720
Total Income/(Loss) from Investing Activities	(1,736)	319,985
Less Investing Activities Expense	(4,616)	(5,155)
Net Income/(Loss) from Investing Activities	(6,352)	314,830
From Security Lending Activities:		
Security Lending Gross Income	1,024	1,833
Less Security Lending Activity Expenses:		
Agent Fees	(295)	(474)
Broker Rebates	(41)	(253)
Total Security Lending Expenses	(336)	(727)
Net Income from Security Lending Activities	688	1,106
Total Net Investment Income/(Loss)	(5,664)	315,936
Total Additions	132,188	440,548
DEDUCTIONS		
Benefit Payments	156,679	145,922
Refunds of Contributions	2,333	2,470
Inter-System Transfers (Note 11)	1,365	2,872
Administrative Expenses	328	251
Total Deductions	160,705	151,515
NET INCREASE/(DECREASE)	(28,517)	289,033
Net Assets Held in Trust for Pension Benefits (Note 3)		
Beginning of Year	1,824,207	1,535,174
End of Year	$ 1,795,690	$ 1,824,207

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

Note 1 - Summary of Significant Accounting Policies

The City of Phoenix Employees' Retirement Plan ("COPERS" or the "Plan") is a defined benefit single-employer public employees' retirement system for the City of Phoenix ("City") 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.

a. Reporting Entity

COPERS' prepares and distributes separate financial statements as required by the Charter of the City of Phoenix (Chapter XXIV, Article II, Employees' Retirement Law of 1953) ("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. 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 through the City of Phoenix Fire and Police Local Boards 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 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. Use of Estimates

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.

d. 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 at time of purchase. 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 alternative investments where no readily ascertainable market value exists, the Plan's custodian, in consultation with the Plan investment managers, determines fair values for the individual investments.

Note 2 - Description of Plan

a. Purpose

COPERS' 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 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 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	
	2012	2011
Current retirees, beneficiaries and survivors	5,477	5,191
Alternate payees	112	103
Terminated vested members	697	680
Active members:		
Vested	7,238	6,943
Non-vested	1,087	1,626
Total Members	14,611	14,543

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 0.5% 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 2 - 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 2% for fiscal year 2012 (4% for fiscal year 2011) was granted by the Retirement Board to be applied at June 30, 2012 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.

j. New Accounting Pronouncements

GASB Statement No. 64, ***Derivative Instruments: Application of Hedge Accounting Termination Provisions***, clarifies the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The requirements of this Statement are effective for fiscal periods beginning after June 15, 2011. COPERS currently has no effective hedging relationships and therefore is not impacted by the Statement.

GASB Statement No. 67, ***Financial Reporting for Pension Plans***. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013. COPERS will implement this Statement in fiscal year 2014. COPERS has not fully determined the effects that implementation of Statement No. 67 will have on COPERS financial statements.

Note 3 – Net Assets Held in Trust for Pension Benefits

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

- The **Income Account** is used to account for COPERS' investment income and loss, including net appreciation or depreciation in fair value 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 (2% in fiscal 2012 and 4% in fiscal 2011). Transfers are made from the Employees' Savings Account to the Pension Reserve Account when a member retires or becomes eligible for disability benefits.

- 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. The Pension Accumulation Fund may carry a negative balance as the City contribution rate includes a component for the unfunded actuarial liability (UAL). 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 the balance receives regular interest that is computed at the end of each fiscal year on the mean balance during the year. The rate of interest is the actuarial assumed rate.

- 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, 2012 and 2011 respectively, based on amortized cost for fixed income investments and cost for equity investments (in thousands):

	2012	2011
Employees' Savings	$ 443,964	$ 446,456
Pension Accumulation	(83,262)	(39,034)
Pension Reserve	1,437,135	1,344,382
Pension Equalization Reserve	576	565
Convert to Fair Value	(2,723)	71,838
Total Based on Fair Value	$ 1,795,690	$ 1,824,207

Note 4 - Administrative Costs and Investment Fees

The 2012 administrative costs paid by the City and not recognized in COPERS' financial statements were $1,620,000. This compares to the 2011 administrative costs of $1,443,000. Investment-related costs are paid directly from Plan assets. The COPERS' Board approves the payment of certain fees for legal, medical, actuarial and computer services from Plan assets. The investment and administrative costs from Plan assets were $10,252,000 and $9,186,000 for the fiscal years ended June 30, 2012 and 2011, respectively. Fund Manager fees charged to the Plan for investments for actively managed funds are deducted from income earned and are not separately reflected. Consequently, Fund Manager fees are reflected as a reduction of investment return for such investments.

Note 5 - Funding Requirement Determinations and Actual Contributions

City of Phoenix contributions for the fiscal year ended June 30, 2012 were $105,682,000 which is equivalent to 18.18% of the estimated annual active member payroll, compared to $90,965,000 or 16.04% for the fiscal year ended June 30, 2011. Member contributions for the fiscal years ended June 30, 2012 and June 30, 2011 were $28,140,000 and $28,648,000 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 actuarial costs over a selected period of future years. (See Note 6)

Note 6 – Funded Status and Funding Progress (as of most recent valuation)

Unfunded actuarial liabilities are determined annually by the consulting actuary. The unfunded actuarial liability as of June 30, 2012 and June 30, 2011 are detailed below (in thousands).

	2012	2011
Actuarial Value of Assets	$ 1,827,528	$ 1,834,620
Actuarial Liability		
Active Members	1,376,678	1,285,705
Retirees and Beneficiaries Currently Receiving Benefits	1,525,152	1,431,877
Terminated Members Not Yet Receiving Benefits	37,543	35,326
Total Actuarial Liability	2,939,373	2,752,909
Unfunded Actuarial Liability	$ (1,111,845)	$ (918,289)
Funded Ratio (actuarial value of assets to unfunded actuarial liability)	62.2%	66.7%
Covered Payroll	$ 506,017	$ 513,322
UAL (as a percentage of covered payroll)	219.7%	178.9%

Note 6 – Funded Status and Funding Progress (as of most recent valuation) (Continued)

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of the plan are increasing or decreasing over time relative to the actuarial liability for benefits.

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 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, 2012	June 30, 2011
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% - 8.8%	5.0% - 8.8%
Cost-of-Living Adjustments	None	None
Factors Affecting Trends	None	None

(1) Includes inflation at 4.5%. Merit and longevity assumptions are age-related rates.

The Board authorized a procurement process for actuarial and consulting services at their meeting on July 27, 2011, following the completion of the process the Board selected Cheiron, Inc. (“Cheiron”). Their actuarial and consulting services were effective January 1, 2012.

The actuarial assumptions employed as of June 30, 2012 and June 30, 2011 includes the following:

1) 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 0.0% to 3.8% per year, depending on age, attributable to merit and longevity.

2) 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.

3) Smoothed Funding – A smoothed market value of assets was used for the June 30, 2012 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 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, 2012 were $443,963,569, including interest compounded annually compared to $446,455,872 at June 30, 2011 and are included in the Employee Savings Account as discussed on page 27. 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' contributions, all active member benefits will be fully funded as earned. Contributions by the City to the Plan are actuarially determined. The unfunded actuarial liability in excess of applicable value of assets is amortized as a level percent of payroll over 20 years from June 30, 2012.

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. COPERS is also authorized to invest in “Investment Derivative Instruments” which include swaps, forwards, options on swaps, and options on forwards.

The City Charter allows up to a 60% investment (at cost) in domestic common stocks. The Board's present policy has resulted in approximately 25.1% being invested (at fair value) in domestic common stocks as of June 30, 2012 or 22.8% (at cost). The City Charter does not contain any limitations on the percent invested in international equities. The Board’s present policy allows up to 22% investment (at fair value) in international equity investments. As of June 30, 2012 approximately 19.2% was invested (at fair value) in international equity investments.

A summary of investments at June 30, 2012 and 2011 is as follows (in thousands):

	2012		2011	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Temporary Investments from Securities Lending Collateral (Note 9)	$ 87,622	$ 87,622	$ 203,281	$ 203,281
Fixed Income	327,655	321,339	349,426	344,889
Domestic Equities and Other	1,100,289	1,072,446	1,031,559	977,384
International Equities	366,365	403,248	406,364	393,240
Total Investments	1,881,931	1,884,655	1,990,630	1,918,794
Cash and Cash Equivalents	28,403	28,402	51,998	51,997
Total	$ 1,910,334	$ 1,913,057	$ 2,042,628	$ 1,970,791

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

As of June 30, 2012, the total market value of options held was $12,703,647 and the total market value for swaps was $294,210. On June 30, 2011, the total market value of options held was $6,076,047 and the total market value for swaps was $656,273.

Note 8 – Investments (Continued)

The following schedule provides the categories of investments at June 30, 2012 and 2011 (in thousands):

Investment Categories	2012 Fair Value	2011 Fair Value
Cash	$ 256	$ 357
Short-Term Investment Fund	28,147	51,641
Cash and Cash Equivalents	28,403	51,998
Temporary Investments from Securities Lending Collateral	87,622	203,281
Fixed Income:		
Derivatives	12,998	6,732
U S Treasury Securities	60,514	67,933
Government Agencies Securities	6,129	5,685
Mortgage Backed Securities-Residential	103,275	81,090
Asset Backed Securities	5,515	10,383
Corporate Bonds	96,929	116,658
Municipal Bonds	11,173	8,865
Foreign (USD)	31,122	52,080
	327,655	349,426
Domestic Equities	759,623	659,036
International Equities:		
Commingled Funds	366,365	406,364
Commingled Equity Index Fund	178,729	168,759
Real Estate Funds	144,227	182,746
Commodities:		
Exchange Traded Fund	17,710	21,018
Total with Securities Lending Collateral	$ 1,910,334	$ 2,042,628

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, 2012, COPERS did not realize any custodial credit risk for deposits.

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, 2012 and 2011, COPERS did not realize any custodial credit risk for investments or securities lending arrangements. Note 9 on page 36, provides detailed information regarding securities lending. COPERS' policy requires all investments to be 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 which includes futures, options and swaps, except investments issued or explicitly guaranteed by the U.S. government. As of June 30, 2012 and 2011, 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 22% of the Plan's total assets in international equity investments. The current actual international equity investment allocation is 19.2% of total Plan assets as of June 30, 2012. The fair value of COPERS' international commingled equity funds at June 30, 2012 was $366,365,000, of which $291,718,000 managed by Baillie Gifford, GMO and Mondrian was exposed to foreign currency risk. The funds managed by Research Affliates and Western Asset Management totaled $74,647,000 was not exposed to foreign currency risk. At June 30, 2011, the fair value of COPERS' international commingled equity funds was $406,364,000, of which $378,060,000 managed by Baillie Gifford, GMO, Blackrock/iShares, and Mondrian was exposed to foreign currency risk. The funds managed by Research Affliates totaled $28,304,000 was not exposed to foreign currency risk.

PIMCO and Western Asset are separately managed COPERS' fixed income investments. Dollar denominated holdings accounted for 95.2% of the fixed income investments at June 30, 2012. Non-dollar denominated holdings amounted to 4.8% at June 30, 2012. Dollar denominated holdings accounted for 100% of the fixed income investments at June 30, 2011.

Foreign Currency Exposure
as of June 30, 2012
(in thousands)

Currency	Fixed Income Currency Contracts
Australian Dollar	$ 989
Brazilian Real	353
Canadian Dollar	2,208
Chinese RMB	4,240
Euro	3,148
Japanese Yen	901
Mexican Peso	964
Totals	$ 12,803

Note 8 – Investments (Continued)

Commitments

In connection with the purchase of various non-core real estate investments, COPERS has commitments totaling $97,000,000 as of June 30, 2012 and $47,000,000 as of June 30, 2011. Remaining unfunded commitments for real estate are $50,496,332 as of June 30, 2012 and $13,499,864 as of June 30, 2011. COPERS is not in any redemption queues. All non-core real estate is self liquidating.

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 Barclays Capital US Aggregate Index and relies on the methodology used by Barclays Capital to determine if a security is investment grade. For fixed income securities and their futures or options derivatives, emphasis will be on high-quality securities.

COPERS' currently has three managers responsible for fixed income investments. Artio Capital Management, PIMCO and Western Asset Management Company ("Western") are active bond managers. As part of their portfolio, Western may enter into futures, options, and swaps contracts for hedging purposes and/or as a part of the overall portfolio strategy and will be incidental to its securities trading activities for the account. Table I on page 34 provides information relating to the credit risk for the fixed income investments in COPERS' as of June 30, 2012 and 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates 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 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 Barclays Capital US Aggregate Index. COPERS' investment management agreement with Artio Global Management specifies a weighted average duration of +/- one year of the Barclays Capital US Aggregate Index. The investment management agreement with PIMCO requires a weighted average duration of +/- two years of the Barclays Capital US Aggregate Index.

Information about the interest rate risk exposure of COPERS is provided in Table I on page 34. 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.

Note 8 – Investments (Continued)

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

	Credit Quality Ratings	2012 Fair Value	2012 Weighted Average Maturity (Years)	2011 Fair Value	2011 Weighted Average Maturity (Years)
Total Derivatives	Not Rated	**12,998**	**0.506**	**6,732**	**1.455**
Total U. S. Treasury Securities	N/A (1)	**60,514**	**12.071**	**67,933**	**15.585**
Government Agency	Not Rated	165	4.434	151	5.235
Government Agency	AAA	-	-	4,390	10.502
Government Agency	AA	5,219	9.014	486	5.808
Government Agency	A	745	6.504	658	7.363
Total Government Agency		**6,129**		**5,685**	
Mortgage Backed	Not Rated	15,133	41.433	21,027	30.468
Mortgage Backed	AAA	15,275	30.709	48,955	28.156
Mortgage Backed	AA	64,708	35.467	1,399	27.874
Mortgage Backed	A	2,095	27.705	2,033	26.224
Mortgage Backed	BBB	498	23.599	1,200	25.001
Mortgage Backed	BB	991	22.572	1,989	24.201
Mortgage Backed	B	2,443	24.031	1,171	25.935
Mortgage Backed	CCC	1,530	24.360	2,830	30.393
Mortgage Backed	CC	405	23.651	68	24.504
Mortgage Backed	C	-	-	122	22.674
Mortgage Backed	D	197	23.718	296	24.830
Total Mortgage Backed		**103,275**		**81,090**	
Asset Backed	Not Rated	-	-	186	30.090
Asset Backed	AAA	2,069	13.520	7,638	24.426
Asset Backed	AA	2,049	12.987	402	19.161
Asset Backed	A	456	30.429	205	34.359
Asset Backed	BBB	209	18.943	262	15.242
Asset Backed	BB	-	-	216	23.170
Asset Backed	B	19	5.071	-	-
Asset Backed	CCC	713	31.975	1,433	31.242
Asset Backed	CC	-	-	41	24.477
Total Asset Backed		**5,515**		**10,383**	
Municipal Bonds	Not Rated	-	-	545	24.688
Municipal Bonds	AAA	1,179	24.970	1,276	26.733
Municipal Bonds	AA	5,473	28.010	3,403	27.074
Municipal Bonds	A	4,016	23.765	3,166	23.021
Municipal Bonds	BB	-	-	475	35.945
Municipal Bonds	B	505	34.942	-	-
Total Municipal Bonds		$ **11,173**		$ **8,865**	

(1) U.S. Government Guaranteed

Note 8 – Investments (Continued)

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

		2012		2011	
	Credit Quality Ratings	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Corporate Bonds	Not Rated	$ 47,441	6.804	$ 68,053	6.181
Corporate Bonds	AAA	2,209	33.553	3,454	13.655
Corporate Bonds	AA	4,212	6.558	3,581	12.198
Corporate Bonds	A	12,032	11.877	18,299	10.389
Corporate Bonds	BBB	26,016	9.235	22,186	10.292
Corporate Bonds	BB	4,217	9.379	875	22.324
Corporate Bonds	B	222	19.968	9	38.526
Corporate Bonds	CCC	225	23.167	201	1.463
Corporate Bonds	C	355	35.090	-	-
Total Corporate Bonds		**96,929**		**116,658**	
Foreign	Not Rated	4,605	0.534	26,168	0.677
Foreign	AAA	5,002	2.990	4,608	3.640
Foreign	AA	4,153	6.007	3,068	9.758
Foreign	A	7,220	6.039	9,266	6.172
Foreign	BBB	10,075	6.707	8,344	7.998
Foreign	BB	-	-	626	9.778
Foreign	B	67	37.529	-	-
Total Foreign		**31,122**		**52,080**	
Total Fixed Income Investments by Maturity Date		**$ 327,655**		**$ 349,426**	

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 2012 and 2011, 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, 100% 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.

During their September 21, 2011, meeting the Board reviewed and accepted a Kuhn's recommendation to limit cash collateral exposure in the securities lending program to $100 million. Securities loaned in excess of the $100 million would have to be collateralized by U.S. Treasury or agency securities. COPERS did not impose any other 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 2012 and 2011, 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 liquidity pool and a duration pool. As of June 30, 2012, the liquidity pool had an average duration of 36 days and an average weighted final maturity of 73 days and the duration pool had an average duration of 40 days and an average weighted final maturity of 1,329 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, 2012, 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, 2012, were $87,621,782 and $87,206,220, respectively, and as of June 30, 2011, were $203,281,071 and $199,461,713, respectively.

Note 10 – Risk and Uncertainties

COPERS invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of changes in plan assets. Because the values of individual investments fluctuate with market conditions, the amount of investment gains or losses that COPERS will recognize in its future financial statements cannot be determined.

Note 11 – Funds To/From Other Systems

Under the provisions of Arizona Revised Statutes, Sections 38-730 and 38-922 as amended, 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 2011 was equal to the present value of the employees' then-vested benefits. The amount of the transfers, in and out of COPERS, during 2012 was equal to the greater of the member's accumulated contribution balance or the present value of the member's projected benefits to the extent funded on a market value basis.

Note 11 – Funds To/From Other Systems (Continued)

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 2012 and 2011 was equal to the member’s account.

Note 12 – 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 through a warrant or direct deposit.

Until Retirement personnel instruct State Street Bank and Trust to wire funds to the City of Phoenix in reimbursement for the warrants and direct deposits, 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 13 – Contingent Liabilities

COPERS is a party in pending litigation matters. While the final outcomes cannot be determined at this time, management is of the opinion that the final obligations, if any, for these legal actions will not have a material adverse effect on COPERS’ financial position or change in net assets.

Note 14 – Subsequent Events

On May 17, 2012, the Retirement Board acknowledged the City of Phoenix regulation regarding the pensionable nature of sick leave payouts at retirement effective July 8, 2012.

A Pension Reform Task Force was appointed in January 2011 to work with management, outside consultants and other stakeholders to review and recommend changes to COPERS. The Task Force reviewed comprehensive information on the COPERS’ pension system and considered the retirement plans of the populous cities in the U.S., several Fortune 500 companies headquartered in Phoenix as well as the top employers in Phoenix. Following the review of actuarial projections of possible plan changes for future and existing employees, the Task Force recommended the City Council adopt various changes for new hire and existing employees.

On September 25, 2012, the Phoenix City Council adopted city staff’s recommended pension reforms to be presented to the voters in March 2013, with changes effective July 1, 2013. The recommended changes for new hires are:

- Employee contribution rate based on a 50/50 split of actuarially determined rate.
- Change the pension multiplier to a graduated multiplier based on years of service, matching the Arizona State Retirement system (“ASRS”) schedule.
- Change Rule of 80 provision to Rule of 87.
- Increase time of service requirements and eliminate minimum pensions as recommended by the Pension Reform Task Force.
- Allow new city hires with service on account with ASRS prior to July 1, 2011 to join COPERS under current provisions.

The City Council also adopted the COPERS’ Board recommendations to:

- Remove some non-standard investment limitations from the Charter to provide the opportunity to maximize investment returns for the Plan.
- Put into the Charter certain IRS-required operational and documentation provisions that are current practice, but should be placed in Charter.

The City Council also adopted City staff’s recommendation to include in Charter language an option for the City to pay more than the actuarially required contribution.

Required Supplementary Information

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

Actuarial Valuation Date		(1) Actuarial Value of Assets	(2) Actuarial Liability (AL) Entry Age	(3) Unfunded AL (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded AL as a Percentage of Covered Payroll (3)/(5)
06/30/12		$ 1,827,528	$ 2,939,374	$ 1,111,845	62.2%	$ 506,017	219.7%
06/30/11		1,834,620	2,752,909	918,289	66.7	513,322	178.9
06/30/10		1,868,093	2,697,288	829,195	69.3	550,175	150.7
06/30/09		1,895,148	2,518,094	622,946	75.3	539,468	115.5
06/30/08	(a)	1,908,414	2,413,365	504,951	79.1	566,512	89.1
06/30/07		1,816,508	2,166,119	349,611	83.9	535,079	65.3
06/30/06	(a)	1,626,741	2,000,346	373,605	81.3	497,105	75.2
06/30/05		1,511,553	1,795,514	283,961	84.2	467,998	60.7

Analysis of the dollar amounts of actuarial value of assets, actuarial liability, or unfunded actuarial liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial 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 liability and annual covered payroll are both affected by inflation. Usually, expressing the unfunded actuarial 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, actuarial assumptions and/or actuarial cost methods.

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

Fiscal Year	Valuation Date	Annual Required Contribution	Percent Contributed
2011-12	2010	$ 105,682	100%
2010-11	2009	90,965	100
2009-10	2008	86,241	100
2008-09	2007	66,383	100
2007-08	2006	64,198	100
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

Notes to the Required Supplementary Information

There were no changes in actuarial methods implemented in the June 30, 2012 annual valuation.

The following changes in methods were made pursuant to the recommendations in the actuarial audit of the June 30, 2007 annual valuation and implemented in the June 30, 2008 annual valuation:

- The Normal Cost contribution rate was calculated to be consistent with contributions that are paid throughout the year, not at the beginning of the year.

- The calculation of the projected final average compensation and years of service at retirement was changed to mid-year, consistent with the timing regarding the applications of the assumptions.

Schedule of Investment Expenses
For the Fiscal Years Ended June 30, 2012 and 2011

Payee	Fees 2012	Fees 2011	Nature of Services
RV Kuhns & Associates	$ 186,038	$ 224,369	Investment Consultant
State Street Bank	115,634	114,965	Master Custodian
Elkins McSherry	10,000	10,000	Brokerage Services
Artio Global Investors	476,301	453,935	Investment Management
Cadence Capital	511,658	509,593	Investment Management
Cramer Rosenthal McGlynn	521,471	635,643	Investment Management
Dimensional Fund Advisors	323,152	326,572	Investment Management
Eagle Asset	357,045	374,476	Investment Management
J P Morgan	609,783	525,341	Investment Management
Mondrian	324,763	28,024	Investment Management
PIMCO	515,295	617,831	Investment Management
Pyramis	--	579,326	Investment Management
Research Affiliates	220,110	116,700	Investment Management
MSCI ACWI ex US Index Fund	51,305	--	Investment Management
The Boston Company	229,569	248,589	Investment Management
Western Asset	270,273	257,277	Investment Management
Wrightwood Capital	14,114	130,951	Investment Management
Foreign Taxes	3,268	1,627	
Total	$ 4,739,779	$ 5,155,219	

Payee (1)	Fees 2012	Fees 2011	Nature of Services
Baille Gifford	$ 619,269	--	Investment Management
GMO	894,243	$ 1,043,691	Investment Management
JDM Partners	260,212	300,000	Investment Management
K2 Advisors	835,963	799,147	Investment Management
Morgan Stanley	656,893	580,981	Investment Management
PAAMCO	859,688	796,062	Investment Management
RECAP II	162,997	180,000	Investment Management
RECAP III	531,522	--	Investment Management
Wheelock	182,055	--	Investment Management
Wrightwood Capital	52,771	--	Investment Management
TA Associates	128,249	80,282	Investment Management
Total	$ 5,183,862	$ 3,780,163	

Schedule of Administrative Expenses
For the Fiscal Years Ended June 30, 2012 and 2011

Payee	Fees Paid 2012	Fees Paid 2011	Nature of Services
Cheiron, Inc	$ 17,500	$ --	Actuarial Services
Dr. Laura Don	1,438	--	Medical Services
Levi Ray & Shoup	228,620	168,652	Computer Services
MCN	9,960	10,048	Medical Services
Rodwan Consulting Company	21,734	37,086	Actuarial Services
Yoder & Langford, P.C.	49,050	35,248	Legal Services
Total	$ 328,302	$ 251,034	

(1) Fees for these managers 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.

Schedule of Administrative Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
Paid by the City of Phoenix for the Fiscal Years Ended June 30, 2012 and 2011

	2012		2011	
	Original Budget	Plan Actual	Original Budget	Plan Actual
Personal Services				
Staff Salaries and Benefits	$ 1,013,731	$ 1,023,961	$ 985,696	$ 885,626
Insurance	177,366	181,013	165,209	158,275
Social Security and Medicare	70,804	77,780	71,391	50,848
Retirement Contributions	188,923	211,761	151,747	151,928
Total Personal Services	1,450,824	1,494,515	1,374,043	1,246,677
Professional Services				
Consultants	115	138	35	37
Audit and Accounting	114,055	87,616	107,781	124,772
Computer Services	0	0	35,347	33,432
Total Professional Services	114,170	87,754	143,163	158,241
Communications				
Printing	9,305	14,323	13,914	11,437
Postage and Mailing	32,327	11,646	27,704	13,725
Telephone	300	133	676	267
Subscriptions and Memberships	2,000	1,750	2,000	1,525
Total Communications	43,932	27,852	44,294	26,954
Miscellaneous				
Supplies	13,675	7,955	13,675	8,616
Insurance	58	516	58	380
Computer Equipment	0	1,056	0	0
Other	2,604	726	2,547	2,047
Total Miscellaneous	16,337	10,253	16,280	11,043
Total Administrative Expenditures and Encumbrances	$ 1,625,263	$ 1,620,374	$ 1,577,780	$ 1,442,915

Note: Administrative expenditures of COPERS are budgeted and paid by the City of Phoenix. The COPERS' Board approves the payment of fees for legal, medical, actuarial, and computer services from Plan assets not included in amounts above.

Investment Section

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

RVKuhns
& ASSOCIATES, INC.

December 5, 2012

Board of Trustees
City of Phoenix Employees' Retirement System
c/o Ms. Donna Buelow
Retirement Program Administrator
200 W. Washington Street, 10th Floor
Phoenix, Arizona 85003

Dear Board Members:

The past year has been marked by generally positive performance of the U.S. economy, but also by turbulent investment markets and elevated price inflation. U.S. Real Gross Domestic Product grew in each of the last four quarters as the economy expanded by 2.1% since June 30, 2011.[1] The economy also added approximately 1,752,000 nonfarm jobs as the unemployment rate declined to 8.2%.[2] Inflation, as measured by the Consumer Price Index, rose 1.7% during the year. The Federal Reserve kept target short-term interest rates at a range of 0.00 – 0.25% over the course of the fiscal year, and Treasury yields declined across their range of maturities greater than one year, while rising slightly for maturities one year and less.

The market value of the City of Phoenix Employees' Retirement System (the System) assets decreased from $1.824 billion to $1.795 billion in the year ended June 30, 2012. Five years ago, the fund was valued at $1.928 billion.

The past year through June 30, 2012 exhibited volatile equity markets with U.S. equities ending the year positive and international equities negative. In the United States, the S&P 500 Index returned 5.4%. Broad international equity markets diverged from domestic equities during the past year, returning -14.1% (as measured by the MSCI ACW ex US Index). The past year was also favorable to fixed income. Fixed income securities returned 7.5% (as measured by the Barclays United States Aggregate Bond Index).

The System's overall investment return over the past year was -0.2%, the System's three-year annualized return was 10.1%, and the System's five-year annualized return was 0.2%.[3] The ten-year annualized return was 5.2%. The long-term fund return results were negatively impacted by the difficult market environment and economic downturn experienced beginning mid-2007 through early 2009. We are hopeful that, with improved investment results since that time, the long-term returns will improve. The System's current actuarial assumed rate of return is 8.0%, which represents the System's long-term return goal.

[1] Based on data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.
[2] Based on data provided by the U.S. Department of Labor.
[3] Total Fund performance is gross of fees.

The System's current investments are diversified. All segments of the U.S. and International equity markets are represented in the portfolio, and the fixed income portfolio is well diversified between three investment managers. The System has a well diversified real estate portfolio through its two core real estate managers and multiple value-added and opportunistic real estate investments. In an effort to respond to inflation and to provide a return that is uncorrelated to major markets, the plan utilizes a real return strategy. Additional exposure to alternative investments within the portfolio includes two managers that maintain both long and short positions in equities. As of June 30, 2012, 25.1% of the System's investments were invested in U.S. equities, 19.2% in non-U.S. equities, 24.9% in fixed income investments, 11.6% in real estate, 9.4% in real return strategies, 9.5% in long/short equity strategies, and 0.5% in cash equivalents.[4] This investment allocation is 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 while reducing risk or volatility in returns. Over the past five 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. Recently, the System has implemented further diversification of the fixed income and real estate portfolios and added long/short equities as a new diversifying asset class. 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 calculated by RVK and based upon financial statements prepared by State Street Bank and investment managers. The statements are, to the best of our knowledge, reliable and accurate. Investment performance is calculated using a time-weighted rate of return methodology (gross of fees) based upon market values and cash flows.

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, CFA
Chief Executive Officer

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[4] Allocation shown may not sum up to 100% exactly due to rounding.

Outline of Investment Policies and Objectives

Adopted July, 1990 and subsequently amended

1. COPERS' asset allocation targets (at fair value) as of June 30, 2012 were 16.5% large cap domestic equities, 6.5% small/mid cap domestic equities, 19.4% international large cap equities, 2.6% international small/mid cap equities, 20.0% domestic fixed income, 15.0% real estate, 5.0% emerging market debt, 5.0% real return and 10.0% long/short equity.

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 Indices, the Russell Mid Cap Index, the Russell 2000 Growth and Value Index, MSCI EAFE Small Cap Index, MSCI ACWI ex US Index, MSCI ACWI ex US Small Cap Index and the S & P 500 Index. The market for bonds shall be represented by the Barclays Capital US Aggregate Bond Index and the Barclays Capital US Govt/Credit Int. Term Bond Index. The market for real estate shall be represented by the NCREIF ODCE 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% (above the "execution only" rate) 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, 2012, the total payments received from the directed brokerage commission program under SSGM were $28,285.

Investment Services Under Contract (as of June 30, 2012)

Equity Managers

Baillie Gifford	**Kathrin Hamilton**	Edinburgh, Scotland
Cadence Capital Management	**Steven Shaw**	Boston, MA
Cramer Rosenthal McGlynn	**Serra Sonmez**	New York, NY
Dimensional Fund Advisors	**John Gray**	Austin, TX
Eagle Asset Management	**Clay Lindsey**	St. Petersburg, FL
GMO	**Wendy Malaspina**	Berkeley, CA
Mondrian	**Paul Ross**	Philadelphia, PA
SSgA MSCI ACWI ex US Index Fund	**Megan Hart**	San Francisco, CA
SSgA S & P 500 Index	**Megan Hart**	San Francisco, CA
The Boston Company	**Jerry Navarette**	Boston, MA

Hedge Fund Managers

K2 Advisors	**Clare Myers**	Stamford, CT
PAAMCO	**Jim Meehan**	Irvine, CA

Transition Managers

Northern Trust Transition Management	**Grant Johnsey**	Chicago, IL
Russell Implementation Services, Inc	**Steve Cauble**	Seattle, WA
State Street Global Markets	**James Coherty**	Irvine, CA

Fixed Income Managers

Artio Global Investors	**Kristina Surkova**	Los Angeles, CA
PIMCO	**Matt Clark**	Newport Beach, CA
Western Asset Management	**Joseph Carieri**	Pasadena, CA

Real Estate Managers

JDM Partners	**Mel Shultz**	Phoenix, AZ
J.P. Morgan	**Ann Cole**	San Francisco, CA
Morgan Stanley Real Estate Advisor	**Candice Todd**	Atlanta, GA
RECAP	**Kong Thien Choo**	Singapore
TA Realty Associates	**Tom Landry**	Boston, MA
Wheelock Street Partners	**Lawrence Settanni**	Greenwich, CT
Wrightwood Capital	**David Friedman**	Chicago, IL

Real Return Managers

Research Affiliates LLC	**John West**	Newport Beach, CA

Investment Consultant

R.V. Kuhns & Associates, Inc	**Rebecca Gratsinger**	Portland, OR

Schedule of Investment Results
For the Fiscal Years Ended June 30, 2012

		Annualized	
	1-Year	3-Years	5-Years
TOTAL PORTFOLIO:			
COPERS	(0.18%)	10.14%	0.18%
Target Benchmark	1.48	9.96	0.16
R.V. Kuhns All Pension Plans $1B - $5B median	2.19	12.60	2.31
EQUITY FUNDS:			
Baillie Gifford (1)	(8.81)	--	--
MSCI ACWI Ex US Index	(14.15)	7.43	(4.18)
Cadence Capital Management	(1.65)	13.95	(1.17)
Russell 1000 Growth Index	5.76	17.50	2.87
Cramer Rosenthal McGlynn (2)	(8.32)	14.91	--
Russell 2000 Value Index	(1.44)	17.43	(1.05)
Dimensional Fund Advisors	(3.28)	17.19	(3.75)
Russell 1000 Value Index	3.00	15.80	(2.19)
Eagle Asset Management	(7.56)	21.14	4.00
Russell 2000 Growth Index	(2.71)	18.09	1.99
GMO	(15.89)	4.37	(6.59)
Custom Benchmark	(14.15)	5.97	(5.89)
Mondrian Investment Partners (3)	(8.32)	--	--
MSCI EAFE Small Cap Index	(14.75)	9.52	(4.98)
S&P 500 SSgA SPDR (4)	5.32	--	--
S&P 500 Index (Cap Wtd)	5.45	16.40	0.22
SSgA MSCI ACWI Ex US Index (5)	--	--	--
MSCI ACWI Ex US Index	(14.15)	7.43	(4.18)
The Boston Company	(5.59)	19.10	4.22
Russell Midcap Index	(1.65)	19.44	1.05
FIXED INCOME FUNDS:			
Artio (6)	8.08	--	--
PIMCO (7)	8.36	--	--
Western Asset Management	8.62	11.36	7.07
Barclays Capital US Aggregate Bond Index	7.47	6.93	6.79
HEDGE FUND OF FUNDS:			
K2 Advisors (8)	(2.88)	1.89	--
PAAMCO (9)	(1.52)	4.28	--
REAL ESTATE FUNDS:			
J P Morgan	11.97	7.88	0.21
JDM Partners (10)	13.97	--	--
Morgan Stanley	15.69	9.30	(0.30)
RECAP II (11)	(6.44)	--	--
RECAP III (12)	--	--	--
TA Associates Realty (13)	11.93	--	--
Wheelock (14)	--	--	--
Wrightwood (15)	21.38	12.52	--
NCREIF ODCE Index	12.42	8.39	(0.90)
REAL RETURN FUND			
Research Affiliates	1.57	3.19	1.15
CPI + 4% (Long Term)	5.73	6.17	6.03

(1) Baillie Gifford added July 1, 2011 as an International Commingled Equity Fund manager; funds transitioned from Pyramis. Performance figures would not be representative of the benchmark index.

(2) Cramer Rosenthal McGlynn was added as a domestic small cap value manager on February 1, 2008. Funds transitioned from Boston Co, Eagle, Cadence, GMO and Pyramis. Performance figures would not be representative of the benchmark index.

(3) Mondrian added as an international Small Cap manager July 1, 2011. Performance figures would not be representative of the benchmark index.

(4) S&P 500 SSqA SPDR was added on May 1, 2010. Performance figures would not be representative of the benchmark index.

(5) MSCI ACWI Ex US was added as an international equity manager effective July 29, 2011. Funding came from the termination of MSCI EAFE Small Cap Exchange. Performance figures would not be representative of the benchmark index.

(6) Artio added as core plus fixed income manager effective July 1, 2010; funds transitioned from Western Asset Management and Wells Capital. Performance figures would not be representative of the benchmark index.

(7) PIMCO added as core plus fixed income manager effective July 1, 2010; funds transitioned from Western Asset Management and Wells Capital. Performance figures would not be representative of the benchmark index.

(8) K2 Advisors added as a hedge fund of funds manager effective June 1, 2009. Performance figures would not be representative of the benchmark index.

(9) PAAMCO added as a hedge fund of funds manager effective January 2, 2009. Performance figures would not be representative of the benchmark index.

(10) JDM Partners was added as an opportunistic real estate manager on February 1, 2010. Performance figures would not be representative of the benchmark index.

(11) RECAP II was added as an opportunistic real estate manager of January 8, 2009. Performance figures would not be representative of the benchmark index.

(12) RECAP III was added as an opportunistic real estate manager of February 13, 2012. Performance figures would not be representative of the benchmark index.

(13) TA Associates Realty added as a value added real estate manager on October 1, 2009. Performance figures would not be representative of the benchmark index.

(14) Wheelock was added as an opportunistic real estate manager of May 24, 2012. Performance figures would not be representative of the benchmark index.

(15) Wrightwood Capital added as a value added real estate manager on January 8, 2009. 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, 2012

Manager	Style	Management (in thousands)	% of Portfolio
EQUITY FUNDS			
Baillie Gifford	International	$ 132,094	7.25%
GMO	International	114,160	6.26
Cadence Capital Management	Large Cap Growth	126,058	6.92
Dimensional Fund Advisors	Large Cap Value	129,858	7.12
Cramer Rosenthal McGlynn	Small Cap Value	58,770	3.22
Eagle Asset Management	Small Cap Growth	65,543	3.60
The Boston Company	Mid Cap Value	31,720	1.74
S&P 500 SPDR	Large Cap Core	37,710	2.06
MSCI ACWI ex US Index Fund	International	53,961	2.96
Mondrian Investment Partners	International	43,658	2.40
TOTAL EQUITY FUNDS		793,532	43.53
FIXED INCOME FUNDS			
Artio Global Investors	Core Plus Fixed Income	178,729	9.81
PIMCO	Core Plus Fixed Income	192,618	10.57
Western Asset Management	Core Plus Fixed Income	103,993	5.70
COPERS Cash Account	Short Term Income Fund	8,188	0.46
TOTAL FIXED INCOME FUNDS		483,528	26.54
HEDGE FUND OF FUNDS			
K2 Advisors	Hedge Fund of Funds	82,626	4.53
PAAMCO	Hedge Fund of Funds	87,051	4.78
TOTAL HEDGE FUND OF FUNDS		169,677	9.31
REAL ESTATE FUNDS			
JDM Partners	Opportunistic Real Estate	34,642	1.90
RECAP II	Opportunistic Real Estate	8,561	0.47
RECAP III	Opportunistic Real Estate	9,248	0.51
Wheelock	Opportunistic Real Estate	1,643	0.09
J P Morgan	Core Real Estate	63,394	3.47
Morgan Stanley	Core Real Estate	77,120	4.23
TA Realty Associates	Value Added Real Estate	9,256	0.51
Wrightwood Capital	Value Added Real Estate	3,758	0.20
TOTAL REAL ESTATE FUNDS		207,622	11.38
REAL RETURN FUNDS			
Research Affiliates		168,353	9.24
TOTAL REAL RETURN FUNDS		168,353	9.24
Total Portfolio		$ 1,822,712	100.00%
Securities Lending		87,622	
TOTAL INVESTMENTS		$ 1,910,334	

List of Largest Assets Held

As of June 30, 2012 (dollars in thousands)

Ten Largest Bond Holdings (Market Value)

Par Value	Description	Interest Rate	Due	Rating	Market Value
$ 21,400	US Treasury N/B	1.75%	05/15/2022	AAA	$ 21,574
11,200	US Treasury N/B	0.87	01/31/2017	AAA	11,297
9,000	FNMA TBA Aug 30 Single Fam	4.50	08/01/2041	AAA	9,647
5,900	US Treasury N/B	2.00	11/15/2021	AAA	6,117
4,000	FNMA TBA Aug 30 Single Fam	5.50	08/01/2041	AAA	4,361
4,000	FNMA TBA Jul 30 Single Fam	5.00	07/01/2041	AAA	4,329
3,700	FNMA TBA Jul 15 YR Single Fam	3.00	12/01/2099	AAA	3,876
3,557	TSY INFL IX N/B	0.12	01/15/2022	AAA	3,764
3,220	US Treasury N/B	1.25	04/30/2019	AAA	3,256
2,621	FNMA Pool AH0969	3.50	12/01/2025	AAA	2,772

Ten Largest Stock Holdings (Market Value)

Shares	Stock	Value
178,440	AT & T Inc	$ 6,363
116,451	CVS Caremark Corp	5,442
248,241	General Electric CO	5,177
215,266	Pfizer Inc	4,951
46,823	Chevron Corp	4,940
62,590	Anadarko Petroleum Corp	4,143
57,040	Norfolk Southern Corp	4,094
127,788	Comcast Corp Class A	4,085
71,771	Conoco Phillips	4,011
30,600	Union Pacific Corp	3,651

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

Schedule of Investment Related Fees

For the Fiscal Year Ended June 30, 2012

	Assets Under Management (in thousands)	Fees (1)	Basis Points
Equity Funds			
Baillie Gifford	$ 132,094	$ 619,269	46.88
Cadence Capital Management	126,058	511,658	40.59
Cramer Rosenthal McGlynn	58,770	521,471	88.73
Dimensional Fund Advisors	129,858	323,152	24.89
Eagle Asset Management	65,543	357,045	54.47
GMO	114,160	894,243	78.33
Mondrian	43,658	324,763	74.39
The Boston Company	31,720	229,569	72.37
S & P 500 SPDR	37,710	--	--
MSCI ACWI Ex US Index Fund	53,961	51,305	9.51
TOTAL EQUITY FUNDS	793,532	3,832,475	
Fixed Income Funds			
Artio Global Investors	178,729	476,301	26.65
PIMCO	192,618	515,295	26.75
Western Asset Management	103,993	270,273	25.99
COPERS Cash Account STIF	8,188	--	--
TOTAL FIXED INCOME FUNDS	483,528	1,261,869	
Hedge Fund of Funds			
PAAMCO	87,051	859,688	98.76
K2 Advisors	82,626	835,963	101.17
TOTAL HEDGE FUND OF FUNDS	169,677	1,695,651	
Real Estate Funds			
JDM Partners	34,642	260,212	75.11
JP Morgan Investment Management	63,394	609,783	96.19
Morgan Stanley	77,120	656,893	85.18
RECAP II	8,561	162,997	190.39
RECAP III	9,248	531,522	574.74
TA Realty Associates	9,256	128,249	138.56
Wheelock	1,643	182,055	1108.06
Wrightwood Capital	3,758	66,885	177.98
TOTAL REAL ESTATE FUNDS	207,622	2,598,596	
Real Return Funds			
Research Affiliates	168,353	220,110	13.07
TOTAL REAL RETURN FUNDS	168,353	220,110	
Total before Securities Lending	1,822,712	9,608,701	
Securities Lending (2)	87,622	--	
TOTAL	$ 1,910,334	$ 9,608,701	
Other Investment Service Fees			
RV Kuhns & Associates (Consultant)		186,038	
State Street Bank (Custodian)		115,634	
Elkins McSherry Brokerage		10,000	
Foreign Taxes		3,268	
TOTAL OTHER INVESTMENT SERVICE FEES		314,940	
TOTAL INVESTMENT RELATED FEES		$ 9,923,641	

(1) Does not represent contractual fee schedule and may include expenses other than management fees.
(2) No separate billing for the securities lending program, the fees are netted from the securities lending income.

Investment Summary
As of June 30, 2012

Type of Investment	Market Value (in thousands)	Percent of Total Market Value
Fixed Income:		
Asset Backed	$ 5,515	0.30%
Corporate Bonds	96,929	5.32
Foreign (USD)	31,122	1.71
Government Agencies Securities	6,129	0.34
Mortgage Backed Securities	103,275	5.67
Municipal Bonds	11,173	0.61
Derivatives	12,998	0.71
U S Treasury Securities	60,514	3.32
Total Fixed Income	327,655	17.683
Domestic Equities:		
Commingled Fund	353,049	19.37
Consumer Discretionary	70,718	3.88
Consumer Staples	27,001	1.48
Energy Related	38,947	2.14
Financials	54,208	2.97
Health Care	44,676	2.45
Industrials	65,745	3.61
Information Technology	70,287	3.86
Materials	18,819	1.03
Telecommunication Services	8,924	0.49
Unclassified	431	0.02
Utilities	6,818	0.37
Total Domestic Equities	759,623	41.67
Real Estate:		
Commingled Funds	144,227	7.91
Commingled Equity Index Fund	178,729	9.81
International Equities:		
Commingled Funds	366,365	20.10
Commodities:		
Exchange Traded Funds	17,710	0.97
Cash & Cash Equivalents	28,403	1.56
Total before Securities Lending	$ 1,822,712	100.00%
Securities Lending	87,622	
Total Investments	$ 1,910,334	

Schedule of Commissions
For the Fiscal Year Ended June 30, 2012

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions Per Share
Barclays Capital LE	349,722	$ 12,470	$ 0.0357
Bloomberg Tradebook LLC	799,303	15,986	0.0200
Burke & Quick Partners LLC	499,380	19,975	0.0400
Convergex Execution Solutions	583,270	23,330	0.0400
Cowen and Company, LLC	531,516	17,561	0.0330
Credit Suisse Securities (USA) LLC	375,572	11,148	0.0297
Goldman Sachs + Co	370,854	10,938	0.0295
Hudson Securities Inc	319,670	11,061	0.0346
Instinet	678,767	13,323	0.0196
J.P. Morgan Securities Inc	492,430	14,722	0.0299
Jefferies + Company Inc	837,098	20,636	0.0247
Knight Equity Markets L.P.	6,442,258	60,380	0.0094
Liquidnet Inc	795,755	19,850	0.0249
Merrill Lynch Professional Clearing	584,235	21,318	0.0365
Morgan Stanley Co Incorporated	362,859	12,331	0.0340
Pershing LLC	859,575	33,114	0.0385
Raymond James Inc	320,798	10,710	0.0334
Robert W Baird Co	300,037	10,028	0.0334
Sanford C Bernstein Co LLC	307,747	11,307	0.0367
SJ Levinson & Sons LLC	443,410	15,065	0.0340
State Street Global Markets	16,417,088	64,294	0.0039
Stifel Nicolaus + Co Inc	562,152	19,520	0.0347
UBS Securities LLC	482,770	17,141	0.0355
Weeden + Co	1,050,700	17,205	0.0164
All Other Brokers (1)	6,960,221	208,645	0.0300
Total	41,727,187	$ 692,058	

(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.

December 14, 2012

VIA ELECTRONIC MAIL

Board of Retirement
City of Phoenix Employees' Retirement System
200 W. Washington St., 10th Floor
Phoenix, Arizona 85003

Dear Members of the Board:

At your request, we performed the June 30, 2012 Actuarial Valuation for the City of Phoenix Employees' Retirement System (COPERS). The detailed valuation results with respect to COPERS are contained in our Actuarial Valuation Report issued December 5, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of COPERS as of the valuation date; to determine the City's contribution rate for the fiscal year ending June 30, 2014; and to provide other disclosure information required under Government Accounting Standards Board Statements Nos. 25 and 27. Actuarial valuations have been performed annually starting with the June 30, 1995 Actuarial Valuation.

The funding methods adopted by COPERS are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets compared to the amount targeted by the funding method as of the valuation date. Variations in the expected cost of the plan are amortized as a level percentage of expected payroll over a 20-year open period.

The assumptions and methods used in the valuation were adopted by the Board based on recommendations made by the prior actuary. The last experience study performed covered the period from July 1, 2004 through June 30, 2009. We have commenced discussion of alternative assumptions and methods for the Board's consideration. To allow time for additional analysis and consideration of more alternatives, the Board has elected to maintain the current assumptions and methods for this valuation. These methods and assumptions meet the parameters set by GASB Statement No. 25 for calculating the Annual Required Contribution.

In preparing our report, we relied on information (some oral and some written) supplied by the Retirement Program administrator. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2012 Actuarial Valuation:

- Summary of Actuarial Assumptions and Methods;
- Schedule of Active Member Valuation Data;
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls;
- Solvency Test; and
- Analysis of Financial Experience.

We have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information, and
- Schedule of Funding Progress.

In addition, we have prepared the following information for inclusion in the Statistical Section of this CAFR.

- Schedule of Retired Members by Type of Benefit

For the schedules listed above, all historical information prior to the June 30, 2012 Actuarial Valuation is based on information reported by the prior actuary.

This letter was prepared exclusively for the City of Phoenix Employees' Retirement System for the purpose of completing required disclosures for this CAFR. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

We hereby certify that to the best of our knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Kenneth A. Kent, FSA, FCA, EA, MAAA	William R. Hallmark, ASA, FCA, EA, MAAA
Principal Consulting Actuary	Consulting Actuary

Supporting Schedules

Summary of Actuarial Assumptions and Methods

The City of Phoenix Employees' Retirement Board adopts actuarial assumptions and methods which are recommended by COPERS' actuary.

Method Changes

The following changes in methods were made pursuant to the recommendations in the actuarial audit of the June 30, 2007 annual valuation: 1) The Normal Cost contribution rate was calculated to be consistent with contributions that are paid throughout the year, not at the beginning of the year. 2) The calculation of projected final average compensation and years of service at retirement was changed to mid-year, consistent with the timing regarding the applications of the assumptions.

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 unfunded actuarial 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, 2012 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 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 0.0% to 3.8% per year, depending on age, attributable to merit and longevity. 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 assumption changes adopted by the Board November 17, 2005, following the experience study for the period of July 1, 1999 through June 30, 2004. An experience study was conducted for the period of July 1, 2004 through June 30, 2009. No assumption changes have been adopted following the experience study.

Summary of Actuarial Assumptions and Methods (Continued)

Individual Member Pay Increases

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

Age	Merit and Longevity	Base	Competition/ Productivity	Total
20	3.8%	4.5%	0.5%	8.8%
25	3.1	4.5	0.5	8.1
30	2.7	4.5	0.5	7.7
35	2.4	4.5	0.5	7.4
40	2.2	4.5	0.5	7.2
45	1.6	4.5	0.5	6.6
50	1.1	4.5	0.5	6.1
55	0.6	4.5	0.5	5.6
60	0.1	4.5	0.5	5.1
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.

Rates of Mortality for Active and Retired Healthy and Disabled Lives at Selected Ages

Age	Male	Female
25	0.0376%	0.0207%
30	0.0444	0.0264
35	0.0773	0.0475
40	0. 1079	0.0706
45	0.1508	0.1124
50	0.2138	0.1676
55	0.3624	0.2717
60	0.6747	0.5055
65	1.2737	0.9706
70	2.2206	1.6742
75	3.7834	2.8106
80	6.4368	4.5879
85	11.0757	7.7446
90	18.3408	13.1682
95	26.7491	19.4509

Summary of Actuarial Assumptions and Methods (Continued)

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

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

Summary of Actuarial Assumptions and Methods (Continued)

Actuarial Valuation Data - Active Members

Valuation Year	Number of Members	Annual Payroll (in thousands)	Average Pay	% Increase in Average Pay
2012	8,325	$ 506,017	$ 60,783	1.5%
2011	8,569	513,322	59,904	(3.1)
2010	8,896	550,175	61,845	6.8
2009	9,317	539,468	57,901	(1.6)
2008	9,624	566,512	58,865	5.2
2007	9,564	535,079	55,947	4.2
2006	9,260	497,105	53,683	3.6
2005	9,036	467,998	51,793	4.2
2004	8,960	445,348	49,698	6.7
2003	8,943	416,472	46,570	3.6

Schedule of Retirees and Beneficiaries Added To and Removed From Rolls

(dollars in thousands)

	Added to Rolls			Removed		Rolls End of Year			
		Annual Pensions							
Year End	No.	New	PEP (a)	No.	Annual Pensions	No.	Annual Pensions	Average Annual Pensions	% Increase in Annual Pensions
2012	448	$ 14,488	$ --	161	$ 4,174	5,478	$ 160,294	$ 29,256	6.9%
2011	444	15,251	--	184	3,574	5,191	149,950	28,887	8.4
2010	432	15,139	120	170	3,206	4,931	138,273	28,042	9.5
2009	426	14,195	1,594	174	3,002	4,669	126,220	27,034	11.3
2008	348	10,935	2,874	148	2,732	4,417	113,433	25,681	10.8
2007	290	8,205	1,519	142	2,165	4,217	102,356	24,272	8.0
2006	309	9,247	1,976	147	2,144	4,069	94,797	23,297	9.0
2005	314	7,795	1,159	150	2,554	3,907	85,718	21,940	8.1
2004	296	7,610	1,727	145	2,122	3,743	79,318	21,191	9.1
2003	259	6,720	1,066	124	1,935	3,592	72,221	20,106	8.8

(a) Pension Equalization Increase

Solvency Test
(dollars in thousands)

Valuation Date	Aggregate Accrued Liabilities for: (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members Employer Portion	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
6/30/2012	$ 443,964	$ 1,525,152	$ 970,258	$ 1,827,528	100%	91%	0%
6/30/2011	446,456	1,431,877	874,576	1,834,620	100	97	0
6/30/2010	445,141	1,311,929	940,217	1,868,093	100	100	12
6/30/2009	446,039	1,193,391	878,664	1,895,148	100	100	29
6/30/2008	433,742	1,066,886	912,737	1,908,414	100	100	45
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

Analysis of Financial Experience
(dollars in thousands)

	Derivation for Year Ended June 30, 2012	2011	2010	2009	2008
(1) UAL at Start of Year	$ 918,289	$ 829,195	$ 622,946	$ 504,950	$ 349,611
(2) Normal cost for year	77,366	80,099	78,731	83,089	72,806
(3) Contributions	(133,822)	(119,613)	(116,482)	(98,157)	(95,435)
(4) Assumed Investment Income Accrual on (1), (2) and (3)	71,248	64,652	48,228	39,755	27,005
(5) Expected UAL Before Changes	933,081	854,333	633,424	529,637	353,987
(6) Effect of Assumption Changes	--	--	--	--	--
(7) Effect of Method Changes	--	--	--	--	74,539
(8) Effect of Benefit Changes	--	--	--	--	--
(9) Expected UAL After Changes	933,081	854,333	633,424	529,637	428,526
(10) Actual UAL	1,111,845	918,289	829,195	622,946	504,950
(11) Gain (loss) (9) - (10)	$ (178,764)	$ (63,956)	$ (195,771)	$ (93,309)	$ (76,424)
(12) As % of AL at Start of Year	(6.5%)	(2.4%)	(7.8%)	(3.9%)	(3.5%)

UAL means unfunded actuarial liability
AL means actuarial 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 actuarial 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 8 of this report.

Voluntary Retirement

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

- age 60 with 10 or more years of credited service,
- age 62 with 5 or more years of credited service, or
- an age which added to his or her ("his") years of credited service equals 80 (Rule of 80).

Final Average Compensation

Final Average Compensation ("FAC") is the average of a member's monthly pay during the 36 consecutive months of credited service producing the highest monthly average contained within the 120 consecutive months of credited service immediately preceding retirement. For most members, this is the last three years of employment. Pursuant to City management and Board action, FAC includes vacation payout, Deferred Compensation ("DCP") fringe and travel/communication allowance. Inclusion of travel allowance in FAC was effective July 1995 and the DCP fringe inclusion is retroactive to the inception of the program in 1986. Inclusion of the sick leave payout in the calculation of final average compensation began July 1, 1996. Beginning in fiscal year 1997, salary adjustments for certain employees (referred to as reimbursement of contributions), are included in the calculation of final average compensation.

Credited Service

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

Summary of Plan Provisions (Continued)

Purchase of Public Service Credits

On January 28, 1998, the COPERS' Board, after review of legal and actuarial considerations, adopted a program permitting COPERS' members to purchase in-state and out-of-state public service credits, along with non-intervening military service credits, towards their retirement. The basic requirements for this program are contained in Board Policy. 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. The Board policy revision to the service purchase program is to allow active members to purchase previous City of Phoenix job-share and City of Phoenix full-time temporary employment service, adopted on May 21, 2008, after legal and actuarial reviews, was implemented effective October 1, 2008.

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.

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 a 2 percent interest rate for June 30, 2012.

If a member leaves covered City employment for reasons other than retirement, his accumulated contributions may be refunded to him. If a 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 actuary. 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 38 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

(in thousands)

	2012	2011	2010	2009	2008
ADDITIONS					
Member Contributions	$ 28,140	$ 28,648	$ 30,240	$ 31,774	$ 31,237
Employer Contributions	105,682	90,965	86,241	66,383	64,198
Funds from Other Systems	4,030	4,999	4,619	2,411	4,755
Net Investment Income (Loss)	(5,664)	315,936	143,016	(375,388)	(106,022)
Total Additions to Plan Net Assets	132,188	440,548	264,116	(274,820)	(5,832)
DEDUCTIONS					
Benefit Payments	156,679	145,922	133,522	121,484	109,308
Refunds of Contributions	2,333	2,470	2,877	2,812	2,623
Funds to Other Systems	1,365	2,872	1,699	1,518	2,103
Administrative Expenses	328	251	402	477	0
Total Deductions from Plan Net Assets	160,705	151,515	138,500	126,291	114,034
CHANGE IN NET ASSETS	$ (28,517)	$ 289,033	$ 125,616	$ (401,111)	$ (119,866)

	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

Note: Administrative expenses of COPERS are paid by the City of Phoenix. As of October 22, 2008, the COPERS' Board approved the payment of certain fees for legal, medical, actuarial and computer services from Plan assets. 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.

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
2011-2012		$ 136,223	$ 2,793	$ 700	$ 2,882	$ 10,792	$ 1,997	$ 36	$ 1,257	$ 156,680
2010-2011		126,574	2,706	718	2,774	10,047	1,859	32	1,210	145,920
2009-2010		115,115	2,672	707	2,650	9,633	1,651	32	1,062	133,522
2008-2009		104,189	2,795	716	2,541	8,819	1,444	33	947	121,484
2007-2008		93,116	2,583	690	2,398	8,413	1,287	39	782	109,308
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

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

Refunds
(in thousands)

Fiscal Year	Beneficiaries*	Separation	Total Refunds
2011-2012	$ 437	$ 1,896	$ 2,332
2010-2011	677	1,793	2,470
2009-2010	963	1,914	2,877
2008-2009	618	2,194	2,812
2007-2008	149	2,474	2,623
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

Schedule of Retired Members by Type of Benefit
June 30, 2012

Monthly Benefit	Number of Retirees	Type of Retirement: Deferred	Normal or Voluntary	Duty Disability	Non-Duty Disability	Survivor Payment	Death Benefit	Alternate Payee
Deferred	697	697	--	--	--	--	--	--
$1 - 300	84	--	45	1	--	11	15	12
301 – 400	151	--	93	7	2	39	3	7
401 – 500	124	--	74	9	5	25	2	9
501 – 600	137	--	87	5	9	25	6	5
601 – 700	156	--	86	5	11	47	6	1
701 – 800	167	--	88	3	14	36	12	14
801 – 900	165	--	97	4	20	36	6	2
901 – 1,000	167	--	88	3	15	45	8	8
1,001 – 1,100	185	--	116	4	15	33	9	8
1,101 – 1,200	158	--	97	1	17	26	8	9
1,201 – 1,300	155	--	104	1	14	22	4	10
1,301 – 1,400	154	--	110	1	10	22	9	2
1,401 – 1,500	160	--	111	4	5	26	8	6
1,501 – 2,000	698	--	553	13	25	69	23	15
2,001 – 2,500	732	--	637	1	12	66	12	4
2,501 – 3,000	566	--	518	--	6	31	11	--
3,001 – 4,000	785	--	735	--	4	37	9	--
4,001 – 5,000	434	--	419	--	2	12	1	--
Over 5,001	411	--	397	--	--	11	3	--
Totals	6,286	697	4,455	62	186	619	155	112

Monthly Benefit	Total	Option Selected: Life	Option A: Standard	Option A: Pop-Up	Option B: Standard	Option B: Pop-Up	Option C	Child Benefit
$1 – 300	84	39	20	6	--	--	4	15
301 – 400	151	98	27	8	2	5	11	--
401 – 500	124	80	29	7	1	--	7	--
501 – 600	137	79	25	17	3	2	11	--
601 – 700	156	94	31	16	2	5	8	--
701 – 800	167	107	27	19	3	3	8	--
801 – 900	165	88	30	19	4	11	13	--
901 – 1,000	167	110	27	19	6	3	2	--
1,001 – 1,100	185	113	40	15	4	4	9	--
1,101 – 1,200	158	78	48	14	2	10	6	--
1,201 – 1,300	155	75	38	19	6	12	5	--
1,301 – 1,400	154	83	35	14	5	12	5	--
1,401 – 1,500	160	93	24	18	6	15	4	--
1,501 – 2,000	698	302	196	92	27	45	36	--
2,001 – 2,500	732	311	207	90	27	70	27	--
2,501 – 3,000	566	225	147	80	37	52	25	--
3,001 – 4,000	785	311	238	92	31	77	36	--
4,001 – 5,000	434	174	117	52	26	52	13	--
Over 5,001	411	167	127	46	21	33	17	--
Totals	5,589	2,627	1,433	643	213	411	247	15
Deferred	697							
Total	6,286							

Schedule of Average Benefit Payment Amounts
By Year of Retirement

Last Five Fiscal Years

Retirement Effective Dates For Fiscal Years Ending June 30:	Years of Credited Service 5-9	10-14	15-19	20-24	25-29	30+
2012						
Average Monthly Benefit	$ 572.10	$ 1,082.46	$ 1,761.17	$ 2,793.32	$ 3,620.34	$ 4,805.13
Mean Monthly Final Average Compensation	$ 4,353.18	$ 4,633.71	$ 5,268.80	$ 6,176.80	$ 6,574.75	$ 7,449.58
Number of Active Retirees	30	35	32	64	118	62
2011						
Average Monthly Benefit	$ 573.56	$ 1,125.30	$ 1,756.20	$ 2,780.95	$ 4,123.71	$ 4,908.60
Mean Monthly Final Average Compensation	$ 4,216.52	$ 4,941.00	$ 5,243.97	$ 6,276.18	$ 7,396.17	$ 7,417.58
Number of Active Retirees	33	42	35	66	104	84
2010						
Average Monthly Benefit	$ 556.25	$ 1,112.81	$ 1,795.80	$ 2,584.18	$ 3,931.29	$ 4,556.99
Mean Monthly Final Average Compensation	$ 4,315.32	$ 4,734.51	$ 5,317.53	$ 5,926.53	$ 7,021.19	$ 6,980.08
Number of Active Retirees	30	24	37	66	103	103
2009						
Average Monthly Benefit	$ 595.09	$ 1,141.51	$ 1,714.34	$ 2,654.99	$ 3,604.90	$ 4,514.93
Mean Monthly Final Average Compensation	$ 4,223.79	$ 4,792.32	$ 5,219.21	$ 5,874.84	$ 6,522.92	$ 6,947.19
Number of Active Retirees	29	25	38	70	99	96
2008						
Average Monthly Benefit	$ 557.91	$ 943.83	$ 1,471.82	$ 2,688.20	$ 3,503.85	$ 4,356.59
Mean Monthly Final Average Compensation	$ 3,867.12	$ 4,301.83	$ 4,522.21	$ 6,016.25	$ 6,504.98	$ 6,669.55
Number of Active Retirees	17	29	23	57	72	78
From July 1, 2007 to June 30, 2012						
Average Monthly Benefit	$ 570.98	$ 1,081.18	$ 1,699.87	$ 2,700.33	$ 3,756.82	$ 4,628.45
Mean Monthly Final Average Compensation	$ 4,195.19	$ 4,680.67	$ 5,114.34	$ 6,054.12	$ 6,804.00	$ 7,092.80
Number of Active Retirees	139	155	165	323	496	423

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