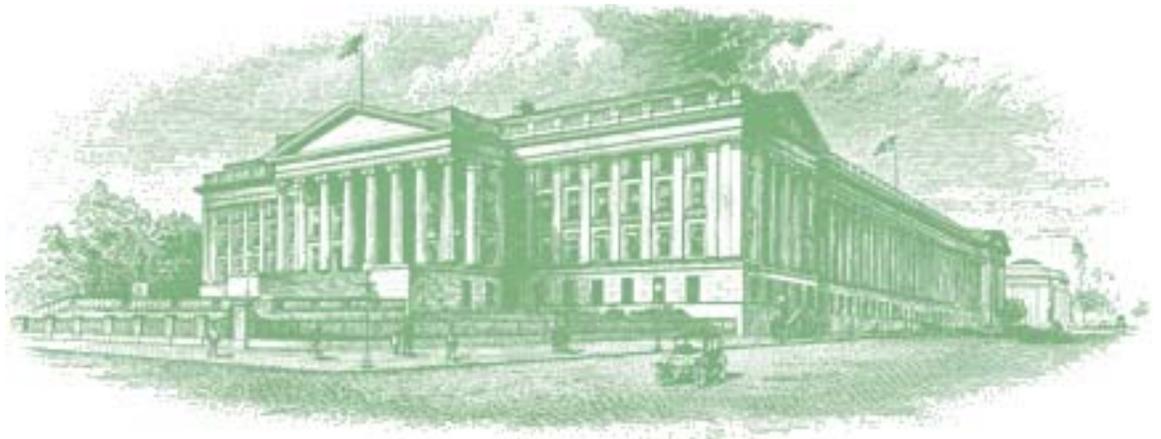




Audit Report



OIG-07-018

Audit of the Office of D.C. Pensions' Fiscal Years 2006 and 2005 Financial Statements

December 5, 2006

Office of
Inspector General

Department of the Treasury



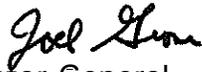
DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 5, 2006

**MEMORANDUM FOR NANCY OSTROWSKI, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM:

Joel A. Grover 
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT:

Audit of the Office of D.C. Pensions' Fiscal Years 2006 and
2005 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2006 and 2005. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of the financial statements of ODCP as of September 30, 2006 and 2005 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control; and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no matters involving internal control and its operation that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing

standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated October 31, 2006 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits, at (202) 927-5789.

Attachment



DEPARTMENT OF THE TREASURY



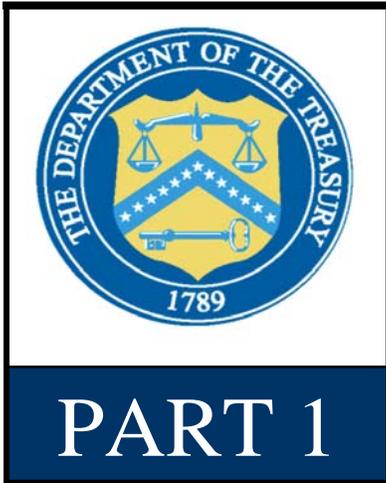
District of Columbia Pensions Program Fiscal Year 2006 Annual Report



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MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission Statement:

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33 (111 Stat. 251, 712), as amended, by making timely and accurate federal benefit payments associated with the District of Columbia retirement programs for police officers and firefighters, teachers, and judges.

I. Introduction

A. *Statutory Basis and Responsibilities*

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, the Department of the Treasury's (Treasury) Office of D.C. Pensions (the Office) engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

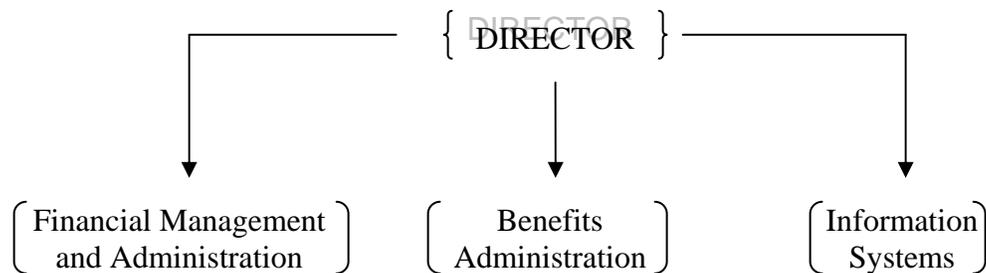
All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters and teachers based upon service accrued after June 30, 1997) are referred to as District Benefit Payments.

B. *Organizational Structure and Staffing*

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR). The DASHR reports to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office structure consists of three functional areas; financial management and administration, benefits administration, and information systems. In addition, the Office receives support from other Treasury offices, including, in particular, the Office of General Counsel and the Procurement Services Division. As of September 30, 2006, 21 Treasury positions are funded from the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund) within the below structure.

OFFICE of D.C. PENSIONS



Treasury Support Offices: General Counsel & Procurement

Pursuant to a reimbursable services agreement, Treasury’s Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), performs: systems administration and hosting for the automated pension/payroll system, accounting, and annuity payroll services.

As of September 26, 2005, the District of Columbia Retirement Board (DCRB) serves as the interim benefits administrator for the Police Officers’ and Firefighters’, and Teachers’ Retirement Plans. The Office reimburses DCRB for expenses associated with administrating the Federal Benefit Payments. Also, as of that date, the Office assumed benefit administration responsibility for the Judges’ Retirement Plan.

II. Executive Summary

The District of Columbia Pensions Program (the Program) provides successful stewardship of the pension funds, high quality benefit administration services and effective use of resources through mutually beneficial relationships with our partners at the District of Columbia and the Bureau of the Public Debt. In Fiscal Year 2006, the Program achieved significant milestones. These include the following:

- The System to Administer Retirement (STAR), the automated pension/payroll system, issued its billionth payment on March 1, 2006.
- The annuity payroll team at the Bureau of the Public Debt, Administrative Resource Center, processed over 425,000 on-cycle benefit payments through STAR since January 2, 2003.
- The IT hosting team at the Bureau of the Public Debt ensured that STAR was operational 99.9% of the time.
- The District of Columbia Retirement Board celebrated its first anniversary of performing benefit administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan.
- The Office of D.C. Pensions, with support from the accounting team at the Bureau of the Public Debt, Administrative Resource Center, received an unqualified audit opinion for the eighth consecutive year.
- The Office of D.C. Pensions, working with the District of Columbia Retirement Board, made significant progress in the project to upgrade Oracle/PeopleSoft from version 8.0 to 8.9 and to enhance STAR to appropriately allocate and record the split between federal and District liability.

In addition to these accomplishments, the Program continued to meet its ongoing responsibility to ensure the accuracy and timeliness of benefit payments, and to exercise effective financial management and investments of funds. The Program also focused on effectively managing the organization's mission while ensuring quality service to annuitants. Section III of Part 1 of this report provides the Program objectives along with FY 2006 results and areas of focus for the future.

III. Strategic Goals/Objectives

A. Strategic Objectives and Performance Measures

The Office of D.C. Pensions has four strategic objectives that contribute to the achievement of two of the Department of the Treasury's strategic goals.

Treasury Goal: Manage the U.S. Government's Finances Effectively

Office Objectives:

1. Ensure benefit payments are accurate and timely and optimize the use of electronic systems.
2. Ensure the effective financial management and investment of the pension funds in the custody of the Treasury.

Treasury Goal: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Office Objectives:

1. Ensure effective management of the organization's mission.
2. Ensure quality service to annuitants.

The following table displays the link between the Office's four strategic objectives and the two Treasury strategic goals. It also identifies the Office's measures and results.

A. Office of D.C. Pensions (Office) Strategic Objectives and Performance Measures

Fiscal Years 2006 - 2008				Fiscal Year 2006
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
F4 - Manage the U.S. Government's Finances Effectively	F4C - Make collections and payments accurately and on time optimizing the use of electronic mechanisms	Ensure benefit payments are accurate and timely; and optimize the use of secure electronic systems	Percentage of monthly benefit payments made to annuitants by the first business day of the month	STAR made 100% of the benefits payments to annuitants on time. Treasury ensured timely availability of funding for \$494 million in benefit payments to 13,528 annuitants and refunded contributions to 74 former active employees.
			Percentage of electronic payments made to annuitants	The Office pays 92% of 13,528 annuitants by direct deposit, a 1% increase over FY 2005.
			New annuitant benefit calculation error rate	The District's calculation error rate identified in the quality review process increased from 2.82% in FY 2005 to 3.54% in FY 2006.
			Secure electronic pension/payroll system effectiveness	Throughout FY 2006, STAR continued to provide accurate, secure and timely processing for 77 annuitants under the Judges' Plan and 13,451 annuitants under the plans for teachers, police and firefighters. The STAR Release 4 project is underway to upgrade ORACLE/PeopleSoft from version 8.0 to 8.9 and to determine the split benefit for the Federal and District portions of an annuitant's payment.

Fiscal Years 2006 - 2008				Fiscal Year 2006
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
F4 - Manage the U.S. Government's Finances Effectively (continued)	F4D – Optimize cash management and effectively administer the Government's Financial Systems	Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury	Financial Statement Audit Opinion received from an independent external auditor	KPMG LLP, an independent public accounting firm, rendered an unqualified opinion on the Office's Financial Statements.
			Number of open financial management material weaknesses or corrective actions	KPMG LLP, an independent public accounting firm, noted no material weakness in the Office's internal controls.
			Accuracy and timeliness of actuarial report	The enrolled actuary, Cheiron, issued a report as of October 1, 2006, providing all information necessary to meet the Department's FY 2006 audit report requirements. The actuarial report also included the amount of the deposits to be made to the D.C. Federal Pension Fund and Judicial Retirement Fund.
			Percentage of electronic payments made to vendors timely	Of the 138 payments made to vendors, 100% were paid using electronic fund transfers within 30 days of receipt.
			Amount saved by utilizing early payment discount incentives	The Office saved \$61,961 in FY 2006 by meeting the early payment discount incentives.

Fiscal Years 2006 - 2008				Fiscal Year 2006
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
F4 - Manage the U.S. Government's Finances Effectively (continued)	F4D - Optimize cash management and effectively administer the Government's Financial Systems (continued)	Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury (continued)	Accuracy and timeliness of internal financial reports	The Office submitted financial information timely to all required entities, closing its books within three business days each month. The Office's financial approach integrates financial information with its resource planning requirements and uses detailed expense reports to manage operations.
			Rate of return on investments	In FY 2006, the rate of return as a percentage of par-valued investments was 4.5% for the D.C. Federal Pension Fund and 5.7% for the Judicial Retirement Fund.
			Minimum of two months of available cash and securities	In accordance with its investment guidelines, the Office maintained adequate cash balances to meet monthly obligations, with no exceptions.
			Amount replenished to the D.C. Federal Pension and Judicial Retirement Fund	The D.C. Federal Pension Fund was reimbursed \$6,071,348 by the District for the District's portion of refunds paid in FY 2001 and FY 2002. The D.C. Federal Pension Fund received \$880,595 through debt prevention efforts and received \$129,085 through debt collection efforts. The Judicial Retirement Fund received \$5,210 through debt collection efforts. In FY 2006, the Office resolved the issue of the remaining amount owed by judges to the Judicial Retirement Fund, due to past District errors in the interest rate for purchase of service.
			Progress toward ending the Interim Benefits Period and planning for the Final Reconciliation	The Office conducted a preliminary review of existing documentation for the final reconciliation. The Office inventoried data, held discussions with the District, and requested specific District payroll documents.

Fiscal Years 2006 - 2008				Fiscal Year 2006
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Results
M5 - Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	M5B - Manage Treasury's resources effectively to accomplish the mission and provide quality customer service	Ensure effective management of the organization's mission	Percentage of Office employee performance and training plans supporting individual employee and Office goals	100% of Office employees have a current performance plan and Individual Development Plan (IDP) which is consistent with Office and individual goals.
			Percentage of Office employees receiving timely performance reviews and feedback	100% of the Office employees receive quarterly reviews and year end performance ratings.
			Alignment of Office structure to effectively accomplish mission	The Office formalized its structure to ensure an appropriate level of staffing and focus on all areas of responsibility. The Office continues to focus on an evolving oversight role.
		Ensure quality service to annuitants	Percentage of surveyed annuitants who indicated satisfaction with the accuracy, timeliness, and professionalism of service received	The small sample of annuitants who were surveyed, indicated that the services provided were excellent and that most issues were resolved with a single contact.
		Quality and timeliness of retirement plan information	The Office updated the Police Officers' and Firefighters' Summary Plan Description (SPD) for replacement in November 2006. The SPD will provide up-to-date, accurate and easy to understand information about the Retirement Plan. The Office dedicated call center fielded annuitant inquiries related to Post-56 military service purchases.	

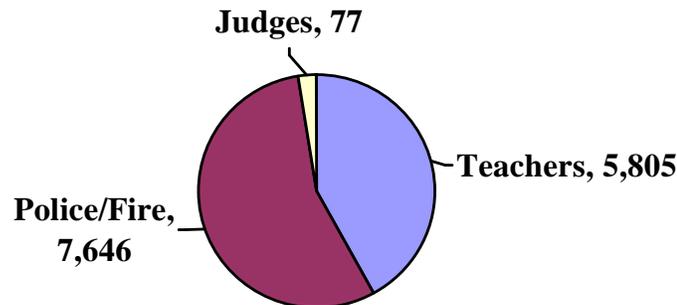
B. Ensure benefit payments are accurate and timely; and optimize the use of secure electronic systems

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services are provided to 13,528 annuitants, as of September 30, 2006, in three District of Columbia retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. The annuitant population within each plan is as follows: teachers, 5,805; police officers and firefighters, 7,646; and judges 77.



In FY 2006, the average monthly payroll totaled approximately \$44 million. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia's Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan, while the Office performed benefits administration for the Judges' Retirement Plan.

General operations focus largely on transaction processing and customer service activities. On a monthly basis, the transaction processing activities represent a variety of activities from processing new retirements and/or survivor benefits, to terminating those no longer eligible, and to updating annuitants' personal and benefits information.

On average in FY 2006, monthly processing in key areas included:

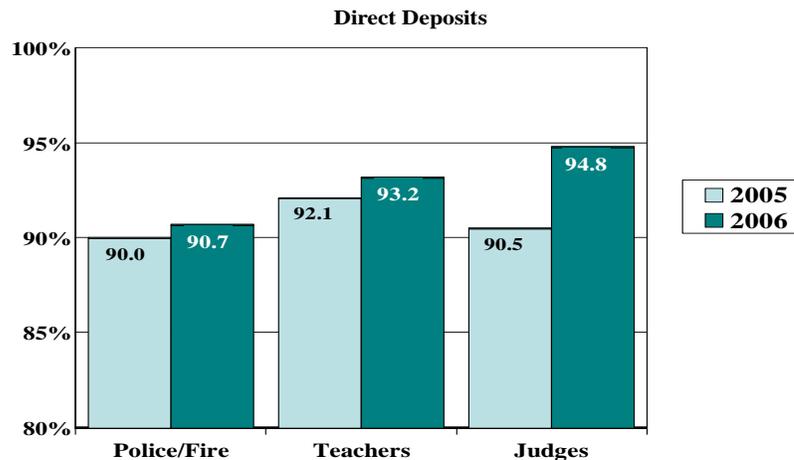
- New Retirements – 23 per month
- New Survivors – 11 per month
- New Beneficiaries/Estates – 19 per month
- Purchases of Service – 14 per month
- Refunds – 32 per month

Equally important to transaction processing is customer service. The customer service team performed a wide range of activities, including resolving annuitant inquiries.

On average in FY 2006, monthly support from the customer service team included:

- Answering Calls – 1,624 per month
- Servicing Walk-ins – 52 per month

The Office encourages annuitants to receive benefits through direct deposit. By the end of FY 2006, 90.7% of retired police officers and firefighters or their survivors, 93.2% of retired teachers or their survivors, and 94.8% of retired judges or their survivors received their monthly benefit payments by direct deposit.



In FY 2006, a variety of outreach efforts provided accurate and timely information to annuitants, including:

- Letters notifying annuitants when their benefits changed
- Earning Statement messages alerting annuitants to changes (*such as a cost-of-living adjustment*) or opportunities (*e.g., signing up for direct deposit*)
- DCRB newsletter (*which provides important plan information for active and retired police officers, firefighters and teachers*)
- Special correspondence, which provide annuitants with detailed individual information when a unique change has occurred (*e.g., recalculations due to the police officers' collective bargaining agreement*)

Quality Review

Each month the DCRB Quality Assurance Specialist reviewed new retirement and survivor cases, and new qualified domestic relation orders (QDRO) processed by

the analysts. The Specialist provided the DCRB analysts with feedback to ensure accuracy and assess training needs for the staff. Also, each month the Office performed quality assurance reviews on a statistical sample of new retiree and survivor cases and QDROs. The Office provided appropriate feedback to the benefits administrator. The error rate identified in the Office's review process in FY 2005 was 2.82%. In FY 2006, the first year of new retiree processing in the System to Administer Retirement (STAR) and by DCRB, the error rate increased to 3.54%.

Special Projects

Implementation of Legislation Regarding Post-1956 Military Service Purchase

The District of Columbia Military Retirement Equity Act of 2003, Pub. L. 108-133, was enacted on November 22, 2003. This legislation allows D.C. Police Officers' and Firefighters' Retirement Plan members to purchase retention of credit for military service performed after December 31, 1956 (Post-56). Members who purchase such credit avoid a benefit reduction when they reach social security full retirement age and eligibility. In FY 2004, the Office focused mainly on the population who had already reached social security full retirement age and received a benefit reduction, or were nearing social security full retirement age. Approximately 280 annuitants completed their purchase of service in FY 2004, and where applicable, had their annuities restored. In early FY 2005, the Office began focusing on the remaining retired population of approximately 4,000 annuitants. In FY 2005, approximately 375 additional annuitants completed their purchase of service and deposited approximately \$160,000 into the D.C. Federal Pension Fund. Annuitant communication and purchase activities continued in FY 2006. As a result, approximately 550 additional annuitants completed a purchase of service and a total of approximately \$268,000 was deposited into the D.C. Federal Pension Fund. The Office estimates that approximately 600 annuitants (depending on their eligibility for social security benefits) may still need complete a purchase of service. At the close of FY 2006, the Office ended its two year Post-56 related outreach effort and direct processing of purchase of service requests. Future Post-56 communications and service purchases will be handled by DCRB as part of regular processing.

The Office continues to work with DCRB to ensure appropriate procedures remain in place to: (1) advise the active and retired populations of the legislation; (2) process requests for purchases of service; and, (3) ensure the transfer of Federal deposits to the D.C. Federal Pension Fund.

Collective Bargaining Agreement (Police Officers)

On June 7, 2005, the D.C. Council approved annual pay increases for active police officers retroactive to October 2003, as contained in a collective bargaining

agreement. These increases have an impact on two different populations of retired police officers. First, the level of pay increases for active police officers determines the level of annual retirement benefit increases applicable for police officers who retired prior to February 15, 1980. Approximately 1,000 retirees in this population were entitled to an “equalization” adjustment and retroactive payments attributable to the 2003, 2004 and 2005 pay increases. The Office implemented these adjustments in the September 1, 2005 annuity payments and made retroactive payments in the September 1, 2005 and October 1, 2005 payments.

Second, because the collective bargaining agreement provided for pay increases retroactive to October 1, 2003, the annuities for approximately 130 police officers who retired after October 1, 2003 were recalculated to account for changes in the retirees’ final average earnings. In addition, retroactive benefits had to be calculated for these annuitants. The Office completed this recalculation and retroactive payment effort in November 2005.

In addition, the beneficiaries and estates of deceased officers who were eligible for the increase also received retroactive payments. These payments were processed between July and September 2006 as the individuals were identified and located.

Judges Purchase of Service

The Office previously determined that the District had used incorrect methods to calculate the interest cost for judges to purchase credit for non-judicial service. Since October 2001, at the Office's direction, active judges who initiate a purchase of service pay the correct amount of interest. In FY 2004, active judges who had paid incorrect amounts for purchases of service prior to October 2001 received notices for the amounts owed. At the end of FY 2004, judges owed amounts totaling, in the aggregate, approximately \$820,000. In FY 2005, the amount owed was reduced by approximately \$465,000 as a result of judges making payments or accepting actuarial reductions in their annuities. In FY 2006, the Office resolved the issue of the remaining amounts owed by the judges.

b. System to Administer Retirement

The System to Administer Retirement (STAR) is the automated pension/payroll system developed by the Office, in cooperation with the District, to replace the District’s legacy system. STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables pension analysts to quickly access information and provide annuitants with real-time customer service.

STAR is based on Oracle/PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration. The Office implemented Release 1 of STAR in December 2002 to serve all annuitants of the Judges' Retirement Plan. The Office implemented Release 2 of STAR in September 2003 to serve teachers, police officers and firefighters who retired on or before June 30, 1997, and their survivors. Release 3 of STAR, which supports annuitants who retired on or after July 1, 1997, including newly retired teachers, police officers and firefighter retirees, and their subsequent survivors, was deployed in August 2005.

STAR Systems Security

The STAR system received full security certification and accreditation (C&A) in January 2003. The C&A was completely updated in August 2004 when the Office made a major change to the technical environment. We plan to update the C&A in FY 2007 to comply with the Federal requirement for completing updates at least every three years.

STAR Business Continuity Plan

An annual test of the System to Administer Retirement (STAR) Business Continuity Plan was conducted in June 2006. The exercise included staff members from the Office, the Bureau of the Public Debt as the STAR system administrator and payroll services provider, and the DCRB as the benefits administrator. This year's exercise consisted of shutting down the production servers and re-establishing the production environment at the disaster recovery backup facility. The users were instructed to redirect their access to the backup site and run through a scripted exercise designed to test a variety of business processes. All processes were executed. At the conclusion of the test, normal production was restored. The test was successful and the team captured several lessons learned that will help to strengthen the plan.

STAR Release 4 – Planned Implementation in June 2007

In FY 2006, the Office and DCRB continued to develop and enhance STAR. The decision was made to upgrade the Oracle/PeopleSoft version from 8.0 to 8.9, because the vendor will stop supporting this version of the software in the middle of calendar year 2007. As a result, STAR would no longer benefit from vendor provided tax updates and other critical enhancements.

In FY 2006, the Office worked with the DCRB to complete planning and analysis of alternatives for the design, development and implementation of the functionality to calculate the split benefit between federal and District liabilities (i.e., the Split Benefit). Split benefit calculations are complex and will be based on a detailed set of regulations published by Treasury in December 2001. The office decided to implement the split functionality in relation to the STAR

Releases. The first group will cover new annuitants; subsequent work will cover annuitants who were previously brought into STAR.

In April 2006, the Office and DCRB decided to merge the Upgrade and Split Phase 1 effort into a single project which is referred to as Release 4. DCRB staff will participate in major activities such as design review and testing. As we learned in Release 3, the inclusion of District staff in the system development process is expected to improve significantly the users' understanding and readiness for deployment. The cutover to Release 4 is planned for June 2007, to generate the payments made in July 2007.

Change Control Board

The Office established the STAR Change Control Board (CCB) in FY 2002 as the approving authority for all system changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change, and prioritize the work relating to approved changes. The CCB process enhances accountability and internal controls. During FY 2006, the CCB reviewed seven change requests and approved six. The CCB also monitors the progress of previously approved change requests to ensure that resources are applied to the highest priority work and that progress is acceptable. The major change requests approved in FY 2006 related to the Upgrade to Oracle/PeopleSoft 8.9 (one for the planning phase and one for execution), and the Split Benefit (also one for planning and a second for execution). Other change requests addressed efforts such as the upload of Post-56 Military Service data and the upgrade of hardware to support STARBase, STAR's documentation repository.

2. Future Focus

a. Benefits Administration

Collective Bargaining Agreement (Teachers)

In July 2006, the District of Columbia teachers signed a new labor agreement that is retroactive to October 2005. The agreement will be implemented for the impacted retiree population in early FY 2007. The implementation will include a retroactive payment to all impacted annuitants, recalculation of the annuity payment for all impacted retirees who retired since October 2005, and when an impacted annuitant is deceased, beneficiary and/or estate payments to the designated individuals.

End User Training

During FY 2006, STAR training development and delivery was provided by the STAR systems integration contractor as a part of the overall system development. In FY 2007, the Office will plan and execute the transition of those

responsibilities to its Benefits Administration team. Also in FY 2007, the Office will partner with DCRB to begin the design and development of a training program to address retirement plan knowledge as a complement to the STAR training program.

b. System to Administer Retirement (STAR)

Release 4

Release 4 is targeted for deployment in June 2007. This system enhancement will upgrade the system software and enable STAR to appropriately allocate and record that portion of an annuitant's benefit that is the Federal government's responsibility and that portion that is the District's responsibility.

Split Benefit Phases 2 and 3

Phase 1 of the Split Benefit project will be deployed as an integral part of the Release 4 project described earlier. It will calculate and record the split for future payments to those annuitants who will be brought into pay status beginning in June 2007. There are two other groups of annuitants for whom split functionality needs to be applied. Phase 2 of the Split Benefit project will calculate the split for future payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. Phase 3 will calculate the split for the future payments to annuitants whose initial retirement processing took place in the District's legacy system, PAPS or Pension Administration and Payroll System. This group of annuitants was converted to STAR in August 2005. The difference between the groups covered by Phase 2 and 3 is that all the relevant data for the split for the Phase 2 population is already recorded in STAR whereas an analysis of historical data will be needed to determine the split for the Phase 3 population.

The Office plans to complete planning and begin execution of both Phases 2 and 3 in FY 2007.

Technical Production Support and Hosting

Technical production support and hosting for STAR is performed by Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC). Since September 2003, ARC staff members have led production support activities, including: routine computer operations, application and database administration, help desk operations and problem resolution. In FY 2007, the Office plans to complete the knowledge transfer from the system integrator to ARC. This will ensure that the ARC staff members have a solid understanding of the STAR requirements, design, configuration management and system operations and maintenance.

C. Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury

1. Program Results

a. Pension Funds

The Office of D.C. Pensions (the Office) administers Federal Benefit Payments through two funds:

- **The District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal Benefit Payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are: an annual payment from the District of Columbia Retirement Board (DCRB); an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.
- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

b. Actuarial Valuation

In FY 2006, the Office contracted with Cheiron to perform the annual actuarial valuation.

As estimated by the actuary, as of October 1, 2006, the Federal government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately \$9.0 billion. Of the \$9.0 billion actuarial liability, approximately \$3.8 billion is funded by existing assets of the D.C. Federal Pension Fund and \$5.2 billion is unfunded.

Cheiron determined an actuarial total liability for the Judges' Retirement Plan as of October 1, 2006, of \$139.9 million. Of the \$139.9 million actuarial liability, approximately \$115.9 million is funded by existing assets of the Judicial Retirement Fund and \$24.0 million is unfunded.

c. Receipts and Investments

The pension funds summary for FY 2006 and FY 2005 are set forth in the tables below. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

Pension Funds FY 2006 Financial Highlights (\$ millions)			
FY 2006	D.C. Federal Pension Fund	Judicial Retirement Fund	Total
Receipts:			
Interest	\$201.8	\$6.0	\$207.8
Reimbursement from DCRB	\$22.2	\$0.0	\$22.2
Deposits from General Fund	\$285.4	\$7.4	\$292.8
Deposits/Contributions from Plan Participants	\$0.0	\$0.7	\$0.7
Net Investments	\$3,707.8	\$113.9	\$3,821.7

Pension Funds FY 2005 Financial Highlights (\$ millions)			
FY 2005	D.C. Federal Pension Fund	Judicial Retirement Fund	Total
Receipts:			
Interest	\$180.4	\$5.4	\$185.8
Reimbursement from DCRB	\$16.2	\$0.0	\$16.2
Deposits from General Fund	\$277.0	\$7.0	\$284.0
Deposits/Contributions from Plan Participants	\$0.0	\$0.6	\$0.6
Net Investments	\$3,762.5	\$107.4	\$3,869.9

Treasury Securities

Each fund is invested in non-marketable Treasury securities, as required by law. The Bureau of the Public Debt (BPD) invests the assets of the pension funds based on investment guidance from the Office. The Office follows a “ladder” approach, scheduling maturities in amounts sufficient to meet the obligations projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations, and extending the ladder. In FY 2006, the cash balance available for

contingencies was targeted not to fall below approximately two months of obligations (\$92 million). The Office invested cash balances in one-day certificates, except for an un-invested balance of \$250,000 at month end, to cover unanticipated withdrawals on the last day of the month.

Deposits (Warrants, Interest, District Benefit Reimbursements and Judges Employee Contributions)

Warrants

As required by the Act, Treasury makes annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities of the retirement programs assumed by the Federal government over 30 years, the net experience gains or losses over 10 years, and any changes in actuarial liabilities over 20 years; and for amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in non-marketable Treasury securities with maturities consistent with the expected payment dates of the pension liabilities. In FY 2006, \$285.4 million was deposited into the D.C. Federal Pension Fund and \$7.4 million into the Judicial Retirement Fund. In FY 2005, \$277 million was deposited into the D.C. Federal Pensions Fund and \$7 million was deposited into the Judicial Retirement Fund.

Interest

In FY 2006, the Office received \$201.8 million of interest (\$156.8 earned) in the D.C. Federal Pension Fund and \$6.0 million (\$5.9 million earned) in the Judicial Retirement Fund. The rate of return in FY 2006 for the Office's pension funds was 4.5% for the D.C. Federal Pension Fund and 5.7% for the Judicial Retirement Fund. In FY 2005, the Office earned interest of \$180.4 million (\$163.8 earned) in the D.C. Federal Pension Fund and \$5.4 million (\$5.6 earned) in the Judicial Retirement Fund. The rate of return in FY 2005 for the Office's pension funds was 4.7% for the D.C. Federal Pension Fund and 5.7% for the Judicial Retirement Fund. The rate of return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of Investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

District Benefit Reimbursements

Because STAR currently does not have the capability to calculate split benefit payments, Treasury initially funds all benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the Memorandum of Understanding Concerning Interim Benefit Administration of Retirement

Programs (September 26, 2005), the District reimburses the D.C. Federal Pension Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2006, the District of Columbia Retirement Board (DCRB) reimbursed Treasury \$22.2 million for the estimated District Benefit Payments made in FY 2005 by Treasury on the District's behalf.

In January 2007, DCRB will reimburse Treasury for the estimated District Benefit Payments made by Treasury on the District's behalf during FY 2006. The DCRB actuary determines the reimbursement amount. At this time, based on an actuarial valuation as of October 1, 2006, the Office's actuary estimates the amount of the reimbursement to be \$28.1 million. This process will remain in place until July 2007 when the DCRB agrees to reimburse Treasury for a monthly estimate.

Judges' Employee Contributions

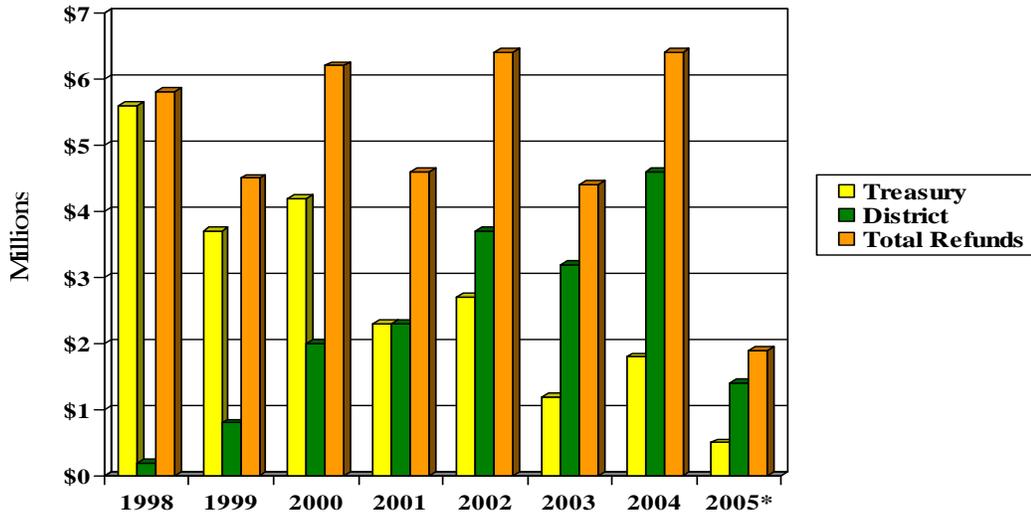
Active judges are required to contribute 3.5% of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5% of salary. Active judges' contributions to the retirement fund in FY 2006 totaled approximately \$590,000. Retired judges who elected a survivor annuity are required to contribute 3.5% of retirement salary. In FY 2006, retired judges contributed approximately \$126,000 to the retirement fund.

d. Collections

Refund Reconciliation Project

The First Amended MOU (September 28, 2000) required Treasury to pay the total amount of refunds of employee contributions during the interim benefits period. On February 1, 2005, Treasury entered into a MOU with the DCRB and the District of Columbia's Office of Pay and Retirement Services (OPRS) concerning refunds of employee contributions under the Police Officers' and Firefighters', and Teachers' Retirement Plans. In addition to agreeing to fund amounts paid on and after February 1, 2005 in accordance with the respective statutory responsibilities (i.e., refunds of contributions deducted from employee salary on or before June 30, 1997, are a federal liability and refunds of contributions deducted after June 30, 1997, are a District liability) the District also agreed to reimburse Treasury for that portion of refunds paid by Treasury prior to February 1, 2005 that represents contributions deducted and withheld from an employee's salary or deposits after June 30, 1997. In FY 2005, the Office began reconciling all refunds made prior to February 1, 2005 resulting in the District reimbursement of \$9.3 million for FY 2003 through February 2005. In FY 2006, the District paid Treasury \$6 million for its share of the refunds paid from FY 2001 and FY 2002. Also in FY 2006, the Office established a \$3 million receivable for FY 1998 through FY 2000.

Refund Reconciliation Project



*Fiscal year 2005 includes refunds paid from October 1, 2004, through February 15, 2005.

Note: Fiscal Years 1998 through 2000 are estimates.

Debt Collection

During FY 2006, the Office pursued debt prevention and collection efforts working with the annuity payroll team at the Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), which manages the debt collection process for the Office. In FY 2006, debt prevention efforts ensured that a total of \$880,595 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. Through debt collection efforts \$134,295 was collected through offsets, lump sum payments or installment payments.

e. Financial Operations

Oracle Federal Financials (ORACLE)

Pursuant to a reimbursable services agreement ARC performs accounting services using Oracle Federal Financial (ORACLE) for the Office. ORACLE is a core financial management product used to process all financial transactions. The Office's transactions are entered into ORACLE both manually and via custom interfaces from ancillary systems. PRISM and GovTrip are feeder systems the Office uses that interface with ORACLE. ARC provides a report writer package called Discoverer which allows the Office to create various accounting reports.

3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since

February 2002 for all data quality checks on the monthly data quality scorecard maintained by Treasury's Office of Accounting and Internal Control.

Prompt Payment

The Office paid 100% of the 123 invoices received within the timeframes required by the Prompt Payment Act and OMB Circular A-125.

Electronic Vendor Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage Federal agencies to use electronic payments. In FY 2006, the Office paid 100% of the 138 vendor payments, which include invoices and travel reimbursements, by electronic funds transfer. Of the 138 payments, 80% were by EFT and 20% by credit card.

Vendor Payment Discounts

The Office's systems integration contractor offers an early payment discount as an incentive to make payments in less than the 30 days prescribed in the Prompt Payment Act. The discounts are:

- 1% for payment within 10 days of the invoice date
- 1/2% for payment within 20 days of the invoice date

As a result, the Office saved \$61,961 in FY 2006 by making payments within 10 days of the invoice date.

Administrative Expenses

The Office funds all administrative expenses to support the federal responsibilities under the retirement programs under the Act from the D.C. Federal Pension Fund and the Judicial Retirement Fund. When administrative expenses related to activities that benefit all of the retirement programs occur, expenses are allocated 99% to the D.C. Federal Pension Fund and 1% to the Judicial Retirement Fund. When expenses benefit only one group or the other, or when a different allocation is clearly appropriate, expenses are charged accordingly.

In FY 2006, administrative expenses were approximately \$17.2 million for the D.C. Federal Pension Fund and \$1.2 million for the Judicial Retirement Fund, for a total of \$18.4 million. In FY 2005, administrative expenses were approximately \$18 million for the D.C. Federal Pension Fund and \$1.5 million for the Judicial Retirement Fund, for a total of \$19.5 million. Administrative expenses in FY 2006 as compared to FY 2005, decreased by \$1.1 million primarily due to a decrease in contractual costs.

The major administrative expenses of the D.C. Pensions Program resulted from reimbursement of DCRB benefit administration and support function expenses, Treasury staff salaries and benefits, and vendors engaged by the Office to provide IT systems development and support of benefits administration activities. Pursuant to a Memorandum of Understanding with DCRB, the reimbursement in FY 2006 also included expenses for a portion of costs DCRB incurred in anticipation of the transfer of benefit administration responsibilities from the District's Office of Pay and Retirement Services (OPRS) to the DCRB.

Certain costs of the System to Administer Retirement (STAR) pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing -- since January 2003 in the Judicial Retirement Fund and since September 2003 in the D.C. Federal Pension Fund -- direct costs incurred to develop STAR. Capitalized costs in the D.C. Federal Pension Fund and Judicial Retirement Fund will be amortized monthly on a five-year schedule.

Expense Reimbursement

As of September 26, 2005, the DCRB assumed interim benefit administration responsibilities for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan. The Office and the DCRB developed a methodology for allocating costs incurred by both entities in administering District and Federal Benefit Payments. The methodology includes consideration of: (1) the number of active employees, 100% federal annuitants and split annuitants; (2) the estimated DCRB resources needed to support these populations; and (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function. Applying this methodology, the Office and the DCRB entered into a cost sharing agreement for reimbursement of FY 2006 actual expenses. Pursuant to the agreement, Treasury will reimburse the DCRB approximately \$2.3 million for FY 2006 expenses in administering Federal Benefit Payments. DCRB in turn will reimburse the Office approximately \$1.7 million for the Office's expenses in developing and operating STAR to administer District Benefit Payments.

f. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office's FY 2006 financial statements. This is the eighth consecutive year that the Office's financial statements have received an unqualified opinion.

KPMG noted no material weaknesses in the Office of D.C. Pensions internal control over financial reporting. Also, the results of KPMG'S tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 06-03.

g. Implementation of OMB Circular A-123 Revisions

The Office worked with the Treasury's Chief Financial Officer's Internal Control Working Group to develop guidelines for implementing the requirements of revised OMB Circular A-123. The Office used this guidance to conduct a review of internal controls over financial reporting. Staff members at Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC) and the Office conducted tests by either inspection or use of the ARC SAS 70 review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting, which included safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Office provided reasonable assurance that its internal control over financial reporting was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines and internal financial reports produced for the Office. The Office provided a compliance statement reflecting an unqualified assurance as of June 30, 2006.

2. Future Focus

a. End Interim Benefit Period/Final Reconciliation

Title XI of the Balanced Budget Act of 1997, as amended, states that the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. With respect to the retirement plans for teachers, police officers and firefighters, Treasury will not end the interim benefits period until STAR is enhanced to calculate the split between federal and District liability for post-June 30, 1997 retirees and their survivors.

In FY 2006, the Office conducted a preliminary review of existing documentation for the final reconciliation. Treasury inventoried data, held discussions with the District, and requested specific District payroll documents. In FY 2007 Treasury will continue planning for the final reconciliation. After the STAR project to calculate split benefits has been implemented, the Office will end the interim benefits period for the retirement plans for District teachers, police officers and firefighters. The Office will then work with the District to conduct the final

reconciliation, accounting for transactions during the interim benefit period. The final reconciliation will include, among other things, an accounting of the amounts related to Federal and District responsibilities for benefits paid to plan members who retired after June 30, 1997.

In Section 10 of the First Amended MOU (which remains in full force and effect under the terms of the new MOU executed in September 2005), the Treasury and the District agreed on the approach and requirements of the final reconciliation. The major requirements are that: (1) the District and DCRB provide audited reports of their transactions affecting the retirement funds during the interim benefits period; and (2) the Treasury calculates split benefit payments for plan members who retired during the interim benefits period and reconciles these payments with amounts actually paid by the District to Treasury during the interim benefits period. The final reconciliation will identify amounts owed to Treasury by the District and vice-versa.

b. Split Benefit Calculation

Beginning in June 2007, Release 4 functionality will enable STAR to calculate the split for future payments to those annuitants who will be brought into pay status as of that date. Also in FY 2007 the Office will begin planning for STAR to calculate the split for the two remaining groups of annuitants. This will enable STAR to appropriately allocate and record the portion of an annuitant's benefit which is the Federal government's responsibility and the District's responsibility.

As part of Release 4, the Office is developing new split monthly reports that will identify at the annuitant level the Federal and District portions of the total annuity paid each month. The DCRB finance staff will have "read only" access to data and reports generated by STAR, to review details of the new split monthly reports when Release 4 is deployed. In the future, these reports will support the actual payment the District will make to Treasury each month.

c. Monthly District Benefit Payments

Beginning in July 2007, the DCRB will reimburse Treasury monthly for the District Benefit Payments. The monthly amount will be 1/12 of the estimated District liability for FY 2007. In December 2006, Treasury will project the District liability for FY 2007 based on the liability that the District actuary certifies for FY 2006. The DCRB will make payments in July, August, September, and October of 2007 for the annuitant payroll earned in the previous month. In December 2007, the District actuary will certify the District liability for FY 2007 benefit payments. In January 2008, the DCRB will pay Treasury the amount certified for FY 2007 minus the total of monthly payments made for FY 2007. Once STAR is able to calculate and record the split, DCRB will pay Treasury monthly for actual District Benefit Payments.

D. Ensure effective management of the organization's mission

1. Program Results

a. Employee Performance and Training

The Office of D.C. Pensions (the Office) managers worked with each employee to achieve the Office's and individual goals through frequent performance feedback, training and development. Management conducts quarterly performance reviews with each employee. Each employee has an Individual Development Plan, which is monitored throughout the year. All employees participate in required and optional training. Opportunities for employee development play an important role in decisions on allocation of work assignments.

b. Organizational Structure

In FY 2006, the structure of the Office was formalized to ensure an appropriate level of staffing and focus on all areas of responsibility. The Office consists of three functional groups each led by a manager reporting to the Director. In addition, the Office is supported by staff members in the Procurement and General Counsel offices. As significant milestones in the STAR system development are nearing completion, and as the functions performed by the District of Columbia Retirement Board (DCRB) are maturing, the Office is focused on an evolving oversight role.

2. Future Focus

a. Expanded Oversight of Benefits Administration Activities

At the end of FY 2005, the benefits administration responsibility transferred from the District of Columbia's Office of Pay and Retirement Services (OPRS) to DCRB. As anticipated with the stabilization of operations, DCRB began to expand and enhance the quality and nature of the services they provided to both the active and retired members of the plans. In response to these changes, the Office will expand its oversight and quality program to include the customer service arena, additional transaction processing activities, and payroll processing services.

E. Ensure quality service to annuitants

1. Program Results

a. Office of D.C. Pensions/District of Columbia Retirement Board Performance Indicators

In FY 2006, the Office of D.C. Pensions (the Office) and the District of Columbia Retirement Board (DCRB) adopted a new set of indicators to measure performance. As anticipated, the indicators reflect a balance between accuracy, timeliness, quality, and cost effectiveness. The changes in the indicators were phased in over the year with the final updates implemented at the end of the fiscal year. As desired, the change in focus positively impacted behavior and promoted improved business practices. For example, tracking outstanding issues and discrepancy reports led to the near elimination of the related inventory.

b. Stabilization of Benefits Administration Functions

In FY 2005, the Office led a coordination effort with the Office of Pay and Retirement Services (OPRS) and the DCRB to facilitate a smooth transition of benefits administration functions for the Police Officers' and Firefighters', and Teachers' Retirement Plans from OPRS to DCRB. The transition was effective on September 26, 2005. Following the transition, DCRB worked to stabilize operations by streamlining processes, adopting new approaches for transferring retirement data, updating procedures changed by the transition, and establishing working relationships with support organizations.

c. Annuitant Satisfaction

With the transition of benefits administration from OPRS to DCRB, the number of staff members focused on customer service increased from three staff members to five staff members. The customer service team includes three data technicians who are responsible for handling the incoming annuitant inquiries and two customer service representatives who handle the inquiries the data technicians can not address as well as the inquiries from annuitants that walk-in or schedule an appointment rather than call in.

DCRB adopted two tools to help track and monitor the call volume. The monitoring system tracks the volume of calls and the availability of the representatives to answer the calls. Complimenting the call monitoring system is a call tracking system that captures more specific information related to each call and caller.

Annuitant outreach via a survey vehicle was limited as compared to prior years. However those annuitants surveyed, indicated that the services provided were

excellent and that most issues were resolved with a single contact. The annuitants were asked to assess the customer service representative's:

- Ability to address the annuitant's concern
- Knowledge of the issue
- Level of professionalism

d. Retirement Plan Information

Police and Firefighters Summary Plan Description

In FY 2005, work began to update the Summary Plan Description (SPD) for the District of Columbia Police Officers' and Firefighters' Retirement Plan. The SPD is designed to provide plan members with accurate and easy to understand information about the Retirement Plan. The SPD was last updated in October 2002. Some significant changes have occurred to the Plan since that time. A revised version is scheduled for release at the end of November 2006. The Office led this effort, with input and coordination provided by DCRB and several other District stakeholders.

Post-56 Legislation Communication

As discussed in section B.1.a., above, in FY 2006, the Office continued to make substantial progress in implementing the District of Columbia Military Retirement Equity Act of 2003, Pub. L. 108-133. The Office continued to work closely with the District to communicate to annuitants a very complex change to their retirement plan and their right to purchase retention of credit for their Post-56 military service. The outreach activities ensured the annuitants received accurate, clear and timely information. Due to the volume of activity, a dedicated call center and post office box remained in place. As a result of the communications, annuitants made fully informed decisions whether to complete a purchase to retain credit of their Post-56 military service. At the close of FY 2006, the Office ended its two year Post-56 related outreach effort and direct processing of purchase of service requests. Future Post-56 communications and service purchases will be handled by DCRB as part of regular processing.

2. Future Focus

a. Office of D.C. Pensions/District of Columbia Retirement Board Performance Indicators

As noted above in FY 2006, the Office and DCRB adopted a new set of performance indicators. In FY 2007, the Office plans to adopt a service level agreement (SLA) to compliment the Office's Memorandum of Understanding with the DCRB. The SLA will identify the required services, acceptable quality level and monitoring method.

b. Teachers Summary Plan Description

The SPD for annuitants under the District of Columbia Teachers' Retirement Plan was last updated in October 2002. In FY 2007, the Office will partner with DCRB to update the Teachers SPD. A revised version is scheduled for release by October 2007. DCRB will lead this effort with the support of the Office. In addition, input will be requested from various District stakeholders.

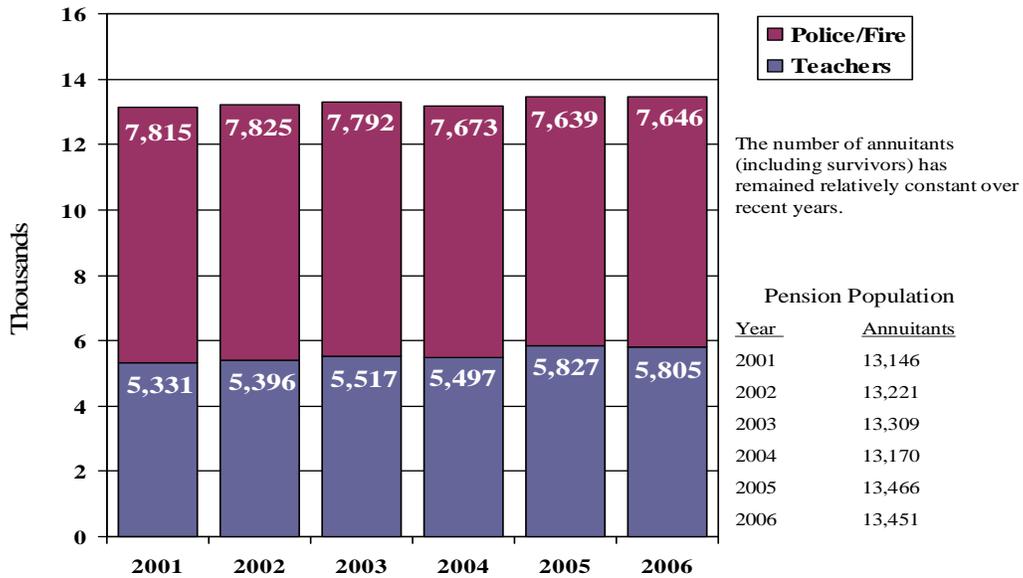
c. Judges Summary Plan Description

The SPD for annuitants under the District of Columbia Judges' Retirement Plan was last updated in October 2002. In FY 2007, the Office will lead the effort to update the Judges SPD. A revised version is scheduled for release by October 2007. Input will be requested from D.C. Courts.

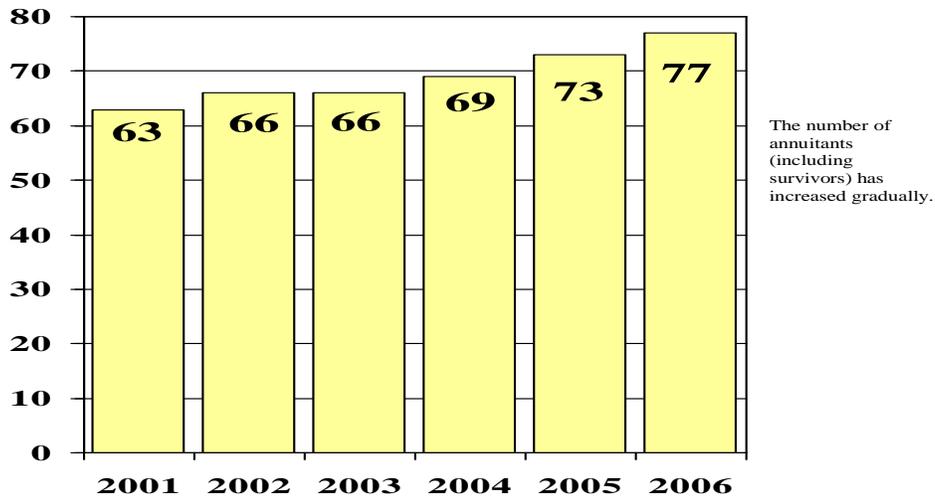
IV. Six Year History of the District of Columbia Pensions Program

A. Annuitants

**Police Officers' and Firefighters',
and Teachers' Retirement Plans**

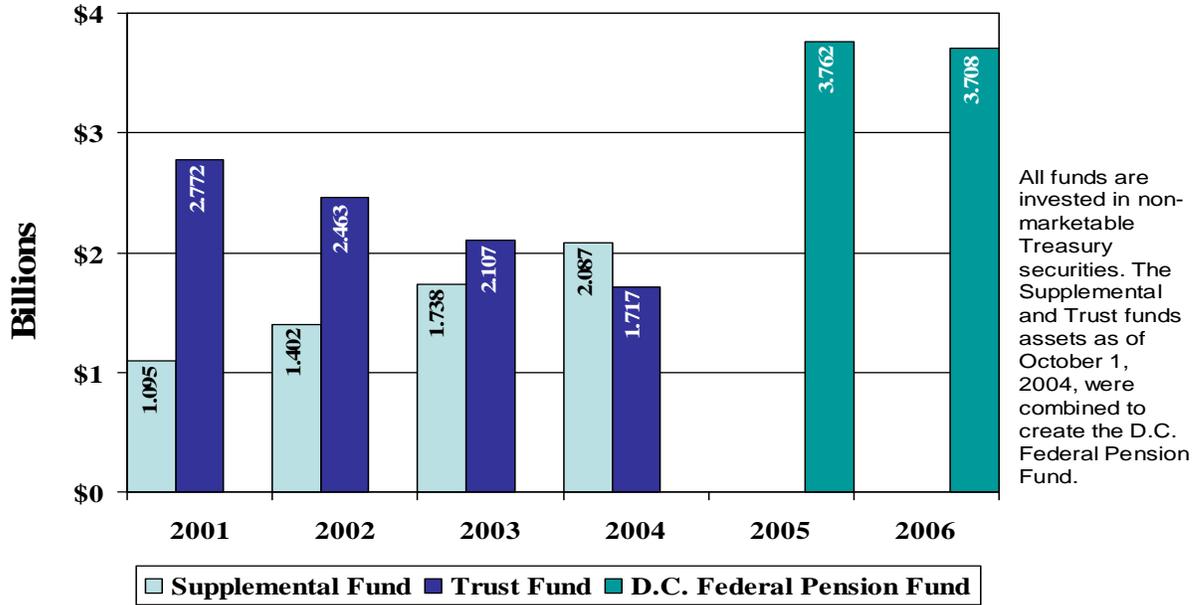


Judges' Retirement Plan

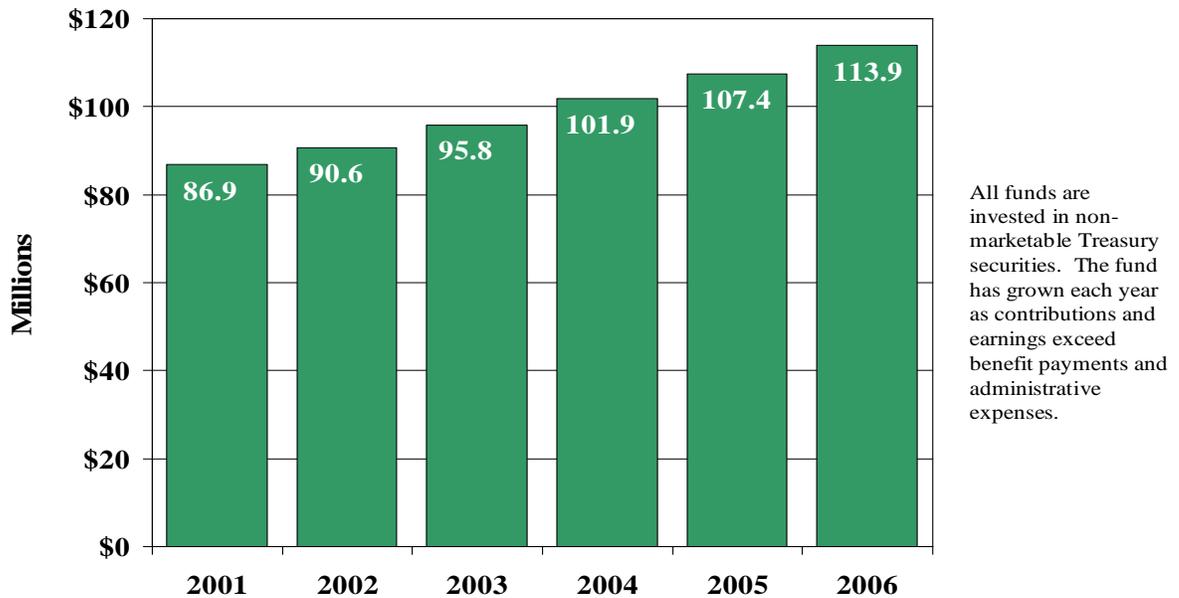


B. Investments

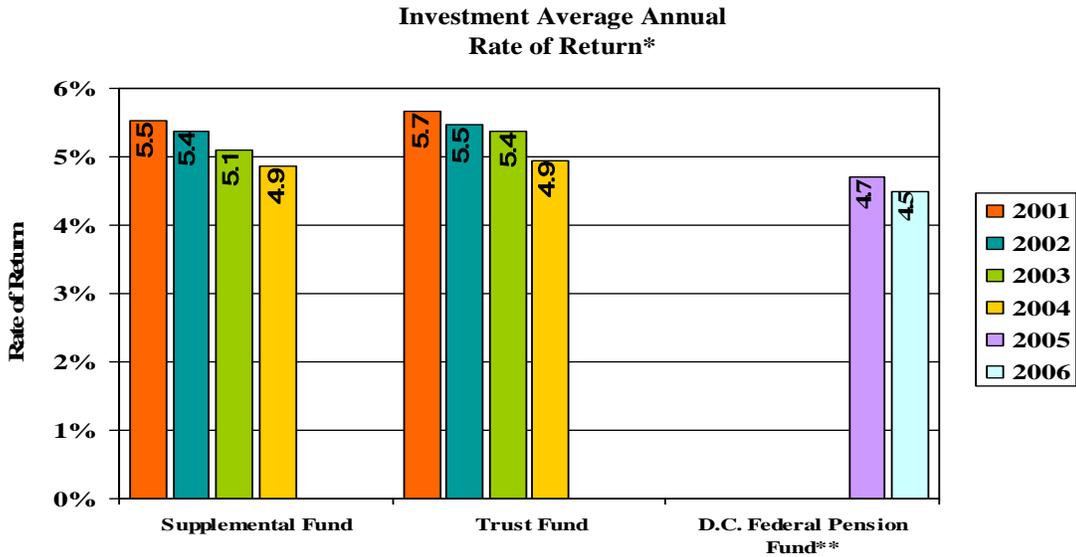
Supplemental, Trust and D.C. Federal Pension Funds' Net Investments



Judicial Retirement Fund Net Investments

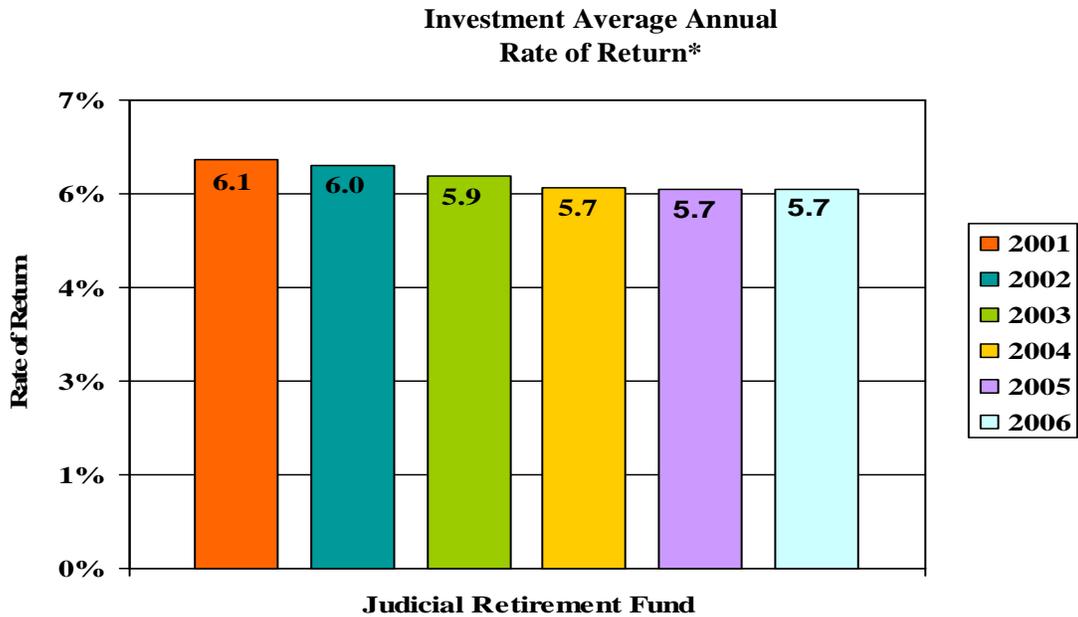


B. Investments (continued)



*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

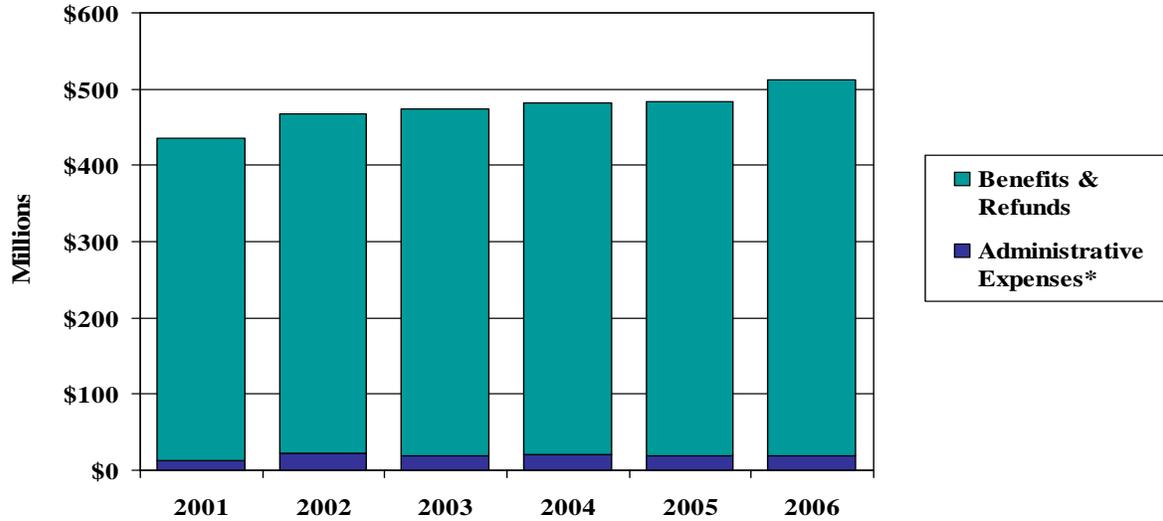
**The Supplemental Fund and the Trust Fund were combined October 1, 2004, to create the D.C. Federal Pension Fund.



*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

C. Major Spending Categories

Benefits, Refunds, and Administrative Spending Categories



*Administrative expenses include reimbursement of the District administrative expenses, salaries and contract support.

Benefits, Refunds and Administrative Spending Categories

Fiscal Year	Benefits/ Refunds Paid	Administration Expenses*	Benefits and Refunds %	Administrative Expenses %
2001	\$423M	\$12M	97%	3%
2002	\$444M	\$23M	95%	5%
2003	\$455M	\$19M	96%	4%
2004	\$462M	\$20M	96%	4%
2005	\$464M	\$19.5M	96%	4%
2006	\$494M	\$18.4M	96%	4%

*Administrative expenses include reimbursement of the District administrative expenses, salaries and contract support.

V. Limitation of the Financial Statements

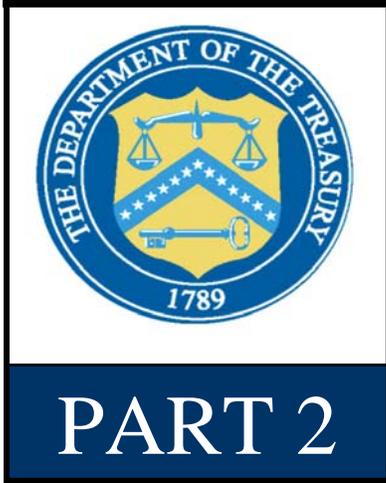
The principal financial statements have been prepared to report the financial position and results of operations of the Office of D.C. Pensions (the Office), pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

VI. D.C. Retirement Protection Improvement Act of 2004 – Impact on Financial Statements

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund) and merged the assets of the D.C. Federal Pension Liability Trust Fund (the Trust Fund) and Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) into the new fund. The budget authority of the Trust Fund and the Supplemental Fund was transferred to the D.C. Federal Pension Fund. This transfer of budget authority has a significant impact on the presentation of the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing which are found in Part 3, as noted in footnote (1)(a) to the financial statements.



INDEPENDENT AUDITORS' REPORTS



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 ODCP'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2006, ODCP adopted the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in Part 1, *Management's Discussion and Analysis*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in Part 4, *Supplementary Schedules*, are also presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules referred to above have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2006, on our consideration of ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

October 31, 2006



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2006 and 2005 and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 31, 2006. That report refers to ODCP's implementation of a new accounting standard in fiscal year 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2006 audit, we considered ODCP's internal control over financial reporting by obtaining an understanding of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on ODCP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. However, we noted no matters involving internal control and its operation that we considered to be material weaknesses as defined above.



INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be material weaknesses.

As required by OMB Bulletin No. 06-03 in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in Part 1, *Management's Discussion and Analysis*, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2006



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 31, 2006. That report refers to ODCP's implementation of a new accounting standard in fiscal year 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of ODCP is responsible for complying with laws, regulations, and contracts applicable to ODCP. As part of obtaining reasonable assurance about whether ODCP's consolidated financial statements are free of material misstatement, we performed tests of ODCP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to ODCP. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether ODCP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

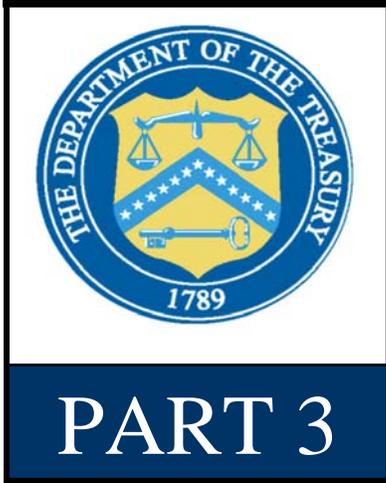


The results of our tests of FFMIA disclosed no instances in which ODCP's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2006



FINANCIAL STATEMENTS AND NOTES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	\$ 255	\$ 251
Investments in GAS Securities, Net (Note 4)	3,821,637	3,869,891
Interest Receivable from GAS Securities	40,020	45,650
Advances to Others	40	19
Accounts Receivable, Net	31,569	30,684
Software-In-Development	5,146	-
ADP Software, Net (Note 5)	11,473	17,679
Equipment, Net (Note 6)	151	228
Total Assets	<u><u>\$ 3,910,291</u></u>	<u><u>\$ 3,964,402</u></u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 68	\$ 300
Accrued Payroll and Benefits	16	18
Accounts Payable	6,767	4,058
Accrued Pension Benefits Payable	44,288	44,214
Actuarial Pension Liability (Note 2 (j))	3,645,440	3,659,529
Accrued Payroll and Benefits	179	294
Total Liabilities Covered By Budgetary Resources	<u>3,696,758</u>	<u>3,708,413</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability (Note 9)	5,422,271	4,851,716
Total Liabilities	<u>9,119,029</u>	<u>8,560,129</u>
Net Position		
Cumulative Results of Operations - Earmarked	(5,208,738)	(4,595,727)
Total Net Position	<u>(5,208,738)</u>	<u>(4,595,727)</u>
Total Liabilities and Net Position	<u><u>\$ 3,910,291</u></u>	<u><u>\$ 3,964,402</u></u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
Program Costs		
Administrative Expenses (Note 7)	\$ 18,422	\$ 19,525
Pension Expense (Note 8)	<u>1,050,791</u>	<u>610,024</u>
Total Program Costs	1,069,213	629,549
Less: Earned Revenues		
Interest Earned from GAS Securities	162,688	169,364
Employee Contributions	<u>590</u>	<u>553</u>
Net Cost of Operations	<u>\$ 905,935</u>	<u>\$ 459,632</u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006	2005
	<u>Earmarked</u>	<u></u>
Cumulative Results of Operations		
Net Position - Beginning of Year	\$(4,595,727)	\$(4,420,274)
Budgetary Financing Sources		
Appropriations Used	292,800	284,000
Other Financing Sources		
Imputed Financing Sources	<u>124</u>	<u>179</u>
Total Financing Sources	292,924	284,179
Net Cost of Operations	<u>(905,935)</u>	<u>(459,632)</u>
Net Change	<u>(613,011)</u>	<u>(175,453)</u>
Net Position - End of Year	<u><u>\$(5,208,738)</u></u>	<u><u>\$(4,595,727)</u></u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
Budgetary Resources		
Budget Authority	\$ 4,369,353	\$ (1,116,334)
Unobligated Balance - Beginning of Year	101,069	1,729,937
Spending Authority from Offsetting Collections	27,842	21,130
Recoveries of Prior Year Obligations	2,449	5,243
Temporarily Unavailable Pursuant to Public Law	(3,666,340)	1,961,765
Total Budgetary Resources	<u>\$ 834,373</u>	<u>\$ 2,601,741</u>
Status of Budgetary Resources		
Obligations Incurred	\$ 834,373	\$ 2,500,672
Unobligated Balances Available	-	101,069
Total Status of Budgetary Resources	<u>\$ 834,373</u>	<u>\$ 2,601,741</u>
Relationship of Obligations to Outlays		
Obligated Balance, Net - Beginning of Year	\$ 59,965	\$ 55,207
Obligations Incurred	834,373	2,500,672
Recoveries of Prior Year Obligations	(2,449)	(5,243)
Obligated Balance, Net - End of Year	(61,266)	(59,965)
Outlays		
Disbursements	830,623	2,490,671
Collections	(27,842)	(21,130)
Total Outlays	<u>802,781</u>	<u>2,469,541</u>
Less: Offsetting Receipts	204,392	186,411
Net Outlays	<u>\$ 598,389</u>	<u>\$ 2,283,130</u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Financing
For the Years Ended September 30, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 834,373	\$ 2,500,672
Less: Spending Authority from Offsetting Collections and Adjustments	30,291	26,373
Obligations Net of Offsetting Collections and Recoveries	804,082	2,474,299
Less: Offsetting Receipts	204,392	186,411
Net Obligations	599,690	2,287,888
Imputed Financing from Costs Absorbed by Others	124	179
Total Resources Used to Finance Activities	599,814	2,288,067
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(1,110)	3,544
Resources That Fund Expenses Recognized in Prior Periods	906	14,658
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	5,109	4,678
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	292,800	1,971,716
Total Resources used to Finance Items not part of the Net Cost of Operations	297,705	1,994,596
Total Resources Used to Finance Net Cost of Operations	302,109	293,471
Components Requiring or Generating Resources in Future Periods		
Increase in Exchange Revenue Receivable from the Public	20	(3)
Future Funded Expenses (Note 9)	556,466	143,955
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	556,486	143,952
Components not Requiring or Generating Resources		
Depreciation and Amortization	29,613	5,269
Other	17,727	16,940
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	47,340	22,209
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	603,826	166,161
Net Cost of Operations	<u>\$ 905,935</u>	<u>\$ 459,632</u>

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

Office of D.C. Pensions

Office of the Assistant Secretary for Management

and Chief Financial Officer

Departmental Offices, U.S. Department of Treasury

Notes to Financial Statements

September 30, 2006

1. Reporting Entity

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, Treasury's Office of D.C. Pensions (the Office) engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR). The DASHR reports to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

a. District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (FY 2006 and 2005)

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund – 20X5511). The assets and liabilities of the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund - 20X8230) and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500) were transferred to the D.C. Federal Pension Fund. The D.C. Federal Pension Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary

administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The D.C. Federal Pension Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund which included the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act.
- Amounts deposited from the General Fund of the Treasury
- Income earned on the investments held in the D.C. Federal Pension Fund
- Reimbursement and receivables from the D.C. Government for the District's estimated share of benefits paid from the D.C. Federal Pension Fund.

The portion of the D.C. Federal Pension Fund that is not needed to meet the level of current benefit payments, refunds, and administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Treasury's Bureau of the Public Debt (BPD). Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amount paid into the D.C. Federal Pension Fund during FY 2006 and FY 2005 were \$285.4 million and \$277.0 million, respectively.

As a result of the 2004 legislation, effective October 1, 2004 (FY 2005), the budget authority of the Trust Fund and the Supplemental Fund was transferred to the D.C. Federal Pension Fund. This transfer of budget authority had a significant impact on the presentation of the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing.

Budget authority of \$1,961,764,884 in the Supplemental Fund was moved to the D.C. Federal Pension Fund through a non-expenditure transfer. The transfer impacted two line items on the Combined Statements of Budgetary Resources. Prior to the legislation, the Supplemental Fund was prohibited by public law from incurring obligations until the Trust Fund was depleted. The legislation resulted in a reclassification of the restriction on the availability of resources from *Temporarily Unavailable Pursuant to Public Law* to *Budget Authority*, but the receipts were unavailable for obligation upon collection, which reduced *Budget Authority*.

Budget authority of \$1,687,715,405.03 in the Trust Fund was moved to the D.C. Federal Pension Fund through an expenditure transfer. Because the “trust” and “special” funds were classified differently, the expenditure transfer had a significant impact on both the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing. The transfer was recognized as a disbursement and accounted for as *Obligations Incurred* and *Disbursements* on the Combined Statements of Budgetary Resources. This disbursement of authority reduced *Unobligated Balances Available* and increased *Net Outlays* on the Combined Statements of Budgetary Resources. This disbursement of authority also had an impact on *Obligations Incurred* and *Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations* on the Consolidated Statements of Financing.

As a result of discussions with OMB regarding the appropriate accounting treatment of unused budget authority, OMB directed the Office to reclassify Receipts Unavailable for Obligation Upon Collection reported as *Budget Authority* to Receipts and Appropriations Temporarily Precluded From Obligation reported as *Temporarily Unavailable Pursuant to Public Law* on the Combined Statement of Budgetary Resources. This reclassification was made effective first quarter FY 2006.

b. District of Columbia Judicial Retirement and Survivors Annuity Fund (FY 2006 and 2005)

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund – 20X8212).

The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges’ Plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act
- Amounts deposited from the General Fund of the Treasury
- Income earned on the investments held in the Judicial Retirement Fund
- Employee contributions to the Judicial Retirement Fund

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2006 and 2005 were \$7.4 million and \$7.0 million, respectively.

2. Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and Changes in Net Position, the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing, all of which are prescribed by Office of Management and Budget (OMB) Bulletins. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources.

b. Fund Balance with Treasury

Fund Balance with Treasury represents appropriated funds remaining as of fiscal year-end from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

c. Investments

Pursuant to the Act and Section 130 of Division A of Pub. L. 105-277 (1998), the Secretary invests the portions of the D.C. Federal Pension Fund and the Judicial Retirement Fund that are not necessary to meet current obligations, in market-based (MK) GAS securities — non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by BPD. Amounts needed to meet current obligations are invested in overnight non-marketable par value GAS securities, redeemed at face value plus accrued interest.

The Office follows Treasury investment policy guidelines and determines whether the investments should be made in MK bills, notes, or bonds. The maturities on investments range from less than one year to approximately seven years. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

d. Advances and Prepayments

The carrying amount of advances and prepayments to the Department of the Treasury's Working Capital Fund approximate fair value as they represent the amounts expected to be paid.

e. Accounts Receivable, Net

Accounts receivable consist of: (a) amounts due from the D.C. Government for the District's estimated share of benefits paid by the Office (b) amounts due from the D.C. Government for the District's estimated share of refunds paid by the Office, (c) employee retirement contributions withheld from judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of each fiscal year, and (d) amounts due from annuitants and survivors as the result of benefit overpayments.

f. Software-In-Development

Software-in-development consists of independent contractor costs incurred in FY 2006 to develop a new release of the pension/payroll system to support the Police Officers' and Firefighters', and Teachers' Retirement Plans.

g. ADP Software – Net

ADP software – net represents the pension benefit and payroll software purchased and independent contractor costs (net of amortization) incurred in FY 2000 – FY 2005 to develop a pension/payroll system to meet Treasury's and D.C.'s needs. Internal use software is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize software acquisitions that exceed \$50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000

- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000

Software is amortized using the straight-line method over an estimated useful life of five years, with six months amortization taken in the first and last year.

h. Equipment – Net

Equipment – net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to run ADP Software and operation of the pension/payroll system. Equipment is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000

Equipment is depreciated using the straight-line method over an estimated useful life of five years, with six months depreciation taken in the first and last year.

i. Accrued Pension Benefits Payable

Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. This accrual may consist of amounts for refund claims for which processing was not completed during the reporting period, but will be paid in the subsequent period.

j. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Aggregate Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The actuarial pension liability is based upon assumptions made by Treasury. The assumptions used to calculate the pension liability as of October 1, 2006, were an annual rate of investment return of 6% based on the securities held in the Judicial Retirement Fund, an annual rate of investment of 4.8% in FY 2007 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2012; an annual inflation and cost-of-living adjustment of 3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. The assumptions used to calculate the pension liability as of October 1, 2005, were an annual rate of investment return of 6% based on the securities held in the Judicial Retirement Fund, an annual rate of investment of 4.8% in FY 2006 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2011; an annual inflation and cost-of-living adjustment of 3.0%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters.

k. Appropriations Received and Used

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost of the Judicial Retirement Fund. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the D.C. Federal Pension Fund to be invested in non-marketable Treasury securities. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position. Appropriations received and used for the years ended September 30, 2006 and 2005 were \$292.8 million and \$284.0 million, respectively.

l. Treasury Employee Retirement Plans

The D.C. Federal Pension Fund and Judicial Retirement Fund pay salaries and benefits of Treasury employees who work in the Office as reasonable and necessary expenses incurred in carrying out the Secretary's responsibilities under the Act. These salaries and benefits are split 90% and 10% between the D.C. Federal Pension Fund and the Judicial Retirement Fund, respectively.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Pub. L. 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983.

Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

Most employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the D.C. Federal Pension Fund and the Judicial Retirement Fund make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

FERS employees and certain CSRS reinstatement employees participate in the Social Security program. The D.C. Federal Pension Fund and Judicial Retirement Fund remit the employer's share of the required contributions for eligible employees.

The D.C. Federal Pension Fund and Judicial Retirement Fund do not report information pertaining to the CSRS and FERS retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

m. President's Budget

The FY 2008 Budget of the United States (also known as the President's Budget for FY 2008), with actual numbers for FY 2006, was not published at the time that these financial statements were issued. The President's Budget for FY 2008, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2007. It will be available from the United States Government Printing Office. The FY 2005 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P & F) Schedules within the President's Budget for FY 2007 and there were no differences for budgetary resources and status of budgetary resources. The reconciliation of net outlays did result in a difference. The reason for this difference is that the SBR includes offsetting receipts in the net outlay calculation, whereas the President's Budget does not include offsetting receipts in the net outlay calculation.

Earnings on investments in U.S. securities, federal (as reported in the annual President's Budget) consists of interest *collected* from GAS securities less premiums and interest purchased. Interest Earned from GAS Securities (as reported in the financial statements) consists of interest *earned* from GAS securities and the amortization of premiums and discounts.

n. Earmarked Funds

Funding Sources

All proceeds received and deposited by the Office of D.C. Pensions are earmarked for the purpose of providing annuity payments for retired District of Columbia teachers, police officers and firefighters for services earned prior to July 1, 1997 and for retirement benefits earned by District of Columbia judges, regardless of when services were earned.

Funding for the Judicial Fund is authorized by 111 Stat. 757, Sec. 11251, P.L. 105-33 as amended by 112 Stat. 2681-534, Sec. 804(a)(4), P.L. 105-277.

Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084(a), P.L. 105-33 as amended by 118 Stat. 3967, Sec. 2(a), P.L. 108-149.

Sources of revenue or other financing sources for the years ended September 30, 2006 and 2005 were annual appropriations, employee contributions, and interest earnings from investments.

Intra-governmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Office of D.C. Pensions as evidence of its receipts. Treasury securities are an asset to the Office of D.C. Pensions and a liability to the U.S. Treasury. Because the Office of D.C. Pensions and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Office of D.C. Pensions with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Office of D.C. Pensions requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

3. Fund Balance with Treasury

Fund Balance with Treasury and the status of Fund balance with Treasury as of September 30, 2006 and 2005, consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Fund balances:		
Trust funds	\$ 15	25
Special funds	240	226
Total fund balance with Treasury	<u>\$ 255</u>	<u>251</u>

	<u>2006</u>	<u>2005</u>
Status of fund balance with Treasury		
Unobligated balance unavailable	\$ —	—
Obligated balance not yet disbursed	255	251
Total	<u>\$ 255</u>	<u>251</u>

4. Investments in Government Account Series (GAS) Securities– Net

Investments in GAS securities – net as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>Cost</u>	<u>Premium, Net</u>	<u>Investments Net</u>	<u>Market Value</u>
Intragovernmental Securities				
Non-marketable par value	\$ 145,841	—	145,841	145,841
Non-marketable market-based	3,574,966	100,830	3,675,796	3,638,277
Total	<u>\$ 3,720,807</u>	<u>100,830</u>	<u>3,821,637</u>	<u>3,784,118</u>
 2005 				
	<u>Cost</u>	<u>Unamortized Premium, Net</u>	<u>Investments Net</u>	<u>Market Value</u>
Intragovernmental Securities				
Non-marketable par value	\$ 182,384	—	182,384	182,384
Non-marketable market-based	3,551,740	135,767	3,687,507	3,684,091
Total	<u>\$ 3,734,124</u>	<u>135,767</u>	<u>3,869,891</u>	<u>3,866,475</u>

The amortization method utilized by the Office is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2006 and 2005, as published in the Treasury Quote Sheets prepared by Treasury's

Office of Market Finance. Included in this figure are a net unrealized loss of \$37.5 million and \$3.4 million as of September 30, 2006 and 2005, respectively.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2006 and 2005, by maturity date, are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Less than or equal to 1 year	\$ 801,288	499,370
More than 1 year and less than or equal to 5 years	2,479,909	2,721,258
More than 5 years and less than or equal to 10 years	<u>394,599</u>	<u>466,879</u>
Total	<u><u>\$ 3,675,796</u></u>	<u><u>3,687,507</u></u>

5. ADP Software – Net

The components of ADP software – net as of September 30, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
ADP software	\$ 30,865	30,902
Accumulated depreciation	<u>(19,392)</u>	<u>(13,223)</u>
ADP software – net	<u><u>\$ 11,473</u></u>	<u><u>17,679</u></u>

6. Equipment – Net

The components of equipment – net as of September 30, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
ADP hardware	\$ 500	500
Accumulated depreciation	<u>(349)</u>	<u>(272)</u>
Equipment – net	<u><u>\$ 151</u></u>	<u><u>228</u></u>

7. Administrative Expenses

Administrative expenses for the years ended September 30, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Intragovernmental expenses		
Salaries and related benefits	\$ 571	687
Contractual services	2,814	2,249
Rent	1,279	368
Other	23	14
Total intragovernmental expenses	<u>\$ 4,687</u>	<u>3,318</u>
Public expenses		
Salaries and related benefits	\$ 1,946	2,514
Contractual services	5,502	7,912
Rent	1	3
Noncapitalized equipment/software	6,286	5,752
Other	—	26
Total public expenses	<u>\$ 13,735</u>	<u>16,207</u>
Total administrative expenses	<u>\$ 18,422</u>	<u>19,525</u>

Included in the above expenses are amounts incurred by the D.C. Federal Pension Fund and Judicial Retirement Fund for intra-governmental activity totaling \$4,207 thousand and \$480 thousand, respectively, for 2006, and \$2,896 thousand and \$422 thousand, respectively, for 2005.

8. Pension Expense

Pension expense for the plan years ended September 30, 2006, and 2005, includes the following components (in thousands):

	<u>2006</u>	<u>2005</u>
Normal cost	\$ 4,700	4,100
Actuarial (gain)/loss during the period	645,988	114,789
Interest on pension liability during the period	400,100	490,600
Collective bargaining agreement	3	282
Longevity pay adjustment	—	253
Total pension expense	<u>\$ 1,050,791</u>	<u>610,024</u>

Federal pension benefits paid during the plan years were \$487.6 million and \$6.6 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2006, and \$457.1 million and \$6.7 million, respectively, for 2005. For 2006, approximately \$.7 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For 2005, approximately

\$1.8 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For FY 2006, the actuarial loss of \$646.0 million was primarily due to the increase in the actuarial cost-of-living assumption in the two funds. For FY 2005, the actuarial loss of \$114.8 million was primarily due to the lowering of the actuarial investment return assumption in the D.C. Federal Pension Fund for FY 2006 – FY 2010.

Collective Bargaining Agreement (Police Officers)

On June 7, 2005, the D.C. Council approved annual pay increases retroactive to October 1, 2003, for active police officers as contained in a collective bargaining agreement. As a result, the annuities for approximately 130 police officers who retired after October 1, 2003, had to be recalculated to account for changes in the retirees' final average earnings. In addition, retroactive benefits were also calculated. The Office completed the calculation effort in October 2005.

Beneficiaries and estates of deceased officers who were eligible for the increase also received retroactive payments. These payments were processed between July and September 2006 as the individuals were identified and located.

Longevity Pay Adjustment for Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until recently, District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants. District and federal statutes were enacted in December 1999 and December 2000, respectively, requiring the calculation of retirement benefits to include longevity pay in the salary at the time of retirement. The federal statute applies to Federal Benefit Payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the federal statute required recalculation of initial benefits going back 30 years in some cases. Resolution of issues involving the calculation methodology and eligibility for the longevity retirement pay adjustment delayed implementation of the District and federal statutes. Implementation of the statutes is now complete and longevity is included in benefit calculations as individuals retire. Disbursement of longevity pay adjustments was completed in FY 2005.

9. Statement of Financing Disclosure

Liabilities Not Covered by Budgetary Resources of \$5,422 million and \$4,852 million as of September 30, 2006 and 2005 represents the portion of the actuarial liability that will require resources in a future period (See Note 2j, Actuarial Pension Liability). The amounts reported on the Statement of Financing, as Future Funded Expenses of \$556 million and \$144 million for the years ended September 30, 2006 and 2005, represent the change in the actuarial liability.

10. Plan Administration and Description

a. Police Officers' and Firefighters' Retirement Plan

Eligibility

A participant becomes a member when he or she starts work as a police officer or firefighter in the District of Columbia. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of basic pay. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the D.C. Federal Pension Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Members (not survivors) who retired prior to February 15, 1980, receive the same percentage increase in annuities as active employees' salary increases. Members who retired on or after February 15, 1980 and all survivors receive an increase each March based on the annual change in the Consumer Price Index for All Urban Consumers (all items – U.S. City Average) from December to December.

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 consecutive months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after at least five years of police or fire service are entitled to a deferred benefit beginning at age 55 if they do not receive a refund of contributions.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than five years of departmental service receive an annuity equal to 2% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

Members Hired on or After February 15, 1980, and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after at least five years of police or fire service are entitled to a deferred pension beginning at age 55 if they do not receive a refund of contributions.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement with 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental and credited service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Participant Data

For the September 30, 2006, and 2005, actuarial valuations, the participants, as of June 30, 2006 and 2005, eligible to receive a Federal benefit are as follows:

	<u>2006</u>	<u>2005</u>
Active members	3,235	3,386
Retirees and beneficiaries	7,611	7,664
Vested terminated members	72	—
Total	<u>10,918</u>	<u>11,050</u>

Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security retirement or disability benefits based upon his or her wages and self-employment income, the retirement benefit from the District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service. Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). Public Law 108-133, enacted on November 22, 2003, permits D.C. Police Officers' and Firefighters' Retirement Plan members to purchase eligible post-56 military service for credit in calculating their retirement annuities.

b. Teachers' Retirement Plan

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. Public Schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the D.C. Federal Pension Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Voluntary retirement is available for teachers with at least five years of school service who have attained age 62; age 60 with 20 years of total service, including at least five years of school service; age 55 with 30 years of total service, including at least five years of school service; and at any age with 30 years of total service, including at least five years of school service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For participants hired on or after November 16, 1996, the annuity is equal to 2% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of

average pay or the benefit the member would receive using average pay at the time of disability with service projected to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have at least five years of school service, may be eligible for retirement at any age. The retirement benefit is calculated in the same manner as voluntary retirement, except that the involuntary retirement benefit is reduced 1/6% per month (2% per year) for each full month the teacher is under age 55 at the time of separation from the school system.

All annuitants receive an annuity increase effective each March 1st based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from December to December.

Participant Data

For the September 30, 2006, and 2005, actuarial valuations, the participants, as of June 30, 2006 and 2005, eligible to receive a Federal benefit are as follows:

	<u>2006</u>	<u>2005</u>
Active members	2,534	2,840
Retirees and beneficiaries	5,698	5,719
Vested terminated members	214	25
Total	<u>8,446</u>	<u>8,584</u>

c. *Judges' Retirement Plan*

Eligibility

A participant becomes a member of the Plan when he or she becomes a judge of the D.C. Court of Appeals or the Superior Court, or when he or she becomes the Executive Officer of the District Court System. A participant's contribution equals 3.5% of annual salary plus an optional 3.5% of annual salary for survivors' benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits at age 50 with at least 20 years of judicial service, at age 60 with at least 10 years of judicial service (seven years of service for the Executive Officer), or upon reaching age 74. The annuity is equal to the basic salary at retirement times the total years of judicial service divided by 30, plus 1.5% of basic salary times credited service up to five years, plus 1.75% of basic salary times credited service between five years and 10 years, plus 2% of basic salary times credited service over 10 years, subject to a maximum benefit of 80% of final salary at retirement.

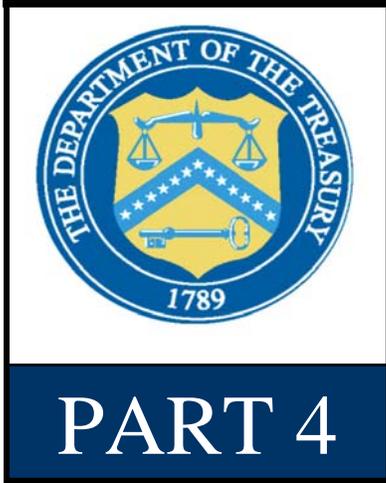
A judge electing to retire with at least 10 years of judicial service (at least seven years if the Executive Officer) but fewer than 20 years of judicial service between ages 55 and 60 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year the participant is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after five years of total service if they have a physical or mental disability that seriously interferes with the proper performance of duties. The annuity to be received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary.

All annuitants receive an annuity increase each January based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from September to September. This cost of living increase is the same increase provided for annuitants in the Federal Civil Service Retirement System (CSRS).

Participant Data

For the September 30, 2006, and 2005, actuarial valuations, the participants, as of June 30, 2006 and 2005, eligible to receive a Federal benefit were as follows:

	<u>2006</u>	<u>2005</u>
Active members	68	68
Retirees and beneficiaries	76	75
Vested terminated members	—	1
Total	<u>144</u>	<u>144</u>



SUPPLEMENTARY SCHEDULES

**Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2006 and 2005
(in thousands)**

	2006			2005		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Assets						
Entity Assets						
Intra-Governmental Assets						
Fund Balance with Treasury	\$ 15	240	255	\$ 25	226	251
Investments in GAS Securities, Net	113,858	3,707,779	3,821,637	107,362	3,762,529	3,869,891
Interest Receivable from GAS Securities	1,399	38,621	40,020	1,358	44,292	45,650
Advances to Others	4	36	40	2	17	19
Accounts Receivable, Net	1	31,568	31,569	22	30,662	30,684
Software-In-Development	75	5,071	5,146	-	-	-
ADP Software, Net	666	10,807	11,473	1,110	16,569	17,679
Equipment, Net	15	136	151	23	205	228
Total Assets	<u>\$ 116,033</u>	<u>\$ 3,794,258</u>	<u>\$ 3,910,291</u>	<u>\$ 109,902</u>	<u>\$ 3,854,500</u>	<u>\$ 3,964,402</u>
Liabilities						
Liabilities Covered By Budgetary Resources						
Intra-Governmental						
Accounts Payable	\$ 23	45	68	\$ 30	270	300
Accrued Payroll and Benefits	2	14	16	2	16	18
Accounts Payable	75	6,692	6,767	58	4,000	4,058
Accrued Pension Benefits Payable	587	43,701	44,288	396	43,818	44,214
Actuarial Pension Liability	107,880	3,537,560	3,645,440	101,069	3,558,460	3,659,529
Accrued Payroll and Benefits	18	161	179	31	263	294
Total Liabilities Covered By Budgetary Resources	<u>108,585</u>	<u>3,588,173</u>	<u>3,696,758</u>	<u>101,586</u>	<u>3,606,827</u>	<u>3,708,413</u>
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	37,832	5,384,439	5,422,271	35,235	4,816,481	4,851,716
Total Liabilities	<u>146,417</u>	<u>8,972,612</u>	<u>9,119,029</u>	<u>136,821</u>	<u>8,423,308</u>	<u>8,560,129</u>
Net Position						
Cumulative Results of Operations - Earmarked	(30,384)	(5,178,354)	(5,208,738)	(26,919)	(4,568,808)	(4,595,727)
Total Net Position	<u>(30,384)</u>	<u>(5,178,354)</u>	<u>(5,208,738)</u>	<u>(26,919)</u>	<u>(4,568,808)</u>	<u>(4,595,727)</u>
Total Liabilities and Net Position	<u>\$ 116,033</u>	<u>\$ 3,794,258</u>	<u>\$ 3,910,291</u>	<u>\$ 109,902</u>	<u>\$ 3,854,500</u>	<u>\$ 3,964,402</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006			2005		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Program Costs						
Administrative Expenses	\$ 1,185	17,237	18,422	\$ 1,484	18,041	19,525
Pension Expense	16,200	1,034,591	1,050,791	12,892	597,132	610,024
Total Program Costs	17,385	1,051,828	1,069,213	14,376	615,173	629,549
Less: Earned Revenues						
Interest Earned from GAS Securities	5,918	156,770	162,688	5,596	163,768	169,364
Employee Contributions	590	-	590	553	-	553
Net Cost of Operations	<u>\$ 10,877</u>	<u>\$ 895,058</u>	<u>\$ 905,935</u>	<u>\$ 8,227</u>	<u>\$ 451,405</u>	<u>\$ 459,632</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006			2005				
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Cumulative Results of Operations								
Net Position - Beginning of Year	\$ (26,919)	(4,568,808)	(4,595,727)	\$ (25,710)	-	2,111,667	(6,506,231)	(4,420,274)
Budgetary Financing Sources								
Appropriations Used	7,400	285,400	292,800	7,000	277,000	-	-	284,000
Other Financing Sources								
Transfers In/Out Without Reimbursement	-	-	-	-	(4,394,564)	(2,111,667)	6,506,231	-
Imputed Financing Sources	12	112	124	18	161	-	-	179
Total Financing Sources	7,412	285,512	292,924	7,018	(4,117,403)	(2,111,667)	6,506,231	284,179
Net Cost of Operations	(10,877)	(895,058)	(905,935)	(8,227)	(451,405)	-	-	(459,632)
Net Change	(3,465)	(609,546)	(613,011)	(1,209)	(4,568,808)	(2,111,667)	6,506,231	(175,453)
Net Position - End of Year	\$ (30,384)	(5,178,354)	(5,208,738)	\$ (26,919)	(4,568,808)	-	-	(4,595,727)

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006			2005				
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Combined DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Combined DC Pension Funds Total
Budgetary Resources								
Budget Authority	\$ 21,432	4,347,921	4,369,353	\$ 19,992	(1,136,326)	-	-	(1,116,334)
Unobligated Balance - Beginning of Year	101,069	-	101,069	96,069	1,961,765	(1,961,765)	1,633,868	1,729,937
Spending Authority from Offsetting Collections	25	27,817	27,842	-	21,130	-	-	21,130
Recoveries of Prior Year Obligations	49	2,400	2,449	391	4,852	-	-	5,243
Temporarily Unavailable Pursuant to Public Law	(107,880)	(3,558,460)	(3,666,340)	-	-	1,961,765	-	1,961,765
Total Budgetary Resources	\$ 14,695	\$ 819,678	\$ 834,373	\$ 116,452	\$ 851,421	\$ -	\$ 1,633,868	\$ 2,601,741
Status of Budgetary Resources								
Obligations Incurred	\$ 14,695	819,678	834,373	\$ 15,383	851,421	-	1,633,868	2,500,672
Unobligated Balances Available	-	-	-	101,069	-	-	-	101,069
Total Status of Budgetary Resources	\$ 14,695	\$ 819,678	\$ 834,373	\$ 116,452	\$ 851,421	\$ -	\$ 1,633,868	\$ 2,601,741
Relationship of Obligations to Outlays								
Obligated Balance, Net - Beginning of Year	\$ 1,653	58,312	59,965	\$ 1,359	-	-	53,848	55,207
Obligations Incurred	14,695	819,678	834,373	15,383	851,421	-	1,633,868	2,500,672
Recoveries of Prior Year Obligations	(49)	(2,400)	(2,449)	(391)	(4,852)	-	-	(5,243)
Obligated Balance, Net - End of Year	(1,471)	(59,795)	(61,266)	(1,653)	(58,312)	-	-	(59,965)
Outlays								
Disbursements	14,828	815,795	830,623	14,698	788,257	-	1,687,716	2,490,671
Collections	(25)	(27,817)	(27,842)	-	(21,130)	-	-	(21,130)
Total Outlays	14,803	787,978	802,781	14,698	767,127	-	1,687,716	2,469,541
Less: Offsetting Receipts	6,632	197,760	204,392	5,992	180,419	-	-	186,411
Net Outlays	\$ 8,171	\$ 590,218	\$ 598,389	\$ 8,706	\$ 586,708	\$ -	\$ 1,687,716	\$ 2,283,130

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Financing
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006			2005			
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Budgetary Resources Obligated							
Obligations Incurred	\$ 14,695	819,678	834,373	15,383	851,421	1,633,868	2,500,672
Less: Spending Authority from Offsetting Collections and Adjustments	74	30,217	30,291	391	25,982	-	26,373
Obligations Net of Offsetting Collections and Recoveries	14,621	789,461	804,082	14,992	825,439	1,633,868	2,474,299
Less: Offsetting Receipts	6,632	197,760	204,392	5,992	180,419	-	186,411
Net Obligations	7,989	591,701	599,690	9,000	645,020	1,633,868	2,287,888
Transfers In/Out Without Reimbursement	-	-	-	-	(8,193,947)	8,193,947	-
Imputed Financing from Costs Absorbed by Others	12	112	124	18	161	-	179
Total Resources Used to Finance Activities	8,001	591,813	599,814	9,018	(7,548,766)	9,827,815	2,288,067
Resources Used to Finance Items Not Part of the Net Cost of Operations							
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(368)	(742)	(1,110)	443	9,930	(6,829)	3,544
Resources That Fund Expenses Recognized in Prior Periods	-	906	906	-	14,658	-	14,658
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	75	5,034	5,109	-	4,678	-	4,678
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,400	285,400	292,800	7,000	(7,869,928)	9,834,644	1,971,716
Total Resources used to Finance Items not part of the Net Cost of Operations	7,107	290,598	297,705	7,443	(7,840,662)	9,827,815	1,994,596
Total Resources Used to Finance Net Cost of Operations	894	301,215	302,109	1,575	291,896	0	293,471
Components Requiring or Generating Resources in Future Periods							
Increase in Exchange Revenue Receivable from the Public	20	-	20	(3)	-	-	(3)
Future Funded Expenses (Note 9)	9,409	547,057	556,466	6,357	137,598	-	143,955
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	9,429	547,057	556,486	6,354	137,598	-	143,952
Components not Requiring or Generating Resources							
Depreciation and Amortization	594	29,019	29,613	560	4,709	-	5,269
Other	(40)	17,767	17,727	(262)	17,202	-	16,940
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	554	46,786	47,340	298	21,911	-	22,209
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	9,983	593,843	603,826	6,652	159,509	-	166,161
Net Cost of Operations	\$ 10,877	895,058	905,935	8,227	451,405	0	459,632

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Consolidating Intra-governmental Balances

As of and for the years ended September 30, 2006 and 2005

(in thousands)

Department	Intra-governmental balance description	2006			2005		
		D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
	Assets						
Treasury	Fund Balance with Treasury	\$ 15	240	255	\$ 25	226	251
Treasury	Investments in GAS securities, net	113,858	3,707,779	3,821,637	107,362	3,762,529	3,869,891
Treasury	Interest receivable from GAS securities	1,399	38,621	40,020	1,358	44,292	45,650
Treasury	Advances to Others	4	36	40	2	17	19
	Total intra-governmental assets	\$ 115,276	3,746,676	3,861,952	\$ 108,747	3,807,064	3,915,811
	Liabilities						
Treasury	Accounts Payable	\$ 23	42	65	\$ 28	253	281
GSA	Accounts Payable	—	3	3	2	17	19
Gen Fund	Accrued Payroll and Benefits	—	4	4	1	4	5
OPM	Accrued Payroll and Benefits	2	10	12	1	12	13
	Total intra-governmental liabilities	\$ 25	59	84	\$ 32	286	318
	Revenues						
Treasury	Interest earned from GAS Securities	\$ 5,918	156,770	162,688	\$ 5,596	163,768	169,364
OPM	Imputed Financing Sources	12	112	124	18	161	179
	Total intra-governmental revenues	\$ 5,930	156,882	162,812	\$ 5,614	163,929	169,543
	Expenses						
Treasury	Salaries and related benefits	\$ 2	16	18	\$ 2	14	16
OPM	Salaries and related benefits	44	385	429	54	479	533
Gen Fund	Salaries and related benefits	12	112	124	14	124	138
Treasury	Contractual Services	290	2,502	2,792	312	1,911	2,223
OPM	Contractual Services	2	20	22	2	23	25
GPO	Contractual Services	—	—	—	—	1	1
Treasury	Rent	128	1,151	1,279	37	331	368
Treasury	Other	2	21	23	1	13	14
	Total intra-governmental expenses	\$ 480	4,207	4,687	\$ 422	2,896	3,318

See accompanying independent auditors' report.

**DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Investments in GAS Securities - Net By Fund
As of September 30, 2006 and 2005
(in thousands)**

	2006				2005			
	Cost	Unamortized Premium Net	Investments Net	Market Value	Cost	Unamortized Premium Net	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund								
Intragovernmental Securities								
Non-marketable Par Value	\$ 3,676	-	3,676	3,676	\$ 4,405	-	4,405	4,405
Non-marketable Market-based	108,053	2,129	110,182	110,306	100,497	2,460	102,957	105,481
Total	<u>\$ 111,729</u>	<u>2,129</u>	<u>113,858</u>	<u>113,982</u>	<u>\$ 104,902</u>	<u>2,460</u>	<u>107,362</u>	<u>109,886</u>
D.C. Federal Pension Fund								
Intragovernmental Securities								
Non-marketable Par Value	\$ 142,165	-	142,165	142,165	\$ 177,979	-	177,979	177,979
Non-marketable Market-based	3,466,913	98,701	3,565,614	3,527,971	3,451,243	133,307	3,584,550	3,578,610
Total	<u>\$ 3,609,078</u>	<u>98,701</u>	<u>3,707,779</u>	<u>3,670,136</u>	<u>\$ 3,629,222</u>	<u>133,307</u>	<u>3,762,529</u>	<u>3,756,589</u>

See accompanying independent auditors' report.

**DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS**

Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity

As of September 30, 2006 and 2005

(in thousands)

	<u>2006</u>			<u>2005</u>		
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Time of Maturity						
Less than or equal to 1 year	\$ -	801,288	801,288	\$ -	499,370	499,370
More than 1 year and less than or equal to 5 years	96,479	2,383,430	2,479,909	83,773	2,637,485	2,721,258
More than 5 years and less than or equal to 10 years	13,703	380,896	394,599	19,184	447,695	466,879
Total	\$ <u>110,182</u>	<u>3,565,614</u>	<u>3,675,796</u>	\$ <u>102,957</u>	<u>3,584,550</u>	<u>3,687,507</u>

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Administrative Expenses - By Fund
For the years ended September 30, 2006 and 2005
(in thousands)

	2006			2005		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Intragovernmental Expenses						
Salaries and Related Benefits	\$ 58	513	571	\$ 70	617	687
Contractual Services	292	2,522	2,814	314	1,935	2,249
Rent	128	1,151	1,279	37	331	368
Other	2	21	23	1	13	14
Total intragovernmental expenses	\$ 480	4,207	4,687	\$ 422	2,896	3,318
Public Expenses						
Salaries and Related Benefits	\$ 203	1,743	1,946	\$ 252	2,262	2,514
Contractual Services	49	5,453	5,502	350	7,562	7,912
Rent	-	1	1	-	3	3
Noncapitalized Equipment/Software	453	5,833	6,286	457	5,295	5,752
Other	-	-	-	3	23	26
Total public expenses	\$ 705	13,030	13,735	\$ 1,062	15,145	16,207
Total administrative expenses	\$ 1,185	17,237	18,422	\$ 1,484	18,041	19,525

See accompanying independent auditors' report.

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Pension Expense - By Fund
For the years ended September 30, 2006 and 2005
(in thousands)

	2006			2005		
	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total	D.C. Judicial Retirement and Survivors Annuity Fund	D.C. Federal Pension Fund	Consolidated D.C. Pension Funds Total
Normal Cost	\$ 4,700	-	4,700	\$ 4,100	-	4,100
Actuarial (Gains) Losses During the Period	3,500	642,488	645,988	1,192	113,597	114,789
Interest on Pension Liability During the Period	8,000	392,100	400,100	7,600	483,000	490,600
Collective Bargaining Adjustment	-	3	3	-	282	282
Longevity Pension Pay Adjustment	-	-	-	-	253	253
Total Pension Expense	\$ <u>16,200</u>	<u>1,034,591</u>	<u>1,050,791</u>	\$ <u>12,892</u>	<u>597,132</u>	<u>610,024</u>

See accompanying independent auditors' report.