

Comprehensive ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2005

Denver Public Schools
Retirement System

DENVER, COLORADO

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Prepared by the DPSRS Staff

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John MacPherson
Interim Executive Director

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INTRODUCTORY

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Denver Public Schools Retirement System, Colorado

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2004

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

President

Executive Director

LETTER OF TRANSMITTAL

June 12, 2006

DPSRS
Denver Public Schools
Retirement System

TO THE MEMBERS OF THE BOARD OF TRUSTEES AND THE BOARD OF EDUCATION:

I am pleased to present the *Comprehensive Annual Financial Report* (CAFR) of the Denver Public Schools Retirement System (System or DPSRS) for the year ended December 31, 2005.

The System is the successor of the Denver Public School Employees' Pension and Benefit Association, which was created by the Board of Education of School District No. 1 in the City and County of Denver, Colorado, on December 1, 1945, pursuant to state statute, that permitted first class school districts to establish an employees' retirement fund. Effective January 1, 2000, the state statute was rewritten, and the Association was renamed the Denver Public Schools Retirement System. The Retirement Board was replaced by an 11-member Board of Trustees having all fiduciary responsibilities for management of the System. The Board of Education retains responsibilities for funding and plan design.

School District No. 1 (DPS or School District), the System, and Charter Schools within the School District comprise the District. Membership in the System is required for full-time employees of the District.

The 2005 CAFR is presented in five major sections:

- **The Introductory Section** contains the Letter of Transmittal, Message from the Chairperson, listing of the Board of Trustee members, an administrative organization chart, and a listing of major consultants.
- **The Financial Section** presents the opinion of the System's independent auditors, KPMG LLP, Management's Discussion and Analysis of financial activities, the financial statements, and the supporting schedules for the System, including a listing of the investment professionals providing services to the System.
- **The Investment Section** includes information pertaining to the System's investment policies, objectives, performance and detailed investment listings, and a summary schedule of fees and commissions paid to investment professionals who provide services to the System.
- **The Actuarial Section** contains the certification of the System's independent consulting actuary, Gabriel, Roeder, Smith & Company, and a review of the actuarial assumptions, valuation methods, funding progress and other statistics used in the actuarial valuation. Also included is a summary of the Denver Public Schools Retirement System Retirement and Benefit Plan (Plan) provisions. The Plan is the detailed statement of rights that one has as a member of the System and the statement of the procedures of operation and organization of the System.
- **The Statistical Section** contains tables and charts of additional data and interest pertaining to the System.

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BENEFIT PLAN CHANGES AND OTHER INITIATIVES

The following changes to the Plan or administration of the System were made effective in 2005:

- The employer contribution requirements were amended to allow for a phase in of the employer contribution rate to achieve the full annual required contribution rate by July 1, 2008.
- The actuarial reduction percentage for an Optional Early Retirement for persons who become members on or after July 1, 2005, or rejoin the System on or after July 1, 2005, after having withdrawn their contribution balances, is 6% for each year members are short of the full age or service eligibility requirements.
- For members who, on or after July 1, 2005, become members or rejoin the System after having withdrawn their contribution balances, the Annual Retirement Allowance Adjustment (ARAA) was changed from the current 3.25% per year compounded to the lesser of 3% per year compounded or the increase in the national Consumer Price Index for urban wage earners and clerical workers for the preceding year, compounded. The effective date for the ARAA will be March 1 of each year following the year of retirement. The first ARAA, effective in the year immediately following the year of retirement, is calculated in a pro-rated manner based on the number of months retired.
- The actuarial investment rate of return was changed to 8.50%, and the wage inflation rate was changed to 4.50%.

The DPSRS Board of Trustees and staff devoted a great deal of time and effort during 2005 towards another attempt to merge the DPSRS into the Public Employees' Retirement Association of Colorado (Colorado PERA). Following the termination of the merger efforts in 2004, the Colorado Legislature passed new merger enabling legislation in 2005. The new legislation contained a provision allowing any party to the merger to terminate the merger if a merger agreement were not signed by October 1, 2005. On October 12, 2005, citing difficulties in finalizing the actuarial methodology to determine the costs of the merger and the uncertainty created by the recommendations of the State Treasurer's ad hoc Commission to Strengthen and Secure PERA, the DPS Board of Education chose to exercise its right to terminate the merger effort.

In early 2006, a relocation plan for the System's offices was finalized by the Board of Trustees. Effective July 1, 2006, the System's offices will be located on the fourth floor of 3700 East Alameda Avenue. Additionally, a transition management plan was developed to prepare for and accommodate the retirement of a number of senior staff members and to ensure the continued efficient operation of the System.

FINANCIAL INFORMATION

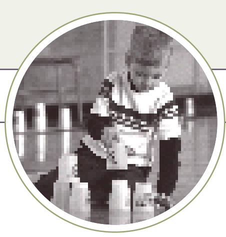
The financial statements and reporting are the responsibility of the System's management. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and the System's auditor has so stated in its opinion. This CAFR was prepared to conform with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

In the opinion of the System's management, the financial information presented is accurate in all material respects, and presents fairly, the financial status at December 31, 2005. The management of the System is responsible for maintaining an internal control structure to provide reasonable assurance of asset accountability and the authorized and proper recording of transactions.

Adoption of GASB No. 34 had no monetary impact on the financial statements of the System but does require additional disclosure. Additional financial information can be found in Management's Discussion and Analysis, which is included as required supplementary information and precedes the financial statements in the Financial Section of this report.

MISSION STATEMENT

The System exists in partnership with the District and its employees to provide career employees and their families with a primary source of lifetime income relative to service at retirement, disability or death, in a prudent, responsible and cost-effective manner.



FUNDING

There are several ways to appraise the funding condition of the System and progress toward the objective of preserving financial solvency. The employment of a qualified, independent actuary is essential to perform an actuarial review and valuation and to provide technical advice and assistance.

The System's actuary performs an annual actuarial review. In addition, the Plan requires an investigation of mortality and service experience at least once during each five-year period. In recent years, the experience analysis has been performed every three years. The most recent experience investigation was completed for the period January 1, 2001, through December 31, 2003.

An adequate funding level provides assurance and security for payment of future benefits. One measure of funding status is the Solvency Test shown on page 59. This test compares actuarial valuation assets to actuarial accrued liabilities categorized by active member contributions, liabilities for future benefits for present retirees and beneficiaries, and liabilities for service already performed by active members.

Another measure of funding progress is shown in the funding progress schedule on page 32. This historical schedule indicates the actuarial value of assets as a percentage of actuarial accrued liabilities. The current actuarial funded ratio of the System is 87.9%. This is consistent with 88.2% in the previous year. The System remains in a funded position sufficient to pay promised future benefits.

INVESTMENTS AND ECONOMIC OVERVIEW

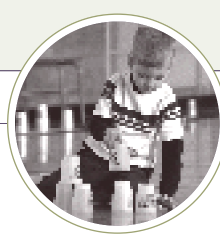
Investment policies and objectives for the System have been designed to enable the investment program of the retirement system to facilitate the long-term accomplishment of the System's mission. The program emphasizes long-term total returns and performance, recognizing the impact of inflation on benefit levels. Risk exposure is controlled by broad diversification related to asset mix and careful selection and evaluation of specialized investment managers.

The U.S. economy and financial markets finished with moderate gains in 2005. Total return for the U.S. equity markets, as measured by the Russell 3000 Index, was 6.14% for 2005. The S&P 500 Index produced a total return of 4.92%. Bonds, as measured by the Lehman Brothers Aggregate Index, returned a modest 2.43% in 2005.

The System's diversified portfolio produced a total return of 10.64% for 2005 and performed in the top 4% of the DPSRS consultant's universe. Detailed investment performance results, policies, and strategies are presented by the Chief Investment Officer in the Investment Management section of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended December 31, 2004. This was the thirteenth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a public employee retirement system must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.



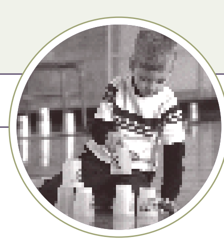
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting the report to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined efforts of the staff of the Retirement Administration Office, the Accounting Office and the Investment Office. It is intended to provide comprehensive and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship for the assets contributed by the System's members and the District.

I would like to express my appreciation to the Board of Education, Board of Trustees, staff, consultants and all others who work to assure the successful administration, operation and financial soundness of the retirement plan. If you have questions about this report or need additional information, please contact the DPSRS office.

John MacPherson
Interim Executive Director



2006 BOARD OF TRUSTEES

BOARD OF TRUSTEES 2006

Pictured left to right: Gregg Torres, Velma Rose, Donald Giseburt (Secretary), Darrell Allen, Andrew Raicevich, II, Theresa Peña, Andrew Raicevich (Vice-Chairperson), John MacPherson (Interim Executive Director), Amy Grant, Dawn Paluch, Kay Speer (Chairperson), Patrick Smaldone

2006 DPS BOARD OF EDUCATION

DPS BOARD OF EDUCATION

Theresa Peña
Bruce Hoyt
Kevin Patterson
Jeannie Kaplan
Jill Conrad
Lucia Guzman
Michelle Moss

DPS SUPERINTENDENT

Michael Bennet

ADMINISTRATIVE ORGANIZATION AT JANUARY 1, 2006

BOARD OF TRUSTEES

John MacPherson
Interim Executive Director

Colleen Meier
Mary Lee Lance

INFORMATION SYSTEMS

James Barley, *Manager*

Gary Alfred, *Programmer/ Web Master*

Pamela Kopp, *Programmer/ Analyst*

RETIREMENT ADMINISTRATION

Judith K. Shimono, *Assistant Executive Director*

Carole Maschka, *Supervising Benefit Analyst*

Louise Crow
Lucy Garrett
Karen Hoisington
Cheryl Lankenau
Patrick Naper

ACCOUNTING

Kipp Steinauer, *Manager*

Kristine Drewes, *Senior Accountant*

Gary Meier, *Senior Accountant*

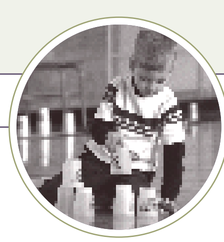
Judith Bailey
Mary Lou Longoria

INVESTMENT OFFICE

E. Albert Thomas, *Chief Investment Officer*

Gary Ratliff, *Investment Officer*

Sheila Stratton



MESSAGE FROM THE CHAIRPERSON

In keeping with past practices and generally accepted reporting standards, as Chairperson of the Board of Trustees for the Denver Public Schools Retirement System (DPSRS), I am pleased to present the *Comprehensive Annual Financial Report* for our 60th year of operation, which ended on December 31, 2005. The report provides the reader with an in-depth review of the financial, actuarial, and investment status of the System.

The actuarial report for 2005 indicates that the plan continues to be financially sound as a result of continuing solid investment results for the year. An increase in employer contributions has improved further the soundness of the plan.

Much of the activity of the Board of Trustees and the staff of DPSRS during 2005 again involved changes needed for the proposed merger with Colorado PERA. On October 12, 2005, the Board of Education for the Denver Public Schools terminated the merger with Colorado PERA. The main focus of the Board of Trustees in 2005 was to continue to ensure that member interests be safeguarded properly.

Robert J. Scott, the Executive Director during 2005, resigned on December 31, 2005. The Board of Trustees of DPSRS appointed John MacPherson as the Interim Executive Director to serve while the search is being conducted for a permanent Executive Director. Mr. MacPherson has had a distinguished career with the Denver Public Schools. For more than 30 years, he was a teacher and administrator. Mr. MacPherson served on the Board of Trustees of DPSRS for 14 years and was the Chairperson for 11 years. For the past 2 years, Mr. MacPherson served on the staff of DPSRS as Communications Director.

The DPSRS staff continues to provide members with the outstanding service that we are accustomed to receiving. For the 13th consecutive year, DPSRS has been awarded a Certificate of Achievement for Excellence in Financial Reporting for its *Comprehensive Annual Financial Report* for the year ended December 31, 2004. This is an important award presented by the Government Finance Officers Association of the United States and Canada to government units and public retirement systems whose comprehensive annual financial reports are easily readable and efficiently organized and satisfy both generally accepted accounting principles and applicable legal requirements. A great deal of hard work goes into this report. The Board of Trustees appreciates the dedication and diligence of our staff.

In November of 2005, there were some major changes in the membership of the Board of Trustees. Four new members were welcomed to the Board. Les Woodward, who was appointed by the DPS Board of Education, was replaced by Theresa Peña who is the current President of the DPS Board of Education. Ann Vogel, who retired on December 31, 2005, was replaced by Amy Grant. Kathryn Doctor, who retired on November 1, 2005, and Chrisanne LaHue were replaced by Patrick Smaldone and Dawn Paluch. I wish to welcome the new members and to thank those members who have left for their dedication and hard work on the Board of Trustees.

The Board of Trustees elected Don Giseburt as Secretary, Andrew Raicevich as Vice Chairperson, and Kay Speer as Chairperson to serve as the Executive Committee of the Board of Trustees for 2006.

I hope you find the Annual Report informative and of value. The DPSRS Board of Trustees looks forward to our 61st year of service to retirees and employees of the District.

Kay Speer, Ph.D.

Kay Speer, PhD
Board of Trustees Chairperson

2006 BOARD OF TRUSTEES COMMITTEE ASSIGNMENTS

EXECUTIVE COMMITTEE

Kay Speer, *Chairperson*
Andrew Raicevich, *Vice Chairperson*
Don Giseburt, *Secretary*

DISABILITY APPEAL COMMITTEE

Don Giseburt, *Chairperson*
Amy Grant
Kay Speer
Gregg Torres

AUDIT COMMITTEE

Andrew Raicevich, II, *Chairperson*
Darrell Allen
Dawn Paluch
Andrew Raicevich
Velma Rose

AD-HOC ELECTION COMMITTEE

Gregg Torres, *Chairperson*
Amy Grant
Andrew Raicevich, II
Patrick Smaldone

INVESTMENT COMMITTEE

Velma Rose, *Chairperson*
Darrell Allen
Donald Giseburt
Andrew Raicevich
Gregg Torres

2005 PRIMARY CONSULTANTS

ACTUARIAL SERVICES

Gabriel, Roeder, Smith & Company
One Towne Square
Suite 800
Southfield, MI 48076

COMPUTER SERVICES

Alfred Munksgard & Associates
3617 Thousand Oaks Boulevard
Suite 120
Thousand Oaks, CA 91320

Hewlett Packard
PO Box 101149
Atlanta, GA 30392-1149

INDEPENDENT AUDITORS

KPMG LLP
707 Seventeenth Street
Suite 2700
Denver, CO 80202

INVESTMENT SERVICES

Hewitt Investment Group
100 Half Day Road
Lincolnshire, IL 60069

MASTER CUSTODIAN

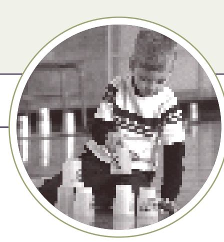
The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

LEGAL SERVICES

Cockrell, Quinn & Creighton
1700 Broadway #1516
Denver, CO 80290-1501

Otten, Johnson, Robinson,
Neff & Ragonetti, PC
1600 Colorado National Bank Building
950 17th Street
Denver, CO 80202

A detailed schedule of investment expenses and payments to consultants can be found on page 36 in the Financial Section.
A summary schedule of investment fees and commissions can be found on page 45 in the Investment Section.



FINANCIAL

INDEPENDENT AUDITORS' REPORT

KPMG

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

The Board of Education of School District No. 1
in the City and County of Denver and State of Colorado
and the Board of Trustees of the Denver Public Schools Retirement System:

We have audited the accompanying statements of fiduciary net assets of the Denver Public Schools Retirement System (System) as of December 31, 2005 and 2004, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

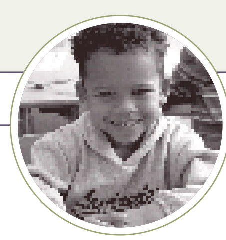
In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the System as of December 31, 2005 and 2004, and the changes in fiduciary net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis and required supplementary information included in the schedules of funding progress and employer contributions, and notes thereto, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the additional supporting schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Denver, Colorado
April 7, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005 and 2004

Management is pleased to present this discussion and analysis of the financial activities of the System as of and for the years ended December 31, 2005 and 2004.

The System administers the retirement plan for eligible, covered employees and retirees of the District. All assets of the plan are invested in a single trust fund. The sole purpose of the fund is to pay for benefit promises made to retired and active members of the System.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the financial statements. The financial section consists of the basic financial statements and other supplementary information and schedules.

Two financial statements are presented for the System. The Statements of Fiduciary Net Assets present the net assets held in trust for pension benefits at a given point in time. The Statements of Changes in Fiduciary Net Assets indicate the additions and deductions to the plan assets during the specified periods.

The Notes to Financial Statements provide essential information for understanding the data provided in the financial statements by providing a description of the plan, significant accounting policies, investment assets and liabilities, contributions, and benefit enhancements.

The Required Supplementary Information includes two schedules and related notes. The Schedule of Funding Progress provides historical trend information about the actuarially determined funded status of the plan. The Schedule of Employer Contributions provides historical trend information about the annual required contributions (ARC) of the District and the contributions made by the District in relation to the ARC.

Additional Supporting Schedules include the Schedules of Administrative Expenses, the Schedule of Investment Expenses, and the Schedule of Payments to Consultants. These schedules provide additional analysis of the information provided in the financial statements.

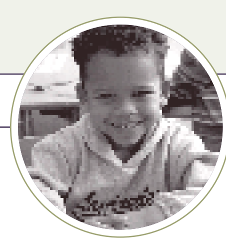
CONDENSED FINANCIAL INFORMATION

FIDUCIARY NET ASSETS AT DECEMBER 31:

	2005	2004	2003	2005 % Change	2004 % Change
Assets					
Cash and short-term investments	$ 127,194,472	$ 107,612,418	$ 116,276,464	18.2 %	(7.5)%
Investments, at fair value	2,666,513,557	2,524,945,926	2,410,948,800	5.6 %	4.7 %
Receivables	9,130,477	10,860,808	11,535,583	(15.9)%	(5.9)%
Prepaid expenses	337,654	674,110	490,479	(49.9)%	37.4 %
Capital assets, net	59,365	109,988	155,807	(46.0)%	(29.4)%
Investment and other assets	**2,803,235,525**	**2,644,203,250**	**2,539,407,133**	**6.0 %**	**4.1 %**
Securities lending collateral	177,662,816	298,017,707	184,990,477	(40.4)%	61.1 %
Total assets	**2,980,898,341**	**2,942,220,957**	**2,724,397,610**	**1.3 %**	**8.0 %**
Liabilities					
Investment settlements and other liabilities	135,384,862	88,271,882	135,862,242	53.4 %	(35.0)%
Securities lending obligations	177,662,816	298,017,707	184,990,477	(40.4)%	61.1 %
Total liabilities	**313,047,678**	**386,289,589**	**320,852,719**	**(19.0)%**	**20.4 %**
Net assets	**$ 2,667,850,663**	**$ 2,555,931,368**	**$ 2,403,544,891**	**4.4 %**	**6.3 %**

CHANGES IN FIDUCIARY NET ASSETS AT DECEMBER 31:

	2005	2004	2003	2005 % Change	2004 % Change
Additions					
Employer contributions	$ 28,448,702	$ 21,142,815	$ 13,023,157	34.6 %	62.4 %
Member contributions	27,269,492	25,992,388	32,665,945	4.9 %	(20.4)%
Net investment income	242,824,815	277,933,754	449,320,081	(12.6)%	(38.1)%
Security lending net income	445,979	513,362	422,911	(13.1)%	21.4 %
Total additions	**298,988,988**	**325,582,319**	**495,432,094**	**(8.2)%**	**(34.3)%**
Deductions					
Benefit payments	(176,445,323)	(163,473,489)	(152,838,651)	7.9 %	7.0 %
Refunds	(7,194,798)	(6,154,132)	(4,893,891)	16.9 %	25.8 %
Administrative expenses	(3,429,572)	(3,568,221)	(3,233,847)	(3.9)%	10.3 %
Total deductions	**(187,069,693)**	**(173,195,842)**	**(160,966,389)**	**8.0 %**	**7.6 %**
Net increase in net assets	**$ 111,919,295**	**$ 152,386,477**	**$ 334,465,705**	**(26.6)%**	**(54.4)%**



FINANCIAL HIGHLIGHTS AND ANALYSES

Plan net assets increased 4.4% for the calendar year of 2005. This compares to increases of 6.3% in 2004 and 16.2% in 2003. Investment returns of 10.6%, 12.7%, and 23.1% for 2005, 2004, and 2003, respectively are the primary reasons for the increases in plan net assets. Plan net assets increased $598.8 million for the years 2003 through 2005, offsetting decreases of $521.3 million for the years 2001 through 2002. A comparison of annual total portfolio investment returns is shown below.

Total returns	1 year	3 year	5 year	10 year
2005	10.6%	15.4%	7.8%	10.5%
2004	12.7%	9.6%	6.3%	11.5%
2003	23.1%	5.4%	7.5%	10.2%

The Board of Trustees has responsibility for the investment of plan assets. Plan assets are invested according to the *Statement of Investment Objectives and Policies* (SIOP) approved by the Board of Trustees. The SIOP sets forth the strategic asset allocation target guidelines. Each strategic asset class has an optimal target with high and low ranges. In measuring the progress in reaching the targets, net cash and debt in managed accounts are included. Investments in all asset classes are within acceptable ranges for 2005. Shown below is an analysis of the components of the total investment return versus a measurement benchmark return and the actual asset allocations and targets as of December 31, 2005.

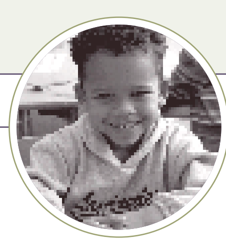
Asset class	Return	Benchmark	Portfolio %	Target %
Domestic stocks	7.6%	4.9%	36%	32%
International stocks	15.3%	13.5%	21%	17%
Fixed income	3.3%	2.4%	22%	23%
Mortgages	8.1%	1.9%	7%	13%
Equity real estate	27.0%	20.1%	9%	10%
Alternative assets	35.3%	8.1%	4%	5%
Cash and short-term investments	3.3%	3.1%	1%	0%

The progress in accumulating sufficient assets to meet the long-term benefit obligations is measured in terms of the funded status or the funded ratio of the plan. The funded ratio is the actuarial value of assets expressed as a percentage of the actuarial accrued liability. The funding policy is the method to provide benefits specified by the Plan through the amounts and timing of contributions from the employers and the members. The excess of the actuarial accrued liability over the actuarial value of assets is the unfunded actuarial accrued liability or UAAL.

The actuarial value of assets differs from the year-end fair value of plan net assets by smoothing the effects of market fluctuations. In the calculation of the actuarial value of assets, 20% of the difference between the fair value of plan assets and the expected actuarial value of assets is included in the actuarial value of assets. The smoothing method lessens the need to adjust the contribution rates based on the volatility in market conditions. During extended periods of market declines the plan net assets usually will be less than the actuarial value of assets.

Plan net assets increased 4.4% or $111.9 million in 2005. In comparison, the actuarial value of assets increased $82.2 million or 3.2% in 2005. The actuarial accrued liability increased $104.9 million or 3.5% in 2005. The funded ratio decreased to 87.9% from 88.2%. According to the System's actuary, the System remains in sound financial condition based on actuarial principles of level percent-of-payroll financing. Below is a schedule comparing actuarial asset values to plan net asset values versus the actuarial accrued liabilities along with the respective funded ratios.

	2005	2004	2003
Funded ratio	87.9%	88.2%	90.6%
($000)	**2005**	**2004**	**2003**
Actuarial accrued liability	$ 3,065,855	$ 2,960,990	$ 2,793,788
Actuarial asset value	2,693,686	2,611,524	2,531,746
UAAL	372,169	349,466	262,042
Plan net assets	2,667,851	2,555,931	2,403,545



The employer funding policy rate for employer contributions has lagged behind the actuarially recommended contribution rate for the past four years. Based on current projections, until the funding policy rate provides for funding at the recommended levels, it is likely the funded status of the plan will continue to decline in future years. Effective July 1, 2006, the employer contribution rate will increase from 9.48% to 11.14% of covered payroll as part of a funding policy change to adopt the recommended employer contribution rate over a 4-year period, beginning July 1, 2005. In addition, several benefit changes were adopted effective in 2005 to reduce future benefit obligations for new members. The actuarial recommended rate for employer contributions beginning July 1, 2007, is 14.51% with an expected funding policy rate increase to 12.83%. The employer contribution rate, as of July 1 for each year, is shown below.

Beginning July 1,	**2005**	**2004**	**2003**
Recommended	13.55%	12.64%	8.83%
Funding policy	9.48%	8.12%	4.98%

A required disclosure in the financial statements is a schedule of employer contributions. The purpose of this schedule is to provide information about the annual required contributions or ARC compared to the employer contributions or funding policy. The ARC is the amount required to cover the normal pension cost and includes a provision for amortizing the UAAL. The UAAL is amortized over a 30-year period. Changes in the employer contribution rate are effective July 1 each year; therefore, the ARC and employer funding policy rates are expressed as blended rates or the average of the employer contribution rates for the year.

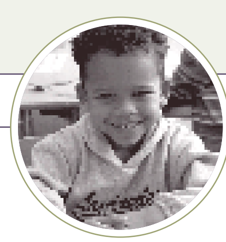
Blended rates	**2005**	**2004**	**2003**
ARC	13.10%	10.74%	8.67%
Funding policy	8.80%	6.55%	3.94%

Employer contributions increased 34.6% from 2004 primarily due to the increase in the employer contribution rate from 8.12% to 9.48%, effective July 1, 2005. The increase in the employer contribution rate to 9.48% is less than the recommended rate of 13.55%. Employer contributions in 2005 were approximately 67% of the ARC compared with 61% in 2004.

	2005	**2004**	**2003**
Employer contributions	$ 28,448,702	$ 21,142,815	$ 13,023,157

Member contributions consist of normal 8% contributions, payments to qualify prior District service, and purchase of non-covered employment. Total contributions from members increased 4.9% from 2004. Normal contributions and contributions for prior service decreased .9% primarily due to a .2% decrease in the number of contributing members from 2004. The number of contributing members has decreased 2.2% since 2002. Purchase of non-covered employment increased 195.0% in 2005 primarily due to the effect of the increase in the service purchase cost effective January 1, 2004.

	2005	**2004**	**2003**
Contributing members	7,179	7,192	7,339
Member contributions	**2005**	**2004**	**2003**
Normal	$ 24,997,276	$ 24,921,523	$ 25,590,277
Prior service	687,857	533,800	611,793
Non-covered employment	1,584,359	537,065	6,463,875



Benefit payments increased 7.9% in 2005 compared to 7.0% in 2004. The increase is a result of a 1.6% increase in the number of benefit recipients and a 4.9% increase in the average monthly benefit that includes an annual benefit increase of 3.25%. A significant change in the mortality tables used in the calculation of benefits became effective December 31, 2004. The effect of the change in the mortality tables was a reduction in the amount of the annual benefit for certain retirement options for retirements on or after December 31, 2004, and resulted in an increase in retirements in 2004.

	2005	2004	2003
Benefit recipients	5,961	5,869	5,699

The ratio of contributing members to retired members has declined 12.4% to 1.20 to 1 in 2005 from 1.37 to 1 in 2002. The number of contributing members decreased by 6.7% while retired members increased 6.3% over the same period. In addition, the annual covered payroll decreased 4.1% and the average salary for contributing members increased 2.9% from 2002 through 2005.

Administrative expenses decreased 3.9% in 2005 compared to an increase of 10.3% in 2004. The administrative costs of the System were .13% of net assets in 2005 compared to .14% of net assets in 2004. The increase in 2004 primarily is due to costs associated with the proposed merger of the System into Colorado PERA, effective January 1, 2005. The proposed merger was terminated by Colorado PERA on June 29, 2004.

Subsequent to December 31, 2004, legislation was introduced in the Colorado Legislature to authorize a merger of the two retirement systems effective January 1, 2007. The proposed merger was terminated by the School District on October 12, 2005.

BASIC FINANCIAL STATEMENTS

STATEMENTS OF FIDUCIARY NET ASSETS

As of December 31, 2005 and 2004

	2005	2004
Assets		
Cash and short-term investments	**$ 127,194,472**	**$ 107,612,418**
Receivables		
Accrued interest and dividends	2,803,343	5,737,258
Contributions	1,254,031	1,256,403
Investment settlements	858,475	103,247
Other	4,214,628	3,763,900
Total receivables	**9,130,477**	**10,860,808**
Investments, at fair value		
Domestic stocks	933,902,765	950,333,340
International stocks	552,364,706	496,898,036
Alternative assets	101,999,795	89,997,203
Corporate securities	407,676,779	286,261,759
Government securities	228,466,960	238,330,612
Mortgage investments	180,429,645	201,930,350
Equity real estate	261,672,907	261,194,626
Total investments	**2,666,513,557**	**2,524,945,926**
Securities lending collateral	177,662,816	298,017,707
Prepaid expenses	337,654	674,110
Capital assets, at cost, net of accumulated depreciation of $873,332 ($814,508 in 2004)	59,365	109,988
Total assets	**2,980,898,341**	**2,942,220,957**
Liabilities		
Accounts payable and accrued expenses	10,157,072	8,780,410
Mortgages payable	14,168,773	32,718,773
Investment settlements	111,059,017	46,772,699
Securities lending obligations	177,662,816	298,017,707
Total liabilities	**313,047,678**	**386,289,589**
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 32.)	**$ 2,667,850,663**	**$ 2,555,931,368**

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

For the Years Ended December 31, 2005 and 2004

	2005	2004
Additions		
Contributions		
Employer	$ 28,448,702	$ 21,142,815
Member	27,269,492	25,992,388
Total contributions	**55,718,194**	**47,135,203**
Investment income		
Interest	37,876,023	40,771,786
Net appreciation in fair value of investments	154,914,048	218,322,287
Dividends	22,648,028	19,038,822
Equity real estate	22,329,712	14,522,947
Alternative assets	13,977,905	(6,319,407)
Other	326,923	363,427
Total investment income	**252,072,639**	**286,699,862**
Investment expense	(9,247,824)	(8,766,108)
Net investment income	**242,824,815**	**277,933,754**
Securities lending income	7,385,998	3,363,983
Securities lending expense	(6,940,019)	(2,850,621)
Net income from securities lending	**445,979**	**513,362**
Total additions	**298,988,988**	**325,582,319**
Deductions		
Benefits paid to regular retirees	(169,182,659)	(156,551,097)
Benefits paid to disability retirees	(5,882,604)	(5,582,568)
Benefits paid to survivors	(1,380,060)	(1,339,824)
Refunds of contributions	(7,194,798)	(6,154,132)
Administrative expenses	(3,429,572)	(3,568,221)
Total deductions	**(187,069,693)**	**(173,195,842)**
Net increase in assets	**111,919,295**	**152,386,477**
Net assets held in trust for pension benefits		
Beginning of year	2,555,931,368	2,403,544,891
End of year	**$ 2,667,850,663**	**$ 2,555,931,368**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

(1) DESCRIPTION OF THE PLAN

The Board of Education of School District No. 1 in the City and County of Denver and State of Colorado established the System on December 1, 1945, which is a cost-sharing multiple-employer defined benefit pension plan under Colorado law. The Board of Education adopted the Retirement and Benefit Plan (Plan), as amended, to provide defined retirement, death, and disability benefits to participating members. Participation in the retirement plan is mandatory for all full-time employees of the School District hired after December 1, 1945, and of the System, and of Charter Schools within the School District, established under the Colorado Charter Schools Act of 1993.

The Board of Trustees (Board) is an 11-member body with the exclusive authority to invest and manage the assets of the System, pay benefits, and otherwise administer the System. The Board is composed of 6 elected active and 2 elected retired members of the System, 2 members appointed by the Board of Education of the School District, and 1 member, appointed by the other Board members, with demonstrated expertise in pension administration or in investment matters.

At December 31, 2005 and 2004, the System's membership consisted of the following:

	2005	2004
Retirees and beneficiaries currently receiving benefits	5,961	5,869
Terminated members entitled to benefits but not yet receiving them	344	276
Current employees		
Vested	4,508	4,362
Nonvested	2,704	2,861
Total membership	**13,517**	**13,368**

The Plan provides an Annual Retirement Allowance Adjustment (ARAA) increase in retired members' benefits. The annual percentage increase for each member is 3.25% of the member's retirement allowance. For individuals who, on or after July 1, 2005, become members or rejoin the retirement system after having withdrawn their contribution balances, the increase in their retired member benefits is equal to the lesser of 3% or the increase in the Consumer Price Index for urban wage earners and clerical workers for the preceding year compounded.

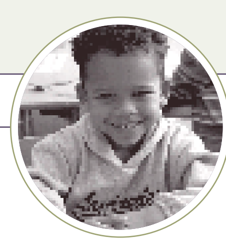
If a member resigns prior to retirement, the member is entitled to a refund of accumulated member contributions, which includes interest. Member accounts are credited with interest on the last day of each month based upon the member's balance as of the beginning of that month. The following is a table of the interest rates applied to member accounts:

December 31,	Rate
1986 and prior years	3%
1987 through 1990	9%
1991 through present	5%

Terminating members, electing to leave their accumulated contributions in the System, are eligible for deferred retirement provided they have a minimum of 5 years of service.

Employees who have attained either age 55 with a minimum of 25 years of civilian service in a tax-supported institution, of which 15 years must have been service qualified with the District, or age 65 with at least 5 years of earned service, or age 50 with at least 30 years of earned service, are entitled to regular retirement benefits. Employees who meet the above criteria at retirement are entitled to regular retirement benefits, payable monthly for life, in an amount equal to 2.50% of their monthly highest average salary (HAS) for each year of earned service to the date of retirement. The monthly HAS is defined as the average of the highest 36 months of compensation earned by the employee throughout employment with the District or career average salary, whichever is greater.

Beyond each full year of service, any full month(s) of service are credited proportionally. Optional early retirement with a reduction of benefits may be elected by a member at an age younger than 55 with 25 years of District service or at age 55 or beyond with 15 years of District service. The benefit reduces by 4% for each year of age or service the member lacks in fulfilling the minimum requirements for a regular retirement. A 6% reduction is applied for an individual who, on or after July 1, 2005, becomes a member or rejoins the System after having taken a refund of contributions.



The Plan also provides for a disability retirement. Members with 5 or more years of earned service, who become permanently incapacitated from performing their duties, are eligible for disability retirement. The amount of the disability benefit is calculated in the same manner as for a regular retirement under the provisions of a single life annuity. Members with at least 25 years of earned and outside service at the date of retirement can elect at age 55 (age 50 with 30 years of earned service) to recalculate their benefits as a regular retirement. Otherwise, recalculation of a disability retirement occurs at age 65. Beginning with 1999 and under prescribed circumstances, disability retirees with fewer than 25 years of service can apply to qualify full years after retirement to be used when their disability benefits are recalculated to regular retirement benefits. The maximum number of earned and additional qualified years cannot exceed 25 at the date of recalculation, unless the total number of years of earned service at the effective date of disability retirement exceeds 25, in which case such number of years is used to compute the recalculated benefit.

Liquidation of the System can be initiated by either the Board of Education or by vote of the members. In the event of liquidation, the assets would be distributed as specified in the Plan.

REPORTING ENTITY

The Board is responsible for the general operations and fiscal matters of the System. These responsibilities include the ability to designate management, select the System's independent actuary and auditor, and determine investment policies.

The System is a body corporate and an instrumentality of the School District; it is not an agency of the School District. In addition, the System is not subject to administrative direction by the School District, and the assets of the System are not available to the School District. Accordingly, the financial statements of the System are not included in the financial statements of the School District or any other organization.

PENSION PLAN DISCLOSURE FOR SYSTEM EMPLOYEES

The employees of the System are members of the plan and earn and accrue benefits as would any other member as described above. The System's employer contributions were $130,578 and $93,773 for the years ending December 31, 2005 and 2004, respectively. In addition, the System contributed $177,626 and $158,557, for the same periods, for the cost of the pension certificates of participation issued by the School District on July 17, 1997.

(2) SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Investment income is recorded when it is earned. Expenses are recorded when liabilities are incurred. Member and employer contributions are recorded in the period in which the contributions are due. Benefit and refund payments are recorded in the period in which the liabilities are due and payable.

The financial statements are presented in accordance with GASB Statement Nos. 25, 28, 34, and 37, and generally accepted accounting principles that apply to governmental accounting for fiduciary funds. In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 is an amendment to GASB Statement No. 3 and is effective for periods beginning after June 15, 2004. The System implemented GASB Statement No. 40 for 2005. It was not practicable to obtain the required disclosure information required by GASB Statement No. 40 for 2004.

INVESTMENTS

System investments are presented at fair value or estimated fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Securities traded over-the-counter are valued at the last bid price. The values of corporate and government securities are based on comparable securities with similar yield and risk factors. The System's equity in real estate investments are stated at estimated fair value at the date of the financial statements. Generally, this value is determined periodically (usually annually) by the advisor or independent appraisers or more frequently if management of the applicable funds has determined that there has been a significant change in the economic circumstances related to the investment. The fair values of mortgage investments are based upon current interest rates and prepayment assumptions. The value of alternative assets is determined by the manager based upon economic and market conditions of the underlying investments.

For the purpose of determining realized gains and losses, the costs of corporate stocks are calculated on the average cost basis. The costs of all other investments are determined based on specific identification.

FEDERAL INCOME TAX STATUS

The System is qualified under Internal Revenue Code (IRC) Section 401(a). The System is a governmental plan as described in IRC Section 414(d). It therefore, is exempt from federal income taxation under IRC Section 501(c)(25)(C)(ii).

CAPITAL ASSETS

Capital assets are recorded at cost, less accumulated depreciation. Costs of major additions and improvements in excess of $500 are capitalized. Expenses for maintenance and repairs are charged as deductions as incurred. Depreciation is calculated using the straight-line method based on estimated useful lives of four and five years.

COMPENSATED ABSENCES OF SYSTEM STAFF

Sick and personal leave and vacation allowances are combined into paid leave. Accumulated paid leave is payable upon termination or retirement and is based on the employees' salary at termination or retirement. At December 31, 2005, the liability for accumulated paid leave was $628,090 ($556,179 in 2004).

RISK MANAGEMENT

The System is exposed to various risks related to theft, damage, and destruction of assets, errors and omissions, injuries to employees and court challenges to fiduciary decisions. To insure against such risks of losses, the System carries policies of fiduciary liability insurance, general liability insurance, property insurance, and a crime/fidelity bond. Employees of the System receive health, life, dental, and vision insurance coverage under the policies of the School District. There have been no insurance claims against the System for the past three years.

USE OF ESTIMATES

Preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires that management make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ significantly from these estimates.

(3) DEPOSITS AND INVESTMENTS RISK DISCLOSURES

INVESTMENT AUTHORITY

The System is authorized to invest in a broad array of investments as described in the SIOP, dated December 6, 2004. These include, but are not limited to the following:

- Equity securities, both domestic and international, of publicly traded companies and related derivative securities
- Fixed income securities and related derivative securities
- Equity and debt investments in income-producing real estate
- Alternative assets including private (not publicly traded) equity or debt investments
- Short-term investment funds with the custodian bank

CONCENTRATIONS OF CREDIT RISK

The System's primary investment policy objective of the fixed income portfolio is to generate a rate of return from its investments in fixed income instruments that is greater than the U.S. fixed income market net of costs and fees over a complete market cycle.

Mortgage investments represent investments in real estate loans collateralized by the related properties, mortgage participation certificates, mortgage participation funds, and commercial mortgage-backed securities. Investments in corporate stocks and bonds are diversified by: (1) geographic area primarily within the United States for bonds and worldwide for corporate stocks, (2) industry group, and (3) sensitivity to general economic cycles. Generally, these investments represent non-collateralized ownership in, or lending to, publicly held corporations traded on domestic and international markets. U.S. government securities are composed of securities with varying maturities and interest rates and are backed by the full faith and credit of the U.S. government. The above limitations and the System's diversification over several asset classes are intended to reduce the overall investment risk exposure.

Concentrations in the securities of a single entity are limited to not more than 5% of the fixed income securities at market value. Corporate securities of a single industry are limited to not more than 25% of the fixed income securities at market value. These limitations do not apply to U.S. Government and agency guaranteed securities.

Individual manager contracts include specific guidelines regarding assets under management by the manager. In addition, margin and net short-sale positions are prohibited. The use of derivative securities is permitted, but the use of derivatives should not increase the risk profile or leverage the manager's account.

CASH AND SHORT-TERM INVESTMENTS

CUSTODIAL CREDIT RISK

The custodial credit risk for cash and short-term deposits is the risk that, in the event of the failure of the System's depository financial institution, the System will not be able to recover the deposits or will not be able to recover collateral securities that are in the possession of an outside third party. The System does not have a policy on custodial credit risk. The System's cash and short-term investments are not exposed to custodial credit risk.

Short-term government securities are registered in the System's name and are held by the System's custodial bank, the Northern Trust Company (NTC). Variable short-term accounts with the custodial bank are collateralized by underlying securities held by the custodial bank in an institutional trust.

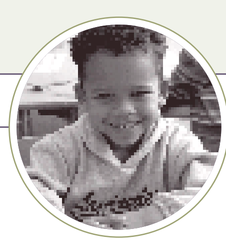
The carrying amount of the System's cash deposits at December 31, 2005, was $285,852, and the bank balance was $810,912 ($209,094 and $699,751 in 2004, respectively). Of the bank balances at December 31, 2005, and 2004, $100,000 is covered by federal depository insurance and $710,912 ($599,751 in 2004) is covered by the provisions of the Colorado Public Deposit Protection Act and is collateralized in single institution pools with securities held by the pledging institution's trust department or agent, but not in the System's name. The following table summarizes the fair value of cash and short-term investments held by the System as of December 31.

	2005	2004
General operating bank accounts	$ 285,852	$ 209,094
Short-term government securities	3,081,180	37,223,033
Variable short-term account with custodial bank	123,827,440	70,180,291
Total cash and short-term investments	**$127,194,472**	**$107,612,418**

INVESTMENTS

An objective for fixed income investments is to provide for potential above average long-term investment returns utilizing debt securities and derivative securities of various credit quality, sectors, currencies, and structures. There is no policy restricting these characteristics relative to debt-related securities unless otherwise restricted by the System in the investment manager's advisory agreement. The following table presents the fair value of the System's investments at December 31, 2005, by investment type.

Investment type	Fair value
Domestic equity securities	$ 468,910,471
Domestic corporate securities	164,247,523
U.S. Government and agency securities	142,085,338
Mortgage investments	92,125,849
Real estate	28,844,721
Pooled investments	
Domestic equity securities	324,479,483
International equity securities	552,364,706
Domestic corporate securities	234,758,072
U.S. Government and agency securities	62,479,295
Mortgage investments	88,303,796
Real estate	232,828,186
Alternative assets	101,999,795
Investments held under securities lending agreements	
Domestic corporate securities	8,671,184
Domestic equity securities	140,512,811
U.S. Government and agency securities	23,902,327
Total investments	**$ 2,666,513,557**
Securities lending collateral pool	$ 177,662,816



CREDIT RISK DEBT SECURITIES

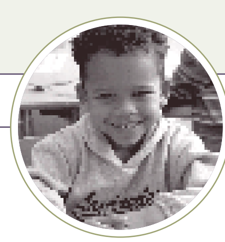
Credit risk is the risk that an issuer or other counterparty to an investment in debt securities will not fulfill its obligation. The following table lists the credit quality of investments according to Standard & Poor's credit ratings. The System does not have a policy on credit risk.

Quality Rating	Fair Value
AAA	$ 88,667,478
AA+	661,127
AA	451,324
AA-	2,762,511
A+	4,328,292
A	5,571,196
A-	2,247,344
BBB+	8,868,898
BBB	9,507,047
BBB-	6,998,507
BB+	8,210,167
BB	11,310,410
BB-	9,171,582
B+	3,977,114
B	2,818,311
B-	3,533,791
CCC+	316,001
CCC	80,950
CCC-	150,217
D	172,720
Not rated	3,113,720
Total credit risk debt securities	**172,918,707**
U.S. Government and agencies	165,987,665
Pooled investments–not rated	297,237,367
Total debt securities	**$ 636,143,739**

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt securities. One measurement of interest rate risk is the investment's duration. Duration is a measure of an investment's exposure to fair value changes from changing market interest rates using the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The System does not have a policy on interest rate risk. The following table lists the effective weighted duration in years of investments by investment type.

Investment Type	Fair Value	Effective Weighted Duration
Asset backed securities	$ 25,090,045	0.45
Commercial mortgage backed securities	6,276,836	5.69
Corporate bonds	94,575,707	5.35
Non-government backed C.M.O.s	44,823,797	0.14
Government agencies	5,262,603	2.85
Government bonds	20,521,042	5.38
Government mortgage backed securities	123,244,586	3.91
Index linked government bonds	16,959,433	3.97
	336,754,049	**3.67**
Pooled investments	297,237,367	NA
Other	2,152,323	NA
Total debt securities	**$ 636,143,739**	



FOREIGN CURRENCY RATE RISK

Foreign currency risk is the risk that changes in monetary exchange rates will adversely affect the fair value of an investment or a deposit in terms of U.S. dollars. The System does not have a policy on foreign currency risk. The following table lists the foreign currency risk of international equity investments denominated by foreign currency.

Currency	Fair Value
Australian dollar	$ 14,736,408
Brazilian real	1,220,887
British pound	118,131,431
Canadian dollar	1,049,734
Chinese yuan	1,025,414
Euro	151,469,869
Danish krone	2,955,202
Grand Cayman dollar	168,162
Hong Kong dollar	5,380,693
Hungarian forint	2,704,207
Indian rupee	2,373,313
Indonesian rupiah	1,186,656
Japanese yen	142,218,529
Mexican peso	4,906,367
New Zealand dollar	5,763,464
Norwegian krone	8,332,580
Papua New Guinea kina	210,203
Singapore dollar	2,207,158
South Korean won	13,081,534
Swedish krona	10,014,744
Swiss franc	50,324,495
Taiwan dollar	2,642,175
Total foreign currency risk	**542,103,225**
United States dollar	10,261,481
Total international equity	**$ 552,364,706**

DERIVATIVE FINANCIAL INSTRUMENTS

The System invests in derivative financial instruments as authorized in the SIOP of the System. As of December 31, 2005 and 2004, the System had derivative financial instruments with off-balance sheet risk including options, futures, interest rate swaps, and credit default swaps. The System invests in derivative financial instruments principally for yield curve and interest rate risk management.

Option contracts convey rights between contracting parties to buy or sell the underlying securities. The owner of a call option has the right to purchase the security, and the owner of a put option has the right to sell the security. The System buys and sells option contracts actively traded on major exchanges. The value of option contracts generally is based on the Black-Scholes model. As of December 31, the fair value of the option contracts was $(20,706) in 2005 and $(38,347) in 2004.

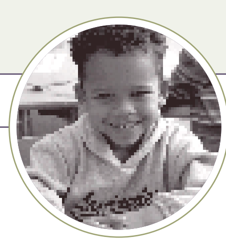
Futures contracts represent commitments to purchase or sell securities at a future date and at a specified price. Futures are exchange traded, and the exchange assumes the risk of nonperformance by a counterparty.

Interest rate swaps represent contractual agreements between counterparties to exchange interest rate cash flows for a specified period and based upon notional amounts. One of the counterparties is obligated to make a net cash settlement at the maturity of the contract. The System is exposed to credit risk in the event of nonperformance of the counterparty to the contract. The value of swaps is determined by use of a swap calculator provided by Bloomberg. As of December 31, the fair value of these contracts was $(1,366,809) in 2005 and $135,777 in 2004.

Credit default swaps (CDS) are over-the-counter contracts that transfer credit risk of a specified obligor between two counterparties. Participants in the CDS market are buying and selling default insurance at a negotiated price.

As of December 31, 2005 and 2004, the System had investments in the following derivative financial instruments. The contract or notional amounts do not represent the exposure to market loss.

	2005		2004	
Description	**Contracts**	**Contract or Notional Value**	**Contracts**	**Contract or Notional Value**
Long fixed income futures	534	$ 491,998,156	426	$ 239,001,563
Short fixed income futures	126	(13,919,062)	225	(25,200,563)
Interest rate swaps	4	22,410,000	3	(11,500,000)
Credit default swaps-buyer	6	(6,390,000)	5	(3,300,000)
Credit default swaps-seller	14	14,540,000	4	2,180,000
Swaption put	-	-	1	2,500,000
Short put options	-	-	79	(8,841,022)
Short call options	54	(27,282,188)	155	(17,344,084)
Long call options	24	24,000,000	28	28,000,000



SECURITIES LENDING COLLATERAL AND OBLIGATIONS

The System participates in a securities lending program in accordance with the provisions of a contract between the System (lender) and its custodial agent, NTC. NTC, acting as the lending agent, loans equity, fixed income, and short-term securities to independent brokers and dealers (borrower). The borrower exchanges collateral, in the form of cash, government securities, or irrevocable letters of credit, for the loaned securities equal to 102% and 105% of the market value, plus accrued income, of domestic and global securities, respectively. Collateral is marked to market daily with additional collateral required when the value of the collateral falls below the minimum requirements. The System retains all beneficial rights to the loaned securities except for the ability to vote proxies.

NTC invests cash collateral in a short-term investment pool or in separate term loans with maturities equal to the terms of the security loans. These loans can be terminated on demand by either lender or borrower. Non-cash collateral cannot be pledged or sold unless the borrower defaults on the loan agreement. A portion of the earnings on the invested collateral is rebated to the borrower in accordance with the agreement between NTC and the borrower. The System receives revenue from the loaned securities, less the borrower rebate and loan fees or premiums and NTC lending fees. The lending fees are 35% of the loan premium for government securities and for U.S. corporate and global securities.

There were no significant violations of legal or contractual provisions, no borrower, or lending agent default losses known to the securities lending agent and no dividend or coupon payments owing on the loaned securities as of December 31, 2005 and 2004.

NTC provides loss indemnification to the extent NTC performs appropriate borrower and collateral investment credit analyses, by demanding adequate types and levels of collateral and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. The System had no credit risk exposure at December 31, 2005 and 2004, because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

As of December 31, 2005, the fair value of loaned securities was $173,086,322 ($291,635,411 in 2004). The fair value of the associated collateral was $177,662,816 ($298,017,707 in 2004). Income from securities lending, net of borrower rebates and lending fees, was $445,979 for the year ended December 31, 2005 ($513,362 in 2004).

(4) CONTRIBUTIONS

Employer contributions are based on the funding policy required by Plan provisions. The employer contribution rate was fixed at 2.90% of covered salary for the period from July 1, 2000 through June 30, 2010. Should unfunded actuarial accrued liabilities (UAAL) accumulate during this period, the employer contribution rate each year would increase by the amount required to amortize the UAAL over 30 years.

In 2005, this Plan provision was amended changing the contribution rate period to July 1, 2000 through June 30, 2005, and adding a provision for the phase in of the employer contribution rate to be equal to the full annual required contribution rate by the beginning of the fourth year. The phase-in rate adjustment dates are July 1, 2005, July 1, 2006, July 1, 2007, and July 1, 2008.

The actuary of the System issues an annual report as of January 1 of each year. The School District adopts changes in the employer contribution rates for its fiscal year beginning 18 months after the date of the annual actuarial valuation report.

Members are required to contribute 8% of gross covered salary to the System. These contributions are recorded in separate member accounts. Member contributions are tax-deferred for federal and state income tax purposes.

In accordance with funding policy, the District made contributions to the System totaling $28,448,702 at 8.80% of current covered payroll ($21,142,815 at 6.55% in 2004). The ARC was 12.64% for the period January 1, 2005 through June 30, 2005 (8.83% for 2004), and 13.55% for the period July 1, 2005 through December 31, 2005 (12.64% for 2004). Member contributions totaled $27,269,492 and $25,992,388 for 2005 and 2004, respectively.

(5) FUTURE BENEFIT ENHANCEMENTS

Created in 1991, the Reserve for Future Benefit Enhancements (FBE) serves as an account within the System Retirement Trust Fund (SRTF) designated to provide for the payment of future improvements in Plan benefits. This account is funded annually in accordance with prescribed guidelines set forth in the Plan. The balance in the FBE is a component of net assets held in trust for pension benefits but is excluded from the computation of the actuarial accrued liability of the System. The balance in the FBE at December 31, 2005 and 2004, was $0.

(6) MORTGAGES PAYABLE

The System obtained mortgage loans on four commercial office buildings owned by the System. Each mortgage loan is non-recourse and is secured by the respective real property. The mortgages only require interest payments with balloon payments due at maturity. The New York and Pennsylvania properties were sold in 2005. The following table summarizes the mortgage note balances as of December 31.

			Principal Balance	
Property	**Rate**	**Maturity**	**2005**	**2004**
Denver, CO	LIBOR + 1.80%	April 30, 2008	$ 5,250,000	$ 5,250,000
New York, NY	LIBOR + 1.75%	May 23, 2005	-	9,500,000
Stamford, CT	LIBOR + 1.40%	January 31, 2006	8,918,773	11,918,773
Malvern, PA	6.66%	May 15, 2006	-	6,050,000
			$ 14,168,773	**$ 32,718,773**

Maturities on mortgages payable as of December 31, 2005 are as follows:

December 31:	**Principal**	**Interest**
2006	$ 8,918,773	$ 390,022
2007	-	317,625
2008	5,250,000	105,875
	$ 14,168,773	**$ 813,522**

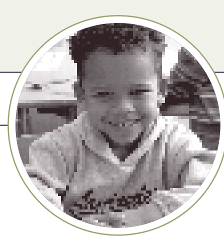
(7) PROPOSED MERGER INTO COLORADO PERA

In 2003, Senate Bill 03-250 was passed and signed into law. Senate Bill 03-250 authorized the School District, the System, and Colorado PERA to enter into an agreement to merge the System into Colorado PERA. The legislation provided authority to the parties involved to terminate the merger agreement, without cause, on or before July 1, 2004. On June 29, 2004, the Colorado PERA Board of Trustees unanimously voted to terminate the merger agreement in the best interests of the Colorado PERA membership.

At the request of the School District, on February 1, 2005, Senate Bill 05-171 was introduced in the Colorado State Senate to authorize the merger of the System into Colorado PERA effective January 1, 2007. Under Senate Bill 05-171, the School District, the System, and Colorado PERA would be authorized to enter into a merger agreement. If an agreement were not executed by October 1, 2005, any of the parties involved could terminate the merger by providing written notice to the other parties by October 15, 2005. After October 1, 2005, and before October 1, 2006, the merger could be terminated only for specific reasons as set forth in the legislation. The School District terminated the merger agreement on October 12, 2005.

(8) EMPLOYEES' DEFINED CONTRIBUTION PLAN

The Board approved the establishment of a discretionary defined contribution plan (DC Plan) for employees of the System in 2003. The DC Plan is maintained in compliance with the requirements of IRC Section 401(a). Contributions to the DC Plan are at the sole discretion of the System. The System contributes amounts equal to the amounts payable under the Staff Retention Pay Plans. For the year ended December 31, 2005, the System contributed $356,347 ($592,860 in 2004) on behalf of eligible employees covered under the DC Plan.



(9) STAFF RETENTION PAY PLANS

On June 2, 2003, the Board approved a Staff Retention Pay Plan, effective July 1, 2003, for employees of the System. The Board determined a need to encourage staff members to remain with the System as a result of the merger legislation passed into law in 2003, as described in note 7. The retention payments were made to permanent full-time employees on two dates provided the employees remained employed by the System on the specified payment dates. On June 30, 2004, the System made contributions into the DC Plan for eligible employees equal to 25% of their 2003 annual base salaries. On December 25, 2004, the System made contributions into the DC Plan for eligible employees equal to 50% of their 2004 annual base salaries.

In anticipation of a future merger of the System into Colorado PERA, the Board approved a Staff Retention/Succession Plan for 2005 on January 10, 2005. Eligible employees received cash payments equal to 21.5% of their 2004 base salaries, which were paid in quarterly installments. Eligible employees had to be employed by the System throughout each quarter. In addition, on December 29, 2005, the System made contributions into the DC Plan for eligible employees equal to 25% of their 2004 annual base salaries. Eligible employees had to be employed by the System continuously for the period from January 1, 2005, through December 29, 2005.

(10) COMMITMENTS

As of December 31, 2005, the System had commitments for the future purchase of investments in alternate assets of $88,240,323.

(11) ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, including the System, are budgeted and approved by the Board. Plan expenses are paid from plan assets, including investment income.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

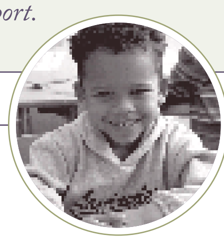
(Dollars in Thousands)

Actuarial Valuation Date January 1,	Actuarial Value of Assets (1)	Actuarial Accrued Liability (2)	Unfunded Actuarial Accrued Liability (UAAL) (3)	Funded Ratio (1)/(2) (4)	Annual Covered Payroll (5)	UAAL as a % of Covered Payroll (3)/(5) (6)
2001	$ 2,308,030	$ 2,371,925	$ 63,895	97%	$ 292,404	22%
2002	2,462,548	2,550,556	88,008	97	307,834	29
2003	2,465,049	2,712,293	247,244	91	331,607	75
2004	2,531,746	2,793,788	262,042	91	318,122	82
2005	2,611,524	2,960,990	349,466	88	315,157	111
2006	2,693,686	3,065,855	372,169	88	318,405	117

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

Year Ended December 31,	Annual Required Contribution	Percentage of ARC Contributed	Annual Required Contribution Percentage
2000	$ 8,007,508	100.00%	2.90%
2001	8,735,015	100.00	2.90
2002	18,949,591	49.99	5.71
2003	28,709,754	45.36	8.67
2004	34,637,301	61.04	10.74
2005	42,308,047	67.24	13.10

Unaudited – see accompanying notes to the required supplementary information.
Unaudited – see accompanying independent auditors' report.



NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

December 31, 2005

(1) ACTUARIAL ASSUMPTIONS AND METHODS

The required supplementary schedules provide information to help users assess the ability of the System to accumulate sufficient assets to pay benefits when due. The information includes funding status, funding progress and contribution rates and requirements. The Schedule of Funding Progress reports the unfunded actuarial accrued liability of the System and its significance relative to the capacity to pay for the liability. The Schedule of Employer Contributions provides information about the required contributions and the extent to which the employer makes those contributions.

The following schedule provides information regarding significant actuarial assumptions and methods as of the latest actuarial valuation date.

Valuation date	January 1, 2006
Actuarial cost method	Entry age
Amortization method	Level percentage of increasing payroll
Amortization approach	Open
Remaining amortization period	30 years at each valuation date
Asset valuation method	20% of difference between market value and expected funding value
Actuarial assumptions:	
Investment rate of return -	8.50%
including wage inflation at	4.50%
Projected salary increases -	Varies based upon service and age from 4.5% to 9.5%
including wage inflation at	4.50%
Cost-of-living adjustments	3.25% compounded

(2) SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

2005 Changes in Plan Provisions

- Effective July 1, 2005, the provisions governing the employer contribution requirements are amended to allow for a phase in of the employer contribution rate to achieve the full annual required contribution rate by July 1, 2008.
- Effective January 1, 2005, the economic assumptions for investment return and wage inflation was changed to 8.50% and 4.50% from 8.75% and 4.00%, respectively.
- The actuarial reduction on optional early retirements increased to 6% from 4% for individuals who, on or after July 1, 2005, become members or rejoin the System after having withdrawn their contribution balances.
- For individuals who, on or after July 1, 2005, become members or rejoin the System after having withdrawn their contribution balances, the ARAA was changed from 3.25% compounded to the lesser of 3.00% or the increase in the Consumer Price Index for urban wage earners and clerical workers for the preceding year compounded. The calculation of the first ARAA, effective in the year immediately following the year of retirement, is calculated in a pro-rated manner based on the number of months retired.

2004 Changes in Plan Provisions

- The Option A benefit is enhanced by adding a death benefit that provides the payment to the designated beneficiary(ies) of the remaining amount of an annuitant's account balance at the time of death, effective December 31, 2004.
- Effective December 31, 2004, joint and survivor annuity "pop-up" options P3 and P2 are added. In the event the joint-survivor annuitant predeceases or divorces from the annuitant, the benefit amount generally will pop up to the Option A amount.
- The reference to the use of female mortality tables in establishing the option factors for the joint and survivor annuity options is deleted from the Plan, effective December 31, 2004.

2003 Changes in Plan Provisions

- As of January 1, 2004, earned service is used both to determine the eligibility for retirement and the amount of the retirement benefit. Prior to this change, active service was used to determine retirement eligibility, and accredited service was used to determine the retirement benefit.
- Effective January 1, 2004, the calculation to determine credit for casual service changed from one based on hours of employment to a calculation based on the compensation of the member. One month of service credit is credited for each month the member's earnings equal or exceed 80 times the hourly federal minimum wage in effect at the time of service.
- Effective January 1, 2004, the cost to purchase non-covered employment increased from 25% to 34% of HAS at the time of the purchase.

2002 Changes in Plan Provisions

- Effective July 1, 2002, any changes in the employer contribution rate become effective on July 1 of the year that is 18 months after the end of the calendar year on which the actuarial valuation is based.

2001 Changes in Plan Provisions

- For retirements on or after January 1, 2001, the Unit Benefit Percentage Factor increased from 2.25% to 2.50% of highest average salary for all years of accredited service.
- Members age 50 with 30 years of active service are eligible for regular retirement beginning with retirements on or after January 1, 2001.
- The actuarial reduction on optional early retirements was reduced to 4% from 5% for retirements on or after January 1, 2001.
- Effective January 1, 2001, the annual basic benefit was increased by a one-time adjustment. The adjustment is equal to $25 for each full year of accredited service at retirement.
- Additional options are available to members who elect deferred retirement and become eligible for benefit payments on or after January 1, 2001. A member can elect either to receive a refund of 200% of accumulated contributions, a money purchase retirement benefit based on 200% of accumulated contributions and the minimum employer-provided benefit, or the existing defined benefit provided in the Plan.
- Beginning January 1, 2001, the ARAA is compounded at 3.25%.
- Beginning January 1, 2001, beneficiaries of members who die while eligible for regular retirements can select either a refund of the members' contributions, applicable retirement benefits under Options B (installment refund annuity) or C (joint-survivorship annuity), or applicable survivor benefits.

2000 Changes in Plan Provisions

- Beginning January 1, 2000, beneficiaries of members who die while eligible for optional early retirements can select either a refund of the members' contributions, applicable retirement benefits under Options B or C, or applicable survivor benefits.
- Effective with retirements on or after January 1, 2000, any individual can be named as a co-annuitant under either Options C or E (half, joint-survivorship annuity).

ADDITIONAL SUPPORTING SCHEDULES

SCHEDULES OF ADMINISTRATIVE EXPENSES

For the Years Ended December 31, 2005 and 2004

	2005	2004
Personnel services		
Salaries	$ 1,764,303	$ 1,634,825
Employee benefits	832,721	992,753
Total personnel services	**2,597,024**	**2,627,578**
Professional services		
Legal fees	74,363	56,712
Actuarial fees	126,800	153,400
Audit fees	45,000	35,000
Consultants and outside services	95,576	117,334
Maintenance agreements	30,066	74,615
Total professional services	**371,805**	**437,061**
Miscellaneous expenses		
Insurance	86,122	104,186
Subscriptions and research materials	7,833	6,358
Investment services	36,000	39,000
Computer system software	855	2,612
Computer supplies	14,755	13,418
Registrations, conferences, and memberships	18,031	19,883
Planning and meeting	3,366	3,592
Travel	24,874	29,466
Office rent	103,972	82,205
Office supplies	9,749	15,545
Postage and printing	81,380	85,568
Equipment repair	490	1,185
Depreciation	71,271	86,186
Other	2,045	14,378
Total miscellaneous expenses	**460,743**	**503,582**
Total administrative expenses	**$ 3,429,572**	**$ 3,568,221**

See accompanying independent auditors' report.

SCHEDULE OF INVESTMENT EXPENSES

For the Year Ended December 31, 2005

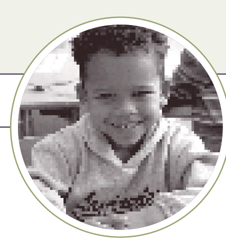
	Share		Fees		
	Transactions	Commissions	Manager	Custodian	Total
Internal fixed	-	$ -	$ -	$ 57,542	$ 57,542
Seneca Capital Management	-	-	321,441	-	321,441
Western Asset Management	-	-	581,629	-	581,629
Fidelity Management Trust	-	-	765,261	-	765,261
Arnhold and S. Bleichroeder	19,566,150	630,790	742,728	-	742,728
The Boston Company	25,191,439	933,835	1,004,861	-	1,004,861
LSV Asset Management	2,051,590	29,016	465,942	-	465,942
TCW Asset Management	1,124,860	50,382	655,670	-	655,670
Constitution Research and Management	7,688,815	178,436	360,020	-	360,020
Cordillera Asset Management	4,779,615	203,281	154,972	-	154,972
William Blair & Company	3,103,843	87,365	109,649	-	109,649
TimesSquare Capital Management	202,900	8,227	54,305	-	54,305
Axiom International	-	-	878,335	-	878,335
Morgan Stanley	-	-	1,869,961	-	1,869,961
Northern Trust Global	-	-	136,498	-	136,498
J.P. Morgan Investment	-	-	798,974	-	798,974
Loan servicing	-	-	255,179	-	255,179
Commission recapture	-	(322,540)	-	-	-
Bank fees	-	-	18,765	-	18,765
Other investment expense	-	-	16,092	-	16,092
	63,709,212	**$ 1,798,792**	**$ 9,190,282**	**$ 57,542**	**$ 9,247,824**

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the Year Ended December 31, 2005

Firm	Fees	Nature of Service
Gabriel, Roeder, Smith & Company	$ 126,800	Actuarial
KPMG LLP	45,000	Audit and benefits
Hewitt Associates	83,600	Investment
Wilshire Associates	36,000	Investment
RiskCap	657	Insurance
University Physicians	8,013	Disability benefits
Munskgard & Associates	12,000	Information systems
Cockrell, Quinn & Creighton	73,494	Legal
Otten, Johnson, Robinson, Neff & Ragonetti PC	16,960	Legal
	$ 402,524	

See accompanying independent auditors' report.



INVESTMENT

INVESTMENT MANAGEMENT

by E. Albert Thomas, CFA

ECONOMIC OVERVIEW

Despite sharply higher energy prices, devastating Gulf Coast hurricanes, and the Federal Reserve steadily raising short-term interest rates throughout the year, the U.S. economy grew moderately, and the global economy grew briskly in 2005. U.S. Gross Domestic Product (GDP) growth for the year is estimated at 3.5%, down from 4.2% in 2004, but still higher than many economists predicted.

Although corporate profitability remained strong in the U.S., 2005 proved to be a period of subdued returns for major domestic financial market indices. The U.S. dollar made a strong comeback in 2005, having its best year in four. It particularly was strong against the euro and yen. Foreign stocks beat U.S. stocks for the third year in a row and attracted large amounts of U.S. investment capital. Their outperformance in 2005 was *in spite of* the actions of the U.S. dollar. Unlike the previous three years when U.S. dollar returns on foreign stocks were helped by the weakening U.S. dollar, the strengthening dollar detracted from U.S. dollar returns. Furthermore, a robust U.S. housing market and rising prices for most major commodities, especially oil, caused many investors to fear that inflation may be rearing its ugly head again. The consumer price index increased 3.4% in 2005. Consequently, assets that are viewed as hedges against rising inflation performed strongly in 2005, including energy stocks, real estate, timber and gold. Gold actually spent some periods trading above $500 per ounce for the first time since 1981.

In a repeat of last year, the U.S. consumer continued to spend in spite of higher gasoline, natural gas, and healthcare prices. Although there were signs toward the end of the year that the consumer may finally be losing some confidence under the burden of higher household debt levels, the overall U.S. business sector looked very healthy in 2005. Quarterly corporate profit reports have outpaced expectations in each of the last eight quarters, and the annualized growth rate in total U.S. corporate profits this decade exceeds even that of the booming latter part of the 1990s.

Interest rates continued to defy prognosticators in 2005. Long-term rates remained very low, despite the Federal Reserve's tightening campaign. Though the Fed raised its short-term interest rate target eight consecutive times in 2005, increasing the fed funds rate by two percentage points from 2.25% to 4.25%, longer-term rates barely nudged. The yield on the 10-year Treasury bond moved up only slightly, from 4.22% at the end of 2004 to 4.39% at the end of 2005. The yield on the long bond (30-year U.S. Treasury bond) actually declined from 4.83% to 4.54%. The yield curve was fairly flat all year and actually inverted for a short period, with short-term rates higher than long-term rates. Historically, this situation has been a good predictor of recessions.

MARKETS AND FUND PERFORMANCE

The value of diversification in investing was demonstrated again in 2005. While domestic stocks and bonds struggled, international stocks and "real" assets (real estate, commodities, etc.) showed strong returns. In an overall lower-return environment, it is important to broadly diversify among varied asset classes, manage portfolios intensely and continually search for new opportunities.

The U.S. stock market had a mediocre year in 2005, and most of the gains came near the end of the year. The Standard & Poor's 500-stock index closed the year at 1,248.29, up approximately 3% from where it started the year, but still 18% short of its March 2000 high. Its 2005 total return, including dividends, was 4.92% The tech heavy NASDAQ Composite Index rose 1.4% in 2005 to 2,205.32, still 56% below its March 2000 high. Its 2005 total return, including dividends, was 2.10%. The Russell 3000 Index, a proxy for the total U.S. stock market, had a total return of 6.14% in 2005. Mid-cap stocks outperformed both large and small-caps by a wide margin. The Russell Midcap Index returned 12.65%, compared to 6.28% for the Russell 1000 Index (large-caps) and 4.55% for the Russell 2000 Index (small-caps). Value stocks continued to outperform growth stocks across all cap ranges. The 2005 return for the DPSRS domestic equity portfolio was 7.63%.

Non-U.S. stocks performed extremely well in 2005, beating their U.S. counterparts for the third year in a row. The Morgan Stanley Capital International Europe, Australasia, Far East Index (EAFE) returned 13.54% in 2005 in U.S. dollar terms. In local currencies, the index returned approximately 29%. The ability of the developed markets, represented by EAFE, to overcome the strengthening U.S. dollar surprised many observers. The U.S. dollar appreciated 14% against the EAFE currency weightings. The System's international stock portfolio returned 15.34% in 2005.

The U.S. bond market surprised many investors in 2005, as it did in 2004. Bonds seemed to defy gravity as the Federal Reserve raised short-term interest rates by 2.00%, and two well known U.S. auto makers, General Motors and Ford, had their credit ratings downgraded from investment grade to non-investment grade or "junk" status. Yet, bond prices stayed high and yields low. As mentioned previously, the yield on the 10-year Treasury note, the base for most long-term interest rates, started 2005 at 4.22% and ended at 4.39%. The Lehman Brothers Aggregate Bond Index, an index of investment grade U.S. bonds and the benchmark used by DPSRS for its bond portfolio, returned 2.43% in 2005. The System's fixed income portfolio returned 3.33% in 2005.

The overall return for the System's total portfolio in 2005 was 10.64%. This exceeded the benchmark custom index, which returned 7.80% and placed DPSRS in the top 4% of a universe of retirement systems monitored by Hewitt Investment Group, the System's investment consultant. The System's total return also was enhanced by the strong returns of the DPSRS real estate, mortgage and alternative assets portfolios.

GOAL

The *Statement of Investment Objectives and Policies* is designed to enable the investment program of the retirement system to be a major contributor to the long-term accomplishment of the System's mission to provide career employees and their families with a primary source of lifetime income relative to service at retirement, disability or death. Summarized below are some of the major features of the *Statement of Investment Objectives and Policies* as well as recent investment results.

INVESTMENT RESPONSIBILITIES

Colorado State Statutes designate the Board of Trustees as the ultimate fiduciary of the assets of the System. The Board must approve all decisions relating to the *Statement of Investment Objectives and Policies*. The Board has delegated the implementation of the Statement to the Investment Committee. Responsibilities of the Investment Committee include, but are not limited to, recommending investment policy changes to the Board and appointing, monitoring and terminating investment managers.

The Chief Investment Officer supervises and reviews activities and performance of investment managers, recommends changes in the investment program, and monitors the day-to-day investment activities. The investment managers manage the assets and exercise complete investment discretion in accordance with policy statements and guidelines and specific restrictions stated in their Investment Management Agreements. The managers are responsible for communicating with the Chief Investment Officer regarding all significant matters pertaining to investments of the fund assets.

ASSET ALLOCATION

The System's asset allocation is approved by the Board of Trustees as part of the *Statement of Investment Objectives and Policies*. Although the Statement was revised December 6, 2004, the target asset allocations and related ranges have not been revised since September 9, 2002.

The overall target asset allocation can be divided into 64% equity-type investments (domestic, international, real estate equity, and alternative assets) and 36% fixed income-type investments (fixed income and mortgages). The target allocation ranges for specific asset classes are noted below; however, within the equity-type investment category, there are further constraints so that the total of the equity-type investments does not fall outside of the range of 56% to 72% of total investments.

TABLE ONE

ASSET ALLOCATION

Asset Class	Low	Target	High
Total Domestic Equities	27%	32%	37%
Large Capitalization Equities	11	16	21
Small/Mid Capitalization Equities	11	16	21
International Equities	12	17	22
Alternative Assets	2	5	10
Equity Real Estate	7	10	13
Fixed Income	28	36	44
Fixed Income Securities	20	23	26
Real Estate Mortgages	8	13	18

INVESTMENT GUIDELINES

EQUITY INVESTMENTS

The portion of assets invested in publicly traded equity securities is diversified between domestic and international, by company capitalization, and by manager style. A portion of the domestic equity portfolio is managed passively (indexed), and a portion is actively managed.

The asset allocation provides for approximately 16% in large capitalization domestic issues, 16% in small/mid capitalization domestic issues, and 17% in international issues. As a general practice, equity holdings in a single company should not exceed 5% of a manager's portfolio at cost or 8% at market value. Also, as a general practice, holdings in any single industry sector should not exceed 40% of the total related portfolio, i.e., large capitalization domestic, small/mid capitalization domestic, and international portfolio. In certain instances, these guidelines can be altered depending on a particular manager's style and expertise, if stated in the Investment Management Agreement.

FIXED INCOME INVESTMENTS

The fixed income asset class includes a broad array of debt securities, including U.S. Government and agency securities, corporate notes and bonds, short-term money market securities, such as certificates of deposit and commercial paper, mortgage and other asset-backed securities and securities issued by non-U.S. governments and corporations. The Board of Trustees recognized that there are periods during economic and capital market cycles where utilization of debt securities and derivative securities of various sectors, currencies, and structures is appropriate in a well-diversified portfolio in order to manage risk and to provide the potential for above average long-term investment returns.

Except for U.S. Government and agency guaranteed securities, concentrations in the securities of a single entity are limited to not more than 5% of the fixed income securities at market value. Concentrations in the corporate securities of a single industry are limited to not more than 25% of fixed income securities at market value.

Deviations from the standard guidelines must be stated and approved in the Investment Management Agreement.

MORTGAGE INVESTMENTS

This asset class can include all mortgage investments (except residential mortgage-backed securities) such as mortgages on income-producing properties, mortgage pools, interests in commingled funds or co-investment vehicles which invest in mortgages, investment management separate accounts, Commercial Mortgage-Backed Securities, and interest in participating and convertible mortgages where it is intended to be primarily a debt rather than an equity investment.

In order to protect the overall performance and preservation of fund assets, mortgages that are secured by a single property are limited in size to not more than 5% of the total mortgage portfolio. Due to the broad diversification characteristics represented by mortgage pools and commingled mortgage funds, the 5% limitation does not apply to the System's participation in such investment vehicles.

EQUITY REAL ESTATE INVESTMENTS

Investments in this asset class can include any of the following: direct ownership of real estate properties, ownership in commingled funds that invest primarily in equity real estate, interests in hybrid debt instruments where the investment is deemed to be more of an equity rather than a fixed income investment, investment management separate account, investments in real estate joint ventures, partnerships or similar vehicles or investments in Real Estate Investment Trusts.

Real estate assets are diversified geographically by property type and by property size. The System will, as a general practice, not own more than a 20% interest in any one commingled fund, nor will an initial investment in any one individual property be more than 10% of the total equity real estate portfolio.

ALTERNATIVE ASSETS

Alternative Assets is considered a distinct asset class in the DPSRS *Statement of Investment Objectives and Policies* and generally is defined as assets that are not publicly traded, lack liquidity, and are not subject to financial market regulations, with the exception of cash, equity real estate and mortgages. Allocations to alternative assets typically serve one of two purposes: help enhance portfolio returns through higher-risk investment strategies or help diversify portfolios through investments that generate returns with very low correlation to traditional asset classes. For the purposes of DPSRS investment policy, the alternative assets asset class is divided into two separate categories: private equity and other alternative investments. Currently, all DPSRS

investments in this asset class are in the private equity category. The investment activities of private equity firms encompass every aspect of the lifecycle of a business enterprise, ranging from start-ups to mature companies. The two largest sub-segments within private equity are venture capital and buyouts, which are distinguished from each other primarily by the size of the investment, risk associated with the company's cash flows, and the role of debt in the transaction.

Unlike traditional asset classes, the difference between top and bottom quartile performance in many alternative investments is vast. Hence, a premium is placed on manager selection and diversification. Emphasis is placed on broad exposure to various economic sectors, geographical locations, development stages, transaction types, and managers. The System, as a general practice, will not own more than a 10% interest in any single alternative asset investment.

INVESTMENT MANAGEMENT OBJECTIVES

The *Statement of Investment Objectives and Policies* provides for performance objectives for the total fund as well as for individual managers. As presented in the table below, the performance of the total fund is evaluated relative to inflation, an appropriate universe of other pension funds, and a Custom Index. Individual external investment managers are evaluated relative to an appropriate universe and a relevant index. The Investment Committee meets quarterly to review the actual performance of the total fund, each asset class, and each investment manager. Performance evaluations are performed quarterly by Hewitt Investment Group, the System's investment consulting firm, and are distributed to the Board of Trustees.

	Total Fund	Equity Specialist Managers	Fixed Income Specialist Managers
Relative to inflation	CPI + 5% annually	N/A	N/A
Relative to an institutional universe	Top 60%	Top 40%	Top 40%
Relative to an index	Exceed a Custom Index weighted as follows: Russell 1000 -- 16% Russell 2500 -- 21% [1] Lehman Aggregate -- 23% Lehman A Intermediate Credit -- 13% NCREIF Property -- 10% MSCI EAFE -- 17%	Large Cap: Exceed appropriate Russell 1000 Index Small/Mid Cap: Exceed appropriate Russell 2500 Index International: Exceed EAFE Index Real Estate Equity: Match NCREIF Property Index	Exceed Lehman Aggregate Index

[1] *Includes 5% allocation to Alternative Assets*

The objective of investment in mortgages is to maintain a portfolio of high quality mortgage investments that provide an alternative to other fixed income investments. With the mix of mortgage investments being so varied, there is no nationally recognized published index that would approximate the mix of investments in the mortgage portfolio. However, it is expected that the mortgage investment portfolio should produce returns that exceed the CPI by at least 4% annually over a three-to-five-year period.

Investments in equity real estate are structured to create a diversified real estate portfolio of high quality property assets to provide a hedge against inflation, diversify the fund's asset base and stabilize overall fund investment performance. Total return shall include income as well as appreciation or depreciation. It also is expected that the total return of the total equity real estate portfolio will at least match the total return of the NCREIF Property Index over a seven-to-ten-year time horizon.

Currently, all investments in the alternative assets asset class consist of private equity investments. The goal of private equity investing is to generate substantially greater returns than the long-term returns from the public equity markets, thereby enhancing overall portfolio returns. However, achieving such performance comes at a price: greater levels of risk and very little liquidity. Moreover, measuring and evaluating the performance of private equity investments is more complicated than for traditional asset classes for a variety of reasons. First, the illiquid nature of private equity investments makes it difficult to ascertain value on an ongoing basis. Not until all of a partnership's assets are liquidated at termination can the real return be calculated. Second, there is a wide variety of styles and strategies utilized by private equity managers, which makes it difficult to construct a reasonable benchmark. Third, private equity deals require a long holding period from investment through liquidation.

SAFEGUARDING OF ASSETS

Marketable securities owned by the System are held under a custodial arrangement with The Northern Trust Company in Chicago, Illinois. In addition to safekeeping the assets, the custodian also is responsible for the timely and accurate settlement of securities transactions as well as the collection and accounting for all income receivable from the investments. Investments that are managed by outside managers using a commingled vehicle are held under similar custodial arrangements. The Northern Trust Company's securities lending operations generated additional income of approximately $446,000 for the System during 2005.

The System's own internal accounting department verifies and reconciles the activity of the custodian and the investment managers while maintaining financial records according to governmental accounting standards. Annual audit and actuarial examinations also are performed by independent professional firms to provide assurance of the integrity of the System's financial statements and long-term actuarial funding.

HISTORICAL PERFORMANCE

Presented below are the annual total returns from each asset class for the 2001-2005 period as well as the compounded three-year and five-year total returns. These results have been prepared by the System's outside investment performance consultant, Hewitt Investment Group, and are time-weighted returns computed in conformance with the CFA Institute's Global Investment Performance Standards (GIPS). Comparable indexes also are presented below each asset class.

TOTAL RETURNS

	2001	2002	2003	2004	2005	3-Year	5-Year
Total DPSRS Fund*	**0.17%**	**- 5.15%**	**23.08%**	**12.71%**	**10.64%**	**15.35%**	**7.84%**
DPSRS Domestic Stock	**- 5.86**	**-24.56**	**44.01**	**14.80**	**7.63**	**21.14**	**4.77**
Standard & Poor's 500	-11.88	-22.10	28.69	10.88	4.92	14.40	0.55
DPSRS International Stock	**-17.29**	**- 9.50**	**40.48**	**19.96**	**15.34**	**24.80**	**7.79**
MSCI EAFE Index	-21.45	-15.94	38.59	20.24	13.54	23.68	4.55
DPSRS Fixed Income	**10.45**	**9.61**	**8.05**	**6.16**	**3.33**	**5.83**	**7.49**
Lehman Brothers Aggregate Index	8.43	10.27	4.11	4.34	2.43	3.62	5.88
DPSRS Mortgages	**8.45**	**9.15**	**7.96**	**8.09**	**8.08**	**8.04**	**8.34**
Lehman A Intermediate Credit Index	10.06	10.58	7.14	4.01	1.88	4.32	6.68
DPSRS Real Estate	**7.56**	**7.15**	**7.76**	**11.92**	**26.98**	**15.26**	**12.03**
NCREIF Property Index	7.35	6.76	8.99	14.52	20.06	14.42	11.42
DPSRS Short-Term Investments	**4.50**	**2.07**	**1.27**	**1.43**	**3.29**	**1.99**	**2.50**
3-Month Treasury Bills	4.42	1.80	1.15	1.33	3.07	1.84	2.35

** The 2003 through 2005 Total DPSRS Fund returns include the Alternative Asset Investments asset class (referred to as Private Equity prior to 2004). Prior years' returns do not include this asset class. 3-year and 5-year Total DPSRS Fund returns include Alternative Assets for 2003 through 2005 only.*

LIST OF LARGEST ASSETS HELD

December 31, 2005

LARGEST STOCK HOLDINGS

	Shares	Stock	Fair Value
1	130,720	The Progressive Corporation	$ 15,265,482
2	733,065	Nalco Holding	12,982,581
3	272,464	Amphenol	12,059,257
4	164,700	AIG	11,237,481
5	224,900	Amazon.com	10,604,035
6	91,500	General Dynamics	10,435,575
7	233,900	eBay	10,116,175
8	256,400	Yahoo!	10,045,752
9	171,561	Exelon	9,116,752
10	92,880	Genentech	8,591,400

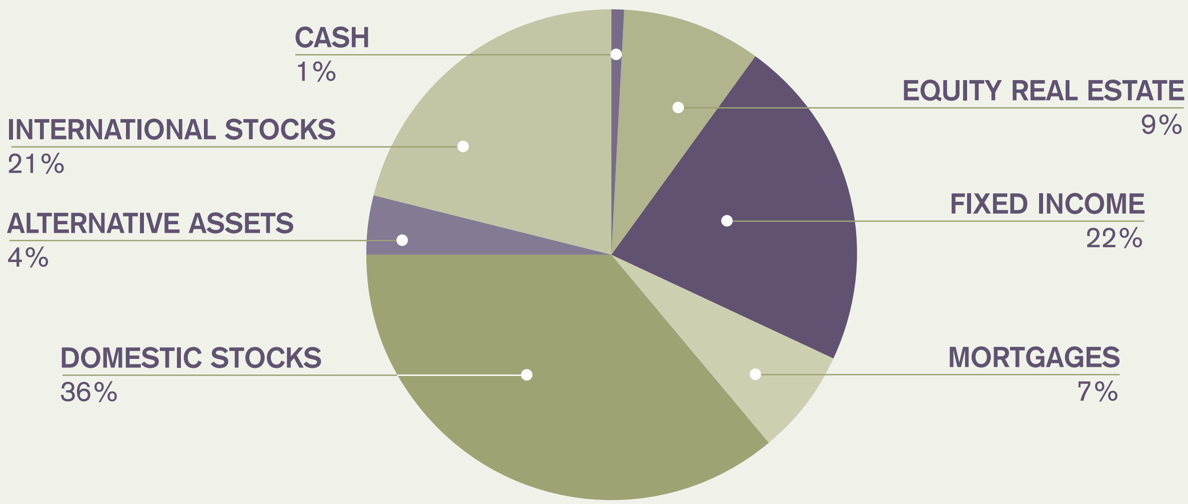
LARGEST BOND HOLDINGS

	Par	Description	Coupon	Maturity	Rating	Fair Value
1	$ 44,100,000	FNMA Single Family Mortgage	5.000%	01/01/2036	AAA	$ 42,721,875
2	26,900,000	FNMA 30 Year Pass-Through	5.500	01/01/2036	AAA	26,631,000
3	20,140,000	GNMA 30 Year Pass-Through	6.000	01/01/2036	AAA	20,605,737
4	6,170,000	GNMA I 30 Year	5.000	01/01/2036	AAA	6,087,088
5	6,000,000	FNMA 15 Year Pass-Through	5.500	01/01/2021	AAA	6,035,628
6	5,950,000	U.S. Treasury Bond	3.000	12/31/2006	AAA	5,866,093
7	5,870,000	CitiGroup Mortgage Loan Trust	4.829	07/25/2044	AAA	5,631,584
8	3,440,000	U.S. Treasury Inflation Indexed	3.625	04/15/2028	AAA	5,464,682
9	4,638,508	FHLMC Pool #1G-0578	4.590	09/01/2035	AAA	4,603,946
10	3,595,000	FNMA 30 Year Pass-Through	6.000	01/01/2036	AAA	3,627,578

A complete list of portfolio holdings is available upon request.

INVESTMENT SUMMARY

DIVERSIFICATION OF ASSETS AT DECEMBER 31, 2005

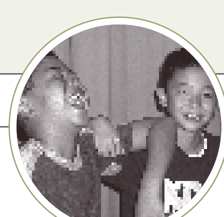


	December 31, 2005			% Total	
Type of investment	Financial Assets	Adjustment	Allocation Assets	Actual	Target
Cash	$ 127,194,472	$ (89,133,924)	$ 38,060,548	1%	0%
Fixed income:					
Corporate securities	407,676,779	(43,333,874)	364,342,905		
Government securities	228,466,960		228,466,960		
Total fixed income	636,143,739	(43,333,874)	592,809,865	22	23
Mortgage investments	180,429,645		180,429,645	7	13
Domestic stocks	933,902,765	22,267,256	956,170,021	36	32
International stocks	552,364,706		552,364,706	21	17
Equity real estate	261,672,907	(14,168,773)	247,504,134	9	10
Alternative assets	101,999,795		101,999,795	4	5
Investments and cash	**2,793,708,029**	**$ (124,369,315)**	**2,669,338,714**	**100%**	**100%**
Net unsettled trades			110,200,542		
Notes payable			14,168,773		
Total investments and cash	**$ 2,793,708,029**		**$ 2,793,708,029**		

In measuring the progress in reaching target asset allocation goals, investment assets are classified differently from the classification for financial reporting purposes. Investment manager performance is measured on the total account value, including cash retained by the manager and excluding debt placed on investment assets. In addition, the cash due or payable on unsettled transactions is reflected as an asset or liability for financial reporting purposes, but it is considered settled in determining the value of the managed account.

SCHEDULE OF FEES AND COMMISSIONS

	Assets Under Management	Fees	Commissions		
			Shares	Amount	Per Share
Investment manager fees					
Fixed income managers	$ 763,338,211	$ 1,133,766	-	$ -	$ -
Equity managers	1,486,267,471	6,967,506	63,709,212	2,121,332	0.03
Other investments	544,102,347	1,089,010	-	-	-
Total investment manager fees	**$ 2,793,708,029**	**9,190,282**	**63,709,212**	**2,121,332**	**0.03**
Other investment service fees					
Custodian fees		57,542	-	-	-
Securities lending fees		6,940,019	-	-	-
Commission recapture income		-	-	(322,540)	-
Total investment service fees		**$ 16,187,843**	**63,709,212**	**$ 1,798,792**	**$ 0.03**



ACTUARIAL

ACTUARIAL CERTIFICATION LETTER

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
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www.gabrielroeder.com

May 1, 2006

Board of Trustees
Denver Public Schools Retirement System
1301 Pennsylvania Street, Suite 700
Denver, CO 80203-5014

Dear Board Members:

The basic funding objective of the Denver Public Schools Retirement System (DPSRS) is to establish and receive contributions which, when expressed in terms of a percentage of active member payroll, will remain approximately level from generation to generation, and when combined with present assets and future investment return will be sufficient to meet the financial obligations of DPSRS to present and future retirees and beneficiaries.

The annual actuarial valuation process develops contribution rates that are sufficient to fund the current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll. The most recent annual valuation was completed based upon census data, asset data, and plan provisions as of December 31, 2005. The valuation is performed in accordance with standards of practice prescribed by the Actuarial Standards Board. Each of the actuaries involved is a member of the American Academy of Actuaries and works exclusively in the public sector arena.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census data after reviewing it for internal and year-to-year consistency. Asset information was accepted without further audit. Assets are valued on a market-related basis that recognizes the difference between actual and assumed investment return over an open five-year period.

Schedules in the Financial Section prepared by the actuary were:

- Schedule of funding progress
- Schedule of employer contributions

Schedules in the Actuarial Section prepared by the actuary were:

- Percent of members separating before retirement
- Percent of eligible members retiring next year
- Individual pay increase assumptions
- Schedule of contributing, affiliate and deferred member valuation data
- Schedule of retirees and beneficiaries added to and removed from benefit payroll
- Solvency test
- Analysis of financial experience

Schedules in the Statistical Section prepared by the actuary were:

- Schedule of average benefit payments
- Schedule of retired members and beneficiaries of option

The assumptions and methods used are internally consistent and comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board (GASB). The valuation assumptions were based on a study of DPSRS experience covering the 2001-2003 period.

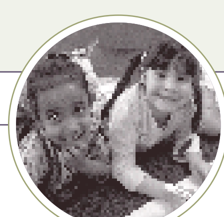
Effective July 1, 2005, the funding policy consists of a 4-year phase-in of the employer contribution rate to the level recommended by the actuary. For the 2007-2008 fiscal year, this results in a funding policy contribution rate of 12.83% of compensation. The annual required contribution (ARC) under GASB 25 is equal to 14.51% of compensation. The DPSRS was 87.9% funded as of December 31, 2005 based on the DPSRS market related value of assets.

Based upon the results of the December 31, 2005 valuations, the Denver Public Schools Retirement System is in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

Judith A. Kermans, E.A., M.A.A.A.

Norman L. Jones, F.S.A., M.A.A.A.



SUMMARY OF PRINCIPAL PLAN PROVISIONS AND ORGANIZATION

BACKGROUND

The System was established by the Board of Education of School District No. 1 on December 1, 1945, to provide defined retirement, death and disability benefits to participating employees. The organization and amendments of the Plan have been carried out in accordance with the provisions of Colorado law. The System Retirement Trust Fund is designated as a trust fund established to accomplish the objectives set forth in the Plan.

The responsibility for the general administration, investment of assets, and proper operation of the System is vested in an 11-member board of managers known as the Board of Trustees.

The daily administration of the retirement plan is the responsibility of the Executive Director of the System who is appointed by the Board of Trustees. The retirement organization consists of four major divisions. The Retirement Administration Office has the responsibility for administrative operations, including contribution, service and salary maintenance, retirement estimate preparation and finalization, and administration of the retirement payroll. The Accounting Office generally is responsible for the processing of the retirement payroll and all financial accounting and reporting for the retirement plan. The Chief Investment Officer is the custodian of the funds held on behalf of the System and directs the activities of the third division, the Investment Office. All of the offices are provided with data processing support by the Information Systems Department.

CONTRIBUTIONS AND MEMBERSHIP

Contributing members receive benefits based upon years of earned service and their highest average salaries. Prior to retirement, members are required to contribute 8% of regular compensation. Contributions currently accumulate interest monthly at the effective annual rate of 5%. Interest crediting will continue at 5% in future years unless changed by action of the Board of Education. The contributions and the interest are returned to the member's beneficiary or to the member upon his or her death or termination of employment prior to retirement, respectively. In the event of the member's death prior to retirement, his or her beneficiary may elect to have survivor benefits paid to the eligible survivors in lieu of the return of the member's contributions with interest.

Affiliate members are part-time or temporary employees of the District who have applied and been accepted for affiliate membership. Generally, continuously-employed employees contribute 6% of compensation paid prior to July 1, 1998, and 8% of compensation paid on or after July 1, 1998. Affiliate members receive a benefit determined in the same manner as provided for contributing members, except that career average salary is substituted for highest average salary in computing such benefit. Upon termination of affiliate membership or death prior to retirement, all of the member's contributions, together with interest, are returned to the member or in the event of the member's death, to his or her beneficiary.

Disability retirement may be granted to either classification of membership in case of disability prior to eligibility for normal retirement. The amount of such benefits depends upon the type of membership and earned service.

Optional forms of retirement allowance, which provide a continuance or a lump-sum death benefit to a member's beneficiary, are available to all members upon retirement.

SERVICE RETIREMENT BENEFITS

I. ELIGIBILITY

A. Regular Retirement

1. Attained age 55 with 25 or more years of earned and outside service of which 10 may be outside service

2. Attained age 65 with 5 or more years of earned service

3. Attained age 50 with 30 or more years of earned service

B. Optional Early Retirement

1. Attained age 55 with 15 or more years of earned service

2. Attained age younger than 55 with 25 or more years of earned service

II. BENEFITS
(Pension and Annuity)

A. Regular Retirement Single Life Annuity

2.5% of Highest Average Salary is given for every year of earned service. Highest Average Salary is the average monthly compensation of the 36 months of earned service having the highest rates multiplied by twelve.

B. Optional Early Retirement Single Life Annuity

Generally, the same provisions exist as for regular retirement with a 4% reduction in allowance applied for each year a member lacks eligibility for regular retirement if such person became a contributing or affiliate member prior to July 1, 2005, and his or her contribution balance remains with the retirement system until retirement. Proration on a monthly basis is applied for partial years. A 6% reduction is applied for a person who, on or after July 1, 2005, becomes a member or rejoins the retirement system after having withdrawn his or her contribution balance.

C. Minimum Benefits

A minimum pension portion of the benefit equal to $15 per year for each of the first 10 years of earned service and $20 per year thereafter is guaranteed by the provisions of the Plan.

DEFERRED RETIREMENT BENEFITS

I. **ELIGIBILITY**–Five or more years of earned service

II. **BENEFITS** (Pension and Annuity)

Determination of benefits is the same as for regular retirement. Benefits are payable at attained age 55 with 25 years of earned and outside service, at age 65 with fewer than 25 years of service, and for members who terminate on or after January 1, 2001, at attained age 50 with 30 years of earned service. Also available at the time a member who resigns on or after January 1, 2001, becomes eligible to draw a deferred benefit is a choice of a refund of 200% of accumulated contributions, a money purchase retirement benefit based on 200% of accumulated contributions plus the minimum employer-provided benefit, or the existing defined benefit provided by the Plan.

"AUTOMATIC" RETIREMENT BENEFITS

In case of the death of any affiliate or contributing member who was eligible for retirement, the Retirement Plan provides for an automatic retirement as of the day after the date of death.

DISABILITY RETIREMENT BENEFITS

I. **ELIGIBILITY**–Five or more years of earned service with the District

II. **BENEFITS** (Pension and Annuity)

Determination of benefits is the same as for regular retirees who retire under the provisions of a "Single Life Annuity." Recalculation occurs at age 55 if earned and outside service at the time of disability is 25 years or more or at age 50 if earned service at the time of disability is 30 years or more. Otherwise, recalculation occurs at age 65.

RETIREMENT OPTIONS AS OF DECEMBER 31, 2005

OPTION A

Option A is a single life annuity, which is defined as a specified sum of money payable monthly to an annuitant from the time of his or her retirement until death. At the annuitant's death, if he or she has not received in retirement benefits the total amount of accumulated contributions at the time of retirement, the balance is paid to the designated beneficiary(ies) in one lump sum.

OPTION B

Option B is an installment refund annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of his or her retirement until his or her death. Additionally, if the annuitant dies before receiving an amount equal to the total of his or her reserve, the payments continue to his or her designated beneficiaries or estate until the total amount of the payments made to the annuitant and to the beneficiaries or estate is equal to the total amount of reserve allocated to the payment of said annuitant's retirement allowance.

OPTION C

Option C is a joint-survivorship annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of retirement so long as he or she lives and thereafter to his or her designated co-annuitant, so long as the designated co-annuitant lives. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. For all retirements effective on or after January 1, 1998, in addition to designating a co-annuitant, the member designates a contingent beneficiary(ies) and has the exclusive right to change such designation of contingent beneficiary(ies) at any time prior to the member's death. If, at the date of death of the annuitant and the designated co-annuitant, whichever is the later, the total number of monthly payments made does not equal at least 120 full months, the remainder necessary to equal 120 full monthly payments is paid in equal shares monthly to the member's contingent beneficiary(ies).

In the event of the deaths of all contingent beneficiaries, prior to the deaths of the annuitant and the co-annuitant, the remaining amount due, at the death of the annuitant or co-annuitant, whichever is the later, is commuted and paid in one lump sum to the estate of the annuitant or the co-annuitant, whoever dies later. In the event any contingent beneficiary survives such later death and thereafter dies, the remainder of payments due that beneficiary is commuted and paid to his or her estate.

In case of the death of the designated co-annuitant under Option C after the date of application for retirement and before the effective date of retirement, the member may make a change of option or designate a new co-annuitant within 30 days after the death of the previously designated co-annuitant and subject to the appropriate recalculation of the retirement allowance.

OPTION P3

Option P3 is a joint-survivorship option, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of retirement so long as he or she lives and thereafter to his or her designated co-annuitant, so long as the designated co-annuitant lives. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. If the annuitant and co-annuitant should die prior to having received in retirement benefits the total amount of accumulated contributions at the time of retirement, the balance is paid to the designated beneficiaries in one lump sum. If the co-annuitant should pre-decease the annuitant, the benefit will recalculate to an Option A benefit amount. If the annuitant should divorce from the co-annuitant, the district courts have jurisdiction to allow the annuitant to remove his or her spouse as the named co-annuitant at which point the benefit will recalculate to an Option A benefit amount.

OPTION D

Option D is a reduced single life annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A, the portion thereof attributable to the pension share of retirement allowance being the same as under Option A and the annuity share of the retirement allowance being the actuarial equivalent of such share under Option A. The benefit is payable monthly to an annuitant from the time of retirement so long as he or she lives, with a cash refund on his or her death to the designated beneficiary(ies) or to his or her estate, of any excess of the accumulated contributions of the member at the time of the effective date of retirement over the total amount of the annuity share of the retirement allowance paid or payable to the annuitant to and including the date of death.

OPTION E

Option E is a joint-survivorship annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of retirement so long as he or she lives. Upon the death of the annuitant, an amount equal to one-half of the monthly amount paid to the annuitant is payable monthly to his or her designated co-annuitant so long as he or she lives. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. For all retirements effective on or after January 1, 1998, in addition to designating a co-annuitant, the member designates a contingent beneficiary(ies) and has the exclusive right to change such designation of contingent beneficiary(ies) at any time prior to the member's death. If, at the date of death of the annuitant and the designated co-annuitant, whichever is the later, the total number of monthly payments made does not equal at least 120 months, the remainder necessary to equal 120 monthly payments is paid in equal shares monthly to the member's contingent beneficiary(ies), using the same amount payable to the designated co-annuitant.

In the event of the deaths of all contingent beneficiaries, prior to the deaths of the annuitant or the co-annuitant, the remaining amount due, at the death of the annuitant or co-annuitant, whichever is the later, is commuted and paid in one lump sum to the estate of the annuitant or the co-annuitant, whoever dies later. In the event any contingent beneficiary survives such later death and thereafter dies, the remainder of payments due that beneficiary is commuted and paid to his or her estate.

In case of the death of the designated co-annuitant under Option E after the date of application for retirement and before the effective date of retirement, the member may make a change of option or designate a new co-annuitant within 30 days after the death of the previously designated co-annuitant and subject to the appropriate recalculation of the retirement allowance.

OPTION P2

Option P2 is a joint-survivorship option, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of retirement so long as he or she lives and thereafter to his or her designated co-annuitant, so long as the designated co-annuitant lives, in a monthly amount equal to one-half of what the annuitant was receiving. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. If the annuitant and co-annuitant should die prior to having received in retirement benefits the total amount of accumulated contributions at the time of retirement, the balance is paid to the designated beneficiaries in one lump sum. If the co-annuitant should pre-decease the annuitant, the benefit will recalculate to an Option A benefit amount. If the annuitant should divorce from the co-annuitant, the district courts have jurisdiction to allow the annuitant to remove his or her spouse as the named co-annuitant at which point the benefit will recalculate to an Option A benefit amount.

- Retirement benefits are subject to the limits set forth in the United States Internal Revenue Code.
- This summary generally describes the basic benefits available under the Plan as it existed December 31, 2005, and shall in no way be taken as the basis of, or creating, any contractual rights between the District or the System and any person or employee.

SURVIVOR BENEFITS

(The deceased member was an active, contributing member or a contributing member retired for disability who died prior to eligibility for benefit recalculation.)

I. ELIGIBILITY–Five or more years of continuous earned service with the District

II. BENEFITS

SURVIVOR	MONTHLY BENEFIT
1. Child/Children	10% of Highest Average Salary for each child up to a limit of 30% or $160 for each child up to a limit of $480, whichever is greater
2. Spouse with eligible child/children (fewer than 15 years of member earned service)	The difference between (1) above and 30% of Highest Average Salary or $480, whichever is greater
3. Spouse with eligible child/children (at least 15 years of member earned service but fewer than 25 years of service)	The difference between (1) above and 30% of Highest Average Salary plus an additional 1% for each year of service beyond 15 years, or $480, whichever is greater
4. Spouse with eligible child/children (25 years of member earned service or more)	The difference between (1) above and 40% of Highest Average Salary plus an additional 2% for each year of service beyond 25 years, or $480, whichever is greater
5. Dependent Parent	10% of Highest Average Salary for each parent or $240 for each parent, whichever is greater
6. Spouse (fewer than 15 years of member earned service, payable at age 60)	30% of Highest Average Salary or $480, whichever is less
7. Spouse (at least 15 years, but fewer than 25 years of member earned service, payable at age 50)	30% of Highest Average Salary plus an additional 1% for each year of service beyond 15 years, or $480, whichever is greater
8. Spouse (at least 25 years of member earned service, payable at age 50)	40% of Highest Average Salary plus an additional 1% for each year of service beyond 25 years, or $480, whichever is greater

Unmarried children are eligible for survivor benefits to age 18. Unmarried children enrolled in an accredited school full time are eligible until age 23. Disabled children of any age who are unmarried and were financially dependent upon the member are eligible. Spouse/children's benefits are payable as long as there is an eligible child.

ANNUAL RETIREMENT ALLOWANCE ADJUSTMENT (ARAA)

Effective on January 1 of each year, for persons who became contributing or affiliate members prior to July 1, 2005, and whose contribution balances remain with the retirement system until retirement, an increase in retirement or survivor benefits becomes payable based on 3.25% of the previous year's retirement or survivor benefit.

For persons who, on or after July 1, 2005, become contributing or affiliate members or rejoin the retirement system after having withdrawn their contribution balances, the increase in retirement or survivor benefits is equal to the lesser of 3.00% or the increase in the Consumer Price Index for urban wage earners and clerical workers for the preceding year, compounded. The effective date for the ARAA is March 1 of each year following the year of retirement. The first ARAA effective in the year immediately following the year of retirement is calculated in a pro-rated manner based on the number of months retired.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ASSUMPTIONS AS OF JANUARY 1, 2006

a. The investment return used in the valuation is 8.50% per annum, compounded annually (net after expenses), and was adopted in 2004.

b. The post-retirement mortality tables used in evaluating the liabilities of service retirement and disability benefits to be paid under the Plan are based on the 2001-2003 DPSRS Experience Study. These assumptions were adopted in 2004.

c. The probabilities of pre-retirement death, disability, superannuation, and nonvested withdrawal are based on the plan's experience. Probabilities for sample ages are shown below and were adopted in 2004.

d. Individual salaries are assumed to increase by merit and longevity plus 4.50% for inflation per year. These increases are shown for sample ages below. Active membership is assumed to remain constant. These assumptions were adopted in 2004.

e. The actuarial value of assets is the expected value of assets plus 20% of the difference between the expected and the adjusted market value of assets as of the valuation date.

f. The retirement plan's liabilities are funded on the Entry Age Normal Actuarial Cost method. Beginning July 17, 1997, the employer contribution rate was decreased to 4.26% from 15.75% as a result of the issuance of Pension Certificates of Participation and full funding of the unfunded actuarial accrued liability. Actuarial liabilities or surpluses are amortized over 30 years as a level percentage of increasing payroll subsequent to each annual valuation.

g. Annual benefit increases are equal to 3.25% of the previous year's retirement benefit, 3.00% if the individual became a member on or after July 1, 2005.

h. The assumptions and methods are specified by the System upon recommendation of the actuary, a qualified member of the American Academy of Actuaries. The information for the schedules in this section is provided by the actuary.

i. Assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

j. The last study of the plan's experience took place in 2004. Assumption changes generally are effective in the year subsequent to adoption.

PERCENT OF MEMBERS SEPARATING BEFORE RETIREMENT

For Reasons Other Than Death or Disability

Sample Ages	Years of Service	% of Active Members Separating Within Next Year: Male	Female
All	0	20.00%	20.00%
	1	18.00	16.00
	2	15.00	14.00
	3	12.00	12.00
	4	10.00	10.00
25	5 & over	6.40	8.60
30		5.30	7.70
35		4.45	6.40
40		3.85	5.06
45		3.40	3.42
50		2.95	2.40
55		2.70	2.20
60		2.50	2.20
65		2.00	2.20

Due to Death or Disability

Sample Ages	Death: Male	Death: Female	Disability: Male	Disability: Female
20	0.01%	0.01%	0.00%	0.00%
25	0.02	0.01	0.06	0.06
30	0.02	0.01	0.06	0.06
35	0.03	0.02	0.07	0.07
40	0.05	0.03	0.10	0.10
45	0.10	0.05	0.17	0.17
50	0.21	0.09	0.31	0.31
55	0.30	0.13	0.56	0.56
60	0.38	0.19	1.19	1.19
65	0.59	0.34	0.00	0.00

PERCENT OF ELIGIBLE MEMBERS RETIRING NEXT YEAR

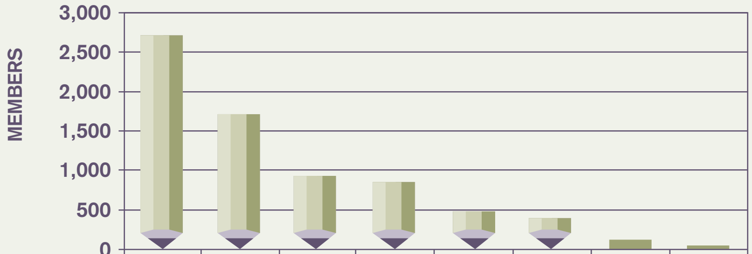
Retirement Age	Eligible for Reduced Benefits Male	Eligible for Reduced Benefits Female	Eligible for Unreduced Benefits Male	Eligible for Unreduced Benefits Female
50	10.00%	5.00%	25.00%	25.00%
51	10.00	5.00	25.00	25.00
52	10.00	6.00	25.00	25.00
53	10.00	7.00	30.00	25.00
54	10.00	8.00	30.00	30.00
55	10.00	9.00	35.00	35.00
56	10.00	10.00	30.00	15.00
57	10.00	12.00	30.00	20.00
58	11.00	12.00	30.00	20.00
59	12.00	13.00	30.00	20.00
60	13.00	14.00	30.00	20.00
61	14.00	14.00	35.00	20.00
62	15.00	15.00	40.00	25.00
63	15.00	17.00	35.00	20.00
64	15.00	20.00	35.00	25.00
65	0.00	0.00	40.00	30.00
66	0.00	0.00	25.00	25.00
67	0.00	0.00	25.00	25.00
68	0.00	0.00	25.00	25.00
69	0.00	0.00	25.00	25.00
70	0.00	0.00	100.00	100.00

INDIVIDUAL PAY INCREASE ASSUMPTIONS

Sample Age	Merit and Longevity	Base (Wage Inflation)	Increase Next Year
20	5.00%	4.50%	9.50%
25	4.50	4.50	9.00
30	3.60	4.50	8.10
35	2.80	4.50	7.30
40	2.10	4.50	6.60
45	1.40	4.50	5.90
50	0.80	4.50	5.30
55	0.40	4.50	4.90
60	0.00	4.50	4.50
65	0.00	4.50	4.50

SUMMARY OF MEMBER DATA

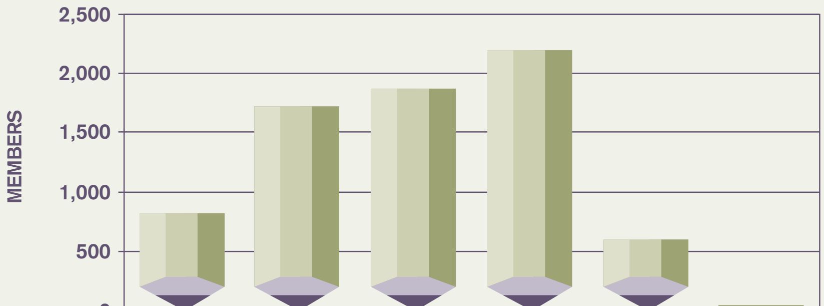
ACTIVE MEMBERS



SERVICE	<5	5-9	10-14	15-19	20-24	25-29	30-34	35+
# MEMBERS	2,704	1,701	916	841	497	381	110	29

ACTIVE MEMBER YEARS OF SERVICE

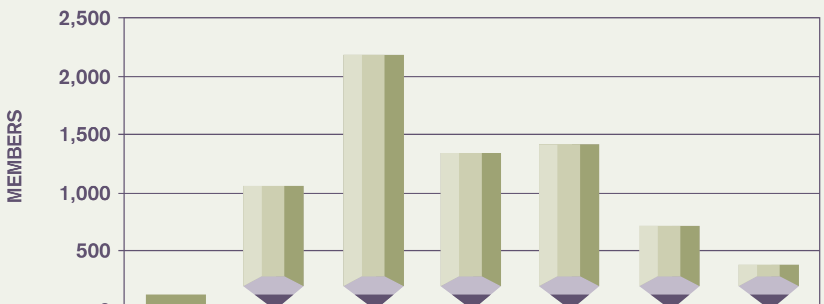
TOTAL NUMBER OF CONTRIBUTING MEMBERS: 7,179
AVERAGE YEARS OF SERVICE: 9.77



AGE	<30	30s	40s	50s	60s	70+
# MEMBERS	808	1,709	1,863	2,181	581	37

ACTIVE MEMBER AGES

AVERAGE CONTRIBUTING MEMBER AGE: 44.7 YEARS



$000	<$20	$20-$29	$30-$39	$40-$49	$50-$59	$60-$69	$70+
# MEMBERS	121	1,050	2,181	1,335	1,405	709	378

ACTIVE MEMBER SALARIES

AVERAGE CONTRIBUTING MEMBER SALARY: $44,352

SCHEDULE OF CONTRIBUTING, AFFILIATE AND DEFERRED MEMBER VALUATION DATA

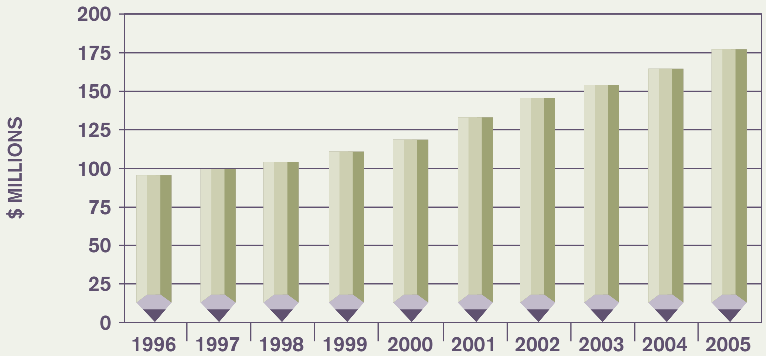
Calendar Year Ending	Number of Contributing Members	Payroll at Valuation Date	Average Annual Salary	% Increase in Average Salary	Number of Affiliate Members	Number of Deferred Members
2000	7,182	$ 292,404,000	$ 40,713	2.94%	31	120
2001	7,466	307,834,000	41,231	1.27	31	141
2002	7,691	331,607,000	43,116	4.57	31	187
2003	7,311	318,122,000	43,513	0.92	28	219
2004	7,192	315,157,000	43,820	0.71	31	276
2005	7,179	318,405,000	44,352	1.21	33	344

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM BENEFIT PAYROLL

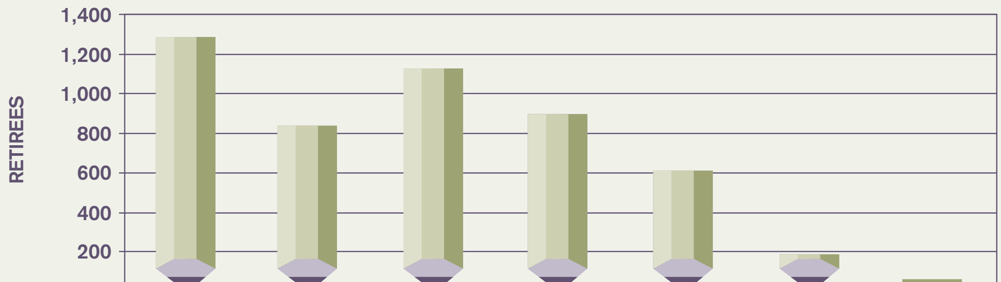
Calendar Year Ending	Added to Payroll: Number	Added to Payroll: Annualized Monthly Benefit	Removed From Payroll: Number	Removed From Payroll: Annualized Monthly Benefit	Payroll at End of Year: Number	Payroll at End of Year: Annualized Monthly Benefit	Average Annualized Monthly Benefit	% Increase in Annualized Benefit
2000	288	$ 574,626	224	$ 326,483	5,222	$ 10,462,574	$ 2,004	7.17%
2001	476	1,281,629	184	300,047	5,514	11,781,954	2,137	6.64
2002	303	781,834	207	333,511	5,610	12,606,923	2,247	5.15
2003	260	665,284	171	283,937	5,699	13,397,013	2,351	4.63
2004	367	1,161,788	197	355,372	5,869	14,555,722	2,480	5.49
2005	283	765,968	191	366,657	5,961	15,418,044	2,586	4.27

RETIRED MEMBERS

RETIREMENT BENEFITS PAID

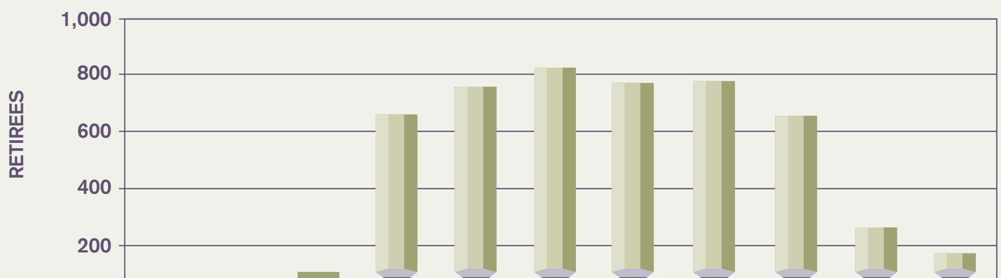


YEAR	BENEFITS PAID	YEAR	BENEFITS PAID
1996	$ 93,780,182	2001	$ 131,749,235
1997	98,006,595	2002	143,604,377
1998	103,011,282	2003	152,838,651
1999	110,488,088	2004	163,473,489
2000	117,179,246	2005	176,445,323



YEARS	0-4	5-9	10-14	15-19	20-24	20-25	30+
# RETIREES	1,276	830	1,118	888	605	193	56

AVERAGE YEARS SINCE RETIREMENT: 12.1*



AGE	<45	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90+
# RETIREES	2	3	89	662	758	813	776	779	653	261	170

AVERAGE RETIREE AGE: 71.4*

** Includes regular and optional early retirements only. Total recipients: 4,966*

MEMBER AND EMPLOYER CONTRIBUTION RATES

Year	Member Rate	Funding Policy Employer Rate	Actual Employer Rate
1996	6.0/7.0% [1]	16.01% [2]	16.01%
1997	6.0/7.0	10.01 [3]	10.01
1998	6.0/7.0/8.0 [4]	3.47 [5]	3.47
1999	8.0	2.79 [6]	2.79
2000	8.0	2.90	2.90
2001	8.0	2.90	2.90
2002	8.0	2.90 [7]	2.90
2003	8.0	3.94 [8]	3.94
2004	8.0	6.55 [9]	6.55
2005	8.0	8.80 [10]	8.80

(1) *Contribution rate was 7% for employees hired or rehired on or after 1/1/95.*

(2) *The total contribution rate from 1/1/96–6/30/96 was 16.27% and 15.75% from 7/1/96–12/31/96, composed of 12.25% regular contribution and 3.50% for the 1992 Early Retirement Incentive Program.*

(3) *The rate from 1/1/97–7/16/97 was 15.75% and 4.26% from 7/17/97–12/31/97 as a result of the issuance of Pension Certificates of Participation.*

(4) *The employee contribution rate increased to 8% on 7/1/98 for all active members.*

(5) *The rate was 4.26% from 1/1/98–6/30/98 and 2.68% from 7/1/98–12/31/98.*

(6) *The rate was 2.68% from 1/1/99–6/30/99 and 2.90% from 7/1/99–12/31/99.*

(7) *The funding policy was amended so that changes in the required employer rate become effective on the July 1 that is 18 months after the end of the calendar year on which the actuarial valuation is based.*

(8) *The rate was 2.90% from 1/1/03–6/30/03 and 4.98% from 7/1/03–12/31/03.*

(9) *The rate was 4.98% from 1/1/04–6/30/04 and 8.12% from 7/1/04–12/31/04.*

(10) *The funding policy was amended to allow for a phase in of the employer contribution rate to achieve the full annual required contribution rate by July 1, 2008. The rate was 8.12% from 1/1/05–6/30/05 and 9.48% from 7/1/05–12/31/05.*

FUNDING

SOLVENCY TEST

The solvency test is used to test a system's funding progress. In this test, the actuarial valuation assets are compared to the total actuarial accrued liabilities relative to:

1. active member contributions on deposit
2. liabilities for future benefits to present retirees and beneficiaries
3. liabilities for service already rendered by active members

If the contributions to the System are level in concept and soundly contributed, and if the System continues in its present operational pattern for the indefinite future, the System will pay all promised benefits when due. The employer-financed portion of the aggregate accrued liabilities being fully funded is rare, but the issuance by the School District of Pension Certificates of Participation in July 1997, paid off the unfunded actuarial accrued liabilities of the System.

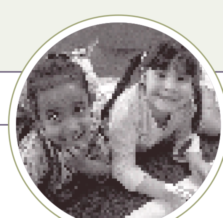
Dollars are expressed in thousands.

	Aggregate Accrued Liabilities for				**Accrued Liabilities Covered by Assets**		
Valuation Date	**(1) Active Member Contributions**	**(2) Retirees and Beneficiaries**	**(3) Employer-Financed Portion**	**Valuation Assets**	**(1)**	**(2)**	**(3)**
1/1/01	$ 206,820	$ 1,431,788	$ 733,317	$ 2,308,030	100%	100%	91%
1/1/02	200,222	1,631,424	718,910	2,462,548	100	100	88
1/1/03	212,403	1,742,486	757,404	2,465,049	100	100	67
1/1/04	229,828	1,841,065	722,895	2,531,746	100	100	64
1/1/05	226,554	2,029,799	704,637	2,611,524	100	100	50
1/1/06	233,032	2,132,638	700,185	2,693,686	100	100	47

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses In Accrued Liabilities
During the Years Ended December 31, 2005 and 2004
Resulting From Differences Between
Assumed Experience and Actual Experience

Type of Activity	Gain (or Loss) for the Year 2005	2004
Age & Service Retirements. Members retired at younger ages or with higher final average pay than assumed, causing a loss.	$ (2,712,685)	$ (7,094,671)
Disability Retirements. Disability claims were less than assumed, causing a gain.	452,728	45,968
Death-in-Service Benefits. Survivor claims were more than assumed, causing a loss.	(95,498)	(144,675)
Withdrawal From Employment. More liabilities were released by withdrawals than assumed, causing a gain.	8,888,066	4,373,561
New Entrants. New members entered the plan with some past service, causing a loss.	(4,882,636)	(5,677,574)
Pay Increases. There were smaller pay increases than assumed, causing a gain.	21,165,724	32,996,399
Investment Income. Recognized investment income was less than assumed, causing a loss.	(6,458,796)	(13,898,092)
Death After Retirement. Retirees lived for a shorter period than assumed, causing a gain.	1,550,423	4,867,349
Other. Miscellaneous gains and losses resulting from data adjustments, recognizing outside and non-qualified service for eligibility, timing of financial transactions, subsidized service purchases, valuation methods, etc.	(2,526,800)	(16,851,772)
Gain (or Loss) During the Year From Financial Experience	**$ 15,380,526**	**$ (1,383,507)**



STATISTICAL

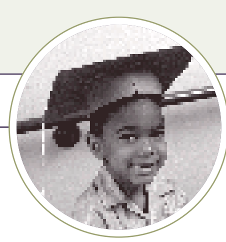
SCHEDULES

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates 1/1/00 to 12/31/05	Years of Earned Service 5-10	10-15	15-20	20-25	25-30	30 +
2000						
Average Monthly Benefit	$ 462.05	$ 860.44	$ 1,013.11	$ 1,496.16	$ 2,459.44	$ 3,295.19
Average Highest Average Salary	$ 2,677.47	$ 2,955.91	$ 2,486.83	$ 2,712.81	$ 3,725.52	$ 4,254.75
Number of Active Retirees	6	7	20	16	46	64
2001						
Average Monthly Benefit	467.71	899.42	1,262.10	1,905.44	2,813.95	3,628.69
Average Highest Average Salary	2,697.14	2,877.47	2,987.44	3,345.98	4,032.72	4,381.01
Number of Active Retirees	5	20	29	40	117	187
2002						
Average Monthly Benefit	521.62	751.59	1,637.54	2,225.31	3,057.29	3,832.07
Average Highest Average Salary	3,128.32	2,329.31	3,901.55	3,900.38	4,335.07	4,550.10
Number of Active Retirees	9	10	30	31	53	95
2003						
Average Monthly Benefit	466.79	1,118.94	1,775.46	2,577.55	2,854.19	4,118.90
Average Highest Average Salary	2,692.13	3,492.59	3,964.47	4,466.57	4,060.62	4,821.75
Number of Active Retirees	9	19	30	28	62	59
2004						
Average Monthly Benefit	470.83	1,365.12	1,884.94	2,349.34	3,176.39	4,376.09
Average Highest Average Salary	2,370.10	4,276.25	4,295.87	4,146.06	4,515.08	5,203.43
Number of Active Retirees	6	16	44	28	90	112
2005						
Average Monthly Benefit	742.38	1,099.06	1,994.59	2,584.64	3,043.00	4,179.45
Average Highest Average Salary	4,306.11	3,488.67	4,538.31	4,641.57	4,427.18	5,026.23
Number of Active Retirees	5	20	44	31	58	60

SCHEDULE OF BENEFIT EXPENSES

	Retirement Benefits Paid			
Calendar Year	Regular	Disability	Survivors	Total
2000	$ 111,724,928	$ 4,292,644	$ 1,161,674	$ 117,179,246
2001	125,719,722	4,756,330	1,273,183	131,749,235
2002	137,126,610	5,178,892	1,298,875	143,604,377
2003	146,197,007	5,302,929	1,338,715	152,838,651
2004	156,551,097	5,582,568	1,339,824	163,473,489
2005	169,182,659	5,882,604	1,380,060	176,445,323



SCHEDULE OF REVENUES BY SOURCE

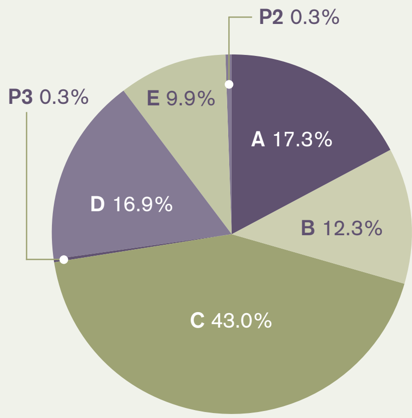
Calendar Year	Employee Contributions	Employer Contributions	Employer % of Annual Covered Payroll	Net Investment Income	Total
2000	$ 22,869,611	$ 8,007,508	2.90%	$ 185,639,527	$ 216,516,646
2001	25,848,785	8,735,015	2.90	(140,078,546)	(105,494,746)
2002	28,275,170	9,473,361	2.90	(166,488,447)	(128,739,916)
2003	32,665,945	13,023,157	3.94	449,742,992	495,432,094
2004	25,992,388	21,142,815	6.55	278,447,116	325,582,319
2005	27,269,492	28,448,702	8.80	243,270,794	298,988,988

SCHEDULE OF EXPENSES BY TYPE

Calendar Year	Benefits	Administrative Expenses	Refunds	Other	Total
2000	$ 117,179,246	$ 1,849,893	$ 4,355,309	$ (201,429)	$ 123,183,019
2001	131,749,235	2,075,416	3,974,835	0	137,799,486
2002	143,604,377	2,301,329	3,346,228	0	149,251,934
2003	152,838,651	3,233,847	4,893,891	0	160,966,389
2004	163,473,489	3,568,221	6,154,132	0	173,195,842
2005	176,445,323	3,429,572	7,194,798	0	187,069,693

RETIRED MEMBERS AND BENEFICIARIES BY OPTION

at December 31, 2005



OPTION	ANNUITY DESCRIPTION	NUMBER
A	Single Life	1,013
B	Installment Refund	723
C	Joint-Survivorship	2,511
D	Cash Refund	987
E	Half Joint-Survivorship	581
P2	Half Joint-Survivorship with Pop Up	15
P3	Joint-Survivorship with Pop Up	16

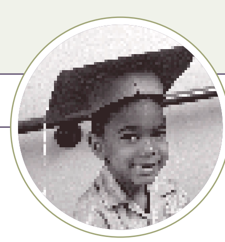
A description of the options is included in the Actuarial Section.

	A	B	C	D	E	P2	P3	Total
Regular and Early Retirement								
(Includes survivors of deceased employees)								
Males								
Number	152	137	1,516	149	215	3	5	2,177
Average Monthly Benefit	$ 2,787	$ 2,682	$ 3,102	$ 2,835	$ 2,467	$ 2,921	$ 2,299	$ 2,971
Females								
Number	656	552	926	806	341	11	11	3,303
Average Monthly Benefit	$ 2,607	$ 2,228	$ 2,545	$ 2,613	$ 2,518	$ 2,525	$ 2,911	$ 2,519
Total								
Number	**808**	**689**	**2,442**	**955**	**556**	**14**	**16**	**5,480**
Average Monthly Benefit	**$ 2,641**	**$ 2,318**	**$ 2,891**	**$ 2,648**	**$ 2,498**	**$ 2,610**	**$ 2,720**	**$ 2,699**
Regular Disability								
Males								
Number	59	9	28	8	11	0	0	115
Average Monthly Benefit	$ 1,348	$ 1,135	$ 1,416	$ 1,419	$ 1,435	$ 0	$ 0	$ 1,361
Females								
Number	146	25	41	24	14	1	0	251
Average Monthly Benefit	$ 1,515	$ 1,145	$ 1,441	$ 1,166	$ 1,123	$ 249	$ 0	$ 1,406
Total								
Number	**205**	**34**	**69**	**32**	**25**	**1**	**0**	**366**
Average Monthly Benefit	**$ 1,467**	**$ 1,142**	**$ 1,431**	**$ 1,229**	**$ 1,260**	**$ 249**	**$ 0**	**$ 1,392**
Survivors of Active Members and Disability Deaths								
Number								**115**
Average Monthly Benefit								**$ 1,042**
Grand Total								
Number								**5,961**
Average Monthly Benefit								**$ 2,587**

HISTORY OF CONTRIBUTIONS 1945-2005

Year	Employee Contribution	% of Salary	Employer Contribution	% of Salary
1945	$ 20,970	6.00%	$ -	0.00%
1946	252,306	6.00	357,572	8.50
1947	293,841	6.00	524,000	10.70
1948	419,941	6.00	738,101	10.55
1949	506,202	6.00	1,168,423	13.85
1950	569,934	6.00	1,257,920	13.24
1951	635,309	6.00	1,436,528	13.57
1952	723,415	6.00	1,582,645	13.13
1953	793,869	6.00	1,709,244	12.92
1954	950,743	6.00	2,290,531	14.46
1955	1,068,710	6.00	2,335,859	13.11
1956	1,192,281	6.00	2,517,771	12.67
1957	1,297,257	6.00	2,638,519	12.20
1958	1,405,086	6.00	2,700,863	11.53
1959	1,512,280	6.00	2,884,664	11.44
1960	1,657,213	6.00	3,140,426	11.37
1961	1,794,234	6.00	3,389,182	11.33
1962	1,942,689	6.00	3,666,565	11.32
1963	2,170,253	6.00	4,129,051	11.42
1964	2,296,928	6.00	4,565,531	11.93
1965	2,405,285	6.00	3,623,247	9.04
1966	2,542,358	6.00	3,778,176	8.92
1967	2,794,250	6.00	4,101,055	8.81
1968	3,037,008	6.00	4,413,826	8.72
1969	3,344,069	6.00	4,790,185	8.59
1970	3,683,017	6.00	5,184,773	8.45
1971	4,249,617	6.00	6,116,256	8.64
1972	4,498,354	6.00	6,627,970	8.84
1973	4,657,945	6.00	6,992,933	9.01
1974	5,051,951	6.00	7,565,764	8.99
1975	5,787,021	6.00	8,699,367	9.02

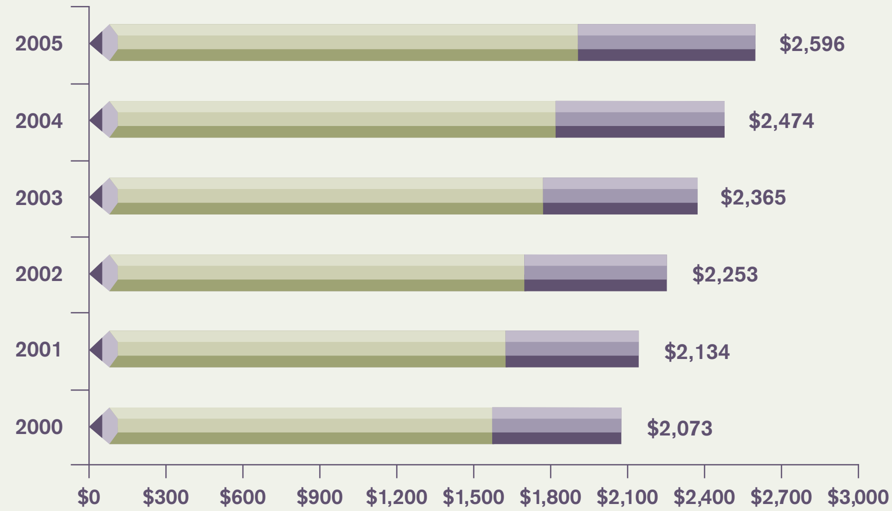
Year	Employee Contribution	% of Salary	Employer Contribution	% of Salary
1976	$ 6,540,784	6.00%	$ 9,806,004	9.00%
1977	6,761,325	6.00	10,597,741	9.40
1978	7,051,761	6.00	11,318,077	9.63
1979	7,322,772	6.00	12,168,251	9.97
1980	7,749,670	6.00	13,600,671	10.53
1981	8,251,053	6.00	17,120,274	12.45
1982	8,603,848	6.00	20,774,584	14.49
1983	9,060,315	6.00	22,989,125	15.22
1984	9,382,871	6.00	23,451,590	14.99
1985	10,015,452	6.00	24,775,279	14.85
1986	10,502,019	6.00	26,565,337	15.19
1987	10,722,718	6.00	27,089,048	15.17
1988	11,279,373	6.00	22,412,768	11.93
1989	11,523,630	6.00	22,386,804	11.68
1990	11,484,060	6.00	22,589,146	11.80
1991	12,155,118	6.00	23,855,023	11.77
1992	12,857,937	6.00	26,787,862	12.50
1993	12,149,351	6.00	32,690,548	16.39
1994	11,943,024	6.00	32,358,200	16.27
1995	12,604,734	6.00/7.00	33,672,809	16.27
1996	13,170,061	6.00/7.00	34,395,941	16.01
1997	15,305,167	6.00/7.00	22,540,381	10.01
1998	18,555,336	6.00/7.00/8.00	8,494,670	3.47
1999	20,649,845	8.00	7,140,565	2.79
2000	22,869,611	8.00	8,007,508	2.90
2001	25,848,785	8.00	8,735,015	2.90
2002	28,275,170	8.00	9,473,361	2.90
2003	32,665,945	8.00	13,023,157	3.94
2004	25,992,388	8.00	21,142,815	6.55
2005	27,269,492	8.00	28,448,702	8.80



STATISTICAL CHARTS

AVERAGE MONTHLY BENEFIT*

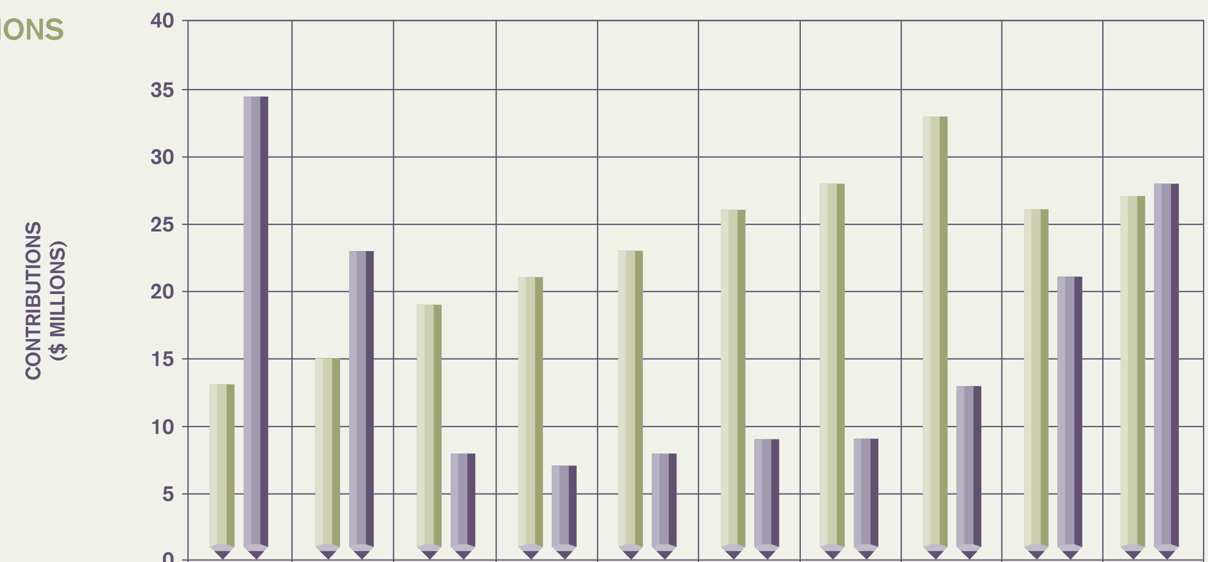
SERVICE RETIREMENTS
2000-2005



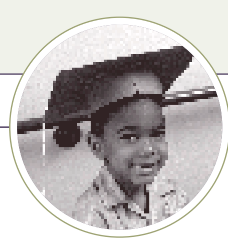
	2000	2001	2002	2003	2004	2005
■ BENEFIT INCREASES	$506	$513	$551	$601	$647	$692
■ BASIC	$1,567	$1,621	$1,702	$1,764	$1,827	$1,904

** Average for retirement benefits paid during each year*

CONTRIBUTIONS
1996-2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
■ EMPLOYEE	13	15	19	21	23	26	28	33	26	27
■ EMPLOYER	34	23	8	7	8	9	9	13	21	28



SCHEDULE OF PARTICIPATING EMPLOYERS

Academy of Urban Learning Charter
1380 South Santa Fe Drive
Denver, CO 80223-3216

Big Picture High School #1
Skyland Community High School
3240 Humboldt Street
Second Floor
Denver, CO 80205-3934

Challenges, Choices, & Images
1537 Alton Street
Aurora, CO 80010-1712

Cole College Prep Charter
3240 Humboldt Street
Third Floor
Denver, CO 80205-3934

Community Challenge School
948 Santa Fe Drive
Denver, CO 80204-3937

Colorado High School Charter
1175 Osage Street #100
Denver, CO 80204-3443

Denver Arts and Technology Academy
3752 Tennyson Street
Denver, CO 80212-3709

Denver Public Schools Retirement System
1301 Pennsylvania
Suite 700
Denver, CO 80203-5015

Highline Academy
7808 Cherry Creek Drive South
Suite 304
Denver, CO 80231-3222

KIPP Sunshine Peak Academy
375 South Tejon Street
Denver, CO 80223-1961

Life Skills Center of Denver
1000 Cherokee Street
Denver, CO 80204-4039

Northeast Academy
4895 Peoria Street
Denver, CO 80239-2409

Odyssey Charter
8750 East 28th Avenue
Suite C
Denver, CO 80238-2412

Omar D. Blair Edison Charter
4905 Cathay Street
Denver, CO 80249-8376

Pioneer Charter
3230 East 38th Avenue
Denver, CO 80205-3726

School District No. 1
900 Grant Street
Denver, CO 80203-2907

Southwest Early College
3001 South Federal Boulevard
Box 114
Denver, CO 80236-0114

Urban Learning Communities, Inc.
P.S. 1 Charter
1062 Delaware Street
Denver, CO 80204-4033

Wyatt-Edison Charter
3620 Franklin Street
Denver, CO 80205-3325

Denver Public Schools Retirement System

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