Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Volume 1

Comprehensive Annual Financial Report

for the fiscal year ended September 30, 2006

District of Columbia Retirement Board
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December 30, 2006

Shireen L. Dodson
Chairman of the Board of Trustees
District of Columbia Retirement Board

Introduction

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the District of Columbia Retirement Board (DCRB) for the fiscal year ending September 30, 2006. The DCRB was established to manage the District of Columbia Police Officers' and Firefighters' Retirement Fund and the Teachers' Retirement Fund.

CAFR Transmittal

This annual report is issued in accordance with the Federal "National Capital Revitalization and Self-Government Improvement Act of 1997" and the District "Police Officers, Firefighters and Teachers Retirement Benefit Replacement Plan Act of 1998". This report includes the independent auditor's reports on the District of Columbia Police Officers' and Firefighters' Retirement Fund, and the District of Columbia Teachers' Retirement Fund, (collectively referred to as "the Funds").

The audit reports are issued by the independent public accounting firm of Thompson, Cobb, Bazilio & Associates, the selection of which was approved by the DCRB Board of Trustees, (the "Board"). This annual report also includes other information concerning the Funds, the Board, the District of Columbia Police Officers' and Firefighters' Retirement Plan and the District of Columbia Teachers' Retirement Plan (the "Plans"), Plan membership, investments, and Board operations.

Additional disclosures that are specifically required by statute are included in Volume II.

The responsibility for both accuracy of the data and the completeness and fairness of the presentation including all disclosures rests with the DCRB. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the Plan assets and the changes in Plan assets and financial position of the Funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial activities of the Funds have been included.

Structure of this Report

The CAFR of the DCRB for the fiscal year ending September 30, 2006 is prepared in two volumes, as follows:

Volume I

Introductory Section including the Letter of Transmittal and the organizational structure. This section contains general information on the nature of the Funds, financial performance, and the investment objectives.

Financial Section including the 2006 audited financial statements, Management's Discussion and Analysis, and related schedules concerning the financial position and changes in plan Plan assets for the Funds.

Investment Section containing descriptions of the investment policy, objectives, results, and expenses.

Actuarial Section including the actuarial certification, descriptions of actuarial assumptions and methods, and schedules presenting summary data on members, retirees and beneficiaries.

Statistical Section including summary data on revenues, expenses and benefits.

Volume II

Other Required Disclosures which are specified in applicable statutes are included in this volume, including information on the names and addresses of the Board of Trustees, bank statements, reportable transactions, transactions with parties of interest, Trustee activities sponsored by service providers, fund return data, and the annual actuarial statement.

Structure of the DC Retirement Board and the Board of Trustees

The District of Columbia Retirement Board was created by the US Congress in 1979 under the Retirement Reform Act (the Reform Act). The Reform Act established the structure, legal responsibilities, and composition of the Board. The 12 member Board of Trustees consists of 6 individuals elected by the participant groups (2 each by police officers, firefighters and teachers), 3 appointed by the Mayor, and 3 appointed by the City Council. The DC Chief Financial Officer sits on the Board as an ex-officio member.

The Funds are managed and controlled by the Board, and are held in trust by the Board for the exclusive benefit of members, retirees and beneficiaries of the Plans. The Board's mission is to assure that sufficient assets are available to pay the benefits promised under the terms of the Plans, to pay those benefits promptly and accurately, and to provide all Plan participants with appropriate administrative support services when they contact the Board.

Information on the Trustees and the organizational structure of the Board is provided at Table 1: List of Board of Trustees and Chart 1: DCRB Organizational Structure.

History and Legislative Background

Prior to the Reform Act, eligibility and benefit rules and financing arrangements for the pension plans for the District's police officers, firefighters and teachers were authorized by acts of Congress and administered by the Federal Government. Benefits were paid monthly from the general revenues of the U.S. Department of the Treasury when workers retired on a "pay-as-you-go" basis, not on a pre-funded basis using actuarial assumptions and methods. Under the "National Capital Revitalization and Self-Government Improvement Act of 1997" (the Revitalization Act), the Federal Government assumed responsibility for the unfunded pension liabilities for retirement benefits earned as of June 30, 1997. The District of Columbia passed the "Police Officers, Firefighters and Teachers Retirement Benefit Replacement Plan Act of 1998" (the Replacement Plan Act) that establish retirement plans for pension benefits accrued after June 30, 1997.

To facilitate the effective monitoring of the retirement system, the Reform Act and the Replacement Plan Act require the Board to publish an annual report for each fiscal year. The DCRB Comprehensive Annual Financial Report (CAFR) report fulfils that requirement.

With the passage of the District's Office of Financial Operations and Systems Reorganization Act of 2004, the Board assumed the responsibility for administering the retirement programs for the District's police officers, firefighters and teachers. The Board undertook extensive planning in cooperation with the US Treasury Office of DC Pensions (ODCP) in preparation for a smooth transition of benefits administration from the District Office of Pay and Retirement Services (OPRS) to DCRB.

The DCRB and ODCP are collaborating on changes to the Treasury retirement system to calculate the benefit split between the District and the Federal trusts, in accordance with the Split Benefit regulations. Completion of this project will result in the financial reconciliation of pension liabilities between the two trusts, projected to be completed in 2009.

Profile of the Plans

The Plans for police officers and firefighters provide retirement, service-related disability, non-service-related disability, and death benefits in accordance with the

Plan description. All police officers and firefighters of the District of Columbia automatically become members on their date of employment. Police cadets are not eligible.

The Plan for teachers provides retirement, disability retirement, and death benefits in accordance with the Plan description. Permanent, temporary, and probationary teachers for the District of Columbia public day schools become members automatically on their date of employment. Other employees covered include librarians, principals, and counselors. Former DC teachers working at charter schools are eligible to remain in the program, upon election by the teachers.

The DCRB implemented two statutes in 2006 — the EMT Lateral Transfer legislation and the Post-56 Military Service Act.

Since the Board assumed responsibility for administering the Plans in October 2005. the Board now operates a Member Services Center that is available to all active Plan members and retirees, calculates benefit payments, works closely with ODCP to implement systems changes resulting from software upgrades or legislation affecting Plan provisions, and produces Plan communications that include a periodic newsletter, a Summary Annual Report reflecting fund investment results, and Summary Plan Descriptions as prescribed by statute. ODCP maintains the retirement system that calculates benefits, issues monthly benefit payments to retirees and survivors, and handles all payment-related activities, include tax withholdings and premiums for health and life insurances.

Plan Management, Performance and Investments

As of September 30, 2006, the Plans had 24,133 members, of whom 13,383 were retirees and survivors who receive monthly pension payments and 10,750 active members. At that date, the Plans' assets were $3.62 billion, an increase of approximately 15% in the total asset value from the end of FY 2005. During FY 2006, $28.6 million in pension benefits accrued under the District Plans were paid and approximately $133 million in employer contributions and $50.9 million of employee contributions were collected.

In order to minimize administrative expenses while providing a broad range of investment options that are economically feasible, the assets of the Plans are combined into a single investment management portfolio. The portfolio of combined assets is collectively referred to as the Fund. The investment returns of the Fund are calculated based on the market value of the assets.

The Fund outperformed its 7.25% actuarial assumed rate of return for the one, three, five, and ten-year periods ending September 30, 2006, by approximately 3.1%, 4.8%, 1.2%, and 1.5%, respectively. Since inception, the Fund has achieved an average annual return of 10.5%, prior to investment expenses and DCRB operating costs.

The Board seeks long-term investment returns in excess of the actuarial investment rate of return assumption at a level of risk commensurate with the expected level of returns and consistent with sound and responsible investment practices. The Board, working closely with investment consultants and with input from it's actuary, selects the asset allocation plan which best reflects the risk tolerance and investment goals for the Fund. The asset allocation plan is implemented through the careful screening and selection of investment managers with an audited favorable long-term track record, a disciplined investment process, and reasonable investment management fees. The Board's investment policy requires staff to compare the actual asset allocation to the target allocation on a quarterly basis. If an asset class minimum or maximum reflect any style drift, then an investment rebalancing may be undertaken.

The Fund seeks to outperform the return of the Total Fund Benchmark, computed as the weighted average return of the following strategic asset classes and benchmarks:

Asset Class	Performance Benchmark	Weight
U.S. Equities	Russell 3000 Index	40%
International Equities	MSCI All Country World ex US Index	20%
Fixed Income	Lehman Brothers Universal Index	25%
Real Estate	NCREIF Index	5%
Private Equity	Cambridge Private Equity Index	10%

Over the long-term, the Fund has slightly underperformed the Total Fund Benchmark, with the Fund returning an annualized 8.7% (gross) for the 10-year period ended September 30, 2006, versus 8.9% for the Total Fund Benchmark. However, since its inception in October 1982, the Total Fund achieved an annualized gross return of 10.5%.

Summary of Financial Information

DCRB management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded on the accrual basis in accordance with GAAP, and that financial statements conform to GASB and AICPA reporting standards and GFOA guidelines.

The accounting records of DCRB are maintained by the DCRB staff. Pension payment information is contained within the System to Administer Retirement (STAR) maintained by US Treasury. Accounting and payroll transactions are processed through the District of Columbia's System of Accounting and Reporting (SOAR). DCRB budgets are approved by the Board and then incorporated in the District CFO$ource budgetary system. The Funds' Trustee Bank, State Street, records and reports all investment and cash management transactions, and the Board exercises close review and controls over those records and transactions

Consideration is given to the adequacy of internal accounting controls for systems under the control of DCRB, and systems that are shared with other Governmental offices or service providers. DCRB requires that its service providers undergo an annual SAS 70 review by independent public accountants, and that government offices whose systems are used are subject to annual audit. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. We believe the internal controls in effect during the fiscal year ended September 30, 2006, adequately safeguard the Fund's assets and provide reasonable assurance regarding the proper recording of financial transactions.

The independent auditor's reports on the Plans are presented at Section 2 of this report.

Additions to Plan Net Assets

Total FY 2006 contributions plus investment income for the Funds were approximately $516 million as summarized below, (all amounts in $000):

	FY 2006	FY 2005	$Increase (Decrease)	%Increase (Decrease)
Employee Contributions	50,949	48,582	2,367	4.87%
Employer Contributions	133,000	121,300	11,700	9.65%
Net Investment Income	332,203	372,848	(40,645)	(10.90%)
Total	516,152	524,730	(26,578)	(4.90%)

Deductions to Plan Assets

Total FY 2006 District pension payments and administrative expenses for the Funds were approximately $42.4 million as summarized below, (all amounts in $000):

	FY 2006	FY 2005	$Increase (Decrease)	%Increase (Decrease)
Benefit Payments	39,588	34,433	5,155	14.97%
Administrative Expenses	2,827	5,999	(3,172)	(52.88%)
Total Deductions	42,415	40,432	(1,983)	(4.90%)

Plan Funding

The Replacement Plan Act establishes the method for calculating the employer (District of Columbia) annual contribution to the retirement Funds. The Board's enrolled actuary must determine the level of covered payroll, expressed as a percentage ("normal contribution rate") for each participant group. Under the Replacement Plan Act, the District must contribute the annual funding amount determined under the Aggregate Actuarial Cost method. No other funding limitations apply. The DC Government is current in providing to the Fund the actuarially determined employer contribution to the Plans.

Other Information

The DCRB undertook several major initiatives during FY 2006.

Consistent with the asset allocation plan developed in accordance with the defined investment policy, the Board continued the prudent diversification of investments in FY 2006, investing in two new real estate investment vehicles, a secondary private equity fund, and a multi-strategy investment fund.

FY 2006 was the first year of responsibility for benefits administration. The Board hired a highly skilled staff, which worked closely with other District Agencies and the US Treasury, to successfully transition these responsibilities. The Benefits Department of the Board installed a Member Services Center that responded to over 20,000 telephone calls and visits by Plan participants during the year. The department continues to be an active participant in implementing changes to the Plans – responding to new statutes that affect Plan eligibility and benefits, collaborating with the US Treasury on upgrades to the retirement system, that is used jointly by DCRB and ODCP to manage benefit payments, and establish formal communications programs with the members, beneficiaries and survivors.

Acknowledgements

I would like to express my appreciation to the US Treasury's Office of DC Pensions, the District of Columbia City Council, the DC Office of Financial and Operations Systems, the DC Office of Budget and Planning, all other DC Government Offices that support the Board, and the DCRB trustees, staff, consultants and service providers for their tireless efforts to assure the financial soundness and successful operation of the DC Retirement Board.

If you have any questions regarding the Comprehensive Annual Financial Report (CAFR) of the District of Columbia Retirement Board for the fiscal year ending September 30, 2006, please direct them to my office at any time.

Respectfully submitted,

Constance Donovan
Acting Executive Director/General Counsel
District of Columbia Retirement Board

The Organizational Structure

Table 1: Board of Trustees

Name	Representing	First Term Began	Current Term Expires
Lyle M. Blanchard	Appointed by the City Council	November 15, 2002	January 27, 2009
Barbara Davis Blum	Appointed by the Mayor	July 12, 2000	January 27, 2008
Mary A. Collins	Elected by Active Teachers	January 28, 1997	January 27, 2009
Shireen L. Dodson, *Chairman*	Appointed by the City Council	August 3, 2001	January 27, 2008
Brian K. Lee, *Parliamentarian*	Elected by Active Firefighters	January 28, 2001	January 27, 2009
Lasana Mack, *Ex Officio Representative*	Ex Officio Member	N/A	N/A
Judith C. Marcus, *Treasurer*	Elected by Retired Teachers	January 28, 1998	January 27, 2010
Joan Parrot-Fonseca	Appointed by the Mayor	April 22, 2002	January 27, 2007
Darrick O. Ross, *Sergeant-at-Arms*	Elected by Active Police	January 28, 1999	January 27, 2007
William H. Simons	Appointed by the Mayor	September 13, 2001	January 27 2006
George R. Suter, *Secretary*	Elected by Retired Police	January 28, 1997	January 27, 2009
Thomas N. Tippett,	Elected by Retired Firefighters	March 21, 2005	January 27, 2008
Michael J. Warren	Appointed by the City Council	March 11, 2005	January 27, 2007

Chart 1: DCRB Organizational Diagram

The District of Columbia Retirement Board

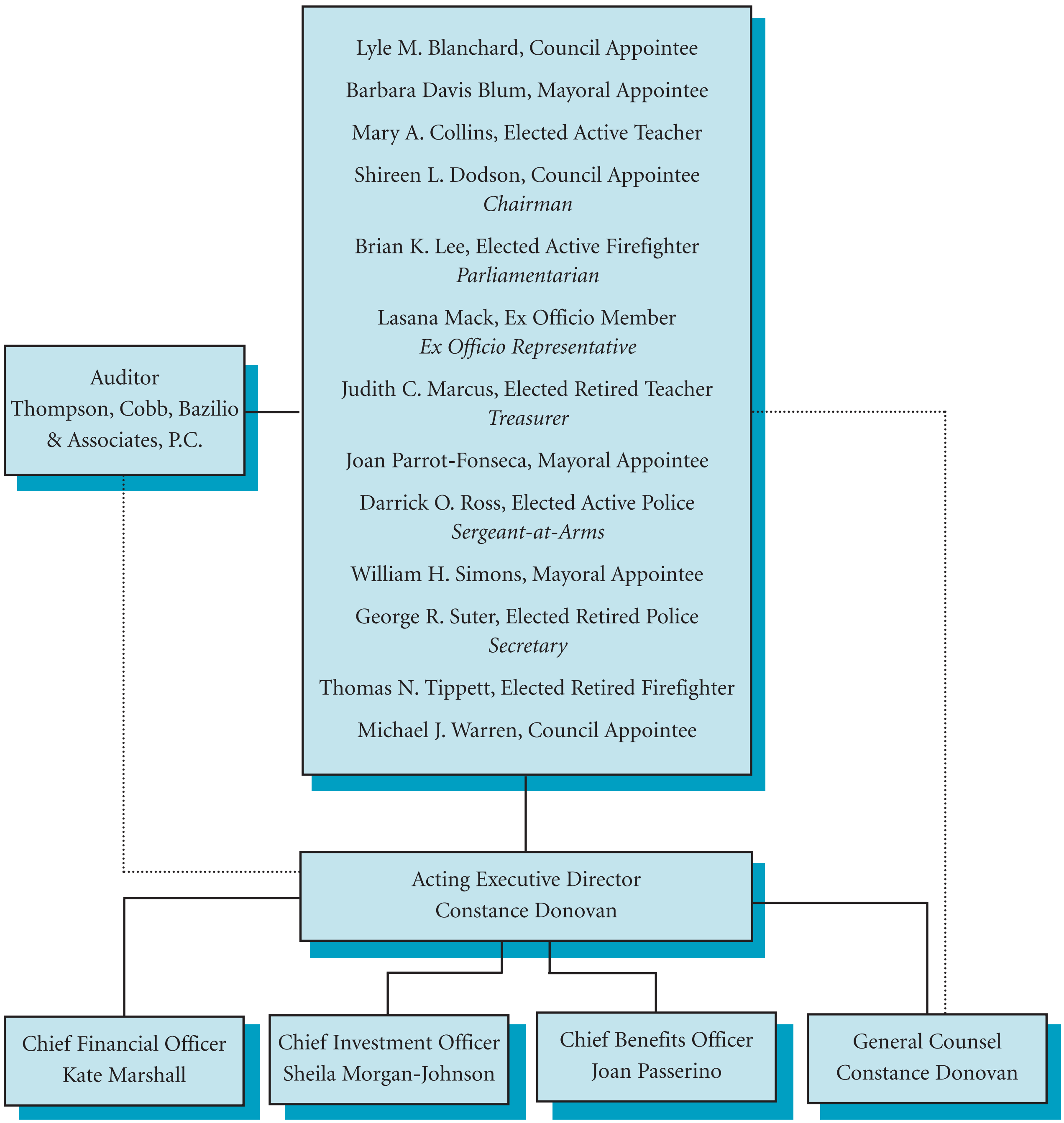
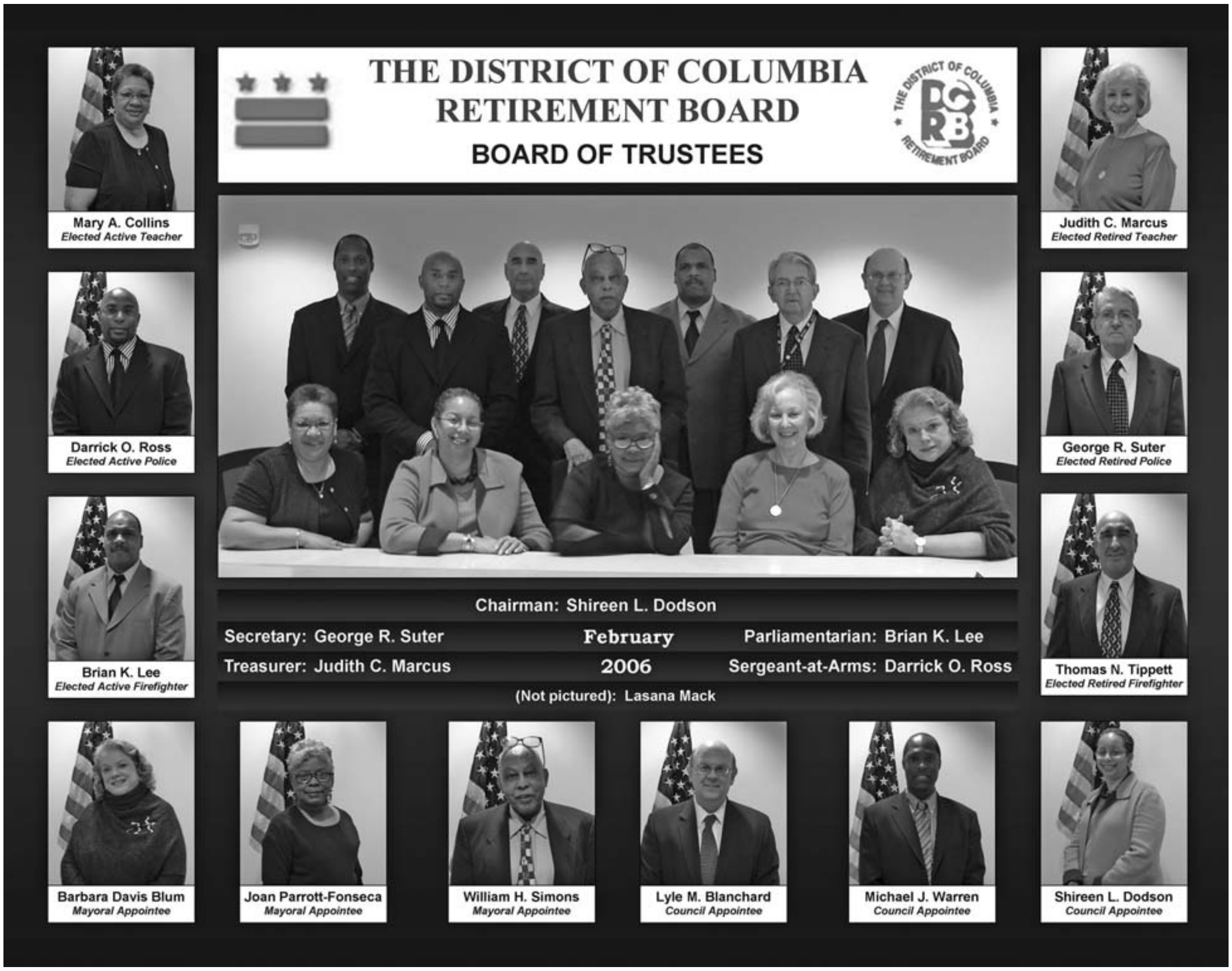


Photo 1: Board of Trustees



Financial Section

Independent Auditor's Report

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

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Board of Trustees
District of Columbia Police Officers and Firefighters' Retirement Fund

We have audited the accompanying statements of net assets of the District of Columbia Police Officers and Firefighters' Retirement Fund (the Fund), a pension trust fund of the Government of the District of Columbia (the District), as of September 30, 2006 and 2005, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, these financial statements only present the Fund and do not purport to, and do not, present the financial position of the Government of the District of Columbia as of September 30, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the District of Columbia Police Officers and Firefighters' Retirement Fund as of September 30, 2006 and 2005, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information on schedules 1 and 2 and the management's discussion and analysis are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on schedules 3 through 5 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Thompson, Cobb, Bazilio & Associates, PC

Washington, D.C.
December 20, 2006

Management's Discussion and Analysis

This discussion and analysis provides an overview of the financial activities of the District of Columbia Police Officers and Firefighters' Retirement Fund (the Fund) as of and for the fiscal year ended September 30, 2006. This discussion and analysis should be read in conjunction with the statements, notes, and supplementary information.

The District of Columbia Retirement Board (the Board) is an independent agency of the District of Columbia Government. The Board is responsible for managing the assets of the Fund and of the District of Columbia Teachers' Retirement Fund. As authorized by DC Code, the Board commingles the assets of the two Retirement Funds for investment purposes. The Board proportionately allocates the investment activity and the administrative expenses of the Board between the two Retirement Funds.

Effective October 1, 2005, the Board became responsible for administering the pension benefits, and the related administrative expenses are borne by the Board.

Effective October 1, 2005, the Board is under contract to the United States Department of the Treasury (the U.S. Treasury) to administer police officer and firefighter pension benefits that are the financial responsibility of the Federal government. The U.S. Treasury reimburses the Board for relevant administrative expenses.

The Board incurred certain expenses during fiscal year 2006 in preparation for administering District and Federal pension benefits. The U.S. Treasury agreed to reimburse the Board for certain transition expenses.

FINANCIAL HIGHLIGHTS

The financial highlights are:

- Net Assets Held in Trust for Pension Benefits as of September 30, 2006 were $2,310,211.
- Net Assets Held in Trust for Pension Benefits increased during fiscal year 2006 by $337,119.
- The Net Investment Income for fiscal year 2006 was $212,089.
- The District of Columbia government contributed $117,500 to the Fund for fiscal year 2006, which satisfied its statutory obligation.
- The Fund's share of administrative expenditures for fiscal year 2006 was $1,817.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

This discussion and analysis is an introduction to the basic financial statements and schedules. The basic financial statements include two statements, notes, and supplementary information.

Statements of Net Assets — present the assets, liabilities, and net assets held in trust for pension benefits as of the end of the current and prior fiscal year.

Statements of Changes in Net Assets — present the additions to and deductions from the net assets during the current and prior fiscal years. The statements present the major sources of additions and uses of deductions. Over time, the net increase or decrease in net assets may serve as a useful indicator of whether the financial position of the Fund as a whole is improving or deteriorating.

Notes to Financial Statements — present various disclosures to augment the two statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments.

Supplementary Information — presents additional information about employer contributions, actuarial assumptions, additions and deductions for the last 10 fiscal years, and investments.

FINANCIAL ANALYSIS

The Fund had Net Assets Held in Trust for Pension Benefits as of September 30, 2006, of $2,310,211, which is an increase of $337,119 from the end of the prior fiscal year.

Net Assets

A summary of the Net Assets Held in Trust for Pension Benefits is below.

Changes in Net Assets

The net assets increased during fiscal year 2006 by $337,119. A summary of the change is below.

The District of Columbia government made the required employer contribution in fiscal year 2006 based on the funding formula contained in DC Code.

The Fund pays for pension benefits earned since June 30, 1997. As a result, the pension benefit expense will be increasing. The Fund also pays for increases in pension benefits that result from changes after June 30, 1997 in the provisions of the Plan.

The Total Fund returned 10.4% during FY 2006. While it underperformed the Asset Allocation Benchmark by 60 basis points (10.4% versus 11.0%), the Total Fund outperformed the Board's actuarial assumed rate of return of 7.25% by approximately 315 basis points. The Total Fund's underperformance relative to the Asset Allocation Benchmark for FY 2006 can be attributed primarily to underperformance by the domestic equity segment. However, active management within the international equity, fixed income, and real estate segments contributed positively to relative returns. The international equity segment outperformed its benchmark by 230 basis points (20.6% versus 18.3%), the fixed income segment outperformed its benchmark by 80 basis points (4.5% versus 3.7%), and the real estate segment outperformed its benchmark by 530 basis points (22.9% versus 17.6%).

As of September 30, 2006, the Total Fund's assets equaled $3.62 billion, an increase of approximately 15% from the total asset value at the end of FY 2005. Over the long-term, the Total Fund has slightly underperformed the Total Fund Benchmark, with the Total Fund returning an annualized 8.7% for the 10-year period ended September 30, 2006, versus 8.9% for the Total Fund Benchmark. However, it should be noted that the Total Fund exceeded the Board's actuarial assumed rate of return (7.25%) for the 3-year, 5-year, and 10- year periods ended September 30, 2006, by approximately 480 basis points, 130 basis points, and 145 basis points, respectively, on an annualized basis. Since its inception in October 1982, the Total Fund has earned an annualized return of 10.5%.

NET ASSSETS

	2006	2005	Increase (Decrease)	Percent
Investments, net of accrued interest receivable and liabilities	$2,321,164	$ 1,983,774	$ 337,390	17.01 %
Fixed Assets, NBV	51	86	(35)	(40.70) %
Contributions receivable	955	937	18	1.92 %
Due from (to) District	109	(2,555)	2,664	(104.27) %
Due to Federal Government	(12,068)	(9,150)	(2,918)	31.89 %
Net Assets	$2,310,211	$ 1,973,092	$ 337,119	17.09 %

CHANGES IN NET ASSSETS

	2006	2005	Increase (Decrease)	Percent
Employee contributions	$25,142	$ 23,804	$ 1,338	5.62 %
Employer contributions	117,500	112,100	5,400	4.82 %
Net investment income	212,089	235,515	(23,426)	(9.95) %
Total Additions	354,731	371,419	(16,688)	(4.49) %
Benefit payments	15,795	13,564	2,231	16.45 %
Administrative expenses	1,817	3,789	(1,972)	(52.05) %
Total Deductions	17,612	17,353	259	1.49 %
Net change in net assets	$337,119	$ 354,066	$ (16,947)	(4.79) %

Public equity markets continued to perform wel1 during FY 2006, as world stock markets rallied for the fourth straight year. The Russell 3000 Index, a broad-based U.S. equity index, rose 10.2% during the period. Non-U.S. equity markets outperformed U.S. stocks for the fifth consecutive year, with the MSCI EAFE Index increasing 14.5% during the 12-month period ended September 30, 2006. Private equity investments enjoyed strong performance for the second straight year, with the Cambridge Private Equity Index rising 22.5% for the 1-year period. Fixed income was again the worst performing asset class during FY 2006, with the Lehman Brothers Aggregate Bond Index returning 3.1% as the Federal Reserve continued to raise short-term interest rates.

During FY 2006, the Board maintained its strategic asset allocation targets, which had been established in FY 2003 following an asset/liability study conducted by the Board's general investment consultant, Watson Wyatt. This study was updated by Watson Wyatt in FY 2005, and asset class targets remain as follows:

U.S. Equities	40%
Fixed Income	25%
International Equities	20%
Private Equity	10%
Real Estate	5%

As of September 30, 2006, all asset classes were within their respective target allocation ranges, with the exception of private equity. Due to the difficulties involved in deploying large amounts of capital expeditiously in this asset class, it may take several years until the Board reaches full exposure to private equity. Thus, U.S. public equities will he used as a proxy for exposure to private equity until this strategy can be fully implemented.

During FY 2006, the Board took important steps in moving toward its target private equity and real estate allocations. Pantheon, the Board's discretionary private equity advisor and fund-of-fund manager who was initially funded by the Board in November 2004, had made capital commitments of more than $182 million in 49 private equity partnerships through September 30, 2006. The Board also approved an investment in a secondary private equity fund managed by Pantheon, which is expected to be funded in FY 2007. Regarding real estate, the Board funded the JP Morgan Strategic Property Fund (core), and selected and funded CB Richard Ellis Strategic Partners IV (high return), during FY 2006. While the Board may fund an additional real estate manager in FY 2007, the Board's current exposure to real estate is within its target allocation range.

The Board reviewed the investment structure of its non-U.S. equity segment during FY 2006 and decided to change the segment's benchmark to the MSCI ACWI ex-US Index in order to reflect the broader scope of international equity markets, including emerging markets. The Board also reviewed the investment structure of its fixed income segment, electing to change the segment's benchmark to the Lehman US Universal Index, which includes high yield and emerging markets fixed income securities. Within the US equity segment, the Board conducted a search for a mid-cap value manager to replace Ariel Capital, selecting and funding Thompson, Siegel, & Walmsley. In addition, with the goal of increasing alpha and diversification in the Total Fund, the Board conducted a search for a multi-strategy manager, selecting and funding Bridgewater Associates.

The Board continued to rebalance its managers' portfolios during FY 2006 in accordance with the Board's rebalancing policy. Variances from investment style targets were rebalanced as needed in a manner that maintained the overall integrity of the asset class structure but was not disruptive to the managers.

Going forward in FY 2007, the Board intends to continue the implementation of its strategic asset allocation policy. The Board will continue to review the investment structure of its asset class segments and to carefully monitor the performance of its investment managers. As appropriate, the Board will make adjustments to its investment structure within each asset class and conduct manager searches, when necessary, in order to enhance the performance of the Total Fund.

ADDITIONAL INFORMATION

These financial statements present the finances of the Fund in accordance with accounting principles generally accepted in the United States of America. Questions about these financial statements or other inquiries should be addressed to the Acting Executive Director, District of Columbia Retirement Board, 900 7th Street, NW, 2nd Floor, Washington, DC 20001.

Financial Statements

Statement of Net Assets

	2006	2005
ASSETS		
Equity in pooled investments under Master Trust Agreement, at fair value (Note 4)	$2,591,840	$ 2,203,772
Accrued interest receivable	5,801	5,848
Benefit contributions receivable	955	937
Fixed assets, net of accumulated depreciation	51	86
Due from District of Columbia Government	109	-
Total assets	2,598,756	2,210,643
LIABILITIES		
Liabilities under securities lending agreements	274,501	224,265
Accounts payable - investment expenses	1,976	1,581
Due to Federal Government	12,068	9,150
Due to District of Columbia Government	-	2,555
Total liabilities	288,545	237,551
Net Assets Held in Trust for Pension Benefits	**$ 2,310,211**	**$ 1,973,092**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Assets

	2006	2005
Additions		
Contributions:		
District government	$ 117,500	$ 112,100
District employees	25,142	23,804
Total contributions	142,642	135,904
Investment income:		
Net appreciation in fair value of investments	148,175	182,608
Interest and dividends	70,452	57,819
Gross earnings on security lending transactions	13,043	5,867
	231,670	246,294
Less:		
Investment expenses	7,143	5,472
Borrower rebates and agent fees on security lending transactions	12,438	5,307
Net investment income	212,089	235,515
Total additions	354,731	371,419
Deductions		
Benefit payments	15,795	13,564
Administrative expenses	1,817	3,789
Total deductions	17,612	17,353
Net Increase in Net Assets	337,119	354,066
Net Assets Held in Trust for Pension Benefits		
Beginning of year	1,973,092	1,619,026
End of year	$ 2,310,211	$ 1,973,092

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

NOTE 1: ORGANIZATION

The District of Columbia Police Officers' and Firefighters' Retirement Fund (the Fund) was established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96-122, D. C. Code § 1-701 et seq.). The Fund provides assets to pay pension benefits to police officers and firefighters of the District of Columbia Government. The Reform Act also established the District of Columbia Retirement Board (the Board) and the District of Columbia Teachers' Retirement Fund (the Teachers' Fund).

The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act, Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the Fund and the Teachers' Retirement Fund (collectively, the Funds) to the Federal Government.

Concurrently, the District of Columbia Retirement Protection Act of 1997 (the Retirement Protection Act, Subtitle A of the Revitalization Act) transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government and the assets of the Fund managed by the Board are components of the same single employer defined benefit pension plan.

As required by the Retirement Protection Act, the Council of the District of Columbia (the Council) enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (September 18, 1998, D.C. Law 12-152, § 101, 45 DCR 4045; D.C. Code § 1-901.01 et seq.). This Act (the Replacement Act) established the pension benefits for employee service earned after June 30, 1997, and provides for full funding of the benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia Government (the District) that is responsible for managing the assets of the District Retirement Funds. Although the assets of the funds are commingled for investment purposes, each Fund's assets may only be used for the payment of benefits to the participants of that Fund and certain administrative expenses.

The Fund is included in the District's Comprehensive Annual Financial Report as a pension trust fund.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

District of Columbia Retirement Board — The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected Trustees, including one active and one retired representative, each from the police officers, firefighters, and teachers. In addition, the District's Chief Financial Officer or his designee serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, thoroughly and comprehensively reviews all issues brought before it. The Board has six standing committees, including Benefits, Emerging Enterprise, Fiduciary, Investment, Legislative, and Operations. To implement its policies, the Board retains an Executive Director and other staff to be responsible for the day-to-day management of the Funds.

Other Administration — The District of Columbia Police Officers and Firefighters' Retirement and Relief Board makes findings of fact, conclusions of law, and decisions regarding eligibility for retirement and survivor benefits, determines the extent of disability, and conducts annual medical and income reviews. The Board of Police and Fire Surgeons determines medical eligibility for disability retirement. The DCRB Benefits Department receives retirement orders for retirement benefit calculations for all active plan members found eligible for retirement and carries out the processing and day-to-day administration of retirement benefits. DCRB also processes employee requests for refunds of contributions. Effective in October 1, 2005, the Board assumed the administrative functions previously performed by the OPRS.

Eligibility — A participant becomes a member when he/she starts work as a police officer or firefighter in the District. Police cadets are not eligible to join the Fund.

Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act," codified at D.C. Code § 5701 et seq. (2001 Ed.).

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service, or for deferred retirement after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 12 months of base pay, multiplied by departmental service through 20 years, plus 3% of average base pay multiplied by average base pay times departmental service over 20 years, plus 2.5% of average base pay multiplied by years of creditable service, but not more than 80% of final pay. Members who terminate after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retired members receive the same percent increase granted to active participants in the pay schedule rate to which the member would be entitled if in active service.

Members with permanent, service-related disabilities who have less than 26 years and eight months of service receive two-thirds (2/3) of average base pay. Members with 26 years and eight months to 28 years of service receive 2.5% of average base pay multiplied by service. Members with more than 28 years of service receive 70% of average base pay.

Members with permanent, non-service-related disabilities, who have 5 to 20 years of service receive 40% of average base pay; 20 to 35 years of service, receive 2% of average base pay multiplied by service; and more than 35 years of service, receive 70% of average base pay.

Members Hired Between February 15, 1980 and November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service, or after 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 36 months of base pay, multiplied by credited service through 25 years, plus 3% of average base pay multiplied by departmental service over 25 years, plus 2.5% of average base pay multiplied by credited service, but not more than 80% of final salary. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55.

Members with permanent, service-related disabilities receive 70% of base pay multiplied by a percentage of disability, with a minimum benefit of 40% of base pay.

Members with permanent, non-service-related disabilities with more than 5 years of service receive 70% of base pay multiplied by a percentage of disability, with a minimum benefit of 30% of base pay.

Benefits are also provided to certain survivors of active, retired or terminated vested members. Members retired after February 15, 1980 receive annual benefit increases proportional to changes in the Consumer Price Index.

Members Hired on or After November 10, 1996

Members are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 36 months of base pay, multiplied by credited service, but not more than 80% of the final pay. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index, but not more than 3%.

Members with permanent, service-related disabilities receive 70% of base pay multiplied by a percentage of disability, with a minimum benefit of 40% of base pay.

Members with permanent, non-service-related disabilities with more than five years of service receive 70%

of base pay multiplied by a percentage of disability, with a minimum benefit of 30% of base pay.

Participant Data

For the years ended September 30, 2006 and 2005, the number of participating employees was as follows:

	2006	2005
Retirees and beneficiaries receiving benefits (post 6/30/97)	1,051	903
Active plan members	5,256	5,222
Vested Terminations	244	238
	6,551	6,363

Contributions

Fund members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7% (or 8% for Police Officers and Firefighters hired on or after November 10, 1996) of annual salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal years 2006 and 2005 equaled or exceeded the Fund's independent actuary's recommendation.

Contribution requirements of Fund members are established by D.C. Code § 5-706 and requirements for District of Columbia government contributions to the Fund are established at D.C. Code § 1-907.02 (2001 Ed.), which may be amended by the Council. Administrative costs are financed through investment earnings.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The financial statements are prepared using the accrual basis of accounting where the measurement focus is on the flow of economic resources.

Employee contributions are recognized as compensation earned by fund members. Employer contributions to the Fund are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Method Used to Value Investments — Investments are reported at fair value, and reflect transaction costs, such as brokerage commissions and other costs normally incurred in a sale, if such costs are determinable. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rate. Collateralized mortgage obligations are stated at fair value.

The fair value of real estate investments is based on independent appraisals, when available, and the fair value of limited partnership interests in real estate investments is based on reported estimated fair values. Investments that do not have established market values are reported at estimated fair value.

Actuarial Data — The Fund uses the Aggregate Actuarial Cost method to determine the annual employer contribution. The excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the sum of the actuarial value of assets and the actuarial present value of employee contributions is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit date.

This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the actuarial present value allocated to a valuation year is called the normal cost. The actuarial accrued liability is equal to the actuarial value of assets.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net assets held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investment Expenses — The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the Fund was and $7,143,000 in 2006 and $5,472,000 in 2005, respectively.

NOTE 4: INVESTMENTS

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C), (2001 Ed.).

Master Trust — The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1-903(b), (2001 Ed.), with a master custodian under a master trust arrangement (the Master Trust). Using an investment pool, each Fund has equity in the pool. District and employee contributions are deposited to the respective Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate equity in the pool.

The fair values of investments of the Investment Pool as of September 30, 2006 and 2005 are as follows:

	2006	2005
Investments held by Board's agent in Board's name:		
Cash and cash equivalents	$ 147,585	$ 329,173
Equities (of which $304,375 and $211,403 in 2006 and 2005, respectively, is on securities loan with securities and other collateral)	2,675,639	2,126,761
Fixed income securities (of which $102,106 and $133,144 in 2006 and 2005, respectively, is on securities loan with securities and other collateral)	505,903	652,876
Payable on investment transactions	(118,558)	(311,725)
Subtotal	3,210,569	2,797,085
Investments held by broker-dealer under securities loans with cash collateral:		
Equities	304,375	211,403
Fixed income security	102,106	133,144
Securities lending collective investment pool	428,228	354,912
Subtotal	834,709	699,459
Total	$ 4,045,278	$ 3,496,544

At September 30, 2006, the Fund's share of the Investment Pool was $2,597,641 including cash collateral of $274,500 and accrued interest receivable. At September 30, 2005, the Fund's share of the Investment Pool was $2,214,620, including cash collateral of $224,265 and accrued interest receivable.

Debt Instruments

As of September 30, 2006, the Investment Pool held the following debt instruments:

Investment Type	Fair Value	% of Segment	Duration	Rating
U.S. Treasuries	$ 125,636$	15.45%	6.74	AAA
U.S. Agencies	78,544	9.66%	5.03	AAA
Corporate Securities	110,805	13.63%	6.33	A-
Mortgage-Backed Securities	341,624	42.01%	3.91	AAA
Asset-Backed Securities	6,320	0.78%	1.86	BBB-
High Yield Securities	49,093	6.04%	3.41	B+
Emerging Markets	16,521	2.03%	5.49	BB+
Non-U.S. Securities	28,441	3.50%	5.81	AA+
Convertibles	970	0.12%	3.81	B-
Cash Equivalents	55,225	6.79%	2.30	AA+
Total	$ 813,179$	100.00%		

As of September 30, 2005, the Investment Pool held the following debt instruments:

Investment Type	Fair Value	% of Segment	Duration	Rating
U.S. Treasuries	$ 142,294$	18.28%	5.83	AAA
U.S. Agencies	65,592	8.43%	5.00	AAA
Corporate Securities	117,018	15.04%	5.88	BBB+
Mortgage-Backed Securities	345,592	44.41%	3.64	AAA
Asset-Backed Securities	7,216	0.93%	2.36	A-
High Yield Securities	35,324	4.54%	3.77	BB-
Emerging Markets	29,310	3.77%	4.92	BB
Non-U.S. Securities	28,107	3.61%	5.47	AA+
Convertibles	1,423	0.18%	2.56	BB
Cash Equivalents	6,341	0.81%	5.98	AA+
Total	$ 778,217$	100.00%		

Interest Rate Risk — As a general rule, the Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

Credit Quality Risk — Unless specifically authorized in writing by the Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by a nationally recognized rating organization.

Foreign Currency Risk — As a general policy, the investment managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, may structure optimal currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

International investments historically have provided plan sponsors with significant risk-reducing diversification benefits because of low correlation of returns among international assets. Holding international assets does, however, expose international portfolios to currency or exchange rate risk. To reduce exposure to currency risk, investment managers may systematically hedge foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses arise.

As of September 30, 2006, the Investment Pool held investments that are denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class				
Currency	**Cash**	**Equities**	**Fixed Income**	**Swaps**	**Total**
Australian Dollar	$ 65	$ 17,576	$ -	$ -	$17,641
Canadian Dollar	-	18,637	-	-	18,637
Swiss Franc	23	59,904	-	-	59,927
Danish Krone	-	3,215	-	-	3,215
Euro	13,816	260,977	1,281	(114)	275,960
Pound Sterling	379	104,193	933	(106)	105,399
Hong Kong Dollar	99	32,014	-	-	32,113
Japanese Yen	10	187,966	-	-	187,976
South Korean Won	-	1,921	-	-	1,921
Norwegian Krone	35	2,547	-	-	2,582
New Zealand Dollar	1	-	-	-	1
Swedish Krona	60	12,034	-	-	12,094
Singapore Dollar	(68)	4,370	-	-	4,302
South African Rand	-	2,828	-	-	2,828
Thai Bhaf	25	1,473	-	-	1,498
Total Foreign	$ 14,445	$ 709,655	$2,214	$ (220)	$ 726,094

As of September 30, 2005, the Investment Pool held investments that are denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class			
Currency	Cash	Equities	Fixed Income	Total
Australian Dollar	$ 80	14,016$	$ -	$ 14,096$
Canadian Dollar	6	11,838	-	11,844
Swiss Franc	3	54,050	173	54,226
Danish Krone	-	3,679	-	3,679
Euro	4,888	219,274	11,618	235,780
Pound Sterling	238	89,008	483	89,729
Hong Kong Dollar	118	29,681	-	29,799
Japanese Yen	325	151,809	-	152,134
South Korean Won	-	1,061	-	1,061
Norwegian Krone	4	2,066	-	2,070
New Zealand Dollar	17	842		859
Swedish Krona	3	13,155	-	13,158
South African Rand	-	2,875		2,875
Singapore Dollar	45	7,605	-	7,650
Thai Bhat	29	2,875	-	2,904
Total Foreign	$ 5,756	$ 603,834	$ 12,274	$ 621,864

Securities Lending Transactions — District statutes and the Board's policies permit the Retirement Funds to participate in securities lending transactions via a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

During 2006 and 2005, the master custodian, at the direction of the Board, lent the Retirement Funds' equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality Fund). The Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, and accordingly, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2006 or 2005.

During 2006 and 2005, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2006 and 2005.

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of both September 30, 2006 and 2005 was 446 days and 404 days, respectively. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of both September 30, 2006 and 2005 was 52 and 45 days, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2006 and 2005, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board were $426,228 and $413,922, respectively, as of September 30, 2006, and $354,912 and $344,547, respectively as of September 30, 2005. During 2006 and 2005, the Master Trust's gross earnings from securities lending transactions totaled $21,017 and $9,944 respectively. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $22,099, $962, and $3,062 respectively, in 2006, and $10,207, $678, and $10,951, respectively, in 2005. The Fund's share of the net income on securities lending transactions totaled $605 and $560 in 2006 and 2005, respectively.

Derivative Investments — Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. Structured financial instruments are also defined as derivatives, such as mortgage-backed securities, asset-backed securities, and floating rate notes. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty), or to the creditworthiness of derivative securities, such as mortgage-backed, asset-backed, floating rate, and stripped securities. Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2006 and 2005, the Retirement Funds, in accordance with the policy of the Board, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. These derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Retirement Funds used ABS, CMOs, mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and TBAs primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U.S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U.S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset-backed and mortgage-backed pools and securities is managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

Floating rate notes (securities which pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on the security. Upward movements in interest rates do not adversely affect floating rate notes as they do fixed rate notes, allowing floating rate notes to function as a hedge against upward changes in interest rates.

The Retirement Funds invest in structured notes with step-up coupons that offer higher yields than comparable U.S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates which start at one rate and then step-up to higher rates on specific dates. The Retirement Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay any interest.

TBAs are used by the Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The TBAs used are assumed to be similar in duration and convexity to mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers. Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Equity index futures were used in at least one of the commingled funds used by the Retirement Funds in order to gain exposure to U.S. equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the Retirement Funds. Credit risk is managed by dealing with the futures exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Warrants are used by the Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost. Credit risk is similar to the underlying equity and/or bond holdings.

The Retirement Funds also holds derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

The proportion of derivative investment in the

Retirement Funds varies throughout the year. Further information regarding balances throughout the year is not available.

The Retirement Funds' aggregate portfolio included the following derivative investments, at fair value, at September 30, 2006 and 2005:

	2006	2005
Mortgage-backed security pools and securities	$ 177,289$	$ 338,201
Collateralized mortgage obligations	89,973	45,742
Asset-backed securities	68,137	1,635
Mortgage-backed securities forward contracts	1,332	60,356
Structured and inflation indexed bonds	82,351	17,284
Foreign currency futures/forward contracts, net	(3,150)	5,464
Interest rate swaps	660	(1,076)
Options	(8)	43
Total	$ 416,584	$ 467,649

Supplementary Information

Employer Contributions

Fiscal Year	Annual Required Contribution	Percentage Contributed
2006	$ 117,500	100%
2005	$ 112,100	100%
2004	$ 96,700	100%
2003	$ 68,900	100%
2002	$ 62,800	119%
2001	$ 49,000	100%

Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	September 30, 2006
Valuation date	October 1, 2004
Actuarial cost method	Aggregate
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5%
Includes inflation at	5%
Cost-of-living adjustments (COLAs)	5%
[1]Post-1996 hires have COLAs capped at 3.00%	

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Revenue by Source and Expense by Type

REVENUE BY SOURCE

Fiscal Year	Employee Contributions	Employer Contributions	Interest and Dividends	Net Appreciations (Depreciation) in Fair Value of Investments	Investment, Interest and Administrative Expenses	Total
2006	$ 25,142	$ 117,500	$ 83,495	$ 148,175	$ (21,398)	$ 352,914
2005	23,804	112,100	65,368	182,608	(16,250)	367,630
2004	20,847	96,700	41,696	129,427	(7,286)	281,384
2003	19,867	68,900	33,247	151,584	(5,542)	268,056
2002	19,390	74,600	35,226	(129,669)	(6,566)	(7,019)
2001	16,832	49,000	44,214	(182,944)	(9,454)	(82,352)
2000	16,285	39,900	39,243	110,614	(8,937)	197,105
1999	15,736	35,100	29,765	84,694	(6,819)	158,476
1998	14,953	47,700	29,756	(13,806)	(5,399)	73,204
1997	13,796	226,700	96,368	510,240	(20,618)	826,486

EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Total
2006	$13,000	$ 2,795	$ 15,795$
2005	9,580	3,984	13,564
2004	7,903	-	7,903
2003	6,091	-	6,091
2002	3,222	-	3,222
2001	2,838	-	2,838
2000	2,200	-	2,200
1999	1,600	-	1,600
1998	400	75	475
1997	240,836	162	240,998
1996	213,945	101	214,046

Note: Contributions were made in accordance with actuarially determined contribution requirements.

The Revitalization Act of 1997 made significant changes to the administration of the Fund. Therefore, comparisons of pre-Revitalization Act information to post-Revitalization Act information may not be meaningful.

Investment Information

At September 30, 2004, the Fund's investments were maintained under a master trust agreement along with assets of the District of Columbia Teachers' Retirement Fund. A schedule of investments held under the master trust agreement at September 30, 2004, is available for inspection at the offices of the District of Columbia Retirement Board, 900 7th Street, NW, 2nd Floor, Washington, DC 20001.

Independent Auditor's Report

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Board of Trustees
District of Columbia Teachers' Retirement Fund

We have audited the accompanying statements of net assets of the District of Columbia Teachers' Retirement Fund (the Fund), a Pension Trust Fund of the Government of the District of Columbia, as of September 30, 2006 and 2005, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, these financial statements only present the Fund and do not purport to, and do not, present the financial position of the Government of the District of Columbia as of September 30, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The information on schedules 1 and 2 and the management's discussion and analysis are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on schedules 3 through 5 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Thompson, Cobb, Bazilio & Associates, PC

Washington, D.C.
December 30, 2006

Management's Discussion and Analysis

This discussion and analysis provides an overview of the financial activities of the District of Columbia Teachers' Retirement Fund (the Fund) as of and for the fiscal year ended September 30, 2006. This discussion and analysis should be read in conjunction with the statements, notes, and supplementary information.

The District of Columbia Retirement Board (the "Board") is an independent agency of the District of Columbia government. The Board is responsible for managing the assets of the Fund and of the District of Columbia Police Officers' and Fire Fighters' Retirement Fund. As authorized by DC Code, the Board commingles the assets of the two Retirement Funds for investment purposes. The Board proportionately allocates the investment activity and the administrative expenses of the Board between the two Retirement Funds

Effective October 1, 2005, the Board became responsible for administering the pension benefits, and the related administrative expenses are borne by the Board

Effective October 1, 2005, the Board is under contract to the United States Department of the Treasury (the U.S. Treasury) to administer teacher pension benefits that are the financial responsibility of the Federal government. The U.S. Treasury will reimburse the Board for relevant administrative expenses.

The Board incurred certain expenses during fiscal year 2006 in preparation for administering District and Federal pension benefits. The U.S. Treasury agreed to reimburse the Board for certain transition expenses.

FINANCIAL HIGHLIGHTS

The financial highlights are:

- Net Assets Held in Trust for Pension Benefits as of September 30, 2006 were $1,279,139.
- Net Assets Held in Trust for Pension Benefits increased during fiscal year 2006 by $136,618.
- The Net Investment Income for fiscal year 2006 was $120,114.
- The District of Columbia government contributed $15,500 to the Fund for fiscal year 2006, which satisfied its statutory obligation.
- The Fund's share of administrative expenditures for fiscal year 2006 was $1,010.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

This discussion and analysis is an introduction to the basic financial statements and schedules. The basic financial statements include two statements, notes, and supplementary information.

Statements of Net Assets — present the assets, liabilities, and net assets held in trust for pension benefits as of the end of the current and prior fiscal year.

Statements of Changes in Net Assets — present the additions to and deductions from the net assets during the current and prior fiscal years. The statements present the major sources of additions and uses of deductions. Over time, the net increase or decrease in net assets may serve as a useful indicator of whether the financial position of the Fund as a whole is improving or deteriorating.

Notes to Financial Statements — present various disclosures to augment the two statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments.

Supplementary Information — presents additional information about employer contributions, actuarial assumptions, additions and deductions for the last 10 fiscal years, and investments.

FINANCIAL ANALYSIS

The Fund had Net Assets Held in Trust for Pension Benefits as of September 30, 2006, of $1,279,139, which is an increase of $136,618 from the end of the prior fiscal year.

Net Assets

A summary of the Net Assets Held in Trust for Pension Benefits is below.

Changes in Net Assets

The net assets increased during fiscal year 2006 by $136,618. A summary of the change is below.

The District of Columbia government made the required employer contribution in fiscal year 2006 based on the funding formula contained in DC Code.

The Fund pays for pension benefits earned since June 30, 1997. As a result, the pension benefit expense will be increasing. The Fund also pays for increases in pension benefits that result from changes after June 30, 1997 in the provisions of the plan.

The Total Fund returned 10.4% during FY 2006. While it underperformed the Asset Allocation Benchmark by 60 basis points (10.4% versus 11.0%), the Total Fund outperformed the Board's actuarial assumed rate of return of 7.25% by approximately 315 basis points. The Total Fund's underperformance relative to the Asset Allocation Benchmark for FY 2006 can be attributed primarily to underperformance by the domestic equity segment. However, active management within the international equity, fixed income, and real estate segments contributed positively to relative returns. The international equity segment outperformed its benchmark by 230 basis points (20.6% versus 18.3%), the fixed income segment outperformed its benchmark by 80 basis points (4.5% versus 3.7%), and the real estate segment outperformed its benchmark by 530 basis points (22.9% versus 17.6%).

As of September 30, 2006, the Total Fund's assets equaled $3.62 billion, an increase of approximately 15% from the total asset value at the end of FY 2005. Over the long-term, the Total Fund has slightly underperformed the Total Fund Benchmark, with the Total Fund returning an annualized 8.7% for the 10-year period ended September 30, 2006, versus 8.9% for the Total Fund Benchmark. However, it should be noted that the Total Fund exceeded the Board's actuarial assumed rate of return (7.25%) for the 3-year, 5-year, and 10- year periods ended September 30, 2006, by approximately 480 basis points, 130 basis points, and 145 basis points, respectively, on an annualized basis. Since its inception

NET ASSSETS

	2006	2005	Increase (Decrease)	Percent
Investments, net of accrued interest receivable and liabilities	$1,292,796	$ 1,155,356	$ 137,440	11.90 %
Fixed Assets, NBV	30	50	(20)	(40.00) %
Contributions receivable	1,630	945	685	72.49 %
Due from (to) District	61	(1,488)	1,549	(104.10) %
Due to Charter School	-	(28)	28	(100.00) %
Due to Federal Government	(15,378)	(12,314)	(3,064)	24.88 %
Net Assets	$1,279,139	$ 1,142,521	$ 136,618	11.96 %

CHANGES IN NET ASSSETS

	2006	2005	Increase (Decrease)	Percent
Employer contributions	$ 15,500	$ 9,200	$ 6,300	68.48 %
Employee contributions	25,807	24,778	1,029	4.15 %
Net investment income	120,114	137,333	(17,219)	(12.54) %
Total Additions	161,421	171,311	(9,890)	(5.77)%
Benefit payments	23,793	20,879	2,924	14.01%
Administrative expenses	1,010	2,210	(1,200)	(54.30) %
Total Deductions	24,803	23,079	1,724	7.47 %
Net change in net assets	$ 136,618	$ 148,232	$ (11,614)	(7.84) %

in October 1982, the Total Fund has earned an annualized return of 10.5%.

Public equity markets continued to perform well during FY 2006, as world stock markets rallied for the fourth straight year. The Russell 3000 Index, a broad-based U.S. equity index, rose 10.2% during the period. Non-U.S. equity markets outperformed U.S. stocks for the fifth consecutive year, with the MSCI EAFE Index increasing 14.5% during the 12-month period ended September 30, 2006. Private equity investments enjoyed strong performance for the second straight year, with the Cambridge Private Equity Index rising 22.5% for the 1-year period. Fixed income was again the worst performing asset class during FY 2006, with the Lehman Brothers Aggregate Bond Index returning 3.1% as the Federal Reserve continued to raise short-term interest rates.

During FY 2006, the Board maintained its strategic asset allocation targets, which had been established in FY 2003 following an asset/liability study conducted by the Board's general investment consultant, Watson Wyatt. This study was updated by Watson Wyatt in FY 2005, and asset class targets remain as follows:

U.S. Equities	40%
Fixed Income	25%
International Equities	20%
Private Equity	10%
Real Estate	5%

As of September 30, 2006, all asset classes were within their respective target allocation ranges, with the exception of private equity. Due to the difficulties involved in deploying large amounts of capital expeditiously in this asset class, it may take several years until the Board reaches full exposure to private equity. Thus, U.S. public equities will he used as a proxy for exposure to private equity until this strategy can be fully implemented.

During FY 2006, the Board took important steps in moving toward its target private equity and real estate allocations. Pantheon, the Board's discretionary private equity advisor and fund-of-fund manager who was initially funded by the Board in November 2004, had made capital commitments of more than $182 million in 49 private equity partnerships through September 30, 2006. The Board also approved an investment in a secondary private equity fund managed by Pantheon, which is expected to be funded in FY 2007. Regarding real estate, the Board funded the JP Morgan Strategic Property Fund (core), and selected and funded CB Richard Ellis Strategic Partners IV (high return), during FY 2006. While the Board may fund an additional real estate manager in FY 2007, the Board's current exposure to real estate is within its target allocation range.

The Board reviewed the investment structure of its non-U.S. equity segment during FY 2006 and decided to change the segment's benchmark to the MSCI ACWI ex-US Index in order to reflect the broader scope of international equity markets, including emerging markets. The Board also reviewed the investment structure of its fixed income segment, electing to change the segment's benchmark to the Lehman US Universal Index, which includes high yield and emerging markets fixed income securities. Within the US equity segment, the Board conducted a search for a mid-cap value manager to replace Ariel Capital, selecting and funding Thompson, Siegel, & Walmsley. In addition, with the goal of increasing alpha and diversification in the Total Fund, the Board conducted a search for a multi-strategy manager, selecting and funding Bridgewater Associates.

The Board continued to rebalance its managers' portfolios during FY 2006 in accordance with the Board's rebalancing policy. Variances from investment style targets were rebalanced as needed in a manner that maintained the overall integrity of the asset class structure but was not disruptive to the managers.

Going forward in FY 2007, the Board intends to continue the implementation of its strategic asset allocation policy. The Board will continue to review the investment structure of its asset class segments and to carefully monitor the performance of its investment managers. As appropriate, the Board will make adjustments to its investment structure within each asset class and conduct manager searches, when necessary, in order to enhance the performance of the Total Fund.

ADDITIONAL INFORMATION

These financial statements present the finances of the Fund in accordance with accounting principles generally accepted in the United States of America. Questions about these financial statements or other inquiries should be addressed to the Executive Director, District of Columbia Retirement Board, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

Financial Statements

Statement of Net Assets

	2006	2005
ASSETS		
Equity in pooled investments under Master Trust Agreement, at fair value (Note 4)	$ 1,444,374	$ 1,283,515
Accrued interest receivable	3,254	3,409
Benefit contributions receivable	1,630	945
Fixed assets, net of accumulated depreciation	30	50
Due form District of Columbia Government	61	-
Total assets	1,449,349	1,287,919
LIABILITIES		
Liabilities under securities lending transactions	153,727	130,647
Accounts Payable - investment expense	1,105	921
Due to Federal Government	15,378	12,314
Due to District of Columbia Government	-	1,488
Due to Charter Schools	-	28
Total liabilities	170,210	145,398
Net Assets Held in Trust for Pension Benefits	**$ 1,279,139**	**$ 1,142,521**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Assets

	2006	2005
Additions		
Contributions:		
District government	$ 15,500	$ 9,200
District employees	25,807	24,778
Total contributions	41,307	33,978
Investment income:		
Net appreciation in fair value of investments	86,084	106,378
Interest and dividends	37,384	33,835
Gross earnings on security lending transactions	7,121	3,419
	130,589	143,632
Less:		
Investment expenses	3,685	3,204
Borrower rebates and agent fees on security lending transactions	6,790	3,095
Net investment income	120,114	137,333
Total additions	161,421	171,311
Deductions		
Benefit payments	23,793	20,869
Administrative expenses	1,010	2,210
Total deductions	24,803	23,079
Net Increase in Net Assets	136,618	148,232
Net Assets Held in Trust for Pension Benefits		
Beginning of year	1,142,521	994,289
End of year	$ 1,279,139	$ 1,142,521

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

NOTE 1: ORGANIZATION

The District of Columbia Teachers' Retirement Fund (the Fund) was established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96-122, D. C. Code § 1-701 et seq.). The Fund provides assets to pay pension benefits to all teachers employed by the Board of Education, including certain other educational employees in the public day schools and certain eligible educational employees in the public charter schools of the District of Columbia. The Reform Act also established the District of Columbia Retirement Board (the Board) and the District of Columbia Police Officers and Firefighters' Retirement Fund (the Police and Fire Fund).

The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act, Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the Fund and the Police Officers and Fire Fighters' Retirement Fund (collectively, the Funds) to the Federal Government.

Concurrently, the District of Columbia Retirement Protection Act of 1997 (the Retirement Protection Act, Subtitle A of the Revitalization Act) transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government and the assets of the Fund managed by the Board are components of the same single employer defined benefit pension plan.

As required by the Retirement Protection Act, the Council of the District of Columbia (the Council) enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (September 18, 1998, D.C. Law 12-152, § 101, 45 DCR 4045; D.C. Code § 1-901.01 et seq.). This Act (the Replacement Act) established the pension benefits for employee service earned after June 30, 1997, and provides for full funding of the benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia Government (the District) that is responsible for managing the assets of the District Retirement Funds. Although the assets of the funds are commingled for investment purposes, each Fund's assets may only be used for the payment of benefits to the participants of that Fund and certain administrative expenses.

The Fund is included in the District's Comprehensive Annual Financial Report as a pension trust fund.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

District of Columbia Retirement Board — The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected Trustees, including one active and one retired representative, each from the police officers, firefighters, and teachers. In addition, the District's Chief Financial Officer or his designee serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, thoroughly and comprehensively reviews all issues brought before it. The Board has six standing committees, including Benefits, Emerging Enterprise, Fiduciary, Investment, Legislative, and Operations. To implement its policies, the Board retains an Executive Director and other staff to be responsible for the day-to-day management of the Funds.

Other Administration — The District Board of Education makes findings of fact, conclusions of law, and decisions regarding involuntary retirement, survivor benefits and annual medical and income reviews. The DCRB Benefits Department receives retirement orders for retirement benefit calculations for all active plan members found eligible for retirement and carries out the processing and day-to-day administration of retirement benefits. DCRB also processes employee requests for refunds of contributions. Effective in October 1, 2005, the Board assumed the administrative functions previously performed by the OPRS.

Eligibility — Permanent, temporary and probationary teachers and certain other employees of the District of Columbia public day schools automatically become members on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. Substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2001.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the Council. For employees hired before November 1, 1996, the annuity is equal to the average salary, as defined, multiplied by 1.5% for each of the first five years of service, 1.75% for each of the second five years, and 2% for each additional year. For employees hired on or after November 1, 1996, the annuity is equal to the average salary, as defined, multiplied by 2% for each year of service. The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the increase may not exceed 3% for participants hired on or after November 1, 1996.

Participants may select from among several survivor options. Participants who have 5 years of school service (work for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Disability benefits are calculated under a guaranteed minimum formula.

Optional retirement is available for teachers who have a minimum of 5 years of school service and who achieve the following age and length of service requirements:

at age 62 with 5 years of service;
at age 60 with 20 years of service; and
at age 55 with 30 years of service;
or at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

Employees who are involuntarily separated other than for cause and who have five years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

The annuity is reduced, if at the time of its commencement, the participant is under the age of 55.

Participant Data — For the years ended September 30, 2006 and 2005 the number of participating employees was as follows:

	2006	2005
Retirees and beneficiaries receiving benefits (post 6/30/97)	1,808	1,639
Active vested plan members	5,088	5,707
Vested Terminants	981	758
Total	7,877	8,104

Contributions — Fund members contribute by salary deduction at rates established by D.C. Code. Members contribute 7% (or 8% for teachers hired on or after November 1, 1996) of annual pay minus any pay received for summer school. Fund members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal years 2006 and 2005 were equal to the Fund's independent actuary's recommendation.

Contribution requirements of the Fund members are established at D.C. Code § 38-2001.01 et seq. (2001 Ed.) and contribution requirements of the government of the District of Columbia are established at D.C. Code 1-907.02 (2001 Ed.). Contribution requirements may be amended by the Council. Administrative costs are financed through investment earnings.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized as compensation is earned by fund members.

Employer contributions to the Fund are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Method Used to Value Investments — Investments are reported at fair value, and reflect transaction costs, such as brokerage commissions and other costs normally incurred in a sale, if such costs are determinable. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rate. Collateralized mortgage obligations are stated at fair value.

The fair value of real estate investments is based on independent appraisals, when available, and the fair value of limited partnership interests in real estate investments is based on reported estimated fair values. Investments that do not have established market values are reported at estimated fair value.

Actuarial Data — The Fund uses the Aggregate Actuarial Cost method to determine the annual employer contribution. The excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the sum of the actuarial value of assets and the actuarial present value of employee contributions is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit date.

This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the actuarial present value allocated to a valuation year is called the normal cost. The actuarial accrued liability is equal to the actuarial value of assets.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net assets held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investment Expenses — The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the Fund was $3,685,000 and $3,204,000 in 2006 and 2005, respectively.

NOTE 4: INVESTMENTS

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C), (2001 Ed.).

Master Trust — The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1- 903.03(b), (2001 Ed.), with a master custodian under a master trust arrangement (the Master Trust). Using an investment pool, each Fund has equity in the pool. District and employee contributions are deposited to the respective Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate equity in the pool.

The fair values of investments of the Investment Pool as of September 30, 2006 and 2005, are as follows:

	2006	2005
Investments held by Board's agent in Board's name:		
Cash and cash equivalents	$ 147,585	$ 329,173
Equities (of which $304,375 and $211,403 in 2006 and 2005, respectively, is on securities loan with securities and other collateral)	2,675,639	2,126,761
Fixed income securities (of which $102,106 and $133,144 in 2006 and 2005, respectively, is on securities loan with securities and other collateral)	505,903	652,876
Payable on investment transactions	(118,558)	(311,725)
Subtotal	3,210,569	2,797,085
Investments held by broker-dealer under securities loans with cash collateral:		
Equities	304,375	211,403
Fixed income security	102,106	133,144
Securities lending collective investment pool	428,228	354,912
Subtotal	834,709	699,459
Total	$ 4,045,278	$ 3,496,544

At September 30, 2006, the Fund's share of the Investment Pool was $1,447,628 including cash collateral of $153,726 and accrued interest receivable. At September 30, 2005, the Fund's share of the Investment Pool was $1,286,924, including cash collateral of $130,647 and accrued interest receivable.

Debt Instruments

As of September 30, 2006, the Investment Pool held the following debt instruments:

Investment Type	Fair Value	% of Segment	Duration	Rating
U.S. Treasuries	$ 125,636	$ 15.45%	6.74	AAA
U.S. Agencies	78,544	9.66%	5.03	AAA
Corporate Securities	110,805	13.63%	6.33	A-
Mortgage-Backed Securities	341,624	42.01%	3.91	AAA
Asset-Backed Securities	6,320	0.78%	1.86	BBB-
High Yield Securities	49,093	6.04%	3.41	B+
Emerging Markets	16,521	2.03%	5.49	BB+
Non-U.S. Securities	28,441	3.50%	5.81	AA+
Convertibles	970	0.12%	3.81	B-
Cash Equivalents	55,225	6.79%	2.30	AA+
Total	$ 813,179	100.00%		

As of September 30, 2005, the Investment Pool held the following debt instruments:

Investment Type	Fair Value	% of Segment	Duration	Rating
U.S. Treasuries	$ 142,294	$ 18.28%	5.83	AAA
U.S. Agencies	65,592	8.43%	5.00	AAA
Corporate Securities	117,018	15.04%	5.88	BBB+
Mortgage-Backed Securities	345,592	44.41%	3.64	AAA
Asset-Backed Securities	7,216	0.93%	2.35	A
High Yield Securities	35,324	4.54%	3.77	BB-
Emerging Markets	29,310	3.77%	4.92	BB
Non-U.S. Securities	28,107	3.61%	5.47	AA+
Convertibles	1,423	0.18%	2.56	BB
Cash Equivalents	6,341	0.81%	5.98	AA+
Total	$ 778,217	100.00%		

Interest Rate Risk — As a general rule, the Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

Credit Quality Risk — Unless specifically authorized in writing by the Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by a nationally recognized rating organization.

Foreign Currency Risk — As a general policy, the investment managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, may structure optimal currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

International investments historically have provided plan sponsors with significant risk-reducing diversification benefits because of low correlation of returns among international assets. Holding international assets does, however, expose international portfolios to currency or exchange rate risk. To reduce exposure to currency risk, investment managers may systematically hedge foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses arise.

As of September 30, 2006, the Investment Pool held investments that are denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class				
Currency	**Cash**	**Equities**	**Fixed Income**	**Swaps**	**Total**
Australian Dollar	$ 65	$ 17,576	$ -	$ -	$ 17,641
Canadian Dollar	-	18,637	-	-	18,637
Swiss Franc	23	59,904	-	-	59,927
Danish Krone	-	3,215	-	-	3,215
Euro	13,816	260,977	1,281	(114)	275,960
Pound Sterling	379	104,193	933	(106)	105,399
Hong Kong Dollar	99	32,014	-	-	32,113
Japanese Yen	10	187,966	-	-	187,976
South Korean Won	-	1,921	-	-	1,921
Norwegian Krone	35	2,547	-	-	2,582
New Zealand Dollar	1	-	-	-	1
Swedish Krona	60	12,034	-	-	12,094
Singapore Dollar	(68)	4,370	-	-	4,302
South African Rand	-	2,828	-	-	2,828
Mexican Peso	-	-	-	-	-
Thai Bhaf	25	1,473	-	-	1,498
Total Foreign	$ 14,445	$ 709,655	$ 2,214	$ (220)	$ 726,094

As of September 30, 2005, the Investment Pool held investments that are denominated in a currency other than the United States Dollar, as summarized below:

	Asset Class			
Currency	**Cash**	**Equities**	**Fixed Income**	**Total**
Australian Dollar	$ 80	$ 14,016	$ -	$14,096
Canadian Dollar	6	11,838	-	11,844
Swiss Franc	3	54,050	173	54,226
Danish Krone	-	3,679	-	3,679
Euro	4,888	219,274	11,618	235,780
Pound Sterling	238	89,008	483	89,729
Hong Kong Dollar	118	29,681	-	29,799
Japanese Yen	325	151,809	-	152,134
South Korean Won	-	1,061	-	1,061
Norwegian Krone	4	2,066	-	2,070
New Zealand Dollar	17	842	-	859
Swedish Krona	3	13,155	-	13,158
South African Rand	-	2,875	-	2,875
Singapore Dollar	45	7,605	-	7,650
Thai Bhaf	29	2,875	-	2,904
Total Foreign	$ 5,756	$ 603,834	$ 12,274	$ 621,864

Securities Lending Transactions — District statutes and the Board's policies permit the Retirement Funds to participate in securities lending transactions via a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

During 2006 and 2005, the master custodian, at the direction of the Board, lent the Retirement Funds' equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality Fund). The Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, and accordingly, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Fund's position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2006 or 2005.

During 2006 and 2005, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2006 and 2005.

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of both September 30, 2006 and 2005 was 446 days and 404 days, respectively. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of both September 30, 2006 and 2005 was 52 and 45 days, respectively. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2006 and 2005, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board were $428,228 and $413,922, respectively, as of September 30, 2006, and $354,912 and $344,547, respectively as of September 30, 2005. During 2006 and 2005, the Master Trust's gross earnings from securities lending transactions totaled $21,017 and $9,944, respectively. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $22,099, $962, and $23,062, respectively, in 2006, and $10,207, $678, and $10,915, respectively, in 2005. The Fund's share of the net income on securities lending transactions totaled $331 and $324 in 2006 and 2005, respectively.

Derivative Investments — Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. Structured financial instruments are also defined as derivatives, such as mortgage-backed securities, asset-backed securities, and floating rate notes. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty), or to the creditworthiness of derivative securities, such as mortgage-backed, asset-backed, floating rate, and stripped securities. Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2006 and 2005, the Retirement Funds, in accordance with the policy of the Board, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. These derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Retirement Funds used ABS, CMOs, mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and TBAs primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U.S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U.S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset-backed and mortgage-backed pools and securities is managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

Floating rate notes (securities which pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on the security. Upward movements in interest rates do not adversely affect floating rate notes as they do fixed rate notes, allowing floating rate notes to function as a hedge against upward changes in interest rates.

The Retirement Funds invest in structured notes with step-up coupons that offer higher yields than comparable U.S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates which start at one rate and then step-up to higher rates on specific dates. The Retirement Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay any interest.

TBAs are used by the Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The TBAs used are assumed to be similar in duration and convexity to mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers. Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Equity index futures were used in at least one of the commingled funds used by the Retirement Funds in order to gain exposure to U. S. equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the Retirement Funds. Credit risk is managed by dealing with the futures exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Warrants are used by the Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost. Credit risk is similar to the underlying equity and/or bond holdings.

The Retirement Funds also holds derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

The proportion of derivative investments in the

Retirement Funds varies throughout the year. Further information regarding balances throughout the year is not available.

The Retirement Funds' aggregate portfolio included the following derivative investments, at fair value, at September 30, 2006 and 2005:

	2006	2005
Mortgage-backed security pools and securities	$ 177,289	$ 338,201
Collateralized mortgage obligations	89,973	45,742
Asset-backed securities	68,137	1,635
Mortgage-backed securities forward contracts	1,332	60,356
Structured and inflation indexed bonds	82,351	17,284
Foreign currency futures/forward contracts, net	(3,150)	5,464
Interest rate swaps	660	(1,076)
Options	(8)	43
Total	$ 416,584	$ 467,649

Supplementary Information

Employer Contributions

Fiscal Year	Required Annual Contribution	Percentage Contributed
2006	$15,500	100%
2005	9,200	100%
2004	2,900	100%
2003	-	100%
2002	1,000	100%
2001	1,000	100%

Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

September 30, 2006	
Valuation date	October 1, 2004
Actuarial cost method	Aggregate
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5%
Includes inflation at	5%
Cost-of-living adjustments (COLAs)	5%

[1]Post-1996 hires have COLAs capped at 3.00%

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Revenue by Source and Expense by Type

REVENUE BY SOURCE

Fiscal Year	Employee Contributions	Employer Contributions	Net Appreciations (Depreciation) Interest and Dividends	Investment, Interest and in Fair Value of Investments	Administrative Expenses	Total
2006	$ 25,807	$ 15,500	$ 44,505	$ 86,084	(11,485)	$ 160,411
2005	24,778	9,200	37,254	106,378	(8,509)	169,101
2004	26,283	-	25,580	80,836	(4,468)	128,231
2003	26,047	-	22,074	101,914	(3,640)	146,395
2002	25,374	-2	4,242	(86,692)	(4,515)	(41,591)
2001	24,047	200	31,112	(129,875)	(6,595)	(81,111)
2000	23,646	10,700	28,896	78,536	(6,681)	135,097
1999	21,537	18,600	26,573	105,295	(4,694)	167,311
1998	20,385	9,700	21,109	(9,756)	(3,915)	37,523
1997	19,405	88,100	65,682	363,256	(14,655)	521,788

EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Total
2006	$ 15,900	$ 7,893	$ 23,793
2005	12,400	8,469	20,869
2004	8,600	-	8,600
2003	5,100	-	5,100
2002	3,800	-	3,800
2001	2,600	-	2,600
2000	1,600	-	1,600
1999	700	-	700
1998	200	479	679
1997	144,007	408	144,415

Note: Contributions were made in accordance with actuarially determined contribution requirements.

The Revitalization Act of 1997 made significant changes to the administration of the Fund. Therefore, comparisons of pre-Revitalization Act information to post-Revitalization Act information may not be meaningful.

Investment Information

At September 30, 2006, the Fund's investments were maintained under a master trust agreement along with assets of the District of Columbia Police Officers and Fire Fighters' Retirement Fund. A schedule of investments held under the master trust agreement at September 30, 2005, is available for inspection at the offices of the District of Columbia Retirement Board, 900 7th Street, NW, 2nd Floor, Washington, DC 20001.

Investment Section

Introduction

The District of Columbia Retirement Board (the "Board"), is an independent Agency of the District of Columbia government. The Board manages and controls the assets belonging to the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers' and Firefighters' Retirement Fund (the "Funds" or "Total Fund"). The Board is charged by law with responsibility for the investment of these assets.

The Board retains the services of investment advisors to manage individual investment portfolios. These professional investment managers acknowledge in writing their fiduciary responsibility and possess the necessary specialized research facilities and skills. Each investment manager is accorded full discretion, within general and specific investment manager policy guidelines, limits, and restrictions, to select and time purchase and sale transactions and to diversify assets appropriately.

Investment Objectives and Policies

The Board seeks long-term investment returns in excess of the actuarial investment assumption at a level of risk commensurate with the expected levels of return and consistent with sound and responsible investment practices. The assumed actuarial investment rate is currently set at 7.25%, net of investment management fees and administrative expenses. In addition to meeting the 7.25% nominal return over the long term, the Total Fund return objective is to exceed the annualized total return of the Board's strategic asset allocation policy benchmark (the "Total Fund Benchmark"). As of September 30, 2006, the Total Fund Benchmark consisted of the following:

Asset Class	Performance Benchmark	Weight
U.S. Equities	Russell 3000 Index	40%
Non-U.S. Equities	MSCI ACWI ex-US Index	20%
Fixed Income	LB US Universal Index	25%
Private Equity	Cambridge Private Equity Index	10%
Real Estate	NCREIF Index	5%

Proxies are a significant and valuable tool in corporate governance. The Board's equity investment managers must promptly vote and monitor proxies and related actions in a manner consistent with the Board's proxy voting guidelines. Each investment manager shall exercise all voting rights consistent with its fiduciary duties.

FY 2006 Market Overview

Public equity markets continued to perform well during FY 2006, as world stock markets rallied for the fourth straight year. The Russell 3000 Index, a broad-based U.S. equity index, rose 10.2% during the period. Non-U.S. equity markets outperformed U.S. stocks for the fifth consecutive year, with the MSCI EAFE Index increasing 14.5% during the 12-month period ended September 30, 2006. Private equity investments enjoyed strong performance for the second straight year, with the Cambridge Private Equity Index rising 22.5% for the 1-year period. Fixed income was again the worst performing asset class during FY 2006, with the Lehman Brothers Aggregate Bond Index returning 3.1%, as the Federal Reserve continued to raise short-term interest rates.

Investment Results

The Total Fund had a gross return of 10.4% during FY 2006. While it underperformed the Total Fund Benchmark by 120 basis points (10.4% versus 11.6%), the Total Fund outperformed the Board's actuarial assumed rate of return of 7.25% by approximately 255 basis points net of investment management fees (9.8% versus 7.25%). The Total Fund's underperformance relative to the Total Fund Benchmark for FY 2006 can be attributed primarily to underperformance by the domestic equity segment. However, active management within the international equity, fixed income, and real estate segments contributed positively to relative returns. The international equity segment outperformed its benchmark by 230 basis points (20.6% versus 18.3%), the fixed income segment outperformed its benchmark by 80 basis points (4.5% versus 3.7%), and the real estate segment outperformed its benchmark by 530 basis points (22.9% versus 17.6%).

As of September 30, 2006, the Total Fund's assets equaled $3.62 billion, an increase of approximately 15% from the total asset value at the end of FY 2005 after payment of administrative expenses. Over the long-term, the Total Fund has slightly underperformed the Total Fund Benchmark, with the Total Fund returning an annualized 8.7% (gross) for the 10-year period ended September 30, 2006, versus 8.9% for the Total Fund Benchmark. However, it should be noted that the Total Fund exceeded the Board's actuarial assumed rate of return (7.25%) for the 3-year, 5-year, and 10-year periods ended September 30, 2006, by approximately 440 basis points, 100 basis points, and 110 basis points, respectively, on an annualized basis net of investment management fees. Since its inception in October 1982, the Total Fund has an annualized gross return of 10.5%.

Presented in the table below are the gross returns for the Total Fund and for each asset class segment for multiple time periods ended September 30, 2006. These results have been calculated by the Board's custodial bank, State Street Bank and Trust Company, and are time-weighted returns computed in conformance with the CFA Institute's Global Investment Performance Standards (GIPS). Applicable benchmark returns also are presented below each asset class.

District of Columbia Retirement Board Investment Performance
Gross Annualized Returns For Periods Ended September 30, 2006

	1-Year	3-Year	5-Year	10-Year
Total Fund	**10.4%**	**12.1%**	**8.5%**	**8.7%**
Actuarial Assumed Rate of Return	7.3	7.3	7.3	7.2
Total Fund Benchmark*	11.6	13.7	9.7	8.9
U.S. Equity Segment	**8.9**	**12.6**	**8.3**	**9.1**
Russell 3000 Index	10.2	13.0	8.1	8.7
Non-U.S. Equity Segment	**20.6**	**21.5**	**13.1**	**7.3**
Non-U.S. Equity Benchmark**	18.3	22.0	14.1	6.7
Fixed Income Segment	**4.5**	**4.7**	**6.1**	**7.4**
Fixed Income Benchmark***	3.7	3.4	4.8	6.4
Alternative Investments Segment	**5.4**	**9.6**	**-0.4**	**6.3**
Russell 3000 Index + 500 bps	15.4	18.2	13.6	14.6
Real Estate Segment	**22.3**	**15.7**	**6.6**	**5.9**
NCREIF Property Index	17.6	16.4	12.4	12.5
Cash Segment	**4.6**	**2.8**	**2.4**	**4.0**
3-month Treasury Bills	4.5	2.7	2.3	3.8

* The Total Fund Benchmark currently is a composite of 40% Russell 3000, 20% MSCI ACWI xUS, 25% LB Universal, 10% Cambridge Private Equity, 5% NCREIF

From 3/31/03 to 3/31/06: 40% Russell 3000, 20% MSCI EAFE, 25% LB Aggregate, 10% Cambridge Private Equity, 5% NCREIF

From 6/30/99 to 3/31/03: 43.7% Russell 3000, 20% MSCI EAFE, 30.3% LB Aggregate, 5% Cambridge Private Equity, 1% 90-day T-Bills

From 1/1/97 to 6/30/99: 45% Russell 3000, 18% MSCI EAFE, 2% IFC Global, 17.5% LB Aggregate, 7.5% Salomon World Govt. Bond, 5% Salomon High Yield, 1.5% NCREIF, 3.5% Venture Cap 100

From 10/01/96 to 12/31/96: 45% S&P 500, 20% MSCI EAFE, 22.5% LB Aggregate, 7.5% Salomon World Govt. Bond Index, 2.5% NCREIF, 2.5% Venture Cap 100

**The Non-U.S. Equity Benchmark currently is the MSCI ACWI ex-US Index. Prior to 4/1/06, it was the MSCI EAFE Index.

*** The Fixed Income Benchmark currently is the Lehman Brothers US Universal Index. Prior to 4/1/06, it was the Lehman Brothers Aggregate Index.

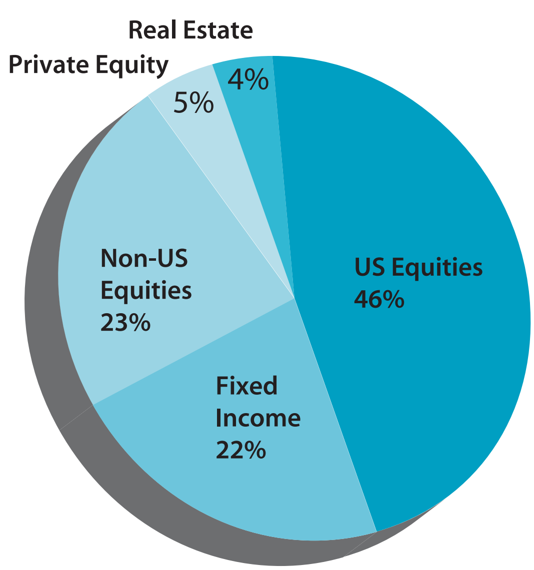
Asset Allocation

During FY 2006, the Board maintained its strategic asset allocation targets, which had been established in FY 2003 following an asset/liability study conducted by the Board's general investment consultant, Watson Wyatt Investment Consulting. This study was updated by Watson Wyatt in FY 2005, and asset class targets remain as follows:

Asset Class	Target Allocation	Allowable Range	Allocation as of 9/30/06
U.S. Equities	40%	35-45%	46%
Fixed Income	25%	20-30%	22%
Non-U.S. Equities	20%	15-25%	23%
Private Equity	10%	7-13%	5%
Real Estate	5%	2-8%	4%

As of September 30, 2006, all asset classes were within their respective target allocation ranges, with the exception of private equity and a slight overweight to U.S. equities. Due to the difficulties involved in deploying large amounts of capital expeditiously in this asset class, it may take several years until the Board reaches full exposure to private equity. Thus, U.S. public equities will be used as a proxy for exposure to private equity until this strategy can be fully implemented.

Asset Allocation as of September 30, 2006



Report on Investment Activity

During FY 2006, the Board took important steps in moving toward its target private equity and real estate allocations. Pantheon, the Board's discretionary private equity advisor and fund-of-fund manager who was initially funded by the Board in November 2004, had made capital commitments of more than $182 million in 49 private equity partnerships through September 30, 2006. The Board also approved an investment in a secondary private equity fund-of-funds managed by Pantheon, which is expected to close in FY 2007. Regarding real estate, the Board funded the JP Morgan Strategic Property Fund (core), and selected and funded CB Richard Ellis Strategic Partners IV (high return), during FY 2006.

The Board reviewed the investment structure of its non-U.S. equity segment during FY 2006 and decided to change the segment's benchmark to the MSCI All Country World Index (ACWI) ex-US in order to reflect the broader scope of international equity markets, including emerging markets. The Board also reviewed the investment structure of its fixed income segment, electing to change the segment's benchmark to the Lehman US Universal Index, which includes high yield and emerging markets fixed income securities. Within the US equity segment, the Board conducted a search for a mid-cap value manager to replace Ariel Capital, selecting and funding Thompson, Siegel, & Walmsley. In addition, with the goal of increasing alpha and diversification in the Total Fund, the Board conducted a search for a multi-strategy manager, selecting and funding Bridgewater Associates.

The Board continued to rebalance its managers' portfolios during FY 2006 in accordance with the Board's rebalancing policy. Variances from investment style targets were rebalanced as needed in a manner that maintained the overall integrity of the asset class structure but was not disruptive to the managers.

List of Largest Assets Held

District of Columbia Retirement Board
List of Top 10 Public Equity Holdings
As of September 30, 2006

Rank	Security Name	Shares	Market Value (USD)
1	EXXON MOBIL CORP	509,070	$34,158,597
2	GENERAL ELEC CO	850,970	$30,039,241
3	PFIZER INC	802,574	$22,760,999
4	BANK AMER CORP	410,791	$22,006,074
5	CITIGROUP INC	441,976	$21,952,948
6	GOOGLE INC	50,430	$20,267,817
7	AT+T INC	579,256	$18,860,575
8	MICROSOFT CORP	646,889	$17,679,476
9	CHEVRON CORP	264,509	$17,156,054
10	BNP PARIBAS	158,569	$17,043,583

District of Columbia Retirement Board
List of Top 10 Fixed Income Holdings
As of September 30, 2006

Rank	Security Name Rate	Rating Date	Par Value (USD)	Interest	Maturity	Market Value
1	FNMA TBA OCT 30 SINGLE FAM	AAA	$50,690,000	5.00	12/1/2099	$48,705,963
2	FNMA TBA OCT 30 SINGLE FAM	AAA	$17,200,000	6.00	12/1/2099	$17,275,250
3	UNITED STATES TREAS NTS	AAA	$16,143,000	4.00	2/15/2014	$15,525,027
4	UNITED STATES TREAS NTS	AAA	$12,650,000	5.13	6/30/2011	$12,928,695
5	UNITED STATES TREAS BDS	AAA	$8,466,811	3.63	4/15/2028	$10,492,232
6	GNMA I TBA NOV 30 SINGLE FAM	AAA	$10,000,000	6.50	12/1/2099	$10,251,172
7	FNMA TBA OCT 30 SINGLE FAM	AAA	$9,000,000	5.50	12/1/2099	$8,865,703
8	FNMA TBA OCT 30 SINGLE FAM	AAA	$8,100,000	6.50	12/1/2099	$8,249,344
9	SMALL BUSINESS ADMIN	AAA	$8,212,173	4.72	2/1/2024	$7,994,057
10	GNMA POOL 781834	AAA	$7,351,951	6.00	9/15/2034	$7,462,805

Schedule of Fees and Commissions

For FY 2006, the following fees and commissions were paid:

Expense Category	Amount ($) (in basis points)	% of Total Fund
Investment Managers*	$10,008,167	30 bps
Investment Consultants	$347,917	1 bp
Investment Custodian	$822,081	2 bps
Brokerage Commissions	$1,514,712	4 bps

* Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities.

Investment Summary

District of Columbia Retirement Board
Investment Summary
As of September 30, 2006

Asset Class	Mkt Value $(000)	% of Fund
U.S. Equity	$1,656,747	45.7%
Non-U.S. Equity	$825,545	22.8%
Fixed Income	$813,102	22.5%
Alternative Investments	$184,729	5.1%
Real Estate	$134,805	3.7%
Cash	$6,628	0.2%
Total	$3,621,556	100.0%

Actuarial Section

Independent Actuary's Certification Letter

Required Actuarial Certification
Under District of Columbia Code §1-907
for Fiscal Year 2008
(Dollars in Millions)

Certification	Code Section	Teachers	Police	Fire	Police/Fire Combined	Total District
FY 2008 Normal Contribution Rate	1-907.03(a)(3)(A)	2.4%	37.7%	31.5%	35.9%	19.9%
Estimated FY 2008 Covered Payroll	NA	$338.4	$263.2	$105.5	$368.7	$707.1
FY 2008 District Payment before 1-907.02(c)	NA	$8.1	$99.2	$33.2	$132.4	$140.5
FY 2006 Shortfall/Overpayment	1-907.02(c)	($2.1)	$4.0	$0.6	$4.6	$2.5
FY 2008 District Payment	NA	$6.0	$103.2	$33.8	$137.0	$143.0
Present Value of Future Benefits	1-907.03(a)(3)(B)	$1,530.1	$2,830.0	$1,074.3	$3,904.3	$5,434.4
Current Value of Assets[1]	1-907.03(a)(3)(C)	$1,284.4	$1,662.5	$645.7	$2,308.2	$3,592.6
Actuarial Value of Assets[1]	1-907.03(a)(3)(D)	$1,230.0	$1,622.5	$630.1	$2,252.6	$3,482.6

12/21/06

Edward H. Friend, F.S.A., E.A. (Date)

[1] These amounts are net of the following benefits payable as of September 30, 2006. $15.9 million for Teachers, $10.1 million for Police, and $2.9 million for Fire.

Summary of Actuarial Assumptions and Methods

Actuarial Funding Method

The funding method required by the "Replacement Plan Act" is the Aggregate Funding Method. Under this Method, the District must contribute the level percent of pay that — combined with the actuarial value of assets, expected investment earnings, and future employee contributions — will pay for the benefits of the current participants by the time the current workforce leaves employment.

Actuarial Assumptions

Valuation Date

All assets and liabilities are computed as of October 1, 2006.

Rate of Return

The annual rate of return on all Fund assets is assumed to be 7.25%, net of investment and administrative expenses.

Cost of Living

The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 5.00% per year.

Increases in Pay

Assumed pay increases for active members consist of increases due to cost of living adjustments and promotion and increases due to longevity and retention incentives. Cost of living increases are assumed to result in a general wage increase of 5.0% for all employees. Sample rates for the increases due to promotions are given in the table below. Rates for the longevity and retention incentives are given separately.

Service	Teachers	Police Officers	Firefighters
0	4.000%	5.000%	2.500%
5	4.000%	3.563%	2.500%
10	3.000%	2.584%	2.500%
15	2.000%	2.314%	2.500%
20	1.000%	2.000%	2.500%
25	0.159%	1.100%	2.500%
30	0.393%	0.500%	2.500%
35	0.331%	0.000%	2.500%
40	0.270%	0.000%	0.000%

Active Member Mortality

Rates of mortality for active male teachers are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a one-year age set forward. Rates of mortality for active female teachers are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a one-year age set forward.

Mortality

Rates of mortality for active male police officers and fire fighters are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a three-year age set forward. Rates of mortality for active female police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a three-year age set forward.

To value the pre-retirement death benefit for police officers and firefighters, the benefit form for all retirements (normal or disabled) is assumed to be a 54.2% Joint and Survivor annuity for all participants.

25% of all police officer and fire fighter active deaths are assumed to occur in the line of duty.

Retired Member Mortality

Rates of mortality for retired male teachers are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA. Rates of mortality for active female teachers are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA.

Rates of mortality for active male police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a two-year age set forward. Rates of mortality for active female police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a two-year age set forward.

Disabled Member Mortality

Rates of mortality among disabled members are specified for male and female members; separate tables are used for teachers and for public safety disabled members. Sample rates for teachers are as follows:

Age	Male	Female
20	2.4000%	2.4000%
30	2.4000%	2.4000%
40	2.4000%	2.4000%
50	2.4545%	2.4000%
60	2.5910%	2.4000%
70	3.8006%	2.4000%
80	7.2111%	4.1413%
90	13.1554%	10.0013%

Sample rates for police officers and firefighters are as follows:

Age	Male	Female
20	0.9033%	0.5616%
30	0.9033%	0.5616%
40	0.9033%	0.5616%
50	0.9033%	0.5616%
60	1.3029%	0.8310%
70	2.6405%	1.7147%
80	6.4974%	4.2282%
90	15.6801%	12.2128%

Service Retirement

Retirement is assumed to occur among teachers in accordance with the table below:

Age	First Year Eligible	Subsequent Years
50-55	20%	20%
56	40%	20%
57-59	60%	20%
60-69	20%	20%
70	100%	100%

For police officers and firefighters, the following rates of retirement are assumed.

Age	Police Officers	Firefighters
40	7.5%	2.0%
41	10.0%	3.0%
42	12.0%	4.0%
43	15.0%	5.0%
44	15.0%	5.0%
45	15.0%	6.0%
46	15.0%	7.0%
47	17.0%	8.0%
48	19.0%	9.0%
49	21.0%	11.0%
50	23.0%	13.0%
51	25.0%	15.0%
52	25.0%	20.0%
53	25.0%	25.0%
54	30.0%	30.0%
55	40.0%	35.0%
56	50.0%	35.0%
57	50.0%	35.0%
58	50.0%	35.0%
59	50.0%	35.0%
60	100%	100%

It is assumed that all police officers and firefighters retire after 31 years of service.

Disability

Separate rates of disability are assumed among teachers, police officers and firefighters, with rates for both sexes combined. Below are sample rates:

Age	Teachers	Police Officers	Firefighters
25	0.0300%	0.4383%	0.2893%
30	0.0572%	0.5750%	0.3795%
35	0.0932%	0.8500%	0.5610%
40	0.1292%	1.2500%	0.8250%
45	0.2040%	1.9633%	1.2958%
50	0.3212%	3.2500%	2.1450%
55	0.5520%	5.7750%	3.8115%
60	0.5700%	8.2500%	5.4450%
65	0.0000%	8.2500%	5.4450%

For police officers and firefighters, it is assumed that 50% of the disabilities are due to accidents in the line of duty. The benefit amount for some members is defined to be based on the "% of disability." For all police officer and firefighter disabilities, the "% of disability" is assumed to be 100%.

Withdrawal

Separate rates of withdrawal/termination are assumed among teachers, police officers, and firefighters, with rates for both sexes combined. Withdrawal rates are not applied to Members eligible for service retirement.

Age	Teachers	Police Officers	Firefighters
20	25.00%	12.13%	1.60%
25	23.00%	6.57%	1.60%
30	16.00%	4.23%	1.60%
35	11.00%	2.32%	1.60%
40	6.80%	1.33%	1.60%
45	4.80%	1.03%	1.60%
50	3.60%	0.00%	0.00%
55	0.00%	0.00%	0.00%
60	0.00%	0.00%	0.00%

For police officers and firefighters, all terminations are assumed to result in the withdrawal of contributions, with no further benefits payable. For teachers with more than 5 years of service, terminated employees are expected to receive a deferred vested benefit. Teachers with less than 5 years of service receive a refund of accumulated contributions.

Pay for Benefits

Allowances have been made for special increases in Compensation prior to termination or retirement. For police officers, an additional increase of 5% is given for the Base Retention Differential after 20 years of service. Also, police officers are assumed to receive a longevity increase of 10% after 20 years of service, and additional increases of 5% after 25 and 30 years of service. Firefighters are assumed to receive retention incentives of 5%, 10%, 15%, and 20% applied to base pay after 15, 20, 25, and 30 years of service, respectively.

Family Composition

64% of teachers and 80% of police officers and firefighters are assumed to be married. Male spouses are assumed to be three years older than their wives. Active employees are assumed to have one dependent child aged 10.

Employment Status

No future transfers among member groups are assumed.

Actuarial Value of Plan Assets

The actuarial value of District assets is a modified market-related value. The actuarial value of assets method approved by the Board is defined as the expected actuarial value of assets (assuming a 7.25% rate of return) plus 1/3 of the difference between the expected and actual market value of assets. There is then a final adjustment made for the effect of the adjustment pursuant to D.C. Code §1-907.02(c). This adjustment is explained and developed in Section 3.5.

The detailed calculation of the actuarial value of District assets is shown in Section 2.5.

Participant Data

Data on active and inactive members and their beneficiaries as of the valuation date was supplied by the District's Office of Pay and Retirement Services (OPRS), on electronic media. As is usual in studies of this type, member data was neither verified nor audited, but was reviewed for reasonableness.

Certain assumptions were made with respect to information provided by the District of Columbia:

- Charter school teachers data is not available. To account for this group, active liabilities and payroll were increased by 1.5%
- The data is incomplete with respect to former members who have a deferred vested benefit. Thus, benefits for these individuals are assumed based on their service and pay history as available.
- Benefit service has been determined based on employee contribution history.
- Benefit splits between federal and District have been estimated for terminated vested participants with missing benefit amounts based on employee contribution history.
- It is assumed that all Fire and Police members with prior military service will purchase this service. To account for this, an average amount of prior service of 0.4 years based on a prior study is assumed for all Police and Fire members.

Schedule of Active Member Data

Active Participants	Teachers	Police Officers	Firefighters
Number	5,088	3,747	1,509
Average Age	45.9	38.9	38.9
Average Service	11.9	12.5	12.9
Average Pay	$64,369	$65,001	$64,508

Schedule of Retiree and Beneficiary Data

Inactive Participants

Service Retired	District	Total[1]	District	Total*	District	Total*
Number	2,017	4,907	549	3,135	166	933
Average Age	63.9	71.5	55.5	62.3	55.8	65.2
Average Benefit	$7,493	$38,250	$8,212	$47,046	$11,924	$55,019
Beneficiaries						
Number	71	457	181	1,309	48	491
Average Age	47.9	69.4	31.3	65.2	28.7	69.8
Average Benefit	$4,442	$17,483	$4,045	$22,781	$4,413	$24,638
Disabled						
Number	87	455	217	1,283	46	500
Average Age	57.2	70.7	44.8	63.8	51.2	69.2
Average Benefit	$7,219	$26,204	$17,061	$38,934	$11,711	$45,363
Terminated Vested						
Number	612	981	79	215	15	29
Average Age	45.7	52.6	41.5	54.3	42.1	49.3
Average Benefit	$4,827	$7,977	$8,952	$11,672	$5,393	$11,153

[1]Federal and District Combined

Summary of Plans' Provisions:

District of Columbia Teachers' Retirement Plan

Membership

Eligibility

Permanent, temporary, and probationary teachers for the District of Columbia public day schools become members automatically on their date of employment. Other employees covered by the Retirement of Public School Teachers Act — including librarians, principals, and counselors — also become members on their date of employment. Substitute teachers and employees of the Department of School Attendance and Work Permits are not covered. Some former D.C. teachers working at charter schools are eligible to remain in the Plan.

Member Contributions

Members hired before November 1, 1996 are required to contribute 7% of annual pay minus any pay received for summer school. Members hired on or after November 1, 1996 contribute 8% of annual pay minus pay received for summer school.

Members can also make voluntary contributions of up to 10% of annual pay toward an annuity in addition to any vested pension.

Interest is not credited to each member's accumulated contributions.

Service

School Service

One year of school service is granted for each year of employment with the D.C. public day schools.

Credited Service

Service granted or purchased in addition to school service.

Voluntary Retirement

Eligibility

For participants hired before November 1, 1996:

- Age 62 with 5 years of school service;
- Age 60 with 20 years of total service, including 5 years of school service; or
- Age 55 with 30 years of total service, including 5 years of school service.

For participants hired on or after November 1, 1996:

- Age 62 with 5 years of school service;
- Age 60 with 20 years of total service, including 5 years of school service; or
- Any age with 30 years of total service, including 5 years of school service.

Benefit Amount

For participants hired before November 1, 1996:

- 1.5% of high 3-year average pay times service up to 5 years, plus
- 1.75% of average pay times service between 5 and 10 years, plus
- 2.0% of average pay times service over 10 years.

For participants hired on or after November 1, 1996:

- 2.0% of average pay times service.

For all participants, there is a minimum benefit of 1.0% of average pay plus $25 for each year of service

Involuntary Retirement

Eligibility

Retired involuntarily for reasons other than misconduct or delinquency with:

- 25 years of total service, including 5 years of school service; or
- Age 50 with 20 years of total service, including 5 years of school service.

Benefit Amount

Voluntary Retirement benefit reduced 1/6% per month (2% per year) that date of retirement precedes age 55.

Disability Retirement Benefit

Eligibility

5 years of school service and a physical or mental disability that prevents the member from performing his/her job.

Benefit Amount

Voluntary Retirement benefit subject to a minimum of the lesser of 40% of average pay and the benefit that the member would receive projecting service to age 60.

Lump Sum Death Benefit

Eligibility

Death before completion of 18 months of school service or death without an eligible spouse, child, or parent.

Benefit Amount

Refund of paid contributions

Installment Benefit Payable upon Death — Spouse Only

Eligibility

Death before retirement and married for at least two years or have a child by the marriage.

Benefit Amount

55% of the Voluntary Retirement benefit subject to the minimums specified in the Disability Retirement Benefit.

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

For the spouse, as described above; for the children, unmarried and under 18, 22 if full-time student, or any child dependent because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefits.

Benefit Amount

Spouse benefit as described above, plus a benefit per child of the smallest of:

- 60% of average pay divided by the number of eligible children;
- $5,640 (if hired before January 1, 1980), $5,448 (if hired between January 1, 1980 and October 31, 1996) or $5,400 (if hired on or after November 1, 1996) per child; or
- $16,920 (if hired before January 1, 1980), $16,344 (if hired between January 1, 1980 and October 31, 1996), or $16,200 (if hired on or after November 1, 1996), divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

Per child, the smallest of:

- 75% of average pay divided by the number of eligible children;
- $6,876 (if hired before January 1, 1980), $6,636 (if hired between January 1, 1980 and October 31, 1996) or $6,552 (if hired on or after November 1, 1996) per child; or
- $20,628 (if hired before January 1, 1980), $19,908 (if hired between January 1, 1980 and October 31, 1996) or $19,656 (if hired on or after November 1, 1996) divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Surviving Parents Only

Eligibility

Death before retirement and no eligible spouse or children, and parents receive at least one-half of their total income from member.

Benefit Amount

Spouse benefit as described above.

Deferred Vested Benefit

Eligibility

5 years of school service.

Benefit Amount

Voluntary Retirement Benefit beginning at age 62.

Form of Payment Options

Normal Form of Payment

Unreduced Annuity.

Reduced Annuity with a maximum (55%) Survivor Annuity (to Spouse)

The original benefit is reduced by 2.5% of annual pension up to $3,600, plus 10% of any amount over $3,600.

Reduced Annuity with a Partial Survivor Annuity (to Spouse)

A joint and survivor annuity with a benefit payable to the spouse of between $1 and 54% of the unreduced retirement benefit. The original benefit is reduced by dividing the amount of the survivor's annuity by 55%, then reducing the original benefit by 2.5% of this amount up to $3,600, plus 10% of any amount over $3,600.

Reduced Annuity with a Survivor Annuity to a person with an "Insurable Interest"

A joint and 55% survivor annuity with the original benefit reduced 10% plus an additional 5% for each full 5 years, up to 25 years, the survivor is younger, with a total reduction of 40% for any survivor who is 25 or more years younger.

Reduced Annuity with an Insurance Benefit

Benefits may be reduced and the balance used to purchase life insurance.

Cost-of-Living Adjustments

All participants receive an increase effective each March based on the annual change in the Consumer Price Index (all items — U.S. City average) from December to December. The annual increase is capped at 3% for members hired on or after November 1, 1996.

Retirement Program for District of Columbia Police Officers and Firefighters

Membership

Eligibility

All police officers and firefighters of the District of Columbia automatically become members on their date of employment. Police Cadets are not eligible.

Member Contributions

Members hired before November 10, 1996 are required to contribute 7% of annual salary, including any differential for special assignment, but excluding overtime, longevity, holiday, or military pay. Members hired on or after November 10, 1996 contribute 8% of annual salary, including any differential for special assignment, but excluding overtime, holiday, or military pay.

Interest is not credited to each member's accumulated contributions.

Service

Departmental Service

Each full year and additional months of employment with either the Metropolitan Police Force or the D.C. Fire Department.

Credited Service

Service granted or purchased in addition to departmental service.

Average Pay

For those hired before February 15, 1980, basic pay for the highest 12 consecutive months. For those hired on or after February 15, 1980, basic pay for the highest 36 consecutive months divided by three.

Longevity Pay (Police Only)

Members who complete 25 years of active service prior to retirement are entitled to an additional 15% of their basic compensation. Members who complete 30 years of active service are entitled to an additional 20% of their basic pay.

Normal Retirement Benefit

Eligibility

For participants hired before February 15, 1980:
- 20 years of service

For participants hired before November 10, 1996:
- Age 60; or
- Age 50 with 25 years of departmental service; or

For participants hired on or after November 10, 1996:
- Age 60; or
- No age requirement with 25 years of service.

Benefit Amount

For participants hired before November 10, 1996:
- 2.5% of average pay times departmental service up to 25 years (20 years if hired before February 15, 1980), plus
- 3.0% of average pay times departmental service over 25 (or 20) years, plus
- 2.5% of average pay times credited service.

For participants hired on or after November 10, 1996:
- 2.5% of average pay times total service.
- For all participants, there is a maximum benefit of 80% of average pay.

Service-Related Disability Retirement Benefit

Eligibility

Disabled as a result of an illness or injury in the line of duty.

Benefit Amount

For participants hired before February 15, 1980
- 2.5% of average pay times total years of service, subject to a minimum benefit of 66-2/3% of average pay and subject to a maximum benefit of 70% of average pay.

For participants hired on or after February 15, 1980
- 70% of final pay times percentage of disability, subject to a minimum benefit of 40% of final pay.

Non-Service-Related Disability Retirement Benefit

Eligibility

5 years of departmental service and a physical or mental disability that prevents the member from performing his/her job.

Benefit Amount

For participants hired before February 15, 1980
- 2.0% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

For participants hired on or after February 15, 1980
- 70% of final pay times percentage of disability, subject to a minimum benefit of 30% of final pay.

Lump Sum Death Benefit

Eligibility

Death occurring in the line of duty, not resulting from willful misconduct, an intention to bring about his/her own death, or drunkenness.

Benefit Amount

$50,000.

Installment Benefit Payable upon Death — Spouse Only, Member Not Killed in Line of Duty after December 29, 1993

Eligibility

Death and, if retired, married for at least one year or have a child by the marriage.

Benefit Amount

40% of the greater of average pay and the salary for step 6 salary class 1 of the D.C. Police and Fireman's Salary Act in effect, adjusted for cost-of-living increases if death occurs after retirement. The benefit cannot exceed the rate of pay at death (or retirement if death occurs after retirement.)

Installment Benefit Payable upon Death — Spouse Only, Member Killed in Line of Duty after December 29, 1993

Eligibility

Death (killed in line of duty).

Benefit Amount

100% of final pay.

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

For the spouse, as described above; for the children, unmarried and under 18, 22 if full-time student, or any child dependent because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefits.

Benefit Amount

Spouse benefit as described above, plus, provided death does not occur in the line of duty, a benefit per child of the smallest of:
- 60% of average pay divided by the number of eligible children;
- $3,312 (if hired before November 10, 1996), or $3,288 (if hired on or after November 10, 1996); or
- $9,936 (if hired before November 10, 1996), or $9,864 (if hired on or after November 10, 1996), divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

Per child, 75% of average pay divided by the number of eligible children, adjusted for cost-of-living increases.

Refund of Contributions

Eligibility

Death before retirement and no eligible spouse or children.

Benefit Amount

All contributions will be refunded to a named, or statutorily-designated if none named, beneficiary.

Deferred Vested Benefit

Eligibility

5 years of departmental service.

Benefit Amount

Normal Retirement Benefit beginning at age 55.

Form of Payment Options

Normal Form of Payment

Single Life Annuity.

Additional Survivor Benefit

The original benefit is reduced 10%. This 10% amount is reduced by 5% for each full 5 years the survivor is younger (but not more than 40%) and is added to the survivor's benefit.

Cost-of-Living Adjustments

Employees (not beneficiaries) who retired prior to February 15, 1980, receive the same percentage increase as active employees' salary increases. All other retired participants receive an increase each March based on the annual change in the Consumer Price Index (All Urban Consumers) from December to December. The annual increase is limited to 3% for members hired on or after November 10, 1996.

Statistical Section

DISTRICT OF COLUMBIA RETIREMENT BOARD
SCHEDULE OF REVENUE BY SOURCE

($ in thousands)

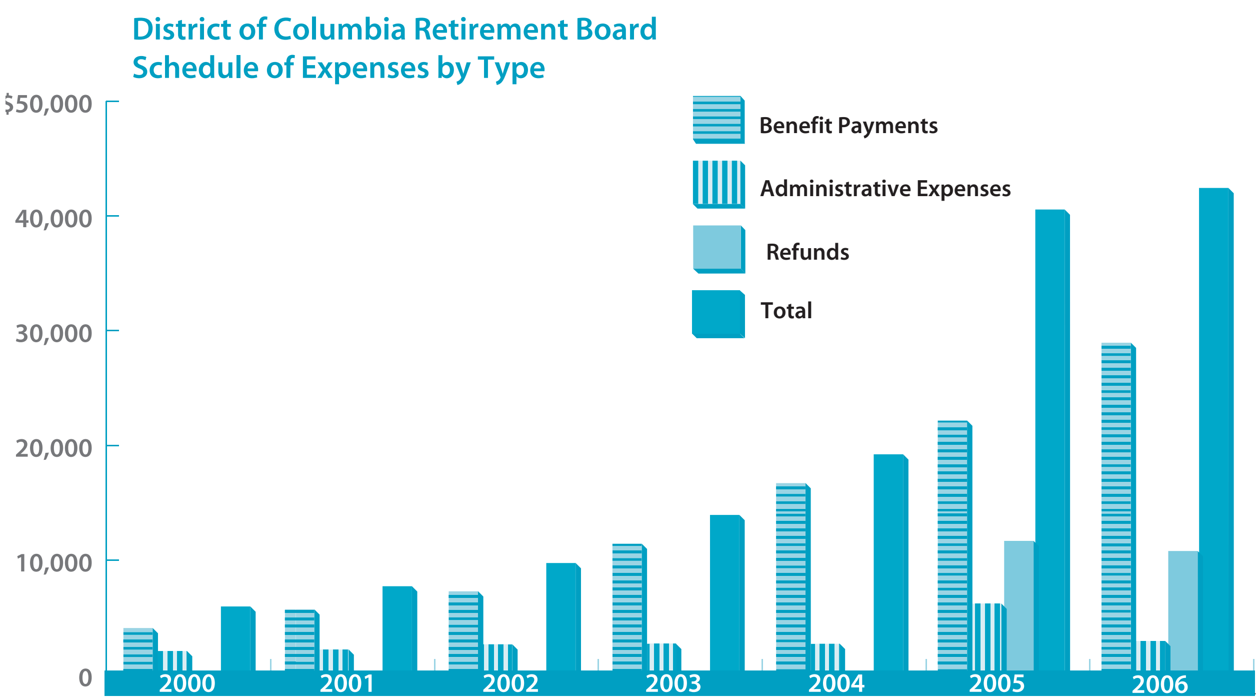
Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
2000	$ 39,931	$ 50,600	$ 257,289	$ 347,820
2001	40,879	49,200	(251,559)	(161,480)
2002	44,764	74,600	(165,540)	(46,176)
2003	45,914	68,900	302,116	416,930
2004	47,130	96,700	268,264	412,094
2005	48,582	121,300	372,848	542,730
2006	50,949	133,000	332,203	516,152

District of Columbia Retirement Board
Schedule of Revenue by Source

DISTRICT OF COLUMBIA RETIREMENT BOARD
SCHEDULE OF EXPENSE BY TYPE

($ in thousands)

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Total
2000	$ 3,800	$ 1,848	$ -	$ 5,648
2001	5,438	1,983	-	7,421
2002	7,022	2,434	-	9,456
2003	11,191	2,479	-	13,670
2004	16,503	2,479	-	18,982
2005	21,980	5,999	12,453	40,432
2006	28,900	2,827	10,688	42,415



SCHEDULE OF AVERAGE BENEFIT BY TYPE
TEACHERS FUND (COMBINED DISTRICT AND FEDERAL)

FISCAL YEAR	RETIRED		BENEFICIARIES		DISABLED		TERMINATED		TOTAL
	Count	Benefit	Count	Benefit	Count	Benefit	Count	Benefit	Count
2000	4,201	$32,235	425	$14,138	528	$23,135	0	$ -	5,154
2001	4,820	33,247	427	15,382	507	23,872	0	-	5,754
2002	4,396	33,742	445	15,739	493	24,078	0	-	5,334
2003	4,572	34,687	461	16,363	491	24,501	124	14,865	5,648
2004	4,802	25,497	454	16,514	475	24,891	191	16,168	5,922
2005	4,886	36,901	461	16,994	466	25,545	758	78,818	6,571
2006	4,907	38,250	457	17,843	455	26,204	981	7,977	6,800

SCHEDULE OF AVERAGE BENEFIT BY TYPE
POLICE OFFICERS FUND (COMBINED DISTRICT AND FEDERAL)

FISCAL YEAR	RETIRED		BENEFICIARIES		DISABLED		TERMINATED		TOTAL
	Count	Benefit	Count	Benefit	Count	Benefit	Count	Benefit	Count
2000	3,080	$ 37,310	1,195	$ 18,295	1,397	$ 33,930	-	$ -	5,672
2001	3,133	38,678	1,187	19,325	1,367	34,043	-	-	5,687
2002	3,145	39,895	1,222	19,680	1,343	35,889	-	-	5,710
2003	3,142	41,938	1,256	20,838	1,315	36,229	-	-	5,713
2004	3,149	43,228	1,272	21,211	1,278	36,193	23	31,590	5,722
2005	3,153	45,303	1,263	22,109	1,258	38,067	213	10,685	5,887
2006	3,135	47,046	1,309	22,781	1,283	38,934	215	11,672	5,942

SCHEDULE OF AVERAGE BENEFIT BY TYPE
FIRE FIGHTERS FUND (COMBINED DISTRICT AND FEDERAL)

FISCAL YEAR	RETIRED		BENEFICIARIES		DISABLED		TERMINATED		TOTAL
	Count	Benefit	Count	Benefit	Count	Benefit	Count	Benefit	Count
2000	906	$ 45,217	500	$ 20,624	602	$ 38,126	-	$ -	2,008
2001	919	46,656	484	21,497	592	38,510	-	-	1,995
2002	916	48,274	492	21,812	571	41,690	-	-	1,979
2003	924	49,564	492	22,476	555	41,867	-	-	1,971
2004	926	50,762	495	23,020	532	42,786	2	14,734	1,955
2005	932	52,784	478	23,855	514	44,110	25	13,307	1,949
2006	933	55,019	491	24,638	500	45,363	29	11,153	1,953

SCHEDULE OF PARTICIPANT DATA
TEACHERS RETIREMENT FUND

	ACTIVE				
	Hired Prior to November 1, 1996	Hired After November 1, 1996	Subtotal	Retired Members, Beneficiaries and Terminated Vested (Post June 30, 1997)	Total
2000	4,498	1,899	6,397	664	7,061
2001	4,009	2,694	6,703	829	7,532
2002	3,736	2,822	6,558	1,062	7,620
2003	3,306	2,839	6,145	1,659	7,804
2004	2,819	2,745	5,564	1,986	7,550
2005	2,454	3,253	5,707	2,397	8,104
2006	2,219	2,869	5,088	2,787	7,875

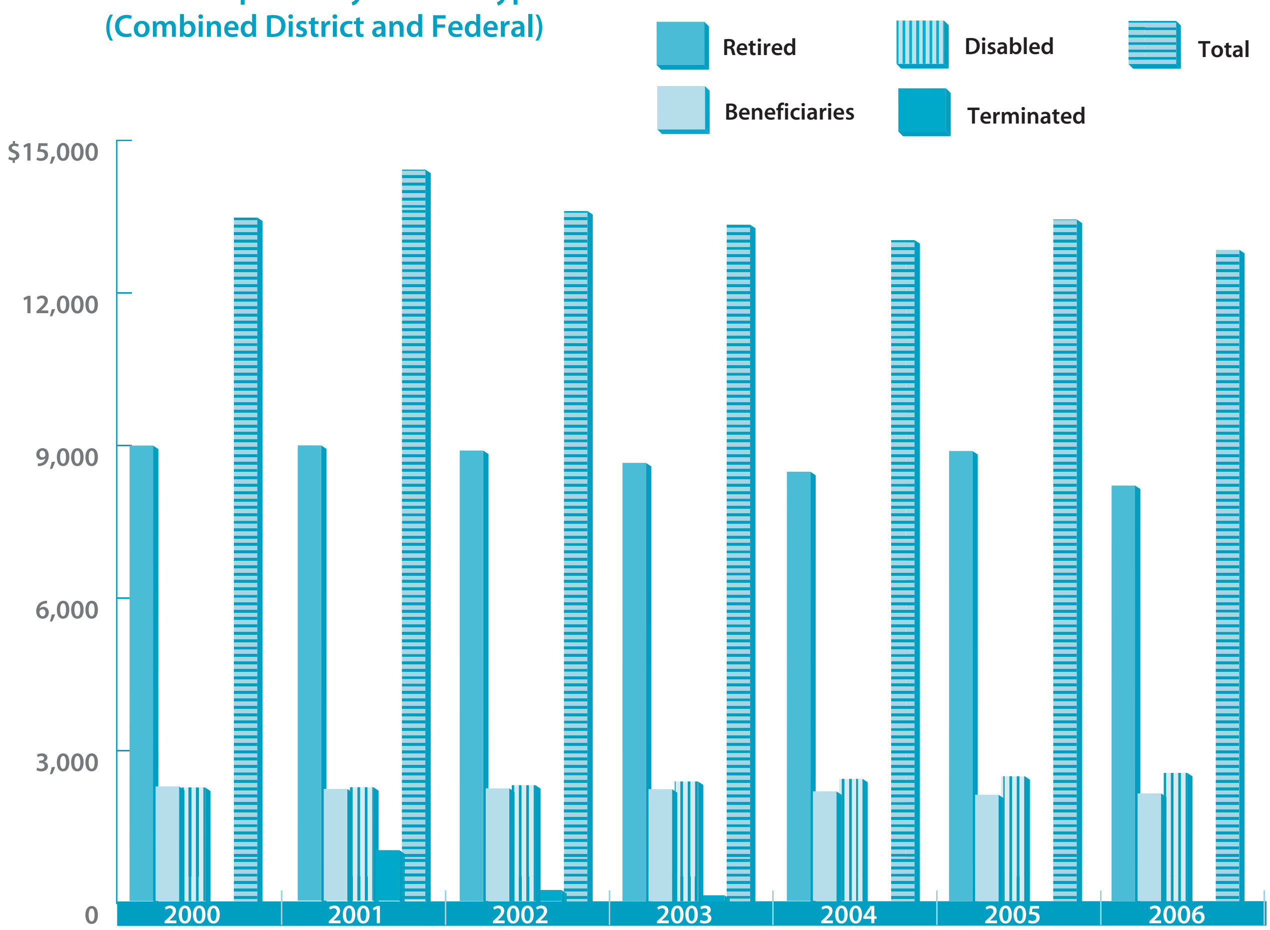
SCHEDULE OF PARTICIPANT DATA
POLICE OFFICER AND FIRE FIGHTERS RETIREMENT FUND

	ACTIVE					
	Hired Prior February 15, 1980	Hired Between February 15, 1980 and November 10, 1996	Hired After November 10 1996	Subtotal	Retired Members, Beneficiaries and Terminated Vested (Post June 30, 1997)	Total
2000	622	3,355	859	4,836	466	5,302
2001	503	3,325	1,092	4,920	585	5,505
2002	453	3,164	1,199	4,816	678	5,494
2003	393	3,157	1,421	4,971	1,372	6,343
2004	299	3,078	1,809	5,186	1,004	6,190
2005	201	3,011	2,010	5,222	1,141	6,363
2006	158	2,933	2,165	5,256	1,301	6,557

TOTAL RECIPIENTS BY BENEFIT TYPE (COMBINED DISTRICT AND FEDERAL)

FISCAL YEAR	RETIRED	BENEFICIARIES	DISABLED	TERMINATED	TOTAL
2000	8,187	2,120	2,527	-	12,834
2001	8,872	2,098	2,466	-	13,436
2002	8,457	2,159	2,407	-	13,023
2003	8,638	2,209	2,361	124	13,332
2004	8,877	2,221	2,285	216	13,599
2005	8,971	2,202	2,238	996	14,407
2006	8,975	2,257	2,238	1,225	13,470

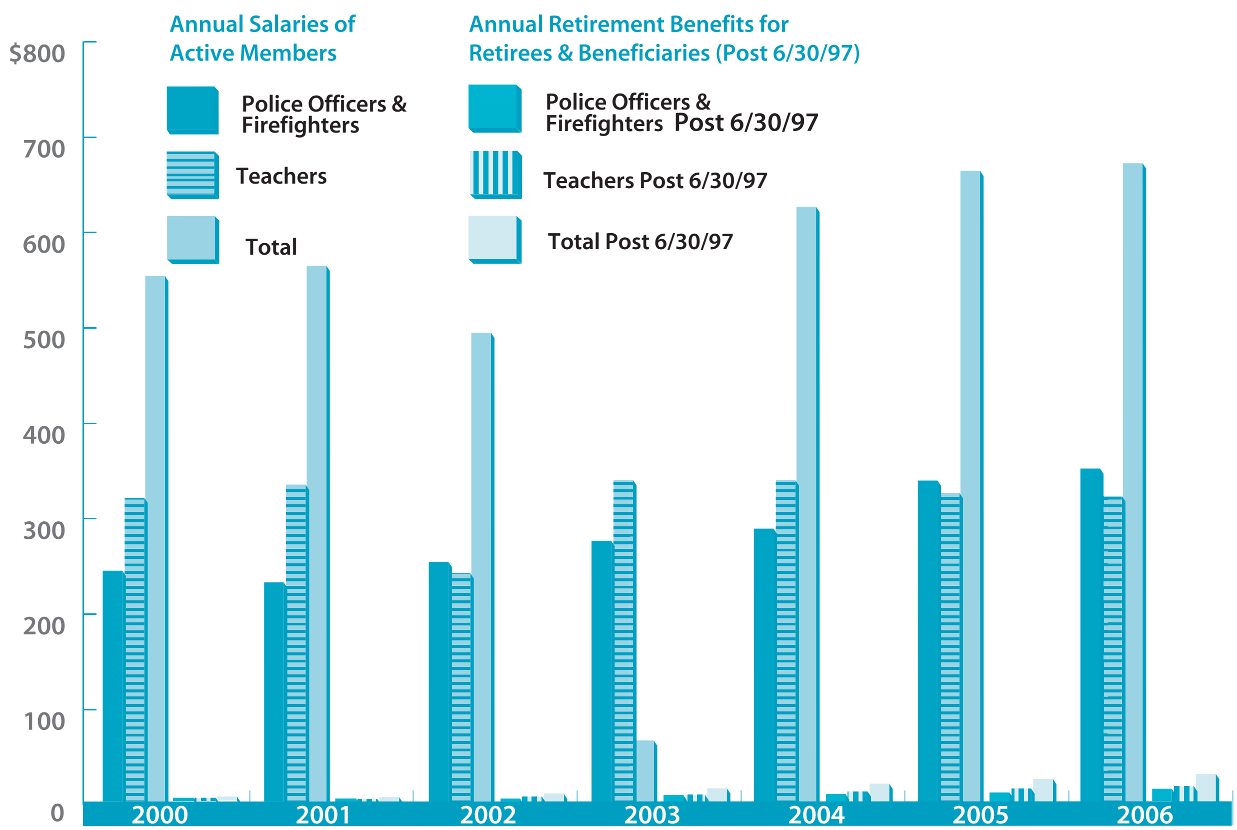
Total Recipients by Benefit Type (Combined District and Federal)



DCRB ANNUAL SALARIES AND BENEFITS
($ in millions)

	Annual Salaries of Active Members			Annual Retirement Benefits for Retirees & Beneficiaries (Post June 30, 1997)		
Fiscal Year	Police Officers and Fire Fighters	Teachers	Total	Police Officers and Fire Fighters	Teachers	Total
2000	$ 234	$ 320	$ 554	$ 2	$ 2	$ 4
2001	231	334	565	2	3	5
2002	253	241	494	3	5	8
2003	275	339	614	7	7	14
2004	288	339	627	8	11	19
2005	339	326	665	10	14	24
2006	351	322	673	13	16	29

District of Columbia Retirement Board
Annual Salaries and Benefits



THE DISTRICT OF COLUMBIA RETIREMENT BOARD

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Volume 2

Comprehensive Annual Financial Report

for the fiscal year ended September 30, 2006

Volume 2

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Volume II

Table 1: Names and Addresses of the Board of Trustees

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State Street Bank Consolidated Financial Statements

Consolidated Statement of Income

Years ended December 31, (Dollars in millions, except per share amounts)	2006	2005	2004
Fee Revenue:			
Servicing fees	$ 2,723	$ 2,474	$ 2,263
Management fees	943	751	623
Trading services	862	694	595
Securities finance	386	330	259
Processing fees and other	272	302	308
Total fee revenue	5,186	4,551	4,048
Net Interest Revenue:			
Interest revenue	4,324	2,930	1,787
Interest expense	3,214	2,023	928
Net interest revenue	1,110	907	859
Provision for loan losses	—	—	(18)
Net interest revenue after provision for loan losses	1,110	907	877
Gains on sales of available-for-sale investment securities, net	15	(1)	26
Gain on sale of Private Asset Management business	—	16	—
Total revenue	6,311	5,473	4,951
Operating Expenses:			
Salaries and employee benefits	2,652	2,231	1,957
Information systems and communications	501	486	527
Transaction processing services	496	449	398
Occupancy	518	484	514
Total operating expenses	4,540	4,041	3,759
Income from continuing operations before income tax expense	1,771	1,432	1,192
Income tax expense from continuing operations	675	487	394
Income from continuing operations	1,096	945	798
Income (Loss) from discontinued operations	16	(165)	—
Income tax expense (benefit) from discontinued operations	6	(58)	—
Net income (loss) from discontinued operations	10	(107)	—
Net income	$ 1,106	$ 838	$ 798
Earnings Per Share From Continuing Operations:			
Basic	$ 3.31	$ 2.86	$ 2.38
Diluted	3.26	2.82	2.35
Income (Loss) Per Share From Discontinued Operations:			
Basic	$ .03	$ (.33)	$ —
Diluted	03	(.32)	—
Earnings Per Share:			
Basic	3.34	$ 2.53	$ 2.38
Diluted	3.29	2.50	2.35
Average Shares Outstanding (in thousands):			
Basic	331,350	330,361	334,606
Diluted	335,732	334,636	339,605

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

Consolidated Statement of Condition

As of December 31,	2006	2005
(Dollars in millions, except per share amounts)		
Assets		
Cash and due from banks	$ 2,368	$2,684
Interest-bearing deposits with banks	5,236	11,275
Securities purchased under resale agreements	14,678	8,679
Trading account assets	785	764
Investment securities available for sale 60,445 54,979		
Investment securities held to maturity (fair value of $4,484 and $4,815)	4,547	4,891
Loans and leases (less allowance of $18 and $18)	8,928	6,464
Premises and equipment (net of accumulated depreciation of $2,415 and $2,149)	1,560	1,453
Accrued income receivable	1,617	1,364
Goodwill	1,384	1,337
Other intangible assets	434	459
Other assets	5,371	3,619
Total assets	$107,353	$97,968
Liabilities		
Deposits:		
Noninterest-bearing	$ 10,194	$9,402
Interest-bearing—U.S	1,272	2,379
Interest-bearing—Non-U.S.	54,180	47,865
Total deposits	65,646	59,646
Securities sold under repurchase agreements	19,147	20,895
Federal funds purchased	2,147	1,204
Other short-term borrowings	2,835	1,219
Accrued taxes and other expenses	3,143	2,632
Other liabilities	4,567	3,346
Long-term debt	2,616	2,659
Total liabilities	100,101	91,601
Commitments and contingencies (Note 10)		
Shareholders' Equity		
Preferred stock, no par: authorized 3,500,000 shares; issued none		
Common stock, $1 par: authorized 500,000,000 shares; issued 337,126,000 and 337,126,000 shares	337	337
Surplus	399	266
Retained earnings	7,030	6,189
Accumulated other comprehensive loss	(224)	(231)
Treasury stock, at cost (4,688,000 a nd 3,501,000 shares)	(290)	(194)
Total shareholders' equity	7,252	6,367
Total liabilities and shareholders' equity	$107,353	$97,968

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in millions, except per share amounts, shares in thousands)

	COMMON STOCK Shares	COMMON STOCK Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	TREASURY STOCK Shares	TREASURY STOCK Amount	Total
Balance at December 31, 2003	337,132	$ 337	$ 329	$ 5,007	$ 192	2,658	$ (118)	$ 5,747
Comprehensive Income:								
Net income				798				798
Change in net unrealized gains/losses on available-for-sale securities, net of related taxes of $(91) and reclassification adjustment					(130)			(130)
Change in minimum pension liability, net of related taxes of $(19)					(26)			(26)
Foreign currency translation, net of related taxes of $17					85			85
Change in unrealized gains/losses on cash flow hedges, net of related taxes of $(1)					(3)			(3)
Change in unrealized gains/losses on hedges of net investments in non-U.S. subsidiaries, net of related taxes of $(14)				(26)				(26)
Total comprehensive income				798	(100)			698
Cash dividends declared—$.64 per share				(215)				(215)
Common stock acquired						4,098	(178)	(178)
Impact of fixing the variable-share settlement rate of SPACES			(26)					(26)
Common Stock Issued Pursuant to:								
Stock awards and options exercised, including tax benefit of $20		(6)	(10)			(3,128)	141	131
Debt conversion				(4)		(104)	4	—
Other						(43)	2	2
Balance at December 31, 2004	337,126	337	289	5,590	92	3,481	(149)	6,159
Comprehensive Income:								
Net income				838				838
Change in net unrealized gains/losses on available-for-sale securities, net of related taxes of $(150) and reclassification adjustment					(229)			(229)
Foreign currency translation, net of related taxes of $(54)					(140)			(140)
Change in unrealized gains/losses on hedges of net investments in non-U.S. subsidiaries, net of related taxes of $20					37			37
Change in unrealized gains/losses on cash flow hedges, net of related taxes of $6					9			9
Total comprehensive income				838	(323)			515
Cash dividends declared—$.72 per share				(239)				(239)
Common stock acquired						13,130	(664)	(664)
Common Stock Issued Pursuant to:								
SPACES			(73)			(8,712)	418	345
Stock awards and options exercised, including tax benefit of $20			50			(4,319)	197	247
Other						(79)	4	4
Balance at December 31, 2005	337,126	337	266	6,189	(231)	3,501	(194)	6,367
Comprehensive Income:								
Net income				1,106				1,106
Change in net unrealized gains/losses on available-for-sale securities, net of related taxes of $40 and reclassification adjustment					58			58
Foreign currency translation, net of related taxes of $56					124			124
Change in unrealized gains/losses on hedges of net investments in non-U.S. subsidiaries, net of related taxes of $(10)					(18)			(18)
Change in minimum pension liability, net of related taxes of $(107)					(160)			(160)
Change in unrealized gains/losses on cash flow hedges, net of related taxes of $2					3			3
Total comprehensive income				1,106	7			1,113
Cash dividends declared—$.80 per share				(265)				(265)
Common stock acquired						5,782	(368)	(368)
Common stock received under COVERS contracts				30		1,199	(26)	4
Common Stock Issued Pursuant to:								
Stock awards and options exercised, including tax benefit of $43				103		(5,782)	300	403
Other						(12)	(2)	(2)
Balance at December 31, 2006	337,126	$ 337	$ 399	$ 7,030	$ (224)	4,688	$ (290)	$ 7,252

Consolidated Statement of Cash Flows

Years ended December 31, (In millions)	2006	2005	2004
Operating Activities:			
Net income	$ 1,106	$ 838	$ 798
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash adjustments for depreciation, amortization, accretion, provision for loan losses and deferred income tax expense	385	499	639
Income (Loss) from discontinued operations	(16)	165	—
Gain on sale of divested business	—	(16)	—
Securities losses (gains), net	(15)	1	(26)
Change in trading account assets, net	(179)	(19)	(340)
Other, net	(300)	1,015	(655)
Net Cash Provided by Operating Activities	981	2,483	416
Investing Activities:			
Net decrease in interest-bearing deposits with banks	6,039	9,359	1,104
Net decrease (increase) in federal funds sold and securities purchased under resale agreements	(5,999)	9,649	(8,777)
Proceeds from sales of available-for-sale securities	3,571	3,299	8,035
Proceeds from maturities of available-for-sale securities	16,602	22,129	15,387
Purchases of available-for-sale securities	(23,920)	(44,758)	(23,408)
Proceeds from maturities of held-to-maturity securities	1,590	1,132	1,107
Purchases of held-to-maturity securities	(1,246)	(4,623)	(892)
Net (increase) decrease in loans	(2,464)	(1,801)	451
Proceeds from sale of divested business,	—	16	—
Business acquisitions, net of cash acquired	—	(43)	(100)
Purchases of equity investments and other long-term assets	(168)	(55)	(86)
Purchases of premises and equipment	(310)	(314)	(336)
Other	114	58	60
Net Cash Used in Investing Activities	(6,191)	(5,952)	(7,455)
Financing Activities:			
Net (decrease) increase in time deposits	(1,261)	(5,341)	3,569
Net increase in all other deposits	7,258	9,895	4,015
Net decrease in short-term borrowings (653) (341) (1,603)			
Proceeds from issuance of long-term debt, net of issuance costs	—	595	—
Payments for long-term debt and obligations under capital leases	(16)	(370)	(9)
Proceeds from SPACES, net of issuance costs	—	345	—
Purchases of common stock	(368)	(664)	(178)
Proceeds from issuance of treasury stock for stock awards and options exercised	193	231	113
Payments for cash dividends	(259)	(232)	(209)
Net Cash Provided by Financing Activities	4,894	4,118	5,698
Net Increase (Decrease)	(316)	649	(1,341)
Cash and Due from Banks at Beginning of Year	2,684	2,035	3,376
Cash and Due from Banks at End of Year	$ 2,368	$ 2,684	$ 2,035
Supplemental Disclosure:			
Interest paid	$ 3,177	$ 1,965	$ 911
Income taxes paid	533	331	211
Non-cash investments in capital leases and other premises and equipment	109	9	235
Non-cash acquisitions of investment securities available for sale	1,464	—	—

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

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting and financial reporting policies of State Street Corporation conform to accounting principles generally accepted in the United States of America, or "GAAP." Unless otherwise indicated or unless the context requires otherwise, all references in these notes to consolidated financial statements to "State Street," "we," "us," "our" or similar references mean State Street Corporation and its subsidiaries on a consolidated basis. The parent company is a financial holding company headquartered in Boston, Massachusetts. We report two lines of business:

- Investment Servicing provides services for U.S. mutual funds and collective investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and other investment pools worldwide. Products include custody, product-and participant-level accounting, daily pricing and administration; master trust and master custody; recordkeeping; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loans and lease financing; investment manager and hedge fund manager operations outsourcing; and performance, risk and compliance analytics to support institutional investors.
- Investment Management offers a broad array of services for managing financial assets, including investment management and investment research services, primarily for institutional investors worldwide. These services include passive and active U.S. and non-U.S. equity and fixed income strategies, and other related services, such as securities finance.

The preparation of consolidated financial statements requires management to make estimates and assumptions in the application of certain of our accounting policies that materially affect the reported amounts of assets, liabilities, revenue and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. The following is a summary of our significant accounting policies.

Basis of Presentation:

Our consolidated financial statements include the accounts of the parent company and its majority-owned subsidiaries, including its principal banking subsidiary, State Street Bank and Trust Company, or "State Street Bank," as well as special purpose entities considered to be variable interest entities for which State Street is the primary beneficiary under existing accounting standards. All material inter-company transactions and balances have been eliminated. Certain previously reported amounts have been reclassified to conform to current year presentation.

We consolidate subsidiaries in which we hold a majority of the voting rights or exercise control. Investments in unconsolidated subsidiaries, recorded in other assets, are generally accounted for using the equity method of accounting if we have the ability to exercise significant influence over the operations of the investee. For investments accounted for under the equity method, our share of income or loss is recorded in processing fees and other revenue. Investments not meeting the criteria for equity method treatment are accounted for using the cost method of accounting.

Foreign Currency Translation:

The assets and liabilities of our operations with functional currencies other than the U.S. dollar are translated at month-end exchange rates, and revenue and expenses are translated at rates that approximate average monthly exchange rates. Gains or losses from the translation of the net assets of subsidiaries with functional currencies other than the U.S. dollar, net of related taxes, are recorded in accumulated other comprehensive income.

Cash and Cash Equivalents:

For purposes of the consolidated statement of cash flows, cash equivalents have been defined as cash and due from banks.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements:

U.S. Treasury and federal agency securities, or "U.S. government securities," purchased under resale agreements or sold under repurchase agreements are treated as collateralized financing transactions, and are recorded in the consolidated statement of condition at the amounts at which the securities will be subsequently resold or repurchased, plus accrued interest. Our policy is to take possession or control of securities underlying resale agreements, allowing borrowers the right of collateral substitution and/or short-notice termination. We revalue these securities daily to determine if additional collateral is necessary from the borrower to protect us against credit exposure. We can use these securities as collateral for repurchase agreements. For securities sold under repurchase agreements collateralized by our U.S. government securities portfolio, the dollar value of the U.S. government securities remains in investment securities in our consolidated statement of condition. Where a master netting agreement exists or both parties are members of a common clearing organization, resale and repurchase agreements with the same counterparty or clearing house and maturity date are reported on a net basis.

Investment Securities Available for Sale and Held to Maturity:

Our investment securities portfolio principally includes debt securities purchased in connection with our asset and liability management activities. These securities are classified at the time of purchase, based on management's intentions, as available for sale or held to maturity. Securities available for sale are those that management intends to hold for an indefinite period of time, including securities used as part of our asset and liability management strategy that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other similar factors. Debt and marketable equity securities classified as available for sale are reported at fair value, and after-tax net unrealized gains and losses are reported in accumulated other comprehensive income, a component of shareholders' equity. Gains or losses on sales of available-for-sale securities are computed using the specific identification method. Securities held to maturity are debt securities that management has the positive intent and ability to hold to maturity. Securities classified as held to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts.

Management reviews the fair value of the portfolio at least quarterly, and evaluates individual securities for declines in fair value that may be other than temporary, considering factors such as current and expected future interest rates, credit ratings, dividend payments, the financial health of the issuer and other pertinent information, including current developments with respect to the issuer, as well as the duration of the decline and management's intent and ability to hold the security. If declines are deemed other than temporary, an impairment loss is recognized and the amortized cost basis of the investment security is written down to its current fair value, which becomes the new cost basis. Other-than-temporary unrealized losses on available-for-sale and held-to-maturity securities, if any, are recorded as a reduction of processing fees and other revenue.

Loans and Lease Financing:

Loans are generally reported at the principal amount outstanding, net of the allowance for loan losses, unearned income, and any net unamortized deferred loan origination fees. Interest revenue is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan. Fees received for providing loan commitments and letters of credit that we anticipate will result in loans typically are deferred and amortized to interest revenue over the life of the related loan, beginning with the initial borrowing. Fees on commitments and letters of credit are amortized to processing fees and other revenue over the commitment period when funding is not known or expected.

Loans are placed on non-accrual status when they become 60 days past due as to either principal or interest, or earlier when, in the opinion of management, full collection of principal or interest is not probable. Loans 60 days past due, but considered both well secured and in the process of collection, are treated as exceptions and may be exempted from non-accrual status. When we place a loan on non-accrual status, the accrual of interest is discontinued and previously recorded but unpaid interest is reversed and generally charged against net interest revenue. For loans on non-accrual status, revenue is recognized on a cash basis after recovery of principal, if and when interest payments are received.

Leveraged lease investments are reported at the aggregate of lease payments receivable and estimated residual values, net of non-recourse debt and unearned income. Lease residual values are reviewed regularly for other-than-temporary impairment, with valuation adjustments recorded currently against processing fees and other revenue. Unearned income is recognized to yield a level rate of return on the net investment in the leases. Gains and losses on residual values of leased equipment sold are recorded in processing fees and other revenue.

Allowance for Loan Losses:

The adequacy of the allowance for loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral and the performance of individual credits in relation to contract terms, and other relevant factors. The provision for loan losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb estimated probable credit losses.

Loans are charged off to the allowance for loan losses in the reporting period in which either an event occurs that confirms the existence of a loss or it is determined that a loan or a portion of a loan is not collectible. Recoveries are recorded on a cash basis.

In addition, we maintain a reserve for off-balance sheet credit exposures that is recorded in other liabilities. The adequacy of this reserve is subject to the same considerations and review as the allowance for loan losses. Provisions to change the level of this reserve are recorded in other operating expenses.

Premises and Equipment:

Buildings, leasehold improvements, computers, software and other equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization recorded in operating expenses are computed using the straight-line method over the estimated useful lives of the related assets or the remaining terms of the leases, generally 3 to 40 years. Maintenance and repairs are charged to expense as incurred, while major leasehold improvements are capitalized and expensed over their estimated useful lives or terms of the lease. For premises held under leases where we have an obligation to restore the facilities to their original condition upon expiration of the lease, we expense the anticipated related costs over the term of the lease.

Costs related to internal-use software development projects that provide significant new functionality are capitalized. We consider projects for capitalization that are expected to yield long-term operational benefits, such as applications that result in operational efficiencies and/or incremental revenue streams. Software customization costs relating to specific customer enhancements are expensed as incurred.

Goodwill and Other Intangible Assets:

Goodwill represents the excess of the cost of an acquisition over the fair value of the net tangible and other intangible assets acquired. Other intangible assets represent purchased assets that can be distinguished from goodwill because of contractual rights or because the asset can be exchanged on its own or in combination with a related contract, asset or liability. Goodwill is not amortized, but is subject to annual impairment tests. Customer-list intangible assets generally are amortized on a straight-line basis over fifteen years, and the amortization is recorded in other operating expenses. Impairment of goodwill is deemed to exist if the carrying value of a reporting unit, including its allocation of goodwill and other intangible assets, exceeds its estimated fair value. Impairment of other intangibles is deemed to exist if the balance of the other intangible asset exceeds the cumulative net cash inflows related to the asset over its remaining estimated useful life. If it is determined, based on these reviews, that goodwill or other intangible assets are impaired, the value of the goodwill or the other intangible asset is written down through a charge to other operating expenses.

Fee and Net Interest Revenue:

Fees from investment servicing, investment management, securities finance, trading services and certain types of processing fees and other revenue are recorded based on estimates or specific contractual terms as transactions occur or services are rendered, provided that persuasive evidence exists, the price to the customer is fixed or determinable and collectibility is reasonably assured. Amounts accrued at period-end are recorded in accrued income receivable in our consolidated statement of condition. Investment management performance fees are recorded in arrears after the performance period ends, based on predetermined benchmarks associated with the applicable fund's performance. Interest revenue on interest-earning assets and interest expense on interest-bearing liabilities is recorded based on the effective yield of the related financial instrument.

Employee Benefits Expense:

Employee benefits expense includes prior and current service costs of pension and other postretirement benefit plans, which are accrued on a current basis, as well as contributions under defined contribution savings plans, unrestricted awards under other employee compensation plans, and the amortization of restricted stock awards.

Equity-Based Compensation:

We record compensation expense, equal to the estimated fair value of employee stock options on the grant date, on a straight-line basis over the options' vesting period. We use a Black-Scholes option-pricing model to determine the fair value of the options granted.

On January 1, 2006, we adopted Statement of Financial Accounting Standards, or "SFAS," No. 123 (revised 2004), *Share-Based Payment*. This new standard requires the fair value of all share-based payments to employees, including awards made prior to January 1, 2003, to be recognized in the consolidated statement of income. We elected to use the modified prospective method, under which compensation expense is recorded over the remaining vesting period for only the portion of stock awards not fully vested as of January 1, 2006. The impact of adoption of the new standard was not material to our consolidated financial condition or results of operations, because the number of options granted prior to January 1, 2003, that were not fully vested as of January 1, 2006, was not significant. In addition, we elected to adopt the alternative transition method prescribed by Financial Accounting Standards Board, or "FASB," Staff Position FAS 123(R)-3, and reclassified $86 million of tax benefits related to equity-based compensation from general surplus account to a specifically designated surplus account within shareholders' equity.

The following table illustrates the pro forma effect on net income and earnings per share as if all outstanding and unvested stock options in each period were accounted for using estimated fair value, for the years indicated.

Years Ended December 31, (In millions, except per share amounts)	**2005**	**2004**
Net income, as reported	$ 838	$ 798
Add: Stock option compensation expense included in reported net income, net of related taxes	20	15
Deduct: Total stock option compensation expense determined under fair value method for all awards, net of related taxes	(27)	(42)
Pro forma net income	$ 831	$ 771
Earnings per share:		
Basic—as reported	$ 2.53	$ 2.38
Basic—pro forma	2.51	2.30
Diluted—as reported	$ 2.50	$ 2.35
Diluted—pro forma	2.48	2.27

Income Taxes:

We use an asset and liability approach to account for income taxes. Our objective is to recognize the amount of taxes payable or refundable for the current year through charges or credits to the current tax provision, and to recognize deferred tax assets and liabilities for the future tax consequences resulting from temporary differences between the amounts reported in the consolidated financial statements and their respective tax bases. The measurement of tax assets and liabilities is based on enacted tax laws and applicable tax rates. A deferred tax valuation allowance is established if it is considered more likely than not that all or a portion of the deferred tax assets will not be realized.

Earnings Per Share:

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, which excludes unvested shares of restricted stock. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period and the shares representing the dilutive effect of stock options and awards and other equity-related financial instruments. The effect of stock options and restricted stock outstanding is excluded from the calculation of diluted earnings per share in periods in which their effect would be antidilutive.

Derivative Financial Instruments:

A derivative financial instrument is a financial instrument or other contract which has one or more underlying and one or more notional amounts, no initial net investment, or a smaller initial net investment than would be expected for similar types of contracts, and which requires or permits net settlement. Derivatives that we enter into include forwards, futures, swaps, options and other instruments with similar characteristics.

We record derivatives in our consolidated statement of condition at their fair value. On the date a derivative contract is entered into, we designate the derivative as: (1) a hedge of the fair value of a recognized fixed-rate asset or liability or of an unrecognized firm commitment (a “fair value” hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized variable-rate asset or liability (a “cash flow” hedge); (3) a foreign currency fair value or cash flow hedge (a “foreign currency” hedge); (4) a hedge of a net investment in a non-U.S. operation; or (5) held for trading purposes (“trading” instruments).

Changes in the fair value of a derivative that is highly effective—and that is designated and qualifies as a fair value hedge—are recorded currently in processing fees and other revenue, along with the changes in fair value of the hedged asset or liability attributable to the hedged risk. Changes in the fair value of a derivative that is highly effective—and that is designated and qualifies as a cash flow hedge—are recorded, net of tax, in other comprehensive income, until earnings are affected by the hedged cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Cash flow hedge ineffectiveness, defined as the extent to which the changes in fair value of the derivative exceed the variability of cash flows of the forecasted transaction, is recorded in processing fees a nd other revenue.

Changes in the fair value of a derivative that is highly effective—and that is designated and qualifies as a foreign currency hedge—are recorded currently either in processing fees and other revenue or in other comprehensive income, net of tax, depending on whether the hedge transaction meets the criteria for a fair value or a cash flow hedge. If, however, a derivative is used as a hedge of a net investment in a non-U.S. operation, its changes in fair value, to the extent effective as a hedge, are recorded, net of tax, in the foreign currency translation component of other comprehensive income. Lastly, entire changes in the fair value of derivatives classified as trading instruments are recorded in trading services revenue.

At both the inception of the hedge and on an ongoing basis, we formally assess and document the effectiveness of a derivative designated as a hedge in offsetting changes in the fair value of hedged items and the likelihood that the derivative will be an effective hedge in future periods. We discontinue hedge accounting prospectively when we determine that the derivative will not remain effective in offsetting changes in fair value or cash flows of the underlying risk being hedged, the derivative expires, terminates or is sold, or management discontinues the hedge designation.

Unrealized gains and losses on foreign exchange and interest-rate contracts are reported at fair value in the consolidated statement of condition as a component of other assets and other liabilities, respectively, on a gross basis, except where such gains and losses arise from contracts covered by qualifying master netting agreements.

Recent Accounting Developments:

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No . 87, 88, 106 and 132(R)*. This new standard is intended to make it easier for financial statement users to understand an employer's financial position and ability to meet the obligations of its benefit plans. The standard requires recognition in our consolidated statement of condition of the overfunded or underfunded status of our tax-qualified defined benefit pension plan, nonqualified retirement plans and postretirement benefit plans, which is the difference between the fair value of plan assets and the related b enefit obligations. The standard also requires the reclassification of the after-tax amount of any unrecognized actuarial gains and losses and unrecognized prior service costs to accumulated other comprehensive income, a component of shareholders' equity. In subsequent years, the after-tax amount of changes in unrecognized actuarial gains and losses, as well as unrecognized prior service costs, will be recorded in other comprehensive income.

The standard was effective as of December 31, 2006 for the recognition of our plans' funded status, and applies prospectively for the remaining provisions. Upon adoption of the standard, to recognize the after-tax difference between our plans' net funded status and the amounts currently recorded in the consolidated statement of condition, we recorded an after-tax reduction of accumulated other comprehensive income of approximately $164 million. Disclosures required by the new standard are included in Note 17.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* This new standard defines fair value, establishes a framework for measuring fair value in conformity with GAAP, and expands disclosures about fair value measurements. Prior to this standard, there were varying definitions of fair value and limited guidance for applying those definitions under GAAP. In addition, the guidance was dispersed among the many accounting pronouncements that require fair value measurements. This standard is intended to increase consistency and comparability in fair value measurements and disclosures about fair value measurements. The provisions of this standard are effective beginning January 1, 2008. We are currently evaluating the potential impact of adoption of this standard on our consolidated financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin, or "SAB," No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.* SAB No. 108 provides interpretive guidance on how the effects of the carry-over or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. The guidance provided by SAB No. 108 must be initially applied to financial statements for the year ended December 31, 2006. This guidance has not had any material impact on our consolidated financial condition or results of operations.

In July 2006, the FASB issued FASB Staff Position, or "FSP," No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction.* The FSP, which must be applied as of January 1, 2007, requires that the recognition of lease income over the term of a lease be recalculated if there is a change in the expected timing of tax-related cash flows. The cumulative effect of applying the provisions of the FSP must be recorded as an adjustment to the beginning balance of retained earnings as of January 1, 2007. Our application of the FSP's provisions to certain of our leveraged leases resulted in an after-tax reduction of the beginning balance of retained earnings on January 1, 2007 of approximately $226 million. Future revenue from the affected leases is expected to increase over the remaining terms of the affected leases by an amount approximately equal to the after-tax reduction.

In July 2006, to improve comparability in the reporting of income tax assets and liabilities in the absence of guidance in existing income tax accounting standards, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.* Generally, this Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with existing income tax accounting standards, and prescribes certain thresholds and attributes for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Interpretation must be applied as of January 1, 2007, and the cumulative effect of applying the Interpretation's provisions must be recorded as an adjustment of the beginning balance of retained earnings as of that date. Our application of the Interpretation's provisions t o our tax positions as of January 1, 2007 did not have a material impact on our consolidated financial position or results of operations.

In April 2006, the FASB issued FSP No. FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)*. This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or "FIN 46(R)." The variability that is considered in applying FIN 46(R) affects the determination of (a) whether an entity is a variable interest entity, or "VIE;" (b) which interests are variable interests in a VIE; and (c) which party, if any, is the primary beneficiary of a VIE. This variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary to determine the primary beneficiary of a VIE. The FSP was effective prospectively for all VIEs (including newly created VIEs) beginning July 1, 2006. Upon adoption, the FSP did not have a material impact on our consolidated financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.* This standard amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* . The standard resolves certain previous implementation issues with respect to beneficial interests in securitized financial assets, and requires that these interests be evaluated to determine if they are free-standing derivatives, or if they are hybrid financial instruments that contain embedded derivatives requiring separate accounting. The standard also permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require separation, and eliminates the prohibition concerning passive derivatives that a qualifying special purpose entity may hold. The standard is effective for all financial instruments acquired, issued or subject to re-measurement occurring on or after January 1, 2007. We do not anticipate that this standard will have a material impact on our consolidated financial position and results of operations.

Note 2. Acquisitions and Divestitures

In February 2007, we announced a definitive agreement to acquire Investors Financial Services Corp., or "Investors Financial," a $12 billion bank holding company based in Boston. Under the terms of the agreement, we will exchange .906 shares of our common stock for each share of Investors Financial common stock. The transaction, which is subject to customary conditions, including the approvals of Investors Financial shareholders and regulatory agencies, is expected to close in the third quarter of 2007, and will be accounted for as a purchase.

In January 2007, we announced a definitive agreement to acquire Currenex, Inc., an independently owned electronic foreign exchange trading platform. Under the terms of the agreement, we will acquire Currenex for approximately $564 million in cash. The transaction, which is subject to customary conditions, including regulatory approvals, is expected to close in the first half of 2007, and will be accounted for as a purchase.

In 2005, we committed to a plan to divest our ownership interest in Bel Air Investment Advisors LLC, or "Bel Air," and at that time recorded a $165 million discontinued operations charge and corresponding tax benefit of $58 million. During 2006, we completed the divestiture and recorded income of approximately $16 million, or $10 million after-tax, related to the finalization of certain legal, selling and other costs recorded in connection with the divestiture. We have not reclassified Bel Air's results of operations for 2006, 2005 and 2004 to discontinued operations because these results were not material to State Street's consolidated results.

In 2003, we completed the sale of our Private Asset Management, or "PAM," business, and recorded a pre-tax gain of $285 million at the time of the transaction. During 2005, as a result of the achievement of certain target levels of customer conversions to the buyer, we recognized an additional pre-tax gain of $16 million from final settlement of the sale.

Note 3. Investment Securities

(In millions)	2006 Amortized Cost	2006 Gross Unrealized Gains	2006 Gross Unrealized Losses	2006 Fair Value	2005 Amortized Cost	2005 Gross Unrealized Gains	2005 Gross Unrealized Losses	2005 Fair Value
Available for Sale:								
U.S. Treasury and federal agencies:								
Direct obligations	$ 7,701		$ 89	$ 7,612	$10,340		$ 126	$10,214
Mortgage-backed securities	11,685	$ 15	246	11,454	11,387	$ 5	254	11,138
Asset-backed secur ities	25,646	28	40	25,634	23,892	13	63	23,842
Collateralized mortgage obligations	8,538	17	79	8,476	5,598	1	72	5,527
State and political subdivisions	3,740	20	11	3,749	1,864	12	8	1,868
Other debt investments	3,043	7	23	3,027	1,703	1	9	1,695
Money-market mutual funds	201	—	—	201	232	—	—	232
Other equity securities	269	24	1	292	438	27	2	463
Total	$60,823	$111	$489	$60,445	$55,454	$59	$ 534	$54,979
Held to Maturity:								
U.S. Treasury and federal agencies:								
Direct obligations	$ 846		$ 15	$ 831	$ 1,657	—	$ 21	$ 1,636
Mortgage-backed securities	1,084	$ 5	17	1,072	925	—	14	911
Collateralized mortgage obligations	2,357	5	41	2,321	2,086	—	40	2,046
Other investments	260	1	1	260	223	—	1	222
Total	$ 4,547	$ 11	$ 74	$ 4,484	$ 4,891	—	$ 76	$ 4,815

Aggregate investment securities carried at $23.28 billion and $26.57 billion at December 31, 2006 and 2005, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

Gross unrealized losses on investment securities on a pre-tax basis consisted of the following as of December 31, 2006:

(In millions)	Less than 12 continuous months Fair Value	Less than 12 continuous months Gross Unrealized Losses	12 continuous months or longer Fair Value	12 continuous months or longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
U.S. Treasury and federal agencies:						
Direct obligations	$ 524	$ 10	$ 7,524	$ 94	$ 8,048	$ 104
Mortgage-backed securities	3,048	66	7,102	197	10,150	263
Asset-backed securities	5,038	7	4,264	33	9,302	40
Collateralized mortgage obligations	1,703	9	5,400	111	7,103	120
State and political subdivisions	1,272	6	703	5	1,975	11
Other debt investments	1,382	9	665	14	2,047	23
Other equity securities	30	—	8	2	38	2
Total	$ 12,997	$107	$ 25,666	$ 456	$ 38,663	$ 563

As more fully described in Note 1, management periodically reviews the investment securities portfolio to determine if other-than-temporary impairment has occurred. This review encompasses all investment securities and includes such quantitative factors as current and expected future interest rates, the length of time the cost basis has exceeded the fair value and the severity of the impairment measured as the ratio of fair value to amortized cost, and includes all investment securities for which we have issuerspecific concerns regardless of quantitative factors. After a full review of all investment securities, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect interest and principal, the timing of future payments, the value of underlying collateral of assetbacked securities, and other relevant factors, management considers the aggregate decline in fair value and the resulting gross unrealized losses of $563 million on 3,897 securities at December 31, 2006 to be temporary. The losses are primarily the result of rising interest rates over the course of 2005 and part of 2006, not the result of any material changes in the credit characteristics of the investment securities portfolio. Management has the ability and the intent to hold the securities until recovery in market value.

Gross gains and losses realized from sales of available-for-sale securities were as follows for the years indicated:

(In millions)	2006	2005	2004
Gross gains	$ 33	$ 9	$ 49
Gross losses	18	10	23
Net gains (losses)	$ 15	$ (1)	$ 26

Maturities of debt investment securities were as follows as of December 31, 2006:

(In millions)	Under 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Available for Sale:				
U.S. Treasury and federal agencies:				
Direct obligations	$ 4,684	$ 2,440	$ 488	
Mortgage-backed securities	160	951	4,982	$ 5,361
Asset-backed securities	1,324	10,239	8,967	5,104
Collateralized mortgage obligations	142	1,892	3,231	3,211
State and political subdivisions	500	1,828	1,077	344
Other investments	996	1,285	731	15
Total	$ 7,806	$ 18,635	$ 19,476	$ 14,035
Held to Maturity:				
U.S. Treasury and federal agencies:				
Direct obligations	$ 95	$ 751		
Mortgage-backed securities	—	22	$ 320	$ 742
Collateralized mortgage obligations	—	71	2 ,052	593
Other investments	76	96	85	3
Total	$ 171	$ 1,581	$ 1,457	$ 1,338

The maturities of asset-backed securities, mortgage-backed securities and collateralized mortgage obligations are based upon expected principal payments.

Note 4. Loans and Lease Financing

(In millions)	2006	2005
Commercial and Financial:		
U.S.	$ 3,480	$ 2,298
Non-U.S.	3,137	1,854
Lease Financing:		
U.S.	415	404
Non-U.S.	1,914	1,926
Total loans.	8,946	6,482
Less allowance for loan losses	(18)	(18)
Net loans	$ 8,928	$ 6,464

Aggregate securities settlement advances and overdrafts included in commercial and financial loans in the table above were $5.69 billion and $3.41 billion at December 31, 2006 and 2005, respectively.

The components of the net investment in leveraged leases were as follows as of December 31:

(In millions)	2006	2005
Net rental income receivable	$ 3,272	$ 3,314
Estimated residual values	196	215
Unearned income	(1,139)	(1,199)
Investment in leveraged leases	2,329	2,330
Less related deferred income taxes	(1,779)	(1,735)
Net investment in leveraged leases	$ 550	$ 595

Changes in the allowance for loan losses were as follows for the years ended December 31:

(In millions)	2006	2005	2004
Balance at beginning of year	$ 18	$ 18	$ 61
Provision for loan losses	—	—	(18)
Reclassification	—	—	(25)
Balance at end of year	$ 18	$ 18	$ 18

During 2004, we reclassified $25 million of the allowance for loan losses to other liabilities as a reserve for off-balance sheet commitments. Subsequent to the reclassification, the reserve for off-balance sheet commitments was reduced by $10 million, which was recorded as a reduction of other operating expenses. Additionally, we reduced the allowance for loan losses by $18 million through the provision for loan losses as a result of reduced credit exposures and improved credit quality.

Note 5. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill wereasfollows for the years ended December 31:

(In millions)	Investment Servicing	Investment Management	Total
Balance at December 31, 2004	$ 1,284	$ 213	$ 1,497
Purchase price adjustmentsfrom prior periodacquisitions	42	1	43
Write-off of Bel Air goodwill	—	(144)	(144)
Reclassification of Bel Air goodwill	62	(62)	—
Translation adjustments	(58)	(1)	(59)
Balance at December 31, 2005	1,330	7	1,337
Translation adjustments	46	1	47
Balance at December 31, 2006	$ 1,376	$ 8	$ 1,384

During 2005, we recorded $42 million of goodwill related to the final settlement of our 2002 purchase of International Fund Services. In addition, we wroteoff $144 million of goodwill as a result of the divestiture of our ownership interest in Bel Air, and reclassified $62 million of goodwill related to Bel Air's broker/dealer business from Investment Management to Investment Servicing, which isthe line of business that records all other broker/dealer goodwill.

The gross carrying amount and accumulated amortization of other intangible assets were as follows as of December 31:

	2006			2005		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	$ 564	$ (170)	$ 394	$ 529	$ (118)	$ 411
Pension-related unrecognized prior service costs.	—	—	—	20	—	20
Other	50	(10)	40	33	(5)	28
Total	$ 614	$(180)	$ 434	$ 582	$ (123)	$ 459

Amortization expense relatedtoother intangible assets was $43 million, $43 million and $35 million for the years ended December 31, 2006, 2005 and 2004, respectively. Expected amortization expense for intangibles held at December 31, 2006 is $42 million for2007 through 2009, $41 million for 2010, and $39million for 2011.

Note 6. Other Assets

Other assets consisted of the following as of December 31:

(In millions)	2006	2005
Unrealized gains onderivative financialinstruments	$ 3,060	$2,114
Equity investmentsinunconsolidated subsidiaries	336	315
Prepaid pension expense	53	187
Other	1,922	1,003
Total	$ 5,371	$ 3,619

Note 7. Deposits

At December 31, 2006 and 2005, we had $16.74 billion and $17.84 billion, respectively, of time deposits outstanding. Non-U.S. time deposits were $6.80 billion and $8.30 billion at December 31, 2006 and 2005, respectively. Substantially all U.S. and non-U.S. time deposits were in amounts of $100,000 or more. The scheduled maturities of time deposits were as follows at December 31, 2006:

(In millions)	
2007	$ 16,557
2008	3
2009	165
2010	13
2011	—
After 2011	—
Total	$ 16,738

At December 31, 2006, the scheduled maturities of U.S. time deposits were as follows:

(In millions)	
3 months or less	$ 9,717
4 months to a year	54
Over one year	170
Total	$ 9,941

Note 8. Short-Term Borrowings

Our short-term borrowings include securities sold under repurchase agreements, federal funds purchased and other short-term borrowings, including commercial paper. Collectively, short-term borrowings had weighted-average interest rates of 4.46% and 2.82% for the years ended December 31, 2006 and 2005, respectively.

The following table reflects the amounts outstanding and weighted-average interest rates of the primary components of short-term borrowings as of and for the years ended December 31:

	Federal Funds Purchased			Securities Sold Under Repurchase Agreements		
(Dollars in millions)	2006	2005	2004	2006	2005	2004
Balance at December 31,	$2,147	$ 1,204	$ 435	$19,147	$20,895	$21,881
Maximum outstanding at any month end	8,040	3,982	5,500	23,024	24,690	26,773
Average outstanding during the year	2,777	2,306	2,891	20,883	22,432	22,989
Weighted average interest rate at end of year	5.18%	4.08%	1.75%	4.43%	3.79%	1.64%
Weighted average interest rate during the year	5.04	3.23	1.40	4.38	2.73	1.02

Securities sold under repurchase agreements included the following at December 31, 2006:

(In millions)	
Collateralized with securities purchased under resale agreements	$ 10,517
Collateralized with investment securities	8,630
Total	$ 19,147

The obligations to repurchase securities sold are reco rded as a liability in our consoli dated statement of condition. U.S. government securities with a fair value of $8.79 billion underlying the repurchase agreements remained in investment securities. Information about these U.S. government securities and the related repurchase agreements, including accrued interest, as of December 31, 2006, is presented in the following table. The table excludes repurchase agreements collateralized with securities purchased under resale agreements.

	U.S. Government Securities Sold		Repurchase Agreements	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Rate
Overnight maturity.	$ 8,917	$ 8,794	$ 8,632	4.43%

During 2005, we entered into an agreement with a clearing organization that enables us to net all securities purchased under resale agreements and sold under repurchase agreements with counterparties that are also members of this organization. As a result of netting, the average balances of securities purchased under resale agreements and securities sold under repurchase agreements were each reduced by $6.41 billion for 2006 and $1.70 billion for 2005. Other short-term borrowings at December 31, 2006 included $1.5 billion related to our tax-exempt investment programs, which were consolidated onto our statement of condition during 2006. These trusts, and the consolidation, are more fully discussed in Note 11.

We maintain a commercial paper program under which we can issue up to $3 billion with original maturities of up to 270 days from the date of issue. At December 31, 2006 and 2005, $998 million and $864 million, respectively, of commercial paper were outstanding. In addition, State

Street Bank currently has authority to issue bank notes up to an aggregate of $750 million with original maturities ranging from 14 days to five years. At December 31, 2006 and 2005, no notes payable were outstanding, and at December 31, 2006, all $750 million was available for issuance.State Street Bank currently maintains a line of credit of CAD $800 million, or approximately $688 million, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. At December 31, 2006, no balance was due on this line of credit.

Note 9. Long-Term Debt

(Dollars in millions)	2006	2005
Statutory business trusts:		
8.035% subordinated notes due to State Street Capital Trust B in 2027	$ 309	$ 322
7.94% subordinated notes due to State Street Capital Trust A in 2026	206	210
Floating rate subordinated notes due to State Street Capital Trust I in 2028(2)	155	154
Parent company and non-bank subsidiary issuances:		
Long-term capital lease	501	515
7.65% subordinated notes due 2010(1)	294	295
7.35% notes due 2026	150	150
9.50%mortgage note due 2009	6	9
State Street Bank issuances:		
5.25% subordinated notes due 2018(1)	96	405
5.30% subordinated notes due 2016	399	399
Floating rate subordinated notes due 2015(2)	200	200
Total long-term debt	$2,616	$2,659

(1) We have entered into various interest-rate swap contracts to modify our interest expense on certain subordinated notes from a fixed rate to a floating rate. These swaps are recorded as fair value hedges, and at December 31, 2006 and 2005, we recorded a decrease of $9 million and an increase of $18 million, respectively, in the carrying value of long-term debt.

(2) We have entered into interest-rate swaps, which are recorded as cash flow hedges, to modify our floating-rate interest expense on the subordinated notes due 2028 and 2015 to a fixed rate. See Note 15 for additional information about derivatives.

We maintain an effective universal shelf registration that allows for the offering and sale of debt securities, capital securities, common stock, depositary shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depositary shares may be convertible, or any combination thereof. Statutory Business Trusts:

We have three statutory business trusts, State Street Capital Trusts A and B and State Street Capital Trust I, and as of both December 31, 2006 and 2005, these trusts collectively have issued $650 million of cumulative semi-annual and quarterly income trust preferred capital securities.

Proceeds received by the trusts from their capitalization and from their capital securities issuances were invested in junior subordinated debentures issued by the parent company. The junior subordinated debentures are the sole assets of the trusts. The trusts are wholly-owned by us; however, we do not consolidate the trusts under existing accounting standards.

Payments made by the trusts on the capital securities are dependent on our payments made to the trusts on the junior subordinated debentures. Our fulfillment of these commitments has the effect of providing a full, irrevocable and unconditional guarantee of the trusts' obligations under the capital securities. While the capital securities are not recorded in our consolidated statement of condition, they continue to qualify as Tier 1 capital under federal regulatory capital guidelines. Information about restrictions on our ability to obtain funds from our subsidiary banks is in Note 14.

Interest paid on the debentures is recorded in interest expense. Distributions on the capital securities are payable from interest payments received on the debentures and are due semi-annually by State Street Capital Trusts A and B, and quarterly by State Street Capital Trust I, subject to deferral for up to five years under certain conditions. The capital securities are subject to mandatory redemption in whole at the stated maturity upon repayment of the debentures, with an option by us to redeem the debentures at any time upon the occurrence of certain tax events or changes to tax treatment, investment company regulation or capital treatment; or at any time after March 15, 2007, for the Capital Securities B, after December 30, 2006, for the Capital Securities A, and after May 15, 2008, for the Capital Trust I securities. For State Street Capital Trusts A and B, redemption premiums are payable on a declining basis according to the terms of the trust agreements. All redemptions are subj ect to federal regulatory approval. Parent Company and Non-Bank Subsidiary Issuances:

At December 31, 2006 and 2005, $501 million and $515 million, respectively, were included in longterm debt related to the capital leases for One Lincoln Street and the One Lincoln Street parking garage. See Note 18 for additional information.

The 7.65% subordinated notes due 2010 qualify as Tier 2 capital under federal regulatory capital guidelines. The 7.35% notes are unsecured.

The 9.50% mortgage note was fully collateralized by property at December 31, 2005. The scheduled principal payments for the next three years are $3 million for 2007 and 2008 and less than $1 million for 2009, at which time the debt will be entirely paid off.

State Street Bank Issuances:

State Street Bank currently has authority to issue up to an aggregate of $1 billion of subordinated fixed-rate, floating-rate or zero-coupon bank notes with a maturity of five to fifteen years. With respect to the 5.25% subordinated bank notes due 2018, State Street Bank is required to make semi-annual interest payments on the outstanding principal balance of the notes on April 15 and October 15 of each year, and the notes qualify as Tier 2 capi tal under regulatory capita l guidelines.

With respect to the 5.30% subordinated notes due 2016 and the floating-rate subordinated notes due 2015, State Street Bank is required to make semi-annual interest payments on the outstanding principal balance of the 5.30% notes on January 15 and July 15 of each year beginning in July 2006, and quarterly interest payments on the outsta nding principal balance of the floating-r ate notes onMarch 8, June 8, September 8 and December 8 of each year beginning in March 2006. The notes qualify as Tier 2 capital under regulatory capital guidelines.

Note 10. Commitments and Contingencies

Off-Balance Sheet Commitments and Contingencies:

Credit-related financial instruments include indemnified securities financing, unfunded commitments to extend credit or purchase assets and standby letters of credit. The total potential loss on unfunded commitments, standby and commercial letters of credit and securities finance indemnifications is equal to the total contractual amount, which does not consider the value of any collateral.

The following is a summary of the contractual amount of credit-related, off-balance sheet financial instruments at December 31. Amounts reported do not reflect participations to unrelated third parties.

(In millions)	2006	2005
Indemnified securities financing	$ 506,032	$ 372,863
Liquidity asset purchase agreements	30,251	24,412
Unfunded commitments to extend credit	6,354	14,403
Standby letters of credit	4,926	5,027

On behalf of our customers, we lend their securities to creditworthy brokers and other institutions. In certain circumstances, we may indemnify our customers for the fair market value of those securities against a failure of the borrower to return such securities. Collateral funds received in connection with our securities finance services are held by us as agent and are not recorded in our consolidated statement of condition. We require the borrowers to provide collateral in an amount equal to or in excess of 100% of the fair market value of the securities borrowed. The borrowed securities are revalued daily to determine if additional collateral is necessary. We held, as agent, cash and U.S. government securities totaling $527.37 billion and $387.22 billion as collateral for indemnified securities on loan at December 31, 2006 and 2005, respectively.

Approximately 81% of the unfunded commitments to extend credit and liquidity asset purchase agreements expire within one year from the date of issue. Since many of the commitments are expected to expire or renew without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

In the normal course of business, we provide liquidity and credit enhancements to asset-backed commercial paper programs, or "conduits." These conduits are more fully described in Note 11. The commercial paper issuances and commitments of the conduits to provide funding are supported by liquidity asset purchase agreements and backup liquidity lines of credit, the majority of which are provided by us. In addition, we provide direct credit support to the conduits in the form of standby letters of credit. Our commitments under liquidity asset purchase agreements and backup lines of credit totaled $23.99 billion at December 31, 2006, and are included in the preceding table. Our commitments understandby letters of credit totaled $1.01 billion at December 31, 2006, and are also included in the preceding table.

Deterioration in asset performance or certain other factors may shift the asset risk from the commercial paper investors to us as the liquidity or credit enhancement provider. In addition, the conduits may need to draw upon the backup facilities to repay maturing commercial paper. In these instances, we would either acquire the assets of the conduits or make loans to the conduits secured by the conduits' assets. Potential losses, if any, from these conduits are not expected to materially affect our consolidated financial condition or results of operations.

In the normal course of business, we hold assets under custody and management in a custodial or fiduciary capacity. Management conducts regular reviews of its responsibilities in this regard and considers the results in preparing the consolidated financial statements. In the opinion of management, no contingent liabilities existed at December 31, 2006, that would have had a material adverse effect on State Street's consolidated financial position or results of operations.

Legal Proceedings:

We are involved in various industry-related regulatory, governmental and law enforcement inquiries and subpoenas, as well as legal proceedings that arise in the normal course of business. In the opinion of management, after discussion with counsel, these regulatory, governmental and law enforcement inquiries and subpoenas, and legal proceedings can be successfully defended or resolved without a material adverse effect on our consolidated financial condition or results of operations.

Tax Contingencies:

In the normal course of business, we are subject to challenges from U.S. and non-U.S. tax authorities regarding the amount of taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. During 2004, the U.S. Internal Revenue Service, or "IRS," completed its review of our federal income tax returns for tax years 1997, 1998 and 1999 and proposed to disallow tax deductions related to lease-in-lease-out, or "LILO," transactions. We believe that we reported the tax effects of these transactions properly, based on applicable statutes, regulations and case law in effect at the time they were entered into. During the second quarter of 2005, we filed an appeal with the IRS, which continues, with respect to their proposed disallowance of these tax deductions. In January 2007, a U.S. District Court found for the government in a LILO case involving another financial institution. The financial institution is appealing the decision. The IRS has indicated that it is reviewing its LILO settlement position in light of the outcome of this case. During 2005, the IRS announced that it had classified sale-in-lease-out, or "SILO," transactions as tax shelters, or "listed transactions." The IRS began its review of our tax returns for the years 2000–2003 during the second quarter of 2005, and is reviewing these SILO transactions. During the fourth quarter of 2006, the IRS proposed to disallow tax deductions related to certain SILO transactions. We believe that we reported the tax effects of these transactions properly, based on applicable statutes, regulations and case law in effect at the time they were entered into.

During 2006, we recorded an additional tax provision of approximately $46 million to accrue for the potential resolution of the above-described issues with the IRS. While it is unclear whether we will be able to reach an acceptable settlement with the IRS with respect to LILO transactions, management believes we are sufficiently accrued as of December 30, 2006 for tax exposures, including exposures related to LILO and SILO transactions, and related interest expense. In future periods, if management revises its evaluation of this tax position, the effect of the revision will be recorded in income tax expense in that period.

Note 11. Securitizations and Variable Interest Entities

Tax-Exempt Investment Programs:

In the normal course of business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets principally to mutual fund customers. We utilize trusts which are structured as qualifying special purpose entities, or " QSPEs," which, while not subject to the requireme nts of FIN 46(R), are governed by the accounting and reporting provisions of SFAS No. 140, *Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* We may also provide liquidity and remarketing services to the QSPEs. Historically, we transferred assets to these unaffiliated QSPEs from our investment securities portfolio at fair market value and treated such transfers as sales. The QSPEs financed the acquisition of these assets by selling certificated interests issued by the QSPE to third-party investors and we typically purchased a minority residual interest in these QSPEs.

During the third quarter of 2006, we determined that off-balance sheet accounting treatment for these trusts was not appropriate. As a result, we consolidated the trusts onto our consolidated statement of condition as of September 30, 2006, resulting in an increase in assets, composed of municipal securities available for sale, and liabilities, composed of other short-term borrowings, of approximately $1.5 billion. In addition, we recorded a cumulative gain of $15 million in trading services revenue for the quarter ended September 30, 2006. The consolidation of these trusts did not change the economic substance of the programs, and its impact was not material to consolidated financial statements of prior periods. The consolidation of the trusts is reported as a non-cash acquisition of investment securities available for sale in our consolidated statement of cash flows.

The trusts had a weighted-average life of approximately 4.9 years at December 31, 2006, compared to approximately 6.2 years at December 31, 2005. Under separate agreements, we provide standby bond purchase agreements to most of these trusts, which obligate State Street to acquire the bonds at par value in the event that the re-marketing agent is unable to place the certificated interests of the trusts with investors. The standby bond purchase agreements are subject to early termination by State Street in the event of a shortfall in the required over-collateralization in the trust. As the primary standby bond purchase agreement provider, we are not obligated to acquire bonds in the event of the following credit events: payment default, bankruptcy of issuer or credit enhancement provider, imposition of taxability, or downgrade of an asset held by the trust below investment grade. Our commitments to the trusts under these standby bond purchase agreements totaled $1.68 billion at December 31, 2006, none of which were utilized at period-end. In the event that our obligations under these agreements are triggered, no material impact to our consolidated financial condition or results of operations would occur, because the bonds are recorded in our consolidated statement of condition.

Asset-Backed Commercial Paper Programs:

We established an asset-backed commercial paper program in 1992. Currently, we administer four third-party owned, special purpose, multi-seller asset-backed commercial paper programs, or "conduits," that purchase financial assets with various asset classifications from a var iety of third-parties. These conduits, which are structured as bankruptcy-remote limited liability companies, provide access to the efficiencies of the global commercial paper markets, which have historically offered an attractive cost of financing relative to bank-based borrowing. Asset purchases by the conduits are funded by issuing commercial paper, which is supported by liquidity asset purchase agreements and backup liquidity lines of credit, the majority of which are provided by us. In addition, we provide direct credit support to the conduits in the form of standby letters of credit. All fees are charged based on market price. The sellers continue to service the transferred assets and absorb the first losses of the conduits by providing collateral in the form of excess assets also known as over-collaterization.

We hold no equity ownership in these conduits. These entities typically meet the definition of a variable interest entity as defined by FIN 46(R). We are not the primary beneficiary of these conduits, as defined by FIN 46(R), as a re sult of the issuance of subordinated notes by the conduits to third-party investors, and we do not record these conduits in our consolidated financial statements. At December 31, 2006 and 2005, total assets in unconsolidated conduits were $25.25 billion and $17.90 billion, respectively. Our off-balance sheet commitments to these conduits are disclosed in Note 10.

Collateralized Debt Obligations:

We manage a series of collateralized debt obligations, or "CDOs." A CDO is a managed investment vehicle which purchases a portfol io of diversified highly-rated assets. A CDO funds purchases throu gh the issuance of several tranches of debt and equity, the repayment and return of which are linked to the performance of the assets in the CDO. Typically, our involvement is as collateral manager. We may also invest in a small percentage of the debt issued. These entities typically meet the definition of a variable interest entity as defined by FIN 46(R). We are not the primary beneficiary of these CDOs, as defined by FIN 46(R), and do not record these CDOs in our consolidated financial statements. At December 31, 2006 and 2005, total assets in these CDOs were $3.48 billion and $2.73 billion, respectively.

During 2005, we acquired and transferred $60 million of investment securities from our available-forsale portfolio into a CDO. This transfer, which was executed at fair market value in exchange for cash, was treated as a sale. We did not acquire or transfer any investment securities to a CDO during 2006.

Note 12. Shareholders' Equity

Treasury Stock:

During the first quarter of 2006, we purchased 3 million shares of our common stock under a program authorized by our Board of Directors, or "Board," in 2005. On March 16, 2006, the Board authorized a new program for the purchase of up to 15 million shares of our common stock for general corporate purposes, including mitigating the dilutive impact of shares issued under employee benefit programs, and terminated the 2005 program. Under this new program, we purchased 2.8 million shares of our common stock during 2006, and as of December 31, 2006, 12.2 million s hares were available for purchase. We utilize third-party broker-dealers to acquire common shares on the open market in the execution of our stock purchase program.

In addition, shares may be acquired for other deferred compensation plans, held by an external trustee, that are not part of the common stock purchase program. As of December 31, 2006, on a cumulative basis, approximately 395,000 shares have been purchased and are held in trust. These shares are recorded as treasury stock in our consolidated statement of condition.

During 2006, 2005 and 2004, we purchased and recorded as treasury stock a total of 5.8 million shares, 13.1 million shares and 4.1 million shares, respectively, at an average historical cost per share of $63, $51 and $43, respectively.

Accumulated Other Comprehensive (Loss) Income:

(In millions)	2006	2005	2004
Foreign currency translation	$ 197	$ 73	$213
Unrealized gain (loss) on hedges of net investments in non-U.S. subsidiaries	(7)	11	(26)
Unrealized loss on available-for-sale securities	(227)	(285)	(56)
Minimum pension liability	(186)	(26)	(26)
Unrealized loss on cash flow hedges	(1)	(4)	(13)
Total	$ (224)	$ (231)	$ 92

For the year ended December 31, 2006, we realized net gains of $15 million on sales of available-forsale securities. Unrealized losses of $7 million were included in other comprehensive income at December 31, 2005, net of deferred taxes of $4 million, related to these sales.

For the year ended December 31, 2005, we realized net losses of $1 million on sales of available -forsale securities. Unrealized gains of $1 million were included in other comprehensive income at December 31, 2004, net of deferred taxes of less than $1 million, related to these sales. For the year ended December 31, 2004, we realized net gains of $26 million on sales of available-forsale securities. Unrealized gains of $11 million were included in other comprehensive income at December 31, 2003, net of deferred taxes of $7 million, related to these sales.

Note 13. Equity-Based Compensation

The 2006 Equity Incentive Plan was approved by shareholders in April 2006, and 20,000,000 shares of common stock were approved for issuance for stock and stock-based awards, including stock options, stock appreciation rights, restricted stock, deferred stock and performance awards. In addition, up to 8,000,000 shares from our 1997 Equity Incentive Plan, that were available to issue or become available due to cancellations and forfeitures, may be awarded under the 2006 Plan. The 1997 Plan expired on December 18, 2006. As of December 31, 2006, 1,305,420 shares from the 1997 Plan have been added to and may be awarded from the 2006 Plan. As of December 31, 2006, 106,045 awards have been made under the 2006 Plan. We have stock options outstanding from previous plans, including the 1997 Plan, under which no further grants can be made.

The exercise price of non-qualified and incentive stock options and stock appreciation rights may not be less than the fair value of such shares at the date of grant. Stock options and stock appreciation rights issued under the 2006 Plan and the prior 1997 Plan generally vest over four years and expire no later than ten years from the date of grant. For restricted stock awards issued under the 2006 Plan and the prior 1997 Plan, stock certificates are issued at the time of grant and recipients have dividend and voting rights. In general, these grants vest over three years. For deferred stock awards issued under the 2006 Plan and the prior 1997 Plan, no stock is issued at the time of grant. Generally, these grants vest over two-, three- or four-year periods. Performance awards granted under the 2006 Equity Incentive Plan and the prior 1997 Plan are earned over a performance period based on achievement of goals, generally over two- to threeyear periods. Payment for performance awards is made in shares of our common stock or in cash equal to the fair market value of our common stock, based on certain financial ratios after the conclusion of each performance period.

We record compensation expense, equal to the estimated fair value of the options on the grant date, on a straight-line basis over the options' vesting period. We use a Black-Scholes option-pricing model to estimate the fair value of the options granted.

The weighted-average assumptions used in connection with the option-pricing model were as follows for the years indicated.

	2006	2005	2004
Dividend yield.	1.41 %	1.85 %	1.35%
Expected volatility	26.50	28.70	27.10
Risk-free interest rate	4.60	4.19	3.02
Expected option lives (in years)	7.8	7.8	5.0

Compensation expense related to stock options, stock appreciation rights, restricted stock awards, deferred stock awards and performance awards, which we record as a component of salaries and employee benefits expense in our consolidated statement of income, was $208 million, $110 million and $74 million for the years ended December 31, 2006, 2005 and 2004, respectively. The related total income tax benefit recorded in our consolidated statement of income was $83 million, $44 million and $30 million for 2006, 2005 and 2004, respectively.

Information about the 2006 Plan and 1997 Plan as of December 31, 2006, and activity during the year then ended is presented below:

(in millions)	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock Options and Stock Appreciation Rights:				
Outstanding at December 31, 2005.	23,956	$ 44.60		
Granted	972	62.63		
Exercised	(4,823)	40.81		
Forfeited or expired.	(316)	51.32		
Outstanding at December 31, 2006	19,789	$ 46.28	5.6	$ 419
Exercisable at December 31, 2006	15,132	$ 44.84	4.8	$ 342

The weighted-average grant date fair value of options granted in 2006, 2005 and 2004 was $21.09, $14.38 and $13.17, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004, was $102 million, $56 million and $45 million, respectively.

As of December 31, 2006, total unrecognized compensation cost related to stock options and stock appreciation rights was $39 million, which is expected to be recognized over a weighted-average period of 11 months.

Other stock awards and related activity consisted of the following for the year ended December 31, 2006:

Restricted Stock Awards	Shares	Weighted-Average Grant Date Fair Value
(Shares in thousands)		
Outstanding at December 31, 2005	378	$ 46.82
Granted	184	62.62
Vested	(168)	46.49
Forfeited	(21)	51.12
Outstanding at December 31, 2006	373	$ 54.42

The weighted-average grant date fair value of restricted stock awards granted in 2005 and 2004 was $45.26 and $51.39 per share, respectively. The total fair value of restricted stock awards vested was $8 million, $8 million and $10 million for 2006, 2005 and 2004, respectively. As of December 31, 2006, total unrecognized compensation cost related to restricted stock was $13 million, which is expected to be recognized over a weighted-average period of 11 months.

Deferred Stock Awards	Shares	Weighted-Average Grant Date Fair Value
(Shares in thousands)		
Outstanding at December 31, 2005	3,203	$43.60
Granted	3,083	60.94
Vested	(1,270)	43.80
Forfeited	(162)	53.33
Outstanding at December 31, 2006	4,854	$54.21

The weighted-average grant date fair value of deferred stock awards granted in 2005 and 2004 was $43.40 and $50.28 per share, respectively. The total fair value of deferred stock awards vested was $56 million, $14 million and $51 million for 2006, 2005 and 2004, respectively. As of December 31, 2006, total unrecognized compensation cost related to deferred stock awards was $149 million, which is expected to be recognized over a weighted-average period of 14 months.

Performance Awards	Shares	Weighted-Average Grant Date Fair Value
(Shares in thousands)		
Outstanding at December 31, 2005	1,283	$48.52
Granted	959	59.87
Forfeited	(193)	52.71
Paid Out	(160)	52.78
Outstanding at December 31, 2006	1,889	$53.49

The weighted-average grant date fair value of performance awards granted in 2005 and 2004 was $47.91 and $50.35 per share, respectively. The total fair value of performance aw ards paid out was $9 million and $12 million for 2006 and 2005, respectively. There were no payments made for performance awards in 2004, as the only program in place at that time paid out every other year and 2004 was not a payout year. As of December 31, 2006, total unrecognized compensation cost related to performance awards was $38 million, which is expected to be recognized over a weighted-average period of 23 months.

We generally utilize treasury shares to satisfy the issuance of stock under our equity incentive plans. We do not have a specific policy concerning purchases of our common stock to satisfy stock issuances, including exercises of options. We have a general policy concerning purchases of stock to meet common stock issuances under our employee benefit plans, including option exercises and other corporate purposes. Various factors determine the amount and timing of our purchases of our common stock, including our capital requirements, the number of shares we expect to issue under employee benefit plans, market conditions (including the trading price of our common stock), and legal considerations. These factors can change at any time, and there can be no assurance as to the number of shares of common stock we will purchase or when we will purchase them.

Note 14. Regulatory Matters

Regulatory Capital:

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate cert ain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial condition. Under regulatory capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures of our consolidated assets, liabilities and off-balance sheet exposures as calculated under regulatory accounting practices. Our capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require State Street and State Street Bank to maintain minimum risk-based capital and leverage ratios as set forth in the following table. The risk-based capital ratios are Tier 1 capital and total capital divided by adjusted total riskweighted assets and market-risk equivalents, and the Tier 1 leverage ratio is

Tier 1 capital divided by adjusted quarterly average assets. As of December 31, 2006 and 2005, State Street and State Street Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2006, State Street Bank was categorized as "well capitalized" under the regulatory framework. To be categorized as "well capitalized," State Street Bank must exceed the "well capitalized" guideline ratios, as set forth in the table, and meet certain other requirements. State Street Bank exceeded all "well capitalized" requirements as of December 31, 2006 and 2005. There are no conditions or events since December 31, 2006 that management believes have changed the capital category of State Street Bank.

The regulatory capital ratios and related amounts were as follows as of December 31:

(Dollars in millions)	Regulatory Guidelines(1) Minimum	Regulatory Guidelines(1) Well Capitalized	State Street 2006	State Street 2005	State Street Bank 2006	State Street Bank 2005
Risk-Based Ratios:						
Tier 1 capital	4 %	6 %	13.7%	11.7%	12.0 %	10.3%
Total capital	8	10	15.9	14.0	14.1	12.5
Tier 1 leverage ratio	4	5	5.8	5.6	5.6	5.4
Shareholders' equity			$ 7,252	$ 6,367	$ 6,769	$ 6,139
Capital trust secu rities			650	650	—	—
Unrealized losses on available-for-sale securities			227	285	239 2	92
Unrealized (gains) los ses on cash flow hedges			—	4	163	(10)
Recognition of pension plan funded status			164	—	—	—
Qualifying minority interest inconsolidated subsidiaries			—	2	—	2
Less:						
Goodwill			1,384	1,337	1,297	1,247
Other intangible assets			434	459	401	438
Other deductions			2	1	—	—
Tier 1 capital			6,473	5,511	5,473	4,738
Qualifying subordinated debt			1,178	1,238	998	998
Allowances for on- and off-balance sheet credit exposures			30	30	30	30
Unrealized gains on available-forsale equity securities			10	12	1	6
Tier 2 capital			1,218	1,280	1,029	1,034
Deduction for investments in finance subsidiaries			(184)	(174)	(62)	(52)
Total capital			$ 7,507	$ 6,617	$ 6,440	$ 5,720
Adjusted total risk-weighted assets and market-risk equivalents:						
On-balance sheet			$ 31,447	$ 27,288	$ 30,000	$ 25,965
Off-balance sheet			15,371	19,586	15,375	19,602
Market-risk equivalents			395	361	394	351
Total			$ 47,213	$ 47,235	$ 45,769	$ 45,918
Adjusted quarterly average assets			$ 110,794	$ 98,970	$ 97,132	$ 87,667

(1) State Street Bank must meet the regulatory designation of "well capitalized" in order for us to maintain our status as a financial holding company, including maintaining a minimum Tier 1 risk-based capital ratio (Tier 1 capital divided by adjusted total risk-weighted assets and market-risk equivalents) of 6%, a minimum total risk-based capital ratio (total capital divided by adjusted total risk-weighted assets and market-risk equivalents) of 10%, and a Tier 1 leverage ratio (Tier 1 capital divided by adjusted quarterly average assets) of 5%. In addition, Federal Reserve Regulation Y defines "well capitalized" for a bank holding company such as us for purposes of determining eligibility for a streamlined review process for acquisition proposals. For such Regulation Y purposes, "well capitalized" requires us to maintain a minimum Tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 10%.

Cash, Dividend, Loan and Other Restrictions:

During 2006, our bank subsidiaries were re quired by the Federal Reserve to maintain average cash reserve balances of $103 million. In addition, federal and state banking regulations place certain restrictions on dividends paid by bank subsidiaries to a parent holding company. For 2007, a ggregate dividends by State Street Bank without prior regulatory approval are limited to approximately $766 million of its undistributed earnings at December 31, 2006, plus an additional amount equal to its net profits, as defined, for 2007 up to the date of any dividend.

The Federal Reserve Act requires that extensions of credit by State Street Bank to certain affiliates, including the parent company, be secured by specific collateral, that the extension of credit to any one affiliate be limited to 10% of its capital and surplus (as defined), and that extensions of credit to all such affiliates be limited to 20% of its capital and surplus.

At December 31, 2006, consolidated retained earnings included $230 million representing undistributed earnings of affiliates that are accounted for using the equity method.

Note 15. Derivative Financial Instruments

We use derivatives to support customers' needs, conduct trading activities, and manage our interestrate and currency risk.

As part of our trading activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options, and interest-rate swaps. In the aggregate, long and short foreign exchange forward positions are matched closely to minimize currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Interest-rate contracts involve an agreement with a counterparty to exchange cash flows based on the movement of an underlying interest-rate index. An interest-rate swap agreement involves the exchange of a series of interest payments, either at a fixed or variable rate, based upon the notional amount without the exchange of the underlying principal amount. An interest-rate option contract provides the purchaser, for a premium, the right, but not the obligation, to receive an interest rate based upon a predetermined notional value during a specified period. An interest-rate futures contract is a commitment to buy or sell, at a future date, a financial instrument at a contracted price; it may be settled in cash or through the delivery of the contracted instrument.

Foreign exchange contracts involve an agreement to exchange one currency for another currency at an agreed-upon rate and settlement date. Foreign exchange contracts consist of cross-currency swap agreements and foreign exchange forward and spot contracts.

The following table summarizes the contractual or notional amounts of derivative financial instruments held or issued for trading and asset and liability management as of December 31:

(In millions)	2006	2005
Trading:		
Interest-rate contracts:		
Swap agreements	.$ 1,011	$ 4,508
Options and caps purchased	1,216	912
Options and caps written	3,224	2,564
Futures	154	534
Foreign exchange contracts:		
Forward, swap and spot	492,063	414,376
Options purchased	8,313	6,624
Options written	8,063	6,763
Asset and Liability Management:		
Interest-rate contracts:		
Swap agreements	.2,770	5,369
Foreign exchange contracts:		
Swap agreements	132	355

In connection with our asset and liability management activities, we have executed interest-rate swap agreements designated as fair value and cash flow hedges to manage interest-rate risk. The notional values of these interest-rate swap agreements and the related assets or liabilities being hedged were as follows at December 31:

	2006			2005		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
Available-for-sale investment securities	$ 1,452		$ 1,452	$ 2,211		$ 2,211
Interest-bearing time deposits(1)	118	$ 300	418	118	$ 1,490	1,608
Long-term debt(2)(3)	700	200	900	1,200	350	1,550
Total	$ 2,270	$ 500	$ 2,770	$ 3,529	$ 1,840	$ 5,369

(1) For the years ended December 31, 2006 and 2005, the overall weighted-average interest rate for interest-bearing time deposits was 5.02% and 3.23%, respectively, on a contractual basis, and 3.52% and 3.19%, respectively, including the effects of hedges.

(2) For the year ended December 31, 2006, the fair value hedges of long-term debt decreased the carrying value of long-term debt presented in our consolidated statement of condition by $9 million and in the year ended December 31, 2005 it increased the value by $18 million.

(3) For the years ended December 31, 2006 and 2005, the overall weighted-average interest rate for longterm debt was 6.72% and 6.58%, respectively, on a contractual basis, and 6.77% and 5.63%, respectively, including the effects of hedges.

For cash flow hedges, any changes in the fair value of the derivative financial instruments remain in accumulated other comprehensive income and are generally recorded in our consolidated statement of income in future periods when earnings are affected by the variability of the hedged cash flow. Hedge ineffectiveness recorded in processing fees and other revenue was not material in 2006, 2005 or 2004.

We have entered into foreign exchange forward contracts with an aggregate notional amount of 100 million, or approximately $132 million, to hedge a portion of our net foreign investment in non-U.S.subsidiaries. As a result, approximately $18 million of after-tax translation losses and $37 million of aftertax translation gains for the years ended December 31, 2006 and 2005, respectively, on the hedge contracts were recorded in accumulated other comprehensive income.

Foreign exchange trading revenue related to foreign exchange contracts was $611 million, $468 million and $420 million for the years ended December 31, 2006, 2005 and 2004, respectively. For other financial instrument contracts, recorded in trading services revenue were gains of $18 million in 2006, gains of $4 million in 2005 and losses of $25 million in 2004. Future cash requirements, if any, related to foreign exchange contracts are represented by the gross amount of currencies to be exchanged under each contract unless we and the counterparty have agreed to pay or receive the net contractual settlement amount on the settlement date. Future cash requirements on other financial instruments are limited to the net amounts payable under the agreements.

Note 16. Net Interest Revenue

(In millions)	2006	2005	2004
Interest Revenue:			
Deposits with banks	$ 414	$ 529	$ 591
Investment securities:			
U.S. Treasury and federal agencies	1,011	866	536
State and political subdivisions (exempt from federal tax)	88	58	57
Other investments	1,830	873	277
Securities purchased under resale agreements and federal funds sold	663	412	196
Commercial and financial loans	205	106	59
Lease financing	65	65	57
Trading account assets	48	21	14
Total interest revenue	4,324	2,930	1,787
Interest Expense:			
Deposits	1,891	1,132	512
Other short-term borrowings	1,145	753	315
Long-term debt	178	138	101
Total interest expense	3,214	2,023	928
Net interest revenue	$ 1,110	$ 907	$ 859

Note 17. Employee Benefits

State Street Bank and certain of its U.S. subsidiaries participate in a non-contributory, tax-qualified defined benefit pension plan. In addition to this primary plan, we have non-qualified unfunded supplemental retirement plans, or "SERPs," that provide certain officers with defined pension benefits in excess of allowable qualified plan limits. Non-U.S. employees participate in local defined benefit plans.

State Street Bank and certain of its U.S. subsidiaries participate in a post-retirement plan that provides health care and insurance benefits for retired employees.

Combined information for the U.S. and non-U.S. defined benefit plans, and information for the postretirement plan, is as follows as of the December 31 measurement date:

	Primary U.S. and Non-U.S. Defined Benefit Plans		Post-Retirement Plan	
	2006	2005	2006	2005
Benefit Obligations:				
Beginning of year	$ 759	$650	$79	$ 72
Service cost	59	50	4	4
Interest cost.	39	35	5	4
Employee Contributions	1	—	—	—
Transfers in	—	27	—	—
Actuarial losses/(gains)	(4)	62	9	4
Benefits paid	(47)	(45)	(7)	(5)
Expenses paid .	(1)	(2)	—	—
Special termination benefits	—	1	—	—
Foreign currency translation	27	(19)	—	—
End of year	$ 833	$759	$90	$ 79
Plan Assets at Fair Value:				
Beginning of year	$ 706	$592		
Actual return on plan assets	84	63		
Employer contributions	57	98	$ 6	$ 5
Transfers in	— 13			
Benefits paid	(47)	(45)	(6)	(5)
Expenses paid	(1)	(2)		
Foreign currency translation	22	(13)		
End of year	$ 821	$706	$ —	$ —
Accrued Benefit Expense:				
Funded status (plan assets less benefit obligations)	$ (12)	$ (53)	$ (90)	$ (79)
Transition obligation	N/A	—	N/A	6
Net actuarial loss	N/A	263	N/A	22
Prior service credit	N/A	(23)	N/A	—
Net prepaid (accrued) benefit expense	$ (12)	$ 187	$(90)	$(51)

N/A—Disclosure not applicable for period indicated as a result of the adoption of SFAS No. 158.

(In millions)	Primary U.S. and Non-U.S. Defined Benefit Plans 2006	2005	Post-Retirement Plan 2006	2005
Amounts Recognized in the Consolidated Statement of Condition:				
As of December 31:				
Prepaid benefit cost	N/A	$ 183	—	—
Accrued benefit liability	N/A	(26)	N/A	$ (51)
Other	N/A	30	—	—
Non-current assets	$ 53	N/A	—	N/A
Current liabilities	—	N/A	$ (8)	N/A
Noncurrent liabilities	(65)	N/A	(82)	N/A
Net prepaid (accrued) amount recognized in statement of condition	$ (12)	$ 187	$ (90)	$ (51)
Amounts Recognized in Accumulated Other Comprehensive Income:				
Initial net obligation	—	N/A	$ (5)	N/A
Prior service credit	$ 20	N/A	—	N/A
Net loss	(217)	N/A	(29)	N/A
Accumulated other comprehensive loss	(197)	N/A	(34)	N/A
Cumulative employer contributions in excess of net periodic benefit cost	185	N/A	(56)	N/A
Net obligation recognized in statement of condition	$ (12)	N/A	$ (90)	N/A
Determination of Adjustment Related to Adoption of SFAS No. 158:				
Liability before adoption of the funded status provisions of SFAS No. 158.	$ 31	N/A	N/A	N/A
Accumulated other comprehensive loss before adoption of funded status recognition provisions of SFAS No. 158	31	N/A	N/A	N/A
Transition obligation after adoption of funded status provisions of SFAS No. 158	—	N/A	$ 5	N/A
Prior service cost	(20)	N/A	—	N/A
Net loss	217	N/A	29	N/A
Accumulated other comprehensive loss after adoption of funded status recognition provisions of SFAS No. 158	$ 197	N/A	$ 34	N/A
Increase in accumulated other comprehensive loss, before taxes, to reflect the adoption of SFAS No. 158	$ 166	N/A	$ 34	N/A
Accumulated benefit obligation	$ 751	$ 689	N/A	N/A
Actuarial Assumptions (U.S. Plans):				
Used to determine benefit obligations as of December 31:				
Discount rate.	5.75%	5.50%	5.75 %	5.50%
Rate of increase for future compensation	4.50	4.50	—	—
Used to determine periodic benefit cost for the years ended December 31:				
Discount rate	5.50%	5.75%	5.50 %	5.75%
Rate of increase for future compensation	4.50	4.50	—	—
Expected long-term rate of return on plan assets	8.00	8.00	—	—
Assumed health care cost trend rates as of December 31:				
Cost trend rate assumed for next year	—	—	10.00%	11.00%
Rate to which the cost trend rate is assumed to decline .	—	—	5.00	5.00
Year that the rate reaches the ultimate trend rate	—	—	2013	2013

N/A—Disclosure not applicable for period indicated as a result of the adoption of SFAS No. 158.

Expected benefit payments for the next ten years are as follows:

(In millions)	Primary U.S. and Non-U.S. Defined Benefit Plans	Non-Qualified SERPs	Post-Retirement Plan
2007	$ 43	$ 7	$ 8
2008	32	6	8
2009	29	5	7
2010	29	6	7
2011	28	10	7
2012–2016	153	37	32

The accumulated benefit obligation for all of our U.S. defined benefit pension plans was $613 million and $581 million at December 31, 2006, and 2005, respectively.

To develop the assumption of the expected long-term rate of return on plan assets, we considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This analysis resulted in the determination of the assumed long-term rate of return on plan assets of 8.00% for the year ended December 31, 2006.

For the tax-qualified U.S. defined benefit pension plan, the asset allocation as of December 31, 2006 and 2005, and the strategic target allocation for 2007, by asset category, were as follows:

ASSET CATEGORY

	Strategic Target Allocation	Percentage of Plan Assets at December 31,	
	2007	2006	2005
Equity securities	45%	46%	59%
Fixed income securities	45	45	29
Other	10	9	12
Total	100%	100%	100%

The preceding strategic target asset allocation was last amended effective July 31, 2006. Consistent with that target allocation, the plan should generate a real return above inflation, and superior to that of a benchmark index consisting of a combination of appropriate capital markets indices weighted in the same proportions as the plan's strategic target asset allocation. Equities included domestic and international publicly-traded common, preferred and convertible securities. Fixed income securities included domestic and international corporate and government debt securities, as well as asset-backed securities and private debt. The "other" category included real estate, alternative investments and cash and cash equivalents. Derivative financial instruments are an acceptable alternative to investing in these types of securities, but may not be used to leverage the plan's portfolio.

Expected employer contributions to the tax-qualified U.S. defined benefit pension plan, SERPs and post-retirement plan for the year ending December 31, 2007 are $14 million, $7 million and $8 million, respectively.

State Street has unfunded S ERPs that provide certain officers with defined pension benefits in excess of qualified plan limits imposed by U.S. federal tax law. Information for the SERPs was as follows for the years ended December 31:

	Non-Qualified SERPs	
(In millions)	**2006**	**2005**
Benefit Obligations:		
Beginning of year..	$ 107	$ 99
Service cost	6	4
Interest cost.	7	5
Actuarial loss.	24	11
Benefits paid	(6)	(8)
Settlements	—	(8)
Plan amendments..	4	4
End of year	$ 142	$ 107
Accrued Benefit Expense:		
Funded status (plan assets less benefit obligations)	$ (142)	$ (107)
Net actuarial loss..	N/A	39
Prior service cost...	N/A	17
Net accrued benefit expense.	$ (142)	$ (51)
Amounts Recognized in the Consolidated Statement of Condition:		
Accrued benefit liability	N/A	$ (78)
Intangible assets	N/A	20
Accumulated other comprehensive loss.	N/A	7
Non-current assets.	—	N/A
Current liabilities..	$ (7)	N/A
Non-current liabilities.	(135)	N/A
Net accrued amount recognized in statement of condition	$ (142)	$ (51)
Amounts Recognized in Accumulated Other Comprehensive Income:		
Initial net obligation	—	N/A
Prior service cost	$ (19)	N/A
Net loss	(59)	N/A
Accumulated other comprehensive loss.	$ (78)	N/A
Cumulative employer contributions in excess of net periodic benefit cost	(64)	N/A
Net obligation recognized in statement of condition.	$ (142)	N/A
Determination of Adjustment related to adoption of SFAS No. 158:		
Liability before adoption of the funded status provisions of SFAS No. 158	$ 32	$ 27
Actual intangible asset.	18	20
Accumulated other comprehensive loss before adoption of funded status recognition provisions of SFAS No. 158	14	7
Transition obligation after adoption of the funded status provisions of SFAS No. 158	—	N/A
Prior service cost	19	N/A
Net loss	59	N/A
Accumulated other comprehensive loss after adoption of funded status recognition provisions of SFAS No. 158	$ 78	N/A
Increase in accumulated other comprehensive loss, before taxes, to r eflect the adoption of SFAS No. 158	$ 64	N/A
Accumulated benefit obligation.	$ 96	$ 78
Actuarial assumptions:		
Assumptions used to determine benefit obligations and periodic benefit costs are consistent with those noted for the post-retirement plan, with the following exception:		
Rate of increase for future compensation	4.75%	4.75%

N/A—Disclosure not applicable for period indicated as a result of the adoption of SFAS No. 158.

For those defined benefit plans that had accumulated benefit obligations in excess of plan assets as of December 31, 2006 and 2005, the accumulated benefit obligations were $326 million and $262 million, respectively, and the plan assets were $200 million and $163 million, respectively.

For those defined benefit plans that had projected benefit obligations in excess of plan assets as of December 31, 2006 and 2005, the projected benefit obligations were $411 million and $866 million, respectively, and the plan assets were $204 million and $706 million, respectively.

If trend rates in health care costs were increased by 1%, the post-retirement benefit obligation as of December 31, 2006, would have increased 7%, and the aggregate expense for service and interest costs for 2006 would have increased 13%. Conversely, if trend rates in health care costs were reduced by 1%, the post-retirement benefit obligation as of December 31, 2006, would have decreased 6%, and the aggregate expense for service and interest costs for 2006 would have decreased 11%.

The following table presents the actuarially determined expense (income) for our U.S. and non-U.S. defined benefit plans, SERPs and post-retirement plan for the years ended December 31:

(In millions)	Primary U.S. and Non-U.S. Defined Benefit Plans 2006	2005	2004	Post-Retirement Plan 2006	2005	2004
Components of Net Periodic Benefit Cost:						
Service cost	$ 59	$ 50	$ 41	$ 4	$ 3	$ 3
Interest cost	39	35	32	5	4	4
Assumed return on plan assets	(53)	(45)	(40)	—	—	—
Amortization of transition obligation (asset)	—	—	(1)	1	1	1
Amortization of prior service cost .	(2)	(2)	(2)	—	—	—
Amortization of net loss	17	15	16	2	1	1
Net periodic benefit cost	60	53	46	12	9	9
Special Events Accounting Expense:						
Special termination benefits	—	1	—	—	—	—
Special events accounting expense	—	1	—	—	—	—
Total expense	$ 60	$ 54	$ 46	$ 12	$ 9	$ 9
Estimated amounts that will be amortized from accumulated other comprehensive income over the next fiscal year:						
Initial net asset	—			$ (1)		
Prior service credit	$ 2			—		
Net loss	(14)			(1)		
Estimated amortization	$ (12)			$ (2)		

(In millions)	Non-Qualified SERPs 2006	2005	2004
Components of Net Periodic Benefit Cost:			
Service cost	$ 6	$ 4	$ 5
Interest cost	7	5	6
Amortization of prior service cost	2	2	1
Amortization of net loss	4	2	2
Net periodic benefit cost	$ 19	$ 13	$ 14
Special Events Accounting Expense:			
Settlements	—	2	1
Special events accounting expense	—	2	1
Total expense	$ 19	$ 15	$ 15
Estimated amounts that will be amortized from accumulated other comprehensive income over the next fiscal year:			
Initial net obligation	—		
Prior service cost	$ (2)		
Net loss	(4)		
Estimated amortization	$ (6)		

Certain of our U.S. employees are e ligible to contribute a portion of their pre-tax salary to a 401(k) savings plan and an Employee Stock Ownership Plan, or "ESOP." Our matching portion of these contributions is paid in cash, and the related expense was $20 million for 2006, $21 million for 2005 and $16 million for 2004. In addition, employees in certain non-U.S. offices participate in other local plans. Expenses related to these plans were $32 million, $39 million and $31 million for 2006, 2005 and 2004, respectively.

The ESOP is a non-leveraged plan. Compensation cost is equal to the contribution called for by the plan formula and is equal to the cash contributed for the purchase of shares on the open market or the fair value of the shares contributed from trea sury stock. Dividends on share s held by the ESOP are charged to retained earnings, and shares are treated as outstanding for purposes of calculating earnings per share.

Note 18. Occupancy Expense and Information Systems and C ommunications Expense

Occupancy expense and information systems and communications expense included expense for depreciation of buildings, leasehold improvements, computers, e quipment and furniture and fixtures. Total depreciation expense for the years ended December 31, 2006, 2005 and 2004 was $309 million, $315 million and $301 million, respectively.

As of December 31, 2006, accumulated amortization of assets under capital leases was $83 million. Amortization of assets recorded under capital leases and the costs of operating leases for office space are recorded in occupancy expense. The costs of operating leases related to computers and equipment are recorded in information systems and communications expense.

The following is a summary of future minimum lease payments under non-cancelable capital and operating leases as of December 31, 2006:

(In millions)	Capital Leases	Operating Leases	Total
2007	$ 51	$ 148	$ 199
2008	52	137	189
2009	52	110	162
2010	52	98	150
2011	52	58	110
Thereafter	615	451	1,066
Total minimum lease payments	874	$ 1,002	$ 1,876
Less amount representing interest payments	(373)		
Present value of minimum lease payments	$ 501		

We lease approximately 865,000 square feet at One Lincoln Street, an office building located in Boston, Massachusetts, and a related 366,000 square-foot underground parking garage, under 20-year, non-cancelable capital leases expiring in September 2023. As of December 31, 2006 and 2005, an aggregate net book value of $447 million and $474 million, respectively, for the capital leases was recorded in premises and equipment in our consolidated statement of condition, and the related liability was recorded in long-term debt. Capital lease asset amortization is recorded in occupancy expense over the lease terms. Lease payments are recorded as a reduction of the liability, with a portion recorded as imputed interest expense. For the years ended December 31, 2006 and 2005, interest expense related to these capital lease obligations, recorded in net interest revenue, was $37 million and $38 million, respectively.

We have entered into non-cancelable operating leases for premises and equipment. Future minimum rental commitments in the preceding table have been reduced by aggregate sublease rental commitments of $151 million for operating leases and $64 million for capital leases. Nearly all leases include renewal options.

Total rental expense amounted to $179 million, $181 million and $190 million in 2006, 2005 and 2004,respectively. Rental expense has been reduced by sublease revenue of $13 million, $10 million and $20 million for the years ended December 31, 2006, 2005 and 2004, respectively. During 2005 and 2004, we entered into sub-lease agreements for our headquarters building and other office space in Boston. These sub-lease agreements resulted in the recognition of charges to occupancy expense of $26 million and $16 million for the years ended December 31, 2005 and 2004, respectively.

Note 19. Other Operating Expenses

The components of other operating expenses were as follows for the years ended December 31:

(In millions)	2006	2005	2004
Professional services	$157	$ 184	$ 165
Merger, integration and divestiture costs(1)	—	—	62
Other(2)	361	300	287
Total other operating expenses	$518	$ 484	$ 514

(1) Amount represented merger and integration costs related to our acquisition of a substantial portion of the Global Securities Services, or "GSS," business of Deutsche Bank AG.

(2) Amount for 2004 included $21 million of restructuring costs incurred in connection with a workforce reduction.

Note 20. Income Taxes

The components of income tax expense from continuing operations consisted of the following for the years ended December 31:

(In millions)	2006	2005	2004
Current:			
Federal	$ 328	$185	$ 31
State	82	46	27
Non-U.S.	265	139	157
Total current	675	370	215
Deferred:			
Federal	27	83	160
State	(9)	14	23
Non-U.S.	(18)	20	(4)
Total deferred	—	117	179
Total income tax expense from continuing operations	$ 675	$ 487	$ 394

Current and deferred income taxes from continuing operations for 2005 and 2004 have been reclassified to reflect tax returns as actually filed. The income tax expense (benefit) related to net realized securities gains or losses was $6 million, $(1) million and $10 million for 2006, 2005 and 2004, respectively. Pre-tax income from continuing operations attributable to operations located outside the U. S. was $759 million, $494 million and $424 million for 2006, 2005 and 2004, respectively.

For those foreign subsidiaries for which accumulated earnings of the subsidiary are considered to be permanently invested, no provision for deferred U.S. income taxes is recorded. The total undistributed retained earnings of these subsidiaries was $324 million at December 31, 2006. If the accumulated earnings in these subsidiaries had been temporarily invested, a deferred U.S. tax liability of $56 million would have been recorded.

Income tax expense from continuing operations for 2006 included an additional provision of $35 million primarily related to the impact of the Tax Increase Prevention and Reconciliation Act, or "TIPRA," on income generated from certain of our leveraged leases, more fully described below, and $46 million related to the potential resolution of issues with the IRS concerning our LILO and SILO transactions. Additional information about issues related to LILO and SILO transactions is in Note 10. Income tax expense from continuing operations for 2004 included a cumulative benefit of $18 million resulting from a change in the effective state tax rate applied to leveraged lease transactions.

During 2006, TIPRA repealed the federal income tax exclusion, effective on January 1, 2007, which was previously allowed for a portion of the income generated from certain leveraged leases of aircraft. As a result of this legislation, and in accordance with existing lease accounting standards, we recalculated the allocation of the components of leasing-related income over the terms of the affected leases and recorded a non-cash charge to income tax expense of approximately $35 million primarily related to the impact of this legislation.

Significant components of deferred tax liabilities and assets were as follows at December 31:

(In millions)	**2006**	**2005**
Deferred Tax Liabilities:		
Lease financing transactions	$1,779	$ 1,735
Foreign currency translation	90	34
Pension	—	29
Other	12	—
Operating expenses	62	50
Total deferred tax liabilities	1,943	1,848
Deferred Tax Assets:		
Unrealized losses on available-for-sale securities, net	153	190
Deferred compensation	108	54
Pension	81	—
Unrecognized loss related to discontinued operations	—	58
Allowance for loan losses	11	11
Tax carryforwards	1	1
Other	76	12
Total deferred tax assets	430	326
Valuation allowance for deferred tax assets	(1)	(1)
Net deferred tax assets	429	325
Net deferred tax liabilities	$1,514	$ 1,523

Management considers the valuation allowance adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. At December 31, 2006, we had non-U.S. and state tax loss carryforwards of $1 million that expire beginning in 2007.

A reconciliation of the U.S. s tatutory income tax rate to the effective tax rate based on income from continuing operations before income taxes was as follows for the years ended December 31:

	2006	**2005**	**2004**
U.S. federal incom e tax rate	35.0 %	35.0 %	35.0%
Changes from Statutory Rate:			
State taxes, net of federal benefit	2.9	3.3	3.7
Tax-exempt interest revenue, net of disallowed interest	(1.1)	(1.5)	(2.2)
Tax credits	(1.4)	(1.3)	(.6)
Foreign tax differential	(1.2)	(1.0)	(1.1)
Provision related to TIPRA	1.8	—	—
Provision related to LILO and SILO transactions	2.6	—	—
Leveraged lease transactions—cumulative benefit	—	—	(.9)
Other, net	(.5)	(.5)	(.8)
Effective tax rate	38.1 %	34.0 %	33.1%

See Note 10 for information about the IRS's review of our federal income tax returns and contingencies related to LILO and SILO transactions.

Note 21. Earnings Per Share

The following table presents the computation of basic and diluted earnings per share for the years ended December 31:

	2006	2005	2004
(Dollars in millions, except per share amounts)			
Net Income	$ 1,106	$ 838	$ 798
Average Shares Outstanding (in thousands):			
Basic average shares	331,350	330,361	334,606
Effect of dilutive securities:			
Stock options and stock awards	4,349	2,762	3,358
Equity-related financial instruments	33	1,513	1,641
Dilutive average shares	335,732	334,636	339,605
Anti-dilutive securities (in thousands)(1)	973	8,791	10,289
Earnings per Share			
Basic	$ 3.34	$ 2.53	$ 2.38
Diluted	3.29	2.50	2.35

(1) Represents stock options outstanding but not included in the computation of dilut ed average shares because the exercise prices of the instruments were greater than the average fair value of our common stock during those periods.

Note 22. Line of Business Information

We report two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry.

Investment Servicing provides services for U.S. mutual funds, collective investment funds worldwide, corporate and public retirement plans, insurance companies, foundations, endowments, and other investment pools. Products include custody, accounting, daily pricing and administration; master trust and master custody; recordkeeping; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loans and lease financing; investment manager and hedge fund manager operations outsourcing; and performance, risk and compliance analytics to support institutional investors. We provide shareholder services, which include mutual fund and collective investment fund shareholder accounting, through 50%-owned affiliates, Boston Financial Data Services, Inc. and the International Financial Data Services group of companies.

Investment Management offers a broad array of services for managing financial assets, including investment management and investment research, primarily for institutional investors worldwide. These services include passive and active U.S. and non-U.S. equity and f ixed income investment management strategies, and other related services, such as securities finance.

Revenue and expenses are directly charged or allocated to the lines of business through management information systems. We price our products and services on the basis of overall customer relationships and other factors; therefore, revenue may not necessarily reflect market pricing on products within the business lines in the same way it would for independent business entities. Assets and liabilities are allocated according to rules that support management's strategic and tactical goals. Capital is allocated based on risk-weighted assets employed and management's judgment. Capital allocations may not be representative of the capital that might be required if these lines of business were independent business entities.

The following is a summary of line of business results. These results exclude the income (loss) from discontinued operations related to our divestiture of Bel Air, more fully discussed in Note 2. The "Other/One-Time" column for 2005 includes the additional gain from our sale of the PAM business, more fully discussed in Note 2. For 2004, this column includes merger and integration costs related to the GSS acquisition.

	Investment Servicing			Investment Management			Other/One-Time			Total		
Years ended December 31,	**2006**	**2005**	**2004**	**2006**	**√2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
(Dollars in millions, except where otherwise noted)												
Fee revenue:												
Servicing fees	$ 2,723	$2,474	$ 2,263							$ 2,723	$2,474	$2,263
Management fees	—	—	—	$ 943	$751	$623				943	751	623
Trading services	862	694	595	—	—	—				862	694	595
Securities finance	292	260	211	94	70	48				386	330	259
Processing fees and other	208	221	239	64	81	69				272	302	308
Total fee revenue	4,085	3,649	3,308	1,101	902	740				5,186	4,551	4,048
Net interest revenue	986	826	816	124	81	43				1,110	907	859
Provision for loan losses	—	—	(18)	—	—	—				—	—	(18)
Net interest revenue after provision for loan losses	986	826	834	124	81	43				1,110	907	877
Gains (Losses) on sales of available-for-sale investment securities, net	15	(1)	26	—	—	—				15	(1)	26
Gain on sale of divested business	—	—	—	—	—	—		$16		—	16	—
Total revenue	5,086	4,474	4,168	1,225	983	783		16		6,311	5,473	4,951
Operating expenses	3,742	3,363	3,115	798	678	582		—	$62	4,540	4,041	3,759
Income from continuing operations before income taxes	$ 1,344	$1,111	$ 1,053	$ 427	$ 305	$201		$ 16	$(62)	$ 1,771	$1,432	$1,192
Pre-tax margin	26%	25%	25%	35%	31%	26%						
Average assets (in billions)	$ 103.4	$ 96.9	$ 92.5	$ 3.0	$ 2.9	$ 2.6				$ 106.4	$ 99.8	$ 95.1

Note 23. Non-U.S. Activities

We define non-U.S. activities as those revenue-producing assets and transactions that arise from customers domiciled outside the United States. Due to the nature of our business, precise segregation of U.S. and non-U.S. activities is not possible. Subjective judgments have been used to arrive at operating results related to non-U.S. activities, including the application of transfer pricing and asset and liability management policies. Interest expense allocations are based on the av erage cost of short-term borrowed funds.

The following table summarizes non-U.S. operating results for the years ended December 31, and assets as of December 31, based on the domicile location of customers:

	2006	2005	2004
(In millions)			
Results of Operations:			
Total fee revenue	$ 2,349	$ 1,881	$ 1,549
Interest revenue	749	653	660
Interest expense	357	404	393
Net interest revenue	392	249	267
Total revenue	2,741	2,130	1,816
Operating expenses	1,840	1,589	1,309
Income before income taxes	901	541	507
Income tax expense	346	205	191
Net income	$ 555	$ 336	$ 316
Assets:			
Interest-bearing deposits with banks	$ 5,193	$11,235	$20,451
Other assets.	19,510	8,800	6,719
Total assets	$24,703	$20,035	$27,170

Non-U.S. revenue for 2006 included $833 million in the United Kingdom, primarily from our London operations.

Note 24. Fair Values of Financial Instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Disclosure of fair values is not required for certain items, such as lease financing, equity method investments, obligations for pension and other postretirement plans, premises and equipment, other intangible assets and income tax assets and liabilities. Accordingly, aggregate fair value amounts presented do not purport to represent, and should not be considered representative of, our underlying "market" or franchise value. In addition, because of differences in methodologies and assumptions used to estimate fair values, our fair values should not be compared to those of other financial institutions.

We use the following methods to estimate the fair value of financial instruments:

- For financial instruments that have quoted market prices, those quoted prices are used to determine fair value.
- Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate are assumed to have a fair value that approximates reported value, after taking into consideration any applicable credit risk.
- If no quoted market prices are available, financial instruments are valued by discounting the expected cash flow(s) using an estimated current market interest rate for the financial instrument.
- For derivative financial instruments, fair value is estimated as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties, other t han in a forced liquidation or sale.

The short maturity of our assets and liabilities results in a significant number of financial instruments for which fair value equals or closely approximates the value reported in our consolidated statement of condition. These financial instruments are reported in the following captions in the consolidated statement of condition: cash and due from ban ks; interest-bearing deposits with banks; securities purchased under resale agreements; accrued income receivable; deposits; securities sold under repurchase agreements; federal funds purchased; and other short-te rm bo rrowings. The fair value of trading account assets equals their reported value. In addition, due to the relatively short-term nature of our net loans (excluding leases), substantially all of which are due within one year, we have determined that fair value approximates the reported value. Loan commitments have no reported value because terms are at prevailing market rates.

The reported value and fair value for other captions in the consolidated statement of condition were as follows as of December 31:

	Reported Value	Fair Value
(In millions)		
2006:		
Financial Assets:		
Investment securities:		
Available for sale	$ 60,445	$ 60,445
Held to maturity	4,457	4,484
Net loans (excluding leases)	6,599	6,599
Unrealized gains on derivative financial instruments—trading	3,006	3,006
Unrealized gains on derivative financial instruments—asset and liability management	54	54
Financial Liabilities:		
Long-term debt	2,616 2	,695
Unrealized losses on derivative financial instruments—trading	3,026	3,026
Unrealized losses on derivative financial instruments—asset and liability management	31	31
2005:		
Financial Assets:		
Investment securities:		
Available for sale	$ 54,979	$ 54,979
Held to maturity	4,891	4,815
Net loans (excluding leases)	4,134	4,134
Unrealized gains on derivative finan cial instruments—trading	2,038	2,038
Unrealized gains on derivative financial instruments—asset and liability management	76	76
Financial Liabilities:		
Long-term debt	2,659	2,775
Unrealized losses on derivative financial instruments—trading	2,042	2,042
Unrealized losses on derivative financial instruments—asset and liability management	76	76

Note 25. Parent Company Financial Statements

STATEMENT OF INCOME

Years ended December 31, (In millions)	2006	2005	2004
Interest on securities purchased under resale agreements	$ 559	$ 332	$ 140
Cash dividends from consolidated bank subsidiary	415	570	400
Cash dividends from consolidated non-bank subsidiaries and unconsolidated affiliates	177	74	50
Other, net	34	42	28
Total revenue	1,185	1,018	618
Interest on securities sold under repurchase agreements	463	265	112
Other interest expense	146	131	78
Other expenses	36	6	11
Total expenses	645	402	201
Income tax expense (benefit)	(4)	33	11
Income before equity in undistributed income of subsidiaries and affiliates	544	583	406
Equity in undistributed income (loss) of subsidiaries and affiliates:			
Consolidated bank subsidiary	602	165	338
Consolidated non-bank subsidiaries and unconsolidated affiliates	(40)	90	54
Net income	$ 1,106	$ 838	$ 798

STATEMENT OF CONDITION

As of December 31, (In millions)	2006	2005
Assets:		
Interest-bearing deposits with bank subsidiary	$ 841	$ 550
Securities purchased under resale agreements from:		
External parties	9,269	8,464
Consolidated non-bank subsidiary and unconsolidated affiliates	21	615
Investment securities available for sale .	103	91
Investments in subsidiaries:		
Consolidated bank subsidiary	6,768	6,139
Consolidated non-b ank subsidiaries	940	983
Unconsolidated affiliates	166	164
Notes and other receivables from:		
Consolidated bank subsidiary	3	19
Consolidated non-bank subsidiaries and affiliates	120	71
Other assets.	140	70
Total assets	$ 18,371	$ 17,166
Liabilities:		
Securities sold under repurchase agreements	$ 8,772	$ 8,624
Commercial paper	998	864
Accrued taxes, expenses and other liabilities due to:		
Consolidated bank subsidiary	54	33
Consolidated non-bank subsidiaries	7	7
External parties	167	148
Long-term debt	1,121	1,123
Total liabilities	11,119	10,799
Shareholders' equity	7,252	6,367
Total liabilities and shareholders' equity	$ 18,371	$ 17,166

STATEMENT OF CASH FLOWS

Years ended December 31, (In millions)	2006	2005	2004
Net Cash Provided by Operating Activities	**$ 497**	**$ 512**	**$ 412**
Investing Activities:			
Net decrease (increase) in interest-bearing deposits with bank subsidiary	(291)	580	(327)
Net (increase) decrease in securities purchased under resale agreements	(211)	(6,845)	5,154
Purchases of available-for-sale securities	(2)	(378)	(43)
Sales of available-for-sale securities	—	385	43
Investments in consolidated bank subsidiary	(5)	—	—
Investments in non-bank subsidiaries and affiliates	22	(20)	(75)
Net decrease in notes receivable from subsidiaries	1	15	26
Other	141	12	13
Net cash (used in) provided by investing activities	(345)	(6,251)	4,791
Financing Activities:			
Net increase (decrease) in short-term borrowings	148	6,506	(4,914)
Net increase (decrease) in commercial paper	134	(102)	(15)
Repayments of long-term debt	—	(345)	—
Proceeds from SPACES, net of issuance costs	—	345	—
Purchases of common stock	(368)	(664)	(178)
Proceeds from issuance of treasury stock for stock awards and options exercised	193	231	113
Payments for cash dividends	(259)	(232)	(209)
Net cash (used in) provided by financing activities	(152)	5,739	(5,203)
Net change	—	—	—
Cash and due from banks at beginning of year	—	—	—
Cash and due from banks at end of year	$ —	$ —	$ —

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

Distribution of Average Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The average statements of condition and net interest revenue analysis for the years indicated are presented below.

Years ended December 31,	**2006**			**2005**			**2004**		
(Dollars in millions; fully taxable-equivalent)	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
Assets:									
Interest-bearing deposits with non-U.S. banks	$ 9,581	$ 412	4.30%	$ 17,186	$ 527	3.07%	$ 27,221	$ 589	2.17%
Interest-bearing deposits with U.S. banks	40	2	5.00	74	2	2.60	167	2	.94
Securities purchased under resale agreements	12,543	649	5.18	12,579	403	3.21	13,733	191	1.39
Federal funds sold	277	14	4.91	311	9	2.82	359	5	1.29
Trading account assets(2)	975	48	4.91	470	21	4.39	614	14	2.36
Investment securities:									
U.S. Treasury and federal agencies	21,160	1,011	4.78	24,833	866	3.49	22,314	536	2.40
State and political subdivisions(2)	2,616	115	4.45	1,839	78	4.23	1,945	77	3.93
Other investments	37,803	1,830	4.84	24,481	873	3.56	11,834	277	2.31
Commercial and financial loans	5,338	205	3.84	3,718	106	2.85	3,433	59	1.72
Lease financing(2)	2,332	83	3.59	2,295	87	3.81	2,256	82	3.61
Total interest-earning assets(2)	92,665	4,369	4.72	87,786	2,972	3.39	83,876	1,832	2.18
Cash and due from banks	2,977			2,598			2,853		
Other assets	10,802			9,385			8,413		
Total assets	$ 106,444			$ 99,769			$ 95,142		
Liabilities and Shareholders' Equity:									
Interest-bearing deposits:									
Time	$ 1,617	57	3.52	$ 2,058	66	3.19	$ 5,352	72	1.35
Savings	836	32	3.81	934	21	2.28	855	6 .72	
Non-U.S.	53,182	1,802	3.39	46,711	1,045	2.24	39,046	434	1.11
Total interest-bearing deposits	55,635	1,891	3.40	49,703	1,132	2.28	45,253	512	1.13
Securities sold under repurchase agreements	20,883	914	4.38	22,432	613	2.73	22,989	234	1.02
Federal funds purchased	2,777	140	5.04	2,306	75	3.23	2,891	41	1.40
Other short-term borrowings	2,039	91	4.46	1,970	65	3.30	1,736	40	2.28
Long-term debt	2,621	178	6.77	2,461	138	5.63	2,319	101	4.36
Total interest-bearing liabilities	83,955	3,214	3.83	78,872	2,023	2.57	75,188	928	1.23
Noninterest-bearing deposits:									
Special time	7,282			6,880			6,697		
Demand	663			1,243			1,296		
Non-U.S.(3)	329			170			53		
Other liabilities	7,471			6,426			5,900		
Shareholders' equity	6,744			6,178			6,008		
Total liabilities and shareholders' equity	$ 106,444			$ 99,769			$ 95,142		
Net interest revenue		$ 1,155			$ 949			$ 904	
Excess of rate earned over rate paid			.89%			.82%			.95%
Net interest margin(1)			1.25			1.08			1.08

(1) Net interest margin is fully taxable-equivalent net interest revenue divided by average interest-earning assets.
(2) Fully taxable-equivalent revenue is a method of presentation in which the tax savings achieved by investing in tax-exempt securities are included in interest revenue with a corresponding charge to income tax expense. This method facilitates the comparison of the performance of tax-exempt and taxable securities. The adjustment is computed using a federal income tax rate of 35%, adjusted for applicable state income taxes, net of the related federal-tax benefit. The fully taxable-equivalent adjustments included in interest revenue above were $45 million, $42 million and $45 million for the years ended December 31, 2006, 2005 and 2004, respectively.
(3) Non-U.S. noninterest-bearing deposits were $326 million, $122 million and $71 million at December 31, 2006, 2005 and 2004, respectively.

The table below summarizes changes in fully taxable-equivalent interest revenue and interest expense due to changes in volume of interest-earning assets and interest-bearing liabilities, and changes in interest rates. Changes attributed to both volumes and rates have been allocated based on the proportion of change in each category.

Years ended December 31, 2006	**Compared to 2005 2005**			**Compared to 2004**		
(Dollars in millions; fully taxable-equivalent)	Change in Volume	Change in Rate	Net (Decrease) Increase	Change in Volume	Change in Rate	Net (Decrease) Increase
Interest Revenue Related to:						
Interest-bearing deposits with non-U.S. banks	$ (233)	$ 118	$ (115)	$ (219)	$ 157	$ (62)
Interest-bearing deposits with U.S. banks	(1)	1	—	—	—	—
Securities purchased under resale agreements	(1)	247	246	(16)	228	212
Federal funds sold	(1)	6	5	(1)	5	4
Trading account assets	22	5	27	(3)	10	7
Investment securities:						
U.S. Treasury and federal agencies	(128)	273	145	60	270	330
State and political subdivisions	20	17	37	(4)	5	1
Other investments	488	469	957	296	300	596
Commercial and financial loans	46	53	99	5	42	47
Lease financing	1	(5)	(4)	1	4	5
Total interest-earning assets.	213	1,184	1,397	119	1,021	1,140
Interest Expense Related to:						
Deposits:						
Time	(14)	5	(9)	(44)	38	(6)
Savings	(2)	13	11	1	14	15
Non-U.S.	145	612	757	85	526	611
Securities sold under repurchase agreements	(42)	343	301	(5)	384	379
Federal funds purchased	15	50	65	(8)	42	34
Other short-term borrowings	2	24	26	5	20	25
Long-term debt	10	30	40	6	31	37
Total interest-bearing liabilities	114	1,077	1,191	40	1,055	1,095
Net interest revenue	$ 99	$ 107	$ 206	$ 79	$ (34)	$ 45

Quarterly Summarized Financial Information

(Dollars and shares in millions, except per share amounts)	2006 Quarters				2005 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Consolidated Statement of Income:								
Total fee revenue	$ 1,305	$ 1,246	$ 1,375	$ 1,260	$ 1,176	$ 1,135	$ 1,143	$ 1,097
Interest revenue	1,226	1,103	1,034	961	861	773	693	603
Interest expense	910	837	772	695	619	537	476	391
Net interest revenue	316	266	262	266	242	236	217	212
Provision for loan losses	—	—	—	—	—	—	—	—
Net interest revenue after provision for loan losses .	316	266 2	62	266	242	236	217	212
Gains (Losses) on sales of available-for-sale securities, net	1	3	14	(3)	(2)	1	1	(1)
Gain on sale of divested business	—	—	—	—	—	16	—	—
Total revenue	1,622	1,515	1,651	1,523	1,416	1,388	1,361	1,308
Total operating expenses	1,178	1,090	1,176	1,096	1,039	1,008	1,028	966
Income from continuing operations before income taxes	444	425	475	427	377	380	333	342
Income tax expense from continuing operations	135	147	248	145	128	130	113	116
Income from continuing operations	309	278	227	282	249	250	220	226
Net income (loss) from discontinued operations	—	—	—	10	—	(107)	—	—
Net income	$ 309	$ 278	$ 227	$ 292	$ 249	$ 143	$ 220	$ 226
Earnings Per Share From Continuing Operations:								
Basic	$ .93	$ .84	$ .69	$ .85	$ .75	$ .76	$ .67	$ .68
Diluted	.91	.83	.68	.84	.74	.75	.66	.67
Income (Loss) Per Share From Discontinued Operations:								
Basic	$ —	$ —	$ —	$ .03	$ —	$ (.33)	$ —	$ —
Diluted	—	—	—	.03	—	(.32)	—	—
Earnings Per Share:								
Basic	$ .93	$ .84	$ .69	$ .88	$ .75	$ .43	$ .67	$ .68
Diluted	91	.83	.68	.87	.74	.43	.66	.67
Average Shares Outstanding:								
Basic	331	330	331	333	331	329	330	332
Diluted	337	336	336	337	337	334	334	335
Dividends per share	$ .21	$ .20	$ .20	$ .19	$ .19	$ .18	$ .18	$ .17
Stock price:								
High	$ 68.36	$ 63.67	$ 65.91	$ 62.95	$ 59.80	$ 51.50	$ 51.93	$ 49.25
Low	61.50	54.49	56.86	55.44	48.47	47.20	40.62	42.60
Close	67.44	62.40	58.09	60.43	55.44	48.92	48.25	43.72

Disrict of Columbia Teachers' Retirement Fund
Schedule of Five Percent Reportable Series of Transactions
Year Ended September 30, 2006

Each transaction with State Street Bank and Trust Company as disclosed in this schedule represents a "reportable transaction" as that term is defined by D.C. Code §1-903.06(b)(3).

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DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

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PLAN YEAR ENDING: 09/30/06

INTEREST BEARING CASH

(A) IDENTITY OF PARTY	(B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	RATE	MAT DATE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
861123985	STATE STREET BANK + TRUST CO	1458	1,670,527,759.64	909	1,683,081,550.34		12/31/2030	0.00	1,683,081,590.58	2367	3,353,609,349.98	-0.24
00100H001	ADP TAX SERVICES INC	33	113,776,370.12	33	113,776,370.12	4.230	01/12/2006	0.00	113,776,370.12	65	227,552,740.24	0.00
319581007	CREDIT SUISSE FIRST BOSTON	235	3,158,000,000.00	231	3,144,600,000.00	3.400	01/03/2006	0.00	3,144,600,000.00	466	6,302,600,000.00	0.00
455995001	MERRILL LYNCH REPO	324	1,804,005,000.00	323	1,804,005,000.00	4.010	12/07/2005	0.00	1,804,005,000.00	647	3,608,010,000.00	0.00
525180006	LEHMAN BROTHERS REPO	498	2,543,492,110.28	496	2,519,895,000.00	3.600	10/13/2005	0.00	2,519,892,110.28	994	5,063,387,110.28	2,889.72
655997005	NOMURA REPO	514	253,800,000.00	515	280,600,000.00	3.950	10/03/2005	0.00	280,600,000.00	1029	534,400,000.00	0.00
891528009	TOTAL FINA ELF CAP	611	123,976,055.48	616	123,976,055.48	3.960	11/21/2005	0.00	123,976,055.48	1227	247,952,110.96	0.00
INTEREST BEARING CASH TOTALS		3673	9,667,577,295.52	3123	9,669,934,015.94			0.00	9,669,931,126.46	6796	19,337,511,311.46	2,889.48

STATE STREET.

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DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

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PLAN YEAR ENDING: 09/30/06

U.S. GOVERNMENT SECURITIES

(A) IDENTITY OF PARTY	(B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	RATE	MAT DATE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
01F050635	FNMA TBA MAR 30 SINGLE FAM	11	79,516,910.21	13	79,108,160.29	5.000	12/01/2099	0.00	79,516,910.21	24	158,625,070.50	-408,749.92
01F050684	FNMA TBA AUG 30 SINGLE FAM	14	94,793,472.73	16	95,759,550.81	5.000	12/01/2099	0.00	94,793,472.73	30	190,553,023.54	966,078.08
01F050692	FNMA TBA SEP 30 SINGLE FAM	11	80,153,609.40	11	80,623,806.67	5.000	12/01/2099	0.00	80,153,609.40	22	160,777,416.07	470,197.27
01F052683	FNMA TBA NOV 30 SINGLE FAM	4	98,304,937.45	4	96,605,371.08	5.500	12/01/2099	0.00	98,304,937.49	8	194,910,308.57	-1,699,566.41
01F0526C1	FNMA TBA DEC 30 SINGLE FAM	8	118,226,421.86	9	118,668,761.30	5.500	12/01/2099	0.00	118,226,421.86	17	236,895,183.16	442,339.44
01F052615	FNMA TBA JAN 30 SINGLE FAM	7	98,708,906.23	7	99,483,726.55	5.500	12/01/2099	0.00	98,708,906.23	14	198,192,632.78	774,820.32
01F052623	FNMA TBA FEB 30 SINGLE FAM	5	99,380,335.93	5	99,147,983.93	5.500	12/01/2099	0.00	99,380,335.93	10	198,528,319.86	-232,352.00
01F052631	FNMA TBA MAR 30 SINGLE FAM	4	99,025,624.99	4	98,993,122.16	5.500	12/01/2099	0.00	99,025,624.99	8	198,018,747.15	-32,502.83
01F052649	FNMA TBA APR 30 SINGLE FAM	4	98,910,409.00	4	98,282,417.96	5.500	12/01/2099	0.00	98,910,409.00	8	197,192,826.96	-627,991.04
01F052656	FNMA TBA MAY 30 SINGLE FAM	4	98,180,875.00	4	97,147,421.87	5.500	12/01/2099	0.00	98,180,875.00	8	195,328,296.87	-1,033,453.13
01F052664	FNMA TBA JUN 30 SINGLE FAM	5	102,108,929.68	5	102,307,421.90	5.500	12/01/2099	0.00	102,108,929.68	10	204,416,351.58	198,492.22
01F052672	FNMA TBA JUL 30 SINGLE FAM	5	108,056,789.06	5	106,872,523.11	5.500	12/01/2099	0.00	108,056,789.06	10	214,929,312.17	-1,184,265.95
01F052680	FNMA TBA AUG 30 SINGLE FAM	11	153,355,867.17	10	154,983,523.44	5.500	12/01/2099	0.00	153,355,867.17	21	308,339,390.61	1,627,656.27
01F052698	FNMA TBA SEP 30 SINGLE FAM	11	159,748,453.12	10	160,316,148.43	5.500	12/01/2099	0.00	159,748,453.12	21	320,064,601.55	567,695.31
01N0526A6	GNMA I TBA OCT 30 SINGLE FAM	3	96,202,125.00	5	96,222,644.54	5.500	12/01/2099	0.00	96,202,125.00	8	192,424,769.[illegible]	20,519.54
02R0506B2	FHLMC TBA NOV 30 GOLD SINGLE	3	86,191,458.75	3	84,477,617.18	5.000	12/01/2099	0.00	86,191,468.75	6	170,669,08[illegible]	[illegible]

STATE STREET.

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DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

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PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY / #PUR	(C) PURCHASE PRICE	#SALE	(B) DESCRIPTION OF ASSET / (D) SELLING PRICE	RATE	MAT DATE / (F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
02R050671			FHLMC TBA JUL 30 GOLD SINGLE	5.000	12/01/2099				
6	90,598,750.00	6	89,597,714.44		0.00	90,598,750.00	12	180,196,464.44	-1,001,035.56
02R050697			FHLMC TBA SEP 30 GOLD SINGLE	5.000	12/01/2099				
8	122,161,405.57	5	122,549,999.40		0.00	122,161,405.57	13	244,711,404.97	388,593.83
313385ND4			FEDERAL HOME LN BK CONS DSC NT	0.010	10/19/2005				
7	103,489,534.99	5	103,489,534.99		0.00	103,489,534.99	12	206,979,069.98	0.00
313397VT5			FEDERAL HOME LN MTG DISC NTS	0.010	04/19/2006				
27	84,089,417.42	29	84,089,417.42		0.00	84,089,417.42	56	168,178,834.84	0.00
313589RY1			FEDERAL NATL MTG ASSN DISC NTS	0.010	01/18/2006				
42	82,542,326.56	37	82,542,326.56		0.00	82,542,326.56	79	165,084,653.12	0.00
U.S. GOVERNMENT SECURITIES TOTALS									
200	2,153,746,570.16	197	2,151,269,194.03		0.00	2,153,746,570.16	397	4,305,015,764.19	-2,477,376.13

STATE STREET.

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DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

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PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY / #PUR	(C) PURCHASE PRICE	#SALE	(B) DESCRIPTION OF ASSET / (D) SELLING PRICE	RATE	MAT DATE / (F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
CORP. DEBT INSTR. - PREFERRED									
CORP. DEBT INSTR. - PREFERRED TOTALS									
0	0.00	0	0.00		0.00	0.00	0	0.00	0.00

STATE STREET.

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PLAN YEAR ENDING: 09/30/06

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

** ASSET CATEGORY NOT FOUND **

(A) IDENTITY OF PARTY	#PUR	(C) PURCHASE PRICE	#SALE	(B) DESCRIPTION OF ASSET	(D) SELLING PRICE	RATE	MAT DATE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
99S00DKB8 SWP085822 PIMCO	1	274,593,501.00	0	IRS REC	0.00	5.000	12/19/2008	0.00	0.00	1	274,593,501.00	0.00
99S00DKC6 SWP085822 PIMCO	0	0.00	1	IRS PAY	274,300,000.00	1.000	12/19/2008	0.00	274,300,000.00	1	274,300,000.00	0.00
99S00D855 SWP094881 PIMCO	1	193,857,381.25	0	IRS REC	0.00	5.000	12/19/2008	0.00	0.00	1	193,857,381.25	0.00
99S00D863 SWP094881 PIMCO	0	0.00	1	IRS PAY	193,700,000.00	1.000	12/19/2008	0.00	193,700,000.00	1	193,700,000.00	0.00
99S002JB4 SWP075716 PIMCO	1	243,000,000.00	2	IRS REC	243,000,000.00	5.000	12/15/2007	0.00	243,000,000.00	3	486,000,000.00	0.00
99S002JC2 SWP075716 PIMCO	2	243,553,302.00	1	IRS PAY	243,352,350.00	1.000	12/15/2007	0.00	243,352,350.00	3	486,905,652.00	-200,952.00
99S002TH0 SWP092653 PIMCO	1	87,500,000.00	1	IRS REC	87,500,000.00	5.000	12/15/2007	0.00	87,500,000.00	2	175,000,000.00	0.00
99S002TI8 SWP092653 PIMCO	1	87,674,125.00	1	IRS PAY	87,628,625.00	1.000	12/15/2007	0.00	87,628,625.00	2	175,302,750.00	-45,500.00
99S002UQ8 SWP092836 PIMCO	1	87,500,000.00	2	IRS REC	87,500,000.00	5.000	12/15/2007	0.00	87,500,000.00	3	175,000,000.00	0.00
99S002UR6 SWP092836 PIMCO	2	87,673,225.00	1	IRS PAY	87,628,625.00	1.000	12/15/2007	0.00	87,628,625.00	3	175,301,850.00	-44,600.00
89152F006 TOTAL FINA ELF CAP	52	130,572,202.87	50		127,773,453.54	4.930	06/22/2006	0.00	127,773,453.54	102	258,345,656.41	0.00
** ASSET CATEGORY NOT FOUND ** TOTALS	62	1,435,923,737.12	60		1,432,383,053.54			0.00	1,432,383,053.54	122	2,868,306,790.66	-291,052.00

STATE STREET.

GT1C

PAGE: 17
PLAN YEAR ENDING: 09/30/06

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

(A) IDENTITY OF PARTY (B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
INTEREST BEARING CASH	3673	9,667,577,295.52	3123	9,669,934,015.94	0.00	9,669,931,126.46	6796	19,337,511,311.46	2,889.48
CERTIFICATES OF DEPOSIT	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
U.S. GOVERNMENT SECURITIES	200	2,153,746,570.16	197	2,151,269,194.03	0.00	2,153,746,570.16	397	4,305,015,764.19	-2,477,376.13
CORP. DEBT INSTR. - PREFERRED	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORP. DEBT INSTR. - ALL OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORPORATE STOCKS - PREFERRED	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORPORATE STOCKS - COMMON	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
PARTN./JOINT VENTURE INTERESTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REAL ESTATE-INCOME PRODUCING	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REAL ESTATE-NON INC. PRODUCING	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS SECURED BY MTGES-RESID.	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS SECURED BY MTGES-COM'L	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS TO PARTIC. - MORTGAGES	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS TO PARTICIPANTS - OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
COMMON/COLLECTIVE TRUSTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
POOLED SEPARATE ACCOUNTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
103-12 INVESTMENTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REGISTERED INVESTMENT COMPANY	2	173,900,537.80	0	0.00	0.00	0.00	2	173,900,537.80	0.00
INSURANCE CO. GENERAL ACCOUNT	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
** ASSET CATEGORY NOT FOUND **	62	1,435,923,737.12	60	1,432,383,053.54	0.00	1,432,383,053.54	122	2,868,306,790.66	-291,052.00
REPORTABLE TRANSACTION TOTALS	3937	13,431,148,140.60	3380	13,253,586,263.51	0.00	13,256,060,750.16	7317	26,684,734,404.11	-2,765,538.65
NON-REPORTABLE TRANSACTION TOTALS	25856	6,676,131,206.59	25581	6,807,194,599.49	0.00	6,709,372,070.79	51437	13,483,325.8[illegible]	9[illegible]646.68

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SINGLE
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 16
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY (B) DESCRIPTION OF ASSET RATE MAT DATE (C) PURCHASE PRICE (D) SELLING PRICE	(F) EXPENSES INCURRED	(G) COST OF ASSET	(H) CURR VALUE	(I) GAIN/LOSS
INTEREST BEARING CASH	0.00	0.00	0.00	0.00
CERTIFICATES OF DEPOSIT	0.00	0.00	0.00	0.00
U.S. GOVERNMENT SECURITIES	0.00	0.00	0.00	0.00
CORP. DEBT INSTR. - PREFERRED	0.00	0.00	0.00	0.00
CORP. DEBT INSTR. - ALL OTHER	0.00	0.00	0.00	0.00
CORPORATE STOCKS - PREFERRED	0.00	0.00	0.00	0.00
CORPORATE STOCKS - COMMON	0.00	0.00	0.00	0.00
PARTN./JOINT VENTURE INTERESTS	0.00	0.00	0.00	0.00
REAL ESTATE-INCOME PRODUCING	0.00	0.00	0.00	0.00
REAL ESTATE-NON INC. PRODUCING	0.00	0.00	0.00	0.00
LOANS SECURED BY MTGES-RESID.	0.00	0.00	0.00	0.00
LOANS SECURED BY MTGES-COM'L	0.00	0.00	0.00	0.00
LOANS TO PARTIC. - MORTGAGES	0.00	0.00	0.00	0.00
LOANS TO PARTICIPANTS - OTHER	0.00	0.00	0.00	0.00
OTHER	0.00	0.00	0.00	0.00
COMMON/COLLECTIVE TRUSTS	0.00	0.00	0.00	0.00
POOLED SEPARATE ACCOUNTS	0.00	0.00	0.00	0.00
103-12 INVESTMENTS	0.00	0.00	0.00	0.00
REGISTERED INVESTMENT COMPANY	0.00	0.00	0.00	0.00
INSURANCE CO. GENERAL ACCOUNT	0.00	0.00	171,780,000.00	0.00
** ASSET CATEGORY NOT FOUND **	0.00	905,052,350.00	1,810,658,427.25	-174,330.00
REPORTABLE TRANSACTION TOTALS	0.00	905,052,350.00	1,982,438,427.25	-174,330.00

RUN DATE: 11/30/06

STATE STREET.

STATE STREET.

Police Officers' and Firefighters' Retirement Fund
Schedule of Five Percent Reportable Series of Transactions
Year Ended September 30, 2006

Each transaction with State Street Bank and Trust Company as disclosed in this schedule represents a "reportable transaction" as that term is defined by D.C. Code §1-903.06(b)(3).

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 2
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY	(B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	RATE	MAT DATE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
INTEREST BEARING CASH												
8611239B5	STATE STREET BANK + TRUST CO	1458	1,670,527,759.64	909	1,683,081,550.34		12/31/2030	0.00	1,683,081,590.58	2367	3,353,609,349.98	-0.24
00100M001	ADP TAX SERVICES INC	33	113,776,370.12	33	113,776,370.12	4.230	01/12/2006	0.00	113,776,370.12	66	227,552,740.24	0.00
319981007	CREDIT SUISSE FIRST BOSTON	235	3,158,000,000.00	231	3,144,600,000.00	3.400	01/03/2006	0.00	3,144,600,000.00	466	6,302,600,000.00	0.00
455995001	MERRILL LYNCH REPO	324	1,804,005,000.00	323	1,804,005,000.00	4.010	12/07/2005	0.00	1,804,005,000.00	647	3,608,010,000.00	0.00
525180006	LEHMAN BROTHERS REPO	498	2,543,492,110.28	496	2,519,895,000.00	3.600	10/13/2005	0.00	2,519,892,110.28	994	5,063,387,110.28	2,889.72
655997005	NOMURA REPO	514	253,800,000.00	515	280,600,000.00	3.950	10/03/2005	0.00	280,600,000.00	1029	534,400,000.00	0.00
89152E009	TOTAL FINA ELF CAP	611	123,976,055.48	616	123,976,055.48	3.960	11/21/2005	0.00	123,976,055.48	1227	247,952,110.96	0.00
INTEREST BEARING CASH TOTALS		3673	9,667,577,295.52	3123	9,669,934,015.94			0.00	9,669,931,126.46	6796	19,337,511,311.46	2,889.48

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 3
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY	(B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	RATE	MAT DATE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
U.S. GOVERNMENT SECURITIES												
01F050635	FNMA TBA MAR 30 SINGLE FAM	11	79,516,910.21	13	79,108,160.29	5.000	12/01/2099	0.00	79,516,910.21	24	158,625,070.50	-408,749.92
01F050684	FNMA TBA AUG 30 SINGLE FAM	14	94,793,472.73	16	95,759,550.81	5.000	12/01/2099	0.00	94,793,472.73	30	190,553,023.54	966,078.08
01F050692	FNMA TBA SEP 30 SINGLE FAM	11	80,153,609.40	11	80,623,806.67	5.000	12/01/2099	0.00	80,153,609.40	22	160,777,416.07	470,197.27
01F0526B3	FNMA TBA NOV 30 SINGLE FAM	4	98,304,937.45	4	96,605,371.08	5.500	12/01/2099	0.00	98,304,937.49	8	194,910,308.57	-1,699,566.41
01F0526C1	FNMA TBA DEC 30 SINGLE FAM	8	118,226,421.86	9	118,668,761.30	5.500	12/01/2099	0.00	118,226,421.86	17	236,895,183.16	442,339.44
01F052615	FNMA TBA JAN 30 SINGLE FAM	7	98,708,906.23	7	99,483,726.55	5.500	12/01/2099	0.00	98,708,906.23	14	198,192,632.78	774,820.32
01F052623	FNMA TBA FEB 30 SINGLE FAM	5	99,380,335.93	5	99,147,983.93	5.500	12/01/2099	0.00	99,380,335.93	10	198,528,319.86	-232,352.00
01F052631	FNMA TBA MAR 30 SINGLE FAM	4	99,025,624.99	4	98,993,122.16	5.500	12/01/2099	0.00	99,025,624.99	8	198,018,747.15	-32,502.83
01F052649	FNMA TBA APR 30 SINGLE FAM	4	98,910,409.00	4	98,282,417.96	5.500	12/01/2099	0.00	98,910,409.00	8	197,192,826.96	-627,991.04
01F052656	FNMA TBA MAY 30 SINGLE FAM	4	98,180,875.00	4	97,147,421.87	5.500	12/01/2099	0.00	98,180,875.00	8	195,328,296.87	-1,033,453.13
01F052664	FNMA TBA JUN 30 SINGLE FAM	5	102,108,929.68	5	102,307,421.90	5.500	12/01/2099	0.00	102,108,929.68	10	204,416,351.58	198,492.22
01F052672	FNMA TBA JUL 30 SINGLE FAM	5	108,056,789.06	5	106,872,523.11	5.500	12/01/2099	0.00	108,056,789.06	10	214,929,312.17	-1,184,265.95
01F052680	FNMA TBA AUG 30 SINGLE FAM	11	153,355,867.17	10	154,983,523.44	5.500	12/01/2099	0.00	153,355,867.17	21	308,339,390.61	1,627,656.27
01F052698	FNMA TBA SEP 30 SINGLE FAM	11	159,748,453.12	10	160,316,148.43	5.500	12/01/2099	0.00	159,748,453.12	21	320,064,601.55	567,695.31
01N0526A6	GNMA I TBA OCT 30 SINGLE FAM	3	96,202,125.00	5	96,222,644.54	5.500	12/01/2099	0.00	96,202,125.00	8	192,424,769.5[illegible]	20,519.54
02R0506B2	FHLMC TBA NOV 30 GOLD SINGLE	3	86,191,468.75	3	84,477,617.16	5.000	12/01/2099	0.00	86,191,468.75	6	170,669,08[illegible]	[illegible]

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 4
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY / #PUR	(C) PURCHASE PRICE	#SALE	(B) DESCRIPTION OF ASSET / (D) SELLING PRICE	RATE	MAT DATE / (F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(J) GAIN/LOSS
02R050671			FHLMC TBA JUL 30 GOLD SINGLE	5.000	12/01/2099				
6	90,598,750.00	6	89,597,714.44		0.00	90,598,750.00	12	180,196,464.44	-1,001,035.56
02R050697			FHLMC TBA SEP 30 GOLD SINGLE	5.000	12/01/2099				
8	122,161,405.57	5	122,549,999.40		0.00	122,161,405.57	13	244,711,404.97	388,593.83
313385ND4			FEDERAL HOME LN BK CONS DSC NT	0.010	10/19/2005				
7	103,489,534.99	5	103,489,534.99		0.00	103,489,534.99	12	206,979,069.98	0.00
313397VT5			FEDERAL HOME LN MTG DISC NTS	0.010	04/19/2006				
27	84,089,417.42	29	84,089,417.42		0.00	84,089,417.42	56	168,178,834.84	0.00
313589RY1			FEDERAL NATL MTG ASSN DISC NTS	0.010	01/18/2006				
42	82,542,326.56	37	82,542,326.56		0.00	82,542,326.56	79	165,084,653.12	0.00
U.S. GOVERNMENT SECURITIES TOTALS									
200	2,153,746,570.16	197	2,151,269,194.03		0.00	2,153,746,570.16	397	4,305,015,764.19	-2,477,376.13

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 5
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY / #PUR	(C) PURCHASE PRICE	#SALE	(B) DESCRIPTION OF ASSET / (D) SELLING PRICE	RATE	MAT DATE / (F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
CORP. DEBT INSTR. - PREFERRED									
CORP. DEBT INSTR. - PREFERRED TOTALS									
0	0.00	0	0.00		0.00	0.00	0	0.00	0.00

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 16
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY	(B) DESCRIPTION OF ASSET	RATE	MAT DATE	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
** ASSET CATEGORY NOT FOUND **												
99S00DKB8	SWP085822 PIMCO IRS REC	5.000	12/19/2008	1	274,593,501.00	0	0.00	0.00	0.00	1	274,593,501.00	0.00
99S00DKC6	SWP085822 PIMCO IRS PAY	1.000	12/19/2008	0	0.00	1	274,300,000.00	0.00	274,300,000.00	1	274,300,000.00	0.00
99S00D855	SWP094881 PIMCO IRS REC	5.000	12/19/2008	1	193,857,381.25	0	0.00	0.00	0.00	1	193,857,381.25	0.00
99S00D863	SWP094881 PIMCO IRS PAY	1.000	12/19/2008	0	0.00	1	193,700,000.00	0.00	193,700,000.00	1	193,700,000.00	0.00
99S002JB4	SWP075716 PIMCO IRS REC	5.000	12/15/2007	1	243,000,000.00	2	243,000,000.00	0.00	243,000,000.00	3	486,000,000.00	0.00
99S002JC2	SWP075716 PIMCO IRS PAY	1.000	12/15/2007	2	243,553,302.00	1	243,352,350.00	0.00	243,352,350.00	3	486,905,652.00	-200,952.00
99S002TH0	SWP092653 PIMCO IRS REC	5.000	12/15/2007	1	87,500,000.00	1	87,500,000.00	0.00	87,500,000.00	2	175,000,000.00	0.00
99S002TI8	SWP092653 PIMCO IRS PAY	1.000	12/15/2007	1	87,674,125.00	1	87,628,625.00	0.00	87,628,625.00	2	175,302,750.00	-45,500.00
99S002UQ8	SWP092836 PIMCO IRS REC	5.000	12/15/2007	1	87,500,000.00	2	87,500,000.00	0.00	87,500,000.00	3	175,000,000.00	0.00
99S002UR6	SWP092836 PIMCO IRS PAY	1.000	12/15/2007	2	87,673,225.00	1	87,628,625.00	0.00	87,628,625.00	3	175,301,850.00	-44,600.00
89152F006	TOTAL FINA ELF CAP	4.930	06/22/2006	52	130,572,202.87	50	127,773,453.54	0.00	127,773,453.54	102	258,345,656.41	0.00
** ASSET CATEGORY NOT FOUND ** TOTALS				62	1,435,923,737.12	60	1,432,383,053.54	0.00	1,432,383,053.54	122	2,868,306,790.66	-291,052.00

STATE STREET.

GT1C

DC RETIREMENT BOARD -COMPOSITE
SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SERIES
BEGINNING NET ASSET VALUE: 3,145,790,458.63
5% OF ASSET VALUE: 157,289,522.93

PAGE: 17
PLAN YEAR ENDING: 09/30/06

(A) IDENTITY OF PARTY (B) DESCRIPTION OF ASSET	#PUR	(C) PURCHASE PRICE	#SALE	(D) SELLING PRICE	(F) EXPENSES INCURRED	(G) COST OF ASSET	#TOTAL	(H) CURR VALUE	(I) GAIN/LOSS
INTEREST BEARING CASH	3673	9,667,577,295.52	3123	9,669,934,015.94	0.00	9,669,931,126.46	6796	19,337,511,311.46	2,889.48
CERTIFICATES OF DEPOSIT	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
U.S. GOVERNMENT SECURITIES	200	2,153,746,570.16	197	2,151,269,194.03	0.00	2,153,746,570.16	397	4,305,015,764.19	-2,477,376.13
CORP. DEBT INSTR. - PREFERRED	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORP. DEBT INSTR. - ALL OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORPORATE STOCKS - PREFERRED	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
CORPORATE STOCKS - COMMON	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
PARTN./JOINT VENTURE INTERESTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REAL ESTATE-INCOME PRODUCING	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REAL ESTATE-NON INC. PRODUCING	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS SECURED BY MTGES-RESID.	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS SECURED BY MTGES-COM'L	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS TO PARTIC. - MORTGAGES	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
LOANS TO PARTICIPANTS - OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
OTHER	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
COMMON/COLLECTIVE TRUSTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
POOLED SEPARATE ACCOUNTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
103-12 INVESTMENTS	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
REGISTERED INVESTMENT COMPANY	2	173,900,537.80	0	0.00	0.00	0.00	2	173,900,537.80	0.00
INSURANCE CO. GENERAL ACCOUNT	0	0.00	0	0.00	0.00	0.00	0	0.00	0.00
** ASSET CATEGORY NOT FOUND **	62	1,435,923,737.12	60	1,432,383,053.54	0.00	1,432,383,053.54	122	2,868,306,790.66	-291,052.00
REPORTABLE TRANSACTION TOTALS	3937	13,431,148,140.60	3380	13,253,586,263.51	0.00	13,256,060,750.16	7317	26,684,734,404.11	-2,765,538.65
NON-REPORTABLE TRANSACTION TOTALS	25856	6,676,131,206.59	25581	6,807,194,599.49	0.00	6,709,372,070.79	51437	13,483,325,80[illegible]	97,[illegible]646.68

STATE STREET.

GT1C | PAGE: 16

DC RETIREMENT BOARD -COMPOSITE

PLAN YEAR ENDING: 09/30/06

SCHEDULE H, LINE 4J - SCHEDULE OF REPORTABLE TRANSACTIONS - SINGLE

BEGINNING NET ASSET VALUE: 3,145,790,458.63

5% OF ASSET VALUE: 157,289,522.93

(A) IDENTITY OF PARTY (B) DESCRIPTION OF ASSET RATE MAT DATE (C) PURCHASE PRICE (D) SELLING PRICE	(F) EXPENSES INCURRED	(G) COST OF ASSET	(H) CURR VALUE	(I) GAIN/LOSS
INTEREST BEARING CASH	0.00	0.00	0.00	0.00
CERTIFICATES OF DEPOSIT	0.00	0.00	0.00	0.00
U.S. GOVERNMENT SECURITIES	0.00	0.00	0.00	0.00
CORP. DEBT INSTR. - PREFERRED	0.00	0.00	0.00	0.00
CORP. DEBT INSTR. - ALL OTHER	0.00	0.00	0.00	0.00
CORPORATE STOCKS - PREFERRED	0.00	0.00	0.00	0.00
CORPORATE STOCKS - COMMON	0.00	0.00	0.00	0.00
PARTN./JOINT VENTURE INTERESTS	0.00	0.00	0.00	0.00
REAL ESTATE-INCOME PRODUCING	0.00	0.00	0.00	0.00
REAL ESTATE-NON INC. PRODUCING	0.00	0.00	0.00	0.00
LOANS SECURED BY MTGES-RESID.	0.00	0.00	0.00	0.00
LOANS SECURED BY MTGES-COM'L	0.00	0.00	0.00	0.00
LOANS TO PARTIC. - MORTGAGES	0.00	0.00	0.00	0.00
LOANS TO PARTICIPANTS - OTHER	0.00	0.00	0.00	0.00
OTHER	0.00	0.00	0.00	0.00
COMMON/COLLECTIVE TRUSTS	0.00	0.00	0.00	0.00
POOLED SEPARATE ACCOUNTS	0.00	0.00	0.00	0.00
103-12 INVESTMENTS	0.00	0.00	0.00	0.00
REGISTERED INVESTMENT COMPANY	0.00	0.00	171,780,000.00	0.00
INSURANCE CO. GENERAL ACCOUNT	0.00	0.00	0.00	0.00
** ASSET CATEGORY NOT FOUND **	0.00	905,052,350.00	1,810,658,427.25	-174,330.00
REPORTABLE TRANSACTION TOTALS	0.00	905,052,350.00	1,982,438,427.2[illegible]	-174,330.00

RUN DATE: 11/30/06

STATE STREET.

STATE STREET.

Schedule of Transactions with Parties of Interest

VENDOR NAME	INVOICE AMOUNT	DESCRIPTION OF SERVICE
A	B	C
BARBARA DAVIS BLUM	$10,197	TRUSTEE COMPENSATION
WILLIAM SIMONS	$8,140	TRUSTEE COMPENSATION
LYLE BLACHARD	$2,577	TRUSTEE COMPENSATION
SHIREEN DODSON	$10,000	TRUSTEE COMPENSATION
JOAN PARROTT-FONSECA	$9,689	TRUSTEE COMPENSATION
MICHAEL J. WARREN	$8,859	TRUSTEE COMPENSATION
MARY COLLINS	$4,683	TRUSTEE COMPENSATION
JUDITH MARCUS	$9,969	TRUSTEE COMPENSATION
GEORGE SUTER	$6,256	TRUSTEE COMPENSATION
DARRICK ROSS	$9,639	TRUSTEE COMPENSATION
BRIAN K. LEE	$9,546	TRUSTEE COMPENSATION
THOMAS TIPPETT	$6,467	TRUSTEE COMPENSATION
ALLIANCE CAPITAL MANAGEMENT	$107,471	INVESTMENT MANAGERS
ARIEL CAPITAL MANAGEMENT	$220,858	INVESTMENT MANAGERS
BACHOW INVESTMENT PARTNERS III L.P.	$13,299	INVESTMENT MANAGERS
BLACKSTONE CAPITAL PARTNERS IV, L.P.	$2,376	INVESTMENT MANAGERS
BROWN CAPITAL MANAGEMENT	$604,272	INVESTMENT MANAGERS
CAPITAL GARDIAN TRUST COMPANY	$1,752,799	INVESTMENT MANAGERS
EDGAR LOMAX COMPANY	$532,228	INVESTMENT MANAGERS
EACM ADVISORS	$764,002	INVESTMENT MANAGERS
FAIRVIEW CAPITAL PARTNERS II, L.P	$92,740	INVESTMENT MANAGERS
GRYPHON INTERNATIONAL INVESTMENT CORP	$913,547	INVESTMENT MANAGERS
HEITMAN, LLC	$128,907	INVESTMENT MANAGERS
HUGHES CAPITAL MANAGEMENT, INC	$218,611	INVESTMENT MANAGERS
LSV ASSET MANAGEMENT	$1,073,109	INVESTMENT MANAGERS
MCKINLEY CAPITAL MANAGEMENT INC	$627,828	INVESTMENT MANAGERS
PACIFIC INVESTMENT MANAGEMENT CO	$920,329	INVESTMENT MANAGERS
RSTW PARTNERS III, L.P.	$61,817	INVESTMENT MANAGERS
SANDS CAPITAL MANAGEMENT INC	$640,287	INVESTMENT MANAGERS
THOMPSON, SIEGAL & WALMSLEY	$958,229	INVESTMENT MANAGERS
WESTERN ASSET MANAGEMENT CO	$674,599	INVESTMENT MANAGERS
WATSON, WYATT & COMPANY	$271,667	INVESTMENT MANAGERS
PATHEON VENTURES	$85,030	INVESTMENT MANAGERS
PLEXUS GROUP	$20,000	INVESTMENT MANAGERS

VENDOR NAME	INVOICE AMOUNT	DESCRIPTION OF SERVICE
A	B	C
WILSHIRE ASSOCIATES INC	$36,000	INVESTMENT MANAGERS
STATE STREET BANK & TRUST Co	$605,186	INVESTMENT MANAGERS
MACK CALI	($24,401)	SERVICE PROVIDERS
ALICIA TRAYNHAM	($100)	SERVICE PROVIDERS
TUITION REIMBURSEMENT	($50)	SERVICE PROVIDERS
FLORENCE JONES	($12)	SERVICE PROVIDERS
ALLISON KELLY	$13	SERVICE PROVIDERS
FORBES	$30	SERVICE PROVIDERS
NATIONAL CAP AREA PARAL ASSN	$70	SERVICE PROVIDERS
LOVELY SUSAN THOMAS	$72	SERVICE PROVIDERS
ZACHARY BOOKS	$75	SERVICE PROVIDERS
WORLDWIDE EMPLOYEE BEN. NTWK.	$100	SERVICE PROVIDERS
ZIERER VISA SERVICES/S. DODSON	$121	SERVICE PROVIDERS
SURE-FIT SECURITY	$125	SERVICE PROVIDERS
CAPITAL SERVICES AND SUPPLIES	$130	SERVICE PROVIDERS
KATHERINE MARSHALL	$132	SERVICE PROVIDERS
JONES, DAY	$150	SERVICE PROVIDERS
LORNA TUCKER-JACKSON	$156	SERVICE PROVIDERS
HEWLETT PACKARD	$197	SERVICE PROVIDERS
DC BAR PSAC	$225	SERVICE PROVIDERS
NASP	$225	SERVICE PROVIDERS
SHIREEN DODSON	$229	SERVICE PROVIDERS
DAVID BAILEY	$233	SERVICE PROVIDERS
PALM FACILITY SERVICES	$240	SERVICE PROVIDERS
UNILUX LTD	$254	SERVICE PROVIDERS
BARRONS	$273	SERVICE PROVIDERS
A-S-K ASSOCIATES	$275	SERVICE PROVIDERS
WASHINGTON POST	$306	SERVICE PROVIDERS
PUBLIC PENSION FINANCIAL FORUM	$325	SERVICE PROVIDERS
HOWE FURNITURE CORP	$399	SERVICE PROVIDERS
WILLIAM SIMONS	$408	SERVICE PROVIDERS
GOVERNMENT FINANCIAL OFFICERS ASSOCIATION	$420	SERVICE PROVIDERS
ABSOLUTE ACRYLIC INC	$435	SERVICE PROVIDERS
CCH INC	$492	SERVICE PROVIDERS
MAPS	$500	SERVICE PROVIDERS
PRM CONSULTING, INC.	$500	SERVICE PROVIDERS
MICHAEL SLAVIN	$507	SERVICE PROVIDERS
FINANCIAL TIMES	$528	SERVICE PROVIDERS

VENDOR NAME	INVOICE AMOUNT	DESCRIPTION OF SERVICE
A	B	C
EXODUS AUTOMATIC, INC.	$543	SERVICE PROVIDERS
US BUSINESS INTERIORS	$545	SERVICE PROVIDERS
FALCON PRODUCTS	$547	SERVICE PROVIDERS
RICHARD WORTHAM	$596	SERVICE PROVIDERS
PAMELA ASHFORD-GLENN	$609	SERVICE PROVIDERS
INTL. FOUNDATION OF EMPLOYMENT	$675	SERVICE PROVIDERS
NAPPA	$715	SERVICE PROVIDERS
NATL ASS OF PUBLIC PENSION	$745	SERVICE PROVIDERS
PRISM	$775	SERVICE PROVIDERS
SHERYL SUMMA	$783	SERVICE PROVIDERS
JOAN PASSERINO	$813	SERVICE PROVIDERS
SPRINT	$939	SERVICE PROVIDERS
PICA DELI GOURMET	$965	SERVICE PROVIDERS
THOMPSON WEST	$1,082	SERVICE PROVIDERS
GOVCONNECTION, INC.	$1,116	SERVICE PROVIDERS
LAWSONS GOURMET#2	$1,172	SERVICE PROVIDERS
SOCIETY FOR HUMAN RESOURCE MGMT.	$1,180	SERVICE PROVIDERS
NCTR	$1,200	SERVICE PROVIDERS
SERVICE EXCELLENCE INC	$1,200	SERVICE PROVIDERS
NCPERS	$1,290	SERVICE PROVIDERS
IRON MOUNTAIN	$1,324	SERVICE PROVIDERS
CRAIN COMMUNICATION	$1,408	SERVICE PROVIDERS
ASPEN PUBLISHERS	$1,439	SERVICE PROVIDERS
IMRAN CHAUDRY	$1,616	SERVICE PROVIDERS
DUTCHMILL CATERERS	$1,744	SERVICE PROVIDERS
STEELCASE	$1,960	SERVICE PROVIDERS
STANFORD UNIVERSITY	$1,970	SERVICE PROVIDERS
PREMIER PLANTSCAPES	$2,036	SERVICE PROVIDERS
DARRICK ROSS	$2,055	SERVICE PROVIDERS
THOMAS TIPPETT	$2,098	SERVICE PROVIDERS
PHOENIX GRAPHICS	$2,200	SERVICE PROVIDERS
CINGULAR INTERACTIVE	$2,254	SERVICE PROVIDERS
NPEA	$2,285	SERVICE PROVIDERS
NATL ASSC OF STATE RETIREMENT ADMIN	$2,400	SERVICE PROVIDERS
JOAN PARROTT-FONSECA	$2,409	SERVICE PROVIDERS
OFFICE MOVERS	$2,918	SERVICE PROVIDERS
IMPREST FUND	$2,942	SERVICE PROVIDERS
COUNCIL OF INST. INVESTORS	$3,000	SERVICE PROVIDERS

VENDOR NAME	INVOICE AMOUNT	DESCRIPTION OF SERVICE
A	B	C
INSTITUTIONAL LTD PARTNERS	$3,000	SERVICE PROVIDERS
JUDITH MARCUS	$3,080	SERVICE PROVIDERS
WELLS FARGO	$3,082	SERVICE PROVIDERS
AAA NETWORKS	$3,095	SERVICE PROVIDERS
SHEILA MORGAN-JOHNSON	$3,223	SERVICE PROVIDERS
HILL & KNOWLTON	$3,250	SERVICE PROVIDERS
THE HON COMPANY	$3,262	SERVICE PROVIDERS
CONSTANCE DONOVAN	$3,317	SERVICE PROVIDERS
WALL STREET JOURNAL	$3,350	SERVICE PROVIDERS
BRIAN K. LEE	$3,418	SERVICE PROVIDERS
UNIVERSITY OF PHOENIX	$3,465	SERVICE PROVIDERS
BARBARA DAVIS BLUM	$3,535	SERVICE PROVIDERS
GAITHERSBURG CABINETRY & MILLW.	$3,837	SERVICE PROVIDERS
OFS SALES CORP	$4,074	SERVICE PROVIDERS
WEST GROUP	$4,115	SERVICE PROVIDERS
WE BOWERS, INC.	$4,205	SERVICE PROVIDERS
FEDERAL EXPRESS	$4,314	SERVICE PROVIDERS
OFFICE ENVIORMENTS	$4,438	SERVICE PROVIDERS
WILLIAM CARR	$4,837	SERVICE PROVIDERS
US EXPRESS FREIGHT SYSTEMS	$4,966	SERVICE PROVIDERS
WORLD PENSION FORUM LLC	$5,250	SERVICE PROVIDERS
SHRED-IT USA	$5,810	SERVICE PROVIDERS
BOLTON PARTNERS, INC.	$6,000	SERVICE PROVIDERS
KASTLE SYSTEMS, LLC	$6,833	SERVICE PROVIDERS
NEXT DAY SIGNS	$7,120	SERVICE PROVIDERS
MARY A. COLLINS	$7,175	SERVICE PROVIDERS
HARTFORD FIRE INSURANCE	$8,009	SERVICE PROVIDERS
JOE RAGAN’S COFFEE, LTD	$8,107	SERVICE PROVIDERS
INTERPARK	$9,000	SERVICE PROVIDERS
KNOLL INC	$9,973	SERVICE PROVIDERS
MARYLAND OFFICE INTERIORS	$10,325	SERVICE PROVIDERS
USPS	$10,895	SERVICE PROVIDERS
POST MASTER	$14,947	SERVICE PROVIDERS
PITNEY BOWES	$14,949	SERVICE PROVIDERS
AMERITEL COMMUNICATIONS CORP.	$16,852	SERVICE PROVIDERS
CANON USA, INC.	$18,195	SERVICE PROVIDERS
ENNIS, KNUPP & ASSOCIATES INC	$19,009	SERVICE PROVIDERS
STAPLES	$21,250	SERVICE PROVIDERS

VENDOR NAME	INVOICE AMOUNT	DESCRIPTION OF SERVICE
A	B	C
AUDIOVISUAL WASHINGTON	$22,500	SERVICE PROVIDERS
ING LIFE INSURANCE	$22,516	SERVICE PROVIDERS
BALMAR PRINTING	$22,725	SERVICE PROVIDERS
HILL ENTERPRISES	$23,160	SERVICE PROVIDERS
SOURCECORP	$27,067	SERVICE PROVIDERS
AMERICAN ARBITRATION ASSN.	$29,863	SERVICE PROVIDERS
VERIZON FEDERAL, INC.	$30,578	SERVICE PROVIDERS
JGV CONSULTING	$31,586	SERVICE PROVIDERS
WMATA	$32,628	SERVICE PROVIDERS
FOLIOGRAPH GALLERY	$35,501	SERVICE PROVIDERS
KIMBALL INTERNATIONAL	$36,335	SERVICE PROVIDERS
PALMER LEGAL STAFFING	$39,471	SERVICE PROVIDERS
ORRICK, HERRINGTON, SUCLIFFE	$43,955	SERVICE PROVIDERS
ED FRIEND, INC.	$46,149	SERVICE PROVIDERS
CITIBANK	$47,690	SERVICE PROVIDERS
ROBERT HALF INT	$50,838	SERVICE PROVIDERS
THOMPSON, COBB & BAZILLO	$51,620	SERVICE PROVIDERS
THE TOWNSEND GROUP	$56,250	SERVICE PROVIDERS
MORGAN, LEWIS & BOCKIUS	$70,015	SERVICE PROVIDERS
NGEN, LLC	$73,653	SERVICE PROVIDERS
KORN/FERRY INTERNATIONAL	$82,979	SERVICE PROVIDERS
GROOM LAW GROUP, CHARTERED	$94,003	SERVICE PROVIDERS
AON RISK SERVICES	$109,204	SERVICE PROVIDERS
THE JOHN AKRIDGE COMPANIES	$1,037,182	SERVICE PROVIDERS
TREASURY OF THE PUB DEBT	$1,242,492	SERVICE PROVIDERS
Grand Total	**$15,093,864**	

Schedule of Trustee Activities Sponsored by Service Providers

	Activity Date	Service Provider	Activity	Trustee Comments o Purpose of Activity
Mary Collins	5/9/2005	Invesco	Dinner with Trustees	Networking
	5/9/2005	Loomis sayles	Hotel Reception	Networking
	10/9/2005	Millberg Weiss	Dinner	Security Litigation Education
	10/9/2005	Morgan Stanley et al	Lunch	Conference Activity
	10/7/2005	FTSE	Lunch	Benchmarks Education
	10/8/2005	Wetherly	Dinner	Fixed Income Education
	11/17/2005	State Street	Business Dinner	Update on our Custodial Bank
	10/18/2005	Edgar Lomax	Business Dinner	Discussion on Performance Products
	11/9/2005	Edgar Lomax	Lunch Meeting	Discussion of Performance of Services
	11/10/2005	State Street	Dinner Meeting	Discussion of Performance of Services
	2/23/2006	Bank of NY	Coffee Meeting	Product Services
	5/2/2006	Invesco	Reception	Conference Networking
	5/3/2006	Loomis Sayles	Reception	Conference Networking
	4/29/2006	Messirov	Dinner for Trustees	Networking
	4/30/2006	FTSE	Dinner for Trustees	Networking
Barbara Blum	1/27/2006	Cap Guardian	Lunch	Performance Review
	2/1/2006	Gryphon	Lunch	Performance Review
	1/11/2006	Alliance Bernstein	Lunch	Performance Review
	2/2/2006	Heitman	Dinner Meeting	Tracking Performance
	2/1/2006	Gryphon	LunchMeeting with Sheila	Tracking Performance
	2/20/2006	Watson Wyatt	Dinner Meeting (Due Diligence)	
	2/20/2006	Palisades	Lunch Meeting (Due Diligence)	
	2/20/2006	Western	Dinner Meeting (Due Diligence)	
	5/18/2006	PIMCO	Meeting	Portfolio (Bonus)
Judith Marcus	3/22/2006	Hughes Capital	Lunch, Investment Presentation	Due Diligence visit to one of Investment Managers
	6/21-23/06	Varied	None except for attending the conference	Attending real estate Investing Forum
	9/18/2006	Varied	CII Conference	Education
	9/22/2006	Varied	IMN Conference	Education

Fund Return Data

EXECUTIVE SUMMARY
Total Fund and Asset Class Performance
Periods Ending September 30, 2006

Asset Allocation Target	Asset Allocation Current		Ending Mkt Value (millions)	3 Months		YTD		1 Year		3 Years		5 Years		10 Years	
100.0%	100.0%	TOTAL FUND	$3,621.6	4.1	31st	7.6	37th	10.4	31st	12.1	58th	8.5	91st	8.7	41st
		TOTAL FUND (net)		3.9		7.1		9.8		11.7		8.2		8.4	
		Total Fund Benchmark*		4.0		8.5		11.6		13.7		9.7		8.9	
		Asset Allocation Benchmark*		4.2		8.4		11.0		12.5		9.0		---	
		Actuarial Assumption*		1.8		5.4		7.3		7.3		7.3		7.2	
40.0%	45.7%	Domestic Equity Segment	$1,656.7	3.5	68th	6.2	86th	8.9	83rd	12.6	91st	8.3	85th	9.1	72nd
		Domestic Equity Index*		4.6		8.0		10.2		13.0		8.1		8.7	
20.0%	22.8%	International Equity Segment	$825.6	5.2	8th	14.5	32nd	20.6	25th	21.5	83rd	13.1	96th	7.3	93rd
		Custom MSCI ACWI xUS Index*		3.9		13.6		18.3		22.0		14.1		6.7	
25.0%	22.5%	Fixed Income Segment	$813.1	4.2	23rd	4.0	14th	4.5	24th	4.7	38th	6.1	35th	7.4	27th
		Custom LB Universal Index*		3.9		3.1		3.7		3.4		4.8		6.4	
5.0%	3.7%	Real Estate Segment **	$134.8	7.3	n/a	18.7	n/a	22.9	n/a	15.9	n/a	6.7	n/a	6.0	n/a
		NCREIF		3.5		11.6		17.6		16.4		12.4		12.5	
10.0%	5.1%	Alternatives Segment	$184.7	4.4	n/a	8.4	n/a	13.6	n/a	12.3	n/a	1.2	n/a	5.0	n/a
		Russell 3000 + 500 bps		5.7		11.7		15.4		18.2		13.6		14.6	
0.0%	0.2%	Cash Segment	$6.6	1.3	n/a	3.7	n/a	4.7	n/a	2.8	n/a	2.4	n/a	4.0	n/a
		Citigroup 3-Month TBills		1.2		3.5		4.4		2.6		2.2		3.7	

*See Appendix B, Benchmarks, Universes and Definitions.

** For the few years prior to 2005, the segment has consisted primarily of cash and equivalents.

Numbers in red indicate below benchmark performance.

EXECUTIVE SUMMARY
Managers' Performance
Periods Ending September 30, 2006

Asset Allocation Target	Asset Allocation Current		Ending Mkt Value (millions)	3 Months		YTD		1 Year		3 Years		5 Years		10 Years	
30.0%	35.3%	US Large Cap Equity	$1,256.8												
	23.0%	Alliance Capital Mgmt	$820.1	5.7	31st	8.6	33rd	10.8	36th	12.3	64th	7.1	67th	8.6	75th
		S&P 500		5.7		8.5		10.8		12.3		7.0		8.6	
	4.8%	The Edgar Lomax Company	$170.6	7.5	9th	13.9	8th	16.6	6th	15.4	58th	9.7	63rd	9.6	85th
		Edgar Lomax Index*		5.3		12.1		15.2		16.5		9.2		9.5	
	4.2%	Sands Capital Mgmt	$148.5	0.7	86th	-8.6	100th	-2.1	98th	9.7	53rd	---	n/a	---	n/a
		Russell 1000 Growth		3.9		3.0		6.0		8.4		4.4		5.5	
	3.3%	EACM Advisors	$117.6	3.8	35th	5.9	61st	8.6	53rd	---	n/a	---	n/a	---	n/a
		Russell 3000 Index		4.6		8.0		10.2		13.0		8.1		8.7	
6.0%	6.2%	US Mid Cap Equity	$221.2												
	3.1%	Brown Capital	$112.2	1.2	21st	2.1	62nd	7.9	41st	---	n/a	---	n/a	---	n/a
		Russell Midcap Growth		0.9		3.5		7.0		14.5		12.0		8.2	
	3.1%	Thompson, Siegel & Walmsley[1]	$108.9	-1.2	99th	---	n/a	---	n/a	---	n/a	---	n/a	---	n/a
		Russell Midcap Value		3.5		10.8		12.3		21.2		16.6		13.7	
4.0%	5.0%	US Small Cap Equity	$178.8												
	2.4%	McKinley Capital Mgmt	$84.6	-3.8	64th	7.5	24th	5.7	54th	---	n/a	---	n/a	---	n/a
		Russell 2000 Growth		-1.8		4.2		5.9		11.8		10.2		4.0	
	2.6%	Thompson, Siegel & Walmsley	$94.2	-1.9	86th	11.3	24th	10.1	52nd	---	n/a	---	n/a	---	n/a
		Russell 2000 Value		2.6		13.3		14.0		19.0		17.0		13.4	
20.0%	23.2%	International Equity	$825.6												
	6.2%	LSV Asset Mgmt	$220.1	5.7	22nd	19.5	9th	24.3	8th	---	n/a	---	n/a	---	n/a
		MSCI EAFE Value		5.5		17.2		21.6		25.2		16.1		9.3	
	5.5%	Gryphon Investments	$196.5	6.0	6th	14.3	29th	15.8	80th	---	n/a	---	n/a	---	n/a
		MSCI EAFE Growth		2.3		11.8		16.7		19.4		12.4		4.2	
	11.5%	Capital Guardian	$408.9	4.6	27th	12.1	76th	21.2	35th	22.2	65th	15.4	68th	---	n/a
		Capital Guardian Index*		3.9		13.9		18.9		23.2		14.8		N/A	

*See Appendix B, Benchmarks, Universes and Definitions.

[1] Inception 4/01/06.

EXECUTIVE SUMMARY
Total Fund Asset Allocation and Structure Analysis

ASSET ALLOCATION	CURRENT		TARGET	
By Asset Class	Domestic Equities	45.7%	Domestic Equities	40.0%
	International Equities	22.8%	International Equities	20.0%
	Fixed Income	22.5%	Fixed Income	25.0%
	Real Estate	3.7%	Real Estate	5.0%
	Private Equity	5.1%	Private Equity	10.0%
	Cash & Equiv	0.2%	Cash & Equiv	0.0%
		100.0%		100.0%
By Investment Style				
Domestic Equity	Active	51.3%	Active	58%
	Passive	50.3%	Passive	42%
	Core	57.5%	Core	50%
	Growth	21.2%	Growth	25%
	Value	22.9%	Value	25%
	Large Cap	77.1%	Large Cap	72%
	Mid Cap	13.6%	Mid Cap	16%
	Small Cap	11.0%	Small Cap	12%
International Equity	Core	50.3%	Core	50%
	Growth	23.8%	Growth	25%
	Value	26.7%	Value	25%
Domestic Fixed Income	Core	12.5%	Core	12%
	Core Plus	89.1%	Core Plus	88%

WATSON WYATT COMMENTARY

The Total Fund ended the quarter with a reduced overweight in the Domestic Equity segment relative to the second quarter, while the International Equity segment's overweighting increased modestly due to performance. These overweights were within the allowable ranges. The Fixed Income, Real Estate and Private Equity segments were all underweight at the end of the quarter; however, the underweights were within the allowable ranges.

The expected funding of another Real Estate manager and the continued draw downs by the existing managers will bring the Real Estate segment closer to its target. The funding of Pantheon during the quarter increased the current allocation to Private Equity and reduced the underweight to its segment target allocation. The funding of Bridgewater and Pantheon has reduced the level of cash in the Fund.

The International Growth segment ended the quarter slightly below its target allocation while the International Value was overweighted versus its target. These are however within the allowable ranges.

Both the Core and Core Plus Fixed Income segments were near their target allocations.

EXECUTIVE SUMMARY
Total Fund and Asset Class Performance Highlights

SEGMENT	WATSON WYATT COMMENTARY
Total Fund	The Total Fund returned 4.1% for the quarter, lagging the Asset Allocation Benchmark by 10 basis points (bps), while ranking at the 31st percentile of its peer universe. The Domestic Equity segment was the main contributor to the quarter's under performance. The segment's overweight to its target allocation also contributed to its negative impact. The out performance of the International Equity segment coupled with its overweight allocation added value. Real Estate produced 380 bps of excess returns versus the NCREIF benchmark and Fixed Income out performed the Custom LB Universal Index by 30 bps.
Domestic Equity Segment	The Domestic Equity segment under performed its benchmark by 110 bps and ranked at the 68th percentile of its peer group universe. Under performance was broad based with only Edgar Lomax and Brown Capital producing excess returns of 220 bps and 30 bps respectively for the quarter. Sands Capital, Thompson, Siegel & Walmsley (TSW) Mid Cap Value and TSW Small Cap Value were the main contributors to the under performance. Sands Capital (Large Cap Growth) lagged the Russell 1000 Growth by 320 bps, while TSW Mid Cap Value under performed the Russell Mid Cap Value by 470 bps and TSW Small Cap Value lagged the Russell 2000 Value by 450 bps. McKinley Small Cap Growth under performed the Russell 2000 Growth by 200 bps while EACM under performed the Russell 3000 Index by 80 bps.
International Equity Segment	The International Equity segment returned 5.2% for the quarter, beating the 3.9% return of its benchmark and ranking at the 8th percentile of its peer universe. In a reversal of last quarter, all three managers out performed their respective benchmarks this quarter. Gryphon (International Growth), who led the under performance last quarter, had the largest relative out performance this quarter. The portfolio produced 370 bps of excess returns for the quarter. Capital Guardian (International Core) out performed its benchmark by 70 bps while LSV (International Value) out performed its benchmark by 20 bps. Given its 50% weight within the segment, Capital Guardian was the main contributor to this quarter's positive performance. The segment out performed its benchmark by 230 bps over the one-year period while it under performed over the three- and five-year periods.
Fixed Income Segment	The Fixed Income segment beat its benchmark by 30 bps for the quarter and ranked at the 23rd percentile of its peer group universe. Both Western and PIMCO returned 4.2% this quarter, out performing their benchmark by 30 bps. The 3.9% return of Hughes Capital matched the benchmark return this quarter. For the trailing twelve month period, the segment produced 80 bps of excess returns versus its benchmark. Over the longer term, the Fixed Income segment beat its benchmark by 130 bps for both the three- and five-year periods.

EXECUTIVE SUMMARY
Managers' Performance Highlights

MANAGER	WATSON WYATT COMMENTARY
Alliance	Alliance Capital returned 5.7% for the quarter, matching the S&P 500 Index and ranking at the 31st percentile of its Large Cap Core peer universe. Fifteen stocks accounted for half of the return of the benchmark and the Telecommunications, Health Care and Information Technology sectors were the strongest performers. The portfolio matched its benchmark over the one-, three- and five-year periods.
Edgar Lomax	Edgar Lomax out performed its benchmark by 220 bps (7.5% vs. 5.3%) for the quarter and ranked at the 9th percentile of its Large Cap Value peer group universe. Stock selection was the driver of performance this quarter, adding value in all sectors except Consumer Discretionary, Information Technology and Consumer Staples. Holdings in Energy (Chevron, Exxon Mobil), Health Care (Pfizer, Merck, Cigna), Financials (Merrill Lynch, JP Morgan, Bank of America) and Telecommunications (AT&T, Verizon) all contributed positively to the portfolio's performance this quarter. For the one-year period, the portfolio out performed its benchmark by 140 bps. Over the three-year period, the portfolio under performed by 110 bps while for the five year-period, it out performed the benchmark by 50 bps.
Sands	For the quarter, Sands Capital continued to under perform the Russell 1000 Growth Index. The portfolio returned 0.7% or 320 bps less than the benchmark's 3.9% return. This performance placed the portfolio at the 86th percentile of its Large Cap Growth peer group universe. While sector allocation was positive, performance was driven by the negative impact of stock selection, particularly in Consumer Discretionary and Information Technology. All of the Consumer Discretionary holdings were negative for the quarter, led by Starbucks which accounted for 8.1% of the portfolio. Lowes and Apollo Group were the other holdings. In Information Technology, Google (the portfolio's largest holding at 9.8%), Yahoo and Qualcomm led the sector's under performance. The portfolio under performed its benchmark by 810 bps over the one-year period and produced excess returns of 130 bps over the three-year period.
EACM	EACM lagged the Russell 3000 Index by 80 bps for the quarter and ranked at the 35th percentile of its All Cap peer universe. Rigel Capital was the lone Large Cap manager to under perform the Russell 1000 Index, lagging the benchmark's return by 610 bps. Accounting for 20.9% of the portfolio's assets, Rigel's under performance was the driver of the total portfolio's performance this quarter. The Small/Mid Cap core manager, PENN Capital, under performed the Russell 2500 Index by 280 bps, suffering from its double weight to Energy. The Small Cap Growth manager, AH Lisanti, lagged the Russell 2000 Growth by 510 bps due to its Information Technology holdings (Aspen Technology, Veeco Instruments). The portfolio's growth orientation continues to negatively impact performance. EACM has placed both Rigel and AH Lisanti on watch. Over the one-year period, the portfolio lagged its benchmark by 160 bps.

EXECUTIVE SUMMARY
Managers' Performance Highlights

MANAGER	WATSON WYATT COMMENTARY
Brown	Brown Capital produced excess returns of 30 bps for the quarter and ranked at the 21st percentile of its Mid Cap Growth peer universe. Sector allocation negatively impacted performance this quarter but was offset by the positive contribution of stock selection. Holdings in Information Technology (Adobe, Network Appliance, Electronic Arts) drove performance for the quarter. Holdings in Financials (T. Rowe Price, Willis Group) along with its overweight (10.4% vs. 8.8%), also positively contributed to performance. Holdings in Energy (Arch Coal, Diamond Offshore, Noble) and Industrials (Joy Global, Labor Ready, Fluor), the benchmark's two worst performing sectors, detracted from performance for the quarter. The portfolio out performed its benchmark by 90 bps over the one-year period, while it under performed by 420 bps over the two-year period and 470 bps since its April 2004 inception.
Thompson, Siegel & Walmsley Mid Cap	Thompson, Siegel & Walmsley (TSW) returned -1.2% for the quarter which was 470 bps behind the return of the Russell Mid Cap Value Index. This performance ranked the portfolio at the 99th percentile of its Mid Cap Value peer universe. Both stock selection and sector allocation were negative for the quarter across most sectors. Overweighting (10.3% vs. 5.5%) and stock selection (Consol Energy, Hess, Newfield) in Energy, as well as overweighting (14.4% vs. 6.3%) and stock selection (Commercial Metals, Gold Corp, Martin Marietta) in Materials, negatively contributed to performance. Overweighting (14.6% vs. 7.5%) and stock selection (JB Hunt, Terex, Kennametal) in Industrials also contributed to the portfolio's under performance. All three sectors were also the worst performers in the benchmark for the quarter. Stock selection added value only in Information Technology (Sybase, BMC Software, Amdocs).
McKinley Capital	McKinley lagged the Russell 2000 Growth by 200 bps for the quarter, ranking at the 64th percentile of its Small Cap Growth peer universe. Both sector allocation and stock selection were negative for the quarter with stock selection driving under performance. Stock selection in Information Technology (Digital Insight, Netlogic, Rackable Systems) and Health Care (Neurometrix, Cubist Pharmaceuticals, Sonosite) contributed to under performance this quarter. Stock selection in Energy, the benchmark's worst performing sector, added value but was offset by its overweight allocation (10.6% vs. 6.9%). The portfolio lagged its benchmark by 20 bps over the one-year period but out performed by 10 bps over the two-year period and by 40 bps since its August 2004 inception.
Thompson, Siegel & Walmsley Small Cap	Thompson, Siegel & Walmsley returned -1.9% for the quarter, lagging the Russell 2000 Value Index by 450 bps and ranking at the 86th percentile of its Small Cap Value peer universe. Stock selection was the main contributor to the under performance and sector allocation was also negative. Stock selection in Information Technology (Nam Tai Electronics, Digital Insight, Transaction Systems), Industrials (Celadon Group, Kirby, American Science & Engineering) and Materials (Olympic Steel, Schnitzer Steel, Royal Gold) contributed to this quarter's under performance. The sector bet made on Energy (11.4% vs. 4.7%) did not pay off as the sector only managed to produce 40 bps over the return of the benchmark's worst performing sector. The portfolio under performed by 390 bps over the one-year period but produced excess returns of 330 bps over the two-year period and 360 bps since its July 2004 inception.

EXECUTIVE SUMMARY
Managers' Performance Highlights

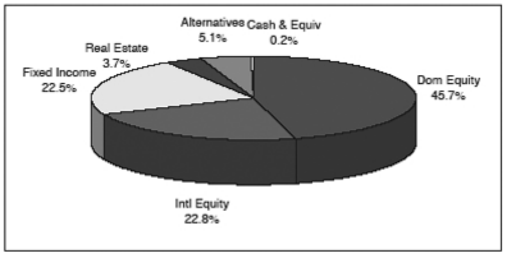
MANAGER	WATSON WYATT COMMENTARY
LSV	For the quarter, LSV beat the MSCI EAFE Value Index by 20 bps (5.7% vs. 5.5%) and ranked at the 22nd percentile of its International Value peer universe. The portfolio out performed in both France and Germany, while it under performed in the UK and Japan. Stock selection in overweighted Financials (43.8% vs. 39.8%), underweighted Industrials (6.1% vs. 8.3%) and in Consumer Discretionary, added value for the quarter. The overweight to Energy (10.4% vs. 7.3%), as well as the portfolio's mid cap bias, detracted from performance. For the one-year period, the portfolio out performed the benchmark by 270 bps and produced excess returns of 300 bps since its April 2005 inception.
Gryphon	Gryphon returned 6.0% for the quarter, out performing the 2.3% return of the MSCI EAFE Growth Index by 370 bps and ranking at the 6th percentile of its International Growth Equity peer universe. Strong returns in both Europe and Asia/Pacific drove performance this quarter. In Europe, performance was led by stock selection in Germany and exposure to the Netherlands. Holdings in Health Care, especially Celesio A.G., contributed positively to performance. Detractors in Europe were the Information Technology holding, Gemalto, and zero exposure to Utilities as the sector benefited from continued mergers and acquisitions activities in Spain. Stock selection in Hong Kong and Japan, as well as holdings in Consumer Discretionary (Li & Fung, Yue Yuen Industrial), drove performance in Asia/Pacific. The portfolio underperformed its benchmark by 90 bps over the one-year period and by 300 bps since its April 2005 inception.
Capital Guardian	Capital Guardian produced 70 bps of excess returns versus its benchmark for the quarter. This performance placed the portfolio at the 27th percentile of its International Equity peer universe. Performance was driven by stock selection in Consumer Discretionary and Consumer Staples, exposure to Telecommunication (especially in Emerging Markets) and underweighting Energy (6.1% vs. 10.2%). Stock selection in Energy and Materials, as well as the underweight to Utilities, detracted from performance. For the one-year period, the portfolio out performed its benchmark by 230 bps. Over the longer term, the portfolio under performed its benchmark by 60 bps over the three year period but produced excess returns of 60 bps over the five-year period.
Hughes	Hughes Capital returned 3.9% for the quarter, matching the return on of the Lehman Government/Credit Index and ranking at the 42nd percentile of its Core Fixed Income peer universe. The portfolio benefited from having a slight overweight to the long end of the maturity spectrum and its exposure to Mortgage/Asset Backed. A slight overweight to Corporates (34.7% vs. 32.8%) was also positive. A slightly shorter than the benchmark duration was a detraction to performance this quarter. For the one- and three-year periods, the portfolio out performed the benchmark by 30 bps and 10 bps, respectively. For the five-year period, the portfolio lagged the benchmark by 10 bps.

EXECUTIVE SUMMARY
Managers' Performance Highlights

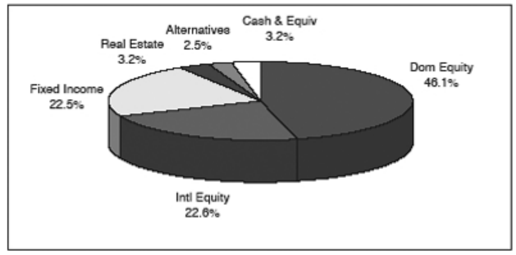
MANAGER	WATSON WYATT COMMENTARY
Western	For the quarter, Western out performed the Lehman Universal Index by 30 bps and ranked at the 9th percentile of its Enhanced Core Fixed Income peer universe. The portfolio benefited from its overweight to Mortgage/Asset Backed (43.0% vs. 35.9) and its underweight to Treasuries (13.6% vs. 21.3%). Underweight to Corporates (19.7% vs. 26.0%) and a slightly shorter than the benchmark duration (4.5 years vs. 4.7 years) detracted from performance. For the trailing twelve months, the portfolio produced excess returns of 70 bps while for the three- and five-year periods, it out performed by 190 bps over both periods.
PIMCO	PIMCO returned 4.2% for the quarter, beating the Lehman Universal Index by 30 bps and ranked at the 9th percentile of its Enhanced Core Fixed Income peer universe. Underweighting Treasuries (12.0% vs. 21.3%), overweighting Mortgage/Asset Backed (53.0% vs. 35.9%) and having a longer than the benchmark duration (4.9 years vs. 4.7 years) contributed positively to performance this quarter. Underweighting Corporates (9.7% vs. 26.0%) negatively impacted performance. The portfolio out performed by 110 bps over the one-year period and by 120 bps over the three-year period. For the five-year period, the portfolio produced excess returns of 110 bps over its benchmark.
Wellington	Wellington Real Estate out performed the Dow Jones/Wilshire full cap Index by 30 bps for the quarter (9.5% vs. 9.2%). The portfolio ranked at the 13th percentile of its REIT peer universe. Positions in Unibail, Kimco Realty and Ventas drove performance this quarter while the portfolio's large overweight in Lodging and its position in Starwood Hotels and Resorts detracted from performance. Over the one-year period, the portfolio produced excess returns of 350 bps over its benchmark while since its April 2005 inception, the portfolio out performed by 280 bps.

TOTAL FUND
Asset Allocation Analysis

CURRENT QUARTER (09/30/06) - $3,621,574,949



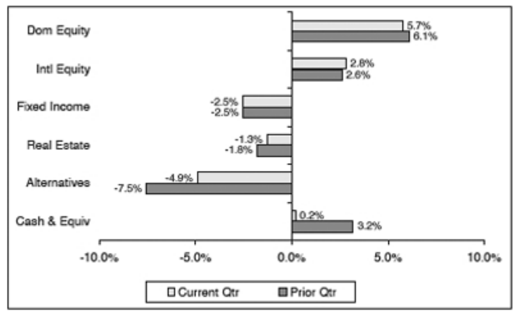
PRIOR QUARTER (06/30/06) - $3,473,119,330



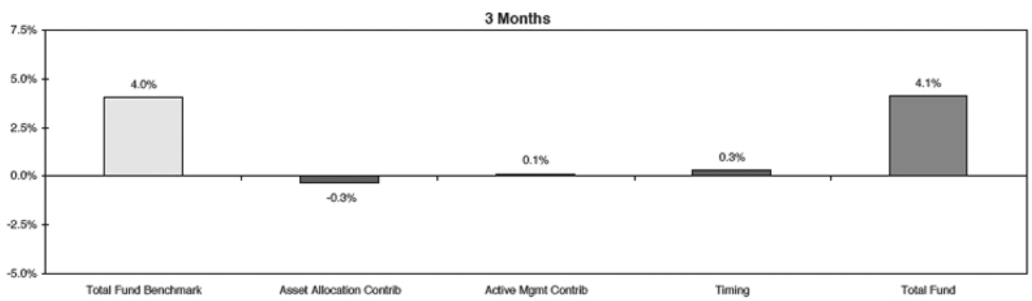
MARKET VALUE COMPARISON

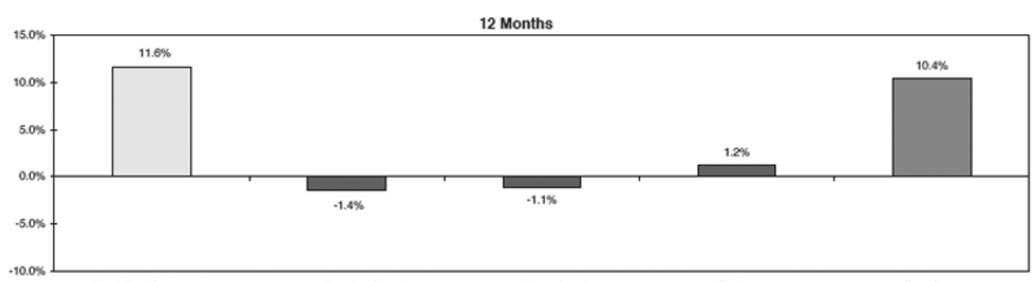
	Current Quarter 09/30/06	Prior Quarter 06/30/06
Domestic Equity	$ 1,656,746,862	$ 1,600,604,579
International Equity	825,569,042	784,653,039
Fixed Income	813,096,490	780,494,873
Real Estate	134,804,838	111,298,588
Private Equity	184,729,273	85,384,685
Cash & Equiv	6,628,443	110,683,566
Total Fund	**$ 3,621,574,949**	**$ 3,473,119,330**

ASSET ALLOCATION RELATIVE TO TARGET



TOTAL FUND
Return Attribution Analysis
Periods Ending September 30, 2006



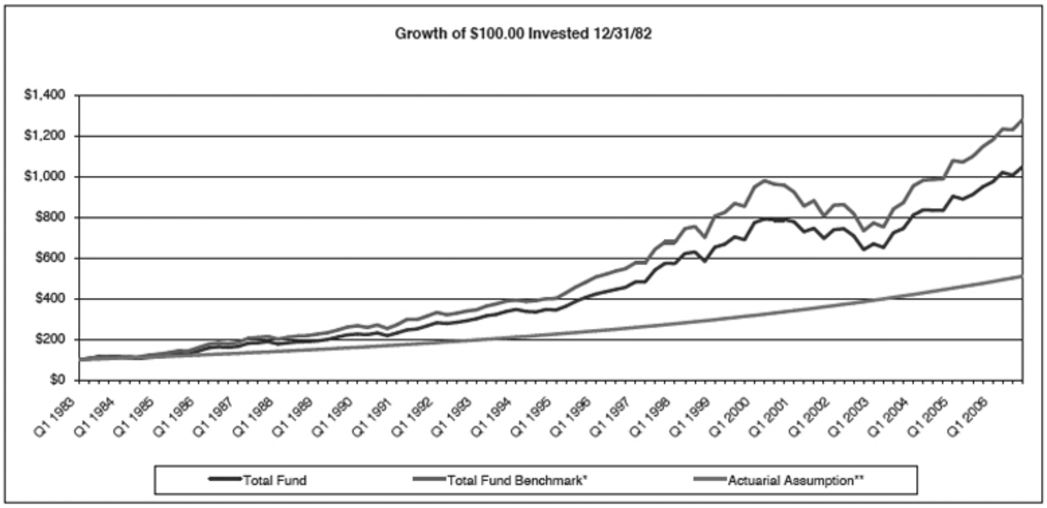


*See Appendix B, Benchmarks, Universes and Definitions.
Note: Total Fund Benchmark estimated for 3Q06.

TOTAL FUND
Performance Versus Benchmark
Periods Ending September 30, 2006

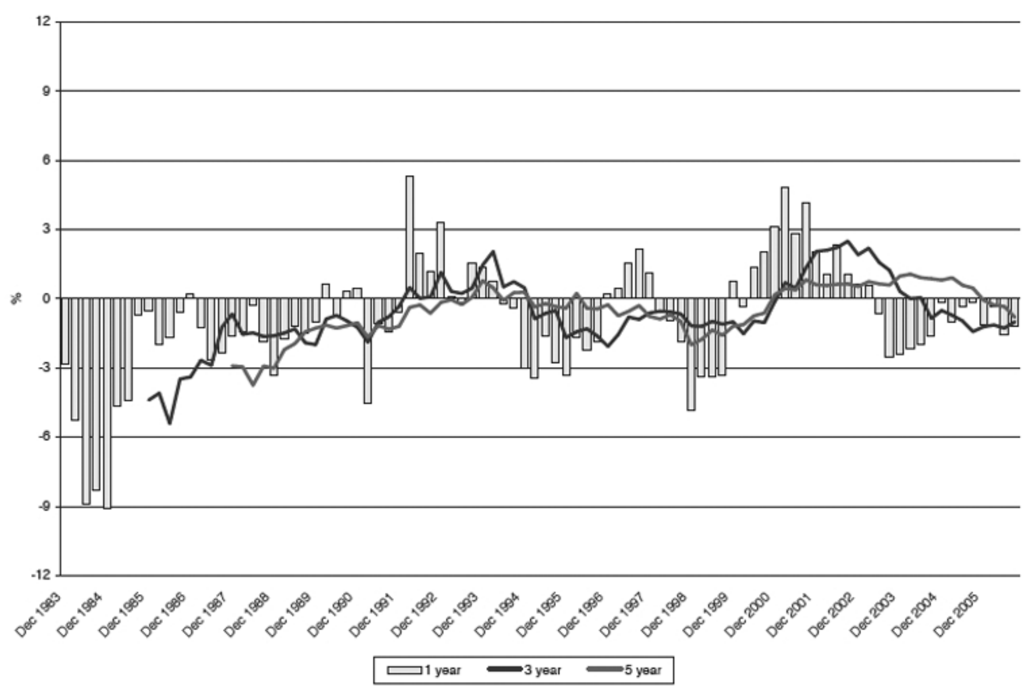
% Returns	Three Months	YTD	One Year	Three Years	Five Years	Ten Years	Since 10/1/82
Total Fund	**4.1**	7.6	10.4	12.1	8.5	8.7	10.5
Total Fund Benchmark*	4.0 ***	8.5	11.6	13.7	9.7	8.9	11.7
Active Return	0.1	-0.9	-1.2	-1.6	-1.2	-0.2	-1.2

Numbers in red indicate below benchmark performance.

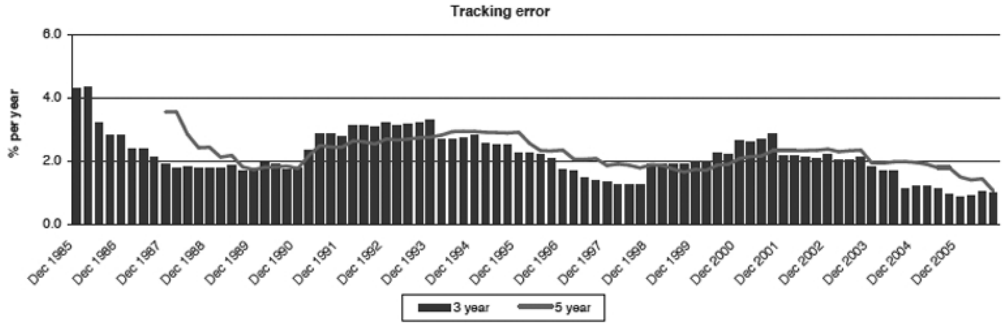


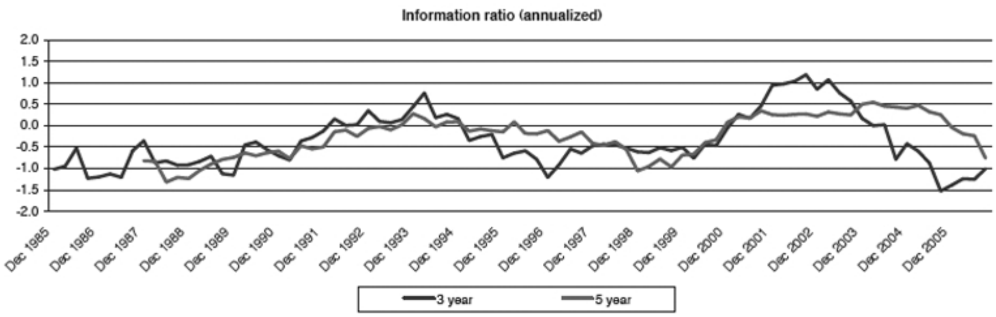
*See Appendix B, Benchmarks, Universes and Definitions.
**7.25%. Prior to 10/1/97, 7.0%.
***Estimated

TOTAL FUND
Rolling Period Returns Relative to Total Fund Benchmark

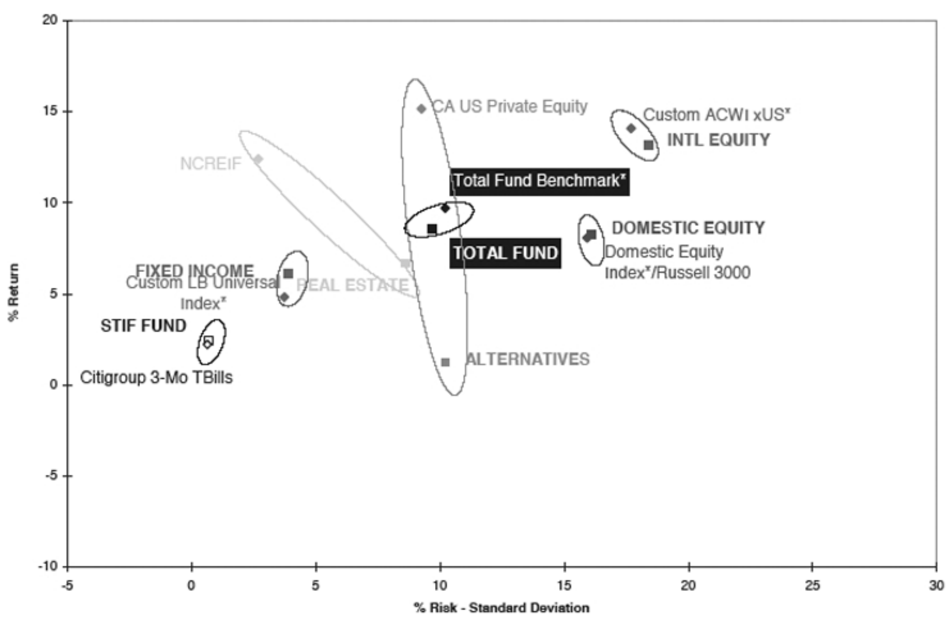


TOTAL FUND
Financial Efficiency Analysis





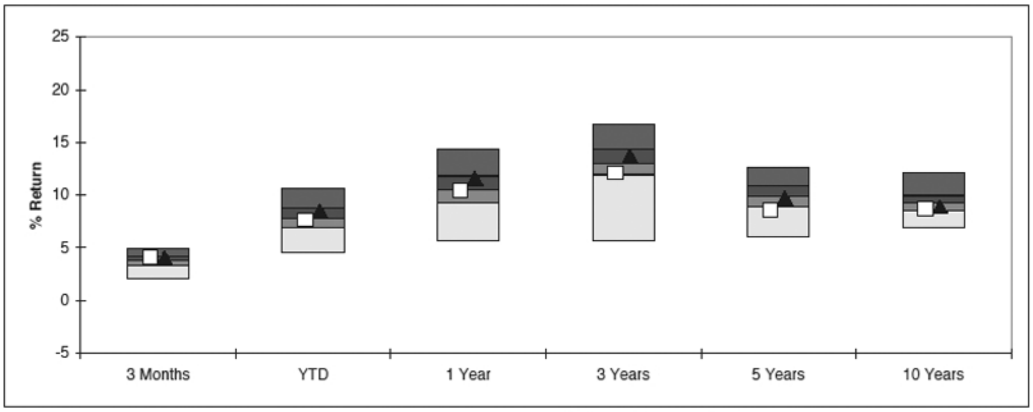
TOTAL FUND
Risk/Reward Analysis
Five-Year Period Ending September 30, 2006



*See Appendix B, Benchmarks, Universes and Definitions.

Note: Total Fund Benchmark and CA US Private Equity are estimated for 3Q06.

TOTAL FUND
Peer Group Performance Comparison
Periods Ending September 30, 2006



TUCS UNIVERSE PUBLIC FUNDS $1B TO $5B		Three Months	YTD	One Year	Three Years	Five Years	Ten Years
		% Returns/Percentile Rankings					
5th Percentile		4.6	9.0	11.3	13.5	11.3	9.5
25th Percentile		4.3	8.4	10.6	12.7	10.0	9.5
Median		**3.5**	**7.4**	**10.0**	**12.4**	**9.4**	**8.7**
75th Percentile		3.3	7.1	9.3	11.3	9.0	8.3
95th Percentile		2.9	6.7	8.6	11.0	8.1	8.0
Total Fund Benchmark*	▲	4.0 **	8.5	11.6	13.7	9.7	8.9
TOTAL FUND	□	**4.1** *31st*	**7.6** *37th*	**10.4** *31st*	**12.1** *58th*	**8.5** *91st*	**8.7** *41st*

*See Appendix B, Benchmarks, Universes and Definitions.
**Estimated

DOMESTIC EQUITY SEGMENT
Performance Versus Benchmark
Periods Ending September 30, 2006

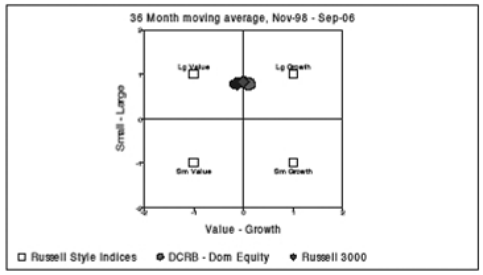
% Returns	Three Months	YTD	One Year	Three Years	Five Years	Ten Years	Since 10/1/82
Domestic Equity	3.5	6.2	8.9	12.6	**8.3**	**9.1**	11.9
Domestic Equity Benchmark*	4.6	8.0	10.2	13.0	8.1	8.7	13.5
Active Return	-1.1	-1.8	-1.3	-0.4	0.2	0.4	-1.6

Numbers in red indicate below benchmark performance.

PORTFOLIO CHARACTERISTICS

	Domestic Equity	Russell 3000
Trailing 12-Month P/E (x)	18.6	18.4
12-Month Projected P/E (x)	16.3	15.8
Price/Book (x)	4.1	3.7
Yield (%)	1.5	1.8
EPS Growth (%, past 5 yrs)	23.2	19.9
EPS Growth (%, next 5 yrs)	14.6	13.2
Weighted Market Cap ($millio	66,681	77,031
Median Market Cap ($million)	25,744	31,385
# of Holdings	724	2,976
% Top 15 Holdings	18.8	21.2
% OTC Stocks	23.2	19.3
Alpha (5-year)	0.1	0.0
Beta (5-year)	1.0	1.0
Capitalization Distribution (%):		
Above 15.00 ($bil)	61.9	65.7
7.00 - 15.00	14.1	12.2
5.00 - 7.00	4.0	3.9
3.00 - 5.00	5.4	5.8
1.00 - 3.00	11.0	8.3
0.00 - 1.00	3.6	4.1

STYLE MAP



Created with MPI Stylus™

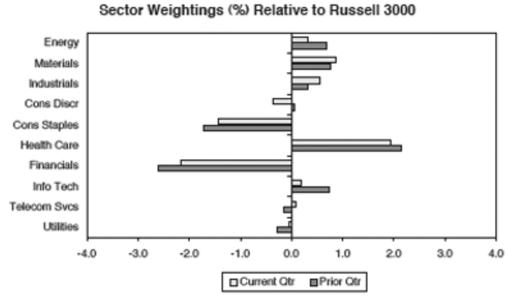
TOP TEN HOLDINGS (%) 14%

EXXON MOBIL CORP	2.2	GOOGLE INC	1.3
GENERAL ELECTRIC CO	1.9	AT&T INC	1.1
PFIZER INC	1.4	CHEVRON CORP NEW	1.1
BANK OF AMERICA CORP	1.4	MICROSOFT CORP	1.1
CITIGROUP INC	1.4	VERIZON COMMUNICATION	1.1

*See Appendix B, Benchmarks, Universes and Definitions.

DOMESTIC EQUITY SEGMENT
Return Attribution Analysis
Three-Month Period Ending September 30, 2006

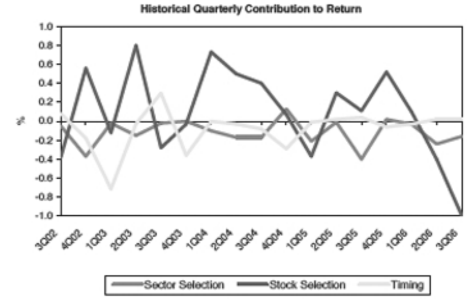
Sector Weightings (%) Relative to Russell 3000



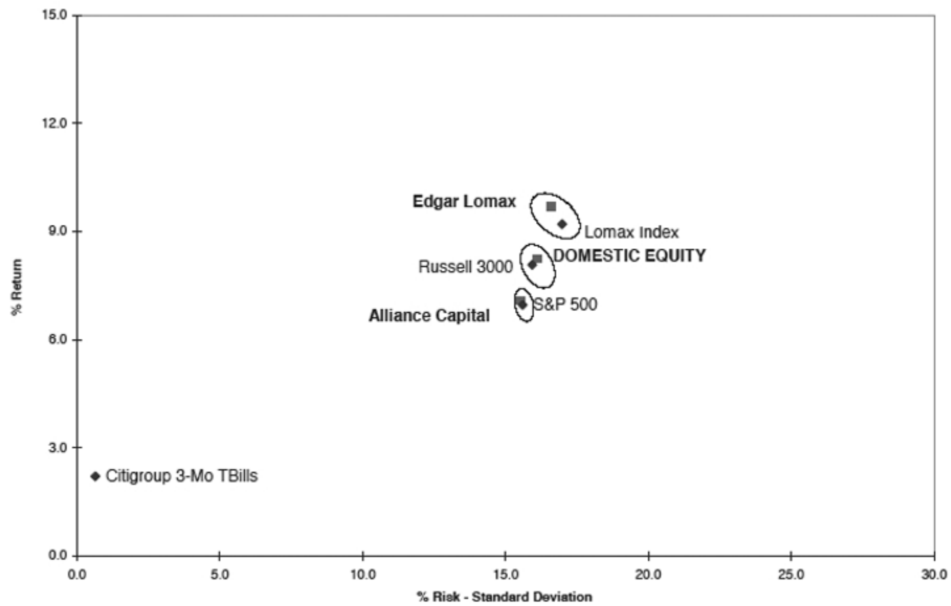
SECTORS	WEIGHTINGS (%) Portfolio	R3000	RETURN (%) Portfolio	R3000
Energy	9.4	9.1	-4.1	-3.3
Materials	4.2	3.3	-2.4	-1.0
Industrials	11.7	11.1	-3.6	-1.2
Consumer Discretionary	10.8	11.2	2.4	4.0
Consumer Staples	7.1	8.5	4.9	5.6
Health Care	14.7	12.8	7.7	8.2
Financials	20.0	22.1	7.7	7.2
Information Technology	15.1	15.0	4.2	7.1
Telecomm Service	3.3	3.2	11.9	10.4
Utilities	3.8	3.8	6.4	5.6
Equity Only (Buy & Hold)			3.5	4.7

SECTORS	SECTOR SELECT	STOCK SELECT	ACTIVE CONTR	PASSIVE CONTR	TOTAL CONTR
Energy	0.0	-0.1	-0.1	-0.7	-0.8
Materials	-0.1	-0.1	-0.1	-0.2	-0.3
Industrials	-0.1	-0.3	-0.3	-0.7	-1.0
Consumer Discretionary	0.0	-0.2	-0.2	-0.1	-0.3
Consumer Staples	0.0	-0.1	-0.1	0.1	0.0
Health Care	0.1	-0.1	0.0	0.4	0.4
Financials	-0.1	0.1	0.1	0.5	0.6
Information Technology	0.0	-0.4	-0.4	0.4	-0.1
Telecomm Service	0.0	0.0	0.1	0.2	0.2
Utilities	0.0	0.0	0.0	0.0	0.0
Equity Only (Buy & Hold)	-0.2	-1.0	-1.2	0.0	-1.2

Historical Quarterly Contribution to Return

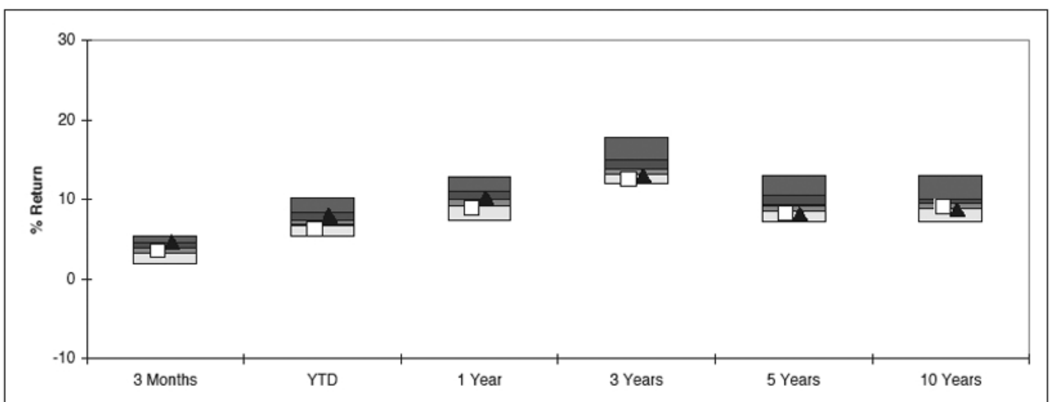


DOMESTIC EQUITY SEGMENT
Risk/Reward Analysis
Five-Year Period Ending September 30, 2006



*See Appendix B, Benchmarks, Universes and Definitions.

DOMESTIC EQUITY SEGMENT
Peer Group Performance Comparison
Periods Ending September 30, 2006



MAS US TRUST UNIVERSE US EQUITY SEGMENT		Three Months	YTD	One Year	Three Years	Five Years	Ten Years
		% Returns/Percentile Rankings					
5th Percentile		5.5	10.1	12.8	17.8	13.0	13.0
25th Percentile		4.6	8.4	11.1	14.9	10.5	10.0
Median		**4.0**	**7.5**	**10.0**	**13.8**	**9.3**	**9.6**
75th Percentile		3.2	6.8	9.2	13.1	8.6	8.9
95th Percentile		1.8	5.4	7.4	11.9	7.1	7.2
Domestic Equity Index*	▲	4.6	8.0	10.2	13.0	8.1	8.7
DOMESTIC EQUITY SEGMENT	□	**3.5** *68th*	**6.2** *86th*	**8.9** *83rd*	**12.6** *91st*	**8.3** *85th*	**9.1** *72nd*

*See Appendix B, Benchmarks, Universes and Definitions.

INTERNATIONAL EQUITY SEGMENT
Performance Versus Benchmark
Periods Ending September 30, 2006

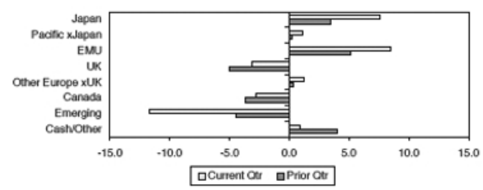
% Returns	Three Months	YTD	One Year	Three Years	Five Years	Ten Years	Since 4/1/87
International Equity	**5.2**	**14.5**	**20.6**	21.5	13.1	**7.3**	**7.1**
Custom MSCI ACWI xUS*	3.9	13.6	18.3	22.0	14.1	6.7	6.5
Active Return	1.3	0.9	2.3	-0.5	-1.0	0.6	0.6

Numbers in red indicate below benchmark performance.

PORTFOLIO CHARATERISTICS

	Intl Equity	MSCI ACWI xUS
Trailing 12-Month P/E (x)	15.3	14.9
Price/Book (x)	2.5	2.3
Yield (%)	2.4	2.5
Weighted Mkt Cap ($millions)	41,379	46,837
Alpha (5-year)	-1.4	0.0
Beta (5-year)	1.0	1.0

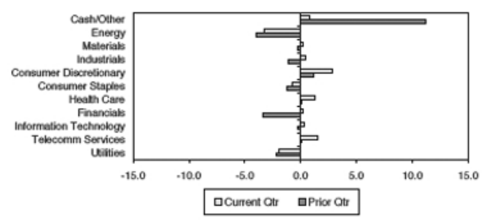
REGIONAL EXPOSURE RELATIVE TO ACWI xUS (%)



TOP TEN HOLDINGS (%) 18.1%

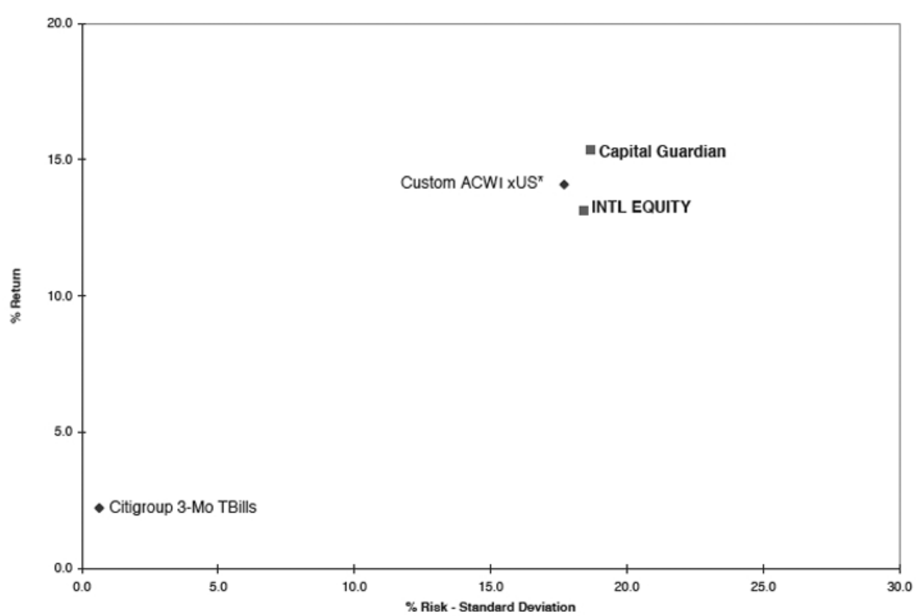
CG EMERGING MARKETS EQUITY FUND	7.4
CG INTL NON-US SMALL CAP FUND	2.6
VODAFONE GROUP PLC	1.0
ROYAL DUTCH SHELL PLC - B SHS	1.0
FRESENIUS AG	1.7
INDITEX SA	1.3
CELESIO AG	0.8
BNP PARIBAS	0.7
SANOFI-AVENTIS	0.7
SUMITOMO MITSUI FINANCIAL GROUP INC	0.7

SECTOR EXPOSURE RELATIVE TO ACWI xUS (%)

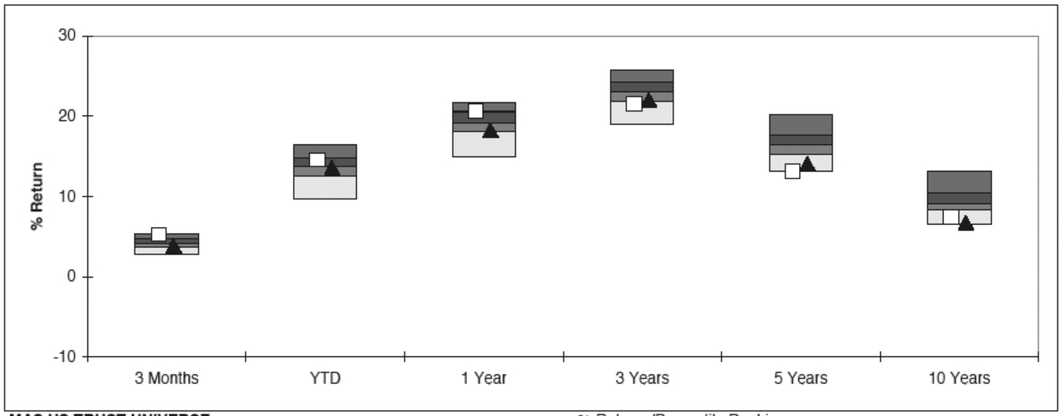


*See Appendix B, Benchmarks, Universes and Definitions.

INTERNATIONAL EQUITY SEGMENT
Risk/Reward Analysis
Five-Year Period Ending September 30, 2006



INTERNATIONAL EQUITY SEGMENT
Peer Group Performance Comparison
Periods Ending September 30, 2006



MAS US TRUST UNIVERSE NON-US EQUITY SEGMENT		Three Months	YTD	One Year	Three Years	Five Years	Ten Years
		% Returns/Percentile Rankings					
5th Percentile		5.3	16.5	21.8	25.8	20.2	13.1
25th Percentile		4.8	14.8	20.6	24.2	17.7	10.5
Median		**4.2**	**13.8**	**19.2**	**23.1**	**16.5**	**9.0**
75th Percentile		3.6	12.5	18.1	21.8	15.3	8.4
95th Percentile		2.8	9.7	15.0	19.0	13.2	6.6
Custom MSCI ACWI xUS*	▲	3.9	13.6	18.3	22.0	14.1	6.7
INTL EQUITY SEGMENT	□	**5.2** *8th*	**14.5** *32nd*	**20.6** *25th*	**21.5** *83rd*	**13.1** *96th*	**7.3** *93rd*

*See Appendix B, Benchmarks, Universes and Definitions.

FIXED INCOME SEGMENT
Performance Versus Benchmark
Periods Ending September 30, 2006

% Returns	Three Months	YTD	One Year	Three Years	Five Years	Ten Years	Since 12/1/82
Fixed Income	**4.2**	**4.0**	**4.5**	**4.7**	**6.1**	**7.4**	**9.0**
Custom Lehman US Universal*	3.9	3.1	3.7	3.4	4.8	6.4	8.7
Active Return	0.3	0.9	0.8	1.3	1.3	1.0	0.3

Numbers in red indicate below benchmark performance.

PORTFOLIO CHARACTERISTICS

	Fixed Income	Lehman US Universal
Average Coupon (%)	6.0	5.6
Yield-To-Maturity (%)	5.4	5.6
Mod. Adj. Duration (years)	4.8	4.7
Average Maturity (years)	7.4	7.3
Alpha (5-year)	1.3	0.0
Beta (5-year)	1.0	1.0

TOP TEN HOLDINGS (%) 40.3%

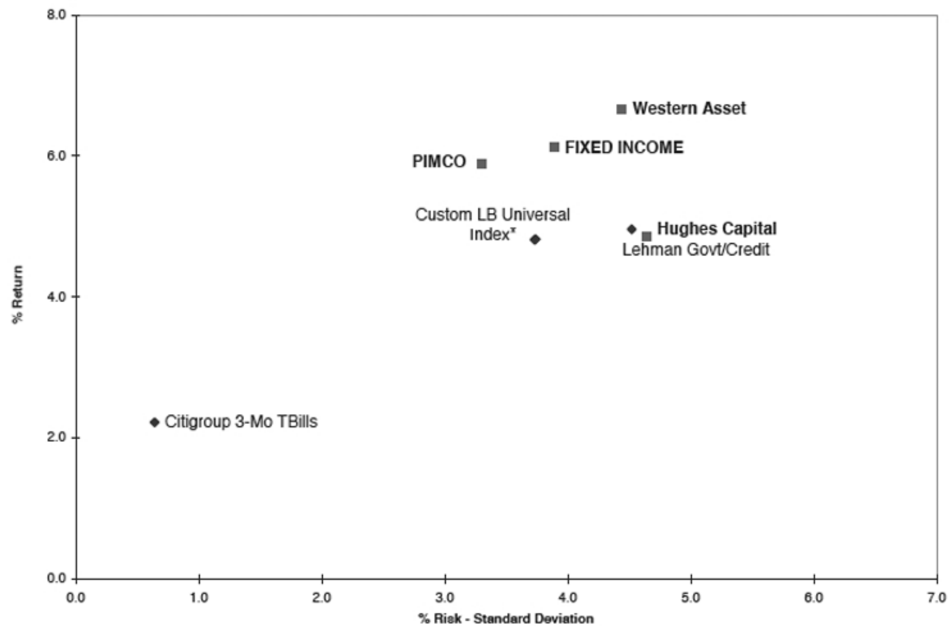
PIMCO PRV MORTGAGE SEC FUND(722)	21.4
FNMA 30 YR OCT FWD	6.0
WA OPPORTUNISTIC INTL INVEST GRADE SEC PORT LLC	2.2
FNMA 30YR OCT FWD	2.1
US TREASURY N/B4.000% Due 02-15-14	1.9
PIMCO PRIV EMERG MKT SECT(781)	1.4
US TREASURY N/B NOTE	1.6
US TREASURY N/B INFL IX BOND	1.3
GNMA I 30YR NOV FWD	1.3
PIMCO PRV HIGH YIELD SEC FD(706)	1.1

PORTFOLIO DISTRIBUTIONS

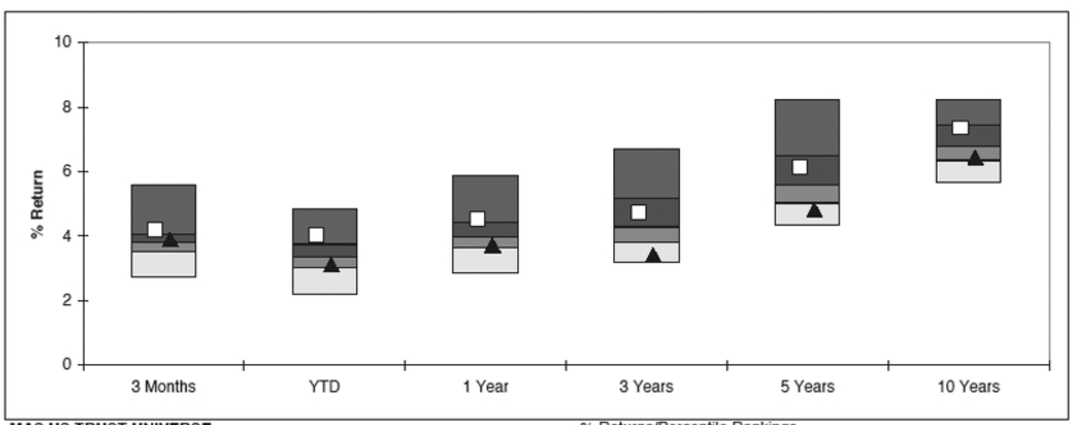
	Fixed Income	Lehman US Universal
Sector (%):		
Treasury	16.7	21.3
Agency	9.6	9.5
Mortgage/Asset Backed	43.4	35.9
Corporate	17.5	26.0
Yankee/Foreign	4.2	7.3
Cash & Equiv	6.6	0.0
Other	3.7	0.0
Maturity (%):		
< 1 year	0.9	0.0
1 - 3 years	22.1	21.2
3 - 5 years	32.7	21.1
5 - 10 years	40.9	44.6
> 10 years	5.0	13.1
Quality (%):		
AAA	73.7	69.7
AA	5.1	5.6
A	5.9	8.7
BAA	8.2	8.1
< BAA	8.6	8.0
Not rated/Other	0.1	0.0

*See Appendix B, Benchmarks, Universes and Definitions.

FIXED INCOME SEGMENT
Risk/Reward Analysis
Five-Year Period Ending September 30, 2006



FIXED INCOME SEGMENT
Peer Group Performance Comparison
Periods Ending September 30, 2006



MAS US TRUST UNIVERSE FIXED INCOME SEGMENT		% Returns/Percentile Rankings Three Months	YTD	One Year	Three Years	Five Years	Ten Years
5th Percentile		5.6	4.8	5.9	6.7	8.3	8.2
25th Percentile		4.1	3.8	4.4	5.2	6.5	7.4
Median		**3.8**	**3.4**	**4.0**	**4.3**	**5.6**	**6.8**
75th Percentile		3.5	3.0	3.6	3.8	5.0	6.4
95th Percentile		2.7	2.2	2.8	3.2	4.3	5.7
Custom Lehman US Universal*	▲	3.9	3.1	3.7	3.4	4.8	6.4
FIXED INCOME SEGMENT	□	**4.2** *23rd*	**4.0** *14th*	**4.5** *24th*	**4.7** *38th*	**6.1** *35th*	**7.4** *27th*

*See Appendix B, Benchmarks, Universes and Definitions.

District of Columbia Retirement Board
Actuarial Valuation as of October 1, 2006
For Fiscal Year 2008 Contributions

Prepared on January 22, 2007

Required Actuarial Certification
Under District of Columbia Code §1-907
for Fiscal Year 2008
(Dollars in Millions)

Certification	Code Section	Teachers	Police	Fire	Police/Fire Combined	Total District
FY 2008 Normal Contribution Rate	1-907.03(a)(3)(A)	2.4%	37.7%	31.5%	35.9%	19.9%
Estimated FY 2008 Covered Payroll	NA	$338.4	$263.2	$105.5	$368.7	$707.1
FY 2008 District Payment before 1-907.02(c)	NA	$8.1	$99.2	$33.2	$132.4	$140.5
FY 2006 Shortfall/Overpayment	1-907.02(c)	($2.1)	$4.0	$0.6	$4.6	$2.5
FY 2008 District Payment	NA	$6.0	$103.2	$33.8	$137.0	$143.0
Present Value of Future Benefits	1-907.03(a)(3)(B)	$1,530.1	$2,830.0	$1,074.3	$3,904.3	$5,434.4
Current Value of Assets[1]	1-907.03(a)(3)(C)	$1,284.4	$1,662.5	$645.7	$2,308.2	$3,592.6
Actuarial Value of Assets[1]	1-907.03(a)(3)(D)	$1,230.0	$1,622.5	$630.1	$2,252.6	$3,482.6

12/21/06

Edward H. Friend, F.S.A., E.A. (Date)

[1] These amounts are net of the following benefits payable as of September 30, 2006. $15.9 million for Teachers, $10.1 million for Police, and $2.9 million for Fire.

Introduction

Executive Summary

This actuarial valuation of the District of Columbia Police Officers and Fire Fighters' Retirement Fund and the District of Columbia Teachers' Retirement Fund (the Funds) has produced a decrease in recommended contributions between Fiscal Year 2007 and Fiscal Year 2008. The contribution determined through this valuation is as follows:

Contribution Date	Teachers' Retirement Fund	Police Officers & Fire Fighters' Retirement Fund	Total District Cost
Fiscal Year 2007	$14,600,000	$140,100,000	$154,700,000
Fiscal Year 2008	$6,000,000	$137,000,000	$143,000,000

The costs shown above reflect all required adjustments. The total District cost as a percentage of payroll (before adjustments under D.C. Code §1-907.02(c)) decreased from 20.9% for Fiscal Year 2007 to 19.9% for Fiscal Year 2008. The normal contribution rates (before adjustments under D.C. Code §1-907.02(c)) for FY 2007 were 2.4% for Teachers and 35.9% for Police Officers and Fire Fighters.

We have used the District cost as a percentage of total payroll in order to show the net effects of the various types of actuarial gains and losses on District cost. Gains and losses for the individual groups (Teachers, Police, and Fire) are shown in the cost calculations in Section 3.

The overall decrease in cost was the net result of several factors:

• **Demographic experience produced an actuarial gain.**

Actual demographic experience (mortality, disabilities, terminations, and retirements occurring at rates other than expected) combined with data improvement and refinement efforts combined for a net loss. A significant contributor to the gain was the large number of terminations within the Teachers' Plan.

• **Salary experience produced an actuarial gain.**

The total salary for continuing active participants in all plans was lower than expected based on last year's valuation and salary increase assumptions.

• **Asset returns produced an actuarial gain.**

The actuarially-determined rate of return on the value of Funds' assets was 9.3% during Fiscal Year 2006. This was lower than the return on market value of 9.8%, due to partial deferment of gains as prescribed by the actuarial smoothing method. The 9.3% return on actuarial value was higher than the assumed rate of 7.25%, producing an actuarial gain that decreased District costs. The asset gains that were deferred will provide a cushion for asset experience during the next two fiscal years, meaning that even if assets returns on a market value basis are below expected levels during Fiscal 2007, returns on an actuarial basis may still create gains or somewhat mitigate losses.

• **New entrants to the Plans produced an actuarial loss.**

New members continued to enter the Plans during Fiscal Year 2006. There were 943 new entrants and rehired members between the three groups. Since the District's contribution rate for new entrants is greater than the contribution rate for continuing plan members, the District cost increased, particularly for Teachers.

It is likely that the District contribution will continue to increase over time, particularly for the Teachers' Plan. Assuming that the number of active members remains relatively constant, new members and rehires will continue to generate rate increases each year, until the normal rate for the Plans approach the long-term projected rate. This expected long-term rate for the Teachers' Plan based on new entrant costs is still considerably above the current rate (10.3% versus 2.4%), while the long-term rates for Police and Fire are slightly higher than the current rates.

The aggregate effect of non-asset experience on District cost as a percentage of payroll was a slight decrease. Increased payroll from the prior valuation, however, means that this is actually an increase of $800,000.

More detail is provided below on the gains and losses which occurred since the last valuation.

Purpose of the Report

This Report presents the results of the October 1, 2006 actuarial valuation of the D.C. Police Officers and Fire Fighters' Retirement Fund and the D.C. Teachers' Retirement Fund for the District of Columbia Retirement Board. The purposes of the actuarial valuation are:

- To determine the appropriate contribution to the Funds to be paid by the District in Fiscal Year 2008 in accordance with the Replacement Plan Act;
- To review the experience of the Funds over the past year and to discuss reasons for changes in the Funds costs;
- To identify and discuss any emerging trends in Fund costs; and
- To present those items required for disclosure under Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB).
- To determine the funded status of the Fund using the Entry Age Normal actuarial funding method.

Organization of the Report

This Report is organized into five sections:

- The Summary contains a presentation of the conclusions of the valuation and a discussion of the reasons for changes since the last valuation. The conclusions and changes are presented separately for each group.
- Section 1 contains an outline of the Funds' provisions on which our calculations are based, statistical data regarding Fund participants, and a summary of the actuarial assumptions used to compute liabilities and costs.
- Section 2 presents information concerning the assets of the Funds. Computation of the actuarial value of the assets is shown.
- Section 3 contains details of the calculation of actuarial liabilities, gains and losses, and District cost. Part of this section is dedicated to the calculation of accrued liabilities under the Entry Age Normal cost method.

Section 4 contains pension plan information required under Statements No. 25 and 27 of the Governmental Accounting Standards Board.

District Normal Cost — Teachers

Since the last actuarial valuation as of October 1, 2005, the Teacher's normal cost (Total cost before §1-907.02(c) adjustment) has decreased as a percentage of active members' payroll and as a dollar amount. The table below shows a brief summary.

Valuation Date (Corresponding Fiscal Year)	District Normal Cost (% Payroll)	District Normal Cost ($ in Millions)
October 1, 2005 (FY 2007)	4.6%	$15.7
October 1, 2006 (FY 2008)	2.4%	$8.1

Change in District Normal Cost from October 1, 2005 to October 1, 2006 - Teachers

The table below summarizes the impact of actuarial experience and changes in benefits on Plan cost.

Valuation Date	District Normal Cost (% Payroll)	District Normal Cost ($ in Millions)
October 1, 2005	4.6%	$15.7
Change Due to Demographic Experience	(2.0)%	(7.6)
Change Due to Salary Experience	0.0%	0.0
Change Due to Asset Experience	(0.9)%	(2.8)
Change Due to New Entrants	0.7%	2.8
October 1, 2006	2.4%	$8.1

An analysis of the costs in the table demonstrates the following:

- **Demographic experience was favorable.**

Demographic experience arises from actual death, disability, termination, and retirement experience during the year in comparison with actuarial assumptions. In this case, the effects of data improvement and refinement efforts are also included.

Plan cost decreased by 2.0% from October 1, 2005 to October 1, 2006, where the latter figure is based on the Plan's continuing members (i.e., excluding those hired since the prior valuation), expected pay for the continuing members, and expected assets (the amount that would be on hand if the assets earned exactly 7.25% on an actuarial basis during the year between valuations). This decrease in Plan cost indicates that actual demographic experience primarily terminations) as well as data improvements during FY 2006 resulted in an actuarial gain of $7.6 million.

Detailed information regarding changes in membership of the Fund is shown in Section 1.2 of this Report.

• Pay increases in aggregate were as expected.
Total pay for continuing active employees was very close to the pay projected using valuation assumptions. The effect on actuarial liabilities and costs was correspondingly negligible.

• The rate of return on assets was higher than expected.
The return on a market value basis was 9.8% (net of expenses), but only part of this was realized due to the asset smoothing method used by the Fund, which defers part of each year's gain/loss. Therefore, the actuarially-determined rate of return on the value of Fund assets was 9.3% during FY 2006. This return was higher than the 7.25% assumed return, producing an actuarial gain that decreased costs to the Fund by $2.8 million, or 0.9% of payroll.

Further information on asset returns can be found in Section 3 of this report.

• New members to the Plan increased costs.
There were 631 new entrants and rehired members in the Teacher's Plan during FY 2006, approximately the same number as in the prior year. The long-term cost of these new members is significantly above the current cost of the plan (10.3% versus 2.4%). As a result, the Plan cost moved in the direction of the average new entrant cost, in this case increasing by 0.7% of pay, or $2.8 million.

Overall, actuarial gains resulted in a cost decrease from 4.6% to 2.4% of member payroll. The normal contribution decreased from $15.7 million to $8.1 million. A full development of costs and reasons for changes from October 1, 2005 to October 1, 2006 are shown in Sections 3.1 and 3.2 of this report.

District Normal Cost — Police Officers

Since the last actuarial valuation was performed as of October 1, 2005, the Police Officers' cost has decreased slightly as a percentage of active members' payroll, but has risen in dollars due to increases in payroll. The table below shows a brief summary.

Valuation Date (Corresponding Fiscal Year)	District Normal Cost (% Payroll)	($ in Millions)
October 1, 2005 (FY 2007)	38.0%	$97.9
October 1, 2006 (FY 2008)	37.7%	$99.2

Change in District Normal Cost from October 1, 2005 to October 1, 2006 — Police Officers

The table below summarizes the impact of actuarial experience and changes in benefits on Plan cost.

Valuation Date	District Normal Cost (% Payroll)	($ in Millions)
October 1, 2005	38.0%	$97.9
Change Due to Demographic Experience	1.1%	2.3
Change Due to Salary Experience	(0.7)%	(3.0)
Change Due to Asset Experience	(1.0)%	(2.5)
Change Due to New Entrants	0.3%	4.5
October 1, 2006	37.7%	$99.2

An analysis of the costs in the table reveals the following:

• Demographic experience combined with the effects of improved data quality, specifically pay information, resulted in an increase in the normal contribution rate of 1.1% of pay, a $2.3 million increase in the contribution. More detailed information regarding changes in membership is shown in Section 1.2 of this Report.

• Pay increases in aggregate were lower than expected.
There was a gain due to lower than expected pay increases, resulting in a decrease in the normal rate of 0.7% of payroll , or $3.0 million.

• The rate of return on assets was higher than expected.
As a result of investment gains, the normal cost decreased by 1.0% of payroll, or $2.5 million.

• New members to the Plan increased costs.
There were 227 new entrants and rehired members in the Police Officers Plan during the plan year. The long-term normal contribution rate for these new members is slightly above the current cost of the plan. As a result, the Plan cost moved in the direction of the average new entrant rate, increasing by 0.3%, or $4.5 million.

Overall, actuarial gains slightly outweighed losses and the impact of new entrants, causing the Funds' costs to decrease from 38.0% to 37.7% as a percentage of member payroll. Increased total payroll, however, caused the normal contribution to increase from $97.9 million to $99.2 million. A full development of costs and reasons for changes from October 1, 2005 to October 1, 2006 are shown in Sections 3.1 and 3.2 of this report.

District Normal Cost —Fire Fighters

Since the last actuarial valuation was performed as of October 1, 2005, the Fire Fighters' cost has decreased as a percentage of active members' payroll, but increased in dollars due to higher payroll. The table below shows a brief summary.

Valuation Date (Corresponding Fiscal Year)	District Normal Cost (% Payroll)	District Normal Cost ($ in Millions)
October 1, 2005 (FY 2007)	32.9%	$32.4
October 1, 2006 (FY 2008)	31.5%	$33.2

Change in District Normal Cost from October 1, 2005 to October 1, 2006 — Fire Fighters

The table below summarizes the impact of actuarial experience and changes in benefits on Plan cost.

Valuation Date	District Normal Cost (% Payroll)	District Normal Cost ($ in Millions)
October 1, 2005	32.9%	$32.4
Change Due to Demographic Experience	(0.4)%	1.0
Change Due to Salary Experience	(0.6)%	(0.9)
Change Due to Asset Experience	(1.0)%	(1.0)
Change Due to New Entrants	0.6%	1.7
October 1, 2006	31.5%	$33.2

An analysis of the costs in the table above reveals the following:

• Demographic experience was favorable.
Demographic experience, including the effects of data improvement initiatives, resulted in actuarial gains. The effect on cost as a percentage of payroll was a 0.4% decrease. An expected increase in payroll caused the normal cost to increase by $1.0 million.

The detailed data concerning changes in membership of the Fund is shown in Section 1.2 of this Report.

• Pay increases in aggregate were lower than expected.
There was a gain due to pay increases that were lower than expected based on the prior valuation. This decreased cost by 0.6% of payroll, or $0.9 million.

• The rate of return on assets was higher than expected.
Favorable investment experience resulted in a decrease in the normal cost of 1.0% of payroll, an actuarial gain of $1.0 million.

• New members to the Plan increased costs.
There were 85 new entrants and rehired members in the Fire Fighters' Plan during FY 2006. The long-term normal rate of these new members is higher than the current cost of the plan. As a result, the Plan cost moved in the direction of the average new entrant cost, in this case increasing by 0.6% of payroll, or $1.7 million.

Overall, actuarial gains slightly outweighed losses and the impact of new entrants, causing the Funds' costs to decrease from 32.9% to 31.5% as a percentage of member payroll. Increases in total payroll however, caused an increase in the normal contribution from $32.4 million to $33.2 million. A full development of costs and reasons for changes from October 1, 2005 to October 1, 2006 are shown in Sections 3.1 and 3.2 of this report.

Conclusion and Additional Information

Contribution rates are below their expected ultimate level as a percentage of payroll. The estimated long-term contribution rates for the current Tier of benefits are approximately 10%, 42% and 41% for the Teachers, Police Officers and Fire Fighters respectively. These rates were calculated as the normal contribution rates for the new entrants to each Plan. Assuming that recent hiring patterns continue and that populations in each group remain close to their current levels, rate increases are to be expected due to new members.

The asset return and inflation rates assumed for this valuation appear to constitute a considerable degree of conservatism. The real rate of return is defined as the nominal rate, less inflation. Thus, a real return of 2.25% is being assumed. To the extent that future real asset returns are in excess of this, there will be actuarial gains. Increasing the real return assumption would result in lower liabilities and costs. It would also decrease the probability of future gains. During 2007, a full experience study will be conducted to determine if any changes in assumptions are warranted. All demographic and economic assumptions, including return and inflation, will be investigated as part of this study. Any adjustments to current assumptions will be recommended for the next valuation, as of October 1, 2007.

The Governmental Accounting Standards Board (GASB) has recently announced proposed revisions to Standards 25 and 27, which would require "disclosure by governments that use the aggregate actuarial cost method of the funded status and present a multiyear schedule of funding progress using the entry age actuarial cost method as a surrogate." This is because the Aggregate method does not explicitly define an accrued liability. Accordingly, a determination of the funding ratios using the Entry Age Normal actuarial cost method for each plan has been included within this report. The actuarial assumptions (demographic and economic) used for these calculations are the same as were used to determine the required contributions.

This report has been prepared using generally accepted actuarial methods and assumptions. If there are any questions about this report, please feel free to contact us.

Respectfully submitted,

Gregory M. Stump, FSA Graham A. Schmidt, ASA Edward H. Friend, FSA

Section 1:
Summary of Fund Provisions, Member Statistics, and Actuarial Assumptions

Summary of Plans' Provisions: District of Columbia Teachers' Retirement Plan

Membership

Eligibility

Permanent, temporary, and probationary teachers for the District of Columbia public day schools become members automatically on their date of employment. Other employees covered by the Retirement of Public School Teachers Act — including librarians, principals, and counselors — also become members on their date of employment. Substitute teachers and employees of the Department of School Attendance and Work Permits are not covered. Some former D.C. teachers working at charter schools are eligible to remain in the Plan.

Member Contributions

Members hired before November 1, 1996 are required to contribute 7% of annual pay minus any pay received for summer school. Members hired on or after November 1, 1996 contribute 8% of annual pay minus pay received for summer school.

Members can also make voluntary contributions of up to 10% of annual pay toward an annuity in addition to any vested pension.

Interest is not credited to each member's accumulated contributions.

Service

School Service

One year of school service is granted for each year of employment with the D.C. public day schools.

Credited Service

Service granted or purchased in addition to school service.

Voluntary Retirement

Eligibility

For participants hired before November 1, 1996:

- Age 62 with 5 years of school service;
- Age 60 with 20 years of total service, including 5 years of school service; or
- Age 55 with 30 years of total service, including 5 years of school service.

For participants hired on or after November 1, 1996:

- Age 62 with 5 years of school service;
- Age 60 with 20 years of total service, including 5 years of school service; or
- Any age with 30 years of total service, including 5 years of school service.

Benefit Amount

For participants hired before November 1, 1996:

- 1.5% of high 3-year average pay times service up to 5 years, plus
- 1.75% of average pay times service between 5 and 10 years, plus
- 2.0% of average pay times service over 10 years.

For participants hired on or after November 1, 1996:

- 2.0% of average pay times service.

For all participants, there is a minimum benefit of 1.0% of average pay plus $25 for each year of service

Involuntary Retirement

Eligibility

Retired involuntarily for reasons other than misconduct or delinquency with:

- 25 years of total service, including 5 years of school service; or
- Age 50 with 20 years of total service, including 5 years of school service.

Benefit Amount

Voluntary Retirement benefit reduced 1/6% per month (2% per year) that date of retirement precedes age 55.

Disability Retirement Benefit

Eligibility

5 years of school service and a physical or mental disability that prevents the member from performing his/her job.

Benefit Amount

Voluntary Retirement benefit subject to a minimum of the lesser of 40% of average pay and the benefit that the member would receive projecting service to age 60.

Lump Sum Death Benefit

Eligibility

Death before completion of 18 months of school service or death without an eligible spouse, child, or parent.

Benefit Amount

Refund of paid contributions

Installment Benefit Payable upon Death — Spouse Only

Eligibility

Death before retirement and married for at least two years or have a child by the marriage.

Benefit Amount

55% of the Voluntary Retirement benefit subject to the minimums specified in the Disability Retirement Benefit.

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

For the spouse, as described above; for the children, unmarried and under 18, 22 if full-time student, or any child dependent because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefits.

Benefit Amount

Spouse benefit as described above, plus a benefit per child of the smallest of:

- 60% of average pay divided by the number of eligible children;
- $5,640 (if hired before January 1, 1980), $5,448 (if hired between January 1, 1980 and October 31, 1996) or $5,400 (if hired on or after November 1, 1996) per child; or
- $16,920 (if hired before January 1, 1980), $16,344 (if hired between January 1, 1980 and October 31, 1996), or $16,200 (if hired on or after November 1, 1996), divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

Per child, the smallest of:

- 75% of average pay divided by the number of eligible children;
- $6,876 (if hired before January 1, 1980), $6,636 (if hired between January 1, 1980 and October 31, 1996) or $6,552 (if hired on or after November 1, 1996) per child; or
- $20,628 (if hired before January 1, 1980), $19,908 (if hired between January 1, 1980 and October 31, 1996) or $19,656 (if hired on or after November 1, 1996) divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Surviving Parents Only

Eligibility

Death before retirement and no eligible spouse or children, and parents receive at least one-half of their total income from member.

Benefit Amount

Spouse benefit as described above.

Deferred Vested Benefit

Eligibility

5 years of school service.

Benefit Amount

Voluntary Retirement Benefit beginning at age 62.

Form of Payment Options

Normal Form of Payment

Unreduced Annuity.

Reduced Annuity with a maximum (55%) Survivor Annuity (to Spouse)

The original benefit is reduced by 2.5% of annual pension up to $3,600, plus 10% of any amount over $3,600.

Reduced Annuity with a Partial Survivor Annuity (to Spouse)

A joint and survivor annuity with a benefit payable to the spouse of between $1 and 54% of the unreduced retirement benefit. The original benefit is reduced by dividing the amount of the survivor's annuity by 55%, then reducing the original benefit by 2.5% of this amount up to $3,600, plus 10% of any amount over $3,600.

Reduced Annuity with a Survivor Annuity to a person with an "Insurable Interest"

A joint and 55% survivor annuity with the original benefit reduced 10% plus an additional 5% for each full 5 years, up to 25 years, the survivor is younger, with a total reduction of 40% for any survivor who is 25 or more years younger.

Reduced Annuity with an Insurance Benefit

Benefits may be reduced and the balance used to purchase life insurance.

Cost-of-Living Adjustments

All participants receive an increase effective each March based on the annual change in the Consumer Price Index (all items — U.S. City average) from December to December. The annual increase is capped at 3% for members hired on or after November 1, 1996.

Retirement Program for District of Columbia Police Officers and Firefighters

Membership

Eligibility

All police officers and firefighters of the District of Columbia automatically become members on their date of employment. Police Cadets are not eligible.

Member Contributions

Members hired before November 10, 1996 are required to contribute 7% of annual salary, including any differential for special assignment, but excluding overtime, longevity, holiday, or military pay. Members hired on or after November 10, 1996 contribute 8% of annual salary, including any differential for special assignment, but excluding overtime, holiday, or military pay.

Interest is not credited to each member's accumulated contributions.

Service

Departmental Service

Each full year and additional months of employment with either the Metropolitan Police Force or the D.C. Fire Department.

Credited Service

Service granted or purchased in addition to departmental service.

Average Pay

For those hired before February 15, 1980, basic pay for the highest 12 consecutive months. For those hired on or after February 15, 1980, basic pay for the highest 36 consecutive months divided by three.

Longevity Pay (Police Only)

Members who complete 25 years of active service prior to retirement are entitled to an additional 15% of their basic compensation. Members who complete 30 years of active service are entitled to an additional 20% of their basic pay.

Normal Retirement Benefit

Eligibility

For participants hired before February 15, 1980:

- 20 years of service

For participants hired before November 10, 1996:

- Age 60; or
- Age 50 with 25 years of departmental service; or

For participants hired on or after November 10, 1996:

- Age 60; or
- No age requirement with 25 years of service.

Benefit Amount

For participants hired before November 10, 1996:

- 2.5% of average pay times departmental service up to 25 years (20 years if hired before February 15, 1980), plus
- 3.0% of average pay times departmental service over 25 (or 20) years, plus
- 2.5% of average pay times credited service.

For participants hired on or after November 10, 1996:

- 2.5% of average pay times total service.
- For all participants, there is a maximum benefit of 80% of average pay.

Service-Related Disability Retirement Benefit

Eligibility

Disabled as a result of an illness or injury in the line of duty.

Benefit Amount

For participants hired before February 15, 1980

- 2.5% of average pay times total years of service, subject to a minimum benefit of 66-2/3% of average pay and subject to a maximum benefit of 70% of average pay.

For participants hired on or after February 15, 1980

- 70% of final pay times percentage of disability, subject to a minimum benefit of 40% of final pay.

Non-Service-Related Disability Retirement Benefit

Eligibility

5 years of departmental service and a physical or mental disability that prevents the member from performing his/her job.

Benefit Amount

For participants hired before February 15, 1980

- 2.0% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

For participants hired on or after February 15, 1980

- 70% of final pay times percentage of disability, subject to a minimum benefit of 30% of final pay.

Lump Sum Death Benefit

Eligibility

Death occurring in the line of duty, not resulting from willful misconduct, an intention to bring about his/her own death, or drunkenness.

Benefit Amount

$50,000.

Installment Benefit Payable upon Death — Spouse Only, Member Not Killed in Line of Duty after December 29, 1993

Eligibility

Death and, if retired, married for at least one year or have a child by the marriage.

Benefit Amount

40% of the greater of average pay and the salary for step 6 salary class 1 of the D.C. Police and Fireman's Salary Act in effect, adjusted for cost-of-living increases if death occurs after retirement. The benefit cannot exceed the rate of pay at death (or retirement if death occurs after retirement.)

Installment Benefit Payable upon Death — Spouse Only, Member Killed in Line of Duty after December 29, 1993

Eligibility

Death (killed in line of duty).

Benefit Amount

100% of final pay.

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

For the spouse, as described above; for the children, unmarried and under 18, 22 if full-time student, or any child dependent because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefits.

Benefit Amount

Spouse benefit as described above, plus, provided death does not occur in the line of duty, a benefit per child of the smallest of:

- 60% of average pay divided by the number of eligible children;
- $3,312 (if hired before November 10, 1996), or $3,288 (if hired on or after November 10, 1996); or
- $9,936 (if hired before November 10, 1996), or $9,864 (if hired on or after November 10, 1996), divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

Per child, 75% of average pay divided by the number of eligible children, adjusted for cost-of-living increases.

Refund of Contributions

Eligibility

Death before retirement and no eligible spouse or children.

Benefit Amount

All contributions will be refunded to a named, or statutorily-designated if none named, beneficiary.

Deferred Vested Benefit

Eligibility

5 years of departmental service.

Benefit Amount

Normal Retirement Benefit beginning at age 55.

Form of Payment Options

Normal Form of Payment

Single Life Annuity.

Additional Survivor Benefit

The original benefit is reduced 10%. This 10% amount is reduced by 5% for each full 5 years the survivor is younger (but not more than 40%) and is added to the survivor's benefit.

Cost-of-Living Adjustments

Employees (not beneficiaries) who retired prior to February 15, 1980, receive the same percentage increase as active employees' salary increases. All other retired participants receive an increase each March based on the annual change in the Consumer Price Index (All Urban Consumers) from December to December. The annual increase is limited to 3% for members hired on or after November 10, 1996.

1.2: Participant Data as of October 1, 2006

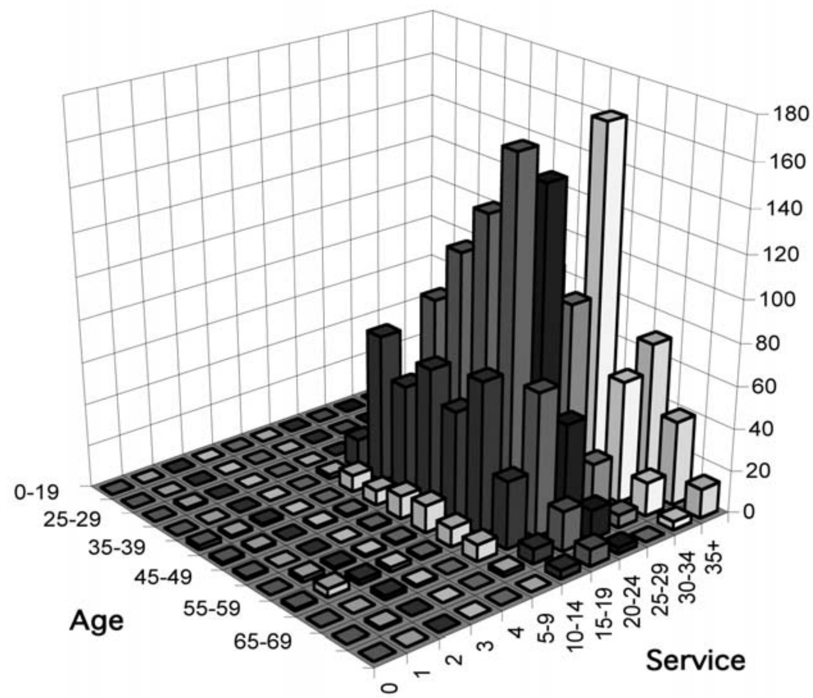
Active Participants	Teachers	Police Officers	Fire Fighters
Number	5,088	3,747	1,509
Average Age	45.9	38.9	38.9
Average Service	11.9	12.5	12.9
Average Pay	$64,369	$65,001	$64,508

Inactive Participants

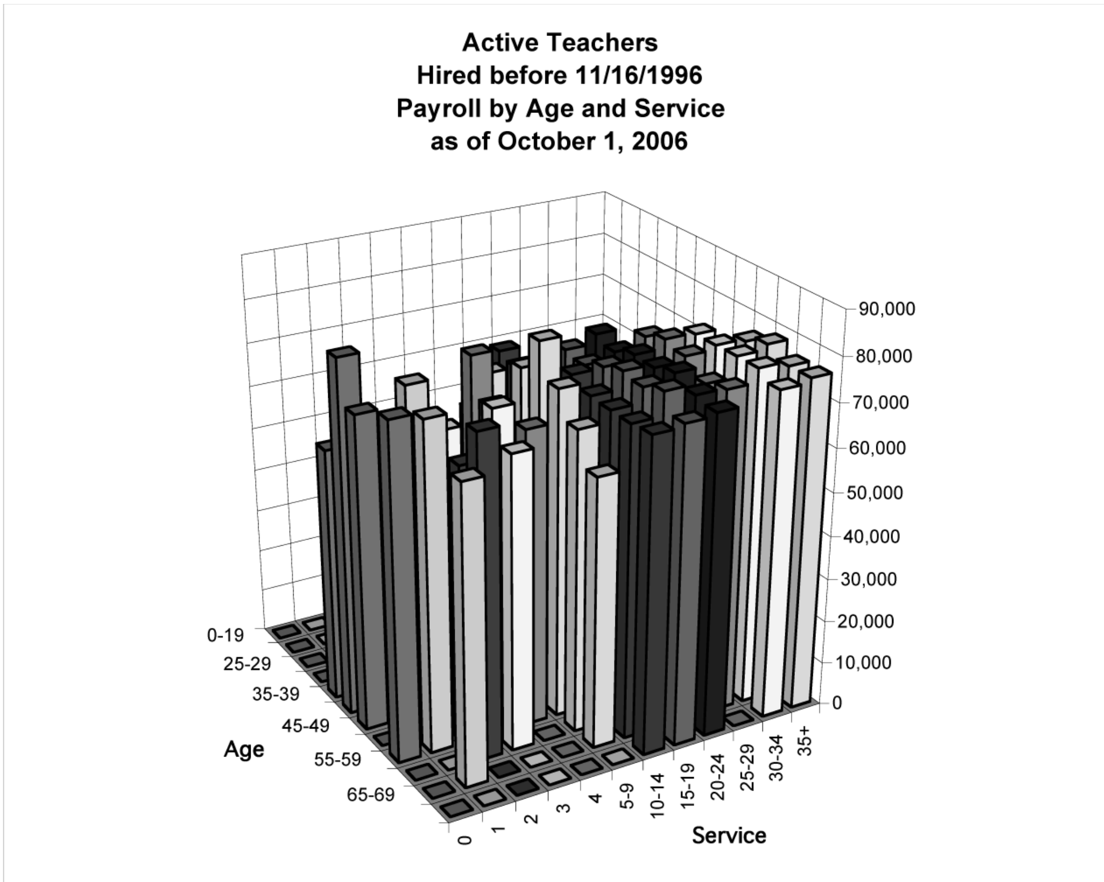
Service Retired	District	Total[1]	District	Total*	District	Total*
Number	2,017	4,907	549	3,135	166	933
Average Age	63.9	71.5	55.5	62.3	55.8	65.2
Average Benefit	$7,493	$38,250	$8,212	$47,046	$11,924	$55,019
Beneficiaries						
Number	71	457	181	1,309	48	491
Average Age	47.9	69.4	31.3	65.2	28.7	69.8
Average Benefit	$4,442	$17,483	$4,045	$22,781	$4,413	$24,638
Disabled						
Number	87	455	217	1,283	46	500
Average Age	57.2	70.7	44.8	63.8	51.2	69.2
Average Benefit	$7,219	$26,204	$17,061	$38,934	$11,711	$45,363
Terminated Vested						
Number	612	981	79	215	15	29
Average Age	45.7	52.6	41.5	54.3	42.1	49.3
Average Benefit	$4,827	$7,977	$8,952	$11,672	$5,393	$11,153

1 Federal and District payments combined.

Active Teachers
Hired before 11/16/1996
by Age and Service
as of October 1, 2006

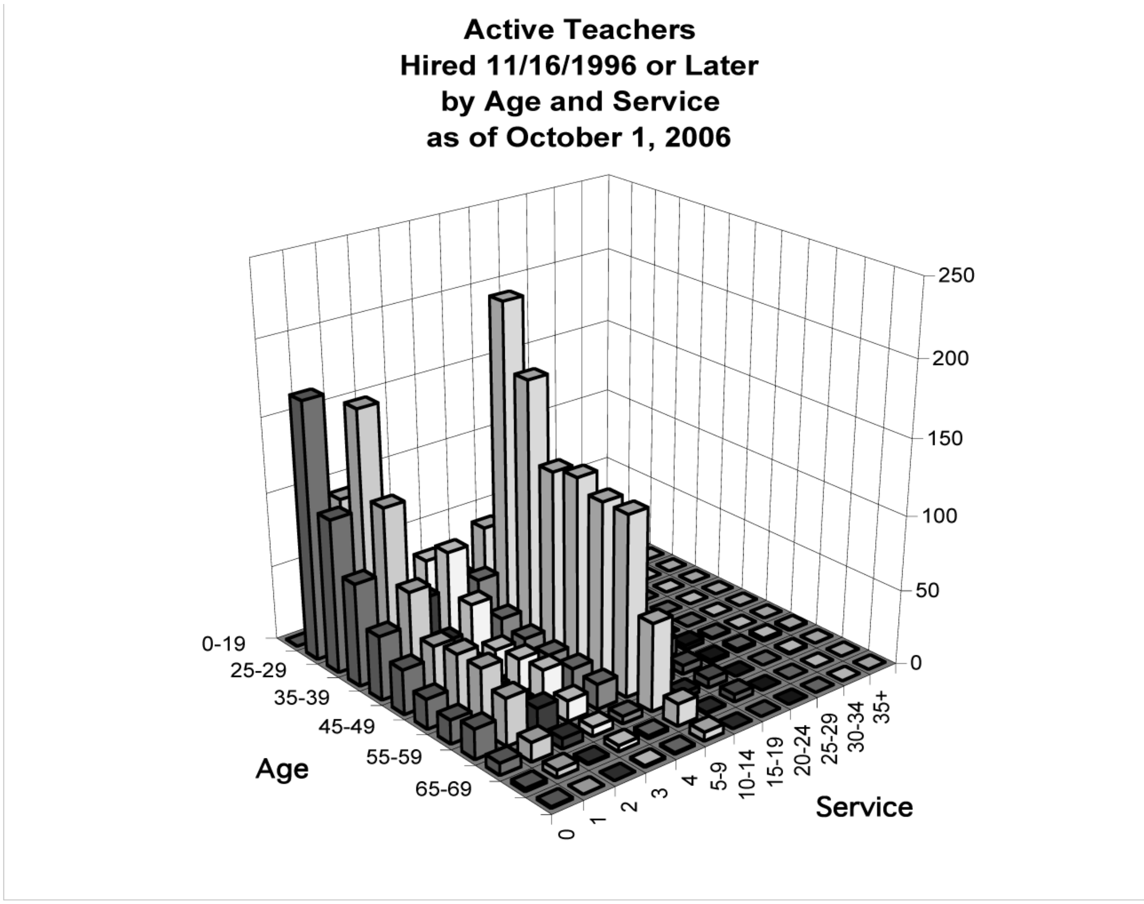


Service / **Age**	**0**	**1**	**2**	**3**	**4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35+**	**Total**
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	1	0	0	0	0	0	0	0	0	0	0	1
30-34	0	0	0	0	0	2	14	0	0	0	0	0	16
35-39	2	1	1	0	0	8	70	13	0	0	0	0	95
40-44	1	1	0	1	1	7	52	88	18	0	0	0	169
45-49	1	0	0	0	1	11	66	115	79	12	0	0	285
50-54	0	2	1	1	1	13	52	137	139	103	43	0	492
55-59	1	4	2	2	1	9	72	168	151	93	170	38	711
60-64	0	0	2	1	0	8	32	68	48	24	58	71	312
65-69	0	1	0	0	0	2	7	19	14	6	16	40	105
70+	0	0	0	0	0	0	4	8	3	0	4	14	33
Total	5	10	6	5	4	60	369	616	452	238	291	163	2,219



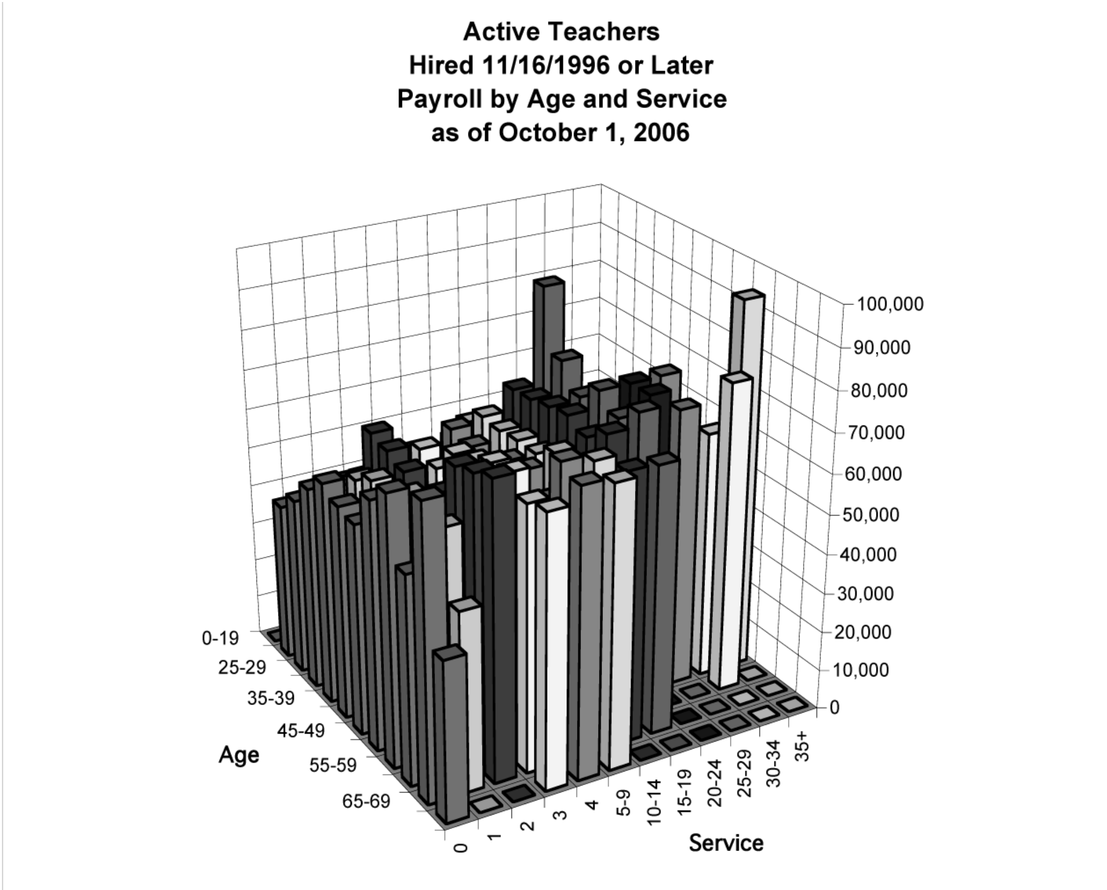
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	40,109	0	0	0	0	0	0	0	0	0	0	40,109
30-34	0	0	0	0	0	56,626	68,738	0	0	0	0	0	67,224
35-39	58,339	55,972	60,705	0	0	67,687	67,580	66,909	0	0	0	0	67,108
40-44	81,318	63,079	0	60,695	75,905	61,622	67,772	72,696	74,778	0	0	0	70,886
45-49	71,826	0	0	0	67,173	74,206	70,367	71,803	73,288	75,256	0	0	72,104
50-54	0	79,213	43,939	54,980	63,079	82,633	73,832	74,003	75,216	77,197	76,845	0	75,372
55-59	76,402	74,900	63,403	73,961	67,806	75,014	71,897	75,752	74,926	76,002	76,892	76,320	75,458
60-64	0	0	73,522	67,173	0	69,041	71,595	74,978	76,442	72,552	77,084	78,230	75,615
65-69	0	67,806	0	0	0	61,742	71,487	76,746	74,362	73,995	77,075	76,009	75,319
70+	0	0	0	0	0	0	71,989	72,702	73,381	0	75,066	76,115	74,412
Total	69,245	68,499	63,082	66,154	68,491	72,126	70,343	73,908	74,856	76,083	76,908	77,058	74,227

Average Age: 54.4 Average Service: 21.8



Active Teachers Hired 11/16/1996 or Later by Age and Service as of October 1, 2006

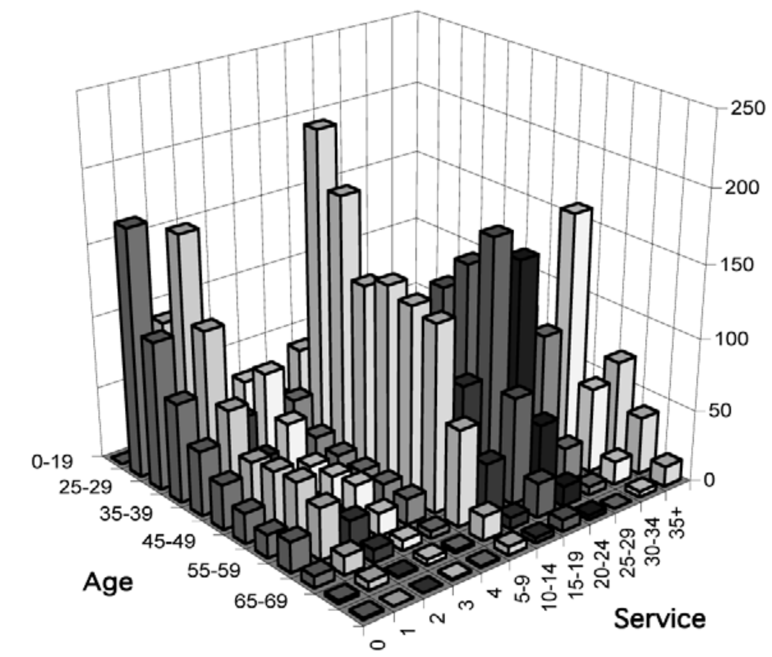
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	172	102	9	1	0	0	0	0	0	0	0	0	284
25-29	103	168	29	55	36	64	0	0	0	0	0	0	455
30-34	69	112	44	69	43	220	0	0	0	0	0	0	557
35-39	43	65	24	42	25	177	11	3	0	0	0	0	390
40-44	30	38	18	20	20	125	8	5	0	0	0	0	264
45-49	20	42	11	23	18	129	10	11	0	0	0	0	264
50-54	16	42	11	25	18	121	10	12	3	1	0	0	259
55-59	20	32	17	14	17	121	9	6	2	2	2	1	243
60-64	8	13	7	6	5	59	4	6	0	0	1	0	109
65-69	2	5	1	4	2	15	1	5	0	0	0	0	35
70+	1	0	0	1	1	6	0	0	0	0	0	0	9
Total	484	619	171	260	185	1037	53	48	5	3	3	1	2,869



Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	40,017	41,295	43,091	45,524	0	0	0	0	0	0	0	0	40,593
25-29	45,038	44,191	47,455	47,388	46,746	51,393	0	0	0	0	0	0	46,192
30-34	51,450	50,537	61,796	55,064	52,781	59,029	0	0	0	0	0	0	55,628
35-39	56,367	55,220	60,623	59,225	62,368	63,690	68,697	92,532	0	0	0	0	61,080
40-44	54,086	58,487	58,751	57,642	61,021	63,227	69,249	77,155	0	0	0	0	61,057
45-49	53,234	55,725	54,166	64,380	55,003	64,037	70,440	71,128	0	0	0	0	61,437
50-54	62,611	61,715	60,254	65,823	64,010	64,048	71,569	75,765	75,724	75,905	0	0	64,603
55-59	67,712	56,761	69,948	68,812	65,251	67,432	69,407	72,110	75,905	70,567	62,760	93,751	66,507
60-64	52,321	61,024	71,782	69,945	61,288	67,705	73,338	76,685	0	0	78,381	0	66,669
65-69	72,874	45,179	73,961	66,215	73,961	72,216	67,806	67,412	0	0	0	0	67,043
70+	39,971	0	0	67,806	71,826	70,455	0	0	0	0	0	0	66,926
Total	47,817	49,881	58,595	57,437	56,809	62,799	70,105	74,683	75,796	72,346	67,967	93,751	56,744

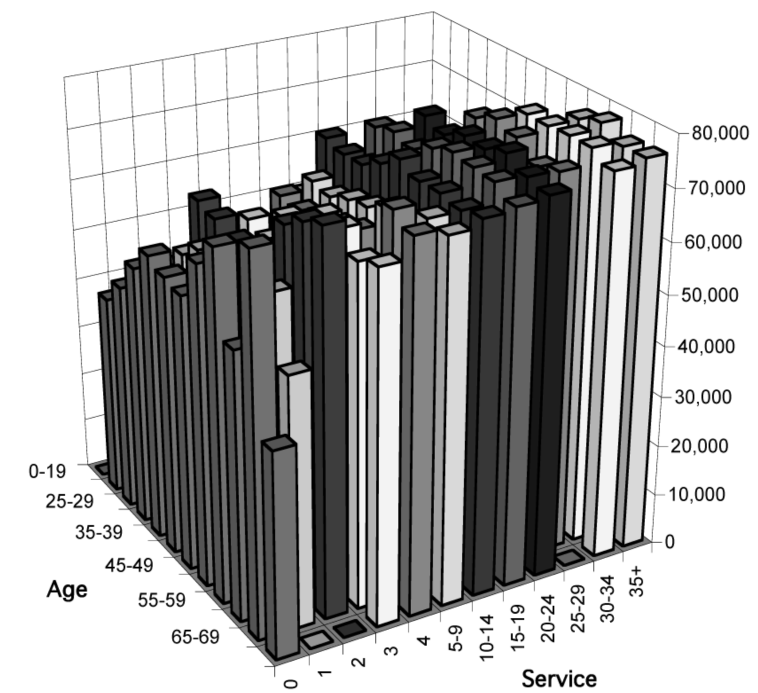
Average Age: 39.3 Average Service: 4.3

All Active Teachers
by Age and Service
as of October 1, 2006



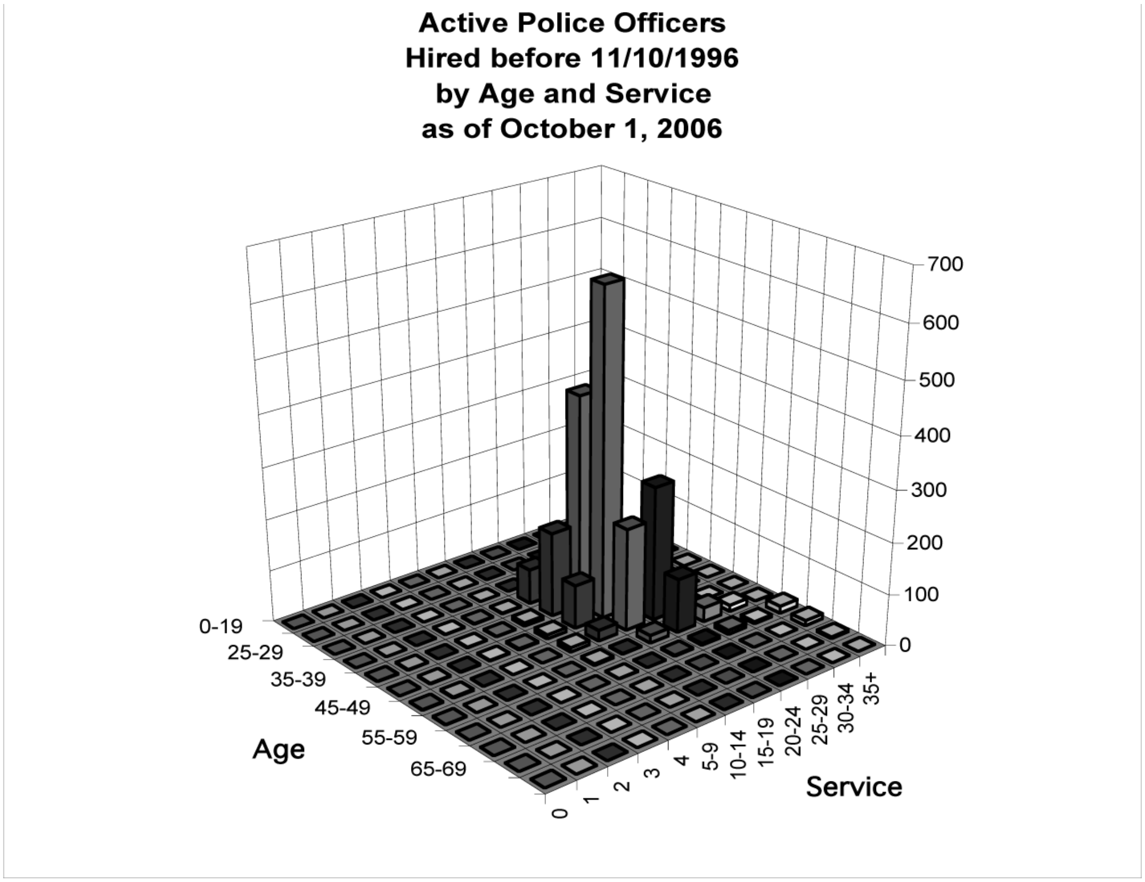
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	172	102	9	1	0	0	0	0	0	0	0	0	284
25-29	103	169	29	55	36	64	0	0	0	0	0	0	456
30-34	69	112	44	69	43	222	14	0	0	0	0	0	573
35-39	45	66	25	42	25	185	81	16	0	0	0	0	485
40-44	31	39	18	21	21	132	60	93	18	0	0	0	433
45-49	21	42	11	23	19	140	76	126	79	12	0	0	549
50-54	16	44	12	26	19	134	62	149	142	104	43	0	751
55-59	21	36	19	16	18	130	81	174	153	95	172	39	954
60-64	8	13	9	7	5	67	36	74	48	24	59	71	421
65-69	2	6	1	4	2	17	8	24	14	6	16	40	140
70+	1	0	0	1	1	6	4	8	3	0	4	14	42
Total	489	629	177	265	189	1,097	422	664	457	241	294	164	5,088

All Active Teachers
Payroll by Age and Service
as of October 1, 2006

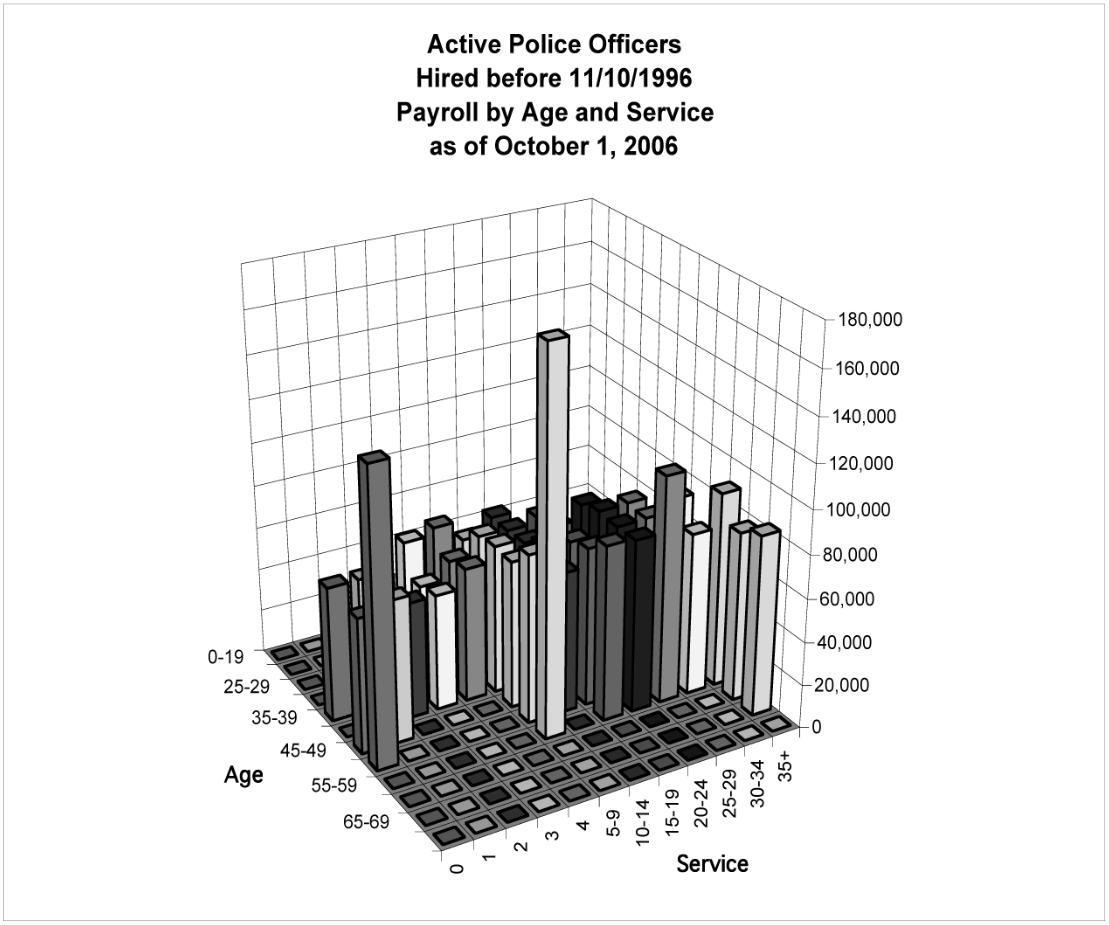


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	40,017	41,295	43,091	45,524	0	0	0	0	0	0	0	0	40,593
25-29	45,038	44,167	47,455	47,388	46,746	51,393	0	0	0	0	0	0	46,179
30-34	51,450	50,537	61,796	55,064	52,781	59,007	68,738	0	0	0	0	0	55,951
35-39	56,455	55,231	60,626	59,225	62,368	63,863	67,732	71,713	0	0	0	0	62,261
40-44	54,965	58,605	58,751	57,787	61,729	63,142	67,969	72,936	74,778	0	0	0	64,893
45-49	54,120	55,725	54,166	64,380	55,643	64,836	70,377	71,744	73,288	75,256	0	0	66,975
50-54	62,611	62,510	58,894	65,406	63,961	65,851	73,467	74,145	75,227	77,184	76,845	0	71,658
55-59	68,126	58,777	69,259	69,456	65,393	67,957	71,620	75,626	74,939	75,888	76,728	76,767	73,178
60-64	52,321	61,024	72,168	69,549	61,288	67,864	71,788	75,117	76,442	72,552	77,106	78,230	73,298
65-69	72,874	48,950	73,961	66,215	73,961	70,984	71,027	74,802	74,362	73,995	77,075	76,009	73,250
70+	39,971	0	0	67,806	71,826	70,455	71,989	72,702	73,381	0	75,066	76,115	72,808
Total	48,036	50,177	58,747	57,601	57,057	63,309	70,313	73,964	74,867	76,036	76,817	77,160	64,369

Average Age: 45.9 Average Service: 11.9



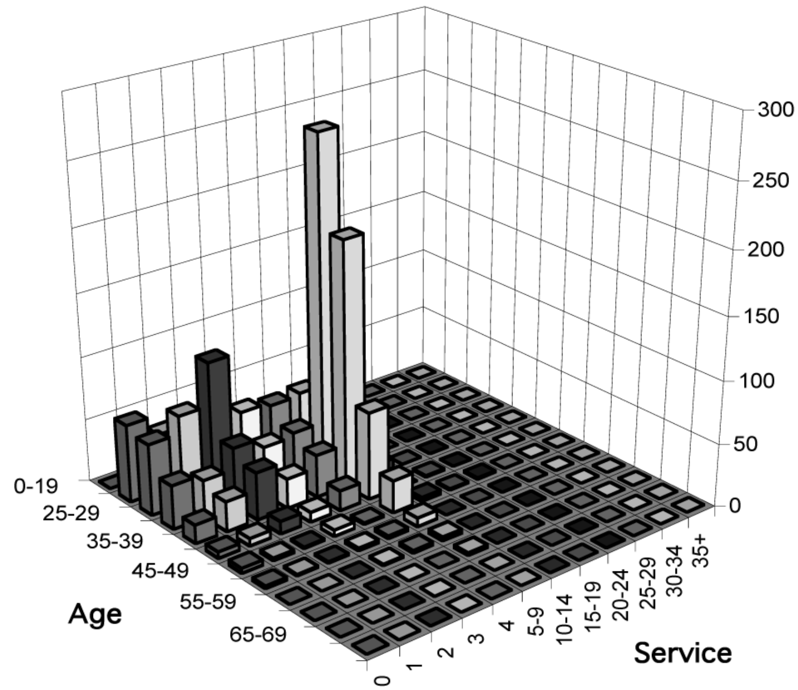
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	1	1	1	68	0	0	0	0	0	71
35-39	1	1	0	1	1	6	164	411	0	0	0	0	585
40-44	0	1	1	1	2	8	85	631	116	0	0	0	845
45-49	1	2	0	0	0	8	21	199	261	7	0	0	499
50-54	1	0	0	0	0	3	1	15	105	28	12	0	165
55-59	0	0	0	0	0	1	0	2	3	8	4	14	32
60-64	0	0	0	0	0	0	0	0	0	0	0	10	10
65-69	0	0	0	0	0	0	0	0	0	0	0	3	3
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	3	4	1	3	4	27	339	1,258	485	43	16	27	2,210



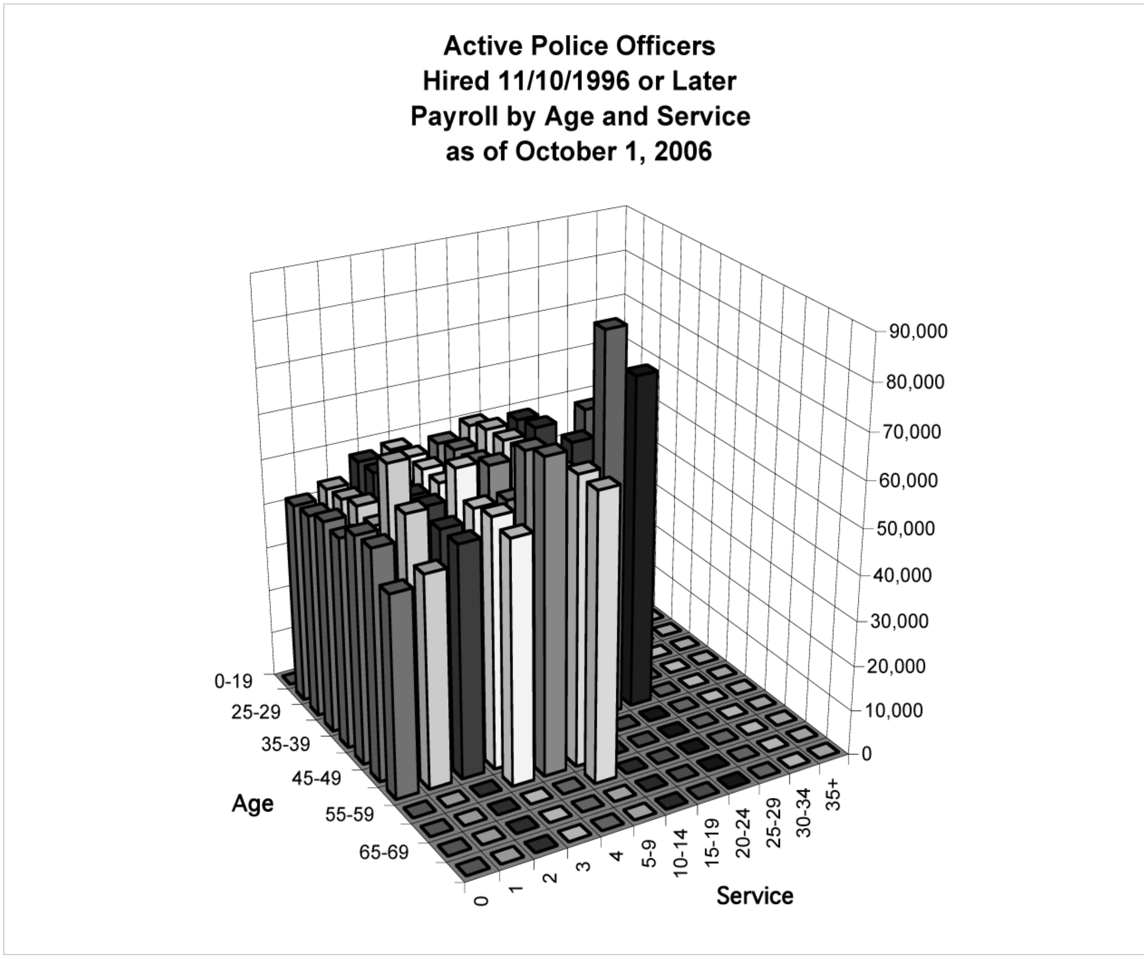
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	65,407	68,676	59,315	66,398	0	0	0	0	0	66,316
35-39	62,292	62,292	0	51,248	59,315	67,360	66,499	69,445	0	0	0	0	68,525
40-44	0	68,676	53,809	53,809	62,292	69,071	67,016	70,870	77,529	0	0	0	71,316
45-49	62,292	66,157	0	0	0	68,379	72,373	70,222	80,721	81,109	0	0	75,895
50-54	135,220	0	0	0	0	78,124	65,407	73,478	79,811	80,203	85,456	0	79,930
55-59	0	0	0	0	0	175,000	0	81,132	79,993	105,283	75,274	90,453	93,342
60-64	0	0	0	0	0	0	0	0	0	0	0	78,644	78,644
65-69	0	0	0	0	0	0	0	0	0	0	0	83,658	83,658
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	86,601	65,821	53,809	56,821	63,144	73,054	66,969	70,349	79,756	85,017	82,911	85,324	72,462

Average Age: 43.1 Average Service: 18.1

Active Police Officers
Hired 11/10/1996 or Later
by Age and Service
as of October 1, 2006

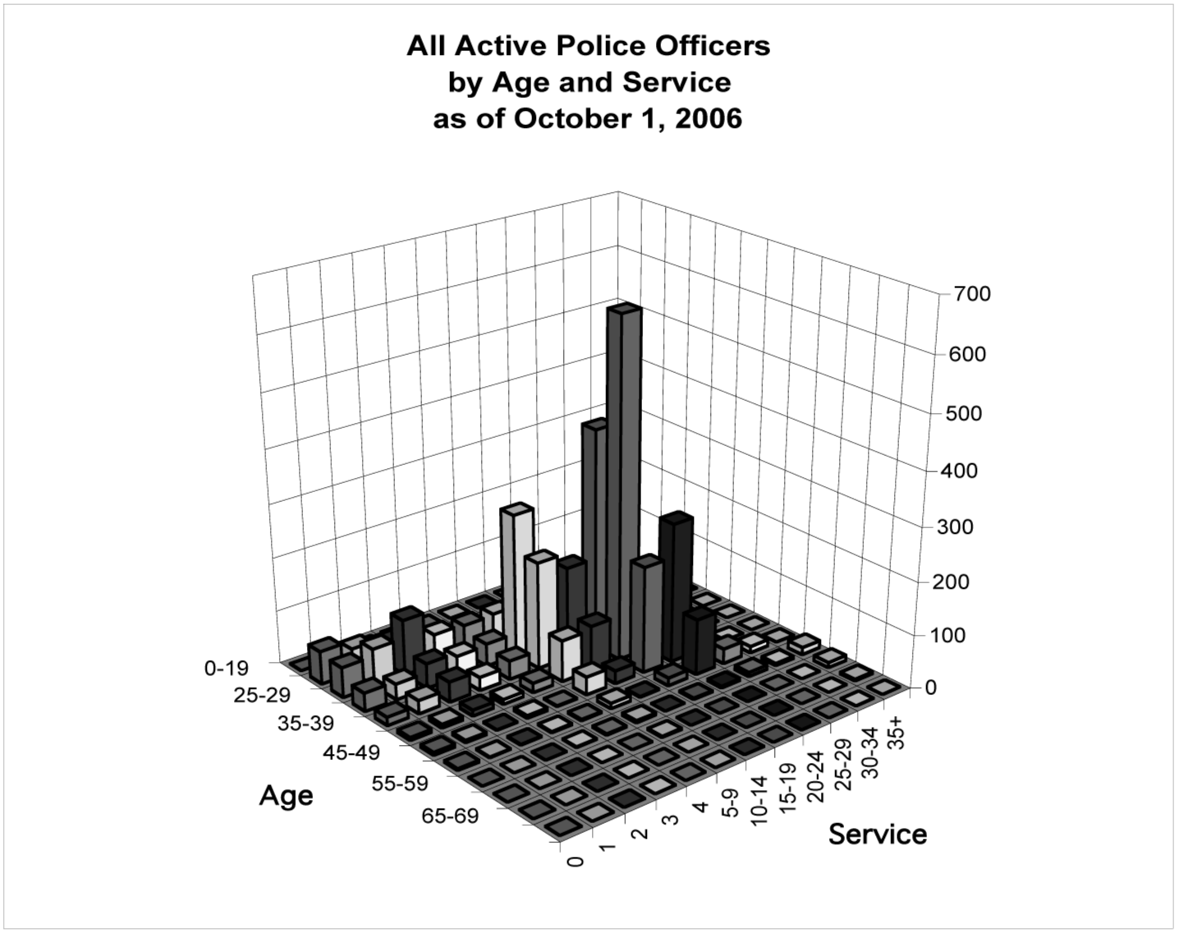


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	62	46	35	7	0	0	0	0	0	0	0	0	150
25-29	57	71	105	57	54	56	0	0	0	0	0	0	400
30-34	35	30	47	39	42	267	6	0	0	0	0	0	466
35-39	15	24	38	24	34	195	8	0	0	0	0	0	338
40-44	5	6	10	8	16	70	0	1	0	0	0	0	116
45-49	4	2	1	5	1	26	3	1	1	0	0	0	44
50-54	2	1	1	2	2	7	0	0	0	0	0	0	15
55-59	0	0	0	1	2	3	0	0	0	0	0	0	6
60-64	0	0	0	0	0	2	0	0	0	0	0	0	2
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	180	180	237	143	151	626	17	2	1	0	0	0	1,537

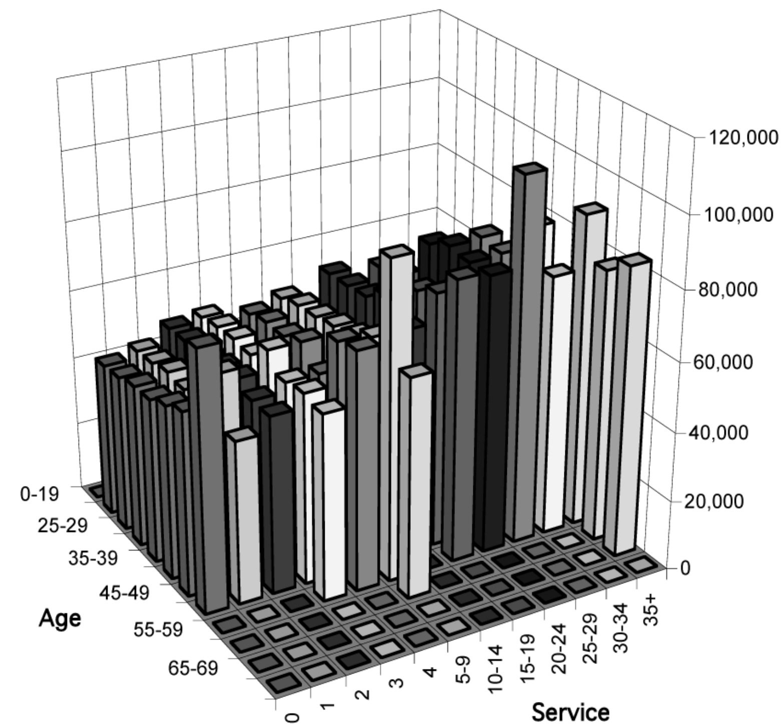


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	44,611	46,596	50,969	51,980	0	0	0	0	0	0	0	0	47,047
25-29	45,394	47,259	51,432	53,140	54,571	56,943	0	0	0	0	0	0	51,270
30-34	47,176	48,868	51,292	53,438	55,996	58,817	59,315	0	0	0	0	0	55,845
35-39	46,721	47,546	52,068	53,353	56,134	59,213	60,374	0	0	0	0	0	56,329
40-44	50,388	63,698	52,911	59,412	58,313	59,862	0	65,407	0	0	0	0	58,856
45-49	50,908	56,196	51,248	53,835	53,809	60,067	62,745	84,604	73,610	0	0	0	59,056
50-54	44,611	46,842	51,248	55,155	67,042	60,514	0	0	0	0	0	0	57,020
55-59	0	0	0	53,809	68,676	63,428	0	0	0	0	0	0	63,574
60-64	0	0	0	0	0	63,111	0	0	0	0	0	0	63,111
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	45,834	48,041	51,499	53,608	56,063	58,996	60,419	75,006	73,610	0	0	0	54,272

Average Age: 32.9 Average Service: 4.5



Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	62	46	35	7	0	0	0	0	0	0	0	0	150
25-29	57	71	105	57	54	56	0	0	0	0	0	0	400
30-34	35	30	47	40	43	268	74	0	0	0	0	0	537
35-39	16	25	38	25	35	201	172	411	0	0	0	0	923
40-44	5	7	11	9	18	78	85	632	116	0	0	0	961
45-49	5	4	1	5	1	34	24	200	262	7	0	0	543
50-54	3	1	1	2	2	10	1	15	105	28	12	0	180
55-59	0	0	0	1	2	4	0	2	3	8	4	14	38
60-64	0	0	0	0	0	2	0	0	0	0	0	10	12
65-69	0	0	0	0	0	0	0	0	0	0	0	3	3
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	183	184	238	146	155	653	356	1260	486	43	16	27	3,747

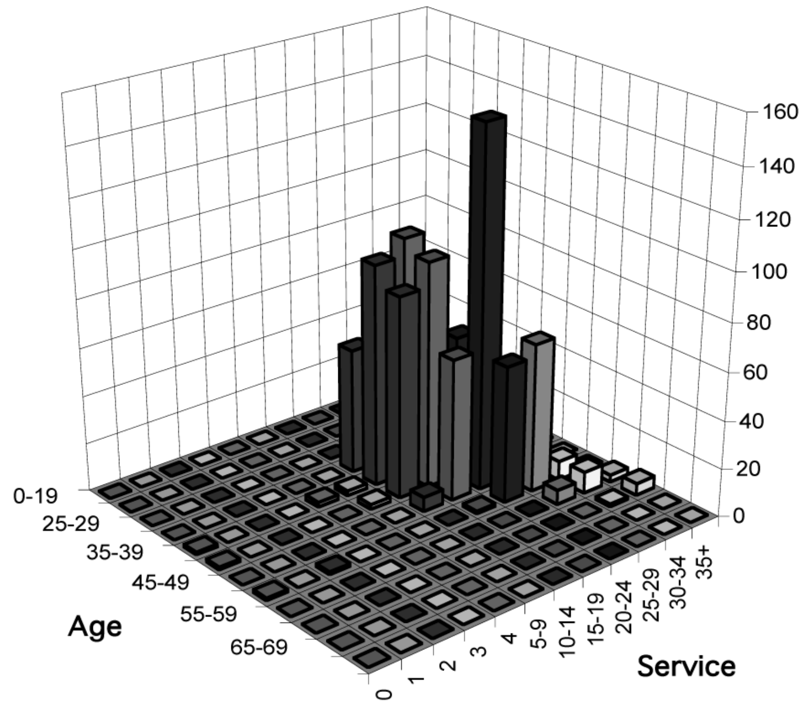


All Active Police Officers
Payroll by Age and Service
as of October 1, 2006

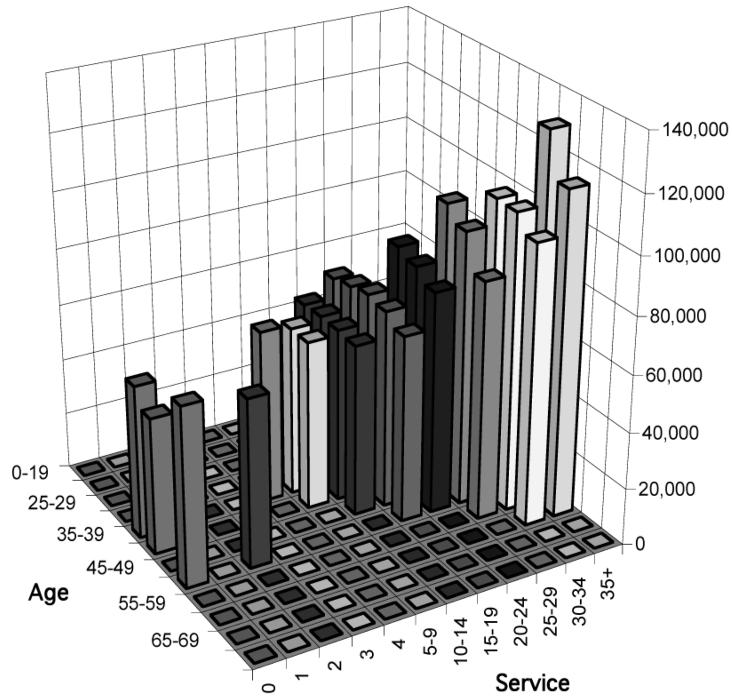
Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	44,611	46,596	50,969	51,980	0	0	0	0	0	0	0	0	47,047
25-29	45,394	47,259	51,432	53,140	54,571	56,943	0	0	0	0	0	0	51,270
30-34	47,176	48,868	51,292	53,737	56,291	58,819	65,824	0	0	0	0	0	57,230
35-39	47,695	48,136	52,068	53,269	56,225	59,456	66,214	69,445	0	0	0	0	64,059
40-44	50,388	64,409	52,993	58,790	58,755	60,807	67,016	70,861	77,529	0	0	0	69,812
45-49	53,185	61,177	51,248	53,835	53,809	62,023	71,170	70,293	80,694	81,109	0	0	74,530
50-54	74,814	46,842	51,248	55,155	67,042	65,797	65,407	73,478	79,811	80,203	85,456	0	78,021
55-59	0	0	0	53,809	68,676	91,321	0	81,132	79,993	105,283	75,274	90,453	88,642
60-64	0	0	0	0	0	63,111	0	0	0	0	0	78,644	76,055
65-69	0	0	0	0	0	0	0	0	0	0	0	83,658	83,658
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	46,502	48,427	51,508	53,674	56,246	59,578	66,656	70,356	79,743	85,017	82,911	85,324	65,001

Average Age: 38.9 Average Service: 12.5

Active Fire Fighters
Hired before 11/10/1996
by Age and Service
as of October 1, 2006

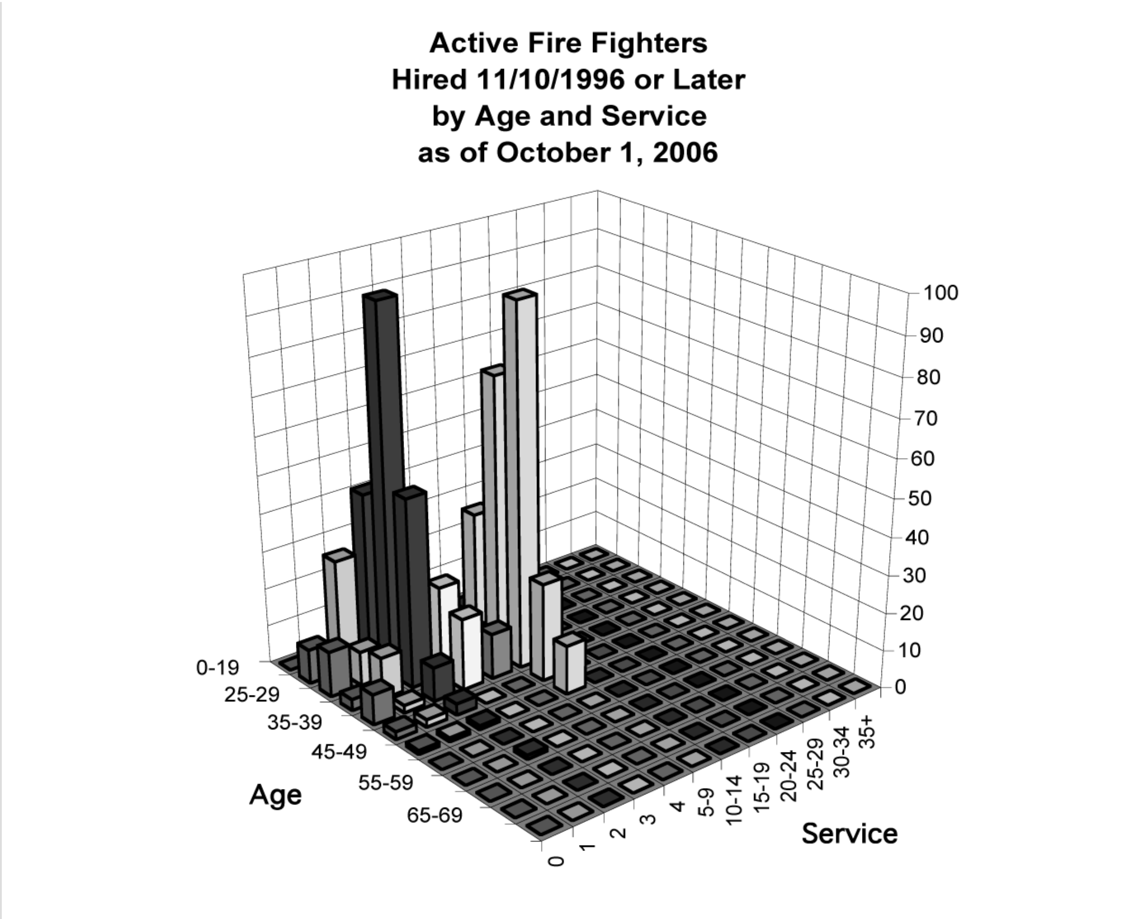


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	52	2	0	0	0	0	54
35-39	1	0	0	0	2	2	92	99	0	0	0	0	196
40-44	1	0	0	0	0	2	84	94	59	0	0	0	240
45-49	0	0	0	0	0	0	6	59	149	23	0	0	237
50-54	1	0	1	0	0	0	0	1	57	62	8	0	130
55-59	0	0	0	0	0	0	0	0	0	6	9	3	18
60-64	0	0	0	0	0	0	0	0	0	0	1	5	6
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	3	0	1	0	2	4	234	255	265	91	18	8	881

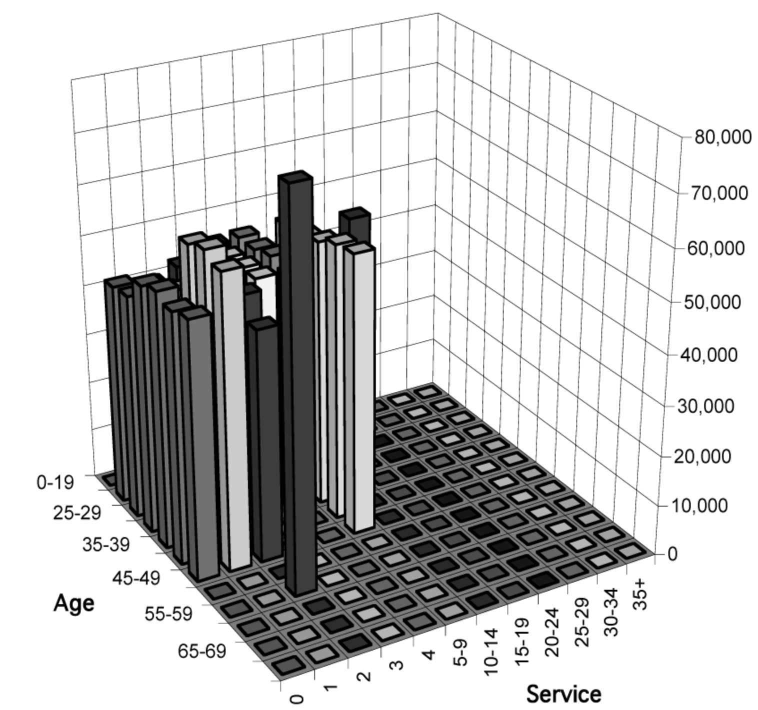


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	61,052	67,812	0	0	0	0	61,302
35-39	54,100	0	0	0	61,497	59,935	61,607	69,464	0	0	0	0	65,519
40-44	48,135	0	0	0	0	59,978	61,502	71,292	85,457	0	0	0	71,157
45-49	0	0	0	0	0	0	60,843	70,077	82,948	102,037	0	0	81,037
50-54	63,046	0	59,510	0	0	0	0	66,198	78,586	96,829	105,491	0	88,581
55-59	0	0	0	0	0	0	0	0	0	84,281	105,092	130,014	102,309
60-64	0	0	0	0	0	0	0	0	0	0	99,221	114,460	111,920
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	55,094	0	59,510	0	61,497	59,957	61,426	70,254	82,568	97,318	104,943	120,293	75,442

Average Age: 44.0 Average Service: 19.0

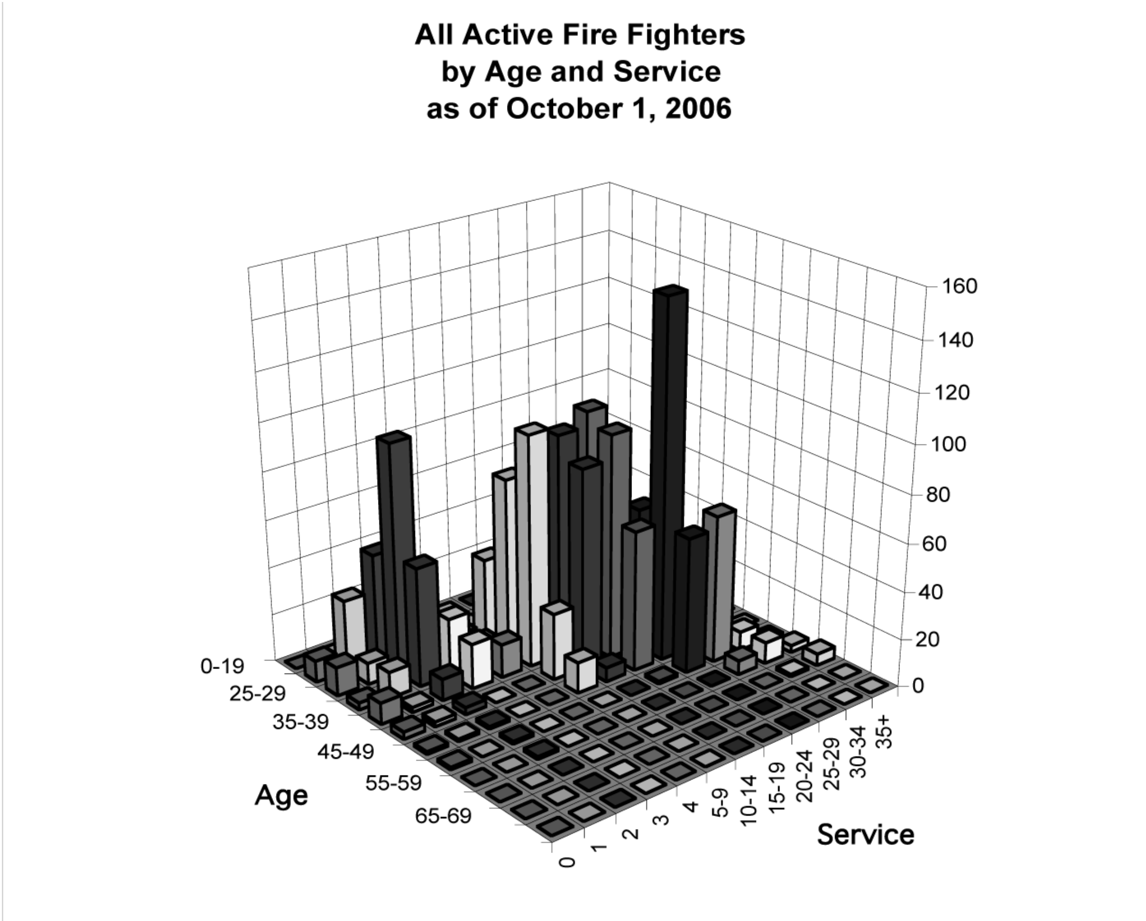


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	9	30	45	7	3	0	0	0	0	0	0	0	94
25-29	12	9	96	8	7	35	0	0	0	0	0	0	167
30-34	3	11	50	24	9	74	0	0	0	0	0	0	171
35-39	8	2	9	19	12	95	1	0	0	0	0	0	146
40-44	2	2	3	0	0	26	0	0	0	0	0	0	33
45-49	1	1	1	0	0	13	0	0	0	0	0	0	16
50-54	0	0	0	0	0	0	0	0	0	0	0	0	0
55-59	0	0	1	0	0	0	0	0	0	0	0	0	1
60-64	0	0	0	0	0	0	0	0	0	0	0	0	0
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	35	55	205	58	31	243	1	0	0	0	0	0	628

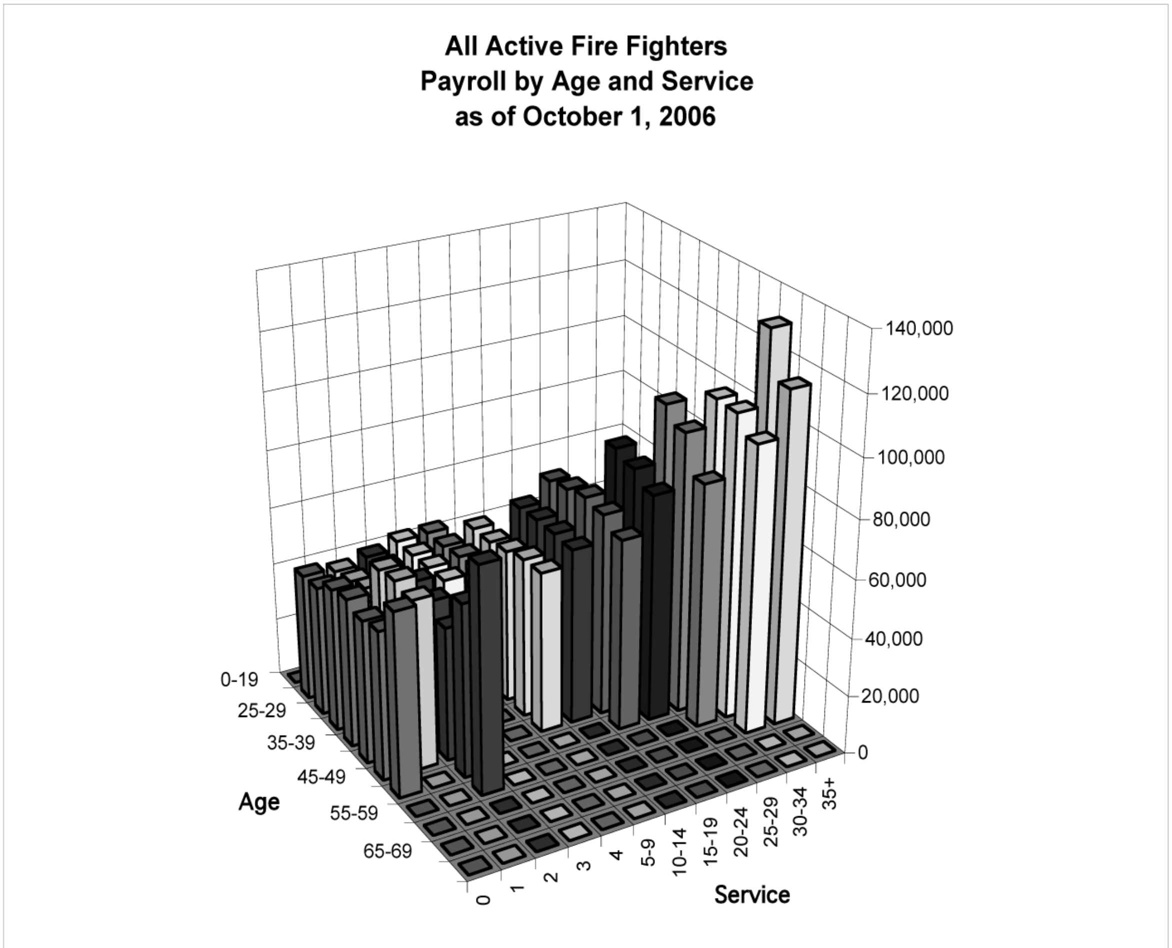


Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	44,017	42,768	45,106	47,831	48,135	0	0	0	0	0	0	0	44,555
25-29	44,798	44,254	46,328	47,869	48,135	51,665	0	0	0	0	0	0	47,374
30-34	49,412	47,089	46,379	48,401	49,366	51,715	0	0	0	0	0	0	49,228
35-39	51,011	58,358	51,401	48,964	48,135	53,144	56,230	0	0	0	0	0	52,057
40-44	49,839	59,849	49,838	0	0	55,091	0	0	0	0	0	0	54,584
45-49	51,117	58,360	46,004	0	0	55,853	0	0	0	0	0	0	55,098
50-54	0	0	0	0	0	0	0	0	0	0	0	0	0
55-59	0	0	77,402	0	0	0	0	0	0	0	0	0	77,402
60-64	0	0	0	0	0	0	0	0	0	0	0	0	0
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	46,881	45,347	46,496	48,443	48,492	52,849	56,230	0	0	0	0	0	49,169

Average Age: 31.8 Average Service: 4.2



Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	9	30	45	7	3	0	0	0	0	0	0	0	94
25-29	12	9	96	8	7	35	0	0	0	0	0	0	167
30-34	3	11	50	24	9	74	52	2	0	0	0	0	225
35-39	9	2	9	19	14	97	93	99	0	0	0	0	342
40-44	3	2	3	0	0	28	84	94	59	0	0	0	273
45-49	1	1	1	0	0	13	6	59	149	23	0	0	253
50-54	1	0	1	0	0	0	0	1	57	62	8	0	130
55-59	0	0	1	0	0	0	0	0	0	6	9	3	19
60-64	0	0	0	0	0	0	0	0	0	0	1	5	6
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	38	55	206	58	33	247	235	255	265	91	18	8	1,509



Service Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
0-19	0	0	0	0	0	0	0	0	0	0	0	0	0
20-24	44,017	42,768	45,106	47,831	48,135	0	0	0	0	0	0	0	44,555
25-29	44,798	44,254	46,328	47,869	48,135	51,665	0	0	0	0	0	0	47,374
30-34	49,412	47,089	46,379	48,401	49,366	51,715	61,052	67,812	0	0	0	0	52,126
35-39	51,354	58,358	51,401	48,964	50,044	53,284	61,549	69,464	0	0	0	0	59,772
40-44	49,271	59,849	49,838	0	0	55,440	61,502	71,292	85,457	0	0	0	69,154
45-49	51,117	58,360	46,004	0	0	55,853	60,843	70,077	82,948	102,037	0	0	79,396
50-54	63,046	0	59,510	0	0	0	0	66,198	78,586	96,829	105,491	0	88,581
55-59	0	0	77,402	0	0	0	0	0	0	84,281	105,092	130,014	100,998
60-64	0	0	0	0	0	0	0	0	0	0	99,221	114,460	111,920
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	47,530	45,347	46,559	48,443	49,281	52,964	61,404	70,254	82,568	97,318	104,943	120,293	64,508

Average Age: 38.9 Average Service: 12.9

Inactive Teachers

Service Retirees

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 35	0	$0	0	$0
35-39	0	$0	1	$48,840
40-44	0	$0	0	$0
45-49	0	$0	0	$0
50-54	4	$10,420	4	$34,059
55-59	425	$10,513	439	$42,528
60-64	911	$7,337	1,056	$39,695
65-69	473	$5,849	904	$38,040
70-74	156	$5,629	868	$38,476
75-79	40	$5,395	692	$35,981
80-84	7	$6,305	451	$34,938
85-89	1	$14,676	276	$36,860
90-94	0	$0	144	$37,626
95-99	0	$0	62	$39,310
100 and over	0	$0	10	$45,271
Total	2,017	$7,493	4,907	$38,250

Beneficiaries

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 19	14	$2,589	28	$5,323
20-24	4	$1,369	10	$5,813
25-29	0	$0	0	$0
30-34	0	$0	0	$0
35-39	0	$0	2	$5,640
40-44	1	$9,888	2	$7,722
45-49	5	$6,502	10	$16,322
50-54	9	$5,395	13	$14,116
55-59	15	$5,936	32	$16,204
60-64	10	$2,239	43	$14,836
65-69	9	$4,730	51	$18,378
70-74	4	$7,171	57	$17,033
75-79	0	$0	69	$19,575
80-84	0	$0	58	$18,343
85-89	0	$0	39	$21,084
90-94	0	$0	30	$28,444
95-99	0	$0	10	$19,658
100 and over	0	$0	3	$19,192
Total	71	$4,442	457	$17,483

Inactive Teachers

Disabled

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	0	$0	0	$0
30-34	0	$0	0	$0
35-39	2	$13,580	2	$19,680
40-44	2	$11,544	2	$22,290
45-49	3	$11,436	9	$20,096
50-54	17	$7,886	22	$25,822
55-59	40	$7,500	66	$24,481
60-64	18	$5,430	57	$23,736
65-69	4	$1,366	63	$24,411
70-74	1	$6,173	52	$25,113
75-79	0	$0	67	$25,593
80-84	0	$0	57	$28,555
85-89	0	$0	37	$37,202
90-94	0	$0	18	$27,361
95-99	0	$0	2	$23,634
100 and over	0	$0	1	$18,672
Total	87	$7,219	455	$26,204

Terminated Vested

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	36	$4,378	36	$4,378
30-34	89	$4,845	89	$4,904
35-39	94	$4,299	98	$5,211
40-44	73	$4,330	88	$5,706
45-49	85	$5,101	99	$8,174
50-54	93	$5,060	167	$10,261
55-59	86	$5,708	161	$9,356
60-64	40	$4,184	100	$9,050
65-69	9	$5,706	32	$10,561
70-74	5	$4,663	26	$8,503
75-79	1	$1,582	18	$6,577
80-84	1	$6,241	25	$9,557
85-89	0	$0	18	$10,054
90-94	0	$0	14	$7,219
95-99	0	$0	10	$8,627
100 and over	0	$0	0	$0
Total	612	$4,827	981	$7,977

Inactive Police Officers

Service Retirees

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 35	0	$0	0	$0
35-39	1	$22,596	1	$22,596
40-44	0	$0	0	$0
45-49	25	$12,793	25	$53,744
50-54	232	$10,292	389	$48,816
55-59	228	$6,554	1,011	$44,920
60-64	60	$4,421	784	$45,388
65-69	3	$6,141	477	$45,470
70-74	0	$0	250	$48,534
75-79	0	$0	123	$60,041
80-84	0	$0	49	$63,282
85-89	0	$0	17	$80,439
90-94	0	$0	6	$53,924
95-99	0	$0	3	$45,432
100 and over	0	$0	0	$0
Total	549	$8,212	3,135	$47,046

Beneficiaries

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 19	82	$1,778	88	$4,893
20-24	18	$3,376	25	$11,465
25-29	0	$0	0	$0
30-34	1	$1,392	2	$4,566
35-39	14	$12,186	18	$22,622
40-44	9	$11,630	16	$22,829
45-49	17	$5,708	43	$19,853
50-54	18	$3,576	97	$20,801
55-59	8	$4,327	147	$21,819
60-64	9	$4,278	145	$23,567
65-69	0	$0	146	$24,505
70-74	1	$10,155	119	$26,272
75-79	2	$1,649	143	$25,684
80-84	2	$502	118	$25,604
85-89	0	$0	118	$26,554
90-94	0	$0	66	$27,925
95-99	0	$0	15	$25,056
100 and over	0	$0	3	$25,152
Total	181	$4,045	1,309	$22,781

Inactive Police Officers

Disabled

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	2	$21,564	2	$21,564
30-34	8	$20,992	8	$23,172
35-39	48	$21,030	54	$26,125
40-44	60	$19,345	70	$26,643
45-49	44	$17,891	71	$28,811
50-54	42	$11,475	121	$34,558
55-59	10	$4,051	191	$36,360
60-64	3	$3,834	188	$36,694
65-69	0	$0	143	$40,851
70-74	0	$0	122	$42,833
75-79	0	$0	150	$46,828
80-84	0	$0	98	$49,517
85-89	0	$0	36	$48,052
90-94	0	$0	23	$54,369
95-99	0	$0	6	$75,576
100 and over	0	$0	0	$0
Total	217	$17,061	1,283	$38,934

Terminated Vested

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	0	$0	0	$0
30-34	7	$7,164	7	$7,937
35-39	25	$7,417	26	$11,858
40-44	25	$9,643	26	$19,873
45-49	18	$9,312	22	$19,328
50-54	4	$15,730	18	$13,495
55-59	0	$0	51	$5,251
60-64	0	$0	24	$5,125
65-69	0	$0	16	$11,829
70-74	0	$0	16	$13,790
75-79	0	$0	7	$17,893
80-84	0	$0	1	$15,389
85-89	0	$0	0	$0
90-94	0	$0	1	$19,380
95-99	0	$0	0	$0
100 and over	0	$0	0	$0
Total	79	$8,952	215	$11,672

Inactive Firefighters

Service Retirees

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 35	0	$0	0	$0
35-39	0	$0	0	$0
40-44	0	$0	0	$0
45-49	8	$14,061	8	$48,365
50-54	64	$14,973	77	$56,820
55-59	71	$10,903	148	$57,225
60-64	22	$5,954	241	$52,599
65-69	1	$3,535	233	$52,754
70-74	0	$0	121	$52,393
75-79	0	$0	69	$63,280
80-84	0	$0	22	$64,766
85-89	0	$0	12	$72,407
90-94	0	$0	2	$66,930
95-99	0	$0	0	$0
100 and over	0	$0	0	$0
Total	166	$11,924	933	$55,019

Beneficiaries

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 19	27	$3,664	27	$6,635
20-24	4	$1,182	5	$3,038
25-29	0	$0	1	$27,636
30-34	0	$0	0	$0
35-39	1	$13,416	1	$20,628
40-44	1	$10,585	5	$22,411
45-49	2	$873	10	$15,824
50-54	7	$4,890	20	$21,371
55-59	3	$1,636	29	$22,817
60-64	0	$0	43	$23,817
65-69	2	$20,560	69	$24,561
70-74	0	$0	44	$27,021
75-79	0	$0	77	$27,164
80-84	1	$2,168	63	$27,476
85-89	0	$0	65	$28,464
90-94	0	$0	23	$28,107
95-99	0	$0	8	$30,530
100 and over	0	$0	1	$24,144
Total	48	$4,413	491	$24,638

Inactive Firefighters

Disabled

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	0	$0	0	$0
30-34	1	$20,448	1	$20,448
35-39	2	$22,178	2	$25,392
40-44	5	$22,455	5	$27,552
45-49	7	$15,456	14	$24,843
50-54	18	$10,967	45	$37,901
55-59	11	$4,981	41	$42,539
60-64	2	$620	75	$42,483
65-69	0	$0	91	$45,253
70-74	0	$0	62	$42,987
75-79	0	$0	63	$49,642
80-84	0	$0	50	$52,844
85-89	0	$0	42	$55,785
90-94	0	$0	9	$65,899
95-99	0	$0	0	$0
100 and over	0	$0	0	$0
Total	46	$11,711	500	$45,363

Terminated Vested

	District Count	Average District Benefit	Total Count	Combined District and Fed Benefit
Under 25	0	$0	0	$0
25-29	2	$5,097	2	$5,097
30-34	1	$7,182	1	$7,182
35-39	3	$4,861	4	$6,774
40-44	3	$8,536	4	$18,299
45-49	3	$3,526	3	$15,772
50-54	3	$4,250	7	$12,370
55-59	0	$0	2	$3,319
60-64	0	$0	4	$9,227
65-69	0	$0	1	$17,230
70-74	0	$0	1	$11,072
75-79	0	$0	0	$0
80-84	0	$0	0	$0
85-89	0	$0	0	$0
90-94	0	$0	0	$0
95-99	0	$0	0	$0
100 and over	0	$0	0	$0
Total	15	$5,393	29	$11,153

Changes in Plan Membership

Teachers

	Actives	Non-Vested Terminations Due Refunds	Vested Terminations	Disabled	Retired	Beneficiaries	Total Participants
October 1, 2005	5,707	3,270	758	466	4,886	461	**15,548**
New Entrants	583	-	-	-	-	-	**583**
Rehires	48	(21)	(5)	-	(1)	-	**21**
Disabilities	(8)	-	-	8	-	-	**0**
Retirements	(176)	-	(6)	-	182	-	**0**
Vested Terminations	(276)	-	276	-	-	-	**0**
Died, With Beneficiaries' Benefit Payable	(5)	-	-	-	(14)	19	**0**
Died, Without Beneficiary, and Other Terminations	(681)	674	(1)	(20)	(148)	-	**(176)**
Transfers	-	-	-	-	-	-	**0**
Refund of Contributions	(104)	(86)	(39)	-	-	-	**(229)**
Beneficiary Deaths	-	-	-	-	-	(33)	**(33)**
Domestic Relations Orders	-	-	-	-	-	1	**1**
Data Corrections/Not Reported	-	17	(2)	1	2	9	**27**
October 1, 2006	5,088*	3,854	981	455	4,907	457	**15,742**

* Includes members assumed to be on leave of absence.

Changes in Plan Membership

Police Officers

	Actives	Non-Vested Terminations Due Refunds	Vested Terminations	Disabled	Retired	Beneficiaries	Total Participants
October 1, 2005	3,741	529	213	1,258	3,153	1,263	**10,157**
New Entrants	218	-	-	-	-	-	**218**
Rehires	9	(2)	-	-	-	-	**7**
Disabilities	(55)	-	-	55	-	-	**0**
Retirements	(28)	-	-	-	28	-	**0**
Vested Terminations	(26)	-	26	-	-	-	**0**
Died, With Beneficiaries' Benefit Payable	(2)	-	(2)	(16)	(21)	46	**5**
Died, Without Beneficiary, and Other Terminations	(53)	51	(2)	(24)	(24)	-	**(52)**
Transfers	-	-	-	-	-	-	**0**
Refund of Contributions	(58)	(17)	(20)	-	-	-	**(95)**
Beneficiary Deaths	-	-	-	-	-	(59)	**(59)**
Domestic Relations Orders	-	-	-	-	-	11	**11**
Data Corrections/Not Reported	1	20	-	10	(1)	48	**78**
October 1, 2006	3,747	581	215	1,283	3,135	1,309	**10,270**

Changes in Plan Membership

Firefighters

	Actives	Non-Vested Terminations Due Refunds	Vested Terminations	Disabled	Retired	Beneficiaries	Total Participants
October 1, 2005	1,481	188	25	514	932	478	**3,618**
New Entrants	82	-	-	-	-	-	**82**
Rehires	3	(1)	-	-	-	-	**2**
Disabilities	(4)	-	-	4	-	-	**0**
Retirements	(19)	-	(1)	-	20	-	**0**
Vested Terminations	(5)	-	5	-	-	-	**0**
Died, With Beneficiaries' Benefit Payable	(2)	-	-	(13)	(13)	30	**2**
Died, Without Beneficiary, and Other Terminations	(23)	23	-	(5)	(6)	-	**(11)**
Transfers	-	-	-	-	-	-	**0**
Refund of Contributions	(4)	(1)	-	-	-	-	**(5)**
Beneficiary Deaths	-	-	-	-	-	(28)	**(28)**
Domestic Relations Orders	-	-	-	-	-	1	**1**
Data Corrections/Not Reported	-	1	-	-	-	10	**11**
October 1, 2006	1,509	210	29	500	933	491	**3,672**

1.3: Actuarial Methods and Assumptions

Actuarial Funding Method

The funding method required by the "Replacement Plan Act" is the Aggregate Funding Method. Under this Method, the District must contribute the level percent of pay that — combined with the actuarial value of assets, expected investment earnings, and future employee contributions — will pay for the benefits of the current participants by the time the current work-force leaves employment.

Actuarial Assumptions

Valuation Date

All assets and liabilities are computed as of October 1, 2006.

Rate of Return

The annual rate of return on all Fund assets is assumed to be 7.25%, net of investment and administrative expenses.

Cost of Living

The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 5.00% per year.

Increases in Pay

Assumed pay increases for active members consist of increases due to cost of living adjustments and promotion and increases due to longevity and retention incentives. Cost of living increases are assumed to result in a general wage increase of 5.0% for all employees. Sample rates for the increases due to promotions are given in the table below. Rates for the longevity and retention incentives are given separately.

Service	Teachers	Police Officers	Firefighters
0	4.000%	5.000%	2.500%
5	4.000%	3.563%	2.500%
10	3.000%	2.584%	2.500%
15	2.000%	2.314%	2.500%
20	1.000%	2.000%	2.500%
25	0.159%	1.100%	2.500%
30	0.393%	0.500%	2.500%
35	0.331%	0.000%	2.500%
40	0.270%	0.000%	0.000%

Active Member Mortality

Rates of mortality for active male teachers are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a one-year age set forward. Rates of mortality for active female teachers are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a one-year age set forward.

Mortality

Rates of mortality for active male police officers and fire fighters are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a three-year age set forward. Rates of mortality for active female police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a three-year age set forward.

To value the pre-retirement death benefit for police officers and firefighters, the benefit form for all retirements (normal or disabled) is assumed to be a 54.2% Joint and Survivor annuity for all participants.

25% of all police officer and fire fighter active deaths are assumed to occur in the line of duty.

Retired Member Mortality

Rates of mortality for retired male teachers are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA. Rates of mortality for active female teachers are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA.

Rates of mortality for active male police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Male Table with generational improvement using Projection Scale AA, with a two-year age set forward. Rates of mortality for active female police officers and firefighters are given by the 1994 Uninsured Pension (UP94) Female Table with generational improvement using Projection Scale AA, with a two-year age set forward.

Disabled Member Mortality

Rates of mortality among disabled members are specified for male and female members; separate tables are used for teachers and for public safety disabled members. Sample rates for teachers are as follows:

Age	Male	Female
20	2.4000%	2.4000%
30	2.4000%	2.4000%
40	2.4000%	2.4000%
50	2.4545%	2.4000%
60	2.5910%	2.4000%
70	3.8006%	2.4000%
80	7.2111%	4.1413%
90	13.1554%	10.0013%

Sample rates for police officers and firefighters are as follows:

Age	Male	Female
20	0.9033%	0.5616%
30	0.9033%	0.5616%
40	0.9033%	0.5616%
50	0.9033%	0.5616%
60	1.3029%	0.8310%
70	2.6405%	1.7147%
80	6.4974%	4.2282%
90	15.6801%	12.2128%

Service Retirement

Retirement is assumed to occur among teachers in accordance with the table below:

Age	First Year Eligible	Subsequent Years
50-55	20%	20%
56	40%	20%
57-59	60%	20%
60-69	20%	20%
70	100%	100%

For police officers and firefighters, the following rates of retirement are assumed.

Age	Police Officers	Firefighters
40	7.5%	2.0%
41	10.0%	3.0%
42	12.0%	4.0%
43	15.0%	5.0%
44	15.0%	5.0%
45	15.0%	6.0%
46	15.0%	7.0%
47	17.0%	8.0%
48	19.0%	9.0%
49	21.0%	11.0%
50	23.0%	13.0%
51	25.0%	15.0%
52	25.0%	20.0%
53	25.0%	25.0%
54	30.0%	30.0%
55	40.0%	35.0%
56	50.0%	35.0%
57	50.0%	35.0%
58	50.0%	35.0%
59	50.0%	35.0%
60	100%	100%

It is assumed that all police officers and firefighters retire after 31 years of service.

Disability

Separate rates of disability are assumed among teachers, police officers and firefighters, with rates for both sexes combined. Below are sample rates:

Age	Teachers	Police Officers	Firefighters
25	0.0300%	0.4383%	0.2893%
30	0.0572%	0.5750%	0.3795%
35	0.0932%	0.8500%	0.5610%
40	0.1292%	1.2500%	0.8250%
45	0.2040%	1.9633%	1.2958%
50	0.3212%	3.2500%	2.1450%
55	0.5520%	5.7750%	3.8115%
60	0.5700%	8.2500%	5.4450%
65	0.0000%	8.2500%	5.4450%

For police officers and firefighters, it is assumed that 50% of the disabilities are due to accidents in the line of duty. The benefit amount for some members is defined to be based on the "% of disability." For all police officer and firefighter disabilities, the "% of disability" is assumed to be 100%.

Withdrawal

Separate rates of withdrawal/termination are assumed among teachers, police officers, and firefighters, with rates for both sexes combined. Withdrawal rates are not applied to Members eligible for service retirement.

Age	Teachers	Police Officers	Firefighters
20	25.00%	12.13%	1.60%
25	23.00%	6.57%	1.60%
30	16.00%	4.23%	1.60%
35	11.00%	2.32%	1.60%
40	6.80%	1.33%	1.60%
45	4.80%	1.03%	1.60%
50	3.60%	0.00%	0.00%
55	0.00%	0.00%	0.00%
60	0.00%	0.00%	0.00%

For police officers and firefighters, all terminations are assumed to result in the withdrawal of contributions, with no further benefits payable. For teachers with more than 5 years of service, terminated employees are expected to receive a deferred vested benefit. Teachers with less than 5 years of service receive a refund of accumulated contributions.

Pay for Benefits

Allowances have been made for special increases in Compensation prior to termination or retirement. For police officers, an additional increase of 5% is given for the Base Retention Differential after 20 years of service. Also, police officers are assumed to receive a longevity increase of 10% after 20 years of service, and additional increases of 5% after 25 and 30 years of service. Firefighters are assumed to receive retention incentives of 5%, 10%, 15%, and 20% applied to base pay after 15, 20, 25, and 30 years of service, respectively.

Family Composition

64% of teachers and 80% of police officers and firefighters are assumed to be married. Male spouses are assumed to be three years older than their wives. Active employees are assumed to have one dependent child aged 10.

Employment Status

No future transfers among member groups are assumed.

Actuarial Value of Plan Assets

The actuarial value of District assets is a modified market-related value. The actuarial value of assets method approved by the Board is defined as the expected actuarial value of assets (assuming a 7.25% rate of return) plus 1/3 of the difference between the expected and actual market value of assets. There is then a final adjustment made for the effect of the adjustment pursuant to D.C. Code §1-907.02(c). This adjustment is explained and developed in Section 3.5.

The detailed calculation of the actuarial value of District assets is shown in Section 2.5.

Participant Data

Data on active and inactive members and their beneficiaries as of the valuation date was supplied by the District's Office of Pay and Retirement Services (OPRS), on electronic media. As is usual in studies of this type, member data was neither verified nor audited, but was reviewed for reasonableness.

Certain assumptions were made with respect to information provided by the District of Columbia:

- Charter school teachers data is not available. To account for this group, active liabilities and payroll were increased by 1.5%
- The data is incomplete with respect to former members who have a deferred vested benefit. Thus, benefits for these individuals are assumed based on their service and pay history as available.
- Benefit service has been determined based on employee contribution history.
- Benefit splits between federal and District have been estimated for terminated vested participants with missing benefit amounts based on employee contribution history.
- It is assumed that all Fire and Police members with prior military service will purchase this service. To account for this, an average amount of prior service of 0.4 years based on a prior study is assumed for all Police and Fire members.

Section 2:
Asset Information

2.1: Current Value of District Assets as of October 1, 2006

The allocation of benefit payments and investment income between police and fire are approximations based on the most recent information available from the District of Columbia and the D.C. Retirement Board.

$ millions	Teachers	Police	Fire	Police & Fire	Total Fund
(1) Current Value of Assets as of October 1, 2005[1]	$1,145.6	$1,424.6	$553.9	$1,978.5	$3,124.1
(2) FY 2006 District Contributions	$15.5	$86.9	$30.6	$ 117.5	$ 133.0
(3) FY 2006 Employee Contributions	$25.1	$17.9	$7.2	$ 25.1	$ 50.2
(4) FY 2006 Actual Benefit Payments[2]	$(8.1)	$(3.2)	$(0.3)	$(3.5)	$(11.6)
(5) FY 2006 Investment Earnings[3]	$122.2	$146.4	$57.2	$ 203.6	$ 325.8
(6) Actual Current Value of Assets as of October 1, 2006	$1,300.3	$1,672.6	$648.6	$2,321.2	$3,621.5
(7) Benefits Payable for FY 2006	$(15.9)	$(10.1)	$(2.9)	$(13.0)	$(28.9)
(8) Final Current Value of Assets as of October 1, 2006	$1,284.4	$1,662.5	$645.7	$2,308.2	$3,592.6
(9)Approximate Rate of Return					9.8%

1 The current value of assets as of October 1, 2005 was equal to the market value less estimated benefits payable of $12.4 million for the Teachers, $7.2 million for the Police Officers, and $2.1 million for the Fire Fighters.

2 The fund paid $21.7 million in benefits which was already reflected as benefits payable.

3 Net of transferred amounts

2.2: Actuarial Value of District Assets as of October 1, 2006

The current actuarial value of assets method approved by the Board is the expected actuarial value of assets (assuming a 7.25% return on the previous year's AVA) plus one-third of the difference between the expected and actual current value of assets. There is then a final adjustment made for the effect of the adjustment pursuant to D.C. Code §1-907.02(c).

$ millions	Teachers	Police	Fire	Police & Fire	Total Fund
(1) Actuarial Value of Assets as of October 1, 2005	$1,104.6	$1,392.5	$541.1	$1,933.6	$3,038.2
(2) FY 2006 District Contributions	$15.5	$86.9	$30.6	$ 117.5	$ 133.0
(3) FY 2006 Employee Contributions	$25.1	$17.9	$7.2	$ 25.1	$ 50.2
(4) FY 2006 Estimated Benefit Payments	$(24.0)	$(13.3)	$(3.2)	$(16.5)	$(40.5)
(5) FY 2006 Expected Investment Earnings[4]	$86.3	$103.5	$40.4	$ 143.9	$ 230.2
(6) Expected Actuarial Value of Assets as of October 1, 2006	$1,207.5	$1,587.5	$616.1	$2,203.6	$3,411.1
(7) Final Current Value of Assets as of October 1, 2006	$1,284.4	$1,662.5	$645.7	$2,308.2	$3,592.6
(8) Smoothed Value of Assets as of October 1, 2006 [(6) + 1/3 x (7 – 6)]	$1,233.1	$1,612.5	$626.0	$2,238.5	$3,471.6
(9) Present Value of D.C. Code §1-907.02(c) Adjustment	$(3.1)	$10.0	$4.1	$14.1	$11.0
(10) Final Actuarial Value of Assets as of October 1, 2006 [(8) + (9)]	$1,230.0	$1,622.5	$630.1	$2,252.6	$3,482.6
(11) Approximate Rate of Return (on AVA)	9.6%	9.2%	9.2%	9.2%	9.3%

4 Net of transferred amounts

Section 3: Actuarial Computations

3.1: Computation of Fiscal Year 2008 District Payment

This table shows the development of the fiscal year 2008 District payment. It represents the values used in the Required Actuarial Certification under D.C. Code §1-907.

$ millions	Teachers	Police	Fire	Total
(1) Present Value of Future District Benefits	$1,530.1	$2,830.0	$1,074.3	$5,434.4
(2) Actuarial Value of Assets (Section 3.2)	$1,230.0	$1,622.5	$630.1	$3,482.6
(3) Present Value of Future Employee Contributions	$228.8	$200.1	$85.5	$ 514.4
(4) Present Value of Future Normal Costs [(1) – (2) – (3), not less than $0]	$ 71.3	$1,007.4	$ 358.7	$1,437.4
(5) Present Value Future Payroll	$3,008.0	$2,671.3	$1,137.3	$6,816.6
(6) Normal Contribution Rate [(4) ÷ (5)]	2.4%	37.7%	31.5%	n/a
(7) Projected FY 2008 Payroll	$338.4	$263.2	$105.5	$ 707.1
(8) Projected FY 2008 Payment Before §1-907.02(c) [(6) x (7)]	$8.1	$99.2	$33.2	$ 140.5
(9) D.C. Code §1-907.02(c) Adjustment (Section 3.3)	$(2.1)	$4.0	$0.6	$2.5
(10) FY 2008 Payment [(8) + (9), not less than $0]	$6.0	$103.2	$33.8	$ 143.0

3.2: Computation of Gain/Loss from Prior Valuation — Total Plan

This table shows the development of the gains & losses for the FY 2008 payment. Changes are due to (in order): non-salary based demographics, salary changes, asset returns, and new entrants.

$ millions	2005 Results	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Actual Salaries, Actual Assets	2006 Results, All Members, Actual Salaries, Actual Assets
(1) Present Value of Future District Benefits	$5,107.8	$5,315.2	$5,275.5	$5,275.5	$5,434.4
(2) Actuarial Value of Assets	3,038.2	3,422.1	3,422.1	3,482.6	3,482.6
(3) Present Value of Future Employee Contributions	531.6	477.6	476.3	476.3	514.3
(4) Present Value of Future Normal Costs	$1,538.0	$1,415.4	$1,377.1	$1,316.6	$1,437.5
(5) Present Value Future Payroll	$7,102.7	$6,361.2	$6,341.4	$6,341.4	$6,816.6
(6) Normal Contribution Rate	20.9%	21.1%	20.7%	19.7%	19.9%
(7) Projected FY 2008 Payroll	$698.41	$672.2	$667.2	$667.2	$707.0
(8) Projected FY 2008 Payment before Adjustments	$146.01	$141.7	$137.8	$131.5	$140.5
(9) (Gain)/Loss (% of payroll)	N/A	0.2%	(0.4)%	(1.0)%	0.2%
(10) (Gain)/Loss ($ Amount)	N/A	$(4.3)	$(3.9)	$(6.3)	$9.0

Teachers' Retirement Fund Gain/Loss

This table shows the development of the gains & losses for the FY 2008 payment. Changes are due to (in order): non-salary based demographics, salary changes, asset returns, and new entrants.

$ millions	2005 Results	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Actual Salaries, Actual Assets	2006 Results, All Members, Actual Salaries, Actual Assets
(1) Present Value of Future District Benefits	$1,502.5	$1,484.9	$1,484.5	$1,484.5	$1,530.1
(2) Actuarial Value of Assets	1,104.6	1,204.4	1,204.4	1,230.0	1,230.0
(3) Present Value of Future Employee Contributions	247.4	207.8	208.9	208.9	228.8
(4) Present Value of Future Normal Costs	$150.5	$72.7	$71.2	$45.6	$71.3
(5) Present Value Future Payroll	$3,306.7	$2,746.5	$2,759.4	$2,759.4	$3,008.0
(6) Normal Contribution Rate	4.6%	2.6%	2.6%	1.7%	2.4%
(7) Projected FY 2008 Payroll	$342.12	$313.2	$312.3	$312.3	$322.3
(8) Projected FY 2008 Payment before Adjustments	$15.71	$8.1	$8.1	$5.3	$8.1
(9) (Gain)/Loss (% of payroll)	N/A	(2.0)%	0.0%	(0.9)%	0.7%
(10) (Gain)/Loss ($ Amount)	N/A	$(7.6)	$0.0	$(2.8)	$2.8

Police Officers' Retirement Fund Gain/Loss

This table shows the development of the gains & losses for the FY 2008 payment. Changes are due to (in order): non-salary based demographics, salary changes, asset returns, and new entrants.

$ millions	2005 Results	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Actual Salaries, Actual Assets	2006 Results, All Members, Actual Salaries, Actual Assets
(1) Present Value of Future District Benefits	$2,624.4	$2,781.7	$2,750.4	$2,750.4	$2,830.0
(2) Actuarial Value of Assets	1,392.5	1,597.5	1,597.5	1,622.5	1,622.5
(3) Present Value of Future Employee Contributions	202.2	189.6	187.4	187.4	200.1
(4) Present Value of Future Normal Costs	$1,029.7	$994.6	$965.5	$940.5	$1,007.4
(5) Present Value Future Payroll	$2,709.1	$2,542.0	$2,513.3	$2,513.3	$2,671.3
(6) Normal Contribution Rate	38.0%	39.1%	38.4%	37.4%	37.7%
(7) Projected FY 2008 Payroll	$257.73	$256.3	$253.1	$253.1	$263.2
(8) Projected FY 2008 Payment before Adjustments	$97.91	$100.2	$97.2	$94.7	$99.2
(9) (Gain)/Loss (% of payroll)	N/A	1.1%	(0.7)%	(1.0)%	0.3%
(10) (Gain)/Loss ($ Amount)	N/A	$2.3	$(3.0)	$(2.5)	$4.5

8 Applies to Fiscal Year 2007

Firefighters' Retirement Fund Gain/Loss

This table shows the development of the gains & losses for the FY 2008 payment. Changes are due to (in order): non-salary based demographics, salary changes, asset returns, and new entrants.

$ millions	2005 Results	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Expected Salaries, Expected Assets	2006 Results, Returning Members, Actual Salaries, Actual Assets	2006 Results, All Members, Actual Salaries, Actual Assets
(1) Present Value of Future District Benefits	$980	$1,048.6	$1,040.6	$1,040.6	$1,074.3
(2) Actuarial Value of Assets	541.1	620.2	620.2	630.1	630.1
(3) Present Value of Future Employee Contributions	81.9	80.3	80.0	80.0	85.4
(4) Present Value of Future Normal Costs	$357.9	$348.1	$340.4	$330.5	$358.8
(5) Present Value Future Payroll	$1,086.9	$1,072.7	$1,068.6	$1,068.6	$1,137.3
(6) Normal Contribution Rate	32.9%	32.5%	31.9%	30.9%	31.5%
(7) Projected FY 2008 Payroll	$98.64	$102.8	$101.8	$101.8	$105.5
(8) Projected FY 2008 Payment before Adjustments	$32.41	$33.4	$32.5	$31.5	$33.2
(9) (Gain)/Loss (% of payroll)	N/A	(0.4)%	(0.6)%	(1.0)%	0.6%
(10) (Gain)/Loss ($ Amount)	N/A	$1.0	$(0.9)	$(1.0)	$1.7

9 Applies to Fiscal Year 2007

3.3: Summary of Principal Valuation Results

Teachers' Retirement Fund

($ in millions)

Participant Data

	October 1, 2006	October 1, 2005	Change
Active Members			
Hired Prior to November 16, 1996	2,219	2,454	(9.6)%
Hired After November 16, 1996	2,869	3,253	(11.8)%
Total Active	5,088	5,707	(10.8)%
Retired Members, Beneficiaries and			
Terminated Vested (Post June 30, 1997)	2,787	2,397	16.4%
Total Participants	7,875	8,104	(2.8)%
Annual Salaries of Active Members	$322.3	$325.8	(1.1)%
Annual Retirement Benefits for Retirees &			
Beneficiaries (Post June 30, 1997)	$15.9	$14.3	11.2%

Assets and Liabilities

Present Value of Future District Benefits	$1,530.1	$1,502.5	1.8%
District Assets for Valuation Purposes (Actuarial Value)	1,230.0	1,104.6	11.4%
Present Value of Future Employee Contributions	228.8	247.4	(7.5)%
Present Value of Future District Contributions	71.3	150.5	(52.6)%
Present Value of Future Salaries	3,008.0	3,306.7	(9.0)%
Current Value of			
DistrictAssets (Market Value)	1,284.4	1,145.6	12.1%

Contribution Results

	FY 2008	FY 2007	Change
Normal Contribution Rate	2.4%	4.6%	(47.8)%
Projected Payroll	$338.4	$342.1	(1.1)%
District Payment Before Adjustment	$8.1	$15.7	(48.4)%
District Payment After Adjustment	$6.0	$14.6	(58.9)%

Police Officers' and Firefighters' Retirement Fund (Combined)

($ in millions)

Participant Data

	October 1, 2006	October 1, 2005	Change
Active Members			
Hired Prior to February 15, 1980	158	201	(21.4)%
Hired Between February 15, 1980 and November 10, 1996	2,933	3,011	(2.6)%
Hired After November 10, 1996	2,165	2,010	7.7%
Total	5,256	5,222	0.7%
Retired Members, Beneficiaries and Terminated Vested (Post June 30, 1997)	1,301	1,141	13.5%
Total Participants	6,557	6,363	3.0%
Annual Salaries of Active Members	$351.0	$339.3	3.4%
Annual Retirement Benefits for Retirees & Beneficiaries (Post June 30, 1997)	$13.0	$10.4	25.0%

Assets and Liabilities

Present Value of Future District Benefits	$3,904.3	$3,605.3	8.3%
District Assets for Valuation Purposes (Actuarial Value)	2,252.6	1,933.6	16.5%
Present Value of Future Employee Contributions	285.6	284.1	0.5%
Present Value of Future District Contributions	1,366.1	1,387.6	(1.5)%
Present Value of Future Salaries	3,808.6	3,796.0	0.3%
Current Value of District Assets (Market Value)	2,308.2	1,978.5	16.7%

Contribution Results

	FY 2008	FY 2007	Change
Normal Contribution Rate	35.9%	36.6%	(1.9)%
Projected Payroll	$368.7	$356.3	3.5%
District Payment Before Adjustment	$132.4	$130.3	1.6%
District Payment After Adjustment	$137.0	$140.1	(2.2)%

Police Officers Retirement Fund

($ in millions)

Participant Data

	October 1, 2006	October 1, 2005	Change
Active Members			
Hired Prior to February 15, 1980	72	97	(25.8)%
Hired Between February 15, 1980 and November 10, 1996	2,138	2,212	(3.3)%
Hired After November 10, 1996	1,537	1,432	7.3%
Total Active	3,747	3,741	0.2%
Retired Members, Beneficiaries and Terminated Vested (Post June 30, 1997)	1,026	901	13.3%
Total Participants	4,773	4,642	2.8%
Annual Salaries of Active Members	$250.6	$245.4	2.1%
Annual Retirement Benefits for Retirees & Beneficiaries (Post June 30, 1997)	$10.1	$8.1	24.7%

Assets and Liabilities

Present Value of Future District Benefits	$2,830.0	$2,624.4	7.8%
District Assets for Valuation Purposes (Actuarial Value)	1,622.5	1,392.5	16.5%
Present Value of Future Employee Contributions	200.1	202.2	(1.0)%
Present Value of Future District Contributions	1,007.4	1,029.7	(2.2)%
Present Value of Future Salaries	2,671.3	2,709.1	(1.4)%
Current Value of District Assets (Market Value)	1,662.5	1,424.6	16.7%

Contribution Results

	FY 2008	FY 2007	Change
Normal Contribution Rate	37.7%	38.0%	(0.8)%
Projected Payroll	$263.2	$257.7	2.1%
District Payment Before Adjustment	$99.2	$97.9	1.3%
District Payment After Adjustment	$103.2	$104.2	(1.0)%

Firefighters' Retirement Fund

($ in millions)

Participant Data

	October 1, 2006	October 1, 2005	Change
Active Members			
Hired Prior to February 15, 1980	86	104	(17.3)%
Hired Between February 15, 1980 and November 10, 1996	795	799	(0.5)%
Hired After November 10, 1996	628	578	8.7%
Total Active	1,509	1,481	1.9%
Retired Members, Beneficiaries and Terminated Vested (Post June 30, 1997)	275	240	14.2%
Total Participants	1,784	1,721	3.7%
Annual Salaries of Active Members	$100.4	$93.9	6.9%
Annual Retirement Benefits for Retirees & Beneficiaries (Post June 30, 1997)	$2.9	$2.3	26.1%

Assets and Liabilities

Present Value of Future District Benefits	$1,074.3	$980.9	9.5%
District Assets for Valuation Purposes (Actuarial Value)	630.1	541.1	16.4%
Present Value of Future Employee Contributions	85.5	81.9	4.4%
Present Value of Future District Contributions	358.7	357.9	0.2%
Present Value of Future Salaries	1,137.3	1,086.9	4.6%
Current Value of District Assets (Market Value)	645.7	553.9	16.6%

Contribution Results

	FY 2008	FY 2007	Change
Normal Contribution Rate	31.5%	32.9%	(4.3)%
Projected Payroll	$105.5	$98.5	7.1%
District Payment Before Adjustment	33.2	32.4	2.5%
District Payment After Adjustment	33.8	35.9	(5.8)%

3.4: Accrued Liabilities under the Entry Age Normal Method

The Governmental Accounting Standards Board (GASB) has recently announced proposed revisions to Standards 25 and 27, which would require "disclosure by governments that use the aggregate actuarial cost method of the funded status and present a multiyear schedule of funding progress using the entry age actuarial cost method as a surrogate." This is because the Aggregate method does not explicitly define an accrued liability.

The table below shows the present value of the future District benefits, as well as the value of the District benefits accrued based on past service based on the Entry Age Normal method, which assigns total liabilities to past service (accrued liabilities), current service (normal cost), and future service (future normal costs). The actuarial assumptions (demographic and economic) used for the calculations in the table below are the same as were used to determine the required contributions. These assumptions are described in detail in Section 1.3, and summarized in Section 4.1 of this report.

Present Value of Future District Benefits as of October 1, 2006

($ millions)	Teachers	Police	Fire	Total
Active Present Value of Future District Benefits	$1,208.8	$2,589.1	$1,012.4	$4,810.3
Inactive Present Value of Future District Benefits				
Retirees	265.1	97.7	42.4	405.2
Disabled Employees	19.9	118.4	15.6	153.9
Beneficiaries (including QDRO)	5.3	17.7	3.0	26.0
Terminated Vested	31.0	7.1	0.9	39.0
Total Inactive	321.3	240.9	61.9	624.1
Total Present Value of Future District Benefits	$1,530.1	$2,830.0	$1,074.3	$5,434.4

Accrued Liabilities for District Benefits as of October 1, 2006

	Teachers	Police	Fire	Total
Active Accrued Liability	$784.7	$1,587.4	$568.8	$2,940.9
Inactive Accrued Liability	321.3	240.9	61.9	624.1
Total Accrued Liability (AL)	$1,106.0	$1,828.3	$ 630.7	$3,565.0
Actuarial Value of Assets (AVA)	$1,230.0	$1,622.5	$630.1	$3,482.6
Market Value of Assets (MVA)	$1,284.4	$1,662.5	$645.7	$3,592.6
AVA Funding Ratio (AVA/AL)	111.2%	88.7%	99.9%	97.7%
MVA Funding Ratio (MVA/AL)	116.1%	90.9%	102.4%	100.8%

3.5: §1-907.02(c) Adjustment to the Fiscal Year 2008 District Payment

Beginning in fiscal year 2001, the District payment was adjusted pursuant to D.C. Code §1-907.02(c). This section stipulates that "… the enrolled actuary shall determine whether the amount appropriated for the applicable fiscal year resulted in an overpayment or a shortfall based upon the actual covered payroll."

The D.C. Code §1-907.02(c) adjustment to the fiscal year 2008 District payment is calculated by taking the actual fiscal year 2006 covered payroll for each employee class (which is provided by the District) and multiplying by the corresponding fiscal year 2006 normal contribution rates, which were determined as of October 1, 2004. This result is the fiscal year 2006 contribution that was required to be made by the District. The required contribution is then compared to the actual fiscal year 2006 contribution paid by the District. The difference between the required and actual contributions is the preliminary D.C. Code §1-907.02(c) adjustment.

For FY 2007, none of the groups has a credit balance, therefore there is no carryover amount that can be applied in future years.

$ millions	Teachers	Police	Fire
(1) Actual FY 2006 Covered Payroll	$316.2	$237.6	$92.0
(2) FY 2006 Normal Contribution Rate	4.3%	38.0%	33.7%
(3) Actual FY 2006 Contribution Required	$13.6	$90.3	$31.0
(4) Actual FY 2006 Contribution Paid	$15.7	$86.3	$30.4
(5) Preliminary D.C. Code §1-907.02(c) Adjustment to FY 2008 Payment [(3) – (4)]	$(2.1)	$4.0	$0.6
(6) FY 2007 Unrecognized Amount	$0.0	$0.0	$0.0
(7) Final D.C. Code §1-907.02(c) Adjustment to FY 2008 Payment [(5) + (6)]	$(2.1)	$4.0	$0.6

Section 4: Disclosure Information

4.1: Schedules of Funding Status and Employer Contributions Required Under GASB Statement No. 25

The Governmental Accounting Standards Board (GASB) Statements No. 25 and 27 relate to the disclosure of pension liabilities shown in public employers' financial statements. For accounting periods beginning after June 15, 1996, information required under these statements must be prepared for public employers who seek compliance with generally accepted accounting principles (GAAP) on behalf of their public employee retirement systems.

GASB Statement No. 25 requires preparation of schedules of funding status and employer contributions, as well as the disclosure of plan provisions, actuarial assumptions, and other information.

The required schedules are shown below. In each case, we have relied upon information from our files and contained in the reports of other actuaries employed by the District in completing the schedules. While we have no reason to believe that this information is inaccurate, we strongly recommend that employer personnel verify the schedules below before they are included in the District's financial statements.

The District of Columbia Retirement Board uses the Aggregate actuarial cost method and is therefore not required to disclose a schedule of funding progress. There is a proposal (in exposure draft format at the time of this report) which would require funds using the Aggregate method to disclose funding status information based on Entry Age Normal (EAN) calculations. The numbers shown below have been determined based on this actuarial cost method.

Actuarial Valuation Date	Actuarial Value of Assets	EAN Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percent of Payroll
10/1/2006	$3,482.6	$3,565.0	$82.4	97.7%	$673.4	12.2%

Schedule of Employer Contributions

($ in Millions)

	Teachers' Retirement Fund		Police Officers and Fire Fighters' Retirement Fund		Total Fund	
Year Ending	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/1998	$9.6	100%	$47.7	100%	$57.3	100%
9/30/1999	$12.8	145%	$35.1	100%	$47.9	112%
9/30/2000	$10.7	100%	$39.9	100%	$50.6	100%
9/30/2001	$6.6	100%	$47.0	100%	$53.6	100%
9/30/2002	$1.0	100%	$61.4	100%	$62.4	100%
9/30/2003	$0.0	100%	$69.8	100%	$69.8	100%
9/30/2004	$2.9	100%	$95.5	100%	$98.4	100%
9/30/2005	$10.2	100%	$106.2	100%	$116.4	100%
9/30/2006	$15.7	100%	$116.7	100%	$132.4	100%

The table below summarizes certain information about this actuarial report.

Valuation date	October 1, 2006
Actuarial cost method for Contributions	Aggregate
Actuarial cost method for Accrued Liabilities	Entry Age Normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Actuarial value: 1/3 Excess earnings subtracted from expected actuarial value.
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	5.4% - 9.0% for Teachers, 5.5% - 10.0% for Police Officers and Fire Fighters
*Includes inflation at	5.0%
Cost of living adjustments	5.0%

(COLA limited to 3.0% for those hired after November 10, 1996)