FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
City of Baltimore, Maryland

Comprehensive Annual Financial Report

A Component Unit of
the City of Baltimore, Maryland
Year Ended June 30, 2006

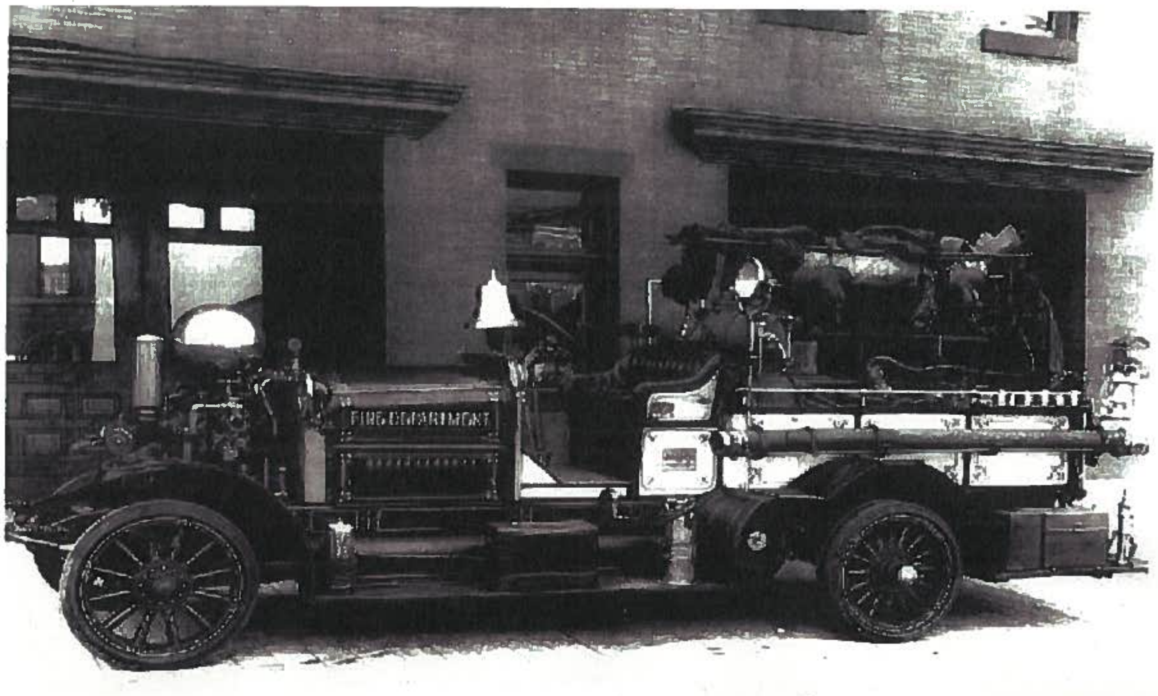
Cover is a fire truck used by Engine Company #41, circa 1919.
Photo courtesy of Maryland Department, Enoch Pratt Free Library/State Library Resource Center, Baltimore Maryland

Special thanks to Jeff Korman at the Maryland Department at the Enoch Pratt Free Library.

Many thanks to Chief Kevin Cartwright and the employees of Baltimore City Fire Department who supplied the photos for the divider pages.

Cover and divider pages designed by Felicia T. Knight, F&P Staff.

FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
City of Baltimore, Maryland



Comprehensive Annual Financial Report

A Component Unit of
the City of Baltimore, Maryland
Year Ended June 30, 2006

Prepared by:
Thomas P. Taneyhill, CPA
Executive Director

David A. Randall
Accounting Manager

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
For the Year Ended June 30, 2006

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Introductory Section

The Baltimore City Fire Department was created in December of 1859, made up of one truck and four engine companies. The Highlandtown station, built in 1893, is one of the oldest fire stations still in existence today.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fire and Police Employees' Retirement System, City of Baltimore, Maryland

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

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

President

Executive Director

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 8, 2006

The Honorable Members of the Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) has just completed its forty-fourth year of service to the uniformed officers of the Baltimore City Fire and Police Departments. On behalf of the dedicated staff that serves the System's membership, I am pleased to submit the Comprehensive Annual Financial Report of the F&P for the fiscal year ended June 30, 2006. The System's administration is responsible for both the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the F&P. The F&P is a component unit of the City of Baltimore.

This report consists of five sections: the Introductory Section contains the Letter of Transmittal, the Chairman's Report, the identification of the Board of Trustees (Board), the Organization Chart, and the identification of the professionals who provide services to the Board; the Financial Section contains the Independent Auditor's Report, the Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information; the Investment Section contains the Investment Advisor's Report on Investment Activity, Investment Objectives and Policies, Investment Results, various investment schedules, and a Schedule of Investment Professionals; the Actuarial Section contains the independent Actuary's Disclosure Certification, assumption tables, schedules of valuation data, and a Summary of Plan Provisions; and the Statistical Section includes data pertaining to active and retired members of the System and benefit expenses.

Established July 1, 1962, by City ordinance, the F&P is a defined benefit plan that covers all uniformed officers of the Baltimore City Fire and Police Departments. The plan also covers certain Maryland Aviation Administration firefighter/paramedics and certain Maryland Transportation Authority police officers. These State of Maryland employees were grandfathered to F&P plan coverage by State law.

All System-related administrative and benefit provisions are established by City ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The plan provisions provide a contractual relationship for the membership, unless specifically excepted, whereby benefits may not be diminished or impaired in any way.

The F&P provides normal service retirement benefits for members who attain age fifty, regardless of service, or who acquire twenty years of membership service, regardless of age. Employees who become members of the F&P on or after July 1, 2003 must have, in conjunction with the aforementioned, at least ten years of service as contributing F&P members. Coverage for line-of-duty disability benefits is immediate upon entry into the System. Disability benefits for non-duty-related injury or illness are provided after the attainment of five years of membership. Line-of-duty death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of duty. After one year of System service, members are also covered for non-duty-related death benefits. Members who do not reach service retirement benefit eligibility remain vested only in their accumulated member contributions and interest credits, which are payable to the member upon termination from employment. A Deferred Retirement Option Plan (DROP) is available to members who have attained twenty or more years of service. More complete information on DROP can be found in the Summary of Plan Provisions beginning on page 63.

Major Initiatives

The Board's global custody services contract with Mellon Bank was to expire at the end of February 2006. The Board conducted a complete review of global custody providers and selected Mellon to continue providing such services.

Working with its investment consultant, the Board continued efforts to enhance portfolio investment performance. The Board approved in the prior year a private equity commitment schedule which established a regular schedule for the Board to conduct searches and to hire private equity fund of fund managers over a ten year period. The Board hired its first private equity fund of funds manager in June 2005 and began funding commitments with that manager during fiscal year 2006. The Board commenced its second search for a private equity fund of funds manager in fiscal year 2006 and selected a manager in July 2006.

In fiscal year 2006, the Board analyzed the structure of its fixed income portfolio and adopted a plan to pursue a hybrid core plus approach which would add to the existing core and high yield mandates a tactical fixed income product which is not benchmark sensitive and which would allow the manager to implement high conviction strategies. In response to this plan, the Board identified candidates and conducted a search for an absolute return fixed income manager. One management firm was selected; the contract process was concluded in July 2006. Assets were reallocated from the existing core managers to the new absolute return fixed income manager in September 2006.

During the current fiscal year, the Board examined its investment allocation targets and adopted a plan to reallocate assets to classes with greater return expectations. The reallocation plan comprised: 1) the reduction of the overall fixed income allocation, which included reducing the core fixed income target, establishing an absolute return target, and increasing the existing high yield allocation; 2) an equal weight reduction to the domestic large cap equity allocation and increase to the international developed markets target; and 3) an increase to the hedge fund allocation. The new asset allocation plan was implemented following fiscal year 2006.

The F&P Deferred Retirement Option Plan (DROP), established July 1, 1996, includes a cost review requirement, known as the "DROP Test." The DROP provisions mandated that during fiscal year 2005 the System's actuary calculate the past and future costs of the DROP benefits. The provisions further allowed that if the costs of the DROP exceeded the assets allocated to pay for the benefits, the City of Baltimore could enact legislation to reduce or eliminate the costs of DROP, but only with respect to members who have not yet entered the DROP. The "DROP Test" concluded that the costs exceeded the assets allocated to fund the benefit. The City administration opted to evaluate cost saving alternatives to the existing DROP provisions. The examination of alternatives continued well into fiscal year 2006. In April 2006, new DROP provisions, known as "DROP 2," were introduced for consideration by the City Council. DROP 2 would cover those members not yet eligible for the existing DROP. As proposed, DROP 2 would lower the interest credits on the members' DROP accounts and would extend certain time frames over which members could recover enhanced retirement benefits. A hearing on the proposed DROP 2 provisions was conducted in November 2006, before the City Council. The Council instructed that a work session be held to reconcile objections to the DROP 2 provisions raised by representatives of the membership.

In September 2005, the F&P staff moved to new permanent offices. The move culminated several years of searching and planning for space in the downtown Baltimore financial district. This was the second staff move in fourteen months as the staff moved to temporary office space in July 2004, while awaiting the finalization of the bid process, selection of a contractor, and construction of the permanent office quarters.

The Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

December 8, 2006

Financial Information

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities, revenues and expenses. Revenues are recorded when earned, regardless of the date of collection. Expenses are recorded when liabilities are incurred, regardless of when payment is made.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, an overview, and an analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The F&P's MD&A begins on page 18 immediately following the report of the independent auditor in the Financial Section of this report.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the F&P are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by the System's management.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

Additions To Plan Net Assets

Investment income, employer and member contributions provide the reserves needed to finance plan benefits and administrative expenses. On a relative basis, the F&P's "managed" investment portfolio performed very well by ranking in the 12th percentile of the Independent Consultant's Cooperative (ICC) public fund universe with a 12.0% total return for the year ended June 30, 2006. The "managed" portfolio excludes for plan performance tracking purposes the fixed income portfolios separately invested to immunize post-retirement increase liabilities. However, performance of both the "managed" portfolio and the immunized portfolio are included in the net investment income presented below. Performance of both the managed and the "dedicated" immunized fixed income portfolios attributed to the decrease in net investment income from fiscal year 2005 to fiscal year 2006. Employer contributions increased 2.0% from fiscal year 2005 to fiscal year 2006 because the City's contribution paid in fiscal year 2005 was reduced by excess earnings. Member contributions, which are made with each bi-weekly pay period, decreased slightly from the prior to the current fiscal year because in fiscal year 2005 the City Fire Department members had one extra bi-weekly pay in that year.

	Fiscal Year 2006	Fiscal Year 2005	Increase (Decrease) Amount	Increase (Decrease) Percentage
Net investment income	$179,177,889	$218,687,126	$(39,509,237)	(18.1)%
Employer contributions	49,661,627	48,666,701	994,926	2.0
Member contributions	15,157,898	15,359,931	(202,033)	(1.3)
Total	$243,997,414	$282,713,758	$(38,716,344)	(13.7)%

Deductions From Plan Net Assets

The main purpose of the System is to pay benefits. The cost of the benefits includes periodically paid retirement benefits, lump sum DROP distributions, refunds of accumulated contributions to terminated members, lump sum death benefits and the cost of administering the plan.

	Fiscal Year 2006	Fiscal Year 2005	Increase (Decrease) Amount	Increase (Decrease) Percentage
Retirement benefits	$147,873,466	$136,570,935	$ 11,302,531	8.3%
Lump sum DROP payments	14,025,599	22,253,341	(8,227,742)	(37.0)
Administrative expenses	2,552,458	2,143,390	409,068	19.1
Refund of member contributions	1,708,619	1,403,449	305,170	21.7
Total	$166,160,142	$162,371,115	$ 3,789,027	2.3%

Fiscal Year 2006 retirement benefits increased due to an increase in the number of disability retirements, an additional retirement pay made during the year, and because of a 2.2% post-retirement benefit increase that commenced in January 2006 to all eligible retirees and beneficiaries. Lump sum DROP distributions declined because of the number of non-DROP members who retired and because of the number of DROP participants who retired soon after entering DROP. Administrative expenses incurred during fiscal year 2006 increased due to higher personnel costs and the lease payments for office space.

Investments

As provided for in the plan provisions, the Board of Trustees is authorized to invest the System's assets and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities of the Board include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

An investment authority known as the "prudent person rule" governs the Board's investment of System assets. The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the plan participants and beneficiaries, and with the degree of diligence, care, and skill that prudent men and women would ordinarily exercise under similar circumstances in a like position.

The Board recognizes that the objective of a sound and prudent policy is to both produce investment results that will preserve the plan's assets and maximize the earnings of the System consistent with its long-term needs. Furthermore, through the diversification of plan assets over various investment classifications, the Board recognizes the need to maintain a balanced investment approach to not only maximize investment results, but to also reduce risk. For fiscal years 2006 and 2005, investments provided rates of return of 12.0% and 12.1%, respectively. The System earned annualized rates of return of 13.4% over the past three years and 6.1% over the last five years.

The Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

December 8, 2006

Plan Funding

A ten-year history of the System's funding progress is presented on page 32. This schedule compares the actuarial value of assets to the actuarial accrued liability. This schedule is required for presentation because it illustrates the System's funding method which smoothes the recognition of investment gains and losses by releasing net actuarial investment gains and losses at the rate of 20% each year to the actuarial value of assets. The smoothing method is employed so that the City's contribution remains stable as a percentage of member compensation and so that the City's required contribution to the F&P does not change dramatically from year to year due to investment market volatility. Because the actuarial value of assets excludes certain legislated actuarial reserves, as explained in the following paragraph, this schedule understated the funded status of the F&P when investment gains were realized and it now overstates the plan funded status as realized investment losses were segregated and were not released to the actuarial value of assets according to the normal five year smoothing method.

In fiscal year 1996, the System's funding method was modified by legislation that established actuarial reserves in which "excess unallocated earnings" (gains and losses) were accumulated each year separate from the reserves maintained for funding purposes. The accumulated gains and losses were shared by the City and the members according to a formula in the provisions. Specific reserved investment gains could be utilized by the City to reduce or eliminate its required contributions to the F&P. Similarly, members could elect to utilize specific reserves to improve benefits. For the first several years, excess gains were accumulated which were utilized by the City to take contribution reductions and by the members to "purchase" benefit improvements. Beginning with fiscal year 2001 and through fiscal year 2003, losses were accumulated in the separate reserves due to the extraordinary downturn in the global equities markets. As of June 30, 2005, accumulated net losses amounting to $412.8 million remained. The legislation that established the separate actuarial reserves had a June 30, 2005 sunset provision which required the Board of Trustees to apply the losses in accordance with an "appropriate asset valuation method." This caveat effectively removed the members from the sharing of the remaining losses which then became the responsibility of the City.

Since amortization of the accumulated losses has a direct impact on the contributions due from the City, the Board sought concurrence from the City administration on the amortization period. With the June 30, 2005 actuarial valuation, five-year and ten-year amortization schedules were presented for consideration by the City. Initially the five-year schedule was selected for the amortization of the reserved losses. However, with the 2006 valuation, the City reexamined the ten-year amortization schedule because of projected contribution increases. After extensive discussions between the administration and the Board of Trustees, the ten-year amortization period was selected for the release of the accumulated losses to the actuarial value of assets with the June 30, 2006, actuarial valuation. The results of the 2005 valuation were restated to reflect the ten-year amortization of the accumulated losses. At June 30, 2006, $330 million in losses remain in the segregated reserves and will be released to the actuarial value of assets at the rate of $41.3 million per year over the remaining eight years of the amortization period.

At this time, the City remains dedicated to making the contributions necessary for the amortization of accumulated losses in the segregated actuarial reserves.

Independent Audit

The Baltimore City Code stipulates that the Board of Estimates shall select an independent auditor for the F&P and that the auditor shall report his findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the City Auditor render his opinion as to the fairness of the System's financial statements. The auditor's report is contained in the Financial Section of this report.

The Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

December 8, 2006

Professional Services

The Board of Trustees appoints consultants and investment managers subject to approval by the City's policy making and approval board, the Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals who provide service to the Board of Trustees are listed in the Introductory Section on page 14 and in the Investment Section on pages 51 and 52.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fire and Police Employees' Retirement System, City of Baltimore, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twenty-third consecutive year (fiscal years 1983-2005) that the F&P has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that this current report continues to meet the Certificate of Achievement Program requirements. I am submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report could not be accomplished without the dedicated efforts of the System's Accounting staff. I would like to express my appreciation to all who assisted and contributed to its preparation.

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

This report is being forwarded to the Mayor, the Comptroller, the President of the City Council, and other members of the Board of Estimates, to all members of the City Council, and to the Fire and Police Departments so that all members of the F&P will have the opportunity to review it. Hopefully, the administration of the City and the membership of the System will find this report both informative and helpful.

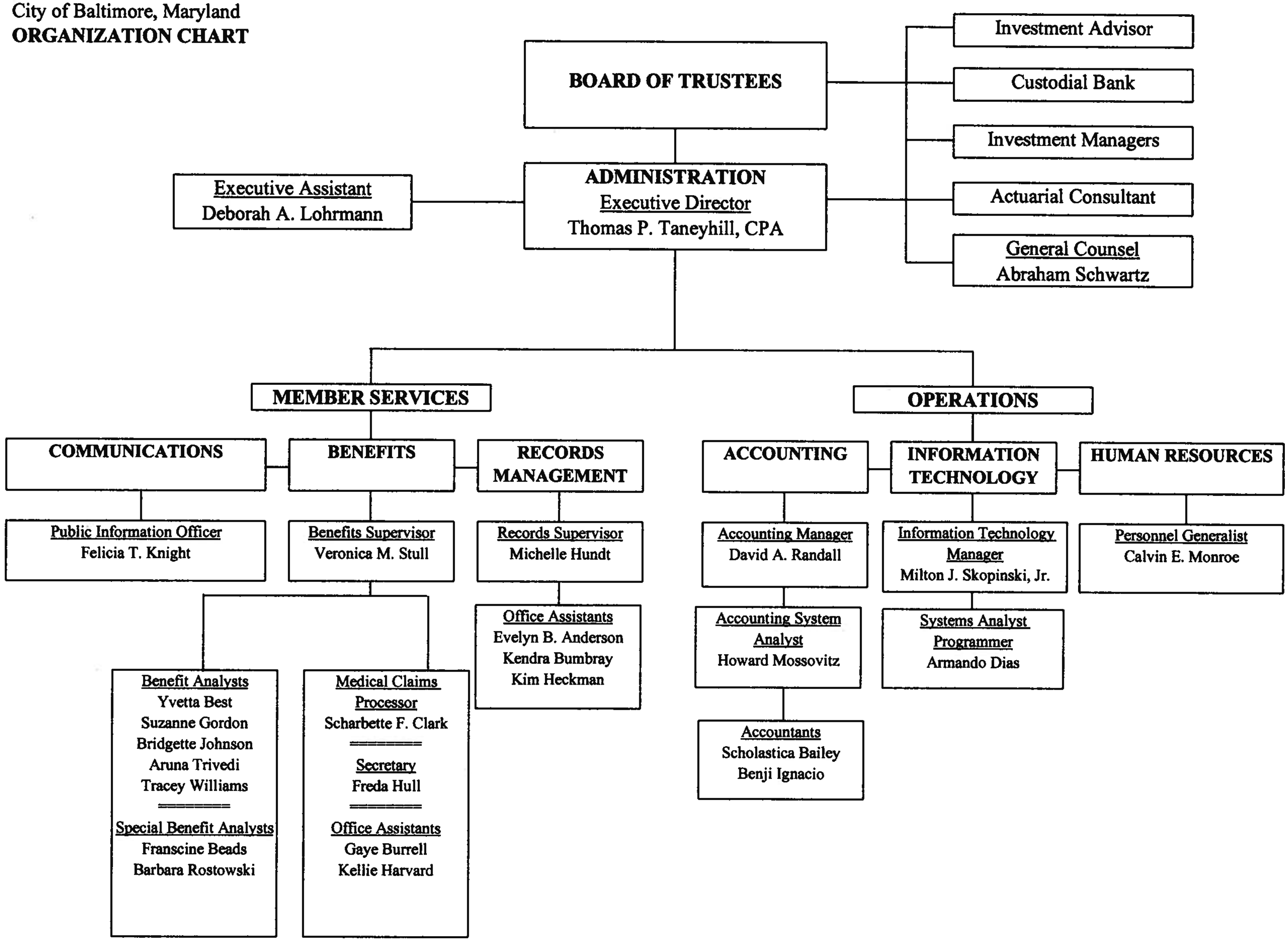
I would like to take this opportunity to express my gratitude to the Board of Trustees, the F&P's dedicated staff, the System's consultants, investment managers and advisors, all of whom have worked diligently to assure the successful operation of the System.

Respectfully submitted,

Thomas P. Taneyhill

Thomas P. Taneyhill, CPA
Executive Director

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ORGANIZATION CHART



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BOARD OF TRUSTEES

Elected active and retired member Trustees serve four-year terms. Trustees appointed by the Mayor serve terms concurrent with the Mayor's term (normally a four-year term). Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no term limits for elected trustees. The ex-officio members to the Board are the City Comptroller, the Police Commissioner and the Fire Chief. The Board Chairman and Vice-Chairman are elected by the members of the Board of Trustees.

*Deputy Commissioner Dutton was designated by Police Commissioner Leonard Hamm to be his representative on the Board.
**Deputy Chief Curbeam was designated by Fire Chief William Goodwin to be his representative on the Board.
***Denotes Investment Committee members who are elected to the committee by the members of the Board of Trustees.

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 8, 2006

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

On behalf of the Board of Trustees, I am pleased to report that this Annual Report for the fiscal year ending June 30, 2006 represents yet another year of solid investment returns for the Fire and Police Employees Retirement System. While investment returns on a year to year basis, particularly when viewed as a "snapshot" in a static report, represent but a single facet of a very complex retirement benefit funding plan, it is quite obvious that poor investment returns would have a negative impact. And so it is with our continuing to achieve top quartile investment returns that we use this opportunity to first thank our General Consultant, Mr. Daniel J. Holmes of Summit Strategies Group for his work on behalf of our members and beneficiaries.

Significant as annual investment returns might be, however, the often overlooked and underreported operational functions of our Retirement System are, to the average member and beneficiary, perhaps of utmost importance. It could be argued that a primary function of any retirement plan is to provide benefits to recipients "in full, on time, every time" and that does not happen without the hard work of a very dedicated Executive Director and staff. It gives us great pleasure and confidence to know that our Executive Director, Mr. Thomas P. Taneyhill and a staff too numerous to mention work tirelessly in a constantly changing and challenging atmosphere to achieve the "in full, on time, every time" standard without exception.

Our Fire and Police Employees' Retirement System, established in 1962, presently provides benefits to more than five thousand retirees and beneficiaries and is obligated to ensure retirement benefits to another nearly five thousand active members. A "mature" retirement plan by any measure, having added benefits as the need became apparent and the resources available, we have clearly reached a point where changes must be considered to maintain basic Plan solvency. As mentioned in this Annual Report a year ago, changes to DROP and the current Variable Annuity benefits will soon be considered and we trust that ALL Plan participants will follow the legislative process and stay informed through their various representative groups.

Finally, We would like to take this opportunity to thank Retired Deputy Chief Corey D. Curbeam for his service on the Board of Trustees on behalf of Fire Chief William J. Goodwin, Jr. and welcome newly promoted Deputy Chief Theodore G. Saunders to the Board. We look forward to continued dedicated service and, once again, on behalf of the entire Board of Trustees I can assure you of our best efforts in the interests of ALL of our Plan participants.

Sincerely,

Stephan G. Fugate
Chairman
Board of Trustees

LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

Law Department
City of Baltimore
Ralph Tyler, Esq.
Richard E. Kagan, Esq.

GENERAL COUNSEL

Fire and Police Employees' Retirement System
City of Baltimore
Abraham M. Schwartz, Esq.

ACTUARY

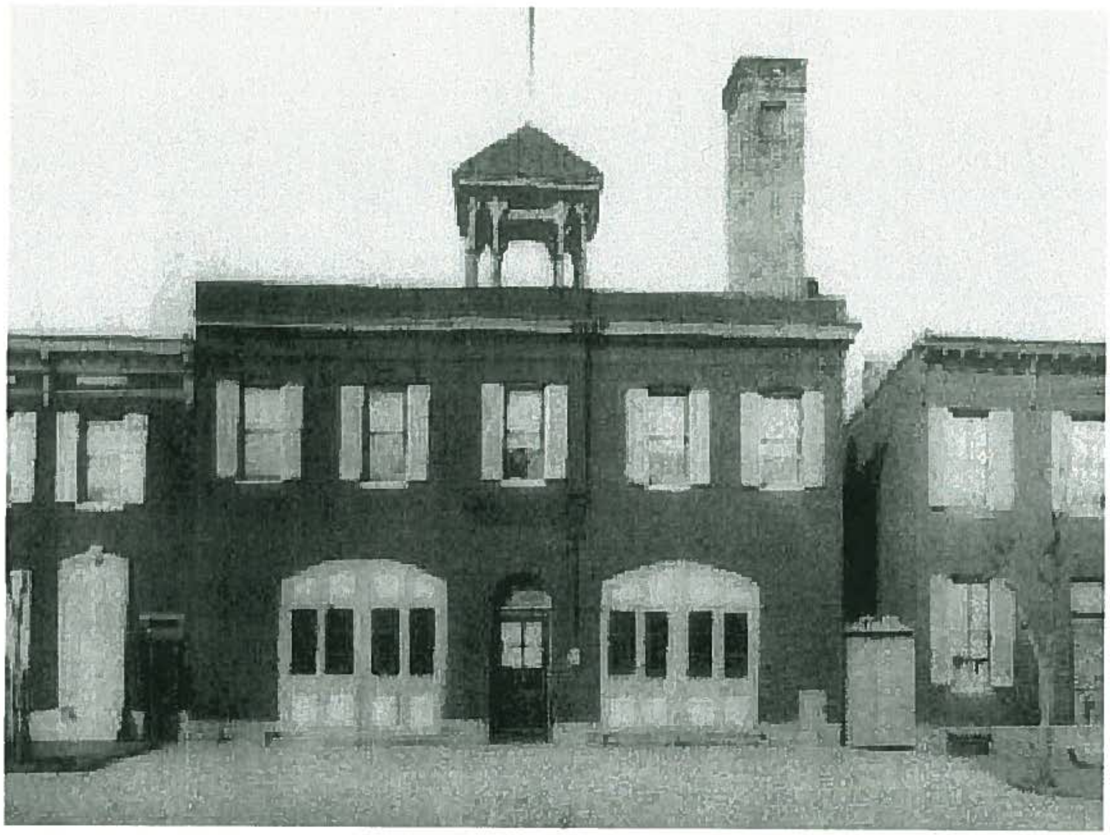
Mercer Human Resource Consulting
Douglas L. Rowe, F.S.A.
Baltimore, Maryland

INDEPENDENT AUDITOR

Department of Audits
City of Baltimore
Robert L. McCarty, Jr., CPA

See pages 51 and 52 in the Investment Section for a list of investment professionals.

Financial Section



The Highlandtown station was formerly the home of Engine Company No. 8. In 1919, the station was transferred to the command of Engine Company No. 41 where it has been serving the Highlandtown community for over 100 years.

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor

DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

December 8, 2006

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Fire and Police Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Fire and Police Employees' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Fire and Police Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fire and Police Employees' Retirement System as of June 30, 2006, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 8, 2006, on our consideration of the Fire and Police Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a part of the basic financial statements but is 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 Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire and Police Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robert L. McCarty, Jr., CPA
City Auditor

We are pleased to provide this overview and analysis of the financial activities of the Fire and Police Employees' Retirement System (F&P, Plan, System) for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 5 of this report.

Financial Highlights

- The net assets held in trust for pension benefits increased by $77.8 million during the fiscal year from $2,016.1 million at June 30, 2005, to $2,093.9 million at June 30, 2006.
- The managed investment portfolio total rate of return for the fiscal year ended June 30, 2006 was 12.0%.
- The F&P's total rate of return of 12.0% exceeded the total fund policy index of 10.5% and the median public fund performance of 9.3% for the fiscal year ended June 30, 2006.
- When compared to other public pension plans reported in the Independent Consultants' Cooperative Public Fund Universe, the F&P's investment performance for the one, three, and five year periods ended June 30, 2006 ranked in the 12^{th} percentile, the 11^{th} percentile, and the 56^{th} percentile, respectively.
- The F&P's international equity composite led the fiscal year 2006 investment performance with a 28.2% rate of return, followed by the real estate composite with a 17.3% rate of return.
- The F&P's funding objective is to meet benefit obligations through employer and member contributions and by achieving an 8.25% investment rate of return over the long-term. As of June 30, 2006, the date of the system's last actuarial valuation, the System's funded ratio was 92.5%.
- Additions to Plan Net Assets (Revenues) for the year were $244.0 million, a decrease of $38.7 million from the prior year revenues of $282.7 million.
- Deductions from Plan Net Assets (Expenses) were $166.2 million in the current year, an increase of $3.8 million from the prior year expenses of $162.4 million.
- Office relocation expenditures continued as the F&P moved to our new permanent quarters in September 2005. Capital assets, which are recorded at cost, include capitalized costs relating to leasehold improvements, computer equipment and office furniture.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the F&P financial statements and the Financial Section of this report. The statements and the notes are in conformity with accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the F&P at June 30, 2006, the end of the plan's financial year. It indicates the total assets and total liabilities at June 30, 2006, and the net assets available for future payment of retirement benefits and operating expenditures. The assets comprise cash and cash equivalents, which are fixed income instruments with one year or less to maturity; receivables, which are mainly from investment activity; investments at fair market value; securities lending collateral; and capital assets, which includes leasehold improvements, computer equipment, and office furniture. Securities traded on national or international exchanges are valued at the last reported sale price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is based primarily on appraisals by third-party appraisers. The liabilities comprise payables for securities lending collateral, certain investment activity, lump sum distributions payable to members and administrative expenses.

The **Statement of Changes in Plan Net Assets,** on the other hand, summarizes the F&P financial activities that occurred during the plan's financial year from July 1, 2005 through June 30, 2006. Employer contributions are recognized when a formal commitment has been made by the employer to provide the contributions. Member contributions are recognized in the period in which the contributions are due. All investment gains and losses are recorded at trade date. Both realized and unrealized investment gains and losses are recorded. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

The **Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 23 and 24 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provides two schedules illustrating ten-year historical trend information. The first schedule, concerning the funded status of the F&P, compares the actuarial value of assets to the actuarial accrued liability. The second schedule provides a history of required contributions made by the employer. See the Required Supplementary Information beginning on page 32 of this report.

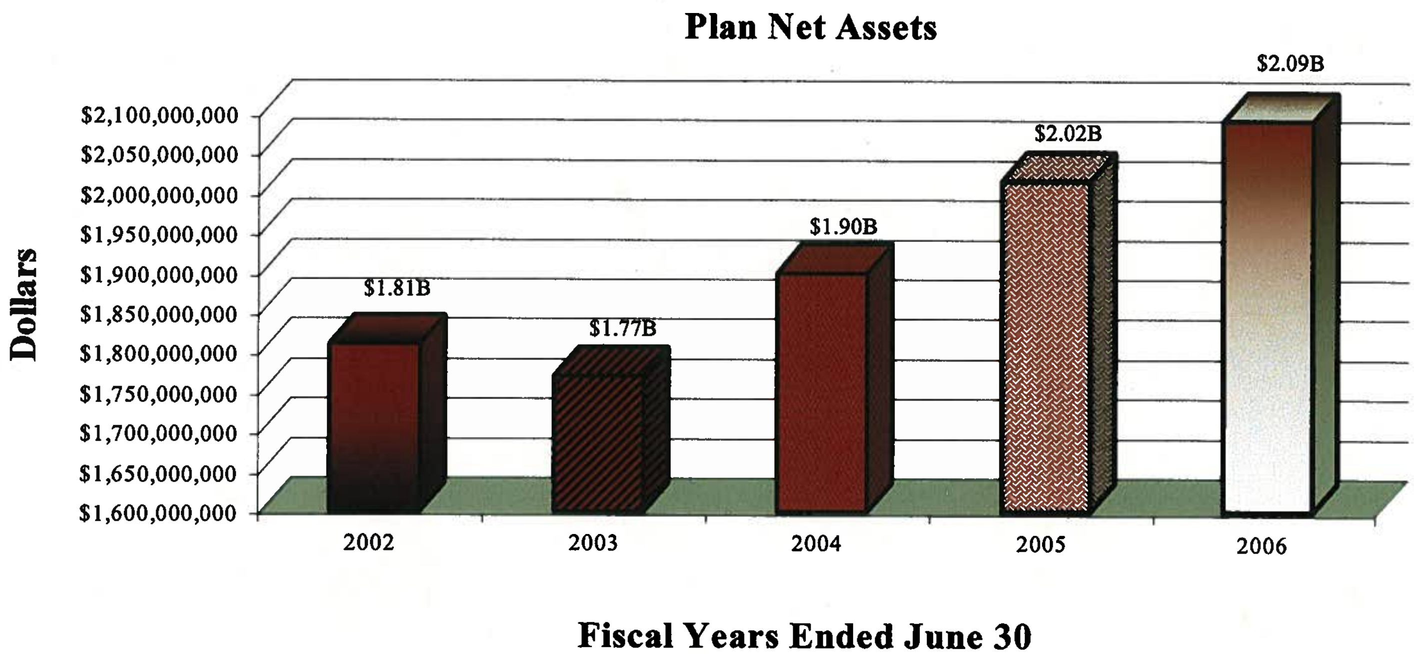
The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the F&P.

Financial Analysis

The examination of plan net assets over time may serve as a useful indicator of the financial position of the F&P. At June 30, 2006, assets exceeded liabilities by $2.1 billion, an increase of $77.8 million over the prior year. All of the net assets are available to meet the ongoing obligations to the F&P participants and beneficiaries. As of June 30, 2006, total assets increased by 5.2% over the prior year primarily due to the increase in the fair value of the System's international and domestic equity portfolios and the real estate portfolio. The System's management believes that the F&P remains in a strong financial position to meet its obligations to the membership.

Plan Net Assets
For the Fiscal Years ended June 30, 2006 and 2005

	2006	2005	Increase (Decrease)	Percentage Change
Current assets	$ 65,142,131	$ 85,426,815	$ (20,284,684)	(23.7)%
Capital assets	1,914,850	1,178,367	736,483	62.5
Investments at fair value	2,373,934,934	2,234,086,982	139,847,952	6.3
Total Assets	**2,440,991,915**	**2,320,692,164**	**120,299,751**	**5.2**
Current liabilities	347,104,529	304,642,050	42,462,479	13.9
Total Liabilities	**347,104,529**	**304,642,050**	**42,462,479**	**13.0**
Net Assets	**$2,093,887,386**	**$2,016,050,114**	**$ 77,837,272**	**3.9%**



Investment Assets

The F&P's investment assets totaled $2.1 billion at the fiscal year ended June 30, 2006, and are allocated to two separate investment portfolios: the "managed" portfolio and the "dedicated" portfolio. The majority of the assets, $1,693 million, comprise the "managed" portfolio for which investment rates of return are calculated and tracked. The "managed" assets are allocated to various classes according to the Board's assets allocation targets, as reported in the financial section of this report, and are measured against benchmarks established for the management style within the particular asset class. The composite rate of return for the "managed" portfolio is calculated and is disclosed throughout this report.

The remainder of the assets, $401 million as of June 30, 2006, are separately invested from the Board's asset allocation targets and are managed in fixed income portfolios dedicated to immunize post-retirement increase liabilities. The Board's policy is to conservatively invest the dedicated assets in fixed income securities that are managed to match or immunized the payout streams of the post-retirement increases. The increases are not guaranteed by the City and the Board has chosen to immunize those benefit payment to assure their continuation. Since the "dedicated" portfolio is managed to immunized the benefit liabilities and it is not managed to the Board's general asset allocation, the rate of return for those assets is not included in the rates of return disclosed in this report. However, the "dedicated" assets are included and reported in the System's financial statements along with the "managed" assets.

All investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on "managed" assets for the year ended June 30, 2006 was 12.0%, which was attributed to a strong performance in the international equity and real estate portfolios. The total portfolio annualized rate of return for the last three and five-year periods ended June 30, 2006, was 13.4% and 6.1%, respectively. The diversification of the F&P's "managed" assets across multiple classes and strategies lowers investment risk and maximizes opportunities to achieve the Board's investment objectives to fund plan benefits and reduce required employer contributions. The F&P's long-term actuarial investment return assumption is 8.25%.

The F&P invests in domestic and international equities, domestic fixed income, hedge fund of funds, private equity fund of funds, and real estate limited partnerships. The System also participates in a securities lending program that is managed by the System's custodian bank. External investment management firms selected by the Board of Trustees and approved by the Board of Estimates, the City's policy making body, manage all assets. Mellon Global Securities Services, the F&P's custodian bank, holds all marketable securities in custody.

Beginning on page 40 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 47 for the comparison of the "managed" asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2006.

Liabilities

The current liabilities are payables incurred mainly by the transaction activity of the investment assets, the lump sum benefits payable to members, and the operating expenses of the F&P office.

Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005	Increase (Decrease)
Additions			
Net investment income	$178,616,240	$218,297,510	$(39,681,270)
Employer contributions	49,661,627	48,666,701	994,926
Member contributions	15,157,898	15,359,931	(202,033)
Net securities lending income	561,649	389,616	172,033
Total Additions	**243,997,414**	**282,713,758**	**(38,716,344)**
Deductions			
Retirement allowances	147,353,252	135,950,256	11,402,996
Lump sum DROP payments	14,025,599	22,253,341	(8,227,742)
Administrative expenses	2,552,458	2,143,390	409,068
Refunds of member contributions	1,708,619	1,403,449	305,170
Death benefits	520,214	620,679	(100,465)
Total Deductions	**166,160,142**	**162,371,115**	**3,789,027**
Net Increase (Decrease)	**$ 77,837,272**	**$120,342,643**	**$(42,505,371)**

Investment Income and Contributions

In fiscal year 2006, the F&P's "managed" investment portfolio benefited from the growth in the global equity markets and real estate markets. In general, the international equity markets outperformed the domestic equity markets by substantial margins. In the domestic markets, large cap value stocks outperformed large cap growth stocks, and small caps outperformed large cap stocks. For the current fiscal year, the F&P's international equity portfolio and the domestic equity portfolio returned 28.2% and 9.8%, respectively. The real estate portfolio returned 17.3% in fiscal year 2006. The System's hedge fund of funds performed very well by returning 11.8% and exceeded the Board's LIBOR plus 400 basis points objective of 8.8%. With rising bond yields, the System's "managed" fixed income portfolio finished flat and was saved from negative territory by its high yield fixed income manager that returned 5.1%.

The System's "dedicated" fixed income portfolio, as explained above, was adversely effected by the rising bond yields and returned (3.97%) for the year. The negative investment performance of the "dedicated" fixed income portfolio, as well as the flat performance of the "managed" fixed income portfolio accounts for the substantial decrease in investment income from fiscal year 2005 to fiscal year 2006. The net investment income is reduced by investment expenses, which increased to $8.1 million in fiscal year 2006 from $6.7 million for fiscal year 2005.

In fiscal year 2006, employer contributions increased $1.0 million, from $48.7 million in the prior year to $49.7 in the current year because the prior year required contribution had been lowered by a one-time reduction for "excess earnings," as allowed by the post-retirement benefit increase provisions.

Even though by fiscal year end June 30, 2006 the covered member compensation had increased, member contributions decreased from the prior year to the current year because in fiscal year 2005 Fire Department members had the cyclical twenty-seven biweekly pays, one payroll more than the normal twenty-six bi-weekly pays that occurred in fiscal year 2006.

Retirement Benefits and Administrative Expenses

The F&P was created to provide lifetime service retirement and permanent disability benefits to eligible members and their beneficiaries, and death benefits to eligible survivors. The cost of such programs includes recurring retirement benefit payments and post-retirement benefit increases, lump-sum payments to Deferred Retirement Option Plan (DROP) participants, lump sum death benefits, refunds of accumulated member contributions and interest to terminated members, and the cost of administering the System.

The primary expense during fiscal year 2006 was for the payment of continuing retirement benefits totaling $147.4 million, an increase of $11.4 million over the $136.0 million in retirement allowances paid in fiscal year 2005. Retirement allowances increased due to the January 2006 post-retirement increase of 2.2% made to eligible retirees and beneficiaries, an increase in the number of disability retirement benefit recipients, and an extra twenty-seventh bi-weekly payroll that occurred during the year. Administrative expenses increased because of higher personnel costs, the lease payments for new office space, and the depreciation expenses for office furniture and computer systems. Leasehold improvements and office furniture are depreciated on a straight-line basis over 15 years, the life of the building lease. Computer equipment is depreciated on a straight-line basis over a 5 year useful life.

Requests for Information

This report is designed to provide a general overview of the F&P's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Thomas P. Taneyhill, CPA
Executive Director
Fire and Police Employees' Retirement System
7 East Redwood Street, 19th Floor
Baltimore, Maryland 21202

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF PLAN NET ASSETS
June 30, 2006

Assets		
Cash and Cash Equivalents		$ 51,413,150
Receivables		
Investments sold	$ 7,522,953	
Accrued income	6,126,303	
Other receivables	79,725	
Total Receivables		13,728,981
Investments, at fair value		
Stocks	1,128,546,617	
Bonds	666,190,157	
Real estate	178,172,618	
Hedge funds	90,189,887	
Private equity funds	4,109,791	
Total Investments		2,067,209,070
Capital Assets, net of depreciation		
Leasehold improvements	1,219,073	
Office furniture	352,539	
Computer Equipment	343,238	
Total Capital Assets, net of depreciation		1,914,850
Securities Lending Collateral		306,725,864
Total Assets		2,440,991,915
Liabilities		
Securities lending collateral	306,725,864	
Investments purchased	35,063,280	
Lump sums payable to members	2,614,222	
Investment management fees payable	1,614,011	
Administrative expenses payable	542,641	
Retirement allowance payable	415,488	
Other accounts payable	129,023	
Total Liabilities		347,104,529
Net Assets Held in Trust for Pension Benefits		$2,093,887,386

The schedule of funding progress is presented on page 32.

The notes to the basic financial statements are an integral part of this statement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2006

Additions		
Contributions		
Employers	$49,661,627	
Plan members	15,157,898	
Total Contributions		$ 64,819,525
Investment Income		
Net appreciation in fair value of investments	130,394,552	
Interest and dividends	39,911,637	
Real estate income	16,409,710	
Less: Investment expenses	(8,099,659)	
Net Investment Income		178,616,240
Securities lending income	802,312	
Less: Securities lending expenses	(240,663)	
Net Securities lending income		561,649
Total Additions		243,997,414
Deductions		
Retirement allowances	147,353,252	
Lump sum DROP payments	14,025,599	
Administrative expenses	2,552,458	
Refunds of member contributions	1,708,619	
Death benefits	520,214	
Total Deductions		166,160,142
Net Increase		77,837,272
Net Assets Held in Trust for Pension Benefits		
July 1, 2005		2,016,050,114
June 30, 2006		$2,093,887,386

The notes to the basic financial statements are an integral part of this statement.

1. Plan Description:

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) is the administrator of a single employer defined benefit local government retirement plan. Established July 1, 1962, the plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. In addition, the plan includes twenty-two fire and police officers who are employees of the State of Maryland; this contingent emanated from when the City of Baltimore owned the Baltimore/ Washington International Thurgood Marshall Airport. Based on criteria established by the Governmental Accounting Standards Board, the F&P is a component unit of the City of Baltimore and is included in the City's financial report as a public employees retirement system (PERS).

At June 30, 2006, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	5,716
Active plan members	4,627
Total	10,343

The F&P provides normal service retirement benefits, as well as, death and disability benefits in accordance with Article 22 of the Baltimore City Code, which may be amended only by the Mayor and City Council. The reduction of benefits is precluded by the City Code. Membership in the System is mandatory upon employment. The System does not have a vested benefit plan.

Post retirement benefit increases are provided to those eligible retirees and beneficiaries when the plan is determined at June 30 to have excess investment earnings, as specified by law. See the description of the Paid Up Benefit Reserve and the Contingency Reserve as noted under "Contributions and Reserves" in Note 3.

2. Summary of Significant Accounting Policies:

Basis of Presentation:
The accounting and financial reporting policies of the F&P included in this report conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the F&P, a component unit of the City of Baltimore.

There are no component units of the F&P based on the nature of operational or financial relationships.

Basis of Accounting:
These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions 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 plan.

Method Used to Value Investments:
Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

3. Contributions and Reserves:

F&P members are required to contribute 6% of their regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. According to the plan provisions, contribution requirements of the plan members and the City are established and may be amended by the Mayor and City Council. The valuation method is stipulated in the plan provisions. Administrative costs of the F&P are paid from investment earnings.

The plan provisions, Article 22 of the Baltimore City Code, established the following reserves:

Annuity Savings Reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity Reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension Accumulation Reserve - Employer contributions are credited and accumulated with earnings in this reserve. DROP benefits and certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred from this reserve to the Pension Reserve.

Pension Reserve - From this reserve is paid the pension portion of the retirement allowance. The pension represents benefits for life derived from employer contributions and investment income.

Paid Up Benefit Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. Post-retirement benefit increases provided by the excess earnings are paid from this reserve.

Contingency Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. The Contingency Reserve was created to insure payment of benefit increases payable from the Paid Up Benefit Reserve. In the event of a deficit in the Paid Up Benefit Reserve, assets would be transferred to that reserve from the Contingency Reserve.

At June 30, 2006, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 206,295,261
Annuity reserve	219,301,451
Pension accumulation reserve	155,727,935
Pension reserve	1,111,990,710
Paid up benefit reserve	367,289,725
Contingency reserve	33,282,304
Total Reserves	$ 2,093,887,386

The annuity savings reserve, annuity reserve, pension accumulation reserve and pension reserve comprise the managed portfolio totaling $1,693,615,357. The paid up benefit reserve and contingency reserve comprise the dedicated portfolio totaling $400,572,029.

At June 30, 2006, the actuarially determined accrued liability exceeded the assets in the Pension Accumulation Reserve by $204,459,065.

4. Securities Lending:

The Board of Trustees entered into a Securities Lending Authorization Agreement with the System's custodian bank, Mellon Global Securities Services. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the F&P.

Collateral received in exchange for securities loaned is collected in an escrow account for the F&P's benefit for the duration of the loan. At no time will the System lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts will be marked to market daily. The F&P does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2006, the F&P had no credit risk exposure to borrowers because the amounts the F&P owed borrowers exceeded the amounts the borrowers owed the F&P. The market value of securities on loan at June 30, 2006, was $300,468,924 and the market value of the collateral received for those securities on loan was $306,725,864. The F&P did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the F&P against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrower or the custodian.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

5. Cash and Investments:

The System's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees (the Board) of the F&P is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the System's investments through an external investment advisor who acts as a fiduciary for the System and through external investment managers. The Board invests the assets of the F&P using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Governmental Accounting Standards Board (GASB) Statement No. 40 updates and/or supersedes portions of GASB Statement No. 3. GASB Statement No. 40 establishes more comprehensive disclosure requirements related to investment risks: foreign currency risk exposure, interest rate risk and credit risk by quality.

The F&P invested assets at June 30, 2006 are presented below:

Investment Type	Fair Value
Debt Securities:	
U.S. Government agency bonds	$ 283,129,141
Corporate bonds	171,213,039
Lehmann aggregate index	142,500,306
U.S. treasury notes & bonds	69,347,671
Money mutual funds	51,413,150
Total debt securities	717,603,307
Other:	
Domestic equities	832,224,487
International equities	296,322,130
Real estate	178,172,618
Hedge funds	90,189,887
Private equity funds	4,109,791
Total other	1,401,018,913
Total investments	2,118,622,220
Less: cash and cash equivalents	51,413,150
Total net investments	$2,067,209,070

Foreign Currency Risk Exposure

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. It is the Board's policy that external managers demonstrate sensitivity to foreign currency risk. The foreign currency exposure of the System may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of a portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

The F&P exposure to foreign currency risk is presented on the following table:

Currency	Market Value
Euro Currency Unit	$ 67,270,422
British Pound Sterling	41,239,459
Japanese Yen	28,980,122
South Korean Won	27,280,565
Hong Kong Dollar	16,134,059
Swiss Franc	14,804,645
Taiwan Dollar	12,526,747
South African Comm Rand	9,821,005
Mexican New Peso	9,027,543
Brazil Real	8,916,019
Thailand Baht	7,974,161
Canadian Dollar	7,300,263
Norwegian Krone	4,633,298
Australian Dollar	3,981,610
Malaysian Ringgit	3,445,598
Chilean Peso	3,049,071
Singapore Dollar	2,915,962
Israeli Shekel	2,047,037
Swedish Krona	1,283,323
Turkish Lira	1,063,127
Indonesian Rupian	163,353
Total Foreign Currency	$273,857,389
U.S. Dollars (held in International Equity)	$ 22,464,741

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. F&P uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The Board's fixed income interest rate policy states that the effective duration of a portfolio may not exceed 120% of the effective duration of the underlying Lehman Aggregate benchmark.

Asset Type	Option Adjusted Duration	Fair Value
U.S. Government agency bonds	8.79	$283,129,141
Corporate bonds	3.59	171,213,039
Lehmann aggregate index	4.73	142,500,306
U.S. treasury and bonds	3.62	69,347,671
Money mutual funds	0.08	51,413,150
Total debt securities		$717,603,307

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. The F&P's rated debt investments as of June 30, 2006 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

Asset Type	Fair Value	Quality Ratings			
		AAA thru A	BBB thru B	CCC thru C	Not rated
U.S. Government agency bonds	$ 283,129,141	$257,293,283			$ 25,835,858
Corporate bonds	171,213,039	79,059,501	$82,428,387	$ 773,444	8,951,707
Lehmann aggregate index	142,500,306				142,500,306
U.S. treasury and bonds	69,347,671	69,347,671			
Money mutual funds	51,413,150				51,413,150
Total debt securities	$717,603,307	$405,700,455	$82,428,387	$ 773,444	$228,701,021

6. Capital Assets:

Capital Assets consisting of furniture and equipment, computer equipment and leasehold improvements are recorded at cost. Depreciation on computer equipment is calculated on a straight-line basis over a five year useful life; depreciation on leasehold improvements and office furniture is calculated on a straight-line basis over fifteen years, the life of the building lease. Leasehold improvements were put into service in this fiscal year. Thus, depreciation expense of $87,076 for leasehold improvements is being recognized, as well as $18,224 for office furniture and equipment and $100,578 for computer equipment. Accumulated depreciation for computer equipment and office furniture and equipment is $192,932 and $24,430, respectively.

Asset	June 2005 Balance	Additions	Depreciation	June 2006 Balance
Computer Equipment	$ 386,244	$ 57,572	$100,578	$ 343,238
Office Furniture/Equipment	115,180	255,583	18,224	352,539
Leasehold improvements	676,943	629,206	87,076	1,219,073
Totals	$1,178,367	$942,361	$205,878	$1,914,850

Required Supplementary Information and Supporting Schedules

The Highlandtown station, Engine Company No. 41 is located at 520 South Conkling Street. In the 1920's, the community of Highlandtown began to grow into a major commercial district, which contributed to Baltimore's emerging economy. Many family businesses were established with the Highlandtown station in the middle of it all.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
1997	$1,723,838,021	$1,719,217,270	$ (4,620,751)	100.3%	$176,872,896	(2.6)%
1998	1,913,979,734	1,850,539,972	(63,439,762)	103.4	185,816,956	(34.1)
1999	1,974,471,134	1,919,288,493	(55,182,641)	102.9	183,068,111	(30.1)
2000	2,078,331,195	2,029,568,487	(48,762,708)	102.4	191,003,156	(25.5)
2001	2,098,740,595	2,096,802,530	(1,938,065)	100.1	209,527,825	(0.9)
2002	2,127,393,333	2,173,188,430	45,795,097	97.9	227,785,032	20.1
2003	2,205,205,652	2,286,873,035	81,667,383	96.4	245,711,363	33.2
2004	2,320,027,717	2,395,522,699	75,494,982	96.8	241,245,198	31.3
2005*	2,464,821,382	2,560,984,795	96,163,413	96.2	244,814,891	39.3
2006	2,505,470,848	2,709,929,913	204,459,065	92.5	248,558,248	82.3

See notes to required supplementary information.

* The 2005 actuarial value of assets was restated due to the City's decision to recognize certain reserved actuarial investment losses over a 10 year period rather than the 5 year period as reported last fiscal year.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Schedule of Employer Contributions presents the required contributions due from the City of Baltimore and the State of Maryland. In addition, the schedule presents the amount of excess earnings elected by the City to reduce the contributions payable to the F&P.

Fiscal Year Ended June 30	City Contribution Per Actuarial Valuation	Reduction In City Contributions Due To Excess Earnings	Contributions Required From Baltimore City	Contributions Required From State of Maryland	Total Contributions Required	Percentage Contributed
1997	$21,015,505	$12,000,000	$ 9,015,505	$289,741	$ 9,305,246	100%
1998	23,501,118	10,000,000	13,501,118	329,487	13,830,605	100
1999	30,439,954	30,439,954		268,139	268,139	100
2000	27,074,061	27,074,061		235,272	235,272	100
2001	27,297,688	27,297,688		217,340	217,340	100
2002	29,192,803	29,192,803		252,220	252,220	100
2003	34,415,552		34,415,552	263,326	34,678,878	100
2004	42,387,801		42,387,801	311,365	42,699,166	100
2005	48,321,205		48,321,205	345,496	48,666,701	100
2006	49,248,316		49,248,316	413,311	49,661,627	100

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. The information presented in the required supplementary schedules was derived from the annual actuarial valuations prepared as of each June 30. Additional information from the latest actuarial valuation dated June 30, 2006 follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20 year period; only one amortization base.
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year.
Actuarial assumptions:	
Investment rate of return	
Pre-retirement	8.25%
Post-retirement	6.80%
Projected salary increases	4.00% to 8.50%, includes inflation at 3.00%
Post-retirement cost-of-living adjustments	Dependent upon investment performance which must exceed 7.50% as calculated each fiscal year end.

2. Ordinance 42 of 1996 required the application of $12.0 million of actuarial interest surplus to reduce the fiscal year 1997 employer contribution.

3. Ordinance 97-164 of 1997 allows the City to utilize excess earnings to reduce or eliminate its required employer contribution. For fiscal year 1998, the City elected to apply $10.0 million of excess earnings to reduce the amount of required employer contribution.

4. Changes in actuarial assumptions, which included a slight reduction in the salary scale, a reduction in the mortality rates for line-of-duty deaths and for service retirements, lowering withdrawal rates by 10% for ages 30-39 for non-officers, lowering disability rates, and changes in DROP and retirement assumptions increased the June 30, 1999, actuarial accrued liability by $10.2 million. These changes in actuarial assumptions increased employer contributions by $1.1 million.

   As provided in the plan provisions, the City can utilize excess earnings to reduce or eliminate its required employer contribution. For fiscal year 1999, the City elected to apply $30.4 million of the excess earnings to eliminate having to make its required employer contribution.

5. Ordinance 00-49 of 2000 provided for plan benefit improvements for active members and most retirees and beneficiaries. The improvements which included a one percent increase to retirees and beneficiaries who were receiving retirement benefits as of June 30, 2000, a reduction in the member contribution for one year, an increase in the accrual rates for Intermediate and Full Deferred Retirement Option Plan (DROP) retirement benefits, and a reduction in the time period to attain eligibility for a Full DROP retirement benefit, increased the June 30, 2000 actuarial accrued liability by $61.7 million. Ordinance 97-164 of 1997, allows the use of excess earnings to reduce the cost of plan benefit improvements. For fiscal year 2000, excess earnings in the amount of $61.7 million was used to offset the cost of these plan benefit improvements on the actuarial accrued liability.

6. Ordinance 03-576 of 2003 provided amendments and clarifications to the plan provisions that effected current and future active members. The ordinance clarified the provisions regarding service credit while members are on military leave of absence to conform to federal and state laws. The improvements amended or added provisions to allow certain members to purchase previous service credits lost due to separation from service, to allow members to purchase up to 6 months of Maryland Police Corps training time for service credit, and to allow members to transfer certain service credits from former federal and state governmental pension and retirement systems outside the state of Maryland. The ordinance also placed restrictions on how much service credit can be transferred to the F&P from other qualified plans based on whether the service was in a uniformed position or civilian position. In addition, the ordinance added restrictions to the service retirement requirements and to the eligibility requirements to enter the Deferred Retirement Option Plan for members who enter the F&P on or after July 1, 2003, and required a minimum of ten years of service as a member of the F&P and as an employee paid by the Mayor and City Council of Baltimore. The ordinance did not have a material financial impact on the System.

7. Preceding the preparation of the June 30, 2005 Actuarial Valuation Report, the System's actuary performed an Actuarial Experience Study for the three year period ended June 30, 2005. As a result of the Experience Study, the Board of Trustees adopted changes in actuarial assumptions which included increases to the salary scale for most ages, reductions to pre-retirement and post-retirement mortality rates, increases to withdraw rates for members under age 50, decreases to withdraw rates for members over age 50, reductions to non-line-of-duty disability rates for members age 40 and above, increases to line-of-duty disability rates for ages 44 and below, an increase to the DROP participation rate, and changes to both DROP and non-DROP retirement rates. These assumption changes, which were incorporated into the June 30, 2005 actuarial valuation, increased the actuarial accrued liability $39.5 million. The Board approved utilization of $34.3 million of excess investment earnings to reduce the increase in the unfunded accrued liability.

8. A plan provision that required that excess earnings be credited and deficit earnings be charged to certain actuarial reserves, expired on June 30, 2005. The purpose of the reserves, established June 30, 1996, was to segregate excess positive earnings that could then be utilized by the City to reduce its required employer contributions to the plan and by the plan membership to "purchase" benefit improvements. The reserves were initially utilized for those two purposes. Subsequently, however, because of the downturn in the global equity markets in fiscal years 2001 through 2003, the reserves have instead accumulated net deficit earnings of $412.8 million as of June 30, 2005. The plan provision now requires that the Board of Trustees apply the deficit in the reserves in accordance with an appropriate asset valuation method. The City administration initially requested that the deficiency be recognized as an investment loss over a five year period. Prior to the publication of the June 30, 2006 actuarial valuation report, the City Administration reviewed the future impact of the 5-year amortization of the accumulated net deficit. The Administration requested that a 10-year amortization of the accumulated net deficit be utilized rather than the 5-year schedule. The Board approved the change which was included in the June 30, 2006 valuation report. It is expected that the City's employer contributions to the plan will substantially increase in future years due to this deficiency.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2006

Salaries and Wages:		
Permanent full-time salaries	$1,101,716	
Overtime	5,308	
Total Salaries and Wages		$1,107,024
Other Personnel Costs:		
Medical insurance and health care	162,213	
Retirement	97,394	
Social security	82,050	
Other employee benefits	10,404	
Total Other Personnel Costs		352,061
Contractual Services:		
Lease payments	221,263	
Actuarial services	220,903	
Retirement payroll processing	147,863	
Technology systems support	135,269	
Financial audit fees	26,000	
Postage	18,867	
Trustee education	16,040	
Telephone systems	15,049	
Staff training	14,738	
Printing	11,949	
Equipment rental	7,894	
Dues and publications	6,498	
Other professional services	6,160	
Equipment maintenance	2,742	
Total Contractual Services		851,235
Depreciation expense		205,878
Office supplies		35,242
Computer equipment		1,018
Total Administrative Expenses		$2,552,458

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2006

Schedule of Investment Expenses

Investment Expenses	Fees
Investment management fees	$7,654,930
Investment advisor fees	235,000
Custodial fees	209,729
Securities lending fees	240,663
Total Investment Expenses	**$8,340,322**

Schedule of Payments to Consultants

Firm	Fees	Nature of Service
Mercer Human Resource Consulting	$220,903	Actuarial services
Baltimore City Department of Audits	26,000	Financial audit

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 50.

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Investment Section

After the war, the Highlandtown community continued to grow and prosper. To better serve the needs of this growing community and after years of deterioration, the Highlandtown Station was renovated in 1956 with new equipment.

Summit Strategies Group
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St. Louis, Missouri 63105
telephone 314/727-7211
fax 314/727-6068
www.summitstrategies.com

October 31, 2006

To the Board of Trustees of the
Fire & Police Employees' Retirement System of the City of Baltimore

Introduction

This report, prepared for the Fire & Police Employees' Retirement System of the City of Baltimore (System) by Summit Strategies Group (Summit) is based on information supplied by the System's custodian, Mellon Bank, N.A. (Mellon). Mellon provides Summit with beginning and ending market values, cash flows, securities transactions and positions for the System as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. Investment information is reported to the greatest degree possible in conformance with the Performance Standards of the Association for Investment Management and Research (AIMR).

Distinction of Responsibilities

The System's Board of Trustees (Trustees) is responsible for the investment and administration of System assets. This includes establishing the strategic asset allocation which, over time, is the primary determinant of investment returns on assets. A thorough understanding of both the System's assets and liabilities is essential for determining an appropriate asset allocation. The key drivers of this analysis are the projections of the System's liabilities and the projections of expected future returns and risk (as measured by standard deviation of returns) for each asset class as well as correlation between asset classes. The liabilities include all key dimensions of the System's pension plan: membership, benefits, liabilities, assets, and funding requirements. The target asset allocation in place during most of FY2004-2006 was adopted by the Trustees during FY2003 and implemented during the course FY2004 and FY2005. In May 2006, the Trustees adopted a modified target asset allocation which was implemented in FY2007.

Investment Policy/Structure

The asset allocation adopted by the Trustees is included in the System's investment policy. The System employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the investment policy. System assets are invested using numerous investment managers so as to diversify the System's assets among multiple asset classes and investment styles. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase and sell individual securities, and control industry and economic sector exposure.

The System's investment policy is designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges, target allocations and a process of periodic rebalancing are used to maintain compliance with the investment policy and to increase the likelihood that the System will achieve its long-term risk and return objectives. The following table outlines the System's long-term target asset allocation:

Asset Class	Allocation Target
U.S. Equity	45%
International Equity	15%
Private Equity	5%
Total Equity	***65%***
U.S. Fixed Income	20%
Real Estate	10%
Alternative Strategies	5%
Total Portfolio	***100%***

Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner.

Investment Objectives

The System's investment policy contains the following objectives:

1. To preserve the inflation-adjusted capital value of the System;
2. To ensure adequate liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. To exceed the investment return objective without unduly jeopardizing objectives 1-3.

The investment return objective is a hypothetical policy portfolio constructed as follows: 50% Russell 3000 Index, 15% MSCI All Country World Ex US Index, 25% Lehman Aggregate Index, and 10% NCREIF Index. In addition, the System's investment performance is evaluated relative to the Independent Consultant's Cooperative Universe for Public Funds, a performance universe representing the performance of more than 185 public plans (3,515 portfolios) with an aggregate market value of nearly $783 billion as of June 30, 2006. In addition, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

Market Overview

The U.S. economy continued its third year of a strong growth trend during fiscal year 2005-2006. Like the previous fiscal year, all components of GDP grew with business fixed spending increasing the most since 2000. GDP finished the fiscal year with a 3.5% growth rate. At the same time, the rate of inflation continued to increase with CPI rising 4.3%. U.S. unemployment continued to drop during this period as well, dropping from 5.0% to 4.6%.

Amid record high commodity prices, especially for oil, both domestic and international equity returns finished strongly positive for the fiscal year. Large cap U.S. stocks, as measured by the S&P 500 Index returned 8.6%, while small cap stocks, as measured by the Russell 2000 Index returned 14.6%. Non-U.S. stocks in developed countries, as measured by the MSCI EAFE Index returned 27.1% for the fiscal year and their emerging markets counterparts, as measured by the MSCI Emerging Markets Index, returned 35.5% for the year.

During fiscal year 2005-2006 the Federal Reserve continued its policy of "measured" Fed Funds tightening with its 17th consecutive short term interest rate increase in order to control inflationary pressure. The Fed Funds rate ended the fiscal year at 5.25%. The U.S. Treasury yield curve shifted up and flattened dramatically over the fiscal year, ending inverted with no appreciable difference between 2 year and 30 year treasury yields. The U.S. investment grade market as a whole, as measured by the Lehman Aggregate Index, returned -0.8% for the fiscal year. High yield corporate bonds returned 4.8% continuing their outperformance of the previous year.

Investment Performance

The System continued to enjoy the benefits of the strategy used to implement the target asset allocation, as well as the changes in investment managers and expanded list of asset classes that began two years ago. This included the replacement of underperforming managers, the increased weight to small cap and international equity and real estate, as well as the addition of a hedge fund portfolio managed by two diversified fund-of-fund managers. These actions by the System's Board of Trustees, combined with a continued strong global equity and real estate market, helped the System continue its improved relative ranking in the System's peer Universe and continued achievement of investment goals.

The Board of Trustees
Fire & Police Employees' Retirement System of the City of Baltimore
October 31, 2006

For investment performance measurement purposes, the total investment portfolio is split between "actively managed" accounts and "other" assets. The "other" assets consist of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely for the purpose of paying post retirement benefit increases. It is only the actively managed assets that are displayed below. All returns shown below were calculated in accordance with AIMR Performance Presentation Standards.

For the fiscal year ended June 30, 2006, the System's rate of return was 12.0%. The System ranked in the 12th percentile of the ICC public fund universe for 1 year, and the 13th, 11th, 18th, and 56th percentiles respectively for 2-, 3-, 4- and 5-year trailing periods. The Fund outperformed its benchmark return of 10.5% by 1.5% for the fiscal year and ranked in the top decile of the peer universe, due in part to:

- Higher relative exposure to small and mid cap stocks;
- Higher relative exposure to international stocks, especially emerging markets stocks;
- Overweighting the value style in small-mid and international stocks;
- Higher relative exposure to real estate and value-added strategies within real estate; and
- Moving money away from fixed income and funding the hedge fund portfolio.

The market value of the actively managed accounts increased from $1.65 billion on June 30, 2005, to $1.73 billion on June 30, 2006. The increase in value is primarily attributable to investment related gains across both domestic and international equities as well as real estate. At the end of fiscal year 2005-2006, the System's assets were allocated as follows:

			Fiscal Year Rate of Return	
	Market Value ($ in millions)	Percent of Total	System	Benchmark
US Equity	$832.2	48.0%	9.8%	9.6%
International Equity	$296.3	17.1%	28.2%	28.4%
US Fixed Income	$333.4	19.2%	0.0%	-0.8%
Hedge Funds	$ 90.2	5.2%	11.8%	8.8%
Real Estate	$178.2	10.3%	17.3%	18.7%
Private Equity	$ 4.1	0.2%	N/A	N/A
Total Managed Assets	$1,734.4	100.0%	12.0%	10.5%

Of Note

As mentioned above, the System's Trustees continued the implementation of the asset allocation strategy adopted in May. Pending at the end of the fiscal year was: funding of a new private equity fund of fund manager and review of certain actuarial assumptions and plan provisions.

It is a pleasure to serve the System, and work with its Staff and Trustees. I look forward to the continued search for competitive investment returns in the current challenging capital market environment.

Sincerely,

Daniel J. Holmes
Managing Director

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The primary investment objectives of the Board of Trustees (Board) of the Fire and Police Employees' Retirement System (F&P, System) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the System assets adjusted for inflation;
2. To ensure adequate System liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

General Investment Policy

The Board must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. System investment managers are expected to familiarize themselves with these laws.

Investment policy for the System relates to the portfolio of all assets that comprise the total holdings of the System. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the System, as well as to maximize earnings of the F&P consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the F&P and its projected benefit payments. Should the projected finances of the System change significantly, the applicable Federal or State statutes be amended, or changes in the System's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

The Board recognizes that its investment portfolio must be diversified over several different asset classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the System:

	Percentage of Total Fund at Market Value
Asset Category	Target
Domestic Equity	45%
International Equity	15%
Private Equity	5%
Domestic Fixed Income	20%
Real Estate	10%
Alternative Strategies	5%

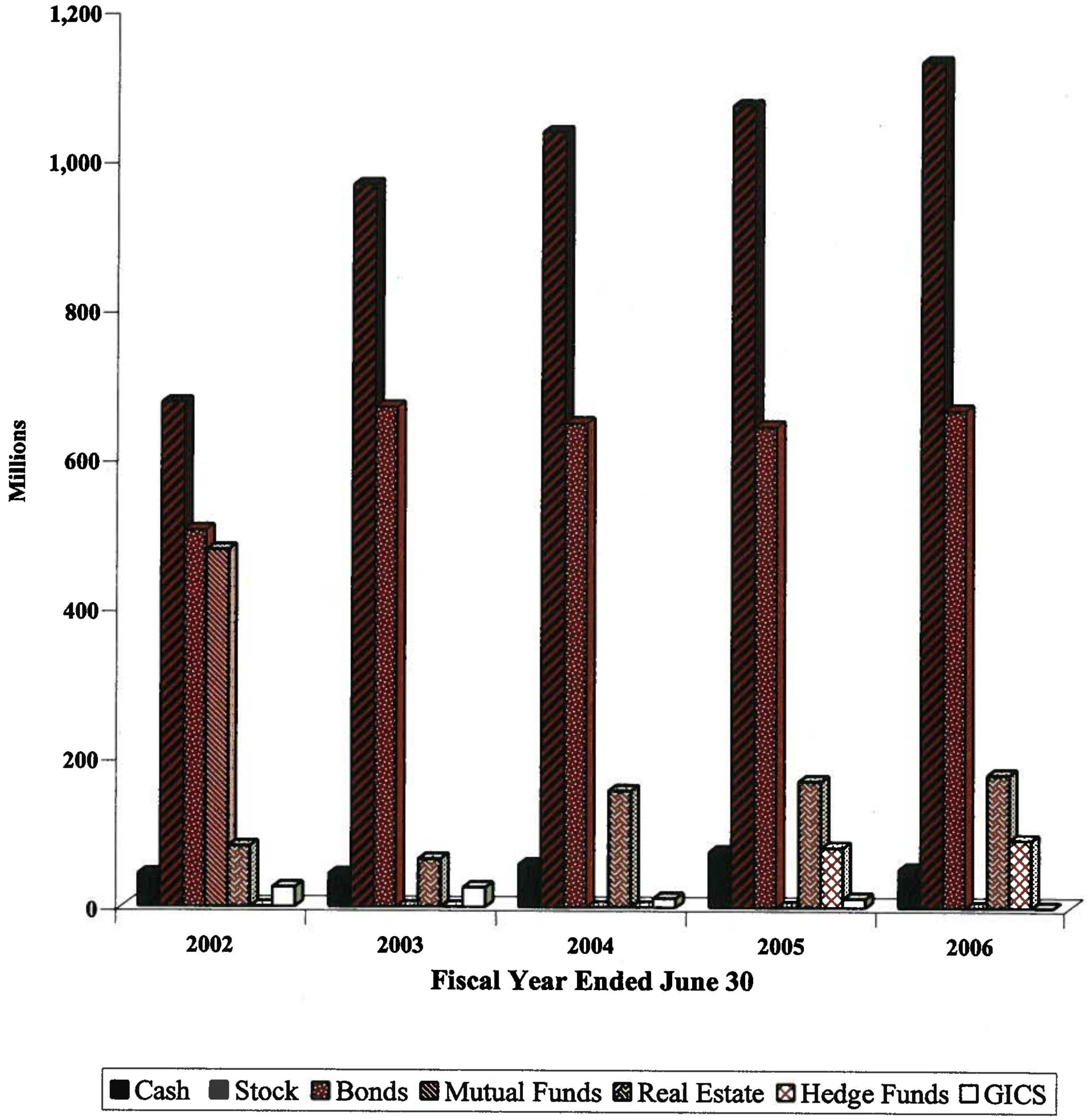
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and the System laws, the investment managers have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance. The investment managers are encouraged to suggest changes to the guidelines at any time.

Proxy Voting

Pursuant to a U.S. Department of Labor directive, the Board has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes, however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the System with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
TOTAL PORTFOLIO COMPOSITION
MARKET VALUE OF INVESTMENTS



	2002		2003		2004		2005		2006	
Cash	$ 44	2%	$ 44	2%	$ 57	3%	$ 74	4%	$ 51	3%
Stock	675	37	967	55	1,038	54	1,074	52	1,133	54
Bonds	504	28	669	38	648	34	644	31	666	31
Mutual Funds	478	27	0	0	0	0	0	0	0	0
Real Estate	81	5	64	4	156	8	169	8	178	8
Hedge Funds	0	0	0	0	0	0	80	4	90	4
GICS	26	1	26	1	12	1	12	1	0	0
Total	$ 1,808	100%	$ 1,770	100%	$ 1,911	100%	$ 2,053	100%	$ 2,118	100%

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN

		Annualized	
Total Returns	**FY 2006**	**3 Years**	**5 Years**
TOTAL PORTFOLIO	12.0%	13.4%	6.1%
Composite Benchmark	10.5	11.9	6.2
DOMESTIC EQUITIES	9.8	13.6	4.1
S&P 500 Index	8.6	11.2	2.5
Russell 1000	9.1	12.0	3.1
Russell 2000	14.6	18.7	8.5
Russell 3000	9.6	12.6	3.5
INTERNATIONAL EQUITIES	28.2	27.2	12.0
MSCI ACWI Free Ex-US	28.4	25.8	11.9
DOMESTIC FIXED INCOME	0.0	1.9	5.0
Lehman Government/Credit	(1.5)	1.6	5.1
Lehman Aggregate	(0.8)	2.1	5.0
HEDGE FUND	11.8	n/a	n/a
Libor + 400	8.8	6.9	6.5
REAL ESTATE	17.3	14.6	10.2
NCREIF Property Index	18.7	15.8	12.0

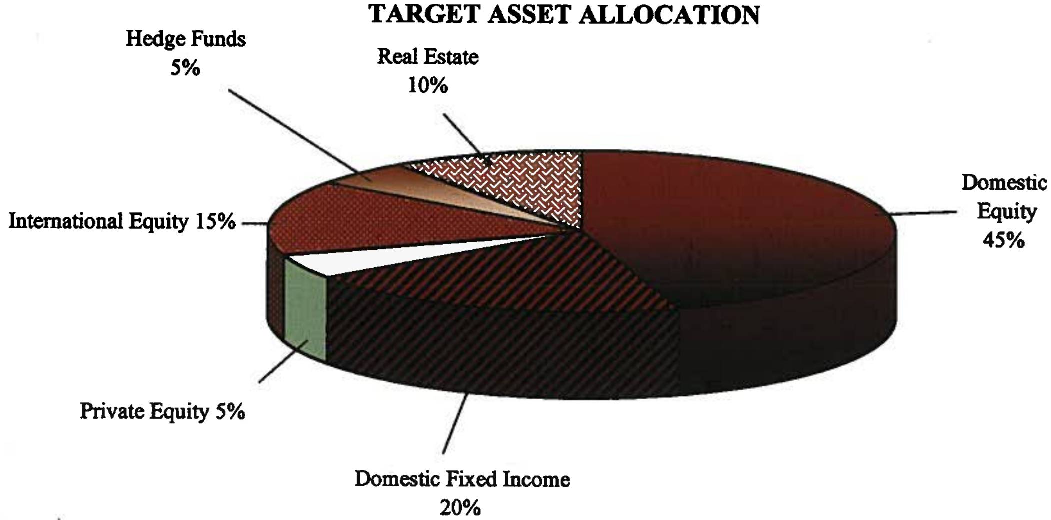
Notes:
The calculations above were prepared by the System's investment advisor, using a time weighted rate of return, based on market value and in accordance with the Association for Investment Management and Research (AIMR Performance Presentation Standards.

The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. The Composite Benchmark is comprised of 50% Russell 3000, 15% MSCI ACWI Free Ex-US, 25% Lehman Aggregate, and 10% NCREIF Property Index.

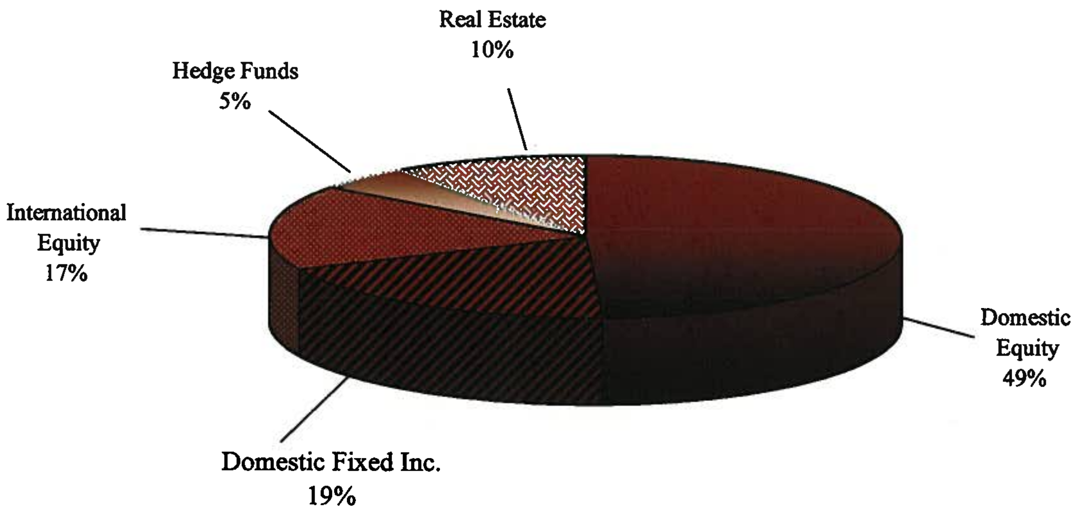
This schedule illustrates the investment results of the "manage" investment portfolio which excludes the paid up benefit reserve, contingency reserve and the operating cash reserve.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
For the Year Ended June 30, 2006

TARGET ASSET ALLOCATION



ACTUAL ASSET ALLOCATION



Note: For asset allocation purposes, only actively managed accounts are included. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing post retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets are held for the purpose of providing cash for the payment of benefits and administrative expenses.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
TOP TEN DOMESTIC AND INTERNATIONAL STOCK HOLDINGS BY MARKET VALUE
TOP TEN BOND HOLDINGS BY MARKET VALUE
June 30, 2006

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)	311,500	Yahoo Inc	$13,062,130
2)	332,800	General Electric Co	10,969,088
3)	412,600	Progressive Corp Ohio	10,607,946
4)	171,980	Exxon Mobil Corp	10,550,973
5)	247,739	J P Morgan Chase & Co	10,405,038
6)	268,200	Amazon.Com Inc	10,373,976
7)	421,600	Pfizer Inc	9,894,952
8)	205,000	Citigroup Inc	9,891,250
9)	244,500	Countrywide Financial Corp	9,310,560
10)	315,000	Ebay Inc	9,226,350

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)	16,968	Posco Krw5000	$4,551,867
2)	6,099	Samsung Electrs Kswn5000	3,876,565
3)	36,431	Sanofi - Aventis Eur2	3,554,245
4)	201,612	Hbos Ord GBPO.25	3,505,180
5)	1,247,200	Wal-Mart De Mexico NPV	3,445,154
6)	132,880	British American Tobacco	3,347,363
7)	37,190	Siemens AG NPV	3,235,981
8)	30,654	Vinci Eur5	3,157,217
9)	98,578	Manulife Financial Corp	3,135,243
10)	76,879	Tenaris Sa Sponsored Adr	3,112,831

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	$30,000,000	Israel St U S Government NTS 11/15/2013	$20,357,700
2)	38,700,000	U S Treasury Strip 08/15/2020	18,239,310
3)	14,800,000	U S Treasury Bonds 6.000% 02/15/2026	16,034,912
4)	54,020,000	U S Treasury Strip 05/15/2030	15,757,634
5)	16,000,000	Israel St U S Government NTS 09/15/2010	12,889,920
6)	13,000,000	U S Treasury Strip 05/15/2012	9,718,800
7)	8,730,000	U S Treasury Bonds 5.500% 08/15/2028	8,972,825
8)	9,045,000	Federal National Mortgage Association Zero Cpn 10/08/2006	8,917,466
9)	18,700,000	Israel St U S Government NTS 08/15/2021	8,055,586
10)	10,000,000	Israel St U S Government NTS 03/15/2012	7,432,800

A complete list of portfolio holdings is available upon request

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2006

	Market Value	Percent of Total Investments
Stock:		
Common Stock		
Financial	$ 199,343,722	9.64%
Technology	176,474,905	8.54
Capital Goods	87,206,034	4.22
Consumer Services	86,338,330	4.17
Health Care	85,649,378	4.14
Energy	52,675,426	2.55
Basic Industries	44,165,469	2.13
Utilities	38,597,569	1.87
Consumer Nondurables	27,908,969	1.35
Consumer Durables	17,295,766	0.84
Transportation	16,481,727	0.80
Total Common Stock	832,137,295	40.25
Other		
International Stock	296,322,130	14.33
Venture Capital	87,192	0.01
Total Other	296,409,322	14.34
Total Stock	**1,128,546,617**	**54.59**
Bonds:		
U.S. Securities and Agencies		
U.S. Agencies	283,129,141	13.70
Treasury Notes and Bonds	69,347,671	3.35
Total U.S. Securities and Agencies	352,476,812	17.05
Corporate		
Financial	93,814,327	4.54
Industrial	57,437,982	2.78
Utilities	11,232,774	0.54
Transportation	8,727,956	0.43
Total Corporate	171,213,039	8.29
Lehmann Aggregate Index	142,500,306	6.89
Total Bonds	**666,190,157**	**32.23**
Other Investments:		
Real Estate	178,172,618	8.62
Hedge Funds	90,189,887	4.36
Private Equity Funds	4,109,791	0.20
Total Other Investments	**272,472,296**	**13.18**
Total Investments	**$2,067,209,070**	**100.00%**

Note: This schedule includes all plan assets including the assets of the Paid Up Benefit Reserve and the Contingency Reserve.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2006

	Assets Under Management	Fees
Investment Managers' Fees		
Domestic equity	$851,969,367	$3,871,901
International equity	304,832,583	2,005,478
Real estate	178,172,618	1,283,152
Fixed income	681,496,464	494,399
Securities lending		240,663
Total Investment Managers' Fees		**$7,895,593**
Other Investment Service Fees:		
Custodial fees		$209,729
Investment advisor fees		235,000
Total Other Investment Service Fees		**$444,729**

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2006 amounted to $1,288,244. Brokerage firms receiving more than $10,200 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Merrill Lynch	$97,549	Jefferies & Company	$19,046
UBS	61,204	Banco Bilbao Vizcaya	17,344
ADP Clearing & Outsourcing Servs.	60,841	Liquidnet Inc.	16,427
Morgan J P Securities Inc.	59,518	Brockhouse and Cooper	16,371
Credit Suisse First Boston	54,500	Cantor Fitzgerald & Company	15,455
Deutsche Banc Alex Brown Inc.	49,381	ITG, LTD	14,460
Pershing Securities	42,964	Dresdner Kleinwort Benson	13,868
Citigroup GBL Markets	40,146	Cazenove & Company	12,857
Goldman Sachs	34,018	Stifel Nicolaus	12,113
Bear Stearns & Co. Inc.	33,707	Wachovia Securities LLC	11,451
Lehman Brothers Inc.	32,174	Percival Financial	11,228
Alpha Management	30,533	ING Baring Securities, LTD	11,135
Salomon Brothers, LTD	28,427	Lynch, Jones and Ryan	11,066
Macquarie Securities	22,040	Woori Investment and Securities	10,683
Credit Lyonnais Securities, Inc.	21,678	Raymond James and Associates	10,516
Instinet	19,990	ABN AMRO Bank	10,234

Brokerage Commissions

Because of the highly visible nature of the Fire and Police Employees' Retirement System, it is important that the investment managers have best execution as their primary objective. While the managers are permitted to direct a portion of brokerage commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

DOMESTIC EQUITY MANAGERS

Large Cap

INTECH
E. Robert Fernholz
Palm Beach Gardens, Florida

Mellon Capital Management
Earl Kleckner
San Francisco, California

Legg Mason Capital Management
Kyle P. Legg
Baltimore, Maryland

TCW Asset Management
Steve Burlingame
New York, New York

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Small and Mid Cap

Pinnacle Associates, Ltd.
Peter Marron
New York, New York

Rothschild Asset Management Inc
T. Radey Johnson
New York, New York

Hotchkis & Wiley Capital Management
Sheldon Lieberman
Los Angeles, California

INTERNATIONAL EQUITY MANAGERS

William Blair & Co.
George Greig
Chicago, Illinois

Lloyd George Management
Jacob Rees-Mogg
London, England

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, California

ALTERNATIVE STRATEGIES

Union Bancaire Privee Asset Management, LLC
Mark Kenyon
New York, New York

Cadogan Management, LLC
Michael Waldron
New York, New York

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

FIXED INCOME MANAGERS

Loomis Sayles & Company, L.P.
Clifton Rowe
Boston, Massachusetts

Utendahl Capital Management, L.P.
Tom Mandel
New York, New York

MacKay Shields
Michael Kimble
New York, New York

Mellon Capital Management
Susan Ellison
San Francisco, California

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Blackrock Realty
Jay K. Alexander
Morristown, New Jersey

VEF Advisors
James Ryan
Atlanta, Georgia

The RREEF Funds
Jon R. Thompson
Chicago, Illinois

ING Clarion
Stephen Hansen
New York, New York

Alex Brown Realty
John M. Prugh
Baltimore, Maryland

VENTURE CAPITAL

Maryland Venture Capital Trust
Baltimore, Maryland

CASH MANAGEMENT

Mellon Bond Associates, LLP
Nancy Banker
Pittsburgh, Pennsylvania

GLOBAL CUSTODIAN

Mellon Global Securities Services
Arlene Sefcik
Pittsburgh, Pennsylvania

PRIVATE EQUITY

Pantheon
Jay Pierrepont
San Francisco, CAlifornia

SECURITIES LENDING

Mellon Global Securities Services
Stephen R. Crosby
Pittsburgh, Pennsylvania

INVESTMENT ADVISOR

The Summit Strategies Group
Daniel Holmes
St. Louis, Missouri

Actuarial Section

Over the years, the Highlandtown station has suffered severe internal damage. The station was temporarily closed and fire fighters were relocated to nearby fire stations in 2005 for a major rehabilitation and overhaul. The renovation project focused on the interior of the building. There were no foundational or structural changes to the integrity of the station.

MERCER
Human Resource Consulting

October 27, 2006

Board of Trustees
Fire & Police Employees' Retirement System
Baltimore, Maryland

Honorable Members of the Board of Trustees:

Mercer Human Resource Consulting performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation was as of June 30, 2006, and it determined the employer's contribution for the plan year beginning July 1, 2006. Since the contribution is always accrued, the contribution plus interest will be made during the 2008 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method will tend to produce level contributions as a percentage of covered payroll as long as the average age of the active members does not change. If the average age were to increase because of a decline in the number of new members being added to the plan, the Normal Cost portion of the employer's contribution would begin to increase as a percentage of covered payroll. The employer's contribution is increased or decreased to amortize over 20 years the difference between the actuarial value of assets and the Actuarial Accrued Liability. For the plan years beginning July 1, 1997 through July 1, 2001, this amortization decreased the employer's contribution. Since the plan year beginning July 1, 2002, this amortization increased the employer's contribution. The employer's contribution may also be decreased based on the excess of the market value of assets over the actuarial value of assets. This decrease has not occurred for several years and is unlikely to occur for several years.

The types of events that tend to cause some volatility in the contribution rates include favorable/unfavorable investment returns, benefit improvements, and actuarial gains or losses resulting from differences between actual experience and the assumed rates of retirement, disability, pay increases, etc.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. Changes in assumptions based on a periodic review of 2002-2005 experience were incorporated in the June 30, 2005 valuation. The assumptions represent a reasonable estimate of the anticipated experience of the System.

The valuation is based on a closed group of members; no new hires are assumed. The actuarial value of assets equals the market value adjusted for investment performance above or below the assumed rate of return. Membership data used for the actuarial valuation is supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section have been prepared by the System and reviewed by me. I meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial valuation report.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS

Actuarial Funding Method

Method of Funding:
(Effective 6/30/1988)

The Projected Unit Credit Cost Method is used. Normal Cost is calculated as that portion of projected pension cost allocated to the participant's upcoming year of service less the amount of anticipated employee contributions. No new entrants are assumed. This is a closed group valuation.

Effective July 1, 1992, the current Unfunded Actuarial Liability is open-ended and amortized over 20 years. Gains and losses are reflected in the Unfunded Actuarial Liability.

Asset Valuation:
(Effective 6/30/1982)

The actuarial value of assets is equal to the market value, adjusted for interest surpluses and deficits over a five-year period, and less (plus) any accumulated excess (deficit) earnings. Effective 6/30/05, the accumulated deficit will be recognized in investment earnings over 10 years.

Earnings above or below the assumed return are released into the actuarial value of assets at the rate of 20% per year. This moderates fluctuations in contributions considerably.

Post Retirement Benefit Increases:
(Effective 6/30/1983)

The liability for these increases is assumed to be equal to the assets of the Paid Up Benefit Reserve plus the Contingency Reserve. If the actuary feels that these funds are insufficient, additional reserves will be calculated. If the actuary believes that the assets in the Paid Up Benefit Reserve and Contingency Reserve are more than the liabilities for post retirement benefits, the excess is not used to reduce any other liability but simply held as excess funds to back up future post retirement benefit payments.

Actuarial Assumptions

Investment return:
(Effective 6/30/1995)

8.25% compounded annually until retirement and 6.8% after retirement.

According to Article 22 of the Baltimore City Code, regular member accumulations earn 5.50% and DROP account accumulations earn 8.25%.

Expenses:

Expenses are paid from the fund. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS

Salary Scale:
(Effective 6/30/2005)

Salary increases are assumed to vary with age. Sample rates are as follows:

Age	Annual Rate of Salary Increase
20	.0850
25	.0725
30	.0650
35	.0550
40	.0475
45	.0475
50	.0450
55	.0450
60	.0400
64	.0400

The interest rate and salary assumptions are based on an inflation rate of 3.0%.

Additional Assumptions:
(Effective 7/1/1989)

Spouse Age:	Husband assumed 4 years older than wife
Remarriage Rates:	None
Children:	Joint and survivor benefits loaded 4% for children
Percent Married:	Males 75%, females 75%

Mortality Rates for Retired and Disabled Members and Beneficiaries
(Effective 6/30/2006)

Retirees and Beneficiaries

	Service Members		Disabled Members	
Age	Male	Female	Male	Female
55	0.005137	0.002547	0.007168	0.003267
60	0.009148	0.004870	0.011857	0.005459
65	0.016536	0.009474	0.021219	0.009337
70	0.027106	0.015062	0.034532	0.018033
75	0.042333	0.025189	0.057392	0.032959
80	0.069432	0.043568	0.090670	0.054555

The mortality rates for service members are based on the 1994 Uninsured Pensioners Generational Mortality table increased by a 5-year projection in 2006. The GAM 1983 table is set forward four years and reduced by 10 percent for disabled members.

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality and Morbidity Rates for Active Members:
Sample rates for all mortality and morbidity are as follows (Effective 6/30/2005):

Age	Withdrawal[1]	Non-Line-of-Duty Disability	Line-of-Duty Disability	Non-Line-of-Duty Death	Line-of-Duty Death[2]
20	0.070083	0.000228	0.000691	0.000283	0.000076
25	0.054430	0.000232	0.000910	0.000287	0.000119
30	0.031211	0.000594	0.001433	0.000389	0.000164
35	0.018943	0.001914	0.002816	0.000591	0.000253
40	0.010828	0.001840	0.003990	0.000893	0.000385
45	0.003026	0.002651	0.004515	0.002060	0.000433
50	0.037573	0.002800	0.004600	0.003185	0.000372
55	0.048033	0.001446	0.004664	0.004404	0.000300
60	0.084338	0.001162	0.006208	0.006011	0.000159
64	0.100843	0.000812	0.006353	0.006414	0.000062

All probabilities shown on this page were based on the June 30, 2005 actuarial experience study.

[1]Withdrawal decrements are reduced to zero when participant is eligible to retire.
[2]Benefit loaded 0.50% for post-disability line-of-duty death benefit.

ACTUARIAL ASSUMPTIONS RETIREMENT RATES

The retirement rates are assumed to be affected by whether or not a member participates in DROP. Members that do not join DROP are assumed to have retirement rates that vary by service until age 50. Thereafter, they are assumed to vary solely by age. It is assumed that 90% of members will elect to participate in DROP. Retirement rates are as follows and reflect possibilities of retirement with and without DROP rates (Effective 6/30/2005):

Non-DROP Rates Until Age 50 (with 90% reduction)

Years of Service	Non-DROP Retirement Rates
20	4.00%
21	0.76
22	0.76
23	0.97
24	1.13
25 or more	1.13

Non-DROP Rates After Age 50 (with 90% reduction)

Age	Non-DROP Retirement Rates
50	1.27 %
51	0.93
52	0.93
53	0.94
54	1.17
55	1.46
56	1.38
57	1.38
58	1.38
59	1.39
60	2.12
61	1.72
62	2.55
63	2.55
64	3.23
65	100.00

Full DROP Rates

Years After Electing DROP	DROP Retirement Rates
1	4.00 %
2	3.00
3	10.00
4	4.00
5	35.00
6	18.00
7+	40.00

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1997	4,802	$176,872,896	$36,833	0.4%
1998	4,835	185,816,956	38,432	4.3
1999	4,635	183,068,111	39,497	2.8
2000	4,667	191,003,156	40,926	3.6
2001	4,871	209,527,825	43,015	5.1
2002	4,875	227,785,032	46,725	8.6
2003	4,875	245,711,363	50,402	7.9
2004	4,778	241,245,198	50,491	0.2
2005	4,690	244,814,891	52,199	3.4
2006	4,627	248,558,248	53,719	2.9

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase	Average
June 30	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
1997	184	$ 7,663,213	139	$1,860,978	4,640	$ 87,009,312	7.1 %	$18,752
1998	154	9,740,814	139	2,310,306	4,655	94,439,820	8.5	20,288
1999	467	16,829,266	158	2,775,264	4,964	108,493,822	14.9	21,856
2000	255	7,315,414	141	2,406,524	5,078	113,402,712	4.5	22,332
2001	202	5,744,867	151	2,706,188	5,129	116,441,391	2.7	22,703
2002	211	5,317,804	168	2,988,395	5,172	118,770,800	2.0	22,964
2003	241	7,127,894	160	3,209,861	5,253	122,688,833	3.3	23,356
2004	345	11,813,675	168	3,261,435	5,430	131,241,073	7.0	24,170
2005	314	14,678,942	166	3,213,125	5,578	142,706,890	8.7	25,584
2006	309	12,062,518	171	3,540,124	5,716	151,229,284	6.0	26,457

* Includes post-retirement adjustments.

SOLVENCY TEST

The Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of examining a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is rare.

The schedule below illustrates the System's history of liability 3.

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
1997	$151,210,794	$1,018,490,214	$549,516,262	$1,723,838,021	100%	100%	100.8%
1998	165,570,101	1,105,270,486	579,699,385	1,913,979,734	100	100	110.9
1999	158,048,531	1,223,035,179	538,204,783	1,974,471,134	100	100	110.3
2000	164,329,116	1,258,254,621	606,984,750	2,078,331,195	100	100	108.0
2001	175,086,388	1,281,344,804	640,371,338	2,098,740,595	100	100	100.3
2002	187,770,301	1,308,031,625	677,386,504	2,127,393,333	100	100	93.2
2003	197,937,017	1,368,638,818	720,297,200	2,205,205,652	100	100	88.7
2004	197,462,032	1,502,541,087	695,519,580	2,320,027,717	100	100	89.1
2005*	200,799,034	1,653,513,286	706,672,475	2,464,821,382	100	100	86.4
2006	206,295,261	1,731,864,189	771,770,463	2,505,470,848	100	100	73.5

* The 2005 actuarial value of assets was restated due to the City's decision to recognize certain reserved actuarial investment losses over a 10 year period rather than the 5 year period as reported last fiscal year.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Accrued Liabilities During Fiscal Year Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain or (Loss) for Fiscal Year 2005	Gain or (Loss) for Fiscal Year 2006
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	$(1,612,530)	$ (29,381,435)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(11,359,179)	(18,285,097)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	522,851	219,352
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	1,100,847	(3,703,913)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(821,970)	3,100,524
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	6,456,368	(43,105,515)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(283,801)	1,056,122
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,892,115)	(1,196,366)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	5,871,030	(19,043,217)
Gain or (Loss) During Year From Financial Experience	$ (2,018,499)	$(110,339,545)

1. **EFFECTIVE DATE:**

The System was established July 1, 1962, and has been amended periodically.

2. **ELIGIBILITY:**

Any uniformed officer of the Police or Fire Departments shall become a member as a condition of employment.

3. **MEMBER CONTRIBUTIONS:**

Members contribute at the rate of 6% of regular compensation for their entire period of service. Contributions are treated as made by the employer and are made to the System pre-tax according to Section 414(h)(2) of the Internal Revenue Code.

Members of the Employees' Retirement System who transferred to this System after July 1, 1967, and did not make up the contributions which would have been made from July 1, 1962, are to have their retirement allowance reduced by the actuarial equivalent of the deficient contributions with interest.

4. **COMPENSATION:**

(A) **Earnable Compensation** is all usual compensation including lodging, subsistence, etc. When compensation is not paid in money, the Board of Trustees shall fix the value of that part of compensation.

(B) **Average Final Compensation (AFC)** shall mean the highest average annual compensation for eighteen consecutive months of service during which the member's earnable compensation was highest.

5. **MILITARY SERVICE CREDIT:**

(A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

(1) 10 years of service and attained the age of 50; or

(2) 20 years of service, regardless of age.

(B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service credit for the period of absence as provided by the Veterans' Reemployment Rights Act.

6. **SERVICE RETIREMENT:**

(A) **Eligibility Requirements:**

(1) For members as of June 30, 2003:

(a) age 50, regardless of years of service credit; or

(b) regardless of age, 20 years of service credit.

(2) For employees who become members on or after July 1, 2003:

(a) age 50, with at least 10 years of service as a contributing member of this System; or

(b) regardless of age, 20 years of service with at least 10 years as a contributing member of this System.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each of the first 20 years of service; plus

(3) 2% of the member's average final compensation for each year of service in excess of 20 years.

7. **NON-LINE-OF-DUTY DISABILITY RETIREMENT:**

(A) **Eligibility Requirements:** Five years of membership service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty and that such incapacity is likely to be permanent.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension which together with the annuity, shall equal 2.5% of the member's average final compensation for each year of service up to 20 years; plus

(3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.

(4) The total of this benefit shall not be less than 25% of the member's average final compensation.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

8. **LINE-OF-DUTY DISABILITY RETIREMENT:**

(A) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an injury occurring while in the actual performance of such duty without willful negligence.

Should such disability further result in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension will be payable.

(B) **Benefit Amount:**

(1) The sum of:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(b) a pension equal to 66.667% of the member's average final compensation.

(2) If the member's disability results in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension is paid so that the retirement allowance is equal to 100% of the member's current annual earnable compensation at the time of retirement.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

9. **TERMINATION OF EMPLOYMENT:**

(A) **Eligibility Requirements:** If removed from a position without fault after 15 years of service, the member is eligible for an immediate benefit; otherwise a refund of accumulated contributions and interest if not eligible for any other benefits.

(B) **Benefit Amount:** Determined the same as if the member had retired on a non-line-of-duty disability retirement allowance.

10. **MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:**

(A) **Maximum Allowance**: Upon death, 50% of the retiree's maximum allowance is paid to the unmarried spouse provided they had been married for one year prior to retirement or five years beginning before or after retirement. If there is no qualified spouse, the allowance will be paid to any minor and unmarried children until the last child marries, dies, or attains age 18 (age 22 if a full-time student). All other options will result in a lesser amount paid

(B) **Reserve Guarantee Option**: Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.

(C) **100% Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary.

(D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary.

(E) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:

(1) a specific lump sum amount; or

(2) a specific periodical allowance.

These options are available for service, termination, non-line-of-duty disability, and line-of-duty disability retirement. The option and/or beneficiary may be changed within thirty days after retirement.

11. **NON-LINE-OF-DUTY DEATH BENEFITS:**

(A) **Eligibility Requirements:** Member who dies while actively employed but whose death does not qualify as a line-of-duty death.

(B) **Benefit Amount:**

(1) Lump-sum benefit: The member's accumulated contributions and interest and if the member has one or more years of service, 50% of the greater of the member's current annual earnable compensation or average final compensation shall be payable to the member's designated beneficiary or as specified by the plan provisions.

(2) 25% plus benefit: In lieu of (1) above, if the member had at least two years of continuous service, an annual sum equal to 25% of the member's current annual earnable compensation, plus 1.5% of the member's current annual earnable compensation for each year of service in excess of two years. This benefit is not to exceed 50% of the member's current annual earnable compensation. This benefit shall be payable to:

(a) the member's spouse to continue for life or upon remarriage; or

(b) the member's minor and unmarried children equally until the last child marries, dies or attains age 18 (age 22 if a full-time student).

(3) 100% Survivorship benefit: If the member was eligible for a service retirement and the member's designated beneficiary is his spouse to whom he was married for at least one year before the date of death, or surviving parent, such beneficiary may elect to receive in lieu of (1) and (2) above, an allowance equal to the amount that would have been paid under the 100% Joint and Survivor Option.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

12. **LINE-OF-DUTY DEATH BENEFITS:**

(A) **Eligibility Requirements**:

(1) Immediate eligibility upon membership in the System and determined by a hearing examiner that the member's death arose out of and in the course of the performance of duty, without willful negligence on the part of the member; or

(2) A member has been granted a line-of-duty disability and dies within five years as a result of the last injury that resulted in a line-of-duty disability retirement.

(B) **Benefit Amount:** This benefit will consist of:

(1) a refund of the member's accumulated contributions and interest to the member's designated beneficiary or as specified by the plan provisions, and

(2) a pension of 100% of member's current annual earnable compensation to be paid to:

(i) The member's surviving spouse to continue for life; or

(ii) If no surviving spouse or the spouse dies, then equally to the member's minor and unmarried children equally until the last child marries, dies or attains age 18 (age 22 if a full-time student); or

(iii) If no surviving spouse or eligible minor child or children, then to the member's surviving dependent parents to continue for life.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

13. **DEFERRED RETIREMENT OPTION PLAN (DROP):**

(A) **Eligibility:**

(1) for members as of June 30, 2003, a member must have acquired 20 or more years of service, regardless of age.

(2) for employees who become members on or after July 1, 2003, a member must acquire 20 or more years of service with at least 10 years as a contributing member of this System, regardless of age.

(3) an application must be filed not less than 30 days nor more than 90 days before the date the DROP participation will begin.

(4) a member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP.

(B) **Term of DROP:**

The maximum period of time that a member can participate in the DROP is a single term of three consecutive years beginning on the member's DROP start date.

(C) **No Service Credit While in DROP:**

A DROP participant remains a member of the F&P but is not credited with F&P service.

Except for Intermediate DROP Retirement Benefits, compensation during the member's DROP participation period shall be disregarded in calculating the member's AFC.

(D) **Discontinuation of DROP Participation:**

(1) If a member terminates service anytime during or at the end of the three-year DROP period, participation in the DROP ends automatically.

(2) A member may elect to end participation in the DROP on either the first or second anniversary of the DROP participation start date. The election must be made by filing an application with the System at least 30 days in advance of the first or second anniversary of the member's DROP start date.

(3) A member who continues employment after terminating participation in the DROP shall resume earning service credit in the F&P.

(4) Once a member terminates participation in the DROP, the member cannot again participate in the DROP at a later date.

(5) If a member retires at the end of the participation in the DROP, begins receiving DROP retirement benefits, and is then re-employed in a position covered by the F&P, all DROP retirement benefit payments will be suspended until the member's later retirement.

(E) **DROP Account:** The member's DROP account shall consist of:

(1) For each full year of a member's DROP participation, an amount equal to the annual service retirement allowance the member would have received had the member retired from service and begun receiving the maximum retirement allowance;

(2) For each partial year of a member's DROP participation, an amount equal to a member's pro-rated annual service retirement allowance;

(3) A separate sub-account consisting of the member's regular mandatory contributions: and

(4) Interest compounded annually at 8.25% until the member terminates from service.

(F) **DROP Benefits:**

(1) Basic DROP Benefit:

A member who terminates service during or at the conclusion of the DROP period will receive:

(a) the service retirement benefit the member would have received if the member had retired on the date the DROP participation began; and

(b) the balance in the member's DROP account.

(2) Intermediate DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP period and terminates service within 18 months after the DROP period has ended will receive:

(a) all benefits under the Basic DROP Benefit;

(b) 3.5% of the member's AFC for each year of service credit following DROP (taking into account the member's annual earnable compensation while in DROP), not to exceed 18 months; and

(c) 2% of the member's AFC for each year of service not already included in the calculation of the member's retirement benefit under (a) and (b).

(3) Full DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP period and terminates service 18 or more months after the DROP period has ended will receive:

(a) the full service retirement as of the member's actual date of retirement, excluding the member's time while in the DROP; plus

(b) 1.5% of the member's AFC for each year of service credit earned by employment following DROP, not to exceed four years; and

(c) the balance in the member's DROP account.

(4) Non-Line-of-Duty Disability:

(a) Any member who retires on account of a non-line-of-duty disability during or at the end of his DROP period will receive the Basic DROP Benefit.

(b) Any member who retires on account of a non-line-of-duty disability within 18 months after the end of his DROP period will receive the Intermediate DROP Benefit.

(c) Any member who retires on account of a non-line-of-duty disability 18 or more months after the end of his DROP period will receive the Full DROP Benefit.

(5) Line-of-Duty Disability Benefit:

Any member who retires on account of a line-of-duty disability during or after his DROP period will receive the line-of-duty disability benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP retirement benefits, and the member will not receive the balance in his DROP account.

(6) Non-Line-of-Duty Death Benefit:

The non-line-of-duty death benefit payable due to the death of a member who dies during or after participation in DROP will equal the regular non-line-of-duty death benefit, plus the balance of the member's DROP account provided that the member's surviving spouse or parent elects to receive the 100% Joint and Survivor option, the service allowance portion of the death benefit should be calculated by using the DROP retirement benefit which would have been payable to the member as if the member had retired at such time.

(a) If a beneficiary of a deceased DROP participant elects to receive the lump sum non-line-of-duty death benefits, such beneficiary must receive the balance of the deceased member's DROP account in a lump sum payment; or

(b) If a spouse or surviving parent of a deceased DROP member elects to receive the non-line-of-duty death retirement benefit, such beneficiary may elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(7) Line-of-Duty Death Benefit:

The line-of-duty death benefit payable due to the death of a member who dies during or after participation in DROP will equal either of the following as elected by the member's beneficiary:

(a) the regular non-line-of-duty death benefit including DROP benefits as described above; or

(b) the line-of-duty death benefits payable as though the member had never participated in the DROP.

(8) Benefits for Re-employed DROP Participants:

(a) If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then later receives a service or disability retirement, the member will resume receiving the DROP benefits which had been suspended at the time of re-employment. Additionally, the member will receive 2% of the member's AFC for each year of service credit earned during the re-employment period.

(b) If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then dies during employment, the member's beneficiary would receive a non-line-of-duty death benefit. This re-employment death benefit would also apply to line-of-duty deaths.

(G) **DROP Post-Retirement Benefit Increases:**

(1) A member who retires during or at the end of a DROP participation period, will have that DROP participation period counted toward the eligibility requirement for post-retirement benefit increases.

(2) A member who continues working at the end of a DROP participation period will not have that DROP participation period counted toward the eligibility requirement for post-retirement benefit increases.

(3) Post-retirement benefit increases for former DROP participants are applied prospectively.

(H) **Form of Payment of Benefits from DROP Account:**

A member (or a beneficiary after the death of the member in service) can choose to receive the total balance of the DROP account as:

(1) one lump sum after the member's retirement; or

(2) periodic payments in the same form as the member's retirement benefit.

14. **POST-RETIREMENT BENEFIT INCREASES:**

Post retirement benefit increases are automatically provided to certain retirees and beneficiaries when investment performance, determined as of each June 30, exceeds 7.5%. Retirees and beneficiaries, who have been receiving periodic benefit payments for two or more years as of the June 30 determination date, are eligible for the increase. An exception exists for DROP participants who retire during or at the end of their DROP participation period. Basic DROP retirees will have their DROP participation period counted towards the eligibility requirements for post-retirement benefit increases. The actuarially determined increase is payable as equal percentage increases commencing in the January following the June 30 investment performance determination date.

Statistical Section

On May 15, 2006, the Highlandtown Station was re-opened after the renovation project. The station has a newly remodeled kitchen, a brand new roof, and a new electrical, plumbing, heating, ventilation and air-conditioning systems. The Highlandtown Station, Engine Company No. 41 has remained a vital organ in this historical community.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
REVENUES BY SOURCE

Fiscal Year	Net Investment Income	Employer Contributions Amount	Employer Contributions % of Covered Payroll	Member Contributions	Total
1997	$ 320,410,802	$9,305,246	5.3%	$ 6,800,174	$336,516,222
1998	361,140,063	13,830,605	7.4	7,428,959	382,399,627
1999	200,443,433	268,139	0.1	8,381,576	209,093,148
2000	154,616,410	235,272	0.1	9,470,800	164,322,482
2001	(90,727,720)	217,340	0.1	11,526,631	(78,983,749)
2002	(115,490,111)	252,220	0.1	14,241,040	(100,996,851)
2003	44,637,303	34,678,878	14.1	15,159,112	94,475,293
2004	222,720,518	42,699,166	17.7	15,421,154	280,840,838
2005	218,687,126	48,666,701	19.9	15,359,931	282,713,758
2006	179,177,889	49,661,627	20.0	15,157,898	243,997,414

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

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
EXPENSES BY TYPE

Fiscal Year	Retirement Benefits	DROP Payments	Refunds	Administrative Expenses	Total
1997	$ 87,187,898		$ 858,037	$1,287,070	$ 89,333,005
1998	92,325,093	$ 1,346,863	849,414	1,367,835	95,889,205
1999	99,141,285	25,901,332	877,485	1,476,168	127,396,270
2000	115,494,917	12,934,599	1,078,875	1,087,798	130,596,189
2001	116,348,031	11,148,700	804,084	1,284,702	129,585,517
2002	118,678,646	7,545,984	800,898	1,520,942	128,546,470
2003	120,568,623	12,147,757	1,059,150	1,562,487	135,338,017
2004	127,436,253	24,494,758	1,093,504	1,905,163	154,929,678
2005	136,570,935	22,253,341	1,403,449	2,143,390	162,371,115
2006	147,873,466	14,025,599	1,708,619	2,552,458	166,160,142

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE

Years of Credited Service	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
0-4	1,151	1,022	947	968	1,124	1,153	1,179	1,114	1,084	1,019
5-9	881	979	1,101	1,048	1,079	1,034	933	912	885	931
10-14	730	767	757	856	820	777	861	991	935	948
15-19	739	803	716	623	606	640	679	696	773	717
20-24	495	367	366	447	584	642	668	581	507	473
25-29	533	572	504	444	380	329	244	233	279	345
30+	273	325	244	281	278	300	311	251	227	194
Total Members	4,802	4,835	4,635	4,667	4,871	4,875	4,875	4,778	4,690	4,627
Average Service Credit	13.35	13.78	13.13	12.94	12.6	12.81	12.88	12.56	12.48	12.46
Average Age	38.32	38.53	38.99	38.42	38.37	38.26	38.75	38.55	38.66	38.73

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CURRENT ACTIVE MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
For the Year Ended June 30, 2006

Schedule of Current Active Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
0-4	577	442			1,019
5-9	675	256			931
10-14	739	209			948
15-19	397	312		8	717
20-24	281	183		9	473
25-29	191	151		3	345
30+	88	100	4	2	194
Total Members	2,948	1,653	4	22	4,627

Schedule of Current Active DROP Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
20-24	231	145		8	384
25-29	189	151		3	343
30+	88	99	1	2	190
Total DROP Members	508	395	1	13	917

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY FISCAL YEAR OF DROP ENTRY AND DEPARTMENT

Year of DROP Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/96 - 6/30/97	88	98		2	188
7/1/97 - 6/30/98	8	7			15
7/1/98 - 6/30/99	17	8	1		26
7/1/99 - 6/30/00	42	51		2	95
7/1/00 - 6/30/01	57	39		1	97
7/1/01 - 6/30/02	74	47			121
7/1/02 - 6/30/03	47	40		1	88
7/1/03 - 6/30/04	55	16		2	73
7/1/04 - 6/30/05	33	35		1	69
7/1/05 - 6/30/06	87	54	_	4	145
Total DROP Members	508	395	1	13	917

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2006

		TYPE OF RETIREMENT*				
Age	Number of Recipients	0	2	3	4	9
25-29	6				6	
30-34	24			5	19	
35-39	62	3		11	48	
40-44	136	35	7	22	71	1
45-49	255	192	1	15	46	1
50-54	427	354	1	17	55	
55-59	782	688	1	23	70	
60-64	719	603		40	76	
65-69	584	462		43	77	2
70-74	534	397		48	88	1
75-79	445	314		49	81	1
80-84	271	201		27	43	
85 and up	123	96	_	8	19	_
Totals	4,368	3,345	10	308	699	6
Average Annual Benefit	$30,316	$31,886	$25,486	$16,923	$28,608	$49,341

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line-of-duty disability
4 – Line-of-duty disability
9 – Line-of-duty disability, 100% of compensation

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT
For Year Ended June 30, 2006

		TYPE OF RETIREMENT*								
Age	Number of Recipients	0	2	3	4	6	7a	7b	8	9
0-24	31	4		3	5		2	12	5	
25-29										
30-34	1								1	
35-39	4							2	2	
40-44	18	7		2	3	1	1	1	3	
45-49	33	20		2	5	3	1		2	
50-54	69	41		10	4	8	2		4	
55-59	109	62	1	6	6	10	10	3	11	
60-64	119	63		13	14	8	12		9	
65-69	158	82		22	28	13	7		6	
70-74	200	89		43	42	16	6		4	
75-79	236	96		46	61	18	4		11	
80-84	212	118		31	40	10	3	1	8	1
85 and up	158	96	—	24	23	10	1	—	4	
Totals	1,348	678	1	202	231	97	49	19	70	1
Average Annual Benefit	$13,954	$12,774	$11,076	$9,575	$11,784	$20,860	$10,426	$17,654	$37,056	$18,821

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line of duty disability
4 - Line of duty disability
6 - Non-line-of-duty death, member eligible for service retirement at death
7a - Non-line-of-duty death, 25% of compensation
7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years
8 – Line-of-duty death
9-Line-of-duty disability, 100% of compensation

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF DROP RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT
SCHEDULE OF DROP BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2006

Schedule of DROP Retirees by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*	
Age	Number of Recipients	0	4
40-44	13	13	
45-49	133	129	4
50-54	234	225	9
55-59	373	369	4
60-64	258	254	4
65-69	114	113	1
70-74	32	32	—
Totals	1,157	1,135	22
Average Annual Benefit	$37,395	$37,369	$38,719

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*					
Age	Number of Recipients	0	3	4	6	7b	8
40-44							
45-49	1			1			
50-54	9	6	1		2		
55-59	12	7			2	1	2
60-64	7	4	1		2		
65-69	3	1	—	—	2	—	—
Totals	32	18	2	1	8	1	2
Average Annual Benefit	$18,537	$10,854	$14,712	$27,999	$26,185	$22,474	$54,219

*Type of Retirement
0 - Normal retirement for age and service
3 - Non-line-of-duty disability
4 - Line-of-duty disability, no DROP account paid.
6 - Non-line-of-duty death, member eligible for service retirement at death
7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years.
8 – Line-of-duty death, no DROP account paid.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BENEFIT EXPENSES BY TYPE

Year	Age and Service Benefits		Death Benefits			Disability Benefits			
						Retirees			
Ending	Retirees	Beneficiaries	Duty	Non-Duty	Lump Sum	Duty	Non-Duty	Beneficiaries	Total
1997	$ 58,406,680	$3,650,377	$1,659,802	$2,350,053	$215,029	$13,648,544	$5,158,716	$2,956,734	$ 88,045,935
1998	61,442,983	4,224,214	1,745,775	2,484,204	357,147	14,697,630	5,401,437	3,318,566	93,671,956
1999	90,590,660	4,942,201	2,036,030	2,650,538	169,938	15,341,618	5,591,684	3,719,948	125,042,617
2000	90,685,753	5,667,627	2,208,325	2,818,393	637,708	16,325,621	5,888,643	4,197,446	128,429,516
2001	86,485,377	6,515,936	2,469,426	3,121,856	378,886	17,523,788	6,140,540	4,860,922	127,496,731
2002	88,370,371	6,641,581	2,367,554	2,835,013	114,338	16,031,594	5,462,832	4,401,347	126,224,630
2003	94,740,211	7,191,867	2,366,651	2,764,583	22,790	15,944,128	5,259,650	4,426,500	132,716,380
2004	112,012,174	7,250,029	2,365,946	2,847,450	251,077	16,124,695	5,019,237	6,060,403	151,931,011
2005	119,001,250	7,783,462	2,482,341	2,904,441	394,961	16,792,991	5,027,007	4,437,823	158,824,276
2006	118,470,165	8,380,341	2,564,442	2,853,866	258,136	19,654,354	5,107,533	4,610,228	161,899,065

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS

Retirement Effective Dates	Years of Credited Service				
From July 1, 1996 to June 30, 2006	10-15	16-20	21-25	26-30	31+
Period 7/1/96 to 6/30/97					
Average Monthly Benefit	$ 2,271	$ 1,469	$ 1,745	$ 2,086	$ 2,514
Average-Average Final Compensation	38,994	45,960	39,236	38,173	37,979
Number of Active Retirees	1	2	27	32	22
Period 7/1/97 to 6/30/98					
Average Monthly Benefit	1,155	1,322	1,946	2,171	2,885
Average-Average Final Compensation	37,023	38,305	42,632	44,316	45,500
Number of Active Retirees	1	1	14	19	17
Period 7/1/98 to 6/30/99					
Average Monthly Benefit	1,921	1,473	1,788	2,283	2,815
Average-Average Final Compensation	37,803	39,180	38,640	41,256	48,364
Number of Active Retirees	3	2	77	129	110
Period 7/1/99 to 6/30/00					
Average Monthly Benefit		1,873	1,918	2,308	2,782
Average-Average Final Compensation		50,632	44,344	44,888	46,816
Number of Active Retirees		4	53	43	63
Period 7/1/00 to 6/30/01					
Average Monthly Benefit			1,930	2,735	3,314
Average-Average Final Compensation			44,962	48,547	50,969
Number of Active Retirees			33	41	34

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS (Concluded)

	Years of Credited Service				
	10-15	16-20	21-25	26-30	31+
Period 7/1/01 to 6/30/02					
Average Monthly Benefit	$ 1,410	$ 1,947	$ 2,423	$ 3,412	$ 4,075
Average-Average Final Compensation	43,978	46,817	48,964	56,103	60,767
Number of Active Retirees	1	2	44	28	18
Period 7/1/02 to 6/30/03					
Average Monthly Benefit		2,065	2,605	3,771	4,109
Average-Average Final Compensation		51,415	55,580	61,709	58,133
Number of Active Retirees		1	38	48	41
Period 7/1/03 to 6/30/04					
Average Monthly Benefit	844	2,300	2,513	3,724	4,264
Average-Average Final Compensation	48,937	55,083	57,086	61,335	61,437
Number of Active Retirees	1	3	57	49	79
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	1,293	2,301	2,777	3,655	4,409
Average-Average Final Compensation	54,254	59,831	60,018	61,690	64,038
Number of Active Retirees	1	3	80	31	37
Period 7/1/05 to 6/30/06					
Average Monthly Benefit		2,030	2,754	3,444	3,843
Average-Average Final Compensation		54,421	59,994	59,098	62,636
Number of Active Retirees		3	71	25	46
Period 7/1/96 to 6/30/06					
Average Monthly Benefit	1,482	1,864	2,240	2,959	3,501
Average-Average Final Compensation	43,498	49,072	49,146	51,712	53,664
Number of Active Retirees	8	21	494	445	467

Fire & Police Employees' Retirement System
City of Baltimore, Maryland
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Baltimore, Maryland 21202
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