THE DISTRICT OF COLUMBIA RETIREMENT BOARD

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Volume 1

Comprehensive Annual Financial Report

for the fiscal year ended September 30, 2006

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December 30, 2006

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

Introduction

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

CAFR Transmittal

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

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

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

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

Structure of this Report

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

Volume I

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

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

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

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

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

Volume II

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

Structure of the DC Retirement Board and the Board of Trustees

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

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

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

History and Legislative Background

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

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

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

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

Profile of the Plans

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

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

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

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

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

Plan Management, Performance and Investments

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

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

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

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

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

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

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

Summary of Financial Information

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

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

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

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

Additions to Plan Net Assets

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

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

Deductions to Plan Assets

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

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

Plan Funding

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

Other Information

The DCRB undertook several major initiatives during FY 2006.

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

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

Acknowledgements

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

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

Respectfully submitted,

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

The Organizational Structure

Table 1: Board of Trustees

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

Chart 1: DCRB Organizational Diagram

The District of Columbia Retirement Board

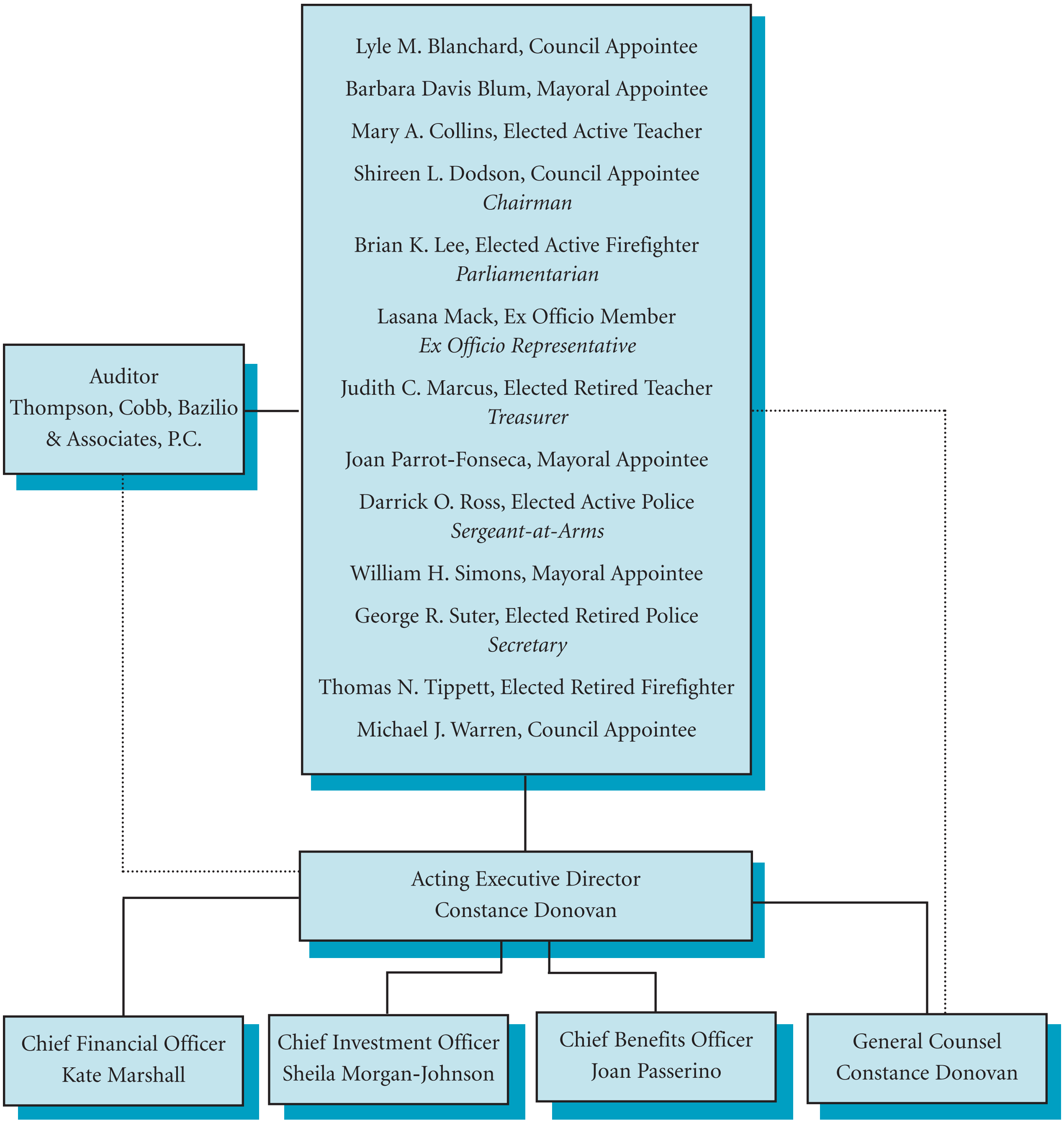
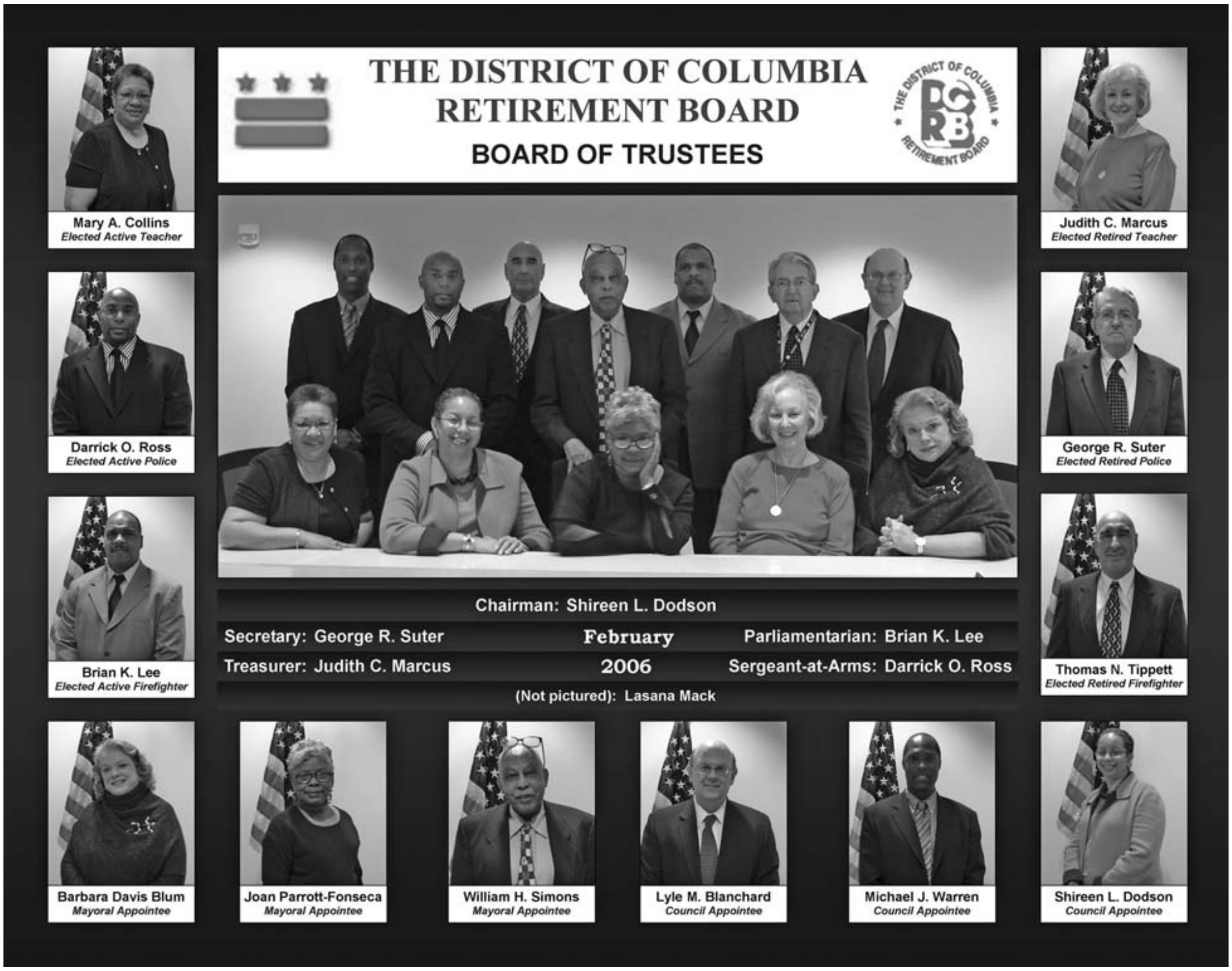


Photo 1: Board of Trustees



Financial Section

Independent Auditor's Report

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

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

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

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

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

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

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

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

Thompson, Cobb, Bazilio & Associates, PC

Washington, D.C.
December 20, 2006

Management's Discussion and Analysis

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

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

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

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

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

FINANCIAL HIGHLIGHTS

The financial highlights are:

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

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

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

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

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

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

FINANCIAL ANALYSIS

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

Net Assets

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

Changes in Net Assets

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

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

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

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

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

NET ASSSETS

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

CHANGES IN NET ASSSETS

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

Financial Statements

Statement of Net Assets

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

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Assets

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

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

NOTE 1: ORGANIZATION

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

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

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

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

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

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

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

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

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

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

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

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

Members Hired Before February 15, 1980

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

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

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

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

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

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

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

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

Members Hired on or After November 10, 1996

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

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

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

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

Participant Data

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

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

Contributions

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

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

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

NOTE 4: INVESTMENTS

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

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

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

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

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

Debt Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The proportion of derivative investment in the

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

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

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

Supplementary Information

Employer Contributions

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

Actuarial Methods and Assumptions

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

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

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

Revenue by Source and Expense by Type

REVENUE BY SOURCE

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

EXPENSES BY TYPE

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

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

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

Investment Information

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

Independent Auditor's Report

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Board of Trustees
District of Columbia Teachers' Retirement Fund

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

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

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

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

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

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

Thompson, Cobb, Bazilio & Associates, PC

Washington, D.C.
December 30, 2006

Management's Discussion and Analysis

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

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

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

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

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

FINANCIAL HIGHLIGHTS

The financial highlights are:

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

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

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

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

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

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

FINANCIAL ANALYSIS

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

Net Assets

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

Changes in Net Assets

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

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

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

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

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

NET ASSSETS

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

CHANGES IN NET ASSSETS

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

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

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

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

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

Financial Statements

Statement of Net Assets

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

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Assets

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

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

NOTE 1: ORGANIZATION

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

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

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

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

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

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

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

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

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

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

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

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

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

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

at age 62 with 5 years of service;

at age 60 with 20 years of service; and

at age 55 with 30 years of service;

or at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

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

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

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

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

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

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

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

NOTE 4: INVESTMENTS

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

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

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

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

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

Debt Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The proportion of derivative investments in the

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

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

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

Supplementary Information

Employer Contributions

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

Actuarial Methods and Assumptions

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

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

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

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

Revenue by Source and Expense by Type

REVENUE BY SOURCE

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

EXPENSES BY TYPE

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

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

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

Investment Information

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

Investment Section

Introduction

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

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

Investment Objectives and Policies

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

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

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

FY 2006 Market Overview

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

Investment Results

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

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

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

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

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

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

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

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

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

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

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

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

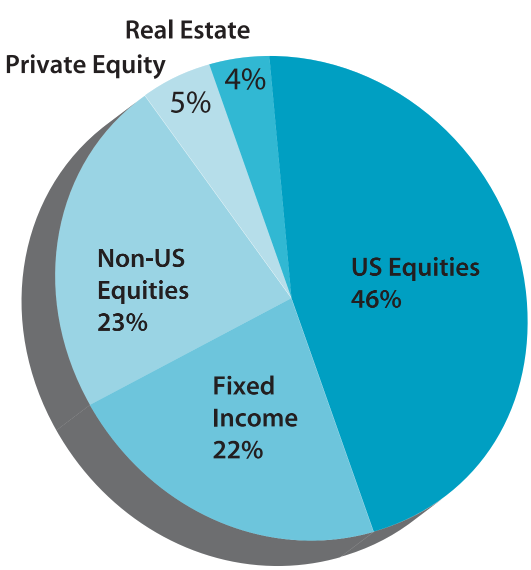
Asset Allocation

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

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

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

Asset Allocation as of September 30, 2006



Report on Investment Activity

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

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

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

List of Largest Assets Held

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

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

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

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

Schedule of Fees and Commissions

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

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

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

Investment Summary

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

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

Actuarial Section

Independent Actuary's Certification Letter

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

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

12/21/06

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

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

Summary of Actuarial Assumptions and Methods

Actuarial Funding Method

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

Actuarial Assumptions

Valuation Date

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

Rate of Return

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

Cost of Living

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

Increases in Pay

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

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

Active Member Mortality

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

Mortality

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

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

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

Retired Member Mortality

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

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

Disabled Member Mortality

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

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

Sample rates for police officers and firefighters are as follows:

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

Service Retirement

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

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

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

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

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

Disability

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

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

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

Withdrawal

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

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

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

Pay for Benefits

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

Family Composition

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

Employment Status

No future transfers among member groups are assumed.

Actuarial Value of Plan Assets

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

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

Participant Data

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

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

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

Schedule of Active Member Data

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

Schedule of Retiree and Beneficiary Data

Inactive Participants

Service Retired	District	Total[1]	District	Total*	District	Total*
Number	2,017	4,907	549	3,135	166	933
Average Age	63.9	71.5	55.5	62.3	55.8	65.2
Average Benefit	$7,493	$38,250	$8,212	$47,046	$11,924	$55,019

Beneficiaries

Number	71	457	181	1,309	48	491
Average Age	47.9	69.4	31.3	65.2	28.7	69.8
Average Benefit	$4,442	$17,483	$4,045	$22,781	$4,413	$24,638

Disabled

Number	87	455	217	1,283	46	500
Average Age	57.2	70.7	44.8	63.8	51.2	69.2
Average Benefit	$7,219	$26,204	$17,061	$38,934	$11,711	$45,363

Terminated Vested

Number	612	981	79	215	15	29
Average Age	45.7	52.6	41.5	54.3	42.1	49.3
Average Benefit	$4,827	$7,977	$8,952	$11,672	$5,393	$11,153

[1]Federal and District Combined

Summary of Plans' Provisions:

District of Columbia Teachers' Retirement Plan

Membership

Eligibility

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

Member Contributions

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

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

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

Service

School Service

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

Credited Service

Service granted or purchased in addition to school service.

Voluntary Retirement

Eligibility

For participants hired before November 1, 1996:

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

For participants hired on or after November 1, 1996:

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

Benefit Amount

For participants hired before November 1, 1996:

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

For participants hired on or after November 1, 1996:

- 2.0% of average pay times service.

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

Involuntary Retirement

Eligibility

Retired involuntarily for reasons other than misconduct or delinquency with:

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

Benefit Amount

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

Disability Retirement Benefit

Eligibility

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

Benefit Amount

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

Lump Sum Death Benefit

Eligibility

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

Benefit Amount

Refund of paid contributions

Installment Benefit Payable upon Death — Spouse Only

Eligibility

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

Benefit Amount

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

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

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

Benefit Amount

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

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

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

Per child, the smallest of:

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

Installment Benefit Payable upon Death — Surviving Parents Only

Eligibility

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

Benefit Amount

Spouse benefit as described above.

Deferred Vested Benefit

Eligibility

5 years of school service.

Benefit Amount

Voluntary Retirement Benefit beginning at age 62.

Form of Payment Options

Normal Form of Payment

Unreduced Annuity.

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

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

Reduced Annuity with a Partial Survivor Annuity (to Spouse)

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

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

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

Reduced Annuity with an Insurance Benefit

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

Cost-of-Living Adjustments

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

Retirement Program for District of Columbia Police Officers and Firefighters

Membership

Eligibility

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

Member Contributions

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

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

Service

Departmental Service

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

Credited Service

Service granted or purchased in addition to departmental service.

Average Pay

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

Longevity Pay (Police Only)

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

Normal Retirement Benefit

Eligibility

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

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

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

Benefit Amount

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

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

Service-Related Disability Retirement Benefit

Eligibility

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

Benefit Amount

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

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

Non-Service-Related Disability Retirement Benefit

Eligibility

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

Benefit Amount

For participants hired before February 15, 1980

- 2.0% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

For participants hired on or after February 15, 1980

- 70% of final pay times percentage of disability, subject to a minimum benefit of 30% of final pay.

Lump Sum Death Benefit

Eligibility

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

Benefit Amount

$50,000.

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

Eligibility

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

Benefit Amount

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

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

Eligibility

Death (killed in line of duty).

Benefit Amount

100% of final pay.

Installment Benefit Payable upon Death — Spouse and Dependent Children

Eligibility

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

Benefit Amount

Spouse benefit as described above, plus, provided death does not occur in the line of duty, a benefit per child of the smallest of:

- 60% of average pay divided by the number of eligible children;
- $3,312 (if hired before November 10, 1996), or $3,288 (if hired on or after November 10, 1996); or
- $9,936 (if hired before November 10, 1996), or $9,864 (if hired on or after November 10, 1996), divided by the number of children, payable until the children are no longer eligible.

Installment Benefit Payable upon Death — Dependent Children Only

Eligibility

Same as the children's benefit above.

Benefit Amount

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

Refund of Contributions

Eligibility

Death before retirement and no eligible spouse or children.

Benefit Amount

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

Deferred Vested Benefit

Eligibility

5 years of departmental service.

Benefit Amount

Normal Retirement Benefit beginning at age 55.

Form of Payment Options

Normal Form of Payment

Single Life Annuity.

Additional Survivor Benefit

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

Cost-of-Living Adjustments

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

Statistical Section

DISTRICT OF COLUMBIA RETIREMENT BOARD
SCHEDULE OF REVENUE BY SOURCE

($ in thousands)

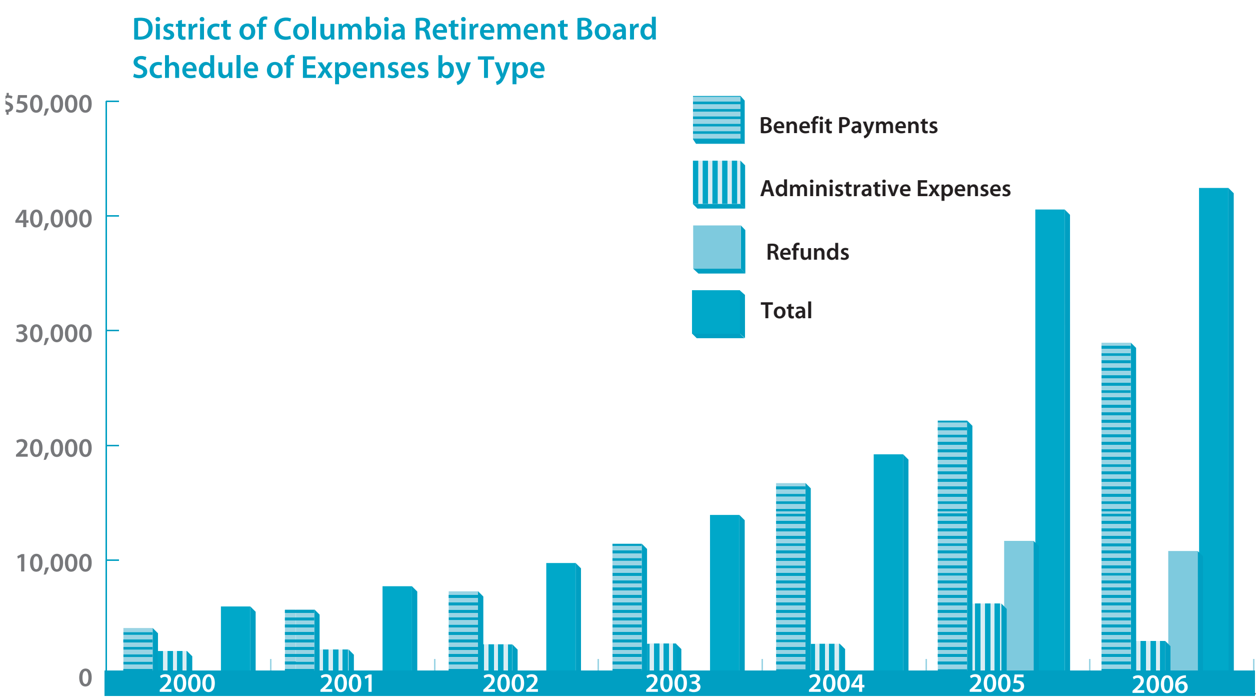
Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
2000	$ 39,931	$ 50,600	$ 257,289	$ 347,820
2001	40,879	49,200	(251,559)	(161,480)
2002	44,764	74,600	(165,540)	(46,176)
2003	45,914	68,900	302,116	416,930
2004	47,130	96,700	268,264	412,094
2005	48,582	121,300	372,848	542,730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

District of Columbia Retirement Board
Schedule of Revenue by Source

DISTRICT OF COLUMBIA RETIREMENT BOARD
SCHEDULE OF EXPENSE BY TYPE

($ in thousands)

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



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

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

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

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

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

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

SCHEDULE OF PARTICIPANT DATA
TEACHERS RETIREMENT FUND

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

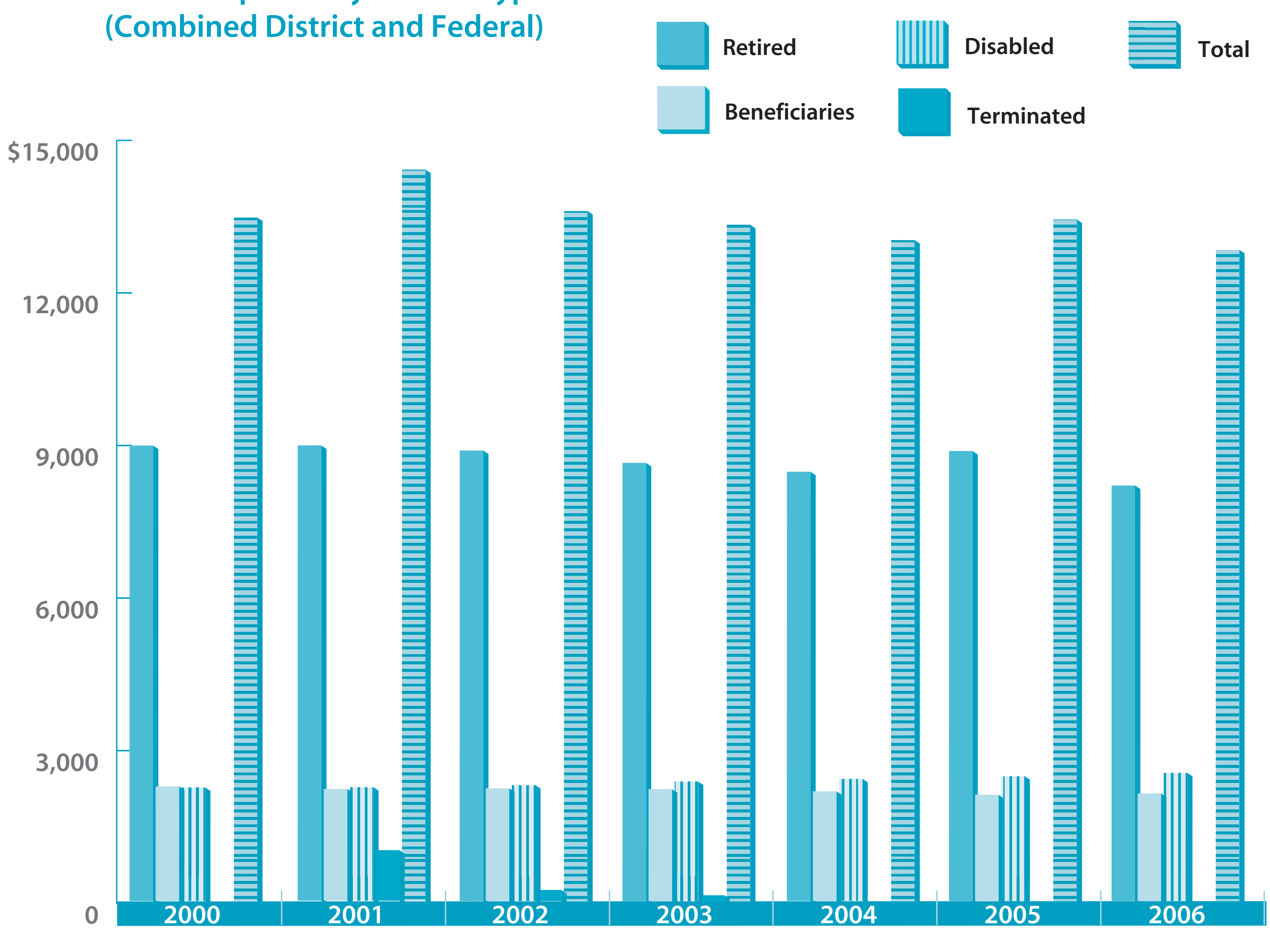
SCHEDULE OF PARTICIPANT DATA
POLICE OFFICER AND FIRE FIGHTERS RETIREMENT FUND

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

TOTAL RECIPIENTS BY BENEFIT TYPE (COMBINED DISTRICT AND FEDERAL)

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

Total Recipients by Benefit Type (Combined District and Federal)



DCRB ANNUAL SALARIES AND BENEFITS
($ in millions)

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

District of Columbia Retirement Board
Annual Salaries and Benefits