Department of the Treasury
Office of D.C. Pensions

District of Columbia Pensions Program
Fiscal Year 2007 Annual Report

MESSAGE FROM THE DIRECTOR

November 2007

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year (FY) 2007 Annual Report. This report provides highlights of the significant milestones achieved by the program in FY 2007.

Pursuant to the Balanced Budget Act of 1997, as amended, the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Teachers', and Police Officers' and Firefighters' Retirement Plans. As of September 30, 2007, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling $3.7 billion. During FY 2007, the Office of D.C. Pensions paid $504 million in federal benefits to more than 13,500 annuitants and refunds of employee contributions to more than 400 former active employees.

KPMG LLP, an independent public accounting firm, rendered an unqualified opinion on the FY 2007 financial statements of the Office of D.C. Pensions. In addition, KPMG did not note any matters involving internal controls that it considered material or any instances of noncompliance with laws and regulations. This is the ninth consecutive year in which the Office of D.C. Pensions received an unqualified opinion.

Other important developments in FY 2007 included the upgrade of our automated pension/payroll system (the System to Administer Retirement or STAR), as well as development of the functionality in STAR to identify the federal and District government portions of all annuitant payments generated in STAR. Also, in compliance with federal requirements, STAR renewed its security certification and accreditation (C&A). Due to the security control features within the system, this renewed accreditation grants the Office of D.C. Pensions official management authorization to operate STAR.

As the Office of D.C. Pensions begins its tenth year of operation, we will continue to provide successful stewardship of the pension funds, high-quality benefit administration services, and effective use of our resources. These services will continue in large part due to our partnerships with the District of Columbia Retirement Board and the Bureau of the Public Debt.

Nancy A. Ostrowski

Nancy A. Ostrowski, Director
Office of D.C. Pensions
Department of the Treasury

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PART 1

MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2007

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

I. Introduction

A. Statutory Basis and Responsibilities

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

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

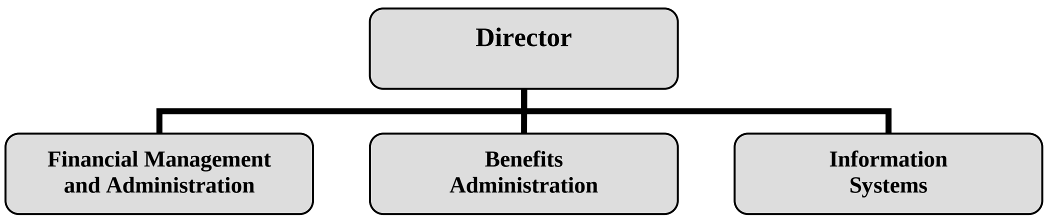
All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters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

B. Organizational Structure and Staffing

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

The Office structure consists of three functional areas; financial management and administration, benefits administration, and information systems. In addition, the Office funds and receives support from other Treasury offices, including, in particular, the Office of General Counsel and the Procurement Services Division. As of September 30, 2007, 21 Treasury positions are funded from the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund) within the below structure.

OFFICE OF D.C. PENSIONS



Treasury Support Offices: General Counsel & Procurement

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

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

II. Executive Summary

During Fiscal Year 2007, the Office of D.C. Pensions (the Office) accomplished two important milestones in addition to carrying out its responsibilities under provisions in Title XI of the Balanced Budget Act of 1997, as amended.

First, the Office worked with the District of Columbia Retirement Board (DCRB) and Treasury's Bureau of the Public Debt (BPD) to complete the System to Administer Retirements (STAR) Release 4; this project upgraded the automated pension and payroll Oracle/PeopleSoft software from version 8.0 to 8.9 and developed split benefits functionality. As of go-live in June 2007, STAR calculates the split between federal and District liability for individual annuitant's future payments. The first Split Summary Reimbursement Report was produced by the BPD Payroll Team.

Second, the last STAR Release was initiated, and the project was more than 50% complete by the end of the fiscal year. Deployment of the last STAR Release is planned during the first quarter of FY 2008. Once Release 5 is implemented, STAR will be able to identify the Federal and District government portions of all future annuitant payments. In preparation for this change, in July 2007 the DCRB began reimbursing Treasury monthly for an estimated District Benefit Payment instead of an annual reimbursement. This has set the ground work for an actual reimbursement by DCRB for District Benefit Payments beginning in January 2008 when the Split Summary Reimbursement Report will be used.

In addition, the Office worked with the BPD IT Hosting Team to renew the STAR system security certification and accreditation (C&A) ensuring compliance with Federal system security requirements. The STAR system received the "authorization to operate" from the Office's management.

The Office provided successful stewardship of the pension funds, high quality benefit administration services and effective use of resources through mutually beneficial relationships with our partners at BPD and the District of Columbia. The Office, with support from the accounting team at BPD's Administrative Resources Center (ARC), received an unqualified audit opinion for the ninth consecutive year.

The Office also focused on providing information to annuitants. In partnership with DCRB, the Office produced an updated version of the Police Officers' and Firefighters' Summary Plan Description (SPD). Other enhancements to annuitant communication will be introduced in FY 2008. Section III of Part 1 of this report provides information about these and other areas of future focus. The report also includes the Office's strategic objectives and FY 2007 results.

III. Strategic Goals/Objectives

A. Strategic Objectives and Performance Measures

The Office of D.C. Pensions (the Office) has four Strategic Objectives that contribute to the achievement of two of the Department of the Treasury's Strategic Goals.

Treasury Strategic Goal: Effectively Managed U.S. Government Finances

Office Strategic Objectives:

1. Benefit payments are accurate and timely; and the use of secure electronic systems are optimized
2. Pension Funds in the custody of the Treasury are effectively managed and invested

Treasury Strategic Goal: Management and Organizational Excellence

Office Strategic Objective:
1. Organization’s mission is effectively managed
2. Annuitants received quality service

The following table displays four Office’s Strategic Objectives with a link to the two Treasury Strategic Goals. It also identifies the Office’s measures and results.

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

Fiscal Years 2007 - 2009				**Fiscal Year 2007**
Treasury Strategic Goals	**Treasury Strategic Objectives**	**Office Strategic Objectives**	**Office Performance Measure**	**Office Results**
Effectively Managed U.S. Government Finances	**Cash resources are available to operate the government**	Benefit payments are accurate and timely; and the use of secure electronic systems are optimized	Percentage of monthly benefit payments made to annuitants by the first business day of the month	STAR made 100% of the benefits payments to annuitants on time. Treasury ensured timely availability of funding for $504 million in benefit payments to 13,566 annuitants and refunded contributions to 441 former active employees in FY 2007.
			Percentage of electronic payments made to annuitants	The Office pays 92.4% of 13,566 annuitants by direct deposit, a 0.9% increase over FY 2006.
			New annuitant benefit calculation error rate	The District's calculation error rate identified in the quality review process decreased to 3.36% in FY 2007 from 3.54% in FY 2006.
			Secure electronic pension/payroll system effectiveness	Throughout FY 2007, STAR continued to provide accurate, secure and timely processing for 75 annuitants under the Judges' Plan and 13,491 annuitants under the plans for teachers, police and firefighters. The STAR Release 4 project was completed, upgrading ORACLE/PeopleSoft from version 8.0 to 8.9 and implementing functionality to calculate the split benefit for the Federal and District portions of an annuitant's payment. STAR Release 5 is underway and will finish the implementation of the split benefit capability.
			Percentage of time, excluding scheduled maintenance, STAR was available to users	STAR was available 99.93% of the time.

Fiscal Years 2007 - 2009				Fiscal Year 2007
Treasury Strategic Goals	**Treasury Strategic Objectives**	**Office Strategic Objectives**	**Office Performance Measure**	**Office Results**
Effectively Managed U.S. Government Finances (continued)	**Cash resources are available to operate the government (continued)**	Pension Funds in the custody of the Treasury are effectively managed and invested	Financial Statement Audit Opinion received from an independent external auditor	KPMG LLP, an independent public accounting firm, rendered an unqualified opinion on the Office's Financial Statements.
			Number of open financial management material weaknesses or corrective actions	KPMG LLP, an independent public accounting firm, noted no material weakness in the Office's internal control over financial reporting.
			Accuracy and timeliness of actuarial report	The enrolled actuary, Cheiron Inc., issued a report as of October 1, 2007, providing all information necessary to meet the requirements of the Act. The actuarial report also included the amount of the deposits to be made to the D.C. Federal Pension Fund and Judicial Retirement Fund.
			Percentage of electronic vendor and travel payments made timely	Of the 163 payments made during FY 2007, 100% were paid using electronic fund transfers within 30 days of receipt.
			Amount saved by utilizing early payment discount incentives	The Office saved $69,150.13 in FY 2007 by meeting the early payment discount incentives.

Fiscal Years 2007 - 2009				Fiscal Year 2007
Treasury Strategic Goals	**Treasury Strategic Objectives**	**Office Strategic Objectives**	**Office Performance Measure**	**Office Results**
Effectively Managed U.S. Government Finances (continued)	**Cash resources are available to operate the government (continued)**	Pension Funds in the custody of the Treasury are effectively managed and invested (continued)	Accuracy and timeliness of internal financial reports	The Office submitted financial information timely to all required entities, closing its books within three business days each month. The Office's financial approach integrates financial information with its resource planning requirements and uses detailed expense reports to manage operations.
			Rate of return on investments	In FY 2007, the rate of return as a percentage of par-valued investments was 4.4% for the D.C. Federal Pension Fund and 5.6% for the Judicial Retirement Fund.
			Minimum of two months of available cash and securities	In accordance with its investment guidelines, the Office maintained adequate cash balances to meet monthly obligations.
			Amount replenished to the D.C. Federal Pension and Judicial Retirement Fund	The D.C. Federal Pension Fund received $857,665 through debt prevention efforts and received $104,774 through debt collection efforts which totaled $962,439.
			Progress toward ending the Interim Benefits Period and planning for the final reconciliation	The Office continues to do preparatory work in anticipation of the final reconciliation.

Fiscal Years 2007 - 2009				Fiscal Year 2007
Treasury Strategic Goals	**Treasury Strategic Objectives**	**Office Strategic Objectives**	**Office Performance Measure**	**Office Results**
Management and Organizational Excellence	**Enabled and effective Treasury Department**	Organization's mission is effectively managed	Percentage of Office employee performance and training plans supporting individual employee and Office goals	100% of Office employees have a current performance plan and Individual Development Plan (IDP) which is consistent with Office and individual goals.
			Percentage of Office employees receiving timely performance reviews and feedback	100% of the Office employees receive quarterly reviews and year end performance ratings.
			Alignment of Office structure to effectively accomplish mission	The Office continues to review its structure to ensure an appropriate level of staffing and focus on all areas of responsibility to support an ongoing oversight role.
		Annuitants received quality service	Percentage of surveyed annuitants who indicated satisfaction with the accuracy, timeliness, and professionalism of service received	A sample of annuitants was surveyed regarding the patience, professionalism, knowledge, responsiveness and courteousness of the individual who provided assistance. Responses indicated that the services provided were excellent.
			Quality and timeliness of retirement plan information	The Office updated the Police Officers' and Firefighters' Summary Plan Description (SPD) for distribution in September 2007. The SPD provides up-to-date, accurate and easy to understand information about the Retirement Plan.

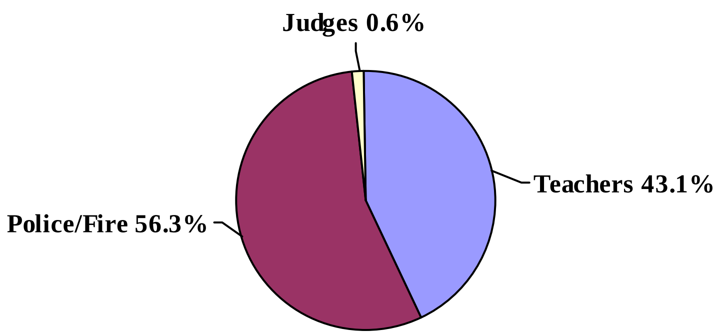
B. Benefit payments are accurate and timely; and the use of secure electronic systems are optimized

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 13,566 annuitants, as of September 30, 2007, in three District of Columbia retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. The annuitant population within each plan is as follows: teachers, 5,852; police officers and firefighters, 7,639; and judges, 75.



In FY 2007, the average monthly payroll totaled approximately $45 million. During the year, all payment files were submitted on time ensuring timely payment of annuitant benefits. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia's Retirement Board (DCRB) performed benefits administration services for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan, while the Office performed benefits administration for the Judges' Retirement Plan.

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

In FY 2007, the monthly processing in key areas included:

- New Retirements – 24 per month
- New Beneficiaries/Estates – 13 per month
- Purchases of Service – 14 per month
- Direct Deposit Changes – 25 per month
- New Survivors – 10 per month
- Qualified Domestic Relations Orders – less than 1 per month
- Refunds – 37 per month
- Tax Changes – 88 per month

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

In FY 2007, the average monthly support from the customer service team included:

- Answering Calls – 1,381 per month
- Servicing Walk-ins – 62 per month

The Office encourages annuitants to receive benefits through direct deposit. Direct deposit is a more convenient, secure and timely method of delivering benefits. By the end of FY 2007, 91.3% of retired police officers and firefighters or their survivors, 93.6% of retired teachers or their survivors, and 97.3% of retired judges or their survivors received their monthly benefit payments by direct deposit.

Annuitants	Percentage of Direct Deposit	
	2007	2006
Police/Fire	91.3%	90.7%
Teachers	93.6%	93.2%
Judges	97.3%	94.8%

In FY 2007, a variety of outreach efforts provided accurate and timely information to annuitants, including:

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

Treasury's Bureau of the Public Debt (BPD), Administrative Resources Center (ARC) also supports benefits administration. ARC staff members are responsible for making benefit payments, third party reporting, debt management, and mailing services. In FY 2007, the ARC staff made 135,332 benefit payments totaling more than $538 million for a monthly average of nearly $45 million. In addition, ARC staff collected or resolved approximately $1 million in debt.

Quality Review

Each month the Office performed quality assurance reviews on a statistical sample of new retiree and survivor cases and Qualified Domestic Relation Orders (QDRO). The Office provided appropriate feedback to the benefits administrator to ensure accuracy and assess training needs for the staff. The error rate identified in the Office's review process in FY 2006 was 3.54%. In FY 2007, the error rate decreased slightly to 3.36%.

In addition, the Office completes a review of the benefits administration support provided by ARC. In FY 2007, all payment files were transmitted in a manner to ensure timely benefit payments. All third-party reporting was also completed in a timely manner.

Special Projects

Collective Bargaining Agreement (Teachers)

In July 2006, the District of Columbia teachers signed a new labor agreement that was retroactive to October 2005. The agreement was implemented for the impacted retiree population (approximately 140 annuitants who retired after October 2005) and payments were made in the December 1, 2006, payroll. The implementation included a retroactive payment to all impacted annuitants, recalculation of the annuity payment for all impacted retirees, and if an impacted annuitant was deceased, beneficiary and/or estate payments to the designated individuals.

End User Training

During FY 2006, STAR training development and delivery was provided by the STAR systems integration contractor as a part of the overall system development. In FY 2007, the Office began the transition of those responsibilities to its Benefits Administration team. To date, the team has successfully absorbed the training responsibilities for all new employees and began supporting the development of new training materials.

b. System to Administer Retirement (STAR)

General Information

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

STAR is based on Oracle/PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration. The STAR implementation has been phased and deployed in bundles known as releases. Prior year releases include:

- Release 1 of STAR was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 of STAR was implemented in September 2003 to serve teachers, police officers and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 of STAR, which supported annuitants who retired on or after July 1, 1997, including newly retired teachers, police officers and firefighter retirees, and their subsequent survivors, was deployed in August 2005.

STAR Release 4 –Implemented in June 2007

The Office and DCRB continued to develop and enhance STAR. The fourth release of STAR was deployed in June 2007. Release 4 included an upgrade of Oracle/PeopleSoft from 8.0 to 8.9 and development of the split benefits functionality. The split benefit functionality enables STAR to calculate the split between federal and District liability in individual annuity payments. Release 4 implemented Phase 1 of the split benefit functionality, enabling calculation of the future split payments for retirements processed in STAR on or after the Release 4 Go-Live date. Additional phases of the split benefits functionality are addressed in STAR Release 5 (see section B.2.b).

STAR Technical Production Support and Hosting

Technical production support and hosting for STAR is performed by BPD. Since September 2003, BPD staff members have led production support activities, including: routine system operations, application and database administration, help desk operations and problem resolution. In FY 2007, STAR was available to the user population 99.93% of the time.

STAR Systems Security

In FY 2007, the STAR system renewed its security certification and accreditation (C&A) in compliance with the Federal requirement for completing updates at least every three years. A full security C&A was first received in January 2003 and completely updated in August 2004 when the Office made a major change to the technical environment. The certification is the comprehensive testing and evaluation of the management, operational, and technical controls of an IT system. The accreditation is the official management authorization to operate an IT system and to explicitly accept the risk to agency operations, agency assets, or individuals based on the implementation of security controls.

STAR Business Continuity Plan

Each year, the Office plans a test of the STAR Business Continuity Plan. The test is designed to test the viability of the plan and the readiness of the staff to respond to an emergency. In April 2007, the STAR system experienced an outage due to a network hardware failure. As a result of the outage, the Office was required to execute the Business Continuity Plan and successfully transferred processing from the primary production site to the contingency site and back with minimal interruption to the system users. After normal production was restored, the team captured several lessons learned that will help to strengthen the plan. Since an event occurred during the year that required the execution of the Business Continuity Plan, a separate exercise was not completed.

Change Control Board

The Office established the STAR Change Control Board (CCB) in FY 2002 as the approving authority for all system changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change, and prioritizes the work relating to approved changes. The CCB process enhances accountability and internal controls. During FY 2007, the CCB reviewed five change requests and approved four. The CCB also monitors the progress of previously approved change requests to ensure that resources are applied to the highest priority work and that progress is acceptable. The major change requests approved in FY 2007 related to the split benefit capability. Other change requests addressed efforts such as improvements to the print quality of 1099-Rs and another enhanced our ability to communicate to our annuitants through the earnings statements.

2. Future Focus

a. Benefits Administration

End User Training

In FY 2007, the Office began transitioning STAR training development and delivery responsibilities from the STAR systems integration contractor to its Benefits Administration team. In FY 2008, the transition will be completed with the Benefits Administration team capable of developing, delivering and maintaining the STAR training program and related support tools. Also in FY 2008, the Office will partner with DCRB to begin the design and development of a training program to address retirement plan knowledge as a complement to the STAR training program.

b. System to Administer Retirement (STAR)

STAR Release 5 – Planned Go-Live in November 2007

The Split Benefit project to calculate and record the federal and District split for future benefit payments to annuitants involves three phases of work. In FY 2007, Phase 1 was deployed as an integral part of STAR Release 4. It enabled STAR to calculate the split benefits for annuitants brought into pay status beginning in June 2007. Work in FY 2008 will focus on two remaining groups of annuitants for whom split functionality needs to be applied. Phase 2 of the Split Benefit project will calculate the split for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007. Phase 3 will calculate the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in the District's legacy system, PAPS or Pension Administration and Payroll System. These annuitants were converted into STAR in August 2005. The difference between Phase 2 and 3 is that all the relevant data to calculate the split for the Phase 2 population is already recorded in STAR whereas an analysis of historical data is needed to determine the split for the Phase 3 population. The Office plans to implement both Phases 2 and 3 in November 2007 as part of Release 5 deployment.

STAR Transition

In FY 2008, the Office will complete the development of the core STAR functionality. With the completion, the Office must transform from a developmental to an operational focus. To support this transformation, the Office planned and announced a reorganization in FY 2007 to align responsibilities with Service Areas. The Office will also need to plan and implement the STAR Transition. The STAR Transition will include the transfer of knowledge from the Office's systems integrator and other contract partners to staff supporting benefits administration and system hosting. Key areas addressed in the STAR Transition are expected to be organizational and technical processes, training, and hardware and software transfer. The STAR Transition will be completed in May 2008.

C. Pension Funds in the custody of the Treasury are effectively managed and invested

1. Program Results

a. Pension Funds

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

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

- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

b. Actuarial Valuation

In FY 2007, the Office contracted with Cheiron Inc., an actuarial and financial consultancy, to perform the annual actuarial valuation as required by the Act. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office.

As estimated by the actuary, as of October 1, 2007, the Federal government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately $8.9 billion. Of the $8.9 billion actuarial liability, approximately $3.8 billion is funded by existing assets of the D.C. Federal Pension Fund and $5.1 billion is unfunded.

Cheiron Inc. determined an actuarial total liability for the Judges' Retirement Plan as of October 1, 2007, of $150.7 million. Of the $150.7 million actuarial liability, approximately $121.7 million is funded by existing assets of the Judicial Retirement Fund and $29.0 million is unfunded.

c. Receipts and Investments

The pension funds summary for FY 2007 and FY 2006 are set forth in the tables below. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

Pension Funds FY 2007 and FY 2006 Financial Highlights (in millions)

Fund		2007	2006
D.C. Federal Pension Fund	**Receipts:**		
	Interest	$ 192.4	$ 201.8
	District Benefit Reimbursement from DCRB	$ 37.5	$ 22.2
	Deposits from General Fund	$ 345.4	$ 285.4
	Deposits/Contributions from Plan Participants	$ 0.0	$ 0.0
	Net Investments	$3,701.1	$3,707.8
Judicial Retirement Fund	**Receipts:**		
	Interest	$ 6.3	$ 6.0
	District Benefit Reimbursement from DCRB	$ 0.0	$ 0.0
	Deposits from General Fund	$ 7.4	$ 7.4
	Deposits/Contributions from Plan Participants	$ 0.7	$ 0.7
	Net Investments	$ 120.2	$ 113.9
Totals	**Receipts:**		
	Interest	$ 198.7	$ 207.8
	District Benefit Reimbursement from DCRB	$ 37.5	$ 22.2
	Deposits from General Fund	$ 352.8	$ 292.8
	Deposits/Contributions from Plan Participants	$ 0.7	$ 0.7
	Net Investments	$3,821.3	$3,821.7

Treasury Securities

Each fund is invested in non-marketable Treasury securities, as required by law. The Bureau of the Public Debt (BPD) invests the assets of the pension funds based on investment guidance from the Office. The Office follows a "ladder" approach, scheduling maturities in amounts sufficient to meet the obligations projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations, and extending the ladder. In FY 2007, the cash balance available for contingencies was targeted not to fall below approximately two months of obligations ($96 million). The Office invested cash balances in one-day certificates, except for an un-invested balance of $250,000 at month end, to cover unanticipated withdrawals on the last day of the month.

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

Warrants

As required by the Act, Treasury makes annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities of the retirement programs assumed by the Federal government over 30 years, the net experience gains or losses over 10 years, and any changes in actuarial liabilities over 20 years; and for amounts necessary to fund covered administrative expenses for the year. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program. Consistent with the Act, these deposits are made in September each year and are invested in non-marketable Treasury securities with maturities consistent with the expected payment dates of the pension liabilities. In FY 2007, $345.4 million was deposited into the D.C. Federal Pension Fund and $7.4 million into the Judicial Retirement Fund. In FY 2006, $285.4 million was deposited into the D.C. Federal Pensions Fund and $7.4 million was deposited into the Judicial Retirement Fund.

Interest

In FY 2007, the Office received $192.4 million of interest ($153 million earned) in the D.C. Federal Pension Fund and $6.3 million ($6.2 million earned) in the Judicial Retirement Fund. The rate of return in FY 2007 for the Office's pension funds was 4.4% for the D.C. Federal Pension Fund and 5.6% for the Judicial Retirement Fund. In FY 2006, the Office earned interest of $201.8 million ($156.8 million earned) in the D.C. Federal Pension Fund and $6.0 million ($5.9 million earned) in the Judicial Retirement Fund. The rate of return in FY 2006 for the Office's pension funds was 4.5% for the D.C. Federal Pension Fund and 5.7% for the Judicial Retirement Fund. The rate of return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of Investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

District Benefit Reimbursements

Treasury initially funds all benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Until July 1, 2007, the District only reimbursed the D.C. Federal Pension Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2007, DCRB reimbursed Treasury $28.6 million for estimated District Benefit Payments made in FY 2006 by Treasury on the District's behalf.

On July 1, 2007, the DCRB began reimbursing Treasury approximately $3.0 million monthly for estimated District Benefit Payments made by Treasury on the District's behalf. At this time, based on an actuarial valuation as of October 1, 2006, the DCRB actuary estimates the FY 2007 District Benefit Payments made by Treasury on the District's behalf will be $35.7 million and the January 2008 reimbursement will be $23.8 million. The estimate of $23.8 million is calculated by subtracting the monthly reimbursements already made by DCRB for FY 2007, which totaled $11.9 million, from the estimate of District Benefit Payments made by Treasury on the District's behalf for FY 2007, which is $35.7 million. However, the actual amount of the January 2008 reimbursement will be based on the DCRB actuarial valuation as of October 1, 2007.

Judges' Employee Contributions

Active judges are required to contribute 3.5% of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5% of salary. Active judges' contributions to the retirement fund in FY 2007 totaled approximately $576,000. Retired judges who elected a survivor annuity are required to contribute 3.5% of retirement salary. In FY 2007, retired judges contributed approximately $156,000 to the retirement fund. In FY 2006, active judges' contributions to the retirement fund totaled $590,000. Retired judges contributed approximately $126,000 to the retirement fund in FY 2006.

d. Collections

Refund Reconciliation Project

The First Amended Memorandum of Understanding (MOU), dated September 28, 2000, required Treasury to pay the total amount of refunds of employee contributions during the interim benefits period. On February 1, 2005, Treasury entered into a MOU with the DCRB and the District of Columbia's Office of Pay and Retirement Services (OPRS) concerning refunds of employee contributions under the Police Officers' and Firefighters', and Teachers' Retirement Plans. In addition to agreeing to fund amounts paid on and after February 1, 2005 in accordance with the respective statutory responsibilities (i.e., refunds of contributions deducted from employee salary on or before June 30, 1997, are a federal liability and refunds of contributions deducted after June 30, 1997, are a District liability) the District also agreed to reimburse Treasury for that portion of refunds paid by Treasury prior to February 1, 2005 that represents contributions deducted and withheld from an employee's salary or deposits after June 30, 1997. In FY 2005, the Office began reconciling all refunds made prior to February 1, 2005 resulting in the District reimbursement of $9.3 million for FY 2003 through February 2005. In FY 2006, the District paid Treasury $6 million for its share of the refunds paid from FY 2001 and FY 2002. In FY 2007, FY 2000 refund cases were reconciled and the Office established a $1.6 million receivable for FY 2000 refunds, and a receivable of $1 million for FY 1997 through FY 1999. The table below summarizes the Treasury and District share of the refunds.

Refund Reconciliation Project (in millions)

	2005*	**2004**	**2003**	**2002**	**2001**	**2000****	**1999****	**1998-97****
Treasury	$0.5	$1.8	$1.2	$2.7	$2.3	$2.9	$3.7	$5.6
District	$1.4	$4.7	$3.2	$3.7	$2.3	$1.6	$0.8	$0.2
Total Refunds	**$1.9**	**$6.5**	**$4.4**	**$6.4**	**$4.6**	**$4.5**	**$4.5**	**$5.8**

*Fiscal year 2005 includes refunds paid from October 1, 2004, through February 15, 2005.
** Fiscal Years 1997 through 2000 are estimates.

Debt Collection

During FY 2007, the Office pursued debt prevention and collection efforts working with the annuity payroll team at the Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), which manages the debt collection process for the Office. In FY 2007, debt prevention efforts ensured that a total of $857,665 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. Through debt collection efforts $104,774 was collected through offsets, lump sum payments or installment payments.

During January 2007, the Office kicked off an effort to review its debt management practices. Representatives from ODCP, General Counsel and the BPD Payroll Team reviewed the current policies and procedures. Once this effort is complete, the Office will publish updated regulations.

In FY 2006, debt prevention efforts ensured that a total of $880,595 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. Through debt collection efforts $134,295 was collected through offsets, lump sum payments or installment payments.

e. Financial Operations

Oracle Federal Financials (ORACLE)

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

3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality scorecard maintained by Treasury's Office of Accounting and Internal Control.

Prompt Payment and Vendor Payment Discounts

The Office paid 100% of the 112 invoices received within the timeframes required by the Prompt Payment Act. The Office's systems integration contractor offers an early payment discount as an incentive to make payments in less than the 30 days prescribed in the Prompt Payment Act. The discounts are 1% for payment within 10 days of the invoice date and 1/2% for payment within 20 days of the invoice date. As a result, the Office saved $69,150.13 in FY 2007 by making payments within 10 days of the invoice date. In FY 2006, the Office saved $61,961 by making payments within 10 days of the invoice date.

Electronic Payments

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage Federal agencies to use electronic payments. In FY 2007, the Office paid 100% of the 163 payments, which include invoices and travel reimbursements, by electronic funds transfer. Of the 163 payments, 73% were by EFT and 27% by credit card. In FY 2006, of the 138 electronic payments made, 80% were EFT and 20% were made by credit card.

Administrative Expenses

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

In FY 2007, administrative expenses were approximately $14.6 million for the D.C. Federal Pension Fund and $1.1 million for the Judicial Retirement Fund, for a total of $15.7 million. In FY 2006, administrative expenses were approximately $17.2 million for the D.C. Federal Pension Fund and $1.2 million for the Judicial Retirement Fund, for a total of $18.4 million. Administrative expenses in FY 2007, as compared to FY 2006, decreased by $2.7 million primarily due to a decrease in contractual costs.

Administrative Expenses FY 2007 and FY 2006 (in millions)			
Fund	**2007**	**2006**	**Difference**
D.C. Federal Pension Fund	$14.6	$17.2	$(2.6)
Judicial Retirement Fund	$ 1.1	$ 1.2	$(0.1)
Total	**$15.7**	**$18.4**	**$(2.7)**

The major administrative expenses resulted from reimbursement of DCRB benefit administration and support function expenses, Treasury staff salaries and benefits, and contractors engaged by the Office to provide IT systems development. Certain costs of the System to Administer Retirement (STAR) pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing – since January 2003 in the Judicial Retirement Fund and since September 2003 in the D.C. Federal Pension Fund – direct costs incurred to develop STAR. Capitalized costs in the D.C. Federal Pension Fund and Judicial Retirement Fund will be amortized monthly on a five-year schedule.

<u>Expense Reimbursement</u>

The Office and the DCRB have developed a methodology for allocating costs incurred by both entities in administering District and Federal Benefit Payments. The methodology includes consideration of: (1) the number of active employees, 100% federal annuitants, 100% District annuitants, and split annuitants; (2) the estimated DCRB resources needed to support these populations; and (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function. Applying this methodology, the Office and the DCRB entered into a cost sharing agreement for reimbursement of FY 2007 actual expenses. Pursuant to the agreement, Treasury will reimburse the DCRB approximately $2.2 million for FY 2007 expenses in administering Federal Benefit Payments. DCRB in turn will reimburse the Office approximately $2.3 million for the Office’s expenses in developing and operating STAR to administer District Benefit Payments. In FY 2006, Treasury reimbursed DCRB $2.0 million for agreed upon administrative expenses, while DCRB reimbursed Treasury $1.8 million for administrative costs associated to STAR.

f. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office’s FY 2007 financial statements. This is the ninth consecutive year that the Office’s financial statements have received an unqualified opinion.

KPMG noted no material weaknesses in the Office of D.C. Pensions internal control over financial reporting. Also, the results of KPMG'S tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 07-04.

g. Internal Control over Financial Reporting

The Office used the FY 2007 Guidance and Implementation Plan provided by Treasury's Office of the Deputy Chief Financial Officer to conduct a review of internal controls over financial reporting as required by OMB Circular A-123, Management's Responsibility for Internal Controls, Appendix A, Internal Control Over Financial Reporting. ARC staff members and the Office conducted tests by either inspection or use of the ARC SAS 70 review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting, which included safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Office provided reasonable assurance that its internal controls over financial reporting were operating effectively and no maternal weaknesses were found in the design or operation of the internal controls over financial reporting. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines identified in Treasury's guidance and internal financial reports produced for the Office. The Office provided a compliance statement reflecting an unqualified assurance as of June 30, 2007.

2. Future Focus

a. Split Benefit Calculation

Beginning in November 2007, Release 5 functionality will enable STAR to calculate the split for future payments to all annuitants in pay status as of that date. This will enable STAR to appropriately allocate and record the portion of an annuitant's benefit which is the Federal government's responsibility and the District's responsibility. The Office has developed new split monthly reports that identify at the annuitant level the Federal and District portions of the total annuity paid each month.

b. Monthly District Benefit Payments

In November and December 2007, the DCRB will reimburse Treasury for District Benefit Payments earned in the previous month. Each of the two monthly reimbursements will be 1/12 of the estimated District liability for FY 2008, as determined by the DCRB actuary. The November and December 2007 payments are subject to final reconciliation in accordance with the Interim Benefits MOU.

Starting in January 2008, monthly DCRB reimbursements will be made based on the actual calculation of the District Liability. The STAR Split Reimbursement Summary Report will support the actual District reimbursements made to Treasury each month.

c. End Interim Benefit Period/Final Reconciliation

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

In November 2007, after the STAR project to calculate split benefits has been implemented, the Office will then work with the District to conduct the final reconciliation, accounting for transactions during the interim benefit period. The final reconciliation will include, among other things, an accounting of the amounts related to Federal and District responsibilities for benefits paid to plan members who retired after June 30, 1997.

Per the Interim Benefits MOU between Treasury and the District, the major requirements for the final reconciliation are that: (1) the District and DCRB provide audited reports of their transactions affecting the retirement funds during the interim benefits period; and (2) the Treasury calculates split benefit payments for plan members who retired during the interim benefits period and reconciles these payments with amounts actually paid by the District to Treasury during the interim benefits period. The final reconciliation will identify amounts owed to Treasury by the District and vice-versa.

D. Organization's mission is effectively managed

1. Program Results

a. Employee Performance and Training

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

b. Office of D.C. Pensions Performance Reporting

In FY 2007, the Office revised its approach for reporting on performance and moved from a single report to two reports; one distributed by the Office and the other distributed by the Benefits Administrator. The Office's report presents findings, analysis and recommended actions with regard to both the services provided by the Office and the quality assurance activities completed for the services provided to the Office. The report presents these findings in each of the Office's four primary performance areas: benefits administration, financial management, information services and program management. The Office's report is distributed on a quarterly basis. See below for a discussion of the Benefits Administrator's Performance Report.

c. Organizational Structure

As significant milestones in the System to Administer Retirement (STAR) development are nearing completion and as the functions performed by the District of Columbia Retirement Board (DCRB) are maturing, the Office is focused on an evolving operational and oversight role. To reflect the changing needs of the organization as it transitions from a development to an operational focus, the Office planned for and announced a reorganization in FY 2007. The reorganization focusing on Service Areas will be phased in and completely transitioned by January 2008.

2. Future Focus

a. Expanded Oversight of Benefits Administration Activities

As DCRB continues to mature and expand in its role as the Benefits Administrator, the Office will expand and enhance its oversight and quality assurance program. The focus will continue to be on customer service and benefits processing.

b. Improved Employee Performance Management System

In FY 2008, the Office will utilize the new Employee Performance Management System implemented by Departmental Offices. The new performance system leverages improvements, such as using performance commitments that are job specific and results oriented, already adopted by the Office. It also introduces a new concept, weighting, to allow varying importance to be placed on the performance commitments. The new performance system is expected to increase emphasis on accountability, allow for more meaningful distinctions in performance levels, focus more on results, and align performance plans with organizational goals.

c. Organizational Structure

At the end of FY 2007, the Office announced a reorganization that will be implemented gradually with the transition completed by January 2008. The new organizational structure is more streamlined than the current organization, reducing the number of

Assistant Directors reporting to the Director from three to two. The new organization also focuses the work into Service Areas. The Service Areas are designed to clarify points of contact with the Office's key partners, emphasize the Office's key operational areas, and highlight key functions to include quality assurance and special projects.

E. Annuitants received quality service

1. Program Results

a. District of Columbia Retirement Board Performance Report

In FY 2007, the District of Columbia Retirement Board (DCRB) began producing its own benefits administration performance reports. The DCRB Performance Report complements the Office of D.C. Pensions' (the Office) Performance Report noted above. The DCRB report tracks two primary areas, benefits administration and customer service. The DCRB report focuses on the performance indicators adopted in FY 2006 that reflect a balance between accuracy, timeliness, quality, and cost effectiveness. The report is distributed on a quarterly basis.

b. Annuitant Satisfaction

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

Annuitant outreach via a survey vehicle increased this year as compared to last year. The annuitant survey form asks members to rate the patience, professionalism, knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. In addition, it asks how satisfied the caller was with the process, their overall experience with the Member Services Center, their wait time, and their perception of customer service representative's ability to understand their issue and help them. Ratings range from 1 (excellent) to 5 (poor). Responses from the annuitants surveyed, indicated that the services provided were excellent.

c. Benefits Administration Service Level Agreement

In FY 2007, the Office and DCRB signed a service level agreement (SLA) for the benefits administration arena. The SLA defines the responsibilities of the DCRB Benefits Department and the Office in providing a high level of service to its partners, supporting organizations and annuitants. The SLA emphasizes results from the customers' perspective and performance criteria are focused accordingly. Focus is placed on the entire benefits administration spectrum of activities from processing to customer service and quality review. The SLA was effective for the fourth quarter of FY 2007 and will serve as a model for the FY 2008 agreement.

d. Retirement Plan Information

<u>Police Officers' and Firefighters' Summary Plan Description (SPD)</u>

In FY 2007, an updated SPD of the District of Columbia Police Officers' and Firefighters' Retirement Plan (Plan) was published. The updated SPD was mailed to approximately 14,000 Plan members (active personnel and retirees) and their survivors. This project was led by the Office and was produced in partnership with the District. The updated SPD includes information on statutory changes to the plan and changes to regulations.

2. Future Focus

a. 1099-R Print Quality Improvements

Over the last two years, the print quality of the 1099-Rs issued to the annuitants has deteriorated and the number of complaints regarding the 1099-Rs increased. In response to the issue, the Office, in partnership with DCRB and BPD, researched the problems, identified options to improve the process and approved a change request. The new and improved 1099-Rs will be provided to annuitants as a part of the 2007 year end cycle.

b. Earnings Statement Improvements

In FY 2008, the Office plans to implement annuitant friendly improvements to the earnings statement. The new statements will eliminate redundant information, increase the font size of the text, and expand the space available for messages to annuitants. Along with these improvements, the Office anticipates an annual savings of approximately $31,000.

c. Retirement Plan Information

<u>Teachers' Summary Plan Description (SPD)</u>

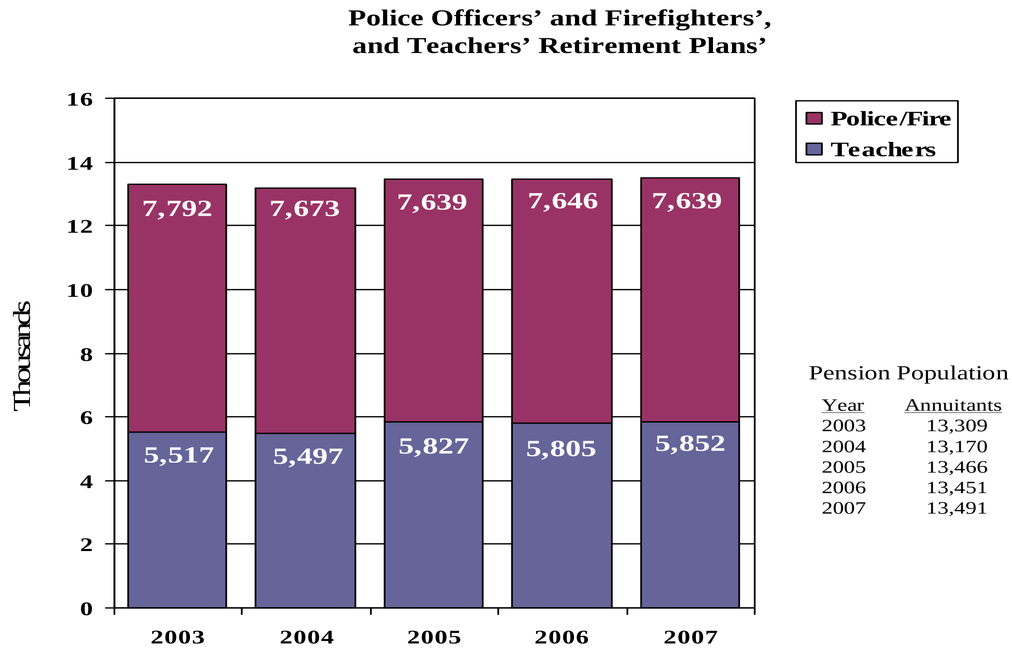
Work began on the update to the SPD for the District of Columbia Police Teachers' Retirement Plan in FY 2007. The SPD is designed to provide plan members with accurate and easy to understand information about the Retirement Plan. DCRB led this effort, with input and coordination provided with the Office and several other District stakeholders.

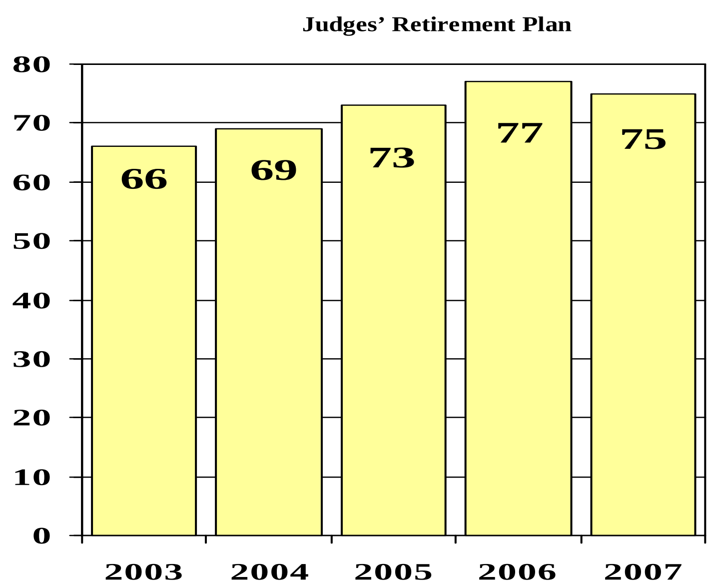
<u>Judges' Summary Plan Description (SPD)</u>

The Office began to update the SPD for the District of Columbia Judges' Retirement Plan. The SPD is designed to provide plan members with accurate and easy to understand information about the Retirement Plan. The Office led this effort, with input and coordination provided by other District stakeholders.

IV. Five-Year History of the District of Columbia Pensions Program

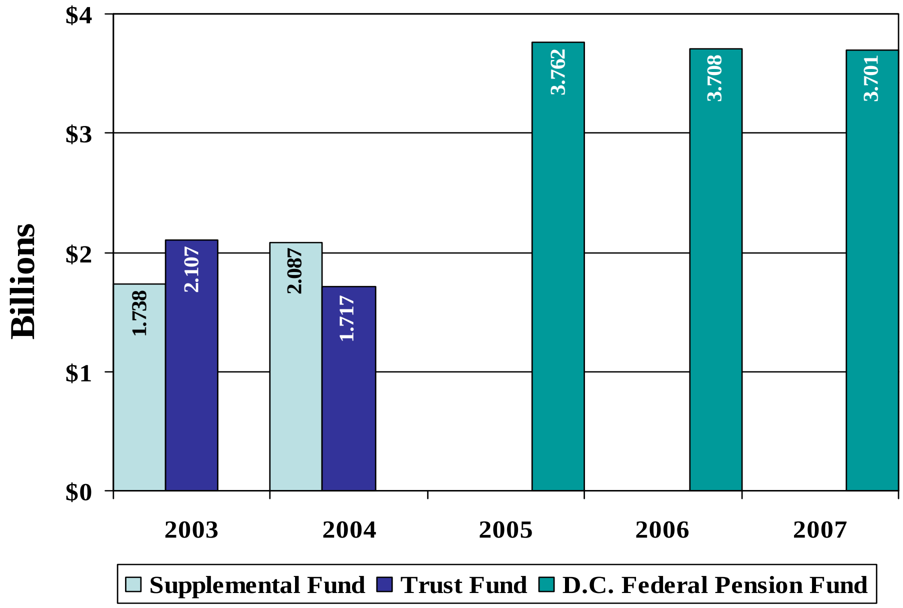
A. Annuitants *(as of September 30, 2007)*





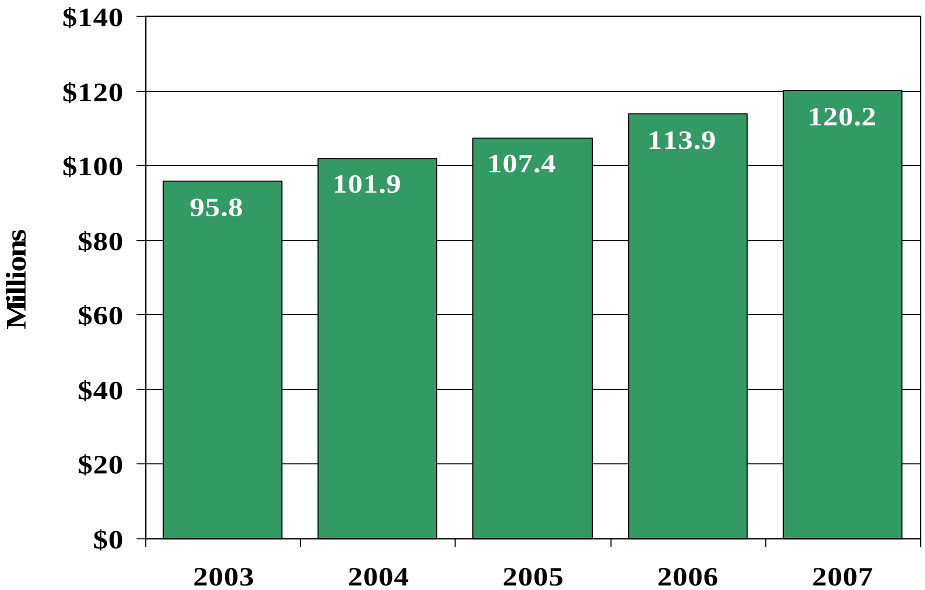
B. Investments *(as of September 30, 2007)*

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



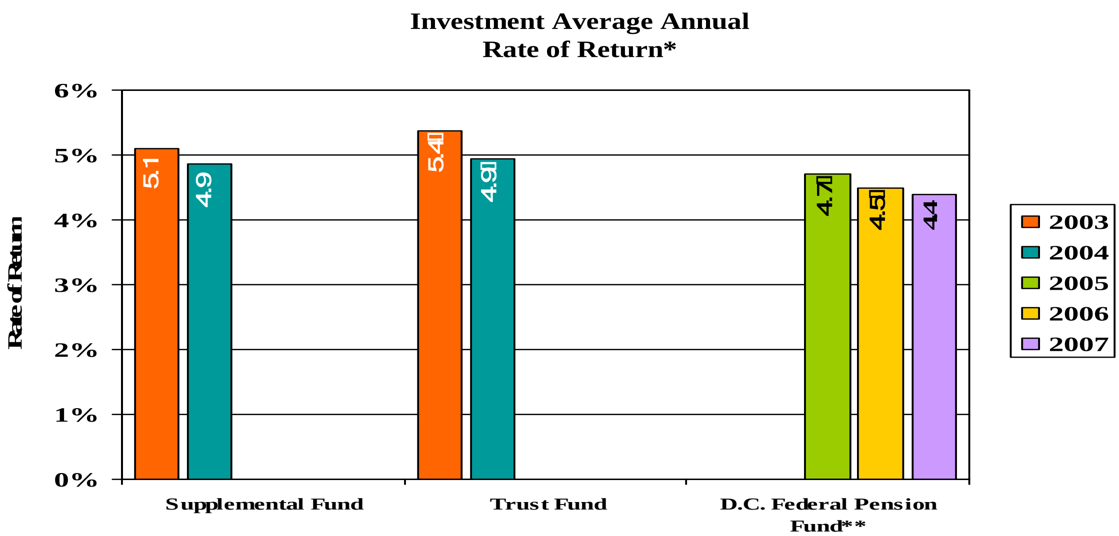
All funds are invested in non-marketable Treasury securities. The Supplemental and Trust funds assets as of October 1, 2004, were combined to create the D.C. Federal Pension Fund.

Judicial Retirement Fund Net Investments



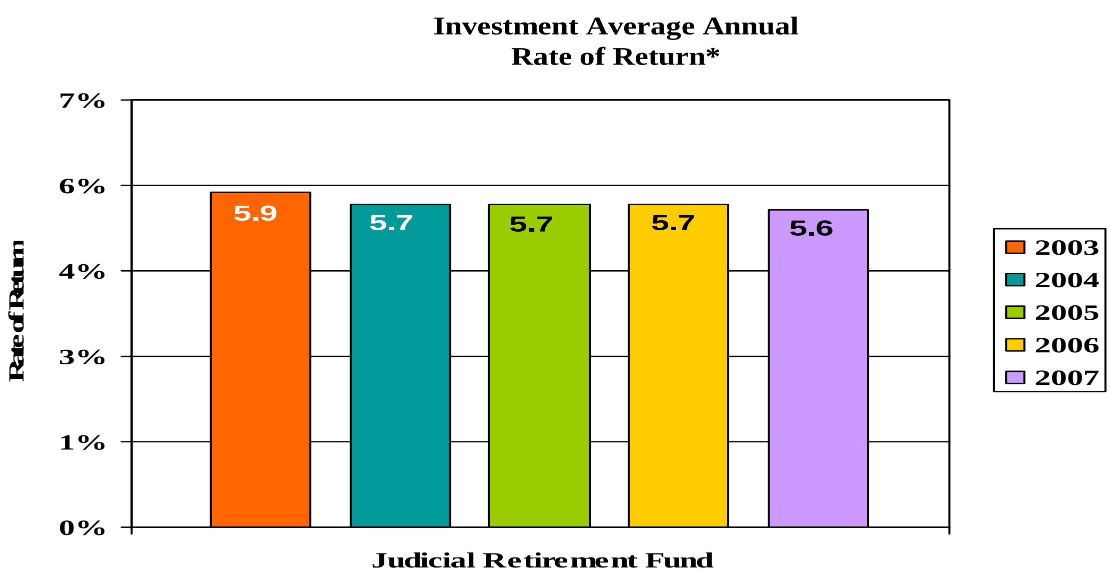
All funds are invested in non-marketable Treasury securities. The fund has grown each year as contributions and earnings exceed benefit payments and administrative expenses.

B. Investments *(as of September 30, 2007) continued*



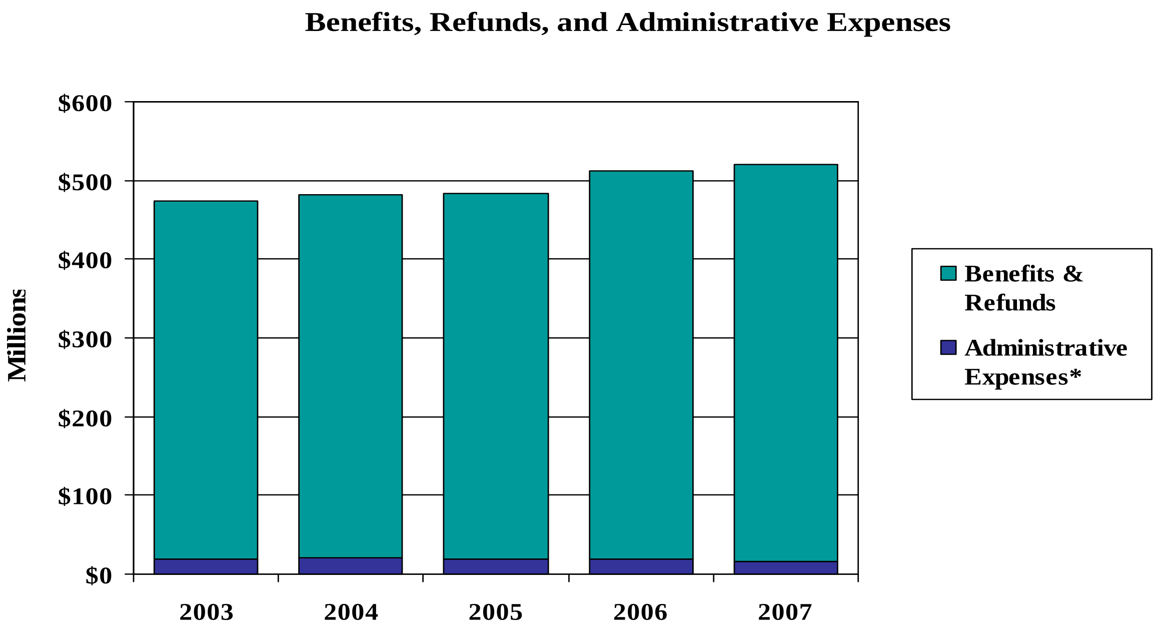
*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

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



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

C. Expenses by Category *(as of September 30, 2007)*



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

Benefits, Refunds, and Administrative Expenses

Fiscal Year	Benefits/ Refunds Paid	Administration Expenses*	Benefits and Refunds %	Administrative Expenses %
2003	$455M	$19M	96%	4%
2004	$462M	$20M	96%	4%
2005	$464M	$19.5M	96%	4%
2006	$494M	$18.4M	96%	4%
2007	$504M	$15.7M	97%	3%

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

V. Limitation of the Financial Statements

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

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

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

VI. D.C. Retirement Protection Improvement Act of 2004

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund) and merged the assets of the D.C. Federal Pension Liability Trust Fund (the Trust Fund) and Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) into the new fund. The budget authority of the Trust Fund and the Supplemental Fund was transferred to the D.C. Federal Pension Fund.

PART 2

INDEPENDENT AUDITORS' REPORT

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2, in fiscal year 2007, the ODCP changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in accordance with the OMB Circular No. 136, *Financial Reporting Requirements*.

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

KPMG

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in Part 4, *Supplementary Schedules*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The September 30, 2007 supplementary schedules referred to above have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2007, on our consideration of the ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

October 31, 2007

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2007 and 2006 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 31, 2007. That report noted that ODCP implemented a change in reporting.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2007 audit, we considered the ODCP's internal control over financial reporting by obtaining an understanding of the design effectiveness of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ODCP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the ODCP's consolidated financial statements that is more than inconsequential will not be prevented or detected by the ODCP's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the ODCP's internal control.

KPMG

In our fiscal year 2007 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

As required by OMB Bulletin No. 07-04, in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2007 audit, we noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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

KPMG LLP

October 31, 2007

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (ODCP) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated October 31, 2007. That report noted that ODCP implemented a change in reporting.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for complying with laws, regulations and contracts applicable to the ODCP. As part of obtaining reasonable assurance about whether the ODCP's consolidated financial statements are free of material misstatement, we performed tests of the ODCP's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the ODCP. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the ODCP's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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

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

KPMG LLP

October 31, 2007

PART 3

FINANCIAL STATEMENTS AND NOTES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2007 and 2006
(in thousands)

	2007	2006
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	*$ 254*	*$ 255*
Investments in GAS Securities, Net (Note 4)	*3,821,315*	*3,821,637*
Interest Receivable from GAS Securities	*34,123*	*40,020*
Advances to Others	*72*	*40*
Accounts Receivable, Net	*30,860*	*31,569*
Software-In-Development	*1,797*	*5,146*
ADP Software, Net (Note 5)	*12,073*	*11,473*
Equipment, Net (Note 6)	*73*	*151*
Total Assets	*$ 3,900,567*	*$ 3,910,291*
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	*$ 32*	*$ 68*
Accrued Payroll and Benefits	*17*	*16*
Accounts Payable	*4,493*	*6,767*
Accrued Pension Benefits Payable	*45,296*	*44,288*
Actuarial Pension Liability (Note 2j)	*3,679,487*	*3,645,440*
Accrued Payroll and Benefits	*194*	*179*
Total Liabilities Covered By Budgetary Resources	*3,729,519*	*3,696,758*
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability	*5,312,562*	*5,422,271*
Total Liabilities	*9,042,081*	*9,119,029*
Net Position		
Cumulative Results of Operations - Earmarked	*(5,141,514)*	*(5,208,738)*
Total Net Position	*(5,141,514)*	*(5,208,738)*
Total Liabilities and Net Position	*$ 3,900,567*	*$ 3,910,291*

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007		2006	
Program Costs				
Administrative Expenses (Note 7)	$	15,653	$	18,422
Pension Expense (Note 8)		429,837		1,050,791
Total Program Costs		445,490		1,069,213
Less: Earned Revenues				
Interest Earned from GAS Securities		159,235		162,688
Employee Contributions		577		590
Net Cost of Operations	$	285,678	$	905,935

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007 Earmarked		2006 Earmarked	
Cumulative Results of Operations				
Net Position - Beginning of Year	$	(5,208,738)	$	(4,595,727)
Budgetary Financing Sources				
Appropriations Used		352,780		292,800
Other Financing Sources				
Imputed Financing Sources		122		124
Total Financing Sources		352,902		292,924
Net Cost of Operations		(285,678)		(905,935)
Net Change		67,224		(613,011)
Net Position - End of Year	$	(5,141,514)	$	(5,208,738)

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007	2006
Budgetary Resources		
Budget Authority		
Appropriations	*$ 903,530*	*$ 4,369,353*
Unobligated Balance - Beginning of Year	*-*	*101,069*
Spending Authority from Offsetting Collections	*28,613*	*27,842*
Recoveries of Prior Year Obligations	*2,614*	*2,449*
Temporarily Unavailable Pursuant to Public Law	*(34,047)*	*(3,666,340)*
Total Budgetary Resources	*$ 900,710*	*$ 834,373*
Status of Budgetary Resources		
Obligations Incurred	*$ 900,634*	*$ 834,373*
Unobligated Balances Available	*76*	*-*
Total Status of Budgetary Resources	*$ 900,710*	*$ 834,373*
Relationship of Obligations to Outlays		
Obligated Balance, Net - Beginning of Year	*$ 61,266*	*$ 59,965*
Obligations Incurred	*900,634*	*834,373*
Recoveries of Prior Year Obligations	*(2,614)*	*(2,449)*
Obligated Balance, Net - End of Year	*(59,082)*	*(61,266)*
Outlays		
Disbursements	*900,204*	*830,623*
Collections	*(28,613)*	*(27,842)*
Total Outlays	*871,591*	*802,781*
Less: Offsetting Receipts	*197,970*	*204,392*
Net Outlays	*$ 673,621*	*$ 598,389*

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

Notes to Financial Statements

September 30, 2007

1) Reporting Entity

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

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

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

a. District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (FY 2007 and FY 2006)

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund – 20X5511). Effective October 1, 2004, the assets and liabilities of the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund - 20X8230) and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500) were transferred to the D.C. Federal Pension Fund. The D.C. Federal Pension Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The D.C. Federal Pension Fund consists of the following:

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

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

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amount paid into the D.C. Federal Pension Fund during FY 2007 and FY 2006 were $345.4 million and $285.4 million, respectively.

b. District of Columbia Judicial Retirement and Survivors Annuity Fund (FY 2007 and FY 2006)

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

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

The Judicial Retirement Fund consists of the following:

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

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

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2007 and FY 2006 were $7.4 million each year.

2) Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statements of Budgetary Resources, all of which are prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America for federal entities are prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources.

In the year ended September 30, 2007, OMB changed the required reconciliation of net cost to budgetary resources from the separately presented Statement of Financing (SOF) to a note disclosure. See Note 9 for the new presentation.

b. Fund Balance with Treasury

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

c. Investments

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

The Office follows Treasury investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately seven years. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy. Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

d. Advances and Prepayments

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

e. Software-In-Development

Software-in-development consists of independent contractor costs incurred in FY 2007 to develop Release 5 of a pension/payroll system to support the Police Officers' and Firefighters', and Teachers' Retirement Plans.

f. ADP Software – Net

ADP Software – Net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 – FY 2007 to develop a pension/payroll system to meet Treasury's and D.C.'s needs (net of accumulated amortization). Components of this software that calculate benefit payments for the judges and for a portion of the teachers, police officers and firefighters were placed in service during FY 2003. An additional component of the pension/payroll system for the remaining population of the teachers, police officers and firefighters was placed in service during FY 2005. Another component of the pension/payroll system was placed in service during FY 2007 to implement split benefit requirements for new retirements.

Internal use software is recorded at cost and capitalized in accordance with the following thresholds:

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

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

g. Equipment – Net

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

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

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

h. Accounts Receivable

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

i. Accrued Pension Benefits Payable

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

j. Actuarial Pension Liability

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

The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. The actuarial pension liability is based upon assumptions made by Treasury. The assumptions used to calculate the pension liability as of October 1, 2007, were an annual rate of investment return of 6% based on the securities held in the Judicial Retirement Fund, an annual rate of investment of 4.7% in FY 2008 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2013; an annual inflation and cost-of-living adjustment of 3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. The assumptions used to calculate the pension liability as of October 1, 2006, were an annual rate of investment return of 6% based on the securities held in the Judicial Retirement Fund, an annual rate of investment of 4.8% in FY 2007 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2012; an annual inflation and cost-of-living adjustment of 3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters.

k. Appropriations Received and Used

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

l. Treasury Employee Retirement Plans

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

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Pub. L. 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

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

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

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

m. President's Budget

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2007, was not published at the time that these financial statements were issued. The President's Budget for FY 2009, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2008. It will be available from the United States Government Printing Office. The FY 2006 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P & F) Schedules within the President's Budget for FY 2008 and there were no differences for budgetary resources and status of budgetary resources.

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

n. Earmarked Funds

Funding Sources

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

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

Funding for the Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084(a), P.L. 108-149.

Sources of revenue or other financing sources for the years ended September 30, 2007 and 2006 were annual appropriations, employee contributions, and interest earnings from investments.

Intra-governmental Investments in Treasury Securities

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

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

o. Reclassifications

Certain 2006 balances have been reclassified to conform to the 2007 presentation. Other expenses not requiring budgetary resources were reclassified from other public expenses to public contractual services on Note 7 and on the Administrative Expenses Supplemental Schedule.

3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2007 and 2006, consisted of the following (in thousands):

		2007	2006
Fund balances:			
Trust funds	$	15	15
Special funds *		239	240
Total fund balance with Treasury	$	254	255

* OMB Circular A-11 defines special funds as a Federal fund account for receipts earmarked for specific purposes and the expenditure of these receipts.

		2007	2006
Status of fund balance with Treasury			
Obligated balance not yet disbursed		254	255
Total	$	254	255

4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2007 and 2006 consisted of the following (in thousands):

	2007			
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	$ 261,820	—	261,820	261,820
Non-marketable market-based	3,502,594	56,901	3,559,495	3,574,715
Total	$ 3,764,414	56,901	3,821,315	3,836,535

	2006			
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	$ 145,841	—	145,841	145,841
Non-marketable market-based	3,574,966	100,830	3,675,796	3,638,277
Total	$ 3,720,807	100,830	3,821,637	3,784,118

The amortization method utilized by the Office is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2007 and 2006, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are a net unrealized gain of $15.2 million as of September 30, 2007 and a net unrealized loss of $37.5 million as of September 30, 2006.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2007 and 2006, by maturity date, are as follows (in thousands):

		2007	2006
Less than or equal to 1 year	$	525,580	801,288
More than 1 year and less than or equal to 5 years		2,495,668	2,479,909
More than 5 years and less than or equal to 10 years		538,247	394,599
Total	$	3,559,495	3,675,796

5) ADP Software - Net

The components of ADP software – net as of September 30, 2007 and 2006 are as follows (in thousands):

		2007	2006
ADP software	$	38,383	30,865
Accumulated depreciation		(26,310)	(19,392)
ADP software – net	$	12,073	11,473

6) Equipment - Net

The components of equipment – net as of September 30, 2007 and 2006 are as follows (in thousands):

		2007	2006
ADP hardware	$	500	500
Accumulated depreciation		(427)	(349)
Equipment – net	$	73	151

7) Administrative Expenses

Administrative expenses for the years ended September 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Intragovernmental expenses		
Salaries and related benefits	$ 562	571
Contractual services	2,327	2,814
Rent	780	1,279
Other	68	23
Total intragovernmental expenses	$ 3,737	4,687
Public expenses		
Salaries and related benefits	$ 1,988	1,946
Contractual services	2,872	5,492
Rent	1	1
Noncapitalized equipment/software	7,038	6,286
Other	17	10
Total public expenses	$ 11,916	13,735
Total administrative expenses	$ 15,653	18,422

Included in the administrative expenses are amounts incurred by the D.C. Federal Pension Fund and Judicial Retirement Fund for intra-governmental activity totaling $3,342 thousand and $395 thousand, respectively, for 2007, and $4,207 thousand and $480 thousand, respectively, for 2006.

8) Pension Expense

Pension expense for the plan years ended September 30, 2007, and 2006, includes the following components (in thousands):

	2007	2006
Normal cost	$ 4,500	4,700
Actuarial (gain)/loss during the period	(1,663)	645,988
Interest on pension liability during the period	427,000	400,100
Collective bargaining agreement	—	3
Total pension expense	$ 429,837	1,050,791

Federal Benefit Payments

Federal pension benefits paid during the plan years were $496.5 million and $7.2 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2007, and $487.6 million and $6.6 million, respectively, for 2006. For 2007, approximately $0.9 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For 2006, approximately $0.7 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For FY 2007, there was an actuarial loss in the D.C. Federal Pension Fund due to lowering the investment rate assumption. This was offset by actuarial gains in both funds due to plan experience, which resulted in a net actuarial gain in the two funds of $1.7 million. For FY 2006, the actuarial loss of $646.0 million was primarily due to the increase in the actuarial cost-of-living assumption in the two funds.

Collective Bargaining Agreement (Teachers)

In July 2006, the District of Columbia teachers signed a new labor agreement, which provided for pay raises retroactive to October 2005. Implementation required adjusting annuities for teachers who retired after October 2005, making retroactive payments to impacted annuitants, and if an impacted annuitant was deceased, making payments to beneficiaries and/or estates. These adjustments and retroactive payments were processed on December 1, 2006.

Collective Bargaining Agreement (Police Officers)

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

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

9) Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2007, and 2006, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	2007	2006
Budgetary Resources Obligated		
Obligations Incurred	$ 900,634	$ 834,373
Less: Spending Authority from Offsetting Collections and Adjustments	31,227	30,291
Obligations Net of Offsetting Collections and Recoveries	869,407	804,082
Less: Offsetting Receipts	197,970	204,392
Net Obligations	671,437	599,690
Imputed Financing from Costs Absorbed by Others	122	124
Total Resources Used to Finance Activities	671,559	599,814
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(867)	(1,110)
Resources that Fund Expenses Recognized in Prior Periods	79,347	906
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	4,169	5,109
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	352,780	292,800
Total Resources Used to Finance Items not part of the Net Cost of Operations	435,429	297,705
Total Resources Used to Finance Net Cost of Operations	236,130	302,109
Components Requiring or Generating Resources in Future Periods		
Increase in Exchange Revenue Receivable from the Public	1	20
Future Funded Expenses	4,393	556,466
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	4,394	556,486
Components not Requiring or Generating Resources		
Depreciation and Amortization	8,782	29,613
Other	36,372	17,727
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	45,154	47,340
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	49,548	603,826
Net Cost of Operations	$ 285,678	$ 905,935

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PART 4

SUPPLEMENTARY SCHEDULES

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2007 and 2006
(in thousands)

	2007			2006		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Assets						
Entity Assets						
Intra-Governmental Assets						
Fund Balance with Treasury	$ 15	239	254	$ 15	240	255
Investments in GAS Securities, Net	120,209	3,701,106	3,821,315	113,858	3,707,779	3,821,637
Interest Receivable from GAS Securities	1,430	32,693	34,123	1,399	38,621	40,020
Advances to Others	7	65	72	4	36	40
Accounts Receivable, Net	-	30,860	30,860	1	31,568	31,569
Software-In-Development	59	1,738	1,797	75	5,071	5,146
ADP Software, Net	235	11,838	12,073	666	10,807	11,473
Equipment, Net	7	66	73	15	136	151
Total Assets	$ 121,962	$ 3,778,605	$ 3,900,567	$ 116,033	$ 3,794,258	$ 3,910,291
Liabilities						
Liabilities Covered By Budgetary Resources						
Intra-Governmental						
Accounts Payable	$ 3	29	32	$ 23	45	68
Accrued Payroll and Benefits	2	15	17	2	14	16
Accounts Payable	77	4,416	4,493	75	6,692	6,767
Accrued Pension Benefits Payable	601	44,695	45,296	587	43,701	44,288
Actuarial Pension Liability (Note 2j)	114,337	3,565,150	3,679,487	107,880	3,537,560	3,645,440
Accrued Payroll and Benefits	20	174	194	18	161	179
Total Liabilities Covered By Budgetary Resources	115,040	3,614,479	3,729,519	108,585	3,588,173	3,696,758
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	35,769	5,276,793	5,312,562	37,832	5,384,439	5,422,271
Total Liabilities	150,809	8,891,272	9,042,081	146,417	8,972,612	9,119,029
Net Position						
Cumulative Results of Operations - Earmarked	(28,847)	(5,112,667)	(5,141,514)	(30,384)	(5,178,354)	(5,208,738)
Total Net Position	(28,847)	(5,112,667)	(5,141,514)	(30,384)	(5,178,354)	(5,208,738)
Total Liabilities and Net Position	$ 121,962	$ 3,778,605	$ 3,900,567	$ 116,033	$ 3,794,258	$ 3,910,291

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007			2006		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Program Costs						
Administrative Expenses	*$ 1,092*	*14,561*	*15,653*	*$ 1,185*	*17,237*	*18,422*
Pension Expense	*11,558*	*418,279*	*429,837*	*16,200*	*1,034,591*	*1,050,791*
Total Program Costs	*12,650*	*432,840*	*445,490*	*17,385*	*1,051,828*	*1,069,213*
Less: Earned Revenues						
Interest Earned from GAS Securities	*6,218*	*153,017*	*159,235*	*5,918*	*156,770*	*162,688*
Employee Contributions	*577*	*-*	*577*	*590*	*-*	*590*
Net Cost of Operations	*$ 5,855*	*$ 279,823*	*$ 285,678*	*$ 10,877*	*$ 895,058*	*$ 905,935*

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007			**2006**		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Cumulative Results of Operations						
Net Position - Beginning of Year	$ (30,384)	(5,178,354)	(5,208,738)	$ (26,919)	(4,568,808)	(4,595,727)
Budgetary Financing Sources						
Appropriations Used	7,380	345,400	352,780	7,400	285,400	292,800
Other Financing Sources						
Imputed Financing Sources	12	110	122	12	112	124
Total Financing Sources	7,392	345,510	352,902	7,412	285,512	292,924
Net Cost of Operations	(5,855)	(279,823)	(285,678)	(10,877)	(895,058)	(905,935)
Net Change	1,537	65,687	67,224	(3,465)	(609,546)	(613,011)
Net Position - End of Year	$ (28,847)	(5,112,667)	(5,141,514)	$ (30,384)	(5,178,354)	(5,208,738)

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007			2006		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Combined DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Combined DC Pension Funds Total*
Budgetary Resources						
Budget Authority						
Appropriations	$ 21,647	881,883	903,530	$ 21,432	4,347,921	4,369,353
Unobligated Balance - Beginning of Year	-	-	-	101,069	-	101,069
Spending Authority from Offsetting Collections	2	28,611	28,613	25	27,817	27,842
Recoveries of Prior Year Obligations	33	2,581	2,614	49	2,400	2,449
Temporarily Unavailable Pursuant to Public Law	(6,457)	(27,590)	(34,047)	(107,880)	(3,558,460)	(3,666,340)
Total Budgetary Resources	$ 15,225	$ 885,485	$ 900,710	$ 14,695	$ 819,678	$ 834,373
Status of Budgetary Resources						
Obligations Incurred	$ 15,224	885,410	900,634	$ 14,695	819,678	834,373
Unobligated Balances Available	1	75	76	-	-	-
Total Status of Budgetary Resources	$ 15,225	$ 885,485	$ 900,710	$ 14,695	$ 819,678	$ 834,373
Relationship of Obligations to Outlays						
Obligated Balance, Net - Beginning of Year	$ 1,471	59,795	61,266	$ 1,653	58,312	59,965
Obligations Incurred	15,224	885,410	900,634	14,695	819,678	834,373
Recoveries of Prior Year Obligations	(33)	(2,581)	(2,614)	(49)	(2,400)	(2,449)
Obligated Balance, Net - End of Year	(1,488)	(57,594)	(59,082)	(1,471)	(59,795)	(61,266)
Outlays						
Disbursements	15,174	885,030	900,204	14,828	815,795	830,623
Collections	(2)	(28,611)	(28,613)	(25)	(27,817)	(27,842)
Total Outlays	15,172	856,419	871,591	14,803	787,978	802,781
Less: Offsetting Receipts	6,887	191,083	197,970	6,632	197,760	204,392
Net Outlays	$ 8,285	$ 665,336	$ 673,621	$ 8,171	$ 590,218	$ 598,389

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Intra-governmental Balances
As of and for the Years Ended September 30, 2007 and 2006
(in thousands)

		2007			2006		
Department	**Intra-governmental balance description**	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**
	Assets						
Treasury	Fund Balance with Treasury	$ 15	239	254	$ 15	240	255
Treasury	Investments in GAS securities, net	120,209	3,701,106	3,821,315	113,858	3,707,779	3,821,637
Treasury	Interest receivable from GAS securities	1,430	32,693	34,123	1,399	38,621	40,020
Treasury	Advances to Others	7	65	72	4	36	40
	Total intra-governmental assets	$ 121,661	3,734,103	3,855,764	$ 115,276	3,746,676	3,861,952
	Liabilities						
Treasury	Accounts Payable	$ 3	26	29	$ 23	42	65
GSA	Accounts Payable	—	3	3	—	3	3
Gen Fund	Accrued Payroll and Benefits	—	4	4	—	4	4
OPM	Accrued Payroll and Benefits	2	11	13	2	10	12
	Total intra-governmental liabilities	$ 5	44	49	$ 25	59	84
	Revenues						
Treasury	Interest earned from GAS Securities	$ 6,218	153,017	159,235	$ 5,918	156,770	162,688
OPM	Imputed Financing Sources	12	110	122	12	112	124
	Total intra-governmental revenues	$ 6,230	153,127	159,357	$ 5,930	156,882	162,812
	Expenses						
Treasury	Salaries and related benefits	$ 1	12	13	$ 2	16	18
OPM	Salaries and related benefits	43	387	430	44	385	429
Gen Fund	Salaries and related benefits	12	107	119	12	112	124
Treasury	Contractual Services	250	2,077	2,327	290	2,502	2,792
OPM	Contractual Services	—	—	—	2	20	22
Treasury	Rent	78	702	780	128	1,151	1,279
Treasury	Other	11	57	68	2	21	23
	Total intra-governmental expenses	$ 395	3,342	3,737	$ 480	4,207	4,687

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in GAS Securities - Net By Fund
As of September 30, 2007 and 2006
(in thousands)

	2007				2006			
	Cost	Unamortized Premium Net	Investments Net	Market Value	Cost	Unamortized Premium Net	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 3,981	-	3,981	3,981	$ 3,676	-	3,676	3,676
Non-marketable Market-based	114,304	1,924	116,228	116,428	108,053	2,129	110,182	110,306
Total	$ 118,285	1,924	120,209	120,409	$ 111,729	2,129	113,858	113,982
D.C. Federal Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	$ 257,839	-	257,839	257,839	$ 142,165	-	142,165	142,165
Non-marketable Market-based	3,388,290	54,977	3,443,267	3,458,287	3,466,913	98,701	3,565,614	3,527,971
Total	$ 3,646,129	54,977	3,701,106	3,716,126	$ 3,609,078	98,701	3,707,779	3,670,136

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity
As of September 30, 2007 and 2006
(in thousands)

	2007			2006		
Time of Maturity	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**
Less than or equal to 1 year	$ 44,939	480,641	525,580	$ -	801,288	801,288
More than 1 year and less than or equal to 5 years	62,532	2,433,136	2,495,668	96,479	2,383,430	2,479,909
More than 5 years and less than or equal to 10 years	8,757	529,490	538,247	13,703	380,896	394,599
Total	$ 116,228	3,443,267	3,559,495	$ 110,182	3,565,614	3,675,796

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Administrative Expenses - By Fund
For the years ended September 30, 2007 and 2006
(in thousands)

	2007			2006		
	D.C. Judicial Retirement and Survivors Annuity Fund	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**
Intragovernmental Expenses						
Salaries and Related Benefits	$ 56	506	562	$ 58	513	571
Contractual Services	250	2,077	2,327	292	2,522	2,814
Rent	78	702	780	128	1,151	1,279
Other	11	57	68	2	21	23
Total intragovernmental expenses	$ 395	3,342	3,737	$ 480	4,207	4,687
Public Expenses						
Salaries and Related Benefits	$ 201	1,787	1,988	$ 203	1,743	1,946
Contractual Services	39	2,833	2,872	49	5,443	5,492
Rent	-	1	1	-	1	1
Noncapitalized Equipment/Software	455	6,583	7,038	453	5,833	6,286
Other	2	15	17	-	10	10
Total public expenses	$ 697	11,219	11,916	$ 705	13,030	13,735
Total administrative expenses	$ 1,092	14,561	15,653	$ 1,185	17,237	18,422

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Pension Expense - By Fund
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007			2006		
	D.C. Judicial Retirement and Survivors Annuity Fund	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**	**D.C. Judicial Retirement and Survivors Annuity Fund**	**D.C. Federal Pension Fund**	**Consolidated D.C. Pension Funds Total**
Normal Cost	$ 4,500	-	4,500	$ 4,700	-	4,700
Actuarial (Gains) Losses During the Period	(1,542)	(121)	(1,663)	3,500	642,488	645,988
Interest on Pension Liability During the Period	8,600	418,400	427,000	8,000	392,100	400,100
Collective Bargaining Adjustment	-	-	-	-	3	3
Total Pension Expense	$ 11,558	418,279	429,837	$ 16,200	1,034,591	1,050,791

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2007 and 2006
(in thousands)

	2007			2006		
	DC Judicial Retirement and Survivors Annuity Fund	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*	*DC Judicial Retirement and Survivors Annuity Fund*	*DC Federal Pension Fund*	*Consolidated DC Pension Funds Total*
Budgetary Resources Obligated						
Obligations Incurred	*$ 15,224*	*885,410*	*900,634*	*$ 14,695*	*819,678*	*834,373*
Less: Spending Authority from Offsetting Collections and Adjustments	*35*	*31,192*	*31,227*	*74*	*30,217*	*30,291*
Obligations Net of Offsetting Collections and Recoveries	*15,189*	*854,218*	*869,407*	*14,621*	*789,461*	*804,082*
Less: Offsetting Receipts	*6,887*	*191,083*	*197,970*	*6,632*	*197,760*	*204,392*
Net Obligations	*8,302*	*663,135*	*671,437*	*7,989*	*591,701*	*599,690*
Imputed Financing from Costs Absorbed by Others	*12*	*110*	*122*	*12*	*112*	*124*
Total Resources Used to Finance Activities	*8,314*	*663,245*	*671,559*	*8,001*	*591,813*	*599,814*
Resources Used to Finance Items Not Part of the Net Cost of Operations						
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	*21*	*(888)*	*(867)*	*(368)*	*(742)*	*(1,110)*
Resources That Fund Expenses Recognized in Prior Periods	*-*	*79,347*	*79,347*	*-*	*906*	*906*
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	*-*	*4,169*	*4,169*	*75*	*5,034*	*5,109*
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	*7,380*	*345,400*	*352,780*	*7,400*	*285,400*	*292,800*
Total Resources used to Finance Items not part of the Net Cost of Operations	*7,401*	*428,028*	*435,429*	*7,107*	*290,598*	*297,705*
Total Resources Used to Finance Net Cost of Operations	*913*	*235,217*	*236,130*	*894*	*301,215*	*302,109*
Components Requiring or Generating Resources in Future Periods						
Increase in Exchange Revenue Receivable from the Public	*1*	*-*	*1*	*20*	*-*	*20*
Future Funded Expenses	*4,394*	*(1)*	*4,393*	*9,409*	*547,057*	*556,466*
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	*4,395*	*(1)*	*4,394*	*9,429*	*547,057*	*556,486*
Components not Requiring or Generating Resources						
Depreciation and Amortization	*578*	*8,204*	*8,782*	*594*	*29,019*	*29,613*
Other	*(32)*	*36,404*	*36,372*	*(40)*	*17,767*	*17,727*
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	*546*	*44,608*	*45,154*	*554*	*46,786*	*47,340*
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	*4,941*	*44,607*	*49,548*	*9,983*	*593,843*	*603,826*
Net Cost of Operations	*$ 5,854*	*279,824*	*285,678*	*$ 10,877*	*895,058*	*905,935*