



Audit Report



OIG-06-013

Audit of the Office of D.C. Pensions' Fiscal Years 2005 and 2004 Financial Statements

December 7, 2005

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 7, 2005

**MEMORANDUM FOR ROCHELLE F. GRANAT, DIRECTOR
OFFICE OF D.C. PENSIONS**

FROM:

William H. Pugh, *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT:

Audit of the Office of D.C. Pensions' Fiscal Years 2005 and
2004 Financial Statements

I am pleased to transmit the attached audited Office of D.C. Pensions (ODCP) financial statements for fiscal years 2005 and 2004. We contracted with the independent certified public accounting firm KPMG LLP to audit the financial statements of ODCP as of September 30, 2005 and 2004 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control Over Financial Reporting;
and
- Independent Auditors' Report on Compliance and Other Matters.

In its audit, KPMG LLP found:

- the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America,
- no matters involving internal control and its operation that are considered material weaknesses, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 2, 2005 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

U.S. DEPARTMENT OF TREASURY

DEPARTMENTAL OFFICES

OFFICE OF D.C. PENSIONS

Financial Statements

September 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

U.S. DEPARTMENT OF TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Financial Statements

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U.S. DEPARTMENT OF TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS

Financial Statements

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FISCAL YEAR 2005 MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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.

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 of D.C. Pensions (the Office) reports to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office structure consists of three functional areas: (1) financial management and administration, (2) benefits administration, and (3) information systems management. In addition, the Office receives support from other Treasury offices, including, in particular, the Office of General Counsel and the Procurement Services Division. As of September 30, 2005, within this structure, 23 Treasury positions were 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).

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.

Through September 25, 2005, the District's Office of Pay and Retirement Services (OPRS) served as the interim benefits administrator and the Office reimbursed OPRS for administrative expenses associated with administering Federal Benefit Payments. As of September 26, 2005, the District of Columbia Retirement Board (DCRB) assumed these functions for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Office entered into a cost-sharing arrangement with the DCRB for FY 2006.

II. Executive Summary

Fiscal Year 2005 ended with two important milestones in the history of Treasury's D.C. Pensions Program. First, after several years of phased development and deployment, involving significant coordination with District stakeholders, the Office of D.C. Pensions (the Office) completed the final major component of the System to Administer Retirement (STAR). STAR is the automated pension/payroll system developed by the Office to replace the District's legacy system. Previous deployments in December 2002 and September 2003 enabled STAR to serve all annuitants under the Judges' Plan, and all teachers, police officers and firefighters who retired on or before June 30, 1997, and their survivors. In FY 2005, the Office completed development and implementation of the functionality in STAR to enter new retirees (i.e., calculate new annuities) under the retirement plans for teachers, police officers and firefighters, and converted from the District's legacy system to STAR the population that retired after June 30, 1997 and their survivors. As a result, as of August 2005, STAR serves all annuitants under the three District retirement plans. This significant accomplishment facilitates more efficient benefits administration and more effective customer service.

Second, effective September 26, 2005, the benefits administration functions previously performed by the District's Office of Pay and Retirement Services (OPRS), with respect to the retirement plans for teachers, police officers and firefighters, transitioned to the District of Columbia Retirement Board (DCRB). This transition occurred pursuant to legislation enacted in 2004 that consolidated in one organization the responsibility for financing of District Benefit Payments (including investment of District retirement funds) and the responsibility for the benefits administration functions related to District Benefit Payments. The District, the DCRB and Treasury agreed, pursuant to a new Memorandum of

Understanding, that the DCRB would also assume responsibility for administering Federal Benefit Payments related to these retirement plans. During the course of FY 2005, the Office devoted significant resources to planning and coordinating with OPRS and DCRB, and to training new DCRB staff, to ensure an effective transition of functions. The Office will continue to work closely with the DCRB as it stabilizes its operations and begins to expand and enhance its services to plan participants. Also effective September 26, 2005, the Office assumed the role of benefits administrator for the Judges' Plan.

In addition, on December 23, 2004, the President signed into law legislation that had originated as an Office initiative. The District of Columbia Retirement Protection Improvement Act of 2004 amends Title XI of the Balanced Budget Act of 1997 to, among other things, terminate the District of Columbia Federal Liability Trust Fund and the Federal Supplemental District of Columbia Pension Fund and transfer the assets to a new fund entitled the D.C. Federal Pension Fund, effective as of October 1, 2004. This merger of the assets of the two funds into one fund will promote more efficient investment, accounting, and financial reporting.

In addition to its focus on the above matters, the Office met its ongoing responsibility to ensure the accuracy and timeliness of benefit payments and to exercise effective financial management and investment of funds. Section III of Part 1 of this report provides several highlights of the Office's performance of these objectives.

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 Goal: Manage the U.S. Government's Finances Effectively

Office Objectives:

1. Ensure benefit payments are accurate and timely; and optimize the use of electronic systems.
2. Ensure the effective financial management and investment of the pension funds in the custody of the Treasury.

- Treasury Goal: Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury

Office Objectives:

1. Ensure effective management of the organization's mission.
2. Ensure quality service to annuitants.

The following table displays the link between the Office's four strategic objectives and 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 2005 - 2007				Fiscal Year 2005
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Program Results
F4 - Manage the U.S. Government's Finances Effectively	F4C - Make collections and payments accurately and on time optimizing the use of electronic mechanisms	Ensure benefit payments are accurate and timely; and optimize the use of electronic systems	Percentage of monthly benefit payments made to annuitants by the first business day of the month	STAR and the District's legacy system (PAPS) made 100% of the benefits payments to annuitants on time. Treasury ensured timely availability of funding for \$464 million in benefit payments to 13,539 annuitants and refunded contributions to 215 former active employees.
			Percentage of electronic payments made to annuitants	The Office pays 91% of annuitants by direct deposit.
			New annuitant benefit calculation error rate	The District's calculation error rate identified in the quality review process dropped from 7.14% in FY 2004 to 2.82% in FY 2005.
			Secure electronic pension/payroll system effectiveness	Throughout FY 2005, STAR continued to provide accurate, secure and timely processing for annuitants under the Judges' Plan and the nearly 11,000 pre-1997 annuitants under the plans for teachers, police and firefighters. In August 2005, Release 3 of STAR was deployed to support the calculation of benefits for post-1997 annuitants under the plans for teachers, police and firefighters, and converted about 3,000 annuitants from the District's legacy system (PAPS). All annuitants for whom Treasury is responsible are now serviced from STAR. The development and deployment of Release 3 was completed on time and under budget.

Fiscal Years 2005 - 2007				Fiscal Year 2005
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Program Results
F4 - Manage the U.S. Government's Finances Effectively (continued)	F4D – Optimize cash management and effectively administer the Government's Financial Systems	Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury	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.
			Issuance of annual report	The Office issued its FY 2004 Annual Report in January 2005 and completed steps to ensure timely issuance of the FY 2005 Annual Report.
			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 controls.
			Accuracy and timeliness of actuarial report	The enrolled actuary, Cheiron, issued a report as of October 1, 2005, providing all information necessary to meet the Department's FY 2005 audit report requirements. The actuarial report also included the amount of the deposits to be made to the D.C. Federal Pension and Judicial Funds.
			Percentage of electronic payments made to vendors timely	Of the 133 payments made to vendors, 100% were paid using electronic fund transfers. 132 payments were made within 30 days of receipt.

Fiscal Years 2005 - 2007				Fiscal Year 2005
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Performance Results
F4 - Manage the U.S. Government's Finances Effectively (continued)	F4D - Optimize cash management and effectively administer the Government's Financial Systems (continued)	Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury (continued)	Amount saved by utilizing early payment discount incentives	The Office saved \$86,289 in FY 2005 by meeting the early payment discount incentives.
			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 2005, the rate of return as a percentage of par-valued investments was 4.67% for the D.C. Federal Pension Fund and 5.67% for the Judicial 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, with no exceptions.
			Amount replenished to the D.C. Federal Pension and Judicial Retirement Fund	The D.C. Federal Pension Fund was reimbursed \$9,258,087 by the District for the District's portion of refunds paid in FY 2005 through FY 2003. The D.C. Federal Pension Fund received \$751,722 through debt prevention efforts and received \$293,444 through debt collection efforts. The amount owed to the Judicial Fund, due to past District errors in the interest rate for purchase of service, was reduced by approximately \$465,000 as a result of judges making payments or accepting actuarial reductions in their annuities.

Fiscal Years 2005 - 2007				Fiscal Year 2005
Treasury Strategic Goals	Treasury Strategic Objectives	Office Strategic Objectives	Office Performance Measure	Office Program Results
M5 - Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	M5B - Manage Treasury's resources effectively to accomplish the mission and provide quality customer service	Ensure effective management of the organization's mission	Percentage of Office employee performance and training plans supporting individual employee and Office goals	100% of Office employees have a current 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 adjusted its structure to ensure an appropriate level of focus on benefits administration and the DCRB transition activities.
		Ensure quality service to annuitants	Percentage of surveyed annuitants who indicated satisfaction with the accuracy, timeliness, and professionalism of service received	A subset of annuitants who contacted the benefits administrator received a follow-up call inquiring about their satisfaction with the services received. On average, the responses from these follow-up calls indicate that the services provided were excellent.
		Quality and timeliness of retirement plan information	The Office began to update the Police Officers' and Firefighters' Summary Plan Description (SPD) for replacement in early FY 2006. The SPD will provide up-to-date, accurate and easy to understand information about the Retirement Plan. The Office established a dedicated call center to field annuitant inquiries related to post-56 military service purchases.	

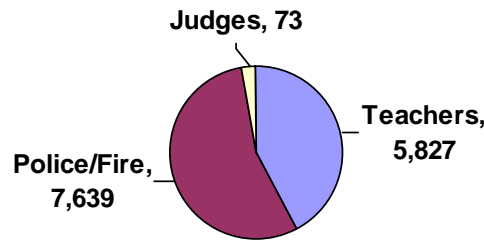
B. Ensure benefit payments are accurate and timely; and optimize the use of electronic systems

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services are provided to 13,539 annuitants, as of September 30, 2005, 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:



In FY 2005, the average monthly payroll totaled approximately \$40.2 million. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia's Office of Pay and Retirement Services (OPRS) performed benefits administration services for all three plans. As of September 26, 2005, the benefits administration responsibility for the retirement plans for teachers, police officers and firefighters transferred to the District of Columbia Retirement Board (DCRB). Also as of that date, the Office assumed benefits administration responsibility for the Judges' 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. During most of FY 2005, OPRS processed transactions in two automated systems, as some annuitants remained on the District's legacy system until they were converted to the System to Administer Retirement (STAR) in August.

On average in FY 2005, monthly processing in key areas included:

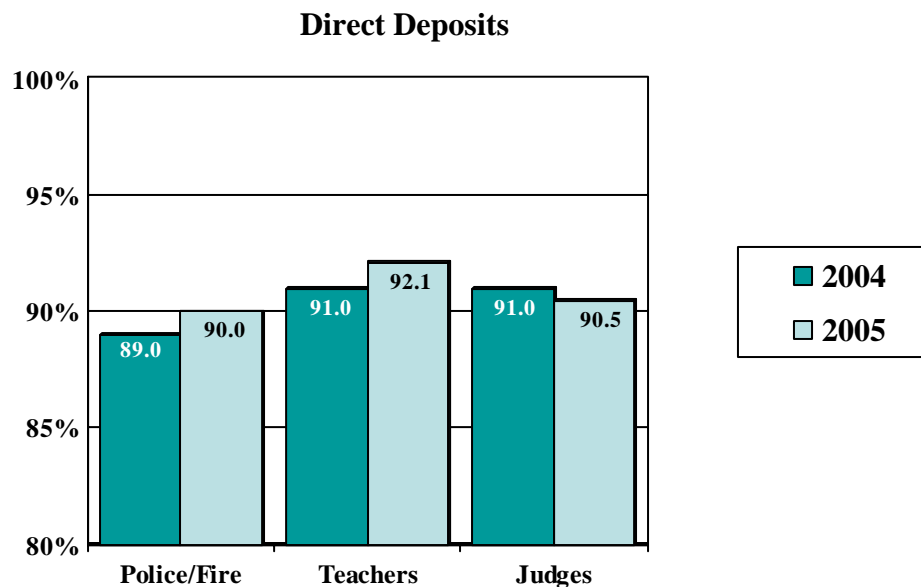
- New Retirements – 21 per month
- New Survivors – 28 per month

Equally important to transaction processing is customer service. A dedicated OPRS team provided customer support to the annuitant population. The customer service team performed a wide range of activities, including resolving annuitant inquiries.

On average in FY 2005, monthly support from the customer service team included:

- Answering Calls - 461 per month
- Servicing Walk-ins - 52 per month

The Office encourages annuitants to receive benefits through direct deposit. By the end of FY 2005, 90% of retired police officers and firefighters or their survivors, 92.1% of retired teachers or their survivors, and 90.5% of retired judges or their survivors received their monthly benefit payments by direct deposit.



In FY 2005, 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)
- Semi-annual newsletter, *The STAR Bulletin*, which provides the annuitants with benefit information and highlights on current events/projects
- Special correspondence providing annuitants with detailed individual information when a unique change has occurred (e.g., recalculations due to longevity rule changes)

Quality Review

Each month the OPRS Quality Assurance Specialist reviewed new retirement and survivor cases prepared by the examiners. The Specialist provided the OPRS examiners with feedback to ensure accuracy and assess training needs for all staff. Also, each month the Office performed quality assurance reviews on a statistical sample of new retiree and survivor cases. The Office provided appropriate feedback to the benefits administrator. The error rate identified in the Office's review process dropped from 7.14% in FY 2004 to 2.82% in FY 2005. Of the 142 cases reviewed in FY 2005, there were only four calculation errors, involving underpayments of less than \$50.

Special Projects

Implementation of Legislation Regarding Post-1956 Military Service Purchase

The District of Columbia Military Retirement Equity Act of 2003, Pub. L. 108-133, was enacted on November 22, 2003. This legislation allows D.C. Police Officers' and Firefighters' Retirement Plan members to purchase retention of credit for military service performed after December 31, 1956 (post-56). Members who purchase such credit avoid a benefit reduction when they reach social security full retirement age and eligibility. In FY 2004, the Office focused mainly on the population who had already reached social security full retirement age and received a benefit reduction, or were nearing social security full retirement age. Approximately 280 annuitants completed their purchase of service in FY 2004, and where applicable, had their annuities restored. In early FY 2005, the Office began focusing on the remaining retired population of approximately 4,000 annuitants. In FY 2005, approximately 375 additional annuitants completed their purchase of service and deposited approximately \$160,000 into the D.C. Federal Pension Fund. The Office estimates that an additional 1,000 annuitants will need to complete a purchase of service to avoid a future benefit reduction. Annuitant communication and purchase activities will continue throughout FY 2006.

The Office also worked with the District to ensure implementation of appropriate procedures to: (1) advise the active population of the legislation; (2) provide for the purchase of service credit in advance of retirement; and (3) ensure the transfer of federal deposits to the D.C. Federal Pension Fund.

Implementation of Legislation Regarding Longevity Adjustments

In December 1999 and December 2000, respectively, District and federal statutes were enacted that require the calculation of retirement benefits for District police officers to include longevity pay in their salary at the time of retirement. Resolution of issues involving the implementation methodology and eligibility for the longevity retirement pay adjustment resulted in a phased implementation of the District and federal statutes, completed in FY 2005.

The methodology issue was resolved by the enactment of District legislation on October 19, 2002, and federal legislation on November 7, 2002. In FY 2003, Treasury began implementing the federal legislation for the pre-97 retirees (i.e., retired on or before June 30, 1997). The Office completed this phase in FY 2005, with 1,374 annuitants receiving approximately \$11 million in retroactive payments, \$30,000 of which was paid out in FY 2005. The eligibility issue was resolved in FY 2004 by the District's enactment of the Police and Firemen's Longevity Amendment Act of 2003. The Office then began implementing the legislation for the post-97 retirees (i.e., retired after June 30, 1997). The Office completed this phase by mid-FY 2005, with approximately 475 annuitants receiving a total of \$7 million in retroactive payments, \$2 million of which was paid in FY 2005.

In addition, the Office worked with OPRS in FY 2005 to implement procedures to ensure the inclusion of longevity pay in the initial calculation of annuities as individuals retired. The April 2005 payroll was the first pay cycle that reflected the inclusion of longevity pay in the initial retirement calculations.

Collective Bargaining Agreement (Police Officers)

On June 7, 2005, the D.C. Council approved annual pay increases for active police officers retroactive to October 2003, as contained in a collective bargaining agreement. These increases have an impact on two different populations of retired police officers. First, the level of pay increases for active police officers determines the level of annual retirement benefit increases applicable for police officers who retired prior to February 15, 1980. Approximately 1,000 retirees in this population are entitled to an "equalization" adjustment and retroactive payments attributable to the 2003, 2004 and 2005 pay increases. The Office implemented these adjustments in the September 1, 2005 annuity payments and made retroactive payments in the September 1, 2005 and October 1, 2005 payments.

Second, because the collective bargaining agreement provided for pay increases retroactive to October 1, 2003, the annuities for approximately 130 police officers who retired after October 1, 2003 needed to be recalculated to account for changes in the retirees' final average earnings. In addition, retroactive benefits had to be calculated for these annuitants. The Office completed this recalculation and retroactive payment effort in October 2005.

Judges Purchase of Service

The Office previously determined that the District had used incorrect methods to calculate the interest cost for judges to purchase credit for non-judicial service. Since October 2001, at the Office's direction, active judges who initiate a purchase of service pay the correct amount of interest. In FY 2004, active judges who had paid incorrect amounts for purchases of service prior to October 2001 received notices for the amounts owed. At the end of FY 2004, judges owed amounts totaling, in the aggregate, approximately \$820,000. In FY 2005, the amount owed was reduced by approximately

\$465,000 as a result of judges making payments or accepting actuarial reductions in their annuities. The Office made substantial progress in FY 2005 resolving the issue of the remaining amounts owed by the judges who had paid incorrect amounts for purchase of service and anticipates completion of this effort in early FY 2006.

b. System to Administer Retirement (STAR)

The System to Administer Retirement (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 retirement examiners 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 Office implemented Release 1 of STAR in December 2002 to serve all annuitants of the Judges' Retirement Plan. The Office implemented Release 2 of STAR in September 2003 to serve teachers, police officers and firefighters who retired on or before June 30, 1997, and their survivors. The STAR system received full security certification and accreditation in January 2003, and this was completely updated in August 2004.

STAR Release 3 – Implementation in August 2005

In FY 2005, Treasury and the District continued to develop and enhance STAR to serve individuals who retired after June 30, 1997, and their survivors, under the retirement plans for District teachers, police officers and firefighters. The requirements were validated by the OPRS, the DCRB and the Office. District staff participated in design review sessions and in various stages of testing. The inclusion of District staff in the system development process greatly contributed to the users' understanding and readiness for deployment. The Office implemented Release 3 on August 3, 2005.

Concurrent with the development of the new functionality in Release 3, Treasury and the District executed a plan to convert the approximately 3,000 post-1997 retirees and their survivors from the legacy District system to STAR. The conversion occurred with the cutover to Release 3, effective August 3, 2005.

As a result of the implementation of Release 3, including the conversion to STAR of the annuitants on the District's legacy system, STAR now serves all annuitants under the three retirement plans. All new retirees and survivors will be processed in STAR and the District's legacy system will no longer be used for Federal or District Benefit Payments.

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 2005, the CCB reviewed eight change requests and approved two. Also during FY 2005, the CCB monitored the progress of seven previously approved change requests. In addition to Release 3 and the conversion (discussed above), the three major change requests deployed in FY 2005 are: (1) the replacement of the monthly batch process with a real time process to transfer pension calculations to the payroll module; (2) the automation of off cycle payments and disbursement reporting; and (3) the addition of functionality for one time manual payments of beneficiaries and estates.

2. Future Focus

a. Benefits Administration

As discussed above, on September 26, 2005, benefits administration duties transferred from the OPRS to the DCRB. The Office's oversight, onsite support and quality review activity will be enhanced in the initial months after the implementation of Release 3 of STAR and transition to the DCRB. The Office will continue to foster a sound transition of benefits administration services and will work closely with the DCRB to stabilize and enhance the nature and quality of operations.

b. System to Administer Retirement (STAR)

PeopleSoft Upgrade

STAR operates on older versions of the Oracle/PeopleSoft products, which will only be supported by the company through early calendar year 2007. It is therefore increasingly important to plan and execute a project to upgrade to more current software versions. An upgrade will better position the Office to take advantage of functional and technical enhancements incorporated in the newer software versions. In FY 2006, the Office plans to complete and baseline a plan for an upgrade of PeopleSoft 8.0 and PeopleTools 8.1.8 and begin execution of the plan.

Split Benefit Calculation Functionality

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 plan for teachers, police officers and firefighters, the Treasury will not end the interim benefit period until STAR is enhanced to calculate the split between federal and District liability for post-June 30, 1997 retirees and their survivors. Split benefit calculations are complex and will be based on a detailed set of regulations issued by

Treasury in December 2001. These regulations are not effective until Treasury formally ends the interim benefits period.

In FY 2006, the Office will work with the DCRB to complete and baseline a plan for the design, development and implementation of split benefit functionality in STAR, and begin execution of the plan.

Technical Production Support and Hosting

As noted above, technical production support and hosting for STAR is performed by the Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC). Since the deployment of Release 2, ARC staff members have led production support activities, including: routine computer operations, application and database administration, help desk operations and problem resolution. Some of these services were previously provided to the Office under the contract with the systems integrator, which has remained available to supplement the resources of ARC. In FY 2006, the Office will focus on completing the knowledge transfer from the system integrator to ARC so that the Office can rely fully on technical support from ARC without support from the systems integrator. This will ensure that the ARC staff members have a solid understanding of the STAR requirements, design, configuration and testing.

C. Ensure the effective financial management and investment of the Pension Funds in the custody of the Treasury

1. Program Results

a. Pension Funds

The District of Columbia Retirement Protection Improvement Act of 2004, Pub. L. 108-489, signed by the President on December 23, 2004, terminated the District of Columbia Federal Pensions Liability Trust Fund (Trust Fund) and the Federal Supplemental District of Columbia Pensions Fund (Supplemental Fund), and transferred the assets to a newly created fund, the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund), effective, October 1, 2004. The creation of a single fund to support federal pension liability for police officers, firefighters and teachers will promote more efficient investment, accounting and financial reporting.

Accordingly, as of October 1, 2004, 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: an annual payment 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

The Act requires that actuarial valuations be conducted annually by an enrolled actuary and that the actuary determine annual federal payments to amortize the unfunded liabilities of the retirement plans. In FY 2005, the Office contracted with Cheiron to perform the annual actuarial valuation.

As estimated by the actuary, as of October 1, 2005, the Federal Government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans is approximately \$8.4 billion. The liability for Federal benefit Payments under the Judges' Retirement Plan is approximately \$136.7 million.

In the October 1, 2005 valuation, Cheiron determined that the annual payment in FY 2006 from the General Fund of Treasury to the D.C. Federal Pension Fund will be \$284.5 million. The annual payment in FY 2006 from the General Fund of Treasury to the Judicial Retirement Fund, excluding and amount for FY 2006 administrative expenses, will be \$6.7 million.

c. Receipts and Investments

The pension funds summary for FY 2005 (two funds) and FY 2004 (three funds) 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 2005 Financial Highlights (\$ millions)			
FY 2005	D.C. Federal Pension Fund	Judicial Fund	Total
Receipts:			
Interest	\$180.4	\$5.4	\$185.8
Reimbursement from DCRB	\$16.2	\$0.0	\$16.2
Deposits from General Fund	\$277.0	\$7.0	\$284.0
Deposits/Contributions from Plan Participants	\$0.0	\$0.6	\$0.6
Net Investments	\$3,762.5	\$107.4	\$3,869.9

Pension Funds FY 2004 Financial Highlights (\$ millions)				
FY 2004	Trust Fund	Supplemental Fund	Judicial Fund	Total
Receipts:				
Interest	\$92.9	\$81.4	\$5.3	\$179.6
Reimbursement from DCRB	\$10.9	\$0.0	\$0.0	\$10.9
Deposits from General Fund	\$0.0	\$270.0	\$7.5	\$277.5
Deposits/Contributions from Plan Participants	\$0.0	\$0.0	\$0.6	\$0.6
Net Investments	\$1,717.7	\$2,087.9	\$101.9	\$3,907.5

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 2005, the cash balance available for contingencies was targeted not to fall below approximately two months of obligations (\$86 million) plus the estimated amount payable for retroactive longevity increases (\$1.4 million), or approximately \$88 million. The Office invested cash balances in one-day certificates, except for an uninvested balance of \$250,000 at month end, to cover unanticipated withdrawals on the last day of the month.

Deposits (Warrants, Interest, District 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 2005, \$277 million was deposited into the D.C. Federal Pension Fund and \$7 million into the Judicial Retirement Fund. In FY 2004, \$270 million was deposited into the Supplemental Fund and \$7.5 million was deposited into the Judicial Retirement Fund.

Interest

In FY 2005, the Office received \$180.4 million of interest in the D.C. Federal Pension Fund and \$5.4 million in the Judicial Retirement Fund. The rate of return in FY 2005 for the Office's pensions funds was 4.7% for the D.C. Federal Pension Fund and 5.7% for the Judicial Fund. In FY 2004, the Office received interest of \$92.9 million in the Trust Fund, \$81.4 million in the Supplemental Fund and \$5.3 million in the Judicial Fund. The rate of return in FY 2004 for the Office's pensions funds was 4.9% for the Trust Fund and Supplemental Fund, and 5.7% for the Judicial Fund. The rate of return is calculated by dividing interest earned from 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 Reimbursements

Because neither the District's automated system nor STAR has the capability to calculate split benefit payments, Treasury initially funds all benefit payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Pursuant to the First Amended MOU (September 28, 2000), the District reimburses the D.C. Federal Pension Fund annually for estimated District Benefit Payments made by Treasury for the prior fiscal year. In January 2005, the District of Columbia Retirement Board (DCRB) reimbursed Treasury \$16.2 million for the estimated District Benefit Payments made in FY 2004 by Treasury on the District's behalf.

In January 2006, DCRB will reimburse Treasury for the estimated District Benefit Payments made by Treasury on the District's behalf during FY 2005. The DCRB actuary determines the reimbursement amount. At this time, based on an actuarial

valuation as of October 1, 2005, the Office's actuary estimates the amount of the reimbursement to be \$22.2 million. This process will be repeated until STAR is capable of calculating the split between federal and District liability for annuitants with service both before and after June 30, 1997.

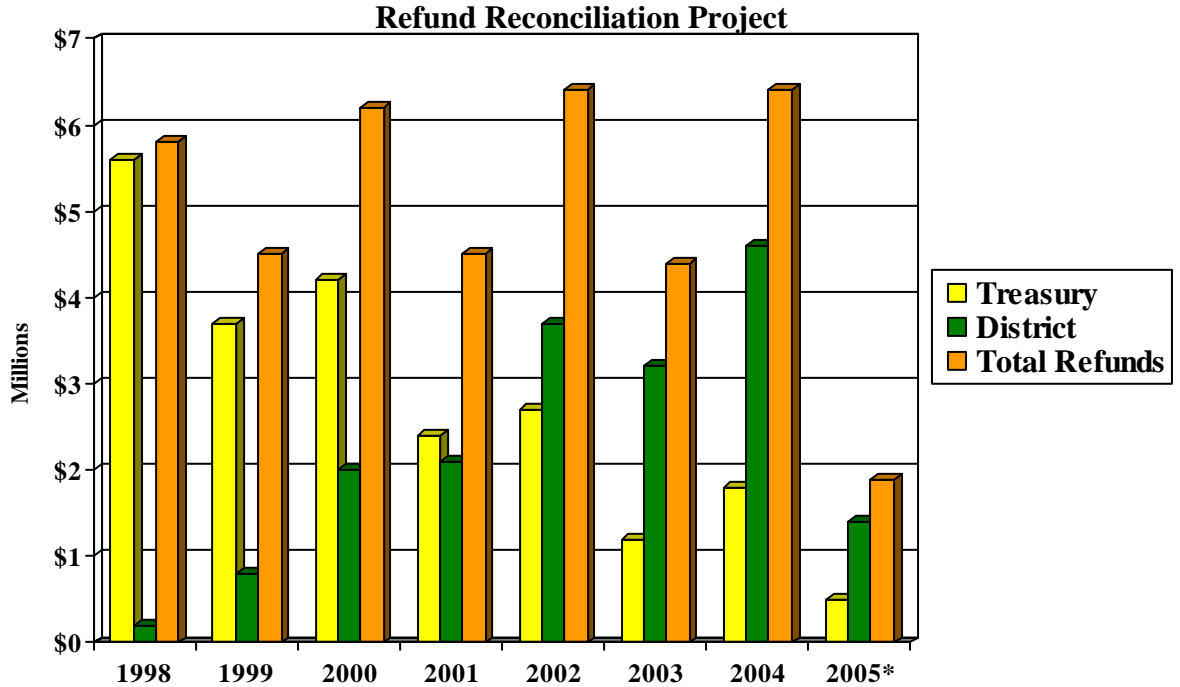
Judges' Employee Contributions

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 2005 totaled approximately \$553,000. Retired judges who elected a survivor annuity are required to contribute 3.5% of retirement salary. In FY 2005, retired judges contributed approximately \$120,000 to the retirement fund.

d. Collections

Refund Reconciliation Project

The First Amended MOU 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 special 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. This refunds MOU required the District and Treasury 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 represent contributions deducted and withheld from an employee's salary or deposits after June 30, 1997. In FY 2005, the Office began a process of reconciling all refunds made prior to February 1, 2005. The Office requested reimbursement of approximately \$13 million from the District for FY 2005 through FY 2002 and established a \$5.1 million receivable for FY 2001 through FY 1998. In FY 2005, the District paid Treasury \$9,258,087 for its share of the refunds paid from FY 2005 through FY 2003. The Office anticipates completion of the refund reconciliation project in early FY 2006.



*Fiscal Year 2005 includes refunds paid from October 1, 2004, through February 15, 2005.
 Note: Fiscal Years 1998 through 2001 are estimates.

Debt Collection

During FY 2005, the Office pursued debt prevention and collection efforts working with the annuity payroll team at the Administrative Resource Center (ARC), which manages the debt collection process for the Office. In FY 2005, debt prevention efforts ensured that a total of \$751,722 was immediately recovered upon timely notification of an annuitant’s death or in cases of payment errors. Through debt collection efforts \$293,444 was collected through offsets, lump sum payments or installment payments.

e. Financial Operations

Oracle Federal Financials Conversion

On October 1, 2004, the Office worked with BPD to successfully convert to the Oracle Federal Financial (OFF) from the Federal Financial System. OFF is a JFMIP-certified core financial management product used to process all financial transactions. The Office’s transactions are entered into OFF both manually and via custom interfaces from ancillary systems. The reporting system in OFF allows for creating various report options based on the user needs.

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

The Office paid 99.2% of the invoices received within the timeframes required by the Prompt Payment Act and OMB Circular A-125. Generally, the law requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the services. If this timeframe is not met, an interest penalty must be paid to the vendor.

Within Treasury, the standard for the timely payment rate is that no more than 2% of the invoices subject to prompt payment shall be paid late (i.e., at least 98% paid within 30 days). In FY 2005, the Office's prompt payment rate was within the Treasury standard with only one invoice paid late due to an administrative error.

▪ Number of Invoices Paid	133
▪ Number of Invoices Paid Late	1
▪ Interest Penalties Paid	0
▪ Percentage of Invoices Paid Late	.8%

Electronic Vendor 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 2005, the Office paid 100% of the 133 vendor payments by electronic funds transfer.

Vendor Payment Discounts

Starting with the July 2003 invoice, the Office's systems integration contractor began offering 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
- 1/2% for payment within 20 days of the invoice date

As a result, the Office saved \$86,289 in FY 2005 by making payments within 10 days of the invoice date.

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 allocated 90% to the D.C. Federal Pension Fund and 10% 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 2005, administrative expenses were approximately \$18 million for the D.C. Federal Pension Fund and \$1.5 million for the Judicial Retirement Fund, for a total of \$19.5 million. In FY 2004, administrative expenses were approximately \$18.7 million for the Trust Fund and \$1.7 million for the Judicial Retirement Fund, for a total of \$20.4 million. Administrative expenses in FY 2005 as compared to FY 2004, decreased by \$.9 million due primarily to a decrease in contractual costs.

The major administrative expenses of the D.C. Pensions Program result from reimbursement of District administrative expenses, Treasury staff salaries and benefits, and vendors engaged by the Office to provide IT systems development and support of benefits administration activities. During FY 2005, Treasury incurred approximately \$2 million of reimbursable expenses with the District, compared with \$1.4 million in FY 2004. Pursuant to a Memorandum of Understanding with the DCRB, the District reimbursement for FY 2005 includes expenses for a portion of costs the DCRB incurred in anticipation of the transfer of benefit administration responsibilities from OPRS to the DCRB.

As of September 26, 2005, the DCRB became responsible for the benefits administration functions previously performed by OPRS. In FY 2006, Treasury will reimburse the DCRB for expenses incurred in administering federal benefits.

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.

f. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office's FY 2005 financial statements. This is the seventh 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 process and its operations. Also, the results of the KPMG tests of compliance with laws

and regulations disclosed no instances of noncompliance that require reporting under *Government Auditing Standards* or OMB Bulletin No. 01-02.

2. Future Focus

a. End Interim Benefit Periods/Final Reconciliation

On September 26, 2005, the Office ended the interim benefits period for the Judges' Plan and designated the Office as the benefits administrator. After the project to calculate split benefits has been implemented, the Office will end the interim benefits period for the retirement plans for District teachers, police officers and firefighters. The Office will then work with the District to conduct the final reconciliation, accounting for transactions during both interim benefits periods. 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.

In Section 10 of the First Amended MOU (which remains in full force and effect under the terms of the new MOU executed in September 2005), the Treasury and the District agreed on the approach and requirements of the final reconciliation. The major requirements 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.

b. New Cost Sharing Methods

As of September 26, 2005, the DCRB assumed interim benefit administration responsibilities for the Police Officers' and Firefighters' Retirement Plan and the Teachers' Retirement Plan. In FY 2005, the Office and the DCRB 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 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 2006 actual expenses. Pursuant to the agreement, the DCRB's expenses in administering Federal Benefit Payments will be reimbursed by the Office and the Office's expenses in developing and operating STAR to administer District Benefit Payments will be reimbursed by the DCRB.

c. Implementation of A-123 Revisions

The Office is working with the Chief Financial Officer's Internal Control Working Group to develop guidelines for implementing the requirements of revised

OMB Circular A-123. The Office will implement a process, consistent with these guidelines, for assessing the effectiveness of its internal controls over financial reporting.

D. Ensure effective management of the organization's mission

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. Organizational Structure

In FY 2005, the Office implemented initial steps to adjust the structure of the Office to ensure an appropriate level of organizational focus on benefits administration matters, independent of information technology system development. The Office eliminated the position of Deputy Director and created three functional groups headed by a manager reporting directly to the Director: (1) Financial Management and Administration; (2) Benefits Administration; and (3) Information Systems. Previously, expertise and responsibility for benefits administration issues existed in multiple parts of the organization, with a heavy concentration in the information systems section. As significant milestones in system development were nearing completion, and as the functions performed by the District's Office of Pay and Retirement Services (OPRS) were transferring to the District of Columbia Retirement Board (DCRB), the needs of the Office in the area of benefits administration were also evolving. To ensure an appropriate level of coordination and attention to this critical functional area, the Office determined that a distinct benefits administration organizational unit should be created.

2. Future Focus

a. Continuing Support and Oversight of DCRB Transition

As discussed above, the Office began a realignment of structure to ensure appropriate focus on benefits administration matters. The Office anticipates that as the DCRB stabilizes its operations in the areas previously performed by OPRS and begins to expand and enhance the quality and nature of its services to both the active and retired members of the plans, the nature of the support and oversight provided by the Office will likely change. The Office will watch this development closely and will adjust its focus, allocation of resources and structure as necessary.

E. Ensure quality service to annuitants

1. Program Results

a. Transition of Benefits Administration Functions

In FY 2005, the Office of D.C. Pensions (the Office) led a coordination effort with the Office of Pay and Retirement Services (OPRS) and the District of Columbia Retirement Board (DCRB) to facilitate a smooth transition of benefits administration functions for the Police Officers' and Firefighters', and Teachers' Retirement Plans from OPRS to DCRB, effective September 26, 2005. This effort included coordination of four teams, focusing on people, processes, technology and facilities. A new memorandum of understanding (MOU) was negotiated between the District, the DCRB, Treasury, D.C. Public Schools, and the Courts, terminating (with the exception of one provision) the First Amended MOU (as amended on September 28, 2000). The new MOU reflects the changes in responsibilities of the parties based on the transition as well as other developments. In addition, the Office negotiated a separate MOU with the D.C. Courts to reflect the assumption by the Office of benefits administration functions for the Judges' Plan.

b. Annuitant Satisfaction

Beginning in November 2004, the Office began measuring annuitants' satisfaction with customer service. A subset of annuitants who contacted the benefits administrator (the District's Office of Pay and Retirement Services) either by phone or in person during the month received a follow-up call. The annuitants were asked to assess the customer service representative's:

- Ability to address the annuitant's concern
- Knowledge of the issue
- Level of professionalism

In FY 2005, on average the responses indicated that annuitants viewed the services provided as excellent and that most issues were resolved satisfactorily with a single contact.

c. Retirement Plan Information

Police and Firefighters Summary Plan Description

In FY 2005, work began to update the Summary Plan Description (SPD) for the District of Columbia Police Officers' and Firefighters' Retirement Plan. The SPD is designed to provide plan members with accurate and easy to understand information about the Retirement Plan. The SPD was last updated in October 2002. Some significant changes have occurred to the Plan since that time. A revised version is scheduled for release in

mid-FY 2006. The Office is leading this effort, with input and coordination provided by DCRB and several other District stakeholders.

Post-56 Legislation Communication

As discussed in section B.1.a., above, in FY 2005, the Office made substantial progress in implementing the District of Columbia Military Retirement Equity Act of 2003, Pub. L. 108-133. A major component of the project includes a very complex communication effort. The Office worked closely with the District to ensure accurate, clear and timely communications. The Office established a dedicated call center to field annuitant inquiries and a dedicated post office box to handle all correspondence. As a result of the communications, annuitants have made fully informed decisions on whether they are affected by the legislation and whether purchasing retention of credit for post-56 military service is beneficial. In FY 2006, the Office will continue communication and purchase activities with the estimated 1,000 annuitants affected by the legislation who have not yet completed their purchase of post-56 military service.

2. Future Focus

a. Office of D.C. Pensions/District of Columbia Retirement Board Performance Indicators

Using the existing measures as a baseline, the Office will work with the DCRB, as the new benefits administrator, to implement performance indicators. The indicators are projected to be a balance between accuracy, timeliness, quality, and cost effectiveness.

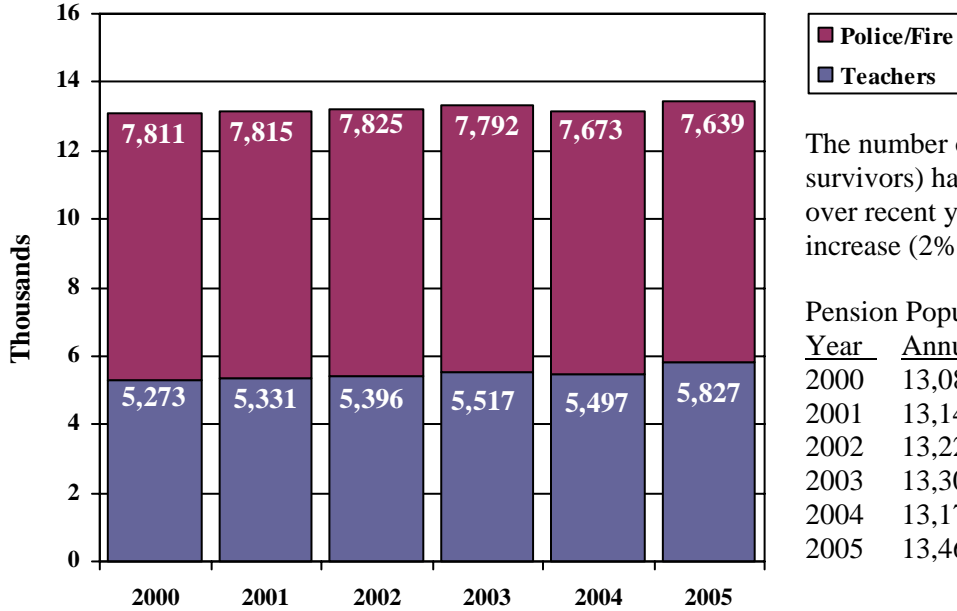
b. Teachers Summary Plan Description

The SPD for annuitants under the District of Columbia Teachers' Retirement Plan (Plan) was last updated in October 2002. In FY 2006, work will begin to update the Teachers SPD. A revised version is scheduled for release in early FY 2007. The Office and the DCRB will work collaboratively on this effort. In addition, input will be requested from various District stakeholders.

IV. Six Year History of the District of Columbia Pensions Program

A. Annuitants

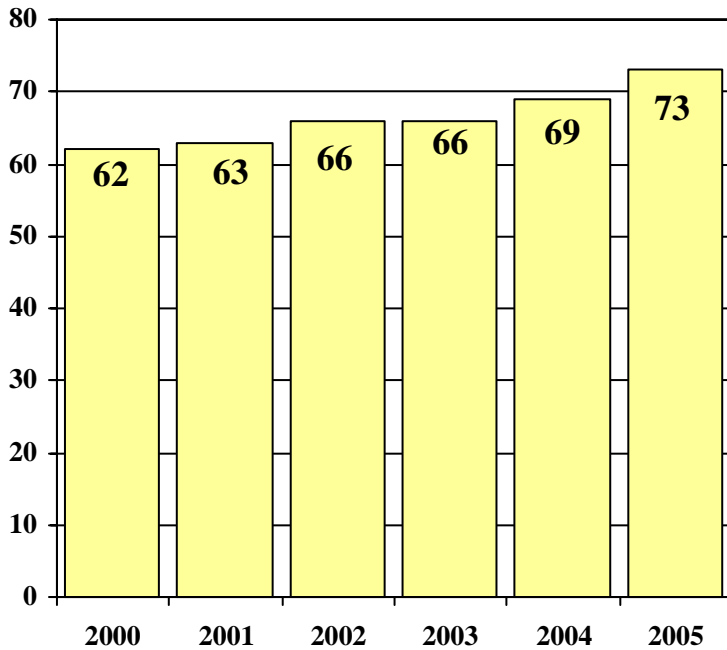
Police Officers' and Firefighters', and Teachers' Retirement Plans



The number of annuitants (including survivors) has remained relatively constant over recent years. There was a slight increase (2%) over the past year.

Pension Population	
<u>Year</u>	<u>Annuitants</u>
2000	13,084
2001	13,146
2002	13,221
2003	13,309
2004	13,170
2005	13,466

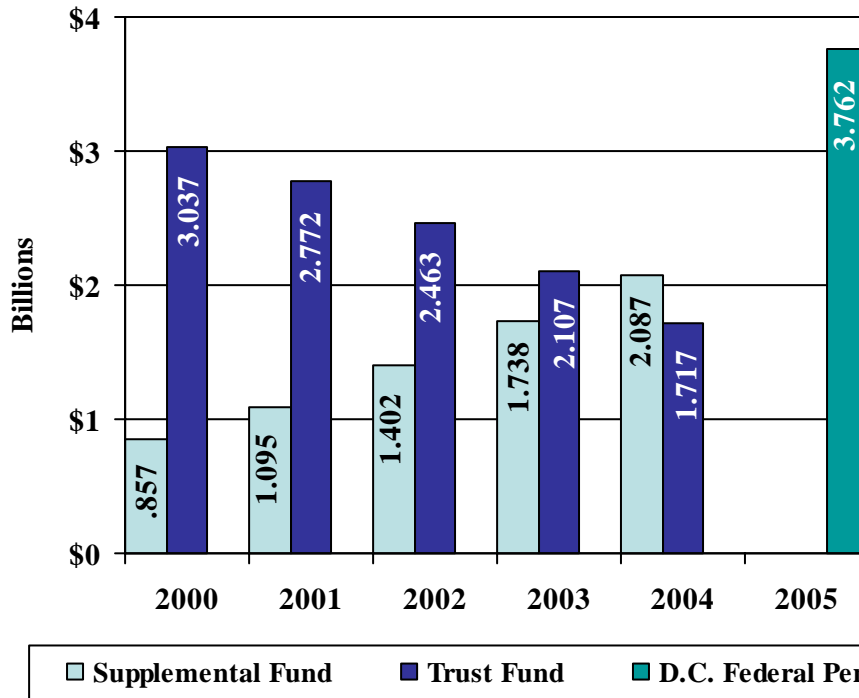
Judges' Retirement Plan



The number of annuitants (including survivors) has increased gradually.

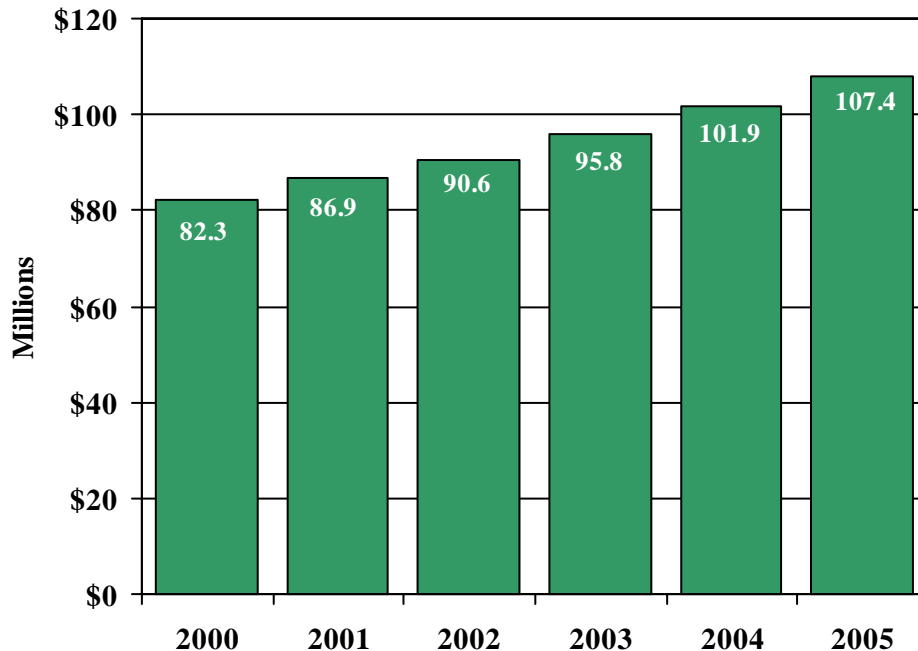
B. Investments

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



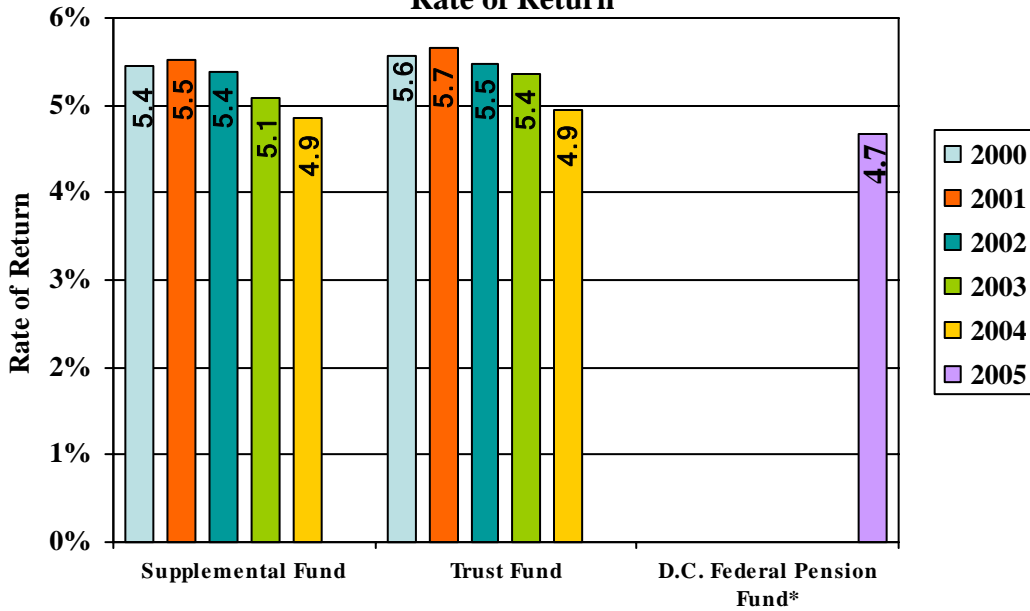
All funds are invested in non-marketable Treasury securities. The assets of the Supplemental and Trust Funds as of October 1, 2004, were combined to create the D.C. Federal Pension Fund.

**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.

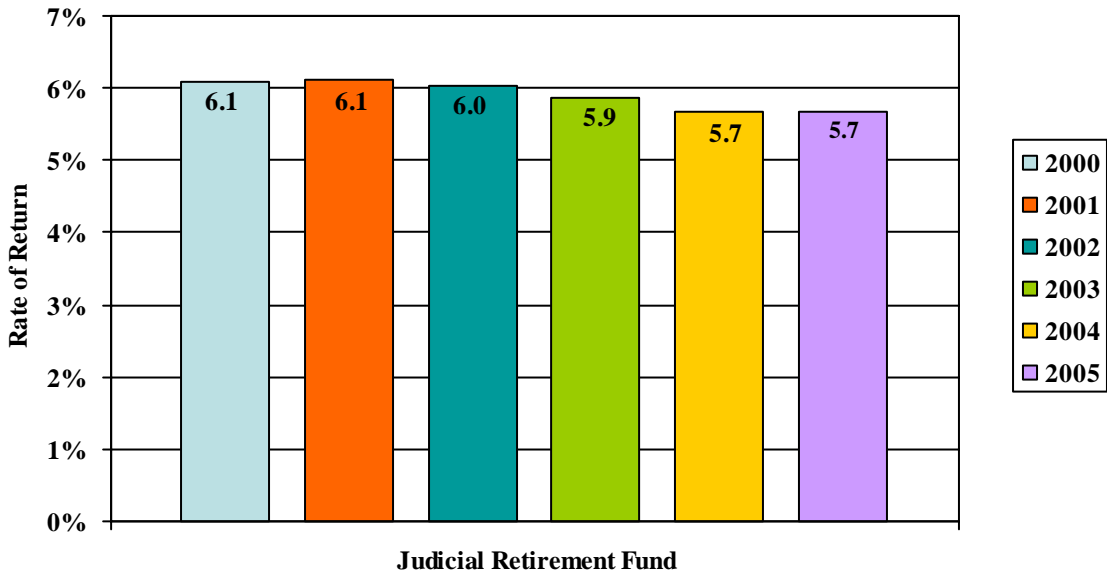
**Investment Average Annual
Rate of Return**



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.

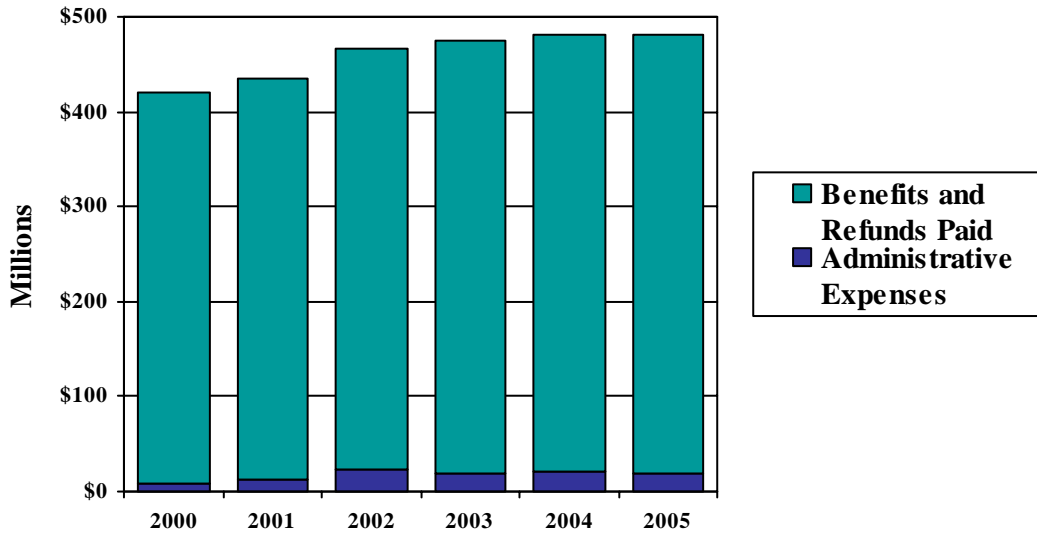
**Investment Average Annual
Rate of Return**



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. Major Spending Categories

**Major Spending Categories
from 2000 to 2005**



Administrative expenses include reimbursement of the District administrative expenses, salaries and contract support.

**Major Spending Categories
from 2000 to 2005 (\$ millions)**

Fiscal Year	Benefits & Refunds Paid	Administrative Expenses	Benefits and Refunds %	Administrative Expenses %
2000	\$412	\$9	98%	2%
2001	\$423	\$12	97%	3%
2002	\$444	\$23	95%	5%
2003	\$455	\$19	96%	4%
2004	\$462	\$20	96%	4%
2005	\$464	\$19.5	96%	4%

Administrative expenses include reimbursement of the District administrative expenses, salaries and contract 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 accounting principles generally accepted in the U.S. of America 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 – Impact on Financial Statements

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. This transfer of budget authority has a significant impact on the presentation of the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing which are found in Part 3, as noted in footnote (1)(a) to the financial statements.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The 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, 2005 and 2004, and the related consolidated statements of net cost, changes in net position and financing, and the combined statements of budgetary resources, for the years then ended. These financial statements are the responsibility of ODCP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance and Accountability Report*. 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.



Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating balance sheets, consolidating statements of net cost, consolidating statements of changes in net position, combining statements of budgetary resources and consolidating statements of financing are not a required part of the financial statements and are presented for purposes of additional analysis. The Supplemental Information-Consolidating Intra-governmental Balances, Investments in GAS Securities – Net by Fund, Investments in GAS Securities – Net by Fund and Maturity, Administrative Expenses – by Fund, and Pension Expense – by Fund, are also presented for purposes of additional analysis of the financial statements. This information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 2, 2005, on our consideration of 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

November 2, 2005

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2005 and September 30, 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	\$ 251	\$ 251
Investments in GAS Securities, Net (Note 4)	3,869,891	3,907,511
Interest Receivable from GAS Securities	45,650	51,943
Advances to Others	19	34
Software-In-Development	-	891
ADP Software, Net (Note 5)	17,679	17,732
Equipment, Net (Note 6)	228	318
Accounts Receivable	30,684	16,023
Total Assets	<u>\$ 3,964,402</u>	<u>\$ 3,994,703</u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 300	\$ 54
Accrued Payroll & Benefits	18	14
Accounts Payable	4,058	4,809
Accrued Pension Benefits Payable	44,214	42,509
Actuarial Pension Liability (Note 2 (j))	3,659,529	3,947,017
Accrued Payroll & Benefits	294	300
Total Liabilities Covered By Budgetary Resources	<u>3,708,413</u>	<u>3,994,703</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability (Note 9)	<u>4,851,716</u>	<u>4,420,274</u>
Total Liabilities	<u>8,560,129</u>	<u>8,414,977</u>
Net Position:		
Cumulative Results of Operations (defecit)	<u>(4,595,727)</u>	<u>(4,420,274)</u>
Total Net Position	<u>(4,595,727)</u>	<u>(4,420,274)</u>
Total Liabilities & Net Position	<u>\$ 3,964,402</u>	<u>\$ 3,994,703</u>

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, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Program Costs		
Administrative Expenses (Note 7)	\$ 19,525	\$ 20,367
Pension Expense (Note 8)	<u>610,024</u>	<u>522,492</u>
Total Program Costs	629,549	542,859
Less: Earned Revenues		
Interest Earned from GAS Securities	169,364	179,624
Employee Contributions	<u>553</u>	<u>552</u>
Net Cost of Operations	<u>\$ 459,632</u>	<u>\$ 362,683</u>

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, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Net Position - Beginning of Year	\$ (4,420,274)	\$ (4,335,231)
Financing Sources (Other Than Exchange Revenue)		
Appropriations Used	284,000	277,500
Transfers In/Out Without Reimbursement	-	-
Imputed Financing Sources	179	140
Total Financing Sources	<u>284,179</u>	<u>277,640</u>
Net Cost of Operations	(459,632)	(362,683)
Net Position - End of Year	<u><u>\$ (4,595,727)</u></u>	<u><u>\$ (4,420,274)</u></u>

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, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Budgetary Resources		
Budget Authority	\$ (1,116,334)	\$ 728,371
Unobligated Balance - Beginning of Year	1,729,937	2,082,746
Spending Authority from Offsetting Collections	21,130	11,223
Recoveries of Prior Year Obligations	5,243	-
Temporarily Unavailable Pursuant to Public Law	1,961,765	(321,904)
Total Budgetary Resources (Note 1(a))	<u>\$ 2,601,741</u>	<u>\$ 2,500,436</u>
Status of Budgetary Resources		
Obligations Incurred	\$ 2,500,672	\$ 770,499
Unobligated Balances Available	101,069	1,729,937
Total Status of Budgetary Resources (Note 1(a))	<u>\$ 2,601,741</u>	<u>\$ 2,500,436</u>
Relationship of Obligations to Outlays		
Obligated Balance, Net - Beginning of Year	\$ 55,207	\$ 68,178
Obligations Incurred	2,500,672	770,499
Recoveries of Prior Year Obligations	(5,243)	-
Obligated Balance, Net - End of Year	(59,965)	(55,207)
Outlays		
Disbursements	2,490,671	783,470
Collections	(21,130)	(11,223)
Total Outlays	<u>2,469,541</u>	<u>772,247</u>
Less: Offsetting Receipts	186,411	180,176
Net Outlays (Note 1(a))	<u>\$ 2,283,130</u>	<u>\$ 592,071</u>

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 Financing
For the Years Ended September 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>
Budgetary Resources Obligated		
Obligations Incurred (Note 1(a))	\$ 2,500,672	\$ 770,499
Less: Spending Authority from Offsetting Collections and Adjustments	26,373	11,223
Obligations Net of Offsetting Collections and Recoveries	<u>2,474,299</u>	<u>759,276</u>
Less: Offsetting Receipts	186,411	180,176
Net Obligations	<u>2,287,888</u>	<u>579,100</u>
Transfers In/Out Without Reimbursement	-	-
Imputed Financing from Costs Absorbed by Others	179	140
Total Resources Used to Finance Activities	<u>2,288,067</u>	<u>579,240</u>
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	3,544	(742)
Resources That Fund Expenses Recognized in Prior Periods	14,658	7,504
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	4,678	142
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (Note 1(a))	<u>1,971,716</u>	<u>277,500</u>
Total Resources used to Finance Items not part of the Net Cost of Operations	<u>1,994,596</u>	<u>284,404</u>
Total Resources Used to Finance Net Cost of Operations	293,471	294,836
Components Requiring or Generating Resources in Future Periods		
Increase in Exchange Revenue Receivable from the Public	(3)	-
Future Funded Expenses	<u>143,955</u>	<u>62,790</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods (Note 9)	143,952	62,790
Components not Requiring or Generating Resources		
Depreciation and Amortization	5,269	5,057
Other	<u>16,940</u>	<u>-</u>
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	<u>22,209</u>	<u>5,057</u>
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	<u>166,161</u>	<u>67,847</u>
Net Cost of Operations	<u>\$ 459,632</u>	<u>\$ 362,683</u>

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

Office of D.C. Pensions

*Office of the Assistant Secretary for Management
and Chief Financial Officer
Departmental Offices, U.S. Department of Treasury*

Notes to Financial Statements

September 30, 2005

(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 Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The 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 2005)*

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). 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
- 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 for FY 2005

The portion of the D.C. Federal Pension Fund that is not needed to meet the level of current benefit payments, refunds, and administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Treasury's Bureau of 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 2005 was \$277 million.

As a result of the 2004 legislation, the budget authority of the Trust Fund and the Supplemental Fund was transferred to the D.C. Federal Pension Fund. This transfer of budget authority has a significant impact on the presentation of the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing.

Budget authority of \$1,961,764,884 in the Supplemental Fund was moved to the D.C. Federal Pension Fund through a non-expenditure transfer. The transfer impacts two line items on the Combined Statements of Budgetary Resources. Prior to the legislation, the Supplemental Fund was prohibited by public law from incurring obligations until the Trust Fund was depleted. The legislation resulted in a reclassification of the restriction on the availability of resources from *Temporarily Unavailable Pursuant to Public Law* to *Budget Authority*, but the receipts are unavailable for obligation upon collection which reduces *Budget Authority*.

Budget authority of \$1,687,715,405.03 in the Trust Fund was moved to the D.C. Federal Pension Fund through an expenditure transfer. Because the "trust" and "special" funds are classified differently, the expenditure transfer has a significant impact on both the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing. The transfer is recognized as a disbursement and accounted for as *Obligations Incurred* and *Disbursements* on

the Combined Statements of Budgetary Resources. This disbursement of authority reduces *Unobligated Balances Available* and increases *Net Outlays* on the Combined Statements of Budgetary Resources. This disbursement of authority also has an impact on *Obligations Incurred* and *Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations* on the Consolidated Statements of Financing.

(b) District of Columbia Judicial Retirement and Survivors Annuity Fund (FY 2005 and 2004)

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 2005 and 2004 were \$7 million and \$7.5 million, respectively.

(c) *District of Columbia Federal Pension Liability Trust Fund (FY 2004)*

Pursuant to the Act, Treasury established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund – 20X8230). The Trust Fund was 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 Trust Fund consisted of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the DCRB pursuant to the Act
- Income earned on the investments held in the Trust Fund
- Reimbursement and receivables from the D.C. Government for the District’s estimated share of benefits paid from the Trust Fund for FY 1998 - FY 2004

The portion of the Trust Fund that was not needed to meet the level of current benefit payments, refunds, and administrative expenses was invested in non-marketable Government Account Series (GAS) securities issued by the Treasury’s Bureau of Public Debt (BPD). Investments were made in securities with maturities suitable to the needs of the Trust Fund.

The District of Columbia Retirement Protection Improvement Act of 2004, signed by the President on December 23, 2004, terminated the Trust Fund and the Supplemental Fund, and transferred the assets to a newly created fund, the D.C. Federal Pension Fund, effective, October 1, 2004.

(d) *Federal Supplemental District of Columbia Pension Fund (FY 2004)*

Pursuant to the Act, Treasury established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500). The Supplemental Fund was 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. Funds held in the Supplemental Fund were not available for use until such time as the funds held in the Trust Fund had been depleted. No later than 18 months before the projected depletion of the available assets of the Trust Fund, the Secretary was to determine the manner in which the Supplemental Fund would be used to fund future benefits and administrative expenses.

The Supplemental Fund consisted of the following:

- Amounts deposited from the General Fund of the Treasury
- Income earned on the investments held in the Supplemental Fund

The funds held in the Supplemental Fund were invested in GAS securities with maturities suitable to the needs of the Supplemental Fund.

By the end of each applicable fiscal year, the Act required the Secretary to pay into the Supplemental Fund (from the General Fund of the Treasury) an amount equal to the annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, was the amount necessary to amortize in equal annual installments the original unfunded liability 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 Supplemental Fund during FY 2004 was \$270 million.

The District of Columbia Retirement Protection Improvement Act of 2004, signed by the President on December 23, 2004, terminated the Trust Fund and the Supplemental Fund, and transferred the assets to a newly created fund, the D.C. Federal Pension Fund, effective, October 1, 2004.

(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, the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing, all of which are prescribed by Office of Management and Budget (OMB) Bulletins. 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.

(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 7 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 2004 to develop Release 3 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 2005 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 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. 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 during FY 2005 and 2004 respectively, (b) amounts due from the D.C. Government for the District's estimated share of refunds paid by the Office from FY 1998 to FY 2002, (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. Included in this accrual are 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 accrued liability. In the FY 2004 financial statements, the portion of Actuarial Pension Liability covered by budgetary resources was calculated using net plan assets that were available to fund the actuarial accrued liability. In FY 2005, the calculation was modified to determine the covered portion based on unobligated budgetary resources.

The actuarial accrued liability is based upon assumptions made by Treasury. The assumptions used to calculate the accrued liability as of October 1, 2005, were an annual rate of investment return of 6% based on the securities held in the Judicial Fund, an annual rate of investment of 4.8% in FY 2006 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6% by FY 2011; an annual inflation and cost-of-living adjustment of 3%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. In FY 2004, the assumptions used were an annual rate of investment return of 6% based on the securities held; an annual inflation and cost-of-living adjustment of 3%; 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 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. Appropriations received and used for the years ended September 30, 2005 and 2004 were \$284.0 million and \$277.5 million, respectively.

(l) *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 join either 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 FY 2007 Budget of the United States (also known as the President's Budget for FY 2007), with actual numbers for FY 2005, was not published at the time that these financial statements were issued. The President's Budget for FY 2007, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2006. It will be available from the United States Government Printing Office. The FY 2004 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P & F) Schedules within the President's Budget for FY 2006 and there were no differences for budgetary resources and status of budgetary resources. The reconciliation of net outlays did result in a difference. The reason for this difference is that the SBR includes offsetting receipts in the net outlay calculation, whereas the President's Budget does not include offsetting receipts in the net outlay calculation.

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.

(3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2005 and 2004, consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Fund balances:		
Trust funds	\$ 25	251
Special funds *	226	—
Total fund balance with Treasury	<u>\$ 251</u>	<u>251</u>

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

	<u>2005</u>	<u>2004</u>
Status of fund balance with Treasury		
Unobligated balance unavailable	\$ —	—
Obligated balance not yet disbursed	251	251
Total	<u>\$ 251</u>	<u>251</u>

(4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2005 and 2004, consisted of the following (in thousands):

		<u>2005</u>			
		<u>Cost</u>	<u>Unamortized Premium, Net</u>	<u>Investments Net</u>	<u>Market Value</u>
Intragovernmental Securities					
Non-marketable par value	\$	182,384	—	182,384	182,384
Non-marketable market-based		3,551,740	135,767	3,687,507	3,684,091
Total	\$	<u>3,734,124</u>	<u>135,767</u>	<u>3,869,891</u>	<u>3,866,475</u>

2004				
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	\$ 193,675	—	193,675	193,675
Non-marketable market-based	3,567,861	145,975	3,713,836	3,842,449
Total	\$ 3,761,536	145,975	3,907,511	4,036,124

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, 2005 and 2004, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are a net unrealized loss of \$3.4 million and a net unrealized gain of \$128.6 million as of September 30, 2005 and 2004, respectively.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2005 and 2004, by maturity date, are as follows (in thousands):

	2005	2004
Less than or equal to 1 year	\$ 499,370	534,765
More than 1 year and less than or equal to 5 years	2,721,258	2,581,759
More than 5 years and less than or equal to 10 years	466,879	597,312
Total	\$ 3,687,507	3,713,836

(5) ADP Software – Net

The components of ADP software – net as of September 30, 2005 and 2004, are as follows (in thousands):

	2005	2004
ADP software	\$ 30,902	25,332
Accumulated depreciation	(13,223)	(7,600)
ADP software – net	\$ 17,679	17,732

(6) Equipment - Net

The components of equipment – net as of September 30, 2005 and 2004, are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
ADP hardware	\$ 500	500
Accumulated depreciation	(272)	(182)
Equipment – net	<u>\$ 228</u>	<u>318</u>

(7) Administrative Expenses

Administrative expenses for the years ended September 30, 2005 and 2004, are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Intragovernmental expenses		
Salaries and related benefits	\$ 687	501
Contractual services	2,249	2,845
Rent	368	697
Other	14	7
Total intragovernmental expenses	<u>\$ 3,318</u>	<u>4,050</u>
Public expenses		
Salaries and related benefits	\$ 2,514	2,041
Contractual services	7,912	8,977
Rent	3	4
Noncapitalized equipment/software	5,752	5,283
Other	26	12
Total public expenses	<u>\$ 16,207</u>	<u>16,317</u>
Total administrative expenses	<u>\$ 19,525</u>	<u>20,367</u>

Included in the above expenses are amounts incurred by the D.C. Federal Pension Fund and Judicial Retirement Fund for intragovernmental activity totaling \$2,896 thousand and \$422 thousand, respectively, for 2005, and \$3,586 thousand and \$464 thousand, respectively, for 2004.

(8) Pension Expense

Pension expense for the plan years ended September 30, 2005, and 2004, includes the following components (in thousands):

	<u>2005</u>	<u>2004</u>
Normal cost	\$ 4,100	4,100
Actuarial (gain)/loss during the period	114,789	37,203
Interest on pension liability during the period	490,600	486,600
Collective bargaining agreement	282	—
Longevity pay adjustment	253	(5,411)
Total pension expense	<u>\$ 610,024</u>	<u>522,492</u>

Federal pension benefits paid during the plan years were \$457.1 million and \$6.7 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2005, and \$456 million and \$6 million, respectively, for 2004. For 2005, approximately \$1.8 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For 2004, approximately \$5.4 million represents contribution refunds to plan participants of the D.C. Federal Pension Fund. For FY 2005, the actuarial loss of \$114.8 million was primarily due to the lowering of the actuarial investment return assumption in the D.C. Federal Pension Fund for FY 2006 – FY 2010. For FY 2004, the actuarial loss of \$37.2 million was primarily due to changes in demographic assumptions (e.g., rates of retirement, rates of maturity, etc.) based upon the FY 2004 experience study of the funds.

Longevity Pay Adjustment for Police Officers

As required by District law enacted in 1972, active D.C. police officers receive increases in salary reflecting longevity pay adjustments based on length of departmental service. Until recently, District law specifically excluded the longevity pay adjustment in calculating retirement benefits for annuitants. District and federal statutes were enacted in December 1999 and December 2000, respectively, requiring the calculation of retirement benefits to include longevity pay in the salary at the time of retirement. The federal statute applies to Federal Benefit Payments made after December 15, 2000, to annuitants who retired on or after August 29, 1972. Therefore, implementation of the federal statute required recalculation of initial benefits going back 30 years in some cases. Resolution of issues involving the calculation methodology and eligibility for the longevity retirement pay adjustment delayed implementation of the District and federal statutes. Implementation of the statutes is now complete and longevity is included in benefit calculations as individuals retire.

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 October 2005.

(9) Statement of Financing Disclosure

Liabilities Not Covered by Budgetary Resources of \$4,852 million and \$4,420 million as of September 30, 2005 and 2004, represents the portion of the actuarial liability that will require resources in a future period (See Note 2j, Actuarial Pension Liability). The amounts reported on the Statement of Financing, as Future Funded Expenses of \$144 million and \$63 million for the years ended September 30, 2005 and 2004, represent the change in the actuarial liability.

(10) Plan Administration and Description

(a) *Police Officers' and Firefighters' Retirement Plan*

Eligibility

A participant becomes a member when he or she starts work as a police officer or firefighter in the District of Columbia. Police cadets are not eligible to join the Plan. A participant's contribution equals 7% (or 8% for employees hired on or after November 10, 1996) of basic pay. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the D.C. Federal Pension Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Members (not survivors) who retired prior to February 15, 1980, receive the same percentage increase in annuities as active employees' salary increases. Members who retired on or after February 15, 1980 and all survivors receive an increase each March based on the annual change in the Consumer Price Index for All Urban Consumers (all items – U.S. City Average) from December to December.

Members Hired Before February 15, 1980

Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 12 consecutive months) times years of departmental service up to 20 years, plus 3% of average pay times years of departmental service over 20 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after at least five years of police or fire service are entitled to a deferred benefit beginning at age 55 if they do not receive a refund of contributions.

Members with service-related disabilities receive an annuity equal to 2.5% of average pay times total years of service, subject to a minimum benefit of 66.67% of average pay and subject to a maximum benefit of 70% of average pay.

Other members with non-service related disabilities with more than five years of departmental service receive an annuity equal to 2% of average pay times total years of service, subject to a minimum benefit of 40% of average pay and subject to a maximum benefit of 70% of average pay.

Members Hired on or After February 15, 1980, and Before November 10, 1996

Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental service up to 25 years, plus 3% of average pay times years of departmental service over 25 years, plus 2.5% of average pay times credited years of service, subject to a maximum benefit of 80% of final pay. Members terminated after at least five years of police or fire service are entitled to a deferred pension beginning at age 55 if they do not receive a refund of contributions.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Members Hired on or After November 10, 1996

Members are eligible for retirement with 25 years of departmental service. The annual basic retirement benefit equals 2.5% of average pay (basic pay for the highest 36 consecutive months) times years of departmental and credited service, subject to a maximum benefit of 80% of basic pay.

Members with service related disabilities receive 70% of base pay times percentage of disability, subject to a minimum benefit of 40% of base pay.

Other members with non-service related disabilities with more than five years of departmental service receive 70% of base pay times percentage of disability, subject to a minimum benefit of 30% of base pay.

Participant Data

For the September 30, 2005, and 2004, actuarial valuations, the participants, as of June 30, 2005 and 2004, eligible to receive a Federal benefit are as follows:

	<u>2005</u>	<u>2004</u>
Active members	3,386	3,509
Retirees and beneficiaries	7,664	7,673
Vested terminated members	—	—
Total	<u>11,050</u>	<u>11,182</u>

Application of Statutory Military Service Provision (Police Officers and Firefighters)

By District law, determination of retirement benefits for District police officers and firefighters may include credit for military service performed after 1956. However, if the retiree is also eligible for Social Security retirement or disability benefits based upon his or her wages and self-employment income, the retirement benefit from the District Retirement Plan must be recalculated to remove the portion of the benefit derived from the military service.

Recalculation must occur when the retiree reaches the age to begin receiving full Social Security benefits (65+, depending on date of birth). Public Law 108-133, enacted on November 22, 2003, permits D.C. Police Officers' and Firefighters' Retirement Plan members to purchase eligible post-56 military service for credit in calculating their retirement annuities.

(b) *Teachers' Retirement Plan*

Eligibility

Permanent, temporary, and probationary teachers and certain other employees of the D.C. Public Schools become members automatically on their date of employment. The basic retirement contribution equals 7% (or 8% for teachers hired on or after November 16, 1996) of a participant's annual pay minus any pay received for summer school. Employee contributions are made according to the plan adopted by the District of Columbia on September 18, 1998. However, the D.C. Federal Pension Fund does not receive any employee or employer contributions because pension liability for all service accruing on or after July 1, 1997, is the exclusive responsibility of the District of Columbia.

Voluntary retirement is available for teachers with at least five years of school service who have attained age 62; age 60 with 20 years of total service, including at least five years of school service; age 55 with 30 years of total service, including at least five years of school service; and at any age with 30 years of total service, including at least five years of school service, if hired by the school system on or after November 16, 1996.

The annuity is equal to 1.5% of three-year average pay times years of service up to five years, plus 1.75% of average pay times years of service between five and ten years, plus 2% of average pay times years of service over ten years. For

participants hired on or after November 16, 1996, the annuity is equal to 2% of three-year average pay times all years of service.

Participants who have five years of school service and who have a physical or mental disability that prevents them from performing their job, may be eligible for disability retirement. Disability benefits are based on the voluntary retirement benefit subject to a minimum of the lesser of 40% of average pay or the benefit the member would receive using average pay at the time of disability with service projected to age 60.

Employees who are involuntarily separated other than for misconduct or delinquency and who have at least five years of school service, may be eligible for retirement at any age. The retirement benefit is calculated in the same manner as voluntary retirement, except that the involuntary retirement benefit is reduced 1/6% per month (2% per year) for each full month the teacher is under age 55 at the time of separation from the school system.

All annuitants receive an annuity increase effective each March 1st based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from December to December.

Participant Data

For the September 30, 2005, and 2004, actuarial valuations, the participants, as of June 30, 2005 and 2004, eligible to receive a Federal benefit are as follows:

	<u>2005</u>	<u>2004</u>
Active members	2,840	3,186
Retirees and beneficiaries	5,719	5,497
Vested terminated members	25	25
Total	<u>8,584</u>	<u>8,708</u>

(c) *Judges’ Retirement Plan*

Eligibility

A participant becomes a member of the Plan when he or she becomes a judge of the D.C. Court of Appeals or the Superior Court, or when he or she becomes the Executive Officer of the District Court System. A participant’s contribution equals 3.5% of annual salary plus an optional 3.5% of annual salary for survivors’ benefits. The Judicial Retirement Fund receives the employee contributions.

Members are eligible for normal retirement with full benefits at age 50 with at least 20 years of judicial service, at age 60 with at least 10 years of judicial service (seven years of service for the Executive Officer), or upon reaching age 74. The annuity is equal to the basic salary at retirement times the total years of judicial service divided by 30, plus 1.5% of basic salary times credited service up to five years, plus 1.75% of basic salary times credited service between five years

and 10 years, plus 2% of basic salary times credited service over 10 years, subject to a maximum benefit of 80% of final salary at retirement.

A judge electing to retire with at least 10 years of judicial service (at least seven years if the Executive Officer) but fewer than 20 years of judicial service between ages 55 and 60 shall receive an annuity based on the above formula, reduced by 1/12% per month or fraction of a month (1% per year) for each year the participant is under age 60 at retirement. Judges and the Executive Officer are eligible for disability benefits after five years of total service if they have a physical or mental disability that seriously interferes with the proper performance of duties. The annuity to be received under a disability retirement will be a normal benefit subject to a minimum benefit of 50% of salary.

All annuitants receive an annuity increase each January based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items – U.S. City Average) from September to September. This cost of living increase is the same increase provided for annuitants in the Federal Civil Service Retirement System (CSRS).

Participant Data

For the September 30, 2005, and 2004, actuarial valuations, the participants, as of June 30, 2005 and 2004, eligible to receive a Federal benefit are as follows:

	<u>2005</u>	<u>2004</u>
Active members	68	69
Retirees and beneficiaries	75	74
Vested terminated members	1	1
Total	<u>144</u>	<u>144</u>

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2005 and September 30, 2004
(in thousands)

	2005			2004			
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Assets							
Entity Assets							
Intra-Governmental Assets							
Fund Balance with Treasury	\$ 25	226	251	\$ 25	-	226	251
Investments in GAS Securities, Net	107,362	3,762,529	3,869,891	101,949	2,087,848	1,717,714	3,907,511
Interest Receivable from GAS Securities	1,358	44,292	45,650	1,323	23,819	26,801	51,943
Advances to Others	2	17	19	3	-	31	34
Software-In-Development	-	-	-	-	-	891	891
ADP Software, Net	1,110	16,569	17,679	1,553	-	16,179	17,732
Equipment, Net	23	205	228	32	-	286	318
Accounts Receivable	22	30,662	30,684	18	-	16,005	16,023
Total Assets	\$ 109,902	3,854,500	3,964,402	104,903	2,111,667	1,778,133	3,994,703
Liabilities							
Liabilities Covered By Budgetary Resources							
Intra-Governmental							
Accounts Payable	\$ 30	270	300	\$ 4	-	50	54
Accrued Payroll & Benefits	2	16	18	1	-	13	14
Accounts Payable	58	4,000	4,058	78	-	4,731	4,809
Accrued Pension Benefits Payable	396	43,818	44,214	553	-	41,956	42,509
Actuarial Pension Liability	101,069	3,558,460	3,659,529	104,237	-	3,842,780	3,947,017
Accrued Payroll & Benefits	31	263	294	30	-	270	300
Total Liabilities Covered By Budgetary Resources	101,586	3,606,827	3,708,413	104,903	-	3,889,800	3,994,703
Liabilities Not Covered By Budgetary Resources							
Actuarial Pension Liability	35,235	4,816,481	4,851,716	25,710	-	4,394,564	4,420,274
Total Liabilities	136,821	8,423,308	8,560,129	130,613	-	8,284,364	8,414,977
Net Position:							
Cumulative Results of Operations	(26,919)	(4,568,808)	(4,595,727)	(25,710)	2,111,667	(6,506,231)	(4,420,274)
Total Net Position	(26,919)	(4,568,808)	(4,595,727)	(25,710)	2,111,667	(6,506,231)	(4,420,274)
Total Liabilities & Net Position	\$ 109,902	3,854,500	3,964,402	\$ 104,903	2,111,667	1,778,133	3,994,703

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2005 and 2004
(in thousands)

	2005			2004			
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Program Costs							
Administrative Expenses	\$ 1,484	18,041	19,525	\$ 1,694	-	18,673	20,367
Pension Expense	12,892	597,132	610,024	8,312	-	514,180	522,492
Total Program Costs	14,376	615,173	629,549	10,006	-	532,853	542,859
Less: Earned Revenues							
Interest Earned from GAS Securities	5,596	163,768	169,364	5,282	81,406	92,936	179,624
Employee Contributions	553	-	553	552	-	-	552
Net Cost of Operations	\$ 8,227	451,405	459,632	\$ 4,172	(81,406)	439,917	362,683

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2005 and 2004
(in thousands)

	2005					2004			
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Net Position - Beginning of Year	\$ (25,710)	-	2,111,667	(6,506,231)	(4,420,274)	\$ (29,052)	1,760,261	(6,066,440)	(4,335,231)
Financing Sources (Other Than Exchange Revenue)									
Appropriations Used	7,000	277,000	-	-	284,000	7,500	270,000	-	277,500
Transfers In/Out Without Reimbursement	-	(4,394,564)	(2,111,667)	6,506,231	-	-	-	-	-
Imputed Financing Sources	18	161	-	-	179	14	-	126	140
Total Financing Sources	<u>7,018</u>	<u>(4,117,403)</u>	<u>(2,111,667)</u>	<u>6,506,231</u>	<u>284,179</u>	<u>7,514</u>	<u>270,000</u>	<u>126</u>	<u>277,640</u>
Net Cost of Operations	(8,227)	(451,405)	-	-	(459,632)	(4,172)	81,406	(439,917)	(362,683)
Net Position - End of Year	<u>\$ (26,919)</u>	<u>(4,568,808)</u>	<u>-</u>	<u>-</u>	<u>(4,595,727)</u>	<u>\$ (25,710)</u>	<u>2,111,667</u>	<u>(6,506,231)</u>	<u>(4,420,274)</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2005 and 2004
(in thousands)

	2005					2004				
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Combined DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental DC Pension Fund	DC Federal Pension Liability Trust Fund	Combined DC Pension Funds Total	
Budgetary Resources										
Budget Authority	\$ 19,992	(1,136,326)	-	-	(1,116,334)	\$ 20,239	591,904	116,228	728,371	
Unobligated Balance - Beginning of Year	96,069	1,961,765	(1,961,765)	1,633,868	1,729,937	90,577	-	1,992,169	2,082,746	
Spending Authority from Offsetting Collection	-	21,130	-	-	21,130	9	-	11,214	11,223	
Recoveries of Prior Year Obligations	391	4,852	-	-	5,243	-	-	-	-	
Temporarily Unavailable Pursuant to Public La	-	-	1,961,765	-	1,961,765	-	(321,904)	-	(321,904)	
Total Budgetary Resources	\$ 116,452	851,421	-	1,633,868	2,601,741	\$ 110,825	270,000	2,119,611	2,500,436	
Status of Budgetary Resources										
Obligations Incurred	\$ 15,383	851,421	-	1,633,868	2,500,672	\$ 14,756	270,000	485,743	770,499	
Unobligated Balances Available	101,069	-	-	-	101,069	96,069	-	1,633,868	1,729,937	
Total Status of Budgetary Resources	\$ 116,452	851,421	-	1,633,868	2,601,741	\$ 110,825	270,000	2,119,611	2,500,436	
Relationship of Obligations to Outlays										
Obligated Balance, Net - Beginning of Year	\$ 1,359	-	-	53,848	55,207	\$ 1,241	-	66,937	68,178	
Obligations Incurred	15,383	851,421	-	1,633,868	2,500,672	14,756	270,000	485,743	770,499	
Recoveries of Prior Year Obligations	(391)	(4,852)	-	-	(5,243)	-	-	-	-	
Obligated Balance, Net - End of Year	(1,653)	(58,312)	-	-	(59,965)	(1,359)	-	(53,848)	(55,207)	
Outlays										
Disbursements	14,698	788,257	-	1,687,716	2,490,671	14,638	270,000	498,832	783,470	
Collections	-	(21,130)	-	-	(21,130)	(9)	-	(11,214)	(11,223)	
Total Outlays	14,698	767,127	-	1,687,716	2,469,541	14,629	270,000	487,618	772,247	
Less: Offsetting Receipts	5,992	180,419	-	-	186,411	5,834	81,406	92,936	180,176	
Net Outlays	\$ 8,706	586,708	-	1,687,716	2,283,130	\$ 8,795	188,594	394,682	592,071	

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Financing
For the Years Ended September 30, 2005 and 2004
(in thousands)

	2005				2004			
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	Federal Supplemental Pension Fund	DC Federal Pension Liability Trust Fund	Consolidated DC Pension Funds Total
Budgetary Resources Obligated								
Obligations Incurred	\$ 15,383	851,421	1,633,868	2,500,672	\$ 14,756	270,000	485,743	770,499
Less: Spending Authority from Offsetting Collections and Adjustments	391	25,982	-	26,373	9	-	11,214	11,223
Obligations Net of Offsetting Collections and Recoveries	14,992	825,439	1,633,868	2,474,299	14,747	270,000	474,529	759,276
Less: Offsetting Receipts	5,992	180,419	-	186,411	5,834	81,406	92,936	180,176
Net Obligations	9,000	645,020	1,633,868	2,287,888	8,913	188,594	381,593	579,100
Transfers In/Out Without Reimbursement	-	(8,193,947)	8,193,947	-	-	-	-	-
Imputed Financing from Costs Absorbed by Others	18	161	-	179	14	-	126	140
Total Resources Used to Finance Activities	9,018	(7,548,766)	9,827,815	2,288,067	8,927	188,594	381,719	579,240
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	443	9,930	(6,829)	3,544	71	-	(813)	(742)
Resources That Fund Expenses Recognized in Prior Periods	-	14,658	-	14,658	-	-	7,504	7,504
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	-	4,678	-	4,678	(148)	-	290	142
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,000	(7,869,928)	9,834,644	1,971,716	7,500	270,000	-	277,500
Total Resources used to Finance Items not part of the Net Cost of Operations	7,443	(7,840,662)	9,827,815	1,994,596	7,423	270,000	6,981	284,404
Total Resources Used to Finance Net Cost of Operations	1,575	291,896	-	293,471	1,504	(81,406)	374,738	294,836
Components Requiring or Generating Resources in Future Periods								
Increase in Exchange Revenue Receivable from the Public	(3)	-	-	(3)	-	-	-	-
Future Funded Expenses	6,357	137,598	-	143,955	2,232	-	60,558	62,790
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	6,354	137,598	-	143,952	2,232	-	60,558	62,790
Components not Requiring or Generating Resources								
Depreciation and Amortization	560	4,709	-	5,269	436	-	4,621	5,057
Other	(262)	17,202	-	16,940	-	-	-	-
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	298	21,911	-	22,209	436	-	4,621	5,057
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	6,652	159,509	-	166,161	2,668	-	65,179	67,847
Net Cost of Operations	\$ 8,227	451,405	-	459,632	\$ 4,172	(81,406)	439,917	362,683

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Supplemental Information Consolidating Intra-governmental Balances
As of and for the years ended September 30, 2005 and 2004
(in thousands)

		2005			2004			
Department	Intra-governmental balance description	D.C. Judicial	D.C. Federal	Consolidated	D.C. Judicial	Federal	D.C. Federal	Consolidated
		Retirement and Survivors Annuity Fund	Pension Fund	D.C. Pension Funds Total	Retirement and Survivors Annuity Fund	Supplemental D.C. Pension Fund	Pension Liability Trust Fund	D.C. Pension Funds Total
Assets:								
Treasury	Fund Balance with Treasury	\$ 25	226	251	\$ 25	—	226	251
Treasury	Interest receivable from GAS securities	1,358	44,292	45,650	1,323	23,819	26,801	51,943
Treasury	Investments in GAS securities, net	107,362	3,762,529	3,869,891	101,949	2,087,848	1,717,714	3,907,511
Treasury	Advances to Others	2	17	19	3	—	31	34
	Total intra-governmental assets	\$ 108,747	3,807,064	3,915,811	\$ 103,300	2,111,667	1,744,772	3,959,739
Liabilities:								
Treasury	Accounts Payable	\$ 28	253	281	\$ 2	—	33	35
GSA	Accounts Payable	2	17	19	2	—	17	19
Gen Fund	Accrued Payroll & Benefits	1	4	5	—	—	4	4
OPM	Accrued Payroll & Benefits	1	12	13	1	—	9	10
	Total intra-governmental liabilities	\$ 32	286	318	\$ 5	—	63	68
Revenues:								
Treasury	Interest earned from GAS Securities	\$ 5,596	163,768	169,364	\$ 5,282	81,406	92,936	179,624
OPM	Imputed Financing Sources	18	161	179	14	—	126	140
	Total intra-governmental revenues	\$ 5,614	163,929	169,543	\$ 5,296	81,406	93,062	179,764
Expenses:								
Treasury	Salaries and related benefits	\$ 2	14	16	\$ 3	—	13	16
OPM	Salaries and related benefits	54	479	533	39	—	340	379
Gen Fund	Salaries and related benefits	14	124	138	11	—	95	106
Treasury	Contractual Services	312	1,911	2,223	344	—	2,467	2,811
OPM	Contractual Services	2	23	25	—	—	1	1
GSA	Contractual Services	—	—	—	2	—	17	19
GPO	Contractual Services	—	1	1	—	—	6	6
USPS	Contractual Services	—	—	—	1	—	7	8
Treasury	Rent	37	331	368	64	—	633	697
Treasury	Other	1	13	14	—	—	7	7
	Total intra-governmental expenses	\$ 422	2,896	3,318	\$ 464	—	3,586	4,050

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Investments in GAS Securities - Net By Fund
As of September 30, 2005 and 2004
(in thousands)

	2005				2004			
	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	\$ 4,405	-	4,405	4,405	\$ 5,056	-	5,056	5,056
Non-marketable Market-based	100,497	2,460	102,957	105,481	94,550	2,343	96,893	104,284
Total	<u>\$ 104,902</u>	<u>2,460</u>	<u>107,362</u>	<u>109,886</u>	<u>\$ 99,606</u>	<u>2,343</u>	<u>101,949</u>	<u>109,340</u>
Federal Supplemental D.C. Pension Fund:								
Intragovernmental Securities								
Non-marketable Market-based	\$ -	-	-	-	\$ 1,970,746	117,102	2,087,848	2,166,140
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,970,746</u>	<u>117,102</u>	<u>2,087,848</u>	<u>2,166,140</u>
D.C. Federal Pension Liability Trust Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ -	-	-	-	\$ 188,619	-	188,619	188,619
Non-marketable Market-based	-	-	-	-	1,502,565	26,530	1,529,095	1,572,025
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,691,184</u>	<u>26,530</u>	<u>1,717,714</u>	<u>1,760,644</u>
D.C. Federal Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 177,979	-	177,979	177,979	\$ -	-	-	-
Non-marketable Market-based	3,451,243	133,307	3,584,550	3,578,610	-	-	-	-
Total	<u>\$ 3,629,222</u>	<u>133,307</u>	<u>3,762,529</u>	<u>3,756,589</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying independent auditors' report.

**U.S. 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, 2005 and 2004

(in thousands)

	2005			2004			
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>Federal Supplemental D.C. Pension Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Time of Maturity							
Less than or equal to 1 year	\$ -	499,370	499,370	\$ -	-	534,765	534,765
More than 1 year and less than or equal to 5 years	83,773	2,637,485	2,721,258	75,320	1,512,109	994,330	2,581,759
More than 5 years and less than or equal to 10 years	19,184	447,695	466,879	21,573	575,739	-	597,312
Total	\$ <u>102,957</u>	<u>3,584,550</u>	<u>3,687,507</u>	\$ <u>96,893</u>	<u>2,087,848</u>	<u>1,529,095</u>	<u>3,713,836</u>

See accompanying independent auditors' report.

U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS
Administrative Expenses - By Fund
For the years ended September 30, 2005 and 2004
(in thousands)

	2005			2004		
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Intragovernmental Expenses						
Salaries and Related Benefits	\$ 70	617	687	\$ 53	448	501
Contractual Services	314	1,935	2,249	347	2,498	2,845
Rent	37	331	368	64	633	697
Noncapitalized Equipment/Software	-	-	-	-	-	-
Other	1	13	14	-	7	7
Total intragovernmental expenses	<u>\$ 422</u>	<u>2,896</u>	<u>3,318</u>	<u>\$ 464</u>	<u>3,586</u>	<u>4,050</u>
Public Expenses						
Salaries and Related Benefits	\$ 252	2,262	2,514	\$ 211	1,830	2,041
Contractual Services	350	7,562	7,912	559	8,418	8,977
Rent	-	3	3	-	4	4
Noncapitalized Equipment/Software	457	5,295	5,752	458	4,825	5,283
Other	3	23	26	2	10	12
Total public expenses	<u>\$ 1,062</u>	<u>15,145</u>	<u>16,207</u>	<u>\$ 1,230</u>	<u>15,087</u>	<u>16,317</u>
Total administrative expenses	<u>\$ 1,484</u>	<u>18,041</u>	<u>19,525</u>	<u>\$ 1,694</u>	<u>18,673</u>	<u>20,367</u>

See accompanying independent auditors' report.

**U.S. DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
OFFICE OF D.C. PENSIONS**

Pension Expense - By Fund

For the years ended September 30, 2005 and 2004

(in thousands)

	<u>2005</u>			<u>2004</u>		
	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>	<u>D.C. Judicial Retirement and Survivors Annuity Fund</u>	<u>D.C. Federal Pension Liability Trust Fund</u>	<u>Consolidated D.C. Pension Funds Total</u>
Normal Cost	\$ 4,100	-	4,100	\$ 4,100	-	4,100
Actuarial (Gains) Losses During the Period	1,192	113,597	114,789	(3,288)	40,491	37,203
Interest on Pension Liability During the Period	7,600	483,000	490,600	7,500	479,100	486,600
Collective Bargaining Adjustment	-	282	282	-	-	-
Longevity Pension Pay Adjustment	-	253	253	-	(5,411)	(5,411)
Total Pension Expense	<u>\$ 12,892</u>	<u>597,132</u>	<u>610,024</u>	<u>\$ 8,312</u>	<u>514,180</u>	<u>522,492</u>

See accompanying independent auditors' report.



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Independent Auditors' Report on Internal Control over Financial Reporting

The 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, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources, for the years then ended, and have issued our report thereon dated November 2, 2005. 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. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2005 audit, we considered ODCP's internal control over financial reporting by obtaining an understanding of ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the 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. 01-02. 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 provide assurance on ODCP's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the *Management Discussion and Analysis*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.



This report is intended solely for the information and use of ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the 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

November 2, 2005



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

The 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, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources, for the years then ended, and have issued our report thereon dated November 2, 2005. 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. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of ODCP is responsible for complying with laws, regulations and contracts, applicable to ODCP. As part of obtaining reasonable assurance about whether ODCP's fiscal year 2005 financial statements are free of material misstatement, we performed tests of 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, 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 ODCP. However, providing an opinion on compliance with laws, regulations and contracts 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, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether 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 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 ODCP's management, U.S. Department of the Treasury's Office of Inspector General, OMB, the 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

November 2, 2005