SPOKANE EMPLOYEES' RETIREMENT SYSTEM

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2006

Nishinomiya Japanese Garden
Manito Park
Photography by Leo Griffin

SPOKANE EMPLOYEES'
RETIREMENT SYSTEM

Comprehensive Annual Report

FOR THE YEAR ENDED DECEMBER 31, 2006

City Hall, Fourth Floor
808 W. Spokane Falls Blvd.
Spokane, WA 99201-3324
tel 509.625.6330
fax 509.625.6861

Introductory Section

Rose Hill
Manito Park

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Administrative Organization

BOARD OF ADMINISTRATION

Bill Todd (Chair)	Elected Employee	Field Engineer, Engineering Services
Michael F. Coster	Elected Employee	WWTP Operations Superintendent, Advanced Waste Water Treatment Plant
Steven J. Sather	Elected Employee	Field Engineer, Engineering Services
Rob Crow	Council Appointee	Spokane City Council Member
Thomas E. Brown	Council Appointee	Human Resources Manager, Inland Empire Paper Company
David B. Walker	Council Appointee	Vice President/Private Banking, U. S. Bank
Jerry K. McFarlane	Board Appointee	President, Pension Consultants of the Northwest

INVESTMENT ADVISORY COMMITTEE

Dennis D. Clinton	President, Spokane City Credit Union
David B. Walker	Vice President/Private Banking, U. S. Bank
Pam Dolan	Director of Accounting, City of Spokane

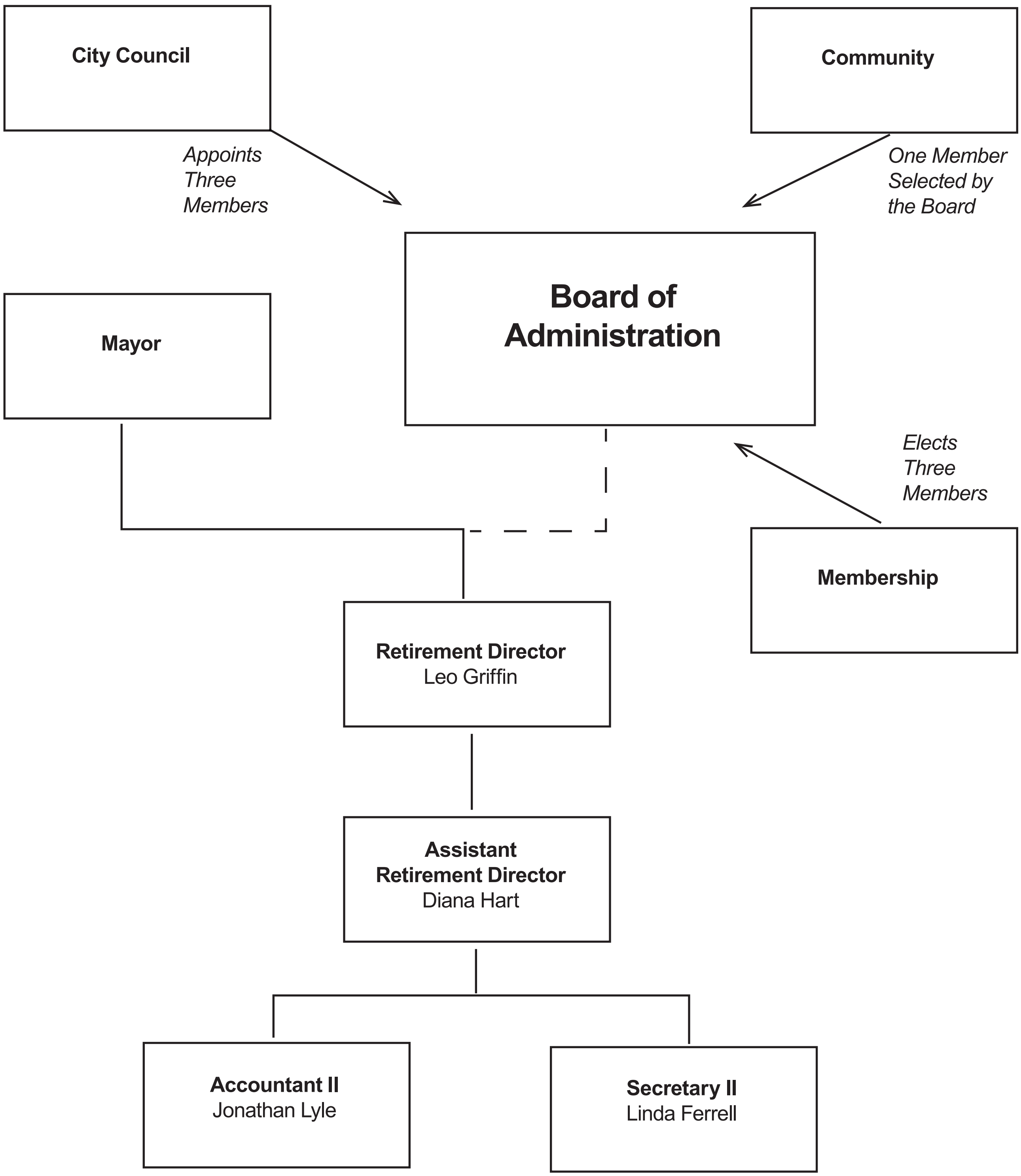
STAFF

Leo F. Griffin	Retirement Director and Chief Investment Officer
Diana Hart	Assistant Retirement Director
Jonathan Lyle	Accountant II
Linda Ferrell	Secretary II
Patrick J. Dalton	Legal Advisor

ADVISORY

Certified Public Accountants	Moss Adams, LLP
Actuary	Mercer Human Resource Consulting
Investment Performance Analysis	Merrill Lynch Private Banking
Custodial Services	Bank of New York

Organization Chart



Description of Retirement System

SERS was founded July 1, 1942 and is a defined benefit pension plan. Membership in SERS is required for all regular employees of the City of Spokane. Police and Fire are excluded as they participate in the Washington State Law Enforcement Officers and Firefighters' Retirement System. SERS is governed by a Board of Administration of seven members. Three members are appointed by the City Council and three employee members are elected by the SERS membership. The seventh member is appointed by the other six members and is not an elected official or an employee of the City.

SERS provides retirement, death, and disability benefits which vest after five years of creditable service. A straight retirement benefit is calculated by multiplying 2.15% of the member's highest consecutive two-year monthly salary by the member's years of creditable service to a maximum of 64.5%. A number of optional forms of retirement benefits (see *Service Retirement Options* on the following page) are available which allow a retiree to provide benefits to his or her beneficiary with a reduction in pension benefits. Early retirement is allowed at age 50, with five years of service, with no penalty for early retirement.

Member contributions, currently 6.72% of total salary-based compensation, are deducted from the member's salary and paid into the retirement fund. The City also contributes 6.72%. The City's contribution is used for funding the overall plan.

If a member has five years of service and becomes totally and permanently disabled, he or she may be eligible for a disability pension. If the disability is due to an injury incurred on the job, no minimum service is required. The amount of disability pension is calculated based on 1.25% of final average salary and credit for service as if the employee had worked until age 62.

If you terminate service within five years of entering SERS, your contributions plus interest are refunded to you. If you are over age 50 and terminate after five years of service, you can elect to withdraw your contributions or you can elect to receive a monthly pension. If you are under age 50 and terminate after five years of service, you can withdraw your contributions or you can vest and begin receiving a pension at age 50. A number of service retirement options exist and these options are briefly explained on the following page.

This is a brief summary of the provisions of the Retirement System. Members who want more specific information should contact:

Spokane Employees' Retirement System
City Hall, Fourth Floor
808 West Spokane Falls Boulevard
Spokane, WA 99201-3324
509.625.6330
509.625.6861 (fax)

Service Retirement Options

In each option, a pension will be paid to you for your lifetime. The options provide different types of settlement to your beneficiary upon your death. Briefly, the options are as follows:

1. **Straight Service** The total pension is deducted each month from your total accumulated contributions, leaving any remaining balance to be paid to your beneficiary in one lump-sum upon your death.

2. **Option "A"** An annuity portion is deducted monthly from your total accumulations, with a lump-sum cash refund of any remaining balance being paid to your beneficiary upon your death.

3. **Option "B"** The death benefit is the same as in Option A, but it is paid in monthly payments until the balance of the total accumulations is exhausted.

4. **Option "C"** In case of death within the guaranteed period, your beneficiary receives your pension for the remainder of the pre-selected time period of 5, 10, 15, or 20 years.

5. **Option "D"** Upon your death, 50% of your pension is continued to your spouse for life.

6. **Option "E"** Upon your death, 100% of your pension is continued to your spouse for life.

If you elect options "A" through "E," your monthly pension will be actuarially reduced to provide a death benefit.

At the time of retirement, you also have the option of withdrawing your accumulations in a lump-sum payment and giving up all rights to any further benefits from the Spokane Employees' Retirement System.

Retirement rules and people's life circumstances change over the years. It is important to keep your beneficiary designation up to date. To make a beneficiary change, please contact the Retirement Department and obtain a form.

SPOKANE EMPLOYEES'
RETIREMENT SYSTEM
FIREFIGHTERS' PENSION FUND
POLICE PENSION FUND
808 W. SPOKANE FALLS BLVD.
SPOKANE, WASHINGTON 99201-3324
(509) 625-6330
FAX (509) 625-6861

LEO F. GRIFFIN, CPA
RETIREMENT DIRECTOR
AND CHIEF INVESTMENT OFFICER

DIANA HART
ASSISTANT RETIREMENT DIRECTOR

May 1, 2007

To the Honorable Mayor and
Spokane City Council
Spokane, WA 99201

This Annual Report consists of five sections: The Introductory Section contains the letter of transmittal and an explanation of the administrative organization of the System; the Financial Statements Section contains the audited financial statements of the System as well as an opinion letter from the System's independent certified public accountants; the Actuarial Section contains the consulting actuary's report along with related actuarial data and statements; the Statistical Section contains tables of significant data pertaining to the operation of the System; and the last section is the Investment Section, which includes information related to the System's investments.

The Retirement System began its first year of operations in 1942 and is managed in accordance with Chapters 3.05 and 4.14 of the Spokane Municipal Code. The retirement plan is an employer-sponsored defined benefit plan that pays a determinable amount to each member who retires after a minimum number of years of service. Refer to the *Summary of Plan Provisions* contained in the Actuarial Section of this report for criteria and a more detailed explanation of the benefits.

The compilation of this report reflects the combined efforts of the staff under the leadership of the Retirement Board. The intention of this report is to provide complete and reliable information to assist in management decisions, to present evidence of compliance with legal provisions and to demonstrate responsible stewardship for the assets contributed by the members and their employer. The accuracy and completeness of the data contained in this report are the sole responsibility of the management of the Spokane Employees' Retirement System.

The Retirement System covers employees of the City of Spokane. The year ended December 31, 2006 concludes our 65th year of operations. This longevity is a tribute to the hard work and conscientious efforts of the past and present Board members, staff, advisors, and elected officials who have made the Retirement System the strong system it is today.

The report is being mailed to City departments. We trust the Retirement System members will find this report both informative and helpful.

We would like to express our gratitude to the advisors and the many people who have worked so diligently to assure the successful operation of the System. Lastly, the

Director would like to acknowledge the hard work and dedication of the Retirement Department staff: Diana Hart, Jonathan Lyle and Linda Ferrell. Without them, this report would not be possible.

Respectfully submitted,

BOARD OF ADMINISTRATION,
SPOKANE EMPLOYEES' RETIREMENT SYSTEM
AS OF DECEMBER 31, 2006

Bill Todd
Board President

Rob Crow

Michael F. Coster

Thomas E. Brown

Steven J. Sather

David B. Walker

Jerry K. McFarlane

Leo F. Griffin, CPA
Retirement Director

Financial Section

Duncan Gardens
Manito Park

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Spokane Employees' Retirement System
Spokane, Washington

We have audited the accompanying statement of Plan net assets of the Spokane Employees' Retirement System (SERS, the System, or the Plan), a pension trust fund of the City of Spokane, Washington, as of December 31, 2006 and 2005, and the related statement of changes in Plan assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Spokane Employees' Retirement System as of December 31, 2006 and 2005, and the changes in Plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis on pages 2 though 8 and schedule of funding progress and employer contributions and related note on pages 17 and 18 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements of SERS. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on such information.

Moss Adams LLP

Spokane, Washington
June 28, 2007

Management Discussion and Analysis

This section presents management's discussion and analysis of the Spokane Employees' Retirement System's (SERS, the System, or the Plan) financial performance during the year ending December 31, 2006. Please read it in conjunction with the accompanying financial statements and the related notes.

In addition to the historical information, the Management Discussion and Analysis includes certain forward looking statements, which involve certain risks and uncertainties. SERS actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward looking statements, due to a wide range of factors including changes in interest rates, changes in the securities market, general economic conditions, and legislative changes, as well as other factors.

The City of Spokane (the City) is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Spokane, SERS is subject to this internal control structure. In addition, Section 04.14.070 of the Spokane Municipal Code entitled *Retirement Board - Powers and Duties*, requires the Board of Administration to transmit to the City Council a report of the actuarial investigation and valuation and an annual report on the financial condition of the fund.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair market value, and revenues include the recognition of unrealized gains or losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. For ease of reading, the dollar amounts that appear in this narrative are rounded to the closest one thousand dollars. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Mercer Human Resource Consulting, the consulting actuary, evaluates the funding status of the System.

The Financial Section contains the following information:

1. **Basic Financial Statements** including:
   a. Statement of Plan net assets
   b. Statement of changes in Plan net assets
   c. Notes to the financial statements

2. **Required Supplementary Information** including:
   a. Schedule of employer contributions
   b. Schedule of funding progress

Management Discussion and Analysis (Continued)

3. **Other Supplementary Schedules** including:
   a. Schedule of administrative expenses
   b. Schedule of investment expenses

The basic financial statements are described as follows:

- The statement of Plan net assets shows the account balances at year end and includes the net assets available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the schedule of funding progress that is included in the required supplementary information, as well as in the documentation provided by the actuary that is included in the Actuarial Section of this annual report.
- The statement of changes in Plan net assets shows the sources and uses of funds during the year and illustrates the change in net assets from the previous year.
- The notes to the financial statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing Plan perspective and the long-term nature of the defined benefit plan.

- The schedule of funding progress contains actuarial information about the status of the Plan from an ongoing long-term perspective, in the accumulation of sufficient assets to pay future benefits when due. Actuarial liabilities in excess of the actuarial value of assets may indicate that insufficient assets are accumulated to fund the future benefits of current members and retirees.
- The schedule of employer contributions contains historical trend information regarding the value of the total annual contributions the employer has paid into the fund and the percentage contributed by the employer.

Financial Highlights

- Net assets increased by $15.5 million (7.2%) during 2006 and $6.8 million (3.3%) in 2005, primarily due to robust gains in the U.S. and foreign equity markets during both years. Overseas investment gains, along with Real Estate Investment Trust (REIT) performance, were particularly strong in 2006. SERS invested in REITs for the first time in 2006.
- Revenues (additions to net assets) for 2006 were $29.8 million, compared to $20.3 million in the prior year. Revenue in 2006 includes member and employer contributions of $8.6 million and net investment earnings from investment activities totaling $21.1 million. Member and employer contributions increased by $320,000 in 2006 and $55,000 during 2005. Net investment income, which fluctuates year-to-year depending on market conditions, increased by $9.2 million in 2006 and $5.5 million in 2005.

Financial Highlights (Continued)

- Expenses (deductions from net assets) for 2006 were $14.2 million, a 5.6% increase from 2005. Expenses for 2005 were $13.5 million, a 10.6% increase from 2004. Retiree benefits and withdrawals increased by $804,000 (6.2%) during 2006 and increased $1.3 million (11%) during 2005.
- The number of retirees and beneficiaries receiving benefits grew by 4.1% in 2006, while the number of active participants in the Plan increased 2.0%.

Financial Statements and Analysis

Plan net assets:

The table below provides a summary of assets and current liabilities at year end:

	2006	2005	2004
Cash and receivables	**$ 6,648,809**	$ 10,365,792	$ 8,112,603
Investments at fair value	**225,197,177**	205,911,894	201,318,711
Total assets	**231,845,986**	216,277,686	209,431,314
Accrued expenses	**269,865**	238,589	213,389
TOTAL NET ASSETS	**231,576,121**	216,039,097	209,217,925

Changes in Plan Net Assets

The table below provides a summary of the changes in Plan net assets during the years and reflects the activities of the fund:

	Year Ended December 31,		
	2006	2005	2004
Additions:			
Employer contributions	**$ 4,287,457**	$ 4,148,874	$ 4,095,810
Plan member contributions	**4,336,560**	4,154,743	4,152,843
Net investment income	**21,140,066**	11,985,450	17,530,588
Total additions	**29,764,083**	20,289,067	25,779,241
Deductions:			
Monthly retiree benefits	**13,322,042**	12,404,497	11,109,084
Refunds of contributions	**492,193**	605,600	576,433
Net administrative expenses	**412,824**	457,798	494,831
	14,227,059	13,467,895	12,180,348
NET INCREASE	**$15,537,024**	$6,821,172	$13,598,893

Revenues - Additions to Net Plan Assets

- Employer contributions increased by $139,000 (3.3%) in 2006 and $53,000 (1.3%) in 2005. The City's payroll was slightly higher in 2006 compared to the prior year.
- Plan member contributions increased by $182,000 (4.4%) in 2006 and $2,000 (0%) in 2005. Member contributions exceed employer contributions due primarily to employees buying back time in the System and vary each year.
- Net investment income was $21.1 million in 2006 compared to $12.0 million in 2005. In 2006, the financial markets out-performed the prior year.

Expenses - Deductions from Net Plan Assets

- Retiree benefits increased by $918,000 (7.4%) in 2006 due to new retirees drawing pensions at much higher monthly amounts compared to the retirees and beneficiaries that died during the year. In 2005, retiree benefits increased by $1.3 million (11.7%) from the prior year. The number of retirees receiving benefits continued to climb in both years.
- Refunds of contributions decreased by $113,000 (18.7%) in 2006 and increased by $29,000 in 2005. Lump sum withdrawals from the Plan fluctuate from year to year.
- Net administrative expenses include salaries and benefits for the SERS director and staff along with other costs associated with administering the Plan. Administrative expenses decreased by $45,000 (9.8%) during 2006 and also decreased by $37,000 (7.5%) in 2005. Net salary and benefit costs for the retirement department are at their lowest levels in 14 years without adjusting for inflation.

Plan Membership

The table below reflects changes to the census of retirees and membership in SERS:

	2006	2005	% Change Increase
Retirees and beneficiaries receiving normal retirement benefits	**955**	917	4.1%
Disability retirees	**13**	13	0%
TOTAL RETIREES AND BENEFICIARIES	**968**	930	4.1%
Current and terminated employees entitled to, but not yet receiving benefits:			
Current employee members	**1,414**	1,387	2.0%
Vested terminated members	**95**	84	13.1%
TOTAL CURRENT AND VESTED EMPLOYEE MEMBERS	**1,509**	1,471	2.6%

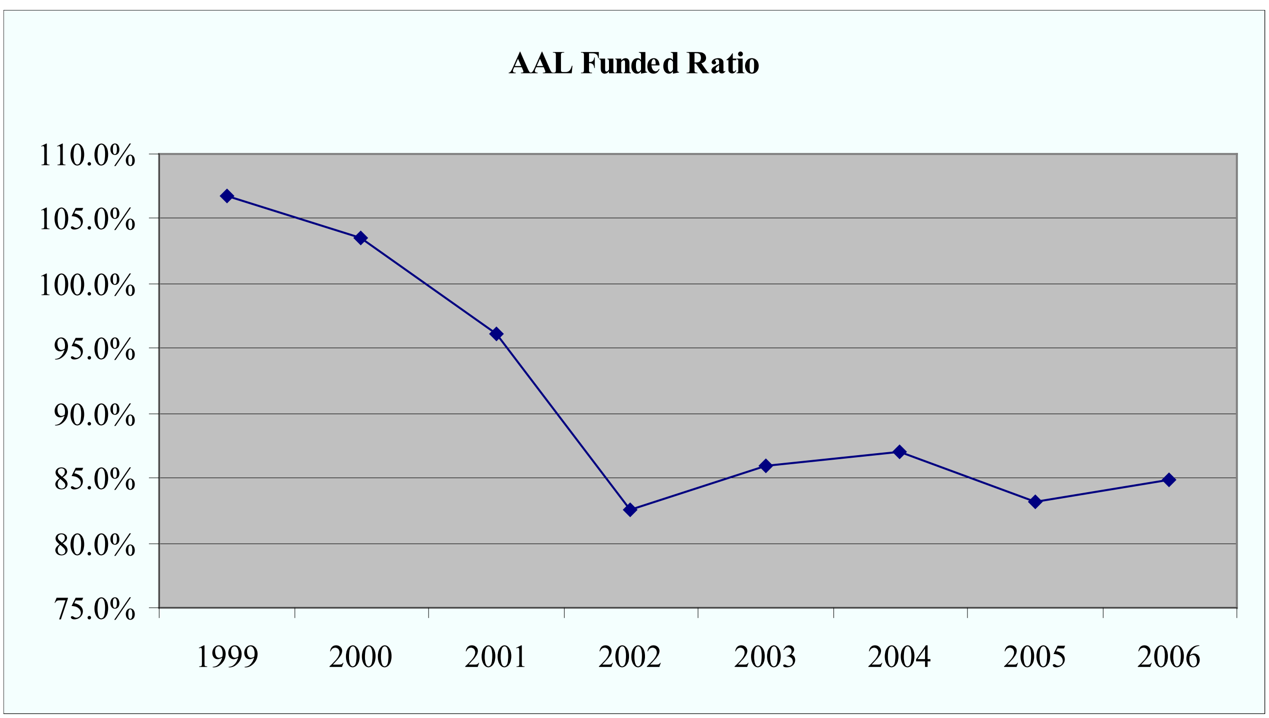
Funding Status

The actuarial accrued liability (AAL) is a liability measure of benefits accrued using service to date and is adjusted for expected salary increases to termination or retirement. The AAL funded ratio compares the AAL to Plan assets. The funded ratio increased by 1.7% during 2006 due to robust investment returns. Poor market returns earlier this decade coupled with retiree benefit adjustments were factors in the decline of the funded ratio from its December 31, 1999, peak. Other factors involved with the decline were changes in valuation assumptions, particularly lowering the discount rate to 7.0% from 7.5% in 2003, and actuarial losses due to differences between actual and assumed Plan experience.

Funds are accumulated from employer and employee contributions and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. Active members currently contribute 6.72% of their salaries to the retirement fund and the City contributes 6.72%. These contribution rates were last raised in 1992.

In early 2007, the Board hired a new independent investment consultant who will be performing an asset allocation study. The Board also hired a new actuary who will be updating Plan assumptions. Staff and the Board are working closely with the new investment consultant and the actuary in order to develop a strategy, which will ultimately return the Plan to a more fully funded status.

Schedule of Funding Progress
Funded Ratio



Retiree Benefit Adjustment

The SERS Board of Administration considers issuing an ad hoc adjustment for retiree benefits each year. The Board can grant an ad hoc adjustment if the AAL funded ratio is 90.0% or greater and the accumulated benefit obligation (ABO) ratio is 110.0% or greater. As of December 31, 2006, the AAL funded ratio is 84.9% and the ABO funded ratio is 96.4%; hence, the Board did not issue an increase this year. Based on current funding levels, the rate of withdrawals and future expected market returns, it will take a significant increase in the equity markets or an increase in the contribution levels to raise these ratios above their respective targets.

Investment Activities

One-year returns on asset classes and comparative benchmarks are presented in the table below:

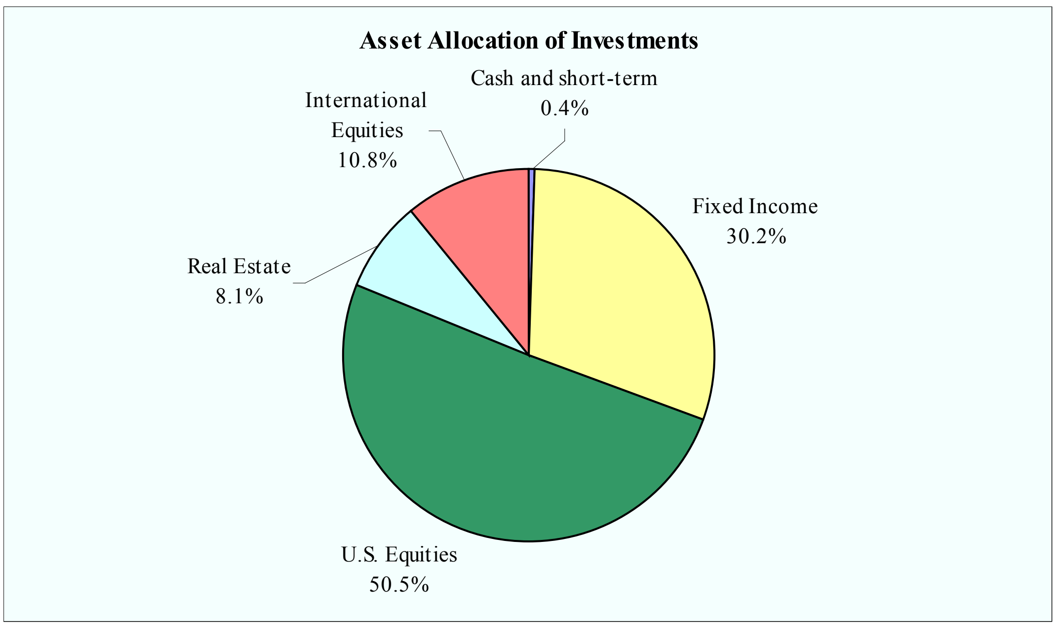
	Investment Return	
	2006	2005
Total portfolio	**10.5%**	6.3%
Domestic equities	**10.9%**	7.2%
Benchmark: Russell 3000 Index	**15.7%**	6.1%
Real Estate Investment Trusts	**17.5%**	N/A
Benchmark: MSCI U.S. REIT	**18.7%**	N/A
Global Diversified	**18.8%**	13.8%
Benchmark: Custom Global*	**19.9%**	8.8%
Fixed income	**4.2%**	2.3%
Benchmark: ML Domestic Master	**4.3%**	2.6%

*The custom global benchmark is comprised of the following indices and weightings: EAFE 50%; S&P 500 18%; World Stock without U.S. 12%; U.S. Government Bond 12%; Merrill Lynch Global Government Bond 8%.

The investments of the System are governed by the “prudent investor rule.” The prudent investor rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund.

Investment Activities (continued)

Cash and investments, valued at fair market value, increased $15.6 million in 2006. The overall performance of the portfolio was 10.5% in 2006 and 6.3% in 2005. As shown in the above table, the equity, bond, and international markets performed at higher levels in 2006 compared to 2005. 2006 was a year in which many U.S. managers underperformed their benchmark. The System invests funds for the long-term, anticipating both good and bad financial markets. Investments are diversified to reduce investment risk with the additional objective over time of providing superior risk adjusted returns. In April, 2007, the SERS Board engaged Arnerich Massena & Associates, Inc. of Portland, OR, as its new independent investment consultant.



Economic Forecast

Future returns in the equity and bond markets are forecasted to be less than the robust returns seen in the late 1990s. Many economists believe we have entered a time period where expected market returns will be less and volatility will increase. The SERS Board will be commissioning Arnerich Massena to develop an asset allocation study and recommendation to be completed by May 31, 2007. The SERS Board expects to adopt a new asset allocation policy at that time. The investment portfolio continues to be repositioned for the future to provide safe and sound benefits for all employees and retirees.

Contacting the Spokane City Employees' Retirement System

If you have questions about this report or need additional information, please contact:

Spokane Employees' Retirement System
4th Floor - City Hall
808 W. Spokane Falls Blvd.
Spokane, WA 99201
509.625.6330

Statement of Plan Net Assets

	December 31, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	**$5,802,730**	$9,541,164
Interest and dividends receivable	**815,369**	824,628
Other receivables	**30,710**	-
Total cash and receivables	**6,648,809**	10,365,792
Investments at fair value		
U.S. fixed income securities	**66,356,412**	70,681,695
Foreign bonds	**2,849,378**	2,452,646
U.S. common stocks	**112,334,232**	111,788,268
Real Estate Investment Trusts	**18,545,296**	-
Foreign stocks	**25,111,859**	20,884,994
Venture capital	**-**	104,291
Total investments	**225,197,177**	205,911,894
Total assets	**231,845,986**	216,277,686
LIABILITIES		
Accounts payable	**206,254**	168,999
Employee leave benefits	**41,321**	38,327
Accrued liabilities	**10,741**	11,871
Other current liabilities	**11,549**	19,392
Total liabilities	**269,865**	238,589
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see Schedule of Funding Progress)	**$231,576,121**	$216,039,097

Statement of Changes in Plan Net Assets

	Year Ended December 31,	
	2006	2005
ADDITIONS		
Contributions		
Employer	**$4,287,457**	$4,148,874
Plan members	**4,336,560**	4,154,743
Total contributions	**8,624,017**	8,303,617
Investment Income		
Net appreciation in fair value of investments	**16,037,509**	7,129,861
Interest, dividends and other investment income	**6,171,570**	5,765,823
	22,209,079	12,895,684
Less investment expenses	**1,069,013**	910,234
Net investment income	**21,140,066**	11,985,450
Total additions	**29,764,083**	20,289,067
DEDUCTIONS		
Benefits	**13,322,042**	12,404,497
Refunds of contributions	**492,193**	605,600
Administrative expenses, net of administrative income	**412,824**	457,798
	14,227,059	13,467,895
CHANGE IN NET ASSETS	**15,537,024**	6,821,172
Net assets, beginning of year	**216,039,097**	209,217,925
Net assets, end of year (held in trust for pension benefits)	**$231,576,121**	$216,039,097

Notes to Financial Statements

Note 1 - Plan Description

The Spokane Employees' Retirement System is a single employer defined benefit pension plan covering employees of the City of Spokane, administered in accordance with Chapter 4.14 of the Spokane City Code.

SERS is a pension trust fund of the City of Spokane and is presented as a blended component unit within the fiduciary fund of the City's comprehensive annual financial report. SERS has separate legal standing. The City is financially accountable for SERS because a financial burden is imposed on the City using the criteria of financial accountability. SERS has determined that there are no entities that require inclusion within its financial statements.

All permanent employees of the City, including employees of the Plan, are eligible to belong to SERS with the exception of police and firefighters who are members of the State Law Enforcement Officers and Firefighters' Retirement System. At December 31, 2006, there are 968 retirees and beneficiaries receiving benefits; 95 vested terminated employees entitled to future benefits; and 1,414 active members of the Spokane Employees' Retirement System.

SERS provides retirement, death, and disability benefits. All employees who participate in SERS are eligible for service retirement after completing five years of service and are age 50 or older. Retirement benefits are calculated by multiplying 2.15% of the member's highest consecutive two-year average salary by the member's years of creditable service, not to exceed 64.5%. This benefit may be reduced according to the retirement annuity option selected.

Note 2 - Summary of Significant Accounting Policies

Basis of accounting:

SERS reports in accordance with the provisions of Governmental Accounting Standard Board (GASB) No. 25, *Financial Reporting for Defined Benefit Pension Plans*. The financial reporting framework for defined benefit pension plans required by GASB No. 25 distinguishes between two categories for information: (a) current financial information about Plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the Plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recorded as revenues in the period in which payroll is due and expenses are recorded when the corresponding liabilities are incurred. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date.

Use of estimates:

In preparing the Plan's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments:

All fixed income, common stock, and short-term investments are reflected in the statement of Plan net assets and are listed at fair market value. Short-term investments are reported at cost, which approximates fair value. Fixed income securities and common stock traded on national exchanges are valued at the last reported sales price. This market value methodology of pricing is performed by Interactive Data Corporation on a daily basis. Bloomberg and Merrill Lynch are also pricing sources. Investments that do not have an established market are reported at estimated fair value.

Note 3 - Deposits and Investments

Deposits:

Cash and cash equivalents are deposited with various financial institutions and are carried at cost plus accrued interest. Cash balances represent operating cash accounts held by a local bank, the System's custodian, and on deposit with the State Treasurer. Cash deposits in bank accounts for operations are covered by federal depository insurance up to $100,000 and amounts above that amount are insured by the Washington State Depositary Commission. Cash held by the Custodian is held in a collective trust and represents cash equivalents; the collective trust is not insured. Cash on deposit with the State Treasurer is held in the Local Government Investment Pool (LGIP), which is a short-term cash and investment pool available for use by all state funds and eligible local governments. The LGIP is an un-rated 2a-7 like pool, as defined by GASB 31. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. Deposits held by the Custodian in the collective trust, along with deposits in the LGIP, are represented by participation in respective pooled investments rather than specific, identifiable securities.

A breakdown of cash and cash equivalents follows:

	2006	2005
Checking	$34,886	$13,963
LGIP	425,364	1,026,346
Collective Trust	5,342,480	8,500,855
TOTAL CASH AND CASH EQUIVALENTS	$5,802,730	$9,541,164

Investments:

The Spokane Employees' Retirement System's investment management policy is set by the Board of Administration. The investment policy sets strategic asset allocation targets and ranges for all approved asset classes.

Note 3 - Deposits and Investments (Continued)

Investments (continued):

The investments of SERS are governed by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the Plan. SERS investments are categorized to give an indication of the level of risk assumed by the Plan at year end.

Investments of the pension trust funds are reported at fair market value. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Trustees has contracted with investment managers, a custodian, and an independent investment consultant. Investment manager contracts include specific guidelines regarding the investments under management. The independent investment consultant monitors the fund on a regular basis and provides quarterly reports to staff and the Board. The SERS' chief investment officer (CIO), who also serves as the Retirement Director, also monitors the fund on a regular basis.

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SERS. Although the SERS' investment policy does not specifically address credit risk, this risk is mitigated by closely monitoring the credit quality ratings of its fixed income portfolios and by setting criteria for fixed income manager selection. In addition, SERS diversifies its assets by utilizing multiple fixed income managers, which reduces its exposure to credit risk. At December 31, 2006, 78% of SERS' fixed income securities are rated AAA, or AAA equivalent, by Standard & Poors. All fixed income securities held by SERS carry an investment grade rating or higher. Approximately 6% of the fixed income portfolio is invested in an unrated mutual fund (as measured by a nationally recognized statistical rating organization). This mutual fund is rated four-star by Morningstar.

Note 3 - Deposits and Investments (Continued)

Credit risk (continued):

SERS' fixed income assets, categorized with credit ratings, are as follows as of December 31, 2006:

		Standard & Poor's Credit Quality Ratings						
Investment Type	Total Market Value	Treasury	Agency	AAA	AA	A	BBB	Not Rated
Fixed Income								
Government								
Treasuries	$10,440,434	$10,440,434	$ -	$ -	$ -	$ -	$ -	$ -
Agencies	29,864,864	-	144,231	29,720,633	-	-	-	-
State & Local	3,604,081	-	-	3,187,724	416,357	-	-	-
Mortgage Backed	-	-	-	-	-	-	-	-
Corp Pass Through	3,514,067	-	-	3,248,604	265,463	-	-	-
CMOs	0							
Governmental CMOs	2,126,932	453,870	164,696	1,508,366	-	-	-	-
Corporate	-	-	-	-	-	-	-	-
Notes & Bonds	9,491,685	-	-	872,014	1,774,238	4,326,182	2,519,251	-
Asset Backed	3,040,282	-	-	2,185,577	-	524,806	329,899	-
Mutual Funds	4,274,067	-	-	-	-	-	-	4,274,067
TOTAL FIXED INCOME	$66,356,412	$10,894,304	$308,927	$40,722,918	$2,456,058	$4,850,988	$2,849,150	$4,274,067
Percentage of Fixed Income Portfolio		16.4%	0.5%	61.4%	3.7%	7.3%	4.3%	6.4%

Custodial credit risk:

Custodial credit risk is the risk that in the event of a financial institution or bank failure, SERS would not be able to recover the value of its deposits and investments that are in the possession of an outside party. Under Governmental Accounting Standard No. 40, *Deposit and Investment Risk Disclosures* guidelines, SERS does not have exposure to custodial credit risk.

Concentration of credit risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. Each manager's contract contains specific language limiting investment in any one entity to 5%. The System does not have any investments from a single issuer (excluding investments in government fixed income securities) that represent more than 5% of the System's net assets.

Note 3 - Deposits and Investments (Continued)

Interest rate risk:

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Although the SERS' Investment Policy does not specifically address interest rate risk, all of the System's fixed income portfolios are professionally managed with an expected range of interest rate risk within the portfolios. In addition, the portfolios are closely monitored by the independent consultant and the CIO. The segmented time distribution of the System's fixed income assets are as follows as of December 31, 2006:

		Fixed Income Maturities (in years)				
Investment Type	Total Market Value	<1	1 - 5	5 - 10	10 - 30	>30
Fixed Income						
Government						
Treasuries	$10,440,434	$2,848,974	$4,464,171	$1,751,145	$1,376,144	-
Agencies	29,864,864	1,055,491	6,490,254	4,980,354	17,338,765	-
State & Local	3,604,081	-	643,255	1,962,747	998,079	-
Mortgage Backed	-	-	-	-	-	-
Corp Pass Through	3,514,067	-	-	-	307,481	3,206,586
CMOs	-	-	-	-	-	-
Governmental CMOs	2,126,932	-	164,486	774,417	1,188,029	-
Corporate	-	-	-	-	-	-
Notes & Bonds	9,491,685	-	3,083,379	3,567,660	2,643,297	197,349
Asset Backed	3,040,282	-	779,584	2,260,698	-	-
Mutual Funds	4,274,067	-	-	4,274,067	-	-
TOTAL FIXED INCOME	$66,356,412	$3,904,465	$15,625,129	$19,571,088	$23,851,795	$3,403,935
Percentage of Fixed Income Portfolio		5.9%	23.5%	29.5%	35.9%	5.1%

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At December 31, 2006, 12.1% of the System's portfolio is invested in international mutual funds, which primarily consist of foreign equities and fixed income securities. The fair market value of the portion of the mutual funds that invest in foreign securities is $28.0 million as of December 31, 2006. The SERS' Investment Policy does not specifically address foreign currency risk; however, the System expects the professional mutual fund managers to maintain adequately diversified portfolios to limit foreign currency risk.

Note 4 - Contributions

Member and employer contribution rates are established by City Code, Chapter 4.14.

The funding of SERS is currently based on the projected unit credit method of funding. SERS current funding objectives are to achieve an ABO funded ratio of 110% to 130% of the actuarially determined benefit obligation and stable contributions as a percentage of pay. Member contributions are currently 6.72% of eligible compensation and deducted from the member's salary and paid into the retirement fund. The City government matches the employee's contribution at 6.72% of eligible compensation.

There are no long-term contracts for contributions outstanding and no legally required reserves.

Required Supplementary Information

Schedule of Employer Contributions; Schedule of Funding Progress

Employer Contributions

Fiscal Year	Annual Required	Annual Contribution	Percentage Contributed
1997	$ 3,255,914	$ 3,255,914	100.00%
1998	3,255,418	3,525,057	108.28%
1999	3,053,294	3,643,468	119.33%
2000	2,747,528	3,715,600	135.23%
2001	3,859,885	3,894,757	100.90%
2002	3,569,284	3,919,254	109.81%
2003	4,547,346	4,017,431	88.35%
2004	5,867,117	4,095,810	69.81%
2005	6,015,711	4,148,874	68.97%
2006	6,231,299	4,287,457	68.81%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Funded Ratio	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
12/31/97	155,223,177	153,550,636	101.10%	(1,672,541)	48,451,101	(3.45%)
12/31/98*	169,501,938	166,001,552	102.10%	(3,500,386)	53,064,549	(6.60%)
12/31/99	186,394,015	174,562,092	106.78%	(11,831,923)	54,142,268	(21.85%)
12/31/00*	194,488,937	187,644,219	103.65%	(6,844,718)	55,420,648	(12.35%)
12/31/01	190,150,661	197,656,627	96.20%	7,505,966	59,292,582	12.66%
12/31/02*	170,359,975	206,435,061	82.52%	36,075,086	56,454,409	63.90%
12/31/03	195,723,271	227,662,674	85.97%	31,939,403	61,830,769	51.66%
12/31/04 *	209,217,925	240,260,424	87.08%	31,042,499	64,252,485	48.31%
12/31/05	216,039,097	259,791,544	83.16%	43,752,447	64,061,964	68.30%
12/31/06 *	231,576,121	272,817,605	84.88%	41,241,484	67,750,706	60.87%

* An actuarial update

Note to Required Supplementary Information

Note 1 - Actuarial Information

The information presented in the required supplementary schedules was determined as a part of the actuarial valuation dated December 31, 2006, the latest valuation report. Additional information from the latest actuarial valuation follows:

Valuation date	December 31, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent
Amortization period*	40 years; open
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7%
Inflation rate	2.5%
Projected salary increases	Earnings for employees with five or more years of service are assumed to increase at 4% per year. For the first five years of service, they are assumed to increase at 13% per year.

*The total contribution rate is fixed at 13.44% of payroll (6.72% for the employer and 6.72% for the employee). The annual required contribution has been developed to equal actual employer contributions, if possible. The amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions.

Schedule of Administrative Expenses

	2006 Budget	2006 Actual	2005 Actual
Personnel services:			
Salaries and wages	$ 327,659	$ 249,796	$ 293,095
Personnel benefits	92,257	69,433	72,711
Administrative Income	(100,000)	(116,507)	(102,186)
Total personnel services	319,916	202,722	263,620
Supplies:			
Office supplies	2,000	709	1,605
Publications	2,000	1,086	80
Postage	5,000	5,857	5,542
Minor equipment	3,000	957	1,583
Total supplies	12,000	8,609	8,810
Other services and charges:			
State Audit Charges	6,232	5,524	5,815
Professional Services	202,121	103,335	84,057
Travel	10,000	2,705	1,583
Equipment repairs and maintenance	500	-	-
Registration and schooling	7,500	75	3,003
Other dues, subscriptions, and memberships	2,000	1,016	1,179
Printing	-	882	806
Other miscellaneous charges	620	938	546
Total other services and charges	228,973	114,475	96,989

Continued on next page

Schedule of Administrative Expenses

	2006 Budget	2006 Actual	2005 Actual
Interfund (IF) payments for services:			
IF communication	**$ 4,524**	**$ 4,675**	$ 4,204
IF office supplies	**500**	**-**	5
IF risk management	**6,161**	**6,161**	6,013
IF unemployment	**187**	**187**	44
IF workers' compensation	**1,744**	**1,744**	1,429
IF repairs and maintenance	**-**	**-**	232
IF MIS	**70,912**	**70,912**	72,349
IF purchasing	**88**	**44**	116
IF reprographics	**3,412**	**993**	1,511
IF records management	**1,108**	**1,108**	1,001
IF warrant service	**950**	**1,064**	1,121
IF parking	**174**	**130**	354
	89,760	**87,018**	88,379
TOTAL ADMINISTRATIVE EXPENSES, NET OF ADMINISTRATIVE INCOME	**$650,649**	**$412,824**	$457,798

Schedule of Investment Expenses

	Year Ended December 31, 2006
Investment Services	
Allegiance Capital, Inc	$49,664
BKF Asset Management	42,624
Bank of New York	12,751
Chase Investment Counsel Corp	75,694
Eagle Capital Management LLC	76,764
Edgewood Management Co	24,751
ICM Asset Management	121,591
Inland Northwest Investors, L.P.	449
McDonnell Investment Management LLC	44,060
M.D. Sass Investor Services, Inc	56,685
Principal Real Estate Investors LLC	79,982
Rigel Capital LLC (large cap)	34,598
Rigel Capital LLC (small to mid cap)	28,246
Santa Barbara Asset Management LLC	38,039
Trusco Capital Management, Inc	20,603
Victory Capital Management	117,543
Wedge Capital Management LLP	54,512
Wentworth, Hauser, and Violich	26,134
	904,690
Performance Measurement	
Merrill Lynch Private Banking	56,550
Custodial Services	
Bank of New York	107,773
TOTAL INVESTMENT EXPENSES	$1,069,013

Actuarial Section

Nishinomiya Japanese Garden
Manito Park

April 2007

Spokane Employees' Retirement System

Actuarial Valuation Update as of December 31, 2006

MERCER

Human Resource Consulting

Mercer Human Resource Consulting
One Union Square, Suite 3200
600 University Street
Seattle, WA 98101-3137
206 808 8800

This report has been prepared by Mercer Human Resource Consulting for the Spokane Employees' Retirement System. The purpose of the report is to:

- present the results of a valuation update of the Spokane Employees' Retirement System as of December 31, 2006;
- provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

This report is divided into three sections.

- The first section contains asset information.
- The second section shows actuarial information required to comply with Statements No. 25 and 27 of the Governmental Accounting Standards Board.
- The third section describes the basis of the valuation update. It summarizes the plan provisions, provides information relating to the plan members, and describes the actuarial assumptions and funding method used in determining contributions and the present value of benefits.

The last actuarial valuation of the Spokane Employees' Retirement System was performed December 31, 2005. Pension liabilities and benefit payments in this report are based on data and assumptions from the December 31, 2005 valuation. Liabilities were projected to December 31, 2006 using standard actuarial methods.

A summary of the principal results of the valuation update as of December 31, 2006 compared with 2004 and 2005 follows:

	2004 Actuarial Update	2005 Actuarial Valuation	2006 Actuarial Update
	(Dollar figures shown are in millions)		
1. Market Value of Assets	$209.2	$216.0	$231.6
2. Accumulated Benefits			
a. Accumulated Benefit Obligation	209.6	228.5	240.3
b. Funding Ratio	99.8%	94.5%	96.4%
3. GASB Funding Progress			
a. Actuarial Accrued Liability	240.3	259.8	272.8
b. Funding Ratio	87.1%	83.2%	84.9%
4. Contribution Rate			
a. City	6.72%	6.72%	6.72%
b. Employee	6.72%	6.72%	6.72%
c. Total	13.44%	13.44%	13.44%

We have prepared an actuarial valuation update of the Spokane Employees' Retirement System as of December 31, 2006 for the plan year ending December 31, 2006. The results of the valuation are set forth in this report, which reflect our understanding of the provisions of the Plan effective as of December 31, 2006.

The valuation update is based on employee and financial data which were provided by the plan sponsor and which are summarized in this report. A plan's actuary would not customarily verify this data. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the provisions of current federal statutes and regulations issued thereunder, using an actuarial cost method which we believe is appropriate. In our opinion, the actuarial assumptions are reasonable and represent our best estimate of the anticipated experience under the Plan. The actuarial assumptions were reviewed and recommendations for some revisions were presented to the SERS Board in May 2003. The changes that were adopted by the Board at that time were first reflected in the December 31, 2003 actuarial valuation. This report fully and fairly discloses the actuarial position of the Plan on an ongoing basis.

The accounting calculations reported herein are consistent with our understanding of the provisions of GASB Nos. 25 and 27.

There have been no changes in plan provisions, actuarial assumptions, valuation procedures or actuarial cost methods since the last valuation of the Plan as of December 31, 2005.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. Collectively, the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Brian R. McGee

April 9, 2007

Brian McGee, FSA
Worldwide Partner

Date

Bonita J. Wurst

April 9, 2007

Bonita J. Wurst, ASA, EA, MAAA

Date

This section sets forth the changes in asset value since the prior actuarial valuation.

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets

Statement of Plan Net Assets

Assets	Year Ended December 31, 2006
Cash and cash equivalents	$ 5,802,730
Interest and dividends receivable	815,369
Other receivables	30,710
Investments at fair value	
U.S. fixed income securities	66,356,412
Foreign bonds	2,849,378
U.S. common stocks	112,334,232
Foreign stocks	25,111,859
Real estate investment trusts	18,545,296
Total investments	$ 225,197,177
Total assets	$ 231,845,986
Liabilities	
Accounts payable	$ 206,254
Employee leave benefits	41,321
Accrued liabilities	10,741
Other current liabilities	11,549
Total liabilities	$ 269,865
Net Assets Held in Trust for Pension Benefits	$ 231,576,121

Statement of Changes In Plan Net Assets

Additions	**Year Ended December 31, 2006**
Contributions	
Employer	4,287,457
Plan members	4,336,560
Total contributions	8,624,017
Investment income	
Net appreciation (depreciation) in fair value of investments	14,996,152
Interest, dividends and other investment income	7,212,927
Subtotal	22,209,079
Investment expenses	(1,069,013)
Net investment income	21,140,066
Total additions	**29,764,083**
Deductions	
Benefits	13,322,042
Refunds of contributions	492,193
Administrative expenses, net of administrative income	412,824
Total deductions	**14,227,059**
Change in net assets	15,537,024
Net assets held in trust for pension benefits	
Beginning of year	**216,039,097**
End of year	**231,576,121**
Estimated return, net of investment expenses, assuming mid-year benefit payments and contributions	**9.91%**

This section contains information that is required to be disclosed in financial statements to comply with Statements No. 25 and 27 of the Governmental Accounting Standards Board (GASB No. 25 and 27).

- Schedule of Employer Contributions
- Schedule of Funding Progress
- Annual Required Contribution
- Annual Pension Cost
- Net Pension Obligation

Schedule of Employer Contributions

Fiscal Year Ending	Actual Employer Contributions	Actual Employer Contribution %	Annual Required Contribution (ARC)	ARC as % of Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/1997	$3,255,914	6.72%	$3,255,914	6.72%	$3,255,914	100.00%	––-
12/31/1998	3,525,057	6.72%	3,255,418	6.21%	3,255,418	108.28%	$ (269,639)
12/31/1999	3,643,468	6.72%	3,053,294	5.63%	3,053,294	119.33%	(859,813)
12/31/2000	3,715,600	6.72%	2,747,528	4.96%	2,706,566	137.28%	(1,868,847)
12/31/2001	3,894,757	6.72%	3,859,885	6.66%	3,792,685	102.69%	(1,970,919)
12/31/2002	3,919,254	6.72%	3,569,284	6.12%	3,789,014	103.44%	(2,101,159)
12/31/2003	4,017,431	6.72%	4,547,346	7.61%	4,471,792	89.84%	(1,646,798)
12/31/2004	4,095,810	6.72%	5,867,117	9.63%	5,811,040	70.48%	68,432
12/31/2005	4,148,874	6.72%	6,015,711	9.74%	6,018,087	68.94%	1,937,645
12/31/2006	4,287,457	6.72%	6,231,299	9.77%	6,298,582	68.07%	3,948,770

Note: The actual employer contributions are a fixed percentage of payroll of 6.72% (5.82% prior to July 1, 1992). The city has always contributed the actuarially determined contribution as a fixed percentage of payroll. Therefore, the Net Pension Obligation at implementation of GASB Nos. 25 and 27 is $0. Historical contributions (before 1997) are not shown since they were not determined pursuant to the parameters for calculating the ARC under the new GASB Statements.

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL, (b) - (a)	Funded Ratio (a)/(b)	(c) Projected Covered Payroll	UAAL as a Percentage of Covered Payroll ((b) - (a)) / (c)
12/31/1997	$ 155,223,177	$ 153,550,636	$ (1,672,541)	101.09%	$ 48,451,101	(3.45)%
12/31/1998	169,501,938	166,001,552	(3,500,386)	102.11%	53,064,549	(6.60)%
12/31/1999	186,394,015	174,562,092	(11,831,923)	106.78%	54,142,268	(21.85)%
12/31/2000	194,488,937	187,644,219	(6,844,718)	103.65%	55,420,648	(12.35)%
12/31/2001	190,150,661	197,656,627	7,505,966	96.20%	59,292,582	12.66%
12/31/2002	170,359,975	206,435,061	36,075,086	82.52%	56,454,409	63.90%
12/31/2003	195,723,271	227,662,674	31,939,403	85.97%	61,380,769	52.03%
12/31/2004	209,217,925	240,260,424	31,042,499	87.08%	64,252,485	48.31%
12/31/2005	216,039,097	259,791,544	43,752,447	83.16%	64,061,964	68.30%
12/31/2006	231,576,121	272,817,605	41,241,484	84.88%	67,750,706	60.87%

Note: Prior to adoption of GASB Statements Nos. 25 and 27 in 1997, information which does not necessarily meet the parameters of GASB 25 was used to determine funding requirements

Annual Required Contribution

		Fiscal Year Ending December 31, 2006
1. Actuarial accrued liability at 1/1/2006		
a. Active	$	126,745,228
b. Inactive		133,046,316
c. Total	$	259,791,544
2. Actuarial value of Assets	$	216,039,097
3. Unfunded accrued liability *(1. – 2.)*	$	43,752,447
4. Amortization period (years)		40*
5. Amortization factor (beginning of year)		28.3479
6. Amortization amount *(3. ÷ 5.)*	$	1,543,411
7. Total normal cost (includes expenses of $500,000)		9,024,448
8. Total required contribution *(6. + 7.)*	$	10,567,859
9. Member contributions		4,336,560
10. Annual required contribution *(8. – 9.)*	$	6,231,299

* The total contribution rate is fixed at 13.44% of payroll, (6.72% for the employer and 6.72% for the employee). The Annual Required Contribution has been developed to equal actual employer contributions, if possible. The amortization period for the unfunded accrued liability will change over time as actual experience emerges that is different from the actuarial assumptions. However, the amortization period is currently constrained by the maximum limitation of 40 years under GASB 25 and 27. The amortization is calculated at 7% as a level percent of payroll payable at the end of each year. A 5% annual increase in total payroll is assumed. The amortization period is open.

Annual Pension Cost

		Fiscal Year Ending December 31, 2006
1. Annual required contribution (ARC)	$	6,231,299
2. Net pension obligation (NPO) from prior year		1,937,645
3. Interest on NPO *(2. x .07)*		135,635
4. Adjustment to ARC *(-2. ÷ 28.3479)*		(68,352)
5. Annual pension cost *(1. + 3. + 4.)*	$	6,298,582

Net Pension Obligation

		Fiscal Year Ending December 31, 2006
1.	Net Pension Obligation December 31, 2005	$ 1,937,645
2.	Annual Pension Cost	6,298,582
3.	Employer Contributions	4,287,457
4.	Net Pension Obligation December 31, 2006 *(1. + 2. – 3.)*	$ 3,948,770

The valuation update is based upon the premise that the plan will continue in existence. Therefore, future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the Fund, the number of members who will retire, die, terminate their services or become disabled, their ages, and their expected benefits at such termination.

In this section, the basis of the valuation update is presented and described. The information - the provisions of the plan and the census of members - is the foundation of the valuation, since these are present facts upon which the projection of benefit payments will depend.

- Summary of Plan Provisions
- Description of Plan Membership
- Actuarial Assumptions
- Actuarial Funding Method
- Glossary of Terms

Summary of Plan Provisions

Following is a summary of the major plan provisions used to determine the plan's financial position. It should not be used in determining plan benefits.

Eligibility for participation	Employees of the City of Spokane who are in eligible employment classes and are hired into employment are eligible to participate as follows: A. Employees hired prior to June 10, 1976 became members in the Plan as of the later of July 1, 1942 or completion of six months of continuous employment. B. Employees hired on or after June 10, 1976 become members at date of hire.
Creditable service	Years of employment for the City of Spokane during which contributions were made as an eligible member to this Plan with a maximum of 30 years.
Contributions	Each member shall make contributions at the rate of 6.72% of his or her compensation earned while a member. As of the valuation date, interest accrues on such contributions at the current valuation interest rate. As of July 1, 2006, interest will accrue at a rate determined by the City, initially 5%. The City shall also contribute at the rate of 6.72%. The current contribution rate has been in effect since July 1, 1992. Some prior rates were: 5.82% 1986-1992; 7.30% until 1986.
Retirement benefits	A. Normal Retirement 1. Eligibility - Attainment of age 62 with five years of Creditable Service. 2. Benefit a. Benefit Level - An annual pension equal to 2.15% (2% prior to July 1, 1992) of high two-year consecutive average pay for each year of Creditable Service and Prior Service (before July 1, 1942). Qualified military service is also included at a rate of 1-2/3%. b. Maximum Benefit - The benefit provided by City contributions and members' "Normal Contributions" shall not exceed 64.5% of members' high two-year consecutive average compensation.

Summary of Plan Provisions *(continued)*

Retirement benefits, (continued)	3. Forms of Benefit a. Normal Form - Cash refund annuity. b. Option A - Cash refund annuity based on annuity value of employee contributions. c. Option B - Installment refund annuity. d. Option C - Certain & life annuity (5, 10, 15 or 20 years). e. Option D - 50% Joint & Survivor. f. Option E - 100% Joint & Survivor. B. Early Retirement 1. Eligibility - Termination of employment with the City after attaining age 50 with five years of Creditable Service. 2. Benefit - Benefit accrued to Early Retirement. 3. Forms of Benefit - Same as for Normal Retirement.
Disability benefits	A. Eligibility - Permanent and Total Disability, as determined by the Board prior to age 62, with at least five years of City Service in the ten-year period prior to disability. The member must be continuously disabled since termination of City Service. If disability is due to accidental causes while in City Service, there is no service requirement. B. Benefit Level - An annual Benefit equal to: 1.25% of member's high two-year consecutive average pay for each year of Creditable Service to age 62. C. Minimum Benefit - "Duty Related" - $2,400 per year. "Non-duty Related" - $1,200 per year.

Summary of Plan Provisions *(continued)*

Disability benefits, (continued)	D. Outside Gainful Employment - Disability retirement shall be offset by outside gainful employment when the amount earned by the retiree added to his or her monthly pension exceeds the amount of final compensation used to calculate the member's pension with adjustments for changes in the national Consumer Price Index.
Pre-retirement death benefits	A. Return of member's contributions plus interest at the credited rate of interest. B. If a member dies who has named their spouse as the primary beneficiary and had completed five years of service, the spouse may elect to receive all or a portion (at least ½) of the death benefit under a life annuity equal to the benefit provided had the member retired on the date of death (or age 50 if later) and elected Option E (a 100% Joint & Survivor form with a reduction in annuitant pension).
Termination	A. At termination of employment, a member is requested to withdraw his or her accumulated contributions within 180 days, unless on layoff status, vested or retained credit under state statute. B. If such former member returns to employment with the City, the member may, within six months, return the amount withdrawn to the Fund, plus additional interest at the credited interest rate, and regain prior service credit. C. A member will retain a vested right to his or her benefit earned to the date of termination, and be able to take early retirement any time after age 50, if the member has: 1. at least five years of City Service, and 2. withdrawn no portion of his or her member contributions.
Changes in plan provisions since prior valuation	None. The July 1, 2006 change in interest credited on employee contributions, from 7% compounded quarterly to 5% compounded quarterly, will be reflected in the next valuation.

Characteristics of Participants

Membership in the plan is based on data provided by the plan sponsor as of December 31, 2005.

A. Characteristics of Members

	12-31-95	12-31-97	12-31-99	12-31-01	12-31-03	12-31-05
Active Members:						
Number	1,370	1,407	1,467	1,475	1,457	1,387
Average age	44.40	44.93	45.49	46.30	47.25	47.68
Average creditable service	10.38	10.53	10.76	11.20	11.74	12.28
Average annual earnings	$31,864	$34,031	$36,073	$38,284	$39,707	$43,712
Average accrued monthly benefit	$626	$698	$715	$798	$861	$976
Service Retirees and Beneficiaries:						
Number	701	729	739	789	825	917
Age	71.75	71.22	71.08	70.71	70.26	69.84
Average monthly benefit	$732	$804	$888	$1,010	$1,076	$1,146
Disability Retirees:						
Number	18	17	18	16	13	13
Average age	63.12	63.55	60.22	60.30	57.58	59.54
Average monthly benefit	$519	$595	$718	$774	$860	$923
Vested Terminations:						
Number	56	60	70	69	72	84
Average age	46.68	45.72	46.07	46.13	46.04	46.29
Average accrued monthly benefit		$422	$492	$470	$601	$677
Total Number of Members:	2,145	2,213	2,294	2,349	2,367	2,401

Plan Members *(continued)*

B. Participant Data Reconciliation

	Active Participants	Portable Transfers	Inactive Participants: With Deferred Benefits	Inactive Participants: Receiving Benefits	Total
As of December 31, 2003	1,457	21	51	838	2,367
Age retirements	(120)	(1)	(9)	130	0
Disability retirements	(1)	0	0	1	0
Deaths	(3)	0	0	(55)	(58)
Survivors	N/A	N/A	0	13	13
Non-vested terminations	(51)	0	0	N/A	(51)
Vested terminations	(20)	0	20	N/A	0
Cashouts	(25)	0	(5)	0	(30)
Expiration of benefits	N/A	N/A	N/A	0	0
Rehires	8	0	0	0	20
Portable transfers	(2)	2	N/A	N/A	0
New Entrants	132	N/A	N/A	N/A	132
Adjustments	12	3	2	3	20
Net Change	(70)	4	8	92	30
As of December 31, 2005	1,387	25	59	930	2,401

C. Distribution of Active Participants at December 31, 2005

Age	Years of Service									
	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
Under 25	11									11
	*									*
25-29	52	9								61
	35,094	*								35,844
30-34	44	36	3							83
	40,201	44,192	*							41,641
35-39	46	68	26	8						148
	39,038	45,205	44,228	*						42,722
40-44	54	50	58	37	4					203
	37,839	42,802	45,048	48,483	*					43,316
45-49	49	47	60	45	25	21	1			248
	43,144	47,232	46,104	42,870	45,810	43,493	*			44,877
50-54	33	53	54	54	39	43	10			286
	38,471	42,320	44,129	43,680	48,947	50,722	*			44,822
55-59	32	48	37	33	27	38	19	1		235
	41,858	43,651	44,895	46,617	47,869	47,825	*	*		45,704
60-64	5	20	15	15	6	8	15	4		88
	*	39,096	*	*	*	*	*	*		44,841
65-69	1	2	6	2	3	4	1		1	20
	*	*	*	*	*	*	*		*	39,728
70+	1	1	1						1	4
	*	*	*						*	*
Total	328	334	260	194	104	114	46	5	2	1,387
	38,787	43,872	44,371	44,650	47,988	48,444	49,414	*	*	43,712

Total earnings: $60,627,886

In each cell, the top number is the count of active participants for each age/service combination. The lower number is the average compensation of the active participants in that group.

* Average earnings are not shown for cells with less than 20 participants, to protect confidentiality.

Compensation shown is pay rate as of the end of the year.

Plan Members (continued)

D. Retiree (including Disabled) and Beneficiary Age and Benefit Distribution at December 31, 2005

Annual Benefit By Age			
Age Groups	**Number of People**	**Total Annual Benefit**	**Average Annual Benefit**
Under 20	0	$ 0	$ 0
20-24	0	0	0
25-29	0	0	0
30-34	0	0	0
35-39	0	0	0
40-44	0	0	0
45-49	6	82,788	13,798
50-54	78	1,171,608	15,021
55-59	142	2,393,028	16,852
60-64	132	1,862,940	14,113
65-69	149	2,475,780	16,616
70-74	119	1,642,716	13,804
75-79	105	1,330,932	12,676
80-84	95	1,015,920	10,694
85-89	71	580,596	8,177
90-94	25	169,128	6,765
95+	8	31,836	3,980
Total	**930**	**$12,757,272**	**$ 13,717**

Plan Members *(continued)*

E. Vested Terminated (including Portables) Member Age and Benefit Distribution at December 31, 2005

Annual Benefit By Age			
Age Groups	Number of People	Total Annual Benefit	Average Annual Benefit
0-19	0	0	0
20-24	0	0	0
25-29	1	3,243	3,243
30-34	4	11,608	2,902
35-39	10	73,244	7,324
40-44	20	185,429	9,271
45-49	33	316,450	9,590
50-54	6	14,748	2,458
55-59	7	67,719	9,674
60-64	3	9,703	3,234
65-69	0	0	0
70-74	0	0	0
75-79	0	0	0
80-84	0	0	0
85-89	0	0	0
90-94	0	0	0
95+	0	0	0
Total	**84**	**$ 682,143**	**$ 8,121**

Actuarial Assumptions

Valuation of Liabilities

Mortality

The Static 1994 Group Annuity Mortality Table is used before and after retirement. Separate male and female mortality is assumed. This mortality assumption is also used for disabled retirees. Sample rates are:

Age	Male Rate	Female Rate
30	.0008	.0004
40	.0011	.0007
50	.0026	.0014
60	.0080	.0044
70	.0237	.0137
80	.0620	.0394

Investment return

7% per year.

Salary scale

Earnings for employees with five or more years of service are assumed to increase at 4% per year. For the first five years of service, they are assumed to increase at 13% per year.

Inflation rate

2.5% per year.

Terminations

Employees are assumed to terminate employment according to the 2003 rates developed from actual employee turnover.

Years	Rate
Less than 1	6.0%
1-4	2.5%
5+	2.0%

Retirement age

It is assumed that retirement rates are as given in the table on the following page. All remaining employees are assumed to retire at age 73.

Disability

None assumed.

Contribution refunds

Employees who terminate before becoming vested, or before age 50, are assumed to withdraw their accumulated contributions.

Marital status

Husbands are assumed to be four years older than wives, and 75% of members are assumed to be married.

Expenses

Included in normal cost, equal to prior year's administrative expenses rounded up to the next $10,000.

Actuarial Assumptions *(continued)*

Non-vested Inactive members	No actuarial accrued liability is held for nonvested, inactive members who have a break in service, or for nonvested members who have quit or been terminated, even if a break in service had not occurred as of the valuation date.
Changes in Actuarial Assumptions Since Prior Valuation	None.

Actuarial Assumptions *(continued)*

Retirement Rates

Age	Rate *	Number of Employees Remaining out of 100 Entering at Age 50
49	.000	100
50	.065	94
51	.048	89
52	.048	85
53	.048	81
54	.048	77
55	.048	73
56	.048	70
57	.048	66
58	.048	63
59	.048	60
60	.060	56
61	.060	53
62	.200	42
63	.200	34
64	.200	27
65	.200	22
66	.200	17
67	.200	14
68	.200	11
69	.200	9
70	.225	7
71	.375	4
72	.600	2
73	1.000	0

* After attainment of five years of service.

Actuarial Cost Method

The actuarial accrued liability of the Plan is currently based on the Projected Unit Credit (PUC) cost method. The Individual Entry Age Normal (EAN) method was used until 1985. At that time, it was determined that the EAN method would result in significantly overfunding the plan as measured by the accumulated benefit (ABO) funding ratio. The Retirement System defined its funding objectives as an ABO funding ratio between 110% and 130%, and stable contributions as a percent of pay. As a result, based on the advice of the plan's actuary, in 1985 the Retirement System reduced the total contribution rate to 11.64% of salary and made certain benefit improvements. Periodic actuarial valuations are made to determine if the funding objectives are being met. In 1992, an assumption study was performed and assumptions were adjusted to more closely reflect the actual experience of the plan. The total contribution rate was increased to 13.44% of salary to fund the plan improvement and assumption changes. In 2003, another assumption study was performed and assumptions were readjusted to reflect recent experience.

Funding Method for GASB Purposes - Projected Unit Credit Method

Liabilities and contributions shown in this report are computed using the Projected Unit Credit method of funding. The plan's Projected Benefit Obligation (PBO) for accounting purpose is the plan's accrued liability using the PUC method.

The objective under this method is to fund each participant's benefits under the Plan as they would accrue, taking into consideration future salary increases. Thus, the total pension, to which each participant is expected to become entitled, is broken down into units, each associated with a year of past or future credited service. When this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the Plan, there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

A description of the calculation follows:

An individual's **accrued benefit** for valuation purposes related to a particular separation date is the accrued benefit described under the Plan but determined using the projected salary that would be used in the calculation of the benefit on the expected separation date.

The **benefit** deemed to accrue for an individual during a plan year is the excess of the accrued benefit for valuation purposes at the end of the plan year over the accrued benefit for valuation purposes at the beginning of the plan year. Both accrued benefits are calculated from the same projections to the various anticipated separation dates.

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An individual's **accrued liability** is the present value of the accrued benefit for valuation purposes at the beginning of the plan year, and the **normal cost** is the present value of the benefit deemed to accrue in the plan year. If multidecrements are used, the accrued liability and the normal cost for an individual are the sum of the component accrued liabilities and normal costs associated with the various anticipated separation dates. Such accrued liabilities and normal costs reflect the accrued benefits as modified to obtain the benefits payable on those dates and the probability of the individual separating on those dates.

The Plan's **normal cost** is the sum of the individual normal costs, and the plan's **accrued liability** is the sum of the accrued liabilities for all participants under the Plan.

Actuarial Funding Method *(continued)*

Funding Method for ABO Calculations - Unit Credit Method

Accumulated benefit liability shown in the report is computed using the Unit Credit (UC) method of funding. The plan's Accumulated Benefit Obligation (ABO) is the plan's accrued liability using the UC method.

The objective under this method is to fund each participant's benefits under the Plan as they accrue. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited.

An **accrued liability** is calculated at the valuation date as the present value of benefits credited with respect to service and pay to that date. The effect of future salary increases is not taken into consideration.

The **normal cost** is the present value of those benefits which are expected to be credited with respect to service and expected pay during the year beginning on the valuation date.

Valuation of Assets

Net assets at market value.

Change in Funding Method or Valuation of Assets since Prior Valuation

None.

Accumulated benefit obligation	That portion of the actuarial present value of pension plan benefits attributable to benefits earned as of the valuation date.
Actuarial assumptions	Factors used by the actuary in forecasting uncertain future events affecting pension cost. They involve such things as interest and investment earnings, mortality rates, and turnover.
Actuarial equivalent	If the present value of two series of payments is equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent. For example, under a given set of actuarial assumptions, a lifetime monthly benefit of $67.60 beginning at age 60 can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.
Actuarial funding method	Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide for pension benefits.
Actuarial gain or loss	The effects on actuarial costs of deviations or differences between the past events predicted by actuarial assumptions, and the events that actually occurred. An *actuarial gain* results where the actual experience under the plan is more favorable than the actuary's estimate, while an *actuarial loss* reflects an unexpectedly adverse deviation.
Actuarial valuation	An examination of a pension plan to determine whether contributions are being accumulated at a rate sufficient to provide the funds out of which the promised pensions can be paid when due. The valuation shows the actuarial liabilities of the plan and the applicable assets.
Actuarial value of assets	The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.
Amortization	Paying off an interest bearing liability by gradual reduction through a series of equal installments as opposed to paying it off by one lump sum payment. A technique for gradually extinguishing a liability or deferred charge over a period of time.
Market value of assets	The market value of cash, investments and other property belonging to a pension plan, as shown on the Trustee's statements, including receivables and payables as of year end.

Normal cost	That portion of the actuarial present value of pension plan benefits and expenses allocated to a valuation year by a given actuarial funding method. The presentation of normal cost should be accompanied by a reference citing the actuarial funding method used.
Projected benefit obligation	The present value of pension plan benefits based on service as of the valuation date and salary projected to the date of retirement, termination or death. This value of benefits is used to determine the funding status of the Plan under GASB No. 5.
Present value	The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.
Trust assets	The value of cash, investments and other property belonging to a pension plan, as shown on the Trustee's statement.
Unfunded pension benefit obligation	The excess of the Pension Benefit Obligation over the market value of assets.

MERCER

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Statistical Section

Stone Bridge
Manito Park

Schedule of Revenues by Source

Fiscal Year	*Employer Contribution*	*Employer Contributions*	*Member Contributions*	*Net Investment Income*	*Total Revenues*
1996	6.72%	$ 3,153,824	$ 3,153,849	$ 12,001,154	$ 18,308,827
1997	6.72%	3,255,914	3,255,940	17,724,510	24,236,364
1998	6.72%	3,514,958	3,525,057	15,109,664	22,149,679
1999	6.72%	3,643,468	3,655,819	18,454,642	25,753,929
2000	6.72%	3,715,600	3,715,600	10,470,991	17,902,191
2001	6.72%	3,894,757	3,895,131	(1,820,109)	5,969,779
2002	6.72%	3,919,254	3,919,254	(16,687,140)	(8,848,632)
2003	6.72%	4,017,431	4,029,561	28,862,507	36,909,499
2004	6.72%	4,095,810	4,152,843	17,530,588	25,779,241
2005	6.72%	4,148,874	4,154,743	11,985,450	20,289,067
2006	6.72%	4,287,457	4,336,560	21,140,066	29,764,083

Schedule of Expenses by Type

Fiscal Year	*Benefits*	*Refunds*	*Net Administrative*	*Total Expenses*
1996	$ 6,590,519	$ 440,926	$ 345,004	$ 7,376,449
1997	7,001,401	354,289	355,400	7,711,090
1998	7,327,482	547,031	352,272	8,226,785
1999	7,779,528	502,764	375,385	8,657,677
2000	8,704,644	520,973	429,178	9,654,795
2001	9,371,697	480,050	399,918	10,251,665
2002	10,042,276	488,945	410,833	10,942,054
2003	10,599,607	461,226	485,370	11,546,203
2004	11,109,084	576,433	494,831	12,180,348
2005	12,404,497	605,600	457,798	13,467,895
2006	13,322,042	492,193	412,824	14,227,059

Schedule of Benefit Expenses by Type

Year	Service Retiree Benefits	Survivor Benefits	Disability Retiree Benefits	Refunds	Total
1996	5,845,673	637,876	106,970	440,926	7,031,445
1997	6,205,060	685,793	110,548	354,289	7,355,690
1998	6,495,974	711,738	119,770	547,031	7,874,513
1999	6,921,021	713,185	145,322	502,764	8,282,292
2000	7,811,737	744,106	148,801	520,973	9,225,617
2001	8,395,024	823,870	152,803	480,050	9,851,747
2002	9,047,124	849,399	145,753	488,945	10,531,221
2003	9,557,946	899,312	142,349	461,226	11,060,833
2004	10,058,421	900,169	150,494	576,433	11,685,517
2005	11,313,520	942,622	148,355	605,600	13,010,097
2006	12,189,473	988,579	143,990	492,193	13,814,235

SERVICE RETIREMENTS

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
1	Cheryl L Rodgers	Council	Councilmember	01/01/06	ST	8.9	57
2	Kim E Guyor	Sewer Maintenance	Waste Water District Supervisor	01/04/06	ST	29.5	56
3	Collette F Dodd	Hearing Examiner	Clerk Steno II	01/07/06	ST	21.0	65
4	Timothy M Olney	Water	Meter Reader	01/07/06	ST	21.4	54
5	James E West	# Mayor's Office	Mayor	01/09/06	C-10	2.0	54
6	Richard E Raymond	Public Works& Utilities	Principal Engineer	01/14/06	D	21.0	60
7	LaDonna J Leder	Library	Library Assistant	01/15/06	ST	30.9	65
8	Kristine K Glore	MIS	Supervisory Analyst	02/02/06	D	25.9	55
9	David L Allison	AWWTP	WWTP Maintenance Mechanic	02/02/06	E	33.5	61
10	Jerilyn J Wilbanks	Public Works & Utilities	Clerk II	02/02/06	ST	16.0	63
11	Glenn A Dupree	Sewer Maintenance	Laborer II	02/03/06	D	15.3	63
12	Richard M Cottam	Police	Public Info. Coordinator	02/04/06	E	8.3	75
13	Christine E Moore	Probation Services	Staff Assistant	02/11/06	ST	22.1	54
14	Marshall K Shapiro	Library	Library Assistant	02/12/06	E	19.0	50
15	Nancy S Jacobs	* Library	Library Assistant	02/23/06	ST	22.5	58
16	Willena M Dannen	Library	Professional Librarian II	02/25/06	ST	32.2	62
17	James O Cooley	Bldg Serv. & Code Enforc.	Cert. Combination Inspector	03/04/06	D	14.7	65
18	Christine A Deibel	MIS	Supervisory Analyst	03/04/06	ST	25.1	51
19	Sandra K McCarthy	Public Works & Utilities	Accounting Clerk	03/04/06	E	16.7	55
20	Daniel M Libby	Water	Water Service Specialist	03/07/06	E	8.7	51
21	June B Shapiro	Human Services	Director	03/11/06	ST	15.5	63
22	Sharon G Sprott	Police	Senior Police Planner	03/25/06	ST	7.7	52
23	Lynn L Rued	# City Planning	Statistician	04/01/06	ST	1.4	53
24	Linda O Hansford	Library	Professional Librarian I	04/02/06	ST	28.9	65
25	Marion C Severud	Parks & Recreation	Community Affairs Coordinator	04/04/06	ST	13.3	61
26	Barbara A Hill	Probation Services	Clerk II	04/15/06	ST	10.2	63
27	John R Bergstrom	Engineering Services	Engineering Technician III	04/29/06	ST	33.1	63
28	John M Baumhofer	Workforce Develop. Council	Director	05/02/06	ST	31.3	59
29	Jack R Dial	AWWTP	WWTP Operator II	05/02/06	ST	26.4	58
30	Edward J Mertz, Jr	Public Works & Utilities	Utilities Collector	05/02/06	E	15.7	61
31	Marilyn K Shea	MIS	Information Analyst	05/02/06	ST	31.1	59
32	Gail A Corder	Police	Police Records Specialist	05/03/06	ST	8.3	66
33	Iva M Wilhelm	Sewer Maintenance	Laborer II	05/20/06	ST	15.5	52
34	LaRayne M Conley	Police	Administrative Secretary	06/03/06	ST	26.2	52

** Retired as vested employee*
 # Retired under membership through Portability

SERVICE RETIREMENTS (CONTINUED)

	Name	Department	Position	Date Retired	Option	Yrs Serv	Age
35	David D Diemert	Solid Waste Management	Cash Accounting Clerk I	06/03/06	ST	11.2	56
36	John Kaminski Jr	Fleet Services	Cert. Heavy Equip. Mechanic	06/03/06	E	12.8	63
37	Eugene A Knox	AWWTP	WWTP Operator II	06/03/06	E	27.9	51
38	Wayne A Brown	Water	Water Service Specialist	06/08/06	D	32.4	56
39	Thomas J Koontz	* Solid Waste Management	Heavy Equipment Operator	06/10/06	ST	9.7	50
40	James G Laughtland	Engineering Services	Principal Engineer	06/10/06	D	22.9	53
41	Lawrence V Duffy	# Water	Meter Reader	06/23/06	E	3.6	62
42	Michael L Henry	* Construction Services	Engineering Technician III	06/23/06	E	7.7	50
43	Dawn M Antonelli	Public Facilities District	PFD Employee in SERS	06/27/06	ST	18.2	58
44	David W Gebhardt	Public Facilities District	PFD Employee in SERS	07/01/06	E	26.4	50
45	James E Joireman	Library	Library Clerical Assistant I	07/02/06	E	7.1	69
46	Robert J Benton	Street	Laborer II	07/06/06	ST	21.5	51
47	James M Cline	EMS (Fire)	Fire Apparatus Maint. Foreperson	07/06/06	E	30.1	55
48	Kary A Prater	Probation Services	Clerk II	07/15/06	ST	9.0	59
49	Donald F Roberson	Fleet Services	Director	07/15/06	ST	18.1	55
50	Dennis D Hein	Solid Waste Management	Director	07/22/06	E	26.5	60
51	Julie A Boyce	Parks & Recreation	Administrative Secretary	08/02/06	ST	18.6	52
52	Darrell M Porter	Street	Street Maintenance Foreperson	08/09/06	E	31.4	51
53	James J Flott	* Urban Forestry	Horticulture Supervisor	08/14/06	E	11.0	50
54	Douglas D Brock	Parks & Recreation	Gardener II	08/19/06	D	25.9	58
55	Kent L. Green	Street	Traffic Signs & Markers Supervisor	09/06/06	E	24.2	68
56	Gina J Draggoo	Finance	Administrative Secretary	10/03/06	B	9.5	51
57	Donald L Muller	Water	Laborer II	10/07/06	E	24.1	54
58	Nancy R Ledeboer	* Library	Library Deputy Director	10/27/06	A	6.5	50
59	Susan D Peirone	Library	Library Clerical Assistant I	10/28/06	ST	6.3	65
60	Cecil E Ferguson	Solid Waste Management	Laborer II	10/31/06	ST	12.7	72
61	Pamela A Merryweather	Solid Waste Management	Cash Accounting Clerk I (LO)	11/06/06	A	17.9	55
62	Jayne A Sherwood	* Library	Library Clerical Assistant II	11/09/06	ST	18.6	50
63	Dennis K Durland	AWWTP	Senior WWTP Maint. Mechanic	12/02/06	ST	9.9	50
64	Dale A Johnson	Solid Waste Management	Heavy Equipment Operator	12/03/06	D	30.8	65
65	Kathryn L Overland	Police	Police Records Specialist	12/08/06	D	14.4	52
66	Merri A Hartse	* Library	Managing Prof Librarian II	12/12/06	E	7.0	50

** Retired as vested employee*

 # Retired under membership through Portability

RETIREE DEATHS DURING 2006

	Name	Retirement Date	Date of Death	Age	Retirement Option
1	Delbert F. Kienholz	4/6/85	1/6/06	83	D
2	Lindy D. Martin	1/8/83	1/7/06	77	A
3	Erma M. Richardson	5/11/90	1/16/06	83	A
4	Roger D. McMullin	7/17/87	1/31/06	81	D
5	Gardner G. Hoffer	1/12/91	2/7/06	81	E
6	Louise C. Powrie	1/18/92	3/18/06	82	ST
7	William L. Daschbach	5/28/77	4/6/06	91	ST
8	Gordon J. Lowe	6/7/75	4/15/06	92	D
9	Arlene C. Strayer	9/1/01	4/15/06	71	ST
10	Robert R. Reese	1/7/84	4/15/06	84	A
11	Corrine M. Ames	1/13/96	4/27/06	68	ST
12	Bert G. Withee	4/2/93	6/19/06	64	B
13	Calvin G. Egger	10/3/97	6/26/06	58	E
14	James E. West	1/9/06	7/22/06	55	C-10
15	Catherine I. Brown	3/1/80	8/15/06	86	A
16	Jack R. Stafinbil	8/5/87	8/17/06	82	A
17	Nellie B. Picken	7/30/77	8/26/06	91	A
18	Maynard W. Eash	2/23/74	10/8/06	94	D
19	Darrel C. Larson	2/6/93	10/17/06	70	A
20	James K. Bledsoe	6/5/82	11/9/06	89	A
21	Kary A. Prater	7/15/06	11/19/06	59	ST
22	Phyllis I. Wink	3/3/90	11/26/06	82	ST
23	Francis N. Provost	1/9/86	11/28/06	82	D
24	Kathryn L. Lentz	1/10/87	12/4/06	82	A
25	James Y. Yamada	5/3/87	12/23/06	84	A

ACTIVE MEMBERS DEATHS

	Name	Department	Date of Death	Age	Years of Service
1	Leslie A McChesney	Public Works & Utilities	03/13/06	53	20.0
2	Dwane E Lenhard	Public Works & Utilities	07/09/06	53	21.8

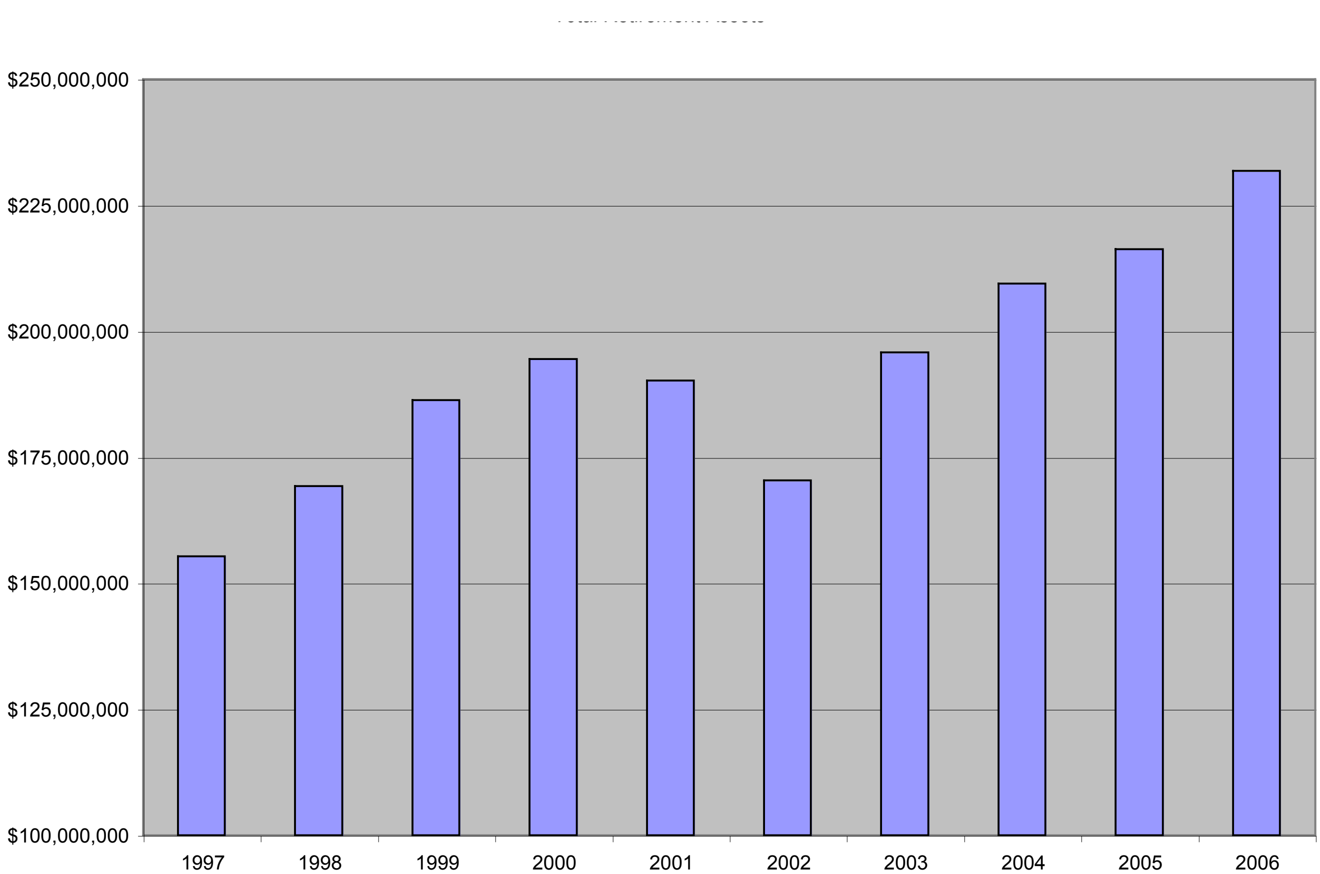
VESTED MEMBERS DEATH

	Name	Department	Date of Death	Age	Years of Service
1	Robin C Norman	Police	12/11/06	50	6.9

Investment Section

Davenport Fountain at Duncan Gardens
Manito Park

Total Retirement Assets



Schedule of Investment Results

	Market Value of Investments	***Net Investment Income***	***Investment Rate of Return***
1997	$ 155,352,008	$ 17,724,510	13.25%
1998	168,236,602	15,109,664	10.26%
1999	185,199,371	18,454,642	11.28%
2000	193,346,778	10,470,991	5.90%
2001	189,123,034	(1,820,109)	-0.70%
2002	169,398,533	(16,687,140)	-8.60%
2003	194,831,995	28,862,507	17.10%
2004	209,431,314	17,530,588	9.50%
2005	216,277,686	11,985,450	6.30%
2006	231,845,986	21,140,066	10.50%

Investments Listed by Type

As of December 31, 2006

	Investment Style	*Market Value*
Equity Investments:		
ICM Asset Management	Small Cap Value	$ 15,009,239
Rigel Capital	Small/Mid Cap Growth	6,758,126
Wentworth, Hauser, and Violich	Mid Cap Growth	7,300,036
Principal Real Estate Investors	Real Estate Investment Trusts	18,712,755
Eagle Capital Management	Large Cap Value	14,197,178
MD Sass Investor Services	Large Cap Value	13,371,285
Victory Capital Management	Large Cap Core	12,659,541
Rigel Capital	Large Cap Growth	8,621,227
Chase Investment Counsel	Large Cap Growth	8,736,997
Santa Barbara Asset Management	Large Cap Growth	8,779,700
Transition Account	Large Cap Growth	574
Fixed Income Investments:		
Allegiance Capital	Core Bonds	17,195,195
McDonnell Investment Management	Core Bonds	17,156,827
Wedge Capital Management	Core Bonds	17,097,820
In-House Managed	Core Bonds	11,590,592
Mutual Funds:		
Euro Pacific Growth	International Equities	12,730,987
Templeton Foreign	International Equities	8,106,806
Blackrock Global Allocation	Global Equities & Bonds	17,808,612
Bank of New York S&P Index	Index Fund	15,131,339
Cash and Cash Equivalents:		
Bank of America	Cash & Cash Equivalents	34,886
Local Government Investment Pool	Cash & Cash Equivalents	425,364
Bank of New York	Cash & Cash Equivalents	390,190
Total Cash and Investments		**$231,815,276**

SPOKANE EMPLOYEES'
RETIREMENT SYSTEM

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