GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

District of Columbia

TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND

Financial Statements and
Independent Auditor's Report
For the Years Ended
September 30, 2013, and 2012

BLANCHE L. BRUCE
INTERIM INSPECTOR GENERAL

OIG No. 14-1-19MA **July 11, 2014**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

July 11, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's (the District) general purpose financial statements for fiscal year (FY) 2013, CliftonLarsonAllen LLP (CLA) submitted the enclosed final report on the District of Columbia Teachers', and Police Officers and Firefighters' Retirement Fund (the Fund), OIG Report No. 14-1-19MA.

CLA opined that the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2013, and 2012, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

If you have questions or need additional information, please contact Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Blanche L. Bruce
Interim Inspector General

BLB/ws

Enclosure

cc: See Distribution List

DISTRIBUTION:

Mr. Allen Y. Lew, City Administrator, District of Columbia (via email)
Mr. M. Jeffrey Miller, Interim Deputy Mayor for Planning and Economic Development, District of Columbia (via email)
The Honorable Phil Mendelson, Chairman, Council of the District of Columbia (via email)
The Honorable Kenyan McDuffie, Chairperson, Committee on Government Operations, Council of the District of Columbia (via email)
Mr. Brian Flowers, General Counsel to the Mayor (via email)
Mr. Christopher Murphy, Chief of Staff, Office of the Mayor (via email)
Ms. Janene Jackson, Director, Office of Policy and Legislative Affairs (via email)
Mr. Pedro Ribeiro, Director, Office of Communications, (via email)
Mr. Eric Goulet, Budget Director, Mayor's Office of Budget and Finance
Ms. Nyasha Smith, Secretary to the Council (1 copy and via email)
Mr. Irvin B. Nathan, Attorney General for the District of Columbia (via email)
Mr. Jeffrey DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (1 copy and email)
Mr. Mohamad Yusuff, Interim Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (via email)
Mr. Lawrence Perry, Deputy D.C. Auditor
Mr. Phillip Lattimore, Director and Chief Risk Officer, Office of Risk Management (via email)
Mr. Steve Sebastian, Managing Director, FMA, GAO, (via email)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives, Attention: Bradley Truding (via email)
The Honorable Darrell Issa, Chairman, House Committee on Oversight and Government Reform, Attention: Howie Denis (via email)
The Honorable Elijah Cummings, Ranking Member, House Committee on Oversight and Government Reform, Attention: Mark Stephenson (via email)
The Honorable Thomas Carper, Chairman, Senate Committee on Homeland Security and Governmental Affairs, Attention: Holly Idelson (via email)
The Honorable Tom Coburn, Ranking Member, Senate Committee on Homeland Security and Governmental Affairs, Attention: Chris Barkley (via email)
The Honorable Mark Begich, Chairman, Senate Subcommittee on Emergency Management, Intergovernmental Relations and the District of Columbia, Attention: Jason Smith (via email)
The Honorable Rand Paul, Ranking Member, Senate Subcommittee on Emergency Management, Intergovernmental Relations and the District of Columbia
The Honorable Harold Rogers, Chairman, House Committee on Appropriations, Attention: Amy Cushing (via email)
The Honorable Nita Lowey, Ranking Member, House Committee on Appropriations Attention: Angela Ohm (via email)
The Honorable Ander Crenshaw, Chairman, House Subcommittee on Financial Services and General Government, Attention: Amy Cushing (via email)
The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial Services and General Government, Attention: Angela Ohm (via email)

The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations
Attention: Kali Matalon (via email)
The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
Attention: Dana Wade (via email)
The Honorable Tom Udall, Chairman, Senate Subcommittee on Financial Services and General
Government, Attention: Marianne Upton (via email)
The Honorable Mike Johanns, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)
Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)

District of Columbia Teachers' and Police Officers and Firefighters' Retirement Fund

Financial Statements and Schedules
(with Independent Auditor's Report Thereon)
Years Ended September 30, 2013 and 2012

TABLE OF CONTENTS

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

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

Report on Financial Statements
We have audited the accompanying combining statements of net position of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund, Pension Trust Funds of the Government of the District of Columbia (the District), as of September 30, 2013 and 2012, and the related combining statements of changes in net position for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States**.** Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund as of September 30, 2013 and 2012, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, these financial statements only present the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund and do not purport to, and do not, present the financial position of the Government of the District of Columbia as of September 30, 2013 and 2012, and the

changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting Principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management and the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund financial statements. The supplementary information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014 on our consideration of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
January 6, 2014

This discussion and analysis provides an overview of the financial activities of the District of Columbia Teachers' Retirement Fund ("TRF") and Police Officers and Firefighters' Retirement Fund ("POFRF"), for the fiscal years ended September 30, 2013 and 2012, which collectively will be referred to as the "District Retirement Funds" or the "Fund." This discussion and analysis should be read in conjunction with the financial statements, the notes to the financial statements, the required supplementary information and the supplementary information provided in this report.

The District of Columbia Retirement Board (the "Board" or "DCRB") is an independent agency of the District of Columbia government. The Board is responsible for managing the assets of the District Retirement Funds. As authorized by DC Code, the Board pools the assets of the TRF and the POFRF into a single investment portfolio. The Board allocates the investment returns and expenses, and the administrative expenses of the Board, between the two District Retirement Funds in proportion to their respective net position. The Board maintains financial records of contributions, purchases of service, benefit payments, refunds, investment earnings, investment expenses and administrative expenses.

Effective October 1, 2005, the Board entered into a Memorandum of Understanding ("MOU") with the District of Columbia and the United States Department of the Treasury (the "U.S. Treasury") to administer the pension benefits under the TRF and the POFRF for all retirees, survivors and beneficiaries that are the financial responsibility of the District of Columbia (service earned on and after July 1, 1997) and the Federal Government (service through June 30, 1997). In addition to the Board's administrative duties, the U.S. Treasury also provides certain administrative services related to the administration of pension benefits under the District of Columbia Police Officers and Firefighters' Plan and the District of Columbia Teachers' Retirement Plan (the "Plans"). The administrative costs incurred while administering the pension benefits are shared by DCRB and the U.S. Treasury in accordance with an MOU that is agreed to annually between the two parties.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

The following discussion and analysis are intended to serve as an introduction to DCRB's financial statements. The basic financial statements include:

The Combining Statements of Net Position is a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Position (Assets – Liabilities = Net Position) represents the value of assets held in trust for pension benefits net of liabilities owed as of the financial statement date.

The Combining Statements of Changes in Net Position displays the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Position. This increase (or decrease) in Net Position reflects the change in the value of Net Position Held in Trust for Pension Benefits.

The Notes to Financial Statements contain disclosures and discussions which support the data presented in the financial statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments. The notes are an integral part of the financial statements and should be considered in conjunction with any review of the financial statements.

The Required Supplementary Information includes the schedule of funding progress and the schedule of employer contributions for the last 6 fiscal years. The schedule of funding progress includes actuarial information about the status of the defined benefit pension Plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these Plans when due. The Actuarial Value of Assets in excess of the Actuarial Accrued Liabilities indicates that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of the Actuarial Value of Assets reflect an Unfunded Actuarial Accrued Liability (the "UAAL"). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. The schedule of employer contributions presents historical trend information regarding the value of total annual contributions required to be paid by employers for the employees participating in these Plans, and the actual performance of employers in meeting this requirement. The information contained in this schedule reflects the required contributions that are based on the actuary's certification which is approved by the Board.

The Supplementary Information includes additional information on the District Retirement Funds including a schedule of administrative expenses, investment expenses and payments to consultants.

FINANCIAL HIGHLIGHTS

The TRF financial highlights for fiscal year 2013 are:

- Net Position held in trust for pension benefits as of September 30, 2013 was $1.6 billion, an annual increase of $0.1 billion or 7.9%.
- The investment income net of investment expenses for fiscal year 2013 was $168.1 million, a gain of 11.2%.
- The Fund's share of administrative expenditures for fiscal year 2013 was $3.6 million, equivalent to 22 basis points of assets under management.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2012, the date of the latest actuarial valuation, the TRF's funded ratio based on the actuarial value of assets was 94.4%. In general, this means that for each dollar's worth of future pension liability, the TRF has accumulated $0.94 to meet that obligation. The Plan's funded ratio decreased 7.5% over the prior year due primarily to investments losses in 2008 and 2009 which are smoothed into the calculation of the unfunded accrued liability for 2012. As of October 1, 2011, the actuarial valuation indicated a funded ratio of 101.9% for the TRF.

- Revenues (additions to Plan net position) for fiscal year 2013 were $203.4 million, which consists of member contributions of $28.1 million, employer contributions of $6.4 million, net income from investment activities of $168.1 million, and other income totaling $0.8 million. Additions to the Plan net position for fiscal year 2012 totaled $219.3 million, comprised of $28.6 million in employee contributions, $190.0 million in net income from investment activities, and $0.7 million in other income. The District of Columbia government did not make an employer contribution to the TRF for fiscal year 2012 because of its well-funded status.
- Expenses (deductions from Plan net position) increased $28.0 million from $56.5 million during fiscal year 2012 to $84.6 million in fiscal year 2013, or 49.6%. This increase relates primarily to retirement benefits payable to the U.S. Treasury which totaled $21.5 million for fiscal year 2013. See *Note 7: Retirement Benefits Payable to the U.S. Treasury* for an expanded discussion on this payable. Additionally, pension benefit payments increased $6.0 million or 12.5% from 2012 to 2013. Refunds of member contributions decreased $(0.3) million from $5.5 million in fiscal year 2012 to $5.2 million in fiscal year 2013 and administrative expenses in fiscal year 2013 increased $0.7 million compared to the prior year.

The POFRF financial highlights for fiscal year 2013 are:

- Net position held in trust for pension benefits as of September 30, 2013 was $4.2 billion, an annual increase of $0.5 billion or 13.2%.
- The investment income net of investment expenses for fiscal year 2013 was $423.6 million, a gain of 11.5%.
- The Fund's share of administrative expenditures for fiscal year 2013 was $8.9 million, equivalent to 21 basis points of assets under management.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2012, the date of the latest actuarial valuation, the POFRF's funded ratio was 110.1%. In general, this means that for each dollar's worth of future pension liability, the POFRF has accumulated approximately $1.10 to meet that obligation. This actuarial report indicated that if future activity proceeded according to assumptions, the POFRF has accumulated sufficient assets to pay all pension liabilities for active members and retirees. The Plan's funded ratio increased 1.5% over the prior year. As of October 1, 2011, the actuarial valuation indicated a funded ratio of 108.6%.
- Revenues (additions to Plan net position) for fiscal year 2013 were $552.5 million, which consists of member contributions of $30.6 million, employer contributions of $96.3 million, net income from investment activities of $423.6 million, and $2.0 million in other income. Additions to the Plan net position for fiscal year 2012 totaled $601.6 million, comprised of $30.4 million in employee contributions, $116.7 million of employer contributions, $452.9 million in a net income from investment activities, and $1.6 million in other income.
- Expenses (deductions from Plan net position) increased $18.7 million from $47.2 million during fiscal year 2012 to $65.9 million in fiscal year 2013, or 39.7%. This increase consisted primarily of retirement benefits payable to the U.S. Treasury which totaled $9.4

million for fiscal year 2013. See *Note 7: Retirement Benefits Payable to the U.S. Treasury* for an expanded discussion on this payable. Additionally, pension benefit payments increased $6.7 million from $38.9 million in fiscal year 2012 to $45.7 million in fiscal year 2013. Refunds of member contributions increased $0.5 million from $1.5 million in fiscal year 2012 to $2.0 million in fiscal year 2013 and administrative expenses increased $2.2 million compared to the prior year.

SUMMARY OF FINANCIAL INFORMATION

The following Condensed Statement of Net Position and Changes in Net Position presents financial information, with dollar amounts in the thousands, for the combined TRF and POFRF and compares fiscal years 2013, 2012, and 2011.

Condensed and Combined Statements of Net Position

	2013	2012	2011	Amount Increase (Decrease) from 2012 to 2013	Percent Increase/ (Decrease) from 2012 to 2013
Assets					
Cash and short-term investments	$ 96,058	$ 74,516	$ 149,759	$ 21,542	28.9%
Receivables	99,673	149,288	153,613	(49,615)	-33.2%
Investments at fair value	5,775,078	5,165,012	4,491,663	610,066	11.8%
Collateral from securities lending	83,478	96,652	416,288	(13,174)	-13.6%
Capital assets	-	3	9	(3)	-100.0%
Total assets	6,054,287	5,485,471	5,211,332	568,816	10.4%
Liabilities					
Other payables	2,608	4,658	6,165	(2,050)	-44.0%
Retirement benefits payable to U.S. Treasury	30,894	-	-	30,894	100.0%
Investment commitments payable	145,811	197,676	317,892	(51,865)	-26.2%
Obligations under securities lending	84,142	97,797	419,096	(13,655)	-14.0%
Total liabilities	263,455	300,131	743,153	(36,676)	-12.2%
Net position	$ 5,790,832	$ 5,185,340	$ 4,468,179	$ 605,492	11.7%

Condensed and Combined Statements of Changes in Net Position

	2013	2012	2011	Amount Increase (Decrease) from 2012 to 2013	Percent Increase/ (Decrease) from 2012 to 2011
Employer contributions	$ 102,721	$ 116,700	$ 127,200	$ (13,979)	-12.0%
Employee contributions	58,710	59,037	58,213	(327)	-0.6%
Net investment income	591,698	642,883	126,337	(51,185)	-8.0%
Other Income	2,843	2,256	2,051	587	26.0%
Total additions	755,972	820,876	313,801	(64,904)	-7.9%
Benefit payments	99,836	87,069	73,298	12,767	14.7%
Retirement benefits payable to U.S. Treasury (See Note 7)	30,894	-	-	30,894	100.0%
Refunds	7,210	7,048	5,973	162	2.3%
Administrative expenses	12,540	9,598	9,563	2,942	30.7%
Total deductions	150,480	103,715	88,834	46,765	45.1%
Net change in net position	$ 605,492	$ 717,161	$ 224,967	$ (111,669)	-15.6%

ANALYSIS OF FINANCIAL INFORMATION

DCRB's funding objective is to meet long-term benefit obligations with net investment income and contributions. Accordingly, the collection of employer and member contributions and the income generated from investment activities provide the reserves needed to finance future retirement benefits. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions for the combined TRF and POFRF.

Additions to Net Position (Revenues)

As noted, the reserves needed to finance retirement benefits are accumulated primarily through the collection of member and employer contributions, and through investment income (net of investment expenses). Revenues for the year ended September 30, 2013, totaled $756.0 million, which included $591.7 million of net income on investments and $161.4 million of contributions. For fiscal year 2012, revenues totaled $820.9 million, which included $642.9 million of net investment income and $175.7 million of contributions. Total revenues for fiscal year 2013 decreased by $(64.9) million compared to the prior year, mainly due to the lower investment returns in fiscal year 2013.

Employee contributions decreased slightly from $59.0 million in fiscal year 2012 to $58.7 million in fiscal year 2013. Employee contributions include amounts paid by members for future retirement benefits.

Employer contributions decreased $14.0 million from $116.7 million in fiscal year 2012 to $102.7 million in fiscal year 2013. The fiscal year 2013 employer contribution is derived from the contribution rate calculated in the actuary's report for the period ended October 1, 2011 multiplied by covered payroll and adjusted for differences caused by the contribution being calculated 2 years in arrears. This adjustment is required by the DC Code.

Other income totaled $2.8 million in fiscal year 2013, reflecting a $0.6 million increase from the $2.3 million received in fiscal year 2012. Other income consists mainly of reimbursements of administrative expenses from the U.S. Treasury.

Deductions from Net Position (Expenses)

The statutory mandate of DCRB is to provide retirement, survivor and disability benefits to qualified members and their survivors. The costs of such programs include recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the District Retirement Funds.

Expenses for the year ended September 30, 2013 totaled $150.5 million, an increase of 45.1% over fiscal year 2012. In fiscal year 2012, expenses increased by 16.8% when compared to fiscal year 2011, from $88.8 million in 2011 to $103.7 million in fiscal year 2012. Pension benefits paid on behalf of current retirees, survivors and beneficiaries comprise approximately 66% to 83% of the expenses reported in each of these years and accounted for a significant portion of the increases.

Benefit payments for fiscal year 2013 increased by $12.8 million over the fiscal year 2012 level, or 14.7%. This increase reflects the combination of a net growth of 5.0% in the number of retirees and survivors receiving benefits, coupled with COLA adjustments and an overall increase in the final average salary for new retirees and the changing demographics of the retiree population. Pension benefits for fiscal year 2012 reflect similar increases, rising $13.8 million, or 18.8%, over fiscal year 2011 levels.

Retirement benefits payable to the U.S. Treasury totaled $30.9 million for fiscal year 2013. See *Note 7: Retirement Benefits Payable to U.S. Treasury* for an expanded discussion on this payable.

Refunds of member accounts are at the discretion of the member, and vary from year to year. In fiscal year 2013, members elected refunds totaling $7.2 million, which represents an increase of $0.2 million or 2.3% from fiscal year 2012. Refunds issued in fiscal year 2012 totaled $7.0 million representing a $1.0 million increase over the 2011 level of $6.0 million.

Administrative expenses for fiscal year 2013 and 2012 totaled $12.5 million and $9.6 million, respectively. The $2.9 million increase in 2013 is primarily attributable to costs associated with information technology modernization and data reclamation.

Funding Status

As previously noted, the District Retirement Funds' net investment income for the year ended September 30, 2013 represented a gain of $591.7 million, or 11.4%. DCRB is a well-funded yet immature system as a result of the 1999 asset split with the U.S. Treasury in which the U.S. Treasury assumed responsibility for all benefit obligations prior to July 1, 1997. As with all immature systems, a higher percentage of benefits are funded by current contributions. As the system matures, investment income will provide a greater percentage of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to DCRB's long-term funding status.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling seven year period. This smoothing of gains and losses mitigates the need to constantly increase or lower contributions because volatile market conditions can be recognized (smoothed in) over several years.

The reality of actuarial smoothing techniques is that the fair value (market value) of assets may be significantly different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline, the fair value of assets will usually be less than the funding, or actuarial value of assets. This is the case with DCRB during the current market downturn which began in 2008. Conversely, during periods of extended market gains, where the actual rate of return exceeds the assumed rate of return, the fair value of assets will usually be greater than the funding, or actuarial value of assets.

At October 1, 2012, the date of the latest actuarial valuation, the actuarial value of assets set aside to pay defined benefit pension benefits was $1.59 billion for the TRF and $3.80 billion for the POFRF for a total of $5.39 billion. The fair value of these defined benefit assets at September 30, 2012 included on the financial statements of DCRB was $1.50 billion for the TRF and $3.68 billion for the POFRF for a total of $5.19 billion. Therefore, when viewing the actuarial funding status, the market value of assets would provide a less favorable funding position to the actuarial value of assets as of the October 1, 2012 valuation. Again, it is important to note that during years when the actual rate of return on investments significantly exceeds the assumed rate of return on investment, the actuarial value of assets can be less than the market value of pension assets, making the funding status seem less favorable than the actual market values would have indicated.

FINANCIAL ANALYSIS SUMMARY

Net position may serve over time as a useful indication of DCRB's financial position. At the close of fiscal years 2013 and 2012, the net position of DCRB totaled $5.8 billion and $5.2 billion, respectively. The net position is available to meet DCRB's ongoing obligations to Plan participants and their survivors and beneficiaries. DCRB has weathered the financial market fluctuations over the past five years and remains a well-funded Plan with a funding status as of October 1, 2012, the date of the most recent actuarial valuation, of 104.9% for the District Retirement Funds.

ADDITIONAL INFORMATION

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

FINANCIAL STATEMENTS

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND
COMBINING STATEMENTS OF NET POSITION
As of September 30, 2013 and 2012
(Dollar amounts in thousands)

	2013			2012		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
ASSETS						
Cash and short-term investments	$ 26,826	$ 69,232	$ 96,058	$ 19,628	$ 54,888	$ 74,516
Receivables:						
Federal Government	339	831	1,170	482	1,124	1,606
Investment sales proceeds	25,271	64,249	89,520	39,966	97,746	137,712
Interest & dividends	1,525	3,878	5,403	1,926	4,712	6,638
Employee contributions	1,718	1,862	3,580	1,601	1,731	3,332
Total receivables	28,853	70,820	99,673	43,975	105,313	149,288
Investments at fair value:						
Domestic equity	387,487	985,128	1,372,615	364,603	891,714	1,256,317
International equity	500,701	1,272,960	1,773,661	456,448	1,116,340	1,572,788
Fixed income	456,696	1,161,082	1,617,778	406,189	993,514	1,399,703
Real estate	100,533	255,591	356,124	73,605	180,016	253,621
Private equity	184,877	470,023	654,900	198,123	484,460	682,583
Total investments at fair value	1,630,294	4,144,784	5,775,078	1,498,968	3,666,044	5,165,012
Collateral from securities lending transactions at fair value	23,566	59,912	83,478	28,050	68,602	96,652
Capital assets, net	-	-	-	1	2	3
Total assets	1,709,539	4,344,748	6,054,287	1,590,622	3,894,849	5,485,471
LIABILITIES						
Accounts payable and other liabilities	556	1,397	1,953	616	1,479	2,095
Retirement benefits payable to U.S. Treasury	21,503	9,391	30,894	-	-	-
Due to Federal Government	78	190	268	153	356	509
Due to District of Columbia Government	112	275	387	616	1,438	2,054
Investment commitments payable	41,162	104,649	145,811	57,369	140,307	197,676
Obligations under securities lending	23,753	60,389	84,142	28,382	69,415	97,797
Total liabilities	87,164	176,291	263,455	87,136	212,995	300,131
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 1,622,375	$ 4,168,457	$ 5,790,832	$1,503,486	$ 3,681,854	$5,185,340

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

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND
COMBINING STATEMENTS OF CHANGES IN NET POSITION
For the years ending September 30, 2013 and 2012
(Dollar amounts in thousands)

	2013			2012		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
ADDITIONS						
Contributions:						
District Government	$ 6,407	$ 96,314	$ 102,721	$ -	$ 116,700	$ 116,700
District employees	28,129	30,581	58,710	28,639	30,398	59,037
Total contributions	34,536	126,895	161,431	28,639	147,098	175,737
Investment income:						
Net appreciation in fair value of investments	155,749	392,333	548,082	170,932	406,677	577,609
Interest and dividends	14,411	36,238	50,649	21,316	51,422	72,738
Total gross investment income	170,160	428,571	598,731	192,248	458,099	650,347
Less:						
Investment expenses	2,186	5,352	7,538	2,707	6,315	9,022
Net investment income	167,974	423,219	591,193	189,541	451,784	641,325
Securities lending income	199	502	702	630	1,498	2,128
Less: securities lending expense	56	140	196	169	401	570
Net securities lending income	143	362	505	461	1,097	1,558
Total net investment income	168,117	423,581	591,698	190,002	452,881	642,883
Other income	796	2,047	2,843	672	1,584	2,256
Total additions	203,449	552,523	755,972	219,313	601,563	820,876
DEDUCTIONS						
Benefit payments	54,180	45,656	99,836	48,145	38,924	87,069
Retirement benefits payable to U.S. Treasury	21,503	9,391	30,894	-	-	-
Refunds	5,250	1,960	7,210	5,514	1,534	7,048
Administrative expenses	3,627	8,913	12,540	2,880	6,718	9,598
Total deductions	84,560	65,920	150,480	56,539	47,176	103,715
Change in Net Position	118,889	486,603	605,492	162,774	554,387	717,161
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	1,503,486	3,681,854	5,185,340	1,340,712	3,127,467	4,468,179
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 1,622,375	$ 4,168,457	$ 5,790,832	$ 1,503,486	$ 3,681,854	$ 5,185,340

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

NOTE 1: ORGANIZATION

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

The National Capital Revitalization and Self-Government Improvement Act of 1997 ("the Revitalization Act", Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the District Retirement Funds to the Federal Government. The Revitalization Act transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government were intended to partially fund this liability.

On September 18, 1998, the Council of the District of Columbia (the "Council") enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 ("the Replacement Act"). The Replacement Act established the pension Plans for employee service earned after June 30, 1997, and provided for full funding of these benefits on an actuarially sound basis.

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

The District Retirement Funds are included in the District's Comprehensive Annual Financial Report as a pension trust fund.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION

District of Columbia Retirement Board **–** The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected by the active and retired participants. Included are one active and one retired representative each from the police officers, firefighters, and teachers. Each of the six representatives of Plan participants is elected by the respective groups of active and retired employees. In addition, the District's Chief Financial Officer or his designee serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, reviews all issues brought before it. The Board has six standing committees: Benefits, Strategic Planning, Fiduciary, Investments, Legislative, and Operations. (The functions usually associated with an Audit Committee are performed by the Operations Committee.) To implement its policies, the Board retains an executive director and other staff who are responsible for the day-to-day management of the District Retirement Funds and the administration of the benefits paid from the Funds.

Police Officers and Fire Fighters' Retirement Fund

Other Entities involved in Plan Administration **–** The District of Columbia Police Officers and Firefighters' Retirement and Relief Board makes findings of fact, conclusions of law, and decisions regarding eligibility for retirement and survivor benefits, determines the extent of disability, and conducts annual medical reviews. The Police and Fire Clinic determines medical eligibility for disability retirement.

Benefits Calculation – DCRB's Benefits Department receives the retirement orders for retirement benefit calculations for all active Plan members found eligible for retirement by the District of Columbia Police Officers and Firefighters' Retirement and Relief Board, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service. Effective 2013, DCRB began conducting annual disability income reviews.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

Eligibility **–** A participant becomes a member when he/she begins work as a police officer or firefighter in the District. Cadets are not eligible to join the Fund.

Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act" (D.C. Code § 5-701 et seq. (2001 Ed.)).

Members Hired Before February 15, 1980 **–** Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service, or for deferred retirement at age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 12 months of base pay, multiplied by departmental service through 20 years; plus 3% of average base pay multiplied by average base pay times departmental service over 20 years; plus 2.5% of average base pay multiplied by years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retirement benefits are increased by the same percentage in base pay granted to active participants.

Members with a service-related disability receive a disability retirement benefit of 2.5% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 66 2/3% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 2% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 40% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

***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, or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by the number of years of creditable service through 25 years; plus 3% of average base pay multiplied by the number of years of departmental service over 25 years; plus 2.5% of average base pay multiplied by the number of years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members separated from the Police or Fire Department after five years of departmental service are entitled to a deferred pension beginning at age 55.

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

***Members Hired on or After November 10, 1996* –** Members are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the average base pay. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index, however, the increase is capped at 3%.

Members with a service-related disability receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 40% of base pay applies.

Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 30% of base pay applies.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

Prior to reaching age 50, a disability retirement benefit will be reduced or terminated if outside earnings exceed a certain limit.

<u>Teachers' Retirement Fund</u>

***Other Entities involved in Plan Administration* –** The District of Columbia Public School's (the "DCPS") Office of Human Resources makes decisions regarding voluntary and involuntary retirement, survivor benefits, and annual medical and income reviews.

***Benefits Calculation* –** DCRB's Benefits Department receives the approved retirement applications for all active Plan members found eligible for retirement by the DCPS Office of Human Resources, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service.

***Eligibility* –** Permanent, temporary, part-time and probationary teachers and certain other employees of the District of Columbia public day schools are automatically enrolled in the Teachers' Retirement Fund on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. However, substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2021.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the District City Council. For employees hired before November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 1.5% for each of the first five years of service, plus 1.75% for each of the second five years; plus 2% for each additional year over 10 years. For employees hired on or after November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 2% for each year of service. The average salary is the highest average consecutive 36 months of pay.

The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receiving retirement benefits receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the annual increase may not exceed 3% for participants hired on or after November 1, 1996. Participants may select from among several survivor options.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

Participants who have 5 years of school service (by working for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Such disability retirement benefits are calculated in the same manner as a retirement benefit, however, a minimum disability benefit applies.

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

- at age 62 with 5 years of service;
- at age 60 with 20 years of service; and
- at age 55 with 30 years of service; if hired before November 1, 1996; or
- at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

Employees who are involuntarily separated other than for cause and who have 5 years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

An involuntary retirement benefit is reduced if at the time of its commencement the participant is under the age of 55.

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

Participant Data

The number of participating employees for the years ended September 30 was as follows:

TRF	**2013**	**2012**
Retirees and survivors receiving benefits (post June 30, 1997)	3,448	3,285
Active plan members	4,379	4,495
Vested terminations	912	920
Total participants	8,739	8,700

POFRF	**2013**	**2012**
Retirees and survivors receiving benefits (post June 30, 1997)	2,183	2,039
Active plan members	5,510	5,510
Vested terminations	226	185
Total participants	7,919	7,734

NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)

Contributions

Fund members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7% (or 8% for Teachers and Police Officers and Firefighters hired on or after November 1, 1996 and November 10, 1996, respectively) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the amounts necessary to finance the Plan benefits of its members through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The amount of the District contributions for fiscal years 2013 and 2012 were equal to the amounts computed, if any, by the Board's independent actuary.

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting **–** The financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized by the District Retirement Funds at the time compensation is paid to fund members. Employer contributions to the District Retirement Funds are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement Plan's commitment.

GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, requires that the two District Retirement Funds, be shown separately in the Combining Financial Statements as they are legally separate plans. To meet this requirement, Plan assets and liabilities, where possible, were specifically identified to a fund. Assets and liabilities that were not specifically identifiable to a fund were allocated based on the net position of each individual fund.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement 50, *Pension Disclosures*, established the standards for enhancing footnote disclosures for pension plans consistent with standards under GASB Statements 43 and 45.

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, provides authoritative guidance related to the accounting and financial reporting of intangible assets, including internally developed software. GASB Statement 51 was effective for periods beginning after June 15, 2009. As of September 30, 2013 the District Retirement Funds do not have any intangible assets that are required to be reported in accordance with GASB Statement 51.

GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments,* established the standards for recognizing, measuring, and disclosing information regarding derivative instruments and transactions. GASB Statement 53 was implemented for the year ended September 30, 2010.

GASB Statement 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 was implemented for the year ended September 30, 2011.

GASB Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Management has evaluated GASB Statement No. 64 and determined the amendments made to GASB 53 through this statement do not have an impact on the District Retirement Funds' financial statements.

Implementation of New Accounting Pronouncements - GASB Statement 63 introduces and defines elements of deferred inflows and outflows as an acquisition or consumption of net assets that is applicable to a future reporting period and the term net position is defined as the difference between assets and deferred outflows less liabilities and deferred inflows. The Plan implemented the standard in 2013. However, because the Plan does not currently have deferred inflow or outflow transactions the implementation is reflected as a change of the term "Net Assets" to "Net Position" in the Financial Statements.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax Status **–** The District Retirement Funds are qualified plans under section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under section 501(a).

Method Used to Value Investments **–** Investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real assets, hedge funds, and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The fair value of investments in real assets, hedge funds or private equity, in the absence of a readily ascertainable market value, are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners.

Actuarial Data – The District Retirement Funds used the Aggregate Actuarial Cost method to determine the annual employer contribution for all Plan years through fiscal year 2012 (including the employer contribution amount for fiscal year 2013). The "Actuarial Method Amendment Act of 2012" changed the funding method from the Aggregate Actuarial Cost Method to the Entry Age Normal Cost Method as of October 1, 2012. As a result, the calculation used to determine employer contributions for fiscal years 2014 and beyond are based on the Entry Age Normal Cost Method, not the Aggregate Actuarial Cost Method. Any excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the sum of the actuarial value of assets plus the actuarial present value of employee contributions is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit date.

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investment Expenses – The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the District Retirement Funds was $7,538,045 in 2013 and $9,022,880 in 2012. A significant number of the alternative investment managers provide account valuations net of management expenses. Those expenses are netted against investment income and because they are not readily separable, amounts are recorded and reported net of management expenses in the net appreciation (depreciation) in the fair value of investments.

NOTE 4: INVESTMENTS

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

Master Trust – The Board has pooled all of the assets under its management (the "Investment Pool"), as is authorized by D.C. Code § 1-903(b), (2001 Ed.), with a master custodian under a master trust arrangement (the "Master Trust"). Using an investment pool, each Fund owns an undivided proportionate share of the pool.

District and employee contributions are deposited in the respective Retirement Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate equity in the pool.

The fair values of investments of the Investment Pool as of September 30 are as follows:

(Dollars in thousands)	2013	2012
Cash and short-term investments	$ 96,058	$ 74,516
Investments at fair value:		
Domestic equity	1,372,615	1,256,317
International equity	1,773,661	1,572,788
Fixed income	1,617,778	1,399,703
Real estate	356,124	253,621
Private equity	654,900	682,583
Total investments at fair value	5,775,078	5,165,012
Total	$ 5,871,136	$ 5,239,528

NOTE 4: INVESTMENTS (CONTINUED)

Debt Instruments **–** As of September 30, 2013, the Investment Pool held the following debt instruments:

(Dollars in thousands)

Investment Type	Fair Value	% of Segment	Duration	Rating*
US Agency	$ 26,395	1.63%	4.30	AA
Asset Backed	4,794	0.30%	1.86	AA
Bank Loans	81,451	5.03%	5.92	NR
CMBS	812	0.05%	0.67	AAA
CMO	9,907	0.61%	7.51	AAA
Corporate (Investment grade and non-investment grade)	327,275	20.23%	4.92	BBB-
Euro	679	0.04%	0.66	BB+
Foreign (Developed markets and emerging markets)	296,174	18.31%	5.23	A
Mortgage Pass-Through	222,258	13.74%	4.57	AA+
Municipal	15,066	0.93%	9.92	AA
Unclassified	20,493	1.27%	6.77	NR
US Treasury	587,426	36.31%	6.44	AA+
Yankee	15,491	0.96%	4.87	AA
Other	9,557	0.59%	N/A	NR
Total Fixed Income	$1,617,778	100.00%		

* Using quality ratings provided by Standard & Poor's

NOTE 4: INVESTMENTS (CONTINUED)

As of September 30, 2012, the Investment Pool held the following debt instruments:

(Dollars in thousands)

Investment Type	Fair Value	% of Segment	Duration	Rating*
US Agency	$ 10,294	0.74%	5.72	AA+
Asset Backed	16,307	1.17%	1.42	AA-
CMBS	7,023	0.50%	2.32	A+
CMO	16,227	1.16%	3.48	AA+
Corporate	187,318	13.38%	3.55	BB
Foreign	12,454	0.89%	5.78	CCC
Mortgage Pass-Through	65,738	4.70%	1.75	AA+
Municipal	9,421	0.67%	10.22	AA+
US Treasury	113,794	8.13%	8.38	AA+
Yankee	37,958	2.70%	4.71	A
High Yield and Emerging Debt	62,950	4.50%	N/A	NR
Infrastructure Funds	101,300	7.24%	N/A	NR
US Tips Index Fund	165,149	11.80%	N/A	NR
US Debt Index Fund	587,320	41.96%	N/A	NR
Other	6,450	0.46%	N/A	NR
Total Fixed Income	$ 1,399,703	100.00%		

* Using quality ratings provided by Standard & Poor's

NOTE 4: INVESTMENTS (CONTINUED)

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. The Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. As a general rule, the risk and return of the Board's fixed income segment of the portfolio is compared to the Barclays Capital US Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Unless specifically authorized otherwise in writing by the Board, fixed income managers invest in investment grade instruments rated in the top four rating categories by a recognized statistical rating service.

NOTE 4: INVESTMENTS (CONTINUED)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As a general policy, investment managers with authority to invest in issuers denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise.

As of September 30, 2013, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

(Dollars in thousands)	**Asset Class**					
	Cash	**Equities**	**Fixed Income**	**Private Equity**	**Swaps**	**Total**
Australian Dollar	$ 1	$ 1,134	$ -	$ -	$ 87	$ 1,222
Brazilian Real	-	-	-	-	(493)	(493)
Canadian Dollar	207	-	2,159	-	21	2,387
Euro	7,287	54,663	11,153	26,836	(95)	99,844
Hong Kong Dollar	-	6,848	-	-	-	6,848
Japanese Yen	101	31,300	-	-	(68)	31,333
New Zealand Dollar	-	-	-	-	-	-
Pound Sterling	-	4,722	1,516	-	-	6,238
Singapore Dollar	-	-	-	-	-	-
South Korean Won	-	1,265	-	-	-	1,265
Swedish Krona	-	6,763	-	-	-	6,763
Swiss Franc	-	10,057	-	-	-	10,057
Total Foreign	$7,596	$116,752	$14,828	$26,836	$(548)	$165,464

NOTE 4: INVESTMENTS (CONTINUED)

As of September 30, 2012, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

(Dollars in thousands)	Asset Class					
	Cash	**Equities**	**Fixed Income**	**Private Equity**	**Swaps**	**Total**
Australian Dollar	$ 334	$ -	$ -	$ -	$ 125	$ 459
Canadian Dollar	(36)	8	4,105	-	66	4,143
Swiss Franc	-	7,851	-	-	-	7,851
Danish Krone	-	-	-	-	-	-
Euro	216	45,323	14,723	23,882	223	84,367
Pound Sterling	1	4,865	5,491	-	-	10,357
Hong Kong Dollar	-	6,763	-	-	-	6,763
Israeli Shekel	-	-	-	-	-	-
Japanese Yen	-	21,188	-	-	-	21,188
South Korean Won	-	2,595	-	-	-	2,595
Norwegian Krone	-	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-	-
Swedish Krona	-	5,015	-	-	-	5,015
Singapore Dollar	1,319	-	-	-	-	1,319
Mexican Peso	-	-	-	-	-	-
Brazilian Real	-	-	-	-	-	-
Total Foreign	$1,834	$93,608	$24,319	$23,882	$ 414	$144,057

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

NOTE 4: INVESTMENTS (CONTINUED)

During 2013 and 2012, the master custodian, at the direction of the Board, loaned certain of the District Retirement Funds' public equity and fixed income securities for which it received collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned security in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

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

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

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2013 or 2012.

During 2013 and 2012, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2013 and 2012.

NOTE 4: INVESTMENTS (CONTINUED)

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in the Quality D Fund which is comprised of a liquidity pool and a duration pool. As of September 30, 2013 the liquidity pool had an average duration of 40.98 days and an average weighted final maturity of 99.74 days for USD collateral. As of this date the duration pool had an average duration of 41.43 days and an average weighted final maturity of 1,996.16 days for USD collateral. Because the securities lending transactions were terminable at will their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. Investments in the liquidity pool are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. In addition, investments have a remaining final maturity of no more than 18 months. The liquidity pool will have a dollar-weighted average maturity of no more than 75 calendar days and a dollar-weighted average maturity to final not to exceed 180 calendar days. The Quality D Fund may invest up to 10% of its assets at the time of purchase in other investment vehicles managed by the investment management division of the master custodian provided they conform to fund guidelines. On September 30, 2013 and 2012, the Board had no credit risk exposure to borrowers.

As of September 30, 2013 the fair value of securities on loan was $83,900,215. Associated collateral totaling $84,142,627 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2013 the invested cash collateral had a fair value of $83,477,900.

As of September 30, 2012 the fair value of securities on loan was $95,057,592. Associated collateral totaling $97,796,676 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2012 the invested cash collateral had a fair value of $96,652,455.

During the fiscal year ended September 30, 2013 and 2012, market value of the shares in the Quality D Fund purchased with cash collateral by the lending agent was less than the cost, resulting in unrealized losses of $664,727 and $1,144,221, respectively.

NOTE 4: INVESTMENTS (CONTINUED)

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for fiscal year 2013 and 2012 was recorded on a cash basis which approximated the accrual basis. The Fund's share of securities lending income and expense are on page 14.

***Derivative Investments* –** Derivatives are generally defined as contracts in which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty). Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2013 and 2012, the District Retirement Funds, in accordance with the policy of the Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. See page 37 and 38 for a list of the derivatives aggregated by type and see below for a description of these derivatives.

TBAs (sometimes referred to as "dollar rolls") are used by the District Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The selected TBAs are used because they are expected to behave the same in duration and convexity as mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers.

Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

NOTE 4: INVESTMENTS (CONTINUED)

Foreign currency forwards, futures contracts and foreign currency options are generally used by the District Retirement Funds for defensive purposes. These contracts hedge a portion of the District Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the District Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk for currency options is also managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

Equity index futures were also used by the District Retirement Funds in order to gain exposure to equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures may pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the District Retirement Funds. The notional amounts of the contracts are not included in the derivatives holdings disclosed. Credit risk is managed by dealing with member firms of the futures exchanges.

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

Warrants are used by the District Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Rights are a security that gives the holder the entitlement to purchase new shares issued by a corporation at a predetermined price in proportion to the number of shares already owned.

NOTE 4: INVESTMENTS (CONTINUED)

Market risk for warrants and rights is limited to the purchase cost. Credit risk for warrants and rights is similar to the underlying equity and/or bond holdings. Again, all such risks are monitored and managed by the District Retirement Funds' external investment managers who have full discretion over such investment decisions.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. The District Retirement Funds utilize swaps for several different reasons: to manage interest rate fluctuations, to protect against a borrower default, and to gain market exposure without having to actually own the asset.

The District Retirement Funds may manage credit exposure through the use of credit default swaps. A credit default swap ("CDS") is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk.

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

NOTE 4: INVESTMENTS (CONTINUED)

The following is a list of derivatives aggregated by type as of September 30, 2013:

	Changes in Fair Value (4)		Fair Value at September 30, 2013		
Investment Derrivatives	**Classification**	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Credit Default Swaps Bought	Investment Revenue	$(847,227)	Swaps	$ 646,094	36,312,001
Credit Default Swaps Written	Investment Revenue	(6,243)	Swaps	226,944	13,500,000
Fixed Income Futures Long	Investment Revenue	121,240	Futures	-	33,250,000
Fixed Income Futures Short	Investment Revenue	(4,429)	Futures	-	(11,080,444)
Fixed Income Options Bought	Investment Revenue	(11,021)	Options	303,713	2,100,000
Fixed Income Options Written	Investment Revenue	501,464	Options	(334,689)	(42,609,714)
Foreign Currency Options Bought	Investment Revenue	(21,941)	Options	-	-
Foreign Currency Options Written	Investment Revenue	49,376	Options	-	-
Futures Options Bought	Investment Revenue	4,062	Options	-	-
Futures Options Written	Investment Revenue	21,263	Options	-	-
FX Forwards	Investment Revenue	(226,234)	Long Term Instruments	(67,600)	46,440,388
Pay Fixed Interest Rate Swaps	Investment Revenue	1,619,308	Swaps	1,233,514	26,891,720
Receive Fixed Interest Rate Swaps	Investment Revenue	(748,031)	Swaps	(385,288)	27,595,263
Rights	Investment Revenue	222,624	Common Stock	-	-
Warrants	Investment Revenue	(31,114)	Common Stock	13	2,142
Grand Totals		$ 643,097		$1,622,701	

(1) Negative values (in brackets) refer to losses
(2) Negative values refer to liabilities
(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions
(4) Excludes futures margin payments

NOTE 4: INVESTMENTS (CONTINUED)

The following is a list of derivatives aggregated by type as of September 30, 2012:

	Changes in Fair Value (4)		Fair Value at September 30, 2012		
Type of Derivative	**Classification**	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Credit Default Swaps Bought	Investment Inc.	$ (1,735,586)	Swaps	$ 1,462,445	39,777,152
Credit Default Swaps Written	Investment Inc.	(31,103)	Swaps	715,675	39,981,575
Fixed Income Futures Long	Investment Inc.	1,481,667	Futures	-	26,800,000
Fixed Income Futures Short	Investment Inc.	(1,965,093)	Futures	-	(16,968,448)
Fixed Income Options Bought	Investment Inc.	70,635	Options	356,353	19,700,000
Fixed Income Options Written	Investment Inc.	1,626,545	Options	(897,464)	(70,300,000)
Foreign Currency Futures Long	Investment Inc.	(8,210)	Futures	-	-
Foreign Currency Futures Short	Investment Inc.	(2,598)	Futures	-	-
Foreign Currency Options Bought	Investment Inc.	103,928	Options	96,007	6,046,548
Foreign Currency Options Written	Investment Inc.	13,831	Options	-	-
Futures Options Bought	Investment Inc.	(79,416)	Options	2,250	3,000
Futures Options Written	Investment Inc.	233,744	Options	-	-
FX Forwards	Investment Inc.	792,412	LT Instruments	(559,634)	53,613,725
Pay Fixed Interest Rate Swaps	Investment Inc.	(2,842,418)	Swaps	(497,508)	23,100,000
Rec'd Fixed Interest Rate Swaps	Investment Inc.	1,659,898	Swaps	384,536	16,454,745
Rights	Investment Inc.	(1,529)	Common Stock	-	-
Warrants	Investment Inc.	1,593	Common Stock	84	66,540
Grand Totals		$ (681,700)		$ 1,062,744	

(1) Negative values (in brackets) refer to losses
(2) Negative values refer to liabilities
(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions
(4) Excl. futures margin payments

NOTE 5: COMMITMENTS

As of September 30, 2013, the District Retirement Funds have entered into investment funding commitments related to alternative investments to fund an additional $209,652,376 million at some future date.

NOTE 6: ACTUARIAL INFORMATION

The actuarial funding method used to calculate the employer contributions received in 2012 was the Aggregate Actuarial Cost Method. Under this method, the District must contribute the level percent of pay that – combined with the actuarial value of assets, expected earnings, and future employee contributions, will pay for the benefits of the current participants by the time the current workforce leaves employment. This method does not separately amortize unfunded actuarial accrued liabilities. Effective for the October 1, 2007, valuation date the District Retirement Funds were required by GASB 50 to use the Entry Age Normal Actuarial Cost Method to determine the accrued liabilities for disclosure purposes.

The funded status of each Plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2012, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Plan	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
Teachers	$1,585,626	$1,680,548	$ 94,922	94.4%	$ 381,235	24.90%
Fire & Police	3,804,853	3,456,976	(347,877)	110.1%	414,877	-83.85%

The funded status of each Plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2011 is as follows:

(Dollars in thousands)

Plan	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
Teachers	$1,573,654	$1,544,864	$ (28,790)	101.9%	$ 384,455	-7.49%
Fire & Police	3,593,716	3,309,825	(283,891)	108.6%	421,221	-67.40%

NOTE 6: ACTUARIAL INFORMATION (CONTINUED)

Fiscal year 2013 employer contributions required under the Aggregate Actuarial Cost Method and contributions made are as follows:

(Dollars in thousands)	**Based on Actuarial Valuation Date October 1**	**Annual Required Contribution**	**Percentage Contributed**
Teachers	2011	$ 6,407	100.0%
Fire and Police	2011	96,314	100.0%

Fiscal year 2012 employer contributions required under the Aggregate Actuarial Cost Method and contributions made are as follows:

(Dollars in thousands)	**Based on Actuarial Valuation Date October 1**	**Annual Required Contribution**	**Percentage Contributed**
Teachers	2010	$ -	N/A
Fire and Police	2010	116,664	100.0%

The calculation of the actuarial value of assets includes a smoothing of investment gains and losses over a seven year period. For the year ended September 30, 2013 and 2012, the District Retirement Funds experienced an investment gain of 11.4% and 14.4%, respectively. The difference between these investment gains and the assumed rate of 6.50% will be recognized over the next seven years and will have an impact on the funding ratio in the future.

See Required Supplementary Information (RSI) on page 44 for a 6-year schedule of employer contributions.

NOTE 6: ACTUARIAL INFORMATION (CONTINUED)

The funding progress and employer contribution information presented above and the employer contribution information in the RSI schedule were determined as part of the actuarial valuations at the date indicated. As discussed in *Note 3: Summary of Significant Accounting Policies, t*he "Actuarial Method Amendment Act of 2012" changed the funding method from the Aggregate Actuarial Cost Method to the Entry Age Normal Cost Method as of October 1, 2012. As a result, the calculation used to determine employer contributions for fiscal year 2014 and beyond are based on the Entry Age Normal Cost Method, not the Aggregate Actuarial Cost Method. The following is additional information for the District Retirement Funds as of the valuation date October 1:

	2012	**2011**
Actuarial cost method for contributions	Entry Age Normal	Aggregate
Actuarial cost method for accrued liabilities	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Not applicable
Remaining amortization period	20 years	Not applicable
Asset valuation method	7 year smoothed market return	7 year smoothed market return
Actuarial assumptions:		
Investment rate of return	6.50%	7.00%
Projected salary increases:		
Police Officers and Fire Fighters	4.75-9.25%	5.25-9.75%
Teachers	4.45-8.25%	4.95-8.75%
Includes inflation at	3.50%	4.25%
Cost-of-living adjustments (COLAs)	3.50%	4.25%
COLAs for Post November 10, 1996 hires	Limited to 3.00%	Limited to 3.00%

NOTE 7: RETIREMENT BENEFITS PAYABLE TO U.S. TREASURY

During 2013, the U.S. Treasury completed a reconciliation project that compared the estimated District benefit payments received by the U.S. Treasury for the District's portion of annuitant benefit payments made between October 1, 1997 and December 31, 2007 to the amount of total District benefit payments actually disbursed by the U.S. Treasury for the same period. The reconciliation results were audited by the independent auditing firm of Lani Eko & Company, CPAs who issued an unmodified ("clean") audit opinion on the reconciliation.

This reconciliation of District benefit payments was conducted in accordance with various Memoranda of Understanding and letters of agreement between the U.S. Treasury, the District of Columbia government and DCRB. The methodology for calculating the District's portion of annuitant benefit payments was governed by the Balanced Budget Act of 1997, as amended, and the U.S. Treasury's regulations published in Subpart C of 31 CFR Part 29, Split Benefit Regulations.

Under provisions detailed in the Balance Budget Act of 1997, the U.S. Treasury assumed financial responsibility for a specific population of annuitants for both the Teachers and Police Officers and Firefighters' retirement Plans. Generally, the U.S. Treasury assumed the liability for retirement benefits earned through June 30, 1997 (the "split" date) and the District assumed the liability for service earned thereafter. To account for these shared or split benefit payments, the U.S. Treasury developed and implemented a software system to calculate the respective split benefit payment liabilities. Until the time that the system was fully implemented, December 31, 2007, the District made estimated payments to cover their portion of the annuitants' benefits payments during this interim period.

The total benefit payments paid during this interim period totaled $791,864,131 and the District's adjusted portion totaled $175,259,446. The amount of estimated payments provided by DCRB to the U.S. Treasury for this same period totaled $144,365,632, leaving an amount due to the U.S. Treasury of $30,893,814. The U.S. Treasury invoiced the District for this amount on June 20, 2013 and in accordance with a letter of agreement between the parties, the payment is due to the U.S. Treasury by June 20, 2014. DCRB has accrued this liability as of September 30, 2013 on the Statement of Net Position under Retirement benefits payable to the U.S. Treasury. In addition, the expense has been recorded in fiscal year 2013 and is reflected in the Statement of Changes in Net Position. The portion of the liability and expense attributed to the Teachers' Retirement Fund is $21,503,251 and the portion attributed to the Police Officers and Firefighters' Fund is $9,390,563.

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'
RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
September 30, 2013
(Dollar amounts in thousands)

Until September 30, 2011, the District of Columbia Retirement Board used the Aggregate Actuarial Cost Method, which does not result in the calculation of an unfunded accrued liability. GASB Statement No. 50 requires funds using the Aggregate method to disclose funding status information based on Entry Age Normal calculations. Accordingly, the numbers shown have been determined based on the Entry Age Normal Cost Method.

Actuarial Valuation Date	Actuarial Value of Assets	EAN Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percent of Payroll
10/1/2007	$4,068.9	$3,898.6	($170.3)	104.4%	$771.2	-22.1%
10/1/2008	4,379.7	4,276.8	(102.9)	102.4%	781.2	-13.2%
10/1/2009	4,493.4	4,332.4	(161.0)	103.7%	772.7	-20.8%
10/1/2010	4,989.8	4,495.1	(494.7)	111.0%	761.4	-65.0%
10/1/2011	5,167.4	4,854.7	(312.7)	106.4%	805.7	-38.8%
10/1/2012	5,390.5	5,137.5	(253.0)	104.9%	796.1	-31.8%

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2013
(Dollar amounts in thousands)

TEACHERS' RETIREMENT FUND

Fiscal Year	Annual Required Contributions	Percentage Contributions
2013	$6,407	100%
2012	-	100%
2011	-	100%
2010	-	100%
2009	-	100%
2008	14,600	100%

POLICE OFFICERS AND FIRE FIGHTERS' RETIREMENT FUND

Fiscal Year	Annual Required Contributions	Percentage Contributions
2013	$96,314	100%
2012	116,700	100%
2011	127,200	100%
2010	132,300	100%
2009	106,000	100%
2008	137,000	100%

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'
RETIREMENT FUND
SUPPLEMENTARY INFORMATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
For the years ending September 30, 2013 and 2012

	2013	2012
Personnel Services		
Salaries	$ 3,955,243	$ 4,113,863
Fringe benefits	1,135,431	953,613
Total personnel services	5,090,674	5,067,476
Non-personnel services		
Professional services:		
Legal counsel	1,172,520	292,089
Auditing services	75,940	71,160
Actuarial services	145,531	152,590
Investment advisors and consultants	6,586,544	7,753,310
Consultants and contracts	4,074,744	3,069,219
Office supplies	187,114	156,612
Telephone	50,320	48,484
Rent	1,513,248	1,465,447
Office support	-	1,236
Travel	189,490	148,224
Printing	91,396	33,002
Insurance	113,691	121,311
Postage	137,543	29,103
Dues and membership	28,071	26,482
Depreciation	3,164	6,328
Furniture and equipment	618,653	179,372
Total non-personnel services	14,987,969	13,553,969
Total administrative expenses	20,078,643	18,621,445
Investment expenses	(7,538,044)	(9,022,880)
Net administrative expenses	$ 12,540,598	$ 9,598,565

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND
SUPPLEMENTARY INFORMATION
SCHEDULES OF INVESTMENT EXPENSES
For the years ending September 30, 2013 and 2012

	2013	2012
Investment managers*	$ 5,498,505	$ 7,115,929
Investment administrative expense	933,637	1,010,770
Investment consultants	974,522	685,742
Investment custodian	131,380	210,439
Total investment expenses	$ 7,538,044	$ 9,022,880

* Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities. A signficant number of alternative investments are presented net of expenses. Management expenses are netted against investment income and because they are not readily separable from specific investment income as of the financial statement reporting date, amounts are recorded and reported net of management expenses and therefore are not included on this schedule.

DISTRICT OF COLUMBIA
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS' RETIREMENT FUND
SUPPLEMENTARY INFORMATION
SCHEDULES OF PAYMENTS TO CONSULTANTS
For the years ending September 30, 2013 and 2012

Professional/Consultant	Nature of Service	2013	2012
Administrative Consultants			
D.C. Office of the Chief Technology Officer	Information technology consulting	$ 1,386,082	188,500
U.S. Treasury Office of D.C. Pensions	Benefit payment processing	940,705	1,145,809
Morgan, Lewis & Brokius	Legal counsel	404,297	204,126
DLT Solutions, Inc.	Information technology consulting	303,011	-
Valsatech	Information technology consulting	231,815	-
Groom Law Group	Legal counsel	159,029	87,963
Tony Phan	Information technology consulting	155,680	116,410
NGEN, LLC	Information technology consulting	149,477	207,054
Cavanaugh Macdonald Consulting	Actuarial services	142,031	161,424
Linea Solutions, Inc.	Business process re-engineering	127,456	47,771
AON Consulting	Insurance consulting	113,691	113,028
Newlin LLC	Accounting & audit consulting	98,708	51,450
Document Access Systems	Information technology consulting	91,280	180,180
Clifton Larsen Allen	Financial audit	91,000	71,160
Gartner, Inc.	Information technology consulting	83,010	66,410
Telecommunications Development Corporation	Information technology consulting	75,760	-
Mobomo, LLC	Information technology consulting	74,875	27,150
American Arbitration Association	Arbitration services	57,561	-
CEM Benchmarking, Inc.	Define Benefit Investment Cost Effective Analysis	50,000	-
Equinix, Inc.	Information technology consulting	44,906	-
RSM McGladrey, Inc.	Financial system implementation consulting	30,958	36,221
D.C. Department of Human Resources	Information technology consulting	27,660	-
Capital Document Solutions	Information technology consulting	26,948	
Managed Frameworks, LLC	Information technology consulting	20,086	-
True Ballot, Inc	Board elections	20,000	9,844
Christina Lipscombe	Information technology consulting	18,900	-
Steven T. Van Rees, Sr.	Procurement consulting	17,716	-
Intuitive Technology Group, LLC	Information technology consulting	17,240	-
National Associates, Inc.	Information technology consulting	15,990	-
Worldwide Staffing Exchange	Information technology consulting	15,680	-
Kofax, Inc.	Information technology consulting	15,438	-
Midtown Personnel Inc.	Information technology consulting	14,284	-
EDAC Systems, Inc.	Information technology consulting	12,684	60,986
ZixCorp Systems, Inc.	Information technology consulting	11,564	11,564
Ectam, LLC	Information technology consulting	10,080	
Avitecture	Information technology consulting	7,995	19,231
Robert Half International, Inc.	Information technology consulting	5,620	117,637
Randstad Technologies	Information technology consulting	-	102,770
L.R. Wechsler, LTD	Information technology consulting	-	89,830
NetX Information Systems, Inc.	Information technology consulting	-	44,461
Icore Networks, Inc.	Telephone implementation consulting	-	5,284
HBP, Inc.	Graphic design for publications	-	3,935
Total administrative consultants		5,069,217	3,170,198
Investment Consulting			
Cliffwater, LLC	Traditional investment consulting	707,855	390,742
Meketa Investment Group	Traditional investment consulting	241,667	270,000
Zeno Consulting Group, LLC	Traditional investment consulting	25,000	25,000
Total investment consultants		974,522	685,742
Total payments to consultants		$ 6,043,739	$ 3,855,940