GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

DISTRICT OF COLUMBIA

**ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND**

**Financial Statements with
Independent Auditors' Report
Fiscal Year Ended September 30, 2012, and 2011**

**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

OIG No. 13-1-09MA **February 28, 2013**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

February 28, 2013

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:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2012, KPMG LLP (KPMG) submitted the enclosed final report on the District of Columbia's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) and accompanying independent auditors' report for the years ended September 30, 2012, and 2011 (OIG No. 13-1-09MA).

KPMG opined that the financial statements present fairly, in all material respects, the respective plan net assets and the respective changes in plan net assets of the Fund for the years ended September 30, 2012, and 2011, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards,* KPMG also issued its report on consideration of the Fund's internal control over financial reporting and on its tests of the Fund's compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters.

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

Sincerely,

Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF FINANCE AND TREASURY

REPORT ON

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE DISTRICT OF COLUMBIA ANNUITANTS' HEALTH AND LIFE INSURANCE EMPLOYER CONTRIBUTION TRUST FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

REGIS & ASSOCIATES, PC

MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF FINANCE AND TREASURY

REPORT ON

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE DISTRICT OF COLUMBIA ANNUITANTS' HEALTH AND LIFE INSURANCE EMPLOYER CONTRIBUTION TRUST FUND

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia:

We have audited the accompanying statements of the plan net assets of the Government of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) as of September 30, 2012 and 2011, and the statements of changes in plan net assets (here in after referred to as basic financial statements) for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective plan net assets of the Fund as of September 30, 2012 and 2011, and the respective changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Required Supplementary Information on pages 3 through 6 and 16 through 17, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

KPMG LLP

February 14, 2013

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
(*UNAUDITED*)**

SEPTEMBER 30, 2012 and 2011

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia's (District) Annuitants' Health and Life Insurance Employer Contribution Trust Fund (Fund) for the fiscal years (FYs) ended September 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

All employees hired after September 30, 1987, who retired under the Teacher Retirement System and Police and Fire Retirement System, or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. On September 22, 2009, the District finalized all of the terms and provisions of the Plan.

Basic Financial Statements

The Plan is required to follow U.S. generally accepted accounting principles and, as such, the Plan's financial statements must consist of two basic financial statements: (a) Statement of Plan Net Assets and (b) Statement of Changes in Plan Net Assets.

- The Statement of Plan Net Assets presents the Plan's assets, liabilities, and net assets available for postretirement benefits.
- The Statement of Changes in Plan Net Assets presents the additions and deductions to the Plan's net assets.

Financial Highlights

	FY 2012	FY 2011	FY 2010
The Plan's investments totaled	$ 567,635,222	$ 415,220,016	$ 331,606,257
District's contributions totaled	$ 109,800,000	$ 94,200,000	$ 90,700,000

Financial Analysis

Table 1 - Statement of Plan Net Assets

	2012	2011	Change from 2011 Variance	Change from 2011 % variance	2010	Change from 2010 Variance	Change from 2010 % variance
Assets							
Cash	$ 129,303,268	$ 96,266,121	$ 33,037,147	34%	$ 92,647,617	3,618,504	3.91%
Receivables	47,318,308	330,112	46,988,196	14234%	753,151	(423,039)	100%
Investments	567,635,222	415,220,016	152,415,206	36%	331,606,257	83,613,759	25%
Total Assets	$ 744,256,798	$ 511,816,249	$ 232,440,549	45%	$ 425,007,025	$ 86,809,224	20%
Liabilities							
Payable-Investments	$ 51,824,056	$ 716,036	$ 51,108,020	7137%	$ 753,151	$ (37,115)	100%
Total Liabilities	$ 51,824,056	$ 716,036	$ 51,108,020	7137%	$ 753,151	$ (37,115)	100%
Net assets held in trust for other postemployment benefits	$ 692,432,742	$ 511,100,213	$ 181,332,529	36%	$ 424,253,874	$ 86,846,339	21%

Table 2-Statement of Changes in Plan Net Assets

	2012	**2011**	**Change from 2011 Variance**	**Change from 2011 % Variance**	**2010**	**Change from 2010 Variance**	**Change from 2010 % Variance**
Additions							
Contributions	$110,080,752	$94,465,597	$15,615,155	17 %	$90,907,792	$3,557,805	3.91 %
Net Investment Income	78,858,051	(1,380,917)	80,238,968	-5,810%	27,743,343	(31,009,539)	-111 %
Total Additions	188,938,803	93,084,680	95,854,123	103%	118,651,135	(27,451,734)	-23 %
Deductions							
Insurance Premiums	3,943,720	4,147,801	(204,081)	-5%	3,380,850	766,951	23 %
Other Expenses	3,662,554	2,090,540	1,572,014	75%	152,580	52,681	35 %
Total Deductions	7,606,274	6,238,341	1,367,933	22%	3,533,430	819,632	23 %
Net Increase	181,332,529	86,846,339	94,486,190	109%	115,117,705	(28,271,366)	-25 %
Beginning Net Assets	$511,100,213	$424,253,874			$309,136,169		
Ending Net Assets	$692,432,742	$511,100,213			$424,253,874		

Plan Contributions

For FYs ended September 30, 2012 and 2011, the District made actuarially based contributions in the amounts of $109,800,000 and $94,200,000, respectively, which were based on congressionally approved budget authority. The District made contributions to the Plan that covered current and future Plan benefits.

Participant Contributions

Participant contributions for FYs ended September 30, 2012 and 2011 amounted to $280,752 and $265,597, respectively. The participant contribution was changed to a graded contribution schedule effective March 2, 2010. Annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay 75% of their health insurance premiums and the District pays the remaining 25%, plus an additional 2.5% for each year of creditable service over 10 years, provided that the District's contribution shall not exceed 72% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service or annuitants who are injured in the line of duty, the District pays 72% of the cost of the selected health benefit plan and the annuitant pays 28% of the cost of the selected health benefit plan.

The minimum amount of employee contribution rate was increased from 25% to 28% by an amendment to D.C. Code section 1-621.09 effective January 18, 2011. It reverts to 25% effective October 1, 2012.

After February 2011, covered family members of an annuitant with at least 10 years of creditable District service but less than 30 years of creditable District service pay 80% of their health insurance premiums and the District pays the remaining 20%, plus an additional 2.5% for each year of creditable service over 10 years. The District's contribution shall not exceed 60% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family members pays 40% of the cost of the selected health benefit plan. The District pays 60% of the cost of the selected health benefit plan and the family member pays 40% of the cost of the selected health benefit plan for the covered family members of police officer or firefighter annuitants who are injured in the line of duty.

Investment Income

The Fund as a whole had a positive rate of return of 15.33% with net investment income of $78,858,051 for the FY ended September 30, 2012. The net investment gain for the Fund was a result of positive rates of returns plus realized and unrealized investments, with a net appreciation of $38,992,299 for the FY ended September 30, 2012. Please see the table below for details.

The investments had positive rates of return led by Royce PA Fund, 24.09%, Brandywine Large Cap Value, 17.74%, Clearbridge Mid Cap, 14.39% and Farr, Miller, Washington Large Cap Growth, 13.12%. The fund had dividend and interest income in the amount of $10,649,787, a realized gain in the amount of $25,786,312 and an unrealized gain of $38,992,299 for FY 2012.

The Fund as a whole had a negative rate of returns of (0.325%) with a net investment loss of ($1,380,917) for the FY ended September 30, 2011. The net investment loss for the Fund was a result of negative rates of returns realized on investments. The Fund had dividend and interest income in the amount of $7,151,659, a realized gain in the amount of $3,302,248, and an unrealized loss of ($8,532,576) for FY 2011.

Investment	Rate of Return FY2012	Benchmark FY 2012	Rate of Return FY2011	Benchmark FY 2011
Access Capital *	3.73%	4.16%		
Artisan Int'l Value Equity (Barclays)*	13.90%	10.23%		
Baillie Gifford Int'l Growth* Equity (Barclays) *	10.11%	10.86%		
Bernstein Global Plus*	5.45%	5.18%		
Bernstein Strategic Core*	5.18%	3.99%		
Brandywine *	17.74%	15.75%		
ClearBridge*	14.39%	13.77%		
Farr, Miller Washington *	13.12%	16.80%		
Royce Pennsylvania Fund	24.09%	14.23%	-2.79%	-3.53%
SSgA Bond	5.19%	3.99%	5.19%	5.26%
Bernstein Intermediate Bond			5.29%	4.22%
Bernstein Strategic Value			-6.16%	-1.89%
Bernstein Strategic Growth			-2.56%	3.78%
BlackRock Large Cap Growth			0.75%	3.78%
BlackRock U.S. Opportunities			-6.78%	-0.88%
BlackRock Small Cap Growth			-1.62%	-1.12%
BlackRock Inflation Protected Bond			8.10%	9.87%
SSgA International			-9.09%	-9.36%

*Fund not held for the full FY.

Insurance Carrier Premiums

Insurance Carrier Premiums represent amounts paid to the Plan's health and life insurance carriers. The premium expense for FYs ended September 30, 2012 and 2011, totaled $3,943,720, and $4,147,801, respectively. The Defined Benefit Plan insurance premiums for FYs ended September 30, 2012 and 2011, totaled $3,161,239 and $3,163,011 respectively. There were 24,546 and 22,420 active employees as of September 30, 2012 and 2011, respectfully. During FY ended September 30, 2012, the number of retirees increased by 169 members to a total of 916 retired participants and spouses. They consist of 746 firefighters, police, and teachers, and 170 general employees. In comparison to the FY ended September 30, 2011, the number of retirees totaled 747 members, which represents an increase of 22.6% in membership.

Management Fees

Management and custody fees paid during the FYs ended September 30, 2012 and 2011 are detailed in the table below. The large increase in management fees was due to the expansion of the fund from four investment managers to ten investment managers. In addition the total assets increased from a FY 2011 balance of $511,816,249 to FY 2012 balance in the amount of $744,256,795 that is an increase of 45.4% from last year and an increase of 79.2% over the past two years.

Investment Firm	Plan Year 2012	Plan Year 2011
Access Capital	$ 62,600	$ -
Artisan Int'l Value Equity (Barclays)	239,658	-
Baillie Gifford Int'l Growth Equity (Barclays)	140,924	-
Bernstein	435,290	724,812
Brandywine	245,189	-
Clearbridge	216,115	-
Farr, Miller Washington	391,060	-
Royce Pennsylvania Fund	377,111	117,600
SSgA Bond	51,023	-
BlackRock Large Cap Growth	711,070	835,108
SSgA International	130,077	207,759
Accrual	429,537	-
Total	$ 3,429,654	$ 1,885,279

GOVERNMENT OF THE DISTRICT OF COLUMBIA
ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND
STATEMENT OF PLAN NET ASSETS

SEPTEMBER 30, 2012 and 2011

	2012	2011
Assets		
Cash and Cash Equivalent	$ 129,303,268	$ 96,266,121
Receivables:		
Investment	3,852,240	330,112
Interest and dividends	1,456,290	0
Receivable-Foreign Exchanges (Note 6)	42,009,778	0
Total Receivables	47,318,308	330,112
Investments, at fair value:		
Equities (Note 4 & 6)	321,721,844	221,052,536
Bonds (Note 4 & 6)	245,913,378	194,167,480
Total Investments	567,635,222	415,220,016
Total Assets	744,256,798	511,816,249
Liabilities		
Accounts Payable and other	9,814,278	716,036
Payable-Foreign Currency Purchased (Note 6)	42,009,778	0
Total Liabilities	51,824,056	716,036
Net assets held in trust for other post employment benefits	$ 692,432,742	$ 511,100,213

See accompanying notes to basic financial statements.

ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

	2012	2011
Additions		
Contributions:		
District Contributions (Note 7)	$ 109,800,000	$ 94,200,000
Retiree Contributions	280,752	265,597
Total Contributions	110,080,752	94,465,597
Investment Income:		
Net appreciation/(depreciation) in the fair value of investments	68,208,264	(8,532,576)
Dividend and Interest income	10,649,787	7,151,659
Net Investment Income	78,858,051	(1,380,917)
Total Additions	188,938,803	93,084,680
Deductions		
Insurance Carrier Premiums	3,943,720	4,147,801
Management Fees	3,429,654	1,885,279
Administrative expenses	232,900	205,261
Total Deductions	7,606,274	6,238,341
Change in Net Assets	181,332,529	86,846,339
Net Assets held in Trust for Other Postemployment Benefits:		
Beginning of Year	511,100,213	424,253,874
End of Year	$ 692,432,742	$ 511,100,213

See accompanying notes to basic financial statements.

NOTE 1 PLAN DESCRIPTION AND CONTRIBUTIONS

The Government of the District of Columbia (the District) established the Annuitants' Health and Life Insurance Employer Contribution Plan (Plan or Fund) on October 1, 1999 under the Annuitants' Health and Life Insurance Employer Contribution Amendment Act of 1999 (D.C. Official Code I-621.09). The Plan also included a trust fund for the deposit of the District contributions that will be used to pay future plan benefits. The Plan is administered jointly by the District's Office of Finance and Treasury (OFT) within the District's Office of the Chief Financial Officer, and the District's Office of Human Resources (DCHR).

Plan Description

The Plan is a single employer defined benefit plan that provides health and life insurance benefits to retired eligible District employees. All employees hired after September 30, 1987, who retired under the Teachers Retirement System and Police and Fire Retirement Systems, or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. The trust fund was established to hold and pay the District's contributions for health and life insurance for annuitants. The purpose of the Plan (as defined in Section 2.16 of the Act) is to manage and administer the trust fund for the benefit of annuitants, as provided in the Act.

To continue insurance benefits into retirement, employees must have been continuously enrolled (or covered as a family member) under the D.C. Employees Health Benefits (DCEHB) program or the D.C. employees Group Life Insurance (DCEGLI) program for five years prior to retirement. If the participant was employed less than five years, the participant must have been enrolled for his/her length of employment. Coverage under Medicare is not considered in determining continuous coverage. Dependents are also covered if the employee elects family coverage.

Contributions

Employee contributions are not required prior to retirement to fund the Plan. Prior to March 2, 2010 the retiree paid 25% of his/her health premium coverage and the District paid the remaining 75%. The participant contribution was changed to a graded contribution schedule effective March 2, 2010. Annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay 75% of their health insurance premiums and the District pays the remaining 25%, plus an additional 2.5% for each year of creditable service over 10 years, provided that the District's contribution shall not exceed 72% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service or annuitants who are injured in the line of duty, the District pays 72% of the cost of the selected health benefit plan and the annuitant pays 28% of the cost of the selected health benefit plan.

Covered family members of an annuitant with at least 10 years of creditable District service but less than 30 years of creditable District service pay 80% of their health insurance premiums and the District pays the remaining 20% plus an additional 2.5% for each year of creditable District service over 10 years, provided that the District's contribution shall not exceed 60% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family member pays

40% of the cost of the selected health benefit plan. The District pays 60% of the cost of the selected health benefit plan and the family member pays 40% of the cost of the selected health benefit plan for covered family members of annuitants who are injured or killed in the line of duty. The impact this change will have on the District's portion of future OPEB costs has not been determined.

The participant pays $0.03575 per $1,000 of life insurance coverage until age 65 for the 75% reduction option, with no contributions required thereafter. Participants can also elect a 50% or 0% reduction of life insurance benefits, which requires additional contributions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Government Accounting Standards Board (GASB).

Reporting Entity

The District established the Fund, which is a single employer defined plan on October 1, 1999. As of September 30, 2009, the District finalized all of the terms and provisions of the Fund. A trust agreement, dated September 30, 2006, designated the Chief Financial Officer of the District as the trustee of the Fund. The Trust became operational in FY 2007, and the Fund is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due, in accordance with the substantive Plan. All employees hired after September 30, 1987, who retired under the Teachers Retirement System and the Police Officers and Firefighters Retirement System, or those employees who are eligible for retirement benefits under the Social Security Act, are eligible to participate.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Fund's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. The Fund's policy is to recognize member contributions in the period in which the contributions are due and paid. The District (employer) contributions to the Fund are recognized when due and when the District has made a formal commitment to provide the contributions. Benefit related expenses and refunds are recognized when due and payable in accordance with the terms of the Fund. Administrative costs of the Fund are paid by the District.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein at the date of the financial statements as well as the actuarial present value of accumulated benefits during the reporting period. Actual results could differ from these estimates.

Further, actuarial valuations of an ongoing benefits plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, interest rates, inflation rates, and healthcare cost trends. Amounts determined regarding the funded status of the Fund and the annual required contributions of the District are subject to continual revision, as actual results are compared with past expectations and new assumptions are made about the future.

Investment Valuation and Income Recognition

Investments are reported at fair value with realized and unrealized gains and losses included in the Statement of Changes in Plan Net Assets. Fair value of the marketable securities is based on quoted market price, dealer quotes, and prices obtained from independent pricing sources. Securities for which market quotations are not readily available are valued at their fair value, as determined by the custodian under the direction of the Fund, with the assistance of a valuation service.

NOTE 3 PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

The Plan had 916 and 747 retired participants and spouses as of September 30, 2012 and 2011, respectively. The participants consisted of 746 firefighters, police and teachers and 170 general District retires.

NOTE 4 MASTER CUSTODIAN CONTRACT

The Plan administrators signed a Master Custodian Contract with State Street on September 24, 2009. The Fund transferred trust assets to a Master Custodian from the investment managers to reduce risk of loss and to improve security. Maintaining assets with a Master Custodian provides the additional advantage of tracking information provided by the investment managers. This is because the Master Custodian provides information on investment transactions from an independent source, as well as superior reporting capabilities for the Trust Fund.

NOTE 5 CASH AND CASH EQUIVALENT

The Plan maintains cash and cash equivalent in eight investments accounts as detailed below.

As of September 30, 2012

FUND		AMOUNT	PERCENTAGE OF CASH
Brandywine Large Cap	Cash	$ 3,997,777	0.6%
ClearBridge Mid Cap	Cash	1,763,308	0.3%
Bernstein Strategic Core	Cash	9,481,887	1.4%
Cash Account	Cash	110,371,908	15.9%
Bernstein Global Plus	Cash	763,925	0.1%
FMW Large Cap Growth	Cash	2,919,357	0.4%
Bernstein Strategic Value	Cash	1,244	0.0%
Bernstein US EQ Strategic Growth	Cash	3,862	0.0%
		$ 129,303,268	18.6%

As of September 30, 2011

FUND		AMOUNT	PERCENTAGE OF CASH
Sanford Bernstein	Cash	$ 1,501,578	0.3%
SSgA	Cash	94,764,543	18.5%
		$ 96,266,121	18.8%

NOTE 6 INVESTMENTS

The Office of Finance and Treasury (OFT) is responsible for the oversight of the investments of Plan Assets and has established a general policy with respect to the Plan. The duties and responsibilities of the OFT also include, but are not limited to the financial administration and management of the Plan, the establishment of investment objectives, the determination of investment policies, the establishment of management policies, and the management and control of Trust assets.

The majority of the Plan's assets for the years ended September 30, 2012 and 2011 were investments, which totaled $567,635,222, and $415,220,016 respectively. The assets are invested with nine different managers: SSgA, Sanford Bernstein, SSgA Index, Royce Pennsylvania, Brandywine Global, Access Capital, Barclays Capital, ClearBridge Advisors, and Farr, Miller & Washington. At September 30, 2012 and 2011, the funds were invested in equities: (46%) and (43%), and bonds: (35%) and (38%), respectively. The fair value of each fund is as follows:

As of September 30, 2012:

FUND		Amount	Percentage
Brandywine Large Cap	Equity	$ 86,245,801	12.4%
ClearBridge Mid Cap -	Equity	57,925,640	8.3%
Royce FD	Equity	40,990,301	5.9%
Barclays International	Equity	53,682,320	7.7%
FMW Large Cap Growth	Equity	82,877,782	11.9%
		321,721,844	46.2%
Access Capital ETI – PRI	Bonds	10,433,309	9.4%
SSgA	Bonds	65,397,854	1.5%
Bernstein Strategic Core	Bonds	105,125,967	15.0%
Bernstein Global Plus	Bonds	64,956,248	9.4%
		245,913,378	35.3%

As of September 30, 2011:

FUND		Amount	Percentage
Berstein US Strategic Value	Equity	$ 42,219,768	8.30%
Berstein US Strategic Growth	Equity	10,192,331	2.00%
BlackRock Large Cap Growth	Equity	49,661,143	9.70%
BlackRock US Opportunities	Equity	54,900,899	10.70%
BlackRock Small Cap Growth	Equity	10,380,529	2.00%
SSgA MSCI EAFE Index	Equity	38,224,123	7.50%
Royce FD	Equity	15,473,743	3.00%
		$221,052,536	43.2%
Intermediate Duration	Bonds	$ 64,512,050	12.60%
Inflation Protected Bond	Bonds	28,793,777	5.60%
USALYS Aggregate Bond	Bonds	100,861,653	19.80%
		$ 194,167,480	38.00%

At September 30, 2012 and September 30, 2011, the Plan held the following aggregate investments, which are stated at aggregate fair value based on quoted market prices:

As of September 30, 2012:

	Aggregate Cost	Aggregate Fair Market Value	Unrealized Appreciation (Depreciation)
Brandywine Large Cap Value	$ 78,190,071	$ 86,245,801	$ 8,055,730
Access Capital ETI – PRI	10,359,681	10,433,309	73,628
Barclays International	50,000,000	53,682,320	3,682,320
ClearBridge Mid Cap – PRI	53,674,493	57,925,640	4,251,147
Bernstein Strategic Core	101,940,728	105,125,967	3,185,239
Royce FD	38,000,842	40,990,301	2,989,459
SSgA	59,534,804	65,397,854	5,863,050
Bernstein Global Plus	63,018,414	64,956,248	1,937,834
FMW Large Cap Growth	73,923,890	82,877,782	8,953,892
	$ 528,642,923	$ 567,635,222	$ 38,992,299

As of September 30, 2011:

	Aggregate Cost	Aggregate Fair Market Value	Unrealized Appreciation/ (Depreciation)
Bernstein Intermediate Duration	$ 61,301,333	$ 64,512,050	$ 3,210,717
Bernstein US Strategic Value	47,668,572	42,219,769	(5,448,803)
Bernstein US Strategic Growth	10,406,488	10,192,331	(214,157)
BlackRock Large Cap Growth	52,811,585	49,661,143	(3,150,442)
Blackock US Opportunities	57,759,473	54,900,899	(2,858,574)
BlackRock Inflation Protected Bond	27,263,279	28,793,777	1,530,498
BlackRock Small Cap Growth Equity	10,200,000	10,380,529	180,529
SSgA Aggregate Bond Index NL	94,600,000	100,861,652	6,261,652
SSgA MSCI EAFE Index	41,483,951	38,224,123	(3,259,828)
Royce FD	15,292,240	15,473,743	181,503
	$ 418,786,921	$ 415,220,016	$ (3,566,905)

The Plan's investments are uninsured and unregistered and are held by counterparty in the Plan's name. The Plan is also subject to certain credit, interest rate, and foreign exchange risks.

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. The average quality of all the bond holdings in each investment manager's portfolio should be maintained at "A" or better. As of September 30, 2012 the average quality rating of investment manager's portfolio is maintained at A or better.

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. The Plan does not invest more than 15% of the Plan's assets in securities rated below "A". As of September 30, 2011, the average quality rating of the BlackRock, SSgA, and Sanford Bernstein portfolios were AA.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The plan addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The plan also uses an independent consultant to review assets and recommend any appropriate changes. The average duration for Sanford Bernstein US Core Plus was 4.90 and Global XUS Plus was 6.71 for fiscal year ended September 30, 2012. SSgA Bond Index was created on August 1, 2010 and does not have and Bond Index rating but has a year to date index of 2.68. The average duration for Access Capital was 1.67 as of September 30, 2012.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The plan addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The plan also uses an independent consultant to review assets and recommend any appropriate changes. The average duration for Sanford Bernstein Intermediate Duration was 3.09 and 6.33 years for FYs ended September 30, 2011. BlackRock Inflation Protection Bond MF was 4.82 and 6.23 years for FYs ended September 30, 2011. SSgA Bond Index was created on August 1, 2010 and does not have and Bond Index rating but has a year to date index of 2.68.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Plan does not have a formal policy for limiting its exposure to changes in exchange rates. Sanford Bernstein and SSgA International Equity portfolio invests in foreign companies. In its attempt to protect against the inherent exchange rate risks involved with foreign investments, Bernstein employs an "active currency management" approach, which tracks trends in currency prices and combines statistical analysis with quality market research to forecast future currency movements. Sanford Bernstein uses this information to buy and sell currencies to the Fund's advantage, capitalizing on the added premium from the differences in interest rates and net currency value. This strategy not only protects against the risk involved with foreign currency transactions, but also adds value of return to the underlying assets, increasing the net value of the portfolio over time.

Foreign currency transactions were in mutual funds in FY 2011. The OPEB Fund did not have individually managed accounts with foreign currency exposure during that year.

Currency	Global Plus - Cash/Fixed Income	Strategic Core - Cash/Fixed Income	Total U.S. Dollars
Australian Dollar	$ 1,490,442		$ 1,490,442
Canadian Dollar	$ 2,549,065		$ 2,549,065
Swiss Franc	$ 799,568		$ 799,568
Danish Krone	$ 374,533		$ 374,533
Euro	$ 5,102,692	$ 454,760	$ 5,557,453
British Pound	$ 1,600,481		$ 1,600,481
Israeli Shekels		$ 116,927	$ 116,927
Japanese Yen	$ 22,578,126		$ 22,578,126
South Korean Won	$ 1,044,816		$ 1,044,816
Mexican Peso	$ 804,399		$ 804,399
Malaysian Ringgit	$ 218,643		$ 218,643
Norwegian Krone	$ 150,716		$ 150,716
New Zealand Dollar	$ 317,548	$ 145,714	$ 463,262
Philippines Peso	$ 318,825		$ 318,825
Swedish Krona	$ 348,566		$ 348,566
Singapore Dollar	$ 462,333		$ 462,333
New Turkish Lira	$ 1,970,312		$ 1,970,312
South African Rand	$ 637,053	$ 524,257	$ 1,161,310
Total Dollar Value			$ 42,009,778

NOTE 7 DISTRICT CONTRIBUTIONS

The District historically makes its contributions to the Fund near the completion of the FY, with said contribution being distributed by the Fund to the investment managers within a month of receipt from the District. Consequently, the significant cash balance in the Plan as of September 30, 2012 and 2011 was due to the receipt of the FY contribution of $109,800,000 and $94,200,000, respectively. This contribution was deposited into the State Street cash account on September 28, 2012 and September 30, 2011, and was subsequently distributed to the investment managers on October 2, 2012 and October 3, 2011, respectively. The funds were distributed as follows:

As of September 30, 2012

FUND	AMOUNT
Bernstein Strategic Core	$ 20,000,000
Brandywine Large Cap Value	16,000,000
Farr, Miller Washington Large Cap Growth	15,000,000
SSgA	11,800,000
Bernstein Global Plus	11,700,000
ClearBridge Mid Cap	10,600,000
Royce FD Pennsylvania Mutual Fund (Inv C)	7,200,000
Access Capital ETI – PRI	5,000,000
Barclays Growth	4,750,000
Barclays Value	4,750,000
State Street- Cash on Hand	3,000,000
	$ 109,800,000

As of September 30, 2011

FUND	AMOUNT
Alliance Bernstein Intermediate Duration Bond Fund	$ 46,500,000
State Street Aggregate Bond Index Fund	46,500,000
Allocated For Vendor Payments	1,200,000
	$ 94,200,000

NOTE 8 CONTINGENCIES

At September 30, 2012, there were no matters of litigation involving the Plan which would materially affect the Plan’s financial position should any court decisions on pending matters not be favorable to the Plan.

NOTE 9 ACTUARIAL INFORMATION

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. An example includes assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age actuarial cost method was used to prepare the September 30, 2011 and September 30, 2010 actuarial valuations. The 2011 actuarial assumptions included a 7.00% investment rate of return, a discount rate of 7.00%; a 4.25% salary increase rate (plus merit scale); and a medical inflation rate ranging between 9.5% (pre-Medicare) and 8.5% (post-Medicare) grading to 5.25% over 15 years.

The 2010 actuarial assumptions included a 7.00% investment rate of return, a discount rate of 7.00%; a 4.25% salary increase rate (plus merit scale); and a medical inflation rate ranging between 9.5% (pre-Medicare) and 8.5% (post-Medicare) grading to 5.25% over 15 years.

The amortization method applied was the level percent open method. The remaining amortization period at September 30, 2011 and September 30, 2010 was 30 years.

The September 30, 2011 estimated actuarial liability is $866.6 million and the actuarial value of the assets is $511.5 million resulting in an estimated unfunded actuarial accrued liability (UAAL) of $355.1 million. The estimated covered payroll (annual payroll of active employees covered by the Plan) is $1,559.8 million and the ratio is 22.8%.

The September 30, 2010 estimated actuarial liability was $784.9 million and the actuarial value of the assets was $424.3 million resulting in an estimated unfunded actuarial accrued liability (UAAL) of $360.6 million. The estimated covered payroll (annual payroll of active employees covered by the Plan) was $1,544.5 million and the ratio was 23.3%.

REQUIRED SUPPLEMENTARY INFORMATION
(*UNAUDITED*)

ACTUARIAL ANALYSES

An independent actuary performed an actuarial analysis of the Plan's assets and liabilities as of September 30, 2011, September 30, 2010, and September 30, 2009 to determine the future funding status of the Plan, which is outlined below. The analysis was based on census data as of September 30, 2010, and September 30, 2009.

This data is presented below.

Valuation Date	September 30, 2011 (Projected from September, 2010 census)	September 30, 2010 (Projected from September, 2010 census)	September 30, 2009 (Projected from September, 2009 census)
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Percent Open
Remaining Amortization	30 Years	30 Years	30 Years
Asset Valuation Method	Market Value	Market Value	Market Value
Actuarial Assumption:			
Investment Rate of Return	7.00%	7.00%	7.25%
Discount Rate	7.00%	7.00%	7.25%
Rate of Salary Increase	4.25% (plus merit scale)	4.25% (plus merit scale)	5.0% (plus merit scale)
Rate of Medical Inflation	9.5% (pre-Medicare) or 8.5% (post Medicare)	9.5% (pre-Medicare) or 8.5% (post Medicare)	10.0% (pre-Medicare) or 9% (post Medicare)
Grading over 15 Years	Grading to 5.25% over 15 years	Grading to 5.25% over 15 years	Grading to 5.25% over 14 years

Funding Status (in millions)

Actual Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2011	$ 511.5	$ 866.6	$ 355.1	59.0%	$ 1,559.8	22.8%
9/30/2010	424.3	784.9	360.6	54.1%	1,544.5	23.3%
9/30/2009	309.1	625.9	316.8	49.4%	1,579.9	20.1%
10/1/2008	219.7	745.2	525.5	29.5%	1,107.1	47.5%
10/1/2007	164.2	600.1	435.9	27.4%	1,090.9	40.0%

As the Fund's actuarial calculations are presented based on the year that they were prepared for, the table above presents the five most recent valuations prepared one year in arrears to the FY for which they were prepared.

Analysis of the dollar amounts of actuarial valued assets, actuarial liability, and unfunded actuarial liability in isolation can be misleading. Expressing actuarial valued assets as a percentage of the actuarial liability provides one indication of the Plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater the percentage of assets is to liability, the stronger the Plan.

Trends in the unfunded actuarial liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage of unfunded actuarial liability is to annual covered payroll, the stronger the Plan.

The Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitation on the pattern of cost sharing between the employer and plan members in the future.

Determination of the Annual Required Contribution (ARC)

In determining the Annual Required Contribution (ARC), the rate of employer contributions to the Plan is composed of the Normal Cost plus amortization of the Unfunded Actuarial Liability. The Normal Cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The Actuarial Liability is that portion of the Present Value of Projected Benefits that will not be paid by Future Employer Normal Cost or active employee contributions. The difference between this liability and the funds accumulated as of the same date is the Unfunded Actuarial Liability.

The District's (employer) annual contribution expense is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For purpose of calculating the ARC, which the Fund has to report each year, the rate of District (employer) contributions to the Fund is composed of the Normal Cost plus amortization of the UAAL.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(In millions)

FY Ended September 30	Annual Required Contribution (ARC)	Percentage Contribution (%)
2008	$103.4	107.2
2009	$130.9	62.6
2010	$ 92.2	98.4
2011	$ 94.2	100.0
2012	$109.8	115.0

See independent auditors' report

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia:

We have audited the basic financial statements of the Government of the District of Columbia's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) as of and for the year ended September 30, 2012 and 2011, and have issued our report thereon dated February 14, 2013. 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.

Internal Control over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's basicfinancial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Fund in a separate letter dated February 14, 2013.

This report is intended solely for the information and use of management, they Mayor, Members of the Council and the Inspector General of the Government of the District of Columbia, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 14, 2013