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, 2010

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 11-1-23MA **June 1, 2011**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

June 1, 2011

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 Kwame R. Brown
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 Brown:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2010, 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 year ended September 30, 2010 (OIG No. 11-1-23MA).

KPMG opined that the financial statements present fairly, in all material respects, the respective plan net assets and the changes in plan net assets for the year ended September 30, 2010, 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, and 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

Enclosure

CJW/ws

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, 2010 and 2009

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, 2010 and 2009

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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 statement of plan net assets of the Government of the District of Columbia's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (the Fund) as of September 30, 2010, and the related statement of changes in plan net assets for the year 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 audit. The accompanying financial statements of the Fund as of and for the year ended September 30, 2009 were audited by other auditors whose report thereon dated January 29, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the Fund are intended to present the plan net assets and the changes in plan net assets of the Fund. They do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia, as of September 30, 2010, or the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

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, 2010, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011 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.

The Management's Discussion and Analysis on pages 3 through 6 and actuarial analysis information on pages 17 through 19 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

May 12, 2011

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

SEPTEMBER 30, 2010 and 2009

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 years ended September 30, 2010 and 2009. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

The District established the Fund, which is a single employer defined benefit plan on October 1, 1999. 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 2010	FY 2009	FY 2008
The Plan's investments totaled	$ 331,606,257	$ 227,444,107	$218,082,211
District's contributions totaled	$ 90,700,000	$ 81,100,000	$147,199,024

Financial Analysis

Table 1-Statement of Plan Net Assets

Assets	2010	2009	Variance	%Variance	2008	Variance	%Variance
		Change from 2009				Change from 2008	
Cash	$ 92,647,617	$ 81,692,062	$ 10,955,555	13.41%	$1,602,639	$80,089,423	4,997%
Receivables	753,151	-	753,151	100.00%	-	-	-
Investments	331,606,257	227,444,107	104,162,150	45.80%	$218,082,211	9,361,896	4.29%
Total assets	425,007,025	309,136,169	115,870,856	37.48%	$219,684,850	$89,451,319	40.72%
Liabilities							
Payable-investments	753,151	-	753,151	100%	-	-	-%
Net assets held in trust for other postemployment benefits	$424,253,874	$309,136,169	$115,117,705	37.24%	$219,684,850	$89,451,319	40.72%

Table 2-Statement of Changes in Plan Net Assets

	2010	2009	Variance	%Variance	2008	Variance	%Variance
		Change from 2009				Change from 2008	
Additions							
Contributions	$ 90,907,792	$ 81,898,333	$ 9,009,459	11.00%	$110,906,663	$(29,008,330)	(26.16)%
Net investment income	29,632,439	11,057,814	18,574,625	167.98%	(52,220,016)	63,227,830	121.18%
Total additions	120,540,231	92,956,147	27,584,084	29.67%	$58,686,647	34,269,500	58.39%
Deductions							
Insurance premiums	3,380,850	2,362,043	1,018,808	43%			
Other expenses	2,041,676	1,142,785	898,921	78%	3,182,875	321,953	10.12%
Total liabilities	5,422,526	3,504,828	1,917,709	4.72%	3,182,875	321,953	10.12%
Net increase	$ 115,117,705	$ 89,451,319	25,666,375	28.69%	$ 55,503,772	$ 33,947,547	61.16%
Beginning Net Assets	$309,136,169	$219,684,850			$164,181,078		
Ending Net Assets	$424,253,874	$309,136,169			$219,684,850		

Plan Contributions

For fiscal years ended September 30, 2010 and 2009, the District made a contribution in the amount of $90,700,000 and $81,100,000, respectively, which was 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 fiscal years ended September 30, 2010 and 2009 amounted to $207,792 and $798,333, 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 75% 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 75% of the cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan. The Annuitant or member of the family pays 25% of the applicable premiums for his or her health insurance coverage for 2009 and through February, 2010.

Investment Income

The Fund as a whole had a positive rate of returns of 8.63% with a net appreciation of $22,088,107 for the fiscal year ended September 30, 2010. The net investment gain for the Fund was a result of positive rates of returns realized on investments. The rates of return for the two State Street funds were not provided because these accounts were held for less than one quarter. These are index funds and the returns for the indices were: MSCI EAFE: 3.27% and Barclays Capital Aggregate: 8.16%. The return rates listed below were for the full year ending September 30, 2010.

Investment	**Rate of Return**
Bernstein Strategic Value	4.39%
Bernstein Strategic Growth	2.41%
Bernstein Intermediate Bond	11.50%
BlackRock Large Cap Growth	7.74%
BlackRock U.S. Opportunities	14.96%
BlackRock Small Cap Growth 1	9.43%
BlackRock Inflation Protected Bond	9.30%
Royce Pennsylvania Mutual Fund	12.21%

The Fund had dividend and interest income in the amount of $7,544,332, a realized loss in the amount of ($14,102,338), and an unrealized gain of $36,190,445 for fiscal year 2010.

The Plan's investments had a net investment gain for the fiscal year ended September 30, 2009 in the amount of $3,097,977. Sanford Bernstein, Legg Mason, and BlackRock investment accounts had average positive rates of return of approximately 1.50%, 15.937%, and 1.047%, respectively. The Fund had dividend and interest income in the amount of $7,959,837, a realized loss in the amount of ($21,337,774), and an unrealized gain of $24,435,751 for fiscal year 2009.

Insurance Carrier Premiums

Insurance Carrier Premiums represent amounts paid to the Plan's health and life insurance carriers. The premium expense for fiscal years ended September 30, 2010 and 2009, totaled $3,380,850 and $2,362,043, respectively (for fiscal year 2009, amounts include the Defined Benefit Plan insurance premiums and the fiscal year 2010 amount includes Aetna Insurance, Kaiser Permanente and United Healthcare premiums). The Defined Benefit Plan expense for fiscal year 2010 is $2,700,303, which is reasonable considering the increase in both the number of participates and costs of insurance. During the fiscal year ended September 30, 2010, the number of Plan participants increased by 77 members, which represents an increase of 18% in membership, that contributed to the increase in the health and life insurance premiums. All four of the insurance premiums increased during 2010. Aetna HMO cost rose 8.4%, Aetna PPO cost increased 4.66%, Kaiser premium increased 9.90% and United Health Care premiums rose 7.87%.

During the fiscal year ended September 30, 2009, the number of Plan participants increased by 84 members which in turn resulted in the increase in the health and life insurance premiums.

The number of Plan participants decreased by approximately 149 members which in turn resulted in the decrease in the health and life insurance premiums for fiscal year 2008.

Management Fees

Management fees paid during the fiscal years ended September 30, 2010 and 2009 are detailed in the table below. The increase in management fees was due to a 45% increase in investments, the creation of the Master Custodian contract with State Street, and the three new funds managed by Blackrock Investments.

Management and custody fees paid by the District's Annuitants' Health and Life Insurance Employer Contribution Plan are detailed below.

Investment Firm	Plan Year 2010	Plan Year 2009	Plan Year 2008
Sanford Bernstein	$ 676,952	$ 591,805	$ 765,985
Legg Mason	293,579	276,673	236,984
Royce Funds	82,727	-	-
Blackrock	707,081	224,406	247,075
State Street/SSgA	128,757	-	-
Total	$ 1,889,096	$ 1,092,884	$ 1,250,044

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

SEPTEMBER 30, 2010 and 2009

	2010	2009
Assets		
Cash	$ 92,647,617	$ 81,692,062
Receivables	753,151	-
Total current assets	93,400,768	81,692,062
Investments, at fair value		
Equities	180,319,337	126,380,722
Bonds	151,286,920	101,063,385
Total investments	331,606,257	227,444,107
Total Assets	425,007,025	309,136,169
Liabilities		
Accounts payable and other	753,151	-
Net assets held in trust for other postemployment benefits	$ 424,253,874	$ 309,136,169

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

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

FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

	2010	2009
Additions		
Contributions:		
District contributions	$ 90,700,000	$ 81,100,000
Retiree contributions	207,792	798,333
Total contributions	90,907,792	81,898,333
Investment Income:		
Net appreciation in the fair value of investments	22,088,107	3,097,977
Dividend and interest income	7,544,332	7,959,837
Net investment income	29,632,439	11,057,814
Total additions	120,540,231	92,956,147
Deductions		
Insurance carrier premiums	3,380,850	2,362,043
Management fees	1,889,096	1,092,884
Administrative expenses	152,580	49,901
Total deductions	5,422,526	3,504,828
Change in net assets	115,117,705	89,451,319
Net assets held in trust for other postemployment benefits		
Beginning of Year	309,136,169	219,684,850
End of Year	$ 424,253,874	$ 309,136,169

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

GOVERNMENT OF DISTRICT OF COLUMBIA
ANNUITANTS' HEALTH AND LIFE INSURANCE
EMPLOYER CONTRIBUTION TRUST FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 and 2009

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) 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 75% 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 75% of the cost of the selected health benefit plan and the annuitant pays 25% 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% 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 $.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 SUMMARIES 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. On September 22, 2009, the District finalized all of the terms and provisions of the Plan. The Plan was amended and restated effective March 2, 1010. 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 fiscal year 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.

The Fund is administered jointly by the District's Office of Human Resources and the District's Office of Finance and Treasury. The Fund is included as a fiduciary fund in the District's financial statements. These financial statements present only the additions and deductions from net assets, and related assets, liabilities, and net assets available for postemployment benefits of the Fund.

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 506 and 429 retired participants and 23,203 and 24,147 active employees as of September 30, 2010 and 2009, respectively. The participants consisted of 358 teachers, police, and firefighters and 148 General District retirees for fiscal year 2010 and 310 teachers, police, and firefighters and 119 General District retirees for fiscal year 2009.

NOTE 4 MASTER CUSTODIAN CONTRACT

The Plan administrators signed a Master Custodian Contract with State Street on September 24, 2009. The assets in the Bernstein Strategic Value and Strategic Growth funds that were individually managed by Bernstein were transferred to State Street on September 28, 2009, with the exception of a small cash balance of $8,850 and $2,250, respectively. State Street serves as the Master Custodian for the Trust Fund. 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 INVESTMENTS

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 Trust Fund assets must be allocated within the following parameters:

Asset Class	Minimum Allocation	Maximum Allocation
U.S. Equities	30%	60%
International Equities	–	15%
International Fixed Income	–	15%
U.S. Fixed Income	25%	70%
Alternative Assets	–	30%
Real Estate	–	5%
Cash	–	20%

The majority of the Plan's assets for the years ended September 30, 2010 and 2009 were investments, which totaled $331,606,257 and $227,444,107 respectively. The Plan's investments were in four different funds: State Street, Blackrock, Sanford Bernstein, and Royce Pennsylvania. At September 30, 2010 and 2009, the funds were invested in equities: (43%) and (41%), and bonds: (36%) and (33%), respectively. The fair value of each fund is as follows:

Fund	2010	2009
BlackRock	$ 109,550,670	$ 45,751,649
Sanford Bernstein	109,376,094	109,572,168
State Street	101,794,331	-
Royce Funds	10,885,162	-
Legg Mason	-	72,120,290
	$ 331,606,257	$ 227,444,107

At September 30, 2010, the Plan held the following aggregate investments, which are stated at aggregate fair value based on quoted market prices:

	Aggregate Cost	Aggregate Fair Value	Unrealized Appreciation/ (Depreciation)
Sanford Bernstein			
Intermediate Duration	$ 47,562,587	$ 50,428,871	$ 2,866,284
US Strategic Value	46,157,104	46,694,434	537,330
US Strategic Growth	11,149,593	12,252,789	1,103,196
Royce Pennsylvania Mutual Fund			
Mutual Fund (Inv C)	10,008,120	10,885,162	877,042
BlackRock			
Large Cap Growth	52,811,585	49,291,326	(3,520,259)
U.S. Opportunities	28,658,077	31,753,991	3,095,914
Inflation Protected Bond	20,655,579	22,022,813	1,367,234
Small Cap Growth Equity	6,000,000	6,482,540	482,540
State Street			
U.S. Aggregate Bond Index	77,500,000	78,835,236	1,335,236
MSCI EAFE Index -	21,583,951	22,959,095	1,375,145
	$ 322,086,595	$ 331,606,257	$ 9,519,662

The Plan's investments are uninsured and unregistered and are held by a 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 Plan does not invest more than 15% of the Plan's assets in securities rated below "A". As of September 30, 2010 and 2009, the average quality rating of the BlackRock 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 of the Sanford Bernstein portfolio was 6.33 and 4.45 years for fiscal years ended September 30, 2010 and 2009 respectively.

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. Only the Sanford Bernstein and State Street MSCI EAFI Index portfolio invests in foreign companies. In its attempt to protect against the inherent exchange rate risks involved with foreign investments, during the fiscal year Bernstein employed an "active currency management" approach, which tracked trends in currency prices and combined statistical analysis with quality market research to forecast future currency movements. Sanford Bernstein used 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. The currency denomination of these investments was not available. At September 30, 2010, Sanford Bernstein held no foreign denominated investments; thus, the Plan had no associated foreign currency risk.

NOTE 6 DISTRICT CONTRIBUTIONS

The District historically makes its contributions to the Fund near the completion of the fiscal year, 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, 2010 was due to the receipt of the fiscal year contribution of $90,700,000. This contribution was deposited into the State Street cash account on September 29, 2010, and was subsequently distributed to the investment managers on October 23, 2010. The funds were distributed as follows:

FUND	AMOUNT
BlackRock – US Opportunities Fund	$ 28,000,000
SSgA MSCI EAFE Index Fund	19,900,000
SSgA Aggregate Bond Index Fund	17,100,000
Bernstein Intermediate Duration Bond Fund	10,900,000
Royce Pennsylvania Mutual Fund	5,200,000
BlackRock – TIPS Fund	4,700,000
BlackRock – Small Cap Growth Equity Fund	4,200,000
SSgA – DIC0 Cash Account	700,000
	$ 90,700,000

The significant cash balance in the Plan as of September 30, 2009 was due to the receipt of the fiscal year contribution of $81,100,000. These contributions were deposited into the State Street cash account on September 28, 2009, and were subsequently distributed to the investment managers on October 22, 2009.

FUND	AMOUNT
Bernstein Intermediate Duration Bond Fund	$ 16,300,000
Legg Mason - Royce Pennsylvania Mutual Fund	10,000,000
BlackRock – Inflation Protected Bond Fund	20,200,000
BlackRock – US Opportunities Fund	28,600,000
BlackRock – Small Cap Growth Equity Fund	6,000,000
	$ 81,100,000

NOTE 7 CONTINGENCIES

At September 30, 2010, 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 8 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, 2009 actuarial valuation. The actuarial assumptions included a 7.25% investment rate of return, a discount rate of 7.25%; a 5.0% salary increase rate (plus merit scale); and a medical inflation rate ranging between 10% (pre-Medicare) and 9% (post-Medicare) grading to 5.25% over 14 years. The amortization method applied was the level percent open method. The remaining amortization period at September 30, 2009 was 30 years.

The September 30, 2009 estimated actuarial liability is $625.9 million and the actuarial value of the assets is $309.1 million resulting in an estimated unfunded actuarial accrued liability (UAAL) of $316.8 million and a funded ratio of 49.4%. The estimated covered payroll (annual payroll of active employees covered by the Plan) is $1,579.9 million and the ratio is 20.1%. 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 limitations.

REQUIRED SUPPLEMENTARY INFORMATION
ACTUARIAL ANALYSES

An independent actuary performed an actuarial analysis of the Plan's assets and liabilities as of September 30, 2009, and September 30, 2008, and September 30, 2007 to determine the future funding status of the Plan, which is outlined below. The analysis was based on census data as of September 30, 2009, April 1 2008 and October 1, 2006, and had no impact on the current financial statements.

This data is presented below.

Valuation Date	September 30, 2009 (Projected from September, 2009 census)	September 30, 2008 (Projected from April, 2008 census)	September 30, 2007 (Projected from October, 2006 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	7.25%	7.25%	7.25%
Discount Rate	7.25%	6.50%	6.50%
Rate of Salary Increase	5.0% (plus merit scale)	5.0% (plus merit scale)	5.0% (plus merit scale)
Rate of Medical Inflation	10.0% (pre-Medicare) or 9% (post Medicare)	10.0% (pre-Medicare) or 9% (post Medicare)	10.0% (pre-Medicare) or 9% (post Medicare)
Grading over 15 Years	Grading to 5.25% over 14 years	Grading to 5.25% over 14 years	Grading to 5.25% over 15 years

Future 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
9/30/2009	$309.1	$625.9	$316.8	49.4%	$1,579.9	20.1%
9/30/2008	$219.7	$745.2	$525.5	29.5%	$1,107.1	47.5%
9/30/2007	$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 about presents the three most recent valuations prepared one year in arrears to the fiscal year for which they were prepared. For prospective purposes, the estimated valuation information for the fiscal year ending September 30, 2010, for which the actual actuarial calculation procedures will be performed during fiscal year 2011 and, using the September 30, 2009 actuarial valuation results, reflects an estimated actuarial liability is $745.9 million and the actuarial value of the assets is $424.2 million resulting in an estimated unfunded actuarial accrued liability (UAAL) of $321.7 million. The covered payroll (annual payroll of active employees covered by the Plan) is $1,692.1 million and the ratio of the UAAL to the covered payroll is 19%.

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 this percentage, the stronger the Plan.

REQUIRED SUPPLEMENTARY INFORMATION
ACTUARIAL ANALYSES

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 this percentage, 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 limitations.

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.

REQUIRED SUPPLEMENTARY INFORMATION
ACTUARIAL ANALYSES

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(In millions)

Year Ended September 30	Annual Required Contribution (ARC)	Percentage Contribution
2006	$138.0	100.0% ***
2007	$ 4.7	100.0%
2008	$103.4	107.2%
2009	$130.9	62.0%
2010	$ 92.2	98.4%

*** Fiscal year 2006 ARC was contributed to the Fund in fiscal year 2007

See independent auditors' report

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' 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 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, 2010, and have issued our report thereon dated May 12, 2011 We conducted our audit 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

In planning and performing our audit, 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 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. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying Appendix A to this report. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial 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*.

The District of Columbia's response to the finding identified in our audit is described in the accompanying Appendix A to this report. We did not audit the District of Columbia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the 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

May 12, 2011

Appendix A – Significant Deficiency in Internal Control Over Financial Reporting

Background:

The District retains the services of the third-party actuary to determine the Fund's OPEB benefit obligation liability by performing appropriate actuarial projection calculation based on certain assumptions as well as relevant employee and retiree census data.

Condition:

During our performance of procedures related to District management's review of the Fund's actuarial assumptions and final projections report, we noted the District currently performs a limited and insufficient review of the underlying participant data provided to its actuaries in order for them to estimate the District's liability exposure at fiscal year end. This review is critical to ensure the completeness and accuracy of the claims data submitted to the actuaries but does not impact the financial statement balances as it only impacts the projection of actuarial amounts.

Additionally, we noted that the documentation supporting actuarial assumptions was not consistently maintained.

Criteria:

Government Auditing Standards, Appendix I, section A1.08 d., states that management at a State and Local government entity is responsible for "*establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.*"

Cause:

The District currently lacks of a formalized, structured and documented management review process covering the annual actuarial valuation process.

Effect

The lack of formalized management review over the annual actuarial valuation process increases the risk that a material misstatement in OPEB's required supplementary information may occur and not be identified.

Recommendation:

KPMG recommends that management develop and implement a formal review process, including well documented policies and procedures, to ensure that the actuarially determined liabilities and disclosures in the financial statements are fairly presented in accordance with U.S. generally accepted accounting principles. This review process should be complete so as to include guidance related to the underlying participant data, assumptions utilized in the actual calculations and the propriety of the mathematical calculations.

Management's Response:

Management concurs with finding and will follow the recommendation.