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, 2011, and 2010

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 12-1-19MA **September 4, 2012**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

September 4, 2012

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 402
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) 2011, 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, 2011 (OIG No. 12-1-19MA).

KPMG opined that the financial statements present fairly, in all material respects, the respective plan net assets and the changes in plan net assets of the Fund for the years ended September 30, 2011, and 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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KPMG

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, 2011 and 2010

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, 2011 and 2010

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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 financial statements of 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, 2011 and 2010, and the related statements of changes in plan net assets (here in after referred to as 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 audit.

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 (the District), as of September 30, 2011 and 2010, or the respective changes in the District's financial position for the years 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, 2011 and 2010, 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 July 31, 2012 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 and Required Supplementary Information on pages 3 through 6 and 16 through 17, respectively, 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

July 31, 2012

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

SEPTEMBER 30, 2011 and 2010

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, 2011 and 2010. 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 2011	FY 2010	FY 2009
The Plan's investments totaled	$ 415,220,016	$ 331,606,257	$ 227,444,107
District's contributions totaled	$ 94,200,000	$ 90,700,000	$ 81,100,000

Financial Analysis

Table 1-Statement of Plan Net Assets

	2011	2010	Change from 2010 Variance	Change from 2010 % Variance	2009	Change from 2009 Variance	Change from 2009 % Variance
Assets							
Cash	$96,266,121	$92,647,617	$ 3,618,504	4%	$81,692,062	$10,955,555	13%
Receivables and other	330,112	753,151	(423,039)	-56%	0	753,151	100%
Investments	415,220,016	331,606,257	83,613,759	25%	227,444,107	104,162,150	46%
Total Assets	511,816,249	425,007,025	86,809,224	20%	309,136,169	115,870,856	38%
Liabilities							
Payable-Investments	716,036	753,151	(37,115)	-5%	0	753,151	100%
Total Liabilities	716,036	753,151	(37,115)	-5%	0	753,151	100%
Net Assets held in Trust for Other Post Employment Benefits	$511,100,213	$424,253,874	$86,772,109	20%	309,136,169	115,117,705	37%

Table 2-Statement of Changes in Plan Net Assets

	2011	2010	Change from 2010 Variance	Change from 2010 % Variance	2009	Change from 2009 Variance	Change from 2009 % Variance
Additions							
Contributions	$94,465,597	$90,907,792	$3,557,805	4 %	$81,898,333	$9,009,459	11%
Net Investment Income	(3,266,196)	27,743,343	(31,009,539)	-112%	11,057,814	18,574,625	168%
Total Additions	91,199,401	118,651,135	(27,451,734)	-23%	92,956,147	27,584,084	30%
Deductions							
Insurance Premiums	4,147,801	3,380,850	766,951	23%	2,362,043	1,018,808	43%
Other Expenses	205,261	152,580	52,681	35%	1,142,785	898,921	78%
Total Deductions	4,353,062	3,533,430	819,632	23%	3,504,828	1,917,709	5%
Net Increase	86,846,339	115,117,705	(28,271,366)	-25%	$89,451,319	$25,666,375	29%
Beginning Net Assets	$424,253,874	$ 309,136,169			$219,684,850		
Ending Net Assets	$511,100,213	$ 424,253,874			$309,136,169		

Plan Contributions

For fiscal years ended September 30, 2011 and 2010, the District made actuarially based contributions in the amounts of $94,200,000 and $90,700,000, 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 fiscal years ended September 30, 2011 and 2010 amounted to $265,597 and $207,792, 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 2010 and through February 2011.

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

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 negative rate of returns of (0.325%) with a net depreciation in fair value of investments of ($8,532,576) for the fiscal year ended September 30, 2011. The net investment loss for the Fund was a result of negative rates of returns on investments. The Fund as a whole had a positive rate of return with net appreciation in fair value of investments 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. Please review the table below for details.

Investment	Rate of Return FY2011	Benchmark FY 2011	Rate of Return FY2010	Benchmark FY 2010
Bernstein Strategic Value	-6.16%	-1.89%	4.39%	8.90%
Bernstein Strategic Growth	-2.56%	3.78%	2.41%	12.65%
Bernstein Intermediate Bond	5.29%	4.22%	11.50%	7.52%
BlackRock Large Cap Growth	0.75%	3.78%	7.74%	12.65%
BlackRock U.S. Opportunities	-6.78%	-0.88%	14.96%	15.92%
BlackRock Small Cap Growth	-1.62%	-1.12%	9.43%	14.79%
BlackRock Inflation Protected Bond	8.10%	9.87%	9.30%	8.89%
Royce Pennsylvania Fund	-2.79%	-3.53%	12.21%	13.35%
SSgA International	-9.09%	-9.36%	*	
SSgA Bond	5.19%	5.26%	*	

*Fund not held for the full fiscal year.

The Fund had dividend and interest income in the amount of $7,151,659 for fiscal year 2011. The fund had dividend and interest income in the amount of $7,544,332. for fiscal year 2010.

The Plan's investments had a net investment gain for the fiscal year ended September 30, 2010 in the amount of $22,088,107. The investments had positive rates of return led by BlackRock US Opportunities, 14.96%, Royce pennsylvania mutual Fund, 12.21% and Bernstein Intermediate Bond Fund, 11.50%. 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.

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, 2011 and 2010, totaled $4,147,801, and $3,380,850 respectively. The Defined Benefit Plan insurance premiums for fiscal years ended September 30, 2011 and 2010, totaled $3,163,011, and $2,700,303 respectively, 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 181 members to a total of 779 members and spouses, which represents an increase of 30% in membership, that contributed to the increase in the health and life insurance premiums. In comparison to the fiscal year ended September 30, 2011, the number of Plan participants decreased by 32 members to a total of 747 members and spouses, which represents an decrease of 4.0% in membership. Total health and life insurance premiums, however, increased for the fiscal year.

The number of active employees was 23,182 as of September 30, 2010. There were 22,420 active employees as of September 30, 2011.

Management Fees

Management fees paid during the fiscal years ended September 30, 2011 and 2010 are detailed in the table below. The decrease in management fees was due to a transfer of a portion of our fixed income and international assets to funds with lower expense ratios.

Investment Firm		Plan Year 2011		Plan Year 2010
Sanford Bernstein	$	724,812	$	676,952
Legg Mason		0		293,579
Royce Funds		117,600		82,727
Blackrock		835,108		707,081
SSgA		207,759		128,757
Total	$	1,885,279	$	1,889,096

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

SEPTEMBER 30, 2011 and 2010

	2011	2010
Assets		
Cash	$ 96,266,121	$ 92,647,617
Receivables:		
Investment	330,112	633,815
Interest and dividends		119,336
Total Receivables	330,112	753,151
Investments, at fair value:		
Equities	221,052,536	180,319,337
Bonds	194,167,480	151,286,920
Total Investments	415,220,016	331,606,257
Total Assets	511,816,249	425,007,025
Liabilities		
Accounts Payable and other	716,036	753,151
Net assets held in trust for other post employment benefits	$ 511,100,213	$ 424,253,874

See accompanying notes to basic 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, 2011 and 2010

	2011	**2010**
Additions		
Contributions:		
District Contributions	$ 94,200,000	$ 90,700,000
Retiree Contributions	265,597	207,792
Total Contributions	94,465,597	90,907,792
Investment Income:		
Net appreciation/(depreciation) in the fair value of investments	(8,532,576)	22,088,107
Dividend and Interest income	7,151,659	7,544,332
Management Fees	(1,885,279)	(1,889,096)
Net Investment Income	(3,266,196)	27,743,343
Total Additions	91,199,401	118,651,135
Deductions		
Insurance Carrier Premiums	4,147,801	3,380,850
Administrative expenses	205,261	152,580
Total Deductions	4,353,062	3,533,430
Change in Net Assets	86,846,339	115,117,705
Net Assets held in Trust for other Postemployment Benefits		
Beginning of Year	424,253,874	309,136,169
End of Year	$ 511,100,213	$ 424,253,874

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 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 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 $.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. 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 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 747 and 779 retired participants and spouses as of September 30, 2011 and 2010, respectively. The participants and spouses consisted of 611 teachers, police, and firefighters and 136 General District retirees for fiscal year 2011, and 569 teachers, police, and firefighters; and 210 General District retirees for fiscal year 2010.

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 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, 2011 and 2010 were investments, which totaled $415,220,016, and $331,606,257 respectively the assets are invested with four different managers: SSgA, BlackRock, Sanford Bernstein, and Royce Pennsylvania. At September 30, 2011 and 2010, the funds were invested in equities: (43%) and (43%), and bonds: (38%) and (36%), respectively. The fair value of each fund is as follows:

Fund	2011	2010
BlackRock	$ 143,736,347	$ 109,550,670
Sanford Bernstein	116,924,151	109,376,094
SSgA	139,085,775	101,794,331
Royce Funds	15,473,743	10,885,162
	$ 415,220,016	$ 331,606,257

At September 30, 2011 and September 30 2010, the Plan held the following aggregate investments, which are stated at aggregate fair value based on quoted market prices:

September 30, 2011:

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

September 30, 2010:

	Aggregate Cost	Aggregate Fair Market 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
BlackRock			
Large Cap Growth	52,811,585	49,291,326	(3,520,259)
)US 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
SSgA			
US Aggregate Bond Index NL	77,500,000	78,835,236	1,335,236
MSCI EAFE Index	21,583,951	22,959,095	1,375,145
Royce			
Pennsylvania Mutual Fund (Inv C)	10,008,120	10,885,162	877,042
	$ 322,086,595	$ 331,606,257	$ 9,519,662

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 Plan does not invest more than 15% of the Plan's assets in securities rated below "A". As of September 30, 2011 and 2010, 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 Intermediate Duration was 3.09 and 6.33 years for fiscal years ended September 30, 2011 and 2010 respectively. BlackRock Inflation Protection Bond MF was 4.82 and 6.23 years for fiscal years ended September 30, 2011 and 2010, respectively. SSgA Bond Index Fund was acquired on August 1, 2010. It had a duration of 4.88 and 4.63 as of September 30, 2011 and September 30, 2010, 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. BlackRock, 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. The currency denomination of these investments was not available.

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, 2011 and 2010 was due to the receipt of the fiscal year contribution of $94,200,000 and $90,700,000, respectively. This contribution was deposited into the State Street cash account on September 30, 2011 and September 29, 2010, and was subsequently distributed to the investment managers on October 3, 2011 and October 23, 2010, respectively. The funds were distributed as follows:

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

2010	FUND		AMOUNT
	BlackRock - US Opportunities Fund	$	28,000,000
	SSGA MSCI EAFE Index Fund		19,900,000
	SSGA US Aggregate Bond Index Fund		17,100,000
	Bernstein Intermediate Duration Bond Fund		10,900,000
	Royce Pennsylvania Mutual Fund		5,200,000
	BlackRock - TIPD Fund		4,700,000
	BlackRock - Small Cap Growth Equity Fund		4,200,000
	SSGA - DIC0 Cash Account		700,000
		$	90,700,000

NOTE 7 CONTINGENCIES

At September 30, 2011, 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, 2010 and September 30, 2009 actuarial valuations. 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 2009 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 between105 (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 amortization method applied was the level percent open method. The remaining amortization period at September 30, 2010 and September 30, 2009 was 30 years.

The September 30, 2010 estimated actuarial liability is $784.9 million and the actuarial value of the assets is $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) is $1,544.5 million and the ratio is 23.3%.

The September 30, 2009 estimated actuarial liability was $625.9 million and the actuarial value of the assets was $309.1 million resulting in an unfunded actuarial 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) was $1,579.9 million and the ratio was 20.1%.

REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL ANALYSES

An independent actuary performed an actuarial analysis of the Plan's assets and liabilities as of September 30, 2010, and September 30, 2009, and September 30, 2008 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, and April 1 2008.

This data is presented below.

Valuation Date	September 30, 2010 (Projected from September, 2010 census)	September 30, 2009 (Projected from September, 2009 census)	September 30, 2008 (Projected from Apri1, 2008 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%	7.25%	7.25%
Discount Rate	7.00%	7.25%	6.50%
Rate of Salary Increase	4.25% (plus merit scale)	5.0% (plus merit scale)	5.0% (plus merit scale)
Rate of Medical Inflation	9.5% (pre-Medicare) or 8.5% (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 15 years	Grading to 5.25% over 14 years	Grading to 5.25% over 14 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 Covered Payroll
9/30/2010	$424	$785	$361	54%	$1,545	23%
9/30/2009	$309	$626	$317	49%	$1,580	20%
9/30/2008	$220	$745	$526	30%	$1,107	48%

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.

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 an 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)

Year Ended September 30	Annual Required Contribution (ARC)	Percentage Contribution (%)
2009	$130.9	62.6%
2010	$ 92.2	98.4%
2011	$ 94.2	100.0%

See independent auditors' report

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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, 2011, and have issued our report thereon dated July 31, 2012. 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

Management of the Fund is responsible for establishing and maintaining effective 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 Fund'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 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*.

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

July 31, 2012