

**OTHER POST-EMPLOYMENT BENEFITS  
FUND**

**FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(WITH REPORT OF INDEPENDENT PUBLIC  
ACCOUNTANTS)**



**OIG**

**FISCAL YEARS ENDED  
SEPTEMBER 30, 2015 AND 2014**

**DANIEL W. LUCAS  
INSPECTOR GENERAL**

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The mission of the Office of the Inspector General (OIG) is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District administration and operations; and
- recommend and track the implementation of corrective actions.

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**



**Inspector General**

March 31, 2016

The Honorable Muriel Bowser  
Mayor of the District of Columbia  
Mayor's Correspondence Unit  
1350 Pennsylvania Avenue, N.W., Suite 504  
Washington, D.C. 20004

The Honorable Phil Mendelson  
Chairman  
Council of the District of Columbia  
John A. Wilson Building  
1350 Pennsylvania Avenue, N.W., Suite 316  
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report issued by SB & Company, LLC (SBC) on the Other Post-Employment Benefits Fund financial statement for the years ended September 30, 2015, and 2014 (OIG No. 16-1-11MA). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year 2015.

SBC opined that the Fund's financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no weaknesses in internal control.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Lucas", is positioned above the typed name.

Daniel W. Lucas  
Inspector General

DWL/lw

Enclosure

cc: See Distribution List

Mayor Bowser and Chairman Mendelson  
Other Post-Employment Benefits Fund Financial  
Statement for FYs 2015 and 2014 (with  
Independent Public Accountants' Report  
Thereon)  
OIG No. 16-1-11MA  
March 31, 2016  
Page 2 of 2

**DISTRIBUTION:**

The Honorable Jack Evans, Chairperson, Committee on Finance and Revenue, Council of the District of Columbia (via email)  
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Mr. John Falcicchio, Chief of Staff, Office of the Mayor (via email)  
Mr. Michael Czin, Director, Office of Communications, (via email)  
Mr. Matthew Brown, Director, Mayor's Office of Budget and Finance (via email)  
Ms. Nyasha Smith, Secretary to the Council, Council of the District of Columbia (1 copy and via email)  
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The Honorable Kathleen Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Candace McCrae (via email)  
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)  
Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC



**SB & COMPANY, LLC**  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2015 and 2014**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Government of District of Columbia Other Post-Employment Benefits Fund (the Fund), a fiduciary fund of the Government of the District of Columbia, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



**SB & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

### **Emphasis of Matter**

As discussed in Note 2, the financial statements of the Fund are intended to present only the Fund and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2015 and 2014, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to the matter.

### ***Other Matters***

#### ***Prior Year Balances***

The financial statements of the Fund as of and for the year ended September 30, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 11, 2015.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, funding status, and schedule of employer contributions 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government of the District of Columbia's internal control over financial reporting and compliance.

Washington, D.C.  
January 27, 2016

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Management’s Discussion and Analysis  
September 30, 2015 and 2014**

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia’s (District) Other Post-Employment Benefits Fund (Fund) for the fiscal years (FYs) ended September 30, 2015 and 2014. 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 or Police and Fire Retirement System, or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Fund.

**Basic Financial Statements**

The Fund is required to follow U.S. Generally Accepted Accounting Principles and, as such, the Fund’s financial statements must consist of two basic financial statements: (a) Statement of Fund Net Position and (b) Statement of Changes in Fund Net Position.

- The Statement of Fund Net Position presents the Fund’s assets, liabilities, and net position available for postretirement benefits.
- The Statement of Change in Fund Net Position presents the additions to, and deductions from the Fund’s net position.

**Financial Highlights**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
The Fund’s Investments	\$1,045,586,954	\$941,971,328	\$773,536,046
District’s Contributions	91,400,000	86,600,000	107,800,000

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Management's Discussion and Analysis  
September 30, 2015 and 2014**

**Financial Analysis**

**Table 1 - Statement of Fund Net Position (*In dollars*)**

	2015	2014	FY2015-FY2014		2013	FY2014-FY2013	
			Variance	Variance %		Variance	Variance %
<b>Assets</b>							
Cash and cash equivalents	\$ 45,658,951	\$ 124,388,169	\$ (78,729,218)	-63.3%	\$ 151,862,701	\$ (27,474,532)	-18.1%
Receivables	16,214,607	22,954,227	(6,739,620)	-29.4%	4,553,226	18,401,001	404.1%
Investments, at fair value	1,045,586,954	941,971,328	103,615,626	11.0%	773,536,046	168,435,282	21.8%
Total assets	1,107,460,512	1,089,313,724	18,146,788	1.7%	929,951,973	159,361,751	17.1%
<b>Liabilities</b>							
Investments payable	30,910,398	37,954,665	(7,044,267)	-18.6%	32,136,760	5,817,905	18.1%
<b>Net Position Held in Trust for Other Post Employment Benefits</b>							
	\$ 1,076,550,114	\$ 1,051,359,059	\$ 25,191,055	2.4%	\$ 897,815,213	\$ 153,543,846	17.1%

**Table 2-Statement of Changes in Fund Net Position (*In dollars*)**

	2015	2014	FY2015-FY2014		2013	FY2014-FY2013	
			Variance	Variance %		Variance	Variance %
<b>Additions</b>							
Contributions	\$ 91,810,780	\$ 86,902,855	\$ 4,907,925	5.6%	\$ 108,088,940	\$ (21,186,085)	-19.6%
Net investment (loss) income	(59,515,011)	71,610,170	(131,125,181)	-183.1%	101,812,467	(30,202,297)	-29.7%
Total additions	32,295,769	158,513,025	(126,217,256)	-79.6%	209,901,407	(51,388,382)	-24.5%
<b>Deductions</b>							
Insurance premiums	6,739,591	4,729,440	2,010,151	42.5%	4,306,673	422,767	9.8%
Other expenses	365,123	239,739	125,384	52.3%	212,263	27,476	12.9%
Total deductions	7,104,714	4,969,179	2,135,535	43.0%	4,518,936	450,243	10.0%
<b>Net Increase</b>	25,191,055	153,543,846	(128,352,791)	-83.6%	205,382,471	(51,838,625)	-25.2%
<b>Beginning Net Position</b>	1,051,359,059	897,815,213			692,432,742		
<b>Ending Net Position</b>	\$ 1,076,550,114	\$ 1,051,359,059			\$ 897,815,213		

# **GOVERNMENT OF THE DISTRICT OF COLUMBIA OTHER POST-EMPLOYMENT BENEFITS FUND**

## **Management's Discussion and Analysis September 30, 2015 and 2014**

### **Fund Contributions**

For the FYs ended September 30, 2015 and 2014, the District made actuarially based contributions in the amounts of \$91,400,000 and \$86,600,000, respectively, which were based on congressionally approved budget authority. The District made contributions to the Fund that covered current and future Fund benefits.

### **Annuitant Contributions**

Annuitant contributions for FYs ended September 30, 2015 and 2014 amounted to \$410,780 and \$302,855, respectively. For FY 2015, 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 2.5% 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 75% of the cost of the selected health benefit plan, and the family member pays 25% 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.

Police and Firefighters hired before November 10, 1996, who retire with at least 5 years of creditable District service, the District contribution shall be an amount equal to 75% of the cost of the selected health benefit plan and the annuitant shall contribute 25% of the cost of the selected health benefit plan. For a covered family member of an annuitant, the District contribution shall be an amount equal to 60% of the cost of the selected health benefit plan and the covered family member shall contribute 40% of the cost of the selected health benefit plan.

Police and Fire fighters hired on or after November 10, 1996, with at least 10 years of creditable District service, but less than 25 years of creditable District service, the District contribution to the cost of a health benefit plan selected by the annuitant shall be an amount equal to 30% of the cost of the selected health benefit plan (as secondary to Medicare) for the annuitant, plus an additional 3% for each year of creditable District service over 10 years, and 25% for the covered family member of the annuitant, plus an additional 3% for each year of creditable District service over 10 years; provided, that the District contribution shall not exceed 75% of the cost of the selected health benefits plan for the annuitant and 60% of the cost of the selected health benefits plan for the covered family member of the annuitant. The annuitant and family member shall contribute the applicable balance of the cost of the selected health benefit plan.

### **Investment Income FY 2015**

The Fund, as a whole, had a negative rate of return of -5.18%, with a gross investment loss of \$54,110,723 for the FY ended September 30, 2015. The net investment loss for the Fund was a result of negative rates of returns on equities, negative returns on international debt securities and commodities, plus realized and unrealized investment gains and losses, with a net investment value of \$1,045,586,954, as of September 30, 2015. Please see the table below for details.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Management's Discussion and Analysis  
September 30, 2015 and 2014**

Investment	Rate of	Benchmark	Rate of	Benchmark
	Return	FY 2015	Return	FY 2014
Access Capital ETI	3.03%	3.43%	3.75%	3.68%
Artisan Int'l Value Equity (Barclays)	-5.32%	-12.18%	6.22%	6.18%
Baillie Gifford Int'l Growth (Barclays)	-12.81%	-4.30%	1.44%	3.22%
Bernstein Global Plus	-7.35%	-7.67%	-0.08%	-0.81%
Bernstein Strategic Core	2.82%	2.94%	4.74%	3.96%
Brandywine Large Cap Value	-11.18%	-4.42%	21.11%	18.89%
ClearBridge Mid Cap	5.93%	-0.25%	10.14%	15.83%
Farr, Miller Washington Large Cap Growth	-0.26%	3.17%	14.42%	19.15%
Royce Pennsylvania Mutual Fund	-8.30%	1.25%	3.29%	3.93%
SSgA Bond Index	2.98%	2.94%	3.97%	3.96%
SSgA Emerging Markets Equity Index	-19.37%	-19.28%	N/A *	4.30%
Blue Bay Emerging Market Debt Fund	-13.06%	-9.56%	N/A *	5.21%
Gresham Commodities Fund	-27.87%	-25.99%	N/A *	-6.58%

\*- Fund inception date was November 1, 2013

In 2015, the investments had negative rates of return: led by Gresham Commodities Fund, -27.87%; SSgA Emerging Market Equity Index Fund, -19.37%; BluBay Emerging Market Debt Fund, -13.06%; and Baillie Gifford International Growth Fund, -12.81%. The fund had dividend and interest income in the amount of \$22,432,988, and a net depreciation of \$76,847,441 for FY 2015.

**Investment Income FY2014**

The Fund, as a whole, had a positive rate of return of 7.67%, with gross investment income of \$76,445,901 for the FY ended September 30, 2014. The net investment gain for the Fund was a result of positive rates of return; plus realized and unrealized investments, with a net investment value of \$941,971,328 for the FY ended September 30, 2014. Please see the above table for details.

In 2014, the investments had positive rates of return: led by Brandywine Large Cap Value, 21.11%; Farr, Miller, Washington Large Cap Growth, 14.42%; and ClearBridge Mid Cap, 10.14%. The fund had dividend and interest income in the amount of \$17,608,546, and net appreciation of \$59,224,306 for FY 2014.

**Insurance Carrier Premiums**

Insurance Carrier Premiums represent amounts paid to the Fund's health and life insurance carriers. There were 22,069 and 21,017 active employees, as of FY September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, the Fund had 995 and 938 annuitants receiving benefits, respectively. The 2015 participants were comprised of 765 firefighters, police, and teachers; and 230 general District employees. The 2014 participants were comprised of 740 firefighters, police, and teachers; and 198 general District employees. The premium expenses for the FYs ended September 30, 2015 and 2014, totaled \$6,739,591 and \$4,729,440, respectively. The insurance premiums attributable to police, fire, and teacher retirees for the FYs 2015 and 2014 totaled \$6,182,198 and \$3,712,004, respectively. All remaining insurance premiums are attributable to general employee retirees.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Management’s Discussion and Analysis  
September 30, 2015 and 2014**

The actuarial valuation for the FY ending September 30, 2015 was a roll-forward of the prior year’s valuation. The actuarial roll-forward report issued in February 2015, projected from data as of September 30, 2012, showed that there were a total of 555 retired participants. They consist of 418 firefighters, police, and teachers; and 137 general employees. In the September 30, 2013 actuarial report, using September 30, 2012 data, the number of retirees also totaled 555 members,

The September 30, 2015 actuarial report showed that, based on data as of September 30, 2014, the number of annuitants increased to a total of 995 annuitants.

**Investment Management Fees**

Investment management and custody fees paid during the FYs ended September 30, 2015 and 2014 are detailed in the table below. The debt and equity assets increased to an FY2015 balance of \$1,045,586,954, from an FY2014 balance in the amount of \$941,971,328, which is an increase of 11.0% from last year, and an increase of 21.8% over the past two years.

<b>Investment Firm (In dollars )</b>	<b>Fund Year 2015</b>	<b>Fund Year 2014</b>
Access Capital ETI	\$ 197,074	\$ 102,226
Artisan Int'l Value Equity (Barclays)	458,151	195,655
Baillie Gifford Int'l Growth (Barclays)	464,625	270,736
Bernstein Strategic Core	595,658	555,606
Brandywine Large Cap Value	1,024,876	706,171
ClearBridge Mid Cap	708,002	648,805
Farr, Miller Washington Large Cap Growth	904,138	811,633
Royce Pennsylvania Mutual Fund	478,967	592,372
SSgA Emerging Markets Equity Index	112,855	25,730
SSgA Bond Index	35,503	45,829
Blue Bay Emerging Market Debt Fund	245,100	210,070
Gresham Commodities Fund	247,508	260,646
State Street Custody Fees	134,042	123,141
Change in Accrual of Management Fees	(202,211)	287,111
<b>Total</b>	<b>\$ 5,404,288</b>	<b>\$ 4,835,731</b>

**Contact Information**

This financial report is designed to provide a general overview of the Fund’s finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer – Office of Finance and Treasury; Government of the District of Columbia; 1101 4<sup>th</sup> Street SW, 8<sup>th</sup> Floor Washington, D.C., 20024.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Statements of Fund Net Position  
September 30, 2015 and 2014 (In Dollars)**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 45,658,951</u>	<u>\$ 124,388,169</u>
Receivables		
Investment	13,890,285	21,014,486
Interest and dividends	<u>2,324,322</u>	<u>1,939,741</u>
Total receivables	<u>16,214,607</u>	<u>22,954,227</u>
Investments, at fair value:		
Equities	605,446,733	582,718,696
Bonds	396,139,142	317,549,300
Commodities	<u>44,001,079</u>	<u>41,703,332</u>
Total investments	<u>1,045,586,954</u>	<u>941,971,328</u>
Total Assets	<u>1,107,460,512</u>	<u>1,089,313,724</u>
<b>LIABILITIES</b>		
Investments and other payables	<u>30,910,398</u>	<u>37,954,665</u>
<b>Net Position Held in Trust for Other Post Employment Benefits</b>	<u><u>\$ 1,076,550,114</u></u>	<u><u>\$ 1,051,359,059</u></u>

The accompanying notes are an integral part of the financial statements

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Statements of Changes in Fund Net Position  
September 30, 2015 and 2014 (In Dollars)**

	<u>2015</u>	<u>2014</u>
<b>ADDITIONS</b>		
Contributions:		
District contributions	\$ 91,400,000	\$ 86,600,000
Annuitant contributions	410,780	302,855
Total contributions	<u>91,810,780</u>	<u>86,902,855</u>
Investment income:		
Net (depreciation) appreciation in fair value	(76,847,441)	59,224,306
Interest	6,281,701	5,841,332
Dividends	16,151,287	11,767,214
Currency gain (loss) of FX contracts and settlements	18,180	(626,357)
Other income	285,550	239,406
Total income for investment activities	<u>(54,110,723)</u>	<u>76,445,901</u>
Less: Investment management fees	5,404,288	4,835,731
Net investment (loss) income	<u>(59,515,011)</u>	<u>71,610,170</u>
<b>Total additions</b>	<u>32,295,769</u>	<u>158,513,025</u>
<b>DEDUCTIONS</b>		
Insurance carrier premiums	6,739,591	4,729,440
Administrative expenses	365,123	239,739
Total deductions	<u>7,104,714</u>	<u>4,969,179</u>
Change in Plan Net Position	<u>25,191,055</u>	<u>153,543,846</u>
<b>Net Position Held in Trust for Other Post Employment Benefits</b>		
Beginning of the year	<u>1,051,359,059</u>	<u>897,815,213</u>
<b>End of the Year</b>	<u>\$ 1,076,550,114</u>	<u>\$ 1,051,359,059</u>

The accompanying notes are an integral part of the financial statements

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 1 – FUND DESCRIPTION AND CONTRIBUTIONS**

The Government of the District of Columbia (the “District”) established the Fund on October 1, 1999, under the Annuitant’s Health and Life Insurance Employer Contribution Amendment Act of 1999 (the “Act”)(D.C. Law 13-54; D.C. Official Code § 1-621.09). The Fund was established to receive the District’s contributions for health and life insurance premiums, from which the District’s contributions would be paid. The Fund is managed and 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, pursuant to the terms of the Plan. The Fund is a fiduciary fund of the District.

**Fund Description**

The Fund 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 or Police and Fire Retirement System, or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Fund. The trust fund was established to hold and pay the District’s contributions for health and life insurance for annuitants. The purpose of the Fund (as defined in Section 1.02 of the Plan) is to manage and administer the 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 employee was employed less than five years, the employee 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 Fund. Prior to March 2, 2010, the annuitant paid 25% of his/her health premium coverage, and the District paid the remaining 75%. The annuitant contribution was changed to a graded contribution schedule, effective March 2, 2010. For FY 2015, annuitants with at least 10 years of creditable District service, but less than 30 years of creditable District service, the District pays 25% of the insurance premium, 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 with annuitants paying the remainder. 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 insurance premiums.

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 75% of the cost of the selected health benefit plan, and the family member pays 25% 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.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 1 – FUND DESCRIPTION AND CONTRIBUTIONS** (continued)

The participant pays \$0.0455 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 benefit 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 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's (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. Most 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 change therein, as of 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 Fund 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.

# GOVERNMENT OF THE DISTRICT OF COLUMBIA OTHER POST-EMPLOYMENT BENEFITS FUND

## Notes to Financial Statements September 30, 2015 and 2014

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 Fund Net Position. 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.

GASB issued Statement 40; *Deposit and Investment Risk Disclosures* provides disclosure guidance requirements on deposits and investments of state and local governments that are exposed to investment risks related to credit risk, concentration of credit risks, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. In addition, deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's agent, but not in the depositor-government's name are part of the requirements of this Statement. Also, investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty, or (b) the counterpart's trust department or agent but not in the government's name, are also part of the requirements of this Statement. The GASB Statement 40 was effective for periods beginning after June 15, 2004. See note 6 for the related deposits and investment risk disclosures.

In 2012, GASB issued two pronouncements that affect pension plans and state and local government employees. These statements have future implementation dates, but result in significant changes for OPEB.

#### Future Accounting Standards

In June 2015, the GASB approved the issuance of two new Statements that are designed to improve the usefulness of information about OPEB in the general purpose external financial reports of state and local governmental plans, for making decisions and assessing accountability:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial reporting by plans that administer OPEB benefits on behalf of governments.
- Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting by government employers.

The new GASB Statements includes requirements for defined benefit OPEB plans that replace the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. They also include requirements for defined contribution OPEB plans that replace the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement 43; and Statement No. 50, *Pension Disclosures*.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Effective Dates**

The provisions in Statement 74 are effective for financial statements for FY beginning after June 15, 2016. The provisions in Statement 75 are effective for FY beginning after June 15, 2017. Earlier application is encouraged. The Fund is studying the requirements of these standards and will adopt the standards by the required implementation dates.

**NOTE 3 – FUND DESCRIPTIONS AND CONTRIBUTION INFORMATION**

**September 30, 2015**

As of September 30, 2015 and 2014, the Fund had 995 and 938 annuitants receiving benefits, respectively. The 2015 participants were comprised of 765 firefighters, police, and teachers; and 230 general District employees. The 2014 participants were comprised of 740 firefighters, police, and teachers; and 198 general District employees. The premium expenses for the FYs ended September 30, 2015 and 2014, totaled \$6,739,591 and \$4,729,440, respectively. The insurance premiums attributable to police, fire, and teacher retirees for the FYs 2015 and 2014 totaled \$6,182,198 and \$3,712,004, respectively. All remaining insurance premiums are attributable to general employee retirees.

The actuarial valuation for the FY ending September 30, 2015 was a roll-forward of the prior year's valuation. The actuarial roll-forward report issued in February 2015, projected from data as of September 30, 2012, showed that there were a total of 555 retired participants. They consist of 418 firefighters, police, and teachers; and 137 general employees. In the September 30, 2013 actuarial report, using September 30, 2012 data, the number of retirees also totaled 555 members,

The actuarial valuation for the FY ending September 30, 2014 was a roll-forward of the prior year's valuation. The actuarial roll-forward report issued in April 2014, projected from data as of September 30, 2012, showed that there were a total of 555 retired participants. They consist of 418 firefighters, police, and teachers; and 137 general employees. In the September 30, 2012 actuarial report, using September 30, 2012 data, the number of retirees also totaled 555 members,

**September 30, 2014**

As of September 30, 2014, the Fund had 938 annuitants receiving benefits. The participants were comprised of 740 firefighters, police, and teachers; and 198 general District employees. The premium expenses for FYs ended September 30, 2014 and 2013, totaled \$4,729,440 and \$4,306,673, respectively. The insurance premiums attributable to police, fire, and teacher retirees for the FYs 2014 and 2013 totaled \$3,712,004 and \$3,544,252, respectively. All remaining insurance premiums are attributable to general employee retirees.

The actuarial valuation for the FY ending September 30, 2014 was a roll-forward of the prior year's valuation. The actuarial roll-forward report issued in April 2014, projected from data as of September 30, 2012, showed that there were a total of 555 retired participants. They consist of 418 firefighters, police, and teachers; and 137 general employees. In the September 30, 2012 actuarial report, using September 30, 2012 data, the number of retirees also totaled 555 members.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 4 – MASTER CUSTODIAN CONTRACT**

The Fund administrators have a Master Custodian Contract to reduce risk of loss and to improve security. Maintaining assets with the Master Custodian provides the additional advantage of tracking information provided by the investment managers, since the Master Custodian provides information on investment transactions from an independent source, as well as provide reporting capabilities for the Trust Fund.

**NOTE 5 – CASH AND CASH EQUIVALENTS**

Custodial credit risk for Deposits is the risk that, in the event of a financial institution failure, the Fund would not be able to recover the value of cash and cash equivalents. Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution’s agent, but not in the depositor-government’s name are part of the requirements of this Statement. The Fund maintains cash and cash equivalent in investments accounts, as detailed below:

**As of September 30, 2015 (In Dollars)**

<b>Funds by Investment Firm</b>	<b>Amount</b>	<b>Percentage*</b>
Bernstein Strategic Core	\$ 20,141,213	1.85%
Farr, Miller Washington Large Cap Growth	9,727,718	0.89%
Cash Account	8,174,802	0.75%
Brandywine Large Cap Value	4,221,623	0.39%
ClearBridge Mid Cap	2,000,751	0.18%
Bernstein Global Plus	1,392,844	0.13%
<b>Total Investments</b>	<b>\$ 45,658,951</b>	<b>4.18%</b>

**As of September 30, 2014**

<b>Funds by Investment Firm</b>	<b>Amount</b>	<b>Percentage*</b>
Cash account	\$ 88,818,946	8.33%
Bernstein Strategic Core	17,784,107	1.67%
Brandywine Large Cap Value	7,415,577	0.70%
Farr, Miller Washington Large Cap Growth	7,296,423	0.68%
ClearBridge Mid Cap	1,846,437	0.17%
Bernstein Global Plus	1,226,679	0.12%
<b>Total Investments</b>	<b>\$ 124,388,169</b>	<b>11.66%</b>

\*Includes cash and investments

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS**

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

The majority of the Fund's assets for the years ended September 30, 2015 and 2014 were investments, which totaled \$1,045,568,954 and \$941,971,328, respectively. The assets are invested with twelve different managers. As of September 30, 2015 and 2014, the funds were invested in equities: (55%) and (55%), and bonds: (36%) and (30%), and Commodities: (4%) and (4%), respectively. The fair value of each fund is as follows:

**As of September 30, 2015 (In Dollars)**

<b>Funds by investment firm</b>	<b>Equity amount</b>	<b>Percentage*</b>
Brandywine Large Cap Value	\$ 147,829,500	13.55%
Farr, Miller Washington Large Cap Growth	130,188,561	11.93%
ClearBridge Mid Cap	107,922,838	9.89%
Barclays International	92,541,381	8.48%
SSgA Emerging Markets Equity Index	67,832,670	6.22%
Royce Pennsylvania Mutual Fund	59,131,783	5.42%
<b>Total Equity</b>	<b>\$ 605,446,733</b>	<b>55.48%</b>

<b>Funds by investment firm</b>	<b>Bonds amount</b>	<b>Percentage*</b>
Bernstein Strategic Core	\$ 134,093,167	12.29%
Bernstein Global Plus	133,532,324	12.24%
SSgA Bond Index	77,065,566	7.06%
Access Capital ETI	30,318,810	2.78%
Blue Bay Emerging Market Debt Fund	21,129,275	1.94%
<b>Total Bonds</b>	<b>\$ 396,139,142</b>	<b>36.30%</b>

<b>Funds by investment firm</b>	<b>Commodities amount</b>	<b>Percentage*</b>
Gresham Commodities Fund	\$ 44,001,079	4.03%

\* Includes cash and investments.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

**As of September 30, 2014 (In Dollars)**

<b>Funds by investment firm</b>	<b>Equity amount</b>	<b>Percentage*</b>
Brandywine Large Cap Value	\$ 162,517,040	15.24%
Farr, Miller Washington Large Cap Growth	134,718,994	12.63%
ClearBridge Mid Cap	101,014,755	9.47%
Barclays International	86,217,337	8.09%
Royce Pennsylvania Mutual Fund	64,388,267	6.04%
SSgA Emerging Markets Equity Index	33,862,303	3.18%
<b>Total Equity</b>	<b>\$ 582,718,696</b>	<b>54.65%</b>

<b>Funds by investment firm</b>	<b>Bonds amount</b>	<b>Percentage*</b>
Bernstein Strategic Core	\$ 131,613,091	12.34%
Bernstein Global Plus	74,838,879	7.02%
SSgA Bond Index	73,638,980	6.91%
Access Capital ETI	21,731,362	2.04%
Blue Bay Emerging Market Debt Fund	15,726,988	1.47%
<b>Total Bonds</b>	<b>\$ 317,549,300</b>	<b>29.78%</b>

<b>Funds by investment firm</b>	<b>Commodities amount</b>	<b>Percentage*</b>
Gresham Commodities Fund	\$ 41,703,332	3.91%

\* Includes cash and investments.

As of September 30, 2015 and September 30, 2014, the Fund held the following aggregate investments, which are stated at aggregate fair value, based on quoted market prices:

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

**As of September 30, 2015 (In Dollars)**

	<u>Aggregate Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Aggregate Fair Market Value</u>
Bernstein Strategic Core	\$ 133,925,203	\$ (392,879)	\$ 133,532,324
Brandywine Large Cap Value	154,632,454	(6,802,954)	147,829,500
Farr, Miller Washington Large Cap Growth	98,993,947	31,194,614	130,188,561
Bernstein Global Plus	139,466,893	(5,373,726)	134,093,167
ClearBridge Mid Cap	88,061,704	19,861,134	107,922,838
SSgA Bond Index	67,626,580	9,438,986	77,065,566
Barclays International	75,500,000	17,041,381	92,541,381
Royce Pennsylvania Mutual Fund	59,546,118	(414,335)	59,131,783
SSgA Emerging Markets Equity Index	80,000,000	(12,167,330)	67,832,670
BluBay Emerging Markets Debt Fund	24,600,000	(3,470,725)	21,129,275
Access Capital ETI	31,141,145	(822,335)	30,318,810
Gresham Commodities Fund	59,000,000	(14,998,921)	44,001,079
	<u><b>\$ 1,012,494,044</b></u>	<u><b>\$ 33,092,910</b></u>	<u><b>\$ 1,045,586,954</b></u>

**As of September 30, 2014 (In Dollars)**

	<u>Aggregate Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Aggregate Fair Market Value</u>
Bernstein Strategic Core	\$ 131,214,881	\$ 31,615,462	\$ 131,613,091
Brandywine Large Cap Value	130,901,578	398,210	162,517,040
Farr, Miller Washington Large Cap Growth	95,205,374	39,513,619	134,718,994
Bernstein Global Plus	75,630,104	(1,991,125)	73,638,980
ClearBridge Mid Cap	79,499,767	21,514,988	101,014,755
SSgA Bond Index	67,626,580	7,212,299	74,838,879
Barclays International	59,500,000	26,717,337	86,217,337
Royce Pennsylvania Mutual Fund	52,137,767	12,250,500	64,388,267
SSgA Emerging Markets Equity Index	34,000,000	(137,697)	33,862,303
BluBay Emerging Markets Debt Fund	22,000,000	(268,638)	21,731,362
Access Capital ETI	16,454,873	(727,885)	15,726,988
Gresham Commodities Fund	44,000,000	(2,296,668)	41,703,332
	<u><b>\$ 808,170,924</b></u>	<u><b>\$ 133,800,402</b></u>	<u><b>\$ 941,971,328</b></u>

The average duration for Sanford Bernstein US Core Plus was 5.25, and Global XUS Plus was 6.74 for FY ended September 30, 2015. The average duration for Access Capital ETI was 3.79 as of September 30, 2015, the duration of the SSgA Bond Index Fund was 5.59 as of September 30, 2015, and the duration of the Blue Bay Emerging Market Debt Fund was 5.81 as of September 30, 2015.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

The average duration for Sanford Bernstein US Core Plus was 5.36, and Global XUS Plus was 6.46 for FY ended September 30, 2014. The average duration for Access Capital ETI was 4.25 as of September 30, 2014, the duration of the SSgA Bond Index Fund was 5.61 as of September 30, 2014, and the duration of the Blue Bay Emerging Market Debt Fund was 5.87 as of September 30, 2014.

The custodial *credit risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The counterparty is the party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

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

*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 Fund does not have a formal policy for limiting its exposure to changes in exchange rates. The Fund's investments as of September 30, 2015 and 2014, held in currencies other than US dollars, were as follows:

**As of September 30, 2015 (In Dollars)**

<b>International Securities</b>	<b>Short Term and Cash</b>	<b>Convertible and Fixed Income</b>	<b>Total</b>
AUSTRALIAN DOLLAR	\$ 5,248	\$ 3,928,846	\$ 3,934,094
BRAZILIAN REAL	31,356	1,212,689	1,244,045
CANADIAN DOLLAR	142,218	17,382,110	17,524,328
EURO CURRENCY	299,962	47,136,677	47,436,639
JAPANESE YEN	13,879,308	27,415,774	41,295,082
NEW ZEALAND DOLLAR	86,946	-	86,946
POUND STERLING	8,668	17,369,962	17,378,630
SINGAPORE DOLLAR	-	291,551	291,551
SOUTH AFRICAN RAND	14,495	262,672	277,167
SWEDISH KRONA	-	1,036,858	1,036,858
<b>Totals</b>	<b>\$ 14,468,201</b>	<b>\$ 116,037,139</b>	<b>\$ 130,505,340</b>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

*As of September 30, 2014 (In Dollars)*

<u>International Securities</u>	<u>Short Term and Cash</u>	<u>Convertible and Fixed Income</u>	<u>Total</u>
AUSTRALIAN DOLLAR	\$ 62,697	\$ 1,325,447	\$ 1,388,144
CANADIAN DOLLAR	1	3,993,508	3,993,509
EURO CURRENCY	38,277	26,624,783	26,663,060
JAPANESE YEN	83,985	16,147,601	16,231,586
MEXICAN PESO	-	966,229	966,229
NEW ZEALAND DOLLAR	19,585	1,972,856	1,992,441
POUND STERLING	6,971	14,308,068	14,315,039
SINGAPORE DOLLAR	-	362,722	362,722
SOUTH AFRICAN RAND	-	192,745	192,745
SWEDISH KRONA	-	677,904	677,904
<b>Totals</b>	<u>\$ 211,516</u>	<u>\$ 66,571,863</u>	<u>\$ 66,783,379</u>

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 of the bond holdings in each investment manager's portfolio should be maintained at "A" or better. The portfolios that were not individually managed have credit quality exceeding the index value of "BBB-". Exchange-traded derivatives that are valued, using quoted prices, are classified within level 1 of the valuation hierarchy. The Fund has not failed to access collateral, when required. Since these derivative products have been established for some time, the Fund uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity; and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted contracts and credit default swaps. Such instruments are generally classified within level 2 on the valuation hierarchy. The aggregate fair value of derivatives in net asset positions, net of collateral posted by the counter party and the effect of master netting arrangements are reflected in net unrealized gain (loss) on Foreign Currency Spot Forward Contracts, in the table above. Although the Fund executes hedging derivative instruments with various counter parties, eight contracts comprising approximately 90 percent of the net exposure to credit risk are based with two counterparties. As of September 30, 2015, the average quality ratings of those counterparties were as follows: SSgA was Aa2, and Access Capital was AAA. There are no significant concentrations of net exposure to credit risk that has not been reduced by collateral and other setoffs. As of September 30, 2014, the average quality rating of the investment manager's portfolio is maintained at A or better.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The Fund also uses an independent consultant to review assets and recommend any appropriate changes.

*Derivative Financial Instruments:* In accordance with the Fund’s investment policies, the Fund regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities in order to enhance return on investment and manage exposure to certain risks within the fund. Derivative instruments are financial contracts, whose values depend on the value of one or more underlying assets, reference rates, or financial indices. During FY 2015, the Fund invested directly in forward currency contracts.

*Currency Forwards:* Currency forwards represent foreign exchange contracts, and are used to effect settlements and to protect the base currency value of portfolio assets denominated in foreign currencies, against fluctuations in the exchange rates of those currencies or to gain exposure to the change in market value of a specific currency. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date and at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over the counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. All counterparties are rated A or better. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

**As of September 30, 2015**

<u>Investment Derivatives</u>	<u>Change in Fair Value</u>		<u>Fair Value as of September 30, 2015</u>		<u>Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Credit Default Swaps Bought	Investment Revenue	\$ 71,110	Swaps	\$ 58,660	\$ 506,000
Credit Default Swaps Written	Investment Revenue	(16,502)	Swaps	27,218	2,420,000
Fixed Income Futures Long	Investment Revenue	186,314	Futures	-	21,413,520
Fixed Income Futures Short	Investment Revenue	(465,644)	Futures	-	(11,630,123)
FX Forwards	Investment Revenue	(21,352)	Long Term Instruments	(37,712)	91,530,346
Pay Fixed Interest Rate Swaps	Investment Revenue	(527,323)	Swaps	(461,629)	33,293,695
Receive Fixed Interest Rate Swaps	Investment Revenue	297,623	Swaps	166,320	8,458,383
<b>Total</b>		<u>\$ (475,774)</u>		<u>\$ (247,143)</u>	

**As of September 30, 2014**

<u>Investment Derivatives</u>	<u>Change in Fair Value</u>		<u>Fair Value as of September 30, 2014</u>		<u>Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Credit Default Swaps Bought	Investment Revenue	\$ 6,681	Swaps	\$ 43,720	\$ 2,420,000
Fixed Income Futures Long	Investment Revenue	(16,944)	Futures	-	1,002,780
Fixed Income Futures Short	Investment Revenue	(139,341)	Futures	-	(8,800,000)
FX Forwards	Investment Revenue	(467,657)	Long Term Instruments	(262,822)	58,553,045
Pay Fixed Interest Rate Swaps	Investment Revenue	(51,629)	Swaps	(65,490)	4,776,518
Receive Fixed Interest Rate Swaps	Investment Revenue	67,766	Swaps	41,118	2,041,982
<b>Total</b>		<u>\$ (601,124)</u>		<u>\$ (243,474)</u>	

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

**Contingencies:**

As of September 30, 2015:

All of the Fund's derivative instruments include provisions that require the Fund to post collateral in the event its credit rating falls below "AA" as issued by Standard & Poor's, or "Aa" as issued by Moody's Investors Services. The collateral posted is to be in the form of U.S. Treasury funds in the amount of the fair value hedging derivative instruments in liability positions, net of the effect of applicable netting arrangements. If the Fund does not post collateral, the hedging derivative instrument may be terminated by the counterparty. As of September 30, 2015, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions is \$83,170. If the collateral posting requirements were triggered at September 30, 2015, the Fund would be required to post \$83,170 in collateral to its counterparties. The District has an "Aa" rating; therefore, no collateral has been posted as of September 30, 2015.

As of September 30, 2014:

All of the Fund's derivative instruments include provisions that require the Fund to post collateral in the event its credit rating falls below "AA" as issued by Standard & Poor's or "Aa" as issued by Moody's investors Services. The collateral posted is to be in the form of U.S. Treasury funds in the amount of the fair value hedging derivative instruments in liability positions net of the effect of applicable netting arrangements. If the Fund does not post collateral, the hedging derivative instrument may be terminated by the counterparty. As of September 30, 2014, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions is \$259,917. If the collateral posting requirements were triggered at September 30, 2014, The Fund would be required to post \$259,917 in collateral to its counterparties. The District has a "Aa" rating, therefore no collateral has been posted as of September 30, 2014.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

As of September 30, 2015

<u>Foreign Currency Contracts Purchased</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
AUSTRALIAN DOLLAR	\$ 337,183	\$ (3,285)
BRAZILIAN REAL	434,242	(989)
BRAZILIAN REAL	1,390,828	4,370
BRAZILIAN REAL	956,586	(2,179)
CANADIAN DOLLAR	628,434	(7,284)
CANADIAN DOLLAR	11,343,256	(18,559)
SWISS FRANC	1,686,707	(6,516)
SWISS FRANC	151,525	(413)
CZECH KORUNA	114,921	(809)
DANISH KRONE	681,824	(9,646)
EURO CURRENCY	1,238,627	(11,846)
EURO CURRENCY	9,563,025	(127,910)
EURO CURRENCY	6,108,221	13,952
EURO CURRENCY	152,040	(106)
GREAT BRITAIN POUND	1,573,422	(22,755)
GREAT BRITAIN POUND	5,773,192	(40,473)
INDONESIAN RUPIAH	1,084,813	(43,673)
INDONESIAN RUPIAH	141,989	(3,811)
ISRAELI SHEKEL	218,076	(3,687)
ISRAELI SHEKEL	218,076	300
JAPANESE YEN	4,810,819	11,071
JAPANESE YEN	18,364,458	49,242
SOUTH KOREAN WON	335,141	47
SOUTH KOREAN WON	2,605,774	6,592
MEXICAN PESO	772,758	2,860
MALAYSIAN RINGGIT	575,254	(19,870)
MALAYSIAN RINGGIT	353,912	(14,081)
MALAYSIAN RINGGIT	185,242	(9,740)
NORWEGIAN KRONE	270,450	(11,263)
NEW ZEALAND DOLLAR	283,556	(9,481)
POLISH ZLOTY	441,524	(3,214)
RUSSIAN ROUBLE	108,478	4,192
SWEDISH KRONA	1,436,874	(23,693)
THAI BAHT	534,931	(5,725)
TURKISH LIRA	333,460	5,938
SOUTH AFRICAN RAND	110,335	(2,194)
SOUTH AFRICAN RAND	87,455	(1,133)
SOUTH AFRICAN RAND	88,359	(3,163)
SOUTH AFRICAN RAND	176,747	(6,495)
Total Contracts Purchased		<u>\$ (315,429)</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

<u>Foreign Currency Contracts Sold</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>
AUSTRALIAN DOLLAR	\$ 814,444	\$ (828)
AUSTRALIAN DOLLAR	447,335	(1,060)
BRAZILIAN REAL	1,390,828	3,168
BRAZILIAN REAL	1,390,828	(4,400)
BRAZILIAN REAL	956,586	94,977
BRAZILIAN REAL	434,242	5,095
CANADIAN DOLLAR	147,498	979
CANADIAN DOLLAR	11,343,256	18,002
CANADIAN DOLLAR	8,600,822	(41)
CANADIAN DOLLAR	3,370,868	42,359
EURO CURRENCY	546,944	7,316
EURO CURRENCY	249,588	871
EURO CURRENCY	4,651,946	17,243
EURO CURRENCY	239,072	4,588
EURO CURRENCY	1,159,344	16,287
EURO CURRENCY	152,040	100
EURO CURRENCY	182,237	4,427
GREAT BRITAIN POUND	4,518,515	32,760
GREAT BRITAIN POUND	5,036,914	69,874
INDONESIAN RUPIAH	176,946	(360)
INDONESIAN RUPIAH	239,167	(2,132)
INDONESIAN RUPIAH	26,576	(237)
INDONESIAN RUPIAH	239	(2)
INDONESIAN RUPIAH	67,441	(342)
INDONESIAN RUPIAH	116,617	(560)
INDONESIAN RUPIAH	117	(1)
INDONESIAN RUPIAH	2,070	(10)
INDONESIAN RUPIAH	522,521	(885)
INDONESIAN RUPIAH	66,138	(534)
ISRAELI SHEKEL	218,076	(420)
JAPANESE YEN	2,087,421	1,414
JAPANESE YEN	6,846,742	(52,730)
JAPANESE YEN	1,669,937	975
JAPANESE YEN	3,172,880	(102,680)
JAPANESE YEN	2,454,442	2,437
JAPANESE YEN	4,644,939	(36,102)
MALAYSIAN RINGGIT	429,570	31,881
MALAYSIAN RINGGIT	113,863	7,356
SWEDISH KRONA	221,067	(945)
SWEDISH KRONA	1,235,769	14,415
SINGAPORE DOLLAR	2,324,496	38,165
SINGAPORE DOLLAR	278,006	763
TAIWAN DOLLAR	564,893	9,006
SOUTH AFRICAN RAND	267,646	12,070
Total Contracts Sold		<u>232,259</u>
<b>Net unrealized gain (loss) on foreign currency spot and forward contracts</b>		<u><u>\$ (83,170)</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

**As of September 30, 2014**

<b>Foreign Currency Contracts Purchased</b>	<b>Cost</b>	<b>Unrealized Gain/(Loss)</b>
CANADIAN DOLLAR	\$ 46,767	\$ (941)
CANADIAN DOLLAR	67,620	(950)
SWISS FRANC	1,022,082	(19,067)
CZECH KORUNA	131,593	(3,059)
DANISH KRONE	424,049	(16,103)
EURO CURRENCY	7,458,457	(317,852)
EURO CURRENCY	78,376	(1,873)
GREAT BRITAIN POUND	102,968	(799)
ISRAELI SHEKEL	125,918	(1,403)
JAPANESE YEN	4,614,681	(18,083)
JAPANESE YEN	3,548,749	(84,015)
JAPANESE YEN	224,824	(9,404)
JAPANESE YEN	8,134,692	(360,918)
JAPANESE YEN	758,137	(2,783)
SOUTH KOREAN WON	1,553,631	(28,924)
NORWEGIAN KRONER	212,524	(1,736)
NORWEGIAN KRONER	926,131	(27,559)
POLISH ZLOTY	301,314	(5,509)
RUSSIAN ROUBLE	188,662	(8,781)
SWEDISH KRONA	88,365	(2,393)
THAI BAHT	294,582	(3,341)
TURKISH LIRA	182,954	(1,363)
SOUTH AFRICAN RAND	96,246	(705)
<b>Total Contracts Purchased</b>		<u><u>\$ (917,561)</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 6 – INVESTMENTS (continued)**

<b>Foreign Currency Contracts Sold</b>	<b>Cost</b>	<b>Unrealized Gain/(Loss)</b>
JAPANESE YEN	\$ 4,967,461	\$ 370,863
JAPANESE YEN	3,552,597	84,503
EURO CURRENCY	905,580	38,592
JAPANESE YEN	3,709,307	244,574
GREAT BRITAIN POUND	197,421	4,797
CANADIAN DOLLAR	657,527	12,524
NEW ZEALAND DOLLAR	2,626,074	115,478
JAPANESE YEN	757,625	17,440
GREAT BRITAIN POUND	5,606,828	136,651
CANADIAN DOLLAR	1,163,556	22,162
GREAT BRITAIN POUND	771,015	23,229
JAPANESE YEN	103,043	4,327
SWEDISH KRONA	100,910	2,723
MEXICAN PESO	540,284	12,856
NORWEGIAN KRONE	723,552	7,780
AUSTRALIAN DOLLAR	1,121,636	47,021
SINGAPORE DOLLAR	153,230	1,172
AUSTRALIAN DOLLAR	704,055	28,424
Total Contracts Sold		<u>1,175,116</u>
<b>Net unrealized gain (loss) on foreign currency spot and forward contracts</b>		<u><u>\$ 257,555</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 7 – DISTRICT CONTRIBUTIONS**

The District, historically, makes its contributions to the Fund near the completion of the FY, and the contribution is distributed by the Fund to the investment managers within a month of receipt from the District. Consequently, the significant cash balances in the Fund as of September 30, 2015 and 2014 were due to the receipt of the FY contribution of \$91,400,000 and \$86,600,000, respectively. The funds were distributed as follows:

*(In Dollars)*

<b>FUND</b>	<b>For the Year Ended September 30, 2015</b>
Bernstein Global Plus	\$ 46,400,000
SSgA Emerging Markets Equity Index	15,000,000
Gresham Commodities Fund	11,000,000
State Street – Cash on Hand	10,000,000
Access Capital ETI	9,000,000
<b>Total</b>	<b>\$ 91,400,000</b>

<b>FUND</b>	<b>For the Year Ended September 30, 2014</b>
SSgA Emerging Markets Equity Index	\$ 31,000,000
Bernstein Global Plus	22,000,000
Barclays International	16,000,000
State Street – Cash on Hand	6,000,000
Access Capital ETI	5,000,000
Gresham Commodities Fund	4,000,000
Blue Bay Emerging Market Debt Fund	2,600,000
<b>Total</b>	<b>\$ 86,600,000</b>

**NOTE 8 – CONTINGENCIES**

As of September 30, 2015 and September 30, 2014, there were no matters of litigation involving the Fund, which would materially affect the Fund’s financial position, should any court decisions on pending matters not be favorable to the Fund.

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the accompanying statements of net position.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Notes to Financial Statements  
September 30, 2015 and 2014**

**NOTE 9 – ACTUARIAL INFORMATION**

Actuarial valuations of an ongoing Fund 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 Fund (the Fund as understood by the employer and the Fund 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 Fund 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.

In consultation with the District, and in order to accommodate the needs of the District with respect to budgeting for contributions to the Plan, the valuation results obtained from the September 30, 2014 valuation will not be used to compute the ARC and other GASB disclosure items for the 2014 and 2015 FYs. The disclosure information for the 2014-2015 FYs is based on a roll-forward valuation of the results obtained from the valuation measurement performed as of the beginning of the 2012-2013 FYs. This time lag is used to better coordinate the District's budget timing with the timing for publication of valuation results. Budgets are generally set early in the calendar year, for the FY beginning on the upcoming October 1 of the calendar year.

The entry age actuarial cost method was used to prepare the September 30, 2014 actuarial valuations. The 2014 actuarial assumptions included a 7.0% investment rate of return, a discount rate of 7.0%; a 3.75% salary increase rate (plus merit scale); and a medical inflation rate, ranging between 8.0% (pre-Medicare), and 6.5% (post-Medicare) grading to 4.0% over 70 years.

The 2013 actuarial assumptions included a 7.0% investment rate of return, a discount rate of 7.0%; a 3.75% salary increase rate (plus merit scale); and a medical inflation rate, ranging between 8.0% (pre-Medicare) and 6.5% (post-Medicare) grading to 4.0% over 70 years. The amortization method applied, beginning with the 2014 valuation, was the level percent of pay closed method. The remaining amortization period at September 30, 2014 was 28 years; and at September 30, 2013, was 29 years.

The September 30, 2014, estimated actuarial liability was \$1,188.3 million, and the actuarial value of the assets was \$1,036.6 million, resulting in an estimated unfunded actuarial accrued liability (UAAL) of \$151.7 million. The estimated covered payroll (annual payroll of active employees covered by the Plan) was \$1,484.3 million, and the ratio of UAAL to covered payroll, was 10.2%.

The September 30, 2013 estimated actuarial liability was \$1,048.0 million, and the actuarial value of the assets was \$897.8 million, which resulted in an estimated UAAL of \$150.2 million. The estimated covered payroll (annual payroll of active employees covered by the Plan) was \$1,441.1 million, and the ratio of UAAL to covered payroll, was 10.4%.

The September 30, 2012 estimated actuarial liability was \$919.7 million, and the actuarial value of the assets was \$693.3 million, resulting in an estimated unfunded actuarial accrued liability (UAAL) of \$226.4 million. The estimated covered payroll (annual payroll of active employees covered by the Fund) was \$1,399.1 million, and the ratio was 16.2%.

**REQUIRED SUPPLEMENTARY INFORMATION**

**GOVERNMENT OF DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Required Supplementary Information  
Schedule of Funding Progress (in millions)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
9/30/2014	\$ 1,036.6	\$ 1,188.3	\$ 151.7	87.23%	\$ 1,484.3	10.22%
9/30/2013	897.8	1,048.0	150.2	85.67%	1,441.1	10.42%
9/30/2012	693.3	919.7	226.4	75.38%	1,399.1	16.18%
9/30/2011	511.5	866.6	355.1	59.02%	1,559.8	22.77%
9/30/2010	424.3	784.9	360.6	54.06%	1,544.5	23.35%
9/30/2009	309.1	625.9	316.8	49.38%	1,579.9	20.05%
10/1/2008	219.7	745.2	525.5	29.48%	1,107.1	47.47%

**GOVERNMENT OF DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Required Supplementary Information  
Schedule of Employer Contributions (in millions)**

<b>FY Ended September</b>	<b>Annual Required Contribution (ARC)</b>	<b>Percentage Contribution (%)</b>
2009	\$ 130.9	62.0%
2010	92.2	98.4%
2011	94.2	100.0%
2012	95.5	115.0%
2013	85.2	126.5%
2014	86.6	100.0%
2015	91.4	100.0%

**GOVERNMENT OF DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Required Supplementary Information  
Notes to Required Supplementary Information**

An independent actuary performed an actuarial analysis of the Fund’s assets and liabilities as of September 30, 2014; September 30, 2013; and September 30 2012 to determine the future funding status of the Fund, which is outlined below. The analysis was based on census data as of September 30, 2012.

This data is presented below:

<b>Valuation Date</b>	<b>September 30, 2014 (Projected from September, 2012 census)</b>	<b>September 30, 2013 (Projected from September, 2012 census)</b>	<b>September 30, 2012 (Based on September 2012 census)</b>
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay,
Remaining Amortization Period	28 years	29 years	30 years
Asset Valuation Method	Market Value	Market Value	Market Value
Actuarial Assumptions:			
Investment Rate of Return	7.00%	7.00%	7.00%
Discount Rate	7.00%	7.00%	7.00%
Rate of Salary Increase	3.75% (plus merit scale)	3.75% (plus merit scale)	3.75% (plus merit scale)
Rate of Medical Inflation	8.0% (pre-Medicare) or 6.5% (post-Medicare), grading to 4.00% over 70 years	8.0% (pre-Medicare) or 6.5% (post-Medicare), grading to 4.00% over 70 years	8.0% (pre-Medicare) or 6.5% (post-Medicare), grading to 4.00% over 70 years

As the Fund’s actuarial calculations are presented, based on the year for which they were prepared, the table on the previous page presents the seven 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 Fund’s funding status on a going concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater the percentage of assets is to liabilities, the stronger the Fund.

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 Fund’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 Fund.

**GOVERNMENT OF DISTRICT OF COLUMBIA  
OTHER POST-EMPLOYMENT BENEFITS FUND**

**Required Supplementary Information  
Notes to Required Supplementary Information**

The Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of Fund 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 Fund 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 Fund 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 annuitant. 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.



**SB & COMPANY, LLC**  
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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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, in accordance with the 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, the financial statements of the Government of the District of Columbia's Other Post-Employment Benefits Fund (the Fund) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 27, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* 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, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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*.



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**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, D.C.  
January 27, 2016

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.