DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-14MA

OIG

February 2017

OTHER POST-EMPLOYMENT BENEFITS FUND:

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) FOR FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity * Measurement * Continuous Improvement*

Mission

Our mission 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 programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership * Transparency * Empowerment * Courage * Passion * Leadership

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

February 13, 2017

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
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 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Other Post-Employment Benefits Fund Financial Statements for the Fiscal Years Ended September 30, 2016, and 2015* (OIG No. 17-1-14MA) issued by SB & Company, LLC (SBC). 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 (FY) 2016.

On December 29, 2016, SBC issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no significant deficiencies or material weaknesses in internal control over financial reporting.

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,

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

DISTRIBUTION:

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The Honorable Kathleen Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Candace McCrae (via email)
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Mr. Graylin (Gray) Smith, Partner, SB & Company, LLC (via email)

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

OTHER POST-EMPLOYMENT BENEFITS FUND

Financial Statements
Together with Reports of Independent Public Accountants

For The Years Ended September 30, 2016 and 2015

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

SEPTEMBER 30, 2016 AND 2015

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SB & COMPANY, LLC
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of the 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 years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

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, 2016 and 2015, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

1299 Pennsylvania Avenue NW • Suite 1120 • Washington • District of Columbia 20004 • P 202.803.2335 • F 202.821.1320

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Emphasis of Matter

As discussed in Note 2, the financial statements of the Fund are intended to present only the financial position of 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, 2016 and 2015, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, schedule of employer contributions and the notes to the required supplementary information 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 December 29, 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 Fund's internal control over financial reporting and compliance.

Washington, D.C.
December 29, 2016

SB & Company, LLC

Management's Discussion and Analysis *(continued)*
September 30, 2016 and 2015

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia's (the District) Other Post-Employment Benefits Fund (the Fund), a fiduciary fund of the Government of the District of Columbia, for the fiscal years ended September 30, 2016, 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.

Overview of the 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 Changes in Fund Net Position presents the additions to, and deductions from, the Fund's net position.
- The Notes to Financial Statements provide additional information that is essential for a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements such as accounting policies, plan membership and benefits, and summary disclosures of selected financial data.
- The Required Supplementary Schedules immediately following the notes to financial statements provides schedules illustrating the schedule of funding progress and schedule of employer contributions.

Financial Highlights

	FY 2016	**FY 2015**	**FY 2014**
The Fund's Investments	**$1,173,912,217**	$1,045,586,954	$941,971,328
District's Contributions	**29,000,000**	91,400,000	86,600,000

Management's Discussion and Analysis *(continued)*
September 30, 2016 and 2015

Financial Analysis

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

	2016	2015	FY2016-FY2015 Variance	FY2016-FY2015 Variance %	2014	FY2015-FY2014 Variance	FY2015-FY2014 Variance %
Assets							
Cash and cash equivalents	**$ 37,032,445**	$ 45,658,951	$ (8,626,506)	-18.9%	$ 124,388,169	$ (78,729,218)	-63.3%
Receivables	**16,890,545**	16,214,607	675,938	4.2%	22,954,227	(6,739,620)	-29.4%
Investments, at fair value	**1,173,912,217**	1,045,586,954	128,325,263	12.3%	941,971,328	103,615,626	11.0%
Total assets	**1,227,835,207**	1,107,460,512	120,374,695	10.9%	1,089,313,724	18,146,788	1.7%
Liabilities							
Investments payable	**30,393,993**	30,910,398	(516,405)	-1.7%	37,954,665	(7,044,267)	-18.6%
Net Position Held in Trust for Other Post Employment Benefits	**$ 1,197,441,214**	$ 1,076,550,114	$ 120,891,100	11.2%	$ 1,051,359,059	$ 25,191,055	2.4%

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

	2016	2015	FY2016-FY2015 Variance	FY2016-FY2015 Variance %	2014	FY2015-FY2014 Variance	FY2015-FY2014 Variance %
Additions							
Contributions	**$ 29,430,587**	$ 91,810,780	$ (62,380,193)	-67.9%	$ 86,902,855	$ 4,907,925	5.6%
Net investment income (loss)	**101,796,714**	(59,515,011)	161,311,725	-271.0%	71,610,170	(131,125,181)	-183.1%
Total additions	**131,227,301**	32,295,769	98,931,532	306.3%	158,513,025	(126,217,256)	-79.6%
Deductions							
Insurance premiums	**10,043,719**	6,739,591	3,304,128	49.0%	4,729,440	2,010,151	42.5%
Other expenses	**292,482**	365,123	(72,641)	-19.9%	239,739	125,384	52.3%
Total deductions	**10,336,201**	7,104,714	3,231,487	45.5%	4,969,179	2,135,535	43.0%
Net Increase	**120,891,100**	25,191,055	$ 95,700,045	379.9%	153,543,846	$ (128,352,791)	-83.6%
Beginning Net Position	**1,076,550,114**	1,051,359,059			897,815,213		
Ending Net Position	**$ 1,197,441,214**	$ 1,076,550,114			$ 1,051,359,059		

Fund Contributions

For fiscal years ended September 30, 2016, 2015 and 2014, the District made actuarially based contributions in the amounts of $29,000,000, $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 for years ended September 30, 2016, 2015 and 2014 amounted to $430,587, $410,780, and $302,855, respectively.

Investment Income

The Fund, as a whole, had a rate of return of 9.2%; with net investment income of $101,796,714 for the year ended September 30, 2016. The net investment income for the Fund was a result of positive rates of returns on domestic and international equities, domestic and international fixed income and a minor negative return in commodities, plus realized and unrealized investment gains, which resulted in a net investment value of $1,173,912,217, as of September 30, 2016. See the table below for details:

Investment	Rate of Return FY 2016	Benchmark FY 2016	Rate of Return FY 2015	Benchmark FY 2015	Rate of Return FY 2014	Benchmark FY 2014
Access Capital ETI	**3.14%**	**3.69%**	3.03%	3.43%	3.75%	3.68%
Artisan Int'l Value Equity (Barclays)	**8.71%**	**4.16%**	-5.32%	-12.18%	6.22%	6.18%
Baillie Gifford Int'l Growth (Barclays)	**17.22%**	**9.90%**	-12.81%	-4.30%	1.44%	3.22%
Bernstein Global Plus	**13.08%**	**11.67%**	-7.35%	-7.67%	-0.08%	-0.81%
Bernstein Strategic Core	**6.13%**	**5.19%**	2.82%	2.94%	4.74%	3.96%
Brandywine Large Cap Value	**10.30%**	**16.19%**	-11.18%	-4.42%	21.11%	18.89%
ClearBridge Mid Cap	**7.37%**	**14.25%**	5.93%	-0.25%	10.14%	15.83%
Farr, Miller Washington Large Cap Growth	**12.62%**	**13.76%**	-0.26%	3.17%	14.42%	19.15%
Royce Pennsylvania Mutual Fund	**16.54%**	**15.47%**	-8.30%	1.25%	3.29%	3.93%
SSgA Bond Index	**5.22%**	**5.19%**	2.98%	2.94%	3.97%	3.96%
SSgA Emerging Markets Equity Index	**16.61%**	**16.78%**	-19.37%	-19.28%	N/A *	4.30%
Blue Bay Emerging Markets Debt Fund	**12.95%**	**16.75%**	-13.06%	-9.56%	N/A *	5.21%
Gresham Commodities Fund	**-5.28%**	**-2.59%**	-27.87%	-25.99%	N/A *	-6.58%

*- Fund inception date was November 1, 2013

In 2016, the investment firm managers had positive rates of return: led by Baillie Gifford Int'l. Growth (Barclays) Fund, 17.22%; SSgA Emerging Markets Equity Index, 16.61%; Royce Pennsylvania Mutual Fund, 16.54%; and Blue Bay Emerging Markets Debt Fund, 12.95%. The Fund had dividend and interest income in the amount of $17,711,990, a net appreciation of $86,368,577; and a currency gain on FX contracts and settlements of $3,004,326 for the year ended September 30, 2016.

In 2015, the Fund, as a whole, had a rate of return of -6.0%, with a net investment loss of $59,515,011 for the year 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, which resulted in a net investment value of $1,045,586,954, as of September 30, 2015. Additionally, the investment firm managers had negative rates of return: led by Gresham Commodities Fund, -27.87%; SSgA Emerging Markets Equity Index, -19.37%; Blue Bay Emerging Markets 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 the year ended September 30, 2015.

Investment Income (continued)

In 2014, the investments had a positive rate of return of 8.3%, with net investment income of $71,610,170 for the year 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. Please see the above table for details.

Insurance Carrier Premiums

Insurance Carrier Premiums represent amounts paid to the Fund's health and life insurance carriers. The premium expenses for the years ended September 30, 2016, 2015, and 2014 totaled $10,043,719, $6,739,591, and $4,729,440, respectively. The Defined Benefit Fund insurance premiums for the years ended September 30, 2016, 2015, and 2014 totaled $8,853,071, $6,182,198, and $3,712,004, respectively. All remaining insurance premiums are attributable to general employee retirees. The insurance premiums increased in fiscal year 2016, when compared to 2015 and 2014, due to rising national health care costs. The rising costs resulted in an increase in coverage cost for District employees. As of September 30, 2016, 2015, and 2014, the Fund had 1,279, 995, and 938 annuitants receiving benefits, respectively.

Summary of Actuarial Analysis

The results of the actuarial analysis are summarized below:

	September 30,		
	2015	**2014**	**2013**
Actuarial valuation of assets	**$ 1,202,400,000**	$ 1,036,600,000	$ 897,800,000
Actuarial accrued liability	**1,001,200,000**	1,188,300,000	1,048,000,000
Unfunded/(overfunded) actuarial liability	**(201,200,000)**	151,700,000	150,200,000
Funded ratio	**120.10%**	87.23%	85.67%

The District executed an experience study during the 2015 and 2016 fiscal years. The study examined participation assumptions for the Fund. The number of current retirees under the Fund is quite small due to the fact that the benefit is only available to retirees who were hired by the District after September 30, 1987. Since there is not substantial participation experience currently, the participation assumption chosen for valuations prior to the 2014 valuation purposely contained a large margin when compared to current actual rates of participation. As a result of the recent experience study, the District adopted updated assumed participation rates which reflect actual experience but continue to include an element of conservatism. The District also adjusted the discount rate to reflect more conservative expectations of future investment returns. The District will continue to track actual rates of participation in the future and will continue to compile participation data so that updated analyses of participation rates can be made as part of future valuations. The District will plan to maintain a funding ratio between 90% and 120% indicating the plan is fully funded.

There were 22,821 and 22,069 active employees, based on the September 30, 2016 and 2015 actuarial reports, respectively. The 2016 actuarial report showed that, based on data as of September 30, 2014, the number of annuitants increased by 383 members, to a total of 938 annuitants. They consist of 740 firefighters, police, and teachers; and 198 general employees. In comparison to the 2015 actuarial report, using September 30, 2012 data, the number of annuitants totaled 555 members, which represents an increase of 69% in membership.

Investment Management Fees

Investment management and custody fees for the years ended September 30, 2016, 2015 and 2014, are detailed in the table below. Investments increased to $1,173,912,217 as of September 30, 2016, from $1,045,586,954 as of September 30, 2015, which is an increase of 12.0% from last year, and an increase of 25% over the past two years.

	September 30,		
Investment Firm (*In dollars*)	**2016**	**2015**	**2014**
Farr, Miller, Washington Large Cap Growth	**$ 902,643**	$ 904,138	$ 811,633
Brandywine Large Cap Value	**749,144**	1,024,876	706,171
ClearBridge Mid Cap	**721,199**	545,241	467,797
Baillie Gifford Int'l. Growth (Barclays)	**656,386**	464,625	338,080
Artisan Int'l. Value Equity (Barclays)	**627,734**	458,151	412,823
Bernstein Global Plus	**396,569**	268,670	239,447
Bernstein Strategic Core	**337,301**	326,988	316,159
Gresham Commodities Fund - Equity	**312,590**	182,241	312,775
Blue Bay Emerging Markets - Debt Fund	**276,830**	238,116	252,084
Royce Pennsylvania Mutual Fund	**242,980**	478,967	592,372
Access Capital ETI	**203,261**	197,074	102,225
SSgA Custody Fees	**151,087**	134,042	133,545
SSgA Emerging Markets Equity	**80,714**	145,656	101,791
SSgA Russell Sm. CAP Index Fund-Bond *	**33,542**	-	-
SSgA Index Bond	**27,681**	35,503	48,829
Total	**$ 5,719,661**	$ 5,404,288	$ 4,835,731

* Fund inception date was November 24, 2015

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 4th Street SW, 8th Floor Washington, DC, 20024.

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

Statements of Fund Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	**$ 37,032,445**	$ 45,658,951
Receivables		
Investment	**14,170,160**	13,890,285
Interest and dividends	**2,720,385**	2,324,322
Total receivables	**16,890,545**	16,214,607
Investments, at fair value:		
Equities	**694,373,770**	605,446,733
Debt Securities	**437,859,844**	396,139,142
Commodities	**41,678,603**	44,001,079
Total investments	**1,173,912,217**	1,045,586,954
Total Assets	**1,227,835,207**	1,107,460,512
LIABILITIES		
Investments and other payables	**30,393,993**	30,910,398
Net Position Held in Trust for Other Post Employment Benefits	**$ 1,197,441,214**	$ 1,076,550,114

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

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

Statements of Changes in Fund Net Position
September 30, 2016 and 2015

	2016	2015
ADDITIONS		
Contributions:		
District contributions	**$ 29,000,000**	$ 91,400,000
Annuitant contributions	**430,587**	410,780
Total contributions	**29,430,587**	91,810,780
Investment income:		
Net appreciation (depreciation) in fair value	**86,368,577**	(76,847,441)
Interest	**8,314,360**	6,281,701
Dividends	**9,397,630**	16,151,287
Currency gain on FX contracts and settlements	**3,004,326**	18,180
Other income	**431,482**	285,550
Total income (loss) for investment activities	**107,516,375**	(54,110,723)
Less: Investment management fees	**5,719,661**	5,404,288
Net investment income (loss)	**101,796,714**	(59,515,011)
Total additions	**131,227,301**	32,295,769
DEDUCTIONS		
Insurance carrier premiums	**10,043,719**	6,739,591
Administrative expenses	**292,482**	365,123
Total deductions	**10,336,201**	7,104,714
Change in Plan Net Position	**120,891,100**	25,191,055
Net Position Held in Trust for Other Post Employment Benefits		
Beginning of the year	**1,076,550,114**	1,051,359,059
End of the Year	**$ 1,197,441,214**	$ 1,076,550,114

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

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 Fund 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 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

Cost sharing arrangements for annuitants vary depending on whether the employee was a General Employee, Teacher, Police Officer or Firefighter. For General Employees and Teachers, annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 75%, reduced by an additional 2.50% for each year of creditable service over 10 years up to a maximum of 20 such additional years. Thus, 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, 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 General Employee and Teacher annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family member is 80%, reduced by an additional 1.00% for each year of creditable District service over 10 years up to a maximum of 20 such additional years. Thus, the District's contribution shall not exceed 40% 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 of an annuitant with 30 or more years of creditable District service pays up to 60% of the cost of the selected health benefit plan.

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

Contributions *(continued)*

For Police Officers and Firefighters, annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 70%, reduced by an additional 3.00% for each year of creditable service over 10 years up to a maximum of 15 such additional years. Thus, the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 25 or more years of creditable District service or police officer or firefighter annuitants who are injured in the line of duty, the District pays 75% of cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan. Special rules apply for Police and Firefighters who were hired before November 10, 1996.

Covered family members of Police Officers and Firefighter annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family members is 75%, reduced by an additional 3.00% for each year of creditable District service over 10 years. However, the portion paid by the covered family member is never less than 40%, and the District's contribution shall not exceed 60% of the cost of the selected health benefit plan; the family member pays 40% of the cost of the selected health benefit plan for covered family members of police officer or firefighters who were hired before November 10, 1996.

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 fund, 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 2007; and is administered as an irrevocable trust, through which assets are accumulated, and benefits are paid as they become due, in accordance with the Funds' plan document.

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 (employee salaries) of the Fund are paid by the District.

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

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.

Fair Value Measurements

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. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, inputs are observable for similar transactions or the inputs are unobservable. However, the objective of fair value measurement in all cases, is to determine the price at which an orderly transaction to sell assets or to transfer liability would take place between market participants at the measurement date, under current market conditions. The Trustee has delegated to each investment firm, the responsibility to determine the fair value of an investment security when a price is not available from a pricing service or broker-dealer. The investment firm's Portfolio Management and Performance Committee (Valuation Committee) is responsible for determining whether the price provided by a pricing service or broker-dealer does not approximate fair value.

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. The Government Accounting Standards Board (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.

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

Investment Valuation and Income Recognition *(continued)*

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 counterparty's trust department or agent, but not in the government's name, are also part of the requirements of this Statement. GASB Statement 40 was effective for periods beginning after June 15, 2004. See note 6 for the related deposits and investment risk disclosures.

GASB Statement 72, *Fair Value Measurement and Application*, provides disclosure guidance requirements on fair value measurement of investments of state and local governments that are exposed to investment risks relate d to credit risk, concentration of credit risks, interest rate risk, and foreign currency risk. GASB 72 also clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – inputs, other than quoted prices included within Level 1 - that are observable for the asset or liability, either directly or indirectly (for example, quoted prices for similar assets or liabilities in active markets).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement (including the District's own assumptions in determining the fair value of investments).

Adoption of New Accounting Standards

During the fiscal year ended September 30, 2016, the Fund adopted GASB No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. See Note 6 for more information on fair value measurements. The Fund also adopted GASB No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB No. 79, *Certain External Investment Pools and Pool Participants*. The adoption of GASB No. 72 added material disclosures to the financial statements. There are no significant changes to the financial statements from the adoption of the remaining above GASB statements.

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.

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

Future Accounting Standards *(continued)*

The new GASB Statements include 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.*

The provisions in GASB No. 74 are effective for financial statements for fiscal years beginning after June 15, 2016. The provisions in GASB No. 75 are effective for fiscal years 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. The adoption of GASB No. 74 will add material disclosures to the financial statements.

NOTE 3 – FUND DESCRIPTIONS AND CONTRIBUTION INFORMATION

As of September 30, 2016 and 2015, the Fund had 1,279 and 995 annuitants receiving benefits, respectively. The 2016 participants were comprised of 982 firefighters, police, and teachers; and 297 general District employees. The 2015 participants were comprised of 765 firefighters, police, and teachers; and 230 general District employees. The premium expenses for the fiscal years ended September 30, 2016 and 2015, totaled $10,043,719 and $6,739,591, respectively. The insurance premiums attributable to police, fire, and teacher retirees for the fiscal years 2016 and 2015 totaled $8,853,071 and $6,182,198, respectively. All remaining insurance premiums are attributable to general employee retirees.

The actuarial valuation for the fiscal year ended September 30, 2016, was based on the actuarial valuation performed as of September 30, 2014. The actuarial report, which was issued in March 2016, showed that there was a total of 938 retired participants. They consisted of 740 firefighters, police, and teachers; and 198 general employees.

The actuarial valuation for the fiscal year ended 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 was a total of 555 retired participants. They consisted of 418 firefighters, police, and teachers; and 137 general employees.

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 Fund.

NOTE 5 – CASH AND CASH EQUIVALENTS

Custodial credit risk for cash and cash equivalents 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. The Fund, through its investment firms, maintains certain cash and cash equivalent balances.

NOTE 5 – CASH AND CASH EQUIVALENTS *(continued)*

These balances are not required to be collateralized by statute or policy. The Fund maintains cash and cash equivalents in investments accounts, as detailed below, as of September 30, 2016 and 2015:

	September 30,	
Funds by Investment Firm	**2016**	**2015**
Cash account	**$ 5,696,474**	$ 8,174,802
Bernstein Strategic Core	**5,813,644**	20,141,213
Brandywine Large Cap Value	**7,732,792**	4,221,623
Farr, Miller Washington Large Cap Growth	**11,250,579**	9,727,718
ClearBridge Mid Cap	**1,741,300**	2,000,751
Bernstein Global Plus	**4,797,656**	1,392,844
Total Cash and Cash Equivalents	**$ 37,032,445**	$ 45,658,951

NOTE 6 – INVESTMENTS

The majority of the Fund's assets as of September 30, 2016 and 2015 were investments, which totaled $1,173,912,217 and $1,045,568,954, respectively. The assets are invested with ten different investment firms. As of September 30, 2016 and 2015, the funds were invested in equities, (57.34% and 55.48%); debt securities, (36.16% and 36.30%); and commodities, (3.44% and 4.03%), respectively. The fair values of each investment firm's assets, as of September 30, 2016 and 2015, are as follows:

	September 30,			
	2016		2015	
Equity Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Brandywine Large Cap Value	**$ 159,536,709**	**13.17%**	$ 147,829,500	13.55%
Farr, Miller Washington Large Cap Growth	**148,250,622**	**12.24%**	130,188,561	11.93%
ClearBridge Mid Cap	**115,495,089**	**9.54%**	107,922,838	9.89%
Barclays International	**124,877,416**	**10.31%**	92,541,381	8.48%
SSgA Russell Sm Cap Index Fund	**64,117,391**	**5.29%**	-	0.00%
SSgA Emerging Markets Equity Index	**79,098,948**	**6.53%**	67,832,670	6.22%
Royce Pennsylvania Mutual Fund	**2,997,595**	**0.25%**	59,131,783	5.42%
Total Equity	**$ 694,373,770**	**57.34%**	$ 605,446,733	55.48%
Debt securities Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Bernstein Strategic Core	**$ 153,187,850**	**12.65%**	$ 134,093,167	12.29%
Bernstein Global Plus	**148,450,350**	**12.26%**	133,532,324	12.24%
SSgA Bond Index	**81,086,049**	**6.70%**	77,065,566	7.06%
Access Capital ETI	**31,270,951**	**2.58%**	30,318,810	2.78%
Blue Bay Emerging Markets Debt Fund	**23,864,644**	**1.97%**	21,129,275	1.94%
Total Debt Securities	**$ 437,859,844**	**36.16%**	$ 396,139,142	36.30%
Commodities Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Gresham Commodities Fund	**$ 41,678,603**	**3.44%**	$ 44,001,079	4.03%

* Includes cash and investments.

NOTE 6 – INVESTMENTS *(continued)*

GASB 72 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. An asset or a liability categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The summary of inputs used to determine the fair valuation of the Fund's investments as of September 30, 2016 and 2015 is as follows.

Cash equivalents: This investment category consists of highly liquid investments having a maturity of three months or less, with minimal risk of a change in value due to their frequent pricing and ease of converting to cash. As such these investments are rendered Level 1 in the fair value hierarchy. See Note 5 Cash and Cash Equivalents for a more detail description.

Equity securities and mutual funds: These investments are classified as Level 1 of the fair value hierarchy, and are valued using prices quoted in active markets for those securities. The mutual funds held in equities are deemed to be actively traded, and support classification of the fair value measurement as Level 1 in the fair value hierarchy.

Real Estate Investment Trust Securities investments, classified as Level 3, are valued using either a discounted cash flow or market comparable company's technique.

Debt securities, classified as Level 2 of the fair value hierarchy, are valued using market pricing and other observable market inputs for similar securities from a number of data providers, standard in the industry; or a broker quote in a non-active market. Collateralized auto loan securities, which are included in Collaterized Debt Obligations, are classified in Level 3; and are valued using consensus pricing. The mutual funds held in bonds are classified as Level 2.

Commodities Fund: The investment objectives of the fund are to provide a partial price hedge with an attractive risk/return profile, as compared to other products using a commodity index or a pool of commodities. Partial or complete redemption may be made, upon five (5) days' prior written notice, on the last business day of each calendar month or at such times and on such terms as the General Partner of the fund may, in his/her sole discretion, allow. The valuation techniques and inputs categorization within the valuation hierarchy is based upon Level 3; and uses the income approach, where the advisor considers a list of factors to determine whether there has been significant decrease in the relation to normal market activity.

Investment derivative instruments: The Fund's derivative financial instruments are valued by a third-party investment fund's manager, based on prevailing market data derived from proprietary models, and are carried at fair value. The Fund had three types of off-balance sheet derivative financial instrument outstanding. These derivative instruments are financial contracts, whose values depend on the value of one or more underlying assets, or reference rates or financial indices, which dictate the rate of change of output with respect to the financial contracts. The financial instruments categorization within the valuation hierarchy is based upon Level 2, which is the lowest level of input that is significant to the fair value measurement.

Investments measured at the NAV: This investment category consists of three (3) funds that include hedge funds and other funds/products that employ dynamic trading strategies aiming at achieving absolute returns. These alternative investment funds are organized as limited partnerships that are not traded on an exchange, and do not redeem shares on a daily basis. The funds have varying restrictions on liquidity and transferability. The fair values of the investments in this type have been determined, using the NAV per share of the investments. The funds have varying redemption restrictions such as "lock-ups" or "gates". A lock-up period is a window of time when investors of a hedge fund or another closely held investment vehicle are not allowed to redeem or sell shares.

Notes to Financial Statements
September 30, 2016 and 2015

NOTE 6 – INVESTMENTS *(continued)*

A gate is a restriction placed on a hedge fund limiting the amount of withdrawals from the fund during a redemption period. These investments have redemption frequency that range from monthly to quarterly, and a redemption notice period that ranges from five to 30 calendar days.

As of September 30, 2016 and 2015, the Fund had the following recurring fair value measurements:

		Fair Value Measurements Using		
As of September 30, 2016	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by fair value level				
Cash equivalents	$ 35,590,713	$ 35,590,713	$ -	$ -
Equity securities				
US equities (by Industry)				
Industrials	113,526,199	113,526,199	-	-
Consumer Retail	86,868,839	86,868,839	-	-
Information Technology	62,095,087	62,095,087	-	-
Financial Institutions	77,405,341	77,405,341	-	-
HealthCare	53,112,076	53,112,076	-	-
Other	5,852,428	5,852,428	-	-
International equities				
Consumer Retail	2,959,530	2,959,530	-	-
Information Technology	3,131,368	3,131,368	-	-
Industrials	7,965,066	7,965,066	-	-
Real estate investment trust securities	10,537,975	-	-	10,537,975
Mutual funds	67,114,986	67,114,986	-	-
Total equity securities	490,568,895	480,030,920	-	10,537,975
Debt securities				
US Government Issues	24,689,899	-	24,689,899	-
International Government Issues	123,242,469	-	123,242,469	-
Corporate Bonds	82,541,212	-	82,541,212	-
Mortgage backed Securities	57,195,033	-	54,448,326	2,746,707
Credit Card/ Automotive Receivables	13,434,071	-	-	13,434,071
Mutual funds	112,357,000	-	112,357,000	-
US State and Local Government Bonds	364,027	-	364,027	-
Total debt securities	413,823,711	-	397,642,933	16,180,778
Commodity investments				
Gresham commodities fund	41,678,603	-	-	41,678,603
Total Investments by Fair Value Level	$ 981,661,922	$ 515,621,633	$ 397,642,933	$ 68,397,356
Investments measured at the Net Asset Value (NAV)				
SSGA Emerging Mkts Equity Index	$ 79,098,948			
Barclay International Growth fund	124,877,416			
Blue Bay Emerging Market Debt Fund	23,864,644			
Total investments measured at the NAV	227,841,008			
Total investments measured at fair value	$ 1,209,502,930			
Investment derivative instruments				
Interest rate swaps	$ (246,824)	$ -	$ (246,824)	$ -
Credit defaults swaps	3,135	-	3,135	-
Foreign exchange forwards	28,307	-	28,307	-
Total Investment derivative instruments	$ (215,382)	$ -	$ (215,382)	$ -

NOTE 6 – INVESTMENTS *(continued)*

		Fair Value Measurements Using		
As of September 30, 2015	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by fair value level				
Cash equivalents	$ 30,674,100	$ 30,674,100	$ -	$ -
Equity securities				
US equities (by Industry)				
Industrials	97,652,922	97,652,922	-	-
Consumer Retail	78,550,531	78,550,531	-	-
Information Technology	62,000,358	62,000,358	-	-
Financial Institutions	62,545,534	62,545,534	-	-
HealthCare	50,404,125	50,404,125	-	-
Other	8,173,318	8,173,318	-	-
International equities				
Consumer Retail	5,312,784	5,312,784	-	-
Financial Institutions	2,392,602	2,392,602	-	-
Information Technology	3,207,050	3,207,050	-	-
Industrials	6,423,926	6,423,926	-	-
Real estate investment trust securities	9,444,734	-	-	9,444,734
Mutual funds	59,131,783	89,450,593	-	-
Total equity securities	445,239,667	466,113,743	-	9,444,734
Debt securities				
US Government Issues	26,324,596	-	26,324,596	-
International Government Issues	101,226,892	-	101,226,892	-
Corporate Bonds	69,939,972	-	69,939,972	-
FNMA, GNMA II, CMO, FHLMC & Other	52,410,789	-	49,504,633	2,906,156
Credit Card/ Automotive Receivables	17,226,234	-	-	17,226,234
Mutual funds	107,384,376	-	77,065,566	-
US State and Local Government Bonds	330,023	-	330,023	-
Total debt securities	374,842,882	-	324,391,682	20,132,390
Commodity investments				
Gresham commodities fund	44,001,079	-	-	44,001,079
Total Investments by Fair Value Level	$ 894,757,728	$ 496,787,843	$ 324,391,682	$ 73,578,203
Investments measured at the Net Asset Value (NAV)				
SSGA Emerging Mkts Equity Index	$ 67,832,670			
Barclay International Growth fund	92,541,381			
Blue Bay Emerging Market Debt Fund	21,129,275			
Total investments measured at the NAV	181,503,326			
Total investments measured at fair value	$ 1,076,261,054			
Investment derivative instruments				
Interest rate swaps	$ (295,309)	$ -	$ (295,309)	$ -
Credit defaults swaps	85,878	-	85,878	-
Foreign exchange forwards	(37,712)	-	(37,712)	-
Total Investment derivative instruments	$ (247,143)	$ -	$ (247,143)	$ -

Notes to Financial Statements
September 30, 2016 and 2015

NOTE 6 – INVESTMENTS *(continued)*

Investments measured at NAV were as follows:

Investment	Fair Value as of September 30, 2016	2015	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
SSgA Emerging Markets (1)	$ 79,098,948	$ 67,832,670	None	Monthly	30 days
Barclays International (2)	124,877,416	92,541,381	None	Monthly	5 days
Blue Bay Emerging Markets Debt Fund (3)	23,864,644	21,129,275	None	Monthly	30 days
Total Investments Measured at NAV	**$227,841,008**	**$181,503,326**			

1) SSgA Emerging Markets Equity Fund: The Fund's investment objective is to produce long-term capital growth. The Fund seeks to achieve its investment objective by primarily investing in a diversified portfolio of equity securities and equity-related securities; which are, or for which the underlying securities are, traded in emerging markets. Redemptions, in aggregate, by Shareholders on any Dealing Day (First Business Day of each month) may be limited to 20% of the number of Shares within each Share Class then in issue at the end of the previous Dealing Day. In the event that aggregate requests are received for redemptions exceeding 20% of the number of Shares within any Share Class in issue at the end of the previous Dealing Day, any non-redeemed balance of Shares over the said 20% level shall be held over on a pro-rata basis until the next Dealing Day, where they shall be redeemed in priority to new redemption requests received in respect of such Dealing Day. No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value is suspended.

2) Barclays International Emerging Markets Equity, Value and Growth Funds: The Fund's investment objective is to produce long-term capital growth. The Fund seeks to achieve its investment objective, by primarily investing in a diversified portfolio of equity securities and equity-related securities; which are, or for which the underlying securities are, traded in emerging markets. Redemptions, in aggregate, by Shareholders on any Dealing Day (First Business Day of each month) may be limited to 20% of the number of Shares within each Share Class then in issue at the end of the previous Dealing Day. In the event that aggregate requests are received for redemptions exceeding 20% of the number of Shares within any Share Class in issue at the end of the previous Dealing Day, any non-redeemed balance of Shares over the said 20% level shall be held over on a pro-rata basis until the next Dealing Day, where they shall be redeemed in priority to new redemption requests received in respect of such Dealing Day. No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value is suspended.

3) Blue Bay Emerging Markets Debt Fund: The investment objectives of this Fund are to achieve favorable income-oriented returns from a globally diversified portfolio of primarily developing market debt or debt-like securities, and preservation and enhancement of principal. Participating Shares may be redeemed monthly, with five (5) days prior written notice, on the last business day of each calendar month; or at such times, and on such terms as the Board of Directors of the Fund may, in their sole discretion, allow.

NOTE 6 – INVESTMENTS *(continued)*

During the year ended September 30, 2016, the Fund recognized no transfers to/from Level 1 or 2. The Fund's policy is to recognize transfers to/from Level 1, Level 2, and Level 3 at the end of the reporting period, utilizing fair value at the beginning of the period.

Custodial Credit Risk:

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

Foreign Currency Risk:

The 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, 2016 and 2015, held in currencies other than US dollars, were as follows:

As of September 30, 2016

International Securities	Short Term and Cash	Convertible and Fixed Income	Total
AUSTRALIAN DOLLAR	$ (12,605)	$ 88,097	$ 75,492
BRAZILIAN REAL	-	4,815,641	4,815,641
CANADIAN DOLLAR	68,486	12,987,366	13,055,852
EURO CURRENCY	(33,166)	50,228,538	50,195,372
JAPANESE YEN	160,189	32,768,560	32,928,749
MEXICAN PESO	-	2,507,187	2,507,187
NEW ZEALAND DOLLAR	20,037	(4,673)	15,364
NORWEGIAN KRONER	23,344	80,717	104,061
POLISH ZLOTY	20,223	802,323	822,546
POUND STERLING	93,127	13,506,239	13,599,366
RUSSIAN RUBLE	-	401,123	401,123
SINGAPORE DOLLAR	-	334,347	334,347
SOUTH AFRICAN RAND	17,840	262,415	280,255
SWEDISH KRONA	-	968,982	968,982
TURKISH LIRA	-	353,615	353,615
Totals	$ 357,475	$ 120,100,477	$ 120,457,952

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2015

International Securities	Short Term and Cash	Convertible and Fixed Income	Total
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
Totals	$ 14,468,201	$ 116,037,139	$ 130,505,340

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

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. The average quality of the entire bond holdings in each investment manager's portfolio should be maintained at "A" or better. For portfolios that were not individually managed, the credit quality exceeded 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, 2016 and 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 set-offs.

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 examine how sensitive the fixed income portfolios' underlying assets are to moves in interest rates, and to recommend any appropriate investment manager changes.

NOTE 6 – INVESTMENTS *(continued)*

The average duration was as follows, by investment firm, for the years ended September 30, 2016 and 2015:

	September 30,	
Investment Firm	**2016**	**2015**
Bernstein US Core Plus	**5.00**	5.25
Bernstein Global XUS Plus	**7.50**	6.74
Access Capital ETI	**2.93**	3.79
SSgA Bond Index Fund	**5.44**	5.59
Blue Bay Emerging Market	**6.70**	5.81

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 fiscal year 2016, the Fund invested directly in forward currency contracts.

At September 30, 2016 and September 30, 2015, the Fund had two types of off-balance-sheet derivative financial instrument outstanding: swaps and currency forwards. The Swaps represents Interest Swaps and Credit Default Swaps which are used to hedge interest rate and credit exposure risks. 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. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

NOTE 6 – INVESTMENTS *(continued)*

Below is the list of derivatives aggregated by investment type, as of September 30, 2016 and 2015:

As of September 30, 2016

	Change in Fair Value		Fair Value as of September 30, 2016		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Credit Default Swaps Bought	Investment Revenue	**$ (79,291)**	Swaps	**$ (20,631)**	**$ 506,000**
Credit Default Swaps Written	Investment Revenue	**(3,451)**	Swaps	**23,766**	**2,420,000**
Equity Options Written	Investment Revenue	**21,449**	Options	**-**	**-**
Fixed Income Futures Long	Investment Revenue	**594,237**	Futures	**-**	**30,435,291**
Fixed Income Futures Short	Investment Revenue	**(502,707)**	Futures	**-**	**(14,635,958)**
FX Forwards	Investment Revenue	**2,656,917**	Long Term Instruments	**28,307**	**113,520,188**
Pay Fixed Interest Rate Swaps	Investment Revenue	**(232,897)**	Swaps	**(444,866)**	**62,063,981**
Receive Fixed Interest Rate Swaps	Investment Revenue	**240,931**	Swaps	**198,042**	**4,419,585**
Total		**$ 2,695,188**		**$ (215,382)**	

As of September 30, 2015

	Change in Fair Value		Fair Value as of September 30, 2015		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
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
Total		(475,774)		(247,143)	

NOTE 6 – INVESTMENTS *(continued)*

Contingencies:

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, 2016 and 2015, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was $10,493 and ($83,170), respectively. If the collateral posting requirements were triggered, the Fund would be required to post the aggregate fair value in collateral to its counterparties. The District has an "Aa" rating; therefore, no collateral has been required to be posted as of September 30, 2016 and 2015.

The net unrealized gain (loss) on foreign currency spot and forward contracts for the years ended September 30, 2016 and 2015, were as follows:

As of September 30, 2016:

Foreign Currency Contracts Purchased	Cost	Unrealized Gain/(Loss)
ARGENTINE PESO	$ 302,069	$ 25,916
AUSTRALIAN DOLLAR	3,580,932	21,309
BRAZILIAN REAL	6,757,508	(7,810)
SWISS FRANC	1,852,833	18,668
CZECH KORUNA	3,462,057	40,458
DANISH KRONE	779,322	(1,413)
EURO CURRENCY	15,220,094	175,424
GREAT BRITAIN POUND	2,287,625	4,130
ISRAELI SHEKEL	228,120	3,575
INDIAN RUPEE	1,117,240	4,702
JAPANESE YEN	28,421,599	(47,326)
SOUTH KOREAN WON	3,266,265	33,678
MEXICAN PESO	833,139	11,464
MALAYSIAN RINGGIT	740,862	(432)
NORWEGIAN KRONER	303,966	6,402
NEW ZEALAND DOLLAR	322,341	11,853
RUSSIAN RUBLE	1,327,857	33,231
SWEDISH KRONA	1,714,379	(22,362)
THAI BAHT	560,326	5,085
TURKISH LIRA	449,069	(2,261)
NEW TAIWAN DOLLAR	1,532,034	9,124
SOUTH AFRICAN RAND	273,522	(952)
Total Contracts Purchased		**$ 322,463**

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2016 (continued):

Foreign Currency Contracts Sold	Cost	Unrealized Gain/(Loss)
AUSTRALIAN DOLLAR	72,767	565
BRAZILIAN REAL	10,629,668	(154,471)
CANADIAN DOLLAR	11,370,407	268,591
EURO CURRENCY	5,731,589	(45,045)
JAPANESE YEN	10,940,843	(324,660)
POLISH ZLOTY	376,134	(14,338)
RUSSIAN RUBLE	1,110,979	(29,290)
SINGAPORE DOLLAR	3,679,172	3,076
NEW TAIWAN DOLLAR	1,523,272	(16,398)
Total Contracts Sold		(311,970)
Net unrealized gain (loss) on foreign currency spot and forward contracts		**$ 10,493**

Notes to Financial Statements
September 30, 2016 and 2015

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2015:

Foreign Currency Contracts Purchased	Cost	Unrealized Gain/(Loss)
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		**$ (315,429)**

Notes to Financial Statements
September 30, 2016 and 2015

NOTE 6 – INVESTMENTS *(continued)*

Foreign Currency Contracts Sold	Cost	Unrealized Gain/(Loss)
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		232,259
Net unrealized gain (loss) on foreign currency spot and forward contracts		**$ (83,170)**

NOTE 7- DISTRICT CONTRIBUTIONS

The District, historically, makes its contributions to the Fund near the completion of its fiscal year, 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, 2016 and 2015, were due to the receipt of the contribution of $29,000,000 and $91,400,000, respectively. The amounts were distributed as follows for the years ended September 30, 2016 and 2015:

	September 30,	
FUND	**2016**	**2015**
Access Capital ETI	**$ -**	$ 9,000,000
Barclays International	**19,000,000**	-
Bernstein Global Plus	**-**	46,400,000
Gresham Commodities Fund	**-**	11,000,000
SSgA Emerging Markets Equity Index	**-**	15,000,000
State Street Cash Account	**10,000,000**	10,000,000
Total	**$ 29,000,000**	$ 91,400,000

NOTE 8 – CONTINGENCIES

The Fund is party to various legal proceedings, many of which occur in the normal course of the Fund's operations. These legal proceedings are not, in the opinion of the Office of the Attorney General of the District of Columbia, likely to have a material adverse impact on the Fund's financial position as of September 30, 2016.

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 the amounts reported in the accompanying statements of net position.

Fund contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

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.

NOTE 9 – ACTUARIAL INFORMATION *(continued)*

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.

An independent actuary was retained by the District to perform an actuarial valuation of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Plan (the "Plan") as of September 30, 2014. The purpose of the valuation is to provide an estimate of the actuarial accrued liabilities of the Plan and the Annual Required Contribution (ARC) in accordance with the Statements of the Governmental Accounting Standards Board (GASB) numbered 43 and 45. The report was issued in March 2016.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	20 years beginning with fiscal year end 2016
Asset Valuation Method	Market Value
Investment Rate of Return	6.50%
Discount Rate	6.50%
Salary Increase Rate	3.50% (plus merit scale)
Medical Inflation Rate	7.2%, grading to 3.9% Assumption utilizes the Society of Actuaries Getzen Medical Trend Model, and reaches the ultimate medical inflation rate in 2040.
Mortality	The RP-2014 Healthy Employee Mortality Table with the MP-2014 Improvement Scale, fully generational, was used for General Employees and Teachers. For Police & Fire Employees, a combination of 50% of the RP-2014 Health Employee White Collar and 50% of the RP-2014 Healthy Employee Blue Collar Mortality Tables, both with the MP-2014 Improvement Scale fully generational, were used. For all disabled retirees, the RP-2014 Disabled Life Mortality Table was used.

Based on a projection of the September 30, 2014 valuation results, the September 30, 2015, estimated actuarial accrued liability (AAL) is $1,001,200,000 and the estimated actuarial value of the assets is $1,202,400,000, resulting in an estimated unfunded actuarial accrued liability (UAAL) of ($201,200,000).

Based on the September 2012 valuation results, the September 30, 2014, estimated actuarial liability was $1,188,300,000 and the actuarial value of the assets was $1,036,600,000, resulting in an estimated unfunded actuarial accrued liability (UAAL) of $151,700,000. The estimated covered payroll (annual payroll of active employees covered by the Plan) was $1,484,300,000, and the ratio of UAAL to covered payroll was 10.22%.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNMENT OF DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Required Supplementary Information
Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2010	$ 424.3	$ 784.9	$ 360.6	54.06%	$ 1,544.5	23.35%
9/30/2011	511.5	866.6	355.1	59.02%	1,559.8	22.77%
9/30/2012	693.3	919.7	226.4	75.38%	1,399.1	16.18%
9/30/2013	897.8	1,048.0	150.2	85.67%	1,441.1	10.42%
9/30/2014	1,036.6	1,188.3	151.7	87.23%	1,484.3	10.22%
9/30/2015	**1,202.4**	**1,001.2**	**(201.2)**	**120.10%**	**1,608.0**	**-12.51%**

GOVERNMENT OF DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Required Supplementary Information
Schedule of Employer Contributions (in millions)

Year Ended September 30,	Annual Required Contribution (ARC)	Percentage Contribution (%)
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%
2016	**29.0**	**100.0%**

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, 2014.

This data is presented below:

Valuation Date	September 30, 2015 (Projected from September, 2014 census)	September 30, 2014 (Projected from September, 2012 census)	September 30, 2013 (Projected from September, 2012 census)
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, Closed
Remaining Amortization Period	20 Years	28 Years	29 Years
Actuarial Assumptions:			
Investment Rate of Return	6.50%	7.00%	7.00%
Discount Rate	6.50%	7.00%	7.00%
Rate of Salary Increase	3.50% (plus merit scale)	3.75% (plus merit scale)	3.75% (plus merit scale)
Rate of Medical Inflation	7.2%, grading down to 3.9% in 2040, using the SOA Getzen Medical Trend Model	8.0% (pre-Medicare) or 6.5% (post-Medicare), grading to 4.0% over 70 years	8.0% (pre-Medicare) or 6.5% (post-Medicare), grading to 4.0% over 70 years

As the Fund's actuarial calculations are presented, based on the year for which they were prepared, the table below presents the seven 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 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.

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.

Required Supplementary Information
Notes to Required Supplementary Information

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.

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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 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), fiduciary fund of the Government of the District of Columbia, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 29, 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 opinions 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 a 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.*

1299 Pennsylvania Avenue NW • Suite 1120 • Washington • District of Columbia 20004 • P 202.803.2335 • F 202.756.1301

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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, D.C.
December 29, 2016

SB & Company, LLC