District of Columbia Retirement Board

a Pension Trust Fund of the District of Columbia





Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2012

District of Columbia Retirement Board

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For the fiscal year ended September 30, 2012

Prepared by the District of Columbia Retirement Board's Finance Department
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Washington, D.C. 20001
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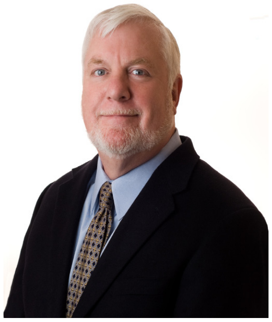
E-mail: dcrb@dc.gov

March 31, 2013

Board of Trustees
District of Columbia Retirement Board
900 7th Street, 2nd Floor,
Washington, D.C. 20001



Eric O. Stanchfield,
Executive Director

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the District of Columbia Retirement Board (DCRB or the Board) for the fiscal year ending September 30, 2012.

During the fiscal year ending September 30, 2012, DCRB completed 33 years of service and continued its mission to prudently invest the assets of the pension plans of the police officers, firefighters, and teachers of the District of Columbia, while providing those employees with retirement services. Our on-going objective is to provide services to our members from their date of hire, throughout their lifetime and their survivors' lifetime, while safeguarding the integrity of the Trust.

Over the year, we implemented a number of initiatives to accomplish our mission and to prepare the organization for future challenges.

Benefits Administration
We began projects that will move DCRB toward a predominantly electronic environment to improve Benefits Administration and mirror industry practices.

Currently, pension-related information is housed in various District agencies on paper records or in legacy information technology systems and is certified and provided to DCRB once a member submits a retirement application. Through the exemplary collaboration we have received from the District of Columbia Public Schools (DCPS), the Metropolitan Police Department (MPD), the Fire and Emergency Medical Services Department (FEMS), the Office of the Chief Technology Officer (OCTO), the Office of Pay and Retirement Services (OPRS), and the District of Columbia Department of Human Resources (DCHR), we initiated a Data Reclamation Project to collect and review the accuracy of active employee data to assure the timely processing of initial pension payments. This effort will enable us to create a database of certified data that will significantly reduce the turnaround time currently required to pay initial pension payments and will ultimately enable the production of annual benefit statements for active members.

DCRB's Benefits Department initiated a Business Process Reengineering (BPR) Project aimed toward transforming its current paper-based processes into those required for an automated, digital environment. When completed, the BPR project will reconfigure workflows to improve accuracy, promote greater efficiency, and produce a faster turnaround of pension transactions.

We also continued to make improvements to the management of annuitant information by applying new security features, cleansing the database and integrating information from the United States Department of the Treasury's System to Administer Retirement (STAR) and the District's PeopleSoft System and adding new viewing capabilities.

LETTER OF TRANSMITTAL (Continued)

Organizational Structure
We continued a number of projects focused on security and infrastructure availability, including updating our disaster recovery plan and implementing an alternate disaster recovery site. Security and change management systems and procedures were also implemented to protect technical assets and member information, including a Secure File Transfer System to encrypt all files shared by DCRB. Our Information Technology Management System was also improved to manage mobile and wireless devices, and internal "dashboards" were developed to report on Benefits Administration metrics, along with the performance and financial condition of the Fund.

We provided annual training for staff and Board members on ethics and fiduciary principles. In addition, staff received training on the new systems and technologies that were installed.

Communications
We began distributing DCRB's newsletter to active members via e-mail as well as in hard copy. As we work to reduce distribution costs by increasing the number of newsletters received electronically, members maintain the option to request a paper version of the information. To further enhance communications efforts, we created an email-only publication that allows us to distribute important information on a periodic basis. To gauge the success of the additional communications efforts, we plan to monitor member requests by tracking the volume of phone calls, e-mail messages, and other correspondence.

We redesigned DCRB's website to present information in a more user-friendly manner and include greater content than previously, such as an archive of our annual reports, more frequent updates on the value of the Fund, additional forms and Plan information, glossaries of pension-related terms, and more interactive features for our members and the public. Since the website's redesign, the average hits per month have increased 12% and the new visitors per year have increased by over 18%. Summary Plan Descriptions were updated through December 31, 2012 and are scheduled to be distributed in April, 2013.

We notified members of changes affecting their benefits through newsletters, periodic correspondence, targeted messages, our website, and information provided to the various District human resources offices.

Financial Stability
Our Board, in consultation with DCRB's independent actuary, reviewed current and projected retirement costs. The Board approved a funding policy to ensure Fund assets will be adequate to meet current and future liabilities. As a part of this exercise, the economic assumptions which include the assumed rate of inflation, investment return and overall active payroll growth, were changed. The new assumed return on investments of 6.5% is consistent with the direction taken by many public plan sponsors. The inflation and payroll growth assumption rates were also changed to a level consistent with future expectations.

At the beginning of fiscal year 2012, we implemented a financial management system which became DCRB's official "book of record." The integrated, Windows-based system is designed to re-engineer financial processes to be more efficient, timely, and tailored to DCRB's specific needs. This system also created a paperless and more easily auditable environment for financial documentation in the areas of accounting and financial reporting, requisitions, purchase order and payment processing, and budget planning and execution.

We ensured that DCRB's financial reporting is in accordance with legal requirements and industry standards by undergoing an audit conducted by an independent firm. We also received an unqualified opinion from our auditors.

Asset Allocation
As a result of volatile asset values worldwide, DCRB adjusted its strategic asset allocation so that the Fund performance will be less reliant upon the returns of public equity markets to achieve the actuarial target.

D.C. Council Oversight
We provided testimony to the Committee of Government Operations and the Committee of the Judiciary regarding DCRB's performance and the proposed fiscal year 2013 budget.

LETTER OF TRANSMITTAL (Continued)

Financial Highlights
As fiduciaries, our duty is to maintain an adequate funding level to assure the payment of the pension benefits to our members. In order to do this, the Fund must be well funded, receive the appropriate contributions, and adopt a successful long-term investment strategy.

Funded Status
As of September 30, 2012, the Fund's assets were valued at $5.19 billion, an increase of approximately 16.1% in the total asset value from the end of fiscal year 2011. GASB Statement No. 50 requires Funds that use the Aggregate Actuarial Cost method to disclose funding status information based on the Entry Age Normal ("EAN") method. As of October 1, 2012, the Plan's funded ratio was 104.9%, based on the EAN method.

Retirement Contributions
The Replacement Plan Act established the method for calculating the employer's (District of Columbia) annual contribution to the retirement Fund. The Board's independent actuary must determine the level of covered payroll, expressed as a percentage of payroll ("normal contribution rate") for each participant group. In fiscal year 2012, $116.7 million in employer contributions and $59.0 million in employee contributions were deposited into the Fund.

Investments
During fiscal year 2012, the Fund generated a gross return of 14.4%, outperforming the Policy Benchmark by 0.8%. Since inception in October 1982, the Fund has generated an annualized gross rate of return of 9.1%. A complete discussion of DCRB's investment returns, activities, and asset allocation strategy are more fully explained in the Investment Section, beginning on page 55.

Benefit Payments and Refunds: As of September 30, 2012, the Plans had 16,434 members, of whom 5,324 were retirees and survivors who receive monthly pension payments, 10,005 of whom were active members and 1,105 of whom were inactive members. During the fiscal year, $87.1 million in pension benefits and $7.0 million in refunds were paid from the Fund. DCRB's annual benefit payments increased from the fiscal year 2011 amount due to the expected increase in District service retirements and a corresponding decline in federal service retirements, and is estimated to continue increasing in the future.

Administrative Expenses
DCRB's administrative expenses for the fiscal year were $18.6 million. The detail for these expenses can be found in the Financial Section on page 51.

The Management's Discussion and Analysis, beginning on page 21, has a more in-depth discussion of DCRB's funded status as well as a complete analysis of the additions and deductions to the Plan's Net Assets.

Management Responsibility for Financial Reporting
The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with DCRB management. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the Plan assets and the changes in Plan assets and financial position of the Fund; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial activities of the Fund have been included.

The accounting records of DCRB are maintained by DCRB staff. Pension payment information is contained within the System to Administer Retirement (STAR), maintained by the U.S. Treasury Department. DCRB payroll is processed through the District of Columbia's People Soft System.

The independent auditor's reports were issued by the public accounting firm of CliftonLarsonAllen LLP, the selection of which was approved by the DCRB Board of Trustees. This report on the Plans is presented in the Financial Section of the CAFR.

The actuarial certification and related schedules included in the CAFR were provided by Cavanaugh Macdonald Consulting, LLC, the selection of which was approved by the DCRB Board of Trustees. The valuation results are presented in the Actuarial Section of this CAFR.

The Fund's Trustee Bank, State Street Bank and Trust Company, records and reports all investment and cash management transactions, and the Board exercises close review and controls over those records and transactions.

The Management's Discussion and Analysis provides a narrative introduction and overview of DCRB's financial statements. It is contained within the Financial Section and

LETTER OF TRANSMITTAL (Continued)

serves to supplement the Introductory Section of the Comprehensive Annual Financial Report, as well as financial statements, notes and supplementary information within the Financial Section.

Additional disclosures that are specifically required by statute are also included in the report.

DCRB management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded on an accrual basis in accordance with GAAP, and that financial statements conform to GASB and AICPA reporting standards and GFOA guidelines. Consideration is given to the adequacy of internal accounting controls for systems under the control of DCRB, and systems that are shared with other governmental offices or service providers. DCRB requires that its service providers undergo an annual service organization control report (SOC 1 report, formerly SAS70) review by independent public accountants, and that government offices whose systems are used by DCRB are subjected to an annual audit. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records.

We believe the internal controls in effect during the fiscal year ended September 30, 2012 adequately safeguarded the Fund's assets and provided reasonable assurance regarding the proper recording of financial transactions. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgment by management.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) Awarded the Certificate of Achievement for Excellence in Financial Reporting to DCRB for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011. This was the 4th consecutive year we received this award. In order to be awarded a Certificate of Achievement, DCRB must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We were also among the public retirement systems that received the Public Pension Coordinating Council's (PPCC) Public Pension Standards 2011 Award in recognition of meeting professional standards for plan design and administration. The PPCC is a national confederation of state retirement association whose standards are widely recognized benchmarks for public pension systems in the areas of plan design, funding, actuarial and financial audits, as well as member communications.

In Closing. . .

I am pleased to report that the Trust is in excellent shape. Our Board, in consultation with its independent actuary, has maintained conservative investment assumptions, the Plans are adequately funded, and we pay members timely. We have an excellent board and an experienced team to manage our initiatives.

I would like to express my appreciation to the U.S. Treasury's Office of D.C. Pensions, the District of Columbia City Council, the D.C. Office of Financial and Operations Systems, the D.C. Office of Budget and Planning, all other D.C. Government Offices that support the Board, and the DCRB trustees, staff, consultants and service providers for their tireless efforts to assure the financial soundness and successful operation of the District of Columbia Retirement Board.

If you have any questions regarding this Comprehensive Annual Financial Report (CAFR) of the District of Columbia Retirement Board for the fiscal year ending September 30, 2012, please direct them to my office at any time.

Respectfully submitted,

Eric O. Stanchfield,
Executive Director

ABOUT DCRB

History

DCRB is an independent agency of the District of Columbia government that was created by Congress in 1979 under the Retirement Reform Act (Reform Act). DCRB has exclusive authority and discretion to manage the assets of the District of Columbia Teacher's Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (collectively referred to as the Plans) and to provide participants with retirement services. Our goal is to provide these services to our members from their date of hire, throughout their lifetime and their survivors' lifetime, and to safeguard the integrity of the District of Columbia Police Officers and Firefighters' Retirement Fund and the District of Columbia Teachers' Retirement Fund (collectively referred to as the Fund).

Prior to the Reform Act, eligibility and benefit rules and financing arrangements for the Plans were authorized by acts of Congress and administered by the Federal Government. Benefits were paid monthly from the general revenues of the U.S. Department of the Treasury on a "pay-as-you-go" basis when workers retired, not on a prefunded basis using actuarial assumptions and methods.

In 1997, with the passage of the National Capital Revitalization and Self-Government Improvement Act (the Revitalization Act), the Federal Government assumed responsibility for the unfunded pension liabilities for retirement benefits earned as of June 30, 1997.

In 1998, the District of Columbia passed the Police Officers, Firefighters and Teachers Retirement Benefit Replacement Plan Act (the Replacement Plan Act) which established retirement plans for pension benefits accrued after June 30, 1997.

With the passage of the District's Office of Financial Operations and Systems Reorganization Act of 2004, DCRB assumed certain benefits administration responsibilities for the Plans from the District's Office of Pay and Retirement Services (OPRS). Those responsibilities included record-keeping, related administrative tasks, and the payment of benefits for participants hired on or after July 1, 1997, who earned benefits under the District Plans. DCRB also assumed the same administrative responsibilities for participants hired prior to July 1, 1997 and whose benefit costs are the responsibility of the U.S. Department of the Treasury (Treasury).

ABOUT DCRB (Continued)

Profile of the Plans

The District of Columbia Police Officers and Firefighters' Retirement Plan provides retirement, service related disability, non-service-related disability, and death benefits. All police officers and firefighters of the District of Columbia automatically become members on their date of employment. Police cadets are not eligible.

The District of Columbia Teachers' Retirement Plan provides retirement, disability retirement, and death benefits. Permanent, temporary, part-time and probationary teachers for the District of Columbia public day schools become members automatically on their date of employment. Other employees covered include librarians, principals, and counselors. Former District of Columbia teachers working at charter schools may be eligible to remain in the Plan.

In order to minimize administrative expenses while providing a broad range of investment options that are economically feasible, the assets of the Plans are comingled for investment purposes. The investment returns of the Fund are calculated based on the fair value of the assets. The Board seeks long-term investment returns in excess of the actuarial investment rate of return assumption at a level of risk commensurate with the expected levels of returns and consistent with sound and responsible investment practices. The Board, working closely with investment consultants and with input from its actuary, selects the optimal asset allocation policy which best reflects the risk tolerance and investment goals for the Fund.

The asset allocation policy is implemented through the careful screening and selection of investment managers that have an audited favorable long-term track record, a disciplined investment process, and reasonable investment management fees.

The Fund also seeks to outperform the Policy Benchmark, computed as the weighted average index return of the following strategic asset allocation:

Upon assuming responsibility for administering the Plans in October 2005, DCRB established a Member Services Center that is available to all active Plan members and retirees, calculates benefit payments, and works closely with the U.S. Treasury's Office of D.C. Pensions (ODCP) to implement system changes resulting from software upgrades or legislation affecting Plan provisions. DCRB produces Plan communications that include periodic newsletters and Summary Plan Descriptions as prescribed by statute. ODCP maintains the retirement information system that calculates benefits, issues monthly benefit payments to retirees and survivors, and handles all payment-related activities, including tax withholdings and premiums for health and life insurance coverage.

By statute, the Board of Trustees is responsible for establishing DCRB's annual budget. The budget relies on monies derived from the Fund investments and reimbursements received from the U.S. Treasury for the administration of certain pension payments and other services for which it is responsible. The District Council provides oversight of the budget process, and pursuant to Section 1-711 (f) of the District of Columbia Code, "may establish the amount of funds which will be allocated to the Board for administrative expenses, but may not specify the purposes for which such funds may be expended or the amounts which may be expended for the various activities."

ORGANIZATIONAL STRUCTURE

- **Board of Trustees**
  - **Eric Stanchfield,** *Executive Director*
    - **Thomas Anderson,** *Chief Financial Officer*
    - **Sheila Morgan-Johnson,** *Chief Investment Officer and Chief Operating Officer*
    - **Joan Passerino,** *Chief Benefits Officer*
    - **Erie Sampson,** *General Counsel*
    - **Daniel Hernandez,** *Director of Policy, Program Development, and Evaluation*

Auditor:
CliftonLarsonAllen, LLP

Actuary:
Cavanaugh Mcdonald Consulting, LLC

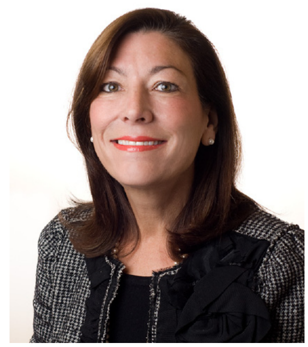
Investment Advisors:
Cliffwater, LLC.
Meketa Investment Group
Zeno Consulting Group, LLC

BOARD OF TRUSTEES

The 12 member DCRB Board of Trustees consists of 6 individuals elected by their participant groups (2 each by active and retired police officers, firefighters and teachers), 3 appointed by the Mayor, and 3 appointed by the City Council. The D.C. Chief Financial Officer, or his or her designee, sits on the Board as an ex-officio, non-voting Trustee.

Lyle M. Blanchard,
Treasurer
Council Appointee
Term:
11/15/2002-01/27/2017

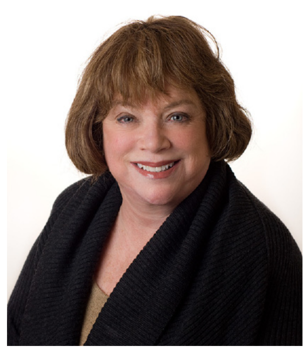
Joseph M. Bress
Secretary
Council Appointee
Term:
01/28/2009 - 01/27/2016



Diana K. Bulger
Sergeant-at-Arms
Mayoral Appointee
Term:
03/2/2008 - 01/27/2014

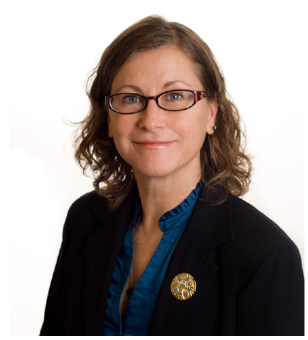
James E. Bunn,

Mayoral Appointee
Term:
03/13/2008 - 01/27/2015



Barbara Davis Blum

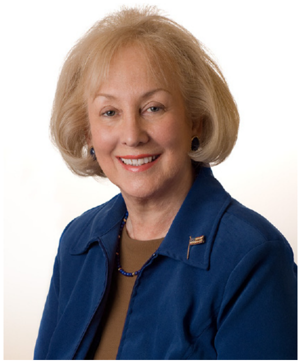
Mayoral Appointee
Term:
06/12/2000 - 01/27/2016



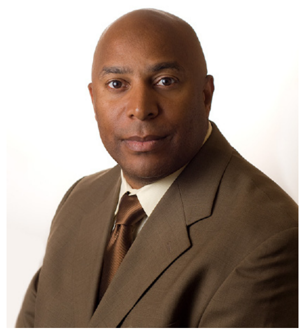
Deborah Hensley

Elected Active Teacher
Term:
01/28/2009 - 01/27/2013

BOARD OF TRUSTEES (Continued)

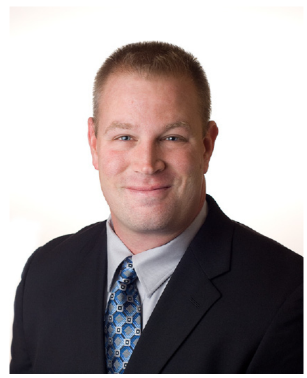


Judith C. Marcus,
Parliamentarian
Elected Retired Teacher
Term:
01/28/1998 - 01/27/2014



Darrick O. Ross,

Elected Active Police
Term:
01/28/1999 - 01/27/2015

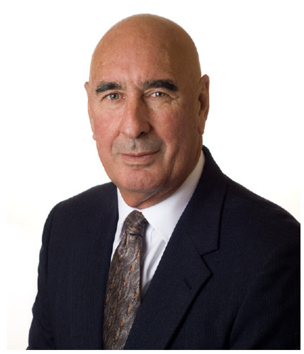


Edward C. Smith

Elected Active Firefighter
Term:
01/28/2009 - 01/27/2013

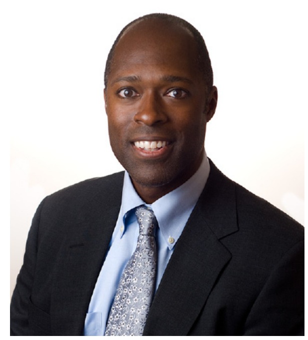
George R. Suter,

Elected Retired Police
Term:
01/28/1998 - 01/27/2013



Thomas N. Tippett

Elected Retired Firefighter
Term:
03/21/2005 - 01/27/2016



Michael J. Warren
Chairman
Council Appointee
Term:
03/11/2005 - 01/27/2015

AWARDS

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia Retirement Board

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill

President

Jeffrey R. Esser

Executive Director

AWARDS (Continued)

Public Pension Coordinating Council

Recognition Award for Funding
2011

Presented to

District of Columbia Retirement Board

In recognition of meeting professional standards for
plan funding asset forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Board of Trustees
District of Columbia Teachers' Retirement Fund and the
District of Columbia Police Officers and Firefighters' Retirement Fund

We have audited the accompanying combining statements of net assets of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund (the Total Fund), Pension Trust Funds of the Government of the District of Columbia (the District), as of September 30, 2012 and 2011, and the related combining statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, these financial statements only present the Total Fund and do not purport to, and do not, present the financial position of the Government of the District of Columbia as of September 30, 2012 and 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund as of September 30, 2012 and 2011, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2013, on our consideration of the Total 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and the schedules of funding progress and employer contributions, as listed on the table of contents, 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 basic financial statements in 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 for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, including the schedules of administrative expenses, investment expenses, and payments to consultants, is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
January 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This discussion and analysis provides an overview of the financial activities of the District of Columbia Teachers' Retirement Fund ("TRF") and Police Officers and Firefighters' Retirement Fund ("POFRF"), for the fiscal years ended September 30, 2012 and 2011, which collectively will be referred to as "the District Retirement Funds". This discussion and analysis should be read in conjunction with the financial statements, the notes to the financial statements, the required supplementary information and the supplementary information provided in this report.

The District of Columbia Retirement Board (the "Board" or "DCRB") is an independent agency of the District of Columbia Government. The Board is responsible for managing the assets of the District Retirement Funds. As authorized by DC Code, the Board pools the assets of the TRF and the POFRF into a single investment portfolio. The Board allocates the investment returns and expenses, and the administrative expenses of the Board, between the two District Retirement Funds in proportion to their respective net asset value. The Board maintains financial records of contributions, purchases of service, benefit payments, refunds, investment earnings, investment expenses and administrative expenses.

Effective October 1, 2005, the Board entered into a Memorandum of Understanding ("MOU") with the District of Columbia and the United States Department of the Treasury (the "U.S. Treasury") to administer the pension benefits under the TRF and the POFRF for all retirees, survivors and beneficiaries that are the financial responsibility of the District of Columbia (service earned on and after July 1, 1997) and the Federal Government (service through June 30, 1997). In addition to the Board's administrative duties, the US Treasury also provides certain administrative services related to the administration of pension benefits under the District of Columbia Police Officers and Firefighters' Plan and the District of Columbia Teachers' Retirement Plan (the "Plans"). The administrative costs incurred while administering the pension benefits are shared by the DCRB and the US Treasury in accordance with an MOU that is agreed to annually between the two parties.

Overview of the Financial Statements and Schedules

The following discussion and analysis are intended to serve as an introduction to DCRB's financial statements. The basic financial statements include:

The Combining Statements of Net Assets is a point-in-time snapshot of Plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Assets (Assets – Liabilities = Net Assets) represents the value of assets held in trust for pension benefits net of liabilities owed as of the financial statement date.

The Combining Statements of Changes in Net Assets displays the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Assets. This increase (or decrease) in net assets reflects the change in the value of Net Assets Held in Trust for Pension Benefits.

The Notes to Financial Statements contain disclosures and discussions which support the data presented in the financial statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments. The notes are an integral part of the financial statements and should be considered in conjunction with any review of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Required Supplementary Information includes the schedule of funding progress and the schedule of employer contributions for the last 6 fiscal years. The schedule of funding progress includes actuarial information about the status of the defined benefit pension plans from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these Plans when due. The Actuarial Value of Assets in excess of the Actuarial Accrued Liabilities indicates that sufficient assets exist to fund the future defined pension benefits of the current members and benefit recipients. Actuarial Accrued Liabilities in excess of the Actuarial Value of Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value, in current dollars, that would need to be accumulated to fund the pensions of all active and retired members as of the date represented in the schedule. The schedule of employer contributions presents historical trend information regarding the value of total annual contributions required to be paid by employers for the employees participating in each defined benefit Plan, and the actual performance of employers in meeting this requirement. The information contained in this schedule reflects the required contributions that are based on the actuary's certification which is approved by the Board.

The Supplementary Information includes additional information on the District Retirement Funds including a schedule of administrative expenses, investment expenses and payments to consultants.

Financial Highlights

The TRF financial highlights for fiscal year 2012 are:

- Net assets held in trust for pension benefits as of September 30, 2012 were $1.5 billion, an annual increase of $0.2 billion or 12.1%.
- The investment income net of investment expenses for fiscal year 2012 was $190.0 million, a gain of 14.2%.
- The Fund's share of administrative expenditures for fiscal year 2012 was $2.9 million, equivalent to 19 basis points of assets under management.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2011, the date of the latest actuarial valuation, the TRF's funded ratio was 101.9%. In general, this means that for each dollar's worth of future pension liability, the TRF has accumulated $1.02 to meet that obligation. This actuarial report indicated that if future activity proceeds according to assumptions, the TRF has accumulated sufficient assets to pay all pension liabilities for active members and retirees. The plan's funded ratio decreased 16.4% over the prior year. As of October 1, 2010, the actuarial valuation indicated a funded ratio of 118.3% for the TRF.
- Revenues (additions to plan net assets) for fiscal year 2012 were $219.3 million, which consists of member contributions of $28.6 million, net income from investment activities of $190.0 million, and other income totaling $0.7 million. Additions to the plan net assets for fiscal year 2011 totaled $72.7 million, comprised of $27.7 million in employee contributions, $44.4 million in net income from investment activities, and $0.6 million in other income. The District of Columbia government did not make an employer contribution to the TRF for fiscal year 2011 and 2010 because of its well-funded status.
- Expenses (deductions from plan net assets) increased $7.0 from $49.5 million during fiscal year 2011 to $56.5 million in fiscal year 2012, or 14.1%. This increase relates primarily to pension benefit payments, which increased $5.6 million or 13.2% from 2011 to 2012. Refunds of member contributions increased by $1.5 million from 2011 to 2012. Administrative expenses decreased slightly compared to the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The POFRF financial highlights for fiscal year 2012 are:

- Net assets held in trust for pension benefits as of September 30, 2012 were $3.7 billion, an annual increase of $0.6 billion or 17.7%.
- The investment income net of investment expenses for fiscal year 2012 was $452.9 million, a gain of 14.5%.
- The Fund's share of administrative expenditures for fiscal year 2012 was $6.7 million, equivalent to 18 basis points of assets under management.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2011, the date of the latest actuarial valuation, the POFRF's funded ratio was 108.6%. In general, this means that for each dollar's worth of future pension liability, the POFRF has accumulated approximately $1.09 to meet that obligation. This actuarial report indicated that if future activity proceeded according to assumptions, the POFRF has accumulated sufficient assets to pay all pension liabilities for active members and retirees. The plans funded ratio increased 0.6% over the prior year. As of October 1, 2010, the actuarial valuation indicated a funded ratio of 108.0%.
- Revenues (additions to plan net assets) for fiscal year 2012 were $601.6 million, which consists of member contributions of $30.4 million, employer contributions of $116.7 million, net income from investment activities of $452.9 million, and $1.6 million in other income. Additions to the plan net assets for fiscal year 2011 totaled $241.1 million, comprised of $30.5 million in employee contributions, $127.2 million of employer contributions, $82.0 million in a net income from investment activities, and $1.4 million in other income.
- Expenses (deductions from plan net assets) increased $7.8 million from $39.4 million during fiscal year 2011 to $47.2 million in fiscal year 2012, or 19.9%. This increase consisted primarily of increases in pension benefit payments of $8.1 million from $30.8 million in fiscal year 2011 to $38.9 million in fiscal year 2012. Additionally, refunds of member contributions decreased $0.4 million from $1.9 million in fiscal year 2011 to $1.5 million in fiscal year 2012 and administrative expenses increased slightly compared to the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Summary of Financial Information

The following Condensed Statement of Net Assets and Changes in Net Assets presents financial information, with dollar amounts in the thousands, for the combined TRF and POFRF and compares fiscal years 2011, 2010 and 2009.

Condensed and Combined Statements of Net Assets

	2012	2011	2010	Amount Increase (Decrease) from 2011 to 2012	Percent Increase/ (Decrease) from 2011 to 2012
Assets					
Cash and short-term investments	$ 74,516	$ 149,759	$ 224,620	$ (75,243)	-50.2%
Receivables	149,288	153,613	229,131	(4,325)	-2.8%
Investments at fair value	5,165,012	4,491,663	4,174,478	673,349	15.0%
Collateral from securities lending	96,652	416,288	515,203	(319,636)	-76.8%
Capital assets	3	9	16	(6)	-66.7%
Total assets	5,485,471	5,211,332	5,143,448	274,139	5.3%
Liabilities					
Other payables	4,658	6,165	6,172	(1,507)	-24.4%
Investment commitments payable	197,676	317,892	374,502	(120,216)	-37.8%
Obligations under securities lending	97,797	419,096	519,562	(321,299)	-76.7%
Total liabilities	300,131	743,153	900,236	(443,022)	-59.6%
Net assets	$ 5,185,340	$ 4,468,179	$ 4,243,212	$ 717,161	16.1%

Condensed and Combined Statements of Changes in Net Assets

	2012	2011	2010	Amount Increase (Decrease) from 2011 to 2012	Percent Increase/ (Decrease) from 2011 to 2012
Employer contributions	$ 116,700	$ 127,200	$ 132,300	$ (10,500)	-8.3%
Employee contributions	59,037	58,213	61,547	824	1.4%
Net investment income/(loss)	642,883	126,337	396,033	516,546	408.9%
Other Income	2,256	2,051	2,250	205	10.0%
Total additions	820,876	313,801	592,130	507,075	161.6%
Benefit payments	87,069	73,298	65,483	13,771	18.8%
Refunds	7,048	5,973	5,348	1,075	18.0%
Administrative expenses	9,598	9,563	7,472	35	0.4%
Total deductions	103,715	88,834	78,303	14,881	16.8%
Net change in net assets	$ 717,161	$ 224,967	$ 513,827	$ 492,194	218.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Analysis of Financial Information

DCRB's funding objective is to meet long-term benefit obligations with investment income and contributions. Accordingly, the collection of employer and member contributions and the income generated from investment activities provide the reserves needed to finance future retirement benefits. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions for the combined TRF and POFRF.

Additions to Net Assets (Revenues)

As noted, the reserves needed to finance retirement benefits are accumulated primarily through the collection of member and employer contributions, and through investment income (net of investment expenses). Revenues for the year ended September 30, 2012, totaled $820.9 million, which included $642.9 million of net income on investments and $175.7 million of contributions. For fiscal year 2011, revenues totaled $313.8 million, which included $126.3 million of net investment income and $185.4 million of contributions. Fiscal year 2012 investment returns improved significantly over the fiscal year 2011. Total revenues for fiscal year 2012 increased by $507.1 million compared to the prior year, mainly due to the higher investment returns in fiscal year 2012.

Employee contributions increased slightly from $58.2 million in fiscal year 2011 to $59.0 million in fiscal year 2012. Employee contributions include amounts paid by members for future retirement benefits. A decline in the number of active members from 10,308 in 2011 to 10,005 in 2012 was offset by an increase of 1.81% of active member compensation in 2012, resulting in the increase in total employee contributions for 2012.

Employer contributions decreased $10.5 million from $127.2 million in fiscal year 2011 to $116.7 million in fiscal year 2012. The fiscal year 2012 employer contribution is derived from the contribution rate calculated in the actuary's report for the period ended October 1, 2010 multiplied by covered payroll and adjusted for differences caused by the contribution being calculated 2 years in arrears. This adjustment is required by the DC Code. The employer normal contribution rate increased by 0.9% and covered payroll decreased by 1.1% which off-set each other. The most significant factor in the current year decrease was the adjustment to the fiscal year 2011 employer contribution of $4.4 million. The adjustment was the result of the actual fiscal year 2009 covered payroll being $100 million greater than the estimated fiscal year 2009 covered payroll used in the October 1, 2007 actuarial report when the fiscal year 2009 employer contribution was calculated.

Other income totaled $2.3 million in fiscal year 2012, reflecting a $0.2 million increase from the $2.1 million received in fiscal year 2011. Other income consists mainly of reimbursements of administrative expenses from the US Treasury.

Deductions from Net Assets (Expenses)

One of the main purposes of the DCRB is to provide retirement, survivor and disability benefits to qualified members and their survivors. The costs of such programs include recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the District Retirement Funds.

Expenses for the year ended September 30, 2012 totaled $103.7 million, an increase of 16.8% over fiscal year 2011. In fiscal year 2011 expenses increased by 13.4% when compared to fiscal year 2010, from $78.3 million in 2010 to $88.8 million in fiscal year 2011. Pension benefits paid on behalf of current retirees, survivors and beneficiaries comprise approximately 80-85% of the expenses reported in each of these years and accounted for a significant portion of the increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Pension benefits for fiscal year 2012 increased by $13.8 million over the fiscal year 2011 level, or 18.8%. This increase reflects the combination of a net growth of 6.8% in the number of retirees and survivors receiving benefits, coupled with COLA adjustments and an overall increase in the final average salary for new retirees and the changing demographics of the retiree population. Pension benefits for fiscal year 2011 reflect similar increases, rising $7.8 million, or 11.9%, over fiscal year 2010 levels.

Refunds of member accounts are at the discretion of the member, and vary from year to year. In fiscal year 2012, members elected refunds totaling $7.0 million, which represents an increase of $1.0 million or 16.7% from fiscal year 2011. Refunds issued in fiscal year 2011 totaled $6.0 million representing a $0.7 million increase over the 2010 level of $5.3 million.

DCRB has consistently managed its administrative expense budget with no material variances between planned and actual expenditures in either fiscal year 2012 or 2011. Administrative expenses for fiscal year 2012 totaled $9.6 million, the same expense as in fiscal year 2011.

Funding Status

As previously noted, the District Retirement Funds' net investment income for the year ended September 30, 2012 represented a gain of $642.9 million, or 14.4%. The DCRB is a well funded yet immature system as a result of the 1999 asset split with the United States Treasury in which Treasury assumed responsibility for all benefit obligations prior to July 1, 1997. As with all immature systems, a higher percentage of benefits are funded by current contributions. As the system matures, investment income will provide a greater percentage of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to DCRB's long-term funding status.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value (market value) as of the valuation date. Market gains and losses for actuarial funding purposes are smoothed over a rolling seven year period. This smoothing of gains and losses mitigates the need to constantly increase or lower contributions because volatile market conditions can be recognized (smoothed in) over several years.

The reality of actuarial smoothing techniques is that the fair value (market value) of assets may be significantly different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline, the fair value of assets will usually be less than the funding, or actuarial value of assets. This is the case with DCRB during the current market downturn which began in 2008. Conversely, during periods of extended market gains, where the actual return exceeds the assumed return, the fair value of assets will usually be greater than the funding, or actuarial value of assets.

At October 1, 2011, the date of the latest actuarial valuation, the actuarial value of net assets set aside to pay defined benefit pension benefits was $1.57 billion for the TRF and $3.6 billion for the POFRF for a total of $5.2 billion. The fair value of these defined benefit assets at September 30, 2011 included on the financial statements of DCRB was $1.3 billion for the TRF and $3.2 billion for the POFRF for a total of $4.5 billion. Therefore, when viewing the actuarial funding status, the market value of assets would provide an inferior funding position to the actuarial value of assets as of the October 1, 2011 valuation. Again, it is important to note that during years when the actual rate of return on investments significantly exceeds the assumed rate of return on investment, the actuarial value of assets can be less than the market value of pension assets, making the funding status seem less favorable than the actual market values would have indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis Summary

Net assets may serve over time as a useful indication of DCRB's financial position. At the close of both fiscal years 2012 and 2011, the net assets of DCRB totaled $5.2 billion and $4.5 billion, respectively. These net assets are available to meet DCRB's ongoing obligations to plan participants and their survivors and beneficiaries. DCRB has weathered the financial market fluctuations over the past five years and remains a well funded plan with a funding status as of October 1, 2011, the date of the most recent actuarial valuation, of 106.4% for the District Retirement Funds.

Additional Information

These financial statements present the finances of the District Retirement Funds in accordance with accounting principles generally accepted in the United States of America. Questions about these financial statements or other inquiries should be addressed to the Executive Director, District of Columbia Retirement Board, 900 7th Street, NW, 2nd Floor, Washington, DC 20001.

COMBINING STATEMENTS OF NET ASSETS
As of September 30, 2012 and 2011
(Dollar amounts in thousands)

	2012			2011		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
ASSETS						
Cash and short-term investments	$ 19,628	$ 54,888	$ 74,516	$ 44,847	$ 104,912	$ 149,759
Receivables:						
Federal Government	482	1,124	1,606	316	735	1,051
Investment sales proceeds	39,966	97,746	137,712	40,143	93,907	134,050
Interest & dividends	1,926	4,712	6,638	3,653	8,547	12,200
Employee contributions	1,601	1,731	3,332	1,575	1,737	3,312
Employer contribution	-	-	-	3,000	-	3,000
Total receivables	43,975	105,313	149,288	48,687	104,926	153,613
Investments at fair value:						
Domestic equity	364,603	891,714	1,256,317	337,520	789,563	1,127,083
International equity	456,448	1,116,340	1,572,788	330,894	774,063	1,104,957
Fixed income	406,189	993,514	1,399,703	401,275	938,705	1,339,980
Real estate	73,605	180,016	253,621	60,838	142,319	203,157
Private equity	198,123	484,460	682,583	214,561	501,925	716,486
Total investments at fair value	1,498,968	3,666,044	5,165,012	1,345,088	3,146,575	4,491,663
Collateral from securities lending transactions at fair value	28,050	68,602	96,652	124,663	291,625	416,288
Capital assets, net	1	2	3	3	6	9
Total assets	1,590,622	3,894,849	5,485,471	1,563,288	3,648,044	5,211,332
LIABILITIES						
Accounts payable and other	616	1,479	2,095	953	2,150	3,103
Due to Federal Government	153	356	509	150	339	489
Due to District of Columbia Government	616	1,438	2,054	772	1,801	2,573
Investment commitments payable	57,369	140,307	197,676	95,197	222,695	317,892
Obligations under securites lending	28,382	69,415	97,797	125,504	293,592	419,096
Total liabilities	87,136	212,995	300,131	222,576	520,577	743,153
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 1,503,486	$ 3,681,854	$ 5,185,340	$ 1,340,712	$ 3,127,467	$ 4,468,179

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

COMBINING STATEMENTS OF CHANGES IN NET ASSETS
For the years ending September 30, 2012 and 2011
(Dollar amounts in thousands)

	2012			2011		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
ADDITIONS						
Contributions:						
District Government	$ -	$ 116,700	$ 116,700	$ -	$ 127,200	$ 127,200
District employees	28,639	30,398	59,037	27,739	30,474	58,213
Total contributions	28,639	147,098	175,737	27,739	157,674	185,413
Investment income:						
Net appreciation in fair value of investments	170,932	406,677	577,609	20,320	28,101	48,421
Interest and dividends	21,316	51,422	72,738	26,916	61,249	88,165
Total gross investment income	192,248	458,099	650,347	47,236	89,350	136,586
Less:						
Investment expenses	2,707	6,315	9,022	3,655	8,460	12,115
Net investment income	189,541	451,784	641,325	43,581	80,890	124,471
Securities lending income	630	1,498	2,128	1,147	1,587	2,734
Less: securities lending expense	169	401	570	364	504	868
Net securities lending income	461	1,097	1,558	783	1,083	1,866
Total net investment income	190,002	452,881	642,883	44,364	81,973	126,337
Other income	672	1,584	2,256	616	1,435	2,051
Total additions	219,313	601,563	820,876	72,719	241,082	313,801
DEDUCTIONS						
Benefit payments	48,145	38,924	87,069	42,532	30,766	73,298
Refunds	5,514	1,534	7,048	4,060	1,913	5,973
Administrative expenses	2,880	6,718	9,598	2,885	6,678	9,563
Total deductions	56,539	47,176	103,715	49,477	39,357	88,834
Change in Net Assets	162,774	554,387	717,161	23,242	201,725	224,967
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	1,340,712	3,127,467	4,468,179	1,317,470	2,925,742	4,243,212
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 1,503,486	$ 3,681,854	$ 5,185,340	$ 1,340,712	$ 3,127,467	$ 4,468,179

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Organization
The District of Columbia Teachers' Retirement Fund (TRF) and the District of Columbia Police Officers and Firefighters' Retirement Fund (POFRF), which together will be referred to as "the District Retirement Funds", were established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96-122, D. C. Code § 1-701 et seq.). The Fund holds in trust the assets available to pay pension benefits to teachers, police officers and firefighters of the District of Columbia Government. The Reform Act also established the District of Columbia Retirement Board (the Board or DCRB).

The National Capital Revitalization and Self-Government Improvement Act of 1997 ("the Revitalization Act", Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the District Retirement Funds to the Federal Government. The Revitalization Act transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government were intended to partially fund this liability.

On September 18, 1998, the Council of the District of Columbia (the Council) enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 ("the Replacement Act"). The Replacement Act established the pension plans for employee service earned after June 30, 1997, and provided for full funding of these benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia Government (the District) that is responsible for managing the assets of the TRF and the POFRF. Although the assets of these funds are commingled for investment purposes, each fund's assets may only be used for the payment of benefits to the participants of that fund and certain administrative expenses.

The District Retirement Funds are included in the District's Comprehensive Annual Financial Report as a pension trust fund.

Note 2: Fund Administration and Description
***District of Columbia Retirement Board* –** The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected by the active and retired participants. Included are one active and one retired representative each from the police officers, firefighters, and teachers. Each of the six representatives of plan participants is elected by the respective groups of active and retired employees. In addition, the District's Chief Financial Officer or his designee serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, reviews all issues brought before it. The Board has six standing committees: Benefits, Emerging Enterprise, Fiduciary, Investments, Legislative, and Operations. (The functions usually associated with an Audit Committee are performed by the Operations Committee.) To implement its policies, the Board retains an executive director and other staff who are responsible for the day-to-day management of the District Retirement Funds and the administration of the benefits paid from the Funds.

<u>Police Officers and Fire Fighters' Retirement Fund</u>

***Other Entities involved in Plan Administration* –** The District of Columbia Police Officers and Firefighters' Retirement and Relief Board makes findings of fact, conclusions of law, and decisions regarding eligibility for retirement and survivor benefits, determines the extent of disability, and conducts annual medical and income reviews. The Board of Police and Fire Surgeons determines medical eligibility for disability retirement.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2: Fund Administration and Description (Continued)

Benefits Calculation – The DCRB Benefits Department receives the retirement orders for retirement benefit calculations for all active plan members found eligible for retirement by the District of Columbia Police Officers and Firefighters' Retirement and Relief Board, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service.

Eligibility **–** A participant becomes a member when he/she starts work as a police officer or firefighter in the District. Cadets are not eligible to join the Fund.

Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act" (D.C. Code § 5-701 et seq. (2001 Ed.)).

Members Hired Before February 15, 1980 – Members are eligible for optional retirement with full benefits at any age with 20 years of departmental service, or for deferred retirement at age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 12 months of base pay, multiplied by departmental service through 20 years; plus 3% of average base pay multiplied by average base pay times departmental service over 20 years; plus 2.5% of average base pay multiplied by years of creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retired members receive the same percent increase in benefits granted to active participants in the schedule rate to which the member would be entitled if in active service.

Members with permanent, service-related disabilities with less than 26 years and eight months of service receive benefits equal to two-thirds of average base pay. Members with 26 years and eight months to 28 years of service receive 2.5% of average base pay multiplied by the number of years of service. Members with more than 28 years of service receive benefits equal to 70% of average base pay.

Members with permanent, non-service related disabilities who have years of service between 5 to 20 years of service receive benefits equal to 40% of average base pay, between 20 to 35 years of service receive benefits equal to 2% of average base pay multiplied by the number of years of service during that 15-year period and more than 35 years of service receive benefits equal to 70% of average base pay.

Members Hired Between February 15, 1980 and November 10, 1996 **–** Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service, or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 36 months of base pay, multiplied by the number of years of creditable service through 25 years; plus 3% of average base pay multiplied by the number of years of departmental service over 25 years; plus 2.5% of average base pay multiplied by the number of years of creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of average base salary. Members separated from the Police or Fire Department after five years of departmental service are entitled to a deferred pension beginning at age 55.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2: Fund Administration and Description (Continued)

Members with permanent, service-related disabilities receive 70% of base pay multiplied by percentage of disability, with a minimum benefit of 40% of base pay. Members with permanent, non-service related disabilities with more than 5 years of service receive 70% of base pay multiplied by percentage of disability, with a minimum benefit of 30% of base pay.

Benefits are also provided to certain survivors of active, retired or terminated vested members. Members who retired after February 15, 1980 receive annual benefit increases proportional to changes in the Consumer Price Index.

Members Hired on or After November 10, 1996 – Members are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with 5 years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest consecutive 36 months of base pay, multiplied by creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the average base salary. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index, but not more than 3%.

Members with permanent, service-related disabilities receive 70% of base pay multiplied by percentage of disability, with a minimum benefit of 40% of base pay.

Members with permanent, non-service-related disabilities with more than five years of service receive 70% of base pay multiplied by percentage of disability, with a minimum benefit of 30% of base pay.

<u>Teachers' Retirement Fund</u>

Other Entities involved in Plan Administration – The District of Columbia Public School's ("DCPS") Office of Human Resources makes decisions regarding involuntary retirement, survivor benefits and annual medical and income reviews.

Benefits Calculation – The DCRB Benefits Department receives the approved retirement applications for all active plan members found eligible for retirement by the DCPS Office of Human Resources, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service.

Eligibility **–** Permanent, temporary, part-time and probationary teachers and certain other employees of the District of Columbia public day schools are automatically enrolled in the Teachers' Retirement Fund on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. However, substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2021.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the District City Council. For employees hired before November 1, 1996, the annuity is equal to the average salary, as defined, multiplied by 1.5% for each of the first five years of service, 1.75% for each of the second five years and 2% for each additional year. For employees hired on or after November 1, 1996, the annuity is equal to a time-weighted average salary, as defined, multiplied by 2% for each year of service.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2: Fund Administration and Description (Continued)

The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receiving retirement benefits receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the increase may not exceed 3% for participants hired on or after November 1, 1996. Participants may select from among several survivor options.

Participants who have 5 years of school service (by working for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Such disability retirement benefits are calculated pursuant to a “guaranteed minimum” formula.

Optional retirement is available for teachers who have a minimum of 5 years of school service and who achieve the following age and length of service requirements:

at age 62 with 5 years of service;
at age 60 with 20 years of service; and
at age 55 with 30 years of service;
or at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

Employees who are involuntarily separated other than for cause and who have 5 years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

The annuity is reduced if at the time of its commencement the participant is under the age of 55.

Participant Data – The number of participating employees for the years ended September 30 was as follows:

TRF	**2012**	**2011**
Retirees and survivors receiving benefits (post June 30, 1997)	3,285	3,130
Active plan members	4,495	4,747
Vested terminations	920	794
Total participants	8,700	8,671

POFRF	**2012**	**2011**
Retirees and survivors receiving benefits (post June 30, 1997)	2,039	1,856
Active plan members	5,510	5,561
Vested terminations	185	188
Total participants	7,734	7,605

Contributions – Fund members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7% (or 8% for Teachers and Police Officers and Firefighters hired on or after November 1, 1996 and November 10, 1996, respectively) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the amounts necessary to finance the plan benefits of its members through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The amount of the District contributions for fiscal years 2012 and 2011 were equal to the amounts computed, if any, by the Board’s independent actuary.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2: Fund Administration and Description (Continued)

Contribution requirements of members are established by D.C. Code § 5-706 and requirements for District of Columbia government contributions to the Fund are established at D.C. Code § 1-907.02 (2001 Ed.), which may be amended by the City Council. Administrative costs are paid from investment earnings.

Note 3: Summary of Significant Accounting Policies

Basis of Accounting – The financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized by the District Retirement Funds at the time compensation is paid to fund members. Employer contributions to the District Retirement Funds are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement plan's commitment.

GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, requires that the two District Retirement Funds, be shown separately in the Combining Financial Statements as they are legally separate plans. To meet this requirement, plan assets and liabilities, where possible, were specifically identified to a fund. Assets and liabilities that were not specifically identifiable to a fund were allocated based on the net asset values of each individual fund.

GASB Statement 50, *Pension Disclosures*, established the standards for enhancing footnote disclosures for pension plans consistent with standards under GASB Statements 43 and 45.

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, provides authoritative guidance related to the accounting and financial reporting of intangible assets, including internally developed software. GASB Statement 51 was effective for periods beginning after June 15, 2009. As of September 30, 2011 the District Retirement Funds do not have any intangible assets that are required to be reported in accordance with GASB Statement 51.

GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, established the standards for recognizing, measuring, and disclosing information regarding derivative instruments and transactions. GASB Statement 53 was implemented for the year ended September 30, 2010.

GASB Statement 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 was implemented for the year ended September 30, 2011.

GASB Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Management has evaluated GASB Statement No. 64 and determined the amendments made to GASB 53 through this statement do not have an impact on the District Retirement Funds' financial statements.

Federal Income Tax Status – The District Retirement Funds are qualified plans under section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under section 501(a).

Method Used to Value Investments – Investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 3: Summary of Significant Accounting Policies (Continued)

of real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The fair value of investments in real estate or private equity, in the absence of a readily ascertainable market value, are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners.

Actuarial Data – The District Retirement Funds used the Aggregate Actuarial Cost method to determine the annual employer contribution for all Plan years through fiscal year 2011 (including the employer contribution amount for fiscal year 2012). Any excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the sum of the actuarial value of assets plus the actuarial present value of employee contributions is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit date.

This allocation is performed for the group as a whole, not as a sum of individual allocations. The portion of the actuarial present value allocated to a valuation year is called the normal cost. The actuarial accrued liability is equal to the actuarial value of assets.

Use of Estimates in Preparing Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net assets held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investment Expenses – The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the District Retirement Funds was $9,022,880 in 2012 and $12,115,448 in 2011. A significant number of the alternative investment managers provide account valuations net of management expenses. Those expenses are netted against investment income and because they are not readily separable, amounts are recorded and reported net of management expenses in the net appreciation (depreciation) in the fair value of investments.

Note 4: Investments

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the District Retirement Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C), (2001 Ed.).

Master Trust – The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1-903(b), (2001 Ed.), with a master custodian under a master trust arrangement (the Master Trust). Using an investment pool, each Fund owns an undivided proportionate share of the pool.

District and employee contributions are deposited in the respective Retirement Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate equity in the pool.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

The fair values of investments of the Investment Pool as of September 30 are as follows:

(Dollars in thousands)	2012	2011
Cash and short-term investments	$ 74,516	$ 149,759
Investments at fair value:		
Domestic equity	1,256,317	1,127,083
International equity	1,572,788	1,104,957
Fixed income	1,399,703	1,339,980
Real estate	253,621	203,157
Private equity	682,583	716,486
Total investments at fair value	5,165,012	4,491,663
Total	$ 5,239,528	$ 4,641,422

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

Debt Instruments – As of September 30, 2012, the Investment Pool held the following debt instruments:

(Dollars in thousands)

Investment Type	Fair Value	% of Segment	Duration	Rating*
US Agency	$ 10,294	0.74%	5.72	AA+
Asset Backed	16,307	1.17%	1.42	AA-
CMBS	7,023	0.50%	2.32	A+
CMO	16,227	1.16%	3.48	AA+
Corporate	187,318	13.38%	3.55	BB
Foreign	12,454	0.89%	5.78	CCC
Mortgage Pass-Through	65,738	4.70%	1.75	AA+
Municipal	9,421	0.67%	10.22	AA+
US Treasury	113,794	8.13%	8.38	AA+
Yankee	37,958	2.71%	4.71	A
High Yield and Emerging Debt	62,950	4.50%	N/A	NR
Infrastructure Funds	101,300	7.24%	N/A	NR
US Tips Index Fund	165,149	11.80%	N/A	NR
US Debt Index Fund	587,320	41.96%	N/A	NR
Other	6,450	0.46%	N/A	NR
Total Fixed Income	$ 1,399,703	100.00%		

As of September 30, 2011, the Investment Pool held the following debt instruments:

(Dollars in thousands)

Investment Type	Fair Value	% of Segment	Duration	Rating*
US Agency	$ 29,107	2.17%	8.09	A+
Asset Backed	58,165	4.34%	2.15	AA-
CMBS	22,789	1.70%	2.95	A+
CMO	49,322	3.68%	4.5	AA-
Corporate	317,777	23.72%	3.98	BBB
Foreign	14,948	1.12%	2.16	A+
Mortgage Pass-Through	256,130	19.11%	3.42	AA+
Municipal	23,422	1.75%	9.75	AA-
US Treasury	136,390	10.18%	10.04	AA+
Yankee	111,781	8.34%	4.35	AA
Infrastructure Funds	79,362	5.92%	N/A	NR
US Tips Index Fund	106,022	7.91%	N/A	NR
US Debt Index Fund	132,565	9.90%	N/A	NR
Other	2,200	0.16%	N/A	NR
Total Fixed Income	$ 1,339,980	100.00%		

* Using quality ratings provided by Standard & Poor's

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. The Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. As a general rule, the risk and return of the Board's fixed income segment of the portfolio is compared to the Barclays Capital US Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Unless specifically authorized otherwise in writing by the Board, fixed income managers invest in investment grade instruments rated in the top four rating categories by a recognized statistical rating service.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As a general policy, investment managers with authority to invest in issuers denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

As of September 30, 2012, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

(Dollars in thousands)	Asset Class					
	Cash	Equities	Fixed Income	Private Equity	Swaps	Total
Australian Dollar	$ 334	$ -	$ -	$ -	$ 125	$ 459
Canadian Dollar	(36)	8	4,105	-	66	4,143
Swiss Franc	-	7,851	-	-	-	7,851
Danish Krone	-	-	-	-	-	-
Euro	216	45,323	14,723	23,882	223	84,367
Pound Sterling	1	4,865	5,491	-	-	10,357
Hong Kong Dollar	-	6,763	-	-	-	6,763
Israeli Shekel	-	-	-	-	-	-
Japanese Yen	-	21,188	-	-	-	21,188
South Korean Won	-	2,595	-	-	-	2,595
Norwegian Krone	-	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-	-
Swedish Krona	-	5,015	-	-	-	5,015
Singapore Dollar	1,319	-	-	-	-	1,319
Mexican Peso	-	-	-	-	-	-
Brazilian Real	-	-	-	-	-	-
Total Foreign	$ 1,834	$ 93,608	$ 24,319	$ 23,882	$ 414	$ 144,057

As of September 30, 2011, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

(Dollars in thousands)	Asset Class					
	Cash	Equities	Fixed Income	Private Equity	Swaps	Total
Australian Dollar	$ 489	$ 11,090	$ -	$ -	$ 119	$ 11,698
Canadian Dollar	1	-	5,362	-	-	5,363
Swiss Franc	-	24,259	-	-	-	24,259
Danish Krone	3	1,244	9,060	-	-	10,307
Euro	734	147,693	8,736	18,099	-	175,262
Pound Sterling	58	35,554	485	-	35	36,132
Hong Kong Dollar	25	18,010	-	-	-	18,035
Israeli Shekel	1,681	-	-	-	-	1,681
Japanese Yen	152	92,596	-	-	-	92,748
South Korean Won	-	3,787	-	-	-	3,787
Norwegian Krone	3,247	-	-	-	-	3,247
New Zealand Dollar	-	-	-	-	-	-
Swedish Krona	101	9,444	-	-	-	9,545
Singapore Dollar	90	5,069	-	-	-	5,159
Mexican Peso	-	-	-	-	-	-
Brazilian Real	-	-	-	-	380	380
Total Foreign	$ 6,581	$ 348,746	$ 23,643	$ 18,099	$ 534	$ 397,603

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

Securities Lending Transactions **–** District statutes and the Board's policies permit the District Retirement Funds to participate in securities lending transactions by relying on a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

During 2012 and 2011, the master custodian, at the direction of the Board, loaned certain of the District Retirement Funds' equity and fixed income securities for which it received collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned security in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality D Fund). The Quality D Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, and accordingly, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality D Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality D Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality D Fund is not the same as the value of the District Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2012 or 2011.

During 2012 and 2011, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2012 and 2011.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in the Quality D Fund which is comprised of a liquidity pool and a duration pool. As of September 30, 2012 the liquidity pool had an average duration of 45.54 days and an average weighted final maturity of 71.41 days for USD collateral. As of this date the duration pool had an average duration of 42.22 days and an average weighted final maturity of 1,793.71 days for USD collateral. Because the securities lending transactions were terminable at will their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality D Fund may invest in other investment vehicles managed by the investment management division of the master custodian provided they conform to fund guidelines. On September 30, 2012 and 2011, the Board had no credit risk exposure to borrowers.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

As of September 30, 2012 the fair value of securities on loan was $95,057,592. Associated collateral totaling $97,796,676 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2012 the invested cash collateral had a fair value of $96,652,455.

As of September 30, 2011 the fair value of securities on loan was $400,805,175. Associated collateral totaling $419,095,949 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2011 the invested cash collateral had a fair value of $416,288,006.

During the fiscal year ended September 30, 2012 and 2011, market value of the shares in the Quality D Fund purchased with cash collateral by the lending agent was less than the cost, resulting in an unrealized loss of $1,144,221 and $2,807,943, respectively.

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program.

Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for fiscal year 2012 and 2011 was recorded on a cash basis which approximated the accrual basis. The Fund's share of securities lending income and expense are on page 29.

Derivative Investments – Derivatives are generally defined as contracts in which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty). Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2012 and 2011, the District Retirement Funds, in accordance with the policy of the Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. See page 43 and 44 for a list of the derivatives aggregated by type and see below for a description of these derivatives.

TBAs (sometimes referred to as "dollar rolls") are used by the District Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The selected TBAs are used because they are expected to behave the same in duration and convexity as mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers.

Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forwards, futures contracts and foreign currency options are generally used by the District Retirement Funds for defensive purposes. These contracts hedge a portion of the District Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the District Retirement Funds.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk for currency options is also managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

Equity index futures were also used by the District Retirement Funds in order to gain exposure to equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures may pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the District Retirement Funds. The notional amounts of the contracts are not included in the derivatives holdings disclosed. Credit risk is managed by dealing with member firms of the futures exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the District Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these futures and options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment-grade ratings or by trading with member firms of organized exchanges.

Warrants are used by the District Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Rights are a security that gives the holder the entitlement to purchase new shares issued by a corporation at a predetermined price in proportion to the number of shares already owned. Market risk for warrants and rights is limited to the purchase cost. Credit risk for warrants and rights is similar to the underlying equity and/or bond holdings. Again, all such risks are monitored and managed by the District Retirement Funds' external investment managers who have full discretion over such investment decisions.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. The District Retirement Funds utilize swaps for several different reasons: to manage interest rate fluctuations, to protect against a borrower default, and to gain market exposure without having to actually own the asset.

The District Retirement Funds may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk.

The District Retirement Funds also hold derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

The following is a list of derivatives aggregated by type as of September 30, 2012:

	Changes in Fair Value (4)		Fair Value at September 30, 2012		
Type of Derivative	Classification	Amount (1)	Classification	Amount (2)	Notional (3)
Credit Default Swaps Bought	Investment Inc.	$(1,735,586)	Swaps	$1,462,445	39,777,152
Credit Default Swaps Written	Investment Inc.	(31,103)	Swaps	715,675	39,981,575
Fixed Income Futures Long	Investment Inc.	1,481,667	Futures	-	26,800,000
Fixed Income Futures Short	Investment Inc.	(1,965,093)	Futures	-	(16,968,448)
Fixed Income Options Bought	Investment Inc.	70,635	Options	356,353	19,700,000
Fixed Income Options Written	Investment Inc.	1,626,545	Options	(897,464)	(70,300,000)
Foreign Currency Futures Long	Investment Inc.	(8,210)	Futures	-	-
Foreign Currency Futures Short	Investment Inc.	(2,598)	Futures	-	-
Foreign Currency Options Bought	Investment Inc.	103,928	Options	96,007	6,046,548
Foreign Currency Options Written	Investment Inc.	13,831	Options	-	-
Futures Options Bought	Investment Inc.	(79,416)	Options	2,250	3,000
Futures Options Written	Investment Inc.	233,744	Options	-	-
FX Forwards	Investment Inc.	792,412	LT Instruments	(559,634)	53,613,725
Pay Fixed Interest Rate Swaps	Investment Inc.	(2,842,418)	Swaps	(497,508)	23,100,000
Rec'd Fixed Interest Rate Swaps	Investment Inc.	1,659,898	Swaps	384,536	16,454,745
Rights	Investment Inc.	(1,529)	Common Stock	-	-
Warrants	Investment Inc.	1,593	Common Stock	84	66,540
Grand Totals		$ (681,700)		$1,062,744	

(1) Negative values (in brackets) refer to losses

(2) Negative values refer to liabilities

(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions

(4) Excl. futures margin payments

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4: Investments (Continued)

The following is a list of derivatives aggregated by type as of September 30, 2011:

	Changes in Fair Value (4)		Fair Value at September 30, 2011		
Type of Derivative	Classification	Amount (1)	Classification	Amount (2)	Notional (3)
Credit Default Swaps Bought	Investment Inc.	$ 1,805,676	Swaps	$ 2,783,681	40,300,000
Credit Default Swaps Written	Investment Inc.	(333,120)	Swaps	779,604	70,643,989
Fixed Income Futures Long	Investment Inc.	4,595,089	Futures	-	277,539,190
Fixed Income Futures Short	Investment Inc.	(1,891,257)	Futures	-	(12,000,000)
Fixed Income Options Written	Investment Inc.	(192,436)	Options	(1,412,480)	(132,700,000)
Foreign Currency Options Bought	Investment Inc.	32,314	Options	-	-
Foreign Currency Options Written	Investment Inc.	(1,060)	Options	(4,710)	(400,000)
Futures Options Bought	Investment Inc.	(271,389)		-	-
Futures Options Written	Investment Inc.	383,356	Options	(51,859)	(64,000)
FX Forwards	Investment Inc.	(408,522)	LT Instruments	(329,471)	52,376,452
Index Futures Long	Investment Inc.	87,626	Futures	-	-
Pay Fixed Interest Rate Swaps	Investment Inc.	(3,883,668)	Swaps	(2,956,651)	29,368,687
Rec'd Fixed Interest Rate Swaps	Investment Inc.	942,175	Swaps	1,193,716	47,622,174
Rights	Investment Inc.	1,204,786	Common Stock	32,454	219,900
Warrants	Investment Inc.	(82,391)	Common Stock	17,662	141,750
Grand Totals		$ 1,987,179		$ 51,946	

(1) Negative values (in brackets) refer to losses

(2) Negative values refer to liabilities

(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions

(4) Excl. futures margin payments

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 5: Commitments
As of September 30, 2012, the District Retirement Funds have entered into investment funding commitments related to alternative investments to fund an additional $124 million at some future date.

Note 6: Actuarial Information
The actuarial funding method used to calculate the employer contributions received in 2012 was the Aggregate Actuarial Cost Method. Under this method, the District must contribute the level percent of pay that – combined with the actuarial value of assets, expected earnings, and future employee contributions, will pay for the benefits of the current participants by the time the current workforce leaves employment. This method does not separately amortize unfunded actuarial accrued liabilities. Effective for the October 1, 2007, valuation date the District Retirement Funds were required by GASB 50 to use the Entry Age Normal Actuarial Cost Method to determine the accrued liabilities for disclosure purposes.

The funded status of each plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2011, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

Plan	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
Teachers	$ 1,573,654	$ 1,544,864	$ (28,790)	101.9%	$ 384,455	-7.49%
Fire & Police	3,593,716	3,309,825	(283,891)	108.6%	421,221	-67.40%

The funded status of each plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2010 is as follows:

(Dollars in thousands)

Plan	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
Teachers	$ 1,570,968	$ 1,328,299	$ (242,669)	118.3%	$ 337,516	-71.90%
Fire & Police	3,418,796	3,166,830	(251,966)	108.0%	423,854	-59.45%

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 6: Actuarial Information (Continued)

Fiscal year 2012 employer contributions required under the Aggregate Actuarial Cost Method and contributions made are as follows:

(Dollars in thousands)	Based on Actuarial Valuation Date October 1	Annual Required Contribution	Percentage Contributed
Teachers	2009	$ -	N/A
Fire and Police	2009	127,200	100.0%

Fiscal year 2011 employer contributions required under the Aggregate Actuarial Cost Method and contributions made are as follows:

(Dollars in thousands)	Based on Actuarial Valuation Date October 1	Annual Required Contribution	Percentage Contributed
Teachers	2010	$ -	N/A
Fire and Police	2010	116,664	100.0%

The calculation of the actuarial value of assets includes a smoothing of investment gains and losses over a seven year period. For the year ended September 30, 2012 and 2011, the District Retirement Funds experienced an investment gain of 14.4% and 2.9%, respectively. The difference between these investment gains and the assumed rate of 7% will be recognized over the next seven years and will have an impact on the funding ratio in the future.

See Required Supplementary Information (RSI) on page 50 for a 6-year schedule of employer contributions.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 6: Actuarial Information (Continued)
The funding progress and employer contribution information presented above and the employer contribution information in the RSI schedule were determined as part of the actuarial valuations at the date indicated.

The following is additional information for the District Retirement Funds as of the valuation date October 1:

	2011	2010
Actuarial cost method for contributions	Aggregate	Aggregate
Actuarial cost method for accrued liabilities	Entry Age Normal	Entry Age Normal
Amortization method	Not applicable	Not applicable
Remaining amortization period	Not applicable	Not applicable
Asset valuation method	7 year smoothed market return	7 year smoothed market return
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases:		
Police Officers and Fire Fighters	5.25-9.75%	5.25-9.75%
Teachers	4.95-8.75%	4.95-8.75%
Includes inflation at	4.25%	4.25%
Cost-of-living adjustments (COLAs)	4.25%	4.25%
COLAs for members hired on or after November 10, 1996	Limited to 3.00%	Limited to 3.00%

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 7: Employer Contribution Receivable

During the fiscal year 2007, the Board's actuary was engaged by the District of Columbia Public Schools to review active participant data in order to verify eligibility. The actuary noted a number of participants who should have been enrolled in the Plan, but were wrongly enrolled in the defined contribution plan of the District. The actuary also noted a number of active participants whose contribution rates were wrongly coded and those who should not have enrolled in the Plan.

The actuary used the Entry Age Normal method to estimate the amount receivable from the District of Columbia. The total actuarial impact including interest through October 1, 2011 is estimated to be approximately $9,000,000. The District of Columbia has accrued for this amount in its government-wide financial statements as of September 30, 2011. The Board and the District of Columbia agreed to amortize this balance over three years with payments to begin in fiscal year 2010. As of September 30, 2011 and 2010 the balance was $3,000,000 and $5,609,000, respectively. The final payment of $3 million was received on October 30, 2011.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Until September 30, 2011, the District of Columbia Retirement Board used the Aggregate Actuarial Cost Method, which does not result in the calculation of an unfunded accrued liability. GASB Statement No. 50 requires funds using the Aggregate method to disclose funding status information based on Entry Age Normal calculations. Accordingly, the numbers shown have been determined based on the Entry Age Normal Cost Method.

Actuarial Valuation Date	Actuarial Value of Assets	EAN Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percent of Payroll
10/1/2006	$ 3,482.6	$ 3,565.0	$ 82.4	97.7%	$ 673.4	12.2%
10/1/2007	4,068.9	3,898.6	(170.3)	104.4%	771.2	-22.1%
10/1/2008	4,379.7	4,276.8	(102.9)	102.4%	781.2	-13.2%
10/1/2009	4,493.4	4,332.4	(161.0)	103.7%	772.7	-20.8%
10/1/2010	4,989.8	4,495.1	(494.7)	111.0%	761.4	-65.0%
10/1/2011	5,167.4	4,854.7	(312.7)	106.4%	805.7	-38.8%

Required Supplementary Information

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in thousands)

Teachers' Retirement Fund

Fiscal Year	Annual Required Contributions	Percentage Contributions
2012	$ -	100%
2011	-	100%
2010	-	100%
2009	-	100%
2008	14,600	100%
2007	16,500	100%

Police Officers and Firefighters' Retirement Fund

Fiscal Year	Annual Required Contributions	Percentage Contributions
2012	$ 116,664	100%
2011	127,200	100%
2010	132,300	100%
2009	106,000	100%
2008	137,000	100%
2007	140,100	100%

Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2012	2011
Personnel Services		
Salaries	$ 4,113,863	$ 3,906,824
Fringe benefits	953,613	1,030,165
Total personnel services	5,067,476	4,936,989
Non-personnel services		
Professional services:		
Legal counsel	292,089	30,198
Auditing services	71,160	63,500
Actuarial services	152,590	163,731
Investment advisors and consultants	7,753,310	10,907,200
Consultants and contracts	3,069,219	2,867,022
Office supplies	156,612	166,396
Telephone	48,484	14,274
Rent	1,465,447	1,444,127
Office support	1,236	67,712
Travel	148,224	38,063
Printing	33,002	35,408
Insurance	121,311	128,637
Postage	29,103	37,641
Dues and membership	26,482	37,201
Depreciation	6,328	6,328
Furniture and equipment	179,372	733,918
Total non-personnel services	13,553,969	16,741,356
Total administrative expenses	18,621,445	21,678,345
Investment expenses	(9,022,880)	(12,115,448)
Net administrative expenses	$ 9,598,565	$ 9,562,897

Supplementary Information

SCHEDULE OF INVESTMENT EXPENSES

	2012	2011
Investment managers*	$ 7,115,929	$ 10,621,784
Investment administrative expense	1,010,770	873,896
Investment consultants	685,742	334,353
Investment custodian	210,439	285,415
Total investment expenses	$ 9,022,880	$ 12,115,448

* Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities. A signficant number of alternative investments are presented net of expenses. Management expenses are netted against investment income and because they are not readily separable from specific investment income as of the financial statement reporting date, amounts are recorded and reported net of management expenses and therefore are not included on this schedule.

Supplementary Information

SCHEDULE OF PAYMENTS TO CONSULTANTS

Professional/Consultant	Nature of Service	2012	2011
Administrative Consultants			
U.S. Treasury Office of D.C. Pensions	Benefit payment processing	$ 1,145,809	$ 784,705
NGEN, LLC	Information technology consulting	207,054	188,668
Morgan, Lewis & Brokius	Legal counsel	204,126	108,628
District of Columbia Office of the Chief Technology Officer	Information technology consulting	188,500	-
Document Access Systems	Information technology consulting	180,180	-
Cavanaugh Macdonald Consulting	Actuarial services	161,424	163,731
Robert Half International, Inc.	Information technology consulting	117,637	97,020
Tony Phan	Information technology consulting	116,410	48,160
AON Consulting	Insurance consulting	113,028	-
Randstad Technologies	Information technology consulting	102,770	-
L.R. Wechsler, LTD	Information technology consulting	89,830	351,910
Groom Law Group	Legal counsel	87,963	35,023
Clifton Larsen Allen	Financial audit	71,160	63,500
Gartner, Inc.	Information technology consulting	66,410	-
EDAC Systems, Inc.	Information technology consulting	60,986	100,843
Newlin LLC	Accounting & audit consulting	51,450	97,122
Linea Solutions, Inc.	Business process re-engineering	47,771	
NetX Information Systems, Inc.	Information technology consulting	44,461	47,400
RSM McGladrey, Inc.	Financial system implementation consulting	36,221	196,941
Mobomo, LLC	Information technology consulting	27,150	-
Avitecture	Information technology consulting	19,231	-
ZixCorp Systems, Inc.	Information technology consulting	11,564	-
True Ballot, Inc	Board elections	9,844	23,079
Icore Networks, Inc.	Telephone implementation consulting	5,284	11,000
HBP, Inc.	Graphic design for publications	3,935	10,805
Williams & Connolly, LLP	Legal counsel	-	85,113
HCL America, Inc.	Information technology consulting	-	54,335
Sapphire Technologies, LP	Information technology consulting	-	53,000
Seaprompt Corporation	Information technology consulting	-	48,108
PRM Consulting, Inc.	Human resource consulting	-	40,400
Nupulse Technologies, Inc.	Information technology consulting	-	17,197
Cooperative Personnel Service	Human resource consulting	-	13,110
Total administrative consultants		3,170,198	2,639,798
Investment Consulting			
Cliffwater, LLC	Traditional investment consulting	390,742	36,962
Meketa Investment Group	Traditional investment consulting	270,000	190,000
Zeno Consulting Group, LLC	Traditional investment consulting	25,000	18,750
The Townsend Group	Traditional investment consulting	-	88,641
Total investment consultants		685,742	334,353
Total payments to consultants		$ 3,855,940	$ 2,974,151

INVESTMENT SECTION

REPORT ON INVESTMENT ACTIVITY

Prepared by Sheila Morgan-Johnson, Chief Investment Officer

Introduction

One of the Board's primary responsibilities is to manage the Fund's assets. To perform this duty, the Board retains the services of investment consultants who possess the necessary specialized experience and resources to provide advice on asset allocation, investment strategy and investment manager selection. DCRB's traditional investment managers acknowledge their fiduciary responsibility in writing. Investment managers are accorded full discretion within general and specific investment manager policy guidelines.

Investment Objectives and Policies

The Board targets investment returns that meet or exceed the actuarial investment return target at a level of risk commensurate with the target return and consistent with prudent investment practices. The current actuarial investment return target is 6.5%, net of investment management fees and administrative expenses. In addition to meeting or exceeding the actuarial return target over the long term, a secondary return objective is to exceed the annualized total return of the Board's strategic asset allocation policy benchmark (the "Policy Benchmark").

As of September 30, 2012, the Policy Benchmark comprised the following components:

As a long-term investor, the Board believes that it can generate the highest risk-adjusted returns through a diversified portfolio with an emphasis on equity investments. Although equities are generally more volatile than other asset classes in the short-term, if properly diversified, they are expected to yield higher total returns in the long-term. In addition, while the Board generally believes in the value of active management, it has pursued lower cost passive investment strategies (e.g., index funds) in more efficient markets where active managers have a lower likelihood of generating excess returns.

Global Market Review

During fiscal year 2012, global markets experienced massive swings in investor sentiment and unusually high levels of market volatility. After a dramatic sell-off during the third quarter of 2011, equity markets posted very strong results in the final quarter of 2011 and the first quarter of 2012. Most major markets experienced double digit returns over this six-month period. The forceful actions of the European Central Bank (ECB), which lowered interest rates in late 2011 and initiated two rounds of its Long Term Refinancing Operation (LTRO) in early 2012, apparently reversed investors' prior pessimism about the lack of economic growth across the globe and the continued financial crisis in Europe.

Asset Class	Performance Benchmark	Weight
U.S. Fixed Income	Barclays Capital U.S. Universal Index	25%
U.S. Equities	Russell 3000 Index	22%
International Developed Markets Equities	MSCI World Index ex-U.S. (Net)	20%
Emerging Markets Equities	MSCI Emerging Markets Index (Net)	8%
Absolute Return	1-Month LIBOR	10%
Private Equity	Cambridge Associates U.S. Private Equity Index (lag)	8%
Real Assets	CPI-U + 700 bps	7%

REPORT ON INVESTMENT ACTIVITY

This six-month period recovery was followed by another setback in the second quarter of 2012, when investors once again turned pessimistic on the political and economic viability of the Eurozone. In addition, growing concerns around the condition of banks in Spain heavily weighed on markets.

The third quarter of 2012 brought much needed relief thanks to global central bankers. With economic growth stalling, the ECB and Federal Reserve Bank (Fed) intervened aggressively during the quarter, announcing a policy of unlimited government bond purchases (ECB) and monthly targets for mortgage security purchases (Fed). The response of policy makers highlighted a wide-spread concern that the global economy had gotten weaker.

In terms of the cumulative performance over the course of FY 2012, the Russell 3000 Index, an index that measures the performance of the 3,000 largest U.S. companies based on total market capitalization and that represents approximately 98% of the investable U.S. equity market, increased 30.2%. Non-U.S. equity markets, as measured by the MSCI All Country World ex U.S. Index, rose 13.8%, partially aided by the appreciation of non-U.S. currencies vs. the U.S. dollar. Within non-U.S. equities, emerging markets, as measured by the MSCI Emerging Markets Index, once again outperformed developed markets, generating a positive return of 16.9%. The Barclays Capital U.S. Universal Bond Index, a broad measure of U.S. fixed income markets, appreciated 6.5%, driven by a continued decline in Treasury yields.

Investment Results

As of September 30, 2012, the Fund's total assets were $5.2 billion after the payment of all benefits and other administrative expenses, an increase of roughly $700 million compared to FY 2011. Over the course of the fiscal year, the Fund generated a gross return of 14.5%, outperforming the Policy Benchmark by 0.6% and the actuarial return target by 8.0%, driven by an overweight to U.S. equities and underweight to absolute return strategies. Manager selection in U.S. fixed income also added to relative performance. The Fund's managers in this class significantly outperformed their passive benchmarks.

Over the long-term, the Fund has underperformed the Policy Benchmark, but exceeded the actuarial return target of 6.5%, returning an annualized 9.1% for the 30 years since its inception in October 1982.

Presented in the table on the following page are the gross returns for the Fund and for each asset class over the one, three, five, and ten-year time periods as of September 30, 2012. The returns were calculated by the Board's custodian bank, State Street, and are time-weighted returns computed in conformance with the CFA Institute's Global Investment Performance Standards (GIPS). Benchmark returns are presented below each asset class for relative performance comparison purposes.

REPORT ON INVESTMENT ACTIVITY

Asset Class	1-Year	3-Year	5-Year	10-Year
Total Fund	**14.5%**	**9.1%**	**1.1%**	**7.3%**
Total Fund Benchmark[1]	13.9%	8.1%	1.9%	8.4%
Cash and Cash Equivalents	**0.2%**	**0.2%**	**1.2%**	**2.1%**
3-month U.S. Treasury Bills	0.1%	0.1%	0.7%	1.8%
Fixed Income	**7.7%**	**8.0%**	**6.4%**	**6.1%**
Barclays Capital U.S. Universal Index	6.5%	6.7%	6.6%	5.4%
U.S. Equities	**31.1%**	**13.5%**	**1.1%**	**8.4%**
Russell 3000 Index	30.2%	13.3%	1.3%	8.5%
International Developed Markets Equities	**13.5%**	**3.8%**	**-3.4%**	**9.0%**
MSCI World Index ex U.S.(net)	13.8%	3.4%	-4.0%	9.3%
Emerging Markets Equities	**17.0%**	**n/a**	**n/a**	**n/a**
MSCI Emerging Markets Index (net)	16.9%	n/a	n/a	n/a
Absolute Return	**1.0%**	**15.1%**	**11.2%**	**n/a**
1-Month LIBOR	0.3%	0.3%	1.0%	n/a
Private Equity	**2.2%**	**13.6%**	**3.7%**	**6.0%**
Cambridge Associates U.S. Private Equity Index	5.9%	16.4%	5.3%	13.7%
Real Estate	**15.0%**	**6.8%**	**-4.9%**	**3.0%**
80% NCREIF ODCE Index (Net of Fees) + 150 bps / 20% MSCI U.S. REIT Index[2]	16.1%	14.3%	3.9%	9.0%
Infrastructure	**4.1%**	**9.9%**	**n/a**	**n/a**
CPI + 7%[3]	9.2%	9.5%	n/a	n/a

[1] The Total Fund Benchmark is a composite of 22% Russell 3000 Index, 20% MSCI World Index ex U.S. (net), 8% MSCI Emerging Markets (net); 25% Barclays Capital U.S. Universal Index, 10% 1-Month LIBOR, 8% Cambridge Associates U.S. Private Equity Index, 7% CPI + 7%. From 9/1/11 to 6/30/12, 22% Russell 3000 Index, 20% MSCI World Index ex U.S. (net), 8% MSCI Emerging Markets (net); 27% Barclays Capital U.S. Universal Bond Index, 8% Cambridge Associates U.S. Private Equity Index, 10% 1-Month LIBOR, 4% NCREIF ODCE Index, 1% Wilshire U.S. Real Estate Securities Index. From 4/1/06 to 8/31/11: 40% Russell 3000 Index, 20% MSCI All Country World Index ex U.S., 25% Barclays Capital U.S. Universal Bond Index, 6% Cambridge Associates U.S. Private Equity Index, 4% 1-Month LIBOR, 4% NCREIF ODCE Index, 1% Wilshire U.S. Real Estate Securities Index. From 4/1/03 to 3/31/06: 40% Russell 3000 Index, 20% MSCI EAFE Index, 25% Lehman Brothers Aggregate Bond Index, 10% Cambridge Associates U.S. Private Equity Index, 5% NCREIF Property Index. From 6/30/99 to 3/31/03: 43.7% Russell 3000 Index, 20% MSCI EAFE Index, 30.3% Lehman Brothers Aggregate Bond Index, 5% Cambridge Associates U.S. Private Equity Index, 1% 3-month U.S. Treasury Bills.

[2] From 10/01/09 to 7/1/12, 80% NCREIF ODCE Index / 20% Wilshire U.S. Real Estate Securities Index. From 4/1/06 to 9/30/09, 80% NCREIF Property Index, 20% Wilshire U.S. Real Estate Securities Index. Prior to 4/1/06, NCREIF Property Index.

[3] Prior to 7/1/12, Barclays Capital U.S. Universal Index.

REPORT ON INVESTMENT ACTIVITY

Asset Allocation

In February 2011, the Board modified the strategic asset allocation targets to further enhance the Fund's diversification and downside protection. In addition, the Board approved a new manager structure which has shifted a significant portion of Fund assets from active to passive investment strategies to minimize investment expenses. The actual and target allocations as of September 30, 2012, are shown in the table below.

Asset Class	Target Allocation	Allowable Range	Actual Allocation 9/30/2012
Cash and Cash Equivalents	**0%**	**0-5%**	**1%**
Fixed Income	**25%**	**16-34%**	**27%**
U.S. Investment Grade Bonds	15%	10-20%	19%
Foreign Bonds	2%	1-3%	0%
Emerging Markets Bonds	2%	1-3%	2%
High-Yield Bonds	3%	2-4%	3%
U.S. TIPS	3%	2-4%	3%
Public Equities	**50%**	**40-60%**	**53%**
U.S. Equities	22%	18-26%	24%
International Developed Markets Equities	20%	16-24%	20%
Emerging Markets Equities	8%	6-10%	8%
Alternative Investments	**25%**	**-**	**20%**
Absolute Return	10%	8-12%	5%
Private Equity	8%	5-11%	8%
Real Assets	7%	5-9%	7%

Report on Investment Activity

In the spring of 2012, the Board retained Cliffwater LLC as its alternative investments consultant. Cliffwater worked with the Board to establish a private equity and absolute return investment policy and guidelines for the implementation of the programs. The Board expects to gradually build out its private equity, real assets and absolute return program over the coming years.

During FY 2012, the Board made the following changes to the manager structure:

Terminations:

- Alliance Bernstein
- Thompson, Siegel & Walmsley
- Prudential Real Estate Investors

Additions:

- Blackstone Group
- DDJ Capital Management
- Encap Investments
- Northern Trust
- Riverstone Holdings
- Stone Harbor Investment Partners
- Vanguard Group

REPORT ON INVESTMENT ACTIVITY

List of Largest Assets Held

Top 10 Public Equity Holdings

Rank	Security Name	Shares	Market Value
1	Apple Inc.	19,200	$12,811,392
2	Amazon.com Inc.	40,000	10,172,800
3	Google Inc. CLA	13,000	9,808,500
4	Visa Inc. Class A Shares	73,000	9,802,440
5	Salesforce.com Inc.	56,000	8,550,640
6	Qualcomm Inc.	97,000	6,061,530
7	Alexion Pharmaceuticals Inc.	47,000	5,376,800
8	Fresenius SE + CO KGAA	42,841	4,979,083
9	Allergian Inc.	53,086	4,861,616
10	Schlumberger LTD.	60,000	4,339,800

Top 10 Fixed Income Holdings

Rank	Security Name	Quality Rating	Par Value	Interest Rate	Maturity Date	Market Value
1	US TREASURY N/B	AAA	$35,700,000	1.750%	5/15/2022	$36,201,942
2	US TREASURY N/B	AAA	$19,757,500	1.625%	8/15/2022	$19,735,964
3	SWPC585Q3 CDS EUR R V 00MEVENT	A-*	$10,800,000	1.000%	12/20/2016	$14,064,379
4	BWU000O01 IRS USD R V 03MLIBOR	AAA	$13,600,000	1.000%	12/19/2022	$13,600,000
5	BWU0640U7 IRS USD R V 03MLIBOR	AAA	$9,500,000	0.468%	6/20/2022	$9,500,000
6	FNMA TBA OCT 15YR TBAXXX	AAA	$8,800,000	3.500%	10/1/2026	$9,363,728
7	SWPC40417 CDS USD R F 2.05250	AA*	$8,381,575	2.053%	12/20/2012	$8,419,111
8	SWU0341V7 IRS USD R F 1.25000	AAA	$7,300,000	1.250%	6/20/2016	$7,493,681
9	SWU0006O9 IRS CAD R F 2.25000	AAA	$6,900,000	2.250%	12/15/2016	$7,078,197
10	TSY INFL IX N/B	AAA	$6,286,428	0.125%	1/15/2022	$6,862,013

* Indicates utilization of the fixed income manager's internal rating, as no rating was available from Moody's, S&P or Fitch.

A complete list of portfolio holdings is available upon request.

REPORT ON INVESTMENT ACTIVITY

Schedule of Fees and Commissions

During fiscal year 2012, DCRB paid the following fees and commissions:

Expense Category	Amount	% of Fund
Investment Managers*	$7,115,929	0.138%
Public Equities	4,412,340	0.086%
Fixed Income	1,287,192	0.025%
Alternative Investments	1,416,397	0.027%
Investment Consultants	685,742	0.013%
Investment Custodian	210,439	0.004%
Brokerage Commissions**	221,538	0.004%

** Includes fees paid to traditional investment managers only. Traditional investment managers are those that invest primarily in public equity and fixed income securities.*

*** Includes separate account relationships only.*

Investment Summary

Asset Class	Market Value	% of Fund
Cash and Cash Equivalents	$ 19,457,517	0.4%
Fixed Income	1,399,656,520	27.2%
U.S. Equities	1,207,982,405	23.5%
International Developed Markets Equities	1,043,450,852	20.3%
Emerging Markets Equities	422,530,029	8.2%
Absolute Return	257,778,814	5.0%
Private Equity	431,683,272	8.4%
Real Assets	368,587,291	7.2%
Total	$5,151,126,700	100.0%

ACTUARIAL SECTION

INDEPENDENT ACTUARY'S CERTIFICATION LETTER

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

December 20, 2012

Board Members
District of Columbia Retirement Board
900 7th Street NW, Suite 200
Washington, DC 20001

RE: Actuarial Certification of October 1, 2012 Valuation for D.C. Retirement Board

Dear Board Members:

Cavanaugh Macdonald Consulting, LLC, under contract with the District of Columbia Retirement Board (DCRB), performed actuarial valuations of the District of Columbia (D.C.) Police Officers' and Fire Fighters' Retirement Plan and the D.C. Teachers' Retirement Plan as of October 1, 2012. The date of the most recent valuation prior to this was October 1, 2011. Valuations are conducted annually for DCRB. In this study, we relied on participant and financial data supplied by DCRB staff, the D.C. Office of Pay and Retirement Services, and the U.S. Department of the Treasury. We examined such data for reasonableness and consistency.

As a result of legislation passed earlier in 2012, actuarial funding is now based on the Entry Age Normal Cost method. Under this method, the District must contribute the level percent of pay that – combined with the actuarial value of assets, expected investment earnings, and future employee contributions - will pay for the benefits of the current participants by the time the current workforce leaves employment as well as a payment to amortize any unfunded accrued liability over a period no longer than 30 years.

The funding policy adopted by the Board in 2012 has two main goals:

- To maintain an increasing or stable ratio of Plan assets to accrued liabilities and reach a 100 percent minimum funded ratio;
- To develop a pattern of stable or declining contribution rates when expressed as a percentage of member payroll as measured by valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, with a minimum employer contribution equal to the lesser of the normal cost determined under the Entry Age Normal funding method and the current active member contribution rate.

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INDEPENDENT ACTUARY'S CERTIFICATION LETTER (Continued)

The new funding policy not only states the overall funding goals and benchmarks for the Plan, but sets the methods and assumptions. The amortization period will be set to 20 years in 2012 and set to decline one year each year until a funded ratio of 100 percent is reached. In addition, the amortization of the unfunded accrued liability will be developed using the level dollar approach.

For actuarial valuation purposes, Plan assets are determined at Actuarial Value, recognizing one-seventh of the difference between the expected actuarial value and the actual end of year market value of assets. The purpose of this is to smooth contributions, allowing investment gains and losses to offset each other over time.

We recently completed an experience investigation of the demographic and economic experience of the Plan for the years 2006 through 2010. Recommended economic assumptions based on those results were presented to the Board on November 15, 2012, and approved for use in the October 1, 2012 and later valuations. The assumptions produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is expected to cover the years 2010 through 2014.

We provided most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedule of Funding Progress and the employer contributions shown in the Schedule of Employer Contributions in the Financial Section. The historical information is for years prior to our tenure with DCRB. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in the subject valuation report.

Respectfully Submitted,

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

Edward J. Koebel, EA, FCA, MAAA
Principal and Consulting Actuary

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TJC/EJK:kc
S:DCRB/Misc. Correspondence/Actuarial Certification Letter

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

Valuation Date: All assets and liabilities are computed as of October 1, 2012. Demographic information was collected as of June 30, 2012.

Investment Rate of Return: 6.50% per annum, compounded annually (net of investment expenses).

Inflation Assumption: 3.50% per annum.

Payroll Growth Assumption: 4.25% per annum.

Percent Married: 64% of Teachers are assumed to be married and 80% of Police Officers and Firefighters are assumed to be married, with the wife 3 years younger than the husband. Active members are assumed to have one dependent child aged 10.

Actuarial Method: Entry Age Normal Cost Method.

Assets: The method of valuing assets is intended to recognize a "smoothed" market value of assets. Under this method, the difference between actual return on market value from investment experience and the expected return on market value is recognized over a seven-year period. The actuarial value of assets is constrained to an 80% to 120% corridor around market value of assets. In addition, there is an adjustment made for the effect of the adjustment pursuant to D.C. Code §1-907.02(c).

Withdrawal Assumption: For Teachers, it was assumed that 35% of the vested members who terminate elect to withdraw their contributions while the remaining 65% elect to leave their contributions in the plan in order to be eligible for a benefit at their retirement date. For Police Officers and Firefighters, it was assumed that 80% of the vested members who terminate elect to withdraw their contributions while the remaining 20% elect to leave their contributions in the plan.

Other Assumptions: To value the pre-retirement death benefit for Police Officers and Firefighters, the benefit form for all retirements (normal or disabled) is assumed to be a 67.8% Joint and Survivor annuity for all participants (based on 40% of average pay survivor benefits). One-fourth of all Police Officer and Firefighter active deaths are assumed to occur in the line of duty.

Cost of Living Adjustment: The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 3.5% per year.

Military Service: All Police and Fire members assumed to have 0.40 years of military service at retirement.

Administrative Expenses: Budgeted administrative expenses of 1.20% of payroll are added to the normal cost rate.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES

District of Columbia Teachers

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.25% per annum:

	Pay Increase Assumptions for an Individual Member		
Years of Service	Merit & Seniority	Inflation & Productivity (Economy)	Total Increase (Next Year)
5	4.00%	4.25%	8.25%
10	3.00	4.25	7.25
15	0.50	4.25	4.75
20	0.20	4.25	4.45
25	0.20	4.25	4.45
30	0.20	4.25	4.45
35	0.20	4.25	4.45

Separations From Active Service: Representative values of the assumed annual rates of withdrawal, service retirement, and disability are shown in the following tables:

Percent of Members Separating Within the Next Year

	Withdrawal			Service Retirement		
Sample Ages	0 to 3 yrs of service	4 to 9 yrs of service	10 & up yrs of service	Under 30 yrs service	30 & up yrs service	Disability Retirement
20	25.0%	20.0%	0.00%			0.03%
25	23.5	20.0	0.00			0.03
30	22.0	16.0	3.75			0.05
35	20.5	14.0	3.75			0.07
40	19.0	12.0	3.75			0.09
45	17.5	10.0	3.75			0.15
50	16.0	10.0	3.75	2.5%	2.5%	0.22
55	14.5	10.0	3.75	6.0	33.0	0.32
60	13.0	10.0	3.75	27.0	25.0	0.40
62	0.0	0.0	0.00	25.0	25.0	
65				20.0	25.0	
70				30.0	30.0	
71				25.0	40.0	
75				100.0	100.0	

Mortality: The RP-2000 Combined Mortality Table projected with Scale AA to 2015, set back 3 years for females is used for healthy active members, retirees, and beneficiaries. The RP-2000 Disabled Mortality Table set back 1 year for males and set back 5 years for females is used for disabled retirees. Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 7-8% greater for healthy lives and 9% greater for disabled lives than expected under the selected tables.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

District of Columbia Police Officers

Salary increases: Police Officers are assumed to receive a longevity increase of 5%, 10%, 15%, and 20% applied to individual base pay after 15, 20, 25, and 30 years of service. These are approximated by increases of 3.5% to final average salary. Representative values of the assumed annual rates of future salary increases before longevity increases are as follows and include inflation at 4.25% per annum:

Pay Increase Assumptions for an Individual Member

Years of Service	Merit & Seniority	Inflation & Productivity (Economy)	Total Increase (Next Year)
5	3.56%	4.25%	7.81%
10	2.58	4.25	6.83
15	2.31	4.25	6.56
20	2.50	4.25	6.75
25	1.10	4.25	5.35
30	0.50	4.25	4.75
35	0.00	4.25	4.25

Separations from Active Service: Representative values of the assumed annual rates of withdrawal, service retirement, and disability are shown in the following tables:

Percent of Members Separating Within the Next Year

	Withdrawal (3 years of service & up)[1]		Disability Retirement[2]			
Sample Ages	Males	Females	Males	Females	Years of Service	Service Retirement[3]
20	6.00%	2.50%	0.02%	0.04%	20	12.5%
25	6.00	2.50	0.05	0.08	25	22.0
30	4.30	3.50	0.10	0.12	30	15.0
35	2.50	2.00	0.22	0.28	35	20.0
40	1.80	1.50	0.25	0.40	40	20.0
45	1.30	1.30	0.30	0.62		
50	1.30	1.30	0.40	0.70		
55	1.30	1.30	0.60	0.75		
60	0.00	0.00	0.80	0.90		

[1] Members of any age with less than 3 years of service have a 10% withdrawal assumption.

[2] It is assumed that 75% of the disabilities are due to accidents in the line of duty and the "percent of disability" is assumed to be 100%.

[3] 100% of active members are assumed to retire at age 65, regardless of service.

Mortality: The RP-2000 Combined Mortality Table projected with Scale AA to 2015 set forward 1 year for females is used for healthy active members, retirees and beneficiaries. The following disability mortality table is used for disabled retirees.

Disabled Retiree Mortality

Sample Ages	Males	Females
20	0.80%	0.50%
30	0.80	0.50
40	0.80	0.50
50	0.80	0.50
60	1.16	0.74
70	2.35	1.55
80	5.78	3.76
90	13.95	10.87
100	51.48	49.93

Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 7% greater for healthy lives and 6% greater for disabled lives than expected under the selected tables.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

District of Columbia Firefighters

Salary Increases: Firefighters are assumed to receive a longevity increase of 5%, 10%, 15%, and 20% applied to individual base pay after 15, 20, 25, and 30 years of service. These are approximated by increases of 3.5% to final average salary. Representative values of the assumed annual rates of future salary increases before longevity increases are as follows and include inflation at 4.25% per annum:

Pay Increase Assumptions for an Individual Member

Years of Service	Merit & Seniority	Inflation & Productivity (Economy)	Total Increase (Next Year)
5	2.50%	4.25%	6.75%
10	2.50	4.25	6.75
15	2.50	4.25	6.75
20	2.50	4.25	6.75
25	2.50	4.25	6.75
30	2.50	4.25	6.75
35	2.50	4.25	6.75

Separations from Active Service: Representative values of the assumed annual rates of withdrawal, service retirement, and disability are shown in the following tables:

Percent of Members Separating Within the Next Year

Sample Ages	Withdrawal (2 years of service & up)[1]	Disability Retirement[2]	Years of Service	Service Retirement[3]
20	3.50%	0.01%	20	12.5%
25	3.50	0.02	25	12.5
30	2.00	0.15	30	20.0
35	1.00	0.20	35	40.0
40	1.00	0.35	40	40.0
45	1.50	0.45		
50	1.50	0.52		
55	0.00	0.60		
60	0.00	0.70		

[1]Members of any age with less than 2 years of service have a 9% withdrawal assumption.

[2]It is assumed that 75% of the disabilities are due to accidents in the line of duty and the "percent of disability" is assumed to be 100%.

[3]100% of active members are assumed to retire at age 60, regardless of service.

Mortality: The RP-2000 Combined Mortality Table projected with Scale AA to 2015 set forward 1 year for females is used for healthy active members, retirees and beneficiaries. The following disability mortality table is used for disabled retirees.

Disabled Retiree Mortality

Sample Ages	Males	Females
20	0.80%	0.50%
30	0.80	0.50
40	0.80	0.50
50	0.80	0.50
60	1.16	0.74
70	2.35	1.55
80	5.78	3.76
90	13.95	10.87
100	51.48	49.93

Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 7% greater for male and 1% greater for female healthy lives and 8% greater for disabled lives than expected under the selected tables. Police and Fire are combined in the valuation results and the female healthy life population is much greater for Police than Fire so the smaller margin under Fire is not an issue at this time.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

District of Columbia Teacher's Retirement Plan

Effective Date

Established on July 1, 1997. The Treasury Department is responsible for paying all benefits accrued before this date.

Definitions

Affiliated Employers
District of Columbia Public Schools, Public Charter Schools

Covered Members
Permanent, temporary, part-time and probationary teachers for the District of Columbia public day schools become members automatically on their date of employment. Other employees covered by the Retirement of Public School Teachers Act – including librarians, principals, and counselors – also become members on their date of employment. Substitute teachers and employees of the Department of School Attendance and Work Permits are not covered. Some former D.C teachers working at charter schools are eligible to remain in the Program.

Service Credit
One year of school service is given for each year of employment with DCPS. After five years of service are accrued, additional service may be purchased or credited for service outside of DCPS.

Average Salary
Highest 36 consecutive months of pay, divided by three.

Vested
Members who accrue five or more years of Service Credit are vested for benefits. If these members leave service they may leave their Member Contribution Accounts with the Plan for a future benefit when reaching eligibility (deferred vested in this report).

Contributions

Member Contributions
Members hired before November 1, 1996 are required to contribute 7% of annual pay. Members hired on or after November 1, 1996 contribute 8% of annual pay. Members can also make voluntary post-tax contributions of up to 10% of annual pay towards an annuity in addition to any vested pension. Interest is not credited to each Member's accumulated contributions.

Refund of Member Contributions
In the event a member leaves service for a reason other than death or retirement, member contribution accounts are refunded upon request.

Service Retirement

Eligibility
The Age and Service Credit requirements to be eligible for a full Service Retirement are listed below:

Members hired before November 1, 1996

Age	Service Credit
55	30, including 5 years school service
60	20, including 5 years school service
62	5 years school service

Members hired on and after November 1, 1996

Age	Service Credit
Any Age	30, including 5 years school service
60	20, including 5 years school service
62	5 years school service

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Benefit
For members hired before November 1, 1996:

- 1.5% of Average Salary times service up to 5 years, plus
- 1.75% of Average Salary times service between 5 and 10 years, plus
- 2.0% of Average Salary times service over 10 years.

For members hired on or after November 1, 1996:

2.0% of Average Salary times service.

All members receive a minimum benefit of 1.0% of Average Salary plus $25 for each year of service.

Involuntary Service Retirement

Eligibility
The Age and Service Credit requirements to be eligible for a Reduced Service Retirement are listed below:

All Members, regardless of date of hire

Age	Service Credit
Any Age	25, including 5 years school service
50	20, including 5 years school service

Benefit
Service Retirement Benefit reduced by 1/6% per month (or 2% per year) that date of retirement precedes age 55.

Disability Retirement

Eligibility
Active members with five or more years of school service credit are covered (vested) for disability retirement. To be eligible, the member must be found to be totally and permanently disabled (mentally or physically) from regular and gainful employment.

Benefit
Equal to Service Retirement benefit. Minimum benefit is the lesser of a) or b):

a) 40% of Average Salary

b) Calculated benefit amount by projecting service to age 60.

Survivor Benefits

Lump Sum

Eligibility
Death before completion of 18 months of school service or death without an eligible spouse, child or parent.

Benefit
Refund of member contributions.

Spouse Only

Eligibility
Death before retirement and married for at least two years, or have a child by the marriage.

Benefit
55% of Service Retirement benefit. Minimum benefit is the lesser of a) or b):

a) 55% of 40% of Average Salary
b) 55% of the calculated benefit amount by projecting service to age 60.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Spouse and Dependent Children

Eligibility
Death before retirement and married for at least two years, or have a child by the marriage. Children must be unmarried and under age 18, or 22 if full-time student. Also, any dependent child because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefit.

Spouse Benefit
55% of Service Retirement benefit. Minimum benefit is the lesser of a) or b):

a) 55% of 40% of Average Salary

b) 55% of the calculated benefit amount by projecting service to age 60.

Child Benefit
A benefit per child equal to the smallest of a) or b) or c):

a) 60% of Average Salary divided by the number of eligible children

b) $6,024* (if hired before 1/1/1980), $5,820* (if hired between 1/1/1980 and 10/31/1996), or $5,700* (if hired on or after 11/1/1996) per child

c) $18,072* (if hired before 1/1/1980), $17,460* (if hired between 1/1/1980 and 10/31/1996), or $17,460* (if hired on or after 11/1/1996) divided by the number of children.

Dependent Children Only

Eligibility
Children must be unmarried and under age 18, or 22 if full-time student. Also, any dependent child because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefit.

Benefit
A benefit per child equal to the smallest of a) or b) or c):

a)75% of Average Salary divided by the number of eligible children

b)$7,356* (if hired before 1/1/1980), $7,092* (if hired between 1/1/1980 and 10/31/1996), or $6,912* (if hired on or after 11/1/1996) per child

c) $22,068* (if hired before 1/1/1980), $21,276* (if hired between 1/1/1980 and 10/31/1996), or $20,736* (if hired on or after 11/1/1996) divided by the number of children.

*Survivor benefit amounts are as of March 2009, and are subject to annual inflation adjustments.

Parents Only

Eligibility
Death before retirement and no eligible spouse or children, and parents must receive at least one-half of their total income from member.

Benefit
55% of Service Retirement benefit. Minimum benefit is the lesser of a) or b):

55% of 40% of Average Salary
55% of the calculated benefit amount by projecting service to age 60.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Deferred Vested Retirement

Eligibility
Active members with five or more years of school service credit .

Benefit
Benefit is calculated in the same manner as Service Retirement benefit and may be collected starting at age 62.

Options

Retirement and disability benefits are payable for the life of the retired member. Optional reduced benefits may be elected at the time of retirement to provide for continuation of a reduced benefit amount to a designated beneficiary. Optional forms include:

a) Reduced Annuity with a Maximum Survivor Annuity (to Spouse)
Reduced benefit paid to member so that upon member's death, the spouse will receive 55% of the unreduced normal life annuity. Member's benefit is reduced by 2.5% of retirement benefit, up to $3,600, plus 10% of any retirement benefit over $3,600.

b) Reduced Annuity with a Partial Survivor Annuity (to Spouse)
Reduced benefit paid to member so that upon member's death, the spouse will receive a partial annuity that can range from $1 up to 55% of the unreduced normal life annuity amount. Member's benefit is reduced by the same amount as option a, multiplied by the ratio of the chosen benefit percent to the maximum benefit percent (55%).

c) Reduced Annuity with a Life Insurance Benefit
Member elects a life insurance amount, payable in a lump sum to designated beneficiary upon member's death.

d) Reduced Annuity with a Survivor Annuity to a Person with an Insurable Interest
A 55% joint and survivor annuity where the original benefit is reduce by 10% plus an additional 5% for each full 5 years, up to 25 years, that the designated beneficiary is younger than the member. Maximum reduction is 40% for any beneficiary who is 25 or more years younger than the member.

Cost of Living Adjustments

Each year on March 1st, benefits which have been paid for at least twelve months proceeding March 1st are increased. The increase is equal to the annual CPI. COLA's are included in benefit payments on and after April 1st.

For members hired on or after November 1, 1996, the cost of living increase is limited to 3% per year. In addition, cost of living adjustments do not apply to retirement benefit payments resulting from voluntary contributions.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

District of Columbia Police Officers and Firefighters' Retirement Plan

Effective Date

Established on July 1, 1997. The Treasury Department is responsible for paying all benefits accrued before this date.

Definitions

Affiliated Employers
District of Columbia Police Officers and Firefighters, except Police cadets.

Covered Members
All employees of DC Police Department and Fire Department become members on their first day of active duty. Membership is not automatic for uniformed EMT Firefighters.

Service Credit
One year of service is given for each year of employment with DCPD or DCFD. Additional service may be purchased or credited for lateral transfer service, EMT service, prior military service, and certain civilian service.

Average Salary
For members hired before February 15, 1980, the highest 12 consecutive months of pay. For members hired on or after February 15, 1980, the highest 36 consecutive months of pay, divided by 3.

Vested
Members who accrue five or more years of Service Credit are vested for benefits. If these members leave service they may leave their Member Contribution Accounts with the Plan for a future benefit when reaching eligibility (deferred vested in this report).

Contributions

Member Contributions
Members hired before November 10, 1996 contribute 7.0% of salary. Members hired on or after November 10, 1996 contribute 8.0% of salary. Member contributions, together with any purchased service credit payments, are credited to individual Member Contribution Accounts. No interest is accrued on contributions.

Refund of Member Contributions
In the event a member leaves service for a reason other than death or retirement, member contribution accounts are refunded upon request.

Service Retirement

Eligibility
The Age and Service Credit requirements to be eligible for a full Service Retirement are listed below:

Members hired before November 10, 1996:

Age	Service Credit
Any age	20 (only if hired before 2/15/1980)
50	25 years departmental service
60	5 years departmental service

Members hired on and after November 10, 1996:

Age	Service Credit
Any Age	25 years departmental service
60	5 years

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Benefit
For members hired before November 10, 1996:

- 2.5% of Average Salary times departmental service up to 25 years (20 years if hired before 2/15/1980), plus
- 3.0% of Average Salary times departmental service over 25 years (or 20), plus
- 2.5% of Average Salary times purchased or credited service.

For members hired on or after November 10, 1996:

- 2.5% of Average Salary times total service.

All members are subject to a maximum benefit of 80% of Average Salary.

Service Related Disability Retirement

Eligibility
Disabled as a result of an illness or injury in the line of duty.

Benefit For members hired before February 15, 1980:

- 2.5% of Average Salary times total years of service, subject to a minimum of 66-2/3% of Average Salary and a maximum of 70% of Average Salary.

For members hired on or after February 15, 1980:

- 70% of final pay times percentage of disability, subject to a minimum of 40% of final pay.

Nonservice-Related Disability Retirement

Eligibility
Active members with five or more years of departmental service are covered (vested) for disability retirement. To be eligible, the member must be found to be totally and permanently disabled (mentally or physically) from regular and gainful employment.

Benefit
For members hired before February 15, 1980:

- 2.0% of Average Salary times total years of service, subject to a minimum of 40% of Average Salary and a maximum of 70% of Average Salary.

For members hired on or after February 15, 1980:

- 70% of final pay times percentage of disability, subject to a minimum of 30% of final pay.

Survivor Benefits

Lump Sum

Eligibility
Death before retirement without an eligible spouse or child.

Benefit
Refund of member contributions according to plan order of precedence.

Lump Sum - Death in Line of Duty

Eligibility
Death occurring in the line of duty, not resulting from willful misconduct.

Benefit
$50,000

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Spouse Only - Death in Line of Duty

Eligibility
Member killed in line of duty, after December 29, 1993.

Benefit
100% of final pay.

Spouse Only - Death Not in Line of Duty

Eligibility
Member death, not in line of duty, after December 29, 1993. If retired, must be married for at least one year or have a child by the marriage.

Benefit
40% of the greater of a) or b):

a) Average Salary

b) Salary for step 6 salary class 1 of the DC Police and Fireman's Salary Act in effect, adjusted for cost-of-living increases if death occurs after retirement.

Benefit cannot be higher than rate of pay at death (or retirement if death occurs after retirement).

Spouse & Dependent Children

Eligibility
Member death, not in line of duty, after December 29, 1993. If retired, must be married for at least one year or have a child by the marriage. Children must be unmarried and under age 18, or 22 if full-time student. Also, any dependent child because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefit.

Spouse Benefit
40% of the greater of a) or b):
a) Average Salary

b) Salary for step 6 salary class 1 of the DC Police and Fireman's Salary Act in effect, adjusted for cost-of-living increases if death occurs after retirement.

Benefit cannot be higher than rate of pay at death (or retirement if death occurs after retirement).

Child Benefit
A benefit per child equal to the smallest of a) or b) or c):

a) 60% of Average Salary divided by the number of eligible children

b) $3,552* (if hired before 11/1/1996) or $3,480* (if hired on or after 11/1/1996) per child

c) $10,656* (if hired before 11/1/1996) or $10,490* (if hired on or after 11/1/1996) divided by the number of children.

Dependent Children Only

Eligibility
Children must be unmarried and under age 18, or 22 if full-time student. Also, any dependent child because of a disability incurred before age 18. Death does not have to occur before retirement for the children's benefit.

Benefit
75% of Average Salary divided by the number of eligible children, adjusted for cost-of-living increases.

*Survivor benefit amounts are as of March 2009, and are subject to annual inflation adjustments.

PROVISIONS INTERPRETED FOR VALUATION PURPOSES (Continued)

Deferred Vested Retirement

Eligibility
Active members with five or more years of departmental service.

Benefit
Benefit is calculated in the same manner as Service Retirement benefit and may be collected starting at age 55.

Options

Retirement and disability benefits are payable for the life of the retired member. This includes an unreduced joint and survivor annuity as defined above in the "Survivor Benefits – Spouse and Dependent Children" section.

An optional reduced benefit may be elected at the time of retirement to provide for an additional survivor benefit to a designated beneficiary. Member's original annuity is reduced by 10% and that amount is added to the survivor's benefit. If the designated beneficiary is more than five years younger than the member, the additional amount will be reduced by 5% for each full five years that the beneficiary is younger than the member, subject to a maximum of 40%.

Cost of Living Adjustments

Each year on March 1st, benefits which have been paid for at least twelve months proceeding March 1st are increased. The increase is equal to the annual CPI. COLA's are included in benefit payments on and after April 1st.

For members hired on or after November 10, 1996, the cost of living increase is limited to 3% per year. Members (not beneficiaries) hired before February 15, 1980, will receive equalization pay, which is defined as the percentage increase as active employees' salary increases.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA
(Dollar amounts in thousands)

District of Columbia Teachers' Retirement Plan

Valuation Date	Number	Annual Payroll	Annual Average Pay	% increase in Average Pay
October 1, 2012	4,495	$381,235	$85	4.72%
October 1, 2011	4,747	$384,455	$81	13.96%
October 1, 2010	4,749	$337,516	$71	-2.85%
October 1, 2009	4,601	$336,600	$73	-1.78%
October 1, 2008	4,821	$359,100	$74	49.84%
October 1, 2007	5,027	$249,900	$50	-21.52%
October 1, 2006	5,088	$322,300	$63	10.96%
October 1, 2005	5,707	$325,800	$57	-6.27%

Police Officers' Portion of the District of Columbia Police Officers and Firefighters' Retirement Plan

Valuation Date	Number	Annual Payroll	Annual Average Pay	% increase in Average Pay
October 1, 2012	3,810	$291,780	$77	-1.26%
October 1, 2011	3,775	$292,785	$78	2.29%
October 1, 2010	3,915	$296,837	$76	-2.05%
October 1, 2009	4,014	$310,700	$77	0.78%
October 1, 2008	3,928	$301,700	$77	13.12%
October 1, 2007	3,844	$261,000	$68	1.52%
October 1, 2006	3,747	$250,600	$67	1.96%
October 1, 2005	3,741	$245,400	$66	18.13%

Firefighters' Portion of the District of Columbia Police Officers and Firefighters' Retirement Plan

Valuation Date	Number	Annual Payroll	Annual Average Pay	% increase in Average Pay
October 1, 2012	1,700	$123,097	$72	0.69%
October 1, 2011	1,786	$128,436	$71	1.51%
October 1, 2010	1,793	$127,017	$70	0.22%
October 1, 2009	1,774	$125,400	$70	2.08%
October 1, 2008	1,733	$120,000	$69	7.10%
October 1, 2007	1,706	$110,300	$64	-2.83%
October 1, 2006	1,509	$100,400	$66	4.94%
October 1, 2005	1,481	$93,900	$63	14.14%

SCHEDULE OF MEMBERS ADDED TO AND REMOVED FROM ROLLS
(Dollar amounts in thousands)

		New Members Added		Members Removed			Rolls at End of Year			
Fiscal Year Ended	Plan	Number	Annual Allowances	Number	Annual Allowances	Changes due to Plan Amendments	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
9/30/2012	Teachers	204	$4,807	49	$594	$1,198	3,285	$47,407	12.88%	$14
	Fire/Police	234	$8,043	51	$557	$423	2,039	$43,430	22.23%	$21
9/30/2011	Teachers	226	$4,374	37	$490	$497	3,130	$41,996	12.73%	$13
	Fire/Police	326	$6,847	32	$238	$205	1,856	$35,530	23.72%	$19
9/30/2010	Teachers	203	$4,225	32	$337	$1,489	2,941	$37,254	16.76%	$13
	Fire/Police	127	$3,511	24	$208	$3,003	1,552	$28,717	27.04%	$19
9/30/2009	Teachers	406	$7,361	27	$281	($70)	2,770	$31,907	28.16%	$12
	Fire/Police	193	$2,639	108	$2,727	($563)	1,449	$22,605	-2.80%	$16
9/30/2008	Teachers	63	$939	36	$193	$429	2,391	$24,897	4.95%	$10
	Fire/Police	78	$5,349	28	$133	$(1,229)	1,364	$23,257	20.69%	$17
9/30/2007	Teachers	230	$3,564	41	$241	$2,879	2,364	$23,721	35.40%	$10
	Fire/Police	153	$3,180	45	$171	$2,476	1,314	$19,270	39.78%	$15
9/30/2006	Teachers	199	$2,935	39	$262	$582	2,175	$17,520	22.82%	$8
	Fire/Police	166	$2,892	15	$68	$550	1,207	$13,786	32.40%	$11
9/30/2005	Teachers	274	$3,714	22	$109	$412	2,015	$14,264	39.20%	$7
	Fire/Police	97	$1,814	23	$87	$413	1,056	$10,412	25.89%	$10
9/30/2004	Teachers	383	$3,433	96	$226	$43	1,763	$10,247	46.44%	$6
	Fire/Police	173	$1,864	485	$778	$354	982	$8,271	21.07%	$8

ANALYSIS OF FINANCIAL EXPERIENCE
(Dollar amounts in millions)

Gains and losses in accrued liabilities resulting from the difference between assumed experience and actual experience are as follows:

	$ Gain (or Loss) For Year Ending 10/1/2012	
Type of Activity	**District of Columbia Teacher's Retirement Plan**	**District of Columbia Police Officers and Firefighters' Retirement Plan**
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	$ (11.0)	$ 5.3
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.4)	7.8
Death-in Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(0.6)	1.4
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	9.9	(5.2)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(6.2)	168.6
New Members. Additional unfunded accrued liability will produce a loss.	(13.1)	(9.7)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(72.6)	(150.8)
Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	6.3	(0.6)
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(12.8)	27.0
Gain (or Loss) During Year From Financial Experience	$(100.5)	$ 43.8
Non-Recurring Items. Adjustments for plan amendments, assumption changes, or method changes.	(15.4)	0.1
Composite Gain (or Loss) During Year	$(115.9)	$43.9

VALUATION BALANCE SHEET

Present and Prospective Assets	District of Columbia Teachers' Retirement Fund	District of Columbia Police Officers and Firefighters' Retirement Fund
Actuarial value of present assets	$1,585,626,043	$3,804,853,391
Present value of future members' contributions	242,390,248	353,149,221
Present value of future employer contributions:		
Normal contributions	159,020,659	1,732,470,522
Unfunded accrued liability contributions	94,922,268	(347,879,736)
Total prospective assets	253,942,927	1,384,593,786
Total present and prospective assets	**$2,081,959,218**	**$5,542,596,398**
Actuarial Liabilities		
Present value of benefits payable on account of retired members and survivors of deceased members now drawing retirement benefits	$714,763,506	$808,891,647
Present value of prospective benefits payable on account of inactive members	105,078,823	41,090,804
Present value of prospective benefits payable on account of present active members:		
Service retirement benefits	1,113,660,955	4,244,540,739
Disability retirement benefits	30,262,069	297,549,773
Survivor benefits	16,571,521	82,380,518
Separation benefits	101,622,344	68,142,917
Total	1,262,116,889	4,692,613,947
Total Actuarial Liabilities	**$2,081,959,218**	**$5,542,596,398**

SOLVENCY TEST
(Dollar amounts in thousands)

	Aggregate Accrued Liabilities For*				Portion of Accrued Liabilities Covered by Actuarial Value of Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees, Survivors and Inactive Members	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
District of Columbia Teachers' Retirement Plan							
10/1/2006	$273,887	$624,110	$2,667,041	$3,482,600	100.0%	100.0%	100.0%
10/1/2007	$303,059	$805,475	$2,790,093	$4,068,900	100.0%	100.0%	100.0%
10/1/2008	$332,834	$851,489	$3,092,491	$4,379,700	100.0%	100.0%	82.5%
10/1/2009	$335,481	$995,361	$3,001,587	$4,493,400	100.0%	100.0%	80.4%
10/1/2010	$136,055	$622,253	$569,991	$1,570,968	100.0%	100.0%	97.6%
10/1/2011	$138,874	$718,884	$687,107	$1,573,654	100.0%	100.0%	70.3%
10/1/2012	$137,698	$819,842	$723,008	$1,503,346	100.0%	100.0%	75.5%
District of Columbia Police Officers and Firefighters' Retirement Plan							
10/1/2006	$273,887	$624,110	$2,667,041	$3,482,600	100.0%	100.0%	100.0%
10/1/2007	$303,059	$805,475	$2,790,093	$4,068,900	100.0%	100.0%	100.0%
10/1/2008	$332,834	$851,489	$3,092,491	$4,379,700	100.0%	100.0%	82.5%
10/1/2009	$335,481	$995,361	$3,001,587	$4,493,400	100.0%	100.0%	80.4%
10/1/2010	$211,961	$583,338	$2,371,531	$3,418,796	100.0%	100.0%	89.6%
10/1/2011	$224,928	$708,364	$2,376,533	$3,593,716	100.0%	100.0%	92.3%
10/1/2012	$235,924	$849,982	$2,371,070	$3,681,526	100.0%	100.0%	100.0%

*Prior to 10/1/2010, the results are shown in aggregate and were reported by the prior actuary.

STATISTICAL SECTION

SUMMARY

Introduction

The objective of the *Statistical Section* is to provide information to assist readers in understanding and assessing DCRB's overall financial condition when viewing the Financial Statements, Notes to the Financial Statements and Required Supplementary Information. The data presented throughout the section incorporates information from prior CAFRs, and is useful in evaluating how the condition of the Plans has changed over time.

Financial Trends

The financial trend schedules beginning on page 84 show financial information about the growth of DCRB's assets and provide a context for how DCRB's financial position has changed over the past 10 years. The financial trend schedules presented are:

- Changes of Net Assets
- Schedule of Investment Expenses
- Schedule of Administrative Expenses

Operating Information

The schedules beginning on page 90 provide data to further provide an understanding of the environment in which DCRB operates. The operating information presented include:

- Annual Salaries and Benefits
- Employer contribution
- Average Benefit by type
- Schedule of Retired Members by Benefit Type
- Participant Data

SCHEDULE OF CHANGES IN NET ASSETS
(Dollar amounts in thousands)

	2003	2004	2005	2006	2007
District of Columbia Teachers' Retirement Fund					
Additions					
Contributions:					
District Government	$ -	$ -	$ 9,200	$ 15,500	$ 14,600
District employees	26,047	26,283	24,778	25,807	26,793
Total Contributions	26,047	26,283	33,978	41,307	41,393
Net investment income/(loss)	121,326	102,890	137,333	120,114	217,731
Other income	-	-	-	-	740
Total Additions	147,373	129,173	171,311	161,421	259,864
Deductions					
Benefit payments	5,100	8,600	20,869	23,793	25,801
Refunds*	N.A.	N.A.	N.A.	N.A.	N.A.
Administrative expenses	978	942	2,210	1,010	2,901
Total Deductions	6,078	9,542	23,079	24,803	28,702
Changes in Net Assets	$141,295	$119,631	$148,232	$136,618	$231,162
District of Columbia Police Officers and Firefighters' Retirement Fund					
Additions					
Contributions:					
District Government	$ 68,900	$ 96,700	$112,100	$117,500	$140,100
District employees	19,867	20,847	23,804	25,142	27,489
Total Contributions	88,767	117,547	135,904	142,642	167,589
Net investment income/(loss)	180,790	165,374	235,515	212,089	400,433
Other income	-	-	-	-	1,383
Total Additions	269,557	282,921	371,419	354,731	569,406
Deductions					
Benefit payments	6,091	7,903	13,564	15,795	20,587
Refunds*	N.A.	N.A.	N.A.	N.A.	N.A.
Administrative expenses	1,501	1,537	3,789	1,817	5,421
Total Deductions	7,592	9,440	17,353	17,612	26,008
Changes in Net Assets	$261,965	$273,481	$354,066	$337,119	$543,397

*Refunds included in Benefit Payments prior to 2009.

SCHEDULE OF CHANGES IN NET ASSETS (Continued)
(Dollar amounts in thousands)

	2008	2009	2010	2011	2012
District of Columbia Teachers' Retirement Fund					
Additions					
Contributions:					
District Government	$ 6,000	$ -	$ -	$ -	$ -
District employees	25,919	24,907	29,940	27,739	28,639
Total Contributions	31,919	24,907	29,940	27,739	28,639
Net investment income/(loss)	(259,309)	(37,875)	125,756	44,364	190,002
Other income	990	793	695	616	672
Total Additions	(226,400)	(12,175)	156,391	72,719	219,313
Deductions					
Benefit payments	30,692	33,532	37,611	42,532	48,145
Refunds*	N.A.	5,316	3,374	4,060	5,514
Administrative expenses	2,919	2,340	2,327	2,885	2,880
Total Deductions	33,611	41,188	43,312	49,477	56,539
Changes in Net Assets	$(260,011)	$(53,363)	$113,079	$23,242	$162,774
District of Columbia Police Officers and Firefighters' Retirement Fund					
Additions					
Contributions:					
District Government	$ 137,000	$106,000	$132,300	$127,200	$116,700
District employees	31,718	29,900	31,607	30,474	30,398
Total Contributions	168,718	135,900	163,907	157,674	147,098
Net investment income/(loss)	(516,438)	(58,228)	270,277	81,973	452,881
Other income	1,952	1,680	1,555	1,435	1,584
Total Additions	(345,768)	79,352	435,739	241,082	601,563
Deductions					
Benefit payments	25,364	24,569	27,872	30,766	38,924
Refunds*	N.A.	1,611	1,974	1,913	1,534
Administrative expenses	5,750	4,904	5,145	6,678	6,718
Total Deductions	31,114	31,084	34,991	39,357	47,176
Changes in Net Assets	$(376,882)	$ 48,268	$400,748	$201,725	$554,387

*Refunds included in Benefit Payments prior to 2009.

SCHEDULE OF INVESTMENT EXPENSES

	2003	2004	2005	2006	2007
Investment Managers*	$4,526,156	$6,017,494	$7,950,600	$10,010,063	$11,585,638
Investment Administrative Expenses	N.A.	N.A.	N.A.	N.A.	N.A.
Investment Consultants	414,833	338,750	338,333	347,917	380,516
Investment Custodian	465,160	540,307	726,099	822,081	957,515
Total Investment Expenses	$5,406,149	$6,896,551	$9,015,032	$11,180,061	$12,923,669

*Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities.

** Investment Administrative Expenses not included prior to 2007

SCHEDULE OF INVESTMENT EXPENSES (Continued)

	2008	2009	2010	2011	2012
Investment Managers*	$14,299,838	$10,675,572	$11,979,562	$10,621,784	$7,115,929
Investment Administrative Expenses	650,278	735,424	789,928	873,896	1,010,770
Investment Consultants	494,500	531,241	454,896	334,353	685,742
Investment Custodian	485,384	319,107	254,227	285,415	210,439
Total Investment Expenses	$15,930,000	$12,261,344	$13,478,613	$12,115,448	$9,022,880

*Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities.

** Investment Administrative Expenses not included prior to 2007

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2003	2004	2005	2006	2007
Personnel services					
Salaries	$1,045,971	$1,138,702	$1,348,189	$2,386,718	$2,314,202
Fringe Benefits	147,123	160,101	206,533	380,237	417,026
Total Personnel Services	1,193,094	1,298,803	1,554,722	2,766,955	2,731,228
Non-Personnel Services					
Professional services:					
Legal Counsel	22,864	33,473	242,182	208,123	199,219
Auditing Services	46,182	46,182	48,532	51,620	54,371
Actuarial Services	25,225	51,661	46,799	46,149	78,084
Investment Advisors and Consultants	5,406,149	6,896,551	9,015,032	11,180,061	12,923,669
Consultants and Contracts	71,447	33,540	432,864	1,421,340	3,103,663
Office Supplies	97,326	95,279	143,955	101,676	117,832
Telephone	6,239	6,659	15,569	33,771	20,603
Rent	215,599	224,863	183,249	1,012,781	1,196,975
Office Support	38,336	37,494	9,584	214,813	184,963
Travel	75,791	87,641	111,396	87,815	96,054
Printing	16,859	13,977	33,297	56,167	40,579
Insurance	153,627	161,377	114,746	117,213	57,259
Postage	25,075	23,860	33,926	46,516	36,163
Dues and Membership	11,010	10,545	12,280	13,270	15,228
Depreciation	-	-	-	-	-
Furniture and Equipment	66,268	15,404	790,062	200,286	72,501
Total Non-Personnel Services	6,277,996	7,738,506	11,233,473	14,791,601	18,197,162
Total Administrative Expenses	$7,471,090	$9,037,309	$12,788,195	$17,558,556	$20,928,390

SCHEDULE OF ADMINISTRATIVE EXPENSES (Continued)

	2008	2009	2010	2011	2012
Personnel services					
Salaries	$2,757,520	$2,888,707	$3,262,848	$3,906,824	$4,113,863
Fringe Benefits	504,836	716,247	907,006	1,030,165	953,613
Total Personnel Services	3,262,356	3,604,954	4,169,854	4,936,989	5,067,476
Non-Personnel Services					
Professional services:					
Legal Counsel	341,083	246,282	36,902	30,198	292,089
Auditing Services	98,053	66,000	66,000	63,500	71,160
Actuarial Services	100,197	92,796	107,573	163,731	152,590
Investment Advisors and Consultants	12,392,908	11,138,012	12,233,789	10,907,200	7,753,310
Consultants and Contracts	2,763,644	2,371,368	2,329,026	2,867,022	3,069,219
Office Supplies	130,619	119,979	119,814	166,396	156,612
Telephone	32,673	16,791	12,696	14,274	48,484
Rent	1,282,134	1,378,513	1,418,772	1,444,127	1,465,447
Office Support	101,728	60,080	113,747	67,712	1,236
Travel	89,320	66,767	45,397	38,063	148,224
Printing	56,551	19,110	34,867	35,408	33,002
Insurance	119,921	110,853	130,761	128,637	121,311
Postage	54,721	73,262	9,880	37,641	29,103
Dues and Membership	17,007	59,861	51,136	37,201	26,482
Depreciation	-	18,278	6,328	6,328	6,328
Furniture and Equipment	99,779	62,990	65,075	733,918	179,372
Total Non-Personnel Services	17,680,338	15,900,942	16,781,763	16,741,356	13,553,969
Total Administrative Expenses	$20,942,694	$19,505,896	$20,951,617	$21,678,345	$18,621,445

SCHEDULE OF ANNUAL SALARIES AND BENEFITS
(Dollar amounts in millions)

	Annual Salaries of Active Members			Annual Retirement Benefits for Retirees & Beneficiaries		
Fiscal Year	Teachers	Police Officers and Fire Fighters	Total	Teachers	Police Officers and Fire Fighters	Total
2012	$381	$415	$796	$47	$43	$90
2011	384	421	805	42	36	$78
2010	338	424	762	37	29	65
2009	337	436	773	32	22	54
2008	359	422	781	25	22	47
2007	349	371	720	24	19	43
2006	322	351	673	16	13	29
2005	326	339	665	14	10	24
2004	339	288	627	11	8	19
2003	339	275	614	7	7	14

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Dollar amounts in millions)

Year Ending	Teachers' Retirement Fund		Police Officers' and Firefighters' Retirement Fund		Total Fund	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
September 30, 2012	$ -	100%	$ 116.7	100%	$116.7	100%
September 30, 2011	-	100%	127.0	100%	127.0	100%
September 30, 2010	-	100%	132 .3	100%	132.3	100%
September 30, 2009	-	100%	106 .0	100%	106 .0	100%
September 30, 2008	6.0	100%	137 .0	100%	143 .0	100%
September 30, 2007	14.6	100%	140 .1	100%	154.7	100%
September 30, 2006	15.5	100%	117.5	100%	133.0	100%
September 30, 2005	9.2	100%	111.6	100%	120.8	100%
September 30, 2004	-	100%	96.2	100%	96.2	100%
September 30, 2003	-	100%	68.9	100%	68.9	100%

SCHEDULE OF AVERAGE BENEFIT BY TYPE

District of Columbia Teachers' Retirement Plan

		Years of Credited Service					
Retirement Effective Dates		5-9	10-14	15-19	20-24	25-30	30+
	Average Monthly Benefit	$951	$1,637	$2,631	$3,333	$4,025	$5,406
2012	Average Final Average Salary	$76,185	$82,578	$90,729	$93,622	$94,547	$96,692
	Number of Active Recipients	19	17	8	47	33	62
	Average Monthly Benefit	$947	$1,628	$2,361	$3,097	$3,774	$5,216
2011	Average Final Average Salary	$80,717	$82,641	$84659	$89,318	$90,961	$93,310
	Number of Active Recipients	11	16	17	46	39	65
	Average Monthly Benefit	-	-	-	-	-	-
2010	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2009	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2008	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2007	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2006	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2005	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2004	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2003	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-

Information prior to fiscal year 2011 not available at the time of this report.

SCHEDULE OF AVERAGE BENEFIT BY TYPE

District of Columbia Police Officers and Firefighters' Retirement Plan

		Years of Credited Service					
Retirement Effective Dates		**5-9**	**10-14**	**15-19**	**20-24**	**25-30**	**30+**
	Average Monthly Benefit	$1,795	$2,686	$4,404	$3,622	$5,409	$6,504
2012	Average Final Average Salary	$46,574	$65,588	$74,368	$78,462	$92,618	$96,968
	Number of Active Recipients	3	2	3	4	96	38
	Average Monthly Benefit	$2,195	$25,164	$3,048	$3,090	$5,600	$6,679
2011	Average Final Average Salary	$61,882	$66,531	$78,270	$82,825	$95,099	$99,070
	Number of Active Recipients	8	4	3	19	104	33
	Average Monthly Benefit	-	-	-	-	-	-
2010	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2009	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2008	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2007	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2006	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2005	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2004	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-
	Average Monthly Benefit	-	-	-	-	-	-
2003	Average Final Average Salary	-	-	-	-	-	-
	Number of Active Recipients	-	-	-	-	-	-

Information prior to fiscal year 2011 not available at the time of this report.

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT AND OPTION SELECTED

District of Columbia Teachers' Retirement Plan

Amount of Monthly Benefit	Number of Members by Type of Retirement								Number of Members by Option Selected				
	A	B	C	D	E	F	G	Total	1	2	3	4	Total
$1-250	12	0	0	0	14	2	2	30	12	0	0	0	12
251-500	57	0	0	0	8	6	0	71	51	6	0	0	57
501-750	76	0	0	0	18	12	0	106	67	9	0	0	76
751-1,000	64	0	0	4	10	8	1	87	46	17	5	1	69
1,001-1,250	52	0	0	2	19	16	1	90	41	12	2	0	55
1,251-1,500	62	0	0	1	37	21	0	121	47	15	1	0	63
1,501-1,750	94	0	0	4	33	10	0	141	71	19	6	2	98
1,751-2,000	118	0	0	7	30	5	0	160	105	17	3	0	125
2,001-3,000	835	0	0	27	99	6	0	967	693	166	4	0	863
3,001-4,000	1,971	0	0	14	21	3	0	2,009	1,520	456	7	2	1,985
4,001-5,000	1,365	0	0	1	2	0	0	1,368	1,098	265	4	0	1,367
5,001-6,000	474	0	0	0	1	0	0	475	363	111	1	0	475
6,001-7,000	128	0	0	0	0	0	0	128	106	22	0	0	128
7,001-8,000	36	0	0	0	1	0	0	37	33	3	0	0	36
8,001-9,000	11	0	0	0	0	0	0	11	10	1	0	0	11
9,001-10,000	2	0	0	0	0	0	0	2	0	1	0	0	1
over $10,000	1	0	0	0	0	0	0	1	1	1	0	0	2
Total	5,358	0	0	60	293	89	4	5,804	4,264	1,121	33	5	5,423

Type of Retirement:

A - Retired From Affiliate or Resignation

B - Termination - Early Involuntary

C - Partial Total Disability

D - Disabled not in the Line of Duty

E - Survivor of a Retired Teacher

F - Survivor of a Active Teacher

G - Qualified Domestic Relations Order

Option Selected:

1 - Unreduced Annuity

2 - Reduced Annuity with Survivor Option

3 - Reduced Annuity with Life Insurance Benefit

4 - Reduced Annuity with Insurable Interest

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT AND OPTION SELECTED

District of Columbia Police Officers and Firefighters' Retirement Plan

Amount of Monthly Benefit	Number of Members by Type of Retirement							
	A	B	C	D	E	F	G	Total
$1-250	0	0	0	0	3	0	1	4
251-500	3	0	0	0	50	2	2	57
501-750	4	0	1	0	2	0	10	17
751-1,000	3	0	0	1	7	0	9	20
1,001-1,250	1	0	0	0	4	0	10	15
1,251-1,500	13	0	0	1	1	0	11	26
1,501-1,750	11	0	15	1	19	0	9	55
1,751-2,000	46	0	24	13	198	1	8	290
2,001-3,000	326	0	147	37	1,177	1	15	1,703
3,001-4,000	1,247	0	553	13	155	2	2	1,972
4,001-5,000	1,114	0	244	4	34	5	1	1,402
5,001-6,000	658	0	71	2	10	0	0	741
6,001-7,000	398	0	22	0	3	1	0	424
7,001-8,000	199	0	5	0	1	0	0	205
8,001-9,000	88	0	5	0	0	0	0	93
9,001-10,000	42	0	2	0	0	0	0	44
over $10,000	83	0	2	0	0	0	0	85
Total	4,236	0	1,091	72	1,664	12	78	7,153

Type of Retirement:

A - Retired From Affiliate or Resignation
B - Termination - Early Involuntary
C - Partial Total Disability
D - Disabled not in the Line of Duty
E - Survivor of a Retired Police Officer or Firefighter
F - Survivor of a Active Police Officer or Firefighter
G - Ex-Spouse (Qualified Domestic Relations Order)

SCHEDULE OF PARTICIPANT DATA

	Active			Retired Members, Beneficiaries, Disabled			
Fiscal Year	Teachers	Police Officers and Firefighters	Subtotal	Teachers	Police Officers and Firefighters	Subtotal	Total
2012	4,495	5,510	10,005	3,285	2,039	5,324	15,329
2011	4,747	5,561	10,308	3,130	1,856	4,986	15,294
2010	4,749	5,708	10,457	2,941	1,552	4,493	14,950
2009	4,601	5,788	10,389	2,770	1,449	4,219	14,608
2008	4,821	5,661	10,482	2,391	1,364	3,755	14,237
2007	5,027	5,550	10,577	2,364	1,314	3,678	14,255
2006	5,088	5,256	10,344	2,175	1,207	3,382	13,726
2005	5,707	5,222	10,929	2,015	1,056	3,071	14,000
2004	5,564	5,186	10,750	1,763	982	2,745	13,495
2003	6,145	4,971	11,116	1,476	1,294	2,770	13,886

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