



Department of the Treasury
Office of D.C. Pensions

Fiscal Year 2010 Annual Report



District of Columbia Pensions Program

MESSAGE FROM THE DIRECTOR

November 2010

On behalf of the Office of D.C. Pensions, I am pleased to present the Fiscal Year 2010 Annual Report, which highlights significant program results for this year and plans for upcoming years.

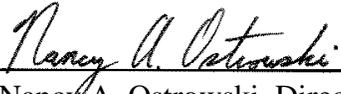


Pursuant to the Balanced Budget Act of 1997, as amended, the Office of D.C. Pensions is responsible for carrying out the Secretary of the Treasury's responsibility to fund and administer the District of Columbia Judges' Retirement Plan and the federal portion of the District of Columbia Teachers', and Police Officers' and Firefighters' Retirement Plans. As of September 30, 2010, the District of Columbia Judicial Retirement and Survivors Annuity Fund, and the District of Columbia Federal Pension Fund held assets totaling \$4.0 billion. During FY 2010, the Office of D.C. Pensions paid \$528 million in federal benefit payments to approximately 13,700 annuitants and refunds of employee contributions totaling \$0.4 million were made to former active employees or their beneficiaries.

During fiscal year 2010, the Office of D.C. Pensions increased its focus on oversight and management of the D.C. Pensions Program. To accomplish this, the Office continued to expand its quality program to increase its review over certain types of benefit payments; executed its System to Administer Retirement (STAR) long-term architectural plan by implementing critical hardware and database upgrades; ensured compliance with federal requirements by successfully renewing the STAR system security certification and accreditation; implemented significant STAR user enhancements; made significant progress in the reconciliation of past District Benefit Payments; and provided successful stewardship of pension funds.

For the 12th consecutive year, an independent public accounting firm rendered an unqualified opinion on the fiscal year 2010 financial statements of the Office of D.C. Pensions. This was accomplished through our partnership with the District of Columbia Retirement Board, the Bureau of the Public Debt, and other Department of the Treasury and District entities. Through the same partnership, the Office has begun addressing the control deficiencies identified in the auditor's report and establishing corrective action plans.

The Office of D.C. Pensions continues to identify activities to support long-term strategic focus areas that will uphold the Office's goals and objectives to provide successful stewardship of the pension funds, high quality benefit administrative services and effective use of resources. Identifying these focus areas will provide quality service to the annuitants through strong partnerships with all entities supporting the D.C. Pensions Program.


Nancy A. Ostrowski, Director
Office of D.C. Pensions
Department of the Treasury

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Part 1: Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2010

Vision:

The vision of the Office of D.C. Pensions is successful stewardship of the pension funds; high quality benefits administration services; and effective use of program resources, while fostering mutually beneficial relationships with our business partners at the District of Columbia, the Bureau of the Public Debt, and other Treasury entities.

Mission:

The mission of the Office of D.C. Pensions is to implement the Secretary's responsibilities under Title XI of the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251, 712), as amended. The responsibilities are to make timely and accurate benefit payments associated with the District of Columbia retirement programs for police officers and firefighters, teachers and judges by managing investments, providing oversight and program management, and ensuring funding is available for future payments.

I. Introduction

A. *Statutory Basis and Responsibilities*

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (the District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan, and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers, and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, the Department of the Treasury's (Treasury) Office of D.C. Pensions (the Office) engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and program management. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

All benefit payments that are the responsibility of the Treasury under the District retirement programs are referred to herein as Federal Benefit Payments. All benefit payments to which an individual is entitled under the District of Columbia Replacement Plan (pertaining to police officers, firefighters, and teachers based upon service accrued after June 30, 1997) are referred to as District Benefit Payments. Benefits partially paid by Treasury and partially paid by the District of Columbia are referred to as split benefits.

B. Organizational Structure and Staffing

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR). The DASHR reports to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

The Office structure consists of three key functional areas: benefits and systems administration, finance and resource administration, and program management.

- **Benefits and Systems Administration:** The Office provides oversight of the benefit administration functions for certain District of Columbia retirement plans. The Office also operates and maintains the System to Administer Retirement (STAR), an automated pension/payroll system, in support of benefits administration. Approximately \$591 million in Federal and District Benefit Payments were made to 13,828 annuitants as of September 30, 2010.
- **Finance and Resource Administration:** The Office is responsible for financial and administrative activities related to the benefit administration functions it oversees. The Office manages and accounts for net investments in Government Account Series (GAS) securities in the federal pension funds totaling approximately \$4.0 billion as of September 30, 2010. The Office also performs an annual actuarial valuation to determine the pension liability of the retirement programs and the annual contribution from the Treasury General Fund into the District of Columbia Teachers, Police Officers and Firefighters Federal Pension Fund (D.C. Federal Pensions Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund).
- **Program Management:** The Office provides oversight of its responsibilities through special project management and a quality assurance program, which ensures internal program areas and Treasury/District stakeholders meet quality standards.

As of September 30, 2010, 21 Treasury positions were funded from the D.C. Federal Pensions Fund and the Judicial Retirement Fund. In addition, the Office funds and receives support from other Treasury offices, the Office of General Counsel, and the Procurement Services Division.

Pursuant to a reimbursable services agreement, Treasury's Bureau of the Public Debt (BPD), Administrative Resource Center (ARC), performs: systems administration and hosting for the automated pension/payroll system, accounting, and annuity payroll services.

Since September 26, 2005, the District of Columbia Retirement Board (DCRB) serves as the interim benefits administrator for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The Office reimburses DCRB for expenses associated with administering the Federal Benefit Payments. Also, as of that date, the Office assumed benefit administration responsibility for the Judges' Retirement Plan.

II. Executive Summary

During Fiscal Year (FY) 2010, the Office of D.C. Pensions (the Office) successfully worked with the District of Columbia Retirement Board (DCRB), Treasury's Bureau of the Public Debt (BPD), and other Treasury entities to carry out its responsibilities under the provisions in Title XI of the Balanced Budget Act of 1997, as amended.

As part of the Office's increased focus on oversight and management, the Office continued a series of STAR User Forums designed for end-users to discuss and share pension and payroll-related matters and recommend process improvements. During FY 2010, user initiated enhancements were implemented. These changes reduced data entry keystrokes and eliminated redundant data entry. These modifications were proposed, tested and evaluated by end-users and the response to the implementation has been overwhelmingly successful.

The Office developed a System to Administer Retirement (STAR) long-term architecture plan in FY 2009. Implementation of the plan continued during FY 2010 with a replacement of all existing hardware, and it also included a STAR database upgrade to Oracle 11g. The new database version is needed to support a FY 2011 Oracle/PeopleTools 8.5 software upgrade and an Oracle/PeopleSoft 9.1 application upgrade in FY 2012. The STAR long-term architecture plan will be updated in FY 2011 to prepare for the next three to five years.

In addition, the Office worked with the BPD IT Team to renew the STAR system security certification and accreditation (C&A) ensuring compliance with Federal system security requirements. The STAR system received the "authorization to operate" from the Office's management.

During FY 2010, the Office continued to work closely and met regularly with DCRB and the District to inform all parties of the previously agreed upon Reconciliation requirements and to keep them updated on the progress of the project.

The Office provided successful stewardship of the pension funds, high quality benefit administration services and effective use of resources through relationships with DCRB and BPD. For the 12th consecutive year, the Office received an unqualified audit opinion.

In FY 2011, the Office plans to continue to identify activities to support long-term strategic focus areas, the expansion of its oversight and quality program related to benefits, payroll, and system operations. The Management Discussion and Analysis provides more details about the FY 2010 program results and plans for future years.

III. Strategic Goals, Objectives, Outcomes, and Performance Measures

The Office of D.C. Pensions (the Office) has three Strategic Goals that contribute to the achievement of two of the Department of the Treasury's (Treasury) Strategic Goals.

1. Office Strategic Goal: Effectively Managed Finances

Office Outcomes:

- Benefit payments are accurate and timely
- Pension funds are effectively invested
- Pension funds are effectively financed
- Pension funds meet future needs

Treasury Strategic Goal: Effectively Managed U.S. Government Finances

2. Office Strategic Goal: Management and Organizational Excellence

Office Outcomes:

- Program is effectively managed

Treasury Strategic Goal: Management and Organizational Excellence

3. Office Strategic Goal: Effective Quality Assurance Program

Office Outcomes:

- Program creates continuous improvement

Treasury Strategic Goal: Management and Organizational Excellence

The following table displays the Office's Strategic Goals, Objectives and Outcomes with a link to the two Treasury Strategic Goals. It also identifies the Office's Performance Measures and Results.

Office of D.C. Pensions Strategic Goals, Objectives, Outcomes, and Performance Measures

Fiscal Years 2010 – 2012				Fiscal Year 2010	
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Strategic Objective	ODCP Strategic Goal	ODCP Strategic Objective	ODCP Outcomes	ODCP Performance Measure
Effectively Managed U.S. Government Finances	Cash resources are available to operate the government	Effectively Managed Finances	Skilled staff and technology are available to administer benefits	Benefit payments are accurate and timely	New annuitant benefit calculation error rate Target: 5% or less Actual: 6.62%
					STAR is available to users Target: 98% or more Actual: 99.8%
				Pension funds are effectively invested	Investment strategy developed timely Target: Third week of September Actual: September 16, 2010
			Investment strategy implemented timely Target: 100% Actual: 100%		
			Minimum daily cash balance equivalent to two months of benefit payments Target: 100% Actual: 99.9%		
			Pension funds are effectively financed	Annual Contribution from General Fund received into the D.C. Federal Pension and Judicial Retirement Funds Target: September 30, 2010 Actual: September 23, 2010	

Fiscal Years 2010 – 2012					Fiscal Year 2010
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Strategic Objective	ODCP Strategic Goal	ODCP Strategic Objective	ODCP Outcomes	ODCP Performance Measure
Effectively Managed U.S. Government Finances (continued)	Cash resources are available to operate the government (continued)	Effectively Managed Finances (continued)	Skilled staff and funds are available to manage financial activities (continued)	Pension funds are effectively financed (continued)	Monthly payments made to annuitants by the first business day of the month Target: 100% Actual: 100%
					Electronic payments made to annuitants Target: 95% Actual: 94.9%
					Vendor payments made timely Target: 100% Actual: 99.2%
				Pension funds meet future needs	Actuarial calculation of annual contribution from General Fund prepared timely Target: November 16, 2009 Actual: October 29, 2009
Management and Organizational Excellence	Enabled and effective Treasury Department	Management and Organizational Excellence	Skilled staff and management tools are available	Program is effectively managed	Office employees received timely annual performance plans and quarterly reviews Target: 100% Actual: 100%
					Financial Statement Audit Opinion received from an independent external auditor Target: Unqualified opinion Actual: Unqualified opinion

Fiscal Years 2010 – 2012					Fiscal Year 2010
Treasury Goals and Objectives		ODCP Strategic Goals, Objectives, and Outcomes			ODCP Performance Measures
Treasury Strategic Goal	Treasury Strategic Objective	ODCP Strategic Goal	ODCP Strategic Objective	ODCP Outcomes	ODCP Performance Measure
Management and Organizational Excellence (continued)	Enabled and effective Treasury Department (continued)	Management and Organizational Excellence (continued)	Skilled staff and management tools are available (continued)	Program is effectively managed (continued)	Annual Report and Financial Statements prepared timely Target: December 15, 2009 Actual: November 16, 2009
					Open financial management material weaknesses or corrective actions as of September 30 Target: 0 Actual: 0
		Actuarial valuation completed timely Target: November 16, 2009 Actual: October 29, 2009			
		Effective Quality Assurance Program	Quality plans are operational in each area	Program creates continuous improvement	Quality assurance plans developed by October 1 Target: 100% Actual: 100%

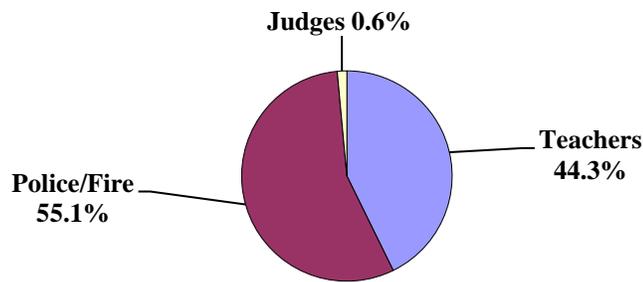
A. *Benefit payments are accurate and timely*

1. Program Results

a. Benefits Administration

General Operations

Benefits administration services were provided to 13,828 annuitants, as of September 30, 2010, in three District of Columbia retirement plans: the Police Officers’ and Firefighters’ Retirement Plan, the Teachers’ Retirement Plan, and the Judges’ Retirement Plan. The annuitant population within each plan is as follows: teachers, 6,129; police officers and firefighters, 7,617; and judges, 82.



In FY 2010, the monthly Federal and District Benefit Payments averaged \$49.3 million, which is \$0.8 million higher than the previous year. During the year, all payment files were submitted on time ensuring timely payment of annuitant benefits by the first business day of the month. With oversight and support by the Office of D.C. Pensions (the Office), the District of Columbia’s Retirement Board (DCRB) performed benefits administration services for the Police Officers’ and Firefighters’ Retirement Plan and the Teachers’ Retirement Plan, while the Office performed benefits administration for the Judges’ Retirement Plan.

General operations focus largely on transaction processing and customer service activities. On a monthly basis, the transaction processing represents a variety of activities from processing new retirements and/or survivor benefits, to terminating those no longer eligible, and to updating annuitants’ personal and benefits information.

FY 2010 Average Monthly Processing in Key Areas	
Customer Service Activity	Monthly Volume
New Retirements	29
Beneficiaries/Estates	17
Purchase of Service	3
Direct Deposit Changes	50
New Survivors	10
Qualified Domestic Relations Orders (QDRO)	1
Refunds	29
Tax Changes	156

Equally important to transaction processing is customer service. The DCRB customer service team performed a wide range of activities, including resolving annuitant inquiries.

In FY 2010, the average monthly support from the customer service team included:

- Answering Calls – 1,219 per month
- Servicing Walk-ins – 50 per month

The Office encourages annuitants to receive benefits through direct deposit. Direct deposit is a more convenient, secure and timely method of delivering benefits. At fiscal year end, the Electronic Funds Transfer (EFT) participation rate for annuitants in all retirement plans was 94.9%, resulting in a 0.4% increase from the previous year. The table below illustrates the EFT participation rates for annuitants by retirement plan.

Percentage of EFT Participation		
Annuitants	2010	2009
Police/Fire	93.9%	93.6%
Teachers	96.1%	95.6%
Judges	98.8%	98.7%

In FY 2010, a variety of outreach efforts provided accurate and timely information to annuitants, including:

- Letters notifying annuitants when their benefits changed
- Earning statement messages alerting annuitants to changes (*such as a cost-of-living adjustment*) or opportunities (*e.g., signing up for direct deposit*)
- DCRB newsletter (*which provides important plan information for active and retired police officers, firefighters, and teachers*)

Annuitant Satisfaction

In FY 2010, DCRB continued to reach out to annuitants for feedback regarding customer satisfaction. The annuitant survey form asked participants to rate the patience, professionalism, knowledge, responsiveness, and courteousness of the person with whom the annuitant spoke. In addition, the survey asked how satisfied the caller was with the process, their overall experience with the Member Services Center, their wait time, and their perception of the customer service representatives' ability to understand their issue and help them. Ratings range from 1 (excellent) to 5 (poor). Responses from the annuitants surveyed indicated that the services provided were excellent.

Annuitant Payroll Operations

Treasury's Bureau of the Public Debt, Administrative Resource Center (BPD/ARC) provides a variety of services to the Office including annuitant payroll operations, mail management, and split benefits reporting.

BPD/ARC utilizes the System to Administer Retirement (STAR), the automated pension/payroll system that supports benefits administration and payroll operations, to process monthly Federal and District Benefit Payments. BPD/ARC works closely with DCRB to process monthly annuity payments and associated insurance carrier payments. BPD/ARC is responsible for reconciling the payroll reports generated from STAR to ensure the retirement payroll is processed correctly. In FY 2010, BPD/ARC staff made 165,136 benefit payments totaling approximately \$591 million for a monthly average of nearly \$49.3 million.

BPD/ARC also provides mail management support to ensure that monthly earnings statements and other annuitant communications are distributed in an efficient and timely manner. In FY 2010, BPD/ARC issued approximately 180,000 earnings statements and letters to approximately 13,828 annuitants.

BPD/ARC is responsible for reporting the share of Federal and District Benefit Payments. This information calculated by STAR and is included in the Split Reimbursement Summary Report (SRSR). BPD/ARC completes the preparation of the SRSR, reconciles the report to monthly STAR payment activity, and makes adjustments to the report to account for non-STAR activities, such as debt collection. This report supports the reimbursement to Treasury from DCRB for District Benefit Payments.

Special Benefit Administration Projects

Annuitant Verification Project

During FY 2010, the Office continued its Annuitant Verification Project to identify, reduce, and recapture erroneous retirement benefit payments issued after the death of an annuitant. As part of this project, the Office contacted 410 annuitants to confirm that retirement benefit payments were received by the intended recipients. As a result of this project, the Office was able to confirm that 99.8% of the 410 benefit payments were received by the intended recipients.

The project, which was initiated in FY 2009, aligns with the objectives set forth by the President in Executive Order 13520 of November 20, 2009, and the President's Memorandum related to Enhancing Payment Accuracy dated June 18, 2010. In FY 2011, the Office will continue its efforts to reduce erroneous payment by establishing the Annuitant Verification Project as a recurring activity.

Electronic Funds Transfer

During FY 2010, the Office continued its efforts to increase participation in Electronic Funds Transfer (EFT) realizing a slight increase in participation from 94.5% in FY 2009, to 94.9% in FY 2010. In addition to promoting the use of EFT throughout the year, the Office reviewed EFT statistics and trends to identify areas for improvement. In FY 2011, the Office will focus its efforts on increasing EFT enrollments for new annuitants.

D.C. Survivor Legislation

The “Retired Police Annuity Amendment Act of 2008” improved retirement benefits related to the death of a D.C. police officer or firefighter. The legislation (A17-0625) passed Congress on March 21, 2009, and was retroactive to January 1, 2009.

Before enactment of the legislation, the commencement date of an annuity for a survivor was the first of the month in which the retired police officer or firefighter died. The legislation shifted the commencement date for the survivor annuity forward to the first day after the retiree’s date of death. This results in an increased payment to the retiree’s beneficiary and a decreased payment to the survivor for the month of the retiree’s death. The increase in retirement benefits resulting from this legislation is the full responsibility of the District.

STAR was updated October 28, 2009, to make future survivor and beneficiary payments in accordance with the new legislation. The cost for implementing the legislation in STAR was also the full responsibility of the District. Once STAR was updated, the Office conducted a project to determine amounts owed to the 94 affected beneficiaries whose benefit payments were processed before October 28, 2009.

Scanning Retirement Benefit Records

DCRB is in the process of implementing a document imaging and workflow management system for retirement benefit records with support from the Office. The scanning project will enable more reliable preservation of retirement records and provide immediate access of retirement records at the user’s desktop. The first phase of this project involved scanning 3.4 million images for retirement records dating over many decades.

DCRB completed the scanning of all participant case files and is now in the process of scanning additional documents that accumulated as the older files were being scanned. This activity is expected to be completed early in FY 2011. In addition, by the end of the first quarter of FY 2011, all scanned documents will be indexed and a quality review will be performed. The final phase of the project is expected to begin during the second quarter of FY 2011 and will consist of implementing workflows to route scanned images to the next appropriate destination within the benefit determination process.

Paperless Earnings Statements

The Office continues to look for new and innovative ways to cut spending. In FY 2011, the Office will explore options for delivering paperless earnings statements as a means of reducing associated printing and mailing costs. As a result of this project, the Office expects to be able to provide annuitants with the option of receiving earnings statements via mail or electronically.

STAR Training Tools Assessment

The Office has developed STAR training tools to assist users perform benefit administration activities. Currently, these training tools include a combination of computer-based training, on-line help, and training manuals and additional documentation. In FY 2011, the Office will be performing an assessment of the performance of these training tools and delivery methods.

b. System to Administer Retirement (STAR)

General Overview

STAR is an automated pension/payroll system. Developed by the Office in cooperation with the District, STAR supports the end-to-end business processes for retirement, streamlines the administration and payment of pension benefits to annuitants, and enhances customer service. STAR enables pension analysts to quickly access information and provide annuitants with real-time customer service. In addition to processing retirements, STAR calculates the share of Federal and District Benefit Payments.

STAR is based on Oracle/PeopleSoft's off-the-shelf software for human resources, pensions, and payroll administration. The STAR implementation was phased and deployed in bundles known as releases.

- Release 1 of STAR was implemented in December 2002 to serve all annuitants of the Judges' Retirement Plan.
- Release 2 of STAR was implemented in September 2003 to serve teachers, police officers, and firefighters who retired on or before June 30, 1997, and their survivors.
- Release 3 of STAR, which supported annuitants who retired on or after July 1, 1997, including newly retired teachers, police officers and firefighter retirees, and their subsequent survivors, was deployed in August 2005.
- Release 4 of STAR started the implementation of the split benefit calculation to enable STAR to calculate the federal and District share (split) for benefit payments. Release 4 was implemented in June 2007 to calculate the split for future payments to those annuitants who were brought into pay status on or after June 4, 2007. This release also included an upgrade of Oracle/PeopleSoft from version 8.0 to 8.9.
- Release 5 of STAR was implemented in November 2007 and completed the implementation of the split benefit calculation.

The split benefit calculation involved three phases of work. These phases were implemented with STAR Releases 4 and 5 as follows:

- Phase 1 was deployed as an integral part of STAR Release 4. It enabled STAR to calculate the split benefits for annuitants brought into pay status beginning in June 2007.
- Phase 2 was completed as part of STAR Release 5. The split was calculated for future benefit payments to annuitants whose initial retirement processing took place in STAR between August 2005 and June 2007.
- Phase 3 was completed as part of Release 5 and calculated the split for the future benefit payments to annuitants who retired after June 30, 1997, and whose initial retirement processing took place in the District's legacy system, PAPS or Pension Administration and Payroll System. These annuitants were converted into STAR in August 2005 as part of Release 3.

STAR Technical Production Support and Hosting

System hosting and technical production support for STAR is performed by Treasury's Bureau of the Public Debt (BPD). Since September 2003, BPD staff members have provided production support activities, including routine system operations, application and database administration, help desk operations, and problem resolution. In FY 2010, STAR was available to the user population 99.84% of the time. A supplemental support contract is also in place to provide assistance to BPD in both operations and maintenance activities.

STAR System Security

In FY 2010, the STAR system renewed its third security Certification and Accreditation (C&A). The C&A is a process that ensures that systems and major applications adhere to formal and established security requirements that are well documented and authorized. A C&A is required by the Federal Information Security Management Act (FISMA). All systems and applications that reside on U.S. government networks must go through a formal C&A before being put into production, and every three years thereafter. The certification effort is the comprehensive and continual testing and evaluation of the management, operational, and technical controls of an IT system. The accreditation is the official management authorization to operate an IT system and to explicitly accept the risk to agency operations, agency assets, or individuals based on the implementation of security controls. As part of continuous monitoring, a Security Test and Evaluation (ST&E) is required to be conducted annually in years when a C&A is not conducted. The ST&E is also performed to satisfy federal requirements that executive agencies periodically review the security controls in their information systems.

In preparation for the C&A, the Office reviewed the results of previous ST&Es and began a STAR System Security Improvement Project (SSIP). The objective of this project was to address any potential security vulnerabilities identified in the ST&E reports and to improve the quality of STAR security documentation.

During FY 2010, the STAR Security Management program was developed within the Office to monitor the resolution of a plan of action, milestones, and any audit findings around the STAR system. In addition, the program oversees changes to the STAR hardware configuration, access levels, and system upgrade needs. The implementation of the program has enabled the Office to be more proactive in resolving STAR security issues.

STAR Long-Term Architectural Plan

In FY 2009, the Office developed a long-term architecture implementation plan to enable management to ensure the system architecture continues to meet business goals and objectives. Phase 1 of the STAR long-term architectural plan delineates the STAR upgrade path for FY 2009 to FY 2011. The implementation of the plan began in FY 2009 and continued during FY 2010 with a replacement of the hardware. The hardware replacement also included a STAR database upgrade to Oracle 11g. The new database version is needed to support a FY 2011 Oracle/PeopleTools 8.5 software upgrade and an Oracle/PeopleSoft 9.1 application upgrade in FY 2012. Additional software upgrades will be needed in future years to maintain vendor support. Phase 2 of the STAR long-term architecture plan will be developed in FY 2011 to prepare for the next three to five years.

Operational Process Improvements and Enhancements

A program review of STAR technical support was completed in early FY 2010. The program review identified opportunities for process improvements and efficiencies in the areas of STAR requirements management, configuration management, and testing. The Operational Process Improvements and Enhancements (OPIE) project began in FY 2010 to address the recommendations from the program review to minimize overall operational risks to the STAR system by improving technical support processes and procedures..

In FY 2011, the OPIE project will continue to address the areas of configuration management, release management and testing. The Office will begin to look at development standards, requirements management, metrics and quality measures.

STAR Contingency Plan

The Office has established a STAR Contingency Plan to address potential disruptions in service. As required by the plan, the Office routinely conducts contingency site tests to verify the accuracy and integrity of the data and functionality of the contingency system. The required annual contingency test for FY 2010 involved the execution of a table-top exercise with the Office and BPD. The exercise simulated a contingency scenario and successfully tested user response procedures.

Change Control Board (CCB)

The Office established the STAR Change Control Board (CCB) in FY 2002 as the approving authority for all system changes. The CCB evaluates the costs, benefits, and risks associated with any proposed change; makes a determination as to whether or not the

proposed change should be implemented; and establishes the priority for each approved change. The CCB process enhances internal controls and accountability for new proposed changes. Changes are categorized as either a Change Request (CR) or as a Configuration Item Change Request (CICR).

A CR generally addresses a major project such as a new release or an upgrade, or a significant change in direction or activity. CRs are reviewed by an Advisory Committee and must be approved by the STAR CCB. There was one CR carried over from FY 2009 and four CRs submitted during FY 2010. Of the five CRs, two were completed this fiscal year, the first to implement modifications and enhancements identified by users as part of the STAR User Forum and the second to perform a feasibility analysis of a future PeopleTools upgrade. One CR is in progress and is expected to be completed early in FY 2011. No work was performed on the remainder two CRs as one CR was withdrawn, and the other one was placed on hold.

A CICR typically addresses a change with a lesser impact to the system. Three CICRs were carried over from FY 2009 and were completed in early FY 2010. During FY 2010, 23 CICRs were approved. Of the 23 approved, 19 CICRs were completed, three were in progress, and one was on hold pending further information.

B. Pension Funds are effectively invested, financed and meet future needs

1. Program Results

a. Pension Funds

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, the Office of D.C. Pensions (the Office) administers Federal Benefit Payments through two funds:

- **The District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (D.C. Federal Pension Fund)** makes Federal Benefit Payments and pays necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans. The D.C. Federal Pension Fund is not a typical pension fund in that it does not receive employee and employer contributions. The sources of funding for the D.C. Federal Pension Fund are: payments from the District of Columbia Retirement Board (DCRB); an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.
- **The District of Columbia Judicial Retirement and Survivors Annuity Fund (Judicial Retirement Fund)** accumulates funds to finance Federal Benefit Payments and necessary administrative expenses of the Judicial Retirement Plan. There are three funding sources for the Judicial Retirement Fund: employee contributions; an annual federal payment amortizing the unfunded liability assumed from the District and any additional liabilities; and interest earned on investments.

b. Deposits

Warrants

As authorized by the Act, the D.C. Federal Pension Fund and the Judicial Retirement Fund receive annual payments from the Treasury General Fund to fund covered expenses for the year and amortize the unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the annual net experience gains or losses over 10 years, and any annual changes in actuarial liabilities over 20 years. The annual payment to the Judicial Retirement Fund also includes amounts necessary to fund the normal cost of the retirement program.

In accordance with the Act, the annual payments to the funds are made in September each year and are invested in Government Account Series (GAS), non-marketable Treasury securities, with maturities consistent with the expected payment dates of the pension liabilities. In FY 2010, \$519.2 million was deposited into the D.C. Federal Pensions Fund and \$8.0 million was deposited into the Judicial Retirement Fund. In FY 2009, \$400.3 million was deposited into the D.C. Federal Pension Fund and \$7.1 million into the Judicial Retirement Fund.

Interest

In FY 2010, the Office received \$132.7 million of interest (\$122.6 million earned) in the D.C. Federal Pension Fund and \$4.9 million (\$4.3 million earned) in the Judicial Retirement Fund. The rate of return in FY 2010 for the Office's pension funds was 3.6% for the D.C. Federal Pension Fund and 3.5% for the Judicial Retirement Fund. In FY 2009, the Office received \$147.2 million of interest (\$129.2 million earned) in the D.C. Federal Pension Fund and \$5.2 million (\$4.6 million earned) in the Judicial Retirement Fund. The rate of return in FY 2009 for the Office's pension funds was 3.8% for the D.C. Federal Pension Fund and 3.9% for the Judicial Retirement Fund. The rate of return is calculated by dividing interest earned from GAS securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

Judges Employee Contributions

Active judges are required to contribute 3.5% of salary to the Judicial Retirement Fund to pay for part of the cost of their retirement benefits. Active judges who elect a survivor annuity contribute an additional 3.5% of salary. Active judges' contributions to the retirement fund in FY 2010 totaled approximately \$729,000. In FY 2009, active judges' contributions to the retirement fund totaled \$613,000.

Summary of Fund Deposits

The following table reflects the cash deposits to the D.C. Federal Pension Fund and the Judicial Retirement Fund for FY 2010 and FY 2009, respectively.

Fund Deposits by Fiscal Year (in millions)			
Fund	Type of Deposit	2010	2009
D.C. Federal Pension Fund	Warrant	\$519.2	\$400.3
	Interest	\$132.7	\$147.2
	Contributions	\$0.0	\$0.0
Judicial Retirement Fund	Warrant	\$8.0	\$7.1
	Interest	\$4.9	\$5.2
	Contributions	\$0.7	\$0.6
Total	Warrants	\$527.2	\$407.4
	Interest	\$137.6	\$152.4
	Contributions	\$0.7	\$0.6

c. Collections

District Benefit Payments

Treasury initially pays and funds all benefit payments under the Police Officers' and Firefighters' and Teachers' Retirement Plans from the D.C. Federal Pension Fund. On the first business day of the month, DCRB then reimburses the D.C. Federal Pension Fund for benefit payments made by Treasury on behalf of the District. The STAR Split Reimbursement Summary Report supports DCRB reimbursements made to Treasury each month. The FY 2010 reimbursements for District Benefit Payments totaled \$65.5 million. The FY 2009 reimbursements for District Benefit Payments totaled \$58.1 million.

Refunds Reconciliation Project

The First Amended Memorandum of Understanding (MOU), dated September 28, 2000, required Treasury to pay the total amount of refunds of employee contributions during the interim benefits period. On February 1, 2005, Treasury entered into a MOU with the DCRB and the District of Columbia's Office of Pay and Retirement Services (OPRS) concerning refunds of employee contributions under the Police Officers' and Firefighters', and Teachers' Retirement Plans. Under this agreement, DCRB agreed to fund refunds of employee contributions paid on and after February 1, 2005, in accordance with the respective statutory responsibilities (i.e., refunds of contributions deducted from employee salary on or before June 30, 1997, are a federal liability and refunds of contributions deducted after June 30, 1997, are a District liability).

In addition to agreeing to fund amounts paid on and after February 1, 2005, the District agreed to reimburse Treasury for that portion of refunds paid by Treasury prior to

February 1, 2005, that represents contributions withheld from an employee's salary or deposits after June 30, 1997. In FY 2010, Treasury received \$614,069 from the District for its share of FY 1999 refund cases. There still remain 138 refund cases from FY 1999 that have not been reconciled as additional data is needed in order to determine federal and District liability. A different methodology will need to be developed and agreed upon to reconcile and process the 138 refund cases. More than \$17 million have been collected for refunds paid in FY 1999 through FY 2005. A receivable of \$386,000 has been established for FY 1999 and a receivable of \$200,000 for FY 1997 through FY 1998.

The table below summarizes the Treasury and District share of refunds.

Refund Reconciliation Project by Fiscal Year (in millions)								
	2005¹	2004	2003	2002	2001	2000	1999²	1998-97³
Treasury	\$0.5	\$1.8	\$1.2	\$2.7	\$2.3	\$2.9	\$1.9	\$5.6
District	1.4	4.7	3.2	3.7	2.3	1.6	1.0	0.2
Total	\$1.9	\$6.5	\$4.4	\$6.4	\$4.6	\$4.5	\$2.9	\$5.8

¹ FY 2005 includes refunds paid from October 1, 2004, through February 15, 2005.

² Includes estimated amount of \$0.4 million that has not been collected.

³ The \$0.2 million represents the estimated amount for refunds that has not been collected.

Debt Management

During FY 2010, the Office pursued debt prevention and collection efforts working with Treasury's Bureau of the Public Debt, Administrative Resource Center (BPD/ARC), which manages the debt collection process for the Office. In FY 2010, debt prevention efforts ensured that a total of \$722,039 was immediately recovered upon timely notification of an annuitant's death or in cases of payment errors. During the fiscal year, \$144,823 was collected through offsets, lump sum payments or installment payments as a result of debt collection efforts.

The Debt Collection Improvement Act of 1996 requires agencies to transfer their delinquent non-tax debt over 180 days delinquent to Treasury. The FY 2010 agreement with the Financial Management Service's (FMS) Cross-Servicing Program allows FMS to initiate collection processes by issuing demand letters, conducting telephone follow-up, initiating skip tracing, referring debts for administrative offset, performing administrative wage garnishment and referring debts to private collection agencies on the debt collection contract. As of September 30, 2010, BPD/ARC referred on behalf of the Office three cases with debt totaling \$58,185 to FMS for collection. In addition, the Office continued to review and streamline its debt management practices and met with stakeholders periodically to outline improvements in debt prevention and collection areas.

During FY 2011, the Office will continue to collaborate with stakeholders to further enhance the debt management program. The primary goal is to improve the program by further clarifying roles and responsibilities for debt collection. These improvements include comprehensive procedures and accelerated processing of debt collection.

STAR Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating STAR administration costs incurred by both entities in administering District and Federal Benefit Payments. The methodology takes into consideration the number of 100% federal annuitants, 100% District annuitants, and split annuitants. In addition, DCRB is responsible for 100% of STAR development costs associated with new District legislation. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2010 actual expenses. Pursuant to the agreement, DCRB will reimburse the Office approximately \$0.6 million for the Office's expenses in developing and operating STAR to administer District Benefit Payments. In FY 2009, DCRB reimbursed the Office \$0.6 million for administrative expenses associated with the operation of STAR.

d. Investments

As required by the Act, amounts received in the D.C. Federal Pension Fund and the Judicial Retirement Fund are invested in non-marketable securities issued to mirror the characteristics of marketable securities. The Bureau of the Public Debt (BPD) invests the assets of the pension funds based on investment guidance from the Office. The Office follows a "ladder" approach, scheduling maturities in amounts sufficient to meet the obligations to pay benefits and administrative expenses projected by annual actuarial valuations. Investment policy in the pension funds strikes a balance between ensuring the Office can meet short-term obligations and extending the ladder.

In FY 2010, the cash balance available for contingencies was targeted not to fall below \$91 million, which is approximately two months of federal obligations. The Office invested the cash balances in one-day certificates, except for an un-invested balance of \$500,000 at month end, to cover unanticipated withdrawals on the last day of the month. In FY 2010, the Office extended the maturity dates of securities in the D.C. Federal Pension Fund to May 2016 and for securities in the Judicial Retirement Fund to February 2020.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Net investments totaled approximately \$4.0 billion and \$3.8 billion as of September 30, 2010 and 2009, respectively. The following table reflects the net investments breakdown by fund.

Net Investments as of September 30, 2010 and 2009 (in millions)		
Fund	2010	2009
D.C. Federal Pension Fund	\$3,817.7	\$3,710.5
Judicial Retirement Fund	132.5	128.8
Total	\$3,950.2	\$3,839.3

e. Payments

Annuity Benefit Payments

Pension benefit payments issued by the Office totaled \$582.5 million and \$8.4 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for FY 2010. The Office issued \$574 million and \$8 million, respectively, for FY 2009. DCRB then reimbursed the D.C. Federal Pension Fund for benefit payments made by Treasury on the District's behalf. After the DCRB reimbursement, Federal Benefit Payments totaled \$517 million from the D.C. Federal Pension Fund for FY 2010 and \$516 million for FY 2009.

Refunds of Employee Contributions

DCRB processes refunds of contributions for active employees and requests payment from Treasury for the federal portion. During FY 2010, more than \$0.4 million represented contribution refunds to plan participants of the D.C. Federal Pension Fund. For FY 2009, approximately \$0.6 million represented contribution refunds to plan participants of the D.C. Federal Pension Fund. No contribution refunds were made to plan participants in the Judicial Retirement Fund during FY 2010 or FY 2009.

Administrative Expenses

The Office funds administrative expenses to support federal responsibilities for the retirement programs under the Act from the D.C. Federal Pension Fund and the Judicial Retirement Fund. When administrative expenses related to activities that benefit all of the retirement programs occur, expenses are usually allocated 99% to the D.C. Federal Pension Fund and 1% to the Judicial Retirement Fund. The allocation percentages are based on the number of annuitants covered by each Fund. When expenses benefit only one group, or when a different allocation is clearly appropriate, expenses are charged accordingly.

In FY 2010, administrative expenses were approximately \$13.2 million for the D.C. Federal Pension Fund and \$0.8 million for the Judicial Retirement Fund, for a total of \$14.0 million. In FY 2009, administrative expenses were approximately \$14.6 million for the D.C. Federal Pension Fund and \$0.8 million for the Judicial Retirement Fund, for a total of \$15.4 million.

The major administrative expenses resulted from reimbursement of DCRB benefit administration and support function expenses, the Office's staff salaries and benefits, and contractors engaged by the Office to provide IT systems support. Certain costs of the STAR pension/payroll system for hardware, software, and system development were capitalized as equipment and internal use software. The Office has been amortizing STAR development costs monthly in the Judicial Retirement Fund and the D.C. Federal Pension Fund on a five-year schedule. The following table reflects administrative expenses by fund.

Administrative Expenses by Fiscal Year (in millions)			
Fund	2010	2009	Difference
D.C. Federal Pension Fund	\$13.2	\$14.6	(\$1.4)
Judicial Retirement Fund	0.8	0.8	-
Total	\$14.0	\$15.4	(\$1.4)

Improper Payments Information Act

The Improper Payment Information Act (IPIA) requires agencies to report annually on the extent of improper payments, and the actions being taken to reduce them, for all potentially high-risk programs and activities meeting specific criteria. On behalf of the Office, BPD/ARC completed a risk assessment for each payment type (e.g., contract payments/invoices, claims/vouchers, etc.) in accordance with guidance issued by the U.S. Office of Management and Budget (OMB). During FY 2010, there were no high risk payment types identified during the review.

Prompt Payment Act and Electronic Payments

The Prompt Payment Act was enacted to ensure that suppliers doing business with the Federal Government are paid by the government in a timely manner. The Office paid 99% of the 124 invoices received within the timeframes required by the Prompt Payment Act.

For reasons of reliability and security, Treasury's Fiscal Assistant Secretary and the Financial Management Service encourage federal agencies to use electronic payments. In FY 2010, the Office paid 100% of the 200 payments, which include invoices and travel reimbursements, by electronic funds transfer. All 200 payments were processed electronically, including 88% by EFT and 12% by credit card. In FY 2009, of the 160 electronic payments made, 85% were EFT and 15% were made by credit card.

Benefit Administration Expense Reimbursements

The Office and DCRB have developed a methodology for allocating costs incurred by DCRB in administering District and Federal Benefit Payments. The methodology takes into consideration: (1) the number of active employees, 100% federal annuitants, 100% District annuitants, and split annuitants; (2) the estimated DCRB resources needed to support these populations; and (3) the number of employees throughout DCRB who are dedicated to supporting the benefits administration function. In addition, the methodology for allocation of cost was revised for FY 2010 to more precisely capture the level of effort associated with processing Federal Benefit Payments. Applying this methodology, the Office and DCRB entered into a cost sharing agreement for reimbursement of FY 2010 actual expenses. Pursuant to the agreement, the Office will reimburse DCRB approximately \$2.3 million for FY 2010 expenses incurred in administering Federal Benefit Payments. The Office reimbursed DCRB approximately \$3.1 million in FY 2009 for expenses incurred in administering Federal Benefit Payments.

f. Financial Operations

Accounting Support

Pursuant to a reimbursable services agreement, BPD/ARC provides accounting support services that include processing accounting transactions such as commercial invoices, purchase cards, obligations, accruals, and revenue transactions. Transaction processing consists of a full range of accounting transactions necessary to maintain a complete general ledger, including budgetary transactions, accounts payable, accounts receivable, and fixed assets. BPD/ARC uses Oracle Federal Financial (Oracle) as the core financial management system to record and process financial transactions. The Office's transactions are entered into Oracle both manually and via custom interfaces from ancillary systems such as PRISM and GovTrip. BPD/ARC also provides a report writer package called Discoverer, which allows the Office to generate various accounting reports to monitor obligations and expenditures.

Accounting entries that are recorded in the Oracle accounting system are supported by Treasury's Financial Management Service's (FMS) Treasury Financial Manual (TFM) to ensure compliance with standard general ledger reporting requirements. BPD/ARC also prepares the Office's financial statements and other useful financial management reports.

3-Day Close

Since April 2001, the Office has closed its books each month within three working days. The Office has been rated green (the highest rating) since February 2002 for all data quality checks on the monthly data quality scorecard maintained by Treasury's Office of Accounting and Internal Control.

g. Actuarial Valuation

In FY 2010, EFI Actuaries (EFI) performed the annual actuarial valuation as required by the Act for the Office. The actuarial valuation is used to determine the pension liability of the retirement programs administered by the Office. The actuarial liability, as of October 1, 2010, was determined using the demographic rates from the FY 2009 experience study, and economic assumptions in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The adoption of lower discount rates based on a ten-year history of Treasury security yields had the most impact, accounting for a significant portion of the \$0.7 billion increase in the Federal Government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers' Retirement Plans.

As estimated by the actuary, as of October 1, 2010, the Federal Government's total liability for Federal Benefit Payments under the Police Officers' and Firefighters', and Teachers'

Retirement Plans is approximately \$9.6 billion. Of the \$9.6 billion actuarial liability, approximately \$3.9 billion is funded by assets in the D.C. Federal Pension Fund and \$5.7 billion is unfunded.

EFI determined an actuarial total liability of \$185.8 million for the Judges' Retirement Plan as of October 1, 2010. Of the \$185.8 million actuarial liability, approximately \$133.2 million is funded by assets in the Judicial Retirement Fund and \$52.6 million is unfunded.

h. Reconciliation Project

Title XI of the Balanced Budget Act of 1997, as amended, states that the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that a trustee or Treasury will assume the duties of benefits administrator. With respect to the retirement plans for teachers, police officers, and firefighters, Treasury was not able to end the interim benefits period until STAR was enhanced to calculate the split between federal and District liability for post-June 30, 1997 and a reconciliation of transactions during the interim benefits period is conducted.

With the completion of the core functionality in STAR and the ability to calculate the federal and District share of benefits, the Office began work on the Reconciliation Project. The purpose of the Reconciliation Project is to, among other things, perform an accounting and final reconciliation of the amounts related to federal and District liabilities for benefits paid during the interim benefits period to plan members who retired after June 30, 1997.

In FY 2010, the Office has continued working with DCRB and the District regarding the methodologies, procedures, and timing for conducting reconciliation activities. As pursuant to the current Interim Benefits MOU between Treasury and the District, the primary goals for the reconciliation are to calculate District Benefit Payments for plan members who retired during the interim benefits period based on the final Benefit Regulations and to reconcile these payments with amounts actually paid by the District to Treasury during the interim benefits period. The reconciliation will identify any amounts owed to Treasury by the District for benefit payments and vice-versa. The Office has been working with the District and DCRB in establishing the procedures necessary to conduct this reconciliation after the final Benefit Regulations' effective date. Additional financial transactions that occurred during the interim benefits period may also be included and reconciled as part of the Reconciliation Project.

In FY 2011, the Office will make the final Benefit Regulations effective. In addition to continuing work on the Reconciliation Project, the Office will continue to evaluate activities required for ending the interim benefits period for the Teachers', Police Officers', and Firefighters' Retirement Plans. As stated in the Balanced Budget Act of 1997, as amended, the interim benefits period began on October 1, 1997, and ends on the date Treasury notifies the District that Treasury or a trustee will assume the duties of benefits administrator.

C. Program is effectively managed and creates continuous improvement

1. Program Results

a. Organizational Structure

During FY 2010, the Office of D.C. Pensions (the Office) marked the second year of its transition into its new organizational model. With the completion of the development of the core System to Administer Retirement (STAR) functionality, the Office restructured its organization in early FY 2009 to more effectively provide operational oversight of its many service providers. The Office continues to focus on monitoring the stability of operational areas and on implementing process and system improvements.

b. Long-Term Strategic Planning

During FY 2010, the Office engaged in the development of a multi-year plan to identify priorities for FY 2011 through 2013 and supporting activities. Multiple sessions were held with Office staff to identify future focus areas to support Office goals and objectives. The Office completed a Multi-Year Plan for FY 2011 through FY 2013, which identified five future focus areas. An implementation approach was also developed to assist in the sequencing of activities needed to implement the plan.

During FY 2011, the Office plans to collaborate with program stakeholders and assess impacts, organizational change readiness, and implementation capacity to guide activities over the next three fiscal years.

c. Service Level Agreements

The Office has Service Level Agreements (SLAs) in place with the District of Columbia Retirement Board (DCRB) for benefit administration, Treasury's Bureau of the Public Debt (BPD) for operations and maintenance of the STAR system, and Administrative Resource Center (ARC) for payroll operations. The SLAs define responsibilities, required services, and reporting requirements for service providers and the Office in providing high quality service to annuitants. In addition, the Office has established quality plans and conducts periodic reviews to ensure responsibilities are executed.

d. Quality Program

Benefits Administration

As part of the Quality Program, quality plans were established to review benefit administration activities such as new annuitant calculations, which include new retirees, survivors, and beneficiaries as well as Qualified Domestic Relation Orders (QDROs). The benefits administration quality plans are periodically reviewed and revised to ensure benefits processing errors are identified. The Office updated the quality plan in FY 2010 to focus its review on types of benefit payment calculations with higher than average error

rates. As a result, the Office experienced an increase in the monetary error rate in FY 2010, but acted promptly to correct these benefits calculation errors. In FY 2011, the Office will continue to periodically review and target different types of benefit calculations to ensure benefits are properly calculated.

In addition, the Office continued to review data maintenance activities such as changes to annuitants' personal data, bank information, health benefits, and life insurance. As part of the quality program, the Office provided appropriate feedback to the benefits administrator to assess training needs for the staff. Subsequently, targeted training was provided to analysts and customer service staff as needed to improve benefit administration.

Payroll Processing

The Quality Program includes reviews of payroll processing functions. The program includes reviews of preliminary and final payroll statistics, transmission of payment files, and third-party reporting. In FY 2010, no problems were noted during the review of these payroll processing functions. In addition, the Office meets with stakeholders monthly to review payroll reports associated with split benefits. The reviews ensure that the split benefits are reported in a timely and accurate manner.

System Administration

During FY 2010, the Office continued to include system administration activities and the review of user accounts in its Quality Review program. The quality plan tracks system availability, number and type of open production trouble tickets and completion time of trouble tickets. As part of the quality program, user accounts are monitored to ensure that users are granted the appropriate access privileges. This information is used by the Office to manage resources, maintain system security, and track the quality of STAR production support and hosting services.

e. Office of D.C. Pensions Program Performance Reporting

The results of the quality reviews are included in the Office's FY 2010 performance reports. The quarterly performance reports focus on each of the four primary performance areas: benefits administration, financial management, information services, and program management. The reports are a useful tool to monitor trends and ensure the primary performance areas are effectively managed.

The Office plans to enhance its existing performance reporting by creating a performance measurement program in FY 2011 to more efficiently track, collect, and report performance data, promote transparency, and improve decision making. This performance data will be utilized to make improvements in program management areas, such as operational planning and resource needs assessments. The performance measures will be periodically reported and reviewed to ensure that Office strategic outcomes are continuously achieved.

f. District of Columbia Retirement Board Performance Reporting

DCRB continued to collect performance data and prepares quarterly performance reports during FY 2010. The performance reports track the volume, timeliness, and quality of the pension and payroll processing services as well as customer satisfaction. In addition, DCRB continues to analyze the performance reports to identify trends to identify opportunities for improvement or to determine if corrective actions are necessary.

g. STAR End-User Forum

The STAR end-user forum is a platform for DCRB, BPD, and ARC to present and discuss benefit administration program enhancement ideas aimed at improving benefits processing and customer service. The forum has been successful at identifying process improvements, including system edits, user-friendly data sorts, and more efficient process flows. During FY 2010, users recommended several potential modifications to STAR, which were combined into a Change Request (CR) and implemented in STAR. These modifications streamlined benefit processing, reduced data entry keystrokes, eliminated redundant data entry, and reduced the potential for errors. The Office continues to receive positive feedback on the STAR user forum and will continue to meet periodically in FY 2011 to identify areas for improvement.

h. Federal Benefit Payments Regulations

Split Benefit Regulations

In FY 2010, the Office completed drafting proposed amendments to Part 29, Subpart C of Title 31 of the Code of Federal Regulations, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans - Split Benefits* (“Split Benefit Regulations”). Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Office has responsibility for payment of benefits based on service accrued as of June 30, 1997, under the retirement plans for District of Columbia teachers and police officers and firefighters.

Under the Act, some annuitants receive both Federal and District Benefit Payments as a portion of their total retirement benefit based on service before or after June 30, 1997. Benefits partially paid by Treasury and partially paid by the District of Columbia are referred to as split benefits. The Split Benefit Regulations establish general principles that are applied to determine the amount of service creditable for Federal Benefit Payments and include examples in which the general principles are applied to a variety of benefit calculation scenarios.

The Split Benefit Regulations were originally published in FY 2000, but the effective date was delayed until after STAR was fully implemented. With the major development of STAR completed, the Office is amending the Split Benefit Regulations to establish additional rules and provide additional examples of benefit calculation scenarios. These proposed amendments will be published in early FY 2011, and will simplify calculations and maintain consistency with the general principles established in the original regulations.

Debt Regulations

The Office has been updating Part 29, Subpart E of Title 31 of the Code of Federal Regulations, *Federal Benefit Payments Under Certain District of Columbia Retirement Plans – Debt Collection and Waivers of Collection* (“Debt Regulations”), which are specific to the retirement plans for District of Columbia judges, teachers, and police officers and firefighters. The amended regulations are expected to further clarify the debt management process.

The Debt Regulations were originally published in FY 2001. The Office conducted a complete review of debt processing procedures and is amending the Debt Regulations to streamline the debt management program to more effectively manage and expeditiously collect debt. The amended regulations will be published during FY 2011.

i. Internal Control over Financial Reporting

The Office used the FY 2010 Guidance and Implementation Plan provided by Treasury’s Office of the Deputy Chief Financial Officer to conduct a review of internal controls over financial reporting as required by OMB Circular A-123, *Management’s Responsibility for Internal Controls, Appendix A, Internal Control Over Financial Reporting*. BPD/ARC staff members and the Office conducted internal control tests or relied on the BPD/ARC SAS 70 review.

The Office conducted its assessment of the effectiveness of internal controls over financial reporting as of June 30, 2010, which included reviewing core financial processes and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Office provided unqualified assurance that its internal controls over financial reporting were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. The scope of the assessment was limited to the Treasury-designated material consolidated financial statement lines for which the Office contributes 10% or greater and internal financial reports produced for the Office. In addition, the Office had no material weaknesses in the design or operation of internal controls over financial reporting identified in FY 2009 that required corrective actions in FY 2010.

j. Financial Statement Audit Opinion

KPMG LLP (KPMG), an independent public accounting firm, rendered an unqualified opinion on the Office’s FY 2010 financial statements. This is the 12th consecutive year that the Office’s financial statements have received an unqualified opinion.

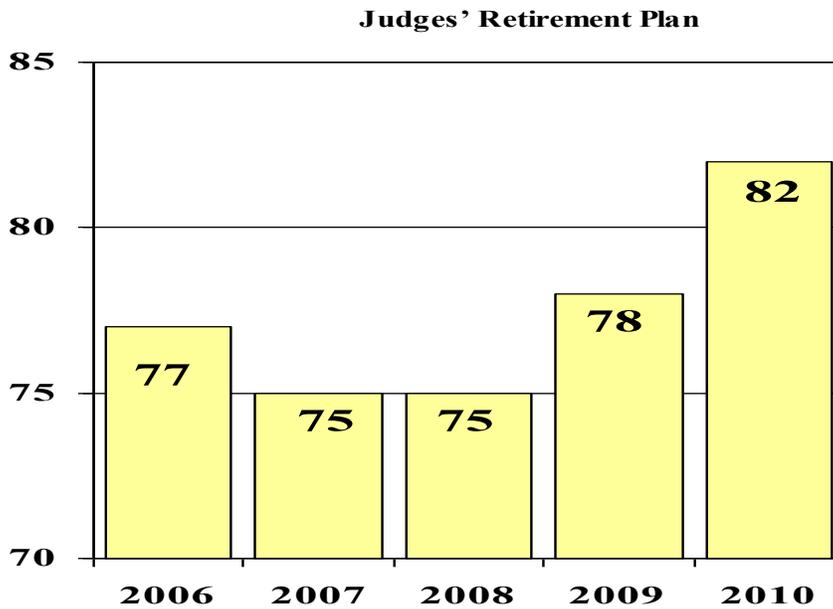
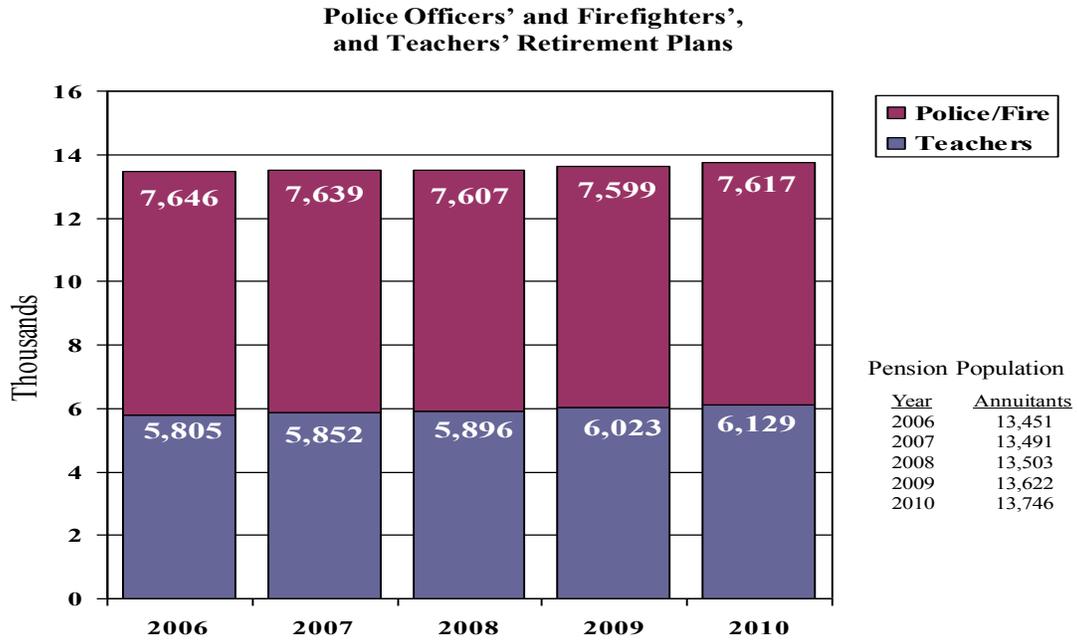
KPMG identified the following deficiencies in internal control over financial reporting that it considered collectively to be a significant deficiency in internal control over financial reporting: 1) improve DCRB supervisory review controls and ODCP monitoring controls over adding new annuitants to STAR; and 2) improve the monitoring of death verification

services and student certification reports. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance (see the accompanying Independent Auditors' Report on Internal Control Over Financial Reporting).

The results of KPMG's tests of compliance with laws and regulations disclosed no instances of noncompliance or other matters that require reporting under *Government Auditing Standards* or OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

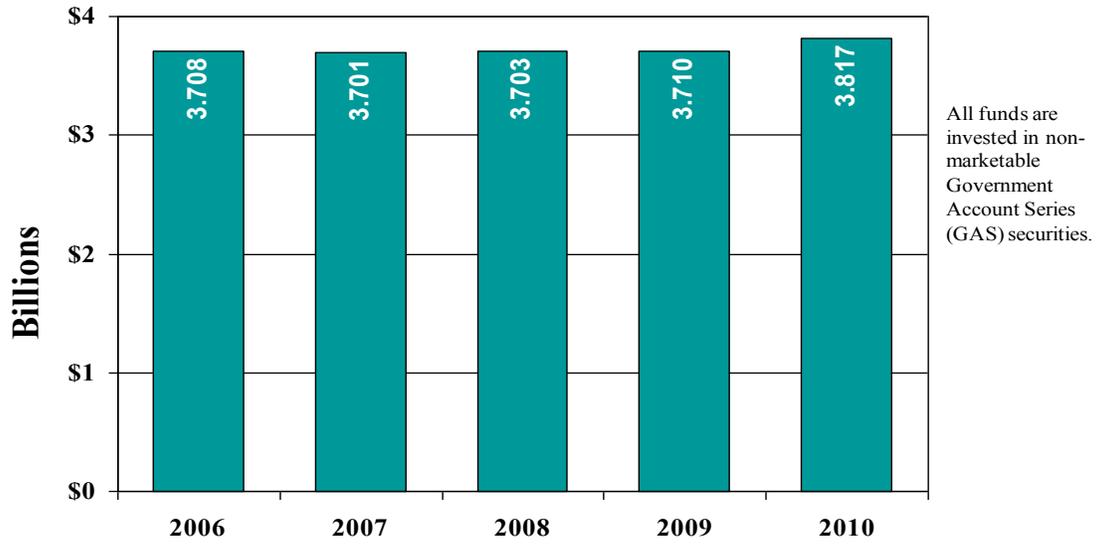
IV. Five-Year History of the District of Columbia Pensions Program

A. *Annuitants* (as of September 30, 2010)

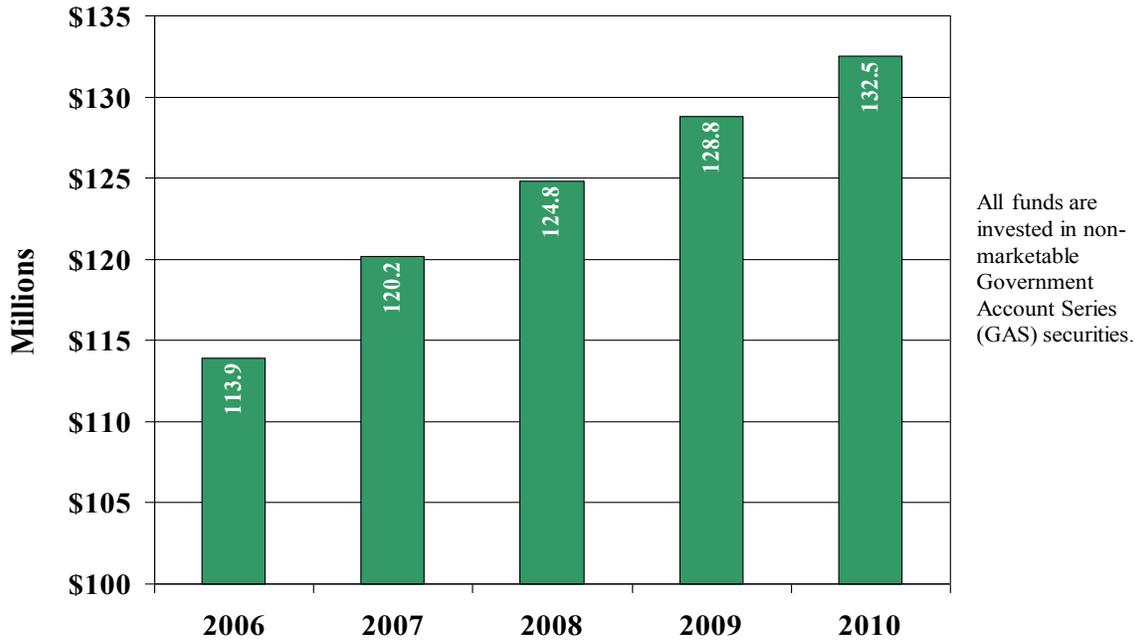


R Investments (as of September 30, 2010)

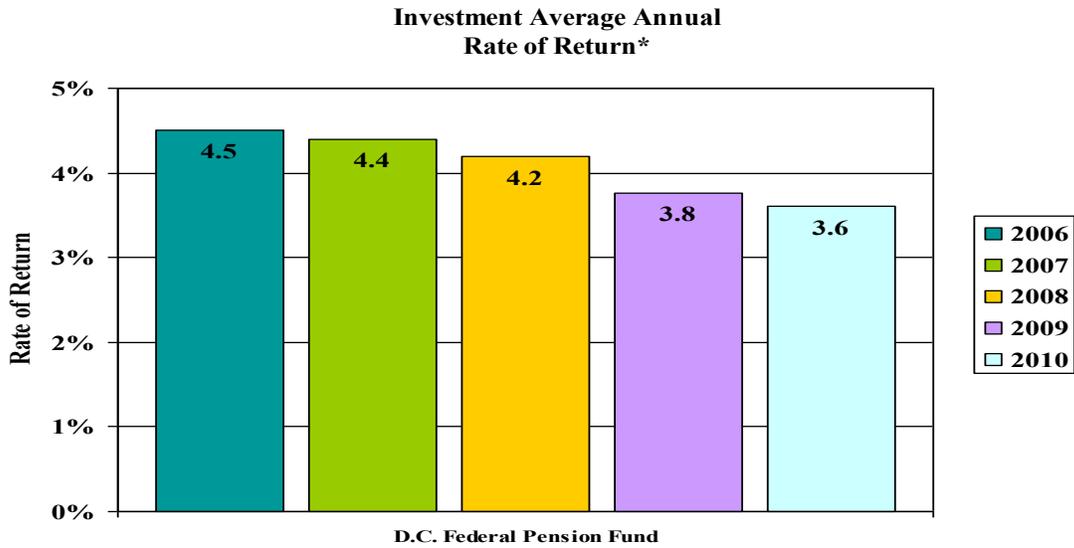
**D.C. Federal Pension Fund
Net Investments**



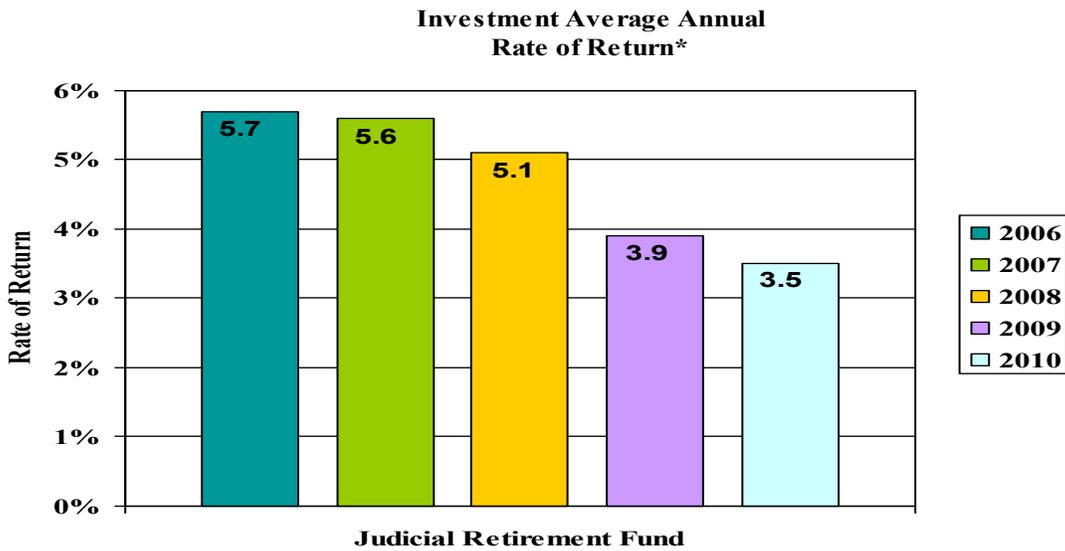
**Judicial Retirement Fund
Net Investments**



B. Investments (as of September 30, 2010) continued



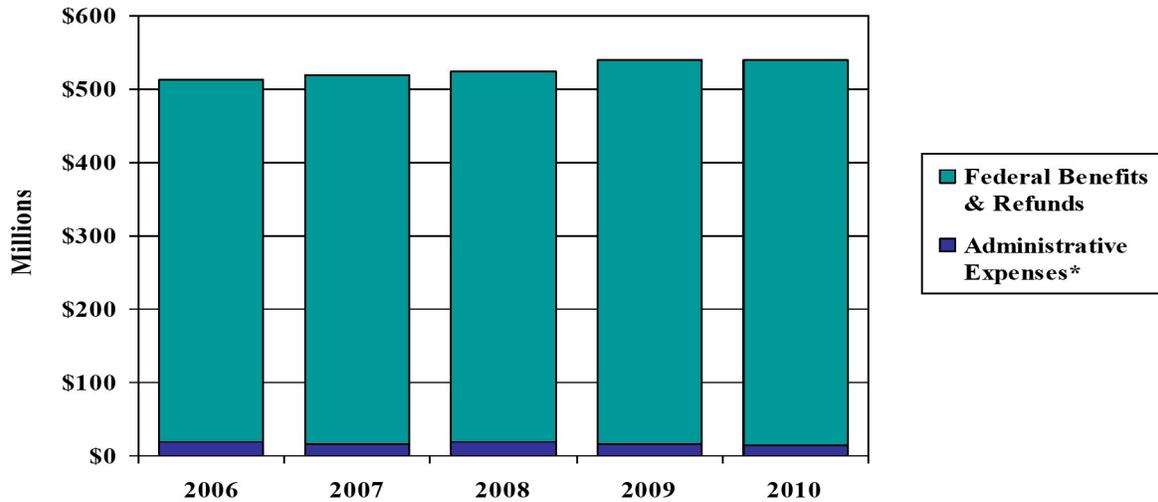
*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.



*The Rate of Return is calculated by dividing interest earned from Government Account Series (GAS) securities by the average par value of investments in GAS securities. Interest earned from GAS securities includes the amortization of premiums and discounts.

C. Payments by Category (as of September 30, 2010)

Federal Benefits, Refunds, and Administrative Expenses



*Administrative expenses include, but are not limited to, (a) expenses paid to the District for administration of Federal benefits, (b) expenses for ODCP salaries, and (c) expenses associated with contractor support. It does not include reimbursement from the District for STAR-related administrative expenses incurred by ODCP in support of District benefits.

Federal Benefits, Refunds, and Administrative Expenses

Fiscal Year	Federal Benefits/ Refunds Paid	Administrative Expenses*	Federal Benefits/ Refunds %	Administrative Expenses %
2006	\$494M	\$18.4M	96%	4%
2007	\$504M	\$15.7M	97%	3%
2008	\$506M	\$18.4M	96%	4%
2009	\$524M	\$15.3M	97%	3%
2010	\$528M	\$14.0M	97%	3%

*Administrative expenses include, but are not limited to, (a) expenses paid to the District for administration of Federal benefits, (b) expenses for ODCP salaries, and (c) expenses associated with contractor support. It does not include reimbursement from the District for STAR-related administrative expenses incurred by ODCP in support of District benefits.

V. Limitation of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Office of D.C. Pensions (the Office), pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the Office in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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Part 2: Independent Auditors' Reports





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

Independent Auditors' Report

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2010 and 2009 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the ODCP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Office of D.C. Pensions as of September 30, 2010 and 2009 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(b), the ODCP implemented Statement of Federal Financial Accounting Standards No.33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective October 1, 2009.

The information in the Management's Discussion and Analysis is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

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("KPMG International"), a Swiss entity.



Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2010 and 2009 consolidating information presented in the *Supplementary Schedules* in Part 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the ODCP's two funds individually. The September 30, 2010 and 2009 *Supplementary Schedules* have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 6, 2010, on our consideration of the ODCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

December 6, 2010



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

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2010 and 2009 and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 6, 2010. That report referenced that the ODCP implemented a new accounting standard effective October 1, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the ODCP's internal control over financial reporting by obtaining an understanding of the design effectiveness of the ODCP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ODCP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ODCP's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider collectively to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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("KPMG International"), a Swiss entity.



The ODCP's response to our findings is presented in Exhibit I. We did not audit the ODCP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the ODCP's management, the Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 6, 2010

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2010 and 2009

Significant Deficiency in Internal Control Over Financial Reporting

The following summarizes the control deficiencies which collectively we consider to be a significant deficiency in internal control over financial reporting.

Improve DCRB Supervisory Review Controls and ODCP Monitoring Controls over Adding New Annuitants to the System to Administer Retirement (STAR)

During our testing of a sample of 85 new annuitant benefit payments processed by the District of Columbia Retirement Board (DCRB) for the Police & Firefighters and Teachers retirement plans, we noted 8 instances where the DCRB second review or the ODCP monitoring controls failed to identify errors made by the DCRB examiner processing the new annuitants resulting in:

- Actual overpayments and underpayments to fiscal year (FY) 2010 new annuitants of approximately \$2,923 and \$14,509, respectively.
- Miscalculations in the split between the District and the Federal liability resulting in over and under allocations to the Federal government of approximately \$128,076 and \$11,295, respectively for FY 2010 new annuitants.

These errors were subsequently corrected by ODCP and DCRB.

The second reviewer at DCRB did not perform an adequate level of review over annuitants added to STAR during FY 2010. In addition, ODCP's Quality Review or other ODCP monitoring controls did not identify the errors made by the DCRB examiner in processing the new annuitants.

The Memorandum of Understanding (MOU) between ODCP and DCRB – *Considering Interim Benefit Administration of Retirement Plan* dated December 31, 2008, specifies the obligations of the DCRB. Specifically, MOU section 3.1.3(d) requires DCRB to enforce all terms of the District Retirement Programs and the Replacement Plan to ensure accurate payments of Federal Benefit Payments and District Payments.

Additionally, OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that ...iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)* states: "Control activities occur at all levels and functions

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2010 and 2009

Significant Deficiency in Internal Control Over Financial Reporting

of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.”

We recommend that the ODCP: (1) continue training the DCRB second reviewers and examiner so they fully understand their role and responsibilities of performing the second review of the benefit payment calculation; (2) accelerate the timing of DCRB’s second level of review to occur before the annuity payment is paid to the annuitant; (3) incorporate a review of the Federal / District split calculation in the DCRB second level review and also in ODCP’s Quality Review; (4) increase the percentage of annuitants tested annually by ODCP’s Quality Review for higher risk new annuitant calculations, such as Qualified Domestic Relations Order (QDRO) Annuitants due to the inherent complexity of applying the judicial decree to the annuity calculation; and (5) implement enhancements to STAR that create audit reports to capture instances where the automatic Federal / District Split has been overridden in STAR and review the manual overrides for validity.

Improve the Monitoring of the Death Verification Services Reports and Student Certification Reports

During our testing of the monthly Death Verification Services Reports and Student Certification Reports we identified:

- Two instances where DCRB did not take timely action in investigating the eligibility of exact matches identified in the Death Verification Services Reports resulting in potential overpayments to the annuitants of approximately \$50,707. DCRB subsequently stopped issuing benefit payments to the suspected deceased annuitants and took action to confirm the eligibility of the identified recipients.
- An instance where DCRB did not take timely action in investigating the eligibility of a surviving minor who turned 18 years old as identified in the Student Certification Report and erroneously addressing the payments to the legal guardian after the minor turned 18 years old, resulting in potential overpayments of \$2,432.

DCRB did not perform an adequate level of investigation to identify suspected ineligible annuitants reported in the Death Verification Services Reports and Student Certification Reports or appropriate payment modification to recipient. In addition, ODCP did not perform an adequate level of monitoring of the verification and certification work performed by DCRB.

The procedures not followed were:

- DCRB Death Processing Procedures dated July 20, 2007 outlines the procedures to be followed in the event of the death of a Member or Survivor receiving annuity payments. Procedure #1 states that when a death is reported or suspected, the Customer Service Representative (CSR)

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2010 and 2009

Significant Deficiency in Internal Control Over Financial Reporting

immediately stops payment. DCRB can be notified of a Member's death either through the vendor's Death Verification Services Report, a telephone call from a friend/relative of the Member, or the Police & Fire Retirement Relief Board (PFRRB). The Death Verification Services Report is published on the vendor's website and new reports are announced via email. Access to this website is given to the CSR and Supervisor.

- District of Columbia Police Officers' and Firefighters' Retirement Plan states "...surviving child(ren) may receive a survivor benefit(s) if he/she is unmarried and is:
 - Under age 18;
 - Between the ages of 18 and 22, and a full-time student; or,
 - Any age, if incapable of self-support because of a physical or mental disability incurred prior to him/her reaching age 18.

If your child(ren) is a full-time student, every semester your child(ren) and the academic institution he/she is attending must complete a Student Certification Form. The form is available from the DCRB Member Services Center.

A regular child-survivor benefit will stop when he/she

- reaches age 18 or older and is no longer a full-time student, or fails to submit the required Student Certification Form;
- reaches age 22;
- marries; or,
- dies."

Memorandum of Understanding (MOU) between ODCP and DCRB – *Considering Interim Benefit Administration of Retirement Plan* dated December 31, 2008, specifies the obligations of the DC Retirement Board, MOU section 3.1.3(d) requires DCRB to enforce all terms of the District Retirement Programs and the Replacement Plan to ensure accurate payments of Federal Benefit Payments and District Payments.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, in the introduction section notes the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982: "The agency head must establish controls that reasonably ensure that ...iii. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) (the Standards) states: "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as

U.S. Department of the Treasury

Office of D.C. Pensions

September 30, 2010 and 2009

Significant Deficiency in Internal Control Over Financial Reporting

well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.” The Standards also provides examples of control activities, which include “reviews by management at the functional or activity level.”

We recommend that the ODCP: (1) continue training DCRB CSR and supervisors so they fully understand their roles and responsibilities of timely investigating annuitants identified on the Death Verification Services Reports and Student Verification Reports and the monitoring thereof, (2) monitor DCRB to verify it has taken appropriate timely action in investigating annuitants identified in the reports, and (3) implement procedures to ensure compliance with the retirement plans.

MANAGEMENT’S RESPONSE:

ODCP concurs with the significant deficiencies described in this report and has identified corrective actions, which are in place or underway, to address the auditors’ findings and related recommendations. ODCP and DCRB have taken immediate actions to correct the annuitants’ benefit payments and split allocations and will collaborate in FY 2011 to address the reported control deficiencies and implement internal control improvements.



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2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury, and
Director, Office of D.C. Pensions:

We have audited the consolidated balance sheets of the U.S. Department of the Treasury's Office of D.C. Pensions (the ODCP) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated December 6, 2010. That report referenced that the ODCP implemented a new accounting standard effective October 1, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the ODCP is responsible for complying with laws, regulations, and contracts applicable to the ODCP. As part of obtaining reasonable assurance about whether the ODCP's consolidated financial statements are free of material misstatement, we performed tests of the ODCP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the ODCP. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the ODCP's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 6, 2010

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Part 3: Financial Statements and Notes



Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Balance Sheets
As of September 30, 2010 and September 30, 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
Assets		
Entity Assets		
Intra-Governmental Assets		
Fund Balance with Treasury (Note 3)	\$ 6,806	\$ 250
Investments in GAS Securities, Net (Note 4)	3,950,255	3,839,297
Interest Receivable from GAS Securities	29,960	27,035
Advances to Others	39	78
Accounts Receivable, Net	1,234	6,807
ADP Software, Net (Note 5)	3,211	5,557
Equipment, Net (Note 6)	-	-
Total Assets	<u>\$ 3,991,505</u>	<u>\$ 3,879,024</u>
Liabilities		
Liabilities Covered By Budgetary Resources		
Intra-Governmental		
Accounts Payable	\$ 140	\$ 469
Accrued Payroll and Benefits	31	28
Accounts Payable	2,830	5,348
Accrued Pension Benefits Payable	50,272	48,438
Actuarial Pension Liability (Notes 2j, 9)	3,726,829	3,680,250
Accrued Payroll and Benefits	347	302
Total Liabilities Covered By Budgetary Resources	<u>3,780,449</u>	<u>3,734,835</u>
Liabilities Not Covered By Budgetary Resources		
Actuarial Pension Liability (Notes 2j, 9)	<u>6,015,750</u>	<u>5,368,844</u>
Total Liabilities	<u>9,796,199</u>	<u>9,103,679</u>
Net Position		
Cumulative Results of Operations - Earmarked	<u>(5,804,694)</u>	<u>(5,224,655)</u>
Total Net Position	<u>(5,804,694)</u>	<u>(5,224,655)</u>
Total Liabilities and Net Position	<u>\$ 3,991,505</u>	<u>\$ 3,879,024</u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Net Cost
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
<i>Program Costs (Note 7)</i>		
<i>Administrative Expenses (Note 8)</i>	\$ 13,953	\$ 15,432
<i>Pension Expense before Actuarial Assumption Changes (Note 9)</i>	342,116	769,461
<i>Less: Earned Revenues (Note 7)</i>		
<i>Interest Earned</i>	126,920	133,796
<i>Employee Contributions</i>	<u>729</u>	<u>613</u>
<i>Net Expense Before Loss from Actuarial Assumption Changes</i>	228,420	650,484
<i>Loss on Actuarial Assumption Changes, Net (Note 9)</i>	<u>878,986</u>	<u>-</u>
<i>Net Cost of Operations</i>	<u>\$ 1,107,406</u>	<u>\$ 650,484</u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	<u>2010</u> <u>Earmarked</u>	<u>2009</u> <u>Earmarked</u>
<i>Cumulative Results of Operations</i>		
Net Position - Beginning of Year	\$ (5,224,655)	\$ (4,981,677)
Budgetary Financing Sources		
Appropriations Used	527,190	407,380
Other Financing Sources		
Imputed Financing Sources	<u>177</u>	<u>126</u>
Total Financing Sources	527,367	407,506
Net Cost of Operations	<u>(1,107,406)</u>	<u>(650,484)</u>
Net Change	<u>(580,039)</u>	<u>(242,978)</u>
Net Position - End of Year	<u>\$ (5,804,694)</u>	<u>\$ (5,224,655)</u>

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

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
<i>Budgetary Resources</i>		
<i>Unobligated Balance - brought forward</i>	\$ -	\$ -
<i>Recoveries of Prior Year Unpaid Obligations</i>	6,676	1,927
<i>Budget Authority:</i>		
<i>Appropriations</i>	1,105,571	946,803
<i>Spending Authority from Offsetting Collections:</i>		
<i>Earned:</i>		
<i>Collected</i>	5,197	5,591
<i>Temporarily Unavailable Pursuant to Public Law</i>	<u>(46,580)</u>	<u>(3,945)</u>
<i>Total Budgetary Resources</i>	<u>\$ 1,070,864</u>	<u>\$ 950,376</u>
 <i>Status of Budgetary Resources</i>		
<i>Obligations Incurred:</i>		
<i>Direct</i>	<u>\$ 1,070,864</u>	<u>\$ 950,376</u>
<i>Total Status of Budgetary Resources</i>	<u>\$ 1,070,864</u>	<u>\$ 950,376</u>
 <i>Change in Obligated Balance</i>		
<i>Unpaid obligations brought forward, Oct. 1</i>	\$ 61,038	\$ 59,900
<i>Obligations Incurred</i>	1,070,864	950,376
<i>Gross outlays</i>	(1,066,786)	(947,311)
<i>Recoveries of Prior Year Unpaid Obligations, Actual</i>	<u>(6,676)</u>	<u>(1,927)</u>
<i>Unpaid Obligated Balance, Net, End of Period:</i>	58,440	61,038
 <i>Net Outlays</i>		
<i>Gross Outlays</i>	\$ 1,066,786	\$ 947,311
<i>Offsetting collections</i>	(5,197)	(5,591)
<i>Distributed offsetting receipts</i>	<u>(573,831)</u>	<u>(531,142)</u>
<i>Net Outlays</i>	<u>\$ 487,758</u>	<u>\$ 410,578</u>

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

*Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Notes to Financial Statements
September 30, 2010 and September 30, 2009*

1) Reporting Entity

Under provisions in Title XI of the Balanced Budget Act of 1997, as amended (the Act), the Secretary of the Treasury (the Secretary) assumed certain responsibilities for a specific population of annuitants under the following District of Columbia (District) retirement plans: the Police Officers' and Firefighters' Retirement Plan, the Teachers' Retirement Plan and the Judges' Retirement Plan. Specifically, the Secretary is responsible for administering the retirement benefits earned by District teachers, police officers and firefighters based upon service accrued prior to July 1, 1997, and retirement benefits earned by District judges, regardless of when service accrued.

The Secretary's responsibilities include: (1) making accurate and timely benefit payments; (2) investing fund assets; and (3) funding pension benefits. To carry out these responsibilities, Treasury's Office of D.C. Pensions (the Office) engages in a wide range of legal, policy and operational activities in the areas of benefits administration, information technology, financial management and administration. The Office coordinates with many District entities and stakeholders to administer its responsibilities.

The Office reports to the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR). The DASHR reports to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). ASM/CFO reports through the Deputy Secretary to the Secretary of the Treasury.

a. District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund

Pursuant to the District of Columbia Retirement Protection Improvement Act of 2004, Public Law 108-489, Treasury established the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund – 20X5511). Effective October 1, 2004, the assets and liabilities of the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund - 20X8230) and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund – 20X5500) were transferred to the D.C. Federal Pension Fund. The D.C. Federal Pension Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses for the Police Officers' and Firefighters', and Teachers' Retirement Plans under the provisions of the Act. The D.C. Federal Pension Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred from the Trust Fund and the Supplemental Fund, which included the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;

- Income earned on the investments held in the D.C. Federal Pension Fund; and
- Reimbursement from the D.C. government for the District's actual share of benefits paid from the D.C. Federal Pension Fund.

The portion of the D.C. Federal Pension Fund that is not needed to meet the level of current Federal benefit payments, refunds, and net administrative expenses is invested in non-marketable Government Account Series (GAS) securities issued by the Treasury's Bureau of the Public Debt (BPD). Investments are made in securities with maturities suitable to the needs of the D.C. Federal Pension Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the D.C. Federal Pension Fund (from the General Fund of the Treasury) an annual amortization amount and, beginning in FY 2009, the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liabilities of the retirement programs assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The amounts paid into the D.C. Federal Pension Fund during FY 2010 and FY 2009 were \$519.2 million and \$400.3 million, respectively.

b. District of Columbia Judicial Retirement and Survivors Annuity Fund

Pursuant to the Act, Treasury established the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund – 20X8212).

The Judicial Retirement Fund is used for the accumulation of funds to finance obligations of the Federal Government for benefits and necessary administrative expenses of the Judges' Plan under the provisions of the Act.

The Judicial Retirement Fund consists of the following:

- Amounts deposited from the proceeds of assets transferred to Treasury from the District of Columbia Retirement Board (DCRB) pursuant to the Act;
- Amounts deposited from the General Fund of the Treasury;
- Income earned on the investments held in the Judicial Retirement Fund; and
- Employee contributions to the Judicial Retirement Fund.

The portion of the Fund that is not needed to meet the level of current benefit payments, refunds and net administrative expenses is invested in GAS securities. Investments are made in securities with maturities suitable to the needs of the Judicial Retirement Fund.

By the end of each fiscal year, the Act requires the Secretary to pay into the Judicial Retirement Fund (from the General Fund of the Treasury) an amount equal to the normal cost for the year, an annual amortization amount and the covered administrative expenses for the year. The annual amortization amount, as determined by an enrolled actuary, is the amount necessary to amortize the original unfunded liability of the retirement program assumed by the Federal Government over 30 years, the net experience gains or losses over 10 years, and any other changes in actuarial liability over 20 years. The

annual payment to the Judicial Retirement Fund also includes an amount necessary to fund the normal cost of the retirement program not covered by employee contributions. The amounts paid into the Judicial Retirement Fund during FY 2010 and FY 2009 were \$7.9 million and \$7.0 million, respectively.

2) Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

The Office's financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources, all of which are prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. The financial statements have been prepared from the accounting records of the Office in conformity with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America for federal entities are prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated as the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The financial statements are different from the financial reports, also prepared by the Office, pursuant to OMB directives that are used to monitor and control the Office's use of budgetary resources. These financial statements present the consolidated activities and balances of the D.C. Federal Pension Fund and the Judicial Retirement Fund. There were no transactions between the Funds that require elimination during consolidation.

b. Changes in Accounting Policy

Statement of Federal Financial Accounting Standards (SFFAS) No.33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. This Statement requires gains and losses from changes in long-term assumptions used to estimate federal employee pension, other retirement benefits (ORB) and other post-employment benefits (OPEB) liabilities to be displayed on the statement of net cost separately from other costs. The Statement also requires disclosure of the components of expense associated with the Federal pension liability in the notes to the financial statements. In addition, the Statement provides a standard for both the selection of a valuation date and a discount rate assumption for present value estimates of these liabilities. In accordance with SFFAS No. 33, the Office has implemented these new requirements effective October 1, 2009 and has not restated amounts related to FY 2009 included in the accompanying statement of net costs and related notes.

c. Fund Balance with Treasury

Fund balance with Treasury represents appropriated funds remaining as of fiscal year end from which the Office is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

d. Investments

Pursuant to the Act and Section 130 of Division A of Public Law 105-277 (1998), the Secretary invests the assets of the D.C. Federal Pension Fund and the Judicial Retirement

Fund in GAS, market-based (“MK”) securities — special non-marketable Treasury securities that mirror the prices of marketable securities with similar terms, issued and redeemed by BPD. The Office follows Treasury's investment policy guidelines and determines whether the investments should be made in MK bills, MK notes, or MK bonds. The maturities on investments range from less than one year to approximately ten years.

Amounts that are not necessary to meet current obligations are invested in MK securities. Amounts needed to meet current obligations are invested overnight in one-day MK securities, which are redeemed at face value plus accrued interest. If amounts held in cash, overnight securities and maturing securities are inadequate to meet required outlays, investments would be selected for redemption based on a review of the advantages of each of the alternatives and an assessment of the appropriateness of the securities in the portfolio under current investment policy.

Investments are valued at cost, adjusted for unamortized premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method.

e. Advances to Others

Advances to Others represents the carrying amount of advances and prepayments to the Department of the Treasury's Working Capital Fund to cover anticipated expenses for the costs of goods and services, such as communications and information technology services, expected to be received or to cover certain periodic expenses before those expenses are incurred.

f. ADP Software, Net

ADP Software, Net represents the pension benefit and payroll software purchased and independent contractor costs incurred in FY 2000 – FY 2008 to develop a pension/payroll system to meet Treasury's and D.C.'s needs (net of accumulated amortization).

Internal use software is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize software acquisitions that exceed \$50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000

Software is amortized using the straight-line method over an estimated useful life of five years, with six months amortization taken in the first and last year.

g. Equipment, Net

Equipment, Net represents computer hardware purchases (net of accumulated depreciation) placed in service and used to run ADP Software and operation of the pension/payroll system. Equipment is recorded at cost and capitalized in accordance with the following thresholds:

- Capitalize equipment acquisitions that exceed \$50,000
- Capitalize bulk purchases (a single purchase of like items in the same lot with a unit cost greater than \$5,000 and less than \$50,000) that exceed \$500,000
- Capitalize aggregate purchases (multiple purchases of items directly related to a specific project and unit cost is less than \$50,000) that exceed \$500,000

Equipment is depreciated using the straight-line method over an estimated useful life of five years, with six months depreciation taken in the first and last year.

h. Accounts Receivable

Accounts receivable consist primarily of: (a) the amount due from the D.C. government for the District's share of benefits paid by the Office to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period, (b) amounts due from the D.C. government for the District's estimated share of refunds paid by the Office in prior years, (c) employee retirement contributions withheld from judges' salaries not yet transferred from the General Services Administration to the Judicial Retirement Fund before the end of each fiscal year, and (d) amounts due from annuitants and survivors as the result of benefit overpayments.

i. Accrued Pension Benefits Payable

Accrued pension benefits payable pertains, for the most part, to retirement benefits to which the recipients became entitled during the reporting period, but which, by law, are paid on the first business day of the subsequent period. This accrual may also include amounts for refund claims for which processing was not completed during the reporting period, but will be paid in the subsequent period.

j. Actuarial Pension Liability

The actuarial cost method used to determine costs for the Police Officers' and Firefighters' Retirement Plan, Teachers' Retirement Plan, and Judges' Retirement Plan is the Aggregate Entry Age Normal Cost Method. Under this funding method, the normal cost is a level percent of covered salary, which, along with the member contributions (under the Judges' Plan only), will pay for projected benefits at retirement for the active plan participants. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future normal costs or member contributions. The difference between this liability and the funds accumulated at the same date is referred to as the unfunded actuarial pension liability. In FY 2009, the actuarial pension liability was based upon economic assumptions made by Treasury. In FY 2010, the economic assumptions used to calculate the actuarial pension liability are based upon the requirements of SFFAS No. 33.

SFFAS No.33 provides standards for selecting the discount rate assumption for pension liabilities. To calculate the pension liability as of October 1, 2010, the Office used a 30-year yield curve based on Treasury securities to determine discount rates consistent with the requirements of SFFAS No. 33. The assumptions used to calculate the pension liability as of October 1, 2010, were an annual rate of investment return of 2.79% in

FY 2011 based on the securities held in the Judicial Retirement Fund and D.C. Federal Pension Fund, gradually increasing to 5.13% by FY 2041; an annual inflation and cost-of-living adjustment of 2.78% for judges, and 2.56% for teachers, police officers, and firefighters; and salary increases at an annual rate of 2.11% for judges, and 4.20% for teachers, police officers, and firefighters.

The assumptions used to calculate the pension liability as of October 1, 2009, were an annual rate of investment return of 5.2% in FY 2010 based on the securities held in the Judicial Retirement Fund, gradually increasing to 6.0% by FY 2017; an annual rate of investment of 4.5% in FY 2010 based on securities held in the D.C. Federal Pension Fund, gradually increasing to 6.0% by FY 2016; an annual inflation and cost-of-living adjustment of 3.5%; and salary increases at an annual rate of 3.5% for judges, 5.5% for teachers, and 6.5% for police officers and firefighters. SFFAS No. 33 does not require that the new standards for selecting the discount rate assumption for pension liabilities be applied to FY 2009. SFFAS No. 33 also provides standards for selecting the valuation date for measuring the pension liability. The Office did not select a new valuation date as the valuation date currently being used already satisfies the requirements of SFFAS No. 33.

k. Appropriations Received and Used

Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the D.C. Federal Pension Fund to amortize the original unfunded liabilities assumed by the Federal Government and any subsequent changes in liabilities over a period of time and to fund the normal cost and necessary administrative expenses of the Funds. The appropriations are received into the Office's appropriation funds and are paid out to the Judicial Retirement Fund and the D.C. Federal Pension Fund to be invested in non-marketable GAS securities. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, the payment from the Office's appropriation funds results in an appropriation used, as reported in the accompanying Consolidated Statements of Changes in Net Position. Appropriations received and used for the years ended September 30, 2010 and 2009 were \$527.2 million and \$407.4 million, respectively.

l. Treasury Employee Retirement Plans

The D.C. Federal Pension Fund and Judicial Retirement Fund pay salaries and benefits of Treasury employees who work in the Office as reasonable and necessary expenses incurred in carrying out the Secretary's responsibilities under the Act. These salaries and benefits are split 90% and 10% between the D.C. Federal Pension Fund and the Judicial Retirement Fund, respectively.

The Office's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to either transfer to FERS or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For employees participating in FERS, TSP accounts are automatically established and the D.C. Federal

Pension Fund and the Judicial Retirement Fund make mandatory contributions of one percent of the Treasury employees' base pay to the accounts. In addition, the Funds make matching contributions, ranging from 1% to 4% of base pay, for FERS eligible employees who contribute to their TSP accounts. Pursuant to law, mandatory and matching contributions are not made to the TSP accounts established for CSRS employees.

FERS employees and certain CSRS reinstatement employees participate in the Social Security program. The D.C. Federal Pension Fund and Judicial Retirement Fund remit the employer's share of the required contributions for eligible employees.

The D.C. Federal Pension Fund and Judicial Retirement Fund do not report information pertaining to the CSRS and FERS retirement plans covering Treasury employees. The U.S. Office of Personnel Management is responsible for reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any.

m. President's Budget

The Budget of the United States (also known as the "President's Budget"), with actual numbers for FY 2010, was not published at the time that these financial statements were issued. The President's Budget for FY 2012, which includes the Office's budget within the Other Independent Agencies' budget appendix, is expected to be published in January or February 2011. It will be available from the United States Government Printing Office. The FY 2009 Statement of Budgetary Resources (SBR) was reconciled to the Program and Financing (P&F) Schedules within the President's Budget for FY 2011 and there were no differences for budgetary resources, status of budgetary resources, and net outlays.

Earnings on investments in U.S. securities, federal (as reported in the annual President's Budget) consists of interest collected from GAS securities less premiums and interest purchased. Interest earned from GAS Securities (as reported in the financial statements) consists of interest earned from GAS securities and the amortization of premiums and discounts.

n. Earmarked Funds

Funding Sources

All proceeds received and deposited by the Office are earmarked for the purpose of providing annuity payments for retired District of Columbia teachers, police officers and firefighters for services earned prior to July 1, 1997, and for retirement benefits earned by District of Columbia judges, regardless of when services were earned.

Funding for the Judicial Retirement Fund is authorized by 111 Stat. 757, Sec. 11251, Public Law 105-33 as amended by 112 Stat. 2681-534, Sec. 804(a)(4), Public Law 105-277.

Funding for the D.C. Federal Pension Fund is authorized by 118 Stat. 3967, Sec. 11084, Public Law 108-489. Sources of revenue or other financing sources for the years ended September 30, 2010, and 2009 were annual appropriations, employee contributions, and interest earnings from investments.

Intra-governmental Investments in Treasury Securities

The Federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the Office as evidence of its receipts. Treasury securities are an asset of the Office and a liability to the U.S. Treasury. Since the Office and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the U.S. Treasury and the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Office with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Office requires redemption of these securities to make expenditures, the Federal government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal government finances all other expenditures.

o. Income Taxes

The Office, a component of an agency of the Federal government, is not subject to Federal, state, or local income taxes and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

3) Fund Balance with Treasury

Fund balance with Treasury and the status of Fund balance with Treasury as of September 30, 2010 and 2009, consisted of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Fund balances:		
Trust fund	\$ 100	\$ 13
Special fund *	<u>6,706</u>	<u>237</u>
Total fund balance with Treasury	<u>\$ 6,806</u>	<u>\$ 250</u>

* OMB Circular A-11 defines special funds as a Federal fund account for receipts earmarked for specific purposes and the expenditure of these receipts.

	<u>2010</u>	<u>2009</u>
Status of fund balance with Treasury		
Obligated balance not yet disbursed	\$ <u>6,806</u>	\$ <u>250</u>
Total	<u>\$ 6,806</u>	<u>\$ 250</u>

4) Investments in GAS Securities - Net

Investments in GAS securities – net as of September 30, 2010 and 2009 consisted of the following (in thousands):

2010				
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	\$ 302,493	—	302,493	302,493
Non-marketable market-based	3,491,447	156,315	3,647,762	3,862,121
Total	<u>\$ 3,793,940</u>	<u>156,315</u>	<u>3,950,255</u>	<u>4,164,614</u>
2009				
	Cost	Unamortized Premium, Net	Investments Net	Market Value
Intragovernmental Securities				
Non-marketable par value	\$ 312,333	—	312,333	312,333
Non-marketable market-based	3,444,181	82,783	3,526,964	3,705,035
Total	<u>\$ 3,756,514</u>	<u>82,783</u>	<u>3,839,297</u>	<u>4,017,368</u>

The amortization method utilized by the Office is the effective interest method. The market value for notes and bonds is calculated using rates for September 30, 2010 and 2009, as published in the Treasury Quote Sheets prepared by Treasury's Office of Market Finance. Included in this figure are a net unrealized gain of \$214.3 million as of September 30, 2010, and a net unrealized gain of \$178.1 million as of September 30, 2009.

The amortized cost of non-marketable market-based GAS securities as of September 30, 2010 and 2009, by maturity date, are as follows (in thousands):

	2010	2009
Less than or equal to 1 year	\$ 574,547	\$ 576,676
More than 1 year and less than or equal to 5 years	2,284,845	2,215,931
More than 5 years and less than or equal to 10 years	<u>788,370</u>	<u>734,357</u>
Total	<u>\$ 3,647,762</u>	<u>\$ 3,526,964</u>

5) ADP Software, Net

The components of ADP software, net as of September 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
ADP software	\$ 40,129	\$ 40,073
Accumulated amortization	<u>(36,918)</u>	<u>(34,516)</u>
ADP software, net	<u>\$ 3,211</u>	<u>\$ 5,557</u>

6) Equipment, Net

The components of equipment, net as of September 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
ADP hardware	\$ 500	\$ 500
Accumulated depreciation	<u>(500)</u>	<u>(500)</u>
Equipment, net	<u>\$ —</u>	<u>\$ —</u>

7) Intra-governmental Costs and Exchange Revenue

Intra-governmental Costs and Exchange Revenue for the years ended September 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Program Costs		
Intragovernmental Costs	\$ 4,854	\$ 4,549
Public Costs	<u>1,230,201</u>	<u>780,344</u>
Total Program Costs	<u>1,235,055</u>	<u>784,893</u>
Program Revenue		
Intragovernmental Earned Revenue	(126,920)	(133,796)
Public Earned Revenue	<u>(729)</u>	<u>(613)</u>
Total Program Revenue	<u>(127,649)</u>	<u>(134,409)</u>
Net Program Cost	<u>\$ 1,107,406</u>	<u>\$ 650,484</u>

8) Administrative Expenses

Administrative expenses for the years ended September 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Intragovernmental Expenses		
Salaries and Related Benefits	\$ 746	\$ 661
Contractual Services	3,541	3,404
Rent	556	465
Noncapitalized Equipment/Software	3	-
Other	<u>8</u>	<u>19</u>
Total intragovernmental expenses	<u>4,854</u>	<u>4,549</u>
Public Expenses		
Salaries and Related Benefits	2,583	2,448
Contractual Services	3,931	5,447
Noncapitalized Equipment/Software	164	-
Amortization/Depreciation	2,402	2,965
Other	<u>19</u>	<u>23</u>
Total public expenses	<u>9,099</u>	<u>10,883</u>
Total administrative expenses	<u>\$ 13,953</u>	<u>\$ 15,432</u>

Included in the administrative expenses are amounts incurred by the D.C. Federal Pension Fund and Judicial Retirement Fund for intra-governmental activity totaling \$4,415 thousand and \$439 thousand, respectively, for 2010, and \$4,051 thousand and \$498 thousand, respectively, for 2009.

9) Pension Expense

Pension expense for the plan years ended September 30, 2010, and 2009, includes the following components (in thousands):

	<u>2010</u>	<u>2009</u>
Beginning Liability Balance	\$ 9,049,094	\$ 8,803,389
Pension Expense:		
Normal Cost	4,585	4,223
Interest on Pension Liability During the Period	398,632	404,527
Actuarial (Gains)/Losses During the Period:		
From Experience	(61,101)	-
From Discount Rate Assumption Change	1,877,655	-
From Other Assumption Changes	<u>(998,669)</u>	<u>360,711</u>
Total Pension Expense	1,221,102	769,461
Less Amounts Paid and Accrued	<u>(527,617)</u>	<u>(523,756)</u>
Ending Liability Balance	<u>\$ 9,742,579</u>	<u>\$ 9,049,094</u>

Federal Benefit Payments

Federal pension benefits paid and accrued during the plan years were \$519.2 million and \$8.4 million from the D.C. Federal Pension Fund and Judicial Retirement Fund, respectively, for 2010, and \$515.7 million and \$8.0 million, respectively, for 2009. For FY 2010 and FY 2009, approximately \$0.4 million and \$0.6 million, respectively, represent contribution refunds to plan participants of the D.C. Federal Pension Fund.

Actuarial Gains and Losses

SFFAS No. 33 requires entities to disclose in notes to the financial statements a reconciliation of beginning and ending pension liability balances. In addition, the line item for actuarial gains and losses should be broken out into the sub-components "from experience" and "from assumptions changes." Numeric data needed for these sub-components was derived from the annual actuarial valuation. SFFAS No. 33 does not require FY 2009 data to be restated and as such, there is no comparative data for the sub-components of the actuarial gain and loss.

In FY 2010, due to the adoption of SFFAS No. 33 assumptions, there was a net liability actuarial loss in both funds. There was a liability actuarial loss of \$1.878 billion due to new discount rate assumptions and a liability actuarial gain of \$999 million due to new

pay and cost-of-living assumptions, resulting in a net loss of \$879 million due to changes in actuarial assumptions. There was also a liability actuarial gain of \$61 million due to actuarial experience, resulting in a total liability loss of \$818 million for both funds.

In FY 2009, there was an actuarial loss in the D.C. Federal Pension Fund and an actuarial gain in the Judicial Retirement Fund due to other assumption changes, in particular, improved mortality rates for police officers, firefighters, and teachers. The net result was a total actuarial loss of \$360.7 million for both funds.

10) Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2010, and 2009, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 1,070,864	\$ 950,376
Less: Spending Authority from Offsetting Collections and Adjustments	<u>11,873</u>	<u>7,519</u>
Obligations Net of Offsetting Collections and Recoveries	1,058,991	942,857
Less: Offsetting Receipts	<u>573,831</u>	<u>531,142</u>
Net Obligations	485,160	411,715
Imputed Financing from Costs Absorbed by Others	<u>177</u>	<u>126</u>
Total Resources Used to Finance Activities	485,337	411,841
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(1,671)	(594)
Resources That Fund Expenses Recognized in Prior Periods	(5,574)	5,007
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	<u>57</u>	<u>-</u>
Total Resources used to Finance Items not part of the Net Cost of Operations	<u>(7,188)</u>	<u>4,413</u>
Total Resources Used to Finance Net Cost of Operations	492,525	407,428
Components Requiring or Generating Resources in Future Periods		
Future Funded Expenses	<u>693,481</u>	<u>250,738</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	693,481	250,738
Components not Requiring or Generating Resources		
Depreciation and Amortization	(51,020)	(16,452)
Other	<u>(27,580)</u>	<u>8,770</u>
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	<u>(78,600)</u>	<u>(7,682)</u>
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	<u>614,881</u>	<u>243,056</u>
Net Cost of Operations	<u>\$ 1,107,406</u>	<u>\$ 650,484</u>

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Part 4: Supplementary Schedules



Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Balance Sheets
As of September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total	DC Judicial Retirement and Survivors Annuity Fund	DC Federal Pension Fund	Consolidated DC Pension Funds Total
Assets						
Entity Assets						
Intra-Governmental Assets						
Fund Balance with Treasury	\$ 100	6,706	6,806	\$ 13	237	250
Investments in GAS Securities, Net	132,538	3,817,717	3,950,255	128,752	3,710,545	3,839,297
Interest Receivable from GAS Securities	642	29,318	29,960	639	26,396	27,035
Advances to Others	4	35	39	8	70	78
Accounts Receivable, Net	-	1,234	1,234	-	6,807	6,807
ADP Software, Net	5	3,206	3,211	7	5,550	5,557
Equipment, Net	-	-	-	-	-	-
Total Assets	<u>\$ 133,289</u>	<u>3,858,216</u>	<u>3,991,505</u>	<u>\$ 129,419</u>	<u>3,749,605</u>	<u>3,879,024</u>
Liabilities						
Liabilities Covered By Budgetary Resources						
Intra-Governmental						
Accounts Payable	\$ 21	119	140	\$ 81	388	469
Accrued Payroll and Benefits	3	28	31	3	25	28
Accounts Payable	20	2,810	2,830	51	5,297	5,348
Accrued Pension Benefits Payable	711	49,561	50,272	672	47,766	48,438
Actuarial Pension Liability	126,460	3,600,369	3,726,829	122,428	3,557,822	3,680,250
Accrued Payroll and Benefits	35	312	347	28	274	302
Total Liabilities Covered By Budgetary Resources	<u>127,250</u>	<u>3,653,199</u>	<u>3,780,449</u>	<u>123,263</u>	<u>3,611,572</u>	<u>3,734,835</u>
Liabilities Not Covered By Budgetary Resources						
Actuarial Pension Liability	<u>58,605</u>	<u>5,957,145</u>	<u>6,015,750</u>	<u>34,169</u>	<u>5,334,675</u>	<u>5,368,844</u>
Total Liabilities	<u>185,855</u>	<u>9,610,344</u>	<u>9,796,199</u>	<u>157,432</u>	<u>8,946,247</u>	<u>9,103,679</u>
Net Position						
Cumulative Results of Operations - Earmarked	<u>(52,566)</u>	<u>(5,752,128)</u>	<u>(5,804,694)</u>	<u>(28,013)</u>	<u>(5,196,642)</u>	<u>(5,224,655)</u>
Total Net Position	<u>(52,566)</u>	<u>(5,752,128)</u>	<u>(5,804,694)</u>	<u>(28,013)</u>	<u>(5,196,642)</u>	<u>(5,224,655)</u>
Total Liabilities and Net Position	<u>\$ 133,289</u>	<u>3,858,216</u>	<u>3,991,505</u>	<u>\$ 129,419</u>	<u>3,749,605</u>	<u>3,879,024</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Net Cost
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
<i>Program Costs</i>						
<i>Administrative Expenses</i>	\$ 748	13,205	13,953	\$ 833	14,599	15,432
<i>Pension Expense before Actuarial Assumption Changes</i>	11,045	331,071	342,116	3,052	766,409	769,461
<i>Less: Earned Revenues</i>						
<i>Interest Earned</i>	4,343	122,577	126,920	4,621	129,175	133,796
<i>Employee Contributions</i>	729	-	729	613	-	613
<i>Net Expense Before Loss from Actuarial Assumption Changes</i>	6,721	221,699	228,420	(1,349)	651,833	650,484
<i>Loss on Actuarial Assumption Changes, Net</i>	25,840	853,146	878,986	-	-	-
<i>Net Cost of Operations</i>	<u>\$ 32,561</u>	<u>1,074,845</u>	<u>1,107,406</u>	<u>\$ (1,349)</u>	<u>651,833</u>	<u>650,484</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Statements of Changes in Net Position
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
<i>Cumulative Results of Operations</i>						
<i>Net Position - Beginning of Year</i>	\$ (28,013)	(5,196,642)	(5,224,655)	\$ (36,415)	(4,945,262)	(4,981,677)
<i>Budgetary Financing Sources</i>						
<i>Appropriations Used</i>	7,990	519,200	527,190	7,040	400,340	407,380
<i>Other Financing Sources</i>						
<i>Imputed Financing Sources</i>	18	159	177	13	113	126
<i>Total Financing Sources</i>	8,008	519,359	527,367	7,053	400,453	407,506
<i>Net Cost of Operations</i>	(32,561)	(1,074,845)	(1,107,406)	1,349	(651,833)	(650,484)
<i>Net Change</i>	(24,553)	(555,486)	(580,039)	8,402	(251,380)	(242,978)
<i>Net Position - End of Year</i>	\$ (52,566)	(5,752,128)	(5,804,694)	\$ (28,013)	(5,196,642)	(5,224,655)

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Combining Statements of Budgetary Resources
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Combined DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Combined DC Pension Funds Total</i>
<i>Budgetary Resources</i>						
<i>Unobligated Balance - brought forward</i>	\$ -	-	-	\$ -	-	-
<i>Recoveries of Prior Year Unpaid Obligations</i>	726	5,950	6,676	45	1,882	1,927
<i>Budget Authority:</i>						
<i>Appropriations</i>	20,530	1,085,041	1,105,571	19,780	927,023	946,803
<i>Spending Authority from Offsetting Collections:</i>						
<i>Earned:</i>						
<i>Collected</i>	-	5,197	5,197	-	5,591	5,591
<i>Temporarily Unavailable Pursuant to Public Law</i>	(4,033)	(42,547)	(46,580)	(3,945)	-	(3,945)
<i>Total Budgetary Resources</i>	<u>\$ 17,223</u>	<u>1,053,641</u>	<u>1,070,864</u>	<u>\$ 15,880</u>	<u>934,496</u>	<u>950,376</u>
<i>Status of Budgetary Resources</i>						
<i>Obligations Incurred:</i>						
<i>Direct</i>	\$ 17,223	1,053,641	1,070,864	\$ 15,880	934,496	950,376
<i>Total Status of Budgetary Resources</i>	<u>\$ 17,223</u>	<u>1,053,641</u>	<u>1,070,864</u>	<u>\$ 15,880</u>	<u>934,496</u>	<u>950,376</u>
<i>Change in Obligated Balance</i>						
<i>Unpaid obligations brought forward, Oct. 1</i>	\$ 1,611	59,427	61,038	\$ 1,542	58,358	59,900
<i>Obligations Incurred</i>	17,223	1,053,641	1,070,864	15,880	934,496	950,376
<i>Gross outlays</i>	(17,174)	(1,049,612)	(1,066,786)	(15,766)	(931,545)	(947,311)
<i>Recoveries of Prior Year Unpaid Obligations, Actual</i>	(726)	(5,950)	(6,676)	(45)	(1,882)	(1,927)
<i>Unpaid Obligated Balance, Net, End of Period:</i>	<u>934</u>	<u>57,506</u>	<u>58,440</u>	<u>1,611</u>	<u>59,427</u>	<u>61,038</u>
<i>Net Outlays</i>						
<i>Gross Outlays</i>	\$ 17,174	1,049,612	1,066,786	\$ 15,766	931,545	947,311
<i>Offsetting collections</i>	-	(5,197)	(5,197)	-	(5,591)	(5,591)
<i>Distributed offsetting receipts</i>	(7,990)	(565,841)	(573,831)	(7,040)	(524,102)	(531,142)
<i>Net Outlays</i>	<u>\$ 9,184</u>	<u>478,574</u>	<u>487,758</u>	<u>\$ 8,726</u>	<u>401,852</u>	<u>410,578</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Consolidating Intra-governmental Balances
As of and for the years ended September 30, 2010 and September 30, 2009
(in thousands)

Department	Intra-governmental balance description	2010			2009		
		<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
	Assets						
Treasury	Fund Balance with Treasury	\$ 100	6,706	6,806	\$ 13	237	250
Treasury	Investments in GAS securities, net	132,538	3,817,717	3,950,255	128,752	3,710,545	3,839,297
Treasury	Interest receivable from GAS securities	642	29,318	29,960	639	26,396	27,035
Treasury	Advances to Others	4	35	39	8	70	78
	Total intra-governmental assets	\$ 133,284	3,853,776	3,987,060	\$ 129,412	3,737,248	3,866,660
	Liabilities						
Treasury	Accounts Payable	\$ 21	116	137	\$ 80	386	466
OPM	Accounts Payable	—	3	3	—	—	—
GSA	Accounts Payable	—	—	—	—	3	3
Gen Fund	Accrued Payroll and Benefits	—	9	9	—	1	1
OPM	Accrued Payroll and Benefits	3	19	22	3	24	27
	Total intra-governmental liabilities	\$ 24	147	171	\$ 83	414	497
	Revenues						
Treasury	Interest earned/loss from GAS Securities, Net	\$ 4,343	122,577	126,920	\$ 4,621	129,175	133,796
OPM	Imputed Financing Sources	18	159	177	13	113	126
	Total intra-governmental revenues	\$ 4,361	122,736	127,097	\$ 4,634	129,288	133,922
	Expenses						
Treasury	Salaries and related benefits	\$ 2	15	17	1	14	15
OPM	Salaries and related benefits	57	516	573	50	450	500
Gen Fund	Salaries and related benefits	16	140	156	15	131	146
Treasury	Contractual Services	307	3,231	3,538	379	3,025	3,404
OPM	Contractual Services	—	3	3	—	—	—
Treasury	Rent	55	501	556	46	419	465
GPO	Other	—	2	2	6	3	9
Treasury	Other	1	8	9	1	9	10
	Total intra-governmental expenses	\$ 438	4,416	4,854	\$ 498	4,051	4,549

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in GAS Securities - Net By Fund
As of September 30, 2010 and September 30, 2009
(in thousands)

	2010				2009			
	Cost	Unamortized Premium Net	Investments Net	Market Value	Cost	Unamortized Premium Net	Investments Net	Market Value
D. C. Judicial Retirement and Survivors Annuity Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 5,278	-	5,278	5,278	\$ 7,695	-	7,695	7,695
Non-marketable Market-based	122,525	4,735	127,260	136,110	116,840	4,217	121,057	125,480
Total	<u>\$ 127,803</u>	<u>4,735</u>	<u>132,538</u>	<u>141,388</u>	<u>\$ 124,535</u>	<u>4,217</u>	<u>128,752</u>	<u>133,175</u>
D.C. Federal Pension Fund:								
Intragovernmental Securities								
Non-marketable Par Value	\$ 297,215	-	297,215	297,215	\$ 304,638	-	304,638	304,638
Non-marketable Market-based	3,368,922	151,580	3,520,502	3,726,011	3,327,341	78,566	3,405,907	3,579,555
Total	<u>\$ 3,666,137</u>	<u>151,580</u>	<u>3,817,717</u>	<u>4,023,226</u>	<u>\$ 3,631,979</u>	<u>78,566</u>	<u>3,710,545</u>	<u>3,884,193</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Investments in Nonmarketable Market-Based GAS Securities - Net By Fund and Maturity
As of September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Time of Maturity						
Less than or equal to 1 year	\$ 12,100	562,447	574,547	\$ 8,257	568,419	576,676
More than 1 year and less than or equal to 5 years	48,981	2,235,864	2,284,845	48,329	2,167,602	2,215,931
More than 5 years and less than or equal to 10 years	66,179	722,191	788,370	64,471	669,886	734,357
Total	\$ <u>127,260</u>	<u>3,520,502</u>	<u>3,647,762</u>	\$ <u>121,057</u>	<u>3,405,907</u>	<u>3,526,964</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Intragovernmental Costs and Exchange Revenue - by Fund
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Program Costs						
Intragovernmental Costs	\$ 438	4,416	4,854	\$ 498	4,051	4,549
Public Costs	37,195	1,193,006	1,230,201	3,387	776,957	780,344
Total Program Costs	<u>37,633</u>	<u>1,197,422</u>	<u>1,235,055</u>	<u>3,885</u>	<u>781,008</u>	<u>784,893</u>
Program Revenue						
Intragovernmental Earned Revenue	(4,343)	(122,577)	(126,920)	(4,621)	(129,175)	(133,796)
Public Earned Revenue	(729)	-	(729)	(613)	-	(613)
Total Program Revenue	<u>(5,072)</u>	<u>(122,577)</u>	<u>(127,649)</u>	<u>(5,234)</u>	<u>(129,175)</u>	<u>(134,409)</u>
Net Program Cost	\$ <u>32,561</u>	<u>1,074,845</u>	<u>1,107,406</u>	\$ <u>(1,349)</u>	<u>651,833</u>	<u>650,484</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Administrative Expenses - by Fund
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Intragovernmental Expenses						
Salaries and Related Benefits	\$ 75	671	746	\$ 66	595	661
Contractual Services	307	3,234	3,541	379	3,025	3,404
Rent	55	501	556	46	419	465
Noncapitalized Equipment/Software	-	3	3	-	-	-
Other	1	7	8	7	12	19
Total intragovernmental expenses	<u>438</u>	<u>4,416</u>	<u>4,854</u>	<u>498</u>	<u>4,051</u>	<u>4,549</u>
Public Expenses						
Salaries and Related Benefits	261	2,322	2,583	240	2,208	2,448
Contractual Services	42	3,889	3,931	88	5,359	5,447
Noncapitalized Equipment/Software	2	162	164	-	-	-
Amortization/Depreciation	3	2,399	2,402	5	2,960	2,965
Other	2	17	19	2	21	23
Total public expenses	<u>310</u>	<u>8,789</u>	<u>9,099</u>	<u>335</u>	<u>10,548</u>	<u>10,883</u>
Total administrative expenses	<u>\$ 748</u>	<u>13,205</u>	<u>13,953</u>	<u>\$ 833</u>	<u>14,599</u>	<u>15,432</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Pension Expense - by Fund
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>	<i>D.C. Judicial Retirement and Survivors Annuity Fund</i>	<i>D.C. Federal Pension Fund</i>	<i>Consolidated D.C. Pension Funds Total</i>
Beginning Liability Balance	\$ 156,597	8,892,497	9,049,094	\$ 161,632	8,641,757	8,803,389
Pension Expense:						
Normal Cost	4,585	-	4,585	4,223	-	4,223
Interest on Pension Liability During the Period	7,975	390,657	398,632	8,244	396,283	404,527
Actuarial (Gains) Losses During the Period:						
From Experience	(1,515)	(59,586)	(61,101)			
From Discount Rate Assumption Change	33,562	1,844,093	1,877,655	-	-	-
From Other Assumption Changes	(7,722)	(990,947)	(998,669)	(9,415)	370,126	360,711
Total Pension Expense	36,885	1,184,217	1,221,102	3,052	766,409	769,461
Less Amounts Paid and Accrued	8,417	519,200	527,617	8,087	515,669	523,756
Ending Liability Balance	\$ <u>185,065</u>	<u>9,557,514</u>	<u>9,742,579</u>	\$ <u>156,597</u>	<u>8,892,497</u>	<u>9,049,094</u>

See accompanying independent auditors' report.

Department of the Treasury
Departmental Offices
Office of D.C. Pensions
Reconciliation of Net Cost of Operations to Budget - by Fund
For the Years Ended September 30, 2010 and September 30, 2009
(in thousands)

	2010			2009		
	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>	<i>DC Judicial Retirement and Survivors Annuity Fund</i>	<i>DC Federal Pension Fund</i>	<i>Consolidated DC Pension Funds Total</i>
Budgetary Resources Obligated						
Obligations Incurred	\$ 17,223	1,053,641	1,070,864	\$ 15,880	934,496	950,376
Less: Spending Authority from Offsetting Collections and Adjustments	726	11,147	11,873	45	7,474	7,519
Obligations Net of Offsetting Collections and Recoveries	16,497	1,042,494	1,058,991	15,835	927,022	942,857
Less: Offsetting Receipts	7,990	565,841	573,831	7,040	524,102	531,142
Net Obligations	8,507	476,653	485,160	8,795	402,920	411,715
Imputed Financing from Costs Absorbed by Others	18	159	177	13	113	126
Total Resources Used to Finance Activities	8,525	476,812	485,337	8,808	403,033	411,841
Resources Used to Finance Items Not Part of the Net Cost of Operations						
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(636)	(1,035)	(1,671)	(108)	(486)	(594)
Resources That Fund Expenses Recognized in Prior Periods	-	(5,574)	(5,574)	5,033	(26)	5,007
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1	56	57	-	-	-
Total Resources used to Finance Items not part of the Net Cost of Operations	(635)	(6,553)	(7,188)	4,925	(512)	4,413
Total Resources Used to Finance Net Cost of Operations	9,160	483,365	492,525	3,883	403,545	407,428
Components Requiring or Generating Resources in Future Periods						
Future Funded Expenses	28,467	665,014	693,481	-	250,738	250,738
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	28,467	665,014	693,481	-	250,738	250,738
Components not Requiring or Generating Resources						
Depreciation and Amortization	3	(51,023)	(51,020)	5	(16,457)	(16,452)
Other	(5,069)	(22,511)	(27,580)	(5,237)	14,007	8,770
Total Components of Net Cost Operations that will not Require or Generate Resources in Future Periods	(5,066)	(73,534)	(78,600)	(5,232)	(2,450)	(7,682)
Total Components of Net Cost Operations that will not Require or Generate Resources in Current Periods	23,401	591,480	614,881	(5,232)	248,288	243,056
Net Cost of Operations	\$ 32,561	1,074,845	1,107,406	\$ (1,349)	651,833	650,484

See accompanying independent auditors' report.

