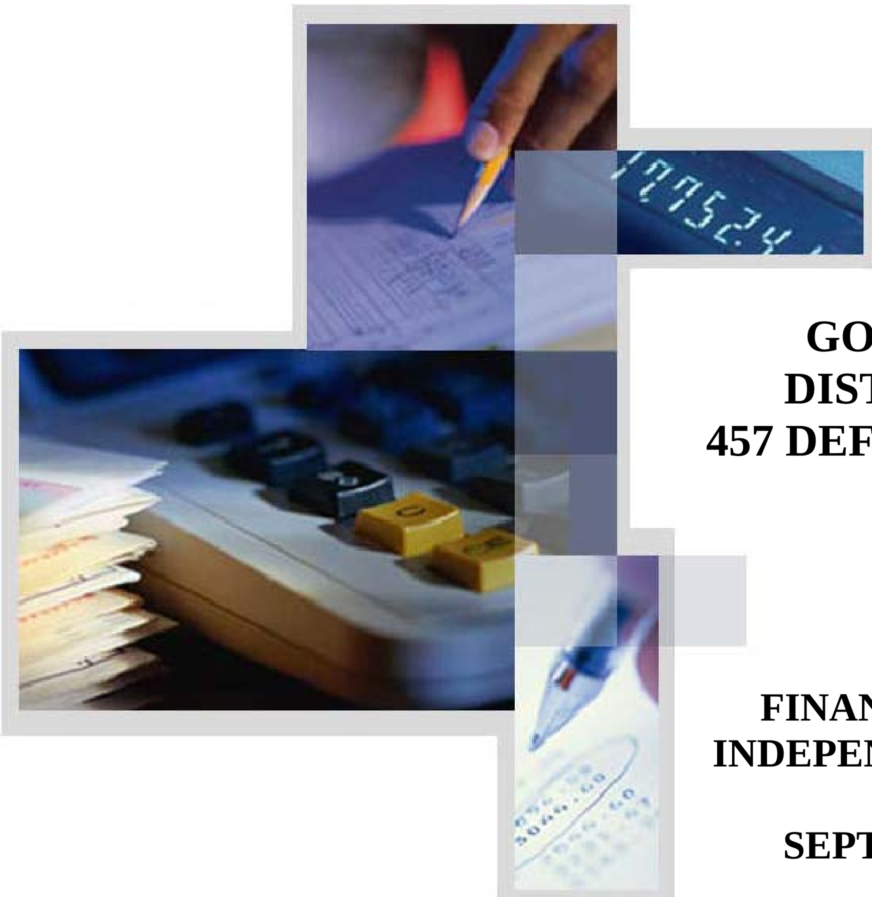

GOVERNMENT OF THE DISTRICT OF COLUMBIA 457 DEFERRED COMPENSATION PLAN

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT YEARS ENDED SEPTEMBER 30, 2012 and 2011

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
457 DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Office of Finance and Treasury
Office of the Chief Financial Officer
Government of the District of Columbia

We have audited the accompanying statements of fiduciary net assets of the District of Columbia's 457 Deferred Compensation Plan (the "Plan") as of September 30, 2012 and 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Government of the District of Columbia's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of September 30, 2012 and 2011 and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Washington, DC Bazilio Cobb Associates
February 1, 2013

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia's 457 Deferred Compensation Plan (the "Plan") for the years ended September 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

Under the District's Deferred Compensation Act of 1984, D.C. Law 5-118, and D.C. Code Section 47-3601, the Government of the District of Columbia (the "District") offers for eligible employees a qualified employee deferred compensation plan. The Plan enables eligible employees to make tax deferred contributions towards their retirement. The duties of the Plan Administrator are performed jointly by the District's Office of the Chief Financial Officer, Office of Finance and Treasury, and the D.C. Department of Human Resources.

The Plan's financial statements consist of two basic financial statements: (a) Statement of Fiduciary Net Assets and (b) Statement of Changes in Fiduciary Net Assets.

- The Statement of Fiduciary Net Assets presents the Plan's assets, liabilities, and net assets available for participant benefits.

- The Statement of Changes in Fiduciary Net Assets presents the additions and deductions to the Plan's net assets.

2012 Financial Highlights

- Investments increased by $50,878,715 or 12.57%
- Participants were permitted to borrow from their retirement accounts during the fiscal year. At September 30, 2012, participant loans totaled $10,372,904
- Contributions increased by $2,147,907 or 5.73%
- Net investment income was $53,040,641, an increase of $53,368,046 or 16,300.31%
- Benefits paid to participants decreased by $1,711,357 or 5.19%

2011 Financial Highlights

- Investments increased by $3,905,022 or 0.97%
- Contributions decreased by $895,471 or 2.33%
- Net investment loss was $327,405, a decrease of $23,959,483 or 101.39%
- Benefits paid to participants decreased by $5,280,022 or 13.81%

Financial Analysis

Table 1 - Statements of Fiduciary Net Assets as of September 30, 2012, 2011 and 2010

				2012 - 2011		2011 - 2010	
	2012	2011	2010	Variance	% Variance	Variance	% Variance
ASSETS							
Investments	$ 455,700,120	$ 404,821,405	$ 400,916,383	$ 50,878,715	12.57	$ 3,905,022	0.97
Notes Receivable from Participants	10,372,904	-	-	10,372,904	100.00	-	-
Total Assets	466,073,024	404,821,405	400,916,383	61,251,619	15.13	3,905,022	0.97
LIABILITIES							
Due to the District Government	184,797	172,645	270,726	12,152	7.04	(98,081)	(36.23)
Total Liabilities	184,797	172,645	270,726	12,152	7.04	(98,081)	(36.23)
Net Assets Held in Trust For Plan Benefits	$ 465,888,227	$ 404,648,760	$ 400,645,657	$ 61,239,467	15.13	$ 4,003,103	1.00

Fiscal Year 2012

The Plan's investments increased from 2011 by $50,878,715 or 12.57%. The increase is attributed to the investment performance in the overall market. All of the investments had positive rates of return.

As shown in **Table 2a - Investments by Fund with Rates of Returns as of September 30, 2012**, a significant portion of the Plan's investments were in the DCPLUS Stable Value Portfolio (47.8%) and the DCPLUS Large Cap Value Portfolio (14.4%). The DCPLUS Stable Value Portfolio is a collective investment trust that seeks to provide preservation of principal and maximize current yield, while closely tracking intermediate term interest rates. The DCPLUS Large Cap Value Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. As of September 30, 2012, the DCPLUS Stable Value Portfolio and DCPLUS Large Cap Value Portfolio had a rate of return of 2.77% and 28.43%, respectively.

The amount "Due to the District Government" represents funds owed to the District as Plan Administrator to use towards paying the Plan's administrative expenses. The Program Manager provides revenue sharing funds to the Plan Administrator on a monthly basis. The funding is equal to 5 basis points (0.05%) of the Plan's daily asset value.

Fiscal Year 2011

The Plan's investments increased from 2010 by $3,905,022 or 0.97%. The increase was attributed to an overall decrease in benefit payments to participants.

As shown in **Table 2b - Investments by Fund with Rates of Returns as of September 30, 2011**, a significant portion of the Plan's investments were in the DCPLUS Stable Value Portfolio (53.7%) and the DCPLUS Large Cap Value Portfolio (13.3%). The DCPLUS Stable Value Portfolio is a collective investment trust that seeks to provide preservation of principal and maximize current yield while closely tracking intermediate term interest rates. The DCPLUS Large Cap Value Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. As of September 30, 2011, the DCPLUS Stable Value Portfolio and DCPLUS Large Cap Value Portfolios had a rate of return of 2.94% and (0.92)%, respectively.

The amount "Due to the District Government" represents funds owed to the District as Plan Administrator to use towards paying the Plan's administrative expenses. The Program Manager provides revenue sharing funds to the Plan Administrator on a monthly basis. The funding is equal to 5 basis points (0.05%) of the Plan's daily asset value.

Table 2a - Investments by Fund with Rates of Return as of September 30, 2012

	Investment Value	Percentage of Total Assets	Rate of Return %
DCPLUS Stable Value Portfolio	$ 217,697,981	47.8	2.77
DCPLUS Fixed Income Portfolio	8,308,222	1.8	5.51
DCPLUS Large Cap Value Portfolio	65,573,579	14.4	28.43
DCPLUS Large Cap Growth Portfolio	9,956,224	2.2	29.39
PIMCO Total Return Fund	6,446,556	1.4	11.30
BlackRock Liquidity Federal Trust Fund	1,440,759	0.3	0.02
Vanguard Target Retirement Income	1,673,204	0.4	11.52
Vanguard Target Retirement 2015	1,292,593	0.3	16.53
Vanguard Target Retirement 2025	4,075,757	0.9	19.65
Vanguard Target Retirement 2035	3,875,027	0.9	22.73
Vanguard Target Retirement 2045	1,116,947	0.2	23.14
Vanguard Institutional Index Fund	36,021,645	7.9	30.18
Vanguard Small Cap Index	3,141,115	0.7	32.37
Ariel Fund	26,157,827	5.7	35.48
Fidelity VIP Mid Cap Portfolio	15,039,905	3.3	18.50
Pax World Balanced Fund	15,710,850	3.4	18.68
The Brown Capital Management Small Company Fund	6,691,245	1.5	25.52
ING Growth & Income Portfolio	6,723,165	1.5	32.51
ING GNMA Income Fund	4,059,094	0.9	5.06
ING T. Rowe Price Capital Appreciation Portfolio	4,476,451	0.9	23.82
ING Clarion Real Estate Portoflio	3,439,198	0.8	31.49
American Funds EuroPacific Growth Fund R5	12,782,776	2.8	18.39
	$ 455,700,120	100.0	

Table 2b - Investments by Fund with Rates of Return as of September 30, 2011

	Investment Value	Percentage of Total Assets	Rate of Return %
DCPLUS Stable Value Portfolio	$ 217,585,641	53.7	2.94
DCPLUS Fixed Income Portfolio	7,315,332	1.8	6.68
DCPLUS Large Cap Value Portfolio	53,976,262	13.3	(0.92)
DCPLUS Large Cap Growth Portfolio	6,704,372	1.7	(3.30)
PIMCO Total Return Fund	4,461,798	1.1	0.79
BlackRock Liquidity Federal Trust Fund	1,494,320	0.4	0.01
Vanguard Target Retirement Income	1,440,125	0.4	3.50
Vanguard Target Retirement 2015	735,842	0.2	1.19
Vanguard Target Retirement 2025	3,017,205	0.7	(0.31)
Vanguard Target Retirement 2035	2,554,183	0.6	(1.75)
Vanguard Target Retirement 2045	643,865	0.1	(2.01)
Vanguard Institutional Index Fund	27,328,146	6.8	1.12
Vanguard Small Cap Index	2,075,621	0.5	(2.24)
Ariel Fund	20,594,172	5.1	(14.11)
Fidelity VIP Mid Cap Portfolio	12,454,548	3.1	(7.39)
Pax World Balanced Fund	14,066,965	3.5	(0.74)
The Brown Capital Management Small Company Fund	5,262,931	1.3	6.16
ING Growth & Income Portfolio	4,890,037	1.2	(12.48)
ING GNMA Income Fund	3,972,733	1.0	6.22
ING T. Rowe Price Capital Appreciation Portfolio	2,771,820	0.7	2.44
ING Clarion Real Estate Portoflio	1,410,453	0.3	2.10
American Funds EuroPacific Growth Fund R5	10,065,034	2.5	(12.38)
	$ 404,821,405	100.0	

Table 3 - Statements of Changes in Fiduciary Net Assets for the Years Ended September 30, 2012, 2011 and 2010

				2012 - 2011		2011 - 2010	
	2012	**2011**	**2010**	**Variance**	**% Variance**	**Variance**	**% Variance**
ADDITIONS							
Employee Contributions	$ 39,638,131	$ 37,490,224	$ 38,385,695	$ 2,147,907	5.73	$ (895,471)	(2.33)
Net Investment Income (Loss)	53,040,641	(327,405)	23,632,078	53,368,046	16,300.31	(23,959,483)	(101.39)
Interest Income on Notes Receivable	156,871	-	-	156,871	100.00	-	-
Total additions	92,835,643	37,162,819	62,017,773	55,672,824	149.81	(24,854,954)	(40.08)
DEDUCTIONS							
Benefits Paid to Participants	31,235,717	32,947,074	38,227,096	(1,711,357)	(5.19)	(5,280,022)	(13.81)
Administrative Expenses	211,722	212,642	260,290	(920)	(0.43)	(47,648)	(18.31)
Loan Fees	148,737	-	-	148,737	100.00	-	-
Total Deductions	31,596,176	33,159,716	38,487,386	(1,563,540)	(4.72)	(5,327,670)	(13.84)
Net Increase	61,239,467	4,003,103	23,530,387	57,236,364	1,429.80	(19,527,284)	(82.99)
Net Assets Held in Trust For Plan Benefits, Beginning of Year	404,648,760	400,645,657	377,115,270	4,003,103	1.00	23,530,387	6.24
Net Assets Held in Trust For Plan Benefits, End of Year	$ 465,888,227	$ 404,648,760	$ 400,645,657	$ 61,239,467	15.13	$ 4,003,103	1.00

Fiscal Year 2012

Employee contributions increased by $2,147,907 or 5.73%. There was an overall increase in the average number of Plan participants making contributions to the Plan. The number of Plan participants increased from 8,322 in 2011 to 8,580 in fiscal year 2012. In addition, the average monthly contributions increased from $375.49 in 2011 to $391.22 in 2012.

The Plan's net investment income was $53,040,641, compared to a net investment loss of $327,405, in fiscal year 2011. The net increase in investment income was primarily due to the improvements in investment performance in the markets in 2012. At September 30, 2012, the Plan had an overall weighted average rate of return of 14.62% compared to 0.33% in fiscal year 2011.

Benefits paid to participants decreased by $1,711,357 or 5.19%. The decrease was due to fewer participants requesting payouts in fiscal year 2012 compared to fiscal year 2011.

The administrative expenses for fiscal year 2012 were expenses incurred by the Plan Administrator for operations of the Plan and were reimbursed by the Program Manager at 0.05% (5 basis points) of the daily asset value.

Fiscal Year 2011

Employee contributions decreased by $895,471 or 2.33%. The decrease in contribution was as a result of the decrease in the average monthly contribution from $381.82 in fiscal year 2010 to $375.49 in fiscal year 2011. The number of participants increased from 8306 in fiscal year 2010 to 8322 in fiscal year 2011.

The Plan's net investment loss was $327,405 in fiscal year 2011, compared to a net investment income of $23,632,078 in fiscal year 2010. The net investment loss was primarily due to a number of the Plan's funds with negative rates of return. At September 30, 2011, the Plan had an overall weighted average rate of return of 0.33% compared to 6.71% in fiscal year 2010.

Benefits paid to participants decreased by $5,280,022 or 13.81%. The decrease was due to lower benefit payments to participants compared to fiscal year 2010.

The administrative expenses in fiscal year 2011 were expenses incurred by the Plan Administrator for operations of the Plan and were reimbursed by the Program Manager at 0.05% (5 basis points) of the daily asset value.

Contact Information

The above discussion and analysis is presented to provide additional information regarding the activities of the Plan and also to meet the disclosure requirements of GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. If you have any questions about the report or need additional financial information, contact the Program Director, Brenda Mathis, Government of the District of Columbia, (202) 727-0780, 1101 4th Street, S.W., Washington, DC 20024 or Brenda.Mathis@dc.gov.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
457 DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Investments, at Fair Value:		
Registered Investment Companies	$ 238,002,139	$ 187,235,764
Investments, at Contract Value:		
DCPLUS Stable Value Portfolio	217,697,981	217,585,641
Total Investments	455,700,120	404,821,405
Notes Receivable from Participants	10,372,904	-
Total Assets	466,073,024	404,821,405
LIABILITIES		
Due to District Government	184,797	172,645
Total Liabilities	184,797	172,645
Net Assets Held in Trust for Plan Benefits	$ 465,888,227	$ 404,648,760

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
457 DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	**2011**
ADDITIONS		
Employee Contributions	$ 39,638,131	$ 37,490,224
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	50,304,639	(3,335,642)
Dividends and Interest Income	5,897,391	6,181,980
Less: Investment Management Fees	(3,161,389)	(3,173,743)
Net Investment Income (Loss)	53,040,641	(327,405)
Interest Income on Notes Receivable from Participants	156,871	-
Total Additions	92,835,643	37,162,819
DEDUCTIONS		
Benefits Paid to Participants	31,235,717	32,947,074
Administrative Expenses	211,722	212,642
Loan Fees	148,737	-
Total Deductions	31,596,176	33,159,716
Net Increase	61,239,467	4,003,103
Net Assets Held in Trust for Plan Benefits, Beginning of Year	404,648,760	400,645,657
Net Assets Held in Trust for Plan Benefits, End of Year	$ 465,888,227	$ 404,648,760

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

NOTE 1 DESCRIPTION OF PLAN

The Government of the District of Columbia (the "District") offers for eligible employees a qualified employee Deferred Compensation Plan ("Plan") that was established under the District's 457 Deferred Compensation Act of 1984, D.C. Law 5-118, and D.C. Code Section 47-3601. The Plan enables eligible employees to make tax deferred contributions towards their retirement. The Plan's assets are held in trust by the District for the exclusive benefit of Plan members and their beneficiaries. All District employees of an agency under the personnel authority of the District's Mayor, a subordinate agency as defined in the Comprehensive Merit Personnel Act of 1978, and an agency not under the personnel authority of the Mayor or an independent agency but approved by the Mayor, are eligible to participate in the Plan. There are no age and length of service requirements.

Effective January 1, 2009, the blind licensees of the District's Randolph Sheppard Vending Facility Program became eligible to participate in the Plan. The blind licensees under the Randolph Sheppard Vending Facility Program shall not become an eligible individual until the later of the date (i) such licensee has been a participant in the program for 13 months or (ii) a year and 1 month after their licensure date.

The Plan had 14,222 and 13,772 members in 2012 and 2011, respectively.

The District's Office of the Chief Financial Officer, Office of Finance and Treasury ("OFT"), and the District of Columbia Department of Human Resources are joint Plan Administrators. They are jointly responsible for adopting the Plan's administrative rules and regulations and investment policies, and overseeing the duties of the Trustee of the Plan. The Trustee is responsible for the Plan's record keeping, marketing and enrollment efforts. In 2002, the OFT contracted with ING Retirement Services to be the Plan's Program Manager. The Program Manager maintains an account for each participant that is adjusted for contributions, distributions, and investment earnings and losses. Participants can contribute to the Plan up to the lesser of $17,000 or 100% of the participants' includible compensation. Participants who are at least age 50 can contribute an additional $5,500 to the Plan. Participants are vested immediately. The District does not make any contributions to the Plan.

Participants can receive a distribution of their assets upon retirement, termination of service, death, or for an emergency hardship.

NOTE 1 DESCRIPTION OF PLAN (Continued)

Effective October 1, 2011, participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of (1) $50,000 reduced by the excess (if any) of the highest outstanding balances of loans from the Plan to the participant during the one year period ending on the day before the date on which such loan is made, over the outstanding balance of loans from the Plan to the participant on the date on which such loan was made, or (2) 50% of the present value of the non-refundable accrued benefit of the participant under the Plan. The loans are secured by the balance in the participant's account and must be repaid over a maximum period of 57 months for general purposes and 240 months for a home purchase.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan's financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial statements and Management's Discussion and Analysis—for State and Local Governments.* GASB 34 requires two basic financial statements: statement of fiduciary net assets and statement of changes in fiduciary net assets. For financial reporting purposes, the Plan is considered a pension trust fund.

Basis of Accounting

The financial statements of the Plan are prepared under the accrual basis of accounting in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Employee contributions are recognized by the Plan at the time compensation is earned by Plan members and the payments become due from the District government. Investment income is recognized when earned. Deductions are recognized when due in accordance with the terms of the Plan.

Investment Valuation

The Plan's investments are in pooled separate accounts and in a fixed account. The investments in the pooled separate accounts represent ownership of units of participation in various mutual funds rather than ownership in specific assets. The value of a unit of participation is the total value of each mutual fund, after taking into consideration taxes, the value of shares of the underlying fund, and Daily Asset Charge, within the separate accounts divided by the number of units outstanding. Investments in pooled separate accounts are stated at fair value, which is based on quoted redemption values on the last business day of the Plan

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

year. Investments in the fixed account are presented at contract value which approximates fair value. Contributions of participants who elect this investment option are combined and held in trust. The Plan has an undivided interest in the trust, and its ownership is represented by its proportionate dollar interest.

Loans

Active employees of the District of Columbia enrolled in the Plan may borrow from their accounts. The loan amount must have a minimum balance of $1,000.00 up to a maximum amount of 50% of the participants individual account balance or $50,000.00, whichever is less. The participant can only have one outstanding loan at any time. The participant loan has a repayment period of 57 months for general purpose loans and 243 months for residential loans. The loans are secured by the participant's account balance. Loans bear interest at a fixed rate equal to the U.S. prime rate. The interest rate on outstanding loans was 3.25% as of September 30, 2012.

Employee Contributions

Employee contributions are recognized as additions at the time compensation is earned by Plan members on specified payroll pay dates or when received from other eligible plans.

Payment of Benefits

Benefit payments are recorded as deductions when due for payment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Plan is an eligible employee deferred compensation plan under Section 457(b) of the Internal Revenue Code.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements to be Adopted

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of the pronouncement is not expected to have a material impact on the Plan's financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The adoption of the pronouncement is not expected to have a material impact on the Plan's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement is effective for fiscal years beginning after June 15, 2014. The adoption of the pronouncement is not expected to have a material impact on the Plan's financial statements.

NOTE 3 INVESTMENTS

The Plan's investments are in a pooled separate account, which are valued at a per unit value determined from the accumulated values of the underlying investments. The DCPLUS Stable Value Portfolio is recorded at contract value. The Plan's investments are subject to certain risks common to investments. Those risks are custodial credit risk, credit risk, interest rate risk, and foreign currency risk.

- *Custodial Credit Risk* is the risk that the Plan will not be able to recover the value of its investments if the counterparty fails. The Plan investments were subject to custodial credit risk for 2012 and 2011 because the investments were uninsured and unregistered and were held by counterparty in the Plan's name. The Plan Sponsor performs periodic qualitative assessments of the investment managers and investment strategy to minimize custodial credit risk.

- *Credit Risk* is the risk that an issuer to an investment will not fulfill its obligations. The Plan does not invest in investments that have an overall quality less than BBB as rated by Moody's or Standard & Poors. There were 9 out of the 22 investments that had credit ratings. At September 30, 2012 and 2011, those investments and the related credit ratings were as follows:

2012

Investment	Credit Rating
ING GNMA Income Fund	AAA
DCPLUS Fixed Income Portfolio	AAA/AA/A/BBB
ING T. Rowe Price Capital Appreciation Portfolio	AA/A/BBB/BB/B
Pax World Balanced Fund	AAA/AA/A/BBB
Vanguard Target Retirement Income	AAA/AA/A/BBB
Vanguard Target Retirement 2015	AAA/AA/A/BBB
Vanguard Target Retirement 2025	AAA/AA/A/BBB
Vanguard Target Retirement 2035	AAA/AA/A/BBB
Vanguard Target Retirement 2045	AAA/AA/A/BBB

NOTE 3 INVESTMENTS (Continued)

2011

Investment	Credit Rating
ING GNMA Income Fund	AAA
DCPLUS Fixed Income Portfolio	AAA/AA/A/BBB
ING T. Rowe Price Capital Appreciation Portfolio	A/BBB/BB/B
Pax World Balanced Fund	AAA/AA/A/BBB
Vanguard Target Retirement Income	AAA/AA/A/BBB
Vanguard Target Retirement 2015	AAA/AA/A/BBB
Vanguard Target Retirement 2025	AAA/AA/A/BBB
Vanguard Target Retirement 2035	AAA/AA/A/BBB
Vanguard Target Retirement 2045	AAA/AA/A/BBB

- *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan manages its exposure to declines in fair values by not offering investments that have excessive average maturities.

- *Foreign currency risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Plan mitigates this risk by limiting its investment in any one country to no more than the greater of either 25% of the equity portion of the investment account or by the country's weight in the Europe, Australia, Far East ("EAFE") benchmark. In addition, a minimum of eight countries must be represented in each investment account. As a result, the Plan's currency denomination varies.

At September 30, 2012 and 2011, the investment with the largest foreign currency risk was the American Funds EuroPacific Growth Fund. The portfolio's major currency denominations were the Euro, British Pound and the Yen for 2012.

NOTE 4 LIFE INSURANCE POLICIES

Prior to fiscal year 2000, the Plan offered as an investment option to participants the purchase of life insurance policies underwritten by life insurance companies. Although the life insurance policies are no longer available to participants as an investment option, participants with existing life insurance policies are allowed to continue to contribute to their policies. At September 30, 2012 and 2011, the contract values of participants' life insurance policies have been excluded from the Plan's assets because the obligations to pay the benefits under the policies are assumed by the life insurance companies. Existing policies are underwritten by Monumental and Shenandoah Life Insurance Companies. Participants' life insurance contract values for the years ended September 30, 2012 and 2011 totaled $4,907,842 and $4,964,231, respectively.

NOTE 5 PLAN FEES

Fees are charged to participants' accounts for investment management services and administrative expenses of the Plan. The investment management fees, which are remitted to the investment fund managers, vary by investment fund. The Program Manager is an investment fund manager for some of the investments. For the years ended September 30, 2012 and 2011, investment management fees totaled $3,161,389 and $3,173,743, respectively.

NOTE 6 ADMINISTRATIVE EXPENSES

Administrative expenses are expenses incurred by the Plan Administrator and the Program Manager for the operation of the Plan. The Plan Administrator incurred administrative expenses during the years ended September 30, 2012 and 2011 totaling $209,457 and $317,879, respectively. The District administrative expenses consisted of the following:

	2012	2011
Administration Salaries	$ 108,000	$ 188,600
Financial Statement Compilation	59,467	73,067
Investment Consulting Services	41,990	56,212
Total	$ 209,457	$ 317,879

The Plan's administrative expenses for fiscal year 2012 and 2011 were $211,722 and $212,642, respectively. The Program Manager reimburses the Plan Administrator 0.05 percent (5 basis points) of the Plan's asset value for the administrative expenses.

NOTE 6 ADMINISTRATIVE EXPENSES

The accumulative administrative fees owed to the Plan Administrator as of September 30, 2012 and 2011 were $184,797 and $172,645, respectively.

The Plan assesses $100 for each participant loan processed by the Plan. Loan fees totaled $148,737 in 2012.

NOTE 7 TERMINATED PARTICIPANTS

As of September 30, 2012 and 2011, the Plan had 2,697 and 2,761 terminated participants, respectively, who had account balances in the Plan. The participants are no longer able to contribute to the Plan, but their account balances are adjusted for fees and investment earnings. The value of the account balances as of September 30, 2012 and 2011 totaled $90,895,534 and $86,045,355, respectively.

NOTE 8 PLAN TERMINATION

The District may amend or terminate the Plan, provided that such amendment or termination shall not impair the rights of a vested participant or beneficiary to receive any contributions, and income earned thereon, allocated to his or her active or inactive account, as the case may be, prior to the date of the termination or amendment of the Plan.

NOTE 9 RISKS AND UNCERTAINTIES

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