Government of the District of Columbia 457(b) Deferred Compensation Plan

Financial Statements and Independent Auditor's Report
Years Ended September 30, 2014 and 2013

BCA Watson Rice LLP
Certified Public Accountants and Advisors

GOVERNMENT OF THE DISTRICT OF COLUMBIA
457(b) DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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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

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the Government of the District of Columbia's 457(b) Deferred Compensation Plan (the "Plan") as of September 30, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan, as of September 30, 2014 and 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective October 1, 2013, the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

BCA Watson Rice LLP

Washington, DC
March 31, 2015

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia's 457(b) Deferred Compensation Plan (the Plan) for the fiscal years ended September 30, 2014 and 2013. 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's 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 financial statements consist of two basic financial statements: (a) Statement of Fiduciary Net Position and (b) Statement of Changes in Fiduciary Net Position.

- Statement of Fiduciary Net Position presents the Plan's assets and deferred outflow of resources, liabilities and deferred inflow of resources, and net position restricted for participant benefits.

- Statement of Changes in Fiduciary Net Position presents the additions to and deductions from the Plan's net position.

2014 Financial Highlights

- Investments increased by $54,064,629 or 10.49%.
- Participant loans increased by $2,722,674 or 18.24%.
- Contributions increased by $3,206,049 or 7.39%.
- Net investment income was $45,106,342, a decrease of $9,339,906 or 17.15%.
- Benefits paid to participants increased by $1,513,044 or 4.51%.

2013 Financial Highlights

- Investments increased by $59,644,695 or 13.09%.
- Participant loans increased by $4,554,390 or 43.91%.
- Contributions increased by $3,723,483 or 9.39%.
- Net investment income was $54,446,248, an increase of $1,405,607 or 2.65%.
- Benefits paid to participants increased by $2,317,763 or 7.42%.

Financial Analysis

Table 1 – Condensed Statements of Fiduciary Net Position as of September 30, 2014, 2013, and 2012

				2014-2013		2013-2012	
	2014	2013	2012	Variance	% Variance	Variance	% Variance
ASSETS							
Investments	$ 569,409,444	$ 515,344,815	$ 455,700,120	$ 54,064,629	10.49%	$ 59,644,695	13.09%
Notes Receivable from Participants	17,649,968	14,927,294	10,372,904	2,722,674	18.24%	4,554,390	43.91%
Total Assets	587,059,412	530,272,109	466,073,024	56,787,303	10.71%	64,199,085	13.77%
LIABILITIES							
Due to District Government	243,824	129,600	184,797	114,224	88.14%	(55,197)	-29.87%
Total Liabilities	243,824	129,600	184,797	114,224	88.14%	(55,197)	-29.87%
Net Position Restriced for Pensions	$ 586,815,588	$ 530,142,509	$ 465,888,227	$56,673,079	10.69%	$ 64,254,282	13.79%

Fiscal Year 2014

The Plan's investments increased from 2013 by $54,064,629 or 10.49%. The increase is attributed to the investments performance in the overall market. All investment funds had positive rates of return.

As shown in **Table 2a - Investment by Fund with Rates of Returns as of September 30, 2014**, a significant portion of the Plan's investments were in DCPLUS Stable Value Portfolio (39.6%) and the DCPLUS Large Cap Value Portfolio (14.8%). 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 Growth Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. At fiscal year-end, the DCPLUS Stable Value Portfolio and DCPLUS Large Cap Value Portfolios had a rate of return of 2.50% and 14.50%, respectively.

The amount "Due to District Government" represents funds owed to the District as Plan Administrator which is used 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 2013

The Plan's investments increased from 2012 by $59,644,695 or 13.09%. The increase is attributed to the investments performance in the overall market. Except for three funds, all other investment funds had positive rates of return.

As shown in **Table 2b - Investment by Fund with Rates of Returns as of September 30, 2013**, a significant portion of the Plan's investments were in DCPLUS Stable Value Portfolio (43.1%) and the DCPLUS Large Cap Value Portfolio (14.6%). 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 Growth Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. At fiscal year-end, the DCPLUS Stable Value Portfolio and DCPLUS Large Cap Value Portfolios had a rate of return of 2.75% and 21.39%, respectively.

The amount "Due to District Government" represents funds owed to the District as Plan Administrator which is used 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 - Investment by Fund with Rates of Returns as of September 30, 2014

	Investment Value	Percent of Total Assets	Rate of Return %
DCPLUS Fixed Income Portfolio	$ 7,901,736	1.4	4.11
DCPLUS Stable Value Portfolio	225,744,976	39.6	2.50
Vanguard Target Retirement Income Fund	1,973,571	0.4	6.25
PIMCO Total Return Fund	6,782,175	1.2	3.09
BlackRock Liquidity Federal Trust Fund	1,807,370	0.3	0.01
Vanguard Target Retirement 2015 Fund	2,791,326	0.5	8.86
Vanguard Target Retirement 2025 Fund	7,617,917	1.3	10.58
Vanguard Target Retirement 2035 Fund	7,484,346	1.3	11.97
Vanguard Target Retirement 2045 Fund	3,651,959	0.6	12.51
Ariel Fund	39,787,179	7.0	21.51
Fidelity VIP Mid Cap Portfolio	23,093,028	4.1	12.23
DCPLUS Large Cap Value Portfolio	84,022,685	14.8	14.50
DCPLUS Large Cap Growth Portfolio	17,780,142	3.1	17.54
Vanguard Institutional Index fund	52,856,243	9.3	19.69
Pax World Balanced Fund	19,696,713	3.5	10.80
Voya Growth & Income Portfolio	10,990,866	1.9	17.81
Vanguard Small-Cap Index Fund	7,563,014	1.3	9.54
Voya GNMA Income Fund	3,988,291	0.7	3.53
The Brown Capital Management Small Company Fund	9,529,433	1.7	1.22
Voya T. Rowe Price Capital Appreciation Portfolio	9,326,897	1.6	14.10
Voya Clarion Real Estate Portfolio	5,807,300	1.0	14.45
American Funds EuroPacific Growth Fund	19,212,277	3.4	6.93
	$ 569,409,444	100.0	

Table 2b - Investment by Fund with Rates of Returns as of September 30, 2013

	Investment Value	Percent of Total Assets	Rate of Return %
DCPLUS Fixed Income Portfolio	$ 7,126,919	1.4	-1.78
DCPLUS Stable Value Portfolio	222,138,578	43.1	2.75
Vanguard Target Retirement Income Fund	1,776,138	0.4	3.92
PIMCO Total Return Fund	6,153,987	1.2	-0.94
BlackRock Liquidity Federal Trust Fund	1,600,242	0.3	0.01
Vanguard Target Retirement 2015 Fund	1,594,330	0.3	9.34
Vanguard Target Retirement 2025 Fund	6,570,442	1.3	13.11
Vanguard Target Retirement 2035 Fund	5,780,950	1.1	16.54
Vanguard Target Retirement 2045 Fund	2,148,826	0.4	17.46
Ariel Fund	35,516,831	6.9	33.28
Fidelity VIP Mid Cap Portfolio	19,603,540	3.8	26.37
DCPLUS Large Cap Value Portfolio	75,194,265	14.6	21.39
DCPLUS Large Cap Growth Portfolio	13,617,365	2.7	24.10
Vanguard Institutional Index Fund	43,443,389	8.4	19.31
Pax World Balanced Fund	17,757,280	3.4	12.30
ING Growth & Income Portfolio	8,535,446	1.7	17.87
Vanguard Small-Cap Index Fund	6,275,765	1.2	30.15
ING GNMA Income Fund	3,535,305	0.7	-1.16
The Brown Capital Management Small Company Fund	10,221,443	2.0	41.53
ING T. Rowe Price Capital Appreciation Portfolio	6,880,811	1.3	17.29
ING Clarion Real Estate Portfolio	3,322,136	0.6	4.04
American Funds EuroPacific Growth Fund	16,550,827	3.2	18.22
	$ 515,344,815	100.0	

Table 3 – Condensed Statements of Changes in Fiduciary Net Position for the fiscal years ended September 30, 2014, 2013, and 2012

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				2014-2013		2013-2012	
	2014	2013	2012	Variance	% Variance	Variance	% Variance
ADDITIONS							
Employee Contributions	$ 46,567,663	$ 43,361,614	$ 39,638,131	$ 3,206,049	7.39%	$ 3,723,483	9.39%
Net Investment Income	45,106,342	54,446,248	53,040,641	(9,339,906)	-17.15%	1,405,607	2.65%
Interest Income on Notes Receivable	460,310	362,780	156,871	97,530	26.88%	205,909	131.26%
Total additons	92,134,315	98,170,642	92,835,643	(6,036,327)	-6.15%	5,334,999	5.75%
DEDUCTIONS							
Benefits Paid to Participants	35,066,524	33,553,480	31,235,717	1,513,044	4.51%	2,317,763	7.42%
Administrative Expenses	279,513	240,191	211,722	39,322	16.37%	28,469	13.45%
Loan Fees	115,199	122,689	148,737	(7,490)	-6.10%	(26,048)	-17.51%
Total deductions	35,461,236	33,916,360	31,596,176	1,544,876	4.55%	2,320,184	7.34%
Net Increase	56,673,079	64,254,282	61,239,467	(7,581,203)	-11.80%	3,014,815	4.92%
Net Position Restricted for Pensions, Beginning of Year	530,142,509	465,888,227	404,648,760	64,254,282	13.79%	61,239,467	15.13%
Net Position Restricted for Pensions, End of Year	$ 586,815,588	$ 530,142,509	$ 465,888,227	$ 56,673,079	10.69%	$ 64,254,282	13.79%

<u>Fiscal Year 2014</u>

Employee contributions increased by $3,206,049 or 7.39%. There was an overall increase in the average number of Plan participants making contributions to the Plan. The number of Plan participants increased from 9,210 in 2013 to 9,897 in 2014. In addition, the average monthly contributions decreased from $404.38 in 2013 to $402.61 in 2014.

The Plan's net investment income was $45,106,342 in 2014 compared to net investment income of $54,446,248 in fiscal year 2013. The net increase in investment income was primarily due to the increase in the number Plan participants and improvements in investment performance in the markets in 2014. The Plan's investments collectively had an overall weighted average rate of return in 2014 of 9.54% compared to 13.04% in 2013.

Benefits paid to participants increased by $1,513,044 or 4.51%. The increase was due to more participants requesting payouts in 2014 compared to 2013.

The administrative expenses for fiscal year 2014 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.

<u>Fiscal Year 2013</u>

Employee contributions increased by $3,723,483 or 9.39%. There was an overall increase in the average number of Plan participants making contributions to the Plan. The number of Plan participants increased from 8,580 in 2012 to 9,210 in 2013. In addition, the average monthly contributions increased from $391.22 in 2012 to $404.38 in 2013.

The Plan's net investment income was $54,446,247 in 2013 compared to net investment income of $53,040,641 in fiscal year 2012. The net increase in investment income was primarily due to the increase in the number Plan participants and improvements in investment performance in the markets in 2013. The Plan's investments collectively had an overall weighted average rate of return in 2013 of 13.04% compared to 14.62% in 2012.

Benefits paid to participants increased by $2,317,763 or 7.42%. The increase was due to more participants requesting payouts in 2013 compared to 2012.

The administrative expenses for fiscal year 2013 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 *Government Accounting Standards Board*. 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, SW, Washington, DC 20024 or Brenda.Mathis@dc.gov.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
457(b) DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Investments, at Fair Value:		
Registered Investment Companies	$ 343,664,468	$ 293,206,237
Investments, at Contract Value:		
DCPLUS Stable Value Portfolio	225,744,976	222,138,578
Total Investments	569,409,444	515,344,815
Notes Receivable from Participants	17,649,968	14,927,294
Total Assets	587,059,412	530,272,109
LIABILITIES		
Due to District Government	243,824	129,600
Total Liabilities	243,824	129,600
Net Position Restricted for Pensions	$ 586,815,588	$ 530,142,509

The accompanying notes are an integral part of the financial statements

GOVERNMENT OF THE DISTRICT OF COLUMBIA
457(b) DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
ADDITIONS		
Employee Contributions	$ 46,567,663	$ 43,361,614
Investment Income:		
Net Appreciation in Fair Value of Investments	43,346,844	51,900,995
Dividends and Interest Income	5,539,238	5,959,738
Less: Investment Management Expenses	(3,779,740)	(3,414,485)
Net Investment Income	45,106,342	54,446,248
Interest Income on Notes Receivable from Participants	460,310	362,780
Total Additions	92,134,315	98,170,642
DEDUCTIONS		
Benefits Paid to Participants	35,066,524	33,553,480
Administrative Expenses	279,513	240,191
Loan Fees	115,199	122,689
Total Deductions	35,461,236	33,916,360
Net Increase	56,673,079	64,254,282
Net Position Restricted for Pensions, Beginning of Year	530,142,509	465,888,227
Net Position Restricted for Pensions, End of Year	$ 586,815,588	$ 530,142,509

The accompanying notes are an integral part of the 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(b) 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 as licensee has been a participant in the program for 13 months or (ii) a year and 1 month after their licensure date.

The District's Office 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 administration 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 Yoya Retirement Services (formerly ING) 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 $17,500 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.

Loans

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

NOTE 1 DESCRIPTION OF PLAN (Continued)

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. 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, 2014 and 2013.

Plan Membership

At September 30, 2014 and 2013, the Plan's membership consisted of the following:

	2014	**2013**
Active Members	12,997	12,174
Inactive Members	2,679	2,731
Total Members	15,676	14,905

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), which requires two basic financial statements: statement of fiduciary net position and statement of changes in fiduciary net position. 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. 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 and payable 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation (Continued)
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 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.

Note Receivable from Participants
Loans to participants are recorded at principal less repayments plus accrued interest.

Employee Contributions
Employee contributions are recognized as revenue at the time compensation is earned by Plan members on a 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.

Accounting Pronouncements 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted (Continued)

before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011, and its adoption in fiscal year 2013 did not have a material impact of the Plan's financial statements.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position*. The requirement of this statement standardizes the presentation of deferred inflows and outflows of resources, and their effects on a government's net position. This statement became effective for periods beginning after December 15, 2011, and its implementation in fiscal year 2013 was limited to renaming of "Net Assets" to "Net Position".

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012, and its adoption in fiscal year 2014 did not have a material impact of 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 fiscal years beginning after June 15, 2013, and its adoption in fiscal year 2014 did not have a material impact of the Plan's financial statements.

Accounting Pronouncements to be Adopted

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 Plan is evaluating the impact of this standard on the financial statements.

NOTE 3 INVESTMENTS

The Plan's investments are in a wrapped 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 are subject to custodial credit risk for 2014 and 2013 because the investments are uninsured and unregistered and are 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 securities 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, 2014 and 2013, those investments and the related credit ratings were as follows:

2014

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

2013

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

NOTE 3 INVESTMENTS (Continued)

- *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 investments 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, and 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, 2014 and 2013, the investment with the largest foreign currency risk is the American Funds EuroPacific Growth Fund which invests at least 80% of its assets in securities of issuers in Europe and the Pacific Basin.

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, 2014 and 2013, the contract values of participants' life insurance policies have been excluded from 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, 2014 and 2013 totaled $4,702,231 and $4,853,616, respectively.

NOTE 5 PLAN FEES

Fees are charged to participants' accounts for investment management services and administration 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, 2014 and 2013, investment management fees totaled $3,779,740 and $3,414,485, respectively.

NOTE 6 DUE TO DISTRICT GOVERNMENT

Per their agreement, the Program Manager annually reimburses the Plan Administrator 5 basis points of the Plan's asset value. The reimbursement is accumulated in an administrative reimbursement account held by the Program Manager and is used annually by the District to pay for direct administrative expenses incurred and for contributions toward salaries expenses incurred by the District and the Plan Administrator. Additions to and deductions from the administrative reimbursement account are not Plan transactions reflected in the Statements of Changes in Fiduciary Net Position.

After recognizing the 5 basis point reimbursement, interest earnings and payments from the administrative reimbursement account, the balance in the administrative reimbursement account as of September 30, 2014 and 2013 were $243,824 and $129,600, respectively. This is recorded in the Statement of Fiduciary Net Position as "Due to District Government".

NOTE 7 ADMINISTRATIVE EXPENSES

The Plan does not directly incur administrative expenses. Administrative expenses are incurred by the Plan Administrator and the Program Manager for the operation of the Plan.

The amount recorded as administrative expenses in the Statement of Changes in Fiduciary Net Position of $279,513 and $240,191 for fiscal year 2014 and 2013, respectively, represents the Program Manager's investment expenses allocation towards administrative expenses.

The administrative expenses incurred by the Plan Administrator and reimbursed from the administrative reimbursement account (see note 6) for the years ended September 30, 2014 and 2013 totaled $165,288 and $290,693, respectively, and were as follows:

	2014	2013
Administrator Salaries	$ -	$ 100,000
Audit and Compilation Services	73,180	59,443
Investment Consulting Services	92,108	131,250
Total	$ 165,288	$ 290,693

The Plan assesses $100 for each participant loan processed by the Plan. Loan fees totaled $115,199 and $122,689, in 2014 and 2013, respectively.

NOTE 8 TERMINATED PARTICIPANTS

As of September 30, 2014 and 2013, the Plan had 2,679 and 2,731 terminated participants, respectively, who have 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, 2014 and 2013 totaled $104,567,383 and $99,144,771, respectively.

NOTE 9 PLAN TERMINATION

The District may amend or terminate this 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 10 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 position.