# GOVERNMENT OF THE DISTRICT OF COLUMBIA
# 457(b) DEFERRED COMPENSATION PLAN
# FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
# YEARS ENDED SEPTEMBER 30, 2017 AND 2016


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**GOVERNMENT OF THE DISTRICT OF COLUMBIA**
**457(b) DEFERRED COMPENSATION PLAN**
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**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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# F.S. TAYLOR & ASSOCIATES, P.C.

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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 statement of fiduciary net position of the Government of the District of Columbia's 457(b) Deferred Compensation Plan (the "Plan") as of September 30, 2017, and the related statement of changes in fiduciary net position for the year 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan, as of September 30, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

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.

***Prior Period Financial Statements***

The financial statements of the Plan as of September 30, 2016, were audited by other auditors whose report dated March 10, 2017, expressed an unmodified opinion on those statements.

F. S. Taylor & Associates, P.C.

March 2, 2018
Washington, D.C.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**
**457(b) DEFERRED COMPENSATION PLAN**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016. 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.

## Overview of Financial Statements

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. In addition to the basic financial statements are the notes to the financial statements.

- Statement of Fiduciary Net Position presents the Plan's assets, liabilities 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.

- The notes to the financial statements provide a detailed discussion of key accounting policies and activities that occurred during the year. The notes provide additional information that is essential to a full understanding of the information provided in the financial statements.

## 2017 Financial Highlights

- Investments increased by $91,425,585 or 14.29%
- Receivables increased by $1,937,023 or 8.30%
- Net investment income was $67,966,861, an increase of $15,343,326 or 29.16%
- Benefits paid to participants increased by $3,207,199 or 8.11%

## 2016 Financial Highlights

- Investments increased by $68,459,384 or 11.98%
- Receivables increased by $3,239,611 or 16.12%
- Net investment income was $52,623,535, an increase of $59,816,197 or 831.63%
- Benefits paid to participants decreased by $5,745,523 or 12.68%

## Financial Analysis – Fiduciary Net Position

### Table 1 – Condensed Statements of Fiduciary Net Position as of September 30, 2017, 2016 and 2015

| | 2017 | 2016 | 2015 | 2017-2016 Variance | 2017-2016 % Variance | 2016-2015 Variance | 2016-2015 % Variance |
|---|---|---|---|---|---|---|---|
| *ASSETS* | | | | | | | |
| Investments | $ 731,376,161 | $ 639,950,576 | $ 571,491,192 | $ 91,425,585 | 14.29% | $ 68,459,384 | 11.98% |
| Receivables | 25,278,263 | 23,341,240 | 20,101,629 | 1,937,023 | 8.30% | 3,239,611 | 16.12% |
| Total Assets | 756,654,424 | 663,291,816 | 591,592,821 | 93,362,608 | 14.08% | 71,698,995 | 12.12% |
| *LIABILITIES* | | | | | | | |
| Due to District Government | 265,014 | 321,366 | 375,822 | (56,352) | -17.54% | (54,456) | -14.49% |
| Total Liabilities | 265,014 | 321,366 | 375,822 | (56,352) | -17.54% | (54,456) | -14.49% |
| Net Position Restriced for Pensions | $ 756,389,410 | $ 662,970,450 | $ 591,216,999 | $93,418,960 | 14.09% | $ 71,753,451 | 12.14% |

## *Fiscal Year 2017*

The Plan's investments increased by $91,425,585 or 14.29% over the prior fiscal year. The increase is primarily due to positive investments performance in the overall market and the excess of contributions over benefit payments. For fiscal year 2017, there was a net appreciation in the fair value of investments due to favorable market conditions as all investment funds had positive rates of return.

As shown in **Table 2a - Investment by Fund with Rates of Returns as of September 30, 2017**, a significant portion of the Plan's investments were in Vantage Trust PLUS Fund (32.1%), DCPLUS Large Cap Value Portfolio (12.6%) and the Vanguard Institutional Index Fund (10.9%). The Vantage Trust PLUS Fund invests primarily in a diversified portfolio of stable value insurance contracts and fixed income securities that back certain stable value investment contracts, and seeks to provide preservation of principal and maximize current yield. The DCPLUS Large Cap Value Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. The Vanguard Institutional Index Fund invests primarily in equity securities of U.S. companies in the Standard & Poor's 500 Index.

Receivables are comprised of notes receivable from participants and contributions receivable. For the fiscal year 2017, receivables increased by $1,937,023 or 8.30% due to an increase in participant loans and participant contributions received after the end of the fiscal year.

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 5.5 basis points (0.055%) of the Plan's daily asset value.

## Table 2a - Investment by Fund with Rates of Returns as of September 30, 2017

| | Investment Value | Percent of Total Assets | Rate of Return % |
|---|---|---|---|
| American Funds New Perspective Fund | $ 3,695,958 | 0.5 | 21.22 |
| American Funds Fundaments Investors | 19,280,011 | 2.6 | 20.69 |
| Ariel Institutional | 72,076,354 | 9.9 | 16.12 |
| Brown Capital Management Small | 20,210,907 | 2.8 | 20.72 |
| DCPLUS Fixed Income Portfolio | 20,911,522 | 2.9 | 0.23 |
| DCPLUS Large Cap Growth Portfolio | 27,307,558 | 3.7 | 19.54 |
| DCPLUS Large Cap Value Portfolio | 92,477,210 | 12.6 | 18.24 |
| DFA US Core Equity 1 Portfolio | 2,129,992 | 0.3 | 19.54 |
| Harbor International Institutional | 25,522,981 | 3.5 | 15.11 |
| Nuveen Real Estate Securities Fund | 7,139,333 | 1.0 | 0.29 |
| PIMCO All Asset Fund Institutional Class | 472,677 | 0.1 | 10.17 |
| PIMCO Real Return Collective Trust II | 1,269,129 | 0.2 | -0.23 |
| TD Ameritrade | 3,163,205 | 0.4 | 0.00 |
| Vanguard Federal Money Market | 4,442,244 | 0.6 | 0.63 |
| Vanguard Institutional Index Fund | 79,705,992 | 10.9 | 18.57 |
| Vanguard Small Cap Index Fund | 14,990,467 | 2.0 | 17.38 |
| Vanguard Target Retirement Inc. | 6,251,233 | 0.9 | 5.30 |
| VT Retirement Income Advantage | 507,781 | 0.1 | 9.65 |
| Vanguard Target Retirement 2015 Fund | 6,729,044 | 0.9 | 8.04 |
| Vanguard Target Retirement 2020 Fund | 14,843,023 | 2.0 | 10.17 |
| Vanguard Target Retirement 2025 Fund | 14,618,747 | 2.0 | 11.81 |
| Vanguard Target Retirement 2030 Fund | 12,417,825 | 1.7 | 13.34 |
| Vanguard Target Retirement 2035 Fund | 14,048,974 | 1.9 | 14.81 |
| Vanguard Target Retirement 2040 Fund | 10,646,722 | 1.5 | 16.34 |
| Vanguard Target Retirement 2045 Fund | 9,139,242 | 1.2 | 16.91 |
| Vanguard Target Retirement 2050 Fund | 6,766,752 | 0.9 | 16.88 |
| Vanguard Target Retirement 2055 Fund | 2,538,941 | 0.3 | 16.87 |
| Vanguard Target Retirement 2060 Fund | 569,494 | 0.1 | 16.86 |
| Vantage Trust Plus Fund | 234,989,021 | 32.1 | 2.04 |
| Virtus Emerging Markets Fund Class 1 | 2,513,824 | 0.3 | 13.10 |
| | $ 731,376,161 | 100.0 | |

## ***Fiscal Year 2016***

The Plan's investments increased by $68,459,384 or 11.98% over the prior fiscal year. The increase is primarily due to positive investments performance in the overall market and the excess of contributions over benefit payments. For fiscal year 2016, there was a net appreciation in the fair value of investments due to favorable market conditions as all investment funds had positive rates of return.

As shown in **Table 2b - Investment by Fund with Rates of Returns as of September 30, 2016**, a significant portion of the Plan's investments were in Vantage Trust PLUS Fund (36.9%), DCPLUS Large Cap Value Portfolio (12.7%) and the Vanguard Institutional Index Fund (10.0%. The Vantage Trust PLUS Fund invests primarily in a diversified portfolio of stable value insurance contracts and fixed income securities that back certain stable value investment contracts, and seeks to provide preservation of principal and maximize current yield. The DCPLUS Large Cap Value Portfolio invests primarily in common and large capitalization stocks and seeks growth in capital. The Vanguard Institutional Index Fund invests primarily in equity securities of U.S. companies in the Standard & Poor's 500 Index.

Receivables are comprised of notes receivable from participants and contributions receivable. For the fiscal year 2016, receivables increased by $3,239,611 or 16.12% due to an increase in participant loans and participant contributions received after the end of the year.

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 5.5 basis points (0.055%) of the Plan's daily asset value.

## Table 2b - Investment by Fund with Rates of Returns as of September 30, 2016

| | Investment Value | Percent of Total Assets | Rate of Return % |
|---|---|---|---|
| American Funds New Perspective Fund | $ 2,010,823 | 0.3 | 11.26 |
| American Funds Fundaments Investors | 14,918,602 | 2.3 | 17.32 |
| Ariel Institutional | 63,372,683 | 9.9 | 15.87 |
| Brown Capital Management Small | 15,716,309 | 2.5 | 20.36 |
| DCPLUS Fixed Income Portfolio | 21,570,335 | 3.4 | 5.06 |
| DCPLUS Large Cap Growth Portfolio | 21,315,973 | 3.3 | 12.19 |
| DCPLUS Large Cap Value Portfolio | 81,000,322 | 12.7 | 17.79 |
| DFA US Core Equity 1 Portfolio | 945,758 | 0.1 | 13.93 |
| Harbor International Institutional | 20,873,685 | 3.3 | 7.75 |
| Nuveen Real Estate Securities Fund | 9,818,247 | 1.5 | 18.72 |
| PIMCO All Asset Fund Institutional Class | 391,873 | 0.1 | 13.65 |
| PIMCO Real Return Collective Trust II | 685,135 | 0.1 | 6.15 |
| TD Ameritrade | 2,337,202 | 0.4 | - |
| Vanguard Federal Money Market | 2,489,205 | 0.4 | 0.25 |
| Vanguard Institutional Index Fund | 64,016,059 | 10.0 | 15.41 |
| Vanguard Small Cap Index Fund | 10,769,578 | 1.7 | 14.96 |
| Vanguard Target Retirement Inc. | 2,296,283 | 0.4 | 7.67 |
| Vanguard Target Retirement 2010 | 4,496,457 | 0.7 | 7.91 |
| Vanguard Target Retirement 2015 Fund | 6,845,170 | 1.1 | 9.18 |
| Vanguard Target Retirement 2020 Fund | 9,912,615 | 1.5 | 10.18 |
| Vanguard Target Retirement 2025 Fund | 10,855,542 | 1.7 | 10.78 |
| Vanguard Target Retirement 2030 Fund | 9,594,227 | 1.5 | 11.22 |
| Vanguard Target Retirement 2035 Fund | 10,309,044 | 1.6 | 11.71 |
| Vanguard Target Retirement 2040 Fund | 6,650,757 | 1.0 | 12.17 |
| Vanguard Target Retirement 2045 Fund | 5,835,944 | 0.9 | 12.24 |
| Vanguard Target Retirement 2050 Fund | 2,747,197 | 0.4 | 12.24 |
| Vanguard Target Retirement 2055 Fund | 1,015,817 | 0.2 | 12.30 |
| Vantage Trust Plus Fund | 236,399,444 | 36.9 | 1.96 |
| Virtus Emerging Markets Fund Class 1 | 760,290 | 0.1 | 15.75 |
| | $ 639,950,576 | 100.0 | |

## Financial Analysis – Changes in Fiduciary Net Position

### Table 3 – Condensed Statements of Changes in Fiduciary Net Position for the Years Ended September 30, 2017, 2016 and 2015

| | | | | 2017-2016 | | 2016-2015 | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | Variance | % Variance | Variance | % Variance |
| **ADDITIONS** | | | | | | | |
| Employee Contributions | $ 68,122,118 | $ 58,656,848 | $ 55,664,492 | $ 9,465,270 | 16.14% | $ 2,992,356 | 5.38% |
| Net Investment Income (Loss) | 67,966,861 | 52,623,535 | (7,192,662) | 15,343,326 | 29.16% | 59,816,197 | 831.63% |
| Interest Income on Notes Receivable | 702,973 | 564,933 | 486,199 | 138,040 | 24.43% | 78,734 | 16.19% |
| Total additons | 136,791,952 | 111,845,316 | 48,958,029 | 24,946,636 | 22.30% | 62,887,287 | 128.45% |
| **DEDUCTIONS** | | | | | | | |
| Benefits Paid to Participants | 42,769,119 | 39,561,920 | 45,307,443 | 3,207,199 | 8.11% | (5,745,523) | -12.68% |
| Administrative Expenses | 324,789 | 282,121 | 277,933 | 42,668 | 15.12% | 4,188 | 1.51% |
| Loan Fees | 279,084 | 247,824 | 114,430 | 31,260 | 12.61% | 133,394 | 116.57% |
| Total deductions | 43,372,992 | 40,091,865 | 45,699,806 | 3,281,127 | 8.18% | (5,607,941) | -12.27% |
| Net Increase | 93,418,960 | 71,753,451 | 3,258,223 | 21,665,509 | 30.19% | 68,495,228 | 2102.23% |
| Net Position Restricted for Pensions, Beginning of Year | 662,970,450 | 591,216,999 | 587,958,776 | 71,753,451 | 12.14% | 3,258,223 | 0.55% |
| Net Position Restricted for Pensions, End of Year | $ 756,389,410 | $ 662,970,450 | $ 591,216,999 | $ 93,418,960 | 14.09% | $ 71,753,451 | 12.14% |

### ***Fiscal Year 2017***

Employee contributions increased by $9,465,270 or 16.14%. There was an overall increase in the average number of Plan participants making contributions to the Plan. The number of active Plan participants who made contributions increased from 11,656 in 2016 to 16,257 in 2017. In addition, the average monthly contributions decreased from $436.72 in 2016 to $413.95 in 2017.

The Plan's net investment income was $67,966,861 in 2017 compared to net investment gain of $52,623,535 in fiscal year 2016. The increase in net investment income was primarily due to favorable market conditions in fiscal year 2017 compared with 2016. Overall, all funds of the Plan reflected positive rates of return, which contributed to a net appreciation in the fair value of investments. The Plan's investments collectively had a weighted average rate of return in 2017 of 9.04% compared to 7.12% in 2016.

Benefits paid to participants increased by $3,207,199 or 8.11%. The increase was due to more participants requesting payouts in 2017 compared to 2016.

The administrative expenses for fiscal year 2017 were expenses incurred by the Plan Administrator for operations of the Plan and were reimbursed by the Program Manager at 0.055% (5.5 basis points) of the Plan's daily asset value.

***Fiscal Year 2016***

Employee contributions increased by $2,992,356 or 5.38%. There was an overall increase in the average number of Plan participants making contributions to the Plan. The number of active Plan participants who made contributions increased from 10,706 in 2015 to 11,656 in 2016. In addition, the average monthly contributions increased from $429.53 in 2015 to $436.72 in 2016.

The Plan's net investment income was $52,623,535 in 2016 compared to net investment loss of $7,192,662 in fiscal year 2015. The increase in net investment income was primarily due to favorable market conditions in fiscal year 2016 compared with 2015. Overall, all funds of the Plan reflected positive rates of return, which contributed to a net appreciation in the fair value of investments. The Plan's investments collectively had a weighted average rate of return in 2016 of 7.12% compared to 0.05% in 2015.

Benefits paid to participants decreased by $5,745,523 or 12.68%. The decrease was due to fewer participants requesting payouts in 2016 compared to 2015.

The administrative expenses for fiscal year 2016 were expenses incurred by the Plan Administrator for operations of the Plan and were reimbursed by the Program Manager at 0.055% (5.5 basis points) of the Plan's 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, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| ***ASSETS*** | | |
| Investments: | | |
| Registered Investment Companies | $ 493,223,935 | $ 401,213,930 |
| Vantage Trust PLUS Stable Value Fund | 234,989,021 | 236,399,444 |
| Self Directed Brokerage Accounts | 3,163,205 | 2,337,202 |
| Total Investments | 731,376,161 | 639,950,576 |
| Receivables: | | |
| Due from Program Manager | 25,541 | 23,908 |
| Notes Receivable from Participants | 22,766,429 | 19,871,904 |
| Participant Contributions | 2,486,293 | 3,445,428 |
| Total Receivables | 25,278,263 | 23,341,240 |
| Total Assets | 756,654,424 | 663,291,816 |
| ***LIABILITIES*** | | |
| Due to District Government | 265,014 | 321,366 |
| Total Liabilities | 265,014 | 321,366 |
| Net Position Restricted for Pensions | $ 756,389,410 | $ 662,970,450 |

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, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| ***ADDITIONS*** | | |
| Employee Contributions | $ 68,122,118 | $ 58,656,848 |
| Investment Income: | | |
| Net Appreciation in Fair Value of Investments | 63,098,334 | 42,289,814 |
| Dividends and Interest Income | 9,218,093 | 14,110,216 |
| Less: Investment Management Expenses | (4,349,566) | (3,776,495) |
| Net Investment Income | 67,966,861 | 52,623,535 |
| Interest Income on Notes Receivable from Participants | 702,973 | 564,933 |
| Total Additions | 136,791,952 | 111,845,316 |
| ***DEDUCTIONS*** | | |
| Benefits Paid to Participants | 42,769,119 | 39,561,920 |
| Administrative Expenses | 324,789 | 282,121 |
| Loan Fees | 279,084 | 247,824 |
| Total Deductions | 43,372,992 | 40,091,865 |
| Net Increase | 93,418,960 | 71,753,451 |
| Net Position Restricted for Pensions, Beginning of Year | 662,970,450 | 591,216,999 |
| Net Position Restricted for Pensions, End of Year | $ 756,389,410 | $ 662,970,450 |

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 Voya Retirement Services (Voya) (formerly ING) to be the Plan's Program Manager. Effective September 18, 2015, the Plan changed its Program Manager from Voya to ICMA Retirement Corporation (ICMA-RC). 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 $18,000 for 2017 and 2016 or 100% of the participants' includible compensation. Participants who are at least age 50 can contribute up to $24,000 for 2017 and 2016 to the Plan. Participants who qualify for pre-retirement catch-up contributions can contribute up to $36,000 for 2017 and 2016 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 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.

## NOTE 1 DESCRIPTION OF PLAN (Continued)

***Loans (Continued)***

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 4.25% as of September 30, 2017 and 3.50% as of September 30, 2016.

***Plan Membership***

At September 30, 2017 and 2016, the Plan's membership consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Active Members | 16,257 | 15,220 |
| Inactive Members | 3,700 | 2,158 |
| | 19,957 | 17,378 |

## 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***

At September 30, 2017 and 2016 the Plan's investments were in mutual funds, a stable value fund, and brokerage account. Shares of mutual funds are reported at fair value based on quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Investments in the stable value fund 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex- dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Fair Value Measurements***

The Plan categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*.

The valuation technique uses a three-level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

> *Level 1 Inputs*: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.
>
> *Level 2 Inputs*: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
>
> *Level 3 Inputs*: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

***Notes Receivable from Participants***

Loans to participants are recorded at principal less repayments and plus accrued interest. The loan balance reflected in the Statement of Net Position is also adjusted for defaulted loans. If a payment is missed for any reason the loan is considered delinquent and in arrears. All missed payments should be made by the end of the next calendar quarter. A loan is considered in default and taxed as a "deemed distribution" if missed payments are not made during the applicable grace period. Even after a loan is deemed distributed, loan repayments will continue to be deducted from available compensation until the earlier of when the loan is repaid or the maturity date is reached. Employees who leave District employment may continue to repay the loan by making alternative payment arrangements. As of June 30, 2017, and 2016, the total of all defaulted loans was $1,513,452 and $1,292,042, respectively.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***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.

***Reclassification***
Certain prior year balances may have been reclassified to conform with the current year presentation. These reclassifications have no effect upon reported net position available for benefits.

***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***
GASB has issued Statement No. 72, *Fair Value Measurement and Application*, which defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the new guidance, fair value disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. This Statement was effective for fiscal years beginning after June 15, 2015 and was adopted for fiscal year 2016.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of the pronouncement did not have a material impact on the Plan's financial statements.

## NOTE 3 INVESTMENTS

Investments of the Plan at September 30, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Stock and Bond Funds | $ 493,223,936 | $ 401,213,930 |
| Stable Value Fund | 234,989,021 | 236,399,444 |
| Self Directed Brokerage Account | 3,163,205 | 2,337,202 |
| Total Investments | $ 731,376,161 | $ 639,950,576 |

The Plan's investments in Registered Investment Companies are stated at fair market value. The stable value fund is recorded at contract value, which approximates fair value. The Plan's investments are subject to the following risks common to investments:

- *Custodial credit risk* is the risk that the Plan will not be able to recover the value of its investments in the event of a failure by the counterparty to a transaction. Investments are exposed if they are uninsured, are not registered in the name of the Plan, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the Plan's name. The Plans investments for fiscal year 2017 and 2016 are partially insured and registered in the Plan's name, and are generally segregated by the counterparty in a manner to protect them from certain claims by creditors. The Plan also invests in mutual and commingled trust funds which are not generally exposed to custodial credit risks. The Plan Sponsor performs periodic qualitative assessments of the investment managers and investment strategy to minimize custodial credit risk.

- *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. The following discloses the weighted average maturity for certain mutual funds that include investments in bonds at September 30, 2017.

| Investment | Average Maturity |
|---|---|
| Vantage Trust Plus Fund | 3.43 years |
| DCPLUS Fixed Income Portfolio | 8.30 years |
| PIMCO Real Return Collective Trust II | 8.73 years |

## NOTE 3 INVESTMENTS (Continued)

- *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, 2017 and 2016, the investment with the largest foreign currency risk is the Harbor International Fund. The major currency denomination for the Harbor International Fund is the Euro.

- *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 13 out of 29 investments that had credit ratings in fiscal year 2017 and 2016. At September 30, 2017 and 2016, those investments and the related credit ratings were as follows:

**September 30, 2017**

| Fund | Credit Ratings |
|---|---|
| DCPLUS Fixed Income Portfolio | AAA/BBB/A/AA |
| Vantage Trust Plus Fund | Aa2/AA-/AA |
| Vanguard Target Retirement Income | AAA/A/BBB/AA |
| Vanguard Target Retirement 2015 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2020 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2025 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2030 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2035 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2040 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2045 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2050 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2055 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2060 | AAA/A/BBB/AA |
| PIMCO Real Return Collective Trust II | AAA/AA |

## NOTE 3 INVESTMENTS (Continued)

**September 30, 2016**

| Fund | Credit Ratings |
|---|---|
| DCPLUS Fixed Income Portfolio | AAA/BBB/A/AA |
| Vantage Trust Plus Fund | Aa2 |
| Vanguard Target Retirement Income | AAA/A/BBB/AA |
| Vanguard Target Retirement 2010 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2015 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2020 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2025 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2030 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2035 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2040 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2045 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2050 | AAA/A/BBB/AA |
| Vanguard Target Retirement 2055 | AAA/A/BBB/AA |

**Investment concentrations** - In accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans as amended by Government Accounting Standards Board Statement No. 40 (GASB 40), Deposit and Investment Risk Disclosures – An amendment of GASB Statement No. 3,* the Plan is required to disclose the identification, by amount and issuer, of investments in any one issuer that represent 5% or more of the Plan's net position. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

## NOTE 4 FAIR VALUE MEASUREMENTS

The Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan had the following fair value measurement as of September 30, 2017:

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments measured at fair value: | | | | |
| Equities | | | | |
| Materials | $ 21,129,982 | $ 21,129,982 | $ - | $ - |
| Consumer and Cyclical and Defensive | 91,043,359 | 91,043,359 | - | - |
| Financial Services | 81,027,528 | 81,027,528 | - | - |
| Real Estate | 23,981,554 | 23,981,554 | - | - |
| Communication Services | 15,117,468 | 15,117,468 | - | - |
| Energy | 26,972,625 | 26,972,625 | - | - |
| Industrials | 58,392,595 | 58,392,595 | - | - |
| Technology | 76,562,699 | 76,562,699 | - | - |
| Healthcare | 55,969,586 | 55,969,586 | - | - |
| Utilities | 15,930,970 | 15,930,970 | - | - |
| Debt securities | | | | - |
| Government | 8,568,374 | - | 8,568,374 | - |
| Corporate | 5,794,582 | - | 5,794,582 | - |
| Securitized | 6,248,363 | - | 6,248,363 | - |
| Municipal | 805,094 | - | 805,094 | - |
| Other | 466,247 | - | 466,247 | - |
| Other funds | 8,078,126 | - | 8,078,126 | - |
| Total investments measured at fair value | 496,089,149 | $ 466,128,364 | $ 29,960,785 | - |
| | | | | |
| Investments measured at cost - | | | | |
| Cash | 297,991 | | | |
| Investments measured at contract value: | | | | |
| Stable Value Fund | 234,989,021 | | | |
| Total investments | $ 731,376,161 | | | |

## NOTE 4 FAIR VALUE MEASUREMENTS (Continued)

The Plan has the following fair value measurement as of September 30, 2016:

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments measured at fair value: | | | | |
| Equities | | | | |
| Materials | $ 13,563,692 | $ 13,563,692 | $ - | $ - |
| Consumer and Cyclical and Defensive | 71,715,651 | 71,715,651 | - | - |
| Financial Services | 53,986,020 | 53,986,020 | - | - |
| Real Estate | 19,828,454 | 19,828,454 | - | - |
| Communication Services | 11,332,413 | 11,332,413 | - | - |
| Energy | 24,976,931 | 24,976,931 | - | - |
| Industrials | 47,138,415 | 47,138,415 | - | - |
| Technology | 51,545,850 | 51,545,850 | - | - |
| Healthcare | 42,163,578 | 42,163,578 | - | - |
| Utilities | 11,587,504 | 11,587,504 | - | - |
| Debt securities | | | | - |
| Government | 19,899,182 | - | 19,899,182 | - |
| Corporate | 10,536,713 | - | 10,536,713 | - |
| Securitized | 9,048,031 | - | 9,048,031 | - |
| Municipal | 919,698 | - | 919,698 | - |
| Other | 716,896 | - | 716,896 | - |
| Other funds | 7,154,894 | - | 7,154,894 | - |
| Total investments measured at fair value | 396,113,922 | $ 347,838,508 | $ 48,275,414 | $ - |
| | | | | |
| Investments measured at cost - | | | | |
| Cash | 7,437,210 | | | |
| Investments measured at contract value: | | | | |
| Stable Value Fund | 236,399,444 | | | |
| Total investments | $ 639,950,576 | | | |

## NOTE 5 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, 2017 and 2016, 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, 2017 and 2016 totaled $4,232,462 and $4,347,670, respectively.

## NOTE 6 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, 2017 and 2016, investment management fees totaled $4,349,566 and $3,776,495, respectively.

## NOTE 7 DUE TO DISTRICT GOVERNMENT

Per their agreement, the Program Manager annually reimburses the Plan Administrator 5 basis points of the Plan's asset value through September 18, 2015 and 5.5 basis points afterwards. 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 basis point reimbursement, interest earnings and payments from the administrative reimbursement account, the balance in the administrative reimbursement account as of September 30, 2017 and 2016 was $265,014 and $321,366, respectively. This is recorded in the Statement of Fiduciary Net Position as "Due to District Government". The amount owed from the Program Manager as of September 30, 2017 was $25,541.

## NOTE 8 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 $324,789 and $282,121 for fiscal year 2017 and 2016, respectively, represents the Program Manager's investment expenses allocation towards administrative expenses.

## NOTE 8 ADMINISTRATIVE EXPENSES (Continued)

The administrative expenses incurred by the Plan Administrator and reimbursed from the administrative reimbursement account (see note 6) for the years ended September 30, 2017 and 2016 totaled $373,055 and $395,716, respectively, and were as follows:

| | 2017 | 2016 |
|---|---|---|
| Audit and Compilation Services | $ 97,844 | $ 105,343 |
| Investment Consulting Services | 25,211 | 61,617 |
| District Administrative Reimbursement | 250,000 | 117,266 |
| Program Manager | - | 111,490 |
| Other Expenses | - | - |
| | $ 373,055 | $ 395,716 |

For fiscal year 2017 and 2016, the Plan assesses $75 for each new participant loan processed and $50 per participant for existing loans. Loan fees totaled $279,084 and $247,824, in 2017 and 2016, respectively.

## NOTE 9 TERMINATED PARTICIPANTS

As of September 30, 2017, and 2016, the Plan had 3,700 and 2,158 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, 2017 and 2016 totaled $143,896,227 and $112,701,017, respectively.

## NOTE 10 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 11 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.

## NOTE 12 SUBSEQUENT EVENTS

The Plan evaluated subsequent events through March 2, 2018, the date the financial statements were available to be issued. Events or transactions occurring after September 30, 2017, but prior to March 2, 2018 that provided additional evidence about conditions that existed September 30, 2017, have been recognized in the financial statements for the year ended September 30, 2017. Events or transactions that provided evidence about conditions that did not exist as at September 30, 2017, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended September 30, 2017.