DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 18-1-14MA

January 2018

OIG

OTHER POST-EMPLOYMENT BENEFITS FUND:

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) FOR FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2016

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership * Transparency * Empowerment * Courage * Passion * Leadership

WE ARE WASHINGTON DC

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

January 31, 2018

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Office of the Chief Financial Officer, Office of Finance and Treasury: Other Post-Employment Benefits Fund Financial Statements for Fiscal Years Ended September 30, 2017, and 2016* (OIG No. 18-1-14MA). SB & Company, LLC (SB&C) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2017.

On January 5, 2018, SB&C issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SB&C identified no significant deficiencies or material weaknesses in internal control over financial reporting.

If you have any questions concerning this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF FINANCE AND TREASURY

OTHER POST-EMPLOYMENT BENEFITS FUND

Financial Statements
Together with Reports of Independent Public Accountants

For The Years Ended September 30, 2017 and 2016

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

SEPTEMBER 30, 2017 AND 2016

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SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of the District of Columbia Other Post-Employment Benefits Fund (the Fund), a fiduciary fund of the Government of the District of Columbia, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 controls relevant to the entity'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 entity's internal controls. 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SB & COMPANY, LLC
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Emphasis of Matter

As discussed in Note 2, the financial statements of the Fund are intended to present only the financial position of the Fund and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2017 and 2016, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net OPEB (asset) liability, schedule of contributions and related ratios, schedule of investment returns, and notes to the required supplementary information 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2018 on our consideration of the Fund's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Washington, D.C.
January 5, 2018

SB + Company, LLC

Management's Discussion and Analysis
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 (the District) Other Post-Employment Benefits Fund (the Fund), a fiduciary fund of the Government of the District of Columbia, for the fiscal years ended September 30, 2017, 2016 and 2015. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

All employees hired after September 30, 1987, who retired under the Teacher Retirement System or Police and Fire Retirement System; or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Fund.

Overview of the Financial Statements

The Fund is required to follow U.S. Generally Accepted Accounting Principles and, as such, the Fund's financial statements must consist of two basic financial statements: (a) Statement of Fund Net Position and (b) Statement of Changes in Fund Net Position.

- The Statement of Fund Net Position presents the Fund's assets, liabilities, and net position available for postretirement benefits.
- The Statement of Changes in Fund Net Position presents the additions to, and deductions from, the Fund's net position.
- The Notes to Financial Statements provide additional information that is essential for a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements such as accounting policies, plan membership and benefits, and summary disclosures of selected financial data.
- The Required Supplementary Schedules immediately following the notes to financial statements provides schedules illustrating the schedule of funding progress and schedule of employer contributions.

During the fiscal year ended September 30, 2017, the Fund adopted Government Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses accounting and financial reporting issues related to measurement of the total and net OPEB liability, as well as financial reporting by plans that administer OPEB benefits on behalf of governments.

Financial Highlights

	FY 2017	FY 2016	FY 2015
The Fund's Investments	**$1,299,091,485**	$1,173,912,217	$1,045,586,954
District's Contributions	**31,000,000**	29,000,000	91,400,000

Management's Discussion and Analysis *(continued)*
September 30, 2017 and 2016

			FY2017-FY2016			FY2016-FY2015	
	2017	2016	Variance	Variance %	2015	Variance	Variance %
Assets							
Cash and cash equivalents	**$ 82,057,838**	$ 37,032,445	$ 45,025,393	121.6%	$ 45,658,951	$ (8,626,506)	-18.9%
Receivables	**3,606,182**	16,890,545	(13,284,363)	-78.6%	16,214,607	675,938	4.2%
Investments, at fair value	**1,299,091,485**	1,173,912,217	125,179,268	10.7%	1,045,586,954	128,325,263	12.3%
Total assets	**1,384,755,505**	1,227,835,207	156,920,298	12.8%	1,107,460,512	120,374,695	10.9%
Liabilities							
Investments payable and other	**18,473,444**	30,393,993	(11,920,549)	-39.2%	30,910,398	(516,405)	-1.7%
Net Position Held in Trust for Other Post Employment Benefits	**$ 1,366,282,061**	$ 1,197,441,214	$ 168,840,847	14.1%	$ 1,076,550,114	$ 120,891,100	11.2%

			FY2017-FY2016			FY2016-FY2015	
	2017	2016	Variance	Variance %	2015	Variance	Variance %
Additions							
Contributions	**$ 31,521,466**	$ 29,430,587	$ 2,090,879	7.1%	$ 91,810,780	$ (62,380,193)	-67.9%
Net investment income	**150,514,898**	101,796,714	48,718,184	47.9%	(59,515,011)	161,311,725	-271.0%
Total additions	**182,036,364**	131,227,301	50,809,063	38.7%	32,295,769	98,931,532	306.3%
Deductions							
Insurance premiums	**12,891,620**	10,043,719	2,847,901	28.4%	6,739,591	3,304,128	49.0%
Other expenses	**303,897**	292,482	11,415	3.9%	365,123	(72,641)	-19.9%
Total deductions	**13,195,517**	10,336,201	2,859,316	27.7%	7,104,714	3,231,487	45.5%
Net Increase	**168,840,847**	120,891,100	$ 47,949,747	39.7%	25,191,055	$ 95,700,045	379.9%
Beginning Net Position	**1,197,441,214**	1,076,550,114			1,051,359,059		
Ending Net Position	**$ 1,366,282,061**	$ 1,197,441,214			$ 1,076,550,114		

Fund Contributions

For fiscal years ended September 30, 2017, 2016 and 2015, the District made actuarially based contributions in the amounts of $31,000,000, $29,000,000, and $91,400,000, respectively; which were based on congressionally approved budget authority. The District made contributions to the Fund that covered current and future Fund benefits. Annuitant contributions for years ended September 30, 2017, 2016 and 2015, amounted to $521,466, $430,587, and $410,780, respectively.

Investment Income

For fiscal years ended September 30, 2017; 2016; and 2015; the Fund had a rate of return of 11.98%, 9.17%, and (6.00%), respectively, and net investment income of $150,514,898, $101,796,714, and ($59,515,011), respectively. The net investment income for the Fund was a result of positive rates of returns on domestic and international equities, domestic and international fixed income, and a minor negative return in commodities, plus realized and unrealized gains in investments. The rate of return, by investment fund manager, is listed in the table below.

Investment	Rate of Return	Benchmark	Rate of Return	Benchmark	Rate of Return	Benchmark
	FY 2017	**FY 2017**	**FY 2016**	**FY 2016**	**FY 2015**	**FY 2015**
Access Capital ETI	**0.22%**	**0.29%**	3.14%	3.69%	3.03%	3.43%
Artisan Int'l Value Equity (Barclays)	**20.27%**	**23.22%**	8.71%	4.16%	-5.32%	-12.18%
Baillie Gifford Int'l Growth (Barclays)	**32.72%**	**16.11%**	17.22%	9.90%	-12.81%	-4.30%
Bernstein Global Plus	**-0.66%**	**-2.42%**	13.08%	11.67%	-7.35%	-7.67%
Bernstein Strategic Core	**0.57%**	**0.07%**	6.13%	5.19%	2.82%	2.94%
Brandywine Large Cap Value	**22.84%**	**15.12%**	10.30%	16.19%	-11.18%	-4.42%
ClearBridge Mid Cap	**17.85%**	**15.32%**	7.37%	14.25%	5.93%	-0.25%
Farr, Miller Washington Large Cap Growth	**17.11%**	**21.94%**	12.62%	13.76%	-0.26%	3.17%
Royce Pennsylvania Mutual Fund	**N/A****	**N/A****	16.54%	15.47%	-8.30%	1.25%
Nothern Trust Cash Fund	**0.65%**	**0.66%**	0.00%	0.00%	0.00%	0.00%
SSgA Bond Index	**0.09%**	**0.07%**	5.22%	5.19%	2.98%	2.94%
SSgA Emerging Markets Equity Index	**22.35%**	**22.46%**	16.61%	16.78%	-19.37%	-19.28%
SSGA Russel Sm Cap Ind Fund	**20.81%**	**20.74%**	N/A*	15.47%	0.00%	0.00%
Blue Bay Emerging Markets Debt Fund	**5.40%**	**5.92%**	12.95%	16.75%	-13.06%	-9.56%
Gresham Commodities Fund	**2.26%**	**-0.29%**	-5.28%	-2.59%	-27.87%	-25.99%

*-Fund inception date was November 24, 2015.

**Fund closed on October 1, 2016

In 2017, the investment firm managers had positive rates of return: led by Baillie Gifford Int'l. Growth Fund, 32.72%; Brandywine Large Cap Value Fund, 22.84%; SSgA Emerging Market Equity Index Fund, 22.35%; and SSgA Russell Small Cap Index Funds, 20.81%. The Fund had dividend and interest income in the amount of $13,971,814, a net appreciation of $141,292,317, and a currency loss on FX contracts and settlements of $(1,573,378) for the year ended September 30, 2017.

In 2016, the investment firm managers had positive rates of return: led by Baillie Gifford Int'l. Growth Equity Fund, 17.22%; SSgA Emerging Markets Equity Index, 16.61%; Royce Pennsylvania Mutual Fund, 16.54%; and Bernstein Global Plus Fund, 13.08%. The Fund had dividend and interest income in the amount of $17,711,990, a net appreciation of $84,291,776; and a currency gain on FX contracts and settlements of $3,004,326 for the year ended September 30, 2016.

In 2015, the Fund, as a whole, had a rate of return of -6.0%, with a net investment loss of $59,515,011 for the year ended September 30, 2015. The net investment loss for the Fund was a result of negative rates of returns on equities, negative returns on international debt securities and commodities, plus realized and unrealized investment gains and losses, which resulted in a net investment value of $1,045,586,954, as of September 30, 2015. Additionally, the investment firm managers had negative rates of return: led by Gresham Commodities Fund, -27.87%; SSgA Emerging Markets Equity Index, -19.37%; Blue Bay Emerging Markets Debt Fund, -13.06%; and Baillie Gifford International Growth Fund, -12.81%. The Fund had dividend and interest income in the amount of $22,432,988; and a net depreciation of $76,847,441, for the year ended September 30, 2015.

Insurance Carrier Premiums

Insurance carrier premiums represent amounts paid to the Fund's health and life insurance carriers. The premium expenses for the years ended September 30, 2017, 2016, and 2015 totaled $12,891,620, $10,043,719, and $6,739,591, respectively. The Defined Benefit Fund insurance premiums for the years ended September 30, 2017, 2016, and 2015 totaled $11,458,432, $8,853,071, and $6,182,198, respectively. All remaining insurance premiums are attributable to general employee retirees. The insurance premiums increased in fiscal year 2017, when compared to 2016 and 2015, due to rising national health care costs. The rising costs resulted in an increase in coverage cost for District employees. As of September 30, 2017, 2016, and 2015, the Fund had 1,498, 1,279, and 995 annuitants receiving benefits, respectively.

Summary of Actuarial Analysis

The results of the actuarial analysis are summarized below:

		September 30, 2017
Total OPEB Liability	$	1,224,600,000
Fund Fiduciary Net Position		1,366,282,061
Net OPEB (Asset) Liability	$	(141,682,061)
Fund Fiduciary Net Position as a percentage of the Total OPEB (Asset) Liability		111.57%

An independent actuary was retained by the District, to perform an actuarial valuation of the District of Columbia Annuitants' Health and Life Insurance Employer Contribution Plan (the Plan) as of September 30, 2016. The purpose of the valuation was to provide an estimate of the total OPEB liability and the Fund's fiduciary net position.

Actuarial valuations of an ongoing Fund involve estimates of the value of reported amounts, and assumptions about the probability of occurrence of events far into the future. An example includes assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations, and new assumptions are made about the future.

The District executed an experience study during the 2016 and 2015 fiscal years. The study examined participation assumptions for the Fund. The number of current retirees under the Fund is quite small because the benefit is only available to retirees who were hired by the District after September 30, 1987. Since there is currently not substantial participation experience, the participation assumption chosen for valuations prior to the 2014 valuation purposely contained a large to scale margin when compared to current actual rates of participation. As a result of the recent experience study, the District adopted updated assumed participation rates, which reflect actual experience but continue to include an element of conservatism. The District also adjusted the discount rate to reflect more conservative expectations of future investment returns. The District will continue to track actual rates of participation in the future, and will continue to compile participation data so that updated analyses of participation rates can be made as part of future valuations. The District will plan to maintain a funding ratio between 90% and 120% indicating that the plan is fully funded.

There were 25,110 and 22,821 active employees, based on the September 30, 2017 and 2016 actuarial reports, respectively. The 2017 actuarial report showed that, based on data as of September 30, 2016, the number of annuitants increased to a total of 1,359 members. They consist of 1,065 firefighters, police, and teachers; and 294 general employees. In comparison to the 2016 actuarial report, using September 30, 2014 data, the number of annuitants totaled 938 members, which represents an increase of 45% in membership.

Management's Discussion and Analysis *(continued)*
September 30, 2017 and 2016

Investment Management Fees

Investment management and custody fees for the years ended September 30, 2017, 2016 and 2015, are detailed in the table below. Investments increased to $1,299,091,485 as of September 30, 2017, from $1,173,912,217 as of September 30, 2016, which is an increase of 10.66% from the prior year, and an increase of 24.25% over the past two years.

	September 30,		
Investment Firm (*In dollars*)	**2017**	**2016**	**2015**
Farr, Miller Washington Large Cap Growth	$ 1,016,939	$ 902,643	$ 904,138
Brandywine Large Cap Value	808,142	749,144	1,024,876
ClearBridge Mid Cap	594,028	721,199	545,241
Bernstein Global Plus	395,487	396,569	268,670
Bernstein Strategic Core	341,309	337,301	326,988
SSgA Emerging Markets Equity	121,555	80,714	145,656
SSgA Custody Fees	98,583	151,087	134,042
SSgA Russell Sm. CAP Index Fund-Bond*	46,983	33,542	-
SSgA Index Bond	36,990	27,681	35,503
Royce Pennsylvania Mutual Fund**	-	242,980	478,967
Subtotal Management Fees from Investment Managers	3,460,016	3,642,860	3,864,081
Management Fees from Net Asset Valuation			
Access Capital ETI	157,171	203,261	197,074
Blue Bay Emerging Markets - Debt Fund	291,778	276,830	238,116
Gresham Commodities Fund - Equity	319,661	312,590	182,241
Baillie Gifford Int'l. Growth	820,721	656,386	464,625
Artisan Int'l. Value Equity (Barclays)	754,949	627,734	458,151
Subtotal Management Fees from Net Asset Valuation	2,344,280	2,076,801	1,540,207
Total Investment Management Fees	$ 5,804,296	$ 5,719,661	$ 5,404,288

Note: Management Fees paid from the Net Asset Valuation are now shown as part of Net Appreciation in Fair Values.

* Fund inception date was November 24, 2015.
** Fund closed on October 1, 2016.

Contact Information

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer (Office of Finance and Treasury); Government of the District of Columbia; 1101 4th Street SW, 8th Floor Washington, DC, 20024.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Statements of Fiduciary Net Position
September 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	**$ 82,057,838**	$ 37,032,445
Receivables		
Investment	**1,078,699**	14,170,160
Interest and dividends	**2,527,483**	2,720,385
Total receivables	**3,606,182**	16,890,545
Investments, at fair value:		
Equities	**824,476,663**	694,373,770
Debt securities	**431,993,339**	437,859,844
Commodities	**42,621,483**	41,678,603
Total investments	**1,299,091,485**	1,173,912,217
Total Assets	**1,384,755,505**	1,227,835,207
LIABILITIES		
Investments and other payables	**18,473,444**	30,393,993
Net Position Restricted for Other Post Employment Benefits	**$ 1,366,282,061**	$ 1,197,441,214

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Statements of Changes in Fiduciary Net Position
For the Years Ended September 30, 2017 and 2016

	2017	2016
ADDITIONS		
Contributions:		
District contributions	**$ 31,000,000**	$ 29,000,000
Annuitant contributions	**521,466**	430,587
Total contributions	**31,521,466**	29,430,587
Investment income:		
Net appreciation in fair value	**141,292,317**	84,291,776
Interest	**7,781,262**	8,314,360
Dividends	**6,190,552**	9,397,630
Currency (loss) gain on FX contracts and settlements	**(1,573,378)**	3,004,326
Other income	**284,161**	431,482
Total income from investment activities	**153,974,914**	105,439,574
Less: Investment management fees	**3,460,016**	3,642,860
Net investment income	**150,514,898**	101,796,714
Total Additions	**182,036,364**	131,227,301
DEDUCTIONS		
Insurance carrier premiums	**12,891,620**	10,043,719
Administrative expenses	**303,897**	292,482
Total Deductions	**13,195,517**	10,336,201
Change in Plan Net Position	**168,840,847**	120,891,100
Net Position Restricted for Other Post Employment Benefits		
Beginning of the year	**1,197,441,214**	1,076,550,114
End of the Year	**$ 1,366,282,061**	$ 1,197,441,214

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

NOTE 1 – FUND DESCRIPTION AND CONTRIBUTIONS

The Government of the District of Columbia (the District) established the Fund on October 1, 1999, under the Annuitants' Health and Life Insurance Employer Contribution Amendment Act of 1999 (the "Act"). The Fund was established to receive the District's contributions for health and life insurance premiums, from which the District's contributions would be paid. The Fund is managed and administered jointly by the District's Office of Finance and Treasury (OFT), within the District's Office of the Chief Financial Officer; and the District's Office of Human Resources, pursuant to the terms of the Plan. The Fund is a fiduciary fund of the District.

The District established an Advisory Committee to advise the Office of Finance and Treasury on the administration and investment management of the Fund. The Committee shall consist of the following members: four appointed by the Chief Financial Officer (CFO); one appointed by the Mayor; one appointed by the Council; and one member who is either a member of the District of Columbia Retirement Board (DCRB) or a member of DCRB's professional staff.

The current advisory committee has two vacancies, and consists of the following members:

- Director, District of Columbia Department of Human Resources
- Executive Director, District of Columbia Retirement Board
- Chief Education Officer, Municipal Securities Rulemaking Board
- Deputy Director, Division of Finance, Federal Deposit Insurance Corporation
- Director, Office of Revenue and Analysis

Fund Description

The Fund is a single employer defined benefit Fund that provides health and life insurance benefits to retired eligible District employees. All employees hired after September 30, 1987, who retired under the Teachers' Retirement System or Police and Fire Retirement System, or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Fund. The Fund was established to hold and pay the District's contributions for health and life insurance for annuitants. The purpose of the Fund (as defined in Section 1.02 of the Plan) is to manage and administer the Fund for the benefit of annuitants, as provided in the Act.

To continue insurance benefits into retirement, employees must have been continuously enrolled (or covered as a family member) under the D.C. Employees Health Benefits (DCEHB) program, or the D.C. Employees Group Life Insurance (DCEGLI) program for five years prior to retirement. If the employee was employed less than five years, the employee must have been enrolled for his/her length of employment. Coverage under Medicare is not considered in determining continuous coverage. Dependents are also covered if the employee elects family coverage.

NOTE 1 – FUND DESCRIPTION AND CONTRIBUTIONS (*continued)*

Contributions

Cost sharing arrangements for annuitants vary depending on whether the employee was a General Employee, Teacher, Police Officer or Firefighter. For General Employees and Teachers, annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 75%, reduced by an additional 2.50% for each year of creditable service over 10 years up to a maximum of 20 such additional years. Thus, the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service, the District pays 75% of the cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan.

Covered family members of General Employees and Teacher annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family member is 80%, reduced by an additional 1.00% for each year of creditable District service over 10 years up to a maximum of 20 such additional years. Thus, the District's contribution shall not exceed 40% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family members of an annuitant with 30 or more years of creditable District service pays up to 60% of the cost of the selected health benefit plan.

For Police Officers and Firefighters, annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 70%, reduced by an additional 3.00% for each year of creditable service over 10 years up to a maximum of 15 such additional years. Thus, the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 25 or more years of creditable District service or Police Officer or Firefighter annuitants who are injured in the line of duty, the District pays 75% of cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan. Special rules apply for Police Officers and Firefighters who were hired before November 10, 1996.

Covered family members of Police Officers and Firefighter annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family members is 75%, reduced by an additional 3.00% for each year of creditable District service over 10 years. However, the portion paid by the covered family member is never less than 40% and the District's contribution shall not exceed 60% of the cost of the selected health benefit plan; the family member pays 40% of the cost of the selected health benefit plan for covered family members of Police Officers or Firefighters who were hired before November 10, 1996.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America, as prescribed by the Government Accounting Standards Board (GASB).

Reporting Entity

The District established the Fund, which is a single employer defined benefit fund, on October 1, 1999. As of September 30, 2009, the District finalized all the terms and provisions of the Fund. A trust agreement, dated September 30, 2006, designated the Chief Financial Officer of the District as the trustee of the Fund. The Trust became operational in 2007; and is administered as an irrevocable trust, through which assets are accumulated, and benefits are paid as they become due, in accordance with the Fund's plan document.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Fund's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. The Fund's policy is to recognize member contributions in the period in which the contributions are due and paid. The District's (employer) contributions to the Fund are recognized when due, and when the District has made a formal commitment to provide the contributions. Benefit related expenses and refunds are recognized when due and payable, in accordance with the terms of the Fund. Most administrative costs (employee salaries) of the Fund are paid by the District.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and change therein, as of the date of the financial statements; as well as the actuarial present value of accumulated benefits during the reporting period. Actual results could differ from these estimates. Further actuarial valuations of an ongoing benefits fund involve estimates of the value of reported amounts, and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, interest rates, inflation rates, and healthcare cost trends. Amounts determined regarding the funded status of the Fund and the annual required contributions of the District are subject to continual revision, as actual results are compared with past expectations and new assumptions are made about the future.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair Value Measurements

OFT is responsible for the oversight of the investments of Fund assets, and has established the Plan to guide the administration and management of the Fund. The duties and responsibilities of the OFT also include, but are not limited to, the financial administration and management of the Fund, the establishment of investment objectives, the determination of investment policies, the establishment of management policies, and the management and control of Fund assets. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, inputs are observable for similar transactions or the inputs are unobservable. However, the objective of fair value measurement in all cases is to determine the price at which an orderly transaction to sell assets or to transfer liability would take place between market participants at the measurement date under current market conditions. The Trustee has delegated to each investment firm the responsibility to determine the fair value of an investment security when a price is not available from a pricing service or broker-dealer. The investment firm's Portfolio Management and Performance Committee (Valuation Committee) is responsible for determining whether the price provided by a pricing service or broker-dealer does not approximate fair value.

Investment Valuation and Income Recognition

Investments are reported at fair value, with realized and unrealized gains and losses included in the Statement of Changes in Fund Net Position. GASB issued Statement 40, *Deposit and Investment Risk Disclosures*, provides disclosure guidance requirements on deposits and investments of state and local governments that are exposed to investment risks related to credit risk, concentration of credit risks, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In addition, deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's agent, but not in the depositor-government's name, are part of the requirements of this Statement.

Also, investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty; or (b) the counterparty's trust department or agent, but not in the government's name, are also part of the requirements of Statement 40. See Note 6 for the related deposits and investment risk disclosures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

Investment Valuation and Income Recognition *(continued)*

GASB Statement 72, *Fair Value Measurement and Application,* provides disclosure guidance requirements on fair value measurement of investments of state and local governments that are exposed to investment risks related to credit risk, concentration of credit risks, interest rate risk, and foreign currency risk. GASB 72 also clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly (for example, quoted prices for similar assets or liabilities in active markets).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement (including the District's own assumptions in determining the fair value of investments).

Recent Accounting Pronouncements

In June 2015, GASB approved the issuance of two new statements that are designed to improve the usefulness of information about OPEB in the general purpose external financial reports of state and local governmental plans, for making decisions and assessing accountability:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial reporting by plans that administer OPEB benefits on behalf of governments.

The new GASB Statements include requirements for defined benefit OPEB plans that replace the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. They also include requirements for defined contribution OPEB plans that replace the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* Statement 43; and Statement No. 50, *Pension Disclosures.*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

Recent Accounting Pronouncements *(continued)*

The Fund adopted GASB Statement No. 74 for the year ended September 30, 2017. See Note 7 for more information on net OPEB liability.

GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements* No. 67, No. 68, and No. 73; Statement No. 85, *Omnibus* 2017 effective for the year ending June 30, 2018; and Statement No. 84, *Fiduciary Activities* effective for the year ending June 30, 2020. The Fund has not completed the process of evaluating the impact that will result from adopting these GASB statements, but does not expect that these GASB statements would have a material effect on the financial statements. The Fund will adopt these GASB statements, as applicable, by their effective date.

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

NOTE 3 – FUND DESCRIPTIONS AND CONTRIBUTION INFORMATION

As of September 30, 2017, and 2016, the Fund had 1,498 and 1,279 annuitants receiving benefits, respectively. The 2017 participants were comprised of 1,156 Firefighters, Police, and Teachers; and 342 general District employees. The 2016 participants were comprised of 982 Firefighters, Police, and Teachers; and 297 general District employees. The premium expenses for the fiscal years ended September 30, 2017 and 2016, totaled $12,891,620 and $10,043,719, respectively. The insurance premiums attributable to Police, Firefighter, and Teacher retirees for the fiscal years 2017 and 2016 totaled $11,458,432 and $8,853,071, respectively. All remaining insurance premiums are attributable to general employee retirees.

The actuarial valuation for the fiscal year ended September 30, 2017, was based on the actuarial valuation performed as of September 30, 2016. The actuarial report, which was issued in April 2017, showed that there was a total of 1,359 retired participants. They consisted of 1,065 Firefighters, Police, and Teachers; and 294 general employees.

The actuarial valuation for the fiscal year ended September 30, 2016 was a roll-forward of the prior year's valuation. The actuarial roll-forward report issued in March 2016, projected from data as of September 30, 2014, showed that there was a total of 938 retired participants. They consisted of 740 Firefighters, Police, and Teachers; and 198 general employees.

NOTE 4 – MASTER CUSTODIAN CONTRACT

The Fund administrators have a Master Custodian Contract to reduce risk of loss and to improve security. Maintaining assets with the Master Custodian provides the additional advantage of tracking information provided by the investment managers, since the Master Custodian provides information on investment transactions from an independent source; as well as providing reporting capabilities for the Fund. On May 1, 2017, the Fund changed the Master Custodian of the plan from State Street Bank and Trust Company to the Northern Trust Company.

NOTE 5 – CASH AND CASH EQUIVALENTS

Custodial credit risk for cash and cash equivalents is the risk that, in the event of a financial institution failure, the Fund may not be able to recover the value of cash and cash equivalents. The Fund, through its investment firms, maintains certain cash and cash equivalent balances. These balances are not required to be collateralized by statute or policy. The Fund maintains cash and cash equivalents in investments accounts, as detailed below, as of September 30, 2017 and 2016:

	September 30,			
Funds by Investment Firm	**2017**	**Percentage***	**2016**	**Percentage***
Cash account	**$ 21,397,339**	**1.55%**	$ 5,696,474	**0.47%**
Bernstein Strategic Core	**17,910,820**	**1.30%**	5,813,644	**0.48%**
Brandywine Large Cap Value	**17,736,181**	**1.28%**	7,732,792	**0.64%**
Farr, Miller Washington Large Cap Growth	**18,495,711**	**1.34%**	11,250,579	**0.93%**
ClearBridge Mid Cap	**3,995,378**	**0.29%**	1,741,300	**0.14%**
Bernstein Global Plus	**2,522,409**	**0.18%**	4,797,656	**0.40%**
Total Cash and Cash Equivalents	**$ 82,057,838**	**5.94%**	$ 37,032,445	**3.06%**

* Includes cash and investments.

NOTE 6 – INVESTMENTS

The majority of the Fund's assets as of September 30, 2017 and 2016 were investments, which totaled $1,299,091,485 and $1,173,912,217, respectively. The assets are invested with 13 different investment firms. As of September 30, 2017, and 2016, the funds were invested in equities, (59.69% and 57.34%); debt securities, (31.28% and 36.16%); and commodities, (3.09% and 3.44%), respectively. The fair values of each investment firm's assets, as of September 30, 2017 and 2016, are as follows:

	September 30,			
	2017		2016	
Equity Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Brandywine Large Cap Value	**$ 186,042,153**	**13.47%**	$ 159,536,709	13.17%
Farr, Miller Washington Large Cap Growth	**172,284,092**	**12.47%**	148,250,622	12.24%
ClearBridge Mid Cap	**130,185,747**	**9.43%**	115,495,089	9.54%
Baillie Gifford Int'l Growth Equity	**86,391,637**	**6.26%**	59,784,175	4.94%
Artisan International Growth Fund	**71,899,930**	**5.21%**	65,093,241	5.38%
SSgA Russell Sm Cap Index Fund	**80,893,703**	**5.86%**	64,117,391	5.29%
SSgA Emerging Markets Equity Index	**96,779,401**	**7.01%**	79,098,948	6.53%
Royce Pennsylvania Mutual Fund	**-**	**0.00%**	2,997,595	0.25%
Total Equity	**$ 824,476,663**	**59.69%**	$ 694,373,770	57.34%
Debt securities Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Bernstein Strategic Core	**$ 145,071,371**	**10.50%**	$ 153,187,850	12.65%
Bernstein Global Plus	**149,270,224**	**10.81%**	148,450,350	12.26%
SSgA Bond Index	**81,159,099**	**5.88%**	81,086,049	6.70%
Access Capital ETI	**31,339,373**	**2.27%**	31,270,951	2.58%
Blue Bay Emerging Markets Debt Fund	**25,153,272**	**1.82%**	23,864,644	1.97%
Total Debt Securities	**$ 431,993,339**	**31.28%**	$ 437,859,844	36.16%
Commodities Funds by Investment Firm	**Amount**	**Percentage***	**Amount**	**Percentage***
Gresham Commodities Fund	**$ 42,621,483**	**3.09%**	$ 41,678,603	3.44%

* Includes cash and investments.

GASB 72 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. An asset or a liability categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The summary of inputs used to determine the fair valuation of the Fund's investments as of September 30, 2017 and 2016 is as follows.

Equity securities and mutual funds: These investments are classified as Level 1 of the fair value hierarchy, and are valued using prices quoted in active markets for those securities. The mutual funds held in equities are deemed to be actively traded, and support classification of the fair value measurement as Level 1 in the fair value hierarchy.

Real Estate Investment Trust Securities investments, classified as Level 3, are valued using either a discounted cash flow or market comparable company's technique.

NOTE 6 – INVESTMENTS (*continued*)

Debt securities, classified as Level 2 of the fair value hierarchy, are valued using market pricing and other observable market inputs for similar securities from several data providers, standard in the industry; or a broker quote in a non-active market. Collateralized auto loan securities, which are included in Collateralized Debt Obligations, are classified in Level 3; and are valued using consensus pricing. The mutual funds held in bonds are classified as Level 2.

Commodities Fund: The investment objectives of the fund are to provide a partial price hedge with an attractive risk/return profile, as compared to other products using a commodity index or a pool of commodities. Partial or complete redemption may be made, upon five (5) days' prior written notice, on the last business day of each calendar month or at such times and on such terms as the General Partner of the fund may, in his/her sole discretion, allow. The valuation techniques and inputs categorization within the valuation hierarchy is based upon Level 3; and uses the income approach, where the advisor considers a list of factors to determine whether there has been significant decrease in the relation to normal market activity.

Investment derivative instruments: The Fund's derivative financial instruments are valued by a third-party investment fund's manager, based on prevailing market data derived from proprietary models, and are carried at fair value. The Fund had five types of off-balance sheet derivative financial instrument outstanding. These derivative instruments are financial contracts, whose values depend on the value of one or more underlying assets, or reference rates or financial indices, which dictate the rate of change of output with respect to the financial contracts. The financial instruments categorization within the valuation hierarchy is based upon Level 2, which is the lowest level of input that is significant to the fair value measurement.

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2017, and 2016, the Fund had the following recurring fair value measurements:

		Fair Value Measurements Using		
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 by fair value level				
Equity securities				
U.S. equities (by Industry)				
Industrials	$ 81,926,050	$ 81,926,050	$ -	$ -
Consumer Retail	122,975,139	122,975,139	-	-
Information Technology	79,394,102	79,394,102	-	-
Financial Institutions	91,279,921	91,279,921	-	-
HealthCare	72,375,019	72,375,019	-	-
Other	2,020,481	2,020,481	-	-
International equities				
Consumer Retail	5,747,981	5,747,981	-	-
Information Technology	4,189,634	4,189,634	-	-
Industrials	4,003,733	4,003,733	-	-
Real Estate Investment Trust Securities	6,514,752	-	-	6,514,752
Mutual funds	98,978,883	98,978,883	-	-
Total equity securities	569,405,695	562,890,943	-	6,514,752
Debt securities				
U.S. Government Issues	80,576,738	-	80,576,738	-
International Government Issues	105,680,841	-	105,680,841	-
Corporate Bonds	83,334,597	-	82,948,423	386,174
Mortgage-backed Securities	321,713	-	-	321,713
Credit Card/Automotive Receivables	14,410,075	-	14,410,075	-
Mutual funds	112,498,472	-	36,424,838	56,005,827
U.S. State and Local Government Bonds	10,017,631	-	10,017,631	-
Total debt securities	406,840,067	-	330,058,546	56,713,714
Commodity investments				
Gresham commodities fund	42,621,483	-	-	42,621,483
Total Investments by Fair Value Level	1,018,867,245	$ 562,890,943	$ 330,058,546	$ 105,849,949
Investments measured at the Net Asset Value (NAV)				
SSGA Emerging Markets Equity Index	96,779,401			
Ballie Gifford International Growth Fund	86,391,637			
Artisan International Growth Fund	71,899,930			
Blue Bay Emerging Market Debt Fund	25,153,272			
Total investments measured at the NAV	280,224,240			
Total investments measured at fair value	$ 1,299,091,485			
Investment derivative instruments				
Interest Rate Swaps	$ (141,504)	$ -	$ (141,504)	$ -
Credit Defaults Swaps	(725,075)	-	(725,075)	-
Foreign Exchange Forwards	1,395,867	-	1,395,867	-
Total Investment derivative instruments	$ 529,288	$ -	$ 529,288	$ -

NOTE 6 – INVESTMENTS *(continued)*

		Fair Value Measurements Using		
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 by fair value level				
Equity securities				
U.S. equities (by Industry)				
Industrials	$ 113,526,199	$ 113,526,199	$ -	$ -
Consumer Retail	86,868,839	86,868,839	-	-
Information Technology	62,095,087	62,095,087	-	-
Financial Institutions	77,405,341	77,405,341	-	-
HealthCare	53,112,076	53,112,076	-	-
Other	5,852,428	5,852,428	-	-
International equities				
Consumer Retail	2,959,530	2,959,530	-	-
Information Technology	3,131,368	3,131,368		
Industrials	7,965,066	7,965,066	-	-
Real estate investment trust securities	10,537,975	-	-	10,537,975
Mutual funds	67,114,986	67,114,986	-	-
Total equity securities	490,568,895	480,030,920	-	10,537,975
Debt securities				
U.S. Government Issues	24,689,899	-	24,689,899	-
International Government Issues	123,242,469	-	123,242,469	-
Corporate Bonds	82,541,212	-	82,541,212	-
Mortgage-backed Securities	57,195,033	-	54,448,326	2,746,707
Credit Card/Automotive Receivables	13,434,071	-	-	13,434,071
Mutual funds	112,357,000	-	112,357,000	-
U.S. State and Local Government Bonds	364,027	-	364,027	-
Total debt securities	413,823,711	-	397,642,933	16,180,778
Commodity investments				
Gresham commodities fund	41,678,603	-	-	41,678,603
Total Investments by Fair Value Level	946,071,209	$ 480,030,920	$ 397,642,933	$ 68,397,356
Investments measured at the Net Asset Value (NAV)				
Artisan International Growth Fund	65,093,241			
Baillie Gifford International Growth Equity	59,784,175			
SSGA Emerging Markets Equity Index	79,098,948			
Blue Bay Emerging Market Debt Fund	23,864,644			
Total investments measured at the NAV	227,841,008			
Total investments measured at fair value	$ 1,173,912,217			
Investment derivative instruments				
Interest rate swaps	$ (246,824)	$ -	$ (246,824)	$ -
Credit defaults swaps	3,135	-	3,135	-
Foreign exchange forwards	28,307	-	28,307	-
Total Investment derivative instruments	$ (215,382)	$ -	$ (215,382)	$ -

NOTE 6 – INVESTMENTS *(continued)*

Investments measured at the Net Asset Value (NAV): The NAV of an investment company is the company's total assets, minus its total liabilities. This investment category consists of four (4) funds that include funds or products that employ dynamic trading strategies aimed at achieving absolute returns. These investment funds do not redeem shares on a daily basis. The funds have varying restrictions on liquidity and transferability. The fair values of the investments in this type have been determined, using the NAV per share of the investments. Additional information about the nature of investments measured at the Net Asset Value per share is presented in the tables below:

Investment	Fair Value as of September 30, 2017	Fair Value as of September 30, 2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
SSgA Emerging Markets (1)	$ 96,779,401	$ 79,098,948	None	Monthly	5 days
Baillie Gifford Int'l Growth Equity (2)	86,391,637	59,784,175	None	Monthly	5 days
Artisan International Growth Fund (3)	71,899,930	65,093,241	None	Monthly	5 days
Blue Bay Emerging Markets Debt Fund (4)	25,153,272	23,864,644	None	Monthly	30 days
Total Investments Measured at NAV	**$ 280,224,240**	**$ 227,841,008**			

1) SSgA Emerging Markets Equity Fund: This fund is managed, using a “passive” or “indexing” investment approach, by which SSgA attempts to match, before expenses, the performance of the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Equity securities may include common stocks, preferred stocks, depository receipts, or other securities convertible into common stock. Equity securities held by the fund may be denominated in foreign currencies and may be held outside the United States. In some cases, it may not be possible or practicable to purchase all the securities comprising the Index, or to hold them in the same weightings as they represent in the Index. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolio.

2) Baillie Gifford International Growth Equity: The fund is designed to pursue long-term capital appreciation by investing in high-quality, attractively valued, non-U.S. growth companies of all market capitalizations. Their investment process is based on a highly analytical research-driven process, and builds portfolios from the bottom-up. The strategy invests primarily in developed markets, but also may invest up to 20% of the Fund’s net assets at market value, at the time of purchase, in emerging markets. Currency hedging is used for defensive purposes, and are only used under certain conditions.

NOTE 6 – INVESTMENTS *(continued)*

3) Artisan International Growth Fund: This fund's investment team seeks to invest in companies with histories of generating strong, free cash flow, improving returns on capital and strong competitive positions in their industries. The team also believes that investing in companies with strong balance sheets helps to reduce the potential for capital risk, and provides company management the ability to build value when attractive opportunities are available.

4) Blue Bay Emerging Markets Debt Fund: The investment objectives of this Fund are to achieve favorable income-oriented returns from a globally diversified portfolio of primarily developing market debt or debt-like securities, and preservation and enhancement of principal. Participating Shares may be redeemed monthly, with five (5) days prior written notice, on the last business day of each calendar month; or at such times, and on such terms as the Board of Directors of the Fund may, in their sole discretion, allow.

During the year ended September 30, 2017, the Fund recognized no transfers to/from Level 1 or 2. The Fund's policy is to recognize transfers to/from Level 1, Level 2, and Level 3 at the end of the reporting period, utilizing fair value at the beginning of the period.

The annual money-weighted rate of return on OPEB plan investments is calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense. OPEB plan investment expense should be measured on the accrual basis of accounting. Inputs to the internal rate of return calculation should be determined at least monthly. However, the use of more frequently determined inputs is encouraged. The valuation of the weighted rate of return for FY 2017 was 12.49%.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty to a transaction, a government may not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The counterparty is the party that pledges collateral or repurchase agreement securities to the government; or that sells investments to, or buys them for, the government.

The Fund's investments are uninsured and unregistered, and are held by the counterparty in the Fund's name. The Fund is also subject to certain credit, interest rate, and foreign currency risks.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign currency. The Fund does not have a formal policy for limiting its exposure to changes in exchange rates. The Fund's investments as of September 30, 2017 and 2016, held in currencies other than U.S. dollars, were as follows:

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2017

International Securities	Short Term and Cash	Convertible and Fixed Income	Total
ARGENTINE PESO	$ (126,696)	$ 1,271,255	$ 1,144,559
AUSTRALIAN DOLLAR	172,903	1,740,122	1,913,025
BRAZILIAN REAL	265,360	514,077	779,437
POUND STERLING	(492,448)	14,591,885	14,099,437
CANADIAN DOLLAR	(406,119)	5,357,904	4,951,785
CZECH KORUNA	17,783	3,486,210	3,503,993
DANISH KRONE	(4,721)	828,465	823,744
EGYPTIAN POUND	31,029	355,144	386,173
EURO	3,338,633	63,508,940	66,847,573
JAPANESE YEN	(209,724)	45,705,167	45,495,443
MALAYSIAN RINGGIT	16,840	761,613	778,453
MEXIAN PESO	(119,990)	3,405,224	3,285,234
NEW ISRAELI SHEKEL	5,302	237,365	242,667
NEW TAIWAN DOLLAR	(13,875)	18,149	4,274
NEW ZEALAND DOLLAR	89,355	(1,671,584)	(1,582,229)
NORWEIGAN KRONE	(5,857)	331,386	325,529
POLISH ZLOTY	15,804	563,869	579,673
RUSSIAN RUBLE	53,559	1,822,609	1,876,168
SINGAPORE DOLLAR	28	512,621	512,649
SOUTH AFRICAN RAND	(124,465)	1,082,820	958,355
SOUTH KOREAN WON	(43,128)	1,857,433	1,814,305
SWEDISH KRONA	69,867	1,105,411	1,175,278
SWISS FRANC	(16,018)	1,879,104	1,863,086
THAI BAHT	(2,735)	585,151	582,416
TURKISH LIRA	(44,825)	2,052,751	2,007,926
Totals	$ 2,465,862	$ 151,903,091	$ 154,368,953

NOTE 6 – INVESTMENTS *(continued)*

As of September 30, 2016

International Securities	Short Term and Cash	Convertible and Fixed Income	Total
AUSTRALIAN DOLLAR	$ (12,605)	$ 88,097	$ 75,492
BRAZILIAN REAL	-	4,815,641	4,815,641
CANADIAN DOLLAR	68,486	12,987,366	13,055,852
EURO CURRENCY	(33,166)	50,228,538	50,195,372
JAPANESE YEN	160,189	32,768,560	32,928,749
MEXICAN PESO	-	2,507,187	2,507,187
NEW ZEALAND DOLLAR	20,037	(4,673)	15,364
NORWEGIAN KRONER	23,344	80,717	104,061
POLISH ZLOTY	20,223	802,323	822,546
POUND STERLING	93,127	13,506,239	13,599,366
RUSSIAN RUBLE	-	401,123	401,123
SINGAPORE DOLLAR	-	334,347	334,347
SOUTH AFRICAN RAND	17,840	262,415	280,255
SWEDISH KRONA	-	968,982	968,982
TURKISH LIRA	-	353,615	353,615
Totals	$ 357,475	$ 120,100,477	$ 120,457,952

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. The average quality of the entire bond holdings in each investment manager's portfolio should be maintained at "A" or better. For portfolios that were not individually managed, the credit quality exceeded the index value of "BBB". Exchange-traded derivatives that are valued using quoted prices are classified within Level 1 of the valuation hierarchy. The Fund has not failed to access collateral, when required. Since these derivative products have been established for some time, the Fund uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity; and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted contracts and credit default swaps. Such instruments are generally classified within Level 2 on the valuation hierarchy. The aggregate fair value of derivatives in net asset positions, net of collateral posted by the counter party; and the effect of master netting arrangements are reflected in net unrealized gain (loss) on Foreign Currency Spot and Forward Contracts, in the tables on pages 28 and 29.

NOTE 6 – INVESTMENTS *(continued)*

Although the Fund executes hedging derivative instruments with various counterparties; eight contracts, comprising approximately 90 percent of the net exposure to credit risk, are based with two counterparties. As of September 30, 2017, and 2016, the average quality ratings of those counterparties were as follows: SSgA was Aa2, and Access Capital was AAA. There are no significant concentrations of net exposure to credit risk that has not been reduced by collateral and other off-sets.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The Fund also uses an independent consultant to examine how sensitive the fixed income portfolios' underlying assets are to moves in interest rates, and to recommend any appropriate investment manager changes.

The average duration was as follows, by investment firm, for the years ended September 30, 2017 and 2016:

	September 30,	
Investment Firm	**2017**	**2016**
Bernstein Strategic Core	**5.44**	5.00
Bernstein Global Plus	**7.14**	7.50
Access Capital ETI	**4.40**	2.93
SSgA Bond Index	**5.97**	5.44
Blue Bay Emerging Markets Debt Fund	**5.33**	6.70

Derivative Financial Instruments: In accordance with the Fund's investment policies, the Fund regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities, in order to enhance return on investment and manage exposure to certain risks within the fund. Derivative instruments are financial contracts whose values depend on the value of one or more underlying assets, reference rates, or financial indices. During fiscal year 2017, the Fund invested directly in forward currency contracts.

At September 30, 2017 and September 30, 2016, the Fund had two types of off-balance-sheet derivative financial instrument outstanding: swaps and currency forwards. The Swaps represents Interest Swaps and Credit Default Swaps which are used to hedge interest rate and credit exposure risks. Currency forwards represent foreign exchange contracts, and are used to effect settlements and to protect the base currency value of portfolio assets denominated in foreign currencies, against fluctuations in the exchange rates of those currencies or to gain exposure to the change in market value of a specific currency. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date and at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over the counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

NOTE 6 – INVESTMENTS *(continued)*

Below is the list of derivatives aggregated by investment type, as of September 30, 2017 and 2016:

As of September 30, 2017

	Change in Fair Value		Fair Value as of September 30, 2017		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Credit Default Swaps Bought	Investment Revenue	$ (22,533)	Swaps	$ (28,554)	$ 395,000
Credit Default Swaps Written	Investment Revenue	31,960	Swaps	(696,521)	4,355,000
Fixed Income Futures Long	Investment Revenue	(620,701)	Futures	-	33,471,695
Fixed Income Futures Short	Investment Revenue	331,748	Futures	-	(19,762,557)
Fixed Income Options Bought	Investment Revenue	(23,809)	Options	-	-
Fixed Income Options Written	Investment Revenue	17,956	Options	-	-
Foreign exchange forwards	Investment Revenue	(2,210,202)	Forwards	2,041,445	147,500,974
Foreign exchange forwards	Investment Revenue	178,557	Forwards	(645,578)	62,357,710
Pay Fixed Interest Rate Swaps	Investment Revenue	628,423	Swaps	41,044	41,578,278
Receive Fixed Interest Rate Swaps	Investment Revenue	(222,568)	Swaps	(182,548)	16,177,800
Total		**$(1,911,169)**		**$ 529,288**	

As of September 30, 2016

	Change in Fair Value		Fair Value as of September 30, 2016		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Credit Default Swaps Bought	Investment Revenue	$ (79,291)	Swaps	$ (20,631)	$ 506,000
Credit Default Swaps Written	Investment Revenue	(3,451)	Swaps	23,766	2,420,000
Equity Options Written	Investment Revenue	21,449	Options	-	-
Fixed Income Futures Long	Investment Revenue	594,237	Futures	-	30,435,291
Fixed Income Futures Short	Investment Revenue	(502,707)	Futures	-	(14,635,958)
FX Forwards	Investment Revenue	2,656,917	Long Term Instruments	28,307	113,520,188
Pay Fixed Interest Rate Swaps	Investment Revenue	(232,897)	Swaps	(444,866)	62,063,981
Receive Fixed Interest Rate Swaps	Investment Revenue	240,931	Swaps	198,042	4,419,585
Total		$ 2,695,188		$ (215,382)	

Contingencies:

All the Fund's derivative instruments include provisions that require the Fund to post collateral in the event its credit rating falls below "AA" as issued by Standard & Poor's, or "Aa" as issued by Moody's Investors Services. The collateral posted is to be in the form of U.S. Treasury funds in the amount of the fair value hedging derivative instruments in liability positions, net of the effect of applicable netting arrangements. If the Fund does not post collateral, the hedging derivative instrument may be terminated by the counterparty. As of September 30, 2017 and 2016, the aggregate fair value of all hedging derivative instruments with these collaterals posting provisions was $300,374 and $10,493, respectively. If the collateral posting requirements were triggered, the Fund would be required to post the aggregate fair value in collateral to its counterparties. The District has an "Aa" rating; therefore, no collateral has been required to be posted as of September 30, 2017 and 2016.

NOTE 6 – INVESTMENTS *(continued)*

The net unrealized gain (loss) on foreign currency spot and forward contracts for the years ended September 30, 2017 and 2016, were as follows:

	2017		2016	
	Cost	Unrealized Gain/(Loss)	Cost	Unrealized Gain/(Loss)
Foreign Currency Contracts Purchased				
ARGENTINE PESO	$ -	$ -	$ 302,069	$ 25,916
AUSTRALIAN DOLLAR	1,967,297	2,911	3,580,932	21,309
BRAZILIAN REAL	4,037,422	20,816	6,757,508	(7,810)
CANADIAN DOLLAR	1,756,138	(39,108)	-	-
SWISS FRANC	-	-	1,852,833	18,668
CZECH KORUNA	-	-	3,462,057	40,458
DANISH KRONE	-	-	779,322	(1,413)
EURO	22,183,651	503,709	15,220,294	175,424
POUND STERLING	-	-	2,287,625	4,130
INDIAN RUPEE	-	-	1,117,240	4,702
NEW ISRAELI SHEKEL	-	-	228,120	3,575
JAPANESE YEN	23,559,266	(234,626)	28,421,599	(47,326)
SOUTH KOREAN WON	-	-	3,266,265	33,678
MALAYSIAN RINGGIT	-	-	740,862	(432)
MEXICAN PESO	1,366,320	(21,619)	833,139	11,464
NEW ZEALAND DOLLAR	-	-	322,341	11,853
NORWEGIAN KRONE	-	-	303,966	6,402
RUSSIAN RUBLE	-	-	1,327,857	33,231
SWEDISH KRONA	-	-	1,714,379	(22,362)
THAI BAHT	-	-	560,326	5,085
TURKISH LIRA	-	-	449,069	(2,261)
NEW TAIWAN DOLLAR	1,507,661	(14,089)	1,532,034	9,124
SOUTH AFRICAN RAND	-	-	273,522	(952)
Total Contracts Purchased		**217,994**		**322,463**
Foreign Currency Contracts Sold				
AUSTRALIAN DOLLAR	(4,452,447)	106,310	72,767	565
BRAZILIAN REAL	(2,011,601)	(9,213)	10,629,668	(154,471)
CANADIAN DOLLAR	(4,995,166)	(59,795)	11,370,407	268,591
EURO	16,002,139	386,445	5,731,589	(45,045)
JAPANESE YEN	11,831,493	(125,895)	10,940,843	(324,660)
MEXICAN PESO	(3,890,683)	47,484	-	-
NEW ZEALAND DOLLAR	(3,458,366)	(280)	-	-
POLISH ZLOTY	-	-	376,134	(14,338)
RUSSIAN RUBLE	-	-	1,110,979	(29,290)
SINGAPORE DOLLAR	-	-	3,679,172	3,076
NEW TAIWAN DOLLAR	18,149	(13,875)	1,523,272	(16,398)
SOUTH AFRICAN RAND	(777,947)	13,456	-	-
Total Contracts Sold		**344,637**		**(311,970)**
Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts		**$ 562,631**		**$ 10,493**

NOTE 7 – NET OPEB LIABILITY

The components of the net OPEB liability for the District of Columbia as of September 30, 2017, were as follows:

		FY 2017
Total OPEB Liability	$	1,224,600,000
Fund Fiduciary Net Position		1,366,282,061
Net OPEB (Asset) Liability	$	(141,682,061)
Fund Fiduciary Net Position as a percentage of the Total OPEB (Asset) Liability		111.57%

Actuarial Assumptions

The Schedule of OPEB liabilities above reflects the underlying assumptions that are required to calculate the net OPEB asset for September 30, 2017, outlined as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	19 years beginning with fiscal year end 2016
Asset Valuation Method	Market Value
Investment Rate of Return	6.50%
Discount Rate	6.50%
Salary Increase Rate	3.50% (plus merit scale)
Medical Inflation Rate	5.9%, grading to 3.9% Assumption utilizes the Society of Actuaries Getzen Medical Trend Model, and reaches the ultimate medical inflation rate in 2040.
Mortality	The RP-2014 Healthy Employee Mortality Table with the MP-2016 Improvement Scale, fully generational, was used for healthy lives both pre- and post-retirement. For disabled lives, the RP-2014 Disabled Life Mortality Table was used.

Long-term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of September 30, 2017.

NOTE 7 – NET OPEB LIABILITY *(continued)*

Asset Class	Expected Real Rate of Return	Target Allocation
U.S. Equity	7.9%	45.0%
International Equity	8.9%	9.0%
Emerging Market Equity	11.0%	4.0%
Core Fixed Income	3.3%	24.0%
Developed Markets Fixed Income	2.3%	10.0%
Emerging Market Debt	6.1%	3.0%
Commodities	5.8%	5.0%
Cash	2.3%	0.0%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District of Columbia, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	Impact of Change in Discount Rate		
	1% Decrease	Discount Rate	1% Increase
Net OPEB (Asset) Liability	$ 85,517,939	$ (141,682,061)	$ (321,782,061)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District of Columbia, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.9 percent decreasing to 2.9 percent) or 1-percentage-point higher (6.9 percent decreasing to 4.9 percent) than the current healthcare cost trend rate.

NOTE 7 – NET OPEB LIABILITY *(continued)*

	Impact of Change in Healthcare Cost Trend Rate		
	1% Decrease	Trend Rates	1% Increase
Net OPEB (Asset) Liability	$ (351,182,061)	$ (141,682,061)	$ 132,417,939

NOTE 8 – DISTRICT CONTRIBUTIONS

The District, historically, makes its contributions to the Fund near the completion of its fiscal year, and the contribution is distributed by the Fund to the investment managers within a month of receipt from the District. Consequently, the significant cash balances in the Fund as of September 30, 2017 and 2016, were due to the receipt of the contribution of $31,000,000 and $29,000,000, respectively. The amounts were distributed as follows for the years ended September 30, 2017 and 2016:

	September 30,	
FUND	**2017**	**2016**
Artisan Int'l Value Equity	**$ -**	$ 12,000,000
Baillie Gifford Int'l Growth Equity	**-**	7,000,000
Northern Trust Cash Fund	**21,000,000**	-
State Street Cash Account	**10,000,000**	10,000,000
Total	**$ 31,000,000**	$ 29,000,000

NOTE 9 – CONTINGENCIES

The Fund is party to various legal proceedings, many of which occur in the normal course of the Fund’s operations. These legal proceedings are not, in the opinion of the Office of the Attorney General of the District of Columbia, likely to have a material adverse impact on the Fund’s financial position as of September 30, 2017.

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying statements of net position.

Fund contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Required Supplementary Information
September 30, 2017

Schedule of Changes in the Net OPEB (Asset) Liability

	2017
Total OPEB (Asset) Liability	
Total OPEB (asset) liability - beginning of year	$ 1,115,776,087
Service cost	49,609,972
Interest and Dividends	72,123,416
Difference between expected and actual experience	(539,321)
Insurance carrier premiums net of retiree contributions	(12,370,154)
Net change in total OPEB liability	108,823,913
Total OPEB (asset) liability - end of year (a)	$ 1,224,600,000
Fund Fiduciary Net Position	
Fund Fiduciary net position - beginning of year	$ 1,197,441,214
Contributions - employer and annuitants	31,521,466
Net investment income	150,514,898
Insurance carrier premiums (Benefit payments)	(12,891,620)
Administrative expense	(303,897)
Net change in plan fiduciary net position	168,840,847
Fund fiduciary net position - end of year (b)	$ 1,366,282,061
Net OPEB (asset) liability - end of year ((a) - (b))	$ (141,682,061)

*These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OTHER POST-EMPLOYMENT BENEFITS FUND

Required Supplementary Information
September 30, 2017

Schedule of Contributions and Related Ratios

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contributions	$ 31,000,000	$ 29,000,000	$ 91,400,000	$ 86,600,000	$ 85,200,000	$ 95,500,000	$ 94,200,000	$ 92,200,000	$ 130,900,000	$ 103,400,000
Contributions in relation to the actuarially determined contributions	(31,000,000)	(29,000,000)	(91,400,000)	(86,600,000)	(107,778,000)	(109,825,000)	(94,200,000)	(90,724,800)	(81,158,000)	(110,844,800)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ (22,578,000)	$ (14,325,000)	$ -	$ 1,475,200	$ 49,742,000	$ (7,444,800)
Covered employee payroll	$ 1,820,046,000	$ 1,771,334,730	$ 1,608,000,000	$ 1,484,300,000	$ 1,441,100,000	$ 1,399,100,000	$ 1,559,800,000	$ 1,544,500,000	$ 1,579,900,000	$ 1,107,100,000
Contributions as a percentage of covered employee payroll	1.70%	1.64%	5.68%	5.83%	5.91%	6.83%	6.04%	5.97%	8.29%	9.34%

Schedule of Investment Returns

	2017
Annual money-weighted rate of return, net of investment expense	12.49%

*These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

Notes to Required Supplementary Information
September 30, 2017

The Schedule of Changes in the Net OPEB Liability and Related Ratios presents multiyear trend information about whether the Fund's OPEB liability is increasing or decreasing over time, relative to the Fund's fiduciary net position. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or funding limitation on the pattern of cost sharing between the employer and Fund members in the future.

The Total OPEB Liability as of September 30, 2016, is based on the 2016 valuation results for the Plan. The Total OPEB Liability as of September 30, 2017, is an estimate based on a roll-forward of the 2016 valuation results for the Plan.

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	19 years beginning with fiscal year end 2016
Asset Valuation Method	Market Value
Investment Rate of Return	6.50%
Discount Rate	6.50%
Salary Increase Rate	3.50% (plus merit scale)
Medical Inflation Rate	5.9%, grading to 3.9% Assumption utilizes the Society of Actuaries Getzen Medical Trend Model, and reaches the ultimate medical inflation rate in 2040.
Mortality	The RP-2014 Healthy Employee Mortality Table with the MP-2016 Improvement Scale, fully generational, was used for healthy lives both pre- and post-retirement. For disabled lives, the RP-2014 Disabled Life Mortality Table was used.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Government of the District of Columbia Other Post-Employment Benefits Fund (the Fund) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 5, 2018.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal controls over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal controls.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
January 5, 2018

SB + Company, LLC