

# District of Columbia Teachers' and Police Officers and Firefighters' Retirement Fund

Financial Statements and Schedules  
(with Independent Auditors' Report thereon)

As of and for the Years Ended September 30, 2015 and 2014



## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
Combining Statements of Fiduciary Net Position .....	13
Combining Statements of Changes in Fiduciary Net Position.....	14
Notes to the Basic Financial Statements.....	15
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedules of Changes in the Net Pension Liability and Related Ratios.....	44
Schedules of Employer Contributions .....	46
Schedule of Investment Returns .....	48
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress .....	49
Schedules of Administrative Expenses.....	50
Schedules of Investment Expenses .....	51
Schedules of Payments to Consultants .....	52

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
District of Columbia Teachers' Retirement Fund and the  
District of Columbia Police Officers and Firefighters' Retirement Fund

### **Report on Financial Statements**

We have audited the accompanying combining statements of fiduciary net position of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund, Pension Trust Funds of the Government of the District of Columbia (the District), as of September 30, 2015 and 2014, and the related combining statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of 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 auditors' 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 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 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 financial position of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund as of September 30, 2015 and 2014, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, these financial statements only present the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund and do not purport to, and do not, present the financial position of the Government of the District of Columbia as of September 30, 2015 and 2014, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the schedules of changes in the net pension liability and related ratios, employer contributions and investment returns, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 and the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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 Information*

Our audits were conducted for the purpose of forming an opinion on the District of Columbia Teachers’ Retirement Fund and the District of Columbia Police Officers and Firefighters’ Retirement Fund financial statements. The supplementary information, including the schedules of funding progress, administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, including the schedules of funding progress, administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2016 on our consideration of the District of Columbia Teachers’ Retirement Fund and the District of Columbia Police Officers and Firefighters’ Retirement Fund internal control over financial reporting and on our tests of their 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 control 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 District of Columbia Teachers’ Retirement Fund and the District of Columbia Police Officers and Firefighters’ Retirement Fund internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
January 19, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### INTRODUCTION

This discussion and analysis provides an overview of the financial activities of the District of Columbia Teachers' Retirement Fund (TRF) and Police Officers and Firefighters' Retirement Fund (POFRF), for the years ended September 30, 2015 and 2014, which collectively will be referred to as the "District Retirement Funds" or the "Fund." This discussion and analysis should be read in conjunction with the financial statements, the notes to the financial statements, the required supplementary information and the supplementary information provided in this report.

The District of Columbia Retirement Board (the Board or DCRB) is an independent agency of the District of Columbia (the District or D.C.) government. The Board is responsible for managing the assets of the District Retirement Funds. As authorized by D.C. Code, the Board pools the assets of the TRF and the POFRF into a single investment portfolio. The Board allocates the investment returns and expenses, and the administrative expenses of the Board, between the two District Retirement Funds in proportion to their respective net position. The Board maintains financial records of contributions, purchases of service, benefit payments, refunds, investment earnings, investment expenses and administrative expenses.

Effective October 1, 2005, the Board entered into a Memorandum of Understanding (MOU) with the District of Columbia and the United States Department of the Treasury (the U.S. Treasury) to administer the pension benefits under the TRF and the POFRF for all retirees, survivors and beneficiaries that are the financial responsibility of the District of Columbia (service earned on and after July 1, 1997) and the Federal Government (service through June 30, 1997). In addition to the Board's administrative duties, the U.S. Treasury also provides certain administrative services related to the administration of pension benefits under the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (the Plans). The administrative costs incurred while administering the pension benefits are shared by DCRB and the U.S. Treasury in accordance with an MOU that is agreed to annually between the two parties.

### OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

The following discussion and analysis are intended to serve as an introduction to DCRB's financial statements. The basic financial statements include:

***The Combining Statements of Fiduciary Net Position*** are a point-in-time snapshot of plan fund balances at fiscal year end. It reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting Net Position (Assets – Liabilities = Net Position) represents the value of assets restricted for pensions net of liabilities owed as of the financial statement date.

***The Combining Statements of Changes in Fiduciary Net Position*** display the effect of financial transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or Net Decrease) in Net Position. This increase (or decrease) in Net Position reflects the change in the value of Net Position Restricted for Pensions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*The Notes to Financial Statements* contain disclosures and discussions which support the data presented in the financial statements. The notes present information about the creation and administration of the Fund, significant accounting policies, and investments. The notes are an integral part of the financial statements and should be considered in conjunction with any review of the financial statements.

*The Required Supplementary Information* includes the schedules of changes in the net pension liability and related ratios, the schedules of employer contributions, and the schedule of investment returns. The schedules of changes in net pension liability shows the increase or the decrease in the liability of the District Retirement Funds to plan members for benefits provided.

*The Supplementary Information* includes additional information on the District Retirement Funds including a schedule of funding progress, the schedule of administrative expenses, investment expenses and payments to consultants. The schedule of funding progress includes actuarial information about the status of the District Retirement Funds from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits under these Plans when due.

### ANALYSIS OF FINANCIAL INFORMATION

DCRB's funding objective is to meet long-term benefit obligations with net investment income and with employer and member contributions. The discussion below provides an analysis of the current year's financial activities in relation to the current member population and relevant economic conditions for the combined Funds.

#### **Additions to Net Position (Revenues)**

Additions to net position are comprised of employer contributions, employee contributions, net investment income, and other income. These additions/(reductions) for fiscal year 2015 totaled \$(50.3) million, a decrease of \$(727.1) million or -107.4%, over the fiscal year 2014 amount of \$676.8 million. This decrease was primarily due to the lower investment returns in fiscal year 2015.

Employer contributions in fiscal year 2015 totaled \$142.9 million, an increase of \$0.5 million or 0.4%, over the fiscal year 2014 amount of \$142.4 million. The fiscal year 2015 employer contribution was derived from the contribution rate calculated in the actuary's report for the period ended October 1, 2013 multiplied by covered payroll and adjusted for timing differences caused by the contribution being calculated 2 years in arrears. This adjustment is required by the D.C. Code.

Employee contributions in fiscal year 2015 totaled \$65.3 million, an increase of \$3.7 or 6.1% over the fiscal year 2014 amount of \$61.6 million. Employee contributions consist of amounts paid by members for future retirement benefits.

Investment income, net of investment fees, for fiscal year 2015 totaled \$(259.9) million, a loss of -4.1%. Net investment income for fiscal year 2014 totaled \$471.0 million, a gain of 8.1%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Other income in fiscal year 2015 totaled \$1.4 million, a decrease of \$(0.5) million or -25.1% over the fiscal year 2014 amount of \$1.9 million. Other income consists mainly of reimbursements of administrative expenses from the U.S. Treasury.

### **Deductions from Net Position (Expenses)**

The statutory mandate of DCRB is to provide retirement, survivor and disability benefits to qualified members and their survivors. The costs of such programs include recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the District Retirement Funds.

Deductions from net position are comprised of benefit payments, refunds and administrative expenses. These deductions for fiscal year 2015 totaled \$151.2 million, an increase of \$17.6 million or 13.2% over the fiscal year 2014 amount of \$133.6 million.

Benefit payments for fiscal year 2015 totaled \$127.7 million, an increase of \$15.1 million or 13.4% over the fiscal year 2014 amount of \$112.6 million. This increase reflects the combination of a net growth of 6.1% in the number of retirees and survivors receiving benefits, coupled with COLA adjustments and an overall increase in the final average salary for new retirees. In fiscal years 2015 and 2014, benefit payments made on behalf of current retirees, survivors and beneficiaries comprised approximately 84% of DCRB expenses.

Refunds in fiscal year 2015 totaled \$7.0 million, a decrease of \$(0.5) million or -6.1% over the fiscal year 2014 amount of \$7.4 million. Refunds of member accounts are at the discretion of the member, and vary from year to year.

Administrative expenses in fiscal year 2015 totaled \$16.5 million, an increase of \$3.0 million or 21.9% over the fiscal year 2014 amount of \$13.5 million. In fiscal years 2015 and 2014, the administrative expenses were equivalent to 27 and 21 basis points of the assets under management, respectively.

### **Funding Status**

As of October 1, 2014 (the date of the most recent actuarial valuation), the funding status was 101.4% for the combined District Retirement Funds. DCRB is a well-funded yet immature system as a result of the 1999 asset split with the U.S. Treasury in which the U.S. Treasury assumed responsibility for all benefit obligations prior to July 1, 1997. As with all immature systems, a higher percentage of benefits are funded by current contributions. As the system matures, investment income will provide a greater percentage of the funds necessary to pay retirement benefits. Therefore, the long-term rate of investment return is critical to DCRB's long-term funding status.

To fully understand the funding status of a retirement system, it is often advisable to view actuarial data in conjunction with financial data. The actuarial value of assets used to calculate funded status is not based on year-end fair value as of the valuation date. Gains and losses for

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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actuarial funding purposes are smoothed over a rolling seven year period. This smoothing of gains and losses mitigates the need to constantly increase or lower contributions because volatile market conditions can be absorbed (smoothed-in) over many years.

The reality of actuarial smoothing techniques is that the fair value of assets may be significantly different from funding value (actuarial value) of assets at a given point in time. This means that in periods of extended market decline, the fair value of assets will usually be less than the funding, or actuarial value of assets. This was the case with DCRB during the current market downturn which began in 2008. Conversely, during periods of extended market gains, where the actual rate of return exceeds the assumed rate of return, the fair value of assets will usually be greater than the funding, or actuarial value of assets.

At October 1, 2014, the date of the latest actuarial valuation, the actuarial value of assets set aside to pay pension benefits was \$1.6 billion for the TRF and \$4.3 billion for the POFRF for a total of \$5.9 billion. The fair value of these assets at September 30, 2014, included on the financial statements of DCRB was \$1.8 billion for the TRF and \$4.6 billion for the POFRF for a total of \$6.4 billion. Therefore, when viewing the actuarial funding status, the fair value of assets would provide a more favorable funding position to the actuarial value of assets as of the October 1, 2014 valuation. Again, it is important to note that during years when the actual rate of return on investments significantly exceeds the assumed rate of return on investment, the actuarial value of assets can be less than the fair value of assets, making the funding status seem less favorable than the actual fair value would have indicated.

### FINANCIAL ANALYSIS SUMMARY

Net position may serve over time as a useful indication of DCRB's financial strength. At the close of fiscal years 2015 and 2014, the net position of DCRB totaled \$6.1 billion and \$6.3 billion, respectively. Net position serves to meet DCRB's ongoing obligations to Plan participants and their survivors and beneficiaries. DCRB has weathered the financial market fluctuations over the past seven years and remains a well-funded Plan.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF FINANCIAL INFORMATION

The following Condensed and Combined Statements of Fiduciary Net Position and Changes in Fiduciary Net Position present financial information for the combined Funds and compares fiscal years 2015 and 2014.

#### **Condensed and Combined Statements of Fiduciary Net Position**

*(Dollars in thousands)*

			<b>Amount Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>
	<b>2015</b>	<b>2014</b>	<b>2015 over 2014</b>	<b>2015 over 2014</b>
<b>Assets</b>				
Cash and short-term investments	\$ 75,492	\$ 27,400	\$ 48,092	175.5%
Receivables	14,077	155,149	(141,072)	-90.9%
Prepaid expenses	47	194	(147)	-75.8%
Investments at fair value	6,056,101	6,275,768	(219,667)	-3.5%
Collateral from securities lending	-	24,982	(24,982)	-100.0%
Total assets	<u>6,145,717</u>	<u>6,483,493</u>	<u>(337,776)</u>	-5.2%
<b>Liabilities</b>				
Other payables	4,214	6,404	(2,190)	-34.2%
Investment commitments payable	8,867	117,663	(108,796)	-92.5%
Obligations under securities lending	<u>-</u>	<u>25,336</u>	<u>(25,336)</u>	-100.0%
Total liabilities	<u>13,081</u>	<u>149,403</u>	<u>(136,322)</u>	-91.2%
<b>Net Position Restricted For Pensions</b>	<u>\$ 6,132,636</u>	<u>\$ 6,334,090</u>	<u>\$ (201,454)</u>	-3.2%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Condensed and Combined Statements of Changes in Fiduciary Net Position**

*(Dollars in thousands)*

	<b>2015</b>	<b>2014</b>	<b>Amount Increase (Decrease) 2015 over 2014</b>	<b>Percent Increase (Decrease) 2015 over 2014</b>
<b>Additions</b>				
Employer contributions	\$ 142,943	\$ 142,402	\$ 541	0.4%
Plan member contributions	65,300	61,572	3,728	6.1%
Net investment (loss) income	(259,930)	470,980	(730,910)	-155.2%
Other income	1,397	1,864	(467)	-25.1%
Total (reductions) additions	<u>(50,290)</u>	<u>676,818</u>	<u>(727,108)</u>	-107.4%
<b>Deductions</b>				
Benefit payments	127,710	112,616	15,094	13.4%
Refunds	6,972	7,427	(455)	-6.1%
Administrative expenses	16,482	13,517	2,965	21.9%
Total deductions	<u>151,164</u>	<u>133,560</u>	<u>17,604</u>	13.2%
<b>Change In Net Position</b>	<u>\$ (201,454)</u>	<u>\$ 543,258</u>	<u>\$ (744,712)</u>	-137.1%

**FINANCIAL HIGHLIGHTS**

The Teachers' Retirement Fund financial highlights for fiscal year 2015 are as follows:

- Net position restricted for pensions held in trust for pension benefits as of September 30, 2015 was \$1.7 billion, a decrease of \$(0.1) billion or -4.3% over fiscal year 2014.
- Investment income, net of investment expenses, for fiscal year 2015 was \$(72.6) million, a loss of -4.2%. Investment income, net of investment expenses, for fiscal year 2014 was \$132.1 million, a gain of 8.1%.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2014, the date of the latest actuarial valuation, the TRF's funded ratio based on the actuarial value of assets was 88.6%. In general, this means that for each dollar's worth of future pension liability, the TRF has accumulated \$0.89 to meet that obligation. The Plan's funded ratio decreased -1.6% over the prior year due primarily to investment losses in 2008 and 2009 which are smoothed into the calculation of the unfunded accrued liability for 2014. This is the last year of the smoothing related to those recession years. As of October 1, 2013, the actuarial valuation indicated a funded ratio of 90.2% for the TRF.
- Revenues for fiscal year 2015 were \$(1.1) million, a decrease of \$(194.1) million or -100.6% over fiscal year 2014. Employer contributions for fiscal year 2015 were \$39.5 million, an increase of \$7.9 million or 24.9% over fiscal year 2014. Employee contributions for fiscal year 2015 were \$31.6 million, an increase of \$2.9 million or 10.0% over fiscal year 2014. Net income from investment activities for fiscal year 2015 was \$(72.6) million, a loss of -4.2%. Other income for fiscal year 2015 was \$0.4 million, a decrease of \$(0.1) million or -26.2% over fiscal year 2014.
- Deductions from Fiduciary net position for fiscal year 2015 were \$74.2 million, an increase of \$4.8 million or 6.9% over fiscal year 2014. Pension benefit payments for fiscal year 2015 were \$64.1 million, an increase of \$4.2 million or 7.1% over fiscal year 2014. Refunds of member contributions for fiscal year 2015 were \$5.6 million, a decrease of \$(0.2) million or -3.7% over fiscal year 2014. Administrative expenses for fiscal year 2015 were \$4.5 million, an increase of \$0.8 million or 20.0% over fiscal year 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Police Officers and Firefighters' Retirement Fund financial highlights for fiscal year 2015 are as follows:

- Net position restricted for pensions held in trust for pension benefits as of September 30, 2015 was \$4.5 billion, an annual decrease of \$(0.1) billion or -2.7% over fiscal year 2014.
- Investment income, net of investment expenses, for fiscal year 2015 was \$(187.3) million, a loss of -4.1%. Investment income, net of investment expenses, for fiscal year 2014 was \$338.9 million, a gain of 8.1%.
- The Board's funding objective is to meet long-term pension benefit obligations. As of October 1, 2014, the date of the latest actuarial valuation, the POFRF's funded ratio based on the actuarial value of assets was 107.3%. In general, this means that for each dollar's worth of future pension liability, the POFRF has accumulated approximately \$1.07 to meet that obligation. This actuarial report indicated that if future activity proceeded according to assumptions, the POFRF has accumulated sufficient assets to pay all pension liabilities for active members and retirees. The Plan's funded ratio decreased -2.8% over the prior year due primarily to the actuarial accrued liability (AAL) increasing at a greater rate than the actuarial value of plan assets. As of October 1, 2013, the actuarial valuation indicated a funded ratio of 110.1% for the POFRF.
- Revenues for fiscal year 2015 were \$(49.2) million, a decrease of \$(533.0) million or -110.2% over fiscal year 2014. Employer contributions for fiscal year 2015 were \$103.4 million, a decrease of \$(7.3) million or -6.6% over fiscal year 2014. Member contributions for fiscal year 2015 were \$33.7 million, an increase of \$0.9 million or 2.6% over fiscal year 2014. Net income from investment activities for fiscal year 2015 were \$(187.3) million, a loss of -4.1%. Other income for fiscal year 2015 was \$1.0 million, a decrease of \$(0.3) million or -24.6% over fiscal year 2014.
- Deductions from Fiduciary net position for fiscal year 2015 were \$77.0 million, an increase \$12.8 million or 20.0% over fiscal year 2014. Pension benefit payments for fiscal year 2015 were \$63.6 million, an increase of \$10.9 million or 20.6% over fiscal year 2014. Refunds of member contributions for fiscal year 2015 were \$1.4 million, a decrease of \$(0.2) million or -14.7% over fiscal year 2014. Administrative expenses for fiscal year 2015 were \$11.9 million, an increase of \$2.2 million or 22.7% over fiscal year 2014.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **ADDITIONAL INFORMATION**

These financial statements of the District Retirement Funds are presented in accordance with accounting principles generally accepted in the United States of America. Questions about these financial statements or other inquiries should be addressed to the Executive Director, District of Columbia Retirement Board, 900 7<sup>th</sup> Street, NW, 2<sup>nd</sup> Floor, Washington, D.C. 20001.

## **FINANCIAL STATEMENTS**

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Combining Statements of Fiduciary Net Position  
As of September 30, 2015 and 2014  
(Dollar amounts in thousands)**

	2015			2014		
	Police Officers and		Total	Police Officers and		Total
	Teachers' Retirement Fund	Firefighters' Retirement Fund		Teachers' Retirement Fund	Firefighters' Retirement Fund	
<b>Assets</b>						
Cash and short-term investments	\$ 18,352	\$ 57,140	\$ 75,492	\$ 7,236	\$ 20,164	\$ 27,400
Receivables:						
Federal Government	248	652	900	393	1,009	1,402
Investment sales proceeds	500	1,333	1,833	38,641	101,573	140,214
Interest & dividends	1,871	4,994	6,865	2,421	6,363	8,784
Employee contributions	<u>2,253</u>	<u>2,226</u>	<u>4,479</u>	<u>1,949</u>	<u>2,800</u>	<u>4,749</u>
Total receivables	<u>4,872</u>	<u>9,205</u>	<u>14,077</u>	<u>43,404</u>	<u>111,745</u>	<u>155,149</u>
Prepaid expenses	<u>13</u>	<u>34</u>	<u>47</u>	<u>54</u>	<u>140</u>	<u>194</u>
Investments at fair value:						
Domestic equity	379,824	1,013,536	1,393,360	407,220	1,070,427	1,477,647
International equity	458,933	1,224,239	1,683,172	529,802	1,392,460	1,922,262
Fixed income	511,262	1,364,270	1,875,532	516,152	1,356,768	1,872,920
Real estate	107,792	287,638	395,430	97,721	256,872	354,593
Private equity	<u>193,163</u>	<u>515,444</u>	<u>708,607</u>	<u>178,676</u>	<u>469,670</u>	<u>648,346</u>
Total investments at fair value	<u>1,650,974</u>	<u>4,405,127</u>	<u>6,056,101</u>	<u>1,729,571</u>	<u>4,546,197</u>	<u>6,275,768</u>
Collateral from securities lending transactions at fair value	-	-	-	6,885	18,097	24,982
Total assets	<u>1,674,211</u>	<u>4,471,506</u>	<u>6,145,717</u>	<u>1,787,150</u>	<u>4,696,343</u>	<u>6,483,493</u>
<b>Liabilities</b>						
Accounts payable and other liabilities	735	1,950	2,685	1,163	3,038	4,201
Due to Federal Government	20	53	73	204	523	727
Due to District of Columbia						
Government	401	1,055	1,456	414	1,062	1,476
Investment commitments payable	2,417	6,450	8,867	32,426	85,237	117,663
Obligations under securities lending	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,982</u>	<u>18,354</u>	<u>25,336</u>
Total liabilities	<u>3,573</u>	<u>9,508</u>	<u>13,081</u>	<u>41,189</u>	<u>108,214</u>	<u>149,403</u>
<b>Net Position Restricted For Pensions</b>	<u>\$ 1,670,638</u>	<u>\$ 4,461,998</u>	<u>\$ 6,132,636</u>	<u>\$ 1,745,961</u>	<u>\$ 4,588,129</u>	<u>\$ 6,334,090</u>

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

**DISTRICT OF COLUMBIA**  
**TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'**  
**RETIREMENT FUND**  
**Combining Statements of Changes in Fiduciary Net Position**  
**As of September 30, 2015 and 2014**  
**(Dollar amounts in thousands)**

	2015			2014		
	Police		Total	Police		Total
	Teachers' Retirement Fund	Officers and Firefighters' Retirement Fund		Teachers' Retirement Fund	Officers and Firefighters' Retirement Fund	
<b>Additions</b>						
Contributions:						
District Government	\$ 39,513	\$ 103,430	\$ 142,943	\$ 31,636	\$ 110,766	\$ 142,402
Plan member	31,621	33,679	65,300	28,751	32,821	61,572
Total contributions	<u>71,134</u>	<u>137,109</u>	<u>208,243</u>	<u>60,387</u>	<u>143,587</u>	<u>203,974</u>
Investment (loss) income:						
Net (depreciation) appreciation in fair value of investments	(76,764)	(205,187)	(281,951)	99,689	254,518	354,207
Interest and dividends	7,476	26,733	34,209	36,145	94,002	130,148
Total gross investment (loss) income	<u>(69,288)</u>	<u>(178,454)</u>	<u>(247,742)</u>	<u>135,834</u>	<u>348,520</u>	<u>484,355</u>
Less:						
Investment expenses	3,378	8,878	12,256	3,826	9,830	13,656
Net investment (loss) income	<u>(72,666)</u>	<u>(187,332)</u>	<u>(259,998)</u>	<u>132,008</u>	<u>338,690</u>	<u>470,699</u>
Securities lending income	24	63	87	101	267	368
Less: securities lending expense	5	14	19	24	63	87
Net securities lending income	<u>19</u>	<u>49</u>	<u>68</u>	<u>78</u>	<u>204</u>	<u>282</u>
Total net investment (loss) income	<u>(72,647)</u>	<u>(187,283)</u>	<u>(259,930)</u>	<u>132,086</u>	<u>338,894</u>	<u>470,980</u>
Other income	<u>385</u>	<u>1,012</u>	<u>1,397</u>	<u>522</u>	<u>1,342</u>	<u>1,864</u>
Total (reductions) additions	<u>(1,128)</u>	<u>(49,162)</u>	<u>(50,290)</u>	<u>192,995</u>	<u>483,823</u>	<u>676,818</u>
<b>Deductions</b>						
Benefit payments	64,076	63,634	127,710	59,832	52,784	112,616
Refunds	5,576	1,396	6,972	5,790	1,637	7,427
Administrative expenses	4,543	11,939	16,482	3,787	9,730	13,517
Total deductions	<u>74,195</u>	<u>76,969</u>	<u>151,164</u>	<u>69,409</u>	<u>64,151</u>	<u>133,560</u>
<b>Change in Net Position</b>	<u>(75,323)</u>	<u>(126,131)</u>	<u>(201,454)</u>	<u>123,586</u>	<u>419,672</u>	<u>543,258</u>
<b>Net Position Restricted For Pensions:</b>						
<b>Beginning of Year</b>	<u>1,745,961</u>	<u>4,588,129</u>	<u>6,334,090</u>	<u>1,622,375</u>	<u>4,168,457</u>	<u>5,790,832</u>
<b>End of Year</b>	<u>\$ 1,670,638</u>	<u>\$ 4,461,998</u>	<u>\$ 6,132,636</u>	<u>\$ 1,745,961</u>	<u>\$ 4,588,129</u>	<u>\$ 6,334,090</u>

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

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 1: ORGANIZATION**

The District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Firefighters' Retirement Fund were established in 1979 by the District of Columbia Retirement Reform Act (the Reform Act, Pub. L. 96-122, D. C. Code § 1-701 et seq.). The Fund holds in trust the assets available to pay pension benefits to teachers, police officers and firefighters of the District of Columbia Government. The Reform Act also established the District of Columbia Retirement Board.

The National Capital Revitalization and Self-Government Improvement Act of 1997 (the Revitalization Act, Title XI of the Balanced Budget Act of 1997, Pub. L. 105-33) transferred significant assets and liabilities of the District Retirement Funds to the Federal Government. The Revitalization Act transferred to the Federal Government the liability for retirement benefits for employee service credit earned prior to July 1, 1997, by participants of the District Retirement Funds. The assets transferred to the Federal Government were intended to partially fund this liability.

On September 18, 1998, the Council of the District of Columbia (the Council) enacted the Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 (the Replacement Act). The Replacement Act established the District Retirement Funds for employee service earned after June 30, 1997, and provided for full funding of these benefits on an actuarially sound basis.

The Board is an independent agency of the District of Columbia government that is responsible for managing the assets of the TRF and the POFRF. Although the assets of these funds are commingled for investment purposes, each fund's assets may only be used for the payment of benefits to the participants of that fund and certain administrative expenses.

The District Retirement Funds are included in the District's Comprehensive Annual Financial Report as a pension trust fund.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION**

*District of Columbia Retirement Board* – The Board consists of 12 trustees, three appointed by the Mayor of the District, three appointed by the Council of the District, and six elected by the active and retired participants. Included are one active and one retired representative each, from the police officers, firefighters, and teachers. Each of the six representatives of the Plans' participants is elected by the respective groups of active and retired employees. In addition, the District's Chief Financial Officer or his designee serves as a non-voting, ex-officio trustee.

Since its inception, the Board has operated under a committee system which provides a two-tiered process for fiduciary review and analysis. In this manner, the Board, consistent with its fiduciary duties, reviews all issues brought before it. The Board has six standing committees: Benefits, Audit, Fiduciary, Investments, Legislative, and Operations. To implement its policies, the Board retains an executive director and other staff who are responsible for the day-to-day management of the District Retirement Funds and the administration of the benefits paid from the Funds.

**Teachers' Retirement Fund**

*Other Entities involved in Plan Administration* – The District of Columbia Public School's (the DCPS) Office of Human Resources makes decisions regarding voluntary and involuntary retirement, survivor benefits, and annual medical and income reviews.

*Benefits Calculation* – DCRB's Benefits Department receives the approved retirement applications for all active Plan members found eligible for retirement by the DCPS Office of Human Resources, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service.

*Eligibility* – Permanent, temporary, part-time and probationary teachers and certain other employees of the District of Columbia public day schools are automatically enrolled in the Teachers' Retirement Fund on their date of employment. Certain D.C. Public Charter School employees are also eligible to be participants. However, substitute teachers and employees of the Department of School Attendance and Work Permits are not covered.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

Title 38, Chapter 20 of the D.C. Official Code (D.C. Code § 38-2021.01 et seq. (2001 Ed.)) establishes benefit provisions which may be amended by the District City Council. For employees hired before November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 1.5% for each of the first five years of service, plus 1.75% for each of the second five years; plus 2% for each additional year over 10 years. For employees hired on or after November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 2% for each year of service. The average salary is the highest average consecutive 36 months of pay.

The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receiving retirement benefits receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the annual increase may not exceed 3% for participants hired on or after November 1, 1996. Participants may select from among several survivor options.

Participants who have 5 years of school service (by working for the District of Columbia public school system), and who become disabled and can no longer perform their jobs satisfactorily, may be eligible for disability retirement. Such disability retirement benefits are calculated in the same manner as a retirement benefit, however, a minimum disability benefit applies.

Voluntary retirement is available for teachers who have a minimum of 5 years of school service and who achieve the following age and length of service requirements:

- at age 62 with 5 years of service;
- at age 60 with 20 years of service; and
- at age 55 with 30 years of service; if hired before November 1, 1996; or
- at any age with 30 years of service, if hired by the school system on or after November 1, 1996.

Employees who are involuntarily separated other than for cause and who have 5 years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service.

An involuntary retirement benefit is reduced if, at the time of its commencement, the participant is under the age of 55.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Police Officers and Fire Fighters' Retirement Fund**

*Other Entities involved in Plan Administration* – The District of Columbia Police Officers and Firefighters' Retirement and Relief Board makes findings of fact, conclusions of law, and decisions regarding eligibility for retirement and survivor benefits, determines the extent of disability, and conducts annual medical reviews. The Police and Fire Clinic determines medical eligibility for disability retirement.

*Benefits Calculation* – DCRB's Benefits Department receives the retirement orders for retirement benefit calculations for all active Plan members found eligible for retirement by the District of Columbia Police Officers and Firefighters' Retirement and Relief Board, and carries out the day-to-day processing of retirement benefits. DCRB also processes employee requests for refunds of contributions and purchases of service. Effective 2013, DCRB began conducting annual disability income reviews.

*Eligibility* – A participant becomes a member when he/she begins work as a police officer or firefighter in the District. Cadets are not eligible to join the Fund.

Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act" (D.C. Code § 5-701 et seq. (2001 Ed.)).

*Members Hired Before February 15, 1980* – Members are eligible for optional retirement with full benefits at any age after 20 years of departmental service, or for deferred retirement at age 55 after five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 12 months of base pay, multiplied by departmental service through 20 years; plus 3% of average base pay multiplied by average base pay times departmental service over 20 years; plus 2.5% of average base pay multiplied by years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retirement benefits are increased by the same percentage in base pay granted to active participants.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

Members with a service-related disability receive a disability retirement benefit of 2.5% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 66 2/3% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 2% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 40% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

***Members Hired On or After February 15, 1980 and Before November 10, 1996 –*** Members are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service, or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by the number of years of creditable service through 25 years; plus 3% of average base pay multiplied by the number of years of departmental service over 25 years; plus 2.5% of average base pay multiplied by the number of years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members separated from the Police or Fire Department after five years of departmental service are entitled to a deferred pension beginning at age 55.

Benefits are also provided to certain survivors of active, retired or terminated vested members. Members who retired after February 15, 1980 receive annual benefit increases proportional to changes in the Consumer Price Index.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

*Members Hired on or After November 10, 1996* – Members are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.5% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the average base pay. Members separated after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index, however, the increase is capped at 3%.

Members with a service-related disability receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 40% of base pay applies.

Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 30% of base pay applies.

Prior to reaching age 50, a disability retirement benefit will be reduced or terminated if outside earnings exceed a certain limit.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Participant Data**

The number of participants for the years ended September 30 was as follows:

<b>TRF</b>	<b>2015</b>	<b>2014</b>
Retirees and survivors receiving benefits (post June 30, 1997)	3,718	3,601
Active plan members	4,866	4,499
Vested terminations	1,152	969
Total participants	<u>9,736</u>	<u>9,069</u>
<b>POFRF</b>	<b>2015</b>	<b>2014</b>
Retirees and survivors receiving benefits (post June 30, 1997)	2,609	2,365
Active plan members	5,537	5,551
Vested terminations	319	257
Total participants	<u>8,465</u>	<u>8,173</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 2: FUND ADMINISTRATION AND DESCRIPTION (CONTINUED)**

**Contributions**

Fund members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7% (or 8% for Teachers and Police Officers and Firefighters hired on or after November 1, 1996 and November 10, 1996, respectively) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the amounts necessary to finance the Plan benefits of its members through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The amount of the District contributions for fiscal years 2015 and 2014 were equal to the amounts computed, if any, by the Board's independent actuary.

Contribution requirements of members are established by D.C. Code § 5-706 and requirements for District of Columbia government contributions to the Fund are established at D.C. Code § 1-907.02 (2001 Ed.), which may be amended by the City Council. Administrative costs are paid from investment earnings.

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting*** – DCRB's financial statements were prepared in accordance with accounting principles generally accepted in the United States (GAAP) using the accrual basis of accounting. Employee contributions are recognized by the District Retirement Funds at the time compensation is paid to Plan members. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. Employer contributions to the District Retirement Funds are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement Plan's commitment.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Federal Income Tax Status* – The District Retirement Funds are qualified plans under section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under section 501(a).

*Method Used to Value Investments* – Investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real assets, hedge funds, and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The fair value of investments in real assets, hedge funds or private equity, in the absence of a readily ascertainable market value, are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners.

*Use of Estimates in Preparing Financial Statements* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position restricted for pensions and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

*Investment Expenses* – The District of Columbia Appropriation Act authorized Fund earnings to be used for investment expenses incurred in managing the assets and administering the Fund. The total investment expenses borne by the District Retirement Funds was \$12,256,010 in 2015 and \$13,655,870 in 2014. A significant number of the alternative investment managers provide account valuations net of management expenses. Those expenses are netted against investment income and, because they are not separable, amounts are recorded and reported net of management expenses in the net appreciation/(depreciation) in the fair value of investments.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS**

The Board is authorized to manage and control the investment of the District Retirement Funds' assets. The Board broadly diversifies the investments of the District Retirement Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, as required by D.C. Code § 1-741(a)(2)(C), (2001 Ed.).

*Master Trust* – The Board has pooled all of the assets under its management (the Investment Pool), as is authorized by D.C. Code § 1-903(b), (2001 Ed.), with a master custodian under a master trust arrangement (the Master Trust). Using an investment pool, each Fund owns an undivided proportionate share of the pool.

District and employee contributions are deposited in the respective Retirement Fund for which the contribution was made, and benefit payments and employee contribution refunds are withdrawn from the Fund in which the recipient participates. Investment performance and administrative expenditures are allocated between the two Funds based upon their proportionate net position in the pool.

The fair values of investments of the Investment Pool as of September 30 are as follows:

<i>(Dollars in thousands)</i>	<b>2015</b>	<b>2014</b>
Cash and short-term investments	\$ 75,492	\$ 27,400
Investments at fair value:		
Domestic equity	1,393,360	1,477,647
International equity	1,683,172	1,922,262
Fixed income	1,875,532	1,872,920
Real estate	395,430	354,593
Private equity	708,607	648,346
Total investments at fair value	6,056,101	6,275,768
<b>Total</b>	<b>\$ 6,131,593</b>	<b>\$ 6,303,168</b>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

*Annual money-weighted rate of return* – The money-weighted rate of return shows investment performance when taking into account the impact of cash infusion into and disbursements from the pension system. For the years ended September 30, 2015 and 2014, the money-weighted rates of return, as calculated by the custodian, were as follows:

	<u>FY 2015</u>	<u>FY 2014</u>
Total Portfolio	-4.006%	8.178%

*Debt Instruments* – As of September 30, 2015, the Investment Pool held the following debt instruments:

*(Dollars in thousands)*

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of</u>	<u>Duration</u>	<u>Rating*</u>
		<u>Segment</u>		
US Agency	\$ 25,623	1.37%	4.12	AA+
Asset Backed	4,934	0.26%	2.44	AAA
Bank Loans	129,633	6.91%	4.69	NR
CMBS	16,447	0.88%	4.66	AA
Corporate	443,721	23.66%	5.42	BBB-
Foreign	369,210	19.69%	4.54	A
Mortgage Pass-Through	243,503	12.98%	3.54	AA+
Municipal	8,310	0.44%	11.27	AA-
Unclassified	1,904	0.10%	1.63	AA+
US Treasury	616,117	32.85%	6.61	AA+
Yankee	9,350	0.50%	6.88	B-
Other	6,780	0.36%	N/A	NR
<b>Total Fixed Income</b>	<u>\$ 1,875,532</u>	<u>100.00%</u>		

\* Using quality ratings provided by Standard & Poor's

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

As of September 30, 2014, the Investment Pool held the following debt instruments:

*(Dollars in thousands)*

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of</u>		
		<u>Segment</u>	<u>Duration</u>	<u>Rating*</u>
US Agency	\$ 20,322	1.09%	4.64	AA+
Asset Backed	5,787	0.31%	2.46	AA+
Bank Loans	108,393	5.79%	4.69	NR
CMBS	2,748	0.15%	3.13	AA+
CMO	7,586	0.41%	5.49	AA+
Corporate	469,896	25.09%	5.01	BB
Foreign	379,422	20.26%	2.70	AA+
Mortgage Pass-Through	177,148	9.46%	4.39	AA+
Municipal	13,739	0.73%	10.01	AA-
Unclassified	2,470	0.13%	2.26	AA+
US Treasury	657,401	35.10%	5.55	AA+
Yankee	16,305	0.87%	6.88	A
Other	11,703	0.62%	N/A	NR
<b>Total Fixed Income</b>	<b>\$1,872,920</b>	<b>100.00%</b>		

\* Using quality ratings provided by Standard & Poor's

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

***Interest Rate Risk*** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. The Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. As a general rule, the risk and return of the Board's fixed income segment of the portfolio is compared to the Barclays Capital U.S. Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

***Credit Risk*** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Unless specifically authorized otherwise in writing by the Board, fixed income managers invest in investment grade instruments rated in the top four rating categories by a recognized statistical rating service.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

*Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As a general policy, investment managers with authority to invest in issuers denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the forward currency markets. Since the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise.

As of September 30, 2015, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

(Dollars in thousands)

	<b>Asset Class</b>				
	<b>Cash</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Private Equity</b>	<b>Total</b>
Australian Dollar	\$ (652)	\$ -	\$ 6,107	\$ -	\$ 5,455
Canadian Dollar	492	2,273	20,124	-	22,889
Danish Krone	-	9,088	-	-	9,088
Euro	16,076	290,358	15,347	261,330	583,111
Hong Kong Dollar	-	32,050	-	-	32,050
Japanese Yen	532	220,725	-	-	221,257
Mexican Peso	172	-	-	-	172
Pound Sterling	1	54,215	928	-	55,144
Singapore Dollar	-	687	-	-	687
South African Rand	-	1,040	-	-	1,040
Swedish Krona	-	30,338	-	-	30,338
Swiss Franc	-	74,634	-	-	74,634
<b>Total Foreign</b>	<b>\$ 16,621</b>	<b>\$ 715,408</b>	<b>\$ 42,506</b>	<b>\$261,330</b>	<b>\$1,035,865</b>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

As of September 30, 2014, the Investment Pool held investments that were denominated in a currency other than the United States Dollar, as summarized below:

*(Dollars in thousands)*

	<u>Asset Class</u>					<u>Total</u>
	<u>Cash</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Swaps</u>	
Australian Dollar	\$ (357)	\$ -	\$ 6,037	\$ -	\$ 754	\$ 6,434
Brazilian Real	-	-	-	-	(40)	(40)
Canadian Dollar	-	-	2,256	-	-	2,256
Danish Krone	-	1,318	-	-	-	1,318
Euro	8,377	50,731	15,451	20,972	(24)	95,507
Hong Kong Dollar	-	6,745	-	-	-	6,745
Japanese Yen	238	36,111	-	-	(170)	36,179
Mexican Peso	7	-	-	-	88	95
Pound Sterling	(14)	5,968	937	-	-	6,891
Swedish Krona	-	4,969	-	-	-	4,969
Swiss Franc	-	10,557	-	-	-	10,557
<b>Total Foreign</b>	<u>\$8,251</u>	<u>\$116,399</u>	<u>\$24,681</u>	<u>\$20,972</u>	<u>\$ 608</u>	<u>\$170,911</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

*Securities Lending Transactions* – The Board's policies permit the District Retirement Funds to participate in securities lending transactions by relying on a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

In April 2015, the Board discontinued its participation in State Street's securities lending program. As a result of several factors, the Board's securities lending revenues declined to a nominal level in recent years. Also in 2015, the Board made the decision to transition custodial services from State Street to Northern Trust (see Note 8). As a result, the Board made the decision to discontinue the securities lending program in order to manage the operational risks associated with the planned transition. The Board may participate in securities lending through its new custodian bank in the future.

For the first six months of fiscal year 2015 and during 2014, the master custodian, at the direction of the Board, loaned certain of the District Retirement Funds' public equity and fixed income securities for which it received collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the fair value of the loaned security in the United States; or (ii) 105% of the fair value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality D Fund). The Quality D Fund does not meet the requirements of the Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, and accordingly, the master custodian has valued the Fund's investments at fair value for reporting purposes.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

The Quality D Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality D Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality D Fund is not the same as the value of the District Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during 2015 or 2014.

During 2014, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2014.

As of September 30, 2015 the fair value (USD) of securities on loan, associated collateral and invested cash collateral was \$0.

As of September 30, 2014 fair value (USD) of securities on loan was \$24,726,473. Associated collateral totaling was \$25,336,553 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2014 the invested cash collateral had a fair value of \$24,981,841.

At times, the fair value of the shares in the Quality D Fund purchased with cash collateral by the lending agent was less than the cost. As of September 30, 2015, there were no unrealized losses. As of September 30, 2014, unrealized losses totaled \$354,712.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. The Fund's share of securities lending income and expense are reflected on the Combining Statements of Changes in Fiduciary Net Position.

*Derivative Investments* – Derivatives are generally defined as contracts in which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. Derivative investments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty). Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

During 2015 and 2014, the District Retirement Funds, in accordance with the policy of the Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. A list of the derivatives aggregated by type is shown later in this note.

TBAs (to-be-announced, sometimes referred to as dollar rolls) are used by the District Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The selected TBAs are used because they are expected to behave the same in duration and convexity as mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers.

Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

Foreign currency forwards, futures contracts and foreign currency options are generally used by the District Retirement Funds for defensive purposes. These contracts hedge a portion of the District Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the District Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk for currency options is also managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

Equity index futures were also used by the District Retirement Funds in order to gain exposure to equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures may pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the District Retirement Funds. The notional amounts of the contracts are not included in the derivatives holdings disclosed. Credit risk is managed by dealing with member firms of the futures exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the District Retirement Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these futures and options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment-grade ratings or by trading with member firms of organized exchanges.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

Warrants are used by the District Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Rights are a security that gives the holder the entitlement to purchase new shares issued by a corporation at a predetermined price in proportion to the number of shares already owned.

Market risk for warrants and rights is limited to the purchase cost. Credit risk for warrants and rights is similar to the underlying equity and/or bond holdings. Again, all such risks are monitored and managed by the District Retirement Funds' external investment managers who have full discretion over such investment decisions.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. The District Retirement Funds utilize swaps for several different reasons: to manage interest rate fluctuations, to protect against a borrower default, and to gain market exposure without having to actually own the asset.

The District Retirement Funds may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk.

The District Retirement Funds also hold derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

The following is a list of derivatives aggregated by type as of September 30, 2015:

<u>Investment Derivatives</u>	<u>Changes in Fair Value (4)</u>		<u>Fair Value at</u>		
	<u>Classification</u>	<u>Amount (1)</u>	<u>Classification</u>	<u>Amount (2)</u>	<u>Notional (3)</u>
	Investment				
Credit Default Swaps Bought	Revenue	\$ (71,881)	Swaps	\$ -	\$ -
	Investment				
Credit Default Swaps Written	Revenue	51,904	Swaps	-	-
	Investment				
Fixed Income Futures Long	Revenue	519,101	Futures	-	-
	Investment				
Fixed Income Futures Short	Revenue	(134,495)	Futures	-	-
	Investment				
Fixed Income Options Bought	Revenue	(31,513)	Options	-	-
	Investment				
Fixed Income Options Written	Revenue	70,141	Options	-	-
	Investment				
Foreign Currency Options Written	Revenue	1,619	Options	-	-
	Investment		Long Term		
FX Forwards	Revenue	(49,491)	Instruments	-	-
	Investment				
Pay Fixed Interest Rate Swaps	Revenue	(520,352)	Swaps	-	-
	Investment				
Receive Fixed Interest Rate Swaps	Revenue	236,204	Swaps	-	-
	Investment				
Warrants	Revenue	371,524	Common Stock	-	-
Grand Totals		<u>\$ 442,761</u>		<u>\$ -</u>	

(1) Negative values (in brackets) refer to losses

(2) Negative values refer to liabilities

(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions

(4) Excludes futures margin payments

(5) DCRB had no derivatives in the investment portfolio as of September 30, 2015

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 4: INVESTMENTS (CONTINUED)**

The following is a list of derivatives aggregated by type as of September 30, 2014:

<u>Investment Derivatives</u>	<u>Changes in Fair Value (4)</u>		<u>Fair Value at</u>		<u>Notional (3)</u>
	<u>Classification</u>	<u>Amount (1)</u>	<u>Classification</u>	<u>September 30, 2014</u> <u>Amount (2)</u>	
Credit Default Swaps Bought	Investment Revenue	\$ (773,258)	Swaps	\$ 281,540	\$ 15,706,896
Credit Default Swaps Written	Investment Revenue	(165,052)	Swaps	288,992	36,616,396
Fixed Income Futures Long	Investment Revenue	713,035	Futures	-	2,900,000
Fixed Income Futures Short	Investment Revenue	(2,071,641)	Futures	-	(20,078,233)
Fixed Income Options Bought	Investment Revenue	(205,199)	Options	98,513	2,100,000
Fixed Income Options Written	Investment Revenue	515,459	Options	(224,826)	(42,773,378)
Foreign Currency Options Written	Investment Revenue	(82,886)	Options	(181,392)	(13,561,071)
Futures Options Written	Investment Revenue	71,643	Options Long Term	-	-
FX Forwards	Investment Revenue	1,400,267	Instruments	1,059,501	96,764,033
Pay Fixed Interest Rate Swaps	Investment Revenue	(1,191,411)	Swaps	323,261	37,393,299
Receive Fixed Interest Rate Swaps	Investment Revenue	835,731	Swaps	873,499	38,993,497
Rights	Investment Revenue	-	Common Stock	-	-
Warrants	Investment Revenue	166,514	Common Stock	166,527	352
Grand Totals		<u>\$ (786,798)</u>		<u>\$ 2,685,616</u>	

(1) Negative values (in brackets) refer to losses

(2) Negative values refer to liabilities

(3) Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions

(4) Excludes futures margin payments

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 5: COMMITMENTS**

As of September 30, 2015, the District Retirement Funds have entered into investment funding commitments related to alternative investments to fund an additional \$428,074,667 at some future date.

**NOTE 6: ACTUARIAL INFORMATION**

The District Retirement Funds used the Aggregate Actuarial Cost method to determine the annual employer contribution for all Plan years through fiscal year 2012 (including the employer contribution amount for fiscal year 2013). The "Actuarial Method Amendment Act of 2012" changed the funding method from the Aggregate Actuarial Cost Method to the Entry Age Normal Cost Method as of October 1, 2012. As a result, the calculations used to determine employer contributions for fiscal year 2014 and beyond are based on the Entry Age Normal Cost Method, not the Aggregate Actuarial Cost Method.

The funded status of each Plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2014, the most recent actuarial valuation date, is as follows:

*(Dollars in thousands)*

<b>Plan</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded)</b>		<b>Annual Covered Payroll</b>	<b>UAAL as a % of Annual Covered Payroll</b>
			<b>Actuarial Accrued Liability (UAAL)</b>	<b>Ratio of AVA to AAL</b>		
Teachers	\$1,638,583	\$1,849,230	\$ 210,647	88.6%	\$ 378,926	55.59%
Fire & Police	\$4,288,727	\$3,998,537	\$ (290,190)	107.3%	\$ 438,415	-66.19%

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 6: ACTUARIAL INFORMATION (CONTINUED)**

The funded status of each Plan, under the Entry Age Normal Actuarial Cost Method as of October 1, 2013 is as follows:

*(Dollars in thousands)*

<u>Plan</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Liability (AAL)</u>	<u>Untunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>		<u>Ratio of AVA to AAL</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Annual Covered Payroll</u>
Teachers	\$1,585,775	\$1,759,043	\$	173,268	90.1%	\$ 369,071	46.95%
Fire & Police	\$4,013,534	\$3,644,085	\$	(369,449)	110.1%	\$ 413,380	-89.37%

Fiscal year 2015 employer contributions required under the Entry Age Normal Cost Method and contributions made are as follows:

*(Dollars in thousands)*

	<u>Based on</u>		
	<u>Actuarial</u>	<u>Annual</u>	<u>Percentage</u>
	<u>Valuation Date</u>	<u>Required</u>	
	<u>October 1</u>	<u>Contribution</u>	<u>Contributed</u>
Teachers	2013	\$ 39,513	100.0%
Fire and Police	2013	103,430	100.0%

Fiscal year 2014 employer contributions required under the Entry Age Normal Cost Method and contributions made are as follows:

*(Dollars in thousands)*

	<u>Based on</u>		
	<u>Actuarial</u>	<u>Annual</u>	<u>Percentage</u>
	<u>Valuation Date</u>	<u>Required</u>	
	<u>October 1</u>	<u>Contribution</u>	<u>Contributed</u>
Teachers	2012	\$ 31,636	100.0%
Fire and Police	2012	110,766	100.0%

The calculation of the actuarial value of assets includes a smoothing of investment gains and losses over a seven year period. For the year ended September 30, 2015 and 2014, the District Retirement Funds experienced an investment loss of -4.1% and a gain of 8.1%, respectively.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 6: ACTUARIAL INFORMATION (CONTINUED)**

See the Required Supplementary Information (RSI) section for the schedule of employer contributions.

The funding progress and employer contribution information presented above and the employer contribution information in the RSI schedule were determined as part of the actuarial valuations at the date indicated. As discussed in *Note 3: Summary of Significant Accounting Policies*, the “Actuarial Method Amendment Act of 2012” changed the funding method from the Aggregate Actuarial Cost Method to the Entry Age Normal Cost Method as of October 1, 2012. As a result, the calculation used to determine employer contributions for fiscal year 2014 and beyond are based on the Entry Age Normal Cost Method, not the Aggregate Actuarial Cost Method. The following is additional information for the District Retirement Funds as of the valuation date October 1, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	18 years	19 years
Asset valuation method	7 year smoothed Market	7 year smoothed Market
Actuarial assumptions:		
Investment rate of return*	6.50%	6.50%
Projected salary increases**:		
Teachers	4.45-8.25%	4.45-8.25%
Police Officers and Firefighters	4.25-9.25%	4.75-9.25%
Cost-of-living adjustments (COLA)	3.50%	3.50%
	(COLA limited to 3.00% for: Teachers hired after 11/1/1996; Police Officers and Firefighters hired after 11/10/1996)	(COLA limited to 3.00% for: Teachers hired after 11/1/1996; Police Officers and Firefighters hired after 11/10/1996)

\*Includes inflation of 3.50 %

\*\*Includes wage inflation of 4.25%

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 7: NET PENSION LIABILITY/(ASSET)**

The components of the net pension liability/(asset) of the Fund at September 30, 2015, were as follows:

*(Dollars in thousands)*

	<u>TRF</u>	<u>POFRF</u>
Total Pension Liability	\$1,950,811	\$4,383,413
Fiduciary Net Position	1,670,638	4,461,998
Net Pension Liability (Asset)	<u>\$ 280,173</u>	<u>\$ (78,585)</u>

Ratio of Fiduciary Net Position to Total Pension Liability (Asset)	85.64%	101.79%
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**Actuarial Assumptions** - The total pension liability was determined based on an actuarial valuation as of October 1, 2014, then updated using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of September 30, 2015:

**Teachers' Retirement Fund**

Inflation	3.5 percent
Salary increases	4.45 - 8.25 percent, including wage inflation of 4.25 percent
Investment rate of return	6.5 percent, net of pension plan investment expense, and including inflation
Mortality	Pre-retirement and post-retirement mortality rates were based on the RP 2000 Combined Mortality Table projected to 2015 with Projection Scale AA set back three years for females. Post-disability mortality rates were based on the RP 2000 Disabled Mortality Table set back 1 year for males and set back 5 years for females.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 7: NET PENSION LIABILITY/(ASSET) (CONTINUED)**

**Police and Firefighters' Retirement Fund**

Inflation	3.5 percent
Salary increases	4.25 - 9.25 percent, including wage inflation of 4.25 percent
Investment rate of return	6.5 percent, net of pension plan investment expense, and including inflation
Mortality	Pre-retirement and post-retirement mortality rates were based on the RP 2000 Combined Mortality Table projected to 2015 with Projection Scale AA set forward 1 year for females.

The actuarial assumptions used in the October 1, 2014 valuation were based on the results of the most recent actuarial experience study for the period October 1, 2006 to September 30, 2010, dated November 7, 2011.

The discount rate used to measure the total pension liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the District contributions will be made in accordance with the Board's funding policy adopted in 2012. Based on those assumptions, the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 7: NET PENSION LIABILITY/(ASSET) (CONTINUED)**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 pension plan's target asset allocation as of September 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	22.0%	5.1%
Foreign Equity (Developed)	20.0%	5.0%
Foreign Equity (Emerging)	8.0%	6.9%
Investment Grade Bonds	15.0%	0.2%
Treasury Inflation-Protected Securities (TIPS)	3.0%	1.4%
High Yield Bonds	3.0%	3.7%
Foreign Bonds (Developed)	2.0%	1.0%
Emerging Markets Debt (Local)	2.0%	3.5%
Real Estate	5.0%	4.6%
Infrastructure	2.0%	5.7%
Private Equity	8.0%	7.3%
Hedge Funds	10.0%	3.4%
Total	<u>100.0%</u>	

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND**

**Notes to the Basic Financial Statements  
For the years ended September 30, 2015 and 2014**

**NOTE 7: NET PENSION LIABILITY/(ASSET) (CONTINUED)**

*Disclosure of the sensitivity of the net pension liability to changes in the discount rate* - The following presents the net pension liability of the Plan, for the Teachers' Retirement Fund and the Police Officers and Firefighters' Retirement Fund, respectively, calculated using the discount rate of 6.5 percent, as well as what the Plan's net pension liability calculated using a discount rate that is one percentage point lower (5.5 percent) or one percentage point higher (7.5 percent) than the current rate (dollar amounts in thousands):

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Teachers' Plan's			
Net Pension Liability	\$598,302	\$280,173	\$23,315
	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Police and Firefighters' Plan's			
Net Pension Liability (Asset)	\$698,746	\$(78,585)	\$(704,007)

**NOTE 8: CONVERSION TO NEW CUSTODIAN**

During 2015, DCRB elected to transition to a new custodian, ending its relationship with State Street Corporation and converting to Northern Trust. The conversion is scheduled for completion near calendar year end 2015.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Required Supplementary Information  
Schedules of Changes in the Net Pension Liability and Related Ratios  
(Dollar amounts in thousands)**

**Teachers' Retirement Fund**

	<b><u>September 30, 2015</u></b>	<b><u>September 30, 2014</u></b>
<b>Total pension liability</b>		
Service Cost	\$ 53,297	\$ 50,409
Interest	118,378	112,204
Benefit changes	-	-
Difference between expected and actual experience	(7,246)	-
Changes of assumptions	-	-
Benefit payments	(64,076)	(59,832)
Refunds	(5,576)	(5,790)
Net change in total pension liability	<u>94,777</u>	<u>96,991</u>
<b>Total pension liability - beginning</b>	<u>1,856,034</u>	<u>1,759,043</u>
<b>Total pension liability - ending (a)</b>	<u>1,950,811</u>	<u>1,856,034</u>
<b>Plan net position</b>		
Contributions - District Government	39,513	31,636
Contributions - Plan member	31,621	28,751
Net investment (loss) income	(72,647)	132,086
Benefit payments	(64,076)	(59,832)
Administrative expense	(4,543)	(3,787)
Refunds	(5,576)	(5,790)
Other income	385	522
Change in net position	<u>(75,323)</u>	<u>123,586</u>
<b>Plan net position - beginning</b>	<u>1,745,961</u>	<u>1,622,375</u>
<b>Plan net position - ending (b)</b>	<u>1,670,638</u>	<u>1,745,961</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ 280,173</u>	<u>\$ 110,073</u>
<b>Ratio of plan net position to total pension liability -- (b) / (a)</b>	85.64%	94.07%
<b>Covered employee payroll</b>	\$ 417,090	\$ 378,926
<b>Net pension liability as a percentage of covered-employee payroll</b>	67.17%	29.05%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Required Supplementary Information  
Schedules of Changes in the Net Pension Liability and Related Ratios  
(Dollar amounts in thousands)**

**Police and Firefighters' Retirement Fund**

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
<b>Total pension liability</b>		
Service Cost	\$ 192,114	\$ 176,102
Interest	257,943	235,097
Benefit changes	-	-
Difference between expected and actual experience	(2,477)	-
Changes of assumptions	-	-
Benefit payments	(63,634)	(52,784)
Refunds	(1,396)	(1,637)
Net change in total pension liability	<u>382,550</u>	<u>356,778</u>
<b>Total pension liability - beginning</b>	<u>4,000,863</u>	<u>3,644,085</u>
<b>Total pension liability - ending (a)</b>	<u>4,383,413</u>	<u>4,000,863</u>
<b>Plan net position</b>		
Contributions - District Government	103,430	110,766
Contributions - Plan member	33,679	32,821
Net investment (loss) income	(187,283)	338,894
Benefit payments	(63,634)	(52,784)
Administrative expense	(11,939)	(9,730)
Refunds	(1,396)	(1,637)
Other income	1,012	1,342
Change in net position	<u>(126,131)</u>	<u>419,672</u>
<b>Plan net position - beginning</b>	<u>4,588,129</u>	<u>4,168,457</u>
<b>Plan net position - ending (b)</b>	<u>4,461,998</u>	<u>4,588,129</u>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<u>\$ (78,585)</u>	<u>\$ (587,266)</u>
<b>Ratio of plan net position to total pension liability (asset) -- (b) / (a)</b>	101.79%	114.68%
<b>Covered employee payroll</b>	\$ 446,201	\$ 426,135
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	-17.61%	-137.81%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Required Supplementary Information  
Schedules of Employer Contributions  
(Dollar amounts in thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined employer contribution	\$ 39,513	\$ 31,636	\$ 6,407	\$ -	\$ -	\$ -	\$ -	\$ 6,000	\$ 14,600	\$ 15,500
Actual employer contributions	<u>39,513</u>	<u>31,636</u>	<u>6,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>14,600</u>	<u>15,500</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 417,090	\$ 378,926	\$ 369,071	\$ 381,235	\$ 384,455	\$ 337,516	\$ 336,600	\$ 359,100	\$ 349,900	\$ 322,300
Actual contributions as a percentage of covered-employee payroll	9.47%	8.35%	1.74%	0.00%	0.00%	0.00%	0.00%	1.67%	4.17%	4.81%

**Notes to Schedule:**

Valuation Date: Actual contributions are based on valuations as of October 1, two years prior to end of fiscal year in which contributions are reported.  
Methods and Assumptions used to determine contribution rates for fiscal year 2015 are:

Actuarial cost method	Entry age normal
Amortization method	level dollar, closed
Remaining amortization period	19 years
Asset valuation method	7-year smoothed market
Inflation	3.5%
Salary increases	4.45% to 8.25%, including wage inflation of 4.25%
Investment rate of return	6.50%, net of pension plan investment expense, and including inflation
Cost of Living Adjustments	3.50% (Limited to 3.0% for those hired after 11/1/1996)

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Required Supplementary Information  
Schedules of Employer Contributions  
(Dollar amounts in thousands)**

**Police and Firefighters' Retirement Fund**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined employer contribution	\$ 103,430	\$ 110,766	\$ 96,314	\$ 116,700	\$ 127,200	\$ 132,300	\$ 106,000	\$ 137,000	\$ 140,100	\$ 117,500
Actual employer contributions	<u>103,430</u>	<u>110,766</u>	<u>96,314</u>	<u>116,700</u>	<u>127,200</u>	<u>132,300</u>	<u>106,000</u>	<u>137,000</u>	<u>140,100</u>	<u>117,500</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 446,201	\$ 426,135	\$ 413,380	\$ 414,877	\$ 421,221	\$ 423,854	\$ 436,100	\$ 421,950	\$ 396,300	\$ 351,000
Actual contributions as a percentage of covered-employee payroll	23.18%	25.99%	23.30%	28.13%	30.20%	31.21%	24.31%	32.47%	35.35%	33.48%

**Notes to Schedule:**

Valuation Date: Actual contributions are based on valuations as of October 1, two years prior to end of fiscal year in which contributions are reported.  
Methods and Assumptions used to determine contribution rates for fiscal year 2015 are:

Actuarial cost method	Entry age normal
Amortization method	level dollar, closed
Remaining amortization period	19 years
Asset valuation method	7-year smoothed market
Inflation	3.5%
Salary increases	4.25% to 9.25%, including wage inflation of 4.25%
Investment rate of return	6.50%, net of pension plan investment expense, and including inflation
Cost of Living Adjustments	3.50% (Limited to 3.0% for those hired after 11/10/1996)

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Required Supplementary Information  
Schedule of Investment Returns**

**Annual Money-Weighted Rates of Return**

	<u><b>FY 2015</b></u>	<u><b>FY 2014</b></u>
Total Portfolio	-4.006%	8.178%

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Supplementary Information  
Schedule of Funding Progress  
(Dollar amounts in thousands)**

Until September 30, 2011, the District of Columbia Retirement Board used the Aggregate Actuarial Cost Method, which does not result in the calculation of an unfunded accrued liability. The numbers shown below have been determined based on the Entry Age Normal Cost Method.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>EAN Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Liability as a Percent of Payroll</b>
10/1/2008	\$ 4,379.7	\$ 4,276.8	\$ (102.9)	102.4%	\$ 781.2	-13.2%
10/1/2009	\$ 4,493.4	\$ 4,332.4	\$ (161.0)	103.7%	\$ 772.7	-20.8%
10/1/2010	\$ 4,989.8	\$ 4,495.1	\$ (494.7)	111.0%	\$ 761.4	-65.0%
10/1/2011	\$ 5,167.4	\$ 4,854.7	\$ (312.7)	106.4%	\$ 805.7	-38.8%
10/1/2012	\$ 5,390.5	\$ 5,137.5	\$ (253.0)	104.9%	\$ 796.1	-31.8%
10/1/2013	\$ 5,599.3	\$ 5,403.1	\$ (196.2)	103.6%	\$ 782.5	-25.1%
10/1/2014	\$ 5,927.3	\$ 5,847.8	\$ (79.5)	101.4%	\$ 817.3	-9.7%

**DISTRICT OF COLUMBIA**  
**TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'**  
**RETIREMENT FUND**  
**Supplementary Information**  
**Schedules of Administrative Expenses**  
**For the years ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Personal services</b>		
Salaries	\$ 4,760,425	\$ 4,401,050
Fringe benefits	<u>1,301,367</u>	<u>1,243,960</u>
Total personal services	<u>6,061,792</u>	<u>5,645,010</u>
<b>Non-personal services</b>		
Office supplies	126,214	115,479
Telephone	71,496	56,417
Rent	1,634,856	1,553,897
Travel	206,727	180,854
Professional fees	6,225,496	4,292,365
Postage	29,241	24,902
Printing	14,387	14,888
Insurance	150,693	121,055
Dues & memberships	32,718	34,099
Audit costs	85,500	48,500
Actuarial fees	153,584	66,077
Legal fees	524,213	364,876
Investment fees	11,377,263	12,788,148
Contractual services (STAR)	1,077,383	871,995
Equipment and rental	966,527	994,762
Depreciation	-	-
Total non-personal services	<u>22,676,298</u>	<u>21,528,314</u>
<b>Total administrative expenses</b>	28,738,090	27,173,324
<b>Investment expenses</b>	<u>(12,256,010)</u>	<u>(13,655,870)</u>
<b>Net administrative expenses</b>	<u>\$ 16,482,080</u>	<u>\$ 13,517,454</u>

**DISTRICT OF COLUMBIA  
TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'  
RETIREMENT FUND  
Supplementary Information  
Schedules of Investment Expenses  
For the years ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Investment managers*	\$ 10,117,761	\$ 11,400,214
Investment administrative expense	878,747	867,722
Investment consultants	1,030,008	1,018,869
Investment custodian	<u>229,494</u>	<u>369,065</u>
 Total investment expenses	 <u>\$ 12,256,010</u>	 <u>\$ 13,655,870</u>

\*Fees paid to traditional investment managers only; traditional investment managers are those that invest primarily in public equity and fixed income securities. A significant number of alternative investments are presented net of expenses. Management expenses are netted against investment income and because they are not readily separable from specific investment income as of the financial statement reporting date, amounts are recorded and reported net of management expenses and therefore are not included on this schedule.

**DISTRICT OF COLUMBIA**  
**TEACHERS' AND POLICE OFFICERS AND FIREFIGHTERS'**  
**RETIREMENT FUND**  
**Supplementary Information**  
**Schedules of Payments to Consultants**  
**For the years ended September 30, 2015 and 2014**

<u>Professional/Consultant</u>	<u>Nature of Service</u>	<u>2015</u>	<u>2014</u>
<b>Administrative Consultants</b>			
U.S. Treasury Office of D.C. Pensions	Benefit payment processing	\$ 1,077,383	\$ 891,622
Mobomo, LLC	Information technology consulting	809,190	120,232
Linea Solutions, Inc.	Business process re-engineering	506,241	51,833
Networking for Future, Inc.	Information technology consulting	471,745	252,911
Morgan, Lewis & Brokuis	Legal counsel	410,882	249,180
Softech & Associates, Inc.	Information technology consulting	242,000	-
D.C. Office of the Chief Technology Officer	Information technology consulting	228,000	138,023
Ectam, LLC	Information technology consulting	213,485	197,900
Managed Frameworks, LLC	Information technology consulting	195,772	172,469
Tony Phan	Information technology consulting	173,280	227,220
ASI Government, Inc.	Temporary Staffing Services	152,006	20,775
AON Consulting	Insurance consulting	141,556	112,290
MVS, Inc.	Professional Services	140,422	-
D.C. Department of Human Resources	Information technology consulting	137,859	-
Cavanaugh Macdonald Consulting	Actuarial services	121,147	66,077
Groom Law Group	Legal counsel	113,017	51,187
Avitecture	Information technology consulting	104,472	270,694
Gartner, Inc.	Information technology consulting	102,193	171,000
Mark Jackson	Information technology consulting	98,673	63,189
TW Telecom	Information technology consulting	89,548	68,087
Yared Desta	Information technology consulting	88,858	25,080
DLT Solutions, Inc.	Information technology consulting	87,507	127,323
Clifton Larson Allen	Financial audit	85,500	51,500
Worldwide Staffing Exchange	Information technology consulting	81,963	49,260
Midtown Personnel Inc.	Information technology consulting	80,858	25,127
Newlin LLC	Accounting & audit consulting	79,605	62,955
Equinix, Inc.	Information technology consulting	79,158	60,155
D.C. Metropolitan Police Department	Information technology consulting	65,580	333,825
RSM McGladrey, Inc.	Financial system consulting	62,200	37,413
Leslie Randle	Information technology consulting	61,040	67,337
Christina Lipscombe	Information technology consulting	57,898	40,800
Icore Networks, Inc.	Information technology consulting	56,642	52,767
InfoLock Technologies	Information technology consulting	48,758	-
Sebastian Podesta	Professional Services	39,095	40,898
Business Development Associates, LLC	Information technology consulting	38,789	-
The Newberry Group, Inc.	Information technology consulting	38,716	-
Valsatech	Information technology consulting	38,198	297,064
Intuitive Technology Group, LLC	Information technology consulting	37,802	13,177
Telecommunications Development Corporation	Information technology consulting	37,280	158,800
Cheiron, Inc.	Actuarial auditing services	37,000	-
Diligent Board Member Services, Inc.	Information technology consulting	35,225	-
Document Access Systems	Information technology consulting	34,900	97,200
Capitol Document Solutions	Information technology consulting	32,481	30,273
eVestment Alliance	Online Investment Service	21,840	20,800
Document Management Solutions	Information technology consulting	19,225	-
ZixCorp Systems, Inc.	Information technology consulting	18,663	11,564
True Ballot, Inc.	Board elections	18,118	8,950
SHI International Corporation	Information technology consulting	16,973	-
Kofax, Inc.	Information technology consulting	15,670	15,516
Human Resources Technologies, Inc.	Information technology consulting	14,469	-
HBP, Inc.	Graphic design for publications	13,993	10,250
Corporate Investigations, Inc.	Professional Services	8,965	1,487
National Associates, Inc.	Information technology consulting	3,868	62,598
Robert Half International, Inc.	Information technology consulting	-	69,477
American Arbitration Association	Arbitration services	-	39,466
Yvonne Lesesne	Temporary Staffing Services	-	27,720
EDAC Systems, Inc.	Information technology consulting	-	25,715
Total administrative consultants		<b>6,985,708</b>	<b>4,989,186</b>
<b>Investment Consulting</b>			
Cliffwater, LLC	Traditional investment consulting	682,508	718,280
Meketa Investment Group	Traditional investment consulting	290,000	276,839
Zeno Consulting Group, LLC	Traditional investment consulting	57,500	23,750
Total investment consultants		<b>1,030,008</b>	<b>1,018,869</b>
<b>Total payments to consultants</b>		<b>\$ 8,015,716</b>	<b>\$ 6,008,055</b>