

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

REPORT ON

**THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT AND ADMINISTRATIVE FUNDS**

**FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT AND ADMINISTRATIVE FUNDS**

**FINANCIAL STATEMENTS
AND
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Trustee of
The District of Columbia 529 College Savings Program Trust

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Participant Fund and Administrative Fund of the District of Columbia 529 College Savings Program Trust (the "Trust") as of September 30, 2017, and the related statement of changes in fiduciary net position of the Participant Fund and Administrative Fund for the year then ended and the related notes to the financial statements, which collectively comprise the Trust's financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust'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 Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal 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 Trust's internal control over financial reporting and compliance.

Washington, D.C. *BCA Watson Rze LLP*
December 28, 2017

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (PARTICIPANT FUND)
(UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2017**

The following presents management's discussion and analysis of the financial performance of the Government of the District of Columbia's (the District) College Savings Program (the Program) for the fiscal year ended September 30, 2017. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

Basic Financial Statements

The Program is accounted for as a private purpose trust fund of the District. The District has overall fiduciary responsibility to program participants to administer the operations of the Program. In accordance with GASB 34, the Program's basic financial statements, which are reported on the accrual basis of accounting, are the: (a) Statement of Fiduciary Net Position and (b) Statement of Changes in Fiduciary Net Position (c) Notes to the Financial Statements.

The Statement of Fiduciary Net Position presents the assets, liabilities, and net position of the Program.

The Statement of Changes in Fiduciary Net Position presents the additions to, and deductions from, the Program's net position.

The financial statements also include notes that provide more detailed data and explanations for some of the information in the financial statements.

Financial Highlights

- Investments increased by \$74,635,357 or 16.25%
- Participant contributions increased by \$5,175,010 or 7.99%
- Net investment income increased by \$14,879,377 or 42.16
- Distributions to participants increased by \$18,288,800 or 72.23%

Financial Analysis

Table 1- Condensed Statement of Fiduciary Net Position as of September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> | <u>Variance(\$)</u> | <u>Variance(%)</u> |
|---|-----------------------|-----------------------|----------------------|--------------------|
| Assets | | | | |
| Investments | \$ 533,953,005 | \$ 459,317,648 | \$ 74,635,357 | 16.25% |
| Receivables | 692,449 | 181,119 | 511,330 | 282.32% |
| Total Assets | <u>534,645,454</u> | <u>459,498,767</u> | <u>75,146,687</u> | 16.35% |
| Liabilities | | | | |
| Total Liabilities | <u>201,091</u> | <u>233,617</u> | <u>(32,526)</u> | -13.92% |
| Net Position Held in Trust for Program Participants | <u>\$ 534,444,363</u> | <u>\$ 459,265,150</u> | <u>\$ 75,179,213</u> | 16.37% |

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (PARTICIPANT FUND)
(UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2017**

The Program's primary asset was investments, which totaled \$533,953,005. Investments increased by 16.25% from 2016 because of a net increase in plan participants and overall positive performance in the market. The top four Program investments were: U.S. Total Stock Market Index Portfolio \$112,007,130, DC College Savings 2019 Portfolio \$53,563,846, DC College Savings 2022 Portfolio \$56,584,991 and DC College Savings 2025 Portfolio \$52,147,078.

The Program's liabilities that represents amounts owed to portfolio management firms for investment activities during the fiscal year is zero.

| | <u>2017</u> | <u>2016</u> | <u>Variance(\$)</u> | <u>Variance(%)</u> |
|---------------------------------|----------------------|----------------------|---------------------|--------------------|
| Additions | | | | |
| Contributions | \$ 69,927,693 | \$ 64,752,683 | \$ 5,175,010 | 7.99% |
| Net Investments Income | 50,174,813 | 35,295,436 | 14,879,377 | 42.16% |
| Total Additions | <u>120,102,506</u> | <u>100,048,119</u> | <u>20,054,387</u> | 20.04% |
| Deductions | | | | |
| Distributions to Participants | 43,608,693 | 25,319,893 | 18,288,800 | 72.23% |
| Other Expenses | 1,314,600 | 1,019,315 | 295,285 | 28.97% |
| Total Deductions | <u>44,923,293</u> | <u>26,339,208</u> | <u>18,584,084</u> | 70.56% |
| Increase in Net Position | <u>\$ 75,179,213</u> | <u>\$ 73,708,911</u> | <u>\$ 1,470,303</u> | 1.99% |

The Program's contributions increased by \$5,175,010 or 7.99%. The Program had an increase in participants from 21,671 in 2016 to 23,307 in 2017.

The Program had a net investment income of \$50,174,813 in 2017, which is a 42.16% increase from 2016.

Distributions to participants in 2017 were \$43,608,693 or 72.23% increase from 2016.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT FUND**

**STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2017**

ASSETS

Investments

| | |
|---------------------------------|------------------|
| Equity Mutual Funds | \$ 264,172,740 |
| Fixed Income Mutual Funds | 138,422,194 |
| Guaranteed Investment Contracts | 125,924,511 |
| Money Market Funds | <u>5,433,560</u> |

Total Investments 533,953,005

Receivables for Fund Shares Sold 692,449

Total Assets 534,645,454

LIABILITIES

| | |
|--|---------------|
| Accounts Payable for Investments Purchased | 179,322 |
| Due to D.C. Government Administrative Fund | <u>21,769</u> |

Total Liabilities 201,091

Net Position Held in Trust for Program Participants \$ 534,444,363

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT FUND**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

ADDITIONS

| | |
|---|---------------------------|
| Contributions | <u>\$ 69,927,693</u> |
| Investment Income | |
| Net Appreciation in Fair Value of Investments | 44,371,668 |
| Interest and Dividends | 7,940,896 |
| Less Investment Expenses | <u>(2,137,751)</u> |
| Net Investment Income | <u>50,174,813</u> |
| Total Additions | <u><u>120,102,506</u></u> |

DEDUCTIONS

| | |
|-------------------------------|--------------------------|
| Distributions to Participants | 43,608,693 |
| Administrative Expenses | 892,235 |
| Maintenance Expenses | <u>422,365</u> |
| Total Deductions | <u><u>44,923,293</u></u> |
| Increase in Net Position | 75,179,213 |

Net Position Held in Trust for Program Participants

| | |
|--------------------|------------------------------|
| Beginning of Year | <u>459,265,150</u> |
| End of Year | <u><u>\$ 534,444,363</u></u> |

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
ADMINISTRATIVE FUND**

**STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2017**

ASSETS

Investment

| | |
|--------------|-------------------|
| Fixed Income | <u>\$ 593,739</u> |
|--------------|-------------------|

Receivables

| | |
|--------------------------|-------|
| Due from Program Manager | 1,146 |
|--------------------------|-------|

| | |
|---------------------------|---------------|
| Due from Participant Fund | <u>21,769</u> |
|---------------------------|---------------|

| | |
|-------------------|---------------|
| Total Receivables | <u>22,915</u> |
|-------------------|---------------|

Total Assets

| |
|-----------------------|
| <u>616,654</u> |
|-----------------------|

Net Position Held in Trust for Administrative Expenses

| |
|---------------------------------|
| <u><u>\$ 616,654</u></u> |
|---------------------------------|

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
ADMINISTRATIVE FUND**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

ADDITIONS

| | |
|------------------------|-----------------------|
| Administrative Fees | \$ 251,925 |
| Maintenance Fees | 109,205 |
| Net Investment Income | <u>4,018</u> |
| Total Additions | <u><u>365,148</u></u> |

DEDUCTIONS

| | |
|--------------------------|-----------------------|
| Professional Fees | 492,731 |
| Donations (Scholarship) | <u>25,000</u> |
| Total Deductions | <u><u>517,731</u></u> |
| Decrease in Net Position | (152,583) |

Net Position Held in Trust for Administrative Expenses

| | |
|--------------------|--------------------------|
| Beginning of Year | <u>769,237</u> |
| End of Year | <u><u>\$ 616,654</u></u> |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 ORGANIZATION AND PURPOSE

The District of Columbia (DC) College Savings Program (the Program) was created by D.C. Law 47- 4501 et seq., as amended and pursuant to D.C. Regulations, 49 DCR 9859, November 1, 2002 made final at D.C. Mun. Regs, title 9 sec. 155 (2004), as a Trust of the District of Columbia Government (the District). The Program enables participants to save for qualified higher education expenses. The Chief Financial Officer of the District of Columbia or his/her designee is the Trustee of the Plan. The current designee is the D.C. Treasurer. The Trustee is responsible for entering into contracts for program management services, adopting program administration rules and regulations, and establishing investment policies. The Program was managed by Calvert Investment Management Inc. from its inception until March 23, 2017. On March 24, 2017, Ascensus College Savings Recordkeeping Services, LLC (ACSR) and its affiliates (collectively, Ascensus College Savings) became the new Program Manager and took overall responsibility for the day-to-day operation of the Program including recordkeeping, investment management, administrative services, and marketing. The management agreement between Ascensus College Savings and the D.C. Treasurer expires November 15, 2021 with the option to extend for two one-year periods, unless earlier termination.

The Program is available to both District of Columbia and non-District of Columbia residents. It is a qualified tuition program that allows participants to make contributions into 16 different investment options. The account balance limit is \$500,000 per beneficiary. Accounts are subject to market investment risk, except for those that are invested in the Principal Protected Portfolio, which focuses on protecting the invested principal. As of September 30, 2017, the Plan had 23,307 participants with a net asset value of \$534,444,363. Fees and expenses of the program are paid by each account owner and vary according to the Portfolio, in which they are invested.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Reporting Entity

The accompanying financial statements report the fiduciary net position and the changes in fiduciary net position of and for the fiscal year ended September 30, 2017. For financial reporting purposes, the Program includes all funds over which the Program exercises, or has the ability to exercise oversight authority.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Program reports the activity of the District of Columbia College Savings Program as a private-purpose trust fund, which is a type of fiduciary fund. Private-purpose trust funds account for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or governments. The financial statements of the fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Investment Valuation and Income Recognition

Portfolio investments in the underlying funds are valued at the closing net asset value per share (unit) of each underlying fund on the day of valuation. The stability of principal portfolio is valued in accordance with the terms of the funding agreement, inclusive of accrued interest.

Security transactions, normally in shares of the underlying funds, are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Income and capital gains distributions, if any, from investments in the underlying funds are recorded on the ex-dividend date. Expenses included in the accompanying financial statements reflect the expenses of each portfolio and do not include any expenses associated with the underlying funds.

Units represent the beneficial interest of each participant in the net assets of a Portfolio. Contributions to and distributions from the portfolios are subject to terms and limitations defined in the Participation Agreement between the participant and the Trust. Contributions and distributions are recorded upon receipt of the participant's instructions in good order, based on the next determined net asset value per unit. Net investment income and net realized gains accumulate in the net asset value of each Portfolio and are not separately distributed to participants.

Security Valuation

Government Accounting Standards Board Statement number 72 (GASB 72), *Fair Value Measurements and Application*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

Level 3 – unobservable inputs (including the District's own assumptions in determining the fair value of investments)

Receivables and Payables for investments purchased and sold

The receivables and payables represent transactions related to the purchase and sale of investments. However, the actual transfer of cash has not occurred until the subsequent period.

Estimates

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Income Tax Status

The Program is exempt from federal taxes in accordance with Section 529 of the Internal Revenue Code. D.C. resident participants are exempt from state and local taxes when earnings from the Program are used for qualified expenses. Non-D.C. residents may be subject to state and local taxes in their jurisdiction.

NOTE 3 INVESTMENTS

Program Participants invest in the DC College 2019, 2022, 2025, 2028, 2031, 2034 Aged-based funds, large and small-cap equity portfolios, socially and non-socially responsible portfolio, intermediate-term bond portfolio, US and non-US stock market index portfolio and a principal protected (stable value) fund. The portfolios invest directly into underlying portfolios and mutual funds.

The Program categorizes fair value measurement within a hierarchy established by generally accepted accounting principles. The underlying funds had the following recurring fair value measurements at September 30, 2017.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 INVESTMENTS (Continued)

| | <u>Total</u> | <u>Fair Value Measurements Using</u> | | |
|--|-----------------------|---|--|--|
| | | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| INVESTMENTS MEASURED AT FAIR VALUE | | | | |
| Domestic Equity Mutual Funds | | | | |
| iShares Core S&P Total U.S. Stock Market ETF | \$ 172,183,456 | \$ 172,183,456 | \$ - | \$ - |
| Schwab US REIT ETF | 9,156,525 | 9,156,525 | - | - |
| DFA US Sustainability Core 1 Portfolio | 1,847,445 | 1,847,445 | - | - |
| JP Morgan US Equity | 38,195,454 | 38,195,454 | - | - |
| Vanguard Strategic Small Cap Equity | 11,569,098 | 11,569,098 | - | - |
| Total Domestic Equity Mutual Funds | <u>232,951,978</u> | <u>232,951,978</u> | <u>-</u> | <u>-</u> |
| International Equity Mutual Funds | | | | |
| DFA International Sustainability Core 1 | 5,174,069 | 5,174,069 | - | - |
| iShares Core MSCI Total International Stock ETF | 26,046,692 | 26,046,692 | - | - |
| Total Income Equity Mutual Funds | <u>31,220,761</u> | <u>31,220,761</u> | <u>-</u> | <u>-</u> |
| Fixed Income Mutual Funds | | | | |
| Vanguard Intermediate-Term Bond Index Fund | 38,186,794 | 38,186,794 | - | - |
| Vanguard Short-Term Corporate Bond Fund | 31,533,007 | 31,533,007 | - | - |
| Vanguard Short-Term Inflation Protected Securities | 43,579,367 | 43,579,367 | - | - |
| Loomis Sayles Core Plus Bond Fund | 12,266,270 | 12,266,270 | - | - |
| iShares Core US Aggregate Bond ETF | 12,856,757 | 12,856,757 | - | - |
| Total Fixed Income Mutual Funds | <u>138,422,195</u> | <u>138,422,195</u> | <u>-</u> | <u>-</u> |
| TOTAL INVESTMENTS MEASURED AT FAIR VALUE | <u>402,594,934</u> | <u>\$ 402,594,934</u> | <u>\$ -</u> | <u>\$ -</u> |
| INVESTMENT MEASURED AT CONTRACT VALUE | | | | |
| Guaranteed Investment Contracts | | | | |
| Ameritas Stable Value Fund | 125,924,511 | | | |
| INVESTMENT MEASURED AT COST | | | | |
| Money Market Fund | | | | |
| Dreyfus Government Cash Management Inst. | 5,433,560 | | | |
| TOTAL INVESTMENTS | <u>\$ 533,953,005</u> | | | |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 INVESTMENTS (*Continued*)

Equity Mutual Funds: This investment category consists of open-ended mutual funds that are registered with the Securities and Exchange Commission (SEC). These mutual funds publish a daily NAV and transact at that price. The mutual funds held in equities are deemed to be actively traded and support classification of the fair value measurement as Level 1 in the fair value hierarchy.

Fixed Income Mutual Funds: Mutual funds are a pool of money invested by an investment company in a variety of instruments such as emerging markets sovereigns, government related agencies, and emerging markets corporations. This investment category consists of open-ended mutual funds that are registered with the Securities and Exchange Commission (SEC). The mutual funds are invested in high yield markets bonds that represent fixed income securities issued by corporations with credit ratings of AAA or lower. These fixed income mutual funds publish a daily NAV and transact at that price. The mutual funds held in bonds are deemed to be classified as Level 2 in the fair value hierarchy.

Guaranteed Investment Contracts: The Guaranteed Investment Contract (GIC) is valued at the sum of the net cash contributions to the deposit account plus interest credited minus withdrawals (the Contract Value). The GIC is measured at fair value and is a contractual investment rather than a security and is not deemed to be subject to custodial credit risk. The determination of fair value includes certain unobservable inputs as well as the assessment of the projected long-term duration of the Insurance and Annuity Company through review of contract terms, and substantiated utilizing available market data. However, there is a risk that an insurance company could fail to perform its obligations under a funding agreement for financial or other reasons. These fair value amounts are included as a Level 3 measurement in the hierarchy table above.

Unrealized and Appreciated Value of the Program's Investments

At September 30, 2017, the Program held the following aggregate investments which are stated at aggregate fair value based on fair market prices:

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 INVESTMENTS (Continued)

| | <u>Aggregate Cost</u> | <u>Aggregate Fair Value</u> | <u>Unrealized Appreciation/ (Depreciation)</u> |
|--|-----------------------|-----------------------------|--|
| Domestic Equity Mutual Funds | | | |
| iShares Core S&P Total U.S. Stock Market ETF | \$ 159,747,909 | \$ 172,183,456 | \$ 12,435,547 |
| Schwab US REIT ETF | 8,964,062 | 9,156,525 | 192,463 |
| DFA US Sustainability Core 1 Portfolio | 1,765,843 | 1,847,445 | 81,602 |
| JP Morgan US Equity | 35,731,805 | 38,195,454 | 2,463,649 |
| Vanguard Strategic Small Cap Equity | 10,715,036 | 11,569,098 | 854,062 |
| International Equity Mutual Funds | | | |
| DFA International sustainability Core 1 | 4,694,481 | 5,174,069 | 479,588 |
| iShares Core MSCI Total International Stock ETF | 23,609,039 | 26,046,692 | 2,437,653 |
| Fixed Income Mutual Funds | | | |
| Vanguard Intermediate-Term Bond Index Fund | 37,745,625 | 38,186,794 | 441,169 |
| Vanguard Short-Term Corporate Bond Fund | 31,444,392 | 31,533,007 | 88,615 |
| Vanguard Short-Term Inflation Protected Securities | 43,527,542 | 43,579,367 | 51,825 |
| Loomis Sayles Core Plus Bond Fund | 12,149,400 | 12,266,270 | 116,870 |
| iShares Core US Aggregate Bond ETF | 12,870,724 | 12,856,757 | (13,967) |
| Guaranteed Investment Contracts | | | |
| Ameritas Stable Value Fund | 125,924,511 | 125,924,511 | - |
| Money Market Fund | | | |
| Dreyfus Government Cash Management Inst. | 5,433,560 | 5,433,560 | - |
| Total Investments | <u>\$ 508,890,369</u> | <u>\$ 533,953,005</u> | <u>\$ 19,629,076</u> |

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 3 INVESTMENTS (Continued)

The net appreciation in the fair value of the investments in the financial statements consists of the following at September 30, 2017:

| | |
|---|----------------------|
| Net Unrealized Gain | \$ 19,629,076 |
| Net Realized Gain | <u>24,742,592</u> |
| Net Appreciation in Fair Value of Investments | <u>\$ 44,371,668</u> |

The unrealized gains consist of losses in year of enrollment base portfolio strategies and losses in the single portfolio investment strategies. The net realized gain consists primarily of gains in age base portfolio strategies. The net appreciation represents the change in the market value from the prior year.

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

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. The Program does not invest in debt securities that have an overall quality which is less than the BBB as rated by Moody's or Standard & Poor. The primary credit ratings of the Program's debt securities are as follows:

| Fund | Credit Ratings |
|---|-----------------------|
| iShare Core U.S. Aggregate Bond ETF | AAA, A, BBB, BB |
| Loomis Sayles Core Plus Bond Fund | AAA, A, BBB, BB |
| iShare Core S&P Total U.S. Stock Market ETF | AAA, AA, A, BBB |
| Vanguard Strategies Small-Cap Equity Fund | AAA, AAA, BBB |
| Principal Protected Plus | A |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program does not invest in any investment account that has an average maturity exceeding ten years for its Bond Mutual Funds. The interest rate sensitivity, defined as duration, for each fund is as follows:

| Fund | Average Duration |
|---|-------------------------|
| iShare Core U.S. Aggregate Bond ETF | 5.71 |
| Loomis Sayles Core Plus Bond Fund | 6.03 |
| iShare Core S&P Total U.S. Stock Market ETF | 7.23 |
| Vanguard Strategies Small-Cap Equity Fund | 6.48 |
| Principal Protected Plus | 4.63 |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 INVESTMENTS (*Continued*)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Program does not have a formal policy for limiting its exposure to changes in exchange rates. The investment fund that invests primarily in foreign financial institutions are the DFA International Sustainability Core 1 Portfolio and iShare Core International Aggregate Bond ETF. The Fund has various currency denominations. The primary currency denominations are the Franc, the Yen, and the British pound.

NOTE 4 ADMINISTRATIVE AND MAINTENANCE FEES

Under Calvert Investment Management, the Program assessed administrative fees, an annual maintenance fee and an enrollment fee to new account owners. Administrative fees of 0.15% were charged on the average daily net asset value. The maintenance fee was \$15 for District residents and \$30 for non-District residents. The enrollment fee was \$25 for non-District residents. The District received \$5 per account for each assessed fee.

However, under Ascensus College Saving, the Program assessed program management and state fees and an annual maintenance fee. Program management and state fees which totaled 0.15% on the principal protected portfolio and 0.30% on all other funds were assessed. The annual maintenance fee is generally charged during the month of the first anniversary in which the account was opened and annually thereafter. Account owners who are residents of the District are charged an annual maintenance fee of \$10.00, and non-District residents are charged an annual maintenance fee of \$15.00. The annual maintenance fees are charged on a pro rata basis upon closure of an account. The Program Manager receives the \$10.00 annual maintenance fee charged to District residents. Out of the \$15.00 annual maintenance fee charged to non-District residents, the Program Manager receives \$10 and the District receives \$5.

For Fiscal Year 2017, total administrative fees assessed to account owners were \$892,235, which is reflected in the Participant Fund Statement of Changes in Fiduciary Net Position. The District portion of the fees were \$251,925, which is reflected in the Administrative Fund Statement of Changes in Fiduciary Net Position. As of September 30, 2017, the total amount not remitted to the District was \$0.

For the Fiscal Year 2017, maintenance and enrollment fees reflected in the Participant Fund Statement of Changes in Fiduciary Net Position totaled \$422,365. The District's portion was \$109,205, which is reflected in the Administrative Fund Statement of Changes in Fiduciary Net Position. As of September 30, 2017, the total amount not remitted to the District was \$22,914.

The District incurred administrative expenses of \$517,731 in Fiscal Year 2017, which is reflected in the Administrative Fund Statement of Changes in Fiduciary Net Position. The expenses were for the professional services and donation for scholarship. At year-end, the Administrative Fund position balance was \$616,654.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
529 COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 INVESTMENT EXPENSES

Investment expenses represent the operating expenses and load fees paid to the broker dealers. Certain fees charged by the investment funds for operating expenses and load fees are reflected in the net appreciation in fair value of investments amount in the Statement of Changes in Fiduciary Net Position. Other underlying investment fees, net of administrative and program management fees (see note 4), for Calvert Investment Management ranged from 0.00% to 1.51% (gross of 0.15% to 1.66%), and for Ascensus College Savings ranged from 0.00% to 0.50% (gross of 0.15% to 0.80%) of the fund's average daily net asset value. Underlying investment management fees, net of administrative and program management fees, totaled \$2,137,751, which is reflected in the Participant Fund Statement of Changes in Fiduciary Net Position.

NOTE 6 RELATED PARTY TRANSACTIONS

All of the Program's individual portfolios invest in a single underlying mutual fund or ETF managed by a third-party investment manager. The year of enrollment portfolios have a set target allocation and are invested in multiple underlying mutual funds, ETFs as well as the Ameritas Funding Agreement.

Ascensus College Savings monitors and rebalances the underlying asset allocations of the Year of College Enrollment Portfolios on a quarterly basis. The principal protected portfolio invests in a funding agreement issued by Ameritas Life.

NOTE 7 RISKS AND UNCERTAINTIES

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.

To the Trustee of
The District of Columbia 529 College Savings Program Trust

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District of Columbia 529 College Savings Program Participant and Administrative Funds (the “Trust”), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Trust’s basic financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

This report is intended solely for the information and use of the Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Washington, DC *BCA Watson Rze LLP*
December 28, 2017