



**WASHINGTON SUBURBAN
SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2017 AND 2016



**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

The Commissioners and Board of Trustees
Washington Suburban Sanitary Commission
Employees' Retirement Plan

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Washington Suburban Sanitary Commission's Employees' Retirement Plan (the Plan), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic 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 opinions on these 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 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 Plan as of December 31, 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.

Emphasis of Matter

Adjustments to Prior Period Financial Statements

The financial statements of the Plan as of December 31, 2017, were audited by other auditors whose report dated August 8, 2017, expressed an unmodified opinion on those financial statements. As discussed in Note 5 to the financial statements, the Plan has adjusted its 2016 financial statements to correct an accounting error. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2017 financial statements, we also audited the adjustments to the 2016 financial statements to retrospectively correct the accounting error as described in Note 5. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Plan's 2016 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A), the schedule of changes in net pension liability and related ratios, the schedule of employer contributions, and the schedule of investment returns 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The Schedule of Investments is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Investments is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Investments is fairly stated, in all material respects, in relation to the basic 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 October 15, 2018, on our consideration of the Plan'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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 Plan's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2018

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017 AND 2016**

The Washington Suburban Sanitary Commission Employees' Retirement Plan (the "Plan") provides retirement benefits to the employees, retirees, and beneficiaries of the Washington Suburban Sanitary Commission. To facilitate understanding the Plan's financial performance for the years ended December 31, 2017 and 2016, management has prepared this discussion and analysis. The following discussion and analysis should be read in conjunction with the Plan's financial statements and supplementary information provided in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SCHEDULES

The financial information presented in this report includes two financial statements, the notes to the financial statements, required supplementary information and other supplementary information.

The Statements of Fiduciary Net Position show the amount of assets and deferred outflow of resources, liabilities and deferred inflow of resources, and net position held in trust for pension beneficiaries as of the end of the current and prior calendar years.

The Statements of Changes in Fiduciary Net Position show the additions to, and reductions in, the Plan's net position during the current and prior fiscal years. The statements present the major sources and uses of funds.

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 Plan, 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 and Supplementary Information includes additional information on the Plan's financial condition and trends, including information on changes in the net pension liability and related ratios, contributions, actuarial assumptions, investment returns, investments and actuarial assumptions.

FINANCIAL HIGHLIGHTS

Fiscal Year 2017

- As of December 31, 2017, the Plan's net position held in trust for current and future retirement benefits were \$833.8 million. This reflects an increase in the Plan's net position of \$89 million from the prior year.
- The net investment gain was \$118.2 million for fiscal year 2017. This was comprised of \$106.0 million net appreciation in the fair market value of investments, \$14.9 million in dividends and interest income, and investment expenses of \$2.7 million. For fiscal year 2016, the net investment income was \$61.9 million. The 2017 increase reflects the

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continued bull market for global equities; in particular, international and emerging markets.

- The total investment return for 2017 was 16.2%. For the period ended December 31, 2017, the Plan returned 9.3% per annum over the past five years and 5.5% annualized over the past ten years.

Fiscal Year 2016

- As of December 31, 2016, the Plan's net position held in trust for current and future retirement benefits were \$744.8 million. This reflects an increase in the Plan's net position of \$31.1 million from the prior year.
- The net investment gain was \$61.9 million for fiscal year 2016. This was comprised of \$52.2 million net appreciation in the fair market value of investments, \$12.0 million in dividends and interest income, and investment expenses of \$2.3 million. For fiscal year 2015, the net investment loss was \$10.4 million. The 2016 increase reflects the continued recovery in the financial markets; in particular, international and emerging markets.
- The total investment returns for 2016 was 9.3%. For the period ended December 31, 2016, the Plan returned 8.8% per annum over the past five years and 4.7% annualized over the past ten years.

FINANCIAL ANALYSIS

Table 1 – Condensed Statements of Plan Net Position as of December 31, 2017, 2016, and 2015.

	2017	2016	2015	2017-2016		2016-2015	
				Variance	%	Variance	%
<u>ASSETS</u>							
Cash, cash equivalents and investments	\$ 867,140,094	\$ 781,709,232	\$ 743,170,574	\$ 85,430,862	9.85	\$ 38,538,658	5.19
Receivables	874,547	575,661	725,706	298,886	34.18	(150,045)	(20.68)
Total Assets	<u>868,014,641</u>	<u>782,284,893</u>	<u>743,896,280</u>	<u>85,729,748</u>	<u>9.88</u>	<u>38,388,613</u>	<u>5.16</u>
<u>LIABILITIES</u>							
Payables for collaterals received under securities lending agreements	33,118,532	35,924,584	28,852,182	(2,806,052)	(8.47)	7,072,402	24.51
Benefits payable and accrued expenses	1,070,751	1,562,357	1,364,072	(491,606)	(45.91)	198,285	14.54
Total Liabilities	<u>34,189,283</u>	<u>37,486,941</u>	<u>30,216,254</u>	<u>(3,297,658)</u>	<u>(9.65)</u>	<u>7,270,687</u>	<u>24.06</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 833,825,358</u>	<u>\$ 744,797,952</u>	<u>\$ 713,680,026</u>	<u>\$ 89,027,406</u>	<u>10.68</u>	<u>\$ 31,117,926</u>	<u>4.36</u>

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Fiscal Year 2017

The Plan's cash, cash equivalents and investments for fiscal year 2017 increased by \$85.4 million or 9.9%. The increase was due primarily to investment gains of \$118.2 million, contributions totaling \$29.5 million, offsetting benefit payments and refunds of \$58.6 million, and a decrease in the value of collateral received under securities lending agreements of \$2.8 million.

As shown in Table 2a - Investments by Manager/Advisor with Rates of Returns as of December 31, 2017, a significant portion of the Plan's investments were managed by Vanguard (34.7%), JP Morgan Asset Management (9.4%), and Morgan Stanley Asset Management (9.1%),. For the year ended December 31, 2017, all but one managers/advisors reflected a positive return for funds under management. Overall, the weighted average annual rate of return was 16.2% which contributed to an increase in investment income by 47.67% to \$118.2 million.

Table 2a - Investments by Manager/Advisor with Rates of Returns as of December 31, 2017

	<u>Investment Value</u>	<u>Percentage of Total Assets</u>	<u>Average Annual Rate of Return %</u>
CastleArk Management	\$ 46,114,937	5.5%	31.9
Northern Trust Asset Management	60,013,791	7.2%	4.0
Income Research + Management	28,240,028	3.4%	3.1
State Street Global Advisors	35,424,143	4.3%	21.2
	<u>169,792,899</u>		
Prudential Retirement Insurance and Annuity Company	47,909,075	5.8%	3.0
Vanguard	289,015,395	34.7%	37.0
Morgan Stanley Asset Management	75,720,617	9.1%	25.4
Dimensional Fund Advisors	39,901,471	4.8%	33.8
Investment Counselors of Maryland	65,257,433	7.8%	13.1
JP Morgan Asset Management	78,288,752	9.4%	22.6
Wellington Trust Company	66,664,310	8.0%	17.8
	<u>\$ 832,549,952</u>	<u>100.0%</u>	

During the year, the Board of Trustees met regularly to monitor investment manager performance. During calendar year 2017, Board actions included:

- Paying annuity payments throughout the first ten months of the year from the State Street Russell 1000 Value Index holdings to correct an over-weight in the Domestic Equity space.
- Terminating Global Real Estate manager VOYA Clarion in May and using the proceeds, along with a partial liquidation from the State Street account to fund indexed real estate holdings with Vanguard.

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Receivables for fiscal year 2017 increased by \$0.3 million or 34.2% due to an increase in dividend and accrued interest receivable.

Total liabilities decreased by \$3.3 million or 9.7%. This is due primarily to a decrease in payables for collaterals received under securities lending agreements which decreased from \$35.9 million in 2016 to \$33.1 million in 2017 or 8.5%.

Fiscal Year 2016

The Plan's cash, cash equivalents and investments for fiscal year 2016 increase by \$38.5 million or 5.2%. The increase was due primarily to investment gain of \$61.9 million, contributions totaling \$26.8 million, offsetting benefit payments and refunds of \$57.6 million, and an increase in the value of collateral received under securities lending agreements of \$7.1 million.

As shown in Table 2b - Investments by Manager/Advisor with Rates of Returns as of December 31, 2016, a significant portion of the Plan's investments were managed by Vanguard (28.0%), State Street Global Advisors (12.2%) and JP Morgan Asset Management (8.7%). For the year ended December 31, 2016, all but one managers/advisors reflected a positive return for funds under management. Overall, the weighted average annual rate of return was 14.1% which contributed to an increase in investment income by 696.3% to \$61.9 million.

Table 2b - Investments by Manager/Advisor with Rates of Returns as of December 31, 2016

	Investment Value	Percentage of Total Assets	Average Annual Rate of Return %
CastleArk Management	\$ 34,169,705	4.7%	7.9
Time Square CIGNA Investments	50,055,282	6.8%	2.8
Income Research + Management	27,354,801	3.7%	4.6
State Street Global Advisors	89,244,634	12.2%	17.2
	<u>200,824,422</u>		
Prudential Retirement Insurance and Annuity Company	31,937,671	4.4%	3.5
Vanguard	204,587,061	28.0%	24.0
Morgan Stanley Asset Management	60,379,892	8.2%	(1.6)
Dimensional Fund Advisors	29,829,987	4.1%	19.8
Investment Counselors of Maryland	57,681,752	7.9%	31.4
JP Morgan Asset Management	63,851,940	8.7%	8.8
Wellington Trust Company	56,576,893	7.7%	6.1
Voya Clarion Global Real Estate	26,255,097	3.6%	0.7
	<u><u>\$ 731,924,715</u></u>	<u><u>100.0%</u></u>	

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During calendar year 2016, Board actions included:

- Paying annuity payments for the final three quarters of the year from its stable-value guaranteed deposit account with Prudential after liquidating a portion of CastleArk holdings in the first quarter.
- Terminating Global Tactical manager BlackRock and re-allocating funds to Vanguard Total Stock & High-Yield Funds, and the Prudential GDA after revising the Global Tactical target from 15% to 10% in the Investment Policy.
- Voting to address the projected year-end domestic equity overweight by funding annuity payments from the State Street Russell 1000 Value Index holdings.

Receivables for fiscal year 2016 decreased by \$0.2 million or 20.7% due to a decrease in dividend and accrued interest receivable.

Total liabilities increased by \$7.2 million or 24.1%. This is due primarily to an increase in payables for collaterals received under securities lending agreements which increased from \$28.9 million in 2015 to \$35.9 million in 2016 or 24.5%.

Table 3 – Condensed Statements of Changes in Plan Net Position as of December 31, 2017, 2016 and 2015

	2017	2016	2015	2017-2016		2016-2015	
				Variance	% Variance	Variance	% Variance
<u>ADDITIONS</u>							
Net investment income	\$ 118,185,476	\$ 61,852,141	\$ (10,371,882)	\$ 56,333,335	47.67	\$ 72,224,023	696.34
Contributions	29,483,969	26,820,324	25,586,297	2,663,645	9.03	1,234,027	4.82
Total Additions	<u>147,669,445</u>	<u>88,672,465</u>	<u>15,214,415</u>	<u>58,996,980</u>	39.95	<u>73,458,050</u>	482.82
<u>DEDUCTIONS</u>							
Benefit payments and refunds	58,642,039	57,554,539	56,672,851	1,087,500	1.85	881,688	1.56
Net Increase	<u>89,027,406</u>	<u>31,117,926</u>	<u>(41,458,436)</u>	<u>57,909,480</u>	65.05	<u>72,576,362</u>	(175.06)
<u>RESTRICTED FOR PENSION BENEFITS</u>							
Beginning of Year	744,797,952	713,680,026	755,138,462	31,117,926	4.18	(41,458,436)	(5.49)
End of Year	<u>\$ 833,825,358</u>	<u>\$ 744,797,952</u>	<u>\$ 713,680,026</u>	<u>\$ 89,027,406</u>	10.68	<u>\$ 31,117,926</u>	4.36

Fiscal Year 2017

Net investment income was comprised of interest and dividends and net appreciation/depreciation in the fair value of investments less investment expenses. Interest and dividends increased, from \$12.0 million in 2016, to \$14.9 million in 2017. The financial markets reflected favorable conditions during the year and, accordingly, net appreciation in the fair value of the investments was \$106 million for 2017, compared to net appreciation of \$52.2 million for fiscal year 2016. The increase in net investment income was primarily due to most of the Plan's funds reflecting positive rates of return. The Plan had an overall weighted average rate of return of 16.2% for fiscal year 2017.

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Investment expenses increased by \$0.3 million or 13.9%. Investment expenses represent approximately 0.32% or 32 basis points of average net position.

Participant and Plan sponsor contributions increased in 2017 to \$29.4 million from \$26.8 million in 2016 due to an increase in the number of employees and higher salary levels. Retirement annuity benefit payments totaled \$58.7 million. This represented an increase of \$1.1 million over 2016, which is due to an increase in cost-of-living and the number of retirees.

Fiscal Year 2016

Net investment income was comprised of interest and dividends and net appreciation/depreciation in the fair value of investments less investment expenses. Interest and dividends decreased, from \$12.5 million in 2015, to \$12.0 million in 2016. The financial markets reflected favorable conditions during the year and, accordingly, there was a net appreciation in the fair value of the investments of \$52.2 million for 2016, compared to a net depreciation of \$20.6 million for fiscal year 2015. The increase in net investment income was primarily due to most of the Plan's funds reflecting positive rates of return. The Plan had an overall weighted average rate of return of 9.5% for fiscal year 2016.

Investment expenses increased by \$0.06 million or 2.6%. Investment expenses represent approximately 0.33% or 33 basis points of average net position.

Participant and Plan sponsor contributions increased in 2016 to \$26.8 million from \$25.6 million in 2015 due to an increase in the number of employees and higher salary levels. Retirement annuity benefit payments, excluding refunds, totaled \$57.1 million. This represented an increase of \$1.0 million over 2015, which is due to an increase in cost-of-living and the number of retirees.

PLAN FUNDING

Fiscal Year 2017

On an annual or biennial basis, the market value of the Plan's assets and its investment gains and losses are reviewed by the Plan's actuary to determine the viability and funding progress of the Plan, the latest of which was performed effective June 30, 2017. The Plan's actuarially determined target rate of investment return is 7.0% net of expenses, reflecting the most recent Assumption Study, which also updated assumptions concerning mortality, inflation, and salary scale.

The Plan began using the average value method to determine actuarial asset value effective July 1, 2007. This smoothing method explicitly recognizes each year's investment gain or loss over a five-year period with the final actuarial value not less than 80% or more than 120% of the market value of assets.

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2017 AND 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
Cash and cash equivalents	\$ 1,471,580	\$ 13,859,933
Collateral received under securities lending agreements (Note E)	33,118,532	35,924,584
Investments:		
Mutual funds	394,174,299	292,098,800
Commingled funds	256,097,822	296,308,456
U.S. Government and agency bonds	59,541,556	50,955,001
Corporate bonds	28,929,629	26,411,967
Common stock	45,859,109	34,169,705
Investment contract with insurance company	47,909,075	31,937,671
Limited partnership units	20,000	20,000
Other fixed holdings	18,492	23,115
Total investments	<u>832,549,982</u>	<u>731,924,715</u>
Dividends and accrued interest receivable	523,663	438,622
Contributions receivable from employees	<u>350,884</u>	<u>137,039</u>
Total Assets	<u>868,014,641</u>	<u>782,284,893</u>
 <u>LIABILITIES</u>		
Payable for collateral received under securities lending agreements (Note E)	33,118,532	35,924,584
Benefits payable and accrued expenses	<u>1,070,751</u>	<u>1,562,357</u>
Total Liabilities	<u>34,189,283</u>	<u>37,486,941</u>
 NET POSITION RESTRICTED FOR PENSIONS	 <u><u>\$ 833,825,358</u></u>	 <u><u>\$ 744,797,952</u></u>

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

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
ADDITIONS		
Investment Income:		
Net appreciation in the fair value of Plan investments	\$ 105,986,226	\$ 52,158,217
Dividends and interest	14,866,013	12,035,877
	<u>120,852,239</u>	<u>64,194,094</u>
Less investment expenses	<u>(2,666,763)</u>	<u>(2,341,953)</u>
Net investment income	<u>118,185,476</u>	<u>61,852,141</u>
Contributions:		
WSSC contributions	24,193,212	22,606,531
Employee contributions	<u>5,290,757</u>	<u>4,213,793</u>
Total contributions	<u>29,483,969</u>	<u>26,820,324</u>
Total Additions	<u>147,669,445</u>	<u>88,672,465</u>
DEDUCTIONS		
Benefit payments to retirees and refunds	<u>58,642,039</u>	<u>57,554,539</u>
NET INCREASE IN NET POSITION	89,027,406	31,117,926
NET POSITION RESTRICTED FOR PENSIONS		
BEGINNING OF YEAR, as restated	<u>744,797,952</u>	<u>713,680,026</u>
END OF YEAR	<u>\$ 833,825,358</u>	<u>\$ 744,797,952</u>

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

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A. DESCRIPTION OF PLAN

General

The Washington Suburban Sanitary Commission ("WSSC") Employees' Retirement Plan (the Plan), a single employer contributory defined benefit retirement plan, was established in 1967 to provide retirement and death benefits for the employees of WSSC under conditions set forth in the Plan Document based on an employee's age, length of service and compensation. The Retirement Plan Document is amended from time to time. As of December 31, 2017, the Plan was last amended in January 2016. The Plan may be amended by Commission resolution or by the Executive Director on behalf of the Commission.

WSSC implemented the Open Version of the Plan on July 1, 1978. Members of the Plan as of June 30, 1978 had an option to be included in the Open Version. This option expired December 31, 1978. The Open Version is mandatory for new employees. It generally provides for reduced employee contributions and benefits.

As of December 31, 2017, and 2016, there were 1,616 and 1,624 employees, respectively, participating in the Open Version of the Plan, and 7 and 7 employees, respectively, participating in the Closed Version of the Plan, a total of 1,623 and 1,631 employee participants, respectively.

As of December 31, 2017, and 2016, there were 1,600 and 1,585 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 105 and 100 terminated vested employees, respectively, not yet receiving benefits. Sixteen and Six employees retired in fiscal years 2017 and 2016, respectively, and began receiving benefits in subsequent fiscal years.

The Plan provides a review process for participants whose claim for benefits have been denied. There were no reviews pending as of December 31, 2017 and 2016.

Contributions

The Plan requires employees under the Closed Version to contribute 6% of gross wages and employees under the Open Version to contribute 3% of gross wages as a condition of employment. WSSC contributions are determined through the budget process as recommended by the Executive Director annually based upon a level percentage of payroll costs based on the advice and recommendation of an Actuary based on generally accepted actuarial principles.

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EMPLOYEES' RETIREMENT PLAN
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NOTE A. DESCRIPTION OF PLAN (Continued)

Expenses

WSSC pays the administrative expenses of the Plan, other than investment management and consulting fees.

Pension Benefits

The Plan provides for 100% vesting of retirement benefits after five years of credited service.

Generally, the normal retirement benefits payable to an eligible participant are equal to the sum of:

1. 2.1% of final average monthly compensation multiplied by the Closed Version credited service, plus
2. 1.4% of final average monthly compensation multiplied by the Open Version credited service where the sum of Closed Version credited service and Open Version credited service, exclusive of accumulated sick leave service is subject to a maximum of 36 years.

The Plan provides options for disability and early retirement to eligible participants or their surviving spouses.

The Plan provides for periodic cost of living increases to retirement benefits. Participants covered by the Closed Version will receive some increase two months following a sustained increase in the Consumer Price Index of 3% or more. Participants in the Open Version receive an increase each March 1, based on the preceding calendar year's increase in the Consumer Price Index. The first increase may be pro-rated depending on the time of retirement.

Plan Termination

In the event of termination, Plan assets are to be allocated in the following priorities:

1. Expenses, fees and other charges under the Plan, not previously paid.
2. Pension benefits based upon contributions made by employees and interest earned thereon.
3. Pension benefits based upon contributions made by the employer which are vested.
4. All other pension benefits under the Plan.

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NOTE A. DESCRIPTION OF PLAN (Continued)

Plan Governance

WSSC established a Board of Trustees (the "Board") for the Plan to be responsible for the investment management of the Plan's assets for the exclusive benefit of the Plan's participants. The trustees are governed by a Trust Agreement. The agreement provides for trustees to be appointed by WSSC and for the eleven-member Board to be composed of two Commissioners, four employees who are participants of the Plan, two representatives of the public, two retirees who are participants in the Plan, and the Executive Director of the Plan.

The administration of the Plan is managed by the Executive Director of the WSSC Employee Retirement Plan who is appointed by the General Manager of WSSC.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan are presented on the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Plan considers all cash and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Investments

The Plan categorizes fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three-level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

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NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These classifications are summarized as follows:

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

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

The Plan holds investment contracts with Prudential Financial. The fair value of these contracts is determined based on the fair value of the underlying pooled assets, and is an estimate only and not the result of a precise calculation which would be done at contract discontinuance or to measure the impact of excess withdrawals in any calendar year. It does not constitute an offer by Prudential Financial or a final experience adjustment.

Net appreciation in the fair value of investments reflected in the Statements of Changes in Fiduciary Net Position includes realized gains and losses on investments that were sold during the year and unrealized appreciation in the fair value of investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

NOTE C. TAX STATUS

The Plan obtained its latest determination letter dated April 26, 2017, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code; therefore, the Plan was qualified, and the related Trust was tax exempt as of December 31, 2017 and 2016.

NOTE D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of short term investments funds of \$1,471,580 and \$13,859,933 as of December 31, 2017 and 2016, respectively.

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NOTE E. SECURITIES LENDING

The Board of Trustees permits the Plan to lend its securities to broker-dealers and other entities (the "Borrowers") for collateral that will be returned for the same securities in the future. The Plan's custodian is the agent in lending the Plan's securities for collateral of 102 percent for domestic securities and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral.

All securities loans can be terminated on demand by either the Plan or the Borrowers. Cash collateral received from the Borrowers is invested by the lending agent, as an agent for the Plan, in a short-term investment pool in the name of the Plan, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, and which the Plan cannot determine. The Plan records a liability for the return of the cash collateral shown as collateral held for securities lending in the Statements of Plan Net Position. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the Plan by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a Borrower fails to return loaned securities or pay distributions thereon.

As of December 31, 2017, and 2016, the fair value of securities on loan was \$32,356,215 and \$35,110,949, respectively. Cash received as collateral and the related liability was \$33,118,532 and \$35,924,584 as of December 31, 2017 and 2016 are shown on the Statements of Fiduciary Net Position. Securities received as collateral are not reported as assets since the Plan does not have the ability to pledge or sell the collateral securities.

Securities lending revenues and expenses amounted to \$511,235 and \$418,162, respectively, for December 31, 2017 and \$281,517 and \$181,180, respectively, for December 31, 2016, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

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NOTE E. SECURITIES LENDING (Continued)

The following represents the balances relating to the securities lending transactions as of December 31:

	2017		2016	
	Fair Value of Underlying Securities	Cash Collateral Investment Value	Fair Value of Underlying Securities	Cash Collateral Investment Value
Securities Loaned for Cash Collateral				
Corporate Bonds	\$ 3,838,278	\$ 3,938,325	\$ 4,100,831	\$ 4,207,068
Common Stock	5,162,846	5,298,452	8,451,548	8,684,877
U.S. Government & Agency Bonds	23,355,092	23,881,755	22,558,570	23,032,639
Total	<u>\$ 32,356,216</u>	<u>\$ 33,118,532</u>	<u>\$ 35,110,949</u>	<u>\$ 35,924,584</u>

At year-end, the Plan has credit risk exposure to Borrowers because the amount the Plan owes the Borrowers is less than the amounts the Borrowers owe the Plan. The Plan is fully indemnified by its custodial bank against any losses incurred as a result of Borrower default.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2016 and 2015, there were no funds held by a counterparty that was acting as the Plan's agent in securities lending transactions.

NOTE F. INVESTMENTS

Investment Policy

The Plan's investment policy and any changes to the policy are adopted by the Board of Trustees of the Plan. The most recent version of the policy was approved in April 2017 and contains long-term asset allocation ranges.

The primary objective of the investment policy is to assure that assets will be available to pay retirement benefits throughout the life of the Plan and to maintain or improve the market value of the fund relative to vested and accrued benefit liabilities. The objectives seek to preserve the actuarial soundness of the Plan by achieving a long-term return of at least the actuarial return rate and to prudently manage the inherent investment risks that are related to the achievement of this goal.

Long-term asset allocation ranges are developed based on several factors including: the long-term investment goals of the Plan; the Trustee's tolerance for short-term losses; the Plan's liquidity needs; and any legal or regulatory requirements.

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NOTE F. INVESTMENTS (Continued)

The Plan has a rebalancing policy, which allows the Executive Director and staff the flexibility to adjust assets classes for purposes of rebalancing without approval from the Board of Trustees

As of December 31, 2017, and 2016, the Plan's long-term asset allocation ranges were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Target</u>	<u>Range</u>	<u>Target</u>	<u>Range</u>
U.S. Stocks	40%	35-45%	40%	35-45%
Non-U.S. Stocks	12%	9 - 15%	12%	9 - 15%
Emerging Markets Stocks	5%	2 - 8%	5%	2 - 8%
Global Tactical Asset Allocation	10%	6-14%	10%	6-14%
Total equity	<u>67%</u>		<u>67%</u>	
Fixed Income	23%	19-27%	23%	19-27%
Real Return Strategies	5%	0 - 10%	5%	0 - 10%
Real Estate	5%	0 - 10%	5%	0 - 10%
Total	<u>100%</u>		<u>100%</u>	

Money-Weighted Rate of Return

For the years ended December 31, 2017 and 2016, respectively, the annual money-weighted rate of return on Plan investments, net of investment expense, was 16.2% and 9.5%, respectively. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

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NOTE F. INVESTMENTS (Continued)

The Plan has the following fair value measurement as of December 31, 2017 and 2016:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of December 31, 2017
Investments by fair value level:				
Fixed Income Securities				
U.S Government and Agency Bonds				
U.S Bonds	\$ -	\$ 59,308,356	\$ -	\$ 59,308,356
Non-U.S. Bonds	-	233,200	-	233,200
Corporate Bonds and Securities				
U.S Bonds and Securities	-	22,464,920	-	22,464,920
Non-U.S. Bonds and Securities	-	6,464,709	-	6,464,709
Common Stock				
U.S Stock	45,169,389	-	-	45,169,389
Non-U.S Stock	689,720	-	-	689,720
Mutual Funds				
U.S Equity Funds	354,272,828	-	-	354,272,828
Emerging Market Funds	-	39,901,471	-	39,901,471
Limited partnership units	-	20,000	-	20,000
Other fixed holdings	-	18,492	-	18,492
	<u>\$ 400,131,937</u>	<u>\$ 128,411,148</u>	<u>\$ -</u>	<u>528,543,085</u>
Investments carried at amortized cost:				
Investment contract with insurance company				47,909,075
Investments carried at the Net Asset Value (NAV):				
Commingled funds				<u>256,097,822</u>
Total Investments				<u>\$ 832,549,982</u>
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of December 31, 2016
Investments by fair value level:				
Fixed Income Securities				
U.S Government and Agency Bonds				
U.S Bonds	\$ -	\$ 50,729,725	\$ -	\$ 50,729,725
Non-U.S. Bonds	-	225,276	-	225,276
Corporate Bonds and Securities				
U.S Bonds and Securities	-	22,462,305	-	22,462,305
Non-U.S. Bonds and Securities	-	3,949,662	-	3,949,662
Common Stock				
U.S Stock	33,417,339	-	-	33,417,339
U.S Stock	752,366	-	-	752,366
Mutual Funds				
U.S Equity Funds	262,268,813	-	-	262,268,813
Non-U.S Equity Funds	-	29,829,987	-	29,829,987
Limited partnership units	-	20,000	-	20,000
Other fixed holdings	-	23,115	-	23,115
	<u>\$ 296,438,518</u>	<u>\$ 107,240,070</u>	<u>\$ -</u>	<u>403,678,588</u>
Investments carried at amortized cost:				
Investment contracts with insurance company				31,937,671
Investments carried at the Net Asset Value (NAV):				
Commingled funds				<u>296,308,456</u>
Total Investments				<u>\$ 731,924,715</u>

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NOTE F. INVESTMENTS (Continued)

Common stock and mutual funds classified in Level 1 of the fair value hierarchy are valued utilizing prices last quoted sales/bid prices provided by independent pricing vendors. U.S. government and agency securities, municipal and corporate bonds, and mutual funds classified in Level 2 of the fair value hierarchy are valued utilizing a matrix pricing technique. Matrix pricing is utilized to value securities based on the securities' relationship to benchmark quoted prices.

Commingled funds consist of investments in four investment trusts, the objectives of these fund are to invest in a diversified portfolio of international equity securities for capital appreciation, approximate the performance of the Russell 1000 Value Index, and investing in a portfolio of equity securities of companies in developed and emerging markets. These investments are valued at the net asset value (NAV) of units of the commingled trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

As of December 31, 2016, the Plan invested in the Voya Clarion Global Real Estate Securities Trust Fund, which is valued using quoted market prices on the last business day of the Plan's year end.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) as of December 31, 2017 and 2016 is presented on the following tables:

Investment	December 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International Equity Trust	\$ 75,720,617	\$ -	Daily	Daily
State Street Global Advisor	35,424,143	-	Daily	Daily
Wellington OIA Fund	66,664,310	-	Monthly	30 Days
JP Morgan Global Focus Fund	78,288,752	-	Daily	Daily
Total	<u>\$ 256,097,822</u>	<u>\$ -</u>		

Investment	December 31, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International Equity Trust	\$ 60,379,892	\$ -	Daily	Daily
State Street Global Advisor	89,244,633	-	Daily	Daily
Wellington OIA Fund	56,576,893	-	Monthly	30 Days
JP Morgan Global Focus Fund	63,851,941	-	Daily	Daily
Voya Clarion Global Securities	26,255,097	-	Quarterly	Quarterly
Total	<u>\$ 296,308,456</u>	<u>\$ -</u>		

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NOTE F. INVESTMENTS (Continued)

Risks Common to Investments

The Plan's investments are subject to the following risks common to investments:

- ***Custodial Credit Risk*** is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name.

The Plan's investments for fiscal year 2017 and 2016 are partially insured and registered in the Plan's name and are generally segregated by the counterparty in a manner to protect them from certain claims by creditors. The Plan also invests in mutual and commingled trust funds which are not generally exposed to custodial credit risks.

- ***Credit Risk*** is the risk that an issuer to an investment will not fulfill its obligations. The Plan seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk. As of December 31, 2017, and 2016, the quality ratings of the Plan's fixed income investments in U.S. Government obligations and corporate bonds were as follows:

Fiscal Year 2017 Quality Rating	2017		2016	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
U.S. Government and Agency Bonds:				
AAA/AA+	\$ 59,308,356	67.04%	50,955,001	65.86%
BBB+	233,200	0.26%	-	0.00%
Total U.S. Government and Agency Bonds	<u>59,541,556</u>	<u>67.30%</u>	<u>50,955,001</u>	<u>65.86%</u>
Corporate Bonds:				
AAA	842,285	0.95%	2,872,847	3.71%
AA+	-	0.00%	4,608,317	5.96%
AA	222,249	0.3%	808,728	1.05%
AA-	894,690	1.01%	266,820	0.34%
A+	698,521	0.79%	738,417	0.95%
A	1,185,506	1.34%	300,639	0.39%
A-	3,785,335	4.28%	2,764,839	3.57%
BBB+	7,050,650	7.97%	2,870,478	3.71%
BBB	5,605,518	6.34%	5,457,396	7.05%
BBB-	6,495,197	7.34%	5,693,513	7.36%
BB+	199,194	0.23%	-	0.00%
Unrated	1,950,484	2.20%	29,973	0.04%
Total Corporate Bonds	<u>28,929,629</u>	<u>32.70%</u>	<u>26,411,967</u>	<u>34.14%</u>
Total	<u>\$ 88,471,185</u>	<u>100.00%</u>	<u>\$ 77,366,968</u>	<u>100.00%</u>

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NOTE F. INVESTMENTS (Continued)

Certain mutual and/or commingled funds of the Plan, such as, the Vanguard High Yield Corporate (Vanguard) and Wellington OIA (Wellington) funds contain investments that include fixed income securities. As of December 31, 2017 and 2016, the ratings of the underlying securities of the Vanguard fund were AAA/BBB/BB/B/Below B. Ratings were unavailable for the underlying securities of the Wellington fund. The other mutual funds, which were equity-based, and the investment contracts were unrated.

- **Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's fixed income investments by maturity:

Fiscal Year 2017					
Investment Type	Total	Remaining Maturities (In Months)			
		12 Months Or Less	13 to 24 Months	25 - 60 Months	More Than 60 Months
U.S. Government and Agency bonds:					
Mortgage-backed securities	\$ 17,494,358	\$ -	\$ 223,428	\$ 1,774,627	\$ 15,496,303
U.S. Treasury Notes	42,047,198	1,931,285	1,391,771	14,112,769	24,611,373
Corporate bonds	28,929,629	339,500	1,534,658	4,023,919	23,031,552
	<u>\$ 88,471,185</u>	<u>\$ 2,270,785</u>	<u>\$ 3,149,857</u>	<u>\$ 19,911,315</u>	<u>\$ 63,139,228</u>
Fiscal Year 2016					
Investment Type	Total	Remaining Maturities (In Months)			
		12 Months Or Less	13 to 24 Months	25 - 60 Months	More Than 60 Months
U.S. Government and Agency bonds:					
Mortgage-backed securities	\$ 19,965,742	\$ 182,355	\$ 989	\$ 6,297,239	\$ 13,485,159
U.S. Treasury Notes	30,989,259	-	4,085,080	9,767,420	17,136,759
Corporate bonds	26,411,967	455,277	660,165	3,988,496	21,308,029
	<u>\$ 77,366,968</u>	<u>\$ 637,632</u>	<u>\$ 4,746,234</u>	<u>\$ 20,053,155</u>	<u>\$ 51,929,947</u>

The mortgage-back securities listed above are considered highly sensitive to interest rate risk.

- **Foreign Currency Risk** is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Plan mitigates this risk by limiting its investments in non-U.S. securities. As of December 31, 2017, and 2016, the Plan held no investments in foreign currency denominations, however the following mutual and/or commingled funds contained underlying foreign related investments as follows:

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NOTE F. INVESTMENTS (Continued)

	<u>2017</u>	<u>2016</u>
Morgan Stanley Investment Management		
International Equity Trust	\$ 75,720,617	\$ 60,379,892
Dimensional Fund Advisors	39,901,471	29,829,987
Vanguard Global EX-US R/E Index Fund	21,952,034	-
Wellington OIA Fund	66,664,310	56,576,893
JP Morgan Global Focus Fund	78,288,752	63,851,940
Voya Clarion Global Securities	-	26,255,097
Total	<u>\$ 282,527,184</u>	<u>\$ 236,893,809</u>

- **Concentration of Credit Risk** - Individual investments that represent 5 percent or more of the Plan's net position are as follows as of December 31,:

	<u>2017</u>	<u>2016</u>
ICM Small Company Portfolio	\$ 65,257,433	\$ 57,681,753
Vanguard Total Stock Market Index Fund	169,841,194	140,138,847
State Street Global Advisor	-	89,244,633
Morgan Stanley Investment Management		
International Equity Trust	75,720,617	60,379,892
Vanguard High Yield Corporate Fund	69,042,830	64,448,215
Wellington OIA Fund	66,664,310	56,576,894
JP Morgan Global Focus Fund	78,288,752	63,851,941
Total	<u>\$ 524,815,136</u>	<u>\$ 532,322,175</u>

For U.S. Government or Agency securities, investment managers invest no more than 7 percent of their portion of Plan assets, at cost, and no more than 10 percent at market, in securities of any one issuer or its subsidiaries or affiliates.

NOTE G. RISKS AND UNCERTAINTIES

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

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NOTE G. RISKS AND UNCERTAINTIES (Continued)

In May of 2016, subsequent to other SEC-related charges and a declaration of technical default by the bond's trustee, federal prosecutors brought charges in the Southern District of New York against seven individuals for securities fraud and investment adviser fraud related to the issuance of Wakpamni Lake bonds and the misuse of funds which were to be placed in the annuity agreement. The charges strongly suggest an impairment of the securities in the amount of the face amount of the bonds plus any accrued interest. Consequently, during fiscal year 2016, the Plan made a full provision for the investment value and accrued interest of \$4,210,280 and \$77,145, respectively, of the Wakpamni Lake bonds.

Representatives of the Plan continue to participate in on-going bondholder activities related to potential recovery of the funds. Meanwhile, the investment firm which first placed the trade on the Plan's behalf, Atlantic Asset Management (the former Hughes Capital), has been placed into receivership by the SEC and a plan for distribution of the firm's remaining assets has been filed with the court by the receiver.

NOTE H. RELATED-PARTY TRANSACTIONS

An affiliate of the Plan's custodian, Northern Trust Asset Management, became an investment manager for the Plan in fiscal year 2014. At December 31, 2017, funds managed totaled \$62.3 million and comprised of cash equivalents and investments of \$1.5 million and \$60.8 million, respectively. For the year ended December 31, 2017, the Plan incurred approximately \$103,111 in management fees with this investment manager.

At December 31, 2016, funds managed totaled \$63.3 million and comprised of cash equivalents and investments of \$13.3 million and \$50.0 million, respectively. For the year ended December 31, 2016, the Plan incurred approximately \$94,630 in management fees with this investment manager.

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NOTE I. NET PENSION LIABILITY

The components of the net pension liability of WSSC at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 936,361,482	\$ 917,584,542
Plan fiduciary net position	<u>(833,825,358)</u>	<u>(744,797,952)</u>
Net pension liability	<u>\$ 102,536,124</u>	<u>\$ 172,786,590</u>
 Plan's fiduciary net position as a percentage of the total pension liability	 89.0%	 81.2%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Inflation	2.50%	2.50%
Salary increases	2.75% to 7.50%	2.75% to 7.50%
Investment rate of return	7.00%	7.00%

The mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward and projected to 2025 using Scale BB. The GAM83 tables with 10-year set forward were used for the valuation of disabled members. The actuarial assumptions used in the July 1, 2017 valuation was based on the results of an actuarial experience analysis covering 2011 through 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates 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. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

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NOTE I. NET PENSION LIABILITY (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation and the final investment return assumption are summarized in the following table:

Asset class:	2017	Approximate Portfolio Allocation
	<u> </u>	<u> </u>
U.S. Equity	5.75%	40%
Non- U.S. Equity	6.25%	25%
US Fixed Income	2.80%	30%
Real Estate	4.40%	5%
Total Weighted Average Real Return	<u>4.92%</u>	<u>100%</u>
Plus Inflation	<u>2.50%</u>	
Total Return without Adjustment	7.42%	
Risk Adjustment	<u>-0.42%</u>	
Total Expected Return	<u>7.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability 7.00% for 2017 and 2016. 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 Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

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.

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total pension liability as of December 31, 2017 and 2016 included:

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NOTE I. NET PENSION LIABILITY (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Valuation date	July 1, 2017	July 1, 2016
Measurement date	December 31, 2017	December 31, 2016
Inflation	2.50%	2.50%
Salary increased including inflation	2.75% to 7.50%	2.75% to 7.50%

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00% for 2017 and 2016, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	2017		
	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	\$ 207,446,815	\$ 102,536,124	\$ 13,785,470
	2016		
	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	\$ 278,237,611	\$ 172,786,590	\$ 83,773,683

The Plan's change in total pension liability, plan fiduciary net position and net pension liability are presented below:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2015	\$ 913,076,226	\$ 713,680,026	\$ 199,396,200
Service cost	10,576,413	-	10,576,413
Interest on total pension liability	61,935,402	-	61,935,402
Effect of assumption changes in inputs	(10,448,960)	-	(10,448,960)
Benefit payments, including refunds of contributions	(57,554,539)	(57,554,539)	-
Employer contributions	-	22,606,531	(22,606,531)
Member contributions	-	4,213,793	(4,213,793)
Investment income, net of investment expenses	-	61,852,141	(61,852,141)
Administrative expenses	-	-	-
Net Changes	4,508,316	31,117,926	(26,609,610)
Balance as of December 31, 2016	\$ 917,584,542	\$ 744,797,952	\$ 172,786,590
Service cost	10,744,773	-	10,744,773
Interest on total pension liability	63,199,824	-	63,199,824
Difference between expected and actual experience	3,474,382	-	3,474,382
Benefit payments, including refunds of contributions	(58,642,039)	(59,434,808)	792,769
Employer contributions	-	24,193,212	(24,193,212)
Member contributions	-	4,497,988	(4,497,988)
Investment income, net of investment expenses	-	119,771,014	(119,771,014)
Other	-	-	-
Net Changes	18,776,940	89,027,406	(70,250,466)
Balance as of December 31, 2017	\$ 936,361,482	\$ 833,825,358	\$ 102,536,124

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE J. RESTATEMENT OF BEGINNING NET POSITION

The Plan has restated its December 31, 2015, Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position to correct an error in accounting for plan contributions. The effect of this change was as follows:

	Net Positon December 31, 2015,	Net Increase in Net Position
As previously stated	\$ 702,506,603	\$ 30,988,084
Effect of correction of error	11,173,423	129,842
As restated	\$ 713,680,026	\$ 31,117,926

REQUIRED SUPPLEMENTARY INFORMATION

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability:					
Service cost	\$ 10,744,773	\$ 10,576,413	\$ 9,828,010	\$ 11,098,519	\$ 10,541,264
Interest on total pension liability	63,199,824	61,935,402	61,611,259	67,317,785	66,214,298
Effect of plan changes	-	-	-	-	-
Difference between expected and actual experience	3,474,382	(10,448,960)	(53,390,196)	(8,657,936)	-
Effect of assumption changes or inputs	-	-	32,257,956	-	-
Benefit payments, including refunds of contributions	(58,642,039)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Net change in pension liability	18,776,940	4,508,316	(6,365,822)	14,824,007	23,210,294
Total pension liability, beginning of the year	917,584,542	913,076,226	919,442,048	904,618,041	881,407,747
Total pension liability, end of year (a)	936,361,482	917,584,542	913,076,226	919,442,048	904,618,041
Plan Fiduciary Net Pension:					
Employer contributions	24,193,212	22,606,531	22,346,849	20,965,016	20,498,919
Member contributions	5,290,757	4,213,793	3,930,364	3,823,065	3,652,732
Investment income net of investment expenses	118,978,245	61,852,141	(10,371,882)	37,575,768	110,734,486
Benefit payments	(59,434,808)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Net change in plan fiduciary position	89,027,406	31,117,926	(40,767,520)	7,429,488	81,340,869
Plan Fiduciary Net Position-Beginning of the Year	744,797,952	713,680,026	754,447,546	747,018,058	665,677,189
Plan Fiduciary Net Position-End of Year	833,825,358	744,797,952	713,680,026	754,447,546	747,018,058
Net Pension Liability- Beginning of Year	172,786,590	199,396,200	164,994,502	157,599,983	215,730,558
Net Pension Liability- End of Year	\$ 102,536,124	\$ 172,786,590	\$ 199,396,200	\$ 164,994,502	\$ 157,599,983
Plan Fiduciary Net Position as a percentage of Total Pension Liability	89.0%	81.2%	78.2%	82.1%	82.58%
Covered Payroll	\$ 143,155,112	\$ 133,766,444	\$ 132,229,882	\$ 124,053,349	\$ 121,295,379
Net Pension Liability as a percentage of Covered Payroll	71.6%	129.2%	150.8%	133.0%	129.9%
Average Future Working Lifetime (years)	6	6	6	9	9

This schedule is presented to illustrate the requirement to show information for 10 years. The Plan presents information for available years and additional years will be displayed as they become available.

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Benefit changes – There have been no changes in benefit assumptions since the implementation of GASB 67 and 68.

Changes in assumptions – There were several changes in actuarial assumptions since the prior year, including rates of mortality, retirement, and termination; as well as inflation, salary increases, and investment return.

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2008	\$ 21,786,354	\$ 15,916,076	\$ 5,870,278	\$ 94,177,964	16.90%
2009	14,444,809	16,758,266	(2,313,457)	99,161,337	16.90%
2010	12,201,033	18,224,804	(6,023,771)	107,839,077	16.90%
2011	26,295,382	18,686,402	7,608,980	110,570,426	16.90%
2012	22,757,807	19,038,875	3,718,932	112,656,065	16.90%
2013	22,739,819	20,498,919	2,240,900	121,295,379	16.90%
2014	25,745,448	20,965,016	4,780,432	124,053,349	16.90%
2015	20,100,358	22,346,849	(2,246,491)	132,229,876	16.90%
2016	18,393,733	22,606,531	(4,212,798)	133,766,456	16.90%
2017	18,591,764	24,193,212	(5,601,448)	143,155,101	16.90%

Notes to Schedule of Contributions:

Valuation date:

Actuarially determined contribution rates are calculated as of July 1st of the fiscal year in which the contributions are reported. WSSC's policy is to complete an actuarial study at least once every two years.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (funding valuation uses a fixed rate of contribution)
Inflation	2.50%
Salary increases	2.75 to 7.50 % including inflation
Investment rate of return	7.0% net of pension plan investment expenses, including inflation
Cost of living adjustments	2.50%
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward and projected to 2025 using Scale BB. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience analysis covering 2011 through 2016.

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF INVESTMENT RETURNS**

See accompanying independent auditor's report.

<u>Year Ended December 31,</u>	<u>Net Money-weighted Rate of Return</u>
2007	7.96%
2008	-29.12%
2009	22.14%
2010	14.16%
2011	-2.48%
2012	14.10%
2013	17.31%
2014	5.21%
2015	-1.40%
2016	9.50%
2017	16.20%

This schedule is presented to illustrate the requirement to show information for 10 years.

OTHER SUPPLEMENTARY INFORMATION

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTAL SCHEDULE OF INVESTMENTS
DECEMBER 31, 2017**

Shares	Security	Terms and Maturity	Cost	Fair Value
Mutual Funds:				
1,972,716	ICM Small Company Portfolio		\$ 54,048,951	\$ 65,257,433
1,278,074	Dimensional Fund Advisors		39,689,093	39,901,471
11,662,640	Vanguard High Yield Corporate Fund		68,920,882	69,042,830
1,357,209	Vanguard Total Stock Market Index Fund		135,566,245	169,841,194
179,640	Vanguard Global EX-US R/E index Fund		19,975,034	21,952,034
1,549,166	Vanguard REIT Index Fund		27,816,360	28,179,337
TOTAL MUTUAL FUNDS			346,016,565	394,174,299

Commingled Funds:				
247,675	International Equity Trust		1,403,304	75,720,617
372,795	State Street Global Advisor		10,903,123	35,424,143
4,501,304	Wellington OIA Fund		54,337,835	66,664,310
2,718,359	JP Morgan Global Focus Fund		38,301,685	78,288,752
TOTAL COMMINGLED FUNDS			104,945,947	256,097,822

Par	Security	Terms and Maturity	Cost	Fair Value
U.S. Government and Agency Bonds:				
11,187	Federal Home Loan Mortgage Corporation	5.00% due March 1 2023	11,148	11,696
94,596	Federal Home Loan Mortgage Corporation	6.00% due October 1 2021	102,485	98,902
29,745	Federal Home Loan Mortgage Corporation	5.50% due February 1 2035	32,478	33,063
557,493	Federal National Mortgage Association	4.00% due April 1 2041	583,197	585,602
180,199	Federal National Mortgage Association	5.00% due April 1 2041	191,941	196,149
900,271	Federal National Mortgage Association	3.0% due October 1 2044	926,998	905,083
685,512	Federal National Mortgage Association	3.5% due November 1 2045	727,928	709,550
971,762	Federal National Mortgage Association	5.0% due June 1 2039	1,006,533	1,070,184
634,219	Federal National Mortgage Association	3.5% due January 1 2046	652,307	651,513
505,769	Federal National Mortgage Association	6.0% due November 1 2039	540,225	568,405
148,500	Federal National Mortgage Association	4.50% due October 1 2040	157,681	159,208
425,644	Federal National Mortgage Association	6.00% due August 1 2016	450,318	437,251
207,374	Federal National Mortgage Association	4.5% due July 1 2046	227,722	220,804
39,040	Federal National Mortgage Association	3.5% due December 1 2045	41,199	40,104
398,024	Federal National Mortgage Association	3.5% due February 1 2046	420,972	408,877
454,740	Federal National Mortgage Association	3.5% due June 1 2046	477,762	467,141
238,953	Federal National Mortgage Association	3.5% due June 1 2046	250,770	245,469
9,513	Federal National Mortgage Association	5.50% due August 1 2019	9,531	9,628
37,192	Federal National Mortgage Association	6.00% due January 1 2037	37,488	41,618
61,262	Federal National Mortgage Association	5.50% due May 1 2037	65,665	68,191
40,827	Federal National Mortgage Association	5.50% due June 1 2038	41,273	45,061
562,545	Federal National Mortgage Association	5.50% due November 1 2038	595,770	635,669
14,861	Federal National Mortgage Association	5.50% due March 1 2038	15,163	16,394
265,866	Federal National Mortgage Association	4.00% due November 1 2042	286,471	279,226
426,600	Federal National Mortgage Association	4.00% due March 1 2041	454,062	448,035
749,402	Federal National Mortgage Association	4.00% due November 1 2043	806,544	791,609
532,992	Federal National Mortgage Association	4.00% due June 1 2041	567,637	559,888
207,042	Federal National Mortgage Association	4.50% due June 1 2044	227,391	223,428
1,170,287	Federal National Mortgage Association	3.00% due March 1 2044	1,206,856	1,176,491
483,385	Federal National Mortgage Association	4.00% due January 1 2047	511,482	505,823
264,511	Federal National Mortgage Association	3.00% due October 1 2046	266,950	264,645
369,248	Federal National Mortgage Association	3.50% due February 1 2047	382,114	379,317
511,494	Federal National Mortgage Association	4.00% due March 1 2047	538,987	535,197
548,364	Federal National Mortgage Association	4.00% due May 1 2047	577,581	573,902
489,915	Federal National Mortgage Association	4.00% due June 1 2047	516,095	512,726
259,199	Federal National Mortgage Association	3.00% due February 1 2047	261,345	259,330
542,863	Federal National Mortgage Association	3.50% due May 1 2047	559,404	557,667
252,374	Federal National Mortgage Association	3.00% due August 1 2046	254,661	252,502
317,417	Federal National Mortgage Association	3.50% due January 1 2047	328,576	326,073
403,913	Federal National Mortgage Association	3.50% due March 1 2047	418,113	414,928
563,838	Federal National Mortgage Association	4.00% due June 1 2047	596,699	590,098
575,678	Federal National Mortgage Association	4.00% due August 1 2047	605,946	602,549
594,330	Federal National Mortgage Association	3.50% due September 1 2047	612,044	610,570
3,239	Government National Mortgage Association	8.00% due September 15 2024	3,352	3,467
1,211	Government National Mortgage Association	8.00% due August 15 2026	1,233	1,323
220,000	Petroleos	5.375% due March 13 2022	218,781	233,200
418,000	United States Treasury Notes	5.528% due April 15 2028	697,945	836,399
185,000	United States Treasury Notes	3.875% due April 15 2029	329,395	378,428
555,000	United States Treasury Notes	2.375% due January 15 2025	742,471	827,618
297,000	United States Treasury Notes	2.00% due January 1 2026	330,878	415,175
430,000	United States Treasury Notes	1.75% due January 15 2028	552,782	569,034
340,000	United States Treasury Notes	2.25% due August 15 2046	338,466	361,022
564,000	United States Treasury Notes	1.375% due December 15 2019	560,479	565,687
6,005,000	United States Treasury Notes	1.875% due December 15 2020	5,989,357	5,987,640
4,525,000	United States Treasury Notes	2.00% due November 30 2022	4,497,834	4,483,813
469,000	United States Treasury Notes	2.375% due January 15 2027	598,240	671,157
815,000	United States Treasury Notes	2.25% due October 31 2024	808,644	811,244
530,000	United States Treasury Notes	2.75% due August 15 2047	527,331	530,663
320,000	United States Treasury Notes	2.50% due January 15 2029	426,366	445,963

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTAL SCHEDULE OF INVESTMENTS
DECEMBER 31, 2017**

Par	Security	Terms and Maturity	Cost	Fair Value
U.S. Government and Agency Bonds:				
333,000	United States Treasury Notes	2.375% due February 15 2040	\$ 406,254	\$ 494,501
434,000	United States Treasury Notes	2.125% due February 15 2041	549,892	640,500
338,000	United States Treasury Notes	0.75% due February 15 2042	340,080	372,559
184,000	United States Treasury Notes	0.625% due February 15 2043	175,074	193,160
904,000	United States Treasury Notes	1.375% due February 15 2044	1,006,398	1,104,534
487,000	United States Treasury Notes	0.75% due February 15 2045	469,471	512,681
156,000	United States Treasury Notes	1.041% due February 15 2046	169,885	173,485
121,000	United States Treasury Notes	1.375% due January 15 2020	138,497	141,634
1,097,000	United States Treasury Notes	.625% due January 15 2024	1,123,261	1,179,987
1,906,000	United States Treasury Notes	0.125% due April 15 2019	1,953,004	2,001,901
1,319,000	United States Treasury Notes	.25% due January 15 2025	1,312,999	1,361,461
593,000	United States Treasury Notes	1.375% due July 15 2018	668,023	685,866
1,880,000	United States Treasury Notes	.125% due April 15 2020	1,948,485	1,976,143
785,000	United States Treasury Notes	.375% due January 15 2027	784,165	795,811
616,000	United States Treasury Notes	.125% DUE April 15 2022	621,065	620,384
1,037,000	United States Treasury Notes	.375% due July 15 2023	1,032,607	1,107,397
697,000	United States Treasury Notes	0.125% due July 15 2022	744,618	746,613
1,359,000	United States Treasury Notes	0.125% due April 15 2021	1,404,593	1,408,537
1,236,000	United States Treasury Notes	0.125% due January 15 2022	1,338,176	1,341,591
1,113,000	United States Treasury Notes	0.125% due January 15 2023	1,188,877	1,180,148
93,000	United States Treasury Notes	1.25% due July 15 2020	103,031	108,612
924,000	United States Treasury Notes	0.648% due January 15 2026	949,949	974,557
1,044,000	United States Treasury Notes	1.125% due January 15 2021	1,152,027	1,212,336
327,000	United States Treasury Notes	.133% due April 15 2018	343,610	348,518
1,249,000	United States Treasury Notes	0.627% due July 15 2021	1,396,945	1,393,211
805,000	United States Treasury Notes	0.125% due July 15 2026	810,194	809,400
846,000	United States Treasury Notes	0.125% due July 15 2024	830,838	868,515
1,129,000	United States Treasury Notes	0.375% due July 15 2025	1,118,874	1,176,113
TOTAL U.S. GOVERNMENT AND AGENCY BONDS			58,249,957	59,541,556

Par	Security	Terms and Maturity	Cost	Fair Value
Corporate Bonds:				
160,000	Abbott Labs	2.55% due March 15 2022	159,734	158,349
75,000	Abbvie Inc.	4.70% due May 14 2045	80,905	84,096
25,000	Abbvie Inc.	4.50% due May 14 2035	24,827	27,459
45,000	ACE INA Holdings Inc.	2.30% due November 3 2020	44,975	44,928
30,000	Actavis Funding Services	4.55% due March 15 2035	30,410	31,745
70,000	AERCAP Ireland Cap	3.65% due July 21 2027	69,646	69,276
95,000	AERCAP Ireland Cap	3.50% due January 15 2025	94,468	94,168
25,000	Agrium Inc.	4.90% due June 1 2043	25,593	27,894
50,000	Alibaba Group Holding	4.20% due December 6 2047	49,916	52,059
54,000	Allied World	5.50% due November 15 2020	59,464	57,571
110,000	Altria Group Inc.	5.375% due January 31 2044	121,492	133,812
40,000	Altria Group Inc.	4.50% due May 2 2043	43,118	43,463
140,000	Amazon Inc.	4.05% due August 22 2047	140,881	150,880
80,000	AL ECON Settlement	3.163% due September 15 2025	80,000	80,891
130,000	Amazon Inc.	4.25% due August 22 2057	135,292	141,816
205,000	Amerada Hess Corp.	7.125% due March 15 2033	235,961	247,314
140,000	American Express Co.	1.986% due August 1 2022	140,000	139,832
140,000	American Honda Financial	1.632% due July 20 2020	140,000	140,302
115,000	American Tower Corp.	3.125% due January 15 2027	111,185	110,716
110,000	American Tower Corp.	3.00% due June 15 2023	109,716	109,712
125,000	American Tower Corp.	3.60% due January 15 2028	124,345	124,265
70,000	Amgen Inc.	4.40% due May 1 2045	71,923	76,163
105,000	Anglo American Cap PLC	3.75% due April 10 2022	107,717	106,697
30,000	Anglo American Cap PLC	3.625% due September 11 2024	29,984	29,856
60,000	Anglo American Cap PLC	4.00% due September 11 2027	59,975	59,599
155,000	Anheuser-Busch	4.90% due February 1 2046	162,325	179,643
130,000	Anthem Inc.	4.375% due December 1 2047	129,999	138,221
75,000	AT & T Inc.	2.302% due February 14 2023	75,000	75,585
335,000	AT & T Inc.	5.15% due February 14 2050	335,106	339,175
185,000	AT & T Inc.	4.80% due June 15 2044	195,897	182,980
60,000	AT & T Inc.	4.50% due May 15 2035	58,270	59,644
105,000	Ares Capitl Corp.	3.50% due February 10 2023	104,917	103,443
285,000	Arizona PUB SVC Co.	4.35% due November 15 2045	289,358	318,522
200,000	Australia & New	4.50% due March 19 2024	204,992	209,825
70,000	Autozone Inc.	3.75% due June 1 2027	69,997	71,044
165,000	Aviation Capital Group	3.50% due November 1 2027	162,307	161,709
55,000	Baker Hughes	2.773% due December 15 2022	55,000	54,931
80,000	Baker Hughes	4.08% due December 15 2047	80,000	81,365
205,000	Bank of America Corp.	4.20% due August 26 2024	214,641	215,880
115,000	Bank of America Corp.	5.00% due January 21 2044	124,560	138,918
104,000	Bank of America Corp.	4.50% due March 3 2026	107,552	111,010
45,000	Bank of America Corp.	2.542% due October 21 2022	45,780	45,889
150,000	Bank of America Corp.	4.00% due January 22 2025	149,025	156,054
135,000	Bank of America Corp.	2.365% due April 24 2023	135,000	137,171

**WASHINGTON SUBURBAN SANITARY COMMISSION
EMPLOYEES' RETIREMENT PLAN
SUPPLEMENTAL SCHEDULE OF INVESTMENTS
DECEMBER 31, 2017**

Par	Security	Terms and Maturity	Cost	Fair Value
Corporate Bonds:				
90,000	Bank of America Corp.	2.0225% due July 21 2021	\$ 90,000	\$ 90,428
45,000	Bank Nova Scotia	2.155% due March 7 2022	45,079	45,136
140,000	Bank Nova Scotia	4.65% due December 31 2049	140,000	139,167
70,000	Banco Santander	3.80% due February 23 2028	69,677	70,010
120,000	Barclays	4.337% due January 1 2028	124,789	124,196
65,000	BAT Capital Corp.	2.296% due August 15 2022	65,000	65,777
55,000	Baxalta Inc	3.60% due June 23 2022	56,554	56,251
130,000	BB & T	1.607% due February 1 2021	130,000	129,388
95,000	Beam Inc.	3.25% due June 15 2023	92,920	95,335
85,000	Blackstone Holdings	3.15% due October 2 2027	84,653	83,583
120,000	BNP Paribas	4.375% due September 28 2025	119,626	125,390
160,000	BNP Paribas	4.625% due March 13 2027	159,848	170,685
215,000	Boardwalk	5.95% due June 1 2026	233,409	239,822
35,000	BPCE	5.15% due July 21 2024	37,818	37,951
165,000	BPCE	3.50% due October 23 2027	164,393	162,359
200,000	Braskem Neth	4.50% due January 10 2028	197,990	196,760
100,000	Brixmor Operating Partnership	3.85% due February 1 2025	99,228	99,867
75,000	Broadcom Corp.	2.375% due January 15 2020	74,831	74,493
85,000	Broadcom Corp.	3.50% due January 15 2028	84,962	81,031
115,000	BSTN Properties LTD.	3.20% due January 15 2025	114,721	114,634
70,000	Bunge LTD Financial Corp.	3.75% due September 25 2027	69,815	68,991
145,000	California ST FLTG	2.193% due April 1 2047	145,000	145,357
30,000	Canadian National RES LTD	6.75% due February 1 2039	37,553	38,626
250,000	Capital Finaicail Corp.	4.20% due October 29 2025	252,541	257,206
95,000	Capital Finaicail Corp.	3.75% due March 9 2027	93,537	96,014
70,000	Capital Finaicail Corp.	4.20% due October 30 2020	70,000	69,978
35,000	Capital Finaicail Corp.	3.375% due February 15 2023	35,557	35,345
70,000	Capital Finaicail Corp.	2.527% due January 30 2023	70,000	70,400
80,000	Celgene Corp.	5.25% due August 15 2043	85,835	92,364
55,000	Celulosa Arauco	5.50% due November 2 2047	54,839	57,200
50,000	Cenovus Energy Inc.	6.75% due November 15 2039	57,217	59,874
35,000	Centerpoint Energy	2.50% due September 1 2022	34,990	34,473
80,000	Charter	4.464% due July 23 2022	83,461	83,468
115,000	Charter	6.484% due October 23 2045	127,852	134,082
230,000	Church & Dwight Inc.	1.517% due January 25 2019	230,000	229,931
105,000	CIGNA Corp.	3.25% due April 15 2025	102,584	105,512
195,000	Citigroup	4.125% due July 25 2028	199,696	200,978
220,000	Citigroup	2.5219% due May 17 2024	220,761	223,384
120,000	Citigroup	6.675% due September 13 2043	150,754	166,075
150,000	Citigroup	2.6913% due July 24 2023	150,000	151,223
125,000	Citigroup	3.875% due March 26 2025	122,983	127,956
115,000	Citigroup	4.45% due September 29 2027	114,835	121,751
320,000	Citigroup	3.137% due February 10 2048	320,525	322,525
95,000	Citrix System Inc.	4.50% due December 1 2027	94,793	96,415
135,000	Comcast Corp.	3.969% due November 1 2047	137,732	139,466
125,000	Constellation	4.75% due December 1 2025	134,478	137,332
80,000	CR Suisse AG	3.25% due October 4 2024	79,707	79,462
80,000	CVS Health Corp.	2.75% due December 1 2022	80,746	78,807
100,000	D R Horton	5.75% due August 15 2023	111,986	112,007
40,000	Deutsche Telekom	2.225% due January 1 2020	39,976	39,810
60,000	Diamond 1st Financial Corp.	5.45% due June 15 2023	64,838	64,838
75,000	Diamond 1st Financial Corp.	8.35% due July 15 2046	95,010	96,641
240,000	Discover Financial Service	4.10% due February 9 2027	239,786	245,839
75,000	Discovery Communications	2.95% due March 20 2023	74,906	74,226
60,000	Dominion Gas Holdings	4.60% due December 15 2044	58,547	66,011
120,000	Duke Energy Corp.	2.65% due September 1 2026	112,488	114,980
45,000	Duke Energy FLA	3.40% due October 1 2046	44,747	43,522
80,000	EBAY Inc.	3.60% due June 5 2027	79,934	79,302
60,000	Eastman Chemical Co.	4.65% due October 15 2044	58,686	65,450
115,000	Enbridge Inc.	2.90% due July 15 2022	114,829	114,304
65,000	Energy Transfer	3.60% due February 1 2023	63,425	65,068
35,000	Energy Transfer	4.20% due April 15 2027	34,925	34,818
100,000	EPR Properties	4.50% due April 1 2025	99,638	102,342
110,000	EPR Properties	4.50% due June 1 2027	110,241	110,626
45,000	ERAC USA Finance Co.	7.00% due October 15 2037	55,816	60,176
20,000	ERAC USA Finance LLC	4.50% due February 15 2045	19,770	20,545
29,000	Exelon Corp.	5.625% due June 15 2035	31,657	35,641
190,000	FED EX Corp.	4.75% due November 15 2045	188,250	212,758
60,000	FMG Residence	9.75% due March 1 2022	69,975	66,390
35,000	Ford Motor Co. Del	7.45% due July 16 2031	45,950	45,752
70,000	Ford Motor Credit Co.	2.350% due September 1 2020	70,529	70,693
35,000	Fortive Corp.	3.15% due June 15 2026	35,557	34,765
255,000	General Motor Financial Co.	6.25% due October 2 2043	298,161	302,040
25,000	General Motor Financial Co.	5.20% due April 1 2045	25,647	26,416
75,000	General Motor Financial Co.	2.909% due January 14 2022	75,000	76,821

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Par	Security	Terms and Maturity	Cost	Fair Value
Corporate Bonds:				
35,000	Glencore Funding LLC	4.00% due April 16 2025	\$ 35,656	\$ 35,351
135,000	Glencore Funding LLC	4.00% due March 27 2027	133,672	135,542
85,000	Glencore Funding LLC	3.875% due October 27 2027	84,277	83,875
65,000	Gold Corp Inc	3.70% due March 15 2023	67,834	66,585
155,000	Goldman Sachs	4.80% due July 8 2044	166,589	176,786
335,000	Goldman Sachs	6.75% due October 1 2037	419,789	435,471
130,000	Goldman Sachs	5.75% due January 24 2022	149,028	145,686
40,000	Goldman Sachs	2.862% due April 26 2022	40,000	40,465
50,000	Goldman Sachs	5.95% due January 15 2027	58,348	58,409
160,000	Goldman Sachs	2.364% due July 24 2023	160,000	161,374
110,000	Goldman Sachs	3.272% due September 29 2025	110,000	109,557
85,000	Goldman Sachs	6.45% due May 1 2036	100,759	101,301
25,000	Goldman Sachs	5.15% due May 22 2045	28,290	28,991
130,000	Goldman Sachs	5.15% due October 31 2022	130,000	130,169
225,000	GS Mortgage Service	3.707% due August 10 2044	235,362	232,703
40,000	Grainger W W Inc.	4.60% due June 15 2045	39,968	42,825
50,000	HCP Inc.	3.875% due August 15 2024	49,266	49,975
210,000	HSBC Holdings PLC.	5.25% due March 14 2044	216,246	246,253
170,000	HSBC Holdings PLC.	4.041% due March 13 2028	177,354	177,164
165,000	HSBC Holdings PLC.	6.00% due December 31 2049	172,013	173,456
40,000	Halliburton Co.	3.80% due November 15 2025	39,888	40,636
105,000	Hess Corp.	6.00% due January 15 2040	110,706	116,031
90,000	Hewlett Packard	4.4% due October 15 2022	94,421	94,582
125,000	Hewlett Packard	6.35% due October 15 2045	134,254	132,333
105,000	Hewlett Packard	2.10% due October 4 2019	104,994	104,281
160,000	Home Depot Inc.	2.00% due April 1 2021	159,430	158,728
55,000	Humana Inc.	4.625% due December 1 2042	58,991	60,012
110,000	Intercontinental	3.10% due September 15 2027	109,771	109,988
145,000	International Paper	4.40% due August 15 2047	133,087	151,519
310,000	JPMBB Commercial Mortgage	3.694% due March 15 2050	319,299	324,227
513,087	JPMBB Commercial Mortgage	3.046% due April 15 2047	532,079	518,058
70,000	JP Morgan Chase	5.30% due December 26 2049	70,000	72,597
70,000	JP Morgan Chase	4.625% due December 31 2040	67,900	68,425
95,000	JP Morgan Chase	2.2674% due April 25 2023	95,000	96,067
145,000	JP Morgan Chase	4.25% due October 1 2027	154,245	154,114
125,000	JP Morgan Chase	5.0% due December 29 2049	123,847	127,173
60,000	KLA-Tencor Corp	4.125% due November 1 2021	59,990	62,591
40,000	KLA-Tencor Corp	5.65% due November 1 2034	39,906	46,220
70,000	Keysight	4.60% due April 6 2027	69,911	73,675
75,000	Kinder Morgan	5.95% due February 15 2018	84,100	75,349
130,000	Kinder Morgan	5.55% due June 1 2045	138,667	142,271
70,000	Kinder Morgan	5.05% due February 15 2046	66,186	72,656
200,000	L3 Technologies	3.85% due December 15 2026	201,073	205,661
60,000	LAB Corp.	3.25% due September 1 2024	59,865	60,093
115,000	Leggett & Platt	3.50% due November 15 2027	114,242	113,884
65,000	Lincoln National Corp.	8.75% due July 1 2019	85,191	70,970
35,000	Lloyds Bank	5.30% due December 1 2045	35,352	41,480
95,000	Lorillard TOB Co.	8.125% due June 23 2019	116,744	102,758
120,000	Magellan Health Inc.	4.40% due September 22 2024	119,771	120,781
165,000	Manulife Financial Corp.	4.061% due February 24 2032	167,871	166,245
100,000	Martin Marietta	4.25% due December 15 2047	99,681	98,947
40,000	Masco Corp.	4.50% due May 15 2047	39,715	40,700
60,000	Maxim Integrated	3.45% due June 15 2027	59,954	60,286
95,000	Merrill Lynch & Co.	6.11% due January 29 2037	119,162	121,453
29,000	Met Life Inc.	6.40% due December 15 2036	31,683	33,359
220,000	Met Life Inc.	7.717% due February 15 2019	275,323	233,755
60,000	Met Life Global Funding	11.75% due September 19 2019	59,959	59,569
165,000	Mitsubishi UFJ Financial Group	2.154% due July 25 2022	165,000	165,613
95,000	Mizuho Financial Group Inc.	3.477% due April 12 2026	97,191	95,785
230,000	Molson Coors	1.9% due March 15 2019	229,290	228,974
80,000	Molson Coors	5.00% due May 1 2042	93,123	90,723
105,000	Molson Coors	3.00% due July 15 2026	99,573	102,772
125,000	Morgan Stanley	3.101% due December 15 2047	130,337	126,783
295,000	Morgan Stanley	3.658% due October 15 2028	305,152	306,913
235,000	Morgan Stanley	4.00% due July 23 2025	245,935	246,057
140,000	Morgan Stanley	2.417% due May 8 2024	140,000	142,944
165,000	Morgan Stanley	2.292% due July 22 2022	165,000	166,325
115,000	Morgan Stanley	2.764% due October 24 2023	117,215	118,272
75,000	Morgan Stanley	2.542% due January 20 2022	75,000	76,241
83,000	Morgan Stanley	4.30% due January 27 2045	82,010	89,522
50,000	Morgan Stanley Dean Witter & Co.	5.00% due November 24 2025	53,223	54,712
75,000	Mylan Inc.	5.40% due November 29 2043	78,577	81,751
155,000	Nextera Energy Cap.	4.80% due December 1 2077	155,000	155,388
100,000	Nordea Bank AG	5.50% due September 29 2049	100,240	102,625
75,000	Northrop Grumman	4.03% due October 15 2047	74,883	78,383

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Par	Security	Terms and Maturity	Cost	Fair Value
Corporate Bonds:				
85,000	Omega Healthcare	5.25% due January 15 2026	\$ 86,991	\$ 88,083
45,000	Omega Healthcare	4.75% due January 15 2028	44,540	44,607
70,000	Packging Corp.	3.40% due December 15 2027	69,770	70,174
80,000	PA Electric Co.	3.25% due March 15 2028	79,886	78,716
155,000	Penske Truck	2.70% due March 14 2023	154,647	152,305
85,000	Pernod Ricard	4.25% due July 15 2022	89,018	90,014
105,000	Phillips 66	4.65% due November 15 2034	103,681	115,043
145,000	PNC Financial Services	4.85% due May 29 2049	138,451	147,900
130,000	PPL Capital Funding Inc.	4.00% due September 15 2047	128,430	133,580
65,000	Protective Life	8.45% due October 15 2039	95,710	97,722
40,000	Protective Life	2.615% due August 22 2022	40,000	39,429
80,000	Prudential Financial Inc.	2.35% due August 15 2019	80,744	80,054
14,568	Residential Funding Mortgage Secutities	5.31% due February 25 2036	14,413	14,295
100,000	RPM International Inc.	4.25% due January 15 2048	99,997	99,417
37,000	Reins Group American	4.7% due September 15 2023	39,540	39,690
130,000	Reynolds American Inc.	5.85% due August 15 2045	139,586	162,340
30,000	Reynolds American Inc.	4.45% due June 12 2025	29,909	31,987
55,000	RIO Tinto Financial USA	7.125% due July 15 2028	73,818	72,649
105,000	Roper Industries	3.85% due December 15 2025	109,748	108,402
100,000	Royal Bank of Canada	4.65% due January 27 2026	99,786	107,762
195,000	Royal Bank of Scotland	2.886% due May 15 2023	195,733	197,136
130,000	Royal Bank of Canada	1.610% due October 26 2020	130,000	129,862
190,000	Santander UK Group	4.75% due September 15 2025	198,157	199,194
115,000	Schwab Corp.	5.00% due December 31 2049	115,000	115,437
115,000	Shire Acquisitions	3.20% due September 15 2021	109,695	112,442
150,000	Siemens	1.7% due September 15 2021	149,864	145,918
195,000	Siemens	2.21% due March 16 2022	195,000	196,755
60,000	Simon Property Group	2.75% due June 1 2023	59,891	59,817
40,000	Smithfield Foods	2.65% due October 3 2021	39,874	39,469
65,000	Smucker J M Co.	3.375% due December 15 2027	64,978	65,086
35,000	Societe Generale	4.00% due January 12 2027	33,911	35,494
225,000	SP Powerassets Ltd.	3.00% due September 26 2027	224,692	222,249
180,000	Southern Power Co.	4.95% due December 15 2046	180,154	197,440
130,000	Stanley Black & Steps CPN	1.622% due November 17 2018	130,000	129,523
85,000	Suncor Energy Inc.	3.60% due December 1 2024	84,350	86,867
35,000	Sunoco Logistics	4.25% due April 1 2024	35,620	35,682
130,000	Sunoco Logistics	3.9% due July 15 2026	125,537	127,214
115,000	Suntory Holdings LTD.	2.55% due September 29 2019	114,807	113,574
85,000	Sweden Bank	2.273% due March 14 2022	85,000	85,821
220,000	TD Ameritrade Holdings	2.95% due April 1 2022	222,174	222,635
70,000	Time Warner Inc.	4.85% due July 15 2045	80,213	73,516
70,000	Toronto Dominion	3.625% due September 15 2031	69,878	69,819
125,000	Transcanada Pipelines LTD.	3.625% due May 15 2067	118,750	114,465
70,000	21st Century Fox	7.25% due May 18 2018	81,964	71,393
155,000	UBS Group Funding	2.628% due May 23 2023	155,000	157,506
105,000	UBS Group Funding	4.253% due March 23 2020	105,000	110,637
120,000	US Bank Corp.	5.625% due December 29 2049	120,000	129,906
80,000	Unitedhealth Group	1.737% due October 15 2020	80,000	79,905
125,000	Vale Overseas LTD	4.375% due January 11 2022	124,688	129,250
45,000	Ventas Realty LTD.	5.70% due September 30 2043	49,584	54,771
65,000	Ventas Realty LTD.	3.25% due October 15 2026	64,877	63,291
70,000	Verizon	4.15% due March 15 2024	76,693	73,625
6,000	Verizon	3.376% due February 15 2025	6,059	6,023
125,000	Verizon	5.012% due August 21 2054	127,451	127,999
137,000	Vulcan Materials Co.	4.50% due April 1 2025	143,317	145,988
65,000	Vulcan Materials Co.	4.50% due June 15 2047	66,145	66,366
25,000	Walgreens Boots	3.80% due November 18 2024	24,532	25,531
55,000	Wellpoint Inc.	2.25% due August 15 2019	55,413	54,897
60,000	Wells Fargo & Co.	7.98% due March 29 2049	66,240	60,972
70,000	Wells Fargo & Co.	3.90% due May 1 2045	69,552	72,606
110,000	Wells Fargo & Co.	4.750% due December 7 2046	109,791	122,940
90,000	Welltower Inc.	4.25% due April 1 2026	93,427	94,219
140,000	Wisconsin State General Fund	3.154% due May 1 2027	140,000	141,957
65,000	Zimmer Biomet	3.55% due April 1 2025	64,847	64,957
TOTAL CORPORATE BONDS			28,494,795	28,929,629

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<u>Shares</u>	<u>Security</u>	<u>Terms and Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stock :				
7,940	Abiomed Inc.		\$ 970,673	\$ 1,488,035
7,300	Activision Blizzard Inc.		458,049	462,236
1,520	Adobe Systems Inc.		138,978	266,365
4,000	Alibaba Group Holding Ltd		712,148	689,720
2,740	Align Technology Inc.		655,954	608,801
780	Alphabet Inc.		566,494	816,192
1,595	Amazon Inc.		1,180,212	1,865,305
8,990	Apple Inc.		1,168,013	1,521,378
21,600	Applied Materials Inc.		816,314	1,104,192
5,700	APTIV Plc		388,019	483,531
580	Biogen Inc.		154,746	184,771
2,180	Broadcom Limited		562,988	560,042
10,820	CME Group Inc.		1,083,851	1,580,261
6,700	Caterpillar Inc.		938,268	1,055,786
18,200	Citigroup Inc.		1,104,114	1,354,262
20,100	Continental Resources Inc.		639,284	1,064,697
6,000	Deere & Co.		697,369	939,060
1,900	Diamondback Energy Inc.		229,353	239,875
8,560	EOG Resources Inc.		752,761	923,710
8,780	Facebook Inc.		1,068,490	1,549,319
4,280	FedEx Corp.		868,138	1,068,031
3,400	Gilead Sciences Inc.		282,496	243,576
4,260	Home Depot Inc.		423,153	807,398
10,690	J. B. Hunt Transport Services Inc		983,700	1,229,136
3,700	Illumina Inc.		730,644	808,413
18,400	Intel Corp.		702,782	849,344
10,216	Microchip Technology Inc.		675,370	897,782
24,200	Microsoft Corp.		1,594,806	2,070,068
3,750	Middleby Corp.		472,789	506,063
17,050	Monster Beverage Corp.		824,720	1,079,095
26,300	Morgan Stanley Common Stock		1,127,401	1,379,961
6,120	Netflix Inc.		882,653	1,174,795
7,200	Parker-Hannifin Corp.		1,065,045	1,436,976
12,800	Paycom Software Inc.		948,033	942,336
4,550	Pioneer Natural Resources Co.		706,569	786,468
7,890	Red Hat Inc.		670,221	947,589
35,580	Schwab Charles Inc.		1,312,837	1,827,745
6,460	Splunk Inc.		450,685	535,146
12,540	Tapestry Inc.		460,128	554,644
10,000	Teradyne Inc.		334,512	418,700
1,130	Tesla Inc.		390,205	351,826
2,400	Thor Industries Inc.		363,640	361,728
7,200	United Rentals Inc.		912,189	1,237,752
5,290	UnitedHealth Group Inc.		721,428	1,166,233
12,200	Veeva Systems Inc.		541,459	674,416
12,180	Visa Inc.		1,054,351	1,388,764
6,600	Wabco Holdings Inc.		873,669	947,100
15,400	XPO Logistics Inc.		877,425	1,410,486
TOTAL COMMON STOCK			35,537,126	45,859,109
<u>Par</u>	<u>Security</u>	<u>Terms and Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Investment Contracts with Insurance Company:				
\$ 47,320,876	Investment Contract with Prudential Financial		47,320,876	47,909,075
<u>Units</u>	<u>Security</u>	<u>Terms and Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Limited partnership units:				
402,000	Lehman Brothers		-	18,492
<u>Units</u>	<u>Security</u>	<u>Terms and Maturity</u>	<u>Cost</u>	<u>Fair Value</u>
Other fixed holdings:				
400	Peachtree Cable Association Ltd. Limited Partnership Units		4,000	20,000
TOTAL INVESTMENTS			\$ 620,569,266	\$ 832,549,982