



**Delaware Public Employees'
Retirement System
State Employees' Pension Plan**

Schedule of Employer Allocations and
Schedule of Pension Amounts by Employer
June 30, 2016

Issuance Date: June 6, 2017

**Delaware Public Employees' Retirement System
State Employees' Pension Plan**

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Independent Auditor's Report

The Members of the Board of Pension Trustees
Delaware Public Employees' Retirement System
Dover, DE

Report on the Schedules

We have audited the accompanying schedule of employer allocations of the State Employees' Pension Plan as of and for the year ended June 30, 2016, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) included in the accompanying schedule of pension amounts by employer of the State Employees' Pension Plan as of and for the year ended June 30, 2016, and the related notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the schedule of employer allocation and specified column totals included in the schedule of pension amounts by employer, 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.



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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions for the total of all participating entities for the State Employees' Pension Plan as of and for the year ended June 30, 2016 in accordance with U.S. generally accepted accounting principles.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Delaware Public Employees' Retirement System, which include the State Employees' Pension Plan, as of and for the year ended June 30, 2016, and our report thereon, dated November 21, 2016, expressed an unmodified opinion on those financial statements.

Supplementary and Other Information

The schedule of allocation of PRI contribution has not been subject to the auditing procedures applied in the audit of the schedule of employer allocations and the schedule of pension amounts by employer and, accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of Delaware Public Employees' Retirement System management, the Board of Pension Trustees, State Employees' Pension Plan employers, and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017 on our consideration of the State Employees' Pension Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 State Employees' Pension Plan's internal control over financial reporting and compliance.

BDO USA, LLP

May 26, 2017

Delaware Public Employees' Retirement System
State Employees' Pension Plan
Schedule of Employer Allocations
As of and for the year ended June 30, 2016

| Reporting Unit | Employer contributions | Employer's proportionate share | |
|--|---------------------------|--------------------------------------|----------|
| State of Delaware Entities: | | | |
| Academia Antonia Alonso Charter | \$ 143,239 | 0.0784 | % |
| Academy of Dover Charter | 121,924 | 0.0667 | |
| Campus Community Charter | 190,678 | 0.1044 | |
| DE Academy Public Safety Charter | 162,547 | 0.0890 | |
| DE Aglands | 9,141 | 0.0050 | |
| DE College Prep Charter | 94,532 | 0.0517 | |
| DE Military Academy Charter | 266,831 | 0.1460 | |
| Delaware Design-Lab | 62,252 | 0.0341 | |
| Delaware Department of Transportation | 6,508,250 | 3.5621 | |
| Delaware Economic Development Office | 244,967 | 0.1341 | |
| Delaware Solid Waste Authority | 519,277 | 0.2842 | |
| Delaware State Education Association | 10,205 | 0.0056 | |
| Delaware State Housing Authority | 69,271 | 0.0379 | |
| Delaware State University | 4,639,186 | 2.5391 | |
| Delaware STEM Academy | 14,732 | 0.0081 | |
| Early College High School Charter | 85,941 | 0.0470 | |
| East Side Charter | 296,467 | 0.1623 | |
| Family Foundations Charter | 365,524 | 0.2001 | |
| First State Military Academy | 74,127 | 0.0406 | |
| First State Montessori Academy Charter | 105,534 | 0.0578 | |
| Freire Charter School | 70,434 | 0.0385 | |
| Gateway Lab Charter | 167,387 | 0.0916 | |
| General Gov't (State of DE) | 158,304,685 | 86.6441 | |
| Great Oaks Charter School | 74,068 | 0.0405 | |
| Kumba Charter | 284,851 | 0.1559 | |
| Las America Aspira Charter | 320,840 | 0.1756 | |
| Lottery | 242,448 | 0.1327 | |
| MOT Charter | 434,928 | 0.2380 | |
| Moyer Academy Charter | - | 0.0000 | |
| Newark Charter | 1,175,501 | 0.6434 | |
| Odyssey Charter | 504,157 | 0.2759 | |
| Pencader Charter | - | 0.0000 | |
| Positive Outcomes Charter | 130,635 | 0.0715 | |
| Prestige Charter | 150,889 | 0.0826 | |
| Providence Creek Charter | 266,745 | 0.1460 | |
| Reach Charter | - | 0.0000 | |
| Sussex Academy Charter | 275,448 | 0.1508 | |
| The Charter School of Wilmington | 503,089 | 0.2754 | |
| The Delaware Met Charter | 39,611 | 0.0217 | |
| Thomas Edison Charter | 348,903 | 0.1910 | |
| | 177,279,244 | 97.0294 | |
| University of Delaware | 5,427,523 | 2.9706 | |
| Total | \$ 182,706,767 | 100 | % |

PRI Transfer (Note 4) \$ 38,778,205

See accompanying notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer.

Delaware Public Employees' Retirement System

State Employees' Pension Plan

Schedule of Pension Amounts by Employer

As of and for the year ended June 30, 2016

| Reporting Unit | Net Pension Liability | Deferred outflows of resources | | | Deferred inflows of resources | | | Net | | | Pension expense excluding that attributable to employer-paid member contributions | | |
|--|-----------------------|---|------------------------|-----------------------|--------------------------------------|--|------------------------|---|-----------------------|-------------------------------------|---|---|---|
| | | Net difference between projected and actual investment earnings on pension plan investments | Changes of assumptions | Changes in proportion | Total deferred outflows of resources | Differences between expected and actual experience | Changes of assumptions | Net difference between projected and actual investment earnings on pension plan investments | Changes in proportion | Total deferred inflows of resources | Proportionate share of allocated plan pension expense | Net amortization of deferred amounts from changes in proportion | Total pension expense excluding that attributable to employer paid member contributions |
| State of Delaware Entities: | | | | | | | | | | | | | |
| Academia Antonia Alonso Charter Academy of Dover Charter | \$ 1,181,416 | 368,222 | 109,401 | 350,443 | 828,066 | 25,914 | - | - | 25,914 | 210,620 | 75,429 | 286,049 | |
| Campus Community Charter | 1,005,614 | 313,428 | 30,899 | 30,899 | 437,449 | 22,058 | - | - | 46,495 | 179,278 | 4,974 | 184,252 | |
| De Academy Public Safety Charter | 1,572,687 | 490,173 | 145,634 | 252,924 | 635,807 | 34,497 | - | - | 140,990 | 280,374 | (33,030) | 247,344 | |
| DE Aglands | 1,340,666 | 417,857 | 124,148 | 3,403 | 794,929 | 29,407 | - | - | 158,879 | 239,010 | 53,060 | 292,070 | |
| DE College Prep Charter | 779,691 | 243,013 | 72,201 | 31,328 | 346,542 | 17,102 | - | - | 2,744 | 139,000 | 352 | 131,195 | |
| DE Military Academy Charter | 2,200,789 | 685,939 | 203,797 | 53,752 | 943,488 | 48,274 | - | - | 44,815 | 392,351 | (7,806) | 405,777 | |
| Delaware Design-Lab | 513,450 | 160,031 | 47,546 | 250,887 | 458,464 | 11,262 | - | - | 11,262 | 91,537 | 50,177 | 141,714 | |
| Delaware Department of Transportation | 53,679,225 | 16,730,656 | 4,970,789 | 127,296 | 21,828,741 | 1,177,448 | - | - | 1,991,757 | 9,569,790 | (128,704) | 9,441,086 | |
| Delaware Economic Development Office | 2,020,454 | 629,732 | 187,098 | 8,603 | 825,433 | 44,318 | - | - | 44,698 | 360,201 | 2,790 | 362,991 | |
| Delaware Solid Waste Authority | 4,282,934 | 1,334,898 | 396,607 | 2,902 | 1,731,505 | 93,946 | - | - | 411,056 | 763,550 | (88,334) | 675,216 | |
| Delaware State Education Association | 84,166 | 26,233 | 7,794 | 36,929 | 52,907 | 1,846 | - | - | 2,201 | 15,005 | 473 | 15,478 | |
| Delaware State Housing Authority | 571,337 | 178,074 | 52,907 | 230,981 | 230,981 | 85,215 | - | - | 97,747 | 101,857 | (19,741) | 82,116 | |
| Delaware State University | 38,263,420 | 11,925,882 | 3,543,259 | 447,835 | 15,916,976 | 839,304 | - | - | 906,928 | 6,821,501 | 129,251 | 6,950,752 | |
| Delaware STEM Academy | 121,509 | 37,872 | 11,252 | 108,497 | 2,665 | 2,665 | - | - | 2,665 | 21,662 | 11,874 | 33,536 | |
| Early College High School Charter | 708,831 | 220,927 | 65,639 | 512,451 | 15,548 | 15,548 | - | - | 106,892 | 435,927 | 12,645 | 448,572 | |
| East Side Charter | 2,445,219 | 762,122 | 226,432 | 1,066,071 | 53,636 | 53,636 | - | - | 66,129 | 53,256 | 12,645 | 448,572 | |
| Family Foundations Charter | 3,014,792 | 939,646 | 279,175 | 208,730 | 1,427,551 | 66,129 | - | - | 66,129 | 537,469 | 57,407 | 594,876 | |
| First State Military Academy | 611,392 | 190,958 | 56,616 | 287,067 | 534,241 | 13,411 | - | - | 13,411 | 108,997 | 57,512 | 166,509 | |
| Freire Charter School | 870,430 | 271,294 | 80,603 | 67,342 | 419,239 | 19,093 | - | - | 19,093 | 155,178 | 17,312 | 172,490 | |
| Gateway Lab Charter | 580,928 | 181,063 | 53,795 | 283,857 | 518,715 | 12,743 | - | - | 12,743 | 103,566 | 56,772 | 160,338 | |
| General Gov't (State of DE) | 1,380,590 | 430,300 | 127,845 | 114,667 | 672,812 | 30,283 | - | - | 21,579 | 246,128 | 31,624 | 277,752 | |
| Great Oaks Charter School | 1,305,676,963 | 406,951,336 | 120,907,951 | 882,765 | 528,742,052 | 28,639,873 | - | - | 2,651,048 | 31,290,873 | (647,496) | 232,125,141 | |
| Kumba Charter | 610,904 | 190,406 | 56,571 | 298,505 | 545,482 | 13,400 | - | - | 13,400 | 108,910 | 168,611 | 506,724 | |
| Las America Aspira Charter | 2,349,413 | 732,261 | 217,560 | 1,366,139 | 416,318 | 51,534 | - | - | 51,534 | 418,847 | 87,877 | 506,724 | |
| Lottery | 2,646,247 | 824,778 | 245,047 | 478,139 | 1,547,964 | 58,045 | - | - | 58,045 | 471,766 | 119,426 | 591,192 | |
| MOT Charter | 1,999,680 | 623,257 | 185,174 | 808,431 | 43,863 | 43,863 | - | - | 42,506 | 356,498 | (9,495) | 347,003 | |
| Moyer Academy Charter | 3,587,232 | 1,118,063 | 332,184 | 159,238 | 1,833,552 | 78,686 | - | - | 78,686 | 639,522 | 85,397 | 724,919 | |
| Newark Charter | 9,695,385 | 3,021,842 | 897,809 | 1,253,368 | 5,173,019 | 212,667 | - | - | 212,667 | 1,728,468 | 332,341 | 2,060,809 | |
| Odyssey Charter | 4,158,223 | 1,296,028 | 385,059 | 646,075 | 2,327,162 | 91,210 | - | - | 91,210 | 741,317 | 188,537 | 929,854 | |
| Posse Charter | - | - | - | - | - | - | - | - | - | 672,160 | (213,874) | (213,874) | |
| Positive Outcomes Charter | 1,077,461 | 335,821 | 99,775 | 463,789 | 23,634 | 23,634 | - | - | 672,160 | 192,087 | 6,723 | 198,810 | |
| Prestige Charter | 1,244,512 | 387,888 | 115,244 | 550,221 | 27,298 | 27,298 | - | - | 35,213 | 221,868 | 7,782 | 229,650 | |
| Providence Creek Charter | 2,200,079 | 685,717 | 203,731 | 123,701 | 1,013,149 | 48,258 | - | - | 38,919 | 392,224 | 30,658 | 422,882 | |
| Reach Charter | - | - | - | 146,040 | 146,040 | 845,690 | - | - | 845,690 | - | (123,875) | (123,875) | |
| Sussex Academy Charter | 2,271,864 | 708,091 | 210,379 | 315,321 | 1,233,791 | 49,833 | - | - | 49,833 | 405,022 | 75,190 | 480,212 | |
| The Charter School of Wilmington | 4,149,413 | 1,293,283 | 384,243 | 62,318 | 1,739,844 | 91,017 | - | - | 91,017 | 739,746 | 18,075 | 757,821 | |
| The Delaware Met Charter | 326,706 | 101,827 | 30,254 | 306,364 | 7,166 | 7,166 | - | - | 7,166 | 58,244 | 38,747 | 96,991 | |
| Thomas Edison Charter | 2,877,704 | 896,918 | 266,480 | 45,423 | 1,208,821 | 63,122 | - | - | 56,938 | 513,029 | 2,926 | 515,955 | |
| | 1,462,176,716 | 455,728,933 | 135,400,102 | 8,344,791 | 599,473,826 | 32,072,676 | - | - | 6,683,938 | 260,672,996 | 306,506 | 260,979,502 | |
| University of Delaware | 44,765,519 | 13,952,447 | 4,145,365 | 240,907 | 18,338,719 | 981,926 | - | - | 1,901,760 | 2,883,686 | (306,506) | 7,674,172 | |
| Total | \$ 1,506,942,235 | 469,681,380 | 139,545,467 | 8,585,698 | 617,812,545 | 33,054,602 | - | - | 8,585,698 | 41,640,300 | 268,653,674 | 268,653,674 | |

See accompanying notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer.

Delaware Public Employees' Retirement System
State Employees' Pension Plan
Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

1. Plan Description

The State Employees' Pension Plan (the Plan) is a cost sharing multiple-employer defined-benefit pension plan established in the Delaware Code. The Plan is administered by the Delaware Public Employees' Retirement System (DPERS).

The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board).

The management of the Plan is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plan are commingled with other Plans for investment purposes, the Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan.

The following are brief descriptions of the Plan in effect as of June 30, 2016. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

Separately issued financial statements for DPERS are available from the pension office at:

McArdle Building, Suite 1
860 Silver Lake Blvd.
Dover, DE 19904

(a) Plan Description and Eligibility

The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan: 1) Employees hired prior to January 1, 2012 (Pre-2012)
2) Employees hired on or after January 1, 2012 (Post-2011).

(b) Service Benefits

Final average monthly compensation (employee hired Post-2011 may not include overtime pay in pension compensation) multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of 12 consecutive months of compensation.

(c) Vesting

Pre-2012 date of hire: 5 years of credited service. Post-2011 date of hire: 10 years of credited service.

Delaware Public Employees' Retirement System

State Employees' Pension Plan

Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

(d) Retirement

Pre-2012 date of hire: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011 date of hire: age 65 with at least 10 years of credited service; Age 60 with 20 years of credited service; and 30 years of credited service at any age.

(e) Disability Benefit

Pre-2012 date of hire: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 date of hire; in the Disability Insurance Program.

(f) Survivor Benefits

If employee is receiving a pension, the eligible survivor receives 50% of pension (or 67.7% with 2% reduction, 75% with 3% reduction, or 100% with 6% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of pension the employee would have received at age 62.

(g) Burial Benefit

\$7,000 per member

2. Basis of Presentation

The Schedules of Employer Allocations and Pension Amounts by Employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of DPERS or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of DPERS or the participating employers. The accompanying schedules have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Such preparation requires management of the Plan to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

3. Allocation Methodology

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in the Plan to recognize their proportionate share of collective net pension liability, collective deferred inflows of resources, collective deferred outflows of resources and collective pension expense. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer are based on the ratio of each employer's contribution to the Plan's total employer contributions during the measurement period July 1, 2015 through June 30, 2016, adjusted to remove contributions to separately finance specific liabilities of an individual employer. Employer contributions to the plan are recognized when due pursuant to legal requirements. Employer contributions are determined by Board of Pension Trustees. Employer contributions were 9.58% of earnings for the Fiscal Year 2016.

Delaware Public Employees' Retirement System

State Employees' Pension Plan

Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

4. PRI Contribution

The Plan's Reporting units make contributions to a PRI fund which accumulates resources to fund ad hoc post-retirement increases granted by the General assembly. The increases are funded over a 5-year period from the PRI fund. The allocation of the contributions from the PRI Fund to the Pension Trust is a reduction to the Net Pension Liability of each participating employer.

5. Collective Net Pension Liability and Actuarial Information

The components of the collective net pension liability of the participating employers at June 30, 2016 were as follows (in thousands):

| | | |
|---|-----------|------------------|
| Employers' total pension liability | \$ | 9,484,483 |
| Plan net position | | 7,977,541 |
| Employers' net pension liability | \$ | 1,506,942 |

Actuarial Assumptions

The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Actuarial assumptions:

| | |
|---|--------------|
| Investment rate of return / discount rate (1) | 7.2% |
| Projected salary increases (1) | 2.5% + Merit |
| Cost of living adjustments | 0.0% |

(1) Inflation is included at 2.5%.

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2016, details of which are provided in the presentation of that study to the Board of Trustees. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Key assumption changes include a reduction in the inflation assumption from 3.0% to 2.5% and a change to use updated mortality tables. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

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Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan's current and expected asset allocation as of June 30, 2016 is summarized in the following table:

| Asset Class | Long-term expected real rate of return | Asset allocation |
|-------------------------|---|------------------|
| Domestic equity | 5.7% | 34.0% |
| International equity | 5.7 | 14.7 |
| Fixed income | 2.0 | 25.0 |
| Alternative investments | 7.8 | 20.9 |
| Cash and equivalents | - | 5.4 |

Discount Rate

The discount rate used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' 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.

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

The following presents the collective net pension liability, calculated using the discount rate of 7.2%, as well as what the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands):

| | 1% Decrease | Discount Rate | 1% Increase |
|----------------------------------|--------------|---------------|-------------|
| Collective net pension liability | \$ 2,619,253 | 1,506,942 | 571,787 |

Delaware Public Employees' Retirement System

State Employees' Pension Plan

Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

6. Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2016:

| | Measurement period ending June 30 | Amortization Period | Beginning of year balance | Additions | Deductions | End of year balance |
|--|---|------------------------|------------------------------|------------------------|------------------------|------------------------|
| Deferred Outflows of Resources: | | | | | | |
| Changes of assumptions | 2016 | 6 years | \$ - | \$ 167,454,560 | \$ (27,909,093) | \$ 139,545,467 |
| Net difference between projected and actual earnings on pension plan investments | 2016 | 5 years | - | 732,082,862 | (146,416,572) | 585,666,290 |
| | 2015 | 5 years | 235,459,541 | - | (58,864,885) | 176,594,656 |
| | 2014 | 5 years | (438,869,348) | - | 146,289,782 | (292,579,566) |
| Subtotal | | | (203,409,807) | 732,082,862 | (58,991,675) | 469,681,380 |
| Total | | | \$ (203,409,807) | \$ 899,537,422 | \$ (86,900,768) | \$ 609,226,847 |
| Deferred Inflows of Resources: | | | | | | |
| Difference between expected and actual experience | 2015 | 6 years | \$ (14,922,891) | \$ - | \$ 2,984,578 | \$ (11,938,313) |
| | 2016 | 6 years | - | (25,339,547) | 4,223,258 | (21,116,289) |
| Total | | | \$ (14,922,891) | \$ (25,339,547) | \$ 7,207,836 | \$ (33,054,602) |

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows (in thousands):

Year ending June 30

| | |
|--------------|-------------------|
| 2017 | \$ 79,693 |
| 2018 | 79,693 |
| 2019 | 225,983 |
| 2020 | 167,118 |
| 2021 | 20,701 |
| Thereafter | 2,985 |
| Total | \$ 576,173 |

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for the 2016 amounts.

Delaware Public Employees' Retirement System

State Employees' Pension Plan

Notes to Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

7. Collective Pension Expense

The components of collective pension expense for the year ending June 30, 2016 (excluding that attributable to employer-paid member contributions) are as follows (in thousands):

| | | |
|---|----|-----------|
| Service cost | \$ | 180,782 |
| Interest on total pension liability | | 656,475 |
| Member contributions | | (59,145) |
| Administrative expense | | 5,895 |
| Changes in benefit terms | | - |
| Projected earnings on plan investments | | (595,046) |
| Recognition of deferred outflows and inflows of resources: | | |
| Differences between projected and actual earnings on plan investments | | 58,992 |
| Differences between expected and actual experiences with regards to factors or other inputs in the measurement of total pension liability | | (7,208) |
| Changes in assumption with regards to factors or other inputs in the measurement of total pension liability | | 27,909 |
| Pension expense | \$ | 268,654 |

Supplementary Information

Delaware Public Employees' Retirement System
State Employees' Pension Plan
Schedule of Allocation of PRI Contribution

| Reporting unit | Allocation of PRI Contribution | |
|--|--------------------------------|-------------------|
| State of Delaware Entities: | | |
| Academia Antonia Alonso Charter | \$ | 30,401 |
| Academy of Dover Charter | | 25,878 |
| Campus Community Charter | | 40,470 |
| De Academy Public Safety Charter | | 34,499 |
| DE Aglands | | 1,940 |
| DE College Prep Charter | | 20,064 |
| DE Military Academy Charter | | 56,633 |
| Delaware Economic Development Office | | 51,992 |
| Delaware Design-Lab | | 13,213 |
| Delaware STEM Academy | | 2,166 |
| Delaware Department of Transportation | | 110,213 |
| Delaware State Education Association | | 3,127 |
| Delaware State Housing Authority | | 1,381,330 |
| Delaware State University | | 14,702 |
| Delaware Solid Waste Authority | | 984,634 |
| Early College High School Charter | | 18,240 |
| East Side Charter | | 62,923 |
| Family Foundations Charter | | 77,580 |
| First State Military Academy | | 15,733 |
| First State Montessori Academy Charter | | 22,399 |
| Freire Charter School | | 14,949 |
| Gateway Lab Charter | | 35,527 |
| General Gov't (State of DE) | | 33,599,037 |
| Great Oaks Charter School | | 15,720 |
| Kumba Charter | | 60,458 |
| Las America Aspira Charter | | 68,096 |
| Lottery, State of DE | | 51,458 |
| MOT Charter | | 92,310 |
| Moyer Academy Charter | | - |
| Newark Charter | | 249,492 |
| Odyssey Charter | | 107,004 |
| Pencader Charter | | - |
| Positive Outcomes Charter | | 27,726 |
| Prestige Charter | | 32,025 |
| Providence Creek Charter | | 56,615 |
| Reach Charter | | - |
| Sussex Academy Charter | | 58,462 |
| The Charter School of Wilmington | | 106,777 |
| The Delaware Met Charter | | 8,407 |
| Thomas Edison Charter | | 74,052 |
| Subtotal | | 37,626,252 |
| University of Delaware | | 1,151,953 |
| Total | \$ | 38,778,205 |

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards*

Members of the Board of Pension Trustees
Delaware Public Employees' Retirement System
Dover, DE

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the schedule of employer allocations and the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions as of and for the year ended June 30, 2016 (specified column totals), included in the schedule of pension amounts by employer of the Delaware Public Employees' Retirement System - State Employees' Retirement Plan (the Plan) and the related notes (hereafter collectively referred to as the Schedules) and have issued our report thereon dated May 26, 2017.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of This Report

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

BDO USA, LLP

May 26, 2017