



DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
State Employees' Pension Plan

Schedules of Employer Allocations and Schedules of
Pension Amounts by Employer

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Issuance Date: August 14, 2015

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
State Employees' Pension Plan

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KPMG LLP
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Independent Auditors' Report

Members of the Board of Pension Trustees
Delaware Public Employees' Retirement System:

Report on the Schedules

We have audited the accompanying schedule of employer allocations of the State Employees' Pension Plan as of and for the years ended June 30, 2014 and 2013, 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 (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, 2014, and the total for all entities of the column titled net pension liability included in the accompanying schedule of pension amounts by employer of the State Employees' Pension Plan as of June 30, 2013 (collectively, the specified column totals) and the related notes.

Management's Responsibility for the Schedules

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.

Auditors' Responsibility

Our responsibility is to express opinion 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 risks of material misstatement of the schedule of employer allocations 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 opinion.

Opinion

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 for the total of all participating entities for the State Employees' Pension Plan as of and for the year ended June 30, 2014, and employer allocations and net pension liability for total of all participating entities for the State Employees' Pension Plan as of and for the year ended June 30, 2013 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 as of and for the year ended June 30, 2014, and our report thereon, dated December 19, 2014, 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 employer allocations and 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 State Employees' Pension Plan 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 June 30, 2015 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

KPMG LLP

June 30, 2015

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

State Employees' Pension Plan

Schedule of Employer Allocations

As of and for the years ended June 30, 2014 and 2013

	Employer contribution 2014	Employer contribution 2013	2014 Employer proportionate share	2013 Employer proportionate share
Reporting unit:				
State of Delaware Entities:				
Academia Antonia Alonso Charter	\$ 7,738	—	0.0044%	—%
Academy of Dover Charter	123,239	105,646	0.0705	0.0657
Campus Community Charter	199,035	206,017	0.1138	0.1282
De Academy Public Safety Charter	149,491	81,385	0.0855	0.0506
DE Aglands	6,586	6,376	0.0038	0.0040
DE College Prep Charter	87,557	90,684	0.0501	0.0564
DE Military Academy Charter	248,927	223,210	0.1424	0.1389
Delaware Economic Development Office	237,648	215,858	0.1359	0.1343
Delaware Department of Transportation	6,702,782	6,122,224	3.8332	3.8097
Delaware State Education Association	8,622	8,029	0.0049	0.0050
Delaware State Housing Authority	84,235	82,746	0.0482	0.0515
Delaware State University	4,462,896	3,991,748	2.5522	2.4839
Delaware Solid Waste Authority	519,501	528,803	0.2971	0.3291
Early College High School Charter	31	—	—	—
East Side Charter	263,251	227,984	0.1505	0.1419
Family Foundations Charter	301,187	246,691	0.1722	0.1535
First State Montessori Academy Charter	1,884	—	0.0011	—
Gateway Lab Charter	152,105	113,887	0.0870	0.0709
General Gov't (State of DE)	151,769,939	140,054,351	86.7938	87.1513
Kumba Charter	126,633	110,724	0.0724	0.0689
Las America Aspira Charter	185,463	125,338	0.1061	0.0780
Lottery, State of DE	245,999	227,722	0.1407	0.1417
MOT Charter	300,229	260,857	0.1717	0.1623
Moyer Academy Charter	143,020	97,103	0.0818	0.0604
Newark Charter	872,551	642,162	0.4990	0.3996
Odyssey Charter	357,998	213,248	0.2047	0.1327
Pencader Charter	52	163,262	—	0.1016
Positive Outcomes Charter	129,441	111,868	0.0740	0.0696
Prestige Charter	158,162	142,530	0.0904	0.0887
Providence Creek Charter	246,094	213,444	0.1407	0.1328
Reach Charter	171,673	126,598	0.0982	0.0788
Sussex Academy Charter	178,583	141,550	0.1021	0.0881
The Charter School of Wilmington	488,768	436,927	0.2795	0.2719
The Delaware Met Charter	9,044	—	0.0052	—
Thomas Edison Charter	344,076	305,679	0.1968	0.1902
	<u>169,284,440</u>	<u>155,624,651</u>	<u>96.8099</u>	<u>96.8402</u>
University of Delaware	5,578,185	5,077,970	3.1900	3.1599
Total	<u>\$ 174,862,625</u>	<u>160,702,621</u>	<u>100.00%</u>	<u>100.00%</u>
PRI Transfer (note 5)	26,877,300	25,949,000		

See accompanying notes to schedules.

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
State Employees' Pension Plan

Schedule of Pension Amounts by Employer

As of and for the years ended June 30, 2014 and 2013

Reporting unit	Net pension liability 2013	Net pension liability 2014	Deferred outflows of resources – 2014				Deferred inflows of resources – 2014				Pension expense – 2014			
			Expected and actual experience differences	Assumption changes	Changes in proportion	Total deferred outflows of resources	Expected and actual experience differences	Assumption changes	Projected and actual plan investment differences	Changes in proportion	Total deferred inflows of resources	Collective pension expense	Pension expense from proportion change	Total pension expense
State of Delaware Entities:														
Academia Antonia Alonso Charter	\$ —	16,293	—	—	39,932	39,932	—	—	25,893	—	25,893	3,195	7,987	11,182
Academy of Dover Charter	711,916	259,508	—	—	42,750	42,750	—	—	412,406	—	412,406	50,879	8,550	59,429
Campus Community Charter	1,388,281	419,116	—	—	—	—	—	—	666,050	129,716	795,766	82,172	(25,943)	56,229
De Academy Public Safety Charter	548,424	314,789	—	—	314,477	314,477	—	—	500,256	—	500,256	61,718	62,895	124,613
DE Aglands	42,965	13,868	—	—	—	—	—	—	22,039	1,816	23,855	2,719	(363)	2,356
DE College Prep Charter	611,087	184,371	—	—	—	—	—	—	292,999	57,375	350,374	36,148	(11,475)	24,673
DE Military Academy Charter	1,504,141	524,175	—	—	31,217	31,217	—	—	833,008	—	833,008	102,770	6,244	109,014
Delaware Economic Development Office	1,454,593	500,425	—	—	14,300	14,300	—	—	795,265	—	795,265	98,114	2,860	100,974
Delaware Department of Transportation	41,255,617	14,114,288	—	—	212,160	212,160	—	—	22,430,145	—	22,430,145	2,767,259	42,431	2,809,690
Delaware State Education Association	54,106	18,155	—	—	—	—	—	—	28,852	592	29,444	3,560	(119)	3,441
Delaware State Housing Authority	557,596	177,377	—	—	—	—	—	—	281,884	29,941	311,825	34,777	(5,988)	28,789
Delaware State University	26,899,050	9,397,681	—	—	616,323	616,323	—	—	14,934,607	—	14,934,607	1,842,517	123,265	1,965,782
Delaware Solid Waste Authority	3,563,426	1,093,931	—	—	—	—	—	—	1,738,453	288,473	2,026,926	214,477	(57,695)	156,782
Early College High School Charter	—	65	—	—	158	158	—	—	103	—	103	13	32	45
East Side Charter	1,536,307	554,336	—	—	78,332	78,332	—	—	880,940	—	880,940	108,684	15,667	124,351
Family Foundations Charter	1,662,366	634,220	—	—	169,067	169,067	—	—	1,007,890	—	1,007,890	124,346	33,813	158,159
First State Montessori Academy Charter	—	3,968	—	—	9,726	9,726	—	—	6,306	—	6,306	778	1,945	2,723
Gateway Lab Charter	767,448	320,292	—	—	145,444	145,444	—	—	509,002	—	509,002	62,797	29,089	91,886
General Gov't (State of DE)	943,779,345	319,587,402	—	—	—	—	—	—	507,881,915	3,225,684	511,107,599	62,658,566	(645,138)	62,013,428
Kumba Charter	746,133	266,655	—	—	31,752	31,752	—	—	423,763	—	423,763	52,281	6,350	58,631
Las America Aspira Charter	844,614	390,535	—	—	253,294	253,294	—	—	620,631	—	620,631	76,569	50,659	127,228
Lottery, State of DE	1,534,543	518,010	—	—	—	—	—	—	823,210	9,228	832,438	101,561	(1,846)	99,715
MOT Charter	1,757,828	632,204	—	—	84,572	84,572	—	—	1,004,686	—	1,004,686	123,950	16,915	140,865
Moyer Academy Charter	654,343	301,163	—	—	192,815	192,815	—	—	478,601	—	478,601	59,046	38,563	97,609
Newark Charter	4,327,316	1,837,362	—	—	896,982	896,982	—	—	2,919,899	—	2,919,899	360,235	179,396	539,631
Odyssey Charter	1,437,007	753,849	—	—	650,057	650,057	—	—	1,198,002	—	1,198,002	147,800	130,012	277,812
Pencader Charter	1,100,170	110	—	—	—	—	—	—	174	916,539	916,713	22	(183,308)	(183,286)
Positive Outcomes Charter	753,842	272,569	—	—	39,820	39,820	—	—	433,161	—	433,161	53,440	7,964	61,404
Prestige Charter	960,461	333,047	—	—	15,860	15,860	—	—	529,271	—	529,271	65,297	3,172	68,469
Providence Creek Charter	1,438,328	518,209	—	—	71,441	71,441	—	—	823,528	—	823,528	101,601	14,288	115,889
Reach Charter	853,101	361,499	—	—	175,057	175,057	—	—	574,487	—	574,487	70,876	35,012	105,888
Sussex Academy Charter	953,859	376,048	—	—	126,752	126,752	—	—	597,608	—	597,608	73,728	23,350	99,078
The Charter School of Wilmington	2,944,304	1,029,217	—	—	68,857	68,857	—	—	1,635,611	—	1,635,611	201,789	13,772	215,561
The Delaware Met Charter	—	19,045	—	—	46,677	46,677	—	—	30,266	—	30,266	3,734	9,335	13,069
Thomas Edison Charter	2,059,868	724,534	—	—	59,159	59,159	—	—	1,151,415	—	1,151,415	142,053	11,832	153,885
	1,048,702,385	356,468,316	—	—	4,386,981	4,386,981	—	—	566,492,326	4,659,364	571,151,690	69,889,471	(54,477)	69,834,994
University of Delaware	34,218,741	11,746,185	—	—	272,384	272,384	—	—	18,666,803	—	18,666,803	2,302,967	54,477	2,357,444
Total	\$ 1,082,921,126	368,214,501	—	—	4,659,365	4,659,365	—	—	585,159,129	4,659,364	589,818,493	72,192,438	—	72,192,438

See accompanying notes to schedules.

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

State Employees' Pension Plan

Notes to Schedules

June 30, 2014 and 2013

(1) Plan Descriptions and Contribution Information

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

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 exofficio 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, 2014. For a more complete description, please refer to the DPERS CAFR.

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) State Employees' Pension Plan

Plan Description and Eligibility: The State Employees' Pension Plan 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).

Service Benefits: Final average monthly compensation (employee hired Post-2011 may not include overtime 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.

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

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.

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

State Employees' Pension Plan

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June 30, 2014 and 2013

Disability Benefits: 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.

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

Burial Benefit: \$7,000 per member.

Contributions:

Employer – Determined by Board of Pension Trustees. Employer contributions were 9.5% and 8.9% of earnings for the Fiscal Year 2014 and 2013, respectively.

Pre-2012 date of hire Member – 3% of earnings in excess of \$6,000.

Post-2011 date of hire Member – 5% of earnings in excess of \$6,000.

(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.

(3) **Summary of Significant Accounting Policies**

The accompanying schedules of the Plan within the Delaware Public Employees' Retirement System (DPERS or the System) have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The Schedules are presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Management of the System has made certain estimates and assumptions relative to the Schedules in conformity with U.S. generally accepted accounting principles. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(4) **Allocation Percentage Methodology**

The amounts assigned to each employer in the Schedule of Pension Amounts by Participating Employer is each employer's proportionate share of the Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense (the Collective Pension Amounts) determined in accordance with Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Management has elected to allocate the employer's proportionate shares of the Collective

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

State Employees' Pension Plan

Notes to Schedules

June 30, 2014 and 2013

Pension amounts based on the percentage of actual employer contributions as documented in the Schedule of Employer Allocations. Intra-fund transfers and journal entries associated with payroll adjustments are not included in the allocation.

(5) 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 contribution from the PRI Fund to the Pension Trust is a reduction to the Net Pension Liability of each participating employer.

(6) Collective Net Pension Liability and Actuarial Information

The components of the Net Pension Liability of the Plan as of June 30, 2014 were as follows (Dollar values expressed in thousands):

<u>Plan year</u>	<u>(1) Total pension liability</u>	<u>(2) Plan fiduciary net position</u>	<u>(3) Employers' net pension liability (1)-(2)</u>
2014	\$ 8,757,980	8,389,765	368,215
2013	8,478,498	7,395,577	1,082,921

The collective total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The collective total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of June 30, 2013. These actuarial valuations used the following actuarial assumptions:

<u>Plan</u>	<u>State Employees'</u>
Actuarial assumptions:	
Investment rate of return/discount rate ⁽¹⁾	7.2%
Projected salary increases ⁽¹⁾	3.5% to 11.5%
Cost-of-living adjustments	Ad hoc

(1) Inflation is included at 3%.

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 2011. 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.

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State Employees' Pension Plan

Notes to Schedules

June 30, 2014 and 2013

Mortality rates were based on the Sex distinct RP – 2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

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.

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 System's current and expected asset allocation is summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	5.7%
International equity	5.7
Fixed income	2.0
Alternative investments	7.8
Cash and equivalents	—

Discount rate: The discount rate for all plans 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 net pension liability to changes in the discount rate: The following presents the collective net pension liability of the Plans, calculated using the discount rate of 7.2%, as well as what the Plans' 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 (dollar values expressed in thousands):

<u>Plans</u>	<u>1% Decrease</u>	<u>Discount rate</u>	<u>1% Increase</u>
State Employees'	\$ 1,379,955	368,215	(486,909)

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

State Employees' Pension Plan

Notes to Schedules

June 30, 2014 and 2013

(7) Components on Schedule of Pension Amounts by Employer

(a) *Net Pension Liability*

The employer proportionate share of net pension liability is equal to the collective net pension liability multiplied by the employers proportionate share percentage for fiscal year ending June 30, 2014 as shown in Schedule of Employer Allocations.

(b) *Expected and Actual Experience Differences*

The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members which is 6 years. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of the difference between expected and actual experience for fiscal year ending June 30, 2014 is \$0.00. As this is the first year of implementation of GASB Statement No. 68 and rollforward procedures were used to determine the total pension liability at the measurement date, there were no changes between expected and actual experience.

(c) *Change in Assumptions*

The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive members which is 6 years. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of change in assumptions for fiscal year ending June 30, 2014 is \$0.00.

(d) *Change in Employer Proportionate Share*

The change in employer proportionate share is the amount of difference between the employer proportionate share of net pension liability (asset) in the prior year compared to the current year. This change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive members which is 6 years. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or deferred inflow of resources.

(e) *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments*

The difference between the actual earnings on plan investments compared to the plans expected rate of return of 7.2% is amortized over a closed period of 5 years. The collective amount of the difference between projected and actual earnings for fiscal year ending June 30, 2014 is \$731,449,000. The first year of amortization, \$146,290,000, is recognized as pension expense with the remaining 4 years, \$585,159,000, to be shown as a deferred inflow of resources. The employer proportionate share of these collective amounts is equal to the collective amount multiplied by the employers proportionate share percentage for fiscal year ending June 30, 2014 as shown in the Schedule of Employer Allocations.

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
State Employees' Pension Plan

Notes to Schedules

June 30, 2014 and 2013

(8) Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on DPERS investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all plan members, beginning the year in which the deferred amount occurs. The amortization period is six years for the State Employees' Plan, for deferred amounts arising in 2014. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows (inflows) of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

	State Employees' Plan
Year ending June 30:	
2015	\$ 146,289,782
2016	146,289,782
2017	146,289,782
2018	146,289,791

(9) Pension Expense

The components of the pension expense for the year ending June 30, 2014 are as follows (in thousands):

Service costs	\$ 190,156
Interest on total pension liability	599,144
Member contributions	(52,793)
Administrative expense	5,242
Projected earnings on plan investments	(523,266)
Amortization of investment return differences	(146,290)
Pension expense	\$ 72,193

SUPPLEMENTARY INFORMATION

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
State Employees' Pension Plan

Schedule of Allocation of PRI Contribution

For the year ended June 30, 2014

Reporting unit	Allocation of PRI Contribution
State of Delaware Entities:	
Academia Antonia Alonso Charter	\$ (1,189)
Academy of Dover Charter	(18,942)
Campus Community Charter	(30,593)
De Academy Public Safety Charter	(22,978)
DE Aglands	(1,012)
DE College Prep Charter	(13,458)
DE Military Academy Charter	(38,262)
Delaware Economic Development Office	(36,528)
Delaware Department of Transportation	(1,030,252)
Delaware State Education Association	(1,325)
Delaware State Housing Authority	(12,948)
Delaware State University	(685,971)
Delaware Solid Waste Authority	(79,850)
Early College High School Charter	(4)
East Side Charter	(40,463)
Family Foundations Charter	(46,294)
First State Montessori Academy Charter	(290)
Gateway Lab Charter	(23,379)
General Gov't (State of DE)	(23,327,830)
Kumba Charter	(19,464)
Las America Aspira Charter	(28,506)
Lottery, State of DE	(37,812)
MOT Charter	(46,147)
Moyer Academy Charter	(21,983)
Newark Charter	(134,116)
Odyssey Charter	(55,026)
Pencader Charter	(8)
Positive Outcomes Charter	(19,896)
Prestige Charter	(24,310)
Providence Creek Charter	(37,826)
Reach Charter	(26,388)
Sussex Academy Charter	(27,449)
The Charter School of Wilmington	(75,126)
The Delaware Met Charter	(1,391)
Thomas Edison Charter	(52,887)
University of Delaware	(857,397)
PRI Transfer (see note 5)	26,877,300
Total	\$ <u><u>—</u></u>

See accompanying independent auditors' report.



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Independent Auditors' 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 financial schedules of Delaware Public Employees' Retirement System – State Employees' Retirement Plan, which are comprised of the schedule of employer allocation as of and for the years ended June 30, 2014 and 2013, and the schedule of pension amounts for the year ended June 30, 2014, and the related notes to the financial schedules, and have issued our report thereon dated June 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial schedules, we considered Delaware Public Employees' Retirement System – State Employees' Retirement 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 financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Delaware Public Employees' Retirement System – State Employees' Retirement Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware Public Employees' Retirement System – State Employees' Retirement 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 entity's financial 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 Delaware Public Employees' Retirement System – State Employees' Retirement Plan's financial 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 financial schedule 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 Delaware Public Employees' Retirement System – State Employees' Retirement 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 Delaware Public Employees' Retirement System – State Employees' Retirement Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

June 30, 2015