

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**  
**A Fiduciary Component Unit of the State**

Financial Statements  
June 30, 2019

(With Independent Auditor's Report Thereon)

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Table of Contents**

	<b>Page</b>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Unaudited).....	3
Basic Financial Statements	
Combining Statement of Fiduciary Net Position.....	6
Combining Statement of Changes in Fiduciary Net Position.....	7
Notes to Financial Statements.....	8
Required Supplementary Information.....	28
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31



Tel: 302-656-5500  
Fax: 302-656-8024  
www.bdo.com

4250 Lancaster Pike, Suite 120  
Wilmington, DE 19805

## Independent Auditor's Report

Board of Pension Trustees  
State of Delaware Other Postemployment Benefits Fund Trust  
Dover, Delaware

### Report on the Financial Statements

We have audited the accompanying financial statements of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust (the "Trust"), a component unit of the State of Delaware, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Trust'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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 fiduciary net position of the State of Delaware Other Postemployment Benefits Fund Trust as of June 30, 2019, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 2, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 5 and the required supplementary information on pages 28- 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Trust's 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 Trust's internal control over financial reporting and compliance.

*BDO USA, LLP*

November 15, 2019  
Wilmington, Delaware

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**  
**Management's Discussion and Analysis**  
**June 30, 2019**

This section of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust's (Trust) annual financial report presents management's discussion and analysis of the Trust's financial performance during the year ended June 30, 2019. It should be read in conjunction with the Trust's financial statements and accompanying notes.

*Financial Highlights*

The following financial highlights occurred during the Fiscal Year ended June 30, 2019, versus Fiscal Year 2018:

- The Trust's fiduciary net position increased by \$29.5 million.
- Fiscal year 2019 covered payroll increased by \$41.7 million to \$2,093.8 million. Employer contributions increased by \$26.7 million to \$251.3 million. The overall increase in employer contributions is primarily attributed to an adjustment of the estimated benefit payments for retirees and beneficiaries.
- Net investment earnings (net increase/(decrease) in fair value, plus investment earnings, less investment-related expenses) decreased by \$6.0 million as a result of a lower market investment return of 4.8% in fiscal year 2019.
- OPEB benefits paid for retirees and beneficiaries and other deductions was \$242.0 million, an increase of \$19.0 million, is primarily attributable to higher claims for prescription costs.

*Overview of the Financial Statements*

The Trust's Financial Statements, Notes to the Financial Statements and Required Supplementary Information (RSI) were prepared in conformity with the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The financial report consists of two basic financial statements:

- The *Combining Statement of Fiduciary Net Position*, which reports the Trust's assets, liabilities, and resulting net position where  $\text{Assets} - \text{Liabilities} = \text{Net Position}$  held in trust for OPEB benefits available at the end of the fiscal year. It is a snapshot of the financial position of the Trust funds at that specific point in time.
- The *Combining Statement of Changes in Fiduciary Net Position* summarizes the Trust funds' financial transactions that have occurred during the fiscal year where  $\text{Additions} - \text{Deductions} = \text{Net Change in Net Position}$ . It supports the change that has occurred to the prior year's net position on the *Combining Statement of Fiduciary Net Position*.

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The *Required Supplementary Information* includes two required schedules of historical trend information:

- The *Schedule of Changes in Net OPEB Liability and Related Ratios* includes historical information about the components of the net OPEB liability and related ratios, including fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered payroll.
- The *Schedule of Investment Returns* includes the annual money-weighted rate of return on the Trust's investments for each year. A money-weighted rate of return provides information about the actual performance of a Trust's investment portfolio because it takes into account the effects of transactions that increase the amount of the Trust's investments (such as contributions) and those that decrease the amount of the Trust's investments (such as benefit payments). Additionally, the money-weighted rate of return provides information that is comparable with the long-term expected rate of return on the Trust's investments, which is used in calculating information presented in the financial statements.

**Summary Statement of Fiduciary Net Position**

(Expressed in Thousands)

	Fiscal Years Ended June 30,		Increase/ (Decrease)
	2019	2018	
Assets			
Cash and Investments at Fair Value	\$ 433,184	\$ 404,790	\$ 28,394
Receivables	13,971	11,681	2,290
Total Assets	<u>447,155</u>	<u>416,471</u>	30,684
Total Liabilities	<u>18,717</u>	<u>17,499</u>	1,218
Net Position	<u>\$ 428,438</u>	<u>\$ 398,972</u>	<u>\$ 29,466</u>

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Summary Statement of Changes in Fiduciary Net Position**

(Expressed in Thousands)

	Fiscal Years Ended June 30,		Increase/ (Decrease)
	2019	2018	
<b>Additions</b>			
Contributions	\$ 252,837	\$ 226,148	\$ 26,689
Net Investment Earnings	18,852	24,923	(6,071)
<b>Total Additions</b>	<b>271,689</b>	<b>251,071</b>	<b>20,618</b>
<b>Deductions</b>			
Benefit Payments	242,041	222,973	19,068
Administrative Expenses	182	89	93
<b>Total Deductions</b>	<b>242,223</b>	<b>223,062</b>	<b>19,161</b>
<b>Increase (Decrease) in Net Position</b>	<b>29,466</b>	<b>28,009</b>	<b>1,457</b>
<b>Net Position - Beginning of Year</b>	<b>398,972</b>	<b>370,963</b>	<b>28,009</b>
<b>Net Position - End of Year</b>	<b>\$ 428,438</b>	<b>\$ 398,972</b>	<b>\$ 29,466</b>

The Trust operates on a pay-as-you-go basis; therefore, the participating employers base their contributions into the Trust on the expected benefit payments. Total contributions increased by \$26.7 million from fiscal year 2018 as a direct result of increasing benefit payments. Net investment earnings decreased by \$6.1 million in fiscal year 2019 as a result of the rate of return on investments decreasing approximately 2.0% compared to fiscal year 2018. Overall earnings decreased during the first five months of the year as a result of market upheavals in the third and fourth quarters of 2018 that led to poor performance in the mutual funds sector. In December 2018, assets were comingled with assets of the Delaware Public Employees' Retirement System (DPERS), which featured much more diverse strategies as compared to previous holdings.

*Contacting the Trust's Financial Management*

This financial report is designed to provide interested parties with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the State of Delaware Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, DE 19904-2402 or visit our website at <https://open.omb.delaware.gov/>.

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

Basic Financial Statements

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Combining Statement of Fiduciary Net Position**

**June 30, 2019**

(Expressed in Thousands)

	<u>Delaware Postretirement Health Plan</u>	<u>Delaware Local Government OPEB Investment Trust</u>	<u>Total</u>
<b>ASSETS</b>			
Cash Equivalents and Cash and Pooled Investments	\$ 42,450	\$ 1,418	\$ 43,868
Receivables			
Accrued Investment Income	502	23	525
Pending Trade Sales	1,168	53	1,221
Employer Contributions	12,225	-	12,225
Investments			
Domestic Fixed Income	64,295	2,924	67,219
Domestic Equities	78,784	3,584	82,368
Pooled Equity and Fixed Income	112,948	5,138	118,086
Alternative Investments	90,680	4,124	94,804
Foreign Fixed Income	3,425	156	3,581
Foreign Equities	22,246	1,012	23,258
<b>TOTAL ASSETS</b>	<u>428,723</u>	<u>18,432</u>	<u>447,155</u>
<b>LIABILITIES</b>			
Pending Purchases Payable	1,929	88	2,017
Benefits Payable	16,526	-	16,526
Accrued Investment and Administrative Expenses	167	7	174
<b>TOTAL LIABILITIES</b>	<u>18,622</u>	<u>95</u>	<u>18,717</u>
<b>NET POSITION</b>			
Restricted for OPEB	<u>\$ 410,101</u>	<u>\$ 18,337</u>	<u>\$ 428,438</u>

The notes to the financial statements are an integral part of this Statement.

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

**Combining Statement of Changes in Fiduciary Net Position**  
**For the Fiscal Year Ended June 30, 2019**  
(Expressed in Thousands)

	Delaware Postretirement Health Plan	Delaware Local Government OPEB Investment Trust	Total
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 251,326	\$ -	\$ 251,326
On Behalf	145	-	145
Transfer of Assets from Outside the System		1,366	1,366
Investment Income			
Interest and Dividends	6,845	308	7,153
Net Change in Fair Value of Investments	11,846	540	12,386
Less: Investment Manager/Advisor/Custody Fees	(679)	(30)	(709)
Securities Lending Income			
Securities Lending Income	25	1	26
Less: Lending Expense	(4)	-	(4)
Total Additions	<u>269,504</u>	<u>2,185</u>	<u>271,689</u>
<b>DEDUCTIONS</b>			
Benefit Payments	240,860	-	240,860
Transfer of Assets Outside the Trust		1,181	1,181
Administrative Expenses	180	2	182
Total Operating Expenses	<u>241,040</u>	<u>1,183</u>	<u>242,223</u>
Change in Fiduciary Net Position	28,464	1,002	29,466
Net Position Restricted for OPEB - Beginning	<u>381,637</u>	<u>17,335</u>	<u>398,972</u>
Net Position Restricted for OPEB - Ending	<u>\$ 410,101</u>	<u>\$ 18,337</u>	<u>\$ 428,438</u>

The notes to the financial statements are an integral part of this Statement.

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Notes to the Financial Statements**

**Note 1: Plan and Fund Description**

The Delaware Other Postemployment Benefits (OPEB) Fund Trust (Trust) was established pursuant to Title 29, Sections 5202(b) and 5281. The Trust is administered by the DPERS Board of Trustees (Board) pursuant to Title 29, Section 5282 and includes the Delaware Postretirement Health Plan (Plan) and the Delaware Local Government OPEB Investment Trust (Local Trust). The Board is comprised of five members appointed by the Governor and confirmed by the Senate and two ex-officio members. Policy for and management of the OPEB benefits provided to retirees and other eligible beneficiaries of the Plan are the responsibility of the State. Governments participating in the Local Trust develop policy and manage benefits for their retirees and other beneficiaries.

*Plan Description*

The Plan is a cost-sharing multiple-employer defined-benefit plan. The Plan provides medical coverage to pensioners and their eligible dependents covered under the following pension plans: State Employees', New State Police, Judiciary, and Closed State Police Pension Plans. This includes the employees of the State as well as employees of the State's component units and affiliated agencies which are part of the State Employees' Pension Plan. Those employers are Delaware State University, Delaware State Housing Authority, Delaware Charter Schools, University of Delaware, Delaware Solid Waste Authority and the Delaware State Education Association.

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of Plan members and the government are established by the State Legislature. Funds are recorded in the Plan for the payment of retiree healthcare claims, administrative, and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the Plan. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the Plan and is responsible for the financial management of the Plan. 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.

Substantially all State employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The participant's cost of Plan benefits is variable based on years of service within those pension plan categories. Pensioners who retire after July 1, 2012

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

and who become eligible for Medicare will pay an additional 5% of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

Membership of the Plan, based on the latest census data as of July 1, 2018, is as follows:

Retirees and Beneficiaries Receiving Benefits	22,401
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	3,742
Active Eligible Plan Members	<u>37,809</u>
Total Members	<u><u>63,952</u></u>

The Plan provisions are as follows:

Eligibility:

State Employees:

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement (hired before January 1, 2012):

Non-General Assembly:

Age 62 with 5 years of service, or age 60 with 15 years of service, or any age with 30 years of service

General Assembly:

Age 60 with 5 years of service, or age 55 with 10 years of service

Normal Retirement (hired on or after January 1, 2012):

Age 65 with 10 years of service, or age 60 with 20 years of service, or any age with 30 years of service

Judges:

Normal Retirement (before July 1, 1980):

Age 65 with 12 years of service, or any age with 24 years of service, or involuntarily retired after 22 years of service

Normal Retirement (after June 30, 1980):

Age 62 with 12 years of service or any age, with 24 years of service, or involuntarily retired after 22 years of service

Closed State Police:

Normal Retirement:

Age 55 or 20 years of service

Open State Police:

Normal Retirement:

Age 55 with 10 years of service, or any age with 20 years of service, or 10 years of service when age plus service equals 75

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

Benefits:

During the fiscal year ended June 30, 2019, eligible retirees are provided health insurance options through several providers, and the Plan pays premiums, ranging from 50% to 100%, depending on a retiree’s years of service and hire date as discussed below.

Spouse and Survivor Coverage:

Both are available under any of the Plan options with similar retiree contributions. Surviving spouses are eligible for coverage after the retiree’s death.

Retiree Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service, as shown on the table below:

<u>Between July 1, 1991 and December 31, 2006</u>		<u>On or After January 1, 2007</u>	
<b>Years of Service</b>	<b>Percent of Premium Paid by the Plan</b>	<b>Years of Service</b>	<b>Percent of Premium Paid by the Plan</b>
Less than 10	0%	Less than 15	0%
10 - 14	50%	15 - 17.5	50%
15 - 19	75%	17.5 - 19	75%
20 or more	100%	20 or more	100%

*Fund Description*

The Local Trust is an external investment pool operated by the Board that allows local governments to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation by local governments in the pool is voluntary. As of June 30, 2019, only the Kent County Levy Court participated in the Local Trust.

The Local Trust is subject to oversight of the Board’s Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The Trust has not provided or obtained any legally binding guarantees during the year to support the value of shares. Since the Local Trust is a portion of the total Trust, the same accounting and investment policies described in the financial footnotes apply.

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

**Note 2: Summary of Significant Accounting Policies**

*Reporting Entity*

The Trust, which provides benefits almost exclusively to the State, is a component unit of the State and reported as a fiduciary fund. Fiduciary funds are used to account for assets and activities when an entity is functioning as a trustee for another party. The accompanying financial statements of the Trust are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

*Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The Trust's financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, contributions from the employer are recognized when due; benefits and refunds are recognized when due and payable in accordance with the terms of the Trust. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Net change in fair value of investments includes realized gains and losses based on purchases and sales of securities recorded on a trade-date basis, as well as any unrealized gains or losses in fair value of securities held for the period.

**Note 3: Fair Value Measurements**

All of the investment assets of the Trust are pooled and invested in a common Master Trust. The Trust described herein shared in the Master Trust based on funds contributed and earnings/(losses) allocated.

Pooled investments are funds wherein the Trust owns units or shares of commingled equity, fixed income, and cash funds. These investments are redeemable with the underlying funds at net asset values (NAV) under the terms of the partnership agreements and/or subscription agreements. As of June 30, 2019, fixed income items classified as cash equivalents include \$1.3 million in short-term investments and \$27.5 million in pooled investments. The fair value of other pooled investments totaled \$118.1 million. The asset allocation (in millions) was \$42.8 in domestic fixed income, \$41.8 in domestic equity, and \$33.5 in international equity.

Alternative investments are ownership interests in investment limited partnerships or private LLCs, some of which may be illiquid. As of June 30, 2019, alternative investment values of \$94.8 million represent 22.1% of the Trust's net position.

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

The fair value of the Trust's investments is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values for fixed income and equity securities are derived from published market prices and quotations from national security exchanges or security pricing vendors. Where published prices, quotations, or vendor prices are not available, alternate valuation methods are used.

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Trust's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Equity and Fixed Income securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Equity securities classified in Level 2 are valued using the latest available estimates of price bids or actual price bids quoted in active and inactive markets for those securities.

Fixed Income securities and pooled investments classified in Level 2 are valued using other inputs including, but not limited to, interest rates and yield curves that are observable at commonly quoted intervals as well as the latest available estimates of price bids or actual bids quoted in active and inactive markets for those, or similar, securities.

Fixed Income securities classified in Level 3 are privately placed subordinated notes, valued using a discounted cash flow model. Unobservable inputs include projected cash flows and the discount rate.

Pooled investments classified in Level 1 of the fair value hierarchy are investments in open-end, non-exchange-traded mutual funds for which fair value per share (unit) is determined and published and is the basis for current transactions. These securities are valued at their NAV on the date of valuation and are classified as Level 1 in the fair value hierarchy since they may be purchased or sold at their publicly-quoted NAV on the date of valuation.

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

The Trust has the following recurring fair value measurements as of June 30, 2019. Investments that are measured using the NAV per share (or its equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy below.

**Investments by Fair Value  
(Expressed in Thousands)**

	<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Equity Securities</b>				
Common Stock	\$ 105,157	\$ 105,043	\$ 114	\$ -
Convertible Equity	183	104	79	-
Preferred Stock	286	279	7	-
Total Equity Securities	<u>\$ 105,626</u>	<u>\$ 105,426</u>	<u>\$ 200</u>	<u>\$ -</u>
<b>Fixed Income Securities</b>				
Asset Backed Securities	\$ 4,515	\$ -	\$ 4,515	\$ -
Bank Loans	15,206	-	15,206	-
Commercial Mortgage-Backed	5,052	-	5,052	-
Corporate Bonds	10,843	-	10,800	43
Corporate Convertible Bonds	534	-	534	-
Government Agencies	10,526	-	10,526	-
Government Bonds	8,888	-	8,888	-
Indexed Linked Government Bonds	15,106	-	15,106	-
Municipal/Provincial Bonds	130	-	130	-
Total Fixed Income Securities	<u>\$ 70,800</u>	<u>\$ -</u>	<u>\$ 70,757</u>	<u>\$ 43</u>
<b>Pooled Investments</b>				
Equity Funds	\$ 3,338	\$ 3,338	\$ -	\$ -
Total Pooled Investments	<u>\$ 3,338</u>	<u>\$ 3,338</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Investments by Fair Value Level</b>	<b>\$ 179,764</b>	<b>\$ 108,764</b>	<b>\$ 70,957</b>	<b>\$ 43</b>
<b>Total Investments Measured at NAV</b>	<b>209,552</b>			
<b>Total Investments</b>	<b><u>\$ 389,316</u></b>			

The valuation method for pooled and alternative investments that do not have a readily determinable fair value is such that the Trust establishes fair value by using the NAV per share (or its equivalent), such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. These values are calculated by the management of each investment fund as of the Trust's measurement date, generally in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. The NAV received from each investment fund are reviewed by Pension Office staff and its investment advisor; and both the Trust's management and the custodian receive periodic and audited annual financial reports from the management of each investment fund.

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

The Trust has the following recurring NAV measurements as of June 30, 2019. Excluded from pooled investments below is a short-term stable value fund that the Trust classifies as Cash Equivalents in the amount of \$27.5 million. The short-term investment fund is a stable-value (money market-like) investment vehicle for cash reserves, which the Trust classifies as Cash Equivalents. It is managed by the Trust's Custodian to offer a competitive rate of return through a portfolio of obligations of the U.S. Government, its agencies or instrumentalities, and related money market instruments. Principal preservation and liquidity management are the prime objectives. At year end, the NAV, unfunded commitments, and redemption terms are as follows:

**Investments Measured at NAV  
(Expressed in Thousands)**

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<b>Pooled Investments</b>				
Equity Funds	\$ 71,944	\$ -	Daily, Monthly	1 to 30 days
Fixed Income Funds	42,804	-	Daily	1 day
Total Pooled Investments	\$ 114,748			
<b>Alternative Investments</b>				
<b>Funds Primarily Invested in Public Securities</b>				
Credit/Distressed Debt Focused Multi-Strategy	\$ 6,050	\$ -	Quarterly, Annual	90 days
Equity Focused Strategy	2,572	-	Annual	90 days
Multi Strategy	7,020	-	Monthly	5 days
<b>Funds Primarily Invested in Private Securities</b>				
Buyout	8,369	\$ 5,602		
International	15,448	4,133		
Private Debt	1,301	2,319		
Private Equity	43,885	13,010		
Real Assets	10,159	4,383		
Total Alternatives	\$ 94,804			
<b>Total Investments Measured at NAV</b>	<b>\$ 209,552</b>			

*Unfunded Commitments.* The Trust has commitments to invest additional amounts, to be drawn down as called upon at any time during the term of each relationship. The lengths of these terms are discussed below. Generally, these commitments are self-funding; in that the capital calls are met using cash flows generated by distributions received from alternative investment funds as the underlying investments of the funds are liquidated.

*Pooled Investments.* This type includes three index tracking funds and four global value equity funds. The index funds maintain a portfolio constructed to match or track the components of the following market indices: S&P 500, Russell 1000 Value and the Bloomberg Barclays Capital U.S. Aggregate. The global value equity funds invest in both U.S. and non-U.S. equities, seeking quality companies that are attractively valued and have growth potential.

*Credit/Distressed Debt Focused Strategy.* This type includes three funds that engage in multiple

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

investment strategies across the credit spectrum, with the objective of achieving superior risk-adjusted returns through opportunistic investment. The composite portfolio for this type includes investments in distressed corporate securities, convertible hedging, residential and consumer debt, real estate debt, merger arbitrage, and real estate. In limited circumstances, these funds have the ability to impose a suspension or postponement of redemptions (a “gate”), or in the case of a withdrawal greater than 90% they may hold up to 10% of the redemption amount (a “holdback”) until the completion of the funds’ annual audit. There have been no gates imposed during the reporting period. These funds may also segregate a portion of the portfolio, commonly illiquid securities with no active market, from other investments of the portfolio (a “side pocket”). Investments in a side pocket are redeemable only upon liquidation of the underlying assets in the side pocket. Investments representing approximately 11% of the value of the investments in this type of held in side pockets.

*Equity Focused Strategy.* This type includes two funds that engage in equity investing strategies. The composite portfolio for this type invests both long and short in global common stocks, but also in debt, credit, private equity, derivative and other financial instruments. In limited circumstances, these funds have the ability to impose a gate, or in the case of a withdrawal greater than 95% they may hold back up to 5% of the redemption amount until the completion of the funds’ annual audit. These funds may also segregate a portion of the portfolio in a side pocket. Investments in a side pocket are redeemable only upon liquidation of the underlying assets in the side pocket. Investments representing approximately 54% of the value of the investments in this type are held in side pockets. Investments representing approximately 100% of the value of the investments in this type cannot be redeemed because the investments include an initial lock-up that does not allow for redemption in the first five years after acquisition. The remaining restriction period for these investments is approximately 15 months at June 30, 2019.

*Multi-Strategy.* This fund may be invested in a wide range of asset classes in order to meet fund objectives. In limited circumstances, this fund has the ability to impose a suspension or postponement of redemptions (a “gate”), or in the case of a withdrawal greater than 90%; may hold back 10% for approximately 15 days while the fund NAV is being finalized. There have been no gates imposed during the current reporting period.

*Funds Primarily Invested in Private Securities.* These investments can never be redeemed with the funds. Instead, the nature of the investments in these types is that distributions are received through the liquidation of the underlying assets of the funds. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 14 years. The strategy of each type is as follows:

*Buyout.* This type includes four funds that make equity investments in mature, private companies.

*International.* This type includes 14 funds that invest in private equity and buyout strategies operating principally outside of the U.S.

*Private Debt.* This type includes seven funds that invest in debt or equity securities of financially stressed (distressed) companies, as well as convertible bonds and subordinated

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

debt in private companies.

*Private Equity.* This type includes 52 funds that invest in the equity securities of growing private companies, primarily in the technology and healthcare sectors.

*Real Assets.* This type includes six funds that invest in commercial real estate and private energy companies including commercial real estate, exploration and production, midstream power and service businesses.

**Note 4: Deposits and Investments**

**Investment Policy**

The Board of Pension Trustees is authorized by 29 Del. C. § 8308 to maintain and invest the funds of the Trust. There are no State statutes limiting allowable investments for the Trust. The investment decisions are dictated by the prudent person rule and the internal investment guidelines which are established, and may be amended by the Board as outlined below:

- Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments
- Maintain a diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style
- Monitor the performance of all investment managers using specific benchmarks
- Control exposure in illiquid asset classes
- Review, re-examine, and reconfirm the operation of results of the investment process regularly
- Identify new long-term opportunities for risk reduction and improved investment returns
- Review actuarial assumptions to ensure consistency with capital market expectations.

The Board delegates the operation of the Trust's investments to the Investment Committee. The Committee establishes asset allocations to various investment markets. The following were the Trust's adopted asset allocation ranges as of June 30, 2019:

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

<b>Asset Class</b>	<b>Percent of Total Funds Allocation <sup>(1)</sup></b>	
	<b>Minimum</b>	<b>Maximum</b>
<b>Marketable Investments</b>		
Equity	20%	80%
Fixed Income (Including Cash) <sup>(2)</sup>	20% <sup>(2)</sup>	80%
<b>Total Marketable Investments</b>	<b>30%</b>	<b>100%</b>
<b>Alternative Investments</b>		
Illiquid Investments	0%	30%
Other Diversification Investments	0%	20%
<b>Total Alternative Investments</b>	<b>0%</b>	<b>30%</b>
<b>Total Fund</b>	<b>100%</b>	

*(1) The Fund will rarely be fully invested at the minimum or maximum limits, and some assets will be held in cash.*

*(2) A minimum of 15% of the Fund is to be invested in investment grade fixed income securities or cash equivalents.*

The current policy was adopted by the Board on September 28, 2018. There were no significant changes to the policy from the prior version.

For the Fiscal Year ended June 30, 2019, management of the Trust believes it has operated in all material respects in accordance with these policies.

Within the broad asset allocation ranges noted above, the Trust does not rebalance to a specific target allocation. While the Trust does not utilize a target allocation approach and participation is only for the current year, the following is the average asset allocation for the 10-year period ended June 30, 2019, which is representative of the nature and mix of current and expected Trust investments.

<b>Asset Class</b>	<b>10-year Average Allocation</b>
Domestic Equity	34.0%
International Equity	12.5%
Fixed Income	25.3%
Cash and Short-Term	5.6%
Alternative Investments	22.6%
	100%

**Rate of Return**

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2019, the annual money-weighted rates of return on Trust investments, net of Trust investment expenses, were as follows:

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

<b>Plan</b>	<b>Money-Weighted Rate</b>
Delaware Postretirement Health Plan	4.78%
Delaware Local Government OPEB Investment Trust	4.82%

### **Securities Lending**

As a result of co-mingling the Trust's pool of assets with the assets of DPERS in December 2018, the Trust effectively became a participant in the existing security lending agreement with DPERS's custodian bank, which acts as a security lending agent on behalf of both DPERS and the Trust. The objective of securities lending is to earn income through a conservatively operated and well-controlled program. The custodian is authorized to lend securities within the borrower limits and guidelines established by the Trust. The Trust lends fixed income, domestic equity, and international equity securities to approved broker/dealers. Collateral for securities loaned equals 101 percent of fair market value for domestic securities and 105 percent for international securities.

The only types of collateral received from borrowers are obligations issued by the U.S. Government. All rights of ownership to securities pledged as collateral remain with the borrower except in the event of default. The Trust has the authority to sell collateral securities only upon a borrower default. As of June 30, 2019, there were no violations of legal or contractual provisions. The Trust has not experienced any losses resulting from the default of a borrower or lending agent during the year ended June 30, 2019.

At year-end, the Trust has no credit risk exposure to borrowers because the amounts the Trust owes the borrowers exceed the amounts the borrowers owe the Trust. The contract with the Trust's custodian requires it to indemnify the Trust if the borrowers fail to return the securities or fail to pay the Trust for income distributions by the securities' issuers while the securities are on loan. The Trust manages its market risk by recording investments at fair value daily and maintaining the value of the collateral held by the Trust in excess of the value of the securities loaned. As of June 30, 2019, the fair value of securities on loan was \$4.0 million. The associated collateral was \$4.1 million.

All open security loans can be terminated on demand by either the Trust or borrower. The collateral is valued at fair value obtained from independent pricing services.

### **Investments**

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the Trust's exposure to interest rate risk as of June 30, 2019. The Trust holds \$67.2 million in domestic fixed income and \$3.6 million in foreign fixed income instruments. The table below also includes \$27.5 million in pooled stable value fund, \$1.3 million in short-term

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

bills and notes collectively reported as cash equivalents, and \$42.8 million in pooled fixed income investments. These are reported on the Statement of Fiduciary Net Position, respectively, as cash and equivalents and pooled equity and fixed income.

**Investment Maturities (in Years)  
(Expressed in Thousands)**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1-6</b>	<b>6-10</b>	<b>10+</b>
Asset Backed Securities	\$ 4,515	\$ -	\$ 472	\$ 526	\$ 3,517
Bank Loans	15,206	90	10,478	4,638	-
Cash Equivalents	28,798	28,798	-	-	-
Commercial Mortgage-Backed	5,052	-	156	237	4,659
Corporate Bonds	10,843	1,022	4,501	2,178	3,142
Corporate Convertible Bonds	534	84	315	24	111
Government Agencies	10,526	-	-	-	10,526
Government Bonds	8,888	2,974	3,149	1,802	963
Index Linked Government Bonds	15,106	-	5,646	7,105	2,355
Municipal/Provincial Bonds	130	-	-	-	130
Pooled Investments	42,804	-	-	42,804	-
<b>Total</b>	<b>\$ 142,402</b>	<b>\$ 32,968</b>	<b>\$ 24,717</b>	<b>\$ 59,314</b>	<b>\$ 25,403</b>

**Interest Rate Risk**

The State has delegated investment policy for the Trust to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the Trust's exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the statement of Investment Policies and Objectives which are published on the Office of Pension's website.

**Custodial Credit Risk**

Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. At June 30, 2019, the \$43.9 million carrying amount of the Trust's cash and cash equivalents was comprised of \$28.8 million of short-term investments and \$15.1 million in deposits. Of the \$15.1 million in deposits, \$3.8 million was subject to custodial credit risk because it was held by outside institutions and uninsured and uncollateralized. The remaining \$11.3 million was held as pooled cash management account by the State Treasurer's Office, which includes deposit accounts, short- and long-term investments.

**State of Delaware**  
**Other Postemployment Benefits (OPEB) Fund Trust**

*Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name. The Trust's investments are not exposed to custodial credit risk as they are held by the Trust's custodian in the name of the Trust or its nominee.

**Credit Risk**

The Trust's general investment policy is to apply the prudent-person rule to all risks incurred by the fund. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The Trust has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2019, the Trust's fixed income investments and cash equivalents had the following credit risk characteristics:

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Ratings Detail by Security Type  
(Expressed in Thousands)**

<b>Fixed Income Security Type</b>	<b>Asset Backed Securities</b>	<b>Bank Loans</b>	<b>Cash Equivalents</b>	<b>Commercial Mortgage- Backed</b>	<b>Corporate Bonds</b>	<b>Corporate Convertible Bonds</b>
AAA	\$ 201	\$ -	\$ -	\$ 117	\$ 163	\$ -
Aaa	954	-	1,260	93	-	-
AA+	-	-	-	39	273	-
AA	20	-	-	141	-	-
Aa2	78	-	-	-	-	-
A1+	-	-	27,538	-	-	-
Aa3	-	-	-	43	-	-
A+	-	-	-	-	613	-
A1	11	-	-	-	-	-
A	240	-	-	342	13	-
A2	-	-	-	42	-	-
A-	40	-	-	57	213	54
BBB+	84	-	-	-	738	-
BBB	102	-	-	-	2,371	-
Baa2	-	-	-	-	19	-
BBB-	-	707	-	40	1,129	-
Baa3	-	35	-	-	24	31
BB+	122	422	-	-	923	-
BB	-	1,173	-	40	679	-
Ba2	-	37	-	-	-	-
BB-	-	2,148	-	153	893	192
Ba3	-	-	-	64	22	-
B+	-	2,093	-	-	776	3
B1	-	57	-	-	-	-
B	-	4,188	-	-	491	-
B2	-	55	-	-	-	-
B-	-	1,136	-	39	774	-
CCC+	-	185	-	-	242	145
Caa1	-	51	-	-	-	-
CCC	-	376	-	-	108	-
CCC-	-	-	-	-	6	-
CC	524	-	-	-	-	-
Ca	-	-	-	247	-	-
D	-	-	-	-	27	-
<b>No Rating</b>	2,139	2,543	-	3,595	346	109
<b>Total:</b>	<b>\$ 4,515</b>	<b>\$ 15,206</b>	<b>\$ 28,798</b>	<b>\$ 5,052</b>	<b>\$ 10,843</b>	<b>\$ 534</b>

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Ratings Detail by Security Type (continued)  
(Expressed in Thousands)**

<b>Fixed Income Security Type</b>	<b>Government Agencies</b>	<b>Government Bonds</b>	<b>Index Linked Government Bonds</b>	<b>Municipal/ Provincial Bonds</b>	<b>Pooled Investments</b>	<b>Total</b>	<b>Percentage of Total Fund</b>
<b>AAA</b>	\$ -	\$ 60	\$ -	\$ -	\$ -	\$ 541	0.12%
<b>Aaa</b>	10,526	8,347	10,981	-	-	32,161	7.43%
<b>AA+</b>	-	-	-	-	-	312	0.07%
<b>AA</b>	-	-	-	-	-	161	0.04%
<b>Aa2</b>	-	-	-	-	-	78	0.02%
<b>A1+</b>	-	-	-	-	-	27,538	6.36%
<b>Aa3</b>	-	-	-	-	-	43	0.01%
<b>A+</b>	-	-	-	-	-	613	0.14%
<b>A1</b>	-	-	-	-	-	11	0.00%
<b>A</b>	-	-	-	-	-	595	0.14%
<b>A2</b>	-	-	-	-	-	42	0.01%
<b>A-</b>	-	345	-	-	-	709	0.16%
<b>BBB+</b>	-	-	-	-	-	822	0.19%
<b>BBB</b>	-	-	-	-	-	2,473	0.57%
<b>Baa2</b>	-	-	-	-	-	19	0.00%
<b>BBB-</b>	-	-	-	-	-	1,876	0.43%
<b>Baa3</b>	-	-	-	-	-	90	0.02%
<b>BB+</b>	-	-	-	-	-	1,467	0.34%
<b>BB</b>	-	-	-	-	-	1,892	0.44%
<b>Ba2</b>	-	11	-	-	-	48	0.01%
<b>BB-</b>	-	125	-	-	-	3,511	0.81%
<b>Ba3</b>	-	-	-	-	-	86	0.02%
<b>B+</b>	-	-	-	-	-	2,872	0.66%
<b>B1</b>	-	-	-	-	-	57	0.01%
<b>B</b>	-	-	-	-	-	4,679	1.08%
<b>B2</b>	-	-	-	-	-	55	0.01%
<b>B-</b>	-	-	-	130	-	2,079	0.48%
<b>CCC+</b>	-	-	-	-	-	572	0.13%
<b>Caa1</b>	-	-	-	-	-	51	0.01%
<b>CCC</b>	-	-	-	-	-	484	0.11%
<b>CCC-</b>	-	-	-	-	-	6	0.00%
<b>CC</b>	-	-	-	-	-	524	0.12%
<b>Ca</b>	-	-	-	-	-	247	0.06%
<b>D</b>	-	-	-	-	-	27	0.01%
<b>No Rating</b>	-	-	4,125	-	42,804	55,661	12.86%
<b>Total:</b>	<b>\$ 10,526</b>	<b>\$ 8,888</b>	<b>\$ 15,106</b>	<b>\$ 130</b>	<b>\$ 42,804</b>	<b>\$142,402</b>	<b>32.87%</b>

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Investment Concentration Risk**

As of June 30, 2019, the Trust held no concentration of investments (excluding pooled investments) in an individual issuer in excess of 5% of the fair value of the Trust's net position.

**Management Fees**

In addition to the \$0.7 million paid in Manager/Advisor fees shown in the Statement of Changes in Fiduciary Net Position, the Trust paid \$0.2 million in management fees to the alternative investment funds and partnerships for the Fiscal Year ended June 30, 2019. These fees are netted against investment income.

**Foreign Investments**

Foreign investments include equity securities, bonds, and cash and cash equivalents. The following is a listing of foreign assets included in the Statement of Fiduciary Net Position as of June 30, 2019. The listing includes \$82 thousand of fixed income investments of domestic issuers which have been classified as domestic on the Statement of Fiduciary Net Position but are denominated in a foreign currency.

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Currency Risk  
(Expressed in Thousands)**

<b>Currency</b>	<b>Fair Value in U.S. Dollars</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Cash and Cash Equivalents</b>
Australian dollar	146	146	-	-
Brazilian real	260	135	125	-
British pound sterling	1,614	1,587	27	-
Canadian dollar	685	633	52	-
Danish krone	94	94	-	-
Euro	4,574	4,528	43	3
HK offshore Chinese Yuan Renminbi	353	353	-	-
Hong Kong dollar	3,031	3,029	-	2
Indonesian rupiah	773	769	-	3
Japanese yen	870	866	-	4
Mexican peso	470	137	333	-
New Zealand dollar	19	-	19	-
Nigerian naira	88	88	-	-
Norwegian krone	59	-	59	-
Philippine peso	1,239	1,236	-	3
South African rand	174	174	-	-
South Korean won	192	192	-	-
Swedish krona	253	253	-	-
Swiss franc	798	798	-	-
Thai baht	160	160	-	-
Turkish lira	155	154	-	1
Vietnamese dong	341	279	-	63
<b>Total Foreign Currencies</b>	<b>16,348</b>	<b>15,611</b>	<b>658</b>	<b>79</b>
Foreign issued investments denominated in U.S. Dollars	10,650	7,645	3,005	-
Pooled international investments denominated in U.S. Dollars	41,417	41,417	-	-
<b>Total:</b>	<b>68,415</b>	<b>64,673</b>	<b>3,663</b>	<b>79</b>

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

**Note 5: Net OPEB Liability**

The components of the net OPEB liability of the Plan at June 30, 2019 were as follows (expressed in thousands):

Total OPEB liability	\$ 8,379,623
Plan fiduciary net position	410,101
Net OPEB liability	\$ 7,969,522
Plan fiduciary net position as a percentage of the total OPEB liability	4.89%

**Note 6: Actuarial Assumptions**

The total OPEB liability of the Plan was determined by an actuarial valuation as of June 30, 2018, updated to a June 30, 2019 measurement date, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.25% (plus merit scale), including inflation
Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	6.6% for 2019, decreasing 0.2% per year to an ultimate rate of 4.0% for 2032 and later years
Spousal Coverage	50% of employees will elect spouse coverage at retirement
Percent of Retirees Electing Coverage	50% of employees not currently covered are expected to elect coverage before retirement. All employees are expected to remain in currently enrolled plans. The following retirees are expected to elect coverage: 95% of employees with more than 20 years of service 80% of employees with less than 20 years of service 40% of current and future terminated vested employees 100% of long-term disability participants

The Entry Age Actuarial Cost Method was used to value the Plan's actuarial liabilities and to set the normal cost. Under this method, the normal cost rate is the percentage of pay contribution which would be sufficient to fund the Plan's benefits if it were paid from each member's entry into the Plan until termination or retirement.

Mortality rates are based on the sex-distinct employee, healthy annuitant, and disabled annuitant mortality tables derived from the RP-2014 Total Dataset Employee Mortality Table, including

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

adjustment factors. Future mortality improvements are reflected by applying a custom projection scale on a generational basis to adjusted base tables from the base year.

The long-term expected rate of return on OPEB plan investments was determined using 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 weighting the expected future real rates of return by an asset allocation percentage which is based on the nature of 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 Trust's current and expected asset allocation as of June 30, 2019 are summarized in the following table:

<b>Asset Class</b>	<b>Long Term Expected Real Rate of Return</b>
Domestic Equity	5.7%
International Equity	5.7
Fixed Income	2.0
Alternative Investments	7.8
Cash and Equivalents	---

The demographic assumptions were adopted by the Board of Trustees upon the recommendations of the actuary, based on an experience study performed in 2016 and covering the period July 1, 2010 through June 30, 2015. Assumptions directly related to health care elections, spousal coverage and health care trends are reviewed annually.

The discount rate used to measure the total OPEB liability was 3.87 percent at the beginning of the current measurement period and 3.50 percent at the end, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirement of an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from the State will continue to follow the pay-as-you-go contribution policy.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50 percent decreasing to 2.50 percent) or 1-percentage-point higher (3.50 percent increasing to 4.50 percent) than the current discount rate (dollar amounts in thousands):

	1% Decrease (2.5%)	Discount Rate (3.5%)	1% Increase (4.5%)
Net OPEB Liability	\$ 9,449,826	\$ 7,969,522	\$ 6,795,037

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

**State of Delaware  
Other Postemployment Benefits (OPEB) Fund Trust**

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liabilities would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.6 percent decreasing to 5.6 percent) or 1-percentage point higher (6.6 percent increasing to 7.6 percent) than the current healthcare cost trend rates (dollar amounts in thousands):

	1% Decrease (5.6%)	Healthcare Cost Trend Rates (6.6%)	1% Increase (7.6%)
Net OPEB Liability	<u>\$ 6,810,465</u>	<u>\$ 7,969,522</u>	<u>\$ 9,353,161</u>

## Required Supplementary Information

**State of Delaware  
Other Postemployment Benefits Fund Trust**

**Schedule of Changes in the Delaware Postretirement Health Plan's  
Net OPEB Liability and Related Ratios**

**Last 10 Fiscal Years \***  
(Expressed in Thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service Cost	\$ 303,006	\$ 306,562	\$ 340,456
Interest	333,692	309,767	269,204
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience <sup>1</sup>	(1,073,576)	-	-
Changes of Assumptions	465,593	(413,321)	(1,156,541)
Benefit payments	<u>(240,860)</u>	<u>(222,099)</u>	<u>(236,332)</u>
Net Changes in Total OPEB Liability	(212,145)	(19,091)	(783,213)
Total OPEB Liability - Beginning	8,591,767	8,610,858	9,394,071
Total OPEB Liability - Ending	<u>\$ 8,379,622</u>	<u>\$ 8,591,767</u>	<u>\$ 8,610,858</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 251,325	\$ 224,624	\$ 237,222
Contributions - On Behalf	145	157	158
Contributions - Member	-	-	11,981
Net Investment Income	18,034	23,830	32,297
Benefit Payments	(240,860)	(222,099)	(236,332)
Administrative Expenses	<u>(180)</u>	<u>(89)</u>	<u>(87)</u>
Net Changes in Plan Fiduciary Net Position	28,464	26,423	45,239
Net Position - Beginning	381,637	355,214	309,975
Net Position - Ending	<u>\$ 410,101</u>	<u>\$ 381,637</u>	<u>\$ 355,214</u>
Net OPEB Liability	<u>\$ 7,969,521</u>	<u>\$ 8,210,130</u>	<u>\$ 8,255,644</u>
Net Position as a Percentage of Total OPEB Liability	4.89%	4.44%	4.13%
Covered Payroll	\$ 2,093,798	\$ 2,052,135	\$ 2,035,244
Net OPEB Liability as a Percentage of Covered Payroll	380.63%	400.08%	405.63%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

<sup>1</sup>2019 differences between expected and actual experience resulted in an experience gain related to changes in claim cost, population changes, and trend assumptions.

**State of Delaware**  
**Other Postemployment Benefits Fund Trust**

**Schedule of Contributions**  
**Last 10 Fiscal Years**  
**(Dollar amounts in thousands)**

This schedule is not applicable as no actuarially determined contributions are calculated. The Trust operates on a pay-as-you-go basis; therefore, the participating employers base their contributions into the Trust on the expected benefit payments. Requests for additional financial information should be directed to State of Delaware Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, DE 19904-2402 or visit the Division of Accounting website at <https://accounting.delaware.gov/reports.shtml> for the current Comprehensive Annual Financial Report.

**State of Delaware  
Other Postemployment Benefits Fund Trust**

**Schedule of Investment Returns  
Last 10 Fiscal Years \***

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense, Delaware Postretirement Health Plan	4.78%	6.80%	10.64%
Annual money-weighted rate of return, net of investment expense, Delaware Local Government OPEB Investment Trust	4.82%	6.96%	10.55%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.



Tel: 302-656-5500  
Fax: 302-656-8024  
www.bdo.com

4250 Lancaster Pike, Suite 120  
Wilmington, DE 19805

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Pension Trustees  
State of Delaware Other Postemployment Benefits Fund Trust  
Dover, Delaware

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 combining statements of fiduciary net position and changes in fiduciary net position of the State of Delaware Other Postemployment Benefits Fund Trust (the "Trust"), a component unit of the State of Delaware, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 15, 2019.

### **Internal Control Over Financial Reporting**

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

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

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



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*BDO USA, LLP*

November 15, 2019  
Wilmington, DE