NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM

(A Pension Trust Fund of New Castle County, Delaware)

Financial Statements and Required Supplementary Information

For the Year Ended June 30, 2018

(With Report of Independent Public Accountants)

NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM

(A Pension Trust Fund of New Castle County, Delaware)

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
New Castle County Employees' Pension Program

Report on the Financial Statements

We have audited the accompanying basic financial statements of the New Castle County, Delaware Employees' Pension Program (the Pension Program) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Pension Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Program as of June 30, 2018, and the respective changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Trustees of the
New Castle County Employees' Pension Program

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages 3 - 5, the schedule of changes in net pension liability, the schedule of county contributions, and the schedule of investment returns on pages 24 - 26, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
December 17, 2018

This discussion and analysis of the New Castle County, Delaware Employees' Pension Program (the Program) financial performance provides an overview of the Program's financial activities for the year ended June 30, 2018. Please read this discussion and analysis in conjunction with the Program's financial statements, which follow this section.

Financial Highlights

- Net position restricted for pensions increased by $20.2 million during the year from $425.7 million as of June 30, 2017, to $445.9 million as of June 30, 2018. The increase is primarily driven by an increase in the fair value of investments, slightly offset by an increase in benefit payments.

- The Program had a net investment gain of $36.7 million for the year ended June 30, 2018, compared to a net investment gain of $46.0 million for the year ended June 30, 2017. This net investment gain is attributable to very favorable market conditions.

- Employer contributions increased by $2.4 million for the year ended June 30, 2018, to $17.9 million. Contributions from other sources increased from $4.5 million in 2017 to $7.5 million in 2018.

- Benefit payments to retirees increased by $1.7 million during the year from $39.3 million in FY 2017 to $41.0 million in FY 2018.

Overview of the Financial Statements

This financial report consists of the statement of fiduciary net position and the statement of changes in fiduciary net position. These statements provide information about the financial position and activities of the Program as a whole. These amounts are included in the statement of fiduciary net position in New Castle County's financial statements.

Notes to the Financial Statements

The accompanying notes to the financial statements provide additional information that is essential for a comprehensive understanding of the Program's financial condition and financial performance. The notes to the financial statements can be found on pages 8-22 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the Program's net liability and related ratios, contributions required and made to the Program as of and for the year ended June 30, 2018, actuarial assumptions, and a 10-year schedule of annual money-weighted rates of return (net of investment expense). Required supplementary information can be found on pages 23-26 of this report.

Analysis of Financial Position and Financial Performance

The Program's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer contributions as well as earning an adequate long-term rate of return on its investments are essential components of the Program for accumulating the funds needed to finance future retirement benefits.

Fiscal Year 2018 Compared to 2017

The following schedule depicts the balances of the Program's allocation of investments from 2017 to 2018. Municipal obligations, Obligations of U.S. governments and agencies, Corporate Obligations, Collateralized Mortgage Obligations, and Asset Backed Securities decreased by $12.1 million collectively due to a restructuring of the Program's fixed income portfolio which resulted in the liquidation of all of those assets. The decreases in those asset classes represent a reallocation to two Fixed Income Collective Trusts (a Treasury Inflation Protection Securities Fund and a Core Bond Fund). The transition to the new fixed income portfolio was in process at the end of Fiscal Year 2017, so a majority of the fixed income securities remained in Cash and Cash Equivalents at June 30, 2017 until the transition was complete, hence the $15.5 million decrease in that portion of the assets in Fiscal Year 2018. Collective Trusts increased $41.9 million primarily due to the restructuring of the fund's fixed income portfolio into this sector and outperformance of the global tactical asset allocation Collective Trust. Mutual funds increased due to outperformance of equity based mutual funds. Common and preferred stock decreased due to a trimming of that sector of the portfolio to rebalance due to an overweight in equities, and also to liquidate assets to help pay fund expenses. Private Equity funds increased by $4.8 million mainly due to very strong performance of managers and increased funding through capital calls.

	2018	2017	**Variance**	**% Change**
Cash and cash equivalents	**$ 9,016,486**	$ 24,529,132	$ (15,512,646)	-63%
Common and preferred stock	**52,682,564**	56,493,761	(3,811,197)	-7%
Corporate obligations	**-**	8,320,747	(8,320,747)	-100%
Collateralized mortgage obligations	**-**	2,556,261	(2,556,261)	-100%
Mutual funds	**74,060,097**	69,180,658	4,879,439	7%
Asset backed securities	**-**	1,184,105	(1,184,105)	-100%
Real Estate Equity funds	**9,247,709**	9,346,200	(98,491)	-1%
Collective Trusts	**278,197,847**	236,290,603	41,907,244	18%
Private Equity	**22,007,812**	17,188,971	4,818,841	28%
Total Cash, cash equivalents, and investments	**$ 445,212,515**	$ 425,090,438	$ 20,122,077	5%

As depicted in the schedule below, investment income increased significantly during the year ended June 30, 2018, due to highly favorable market performance. Employer contributions increased year-over-year primarily due to the decision made in Fiscal Year 2017 to decrease the assumed rate of return on investments from 7.50% to 7.25%. This increased the actuarial cost of the plan, thus increasing the required contributions. State of Delaware contributions increased because per State Code, in addition to amounts that the State Board of Pension Trustees allocates from their special fund deposits to county and municipal police twice annually on a per capita basis, they also provide for post-retirement increases for retired county police as well. There was a surplus in the State's special fund which resulted in an additional contribution to New Castle County in Fiscal Year 2018 of over $2.9 million. Benefit payments increased due to new retirees during the year. Refunds of contributions decreased due to fewer employees leaving employment with New Castle County prior to becoming vested in the Pension Plan.

Fiscal Year 2018 Compared to 2017 (Continued)

Additions:	2018	2017	Variance	% Change
Contributions:				
Plan members	**$ 2,688,889**	$ 2,679,140	$ 9,749	0%
New Castle County	**17,874,191**	15,491,040	2,383,151	15%
State of Delaware	**4,803,283**	1,768,307	3,034,976	172%
Other contributions	**11,958**	2,909	9,049	311%
Net investment income/(loss)	**36,737,842**	46,004,094	(9,266,252)	20%
Total additions	**62,116,163**	65,945,490	(3,829,327)	-6%
Deductions:				
Benefit payments	**40,985,608**	39,290,787	1,694,821	4%
Refunds of contributions	**155,828**	232,840	(77,012)	-33%
Administrative expenses	**717,800**	682,369	35,431	5%
Other expenses, net	**16,704**	33,285	(16,581)	-50%
Total deductions	**41,875,940**	40,239,281	1,636,659	4%
Change in net position	**$ 20,240,223**	$ 25,706,209	$ (5,465,986)	-21%

Requests for Information

New Castle County's management are fiduciaries of the pension trust fund and, as such, are charged with the responsibility of ensuring that the Program's assets are used exclusively for the benefit of plan participants and their beneficiaries. This financial report is designed to provide an overview of the Program's finances and to demonstrate accountability for the resources entrusted to the Program for the benefit of all of the Program's participants. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to David Gregor, Chief Financial Officer, New Castle County Government Center, 87 Reads Way, New Castle, Delaware 19720, telephone (302) 395-5170. Visit the County's website at www.nccde.org.

NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM

(A Pension Trust Fund of New Castle County, Delaware)

Statement of Fiduciary Net Position

June 30, 2018

Assets:	
Cash and cash equivalents	$ 9,016,486
Receivables:	
New Castle County	1,344,192
Employee Contributions	92,911
Miscellaneous	127
Total receivables	1,437,230
Investments:	
Common and preferred stock	52,682,564
Mutual funds	74,060,097
Real Estate equity funds	9,247,709
Collective Trusts	278,197,847
Private Equity	22,007,812
Total investments	436,196,029
Total assets	446,649,745
Liabilities:	
Vouchers payable and accrued expenses	682,277
Net position restricted for pensions	$ 445,967,468

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

NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM

(A Pension Trust Fund of New Castle County, Delaware)

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018

Additions:	
Contributions:	
Plan members	$ 2,688,889
New Castle County	17,874,191
State of Delaware	4,803,283
Other contributions	11,958
Total contributions	25,378,321
Investment income:	
Net increase in fair value of investments	15,188,792
Interest, dividends, and other income, including realized gains/losses	23,862,387
Total investment income	39,051,179
Less: investment expense	2,313,337
Net investment income	36,737,842
Total additions	62,116,163
Deductions:	
Benefit payments	40,985,608
Refunds of contributions	155,828
Administrative expenses	717,800
Other expenses, net	16,704
Total deductions	41,875,940
Net increase in net position	20,240,223
Net position	
Beginning of year	425,727,245
End of year	$ 445,967,468

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

(1) Plan Description

New Castle County, Delaware Employees' Pension Program (the Program) is a quasi-independent agency established as a single-employer defined benefit pension plan to provide pension benefits to employees of New Castle County, Delaware (the County). The Program is considered part of the County's financial reporting entity and is included in the County's financial statements as a pension trust fund. These financial statements are not intended to present the financial position and results of operations of the County.

The Program is governed by a twelve member board of trustees comprised of the County's Chief Financial Officer and Chief Human Resources Officer, six member employees (five of whom are labor union representatives), one retired employee, and three persons not employed by or retired from the County (two of whom are to be in the banking or investment security business). All board of trustees decisions concerning the Pension code must be ratified by ordinance or resolution passed by the County Council before they can become effective.

The Program consists of five separate pension plans with members' benefits varying according to the plan in which they participate. Original membership in a particular plan generally is based upon the date of employment and occupation.

Upon organization of the Program, all of the assets of the County's previously separate pension plans were pooled and were made available to satisfy obligations of members under any of the plans. The County's contributions are based on the actuarial valuation of the Program as a single entity.

The Program's five retirement plans are the County Employees' Pension Plan (the Plan), the Employees' Retirement System (the System), the Alternate Pension Plan (the Closed Plan), the County 2011 Plan (the Hybrid Plan) and the School Crossing Guards' Pension Plan (the Guard Plan). The Closed Plan is the original County employees' pension plan established in 1947. In 1972, this plan was amended and the System was established. All County police and County employees, except appointments, hired after January 1, 1972, automatically became members of the System. The County Code was amended in May 1979, establishing the Plan effective November 1979. All eligible County nonpolice employees hired after May 1, 1979, automatically became members of the Plan after completing six months of service. All eligible County nonpolice employees hired after October 21, 1997, could choose between the Plan and the System. Effective June 24, 2011, the System was closed to new employees. As of November 1, 2011, the Plan was closed to new employees and participation in the Hybrid Plan is compulsory for eligible individuals. In addition, nonpolice County employees have at various times been given the option to transfer between the three plans.

On January 1, 1992, the Guard Plan was established, at which time all eligible school crossing guards were offered the option to buy into the Guard Plan through the prior service purchase options. All eligible school crossing guards become members after six months of service.

On February 1, 1993, the County Code was amended to provide: (a) a compounded 3% postretirement increase for police members of the System commencing January 1, 1998, and (b) that all police employees hired on or after February 1, 1993, shall become members of the Delaware Municipal Police/Firefighter Pension Plan. The County contributes to the Program for County police officers who are members of the System.

(1) Plan Description (Continued)

In December 1996, the board of trustees and the County Council approved an ordinance to allow certain current and former employees to retroactively transfer between the Closed Plan, the Plan and the System, join the Plan or the System, or buy in state service time through December 17, 1997. This ordinance was passed to correct past misinformation about the ability of an employee to buy in state service time and, thus, the possibility that some employees may have been deprived of the opportunity to join the Plan or the System.

On January 20, 2004, the County Code was amended to reflect the passing of an ordinance that allowed certain current employees to retroactively transfer between the Closed Plan, the Plan, and the System; join the Plan or System; or buy in credited service time through January 20, 2005. The ordinance was passed to retain experienced officials and employees who had invested more time with the County since the approval of a similar ordinance passed in December 1996 and had been operating with no pension plan and no County-provided disability coverage through disability retirement benefits.

On December 15, 2006, an ordinance was signed to reinstate the 10 year vesting requirement for the System. It also restricted the buy-in of other government service to full-time service performed for the state or municipalities of Delaware, permits buy-in only after full vesting, and restricts the buy-in or plan switching to be calculated at full actuarial cost.

Benefits Provided

Program benefits are established under County Code. The Program's board of trustees may recommend changes to the benefits, but any changes must be approved by the County Council.

County employees covered by the Plan and hired before December 15, 2006, become eligible for benefits upon 15 years of credited service and attainment of age 60, 10 years of credited service and attainment of age 62, 5 years of credited service and attainment of age 65, or 30 years of credited service. Employees hired after December 15, 2006, become eligible upon 15 years of credited service and age 60, 10 years of credited service and age 62, or 30 years of credited service. The amount of the monthly service or disability pension payable to a Plan member equals 1/60 of his or her final average compensation multiplied by the number of years of his or her credited service, taken to the nearest 1/12 of a year, provided that:

A. Beginning no earlier than age 62, the service pension payable shall in no case exceed 1% of final average compensation plus 0.5% of final average compensation in excess of 30% of covered compensation plus 0.5% of final average pay in excess of covered compensation, the sum of which is multiplied by years of service not in excess of 30 and:

B. The disability pension, when combined with the disability or old age insurance benefit for which he or she is eligible under the federal Social Security Act, without taking into account any increases in such benefit after payments commence, shall not exceed 75% of final average compensation.

For participants who are age 55 prior to January 1, 1997, benefits shall not be less than 75% of final average compensation less the age 62 Social Security benefit; the result to be multiplied by a ratio not to exceed 1, the numerator of which is the participant's years of credited service and the denominator of which is 30 years. Benefits are proportionately less for members with less than 30 years of credited service.

(1) Plan Description (Continued)

County nonpolice employees covered by the System and hired before December 15, 2006, become eligible for benefits at age 60, 55, or 50, provided they have completed at least 5, 15, or 25 years of service, respectively, or at any age upon attaining 30 years of credited service. Nonpolice employees hired after December 15, 2006, become eligible for benefits at age 60, 55, or 50, provided they have completed at least 10, 15, or 25 years of service, respectively, or at any age upon attaining 30 years of credited service. Police members become eligible to retire after 20 years at any age or at age 50 with at least 10 years of service and have not obtained a refund. Police are subject to mandatory retirement at age 55. Normal monthly retirement benefits for nonpolice System members are calculated based upon a monthly average of the member's highest base salary or wage, excluding overtime and shift premium compensation, for 36 months (12 months for police members with at least 15 years of credited service), whether or not consecutive, multiplied by a specific percentage that ranges from 1.7% to 2.5% and multiplied by years of service. Police pensions are calculated at 2.5% of final average salary for each year of police service. Benefits are limited to 80% of the average salary calculated above. Service retirement benefits for nonpolice employees are automatically increased January 1st each year by 2% of the initial benefit beginning the earlier of five years of retirement or attaining age 60 and one year of retirement. Service retirement benefits for police members are automatically increased each year beginning after three years of retirement or age 60 and 1 year of retirement by a 3% cost of living adjustment compounded annually.

Under the Closed Plan, County members are eligible for benefits upon completion of 20 years of credited service or at age 60 and completion of 15 years of credited service. Normal monthly retirement benefit is calculated based upon a monthly average of a member's highest wage, excluding overtime and shift premium compensation, for 60 consecutive months, multiplied by 2.5% and further multiplied by the total years of service. Benefits range from a minimum of $200 per month to a maximum of $300 per month.

Under the Guard Plan, members hired before December 15, 2006, become eligible for benefits upon 15 years of credited service and attainment of age 60, 10 years of credited service and attainment of age 62, 5 years of credited service and attainment of age 65, or 30 years of credited service. Employees hired after December 15, 2006, become eligible upon 15 years of credited service and age 60, 10 years of credited service and age 62, or 30 years of credited service. The annual service retirement benefit is equal to $10 per month for each year of credited service.

Under the Hybrid Plan, members hired after November 1, 2011, become eligible for benefits upon 10 years of credited service and attainment of age 65, or if they are an Emergency Responder with 10 years of credited service and attainment of age 60, or upon 30 years of credited service, regardless of age. The amount of monthly service retirement benefit is equal to 1% of his or her final average salary multiplied by the number of years and partial years of credited service, taken to the nearest month.

The Program also provides death and disability benefits.

(1) Plan Description (Continued)

Plan membership

As of January 1, 2018, the Program membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	
Plan participants	174
System participants	1,127
Closed Plan participants	27
Guard Plan participants	54
Total retirees and beneficiaries currently receiving benefits	1,382
Terminated employees entitled to but not yet receiving benefits:	
Plan participants	24
System participants	61
Closed Plan participants	1
Guard Plan participants	8
Total terminated employees entitled to but not yet receiving benefits	94
Active Program members, vested:	
Plan participants	126
System participants	560
Closed Plan participants	5
Guard Plan participants	50
Total active Program members, vested	741
Active Program members, nonvested:	
Plan participants	13
System participants	60
Hybrid Plan participants	197
Guard Plan participants	25
Total active Program members, nonvested	295

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Program's financial statements are prepared on the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Member, State of Delaware, and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the Program.

(2) Summary of Significant Accounting Policies (Continued)

(b) Investments and Cash Equivalents

New Castle County categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets;
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

In addition to the three levels, if an investment does not have a readily determined fair value, the investment can be measured using the net asset value (NAV) per share. Investments in private equity funds and collective trusts are valued at the NAV based on information provided by the respective fund managers.

Purchases and sales are recorded on a trade-date basis. Unsettled investment sales are reported as investment proceeds receivable, and unsettled investment purchases are reported as investment purchases payable. Interest income is reported as earned, and dividend income is reported as dividends are declared. Investment expenses consist of investment managers' fees and those administrative expenses directly related to the Program's investment operations.

All highly liquid debt instruments purchased with an original maturity date of three months or less at the date of acquisition are considered cash equivalents and are reported at cost, which approximates fair value.

(c) Tax Status

The Program is exempt from federal income tax under Section 115, sections 401(a) and 501(a) of the *Internal Revenue Code*.

(3) Deposits and Investments

(a) Deposits:

The carrying amount of the cash deposits and cash on hand as of June 30, 2018 is $533,912. The bank balances were $553,752. Of the bank balances, $250,000 is covered by federal depository insurance. The remaining bank balance is uncollateralized.

(b) Investments:

The following is a schedule which details the Pension Trust fund's investments.

Investment Type	Fair Value
Common and Preferred Stock	$ 52,682,564
Mutual Funds	74,060,097
Real Estate Equity Funds	9,247,709
Subtotal Equity Securities	**135,990,370**
Collective Trusts	278,197,847
Private Equity	22,007,812
Total Investments at Fair Value	**436,196,029**
Short Term Investment Trusts (included in cash deposits)	8,482,574
Total	**$ 444,678,603**

(3) Deposits and Investments (Continued)

(c) Interest Rate Risk

The Pension fund's long-term investment objective is to achieve a total rate of return, net of fees, which exceeds the actuarial return assumption used for funding purposes. The Pension Trust fund's investment policy states that investment managers who use derivatives in a portfolio must monitor changing risk exposures to ensure that they comply with duration and other risk exposure limits specified in the manager's guidelines on an ongoing basis.

(d) Credit Risk

New Castle County Code, chapter 26 authorizes the Board of Trustees of the New Castle County Employees' Pension Program to manage the investment of the plan's assets. Per the Pension program's investment policy, the allowable investments are: 1) equities (developed, global, and emerging markets), including common and preferred stocks of companies domiciled both within the U.S. and outside the U.S. that trade on U.S. or foreign exchanges and over the counter; 2) fixed income (developed, global and emerging markets), including U.S. Government and Federal Agency obligations, non-U.S. government/entities, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and other domestically issued fixed income instruments deemed prudent by the investment managers, as well as high yield and multi-sector management; 3) mutual funds and other types of commingled vehicles under 1) and 2); and 4) other assets, professionally managed commingled funds investing predominantly in real assets, real estate, hedge funds, private equity and opportunistic debt, and other types of risk parity/global asset allocation strategies that may include some of the vehicles listed above.

(e) Concentration of Credit Risk

The Program's investment policy states that no more than 10% of any fixed income manager's portfolio will be invested in the securities of any single issuer at the time of purchase except for obligations of the U.S. Government, which may be held without limitation. There were no concentration of credit risk issues as of June 30, 2018.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Investment Policy does allow the plan to invest in foreign currency denominations. The Plan had no assets as of June 30, 2018 which were held in foreign currency denominations.

(g) Concentrations of Investments

There were no individual investments that represent more than five percent of the Pension Program net position that are required to be disclosed.

(3) Deposits and Investments (Continued)

(h) Annual Money-Weighted Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension program investments, net of pension program investment expense, was 8.85%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(i) Investment Policy

The Program's asset allocation policy has been established and may be amended by a majority vote of its Board of Trustees. The Board developed this policy after careful examination of the historical relationships of risk and return among asset classes with the intent of providing the greatest probability of meeting or exceeding the Program's return objectives with the lowest possible risk through diversification in a broad range of asset classes. The policy statement is reviewed and updated annually.

The Board's adopted asset allocation policy as of June 30, 2018 is as follows:

Asset Class	Target Allocation
Domestic Equity	23%
International Equity	15%
Emerging Market Equities	2%
Fixed Income	29%
Emerging Market Debt	5%
Global Tactical Asset Allocation	10%
Hedge Funds	5%
Private Equity	5%
Real Estate	5%
Cash	1%
Total	100%

(4) Fair Value Measurement of Investments

The Pension Trust has the following recurring fair value measurements as of June 30, 2018:

Investments Measured at Fair Value

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Investments by fair value level				
Equity Securities				
Energy	$ 2,583,047	$ -	$ -	$ 2,583,047
Consumer discretionary	7,336,052	-	-	7,336,052
Health care	9,811,340	-	-	9,811,340
Materials	1,759,465	-	-	1,759,465
Consumer staples	3,959,231	-	-	3,959,231
Information Technology	7,648,223	-	-	7,648,223
Industrials	8,046,128	-	-	8,046,128
Real Estate	4,212,360	-	-	4,212,360
Utilities	206,100	-	-	206,100
Financials	7,120,618	-	-	7,120,618
Real Estate Equity funds	9,247,709	-	-	9,247,709
Mutual Funds				
Equity mutual funds	56,770,927	-	-	56,770,927
Fixed income mutual funds	17,289,170	-	-	17,289,170
Total investments in equity securities and mutual funds	135,990,370	-	-	135,990,370
Total investments by fair value level	135,990,370	-	-	135,990,370
Investments measured at the net asset value (NAV)				
Investments in private equity funds	-	-	-	22,007,812
Collective Trusts - Hedge funds	-	-	-	18,219,109
Collective Trusts - Real Estate funds	-	-	-	16,080,914
Collective Trusts - Equities	-	-	-	123,729,221
Collective Trusts - Fixed Income	-	-	-	120,168,603
Total investments measured at the NAV	-	-	-	300,205,659
Total investments	$ 135,990,370	$ -	$ -	$ 436,196,029

(4) Fair Value Measurement of Investments (Continued)

Investments Measured at Fair Value (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. There were no investments measured with Level 2 or Level 3 inputs.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity investments	$ 22,007,812	$ 8,109,786	N/A	N/A
Collective Trusts - Hedge funds	18,219,109	-	Quarterly	90-95 days
Collective Trusts - Real Estate funds	16,080,914	-	Quarterly	45 days
Collective Trusts - Equities	123,729,221	-	Daily	0-2 days
Collective Trusts - Fixed Income	120,168,603	-	Daily	0 days
Total	$ 300,205,659	$ 8,109,786		

Private Equity Funds consist of investments in limited partnerships. The private equity investments span the venture capital, growth equity, fund of funds, energy and buyout strategies. Private equity is considered an illiquid investment strategy as funds generally have a life span of seven to 10 years. The nature of investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of the investments in this type have been determined using percent ownership of the NAV of the fund.

Collective Trusts-Hedge Funds consists of investments in two investment trusts. The objectives of the Funds are to seek total return by managing a broad opportunity set of asset classes including, but not limited to, global equities, global bonds, commodities, currencies and cash. These investments are valued at the net asset value (NAV) of units of the collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

Collective Trusts-Real Estate funds consists of an investment in one trust, the objective of the fund is to identify real estate projects with stabilized occupancies, that produce a relatively high level of current income combined with moderate appreciation potential. These investments are valued at the net asset value (NAV) of units of the collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

Collective Trusts-Equity Funds consists of investments in three investment trusts. The Fund's investment objective is to seek long-term capital appreciation through equity securities of companies located in emerging market countries. These investments are valued at the net asset value (NAV) of units of the collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

(4) Fair Value Measurement of Investments (Continued)

Investments Measured at Fair Value (Continued)

Collective Trusts-Fixed Income Fund consists of an investment in four trusts, the objective of the fund is to outperform the Barclays Capital U.S. Government/Credit Index and the Barclays US Aggregate Total Return Index. These investments are valued at the net asset value (NAV) of units of the collective trusts. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

(5) Contributions

The requirements for County and employee contributions are established under County Code. The Program's board of trustees may recommend changes to the contributions, but any changes must be approved by the County Council. The County's contributions are required by County Code to be based on an actuarial valuation that considers the normal cost of the Program plus an amortization of the Program's unfunded actuarial liability on a sound actuarial basis.

Under County Code, Plan employees are required to contribute 3% of their total compensation exceeding $115 per week plus 2% of the portion that exceeds the Social Security maximum wage base. Police officers and other System employees are required to contribute 7% and 5% of their base salary or wage, respectively. Closed Plan employees make no contributions. Guard Plan employees are required to contribute $10 (pretax) per biweekly pay period during the ten-month school year. Hybrid Plan employees are required to contribute 3% of their base salary. In addition, if the recommended contribution of the Board exceeds 10% of total base salary of all the members of the Hybrid Plan, membership contributions for the twelve month period starting July 1st following the determination of the recommended contribution by the Board will be increased to the extent that the recommended contribution exceeds 10 percent.

Under the provisions of state law, the State of Delaware also contributes to the System for police employees from taxes received on certain insurance premiums. The contribution is based on the number of County police members covered by the System in relation to all state, county, and municipal police officers covered by pension plans that are eligible to share in the distribution of the premium tax. The tax on insurance premiums also provides a pool of funds for the Police COLA's.

Administrative expenses, which are paid to the County, are paid from Program revenues.

For police employees, the County contributes the difference between 17.06% of the salary of police officers covered by the Delaware Municipal Police/Firefighter Pension Plan and a rate determined by the actuaries associated with Delaware Municipal Police/Firefighter Pension Plan, plus the County's contribution given to all County employees based on the actuarial valuation of the County's Employees' Retirement Plan discussed above. The County's actuarial valuation includes the actuarial present value of an ad-hoc compounded 3% postretirement increase that was provided to police members of the System commencing January 1, 1998. That benefit is being financed by police employees and County and State contributions. The value of contributions received through June 30, 2018 for that enhanced postretirement increase is $1,610,042.

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(6) Risk Management

The Program is exposed to risk of loss arising from errors and omissions on the part of board members and to claims from members and beneficiaries related to benefit coverage and payments. The Program purchases fiduciary liability insurance for board members; there have been no claims against those policies in the past three years. The Program has no insurance against claims related to benefit coverage and payments. If such an event were to occur, then the additional costs would be recovered by the Program through adjustment to the County or members' contribution rates.

(7) Components of Net Pension Liability

The components of net pension liability of the County as of June 30, 2018 are as follows:

	Total for Program
Total Pension Liability	$601,112,807
Fiduciary Net Position	$445,967,468
Net Pension Liability	$155,145,339
Fiduciary Net Position as a percentage of Total Pension Liability	74.2%

(8) Actuarial Methods and Assumptions

The accumulated program benefits are those future payments that are attributable under the Program's provisions to the service that employees have already rendered. Accumulated program benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Accumulated program benefits for all employees are based on the employee's compensation and credited service to the date for which the benefit information is presented (the valuation date). Benefits payable under all circumstances (retirement, death and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of the accumulated program benefits is determined by an independent actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated program benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements for death, withdrawal or retirement) between the valuation date and the expected date of payment.

Significant assumptions underlying the actuarial valuation as of January 1, 2018, were as follows:

Valuation date	January 1, 2018
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period	20 years
Asset valuation method	5-year smoothing method

(8) Actuarial Methods and Assumptions (Continued)

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB (projected to 2011). An alternate table was used for the valuation of disabled members.

The actuarial valuations are used to determine the contributions to be made by the County in the fiscal year starting six months after the valuation date. For example, the January 1, 2017 valuation is used to establish the contribution level for the year ended June 30, 2018.

Long-Term expected rate of return

The long-term expected rate of return on pension program investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension program investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

Best estimates of arithmetic real rates of return for each major asset class included in the pension program's target asset allocation as of June 30, 2018, and the final investment return assumption, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Weight
Domestic Equity	5.70%	23%
International Equity	5.75%	17%
Fixed Income – U.S.	2.55%	31%
Global Asset Allocation	4.90%	10%
Opportunistic Debt	2.70%	3%
Real Estate	4.25%	5%
Private Equity	7.65%	5%
Hedge Funds	3.55%	5%
Cash Equivalents	0.80%	1%
Total Weighted Average Real Return	**4.43%**	100%
Plus inflation	3.00%	
Total return without Adjustment	7.43%	
Risk adjustment	-0.18%	
Total Expected Return	**7.25%**	

(8) Actuarial Methods and Assumptions (Continued)

Discount Rate

The discount rate used to measure total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on those assumptions, the pension program's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rates 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 net pension liability of the County, calculated using the discount rate of 7.25%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.25%	7.25%	8.25%
Total Pension Liability	$666,109,394	$601,112,807	$548,522,981
Plan Net Position	445,967,468	445,967,468	445,967,468
Net Pension Liability	$220,141,926	$155,145,339	$102,555,513
Ratio of Plan Net Position to Total Pension Liability	67.0%	74.2%	81.3%

(9) Net Pension Liability

The Plan's change in Total Pension Liability, Plan Fiduciary Net Position, and Net Pension Liability for the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/17	$589,509,112	$425,727,245	$163,781,867
Changes for the year:			
Service cost	7,578,587	-	7,578,587
Interest	42,043,474	-	42,043,474
Differences between expected and actual experience	3,123,070	-	3,123,070
Contributions – employer and other	-	22,677,474	(22,677,474)
Contributions – employee	-	2,688,889	(2,688,889)
Net investment income	-	36,749,800	(36,749,800)
Benefit payments, including refunds of employee contributions	(41,141,436)	(41,141,436)	-
Administrative expense	-	(734,504)	734,504
Net changes	11,603,695	20,240,223	(8,636,528)
Balances at 6/30/18	**$601,112,807**	**$445,967,468**	**$155,145,339**

REQUIRED SUPPLEMENTARY INFORMATION

NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM
(A Pension Trust Fund of New Castle County, Delaware)
Required Supplementary Information
June 30, 2018

Schedule of Changes in Net Pension Liability and Related Ratios*

Total Pension Liability	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Service Cost	$ 7,578,587	$ 7,700,742	$ 7,847,444	$ 7,733,029	$ 7,803,030
Interest	42,043,474	41,203,676	40,893,316	40,243,005	43,328,727
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	3,123,070	(2,077,314)	1,314,713	1,188,291	-
Changes in assumptions	-	(1,789,625)	11,647,493	721,980	-
Benefit payments, including refunds	(41,141,436)	(39,523,627)	(37,813,325)	(36,345,952)	(34,213,002)
Net Change in Total Pension Liability	11,603,695	5,513,852	23,889,641	13,540,353	16,918,755
Total Pension Liability - Beginning of Year	589,509,112	583,995,260	560,105,619	546,565,266	529,646,511
Total Pension Liability - End of Year	$ 601,112,807	$ 589,509,112	$ 583,995,260	$ 560,105,619	$ 546,565,266
Plan Fiduciary Net Position					
Contributions - employer	$ 22,677,474	$ 17,259,347	$ 17,035,119	$ 18,025,370	$ 13,672,749
Contributions - member	2,688,889	2,679,140	2,840,013	2,779,085	2,845,513
Net investment income (loss)	36,749,800	46,007,003	(8,901,831)	15,220,117	48,084,200
Benefit payments, including refunds	(41,141,436)	(39,523,627)	(37,813,327)	(36,345,952)	(34,213,002)
Administrative expenses	(717,800)	(682,369)	(660,453)	(581,179)	(642,018)
Other expenses	(16,704)	(33,285)	-	-	-
Net Change in Plan Fiduciary Net Position	20,240,223	25,706,209	(27,500,479)	(902,559)	29,747,442
Plan Fiduciary Net Position - Beginning of Year	425,727,245	400,021,036	427,521,515	428,424,074	398,676,632
Plan Fiduciary Net Position - End of Year	$ 445,967,468	$ 425,727,245	$ 400,021,036	$ 427,521,515	$ 428,424,074
Net Pension Liability - Beginning of Year	$ 163,781,867	$ 183,974,224	$ 132,584,104	$ 118,141,192	$ 130,969,879
Net Pension Liability - End of Year	$ 155,145,339	$ 163,781,867	$ 183,974,224	$ 132,584,104	$ 118,141,192
Plan Fiduciary Net Position as a percentage of Total Pension Liability	74.2%	72.2%	68.5%	76.3%	78.4%
Covered Payroll	$ 63,082,234	$ 61,704,013	$ 61,711,130	$ 62,272,733	$ 62,346,860
Net Pension Liability as a percentage of Covered Payroll	245.9%	265.4%	298.1%	212.9%	189.5%

*A full 10-year trend is unavailable at this time. Per GASB 67 standards, this schedule covers the time period in which data was available for the Pension plan.

NEW CASTLE COUNTY, DELAWARE EMPLOYEES' PENSION PROGRAM
(A Pension Trust Fund of New Castle County, Delaware)
Required Supplementary Information
June 30, 2018

SCHEDULE OF COUNTY CONTRIBUTIONS
Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$17,874,191	$15,491,040	$15,341,397	$15,381,365	$13,201,521	$11,373,584	$11,842,677	$11,111,476	$10,043,000	$ 7,837,038
Contributions in relation to the actuarially determined contribution	17,874,191	15,491,040	15,341,397	14,248,413	12,070,614	11,592,772	10,719,798	9,091,687	8,592,908	7,837,038
Contribution deficiency/(excess)	$ -	$ -	$ -	$ 1,132,952	$ 1,130,907	$ (219,188)	$ 1,122,879	$ 2,019,789	$ 1,450,092	$ -
Covered payroll	$63,082,234	$61,704,013	$61,711,130	$62,272,733	$62,346,860	$62,292,327	$64,113,546	$63,246,700	$65,760,966	$70,413,688
Contributions as a percentage of covered payroll	28.33%	25.11%	24.86%	22.88%	19.36%	18.61%	16.72%	14.37%	13.07%	11.13%

Note: Actuarial contributions are determined as a percentage of payroll. This rate is applied to actual payroll to determine the employer contribution. The County amounts are also net of funds received from the State of Delaware. There have also been two separate time periods in which the actuarial contribution rate was phased in over a period of several years. This occurred in 2010 through 2012, as well as 2014 through 2015. The County and Retirement Board's current policy is to contribute the full actuarial cost each year going forward.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Investments rates of return	7.25%, net of investment expense and including inflation
Discount Rate	7.25%
Projected salary increases	4.0% (6.0% for General employees with less than 10 years of service)
Inflation rate	3.0%
Postretirement benefit increase	2% for System benefits and 3% for police participation after a specified waiting period. None for Plan members, alternative retirees, or survivors.
Cost-of-living adjustments	None
Actuarial Method	Entry Age

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on Scale BB (projected to 2011). An alternate table was used for the valuation of disabled members.

A full experience study was conducted in 2013, and several assumptions were updated. The next study is scheduled for 2018.

Changes in actuarial assumptions: There were no changes in actuarial assumptions since the prior year.

Annual money-weighted rates of return (net of investment expense)

Fiscal Year	Return
2018	8.85%
2017	11.87%
2016	-2.14%
2015	3.64%
2014	12.38%
2013	11.70%
2012	-1.98%
2011	21.21%
2010	14.39%
2009	-22.05%