AUDIT REPORT
OF THE
NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS – STATE AND
COUNTY EMPLOYEES RETIREMENT PLANS

PENSION TRUST FUNDS
OF THE STATE OF NEBRASKA

JANUARY 1, 2017, THROUGH DECEMBER 31, 2017

Issued on August 15, 2018

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

BACKGROUND

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer Nebraska retirement plans for school employees, State employees, judges, and the State Patrol. Administration of the retirement system for Nebraska county employees was assumed by the Board in 1973.

The Board has eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members must be active or retired participants in the retirement system. Those six members include the following:

- Two participants in the Nebraska School Employees Retirement System, consisting of one administrator and one teacher;
- One participant in the Nebraska Judges Retirement System;
- One participant in the Nebraska State Patrol Retirement System;
- One participant in the Nebraska County Employees Retirement System; and
- One participant in the State Employees Retirement System.

Two appointed Board members must meet the following requirements:

- Cannot be an employee of the State of Nebraska or any of its political subdivisions; and
- Must have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

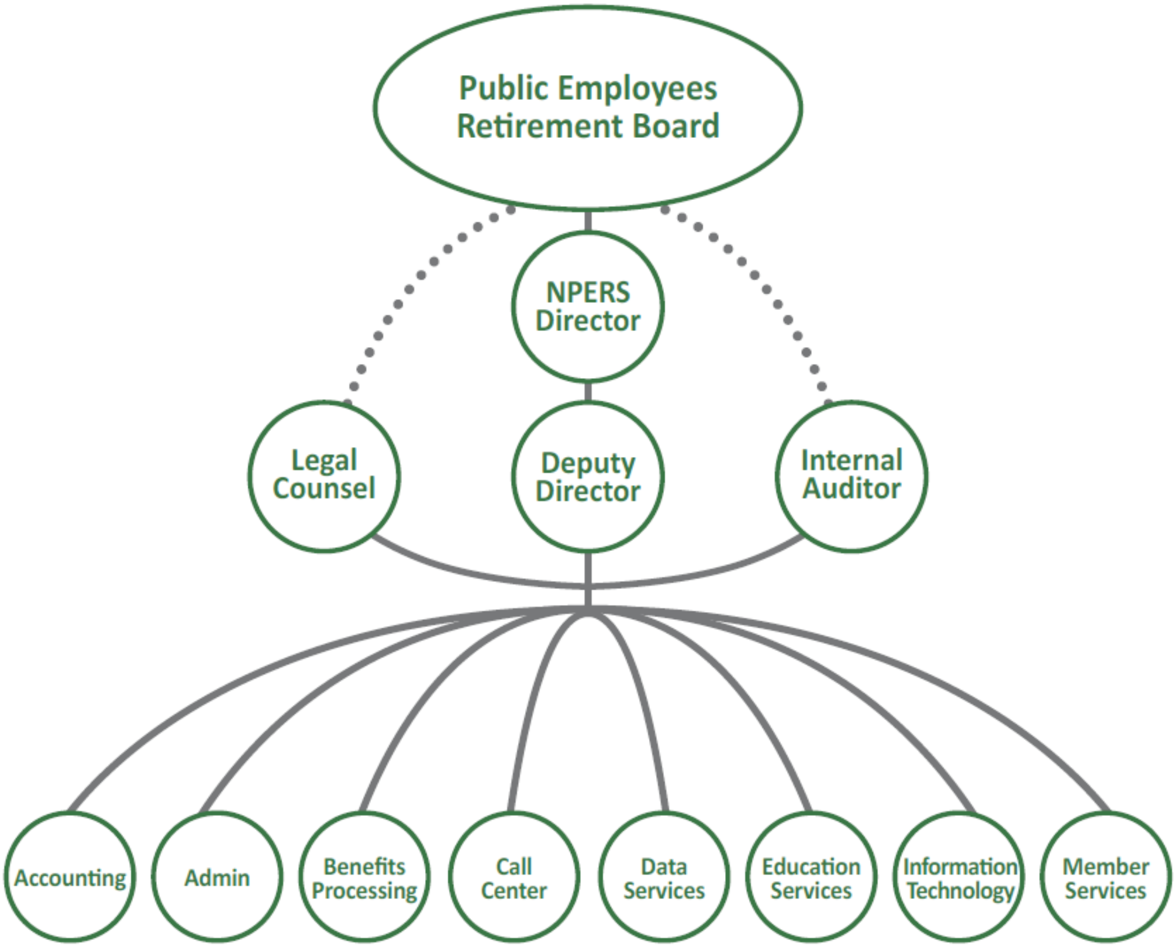
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio Board member.

All appointed Board members must be Nebraska citizens. Members of the Board are paid $50 per diem and reimbursed for actual and necessary expenses. The Board hires a director to manage its day-to-day operations. Expenses are equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

The Nebraska Public Employees Retirement Systems recognizes the importance of a successful retirement and is dedicated to providing the highest quality service necessary to assist members in achieving this goal.

ORGANIZATIONAL CHART



KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

Janis Elliott
Chairperson – School Member
Term Ending January 1, 2019

Open
Public Member

Dennis Leonard
Vice-Chair – State Patrol Member
Term Ending January 1, 2020

Denis Blank
State Member
Term Ending January 1, 2020

J. Russell Derr
Judge Member
Term Ending January 1, 2020

Kelli Ackerman
School Member
Term Ending January 1, 2020

Pamela Lancaster
County Member
Term Ending January 1, 2021

Jim Schulz
Public Member
Term Ending January 1, 2022

Michael W. Walden-Newman
Ex-Officio (State Investment Officer)

Nebraska Public Employees Retirement Systems Executive Management

Randy Gerke
Director

Orron Hill
Deputy Director

Teresa Zulauf
Controller

Nebraska Public Employees Retirement Systems
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P.O. Box 94816
Lincoln, NE 68509
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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY RETIREMENT PLANS

INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying Statements of Plan Net Position and the related Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 NPERS' 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 opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the NPERS – State and County Employees Retirement Plans, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the NPERS – State and County Employees Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the NPERS – State and County Employees Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of December 31, 2017, and the changes in its financial position for the year then ended in conformity 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 Schedule of Changes in the State Employer Net Pension Liability, Schedule of Changes in the County Employers' Net Pension Liability, Schedule of State Employer Contributions, Schedule of County Employer Contributions, Schedule of Investment Returns, and Notes to Required Supplementary Information, on pages 37 through 46, 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, which 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.

Management has omitted its Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the NPERS – State and County Employees Retirement Plans' basic financial statements. The Schedule of Administrative Expenses and the Schedule of Investment-Related Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Administrative Expenses and the Schedule of Investment-Related Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses and the Schedule of Investment-Related Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2018, on our consideration of the NPERS – State and County Employees Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NPERS – State and County Employees Retirement Plans' internal control over financial reporting and compliance.

Zachary Wells

August 9, 2018

Zachary Wells, CPA, CISA
Audit Manager
Lincoln, Nebraska

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

STATE EMPLOYEES RETIREMENT PLAN

STATEMENT OF PLAN NET POSITION

AS OF DECEMBER 31, 2017

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 187,659	$ 127,252
Receivables:		
Contributions	3,695,435	821,438
Interest and Dividends	2,414,587	131,584
Other Investment Receivables (Note 4)	150,693,063	98,384
Total Receivables	156,803,085	1,051,406
Pooled Investments, at Fair Market Value (Note 4):		
U. S. Treasury Bills	746,996	-
U.S. Treasury Notes and Bonds	52,636,696	-
Government Agency Securities	3,789,647	-
Corporate Bonds	102,385,838	-
International Bonds	34,934,625	-
ADR's, GDR's & Trusts	1,013,281	-
Asset Backed Securities	18,069,943	-
Bank Loans	42,805,875	-
Short Term Investments	241,577,110	8,565,214
Commingled Funds	672,025,997	701,070,614
Mortgages	78,255,799	-
Municipal Bonds	782,333	-
Private Equity Funds	74,486,791	-
Equity Securities	249,725,727	-
Options	3,769	-
Private Real Estate Funds	107,521,100	-
Total Investments	1,680,761,527	709,635,828
Invested Securities Lending Collateral (Note 4)	37,234,687	-
Capital Assets (Note 8):		
Equipment	462,189	527,564
Less: Accumulated Depreciation	(461,382)	(527,257)
Total Capital Assets, Net	807	307
Total Assets	1,874,987,765	710,814,793
LIABILITIES		
Compensated Absences (Notes 6)	46,487	13,829
Other Investment Payables (Note 4)	199,701,731	51,257
Benefits Payable	2,130,979	-
Obligations Under Securities Lending (Note 4)	37,234,687	-
Total Liabilities	239,113,884	65,086
Net Position - Restricted for Pensions	$ 1,635,873,881	$ 710,749,707

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET POSITION
AS OF DECEMBER 31, 2017

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 52,939	$ 61,446
Receivables:		
Contributions	1,781,210	327,741
Interest and Dividends	749,098	38,099
Other Investment Receivables (Note 4)	46,090,788	28,369
Total Receivables	48,621,096	394,209
Pooled Investments, at Fair Market Value (Note 4):		
U. S. Treasury Bills	228,475	-
U.S. Treasury Notes and Bonds	16,099,380	-
Government Agency Securities	1,159,096	-
Corporate Bonds	31,315,577	-
International Bonds	10,685,051	-
ADR's, GDR's & Trusts	309,930	-
Asset Backed Securities	5,526,845	-
Bank Loans	13,092,540	-
Short Term Investments	84,164,026	2,416,145
Commingled Funds	205,546,739	217,621,853
Mortgages	23,935,200	-
Municipal Bonds	239,283	-
Private Equity Funds	22,782,442	-
Equity Securities	76,383,595	-
Options	1,153	-
Private Real Estate Funds	32,886,241	-
Total Investments	524,355,573	220,037,998
Invested Securities Lending Collateral (Note 4)	11,388,547	-
Capital Assets (Note 8):		
Equipment	264,202	263,782
Less: Accumulated Depreciation	(263,654)	(263,630)
Total Capital Assets, Net	548	152
Total Assets	584,418,703	220,493,805
LIABILITIES		
Compensated Absences (Notes 6)	34,472	8,857
Other Investment Payables (Note 4)	61,077,534	18,062
Benefits Payable	387,226	-
Obligations Under Securities Lending (Note 4)	11,388,547	-
Total Liabilities	72,887,779	26,919
Net Position - Restricted for Pensions	$ 511,530,924	$ 220,466,886

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 29,127,571	$ 6,492,562
Employer (Note 5)	45,437,713	10,133,668
Total Contributions	74,565,284	16,626,230
Investment Income:		
Net Appreciation in Fair Value of Investments	222,219,996	83,697,350
Interest and Dividends Income	20,667,697	5,046,569
Securities Lending Income	457,049	-
Total Investment Income	243,344,742	88,743,919
Investment Expenses:		
Investment Expense	5,793,022	659,030
Securities Lending Expense	282,122	-
Total Investment Expenses	6,075,144	659,030
Net Investment Income	237,269,598	88,084,889
Other Additions	13,418	4,116
Total Additions	311,848,300	104,715,235
DEDUCTIONS		
Benefits and Refunds	94,358,979	35,612,852
Administrative Expenses	1,293,454	284,864
Total Deductions	95,652,433	35,897,716
Transfers (Note 9)	3,591,366	(3,591,366)
Net Increase in Net Position	219,787,233	65,226,153
Net Position - Restricted for Pensions		
Beginning of Year	1,416,086,648	645,523,554
End of Year	$ 1,635,873,881	$ 710,749,707

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 12,000,061	$ 2,319,421
Employer (Note 5)	17,752,388	3,412,362
Total Contributions	29,752,449	5,731,783
Investment Income:		
Net Appreciation in Fair Value of Investments	67,424,007	25,483,884
Interest and Dividends Income	6,364,748	1,504,188
Securities Lending Income	139,792	-
Total Investment Income	73,928,547	26,988,072
Investment Expenses:		
Investment Expenses	1,771,598	188,089
Securities Lending Expense	86,289	-
Total Investment Expense	1,857,887	188,089
Net Investment Income	72,070,660	26,799,983
Other Additions	5,012	1,519
Total Additions	101,828,121	32,533,285
DEDUCTIONS		
Benefits and Refunds	21,934,437	9,168,667
Administrative Expenses	750,056	152,431
Total Deductions	22,684,493	9,321,098
Transfers (Note 9)	619,284	(619,284)
Net Increase in Net Position	79,762,912	22,592,903
Net Position - Restricted for Pensions		
Beginning of Year	431,768,012	197,873,983
End of Year	511,530,924	220,466,886

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

NPERS was restructured by the Legislature in 1971 to administer the existing Nebraska retirement systems. Currently, NPERS is responsible for the administration of five retirement plans and the Deferred Compensation Plan. The following are the five retirement plans administered: the School Employees, State Patrol, Judges, State Employees, and County Employees Retirement Plans.

The NPERS Board is comprised of eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members must be active or retired participants in the retirement system. Those six members include the following: two participants in the School Retirement System, consisting of one administrator and one teacher; one participant in the Nebraska Judges Retirement System; one participant in the Nebraska State Patrol Retirement System; one participant in the Nebraska County Employees Retirement System; and one participant in the State Employees Retirement System. Two appointed Board members must meet the following requirements: 1) not be an employee of the State of Nebraska or any of its political subdivisions; and 2) have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan. The State Investment Officer serves as a nonvoting, ex-officio Board member.

NPERS is a part of the State of Nebraska reporting entity. The five retirement plans and the Deferred Compensation Plan are classified as pension trust fund types in the State of Nebraska Comprehensive Annual Financial Report.

Separate reports have been issued for the School Employees, Judges, and State Patrol Retirement Plans for the fiscal year ended June 30, 2017, and the Deferred Compensation Plan for the year ended December 31, 2017.

The financial statements reflect only the State and County Employees Retirement Plans and do not reflect all activity of NPERS.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Pension funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statements of Plan Net Position.

The State and County Employees Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded when a liability is incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Cash in State Treasury

Cash in State Treasury represents the cash balance of a fund as reflected in the State's General Ledger and is under the control of the State Treasurer or other administrative bodies, as determined by law. This classification includes bank accounts and short-term investments. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash for reporting purposes. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

E. Investments

Investments, as reported in the basic financial statements, include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; however, investment of funds is the responsibility of the Nebraska Investment Council.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Although the investments of the plans are commingled, each plan's investments may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

F. Capital Assets

Capital assets consist of computer software and equipment. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist.

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Equipment is depreciated over 3 to 10 years using the straight-line method.

G. Compensated Absences

All permanent employees working for NPERS earn sick and annual leave. Temporary and intermittent employees and Board members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees currently eligible to receive termination payments and other employees expected to become eligible in the future to receive such payments upon termination, are included.

NPERS employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or a younger age, if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave.

The plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at calendar year end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Plan Descriptions and Contribution Information

The following summary description of the Plans is provided for general information purposes. Participants should refer to Neb. Rev. Stat. §§ 84-1301 through 84-1333 (Reissue 2014, Cum. Supp. 2016, Supp. 2017) for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2016, Supp. 2017) for the County Employees Retirement Plan for more complete information.

A. Nebraska State Employees Retirement Plan

The single employer plan became effective by statute on January 1, 1964. The State Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected either to continue participation in the defined contribution option or to begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. On or after January 1, 2003, all new members of the State Plan become members of the cash balance benefit.

All permanent full-time employees are required to begin participation in the retirement system upon employment. Prior to April 2011, all permanent part-time employees who had attained the age of 20 could exercise the option to begin participation in the retirement system. Effective April 2011, the age requirement decreased to 18.

Contributions. Per statute, each member contributes 4.8 percent of his or her monthly compensation. The State matches a member’s contribution at a rate of 156 percent. The employee’s and employer’s contributions are kept in separate accounts.

The employee’s account is fully vested. The employer’s account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the State Plan.

When employees terminate and are not fully vested, the amount contributed by the State is forfeited and used to reduce NPERS expenses. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance is equal to the sum of the employee and employer accounts. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance is equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single-life annuity with five-year certain, payable monthly.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

Members have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5 percent annually. Also available are additional forms of payment allowed under the State Plan, which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

State Plan membership consisted of the following at December 31, 2017:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	1,814
Inactive Plan Members Entitled to but not yet Receiving Benefits	1,353	7,392
Active Plan Members	2,391	13,054
Total	3,744	22,260

The 1,814 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment, such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

The NPERS employees are employees of the State of Nebraska and, therefore, participate in the State Plan. The following includes the defined contribution option and cash balance benefit contributions to the State Plan for the current and preceding two years for NPERS employees.

Calendar Year	Employee Contributions	Employer Contributions
2017	$ 106,235	$ 165,726
2016	106,312	165,846
2015	103,418	161,332

B. Nebraska County Employees Retirement Plan

In 1973, the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan covers employees of 91 of the State's 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees, as allowed under Neb. Rev. Stat. § 23-1118 (Supp. 2017). In total, employees of 108 county or county health districts participate in this plan.

2. Plan Descriptions and Contribution Information (Continued)

Prior to January 1, 2003, the County Plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected either to continue participation in the defined contribution option or to begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. On or after January 1, 2003, all new members of the County Plan become members of the cash balance benefit.

Participation in the County Employees Retirement Plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. Prior to April 2011, all permanent part-time employees could elect voluntary participation upon reaching age 20. Effective April 2011, the age requirement for permanent part-time employees decreased to age 18. Part-time elected officials may exercise the option to join.

Contributions. Per statutes, county employees and elected officials contribute 4.5 percent of their total compensation, and the county contributes 150 percent of the member rate. Present and future commissioned law enforcement personnel employed by such counties make additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with fewer than 85,000 inhabitants contribute an extra 1 percent, or a total of 5.5 percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of 85,000 inhabitants contribute an extra 2 percent, or a total of 6.5 percent of their total compensation; the county contributes 150 percent for the first 4.5 percent and 100 percent for the extra 1 and 2 percent. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the County Plan.

When employees terminate and are not fully vested, the amount contributed by the county is forfeited and used to reduce NPERS expenses. When forfeitures are not sufficient to pay administrative expenses, NPERS may also assess a charge in the form of basis points against plan assets. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance is equal to the sum of the employee and employer accounts. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Concluded)

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance is equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single-life annuity with five-year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5 percent annually. Also available are additional forms of payment allowed under the County Plan that are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

County Plan membership consisted of the following at December 31, 2017:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	630
Inactive Plan Members Entitled to but not yet Receiving Benefits	612	2,796
Active Plan Members	988	6,808
Total	1,600	10,234

The 630 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment, such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

3. Funded Status and Funding Progress

The components of the net pension asset for each cash balance plan as of January 1, 2018, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability/(Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
State	$ 1,501,862,294	$ 1,635,873,881	$ (134,011,587)	108.92%
County	$ 457,424,951	$ 511,530,924	$ (54,105,973)	111.83%

3. Funded Status and Funding Progress (Continued)

The Total Pension Liability as of December 31, 2017, was determined based on an actuarial valuation prepared as of January 1, 2018. The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	State Employees	County Employees
Valuation date	January 1, 2018	January 1, 2018
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Single equivalent amortization period	25 Years	25 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Inflation	2.75%	2.75%
Investment rate of return, net of investment expense and including inflation	7.50%	7.50%
Municipal bond index rate	3.43%	3.43%
Projected salary increases, including inflation	3.5% - 4.93%	3.8% - 8.0%
Interest credit rating	6.25%	6.25%
Cost-Of-Living Adjustments (COLA)	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.

3. Funded Status and Funding Progress (Continued)

The State and County plans' pre-retirement mortality rates were based on the RP-2014 White Collar Table for Employees (100% of male rates for males, 55% of female rates for females), projected generationally with MP-2015.

The State and County plans' post-retirement mortality rates were based on the RP-2014 White Collar Table for Employees, setback two years, scaled (males: under 80, 1.008; over 80, 1.449; females: under 85, .924; over 85, 1.5855; geometrically blended), projected generationally from 2013 with a Society of Actuaries projection scale tool using a 0.5% ultimate 2035 rate in 2035.

The actuarial assumptions used in the valuation are based on the results of the actuarial experience study, which covered the four-year period ending December 31, 2015. The experience study report is dated November 17, 2016.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The long-term expected real rate of return and target asset allocation were also the result of the most recent experience study. The State and County plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of December 31, 2017, (see the discussion of the pension plans' investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
U.S. Equity	29.0%	5.8% - 7.6%
Global Equity	15.0%	6.5%
Non-U.S. Equity	10.8%	6.8%
Emerging Markets	2.7%	10.6%
Fixed Income	30.0%	1.4% - 5.2%
Private Equity	5.0%	9.7%
Real Estate	7.5%	5.2%
Total	100.00%	

*Arithmetic mean, net of investment expenses and inflation.

3. **Funded Status and Funding Progress** (Concluded)

Discount Rate. The discount rate used to measure the Total Pension Liability at December 31, 2017, was 7.50 percent and at December 31, 2016, was 7.75 percent. The discount rate is reviewed as part of the actuarial experience study, which was performed for the period January 1, 2012, through December 31, 2015. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate.

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 contributions from employers and non-employers will be made at the greater of the contractually required rates and the actuarially determined rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension asset of the plans calculated using the discount rate of 7.50%, as well as what the plans' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability/(Asset):			
State	$ 3,533,927	$ (134,011,587)	$ (249,840,533)
County	$ (10,431,379)	$ (54,105,973)	$ (91,030,122)

4. **Investments**

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Cum. Supp. 2016) directs the appointed members of the Nebraska Investment Council to do the following:

> *[A]ct with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems . . . .*

4. **Investments** (Continued)

The pension plans' policy in regards to the allocation of invested assets is established and may be amended by the Nebraska Investment Council. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. During the year, the Nebraska Investment Council's target investment allocation was:

Asset Class	Target Allocation
U.S. Equities	29.0%
International Equities	13.5%
Global Equities	15.0%
Fixed Income	30.0%
Private Equity	5.0%
Real Estate	7.5%
Total	100.00%

The table below presents all investments stated at fair value using valuation techniques to measure fair value, followed by a table presenting investments at fair value for financial statement purposes, with debt securities presented with effective duration.

The Plans utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Plans have the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset.

Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Plan Investments at December 31, 2017, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Bank Loans	$ 55,898,415	$ -	$ 55,898,415	$ -
U.S. Treasury Notes and Bonds	68,736,076	-	68,736,076	-
U.S. Treasury Bills	975,471	-	975,471	-
Government Agency Securities	4,948,743	-	4,948,743	-
Corporate Bonds	133,701,415	-	133,567,537	133,878
International Bonds	45,619,676	-	45,619,676	-
Asset Backed Securities	23,596,788	-	23,271,932	324,856
Short Term Investments	334,814,885	262,988,391	71,826,494	-
Commingled Debt	328,979,911	328,979,911	-	-
Mortgages	102,190,999	-	102,190,902	97
Municipal Bonds	1,021,616	-	1,021,616	-
	1,100,483,995	591,968,302	508,056,862	458,831
Other Investments				
ADRs, GDRs & Trusts	$ 1,323,211	$ 1,323,211	$ -	$ -
Commingled Funds	1,467,285,292	867,008,953	600,276,339	-
Private Equity Funds	3,348,464	3,348,464	-	-
Equity Securities	326,109,322	326,107,792	1,530	-
Options	4,922	5,544	(622)	-
Private Real Estate Funds	642,731	-	642,731	-
Total Investments by Fair Value Level	$ 2,899,197,937	$ 1,789,762,266	$ 1,108,976,840	$ 458,831

Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds:				
Core	82,769,810	8,879,426	Quarterly	90 days
Non-Core	34,918,952	17,750,653		
Opportunistic Credit	22,055,496	11,168,448		
Other-Distressed Securities	20,352	-		
Private Equity Funds	93,920,769	76,334,431		
Short Term Investment Funds	1,907,610	-		
Total Investments Measured at Net Asset Value	$ 235,592,989	114,132,958		
Total	$ 3,134,790,926			
Securities Lending Collateral	48,623,234			
Total Investments at Fair Value	$ 3,183,414,160			

4. <u>Investments</u> (Continued)

Debt securities and other investments classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities and other investments classified in Level 2 are valued using the following approaches:

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short-Term Investments: quoted prices for identical securities in markets that are not active.

- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets.

- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices.

- Commingled Funds: published fair value per share (unit) for each fund.

Debt securities and other investments, including Asset-Backed Securities, Corporate Bonds, and Mortgages, classified in Level 3, are valued using unobservable inputs, such as reviews, recommendations, and adjustments made by portfolio management, or the use of internal data to develop unobservable inputs if there is no objective information available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented in the consolidated statements of financial position. Investments valued using the net asset value per share are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The Plans value these investments based on the partnerships' audited financial statements. If December 31 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than December 31. If December 31 valuations are not available, the value is progressed from the most recently available valuation, taking into account subsequent calls and distributions.

Other investments not classified. The $48,623,234 in Securities Lending Short-Term Collateral Investment Pool Investments, which are investments loaned to broker-dealers and banks under the securities lending program, were not classified for fair value measurement purposes.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

State and County Employees Retirement Plan Investments at December 31, 2017

	State and County Cash Balance Benefit		State and County Defined Contributions	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes and Bonds	$ 68,736,076	7.50	$ -	
U.S. Treasury Bills	975,471	0.00	-	
Government Agency Securities	4,948,743	6.42	-	
Corporate Bonds	133,701,415	5.27	-	
International Bonds	45,619,676	5.94	-	
Asset Backed Securities	23,596,788	0.74	-	
Bank Loans	55,898,415	0.14	-	
Short Term Investments	325,741,136	0.00	10,981,359	0.00
Commingled Debt	97,604,532	5.60	231,375,379	5.76
Mortgages	102,190,999	3.45	-	
Municipal Bonds	1,021,616	7.31	-	
	860,034,867		242,356,738	
Other Investments				
ADRs, GDRs & Trusts	1,323,211		-	
Private Equity Funds	97,269,233		-	
Equity Securities	326,109,322		-	
Commingled Funds	779,968,204		687,317,088	
Options	4,922		-	
Private Real Estate Funds	140,407,341		-	
Total Investments	2,205,117,100		929,673,826	
Invested Securities Lending Collateral	48,623,234		-	
Total	$ 2,253,740,334		$ 929,673,826	
As reported on financial statements:				
Investments				
State	$ 1,680,761,527		$ 709,635,828	
County	524,355,573		220,037,998	
Total Investments	2,205,117,100		929,673,826	
Securities Lending Collateral				
State	37,234,687		-	
County	11,388,547		-	
Total Securities Lending Collateral	48,623,234		-	
Total reported on financial statements	$ 2,253,740,334		$ 929,673,826	

4. **Investments** (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The State has contracts with investment managers that limit the effective duration compared to that of the portfolio's benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. The minimum credit rating of a derivatives counterparty is A. NPERS' rated debt investments, as of December 31, 2017, were rated by Standards and Poor's and/or an equivalent national rating organization, and the ratings are presented on the following table using the Standard and Poor's rating scale.

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Cash Balance Benefit/Defined Contribution Investments at December 31, 2017

	Quality Ratings									
	Cash Balance Benefit								Defined Contribution	
	Fair Value	AAA	AA	A	BBB	BB	B	Unrated	Fair Value	Unrated
Asset Backed Securities	$ 23,596,788	$ 13,767,676	$ 884,665	$ 1,354,691	$ 1,359,968	$ 899,013	$1,351,605	$ 3,979,170	$ -	$ -
Bank Loans	55,898,415	-	-	-	639,781	-	-	55,258,634	-	-
Mortgages	102,190,999	9,272,962	816,631	669,898	404,475	399,157	1,329,935	89,297,941	-	-
International Bonds	45,619,676	2,688,482	6,201,629	14,332,862	6,640,929	4,088,925	772,429	10,894,420	-	-
Corporate Bonds	133,701,415	3,570,104	3,892,004	29,038,456	70,137,742	16,222,485	5,092,523	5,748,101	-	-
Government Agency Securities	4,948,743	-	4,334,917	419,935	95,493	-	-	98,398	-	-
Municipal Bonds	1,021,616	161,960	532,192	209,521	81,759	36,184	-	-	-	-
Short Term Investments	325,741,136	-	-	-	-	29,598	-	325,711,538	10,981,359	10,981,359
Commingled Debt	97,604,532	-	-	-	-	-	-	97,604,532	231,375,379	231,375,379

4. Investments (Continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages, and non-U.S. sovereign issuers, to five percent of the total account.

At December 31, 2017, the State and County Defined Contribution and Cash Balance Benefit Plans had no debt security investments, from a single entity, that comprised more than five percent of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. At December 31, 2017, the State and County Defined Contribution Plans did not have exposure to foreign currency risk. The State and County Cash Balance Benefit Plans' exposure to foreign currency risk is presented on the following table.

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Cash Balance Benefit Plans' Foreign Currency at December 31, 2017

	Corporate Bonds	International Bonds	Mortgages	Short Term Investments	Equity Securities
Argentine Peso	$ 187,627	$ 200,364	$ -	$ 12,602	$ -
Australian Dollar	-	153,952	-	45,174	388,458
Brazilian Real	26,099	2,463,085	-	67,229	4,044,162
Canadian Dollar	-	1,420,305	-	4,908,172	3,279,252
Colombian Peso	355,424	8,912	-	-	-
Czech Koruna	-	42,878	-	-	-
Danish Krone	-	225,096	-	7,692	1,926,952
Euro Currency	10,345,169	11,097,310	-	5,820,973	49,688,300
Hong Kong Dollar	-	-	-	24,464	5,872,325
Indonesian Rupiah	-	-	-	3,202	450,912
Japanese Yen	-	13,565,678	-	4,472,821	34,895,275
Malaysian Ringgit	-	512,889	-	-	-
Mexican Peso	272,503	567,466	-	418	915,785
New Israeli Sheqel	-	43,821	-	7,220	167,190
New Zealand Dollar	-	1,706,601	-	7,493	523,785
Norwegian Krone	-	250,462	-	-	899,497
Philippine Peso	-	-	-	-	246,208
Polish Zloty	-	139,061	-	3	46,602
Pound Sterling	1,300,604	4,828,752	267,428	82,485	17,749,948
Russian Ruble	-	39,655	-	-	-
Singapore Dollar	-	297,605	-	-	229,898
South African Rand	-	347,042	-	15,761	65,119
South Korean Won	-	433,041	-	-	1,291,695
Swedish Krona	711,670	105,511	-	191	3,412,051
Swiss Franc	-	473,982	-	10,221	13,286,393
Thailand Baht	-	-	-	-	320,307
Turkish Lira	-	-	-	-	2,364,720
Yuan Renminbi	-	-	-	3	-
Total	$ 13,199,096	$ 38,923,468	$ 267,428	$ 15,486,124	$ 142,064,834

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the forms of cash, United States government or government agency obligations, sovereign debt rated A or better, or convertible bonds at least equal in value to the market value of the loaned securities. Securities on loan at year-end consisted of United States government obligations, equity securities, corporate bonds, and non-US fixed income. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 8 to 29 days as of June 30, 2017. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but it does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. At December 31, 2017, the State and County Defined Contribution Plans did not invest in derivative financial instruments. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at December 31, 2017, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments for the year then ended for the State and County Cash Balance Benefit Plans are as follows:

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2017

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ 207,984	$ 787,294	$ 30,025,751
Fixed Income Futures	288,419	-	38,086,196
Fixed Income Options	39,350	(622)	(4,490,009)
Foreign Currency Options	103,455	(11,802)	(2,097,834)
Futures Options	18,928	5,544	-
FX Forwards	(839,547)	(550,352)	101,456,711
Index Futures	574,323	-	-
Interest Rate Swaps	111,684	215,992	71,166,615
Rights	618	10,784	23,697
Warrants	(4)	6	844

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at December 31, 2017, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the notional amount for Futures and Options was calculated as contract size times the number of contracts.

The State and County Cash Balance Benefit Plans are exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Nebraska Investment Council's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Plans have never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at December 31, 2017, was $1,564,461. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $1,564,461.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, approximately 87 percent of the net exposure to credit risk is held with seven counterparties. The counterparties are rated AA-, A+, or BBB+.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

The State and County Cash Balance Benefit Plans are exposed to interest rate risk on their interest rate swaps. Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed versus variable flows and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the State and County Cash Balance Plans' interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Markets Association) reference rate.

Foreign currency risk for derivative instruments at December 31, 2017, are as follows:

DERIVATIVES FOREIGN CURRENCY AT DECEMBER 31, 2017

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ 14,182
Brazilian Real	-	41,583	41,430
Canadian Dollar	-	11,650	(110,054)
Swiss Franc	-	-	(528)
Danish Krone	-	-	(132,805)
Euro Currency	10,784	1,354	(151,244)
Pound Sterling	371	(51,750)	(36,167)
Hungarian Forint	-	-	710
New Israeli Sheqel	-	-	146
Japanese Yen	-	(12,677)	(25,256)
South Korean Won	-	-	(105,324)
Mexican Peso	-	-	(42,239)
Norwegian Krone	-	-	6,706
New Zealand Dollar	-	-	(71,420)
Polish Zloty	-	-	710
Russain Ruble	-	-	48,501
Swedish Krona	-	-	55,593
Singapore Dollar	-	-	(1,261)
Thailand Baht	-	-	(391)
Turkish Lira	-	-	(1,874)
South African Rand	-	-	(39,767)
Total	$ 11,155	$ (9,840)	$ (550,352)

4. Investments (Concluded)

Other Receivables/Other Payables. Other receivables consisted of receivables for investments sold, receivables for foreign exchanges, tax reclaim receivables, unrealized appreciation/depreciation on income receivables, unrealized appreciation/depreciation on investment receivables, unrealized appreciation/depreciation on foreign exchange receivables, and other receivables as recorded by the custodial bank. Other payables consisted of payables for investments purchased, payables for foreign currency purchased, unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of December 31, 2017, but the security had not settled.

Money-Weighted Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.85% for the State and 16.60% for the County Cash Balance Plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

5. Employer Contributions

Historically, employer contributions have been reported net of forfeitures. Forfeitures result when a member terminates prior to vesting in the employer contribution portion of his or her account. In accordance with Neb. Rev. Stat. § 23-2319.01(1) (Cum. Supp. 2016) and Neb. Rev. Stat. § 84-1321.01(1) (Reissue 2014) forfeitures are first used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2017, was $0 for the State Plan and $0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $1,957,612 for the State Plan and $397,397 for the County Plan.

6. Compensated Absences

The liability for the vested portion of compensated absences for each plan at December 31, 2017, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Beginning Balance	$ 55,909	$ 18,341	$ 35,128	$ 9,746
Increases	-	-	2,506	-
Decreases	9,422	4,512	3,162	889
Ending Balance	$ 46,487	$ 13,829	$ 34,472	$ 8,857
Amounts Due within One Year	$ 4,184	$ 1,245	$ 3,102	$ 797

7. Contingencies and Commitments

Risk Management. NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State typically self-insures for general liability, employee health care, employee indemnification, and worker's compensation. The State has chosen to purchase insurance for the following:

A. Motor vehicle liability with vehicular pursuit, which is insured for the first $5 million of exposure per accident with a self-insured retention of $300,000 and $300,000 corridor retention. Motor vehicle liability is insured for $1 million with a self-insured retention of $200,000, and with excess coverage of $400 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a $5,000 deductible for this coverage.

B. Life insurance for eligible employees.

C. Crime coverage, with a limit of $31 million for each loss and a $25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.

D. Real and personal property on a blanket basis for losses up to $401 million, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $10 million for 120 days, and after 120 days, if the property has not been reported, the limit decreases to $5 million. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS – Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. No amounts for estimated claims have been reported in the NPERS' financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. **Contingencies and Commitments** (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is NPERS' opinion that final settlement of those matters should not have an adverse effect on NPERS' ability to administer current programs. Any judgment against NPERS would have to be processed through the State Claims Board and be approved by the Legislature.

8. **Capital Assets**

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contributions				
Equipment	$ 527,324	$ 240	$ -	$ 527,564
Less: Accumulated Depreciation	527,103	154	-	527,257
Capital Assets, Net	$ 221	$ 86	$ -	$ 307
State Cash Balance Benefits				
Equipment	$ 461,409	$ 780	$ -	$ 462,189
Less: Accumulated Depreciation	461,214	168	-	461,382
Capital Assets, Net	$ 195	$ 612	$ -	$ 807
County Defined Contributions				
Equipment	$ 263,662	$ 120	$ -	$ 263,782
Less: Accumulated Depreciation	263,553	77	-	263,630
Capital Assets, Net	$ 109	$ 43	$ -	$ 152
County Cash Balance Benefits				
Equipment	$ 263,662	$ 540	$ -	$ 264,202
Less: Accumulated Depreciation	263,553	101	-	263,654
Capital Assets, Net	$ 109	$ 439	$ -	$ 548

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Transfers

Transfer activity for the year ended December 31, 2017, was as follows

	State Cash Balance Benefit	State Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 2,890,131	$ (2,890,131)
Miscellaneous Transfers	701,235	(701,235)
Total Transfers	$ 3,591,366	$ (3,591,366)

	County Cash Balance Benefit	County Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 428,583	$ (428,583)
Miscellaneous Transfers	190,701	(190,701)
Total Transfers	$ 619,284	$ (619,284)

The annuity balances represent the transfer of balances of members who elected an annuity in the defined contribution option. Since NPERS pays the annuities, the balances are transferred to the cash balance benefit in order for the annuity to be processed. Miscellaneous transfers consist of members who had previous balances in the defined contribution option, but were rehired after January 1, 2003. They are required to be in the cash balance benefit; therefore, their defined contribution balance was transferred to the cash balance benefit.

10. Equal Retirement Benefit Fund

On January 1, 1984, the Equal Retirement Benefit Fund (ERBF) was created for the State and County Retirement Plans. Each State agency and county participating in the retirement system makes contributions to the fund at least annually, in addition to regular retirement contributions.

Upon retirement, members with an accumulated account balance based on contributions made prior to January 1, 1984, have the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member's regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2017, there was $478,846 in the State ERBF and a balance of $410,152 in the County ERBF.

11. Subsequent Events

Calendar Year 2017 State Dividend:
The Board granted a 5.46% dividend for the calendar year 2017 State Cash Balance Plan on May 21, 2018. All eligible State Cash Balance members will receive the dividend by September 1, 2018, or as soon as administratively possible. The estimated dividend totaled $63,632,381 plus interest up to the date it was paid.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

11. Subsequent Events (Concluded)

Calendar Year 2017 County Dividend:
The Board granted a 8.42% dividend for the calendar year 2017 County Cash Balance Plan on May 21, 2018. All eligible County Cash Balance members will receive the dividend by September 1, 2018, or as soon as administratively possible. The estimated dividend totaled $34,058,428 plus interest up to the date it was paid.

Saunders Medical Center:
Saunders Medical Center (SMC) exercised its statutory authority under Neb. Rev. Stat. § 23-3527 (Reissue 2012) to discontinue County Plan participation effective June 30, 2018. SMC's final employee and employer contributions were received on July 6, 2018.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF CHANGES IN THE STATE EMPLOYER NET PENSION LIABILITY

STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN

AS OF DECEMBER 31, 2017

(Unaudited)

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 64,050,683	$ 61,768,235	$ 57,304,924	$ 54,920,902
Interest	102,758,618	98,053,908	89,967,248	85,695,932
Benefit term changes	31,484,516	-	35,892,320	-
Difference between expected and actual experience	(18,938,806)	(14,007,040)	720,728	(11,217,240)
Assumption changes	42,820,238	-	-	-
Transfers	3,591,366	5,115,400	5,849,328	4,195,885
Benefit payments, including member refunds	(94,358,979)	(84,773,402)	(85,278,057)	(73,527,209)
Net change in Total Pension Liability	131,407,636	66,157,101	104,456,491	60,068,270
Total Pension Liability - beginning	1,370,454,658	1,304,297,557	1,199,841,066	1,139,772,796
Total Pension Liability - ending (a)	$ 1,501,862,294	$ 1,370,454,658	$ 1,304,297,557	$ 1,199,841,066
Plan Fiduciary Net Position				
Employer contributions	45,437,713	44,894,300	43,339,706	41,455,919
Employee contributions	29,127,571	28,775,358	27,798,721	26,603,709
Net investment income	237,283,016	112,758,193	14,784,129	83,523,713
Benefit payments, including member refunds	(94,358,979)	(84,773,402)	(85,278,057)	(73,527,209)
Administrative expenses	(1,293,454)	(1,134,239)	(1,079,197)	(910,460)
Transfers	3,591,366	5,115,400	5,849,328	4,195,885
Net change in Plan Fiduciary Net Position	219,787,233	105,635,610	5,414,630	81,341,557
Plan Fiduciary Net Position - beginning	1,416,086,648	1,310,451,038	1,305,036,408	1,223,694,851
Plan Fiduciary Net Position - ending (b)	$ 1,635,873,881	$ 1,416,086,648	$ 1,310,451,038	$ 1,305,036,408
Net Pension Liability/(Asset) - ending (a) - (b)	$ (134,011,587)	$ (45,631,990)	$ (6,153,481)	$ (105,195,342)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	108.92%	103.33%	100.47%	108.77%
Covered payroll	606,807,065	$ 599,549,947	$ 578,788,809	$ 553,631,397
Employers' Net Pension Liability/(Asset) as a percentage of covered payroll	(22.08%)	(7.61%)	(1.06%)	(19.00%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE COUNTY EMPLOYERS' NET PENSION LIABILITY
COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2017
(Unaudited)

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 25,927,269	$ 24,325,759	$ 21,667,314	$ 20,333,501
Interest	31,644,765	29,509,568	26,074,912	24,388,848
Benefit term changes	1,838,521	-	17,061,497	-
Difference between expected and actual experience	(7,230,377)	(5,428,286)	865,544	(3,432,132)
Assumption changes	7,781,664	-	-	-
Transfers	619,284	1,678,510	826,843	835,282
Benefit payments, including member refunds	(21,934,437)	(22,092,412)	(23,080,849)	(17,750,010)
Net change in Total Pension Liability	38,646,689	27,993,139	43,415,261	24,375,489
Total Pension Liability - beginning	418,778,262	390,785,123	347,369,862	322,994,373
Total Pension Liability - ending (a)	$ 457,424,951	$ 418,778,262	$ 390,785,123	$ 347,369,862
Plan Fiduciary Net Position				
Employer contributions	17,752,388	16,935,811	16,068,670	15,268,274
Employee contributions	12,000,061	11,352,667	10,966,403	10,327,540
Net investment income	72,075,672	33,115,136	4,846,001	23,627,946
Benefit payments, including member refunds	(21,934,437)	(22,092,412)	(23,080,849)	(17,750,010)
Administrative expenses	(750,056)	(649,709)	(545,137)	(527,732)
Transfers	619,284	1,678,510	826,843	835,282
Net change in Plan Fiduciary Net Position	79,762,912	40,340,003	9,081,931	31,781,300
Plan Fiduciary Net Position - beginning	431,768,012	391,428,009	382,346,078	350,564,778
Plan Fiduciary Net Position - ending (b)	$ 511,530,924	$ 431,768,012	$ 391,428,009	$ 382,346,078
Net Pension Liability/(Asset) - ending (a) - (b)	$ (54,105,973)	$ (12,989,750)	$ (642,886)	$ (34,976,216)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	111.83%	103.10%	100.16%	110.07%
Covered payroll	255,798,098	$ 244,031,859	$ 231,537,032	$ 220,003,948
Employers' Net Pension Liability/(Asset) as a percentage of covered payroll	(21.15%)	(5.32%)	(0.28%)	(15.90%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF STATE EMPLOYER CONTRIBUTIONS

STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2017
(Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	$ 29,915,588	$ 32,975,247	$ 28,476,409	$ 31,280,174	$ 34,086,379	$ 29,575,730	$ 26,903,495	$ 26,098,457	$ 24,174,220	$ 19,971,810
Actual employer contributions	45,437,713	44,894,300	43,339,706	41,455,919	39,147,056	32,096,097	31,088,483	30,679,003	30,321,032	29,208,772
Annual contribution deficiency (excess)	$ (15,522,125)	$ (11,919,053)	$ (14,863,297)	$ (10,175,745)	$ (5,060,677)	$ (2,520,367)	$ (4,184,988)	$ (4,580,546)	$ (6,146,812)	$ (9,236,962)
Covered payroll	$ 606,807,065	$ 599,549,947	$ 578,788,809	$ 553,631,397	$ 522,797,222	$ 428,633,774	$ 415,177,390	$ 409,708,908	$ 404,928,312	$ 390,074,412
Actual contributions as a percentage of covered payroll	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%

Note: Actuarially determined employer contributions prior to 2013 were provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF COUNTY EMPLOYER CONTRIBUTIONS

COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2017
(Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	$ 12,303,889	$ 12,836,076	$ 10,419,166	$ 10,934,196	$ 11,626,005	$ 10,937,538	$ 9,980,984	$ 9,138,705	$ 7,771,736	$ 6,180,607
Actual employer contributions	17,752,388	16,935,811	16,068,670	15,268,274	14,230,066	12,696,338	11,908,346	11,370,059	10,555,174	9,839,409
Annual contribution deficiency (excess)	$ (5,448,499)	$ (4,099,735)	$ (5,649,504)	$ (4,334,078)	$ (2,604,061)	$ (1,758,800)	$ (1,927,362)	$ (2,231,354)	$ (2,783,438)	$ (3,658,802)
Covered payroll	$ 255,798,098	$ 244,031,859	$ 231,537,032	$ 220,003,948	$ 205,044,179	$ 183,208,341	$ 172,085,925	$ 164,070,115	$ 156,372,948	$ 145,769,022
Actual contributions as a percentage of covered payroll	6.94%	6.94%	6.94%	6.94%	6.94%	6.93%	6.92%	6.93%	6.75%	6.75%

Note: Actuarially determined employer contributions prior to 2013 were provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF INVESTMENT RETURNS

AS OF DECEMBER 31, 2017

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:				
State Employee Retirement Plan	16.85%	8.61%	1.14%	6.83%
County Employee Retirement Plan	16.60%	8.40%	1.27%	6.68%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Years

State Employees Cash Balance Retirement Plan

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of January 1:

2018: The Board granted a dividend of 3.07% in 2017 that was first reflected in the January 1, 2018, valuation.

2016: The Board granted a dividend of 4.53% in 2015, which was first reflected in the January 1, 2016, valuation.

2013: The 2012 Nebraska Legislature passed Legislative Bill (LB) 916, as amended by AM1739, which created an election period of September 1, 2012, and ending October 31, 2012, during which members in the State Defined Contribution Plan could elect to transfer their account balances to the State Employees' Retirement System Cash Balance Benefit Fund.

2009: The Board granted a dividend of 5.18% in 2008, which was first reflected in the January 1, 2009, valuation.

2008: Under LB 328, enacted by the 2007 Legislature, members of the State Defined Contribution Plan could elect to transfer their account balance and participate in the State Employees' Retirement System Cash Balance Fund. The election period was from November 1, 2007, to December 31, 2007.

The Board granted a dividend of 2.73% in 2007, which was first reflected in the January 1, 2008, valuation.

The following changes were made in the actuarial assumptions:

January 1, 2018, valuation:

- Investment return assumption was lowered from 7.75% to 7.50%.
- Price inflation assumption was lowered from 3.25% to 2.75%.
- General wage growth was lowered from 4.00% to 3.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Individual salary increase assumption was lowered by 0.50% in order to remain consistent with the general wage growth assumption.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

State Employees Cash Balance Retirement Plan (Continued)

- Assumed cash balance interest crediting rate was lowered from 6.75% to 6.25%.

- Mortality assumption was changed to the RP-2014 While Collar Mortality Table, with adjustments made to better reflect observed experience. Generational mortality improvements are modeled using a System-specific projection scale.

- Retirement rates were adjusted to better reflect observed experience.

- Termination rates were changed to a service-based assumption.

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.

- Salary increases were changed to rates grading down from 5.43% for less than one year of service to 4.00% at 20 years of service. Prior rates graded from 5.9% for less than one year of service to 4.5% at 20 years of service.

- Retirement rates increased at age 65 to 69 and 100% probability of retirement was extended to age 80 from age 70.

- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with one-year setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).

- The select and ultimate termination rates were increased.

- Disability rates were removed.

- Price inflation was lowered from 3.50% to 3.25% per year.

- Economic productivity was lowered from 1.00% to 0.75% per year.

- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 50% elect a lump sum and 50% elect an annuity.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

State Employees Cash Balance Retirement Plan (Concluded)

January 1, 2008, valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits were changed to 7.75% from 7.60%, per year.
- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 5.9% with less than one year of service to 4.5% with 20 years of service.
- Retirement rates were decreased at ages 60 through 63 and 65 through 69.
- The select period for termination of employment rates was extended to five years with a general decrease in select and ultimate rates prior to age 30 and increases after age 30.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a one-year setback to the 1994 GAM table, projected to 2010.

County Employees Cash Balance Retirement Plan

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of January 1:

2018: The Board granted a dividend of 0.51% in 2017 that was first reflected in the January 1, 2018, valuation.

2016: The Board granted a dividend of 5.81% in 2015, which was first reflected in the January 1, 2016, valuation.

2015: The Board granted a dividend of 0.29% in 2014, which was first reflected in the January 1, 2015, valuation.

2013: The 2012 Nebraska Legislature passed LB 916, as amended by AM1739, which created an election period of September 1, 2012, and ending October 31, 2012, during which members in the County Defined Contribution Plan could elect to transfer their account balances to the County Employees' Retirement System Cash Balance Benefit Fund.

2010: Data was reported for the first time that identified commissioned law enforcement personnel who, by statute, contribute an additional 1% or 2% of their annual compensation. The additional contribution is matched by each county.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

County Employees Cash Balance Retirement Plan (Continued)

2009: The Board granted a dividend of 5.34% in 2008, which was first reflected in the January 1, 2009, valuation.

2008: Under LB 328, enacted by the 2007 Legislature, members of the County Defined Contribution Plan could elect to transfer their account balance and participate in the County Employees' Retirement System Cash Balance Fund. The election period was from November 1, 2007, to December 31, 2007.

The Board granted a dividend of 2.73% in 2007, which was first reflected in the January 1, 2008, valuation.

The following changes were made in the actuarial assumptions:

January 1, 2018, valuation:

- Investment return assumption was lowered from 7.75% to 7.50%.
- Price inflation assumption was lowered from 3.25% to 2.75%.
- General wage growth was lowered from 4.00% to 3.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Individual salary increase assumption was lowered by 0.50% in order to remain consistent with the general wage growth assumption.
- Assumed cash balance interest crediting rate was lowered from 6.75% to 6.25%.
- Mortality assumption was changed to the RP-2014 While Collar Mortality Table, with adjustments made to better reflect observed experience. Generational mortality improvements are modeled using a System-specific projection scale.
- Termination rates were changed to a service-based assumption.

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

County Employees Cash Balance Retirement Plan (Concluded)

- Salary increases were changed to rates grading down from 8.5% for less than 1 year of service to 4.3% at 10 years of service. Prior rates graded from 15.0% for less than 1 year of service to 5.5% at 7 years of service.

- Retirement rates increased at age 55 to 60, 62 and 66 to 68, rates decreased at age 64 and 100% probability of retirement was extended to age 80 from age 70.

- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with one-year setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).

- The select and ultimate termination rates were increased.

- Disability rates were removed.

- Price inflation was lowered from 3.50% to 3.25% per year.

- Economic productivity was lowered from 1.00% to 0.75% per year.

- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 60% elect a lump sum and 40% elect an annuity.

January 1, 2008, valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits was changed to 7.75%, from 7.60%, per year.

- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 15.0% with less than one year of service to 5.5% with seven or more years of service.

- Retirement rates were decreased at ages 60 through 63, increased at age 64 and decreased at ages 65 through 69.

- The select period for termination of employment rates was extended to five years with a general decrease in select and ultimate rates prior to age 30 and increases after age 30.

- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a one-year setback to the 1994 GAM table, projected to 2010.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
Personnel					
Personal Services	$ 346,341	$ 102,074	$ 254,797	$ 65,182	$ 768,394
Travel	3,399	1,049	2,751	833	8,032
Professional and Technical Services					
Professional	6,275	1,505	3,616	804	12,200
Actuary	30,344	-	40,544	-	70,888
Computer Support Services	87,167	24,358	68,012	14,852	194,389
Accounting and Auditing	24,188	7,016	17,705	4,041	52,950
Communications					
Telephone	3,525	1,110	2,415	580	7,630
Printing	8,988	1,869	4,737	933	16,527
Other Expenses					
Postage	9,362	1,828	5,339	1,052	17,581
Supplies	4,999	1,271	7,928	711	14,909
Hardware and Software	5,561	1,795	3,890	911	12,157
Repairs	211	65	148	33	457
Rent	15,936	4,848	10,575	2,791	34,150
Record Keeping Fees	532,984	111,872	253,755	47,915	946,526
Check Charge and Distribution Fees	183,906	19,440	57,600	8,250	269,196
Miscellaneous	30,268	4,764	16,244	3,543	54,819
Total Administrative Expenses	$ 1,293,454	$ 284,864	$ 750,056	$ 152,431	$ 2,480,805

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
BlackRock Financial Management, Inc.	$ 61,315	$ 27,821	$ 18,754	$ 7,361	$ 115,251
Dimensional Fund Advisors, Inc.	182,595	218,804	55,853	55,978	513,230
Total Domestic Equity	**243,910**	**246,625**	**74,607**	**63,339**	**628,481**
BlackRock Financial Management, Inc.	115,355	2,776	35,282	500	153,913
Franklin Advisers, Inc.	161,420	-	49,372	-	210,792
Loomis Sayles & Company, L.P.	215,023	-	65,767	-	280,790
Oaktree Capital Management, L.P.	155,407	-	47,532	-	202,939
Neuberger Berman Investment Management	69,990	-	21,407	-	91,397
Pacific Investment Management Company, LLC	575,766	3,229	176,103	784	755,882
T. Rowe Price Associates, Inc	-	138,822	-	40,413	179,235
Wellington Management Company, LLP	115,210	-	35,238	-	150,448
Total Fixed Income	**1,408,171**	**144,827**	**430,701**	**41,697**	**2,025,396**
Arrowstreet Capital	353,650	-	108,170	-	461,820
BlackRock Financial Management, Inc.	17,475	-	5,344	-	22,819
Dodge & Cox	92,985	-	28,442	-	121,427
IronBridge Capital Management, L.P.	77,474	-	23,696	-	101,170
MFS Investment Management	204,453	11,017	62,537	2,676	280,683
Wellington Management Company, LLP	196,434	-	60,083	-	256,517
Total Global Equity	**942,471**	**11,017**	**288,272**	**2,676**	**1,244,436**
Baillie Gifford Overseas Ltd.	151,469	-	46,328	-	197,797
BlackRock Financial Management, Inc.	36,115	23,777	11,035	5,210	76,137
Gryphon International Investment Corp.	194,773	-	59,573	-	254,346
Total International Equity	**382,357**	**23,777**	**116,936**	**5,210**	**528,280**
Almanac Realty Investors, LLC	53,061	-	16,229	-	69,290
Angelo, Gordon & Company, L.P.	18,049	-	5,520	-	23,569
Barings Asset Management	125,909	-	38,510	-	164,419
Beacon Capital Partners	179	-	55	-	234
CBRE Global Investors	12,289	-	3,759	-	16,048
Goldman Sachs Asset Management	-	4,791	-	1,164	5,955
Heitman Real Estate Securities LLC	10	-	3	-	13
Landmark Partners	149,747	-	45,801	-	195,548
PGIM Real Estate	270,178	-	82,637	-	352,815
Rockpoint Group, LLC	6,585	-	2,014	-	8,599
Rockwood Capital, LLC	85,311	-	26,094	-	111,405
Torchlight Investors	92,771	-	28,375	-	121,146
UBS Realty Investors, LLC	200,957	-	61,464	-	262,421
Total Real Estate	**1,015,046**	**4,791**	**310,461**	**1,164**	**1,331,462**
Abbott Capital Management, LLC	27,972	-	8,556	-	36,528
Accel-KKR Management Co, LLC	29,913	-	9,150	-	39,063
Ares Management, LLC	160,869	-	49,203	-	210,072
Beecken Petty O'Keefe & Company	33,262	-	10,173	-	43,435
Bridgepoint Advisers Ltd.	54,399	-	16,638	-	71,037
CVC Capital Partners	47,909	-	14,654	-	62,563
(The) Energy & Minerals Group	50,944	-	15,582	-	66,526
Francisco Partners Management L.P.	69,367	-	21,216	-	90,583
Genstar Capital	85,622	-	26,188	-	111,810
Leonard Green & Partners, L.P.	13,823	-	4,228	-	18,051
HarbourVest Partners, LLC	86,506	-	26,459	-	112,965
Lightyear Capital, LLC	11,557	-	3,535	-	15,092
Lincolnshire Management, Inc.	11,174	-	3,418	-	14,592
Longroad Asset Management	821	-	251	-	1,072
McCarthy Capital Corporation	129,132	-	39,496	-	168,628
Merit Capital Partners	9,408	-	2,877	-	12,285
New Enterprise Associates Inc.	40,021	-	12,241	-	52,262

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
New Mountain Capital, LLC	117,715	-	36,004	-	153,719
Pathway Capital Management, LLC	72,509	-	22,177	-	94,686
Pine Brook Capital Partners II, L.P.	67,921	-	20,774	-	88,695
Presidio Partners (formally CMEA Capital)	20,244	-	6,192	-	26,436
Quantum Energy Partners	115,502	-	35,327	-	150,829
Sun Capital Partners, Inc.	734	-	225	-	959
(The) Jordan Company	65,077	-	19,904	-	84,981
The Rohatyn Group Management, L.P.	11,313	-	3,460	-	14,773
Wayzata Investment Partners, LLC	51,638	-	15,793	-	67,431
Wynnchurch Capital Partners	47,935	-	14,662	-	62,597
Total Private Equity	**1,433,287**	**-**	**438,383**	**-**	**1,871,670**
BlackRock Financial Management, Inc.	-	104,476	-	36,423	140,899
Total Premixed Portfolio Funds	**-**	**104,476**	**-**	**36,423**	**140,899**
Nebraska Investment Council Fees	170,601	74,815	52,211	23,219	320,846
Custody Expenses	62,813	48,702	19,352	14,361	145,228
Miscellaneous Expenses	134,366	-	40,675	-	175,041
Total Other Expenses	**367,780**	**123,517**	**112,238**	**37,580**	**641,115**
Total Investment-Related Expenses	**5,793,022**	**659,030**	**1,771,598**	**188,089**	**8,411,739**

(Concluded)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**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***

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise NPERS – State and County Employees Retirement Plans' basic financial statements, and have issued our report thereon dated August 9, 2018. The report was modified to emphasize that the financial statements present only the funds of the NPERS – State and County Employees Retirement Plans.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the NPERS – State and County Employees Retirement Plans' 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 Nebraska Public Employees Retirement Systems – State and County Retirement Plans' financial statements are free of 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 NPERS – State and County Employees Retirement Plans' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NPERS – State and County Employees Retirement Plans' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zachary Wells

August 9, 2018

Zachary Wells, CPA, CISA
Audit Manager
Lincoln, Nebraska