# 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, 2018, THROUGH DECEMBER 31, 2018**



**Issued on August 29, 2019**

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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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 at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

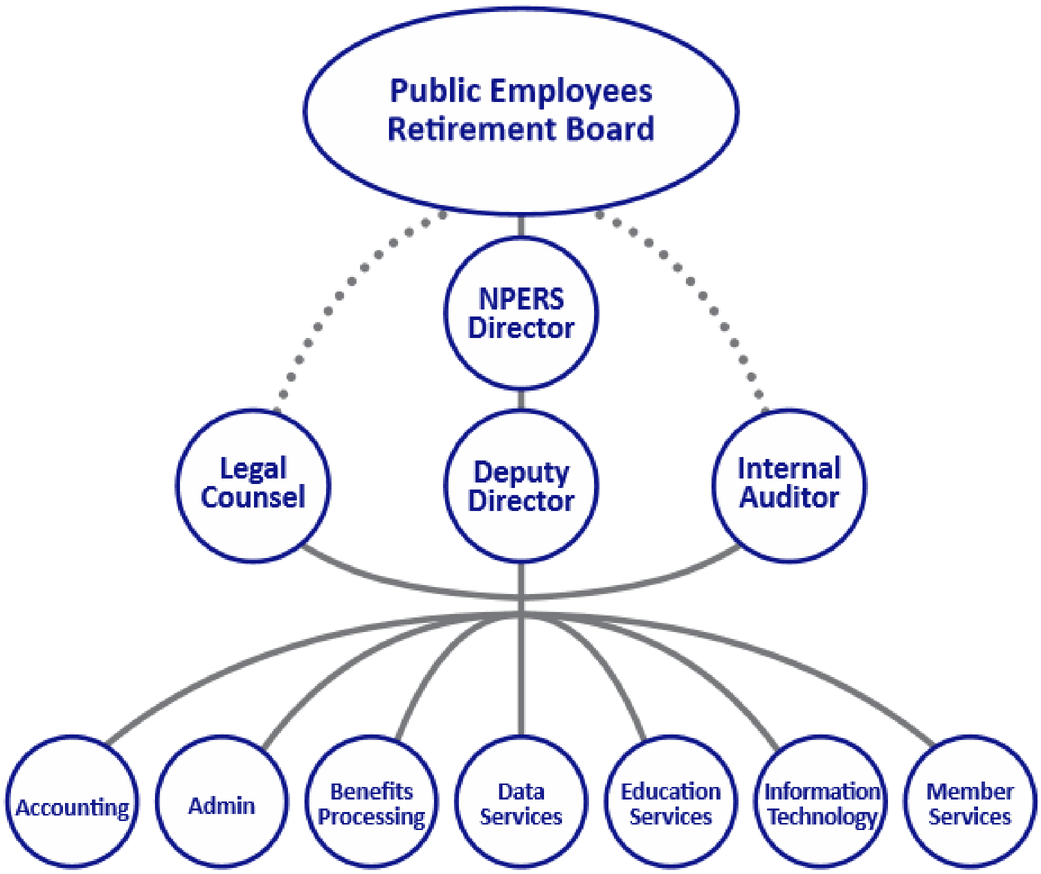
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio Board member.

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**



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

# KEY OFFICIALS AND AGENCY CONTACT INFORMATION

## Public Employees Retirement Board Members

Janis Elliot
Chairperson – School Member
Term Ending January 1, 2024

Open
Public Member

Kelli Ackerman
Vice-Chair – School Member
Term Ending January 1, 2020

Allen Simpson
State Member
Term Ending January 1, 2020

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

Jim Schulz
Public Member
Term Ending January 1, 2022

Pamela Lancaster
County Member
Term Ending January 1, 2021

Mike Jahnke
State Patrol Member
Term Ending January 1, 2020

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
1526 K Street, Suite 400
P.O. Box 94816
Lincoln, NE 68509
npers.ne.gov

## COMMENT AND RECOMMENDATION

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans, we noted a certain matter involving the internal control over financial reporting and other operational matters that are presented here.

### Fund 51 Balance Follow-Up Procedures

We reviewed nine State and nine County plan participants whose contributions originally posted to Fund 51, a non-interest bearing account, to determine the amount of lost interest and time lag between when the first contributions posted to Fund 51 and when the member's balance was transferred to Fund 50, an interest bearing account. Current employee contributions should post to Fund 50. The following table details the results of this review:

| | Plan | Date of 1st Contribution upon Rehire | Date Balance Transferred | *** # of Days | Estimated Interest Lost | |
|---|---|---|---|---|---|---|
| 1 | County | 2/16/2018 | 6/27/2019 | 496 | $ 354 | * |
| 2 | County | 7/20/2018 | Not Transferred | 350 | $ 105 | ** |
| 3 | County | 12/4/2017 | 5/14/2018 | 161 | $ 88 | |
| 4 | State | 7/18/2018 | 2/14/2019 | 211 | $ 56 | |
| 5 | State | 8/1/2018 | 2/19/2019 | 202 | $ 52 | |
| 6 | State | 7/3/2018 | 2/13/2019 | 225 | $ 50 | |
| 7 | County | 8/24/2018 | 3/21/2019 | 209 | $ 47 | |
| 8 | County | 8/2/2018 | 3/14/2019 | 224 | $ 47 | |
| 9 | State | 7/3/2018 | 2/5/2019 | 217 | $ 39 | |
| 10 | State | 1/3/2018 | 5/21/2018 | 138 | $ 38 | |
| 11 | County | 10/1/2018 | 6/28/2019 | 270 | $ 36 | * |
| 12 | State | 7/3/2018 | 11/27/2018 | 147 | $ 35 | |
| 13 | County | 8/21/2018 | 3/18/2019 | 209 | $ 27 | |
| 14 | State | 6/20/2018 | 10/5/2018 | 107 | $ 20 | |
| 15 | State | 3/28/2018 | 7/17/2018 | 111 | $ 20 | |
| 16 | County | 2/6/2018 | 6/29/2018 | 143 | $ 20 | |
| 17 | State | 12/20/2017 | 3/21/2018 | 91 | $ 18 | |
| 18 | County | 4/2/2018 | 8/16/2018 | 136 | $ 17 | |

*Not corrected until after it was brought to NPERS' attention by the APA.
**As of audit fieldwork on 7/5/2019, contributions were still improperly being posted to Fund 51.
***Number of Days was calculated using 7/5/2019.

For #1 above, NPERS did notify Ameritas on June 29, 2018, to transfer this participant's balance; however, Ameritas failed to process the request. This was not identified until the APA brought this member to NPERS' attention during the audit. Ameritas subsequently reimbursed this member for the interest lost.

Ameritas is the record keeper for the State and County Employees Retirement Plans. OMNI is the recordkeeping system utilized by Ameritas to track member demographic information, contributions, account balances, etc. Contributions from Cash Balance plan participants are either recorded to Fund 50

**COMMENT AND RECOMMENDATION**
(Continued)

or Fund 51 in the recordkeeping system. Amounts posted to Fund 50 earn an interest credit rate, while those posted to Fund 51 earn no interest. Generally, all participant contributions should be posted to Fund 50, and Fund 51 should be used only to record contributions or dividends received after a participant has taken a full distribution of his or her account balance.

After a participant terminates employment with the State or County and takes a full distribution of his or her account, the recordkeeping system automatically posts any future amounts received to Fund 51. This procedure is problematic when a participant is rehired after having taken a full account distribution because the recordkeeping system automatically posts contributions upon rehire to Fund 51. Until NPERS notifies Ameritas that contributions need to be transferred to Fund 50, contributions will continue to post to Fund 51 and not earn interest to which the participant is entitled.

We noted that NPERS received monthly reports from Ameritas detailing participants who had previously taken a full account distribution, but subsequently had contributions posted to their account (indicating they were rehired). NPERS also received reports in June and December of each year showing the participants who had a balance in Fund 51. NPERS did not have procedures in place to ensure the reports were adequately and timely reviewed, and that Ameritas was notified timely to transfer participant balances to Fund 50. NPERS does not subsequently reimburse member accounts for any interest lost.

We requested that Ameritas provide a report showing all State and County participants who had contributions post to Fund 51 during 2018. The following table details the number of participants and dollar amount of participant contributions that posted to Fund 51 during 2018, per the report received from Ameritas.

| | # of Participants | $ of Contributions |
|---|---|---|
| State | 237 | $ 292,516 |
| County | 44 | 55,161 |
| **Total** | **281** | **$ 347,677** |

A good internal control plan and sound business practices require procedures to be in place, and sufficient resources to be allocated to such procedures, to ensure corrections to participants' accounts are made in a timely manner, and members receive the correct amount of interest to which they are entitled.

Without such procedures, there is an increased risk that participant account information will be incorrect, resulting in participants not receiving the correct amount of interest to which they are entitled.

> We recommend NPERS strengthen its procedures for reviewing Fund 51 balances to ensure balances that need to be transferred to Fund 50 are transferred in a timely manner.

*NPERS Response: NPERS has revised and strengthened the procedures for reviewing the Fund 51 report received from Ameritas. NPERS has cross trained staff to assist with review of the report.*

*Individual accounts brought to NPERS attention have been moved to the proper fund and made whole.*

**COMMENT AND RECOMMENDATION**
(Concluded)

It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to NPERS to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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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 Fiduciary Net Position and the related Statements of Changes in Fiduciary 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, 2018, and the related notes to the financial statements, which collectively comprise the NPERS – 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 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 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, 2018, 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 the Required Supplementary Information, on pages 39-47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted its Management Discussion and Analysis, which 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 19, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NPERS – State and County Employees Retirement Plans' 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 NPERS – State and County Employees Retirement Plans' internal control over financial reporting and compliance.

Zachary Wells

August 19, 2019

Zachary Wells, CPA, CISA
Audit Manager
Lincoln, Nebraska

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
**STATEMENT OF FIDUCIARY NET POSITION**
AS OF DECEMBER 31, 2018

| | STATE CASH BALANCE BENEFIT | STATE DEFINED CONTRIBUTION |
|---|---|---|
| **ASSETS** | | |
| Cash in State Treasury | $ 402,541 | $ 190,033 |
| Receivables: | | |
| Contributions | 3,910,352 | 818,286 |
| Interest and Dividends | 2,390,893 | 150,855 |
| Other Investment Receivables (Note 4) | 113,942,614 | 94,778 |
| Total Receivables | 120,243,859 | 1,063,919 |
| Pooled Investments, at Fair Market Value (Note 4): | | |
| U.S. Treasury Notes and Bonds | 40,712,892 | - |
| Government Agency Securities | 2,744,008 | - |
| Corporate Bonds | 115,041,317 | - |
| International Bonds | 34,360,130 | - |
| Asset Backed Securities | 25,170,219 | - |
| Bank Loans | 41,562,282 | - |
| Short Term Investments | 28,341,708 | 12,220,846 |
| Commingled Funds | 778,250,316 | 638,584,332 |
| Mortgages | 104,510,748 | - |
| Opportunistic Credit | 11,644,991 | |
| Municipal Bonds | 592,587 | - |
| Private Equity Funds | 83,925,440 | - |
| Equity Securities | 213,703,701 | - |
| Options | (1,760) | - |
| Private Real Estate Funds | 105,399,377 | - |
| Total Investments | 1,585,957,956 | 650,805,178 |
| Invested Securities Lending Collateral (Note 4) | 29,662,409 | - |
| Capital Assets (Note 8): | | |
| Equipment | 463,030 | 527,744 |
| Less: Accumulated Depreciation | (461,546) | (527,365) |
| Total Capital Assets, Net | 1,484 | 379 |
| Total Assets | 1,736,268,249 | 652,059,509 |
| **LIABILITIES** | | |
| Compensated Absences (Note 6) | 54,333 | 13,648 |
| Other Investment Payables (Note 4) | 170,393,818 | 50,124 |
| Benefits Payable | 3,014,523 | - |
| Obligations Under Securities Lending (Note 4) | 29,662,409 | - |
| Total Liabilities | 203,125,083 | 63,772 |
| Net Position - Restricted for Pensions | $ 1,533,143,166 | $ 651,995,737 |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN

**STATEMENT OF FIDUCIARY NET POSITION**

AS OF DECEMBER 31, 2018

| | COUNTY CASH BALANCE BENEFIT | COUNTY DEFINED CONTRIBUTION |
|---|---|---|
| ASSETS | | |
| Cash in State Treasury | $ 175,925 | $ 67,924 |
| | | |
| Receivables: | | |
| Contributions | 1,878,764 | 321,654 |
| Interest and Dividends | 763,409 | 43,664 |
| Other Investment Receivables (Note 4) | 36,331,704 | 27,641 |
| Total Receivables | 38,973,877 | 392,959 |
| | | |
| Pooled Investments, at Fair Market Value (Note 4): | | |
| U.S. Treasury Notes and Bonds | 12,981,699 | - |
| Government Agency Securities | 874,954 | - |
| Corporate Bonds | 36,682,036 | - |
| International Bonds | 10,956,060 | - |
| Asset Backed Securities | 8,025,768 | - |
| Bank Loans | 13,252,535 | - |
| Short Term Investments | 9,719,262 | 3,161,317 |
| Commingled Funds | 248,152,639 | 201,959,156 |
| Mortgages | 33,324,262 | - |
| Opportunistic Credit | 3,713,118 | |
| Municipal Bonds | 188,952 | - |
| Private Equity Funds | 26,760,438 | - |
| Equity Securities | 68,141,492 | - |
| Options | (561) | - |
| Private Real Estate Funds | 33,607,611 | - |
| Total Investments | 506,380,265 | 205,120,473 |
| | | |
| Invested Securities Lending Collateral (Note 4) | 9,458,146 | - |
| Capital Assets (Note 8): | | |
| Equipment | 264,743 | 263,902 |
| Less: Accumulated Depreciation | (263,758) | (263,685) |
| Total Capital Assets, Net | 985 | 217 |
| | | |
| Total Assets | 554,989,198 | 205,581,573 |
| | | |
| LIABILITIES | | |
| Compensated Absences (Note 6) | 31,993 | 8,591 |
| Other Investment Payables (Note 4) | 54,327,007 | 20,643 |
| Benefits Payable | 797,725 | - |
| Obligations Under Securities Lending (Note 4) | 9,458,146 | - |
| Total Liabilities | 64,614,871 | 29,234 |
| | | |
| Net Position - Restricted for Pensions | $ 490,374,327 | $ 205,552,339 |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
FOR THE YEAR ENDED DECEMBER 31, 2018

| | STATE CASH BALANCE BENEFIT | STATE DEFINED CONTRIBUTION |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Member | $ 29,854,372 | $ 6,129,711 |
| Employer (Note 5) | 46,580,471 | 9,585,584 |
| Total Contributions | 76,434,843 | 15,715,295 |
| Investment Income: | | |
| Net Appreciation in Fair Value of Investments | (86,966,104) | (31,199,480) |
| Interest and Dividends Income | 29,455,161 | 4,756,036 |
| Securities Lending Income | 794,825 | - |
| Total Investment Income | (56,716,118) | (26,443,444) |
| Investment Expenses: | | |
| Investment Expense | 6,305,924 | 706,472 |
| Securities Lending Expense | 583,087 | - |
| Total Investment Expenses | 6,889,011 | 706,472 |
| Net Investment Income | (63,605,129) | (27,149,916) |
| Other Additions | 14,442 | 4,938 |
| Total Additions | 12,844,156 | (11,429,683) |
| **DEDUCTIONS** | | |
| Benefits and Refunds | 121,911,299 | 39,305,436 |
| Administrative Expenses | 1,398,690 | 283,733 |
| Total Deductions | 123,309,989 | 39,589,169 |
| Transfers (Note 9) | 7,735,118 | (7,735,118) |
| Net Decrease in Net Position | (102,730,715) | (58,753,970) |
| Net Position - Restricted for Pensions | | |
| Beginning of Year | 1,635,873,881 | 710,749,707 |
| End of Year | $ 1,533,143,166 | $ 651,995,737 |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
FOR THE YEAR ENDED DECEMBER 31, 2018

| | COUNTY CASH BALANCE BENEFIT | COUNTY DEFINED CONTRIBUTION |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Member | $ 12,368,734 | $ 2,246,277 |
| Employer (Note 5) | 18,289,442 | 3,305,271 |
| Total Contributions | 30,658,176 | 5,551,548 |
| Investment Income: | | |
| Net Appreciation in Fair Value of Investments | (27,566,957) | (9,388,929) |
| Interest and Dividends Income | 9,340,403 | 1,430,715 |
| Securities Lending Income | 253,438 | - |
| Total Investment Income | (17,973,116) | (7,958,214) |
| Investment Expenses: | | |
| Investment Expenses | 2,008,385 | 217,948 |
| Securities Lending Expense | 185,923 | - |
| Total Investment Expense | 2,194,308 | 217,948 |
| Net Investment Income | (20,167,424) | (8,176,162) |
| Other Additions | 5,888 | 1,241 |
| Total Additions | 10,496,640 | (2,623,373) |
| **DEDUCTIONS** | | |
| Benefits and Refunds | 32,810,743 | 10,254,826 |
| Administrative Expenses | 728,112 | 150,730 |
| Total Deductions | 33,538,855 | 10,405,556 |
| Transfers (Note 9) | 1,885,618 | (1,885,618) |
| Net Decrease in Net Position | (21,156,597) | (14,914,547) |
| Net Position - Restricted for Pensions | | |
| Beginning of Year | 511,530,924 | 220,466,886 |
| End of Year | 490,374,327 | 205,552,339 |

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

## 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 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, 2018, 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.

## 1. <u>Summary of Significant Accounting Policies</u> (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 Fiduciary 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.

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.

## 1. **Summary of Significant Accounting Policies** (Concluded)

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and 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 180 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. 2018) for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2018) for the County Employees Retirement Plan for more complete information.

## 2. Plan Descriptions and Contribution Information (Continued)

### 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. 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.

**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 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.

**2. Plan Descriptions and Contribution Information** (Continued)

State Plan membership consisted of the following at December 31, 2018:

| | Defined Contribution | Cash Balance |
|---|---|---|
| Inactive Plan Members or Beneficiaries Currently Receiving Benefits | - | 2,027 |
| Inactive Plan Members Entitled to but not yet Receiving Benefits | 1,323 | 8,008 |
| Active Plan Members | 2,181 | 13,256 |
| Total | 3,504 | 23,291 |

The 2,027 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 |
|---|---|---|
| 2018 | $ 104,642 | $ 163,241 |
| 2017 | 106,235 | 165,726 |
| 2016 | 106,312 | 165,846 |

**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, 13 county health districts, and 3 other miscellaneous political subdivisions. Douglas and Lancaster counties have separate retirement plans for their employees, as allowed under Neb. Rev. Stat. § 23-1118 (Cum. Supp. 2018). Saunders Medical Center left the plan effective July 1, 2018; therefore, as of December 31, 2018, there was 107 participating employers.

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.

## 2. Plan Descriptions and Contribution Information (Continued)

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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

## 2. **Plan Descriptions and Contribution Information** (Concluded)

County Plan membership consisted of the following at December 31, 2018:

| | Defined Contribution | Cash Balance |
|---|---|---|
| Inactive Plan Members or Beneficiaries Currently Receiving Benefits | - | 682 |
| Inactive Plan Members Entitled to but not yet Receiving Benefits | 574 | 2,962 |
| Active Plan Members | 926 | 6,847 |
| Total | 1,500 | 10,491 |

The 682 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, 2019, the most recent actuarial valuation date, were as follows:

| | (a) Total Pension Liability | (b) Plan Fiduciary Net Position | (a-b) Net Pension Liability | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|
| State | $ 1,609,507,057 | $ 1,533,143,166 | $ 76,363,891 | 95.26% |
| County | $ 515,425,772 | $ 490,374,327 | $ 25,051,445 | 95.14% |

The Total Pension Liability as of December 31, 2018, was determined based on an actuarial valuation prepared as of January 1, 2019. The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

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

| | State Employees | County Employees |
|---|---|---|
| Valuation date | January 1, 2019 | January 1, 2019 |
| 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 | 4.13% | 4.13% |
| 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. |

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, set back 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.

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

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, which 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, 2018, (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.

**Discount Rate.** The discount rate used to measure the Total Pension Liability at December 31, 2018, was 7.50 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 2118.

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

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

**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 | $ 222,425,356 | $ 76,363,891 | $ (46,451,603) |
| County | $ 73,835,337 | $ 25,051,445 | $ (16,123,301) |

**4. Investments**

**Investments.** Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Fiduciary 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) (Reissue 2018) 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 . . . .*

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 | 27.0% |
| International Equities | 11.5% |
| Global Equities | 19.0% |
| Fixed Income | 30.0% |
| Private Equity | 5.0% |
| Real Estate | 7.5% |
| Total | 100.00% |

**4. Investments** (Continued)

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.

(Continued on Next Page)

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

## 4. **Investments** (Continued)

**Plan Investments at December 31, 2018, at Fair Value Measurement Using:**

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt Securities | | | | |
| Bank Loans | $ 54,814,817 | $ - | $ 54,814,817 | $ - |
| U.S. Treasury Notes and Bonds | 53,694,591 | - | 53,694,591 | - |
| Government Agency Securities | 3,618,962 | - | 3,618,962 | - |
| Corporate Bonds | 151,723,353 | - | 151,589,591 | 133,762 |
| International Bonds | 45,316,190 | - | 45,316,190 | - |
| Asset Backed Securities | 33,195,987 | - | 32,878,979 | 317,008 |
| Short Term Investments | 51,698,491 | 3,387,980 | 48,310,511 | - |
| Commingled Debt | 506,863,622 | 441,481,275 | 65,382,347 | - |
| Mortgages | 137,835,010 | - | 137,835,010 | - |
| Municipal Bonds | 781,539 | - | 781,539 | - |
| | 1,039,542,562 | 444,869,255 | 594,222,537 | 450,770 |
| Other Investments | | | | |
| Commingled Funds | $ 1,360,062,482 | $ 880,668,478 | $ 479,394,004 | $ - |
| Equity Securities | 281,845,193 | 281,843,814 | 1,379 | - |
| Options | (2,321) | - | (2,321) | - |
| Total Investments by Fair Value Level | $ 2,681,447,916 | $ 1,607,381,547 | $ 1,073,615,599 | $ 450,770 |

| Investments Measured at the Net Asset Value (NAV): | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Private Real Estate Funds: | | | | |
| Core | 103,213,867 | - | Quarterly | 90 days |
| Non-Core | 35,793,121 | 26,889,296 | | |
| Opportunistic Credit | 15,358,109 | 16,897,213 | | |
| Commingled Funds- Distressed Securities | 20,339 | - | | |
| Private Equity Funds | 110,685,878 | 67,660,713 | | |
| Short Term Investment Funds | 1,744,642 | - | | |
| Total Investments Measured at Net Asset Value | $ 266,815,956 | 111,447,222 | | |
| Total | $ 2,948,263,872 | | | |
| Securities Lending Collateral | 39,120,555 | | | |
| Total Investments at Fair Value | $ 2,987,384,427 | | | |

**4. Investments** (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 $39,120,555 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, 2018**

| | 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 | $ 53,694,591 | 10.21 | $ - | |
| Government Agency Securities | 3,618,962 | 6.63 | - | |
| Corporate Bonds | 151,723,353 | 4.72 | - | |
| International Bonds | 45,316,190 | 6.89 | - | |
| Asset Backed Securities | 33,195,987 | 0.82 | - | |
| Bank Loans | 54,814,817 | 0.49 | - | |
| Short Term Investments | 38,060,970 | 0.01 | 15,382,163 | 0.00 |
| Commingled Debt | 176,490,654 | 3.74 | 330,372,968 | 4.76 |
| Mortgages | 137,835,010 | 2.97 | - | |
| Municipal Bonds | 781,539 | 10.64 | - | |
| | 695,532,073 | | 345,755,131 | |
| Other Investments | | | | |
| Opportunistic Credit | 15,358,109 | | - | |
| Private Equity Funds | 110,685,878 | | - | |
| Equity Securities | 281,845,193 | | - | |
| Commingled Funds | 849,912,301 | | 510,170,520 | |
| Options | (2,321) | | - | |
| Private Real Estate Funds | 139,006,988 | | - | |
| Total Investments | 2,092,338,221 | | 855,925,651 | |
| Invested Securities Lending Collateral | 39,120,555 | | - | |
| Total | $ 2,131,458,776 | | $ 855,925,651 | |
| As reported on financial statements: | | | | |
| Investments | | | | |
| State | $ 1,585,957,956 | | $ 650,805,178 | |
| County | 506,380,265 | | 205,120,473 | |
| Total Investments | 2,092,338,221 | | 855,925,651 | |
| Securities Lending Collateral | | | | |
| State | 29,662,409 | | - | |
| County | 9,458,146 | | - | |
| Total Securities Lending Collateral | 39,120,555 | | - | |
| Total reported on financial statements | $ 2,131,458,776 | | $ 855,925,651 | |

**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, 2018, 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)

## 4. **Investments** (Continued)

### Cash Balance Benefit/Defined Contribution Investments at December 31, 2018

| | Quality Ratings | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cash Balance Benefit | | | | | | | | Defined Contribution | |
| | **Fair Value** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B** | **Unrated** | **Fair Value** | **Unrated** |
| Asset Backed Securities | $ 33,195,987 | $ 24,537,816 | $ 1,903,459 | $ 590,863 | $ 1,882,603 | $ 307,504 | $ 838,464 | $ 3,135,278 | $ - | $ - |
| Bank Loans | 54,814,817 | - | - | - | - | - | - | 54,814,817 | - | - |
| Mortgages | 137,835,010 | 7,762,986 | 1,196,195 | 507,426 | 457,664 | 246,431 | 1,091,732 | 126,572,576 | - | - |
| International Bonds | 45,316,190 | 2,813,685 | 3,553,468 | 15,443,274 | 3,947,366 | 1,481,944 | 1,547,967 | 16,528,486 | - | - |
| Corporate Bonds | 151,723,353 | 3,622,158 | 5,290,013 | 35,879,478 | 82,578,726 | 16,739,139 | 5,281,961 | 2,331,878 | - | - |
| Government Agency Securities | 3,618,962 | - | 3,022,274 | 412,975 | 84,883 | - | - | 98,830 | - | - |
| Municipal Bonds | 781,539 | - | 464,736 | 202,985 | 113,908 | - | - | - | - | - |
| Short Term Investments | 38,060,970 | - | - | - | 5,403 | 26,433 | - | 38,029,134 | 15,382,163 | 15,382,163 |
| Commingled Debt | 176,490,654 | - | - | - | - | - | - | 176,490,654 | 330,372,968 | 330,372,968 |

**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, 2018, 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, 2018, 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)

## 4. **Investments** (Continued)

**Cash Balance Benefit Plans' Foreign Currency at December 31, 2018**

| | Corporate Bonds | International Bonds | Mortgages | Short Term Investments | Equity Securities |
|---|---|---|---|---|---|
| Argentine Peso | $ 108,907 | $ 150,560 | $ - | $ 11,123 | $ - |
| Australian Dollar | 45,417 | 670,018 | - | 38,071 | 2,345,304 |
| Brazilian Real | - | - | - | 2,852 | - |
| Canadian Dollar | - | 1,344,047 | - | 559,265 | 2,113,825 |
| Czech Koruna | - | 38,712 | - | - | - |
| Danish Krone | - | 212,514 | - | 13,891 | 1,983,478 |
| Euro Currency | 6,533,692 | 9,495,650 | - | 992,223 | 56,546,258 |
| Hong Kong Dollar | - | - | - | 13,079 | 4,792,928 |
| Hungarian Forint | - | - | - | - | 12,329 |
| Indonesian Rupiah | - | 130,764 | - | 4,668 | - |
| Japanese Yen | - | 14,528,142 | - | 113,775 | 21,042,003 |
| Malaysian Ringgit | - | 249,931 | - | 46,913 | 305,647 |
| Mexican Peso | 9,819 | 174,030 | - | 414 | 877,406 |
| New Israeli Sheqel | - | 105,204 | - | 4,128 | 259,165 |
| New Zealand Dollar | - | 787,748 | - | 8,873 | 667,540 |
| Norwegian Krone | - | 30,364 | - | 17,006 | 987,292 |
| Polish Zloty | - | 210,177 | - | 2,207 | - |
| Pound Sterling | 1,424,678 | 5,497,475 | 216,358 | 180,433 | 14,095,865 |
| Russian Ruble | - | 30,733 | - | - | - |
| Singapore Dollar | - | 290,852 | - | - | - |
| SOL | - | 388,799 | - | - | - |
| South African Rand | - | 296,069 | - | 154 | 445,911 |
| South Korean Won | - | 909,572 | - | 1 | 941,949 |
| Swedish Krona | - | 270,531 | - | 167 | 4,173,159 |
| Swiss Franc | - | 353,922 | - | 22,024 | 13,388,183 |
| Thailand Baht | - | - | - | - | 247,702 |
| Turkish Lira | - | - | - | - | 97,027 |
| Yuan Renminbi | - | - | - | 3 | - |
| Total | $ 8,122,513 | $ 36,165,814 | $ 216,358 | $ 2,031,270 | $ 125,322,971 |

**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 10 to 27 days as of June 30, 2018. 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, 2018, 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, 2018, 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, 2018**

| Derivative | Change in Fair Value | Fair Value | Notional |
|---|---|---|---|
| Credit Default Swaps | $ (325,588) | $ 113,445 | $ 18,402,576 |
| Fixed Income Futures | (853,807) | - | 8,145,549 |
| Fixed Income Options | 23,231 | (2,321) | (5,892,371) |
| Foreign Currency Options | 159,143 | - | - |
| Futures Options | 28,149 | - | - |
| FX Forwards | 466,840 | 135,646 | 70,494,429 |
| Interest Rate Swaps | 398,868 | (247,230) | 88,338,449 |
| Rights | 14,835 | 16,061 | 35,124 |
| Warrants | (6) | - | - |

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, 2018, 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, 2018, was $1,095,684. 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 $1,095,684.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, approximately 91 percent of the net exposure to credit risk is held with seven counterparties. The counterparties are rated A+, A or BBB+.

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.

**4. Investments** (Continued)

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, 2018, are as follows:

**DERIVATIVES FOREIGN CURRENCY AT DECEMBER 31, 2018**

| Currency | Options | Swaps | Forward Contracts |
|---|---|---|---|
| Australian Dollar | $ - | $ - | $ (2,918) |
| Brazilian Real | - | - | 101,193 |
| Canadian Dollar | - | 9,582 | 11,925 |
| Danish Krone | - | - | (74) |
| Euro Currency | 16,061 | 126,564 | (28,408) |
| Hungarian Forint | - | - | 424 |
| Indonesian Rupiah | - | - | 1,050 |
| Japanese Yen | - | (222,929) | 42,118 |
| Malaysian Ringgit | - | - | (785) |
| Mexican Peso | - | - | (40,467) |
| New Israeli Sheqel | - | - | 481 |
| New Zealand Dollar | - | - | 49,356 |
| Norwegian Krone | - | - | 75 |
| Polish Zloty | - | - | (208) |
| Pound Sterling | - | (84,123) | 14,013 |
| Russian Ruble | - | - | (1,701) |
| Singapore Dollar | - | - | (821) |
| South African Rand | - | - | (9,806) |
| South Korean Won | - | - | (213) |
| Swedish Krona | - | - | (1,844) |
| Swiss Franc | - | - | 472 |
| Thailand Baht | - | - | 1,785 |
| Total | $ 16,061 | $ (170,906) | $ 135,647 |

**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.

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

**4. Investments** (Concluded)

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, 2018, but the security had not settled.

**Money-Weighted Rate of Return.** For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -3.93% for the State and -3.96% 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. 2018) 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, 2018, was $0 for the State Plan and $0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $1,853,713 for the State Plan and $721,698 for the County Plan.

**6. Compensated Absences**

The liability for the vested portion of compensated absences for each plan at December 31, 2018, was as follows:

| | State Cash Balance Benefit Employees | State Defined Contribution Employees | County Cash Balance Benefit Employees | County Defined Contribution Employees |
|---|---|---|---|---|
| Beginning Balance | $ 46,487 | $ 13,829 | $ 34,472 | $ 8,857 |
| Increases | 12,030 | 1,064 | 623 | 531 |
| Decreases | 4,184 | 1,245 | 3,102 | 797 |
| Ending Balance | $ 54,333 | $ 13,648 | $ 31,993 | $ 8,591 |
| Amounts Due within One Year | $ 5,433 | $ 1,365 | $ 3,199 | $ 859 |

**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 generally self-insures for general liability, employee health care, employee indemnification, and worker's compensation. The State has chosen to purchase insurance for the following:

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

A. Motor vehicle liability includes $4,700,000 with a self-insured retention of $300,000. 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 $500 deductible for this coverage.

B. Life insurance for eligible employees.

C. Crime coverage, with a limit of $30,975,000 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 $400,700,000, with a self-insured retention of $300,000 per loss occurrence. Newly acquired properties are covered up to $10 million for 120 days, if the property has not been reported. If not reported after 120 days the property is not covered. 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. No amounts for estimated claims have been reported in the Board's financial statements. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

**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.

**NOTES TO THE FINANCIAL STATEMENTS**
(Continued)

## 8. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **State Defined Contributions** | | | | |
| Equipment | $ 527,564 | $ 180 | $ - | $ 527,744 |
| Less: Accumulated Depreciation | 527,257 | 108 | - | 527,365 |
| Capital Assets, Net | $ 307 | $ 72 | $ - | $ 379 |
| **State Cash Balance Benefits** | | | | |
| Equipment | $ 462,189 | $ 841 | $ - | $ 463,030 |
| Less: Accumulated Depreciation | 461,382 | 164 | - | 461,546 |
| Capital Assets, Net | $ 807 | $ 677 | $ - | $ 1,484 |
| **County Defined Contributions** | | | | |
| Equipment | $ 263,782 | $ 120 | $ - | $ 263,902 |
| Less: Accumulated Depreciation | 263,630 | 55 | - | 263,685 |
| Capital Assets, Net | $ 152 | $ 65 | $ - | $ 217 |
| **County Cash Balance Benefits** | | | | |
| Equipment | $ 264,202 | $ 541 | $ - | $ 264,743 |
| Less: Accumulated Depreciation | 263,654 | 104 | - | 263,758 |
| Capital Assets, Net | $ 548 | $ 437 | $ - | $ 985 |

## 9. Transfers

Transfer activity for the year ended December 31, 2018, was as follows:

| | State Cash Balance Benefit | State Defined Contributions |
|---|---|---|
| Annuity Balances from Defined Contribution to Cash Balance Benefit | $ 7,528,335 | $ (7,528,335) |
| Miscellaneous Transfers | 206,783 | (206,783) |
| Total Transfers | $ 7,735,118 | $ (7,735,118) |

| | County Cash Balance Benefit | County Defined Contributions |
|---|---|---|
| Annuity Balances from Defined Contribution to Cash Balance Benefit | $ 1,479,466 | $ (1,479,466) |
| Miscellaneous Transfers | 406,152 | (406,152) |
| Total Transfers | $ 1,885,618 | $ (1,885,618) |

**NOTES TO THE FINANCIAL STATEMENTS**
(Concluded)

**9. Transfers** (Concluded)

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, 2018, there was $407,611 in the State ERBF and a balance of $379,279 in the County ERBF.

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, 2018

(Unaudited)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service Cost | $ 61,061,110 | $ 64,050,683 | $ 61,768,235 | $ 57,304,924 | $ 54,920,902 |
| Interest | 108,435,469 | 102,758,618 | 98,053,908 | 89,967,248 | 85,695,932 |
| Benefit term changes | 56,311,516 | 31,484,516 | - | 35,892,320 | - |
| Difference between expected and actual experience | (3,987,151) | (18,938,806) | (14,007,040) | 720,728 | (11,217,240) |
| Assumption changes | - | 42,820,238 | - | - | - |
| Transfers | 7,735,118 | 3,591,366 | 5,115,400 | 5,849,328 | 4,195,885 |
| Benefit payments, including member refunds | (121,911,299) | (94,358,979) | (84,773,402) | (85,278,057) | (73,527,209) |
| Net change in Total Pension Liability | 107,644,763 | 131,407,636 | 66,157,101 | 104,456,491 | 60,068,270 |
| **Total Pension Liability - beginning** | 1,501,862,294 | 1,370,454,658 | 1,304,297,557 | 1,199,841,066 | 1,139,772,796 |
| **Total Pension Liability - ending (a)** | $ 1,609,507,057 | $ 1,501,862,294 | $ 1,370,454,658 | $ 1,304,297,557 | $ 1,199,841,066 |
| **Plan Fiduciary Net Position** | | | | | |
| Employer contributions | $ 46,580,471 | $ 45,437,713 | $ 44,894,300 | $ 43,339,706 | $ 41,455,919 |
| Employee contributions | 29,854,372 | 29,127,571 | 28,775,358 | 27,798,721 | 26,603,709 |
| Net investment income | (63,590,687) | 237,283,016 | 112,758,193 | 14,784,129 | 83,523,713 |
| Benefit payments, including member refunds | (121,911,299) | (94,358,979) | (84,773,402) | (85,278,057) | (73,527,209) |
| Administrative expenses | (1,398,690) | (1,293,454) | (1,134,239) | (1,079,197) | (910,460) |
| Transfers | 7,735,118 | 3,591,366 | 5,115,400 | 5,849,328 | 4,195,885 |
| **Net change in Plan Fiduciary Net Position** | (102,730,715) | 219,787,233 | 105,635,610 | 5,414,630 | 81,341,557 |
| **Plan Fiduciary Net Position - beginning** | 1,635,873,881 | 1,416,086,648 | 1,310,451,038 | 1,305,036,408 | 1,223,694,851 |
| **Plan Fiduciary Net Position - ending (b)** | $ 1,533,143,166 | $ 1,635,873,881 | $ 1,416,086,648 | $ 1,310,451,038 | $ 1,305,036,408 |
| **Net Pension Liability/(Asset) - ending (a) - (b)** | $ 76,363,891 | $ (134,011,587) | $ (45,631,990) | $ (6,153,481) | $ (105,195,342) |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability** | 95.26% | 108.92% | 103.33% | 100.47% | 108.77% |
| **Covered payroll** | 622,068,256 | 606,807,065 | $ 599,549,947 | $ 578,788,809 | $ 553,631,397 |
| **Employers' Net Pension Liability/(Asset) as a percentage of covered payroll** | 12.28% | -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, 2018
## (Unaudited)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service Cost | $ 25,625,451 | $ 25,927,269 | $ 24,325,759 | $ 21,667,314 | $ 20,333,501 |
| Interest | 33,168,144 | 31,644,765 | 29,509,568 | 26,074,912 | 24,388,848 |
| Benefit term changes | 32,324,341 | 1,838,521 | - | 17,061,497 | - |
| Difference between expected and actual experience | (2,191,990) | (7,230,377) | (5,428,286) | 865,544 | (3,432,132) |
| Assumption changes | - | 7,781,664 | - | - | - |
| Transfers | 1,885,618 | 619,284 | 1,678,510 | 826,843 | 835,282 |
| Benefit payments, including member refunds | (32,810,743) | (21,934,437) | (22,092,412) | (23,080,849) | (17,750,010) |
| Net change in Total Pension Liability | 58,000,821 | 38,646,689 | 27,993,139 | 43,415,261 | 24,375,489 |
| | | | | | |
| **Total Pension Liability - beginning** | 457,424,951 | 418,778,262 | 390,785,123 | 347,369,862 | 322,994,373 |
| **Total Pension Liability - ending (a)** | $ 515,425,772 | $ 457,424,951 | $ 418,778,262 | $ 390,785,123 | $ 347,369,862 |
| | | | | | |
| **Plan Fiduciary Net Position** | | | | | |
| Employer contributions | 18,289,442 | 17,752,388 | 16,935,811 | 16,068,670 | 15,268,274 |
| Employee contributions | 12,368,734 | 12,000,061 | 11,352,667 | 10,966,403 | 10,327,540 |
| Net investment income | (20,161,536) | 72,075,672 | 33,115,136 | 4,846,001 | 23,627,946 |
| Benefit payments, including member refunds | (32,810,743) | (21,934,437) | (22,092,412) | (23,080,849) | (17,750,010) |
| Administrative expenses | (728,112) | (750,056) | (649,709) | (545,137) | (527,732) |
| Transfers | 1,885,618 | 619,284 | 1,678,510 | 826,843 | 835,282 |
| **Net change in Plan Fiduciary Net Position** | (21,156,597) | 79,762,912 | 40,340,003 | 9,081,931 | 31,781,300 |
| | | | | | |
| **Plan Fiduciary Net Position - beginning** | 511,530,924 | 431,768,012 | 391,428,009 | 382,346,078 | 350,564,778 |
| **Plan Fiduciary Net Position - ending (b)** | $ 490,374,327 | $ 511,530,924 | $ 431,768,012 | $ 391,428,009 | $ 382,346,078 |
| | | | | | |
| **Net Pension Liability/(Asset) - ending (a) - (b)** | $ 25,051,445 | $ (54,105,973) | $ (12,989,750) | $ (642,886) | $ (34,976,216) |
| | | | | | |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability** | 95.14% | 111.83% | 103.10% | 100.16% | 110.07% |
| **Covered payroll** | 263,536,628 | 255,798,098 | $ 244,031,859 | $ 231,537,032 | $ 220,003,948 |
| | | | | | |
| **Employers' Net Pension Liability/(Asset) as a percentage of covered payroll** | 9.51% | -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, 2018
(Unaudited)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined employer contribution | $ 29,859,276 | $ 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 |
| Actual employer contributions | 46,580,471 | 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 |
| Annual contribution deficiency (excess) | $ (16,721,195) | $ (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) |
| Covered payroll | $ 622,068,256 | $ 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 |
| 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, 2018
(Unaudited)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined employer contribution | $ 11,279,368 | $ 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 |
| Actual employer contributions | 18,289,442 | 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 |
| Annual contribution deficiency (excess) | $ (7,010,074) | $ (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) |
| Covered payroll | $ 263,536,628 | $ 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 |
| Actual contributions as a percentage of covered payroll | 6.94% | 6.94% | 6.94% | 6.94% | 6.94% | 6.94% | 6.93% | 6.92% | 6.93% | 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, 2018

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Annual money-weighted rate of return, net of investment expense: | | | | | |
| State Employee Retirement Plan | -3.93% | 16.85% | 8.61% | 1.14% | 6.83% |
| County Employee Retirement Plan | -3.96% | 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:

2019: The Board granted a dividend of 5.46% in 2018, which was first reflected in the January 1, 2019, valuation.

2018: The Board granted a dividend of 3.07% in 2017, which 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.

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.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**
(Continued)

**State Employees Cash Balance Retirement Plan** (Concluded)

- 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.

**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:

2019: The Board granted a dividend of 8.42% in 2018, which was first reflected in the January 1, 2019, valuation.

**County Employees Cash Balance Retirement Plan** (Continued)

2018: The Board granted a dividend of 0.51% in 2017, which 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.

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

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

**County Employees Cash Balance Retirement Plan** (Concluded)

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 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
**SCHEDULE OF ADMINISTRATIVE EXPENSES**
FOR THE YEAR ENDED DECEMBER 31, 2018

| | STATE CASH BALANCE BENEFIT | STATE DEFINED CONTRIBUTION | COUNTY CASH BALANCE BENEFIT | COUNTY DEFINED CONTRIBUTION | TOTAL |
|---|---|---|---|---|---|
| **Personnel** | | | | | |
| Personal Services | $ 414,104 | $ 103,900 | $ 244,136 | $ 66,351 | $ 828,491 |
| Travel | 3,074 | 963 | 2,366 | 544 | 6,947 |
| **Professional and Technical Services** | | | | | |
| Professional | 5,095 | 1,277 | 3,751 | 753 | 10,876 |
| Actuary | 20,000 | - | 23,800 | - | 43,800 |
| Computer Support Services | 99,584 | 26,058 | 65,095 | 16,571 | 207,308 |
| Accounting and Auditing | 28,767 | 7,458 | 16,514 | 4,262 | 57,001 |
| **Communications** | | | | | |
| Printing | 9,766 | 2,096 | 4,909 | 1,102 | 17,873 |
| **Other Expenses** | | | | | |
| Postage | 21,156 | 4,066 | 11,879 | 2,163 | 39,264 |
| Supplies | 3,642 | 908 | - | 518 | 5,068 |
| Hardware and Software | 2,317 | 699 | 1,087 | 335 | 4,438 |
| Repairs | 42 | 10 | 25 | 7 | 84 |
| Rent | 14,449 | 4,052 | 10,568 | 2,628 | 31,697 |
| Record Keeping Fees | 543,471 | 104,430 | 253,914 | 44,674 | 946,489 |
| Check Charge and Distribution Fees | 189,575 | 19,266 | 77,654 | 7,620 | 294,115 |
| Statement Fees | 9,486 | 1,485 | 4,552 | 682 | 16,205 |
| Miscellaneous | 34,162 | 7,065 | 7,862 | 2,520 | 51,609 |
| **Total Administrative Expenses** | $ 1,398,690 | $ 283,733 | $ 728,112 | $ 150,730 | $ 2,561,265 |

# NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
## STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
## SCHEDULE OF INVESTMENT-RELATED EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2018

| | STATE CASH BALANCE BENEFIT | STATE DEFINED CONTRIBUTION | COUNTY CASH BALANCE BENEFIT | COUNTY DEFINED CONTRIBUTION | TOTAL |
|---|---|---|---|---|---|
| BlackRock Financial Management, Inc. | $ 54,605 | $ 30,824 | $ 17,412 | $ 8,394 | $ 111,235 |
| Dimensional Fund Advisors, Inc. | 155,696 | 125,910 | 49,645 | 33,204 | 364,455 |
| **Total Domestic Equity** | **210,301** | **156,734** | **67,057** | **41,598** | **475,690** |
| BlackRock Financial Management, Inc. | 122,908 | 6,836 | 39,190 | 1,653 | 170,587 |
| Franklin Templeton Investments | 185,267 | - | 59,074 | - | 244,341 |
| Loomis Sayles & Company, L.P. | 256,323 | - | 81,731 | - | 338,054 |
| Oaktree Capital Management, L.P. | 63,775 | - | 20,335 | - | 84,110 |
| Neuberger Berman Investment Management | 75,682 | - | 24,132 | - | 99,814 |
| Pacific Investment Management Company, LLC | 548,268 | 4,037 | 174,821 | 1,101 | 728,227 |
| T. Rowe Price Associates, Inc | - | 136,508 | - | 40,368 | 176,876 |
| Wellington Management Company, LLP | 139,405 | - | 44,451 | - | 183,856 |
| **Total Fixed Income** | **1,391,628** | **147,381** | **443,734** | **43,122** | **2,025,865** |
| Arrowstreet Capital | 499,907 | - | 159,400 | - | 659,307 |
| Dodge & Cox | 400,219 | - | 127,614 | - | 527,833 |
| MFS Investment Management | 379,882 | 11,670 | 121,129 | 3,183 | 515,864 |
| Wellington Management Company, LLP | 276,620 | - | 88,203 | - | 364,823 |
| **Total Global Equity** | **1,556,628** | **11,670** | **496,346** | **3,183** | **2,067,827** |
| BlackRock Financial Management, Inc. | 111,046 | 19,902 | 35,408 | 4,508 | 170,864 |
| **Total International Equity** | **111,046** | **19,902** | **35,408** | **4,508** | **170,864** |
| Almanac Realty Investors, LLC | 70,975 | - | 22,631 | - | 93,606 |
| Angelo, Gordon & Company, L.P. | 13,897 | - | 4,431 | - | 18,328 |
| Barings Asset Management | 123,572 | - | 39,402 | - | 162,974 |
| CBRE Global Investors | 7,521 | - | 2,398 | - | 9,919 |
| Goldman Sachs Asset Management | - | 4,760 | - | 1,298 | 6,058 |
| Landmark Partners | 129,570 | - | 41,315 | - | 170,885 |
| PGIM Real Estate | 281,348 | - | 89,711 | - | 371,059 |
| Rockpoint Group, LLC | 5,679 | - | 1,811 | - | 7,490 |
| Rockwood Capital, LLC | 87,935 | - | 28,039 | - | 115,974 |
| Torchlight Investors | 163,111 | - | 52,009 | - | 215,120 |
| UBS Realty Investors, LLC | 233,494 | - | 74,452 | - | 307,946 |
| **Total Real Estate** | **1,117,102** | **4,760** | **356,199** | **1,298** | **1,479,359** |
| Abbott Capital Management, LLC | 25,013 | - | 7,976 | - | 32,989 |
| Accel-KKR Management Co, LLC | 32,092 | - | 10,233 | - | 42,325 |
| Ares Management, LLC | 155,288 | - | 49,515 | - | 204,803 |
| Beecken Petty O'Keefe & Company | 25,244 | - | 8,049 | - | 33,293 |
| Bridgepoint Advisers Ltd. | 99,630 | - | 31,768 | - | 131,398 |
| CVC Capital Partners | 23,462 | - | 7,481 | - | 30,943 |
| (The) Energy & Minerals Group | 51,029 | - | 16,271 | - | 67,300 |
| Francisco Partners Management L.P. | 123,419 | - | 39,353 | - | 162,772 |
| Genstar Capital | 124,539 | - | 39,710 | - | 164,249 |
| Leonard Green & Partners, L.P. | 17,157 | - | 5,471 | - | 22,628 |
| HarbourVest Partners, LLC | 129,705 | - | 41,358 | - | 171,063 |
| Lightyear Capital, LLC | 13,042 | - | 4,158 | - | 17,200 |
| Lincolnshire Management, Inc. | 13,838 | - | 4,412 | - | 18,250 |
| Longroad Asset Management | 563 | - | 180 | - | 743 |
| McCarthy Capital Corporation | 141,923 | - | 45,253 | - | 187,176 |
| Merit Capital Partners | 6,656 | - | 2,122 | - | 8,778 |
| New Enterprise Associates Inc. | 41,554 | - | 13,250 | - | 54,804 |
| New Mountain Capital, LLC | 114,301 | - | 36,446 | - | 150,747 |
| Pathway Capital Management, LLC | 61,957 | - | 19,756 | - | 81,713 |
| Pine Brook Capital Partners II, L.P. | 74,871 | - | 23,873 | - | 98,744 |
| Presidio Partners (formally CMEA Capital) | 18,154 | - | 5,789 | - | 23,943 |
| Quantum Energy Partners | 142,098 | - | 45,309 | - | 187,407 |
| Sun Capital Partners, Inc. | 652 | - | 208 | - | 860 |



(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
**SCHEDULE OF INVESTMENT-RELATED EXPENSES**
FOR THE YEAR ENDED DECEMBER 31, 2018

| | STATE CASH BALANCE BENEFIT | STATE DEFINED CONTRIBUTION | COUNTY CASH BALANCE BENEFIT | COUNTY DEFINED CONTRIBUTION | TOTAL |
|---|---|---|---|---|---|
| (The) Jordan Company | 51,775 | - | 16,509 | - | 68,284 |
| The Rohatyn Group Management, L.P. | 7,507 | - | 2,394 | - | 9,901 |
| Wayzata Investment Partners, LLC | 19,139 | - | 6,103 | - | 25,242 |
| Wynnchurch Capital Partners | 42,283 | - | 13,482 | - | 55,765 |
| **Total Private Equity** | **1,556,891** | **-** | **496,429** | **-** | **2,053,320** |
| BlackRock Financial Management, Inc. | - | 106,269 | - | 37,423 | 143,692 |
| Dimensional Fund Advisors, Inc. | - | 133,903 | - | 47,097 | 181,000 |
| **Total Premixed Portfolio Funds** | **-** | **240,172** | **-** | **84,520** | **324,692** |
| Nebraska Investment Council Fees | 132,814 | 57,532 | 41,571 | 18,093 | 250,010 |
| Custody Expenses | 53,029 | 68,321 | 16,706 | 21,626 | 159,682 |
| Miscellaneous Expenses | 176,485 | - | 54,935 | - | 231,420 |
| **Total Other Expenses** | **362,328** | **125,853** | **113,212** | **39,719** | **641,112** |
| **Total Investment-Related Expenses** | **6,305,924** | **706,472** | **2,008,385** | **217,948** | **9,238,729** |

(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, 2018, 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 19, 2019. 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*.

**Additional item**

We also noted a certain additional item that we reported to management of the NPERS – State and County Employees Retirement Plans in the Comment Section of this report.

**The NPERS – State and County Employees Retirement Plans' Response to Findings**

The NPERS – State and County Employees Retirement Plans' response to the findings identified in our audit are described in the Comment and Recommendation Section of the report. The NPERS – State and County Employees Retirement Plans' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 result of that testing, 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 19, 2019

Zachary Wells, CPA, CISA
Audit Manager
Lincoln, Nebraska