

**AUDIT REPORT
OF THE
NEBRASKA PUBLIC EMPLOYEES RETIREMENT
SYSTEMS – SCHOOL EMPLOYEES, JUDGES, AND
STATE PATROL RETIREMENT PLANS
PENSION TRUST FUNDS OF THE STATE OF NEBRASKA
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Issued on January 28, 2020

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL 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 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 Retirement System for Nebraska Counties; and
- ◆ One participant in the State Employees Retirement System.

Two appointed members must meet the following requirements:

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

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

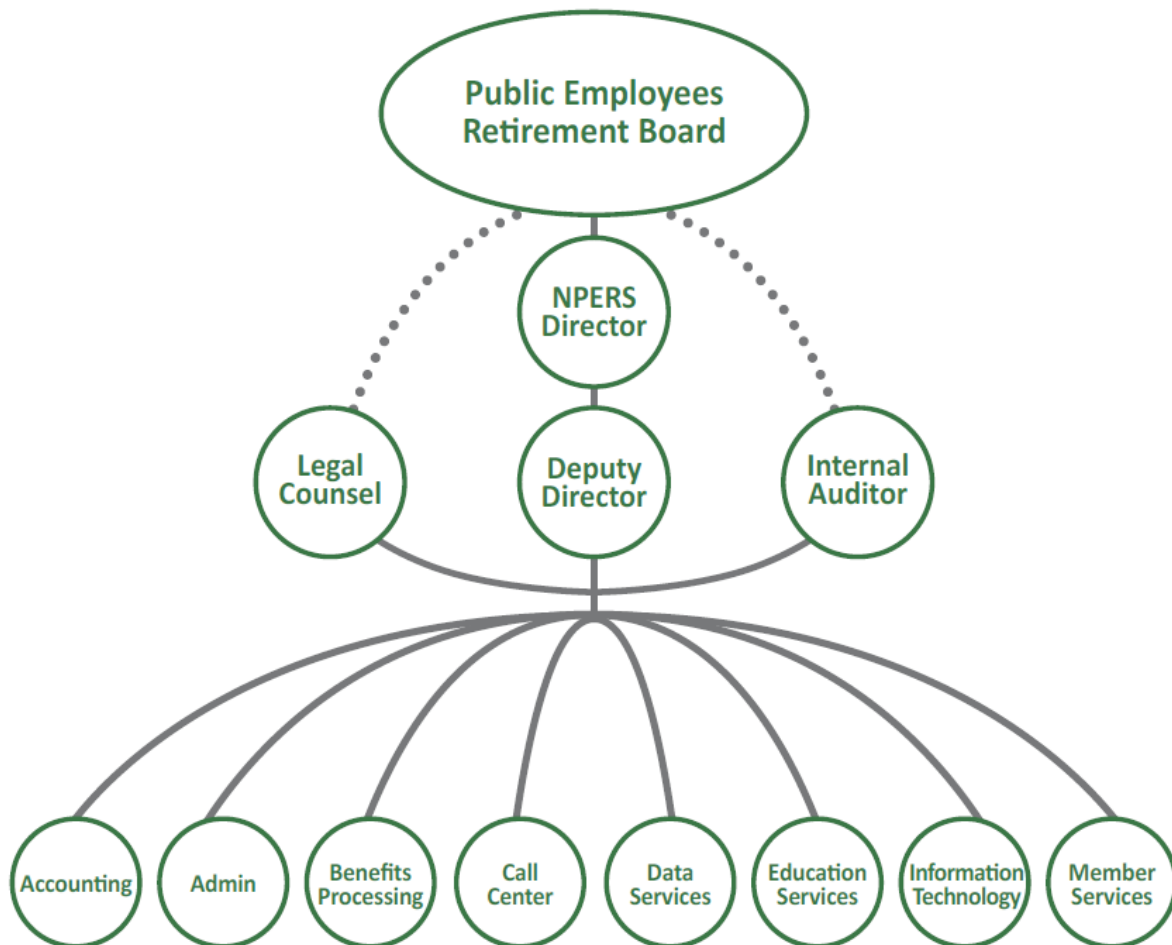
All appointed members must be Nebraska citizens. Members of the Board are paid \$75 per diem and are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

ORGANIZATIONAL CHART



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

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

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, 2021

Mike Jahnke
State Patrol Member
Term Ending January 1, 2020

Pamela Lancaster
County Member
Term Ending January 1, 2021

Jim Schulz
Public Member
Term Ending January 1, 2022

Position Open
Public Member
Term Ending January 1, 2023

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

Nebraska Public Employees Retirement Systems Executive Management

Randy Gerke
Director

Teresa Zulauf
Controller

Nebraska Public Employees Retirement Systems
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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying Statements of Plan Net Position and Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 above present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2019, 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 School Districts' Net Pension Liability, Schedule of Changes in the Judges' Net Pension Liability, Schedule of Changes in the State Patrol's Net Pension Liability, Schedule of Employer and Non-Employer Contributions, Schedule of Investment Returns, and Notes to the Required Supplemental Information on pages 33-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted its Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements. The Schedule of Administrative Expenses and 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 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 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 January 27, 2020, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NPERS’s internal control over financial reporting and compliance.



Kris Kucera, CPA, CFE
Audit Manager
Lincoln, Nebraska

January 27, 2020

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2019

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	\$ 8,009,100	\$ 186,292	\$ 179,809
Deposits with Vendors	\$ 9,091	\$ 94	\$ 94
Receivables			
Contributions	67,538,214	742,813	3,988,953
Interest & Dividend Income	19,513,337	313,287	685,134
Other Investment Receivables (Note 4)	1,512,375,944	24,260,414	53,317,880
Total Receivables	\$ 1,599,427,495	\$ 25,316,514	\$ 57,991,967
Investments, at Fair Value (Note 4):			
Bank Loans	309,168,077	4,959,445	10,898,182
U.S. Treasury Notes and Bonds	422,354,687	6,775,101	14,888,013
U.S. Treasury Bills	11,955,876	191,787	421,445
Government Agency Securities	12,488,015	200,323	440,203
Corporate Bonds	865,887,604	13,889,927	30,522,560
International Bonds	271,948,591	4,362,398	9,586,195
Equity Securities	1,839,729,620	29,511,579	64,850,515
Private Equity	662,788,309	10,631,959	23,363,304
Options	6,988	112	246
Mortgages	659,360,243	10,576,969	23,242,465
Opportunistic Credit	59,731,574	958,170	2,105,539
Private Real Estate	782,472,824	12,551,850	27,582,186
Asset Backed Securities	137,168,673	2,200,358	4,835,199
Municipal Bonds	5,256,379	84,319	185,287
Commingled Funds	6,297,223,017	101,015,385	226,387,641
Short-Term Investments	93,610,012	1,501,657	3,342,830
Total Investments	\$12,431,150,489	\$199,411,339	\$442,651,810
Invested Securities Lending Collateral (Note 4)	\$230,743,025	\$3,701,409	\$8,133,697
Capital Assets (Note 9)			
Equipment	4,791,804	65,649	65,649
Less: Accumulated Depreciation	(4,784,758)	(65,543)	(65,543)
Total Capital Assets, net	\$ 7,046	\$ 106	\$ 106
TOTAL ASSETS	\$ 14,269,346,246	\$ 228,615,754	\$ 508,957,483
LIABILITIES			
Compensated Absences Payable (Note 5)	276,714	4,072	4,086
Accounts Payable and Accrued Liabilities	9,161,400	135,433	256,470
Obligations under Securities Lending (Note 4)	230,743,025	3,701,409	8,133,697
Other Investment Payables (Note 4)	1,814,218,084	29,102,342	63,951,233
TOTAL LIABILITIES	\$ 2,054,399,223	\$ 32,943,256	\$ 72,345,486
NET POSITION RESTRICTED FOR PENSIONS	\$ 12,214,947,023	\$ 195,672,498	\$ 436,611,997

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	School Employees	Judges	State Patrol
ADDITIONS			
Contributions			
Plan Member	197,095,568	1,854,712	4,710,105
Employer:			
Schools	196,850,333	-	-
Court Fees	-	3,946,292	-
State Patrol	-	-	4,710,107
State Appropriations	-	442,599	3,983,698
Non-Employer (Note 2)	41,791,906	-	-
Total Contributions	\$ 435,737,807	\$ 6,243,603	\$ 13,403,910
Investment Income			
Net Appreciation in Fair Value of Investments	592,765,651	9,536,361	20,856,049
Interest & Dividends	224,997,371	3,624,598	8,293,085
Securities Lending Income	6,562,800	105,276	231,339
Total Investment Income	\$ 824,325,822	\$ 13,266,235	\$ 29,380,473
Investment Expense	(46,535,363)	(746,805)	(1,660,497)
Securities Lending Expense	(5,197,198)	(83,370)	(183,201)
Net Investment Income	\$ 772,593,261	\$ 12,436,060	\$ 27,536,775
Other Additions	\$ 33,515	-	\$ 17,930
TOTAL ADDITIONS	\$ 1,208,364,583	\$ 18,679,663	\$ 40,958,615
DEDUCTIONS			
Benefits	610,057,921	10,991,157	21,185,702
Refunds of Contributions	14,877,447	-	3,768,074
Administrative Expense	3,215,740	71,663	75,872
Other Deductions (Note 6)	1,565,355	-	-
TOTAL DEDUCTIONS	\$ 629,716,463	\$ 11,062,820	\$ 25,029,648
NET INCREASE IN PLAN NET POSITION	\$ 578,648,120	\$ 7,616,843	\$ 15,928,967
NET POSITION RESTRICTED FOR PENSIONS			
BEGINNING OF YEAR	\$ 11,636,298,903	\$ 188,055,655	\$ 420,683,030
END OF YEAR	\$ 12,214,947,023	\$ 195,672,498	\$ 436,611,997

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol 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 five retirement plans administered are 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. The six members include: 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 Retirement System for Nebraska Counties; and one participant in the State Employees Retirement System. Two appointed 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 organizations or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan. The State Investment Officer serves as a nonvoting, ex-officio 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 State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2018, and the Deferred Compensation Plan for the calendar year ended December 31, 2017.

The financial statements reflect only the School Employees, Judges, and State Patrol Retirement Plans and do not reflect all activity of the Nebraska Public Employees Retirement Systems.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting

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

The School Employees, Judges, and State Patrol 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 the 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

As reported in the financial statements, investments 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

F. Capital Assets

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

Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and 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 vacation 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 who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

NPERS' employees accrue vested vacation leave at a variable rate based on years of service. Generally, accrued vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of 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 fiscal year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at July 1, 2019, the date of the last actuarial valuation:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Plan Descriptions and Contribution Information (Continued)

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>
Inactive Plan Members or Beneficiaries			
Currently Receiving Benefits	25,272	188	463
Members in Deferred Retirement Option Plan (DROP)	-	-	25
Inactive Plan Members Entitled to but not yet Receiving Benefits	6,334	4	23
Inactive Nonvested Members	17,590	-	7
Active Plan Members	<u>42,713</u>	<u>149</u>	<u>397</u>
	91,909	341	915

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a), 414(h), and 414(k). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Cum. Supp. 2018, Supp. 2019) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2016, Cum. Supp. 2018) for the Judges Retirement Act, and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2014, Cum. Supp. 2018) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

By State law, there is to be an equitable allocation of expenses among the retirement plans administered by the Board, and all expenses must be provided from the investment income earned by the various retirement funds. Following is a summary of the School Employees, Judges, and State Patrol Retirement Plans.

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2019, there were 265 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

Normal retirement is at age 65. For an employee who became a member before July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the monthly average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Plan Descriptions and Contribution Information (Continued)

For an employee who became a member on or after July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the average of the five 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

Benefit calculations vary with early retirement. Employees' benefits are vested after five years of plan participation or when termination occurs at age 65 or later.

For school employees who became members prior to July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For school employees who became members on or after July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. There is no purchasing power floor for employees who fall under this tier.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a non-employer contribution since school employees are not employees of the State. The employee contribution was equal to 9.78 percent of compensation from July 1, 2018, to June 30, 2019. The school district (employer) contribution is 101 percent of the employee contribution.

Judges Retirement

Plan Description. The Judges Retirement Plan is a single-employer defined benefit pension plan, which was established by the 1955 Legislature. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Courts, Workers' Compensation Court, County Courts, and Juvenile Courts.

Retirement is at age 65. For an employee who became a member before July 1, 2015, the monthly benefit is calculated using the average monthly compensation for the three 12-month periods of service as a judge in which compensation was the greatest. For an employee who became a member on or after July 1, 2015, the monthly benefit is calculated using the average

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

monthly compensation for the five 12-month periods of service as a judge in which compensation was the greatest or, in the event of a judge serving less than five 12-month periods, the average monthly compensation for such judge's period of service. Once compensation is determined, it is multiplied by the total years of service and the formula factor of 3.5 percent, subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment. For an employee who became a member prior to July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For an employee who became a member on or after July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. Additionally, if the annual actuarial report indicates the plan is fully funded with a sufficient actuarial surplus, the retirement board has the authority to issue a supplemental lump-sum cost-of-living adjustment for that year. The supplemental cost-of-living adjustment cannot exceed one and one-half percent. There is no purchasing power floor for employees who fall under this tier.

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six-dollar fee for each case is collected from District and County Courts, Juvenile Courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. In addition, in 2015, LB 468 increased the amount of County Court docket fees to be collected for the Judges Retirement Plan from two dollars to four dollars. The State's contribution is based on an annual actuarial valuation. Members, who entered the plan between July 1, 2004, and June 30, 2015, and those active members who elected within 90 days of July 1, 2004, contribute nine percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute five percent of their monthly salary for the remainder of their active service. All other members contribute seven percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute one percent of their monthly salary for the remainder of their active service. Members entering the plan on or after July 1, 2015, contribute 10 percent of their monthly salary.

State Patrol Retirement

Plan Description. The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The plan includes two tiers of benefits, based on when members joined the plan. Tier one members joined the plan prior to July 1, 2016. Tier two members joined the plan on or after July 1, 2016.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Concluded)

The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old.

For tier one members, normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of three percent. The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 60 percent of the purchasing power of the initial benefit.

For tier two members, normal benefits are calculated using the average monthly salary for the five 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of three percent. The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. If the plan is fully funded, the Public Employees Retirement Board may elect to issue a supplemental lump-sum cost-of-living payment for that year, not to exceed one and one-half percent. There is no purchasing power floor for tier two members.

Benefit calculations will vary with early retirement. Benefits are fully vested after 10 years of service.

Contributions. Tier one members are required to contribute 16 percent of their annual pay. Tier two members are required to contribute 17 percent of their annual pay. The State Patrol's (employer) contribution is 16 percent and 17 percent of the employee's annual pay, respectively. The State's contribution is based on an annual actuarial valuation.

Deferred Retirement Option Plan (DROP). Neb. Rev. Stat. § 81-2041 (Cum. Supp. 2018) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. The DROP is only available to tier one members. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an Internal Revenue Code (IRC) § 414(k) Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

The balance of the DROP at June 30, 2019, was \$4,455,586.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Funded Status and Funding Progress

The components of the net pension liability for the plans at July 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
School	\$ 13,435,710,270	\$ 12,214,947,023	\$ 1,220,763,247	90.91%
Judges	198,116,058	195,672,498	2,443,560	98.77%
State Patrol	496,519,265	436,611,997	59,907,268	87.93%

The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	School Employees	Judges	State Patrol
Valuation date	July 1, 2019	July 1, 2019	July 1, 2019
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed
Single equivalent amortization period	17 Years	16 Years	20 Years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
<u>Actuarial assumptions:</u>			
Inflation	2.75%	2.75%	2.75%
Investment rate of return, net of investment expense and including inflation	7.5%	7.5%	7.5%
Projected salary increases, including inflation	3.5% - 8.5%	3.5%	3.5% - 9.0%
Cost-of-living adjustments (COLA)	2.25% with a floor benefit equal to 75% purchasing power of original benefit*	2.25% with a floor benefit equal to 75% purchasing power of original benefit**	2.25% with a floor benefit equal to 60% purchasing power of original benefit***

*1% and no floor benefit for members joining on or after July 1, 2013

**1% and no floor benefit for members joining on or after July 1, 2015

***1% and no floor benefit for members joining on or after July 1, 2016

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Funded Status and Funding Progress (Continued)

The Judges, Patrol and School 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 female), projected generationally with MP-2015.

The Judges, Patrol, and School 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, 0.924; over 85 1.5855; geometrically blended), projected generationally with a Society of Actuaries projection scale tool using 0.5% ultimate rate in 2035.

The Judges, Patrol, and School plans' disability mortality rates were based on the RP-2014 Disabled Lives Table (static table).

The actuarial assumptions used in the July 1, 2019, valuations for the School Employees, Judges, and Patrol plans are based on the results of the most recent actuarial experience study, which covered the four-year period ending June 30, 2015. The experience study report is dated November 17, 2016.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The School Employees, Judges, and State Patrol 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 June 30, 2019, (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 *
Large Cap US Equity	26.1%	5.83%
Small Cap US Equity	2.9%	7.56%
Global Equity	15.0%	6.51%
International Developed Equity	10.8%	6.80%
Emerging Markets	2.7%	10.55%
Core Bonds	20.0%	1.63%
High Yield	3.5%	5.22%
Bank Loans	5.0%	2.78%
International Bonds	1.5%	1.41%
Private Equity	5.0%	9.70%
Real Estate	7.5%	5.18%
Total	100.00%	

*Arithmetic mean, net of investment expenses

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

Discount Rate. The discount rate used to measure the Total Pension Liability at June 30, 2019, was seven and a half percent. The discount rate is reviewed as part of the actuarial experience study, which was last performed for the period July 1, 2011, through June 30, 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 nonemployers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2118.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the plans calculated using the discount rate of seven-and-a-half percent, 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 (six and a half percent) or one percentage point higher (eight-and-a-half percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability/(Asset):			
School	\$ 3,074,540,640	\$ 1,220,763,247	\$ (309,558,568)
Judges	22,820,469	2,443,560	(15,054,051)
Patrol	128,229,943	59,907,268	4,294,769

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Supp. 2019) 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 regard 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. The following table sets out the Nebraska Investment Council's target investment allocation during the year:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

Asset Class	Target Allocation
Large Cap US Equity	26.1%
Small Cap US Equity	2.9%
Global Equity	15.0%
International Developed Equity	10.8%
Emerging Markets	2.7%
Core Bonds	20.0%
High Yield	3.5%
Bank Loans	5.0%
International Bonds	1.5%
Private Equity	5.0%
Real Estate	7.5%
Total	100.00%

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Plans have the ability to access at the measurement date. Instruments categorized in Level 1 consist primarily 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

Plan Investments at June 30, 2019, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Bank Loans	\$ 325,025,704	\$ -	\$ 325,025,704	\$ -
US Treasury Notes and Bonds	444,017,801	-	444,017,801	-
U.S. Treasury Bills	12,569,108		12,569,108	
Government Agency Securities	13,128,541	-	13,128,541	-
Corporate Bonds	910,300,091	-	910,297,438	2,653
International Bonds	285,897,184	-	285,897,184	-
Asset Backed Securities	144,204,230	-	142,337,792	1,866,438
Short-Term Investments	98,452,729	11,941,865	86,510,864	-
Commingled Debt	1,058,513,344	659,851,348	398,661,996	-
Mortgages	693,179,677	-	693,179,677	-
Municipal Bonds	5,525,985	-	5,525,985	-
	<u>3,990,814,394</u>	<u>671,793,213</u>	<u>3,317,152,090</u>	<u>1,869,091</u>
Other Investments				
Commingled Funds	5,565,995,403	2,342,241,004	3,223,754,399	-
Private Equity	150,808	150,808	-	-
Equity Securities	1,934,091,714	1,934,084,377	7,337	-
Options	7,346	-	7,346	-
	<u>\$ 11,491,059,665</u>	<u>\$ 4,948,269,402</u>	<u>\$ 6,540,921,172</u>	<u>\$ 1,869,091</u>
Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds:				
Core	\$ 600,372,149	\$ -	Quarterly	90 days
Non-Core	222,234,711	126,989,297		
Opportunistic Credit	62,795,283	105,395,265		
Private Equity Funds	696,632,764	404,539,855		
Commingled Funds	117,296	-		
Short-Term Investment Funds	1,770	-		
Total Investments Measured at Net Asset Value	<u>\$ 1,582,153,973</u>	<u>\$ 636,924,417</u>		
Total	\$ 13,073,213,638			
Securities Lending Collateral	<u>242,578,131</u>			
Total Investments at Fair Value	<u>\$ 13,315,791,769</u>			

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 on the Statements of Plan Net 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 June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions. The NAV table also presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the Plans' alternative investments. Investments measured by NAV are either short term in nature or intended to be held to maturity. Therefore, they do not bear a significant risk of being sold at amounts different than the NAV.

Other investments not classified. The \$242,578,131 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

**School Employees, Judges, and Patrol Retirement Plans Investments
at June 30, 2019**

	Fair Value	Effective Duration
Debt Securities		
Bank Loans	\$ 325,025,704	0.09
U.S. Treasury Notes and Bonds	444,017,801	9.91
U.S. Treasury Bills	12,569,108	
Government Agency Securities	13,128,541	5.10
Corporate Bonds	910,300,091	5.02
International Bonds	285,897,184	7.39
Asset Backed Securities	144,204,230	0.89
Short-Term Investments	98,454,499	0.05
Commingled Debt	1,058,513,344	3.36
Mortgages	693,179,677	1.89
Municipal Bonds	5,525,985	12.00
Other Investments		
Opportunistic Credit	62,795,283	
Commingled Funds	5,566,112,699	
Private Equity Securities	696,783,572	
Equity Securities	1,934,091,714	
Options	7,346	
Private Real Estate Funds Trust	822,606,860	
Total Investments	13,073,213,638	
Invested Securities Lending Collateral	242,578,131	
Total	<u>\$ 13,315,791,769</u>	

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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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. NPERS' rated debt investments as of June 30, 2019, were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale.

**School Employees, Judges, and State Patrol Retirement Plan Investments
at June 30, 2019**

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	\$ 144,204,230	\$ 93,405,052	\$ 8,434,016	\$ 10,105,786	\$ 6,753,503	\$ 1,733,268	\$ 4,848,680	\$ 18,923,925
Bank Loans	325,025,704	-	-	-	-	-	-	325,025,704
Commingled Debt	1,058,513,344	-	-	-	-	-	-	1,058,513,344
Corporate Bonds	910,300,091	18,905,052	34,065,811	243,461,251	489,162,979	86,497,724	25,699,172	12,508,102
Government Agency Securities	13,128,541	-	9,506,523	2,437,849	560,986	-	-	623,183
International Bonds	285,897,184	17,516,332	54,407,128	87,342,643	33,314,050	1,761,816	8,168,872	83,386,343
Mortgages	693,179,677	61,852,922	11,652,047	1,747,363	1,169,802	2,668,310	5,185,357	608,903,876
Municipal Bonds	5,525,985	-	3,585,705	1,279,509	660,771	-	-	-
Short-Term Investments	98,454,499	-	-	179,892	-	723,443	-	97,551,164

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 June 30, 2019, NPERS 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. NPERS' exposure to foreign currency risk is presented in the following table.

**School Employees, Judges, and State Patrol Retirement Plans
Foreign Currency at June 30, 2019**

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Argentine Peso	\$ 529,672	\$ -	\$ 701,004	\$ -	\$ -	\$ 59,954
Australian Dollar	875,437	8,664,614	4,567,725	-	-	336,741
Brazilian Real	-	-	-	-	-	206
Canadian Dollar	-	15,605,956	8,459,690	-	-	109,799
Czech Koruna	-	-	222,428	-	-	-
Danish Krone	-	9,965,394	781,371	-	-	40,293
Euro Currency	46,242,514	315,431,010	56,250,886	-	51,386,928	3,702,638
Hong Kong Dollar	-	53,150,450	-	-	-	242,586
Hungarian Forint	-	71,742	1,017,955	-	-	3,242
Indonesian Rupiah	-	479,916	796,325	-	-	-

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Japanese Yen	-	105,360,020	86,836,252	-	-	2,155,898
Malaysian Ringgit	-	2,660,773	2,987,356	-	-	-
Mexican Peso	62,095	8,419,015	1,089,918	-	-	208
New Israeli Sheqel	-	2,368,010	627,570	-	-	10,798
New Zealand Dollar	-	4,238,201	6,007,352	-	-	9,402
Norwegian Krone	-	4,600,400	1,664,302	-	-	57,587
Polish Zloty	-	1,433,289	1,803,353	-	-	9,419
Pound Sterling	4,345,891	101,490,979	38,100,987	6,690,051	-	913,708
Russian Ruble	-	-	208,262	-	-	-
Singapore Dollar	-	873,354	1,975,928	-	-	-
Sol	-	-	4,080,967	-	-	-
South African Rand	-	5,143,120	-	-	-	9,617
South Korean Won	-	6,243,593	5,296,520	-	-	-
Swedish Krona	-	28,151,722	1,483,093	-	-	4,868
Swiss Franc	-	89,517,156	2,090,116	-	-	1,650,460
Thailand Baht	-	2,167,411	-	-	-	-
Turkish Lira	-	2,897,882	-	-	-	18,603
Yuan Renminbi	-	14,356,410	-	-	-	126,937
Total	<u>\$ 52,055,609</u>	<u>\$ 783,290,417</u>	<u>\$ 227,049,360</u>	<u>\$ 6,690,051</u>	<u>\$51,386,928</u>	<u>\$ 9,462,964</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

Securities Lending Transactions. The State participates in securities-lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities-lending program and receives collateral in the form 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-U.S. fixed income. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed 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 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 20 to 23 days. 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 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 futures and options contract values are settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income, and the fair value of derivatives at June 30, 2019, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

Derivative Investments at June 30, 2019

Derivative	Change in		
	Fair Value	Fair Value	Notional
Credit Default Swaps	\$ 750,796	\$ 750,908	\$ 49,283,421
Fixed Income Futures	(676,974)	-	166,950,414
Fixed Income Options	212,975	7,346	(20,886,781)
Foreign Currency Options	1,020,404	(35,527)	(17,457,608)
Futures Options	96,765	-	-
FX Forwards	2,722,670	(350,787)	668,640,651
Fixed Interest Rate Swaps	(2,082,507)	(1,838,386)	345,331,343
Rights	85,282	46,387	83,503

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 June 30, 2019, 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 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 June 30, 2019, was \$3,749,777. 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 \$3,749,777.

Although the Plans execute derivative instruments with various counterparties, there is approximately 97 percent of the net exposure to credit risk, held with 10 counterparties. The counterparties are rated BBB+, A, A+ or AA-.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

The 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 they can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the Plans' interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Market Association) reference rate.

Foreign currency risk for derivative instruments at June 30, 2019, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	\$ -	\$ -	\$ 21,265
Canadian Dollar	-	22,634	187,515
Euro Currency	46,387	2,067,904	(183,293)
Hungarian Forint	-	-	5,653
Indonesian Rupiah	-	-	5,000
Japanese Yen	-	(2,496,860)	(112,397)
Malaysian Ringgit	-	-	(5,203)
Mexican Peso	-	-	(59,378)
New Zealand Dollar	-	-	(57,372)
Norwegian Krone	-	-	7,875
Polish Zloty	-	-	909
Pound Sterling	-	(439,945)	(215,382)
Russian Ruble	-	-	10,492
Singapore Dollar	-	-	(21,298)
Sol	-	-	(20,574)
South African Rand	-	-	13,117
South Korean Won	-	-	(4,272)
Swedish Krona	-	-	(6,081)
Swiss Franc	-	-	10,059
Thailand Baht	-	-	40,049
Yuan Renminbi	-	-	32,529
Total	\$ 46,387	\$ (846,267)	\$ (350,787)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Concluded)

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

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2019, but the security had not settled.

Money-Weighted Rate of Return. For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.72 percent for the School Plan, 6.72 percent for the Judges Plan, and 6.21 percent for the Patrol Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

5. Changes in Compensated Absences Payable

Changes in compensated absences payable for the year ended June 30, 2019, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	\$ 297,086	\$ 4,315	\$ 6,849
Increases	9,337	189	-
Decreases	29,709	432	2,763
Ending Balance	<u>\$ 276,714</u>	<u>\$ 4,072</u>	<u>\$ 4,086</u>
Amounts Due Within One Year	<u>\$ 27,671</u>	<u>\$ 407</u>	<u>\$ 409</u>

6. Payments to Omaha Public Schools

The School Employee Retirement Plan (School Plan) administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2014). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), which then makes the actual service annuity payments to the Omaha retirees.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. Payments to Omaha Public Schools (Concluded)

In accordance with Neb. Rev. Stat. § 79-916 (Cum. Supp. 2018), a separate Service Annuity Fund (Fund) was established for such payments, and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the fund, \$10,823,696, consisting almost entirely of investments, are included in the Statements of Plan Net Position at June 30, 2019. The service annuity payments of \$1,565,355 to OPS are shown as Other Deductions in the Statements of Changes in Plan Net Position.

7. Contingencies

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 workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which includes \$4,700,000 with a self-insured retention of \$300,000 (coverage includes hot pursuit). There is an additional one-time corridor 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 the Nebraska Department of Administrative Services – 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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Contingencies (Concluded)

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 NPERS' 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.

8. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$2,269,222. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Supp. 2019), Neb. Rev. Stat. § 79-933.05 (Reissue 2014), Neb. Rev. Stat. § 79-933.06 (Reissue 2014), and Neb. Rev. Stat. § 79-933.08 (Cum. Supp. 2018).

9. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
School Employees:				
Equipment	\$ 4,787,721	\$ 4,083	\$ -	\$ 4,791,804
Less: Accumulated Depreciation	4,783,971	787	-	4,784,758
Total Capital Assets, Net	<u>\$ 3,750</u>	<u>\$ 3,296</u>	<u>\$ -</u>	<u>\$ 7,046</u>
Judges:				
Equipment	\$ 65,589	\$ 60	\$ -	\$ 65,649
Less: Accumulated Depreciation	65,532	11	-	65,543
Total Capital Assets, Net	<u>\$ 57</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 106</u>
State Patrol:				
Equipment	\$ 65,589	\$ 60	\$ -	\$ 65,649
Less: Accumulated Depreciation	65,532	11	-	65,543
Total Capital Assets, Net	<u>\$ 57</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 106</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE FINANCIAL STATEMENTS

(Concluded)

10. Subsequent Events

State Patrol Additional Contributions. Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2018) describes actuarially required contributions. As of July 1, 2019, the actuarially determined additional contribution requirement for the State Patrol Plan is \$4,112,870.

School Employees Additional Contributions. Neb. Rev. Stat. § 79-966.01 (Reissue 2014) describes actuarially required contributions. As of July 1, 2019, the actuarially determined additional contribution requirement for the School Employees Plan is \$0. Furthermore, as of that same date, the additional contribution requirement for the Omaha Public Schools Retirement Plan is \$1,216,131.

Judges Additional Contributions. Neb. Rev. Stat. § 24-703(9) (Reissue 2016) describes actuarially required contributions. As of July 1, 2019, the actuarially determined additional contribution requirement for the Judges Employees Plan is \$348,794.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE SCHOOL DISTRICTS' NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT PLAN
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 268,216,074	\$ 261,067,772	\$ 227,893,391	\$ 222,525,387	\$ 214,673,003	\$ 202,803,787
Interest	953,982,025	915,143,958	876,680,145	843,289,424	814,387,820	782,055,188
Benefit term changes	-	-	-	-	-	-
Differences between expected and actual experience	(161,275,567)	(53,078,517)	(144,448,222)	(108,321,212)	(174,678,979)	(77,484,140)
Assumption changes	-	-	853,085,886	-	-	-
Benefit payments, including member refunds	(626,500,723)	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
Net change in Total Pension Liability	434,421,809	535,148,812	1,258,841,480	428,994,532	352,191,028	441,213,611
Total Pension Liability - beginning	13,001,288,461	12,466,139,649	11,207,298,169	10,778,303,637	10,426,112,609	9,984,898,998
Total Pension Liability - ending (a)	\$ 13,435,710,270	\$ 13,001,288,461	\$ 12,466,139,649	\$ 11,207,298,169	\$ 10,778,303,637	\$ 10,426,112,609
Plan Fiduciary Net Position						
Employer contributions	\$ 196,850,333	\$ 190,657,058	\$ 184,903,366	\$ 178,608,695	\$ 173,013,848	\$ 167,710,406
Non-employer contributions						
State Appropriation contributions	40,543,609	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519
Omaha Service Annuity contributions	1,248,297	1,243,169	992,451	997,118	997,858	909,638
Employee contributions	197,095,568	191,483,632	186,176,743	178,613,265	174,797,341	169,200,529
Net investment income	772,593,261	927,963,467	1,325,835,296	149,283,503	355,847,514	1,454,496,772
Benefit payments, including member refunds	(626,500,723)	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
Administrative expenses	(3,215,740)	(3,300,321)	(3,334,436)	(3,182,464)	(3,153,883)	(2,861,508)
Other changes	33,515	35,414	33,650	28,107	28,877	30,561
Net change in Plan Fiduciary Net Position	578,648,120	759,437,396	1,178,276,697	12,768,757	234,834,330	1,358,028,693
Plan Fiduciary Net Position - beginning	11,636,298,903	10,876,861,507	9,698,584,810	9,685,816,053	9,450,981,723	8,092,953,030
Plan Fiduciary Net Position - ending (b)	\$ 12,214,947,023	\$ 11,636,298,903	\$ 10,876,861,507	\$ 9,698,584,810	\$ 9,685,816,053	\$ 9,450,981,723
Net Pension Liability - ending (a) - (b)	\$ 1,220,763,247	\$ 1,364,989,558	\$ 1,589,278,142	\$ 1,508,713,359	\$ 1,092,487,584	\$ 975,130,886
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	90.91%	89.50%	87.25%	86.54%	89.86%	90.65%
Covered payroll	\$ 1,992,856,031	\$ 1,930,157,100	\$ 1,871,908,380	\$ 1,808,182,946	\$ 1,751,542,327	\$ 1,697,851,809
Employers' Net Pension Liability as a percentage of covered payroll	61.26%	70.72%	84.90%	83.44%	62.37%	57.43%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE JUDGES' NET PENSION LIABILITY
JUDGES RETIREMENT PLAN
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 5,640,784	\$ 5,589,181	\$ 4,997,654	\$ 4,721,039	\$ 4,759,455	\$ 4,257,200
Interest	14,199,759	13,720,785	13,100,385	12,642,618	12,170,797	11,567,915
Benefit term changes	-	-	-	-	-	-
Differences between expected and actual experience	(5,002,500)	(2,398,903)	(1,714,732)	(2,303,032)	(2,613,808)	41,752
Assumption changes	-	-	12,705,465	-	-	-
Benefit payments, including member refunds	(10,991,157)	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
Net change in Total Pension Liability	3,846,886	6,766,960	19,398,462	6,008,515	5,768,552	7,744,871
Total Pension Liability - beginning	194,269,172	187,502,212	168,103,750	162,095,235	156,326,683	148,581,812
Total Pension Liability - ending (a)	\$ 198,116,058	\$ 194,269,172	\$ 187,502,212	\$ 168,103,750	\$ 162,095,235	\$ 156,326,683
Plan Fiduciary Net Position						
Employer contributions						
Court fees	\$ 3,946,292	\$ 4,112,543	\$ 3,578,851	\$ 3,458,665	\$ 2,977,205	\$ 3,102,864
State Appropriations	442,599	667,613	118,714	-	94,000	803,383
Employee contributions	1,854,712	1,814,533	1,743,103	1,651,432	1,610,529	1,518,801
Net investment income	12,436,060	15,070,504	21,699,250	2,453,560	5,958,799	24,543,298
Benefit payments, including member refunds	(10,991,157)	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
Administrative expenses	(71,663)	(71,266)	(84,626)	(70,707)	(82,746)	(78,263)
Other changes	-	-	-	-	3	45
Net change in Plan Fiduciary Net Position	7,616,843	11,449,824	17,364,982	(1,559,160)	2,009,898	21,768,132
Plan Fiduciary Net Position - beginning	188,055,655	176,605,831	159,240,849	160,800,009	158,790,111	137,021,979
Plan Fiduciary Net Position - ending (b)	\$ 195,672,498	\$ 188,055,655	\$ 176,605,831	\$ 159,240,849	\$ 160,800,009	\$ 158,790,111
Net Pension Liability (Net Asset) - ending (a) - (b)	\$ 2,443,560	\$ 6,213,517	\$ 10,896,381	\$ 8,862,901	\$ 1,295,226	\$ (2,463,428)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	98.77%	96.80%	94.19%	94.73%	99.20%	101.58%
Covered payroll	\$ 23,215,585	\$ 23,125,170	\$ 22,801,593	\$ 22,178,157	\$ 21,586,829	\$ 20,099,647
Employers' Net Pension Liability as a percentage of covered payroll	10.53%	26.87%	47.79%	39.96%	6.00%	(12.26%)

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE STATE PATROL'S NET PENSION LIABILITY
STATE PATROL RETIREMENT PLAN
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 9,079,338	\$ 8,794,874	\$ 7,955,722	\$ 8,152,482	\$ 7,562,642	\$ 8,173,815
Interest	35,165,912	34,076,868	32,887,178	32,113,989	31,349,873	30,164,990
Benefit term changes	-	-	-	-	-	-
Differences between expected and actual experience	(2,864,410)	(4,016,896)	(1,508,635)	(8,977,294)	(10,658,914)	(3,787,974)
Assumption changes	-	-	27,947,994	-	-	-
Benefit payments, including member refunds	(24,953,776)	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
Net change in Total Pension Liability	16,427,064	15,026,166	43,142,655	11,712,801	8,795,061	14,540,418
Total Pension Liability - beginning	480,092,201	465,066,035	421,923,380	410,210,579	401,415,518	386,875,100
Total Pension Liability - ending (a)	\$ 496,519,265	\$ 480,092,201	\$ 465,066,035	\$ 421,923,380	\$ 410,210,579	\$ 401,415,518
Plan Fiduciary Net Position						
Employer contributions	\$ 8,693,805	\$ 8,952,649	\$ 7,053,110	\$ 7,053,408	\$ 8,646,426	\$ 8,752,627
Employee contributions	4,710,105	4,615,214	4,500,952	4,365,651	4,180,263	4,134,598
Net investment income	27,536,775	33,872,593	48,679,867	5,491,550	13,332,650	54,950,250
Benefit payments, including member refunds	(24,953,776)	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
Administrative expenses	(75,872)	(89,102)	(141,196)	(128,156)	(116,679)	(121,153)
Other changes	17,930	23,184	28,557	26,778	21,619	21,199
Net change in Plan Fiduciary Net Position	15,928,967	23,545,858	35,981,686	(2,767,145)	6,605,739	47,727,108
Plan Fiduciary Net Position - beginning	420,683,030	397,137,172	361,155,486	363,922,631	357,316,892	309,589,784
Plan Fiduciary Net Position - ending (b)	\$ 436,611,997	\$ 420,683,030	\$ 397,137,172	\$ 361,155,486	\$ 363,922,631	\$ 357,316,892
Net Pension Liability - ending (a) - (b)	\$ 59,907,268	\$ 59,409,171	\$ 67,928,863	\$ 60,767,894	\$ 46,287,948	\$ 44,098,626
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	87.93%	87.63%	85.39%	85.60%	88.72%	89.01%
Covered payroll	\$ 29,301,599	\$ 28,697,715	\$ 28,091,906	\$ 27,047,938	\$ 26,294,294	\$ 25,624,081
Employers' Net Pension Liability as a percentage of covered payroll	204.45%	207.02%	241.81%	224.67%	176.04%	172.10%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT PLAN
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 180,295,400	\$ 185,923,377	\$ 129,070,591	\$ 132,846,323	\$ 152,268,397	\$ 174,157,865	\$ 227,859,188	\$ 192,478,407	\$ 177,075,137	\$ 142,658,110
Actual non-employer contributions										
Actual State Appropriations*	40,543,609	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519	16,874,535	22,400,533	21,907,948	21,380,352
Actual Omaha Appropriations**	1,248,297	1,243,169	992,451	997,118	997,858	909,638	969,396	1,030,017	967,145	-
Actual employer contributions	196,850,333	190,657,058	184,903,366	178,608,695	173,013,848	167,710,406	161,922,831	145,582,040	135,328,339	128,845,427
Total contributions	\$ 238,642,239	\$ 231,239,605	\$ 223,935,164	\$ 216,525,413	\$ 209,505,297	\$ 203,323,563	\$ 179,766,762	\$ 169,012,590	\$ 158,203,432	\$ 150,225,779
Annual contribution deficiency (excess)	\$ (58,346,839)	\$ (45,316,228)	\$ (94,864,573)	\$ (83,679,090)	\$ (57,236,900)	\$ (29,165,698)	\$ 48,092,426	\$ 23,465,817	\$ 18,871,705	\$ (7,567,669)
Covered payroll	\$ 1,992,856,031	\$ 1,930,157,100	\$ 1,871,908,380	\$ 1,808,182,946	\$ 1,751,542,327	\$ 1,697,851,809	\$ 1,664,793,714	\$ 1,641,692,866	\$ 1,618,218,049	\$ 1,572,992,968
Actual contributions as a percentage of covered payroll	11.97%	11.98%	11.96%	11.97%	11.96%	11.98%	10.80%	10.30%	9.78%	9.55%

Note: Information prior to 2013 was produced by the prior actuary.

* Includes scheduled contributions as well as appropriations to make up any contribution shortfall.

** For State service annuity only; included in State Appropriations for years prior to 2011.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
STATE PATROL RETIREMENT PLAN
LAST 10 YEARS
AS OF JUNE 30, 2019

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined employer contribution	\$ 8,693,805	\$ 8,952,649	\$ 7,053,110	\$ 7,053,408	\$ 8,073,824	\$ 8,752,627	\$ 9,768,585	\$ 7,774,506	\$ 7,563,126	\$ 6,260,122
Actual employer contributions*	<u>\$ 8,693,805</u>	<u>\$ 8,952,649</u>	<u>\$ 7,053,110</u>	<u>\$ 7,053,408</u>	<u>\$ 8,073,824</u>	<u>\$ 8,752,627</u>	<u>\$ 7,515,905</u>	<u>\$ 7,774,506</u>	<u>\$ 5,956,747</u>	<u>\$ 6,260,122</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,252,680</u>	<u>\$ -</u>	<u>\$ 1,606,379</u>	<u>\$ -</u>
Covered payroll	\$29,301,599	\$28,697,715	\$28,091,906	\$27,047,938	\$ 26,294,294	\$ 25,624,081	\$ 26,901,711	\$ 27,390,926	\$ 27,987,900	\$ 27,624,747
Actual contributions as a percentage of covered payroll	29.67%	31.20%	25.11%	26.08%	30.71%	34.16%	27.94%	28.38%	21.28%	22.66%

Note: Information prior to 2013 was produced by the prior actuary.

* Includes any additional appropriations by the State beyond the regular, payroll-related contributions. 2015 excludes \$572,602 in military service credits.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
JUDGES RETIREMENT PLAN
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined employer contribution	\$ 4,388,891	\$ 4,780,156	\$ 3,697,565	\$ 3,458,665	\$ 3,727,054	\$ 3,906,247	\$ 3,180,367	\$ 3,483,614	\$ 3,579,661	\$ 3,615,291
Actual employer contributions										
Court Fees	3,946,292	4,112,543	3,578,851	3,458,665	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417	3,543,047
State Contributions	442,599	667,613	118,714	-	94,000	803,383	-	72,244	72,244	72,244
Actual employer contributions	\$ 4,388,891	\$ 4,780,156	\$ 3,697,565	\$ 3,485,665	\$ 3,071,205	\$ 3,906,247	\$ 3,180,367	\$ 3,483,614	\$ 3,579,661	\$ 3,615,291
Annual contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ 655,849	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 23,215,585	\$ 23,125,170	\$ 22,801,593	\$ 22,178,157	\$ 21,586,829	\$ 20,099,647	\$ 19,005,478	\$ 18,182,238	\$ 18,773,203	\$ 18,373,339
Actual contributions as a percentage of covered payroll	18.90%	20.67%	16.22%	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%

Note: Actuarially determined employer contributions, actual employer contributions, and covered-employee payroll prior to 2013 was produced by the prior actuary.
For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT RETURNS
AS OF JUNE 30, 2019
(Unaudited)

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:						
School Employees Retirement Plan	6.72%	8.63%	13.83%	1.56%	3.77%	18.14%
Judges Retirement Plan	6.72%	8.64%	13.82%	1.55%	3.75%	18.14%
State Patrol Retirement Plan	6.21%	8.17%	13.16%	1.85%	4.05%	17.87%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Years

School Employees Retirement Plan

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

- 2017: The 2017 Legislature passed Legislative Bill (LB) 415 (2017), which affects the benefit provisions only for members hired on or after July 1, 2017 (with additional changes for those hired on or after July 1, 2018). For members hired on or after July 1, 2017, the Public Employees Retirement Board (PERB) has the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment. In addition, LB 415 changed the minimum age required to qualify for retirement under the Rule of 85 from 55 to 60 for members who are hired on or after July 1, 2018.
- 2014: As scheduled, the State contribution rate increased from 1% of covered payroll to 2%.
- 2013: LB 553 (2013) increased the State's payroll-related contribution from 1% to 2% of pay, effective July 1, 2014. LB 553 also made some changes to the benefit structure for members hired on or after July 1, 2013 (Tier 2), including changing the period over which to determine final average salary to the highest 60 months rather than the current highest 36 months of service and changing the maximum cost-of-living adjustment from 2.5% to 1%. LB 553 also removed the scheduled reduction in the employee contribution rate in 2017. In addition, it required the use of the Entry Age Normal, level percent of payroll, method to determine the costs for the Omaha State Service Annuity and changed the amortization of the unfunded actuarial accrued liability to be based on payments determined as a level percent of payroll instead of a level dollar amount.
- 2011: Under LB 382 (2011), the member contribution rate increased from 8.28% to 8.88% on September 1, 2011. Effective September 1, 2012, the member contribution rate was scheduled to increase to 9.78% and then decrease to 7.28% effective September 1, 2017. The employer contribution rate match remained unchanged at 101% of the member contribution rate. The current State of Nebraska contribution rate of 1% remained in effect until July 1, 2017, at which time it was scheduled to decrease to 0.7%.

The following changes were made in the actuarial assumptions:

July 1, 2017, valuation:

- Price inflation decreased from 3.25% to 2.75%.
- Long-term investment return decreased from 8.00% to 7.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased from 2.50% to 2.25% for members hired before January 1, 2013.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Retirement rates changed to better fit the observed experience.
- Termination rates changed to better fit the observed experience.
- Disability rates changed to better fit the observed experience.

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.
- Retirement rates are based on age and retirement eligibility. One hundred percent retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.
- 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 a one year age setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- Disabled mortality was changed to the 1983 Railroad Retirement Board Disabled Annuitants Mortality setback one year from the 1983 Railroad Retirement Board Disabled Annuitants Mortality. The prior assumption was based on the same table with no setback.
- Termination rates are service based and were decreased from the prior valuation based on actual experience.
- Disability rates were decreased by 50% from the prior valuation.
- Price inflation assumption was lowered to 3.25% from 3.50%.
- Economic productivity assumption was lowered to 0.75% from 1.00%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

Judges Retirement Plan

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

- 2017: LB 415 (2017), which was passed by the 2017 Nebraska Legislature, made changes to the benefit structure for judges who become members on or after July 1, 2017, by granting the Public Employees Retirement Board (PERB) the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment.
- 2015: LB 468 (2015) made changes to the benefit structure for judges who become members on or after July 1, 2015, including the calculation of final average salary based on the highest five years rather than the highest three years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015, was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased in over two years. Ultimately, in fiscal year 2018, the additional funding is estimated to be \$1.3 million.
- 2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from \$6 to \$5 on July 1, 2014. LB 306 (2013) removed the language to decrease the court fees, so the court fee in future years remains at \$6. The passage of LB 414 (2009) increased the member contribution rate by 1%, but this increase was scheduled to be removed July 1, 2014. LB 306 (2013) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.

The following changes were made in the actuarial assumptions:

July 1, 2017, valuation:

- Price inflation decreased from 3.25% to 2.75%.
- Long-term investment return decreased from 8.00% to 7.50%.
- General wage growth decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.
- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased to 2.25% for Tier 1 members.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Retirement rates changed to better fit the observed experience.

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- 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 a one-year setback, projected to 2015.
- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.
- Consumer price inflation was lowered to 3.25% from 3.50%.
- Economic productivity was lowered to 0.75% from 1.00%.

State Patrol Retirement Plan

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

- 2017: The 2017 Legislature passed LB 415, which grants the PERB the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment for members hired on or after July 1, 2017. Since these changes do not affect any members in the current valuation, the adopted changes have no impact on the valuation results.
- 2016: Legislative Bill 467 (LB 467) created a new tier of State Patrol members who are employed on or after July 1, 2016. This new tier includes changes to benefits and contributions, as follows:
- Member and employer contributions are increased from 16% to 17% of pay.
 - Compensation no longer includes compensation for unused sick leave, unused vacation leave, unused holiday compensatory time, unused compensatory time, or any other type of unused leave, compensatory time, or similar benefits, converted to cash payments.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- Final average salary moves from the highest three 12-month periods to the highest five 12-month periods. During the five-year period, the member's compensation in any plan year is capped at an eight percent increase from the preceding plan year.
- The automatic COLA is capped at 1.0% instead of 2.5%. However, a 1.5% discretionary COLA may be granted by the PERB in addition to the automatic COLA, if certain criteria are met.
- The DROP program is eliminated.

2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in State statute, the employee and employer contribution rate both decreased from 19% of pay to 16%.

2011: Under LB 382 (2011), both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.

2010: As scheduled, the member and employer contribution rates increased to 16% each.

The following changes were made in the actuarial assumptions:

July 1, 2017 valuation:

- Price inflation decreased from 3.25% to 2.75%.
- Long-term investment return decreased from 8.00% to 7.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.
- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased to from 2.50% to 2.25% for members hired before July 1, 2016.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Termination rates changed to better fit the observed experience.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Concluded)

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.50% for less than one year of service to 4.00% at 30 years of service. Prior valuation rates graded from 9.00% for less than one year to 4.50% at 25 years of service.
- Retirement rates are based on age and retirement eligibility. The rates were increased for early retirement (reduced benefits available at 50 years of age and 10 years of service) and decreased for normal retirement (unreduced benefits available at 55 years of age and 10 years of service).
- 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 a one-year setback, projected to 2015.
- The assumption to value deferred vested members was changed to assume they elect the greater of the present value of an annuity at earliest unreduced eligibility or a refund of contributions.
- Consumer price inflation was lowered from 3.50% to 3.25%.
- Economic productivity was lowered from 1.00% to 0.75%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FISCAL YEAR ENDED JUNE 30, 2019

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>	<u>Total</u>
Personnel				
Personal Services	\$ 2,050,343	\$ 30,269	\$ 30,649	\$ 2,111,261
Travel	14,795	144	145	15,084
Professional and Technical Services				
Professional	31,251	316	1,066	32,633
Actuary	83,200	27,350	32,340	142,890
Computer Support Services	525,862	7,696	7,696	541,254
Accounting and Auditing	165,949	2,131	2,131	170,211
Communications				
Printing	43,431	451	789	44,671
Other Expenses				
Postage	73,160	650	1,109	74,919
Supplies	23,603	257	257	24,117
Hardware and Software	33,743	657	471	34,871
Repairs	329	-	5	334
Rent	119,513	1,326	1,614	122,453
Miscellaneous	50,561	416	(2,400)	48,577
Total Administrative Expenses	<u>\$ 3,215,740</u>	<u>\$ 71,663</u>	<u>\$ 75,872</u>	<u>\$ 3,363,275</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	School Employees	Judges	State Patrol	Total
BlackRock Financial Management, Inc.	397,773	6,381	14,022	418,176
Dimensional Fund Advisors, Inc.	1,104,828	17,723	38,945	1,161,496
Total Domestic Equity	1,502,601	24,104	52,967	1,579,672
BlackRock Financial Management, Inc.	908,394	14,572	32,021	954,987
Franklin Templeton Investments	1,349,539	21,648	47,571	1,418,758
Loomis Sayles & Company, L.P.	1,898,035	30,447	66,906	1,995,388
Oaktree Capital Management	410,374	6,583	14,466	431,423
Neuberger Berman	566,219	9,083	19,959	595,261
Pacific Investment Management Company, LLC	3,836,637	61,544	135,242	4,033,423
Wellington Management Company, LLP	1,023,209	16,414	36,068	1,075,691
Total Fixed Income	9,992,407	160,291	352,233	10,504,931
Arrowstreet Capital	3,486,747	55,932	122,908	3,665,587
Dodge & Cox	2,788,417	44,730	98,292	2,931,439
MFS Institutional Advisors, Inc.	2,782,844	44,738	98,362	2,925,944
Wellington Management Company, LLP	1,933,190	31,011	68,145	2,032,346
Total Global Equity	10,991,198	176,411	387,707	11,555,316
BlackRock Financial Management, Inc.	775,465	12,439	27,335	815,239
Total International Equity	775,465	12,439	27,335	815,239
Almanac Realty Investors, LLC	677,470	10,868	23,881	712,219
Angelo, Gordon & Company, L.P.	77,669	1,246	2,738	81,653
Barings Asset Management	755,894	12,125	26,645	794,664
CBRE Global Investors	26,204	420	924	27,548
Clarion Partners	315,318	5,058	11,115	331,491
Landmark Partners	972,219	15,596	34,271	1,022,086
PGIM Real Estate	2,073,045	33,254	73,075	2,179,374
Rockpoint Group, L.L.C.	36,768	590	1,296	38,654
Rockwood Capital, LLC	602,534	9,665	21,239	633,438
Torchlight Investors	1,100,639	17,656	38,797	1,157,092
UBS Realty Investors, LLC	1,751,781	28,101	61,750	1,841,632
Total Real Estate	8,389,541	134,579	295,731	8,819,851

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	School Employees	Judges	State Patrol	Total
Abbott Capital Management, LLC	170,617	2,737	6,014	179,368
Accel-KKR Management Co, LLC	189,120	3,034	6,666	198,820
Ares Management, LLC	1,052,629	16,886	37,105	1,106,620
Beecken Petty O'Keefe & Company	138,218	2,217	4,872	145,307
Bridgepoint Capital	875,659	14,047	30,867	920,573
CVC Capital Partners	163,221	2,618	5,754	171,593
The Energy & Minerals Group	367,208	5,890	12,944	386,042
Francisco Partners	626,985	10,058	22,101	659,144
Genstar Capital	1,089,246	17,473	38,396	1,145,115
Leonard Green & Partners, L.P.	483,823	7,761	17,055	508,639
HarbourVest Partners, LLC	998,484	16,017	35,197	1,049,698
Lightyear Capital	92,278	1,480	3,253	97,011
Lincolnshire Management, Inc.	76,960	1,234	2,713	80,907
Longroad Capital Partners, L.P.	673	11	24	708
McCarthy Capital Corporation	987,947	15,848	34,825	1,038,620
Merit Capital Partners	52,082	835	1,836	54,753
New Enterprise Associates	266,567	4,276	9,396	280,239
New Mountain Capital, LLC	806,608	12,939	28,433	847,980
Pathway Capital Management	409,804	6,574	14,446	430,824
Pine Brook Partners	483,628	7,758	17,048	508,434
Presidio Partners	110,467	1,772	3,894	116,133
Quantum Energy Partners	1,040,224	16,686	36,668	1,093,578
Sun Capital Partners, Inc.	3,343	54	118	3,515
The Jordan Company	711,166	11,408	25,069	747,643
The Rohatyn Group Management, L.P.	47,956	769	1,690	50,415
Wayzata Investment Partners, LLC	140,884	2,260	4,966	148,110
Wynnchurch Capital LLC	331,885	5,324	11,699	348,908
Total Private Equity	11,717,682	187,966	413,049	12,318,697
Nebraska Investment Council	1,268,514	20,503	44,971	1,333,988
Custody Expense	485,082	7,814	17,207	510,103
Foreign Income Taxes	1,360,848	21,860	48,071	1,430,779
Other Expenses	52,025	838	21,226	74,089
Total Other Investment Expenses	3,166,469	51,015	131,475	3,348,959
Total Investment-Related Expenses	46,535,363	746,805	1,660,497	48,942,665

(Concluded)



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL 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 – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated January 27, 2020. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 – School Employees, Judges, and State Patrol Retirement Plans’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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 Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 27, 2020

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