

Omaha School Employees' Retirement System

**Pension Trust Fund of Douglas County School District #0001
Omaha, Nebraska**

**Financial Statements and Supplementary Information
August 31, 2020**

Together with Independent Auditor's Report

Omaha School Employees' Retirement System

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Independent Auditor's Report

To the Board of Trustees
Omaha School Employees' Retirement System:

Report on the Financial Statements

We have audited the accompanying financial statements of Omaha School Employees' Retirement System (OSERS), a pension trust fund of Douglas County School District #0001 (District), which comprise the statement of fiduciary net position as of August 31, 2020, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OSERS as of August 31, 2020, and the changes in its 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 present only OSERS and do not purport to, and do not, present fairly the financial position of the District as of August 31, 2020, or the changes in its financial position for the year then ended in conformity accounting principles generally accepted in the United States of America.

The financial statements include investments valued at approximately \$297,382,000 (22% of net position) as of August 31, 2020, whose fair values have been estimated by management in the absence of readily determinable values. A description of the methods used by management is included in Note 3. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Our opinion is not modified with respect to these matters.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 , the schedule of changes in the net pension liability on pages 18 – 20, the schedule of employer contributions on pages 21 – 23, and the schedule of money-weighted rate of return on page 24, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020 on our consideration of OSERS' 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 OSERS' 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 OSERS' internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
November 30, 2020.

Omaha School Employees' Retirement System

Required Supplementary Information Management's Discussion and Analysis (Thousands of Dollars)

Overview

The following overview is a discussion and analysis of the financial activities of the School Employees' Retirement System of Douglas County School District #0001, more commonly known as the Omaha School Employees' Retirement System (OSERS), as of and for the fiscal year ended August 31, 2020. Its purpose is to provide explanation and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

Net position of the plan, which represents funds available to pay current and future pension benefits, increased by \$82,925 during the fiscal year to \$1,378,387.

OSERS experienced total additions of \$220,300 during this past fiscal year. The additions are represented by \$57,033 from employer contributions, \$35,475 from member contributions and purchases of service, \$8,929 from the State of Nebraska contributions, and \$118,829 from net investment income.

Pursuant to Nebraska Revised Statutes section 79-9,113(c) as amended by LB 1005 (2018), the Douglas County School District #0001 (District) is required to contribute the amount noted by the actuary as necessary to maintain the solvency of the plan. This revised statute further defines solvency as an amount equal to or greater than the actuarially required contribution rate. For the fiscal year ended August 31, 2020, the District contributed an additional contribution of \$21,357 to OSERS to meet the solvency requirement, and this amount is included in total employer contributions.

Total retirement benefits paid in fiscal year 2020 were \$129,988. This represents monthly benefit payments to an average of 4,900 retirees each month. We continued to experience a large number of employees who depart early to mid-career, continuing the processing of refunds to members who elect to withdraw their employee contribution (plus interest). For the fiscal year ending August 31, 2020, OSERS paid out \$6,497 in refunds to former Plan members. Refunds are paid to former District employees who are members, at the member's request whether they are vested or non-vested. A vested member requesting a refund is forfeiting their rights to a future retirement benefit from OSERS.

Overview of the Financial Statements

The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

1. The *Statement of Fiduciary Net Position* presents information about assets and liabilities, with the difference between the two reported as *net position restricted for pensions*. The level of net position reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net position measure whether the financial position of OSERS is improving or deteriorating.
2. The *Statement of Changes in Fiduciary Net Position* presents the results of fund operations during the year and discloses the additions to and deductions from plan fiduciary net position. It supports the net change that has occurred to the prior year's net position on the statement of fiduciary net position.
3. The *Notes to the Financial Statements* provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes provide important and detailed information about OSERS, the pension trust fund, and the statements themselves.
4. The *Required Supplementary Information* consists of data on the funded status of OSERS, the status of contributions from the Douglas County School District #0001 and the State of Nebraska, and the money-weighted rate of return.

Omaha School Employees' Retirement System

Required Supplementary Information Management's Discussion and Analysis (Thousands of Dollars)

Financial Analysis

The following table shows condensed information from the Statement of Fiduciary Net Position:

| | Fiduciary Net Position | | | |
|-------------------|------------------------|-----------|--------|---------|
| | 2020 | 2019 | Change | Percent |
| Total assets | \$ 1,498,998 | 1,407,326 | 91,672 | 6.51% |
| Total liabilities | 120,611 | 111,864 | 8,747 | 7.82% |
| Net position | \$ 1,378,387 | 1,295,462 | 82,925 | 6.40% |

The following tables show condensed information from the Statement of Changes in Fiduciary Net Position:

| | Additions to Fiduciary Net Position | | | |
|---|-------------------------------------|---------|--------|---------|
| | 2020 | 2019 | Change | Percent |
| Employer contributions | \$ 57,033 | 57,267 | (234) | -0.41% |
| Member contributions and purchases of service | 35,475 | 35,874 | (399) | -1.11% |
| State contributions | 8,929 | 9,152 | (223) | -2.44% |
| Total contributions and purchases of service | 101,437 | 102,293 | (856) | -0.84% |
| Net investment income | 118,829 | 32,447 | 86,382 | 266.22% |
| Other income | 34 | 20 | 14 | 70.00% |
| Total investment and other income | 118,863 | 32,467 | 86,396 | 266.10% |
| Total additions | \$ 220,300 | 134,760 | 85,540 | 63.48% |

| | Deductions from Fiduciary Net Position | | | |
|-------------------------|--|---------|---------|---------|
| | 2020 | 2019 | Change | Percent |
| Retirement benefits | \$ 129,988 | 124,047 | 5,941 | 4.79% |
| Refunds to members | 6,497 | 7,849 | (1,352) | -17.23% |
| Administrative expenses | 890 | 1,087 | (197) | -18.12% |
| Total deductions | \$ 137,375 | 132,983 | 4,392 | 3.30% |

| | Changes in Fiduciary Net Position | | | |
|---------------------------------|-----------------------------------|-----------|--------|----------|
| | 2020 | 2019 | Change | Percent |
| Net position, beginning of year | \$ 1,295,462 | 1,293,685 | 1,777 | 0.14% |
| Net change in net position | 82,925 | 1,777 | 81,148 | 4566.57% |
| Net position, end of year | \$ 1,378,387 | 1,295,462 | 82,925 | 6.40% |

Omaha School Employees' Retirement System

Required Supplementary Information Management's Discussion and Analysis (Thousands of Dollars)

Legislative Changes

During 2019, the Nebraska Legislature enacted Legislative Bill (LB) 34. LB 34 contained several policy changes effecting retirement plans administered in the State of Nebraska. Of importance to members of OSERS is the enactment of policy which codified that a surviving spouse at the time of the member's death is deemed to be the beneficiary upon the death of the member if there is no beneficiary on file or the beneficiary has pre-deceased the member. Therefore, this could result in a financial impact to OSERS upon the death of a member (active or deferred-vested) with 20 or more years of creditable service. Such member's death could result in a lifetime joint survivor annuity to the deemed beneficiary.

Contacting OSERS Financial Management

This financial report is designed to provide the plan sponsor, the Board of Trustees, OSERS membership, contributors, taxpayers and creditors with a general overview of OSERS' finances and to demonstrate OSERS' accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact the Omaha School Employees' Retirement System by e-mail at osers@ops.org, by phone at 531-299-0329, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

Omaha School Employees' Retirement System

Statement of Fiduciary Net Position August 31, 2020 (Thousands of Dollars)

ASSETS:

Cash and cash equivalents \$ 18,348

Receivables:

Employer contributions 2,769

Plan member contributions 2,742

State contributions 7,302

Other investment receivables 77,440

Other 26,812

Total receivables 117,065

Investments, at fair value:

ADR/GDR 4,190

Asset backed securities 6,830

Cash equivalents 18,729

Commingled funds 672,731

Corporate bonds 88,283

Equity securities 148,279

Government securities 42,975

Limited partnerships 297,382

Mortgages 76,501

Municipal bonds and other 2,471

Total investments 1,358,371

Accrued investment income 5,200

Other assets 14

Total assets 1,498,998

LIABILITIES:

Accounts payable 89

Accrued payroll and benefits payable 16,542

Other investment payables 103,980

Total liabilities 120,611

NET POSITION RESTRICTED FOR PENSIONS \$ 1,378,387

See Notes to Financial Statements

Omaha School Employees' Retirement System

Statement of Changes in Fiduciary Net Position For the Year Ended August 31, 2020 (Thousands of Dollars)

ADDITIONS:

Contributions:

| | | |
|---------------------------|----|----------------|
| Plan member contributions | \$ | 35,295 |
| Employer contributions | | 57,033 |
| State contributions | | <u>8,929</u> |
| Total contributions | | <u>101,257</u> |

Investment income:

| | | |
|---|--|---------------|
| Interest and dividends | | 21,778 |
| Net appreciation in fair value of investments | | <u>98,418</u> |

120,196

| | | |
|-------------------------|--|----------------|
| Less investment expense | | <u>(1,367)</u> |
|-------------------------|--|----------------|

| | | |
|-----------------------|--|----------------|
| Net investment income | | <u>118,829</u> |
|-----------------------|--|----------------|

| | | |
|----------------------|--|------------|
| Purchases of service | | <u>180</u> |
|----------------------|--|------------|

| | | |
|--------------|--|-----------|
| Other income | | <u>34</u> |
|--------------|--|-----------|

| | | |
|-----------------|--|----------------|
| Total additions | | <u>220,300</u> |
|-----------------|--|----------------|

DEDUCTIONS:

| | | |
|---|--|-----------|
| Retirement benefits | | 129,988 |
| Refunds to plan members, including interest | | 6,497 |
| Administrative expenses: | | |
| Personnel costs | | 497 |
| Professional fees | | 310 |
| Other | | <u>83</u> |

| | | |
|------------------|--|----------------|
| Total deductions | | <u>137,375</u> |
|------------------|--|----------------|

| | | |
|------------------------------|--|--------|
| NET INCREASE IN NET POSITION | | 82,925 |
|------------------------------|--|--------|

NET POSITION RESTRICTED FOR PENSIONS:

| | | |
|-------------------|--|------------------|
| Beginning of year | | <u>1,295,462</u> |
|-------------------|--|------------------|

| | | |
|-------------|----|-------------------------|
| End of year | \$ | <u><u>1,378,387</u></u> |
|-------------|----|-------------------------|

See Notes to Financial Statements

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Omaha School Employees' Retirement System (OSERS). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

In 1909, the Douglas County School District #0001 (the District) began maintaining a retirement system for its teachers. Subsequently, the District added two more retirement systems, one covering non-teaching school employees and one covering school cafeteria employees. In 1951, the Nebraska State Legislature consolidated the three systems into one new system. The new system, OSERS, is a defined-benefit plan.

OSERS is included as a pension trust fund of the District. The financial statements present only the financial position and changes in financial position of the OSERS and do not purport to, and do not present fairly, the financial position of the District, as of August 31, 2020, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. *Basic Financial Statements*

The financial transactions of OSERS are included in the fiduciary funds of the District. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, additions, and deductions. This fund is used to report assets held in a trustee or agency capacity for others, and therefore, are not available to support the District's programs.

C. *Basis of Accounting/Measurement Focus*

OSERS activity is accounted for on an economic-resources measurement focus using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. District (employer) contributions and contributions from the State of Nebraska to OSERS are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

D. *Investments*

The Nebraska Investment Council, on behalf OSERS, invests in both short-term and long-term securities. 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. The State Treasurer is the custodian of all funds; however, investment of funds is the responsibility of the Nebraska Investment Council.

E. *Net Realized Gains and Losses on Investments and Other*

Market value fluctuations and changes in yields make it beneficial to periodically trade securities. These trades are recommended by the investment managers and are intended to maximize growth and earnings. When a trade is executed, the market value is compared to the cost and any difference is recognized as net realized gain or loss. No adjustments are recognized for the anticipated change in growth or yield.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

F. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

G. *Subsequent Events*

OSERS considered events occurring through November 30, 2020 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) **Plan Description and Contribution Information**

A. *Membership Information*

Membership consisted of the following as of January 1, 2020, the date of the valuation used to determine the August 31, 2020 total pension liability:

| | |
|---|----------------------|
| Inactive members or their beneficiaries currently receiving benefits | 4,980 |
| Inactive members entitled to but not yet receiving benefits | 1,163 |
| Inactive nonvested members entitled to a refund of member contributions | 709 |
| Active members | <u>7,366</u> |
| Total | <u><u>14,218</u></u> |

The OSERS plan is administered under four membership tiers. Each membership tier's composition is defined in the most recent Annual Actuarial Report.

B. *Plan Description*

All full-time employees of the District, OSERS and Educational Service Unit #19 are covered by OSERS. OSERS is a single-employer retirement plan.

In accordance with Nebraska revised statutes, OSERS is governed by the Board of Trustees, which is comprised of three members who are active employees of the District, one annuitant member, two business people approved by the District Board of Education, and the Superintendent of the District, or his/her designee. OSERS is administered by the Executive Director of OSERS. The State of Nebraska has the authority under which plan provisions and obligations may be amended or established.

C. *Contributions*

Employees of the District, OSERS and Educational Service Unit #19 are required to contribute 9.78% of their annual salary to OSERS. Neb. Rev. Stat. §79-9,113 (1)(d) (Supp. 2018) provides that contributions by the District in any fiscal year beginning on or after September 1, 2018 shall be the greater of 101% of employee contributions (9.878% of member salaries), or the actuarial determined contribution rate to maintain the solvency of OSERS.

The actuarial determined contribution as required by Neb. Rev. Stat. §79-9,113 (1)(d) (Supp. 2018) resulted in an additional required contribution of \$19,825. Total additional contributions made by the District during the year ended August 31, 2020 amounted to \$21,357 to meet solvency requirements.

The State of Nebraska contributes 2% of the employee's compensation. Administrative costs of OSERS are financed through investment earnings.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

D. *Benefits Provided*

Each employee who has completed five or more years of creditable service is eligible to elect a deferred vested service annuity in lieu of a refund of accumulated contributions. OSERS provides for various benefits including normal retirement benefits, early retirement benefits, disability benefits, and pre-retirement and post-retirement survivor benefits. These benefits are paid monthly from OSERS. For members hired prior to July 1, 2013, the benefits under OSERS are based on an average of the highest three years of salary earned by employees during their employment with the District, up to their normal retirement dates. For members hired on or after July 1, 2013, the benefits under OSERS are based on an average of the highest five years of salary earned by employees during their employment with the District, up to their normal retirement dates.

Employees who terminate employment with fewer than five years of creditable service can elect to receive a refund or a rollover of the employee's contributions, plus accrued interest.

For members hired prior to July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment (COLA) of 1.5% or the increase in the consumer price index (CPI), whichever is lower. For members hired on or after July 1, 2013, retirement benefits are increased by an annual, automatic COLA of 1.0% or the increase in the CPI, whichever is lower.

Following ten full years of retirement, a medical cost of living supplement is paid. This supplement equals \$10 per month for each year retired and increases by \$10 each year to a maximum of \$250 per month. For retirees with less than twenty years of service, the benefit is reduced proportionately. For members hired on or after July 1, 2016, no state service annuity or medical COLA is provided.

Retirement eligibility rules for OSERS members are based on the member's date of hire in accordance with Neb. Rev. Stat. §79-978 (Supp. 2018) through 79-9,118 (Supp. 2016) known and cited as the Class V School Employees Retirement Act.

(3) **Cash and Investments**

A. *Legal and Contractual*

OSERS investments must be in the custody of the State of Nebraska 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

OSERS' investment policy, in regard to the allocation of invested assets, is established and may be amended by the Nebraska Investment Council. Ultimately, the investment objectives, asset allocation, investment strategy, and responsibilities for the assets of OSERS will be set forth in the Nebraska Investment Council's investment policy statement for defined-benefit plans. However, there will be a period of transition as the Nebraska Investment Council determines the appropriate asset allocation and investment strategy for the OSERS investment portfolio and moves toward that structure.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

The fundamental objective of the OSERS investment portfolio during the transition period is to be able to pay the promised retirement benefits of the OSERS employees covered by the plan. The asset allocation and implementation strategy for the investment of the assets is long-term. The objective for the rate of return from the investment of the assets is to maximize the investment return on the assets within acceptable levels of risk. The following table sets out the asset allocation policy adopted by the Nebraska Investment Council for the OSERS portfolio:

| Asset Class | Policy Target Allocation |
|-------------------|--------------------------|
| U.S. equities | 27.0% |
| Global equities | 19.0% |
| Non-U.S. equities | 13.5% |
| Real estate | 7.5% |
| Private equity | 5.0% |
| Fixed income | 30.0% |

B. Credit Risk

The Nebraska Investment Council has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A rating. 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. OSERS' rated debt investments as of August 31, 2020, 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.

| | Asset backed securities | Corporate bonds | Government securities | Mortgages | Municipal bonds | Other |
|-----|-------------------------|-----------------|-----------------------|-----------|-----------------|-------|
| AAA | \$ 2,980 | 1,608 | -- | 5,225 | 350 | -- |
| AA | 366 | 2,461 | 3,534 | 216 | 416 | -- |
| A | 335 | 21,899 | 1,296 | 301 | 56 | -- |
| BBB | 137 | 50,498 | 2,470 | 62 | 27 | -- |
| BB | 178 | 5,376 | 390 | -- | -- | -- |
| B | 120 | 2,008 | 294 | -- | -- | -- |
| CCC | 468 | 517 | -- | 33 | -- | -- |
| CC | 158 | -- | -- | -- | -- | -- |
| D | 33 | 3 | 13 | 27 | -- | -- |
| NR | 2,055 | 3,913 | 34,978 | 70,637 | -- | 1,622 |
| | \$ 6,830 | 88,283 | 42,975 | 76,501 | 849 | 1,622 |

C. Interest Rate Risk

The Nebraska Investment Council has contracts with investment managers that limit the portfolio's duration compared to that of the portfolio's benchmark. OSERS portfolio by contractual maturity is as follows:

| Maturity (Years) | Asset backed securities | Corporate bonds | Government securities | Mortgages | Municipal bonds | Other |
|------------------|-------------------------|-----------------|-----------------------|-----------|-----------------|-------|
| 0 to 4 | \$ 1,469 | 35,771 | 13,986 | 179 | 20 | 1,769 |
| 5 to 10 | 1,218 | 31,386 | 10,778 | 3,467 | 358 | (75) |
| Over 10 | 4,143 | 21,126 | 18,211 | 72,855 | 471 | (72) |
| | \$ 6,830 | 88,283 | 42,975 | 76,501 | 849 | 1,622 |

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

D. Foreign Currency Risk

The Nebraska Investment Council does not have a formal policy to limit foreign currency risk. The exposure to foreign currency is outlined below on a portfolio wide basis, including accrued interest.

| | ADR/GDR | Asset backed securities | Cash equivalents | Commingled funds | Corporate bonds |
|------------------------|----------------|--------------------------------|-------------------------|-------------------------|------------------------|
| Australian Dollar | \$ -- | -- | -- | -- | -- |
| Brazilian Real | 1 | -- | -- | -- | -- |
| Canadian Dollar | 133 | -- | -- | -- | -- |
| Danish Krone | 5 | -- | -- | -- | -- |
| Euro | 37 | -- | -- | -- | 6,011 |
| Hong Kong Dollar | -- | -- | -- | -- | -- |
| Japanese Yen | 194 | -- | -- | -- | -- |
| Mexican Peso | 4 | -- | -- | -- | -- |
| New Zealand Dollar | 1 | -- | -- | -- | -- |
| Pound Sterling | 122 | -- | -- | -- | 302 |
| South Korean Won | -- | -- | -- | -- | -- |
| Swedish Krona | -- | -- | -- | -- | -- |
| Swiss Franc | -- | -- | -- | -- | -- |
| Turkish Lira | 15 | -- | -- | -- | -- |
| Other | 21 | -- | -- | -- | -- |
| Total foreign currency | 533 | -- | -- | -- | 6,313 |
| US Dollar | 3,657 | 6,830 | 18,729 | 672,731 | 81,970 |
| Total | \$ 4,190 | 6,830 | 18,729 | 672,731 | 88,283 |

| | Equity securities | Government securities | Limited partnerships | Mortgages | Municipal bonds and other |
|------------------------|--------------------------|------------------------------|-----------------------------|------------------|----------------------------------|
| Australian Dollar | \$ 305 | -- | -- | -- | -- |
| Brazilian Real | 1,771 | -- | -- | -- | -- |
| Canadian Dollar | 1,360 | -- | 9,348 | -- | -- |
| Danish Krone | 373 | -- | -- | -- | -- |
| Euro | 17,188 | 434 | 5,990 | -- | -- |
| Hong Kong Dollar | 792 | -- | -- | -- | 10 |
| Japanese Yen | 9,330 | -- | -- | -- | (109) |
| Mexican Peso | 239 | -- | -- | -- | -- |
| New Zealand Dollar | 165 | -- | -- | -- | -- |
| Pound Sterling | 6,500 | -- | 13,258 | 2,597 | (32) |
| South Korean Won | 526 | -- | -- | -- | -- |
| Swedish Krona | 2,207 | -- | -- | -- | -- |
| Swiss Franc | 5,886 | -- | -- | -- | -- |
| Turkish Lira | 862 | -- | -- | -- | 47 |
| Other | 2,215 | 535 | -- | -- | -- |
| Total foreign currency | 49,719 | 969 | 28,596 | 2,597 | (84) |
| US Dollar | 98,560 | 42,006 | 268,786 | 73,904 | 2,555 |
| Total | \$ 148,279 | 42,975 | 297,382 | 76,501 | 2,471 |

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

E. Fair Value Measurement

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

OSERS has the following recurring fair value measurements as of August 31, 2020:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|---------------------|----------------|----------------|----------------|
| ADR/GDR | \$ 4,190 | 4,079 | 111 | -- |
| Asset backed securities | 6,830 | -- | 6,830 | -- |
| Cash equivalents | 18,729 | 18,729 | -- | -- |
| Commingled funds | 672,731 | 73,176 | 599,422 | 133 |
| Corporate bonds | 88,283 | -- | 88,283 | -- |
| Equity securities | 148,279 | 148,279 | -- | -- |
| Government securities | 42,975 | -- | 42,975 | -- |
| Mortgages | 76,501 | -- | 76,501 | -- |
| Municipal bonds and other | 2,471 | 1,873 | 598 | -- |
| Total investments measured at fair value | 1,060,989 | <u>246,136</u> | <u>814,720</u> | <u>133</u> |
| Investments measured at net asset value (NAV) | | | | |
| Limited partnerships | <u>297,382</u> | | | |
| Total investments | \$ <u>1,358,371</u> | | | |

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Securities classified in Level 3 are valued using unobservable inputs, such as reviews, recommendations and adjustments made by portfolio management, or the use of internal data to develop unobservable inputs if there is no objective information available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented in the statement of fiduciary 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. OSERS values these investments based on the partnerships' audited financial statements. If August 31 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than August 31. If August 31 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

The following table sets forth disclosures of OSERS' investments whose fair value is estimated using net asset value per share (or its equivalent) as of August 31, 2020:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|----------------------|-------------------|---------------------------------|---|-------------------------------------|
| Limited partnerships | \$ <u>297,382</u> | <u>44,818</u> | Daily | 3 - 6 months |

F. *Other Investment Receivables/Other Investment Payables*

Other investment receivables consisted of receivables for investments sold, receivables for foreign exchanges, dividends and interest receivable, tax reclaim receivables, unrealized appreciation/depreciation on such assets and other receivables as recorded by the custodial bank. Other investment payables consisted of payables for investments purchased, payables for foreign currency purchased, unrealized appreciation/depreciation on such payables and other payables as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, OSERS owns 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 August 31, 2020, but the security had not settled.

G. *Annual Money-Weighted Rate of Return*

The annual money-weighted rate of return on pension plan investments, net of investment expense, was 4.51% for the year ended August 31, 2020. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

H. *Risks and Uncertainties*

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

(4) **Net Pension Liability**

The components of the net pension liability of OSERS as of August 31, 2020 are as follows:

| | |
|--|-------------------|
| Total pension liability | \$ 2,314,553 |
| Fiduciary net position | <u>1,378,387</u> |
| Net pension liability | <u>\$ 936,166</u> |
| Ratio of fiduciary net position to total pension liability | 59.55% |

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of January 1, 2020, rolled forward to August 31, 2020, using standard actuarial formulae and the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Price inflation | 2.75% |
| Wage inflation | 3.25% |
| Salary increases, including price inflation | 3.75 – 6.25% |
| Long-term rate of return, net of investment expense, including price inflation | 7.50% |
| Municipal bond index rate: | |
| Prior measurement date | 3.16% |
| Measurement date | 2.11% |
| Year fiduciary net position is expected to be depleted | N/A |
| Single equivalent interest rate, net of investment expense, including price inflation: | |
| Prior measurement date | 7.50% |
| Measurement date | 7.50% |
| Cost-of-living adjustments | 1.50% if hired before July 1, 2013 |
| | 1.00% if hired on or after July 1, 2013 |
| | Medical COLA of \$10 per month for each year retired (max \$250/month), if hired before July 1, 2016 |
| Mortality | Pre-retirement mortality rates were based on the RP-2014 Mortality Table, female rates set back 1 year and male rates set forward 1 year, projected on a generational basis using Scale MP-2016. |
| | Post-retirement mortality rates were based on the same rates as the pre-retirement tables. |
| | Post-disability mortality rates were based on the RP-2014 Disabled Retiree Mortality Table, without generational improvement. |

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2016. The experience study report is dated April 5, 2017.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

Information relating to the discount rate used in the actuarial valuations is as follows:

Discount rate: The discount rate used to measure the total pension liability at August 31, 2020 was 7.50%. There was no change from the prior measurement date.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan contributions from plan members, the District, and the State of Nebraska will be made at the current contribution rates as set out in state statute:

- a) Employee contribution rate: 9.78% of compensation.
- b) District contribution rate: 101% of the employee contribution rate. In addition, if the statutory contribution rate is less than the actuarial determined contribution, the District will contribute the difference.
- c) State contribution rate: 2% of the members' compensation.
- d) Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in the current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.

Based on those assumptions, OSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on investments of 7.50% was applied to all periods of projected benefit payments to determine the total pension liability.

The fiduciary net position projections are based upon OSERS' financial status on the measurement date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 67. As such, the fiduciary net position projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of OSERS, or OSERS' ability to make benefit payments in future years.

Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of regular experience studies, prepared periodically. The most recent analysis was performed and results were included in a report dated April 5, 2017. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by OSERS' investment consultant. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 2.11% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current members were projected through 2119.

Omaha School Employees' Retirement System

Notes to Financial Statements August 31, 2020 (Thousands of Dollars)

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by OSERS' investment consultant for the last experience study, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return* |
|--------------------------------|-------------------|---|
| Large cap equity | 26.1% | 6.3% |
| Small cap equity | 2.9% | 6.8% |
| Global equity | 15.0% | 7.2% |
| International developed equity | 10.8% | 7.2% |
| Emerging markets | 2.7% | 7.5% |
| Core bonds | 20.0% | 2.9% |
| High yield investments | 3.5% | 5.4% |
| Bank loans | 5.0% | 4.4% |
| International bonds | 1.5% | 2.2% |
| Real estate | 7.5% | 5.7% |
| Private equity | 5.0% | 8.5% |
| Total | <u>100%</u> | |

*Arithmetic mean, net of investment expenses

Sensitivity analysis: The following presents the net pension liability of OSERS, calculated using the discount rate of 7.5%, as well as OSERS' net pension liability calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|-----------------------|-----------------------|------------------------------------|-----------------------|
| Net pension liability | \$ <u>1,228,580</u> | <u>936,166</u> | <u>693,216</u> |

(5) Litigation

OSERS is subject to lawsuits and claims for various amounts brought about in the normal course of business. In the opinion of the management, the ultimate disposition of any claims currently pending will not have a material adverse effect on the fiduciary net position or changes in fiduciary net position of OSERS.

OSERS is the sole limited partner of the Atlantic Global Yield Opportunity Fund, LP ("GYOF") and the Atlantic Global Yield Opportunity Master Fund, LP ("AGYOF"). GYOF and AGYOF are among the plaintiffs in an action, *The Water Works Board of the City of Birmingham, et al v. U.S. Bank National Association*, Case No. 17-4131, pending in the United States District Court for the District of South Dakota (the U.S. Bank Litigation). Subsequent to year end, the matter was settled and the action was dismissed in October 2020.

Required Supplementary Information
Schedule of Changes in the Net Pension Liability
Last 10 Fiscal Years (Thousands of Dollars)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| TOTAL PENSION LIABILITY: | | | | | | | |
| Service cost at end of year | \$ 43,490 | 42,354 | 37,704 | 37,821 | 39,451 | 38,242 | 36,090 |
| Interest on total pension liability | 163,027 | 159,150 | 152,896 | 144,648 | 138,933 | 133,768 | 128,868 |
| Difference between expected and actual experience | 2,015 | (17,656) | 19,474 | 26,757 | 7,104 | (501) | -- |
| Changes of assumptions | -- | -- | -- | 141,348 | -- | -- | -- |
| Other* | 1,808 | 1,991 | 1,832 | 2,088 | 1,946 | 2,919 | -- |
| Benefit payments, including member refunds | (136,485) | (131,896) | (125,272) | (118,997) | (113,106) | (106,735) | (100,810) |
| Net change in total pension liability | 73,855 | 53,943 | 86,634 | 233,665 | 74,328 | 67,693 | 64,148 |
| TOTAL PENSION LIABILITY - beginning of year | <u>2,240,698</u> | <u>2,186,755</u> | <u>2,100,121</u> | <u>1,866,456</u> | <u>1,792,128</u> | <u>1,724,435</u> | <u>1,660,287</u> |
| TOTAL PENSION LIABILITY - end of year | <u>\$ 2,314,553</u> | <u>2,240,698</u> | <u>2,186,755</u> | <u>2,100,121</u> | <u>1,866,456</u> | <u>1,792,128</u> | <u>1,724,435</u> |
| PLAN FIDUCIARY NET POSITION: | | | | | | | |
| Contributions - employer | \$ 57,033 | 57,267 | 55,564 | 47,981 | 33,903 | 33,109 | 31,913 |
| Contributions - state | 8,929 | 9,152 | 7,111 | 6,897 | 6,661 | 6,453 | 7,888 |
| Contributions - member | 35,295 | 35,614 | 36,327 | 34,883 | 33,764 | 32,584 | 31,597 |
| Net investment income | 118,829 | 32,447 | 85,795 | 73,217 | 15,375 | (51,214) | 154,207 |
| Benefit payments, including member refunds | (136,485) | (131,896) | (125,272) | (118,997) | (113,106) | (106,735) | (100,810) |
| Administrative expense | (890) | (1,087) | (867) | (1,384) | (1,290) | (814) | (1,123) |
| Other* | 214 | 280 | 1,844 | 2,090 | 2,082 | 3,002 | 703 |
| Net change in plan fiduciary net position | 82,925 | 1,777 | 60,502 | 44,687 | (22,611) | (83,615) | 124,375 |
| PLAN FIDUCIARY NET POSITION - beginning of year | <u>1,295,462</u> | <u>1,293,685</u> | <u>1,233,183</u> | <u>1,188,496</u> | <u>1,211,107</u> | <u>1,294,722</u> | <u>1,170,347</u> |
| PLAN FIDUCIARY NET POSITION - end of year | <u>\$ 1,378,387</u> | <u>1,295,462</u> | <u>1,293,685</u> | <u>1,233,183</u> | <u>1,188,496</u> | <u>1,211,107</u> | <u>1,294,722</u> |
| NET PENSION LIABILITY | <u>\$ 936,166</u> | <u>945,236</u> | <u>893,070</u> | <u>866,938</u> | <u>677,960</u> | <u>581,021</u> | <u>429,713</u> |
| Ratio of plan fiduciary net position to total pension liability | 59.55% | 57.82% | 59.16% | 58.72% | 63.68% | 67.58% | 75.08% |
| Covered payroll | \$ 360,891 | 364,154 | 371,440 | 356,676 | 345,231 | 333,166 | 323,078 |
| Net pension liability as a percentage of covered payroll | 259.40% | 259.57% | 240.43% | 243.06% | 196.38% | 174.39% | 133.01% |

See accompanying independent auditor's report

* Effective 2015, other amounts include transfer of assets for state service annuity liabilities transferred to OSERS and purchases of service. For 2020, these amounts were \$1,628 and \$180, respectively.

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

Required Supplementary Information
Schedule of Changes in the Net Pension Liability (continued)
Last 10 Fiscal Years (Thousands of Dollars)

Notes to the Schedule:

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 (January 1 starting in 2017) listed below:

2018: The 2017 session of the Nebraska Legislature enacted Legislative Bill 415 (LB 415), which changed the retirement provisions for members hired on or after July 1, 2018 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2018 is set at age 60 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced at age 60 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

The 2018 session of the Nebraska Legislature enacted Legislative Bill 1005 (LB 1005), which states that the School District must contribute an amount equal to or greater than the actuarially required contribution rate provided in the most recent valuation report.

2017: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

Changes in actuarial assumptions:

1/1/2019 valuation:

- The amortization of the UAAL was changed to reset the legacy UAAL over a 30-year period beginning on January 1, 2019. New pieces of UAAL are also amortized over a 30-year period beginning on the valuation date.

1/1/2017 valuation:

- The investment return assumption was lowered from 8% to 7.5%.
- The inflation assumption was lowered from 3% to 2.75%.
- The assumed interest rate credited on employee contributions was lowered from 3% to 2.75%.
- The general wage increase assumption was lowered from 4% to 3.25%.
- The mortality assumption was changed to the RP-2014 Mortality Table, with a one-year age set forward for males and a one-year age setback from females. Generational mortality improvements are modeled using the MP-2016 scale.
- Retirement rates were modified for both certificated and classified employees.
- The probability of electing a refund at termination was modified for classified employees.
- Termination rates for certificated employees were changed to be the same regardless of gender, and are purely service-based for both certificated and classified employees.
- The salary increase assumption was changed to a service-based assumption for both certificated and classified employees.
- The amortization of the UAAL was changed to a "layered" approach with new pieces of UAAL amortized over a 25-year period beginning on the valuation date. The legacy UAAL continues to be amortized on its current schedule.
- The valuation date changed from September 1 to January 1.

Omaha School Employees' Retirement System

Exhibit 2

**Required Supplementary Information
Schedule of Employer Contributions
Last 10 Fiscal Years (Thousands of Dollars)**

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 62,803 | 61,631 | 62,637 | 57,674 | 37,906 | 34,614 | 34,225 | 35,032 | 32,958 | 34,181 |
| Employer statutory | 35,676 | 35,967 | 36,664 | 35,231 | 33,903 | 33,109 | 31,913 | 29,581 | 28,861 | 26,336 |
| Employer additional | 21,357 | 21,300 | 18,900 | 12,750 | -- | -- | -- | -- | 4,330 | -- |
| Non-employer (state)* | 7,302 | 7,420 | 7,111 | 6,897 | 6,661 | 6,453 | 6,285 | 4,042 | 3,918 | 3,919 |
| Total actual contributions | <u>64,335</u> | <u>64,687</u> | <u>62,675</u> | <u>54,878</u> | <u>40,564</u> | <u>39,562</u> | <u>38,198</u> | <u>33,623</u> | <u>37,109</u> | <u>30,255</u> |
| Annual contribution deficiency (excess) | \$ <u>(1,532)</u> | <u>(3,056)</u> | <u>(38)</u> | <u>2,796</u> | <u>(2,658)</u> | <u>(4,948)</u> | <u>(3,973)</u> | <u>1,409</u> | <u>(4,151)</u> | <u>3,926</u> |
| Covered payroll | \$ <u>360,891</u> | <u>364,154</u> | <u>371,440</u> | <u>356,676</u> | <u>345,231</u> | <u>333,166</u> | <u>323,078</u> | <u>313,946</u> | <u>307,258</u> | <u>310,229</u> |
| Actual contributions as a percentage of covered payroll | <u>17.83%</u> | <u>17.76%</u> | <u>16.87%</u> | <u>15.39%</u> | <u>11.75%</u> | <u>11.87%</u> | <u>11.82%</u> | <u>10.71%</u> | <u>12.08%</u> | <u>9.75%</u> |

See accompanying independent auditor's report

Note: This schedule relates to both the employer (District) and non-employer contributing entities (State of Nebraska).

* Excludes transfer of monies from the Nebraska Public Employees Retirement System to fund the liabilities transferred to the system for the service annuity for retirees in the last fiscal year.

**Required Supplementary Information
Schedule of Employer Contributions (continued)
Last 10 Fiscal Years (Thousands of Dollars)**

Notes to the Schedule:

OSERS is funded by statutory contribution rates for members, the District and the State of Nebraska. If the statutory contribution rate is less than the actuarially determined contribution, the District will contribute the difference. The actuarially determined contributions in the schedule of employer contributions are calculated as of the valuation date that falls within the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the actuarially determined contribution reported for the most recent measurement date, August 31, 2020 (based on the January 1, 2020 actuarial valuation).

| | |
|--|---|
| Actuarial cost method | Entry age normal |
| Amortization method..... | Level percentage of payroll, closed |
| Remaining amortization period..... | Layered bases with the Legacy base amortized over a closed 30-year period beginning January 1, 2019. All subsequent based are amortized over a closed 30-year period beginning on the valuation date. |
| Asset valuation method | Market related smoothed value |
| Price inflation | 2.75% |
| Salary increases, including price inflation | 3.75 – 6.25% |
| Long-term rate of return, net of investment expense, including price inflation | 7.50% |
| Cost-of-living adjustments | 1.50% if hired before July 1, 2013 1.00% if hired on or after July 1, 2013 |
| | Medical COLA of \$10 per month for each year retired (max \$250/month) if hired before July 1, 2016 |

Changes of benefit terms: The following changes to the Plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 (January 1 starting in 2017) listed below:

2018: The 2017 session of the Nebraska Legislature enacted Legislative Bill 415 (LB 415), which changed the retirement provisions for members hired on or after July 1, 2018 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2018 is set at age 60 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced at age 60 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

The 2018 session of the Nebraska Legislature enacted Legislative Bill 1005 (LB 1005), which states that the School District must contribute an amount equal to or greater than the actuarially required contribution rate provided in the most recent valuation report.

2017: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016 to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016 is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at age 55 with

Required Supplementary Information
Schedule of Employer Contributions (continued)
Last 10 Fiscal Years (Thousands of Dollars)

85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

- 2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.3% of pay to 9.78% of pay. The District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus \$973,301) to 2% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.
- 2011: The member contribution rate was increased by the 2011 Legislature from 8.3% to 9.3%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.

Changes in actuarial assumptions:

1/1/2019 valuation:

- The amortization of the UAAL was changed to reset the legacy UAAL over a 30-year period beginning on January 1, 2019. New pieces of UAAL are also amortized over a 30-year period beginning on the valuation date.

1/1/2017 valuation:

- The investment return assumption was lowered from 8% to 7.5%.
- The inflation assumption was lowered from 3% to 2.75%.
- The assumed interest rate credited on employee contributions was lowered from 3% to 2.75%.
- The general wage increase assumption was lowered from 4% to 3.25%.
- The mortality assumption was changed to the RP-2014 Mortality Table, with a one-year age set forward for males and a one-year age setback from females. Generational mortality improvements are modeled using the MP-2016 scale.
- Retirement rates were modified for both certificated and classified employees.
- The probability of electing a refund at termination was modified for classified employees.
- Termination rates for certificated employees were changed to be the same regardless of gender, and are purely service-based for both certificated and classified employees.
- The salary increase assumption was changed to a service-based assumption for both certificated and classified employees.
- The amortization of the UAAL was changed to a "layered" approach with new pieces of UAAL amortized over a 25-year period beginning on the valuation date. The legacy UAAL continues to be amortized on its current schedule.
- The valuation date changed from September 1 to January 1.

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested certificated members' assumption to elect a refund of contributions was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

Required Supplementary Information
Schedule of Money-Weighted Rate of Return
Last 10 Fiscal Years

| | <u>Money-Weighted Rate of Return</u> |
|------|--|
| 2020 | 4.51% |
| 2019 | (1.75%) |
| 2018 | 8.95% |
| 2017 | 4.16% |
| 2016 | 0.89% |
| 2015 | (4.01%) |
| 2014 | 13.31% |

See accompanying independent auditor's report

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

**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***

Independent Auditor's Report

To the Board of Trustees
Omaha School Employees' Retirement System:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Omaha School Employees' Retirement System (OSERS) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and reposes as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSERS' 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 financial statements. 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*.

OSERS' Response to Finding

OSERS' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. OSERS' response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Seim Johnson, LLP

Omaha, Nebraska,
November 30, 2020.

Omaha School Employees' Retirement System

Schedule of Findings and Responses For the Year Ended August 31, 2020

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- | | | |
|---|--------------------|---------------------|
| • Material weakness(es) identified? | _____ Yes | _____ <u>x</u> No |
| • Significant deficiency(ies) identified? | _____ <u>x</u> Yes | _____ None Reported |

| | | |
|---|-----------|-------------------|
| Noncompliance material to financial statements noted? | _____ Yes | _____ <u>x</u> No |
|---|-----------|-------------------|

II. FINANCIAL STATEMENT FINDINGS

2020-001 SIGNIFICANT DEFICIENCY

Criteria: The design and operation of OSERS' internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in OSERS' financial statements on a timely basis.

Condition: The preparation of financial statements requires tremendous detail. The financial statements prepared by management for audit required several adjusting entries, including some identified by management, in order to fairly state OSERS' financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Context: Douglas County School District #0001 (the District) prepares OSERS' interim financial statements throughout the fiscal year on the cash basis of accounting and performs a conversion of the statements to the modified accrual and full accrual basis, as applicable, for financial reporting purposes at the end of its fiscal year. This is a significant undertaking, and a very complex process. After management provided its initial financial statements, several audit adjustments, and several additional entries provided by management, were required to fairly state OSERS' financial statements in accordance with GAAP.

Cause: Due to turnover in the accounting department, some unforeseen issues with the accounting system, as well as time constraints related to the period between the end of OSERS' fiscal year and the reporting deadline imposed by the Nebraska Department of Education, management was unable to complete a thorough review of its financial statements for accuracy and completeness.

Effect: Several audit adjustments and reclassifications were required to correct misstatements related to the balances of cash, investments, investment income, and state contributions in order to accurately present the basic financial statements and notes to the financial statements in accordance with GAAP.

Recommendation: We recommend management review its closing schedule and financial statement preparation and reporting processes in an effort to identify efficiencies that may allow management to prevent, and detect and correct, misstatements in order to produce complete and accurate financial statements.

Views of Responsible
Officials and Planned

Corrective Action: Management is aware of this deficiency in internal control over financial reporting. See the attached Corrective Action Plan for management's planned corrective action.



Omaha School Employees' Retirement System

Corrective Action Plan For the Year Ended August 31, 2020

Finding No. 2020-001

Criteria: The design and operation of OSERS' internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in OSERS' financial statements on a timely basis.

Condition: Misstatements were identified in the financial statements during the audit related to cash, investment, and revenue accounts that were not initially identified by OSERS' internal controls over financial reporting.

Planned Corrective Action: Management of the District will review and revise where necessary the processes for preparing financial statements. This review will focus on areas that inhibit the timely and accurate preparation of OSERS' financial statements and will include:

- Increased use of analytics to review activity in key accounts on at least a quarterly basis. The District hired a new Financial Planning and Analysis Manager in June as part of the implementation of its new strategic plan and this individual will greatly improve existing processes.
- Documented reviews of quarterly reconciliations of key accounts by the new Accounting Manager that joined the District in August 2020.

There were also several issues that caused adjustments to the normal course of preparing OSERS' financial statements:

- There were a significant number of vacancies leading up to the financial statement preparation process that required existing staff to assume new and unfamiliar duties while still completing their own regular responsibilities.
 - Two Lead Accountants retired on July 31, 2020 and new staff did not assume these roles until September 1, 2020.
 - There were six other open staff positions in July and August. Four of these positions have been filled and the remaining two are in the recruitment process and expect to be filled by January 1, 2021.
- There were two significant issues related to our ability to process transactions in the accounting system during late September. It took the accounting and IMS teams two-weeks to resolve these issues, which delayed the financial statement preparation process.

Management of the District expects this finding to be resolved by August 31, 2021.

Respectfully submitted by:

Cecelia Carter
Executive Director
Omaha School Employees' Retirement System

Shane Rhian
Controller
Douglas County School District #0001