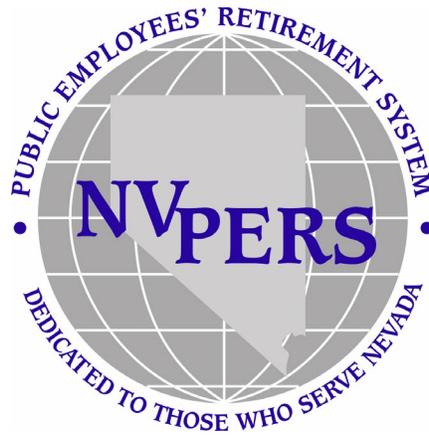


# JUDICIAL RETIREMENT SYSTEM OF NEVADA

A COMPONENT UNIT of  
the STATE of NEVADA

## ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended  
June 30, 2022

## Table of Contents

	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	<b>2</b>
<b>Management’s Discussion and Analysis</b> .....	<b>4</b>
 <b>Basic Financial Statements:</b>	
Statement of Fiduciary Net Position .....	8
Statement of Changes in Fiduciary Net Position .....	9
Notes to Financial Statements .....	10
 <b>Required Supplementary Information:</b>	
Schedule of Investment Returns .....	23

## Independent Auditor's Report

To the Public Employees' Retirement Board  
Judicial Retirement System of Nevada

### **Opinion**

We have audited the financial statements of the Judicial Retirement System of Nevada (the "System"), a component unit of the State of Nevada, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Judicial Retirement System of Nevada as of June 30, 2022 and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Public Employees'  
Retirement Board Judicial  
Retirement System of Nevada

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 supplemental 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.

**Report on Summarized Comparative Information**

Other auditors have previously audited Judicial Retirement System of Nevada's 2021 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated December 1, 2021.



December 1, 2022

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

This Management’s Discussion and Analysis (MD&A) of the financial performance of the Judicial Retirement System of Nevada (System) provides an overview of the System’s financial activities for the year ended June 30, 2022. The MD&A is designed to focus on comparative analysis of the last two years, current year’s activities, resulting changes, and currently known facts. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow the MD&A.

The System was initially responsible for administering retirement benefits for the State of Nevada Supreme Court justices and district judges. Beginning in 2005, the System also began administering retirement benefits for justices of the peace and municipal court judges of those local governments who choose to participate in the System.

**Financial Highlights**

**As of and for the Years Ended June 30,**

	<b>2022</b>	<b>2021</b>
Total investments	\$ 162,998,632	\$ 177,594,003
Net investment income (loss)	(17,248,775)	38,929,545
Employer contributions	5,250,304	5,413,392
Transfers from PERS	1,689,041	4,424,263
Benefit and disability payments	\$ 7,705,042	\$ 7,037,611
Administrative expenses	117,144	114,067
# of municipalities participating including the State of Nevada	12	12
Plan fiduciary net position	165,604,225	183,381,481

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Overview of Financial Statements**

The financial statements consist of: the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, the Notes to the Financial Statements, and the Required Supplementary Information.

The Statement of Fiduciary Net Position includes all of the System's pension trust fund assets, liabilities, and the net position available at the end of the fiscal year. The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the pension trust fund during the fiscal year presented. Over time, the increase or decrease in net position restricted for pension benefits serves as a useful indicator of the health of the System's financial position. The Notes to the Financial Statements provide additional information required by generally accepted accounting principles. The Required Supplementary Information following the Notes to the Financial Statements consists of a schedule pertaining to the money-weighted rate of return on investments.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**Financial Analysis**

The following are summary comparative statements of the System.

**CONDENSED STATEMENT OF FIDUCIARY NET POSITION**

	<u>As of</u> <u>June 30, 2022</u>	<u>As of</u> <u>June 30, 2021</u>	<u>Increase/ (Decrease)</u> <u>from 2021</u> <u>to 2022</u>	<u>Percentage</u> <u>Increase/ (Decrease)</u> <u>from 2021</u> <u>to 2022</u>
Cash and cash equivalents	\$ 492,746	\$ 1,066,412	\$ (573,666)	(53.8) %
Receivables	2,130,758	4,939,416	(2,808,658)	(56.9)
Pending trades receivable	2,832,727	2,850,979	(18,252)	(0.6)
Investments, at fair value	<u>162,998,632</u>	<u>177,594,003</u>	<u>(14,595,371)</u>	(8.2)
Total assets	<u>168,454,863</u>	<u>186,450,810</u>	<u>(17,995,947)</u>	(9.7)
Accounts payable and accrued expenses	39,037	49,446	(10,409)	(21.1)
Pending trades payable	<u>2,811,601</u>	<u>3,019,883</u>	<u>(208,282)</u>	(6.9)
Total liabilities	<u>2,850,638</u>	<u>3,069,329</u>	<u>(218,691)</u>	(7.1)
Net position restricted for pension benefits	<u>\$ 165,604,225</u>	<u>\$ 183,381,481</u>	<u>\$ (17,777,256)</u>	(9.7) %

Cash and cash equivalents decreased by 53.8% between 2021 and 2022. Cash and cash equivalents fluctuate from year to year and are unpredictable.

Receivables and contributions decreased by 56.9% and 28.9%, respectively, between 2021 and 2022, primarily due to a decrease of transfers from the Public Employees’ Retirement System, in the amount of \$2.8 million. See Transfers from PERS on page 11.

Investments at fair value decreased \$14.6 million from 2021 to 2022 primarily due to the negative 9.5% (time-weighted, gross of fees) total return generated by the System’s investments in 2022. The investment performance was primarily driven by negative returns from U.S. and international stocks and U.S. bonds.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**CONDENSED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Years Ended June 30,

	<u>2022</u>	<u>2021</u>	<b>Increase/ (Decrease) from 2021 to 2022</b>	<b>Percentage Increase/ (Decrease) from 2021 to 2022</b>
Contributions	\$ 7,293,088	\$ 10,260,397	\$ (2,967,309)	(28.9) %
Net investment income (loss)	(17,248,775)	38,929,545	(56,178,320)	(144.3)
Other income	617	1,540	(923)	(59.9)
Total additions	<u>(9,955,070)</u>	<u>49,191,482</u>	<u>(59,146,552)</u>	(120.2)
Benefit payments	7,705,042	7,037,611	667,431	9.5
Administrative expense	<u>117,144</u>	<u>114,067</u>	<u>3,077</u>	2.7
Total deductions	<u>7,822,186</u>	<u>7,151,678</u>	<u>670,508</u>	9.4
Change in net position	(17,777,256)	42,039,804	(59,817,060)	(142.3)
Net position, beginning of year	<u>183,381,481</u>	<u>141,341,677</u>	<u>42,039,804</u>	29.7
Net position, end of year	<u>\$ 165,604,225</u>	<u>\$ 183,381,481</u>	<u>\$ (17,777,256)</u>	(9.7) %

The 2022 net investment income was lower than 2021 by \$56,178,320 because the 2022 time-weighted investment return (gross of fees) was a negative 9.5% as compared to a positive 27.6% in 2021. Since inception (2001) the System has generated an annualized time-weighted return (gross of fees) of 6.7%.

**Contacting the System’s Financial Management**

This financial report is designed to provide plan participants, employers, citizens, taxpayers, and others with a general overview of the System’s finances and to demonstrate the Board’s oversight of the System. If you have questions about this report or need additional financial information, please contact the System at 775-687-4200.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2022

	<u>2022</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>492,746</u>
Receivables:	
Contributions receivable	341,842
Pending trades receivable	2,832,727
Accrued investment income	205,720
Receivable other	<u>1,583,196</u>
Total receivables	<u>4,963,485</u>
Investments, at fair value:	
U.S. bonds	49,727,415
U.S. stocks	110,709,565
International stocks	<u>2,561,652</u>
Total investments	<u>162,998,632</u>
Total plan assets	<u>168,454,863</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	39,037
Pending trades payable	<u>2,811,601</u>
Total plan liabilities	<u>2,850,638</u>
<b>NET POSITION</b>	
Net position restricted for pension benefits	<u><u>165,604,225</u></u>

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

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the year ended June 30, 2022

(With Comparative Totals for the Year Ended June 30, 2021)

	2022	2021
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 5,250,304	\$ 5,413,392
Plan members	342,468	236,019
Transfers from PERS	1,689,041	4,424,263
Purchase of service	11,275	186,723
Total contributions	7,293,088	10,260,397
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(18,985,125)	37,148,296
Interest	398,747	480,974
Dividends	1,367,698	1,326,699
	(17,218,680)	38,955,969
Less investment fees and other expenses	(30,095)	(26,424)
Net investment income (loss)	(17,248,775)	38,929,545
Other income	617	1,540
Total additions	(9,955,070)	49,191,482
<b>DEDUCTIONS</b>		
Benefit payments	7,667,732	7,028,398
Disability payments	37,310	9,213
Administrative expenses	117,144	114,067
Total deductions	7,822,186	7,151,678
<b>Change in net position</b>	(17,777,256)	42,039,804
<b>Net position restricted for pension benefits:</b>		
Beginning of year	183,381,481	141,341,677
End of year	\$ 165,604,225	\$ 183,381,481

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

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies**

Financial Reporting Entity

The Public Employees’ Retirement Board (Retirement Board or Board) is the governing body of the Judicial Retirement System of Nevada (System) with responsibility for administration and management. This autonomous, seven-member Retirement Board is appointed by the Governor of the State of Nevada.

The System has no relationship with another entity that meets the criteria for inclusion as a component unit and has not included any other entity as a component unit of its financial reporting entity.

The System is classified as a component unit of the State of Nevada for financial reporting purposes in accordance with the provisions of the Governmental Accounting Standards Board (GASB) because the Governor appoints the Retirement Board, and the State Legislature retains certain significant governing powers over the System.

Basis of Accounting

The accompanying financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America. The System has adopted the pronouncements of GASB, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned and become measurable. Per Nevada Revised Statute (NRS), contributions are recognized in the reporting period for which they are legally due. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is legally made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Actuarially determined liabilities for retirement benefits are not recorded in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from these estimates.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

Cash and Cash Equivalents

Cash and cash equivalents include both operating cash on deposit with our commercial bank and cash on deposit with our custodial bank. Cash on deposit at our custodial bank includes investments in Invesco Treasury Portfolio Short-Term Investments Trust (STIT). STIT instruments are direct obligations of the U.S. Treasury and repurchase agreements backed by Treasury obligations. The Board of Invesco, in its discretion, may impose liquidity fees of up to 2% of the value of shares redeemed and or suspend redemptions.

Investments

Plan investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. U.S. treasuries are valued based on market observable data.

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Investment income is recognized as earned. Net appreciation or depreciation of plan investments is determined by calculating the change in fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

Transfers from PERS

In fiscal year 2006, justices of the peace and municipal court judges began participating in JRS on a voluntary, employer-by-employer basis. Each participating individual who has service credit in PERS may transfer, subject to statutory time frames and requirements, to JRS. At the time of transfer all of the individual's contributions and the related liability to the System for that individual are moved from PERS to JRS. PERS transferred contributions of \$1,689,041 to JRS in the year ended June 30, 2022.

Benefit Payments

Benefits are paid during the month they are due; therefore, no benefit payable is recorded each month or at year-end.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

Federal Income Tax

The System is a qualified pension plan under Section 401(a) of the Internal Revenue Code (IRC) and, as such, is required to withhold federal income tax from member and benefit recipient payments in accordance with the IRC. As a public entity, the System is not required to file a federal income tax return with the Internal Revenue Service.

Administrative Expenses

Administrative expenses of the System are the responsibility of the participating employers as a component of their contribution rate.

Comparative Totals

The Statement of Changes in Fiduciary Net Position includes a partial presentation of prior year comparative financial information but not at the level of detail required for a presentation in conformity with the accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements as of and for the year ended June 30, 2021, from which the partial prior year comparative information was derived.

**NOTE 2 – Plan Description**

Organization

The System administers an agent multiple-employer public employees' defined benefit retirement system established in July 2001 by the Nevada Legislature to provide a reasonable base income to justices of the Supreme Court and district judges at retirement. In 2005, the Nevada Legislature amended the retirement statutes to allow municipal court judges and justices of the peace to participate in the System, upon the election of the local government employing the municipal court judges and justices of the peace. As of June 30, 2022, eleven local governments in Nevada had elected to participate in the System along with the State of Nevada. The System was established and functions in accordance with laws enacted by the Nevada Legislature. It is administered by the Board. As described in Note 1, the System is considered a component unit of the State of Nevada financial reporting entity and is included in the State's financial statements as a pension trust fund.

The System provides benefits in the event of retirement, disability, or death of justices of the Supreme Court, district judges, municipal court judges, and justices of the peace. The System is funded on an actuarial reserve basis. It began with initial funding from the State of Nevada on July 20, 2001, and became effective on January 1, 2003.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

At inception of the System, active judges could choose to participate in either the Public Employees' Retirement System of Nevada (PERS), if they had other PERS service, or the Judicial Retirement System. New judges also have the option to join PERS, if they have other PERS service, or the System. Those members that choose to remain in PERS will comply with the requirements established for PERS.

Membership

At June 30, 2022, the System's membership consisted of:

Active members	111
Inactive vested members	6
Retired members	72
Beneficiaries	<u>21</u>
Total	<u>210</u>

Benefits

Benefits are paid according to various options contained in pertinent statutes, dependent upon whether a member was serving as a Supreme Court justice or district judge before November 5, 2002. Retiring members who were serving as a judge before November 5, 2002, may select among the two benefit options below. Retiring members who began serving as a justice or judge on or after November 5, 2002, are only eligible for the first option below.

2003 Benefit Plan: Benefits, as required by statute, are computed at 3.4091% per year of accredited service at the time of retirement times the member's highest average compensation in any 36 consecutive months, to a maximum of 75%. Benefit payments to which participants may be entitled under the plan include pension benefits, disability benefits, and survivor benefits.

Previous Benefit Plan: Retiring members who were serving as a Supreme Court justice or district judge prior to November 5, 2002, may select benefit payments computed at 4.1666% total for the combined first five years of service and 4.1666% for each year of service beyond five years, up to a total maximum of 22 years, times the member's compensation for their last year of service, for a maximum of 75%.

Members who retired under the Previous Benefit Plan (plan in effect before November 5, 2002) and are appointed as senior judges can earn service credit while receiving their pension payments. They are eligible to have their benefit recalculated each time they earn an additional year of service credit.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

Members enrolled in the Judicial Retirement System on or after July 1, 2015 will receive 3.1591% for each year of service. Each member is entitled to a benefit of not more than 75% and must contribute 50% of the contribution rate through payroll deduction.

Vesting

Members of the System become fully vested after five years of service. A member of the System is eligible for retirement at age 65 with five years of service, at age 60 with 10 years of service, or at any age with 30 years of service. For those members who were serving as a Supreme Court justice or district judge prior to November 5, 2002, and selected the second benefit option, eligibility for retirement is at age 60 with five years of service.

Members enrolled on or after July 1, 2015, become fully vested after five years of service. Eligible retirement age is 65 with five years of service, at age 62 with 10 years of service, age 55 with 30 years of service, and at any age with 33 1/3 years of service.

Contributions

Members of the Judicial Retirement System who have an effective date of membership on or after July 1, 2015 will pay 50% of the total contribution rate through payroll deduction with the right to refund personal contributions if employment is terminated. Fiscal year 2017 was the first year that plan members began making contributions under this new law.

The participating employers submit the percentage of compensation determined by the actuary to pay the normal costs and administrative expenses of the System.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

The rates in effect for year ended June 30, 2022, were as follows:

<u>Agency No.</u>	<u>Employer</u>	<u>Employer Contribution Rate</u>	<u>Plan Member/Employer* Contribution Rate</u>
810	State of Nevada	22.00 %	11.00 %
811	City of Reno	25.25	12.63
812	City of Carson	16.00	
813	City of Las Vegas	17.75	
814	Douglas County	24.25	
815	Eureka County	25.00	
816	City of Sparks	22.50	
817	Lincoln County	46.25	
818	Lyon County	20.75	10.38
819	Lander County	27.75	13.88
820	City of Fernley	30.25	
821	City of Henderson	14.25	

\*The State of Nevada, the City of Reno, Lyon County and Lander County are the only employers that had plan members making matching contributions in fiscal year 2022.

Annually, the State pays to the System a portion of the unfunded liability which is actuarially determined to be sufficient to enable the System to pay all liabilities for current benefits for State Supreme Court justices and district court judges. Participating local government employers of municipal court judges and justices of the peace pay on any unfunded liability which is actuarially determined to be sufficient to enable the System to pay all liabilities for current benefits for their members and retirees as a portion of the contribution rate.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

Termination

Upon termination or partial termination of the System, all accrued benefits that are funded become 100% vested and non-forfeitable.

**NOTE 3 – Contributions Required and Contributions Made**

The System's basic funding policy provides for contributions by the participating employers based on an actuarial valuation prepared per Nevada Revised Statute (NRS) 1A.312(1). The amount of annual contribution required to fund the System is comprised of a normal cost payment and a payment on the Unfunded Actuarial Accrued Liability (UAAL). Effective January 1, 2009, UAAL is amortized over a year-by-year closed amortization period as a level percent of pay (3% payroll growth assumed) where each amortization period will be set at 30 years for state judges (Supreme Court justices and district judges) and 20 years for each non-state agency. Any increases or decreases in UAAL that arise in future years will be amortized over separate 30-year periods for state judges and 20-year periods for non-state judges.

The payment to amortize the UAAL is paid annually for state judges and monthly for non-state participants.

In addition, effective with the January 1, 2009, valuation, assets are valued using five-year smoothing. The Actuarial Value of Assets (AVA) is further limited to not less than 70% or greater than 130% of market value.

The most recent actuarial valuation, dated June 30, 2022, is based on census data as of and for the one-year period ended May 31, 2022, except for member status, which is as of June 30, 2022. The actuarial funding method used is the Entry Age Normal Actuarial Cost Method.

Although the System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the required rates established by the Nevada Legislature. The statutory rates are set and adjusted pursuant to NRS 1A.312(5).

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

---

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – Deposit and Investment Disclosures**

The investments of the System are governed primarily by the “prudent person” standard. The prudent person standard, as set forth by NRS 286.682, authorizes the Retirement Board to invest the System’s funds in “every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account.”

Investment Policy

The System’s policies\* which determine the investment portfolio target asset allocation are established by the Board. The asset allocation is reviewed annually and is designed to meet the future risk and return needs of the System. The following was the Retirement Board’s adopted policy target asset allocation as of June 30, 2022:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. stocks	50.5%
International stocks	21.5
U.S. bonds	28.0
Total	<u>100.0%</u>

\*The System’s current Investment Objectives and Policies may be found on the PERS website [www.nvpers.org](http://www.nvpers.org).

Rate of Return

For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments was a negative 9.45% (net of fees). The money-weighted rate of return expresses investment performance adjusted for changing amounts actually invested.

The majority of the System’s investments are held by the Depository Trust Company (DTC) in DTC’s nominee name, and trading is conducted through the DTC’s book-entry system. The holder of record for the System is The Bank of New York Mellon.

Custodial Credit Risk - Deposits

*Custodial credit risk for deposits* is the risk that, in the event of the failure of its depository financial institution, the System will not be able to recover its deposits.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

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**NOTES TO FINANCIAL STATEMENTS**

At June 30, 2022, the carrying amount of the System's commercial cash deposits was \$33,598 and the commercial bank balance was \$49,120. The bank balance was fully insured by the Federal Deposit Insurance Corporation (FDIC). Amounts reported as cash and cash equivalents on the accompanying statement of fiduciary net position also include \$459,147 (amortized cost) investment in Invesco Treasury Portfolio Short-Term Investments Trust. The commercial bank balance is, according to a depository pledge agreement between the System and the System's commercial bank, collateralized at 102% of the collected funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by the FDIC). The collateral securities are held by the System's agent in the System's name.

The custodial cash balance at June 30, 2022 was \$0. Custodial cash is swept nightly from the custodial bank to an overnight short-term investment fund held outside the bank. Funds arriving at the bank after the overnight sweep deadline are part of the custodial bank cash reserve and are covered up to the FDIC limit, any amount in excess of this limit is subject to custodial credit risk.

The custodial bank also carries insurance covering destruction of cash or securities on or off premises with a limit of \$875,000,000 per occurrence.

Credit Risk - Investments

*Credit risk for investments* is the risk that an issuer or other counterparty will not fulfill its obligations to the System and *custodial credit risk for investments* is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Investment policies require investments in the following securities to provide protection from undue credit risk by requiring the following:

- Investments in direct obligations of the U.S. Treasury, including bills, notes, and bonds and repurchase agreements secured by those obligations.
- U.S. Treasury money market mutual funds must be SEC registered 2a-7 and AAA rated by at least two of Moody's, S&P, or Fitch and whose investment guidelines are substantially equivalent to and consistent with the System's overall short-term investment criteria.
- Short selling and the use of leverage are not permitted.

There is no credit risk assigned to U.S. Treasury securities as these are explicitly guaranteed by the U.S. Government. It is important to note, however, that the value of U.S. Treasury

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

**NOTES TO FINANCIAL STATEMENTS**

obligations fluctuate based on non-credit-related factors, such as interest-rate movements, which could cause future price declines despite government backing.

Cash equivalents consist of \$459,147 investment in Invesco Treasury Portfolio Short-Term Investments Trust and are not rated. The System additionally holds \$49,727,415 in U.S. Treasury securities which are explicitly guaranteed by the U.S. Government.

*Concentration of credit risk* is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2022, the System's portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio or fiduciary net position, excluding investments issued or explicitly guaranteed by the U.S. government and investments in commingled funds, including 19.98% in the Mellon MSCI World ex USA Index Fund.

The Public Employees' Retirement Board governs the System, PERS, and the Legislators' Retirement System. As such, the investment policy requires no more than 30% of the combined assets of the System, Public Employees' Retirement System, and Legislators' Retirement System shall be managed on a permanent basis by a single investment firm in index strategies. The combined assets of the System, Public Employees' Retirement System, and Legislators' Retirement System shall not permanently constitute more than 20% of any firm's assets within the asset class (equity, bonds, real estate, or alternative investments) managed. Staff shall provide an annual report of combined assets to the Board consistent with this policy.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The System mitigates interest rate risk through portfolio diversification. The System's investment policy permits investments only in bonds within the Bloomberg U.S. Treasury Index.

The segmented time distribution method is used to determine investment maturity time horizons. The following table shows the fair value of fixed income and short-term securities and the applicable investment maturities as of June 30, 2022.

**INVESTMENT MATURITIES**

(in years)

Investment Type	Less than 1	1 to 5	6 to 10	More than 10	Total
Short-term investments trust	\$ 459,147	\$ -	\$ -	\$ -	\$ 459,147
U.S. treasuries	-	30,770,755	9,077,677	9,878,983	49,727,415
Total	<u>\$ 459,147</u>	<u>\$ 30,770,755</u>	<u>\$ 9,077,677</u>	<u>\$ 9,878,983</u>	<u>\$ 50,186,562</u>

The above table does not include commercial cash of \$33,598.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

**NOTES TO FINANCIAL STATEMENTS**

*Foreign currency risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The System had no exposure to foreign currency risk as of June 30, 2022.

*Derivative instruments*

The System had no derivative instruments during the current year.

**NOTE 5 – Fair Value**

The System holds investments that are measured at fair value on a recurring basis. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Investments measured and reported at fair value using Level inputs are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include U.S. Treasuries and listed stocks.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The following table presents fair value measurements as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasuries	\$ 49,727,415	\$ -	\$ -	\$ 49,727,415
Stocks	<u>80,191,621</u>	<u>-</u>	<u>-</u>	<u>80,191,621</u>
Total investments by fair value level	\$ <u>129,919,036</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>129,919,036</u>
Commingled fund measured at the NAV	<u>33,079,596</u>			
Total investments measured at fair value	<u>\$ 162,998,632</u>			

Stocks and bonds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

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**NOTES TO FINANCIAL STATEMENTS**

The following table presents investments measured at the NAV as of June 30, 2022:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled fund*	\$ 33,079,596	-	Daily	Trade date minus two business days
Total	<u>\$ 33,079,596</u>	<u>-</u>		

\*Commingled fund. This type includes investment in a commingled fund that invests primarily in stocks found in the MSCI World ex USA Index. The fair values of the investments in this type have been determined using the NAV per share of the fund.

**NOTE 6 – Risk Management**

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees and others; and court challenges to fiduciary decisions. To cover these risks, the Public Employees’ Retirement System Administrative Fund maintains commercial building and contents insurance, vehicle liability and collision/comprehensive insurance, general liability insurance, worker’s compensation insurance, and employee fidelity bonds. For coverage included within the State of Nevada’s policies (all but building/contents insurance), PERS pays its premium directly to the State. PERS’ building/contents insurance is placed with a private insurance company. There have never been any insurance settlements which exceeded insurance coverage.

**NOTE 7 – Litigation**

The System is currently not involved in any litigation.

**Required Supplementary Information**

JUDICIAL RETIREMENT SYSTEM OF NEVADA  
2022 ANNUAL FINANCIAL REPORT

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**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF INVESTMENT RETURNS**

For the Years Ended June 30,

For Year Ended June 30	Annual Money-Weighted Rate of Return, Net of Investment Expenses
2013	13.24 %
2014	18.60
2015	3.41
2016	1.56
2017	12.31
2018	8.44
2019	7.67
2020	6.31
2021	27.58
2022	(9.45)