

**AUDIT REPORT  
OF THE  
NEBRASKA PUBLIC EMPLOYEES RETIREMENT  
SYSTEMS – SCHOOL EMPLOYEES, JUDGES, AND  
STATE PATROL RETIREMENT PLANS  
PENSION TRUST FUNDS OF THE STATE OF NEBRASKA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**Issued on April 2, 2013**

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

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**BACKGROUND**

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

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

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

Two appointed members must meet the following requirements:

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

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

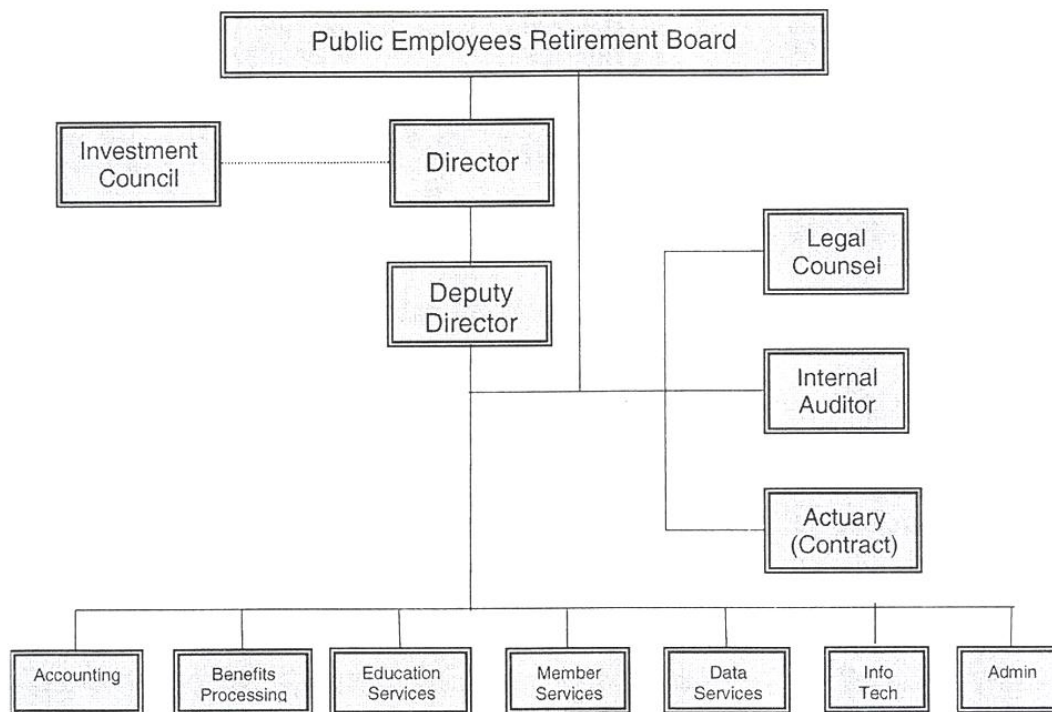
All appointed members must be Nebraska citizens. Members of the Board shall be paid fifty dollars per diem, and all members shall be reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement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

**MISSION STATEMENT**

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

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**ORGANIZATIONAL CHART**



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**EXIT CONFERENCE**

An exit conference was held March 22, 2013, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

| <b>NAME</b>      | <b>TITLE</b>                            |
|------------------|-----------------------------------------|
| Ron Ecklund      | Board Member                            |
| Jeff States      | State Investment Officer, Board Memeber |
| Denis Blank      | Board Member                            |
| Phyllis Chambers | Director                                |
| Darrell Fisher   | Board Member                            |
| Teresa Zulauf    | NPERS – Internal Auditor                |
| Christine Ford   | NPERS – Internal Auditor                |
| Maria Davis      | NPERS – Benefits                        |
| Melissa Mendoza  | NPERS – Benefits                        |
| Mitch Snyder     | NPERS – Benefits                        |
| Miden Ebert      | NPERS                                   |
| Matt Effken      | NPERS – Legal Counsel                   |
| Clint Holmes     | NPERS – Accountant II                   |
| Randy Gerke      | Deputy Director                         |
| Dennis Rohren    | NPERS – Accountant III                  |

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**SUMMARY OF COMMENTS**

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

1. ***Cost of Living Adjustment (COLA) Calculations:*** NPERS used the incorrect minimum accrual rate when calculating the COLA for eligible members. In addition, the Nebraska Public Retirement Information System (NPRIS) capped Judges' service years at 20, which resulted in some judges not being considered for a COLA adjustment that required the member to have at least 25 years of service.
2. ***Berwyn Death Audit Review:*** Of the 10 findings remaining from the January 31, 2009, attestation review of the Berwyn Death Audit, 6 were not properly resolved. Benefit payments, totaling \$13,043, made past the date of death still had not yet been repaid to NPERS. Additionally, we reviewed NPERS' 2012 Berwyn reports and noted procedures were not adequate. For 3 members, NPERS did not contact the beneficiary within 6 months after learning of the member's death. For 2 members, NPERS had not recorded the member on the internal Death Benefits Tracker spreadsheet. A similar finding was noted in the last audit report.
3. ***Inadequate Written Procedures and Controls:*** NPERS did not have written policies and procedures for changes and reviews performed in NPRIS by staff to ensure transactions were consistent and proper. We noted one individual's benefit calculation did not have all the secondary review steps performed in NPRIS prior to the benefit payment being finalized. Furthermore, NPERS did not have written policies and procedures for the determination and calculation of the savings and service annuity outlined in statute. A similar finding was noted in the last audit report.
4. ***Resolution of Prior Year School Audit Findings:*** There were 4 prior audit findings that were not properly resolved. Findings included a Required Minimum Distribution (RMD) not being paid out in a timely manner, a member receiving \$1,524 after their death, and two refund payout amounts were incorrect. A similar finding was noted in the last audit report.
5. ***Plan Documents Not Consistent with NPERS' Rules and Regulations:*** We noted plan documents (Rules and Regulations, Plan Handbooks, Employer Manuals, and Forms) were not consistent. We also noted certain rules and regulations were not established by the Board as required by State statutes. A similar finding was noted in the last audit report.
6. ***Contracts:*** One of two contracts was not entered into EnterpriseOne, the State's accounting system, as required by statute. In addition, both service contracts tested did not have a purchase order entered into EnterpriseOne for the expenditure as required by the Administrative Services Procurement Manual.

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**SUMMARY OF COMMENTS**

(Continued)

7. ***Non-Contributing Employees:*** 6 of 37 non-contributing employees from 5 of 13 school districts tested should have been contributing to the School Retirement Plan. A similar finding was noted in the last audit report.
8. ***Incorrect Compensation Reported to NPERS:*** 1 of 18 school members tested did not have the proper compensation reported to NPERS. Member's compensation was under-reported to NPERS by \$208 per month. A similar finding was noted in the last audit report.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to NPERS to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Where no response has been included, NPERS declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**COMMENTS AND RECOMMENDATIONS**

**1. Cost of Living Adjustment (COLA) Calculations**

School, Judges, and State Patrol benefit recipients are eligible for annual cost of living adjustments (COLA). The majority of recipients receive COLAs calculated at the lesser of 2.5% or the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). However, the plans allow for up to a 3% adjustment if certain criteria are met. To receive the 3% adjustment, the minimum accrual rate must exceed the member's monthly accrual rate, the member must have at least 25 years of service, received benefits for at least 5 years, and the change in CPI-W must be 3% or greater. A member's monthly accrual rate is the member's monthly benefit divided by the member's years of service. The minimum accrual rate is an amount established by statute and annually adjusted for the change in CPI-W.

Neb. Rev. Stat. § 81-2027.08(4)(e) (Cum. Supp. 2012) states the minimum accrual rate for the State Patrol plan is \$38.84 until adjusted. Neb. Rev. Stat. § 24-710.13(4)(e) (Cum. Supp. 2012) states the minimum accrual rate for the Judges plan is \$45.30 until adjusted. Neb. Rev. Stat. § 79-947.06(4)(e) (Cum. Supp. 2012) states the minimum accrual rate for the School plan is \$23.32 until adjusted. Each of those statutes states, "Beginning July 1, 2011, the board shall annually adjust the minimum accrual rate to reflect the cumulative percentage change in Consumer Price Index for Urban Wage Earners and Clerical Workers from the last adjustment of the minimum accrual rate."

Neb. Rev. Stat. § 79-947.06(4)(a) [School Plan], § 81-2027.08(4)(a) [State Patrol Plan], and § 24-710.13(4)(a) [Judges Plan] (Cum. Supp. 2012) each state,

*"The current benefit paid to a retired member or beneficiary under this subsection shall be calculated by multiplying the retired member's or beneficiary's total monthly benefit by the lesser of (i) the cumulative change in the Consumer Price Index for Urban Wage Earners and Clerical Workers from the last adjustment of the total monthly benefit of each retired member or beneficiary through June 30 of the year for which the annual benefit adjustment is being calculated or (ii) an amount equal to three percent per annum compounded for the period from the last adjustment of the total monthly benefit of each retired member or beneficiary through June 30 of the year for which the annual benefit adjustment is being calculated."*

Neb. Rev. Stat. § 24-710.13(4)(b) (Cum. Supp. 2012) states, in part,

*"In order for a retired member or beneficiary to receive the cost-of-living adjustment calculation method provided in this subsection, the retired member or beneficiary shall be (i) a retired member or beneficiary who has been receiving a retirement benefit for at least five years if the member had at least twenty-five years of creditable service..."*

During testing, it was noted the minimum accrual rate NPERS used to calculate COLAs for the School, Judges, and State Patrol plans was incorrect. The minimum accrual rates used to determine whether a member was due a 3% adjustment were updated in statute and became

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**1. Cost of Living Adjustment (COLA) Calculations** (Concluded)

effective April 15, 2011. However, the minimum accrual rates used to calculate the COLA adjustment had not been updated to account for the new minimum accrual baseline identified in statute. The following differences in minimum accrual rates were noted:

|                   | State Patrol | Judges   | School   |
|-------------------|--------------|----------|----------|
| Rate Used         | \$ 41.79     | \$ 48.75 | \$ 25.09 |
| Rate Per Statute* | \$ 40.42     | \$ 47.14 | \$ 24.27 |
| Difference        | \$ 1.37      | \$ 1.61  | \$ 0.82  |

\*Adjusted for the 4.06% change in CPI-W

The Auditor of Public Accounts (APA) identified 34 of 281 retired school members who incorrectly received a COLA of 3% instead of the 2.5%, due to the use of incorrect minimum accrual rates. As a result, an annual overpayment totaling \$1,587 occurred. The issue will be compounded by any subsequent COLAs until corrected.

In addition, the minimum accrual rate used to calculate the July 1, 2012, COLA was also incorrect since NPERS had not updated their minimum accrual rate as required by statute. As a result, members may not have received the correct COLA for the fiscal year ending June 30, 2013.

Finally, NPRIS did not keep track of Judges' service beyond 20 years. State statute requires Judges to have 25 years of service credit to be eligible for the 3% COLA adjustment. As a result, NPRIS did not calculate whether members with at least 25 years of service qualified for the 3% adjustment. NPRIS did not cap School and State Patrol members' years of service.

Noncompliance with State statute and annuity payment errors occur when COLA calculations do not reflect the requirements of State statute.

We recommend NPERS implement procedures to ensure the COLA calculations are correctly entered into NPRIS and are functioning properly. We also recommend preventing NPRIS from capping Judges' service years. In addition, we recommend NPERS determine the effect of using the incorrect minimum accrual rates and Judges' service years on member benefits and make the necessary adjustments.

*NPERS' Response: NPERS has been calculating the minimum accruals as originally intended, based on the National Consumer Price Index for Urban Wage Earners and Clerical Workers. The statutory provisions when last amended, included incorrect dollar amounts that did not correspond to the National Consumer Price Index. Legislation is currently pending in the legislature to correct the numerical errors in the statutes. Proposed legislation would correct minimum accrual amounts retroactive to the fiscal year beginning July 1, 2010.*

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**2. Berwyn Death Audit Review**

NPERS semi-annually retains a death check verification service (death audit) from The Berwyn Group. This is used to perform comparisons of the members in the five retirement plans, administered by NPERS, and the Deferred Compensation Plan against national death records.

The Berwyn Group generates a report which includes a listing of individuals matched against the national death records and also a listing of individuals with invalid information, such as social security numbers, names, and dates of birth. NPERS is then responsible for ensuring the data records are adequately reviewed and resolved by terminating retirement benefits to deceased members, recovering ineligible retirement payments, paying a beneficiary or estate the account balance for members who have not previously received retirement benefits, and following up on inaccurate account information.

A good internal control plan includes following up on deceased member accounts in a timely manner to ensure proper resolution. Additionally, a good internal control plan and sound accounting practice includes maintaining precise and complete records on all members and sending proper and complete information to The Berwyn Group for the death audit.

The APA performed an Attestation Review of the NPERS Death Audit Procedures as of January 31, 2009, to ensure NPERS was properly following up on the death audit report. In the fiscal year ended June 30, 2011, audit report, we noted 10 of the original 80 findings had not been appropriately resolved. During the current audit we noted 6 of the 10 findings still existed. The findings which still existed were:

- Four accounts received benefit payments totaling \$13,043 past the date of death, and repayments had not yet been received by NPERS. NPERS' last follow up with the member estates/beneficiaries ranged from December 2009 to December 2011. In addition, NPERS does not have a policy for how they will follow up on any overpayments to a deceased member. NPERS should determine whether further contact should be made or whether they should work with the State Claims Board or Attorney General's office.
- One member had been identified as having an invalid Social Security Number (SSN). NPERS had not performed any follow up with the member to inquire about the SSN in NPRIS and whether the member wanted their account balance refunded. This member's account balance was \$3,717 as of December 2012.
- One account balance of \$1,891 was due to a deceased member's beneficiary whom NPERS had tried to contact. Per NPERS policy, because NPERS had tried to contact the beneficiary numerous times, the account balance was to be sent to Unclaimed Property in September 2012 but it was not. It had not been sent as of December 2012.

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**2. Berwyn Death Audit Review (Concluded)**

We also reviewed the semi-annual Berwyn Death Audit reports for January and July 2012. We tested 16 individuals and noted the following:

- NPERS did not perform timely follow up procedures for three members tested. The members' dates of death were September 2008, February 2011, and June 2011. NPERS did not attempt to initiate contact with a beneficiary within 6 months of NPERS being notified of the date of death. In addition, in instances where the member's account had not been resolved, NPERS did not attempt to contact the member or beneficiary at least annually.
- Two members identified as being deceased were not recorded on NPERS' internal death benefit tracking spreadsheet. The total account balance for the two members was \$82.
- NPERS did not send members with invalid social security numbers in NPRIS to The Berwyn Group. Members with invalid social security numbers in NPRIS should be sent to The Berwyn Group, because the death audit will match individuals' names and dates of birth to deceased records.
- NPERS does not follow up on all letters sent to beneficiaries when a member deceases to ensure the account balance is paid out. NPERS maintains a spreadsheet (death benefit tracking) listing all deceased members they become aware of, when initial correspondence to the beneficiary was sent, and when the benefit or balance was finally paid out. However, NPERS does not routinely follow up with the deceased member's beneficiary in order to pay out the account balance.

Without adequate procedures to ensure the Berwyn Death Audit report and prior audit findings are properly resolved in a timely manner, there is an increased risk overpayments will be made to deceased individuals and member accounts will not be properly paid out.

A similar finding was noted in the prior year report.

We recommend NPERS ensure a proper and timely review and resolution of prior audit findings. We also recommend NPERS ensure proper information is submitted to The Berwyn Group. Lastly, we recommend NPERS establish procedures to ensure all beneficiaries are periodically followed up on until the account balance is properly resolved or turned over to the State of Nebraska Unclaimed Property Division.

*NPERS' Response: NPERS will continue to improve our deceased member process and resolve the prior audit findings. NPERS will review its internal tracker list to contact beneficiaries who need to receive a benefit or to return an overpayment. NPERS will continue to send invalid social security numbers to The Berwyn Group and submit social security numbers of beneficiaries who are named for Joint & Survivor options.*

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**3. Inadequate Written Procedures and Controls**

A good internal control plan includes maintaining detailed written policies and procedures to ensure staff is knowledgeable of job requirements, and to ensure member benefit calculations, account balances, and transactions are accurate, consistent, and properly reviewed.

Reviews Not Documented

Each member of the School, Judges, and State Patrol plans has an account within NPRIS. When changes were made to member accounts, NPRIS required a secondary review performed by an individual separate from the individual who initiated the change. However, NPRIS did not require all relevant information be reviewed prior to approving changes.

As reported in the previous audit report, NPERS' written procedures for secondary review were not sufficient since they did not detail what specific information was to be reviewed and verified.

Without detailed procedures in place to ensure staff review the proper information and documentation, there is an increased risk benefit payments will be incorrect and incorrect changes will be made to member accounts.

We noted one of five State Patrol members tested did not have all the secondary review steps performed prior to the benefit being finalized for payment. For this member, the NPRIS Contact Log showed the step "Audit Calculate Benefit" as "No" rather than the "Reviewed" which would document the secondary review had been performed.

Savings and Service Annuity Procedures

Neb. Rev. Stat. § 79-933(1) (Reissue 2008) states,

*"a member or emeritus member shall receive a school retirement allowance which shall consist of the sum of: (a) A savings annuity which shall be the actuarial equivalent, as determined by the retirement board, of the member's accumulated contributions at the time of his or her retirement or, in the case of an emeritus member, the savings annuity fixed by the retirement board at the time of his or her original retirement; and (b) a service annuity to be paid by the State of Nebraska."*

A member is either eligible for a savings and service annuity as outlined in the statute above or a formula annuity as stated in Neb. Rev. Stat. § 79-934 (Reissue 2008), whichever is greater. However, NPERS did not have documented policies and procedures for the determination and calculation of the savings and service annuity. The savings and service annuity calculation is performed manually by NPERS staff as NPRIS does not calculate savings and service annuities properly. NPERS did not have written guidelines as to when a savings and service annuity calculation was to be performed and what rates were to be used.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Inadequate Written Procedures and Controls (Concluded)**

Without clear policies and procedures there is an increased risk a member will not have the savings and service annuity calculated or calculated properly to ensure they receive the greatest benefit at retirement.

These two items were noted in the prior year report.

We recommend NPERS develop controls or written policies and procedures to ensure reviews in NPRIS are performed consistently and properly. Additionally, we recommend NPERS develop written procedures to ensure the savings and service annuities are calculated properly for all members.

*NPERS' Response: NPERS is confident that all audits are done thoroughly. To help the State Auditors have the same confidence level in benefit reviews, a Retirement Calculation Worksheet has been standardized and will be used by specialists in the calculation and audit process. This document will be scanned to the appropriate member's record after the final benefit is calculated.*

*As stated in NPERS Response to the School, Judges & Patrol Audit for the FY Ended June 30, 2011, a small number of school members (2%) qualify for savings and service annuity benefit per statute. NPERS has 3 specialists who perform the calculations and comparisons to the normal form of benefit calculation and have internal notes to which they refer in the process. NPERS will formally record this procedure as requested by the auditors.*

**4. Resolution of Prior Year School Audit Findings**

A good internal control plan requires a timely resolution of prior audit findings.

During our review of NPERS' procedures to resolve prior audit findings we noted four findings remained for the School Plan. One finding from the 2010 audit and three findings from the 2009 audit were not adequately resolved as follows:

**2010 Finding**

One member was required to receive her first minimum distribution on April 1, 2010, for calendar year 2009, as well as RMDs for calendar years 2010, 2011, and 2012. NPERS had not distributed any of the RMDs because they had not been able to contact the member. During our fiscal year, NPERS did not have policies to document how to address this type of situation. NPERS has since adopted policies, effective December 2012, which outline how this member's account will be handled should they still be unable to reach the member.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Resolution of Prior Year School Audit Findings** (Concluded)

2009 Findings

One member received payments past their date of death totaling \$1,524. Due to the benefit payment option selected by the member, payments were not to continue after the member's death. NPERS last contacted the member's son in November 2010 but had not received repayment and had not performed further follow up procedures.

NPERS did not correctly calculate two estate refunds. One member's estate received an overpayment of \$599. The second member's estate was underpaid \$320. NPERS did not perform follow up procedures to collect the overpayment or refund the remaining balance.

A similar finding was noted in the prior audit report.

Without procedures to ensure prior audit findings are resolved timely, there is an increased risk that errors in plan membership and compensation will remain incorrect.

We recommend NPERS resolve findings from prior audits. We also recommend NPERS contact the estates and beneficiaries to attempt to collect the overpayments and correctly pay out the underpayment as noted.

*NPERS' Response: NPERS has corrected the 2010 finding. NPERS will work to resolve findings from prior audits. NPERS will contact estates and beneficiaries to collect the overpayments and correctly pay out the underpayments as noted.*

**5. Plan Documents Not Consistent With NPERS' Rules and Regulations**

Neb. Rev. Stat. § 79-907(2) (Reissue 2008) states, "The board shall adopt and promulgate rules and regulations and prescribe the necessary forms to carry out this section." This section requires NPERS to send the member account information and outline the process for member account modification or correction.

Neb. Rev. Stat. § 84-1503(2) (Cum. Supp. 2012) states, in part,

*"In administering the retirement systems listed in subdivision (1)(a) of this section, it shall be the duty of the board:.. (i) To adopt and promulgate rules and regulations for the adjustment of contributions or benefits, which includes, but is not limited to: (i) The procedures for refunding contributions, adjusting future contributions or benefit payments, and requiring additional contributions or repayment of benefits; (ii) the process for a member, member's beneficiary, employee, or employer to dispute an adjustment to contributions or benefits; (iii) establishing materiality and de minimus amounts for agency transactions, adjustments, and inactive account closures; and (iv) notice provided to all affected persons. Following an adjustment, a timely notice shall be sent that describes the adjustment and the process for disputing an adjustment to contributions or benefits..."*

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**5. Plan Documents Not Consistent With NPERS' Rules and Regulations** (Continued)

A good internal control plan includes procedures to ensure plan documents are consistent and accurate.

NPERS did not have established rules and regulations as required by § 84-1503 and § 79-907. NPERS drafted rules and regulations, that became effective in November 2012, to address those statutes.

As noted in the previous four audit reports, there were plan documents (rules and regulations, plan handbooks, forms, and employer manuals) that were not consistent as follows:

- NPERS did not consider school district contribution remittances to be late if submitted by the 10<sup>th</sup> of the month following the paycheck date. However, plan documents were inconsistent as follows:

|                                                   |                                                                                                                                                                                               |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>School Employer Manual</b> (revised June 2011) | The Wage and Contribution Report and payment must be submitted to NPERS <b>no later than the 10<sup>th</sup> day of each month.</b>                                                           |
| <b>Wage and Contributions Report</b>              | The report must be <u>postmarked</u> within <u>10 days following your pay period end date.</u>                                                                                                |
| <b>Title 303 NAC 2-001.01 &amp; 2-001.03</b>      | The report and remittances must be <u>postmarked</u> by the <u>10<sup>th</sup> of the following month</u> , i.e., July report and remittances must be postmarked by August 10 <sup>th</sup> . |

In December 2012 all plan documents were updated; stating reports were due 10 calendar days following the end of the month.

- We also noted inconsistencies with the State Patrol plan documents as follows:

|                                                        |                                                                                                                                                                                                                                                                                                                                |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Title 303 NAC 4-004.04(a)</b> (April 2012 Revision) | Distribution of a refund or termination benefit to a member shall not occur <u>earlier than sixty (60) calendar days after the member ceases employment</u> or no sooner than <u>twenty (20) business days after NPERS receives a completed and valid application</u> for a refund or termination benefit, whichever is later. |
| <b>State Patrol Plan Handbook</b> (revised Nov. 2009)* | Your payment will be processed <u>approximately: 60 days after your termination date...or two weeks after receipt of your application</u> , whichever is later.                                                                                                                                                                |

\*August 2012 revision contained the same language.

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**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**5. Plan Documents Not Consistent With NPERS' Rules and Regulations (Concluded)**

A similar finding was noted in the prior audit report.

Without consistent policies and information provided, there is an increased risk members or employers will have a misunderstanding of NPERS' policies on payment of refunds or employer report and remittance requirements. In addition, inconsistent plan documents increase the risk of untimely contributions or refunds.

We recommend NPERS ensure plan Rules and Regulations, plan handbooks, forms, and Employer Manuals be consistent.

*NPERS' Response: NPERS will revise the Patrol Plan handbook with the next release to make it consistent with the plan Rules and Regulations.*

**6. Contracts**

Neb. Rev. Stat. § 73-501 (Reissue 2009) states,

*"The purpose of sections 73-501 to 73-509 are to establish a standardized, open, and fair process for selection of contractual services and to create an accurate reporting of expended funds for contractual services. This process shall promote a standardized method of selection for state contracts for services, assuring a fair assessment of qualifications and capabilities for project completion. There shall also be an accountable, efficient reporting method of expenditures for these services."*

Neb. Rev. Stat. § 73-503(1) (Reissue 2009) states, in part,

*"All state agencies shall process and document all contracts for services through the state accounting system...All state agencies shall enter the information on new contracts for services and amendments to existing contracts for services...State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system."*

The Administrative Services Procurement Manual for Services (October 2008) states, "For services procurement(s) \$25,000 and over, purchase orders must be processed against the service contract."

During testing of administration expenses, we noted one of two service contracts tested was not properly entered into EnterpriseOne, the State's accounting system. An addendum to a contract for actuarial services was not entered into EnterpriseOne. The addendum included the acquisition of an additional \$72,500 of services. We also noted both service contracts tested, over \$25,000, did not have a purchase order processed against the contract. Expenses incurred that should have had a purchase order prepared were \$29,362 for actuarial services and \$200,000 for retirement plan compliance audit services.

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

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Contracts (Concluded)**

Without accurate contract data in the State's accounting system, there is an increased risk contracts will be overspent. Not processing purchase orders against the contract in the State's accounting system reduces NPERS' ability to monitor contracts. Furthermore, contract usage reported to the Legislature will not be accurate if purchase orders are not processed against a contract.

We recommend NPERS implement procedures to ensure all contract data is accurately recorded in the State's accounting system. We also recommend NPERS implement procedures to ensure all payments to vendors, with service contracts in excess of \$25,000, are processed with a purchase order.

*NPERS' Response: NPERS will work with State purchasing to ensure that contract data is recorded in EnterpriseOne. NPERS will also work with State purchasing to ensure payments to vendors with service contracts of \$25,000 or more are processed with a purchase order. The compliance audit services contract has been completed. The current actuarial contract will be completed June 30, 2013 with most services being completed April 30, 2013.*

**7. Non-Contributing Employees**

Neb. Rev. Stat. § 79-902(10) (Cum. Supp. 2012) states,

*"School employee means a contributing member who earns service credit pursuant to section 79-927. For purposes of this section, contributing member means the following persons who receive compensation from a public school: (a) Regular employees; (b) regular employees having retired pursuant to the School Employees Retirement Act who subsequently provide compensated service on a regular basis in any capacity; and (c) regular employees hired by a public school on an ongoing basis to assume the duties of other regular employees who are temporarily absent. Substitute employees, temporary employees, and employees who have not attained the age of eighteen years shall not be considered school employees."*

Neb. Rev. Stat. § 79-902(40) (Cum. Supp. 2012) states,

*"Regular employee means an employee hired by a public school or under contract in a regular full-time or part-time position who works a full-time or part-time schedule on an ongoing basis for fifteen or more hours per week. An employee hired as described in this subdivision to provide service for less than fifteen hours per week but who provides service for an average of fifteen hours or more per week in each calendar month of any three calendar months of a plan year shall immediately commence contributions and shall be deemed a regular employee."*

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

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**7. Non-Contributing Employees (Concluded)**

Neb. Rev. Stat. § 79-910.01 (Cum. Supp. 2012) states,

*“(1) Each person employed by a public school who is a school employee and who is qualified to participate in the retirement system shall participate in the retirement system. (2) Public schools shall ensure that all school employees who qualify for participation pursuant to this section shall begin annual participation on July 1 of each plan year or upon such person’s date of hire, if later than July 1, and that all required deposits are made on behalf of such employees.”*

A good internal control plan includes communicating with school districts on a regular basis to help ensure proper individuals are enrolled in the plan.

We noted 6 of 37 non-contributing employees from 5 of 13 school districts tested should have been contributing to the School Retirement Plan. The employees worked over 15 hours per week or 60 hours or more per month for three calendar months of the plan year from July 1, 2011, to June 30, 2012. Of the 6 noted, one was later added to the Plan after the fiscal year was over. However, this was not done in a timely manner.

A similar finding was noted in the prior audit report.

When employees are not properly added to the School Retirement Plan after meeting eligibility requirements, there is an increased risk of noncompliance with State statute and missed contributions.

We recommend NPERS follow up on the non-contributing employees noted and ensure they start contributing to the School Retirement Plan. We further recommend NPERS continue to ensure proper education is given to the school districts on a regular basis to ensure employees are properly contributing or not contributing to the Plan.

*NPERS’ Response: NPERS will follow-up on the employees noted in the report and make sure they have been contributing to the School Employee Plan. NPERS will continue to inform the school employers, providing guidance and education as to when school employees should be contributing or not contributing to the School Plan.*

**8. Incorrect Compensation Reported to NPERS**

Neb. Rev. Stat. § 79-902(35)(a) (Cum. Supp. 2012) states,

*“Compensation means gross wages or salaries payable to the member for personal services performed during the plan year and includes...(iv) amounts contributed by the member to plans under sections 125, 403(b), and 457 of the Internal Revenue Code as defined in section 49-801.01 or any other section of the code which defers or excludes such amounts from income.”*

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

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**8. Incorrect Compensation Reported to NPERS (Concluded)**

During testing of school member contributions, we noted 1 of 18 member's wages tested were reported incorrectly to NPERS. According to the member's employment contract, \$208 per month would be provided as an annual annuity contribution. The school did not report the \$208 of compensation to NPERS.

A similar finding was noted in the prior audit report.

Without adequate procedures to ensure school districts are knowledgeable of State statutes, there is an increased risk wages and retirement contributions will not be proper.

We recommend NPERS continue working to educate schools on the types of compensation that require retirement withholdings.

*NPERS' Response: NPERS provides summer training sessions to all school employer reporting agents that choose to attend. Once again, NPERS will make certain that part of the training includes education as to the types of compensation that is eligible to have retirement contributions withheld.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

#### INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Plans as of and for the year ended June 30, 2012, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Plans' basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

NPERS has not presented Management’s Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. The missing MD&A, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require the Schedules of Funding Progress on page 44 and Schedules of Contributions From Employers and Other Contributing Entities on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 the auditor with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ basic financial statements. The accompanying supplementary Schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and

relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SIGNED ORIGINAL ON FILE

March 22, 2013

Philip J. Olsen, CPA, CISA  
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF PLAN NET ASSETS**  
JUNE 30, 2012

|                                                                                 | School<br>Employees     | Judges                | State Patrol          |
|---------------------------------------------------------------------------------|-------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                                                   |                         |                       |                       |
| Cash in State Treasury                                                          | \$ 1,754,633            | \$ 69,095             | \$ 106,860            |
| Deposits with Vendors                                                           | 9,091                   | 94                    | 94                    |
| Receivables:                                                                    |                         |                       |                       |
| Contributions                                                                   | 48,197,079              | 367,651               | 2,570,230             |
| Interest & Dividend Income                                                      | 13,576,182              | 232,834               | 508,820               |
| Other Investment Receivables (Note 4)                                           | 456,887,947             | 7,835,039             | 17,200,354            |
| Total Receivables                                                               | 518,661,208             | 8,435,524             | 20,279,404            |
| Investments, at fair value (Note 4):                                            |                         |                       |                       |
| U.S. Treasury Notes and Bonds                                                   | 214,201,677             | 3,673,283             | 8,064,001             |
| U.S. Treasury Bills                                                             | 6,907,765               | 118,459               | 260,055               |
| Government Agency Securities                                                    | 18,462,464              | 316,607               | 695,052               |
| Guaranteed Investment Contracts                                                 | -                       | -                     | 870,420               |
| Corporate Bonds                                                                 | 520,217,772             | 8,921,064             | 19,584,518            |
| International Bonds                                                             | 157,201,123             | 2,695,797             | 5,918,114             |
| Equity Securities                                                               | 1,119,783,839           | 19,202,848            | 42,156,242            |
| Private Equity                                                                  | 296,516,363             | 5,084,873             | 11,162,883            |
| Options                                                                         | (494,244)               | (8,476)               | (18,607)              |
| Mortgages                                                                       | 474,199,784             | 8,131,936             | 17,852,105            |
| Private Real Estate                                                             | 229,758,200             | 3,940,057             | 8,649,653             |
| Asset Backed Securities                                                         | 49,872,166              | 855,243               | 1,877,526             |
| Municipal Bonds                                                                 | 35,882,001              | 615,330               | 1,350,841             |
| Commingled Funds                                                                | 4,044,930,444           | 69,365,339            | 155,479,602           |
| Short Term Investments                                                          | 141,242,057             | 2,422,120             | 5,854,168             |
| Total Investments                                                               | 7,308,681,411           | 125,334,480           | 279,756,573           |
| Invested Securities Lending Collateral (Note 4)                                 | 315,884,355             | 5,417,009             | 12,014,040            |
| Capital Assets (Note 10):                                                       |                         |                       |                       |
| Equipment                                                                       | 12,409,788              | 2,104,371             | 2,059,963             |
| Less: Accumulated Depreciation                                                  | (12,402,037)            | (2,104,265)           | (2,059,857)           |
| Total Capital Assets, net                                                       | 7,751                   | 106                   | 106                   |
| <b>TOTAL ASSETS</b>                                                             | <b>8,144,998,449</b>    | <b>139,256,308</b>    | <b>312,157,077</b>    |
| <b>LIABILITIES</b>                                                              |                         |                       |                       |
| Compensated Absences Payable (Note 5 and Note 8)                                | 210,974                 | 3,223                 | 2,749                 |
| Accounts Payable and Accrued Liabilities                                        | 4,835,511               | 88,500                | 223,617               |
| Obligations under Securities Lending (Note 4)                                   | 315,884,355             | 5,417,009             | 12,014,040            |
| Other Investment Payables (Note 4)                                              | 573,837,527             | 9,840,573             | 21,605,304            |
| Contributions for Omaha Public Schools (Note 6)                                 | 3,918,301               | -                     | -                     |
| <b>TOTAL LIABILITIES</b>                                                        | <b>898,686,668</b>      | <b>15,349,305</b>     | <b>33,845,710</b>     |
| <b>NET ASSETS HELD IN TRUST FOR PENSION</b>                                     |                         |                       |                       |
| BENEFITS (A schedule of funding progress for each plan is presented on page 44) | <b>\$ 7,246,311,781</b> | <b>\$ 123,907,003</b> | <b>\$ 278,311,367</b> |

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

|                                                                 | School<br>Employees     | Judges                | State Patrol          |
|-----------------------------------------------------------------|-------------------------|-----------------------|-----------------------|
| <b>ADDITIONS</b>                                                |                         |                       |                       |
| Contributions                                                   |                         |                       |                       |
| Member (Note 9)                                                 | \$ 147,046,053          | \$ 1,400,161          | \$ 5,209,321          |
| Employer                                                        | 145,582,040             | -                     | 5,204,276             |
| Court Fees                                                      | -                       | 3,411,370             | -                     |
| State                                                           | 27,348,851              | 72,244                | 2,570,230             |
| Total Contributions                                             | <u>319,976,944</u>      | <u>4,883,775</u>      | <u>12,983,827</u>     |
| Investment Income                                               |                         |                       |                       |
| Net appreciation (depreciation) in<br>fair value of investments | (27,177,132)            | (461,985)             | (977,279)             |
| Interest & Dividends                                            | 104,225,448             | 1,791,600             | 3,964,097             |
| Securities Lending Income                                       | <u>2,474,429</u>        | <u>42,433</u>         | <u>93,789</u>         |
| Total Investment Income                                         | 79,522,745              | 1,372,048             | 3,080,607             |
| Investment Expense                                              | (17,508,805)            | (300,631)             | (675,428)             |
| Securities Lending Expense                                      | <u>(540,380)</u>        | <u>(9,267)</u>        | <u>(20,521)</u>       |
| Net Investment Income/(Loss)                                    | 61,473,560              | 1,062,150             | 2,384,658             |
| Other Additions                                                 | <u>24,720</u>           | <u>-</u>              | <u>12,758</u>         |
| Total Additions                                                 | <u>381,475,224</u>      | <u>5,945,925</u>      | <u>15,381,243</u>     |
| <b>DEDUCTIONS</b>                                               |                         |                       |                       |
| Benefits                                                        | 377,650,002             | 6,834,551             | 14,737,951            |
| Refunds of Contributions                                        | 11,970,049              | -                     | 421,439               |
| Administrative Expense                                          | 4,066,267               | 56,704                | 57,236                |
| Other Deductions (Note 6)                                       | <u>5,431,957</u>        | <u>-</u>              | <u>-</u>              |
| Total Deductions                                                | <u>399,118,275</u>      | <u>6,891,255</u>      | <u>15,216,626</u>     |
| Net Increase (Decrease)                                         | (17,643,051)            | (945,330)             | 164,617               |
| Net Assets Held In Trust For Pension Benefits:                  |                         |                       |                       |
| Beginning Of Year                                               | <u>7,263,954,832</u>    | <u>124,852,333</u>    | <u>278,146,750</u>    |
| End Of Year                                                     | <u>\$ 7,246,311,781</u> | <u>\$ 123,907,003</u> | <u>\$ 278,311,367</u> |

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

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

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2012

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

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

**B. Reporting Entity**

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

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2011, and the Deferred Compensation Plan for the calendar year ended December 31, 2009.

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

**C. Measurement Focus, Basis of Accounting**

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

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

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

**D. Cash in State Treasury**

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

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

**E. Investments**

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

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

**F. Capital Assets**

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

Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

the software into place. The useful life is determined based on the system and will be depreciated over seven years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated over three to ten years using the straight-line method.

**G. Compensated Absences**

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

NPERS employees accrue vested vacation leave at a variable rate based on years of service. Generally, accrued vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 50 or 60 days.

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

**H. Use of Estimates**

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

**2. Plan Descriptions and Contribution Information**

Membership of each plan consisted of the following at June 30, 2012, the date of the last actuarial valuation:

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

|                                                                       | <u>School<br/>Employees</u> | <u>Judges</u>     | <u>State Patrol</u> |
|-----------------------------------------------------------------------|-----------------------------|-------------------|---------------------|
| Retirees and beneficiaries<br>receiving benefits                      | 19,097                      | 166               | 422                 |
| Terminated plan members entitled to<br>but not yet receiving benefits | 20,971                      | 7                 | 18                  |
| Active plan members                                                   | <u>39,477</u>               | <u>150</u>        | <u>427</u>          |
| Total                                                                 | <u><u>79,545</u></u>        | <u><u>323</u></u> | <u><u>867</u></u>   |

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

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

**School Employees Retirement**

**Plan Description.** The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2012, there were 271 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

Normal retirement is at age 65. The monthly benefit is equal to the greater of: 1) The sum of a savings annuity which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service, or 2) The average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor set by statute, and an actuarial factor based on age. The calculation varies with early retirement. Employees' benefits are vested after five years of plan participation, or when termination occurs at age 65 or later.

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

**Contributions.** The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 1 percent of the compensation of all members. The employees' contribution was equal to 8.28 percent from July 1, 2011 to August 31, 2011, and 8.88 percent from September 1, 2011 to June 30, 2012. The school districts' (employer) contribution is 101 percent of the employees' contribution.

**Judges Retirement**

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

Retirement is age 65 with benefits calculated using the compensation for the three 12-month periods of service as a judge in which compensation was the greatest, or the average monthly compensation, multiplied by the total years of service and the formula factor of 3.5 percent; subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

**Contributions.** The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six dollar fee for each case is collected from District and County courts, Juvenile courts, Workers' Compensation Court, Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each new member after July 1, 2004, and those active members that elected within 90 days of July 1, 2004, contribute 9 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes 5 percent of their monthly salary for the remainder of his or her active service. All other members contribute 7 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit had been earned, such member contributes 1 percent of their monthly salary for the remainder of his or her active service.

**State Patrol Retirement**

**Plan Description.** The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old. Normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3 percent. Calculation will vary with early retirement. Benefits all fully vested after 10 years of service.

**Contributions.** Members are required to contribute 19 percent of their annual pay, plus, for a State Patrol officer employed on or before January 4, 1979, 19 percent of pay received at termination for unused sick leave and vacation leave. The State Patrol's (employer) contribution is 19 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

**Deferred Retirement Option Plan (DROP).** Neb. Rev. Stat. § 81-2041 (Supp. 2011) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. If the member chooses to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from their paychecks. When the member enters DROP the individual's monthly benefit is calculated and paid into an IRC § 457 Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

**3. Funded Status and Funding Progress**

The funded status of each plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

|              | (a)<br>Actuarial<br>Value<br>of Assets | (b)<br>Actuarial<br>Liability (AAL)<br>- Entry Age | (b-a)<br>Unfunded<br>Accrued<br>Liabilities<br>(UAL) | (a/b)<br>Funded<br>Ratio | (c)<br>Covered<br>Payroll | [(b-a)/c]<br>UAL as a<br>Percentage of<br>Covered<br>Payroll |
|--------------|----------------------------------------|----------------------------------------------------|------------------------------------------------------|--------------------------|---------------------------|--------------------------------------------------------------|
| School       | \$ 7,358,964,135                       | \$ 9,609,157,134                                   | \$2,250,192,999                                      | 76.6%                    | \$ 1,593,184,929          | 141.2%                                                       |
| Judges       | 125,927,523                            | 137,464,661                                        | 11,537,138                                           | 92.0%                    | 19,005,478                | 60.7%                                                        |
| State Patrol | 282,810,785                            | 362,298,975                                        | 79,488,190                                           | 78.1%                    | 25,794,219                | 308.2%                                                       |

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

The schedules of funding progress, presented as required supplementary information immediately following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information regarding the plans actuarial methods and significant assumptions, as of the latest actuarial valuation date, is as follows:

|                                      | <u>School Employees</u>                                                                  | <u>Judges</u>                                                                            | <u>State Patrol</u>                                                                      |
|--------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Valuation date                       | June 30, 2012                                                                            | June 30, 2012                                                                            | June 30, 2012                                                                            |
| Actuarial cost method                | Entry Age                                                                                | Entry Age                                                                                | Entry Age                                                                                |
| Amortization method                  | Level Dollar,<br>Closed                                                                  | Level Dollar,<br>Closed                                                                  | Level Dollar,<br>Closed                                                                  |
| Remaining amortization<br>period     | 27 Years                                                                                 | 30 Years                                                                                 | 28 Years                                                                                 |
| Asset valuation method               | 5 year smoothing                                                                         | 5 year smoothing                                                                         | 5 year smoothing                                                                         |
| Actuarial assumptions:               |                                                                                          |                                                                                          |                                                                                          |
| Investment rate of return*           | 8.0%                                                                                     | 8.0%                                                                                     | 8.0%                                                                                     |
| Projected salary increases*          | 4.0% - 9.0%                                                                              | 4.0%                                                                                     | 4.0% - 9.5%                                                                              |
| Cost-Of-Living<br>Adjustments (COLA) | 2.50% with a floor<br>benefit equal to<br>75% purchasing<br>power of original<br>benefit | 2.50% with a floor<br>benefit equal to<br>75% purchasing<br>power of original<br>benefit | 2.50% with a floor<br>benefit equal to<br>60% purchasing<br>power of original<br>benefit |

\*Includes assumed inflation of 3.25% per year.

**4. Investments**

**Investments.** Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Assets. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01 (Reissue 2009) authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

circumstances then prevailing that a prudent person acting in a 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.

NPER's investments for the School Employees, Judges, and State Patrol Retirement Plans at June 30, 2012, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

**School Employees, Judges, and Patrol Retirement Plan Investments  
at June 30, 2012**

|                                        | Fair Value              | Effective<br>Duration |
|----------------------------------------|-------------------------|-----------------------|
| Debt Securities                        |                         |                       |
| U.S. Treasury Notes and Bonds          | \$ 225,938,961          | 7.25                  |
| U.S. Treasury Bills                    | 7,286,279               | 0.55                  |
| Government Agency Securities           | 19,474,123              | 5.58                  |
| Guaranteed Investment Contracts        | 870,420                 | 2.75                  |
| Corporate Bonds                        | 548,723,354             | 4.73                  |
| International Bonds                    | 165,815,034             | 8.63                  |
| Asset Backed Securities                | 52,604,935              | 4.77                  |
| Short Term Investments                 | 149,518,345             | 0.09                  |
| Commingled Debt                        | 551,398,987             | 4.30                  |
| Mortgages                              | 500,183,825             | 3.64                  |
| Municipal Bonds                        | 37,848,172              | 11.50                 |
| Other Investments                      |                         |                       |
| Commingled Funds                       | 3,718,376,398           |                       |
| Private Equity Securities              | 312,764,119             |                       |
| Equity Securities                      | 1,181,142,929           |                       |
| Options                                | (521,327)               |                       |
| Private Real Estate Funds Trust        | 242,347,910             |                       |
| Total Investments                      | 7,713,772,464           |                       |
| Invested Securities Lending Collateral | 333,315,404             |                       |
| Total                                  | <u>\$ 8,047,087,868</u> |                       |

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**Credit Risk of Debt Securities.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for high yield fixed income in its account. NPERS' rated debt investments as of June 30, 2012, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

**School Employees, Judges, and State Patrol Retirement Plan Investments  
at June 30, 2012**

|                     | Fair Value    | Quality Ratings |              |              |              |            |              |              |
|---------------------|---------------|-----------------|--------------|--------------|--------------|------------|--------------|--------------|
|                     |               | AAA             | AA           | A            | BBB          | BB         | B            | Unrated      |
| Asset Backed        | \$ 52,604,935 | \$ 27,674,330   | \$ 9,503,644 | \$ 5,003,398 | \$ 4,747,348 | \$ 203,294 | \$ 1,978,709 | \$ 3,494,212 |
| Commingled Debt     | 551,398,987   | -               | -            | -            | -            | -          | -            | 551,398,987  |
| Corporate Bonds     | 548,723,354   | 50,539,183      | 56,326,179   | 183,099,578  | 116,425,178  | 66,246,523 | 55,305,839   | 20,780,874   |
| Government Agency   | 19,474,123    | 293,814         | 12,440,322   | 4,767,315    | -            | -          | 434,002      | 1,538,670    |
| International Bonds | 165,815,034   | 79,726,260      | 28,368,982   | 29,818,198   | 20,577,416   | 5,247,233  | 938,860      | 1,138,085    |
| Mortgages           | 500,183,825   | 44,643,236      | 348,429,882  | 15,912,340   | 4,423,968    | 2,019,211  | 1,682,263    | 83,072,925   |
| Municipal Bonds     | 37,848,172    | 9,149,106       | 9,524,640    | 16,998,709   | 1,052,254    | 1,123,463  | -            | -            |
| Short Term          | 149,518,345   | -               | -            | -            | -            | -          | -            | 149,518,345  |

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages, and non-U.S. sovereign issuers, to 5 percent of the total account.

At June 30, 2012, NPERS had no debt security investments, from a single entity, which comprised more than 5 percent of total investments.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. NPERS' exposure to foreign currency risk is presented on the following table.

**School Employee, Judges, and State Patrol Retirement Plan  
Foreign Currency at June 30, 2012**

|                    | Asset<br>Backed<br>Securities | Corporate<br>Bonds  | Equity<br>Securities  | Government<br>Agency | International<br>Bonds | Mortgages           | Short Term<br>Investments |
|--------------------|-------------------------------|---------------------|-----------------------|----------------------|------------------------|---------------------|---------------------------|
| Australian Dollar  | \$ -                          | \$ 1,897,830        | \$13,961,688          | \$ -                 | \$ 4,517,804           | \$ -                | \$ 548,594                |
| Brazilian Real     | -                             | 2,173,545           | 4,734,378             | -                    | 944,855                | -                   | 943,966                   |
| Canadian Dollar    | -                             | 1,214,584           | 22,018,201            | 293,814              | 27,743,608             | -                   | 518,132                   |
| Chilean Peso       | -                             | 421,957             | -                     | -                    | -                      | -                   | -                         |
| Colombian Peso     | -                             | 576,715             | -                     | -                    | -                      | -                   | -                         |
| Czech Koruna       | -                             | -                   | 1,103,853             | -                    | -                      | -                   | 1                         |
| Danish Krone       | -                             | -                   | 3,592,622             | -                    | -                      | -                   | -                         |
| Euro Currency      | 1,452,184                     | 61,499,516          | 200,980,997           | -                    | 37,631,531             | 2,895,164           | 5,578,966                 |
| Hong Kong Dollar   | -                             | -                   | 24,411,762            | -                    | -                      | -                   | 233,714                   |
| Hungarian Forint   | -                             | -                   | -                     | -                    | -                      | -                   | 1                         |
| Indonesian Rupiah  | -                             | -                   | 2,055,905             | -                    | -                      | -                   | -                         |
| Israeli Shekel     | -                             | -                   | -                     | -                    | -                      | -                   | 1                         |
| Japanese Yen       | -                             | -                   | 88,900,391            | -                    | 22,680,526             | -                   | 1,615,824                 |
| Malaysian Ringgit  | -                             | -                   | -                     | -                    | 4,745,518              | -                   | 97,842                    |
| Mexican Peso       | -                             | 345,460             | 4,068,526             | -                    | 13,601,125             | -                   | 1,001,723                 |
| New Zealand Dollar | -                             | -                   | -                     | -                    | 1,048,172              | -                   | 22                        |
| Norwegian Krone    | -                             | -                   | 1,875,202             | -                    | -                      | -                   | 64,738                    |
| Philippine Peso    | -                             | -                   | -                     | -                    | 1,128,895              | -                   | 31,682                    |
| Polish Zloty       | -                             | -                   | 2,174,196             | -                    | -                      | -                   | 239,078                   |
| Pound Sterling     | -                             | 11,120,670          | 111,422,414           | -                    | 13,073,034             | 353,642             | 1,053,343                 |
| Singapore Dollar   | -                             | -                   | 9,845,151             | -                    | -                      | -                   | 68,225                    |
| South African Rand | -                             | -                   | 3,004,672             | -                    | -                      | -                   | 65,601                    |
| South Korean Won   | -                             | -                   | 26,925,925            | -                    | -                      | -                   | 12,442                    |
| Swedish Krona      | -                             | -                   | 12,253,164            | -                    | 7,877,384              | -                   | 194,141                   |
| Swiss Franc        | -                             | -                   | 49,949,713            | -                    | -                      | -                   | 14,587                    |
| Thailand Baht      | -                             | -                   | 11,801,029            | -                    | -                      | -                   | 15,511                    |
| Total              | <u>\$1,452,184</u>            | <u>\$79,250,277</u> | <u>\$ 595,079,789</u> | <u>\$ 293,814</u>    | <u>\$ 134,992,452</u>  | <u>\$ 3,248,806</u> | <u>\$ 12,298,134</u>      |

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 26 to 40 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

**Derivative Financial Instruments.** Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and/or reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at June 30, 2012, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**DERIVATIVE INVESTMENTS AT JUNE 30, 2012**

| Derivative                | Change in<br>Fair Value | Fair Value | Notional      |
|---------------------------|-------------------------|------------|---------------|
| Credit Default Swaps      | \$ (1,182,928)          | \$ 197,173 | \$ 21,956,028 |
| Fixed Income Futures      | 3,225,591               | -          | 29,011,182    |
| Fixed Income Option       | 972,640                 | (521,327)  | (86,402,989)  |
| Futures Options           | 100,202                 | -          | -             |
| FX Forwards               | 7,155,567               | (129,567)  | 221,896,404   |
| Fixed Interest Rate Swaps | (6,478,698)             | 3,004,641  | 76,257,357    |
| Rights                    | 986                     | -          | -             |
| Warrants                  | 404                     | 1,224      | 4,897         |

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2012, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at June 30, 2012, was \$4,853,241. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is \$4,853,241.

Although the Plans execute derivative instruments with various counterparties, there is approximately 71 percent of the net exposure to credit risk, held with seven counterparties. The counterparties are rated A or AA.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

Foreign currency risk for derivative instruments at June 30, 2012, are as follows:

**DERIVATIVES FOREIGN CURRENCY**

**AT JUNE 30, 2012**

| Currency           | Swaps        | Forward<br>Contracts |
|--------------------|--------------|----------------------|
| Australian Dollar  | \$ -         | \$ 149,742           |
| Brazilian Real     | 943,965      | 115,194              |
| Canadian Dollar    | -            | (93,493)             |
| Danish Krone       | -            | (48,831)             |
| Euro Currency      | 434,013      | 605,928              |
| Japanese Yen       | -            | (729,425)            |
| Malaysian Ringgit  | -            | 162                  |
| Mexican Peso       | 523,254      | (434,636)            |
| New Zealand Dollar | -            | 23,787               |
| Norwegian Krone    | -            | 116,699              |
| Polish Zloty       | -            | 35,686               |
| Pound Sterling     | 1,348,877    | 23,088               |
| Singapore Dollar   | -            | 27,555               |
| South Korean Won   | -            | 79,629               |
| Swedish Krona      | -            | (101,874)            |
| Swiss Franc        | -            | 37,124               |
| Thailand Baht      | -            | 1,206                |
| Yuan Renminbi      | -            | 62,894               |
| Total              | \$ 3,250,109 | \$ (129,565)         |

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Synthetic Guaranteed Investment Contracts (SGICs).** In the State Patrol Deferred Retirement Option Plan (DROP), as part of the Defined Contribution Plans, employees are eligible to participate in SGICs. The contracts provided an average credit rating of 3.4 percent during the fiscal year 2012. The fair value of these contracts is \$758,670 and the contract value is \$727,729.

| <u>SGIC Components</u> | <u>Fair Value</u> |
|------------------------|-------------------|
| Underlying Investments | \$ 758,670        |
| Wrap Contract          | -                 |
| Total                  | <u>\$ 758,670</u> |

The effective duration and credit rating for the investments underlying the SGICs are presented below. There was no foreign currency risk for the underlying investments.

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

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Concluded)

|                              | Effective<br>Duration | Fair<br>Value     | Investments Underlying SGICs Quality Ratings at June 30, 2012 |         |         |        |       |         |
|------------------------------|-----------------------|-------------------|---------------------------------------------------------------|---------|---------|--------|-------|---------|
|                              |                       |                   | AAA                                                           | AA      | A       | BBB    | BB    | Unrated |
| Asset Backed Securities      | 1.87                  | \$ 81,884         | \$ 81,081                                                     | \$ 32   | \$ 739  | \$ 32  | \$ -  | \$ -    |
| Corporate Bonds              | 3.98                  | 301,878           | 17,432                                                        | 55,870  | 137,327 | 86,799 | 1,911 | 2,539   |
| Government Agency Securities | 4.04                  | 79,340            | -                                                             | 64,045  | 2,572   | -      | -     | 12,723  |
| International Bonds          | 2.58                  | 17,560            | 7,644                                                         | 5,249   | 4,667   | -      | -     | -       |
| Mortgages                    | 1.87                  | 173,989           | 28,934                                                        | 132,595 | 4,865   | -      | -     | 7,595   |
| Short Term Investments       | 0.00                  | 9,440             | -                                                             | -       | -       | -      | -     | 9,440   |
| US Treasury Notes            | 5.08                  | 94,579            | -                                                             | -       | -       | -      | -     | 94,579  |
|                              |                       | <u>\$ 758,670</u> |                                                               |         |         |        |       |         |

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

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2012, but the security had not settled.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**5. Compensated Absences**

The liability for the vested portion of compensated absences for each Plan at June 30, 2012, is as follows:

|              | School<br>Employees | Judges          | State<br>Patrol |
|--------------|---------------------|-----------------|-----------------|
| Annual Leave | \$ 115,928          | \$ 1,771        | \$ 1,511        |
| Sick Leave   | 95,046              | 1,452           | 1,238           |
|              | <u>\$ 210,974</u>   | <u>\$ 3,223</u> | <u>\$ 2,749</u> |

**6. Payments to Omaha Public Schools**

Neb. Rev. Stat. § 79-916(2) (Supp. 2011) requires an annual payment, for one percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statements of Changes in Plan Net Assets in State Contributions additions and as Other Deductions for the July 2012 appropriation for the fiscal year ended June 30, 2012. Additionally, on the Statements of Plan Net Assets, the amount is included as a Contribution Receivable and a liability for contributions due to OPS as the appropriation was not received until July 2012.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2008). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), who then in turn makes the actual service annuity payments to the Omaha retirees. In accordance with Neb. Rev. Stat. § 79-916 (Supp. 2011), a separate Service Annuity Fund (Fund) was established for such payments and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund, as may be necessary, to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the Fund (\$8,536,879), consisting almost entirely of investments) are included in the Statements of Plan Net Assets at June 30, 2012. The service annuity payments to OPS are shown as Other Deductions in the Statements of Changes in Plan Net Assets.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**6. Payments to Omaha Public Schools** (Concluded)

Deductions from the School Plan for the year ended June 30, 2012, were as follows:

|                                | <u>School Employees</u> |
|--------------------------------|-------------------------|
| Omaha 1% Appropriation         | \$ 3,918,301            |
| Omaha Service Annuity Payments | <u>1,513,656</u>        |
| Total Other Deductions         | <u>\$ 5,431,957</u>     |

**7. Contingencies**

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

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit, which have a \$1,000,000, self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various coverage's are available from DAS – Risk Management division.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**7. Contingencies** (Concluded)

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

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

**8. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2012, are summarized as follows:

**Compensated Absences**

|                             | School<br>Employees | Judges          | State Patrol    |
|-----------------------------|---------------------|-----------------|-----------------|
| Beginning Balance           | \$ 193,039          | \$ 3,110        | \$ 2,720        |
| Increases (Decreases)       | 17,935              | 113             | 29              |
| Ending Balance              | <u>\$ 210,974</u>   | <u>\$ 3,223</u> | <u>\$ 2,749</u> |
| Amounts Due Within One Year | <u>\$ 14,768</u>    | <u>\$ 226</u>   | <u>\$ 192</u>   |

**9. School Employee Contributions**

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$2,164,688. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**9. School Employee Contributions** (Concluded)

months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Reissue 2008), Neb. Rev. Stat. § 79-933.05 (Supp. 2011), Neb. Rev. Stat. § 79-933.06 (Supp. 2011), and Neb. Rev. Stat. § 79-933.08 (Reissue 2008).

**10. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

|                                | Beginning<br>Balance | Increases             | Decreases   | Ending<br>Balance |
|--------------------------------|----------------------|-----------------------|-------------|-------------------|
| <b>School Employees:</b>       |                      |                       |             |                   |
| Equipment                      | \$ 12,409,788        | \$ -                  | \$ -        | \$ 12,409,788     |
| Less: Accumulated Depreciation | 11,343,368           | 1,058,669             | -           | 12,402,037        |
| Total Capital Assets, Net      | <u>\$ 1,066,420</u>  | <u>\$ (1,058,669)</u> | <u>\$ -</u> | <u>\$ 7,751</u>   |
| <br><b>Judges:</b>             |                      |                       |             |                   |
| Equipment                      | \$ 2,104,371         | \$ -                  | \$ -        | \$ 2,104,371      |
| Less: Accumulated Depreciation | 2,089,763            | 14,502                | -           | 2,104,265         |
| Total Capital Assets, Net      | <u>\$ 14,608</u>     | <u>\$ (14,502)</u>    | <u>\$ -</u> | <u>\$ 106</u>     |
| <br><b>State Patrol:</b>       |                      |                       |             |                   |
| Equipment                      | \$ 2,059,963         | \$ -                  | \$ -        | \$ 2,059,963      |
| Less: Accumulated Depreciation | 2,045,355            | 14,502                | -           | 2,059,857         |
| Total Capital Assets, Net      | <u>\$ 14,608</u>     | <u>\$ (14,502)</u>    | <u>\$ -</u> | <u>\$ 106</u>     |

**11. Subsequent Events**

**State Patrol Additional Contributions.** Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2012) defines actuarially required contributions. The actuarially determined additional contribution requirement for the State Patrol Plan as of July 1, 2012, is \$4,552,680.

**State Patrol Contributions Rate Decrease.** Neb. Rev. Stat. § 81-2017(1) (Cum. Supp. 2012) decreases the member and employer contribution rates from 19% to 16%, effective July 1, 2013.

**School Employee Plan Contribution Rate Increase.** Neb. Rev. Stat. § 79-958 (Cum. Supp. 2012), increased the member contribution rate from 8.88% to 9.78% on September 1, 2012.

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

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**11. Subsequent Events** (Concluded)

**School Employee Additional Contributions.** Neb. Rev. Stat. § 79-966.01 (Reissue 2008) defines actuarially required contributions. The actuarially determined additional contribution requirement for the School Employees Plan as of July 1, 2012, is \$48,092,426. Furthermore, the additional contribution requirement for the Omaha Public Schools Retirement Plan as of July 1, 2012, is \$1,106,265.

**Judges Additional Contributions.** Neb. Rev. Stat. § 24-705 (Cum. Supp. 2012) defines actuarially required contributions. The actuarially determined additional contribution requirement for the Judges Plan as of July 1, 2012, is \$79,823.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF FUNDING PROGRESS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Unaudited)

| Actuarial<br>Valuation<br>Date | (a)<br>Actuarial<br>Value<br>of Assets | (b)<br>Actuarial<br>Accrued<br>Liability (AAL) | (b-a)<br>Unfunded<br>Accrued Liabilities<br>(UAL) | (a/b)<br>Funded<br>Ratio | (c)<br>Covered<br>Payroll | ((b-a)/c)<br>UAL as a<br>Percentage of<br>Covered<br>Payroll |
|--------------------------------|----------------------------------------|------------------------------------------------|---------------------------------------------------|--------------------------|---------------------------|--------------------------------------------------------------|
| <b>SCHOOL EMPLOYEES</b>        |                                        |                                                |                                                   |                          |                           |                                                              |
| 6/30/2012                      | \$7,358,964,135                        | \$9,609,157,134                                | \$ 2,250,192,999                                  | 76.6%                    | \$1,593,184,929           | 141.2%                                                       |
| 6/30/2011                      | 7,267,497,259                          | 9,039,744,995                                  | 1,772,247,736                                     | 80.4%                    | 1,590,225,983             | 111.4%                                                       |
| 6/30/2010                      | 7,040,908,599                          | 8,542,119,000                                  | 1,501,210,401                                     | 82.4%                    | 1,543,930,532             | 97.2%                                                        |
| 6/30/2009                      | 7,007,581,825                          | 8,092,339,318                                  | 1,084,757,493                                     | 86.6%                    | 1,481,568,432             | 73.2%                                                        |
| 6/30/2008                      | 6,932,918,638                          | 7,654,536,359                                  | 721,617,721                                       | 90.6%                    | 1,389,124,819             | 51.9%                                                        |
| 6/30/2007                      | 6,396,336,863                          | 7,070,308,583                                  | 673,971,720                                       | 90.5%                    | 1,325,616,322             | 50.8%                                                        |
| <b>JUDGES</b>                  |                                        |                                                |                                                   |                          |                           |                                                              |
| 6/30/2012                      | \$ 125,927,523                         | \$ 137,464,661                                 | \$ 11,537,138                                     | 92%                      | \$ 19,005,478             | 60.7%                                                        |
| 6/30/2011                      | 125,190,720                            | 128,264,617                                    | 3,073,897                                         | 98%                      | 18,182,238                | 16.9%                                                        |
| 6/30/2010                      | 121,406,463                            | 121,309,682                                    | (96,781)                                          | 100%                     | 18,773,203                | (0.5%)                                                       |
| 6/30/2009                      | 120,992,600                            | 118,558,418                                    | (2,434,182)                                       | 102%                     | 18,373,339                | (13.2%)                                                      |
| 6/30/2008                      | 119,961,758                            | 114,251,081                                    | (5,710,677)                                       | 105%                     | 17,990,072                | (31.7%)                                                      |
| 6/30/2007                      | 111,006,176                            | 103,704,250                                    | (7,301,926)                                       | 107%                     | 17,003,921                | (42.9%)                                                      |
| <b>STATE PATROL</b>            |                                        |                                                |                                                   |                          |                           |                                                              |
| 6/30/2012                      | \$ 282,810,785                         | \$ 362,298,975                                 | \$ 79,488,190                                     | 78.1%                    | \$ 25,794,219             | 308.2%                                                       |
| 6/30/2011                      | 279,192,669                            | 339,554,456                                    | 60,361,787                                        | 82.2%                    | 26,195,473                | 230.4%                                                       |
| 6/30/2010                      | 273,306,925                            | 321,901,446                                    | 48,594,521                                        | 84.9%                    | 26,765,816                | 181.6%                                                       |
| 6/30/2009                      | 274,119,906                            | 305,291,065                                    | 31,171,159                                        | 89.8%                    | 25,922,439                | 120.2%                                                       |
| 6/30/2008                      | 273,393,928                            | 291,996,719                                    | 18,602,791                                        | 93.6%                    | 26,979,643                | 69.0%                                                        |
| 6/30/2007                      | 254,662,819                            | 265,846,597                                    | 11,183,778                                        | 95.8%                    | 26,072,859                | 42.9%                                                        |

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS**  
**AND OTHER CONTRIBUTING ENTITIES**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Unaudited)

| <b>SCHOOL EMPLOYEES</b> |                                  |                |                           |
|-------------------------|----------------------------------|----------------|---------------------------|
| Year Ended<br>June 30   | Annual Required Contribution (1) |                | Percentage<br>Contributed |
|                         | State (2)                        | School         |                           |
| 2012                    | \$ 46,896,367 (3)                | \$ 145,582,040 | 88%                       |
| 2011                    | 41,746,797                       | 135,328,339    | 89%                       |
| 2010                    | 21,380,352                       | 128,845,427    | 100%                      |
| 2009                    | 20,620,548                       | 110,028,942    | 100%                      |
| 2008                    | 15,832,941                       | 105,977,554    | 100%                      |
| 2007                    | 15,314,413                       | 107,478,977    | 100%                      |

| <b>JUDGES</b>         |                              |              |                           |
|-----------------------|------------------------------|--------------|---------------------------|
| Year Ended<br>June 30 | Annual Required Contribution |              | Percentage<br>Contributed |
|                       | State                        | Court Fees   |                           |
| 2012                  | \$ 72,244 (3)                | \$ 3,411,370 | 100%                      |
| 2011                  | 72,244                       | 3,507,417    | 100%                      |
| 2010                  | 72,244                       | 3,543,047    | 100%                      |
| 2009                  | 72,244                       | 3,419,091    | 100%                      |
| 2008                  | 72,244                       | 3,280,964    | 100%                      |
| 2007                  | 64,354                       | 3,143,599    | 100%                      |

| <b>STATE PATROL</b>   |                              |  |                           |
|-----------------------|------------------------------|--|---------------------------|
| Year Ended<br>June 30 | Annual Required Contribution |  | Percentage<br>Contributed |
|                       |                              |  |                           |
| 2012                  | \$ 7,774,506 (3)             |  | 100%                      |
| 2011                  | 7,173,344                    |  | 83%                       |
| 2010                  | 6,260,122                    |  | 100%                      |
| 2009                  | 5,384,789                    |  | 100%                      |
| 2008                  | 4,855,700                    |  | 100%                      |
| 2007                  | 5,078,674                    |  | 100%                      |

The actuarial determination of the Annual Required Contribution was based on actual covered payroll for the period.

- (1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes appropriations for plan year ended June 30 paid after end of plan year.
- (2) Does not include appropriations to Omaha Public Schools.
- (3) As of July 1, 2012, additional State funding is required for the School Employees Plan in the amount of \$48,092,426, for the State Patrol Plan in the amount of \$4,552,680, and for the Judges Plan in the amount of \$79,823.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS**  
Fiscal Years Ended June 30, 2008 Through 2012

|                                          | 2008           | 2009           | 2010           | 2011           | 2012           |
|------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b><u>SCHOOL EMPLOYEES</u></b>           |                |                |                |                |                |
| Active Members                           | 37,832         | 39,231         | 39,764         | 39,886         | 39,477         |
| Inactive Members                         | 18,995         | 19,413         | 19,762         | 20,326         | 20,971         |
| Retirees                                 | 15,339         | 15,949         | 16,912         | 17,814         | 19,097         |
| Total Benefits Paid (3)                  | \$ 261,336,738 | \$ 289,529,736 | \$ 308,630,269 | \$ 339,042,978 | \$ 377,650,002 |
| Average Annual Benefit (1)               | \$ 17,037      | \$ 18,153      | \$ 18,249      | \$ 19,032      | \$ 19,775      |
| Average Monthly Benefit (4)              | \$ 1,420       | \$ 1,513       | \$ 1,521       | \$ 1,586       | \$ 1,648       |
| Administrative Expenses                  | \$ 5,104,501   | \$ 2,675,297   | \$ 5,925,090   | \$ 4,005,120   | \$ 4,066,267   |
| Average Admin. Expense<br>Per Member (2) | \$ 70.73       | \$ 35.87       | \$ 77.51       | \$ 51.33       | \$ 51.12       |
| <b><u>JUDGES</u></b>                     |                |                |                |                |                |
| Active Members                           | 157            | 154            | 153            | 146            | 150            |
| Inactive Members                         | 9              | 8              | 8              | 7              | 7              |
| Retirees                                 | 155            | 157            | 154            | 160            | 166            |
| Total Benefits Paid (3)                  | \$ 5,277,937   | \$ 5,433,233   | \$ 5,576,749   | \$ 5,801,195   | \$ 6,834,551   |
| Average Annual Benefit (1)               | \$ 34,051      | \$ 34,607      | \$ 36,213      | \$ 36,257      | \$ 41,172      |
| Average Monthly Benefit (4)              | \$ 2,838       | \$ 2,884       | \$ 3,018       | \$ 3,021       | \$ 3,431       |
| Administrative Expenses                  | \$ 362,628     | \$ 421,682     | \$ 169,228     | \$ 73,981      | \$ 56,704      |
| Average Admin. Expense<br>Per Member (2) | \$ 1,129.68    | \$ 1,321.89    | \$ 537.23      | \$ 236.36      | \$ 175.55      |
| <b><u>STATE PATROL</u></b>               |                |                |                |                |                |
| Active Members                           | 496            | 468            | 444            | 433            | 427            |
| Inactive Members                         | 9              | 11             | 13             | 17             | 18             |
| Retirees                                 | 352            | 372            | 390            | 402            | 422            |
| Total Benefits Paid (3)                  | \$ 12,781,649  | \$ 13,347,738  | \$ 13,646,360  | \$ 14,139,558  | \$ 14,737,951  |
| Average Annual Benefit (1)               | \$ 36,312      | \$ 35,881      | \$ 34,991      | \$ 35,173      | \$ 34,924      |
| Average Monthly Benefit (4)              | \$ 3,026       | \$ 2,990       | \$ 2,916       | \$ 2,931       | \$ 2,910       |
| Administrative Expenses                  | \$ 366,917     | \$ 582,678     | \$ 167,999     | \$ 95,131      | \$ 57,236      |
| Average Admin. Expense<br>Per Member (2) | \$ 428.14      | \$ 684.70      | \$ 198.35      | \$ 111.66      | \$ 66.02       |

Notes:

(1) Calculated: Total Benefits Paid/#Total Retirees=Average Annual Benefit

(2) Calculated: Administrative Expenses/Total Members=Average Admin Expense Per Member

(3) Total benefits paid does not include refunds

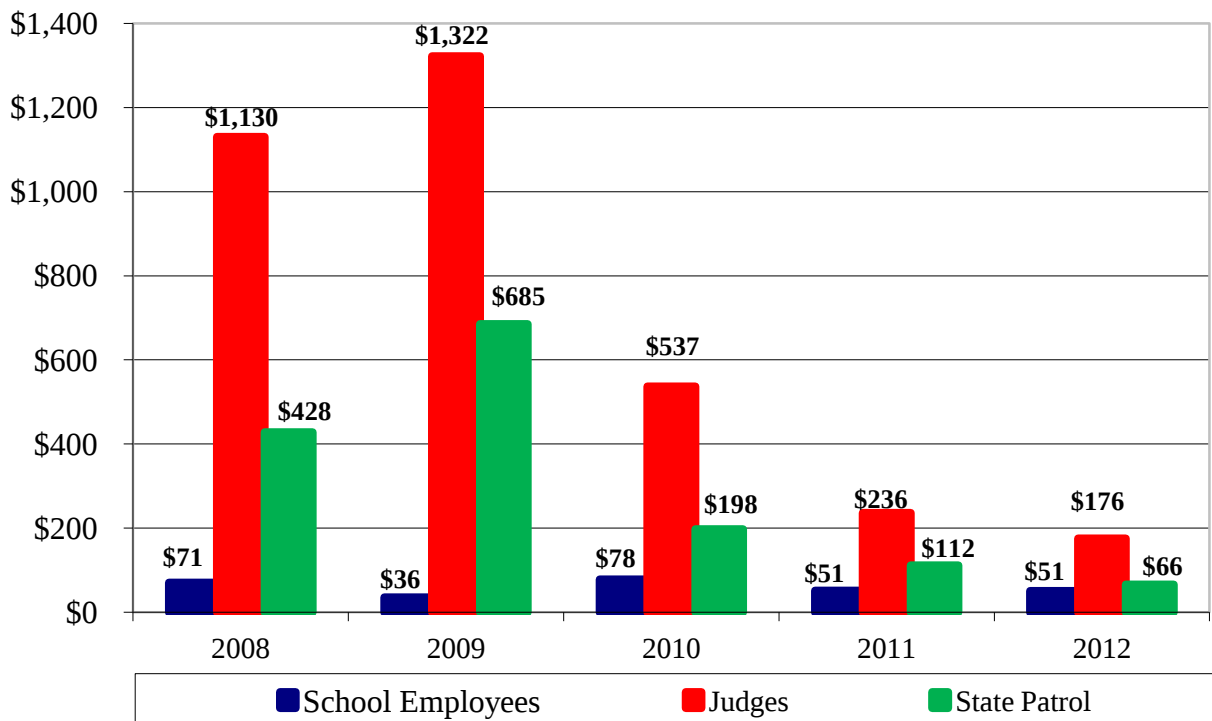
(4) Calculated: Average Annual Benefit/12 = Average Monthly Benefit

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

**Average Annual Benefit**



**Average Administrative Expenses Per Member**





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of and for the year ended June 30, 2012, and have issued our report thereon dated March 22, 2013. The report was modified to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. 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.

### Internal Control Over Financial Reporting

Management of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting that are described in the Comments Section of the report: Comment Number 2 (Berwyn Death Audit Review) and Comment Number 3 (Inadequate Written Procedures and Controls). 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.

#### Compliance and Other Matters

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

We also noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of this report as Comment Number 1 (Cost of Living Adjustment (COLA) Calculations), Comment Number 4 (Resolution of Prior Year School Audit Findings), Comment Number 5 (Plan Documents Not Consistent with NPERS’ Rules and Regulations), Comment Number 6 (Contracts), Comment Number 7 (Non-Contributing Employees), and Comment Number 8 (Incorrect Compensation Reported to NPERS).

The Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, others within NPERS, and the appropriate Federal and regulatory agencies and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

March 22, 2013

Philip J. Olsen, CPA, CISA  
Audit Manager