AUDIT REPORT
OF THE NEBRASKA
PUBLIC EMPLOYEES RETIREMENT
SYSTEMS - SCHOOL EMPLOYEES, JUDGES,
AND STATE PATROL RETIREMENT PLANS

JULY 1, 2000 THROUGH JUNE 30, 2001

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

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SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
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BACKGROUND

The Nebraska Public Employees Retirement Board (NPERB) 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 counties was assumed by the Board in 1973.

The Board has seven members appointed by the Governor, with legislative approval, to five-year terms. Members include:

- Three participants of retirement systems administered by the Board;
- A retired participant of a retirement system administered by the Board;
- Three public representatives who are not State employees or employees of its subdivisions; and
- The State investment officer as a nonvoting, ex officio member.

All appointed members must be Nebraska Citizens.

The Board meets monthly. Members are not paid, but are reimbursed for their expenses.

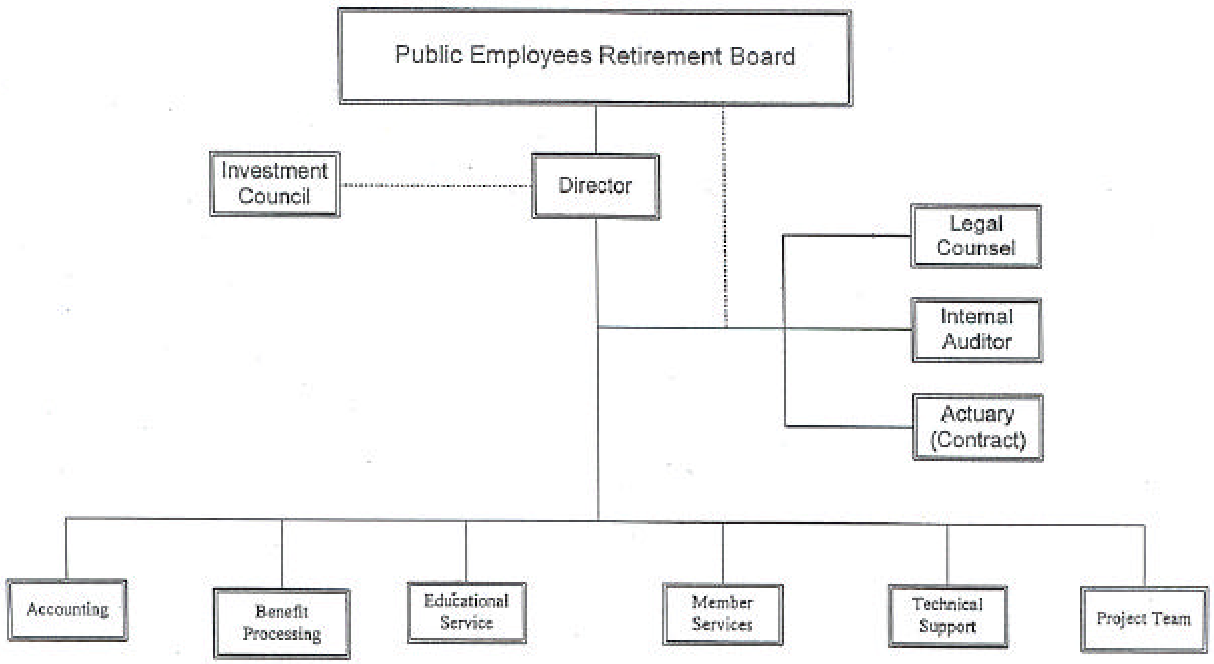
The Board hires a director to equitably distribute expenses among the retirement systems it administers. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

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

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

ORGANIZATIONAL CHART



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

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. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Improper Contributions by School Districts:*** Thirty of 165 contributing members tested (at 12 of 46 schools) did not have retirement contributions correctly calculated. Incorrect contributions ranged from $16 under-contributed to $70 over-contributed for the month tested.

2. ***Benefit Payments Miscalculated:*** Two of six newly retired Judges tested were overpaid $368 and $113 per month respectively. We also noted NPERS calculated the Cost-of-Living Adjustments for School, Judges, and state Patrol members based on methodology provided by the actuary; however, the methodology and the statutes did not appear to be in agreement.

3. ***Disbursement Procedures:*** Unreasonable travel reimbursements were noted, and the State and County Plans were charged $3,794 for expenses related to the School, Judges, and Patrol Plans.

4. ***School Member Records:*** Service years for one member tested were incorrectly reported to the actuary, and interest was not properly credited for contributions posted late.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of NPERS.

Draft copies of this report were furnished to NPERS to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Improper Contributions by School Districts

Neb. Rev. Stat. Section 84-1503(1)(f) R.S. Supp., 2000 requires the Board to adopt and implement procedures for reporting information by employers, as well as sampling and monitoring procedures.

Neb. Rev. Stat. Section 79-902(37)(a) R.S. Supp., 2000 defines compensation and states, "Compensation does not include . . . compensation for unused sick leave or unused vacation leave converted to cash payments, insurance premiums converted into cash payments . . . "

Good internal control requires procedures to ensure the contributions remitted by the school district are accurate. Good internal control also requires procedures to ensure all eligible and only eligible employees join the School Employees Retirement Plan.

During our testing of school contributions, we reviewed the payroll records for 46 of 591 school districts and noted the following:

- NPERS did not have sampling and monitoring procedures in place to ensure school districts correctly calculated and reported contributions, salary information, and hours worked. NPERS did not have sampling and monitoring procedures to ensure school districts reported all eligible employees. This has been noted in each audit report since 1995.

- Thirty of 165 contributing members tested (at 12 of 46 schools) did not have retirement contributions correctly calculated. All were based on incorrect compensation, as insurance premiums or unused leave converted to cash payments were included in the compensation used to calculate retirement contributions. In one instance, the member did not have compensation for activities included. Incorrect contributions ranged from $16 under-contributed to $70 over-contributed for the month tested. Errors were also noted in our prior audit report.

Without adequate sampling and monitoring procedures the risk for errors greatly increases.

> We again recommend NPERS implement procedures to ensure the salary upon which contributions and benefit payments are based is accurate, and to ensure all eligible employees are added to the retirement plan. We further recommend NPERS resolve the errors noted.

NPERS' Response: The audit of the School Employees Retirement Plan disclosed compensation amounts used for retirement plan purposes that may not correspond with the definition of

COMMENTS AND RECOMMENDATIONS

1. Improper Contributions by School Districts (Continued)

compensation outlined in Neb. Rev. Stat. Section 79-902(37)(a). The greatest discrepancy for the 30 members noted would have resulted in an over-contribution of approximately $70, and 20 of the exceptions resulted in excess contributions of less than $10.

Our preliminary contact with the schools tested indicates that a majority of these discrepancies are related to a Long Term Disability (LTD) insurance premium paid by the schools as a benefit, but included in taxable income and also in retirement compensation. The premium amount is usually under $10, with $20 per month being the largest. NPERS will continue our discussions with the school districts and make a determination as to whether it is appropriate to include this amount in retirement compensation based on the definition in the statute. If it is determined that the premium is not retirement compensation, we will contact the schools and request that LTD premiums not be added to "retirement compensation" used for deduction or calculation purposes.

Another compensation exception involved a school with compensation amounts that related to unused leave or vacation. This is not in compliance with the statute, and the school will be notified, and corrections made if amounts are determined to be material. Other isolated instances of compensation additions described as "in-lieu of insurance" will be reviewed to determine if these amounts are part of the member's compensation package.

It is our understanding that the School Plan audit also included review of proper enrollment for all eligible members, and NPERS is pleased that no discrepancies were discovered. Since it has been determined that agency on-site reviews of all school districts is prohibitive because of the time, staff and cost involved, NPERS will continue with our efforts of ensuring proper reporting through comprehensive and continuous employer education and communication. Our agency developed an extensive employer education program during 2001, as outlined in State Statute Section 84-1512, and has held training sessions at various sites throughout the year. Attendance has been good, and schools are very appreciative of this effort. Our training team has also updated Employer Education and Reporting Procedures Manuals. The plan is to develop and maintain a regular communication network with schools through e-mail and web site capabilities, newsletters and quarterly mailings in addition to the training sessions.

School districts have the responsibility for proper and accurate administration of eligibility and contribution procedures, and NPERS is always available to assist them in interpreting the rules and accomplishing their duties.

Auditors' Response: Section 84-1503 requires NPERS to implement sampling and monitoring procedures; in our judgment, the employer education program does not meet these requirements. Furthermore, we believe that on-site monitoring of a sample of schools could be done with limited resources. Our sampling procedures included on-site testing of

COMMENTS AND RECOMMENDATIONS

1. Improper Contributions by School Districts (Concluded)

46 schools in less than 180 hours for planning, testing, and travel. We noted errors at 26% of the schools visited, which indicates the need for on-site monitoring. While erroneously deducting $10 or $35 per month from a member's paycheck may not be material to the Plan, NPERS has a fiduciary responsibility to each member to ensure NPERS monitoring procedures are effective in detecting and correcting these errors.

2. Benefit Payments Miscalculated

According to Neb. Rev. Stat. Section 24-710 (2) R.S.Supp., 2000, each future member judge "shall be entitled to receive an annuity, each monthly payment of which shall be in an amount equal to three and one-half percent of his or her final average compensation as such judge, multiplied by the number of his or her years of creditable service, except that the monthly benefits received under this subsection shall not exceed seventy percent of the final average compensation . . ."

We noted the benefit calculation was not correct for two of six newly retired Judges tested as the monthly benefits exceeded the seventy percent of compensation limit. One retiree was overpaid $368 per month since July 2000, and the other was overpaid $113 per month since October 2000.

Neb. Rev. Stat. Sections 79-947.01 R.S.Supp., 2000; 24-710.07 R.S.Supp., 2000; and 81-2027.03 R.R.S. 1999 detail calculations to provide Cost-of-Living Adjustments (COLA) to benefit payments for the School, Judges, and State Patrol Plans. We noted NPERS calculated the COLA based on methodology provided by the actuary, however; the methodology and the statutes did not appear to be in agreement.

> We recommend NPERS implement procedures to ensure benefit payments are proper. We further recommend benefit payments to the members noted above be adjusted and overpayments be reimbursed to the Plan. Finally, we recommend NPERS ensure the COLA calculation methodology and the statutes are reconciled.

NPERS' Response: NPERS is concerned when benefit calculations are incorrect. Our agency is responsible for almost 800 retirement benefit calculations each year, and possibly twice as many benefit estimate calculations. Therefore, it is a requirement that all calculations be reviewed and approved by a second Benefit Specialist in the department. Also, to ensure consistency in the benefit calculations, spreadsheet programs have been developed to assist in the calculations. Unfortunately, a Judges Plan spreadsheet was updated for new legislation for the year 2001, but a benefit limitation for the plan was not properly invoked for the calculation. The error was subsequently discovered, but calculation of benefits for two judges were completed, and reviewed, using the inaccurate spreadsheet. The judges have been contacted and the necessary

COMMENTS AND RECOMMENDATIONS

2. Benefit Payments Miscalculated (Concluded)

corrections are being made. In the future, updated and revised spreadsheets will be thoroughly tested, and any erroneous versions will be immediately deleted. The Strategic Business Technology Plan currently in progress involves development of software for calculation of benefits within the system itself, which should eliminate the possibility of these errors in independent spreadsheets.

An additional audit comment was made regarding Cost of Living Adjustment (COLA) benefit calculations. NPERS does not believe that the COLAs calculated pursuant to these sections were incorrectly calculated. The methodology used by NPERS is identical to the methodology provided by the actuary to the Legislature at the time these sections of law were added. NPERS respectfully disagrees with the auditor's reading of Neb. Rev. Stat. §§ 79-947.01, 24-710.07, and 81-2027.03.

NPERS is willing to concede that the actual wording of these statutory sections may not be ideal and – in fact – is capable of several reasonable interpretations. The Nebraska Supreme Court has held that a statute is open for construction when the language used requires interpretation or may reasonably be considered ambiguous. State ex rel. Stenberg v. Moore, 258 Neb. 199, 602 N.W.2d 465 (1999). As an aid to statutory interpretation, we should look to the statute's purpose and give to the statute a reasonable construction which best achieves that purpose, rather than a construction which would defeat it. Fay v. Dowding, Dowding, 261 Neb. 216, 623 N.W.2d 287 (2001). A sensible construction will be placed upon a statute to effectuate the object of the legislation rather than a literal meaning that would have the effect of defeating the legislative intent. Wortman v. Unger, 254 Neb. 544, 578 N.W.2d 413 (1998).

As the agency charged with the administration of the retirement statutes in question, NPERS has a duty to assure that the statutes under its jurisdiction are administered in a way that the rules of statutory construction noted above are followed. The way in which the COLA statutes are administered is exactly how the proposal was presented to the Legislature, and exactly what the Legislature was intending when the statutes were passed. Although construction of a statute by a department charged with enforcing it is not controlling, considerable weight will be given to such a construction, particularly when the Legislature has not taken any action to change such an interpretation." Cox Cable of Omaha v. Nebraska Dept. of Revenue, 254 Neb. 598, 603, 578 N.W.2d 423, 426 (1998). See, also, Vulcraft v. Karnes, 229 Neb. 676, 428 N.W.2d 505 (1988) (citing general rule of statutory construction that interpretation of statute given by administrative agency to which statute is directed is entitled to weight). This agency has both interpreted and administered the statutes in question in a manner consistent with the intent of the Legislature. NPERS believes its construction of the statutes is both rational and within the Legislative intent. Therefore, at this time, NPERS sees no need to change the statutes on which the COLA calculations are based.

COMMENTS AND RECOMMENDATIONS

3. <u>Disbursement Procedures</u>

Good internal control requires written policies regarding travel reimbursements. The Nebraska Accounting System Manual, CONC-005, Travel Expense Policies, Section (5)(a) states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost of meals. Adequate accounting generally requires the use of a documentation record . . . Such log should list the date, amount and place (e.g. city) for **<u>each</u>** meal/food cost. . . . Agencies are responsible to see that all submitted claims for meals are adequately substantiated . . . . Unsubstantiated meals should not be reimbursed." Neb. Rev. Stat. Section 84-1503(1)(c) R.S. Supp., 2000 requires the Board to provide an equitable allocation of expenses among the retirement plans. NPERS has a fiduciary responsibility to members to ensure expenses charged to the Plans are reasonable and necessary.

During our testing of twelve disbursement documents, we noted the following:

- One document included reimbursement for $98 for one day of meals and the IRS guideline for the location was $42 per day. The meal receipts for that day were not itemized and we could not determine whether the entire expense was allowable. The individual was also reimbursed $171 for a rental car when the conference was at the same hotel the individual stayed. The individual combined personal and business travel July 6-13, 2000, and attended a conference held July 10-12, 2000. The car rental was prorated and was reimbursed 57% (four of seven days) by the Plans. The total rental charges of $299, did include $29 in discounts, but also included $105 for an upgrade. Had the car rented not been an upgraded model the four-day cost, excluding the discount, would have been $124.

- Four documents did not have support for the allocation of expenses. One document charged $2,627 to the State Plan and $1,167 to the County Plan when the contract for the services was specifically for the School, Judges, and Patrol Plans. Two documents, which were allocated to all plans except the Deferred Compensation Plan, did not have documentation available to support this allocation. One document for reimbursement for travel expenses was allocated among the School, State, County, and Deferred Compensation Plans. Documentation was not available to support the allocation of expenses among the plans. Such documentation would provide greater assurance the allocations were calculated equitably.

A similar finding was noted in our prior audit report.

> We recommend NPERS implement procedures to ensure expense reimbursements are reasonable for the agency and maintain documentation to support reimbursements and the allocation of expenses. Finally, we recommend NPERS reimburse the State and County Plans for disbursements improperly charged to the Plans.

COMMENTS AND RECOMMENDATIONS

3. <u>Disbursement Procedures</u> (Concluded)

NPERS' Response: Pre-audit policy at NPERS currently requires receipts, or itemization of meals on the Expense Reimbursement Document, for all travel reimbursements. If the total per day meal reimbursement exceeds the IRS per diem amount, itemized receipts are required to substantiate the additional cost. An audit finding noted that reimbursements to an individual for Conference expenses lacked proper support and were not reasonable. Receipts were attached for meal reimbursements, but they were not itemized. This was an oversight, and occurred prior to installation of our pre-audit function. This additional review step should eliminate this deficiency in the future.

A further audit comment related to car rental expenses that appeared unreasonable. The rental costs of $42.71 per day were clearly substantiated with a receipt. Our agency, as well as the Nebraska Department of Administrative Service, allows for reimbursement of expenses incurred for the use of rental cars. The individual's stay at the Conference was for a 4-day period, and it was expected that costs would be incurred for travel to and from the airport as well as for evening meals. The cost included an upgrade of $15 per day, but this was necessary because of the individual's height. NPERS does not feel the rental reimbursement was unreasonable or unsubstantiated.

Other audit findings involved allocation of expenses among the various plans. The cost for a benefit study was mistakenly charged to five plans when the proper cost allocation would have been to the three defined benefit plans only. If deemed necessary, we will make prior period adjustments to allocate the costs to the proper plans. Expenses not allocated to the Deferred Compensation Plan (DCP) will not be adjusted as we have subsequently completed a study of cost allocations among the plans, and determined that the DCP's share of the general overhead costs should actually be reduced for future allocations. In determining proper allocation of costs among the plans, the Director of the agency has given managers the authority to make this decision. If a manager deems that a cost should only be charged to certain plans, the agency will adhere to their judgment in allocating those costs, as there are often no simple methods to quantify most distributions.

4. <u>School Member Records</u>

Service years of plan members are used by the actuary to determine the funding status of the plan and contributions needed. Good internal control requires service years provided to the actuary be correct in order for an accurate actuarial valuation to be performed. Good internal control requires procedures to ensure contributions begin on time and are posted in a timely manner. Neb. Rev. Stat. Section 79-959 R.R.S. 1996 requires the account of each school member to be credited with regular interest. Good internal control also requires timely follow-up of reported deaths.

COMMENTS AND RECOMMENDATIONS

4. School Member Records (Continued)

We noted the following:

- One of ten School members tested had incorrect service years per NPERS records and as reported to the actuary. NPERS reported 19 years; the correct service was 15.77 years. A similar comment was noted in the prior audit report.

- One of seventeen school members tested had contributions posted late and interest was not correctly credited. It appeared all 2,330 members from that school district did not receive the interest due for the month tested. A similar comment was noted in the prior audit report.

- When a membership application was received prior to contributions, procedures were not adequate to ensure contributions began on time, or at all. A similar comment was noted in the prior audit report.

- NPERS contracts to receive a listing of reported member deaths. NPERS received a report June 2000 and another July 2001. We tested four individuals who were listed on both the 2000 and 2001 reports. We noted one individual had a reported death of October 1999 and was still receiving payments but NPERS had not yet determined whether the reported death was accurate.

We recommend NPERS continue procedures to ensure service years recorded and reported to the actuary are accurate. We further recommend NPERS strengthen procedures to ensure member accounts are properly credited with interest due; and NPERS adjust the accounts for the members noted. We also recommend NPERS strengthen procedures to ensure contributions are started in a timely manner, if eligible, for all members who have submitted an application. Finally, we recommend NPERS follow up on reported deaths in a timely manner.

NPERS' Response: NPERS attempts to maintain the greatest accuracy possible considering the vast amount of data stored for over 45,000 members and collected from almost 600 different entities. At the critical point of calculating a retirement benefit, a very thorough verification process is in place to ensure that all data is accurate. This requires that the hours of service provided by the reporting agencies throughout the member's career be confirmed prior to benefit calculation.

Our agency is also engaged in an extensive data purification project with the goal of verifying member records prior to actual retirement. The data purification project involves reviewing member records, with those most apt to retire being undertaken first. The verification involves

COMMENTS AND RECOMMENDATIONS

4. <u>School Member Records</u> (Concluded)

reviewing documents that are in the member file or on agency data systems, and may include contacting the member's employer or the member for clarification. The data purification project is anticipated to continue through the 2003-2004 fiscal year, and 4 FTE's are currently dedicated to this project. This project will result in more accurate data for all reporting purposes.

The audit of interest posting resulted in one finding of late interest that was not posted. We make every effort to identify all late remittances from schools to enable the posting of an additional amount of interest for the member. This is a manual process as an accounting staff member must review all remittances posted to determine which are late, and set in motion the late interest calculations. Since the amount is insignificant, no further programming will be requested to automate the process at this time, but this will be an automated process with the system currently being designed through our Technology Plan.

The Berwyn Death Audit is an annual report received by the agency as a means of updating retiree files for deaths. The report received in June 2000 was not reviewed in a timely manner due to the termination of the Accounting Manager as well as position changes in the Benefits Processing management. Our intent is to include this review process in the priority projects of the agency.

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

INDEPENDENT AUDITORS' REPORT

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) – Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2001, 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of June 30, 2001, and the results of each plan's operations for the year then ended in conformity with accounting principles generally accepted in the Untied State of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2001, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The "Schedules of Funding Progress" and "Schedules of Contributions from Employers and Other Contributing Entities" are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairy stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

December 11, 2001 Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
June 30, 2001

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury (Note 3)	$ 5,627,266	$ 33,774	$ 147,015
Deposits with Vendors	9,091	94	94
Prepaid Fees	864	-	-
Receivables:			
Contributions	25,097,662	180,640	675,900
Interest and Dividend Income	19,601,109	388,358	890,662
Total Receivables	44,698,771	568,998	1,566,562
Pooled Investments, at fair value (Note 3):			
U.S. Government Securities	725,497,060	14,438,222	33,124,446
Corporate Bonds	621,087,344	12,360,349	28,357,350
Equity Securities	1,125,080,748	22,390,395	51,368,473
Foreign Government Securities	20,578,495	409,536	939,564
Municipal Bonds	9,031,096	179,729	412,338
Mutual Funds and Cash Equivalents	1,722,227,564	34,274,300	78,632,757
Total Investments	4,223,502,307	84,052,531	192,834,928
Invested Securities Lending Collateral	250,588,330	4,986,995	11,441,259
TOTAL ASSETS	4,524,426,629	89,642,392	205,989,858
LIABILITIES			
Benefits and Refunds Payable	858,698	-	-
Compensated Absences	116,416	2,795	2,578
Accounts Payable and Accrued Liabilities	970,213	18,433	41,085
Obligations under Securities Lending	250,588,330	4,986,995	11,441,259
Contributions for Omaha Public Schools (Note 5)	2,226,439	-	-
TOTAL LIABILITIES	254,760,096	5,008,223	11,484,922
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 25.)	$ 4,269,666,533	$ 84,634,169	$ 194,504,936

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, 2001

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Employee	$ 76,823,143	$ 721,157	$ 1,994,597
Employer	77,062,544	-	1,909,581
Court Fees	-	487,012	-
State	14,451,658	72,244	348,028
Total Contributions	168,337,345	1,280,413	4,252,206
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(302,384,152)	(6,105,145)	(13,966,066)
Interest & Dividends	123,459,468	2,497,863	5,714,800
Securities Lending Income	15,251,614	303,525	696,352
Total Investment Income	(163,673,070)	(3,303,757)	(7,554,914)
Investment Expenses	10,416,119	209,921	480,342
Securities Lending Expenses	13,844,932	275,530	632,126
Net Investment Income	(187,934,121)	(3,789,208)	(8,667,382)
Other Additions	26,690	-	-
Total Additions	(19,570,086)	(2,508,795)	(4,415,176)
DEDUCTIONS:			
Benefits	117,809,712	3,515,798	7,806,983
Refunds of contributions	13,098,795	32,047	405,116
Administrative expense	1,983,883	34,935	32,763
Total Deductions	132,892,390	3,582,780	8,244,862
Net increase	(152,462,476)	(6,091,575)	(12,660,038)
Net assets held in trust for pension benefits			
Beginning of year	4,422,129,009	90,725,744	207,164,974
End of year	$ 4,269,666,533	$ 84,634,169	$ 194,504,936

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

Background

The Nebraska Public Employees Retirement Systems (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 as follows:

Name	Type
School Employees Retirement	Defined Benefit
State Patrol Retirement	Defined Benefit
Judges Retirement	Defined Benefit
State Employees Retirement	Defined Contribution
County Employees Retirement	Defined Contribution

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans.

1. Summary of Significant Accounting Policies

Basis of Accounting. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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 balance sheet.

The accrual basis of accounting is utilized by the Plans. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employee and employer contributions are recognized as revenues 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.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Furniture and Equipment. Furniture and equipment are not capitalized by the Public Employees Retirement Board (NPERB). Instead NPERB records capital acquisition as an expense at the time of payment.

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2001, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	10,925	165	274
Terminated plan members entitled to but not yet receiving benefits	15,158	13	6
Active plan members	35,589	164	403
Total	61,672	342	683

The NPERB 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. Sections 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. Sections 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. Sections 81-2014 through 81-2040 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 systems administered by the NPERB, 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. As of June 30, 2001, there were 591 participating school districts. All regular public school

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

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. The benefits are based on both service and salary.

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 highest years of salary, 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.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 0.7 percent of the compensation of all members. The employees' contribution is equal to the greater of: 1) 49.75 percent of the overall rate necessary to fund the liability attributable to benefits in excess of service annuities, or 2) 7.25 percent of their compensation. The school district's (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 final average monthly salary, multiplied by the total years of service and the formula factor of 3.5%; subject to a maximum of 70 percent of 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 one dollar fee for each case is collected from District and County courts plus a ten percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Judges contribute six percent of their salary.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Concluded)

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 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 twelve month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3%. Calculation will vary with early retirement. Benefits vest after ten years of service.

Contributions. Members are required to contribute 11 percent of their annual pay plus 11 percent of pay received at termination for unused sick leave and vacation leave, which is matched by the State Patrol (employer). The State's contribution is based on an annual actuarial valuation.

3. Cash, Investments, and Securities Lending

Neb. Rev. Stat. Section 72-1247 R.S. Supp., 2000, authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule. The State Investment Officer may not buy on margin, buy call options, or buy put options. The two categories of investments on the Statements of Plan Net Assets are Cash in State Treasury and Pooled Investments. The Nebraska Investment Council has contracted with outside managers to manage all of the funds of the School Employees, Judges, and State Patrol Retirement Plans, except for the funds in the State Treasury.

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

Governmental Accounting Standards Board (GASB) Statement Number 3 requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the System or its agent in the name of the System. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty trust department or agent in the name of the System. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the System's name.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Cash, Investments, and Securities Lending (Continued)

Neb. Rev. Stat. Section 72-1247 R.S. Supp., 2000, authorizes the State Investment Officer to participate 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 NPERS custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the following schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, NPERS had no credit risk exposure to borrowers because the amounts NPERS owes the borrowers exceed the amounts the borrowers owe NPERS. The collateral securities cannot be pledged or sold by NPERS unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Generally, either NPERS or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 68 and 75 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to NPERS by the contract with the custodian.

Derivative instruments are financial contracts in which underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The System invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the System's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2001, the System held $422,605,000 of futures contracts.

Cash in State Treasury. Cash in State Treasury monies are pooled with other agencies' cash accounts to form the State Treasurer's Short-Term Investment Pool (STIP) which is invested by the Nebraska Investment Council. The STIP consists of a short-term investment group and a medium-term investment group. The short-term investment group is shown at cost which approximates market. The medium-term investment group is presented at market. GASB Statement Number 3 does not require that these pooled investments be categorized as noted above.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Cash, Investments, and Securities Lending (Concluded)

Investments. The Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans each own a portion of pooled investments which are managed by the Nebraska Investment Council. These investments meet the criteria of GASB Statement Number 3, Category 1.

The carrying amount of these pooled investments at June 30, 2001, is at market value as set forth below:

Investments - Category 1		
US Government Securities		$ 695,701,127
Corporate Bonds		650,198,972
Equity Securities		
Not on Securities Loan		1,019,621,651
On Securities Loan		3,474,003
Municipal Bonds		9,623,163
Foreign Government Securities		21,927,595
Subtotal		2,400,546,511
Not Categorized		
Investments held by broker-dealers		
Under Securities Loan With Cash Collateral		
US Government Securities		$ 77,358,601
Corporate Bonds		11,606,071
Equity Securities		175,743,962
Securities Lending Short-Term Collateral		
Investment Pool		267,016,584
Mutual Funds		1,707,619,922
Cash Equivalents		127,514,699
Total		$ 4,767,406,350
Carrying Amount at Market Value		
School Employees	$ 4,223,502,307	
Judges	84,052,531	
State Patrol	192,834,928	4,500,389,766
Invested Securities Lending Collateral		
School Employees	$ 250,588,330	
Judges	4,986,995	
State Patrol	11,441,259	267,016,584
Total Investments		$ 4,767,406,350

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Compensated Absences

All permanent employees working for the retirement systems earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board members are not eligible for paid leave.

Employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year.

Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days for employees under the Nebraska Classified System Personnel Rules and Regulations. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave.

All plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave becomes vested.

The liability for the vested portion of compensated absences for each plan at June 30, 2001, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 81,901	$ 1,966	$ 1,813
Sick Leave	32,629	784	723
Compensatory Leave	1,886	45	42
	$ 116,416	$ 2,795	$ 2,578

5. Contribution for Omaha Public Schools

Neb. Rev. Stat. Section 79-916, R.S. Supp., 2000 requires an annual payment to be made to Omaha Public Schools as a result of that school system having a separate retirement system. The contribution amount represents the July payment to Omaha Public Schools. This amount is included in State Contributions additions and recorded as benefits when payment is made.

6. Six-Year Historical Trend Information

Six-year historical trend information designed to provide information about NPERS' progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information following the notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Commitments

Risk Management. NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance, programs for the State. The State generally self-insures for general liability 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. Insurance is also purchased for medical payments, 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. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

D. Real and personal property on a blanket basis 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 $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000.

E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund 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 Employee's Retirement Systems' financial statements.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Commitments (Concluded)

Obligations Under Other Financing Arrangements. The State of Nebraska, through the Department of Administrative Services (DAS) – Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. In December 2000, the Board used this financing arrangement to finance the acquisition and installation of certain information technology equipment. The Master Lease Agreement was for $1,597,620, including interest costs of $262,620.

A summary of the future minimum contractual obligations, including interest at a rate of 5.239% as of June 30, 2001, is as follows:

Fiscal Year	Principal	Interest	Total
2002	$ 167,164	$ 61,067	$ 228,231
2003	176,135	52,096	228,231
2004	185,589	42,642	228,231
2005	195,549	32,682	228,231
2006	206,044	22,187	228,231
Thereafter	310,966	12,361	323,328

Litigation. The potential amount of liability involved in litigation pending against NPERS, 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.

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, 2001

UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
06/30/2001	$1,486,008,665	$1,704,201,512	$218,192,847	87.2%	$995,348,331	21.9%
06/30/2000	1,348,542,467	1,526,061,507	177,519,040	88.4%	933,339,432	19.0%
06/30/1999	1,129,546,860	1,345,494,742	215,947,882	84.0%	893,801,152	24.2%
06/30/1998	892,780,966	865,412,669	(27,368,297)	103.2%	882,963,179	(3.1%)
06/30/1997	742,015,212	771,343,623	29,328,411	96.2%	853,842,959	3.4%
06/30/1996	656,168,309	715,569,602	59,401,293	91.7%	820,092,017	7.2%

The Schedules of Funding Progress for the School Employees Plan include liabilities and assets for the Service Annuity benefits for active and inactive members, and all benefits for retired members and beneficiaries. The Excess Formula Annuity benefits for active and inactive members are funded using the Aggregate Actuarial Cost Method and are not required to be disclosed under Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The Aggregate Actuarial Cost Method does not identify or separately amortize unfunded actuarial liabilities.

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
JUDGES						
06/30/2001	$ 90,685,851	$ 90,685,851	$ -	100%	$ 15,188,085	0.00%
06/30/2000	84,483,073	84,483,073	-	100%	13,913,264	0.00%
06/30/1999	75,521,517	75,521,517	-	100%	13,462,643	0.00%
06/30/1998	67,541,962	67,541,962	-	100%	12,729,379	0.00%
06/30/1997	60,668,012	60,668,012	-	100%	12,175,863	0.00%
06/30/1996	56,060,318	56,060,318	-	100%	11,615,752	0.00%
STATE PATROL						
06/30/2001	$ 208,372,640	$ 187,284,490	$ (21,088,150)	111.3%	$ 16,727,477	(126.1%)
06/30/2000	193,019,673	169,545,801	(23,473,872)	113.8%	15,789,104	(148.7%)
06/30/1999	171,124,224	162,222,559	(8,901,665)	105.5%	14,986,973	(59.4%)
06/30/1998	150,958,315	108,660,934	(42,297,381)	138.9%	13,995,091	(302.2%)
06/30/1997	134,721,462	100,796,787	(33,924,675)	133.7%	13,768,486	(246.4%)
06/30/1996	123,349,173	110,301,906	(13,047,267)	111.8%	13,905,497	(93.8%)

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, 2001

UNAUDITED

SCHEDULE 2

SCHOOL EMPLOYEES

Year Ended	Annual Required Contribution*		Percentage
June 30	State **	School	Contributed
2001	$ 12,225,219	$ 77,062,544	100%
2000	11,948,451	69,990,565	100%
1999	11,853,757	65,672,654	100%
1998	11,687,572	65,331,264	100%
1997	11,451,315	63,914,256	100%
1996	12,049,570	62,832,121	100%

JUDGES

Year Ended	Annual Required Contribution		Percentage
June 30	State	Court Fees ***	Contributed
2001	$ 72,244	$ 487,012	100%
2000	72,244	473,838	100%
1999	72,244	442,802	100%
1998	72,244	445,115	100%
1997	72,244	449,776	100%
1996	121,929	464,480	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	$ 2,257,609	100%
2000	2,203,735	100%
1999	2,294,332	100%
1998	1,891,043	100%
1997	1,904,257	100%
1996	1,522,697	100%

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

* Includes School District contributions at required rates for formula annuity liabilities, and State contributions for formula annuity and service annuity liabilities. Includes contributions for plan year ended June 30 paid after end of plan year.

** Does not include contribution to Omaha Public Schools.

*** A one dollar fee for each case is collected from District and County Courts plus a ten percent charge on certain fees collected in the County Courts.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Unaudited

The information presented in the required supplementary schedules 1 and 2 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	School Employees	Judges	State Patrol
Valuation Date	June 30, 2001	June 30, 2001	June 30, 2001
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period	25 Years	25 Years (2)	25 Years (2)
Mortality	1994 Group Annuity Table	1971 Group Annuity Table Set Back 3 Years	1983 Group Annuity Table
Asset Valuation Method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial Assumptions:			
Investment Rate of Return (1)	8.0%	8.0%	8.0%
Projected Salary Increases (1)	Graded 8.2% to 4.5%	5.0%	Graded 7% to 4.5%
Cost-Of-Living Adjustments (COLA) (3)	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 60% purchasing power of original benefit

(1) Includes assumed inflation of 3.8% per year.

(2) Or the average expected future service of active members.

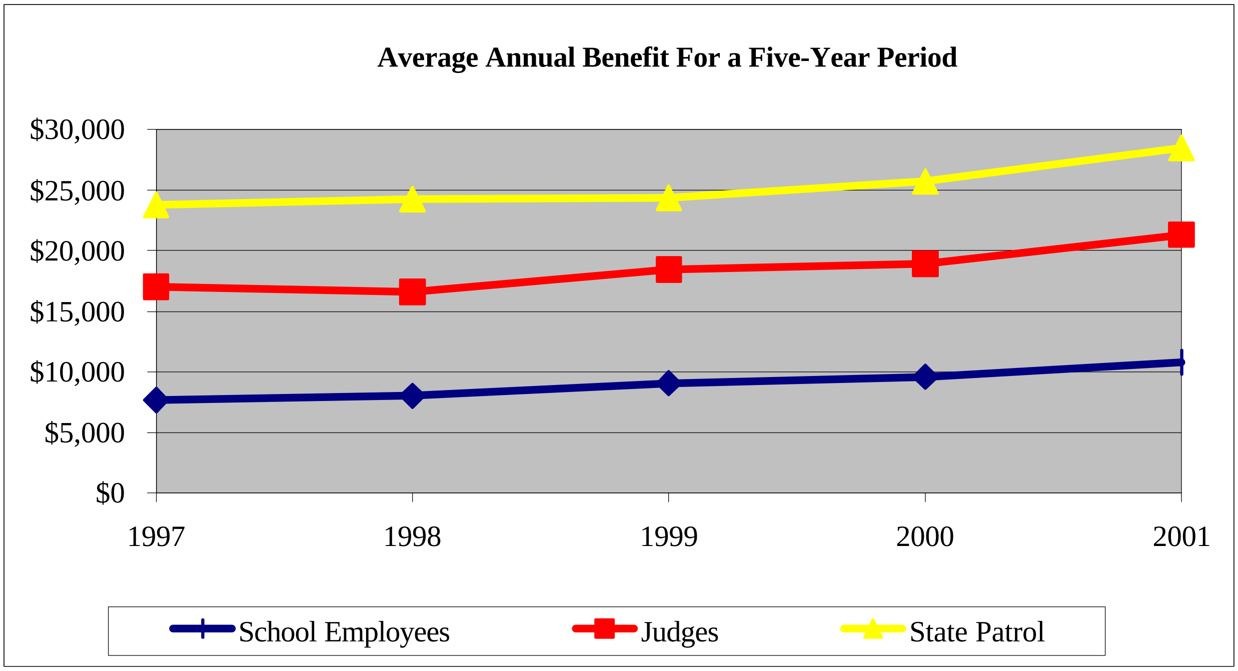
(3) There was a change in plan provisions when 1999 Neb. Laws LB 674 was passed. LB 674 eliminated the Purchasing Power Stabilization Funds and transferred the assets to the Retirement Funds for the Judges and Patrol Plans and the Annuity Reserve Fund for the School Employees Plan. The benefits for the cost of living adjustments are paid from these funds beginning July 1, 2000.

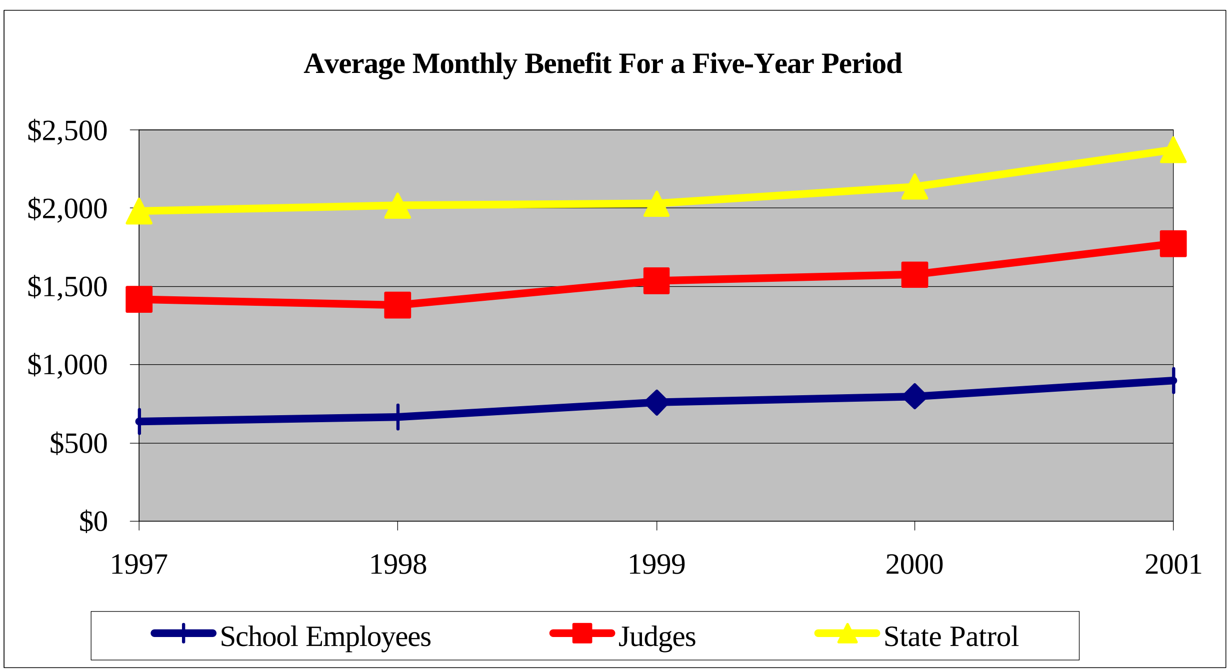
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 1997 through 2001

	1997	1998	1999	2000	2001
SCHOOL EMPLOYEES					
Active Members	33,390	33,546	34,047	34,718	35,589
Inactive Members	11,797	13,004	10,605	13,918	15,158
Retirees	8,585	9,229	9,911	10,371	10,925
Total Benefits Paid (3)	$ 65,763,341	$ 73,693,161	$ 89,882,287	$ 99,501,638	$ 117,809,712
Average Annual Benefit (1)	$ 7,660	$ 7,985	$ 9,069	$ 9,594	$ 10,783
Average Monthly Benefit (4)	$ 638	$ 665	$ 756	$ 800	$ 899
Administrative Expenses	$ 1,220,108	$ 1,308,926	$ 1,478,766	$ 1,891,100	$ 1,983,883
Average Admin. Expense Per Member (2)	$ 22.69	$ 23.47	$ 27.10	$ 32.05	$ 32.17
JUDGES					
Active Members	164	164	166	159	164
Inactive Members	15	15	14	22	13
Retirees	148	158	160	163	165
Total Benefits Paid (3)	$ 2,521,286	$ 2,619,494	$ 2,946,584	$ 3,080,021	$ 3,515,798
Average Annual Benefit (1)	$ 17,036	$ 16,579	$ 18,416	$ 18,896	$ 21,308
Average Monthly Benefit (4)	$ 1,420	$ 1,382	$ 1,535	$ 1,575	$ 1,776
Administrative Expenses	$ 46,741	$ 30,430	$ 33,753	$ 37,783	$ 34,935
Average Admin. Expense Per Member (2)	$ 142.94	$ 90.30	$ 99.27	$ 109.83	$ 102.15
STATE PATROL					
Active Members	388	390	382	386	403
Inactive Members	8	9	11	16	6
Retirees	221	232	252	269	274
Total Benefits Paid (3)	$ 5,250,723	$ 5,620,425	$ 6,140,771	$ 6,908,835	$ 7,806,983
Average Annual Benefit (1)	$ 23,759	$ 24,226	$ 24,368	$ 25,683	$ 28,493
Average Monthly Benefit (4)	$ 1,980	$ 2,019	$ 2,031	$ 2,140	$ 2,374
Administrative Expenses	$ 50,707	$ 35,836	$ 37,480	$ 40,845	$ 32,763
Average Admin. Expense Per Member (2)	$ 82.18	$ 56.79	$ 58.11	$ 60.87	$ 47.97

Notes:
(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit
(2) Calculated: Administrative Expenses/Total Members=Avg Admin Expense per Member
(3) Total benefits paid does not include refunds
(4) Calculated: Average Annual Benefit/12

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





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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2001, and have issued our report thereon dated December 11, 2001. The Independent Auditors' Report was modified to disclose that the Required Supplementary Information was unaudited. 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.

Compliance

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 and contracts, 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 that are required to be reported under Government Auditing Standards. We noted a certain immaterial instance of noncompliance that we have 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 (Improper Contributions by School Districts), Comment Number 2 (Benefit Payments Miscalculated), Comment Number 3 (Disbursement Procedures), and Comment Number 4 (School Member Records).

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Improper Contributions by School Districts).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of the report as Comment Number 3 (Disbursement Procedures), and Comment Number 4 (School Member Records).

This report is intended solely for the information and use of NPERS, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

December 11, 2001 Manager