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

JULY 1, 2004 THROUGH JUNE 30, 2005

Issued on January 25, 2006

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

TABLE OF CONTENTS

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

BACKGROUND

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

Beginning January 1, 2005, the Board consists of eight appointed members and the State investment officer as a non-voting, ex officio member. Six of the appointed members shall be participants in the retirement systems administered by the Board, and two of the appointed members shall not be employed by the State of Nebraska or any of its political subdivisions, and shall have at least ten year 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. On and after January 1, 2005, any person who is appointed to the Board and who is not an employee of the State or any of its political subdivisions can not own any funds which are administered by the Board.

On January 1, 2005, the six appointed members who are participants in the system are as follows:

- Two of the participants shall be participants in the School Retirement System and shall include one active administrator and one active teacher;
- One of the appointed members shall be a participant in the Judges Retirement System, either as an active or retired member;
- One of the appointed members shall be a participant in the State Patrol Retirement System, either as an active or retired member;
- One of the appointed members shall be an active participant in the County Employees Retirement System; and
- One of the appointed members shall be an active participant in the State Employees Retirement System.

All appointed members on or after January 1, 2002 shall serve five-year terms.

The Board meets monthly. At June 30, 2005, Board members were not paid but were reimbursed for their expenses.

The Board hires a director to administer the systems under the direction of the Board. It is the duty of the Board 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.

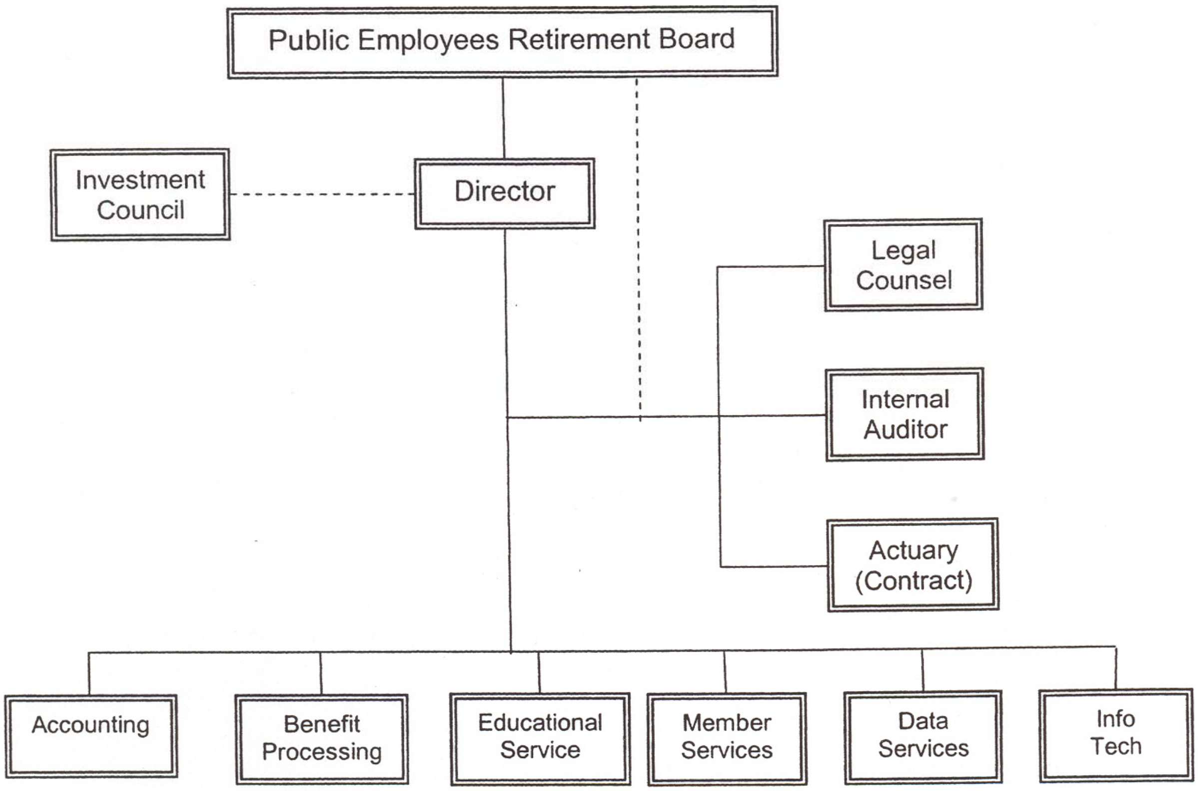
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS

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



EXIT CONFERENCE

An exit conference was held December 20, 2005 with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

NAME	TITLE
Anna Sullivan	Director
Joe Schaefer	Legal Counsel
Teresa Zulauf	Internal Auditor
Randy Gerke	Accounting and Finance Manager
Jane Hansen	Member Services Manager
Dennis Cooper	Data Services Manager
Jan Fox	Educational Services Manager
Tammy Petersen	Business System Analyst
Dean Gress	Infrastructure Support Analyst
Jayme Christie	IT Business System Analyst
Steve Penas	Accountant III
Cheryl Mueller	Auditor Associate

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. ***NPERS Information System***: Areas of concern or areas where improvement to the NPERS Information System is needed to ensure both system integrity and operational efficiency were identified.

2. ***Purchase of Service:*** PIONEER does not calculate the cost to purchase service credit for the repayment of a refund in accordance with statute. Four of five purchases of service tested were not in accordance with the applicable statute. Overpayments from members ranged from $14 to $3,503. One member also underpaid approximately $380.

3. ***School District Testing:*** Of the 30 school districts tested, 10 reported compensation that was not in compliance with the definition of compensation in the statutes. Three school districts did not include all the required components in compensation. In addition, we noted two districts did not submit employees' actual hours worked and five districts did not have all eligible employees contributing to the Plan.

4. ***Resolution of Prior Audit Findings - School District Testing:*** NPERS did not adequately address all of the specific findings at school districts tested and identified in prior audit findings.

5. ***Travel Expenses:*** Four of eight travel documents tested contained reimbursements for meal expenses without adequate documentation, or was an unreasonable meal expense. NPERS also continued to provide lodging for certain Board members and staff for their annual retreat when the lodging was less than 60 miles from their home or headquarter city. In addition, for one monthly payment to DAS Transportation Services Bureau (TSB) that was tested, unnecessary charges were incurred and four of eight documents tested were not allocated to the correct Plan.

6. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' bank reconciliation process is still not done in a timely manner and continues to reflect unknown variances between the bank records and accounting records.

SUMMARY OF COMMENTS
(Continued)

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. NPERS Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal control would also require a second individual review all changes made to member accounts.

For the fiscal year ended June 30, 2005, all phases of NPERS' information system, Pension Information of Nebraska for Efficient and Effective Retirement, or PIONEER, were live.

We have identified concerns and areas where improvement to PIONEER is needed. The following are the more significant concerns or areas where improvement is needed to ensure the integrity of member data:

a. Changes to the table files were not formally reviewed and documented and the review of database access and system logs was not adequately documented. A similar finding was noted in the previous audit report.

b. There were no specific, written security procedures as part of NPERS' administrative controls. A similar finding was noted in the previous audit report.

c. The project team is currently updating the disaster recovery plan; however, it is not complete and has not been tested.

d. The activity log in PIONEER did not accurately show who processed and who audited a benefit.

e. There was no system control to require an audit of changes made to member addresses by employees who work on Benefits and Refunds. A similar finding was noted in the previous audit.

In addition, as part of the State of Nebraska's overall information security process, a consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of PIONEER and noted user access privileges (authentication and authorization) were not reviewed on a periodic basis.

Although the Nebraska Information System (NIS) is the official accounting system of the State of Nebraska, PIONEER calculates benefit payments to members and also contains critical data used by the actuary to determine actuarial assets and liabilities and to determine whether the plans are adequately funded. Without good internal controls in place, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>NPERS Information System</u> (Concluded)

We recommend NPERS ensure the issues noted above are appropriately addressed as they work to strengthen PIONEER.

NPERS' Response:

a. Changes that are made to the database tables by the NPERS IT team are documented, reviewed and logged in the IT log book which can be found in the IT department. Access to the database will be reviewed and logged in the IT log book which can be found in the IT department by the end of January 2006. The system log reviews will be documented in the IT log book which can be found in the IT department by the end of January 2006.

b. An initial systems security manual with procedures has been created and will be stored in the IT department by the end of February 2006.

c. The NPERS Disaster Recovery Plan is currently in the process of being written. This project is being monitored by the DRP team with representatives from different areas of the Agency. The team is seeking the help of the entire NPERS staff to write the Disaster Recovery Plan. This is a large task and will take many months to implement. Once a plan has been formed, it is the intent of the DRP team to thoroughly test the plan.

d. This issue was brought to our attention by the auditors. On November 8, 2005 the IT Team opened PIR 61302 for review by Covansys, our software vender for PIONEER. On November 30, 2005 the fix for the issue was moved to NPERS UAT and thoroughly tested by IT Team staff. The issue was moved to production on December 1, 2005.

e. NPERS management will take this comment into consideration and will weigh the benefit of making this change with the costs associated with the implementation.

2. <u>Purchase of Service</u>

Good internal control requires procedures and records to ensure calculations performed by NPERS are accurate and consistent with statutes.

Neb. Rev. Stat. Section 79-921(2) R.S.Supp., 2004 states "The retirement board shall reinstate to membership, with the same status as when such membership ceased, a school employee who has withdrawn his or her accumulated contributions under the following conditions: (a) If he or she again becomes an employee and if such employee chooses within three years after rejoining the

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Purchase of Service (Continued)

system to repay, within five years after the date on which he or she rejoins the retirement system or prior to termination of employment, whichever is first, to the retirement board part or all of the amount he or she has withdrawn plus interest which would have accrued on that amount under the retirement system; or (b) If, more than three years after again becoming an employee and rejoining the system but prior to termination of employment, he or she chooses to repay part or all of the amount he or she has withdrawn, plus an amount equal to the actuarial assumed rate of return for the period repaid. Payment must be completed within five years after electing to repay or prior to termination, whichever is earlier."

We tested five purchase of service calculations and noted the following:

- In January 2004, NPERS started using PIONEER to calculate the purchase price for optional service credit. In the prior audit, we noted NPERS could not document the method PIONEER used to calculate the cost for purchase of service for repayment of a refund. In the current audit, we asked for documentation of the testing performed prior to implementation of the system and NPERS could not provide it. During the current audit fieldwork, NPERS was able to document the method used by PIONEER to calculate the cost of repayment of a refund; however, we did not agree with the method PIONEER used to calculate the cost of the repayment of a refund.

- Three of five purchase of service calculations tested were not in accordance with the applicable statute. NPERS could not explain the calculation provided by the technology vendor to document one of the calculations tested. There were two reasons the PIONEER calculations were not accurate. First, the PIONEER calculation did not include the original refund amount, as required by statute. PIONEER did not use the period the initial contribution originally posted in its calculation. We believe PIONEER began the calculation one pay period early. Our calculation correctly used the period the first contribution posted and agreed to the original refund received by the member. Second, PIONEER calculates bonus interest for all members. Bonus interest of 2% was granted by the Nebraska Public Employees Retirement Board (NPERB) for the School Plan in September 1988 and June 1990. Bonus interest should be granted when the original refund was received after the dates of the bonus interest (in order to match the original refund amount) and when the member is purchasing service within three years of rehire. The statute requires the member to repay all of the amount withdrawn plus interest that would have accrued on the amount under the retirement system. PIONEER used the bonus interest in all calculations, according to NPERS staff. Overpayments from the three members ranged from $1,237 to $3,503. There was also one underpayment from a member totaling $380, as PIONEER did not include contributions for two periods.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Purchase of Service</u> (Continued)

- Additionally, one calculation used the wrong number of service years in the purchase of service calculation. This resulted in a $14 overpayment from the member.

- Five of six purchase of service calculations tested last year were incorrect. However, only two were recalculated and given a refund in the current audit period. We could not verify which rates NPERS used in their recalculation spreadsheets. NPERS could not provide documentation to support the rates they used. The APA used rates provided by the Nebraska Investment Council. The use of incorrect rates of return was also noted in our prior audit report. The variances between the NPERS recalculation and our calculations were still approximately $500 difference for both members.

Without adequate procedures to ensure purchase of service calculations are accurate, members may not pay the actual cost of the service purchased. If members pay too little for the service purchased, the rest of the Plan will pay the cost of the service. If the cost is calculated too high, the member will pay too much into the system, with no additional benefit.

> We recommend NPERS ensure PIONEER is able to accurately calculate the cost to purchase service. Until that time, we recommend NPERS provide a manual calculation as a verification of the cost produced in PIONEER. We recommend NPERS perform recalculations on all members who purchased service from repayment of a refund since PIONEER was implemented.

NPERS' Response:

- *When the PIONEER system was designed the decision was made to post member contributions according to the period the contribution represented rather than the date received. This then insures that the member is not penalized if the employer is late remitting the contribution. This decision also impacts the calculation of the cost to repay a refund for the purpose of restoring service credit cancelled when the member initially withdrew his/her account.*

- *To accommodate a member who wishes to repay **part of** a refund, as required by State Statute, the system was built to recalculate the interest for only the number of service years the member wants to repurchase and therefore the entire refunded amount cannot be used in the calculation. We believe a consistent methodology is necessary whether a member repays all of his/her service or part of the service. However, since the auditors are questioning our interpretation of the statute in administering the repayment of refund provisions we will seek an Attorney General's opinion for clarification.*

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Purchase of Service</u> (Concluded)

NPERS' Response, Concluded:

- *We relied on the interest rates provided us by the Nebraska Investment Council staff in good faith. We were not aware of a correction to those rates made by the Council staff until the current audit began and the auditor's reported to us they had received corrected rates. We will review this matter carefully.*

3. <u>School District Testing</u>

Neb. Rev. Stat. Section 79-902(35)(a) R.R.S. 2003 defines compensation under the School Employees Retirement Act as "Compensation means gross wages or salaries payable to the member for personal services performed during the plan year. Compensation does not include amounts which the retirement board determines were fraudulently obtained, compensation for unused sick leave or unused vacation leave converted to cash payments, insurance premiums converted into cash payments, reimbursement for expenses incurred, fringe benefits, or bonuses for services not actually rendered, including but not limited to, early retirement inducements, cash awards, and severance pay, except for retroactive salary payments paid pursuant to court order, arbitration, or litigation and grievance settlements. Compensation includes overtime pay, member retirement contributions, and 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."

Neb. Rev. Stat. Section 84-1503(1)(f) R.S.Supp., 2004 requires NPERB "To adopt and implement procedures for reporting information by employers, as well as sampling and monitoring procedures."

Neb. Rev. Stat. Section 79-902(40) R.R.S. 2003 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."

Good internal control requires procedures to ensure the contributions and hours 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.

NPERS did not perform adequate sampling and monitoring procedures to determine whether reported compensation was in accordance with the provisions of statutes, whether hours were accurately reported, or whether all eligible employees were properly contributing to the Plan. We reviewed payroll records at 30 of 529 school districts. The amounts contributed by these 30

3. School District Testing (Continued)

school districts, $34,592,617 represented approximately 38% of the total contributions for all school districts for the fiscal year. The sample size selected included 278 contributing members. The 278 members consisted of 124 members selected from NPERS' records, 124 members selected from the district's records, and each superintendent from the 30 school districts tested. In addition, we tested 124 employees who were not contributing to the Plan. We noted the following:

- Ten of thirty school districts tested reported compensation that was not in compliance with the definition of compensation in the School Employees Retirement Act. This included 22 of 278 contributing members tested. The school districts included cash payments in-lieu-of health insurance, payments for reimbursement of expenses, and fringe benefits. The fringe benefit amounts included long-term disability payments not covered under a Section 125 Plan. These errors resulted in overstatements of the members' annual compensation ranging from $99 to $10,395 and excess annual retirement contributions ranging from $14 to $1,515. A similar finding was noted in previous audit reports.

- Three of thirty school districts tested did not include all the required salary components. This included 4 of 278 contributing members tested. A portion of payment for services, longevity, or a tax sheltered annuity was excluded from retirement for these members. These errors resulted in understatements of the members' annual compensation ranging from $485 to $1,464 and understated annual retirement contributions ranging from $71 to $364. A similar finding was noted in previous audit reports.

- Two of thirty school districts did not submit actual hours worked for 2 of 278 members tested. For one of the members tested, the school over-reported the hours by 6.5 hours. The variance for one month brought the employee's total hours for the year below 1,000 hours, reducing the amount of service credit the employee would have earned for the year. The other member was employed by a school district where several employees' hours were incorrectly adjusted. The hours were subtracted instead of added to the original hours. For the one member tested, service credit earned was not affected by the error.

- Five of thirty school districts did not have all eligible employees contributing to the Plan. We noted 6 of 124 employees tested should have been contributing to the Retirement Plan because they consistently worked over 15 hours per week and need to make up contributions. A similar finding was noted in previous audits.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>School District Testing</u> (Concluded)

There is a high risk that errors such as those noted above will remain undetected without procedures by NPERS to ensure amounts are accurately reported by school districts in accordance with statutes. Additionally, since the benefit amount at retirement is calculated based in part on the reported salaries of the members, there is also an increased risk the benefit amount is not in accordance with statutory requirements.

> We continue to recommend NPERS implement procedures to ensure the compensation and hours reported by school districts is accurate and in accordance with statutes. We also recommend NPERS determine whether the current statutory language needs modification due to the varying interpretations by school districts in defining compensation. We also continue to recommend NPERS follow up with the specific exceptions noted during our testing and communicate to the school districts any corrective action necessary.

NPERS' Response: As of FY 05-06 we have a full-time employee available who will dedicate time to testing the payroll of school employers. We have requested and received compensation and information from school. This includes reviewing the information entered by the school employers to ensure the accuracy of the information and ensure retirement contributions are withheld at the correct rate.

Auditor's Response: We also recommend NPERS procedures for the review of information provided by school districts ensures all eligible and only eligible members are contributing to the Plan due to the exceptions noted in this finding.

4. <u>Resolution of Prior Audit Findings - School District Testing</u>

Good internal control requires the timely and thorough resolution of prior audit findings. *Government Auditing Standards* paragraph 5.13j and the American Institute of Certified Public Accountants (AICPA) Professional Standards AU 325.21 regard the failure to follow up and correct previously identified internal control deficiencies to be a reportable condition.

NPERS did not adequately address all of the specific findings at school districts tested and identified in prior audit findings.

a. Findings for 16 school districts from the fiscal year 2004 audit of the School Plan were not adequately resolved.

4. <u>Resolution of Prior Audit Findings - School District Testing</u> (Continued)

- Eleven school districts still were not calculating retirement contributions on the correct compensation as noted in the fiscal year 2004 audit. NPERS contacted 2 of the 11 school districts; however, neither one has made any adjustments or changes.

- Two school districts had employees who were identified in the fiscal year 2004 audit as an employee that should be contributing to the School Plan. One employee was still not contributing to the School Plan during the fiscal year 2005 audit fieldwork and the other began contributing during the fiscal year, but has not made up contributions. NPERS contacted one of the two school districts; however, the one school district did not make any adjustments or changes.

- Five school districts still were not handling fringe benefit packages consistently when determining members' retirement compensation. NPERS contacted two of the five school districts; however, neither has made any adjustments or changes.

- In most of the follow up noted above, NPERS did not contact the school districts until the fiscal year 2005 audit fieldwork. If contact was made with additional school districts, NPERS did not provide us with documentation to support those contacts.

b. Findings for five school districts from the fiscal year 2003 audit of the School Plan were not adequately resolved. NPERS did not provide documentation to support whether the school districts in question were contacted:

- Four school districts still were not calculating retirement contributions on the correct compensation as noted in the fiscal year 2003 audit.

- One school district had one employee who was identified in the fiscal year 2003 audit as an employee that should be contributing to the School Plan. The employee was still not contributing to the School Plan during the fiscal year 2005 audit fieldwork, but had worked more than 15 hours per week.

- Per discussion with the school districts during the fiscal year 2004 audit, NPERS contacted one of the five school districts identified in the fiscal year 2003 audit. No additional contact was made with these school districts during fiscal year 2005. As a result, the schools continue to calculate retirement compensation incorrectly.

There is an increased risk that errors in the School Plan membership and compensation will remain incorrect without adequate procedures to follow up on prior audit findings.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Resolution of Prior Audit Findings - School District Testing (Concluded)

> We recommend NPERS implement procedures to ensure all audit exceptions are adequately resolved.

NPERS' Response: We have addressed and corrected many of the prior audit findings. We are implementing procedures to address prior audit findings and will continue to work with the School Employers to resolve prior audit findings and research the individuals identified by the auditors and to ensure the necessary changes are made.

5. Travel Expenses

Meal Expenses

The State of Nebraska operates under an accountable plan for the reimbursement of travel expenses. Internal Revenue Service (IRS) Publication 463 describes the records needed to prove certain travel expenses. This publication generally indicated that documentary evidence, such as receipts, must be maintained to support expenses. Documentary evidence is considered adequate if it shows the amounts, place, date, and essential character of the expense.

Good internal control requires procedures to ensure the requirements of the State's accountable plan are met and that expenses are a reasonable expense to charge to the Plans.

We tested eight documents from the travel expense object accounts in NIS. Four of the documents tested contained reimbursements for meal expenses. On all four documents, meal expenses were not reasonable expenses to the Plans, as follows:

- One employee claimed a meal on the expense reimbursement form that was actually paid on a different day according to the hotel invoice. The employee claimed $19 for breakfast on a day in which breakfast was not provided by the conference. However, the hotel invoice indicated the meal was actually purchased on a day that breakfast was provided by the conference and should not have been reimbursed to the employee. The same employee did not provide detailed receipts for two meals, totaling $29. Therefore, the essential character of the expense could not be determined. Finally, it did not appear one meal should have been reimbursed. The stop time was not indicated on the expense reimbursement form and the date and time were not legible on the receipt. However, the employee participated in a seminar in Kearney, Nebraska that ended at 4 PM. Kearney is a two-hour drive from the employee's headquarter city, Lincoln. A dinner expense is

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel Expenses (Continued)

Meal Expenses (Concluded)

reimbursable if the employee returns from overnight travel on or after 7 PM. Since the time was not indicated on the document, it does not appear the expense should have been reimbursed.

- One employee was reimbursed for a breakfast that should not have been reimbursed. The employee left for overnight travel at 7:30 AM and per the Department of Administrative Services (DAS) Accounting policies, the breakfast meal should not be claimed unless the employee leaves for overnight travel on or before 6:30 AM. The employee was also reimbursed $48 for one meal, which is an unreasonable amount to be charged to the Plans for one meal.

- One employee was reimbursed $50 for one meal, which is also an unreasonable amount to be charged to the Plans for one meal. A similar finding was noted in the prior audit.

- One NPERB member did not provide detailed receipts for two meals, totaling $34. Therefore, the essential character of the expense could not be determined.

This has been a finding in the past several audit reports.

The cost to each plan increases unnecessarily when unreasonable meals are claimed for reimbursement.

> We recommend NPERS implement procedures to ensure only reasonable expenses are charged to each plan.

Lodging Expenses

Neb. Rev. Stat. Section 84-1503.03 R.S.Supp., 2004, allows the Director of NPERS to hire employees to carry out the duties of the Board. Such employees are deemed State employees and are covered by the State Personnel system, including the internal auditor and attorney. The statute states, "All employees shall comply with state accounting regulations and applicable state and federal laws in the discharge of their duties."

DAS Accounting Division State Accounting Manual states, "It is State Accounting policy that a person generally must be more than 60 miles from his or her workplace in order to be eligible for lodging." Lodging may be reimbursed when an employee is "away from home overnight." The

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel Expenses (Continued)

Lodging Expenses (Concluded)

IRS Internal Revenue Service states, "You are away from home overnight if your duties require you to be away from the general area of employment for substantially longer than an ordinary day's work and, during released time while away, it is reasonable for you to need and get sleep or rest to meet the demands of your employment or business. The absence must be of such duration that you can not reasonably leave and return to that location before and after each day's work."

NPERS paid lodging for 6 of 11 NPERB members or employees in attendance at the annual retreat who were less than 60 miles from his or her workplace. There were four State employees and two NPERB members. The cost of lodging for these employees was $414. We have noted this finding for the past several audits.

NPERS is not in compliance with State statutes for State employees whose lodging is reimbursed when they are less than 60 miles from his or her workplace. The cost to each Plan also increases unnecessarily for the cost of the lodging on this annual retreat.

> We recommend NPERS ensure compliance with State statutes for its employees and ensure only lodging expenses are reimbursed when employees are more than 60 miles from his or her workplace and if the duties require them to be away from the general area of employment for substantially longer than an ordinary day's work.

Miscellaneous Travel Expenses

Good internal control requires procedures to ensure expenses are equitably allocated to each Plan in accordance with State statute and are reasonable and necessary expenses of the Plans.

We also noted the following related to the testing of the travel expense object accounts in NIS:

- We tested one monthly payment to DAS TSB for the lease of State vehicles. Four vehicles were picked up prior to 4 PM, the day before the necessary travel occurred. Therefore, an extra day was charged for each vehicle to the Plans. The total extra cost was $60 for the month tested.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel Expenses (Concluded)

Miscellaneous Travel Expenses (Concluded)

- Four of eight documents were not allocated properly to the Plans. Two of the documents were for a State and County Plan seminar and the expenses should have been allocated to the State and County defined contribution option and cash balance benefit in a ratio equal to the members in attendance, but was not. It could not be determined how the actual allocation was established. One State vehicle expense should have been charged to both the School and Judges Plans, but was charged entirely to the School Plan. Finally, two airline tickets for employees in the IT Department were allocated based on the allocation to build PIONEER determined by the vendor. The expenses would have been more appropriately charged to each Plan based on an overall administrative allocation.

Costs are not equitably allocated to each Plan without procedures to ensure the costs charged to each Plan are accurate.

> We recommend NPERS implement procedures to ensure an equitable allocation of expenses to each Plan, in accordance with State statutes.

NPERS' Response:
Meal Expenses:
We will remind staff of the need to keep receipts and documentation concerning meal expenses. We will also remind all Board Members the documentation that is required when submitting an expense reimbursement. We also do not believe we have the right to deny reimbursement of a business expense.

Lodging Expenses:
The PERB votes each year to have the Annual Board Retreat in Nebraska City, Nebraska. There is a business need for overnight stay as the Board meets into the evening hours. The Sunday meeting did not end until after 9:00 pm. The meetings resume at the breakfast hour the following day.

The Board has determined it is an unreasonable imposition to expect a Board member to commute in the late evening hours and then again in the morning. The Board agenda is attached to the Board members expense reimbursement forms.

The Board has adopted a Conference Attendance and Expense Reimbursement Policy. It specifically states "Board members attending the annual Board retreat shall have their actual expenses for official business paid by the agency."

COMMENTS AND RECOMMENDATIONS
(Continued)

5. **Travel Expenses** (Concluded)

NPERS' Response, Concluded::
Miscellaneous Travel Expenses:
We will take the recommendation into consideration and work on reviewing the current procedures.

Auditor's Response:
Lodging Expenses: We do not feel there is a need for the overnight stay due to the length of time of the meetings each day. The Board met for approximately 6 ½ hours on Sunday and approximately 5 hours on Monday. The Internal Revenue Service states: "You are away from home overnight if your duties require you to be away from the general area of employment for a period substantially longer than an ordinary day's work and, during released time while away, it is reasonable for you to need and to get sleep or rest to meet the demands of your employment or business. The absence must be of such duration that you cannot reasonably leave and return to that location before and after each day's work." We do not feel this length of the annual Board meeting fits under the definition used by the IRS.

6. **Reconciliation of Bank Records to the Nebraska Information System**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and to provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of $2,944,126 and $2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

NPERS' Response: The responsibility for resolving this issue lies with the Department of Administrative Services (DAS) and the NIS implementation team. NPERS does not have the authority to address this issue.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

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 Retirement Plans as of and for the fiscal year ended June 30, 2005, 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.

As discussed in Note 1, the financial statements present only the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans and are not intended to present fairly the financial position and results of operations of the Nebraska Public Employees Retirement Systems in conformity with generally accepted accounting principles.

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, 2005, and the results of each Plan's operations 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 December 20, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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.

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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, taken as a whole. 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 of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

December 20, 2005 Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
June 30, 2005

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury (Note 1)	$ 2,998,861	$ 59,121	$ 51,337
Deposits with Vendors	9,091	94	94
Receivables:			
Contributions	31,993,569	388,794	807,930
Interest and Dividend Income	11,646,588	206,677	481,556
Other Investment Receivables (Note 11)	103,511,749	1,824,660	4,259,932
Total Receivables	147,151,906	2,420,131	5,549,418
Investments, at fair value (Note 3):			
US Treasury Securities	237,202,824	4,180,667	9,763,794
US Agency Securities	440,608,104	7,765,413	18,137,140
Corporate Bonds	249,982,833	4,405,823	10,290,117
Equity Securities	645,902,762	11,399,501	26,540,032
Options	(591,730)	(10,426)	(24,365)
Taxable Municipal Bonds	2,325,885	40,992	95,742
Real Estate Investment Trust	93,366,064	1,645,512	3,843,310
Asset Backed Securities	91,041,852	1,604,550	3,747,636
Collateralized Mortgage Obligations	131,557,442	2,318,656	5,415,274
Commingled Funds, Mutual Funds and Commercial Paper	3,568,479,253	62,944,251	146,735,317
Total Investments	5,459,875,289	96,294,939	224,543,997
Invested Securities Lending Collateral (Note 3)	303,768,433	5,357,562	12,492,568
Capital Assets (Note 10):			
Equipment	7,483,576	2,036,889	1,992,481
Less: Accumulated Depreciation	(2,727,424)	(735,791)	(721,286)
Total Capital Assets	4,756,152	1,301,098	1,271,195
TOTAL ASSETS	5,918,559,732	105,432,945	243,908,609
LIABILITIES			
Compensated Absences (Note 4)	173,231	5,958	7,085
Accounts Payable and Accrued Liabilities	1,937,183	41,754	84,731
Obligations under Securities Lending (Note 3)	303,768,433	5,357,562	12,492,568
Capital Lease Obligations (Note 7)	5,113,596	1,357,522	1,335,615
Other Investment Payables (Note 11)	211,113,556	3,721,012	8,689,407
Contributions for Omaha Public Schools (Note 5)	2,531,996	-	-
TOTAL LIABILITIES	524,637,995	10,483,808	22,609,406
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 39.)	$ 5,393,921,737	$ 94,949,137	$ 221,299,203

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, 2005

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Employee	$ 92,670,452	$ 1,010,763	$ 2,838,765
Employer	90,147,174	-	2,838,765
Court Fees	-	2,217,118	-
State	17,390,485	72,244	333,736
Total Contributions	200,208,111	3,300,125	6,011,266
Investment Income:			
Net appreciation (depreciation) in fair value of investments	380,281,506	6,774,684	15,840,844
Interest & Dividends	103,415,471	1,831,811	4,292,710
Securities Lending Income	8,188,019	144,412	336,735
Total Investment Income	491,884,996	8,750,907	20,470,289
Investment Expenses	(8,504,579)	(144,621)	(333,832)
Securities Lending Expenses	(7,590,218)	(133,869)	(312,150)
Net Investment Income	475,790,199	8,472,417	19,824,307
Other Additions	20,392	-	45
Total Additions	676,018,702	11,772,542	25,835,618
DEDUCTIONS:			
Benefits	184,360,473	4,214,817	10,142,646
Refunds of Contributions	9,951,996	-	127,161
Administrative Expense	3,829,772	516,027	514,411
Total Deductions	198,142,241	4,730,844	10,784,218
Net Increase	477,876,461	7,041,698	15,051,400
Net assets held in trust for pension benefits			
Beginning of year	4,916,045,276	87,907,439	206,247,803
End of year	$ 5,393,921,737	$ 94,949,137	$ 221,299,203

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2005

1. Summary of Significant Accounting Policies

Reporting Entity. 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: 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 fiscal year ended December 31, 2004, and the Deferred Compensation Plan for fiscal year ended December 31, 2001.

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.

Basis of Presentation. The accompanying financial statements of NPERS – School Employees, Judges, and State Patrol Retirement Plans have been prepared in conformance with generally accepted accounting principles (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.

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 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 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Cash in State Treasury. Cash in State Treasury represents the cash balance of a fund as reflected on the Nebraska Information System (NIS). Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. The cash funds of the School Employees, Judges, and State Patrol Retirement Plans were designated for investment during fiscal year 2005.

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. The State Treasurer is the custodian of all funds; however, investments are under the responsibility of the Nebraska Investment Council.

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.

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 two or more years 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 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 using the straight-line method.

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2005, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	13,049	164	316
Terminated plan members entitled to but not yet receiving benefits	16,924	9	10
Active plan members	36,042	159	473
Total	66,015	332	799

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 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. As of June 30, 2005 there were 529 participating school districts. 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. 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 12-month periods of service as a school employee in

2. Plan Descriptions and Contribution Information (Continued)

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.

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 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 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%; 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 five 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. Each member who had not retired prior to July 1, 2004 and who elected to make contributions and benefits within 90 days of July 1, 2004 contributes eight percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes four percent of their monthly salary for the remainder of his or her active service. All other members contribute six percent of their monthly salary until the maximum benefit had been earned. After the maximum benefit had been earned, such member makes no further contributions to the fund, except that any time the maximum benefit is changed, a member who has previously earned the maximum benefit will contribute six percent of their salary until the maximum benefit as changed has been earned.

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 12 percent of their annual pay from July 1, 2004 to June 30, 2005, plus, for a State Patrol officer employed on or before January 4, 1979, 12 percent of pay received at termination for unused sick leave and vacation leave. The member contribution is matched by the State Patrol (employer). The State's contribution is based on an annual actuarial valuation.

3. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of 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. State Statute Section 72-1239.01 authorizes the appointed members of the Council to act with the care, skill, prudence, and diligence under the 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.

The investment amounts presented in the statements of net assets for the School Employees', Judges, and State Patrol Retirement Plans do not agree to some of the investment risk disclosures noted below. The investment risk disclosures presented below may include both the Defined Benefit Plans and the Cash Balance Benefit portion of the State and County Retirement Plans, as these funds are commingled for investment purposes.

NPERS' investments for the school employees, judges, and state patrol retirement plans at June 30, 2005, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

School Employees, Judges, and Patrol Retirement Plan Investments at June 30, 2005

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Securities	$ 251,147,285	4.81
U.S. Agency Securities	466,510,657	4.07
Corporate Bonds	264,678,773	4.79
Collateral Mortgage Obligations	139,291,372	2.26
Asset Backed Securities	96,394,038	4.79
Commercial Paper	34,172,660	0.47
Money Market Funds	62,370,653	0.47
Municipal Bonds	2,462,619	6.41
	1,317,028,057	
Other Investments		
Equity Securities	683,842,295	
Commingled Funds and Mutual Funds	3,680,552,367	
Options	(626,521)	
Foreign Currency	1,063,141	
Real Estate Investment Trust	98,854,886	
Total Investments	5,780,714,225	
Securities Lending Short-term Collateral Investment Pool	321,618,563	
Total	$ 6,102,332,788	

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 investments 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.

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 quality ratings for securities. NPERS' rated debt investments as of June 30, 2005, were rated by Standards and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

Defined Benefit/Cash Balance Benefit Investments at June 30, 2005

		Quality Ratings							
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**A-1**	**Unrated**
U.S. Agency Securities	486,728,077	400,024,507	-	-	-	-	-	-	86,703,570
Corporate Bonds	276,120,743	28,440,962	28,312,128	70,157,467	77,970,504	44,274,879	13,216,852	-	13,747,951
Collateral Mortgage Obligations	145,300,416	104,971,747	17,572,896	5,889,028	9,184,476	619,410	1,515,676	-	5,547,183
Asset Backed Securities	100,571,519	59,606,852	-	1,249,754	12,046,251	1,068,187	896,103	-	25,704,372
Commercial Paper	36,653,620	-	-	-	-	-	-	17,658,900	17,994,720
Money Market Funds	66,496,693	-	-	-	-	-	-	-	66,496,693
Municipal Bonds	2,569,344	1,521,523	1,047,821	-	-	-	-	-	-

3. Investments (Continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages and non-U.S. sovereign issuers, to 5 percent of the total account. At June 30, 2005, NPERS had no investments that exceeded 5 percent or more of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State has contracts with investment managers that limit foreign currency risk. NPERS exposure to foreign currency risk is presented on the following table.

Defined Benefit/Cash Balance Benefit Foreign Currency at June 30, 2005

	Cash	Equity Securities	Corporate Bonds	Mutual Funds
Australian Dollar	$ 34,675	$ 2,335,737	$ -	$ -
Canadian Dollar	543	-	-	-
Danish Krone	-	2,001,413	-	-
Euro Currency	601,314	69,885,271	419,793	4,156,685
Hong Kong Dollar	-	5,468,739	-	-
Japanese Yen	217,420	49,138,239	4,271,556	-
Malaysian Ringgit	14,645	-	-	-
Mexican Peso	-	3,749,784	-	-
New Zealand Dollar	-	-	-	-
Norwegian Krone	-	2,083,774	-	-
Pound Sterling	207,107	45,709,097	-	-
Singapore Dollar	-	1,356,809	-	-
South African Rand	-	1,608,513	-	-
South Korean Won	9,493	2,980,763	-	-
Swedish Krona	-	2,384,260	-	-
Swiss Franc	-	13,633,302	-	-
Thailand Baht	-	1,627,406	-	-
Total	$ 1,085,197	$ 203,963,107	$ 4,691,349	4,156,685

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

3. Investments (Concluded)

primary 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 of loan at year-end. 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 can not 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 of 25 and 32 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 imdemnification provided to the State by the contract with the custodian.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Investment Council-approved Derivatives Policy. The State invests in collateral mortgage obligations and futures contracts. Collateral mortgage obligations, with a par value of $284,464,522 are traded on exchanges and carried at fair value. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The State invests in futures contracts related to securities of the U.S. government or government agency obligations and futures based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2005, the State held futures contracts with a notional par value of $134,800,000 and a fair value of $0.

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Compensated Absences (Concluded)

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. In general, there is no maximum limit on the accumulation of sick days for employees under a labor contract. 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. Employees under labor contracts can be paid a maximum of 50 days.

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, 2005, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 92,420	$ 3,179	$ 3,780
Sick Leave	80,727	2,776	3,302
Compensatory Leave	84	3	3
	$ 173,231	$ 5,958	$ 7,085

5. Contribution for Omaha Public Schools

Neb. Rev. Stat. Section 79-916, R.S.Supp., 2004 required 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 these Notes to Financial Statements.

7. Contingencies and Capital Lease 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

7. <u>Contingencies and Capital Lease Commitments</u> (Continued)

the State's risk management program. The 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.

Capital Lease Commitment. The State of Nebraska, through the DAS Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. In December 2000, the Board first used this financing arrangement to finance the acquisition and installation of certain information technology equipment.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Capital Lease Commitments (Concluded)

The second Master Lease Agreement, dated November 1, 2001, was for $2,166,847, including interest costs of $241,847, a rate of 3.245%. The third Master Lease Agreement, in July 2002, was for $6,029,861 including interest costs of $644,861, a rate of 3.129%. The first Master Lease Agreement was refinanced into the third Master Lease Agreement. As a result, the first Master Lease Agreement no longer exists. The fourth Master Lease Agreement, dated February 26, 2003, was for $5,915,227, including interest costs of $525,227, a rate of 2.757%. The fifth Master Lease Agreement, dated February 12, 2004, was for $4,062,231, including interest costs of $326,708, a rate of 2.530%. The minimum annual lease payments and the present value of future minimum payments for all capital leases as of June 30, 2005 are as follows:

Fiscal Year	School Employees	Judges	State Patrol
2006	$ 1,210,139	$ 330,997	$ 323,379
2007	1,210,139	330,997	323,379
2008	1,152,535	314,137	307,157
2009	1,017,867	274,722	269,235
2010	642,635	164,898	163,571
2011	221,419	41,616	44,958
Total Minimum Payments	5,454,734	1,457,367	1,431,679
Less: Interest and Executory costs	341,138	99,845	96,064
Present value of net minimum payments	$ 5,113,596	$ 1,357,522	$ 1,335,615

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
School Employees:					
Compensated Absences	$ 176,537	$ -	$ 3,306	$ 173,231	$ 24,997
Capital Lease Obligations	6,136,091	-	1,022,495	5,113,596	1,040,479
Totals	$ 6,312,628	$ -	$ 1,025,801	$ 5,286,827	$ 1,065,476
Judges:					
Compensated Absences	$ 7,315	$ -	$ 1,357	$ 5,958	$ 860
Capital Lease Obligations	1,656,789	-	299,267	1,357,522	304,531
Totals	$ 1,664,104	$ -	$ 300,624	$ 1,363,480	$ 305,391
State Patrol:					
Compensated Absences	$ 7,846	$ -	$ 761	$ 7,085	$ 1,022
Capital Lease Obligations	1,623,546	-	287,931	1,335,615	292,995
Totals	$ 1,631,392	$ -	$ 288,692	$ 1,342,700	$ 294,017

9. School Employee Contributions

Employee contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $3,383,426. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within twelve months of retirement in accordance with Neb. Rev. Stat. Sections 79-921, 79-933.05, 79-933.06, and 79-933.08.

10. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 7,483,576	$ -	$ -	$ 7,483,576
Less: Accumulated Depreciation	1,658,342	1,069,082	-	2,727,424
Total Capital Assets, Net	$ 5,825,234	$ (1,069,082)	$ -	$ 4,756,152
Judges:				
Equipment	$ 2,036,889	$ -	$ -	$ 2,036,889
Less: Accumulated Depreciation	444,807	290,984	-	735,791
Total Capital Assets, Net	$ 1,592,082	$ (290,984)	$ -	$ 1,301,098
State Patrol:				
Equipment	$ 1,992,481	$ -	$ -	$ 1,992,481
Less: Accumulated Depreciation	436,646	284,640	-	721,286
Total Capital Assets, Net	$ 1,555,835	$ (284,640)	$ -	$ 1,271,195

11. Other Investment Receivables/Payables

Other investment 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 investment 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 has been recorded as of June 30, 2005, but the security has not settled.

12. Subsequent Events

School Employee Contributions

Beginning on September 1, 2005 and ending August 31, 2006, every employee shall be required to deposit in the School Retirement Fund seven and ninety-eight hundredths percent of compensation. Beginning on September 1, 2006, and ending August 31, 2007, every employee shall be required to deposit in the School Retirement Fund seven and eighty-three hundredths percent of compensation. After August 31, 2007, every employee shall be required to deposit in the School Retirement Fund seven and twenty-five hundredths percent of compensation.

State Patrol Contributions

Commencing July 1, 2005 and through June 30, 2007, each officer while in the service of the Nebraska State Patrol shall pay or have paid on his or her behalf a sum equal to thirteen percent of his or her monthly compensation. Commencing July 1, 2007, each officer while in the service of the Nebraska State Patrol shall pay or have paid on his or her behalf a sum equal to twelve percent of his or her monthly compensation.

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, 2005
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						
6/30/2005	$5,335,197,409	$6,234,657,830	$899,460,421	85.6%	$1,214,227,197	74.1%
6/30/2004	$5,118,011,165	$5,868,266,970	$750,255,805	87.2%	$1,170,601,127	64.1%
6/30/2003	4,952,902,870	5,464,572,876	511,670,006	90.6%	1,138,776,241	44.9%
6/30/2002	4,799,789,893	5,055,867,993	256,078,100	94.9%	1,065,515,857	24.0%
6/30/2001	1,486,008,665	1,704,201,512	218,192,847	87.2%	995,348,331	21.9%
6/30/2000	1,348,542,467	1,526,061,507	177,519,040	88.4%	933,339,432	19.0%

The Schedule of Funding Progress prior to June 30, 2002 excluded liabilities and assets for the Excess Formula Annuity benefit because funding for this benefit was based on the Aggregate Actuarial Cost Method. As of June 30, 2002, per LB 407, the cost method was changed to the Entry Age Actuarial Cost Method for the total Formula Annuity, and thus, from June 30, 2002 forward, the Schedule of Funding Progress under Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, will include total liabilities and assets for the School Retirement System.

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						
6/30/2005	$ 94,922,714	$ 98,512,876	$ 3,590,162	96%	$ 16,285,137	22.0%
6/30/2004	$ 92,810,699	$ 95,671,391	$ 2,860,692	97%	$ 16,655,342	17.2%
6/30/2003	91,863,620	85,387,839	(6,475,781)	108%	16,402,342	(39.5%)
6/30/2002	92,596,279	81,191,724	(11,404,555)	114%	16,062,274	(71.0%)
6/30/2001	90,685,851	90,685,851	-	100%	15,188,085	0.0%
6/30/2000	84,483,073	84,483,073	-	100%	13,913,264	0.0%
STATE PATROL						
6/30/2005	$ 219,831,273	$ 236,026,471	$ 16,195,198	93.1%	$ 22,882,413	70.8%
6/30/2004	$ 216,422,556	$ 222,161,512	$ 5,738,956	97.4%	$ 22,640,907	25.4%
6/30/2003	214,657,454	210,930,784	(3,726,670)	101.8%	21,929,399	(17.0%)
6/30/2002	214,527,994	197,615,091	(16,912,903)	108.6%	18,846,776	(89.7%)
6/30/2001	208,372,640	187,284,490	(21,088,150)	111.3%	16,727,477	(126.1%)
6/30/2000	193,019,673	169,545,801	(23,473,872)	113.8%	15,789,104	(148.7%)

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, 2005
UNAUDITED

SCHEDULE 2

SCHOOL EMPLOYEES

Year Ended June 30	Annual Required Contribution (1) State (2)	Annual Required Contribution (1) School		Percentage Contributed
2005	$ 29,816,737	$ 90,147,174	(3)	90%
2004	14,154,879	87,438,804		100%
2003	13,119,888	84,467,330		100%
2002	12,659,281	80,288,662		100%
2001	12,225,219	77,062,544		100%
2000	11,948,451	69,990,565		100%

JUDGES

Year Ended June 30	Annual Required Contribution State	Annual Required Contribution Court Fees	Percentage Contributed
2005	$ 501,841	$ 2,217,118	84%
2004	72,244	2,002,153	100%
2003	712,518	579,145	50%
2002	72,244	492,613	100%
2001	72,244	487,012	100%
2000	72,244	473,838	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution		Percentage Contributed
2005	$ 3,868,904	(3)	82.0%
2004	3,018,366		96.3%
2003	2,652,857		100%
2002	2,428,025		100%
2001	2,257,609		100%
2000	2,203,735		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 contributions for plan year ended June 30 paid after end of plan year.

(2) Does not include contribution to Omaha Public Schools.

(3) Additional State funding is required for the School Employees and State Patrol Plans in the amounts of $12,847,537 and $1,080,050 respectively.

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, 2005	June 30, 2005	June 30, 2005
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period (2)	23 Years	24 Years	25 Years
Mortality	1994 Group Annuity Table Set Back 2 Years	1994 Group Annuity Table Set Back 2 Years	1994 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 10.5% to 4.5%	5.0%	Graded 12% to 4.5%
Cost-Of-Living Adjustments (COLA)	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

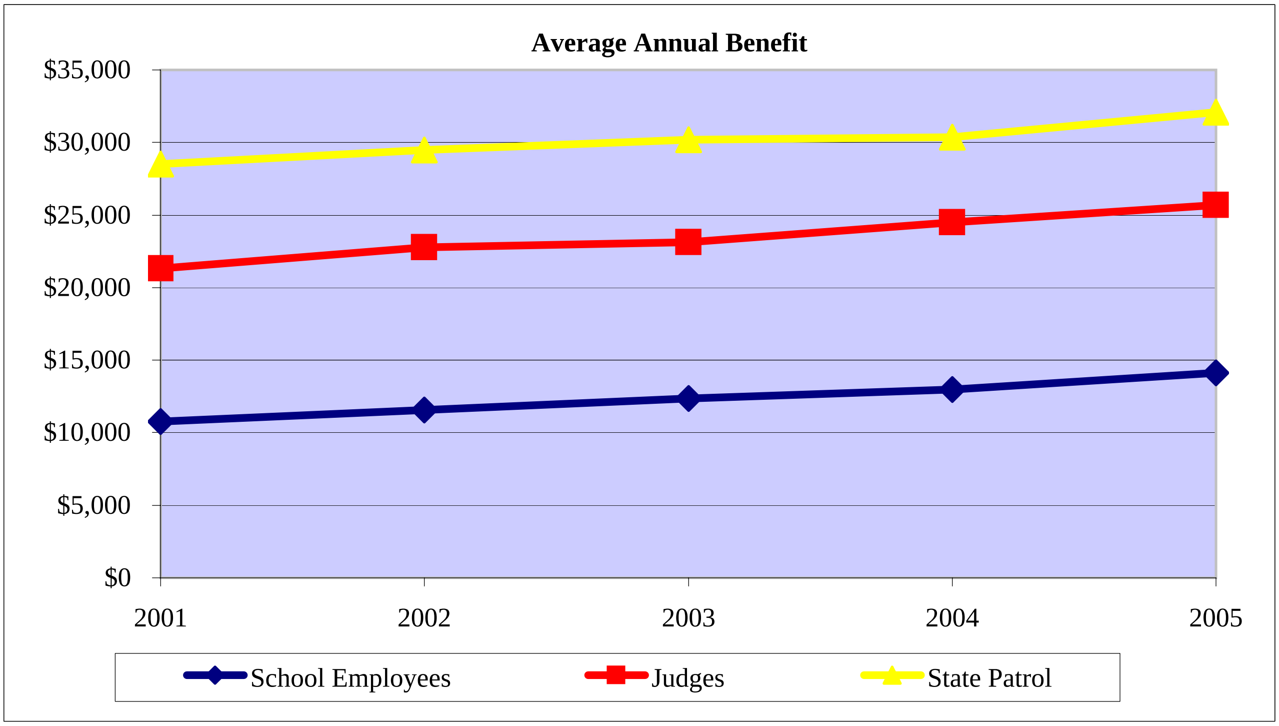
(1) Includes assumed inflation of 3.5% per year.
(2) The total unfunded actuarial liability may be amortized as one amount, or components of the total may be separately amortized. The equivalent single amortization period is the weighted average for all components. The weighted average was calculated as 23 years for the School Employees Plan and 24 years for the Judges Plan.

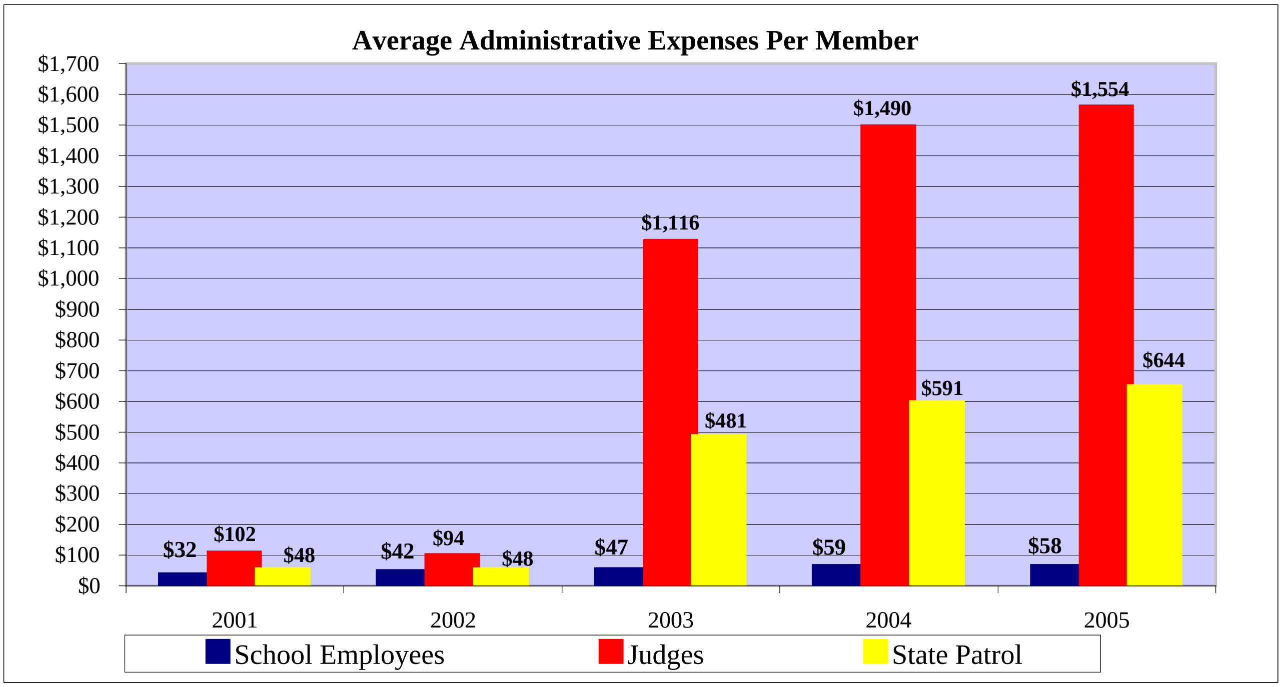
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 2001 through 2005

	2001	2002	2003	2004	2005
SCHOOL EMPLOYEES					
Active Members	35,589	35,974	36,779	36,353	36,042
Inactive Members	15,158	14,302	14,531	15,245	16,924
Retirees	10,925	11,360	11,837	12,730	13,049
Total Benefits Paid (3)	$ 117,809,712	$ 131,499,136	$146,337,041	$ 165,347,079	$ 184,360,473
Average Annual Benefit (1)	$ 10,783	$ 11,576	$ 12,363	$ 12,989	$ 14,128
Average Monthly Benefit (4)	$ 899	$ 965	$ 1,030	$ 1,082	$ 1,177
Administrative Expenses	$ 1,983,883	$ 2,601,071	$ 2,995,158	$ 3,786,591	$ 3,829,772
Average Admin. Expense Per Member (2)	$ 32.17	$ 42.20	$ 47.43	$ 58.86	$ 58.01
JUDGES					
Active Members	164	166	162	163	159
Inactive Members	13	12	13	8	9
Retirees	165	163	160	158	164
Total Benefits Paid (3)	$ 3,515,798	$ 3,709,728	$ 3,700,867	$ 3,872,082	$ 4,214,817
Average Annual Benefit (1)	$ 21,308	$ 22,759	$ 23,130	$ 24,507	$ 25,700
Average Monthly Benefit (4)	$ 1,776	$ 1,897	$ 1,928	$ 2,042	$ 2,142
Administrative Expenses	$ 34,935	$ 31,934	$ 373,723	$ 490,116	$ 516,027
Average Admin. Expense Per Member (2)	$ 102.15	$ 93.65	$ 1,115.59	$ 1,489.71	$ 1,554.30
STATE PATROL					
Active Members	403	415	486	489	473
Inactive Members	6	11	13	15	10
Retirees	274	280	288	301	316
Total Benefits Paid (3)	$ 7,806,983	$ 8,254,431	$ 8,697,575	$ 9,146,637	$ 10,142,646
Average Annual Benefit (1)	$ 28,493	$ 29,480	$ 30,200	$ 30,387	$ 32,097
Average Monthly Benefit (4)	$ 2,374	$ 2,457	$ 2,517	$ 2,532	$ 2,675
Administrative Expenses	$ 32,763	$ 33,578	$ 378,697	$ 475,551	$ 514,411
Average Admin. Expense Per Member (2)	$ 47.97	$ 47.56	$ 481.19	$ 590.75	$ 643.82

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





Note: Effective December 2002, NPERS reallocated expenses related to the technology plan using a different allocation method than in past years. At June 30, 2004 NPERS allocated 45.1%, 13.2%, and 12.7% of the technology project expenses to the School, Judges, and Patrol Plans, respectively. NPERS reallocated technology expenses back to December 2001 using the June 30, 2003 allocation percentages. Prior to December 2002, NPERS allocated 69%, 1%, and 1% of the technology project expenses to the School, Judges, and State Patrol Plans, respectively.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

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 fiscal year ended June 30, 2005, and have issued our report thereon dated December 20, 2005. The Independent Auditors' Report was modified to disclose that the Required Supplementary Information was unaudited and to emphasize the financial statements present only the 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

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (NPERS Information System), Comment Number 2 (Purchase of Service), Comment Number 3 (School District Testing), Comment Number 4 (Resolution of Prior Audit Findings – School District Testing), and Comment Number 6 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud 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 none of the reportable conditions described above are material weaknesses.

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 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 also noted an additional item 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 5 (Travel Expenses).

This report is intended solely for the information and use of NPERS and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

December 20, 2005 Assistant Deputy Auditor