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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Issued on January 30, 2009

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.

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

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

Two appointed members must meet the following requirements:

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

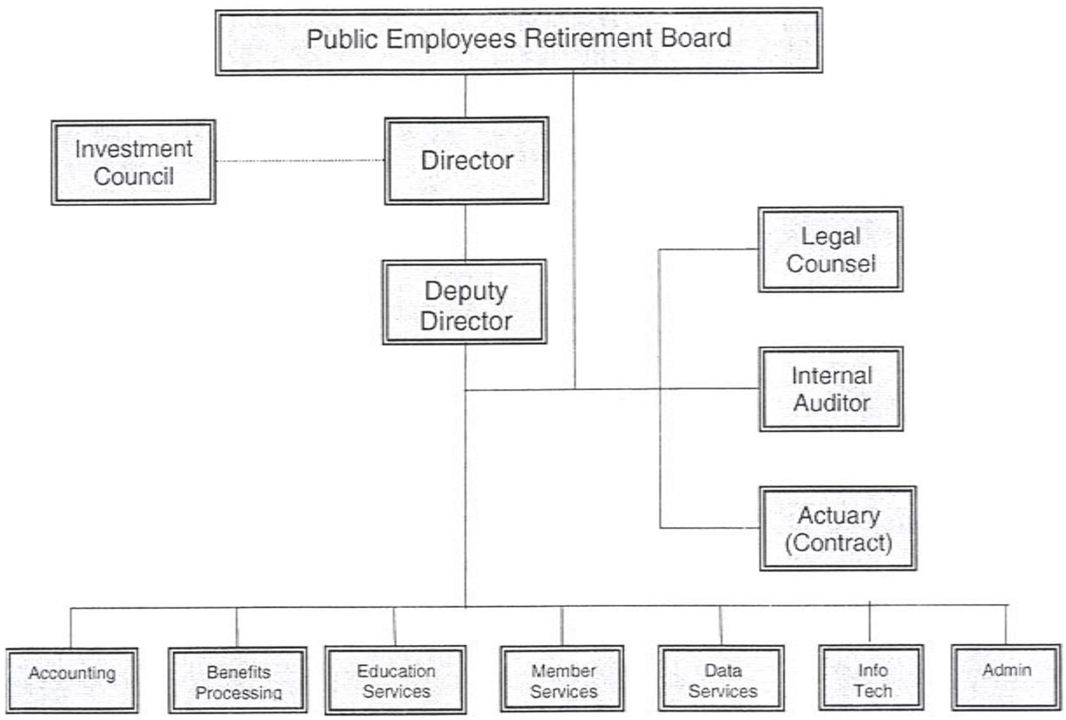
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

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

MISSION STATEMENT

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

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held December 18, 2008, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

NAME	TITLE
Phyllis Chambers	Director
Denis Blank	Board Chair
Glenn Elwell	Board Vice Chair
Joe Schaefer	Legal Counsel
Teresa Zulauf	Internal Auditor
Randy Gerke	Deputy Director/Accounting and Finance Manager
Miden Ebert	Benefits and Call Center Supervisor
Maria Davis	Retirement Specialist II
Mitch Snyder	Retirement Specialist II
Sheryl Hesseltine	Accountant III
Missy Maguire	Internal Auditor
Christine Ford	Internal Auditor

SUMMARY OF COMMENTS

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

1. ***School District Testing:*** NPERS lacked adequate sampling and monitoring procedures to ensure school districts correctly reported compensation, determined eligibility, and reported hours worked. We noted an inconsistency among school districts regarding the definition of compensation and the components of compensation for retirement purposes as well as the lack of a clear policy regarding the eligibility of plan participants. Because of the inconsistencies, we noted 5 of 25 school districts tested did not correctly report compensation for retirement purposes; 6 of 25 school districts did not have all eligible employees contributing to the School Plan; and 1 of 25 school districts did not report actual hours worked.

2. ***Benefit Adjustments:*** NPERS' calculations for the cost of living adjustments were not in agreement with the literal interpretation of the statutes for fiscal year 2008. As a result, we noted excess payments were made for 6 of 12 School Employee Plan members tested, 2 of 10 Judges Plan members, and 1 of 6 State Patrol Plan members. The excess payments ranged from $14 to $1,421 in overpayments for the year. Additionally, NPERS did not limit the benefit adjustments to the change in the Consumer Price Index (CPI) resulting in errors noted for 2 of 12 School Employee Plan members tested, 2 of 10 Judges Plan members, and 1 of 6 State Patrol Plan members. The payments in excess of the CPI ranged from $22 to $232 for the year. Lastly, NPERS did not use the correct minimum accrual rate for one method of calculating the benefit adjustment.

3. ***Berwyn Report Follow Up:*** NPERS did not perform adequate or timely follow up of deceased members accounts. Annually, NPERS obtains the services of the Berwyn Group to perform comparisons of members in the School Employees, Judges, State Patrol, State Employees, and County Employees Retirement Plans against national death records. The data compiled is used to ensure members listed as deceased are no longer receiving benefit payments within the system. NPERS could not determine if all plan members' accounts were included in the data to ensure all members' accounts were properly compared to the death records. Additionally, of the 330 member accounts matched to a death record on the report, NPERS only followed up on 30 members.

4. ***Salary Capping:*** NPERS did not require school districts to provide support for compensation that exceeded seven percent of the compensation base, as required by State statute, for five of eight members tested. The members' salaries exceeded the seven percent compensation base ranging from $261 to $920.

5. ***Resolution of Prior Year School Visit Findings:*** NPERS did not appropriately resolve prior audit findings for six school districts from fiscal year 2007, two school districts from fiscal year 2006, two school districts from fiscal year 2005, and two school districts for fiscal year 2004.

SUMMARY OF COMMENTS
(Continued)

6. ***Policies and Procedures:*** NPERS had several plan documents (State statutes, Rules and Regulations, Plan Handbooks, and Applications for Retirement) that were not consistent with each other. The inconsistencies related to the final average compensation calculation used for determining a benefit payment, the description of and rates used for two Judges Plan benefit options, and the date of distribution for a refund in the School Employees, Judges, and State Patrol Plans. Additionally, the draft rules and regulations were approved by the Board in 2002 but have not yet been approved by the Secretary of State.

7. ***Information Security:*** NPERS employees that worked on benefits and refunds could make address changes for members without a review by another individual. This increases the risk that employees may intentionally or unintentionally corrupt critical data and errors could occur and go undetected.

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.

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. School District Testing

In administering the State's retirement systems, the Board is directed by Neb. Rev. Stat. § 84-1503(1)(g) (Cum. Supp. 2006) to "adopt and implement procedures for reporting information by employers, as well as testing and monitoring procedures in order to verify the accuracy of such information."

Regarding the School Employees Retirement Plan (School Plan) in particular, Neb. Rev. Stat. § 79-906(1) (Cum. Supp. 2006) provides, "The director shall, from time to time, carry out testing procedures pursuant to section 84-1512 to verify the accuracy of such information."

Additionally, good internal control requires procedures to ensure the contributions remitted by school districts are complete and accurate and all eligible and only eligible employees join the School Plan.

NPERS lacked adequate sampling and monitoring procedures to ensure school districts correctly calculated and reported contributions, hours worked, and salary information. NPERS reviewed only one school during fiscal year 2008, which accounted for less than 0.1 percent of the total contributions. We reviewed payroll records at 25 of the 280 school districts. The amounts contributed by these 25 school districts, totaling $55,691,673, represented approximately 26 percent of the total contributions for all school districts for the fiscal year. The sample size included 246 contributing members – consisting of 123 members selected from NPERS' records and 123 members from the school districts' records. In addition, we tested 118 employees from the school districts' payroll registers who were not contributing to the School Plan.

We noted an inconsistency among school districts regarding both the definition of compensation and the components of compensation for retirement purposes. School districts are inconsistently handling certain benefit dollars that may either be used for insurance purposes or taken in cash. A similar finding was noted in the past several audit reports. Additionally, we noted NPERS has not documented and communicated to the school districts a clear policy regarding eligibility for participation in the plan.

The inconsistency regarding compensation appears to be fostered, at least in part, by the ambiguity of definitional language contained in the School Employees Retirement Act (Act) (Neb. Rev. Stat. §§ 79-901 to 79-977.03). For instance, Neb. Rev. Stat. § 79-902(35)(b)(iii) (Cum. Supp. 2006) includes "insurance premiums converted into cash payments" among those items not to be treated as compensation. NPERS appears to interpret this language to mean payments made in lieu of insurance, although there is nothing to indicate a legislative intent for such an interpretation and, under standard insurance dialect, payments made in lieu of insurance are altogether different from an actual conversion of insurance premiums into cash. Similarly, Neb. Rev. Stat. § 79-902(35)(b)(v) references "fringe benefits." Because neither the Act nor any other State retirement statutes contain a definition of "fringe benefits," some doubt exists

COMMENTS AND RECOMMENDATIONS
(Continued)

1. School District Testing (Continued)

regarding exactly what that term entails. Moreover, Neb. Rev. Stat. § 79-902(35)(a)(iv) defines compensation to include "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." It is evident, however, that many schools are uncertain how to interpret and apply this language.

We have noted in several prior audits the inconsistency between how various school districts report compensation, determine eligibility, and report hours worked, due to NPERS' lack of authoritative guidance regarding the proper interpretation and application of statutory language. Despite our previous recommendations, NPERS has yet to take substantive action to address what clearly remains a problem. As examples of the resultant uncertainty, we noted the following during our testing of school districts:

- Based on our interpretation of the language contained in Neb. Rev. Stat. § 79-902 (35)(a) and (b), 5 of 25 school districts tested, over/under reported compensation. This included 7 of 123 contributing members tested. Similar findings were noted in the past several audit reports.

  - Two school districts included the following items in compensation for retirement purposes: life insurance paid by the school district and direct cash payments that may or may not be used to purchase insurance. We interpret Neb. Rev. Stat. § 79-902(35)(b) to exclude these items from compensation for retirement purposes. Such an interpretation would result in the school districts overstating the members' annual compensation in amounts ranging from $456 to $13,405, and excess annual retirement contributions ranging from $67 to $1,962.

  - Three school districts excluded the following items in compensation for retirement purposes: member contributions to a Section 125 Plan and three months termination salary for services performed during the plan year. Neb. Rev. Stat. § 79-902(35)(a) specifically includes these items in compensation for retirement purposes. These errors resulted in understatements of the members' annual compensation ranging from $524 to $53,441, and underpaid annual retirement contributions ranging from $77 to $7,820.

- Six of 25 school districts tested did not have all eligible employees contributing to the School Plan. We noted 15 of 118 employees tested should have been contributing to the School Plan because they consistently worked over 15 hours per week or 60 hours per month. One of these 15 employees worked up to 2,000 hours a year and still did not contribute. Additionally, during testing of new members enrolled in the plan we noted 1 of 15 members tested did not begin contributing to the Plan timely. That member entered

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>School District Testing</u> (Continued)

the plan three months late, per our review of hours worked. These employees need to make up a reimbursement for their missed contributions. The definition of a contributing member under Neb. Rev. Stat. § 79-902(10) includes a regular employee who receives compensation from a public school. A "regular employee" is defined by Neb. Rev. Stat. § 79-902(40) as "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." A similar finding was noted in the past several audit reports.

- One of 25 school districts tested did not report actual hours to NPERS for two members tested. One member's hours were over reported by 31 hours for the month tested or potentially 372 hours for the school year due to the way the school district was calculating the hours reported. The second member's hours were over reported by 498 hours for the school year. These errors affected the annual service credit for each member. Additionally, during testing of new members enrolled in the plan we noted 1 of 15 members tested had 13 hours under reported for a two month period during the school year. A similar finding was noted in the past several audit reports.

Without adequate procedures in place by NPERS to ensure dollar amounts and hours are correctly reported, in accordance with statutes and consistently between school districts, there is a high risk errors such as those noted above will remain undetected. Furthermore, without clear and communicated policies regarding eligibility there is an increased risk required employees will not properly join the plan. Also, since the benefit amount at retirement is calculated based in part on the reported salaries and hours of the members, there is an increased risk the benefit amount is not accurate. There is also a risk contributions needed to fund the School Plan are inadequate.

> We continue to recommend NPERS implement procedures to ensure the compensation and hours reported by school districts are correct and in compliance with statutes. NPERS should follow up with all exceptions noted during testing and consider further correspondence with all school districts regarding the issues noted during our testing and NPERS' testing. NPERS should ensure adequate documentation is obtained from schools to ensure they have resolved the issues. NPERS should also examine current statutory language and implement modifications due to the various interpretations of compensation by school districts. Furthermore, NPERS should establish and document policies for the schools regarding eligibility in the plan.

COMMENTS AND RECOMMENDATIONS
(Continued)

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

NPERS' Response: NPERS will follow up with the exceptions noted by the auditors in their testing.

We have a full-time employee dedicated to auditing the payroll of school employers. We have strengthened our procedures and have been auditing new schools every year.

NPERS provides employer training for the employees at the schools. Everyone that attends the training receives an employer manual that is updated annually. If a school employer is not in attendance an employer manual is sent to their school.

2. <u>Benefit Adjustments</u>

Neb. Rev. Stat. §§ 24-710.07 (Cum. Supp. 2006), 79-947.01 (Supp. 2007), and 81-2027.03 (Cum. Supp. 2006) state that beginning July 1, 2000, and each July 1 thereafter, current benefits paid to a member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 60 percent for the State Patrol Plan and 75 percent for the School Employees and Judges Plans, of the purchasing power of the initial benefit. The Board shall adjust the annual benefit adjustment provided in this section so that the total amount of all Cost of Living Adjustments (COLA) provided to the eligible retiree does not exceed the change in the National Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) published by the Bureau of Labor Statistics for the period between June 30 of the prior year to June 30 of the current year.

Good internal control requires procedures to ensure the annual adjustments are accurate and in accordance with State statute.

<u>COLA Adjustments</u>

During testing we noted 6 of 12 School Employee Plan members, 2 of 10 Judges Plan members, and 1 of 6 State Patrol Plan members received COLA adjustments under a method they were not eligible for as their benefit was above the purchasing power floor or the calculation of the method was not proper due to the literal interpretation of the statutes. Excess payments for the year ranged from $14 to $1,421 for the members.

The calculation in PIONEER was also not limited to the change in the CPI-W from the prior year to the current year. During testing we noted 2 of 12 School Employee Plan members, 2 of 10 Judges Plan members, and 1 of 6 State Patrol Plan members received COLA increases that exceeded the 2.67 percent change in the CPI-W from fiscal year 2006 to fiscal year 2007. The payments above CPI-W ranged from $22 to $232 for the year.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Benefit Adjustments (Continued)

For fiscal year 2008, the calculation of the COLA adjustment in the NPERS system, PIONEER, did not follow the literal interpretation of the statutes. We have worked with NPERS to document our understanding of the calculation of the purchasing power of the original benefits and the subsequent adjustments required under the statutes. The statutes were revised in 2008. We tested 3 members for the July 2008 COLA from each plan and the calculations performed by NPERS were properly calculated for the intent of the statutes.

Minimum Accrual Rates

Additionally, Neb. Rev. Stat. §§ 24-710.10 (Cum. Supp. 2006), 79-947.04 (Reissue 2003), and 81-2027.06 (Reissue 1999) state the minimum accrual rates are set at $35 for the Judges Plan, $18 for the School Employees Plan, and $30 for the State Patrol Plan until adjusted pursuant to these sections. Commencing on June 30, 1999, the Retirement Board will annually adjust the minimum accrual rate to reflect the cumulative change in the National Consumer Price Index from the last adjustment of the minimum accrual rate.

In July 1999, NPERS used the original minimum accrual rate for the COLA calculations; therefore, for every year after 1999 the rate is off one year in their system. Despite findings in several of the past audit reports, NPERS continued to calculate the minimum accrual rates incorrectly, resulting in an inaccurate rate used for the fiscal year 2008 benefit calculations.

The risk for incorrect calculations increases without procedures to ensure prior audit findings are appropriately and timely addressed. Additionally, granting increases greater than required by statutes could adversely affect the funding status of the plans requiring additional State funding. Furthermore, when the incorrect minimum accrual rate is used in a member's benefit adjustment calculation, there is an increased risk the member's benefits may not be adjusted by the correct amount and future adjustments will be inaccurate.

Similar findings were noted in the previous audit report. These errors could potentially affect many plan members.

> We recommend NPERS ensure all members are at or above the purchasing power limit of the initial benefit as set in statutes for all plans. We also recommend NPERS work to ensure the new system correctly calculates all future COLAs, appropriately limiting the COLA to the change in the CPI-W from year to year, and adjusting the minimum accrual rate in the system. Lastly, we recommend NPERS analyze and determine the effect of using the incorrect minimum accrual rates for those eligible members and determine if any adjustments need to be made since the first benefit adjustment given in 2000.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Benefit Adjustments (Concluded)

NPERS' Response: We have been working with the vendor of the new IT system to make sure the system correctly calculates all future COLA's.

We will inquire with the Attorney General's Office about our interpretation of the law concerning the original minimum accrual rate for the COLA calculations.

3. Berwyn Report Follow Up

Annually, NPERS obtains the services of the Berwyn Group to perform comparisons of members in the School Employees, Judges, State Patrol, State Employees, and County Employees Retirement Plans against national death records. The data compiled is then used to ensure members listed as deceased are no longer receiving benefit payments within the system. For members not yet receiving payments, beneficiaries, or the estate are to be contacted to properly resolve the deceased member's account.

Good internal control requires procedures to ensure accurate information is submitted and adequate follow up is completed for members listed as deceased on the Berwyn Report, to ensure member accounts are properly resolved upon death.

NPERS sent member data containing 43,557 members' information to the Berwyn Group for compilation of the report. The report matched 330 members to the national death records. We noted NPERS could not provide supporting documentation for the initial records sent to the Berwyn Group in order for the report to be compiled. NPERS could not determine if all members of the School Employees, Judges, State Patrol, State Employees, and County Employees Retirement Plans were included in the data to ensure all members' accounts were properly compared to the death records. Additionally, we noted NPERS performed further filtering procedures on the original list of 330 members and compiled a list of only 30 members to research. According to NPERS, the filtered report contained only inactive member accounts and members with account balances. Therefore, NPERS did not include members' accounts who were receiving benefit payments. As NPERS did not perform adequate or timely follow up of member accounts, we will perform further procedures prior to the next audit to ensure member accounts have been properly handled.

Without adequate policies and procedures there is an increased risk deceased members' accounts have not been properly identified and follow-up procedures performed, to ensure the accounts are properly resolved. There is also an increased risk that payments will continue to deceased members if they are not properly researched in a timely manner.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **<u>Berwyn Report Follow Up</u>** (Concluded)

> We recommend NPERS ensure the Berwyn Death Audit Report is accurate and complete. We also recommend NPERS follow up on all members reported in a timely manner. Lastly, we recommend NPERS consider performing procedures on a more frequent basis, at least semi-annually, to ensure member accounts are proper.

NPERS' Response: Since the auditors brought this matter to our attention, we have reviewed all of the 330 member accounts in the report. Approximately 276 of the members listed had zero balances and should not have appeared in the report. We believe this is due to the result of the query pulling the wrong data into the balance field. We will be changing the query to retrieve the proper data for future reports. We are confident that if the report is retrieving the correct data and we are reviewing the report thoroughly, we will only need to expend resources for one audit per year.

4. **<u>Salary Capping</u>**

Neb. Rev. Stat. § 79-902(35)(e)(i) (Cum. Supp. 2006) states, "In the determination of compensation for members on or after July 1, 2005, that part of a member's compensation for the plan year which exceeds the member's compensation with the same employer for the preceding plan year by more than seven percent of the compensation base during the sixty months preceding the member's retirement shall be excluded unless (A) the member experienced a substantial change in employment position, (B) as verified by the school board, the excess compensation above seven percent occurred as the result of a collective-bargaining agreement between the employer and a recognized collective-bargaining unit or category of school employee, and the percentage increase in compensation above seven percent shall not be excluded for employees outside of a collective-bargaining unit or within the same category of school employee…"

Neb. Rev. Stat. § 79-906(2) (Cum. Supp. 2006) requires employers to provide information to the NPERS Director whenever a member's compensation has exceeded seven percent of the compensation base. Such information shall be provided by the employer in an accurate and verifiable form.

Good internal control requires procedures to ensure amounts in excess of seven percent of the compensation base are properly verified and documented.

NPERS did not require school districts to provide information to support compensation that exceeded seven percent of the compensation base. The school districts only reported that members experienced a substantial change or the increase was due to a collective-bargaining agreement, the schools did not submit additional information to NPERS for their verification.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Salary Capping** (Concluded)

We tested 14 new retirees in the School Employees Plan. Eight of the 14 tested exceeded seven percent of the compensation base. For 5 of the 8 members, the school districts reported that the members had a substantial change or the increase was due to a collective-bargaining unit agreement as outlined in statute. However, NPERS did not verify the reason. Therefore, the full salary amount, including the amount above seven percent, was included in the member's compensation which was used to calculate the retirement benefit. The members' salaries exceeded the seven percent compensation base ranging from $261 to $920.

Without procedures to ensure schools submit adequate documentation to support exemptions, there is an increased risk amounts in excess of seven percent of the compensation base will be used to calculate members' retirement benefits.

> We recommend NPERS develop procedures to ensure amounts in excess of seven percent of the compensation base are adequately documented by the school districts. NPERS could require the school districts to provide an explanation of the substantial change in employment position or submit the collective bargaining agreements.

NPERS' Response: The School employers have the statutory duty to report the exemptions accurately. NPERS will have our internal audit staff sample the reports and determine if the School employers are accurately reporting the 7% exemptions per statute. NPERS does not have adequate staff or legal resources to document and review each exemption reported.

5. **Resolution of Prior Year School Visit Findings**

Good internal control requires the timely and thorough resolution of prior audit findings. American Institute of Certified Public Accountants (AICPA) Professional Standards regard the failure by management to assess the effect of a significant deficiency previously communicated to them and either correct it or conclude that it will not be corrected would at least result in a significant deficiency and a strong indicator of material weakness in internal control.

NPERS did not appropriately resolve prior audit findings for school districts in a timely manner. NPERS had contacted all of the school districts from the prior audit; however, 12 of the 36 school districts from audits dated back to 2004 still had outstanding issues as follows:

- Findings for six school districts (one of which had three issues and one of which had two issues) from the 2007 audit of the School Plan were not adequately resolved.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Resolution of Prior Year School Visit Findings (Continued)

  - Three school districts tested included amounts in employees' salaries that appear to be fringe benefits or bonuses. Per State statute, fringe benefits and bonuses should not be included in compensation used to calculate retirement.

  - Two school districts tested had employees that should have been contributing to the Plan. NPERS contacted the school districts and the employees are now contributing; however, make up contributions had not begun.

  - One school district tested estimated employees hours reported to NPERS instead of reporting actual hours worked. NPERS contacted the school district and the issue was resolved going forward; however, NPERS and the school district need to determine if prior hours reported need to be adjusted for service credit.

- Two findings from the 2006 audit of the School Plan were not adequately resolved.

  - One school district tested had an employee that should have been contributing to the plan. NPERS contacted the school district and the employee is now contributing; however, make up contributions had not begun.

  - One school district tested had an employee that should have been contributing to the plan. NPERS contacted the school district but the employee was still not contributing and had not made up contributions.

- Two findings from the 2005 audit of the School Plan were not adequately resolved.

  - One school district tested included amounts in employees' salaries that appear to be fringe benefits.

  - One school district tested did not include amounts in an employee's salary for a tax sheltered annuity. State statute requires contributions to tax sheltered annuities be included in compensation used to calculate retirement.

- Two findings from the 2004 audit of the School Plan were not adequately resolved.

  - Two school districts tested included amounts in employees' salaries that appear to be fringe benefits.

A similar finding was noted in the past several audit reports.

There is an increased risk errors in plan membership and compensation will remain incorrect, unless adequate procedures are developed to resolve prior audit findings in a timely manner.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Resolution of Prior Year School Visit Findings (Concluded)

> We recommend NPERS resolve findings from prior audits, require make up contributions for missed contributions, and request Attorney General opinions for issues in which NPERS and the Auditor of Public Accounts (APA) are in disagreement.

NPERS' Response: We have worked very diligently in resolving prior audit issues. From the 2007 audit of the School Plan, there were 36 audit issues and we resolved 30 of the issues. The 2006 audit of the School Plan resulted with 30 audit issues and we have resolved 28 issues.

We continue to work with the school employers to resolve prior audit findings. We will review the issues that we are in disagreement with the Auditor of Public Accounts and determine if an Attorney General's Opinion is necessary.

6. Policies and Procedures

Good internal control requires procedures to ensure plan documents are consistent and accurate.

We noted several plan documents (State statutes, Rules and Regulations, Plan Handbooks, and Applications for Retirement) that were not consistent as noted:

- Neb. Rev. Stat. § 79-902(30)(a) (Cum. Supp. 2006) indicates, the members three highest 12-month periods of salary, counting back from the final month of pay, are used to determine the final average compensation for calculating the benefit. However, Title 303 NAC 23-002.01 indicates the salaries should be based on the fiscal year. NPERS currently calculates the final average compensation based upon the statutory language.

- The Judges Plan allows for members to choose between five different benefit options. The benefits for two of the options, Joint and Survivor Annuity and Contingent Annuity, appear to be the same option as described in Title 303 NAC 24-002, the Retirement Handbook and the Application for Retirement/Disability. Additionally, the two benefit option's rates do not agree between the Title 303 NAC 24-002, the Draft Rules and Regulations, the Handbook, and the Application for Retirement/Disability.

- Draft Rules and Regulations, Title 303 NAC 4-003.03, states "The date of distribution of a refund to a member in the School Plan shall not occur earlier than four calendar months after the member's termination date or three working days after receipt of the application for refund, whichever is later." The PIONEER system calculates the distribution using 120 days instead of calculating four calendar months. Additionally, the School Handbook indicates the distribution shall occur approximately four months after your termination of employment or no earlier than 20 working days after receipt of the application for refund, whichever is later, this is not consistent with Rules and Regulations.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>Policies and Procedures</u> (Concluded)

- Draft Rules and Regulations, Title 303 NAC 4-004.03, states "The date of distribution of a refund to a member in the Judges Plan or the Patrol Plan shall not occur earlier than sixty (60) days after the member's termination date or three (3) working days after the receipt of the application for a refund, whichever is later." However, the State Patrol Handbook states the payment will process approximately 60 days after your termination date or two weeks after receipt of the application, whichever is later. Additionally, the Judges Handbook indicates the distribution shall not occur earlier than 60 days after the last working day or the receipt of the completed application.

- Lastly, the draft rules and regulations were approved by the Board in 2002 but have not yet been approved by the Secretary of State.

Without consistent policies and information provided to members there is an increased risk benefit payments will not be properly calculated. Furthermore, there is a risk members may have a misunderstanding of the benefits available if information is not consistent between the different plan documents.

> We recommend NPERS ensure Rules and Regulations, Plan Handbooks, State Statutes and Applications for Retirement are consistent for the plans. We further recommend NPERS ensure draft rules and regulations approved by the Board are properly submitted and approved by the Secretary of State in a timely manner.

NPERS' Response: NPERS will continue to work to ensure Rules and Regulations, Plan Handbooks, State Statutes, and Applications for Retirement are consistent. It takes a considerable amount of time to draft rules and regulations and obtain approval by the Secretary of State.

APA's Response: It has been six years since the draft rules and regulations were approved by the Board in December 2002. We recommend NPERS ensure the timely submission of rules and regulations to the Secretary of State.

7. <u>Information Security</u>

Good internal control requires changes made to members' addresses be reviewed and documented by an individual who did not make the initial change.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Information Security (Concluded)

We noted employees that worked on benefits and refunds could make address changes for members with no subsequent review of the address change made to the members account. Although NPERS evaluated the cost related to the functionality within PIONEER it was decided not to spend the funds. Per discussion with NPERS, there will be an audit function within the new system for address changes.

There is an increased risk that employees may intentionally or unintentionally corrupt critical data and errors could occur and go undetected. A similar finding was noted in the previous audit report.

> We recommend NPERS ensure an audit function is implemented in the new system to ensure member address changes are properly reviewed prior to the processing of benefit and refund payments.

NPERS' Response: The audit function for address changes will be programmed into the new NPRIS Information Technology System.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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

INDEPENDENT AUDITOR'S 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, 2008, which collectively comprise NPERS' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans, are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the governmental activities of the State of Nebraska as of June 30, 2008, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

NPERS has not presented Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The "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. The "Schedules of Contributions From Employers and Other Contributing Entities" has been subjected to the auditing procedures applied in the audit of the Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets and, in our opinion, is fairly stated in all material respects in relation to the financial statements referred to above, taken as a whole. We have applied certain limited procedures to the "Schedules of Funding Progress" 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements. The accompanying supplementary schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 basic financial statements taken as a whole.

Signed Original on File

January 26, 2009

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2008

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	$ 2,358,902	$ 78,832	$ 179,433
Deposits with Vendors	9,091	94	94
Receivables:			
Contributions	35,395,373	380,276	679,820
Interest and Dividend Income	14,105,531	244,226	556,587
Other Investment Receivables (Note 11)	383,154,330	6,604,581	15,142,612
Total Receivables	432,655,234	7,229,083	16,379,019
Investments, at fair value (Note 4):			
U.S. Treasury Bills	10,004,717	172,453	395,359
U.S. Treasury Notes and Bonds	5,453,147	93,997	215,493
Government Agency Securities	18,765,056	323,456	741,543
Corporate Bonds	437,391,466	7,539,380	17,284,497
International Bonds	37,501,650	646,421	1,481,961
Asset Backed Securities	77,327,267	1,332,901	3,055,759
Short Term Investments	72,584,785	1,251,428	2,872,431
Commingled Funds	3,938,790,055	67,893,492	155,650,055
Mortgages	871,653,339	15,027,270	34,481,992
Municipal Bonds	10,606,922	182,833	419,156
Private Equity Funds	79,103,105	1,363,512	3,125,935
Equity Securities	825,375,564	14,227,117	32,616,552
Options	(1,173,354)	(20,225)	(46,368)
Private Real Estate Funds	266,700,520	4,597,155	10,539,265
Total Investments	6,650,084,239	114,631,190	262,833,630
Invested Securities Lending Collateral (Note 4)	292,554,767	5,042,808	11,560,952
Capital Assets (Note 10):			
Equipment	7,483,576	2,036,889	1,992,481
Less: Accumulated Depreciation	(5,891,761)	(1,597,300)	(1,563,954)
Total Capital Assets	1,591,815	439,589	428,527
TOTAL ASSETS	7,379,254,048	127,421,596	291,381,655
LIABILITIES			
Compensated Absences (Note 5)	176,341	2,680	3,518
Accounts Payable and Accrued Liabilities	3,421,325	66,769	130,007
Obligations under Securities Lending (Note 4)	292,554,767	5,042,808	11,560,952
Capital Lease Obligations (Note 7)	1,969,942	437,429	450,373
Other Investment Payables (Note 11)	499,959,259	8,617,870	19,757,003
Contributions for Omaha Public Schools (Note 6)	2,883,210	-	-
TOTAL LIABILITIES	800,964,844	14,167,556	31,901,853
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 39.)	$ 6,578,289,204	$ 113,254,040	$ 259,479,802

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, 2008

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Member	$ 107,352,709	$ 1,150,873	$ 3,670,281
Employer	105,977,554	-	4,175,880
Court Fees	-	3,280,964	-
State	18,716,151	72,244	679,820
Total Contributions	232,046,414	4,504,081	8,525,981
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(567,118,037)	(9,748,082)	(21,950,591)
Interest & Dividends	180,460,078	3,117,517	7,172,079
Securities Lending Income	14,090,007	242,871	556,798
Total Investment Income	(372,567,952)	(6,387,694)	(14,221,714)
Investment Expenses	(13,425,183)	(240,374)	(671,270)
Securities Lending Expenses	(11,968,791)	(206,308)	(472,973)
Net Investment Income	(397,961,926)	(6,834,376)	(15,365,957)
Other Additions	30,428	22	22
Total Additions	(165,885,084)	(2,330,273)	(6,839,954)
DEDUCTIONS:			
Benefits	261,336,738	5,277,937	12,781,649
Refunds of Contributions	10,454,472	-	154,540
Administrative Expense	5,104,501	362,628	366,917
Other Deductions (Note 6)	4,524,511	-	-
Total Deductions	281,420,222	5,640,565	13,303,106
Net Increase (Decrease)	(447,305,306)	(7,970,838)	(20,143,060)
Net assets held in trust for pension benefits:			
Beginning of year	7,025,594,510	121,224,878	279,622,862
End of year	$ 6,578,289,204	$ 113,254,040	$ 259,479,802

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2008

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2007, and the Deferred Compensation Plan for the calendar year ended December 31, 2005.

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

C. Measurement Focus, Basis of Accounting

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

1. <u>Summary of Significant Accounting Policies</u> (Continued)

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

D. Cash in State Treasury

Cash in State Treasury represents the cash balance of a fund as reflected in the State's General Ledger. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on the investments of the three Plans is allocated to funds based on their percentage of the investment pool.

E. Investments

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

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

F. Capital Assets

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

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of 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

1. Summary of Significant Accounting Policies (Concluded)

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

G. Compensated Absences

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

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

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

H. Use of Estimates

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

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2008, the date of the last actuarial valuation:

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	15,339	155	352
Terminated plan members entitled to but not yet receiving benefits	18,995	9	9
Active plan members	37,832	157	496
Total	72,166	321	857

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. §§ 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. §§ 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. §§ 81-2014 through 81-2041 for the State Patrol Retirement Plan. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2008, there were 280 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 0.7 percent of the compensation of all members. The employees' contribution was equal to 7.83 percent of their compensation from July 1, 2007, to August 31, 2007, and was equal to 7.28 percent from September 1, 2007, to June 30, 2008. The school districts' (employer) contribution is 101 percent of the employees' contribution.

Judges Retirement

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

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

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A five dollar fee for each case is collected from District and County courts, Juvenile courts, Workers' Compensation Court, Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each 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, and new members contribute 8 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes 4 percent of their monthly salary for the remainder of his or her active service. All other members contribute 6 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 6 percent of their salary until the maximum benefit as changed has been earned.

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 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3 percent. Calculation will vary with early retirement. Benefits vest after 10 years of service.

Contributions. Members are required to contribute 13 percent of their annual pay, plus, for a State Patrol officer employed on or before January 4, 1979, 13 percent of pay received at termination for unused sick leave and vacation leave. The State Patrol's (employer) contribution is 15 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

3. Funded Status and Funding Progress

The funded status of each plan as of June 30, 2008, the most recent actuarial valuation date, is as follows:

	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) - Entry Age	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
School	$ 6,932,918,638	$ 7,654,536,359	$721,617,721	90.6%	$1,389,124,819	51.9%
Judges	119,961,758	114,251,081	(5,710,677)	105.0%	17,990,072	(31.7%)
State Patrol	273,393,928	291,996,719	18,602,791	93.6%	26,979,643	69.0%

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

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

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

	School Employees	Judges	State Patrol
Valuation date	June 30, 2008	June 30, 2008	June 30, 2008
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	28 Years	30 Years	29 Years
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial assumptions:			
Investment rate of return*	8.0%	8.0%	8.0%
Projected salary increases*	4.5% to 7.46%	4.5%	4.5% to 9.0%
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

* Includes assumed inflation of 3.5% per year.

Changes in Actuarial Assumptions or Plan Provisions Since the Last Actuarial Valuation

Judges Plan. There have been no changes in the actuarial cost method since the last actuarial valuation dated July 1, 2007. 2008 Neb. Laws LB 1147, § 5 amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55. Additionally, the retirement rates used in the valuation were increased at ages 62 through 64, from 15% to 18%, to account for the possible increase in retirements due to the subsidized early retirement factors.

Patrol Plan. 2007 Neb. Laws LB 324, § 3 adds a Deferred Retirement Option Plan (DROP) for members who have attained normal retirement age and completed 25 years of service. The member continues to work and receives a paycheck while the monthly retirement benefits are deposited into the DROP account for a maximum of five years. DROP provides a way for a member to receive a lump sum amount at retirement in addition to an ongoing monthly benefit. Due to LB 324, retirement rates were increased to 100% for members who are eligible for the DROP.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Assets. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01 authorizes the appointed members of the Nebraska Investment 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 Plan 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, 2008, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

School Employees, Judges, and Patrol Retirement Plan Investments at June 30, 2008

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Notes and Bonds	$ 5,762,637	11.55
U.S. Treasury Bills	10,572,529	0.20
Government Agency Securities	19,830,055	4.80
Corporate Bonds	462,215,343	5.44
International Bonds	39,630,032	7.14
Asset Backed Securities	81,715,927	2.74
Short Term Investments	76,708,644	0.08
Commingled Funds	647,751,273	4.28
Mortgages	921,162,601	4.44
Municipal Bonds	11,208,911	11.37
	2,276,557,952	

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

	Fair Value
Other Investments	
Private Equity Securities	83,592,552
Equity Securities	872,219,233
Commingled Funds	3,514,582,329
Options	(1,239,947)
Private Real Estate Funds Trust	281,836,940
Total Investments	7,027,549,059
Invested Securities Lending Collateral	309,158,527
Total	$ 7,336,707,586

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. NPERS' rated debt investments as of June 30, 2008, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Defined Benefit/Cash Balance Benefit Investments at June 30, 2008

			Quality Ratings							
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**C**	**Unrated**
Asset Backed Securities	90,496,548	80,478,912	-	191,000	1,405,389	908,619	-	-	-	7,512,628
Mortgages	1,020,104,471	750,934,034	3,999,209	-	-	-	295,100	-	-	264,876,128
International Bonds	43,888,398	17,458,394	-	5,743,662	12,463,458	7,364,593	735,527	-	-	122,764
Corporate Bonds	511,881,762	48,083,930	114,134,606	156,529,796	57,786,592	48,447,708	49,795,275	13,196,802	355,842	23,551,211
Government Agency Securities	21,960,853	21,281,184	-	-	331,804	-	347,865	-	-	-
Municipal Bonds	12,413,343	5,826,962	4,583,519	1,428,562	574,300	-	-	-	-	-
Short Term Investments	87,949,300	-	-	-	-	-	-	-	-	87,949,300
Commingled Funds	717,354,081	-	-	-	-	-	-	-	-	717,354,081

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, 2008, NPERS had no debt security investments with more than 5 percent of total investments.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

Defined Benefit/Cash Balance Benefit Foreign Currency at June 30, 2008

	Short Term Investments	Equity Securities	International Bonds	Corporate Bonds
Argentine Peso	$ 15,024	$ -	$ -	$ -
Australian Dollar	516,953	4,107,198	-	-
Brazilian Real	(6,409,311)	1,592,595	1,336,831	-
Canadian Dollar	64,919	75,332	-	432,949
Danish Krone	32,994	2,402,053	-	-
Euro Currency	36,667	106,788,798	17,771,881	4,425,049
Hong Kong Dollar	1,156	6,335,287	-	-
Hungarian Forint	4,105	-	-	-
Iceland Krona	-	-	-	1,537,139
Indonesian Rupiah	1,642	359,393	-	286,912
Israeli Shekel	179	45,691	-	-
Japanese Yen	2,740,948	38,878,591	-	5,665,837
Malaysian Ringgit	-	-	-	2,110,788
Mexican Peso	(517,629)	7,620,220	2,203,938	507,107
New Zealand Dollar	630	-	-	569,394
Norwegian Krone	260,175	-	-	-
Philippine Peso	2,215	-	-	-
Polish Zloty	767	202,689	-	-
Pound Sterling	167,901	28,615,065	-	143,947
Singapore Dollar	42,845	2,913,868	-	2,092,098
South Korean Won	221,858	14,793,062	-	851,187
Swedish Krona	36,491	1,699,595	-	-
Swiss Franc	81,798	25,121,817	-	-
Thailand Baht	6,518	644,217	-	-
Total	$ (2,691,155)	$ 242,195,471	$ 21,312,650	$ 18,622,407

4. Investments (Concluded)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 41 and 42 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and/or reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

The liability for the vested portion of compensated absences for each Plan at June 30, 2008, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 103,522	$ 1,573	$ 2,065
Sick Leave	72,819	1,107	1,453
	$ 176,341	$ 2,680	$ 3,518

6. Payments to Omaha Public Schools

Neb. Rev. Stat. § 79-916(2) (Cum. Supp. 2006) requires an annual payment, for seven-tenths of one percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Assets in State Contributions additions and as Other Deductions for the July 2008 appropriation for the fiscal year ended June 30, 2008. Additionally, on the Statement of Plan Net Assets, the amount is included as a Contribution Receivable and a liability for contributions due to OPS as the appropriation was not received until July 2008.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2003). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), who then in turn make the actual service annuity payments to the Omaha retirees. Previously, payments and sources of such funds were commingled within the School Plan's accounts. In accordance with Neb. Rev. Stat. § 79-916 (Cum. Supp. 2006), a separate Service Annuity Fund (Fund) was established for such payments and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the Fund ($10,875,037, consisting almost entirely of investments) are included in the Statement of Plan Net Assets at June 30, 2008. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Assets.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Payments to Omaha Public Schools (Concluded)

Deductions from the School Plan for the year ended June 30, 2008, were as follows:

	School Employees
Omaha 7/10 of 1% Appropriation	$ 2,883,210
Omaha Service Annuity Payments	1,641,301
Total Other Deductions	$ 4,524,511

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 the State's risk management program. Administrative Services (AS) is responsible for maintaining the insurance and self-insurance programs for the State, including the health and life insurance programs. The State generally self-insures for general liability, employee healthcare, and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident with a self-insured retention of $300,000 per accident, except for accidents involving vehicular pursuit, which have a $1,000,000, self-insured retention per accident. Insurance is also purchased for 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. Life insurance for eligible employees.

C. Crime coverage, with a limit of $31 million for each loss, and a $25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence.

Details of the various coverage is available from Risk Management, a division of Administrative Services.

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

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

Capital Lease Commitment. The State of Nebraska, through State Accounting (a division of Administrative Services) has various leases under four Master Lease Indentures. Under such indentures, the State is required to make semiannual payments to trustees for principal and interest under such leases. To acquire funds for these semiannual payments to the trustees, State Accounting bills agencies in advance to ensure there are funds available to make the required payments. As of June 30, 2008, NPERS had agreed to participate in and make payments to State Accounting on four such capital leases. The agreements to pay for the leases are with NPERS, not any of the individual plans. The payments are allocated according to the expense allocation policy of NPERS. The minimum payments to State Accounting and the present value of future minimum payments for all capital leases as of June 30, 2008, are as follows:

Fiscal Year	School Employees	Judges	State Patrol
2009	$ 1,074,352	$ 268,064	$ 267,749
2010	699,120	158,241	162,084
2011	246,088	25,646	34,512
Total Minimum Payments	2,019,560	451,951	464,345
Less: Interest and Executory costs	49,618	14,522	13,972
Present value of net minimum payments	$ 1,969,942	$ 437,429	$ 450,373

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
School Employees:					
Compensated Absences	$ 174,246	$ 2,095	$ -	$ 176,341	$ 12,344
Capital Lease Obligations	3,007,944	-	1,038,002	1,969,942	949,946
Totals	$ 3,182,190	$ 2,095	$ 1,038,002	$ 2,146,283	$ 962,290
Judges:					
Compensated Absences	$ 2,616	$ 64	$ -	$ 2,680	$ 188
Capital Lease Obligations	741,234	-	303,805	437,429	278,033
Totals	$ 743,850	$ 64	$ 303,805	$ 440,109	$ 278,221
State Patrol:					
Compensated Absences	$ 3,638	$ -	$ 120	$ 3,518	$ 246
Capital Lease Obligations	742,671	-	292,298	450,373	267,501
Totals	$ 746,309	$ -	$ 292,418	$ 453,891	$ 267,747

9. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $2,508,273. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. §§ 79-921, 79-933.05, 79-933.06, and 79-933.08.

10. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 7,483,576	$ -	$ -	$ 7,483,576
Less: Accumulated Depreciation	4,865,588	1,026,173	-	5,891,761
Total Capital Assets, Net	$ 2,617,988	$ (1,026,173)	$ -	$ 1,591,815
Judges:				
Equipment	$ 2,036,889	$ -	$ -	$ 2,036,889
Less: Accumulated Depreciation	1,317,759	279,541	-	1,597,300
Total Capital Assets, Net	$ 719,130	$ (279,541)	$ -	$ 439,589
State Patrol:				
Equipment	$ 1,992,481	$ -	$ -	$ 1,992,481
Less: Accumulated Depreciation	1,290,566	273,388	-	1,563,954
Total Capital Assets, Net	$ 701,915	$ (273,388)	$ -	$ 428,527

NOTES TO FINANCIAL STATEMENTS
(Continued)

11. Other Receivables/Other Payables

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

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2008, but the security had not settled.

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, 2008
UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
6/30/2008	$6,932,918,638	$7,654,536,359	$721,617,721	90.6%	$1,389,124,819	51.9%
6/30/2007	6,396,336,863	7,070,308,583	673,971,720	90.5%	1,325,616,322	50.8%
6/30/2006	5,739,048,994	6,584,275,406	845,226,412	87.2%	1,247,684,378	67.7%
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%
JUDGES						
6/30/2008	$ 119,961,758	$ 114,251,081	$ (5,710,677)	105%	$ 17,990,072	(31.7%)
6/30/2007	111,006,176	103,704,250	(7,301,926)	107%	17,003,921	(42.9%)
6/30/2006	100,565,893	101,438,239	872,346	99%	16,422,894	5.3%
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%)
STATE PATROL						
6/30/2008	$ 273,393,928	$ 291,996,719	$ 18,602,791	93.6%	$ 26,979,643	69.0%
6/30/2007	254,662,819	265,846,597	11,183,778	95.8%	26,072,859	42.9%
6/30/2006	231,740,772	245,373,102	13,632,330	94.4%	24,057,960	56.7%
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	25.3%
6/30/2003	214,657,454	210,930,784	(3,726,670)	101.8%	21,929,399	(17.0%)

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, 2008

SCHEDULE 2

SCHOOL EMPLOYEES			
Year Ended	Annual Required Contribution (1)		Percentage
June 30	State (2)	School	Contributed
2008	$ 15,832,941	$ 105,977,554	100%
2007	15,314,413	107,478,977	100%
2006	30,644,522	102,161,426	100%
2005	29,816,737	90,147,174	90%
2004	14,154,879	87,438,804	100%
2003	13,119,888	84,467,330	100%

JUDGES			
Year Ended	Annual Required Contribution		Percentage
June 30	State	Court Fees	Contributed
2008	$ 72,244	$ 3,280,964	100%
2007	64,354	3,143,599	100%
2006	72,169	3,048,084	100%
2005	501,841	2,217,118	84%
2004	72,244	2,002,153	100%
2003	712,518	579,145	50%

STATE PATROL		
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 4,855,700 (3)	100%
2007	5,078,674	100%
2006	5,083,180	100%
2005	3,868,904	82%
2004	3,018,366	96%
2003	2,652,857	100%

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

(1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes appropriations for plan year ended June 30 paid after end of plan year.

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

(3) Additional State funding is required for the State Patrol Plan in the amount of $812,087, as of July 1, 2009.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
UNAUDITED

Changes in Actuarial Assumptions or Plan Provisions Since the Last Actuarial Valuation

Judges Plan. There have been no changes in the actuarial cost method since the last actuarial valuation dated July 1, 2007. 2008 Neb. Laws LB 1147, § 5 amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55. Additionally, the retirement rates used in the valuation were increased at ages 62 through 64, from 15% to 18% to account for the possible increase in retirements due to the subsidized early retirement factors.

Patrol Plan. 2007 Neb. Laws LB 324, § 3 adds a Deferred Retirement Option Plan (DROP) for members who have attained normal retirement age and completed 25 years of service. The member continues to work and receives a paycheck while the monthly retirement benefits are deposited into the DROP account for a maximum of five years. DROP provides a way for a member to receive a lump sum amount at retirement in addition to an ongoing monthly benefit. Due to LB 324, retirement rates were increased to 100% for members who are eligible for the DROP.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 2004 Through 2008

	2004	2005	2006	2007	2008
SCHOOL EMPLOYEES					
Active Members	36,353	36,042	36,414	37,152	37,832
Inactive Members	15,245	16,924	17,755	18,147	18,995
Retirees	12,730	13,049	13,727	14,408	15,339
Total Benefits Paid (3)	$ 165,347,079	$ 184,360,473	$ 206,222,696	$ 234,129,493	$ 261,336,738
Average Annual Benefit (1)	$ 12,989	$ 14,128	$ 15,023	$ 16,250	$ 17,037
Average Monthly Benefit (4)	$ 1,082	$ 1,177	$ 1,252	$ 1,354	$ 1,420
Administrative Expenses	$ 3,786,591	$ 3,829,772	$ 3,830,708	$ 3,833,125	$ 5,104,501
Average Admin. Expense Per Member (2)	$ 58.86	$ 58.01	$ 56.42	$ 54.99	$ 70.73
JUDGES					
Active Members	163	159	154	154	157
Inactive Members	8	9	10	10	9
Retirees	158	164	162	159	155
Total Benefits Paid (3)	$ 3,872,082	$ 4,214,817	$ 4,703,966	$ 5,068,066	$ 5,277,937
Average Annual Benefit (1)	$ 24,507	$ 25,700	$ 29,037	$ 31,875	$ 34,051
Average Monthly Benefit (4)	$ 2,042	$ 2,142	$ 2,420	$ 2,656	$ 2,838
Administrative Expenses	$ 490,116	$ 516,027	$ 436,753	$ 419,300	$ 362,628
Average Admin. Expense Per Member (2)	$ 1,489.71	$ 1,554.30	$ 1,339.73	$ 1,298.14	$ 1,129.68
STATE PATROL					
Active Members	489	473	477	484	496
Inactive Members	15	10	14	15	9
Retirees	301	316	331	341	352
Total Benefits Paid (3)	$ 9,146,637	$ 10,142,646	$ 11,168,135	$ 11,969,795	$ 12,781,649
Average Annual Benefit (1)	$ 30,387	$ 32,097	$ 33,741	$ 35,102	$ 36,312
Average Monthly Benefit (4)	$ 2,532	$ 2,675	$ 2,812	$ 2,925	$ 3,026
Administrative Expenses	$ 475,551	$ 514,411	$ 432,283	$ 433,960	$ 366,917
Average Admin. Expense Per Member (2)	$ 590.75	$ 643.82	$ 525.89	$ 516.62	$ 428.14

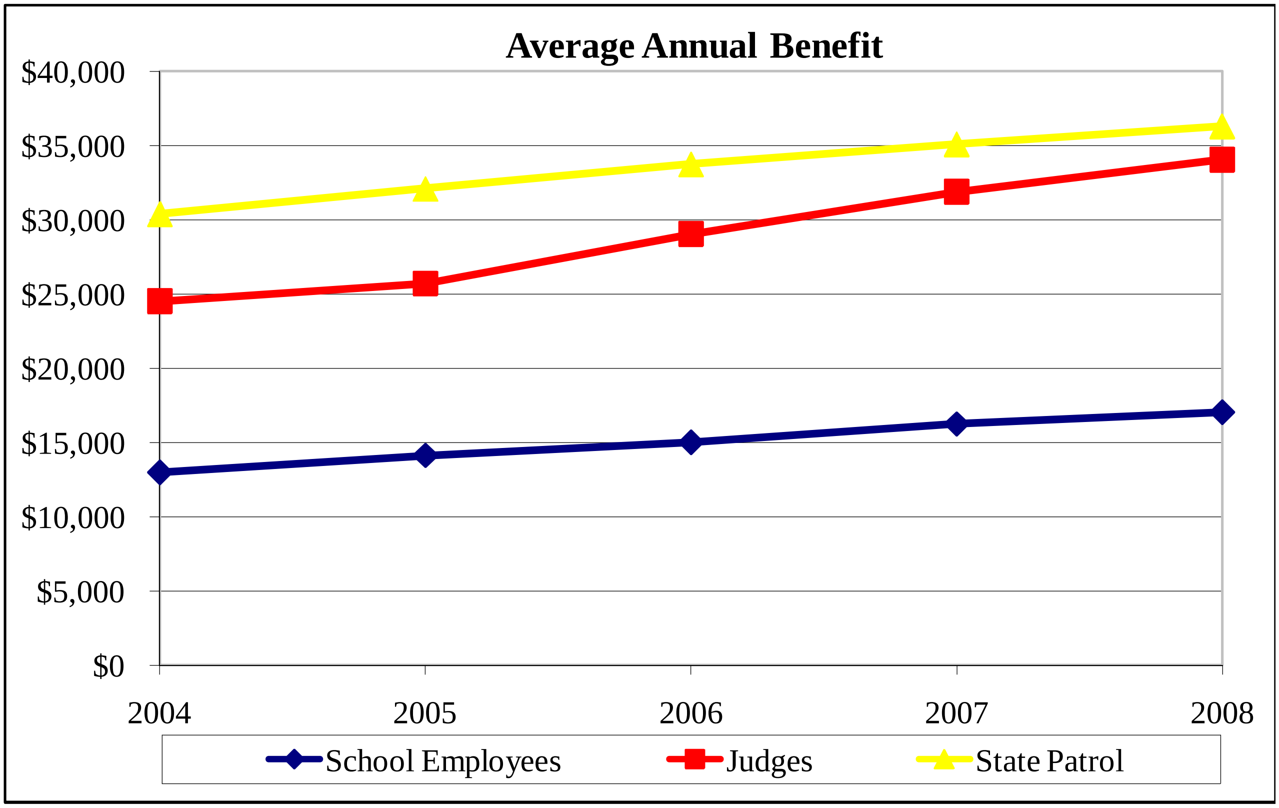
Notes:

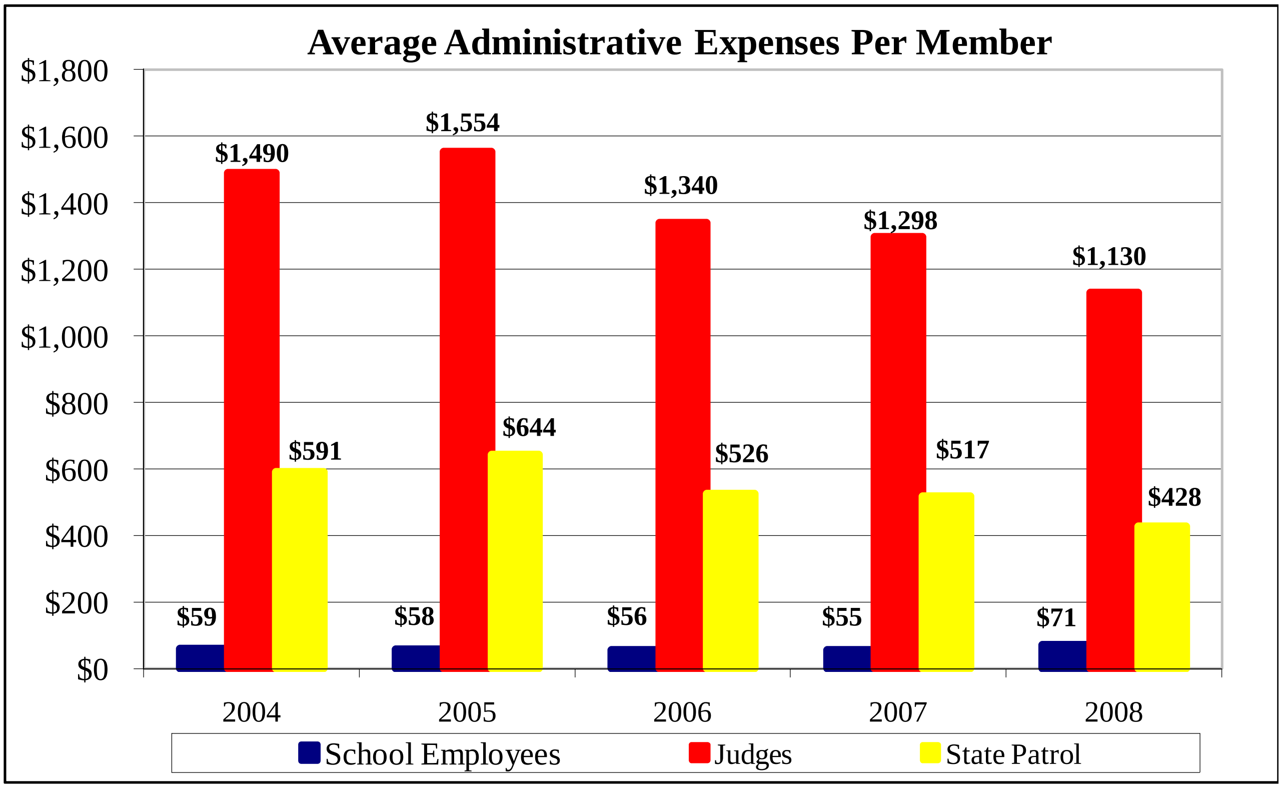
(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit

(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


Average Annual Benefit
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
2004
2005
2006
2007
2008
School Employees
Judges
State Patrol


Average Administrative Expenses Per Member
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$59
$1,490
$591
$58
$1,554
$644
$56
$1,340
$526
$55
$1,298
$517
$71
$1,130
$428
2004
2005
2006
2007
2008
School Employees
Judges
State Patrol

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2008, and have issued our report thereon dated January 26, 2009. The report was modified to disclose that the "Schedules of Funding Progress" in the Required Supplementary Information was unaudited, the Management Discussion and Analysis was not presented, and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but, not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (School District Testing), Comment Number 2 (Benefit Adjustments), and Comment Number 5 (Resolution of Prior Year School Visit Findings).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are a material weakness.

<u>Compliance and Other Matters</u>

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

We also noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of the report as Comment Number 3 (Berwyn Report Follow Up), Comment Number 4 (Salary Capping), Comment Number 6 (Policies and Procedures), and Comment Number 7 (Information Security).

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

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

Signed Original on File

January 26, 2009

Pat Reding, CPA
Assistant Deputy Auditor