AUDIT REPORT
OF THE
NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS - STATE AND
COUNTY EMPLOYEES RETIREMENT PLANS

PENSION TRUST FUNDS
OF THE STATE OF NEBRASKA

JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

Issued on August 25, 2011

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES 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. The Board assumed administration of the retirement system for Nebraska counties 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 Nebraska School Employees 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 appointment members must meet the following requirements:

- One member shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- One member 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.

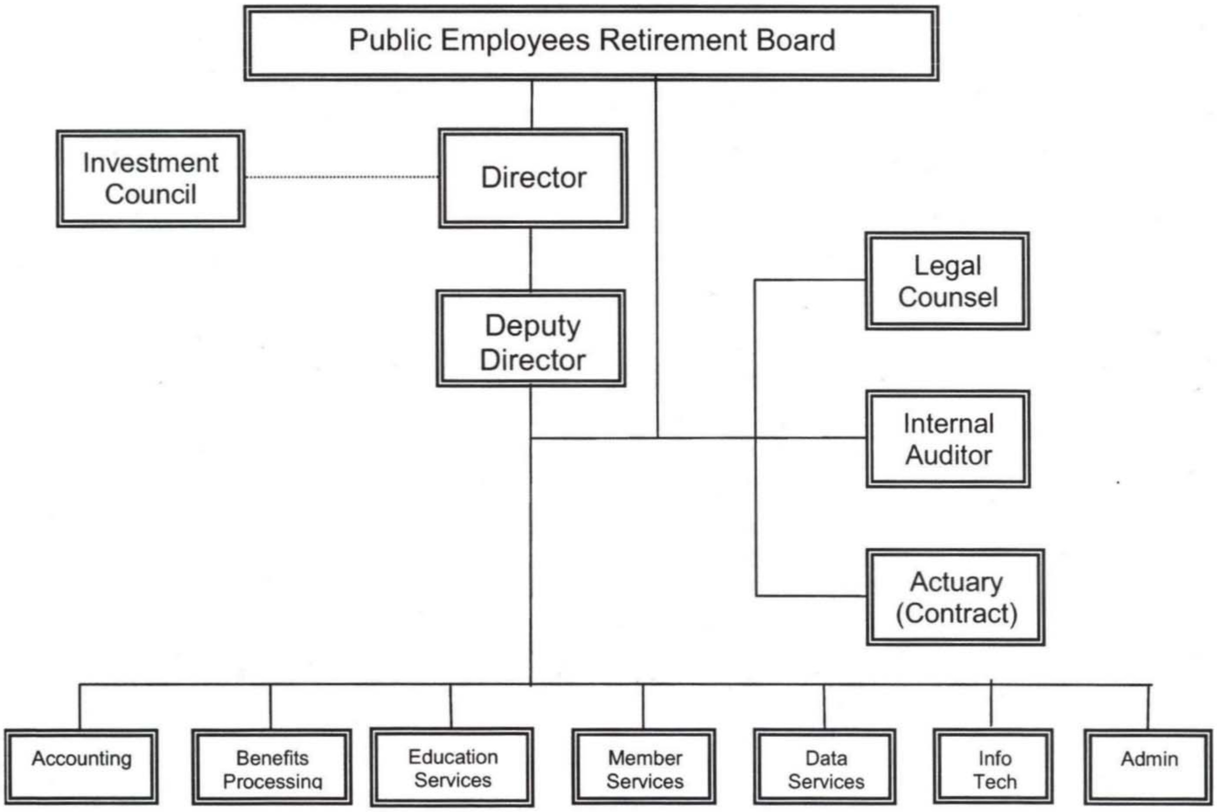
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

All appointed members must be Nebraska citizens. The Board meets monthly. Members of the Board are to be paid fifty dollars per diem, and are 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 August 11, 2011, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

NAME	TITLE
Denis Blank	Board Member
Elaine Stuhr	Board Member
Glen Elwell	Board Member
Don Pederson	Board Member
Phyllis Chambers	Director
Randy Gerke	Deputy Director
Teresa Zulauf	Internal Auditor
Miden Ebert	Benefits Manager
Jason Hayes	Legal Counsel
Melissa Jochum	Internal Auditor
Sheryl Hesseltine	Accountant
Melissa Mendoza	Benefits Specialist

SUMMARY OF COMMENTS

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

1. ***Benefit Payments and Procedural Issues:*** NPERS lacked adequate procedures for the review and audit of benefit calculations to ensure payments were proper. We noted the individual performing a secondary review of a member's payment was capable of changing the gross benefit amount without an additional review. We also noted NPERS did not have adequate written procedures for the review of benefit payments and vesting status, were not in compliance with Federal law requiring distributions by age 70½, and did not obtain sufficient proof of age for members who selected an annuity.

2. ***County Plan Payroll Procedures:*** During our review of NPERS' internal audit staff testing of entities participating in the County Plan, we noted the audits performed by NPERS staff had not been reviewed by NPERS' Internal Auditor. We performed further testing and noted two members' compensation included a $300 medical insurance benefit and $15 uniform allowance, which was inappropriate per State statute. We also selected 19 employees who did not have retirement contributions withheld from their pay and noted 2 were not properly contributing.

3. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not appropriately resolve prior audit findings from calendar year 2009 back to calendar year 2001 for the State and County Plans.

4. ***Supreme Court Law Clerks:*** During testing, it was noted that 16 Supreme Court Law Clerks were not properly enrolled and contributing to the State Plan in accordance with State statute. The employees began employment, as law clerks with the Supreme Court, between August 2007 and August 2010 and were all noted as full-time employees in the State accounting system and received life insurance and/or health insurance benefits.

5. ***Members Not Properly Notified of Account Changes:*** NPERS did not have adequate procedures to ensure State and County Plan members were properly notified of remaining account balances. Members were notified two years after a late contribution or dividend posted or had not been contacted at all.

6. ***Alternative Vesting Dates:*** NPERS did not consistently apply vesting dates to members of the State and County Plans. Twenty-three of 30 State Plan members and 19 of 28 County Plan members tested had the incorrect vesting date noted in the record-keeping system.

7. ***Inconsistent Plan Documents:*** NPERS had several plan documents (State statutes, Rules and Regulations, Plan handbooks, and member forms) that were not consistent with each other. Additionally, NPERS did not have a Board approved policy for assessing late fees to employers who did not remit retirement contributions timely.

SUMMARY OF COMMENTS
(Continued)

More detailed information on the above items is provided hereafter. It should be noted 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. Benefit Payments and Procedural Issues

During testing of member benefit payments, we noted several concerns regarding payment reviews and procedures to ensure payments were accurate and paid timely. The following concerns were noted:

Secondary Review Procedures

A good internal control plan would require a segregation of duties to ensure the employee assigned to audit an application in the Nebraska Public Retirement Information System (NPRIS) is not capable of making changes during the audit process. Additionally, a good internal control plan and sound business practice requires adequate training and resource materials, including written procedures for audit functions, to ensure staff knows what is required of them and have the necessary resources to adequately perform their job.

When a member retires or terminates and requests payment in the form of an annuity or refund payment, an NPERS staff person calculates the monthly benefit payments or processes the refund to be received by the member. NPERS' system, NPRIS, requires a secondary review to be performed by an individual separate from the individual who originally processed the member's payment. We noted the following regarding the secondary review of benefits:

- The individual performing the secondary review was capable of changing the gross benefit amount in NPRIS without an additional review to ensure the gross benefit amount was entered correctly.

- NPERS had written procedures for the review of benefit payments; however, the procedures did not appear adequate, as they did not identify specific items to verify and what documentation should be reviewed to ensure the reviews are performed consistently by all staff.

- NPERS reviewed certain members who requested a benefit or refund for vesting status; however, it did not appear NPERS had procedures in place to ensure consistency in auditing vesting status. Additionally, NPERS did not have procedures in place for reviewing the "Participants with No Contributions" report on a timely basis. Review of this report should be completed to ensure members in the report were properly not contributing and to track members who had a break in service during their employment and may require a change to their vesting date.

When a reviewer is capable of changing the gross benefit amount without an additional review, there is an increased risk that incorrect or fraudulent adjustments will be made to members' benefit amounts. Without adequate training and written procedures, there is an increased risk that incorrect benefits or refunds will be calculated. A similar finding was noted in our previous audit report.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Benefit Payments and Procedural Issues (Continued)

> We recommend NPERS implement a segregation of duties to ensure the employee assigned to review a benefit in NPRIS is not capable of making changes during the review process or, if changes are made, those changes be reviewed by another individual. We also recommend NPERS continue to develop written procedures for the review of benefits and vesting credit to address what items are to be verified and what documentation should be reviewed. We also recommend NPERS ensure the "Participants with No Contributions" report is reviewed timely and on a consistent basis and members with a break in service have their vesting date changed, if required.

Lack of Adequate Procedures Regarding Required Minimum Distributions

26 U.S.C. § 401(a)(9) (2009) and Neb. Rev. Stat. §§ 23-2315 (Cum. Supp. 2010) and 84-1317 (Cum. Supp. 2010) require members to take a minimum distribution every year beginning when the member is 70½ and terminated. The first minimum distribution is to be made by April 1 of the calendar year following the later of: i) the calendar year in which the employee attains age 70½, or ii) the calendar year in which the employee retires.

A good internal control plan requires policies and procedure to ensure required minimum distributions (RMDs) are properly calculated and paid timely to members in accordance with Federal and State requirements and inactive accounts are properly remitted to the Nebraska State Treasurer under the Unclaimed Property Act.

NPERS received a report from the record-keeper of members that were age 70½ by December 31, 2010, for NPERS to review and ensure RMD payments were made. There was no documentation that NPERS reviewed the report. During testing of 10 State Plan members and 11 County Plan members in the report, we noted the following:

- Three members rolled over their accounts to a private company; however, two did not receive their 2009 RMDs, and one did not receive a 2010 RMD prior to the rollover in accordance with Federal requirements. The RMD payments should have been $19,428, $13,202, and $17,691, respectively. NPERS also did not have procedures to notify the member or the rollover company when an RMD was not paid prior to the rollover.

- Three members were paid their 2009 RMDs; however, the RMDs were after the April 1, 2010 deadline. The late payments were made on April 12, April 22, and August 31, 2010.

- NPERS did not have procedures in place to ensure inactive accounts, including those members with balances who are reaching the age of 70½ and are required to take a minimum distribution, are monitored and abandoned funds are remitted timely to

1. Benefit Payments and Procedural Issues (Continued)

unclaimed property. Neb. Rev. Stat. § 69-1310 (Reissue 2009) requires abandoned property to be reported to the Nebraska State Treasurer as unclaimed property. Neb. Rev. Stat. § 69-1307.03 (Reissue 2009) addresses when retirement funds are to be presumed abandoned.

A similar finding, regarding NPERS' procedures for RMD payments, was also noted in the previous five audit reports. When RMD payments are not made timely or prior to rollover, NPERS is not in compliance with Federal regulations and State statutes.

> We recommend NPERS ensure compliance with Federal and State requirements regarding RMD, as well as ensuring the review of the report of members 70½ years and older is adequately documented. We also recommend NPERS ensure the member and rollover company are notified if a RMD payment was missed prior to the rollover. Finally, we recommend NPERS ensure compliance with State statutes by establishing procedures for monitoring inactive accounts and reporting abandoned retirement funds to the Nebraska State Treasurer.

Sufficient Proof of Age
A good internal control plan requires procedures to ensure proof of age was obtained for members selecting an annuity, as required by NPERS' State and County Employees Retirement System Handbooks. The State and County Handbooks state a member's age must be verified before payments can begin when an annuity option is selected. The Handbooks also state proof of age of a member's spouse or beneficiary is required when a survivor annuity option is selected.

During testing of 19 members who selected annuities, we noted 6 did not have sufficient proof of age on file. One of the 6 members did not have sufficient documentation for proof of age, while the other 5 lacked sufficient documentation for the spouses' ages.

When birth certificates are not on file for the member and/or spouse, NPERS is not in compliance with the State and County Employees Retirement System Handbooks. There is also an increased risk that an annuity would be paid out to an ineligible individual.

> We recommend NPERS ensure compliance with the State and County Employees Retirement System Handbooks and ensure proof of age is obtained prior to payment of annuities.

NPERS' Response: NPERS will work to improve our benefits audit processes and implement segregation of audit duties. NPERS will continue to comply with Federal and State requirements for RMDs. NPERS will review our internal reports for all members reaching age 70.5 during

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Benefit Payments and Procedural Issues</u> (Concluded)

NPERS' Response, Concluded:
the calendar year. NPERS will send written notification to members and rollover companies should NPERS learn that a required RMD was not withheld prior to the rollover being distributed. If NPERS cannot secure a birth certificate for a member or spouse, NPERS will obtain other acceptable proof of age as described in NPERS Acceptable Methods of Proof policy.

2. <u>County Plan Payroll Procedures</u>

Neb. Rev. Stat. § 84-1503(1)(g) (Reissue 2008) provides, in relevant part, it shall be the duty of the Public Employees Retirement Board:

"…[t]o 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. The information necessary to determine membership shall be provided by the employer."

A good internal control plan requires adequate policies and procedures for internal audits performed to ensure individuals are properly contributing or not contributing to the County Plan in accordance with State statute.

During our audit it was noted, NPERS' internal audit staff performed testing procedures on 20 of 109 entities participating in the County Plan during the calendar year. We reviewed the work performed for 5 of the 20 entities and noted the following:

- The audit programs and working papers did not adequately document work performed, including evidence of supervision and review of the audits. None of the 20 audits performed by NPERS staff had been reviewed by NPERS' Internal Auditor.

- For two of the five county audits tested, our conclusion did not agree to NPERS' conclusion regarding non-contributing members. For these two counties, NPERS tested 6 employees, 2 of these should have been contributing but were not. NPERS did not note these employees were incorrectly not contributing to the County Plan.

- One county tested had cell phone reimbursement included in the compensation amount. The specific employees tested by NPERS did not have cell phone reimbursement included in their compensation; however, the county noted "other" pay included cell phone reimbursements. There was no documentation to support NPERS had communicated with the County that expense reimbursements are not counted as compensation per Neb. Rev. Stat. § 23-2301(5)(a) (Reissue 2007).

Noting issues with the testing procedures performed by NPERS, we performed the following additional procedures during the audit:

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>County Plan Payroll Procedures</u> (Concluded)

- During testing of member contributions, we obtained support for the composition of wages earned to ensure retirement contributions were being properly withheld in compliance with State statutes. We noted 2 of 30 members had compensation which included $300 for a medical insurance benefit and $15 for a uniform allowance, which are not allowable per Neb. Rev. Stat. § 23-2301(5)(a) (Reissue 2007).
- We also reviewed payroll registers for 4 entities and selected 19 employees who did not have retirement contributions withheld from their pay to verify they were properly not contributing. We noted 2 of the 19 employees were actually members of the County Plan; however, parts of the employees' wages were not subject to retirement contributions. The employees' wages for which retirement was not withheld totaled $165 and $8,996 for calendar year 2010.

Without adequate documentation to support procedures performed, reliance cannot be placed on testing, as there is no assurance testing was accurate or complete. Additionally, without adequate procedures to ensure counties are properly adhering to State statutes and NPERS' policies and procedures, there is an increased risk wages remitted will not be proper, employees will not properly contribute when required, or ineligible employees will be allowed to participate in the County Plan. A similar finding was noted in the previous ten audit reports.

> We recommend NPERS ensure County Plan testing is reviewed by a supervisor in a timely manner. We also recommend NPERS improve testing procedures and ensure adequate documentation is obtained for conclusions drawn. Furthermore, we recommend NPERS ensure proper education is given to the counties to ensure employees are properly contributing or not contributing to the County Plan and compensation is proper in accordance with State statute.

NPERS' Response: Starting January 2011, all County Plan audits have been reviewed by a supervisor. We will continue to enhance the audit program and will make certain sufficient documentation is obtained for all conclusions drawn.

3. <u>Inadequate Resolution of Prior Year Findings</u>

A good internal control plan requires timely and thorough resolution of prior audit findings. During our review of NPERS' procedures to resolve prior audit findings, we noted the following:

- The 2009 audit produced four findings regarding the County Plan and nine findings regarding the State Plan. Those findings included:
  - incorrect compensation amounts used to calculate contributions;
  - improper payment of a member's employer account upon termination – NPERS had not attempted to contact the member to reclaim the funds;

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Inadequate Resolution of Prior Year Findings</u> (Continued)

  - o failure to contact a beneficiary regarding his share of a deceased member's account;
  - o employees who should have been contributing to the Plans or making up contributions;
  - o inadequate procedures to ensure enrollment requirements were met; and
  - o members not notified that their account balances were transferred to a non-interest bearing account.

- Thirteen findings from the 2008 audit of the County Plan were not adequately resolved. Among those findings were:
  - o members not notified their account balances were transferred to a non-interest bearing account;
  - o inadequate procedures to ensure enrollment requirements were met; and
  - o employees who should have been contributing to the County Plan or making up contributions.

- Four findings from the 2006 audit of the County Plan were not adequately resolved. Findings included:
  - o incorrect compensation amounts used to calculate contributions;
  - o employees who should have been contributing to the County Plan or making up contributions; and
  - o inadequate procedures to ensure enrollment requirements were met.

- Three findings from the 2005 audit of the County Plan were not adequately resolved. Additionally, 1 finding noted in the 2005 audit of the County Plan was also noted in the 2001 audit. Findings included:
  - o inadequate procedures to ensure enrollment requirements were met; and
  - o improper payment of a member's employer account upon termination - NPERS had not attempted to contact the member to reclaim the funds.

- Additionally, one finding from the 2004 audit and one finding from the 2003 audit of the County Plan were not adequately resolved. Findings included:
  - o inadequate procedures to ensure enrollment requirements were met; and
  - o an employee who was not but should have been contributing to the County Plan.

A similar finding has been reported to NPERS in the previous ten audit reports.

Without adequate procedures for the timely follow-up of previously identified problems, errors detected in testing remain unresolved. When employee errors are not properly addressed to ensure the proper resolution, employees continue to miss contributions, contribute improperly, receive incorrect benefit payments, etc.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Inadequate Resolution of Prior Year Findings (Concluded)

> We continue to recommend NPERS implement procedures to ensure all audit exceptions are adequately followed up and resolved in a timely manner.

NPERS' Response: NPERS will continue to work to ensure all audit exceptions are reviewed and followed up. We will continue to work with county employers and state agency contacts to resolve issues brought forward by the auditors.

4. Supreme Court Law Clerks

Neb. Rev. Stat. §§ 84-1301 to 84-1331 (Reissue 2008, Cum. Supp. 2010) are known as the State Employees Retirement Act (Act). The Act contains the following provisions:

Neb. Rev. Stat. § 84-1307(2) (Cum. Supp. 2010) states, in relevant part, "The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment[.]"

Neb. Rev. Stat. § 84-1307(7) (Cum. Supp. 2010) provides, "State agencies shall ensure that employees authorized to participate in the retirement system pursuant to this section shall enroll and make required contributions to the retirement system immediately upon becoming an employee."

Neb. Rev. Stat. § 84-1301(9) (Reissue 2008) defines "employee" to include "any person or officer employed by the State of Nebraska whose compensation is paid out of state funds or funds controlled or administered by a state department through any of its executive or administrative officers when acting exclusively in their respective official, executive, or administrative capacities."

During the prior three audits of the State and County Employee Retirement Plans, as well as in the attestation report of the Nebraska Supreme Court (Court) for the fiscal year ended June 30, 2006, it was noted that several employees of the Court had not been enrolled in the retirement system upon hire. The employees were hired as non-career law clerks and, pursuant to the Court's policies, are not given retirement benefits if they have less than five years of employment.

In calendar year 2010, 16 law clerks were identified as working for the Court and not participating in the retirement system. Employed between August 2007 and August 2010, all of the law clerks in question were reported in the State accounting system as full-time employees and received life insurance and/or health insurance benefits. Thus, it appears that, pursuant to Neb. Rev. Stat. § 84-1307(7) (Cum. Supp. 2010), the Court should have ensured that those law clerks were enrolled in, as well as had begun making contributions to, the retirement system immediately upon employment.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Supreme Court Law Clerks (Continued)

During the prior audit, NPERS concurred with the Auditor of Public Accounts (APA's) audit finding regarding the applicability of the Act to law clerks employed by the Court. NPERS subsequently informed the Court of their concurrence.

In a September 14, 2009, letter addressed to both the APA and the Director of NPERS, the State Court Administrator defended the policy of the Administrative Office of the Courts and Probation not to extend retirement benefits to "non-career law clerks with less than five years experience." That letter, which cites both case law and Attorney General's opinions, asserts that such policy is supported by both the Nebraska Constitution's distribution of powers clause and the *Board of Regents v. Exon* decision. **(The State Court Administrator Letter can be found in the Calendar Year 2009 NPERS – State and County Retirement Plans Audit Report as Exhibit A**.)

The APA believes the separation of powers argument to be potentially problematic. Legislatively mandating all State employees, including full-time law clerks, to participate in the retirement system does not necessarily intrude upon the Court's performance of its inherent or constitutionally assigned functions. Additionally, Op. Att'y Gen. No. 95099 (Dec. 20, 1995) concludes that both the Governor and his staff, all of whom belong to the Executive Branch of State government, must participate in the retirement system – apparently, without risk of violating the distribution of powers clause.

The APA is similarly cautious regarding the *Board of Regents v. Exon* claim. Unlike the constitutional language discussed in that case, Art. 5, § 1 of the Nebraska Constitution vests the Court with judicial administrative authority based on rules "not in conflict with . . . laws governing such matters." According to Op. Att'y Gen. No. 98006 (Jan. 21, 1998), moreover, legislation of general application not purporting to assume direction over matters central to the University's educational function or governance are permissible.

In June 2007, more than two years before the State Court Administrator's letter, the APA had, pursuant to Neb. Rev. Stat. § 84-205(4) (Reissue 2008), requested a formal opinion from the Attorney General regarding whether the Court's law clerks should be enrolled in the retirement system. There has been no opinion.

Unlike a formal opinion from the Attorney General or a ruling by a court of competent jurisdiction, the State Court Administrator's letter is not authoritative in this matter. Thus, due to the ongoing uncertainty, the APA believes that the issue of whether the Court's law clerks are subject to the Act remains unresolved.

> We recommend NPERS work with the Administrative Office of the Courts and Probation, as well as consider possibly seeking the guidance of the Attorney General or even a court of competent jurisdiction, to arrive at a definitive answer as to whether law clerks for the Court must participate in the retirement system.

4. Supreme Court Law Clerks (Concluded)

NPERS' Response: NPERS has received valid arguments from the Auditor of Public Accounts and the Supreme Court Administrator as to why law clerks should or should not be participants in the State Retirement plan. NPERS current position is that as a state agency, it is unable to mediate or resolve the juxtaposed opinions on this policy issue between the executive and judicial branches of state government, but rather this is a matter for the State Legislature to address and ultimately resolve.

5. Members Not Properly Notified of Account Changes

A good internal control plan and sound business practice requires policies and procedures to ensure members or beneficiaries are notified of account balances timely, and balances under $1,000 are paid out automatically per NPERS' informal policy.

Terminated members who have been paid their entire account balance may receive a late contribution or dividend following the payout. These funds are to be transferred to a non-interest bearing account (Fund 51) and, according to NPERS' informal policy, balances under $1,000 are to be paid out automatically.

We requested a report of terminated members who had previously been paid out but had an account balance remaining as of December 31, 2010. We performed testing to ensure the account balance was proper and verified NPERS had contacted the member or beneficiary timely regarding the remaining account balance. We also obtained a report of members whose balance had been transferred to the non-interest bearing account (Fund 51) to verify NPERS had contacted the member or beneficiary timely regarding the account balance and balances under $1,000 were paid out automatically. NPERS obtained this report once during calendar year 2010. During testing we noted the following:

- Three State Plan members had late contributions post to their account subsequent to the account being paid out. The late contributions posted in calendar year 2006. The remaining account balances were transferred to the non-interest bearing account (Fund 51). All members were sent notifications of their account balances in 2008 and 2010 with one member being notified in 2009 as well. NPERS received no responses and no further follow up had been completed. Account balances at December 31, 2010, ranged from $1,692 to $2,514.

- Three County Plan members had late contributions or dividends post to their account subsequent to the account being paid out. The remaining account balances were transferred to the non-interest bearing account (Fund 51). One individual took an annuity in September 2008 and had a late contribution post to the account in October 2008. The member was not contacted until August 2010, and the remaining balance of $4,442 was paid out after a Request for Distribution was received. Another member had a late contribution post to their account in October 2008 and was not notified of the balance

5. Members Not Properly Notified of Account Changes (Concluded)

until August 2010. A second letter was sent in September 2010 with no response. The third member had a late contribution post to their account in September 2010 and had not yet been contacted. The two individuals with account balances remaining at year end had balances under $1,000 and were not automatically paid out.

- Additionally, one County Plan member received dividends in the amount of $3,234 in 2008 after their account had been rolled over. The member's funds remained in an interest bearing account; however, NPERS had not contacted this individual to notify them of the account balance.

Without adequate procedures to ensure members are contacted timely regarding account balances, there is an increased risk members will not be aware of outstanding balances, and funds will be transferred to a non-interest bearing account. Additionally, when the Fund 51 report is not requested and reviewed on a periodic basis, account balances under $1,000 may not be paid out automatically and timely, and funds in the non-interest bearing account may be reduced and possibly consumed by fees.

> We recommend NPERS implement procedures to ensure members are notified before remaining fund balances are transferred to the non-interest bearing account (Fund 51). In addition, we recommend NPERS request and review the Fund 51 report on a periodic basis, establish procedures regarding its policy for automatically paying out account balances under $1,000, and ensure the policy is upheld.

NPERS' Response: NPERS will monitor accounts that have been transferred to Fund 51 to ensure that members receive notification of transfers to the non-interest bearing accounts. NPERS does notify members annually by mail of any money that has been transferred to Fund 51. NPERS also sends quarterly statements to members disclosing all current account information. Previously, NPERS has notified members by correspondence, but because of limited budget and staff resources, we question the necessity to continue sending correspondence other than quarterly statements. We will continue to review the Fund 51 report to ensure member accounts are distributed according to our policies.

6. Alternative Vesting Dates

A good internal control plan requires procedures to ensure vesting dates recorded in the record-keeping system are accurate and consistent with policies regarding determination of Alternative Vesting Dates (AVD). NPERS' Policy and Procedure Manual states, "Prior to January 1, 2007, the AVD was the first of the month that contributions were remitted. Currently, AVD will be the member's date of hire."

6. Alternative Vesting Dates (Concluded)

During testing, we noted that NPERS did not consistently apply vesting dates to members of the State and County Plans. For new members, the vesting date was automatically recorded as the first of the month in which the members' first contribution posted in the record-keeping system. Frequently, the first contribution would post in the month following the month in which the member was hired. We noted 23 of 30 State Plan members and 19 of 28 County Plan members tested had their vesting dates as the first of the month in which the members' first contribution posted in the record-keeping system, while the remaining members tested had correct vesting dates entered as their hire date.

A similar finding was noted in the previous six audit reports.

Without adequate procedures to ensure vesting dates are accurate, there is an increased risk members' employer accounts will not be properly paid upon termination.

> We recommend NPERS implement procedures to ensure vesting dates are calculated and recorded in the record-keeping system consistently and accurately.

NPERS' Response: NPERS will continue to review vesting of all members who have service credit between 2.5 and 3.5 years of service. Prior to distribution, NPERS checks the member's age, alternate vesting dates, vesting credit applications, hire dates and termination dates. NPERS counts the number of contributions and makes certain that a vested member works 3 years and makes 36 contributions to the retirement plan. If a refunding member was hired and terminated under previous vesting rules, NPERS adheres to applicable rules in determining whether a member is vested or not.

APA Response: As noted in Comment Number 1 (Benefit Payments and Procedural Issues), NPERS did not have procedures in place to ensure the consistency in auditing of vesting status. NPERS should develop written procedures for the review of vesting credit at the time of distribution and ensure vesting dates are calculated and recorded in the record-keeping system consistently and accurately. It should be noted, review of only those members who have service credit between 2.5 and 3.5 years of service may not identify members who had a break in service during their employment and may require a change to their vesting date.

7. Inconsistent Plan Documents

A good internal control plan and sound business practice requires procedures to ensure plan documents are consistent, accurate, and updated for changes in a timely manner.

We noted several plan documents (State statutes, Rules and Regulations, Plan Handbooks, and member forms) that were not consistent, as follows:

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Inconsistent Plan Documents (Continued)

- One annuity option for members was listed on the request for distribution form and in the State and County Plan Handbooks; however, it was not an option included in NPERS' Rules and Regulations approved by the Secretary of State. NPERS' draft rules and regulations, approved by the Public Employees Retirement Board in October 2002, included the option. However, NPERS had not submitted the draft rules and regulations to the Secretary of State, as required by law. This was also reported in the previous audit report.

- The State Plan member handbook had not been revised since January 2007. The handbook did not contain information regarding the following:
    - NPERS revised the distribution fee policy in September 2008. The fees updated in the policy did not agree to the fees noted in the handbook. This was also reported in the previous audit report.
    - The handbook and NPERS' rules and regulations had not been updated for the statutory change regarding vesting credit. Per the handbook and rules and regulations, State employees must apply within 30 days from the date of hire for vesting credit, while Neb. Rev. Stat. § 84-1307(5) (Cum. Supp. 2010) states employees have 180 days.

- The State and County Plan member handbooks did not contain information regarding the cash balance non-interest bearing account to which late contributions and late dividends would be credited.

- The County Plan member handbook is not consistent with the County Employer handbook. The member handbook states participation in the retirement plan for permanent, full-time, seasonal, employees is voluntary; the employer handbook states participation for those employees is mandatory. The County Plan member handbook was updated in August 2009 and March 2011. The County Employer handbook was last updated in November 2009.

- NPERS' Rules and Regulations, the State Plan member handbook, and the member investment election form states members of the defined contribution benefit may allocate their employee and employer contributions and transfer any portion of their employee and employer account funds to the various investment options available in increments of five percent. However, the record-keeping system allows members to make investment changes in one percent increments. This was also reported in the previous audit report.

- The Board had not developed rules and regulations in accordance with one State Plan State statute and three County Plan State statutes.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Inconsistent Plan Documents</u> (Continued)

  - Neb. Rev. Stat. § 84-1312(3) (Reissue 2008) and Neb. Rev. Stat. § 23-2323.02(3) (Reissue 2007). The statutes refer to the adoption of rules and regulations for direct rollover procedures which are consistent with Section 401(a)(31) of the Internal Revenue Code and include, but are not limited to, the form and time of direct rollover distributions.
  - Neb. Rev. Stat. § 23-2306.02 (Reissue 2007) and Neb. Rev. Stat. § 23-2306.03 (Reissue 2007). These State statutes refer to the adoption of rules and regulations for mergers of cities, townships, etc. into the County Plan. This was reported in the previous six audit reports.

- NPERS established an informal policy for fees to be assessed against employers with untimely contribution remittances, in accordance with State statute; however, the policy did not include when or how member accounts would be credited for the untimely remittances. Furthermore, the Board had not approved the policy; therefore, NPERS was not enforcing or assessing late fees during calendar year 2010. We noted one employer tested did not remit contributions timely, paying employees semi-monthly, but only remitting contributions once a month. As members do not begin earning interest until contributions post to their account, late remittances of contributions could cause potential loss of earnings for members.

Without consistent policies and information provided to members and employers, there is an increased risk members will misunderstand the benefits available and that plan changes will not be properly complied with. Additionally, without adequate policies and procedures to ensure entities remit retirement contributions timely, members will not accumulate earnings during the period contributions are held by employers.

> We recommend NPERS ensure Rules and Regulations, Plan handbooks, Employer handbooks, State statutes, and member forms are consistent for the Plans. We also 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. Furthermore, we recommend NPERS ensure a policy is established for the timely remittance of member contributions by the employers.

NPERS' Response: NPERS continuously updates plan documents and provides access to them on the Agency's website. Printed plan booklets are updated periodically on a rotating basis. Both the State Employees' and County Employees' plan booklets were updated in June, 2011. As future modifications occur due to legislative or regulation changes, members and employers are provided with updated inserts for plan booklets so all information is current. New statutory or regulatory changes are also communicated to members in quarterly newsletters.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Inconsistent Plan Documents (Concluded)

NPERS' Response, Concluded:
NPERS has prepared revisions for all 22 of its Rules and Regulations. These revisions need to follow the process codified in the Administrative Procedure Act, Neb. Rev. Stat. §§ 84-901, et seq., and have public hearings scheduled for them in August, 2011. NPERS will continue to update its Rules and Regulations on an ongoing and regular basis as needed.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans as of and for the calendar year ended December 31, 2010, which collectively comprise NPERS – State and County Employees Retirement Plans' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans are intended to present the financial position and changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans. They do not purport to, and do not present fairly, the financial position of the State of Nebraska as of December 31, 2010, 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 plan net assets of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans, as of December 31, 2010, and the respective changes in plan net assets 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 August 22, 2011, on our consideration of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts 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 are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. The Schedules of Funding Progress and Schedules of Contributions From Employers have 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, are fairly stated in all material respects in relation to the financial statements referred to above, taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements. The accompanying supplementary schedules of Average Administrative Expense Per Member, Calendar Year 2010 Expenses and Fees, Average Administrative Expense Per Member for Calendar Year 2010, and Total Benefits and Refunds Paid 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 financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

Signed Original on File

August 22, 2011

Jennifer Person, CPA, CFE
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2010

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 1,456,738	$ 10,738
Receivables:		
Contributions	1,539,226	887,020
Interest	1,371,084	9,639
Other Receivables (Note 4)	21,667,177	-
Total Receivables	24,577,487	896,659
Investments, at fair value (Note 4):		
U.S. Treasury Bills	5,076,080	-
U.S. Treasury Notes and Bonds	14,255,707	-
Government Agency Securities	1,875,602	-
Corporate Bonds	50,631,957	-
International Bonds	5,691,683	-
Asset Backed Securities	7,462,988	-
Guaranteed Investment Contracts	-	89,608,704
Short Term Investments	10,242,685	24,415,269
Commingled Funds	365,915,590	592,062,452
Mortgages	52,999,417	-
Municipal Bonds	3,934,439	-
Private Equity Funds	17,464,908	-
Equity Securities	145,878,628	-
Options	(210,730)	-
Private Real Estate Funds	17,786,432	-
Total Investments	699,005,386	706,086,425
Invested Securities Lending Collateral (Note 4)	36,351,362	14,569,159
Capital Assets (Note 9):		
Equipment	2,576,507	1,639,851
Less: Accumulated Depreciation	(2,362,409)	(1,419,450)
Total Capital Assets	214,098	220,401
Total Assets	761,605,071	721,783,382
LIABILITIES		
Compensated Absences (Notes 7 and 8)	28,244	18,972
Other Payables (Note 4)	35,455,864	717,004
Benefits Payable	568,852	-
Obligations Under Securities Lending (Note 4)	36,351,362	14,569,159
Capital Lease Obligations (Notes 6 and 8)	38,267	17,551
Total Liabilities	72,442,589	15,322,686
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 689,162,482	$ 706,460,696

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2010

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 67,053	$ 301,235
Receivables:		
Contributions	396,115	159,526
Interest	394,907	2,535
Other Receivables (Note 4)	6,247,253	-
Total Receivables	7,038,275	162,061
Investments, at fair value (Note 4):		
U.S. Treasury Bills	1,463,576	-
U.S. Treasury Notes and Bonds	4,110,319	-
Government Agency Securities	540,789	-
Corporate Bonds	14,598,608	-
International Bonds	1,641,071	-
Asset Backed Securities	2,151,788	-
Guaranteed Investment Contracts	-	20,944,204
Short Term Investments	5,261,090	6,056,373
Commingled Funds	105,503,691	151,986,913
Mortgages	15,281,213	-
Municipal Bonds	1,134,409	-
Private Equity Funds	5,035,621	-
Equity Securities	42,060,885	-
Options	(60,760)	-
Private Real Estate Funds	5,128,325	-
Total Investments	203,850,625	178,987,490
Invested Securities Lending Collateral (Note 4)	10,481,113	3,404,255
Capital Assets (Note 9):		
Equipment	1,377,366	772,302
Less: Accumulated Depreciation	(1,256,626)	(663,569)
Total Capital Assets	120,740	108,733
Total Assets	221,557,806	182,963,774
LIABILITIES		
Compensated Absences (Notes 7 and 8)	15,318	9,809
Other Payables (Note 4)	10,222,528	172,488
Benefits Payable	775,824	-
Obligations Under Securities Lending (Note 4)	10,481,113	3,404,255
Capital Lease Obligations (Notes 6 and 8)	20,141	7,193
Total Liabilities	21,514,924	3,593,745
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 200,042,882	$ 179,370,029

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 19,785,623	$ 11,751,839
Employer (Note 5)	30,836,977	18,258,632
Total Contributions	50,622,600	30,010,471
Investment income:		
Net appreciation (depreciation) in fair value of investments	70,494,985	69,518,183
Interest & Dividends	10,382,839	4,000,764
Securities Lending Income	247,799	59,938
Total Investment Income	81,125,623	73,578,885
Investment Expenses		
Investment Expenses	(1,785,393)	(537,295)
Securities lending expense	(96,381)	(29,386)
Net investment income	79,243,849	73,012,204
Other Additions	7,677	5,308
Total Additions	129,874,126	103,027,983
DEDUCTIONS:		
Benefits and Refunds	38,826,644	26,012,528
Administrative expenses	984,012	630,739
Other Deductions	157,974	185,807
Total Deductions	39,968,630	26,829,074
TRANSFERS (Note 10)	4,911,317	(4,911,317)
Change in Net Assets	94,816,813	71,287,592
Net assets held in trust for pension benefits:		
Beginning of year	594,345,669	635,173,104
End of year	$ 689,162,482	$ 706,460,696

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 7,699,035	$ 3,533,998
Employer (Note 5)	11,379,396	5,208,880
Total Contributions	19,078,431	8,742,878
Investment income:		
Net appreciation (depreciation) in fair value of investments	21,172,051	17,681,785
Interest & Dividends	2,925,855	940,945
Securities Lending Income	71,447	14,005
Total Investment Income	24,169,353	18,636,735
Investment Expenses		
Investment Expenses	(548,217)	(132,486)
Securities lending expense	(27,789)	(6,866)
Net investment income	23,593,347	18,497,383
Other Additions	2,280	1,206
Total Additions	42,674,058	27,241,467
DEDUCTIONS:		
Benefits and Refunds	8,914,802	6,483,848
Administrative expenses	508,714	313,142
Other Deductions	9,337	2,675
Total Deductions	9,432,853	6,799,665
TRANSFERS (Note 10)	611,731	(611,731)
Change in Net Assets	33,852,936	19,830,071
Net assets held in trust for pension benefits:		
Beginning of year	166,189,946	159,539,958
End of year	$ 200,042,882	$ 179,370,029

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees 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 School Employees, Judges, and State Patrol Retirement Plans for the fiscal year ended June 30, 2010, and the Deferred Compensation Plan for the fiscal year ended December 31, 2009.

The financial statements reflect only the State and County Employees 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 liabilities associated with the operation of these funds are included on the Statements of Plan Net Assets.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

E. Investments

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

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

F. Capital Assets

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

1. Summary of Significant Accounting Policies (Concluded)

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put the software into place. The useful life is determined based on the system and will be depreciated over seven years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated over three to ten years using the straight-line method.

G. Compensated Absences

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

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

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

H. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions

The following summary description of the Plans is provided for general information purposes. Participants should refer to Neb. Rev. Stat. §§ 84-1301 through 84-1333 for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2335 for the County Employees Retirement Plan for more complete information.

A. Nebraska State Employees Retirement Plan

The single employer plan became effective by statute on January 1, 1964. The State Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the State Plan on and after January 1, 2003, become members of the cash balance benefit.

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees who have attained the age of 20 may exercise the option to begin participation in the retirement system.

Contributions. Per statute, each member contributes 4.8 percent of his or her monthly compensation. The State matches a member's contribution at a rate of 156 percent. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the State Plan.

The amount contributed by the State for terminated employees who are not fully vested is forfeited and used to reduce NPERS expenses and then reduce employer contributions. In the past, forfeitures were not sufficient to pay administrative expenses. At that time, NPERS implemented an asset charge on the defined contribution option assets. The asset charge was discontinued in August 2010. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five-year certain, payable monthly.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Continued)

Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the State Plan which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

State Plan membership consisted of the following at December 31, 2010:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	599
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,606	2,707
Active Plan Members	5,224	11,238
Total	6,830	14,544

The 599 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

The NPERS employees are employees of the State of Nebraska and, therefore, participate in the State Plan. The following includes the defined contribution option and cash balance benefit contributions to the State Plan for the current and preceding two years for NPERS employees.

Calendar Year	Employee Contributions	Employer Contributions
2010	$ 90,336	$ 140,924
2009	90,222	140,746
2008	83,338	130,008

B. Nebraska County Employees Retirement Plan

In 1973, the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan covers employees of 91 of the State's 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees, as allowed by Neb. Rev. Stat. § 23-1118 (Reissue 2007).

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Continued)

Prior to January 1, 2003, the County Plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the County Plan on and after January 1, 2003, become members of the cash balance benefit.

Participation in the County Employees Retirement Plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. Part-time employees may elect voluntary participation upon reaching age 20. Part-time elected officials may exercise the option to join.

Contributions. Per statutes, county employees and elected officials contribute 4½ percent of their total compensation and the county contributes 150 percent. Present and future commissioned law enforcement personnel employed by such counties shall contribute additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with less than eighty-five thousand inhabitants shall contribute an extra 1 percent, or a total of 5½ percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of eighty-five thousand inhabitants shall contribute an extra 2 percent, or a total of 6½ percent of their total compensation; the county contributes 150 percent for the first 4½ percent and 100 percent for the extra 1 and 2 percent. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the County Plan.

The amount contributed by the county for terminated employees who are not fully vested is forfeited and used to reduce NPERS expenses and then reduce employer contributions. Since forfeitures are not sufficient to pay administrative expenses, NPERS has implemented an asset charge on the defined contribution option assets. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

2. **Plan Descriptions** (Concluded)

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five-year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the County Plan, which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

County Plan membership consisted of the following at December 31, 2010:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	251
Terminated Plan Members Entitled to but not yet Receiving Benefits	756	1,076
Active Plan Members	1,982	5,637
Total	2,738	6,964

The 251 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

3. **Funded Status and Funding Progress**

The funded status of each cash balance benefit as of December 31, 2010, 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
State	$ 714,131,805	$ 762,680,399	$ 48,548,594	93.60%	$ 449,206,006	10.80%
County	206,036,302	221,080,026	15,043,724	93.20%	183,967,790	8.20%

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

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

	State	County
Valuation date	December 31, 2010	December 31, 2010
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	24 Years	24 Years
Asset valuation method	5 Year Smoothing	5 Year Smoothing
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.5% to 5.9%	5.5% to 15.0%
Cost-Of-Living Adjustments (COLA)	None	None

* Includes assumed inflation of 3.5% per year.

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement 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(3) (Reissue 2009) 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.

NPERS' investments for the State and County Employees Retirement Plans at December 31, 2010, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

State and County Employees Retirement Plans Investments at December 31, 2010

	State and County Cash Balance Benefit		State and County Defined Contribution	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes and Bonds	$ 18,366,026	7.66	$ -	-
U.S. Treasury Bills	6,539,656	0.39	-	-
Government Agency Securities	2,416,391	4.69	-	-
Corporate Bonds	65,230,565	4.95	-	-
International Bonds	7,332,754	5.60	-	-
Asset Backed Securities	9,614,776	3.85	-	-
Guaranteed Investment Contracts	-	-	110,552,908	2.80
Short Term Investments	15,503,775	0.54	30,471,642	0.09
Commingled Funds	65,927,681	4.54	250,509,323	4.54
Mortgages	68,280,630	4.90	-	-
Municipal Bonds	5,068,848	11.58	-	-
	264,281,102		391,533,873	
Other Investments				
Private Equity Funds	22,500,529		-	
Equity Securities	187,939,513		-	
Commingled Funds	405,491,600		493,540,042	
Options	(271,490)		-	
Private Real Estate Funds Trust	22,914,757		-	
Total Investments	902,856,011		885,073,915	
Invested Securities Lending Collateral	46,832,475		17,973,414	
Total	$ 949,688,486		$ 903,047,329	
As reported on the financial statements:				
Investments				
State	$ 699,005,386		$ 706,086,425	
County	203,850,625		178,987,490	
Total Investments	902,856,011		885,073,915	
Securities Lending Collateral				
State	36,351,362		14,569,159	
County	10,481,113		3,404,255	
Total Securities Lending Collateral	46,832,475		17,973,414	
Total reported on financial statements	$ 949,688,486		$ 903,047,329	

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

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-. NPERS' rated debt investments as of December 31, 2010, were rated by Standards and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Cash Balance Benefit/Defined Contribution Investments at December 31, 2010
Quality Ratings

	Cash Balance Benefit								Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Fair Value**	**Unrated**
Asset Backed Securities	$ 9,614,776	$ 7,340,559	$ 398,055	$ 623,718	$ 136,848	$ 382,747	$ 74,757	$ 658,092	$ -	$ -
Mortgages	68,280,630	34,090,924	356,643	1,487,200	999,345	612,188	1,303,542	29,430,788	-	-
International Bonds	7,332,754	2,814,853	639,968	517,100	2,192,858	757,071	148,008	262,896	-	-
Corporate Bonds	65,230,565	5,162,515	7,494,708	17,464,232	18,153,834	8,397,149	6,504,032	2,054,095	-	-
Government Agency Securities	2,416,391	2,214,942	-	-	-	-	59,618	141,831	-	-
Municipal Bonds	5,068,848	880,685	1,852,280	2,178,599	51,771	-	-	105,513	-	-
Short Term Investments	15,503,775	-	-	-	-	-	-	15,503,775	30,471,642	30,471,642
Commingled Funds	65,927,681	-	-	-	-	-	-	65,927,681	250,509,323	250,509,323

4. Investments (Continued)

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

At December 31, 2010, the State and County Defined Contribution and Cash Balance Benefit Plans had no debt security investments with more than five percent of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. At December 31, 2010, the State and County Defined Contribution Plans did not have exposure to foreign currency risk. The State and County Cash Balance Benefit Plans exposure to foreign currency risk is presented on the following table.

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Cash Balance Benefit Foreign Currency at December 31, 2010

	Asset Backed Securities	Commingled Funds	Corporate Bonds	International Bonds	Mortgages	Short Term Investments	Options	Equity Securities
Argentine Peso	$ -	$ -	$ -	$ -	$ -	$ 1,241	$ -	$ -
Australian Dollar	-	-	299,277	-	-	1,627	-	2,458,104
Brazilian Real	-	-	49,034	108,851	-	76,228	-	314,875
Canadian Dollar	-	-	-	3,062,943	-	24,899	-	2,463,702
Czech Koruna	-	-	-	-	-	4,162	-	124,638
Danish Krone	-	-	-	-	-	57	-	654,107
Euro Currency	145,114	-	692,736	894,766	479,682	74,635	(6,589)	30,239,504
Hong Kong Dollar	-	-	-	-	-	66	-	4,421,962
Hungarian Forint	-	-	-	-	-	2,883	-	146,177
Iceland Krona	-	-	-	-	-	6	-	-
Indian Rupee	-	-	211,050	-	-	-	-	-
Indonesian Rupiah	-	-	286,332	-	-	-	-	254,558
Israeli Shekel	-	-	-	-	-	11,313	-	-
Japanese Yen	-	-	-	-	-	53,650	-	16,470,931
Malaysian Ringgit	-	-	-	-	-	-	-	967,307
Mexican Peso	-	-	41,401	265,594	-	39,821	-	108,389
New Zealand Dollar	-	-	74,661	-	-	3	-	-
Norwegian Krone	-	-	-	-	-	11	-	481,222
Philippine Peso	-	-	-	-	-	2,443	-	33,750
Polish Zloty	-	-	-	-	-	11	-	511,402
Pound Sterling	-	-	288,268	-	-	290,811	-	15,343,516
Singapore Dollar	-	25,342	256,374	-	-	11	-	863,683
South African Rand	-	-	-	-	-	11	-	242,650
South Korean Won	-	-	263,462	-	-	3,766	-	4,358,525
Swedish Krona	-	-	-	-	-	11	-	3,507,258
Swiss Franc	-	-	-	-	-	11,213	-	8,586,178
Thailand Baht	-	-	-	-	-	727	-	1,514,808
Total	$ 145,114	$ 25,342	$2,462,595	$ 4,332,154	$ 479,682	$ 599,606	$(6,589)	$ 94,067,246

4. Investments (Continued)

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the forms of cash, United States government or government agency obligations, sovereign debt rated A or better, or convertible bonds at least equal in value to the market value of the loaned securities. Securities on loan at year end consisted of United States government obligations, equity securities, corporate bonds, and non-US fixed income. 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 resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 25 and 30 days as of June 30, 2010. 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 and 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. At December 31, 2010, the State and County Defined Contribution Plans did not invest in derivative financial instruments. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at December 31, 2010, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments for the year then ended for the State and County Cash Balance Benefit Plans are as follows:

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2010

Derivative	Change in Fair Value	Fair Value	Notional
Credit Defaults Swaps	$ 23,396	$ 87,332	$ 5,042,855
Fixed Income Futures	868,978	-	6,087,068
Fixed Income Options	269,710	(271,490)	(26,464,100)
Futures Options	117,488	-	-
FX Forwards	411,347	137,533	18,013,614
Interest Rate Swaps	68,056	80,101	13,888,498
Rights	94,118	-	-
Warrants	(9,402)	-	-

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at December 31, 2010, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at December 31, 2010, was $424,044. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $424,044.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, there is approximately 69 percent of the net exposure to credit risk, held with four counterparties. The counterparties are rated A or AA.

4. Investments (Continued)

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

Foreign currency risk for derivative instruments at December 31, 2010, was as follows:

DERIVATIVES FOREIGN CURRENCY AT DECEMBER 31, 2010

Derivative	Credit Default Swaps	Interest Rate Swaps	Fixed Income Options
Brazilian Real	$ -	$ 75,780	$ -
Euro Currency	(201)	(18,115)	6,589
Mexican Peso	-	22,436	-
Total	(201)	80,101	6,589

Synthetic Guaranteed Investment Contracts (SGICs). In the State and County Defined Contribution Plans, employees are eligible to participate in SGICs. The contracts provided an average crediting rate of 3.99 percent during calendar year 2010. The fair value of these contracts is $101,123,597, and the contract value is $97,596,228.

SGIC Components	Fair Value
Underlying Investments	$ 101,123,597
Wrap Contract	-
Total	$ 101,123,597

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

			Investments Underlying SGICs Quality Ratings at December 31, 2010					
	Effective Duration	Fair Value	AAA	AA	A	BBB	BB	Unrated
Asset Backed Securities	2.08	$ 7,967,357	$ 6,827,434	$ 21,415	$ 298,597	$ 25,505	$ -	$ 794,406
Corporate Bonds	3.94	46,907,505	2,441,140	11,024,261	21,312,253	11,018,354	99,751	1,011,746
Government Agency Securities	3.83	10,175,177	10,000,584	-	174,593	-	-	-
International Bonds	2.26	1,000,638	530,957	-	469,681	-	-	-
Mortgages	3.43	26,782,129	25,860,430	-	504,294	109,667	-	307,738
Short Term Investments	0.09	2,585,850	-	-	-	-	-	2,585,850
US Treasury Notes	1.52	5,704,941	5,704,941	-	-	-	-	-
		$ 101,123,597						

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, payables for foreign currency purchased, unrealized appreciation/depreciation on investments payables, unrealized appreciation/depreciation on foreign exchange payables, and other payables as recorded by the custodial bank.

4. Investments (Concluded)

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset has been recorded as of December 31, 2010, but the security had not settled.

5. Employer Contributions

Historically, employer contributions have been reported net of forfeitures. Forfeitures result when a member terminates prior to vesting in the employer contribution portion of his or her account. In accordance with Neb. Rev. Stat. § 23-2319.01(1) (Reissue 2007) and Neb. Rev. Stat. § 84-1321.01(1) (Cum. Supp. 2010), forfeitures are first used to pay administrative expenses of the Board. The remaining balance, if any, shall then be used to reduce State and County employer contributions respectively. During 2010, there were no forfeitures used to offset the State and County employer contributions. The balance of the Defined Contribution forfeiture accounts at December 31, 2010, was $5,103 for the State Plan and $34,151 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $3,191,502 for the State Plan and $634,402 for the County Plan.

6. 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. The Department of Administrative Services (DAS) is responsible for maintaining the insurance and self-insurance programs for the State. The State 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 million self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

B. Life insurance for eligible employees.

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Details of the various coverages are available from Risk Management, a division of DAS.

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 DAS), has various leases under a Master Lease Indenture. Under the indenture, the State is required to make semiannual payments to trustees for principal and interest under such leases. State Accounting bills agencies in advance to ensure funds are available to make the required payments. As of December 31, 2010, NPERS had agreed to participate in and make payments to State Accounting on a capital lease. The agreement to pay for the lease is 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 the capital lease, as of December 31, 2010, was as follows:

Calendar Year	State Cash Balance Benefit	State Defined Contribution	County Cash Balance Benefit	County Defined Contribution
Total Minimum Payments (2011)	$ 38,841	$ 17,814	$ 20,443	$ 7,301
Less: Interest and Executory Costs	574	263	302	108
Present Value of Net Minimum Payments	$ 38,267	$ 17,551	$ 20,141	$ 7,193

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)

7. Compensated Absences

The liability for the vested portion of compensated absences for each plan at December 31, 2010, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 15,579	$ 10,465	$ 8,449	$ 5,410
Sick Leave	12,665	8,507	6,869	4,399
	$ 28,244	$ 18,972	$ 15,318	$ 9,809

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2010, are summarized as follows.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 24,933	$ -	$ 5,961	$ 18,972	$ 1,328
Capital Lease Obligations	77,076	-	59,525	17,551	17,551
Totals	$ 102,009	$ -	$ 65,486	$ 36,523	$ 18,879
State Cash Balance Benefit					
Compensated Absences	$ 24,167	$ 4,077	$ -	$ 28,244	$ 1,977
Capital Lease Obligations	168,051	-	129,784	38,267	38,267
Totals	$ 192,218	$ 4,077	$ 129,784	$ 66,511	$ 40,244
County Defined Contribution					
Compensated Absences	$ 11,621	$ -	$ 1,812	$ 9,809	$ 687
Capital Lease Obligations	31,588	-	24,395	7,193	7,193
Totals	$ 43,209	$ -	$ 26,207	$ 17,002	$ 7,880
County Cash Balance Benefit					
Compensated Absences	$ 12,916	$ 2,402	$ -	$ 15,318	$ 1,072
Capital Lease Obligations	88,448	-	68,307	20,141	20,141
Totals	$ 101,364	$ 2,402	$ 68,307	$ 35,459	$ 21,213

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 1,599,544	$ 76,199	$ 35,892	$ 1,639,851
Less: Accumulated Depreciation	1,202,847	252,495	35,892	1,419,450
Capital Assets, Net	$ 396,697	$ (176,296)	$ -	$ 220,401
State Cash Balance Benefit				
Equipment	$ 2,541,237	$ 66,675	$ 31,405	$ 2,576,507
Less: Accumulated Depreciation	2,099,735	294,079	31,405	2,362,409
Capital Assets, Net	$ 441,502	$ (227,404)	$ -	$ 214,098
County Defined Contribution				
Equipment	$ 752,149	$ 38,099	$ 17,946	$ 772,302
Less: Accumulated Depreciation	560,321	121,194	17,946	663,569
Capital Assets, Net	$ 191,828	$ (83,095)	$ -	$ 108,733
County Cash Balance Benefit				
Equipment	$ 1,357,213	$ 38,099	$ 17,946	$ 1,377,366
Less: Accumulated Depreciation	1,112,039	162,533	17,946	1,256,626
Capital Assets, Net	$ 245,174	$ (124,434)	$ -	$ 120,740

10. Transfers

Transfer activity for the year ended December 31, 2010, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 4,079,215	$ (4,079,215)
Miscellaneous Transfers	832,102	(832,102)
Total Transfers	$ 4,911,317	$ (4,911,317)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 310,431	$ (310,431)
Miscellaneous Transfers	301,300	(301,300)
Total Transfers	$ 611,731	$ (611,731)

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. Transfers (Concluded)

The annuity balances represent the transfer of member balances who elected an annuity in the defined contribution option. Since NPERS pays the annuities, the balances are transferred to the cash balance benefit in order for the annuity to be processed. Miscellaneous transfers consist of members who had previous balances in the defined contribution option, but were rehired after January 1, 2003. They are required to be in the cash balance benefit; therefore, their defined contribution balance was transferred to the cash balance benefit.

11. Equal Retirement Benefit Fund

On January 1, 1984, the Equal Retirement Benefit Fund (ERBF) was created for the State and County Retirement Plans. Each State agency and county participating in the retirement system makes contributions to the fund at least annually, in addition to regular retirement contributions.

Upon retirement, any member with an accumulated account balance based on contributions made prior to January 1, 1984, has the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member's regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2010, there was a balance of $494,751 in the State ERBF and a balance of $297,890 in the County ERBF.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
CASH BALANCE BENEFIT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2010

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
STATE EMPLOYEES						
12/31/2010	$ 714,131,805	$ 762,680,399	$ 48,548,594	93.6%	$ 449,206,006	10.8%
12/31/2009	$ 670,591,669	$ 714,408,952	$ 43,817,283	93.9%	$ 454,776,381	9.6%
12/31/2008	$ 637,539,094	$ 658,249,398	$ 20,710,304	96.9%	$ 433,397,447	4.8%
12/31/2007	$ 606,552,428	$ 586,829,526	$ (19,722,902)	103.4%	$ 384,708,712	(5.1%)
12/31/2006	$ 392,442,206	$ 379,734,639	$ (12,707,567)	103.3%	$ 323,982,997	(3.9%)
12/31/2005	$ 342,729,602	$ 300,852,371	$ (41,877,231)	113.9%	$ 238,874,344	(17.5%)
COUNTY EMPLOYEES						
12/31/2010	$ 206,036,302	$ 221,080,026	$ 15,043,724	93.2%	$ 183,967,790	8.2%
12/31/2009	$ 187,109,554	$ 196,773,040	$ 9,663,486	95.1%	$ 177,732,220	5.4%
12/31/2008	$ 175,765,930	$ 175,293,953	$ (471,977)	100.3%	$ 165,275,589	(0.3%)
12/31/2007	$ 163,782,748	$ 151,557,186	$ (12,225,562)	108.1%	$ 141,110,390	(8.7%)
12/31/2006	$ 116,379,465	$ 110,630,278	$ (5,749,187)	105.2%	$ 113,468,303	(5.1%)
12/31/2005	$ 99,464,149	$ 84,817,488	$ (14,646,661)	117.3%	$ 88,144,293	(16.6%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
CASH BALANCE BENEFIT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2010

STATE EMPLOYEES		
Year Ended December 31	Annual Required Contribution State	Percentage Contributed
2010	$ 30,836,977	100%
2009	$ 30,326,809	100%
2008	$ 29,204,456	100%
2007	$ 22,920,710	100%
2006	$ 16,672,478	100%
2005	$ 14,884,856	100%

COUNTY EMPLOYEES		
Year Ended December 31	Annual Required Contribution Counties	Percentage Contributed
2010	$ 11,379,396	100%
2009	$ 10,558,967	100%
2008	$ 9,840,004	100%
2007	$ 8,194,608	100%
2006	$ 6,245,470	100%
2005	$ 5,521,165	100%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER

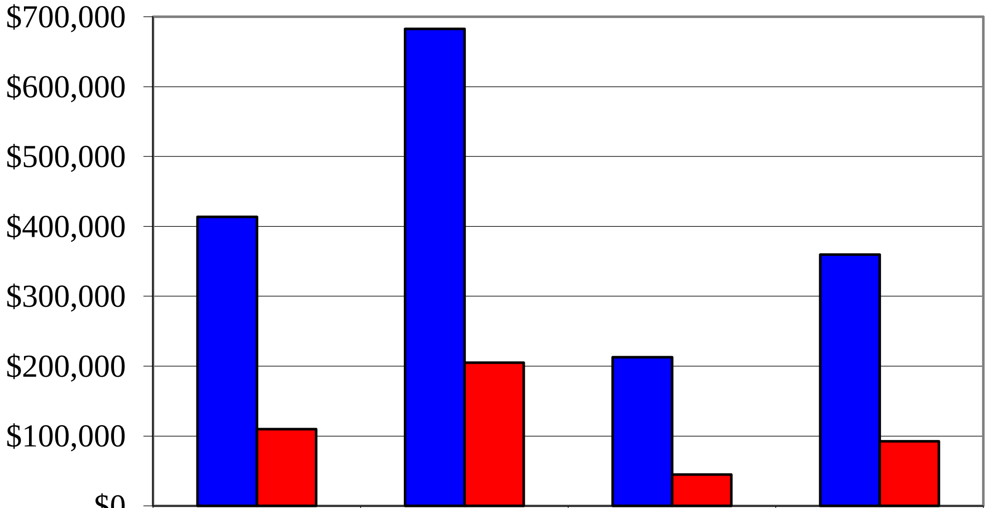
STATE DEFINED CONTRIBUTION	2006	2007	2008	2009	2010
Members:					
Active	7,896	7,276	5,810	5,588	5,224
Inactive	1,788	1,844	1,682	1,573	1,606
Total Members	9,684	9,120	7,492	7,161	6,830
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 575,800	$ 679,463	$ 829,346	$ 742,674	$ 413,902
Record-keeper fees (3)	234,431	243,378	167,841	133,896	109,886
Total Cash Basis Fees and Expenses	$ 810,231	$ 922,841	$ 997,187	$ 876,570	$ 523,788
Administrative Expenses per GAAP financial statements	$ 832,299	$ 754,980	$ 1,016,824	$ 646,490	$ 630,739
Average Administrative Expense per member (1)	$ 86	$ 83	$ 136	$ 90	$ 92
STATE CASH BALANCE					
Members:					
Active	7,599	9,798	11,390	11,749	11,238
Inactive	1,189	1,429	2,440	2,151	2,707
Total Members	8,788	11,227	13,830	13,900	13,945
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 677,669	$ 711,220	$ 801,318	$ 799,750	$ 682,945
Record-keeper fees (3)	181,804	263,314	260,108	241,554	204,892
Total Cash Basis Fees and Expenses	$ 859,473	$ 974,534	$ 1,061,426	$1,041,304	$ 887,837
Administrative Expenses per GAAP financial statements	$ 853,942	$ 1,215,889	$ 989,480	$ 692,870	$ 984,012
Average Administrative Expense per member (1)	$ 97	$ 108	$ 72	$ 50	$ 71
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	3,112	2,725	2,243	2,144	1,982
Inactive	873	940	813	743	756
Total Members	3,985	3,665	3,056	2,887	2,738
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 225,521	$ 290,410	$ 362,215	$ 363,444	$ 212,671
Record-keeper fees (3)	96,933	100,867	68,720	55,240	44,955
Total Cash Basis Fees and Expenses	$ 322,454	$ 391,277	$ 430,935	$ 418,684	$ 257,626
Administrative Expenses per GAAP financial statements	$ 336,664	$ 239,576	$ 445,787	$ 258,522	$ 313,142
Average Administrative Expense per member (1)	$ 84	$ 65	$ 146	$ 90	$ 114
COUNTY CASH BALANCE					
Members:					
Active	3,622	4,785	5,468	5,633	5,637
Inactive	488	608	890	800	1,076
Total Members	4,110	5,393	6,358	6,433	6,713
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$ 346,923	$ 371,890	$ 433,074	$ 438,558	$ 359,602
Record-keeper fees (3)	87,822	122,807	118,125	109,915	92,721
Total Cash Basis Fees and Expenses	$ 434,745	$ 494,697	$ 551,199	$ 548,473	$ 452,323
Administrative Expenses per GAAP financial statements	$ 430,015	$ 654,078	$ 491,687	$ 341,948	$ 508,714
Average Administrative Expense per member (1)	$ 105	$ 121	$ 77	$ 53	$ 76

(1) Calculated: Total Administrative Expenses per Audited Financial Statements / Total Members = Average Administrative Expense

(2) NPERS expenses are expenses incurred by NPERS and allocated to these plans.

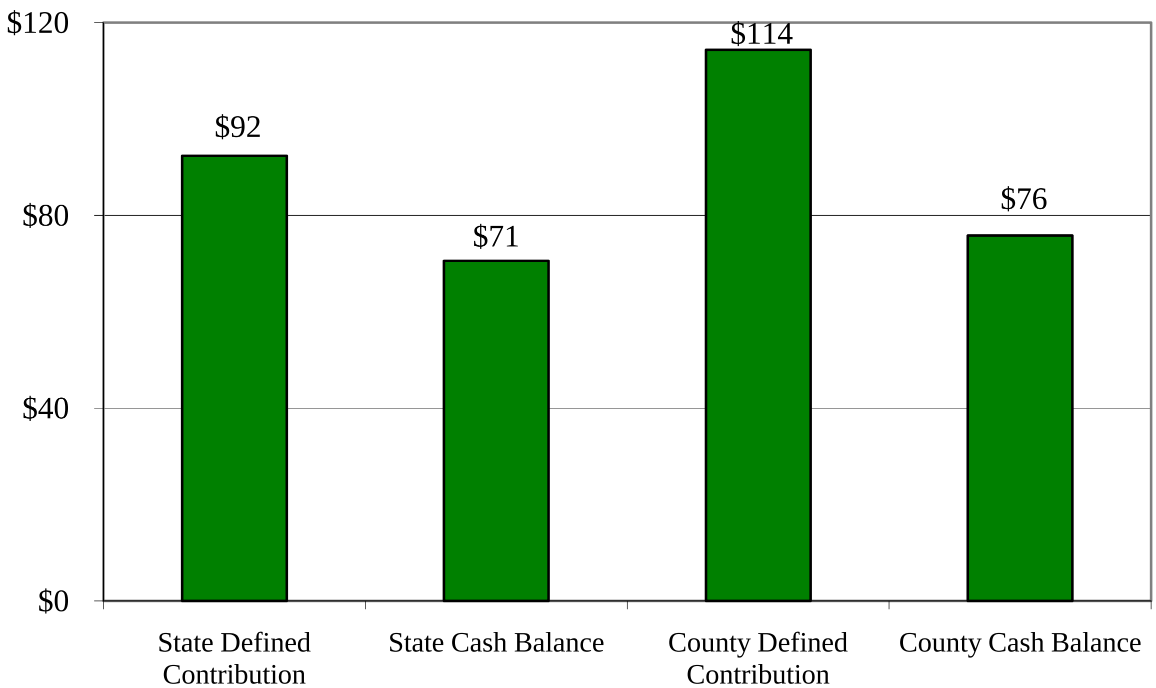
(3) Record-keeper fees are amounts charged by the record-keeper to members for record-keeping services. This is the amount members see as fees on their quarterly statements.

CALENDAR YEAR 2010 EXPENSES AND FEES

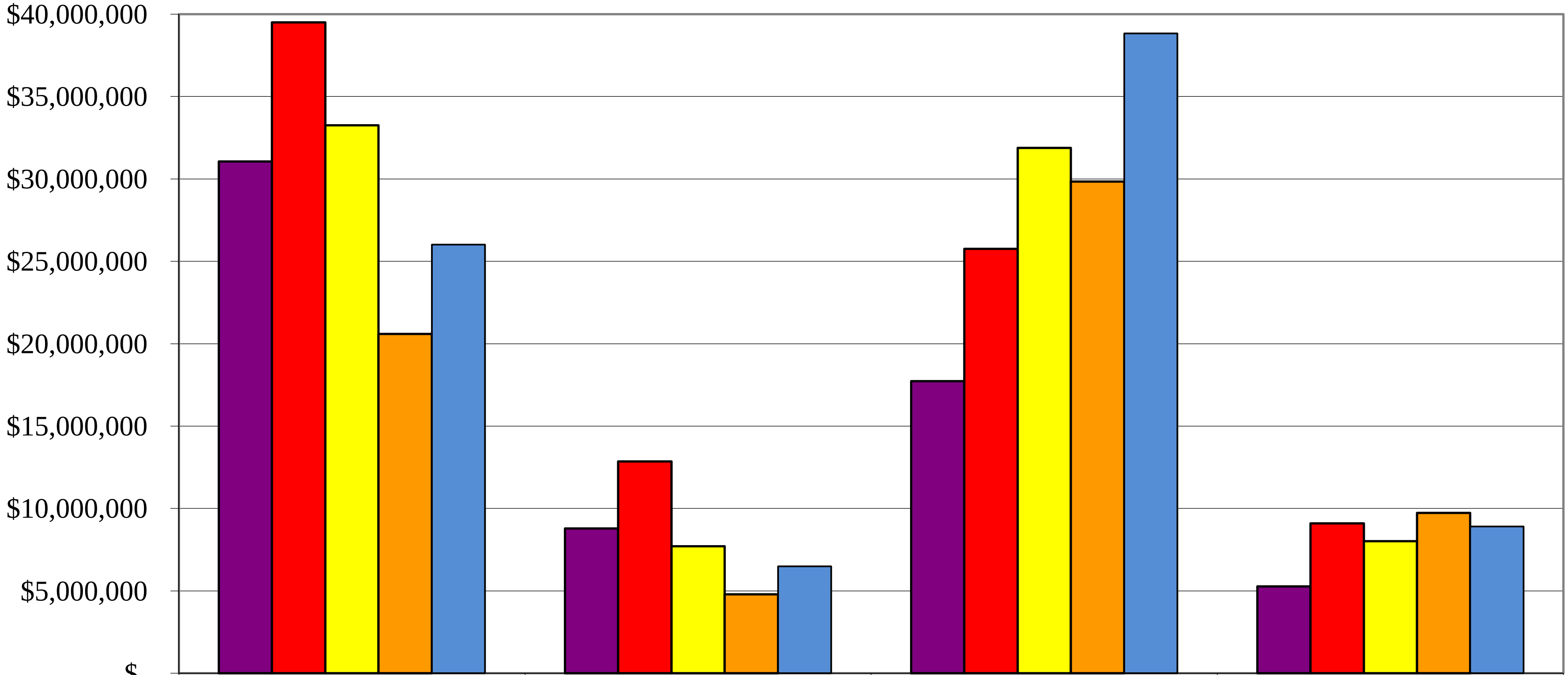


	State Defined Contribution	State Cash Balance	County Defined Contribution	County Cash Balance
NPERS Expenses	$413,902	$682,945	$212,671	$359,602
Record-Keeper Fees	$109,886	$204,892	$44,955	$92,721

AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER FOR CALENDAR YEAR 2010



TOTAL BENEFITS AND REFUNDS PAID



	State Defined Contribution	County Defined Contribution	State Cash Balance	County Cash Balance
2006	$31,057,867	$8,787,116	$17,733,980	$5,269,706
2007	$39,498,621	$12,851,408	$25,763,588	$9,094,828
2008	$33,264,603	$7,712,560	$31,892,723	$8,020,611
2009	$20,597,815	$4,785,257	$29,840,355	$9,729,643
2010	$26,012,528	$6,483,848	$38,826,644	$8,914,802

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES 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 Systems
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans as of and for the year ended December 31, 2010, and have issued our report thereon dated August 22, 2011. The report was modified to disclose that 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 – State and County Employees Retirement Plans. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' internal control over financial reporting (internal control) 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 – State and County Retirement Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Retirement Plans' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies that are described in the Comments Section of the report: Comment Number 1 (Benefit Payments and Procedural Issues) and Comment Number 3 (Inadequate Resolution of Prior Year Findings). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Nebraska Public Employees Retirement Systems – State and County 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 noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems – State and County Retirement Plans in the Comments Section of this report as Comment Number 2 (County Plan Payroll Procedures), Comment Number 4 (Supreme Court Law Clerks), Comment Number 5 (Members Not Properly Notified of Account Changes), Comment Number 6 (Alternative Vesting Dates), and Comment Number 7 (Inconsistent Plan Documents).

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

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

August 22, 2011

Jennifer Person, CPA, CFE
Audit Manager