

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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on March 13, 2014

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

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Exit Conference	3
Comment and Recommendation	4 – 5
Financial Section	
Independent Auditors' Report	6 - 8
Basic Financial Statements:	
Statement of Plan Net Position	9
Statement of Changes in Plan Net Position	10
Notes to Financial Statements	11 - 29
Required Supplementary Information:	
Schedules of Funding Progress – Unaudited	30
Schedules of Contributions from Employers and Other Contributing Entities – Unaudited	31
Supplementary Information:	
Schedule of Service Efforts and Accomplishments	32
Average Annual Benefit	33
Average Administrative Expenses Per Member	33
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 - 35

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

BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

- ◆ Not be an employee of the State of Nebraska or any of its political subdivisions; and
- ◆ Have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

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

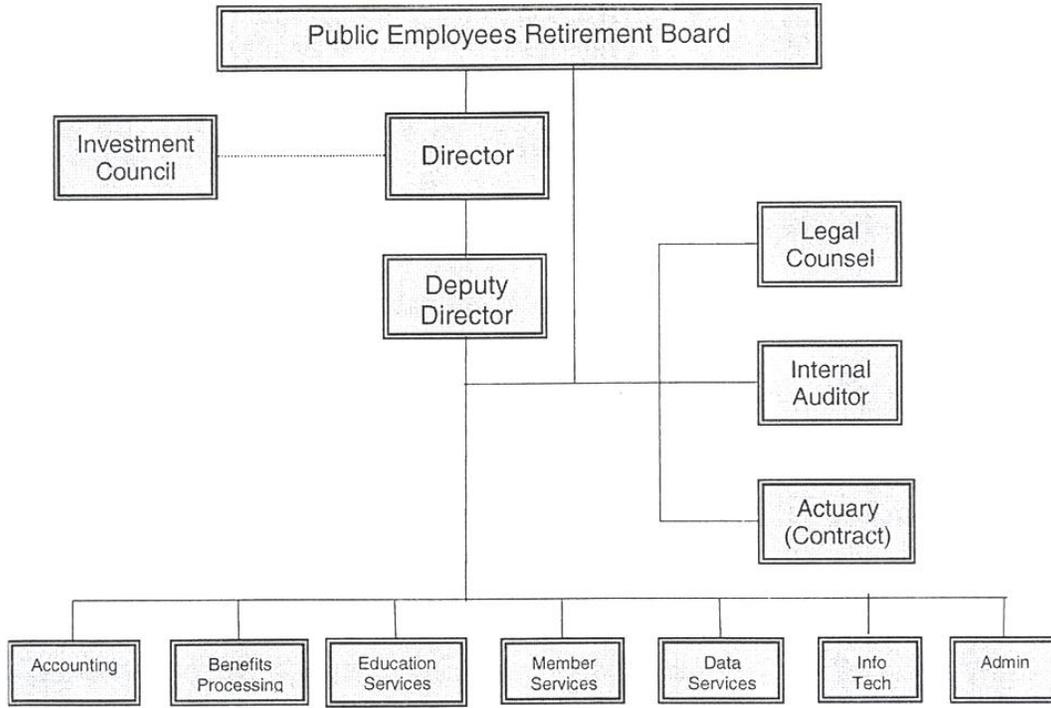
All appointed members must be Nebraska citizens. Members of the Board are paid fifty dollars per diem, and all members are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. 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.

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

ORGANIZATIONAL CHART



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

EXIT CONFERENCE

An exit conference was held March 6, 2014, with the Nebraska Public Employee Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

<u>NAME</u>	<u>TITLE</u>
Clint Holmes	Accountant II
Dennis Rohren	Accountant III
Randy Gerke	Accountant Manager
Fred Turner	IT Manager
Christine Ford	Internal Auditor
Phyllis Chambers	Director
Denis Blank	Board Member
Ronald L. Ecklund	Board Member
Maria Davis	Retirement Specialist II
Teresa Zulauf	Internal Auditor
Sheila Linder	HR/Payroll Admin. Asst. II
Miden Ebert	Retirement Plan Manager

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

COMMENT AND RECOMMENDATION

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

Prior Year School Benefit Follow Up

During the fiscal year ended June 30, 2013, NPERS obtained a death check verification service (death audit) from the Berwyn Group every two months. In prior fiscal years, a death audit was obtained semi-annually. The service provided by the Berwyn Group compared members in the five retirement plans, administered by NPERS, and the Deferred Compensation Plan against national death records.

The Berwyn Group generated a report, which included a listing of individuals matched against the national death records and also a listing of individuals with invalid information, such as social security numbers, names, and dates of birth. NPERS was then responsible for ensuring the data records were adequately reviewed and resolved by terminating retirement benefits to deceased members, recovering ineligible retirement payments, paying an eligible beneficiary or estate any remaining benefit, and following up on inaccurate account information.

NPERS also maintained a spreadsheet documenting the members who had been overpaid, the amount overpaid, the contact dates, and whether the overpayment had been repaid. This was used by NPERS to track overpayments and to document when follow up had been performed and when the overpayment had been repaid.

A good internal control plan requires policies outlining procedures for the timely follow up of deceased member accounts to ensure benefit payments are suspended in a timely manner and any benefit overpayments are repaid. A good business practice includes the continued follow up of overpayments until the account issue is resolved. When reasonable means of collection have been exhausted, a good internal control plan also requires procedures, such as filing a claim with the State Claims Board, to resolve account issues.

The following items, which had been brought to NPERS's attention in prior audit reports, had not been properly addressed by NPERS. A list of members who required corrective action due to benefit overpayments is provided below:

Member	Date of Death	Last Benefit Payment	Overpayment	Last correspondence
Member 1	12/28/2006	2/23/2009	\$6,803	1/26/2010
Member 2	8/12/2008	1/26/2009	\$2,627	12/17/2009
Member 3	11/1/2008	2/23/2009	\$1,074	12/1/2011
Member 4	12/26/2008	2/23/2009	\$2,540	12/1/2011
Member 5	5/14/2009	7/27/2009	\$1,524	11/24/2010
Member 6	6/2/2006	10/4/2006	\$599	12/14/2010

The APA also noted Member 6 was not included on NPERS's spreadsheet, which documents member overpayments.

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

COMMENT AND RECOMMENDATION

(Continued)

Prior Year School Benefit Follow Up (Concluded)

We also noted one member had been previously underpaid \$320, and NPERS had not followed up or made payment to the member's estate. The underpayment has existed since November 2009.

We also noted one member had been identified as having an invalid social security number, and it did not appear NPERS had performed any follow up.

During our testing for fiscal year 2013, the APA selected 15 members identified on the Berwyn Death Audit Reports and verified NPERS suspended each member's account before overpayments were made – or, if overpayments had been made, then NPERS followed up with the estate and obtained repayment. Obtaining Berwyn Death Audit Reports every 2 months, instead of every 6 months, appears to allow NPERS to suspend deceased member benefit payments and follow up with member estates in a more timely manner. However, NPERS did not have procedures to address the overpayments noted above. Without procedures to address those long-outstanding overpayments, there is the risk NPERS will not receive repayment.

We recommend NPERS implement policies or procedures for addressing long-outstanding overpayments. We also recommend NPERS look into the members identified and perform necessary follow up on those members.

NPERS' Response: NPERS has been working on procedures to address outstanding payments. NPERS will work with Risk Management to properly handle outstanding payments. NPERS will review the members identified and follow up in a timely manner.

* * * * *

It should be noted this report is critical in nature, containing only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to NPERS to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

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

INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, NE

Report on the Financial Statements

We have audited the accompanying Statements of Plan Net Position and the related Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NPERS' internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – State Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Schedules of Funding Progress on page 30 and Schedules of Contributions from Employers and Other Contributing Entities on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted its Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ basic financial statements. The Schedule of Service Efforts and Accomplishments, Average Annual Benefit, and Average Administrative Expenses per Member is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Service Efforts and Accomplishments, Average Annual Benefit, and Average Administrative Expenses Per Member is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Service Efforts and Accomplishments, Average Annual Benefit, and Average Administrative Expenses Per Member is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2014, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

March 6, 2014

Philip J. Olsen, CPA, CISA
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET POSITION
JUNE 30, 2013

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	\$ 6,585,007	\$ 163,527	\$ 208,261
Deposits with Vendors	\$ 9,091	\$ 94	\$ 94
Receivables			
Contributions	44,332,300	247,851	2,404,580
Interest & Dividend Income	14,715,896	249,590	547,827
Other Investment Receivables (Note 4)	548,613,798	9,314,029	20,525,393
Total Receivables	<u>\$ 607,661,994</u>	<u>\$ 9,811,470</u>	<u>\$ 23,477,800</u>
Investments, at fair value (Note 4):			
U.S. Treasury Notes and Bonds	409,234,879	6,947,739	15,310,782
U.S. Treasury Bills	1,593,666	27,057	59,624
Government Agency Securities	37,293,862	633,152	1,395,282
GIC	-	-	671,324
Corporate Bonds	543,383,111	9,225,226	20,329,696
International Bonds	201,383,539	3,418,966	7,534,401
Equity Securities	1,266,396,000	21,500,096	47,379,915
Private Equity	349,701,338	5,937,015	13,083,443
Options	(940,926)	(15,975)	(35,203)
Mortgages	405,407,201	6,882,763	15,167,614
Private Real Estate	230,048,120	3,905,616	8,606,834
Asset Backed Securities	59,360,689	1,007,790	2,220,873
Municipal Bonds	40,309,839	684,356	1,508,120
Commingled Funds	4,507,903,154	76,532,418	173,320,970
Short Term Investments	142,552,355	2,420,167	5,886,137
Total Investments	<u>\$ 8,193,626,827</u>	<u>\$ 139,106,386</u>	<u>\$ 312,439,812</u>
Invested Securities Lending Collateral (Note 4)	<u>\$ 289,697,148</u>	<u>\$ 4,918,301</u>	<u>\$ 10,838,495</u>
Capital Assets (Note 10)			
Equipment	12,409,788	2,104,371	2,059,963
Less: Accumulated Depreciation	(12,403,311)	(2,104,282)	(2,059,874)
Total Capital Assets, net	<u>\$ 6,477</u>	<u>\$ 89</u>	<u>\$ 89</u>
TOTAL ASSETS	<u>\$ 9,097,586,544</u>	<u>\$ 153,999,867</u>	<u>\$ 346,964,551</u>
LIABILITIES			
Compensated Absences Payable (Note 5 and 8)	224,481	3,537	3,035
Accounts Payable and Accrued Liabilities	10,883,823	175,516	351,146
Obligations under Securities Lending (Note 4)	289,697,148	4,918,301	10,838,495
Other Investment Payables (Note 4)	699,785,763	11,880,534	26,182,091
Contributions for Omaha Public Schools (Note 6)	4,042,299	-	-
TOTAL LIABILITIES	<u>\$ 1,004,633,514</u>	<u>\$ 16,977,888</u>	<u>\$ 37,374,767</u>
NET POSITION RESTRICTED FOR PENSIONS (A schedule of funding progress for each plan is presented on page 30)	<u>\$ 8,092,953,030</u>	<u>\$ 137,021,979</u>	<u>\$ 309,589,784</u>

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	School Employees	Judges	State Patrol
ADDITIONS			
Contributions			
Member (Note 9)	\$ 164,077,967	\$ 1,424,374	\$ 5,106,556
Employer	161,922,831	-	5,111,325
Court Fees	-	3,180,367	
State	21,886,230	-	2,404,580
Total Contributions	\$ 347,887,028	\$ 4,604,741	\$ 12,622,461
Investment Income			
Net Appreciation in Fair Value			
of Investments	842,507,637	14,392,702	31,967,493
Interest & Dividends	108,685,465	1,853,518	4,326,945
Securities Lending Income	2,699,750	45,835	101,423
Total Investment Income	\$ 953,892,852	\$ 16,292,055	\$ 36,395,861
Investment Expense	(19,568,652)	(333,425)	(755,742)
Securities Lending Expense	(650,413)	(11,043)	(24,492)
Net Investment Income	\$ 933,673,787	\$ 15,947,587	\$ 35,615,627
Other Additions	29,450	-	17,624
Total Additions	\$ 1,281,590,265	\$ 20,552,328	\$ 48,255,712
DEDUCTIONS			
Benefits	415,198,039	7,393,972	15,327,586
Refunds of Contributions	11,220,904	-	1,600,719
Administrative Expense	3,021,657	43,380	48,990
Other Deductions (Note 6)	5,508,416	-	-
Total Deductions	\$ 434,949,016	\$ 7,437,352	\$ 16,977,295
NET INCREASE IN PLAN			
NET POSITION	\$ 846,641,249	\$ 13,114,976	\$ 31,278,417
NET POSITION RESTRICTED			
FOR PENSIONS			
BEGINNING OF YEAR	\$ 7,246,311,781	\$ 123,907,003	\$ 278,311,367
END OF YEAR	\$ 8,092,953,030	\$ 137,021,979	\$ 309,589,784

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2012, and the Deferred Compensation Plan for the calendar year ended December 31, 2009.

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

C. Measurement Focus, Basis of Accounting

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

D. Cash in State Treasury

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

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

E. Investments

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

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

F. Capital Assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

G. Compensated Absences

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

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

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

H. Use of Estimates

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

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2013, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	19,790	172	438
Terminated plan members entitled to but not yet receiving benefits	21,116	5	16
Active plan members	40,314	149	409
	81,220	326	863

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a), 414(h), and 414(k). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2008, Cum. Supp. 2012, Supp. 2013) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2012, Supp. 2013) for the Judges Retirement Act and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2008, Cum. Supp. 2012, Supp. 2013) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2013, there were 270 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

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

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 1.0 percent of the compensation of all members. The employee contribution was equal to 8.88 percent from July 1, 2012, to August 31, 2012, and 9.78 percent from September 1, 2012, to June 30, 2013. The school district (employer) contribution is 101 percent of the employee contribution.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Judges Retirement

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

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

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

State Patrol Retirement

Plan Description. The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old. Normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3 percent. Calculations will vary with early retirement. Benefits are fully vested after 10 years of service.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. Plan Descriptions and Contribution Information (Concluded)

Contributions. Members are required to contribute 19 percent of their annual pay. The State Patrol's (employer) contribution is 19 percent of the employees' annual pay. Beginning July 1, 2013, both the member and employer contributions will be 16 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

Deferred Retirement Option Plan (DROP). Neb. Rev. Stat. § 81-2041 (Supp. 2013) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into a separate account pursuant to IRC § 414(k), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

3. Funded Status and Funding Progress

The funded status of each plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) - Entry Age	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
School	\$ 7,703,084,507	\$ 9,984,898,998	\$ 2,281,814,491	77.1%	\$ 1,735,175,956	131.5%
Judges	130,308,955	148,581,812	18,272,857	87.7%	20,099,647	90.9%
State Patrol	294,468,029	386,875,100	92,407,071	76.1%	27,417,644	337.0%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Funded Status and Funding Progress (Concluded)

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>
Valuation date	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar, Closed for valuations before July 1, 2013. Level Percent of Payroll, Closed effective July 1, 2013.	Level Dollar, Closed for valuations before July 1, 2013. Level Percent of Payroll, Closed effective July 1, 2013.	Level Dollar, Closed for valuations before July 1, 2013. Level Percent of Payroll, Closed effective July 1, 2013.
Remaining amortization period	26 Years	28 Years	27 Years
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial assumptions:			
Investment rate of return*	8.0%	8.0%	8.0%
Projected salary increases*	4.0% - 9.0%	4.0%	4.0%
Cost-Of-Living Adjustments (COLA)	2.50% with a floor benefit equal to 75% purchasing power of original benefit	2.50% with a floor benefit equal to 60% purchasing power of original benefit	2.50% with a floor benefit equal to 60% purchasing power of original benefit

*Includes assumed inflation of 3.25% per year

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Position. 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:

[A]ct 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. . . .

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

NPERS' investments for the School Employees, Judges, and State Patrol Retirement Plans at June 30, 2013, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

**School Employees, Judges, and Patrol Retirement Plans Investments
at June 30, 2013**

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Notes and Bonds	\$ 431,493,400	5.21
U.S. Treasury Bills	1,680,347	-
Government Agency Securities	39,322,296	2.94
Guaranteed Investment Contracts	671,324	2.72
Corporate Bonds	572,938,033	5.23
International Bonds	212,336,906	7.62
Asset Backed Securities	62,589,352	4.94
Short Term Investments	150,858,659	0.47
Commingled Debt	613,101,977	4.94
Mortgages	427,457,578	4.83
Municipal Bonds	42,502,315	10.62
Other Investments		
Commingled Funds	4,144,654,565	
Private Equity Securities	368,721,796	
Equity Securities	1,335,276,011	
Options	(992,104)	
Private Real Estate Funds Trust	242,560,570	
Total Investments	8,645,173,025	
Invested Securities Lending Collateral	305,453,944	
Total	\$ 8,950,626,969	

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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB for core-plus high yield fixed income accounts. The maximum exposure to any single investment grade issuer excluding the U.S. government, its agencies or instrumentalities or government-sponsored entities is 5% and the maximum exposure to a single issuer below investment grade is 3%. The minimum credit rating of a derivatives counterparty is A. NPERS' rated debt investments as of June 30, 2013, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

School Employees, Judges, and State Patrol Retirement Plan Investments
at June 30, 2013

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
Asset Backed	\$ 62,589,352	\$ 36,095,266	\$ 12,041,204	\$ 7,218,142	\$ 3,374,124	\$ 172,920	\$ 2,116,563	\$ 1,571,133
Commingled Debt	613,101,977	-	-	-	-	-	-	613,101,977
Corporate Bonds	572,938,033	36,071,138	35,099,567	201,968,463	143,097,200	85,731,786	51,414,164	19,555,715
Government Agency	39,322,296	261,316	13,240,602	-	1,564,439	-	-	24,255,939
International Bonds	212,336,906	60,305,284	30,422,069	24,102,156	26,863,678	5,407,789	2,561,620	62,674,310
Mortgages	427,457,578	39,570,803	315,381,871	12,007,709	8,211,865	3,917,308	2,922,327	45,445,695
Municipal Bonds	42,502,315	12,228,215	12,298,754	9,489,545	2,999,854	1,528,400	-	3,957,547
Short Term	150,858,659	591,317	-	6,110,162	-	181,222	-	143,975,958

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

At June 30, 2013, NPERS had no debt security investments, from a single entity, which comprised more than 5 percent of total investments.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

School Employee, Judges, and State Patrol Retirement Plans
Foreign Currency at June 30, 2013

	Asset						
	Backed Securities	Corporate Bonds	Equity Securities	Government Agency	International Bonds	Mortgages	Short Term Investments
Australian Dollar	\$ -	\$ 1,188,346	\$ 7,486,538	\$ -	\$ 2,528,587	\$ -	\$ 504,318
Brazilian Real	-	2,936,379	4,433,077	-	126,972	-	(2,336,221)
Canadian Dollar	-	809,310	9,918,926	261,316	23,909,037	-	417,603
Chilean Peso	-	1,004,039	-	-	-	-	-
Colombian Peso	-	512,400	-	-	92,530	-	-
Czech Koruna	-	-	1,008,705	-	4,653,662	-	1
Danish Krone	-	-	2,359,582	-	-	-	1,537
Euro Currency	2,491,791	42,107,496	292,095,408	-	47,060,850	1,915,101	11,754,894
Hong Kong Dollar	-	-	25,946,856	-	-	-	6,439
Hungarian Forint	-	-	-	-	-	-	1
Indonesian Rupiah	-	-	4,644,973	-	-	-	99,848
Israeli Shekel	-	-	-	-	-	-	2
Japanese Yen	-	-	118,879,843	-	15,917,209	-	1,034,395
Malaysian Ringgit	-	-	-	-	6,333,011	-	105,109
Mexican Peso	-	330,766	2,374,610	-	17,321,852	-	972,736
New Zealand Dollar	-	287,698	61,791	-	4,734,736	-	1,139
Norwegian Krone	-	-	3,430,265	-	15,694,600	-	140,085
Philippine Peso	-	-	363,062	-	2,371,696	-	-
Polish Zloty	-	-	-	-	-	-	33,099
Pound Sterling	-	12,292,515	79,734,812	-	31,066,865	-	1,694,720
Singapore Dollar	-	-	10,828,171	-	-	-	112,193
South African Rand	-	-	3,050,353	-	-	-	49,425
South Korean Won	-	-	16,181,637	-	-	-	150,776
Swedish Krona	-	-	19,073,798	-	18,173,060	-	163,496
Swiss Franc	-	-	66,761,909	-	-	-	26,924
Thailand Baht	-	-	1,041,027	-	-	-	-
Uruguayan Peso	-	-	-	-	349,124	-	-
Total	\$2,491,791	\$61,468,949	\$ 669,675,343	\$ 261,316	\$ 190,333,791	\$ 1,915,101	\$ 14,932,519

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the form 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 from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 29 to 44 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities but does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at June 30, 2013 is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT JUNE 30, 2013

Derivative	Change in		
	Fair Value	Fair Value	Notional
Credit Default Swaps	\$ (344,417)	\$829,139	\$ 16,761,043
Fixed Income Futures	(1,467,480)	-	47,022,359
Fixed Income Option	(214,395)	(992,104)	(124,266,738)
Foreign Options	266,808	(6,689)	(6,274,647)
Futures Options	14,969	-	-
FX Forwards	(5,119,652)	1,757,968	288,927,414
Fixed Interest Rate Swaps	57,879	1,189,183	120,034,940
Rights	164,713	-	-
Warrants	(426)	760	4,905

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2013, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at June 30, 2013, was \$7,283,994. 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 \$7,283,994.

Although the Plans execute derivative instruments with various counterparties, there is approximately 90 percent of the net exposure to credit risk, held with seven counterparties. The counterparties are rated A or AA.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

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

Foreign currency risk for derivative instruments at June 30, 2013, are as follows:

**DERIVATIVES FOREIGN CURRENCY
AT JUNE 30, 2013**

Currency	Fixed Income Options	Fixed Interest Rate Swaps	Forward Contracts
Australian Dollar	-	-	457,825
Brazilian Real	-	(2,371,518)	(207,354)
Canadian Dollar	-	-	120,263
Czech Koruna	-	-	(11,995)
Danish Krone	-	-	(32)
Euro Currency	(76,942)	437,692	1,217,956
Japanese Yen	-	-	(468,909)
Malaysian Ringgit	-	-	(20,391)
Mexican Peso	-	260,592	(114,942)
New Russian Ruble	-	-	132,722
New Zealand Dollar	-	-	13,054
Norwegian Krone	-	-	88,740
Philippine Peso	-	-	(1,266)
Polish Zloty	-	-	(101,062)
Pound Sterling	-	-	223,258
Singapore Dollar	-	-	(5,768)
South Korean Won	-	-	(28,911)
Swedish Krona	-	-	484,331
Swiss Franc	-	-	(46,207)
Thailand Baht	-	-	(6,670)
Yuan Renminbi	-	-	(33,326)
Total	(76,942)	(1,673,234)	1,757,968

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Synthetic Guaranteed Investment Contracts (SGICs). In the State Patrol Deferred Retirement Option Plan (DROP), employees are eligible to participate in SGICs. The contracts provided an average credit rating of 3.03 percent during the fiscal year 2013. The fair value of those contracts was \$596,200, and the contract value was \$580,954.

<u>SGIC Components</u>	<u>Fair Value</u>
Underlying Investments	\$ 596,200
Wrap Contract	-
Total	<u>\$ 596,200</u>

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

(Continued on Next Page)

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Concluded)

	Effective Duration	Fair Value	Investments Underlying SGICs Quality Ratings at June 30, 2013					
			AAA	AA	A	BBB	BB	Unrated
Asset Backed Securities	1.41	\$ 64,171	\$ 63,305	\$ 40	\$ 826	\$ -	\$ -	\$ -
Corporate Bonds	2.95	257,806	9,330	50,456	136,218	56,250	2,055	3,496
Government Agency Securities	3.61	75,311	-	68,236	2,096	-	-	4,979
International Bonds	3.24	11,160	4,077	6,107	976	-	-	-
Mortgages	2.49	104,852	27,025	73,425	1,281	-	-	3,121
Short Term Investments	0.16	26,384	-	-	1,992	-	-	24,392
US Treasury Notes	5.54	56,517	-	-	-	-	-	56,517
		\$ 596,200						

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 payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2013, but the security had not settled.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. Compensated Absences

The liability for the vested portion of compensated absences for each Plan at June 30, 2013, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	\$ 119,867	\$ 1,888	\$ 1,621
Sick Leave	104,614	1,649	1,414
	\$ 224,481	\$ 3,537	\$ 3,035

6. Payments to Omaha Public Schools

Neb. Rev. Stat. § 79-916(2) (Supp. 2013) requires an annual payment, for one percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Position in State Contributions additions and as Other Deductions for the July 2013 appropriation for the fiscal year ended June 30, 2013. Additionally, on the Statement of Plan Net Position, the amount is included as a Contribution Receivable and a liability for contributions due to OPS, as the appropriation was not received until July 2013.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2008). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), which then makes the actual service annuity payments to the Omaha retirees. In accordance with Neb. Rev. Stat. § 79-916 (Supp. 2013), a separate Service Annuity Fund (Fund) was established for such payments, and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the fund (\$9,766,937), consisting almost entirely of investments, are included in the Statement of Plan Net Position at June 30, 2013. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Position.

Deductions from the School Plan for the year ended June 30, 2013, were as follows:

	School Employees
Omaha 1% Appropriation	\$ 4,042,299
Omaha Service Annuity Payments	1,466,117
Total Other Deductions	\$ 5,508,416

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. Contingencies

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

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

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

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 NPERS' financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. Contingencies (Concluded)

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

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	\$ 210,974	\$ 3,223	\$ 2,749
Increases (Decreases)	13,507	314	286
Ending Balance	\$ 224,481	\$ 3,537	\$ 3,035
Amounts Due Within One Year	\$ 15,714	\$ 248	\$ 212

9. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$2,901,595. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. §79-921 (Supp. 2013), Neb. Rev. Stat. §79-933.05 (Cum. Supp. 2012), Neb. Rev. Stat. §79-933.06 (Cum. Supp. 2012), and Neb. Rev. Stat. §79-933.08 (Reissue 2008).

10. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	\$ 12,409,788	\$ -	\$ -	\$ 12,409,788
Less: Accumulated Depreciation	12,402,037	1,274	-	12,403,311
Total Capital Assets, Net	\$ 7,751	\$ (1,274)	\$ -	\$ 6,477

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Judges:				
Equipment	\$ 2,104,371	\$ -	\$ -	\$ 2,104,371
Less: Accumulated Depreciation	2,104,265	17	-	2,104,282
Total Capital Assets, Net	<u>\$ 106</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 89</u>
 State Patrol				
Equipment	\$ 2,059,963	\$ -	\$ -	\$ 2,059,963
Less: Accumulated Depreciation	2,059,857	17	-	2,059,874
Total Capital Assets, Net	<u>\$ 106</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 89</u>

11. Subsequent Events

State Patrol Additional Contributions: Neb. Rev. Stat. § 81-2017(3) (Supp. 2013) defines actuarially required contributions. As of July 1, 2013, the actuarially determined additional contribution requirement for the State Patrol Plan is \$4,652,774.

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

School Employee Additional Contributions: Neb. Rev. Stat. § 79-966.01 (Supp. 2013) defines actuarially required contributions. As of July 1, 2013, the actuarially determined additional contribution requirement for the School Employees Plan is \$0. Furthermore, as of that same date, the additional contribution requirement for the Omaha Public Schools Retirement Plan is \$909,638.

School Employee Plan Contribution Rate Increase: Neb. Rev. Stat. § 79-966 (Supp. 2013) increases the contribution the State must deposit in the School Retirement Fund for each fiscal year beginning July 1, 2014. The amount increases from one percent to an amount equal to two percent of the compensation of all members in the retirement system.

Judges Additional Contributions: Neb. Rev. Stat. § 24-705 (Cum. Supp. 2012) defines actuarially required contributions. As of July 1, 2013, the actuarially determined additional contribution requirement for the Judges Employees Plan is \$803,383.

School, Judges and Patrol Actuarial Accrued Liability Determination: Neb. Rev. Stat. § 79-966.01 (Supp. 2013), Neb. Rev. Stat. § 24-703(9) (Supp. 2013) and Neb. Rev. Stat. § 81-2017(3) (Supp. 2013). Beginning July 1, 2013, the actuarial accrued liability is to be determined for each employee on a level percentage of salary basis.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
6/30/2013	\$ 7,703,084,507	\$ 9,984,898,998	\$ 2,281,814,491	77.1%	\$ 1,735,175,956	131.5%
6/30/2012	7,358,964,135	9,609,157,134	2,250,192,999	76.6%	1,593,184,929	141.2%
6/30/2011	7,267,497,259	9,039,744,995	1,772,247,736	80.4%	1,590,225,983	111.4%
6/30/2010	7,040,908,599	8,542,119,000	1,501,210,401	82.4%	1,543,930,532	97.2%
6/30/2009	7,007,581,825	8,092,339,318	1,084,757,493	86.6%	1,481,568,432	73.2%
6/30/2008	6,932,918,638	7,654,536,359	721,617,721	90.6%	1,389,124,819	51.9%
JUDGES						
6/30/2013	\$ 130,308,955	\$ 148,581,812	\$ 18,272,857	87.7%	\$ 20,099,647	90.9%
6/30/2012	125,927,523	137,464,661	11,537,138	92%	19,005,478	60.7%
6/30/2011	125,190,720	128,264,617	3,073,897	98%	18,182,238	16.9%
6/30/2010	121,406,463	121,309,682	(96,781)	100%	18,773,203	(0.5%)
6/30/2009	120,992,600	118,558,418	(2,434,182)	102%	18,373,339	(13.2%)
6/30/2008	119,961,758	114,251,081	(5,710,677)	105%	17,990,072	(31.7%)
STATE PATROL						
6/30/2013	\$ 294,468,029	\$ 386,875,100	\$ 92,407,071	76.1%	\$ 27,417,644	337.0%
6/30/2012	282,810,785	362,298,975	79,488,190	78.1%	25,794,219	308.2%
6/30/2011	279,192,669	339,554,456	60,361,787	82.2%	26,195,473	230.4%
6/30/2010	273,306,925	321,901,446	48,594,521	84.9%	26,765,816	181.6%
6/30/2009	274,119,906	305,291,065	31,171,159	89.8%	25,922,439	120.2%
6/30/2008	273,393,928	291,996,719	18,602,791	93.6%	26,979,643	69.0%

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

SCHOOL EMPLOYEES			
Year Ended June 30	Annual Required Contribution (1)		Percentage Contributed
	State (2)	School	
2013	\$ 66,073,226 (3)	\$ 161,922,831	79%
2012	46,896,367	145,582,040	88%
2011	41,746,797	135,328,339	89%
2010	21,380,352	128,845,427	100%
2009	20,620,548	110,028,942	100%
2008	15,832,941	105,977,554	100%

JUDGES			
Year Ended June 30	Annual Required Contribution		Percentage Contributed
	State	Court Fees	
2013	\$ - (3)	\$ 3,180,367	100%
2012	72,244	3,411,370	100%
2011	72,244	3,507,417	100%
2010	72,244	3,543,047	100%
2009	72,244	3,419,091	100%
2008	72,244	3,280,964	100%

STATE PATROL		
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$ 7,515,905 (3)	78%
2012	7,774,506	100%
2011	7,173,344	83%
2010	6,260,122	100%
2009	5,384,789	100%
2008	4,855,700	100%

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

- (1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes appropriations for the plan year ended June 30, paid after the end of the plan year.
- (2) Does not include appropriations to Omaha Public Schools.
- (3) As of July 1, 2013, additional State funding is required for the School Employees Plan in the amount of \$0, for the State Patrol Plan in the amount of 4,652,774, and for the Judges Plan in the amount of \$803,383.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 2009, Through 2013

	2009	2010	2011	2012	2013
<u>SCHOOL EMPLOYEES</u>					
Active Members	39,231	39,764	39,886	39,477	40,314
Inactive Members	19,413	19,762	20,326	20,971	21,116
Retirees	15,949	16,912	17,814	19,097	19,790
Total Benefits Paid (3)	\$ 289,529,736	\$ 308,630,269	\$ 339,042,978	\$ 377,650,002	\$ 415,198,039
Average Annual Benefit (1)	18,153	18,249	19,032	19,775	20,980
Average Monthly Benefit (4)	1,513	1,521	1,586	1,648	1,748
Administrative Expenses	2,675,297	5,925,090	4,005,120	4,066,267	3,021,657
Average Admin. Expense Per Member (2)	36	78	51	51	37
<u>JUDGES</u>					
Active Members	154	153	146	150	149
Inactive Members	8	8	7	7	5
Retirees	157	154	160	166	172
Total Benefits Paid (3)	\$ 5,433,233	\$ 5,576,749	\$ 5,801,195	\$ 6,834,551	\$ 7,393,972
Average Annual Benefit (1)	34,607	36,213	36,257	41,172	42,988
Average Monthly Benefit (4)	2,884	3,018	3,021	3,431	3,582
Administrative Expenses	421,682	169,228	73,981	56,704	43,380
Average Admin. Expense Per Member (2)	1,322	537	236	176	133
<u>STATE PATROL</u>					
Active Members	468	444	433	427	409
Inactive Members	11	13	17	18	16
Retirees	372	390	402	422	438
Total Benefits Paid (3)	\$ 13,347,738	\$ 13,646,360	\$ 14,139,558	\$ 14,737,951	\$ 15,327,586
Average Annual Benefit (1)	35,881	34,991	35,173	34,924	34,994
Average Monthly Benefit (4)	2,990	2,916	2,931	2,910	2,916
Administrative Expenses	582,678	167,999	95,131	57,236	48,990
Average Admin. Expense Per Member (2)	685	198	112	66	57

Notes:

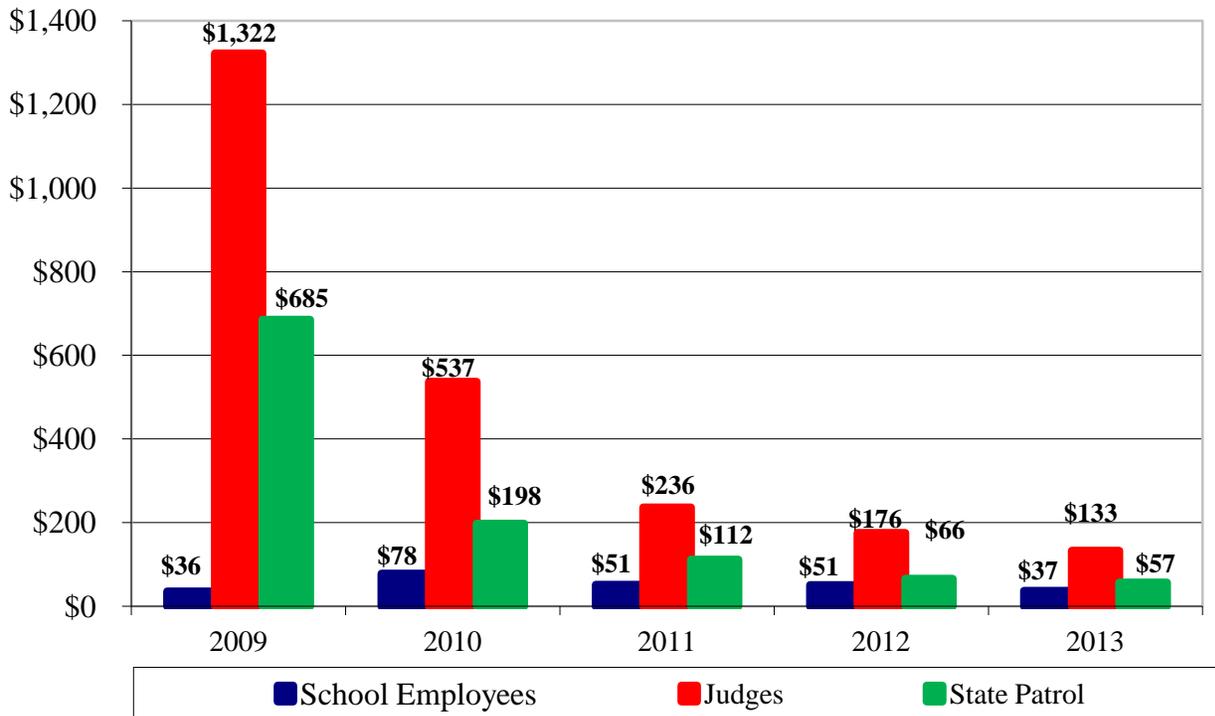
- (1) Calculated: Total Benefits Paid/#Total Retirees=Average Annual Benefit
- (2) Calculated: Administrative Expenses/Total Members=Average Admin Expense Per Member
- (3) Total benefits paid does not include refunds
- (4) Calculated: Average Annual Benefit/12 = Average Monthly Benefit

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

Average Annual Benefit



Average Administrative Expenses Per Member





NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

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

Independent Auditor's Report

Nebraska Public Employees Retirement Board
Lincoln, NE

We have audited, 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, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated March 6, 2014. The report was modified to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Nebraska Public Employees Retirement Systems –

School Employees, Judges, and State Patrol Retirement Plans' financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency that is described in the Comment Section of the report: Comment Number 1 (Prior Year School Benefit Follow Up).

Compliance and Other Matters

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

Nebraska Public Employees Retirement Systems's Response to Findings

The Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' response to the findings identified in our audit are described in the Comment Section of the report. NPERS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

March 6, 2014

Philip J. Olsen, CPA, CISA
Audit Manager