

**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, 2013 THROUGH DECEMBER 31, 2013**

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**Issued on September 29, 2014**

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 appointed members must meet the following requirements:

- ◆ Shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- ◆ Shall have at least 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.

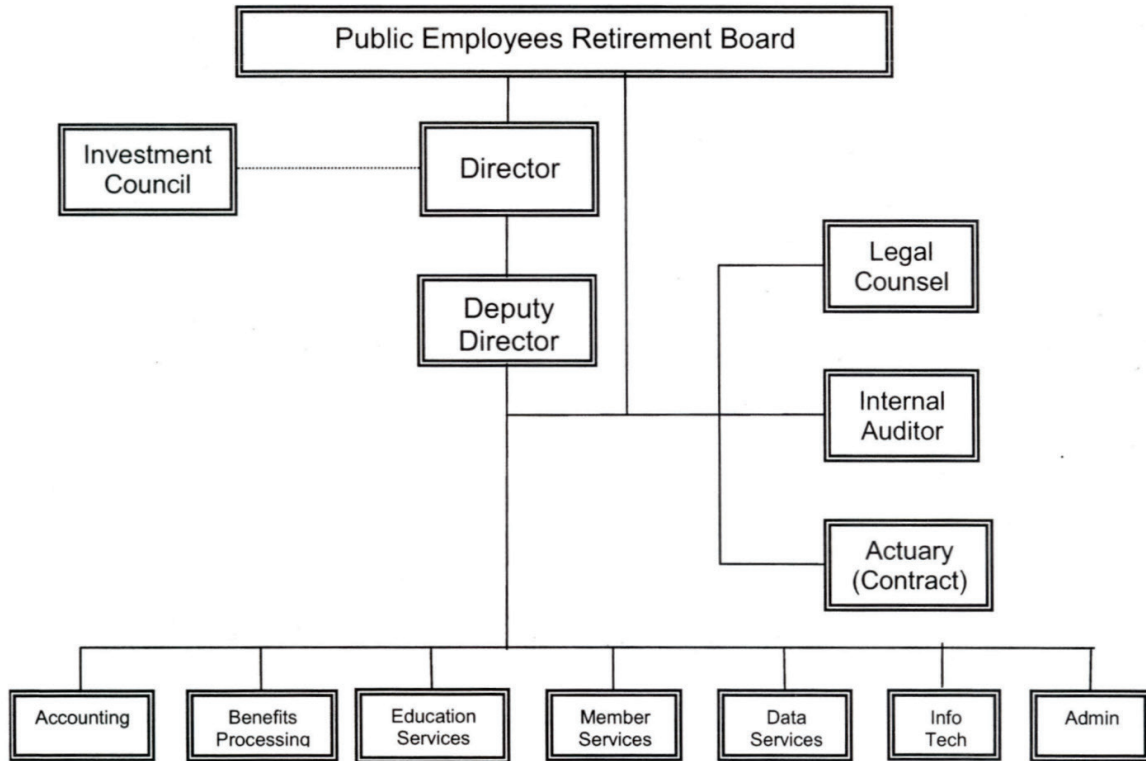
All appointed members must be Nebraska citizens. The Board meets monthly. Members of the Board are to be paid fifty dollars per diem and are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**ORGANIZATIONAL CHART**



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**EXIT CONFERENCE**

An exit conference was held September 16, 2014, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

<b>NAME</b>	<b>TITLE</b>
Denis Blank	Board Chair
Ron Ecklund	Board Member
Phyllis Chambers	Director
Randy Gerke	Deputy Director
Miden Ebert	Manager
Teresa Zulauf	Internal Auditor
Dennis Rohren	Accountant III
Melissa Mendoza	Retirement Specialist II
Maria Davis	Retirement Specialist II

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**COMMENT AND RECOMMENDATION**

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

**County Member Eligibility**

Neb. Rev. Stat. § 23-2306 (Supp. 2013) states, in part:

*(2) The following employees of member counties are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment and full-time elected officials shall begin participation in the retirement system upon taking office, (b) all permanent part-time employees who have attained the age of eighteen years may exercise the option to begin participation in the retirement system . . . .*

*(10) Counties 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 § 23-2301 (Supp. 2013) provides the following definitions:

*(15) Full-time employee means an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period . . . .*

*(23) Part-time employee means an employee who is employed to work less than one-half of the regularly scheduled hours during each pay period;*

Title 303 NAC 18-004.01(a) (effective December 2012) states, in relevant part, “[I]f NPERS determines that a retirement system has received insufficient contributions from an employer of an active member, NPERS shall require the employer remit the additional required employee and employer contributions, and this amount may include interest.”

NPERS Manual for County Clerks (revised October 2013) states, in part:

*Participation becomes mandatory when an employee works one-half or more of the regularly scheduled hours in a pay period for at least 6 bi-weekly pay periods . . . in a calendar year. The pay periods may or may not be consecutive. The ‘mandatory effective date of participation’ in the plan will be the next pay period following the 6 bi-weekly . . . pay periods that the employee worked one-half or more of the regularly scheduled hours. If the employee does not begin participation on the ‘mandatory effective participation date,’ make-up contributions would be required going back to the ‘mandatory effective participation date’ or two years, whichever is less.*

*Permanent part-time employees . . . may join voluntarily if age 18 or older. The option to join must be exercised within the first 30 days of permanent part-time employment . . . . After you have determined eligibility for voluntary enrollment, you should give a “State/County Cash balance Voluntary Enrollment Form” to the employee (see FORMS) to complete and sign. You should also sign the completed form before submitting to NPERS.*

A good internal control plan requires procedures to ensure employees are properly enrolled and contributing.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**COMMENT AND RECOMMENDATION**

(Concluded)

We tested 17 non-contributing employees from four counties and noted one county had 2 non-contributing employees who exceeded half the regularly scheduled hours for at least six bi-weekly pay periods during calendar year 2013 and, thus, were required to participate. The two employees worked 9 and 11 semi-monthly pay periods, in which they exceeded half the regularly scheduled hours during the year. The employees worked for the county for 13 and 4 consecutive summers, respectively. They should have contributed during their 2013 employment.

In addition, during a separate test of 25 county members, we identified a member who was a temporary, seasonal, part-time employee and younger than age 18. Having not reached the minimum age of 18, this individual should not have participated in the plan.

Finally, we noted one member was voluntarily participating in the retirement plan but did not have a Voluntary Enrollment form on file, as required by the Manual for County Clerks.

When counties do not properly enroll employees, they are not in compliance with State statute, NPERS Rules and Regulations, and the Manual for County Clerks.

We recommend NPERS work with the counties to ensure employees are properly contributing to the County Plan. Additionally, we recommend NPERS require the employees and counties to remit makeup contributions, as required by regulations.

*NPERS' Response: NPERS will continue to work with the county employers to ensure employees are contributing to the County Retirement Plan. The county employer manual is updated regularly and provided to the County Clerks or reporting agents. In June of 2014, two NPERS staff members attended the Clerk, Election Commissioner, and Register of Deeds Workshop to discuss retirement issues found during county employer audits and also respond to questions from the workshop attendees.*

*NPERS will work with the county employers to make sure makeup contributions are remitted according to regulations.*

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 it will be verified in the next audit.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

### INDEPENDENT AUDITOR'S 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 – State and County Employees Retirement Plans, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees 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 the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' 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.

### ***Emphasis of Matter***

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 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 – 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, 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. Our opinion is not modified with respect to this matter.

### ***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 and County Employees Retirement Plans, as of December 31, 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 that the Schedules of Funding Progress on page 35 and the Schedules of Employer Contributions on page 36 herein 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 the Management's 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 Governmental Accounting Standards Board who considers it to be an essential part of the 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 the missing information.

### *Supplementary 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 – State and County Employees Retirement Plans' basic financial statements. The accompanying supplementary schedules of Average Administrative Expenses Per Member, Calendar Year 2013 Expenses and Fees, Average Administrative Expense Per Member for Calendar Year 2013, and Total Benefits and Refunds Paid are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information on pages 37 through 39 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 accompanying supplementary information on pages 37 through 39 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 September 16, 2014, 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, 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 the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting and compliance.

September 16, 2014



Philip J. Olsen, CPA, CISA  
Audit Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE EMPLOYEES RETIREMENT PLAN  
**STATEMENT OF PLAN NET POSITION**  
AS OF DECEMBER 31, 2013

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	\$ 99,084	\$ 124,526
Receivables:		
Contributions	2,545,721	720,685
Interest	2,039,711	2,840
Other Receivables (Note 4)	52,766,424	205
Total Receivables	<u>57,351,856</u>	<u>723,730</u>
Investments, at fair value (Note 4):		
U.S. Treasury Bills	1,130,386	
U.S. Treasury Notes and Bonds	54,363,371	-
Government Agency Securities	2,150,661	-
Corporate Bonds	81,342,229	-
International Bonds	26,060,402	-
Adr's, GDR's & Trust	943,990	
Asset Backed Securities	9,287,028	-
Bank Loans	311,539	
Guaranteed Investment Contracts	-	48,919,500
Short Term Investments	25,295,467	8,083,670
Commingled Funds	690,665,311	549,502,727
Mortgages	59,229,029	-
Municipal Bonds	4,362,328	-
Private Equity Funds	52,701,301	-
Equity Securities	201,726,588	-
Options	(84,412)	-
Private Real Estate Funds	30,661,777	-
Total Investments	<u>1,240,146,995</u>	<u>606,505,897</u>
Invested Securities Lending Collateral (Note 4)	42,795,663	6,110,815
Capital Assets (Note 9):		
Equipment	2,571,150	1,633,729
Less: Accumulated Depreciation	(2,570,589)	(1,633,089)
Total Capital Assets	<u>561</u>	<u>640</u>
Total Assets	<u>1,340,394,159</u>	<u>613,465,608</u>
<b>LIABILITIES</b>		
Compensated Absences (Notes 7 and 8)	38,542	26,406
Other Payables (Note 4)	71,316,411	140,110
Benefits Payable	2,548,692	-
Obligations Under Securities Lending (Note 4)	42,795,663	6,110,815
Total Liabilities	<u>116,699,308</u>	<u>6,277,331</u>
Net Position - Restricted for Pension Benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 35.)	<u>\$ 1,223,694,851</u>	<u>\$ 607,188,277</u>

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
COUNTY EMPLOYEES RETIREMENT PLAN  
**STATEMENT OF PLAN NET POSITION**  
AS OF DECEMBER 31, 2013

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	\$ 45,401	\$ 15,333
Receivables:		
Contributions	1,170,155	275,657
Interest	578,818	688
Other Receivables (Note 4)	14,971,426	123
Total Receivables	<u>16,720,399</u>	<u>276,468</u>
Investments, at fair value (Note 4):		
U.S. Treasury Bills	320,721	
U.S. Treasury Notes and Bonds	15,424,333	-
Government Agency Securities	610,199	-
Corporate Bonds	23,078,952	-
International Bonds	7,394,029	-
Adr's, GDR's & Trust	267,835	
Asset Backed Securities	2,634,976	-
Bank Loans	88,391	
Guaranteed Investment Contracts	-	13,172,256
Short Term Investments	10,389,595	2,092,898
Commingled Funds	195,960,106	165,176,930
Mortgages	16,804,850	-
Municipal Bonds	1,237,709	-
Private Equity Funds	14,952,759	-
Equity Securities	57,235,195	-
Options	(23,950)	-
Private Real Estate Funds	8,699,561	-
Total Investments	<u>355,075,261</u>	<u>180,442,084</u>
Invested Securities Lending Collateral (Note 4)	12,142,267	1,645,442
Capital Assets (Note 9):		
Equipment	1,374,305	769,241
Less: Accumulated Depreciation	(1,373,986)	(768,922)
Total Capital Assets	<u>319</u>	<u>319</u>
Total Assets	<u>383,983,647</u>	<u>182,379,646</u>
<b>LIABILITIES</b>		
Compensated Absences (Notes 7 and 8)	24,740	11,633
Other Payables (Note 4)	20,273,527	42,554
Benefits Payable	978,335	-
Obligations Under Securities Lending (Note 4)	12,142,267	1,645,442
Total Liabilities	<u>33,418,869</u>	<u>1,699,629</u>
Net Position - Restricted for Pension Benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 35.)	<u>\$ 350,564,778</u>	<u>\$ 180,680,017</u>

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 POSITION**  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>STATE CASH BALANCE BENEFIT</u>	<u>STATE DEFINED CONTRIBUTION</u>
<b>ADDITIONS:</b>		
Contributions:		
Member	\$ 25,109,315	\$ 7,320,474
Employer (Note 5)	39,147,056	11,403,424
Total Contributions	<u>64,256,371</u>	<u>18,723,898</u>
Investment Income:		
Net appreciation in fair value of investments	176,394,918	87,463,981
Interest & Dividends	14,098,778	3,811,692
Securities Lending Income	350,916	2,957
Total Investment Income	<u>190,844,612</u>	<u>91,278,630</u>
Investment Expenses	(2,713,463)	(248,616)
Securities Lending Expense	(74,004)	(532)
Net Investment Income	<u>188,057,145</u>	<u>91,029,482</u>
Other Additions	<u>177,403</u>	<u>2,703</u>
Total Additions	<u>252,490,919</u>	<u>109,756,083</u>
<b>DEDUCTIONS:</b>		
Benefits and Refunds	64,841,779	32,998,197
Administrative Expenses	836,275	404,797
Other Deductions	346,306	999,276
Total Deductions	<u>66,024,360</u>	<u>34,402,270</u>
<b>TRANSFERS</b> (Note 10)	<u>3,814,336</u>	<u>(3,814,336)</u>
Change in Plan Net Position	190,280,895	71,539,477
Net Position - Restricted for Pension Benefits		
Beginning of year	<u>1,033,413,956</u>	<u>535,648,800</u>
End of year	<u>\$ 1,223,694,851</u>	<u>\$ 607,188,277</u>

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 POSITION**  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>COUNTY CASH BALANCE BENEFIT</u>	<u>COUNTY DEFINED CONTRIBUTION</u>
<b>ADDITIONS:</b>		
Contributions:		
Member	\$ 9,826,347	\$ 2,868,258
Employer (Note 5)	14,552,298	4,253,672
Total Contributions	<u>24,378,645</u>	<u>7,121,930</u>
Investment Income:		
Net appreciation in fair value of investments	50,270,820	25,474,457
Interest & Dividends	3,993,245	1,093,829
Securities Lending Income	99,564	796
Total Investment Income	<u>54,363,629</u>	<u>26,569,082</u>
Investment Expenses	(854,792)	(82,089)
Securities Lending Expense	(20,997)	(143)
Net Investment Income	<u>53,487,840</u>	<u>26,486,850</u>
Other Additions	<u>2,657</u>	<u>740</u>
Total Additions	<u>77,869,142</u>	<u>33,609,520</u>
<b>DEDUCTIONS:</b>		
Benefits and Refunds	15,139,071	8,794,431
Administrative Expenses	464,612	179,097
Other Deductions	18,306	2
Total Deductions	<u>15,621,989</u>	<u>8,973,530</u>
<b>TRANSFERS</b> (Note 10)	<u>652,336</u>	<u>(652,336)</u>
Change in Plan Net Position	62,899,489	23,983,654
Net Position - Restricted for Pension Benefits		
Beginning of year	<u>287,665,289</u>	<u>156,696,363</u>
End of year	<u>\$ 350,564,778</u>	<u>\$ 180,680,017</u>

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended December 31, 2013

**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, 2013, and the Deferred Compensation Plan for the year ended December 31, 2013.

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 Position.

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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO 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. Equipment is depreciated over 3 to 10 years using the straight-line method.



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

**G. Compensated Absences**

All permanent employees working for NPERS earn sick and annual 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 annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. 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 annual 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 calendar year end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**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 (Reissue 2008, Cum. Supp. 2012, Supp. 2013) for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Supp. 2013) 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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. **Plan Descriptions** (Continued)

benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected either to continue participation in the defined contribution option or to 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. Prior to April 2011, all permanent part-time employees who had attained the age of 20 could exercise the option to begin participation in the retirement system. Effective April 2011, the age requirement decreased to 18.

**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.

When employees terminate and are not fully vested, the amount contributed by the State is forfeited and used to reduce NPERS expenses. 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 is 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 is 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 percent 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**2. Plan Descriptions** (Continued)

State Plan membership consisted of the following at December 31, 2013:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries		
Receiving Benefits	-	1,052
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,597	4,935
Active Plan Members	3,038	12,606
Total	4,635	18,593

The 1,052 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
2013	\$ 94,932	\$ 148,094
2012	94,005	146,647
2011	90,928	141,847

**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 2012).

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 either to continue participation in the defined contribution option or to 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. **Plan Descriptions** (Continued)

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. Prior to April 2011, all permanent part-time employees could elect voluntary participation upon reaching age 20. Effective April 2011, the age requirement for permanent part-time employees decreased to age 18. Part-time elected officials may exercise the option to join.

**Contributions.** Per statutes, county employees and elected officials contribute 4.5 percent of their total compensation and the county matches 150 percent. Present and future commissioned law enforcement personnel employed by such counties contribute additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with fewer than 85,000 inhabitants contribute an extra 1 percent, or a total of 5.5 percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of 85,000 inhabitants contribute an extra 2 percent, or a total of 6.5 percent of their total compensation; the county matches 150 percent for the first 4.5 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.

When employees terminate and are not fully vested, the amount contributed by the county is forfeited and used to reduce NPERS expenses. Since forfeitures are not sufficient to pay administrative expenses, NPERS may also assess a charge in the form of basis points against plan 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 is 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 is 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 percent 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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**2. Plan Descriptions** (Concluded)

County Plan membership consisted of the following at December 31, 2013:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries		
Receiving Benefits	-	384
Terminated Plan Members Entitled to but not yet Receiving Benefits	726	1,919
Active Plan Members	1,266	6,277
Total	1,992	8,580

The 384 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, 2013, 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	\$1,130,203,298	\$ 1,139,772,796	\$ 9,569,498	99.2%	\$ 535,526,147	1.8%
County	323,882,230	322,94,373	(887,857)	100.3%	206,510,678	-0.4%

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

	State	County
Valuation date	December 31, 2013	December 31, 2013
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

	<u>State</u>	<u>County</u>
Remaining amortization period	12 Years	25 Years
Asset valuation method	5 Year Smoothing	5 Year Smoothing
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.0% to 5.4%	4.3% to 8.5%
Cost-Of-Living Adjustments (COLA)	None	None

\* 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 Statement 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 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, 2013, are presented below. All investments are presented by investment type, and debt securities are presented with effective duration presented in years.

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**State and County Employees Retirement Plans Investments  
at December 31, 2013**

	<b>State and County Cash Balance Benefit</b>		<b>State and County Defined Contribution</b>	
	<b>Fair Value</b>	<b>Effective Duration</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Debt Securities				
U.S. Treasury Notes and Bonds	\$ 69,787,704	5.18	\$ -	-
U.S. Treasury Bills	1,451,107	0.00	-	-
Government Agency Securities	2,760,860	4.48	-	-
Corporate Bonds	104,421,181	5.05	-	-
International Bonds	33,454,431	8.10	-	-
Asset Backed Securities	11,922,004	2.95	-	-
Bank Loans	399,930	6.52		
Guaranteed Investment Contracts	-	-	62,091,756	2.70
Short Term Investments	35,685,062	0.06	10,176,568	0.00
Commingled Funds	97,279,166	5.07	197,452,469	5.08
Mortgages	76,033,879	4.80	-	-
Municipal Bonds	5,600,037	10.04	-	-
	<u>438,795,361</u>		<u>269,720,793</u>	
Other Investments				
Adr's, GDR's & Trust	1,211,825			
Private Equity Funds	67,654,060		-	
Equity Securities	258,961,783		-	
Commingled Funds	789,346,251		517,227,188	
Options	(108,362)		-	
Private Real Estate Funds Trust	39,361,338		-	
Total Investments	<u>1,595,222,256</u>		<u>786,947,981</u>	
Invested Securities Lending				
Collateral	<u>54,937,930</u>		<u>7,756,257</u>	
Total	<u>\$ 1,650,160,186</u>		<u>\$ 794,704,238</u>	
As reported on the financial statements:				
Investments				
State	\$ 1,240,146,995		\$ 606,505,897	
County	355,075,261		180,442,084	
Total Investments	<u>1,595,222,256</u>		<u>786,947,981</u>	
Securities Lending Collateral				
State	42,795,663		6,110,815	
County	12,142,267		1,645,442	
Total Securities Lending Collateral	<u>54,937,930</u>		<u>7,756,257</u>	
Total reported on financial statements	<u>\$ 1,650,160,186</u>		<u>\$ 794,704,238</u>	

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**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 for high yield fixed income in its fixed income account. NPERS' rated debt investments as of December 31, 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.

**Cash Balance Benefit/Defined Contribution Investments at December 31, 2013**  
**Quality Ratings**

	Cash Balance Benefit								Defined Contribution	
	Fair Value	AAA	AA	A	BBB	BB	B	Unrated	Fair Value	Unrated
Asset Backed Securities	\$ 11,922,004	\$ 6,605,232	\$ 2,475,193	\$ 1,088,691	\$ 709,142	\$ 326,265	\$ 295,849	\$ 421,632	\$ -	\$ -
Bank Loans	399,930	-	-	-	-	-	-	399,930		
Mortgages	76,033,879	6,976,717	3,114,562	1,680,093	1,885,476	621,481	527,739	61,227,811	-	-
International Bonds	33,454,431	9,241,694	2,445,265	3,699,235	5,333,993	674,853	541,974	11,517,417	-	-
Corporate Bonds	104,421,181	6,341,380	5,183,739	35,113,574	29,748,826	18,743,964	5,241,620	4,048,078	-	-
Government Agency Securities	2,760,860	-	2,392,994	-	-	168,900	-	198,966	-	-
Municipal Bonds	5,600,037	1,905,725	1,296,270	1,201,718	491,738	60,023	-	644,563	-	-
Short Term Investments	35,685,062	104,639	-	-	-	7,762	-	35,572,661	10,176,568	10,176,568
Commingled Funds	97,279,166	-	-	-	-	-	-	97,279,166	197,452,469	197,452,469



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, 2013, 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, 2013, 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.

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**Cash Balance Benefit Foreign Currency at December 31, 2013**

	<b>Asset Backed Securities</b>	<b>Corporate Bonds</b>	<b>International Bonds</b>	<b>Mortgages</b>	<b>Short Term Investments</b>	<b>Options</b>	<b>Private Real Estate</b>	<b>Equity Securities</b>
Australian Dollar	\$ -	\$ 192,958	\$ 398,186	\$ -	\$ 81,735	\$ -	\$ 259,171	\$ 597,938
Brazilian Real	-	385,982	18,323	-	(165,539)	-	-	528,397
Canadian Dollar	-	131,427	3,119,895	-	41,538	-	-	1,631,098
Chilean Peso	-	162,505	-	-	-	-	-	-
Colombian Peso	-	81,578	14,154	-	-	-	-	-
Czech Koruna	-	-	-	-	-	-	-	110,618
Danish Krone	-	-	-	-	-	-	-	817,152
Euro Currency	270,011	8,427,189	7,067,350	249,603	1,374,788	(6,608)	-	58,084,658
Hong Kong Dollar	-	-	-	-	85,179	-	-	4,595,459
Indonesian Rupiah	-	-	-	-	-	-	-	414,927
Israeli Shekel	-	-	466,904	-	-	-	-	-
Japanese Yen	-	-	2,537,273	-	49,875	-	-	21,665,219
Malaysian Ringgit	-	-	632,491	-	13,349	-	-	21,896
Mexican Peso	-	52,378	2,951,301	-	233,907	-	-	590,516
New Zealand Dollar	-	49,839	1,628,555	-	1,697	-	-	10,996
Norwegian Krone	-	-	2,516,945	-	329	-	-	773,072
Philippine Peso	-	-	283,615	-	429	-	-	-
Polish Zloty	-	-	-	-	155	-	-	-
Pound Sterling	-	3,433,637	4,880,785	-	624,104	-	-	16,835,298
Singapore Dollar	-	-	-	-	41,702	-	-	1,964,634
South African Rand	-	-	-	-	17,824	-	-	255,282
South Korean Won	-	-	-	-	4,608	-	-	2,557,260
Swedish Krona	-	-	3,083,826	-	221	-	-	2,910,588
Swiss Franc	-	-	-	-	22,795	-	-	14,301,876
Thailand Baht	-	-	-	-	9,152	-	-	298,285
Uruguayan Peso	-	-	50,309	-	-	-	-	-
Total	<u>\$ 270,011</u>	<u>\$12,917,493</u>	<u>\$ 29,649,912</u>	<u>\$ 249,603</u>	<u>\$2,437,848</u>	<u>\$ (6,608)</u>	<u>\$ 259,171</u>	<u>\$128,965,169</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

NOTES TO 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 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-U.S. 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 from 29 to 44 days as of June 30, 2013. 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, 2013, 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, 2013, 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:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2013

Derivative	Change in Fair Value	Fair Value	Notional
Credit Defaults Swaps	\$ 188,311	\$ 394,126	\$ 17,470,990
Fixed Income Futures	14,177	-	62,429,370
Fixed Income Options	182,560	(104,879)	(55,998,577)
Foreign Currency Options	50,227	(935)	(1,180,027)
Futures Options	(803)	(3,483)	(17,416)
FX Forwards	(1,292,525)	(148,925)	45,301,189
Interest Rate Swaps	74,919	558,253	17,144,245
Rights	92,911	-	-
Warrants	(42,141)	148	811

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, 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 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, 2013, was \$1,425,299. 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 \$1,425,299.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, there is approximately 82 percent of the net exposure to credit risk, held with five counterparties. The counterparties are rated A or AA.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**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, 2013, was as follows:

DERIVATIVES FOREIGN CURRENCY AT  
DECEMBER 31, 2013

Currency	Swaps	Forward Contracts	Options
Australian Dollar	\$ -	\$ 2,894	\$ -
Brazilian Real	(193,187)	(7,565)	-
Canadian Dollar	-	(96)	-
Swiss Franc	-	8,864	-
Yuan Renminbi	-	8,627	-
Czech Koruna	-	(62,261)	-
Danish Krone	-	(86)	-
Euro Currency	215,026	76,247	(6,608)
Pound Sterling	-	(46,175)	-
Israeli Shekel	-	(7,471)	-
Japanese Yen	(11,104)	(102,473)	-
South Korean Won	-	13,292	-
Mexican Peso	85,000	(2,812)	-
Malaysian Ringgit	-	(12,119)	-
Norwegian Krone	-	(6)	-
New Zealand Dollar	-	(9,079)	-
Philippine Peso	-	(241)	-
Polish Zloty	-	□ 3,793	-
New Russian Ruble	-	2,699	-
Swedish Krona	-	□ (264)	-
Singapore Dollar	-	(303)	-
Thailand Baht	-	(4,818)	-
New Taiwan Dollar	-	(9,572)	-
Total	\$ 95,735	\$ (148,925)	\$ (6,608)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. **Investments** (Continued)

**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 3.05 percent during calendar year 2013. The fair value of those contracts at December 31, 2013, was \$54,781,899, and the contract value was \$53,654,131.

<u>SGIC Components</u>	<u>Fair Value</u>
Underlying Investments	\$ 54,781,899
Wrap Contract	<u>-</u>
Total	<u>\$ 54,781,899</u>

(Continued on Next Page)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**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, 2013							
	Effective Duration	Fair Value	AAA	AA	A	BBB	Unrated
Asset Backed Securities	1.29	\$ 5,548,670	\$ 5,468,488	\$ 3,701	\$ 76,481	\$ -	\$ -
Corporate Bonds	3.16	23,597,094	559,679	4,347,057	11,443,756	6,549,332	697,270
Government Agency Securities	3.20	7,059,251	-	6,389,964	196,569	-	472,718
International Bonds	2.80	1,047,263	381,346	576,182	89,735	-	-
Mortgages	2.17	7,085,295	2,604,285	357,774	119,478	-	4,003,758
Short Term Investments	0.00	649,155	-	-	-	-	649,155
US Treasury Notes	4.44	9,795,171	7,317,774	-	-	-	2,477,397
		<u>\$ 54,781,899</u>	<u>\$16,331,572</u>	<u>\$11,674,678</u>	<u>\$11,926,019</u>	<u>\$ 6,549,332</u>	<u>\$ 8,300,298</u>

**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.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**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, 2013, 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) (Supp. 2013) and Neb. Rev. Stat. § 84-1321.01(1) (Supp. 2013), forfeitures are used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2013, was \$0 for the State Plan and \$0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was \$838,528 for the State Plan and \$287,131 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.



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**6. Contingencies and Capital Lease Commitments** (Concluded)

- 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. 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 coverage.

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 NPERS' financial statements.

**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.

**7. Compensated Absences**

The liability for the vested portion of compensated absences for each plan at December 31, 2013, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	\$ 19,485	\$ 13,349	\$ 12,507	\$ 5,881
Sick Leave	19,057	13,057	12,233	5,752
	<u>\$ 38,542</u>	<u>\$ 26,406</u>	<u>\$ 24,740</u>	<u>\$ 11,633</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**8. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2013, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>State Defined Contribution</b>					
Compensated Absences	\$ 17,456	\$ 8,950	\$ -	\$ 26,406	\$ 1,848
<b>State Cash Balance Benefit</b>					
Compensated Absences	\$ 35,114	\$ 3,428	\$ -	\$ 38,542	\$ 2,698
<b>County Defined Contribution</b>					
Compensated Absences	\$ 11,039	\$ 594	\$ -	\$ 11,633	\$ 814
<b>County Cash Balance Benefit</b>					
Compensated Absences	\$ 24,796	\$ -	\$ 56	\$ 24,740	\$ 1,732

**9. Capital Assets**

Capital asset activity for the year ended December 31, 2013, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
<b>State Defined Contribution</b>				
Equipment	\$ 1,639,851	\$ -	\$ 6,122	\$ 1,633,729
Less: Accumulated Depreciation	1,639,071	140	6,122	1,633,089
Capital Assets, Net	\$ 780	\$ (140)	\$ -	\$ 640
<b>State Cash Balance Benefit</b>				
Equipment	\$ 2,576,507	\$ -	\$ 5,357	\$ 2,571,150
Less: Accumulated Depreciation	2,575,824	122	5,357	2,570,589
Capital Assets, Net	\$ 683	\$ (122)	\$ -	\$ 561
<b>County Defined Contribution</b>				
Equipment	\$ 772,302	\$ -	\$ 3,061	\$ 769,241
Less: Accumulated Depreciation	771,913	70	3,061	768,922
Capital Assets, Net	\$ 389	\$ (70)	\$ -	\$ 319

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**9. Capital Assets** (Concluded)

**County Cash Balance Benefit**

Equipment	\$ 1,377,366	\$ -	\$ 3,061	\$ 1,374,305
Less: Accumulated Depreciation	1,376,977	70	3,061	1,373,986
Capital Assets, Net	<u>\$ 389</u>	<u>\$ (70)</u>	<u>\$ -</u>	<u>\$ 319</u>

**10. Transfers**

Transfer activity for the year ended December 31, 2013, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	\$ 3,302,194	\$ (3,302,194)
Miscellaneous Transfers	512,142	(512,142)
Total Transfers	<u>\$ 3,814,336</u>	<u>\$ (3,814,336)</u>
	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	\$ 618,283	\$ (618,283)
Miscellaneous Transfers	34,053	(34,053)
Total Transfers	<u>\$ 652,336</u>	<u>\$ (652,336)</u>

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, members with an accumulated account balance based on contributions made prior to January 1, 1984, have 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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Concluded)

**11. Equal Retirement Benefit Fund** (Concluded)

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, 2013, there was a balance of \$580,471 in the State ERBF and a balance of \$367,326 in the County ERBF.

**12. Subsequent Event – Calendar Year 2013 Dividend**

The Board granted a dividend for the calendar year 2013 County Cash Balance Plan on May 19, 2014. All eligible County Cash Balance members received the dividend on July 25, 2014. The dividend totaled \$916,193.

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, 2013

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
<b>STATE EMPLOYEES</b>						
12/31/2013	\$ 1,130,203,298	\$ 1,139,772,796	\$ 9,569,498	99.2%	\$ 535,526,147	1.8%
12/31/2012	\$ 1,009,414,476	\$ 1,077,957,772	\$ 68,543,296	93.6%	\$ 500,493,490	13.7%
12/31/2011	\$ 743,970,954	\$ 813,285,510	\$ 69,314,556	91.5%	\$ 458,826,702	15.1%
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%
<b>COUNTY EMPLOYEES</b>						
12/31/2013	\$ 323,882,230	\$ 322,994,373	\$ (887,857)	100.3%	\$ 206,510,678	(0.4%)
12/31/2012	\$ 281,261,645	\$ 297,572,626	\$ 16,310,981	94.5%	\$ 202,786,048	8.0%
12/31/2011	\$ 220,662,783	\$ 240,195,114	\$ 19,532,331	91.9%	\$ 193,269,158	10.1%
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%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS  
CASH BALANCE BENEFIT  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF EMPLOYER CONTRIBUTIONS**  
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2013

<b>STATE EMPLOYEES</b>		
Year Ended December 31	Annual Required Contribution-State	Percentage Contributed
2013	\$ 32,632,176	120%
2012	\$ 32,511,438	100%
2011	\$ 31,187,646	100%
2010	\$ 30,836,977	100%
2009	\$ 30,326,809	100%
2008	\$ 29,204,456	100%

<b>COUNTY EMPLOYEES</b>		
Year Ended December 31	Annual Required Contribution-Counties	Percentage Contributed
2013	\$ 11,497,969	124%
2012	\$ 12,800,386	100%
2011	\$ 11,908,346	100%
2010	\$ 11,379,396	100%
2009	\$ 10,558,967	100%
2008	\$ 9,840,004	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**

<b>STATE DEFINED CONTRIBUTION</b>		2009	2010	2011	2012	2013
Members:						
Active		5,588	5,224	4,841	4,480	3,038
Inactive		1,573	1,606	1,629	1,677	1,597
Total Members		7,161	6,830	6,470	6,157	4,635
Cash Basis Administrative Expenses:						
NPERS Expenses (2)	\$	742,674	\$ 413,902	\$ 220,988	\$ 237,360	\$ 278,526
Record-keeper fees (3)		133,896	109,886	145,636	146,836	112,500
Total Cash Basis Fees and Expenses	\$	876,570	\$ 523,788	\$ 366,624	\$ 384,196	\$ 391,026
Administrative Expenses per GAAP financial statements	\$	646,490	\$ 630,739	\$ 535,933	\$ 416,570	\$ 404,797
Average Administrative Expense per member (1)	\$	90	\$ 92	\$ 83	\$ 68	\$ 87
<b>STATE CASH BALANCE</b>						
Members:						
Active		11,749	11,238	11,278	10,869	12,606
Inactive		2,151	2,707	3,249	4,404	4,935
Total Members		13,900	13,945	14,527	15,273	17,541
Cash Basis Administrative Expenses:						
NPERS Expenses (2)	\$	799,750	\$ 682,945	\$ 454,507	\$ 477,413	\$ 441,165
Record-keeper fees (3)		241,554	204,892	293,183	339,884	380,033
Total Cash Basis Fees and Expenses	\$	1,041,304	\$ 887,837	\$ 747,690	\$ 817,297	\$ 821,198
Administrative Expenses per GAAP financial statements	\$	692,870	\$ 984,012	\$ 899,626	\$ 851,010	\$ 836,275
Average Administrative Expense per member (1)	\$	50	\$ 71	\$ 62	\$ 56	\$ 48
<b>COUNTY DEFINED CONTRIBUTION</b>						
Members:						
Active		2,144	1,982	1,841	1,717	1,266
Inactive		743	756	745	757	726
Total Members		2,887	2,738	2,586	2,474	1,992
Cash Basis Administrative Expenses:						
NPERS Expenses (2)	\$	363,444	\$ 212,671	\$ 98,925	\$ 141,348	\$ 126,794
Record-keeper fees (3)		55,240	44,955	87,923	59,045	49,075
Total Cash Basis Fees and Expenses	\$	418,684	\$ 257,626	\$ 186,848	\$ 200,393	\$ 175,869
Administrative Expenses per GAAP financial statements	\$	258,522	\$ 313,142	\$ 273,040	\$ 217,141	\$ 179,097
Average Administrative Expense per member (1)	\$	90	\$ 114	\$ 106	\$ 88	\$ 90
<b>COUNTY CASH BALANCE</b>						
Members:						
Active		5,633	5,637	5,811	5,766	6,277
Inactive		800	1,076	1,354	1,687	1,919
Total Members		6,433	6,713	7,165	7,453	8,196
Cash Basis Administrative Expenses:						
NPERS Expenses (2)	\$	438,558	\$ 359,602	\$ 292,172	\$ 324,912	\$ 281,599
Record-keeper fees (3)		109,915	92,721	143,457	162,063	176,487
Total Cash Basis Fees and Expenses	\$	548,473	\$ 452,323	\$ 435,629	\$ 486,975	\$ 458,086
Administrative Expenses per GAAP financial statements	\$	341,948	\$ 508,714	\$ 526,770	\$ 507,295	\$ 464,612
Average Administrative Expense per member (1)	\$	53	\$ 76	\$ 74	\$ 68	\$ 57

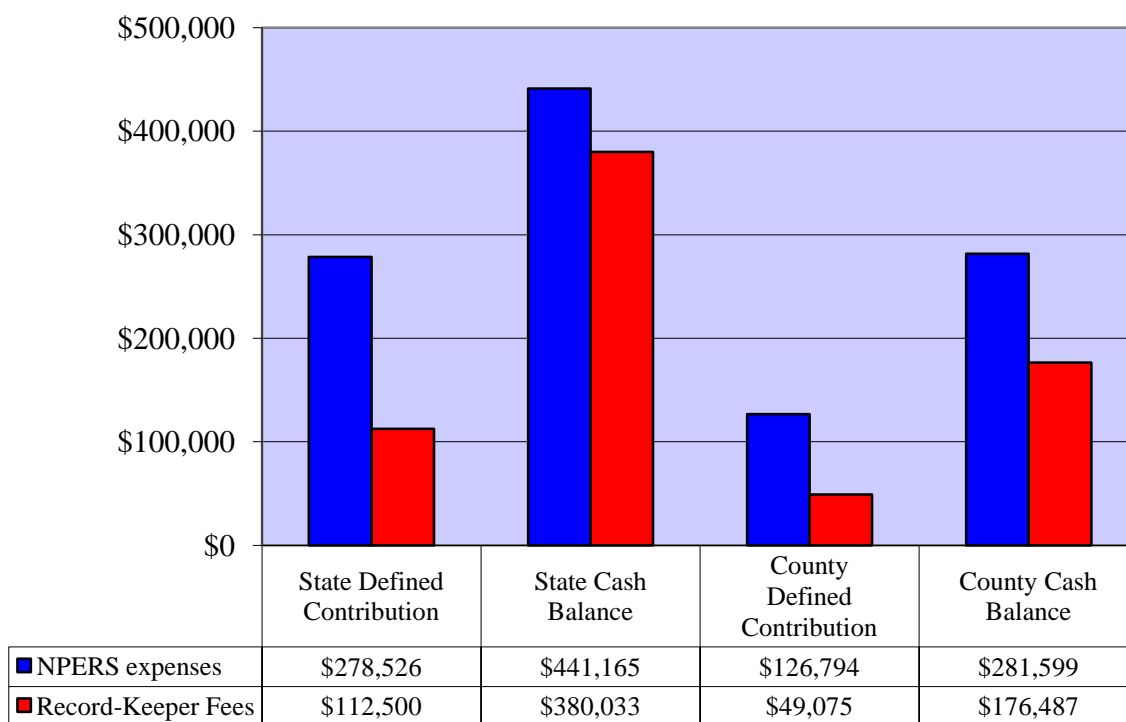
(1) Calculated: Total Administrative Expenses per Audited Financial Statements / Total Members = Average Administrative Expense.

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

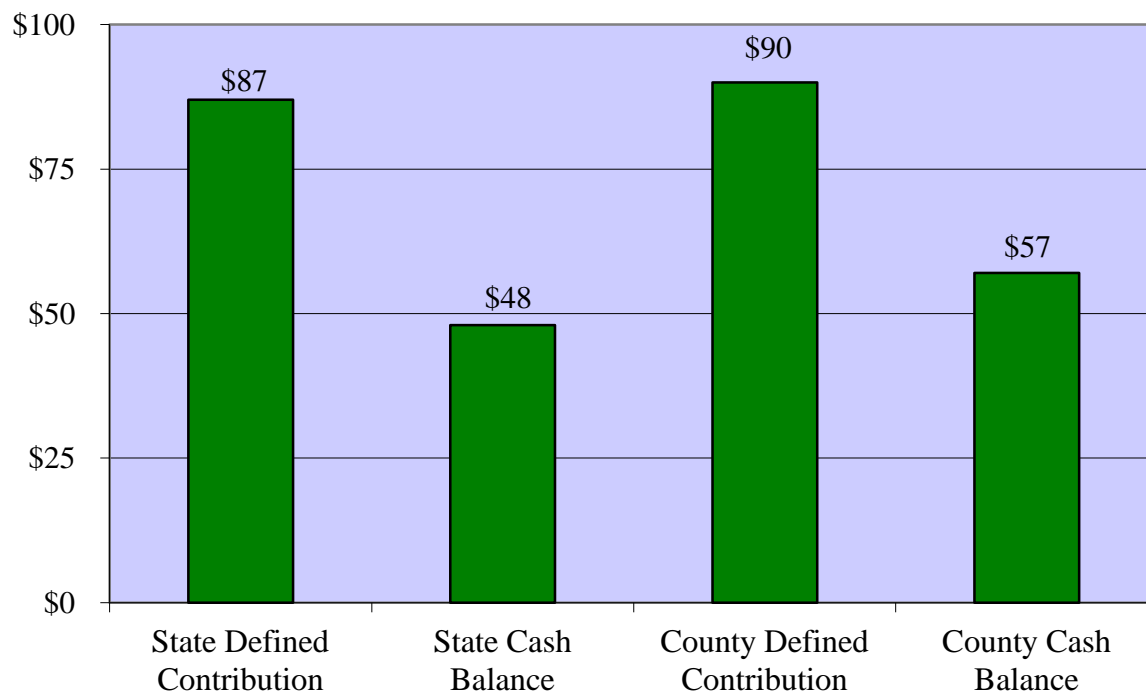
(3) Record-keeper fees are amounts charged by the record-keeper to members for record-keeping services. This is the amount members see as fees on their quarterly statements.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS**

**CALENDAR YEAR 2013 EXPENSES AND FEES**



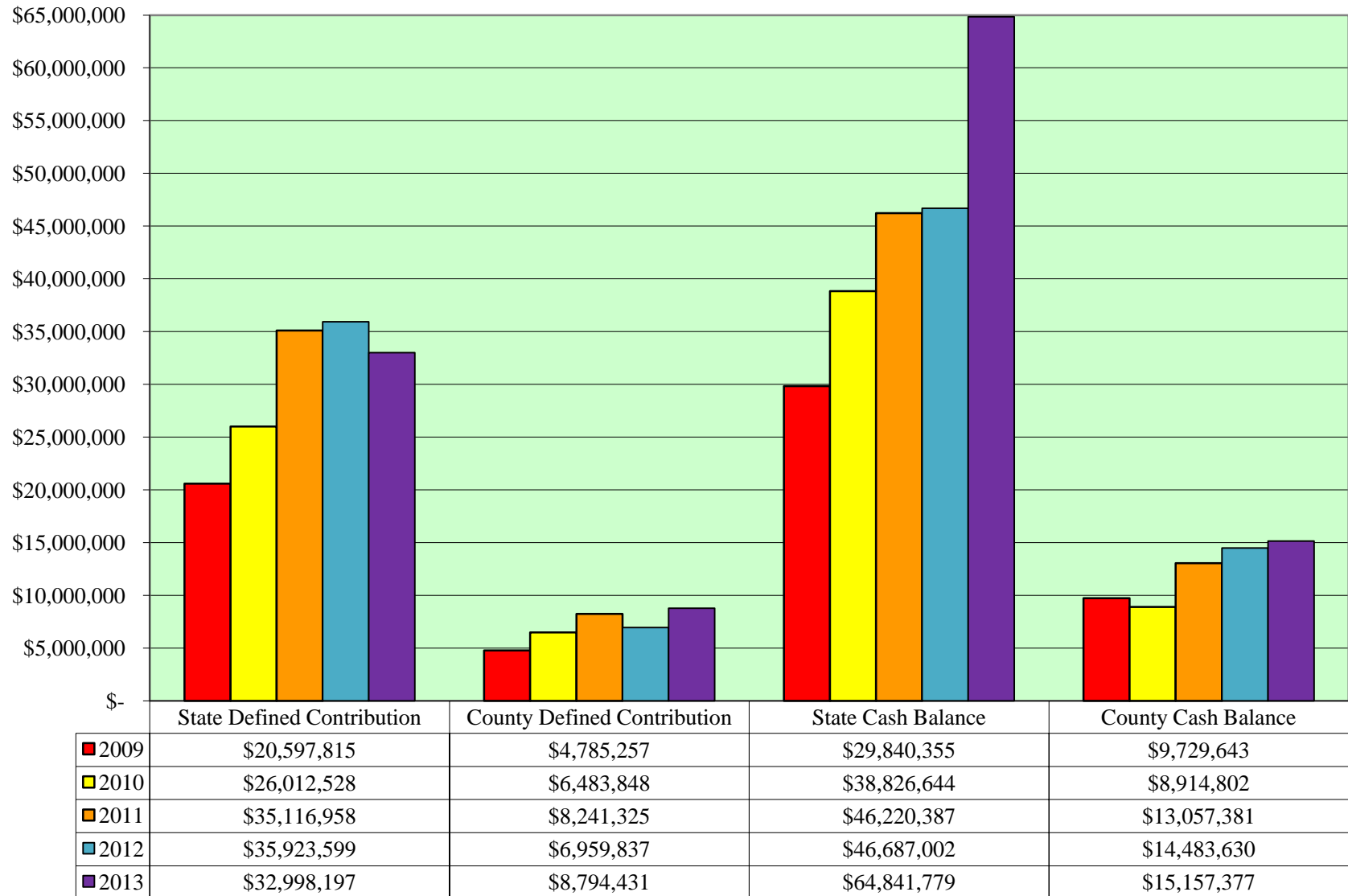
**AVERAGE ADMINISTRATIVE EXPENSE PER  
MEMBER FOR CALENDAR YEAR 2013**





NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

**TOTAL BENEFITS AND REFUNDS PAID**





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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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***

Independent Auditor's Report

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

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 – State and County Employees Retirement Plans, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements, as of and for the year ended December 31, 2013, and have issued our report thereon dated September 16, 2014. The report was modified to disclose that the Management's 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nebraska Public Employees Retirement Systems – State and County Employees 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 – State and County Employees Retirement Plans' internal

control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Employees 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 – State and County Employees 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.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Nebraska Public Employees Retirement Systems – State and County Employees 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*.

#### **Additional Items**

We noted a certain additional item that we reported to management of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans in the Comment Section of this report as Comment Number 1 (County Member Eligibility).


#### **Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans’ Response to Findings**

The Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans’ response to the finding identified in our audit is described in the Comment Section of the report. The Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans’ 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 – State and County Employees 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 – State and County Employees Retirement Plans’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 16, 2014



Philip J. Olsen, CPA, CISA  
Audit Manager