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, 2014 THROUGH DECEMBER 31, 2014

Issued on August 4, 2015

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. 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 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:

- Cannot be an employee of the State of Nebraska or any of its political subdivisions; and
- Must 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.

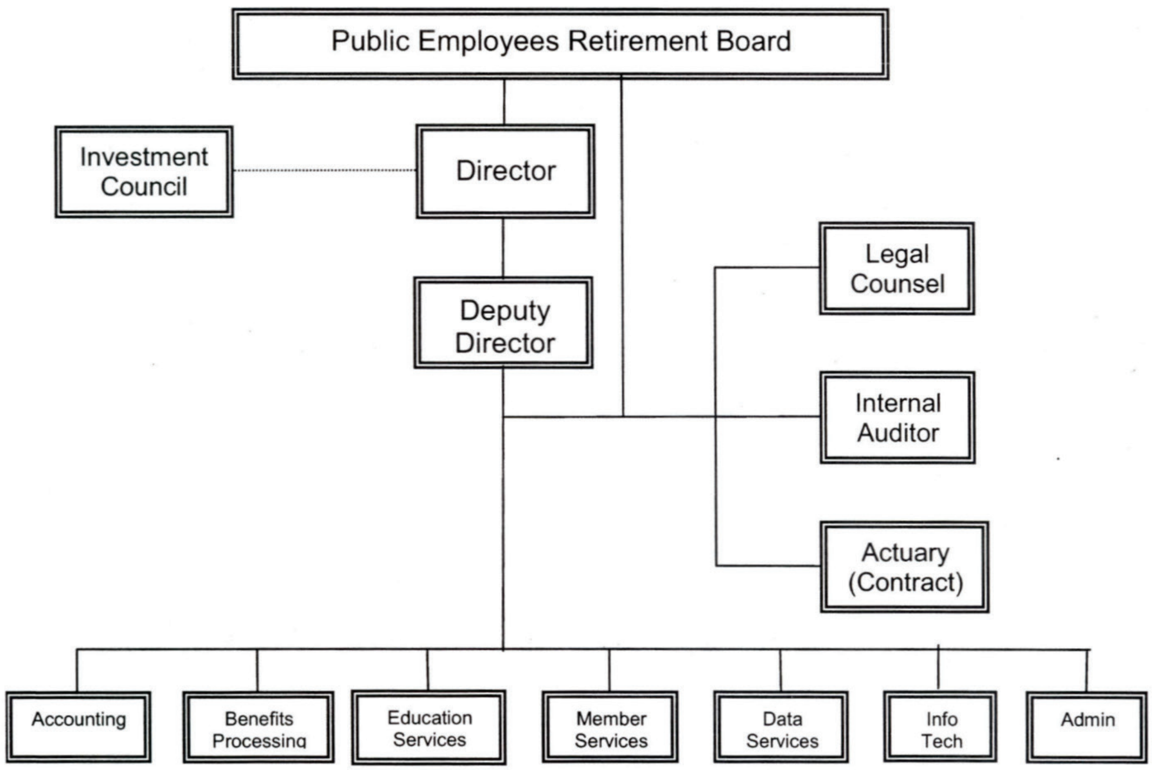
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

All appointed members must be Nebraska citizens. Members of the Board are paid $50 per diem and reimbursed for actual and necessary expenses. The Board hires a director to manage its day-to-day operations. Expenses are equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

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

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held July 28, 2015, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

NAME	TITLE
Phyllis Chambers	Director
Denis Blank	Board Member
Ron Ecklund	Board Member
Teresa Zulauf	Internal Auditor
Orron Hill	Legal Counsel
Miden Ebert	Benefits Manager
Dennis Rohren	Accountant III
Clint Holmes	Accountant II
Randy Gerke	Deputy Director

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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, Nebraska

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) – State and County Employees Retirement Plans, as of and for the year ended December 31, 2014, 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.

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, 2014, 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.

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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the State Employers' Net Pension Liability, Schedule of Changes in the County Employers' Net Pension Liability, Schedule of State Employer Contributions, Schedule of County Employer Contributions, Schedule of Investment Returns, and Notes to Required Supplementary Information on pages 37 through 45 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, which 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2015, on our consideration of the Nebraska Public Employees Retirement Systems – State and County Employee 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, 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.

Philip J. Olsen

July 28, 2015

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, 2014

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 106,041	$ 167,573
Receivables:		
Contributions	2,885,294	760,308
Interest and Dividends	1,842,044	3,892
Other Investment Receivables (Note 4)	60,694,628	-
Total Receivables	65,421,966	764,200
Pooled Investments, at Fair Market Value (Notes 4):		
US Treasury Notes and Bonds	41,069,659	-
Government Agency Securities	1,171,638	-
Corporate Bonds	75,600,463	-
International Bonds	26,261,067	-
ADR's, GDR's & Trusts	267,063	-
Asset Backed Securities	10,651,852	-
Bank Loans	29,078,495	-
Guaranteed Investment Contracts	-	42,470,151
Short Term Investments	29,895,259	8,677,711
Commingled Funds	769,090,038	586,758,939
Mortgages	44,828,198	-
Municipal Bonds	4,495,605	-
Private Equity	68,245,222	-
Equity Securities	178,417,591	-
Options	4,286	-
Private Real Estate	33,321,185	-
Total Investments	1,312,397,621	637,906,801
Invested Securities Lending Collateral (Note 4)	21,136,182	6,067,166
Capital Assets (Note 9):		
Equipment	461,409	527,324
Less: Accumulated Depreciation	(460,970)	(526,824)
Total Capital Assets, Net	439	500
Total Assets	1,399,062,249	644,906,240
LIABILITIES		
Compensated Absences (Notes 6 and 8)	42,659	15,916
Other Investment Payables (Note 4)	70,118,300	111,559
Benefits Payable	2,728,700	-
Obligations Under Securities Lending (Note 4)	21,136,182	6,067,166
Total Liabilities	94,025,841	6,194,641
Net Position - Restricted for Pensions	$ 1,305,036,408	$ 638,711,599

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, 2014

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 50,364	$ 21,416
Receivables:		
Contributions	1,447,189	328,193
Interest and Dividends	528,593	892
Other Investment Receivables (Note 4)	17,403,239	-
Total Receivables	19,379,021	329,085
Pooled Investments, at Fair Market Value (Note 4):		
US Treasury Notes and Bonds	11,776,085	-
Government Agency Securities	335,949	-
Corporate Bonds	21,677,254	-
International Bonds	7,529,952	-
ADR's, GDR's & Trusts	76,576	-
Asset Backed Securities	3,054,253	-
Bank Loans	8,337,805	-
Guaranteed Investment Contracts	-	11,495,020
Short Term Investments	15,909,321	2,371,961
Commingled Funds	220,524,581	177,748,086
Mortgages	12,853,787	-
Municipal Bonds	1,289,045	-
Private Equity	19,568,254	-
Equity Securities	51,158,463	-
Options	1,229	-
Private Real Estate	9,554,330	-
Total Investments	383,646,884	191,615,067
Invested Securities Lending Collateral (Note 4)	6,060,471	1,642,175
Capital Assets (Note 9):		
Equipment	263,662	263,662
Less: Accumulated Depreciation	(263,413)	(263,413)
Total Capital Assets, Net	249	249
Total Assets	409,136,989	193,607,992
LIABILITIES		
Compensated Absences (Notes 6 and 8)	28,733	10,074
Other Investment Payables (Note 4)	20,100,561	34,986
Benefits Payable	601,146	-
Obligations Under Securities Lending (Note 4)	6,060,471	1,642,175
Total Liabilities	26,790,911	1,687,235
Net Position - Restricted for Pensions	$ 382,346,078	$ 191,920,757

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, 2014

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 26,603,709	$ 7,190,244
Employer (Note 5)	41,455,919	11,188,468
Total Contributions	68,059,628	18,378,712
Investment Income:		
Net Appreciation in Fair Value of Investments	70,671,899	41,597,058
Interest and Dividends Income	15,544,065	3,503,662
Securities Lending Income	233,930	20,644
Total Investment Income	86,449,894	45,121,364
Investment Expenses:		
Investment Expense	2,883,221	347,519
Securities Lending Expense	43,408	4,280
Total Investment Expenses	2,926,629	351,799
Net Investment Income	83,523,265	44,769,565
Other Additions	8,852	2,614
Total Additions	151,591,745	63,150,891
DEDUCTIONS		
Benefits and Refunds	73,527,209	27,162,465
Administrative Expenses	910,460	269,219
Other Deductions	8,404	-
Total Deductions	74,446,073	27,431,684
Transfers (Note 10)	4,195,885	(4,195,885)
Net Increase in Net Position	81,341,557	31,523,322
Net Position - Restricted for Pensions		
Beginning of Year	1,223,694,851	607,188,277
End of Year	$ 1,305,036,408	$ 638,711,599

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, 2014

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 10,327,540	$ 2,513,412
Employer (Note 5)	15,268,274	3,704,552
Total Contributions	25,595,814	6,217,964
Investment Income:		
Net Appreciation in Fair Value of Investments	20,016,382	12,580,588
Interest and Dividends Income	4,484,712	1,015,574
Securities Lending income	67,076	5,588
Total Investment Income	24,568,170	13,601,750
Investment Expenses:		
Investment Expense	931,358	102,901
Securities Lending Expense	12,447	1,159
Total Investment Expenses	943,805	104,060
Net Investment Income	23,624,365	13,497,690
Other Additions	3,787	1,071
Total Additions	49,223,966	19,716,725
DEDUCTIONS		
Benefits and Refunds	17,750,010	7,491,008
Administrative Expenses	527,732	149,618
Other Deductions	206	77
Total Deductions	18,277,948	7,640,703
Transfers (Note 10)	835,282	(835,282)
Net Increase in Net Position	31,781,300	11,240,740
Net Position - Restricted for Pensions		
Beginning of Year	350,564,778	180,680,017
End of Year	$ 382,346,078	$ 191,920,757

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

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.

The NPERS Board is comprised of 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: 1) not be an employee of the State of Nebraska or any of its political subdivisions; and 2) 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. The State Investment Officer serves as a nonvoting, ex-officio member.

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, 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

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, which 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, except guaranteed investment contracts are valued at contract value. 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 the responsibility of the Nebraska Investment Council.

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

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.

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 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 240 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 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.

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 calendar year end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information

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 2014) for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2014) for the County Employees Retirement Plan for more complete information.

A. Nebraska State Employees Retirement Plan

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

2. Plan Descriptions and Contribution Information (Continued)

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

State Plan membership consisted of the following at December 31, 2014:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	1,222
Inactive Plan Members Entitled to but not yet Receiving Benefits	1,535	5,572
Active Plan Members	2,872	12,898
Total	4,407	19,692

The 1,222 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
2014	$ 99,720	$ 155,563
2013	94,932	148,094
2012	94,005	146,647

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 in Neb. Rev. Stat. § 23-1118 (Cum. Supp. 2014).

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

Prior to January 1, 2003, the County Plan consisted of a defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected 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. On or after January 1, 2003, all new members of the County Plan become members of the cash balance benefit.

Participation in the County Employees Retirement Plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. 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 contributes 150 percent. Present and future commissioned law enforcement personnel employed by such counties make 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 contributes 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. When 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.

2. Plan Descriptions and Contribution Information (Concluded)

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 that are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

County Plan membership consisted of the following at December 31, 2014:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	426
Inactive Plan Members Entitled to but not yet Receiving Benefits	688	2,191
Active Plan Members	1,203	6,350
Total	1,891	8,967

The 426 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 components of the net pension liability for each cash balance plan as of January 1, 2015, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability/(Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/(Asset)
State	$ 1,199,841,066	$ 1,305,036,408	$ (105,195,342)	108.77%
County	347,369,862	382,346,078	(34,976,216)	110.07%

3. Funded Status and Funding Progress (Continued)

The Total Pension Liability as of December 31, 2014, was determined based on an actuarial valuation prepared as of January 1, 2015. The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	State Employees	County Employees
Valuation date	January 1, 2015	January 1, 2015
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Single equivalent amortization period	25 Years	25 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Inflation	3.25%	3.25%
Investment rate of return, net of investment expense and including inflation	7.75%	7.75%
Municipal bond index rate	3.70%	3.70%
Projected salary increases, including inflation	4.0% - 5.4%	4.3% - 8.5%
Interest credit rating	6.75%	6.75%
Cost-Of-Living Adjustments (COLA)	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.

3. Funded Status and Funding Progress (Continued)

The State and County plans' pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, setback one year, projected to 2015 using Scale AA (55% of male rates for males and 40% of female rates for females).

The State and County plans' post-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, setback one year, sex distinct projected to 2015 using Scale AA.

The actuarial assumptions used in the valuation are based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2011. The experience study report is dated August 20, 2012.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The State and County plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocation as of December 31, 2014 (see the discussion of the pension plans' investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Large Cap US Equity	26.10%	4.4%
Small Cap US Equity	2.90%	4.9%
Global Equity	15.00%	5.0%
International Developed Equity	11.14%	5.0%
Emerging Markets Equity	2.36%	6.2%
Fixed Income	25.00%	1.7%
Bank Loans	5.00%	2.0%
Real Estate	7.50%	4.7%
Private Equity	5.00%	6.5%
Total	100.00%	

*Geometric mean, net of investment expenses

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

Discount Rate. The discount rate used to measure the Total Pension Liability at both December 31, 2013, and December 31, 2014, was 7.75 percent. The discount rate is reviewed as part of the actuarial experience study, which was last performed for the period July 1, 2006, through June 30, 2011. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and contributions from employers and non-employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2114.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the plans calculated using the discount rate of 7.75%, as well as what the plans' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability/(Asset):			
State	$ (1,522,779)	$ (105,195,342)	$ (194,169,192)
County	$ (3,592,086)	$ (34,976,216)	$ (61,993,266)

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) directs the appointed members of the Nebraska Investment Council to do the following:

> *[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 . . . .*

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

The pension plans' policy in regards to the allocation of invested assets is established and may be amended by the Nebraska Investment Council. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. During the year, the Nebraska Investment Council decided to increase the investment allocation in Real Estate from 5% to 7.5% and decrease the amount invested in US Equities from 31.5% to 29%. During the year, the Nebraska Investment Council's target investment allocation was:

Asset Class	Target Allocation
US Equity	29.0%
Global Equity	15.0%
Non-US Equity	13.5%
Fixed Income	30.0%
Real Estate	7.5%
Private Equity	5.0%
Total	100.0%

NPERS' investments for the State and County Employees Retirement Plans at December 31, 2014, are presented on the following table. All investments are presented by investment type, and debt securities are presented with effective duration presented in years.

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

State and County Employees Retirement Plan Investments at December 31, 2014

	State and County Cash Balance Benefit		State and County Defined Contributions	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes	$ 52,845,744	5.66	$ -	
Government Agency Securities	1,507,587	7.03	-	
Corporate Bonds	97,277,717	5.59	-	
International Bonds	33,791,019	6.97	-	
Asset-Backed Securities	13,706,105	1.57	-	
Bank Loans	37,416,300	4.23	-	
Guaranteed Investments Contracts	-	-	53,965,171	2.99
Short-Term Investments	45,804,580	0.13	11,049,672	0.00
Commingled Funds	97,239,020	5.63	224,596,216	5.62
Mortgages	57,681,985	2.89	-	
Municipal Bonds	5,784,650	8.79	-	
	443,054,707		289,611,059	
Other Investments				
ADR's, GDR's & Trust	343,639		-	
Private Equity	87,813,476		-	
Equity Securities	229,576,054		-	
Commingled Funds	892,375,599		539,910,809	
Options	5,515		-	
Private Real Estate Funds	42,875,515		-	
Total Investments	1,696,044,505		829,521,868	
Invested Securities Lending Collateral	27,196,653		7,709,341	
Total	$ 1,723,241,158		$ 837,231,209	
As reported on financial statements:				
Investments				
State	$ 1,312,397,621		$ 637,906,801	
County	383,646,884		191,615,067	
Total Investments	1,696,044,505		829,521,868	
Securities Lending Collateral				
State	21,136,182		6,067,166	
County	6,060,471		1,642,175	
Total Securities Lending Collateral	27,196,653		7,709,341	
Total reported on financial statements	$ 1,723,241,158		$ 837,231,209	

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. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. The minimum credit rating of a derivatives counterparty is A. NPERS' rated debt investments, as of December 31, 2014, were rated by Standards and Poor's and/or an equivalent national rating organization, and the ratings are presented on the following table using the Standard and Poor's rating scale.

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Cash Balance Benefit/Defined Contribution Investments at December 31, 2014

	Quality Ratings									
	Cash Balance Benefit								Defined Contribution	
	Fair Value	AAA	AA	A	BBB	BB	B	Unrated	Fair Value	Unrated
Asset-Backed Securities	$ 13,706,105	$ 6,386,933	$ 2,796,256	$ 1,401,518	$ 1,327,936	$ 343,610	$ 232,949	$ 1,216,903	$ -	$ -
Bank Loans	37,416,300	-	-	-	-	-	-	37,416,300		
Mortgages	57,681,985	8,198,320	2,610,000	1,521,752	726,655	876,660	79,867	43,668,731	-	-
International Bonds	33,791,019	4,469,331	5,179,454	6,899,430	15,343,992	306,109	254,486	1,338,217	-	-
Corporate Bonds	97,277,717	5,095,593	3,989,079	26,191,657	35,753,558	18,685,859	5,785,167	1,776,804	-	-
Government Agency Securities	1,507,587	-	690,102	-	-	-	187,178	630,307	-	-
Municipal Bonds	5,784,650	1,269,915	1,554,578	1,412,014	553,458	55,505	-	939,180	-	-
Short-Term Investments	45,804,580	-	-	1,283,144	244,510	-	-	44,276,926	11,049,672	11,049,672
Commingled Funds	97,239,020	-	-	-	-	-	-	97,239,020	224,596,216	224,596,216

NOTES TO THE 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 5 percent of the total account.

At December 31, 2014, the State and County Defined Contribution and Cash Balance Benefit Plans had no debt security investments, from a single entity, that comprised more than 5 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, 2014, 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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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Cash Balance Benefit Foreign Currency at December 31, 2014

	Asset-Backed Securities	Corporate Bonds	International Bonds	Mortgages	Short-Term Investments	Options	Equity Securities
Australian Dollar	$ -	$ 177,612	$ 593,159	$ -	$ 67,033	$ -	$ 1,099,642
Brazilian Real	-	260,649	117,107	-	(156,008)	-	647,240
Canadian Dollar	-	-	1,704,619	-	(211,838)	-	4,294,361
Chilean Peso	-	116,062	-	-	-	-	-
Colombian Peso	-	68,453	12,853	-	-	-	-
Czech Koruna	-	-	43,266	-	-	-	96,433
Danish Krone	-	-	165,836	-	2,196	-	1,221,935
Euro Currency	74,944	6,656,144	16,327,731	309,923	1,047,444	(2,950)	48,225,281
Hong Kong Dollar	-	-	-	-	-	-	2,641,248
Indian Rupee	-	234,785	-	-	-	-	-
Indonesian Rupiah	-	-	-	-	15,754	-	550,965
Japanese Yen	-	(336,316)	5,181,686	-	52,526	-	21,246,341
Malaysian Ringgit	-	-	66,894	-	4,460	-	164,592
Mexian Peso	-	142,317	945,124	-	32,368	-	617,697
New Israeli Sheqel	-	-	37,497	-	-	-	-
New Zealand Dollar	-	-	63,651	-	983	-	36,596
Norwegian Krone	-	-	34,695	-	11,651	-	566,176
Philippine Peso	-	-	292,368	-	432	-	-
Polish Zloty	-	-	163,969	-	14,910	-	342,161
Pound Sterling	-	562,452	2,423,360	8,928	189,518	-	16,590,381
Singapore Dollar	-	-	48,347	-	11,759	-	2,346,373
South African Rand	-	-	135,020	-	-	-	95,377
South Korean Won	-	-	386,811	-	18,848	-	2,648,195
Swedish Krona	-	-	185,753	-	-	-	4,919,883
Swiss Franc	-	-	280,662	-	21,691	-	14,805,371
Thailand Baht	-	-	-	-	1,147	-	233,467
Turkish Lira	-	-	46,621	-	-	-	-
Total	$ 74,944	$ 7,882,158	$ 29,257,029	$ 318,851	$ 1,124,874	$ (2,950)	$ 123,389,715

4. Investments (Continued)

Securities Lending Transactions. The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the forms of cash, United States government or government agency obligations, sovereign debt rated A or better, or convertible bonds at least equal in value to the market value of the loaned securities. Securities on loan at year-end consisted of United States government obligations, equity securities, corporate bonds, and non-US fixed income. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 35 to 42 days as of June 30, 2014. 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. At December 31, 2014, 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, 2014, 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:

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2014

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ (494,765)	$ 64,955	$ 12,398,924
Fixed Income Futures	(114,047)	-	17,228,725
Fixed Income Options	159,748	(2,950)	(4,710,341)
Foreign Currency Options	105,257	(19,038)	(3,272,737)
Futures Options	(44,033)	8,465	(360)
FX Forwards	1,823,459	454,734	35,586,666
Interest Rate Swaps	(1,375,183)	(674,205)	11,845,138
Rights	2,928	-	-
Warrants	(100)	49	823

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, 2014, 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, 2014, was $1,008,205. 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 $1,008,205.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, approximately 75 percent of the net exposure to credit risk is held with five counterparties. The counterparties are rated A+, A, or A-.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

The State and County Cash Balance Benefit 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 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, 2014, are as follows:

DERIVATIVES FOREIGN CURRENCY AT DECEMBER 31, 2014

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ 20,176
Brazilian Real	-	(186,215)	26,903
Canadian Dollar	-	-	3,452
Euro Currency	(2,950)	3,128	324,715
Pound Sterling	-	-	8,043
Japanese Yen	-	(53,970)	19,943
Mexican Peso	-	61,944	52,689
Polish Zloty	-	-	(1,186)
Total	$ (2,950)	$ (175,113)	$ 454,735

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 2.83 percent during calendar year 2014. The fair value of those contracts at December 31, 2014, was $53,904,003, and the contract value was $52,257,569.

4. Investments (Continued)

SGIC Components	Fair Value
Underlying Investments	$ 53,904,003
Wrap Contract	$ -
Total	$ 53,904,003

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, 2014				
	Effective Duration	Fair Value	AAA	AA	A	BBB	Unrated
Asset-Backed Securities	1.49	$ 6,542,887	$ 6,468,516	$ -	$ 74,371	$ -	$ -
Corporate Bonds	3.25	22,110,159	277,643	3,507,981	10,144,914	7,466,729	712,892
Government Agency Securities	2.89	5,773,872	-	5,103,336	-	-	670,536
International Bonds	2.32	859,510	278,269	581,241	-	-	-
Mortgages	1.64	6,805,162	3,156,767	226,707	115,836	-	3,305,852
Short-Term Investments	0.00	1,411,923	-	-	-	-	1,411,923
US Treasury Notes	4.81	10,400,490	3,203,440	-	-	-	7,197,050
Grand Total		$ 53,904,003	$ 13,384,635	$ 9,419,265	$ 10,335,121	$ 7,466,729	$ 13,298,253

4. Investments (Concluded)

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 as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of December 31, 2014, but the security had not settled.

Money-Weighted Rate of Return. For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.83% for the State and 6.68% for the County Cash Balance Plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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) (Cum. Supp. 2014) and Neb. Rev. Stat. § 84-1321.01(1) (Reissue 2014) forfeitures are first used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2014, was $0 for the State Plan and $0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $1,339,883 for the State Plan and $313,907 for the County Plan.

6. Compensated Absences

The liability for the vested portion of compensated absences for each plan at December 31, 2014, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 20,221	$ 7,544	$ 13,620	$ 4,775
Sick Leave	22,438	8,372	15,113	5,299
	$ 42,659	$ 15,916	$ 28,733	$ 10,074

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 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 $5,000,000 of exposure per accident with a self-insured retention of $300,000 per accident, except for accidents involving vehicular pursuit, which have a $300,000 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 $31,000,000 for each loss, and a $25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $10,000,000 for 120 days and after 120 days, if the property has not been reported, the limit decreases to $5,000,000. 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.

7. Contingencies (Concluded)

Details of the various insurance 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.

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 December 31, 2014, are summarized as follows:

	Beginning Balance	Increases (Decreases)	Ending Balance	Amounts Due Within One Year
State Defined Contributions				
Compensated Absences	$ 26,406	$ (10,490)	$ 15,916	$ 1,273
State Cash Balance Benefits				
Compensated Absences	$ 38,542	$ 4,117	$ 42,659	$ 3,413
County Defined Contributions				
Compensated Absences	$ 11,633	$ (1,559)	$ 10,074	$ 806
County Cash Balance Benefits				
Compensated Absences	$ 24,740	$ 3,993	$ 28,733	$ 2,299

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contributions				
Equipment	$ 1,633,729	$ -	$ 1,106,405	$ 527,324
Less: Accumulated Depreciation	1,633,089	140	1,106,405	526,824
Capital Assets, Net	$ 640	$ (140)	$ -	$ 500
State Cash Balance Benefits				
Equipment	$ 2,571,150	$ -	$ 2,109,741	$ 461,409
Less: Accumulated Depreciation	2,570,589	122	2,109,741	460,970
Capital Assets, Net	$ 561	$ (122)	$ -	$ 439
County Defined Contributions				
Equipment	$ 769,241	$ -	$ 505,579	$ 263,662
Less: Accumulated Depreciation	768,922	70	505,579	263,413
Capital Assets, Net	$ 319	$ (70)	$ -	$ 249
County Cash Balance Benefits				
Equipment	$ 1,374,305	$ -	$ 1,110,643	$ 263,662
Less: Accumulated Depreciation	1,373,986	70	1,110,643	263,413
Capital Assets, Net	$ 319	$ (70)	$ -	$ 249

10. Transfers

Transfer activity for the year ended December 31, 2014, was as follows:

	State Cash Balance Benefit	State Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 3,272,898	$ (3,272,898)
Miscellaneous Transfers	922,987	(922,987)
Total Transfers	$ 4,195,885	$ (4,195,885)

	County Cash Balance Benefit	County Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 771,273	$ (771,273)
Miscellaneous Transfers	64,009	(64,009)
Total Transfers	$ 835,282	$ (835,282)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. Transfers (Concluded)

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

11. Equal Retirement Benefit Fund

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

Upon retirement, any member with an accumulated account balance based on contributions made prior to January 1, 1984, has the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member's regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2014, there was $547,101 in the State ERBF and a balance of $380,600 in the County ERBF.

12. Subsequent Events

Calendar Year 2014 State Dividend: The Board granted a 4.53% dividend for the calendar year 2014 State Cash Balance Plan on May 18, 2015. All eligible State Cash Balance members will receive the dividend by September 1, 2015, or as soon as administratively possible. The estimated dividend totaled $46,805,628 plus interest up to the date it was paid.

Calendar Year 2014 County Dividend: The Board granted a 5.81% dividend for the calendar year 2014 County Cash Balance Plan on May 18, 2015. All eligible County Cash Balance members will receive the dividend by September 1, 2015, or as soon as administratively possible. The estimated dividend totaled $19,111,861 plus interest up to the date it was paid.

Basis Point fees – Defined Contribution Plans: The PERB (Public Employees Retirement Board) approved a change in the basis point fees for the State and County Defined Contribution Plans of 1.5 and 5.5 respectively effective January 25, 2015.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

13. New Accounting Pronouncements Adopted in Calendar Year 2014

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans (GASB 67). GASB 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. Adoption of GASB 67 had no impact on the System's net position but did result in changes to the presentation of the financial statements, notes to the financial statements, and RSI. Comparative information has not been presented for disclosures required by GASB 67, as presentation of the information for prior years was not practical.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE STATE EMPLOYERS' NET PENSION LIABILITY
STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2014
(Unaudited)

	2014
Total Pension Liability	
Service cost	$ 54,920,902
Interest	85,695,932
Benefit term changes	-
Differences between expected and actual experience	(11,217,240)
Assumption changes	-
Transfers	4,195,885
Benefit payments, including member refunds	(73,527,209)
Net change in Total Pension Liability	$ 60,068,270
Total Pension Liability - beginning	$ 1,139,772,796
Total Pension Liability - ending (a)	$ 1,199,841,066
Plan Fiduciary Net Position	
Employer contributions	$ 41,455,919
Employee contributions	26,603,709
Net investment income	83,523,713
Benefit payments, including member refunds	(73,527,209)
Administrative expenses	(910,460)
Transfers	4,195,885
Net change in Plan Fiduciary Net Position	$ 81,341,557
Plan Fiduciary Net Position – beginning	$ 1,223,694,851
Plan Fiduciary Net Position - ending (b)	$ 1,305,036,408
Net Pension Liability - ending (a) - (b)	$ (105,195,342)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	108.77%
Covered employee payroll	$ 553,631,397
Employers' Net Pension Liability as a percentage of covered payroll	(19.00%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF CHANGES IN THE COUNTY EMPLOYERS' NET PENSION LIABILITY
COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2014
(Unaudited)

		2014
Total Pension Liability		
Service cost	$	20,333,501
Interest		24,388,848
Benefit term changes		-
Differences between expected and actual experience		(3,432,132)
Assumption changes		-
Transfers		835,282
Benefit payments, including member refunds		(17,750,010)
Net change in Total Pension Liability	$	24,375,489
Total Pension Liability - beginning	$	322,994,373
Total Pension Liability - ending (a)	$	347,369,862
Plan Fiduciary Net Position		
Employer contributions	$	15,268,274
Employee contributions		10,327,540
Net investment income		23,627,946
Benefit payments, including member refunds		(17,750,010)
Administrative expenses		(527,732)
Transfers		835,282
Net change in Plan Fiduciary Net Position	$	31,781,300
Plan Fiduciary Net Position – beginning	$	350,564,778
Plan Fiduciary Net Position - ending (b)	$	382,346,078
Net Pension Liability - ending (a) - (b)	$	(34,976,216)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability		110.07%
Covered employee payroll	$	220,003,948
Employers' Net Pension Liability as a percentage of covered payroll		(15.90%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF STATE EMPLOYER CONTRIBUTIONS
STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN
LAST TEN YEARS
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	$ 31,280,174	$ 34,086,379	$ 29,575,730	$ 26,903,495	$ 26,098,457	$ 24,174,220	$ 19,971,810	$ 17,135,913	$ 9,895,828	$ 10,160,503
Actual employer contributions	41,455,919	39,147,056	32,096,097	31,088,483	30,679,003	30,321,032	29,208,772	22,913,163	16,001,418	14,835,174
Annual contribution deficiency (excess)	$ (10,175,745)	$ (5,060,677)	$ (2,520,367)	$ (4,184,988)	$ (4,580,546)	$ (6,146,812)	$ (9,236,962)	$ (5,777,251)	$ (6,105,590)	$ (4,674,671)
Covered-employee payroll*	$ 553,631,397	$522,797,222	$428,633,774	$415,177,390	$409,708,908	$ 404,928,312	$390,074,412	$305,998,438	$225,932,142	$209,927,747
Actual contributions as a percentage of covered-employee payroll*	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.08%	7.07%

* Covered-employee payroll is based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer.

Note: Information prior to 2013 was provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF COUNTY EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
LAST TEN YEARS
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	$ 10,934,196	$ 11,626,005	$ 10,937,538	$ 9,980,984	$ 9,138,705	$ 7,771,736	$ 6,180,607	$ 5,693,734	$ 3,436,134	$ 3,405,966
Actual employer contributions	15,268,274	14,230,066	12,696,338	11,908,346	11,370,059	10,555,174	9,839,409	8,194,607	6,251,727	5,513,254
Annual contribution deficiency (excess)	$ (4,334,078)	$ (2,604,061)	$ (1,758,800)	$ (1,927,362)	$ (2,231,354)	$ (2,783,438)	$ (3,658,802)	$ (2,500,873)	$ (2,815,593)	$ (2,107,288)
Covered-employee payroll*	$220,003,948	$205,044,179	$183,208,341	$172,085,925	$164,070,115	$156,372,948	$145,769,022	$121,401,585	$ 92,618,178	$ 81,677,837
Actual contributions as a percentage of covered-employee payroll*	6.94%	6.94%	6.93%	6.92%	6.93%	6.75%	6.75%	6.75%	6.75%	6.75%

* Covered-employee payroll is based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer.

Note: Information prior to 2013 was provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF INVESTMENT RETURNS
AS OF DECEMBER 31, 2014
(Unaudited)

	2014
Annual money-weighted rate of return, net of investment expense:	
State Employees Cash Balance Retirement Plan	6.83%
County Employees Cash Balance Retirement Plan	6.68%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Years

State Employees Cash Balance Retirement Plan

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of January 1:

2013: The 2012 Nebraska Legislature passed LB 916, as amended by AM1739, which created an election period of September 1, 2012, and ending October 31, 2012, during which members in the State Defined Contribution Plan could elect to transfer their account balances to the State Employees' Retirement System Cash Balance Benefit Fund.

2008: Under Legislative Bill 328, enacted by the 2007 Legislature, members of the State Defined Contribution Plan could elect to transfer their account balance and participate in the State Employees' Retirement System Cash Balance Fund. The election period was from November 1, 2007, to December 31, 2007.

2007: Legislative Bill 366, enacted in 2006, eliminated the 12-month waiting period for participation. Effective January 1, 2007, any State employee who had not completed 12 continuous months of employment immediately became a member of the System. Any State employee hired in 2007 or later becomes a member of the System at his or her date of hire.

The bill also increased the member contribution rate from 4.33% of pay up to $19,954 and 4.86% on pay over $19,954, to 4.8% on all pay. This increase also resulted in an increase in the employer contribution rate.

The following changes were made in the actuarial assumptions:

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.
- Salary increases were changed to rates grading down from 5.43% for less than one year of service to 4.00% at 20 years of service. Prior rates graded from 5.9% for less than one year of service to 4.5% at 20 years of service.
- Retirement rates increased from ages 65 to 69, and 100% probability of retirement was extended from age 70 to age 80.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

State Employees Cash Balance Retirement Plan (Concluded)

- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with one-year setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).

- The select and ultimate termination rates were increased.

- Disability rates were removed.

- Price inflation was lowered from 3.50% to 3.25% per year.

- Economic productivity was lowered from 1.00% to 0.75% per year.

- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 50% elect a lump sum and 50% elect an annuity.

January 1, 2008, valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits was increased from 7.60% to 7.75% per year.

- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 5.9% with less than one year of service to 4.5% with 20 years of service.

- Retirement rates were decreased at ages 60 through 63 and 65 through 69.

- The select period for termination of employment rates was extended to five years with a general decrease in select and ultimate rates prior to age 30 and increases after age 30.

- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a one-year setback to the 1994 GAM table, projected to 2010.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

County Employees Cash Balance Retirement Plan

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of January 1 listed below:

2013: The 2012 Nebraska Legislature passed LB 916, as amended by AM1739, which created an election period of September 1, 2012, and ending October 31, 2012, during which members in the County Defined Contribution Plan could elect to transfer their account balances to the County Employees' Retirement System Cash Balance Benefit Fund.

2010: Data was reported for the first time that identified commissioned law enforcement personnel who, by statute, contribute an additional 1% or 2% of their annual compensation. The additional contribution is matched by each county.

2008: Under Legislative Bill 328, enacted by the 2007 Legislature, members of the County Defined Contribution Plan could elect to transfer their account balance and participate in the County Employees' Retirement System Cash Balance Fund. The election period was from November 1, 2007, to December 31, 2007.

2007: Legislative Bill 366, enacted in 2006, eliminated the 12-month waiting period for participation. Effective January 1, 2007, any County employee who had not completed 12 continuous months of employment immediately became a member of the System. Any County employee hired in 2007 or later becomes a member of the System at his or her date of hire.

The following changes were made in the actuarial assumptions:

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.
- Salary increases were changed to rates grading down from 8.5% for less than one year of service to 4.3% at 10 years of service. Prior rates graded from 15.0% for less than 1 year of service to 5.5% at 7 years of service.
- Retirement rates increased at ages 55 to 60, 62 and 66 to 68, rates decreased at age 64, and 100% probability of retirement was extended to age 80 from age 70.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

County Employees Cash Balance Retirement Plan (Concluded)

- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with one-year setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).

- The select and ultimate termination rates were increased.

- Disability rates were removed.

- Price inflation was lowered from 3.50% to 3.25% per year.

- Economic productivity was lowered from 1.00% to 0.75% per year.

- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 60% elect a lump sum and 40% elect an annuity.

January 1, 2008, valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits was increased from 7.60% to 7.75% per year.

- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 15.0% with less than one year of service to 5.5% with seven or more years of service.

- Retirement rates were decreased at ages 60 through 63, increased at age 64, and decreased at ages 65 through 69.

- The select period for termination of employment rates was extended to five years with a general decrease in select and ultimate rates prior to age 30 and increases after age 30.

- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a one-year setback to the 1994 GAM table, projected to 2010.

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEM
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, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements, and have issued our report thereon dated July 28, 2015. The report was modified to emphasize that 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*.

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, 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.

Philip J. Olsen

July 28, 2015

Philip J. Olsen, CPA, CISA
Audit Manager