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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Issued on February 17, 2017

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

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BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

- 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.

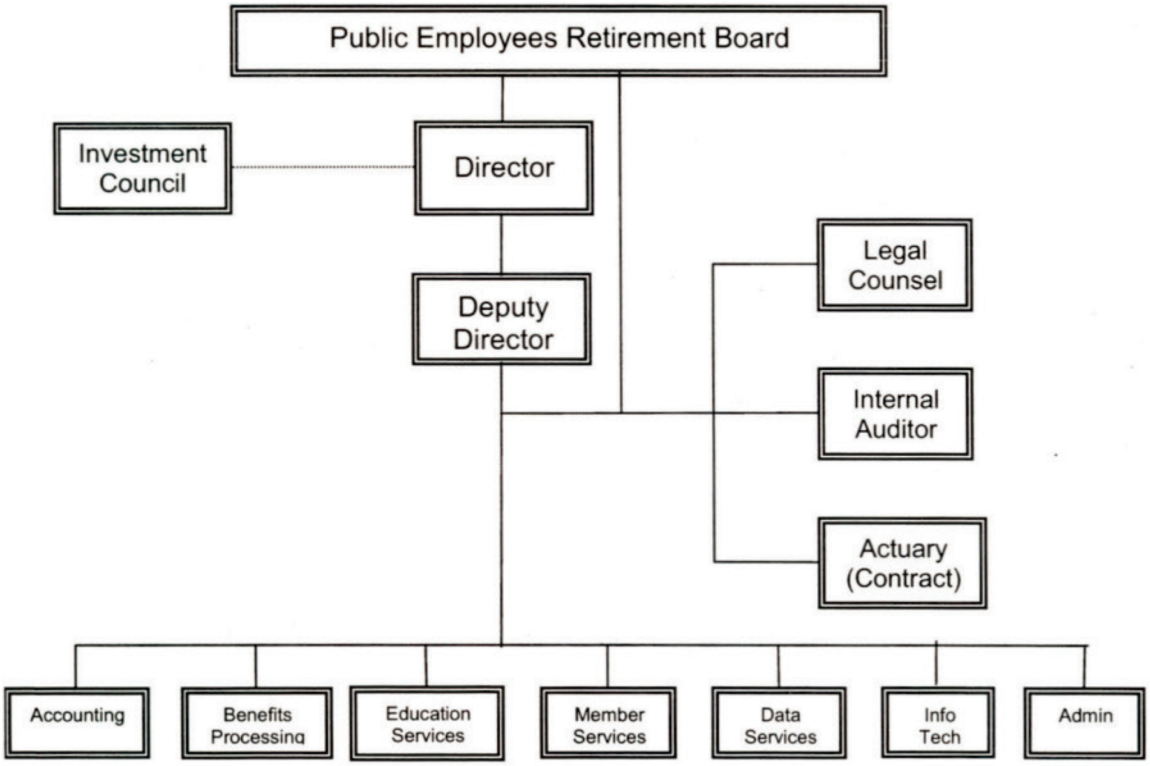
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

All appointed members must be Nebraska citizens. Members of the Board are paid $50 per diem and 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 seeks to administer the retirement systems with exceptional service, integrity, and commitment for the exclusive benefit of our plan members to ensure retirement security for their future.

ORGANIZATIONAL CHART



KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

Ron Ecklund
Chairperson
Public Member
Term Ending January 1, 2017

Janis Elliott
Vice-Chair
School Member
Term Ending January 1, 2019

Elaine Stuhr
Public Member
Term Ending January 1, 2018

Denis Blank
State Member
Term Ending January 1, 2020

J. Russell Derr
Judge Member
Term Ending January 1, 2020

Kelli Ackerman
School Member
Term Ending January 1, 2020

Pamela Lancaster
County Member
Term Ending January 1, 2021

Dennis Leonard
State Patrol Member
Term Ending January 1, 2020

Michael W. Walden-Newman
Ex-Officio (State Investment Officer)

Nebraska Public Employees Retirement Systems Executive Management

Phyllis Chambers
Director

Randy Gerke
Deputy Director

Nebraska Public Employees Retirement Systems
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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL 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) – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NPERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance 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 – School Employees, Judges, and State Patrol Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2016, and the changes in its financial position for the year then ended in accordance 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 School Districts' Net Pension Liability, Schedule of Changes in the Judges' Net Pension Liability, Schedule of Changes in the State Patrol's Net Pension Liability, Schedule of Employer and Non-Employer Contributions, Schedule of Investment Returns, and Notes to the Required Supplementary Information on pages 42-54 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 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements. The Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are 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 February 9, 2017, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and compliance.

Zachary Wells

February 9, 2017

Zachary Wells, CPA, CISA
Audit Manager

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

STATEMENTS OF PLAN NET POSITION

JUNE 30, 2016

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	$ 5,353,993	$ 113,546	$ 132,358
Deposits with Vendors	$ 9,091	$ 94	$ 94
Receivables			
Contributions	67,529,820	289,762	2,725,738
Interest & Dividend Income	12,906,548	212,870	469,749
Other Investment Receivables (Note 4)	561,718,403	9,261,299	20,392,488
Total Receivables	$ 642,154,771	$ 9,763,931	$ 23,587,975
Investments, at Fair Value (Note 4):			
ADR's, GDR's & Trusts	3,451,340	56,904	125,276
Bank Loans	228,805,468	3,772,416	8,305,154
U.S. Treasury Notes and Bonds	431,333,616	7,111,587	15,656,494
Government Agency Securities	14,458,671	238,386	524,819
Corporate Bonds	576,862,179	9,510,981	20,938,872
International Bonds	137,271,032	2,263,248	4,982,647
Equity Securities	1,407,757,159	23,210,312	51,098,595
Private Equity	645,499,295	10,642,631	23,430,254
Options	(14,290)	(236)	(519)
Mortgages	454,377,675	7,491,580	16,493,130
Private Real Estate	318,969,071	5,258,984	11,577,900
Asset Backed Securities	86,583,740	1,427,544	3,142,806
Municipal Bonds	13,746,924	226,651	498,984
Commingled Funds	5,426,156,901	89,463,438	205,095,695
Short-Term Investments	128,924,325	2,125,636	5,125,927
Total Investments	$ 9,874,183,106	$ 162,800,062	$ 366,996,034
Invested Securities Lending Collateral (Note 4)	$ 215,940,585	$ 3,560,308	$ 7,838,185
Capital Assets (Note 10)			
Equipment	4,811,832	65,916	65,916
Less: Accumulated Depreciation	(4,809,177)	(65,878)	(65,878)
Total Capital Assets, net	$ 2,655	$ 38	$ 38
TOTAL ASSETS	$ 10,737,644,201	$ 176,237,979	$ 398,554,684
LIABILITIES			
Compensated Absences Payable (Note 5 and 8)	277,500	3,941	6,346
Accounts Payable and Accrued Liabilities	7,551,032	100,651	203,134
Obligations under Securities Lending (Note 4)	215,940,585	3,560,308	7,838,185
Other Investment Payables (Note 4)	808,629,491	13,332,230	29,351,533
Contributions for Omaha Public Schools (Note 6)	6,660,783	-	-
TOTAL LIABILITIES	$ 1,039,059,391	$ 16,997,130	$ 37,399,198
NET POSITION RESTRICTED FOR PENSIONS	$ 9,698,584,810	$ 159,240,849	$ 361,155,486

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

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

STATEMENTS OF CHANGES IN PLAN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	School Employees	Judges	State Patrol
ADDITIONS			
Contributions			
Plan Member	$ 178,613,265	$ 1,651,432	$ 4,365,651
Employer:			
Schools	178,608,695	-	-
Court Fees	-	3,458,665	-
State Patrol	-	-	4,327,670
State Appropriations	-	-	2,725,738
Non-Employer (Note 2)	44,577,501	-	-
Total Contributions	$ 401,799,461	$ 5,110,097	$ 11,419,059
Investment Income			
Net Appreciation in Fair Value of Investments	53,948,770	874,460	1,814,404
Interest & Dividends	126,807,499	2,098,225	4,847,590
Securities Lending Income	2,174,264	35,848	78,977
Total Investment Income	$ 182,930,533 -	$ 3,008,533	$ 6,740,971
Investment Expense	(32,909,592)	(542,815)	(1,222,631)
Securities Lending Expense	(737,438)	(12,158)	(26,790)
Net Investment Income	$ 149,283,503	$ 2,453,560	$ 5,491,550
Other Additions	$ 28,107	$ -	$ 26,778
TOTAL ADDITIONS	$ 551,111,071	$ 7,563,657	$ 16,937,387
DEDUCTIONS			
Benefits	$ 512,478,100	$ 9,052,110	$ 17,752,098
Refunds of Contributions	14,066,487	-	1,824,278
Administrative Expense	3,182,464	70,707	128,156
Other Deductions (Note 6)	8,615,263	-	-
TOTAL DEDUCTIONS	$ 538,342,314	$ 9,122,817	$ 19,704,532
NET INCREASE/(DECREASE) IN PLAN NET POSITION	$ 12,768,757	$ (1,559,160)	$ (2,767,145)
NET POSITION RESTRICTED FOR PENSIONS			
BEGINNING OF YEAR	$ 9,685,816,053	$ 160,800,009	$ 363,922,631
END OF YEAR	$ 9,698,584,810	$ 159,240,849	$ 361,155,486

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

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 organizations 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 State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2015, and the Deferred Compensation Plan for the calendar year ended December 31, 2013.

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

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 all liabilities associated with the operation of these funds are included on the Statements of Plan Net Position.

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

D. Cash in State Treasury

Cash in the 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

As reported in the financial statements, investments 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 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 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.

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

H. Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at July 1, 2016, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	22,857	184	419
Members in Deferred Retirement Option Plan (DROP)	-	-	52
Inactive Plan Members Entitled to but not yet Receiving Benefits	6,011	2	20
Inactive Nonvested Members	15,574	-	7
Active Plan Members	41,443	149	393
	85,885	335	891

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a), 414(h), and 414(k). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Cum. Supp. 2016) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2016) for the Judges Retirement Act, and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2014, Cum. Supp. 2016) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2016, there were 266 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

Normal retirement is at age 65. For an employee who became a member before July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service; or 2) the monthly average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

For an employee who became a member on or after July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service; or 2) the average of the five 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

Benefit calculations vary with early retirement. Employees' benefits are vested after five years of plan participation or when termination occurs at age 65 or later.

For school employees who became members prior to July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For school employees who became members on or after July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a non-employer contribution since school employees are not employees of the State. The employee contribution was equal to 9.78 percent from July 1, 2015, to June 30, 2016. The school district (employer) contribution is 101 percent of the employee contribution.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

Judges Retirement

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

Retirement is at age 65. For an employee who became a member before July 1, 2015, the monthly benefit is calculated using the average monthly compensation for the three 12-month periods of service as a judge in which compensation was the greatest. For an employee who became a member on or after July 1, 2015, the monthly benefit is calculated using the average monthly compensation for the five twelve-month periods of service as a judge in which compensation was the greatest or, in the event of a judge serving less than five twelve-month periods, the average monthly compensation for such judge's period of service. Once compensation is determined, it is multiplied by the total years of service and the formula factor of 3.5 percent, subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment. For an employee who became a member prior to July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For an employee who became a member on or after July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. Additionally, if the annual actuarial report indicates the plan is fully funded with a sufficient actuarial surplus, the retirement board has the authority to issue a supplemental lump-sum cost of living adjustment for that year. The supplemental cost-of-living adjustment cannot exceed one and one-half percent.

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six-dollar fee for each case is collected from District and County Courts, Juvenile Courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. In 2015, LB 468 increased the amount of court fees

2. Plan Descriptions and Contribution Information (Continued)

from two dollars to four dollars to be directed to the Judges Retirement Plan. The State's contribution is based on an annual actuarial valuation. Members, who entered the plan between July 1, 2004, and June 30, 2015 and those active members who elected within 90 days of July 1, 2004, contribute nine percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute five percent of their monthly salary for the remainder of their active service. All other members contribute seven percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute one percent of their monthly salary for the remainder of their active service. Members entering the plan on or after July 1, 2015, contribute 10 percent of their monthly salary.

State Patrol Retirement

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

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 60 percent of the purchasing power of the initial benefit.

Contributions. Members are required to contribute 16 percent of their annual pay. The State Patrol's (employer) contribution is 16 percent of the employee's annual pay. The State's contribution is based on an annual actuarial valuation.

Deferred Retirement Option Plan (DROP). Neb. Rev. Stat. § 81-2041 (Cum. Supp. 2016) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her

2. Plan Descriptions and Contribution Information (Concluded)

paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an IRC § 414(k) Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

The balance of the DROP at June 30, 2016, was $8,591,089.

3. Funded Status and Funding Progress

The components of the net pension liability for the plans at July 1, 2016, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
School	$ 11,207,298,169	$ 9,698,584,810	$ 1,508,713,359	86.54%
Judges	168,103,750	159,240,849	8,862,901	94.73%
State Patrol	421,923,380	361,155,486	60,767,894	85.60%

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Continued)

The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	School Employees	Judges	State Patrol
Valuation date	July 1, 2016	July 1, 2016	July 1, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed
Single equivalent amortization period	20 Years	19 Years	21 Years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
Inflation	3.25%	3.25%	3.25%
Investment rate of return, net of investment expense and including inflation	8.0%	8.0%	8.0%
Projected salary increases, including inflation	4.0% - 9.0%	4.0%	4.0% - 9.5%
Cost-of-living adjustments (COLA)	2.50% with a floor benefit equal to 75% purchasing power of original benefit*	2.50% with a floor benefit equal to 75% purchasing power of original benefit**	2.50% with a floor benefit equal to 60% purchasing power of original benefit

*1% and no floor benefit for members joining on or after July 1, 2013
**1% and no floor benefit for members joining on or after July 1, 2015

The Judges and School plans' pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set back one year (sex distinct with 55 percent of male rates for males and 40 percent of female rates for females).

The Patrol plan's pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set back one year (sex distinct).

The Judges and School plans' post-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set back one year (sex distinct). The Patrol plan's post-retirement mortality rates are the same as pre-retirement rates.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Continued)

The Patrol and School plans' disability mortality rates were based on the 1983 Railroad Retirement Board Disabled Annuitants Mortality (unisex). The Judges plan did not utilize a disability mortality rate.

The actuarial assumptions used in the July 1, 2016, valuations for the School Employees, Judges, and Patrol plans 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 School Employees, Judges, and State Patrol 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 June 30, 2016, (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 *
US Equity	29.00%	4.3%
Non-US Equity	13.50%	5.4%
Global Equity	15.00%	5.1%
Fixed Income	30.00%	1.4%
Private Equity	5.00%	6.4%
Real Estate	7.50%	3.6%
Total	100.00%	

* Geometric mean, net of investment expenses

Discount Rate. The discount rate used to measure the Total Pension Liability at June 30, 2016, was eight 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

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 nonemployers 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 2115.

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 eight percent, 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 (seven percent) or one percentage point higher (nine percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability/(Asset):			
School	$ 2,946,577,790	$ 1,508,713,359	$ 313,262,820
Judges	25,784,391	8,862,901	(5,729,143)
Patrol	116,270,983	60,767,894	15,273,711

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Cum. Supp. 2016) 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 like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems . . . .*

The pension plans' policy in regard 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. The following table sets out the Nebraska Investment Council's target investment allocation during the year:

4. Investments (Continued)

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%

The table below presents all investments stated at fair value using valuation techniques to measure fair value, followed by a table presenting investments at fair value for financial statement purposes, with debt securities presented with effective duration.

The Plans utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Plans have the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equity and debt securities.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset.

Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information for external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Plan Investments at June 30, 2016, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Bank Loans	$ 240,883,038	$ -	$ 240,883,038	$ -
US Treasury Notes and Bonds	454,101,697	-	454,101,697	-
Government Agency Securities	15,221,876	-	15,221,876	-
Corporate Bonds	607,312,032	-	605,471,304	1,840,728
International Bonds	144,516,927	-	144,516,927	-
Asset Backed Securities	91,154,090	-	88,906,700	2,247,390
Short-Term Investments	125,459,047	30,421,860	95,037,187	-
Commingled Debt	610,303,266	610,303,266	-	-
Mortgages	478,362,385	257,962	477,842,535	261,888
Municipal Bonds	14,472,559	-	14,472,559	-
	2,781,286,917	640,983,088	2,136,453,823	4,350,006
Other Investments				
ADR's, GDR's & Trusts	3,633,520	3,633,520	-	-
Commingled Funds	4,959,188,070	1,450,250,548	3,508,937,522	-
Private Equity	14,006,969	13,973,710	33,259	-
Equity Securities	1,482,066,066	1,482,063,330	2,736	-
Options	(15,045)	(21,988)	6,943	-
Total Investments	$ 9,240,666,497	$ 3,590,882,208	$ 5,645,434,283	$ 4,350,006

Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds:				
Core	$ 249,894,946	$ -	Quarterly	90 days
Non-Core	85,911,009	4,100,715		
Private Equity Funds	665,565,211	523,187,813		
Commingled Funds	151,224,698	-		
Short-Term Investment Funds	10,716,841	-		
Total Investments Measured at Net Asset Value	$ 1,163,312,705	$ 527,288,528		
Total	$ 10,403,979,202			
Securities Lending Collateral	227,339,078			
Total Investments at Fair Value	$ 10,631,318,280			

4. **Investments** (Continued)

Debt securities and other investments classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities and other investments classified in Level 2 are valued using the following approaches:

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short-Term Investments: quoted prices for identical securities in markets that are not active.
- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets.
- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices.
- Commingled Funds: published fair value per share (unit) for each fund.

Debt securities and other investments, including Asset-Backed Securities, Corporate Bonds, and Mortgages, classified in Level 3, are valued using unobservable inputs, such as reviews, recommendations and adjustments made by portfolio management, or the use of internal data to develop unobservable inputs if there is no objective information available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented in the consolidated statements of financial position. Investments valued using the net asset value per share are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The Plans value these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

Other investments not classified. The $227,339,078 in Securities Lending Short-Term Collateral Investment Pool Investments, which are investments loaned to broker-dealers and banks under the securities lending program, were not classified for fair value measurement purposes.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

School Employees, Judges, and Patrol Retirement Plans Investments at June 30, 2016

	Fair Value	Effective Duration
Debt Securities		
Bank Loans	$ 240,883,038	0.15
U.S. Treasury Notes and Bonds	454,101,697	8.23
Government Agency Securities	15,221,876	6.80
Corporate Bonds	607,312,032	5.89
International Bonds	144,516,927	8.58
Asset Backed Securities	91,154,090	1.54
Short-Term Investments	136,175,888	0.12
Commingled Debt	610,303,266	5.17
Mortgages	478,362,385	2.44
Municipal Bonds	14,472,559	10.50
Other Investments		
ADR's, GDR's, and Trusts	3,633,520	
Commingled Funds	5,110,412,768	
Private Equity Securities	679,572,180	
Equity Securities	1,482,066,066	
Options	(15,045)	
Private Real Estate Funds Trust	335,805,955	
Total Investments	10,403,979,202	
Invested Securities Lending Collateral	227,339,078	
Total	$ 10,631,318,280	

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 portfolio's effective duration compared to that of the portfolio's benchmark.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. 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 June 30, 2016, were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale.

School Employees, Judges, and State Patrol Retirement Plan Investments at June 30, 2016

		Quality Ratings						
	Fair Value	AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	$ 91,154,090	$ 36,998,158	$ 8,636,332	$ 13,999,758	$ 6,352,091	$ 1,159,450	$ 12,837,778	$ 11,170,523
Bank Loans	240,883,038	-	-	-	-	-	-	240,883,038
Commingled Debt	610,303,266	-	-	-	-	-	-	610,303,266
Corporate Bonds	607,312,032	10,996,550	21,155,746	118,435,606	334,683,295	72,262,333	33,804,275	15,974,227
Government Agency Securities	15,221,876	-	12,748,877	279,141	-	263,458	1,309,831	620,569
International Bonds	144,516,927	17,086,381	29,937,049	56,693,795	25,327,449	2,785,754	4,469,327	8,217,172
Mortgages	478,362,385	44,080,715	19,670,902	2,771,706	6,323,760	2,359,407	2,588,371	400,567,524
Municipal Bonds	14,472,559	3,369,121	9,901,057	936,950	-	265,431	-	-
Short-Term Investments	136,175,888	-	-	-	-	-	-	136,175,888

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. <u>Investments</u> (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 June 30, 2016, NPERS had no debt security investments, from a single entity, that comprised 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. NPERS' exposure to foreign currency risk is presented in the following table.

School Employee, Judges, and State Patrol Retirement Plans
Foreign Currency at June 30, 2016

	ADR's GDR's and Trusts	Asset Backed Securities	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Australian Dollar	$ -	$ -	$ 462,887	$ 9,559,067	$ 3,656,198	$ -	$ -	$ (53,334)
Brazilian Real	-	-	372,851	3,544,984	-	-	-	35,187
Canadian Dollar	-	-	-	26,657,532	6,293,786	-	-	(47,647)
Colombian Peso	-	-	1,389,763	-	45,883	-	-	-
Czech Koruna	-	-	-	570,947	232,455	-	-	-
Danish Krone	-	-	-	10,734,445	1,020,710	-	-	-
Euro Currency	1,585,226	1,113,927	22,923,467	226,446,577	40,731,079	1,118,687	30,496,297	3,939,217
Hong Kong Dollar	-	-	-	17,326,551	-	-	-	244,869
Indian Rupee	-	-	2,088,235	-	-	-	-	-
Indonesian Rupiah	-	-	-	2,169,518	-	-	-	24,124
Japanese Yen	-	-	(1,860,198)	130,991,331	51,868,829	-	-	353,798

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

	ADR's GDR's and Trusts	Asset Backed Securities	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Malaysian Ringgit	-	-	-	5,673,869	805,996	-	-	24,401
Mexican Peso	-	-	1,229,620	3,640,954	3,321,278	-	-	509,556
New Israeli Sheqel	-	-	-	190,524	227,770	-	-	-
New Zealand Dollar	-	-	-	67,481	1,999,732	-	-	1,459
Norwegian Krone	-	-	-	1,303,340	190,312	-	-	51,791
Philippine Peso	-	-	-	-	-	-	-	2,429
Polish Zloty	-	-	-	1,212,782	988,260	-	-	71,355
Pound Sterling	-	-	4,975,012	80,777,959	11,528,615	1,816,004	-	370,263
Singapore Dollar	-	-	-	24,270,179	1,050,379	-	-	82,510
South African Rand	-	-	-	2,958,669	362,023	-	-	2,428
South Korean Won	-	-	-	12,640,122	3,013,908	-	-	10
Swedish Krona	-	-	-	32,248,169	756,902	-	-	-
Swiss Franc	-	-	-	88,732,066	2,011,600	-	-	-
Thailand Baht	-	-	-	1,937,346	-	-	56,218	-
Turkish Lira	-	-	-	2,334,296	207,258	-	-	-
Total	$ 1,585,226	$1,113,927	$31,581,637	$ 685,988,708	$ 130,312,973	$ 2,934,691	$30,552,515	$ 5,612,416

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 25 to 45 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities but does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income, and the fair value of derivatives at June 30, 2016, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Derivative Investments at June 30, 2016

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ 484,445	$ (473,130)	$ 85,661,926
Fixed Income Futures	3,424,647	-	35,113,615
Fixed Income Options	312,956	36,269	224,346,259
Foreign Options	1,155,994	(192,367)	(29,911,601)
Futures Options	446,480	(21,987)	(82,775)
FX Forwards	2,050,962	517,559	258,587,498
Fixed Interest Rate Swaps	(24,176,273)	(19,940,039)	386,300,316
Rights	(1,184)	-	-
Warrants	(207)	85	4,869

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2016, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

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

The aggregate fair value of derivative instruments in asset positions at June 30, 2016, was $4,141,594. 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 $4,141,594.

Although the Plans execute derivative instruments with various counterparties, there is approximately 88 percent of the net exposure to credit risk, held with seven counterparties. The counterparties are rated BBB+, A or A+.

4. <u>Investments</u> (Continued)

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

Foreign currency risk for derivative instruments at June 30, 2016, are as follows:

Foreign Currency Derivatives
at June 30, 2016

Currency	Options	Credit Default Swaps	Fixed Interest Rate Swaps	Forward Contracts
Australian Dollar	$ (15,559)	$ -	$ -	$ (73,225)
Canadian Dollar	-	-	(603,217)	(13,148)
Danish Krone	-	-	-	5,723
Euro Currency	(20,808)	172,427	-	400,227
Hong Kong Dollar	-	-	-	(4,417)
Japanese Yen	-	-	-	(596,981)
Malaysian Ringgit	-	-	-	(22,767)
Mexican Peso	-	-	(2,233)	92,748
New Israeli Sheqel	-	-	-	188
New Taiwan Dollar	-	-	-	(3,838)
New Zealand Dollar	-	-	-	(3,578)
Norwegian Krone	-	-	-	8,124
Polish Zloty	-	-	-	(18,625)
Pound Sterling	(7,973)	-	-	491,300
Russian Ruble	-	-	-	(15,365)
Singapore Dollar	-	-	-	(1,667)
South African Rand	-	-	-	704
South Korean Won	-	-	-	(116,636)
Swedish Krona	-	-	-	13,258
Swiss Franc	-	-	-	14,341
Thailand Baht	-	-	-	1,229
Turkish Lira	-	-	-	2,140
Yuan Renminbi	-	-	-	357,823
Total	$ (44,340)	$ 172,427	$ (605,450)	$ 517,558

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2016, but the security had not settled.

Money-Weighted Rate of Return. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.56 percent for the School Plan, 1.55 percent for the Judges Plan, and 1.85 percent for the Patrol Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

5. Compensated Absences

The liability for the vested portion of compensated absences for each Plan at June 30, 2016, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 138,463	$ 1,966	$ 3,166
Sick Leave	139,037	1,975	3,180
	$ 277,500	$ 3,941	$ 6,346

6. Payments to Omaha Public Schools

Neb. Rev. Stat. § 79-916(2) (Cum. Supp. 2016) requires an annual payment, for two percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Net Position in State Contributions additions and as Other Deductions for the July 2016 appropriation for the fiscal year ended June 30, 2016. Additionally, on the Statement of Plan Net Position, the amount is included as a Contribution Receivable and a liability for contributions due to OPS, as the appropriation was not received until July 2016.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. Payments to Omaha Public Schools (Concluded)

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2014). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), which then makes the actual service annuity payments to the Omaha retirees. In accordance with § 79-916, a separate Service Annuity Fund (Fund) was established for such payments, and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the fund ($9,485,171), consisting almost entirely of investments, are included in the Statement of Plan Net Position at June 30, 2016. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Position.

Deductions from the School Plan for the year ended June 30, 2016, were as follows:

	School Employees
Omaha 2% Appropriation	$ 6,660,783
Omaha Service Annuity Payments	1,954,480
Total Other Deductions	$ 8,615,263

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 Nebraska Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability with vehicular pursuit, which is insured for the first $5 million of exposure per accident with a self-insured retention of $300,000 and $300,000 corridor retention. Motor vehicle liability is insured for $1 million with a self-insured retention of $200,000, and with excess coverage of $250 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a $5,000 deductible for this coverage.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Contingencies (Concluded)

B. Life insurance for eligible employees.

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

D. Real and personal property on a blanket basis for losses up to $251 million, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $10 million for 120 days and after 120 days, if the property has not been reported, the limit decreases to $5 million. 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 insurance coverages are available from DAS – Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. 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. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

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.

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	$ 261,952	$ 3,513	$ 3,356
Increases (Decreases)	15,548	428	2,990
Ending Balance	$ 277,500	$ 3,941	$ 6,346
Amounts Due Within One Year	$ 24,975	$ 355	$ 571

9. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $1,966,216. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Reissue 2014), Neb. Rev. Stat. § 79-933.05 (Reissue 2014), Neb. Rev. Stat. § 79-933.06 (Reissue 2014), and Neb. Rev. Stat. § 79-933.08 (Reissue 2014).

10. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 4,811,832	$ -	$ -	$ 4,811,832
Less: Accumulated Depreciation	4,807,903	1,274	-	4,809,177
Total Capital Assets, Net	$ 3,929	$ (1,274)	$ -	$ 2,655
Judges:				
Equipment	$ 65,916	$ -	$ -	$ 65,916
Less: Accumulated Depreciation	65,861	17	-	65,878
Total Capital Assets, Net	$ 55	$ (17)	$ -	$ 38
State Patrol:				
Equipment	$ 65,916	$ -	$ -	$ 65,916
Less: Accumulated Depreciation	65,861	17	-	65,878
Total Capital Assets, Net	$ 55	$ (17)	$ -	$ 38

11. Subsequent Events

State Patrol Additional Contributions. Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2016) defines actuarially required contributions. As of July 1, 2016, the actuarially determined additional contribution requirement for the State Patrol Plan is $2,541,558.

School Employee Additional Contributions. Neb. Rev. Stat. § 79-966.01 (Reissue 2014) defines actuarially required contributions. As of July 1, 2016, the actuarially determined additional contribution requirement for the School Employees Plan is $0. Furthermore, as of that same date, the additional contribution requirement for the Omaha Public Schools Retirement Plan is $992,451.

Judges Additional Contributions. Neb. Rev. Stat. § 24-705 (Cum. Supp. 2014) defines actuarially required contributions. As of July 1, 2016, the actuarially determined additional contribution requirement for the Judges Employees Plan is $118,714.

State Patrol Plan Changes. LB 467, which was passed by the 2016 Nebraska Legislature, created a new tier of State Patrol members that are employed on or after July 1, 2016. This new tier includes changes to benefits and contributions as follows:

- Member and employer contributions are increased from 16% to 17% of pay.
- Compensation no longer includes compensation for unused sick leave, unused vacation leave, unused holiday compensatory time, unused compensatory time, or any other type of unused leave, compensatory time, or similar benefits, converted to cash payments.
- Final average salary moves from the highest three 12-month periods to the highest five 12-month periods. During the five-year period, the member's compensation in any plan year is capped at an eight percent increase from the preceding plan year.
- The automatic COLA is capped a 1.0%, instead of 2.5%. However, a 1.5% discretionary COLA may be granted by the PERB in addition to the automatic COLA, if certain criteria are met.
- The DROP program is eliminated.

2016 Experience Study. At the October 17, 2016, Board Meeting, the Nebraska Public Employees Retirement Board voted to accept the economic and demographic assumptions recommended by the actuary outlined in the 2016 Experience Study with an effective date of July 1, 2017, for the School, Judges, and Patrol Plans. Below is a table summarizing the changes in assumptions that will be effective for the actuarial analysis for the period July 1, 2017, through June 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

School Plan Changes in Assumptions

School	For the Period July 1, 2015, through June 30, 2016	For the Period July 1, 2017, through June 30, 2018
Economic Assumptions		
Price Inflation	3.25%	2.75%
Investment Return	8.00%	7.50%
General Wage Growth (also used for Payroll Growth)	4.00%	3.50%
Wage Inflation (above Price Inflation)	0.75%	0.75%
Cash Balance Interest Crediting Rate	6.75%	6.25%
Cost of Living Adjustment	2.50%	2.25%
Total Salary Increase	Varies with Service	Adjust for 0.50% change in Inflation
Demographic Assumptions		
Post Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct)	RP-2014 White Collar Table with scaling to better fit observed experience, Generational projections using modified MP-2015 Scale
Pre-Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (55% of male rates for males, 40% of female rates for females)	RP-2014 White Collar Table for Employees (100% of male rates for males, 55% of female rates for females)
Disabled Life Mortality	1983 Railroad Retirement Board Disabled Annuitants Mortality setback 1 year (unisex)	RP-2014 Disabled Lives Table assuming no mortality improvement

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

School Plan Changes in Assumptions
(Continued)

	For the Period July 1, 2015, through June 30, 2016		For the Period July 1, 2017, through June 30, 2018	
Retirement				
Eligible for Unreduced Benefits	Age	Rate	Age	Rate
	55	25%	55	18%
	56-59	20%	56-59	15%
	60-61	25%	60-61	25%
	62	30%	62	30%
	63-64	25%	63-64	25%
	65	30%	65	30%
	66	25%	66	30%
	67	20%	67	30%
	68-73	20%	68-73	25%
	74-77	25%	74-77	25%
	78-79	35%	78-79	35%
	80	100%	80	100%
Eligible for Reduced Benefits				
	Age	Rate	Age	Rate
	60	10%	60	10%
	61	12%	61	12%
	62	15%	62	12%
	63	12%	63	12%
	64	18%	64	15%

	For the Period July 1, 2015, through June 30, 2016			For the Period July 1, 2017, through June 30, 2018		
Termination	Rates vary by service (sample below)			Rates vary by service (sample below)		
	Duration	Male	Female	Duration	Male	Female
	<1	27.5%	31.7%	<1	27.5%	31.7%
	1	17.0%	20.3%	1	15.0%	19.0%
	5	6.7%	8.4%	5	6.0%	8.0%
	10	4.3%	4.7%	10	3.5%	4.7%
	15	2.5%	3.1%	15	2.3%	3.1%
	20	2.0%	2.0%	20	1.0%	2.0%
	20+	2.0%	2.0%	20+	1.0%	1.0%

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

School Plan Changes in Assumptions
(Concluded)

	For the Period July 1, 2015, through June 30, 2016			For the Period July 1, 2017, through June 30, 2018		
Disability	Single set of rates (sample below)			Separate Male and Female rates (sample below)		
	Age	Male	Female	Age	Male	Female
	25	0.00%	0.00%	25	0.00%	0.00%
	30	0.00%	0.00%	30	0.00%	0.00%
	35	0.02%	0.02%	35	0.02%	0.01%
	40	0.02%	0.02%	40	0.02%	0.01%
	45	0.03%	0.03%	45	0.03%	0.03%
	50	0.04%	0.04%	50	0.05%	0.04%
	55	0.07%	0.07%	55	0.07%	0.06%
	60	0.09%	0.09%	60	0.10%	0.08%

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

Judges Plan Changes in Assumptions

Judges	For the Period July 1, 2015, through June 30, 2016	For the Period July 1, 2017, through June 30, 2018
Economic Assumptions		
Price Inflation	3.25%	2.75%
Investment Return	8.00%	7.50%
General Wage Growth (also used for Payroll Growth)	4.00%	3.50%
Wage Inflation (above Price Inflation)	0.75%	0.75%
Cash Balance Interest Crediting Rate	6.75%	6.25%
Cost of Living Adjustment	2.50%	2.25%
Total Salary Increase	Varies with Service	Adjust for 0.50% change in Inflation
Demographic Assumptions		
Post Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct)	RP-2014 White Collar Table with scaling to better fit observed experience, Generational projections using modified MP-2015 Scale
Pre-Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (55% of male rates for males, 40% of female rates for females)	RP-2014 White Collar Table for Employees (100% of male rates for males, 55% of female rates for females)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

Judges Plan Changes in Assumptions
(Concluded)

	For the Period July 1, 2015, through June 30, 2016		For the Period July 1, 2017, through June 30, 2018	
Disabled Life Mortality	1983 Railroad Retirement Board Disabled Annuitants Mortality (unisex)		RP-2014 Disabled Lives Table assuming no mortality improvement	
Retirement	Age	Rate	Age	Rate
	55-59	1.5%	55-59	1.5%
	60-61	3%	60-61	3%
	62-63	10%	62-63	7%
	64	10%	64	15%
	65	20%	65	20%
	66-69	10%	66-69	15%
	70-71	15%	70-71	15%
	72	100%	72	100%

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events (Continued)

Patrol Plan Changes in Assumptions

Patrol	For the Period July 1, 2015, through June 30, 2016	For the Period July 1, 2017, through June 30, 2018
Economic Assumptions		
Price Inflation	3.25%	2.75%
Investment Return	8.00%	7.50%
General Wage Growth (also used for Payroll Growth)	4.00%	3.50%
Wage Inflation (above Price Inflation)	0.75%	0.75%
Cash Balance Interest Crediting Rate	6.75%	6.25%
Cost of Living Adjustment	2.50%	2.25%
Total Salary Increase	Varies with Service	Adjust for 0.50% change in Inflation
Demographic Assumptions		
Post Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct)	RP-2014 White Collar Table with scaling to better fit observed experience, Generational projections using modified MP-2015 Scale
Pre-Retirement Mortality	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct)	RP-2014 White Collar Table for Employees (100% of male rates for males, 55% of female rates for females)
Disabled Life Mortality	1983 Railroad Retirement Board Disabled Annuitants Mortality (unisex)	RP-2014 Disabled Lives Table assuming no mortality improvement

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

11. **Subsequent Events** (Concluded)

Patrol Plan Changes in Assumptions
(Concluded)

	For the Period July 1, 2015, through June 30, 2016		For the Period July 1, 2017, through June 30, 2018	
Termination	Rates vary by service (sample below)		Rates vary by service (sample below)	
	Service	Rate	Service	Rate
	<1	4.0%	<1	4.00%
	1	3.8%	1	3.75%
	5	2.0%	5	2.75%
	10	1.5%	10	2.00%
	15	1.0%	15	1.25%
	20	1.0%	20	0.00%
	25+	1.0%	25+	0.00%

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

SCHEDULE OF CHANGES IN THE SCHOOL DISTRICTS' NET PENSION LIABILITY

SCHOOL EMPLOYEES RETIREMENT PLAN
AS OF JUNE 30, 2016
(Unaudited)

	2016	2015	2014
Total Pension Liability			
Service cost	$ 222,525,387	$ 214,673,003	$ 202,803,787
Interest	843,289,424	814,387,820	782,055,188
Benefit term changes	-	-	-
Differences between expected and actual experience	(108,321,212)	(174,678,979)	(77,484,140)
Assumption changes	-	-	-
Benefit payments, including member refunds	(528,499,067)	(502,190,816)	(466,161,224)
Net change in Total Pension Liability	428,994,532	352,191,028	441,213,611
Total Pension Liability - beginning	10,778,303,637	10,426,112,609	9,984,898,998
Total Pension Liability - ending (a)	$ 11,207,298,169	$ 10,778,303,637	$ 10,426,112,609
Plan Fiduciary Net Position			
Employer contributions	$ 178,608,695	$ 173,013,848	$ 167,710,406
Non-employer contributions*			
State Appropriation contributions	36,919,600	35,493,591	34,703,519
Omaha Service Annuity contributions	997,118	997,858	909,638
Employee contributions	178,613,265	174,797,341	169,200,529
Net investment income	149,283,503	355,847,514	1,454,496,772
Benefit payments, including member refunds	(528,499,067)	(502,190,816)	(466,161,224)
Administrative expenses	(3,182,464)	(3,153,883)	(2,861,508)
Other changes	28,107	28,877	30,561
Net change in Plan Fiduciary Net Position	12,768,757	234,834,330	1,358,028,693
Plan Fiduciary Net Position – beginning	9,685,816,053	9,450,981,723	8,092,953,030
Plan Fiduciary Net Position - ending (b)	$ 9,698,584,810	$ 9,685,816,053	$ 9,450,981,723
Net Pension Liability - ending (a) - (b)	$ 1,508,713,359	$ 1,092,487,584	$ 975,130,886
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	86.54%	89.86%	90.65%
Covered payroll	$ 1,808,182,946	$ 1,751,542,327	$ 1,697,851,809
Employers' Net Pension Liability as a percentage of covered payroll	83.44%	62.37%	57.43%

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

* Non-employer contributions do not include the annual transfer to the Omaha School Employees Retirement System, which is included in the Statements of Changes in Plan Net Position. The transfer to the Omaha School Employees Retirement System is required by Neb. Rev. Stat. § 79-916(2).

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

SCHEDULE OF CHANGES IN THE JUDGES' NET PENSION LIABILITY

JUDGES RETIREMENT PLAN
AS OF JUNE 30, 2016
(Unaudited)

	2016	2015	2014
Total Pension Liability			
Service cost	$ 4,721,039	$ 4,759,455	$ 4,257,200
Interest	12,642,618	12,170,797	11,567,915
Benefit term changes	-	-	-
Differences between expected and actual experience	(2,303,032)	(2,613,808)	41,752
Assumption changes	-	-	-
Benefit payments, including member refunds	(9,052,110)	(8,547,892)	(8,121,996)
Net change in Total Pension Liability	6,008,515	5,768,552	7,744,871
Total Pension Liability - beginning	162,095,235	156,326,683	148,581,812
Total Pension Liability - ending (a)	$ 168,103,750	$ 162,095,235	$ 156,326,683
Plan Fiduciary Net Position			
Employer contributions			
Court fees	$ 3,458,665	$ 2,977,205	$ 3,102,864
State Appropriations	-	94,000	803,383
Employee contributions	1,651,432	1,610,529	1,518,801
Net investment income	2,453,560	5,958,799	24,543,298
Benefit payments, including member refunds	(9,052,110)	(8,547,892)	(8,121,996)
Administrative expenses	(70,707)	(82,746)	(78,263)
Other changes	-	3	45
Net change in Plan Fiduciary Net Position	(1,559,160)	2,009,898	21,768,132
Plan Fiduciary Net Position – beginning	160,800,009	158,790,111	137,021,979
Plan Fiduciary Net Position - ending (b)	$ 159,240,849	$ 160,800,009	$ 158,790,111
Net Pension Liability (Net Asset) - ending (a) - (b)	$ 8,862,901	$ 1,295,226	$ (2,463,428)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	94.73%	99.20%	101.58%
Covered payroll	$ 22,178,157	$ 21,586,829	$ 20,099,647
Employers' Net Pension Liability as a percentage of covered payroll	39.96%	6.00%	(12.26%)

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

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

SCHEDULE OF CHANGES IN THE STATE PATROL'S NET PENSION LIABILITY

STATE PATROL RETIREMENT PLAN
AS OF JUNE 30, 2016
(Unaudited)

	2016	2015	2014
Total Pension Liability			
Service cost	$ 8,152,482	$ 7,562,642	$ 8,173,815
Interest	32,113,989	31,349,873	30,164,990
Benefit term changes	-	-	-
Differences between expected and actual experience	(8,977,294)	(10,658,914)	(3,787,974)
Assumption changes	-	-	-
Benefit payments, including member refunds	(19,576,376)	(19,458,540)	(20,010,413)
Net change in Total Pension Liability	11,712,801	8,795,061	14,540,418
Total Pension Liability - beginning	410,210,579	401,415,518	386,875,100
Total Pension Liability - ending (a)	$ 421,923,380	$ 410,210,579	$ 401,415,518
Plan Fiduciary Net Position			
Employer contributions	$ 7,053,408	$ 8,646,426	$ 8,752,627
Employee contributions	4,365,651	4,180,263	4,134,598
Net investment income	5,491,550	13,332,650	54,950,250
Benefit payments, including member refunds	(19,576,376)	(19,458,540)	(20,010,413)
Administrative expenses	(128,156)	(116,679)	(121,153)
Other changes	26,778	21,619	21,199
Net change in Plan Fiduciary Net Position	(2,767,145)	6,605,739	47,727,108
Plan Fiduciary Net Position – beginning	363,922,631	357,316,892	309,589,784
Plan Fiduciary Net Position - ending (b)	$ 361,155,486	$ 363,922,631	$ 357,316,892
Net Pension Liability - ending (a) - (b)	$ 60,767,894	$ 46,287,948	$ 44,098,626
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	85.60%	88.72%	89.01%
Covered payroll	$ 27,047,938	$ 26,294,294	$ 25,624,081
Employers' Net Pension Liability as a percentage of covered payroll	224.67%	176.04%	172.10%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 YEARS

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 132,846,323	$ 152,268,397	$ 174,157,865	$ 227,859,188	$ 192,478,407	$ 177,075,137	$ 142,658,110	$ 126,118,323	$ 117,201,909	$ 118,069,619
Actual non-employer contributions										
Actual State Appropriations*	36,919,600	35,493,591	34,703,519	16,874,535	22,400,533	21,907,948	21,380,352	20,620,548	15,832,941	15,219,871
Actual Omaha Appropriations**	997,118	997,858	909,638	969,396	1,030,017	967,145	-	-	-	-
Actual employer contributions	178,608,695	173,013,848	167,710,406	161,922,831	145,582,040	135,328,339	128,845,427	110,028,942	105,977,554	107,573,519
Total contributions	$ 216,525,413	$ 209,505,297	$ 203,323,563	$ 179,766,762	$ 169,012,590	$ 158,203,432	$ 150,225,779	$ 130,649,490	$ 121,810,495	$ 122,793,390
Annual contribution deficiency (excess)	$ (83,679,090)	$ (57,236,900)	$ (29,165,698)	$ 48,092,426	$ 23,465,817	$ 18,871,705	$ (7,567,669)	$ (4,531,167)	$ (4,608,586)	$ (4,723,771)
Covered-employee payroll	$ 1,808,182,946	$ 1,751,542,327	$ 1,697,851,809	$ 1,664,793,714	$ 1,641,692,866	$ 1,618,218,049	$ 1,572,992,968	$ 1,496,422,343	$ 1,423,721,456	$ 1,355,069,143
Actual contributions as a percentage of covered-employee payroll	11.97%	11.96%	11.98%	10.80%	10.30%	9.78%	9.55%	8.73%	8.56%	9.06%

Note: Information prior to 2013 was produced by the prior actuary.

* Includes scheduled contributions as well as appropriations to make up any contribution shortfall. It does not include the annual transfer to the Omaha School Employees Retirement System, which is included in the Statements of Changes in Plan Net Position. The transfer to the Omaha School Employees Retirement System is required by Neb. Rev. Stat. § 79-916(2).

** For State service annuity only; included in State Appropriations for years prior to 2011.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

STATE PATROL RETIREMENT PLAN

LAST 10 YEARS

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$ 7,053,408	$ 8,073,824	$ 8,752,627	$ 9,768,585	$ 7,774,506	$ 7,563,126	$ 6,260,122	$ 5,384,789	$ 4,855,700	$ 5,058,621
Actual employer contributions*	$ 7,053,408	$ 8,073,824	$ 8,752,627	$ 7,515,905	$ 7,774,506	$ 5,956,747	$ 6,260,122	$ 5,384,789	$ 4,855,700	$ 5,058,621
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ 2,252,680	$ -	$ 1,606,379	$ -	$ -	$ -	$ -
Covered-employee payroll	$27,047,938	$26,294,294	$25,624,081	$26,901,711	$27,390,926	$27,987,900	$27,624,747	$28,386,013	$27,839,200	$26,204,413
Actual contributions as a percentage of covered-employee payroll	26.08%	30.71%	34.16%	27.94%	28.38%	21.28%	22.66%	18.97%	17.44%	19.30%

Note: Information prior to 2013 was produced by the prior actuary.

* Includes any additional appropriations by the State beyond the regular, payroll-related contributions. 2015 excludes $572,602 in military service credits.

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

SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

JUDGES RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$ 3,458,665	$ 3,727,054	$ 3,906,247	$ 3,180,367	$ 3,483,614	$ 3,579,661	$ 3,615,291	$ 3,491,335	$ 3,353,208	$ 3,207,953
Actual non-employer contributions										
Court Fees	3,458,665	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417	3,543,047	3,419,091	3,280,964	3,135,709
State Contributions	-	94,000	803,383	-	72,244	72,244	72,244	72,244	72,244	72,244
Actual non-employer contributions	3,485,665	3,071,205	3,906,247	3,180,367	3,483,614	3,579,661	3,615,291	3,491,335	3,353,208	3,207,953
Annual contribution deficiency (excess)	$ -	$ 655,849	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 22,178,157	$ 21,586,829	$ 20,099,647	$ 19,005,478	$ 18,182,238	$ 18,773,203	$ 18,373,339	$ 17,990,072	$ 17,003,921	$ 16,422,894
Actual contributions as a percentage of covered-employee payroll	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%	19.72%	19.53%

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary.
For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

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

SCHEDULE OF INVESTMENT RETURNS

AS OF JUNE 30, 2016

(Unaudited)

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:			
School Employees Retirement Plan	1.56%	3.77%	18.14%
Judges Retirement Plan	1.55%	3.75%	18.14%
State Patrol Retirement Plan	1.85%	4.05%	17.87%

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Years

School Employees Retirement Plan

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

2014: As scheduled, the State contribution rate increased from 1% of covered payroll to 2%.

2013: Legislative Bill (LB) 553 (2013) increased the State's payroll-related contribution from 1% to 2% of pay, effective July 1, 2014. LB 553 also made some changes to the benefit structure for members hired on or after July 1, 2013 (Tier 2), including changing the period over which to determine final average salary to the highest 60 months rather than the current highest 36 months of service and changing the maximum cost of living adjustment from 2.5% to 1%. LB 553 also removed the scheduled reduction in the employee contribution rate in 2017. In addition, it required the use of the Entry Age Normal, level percent of payroll, method to determine the costs for the Omaha State Service Annuity and changed the amortization of the unfunded actuarial accrued liability to be based on payments determined as a level percent of payroll instead of a level dollar amount.

2011: Under LB 382 (2011), the member contribution rate increased from 8.28% to 8.88% on September 1, 2011. Effective September 1, 2012, the member contribution rate was scheduled to increase to 9.78% and then decrease to 7.28% effective September 1, 2017. The employer contribution rate match remained unchanged at 101% of the member contribution rate. The current State of Nebraska contribution rate of 1% remained in effect until July 1, 2017, at which time it was scheduled to decrease to 0.7%.

2009: Under LB 187 (2009), from September 1, 2009, to September 1, 2014, the member contribution rate was scheduled to increase from 7.28% to 8.28% and the State match to increase from 0.7% to 1.0% of covered pay. On September 1, 2014, the member contribution rate was scheduled to return to 7.28% and the State match to 0.7%.

2007: Per LB 596 (2007), a one-time adjustment was made to the annuities of School members so that the current annuity was not less than 85% of the original annuity amount adjusted by the CPI-W. The statutory member contribution rate decreased to 7.28% as of September 1, 2007. Under existing statutes, the rate was scheduled to drop to 7.25% on September 1, 2007.

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.

- Retirement rates are based on age and retirement eligibility. One hundred percent retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.

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

- Disabled mortality was changed to the 1983 Railroad Retirement Board Disabled Annuitants Mortality setback one year from the 1983 Railroad Retirement Board Disabled Annuitants Mortality. The prior assumption was based on the same table with no setback.

- Termination rates are service based and were decreased from the prior valuation based on actual experience.

- Disability rates were decreased by 50% from the prior valuation.

- Price inflation assumption was lowered to 3.25% from 3.50%.

- Economic productivity assumption was lowered to 0.75% from 1.00%.

July 1, 2007, valuation:

- Salary increase assumption was converted from age-based to service-based, grading down from 7.50% for less than one year of service to 4.50% after 40 years of service.

- Retirement rates were increased at age 55 and decreased for ages 57 through age 65.

- Withdrawal rates were converted from age-and-service-based to service-based only and grade down from 27% (males) and 32% (females) for employees with less than one year of service to 1% (males) and 3% (females) and back up to 10% (males) and 7% (females) at 34 (or more) years of service.

- Existing disability rates were reduced by 50% at each age.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

Judges Retirement Plan

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

2015: LB 468 (2015) made changes to the benefit structure for judges who become members on or after July 1, 2015, including the calculation of final average salary based on the highest five years rather than the highest three years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015, was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased in over two years. Ultimately, in fiscal year 2018, the additional funding is estimated to be $1.3 million.

2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from $6 to $5 on July 1, 2014. LB 306 (2013) removed the language to decrease the court fees, so the court fee in future years remains at $6. The passage of LB 414 (2009) increased the member contribution rate by 1%, but this increase was scheduled to be removed July 1, 2014. LB 306 (2013) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.

2009: LB 414 (2009) amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from $5 to $6 per case.

2008: LB 1147 (2008) amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55.

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

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

- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.

- Consumer price inflation was lowered to 3.25% from 3.50%.

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

July 1, 2008, valuation:

- Retirement rates were increased at ages 62 through 64 to account for the possible increase in retirements due to the subsidized early retirement factors.

July 1, 2007, valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.

- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.

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

State Patrol Retirement Plan

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

2016: Legislative Bill 467 (LB 467) created a new tier of State Patrol members that are employed on or after July 1, 2016. This new tier includes changes to benefits and contributions, as follows:

- Member and employer contributions are increased from 16% to 17% of pay.

- Compensation no longer includes compensation for unused sick leave, unused vacation leave, unused holiday compensatory time, unused compensatory time, or any other type of unused leave, compensatory time, or similar benefits, converted to cash payments.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- Final average salary moves from the highest three 12-month periods to the highest five 12-month periods. During the five-year period, the member's compensation in any plan year is capped at an eight percent increase from the preceding plan year.

- The automatic COLA is capped at 1.0% instead of 2.5%. However, a 1.5% discretionary COLA may be granted by the PERB in addition to the automatic COLA, if certain criteria are met.

- The DROP program is eliminated.

2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in State statute, the employee and employer contribution rate both decreased from 19% of pay to 16%.

2011: Under LB 382 (2011), both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.

2010: As scheduled, the member and employer contribution rates increased to 16% each.

2009: Under LB 188 (2009), the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remained unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increased to 16%.

2008: LB 324 (2008) added a Deferred Retirement Option Plan (DROP) for members who are at least 50 and have 25 years of service. The retirement rates used in the valuation were increased to 100% for members who are eligible for the DROP.

2007: LB 324 (2007) retained the contribution rates of 13% for members and 15% for employers. Under existing statutes, the rates were scheduled to drop to 12% for members and 13% for employers on July 1, 2007.

The following changes were made in the actuarial assumptions:

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.

- Salary increases were changed to rates grading down from 9.50% for less than one year of service to 4.00% at 30 years of service. Prior valuation rates graded from 9.00% for less than one year to 4.50% at 25 years of service.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

- Retirement rates are based on age and retirement eligibility. The rates were increased for early retirement (reduced benefits available at 50 years of age and 10 years of service) and decreased for normal retirement (unreduced benefits available at 55 years of age and 10 years of service).

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

- The assumption to value deferred vested members was changed to assume they elect the greater of the present value of an annuity at earliest unreduced eligibility or a refund of contributions.

- Consumer price inflation was lowered from 3.50% to 3.25%.

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

July 1, 2007, valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.

- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FISCAL YEAR ENDED JUNE 30, 2016

	School Employees	**Judges**	**State Patrol**	**Total**
Personnel				
Personal Services	$ 2,074,937	$ 29,683	$ 48,377	$ 2,152,997
Travel	18,791	190	272	19,253
Professional and Technical Services				
Professional	31,516	324	6,312	38,152
Actuary	51,306	27,304	49,824	128,434
Computer Support Services	328,586	4,688	5,071	338,345
Accounting and Auditing	156,935	1,910	9,023	167,868
Communications				
Telephone	38,927	567	663	40,157
Printing	37,618	1,059	317	38,994
Other Expenses				
Postage	90,021	901	1,274	92,196
Supplies	24,428	262	268	24,958
Hardware and Software	89,043	829	1,165	91,037
Repairs	37,812	547	589	38,948
Rent	116,392	1,617	1,617	119,626
Miscellaneous	86,152	826	3,384	90,362
Total Administrative Expenses	$ 3,182,464	$ 70,707	$ 128,156	$ 3,381,327

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	School Employees	**Judges**	**State Patrol**	**Total**
BlackRock Financial Management, Inc.	$ 397,964	$ 6,561	$ 14,445	$ 418,970
Dimensional Fund Advisors, Inc.	1,114,954	18,383	40,470	1,173,807
Total Domestic Equity	**1,512,918**	**24,944**	**54,915**	**1,592,777**
BlackRock Financial Management, Inc.	794,298	13,096	28,831	836,225
Franklin Advisers, Inc.	996,808	16,435	36,182	1,049,425
Loomis Sayles & Company, L.P.	1,404,710	23,160	50,988	1,478,858
Oaktree Capital Management, L.P.	658,991	10,865	23,920	693,776
Neuberger Berman Investment Management	478,618	7,891	17,373	503,882
Pacific Investment Management Company, LLC	2,520,146	41,551	91,476	2,653,173
Wellington Management Company, LLP	702,781	11,587	25,509	739,877
Total Fixed Income	**7,556,352**	**124,585**	**274,279**	**7,955,216**
Acadian Asset Management, LLC	1,100,565	18,145	39,948	1,158,658
BlackRock Financial Management, Inc.	144,232	2,378	5,235	151,845
IronBridge Capital Management, L.P.	1,533,272	25,280	55,655	1,614,207
MFS Investment Management	1,251,715	20,638	45,435	1,317,788
Mondrian Investment Partners Ltd.	1,301,534	21,459	47,243	1,370,236
Total Global Equity	**5,331,318**	**87,900**	**193,516**	**5,612,734**
Baillie Gifford Overseas Ltd.	758,901	12,512	27,546	798,959
BlackRock Financial Management, Inc.	232,660	3,836	8,445	244,941
Gryphon International Investment Corp.	1,249,719	20,605	45,362	1,315,686
Total International Equity	**2,241,280**	**36,953**	**81,353**	**2,359,586**
Almanac Realty Investors, LLC	521,042	8,591	18,913	548,546
Angelo, Gordon & Company, L.P.	169,354	2,792	6,147	178,293
Beacon Capital Partners	29,881	493	1,085	31,459
CB Richard Ellis Investors, LLC	146,573	2,417	5,320	154,310
Cornerstone Real Estate Advisors, LLC	846,432	13,955	30,724	891,111
Heitman Real Estate Securities LLC	44,412	732	1,612	46,756
Landmark Partners	728,384	12,009	26,439	766,832
Prudential Investment Management, Inc.	1,367,058	22,539	49,621	1,439,218
Rockpoint Group, LLC	50,570	834	1,836	53,240
Rockwood Capital, LLC	471,268	7,770	17,106	496,144
Torchlight Investors	628,369	10,360	22,808	661,537
UBS Realty Investors, LLC	1,610,404	26,551	58,454	1,695,409
Total Real Estate	**6,613,747**	**109,043**	**240,065**	**6,962,855**

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEM
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	School Employees	Judges	State Patrol	Total
Abbott Capital Management, LLC	233,997	3,858	8,494	246,349
Accel-KKR Management Co, LLC	295,343	4,869	10,720	310,932
Ares Management, LLC	346,796	5,718	12,588	365,102
Beecken Petty O'Keefe & Company	212,582	3,505	7,716	223,803
Bridgepoint Advisers Ltd.	382,991	6,315	13,902	403,208
Presidio Partners (formally CMEA Capital)	144,879	2,389	5,259	152,527
CVC Capital Partners	349,363	5,760	12,681	367,804
Energy Investors Funds Management, LLC	283,439	4,673	10,288	298,400
(The) Energy & Minerals Group	354,461	5,844	12,866	373,171
Francisco Partners Management L.P.	295,690	4,875	10,733	311,298
Leonard Green & Partners, L.P.	107,490	1,772	3,902	113,164
HarbourVest Partners, LLC	279,246	4,604	10,136	293,986
Lightyear Capital, LLC	326,767	5,388	11,861	344,016
Lincolnshire Management, Inc.	84,103	1,387	3,053	88,543
Longroad Asset Management	16,738	276	608	17,622
McCarthy Capital Corporation	443,975	7,320	16,115	467,410
Merit Capital Partners	87,582	1,444	3,179	92,205
New Enterprise Associates Inc.	248,138	4,091	9,007	261,236
New Mountain Capital, LLC	511,423	8,432	18,564	538,419
Pathway Capital Management, LLC	627,498	10,346	22,777	660,621
Pine Brook Capital Partners II, L.P.	439,491	7,246	15,953	462,690
Quantum Energy Partners	584,939	9,644	21,232	615,815
(The) Jordan Company	318,537	5,252	11,562	335,351
The Rohatyn Group Management, L.P.	105,926	1,746	3,845	111,517
Wayzata Investment Partners, LLC	371,175	6,120	13,473	390,768
Wynnchurch Capital Partners	370,515	6,109	13,449	390,073
Total Private Equity	**7,823,084**	**128,983**	**283,963**	**8,236,030**
Nebraska Investment Council Fees	1,145,718	19,068	41,996	1,206,782
Custody Expenses	123,709	2,052	4,544	130,305
Foreign Income Expense	545,369	9,020	19,924	574,313
Miscellaneous Expenses	16,097	267	28,076	44,440
Total Other Investment Expenses	**1,830,893**	**30,407**	**94,540**	**1,955,840**
Total Investment-Related Expenses	**$ 32,909,592**	**$ 542,815**	**$ 1,222,631**	**$ 34,675,038**

(Concluded)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated February 9, 2017. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 – School Employees, Judges, and State Patrol Retirement Plans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 – School Employees, Judges, and State Patrol Retirement Plans' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zachary Wells

February 9, 2017 — Zachary Wells, CPA, CISA
Audit Manager