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

PENSION TRUST FUNDS
OF THE STATE OF NEBRASKA

JANUARY 1, 2016, THROUGH DECEMBER 31, 2016

Issued on August 25, 2017

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

BACKGROUND

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

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

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

Two appointed Board 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.

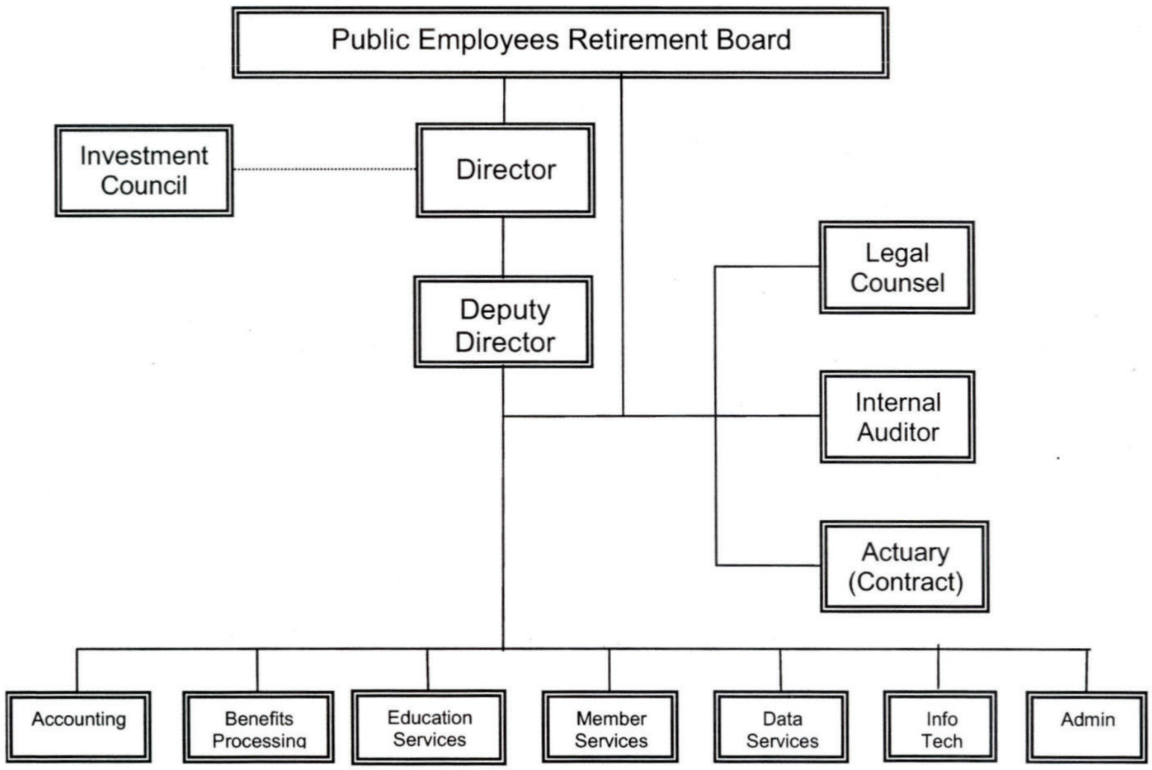
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio Board member.

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

MISSION STATEMENT

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

ORGANIZATIONAL CHART



KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

Janis Elliott
Chairperson – School Member
Term Ending January 1, 2019

Elaine Stuhr
Public Member
Term Ending January 1, 2018

Dennis Leonard
Vice-Chair – State Patrol Member
Term Ending January 1, 2020

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

Jim Schulz
Public Member
Term Ending January 1, 2022

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
1526 K Street, Suite 400
P.O. Box 94816
Lincoln, NE 68509
npers.ne.gov

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY RETIREMENT PLANS

INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying Statements of Plan Net Position and the related Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – State and County Employees Retirement Plans, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 NPERS – State and County Employees Retirement Plans, as of December 31, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the NPERS – State and County Employees Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the NPERS – State and County Employees Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of December 31, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the State Employer Net Pension Liability, Schedule of Changes in the County Employers' Net Pension Liability, Schedule of State Employer Contributions, Schedule of County Employer Contributions, Schedule of Investment Returns, and Notes to Required Supplementary Information, on pages 39 through 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise the NPERS – State and County Employees Retirement Plans' basic financial statements. The Schedule of Administrative Expenses and the 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 the 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 the 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 August 23, 2017, on our consideration of the NPERS – State and County Employees Retirement Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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 NPERS – State and County Employees Retirement Plans' internal control over financial reporting and compliance.

Zachary Wells

August 23, 2017

Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET POSITION
AS OF DECEMBER 31, 2016

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 177,151	$ 9,325
Receivables:		
Contributions	3,483,725	823,088
Interest and Dividends	1,965,590	117,841
Other Investment Receivables (Note 4)	60,909,578	75,167
Total Receivables	66,358,893	1,016,096
Pooled Investments, at Fair Market Value (Note 4):		
U.S. Treasury Bills	2,004,301	-
U.S. Treasury Notes and Bonds	48,256,937	-
Government Agency Securities	1,332,171	-
Corporate Bonds	83,382,414	-
International Bonds	19,322,706	-
ADRs, GDRs & Trusts	830,163	-
Asset Backed Securities	15,209,675	-
Bank Loans	32,685,609	-
Short Term Investments	40,680,822	10,967,132
Commingled Funds	798,118,273	633,594,533
Mortgages	77,627,670	-
Municipal Bonds	1,943,669	-
Private Equity Funds	63,428,206	-
Equity Securities	192,198,348	-
Options	(14,654)	-
Private Real Estate Funds	101,062,522	-
Total Investments	1,478,068,832	644,561,665
Invested Securities Lending Collateral (Note 4)	33,663,865	-
Capital Assets (Note 9):		
Equipment	461,409	527,324
Less: Accumulated Depreciation	(461,214)	(527,103)
Total Capital Assets, Net	195	221
Total Assets	1,578,268,936	645,587,307
LIABILITIES		
Compensated Absences (Notes 6 and 8)	55,909	18,341
Other Investment Payables (Note 4)	122,370,670	45,412
Benefits Payable	6,091,844	-
Obligations Under Securities Lending (Note 4)	33,663,865	-
Total Liabilities	162,182,288	63,753
Net Position - Restricted for Pensions	$ 1,416,086,648	$ 645,523,554

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET POSITION
AS OF DECEMBER 31, 2016

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ASSETS		
Cash in State Treasury	$ 62,619	$ 53,384
Receivables:		
Contributions	1,724,322	340,517
Interest and Dividends	595,251	33,410
Other Investment Receivables (Note 4)	18,406,481	19,821
Total Receivables	20,726,054	393,748
Pooled Investments, at Fair Market Value (Note 4):		
U.S. Treasury Bills	605,687	-
U.S. Treasury Notes and Bonds	14,582,935	-
Government Agency Securities	402,573	-
Corporate Bonds	25,197,627	-
International Bonds	5,839,197	-
ADRs, GDRs & Trusts	250,870	-
Asset Backed Securities	4,596,266	-
Bank Loans	9,877,380	-
Short Term Investments	14,797,530	2,821,321
Commingled Funds	241,186,188	194,631,532
Mortgages	23,458,581	-
Municipal Bonds	587,364	-
Private Equity Funds	19,167,594	-
Equity Securities	58,081,099	-
Options	(4,428)	-
Private Real Estate Funds	30,540,441	-
Total Investments	449,166,904	197,452,853
Invested Securities Lending Collateral (Note 4)	10,173,003	-
Capital Assets (Note 9):		
Equipment	263,662	263,662
Less: Accumulated Depreciation	(263,553)	(263,553)
Total Capital Assets, Net	109	109
Total Assets	480,128,689	197,900,094
LIABILITIES		
Compensated Absences (Notes 6 and 8)	35,128	9,746
Other Investment Payables (Note 4)	36,981,126	-
Benefits Payable	1,171,420	16,365
Obligations Under Securities Lending (Note 4)	10,173,003	-
Total Liabilities	48,360,677	26,111
Net Position - Restricted for Pensions	$ 431,768,012	$ 197,873,983

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 28,775,358	$ 6,754,711
Employer (Note 5)	44,894,300	10,537,342
Total Contributions	73,669,658	17,292,053
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	98,835,714	48,529,421
Interest and Dividends Income	18,612,308	3,782,462
Securities Lending Income	382,050	-
Total Investment Income	117,830,072	52,311,883
Investment Expenses:		
Investment Expense	4,924,101	667,621
Securities Lending Expense	158,098	-
Total Investment Expenses	5,082,199	667,621
Net Investment Income	112,747,873	51,644,262
Other Additions	10,320	3,910
Total Additions	186,427,851	68,940,225
DEDUCTIONS		
Benefits and Refunds	84,773,402	30,438,678
Administrative Expenses	1,106,968	290,304
Other Deductions	27,271	-
Total Deductions	85,907,641	30,728,982
Transfers (Note 10)	5,115,400	(5,115,400)
Net Increase/(Decrease) in Net Position	105,635,610	33,095,843
Net Position - Restricted for Pensions		
Beginning of Year	1,310,451,038	612,427,711
End of Year	$ 1,416,086,648	$ 645,523,554

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS		
Contributions:		
Member	$ 11,352,667	$ 2,369,692
Employer (Note 5)	16,935,811	3,489,023
Total Contributions	28,288,478	5,858,715
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	28,950,518	14,657,744
Interest and Dividends Income	5,579,598	1,079,981
Securities Lending Income	115,453	-
Total Investment Income	34,645,569	15,737,725
Investment Expenses:		
Investment Expenses	1,487,104	187,025
Securities Lending Expense	47,776	-
Total Investment Expense	1,534,880	187,025
Net Investment Income	33,110,689	15,550,700
Other Additions	4,447	963
Total Additions	61,403,614	21,410,378
DEDUCTIONS		
Benefits and Refunds	22,092,412	9,194,986
Administrative Expenses	629,986	141,497
Other Deductions	19,723	-
Total Deductions	22,742,121	9,336,483
Transfers (Note 10)	1,678,510	(1,678,510)
Net Increase/(Decrease) in Net Position	40,340,003	10,395,385
Net Position - Restricted for Pensions		
Beginning of Year	391,428,009	187,478,598
End of Year	431,768,012	197,873,983

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

NPERS was restructured by the Legislature in 1971 to administer the existing Nebraska retirement systems. Currently, NPERS is responsible for the administration of five retirement plans and the Deferred Compensation Plan. The following are the five retirement plans administered: 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. Those six members include the following: 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 Nebraska County Employees Retirement System; and one participant in the State Employees Retirement System.

Two appointed Board members must meet the following requirements: 1) not be an employee of the State of Nebraska or any of its political subdivisions; and 2) have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

The State Investment Officer serves as a nonvoting, ex-officio Board member.

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

Separate reports have been issued for the School Employees, Judges, and State Patrol Retirement Plans for the fiscal year ended June 30, 2016, and the Deferred Compensation Plan for the year ended December 31, 2013.

The financial statements reflect only the State and County Employees Retirement Plans and do not reflect all activity of NPERS.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting

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

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

D. Cash in State Treasury

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

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

E. Investments

Investments, as reported in the basic financial statements, include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; however, investment of funds is 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 annual leave. Temporary and intermittent employees and Board members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees currently eligible to receive termination payments and other employees expected to become eligible in the future to receive such payments upon termination, are included.

NPERS employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or a younger age, if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave.

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

H. Use of Estimates

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

2. Plan Descriptions and Contribution Information

The following summary description of the Plans is provided for general information purposes. Participants should refer to Neb. Rev. Stat. §§ 84-1301 through 84-1333 (Reissue 2014, Cum. Supp. 2016) for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2016) for the County Employees Retirement Plan for more complete information.

A. Nebraska State Employees Retirement Plan

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. Prior to April 2011, all permanent part-time employees who had attained the age of 20 could exercise the option to begin participation in the retirement system. Effective April 2011, the age requirement decreased to 18.

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

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

When employees terminate and are not fully vested, the amount contributed by the State is forfeited and used to reduce NPERS expenses. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

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

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

2. Plan Descriptions and Contribution Information (Continued)

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

State Plan membership consisted of the following at December 31, 2016:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	1,615
Inactive Plan Members Entitled to but not yet Receiving Benefits	1,381	6,555
Active Plan Members	2,567	13,381
Total	3,948	21,551

The 1,615 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment, such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

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

Calendar Year	Employee Contributions	Employer Contributions
2016	$ 106,312	$ 165,846
2015	103,418	161,332
2014	99,720	155,563

B. Nebraska County Employees Retirement Plan

In 1973, the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan covers employees of 91 of the State's 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees, as allowed under Neb. Rev. Stat. § 23-1118 (Cum. Supp. 2016). In total, employees of 108 county or county health districts participate in this plan.

2. Plan Descriptions and Contribution Information (Continued)

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

Participation in the County Employees Retirement Plan is required of all full-time employees upon employment and of all full-time elected officials upon taking office. Prior to April 2011, all permanent part-time employees could elect voluntary participation upon reaching age 20. Effective April 2011, the age requirement for permanent part-time employees decreased to age 18. Part-time elected officials may exercise the option to join.

Contributions. Per statutes, county employees and elected officials contribute 4.5 percent of their total compensation, and the county contributes 150 percent of the member rate. Present and future commissioned law enforcement personnel employed by such counties make additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with fewer than 85,000 inhabitants contribute an extra 1 percent, or a total of 5.5 percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of 85,000 inhabitants contribute an extra 2 percent, or a total of 6.5 percent of their total compensation; the county contributes 150 percent for the first 4.5 percent and 100 percent for the extra 1 and 2 percent. The employee’s and employer’s contributions are kept in separate accounts.

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

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

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

2. Plan Descriptions and Contribution Information (Concluded)

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

County Plan membership consisted of the following at December 31, 2016:

	Defined Contribution	Cash Balance
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	-	569
Inactive Plan Members Entitled to but not yet Receiving Benefits	629	2,531
Active Plan Members	1,061	6,806
Total	1,690	9,906

The 569 retirees and beneficiaries receiving benefits include defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment, such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

3. Funded Status and Funding Progress

The components of the net pension asset for each cash balance plan as of January 1, 2017, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability/(Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
State	$ 1,370,454,658	$ 1,416,086,648	$ (45,631,990)	103.33%
County	$ 418,778,262	$ 431,768,012	$ (12,989,750)	103.10%

3. Funded Status and Funding Progress (Continued)

The Total Pension Liability as of December 31, 2016, was determined based on an actuarial valuation prepared as of January 1, 2017. The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	State Employees	County Employees
Valuation date	January 1, 2017	January 1, 2017
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Single equivalent amortization period	25 Years	25 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Inflation	3.25%	3.25%
Investment rate of return, net of investment expense and including inflation	7.75%	7.75%
Municipal bond index rate	3.86%	3.86%
Projected salary increases, including inflation	4.0% - 5.43%	4.3% - 8.5%
Interest credit rating	6.75%	6.75%
Cost-Of-Living Adjustments (COLA)	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.	None, except 2.5% per year for retirees electing annuity payments with a COLA feature.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Continued)

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

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

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

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The State and County plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plans' target asset allocation as of December 31, 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*
U.S. Stocks	29.0%	4.3%
Non-U.S. Stocks	13.5%	5.4%
Global Stocks	15.0%	5.1%
Fixed Income	30.0%	1.4%
Private Equity	5.0%	6.4%
Real Estate	7.5%	3.6%
Total	100.00%	

*Geometric mean, net of investment expenses.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

Discount Rate. The discount rate used to measure the Total Pension Liability at both December 31, 2015, and December 31, 2016, was 7.75 percent. The discount rate is reviewed as part of the actuarial experience study, which was performed for the period July 1, 2006, through June 30, 2011. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and contributions from employers and non-employers will be made at the greater of the contractually required rates and the actuarially determined rates. 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 2116.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability/(Asset):			
State	$ 69,619,762	$ (45,631,990)	$ (144,404,105)
County	$ 23,769,775	$ (12,989,750)	$ (44,622,628)

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (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 . . . .*

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

The pension plans' policy in regards to the allocation of invested assets is established and may be amended by the Nebraska Investment Council. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. During the year, the Nebraska Investment Council's target investment allocation was:

Asset Class	Target Allocation
U.S. Stocks	29.0%
Non-U.S. Stocks	13.5%
Global Stocks	15.0%
Fixed Income	30.0%
Private Equity	5.0%
Real Estate	7.5%
Total	100.00%

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 development the estimates of fair value using discounted cash flows and other income valuation approaches.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Plan Investments at December 31, 2016, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Bank Loans	$ 42,562,989	$ -	$ 42,562,989	$ -
U.S. Treasury Notes and Bonds	62,839,872	-	62,839,872	-
U.S. Treasury Bills	2,609,988	-	2,609,988	-
Government Agency Securities	1,734,744	-	1,734,744	-
Corporate Bonds	108,580,041	-	108,409,539	170,502
International Bonds	25,161,903	-	25,161,903	-
Asset Backed Securities	19,805,941	-	19,456,071	349,870
Short Term Investments	68,024,961	17,716,912	50,308,049	-
Commingled Debt	328,680,050	328,680,050	-	-
Mortgages	101,086,251	-	101,050,906	35,345
Municipal Bonds	2,531,033	-	2,531,033	-
	763,617,773	346,396,962	416,665,094	555,717
Other Investments				
ADRs, GDRs & Trusts	$ 1,081,033	$ 1,081,033	$ -	$ -
Commingled Funds	1,538,828,398	898,541,653	640,286,745	-
Private Equity Funds	18,339	18,339	-	-
Equity Securities	250,279,447	250,277,960	1,487	-
Options	(19,082)	3,017	(22,099)	-
Total Investments by Fair Value Level	$ 2,553,805,908	$ 1,496,318,964	$ 1,056,931,227	$ 555,717

Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds:				
Core	80,590,173	-	Quarterly	90 days
Non-Core	32,691,893	19,162,617		
Opportunistic Credit	18,320,897	-		
Private Equity Funds	82,577,461	60,103,797		
Commingled Funds	22,078	-		
Short Term Investment Funds	1,241,844	-		
Total Investments Measured at Net Asset Value	$ 215,444,346	79,266,414		
Total	$ 2,769,250,254			
Securities Lending Collateral	43,836,868			
Total Investments at Fair Value	$ 2,813,087,122			

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 December 31 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than December 31. If December 31 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 $43,836,868 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)

State and County Employees Retirement Plan Investments at December 31, 2016

	State and County Cash Balance Benefit		State and County Defined Contributions	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes	$ 62,839,872	8.24	$ -	
U.S. Treasury Bills	2,609,988	2.67	-	
Government Agency Securities	1,734,744	11.39	-	
Corporate Bonds	108,580,041	5.64	-	
International Bonds	25,161,903	7.35	-	
Asset Backed Securities	19,805,941	1.46	-	
Bank Loans	42,562,989	0.16	-	
Short Term Investments	55,478,352	0.00	13,788,453	0.00
Commingled Debt	105,320,683	5.60	223,359,367	5.74
Mortgages	101,086,251	3.95	-	
Municipal Bonds	2,531,033	11.01	-	
	527,711,797		237,147,820	
Other Investments				
ADRs, GDRs & Trusts	1,081,033		-	
Private Equity Funds	82,595,800		-	
Equity Securities	250,279,447		-	
Commingled Funds	933,983,778		604,866,698	
Options	(19,082)		-	
Private Real Estate Funds	131,602,963		-	
Total Investments	1,927,235,736		842,014,518	
Invested Securities Lending Collateral	43,836,868		-	
Total	$ 1,971,072,604		$ 842,014,518	
As reported on financial statements:				
Investments				
State	$ 1,478,068,832		$ 644,561,665	
County	449,166,904		197,452,853	
Total Investments	1,927,235,736		842,014,518	
Securities Lending Collateral				
State	33,663,865		-	
County	10,173,003		-	
Total Securities Lending Collateral	43,836,868		-	
Total reported on financial statements	$ 1,971,072,604		$ 842,014,518	

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

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

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. The minimum credit rating of a derivatives counterparty is A. NPERS' rated debt investments, as of December 31, 2016, were rated by Standards and Poor's and/or an equivalent national rating organization, and the ratings are presented on the following table using the Standard and Poor's rating scale.

(Continued on Next Page)

4. Investments (Continued)

Cash Balance Benefit/Defined Contribution Investments at December 31, 2016

	Quality Ratings									
	Cash Balance Benefit								Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Fair Value**	**Unrated**
Asset Backed Securities	$ 19,805,941	$ 8,744,242	$ 378,019	$ 2,320,592	$ 1,099,547	$ 874,686	$6,360,390	$ 28,465	$ -	$ -
Bank Loans	42,562,989	-	-	-	-	846,129	-	41,716,860	-	-
Mortgages	101,086,251	3,281,600	1,197,537	809,819	536,211	274,730	13,270,645	81,715,709	-	-
International Bonds	25,161,903	1,161,751	2,870,427	3,222,724	1,878,106	904,970	15,040,612	83,313	-	-
Corporate Bonds	108,580,041	1,958,272	3,994,543	22,839,454	59,629,243	11,044,620	8,736,693	377,216	-	-
Government Agency Securities	1,734,744	-	1,547,403	45,563	-	42,921	98,857	-	-	-
Municipal Bonds	2,531,033	530,569	1,574,436	283,213	98,516	44,299	-	-	-	-
Short Term Investments	55,478,352	-	-	-	-	-	3,032,606	52,445,746	13,788,453	13,788,453
Commingled Debt	105,320,683	-	-	-	-	-	-	105,320,683	223,359,367	223,359,367

4. Investments (Continued)

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

At December 31, 2016, the State and County Defined Contribution and Cash Balance Benefit Plans 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. At December 31, 2016, the State and County Defined Contribution Plans did not have exposure to foreign currency risk. The State and County Cash Balance Benefit Plans' exposure to foreign currency risk is presented on the following table.

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Continued)

Cash Balance Benefit Plans' Foreign Currency at December 31, 2016

	Asset Backed Securities	Corporate Bonds	International Bonds	Mortgages	Short Term Investments	Equity Securities
Argentine Peso	$ -	$ 62,128	$ -	$ -	$ -	$ -
Australian Dollar	-	76,272	142,298	-	12,131	117,324
Brazilian Real	-	51,040	370,802	-	24,993	3,729,164
Canadian Dollar	-	-	572,588	-	1,640,994	2,179,499
Colombian Peso	-	238,688	8,132	-	-	-
Czech Koruna	-	-	38,248	-	-	83,798
Danish Krone	-	-	163,279	-	-	1,470,429
Euro Currency	116,024	3,574,544	6,054,629	-	631,181	47,402,600
Hong Kong Dollar	-	-	-	-	3,651	6,238,565
Hungarian Forint	-	-	-	-	-	-
Indian Rupee	-	359,815	-	-	-	-
Indonesian Rupiah	-	-	-	-	-	397,712
Japanese Yen	-	-	8,359,716	-	1,115,853	28,415,376
Malaysian Ringgit	-	-	122,809	-	-	-
Mexian Peso	-	172,157	962,040	-	1,637	762,365
New Israeli Sheqel	-	-	39,103	-	-	-
New Zealand Dollar	-	-	1,279,744	-	485	1,159,525
Norwegian Krone	-	-	253,844	-	-	181,140
Polish Zloty	-	-	66,104	-	3	-
Pound Sterling	-	792,808	2,901,035	291,101	108,549	15,984,681
Singapore Dollar	-	-	161,670	-	-	1,350,876
South African Rand	-	-	66,630	-	2,127	39,583
South Korean Won	-	-	463,080	-	-	420,371
Swedish Krona	-	-	60,197	-	35	7,946,278
Swiss Franc	-	-	354,232	-	396	12,420,610
Thailand Baht	-	-	-	-	-	258,300
Turkish Lira	-	-	-	-	-	66,568
Yuan Renminbi	-	-	-	-	3	-
Total	$ 116,024	$ 5,327,452	$ 22,440,180	$ 291,101	$ 3,542,038	$ 130,624,764

4. Investments (Continued)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 25 to 45 days as of June 30, 2016. 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 it does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. At December 31, 2016, the State and County Defined Contribution Plans did not invest in derivative financial instruments. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at December 31, 2016, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments for the year then ended for the State and County Cash Balance Benefit Plans are as follows:

4. Investments (Continued)

DERIVATIVE INVESTMENTS AT DECEMBER 31, 2016

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ 335,741	$ 165,543	$ 10,138,925
Fixed Income Futures	(1,571,302)	-	31,892,226
Fixed Income Options	35,988	(22,099)	(6,829,557)
Foreign Currency Options	209,911	(3,519)	(827,825)
Futures Options	61,848	3,017	-
FX Forwards	28,026	355,727	63,614,760
Index Futures	(530)	-	-
Interest Rate Swaps	418,427	96,053	74,225,227
Rights	859	-	-
Warrants	(4)	10	843

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at December 31, 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 State and County Cash Balance Benefit Plans are exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Nebraska Investment Council's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Plans have never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at December 31, 2016, was $1,596,305. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $1,596,305.

Although the State and County Cash Balance Benefit Plans execute derivative instruments with various counterparties, approximately 71 percent of the net exposure to credit risk is held with seven counterparties. The counterparties are rated A or BBB+.

4. Investments (Continued)

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

Foreign currency risk for derivative instruments at December 31, 2016, are as follows:

DERIVATIVES FOREIGN CURRENCY AT DECEMBER 31, 2016

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ 31,417
Brazilian Real	-	-	17,568
Canadian Dollar	-	(33,702)	(14,308)
Swiss Franc	-	-	794
Yuan Renminbi	-	-	705
Danish Krone	-	-	286
Euro Currency	-	135,571	24,008
Pound Sterling	-	58,806	40,220
Hong Kong Dollar	-	-	(834)
New Israeli Sheqel	-	-	(60)
Japanese Yen	-	-	74,209
South Korean Won	-	-	91,771
Mexican Peso	-	-	5,052
Malaysian Ringgit	-	-	8,652
Norwegian Krone	-	-	(2,485)
New Zealand Dollar	-	-	30,612
Polish Zloty	-	-	(844)
Russain Ruble	-	-	9,996
Swedish Krona	-	-	12,302
Singapore Dollar	-	-	1,465
Thailand Baht	-	-	(714)
New Taiwan Dollar	-	-	25,985
South African Rand	-	-	(70)
Total	$ -	$ 160,675	$ 355,727

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 as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of December 31, 2016, but the security had not settled.

Money-Weighted Rate of Return. For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.61% for the State and 8.40% for the County Cash Balance Plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

5. Employer Contributions

Historically, employer contributions have been reported net of forfeitures. Forfeitures result when a member terminates prior to vesting in the employer contribution portion of his or her account. In accordance with Neb. Rev. Stat. § 23-2319.01(1) (Cum. Supp. 2016) and Neb. Rev. Stat. § 84-1321.01(1) (Reissue 2014) forfeitures are first used to pay administrative expenses of the Board. The balance of the Defined Contribution forfeiture accounts at December 31, 2016, was $0 for the State Plan and $0 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $2,078,058 for the State Plan and $520,652 for the County Plan.

6. Compensated Absences

The liability for the vested portion of compensated absences for each plan at December 31, 2016, was as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 25,647	$ 8,413	$ 16,114	$ 4,471
Sick Leave	30,262	9,928	19,014	5,275
	$ 55,909	$ 18,341	$ 35,128	$ 9,746

7. Contingencies and Commitments

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

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.

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. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Commitments (Concluded)

Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the NPERS' financial statements.

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

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2016, are summarized as follows:

	Beginning Balance	Increases (Decreases)	Ending Balance	Amounts Due Within One Year
State Defined Contributions				
Compensated Absences	$ 17,497	$ 844	$ 18,341	$ 1,651
State Cash Balance Benefits				
Compensated Absences	$ 55,121	$ 788	$ 55,909	$ 5,032
County Defined Contributions				
Compensated Absences	$ 8,975	$ 771	$ 9,746	$ 877
County Cash Balance Benefits				
Compensated Absences	$ 29,621	$ 5,507	$ 35,128	$ 3,162

(Continued on Next Page)

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contributions				
Equipment	$ 527,324	$ -	$ -	$ 527,324
Less: Accumulated Depreciation	526,964	139	-	527,103
Capital Assets, Net	$ 360	$ (139)	$ -	$ 221
State Cash Balance Benefits				
Equipment	$ 461,409	$ -	$ -	$ 461,409
Less: Accumulated Depreciation	461,092	122	-	461,214
Capital Assets, Net	$ 317	$ (122)	$ -	$ 195
County Defined Contributions				
Equipment	$ 263,662	$ -	$ -	$ 263,662
Less: Accumulated Depreciation	263,483	70	-	263,553
Capital Assets, Net	$ 179	$ (70)	$ -	$ 109
County Cash Balance Benefits				
Equipment	$ 263,662	$ -	$ -	$ 263,662
Less: Accumulated Depreciation	263,483	70	-	263,553
Capital Assets, Net	$ 179	$ (70)	$ -	$ 109

10. Transfers

Transfer activity for the year ended December 31, 2016, was as follows:

	State Cash Balance Benefit	State Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 4,672,583	$ (4,672,583)
Miscellaneous Transfers	442,817	(442,817)
Total Transfers	$ 5,115,400	$ (5,115,400)

	County Cash Balance Benefit	County Defined Contributions
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 1,511,435	$ (1,511,435)
Miscellaneous Transfers	167,075	(167,075)
Total Transfers	$ 1,678,510	$ (1,678,510)

10. Transfers (Concluded)

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

11. Equal Retirement Benefit Fund

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

Upon retirement, members with an accumulated account balance based on contributions made prior to January 1, 1984, have the option to convert to an annuity, at which time they are eligible to receive a benefit from the fund. The ERBF benefit is included in the member's regular retirement annuity and is included in the benefit payments reported in the financial statements. The balances of the funds are not included in the financial statements. As of December 31, 2016, there was $492,313 in the State ERBF and a balance of $363,637 in the County ERBF.

12. Subsequent Events

Calendar Year 2016 State Dividend:
The Board granted a 3.07% dividend for the calendar year 2016 State Cash Balance Plan on May 15, 2017. All eligible State Cash Balance members will receive the dividend by September 1, 2017, or as soon as administratively possible. The estimated dividend totaled $34,237,637 plus interest up to the date it was paid.

Calendar Year 2016 County Dividend:
The Board granted a 0.51% dividend for the calendar year 2016 County Cash Balance Plan on May 15, 2017. All eligible County Cash Balance members will receive the dividend by September 1, 2017, or as soon as administratively possible. The estimated dividend totaled $1,940,137 plus interest up to the date it was paid.

Actuarial 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 January 1, 2018, for the State and County Cash Balance Plans. Below is a table summarizing the changes in assumptions that will be effective for the actuarial analysis for the period January 1, 2018, through December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. Subsequent Events (Continued)

State	For the Period January 1, 2016, through December 31, 2016		For the Period January 1, 2018, through December 31, 2018	
Economic Assumptions				
Price Inflation	3.25%		2.75%	
Investment Return	7.75%		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 for Healthy Annuitants, set back two years, scaled (males: under 80, 1.008; over 80, 1.449; females: under 85, .924; over 85, 1.5855; geometrically blended), projected generationally from 2013 with the SOA projection scale tool using a 0.5% ultimate rate in 2035.	
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), projected generationally with MP-2015.	
Retirement	Age	Rate	Age	Rate
	55-60	5%	55-60	5%
	61	8%	61	8%
	62	15%	62	12%
	63	10%	63	12%
	64	15%	64	15%
	65-66	25%	65-66	30%
	67-68	25%	67-68	25%
	69-79	20%	69-79	25%
	80	100%	80	100%
Termination	Rates vary by age and service		Rates vary by service	

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

12. Subsequent Events (Concluded)

County	For the Period January 1, 2016, through December 31, 2016	For the Period January 1, 2018, through December 31, 2018
Economic Assumptions		
Price Inflation	3.25%	2.75%
Investment Return	7.75%	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 for Healthy Annuitants, set back two years, scaled (males: under 80, 1.008; over 80, 1.449; females: under 85, .924; over 85, 1.5855; geometrically blended), projected generationally from 2013 with the SOA projection scale tool using a 0.5% ultimate rate in 2035.
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), projected generationally with MP-2015.
Termination	Rates vary by age and service	Rates vary by service

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF CHANGES IN THE STATE EMPLOYER NET PENSION LIABILITY

STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN

AS OF DECEMBER 31, 2016

(Unaudited)

	2016	2015	2014
Total Pension Liability			
Service Cost	$ 61,768,235	$ 57,304,924	$ 54,920,902
Interest	98,053,908	89,967,248	85,695,932
Benefit term changes	-	35,892,320	-
Difference between expected and actual experience	(14,007,040)	720,728	(11,217,240)
Assumption changes	-	-	-
Transfers	5,115,400	5,849,328	4,195,885
Benefit payments, including member refunds	(84,773,402)	(85,278,057)	(73,527,209)
Net change in Total Pension Liability	66,157,101	104,456,491	60,068,270
Total Pension Liability - beginning	1,304,297,557	1,199,841,066	1,139,772,796
Total Pension Liability - ending (a)	$ 1,370,454,658	$ 1,304,297,557	$ 1,199,841,066
Plan Fiduciary Net Position			
Employer contributions	44,894,300	43,339,706	41,455,919
Employee contributions	28,775,358	27,798,721	26,603,709
Net investment income	112,758,193	14,784,129	83,523,713
Benefit payments, including member refunds	(84,773,402)	(85,278,057)	(73,527,209)
Administrative expenses	(1,134,239)	(1,079,197)	(910,460)
Transfers	5,115,400	5,849,328	4,195,885
Net change in Plan Fiduciary Net Position	105,635,610	5,414,630	81,341,557
Plan Fiduciary Net Position - beginning	1,310,451,038	1,305,036,408	1,223,694,851
Plan Fiduciary Net Position - ending (b)	$ 1,416,086,648	$ 1,310,451,038	$ 1,305,036,408
Net Pension Liability/(Asset) - ending (a) - (b)	$ (45,631,990)	$ (6,153,481)	$ (105,195,342)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	103.33%	100.47%	108.77%
Covered payroll	$ 599,549,947	$ 578,788,809	$ 553,631,397
Employers' Net Pension Liability/(Asset) as a percentage of covered payroll	-7.61%	-1.06%	-19.00%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF CHANGES IN THE COUNTY EMPLOYERS' NET PENSION LIABILITY

COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
AS OF DECEMBER 31, 2016
(Unaudited)

	2016	2015	2014
Total Pension Liability			
Service Cost	$ 24,325,759	$ 21,667,314	$ 20,333,501
Interest	29,509,568	26,074,912	24,388,848
Benefit term changes	-	17,061,497	-
Difference between expected and actual experience	(5,428,286)	865,544	(3,432,132)
Assumption changes	-	-	-
Transfers	1,678,510	826,843	835,282
Benefit payments, including member refunds	(22,092,412)	(23,080,849)	(17,750,010)
Net change in Total Pension Liability	27,993,139	43,415,261	24,375,489
Total Pension Liability - beginning	390,785,123	347,369,862	322,994,373
Total Pension Liability - ending (a)	$ 418,778,262	$ 390,785,123	$ 347,369,862
Plan Fiduciary Net Position			
Employer contributions	16,935,811	16,068,670	15,268,274
Employee contributions	11,352,667	10,966,403	10,327,540
Net investment income	33,115,136	4,846,001	23,627,946
Benefit payments, including member refunds	(22,092,412)	(23,080,849)	(17,750,010)
Administrative expenses	(649,709)	(545,137)	(527,732)
Transfers	1,678,510	826,843	835,282
Net change in Plan Fiduciary Net Position	40,340,003	9,081,931	31,781,300
Plan Fiduciary Net Position - beginning	391,428,009	382,346,078	350,564,778
Plan Fiduciary Net Position - ending (b)	$ 431,768,012	$ 391,428,009	$ 382,346,078
Net Pension Liability/(Asset) - ending (a) - (b)	$ (12,989,750)	$ (642,886)	$ (34,976,216)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	103.10%	100.16%	110.07%
Covered payroll	$ 244,031,859	$ 231,537,032	$ 220,003,948
Employers' Net Pension Liability/(Asset) as a percentage of covered payroll	-5.32%	-0.28%	-15.90%

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF STATE EMPLOYER CONTRIBUTIONS
STATE EMPLOYEES CASH BALANCE RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$ 32,975,247	$ 28,476,409	$ 31,280,174	$ 34,086,379	$ 29,575,730	$ 26,903,495	$ 26,098,457	$ 24,174,220	$ 19,971,810	$ 17,135,913
Actual employer contributions	44,894,300	43,339,706	41,455,919	39,147,056	32,096,097	31,088,483	30,679,003	30,321,032	29,208,772	22,913,163
Annual contribution deficiency (excess)	$ (11,919,053)	$ (14,863,297)	$ (10,175,745)	$ (5,060,677)	$ (2,520,367)	$ (4,184,988)	$ (4,580,546)	$ (6,146,812)	$ (9,236,962)	$ (5,777,250)
Covered payroll	$ 599,549,947	$ 578,788,809	$ 553,631,397	$ 522,797,222	$ 428,633,774	$ 415,177,390	$ 409,708,908	$ 404,928,312	$ 390,074,412	$ 305,998,438
Actual contributions as a percentage of covered payroll	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%	7.49%

Note: Actuarially determined employer contributions prior to 2013 were provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF COUNTY EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES CASH BALANCE RETIREMENT PLAN
LAST 10 YEARS
(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	$ 12,836,076	$ 10,419,166	$ 10,934,196	$ 11,626,005	$ 10,937,538	$ 9,980,984	$ 9,138,705	$ 7,771,736	$ 6,180,607	$ 5,693,734
Actual employer contributions	16,935,811	16,068,670	15,268,274	14,230,066	12,696,338	11,908,346	11,370,059	10,555,174	9,839,409	8,194,607
Annual contribution deficiency (excess)	$ (4,099,735)	$ (5,649,504)	$ (4,334,078)	$ (2,604,061)	$ (1,758,800)	$ (1,927,362)	$ (2,231,354)	$ (2,783,438)	$ (3,658,802)	$ (2,500,873)
Covered payroll	$ 244,031,859	$ 231,537,032	$ 220,003,948	$ 205,044,179	$ 183,208,341	$ 172,085,925	$ 164,070,115	$ 156,372,948	$ 145,769,022	$ 121,401,585
Actual contributions as a percentage of covered payroll	6.94%	6.94%	6.94%	6.94%	6.93%	6.92%	6.93%	6.75%	6.75%	6.75%

Note: Actuarially determined employer contributions prior to 2013 were provided in GASB exhibits prepared by the prior actuary.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

SCHEDULE OF INVESTMENT RETURNS

AS OF DECEMBER 31, 2016

(Unaudited)

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:			
State Employee Retirement Plan	8.61%	1.14%	6.83%
County Employee Retirement Plan	8.40%	1.27%	6.68%

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

State Employees Cash Balance Retirement Plan

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

2016: The Board granted a dividend of 4.53% in 2015, which was first reflected in the January 1, 2016, valuation.

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

2009: The Board granted a dividend of 5.18% in 2008, which was first reflected in the January 1, 2009, valuation.

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

The Board granted a dividend of 2.73% in 2007, which was first reflected in the January 1, 2008, valuation.

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

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

The Board granted a dividend of 13.50% in 2006, which was first reflected in the January 1, 2007, valuation.

The following changes were made in the actuarial assumptions:

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

State Employees Cash Balance Retirement Plan (Concluded)

- Salary increases were changed to rates grading down from 5.43% for less than one year of service to 4.00% at 20 years of service. Prior rates graded from 5.9% for less than one year of service to 4.5% at 20 years of service.

- Retirement rates increased at age 65 to 69 and 100% probability of retirement was extended to age 80 from age 70.

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

- The select and ultimate termination rates were increased.

- Disability rates were removed.

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

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

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

January 1, 2008, valuation:

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

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

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

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

County Employees Cash Balance Retirement Plan

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

2016: The Board granted a dividend of 5.81% in 2015, which was first reflected in the January 1, 2016, valuation.

2015: The Board granted a dividend of 0.29% in 2014, which was first reflected in the January 1, 2015, valuation.

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

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

2009: The Board granted a dividend of 5.34% in 2008, which was first reflected in the January 1, 2009, valuation.

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

The Board granted a dividend of 2.73% in 2007, which was first reflected in the January 1, 2008, valuation.

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

The Board granted a dividend of 16.40% in 2006, which was first reflected in the January 1, 2007, valuation.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

County Employees Cash Balance Retirement Plan (Continued)

The following changes were made in the actuarial assumptions:

January 1, 2013, valuation:

- The interest crediting rate on cash balance accounts was lowered from 7.00% to 6.75% per year.
- Salary increases were changed to rates grading down from 8.5% for less than 1 year of service to 4.3% at 10 years of service. Prior rates graded from 15.0% for less than 1 year of service to 5.5% at 7 years of service.
- Retirement rates increased at age 55 to 60, 62 and 66 to 68, rates decreased at age 64 and 100% probability of retirement was extended to age 80 from age 70.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with one-year setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- The select and ultimate termination rates were increased.
- Disability rates were removed.
- Price inflation was lowered from 3.50% to 3.25% per year.
- Economic productivity was lowered from 1.00% to 0.75% per year.
- The assumption for the form of payment elected by retiring active members was changed from 100% elect an annuity to 60% elect a lump sum and 40% elect an annuity.

January 1, 2008, valuation:

- Investment return and the interest rate for annuity factors to convert account balances into monthly benefits was changed to 7.75%, from 7.60%, per year.
- Salary scale was changed from an age-based assumption to a service-based assumption, grading down from 15.0% with less than one year of service to 5.5% with seven or more years of service.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

County Employees Cash Balance Retirement Plan (Concluded)

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

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
Personnel					
Personal Services	$ 381,343	$ 125,156	$ 242,151	$ 67,191	$ 815,841
Travel	3,883	1,280	3,097	713	8,973
Professional and Technical Services					
Professional	4,670	1,853	3,532	916	10,971
Actuary	44,102	510	43,568	340	88,520
Computer Support Services	67,162	21,042	45,514	11,211	144,929
Accounting and Auditing	24,349	8,116	15,278	3,819	51,562
Communications					
Telephone	7,760	2,349	4,644	1,161	15,914
Printing	10,532	2,462	5,109	1,115	19,218
Other Expenses					
Postage	10,899	2,514	5,927	1,366	20,706
Supplies	5,283	1,546	3,146	781	10,756
Hardware and Software	6,005	2,032	3,952	988	12,977
Repairs	4,372	1,375	2,443	627	8,817
Rent	16,683	5,598	10,034	2,794	35,109
Record Keeping Fees	391,807	91,801	184,473	39,333	707,414
Check Charge and Distribution Fees	98,816	12,668	37,976	5,391	154,851
Miscellaneous	29,302	10,002	19,142	3,751	62,197
Total Administrative Expenses	$ 1,106,968	$ 290,304	$ 629,986	$ 141,497	$ 2,168,755

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
BlackRock Financial Management, Inc.	$ 57,041	$ 27,498	$ 17,237	$ 7,355	$ 109,131
Dimensional Fund Advisors, Inc.	170,883	193,676	51,640	44,711	460,910
Total Domestic Equity	**227,924**	**221,174**	**68,877**	**52,066**	**570,041**
BlackRock Financial Management, Inc.	113,287	4,510	34,235	782	152,814
Franklin Advisers, Inc.	142,727	-	43,131	-	185,858
Loomis Sayles & Company, L.P.	201,531	-	60,901	-	262,432
Oaktree Capital Management, L.P.	174,674	-	52,786	-	227,460
Neuberger Berman Investment Management	67,152	-	20,293	-	87,445
Pacific Investment Management Company, LLC	367,758	2,889	111,133	728	482,508
T. Rowe Price Associates, Inc	-	137,308	-	39,140	176,448
Wellington Management Company, LLP	102,276	-	30,907	-	133,183
Total Fixed Income	**1,169,405**	**144,707**	**353,386**	**40,650**	**1,708,148**
Acadian Asset Management, LLC	82,522	-	24,938	-	107,460
Arrowstreet Capital	127,139	-	38,421	-	165,560
BlackRock Financial Management, Inc.	15,430	-	4,663	-	20,093
IronBridge Capital Management, L.P.	181,544	-	54,860	-	236,404
MFS Investment Management	176,224	8,695	53,254	2,190	240,363
Mondrian Investment Partners Ltd.	97,849	-	29,569	-	127,418
Wellington Management Company, LLP	70,993	-	21,454	-	92,447
Total Global Equity	**751,701**	**8,695**	**227,159**	**2,190**	**989,745**
Baillie Gifford Overseas Ltd.	118,391	-	35,777	-	154,168
BlackRock Financial Management, Inc.	32,768	24,351	9,902	5,160	72,181
Gryphon International Investment Corp.	175,089	-	52,911	-	228,000
Total International Equity	**326,248**	**24,351**	**98,590**	**5,160**	**454,349**
Almanac Realty Investors, LLC	69,607	-	21,035	-	90,642
Angelo, Gordon & Company, L.P.	20,465	-	6,184	-	26,649
Beacon Capital Partners	2,168	-	655	-	2,823
CB Richard Ellis Investors, LLC	16,416	-	4,961	-	21,377
Cornerstone Real Estate Advisors, LLC	121,991	-	36,865	-	158,856
Heitman Real Estate Securities LLC	2,889	-	873	-	3,762
Goldman Sachs Asset Management	-	4,472	-	1,126	5,598
Landmark Partners	102,310	-	30,917	-	133,227
Prudential Investment Management, Inc.	225,780	-	68,229	-	294,009
Rockpoint Group, LLC	7,284	-	2,201	-	9,485
Rockwood Capital, LLC	68,786	-	20,787	-	89,573
Torchlight Investors	93,606	-	28,287	-	121,893
UBS Realty Investors, LLC	230,196	-	69,565	-	299,761
Total Real Estate	**961,498**	**4,472**	**290,559**	**1,126**	**1,257,655**
Abbott Capital Management, LLC	31,133	-	9,408	-	40,541
Accel-KKR Management Co, LLC	42,161	-	12,741	-	54,902
Ares Management, LLC	86,441	-	26,122	-	112,563
Beecken Petty O'Keefe & Company	28,531	-	8,622	-	37,153
Bridgepoint Advisers Ltd.	59,488	-	17,977	-	77,465
CVC Capital Partners	37,641	-	11,375	-	49,016
(The) Energy & Minerals Group	34,574	-	10,448	-	45,022
Francisco Partners Management L.P.	46,212	-	13,965	-	60,177
Leonard Green & Partners, L.P.	9,540	-	2,883	-	12,423
HarbourVest Partners, LLC	56,737	-	17,146	-	73,883
Lightyear Capital, LLC	35,283	-	10,662	-	45,945
Lincolnshire Management, Inc.	11,790	-	3,563	-	15,353
Longroad Asset Management	6,630	-	2,004	-	8,634
McCarthy Capital Corporation	126,127	-	38,113	-	164,240
Merit Capital Partners	7,584	-	2,292	-	9,876
New Enterprise Associates Inc.	36,991	-	11,178	-	48,169
New Mountain Capital, LLC	87,629	-	26,481	-	114,110
Pathway Capital Management, LLC	82,798	-	25,021	-	107,819
Pine Brook Capital Partners II, L.P.	63,481	-	19,184	-	82,665
Presidio Partners (formally CMEA Capital)	21,512	-	6,501	-	28,013

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION	TOTAL
Quantum Energy Partners	77,596	-	23,449	-	101,045
Sun Capital Partners, Inc.	606	-	183	-	789
(The) Jordan Company	50,700	-	15,321	-	66,021
The Rohatyn Group Management, L.P.	15,767	-	4,765	-	20,532
Wayzata Investment Partners, LLC	61,150	-	18,479	-	79,629
Wynnchurch Capital Partners	72,711	-	21,973	-	94,684
Total Private Equity	**1,190,813**	**-**	**359,856**	**-**	**1,550,669**
BlackRock Financial Management, Inc.	-	129,446	-	44,438	173,884
Total Premixed Portfolio Funds	**-**	**129,446**	**-**	**44,438**	**173,884**
Nebraska Investment Council Fees	166,129	77,636	49,622	23,839	317,226
Custody Expenses	37,349	57,140	11,235	17,556	123,280
Miscellaneous Expenses	93,034	-	27,820	-	120,854
Total Other Expenses	**296,512**	**134,776**	**88,677**	**41,395**	**561,360**
Total Investment-Related Expenses	**$ 4,924,101**	**$ 667,621**	**$ 1,487,104**	**$ 187,025**	**$ 7,265,851**

(Concluded)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
Charlie Janssen
State Auditor
Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES 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 (NPERS) – State and County Employees Retirement Plans, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise NPERS – State and County Employees Retirement Plans' basic financial statements, and have issued our report thereon dated August 23, 2017. The report was modified to emphasize that the financial statements present only the funds of the NPERS – State and County Employees Retirement Plans.

Internal Control Over Financial Reporting

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

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

Plans' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Zachary Wells

August 23, 2017

Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska